
Home ownership beyond asset and security

Perceptions of housing related security and
insecurity in eight European countries

Marja Elsinga
Pascal De Decker
Nóra Teller
Janneke Toussaint (eds.)

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Preface

Globalisation is affecting labour markets, welfare regimes, financial markets and housing markets. Labour markets become more flexible, welfare regimes are gradually dismantled and financial markets become more competitive. This all impacts on housing markets and more in particular on households' perceptions and housing decisions. Changes in jobs and social benefits cause increasing income insecurity, while financial markets provide more opportunities. Is home ownership considered as a safe haven in a world that becomes more and more insecure? And is home ownership becoming a cornerstone in welfare regimes and part of asset based welfare policies? These are questions that lie at the core of this research project.

This book reports on households' perceptions and housing strategies of more than 200 households in eight different European countries. Countries that are situated in different parts of Europe and that have different histories, institutions, policies and cultures. From the interviews we collected insight in considerations of households concerning securities and insecurities of home ownership. We learned that every country has its own logic on home ownership. In some countries, home ownership can simply mean a roof over the head and additionally building a nest egg, that could be used for consumption or in future be passed on to a next generation. In other countries, home ownership can be a pure necessity for financial security in case of welfare needs or a well-calculated risk. Housing asset based welfare, specifically releasing equity by using the new opportunities on the financial market, is a perspective in Anglo Saxon environments, but far away from everyday life for many of the households that were interviewed for this project.

This book is the conclusion of a body of research that started in a workshop held at the University of York in October 2000. A group of researchers discussed the impact of developments linked to globalisation on the role of home ownership. It led to the insight that to understand developments in different countries it is indispensable to work with an international research team that has awareness of historical roots and cultural idiosyncrasies. This was the basis for the proposal called OSIS – *Origins of security and insecurity (OSIS): the interplay of housing systems with jobs, household structures, finance and social security* – which was awarded funding as a *Specific Targeted Research Project* under the Sixth Framework Programme. This offered teams in Belgium, Finland, Germany, Hungary, the Netherlands, Portugal, Sweden, and the UK the opportunity to deepen their studies by following two avenues of research. The first was a quantitative research approach which resulted in the book *The social limits to growth: security and insecurity aspects of home ownership* (Horsewood & Neuteboom, 2006). The second was a qualitative research approach which focussed on households' perceptions within their own country framework. The main aim of the research was to clarify the extent to which home ownership provides households with security or insecurity. The fruits of this study are presented in this book.

The research for this book was very challenging and demanding, and we would therefore like to acknowledge the efforts made by the numerous people and institutions involved. First, we would like to thank the European Commission for enabling us to undertake this multi-country and multidisciplinary adventure. Second, we are very grateful to the interviewees who, with hospitality and willingness, generously shared their histories and concerns with us. Next, we would like to thank all the administrative staff at our institutions, especially Caroline Marshall from Birmingham University who kept everything together for us. Above all, we would like to thank John Doling and Janet Ford – who brought us together for such a fruitful collaboration – and our qualitative research team colleagues for making this a wonderful experience, and for helping us all to appreciate that in comparative research it is of ultimate importance to know what is self-evident. For example, for Swedish people it is the norm to be insured either by the government or by private insurance, whereas in Hungary and Portugal not being insured is perceived as rather normal. Moreover, co-operation between research partners from so many different countries requires knowledge of different cultural manners of working and doing research. In some countries, for example, a deadline is an absolute that cannot be passed, but in other countries, a deadline is regarded as more of a moving target.

Nevertheless, we succeeded. Thus, we invite the readers to enter our adventure of understanding housing decision making patterns and household strategies of eight countries, and getting to know more than 200 households virtually personally throughout Europe.

Marja Elsinga, Pascal De Decker, Nóra Teller and Janneke Toussaint
June 2007

1 Introduction

Pascal de Decker & Nóra Teller

1.1 Setting the scene

This book deals with the attitudes and the strategies of households in different European countries for accessing, securing and using the assets of home ownership. These attitudes and strategies should be seen in the context of two apparently contradictory factors. The first concerns the way in which home ownership rates in Europe are continuing to increase and is closely linked with the consequences of globalisation. The second factor concerns the two different aspects of home ownership: home ownership as an asset and home ownership as a risk.

This chapter discusses these frameworks in order to explain to readers the approach of a 30-month international research project undertaken in the context of the OSIS¹ project, outlines the research questions and elaborates their relevance for the European area. This should allow for a better understanding of the discussions in the following country-specific chapters.

A union of homeowners

Doling & Ford (2007) estimate that about 1,360 million European households live in a house or flat that they own. Leaving the discussion on definitions aside², in around 2003 the fifteen, pre-2004 member states reached 63.5% home ownership and the ten, newer member states 66.7%. Under these circumstances it may, according to Doling & Ford, be appropriate to refer to a union of homeowners. This echoes and extends to Europe Peter Saunders' seminal concept of a nation of homeowners (Saunders, 1990). Saunders' widely quoted book analysed the social, economic and political significance

¹ Origins of Security and Insecurity (OSIS): the interplay of housing systems with jobs, household structures, finance and social security, a research project financed by the 6th Framework Programme of the European Union, CIT2-CT-2003-506007.

² According to Doling & Ford (2007) there is no systematically collected and fully harmonised set of data that shows exactly how large the growth has been in each country. On the one hand surveys of the housing stock by tenure have not been carried out at regular intervals in each country. On the other hand definitions of what constitutes home ownership differ from country to country. Following Stephens (2003) and Hegedüs & Tosics (1996) they refer to Sweden and the former socialist countries. Stephens argues that, because it is a tradable asset, Swedish co-operative housing ought to be thought of as a form of home ownership, a definition that would raise the overall home ownership level in the country to around 60%. In the former socialist countries – among them some of the new member states – public tenure rights could be sold on the open market and also inherited and therefore the meaning of tenure was very different from that in most western European countries (Hegedüs & Tosics, 1996).

of the growth of home ownership in the UK to include as much as 65% of the housing stock. Since then the UK home ownership rate has continued to rise. Moreover in many – if not most – member states of the European Union, home ownership has been skyrocketing. In the new member states, the phenomenon of ‘super home ownership’ suggests that similar processes are starting (Stephens, 2005a).

Since very few people are in a position to finance their own home in cash, home ownership is normally funded using loans (mortgages). This commits households to long-term financial obligations (predominantly with private banks), which implies the necessity of a stable income. As a consequence there is also a need for secure, long-term employment. However, this stability seems to be in conflict with the features generally associated with the economic processes that currently underpin labour market conditions, summed up in the popular concept of ‘globalisation’. If the repayment of long-term loans or mortgages requires stability, globalisation seems to go hand-in-hand with directly contradictory conditions: the rise of instability and insecurity.

Without doubt globalisation has influenced and continues to influence all national labour markets. As Doling, Goossens *et al.* (2003) among others (e.g. Edgar *et al.*, 2002) argue, it is now much more common than in the earlier post-war decades, for workers’ employment conditions to be uncertain and characterised by temporary and fixed-term contracts, part-time work and more frequent periods of unemployment. As a consequence their incomes vary. A job for life and secure income prospects are becoming a thing of the past.

In addition globalisation has been affecting financial markets. In the early post-war decades the general pattern was for institutional arrangements in each European country to reflect country-specific policies. As highlighted by Doling (2006), this has changed as European governments have begun, since the 1980s, to implement financial reforms, mainly in the form of liberalisation, which have led to increases in competition. The European Union has also undoubtedly played an active role in this process by creating a single market for financial services, including mortgage finance. The increase in competition between private banks has had some important consequences.

The first is the trend towards higher loan-to-value ratio loans which generally translate into longer repayment periods, which in turn extend the period of risk (Ford *et al.*, 2001; Doling, 2006) linked to possible job loss, a drop in income or even relationship breakdown. At the same time it is important to recognise that, as Doling *et al.* (2007) stress, a high loan-income ratio does not itself mean that any individual household will inevitably start to make its way down the slippery slope towards repossession. Indeed, the vast majority of households are able to prevent their situation from deteriorating, not necessarily because circumstances change for the better, but because they are able to adopt effective strategies to reduce their housing costs, perhaps by

rescheduling their mortgage(s), downsizing or even moving to the rental sector. A second trend is the increase in the volatility of interest rates and related housing prices (Ford, 2006; Helbling, 2005; De Vries & Boelhouwer, 2005; Turner, 2004). In particular when interest rates vary significantly, households not only face the positive effect of a drop in interest rates, but also the negative consequences of a rise. This latter can make the financial burden unbearable and result in the house being sold. In combination with a job loss, the need to downsize can leave the household with negative equity and, as a consequence, a significant financial loss if the house has to be sold (Forrest *et al.*, 1999; Stephens, 2005b). A third trend is that the highly competitive market has resulted in lenders increasingly offering mortgages to those people who had hitherto been regarded as riskier customers. (Ford *et al.*, 2001).

Accompanying factors include the fact that household income growth is less predictable than it has been previously; the same applies to the financial products which increase the burden on the household and also increase unpredictability. Thus, we see a general growth in home ownership and, at the same time, both on the demand side (household income) and the supply side (financial products) uncertainty is on the rise. Income volatility, however, sits, as Doling, Goossens *et al.* (2003) state, uncomfortably with the increasingly long periods over which households repay housing loans. Given this, the initial objective of this book is to report on the response of homeowners and tenants in eight European countries to these potentially contradictory trends and their effects on the households' strategies.

Shelter versus asset

Over recent decades the home ownership sectors of housing systems in the EU member states have generally grown in size. This growth has often been the direct consequence of the reshaping of role of the states in housing and of growing encouragement from government. It has also been fuelled by the deregulation of housing finance markets that – although at different rates and to different extents in the various EU member states – has resulted, as Doling, Goossens *et al.* (2003) state, in a shift in lending practices in relation to housing. An increasing number of housing finance products are available that allow homeowners to extract equity from their housing, which enables them to finance both consumption (e.g. providing care services and meeting pension needs) and investment (e.g. small business start-ups). Before deregulation, financial institutions generally rationed funds for the purchase of housing; following deregulation, they have been competing to lend money to homeowners for a range of uses, with loans frequently being secured against the collateral of the house (Maclennan *et al.*, 1998).

Whatever the emotional or psychological benefits to individuals of being a homeowner rather than a tenant, there is a general tendency across Europe for long-term growth in land and house prices, which also means that home-

owners have been experiencing and benefiting from investment gains.

Other factors include the general rise in the value of owned homes, which transforms them into an asset against which a household can borrow money for consumption. This has been reported in some countries (see the Chapters 6 and 10 on the UK and the Netherlands). Additionally, the value of the house can also be used by people in their old age, for example to supplement their pension or to finance care in the form, for instance, of a reverse mortgage (Rasmussen *et al.*, 1997). This brings us to the second objective of this book: to highlight the extent to which there has been a shift in the attitude to the house in the selected countries which, instead of being regarded as a stable home and a refuge from the world, is now seen as a financial asset.

The role of the state

Over recent decades we have also seen a change in the role of the state in relation to globalisation (Edgar *et al.*, 2002; Doherty, 2004). Under the umbrella of the so-called Washington consensus (Hertz, 2001) states have started to deregulate and privatise services that for decades had been their responsibility. This changing role has, as Edgar *et al.* (2002) indicate, a major impact on the provision of housing, the role of key housing providers (local authorities, housing associations) and the relationships between agencies (regulatory framework, nomination agreements). According to Edgar *et al.* this has had severe consequences on the attempts of low-income groups to gain access to housing.

It is a fact that in many European countries there has been a shift from 'bricks and mortar' subsidies to demand-side subsidies, such as housing allowances (e.g. Kemp, 1997; Priemus & Dieleman, 2002). Basically, this tendency shifts the responsibility (at least in part) for housing provision from the state to the individual household. This is further accentuated by the fact that a large number of countries are simultaneously promoting home ownership. It is undoubtedly true that the rise in home ownership rates is linked to the promotional activities of countries (including financial support) and the withdrawal of alternatives (social housing for rent, regulation of the private rental market). In addition more and more governments are linking home ownership with old age, the pension system and care. As retired homeowners do not have to pay rent and have generally finished paying off their mortgage, their outgoings are relatively low. Furthermore the house represents an asset that can be used to fund care.

In summary, as part of their changing role, numerous governments have promoted home ownership with the result that a majority of Europeans now own their own houses. This brings us to the third objective of this book, namely to explore the attitudes of homeowners and tenants towards the state and its role in relation to housing in general and home ownership in particular.

1.2 The OSIS research

1.2.1 Scope

This book is based on the findings from qualitative household interviews in eight EU countries undertaken as part of an EU-funded research project *Origins of security and insecurity (OSIS)*: the interplay of housing systems with jobs, household structures, finance and social security. The research was a 30-month, multi-method project funded by the European Union under its *Citizens and Governance in a knowledge-based Society (Sixth Framework) Programme*. Housing, as the main focus of the study, is the substantive area through which wider processes affecting the restructuring of social rights – and the meaning of citizenship – across Europe are being examined. Housing is an important area in which households experience this restructuring process, and the research sought to examine the resultant patterns of security and insecurity associated with housing tenure.

The project was undertaken across eight countries and nine institutions. All countries except France were involved in the qualitative part of the research, which forms the basis for most of the results presented in this book:

- Belgium – Research Group on Poverty, Social Exclusion and the City, University of Antwerp;
- Finland – Department of Sociology, University of Turku;
- Germany – Department of Geography, University of Bremen;
- Hungary – Metropolitan Research Institute, Budapest;
- The Netherlands – OTB Research Institute for Housing, Urban and Mobility Studies, Technical University of Delft;
- Portugal – Centre for Studies for Social Intervention, Lisbon;
- Sweden – Institute for Housing and Urban Research, Uppsala University;
- UK – School of Social Sciences, University of Birmingham (Coordinator) and Centre for Housing Policy, University of York.

Countries were selected to reflect key variations in social, economic and political contexts as well as different types of welfare regime (Esping-Anderson, 1990; Barlow & Duncan, 1994; Edgar *et al.*, 2002 – see Table 1.1) and more specific differences in housing markets. Key categories therefore include:

- countries with high home ownership rates (e.g. Belgium, UK, Finland) and lower rates (e.g. Germany, Netherlands);
- countries with recent high economic growth (e.g. Netherlands) and low growth (e.g. Germany);
- countries representing different types of welfare regime: social democratic (e.g. Sweden); conservative (e.g. Germany); liberal (e.g. UK); Latin rim (e.g. Portugal); former Eastern European (e.g. Hungary).

Table 1.1 Home ownership, unemployment and social welfare, 2005

Country	% Home ownership	% Unemployment	Social welfare system
Hungary	92	7.1	Weak
Portugal	76	7.5	Weak
UK	70	4.6	Moderate
Belgium	70	8.5	Strong
Finland	63	9.1	Strong
Netherlands	54	5.3	Strong
Sweden	55	6.8	Strong
Germany	42	11.2	Strong but restructuring

Source: Elsinga *et al.*, 2006

The project had two main objectives:

- to analyse the factors and processes – involving labour markets, financial markets and social provision – that have impacted upon individual households and have consequences for their position as homeowners (and tenants);
- to establish how households perceive the patterns of security and insecurity, advantage and disadvantage associated with different housing positions; how those perceptions have moulded their personal strategies with respect not only to housing, but also to matters such as jobs, family size, education and pensions; and how those positions have provided them with material security and insecurity.

The study involved two key stages covering a period of two and a half years. The first stage consisted of quantitative analysis of key secondary sources of data (European Household Community Panel and the Hungarian Household Panel) to explore evidence of statistical relationships between aspects of home ownership and attributes of individual countries, also at a household level. Secondly, a qualitative stage involved the collection of further information about the institutional arrangements in each country, as well as 30 in-depth household interviews in each of the countries. The interviews were designed to explore perceptions, attitudes and the extent to which housing is a resource which individuals and households recognise as a repository of ‘wealth’ in the sense that it can be implicated in plans to manage both future needs (education, pensions, care etc.) and to cushion insecurities. Additionally, the extent to which housing itself is a source of insecurity is also a focus of the interviews³. The two stages represent distinct, stand-alone research elements. However, the qualitative work was also designed specifically to explore some of the statistical relationships in more detail. Three levels of data were therefore collected by the study:

- quantitative information at both the macro and individual level;
- information on institutional arrangements in each country;
- detailed qualitative data on household experiences.

³ Please see the detailed discussion of the methodology of the qualitative research in Chapter 2.

Each element of the study relied on the others to produce a meaningful analysis of the variance and similarities between countries. Indeed, the institutional, quantitative and qualitative research methods applied in the OSIS project's research process have also resulted in some of the research teams identifying common elements that are characteristic of the current set-up of the social rented sector, or similarities in the risk-handling strategies caused by the changing welfare systems (Toussaint *et al.*, 2007; Elsinga *et al.*, 2006 and Batista *et al.*, 2006).

1.2.2 Weak globalisation thesis

An earlier search for an answer to the 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?', comparing different countries, has led Doling *et al.* (2003) to produce what they call a weak globalisation thesis. "This posits that globalisation has taken away the room for autonomous action by national governments, with the resulting policy development in turn affecting not only the operation and outcomes of home ownership markets everywhere, but also the perception and behaviour of consumers of housing" (Doling *et al.* 2003, p. 1-2). "In this thesis, policy developments have dismantled some elements of the symbiotic relationship between work, welfare and home ownership. (...) What has been assumed to be a stable relationship – between income, loan repayments and welfare safety nets – broke down. (...) 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 society" (Doling *et al.* 2003, pp. 7-8).

Undoubtedly, globalisation processes, in combination with the flourishing, neo-liberal ideology, are having an impact on the function of our societies and – as mentioned above – on housing in particular. Nevertheless, the argument developed by Doling *et al.* (2003) is that the effects of globalisation on the actions of states and, in turn, on national institutions and individual households are much weaker than the strong globalisation thesis presupposes. They quote Scholte⁴ who states that the development of globalisation has constrained choice, but nevertheless retained significant choices. So the weak globalisation thesis does not ignore the force of globalisation, but, as Doling & Ford (2003) conclude, "history, culture and political ideologies are likely key mediating influences". Following from this, Doling & Ford expect to see vari-

⁴ Scholte, J.A., 2000, *Globalisation: a critical introduction*, London (Macmillan).

ety in the experiences and outcomes associated with housing in general and home ownership in particular in different countries. This should foster an understanding of how such global forces are mediated.

Doling & Ford's 'tour de force', which involved bringing together analyses of countries with quite different welfare states⁵, revealed important differences concerning mortgage markets, labour markets, social security and housing policies⁶. It should be stressed that there are apparent structural differences, in particular with regard to housing and housing policies. This follows partly from the fact that housing policies are – especially in countries with early urbanisation (Kesteloot, 2003) – much older⁷ than the general welfare policies developed after the Second World War. This often has severe consequences, since as Kleinman (1996) puts it, countries become caged by older policy options. The historical institutional settings for housing and the political structures leave profound impressions on both policy and its implementation: "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, this pattern then constrains future development". Feddes (1995) comes to a similar conclusion, after a comparison of post-war housing policies in 10 European countries, stating how surprising it is that in all the countries the initial paths that are chosen remain the preferred ones. According to Feddes, countries show little inclination to learn from their own or other countries' experiences.

1.2.3 Asset-based welfare systems

A further discussion that might provide a framework for the findings of the OSIS project is represented by the social policy debates on asset-based welfare versus income-based welfare.

The model of asset-based welfare developed in the US in the early 1990s is based on several assumptions, and is considered to be an appropriate complementary system to that of traditional welfare tools. One of the most important arguments in favour of asset-based policies is that income inequalities no longer reflect social inequality, as opposed to asset disparities, and therefore the gap cannot be entirely filled by income supplement systems (Sheraden, 1991). In Europe, the UK and Sweden have launched asset-based welfare programs, each of which counteracts the inequalities in the asset build-

⁵ Belgium, Finland, France, Germany, the Netherlands, Portugal, Spain and the UK.

⁶ See De Decker *et al.* (2003) for similar conclusions concerning urban policies.

⁷ In Belgium, for example, the first housing act dates from 1889, whereas the first Social Pact, which established the country's post-war welfare policies, dates from 1944. As a consequence both policies have developed separately and continue to do so today.

ing capacities of poor households, and therefore either offers matching funds or restores the regressive character of the tax relief systems that are applied in the case of savings, so that the opportunities for intergenerational mobility are equalised (i.e. the case of the Child Trust Fund in the UK), or provides individual solutions as opposed to traditional state-organised provisions which enable the households to make use of the assets they have accumulated for specific purposes (i.e. pensions or health care).

From this perspective the role of housing as a special asset is undergoing change, as Malpass (2003; 2006) describes, and therefore some further concerns and consequences have to be taken into consideration when discussing the changing role of the state in welfare provision. Malpass believes that the withdrawal of the state from housing provision is one of the results of the phenomenon of ‘responsibilisation’, that is increasing individuals’ (citizens’) responsibility for their own wellbeing. As a result of the increasing dominance of market allocation and the home ownership sector, housing becomes a consumer product that has to be purchased individually.

In parallel with this, however, the risk attached to home ownership is increasing (for example as a result of changes in the labour market and in employment security and because of the increased targeting of and cutbacks in social expenditure). In variable housing markets, homeowners who rely on long-term or variable interest rate mortgages can be especially exposed to insecurity.

A further concern relates to the unequal distribution of housing wealth. If welfare or the access to services were to be based on individual housing wealth, Malpass warns (2006), this would have a significant negative impact on the aim of the post-war welfare systems to minimise inequalities in society.

By bringing all this information together, the OSIS analysis aimed to answer the following research questions:

1. How do interviewees perceive income (in)security and to what extent do interviewees take private measures and rely or not rely on social security?
2. To what extent do interviewees perceive home ownership as secure and prefer it to renting for security reasons and how is this related to income (in)security and the housing and mortgage market?
3. To what extent is home ownership part of interviewees’ financial safety net strategy and how does this relate to the institutional context?
4. To what extent can housing policy be seen as a sign of asset-based welfare policy?

1.3 Structure of the book

The country-specific chapters that follow the introduction seek to respond to the research questions touched upon in the introduction with an in-depth

elaboration of the following issues:

- the main developments in the labour market and social security;
- the main developments in housing and the housing finance market;
- the relationship between housing decisions and the meaning of tenure in each country;
- the securities and insecurities of home ownership and risk perception at the household level;
- safety net strategies, and the role of housing in the safety net strategies of households.

The country-specific chapters are preceded by a chapter on the methodology of the OSIS research (Chapter 2) which includes a detailed description of the methods applied in the international comparative qualitative research phase. The country discussions are then followed by two concluding chapters: Chapter 11 compares the main findings from the country studies and discusses them in the framework of the above-mentioned research questions and the final Chapter 12 elaborates the changing role of home ownership throughout the participating countries and comments on its development into a cornerstone of the welfare systems of Europe.

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2 Methodology

A balance between contextual specificity and universal comparability

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2.1 Background

The OSIS project had the general aim of identifying the level, nature and source of security and insecurity in home ownership in European countries. In order to provide a full, factual picture and give a clear understanding of the issues, OSIS drew on a number of disciplines and approaches; the research group had expertise in economics, statistical analysis, sociology and anthropology. The project began with quantitative studies that provided evidence of statistical relationships between, on the one hand, the security and insecurity aspects of home ownership and, on the other, attributes of individual countries and of individuals and households (Horsewood & Neuteboom, 2006). Furthermore, the OSIS project included qualitative studies that allowed insights to be gained beyond the statistical relationships and that offered an understanding of the basis and the nature of behaviour in different national contexts.

The aim of the qualitative research presented in this book was to obtain detailed information about how individuals perceive the security and insecurity aspects of home ownership, in relation to renting and in the context of the developments in labour markets, financial markets and social protection measures in their country (Doling, 2003). The eight EU countries were chosen because they reflect the main relevant variations across Europe: with high (Hungary) and low (Germany) home ownership rates; with different types of welfare regimes, including social democratic (Sweden), conservative (Germany), liberal (UK), Latin rim (Portugal), former Eastern European (Hungary); and with high (the Netherlands) and low (Germany) economic growth.

2.2 Starting the project

2.2.1 Deciding on the topic

The decision to undertake research on this particular topic was a risky one, as there was a potential for ethnocentricity. Although the project was developed by a group of research institutes, it is probably no surprise that the UK took the lead, because it is here that the growth of home ownership has been most prominent. Successive British governments have promoted home ownership, for example through the Right-to-Buy legislation introduced by the Thatcher government and more recently through policies to encourage low income home ownership, such as shared ownership schemes and more re-

cently Homebuy¹. In the UK, numerous television programmes promote the investment potential of property and, indeed, seek to advise people on how to invest successfully in housing. These developments suggest that, in the UK, housing is increasingly seen as an investment rather than a consumer product. The question for the OSIS qualitative group was whether this view would be relevant for researchers from the other participating institutes as well. For example, in Germany the rate of home ownership is not rising, renting is the majority form of tenure and home ownership does not receive special attention from politicians or the media. Nevertheless, the researchers from all the participating institutes did see the relevance of comparing the impact of different historical, cultural, socio-political and institutional factors on housing decisions, although this was not always for the same reasons. The UK-centric focus was a point of awareness during the meetings and was taken into account when deciding on the research design and tools (Quilgars, Jones, Elsinga & Toussaint, 2005).

2.2.2 The complexities of cross-country qualitative research

Carrying out a qualitative cross-country analysis on the basis of a number of country cases with a group of researchers from different countries is hugely complex and presents some considerable challenges, given the variations between the countries' political systems, institutional frameworks, social policies and underlying cultures (Doling, 1997). The qualitative studies are based on household interviews and on institutional studies that provide a framework. We aimed to obtain contextual, holistic knowledge of the households' perceptions of the security and insecurity of home ownership. The impacting factors would become clear from the interviews and therefore the researchers would not limit their focus to the main variables. The risk of this type of research is that every case is so richly and uniquely reported from a range of different perspectives, with such different factors appearing to impact on the household's perceptions, that comparisons could be hard to achieve. This risk was taken into consideration during the development of the research approach.

Moreover, not only the comparisons themselves are highly complicated. One of the characteristics of qualitative research is that researchers are essential for the interpretation of the interview results. The advantage of having researchers in each individual country is that they are best qualified to understand the links between the interview findings and the national institutional contexts. However, structuring and undertaking the research using researchers from all eight countries is extremely difficult. As already mentioned, the

¹ http://www.housingcorp.gov.uk/upload/pdf/FTBI_Buyers_Guide_Version_2_060906.pdf.

backgrounds of the participating partners were different and these had an unavoidable impact on the contents of the household interview studies. Furthermore, with the exception of the British researchers, all the participating partners had to bridge a language gap in the meetings where we discussed the design and findings of the research and when reporting national institutional contexts and interview findings. In addition, many institutional, social and cultural factors that were self-evident to researchers in one country were considered remarkable by (and provoked a great deal of discussion amongst) other group members. These factors were often crucially important for the understanding of how home ownership was perceived in that particular country.

The qualitative research group aimed to carry out a higher-level comparative analysis with the OSIS project (Oxley, 2001). This means that, after describing the different cases, we wanted to study the differences and similarities and relate them to institutional factors. However, before being able to do this high-level comparison, many obstacles had to be overcome. We decided to use a relatively standardised and structured approach, whilst at the same time ensuring that we did not lose the essential and beneficial characteristics of qualitative research methods. In this chapter we will explain our research methodology and describe the decisions we made which allowed us to overcome the obstacles as effectively as possible².

The remainder of the chapter will be structured according to the subsequent steps in the research:

- a. country studies
 - studies of institutional contexts
 - the interviews
- b. cross-country comparison.

2.3 The country studies

2.3.1 The institutional contexts

The institutional contexts provided a framework in which the interviews could be interpreted, first by each individual country's researcher and subsequently by the researchers who would carry out the overall analysis. The researchers from each country reported on the main institutional arrangements relating to the security and insecurity aspects of home ownership. They based their studies on country-specific literature and secondary sources. The institutional framework included six features.

² See also the article by Deborah Quilgars et al. in the *International Journal of Social Research Methodology* (2007).

The first institutional feature was the general functioning of the economy and labour market. Since the majority of aspiring homeowners buy their homes with a mortgage and, as a consequence, make a long-term financial commitment, a guaranteed, stable income is a prerequisite. During the post-war period, many countries evolved into welfare states, which succeeded in guaranteeing income security for a large majority of their workers. As stated in the introduction, this situation has now changed and employment – even in the public sector – has become less secure. Flexible and part-time work is on the rise, and there has been an increase in poorly paid jobs (Sennett, 2006). Because these new circumstances form the framework for entering into home ownership and determine its security, the institutional studies covered, for example, the evolution of employment, the rise of part-time and flexible work and the type of labour market in each country.

The second institutional feature is the nature of the welfare state. Although most people rely on earned income from employment, others are dependent, sometimes temporarily, sometimes for longer periods or even throughout their entire lives, on benefits. The proportions of these groups in society vary from country to country as shown by, for example, Esping-Andersen (Esping-Andersen, 2002; Esping-Andersen & Sarasa, 2002). Although benefits can help people to become homeowners, they are especially relevant to homeowners in the event of contingencies such as unemployment, accidents or illness and to those homeowners who still have a mortgage at pension age. Therefore the institutional studies covered unemployment and in particular the nature, that is the duration, the level and the eligibility rules etc., of a wide range of benefits, such as unemployment benefits, sickness benefits, subsistence income and pension schemes.

The third institutional feature relates to housing policies. Just as general welfare policies differ from country to country, so too do housing policies. In some countries, such as Sweden, the promotion of home ownership is not a significant factor. In others, for example Belgium, home ownership has been promoted since the end of the 19th century as one of the tools for countering urbanisation and socialism (De Decker et al., 2005). In other countries, the goal of encouraging more and more households to buy homes is a more recent development. This is the case in the UK and the Netherlands which have been moving rapidly towards higher ownership rates since the 1980s. The institutional studies assessed these policies in detail. They looked at the dominance of tenures in policies, the assessed impact of these policies on the level of home ownership and the security schemes. If governments promote home ownership, for example using tax deduction schemes, cheap loans or free grants, do they also provide security in the form of insurance?

In assessing the security and insecurity aspects of home ownership, it was also necessary to consider the wider housing policy, since the availability of a sound alternative, for example, the existence of a large social rental sector,

housing allowances or tenant protection or rent regulation, can affect people's choices and attitudes. If, as in Belgium, Hungary and Portugal, social rental housing is marginal and the private rental market is poorly regulated, people may be forced into home ownership. This contrasts with countries with a large social or public rental sector (Sweden, the Netherlands) or a well-regulated private rental market (Germany).

The fourth relevant institutional feature was the housing market. The studies evaluated house price developments, as these would be likely to influence the security of home ownership as an investment. In Sweden and the Netherlands prices rose considerably, while in Portugal and in some areas of Germany prices dropped. In addition, the proportion of different types of tenures and, if possible, the characteristics of households in different types of tenures were described.

The fifth feature was the national financial markets. The questions asked were: What are the mortgage practices in each country? What types of mortgage products are common in the country and are the interest rates normally variable or fixed? How large can a loan be in proportion to the borrower's income and to the value of the home? Over how many years are mortgages generally repaid? In this respect, the Dutch can be characterised as high lenders, with relatively high loan-to-value ratios and relatively risky forms of mortgage with long repayment periods. The Hungarians and the Portuguese, on the other hand, have relatively high levels of equity. We also considered whether lenders offer products to release housing equity.

The sixth and last feature concerns the general political system of the OSIS countries. Currently they all are parliamentary democracies. However, for Portugal and even more so for Hungary, democracy is a relatively new experience. In Hungary, the recent and rapid paradigm shift has affected housing in general and home ownership in particular.

2.3.2 The interviews

The qualitative group agreed on a methodology for conducting the household interviews that would allow the greatest degree of comparability across countries, whilst retaining the essential qualitative nature of the work. Below is a brief outline of the key elements of the work.

Development of the research tools

The main research tool used in the interviews was the topic guide agreed by all the country teams. The topic guide was designed to cover the key issues of interest that might be relevant to the households' appraisal of their housing security and insecurity. One core topic guide was designed for all households and this was then adapted to provide a separate guide for homeowners and renters. In summary, the key aspects covered by the topic guide included:

- details of the household
- housing history after leaving the parental home
- the move to the current house
- an appraisal of the current housing – and the significance ascribed to the home
- security and investment issues – including resources invested in the house
- intergenerational transfers
- the affordability of the present housing
- risks to housing
- available and desirable safety nets
- the impact of housing on other decisions in the households' lives
- overall housing preferences
- future housing intentions
- the perceived role of the state.

Key concepts of interest to be discussed with interviewees were agreed. Key terms such as 'risk' and 'security' were embedded within the topic guide. However, concepts such as 'equity' that appeared to be particular to one or more countries were excluded. In the latter case, households were asked indirectly about issues through a discussion of whether their housing had provided them with any financial benefits. The topic guide was semi-structured with all key aspects being covered, but, in accordance with most qualitative research practice, during the interviews researchers did not necessarily have to follow the order of the guide. Most questions were open in style, with a number of follow-on questions. However, on a few occasions quite detailed 'prompts' were also included for key questions, for example when asking respondents whether they might consider using housing resources in the future.

As part of the topic guide, vignettes were designed to allow the comparison of responses to certain prescribed situations. Vignettes are short hypothetical stories about people in specific situations relevant to the topic of the research. Interviewees are asked to respond to these vignettes by, for example, giving advice or making a judgement of the situation and are then asked to give an explanation of their response (Soydan, 1996). This method allows different groups' interpretations of a uniform situation to be examined, and is helpful in elucidating influential variables. Four vignettes were designed to investigate different aspects of housing: tenure preferences; equity release options; risk and safety nets; and general attitudes to financial planning. The responses to the vignettes were analysed alongside the topic guide.

Finally, key socio-demographic data were also collected for each household interviewed, including gender, age, household type, tenure, economic status and financial circumstances. This was done in order to be able to make comparisons across groups of households within countries and to appraise housing security and insecurity (for example, loan-to-value ratio for homeowners).

Box 2.1 Responses to the vignettes

Vignette 1

A young man and a young woman, both of whom still live with their parents, want to live together and ask your advice about whether they should buy a house or rent one. The woman has a secure job in a municipal government office but the man is in a less secure position and has had a series of temporary jobs, although some have lasted as long as a year.

What would you advise them to do and why?

Vignette 2

In some countries it is possible for people to use their property to supplement their pension income. This is how the system works. Although you own your house outright, you take out a new mortgage on your house. You receive a capital sum, but only pay interest on the loan. The capital sum you borrowed is repaid on your death when the house is sold. Imagine that this is possible in (country).

You have some friends who are considering increasing their income by this means. If they asked you for your advice, what would you say to them?

Do you think that a scheme of this kind would be a good idea or not and why?

Vignette 3

A married couple in their mid-fifties have three years remaining on their mortgage. Their house has increased in value by 300% since they bought the property. The wife works part-time and the husband has just learned that he is to be made redundant in three months time. The wife's salary is not enough to cover all of their outgoings, but they do not have any outstanding debts, apart from their mortgage.

What options do the couple have? What would you advise them to do? Could the couple have done anything to plan for this eventuality?

Vignette 4

A friend inherits € 50,000. She has a mortgage of € 70,000 and expects to work for another 16 years. She asks your advice about what to do with the money.

What would you advise her to do and why?

Setting selection quotas

Purposive sampling procedures were used to recruit a similar range of respondents across the different countries. In particular, as far as possible, respondents in similar housing circumstances were sought in each country in order to allow for a meaningful comparative analysis. The following quotas were agreed:

Tenure

Of the 30 interviews, 20 had to be undertaken with homeowners and 10 with renting households. This was to emphasise that homeowners were the primary focus of the research. However, at the same time it was important to include sufficient tenants to compare tenure positions. Further, it was agreed that both public and private renters should be included, where this was relevant.

Only homeowners with a mortgage were included in the sample; outright

owners were excluded. However, an exception was made in Hungary, given the very low proportions of working age households with mortgages, which is a consequence of an underdeveloped mortgage market and the nature of the privatisation process. In Hungary outright owners were more likely to be marginal owners than those with a mortgage.

Employment status

'Marginal' and 'non-marginal' homeowners were included in each country. It was acknowledged that marginality would take different forms in different countries, which made defining it difficult. Finally, the group decided that the unemployment or inability to work of at least one member of the household would be the defining characteristic of marginality, whilst being aware that the impact of unemployment would be different in the different countries. Households with retired people (of any age) or students (of any age) were excluded from the sample.

Age

To ensure that people at different stages of their lives were included, about half of households interviewed were expected to be up to the age of 45 and the other half aged 45 or over. Furthermore, it was decided that all adults in the households should be aged over 25, as the very early stages of housing were the subject of another study. There was no upper age limit, as long as people fell into one of the specified economic categories.

Household status

Two thirds of the sample had to consist of 'couple' households, with one third being 'single' households. A 'sensible' mix of households with and without children was recruited within each category.

Gender

Where possible, it was agreed that both adults in a household (where relevant) should be interviewed together, but overall, it was proposed that a mix of both men and women was included. Table 2.1 shows the suggested target quotas that all the teams aimed to meet.

Recruiting respondents

Each team selected one housing market area for fieldwork, so that contextual factors would, to a certain extent, be standardised for the group of interviewees. Since it was not possible to undertake parallel studies in other areas for intra-country comparison, each country was asked to select one local housing and labour market which had experienced roughly average economic growth in the recent past. The aim was therefore to avoid very depressed areas and unusually buoyant areas. The selection included small, medium-sized

Table 2.1 Suggested 'target' quotas

	Renters (10)	Owners (20)	Total
Couples (with and without children)	7	13	20
Single (with and without children)	3	7	10
Employed households (all adults either employed and/or looking after family)	7	13	20
Unemployed households (one or more adults unemployed and/or unable to work due to accident, sickness or disability)	3	7	10
Aged up to 45	5	10	15
Aged 45 or over	5	10	15
Female as key respondent	5	10	15
Male as key respondent	5	10	15

and larger towns (for example, Caldas da Rainha in Portugal with a population of 25,000 up to Budapest in Hungary with a population of 1.7 million, with the majority of the towns being medium-sized, including York (UK), Turku (Finland) and Ghent (Belgium)). Within each city, smaller geographical areas were identified that allowed a range of homeowners as well as renters to be interviewed.

The qualitative team decided that it was not necessary, nor practicable, for all national teams to use the same recruitment method. The relatively highly specified research quotas outlined above were used to minimise any likely bias generated by certain methods, for example, with snowballing restricting recruitment to a certain network. In effect, teams used a range of methods including:

- postal invitations to a random sample of addresses in a particular location;
- using gatekeepers, such as lenders, estate agents, social landlords and social service providers, to send out letters introducing the research on the behalf of the researchers or to give contacts;
- using local adverts to attract those interested in the research;
- researchers 'cold-calling' in selected locations;
- 'snowballing' of other possible contacts in an area.

The interviews and the quality

With the exception of one country, specialist qualitative researchers led the country teams. Therefore, the researchers were assumed to have a high level of interviewing skills. Before the interviews themselves were started, there was a pilot stage. The early interview experiences were shared with the other group members and accordingly some final changes were made to the topic guide. The interviews were conducted from spring to autumn of 2005.

Analysis procedures

One of the key tasks of the qualitative working group was to agree the broad principles and methodological approach towards the analysis of the interviews. The fact that eight countries were analysing material simultaneously at a great distance from one another, together with the aim of comparing countries, made the design of analysis tools crucial. An analytical framework

and a coding frame were designed to ensure that each team addressed the same set of research questions.

A detailed coding frame was used to code each individual interview at the country level, in the language of the interview. An analytical framework was structured around a set of key questions to enable the analysis to address the overall aims and objectives of the study (and questions raised by the quantitative studies). This analytical framework was cross-referenced to the more detailed coding frame. Each country report used the analytical questions to structure the reports of their findings.

2.4 The cross-country comparison

The studied eight countries were the data sources for the comparative analysis (see Chapter 11). The analysis was built up in three steps. Firstly, the institutional characteristics which could have had an impact on the households' perceptions were explored. Secondly, the households' perceptions and the country researchers' explanations for the perceptions were analysed, and the countries were grouped on the basis of these outcomes or with a focus on extreme cases. Finally, links were explored between perceptions and institutional contexts. Furthermore, when the relationships appeared to deviate from theory-based expectations, we tried to identify the reasons behind this. As an example, the analysis of the perceptions of income insecurity and the relationships with the institutional context will now briefly be described.

Example of the analysis process: Income insecurity

Firstly, we looked at some key indicators of the labour market and social security. We found that the UK had low levels of unemployment, whilst labour markets in Portugal, Finland and Germany were less secure. With regard to social security, interviewees in Portugal and Hungary had reason to feel insecure about their income, while in Belgium, the Netherlands, Finland, Sweden and Germany the welfare state provided a secure safety net. These institutional characteristics were expected to relate to perceptions of income insecurity, which were analysed in the next step.

Perceptions of income insecurity and their explanations were first collected from the country reports. In this case, we distinguished between two groups of countries. The first group were countries in which the interviewees were reported to feel insecure about their future income. These were Hungary, Portugal and Germany. The second group consisted of the other five countries. Different explanations for income insecurity were found for the first group. In Hungary and Portugal, researchers reported that interviewees had to cope with a relatively insecure labour market, could not count on social provision and were therefore fairly insecure, whereas, in Germany, the recent develop-

ments and future prospects for the labour market and social security seemed to be the reason for income insecurity. Thus different explanations were given for similar perceptions.

In the final step of the analysis, we evaluated the links between the institutional characteristics and the households' perceptions. Obviously, we expected if labour market and social security features were more insecure (e.g. higher unemployment, lower spending on welfare) than households' perceive more income insecurity and vice versa. Here we noticed that perceptions were indeed remarkably congruent with the characteristics of the institutional contexts. However, Germany and Finland had rather similar institutional characteristics; in both countries the unemployment rate was relatively high, labour markets had become more flexible, governments had cut back on public spending and the future affordability of the social welfare system was the subject of political debate. Nevertheless, the German interviewees perceived more income insecurity than the Finnish. The different perceptions could possibly be related to recent economic developments and optimistic or pessimistic expectations about the future. The Finnish interviewees pointed to a strongly performing economy, whereas the Germans spoke about a slowly recovering economy and expressed serious worries about the future of social security.

Methodological difficulties are highlighted when relating differences in perception to differences in the institutional arrangements. The interviews and the interpretation of the native researchers gave indications of the relevant contextual factors, but sometimes the data did not provide any clues about why interviewees in countries with, for instance, similar contexts differed in their perceptions.

In addition, the comparative analysis relies on three subsequent interpretative steps in which misinterpretations can easily arise. Firstly the interviewees expressed their housing decisions, histories and opinions in words; they recalled events and information from their memory and constructed their 'housing perceptions'. The second step involved researchers in each country interpreting these housing perceptions and translating them into conclusions that summarised their interview findings. Finally in the third step, the findings from each country were further analysed, interpreted and summarised for country comparison. To obviate this drawback as much as possible and to clarify exactly who interpreted what, we distinguish between the views of the interviewees, the interpretations of the countries' researchers and our final overall interpretations when we describe the outcomes of the comparative analysis. In this connection it should also be mentioned that difficulties arise if a factor is not mentioned in one country, while it is in another. We can interpret this as meaning either that it is non-existent or that it is considered to be self-evident. In order to keep interpretation errors to a minimum, all the countries' researchers reviewed the outcomes of the analysis.

2.5 Conclusions

The qualitative part of the OSIS project involved a description of the institutional contexts and household interview studies. It employed a relatively structured and standardised qualitative method to produce comparable results, while at the same time aiming as much as possible to achieve the typical outcome of qualitative methods: namely gaining an in-depth understanding of households' perceptions. The subsequent chapters report on the research undertaken on the basis of the methodology described above. Chapters 3 to 10 present the country data which are described in rich and unique terms, but which are similarly structured. In Chapter 11 there is an analysis of the differences and similarities between the countries, in order to gain an understanding of the relevance of various institutional factors, primarily the labour market, social security, housing markets, housing policy and financial markets. There is also the opportunity to present explanations that go beyond these main institutional factors.

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3 Belgium: Between confidence and prudence

Pascal De Decker

3.1 Introduction

This chapter builds on the OSIS research project, which had two main objectives. The first was to analyse the factors that have impacted upon individual households and have consequences for their position as homeowners. The second was to establish (1) how households perceive the pattern of security and insecurity, advantage and disadvantage associated with different housing positions; (2) how these perceptions have moulded their personal strategies with respect to housing and also issues such as jobs, family size, education and pensions; and (3) how these positions have provided them with material security or insecurity.

This chapter concerns the second objective. The chapter is structured as follows: after a brief description of Belgium, the city of Ghent and the interviews, there are two paragraphs covering the national research context, including an introduction to the labour market, the social security system and the housing market. This is followed by sections on (1) the meaning of housing and home ownership, (2) features of security and insecurity and (3) safety net strategies. The chapter ends with some conclusions.

The Belgian context

Belgium is a monarchy and a parliamentary democracy with a population of 10.51 million (2005). The population is growing and this growth has accelerated over the last few years. At the end of the 20th century the annual growth rate was approximately 25,000 people per year. Between 2001 and 2005 the population grew at a rate of between 40,000 and 50,000 people per year. In 2006 the figure was 65,530 people¹.

Belgium was a highly centralised country before the constitutional reforms started in the 1970s. These reforms have fundamentally reshuffled the institutional landscape. They resulted in the federalisation of Belgium, bringing about a gradual devolution of power from the federal level to the communities (cultural issues) and regions (territorial issues). This organisation has created a complex set of institutions. At the *federal level* the remaining institutions are the King, the federal parliament (the House of Representatives and the Senate), the national government and the civil service. The federal government is responsible for taxation, justice, internal policy, foreign policy, defence and social security (unemployment, minimum wage, health, pensions).

¹ Source: Statistical Office (FOD Economie).

At the level of the *communities* and the *regions*, each has a parliamentary assembly, a government and a civil service. The logic of the system decrees that there should be three regional councils, three community councils and six governments. In practice, however, there are eight elected assemblies, eight governments and eight civil service organisations. The reason for this is that in Flanders the councils and the executives of the region and the community are organised and managed as one entity. In the Brussels Capital region, the interests of the French-speaking community are represented by the French communal commission and those of the Dutch-speaking community are represented by the Dutch communal commission. A joint communal commission promotes the common interests of both groups of residents.

It is important to note that, in constitutional terms, housing is the responsibility of the regions of Flanders, Wallonia and the Brussels Capital Region. Nevertheless, an important factor for housing policies is that some responsibilities have remained at federal level. This concerns private rental legislation (De Decker, 2001) – which for this reason is not a matter of housing policy, but of civil law – and exemptions from taxes, which represent by far the largest part of the housing budget (De Decker, 2000).

The OSIS qualitative interviews took place in Ghent, a city of 230,000 inhabitants located in Flanders. Ghent is a central city and a provincial capital. The city offers approximately 140,000 jobs within its boundaries. 74% of these jobs are in service industries, dominated by health care (20,000), finance and professional services (20,000) and education (17,700). The 35,500 industrial jobs, including a major steel plant (Arcelor Mittal) and a large car factory (Volvo), are mainly located in the sea port. In 2000, the city had 11,884 unemployed people, which, at 11.4% of the labour force, was far higher than the average for the Flemish region (6.3%), illustrating the general picture that urban areas have concentrations of vulnerable populations (De Decker, 2004a; De Decker et al., 2005). In 2001, the average income per inhabitant was slightly higher than the Flanders average (€ 12,110 in Ghent, € 11,000 in Flanders).

In contrast to the Flemish housing market, which is dominated by home ownership (74% in 2001), Ghent has a large proportion of rented properties (45%). Of the approximately 105,000 dwellings, roughly 13,000 are social rental housing. This is 13.9% of the entire housing stock and is far higher than the Flemish average of 6%. In 2002 more than 8,000 households were on the waiting list.

Because Ghent was one of the first cities on the continent to industrialise, the city has a large proportion of old housing. 37.3% of the housing (probably an underestimate) was constructed before the Second World War. More impor-

² Unless stated otherwise, the data comes from the city monograph, the city monitor and other statistical information available on the website of the city of Ghent (www.gent.be).

tantly, the poor quality housing is concentrated in the so-called 19th century neighbourhoods. As a consequence, approximately 20% of households live in houses considered to be of poor quality.²

The interviews

In order to recruit respondents, two approaches were used initially. The first was applied in a residential area of the city. It has mixed tenure types and a mix of old and new flats and houses. In this area we hoped to recruit older and younger homeowners, and some tenants. A letter with an invitation to participate was posted to a random sample of 200 dwellings. The goal was to obtain 15 to 20 interviews in the area. The second approach was used in a less attractive area built during the heyday of industrialisation in the 19th century. The goal was to recruit tenants and poor owners. In order to reach them we used a gatekeeper (a community workers' organisation).

The second approach worked as expected, giving us addresses of people with different profiles living in the centre of the city and the poorer northern neighbourhoods. The first approach was not as effective, since only seven useful contacts were obtained. An additional recruitment process was initiated using two gatekeepers: an NGO organising socio-cultural activities with vulnerable people and an NGO handling addiction problems. We asked them to send our request to their own staff in order to obtain a professional and diverse response. The second gatekeeper kept to this approach, while the first also forwarded the request to a wider mailing list. This recruitment method was very effective and resulted in a diverse selection of respondents living throughout the Ghent city region.

The 30 interviews with 20 owners and 10 tenants took place in June and July 2005. 26 interviews took place at the home of the respondents; 3 took place at work and one in the house of a friend. The interviews were between 45 minutes and nearly 2 hours in length. On average the interviews lasted between 60 and 70 minutes. Six of the respondents had lost their home before and seven could be considered to be poor owners.

The interpretation

In order to obtain information from people who are exposed to the same housing market, the OSIS researchers opted to concentrate the interviews in one housing market in general and in one city in particular. It is important to stress that the Belgian sample is dominated by urban residents. 'Urban' not only by location but also by attitude, since the large majority of the respondents enjoy city life and, for the majority, moving to the countryside or to the suburbs is not a consideration. Of our 30 respondents, 27 live in inner-city neighbourhoods. Two live in the suburbs and one is further out. Only two respondents live in a detached house and only one in a semi-detached house. All the others live either in a row house or a flat. Of the respondents who live

in flats, only one – a social tenant – is in a high-rise tower block. In the other cases the buildings were relatively small, with only 3 to 10 flats. With respect to the interpretation of our findings, it is important to emphasise that this sample is atypical, as the Belgian housing policy has a strong anti-urban bias and has channelled people towards buying detached and semi-detached houses in non-urban areas (Mougenot, 1988; De Decker, 2004a). So, in order to get a fuller picture, this sample would need to be complemented with suburban and rural respondents.

A second warning needs to be made with regard to the interpretation. Although this kind of qualitative research does not seek to be representative, it is important to indicate that in our sample more highly educated respondents are over-represented. Although earlier research (Sennett & Cobb, 1972; Rakoff, 1977) illustrated that attitudes towards housing and tenure do not necessarily differ between blue and white collar workers, we must stress that we interviewed a very limited number of blue collar workers and house owners with lower levels of education.

3.2 The labour market and social security

Although specific housing policies are in place (see below), we cannot ignore the fact that the development of home ownership in Belgium is linked to the political economy and the economic development of the post-war period. During World War Two, in 1944, the social partners and the government concluded a social pact (Global Pact). This was the start of the establishment of a generous social security system. In addition, it was the starting point for negotiated wages and working conditions. Together these two developments resulted in (1) (relative) job security, (2) (almost) guaranteed wage increases and (3) the existence of a substantial safety net, all of which encouraged home ownership without the need for major state investment for securing it. Although less robust than before, this social deliberation approach is still in place and determines wage and labour conditions in both the private and the public sector.

Despite the relative sustainability of the Belgian approach (Deleeck, 2001; De Decker, 2004b), it is impossible to ignore the fact that times have changed. This leads to the question: which factors no longer apply? And what does this mean for home ownership? In the following paragraphs we will look at the changes in the labour market and in the basic social security system in as far as they are relevant for securing home ownership. This implies that we will not consider the debates on the pension system³, as it is of little relevance for our topic, because all the respondents will have paid off their mortgages by the age of 65. The SEP 1997 survey shows that only 3.5% of heads of households over the age of 60 are still making monthly mortgage payments. Amongst heads of households over 70 years of age, the proportion drops even

further to 0.2%⁴.

The Belgian economy is undergoing significant changes. The major features include:

- A gradual evolution from a highly industrialised economy to a service economy. Around 65% of the working population is employed in the service sector; agriculture is now responsible for less than 1% of employment, while approximately 35% of the workforce is still employed in industry (assuming that the construction sector is regarded as industry).
- The overall number of jobs is growing, as is the number of self-employed people. Self-employment represents 16% of overall employment.
- An increase in the number of service jobs has compensated for the decline in industrial jobs, although there are some regional differences.
- Approximately 31% of the jobs are in public service and a further 11% are in the non-profit sector, which implies that just over 40% of jobs can be regarded as secure. As a consequence, private sector jobs, which are generally less secure⁵, represent just under 60%⁶.
- The current debate has two dimensions. One concerns complaints about high labour costs which make the Belgian economy less competitive. Dif-

3 The Belgian pension system has 3 pillars. The first, which is based on solidarity, has three subsystems: one for workers in the private sector, one for self-employed workers and one for civil servants. Today's working population pays for the pensions of today's retired people. The pension age is 65. The pension amount is linked to the career, the previous income – which includes benefits – and the household structure. Currently the average pension is € 865. The second pillar is organised by the employer. Some organise an additional pension plan. The best known is group insurance in which the employer or employee invests a sum of money. In addition employers can be members of a pension fund. This second pillar is organised predominantly by large companies. In the third pillar, the government promotes saving by offering tax exemptions. People can choose between saving for a pension, long-term saving or a combination of both. In addition to these pillars provided by the state, individuals can also opt for a completely private investment strategy which is linked to purchasing power after the age of 65 (Deutsche Bank). It is worth noting that I believe that a discussion should be started about the launch of an additional pillar. This is related to home ownership. The Socialist Party in particular has linked the continued promotion of home ownership to pensions because homeowners in Belgium will no longer have any housing costs after retirement. The most recent statement of the party's principles is: "We want as many people as possible to own their own house. This is the best guarantee of good housing and the best method of saving for a pension." (SP.a, 2007 – my translation).

4 Thanks to Isabelle Pannecoucke (OASeS-University of Antwerp) for the calculations.

5 It is worth noting that dismissing an employee – which is easier in the case of white collar workers than blue collar workers – is a legal matter. More important is the fact that in Belgium there is no time limit on the payment of unemployment benefit.

6 Figures obtained from Peter Cabus from the Socio-Economic Advice Board of Flanders (SERV) for 2002. The total number of jobs is 3,493,168 (of which 1,071,424 in the public sector, 373,873 in the non-profit sector and 2,047,871 in the private sector).

ferent policies have been introduced with the aim of reducing labour costs without cutting employees' net incomes. The second dimension relates to the degree of activity which, by EU standards, is relatively low. In order to increase this, an activation policy has been introduced and a debate on the end of the working life is running, since in Belgium, as Doling (2006) shows, a very large number of people retire early.

People working for the government and non-profit employers (generally) have secure jobs. This is not the case for people who cannot enter the labour market or those in the private sector who become unemployed either because they are dismissed or because they have health problems. In all cases social security measures are available. All of these can be considered as rights, which means that they are available as long as they are needed. This even applies to unemployment benefit in the case of the heads of households and single people. This policy was only changed recently for people living together (where the benefit then becomes a second income). Previously the benefit for this category of people was paid for the average length of unemployment. Currently, on the basis of the activation policy referred to above, it is linked to the acceptance of support (e.g. training).

Although there is some criticism of the Belgian social security system, it is generally considered to be relatively generous⁷ and stable.

What does this imply for owner-occupation? In contrast to the public debate which 'celebrates' rising insecurity and the inaffordability of housing, and taking into account the undeniable existence of booms and busts in the economy, we cannot ignore the fact that during the whole post-war period – with the exception of two years – the national income has risen every year in real terms (Deleeck, 2001). This is also reflected in wages. Because house prices have kept pace with the financial spending power of households (Ph. Janssens as quoted by Deceunynck, 2005 – see also: De Decker, 2007), this implies that over the whole period there has been and still is a solid economic base for home ownership.

⁷ This is the case if overall benefits are seen in terms of the proportion of GDP. At an individual level, the benefits are becoming relatively low, because the increase in benefit is linked to the consumer price index and not to the overall increase in the cost of living in general (the argument of Bea Cantillon, Professor of Social Policy at the University of Antwerp in Meulenaer, 2006). The counterargument is that the benefits are primarily second incomes (the argument of the chairman of the employers' organisation in Meulenaer, 2006), which is true. Two major weaknesses are: (1) the system is still to a large extent based on a traditional household model and (2) some benefits are not adjusted to match changes in the cost of living.

⁸ Mougnot (1988) stresses that already from the beginning social rental housing was stigmatised as housing for those who could not afford anything else and were therefore dependent on the state. Note that social rental housing offers good quality housing, an income-related rent and tenure security (lease for life).

3.3 Housing policies and housing markets

More than elsewhere in Western Europe, Belgian and Flemish policy makers have chosen to satisfy the need for housing by building single-family dwellings and by private ownership. Since the first Housing Act of 1889 a broad range of instruments has been developed. Provision has been made, in fluctuating proportions, for cheap loans, free grants, cheap building land, cheap houses for sale, interest subsidies and tax cuts. The principal emphasis of these policies can be summarised as follows:

- The housing policies were directed towards the *construction of new houses*; until now, for a long time only lip service has been paid to renovation. The theory the absence of a renovation policy was that by building new houses on a 'massive scale' the lowest income households would be able to rent better quality accommodation because of upward mobility (Goossens, 1983). But in the end this approach led to relatively low new construction levels if compared with other countries (Feddes, 1995).
- Housing policies were (and are) characterised by *a broad target group*. At certain times no exclusion boundaries were laid down and at other times only the highest income groups were excluded from certain subsidies. The recent trend is for the income levels at which households are excluded to rise again. As a consequence, a number of financial provisions intended for lower income groups are benefiting middle and higher income families (Deleek et al., 1983; De Decker, 2000).
- Housing policies were (and are) characterised by *low levels of financial intervention* in both macro and micro terms. The choice is either to give limited support to as many families as possible or to support a more restricted target group more substantially. In the case of the levels of intervention, it has repeatedly been demonstrated that they are low in comparison to the necessary investments. The premiums or grants therefore have hardly any influence on people's decisions to become homeowners (Deleek et al., 1983). In other words, the purchase of property is quasi entirely dependent on the personal financial means and perceptions of the households.

The argument here is that the high level of home ownership in Belgium is not due to the financial incentives provided by the government). Instead the reason behind it is the fact that households looking for secure, good quality housing did not have any alternative (see amongst others Mougenot, 1988; De Decker, 2006). There are two aspects to this. One is the historically small market share of social rental housing (max. 6%), which means that people in need of housing could not and cannot have immediate access to it⁸. The second aspect is the unwillingness to regulate the private rental market, which means that (1) rents find their own level, (2) quality standards are virtually non-existent, (3) tenure security is limited⁹ and (4) no compensation is offered in the

Table 3.1 Flanders, estimated numbers and percentages of residential dwellings by tenure, 1980-2001

Dwelling	1981		1991		2001		index (1981 = 100)
Owner-occupied	1,275,639	(65.5%)	1,492,210	(69.7%)	1,732,842	(73.8%)	135.8
Privately rented	573,991	(29.5%)	534,304	(24.9%)	489,278	(20.8%)	85.2
Socially rented	98,315	(5%)	115,043	(5.4%)	125,905	(5.4%)	128.1
Total	1,947,945		2,141,557		2,348,025		120.5
	(100)		(100)		(100)		(100)

Sources: NIS-SEE, 2001; VMSW (website) – own calculations

form of substantial allowances for high rents (De Decker, 2006).

Table 3.1 shows the tenure evolution in Flanders over the last 20 years. There has been a steady rise in home ownership, while the proportion of social rental housing has stagnated and that of private rented properties is continuing to fall. This is because of a lack of real alternatives, but also because home ownership is affordable for a large proportion of the population. This is illustrated by the fact that the households who enter into home ownership only spend on average approximately 20% of their income on their monthly mortgage payments. The figures also indicate that the financial burden is high only in the early stages and that it becomes smaller when the head of the household reaches the age of 35 (De Decker & Geurts, 2003; Van Dam & Geurts, 2005; De Decker & Van Dam, 2004).

In order to understand the answers to the interview questions, we should also emphasise that the Belgian housing market has been remarkably stable and has not seen spectacular booms and busts. As a result there is no fear amongst homeowners of suddenly losing money as a consequence of the collapse of the housing market. In this respect, Figure 3.1 indicates two things: (1) all housing prices and especially those in the home ownership market are showing a steady rise (guaranteeing a return in the case of the need to sell) and (2) in real terms the rise is moderate (guaranteeing access in times of economic prosperity, which was the case during the research period).

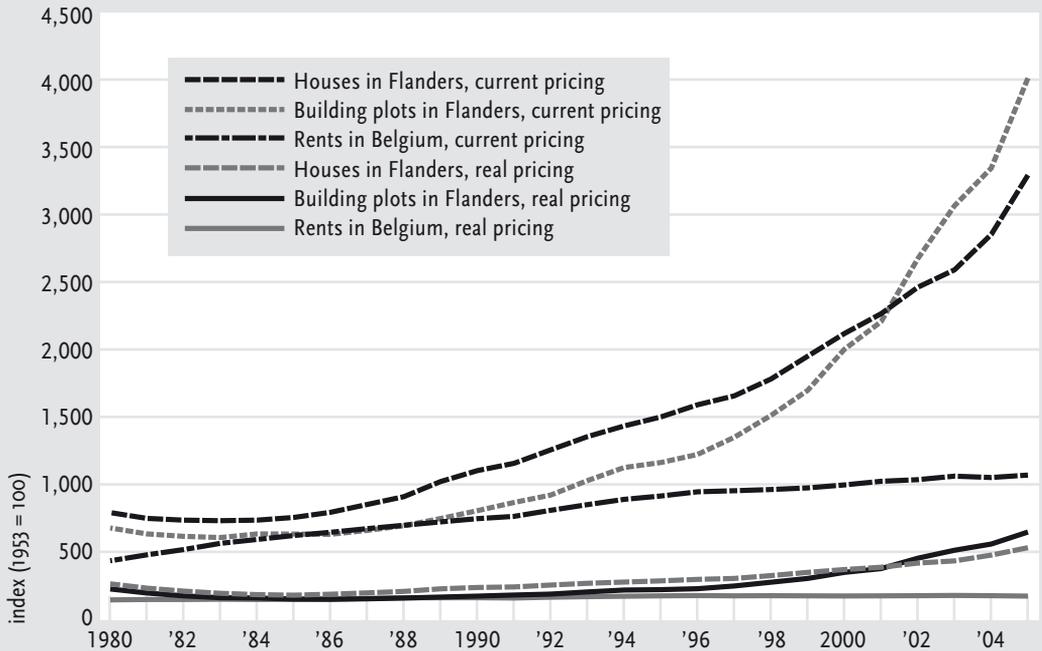
A normal loan-to-value ratio is between 75% and 100%. Some banks ask for an additional 0.25% interest when the LTV ratio exceeds 80%¹⁰. The average LTV ratio of new mortgage loans grew to 89% in 2004. Under the affordability test normally applied by Belgian banks, borrowers must spend no more than 33% of their income on housing costs¹¹. LTV ratios are, as the IMF (2006) correctly states, not typically used; there are no regulations limiting the LTV

⁹ Legal private rent contracts cover a period of 9 years, with easy termination in the third and sixth year. However, it is also possible to terminate the contract at other times (e.g. for the tenant's own use or the use of a family member) or by paying a penalty.

¹⁰ www.bouwlinks.be and www.livios.be, both consulted on 20 November 2006.

¹¹ Another approach is that after payment of the mortgage a reasonable amount of money should be available for living. This is assumed to be € 750 for the household plus € 125 per person (www.livios.be, consulted on 20 November 2006). See De Decker (2005a).

Figure 3.1 Evolution of housing prices in Belgium, 1980-2005 (index: 1953 = 100)



ratio. It is therefore relatively easy for the borrower to add a personal loan to the mortgage and therefore to borrow more than 100% of the assessed value.

3.4 The meaning of housing and home ownership

3.4.1 The meaning

Setting the scene

“For me, my home is mainly somewhere to relax. A place where you can hide after work. It is about coming home. A place where you feel at ease. A safe place. A place to retreat to with the people you like” (owner, woman, 50 years old, with an administrative position in a private company).

“I know it’s a bit of a joke, but owning your own house is about freedom. OK, we have to pay the mortgage. But we’re both working and we’re both relatively young. We’re under 40 and within 5 years we will have paid off the mortgage and we’ll have our own house without any costs” (owner, man, 38 years old, working in the welfare sector).

“My house is a large part of what makes me feel happy. (...) My house is my saviour, my freedom” (owner, single man, 37 years old and self-employed).



Housing at some of the interview locations in Ghent, Belgium.

The question on the meaning of housing and home ownership surprised the respondents. They had to think carefully about it. Generally, respondents explain what their house means to them by referring to two factors. One is linked to the more emotional aspects of ‘rest, privacy and freedom’; the second concerns the ‘financial features’ of housing in general and ownership in particular. Often both are mentioned by the same respondent.

Being in control

The concept of ‘rest, privacy and freedom’ evokes a whole range of emotions. The most spontaneous reactions refer to the home as a place to relax, somewhere to return to after work. An overwhelming majority of the respondents referred to this when they went into more detail. It is very clear that people see their home and, in particular, the home that they own as being separate from work. In particular respondents who have had to live with friends for a while emphasise that after living in someone else’s house, having their own place became important. In the same way for the majority the house is a place where you can be ‘at home’, where you feel good and where things are how you want them to be. It is linked to independence. The respondents stress the fact that being an owner allows them to do what they want in their home. As some of them said, in a rented house you don’t paint the walls and you put up with problems (such as damp).

For numerous respondents being an owner is linked to ‘being in control’, ‘being the boss’ and this again is related to the possibility of giving the house

a personal touch. The house can be made to look good and feel comfortable. It is the place where you can entertain people that you like, the place where friends meet.

Things can change

It is important to note that some of the respondents who say that they entered into home ownership without an emotional attachment have found that their attitude towards what a house or home in general means and towards home ownership has changed. According to them, the home becomes more important, it becomes more like a nest. It even led for some to the conclusion that they should have purchased a house earlier. This is very much linked to the presence of children. Nearly all households with children refer to the fact that stability is good for the children. Because ...

“... the children have strong ties with their school, their friends, the centre of their world. In a family situation, in a context with children, the house is very important. I once asked my children where they wanted to live. They could have chosen anywhere. And they both said: here. It is their operational base (...) Personally, I don't care. But for the children the house is extremely important. And what are the reasons? It's difficult to put into words. I think it's about feeling at home. But it is very important, that's for sure” (homeowner, man, 62 years old).

Status and pride

Earlier we highlighted the fact that, as a result of a long-standing policy, home ownership in Belgium has become a social norm (De Decker, 2005). In the post-war period this was predominantly achieved by building new houses. Since the mid 1990s the focus has changed and the majority of recent house purchasers have bought existing houses. As a consequence the ‘visibility’, a combination of the new construction-in-itself and its location, became less important. Since our sample is primarily urban and many of the respondents live in the less popular 19th century districts, we can assume that status is hardly an issue. This seems to be true, since only two respondents say that the status of their house is important. These two live in the two most valuable houses in our sample. The first is an older owner (61 years old) of a large and valuable inner city house with character. He attaches status to the house as such, but also because he uses it as a place to meet clients. Being a former manager, he needed – according to his reasoning – a large house and a large car in order to impress. The second respondent, a high level civil servant (37 years old) says that status is ‘inseparably’ attached to a house. He lives with his wife and two small children in a newly built house on an expensive plot of land near the central station.

In response to the direct question of status, most other respondents say that their house is not a status symbol and refer to the neighbourhood and

the facade of the house, which is indeed rarely impressive. One male respondent living in a larger row house says that housing has status, not for him, but for others.

“You can’t deny that status is an issue if you build a big, posh house on a large plot of land with a gate and two lions on the gateposts. That’s true, isn’t it?” (homeowner, man, 62 years old).

And, finally, a young tenant also refers to status:

“Unconsciously it is a status symbol. Renting or buying makes a difference. This doesn’t imply that the house should be large. Or ‘chic’. But it is something to be proud of. It says something about you” (tenant, woman, 26 years old).

This brings us to the issue of pride. A majority of the owners we interviewed are undoubtedly proud of their houses. This is related to three features. The first reflects the simple fact that they did well on the housing market. This applies in particular to the least fortunate, a disabled woman who built a new home and an older couple who work as bargemen and only have a primary education. The second aspect is linked to working on your house yourself, which several respondents did. Most of them are proud of what they have achieved, especially inside the house. And it is undeniably true that beautiful, creative houses are often hidden behind unimpressive facades. “It’s my property now”, is a comment made in particular by female respondents. And two men who stressed that their house was only a roof over their heads showed the researcher around the whole house after the interview. A third point of pride is linked to the choice of neighbourhood. Some respondents are proud of the fact that they are bold enough to invest in a house in a poor urban neighbourhood. The majority of them do not want to live in rural areas and particularly not in the suburbs. One tenant, a single woman who is 29 years old, even referred to these areas as being inhuman.

What about renting?

Under the umbrella of the general question “What does a house mean to you?”, positive connotations were generally attached to ownership. In contrast renting is associated with a large number of negative factors. Few respondents refer to renting as a flexible form of tenure, which is an easy option because the tenant does not have responsibility for maintenance and which is emotionally and physically less demanding. Most see renting as an insecure form of tenure where tenants are exploited. Some respondents have moved as a result of receiving notice to leave, having high rent increases imposed and identifying hidden defects. Renting is very much seen as throwing away your money. At best it is regarded as a temporary solution which gives

couples time to get accustomed to each other¹² and to save enough capital to buy their own property, which is what the youngest respondents are doing.

In addition, social rental housing in particular is associated with a negative status¹³. Although they are aware of the fact that social housing makes housing affordable and secure for them, a couple with both partners on disability benefits after disruptive lives, which include divorce, long-term unemployment and stays in numerous institutions, who live in a flat on an upper floor of a high-rise tower block, see their housing situation as an extension of their misery. They dream of owning their small own house with a small garden and a small car. When asked if renting is an alternative, nearly all the respondents reject social rental housing as an option.

Financial rationality

The reasons for buying and owning a home are very much linked to financial rationality. The respondents have chosen to buy, because ownership is more affordable in the long run than renting. The recurrent answer is that renting wastes money, while ownership is a financial investment and in the end leads to 'free' housing. The respondents who have recently become homeowners point to the fact that nowadays renting is as expensive as paying a mortgage on a small house. A young respondent (woman, 30 years old), who works in Ghent, but now and then travels to London for her (previous) work, wanted to continue renting while her work situation remained complex. However, when her landlord informed her about a substantial rent increase, she and her partner decided to buy a small house near the railway station. Her monthly mortgage payments will only be slightly higher than the new rent. A middle-aged homeowner (single woman, 52 years old) who has a long history of moves in the rental sector because she was not interested in home ownership, explains her choice in terms of the affordability of home ownership and the instability of being a tenant. In the past she had already been given notice to leave her home twice and the third time that this happened made her think about her situation and do some sums. Using all kinds of subsidies, she finally bought the last house she rented and her monthly mortgage payments are only slightly higher than her rent.

Although the respondents put the emphasis on the financial rationality, the financial aspects of house-buying are, strictly speaking, not the only factors involved. The financial reasoning is frequently accompanied by an argument emphasising the more ideological dimensions of home ownership. Buying a house is a financially rational thing to do, not only because it is affordable in the long term, but particularly because it involves, "paying for your

¹² This is the predominant response to vignette 1.

¹³ See also: De Decker & Pannecoucke (2004); De Decker (2005).

own house and not simply paying somebody else” (Naumanen & Ruonavaara (2005). According to different respondents it makes no sense to pay rent to a third party if you have the option of paying for your own home. Some people even argued that, with hindsight, they should have become homeowners earlier, because on the one hand they feel that they have wasted money by paying rent, but also because they think that they have lost out on the potential gains from rising property prices.

Social pressure and support from relatives

As mentioned, Belgium has a long-standing tradition of promoting home ownership. It is not surprising then that, when explaining their choice, respondents refer to their parental situation and social pressure. The respondents’ childhood housing circumstances may have an influence on their views and preferences. In fact there is a strong correlation. Nearly all the homeowners grew up in housing that their parents own(ed). Among the renters, some households shared a background in home ownership. Some respondents clearly state that their parents or their parents-in-law have encouraged them to buy property and often gave them financial support (see below).

Few respondents grew up in rented properties. But those who did were encouraged to buy property because they have seen the effect that renting has had on the lifestyle of their parents when they reach retirement age. In order to resolve that problem, one respondent – who regards buying property as a sound investment – has already bought a flat around the corner from her house for her mother. Another couple intends to buy a flat or small house for the parents of one of them as soon as they have finished paying off their own mortgage.

When asked if there is an over-emphasis on home ownership in Belgium, most respondents believe that there is not and find it a good thing, because “you are doing things for yourself”. Although a majority of the owners stressed that they made conscious, independent decisions, some admit that there has been some social pressure. However, it is never considered to be the trigger. There is some pressure on people to buy, particularly those in their early thirties. It often takes subtle forms and comes up in everyday conversations. People talk about it at work. Visiting peers and friends is a more crucial factor. The visitors are shown around the house and the owners talk about furnishing and illustrate its affordability. Often the pressure is less subtle and more overt when people are labelled as stupid if they have not bought a house. Or, as one respondent said, “You are not a full citizen if you rent”. Another respondent felt that “people who don’t own houses are seen as being rather strange” (still a tenant but renovating her own house, woman, 29 years old).

Given this, it is not really surprising that only half of the respondents, in their responses to vignette 1, advise the couple to buy a small house, “if they

don't have to live off dry bread" (owner, man, 62 years old). Older homeowners in particular advise the couple to buy a house at a reasonable price as soon as possible. Some of the respondents hesitate slightly, because the man in the vignette does not have a permanent job, which might cause difficulties in paying the mortgage. Although a majority of the respondents in principle believe that you need two secure jobs or at least 1.5 per household, they tend to advise the couple to buy. And as some interviewees say, if they are not able to pay the mortgage, they can always sell the property and get money back. The younger homeowners also advise the couple to buy a house, but some of them consider that the strength of the relationship is crucial here. If the two people have not already lived together, it is a major risk. A breakdown in the relationship and separation would cause major problems, not least because of the need to divide the property and the debts. Pleas for prudence are expressed by respondents who have experienced the loss of their home as a result of the breakdown of a relationship.

In this context it is understandable that (grand)parents provide support for their (grand)children when they buy a house. For example, Doms *et al.* (2001) show that gifts are important. If a gift has been made, it tends to represent between 16 and 19% of the total investment. However, the respondents' answers to the question concerning the importance of intergenerational transfers are highly ambiguous. While 14 of the 20 respondents who own their own house had support from their (grand)parents in one way or another, between a third and a half say that they do not consider intergenerational transfers to be important. When pushed, most respondents admit that financial support can be important or helpful and that it can help the children to get a foot on the housing ladder.

If we look at the 14 owners in our sample who were given support, the money has been given by parents, grandparents and brothers or sisters. Different methods are used, including (1) inheritance, (2) the donation of one lump sum (3 respondents received € 37,500¹⁴ and one as much as € 75,000) or a number of smaller lump sums on different occasions (for example when one part of the renovation work is completed or when furniture has to be bought), (3) an interest-free loan and (4) in one case a respondent was able live for € 1 in a house owned by his (divorced) father.

In addition to the respondent living for € 1 in his father's house, two other cases stand out. One respondent, a 34-year-old woman with 3 children and married to a man who has previously been divorced while owning a house, initially states that financial support from the family is not important. Later,

¹⁴ The first paid € 50,000 for the property in 1975 and took out a mortgage of € 87,500 in order to pay the cost of purchasing and renovating the property. The second paid € 80,000 in 1998. The last paid € 162,500 to build a new house suitable for her disability.

when recalling the experience of her husband, she admits that it can be “a big help”. After divorcing his first wife, her husband kept the house and took over the mortgage. At various points he was unable to pay the mortgage, until the bank threatened to put him on the black list. Since this could have had serious consequences, on different occasions he received financial help from his parents.

The second case concerns a young couple, still renting, who have already bought a plot of land from her parents. Her parents, who own land on the outskirts of the city, are developing part of the land. Under the terms of the law, a certain proportion of the plots of land has to be sold within a certain period of time or the development permission will be withdrawn. Since this was not the case, some of the plots were sold to the children. The children could buy the land at well below the market price and receive an additional lump sum.

3.4.2 The housing decisions

Neither the house as such nor financial issues are the reasons why our respondents leave their parental home. The major motive for moving out is either to start an independent life or to marry or cohabit or marry. Apart from this “big” separation, the reasons for moving are much more diversified. However, in our sample, relationships and the desire to start a family remain the main reasons for moving out. It is rare for respondents to refer to their work or changing jobs in this context. Different aspects of housing – in particular tenure and tenure security – are becoming increasingly important, but are not the predominant reasons to leave home.

“Because it has to happen at some point” is a summary of the answers given by different respondents when asked why they have purchased a house. This very much reflects the argument developed earlier (see also De Decker, 2005). Becoming a homeowner is very much an essential part of Belgian society. It is no surprise then that some respondents assume that “meeting a partner, becoming a homeowner – either by buying an existing house or building a new one – and having children are very often related events”. This applies to a large extent to our respondents. Table 3.2 shows, for the households with children¹⁵, the year when the household was set up, the birth of the first child and the year when the property was purchased. In 10 of the 13 cases the birth of the first child and the year when the couple became homeowners, in particular, are – with a maximum gap of 3 years – very closely linked. In two out of the three other cases marriage or cohabitation and ownership went hand-in-hand. In the last case, a couple with two children who had inherited a large sum of money and who had built an expensive new house, the gaps between

¹⁵ Including the households which later broke up.

Table 3.2 Respondents from Ghent, age of cohabitation, year of becoming a homeowner and the year when the first child was born

R	Marriage or cohabitation (1)	Birth of first child (2)	Year of becoming a homeowner (3)	Years between (1) and (3)	Years between (2) and (3)*
1	1972	1977	1975	3	-2
2	1990	1995	2004	14	+9
3	1985	1989	1988	3	+1
4	1999	1992	2001	2	+9
5	1974	1988	1988	14	0
6	1992	1995	1997	5	+2
7	1992	1999	1996	4	+3
8	1989	1984	1984	5	0
9	1997	2004	1997	0	+7
10	1998	2000	1998	0	-2
11	1993	1997	1997	4	0
12	?	1998	1997	?	-1
13	1995	1996	1999	4	+3

*) + = child came first, - = ownership came first

Source: OSIS interviews, 2005

marriage and the birth of the first child, and between the birth of the children and home ownership are all relatively long. But during the interview the male respondent (37 years, civil servant) stressed on different occasions, that if he could start all over again he would become a homeowner earlier. He links their lateness to his laziness and the fact that they did not experience any problems with renting. He now regrets this, because they have wasted a lot of money.

In popular writings in Belgium, home ownership is often shown in a romantic light and linked to a happy family life. Another common belief is reflected in the popular saying – often used to legitimise policies – that “every Belgian citizen is born with a brick in his stomach”, a reference to the high levels of new construction during the post-war period, especially during the golden age of the 1960s¹⁶. In contrast, our survey did not highlight much romance or many genetic influences during the interviews. With the exception of two older respondents who correspond with the popular image, the majority of the respondents – both owners and tenants – have a very rational approach to home ownership. The factors which encouraged them to buy a home include:

- self-confidence about their relationship;
- self-confidence about their professional career (“We’ll find another job if necessary” is the common attitude);
- support from relatives and friends (for example, for construction work) and from parents in particular (for finance and construction work);

¹⁶ The levels are – if put in an international context – not particularly high. See Feddes (1995) and Peeters & De Decker (1997) for example.

- the affordability of home ownership;
- easy access to money;
- (to a lesser extent) the availability of subsidy schemes.

Of course, it is not only a case of being attracted to home ownership. Some respondents also point to the factors that pushed them out of the rented sector. The belief or the fact that renting means wasting money is amongst the most popular, mentioned by two-thirds of the respondents. Other frequently mentioned complaints about renting are its negative status – and this clearly relates to social housing in particular – and the fact that tenants are dependent, a complaint which relates especially to maintenance and to small repairs that are not carried out (properly).

Some respondents refer to the insecurity of renting, which has two dimensions: the length of the lease and the rent increases. One respondent, a 52-year-old single woman, an artist with an uncertain income, links her decision specifically to being given notice to leave on more than one occasion. Finally she bought the last house that she rented. Another respondent, a 29-year-old woman, relates the decision she and her partner made to the news that the rent would be increasing substantially. As a result ownership of a small property became a reasonable alternative. Other respondents also refer to the fact that rents are currently so high that ownership of a small house is a real option. By “adding a little more you are paying for your own home” is a popular argument. But again, it is important to remember that our sample is biased because it is largely urban.

3.4.3 Using housing resources

An overwhelming majority of the owners say that they would not consider making use of the resources invested in their house. If they do consider doing so, it is in the context of growing older. Some respondents state in general terms that they think that they might need to use the house to pay for costs associated with old age. A limited number of people make a clear link between the house and the cost of care and one, now living on a bridge pension, clearly states that he does not want to live in his large house when he is old.

Even when prompted, respondents hesitate to answer this question. However some possible uses were given. Three respondents mentioned that they might use the value of their house to buy a larger residence. Others state that they might use the value to further renovate and extend the house. And for two respondents financing a second home is an option. Two renters who want to become owners plan to use house itself to finance the house purchase. One is considering renting parts of the house out and the other intends to set up a bed and breakfast business – or something similar – in order to finance the purchase.

Three respondents can envisage using the value of the house to invest in a business. One respondent can foresee using some of it to help his son to start up a new business. Two others dream of setting up a business abroad. They will fund the business either by remortgaging the house or by using the rental income from the house.

Although nearly all the owners state that the value of their house has risen or will rise, some doubt that they can make money out of the house when selling it at short notice. A number of respondents have actually had their house valued. However, they see the estimate as a theoretical value.

As a result of the ageing population in Belgium, there is an ongoing discussion on the affordability of pension system. And housing plays a role here, but not yet in supplementing state pensions (see above). The opinion of the general public – which is now being heavily promoted by the Social Democrats (De Decker, 2005) – is that it is good for people to own their own house when they reach retirement age, as this affects both their purchasing power and their independence. Most of the respondents agree with that point of view. Some learnt lessons from the experiences of their parents who had rented property. One tenant is experiencing the problems now, living on a bridge pension and paying rent for an unsatisfactory home.

But by the same token and on the basis of the general logic of the situation, several respondents seriously doubt whether it would be a good idea to use a house to supplement a pension income, as suggested in vignette 2. The opinions are divided as follows: some respondents see it as a good idea for households without children, but a large majority do not approve. Those who disapprove think that the children are being disregarded, that it is not a reliable way of obtaining an income, because the banks will take most of the profit, or that the state that should take care of those people whose pensions are too small.

The description of the situation in Finland by Naumanen & Ruonavaara (2005) also applies to our respondents: the idea of using housing as ‘capital’ and a possible source of income is still very new and strange for many people. For some respondents housing and particularly an owner-occupied home represents a kind of sanctuary that should not be mixed up too closely with economic considerations.

3.5 Security and insecurity

3.5.1 The financial dimension

The feelings of financial security amongst the respondents do not in any way correspond to the divide between owners and renters. If tenants feel more insecure, it has little to do with the financial dimension. Although some refer to the fact that private rents are high and are continuing to rise, this is not relat-

ed to insecurity. If respondents refer to insecurity, it is more likely to be in the context of the termination of the contract. Generally, the respondents are very confident, which is, of course, linked to the fact that a large majority of them regard their jobs as being permanent. Even those who have experienced financial insecurity still feel relatively secure. However, if there is a split on this issue, it is between those who have not yet experienced financial insecurity and those who have. For the former, financial insecurity is linked to a range of issues. Of course, it may be connected to a job loss, but only one respondent experienced this for a short period of time (and he solved the problem by informal work). More frequent references are made to relationship breakdown, which causes hardship for some people, accidents, such as fire or water damage, and the illness of a member of the household, which in all these cases was covered by insurance. It is important to note that if financial insecurity is mentioned, relationship breakdown comes top of the list, since it often goes hand-in-hand with the loss of a second income. Even the couple who are both on a short-term contract are confident that they will find a job, although according to the woman, a 24-year-old PhD student in bio-engineering, her degree is no guarantee of a job.

We stated earlier that some respondents either fall into the category of poor owners or have experienced a drop in income. In addition some of the respondents are on benefits. If we look at the poor owners, who are – at least theoretically – the most vulnerable of our respondents, it is clear that they can handle the situation. One respondent (man, 34 years old) only works part-time as a taxi-driver. For the rest of the time he is paid unemployment benefit. He is using his spare time to renovate his house. Although he has a relaxed attitude, he is aware that his situation is precarious. While he is confident that he will find another job if necessary, he has solved his financial problem by subletting. He plans to convert his relatively small house into three small flats and expects that the rent will cover his monthly mortgage payments. Another respondent opted for the same solution. As a 52-year-old artist living alone, her income is relatively insecure. When she renovated her small house, she turned part of it into a flat which she lets and which covers a large proportion of her monthly mortgage payment. A third respondent, a 38-year-old self-employed single man, has cut his housing costs almost to nothing by subletting his shed.

If we look at the respondents who faced a drop in income as a result of relationship breakdown, we see that they were all able to keep their house because they had a secure job. Even though it may influence their lifestyle, living on benefits is not really regarded as posing a financial threat. One respondent who lost his own house after a relationship breakdown and has been living for a while on disability benefit can ultimately still go back to his well-paid blue-collar job in the port of Antwerp, although he would prefer not to.

In the case of the couple who are social housing tenants, both partners are

on disability benefit which gives them a disposable income of € 1,400. According to them this income is relatively secure. And combined with their social tenancy with an income-related rent, it gives them a reasonable lifestyle.

As already explained, the divide in the feelings of financial security is between those who have experienced risk (aware) and those who have not (very confident). But it is important to remember that most owners are very confident about their relationship (which is necessary because of the second income) and their income (we will find another job easily). In addition they believe that their status as a homeowner adds to their financial security for various reasons, including the fact (1) that the mortgage will be paid off (for some respondents at a relatively young age), (2) that the value of the house will increase and (3) that some have lower monthly payments because the interest rate has fallen or because they have recently renegotiated their rate. They reason that this can be offset against the fact that rents are continuing to rise even under agreed contracts.

Although it is not directly linked to immediate risk or insecurity, it is worth mentioning that some respondents have thought about housing and tenure when they are old(er). Only a few of them express clear objectives, but some explain that they want to learn from the experiences of their parents. There are two aspects to this. One is that some respondents specifically state that they do not want to live in a large house. The other is that some say that they do not want to be renting when they are old. This factor is linked to the fact that leases are insecure and that they will have to pay rent. People are not keen to move house when they are old. And they are aware that paying rent will affect their lifestyle, since their purchasing power will be lower than it would be if they owned their property outright (which will be the case for all the owners).

Of course, financial security is linked to work or to the social security system for those who cannot work. Owners also take the rising value of houses into account in relation to their financial security. In addition they may also have other financial resources available. Despite the fact that some respondents hesitated to give the value of their resources, they were willing to answer the question. Although some have other investments, a deposit in a savings account is the main form of financial resource. Out of 20 respondents 17 have savings accounts. Two of the three others do not have any savings because they have recently been affected by a relationship breakdown. The third, an artist, chooses to invest her spare cash in materials. With the exception of three respondents, who have car loans, none of the other respondents have other loans. Various respondents say that they saved money before they invested in their house or bought other items.

Three of our respondents have other properties. In all cases they have more than one and all three respondents say that it is a deliberate choice because, in the long term, property offers the best value for money. For two of the three respondents, these are investment properties, although one is a holiday flat.

The third combines investment with social goals. The respondent rents out a small house to a friend at a low rent and the other property is for her mother.

Some respondents also own stocks and shares. But generally speaking this does not seem to be a popular method of investing money. This is because the respondents do not want to spend time on their investments: “We are not investors.”

If we look at the sums involved, we can see huge differences. The amounts range from “little” as one respondent answers, to sums as large as € 625,000 (not including the value of the two investment properties and the respondent’s own house). Although it is difficult to assess, we can conclude that a large majority of the owners in our sample have significant financial resources in addition to their houses.

3.5.2 The perception of risk

“Security is never absolute” (homeowner, man, 37 years old).

“Risks are not on my mind” (tenant, woman, 41 years old).

“I cannot imagine any” (tenant, woman, 31 years old).

“You cannot live with risks” (homeowner, man, 34 years; homeowner, woman, 35 years old)

“You don’t think about that” (homeowner, woman, 30 years old; tenant, woman, 25 years old).

“You can only search for solutions when things happen” (homeowner, woman, 34 years old).

These quotes illustrate the fact that both homeowners and renters have a very trusting attitude towards their future lives. Although the opinions on housing are more blurred, for the most part respondents consider risks unlikely to happen.

If risks are taken into account, we can only detect one real difference between owners and renters. Highly logically, renters to some extent fear an unexpected termination of their contract. Nevertheless it is worth noting that few of them think that it will happen within a short period. And to some extent they live with it. One renter, a single 31-year-old woman, rents from a couple, now living in the countryside, who bought their flat in the city to live in when their health declines. She is aware of the fact that if “something” happens, she will have to leave. She can live with that, because she is relatively sure that she can stay until then. This will give her the opportunity to

look out for something else.

If the respondents are prompted, they mention a range of risks. Most prominent is the risk related to a *drop in income*. This can have different causes. As one might expect, the respondents refer to job loss, although they are very confident of finding another job, but a fall in income is also linked to retirement, a bridge pension and relationship breakdown. While for most of the respondents these risks have a rather abstract nature, for others they have been a reality. Three of our respondents have faced a cut in income as a consequence of unemployment. One, a 34-year-old man with a very relaxed attitude, who combines unemployment with a part-time job as a taxi-driver, is not too badly affected by it, because he budgeted for his house and the necessary renovation on the basis of the expected rental income. Another respondent, who also already owned a house with a mortgage, solved this problem by informal work. And a third respondent, a single woman, stopped renovating her house and camped out on one floor for a long period. Although people are aware of the fact that unemployment will affect their income, only a few of the respondents regard it as the major risk, because, on the one hand, they believe that they will find another job and, on the other hand, they will receive unemployment benefit. It is not a lot of money, but it is seen as a kind of bridge until they find a new job¹⁷.

Far more threatening according to the majority of respondents is *relationship breakdown*. We have already discussed this. The answers of those respondents who have already experienced it do not differ from the responses of the other respondents. It is generally seen as the most important risk which can result in the house being lost, as it is the one risk for which there is no insurance. As discussed previously, older and younger people have a different approach to solving the problem of the house when divorcing or splitting up. The older respondents (3 cases) sold the house, paid the outstanding bills and split any money that was left. Those who have recently faced a relationship breakdown – all of them women, of whom two had two young children – tried to keep the house. One respondent was lucky to be given a social loan¹⁸ which allowed her monthly mortgage payment to be adjusted to her new income and made the

17 Note that in relation to vignette 3 the majority of the Belgian respondents state that the situation cannot get as bad as this here because we have unemployment benefits. This is combined with the finding that losing your home is seldom a consequence of a job loss (see De Decker & Geurts, 2003).

18 Some non-profit organisations are entitled to offer mortgages at interest rates that are below market levels. Therefore they are subsidised by the regions. Basically, there are two schemes. One is linked to income and the other combines income and the size of the household. In the first scheme the interest rate is related to the income: the lower the income, the lower the interest rate. It is evaluated every 5 years. A higher income leads to a higher rate, but if the income falls the interest rate does too. The second scheme links household size with the interest rate, which drops when the number of children increases.

situation viable. Another, a disabled woman, has a large burden of debt, “but it does not keep her awake at night”. And a third respondent, a mother of two young children, supplements her income with an additional job in catering while her mother looks after the children. One respondent refers to the hardships her husband faced after a divorce. He kept the house, but was in arrears with his mortgage payments at various points, to such an extent that the bank threatened to put him on a black list, which would have meant that he would not have been able to get another loan at a later date. He avoided this with the help of his parents and his problems were finally solved when he met his current wife.

Other respondents mentioned risks related to *health and illness*. Once again it is those respondents who have been confronted directly or indirectly with problems of this kind who refer to them. One respondent mentions her husband’s job. He is constantly exposed to risks at work because he is a construction worker. Some respondents or their partners have faced illness and institutionalisation (depression), but their house was never put at risk. One female respondent became ill and needed an operation when she was in the process of negotiating the mortgage. This made it more difficult for her to obtain a mortgage.

A few respondents regard *aspects of their neighbourhood and neighbourhood planning* as a risk. Three respondents ‘fear’ new noisy neighbours. Others worry about general changes to the neighbourhood and refer to the influx of businesses and immigrants and the increase in congestion. Three respondents mention compulsory purchasing as a consequence of urban renewal plans. One is afraid that it will happen as a consequence of collateral damage when the local government restructures the neighbourhood in order to clear some slum housing ‘around the corner’. The other two respondents are actually confronted with plans for compulsory purchasing. Although this concerns one of the flagship projects of the local government and despite the fact that the government is already buying dwellings in the neighbourhood, both couples still hope that they can avoid it¹⁹. One has already been made an offer, but has rejected it. The other has not received an offer and, as a consequence, still considers the forthcoming compulsory purchase plans to be a rumour²⁰.

R: “We are being faced with a compulsory purchase order.”

Q: “What happens now?”

R: “You’ll have to ask the city council. We don’t know what will happen. It’s hanging over our heads. We don’t feel calm. We never feel calm any more. For the city

19 In the meantime, they had to leave. One of the couples left the city of Ghent.

20 When this item is discussed, it causes a change in tone. The respondent’s neutral, distant tone changes to one of anger and determination.

council it is a fact. For us, it is a rumour. Basically, we have no problem as long as there are no signatures. (...) It feels like having a burglar in your house all the time. I have the feeling that the house is not mine any more, that someone else owns it and is making the decisions."

Other risks mentioned include the house being destroyed by fire or other hazards and costly repairs. Once again the respondents' own experiences determine the answers, since one respondent has been faced with a fire and another has suffered severe damage when a water pipe broke.

Most of the respondents state that they can deal with risks, if the consequences are only temporary. If they become chronic, it would be more difficult. Nevertheless we should not underestimate the impact of even a temporary risk. We have already referred to the man faced with the threat of being blacklisted. Another respondent, who resolved an earlier drop in income as a consequence of a previous short period of unemployment by working illegally, because of a relatively large mortgage, now faces the combined effect of living on a bridge pension and his wife's sickness benefit. Although they can cope, it has a serious impact on their lifestyle.

And our self-declared poor owner – now facing the consequences of a fire – explains that a single-income household cannot cope with any risks. As already mentioned, she had to stop her renovation work when she became unemployed. And her new job – as a result of her low level of education – pays too little to allow her to improve the situation afterwards. She will be experiencing hardship for years.

As discussed in the previous section, we found that homeowners – if prompted – will highlight a range of different risks, whereas tenants are mainly concerned about their finances (for example, in the case of unemployment) or rent increases. Homeowners mention risks such as accidents, serious illnesses, compulsory purchase orders etc., which are not referred to by the tenants.

Within the group of homeowners, there is a clear differentiation between those who have already experienced risks and those who have not. For the latter, the notion of risk is something very vague and abstract and, if prompted, they nearly all answer that they will cope with it. Especially with regard to job loss, the younger homeowners are very confident that they will find another job. Older homeowners are less likely to be affected by financial risks, because their mortgages are already relatively small or have been paid off altogether. However, as has been demonstrated, a drop in income can affect their lifestyle, even if it does not result in them losing their home.

Homeowners' concerns about various risks may be explained by the fact that they feel they have a lot to lose, if something harmful happened that would result in them losing their home. Their home may be something to hold onto, a point of reference, which represents their whole life. For homeowners, being forced to move out may be the equivalent of losing their independence,

not to mention the effort, time and money that they have put into their home. In order to illustrate this, we can take the example of the respondent who faces compulsory purchase (but still considers it to be a rumour). The effort put into the house is particularly important in this case, since the respondents did nearly all the renovation work themselves, which took between six and seven years, and transformed an old dilapidated dwelling into an attractive modern house full of colour and light. Working on a property yourself generates a strong sense of attachment, which is illustrated by the following quote:

“My house means everything to me. It’s my home. A bit of privacy. It’s the place where I can be myself. It’s a place to enjoy. But it’s also something practical: everything is where I want it to be. And it’s a way of expressing yourself. On the inside. The status of our home is on the inside. It illustrates our lifestyle” (homeowner, woman, 45 years old).

The other couple facing compulsory purchase also emphasise the fact that they did a lot of work on the house themselves and will lose their security.

“When we came to this house, I thought it would be the place where we grow old. (...) Until recently, it meant security. But not any more and it’s the fault of the city. If I ever buy again, it won’t be in the city of Ghent. The city is a faceless organisation. They intend to put people like us in a tiny rabbit hutch, in social housing, where people piss and shit in the lifts, where there are cockroaches everywhere, where the walls are thin and people don’t pay the rent” (homeowner, woman, 63 years old).

We cannot conclude that occupation, income and the size of the mortgage have an impact on the perception of risks, because, as mentioned earlier, most owners and especially the younger ones had a very rational and calculated view of it. All those who have not suffered a relationship breakdown are more confident of things going well. We should stress once again that the majority of the respondents see relationship breakdown as the major risk. On the other hand, respondents who have a large debt to pay off and have had experience of being unemployed are also likely to be more concerned about their finances and possible breaks in employment, even if they have a good, well-paid job.

3.6 Safety net strategies

3.6.1 Limiting housing costs

Our inquiry indicated a very rational approach, which is the same regardless of the type of tenure, as even tenants who plan to buy a property in the near future have a very reasonable attitude. Differentiations are largely based on-

ly on age. Apparently, for the older respondents buying their own house was more than a purely rational calculation. It was more a case of investing in something for “the rest of their lives” which would be “their castle” (former owner, man, 61 years old). The younger owners clearly regard it as being nothing more than the first step on the housing ladder and do not believe that it will affect their lifestyle beyond their housing. Given these considerations, the most important strategy concerns the starting position. Most of the respondents started with very affordable housing costs.

There are different aspects to making the house affordable in the perception of the respondents, and some are relevant for owners as well as tenants. They concern limiting the housing costs by:

- Selecting the area – With the exception of two, the respondents who own their houses live in more down-market areas of the city where the house prices were low at the time when they purchased (De Decker, 1999).
- Choosing an urban location or one near to a railway station All but three of the respondents live in central urban areas. They often refer to the fact that everything is nearby and that they need only one car. Even one of the two non-urban respondents lives near to a railway station, so that the partner can travel by train to work in Ghent. They also have only one car.
- Limiting their housing aspirations – All but five of the owners live in medium-sized row houses with at best a small garden. Two even justify their choice on the basis of environmental issues or what they have seen in developing countries.
- Working on the house themselves – A large majority of the respondents – regardless of their educational level or professional status – did a large amount of renovation work or intend to carry out further renovations themselves.
- Obtaining financial support from parents and grandparents.
- Using subsidies, if they are entitled – Various respondents have used subsidy schemes. These include social loans, social purchase housing²¹, interest allowances and lump sums given by different levels of government. It is important to emphasise that, although all the respondents are familiar with tax exemption, no one regards them as a great help. This does not mean that they do not take them into consideration. Some see it as a reason for not paying back the mortgage more quickly. The tax discount is, as one respondent (owner, woman, 45 years old) says “so much to be good”.

²¹ Alongside the ‘traditional’ social housing companies that are subsidised to construct social dwellings for rent, there are also social housing companies that are subsidised to construct dwellings for purchase, which are sold at below market prices. The benefit for the purchaser results from (1) the economies of scale because the houses are clustered together and (2) the related social loan schemes. These are subsidised loans and therefore charge interest below the market rate. In addition the loans are guaranteed by the state.

- Avoiding other risky investments – As mentioned above very few respondents have other investments, except a few in property. Only three respondents have other investments and these form part of a broad investment strategy which includes property and stocks and shares. By the same token, it is important to note that the respondents have hardly any other loans. First save and then spend, is the thread that runs through the interviews. This attitude is often a result of parents' experiences.
- Calculating cautiously – This includes basing the investment on a minimum of 1.5 incomes, including two years of unemployment for each partner when drawing up the budget and taking 'stories' of others who overcommitted themselves as a warning.

Taking the tenants who have already bought homes, the homeowners and the former owners into account gives us 23 relevant cases. Of these, 19 entered into home ownership on the basis of two incomes. Of the remaining four, two narrowed the affordability gap using rental income from parts of their (other) properties, one defines herself as a poor owner and the last bought after a third threat of eviction from her landlord.

Although calculations and confidence play a prominent role, we have also detected some ambiguity, because most of our respondents use a wide range of safety nets (De Decker, 2005). Some even combine the whole range: various private insurances, building up savings, calculating the increasing value of the dwelling if a sale is necessary, social security benefits and other state aid (for example, housing insurance if they are entitled), private pension funds, insurance against illness and hospitalisation, and finally family and friends. Some of these issues have already been addressed. In three recent divorce cases, the partners were able to make use of the increase in the value of the house, so that at least no money was lost, as one 41-year-old woman says. Some used or will use their hospitalisation insurance, while two others used their fire insurance. Others were helped by state benefits, either unemployment or disability benefit. It is worth taking a closer look at one particular case of state aid. It concerns a woman who is now 37 years old, has two young children and was facing divorce. They lived in a social purchase house. Houses of this kind are bought from a social housing company and are accompanied by a so-called social loan with an income-related interest rate which is adjustable every five years. In this specific case, the respondent's interest rate was adjusted significantly at the end of the five-year period following her divorce. Of course in the meantime she had had a larger financial burden. Nevertheless in all the cases where respondents were confronted with risks, all the safety net issues played a role – even if only a minor one – in allowing people to keep their houses. We should mention that the owners who are better off are also better insured. The poorer owners have hardly any insurance, as they cannot afford it.

Finally we look at family and friends as possible sources of help. A large

majority of the respondents see this as an option, although they all stress that they would only take this route after having investigated all the other possibilities. But at the same token, this is not a virtual safety net, but a real one, already used by four respondents. After his divorce the husband of our respondent kept the house. In the period between breaking up with his first wife and meeting his second partner, he faced hardships which included the threat of being blacklisted. When his situation was really desperate, his parents helped by giving him a lump sum. Our self-declared poor owner, who faced a divorce, unemployment and a fire, was helped at different times by friends. She was given (interest-free) lump sums that she could pay back when it suited her. A 32-year-old woman with two young children was abandoned by her husband and, as a result, it was difficult for her to meet her mortgage payments. She got some help from her brother, whom she has to pay the money back to, and from her mother, who cares for her children while the woman is at her second job. And finally, a disabled person who is facing divorce is fairly sure that she can count on her parents to help bridge the gap.

Although everyone who experienced risks, including unemployment, relationship breakdown or illness, have faced and continue to face hard times, they were all able to keep their houses. The situation of the two respondents facing compulsory purchase of their properties is rather different. Under the terms of the legislation they will be paid compensation, but both of them doubt whether it will be enough to allow them to buy an equivalent house. They believe that they will not be able to buy another house for the compensation offered without spending more money.

3.6.2 What influences these strategies?

In the previous section we learned that two major strategies are used. On the one hand, there is the risk-avoidance strategy when entering into home ownership, while, on the other hand, an overwhelming majority of the respondents use a wide spectrum of safety net arrangements (although the majority of these are not directly linked to home ownership). This shows both confidence and prudence at the same time. If we look in more depth at the strategies used by the households for managing risk and avoiding its consequences, different features become apparent:

- A large number of respondents still²² has a strong belief in the social security system. Some respondents have actually received or are still receiving

²² There has been a major public debate on the future affordability of the Belgian social security system. The tone of the debate (which is negative) contrasts with current reality, as there has been no tendency to restrict or privatise the services available (De Decker, 2004). One could even argue that the political consensus for a strong welfare state has grown (see for example Verhofstadt, 2006, who previously had the nickname “baby Thatcher”).

unemployment benefit, disability or sickness benefits or adjustable interest rates for social loans. The belief in the social security system is highlighted when analysing the response to vignette 2. The majority of respondents not only feel that it is bad idea to use the house to supplement the pension, but also say that they hope that the Belgium social security system never becomes so bad that this will be necessary. However, a large majority of the respondents still believes that our social security system provides protection against setbacks, such as unemployment and illness, and that it offers adequate pensions (although most of the respondents are saving for their own pension, which is partly tax deductible). If the state does not provide support in a particular case, they feel that it should.

- A large number of respondents are relatively confident about their *job security*. Some are employed by the state, while others who work for local government, NGOs and even private companies that offer relatively secure contracts (unlimited term). They also have a more or less secure pension. In general terms the respondents are self-confident and rely on finding another job quite easily.
- With the exception of those respondents who faced relationship breakdown and stayed in the property, which meant that they often needed to rely on savings, *saving* is an important concept for the group we interviewed. As we have seen, their savings and assets are often quite substantial. Sometimes, part of their money is invested in other property, which means that they are aiming to make a threefold profit: (1) an income from the rent, (2) profit from the increasing value of the property and (3) profit from tax exemption. As already mentioned, some of the respondents have invested in property and others are considering doing so. Generally, the increasing value of the respondents' own houses is also seen as a kind of saving, since it is the equivalent of a growing sum of money.
- An overwhelming majority of the owners combine a set of compulsory and non-compulsory, public and private *insurances* in order to deal with various hazards, such as unemployment, illness and hospitalisation, or disasters such as fire or water damage.
- A large number of the homeowners also look to their (*grand*)*parents* and, to a lesser extent, to *friends* for help. The majority of them say that their relatives can and will help; some have already helped and in the end they will inherit part of their (*grand*)*parents* assets.
- Finally, there is the *recurrent 'cultural' attitude*: "We don't spend money until we have it".

3.6.3 No role for the state

"Some of our friends are spending up to 60% of their income on a mortgage on a large house in an expensive location. In cases like this, the government has no role

to play. The state has to provide a roof over our heads, but it has no role in that kind of situation. The government has to prevent this sort of thing from happening. The people might think that they can afford monthly payments of this kind, but if everything goes wrong, the government has to help. But not at all costs. The state should arrange, for example, an alternative payment plan but it must be conditional" (woman, 30 years old, still renting but renovating a purchased house).

"I don't believe that the state should help people every time there are problems. People are responsible for resolving their own problems. But I think that there should be more social housing. There are always people who have bad luck. And it should be possible to get interest-free loans. The state should also warn people about the consequences of their actions since it isn't always possible to foresee what will happen. (...) Offering money without conditions attached is dangerous, because people will get used to it being there. Basically, for me, the role of the state is to develop the framework by providing, for example, more child care, so that mothers can work" (multiple owner, woman, 50 years old).

"The state has no responsibilities if this happens in the case of a loan. Becoming a homeowner is a calculated risk. It's like the stock exchange: you can make a profit, but you can also go bankrupt. It is your own decision. A lot of tenants want to buy, but aren't able to. If these people get into trouble, the state should help" (owner, man, 38 years old).

When we ask if the state has any role or responsibility if a homeowner fails to pay their mortgage, most respondents take a very cautious approach. To a large extent they feel that the owners themselves are responsible for their own actions and decisions. For some this is a matter of principle: the state should not help owners (a 37-year-old civil servant "who has", as he says, "a Thatcherite view of it"). The line of reasoning is that if you decide to buy a house, you must be aware of the consequences. And "if something goes wrong, you should live off bread and jam for a while" (wanderer, man, 44 years old) is one of the comments. Others refer to fact that it is a delicate matter, but believe that the state should not pay for all the problems its citizens get into: "You are responsible for your own finances" (tenant, man, 30 years old).

Other respondents disapprove of the idea of state aid for more negative reasons. Some are against the idea because they never received "anything, not even a student grant for my daughter", from the state. Others fear that the system will be abused. One respondent, who previously worked in property restoration, in order to illustrate his point, refers to a moated castle, that was renovated largely with tax-payers' money. In his opinion there are two problems with state aid: there is the risk that it will be poorly targeted and the risk that people will try to make a profit from it. "It is like asking the fox to watch the geese."

One respondent who looks at the question in more detail, a single mother now working for the housing administration of the city of Ghent, relates her opinion to more general housing policy options. Since the government has promoted and is continuing to promote home ownership, in her opinion, the government has to be consistent and provide a safety net. This means that she is in favour of the existing free insurance which provides cover for loss of income. She believes that it should be generally available and generous. Others also approve of the existing insurance scheme:

"I know that there is a scheme offering free insurance on housing in the Flemish community. I think the state should play a major role. The system is a good one and it also helps people in wealthier areas. They can become ill like everybody else. I'm in favour of a system like this for everybody. It should also apply to tenants, since they are generally worse off" (woman, 29 years old, cultural assistant, tenant).

Some respondents see no need to safeguard the mortgage payments of would-be owners. According to a 39-year-old man who owns a large house where he lives with his wife and two children, Belgium has a good social security system. He believes that that is enough, although it should be constantly adapted to changing circumstances. Another respondent fears that the system will be abused and feels that only a minimum of support should be provided in the form of temporary accommodation and nothing more. One 35-year-old woman feels that "in our country, when you lose your income, there is always some help available. You won't end up on the street."

Although a majority of the respondents, both the owners and the tenants, opt for a hands-off approach towards safeguarding mortgage payments, this does not imply that they do not believe that there is a role for the state. Some respondents are of the opinion that the government should focus on prevention by providing information. People should be made aware of the possible impact of their actions. In this respect, information could prevent 'crazy' decisions being made, as it is not the responsibility of the state to pay for "the madness of some citizens" as some respondents say.

But by and large, if the respondents see a role for the government, it concerns renting. With the exception of one respondent, a single mother working for the city's housing administration, who rejects the idea of social housing because of the stigma attached to it, a majority of those who believe that there is a role for the state stress the need for more social housing. Some express a desire in very general terms for regulation for the almost unregulated private rental market, which is the area where housing rights are most often violated. As two respondents clearly state, "We do not need the state to help us, but others do."

3.7 Conclusion

In line with earlier conclusions (De Decker, 2005), it is clear that home ownership is an essential part of the lives of the homeowners we interviewed in Ghent. The tenants aspire to home ownership or express regret that they are unlikely ever to own their own home. A good illustration is the fact the two youngest respondents (in their early twenties) are already in the process of becoming homeowners, either by setting up a concrete savings plan or by purchasing a plot of land. Another clear indication of the importance of home ownership is that all the women who have recently been involved in the breakdown of a relationship, have tried hard to keep their own home and succeeded in doing so.

Although home ownership is still an essential part of life and is still taken for granted by those who can afford it, our interpretation is that ownership has become even more instrumental than before. The house which the respondents live in and own now (1) is probably not their final step on the housing ladder and (2) housing expenses, including paying the mortgage, are not allowed to rule their lives, in which self-development and leisure (travel, eating out, cultural activities) play an important role. But, the fact that their current home is not their final house does not imply that there is no emotional significance attached to it. Indeed for the majority it has all the features of what a good house should be. It must be comfortable and provide privacy, a place to relax and to entertain friends.

It is important not to underestimate the interviewees' rational approach towards ownership. This essentially concerns the financial dimensions. The respondents compare it with renting and all their individual calculations seem to show that ownership is more favourable (renting means losing money; renting has become expensive; a mortgage will be paid off; the value of the house increases). At a later stage a range of different strategies is used to ensure that the monthly payments remain affordable. These include, for example, the choice of location, the option of doing renovation work themselves using subsidies, if they are available, and finally intergenerational transfers.

The interviews also show that the majority of people do not worry about the risks involved. Nevertheless there is a clear difference between those respondents who have already been exposed to risk in one way or another and those who have not. The former seem to be more sensitive. Generally, a loss of income following unemployment, although it may result in a period of hardship, rarely leads to the home being lost. Therefore the major threat is relationship breakdown, which is one of the only risks for which there is no insurance (neither private nor public). Most respondents refer to family and friends as potential 'saviours' when they are in urgent need. This is clearly not just a 'belief or a hope', but a reality, because numerous respondents

have already experienced it in one way or another. And finally, many of the respondents are aware of the fact that one day they will inherit from their parents, which represents the ultimate insurance.

In conclusion we should emphasise that making use of housing equity does not generally come into consideration, because people are not prepared to put their house, which is basically a home and not an investment, at risk. For older people the house has no other role to play than a refuge which is free of financial burdens²³ and which will be inherited by their children.

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²³ Currently an overwhelming majority of owners finish paying off their mortgage by the age of 65. It is even possible to formulate the hypothesis that the level of early retirement identified by Doling (2006) in Belgium is linked to the fact that mortgages have been paid off. Mortgages rarely exceed(ed) a period of 20 years. It is only since 2006 that (some) banks offer mortgages lasting up to 40 years. It is important to note also that reverse mortgages are still illegal.

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4 Finland: Trust, risk-taking and scepticism

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4.1 Introduction

In this chapter we will investigate how households in an average Finnish neighbourhood understand the meaning of housing, especially that of housing tenure, and how they perceive security and the risks attached to their housing. The chapter draws on the Finnish household interview report (Naumanen & Ruonavaara, 2005) and the institutional study (Ruonavaara & Naumanen, 2005) prepared for the European Commission as part of the OSIS project.

Before presenting the results of the qualitative interviews, we will describe the institutional context (Section 4.2). The chapter begins with a discussion of the main developments in the Finnish economy, labour market, social security and housing market. The following sections describe the findings of the interviews held in Turku. Section 4.3 elaborates on the interviewees' housing decisions and the meaning of tenure. Section 4.4 looks at the respondents' perceptions of security and the risks attached to housing and tenure. Section 4.5 focuses on the safety nets and precautions taken to accommodate the potential risks. Finally, Section 4.6 concludes the chapter with a summary of the main findings and the discussion.

The Finnish qualitative interviews were conducted in the city of Turku, mainly in one of the city's residential areas, Ilpoinen. In terms of the distribution of housing tenures and the socioeconomic and demographic profile, the neighbourhood of Ilpoinen, which has around 3,000 residents, compares well with the city of Turku as a whole and, furthermore, does not differ significantly from the national average in any large urban municipality in the country. The analysis presented in the following sections (4.3, 4.4 and 4.5) is based on twenty-eight qualitative interviews conducted between May and September 2005. The interviewees were recruited using various channels. Advertisements were published in a community programme's bulletin and website, leaflets were distributed to mailboxes, public notice boards, health and day care centres and even in the local pub in the area, gatekeepers (a community group, landlords and heads of public offices) were asked for help in accessing respondents and finally the research team made three separate tours in the neighbourhood of Ilpoinen, knocking on doors to ask people directly if they were willing to participate in the research.

Altogether twenty homeowners and eight tenants were interviewed in Ilpoinen and in the surrounding neighbourhoods, Koivula and Peltola. Twelve

¹ We would like to thank Jenni Jakku and Carita Lockmer for their research assistance in drafting this chapter.

of the homeowners lived in flats and eight in owner-occupied houses, a distribution that reflects the division of owner-occupied housing in urban municipalities in general. Tenants were equally divided into those living in private market and 'social' rental housing (which also reflects the general situation). Two thirds were living with a partner with or without children. Four fifths of the respondents were either employees or self-employed. A little more than half of all respondents were under 45 years of age. There were slightly more females than males among our main respondents (females 16, males 12).

4.2 The national context of the research

Finland has 5.2 million inhabitants, of whom about two thirds live in urban areas. It is a parliamentary democracy and was ruled from 2003 to 2007 by a coalition government consisting of the Centre Party, the Social Democratic Party and the Swedish People's Party. In terms of ethnicity, culture and religion Finland is a very homogeneous nation. In 2006, about 91% of the population spoke Finnish and 6% Swedish as their mother tongue. About 1,800 people had Sami and 21,000 Russian as their first language. Less than 2% of the population spoke some other native language (Statistics Finland, 2006b). Although at the moment Finland has one of the highest birth rates in Europe (total fertility rate 1.8 in 2005), the population is aging very rapidly. The population is predicted to grow until 2015-2020. After that, the demographic structure will change radically. The baby boom generation born between 1945 and 1955 will reach retirement age and the proportion of the population over 65 years of age will rise from 16% to 27% by 2030 (Forsander, 2002, p. 88). By then at the latest, it is estimated that the country will have an equal number of dependents and working people.

In the past ten years Finland has experienced significant economic growth, with production capacity increasing and the income level of the population rising. However, despite the fact that a large majority of the Finnish people are currently doing well and are more prosperous than ever, there is still a section of the population which is relatively poor and whose standard of living is worse than before. The material and social inequalities between Finns have evidently increased during the years of prosperity. The system of social security, which is said to bear a close resemblance to the so-called Scandinavian welfare state, known for its high levels of compensation and wide coverage of services, was relatively badly affected by the depression of the 1990s and by the restructuring of the system. It has been struggling constantly with financial problems, prioritising and cutting costs. In the aftermath of the depression, the housing market and housing provision also underwent some substantial changes. In the following sections we will shed light on these developments.

The economy and the labour market

The structure of the Finnish economy has changed very rapidly over the last forty years. The proportion of the total output contributed by agriculture and manufacturing – and even more clearly the share of employment – has declined, while the contribution of the service sector has increased. In the 1950s, half of the population was still employed in agriculture and forestry. Fifty years later, almost one third of the labour force was working in the public service sector, more than one fifth worked in industry and one in every six people was employed in the commercial sector.

After the post-war period of steady economic progress, Finland was hit by an exceptional and deep recession in the early 1990s. The economic crisis led to a decline in GDP, explosive growth in unemployment, bankruptcies, a banking crisis, a crisis in public finances and the collapse of the housing and property markets (see, for example, Doling & Ruonavaara, 1996; Kalela *et al.*, 2001; Kautto & Uusitalo, 2004). The Finnish economy and society recovered from the crisis in an astonishingly short period of time in the late 1990s, but the depression has had a lasting impact on the social structure. The labour market in particular has been transformed. After the depression of the 1990s long-term unemployment became a constant problem, part-time work and fixed-term contracts became more common, there was an increasingly strong focus on productivity, efficiency and shareholder value, and in general there was a growth in uncertainty and feelings of risk in the labour market. In 2004 one in every five female employees and one in every ten male employees worked part-time and nearly 20 percent of all contracts were fixed-term (Labour Force Statistics, 2005).

In recent years the Finnish economy has performed very well, as shown by various growth indicators (see Kiander *et al.*, 2004). From 1994 to 2000 output grew on average by almost 5% and exports by 11% annually. From 2001 to 2003 the growth rate was close to 2% per annum. In addition, the real income level rose rapidly after the depression years. In 2003 the real income level in Finland (the level of GDP per capita) was slightly above the average of EU countries (*ibid.* p. 4). According to Statistics Finland's preliminary data (National Accounts, 2005) the GDP per capita was € 30,005 in 2005. Strong economic performance during the last ten years has also helped to increase tax revenue and decrease public expenditure. The state budget showed a surplus in 2000.

Even though the Finnish economy is performing strongly, the employment situation has not fully recovered. At the beginning of the 1990s, the employment rate was 10% higher than in EU countries on average. During the recession the total employment level fell by almost half a million. Since the recovery, from 1996 onwards, the employment rate has improved year after year, although the rise in the employment rate was very slow (as compared to the fall during the recession). In 2005, the employment rate in Finland was 68%, and the number of employed people (2.4 million) still remained below the pre-

depression figure. Furthermore, the unemployment rate has been falling gradually, although it exceeds the EU average. According to Labour Force Statistics (2006) the rate of unemployment was 8.4% in 2005.

Whilst the overall unemployment rate has fallen, the long-term unemployed still constitute a relatively high proportion of all unemployed people and face a serious risk of becoming totally excluded from the labour force. In addition, youth unemployment and precarious employment are the other key concerns for Finnish policy makers. Whereas the long-term unemployed are usually older, male and with a relatively low level of education, the precariously employed with fixed-term and short-term contracts are usually younger, female and better educated (Naumanen, 2002). In 2004, half of all employees in temporary positions were under 30 years of age. In the 25 to 43-year-old age group, at least twice as many women as men are employed on fixed-term contracts (Ministry of Social Affairs and Health, 2006, p. 138).

Social security

The Finnish model of social protection is based on two pillars: the system of income security and the system of welfare services. The overall aim is to provide reasonable basic security for all, earnings-related benefits for those with work history, special income transfers for people living on low incomes and equal access to welfare services irrespective of personal wealth, gender or place of residence. Statutory income security consists of residence-based security and employment-based security. Most social security is based on residence, which means that those who live in the country can claim the benefits. A person who is regarded as a resident is entitled to apply for various benefits that are administered by the Social Insurance Institution². In addition, local authorities provide last resort, temporary social assistance (income support), which is intended to supplement the benefits in cases where the disparity between a person's income and living costs is too great or where there are delays in the payment of benefits. The system is further complemented by social care and services financed by taxation, run by local authorities and available to all residents according to need.

The Finnish system of social security developed rather late but rapidly after the Second World War from "Poor Relief" to a more comprehensive and institutionalised model of social welfare, and has been an important tool in smoothing the country's rapid transition from an agrarian society to an industrial and service society (Niemelä & Salminen, 2003). Until the 1990s, the

² Residence-based security includes numerous benefits ranging from the family allowance and child home care allowance to the family pension and state pension. Employment-based security includes the earnings-related unemployment allowance, accident insurance and protection against occupational accidents and illnesses (Niemelä & Salminen, 2003).

system worked very well as regards the standards of the Scandinavian model of welfare: the income differences between households narrowed and relative poverty remained at a very low level (see, for example, Jäntti & Ritakallio, 1997).

The economic crisis of the early 1990s changed this situation considerably by causing severe problems in public finance. As a result of the huge budget deficits and the problems of rising loans to cover the increased expenditure, cuts and adjustments were made in all areas of social and welfare policy. Cost cutting together with the growth of a neo-liberal ideology led to a more profound restructuring of social policy. A strong trend towards reducing costs was followed by a tendency to increase selectivity and user charges (see Lehtonen *et al.*, 2001). In spite of ten years of economic growth following the depression, cost cutting and prioritising have remained constant themes in the debate on social policy. Whereas Sweden restored many of the cash benefits intended for parents and families and actually increased some in the early 2000s, Finland chose to take a different direction by keeping the cutbacks in place and allowing inflation to erode the benefits further (Hiilamo, 2004).

After the recession differences both in income and relative poverty began to increase in Finland. The real incomes of the richest 10% of the population increased the most, whereas the incomes of the poorest 10% of population remained as before, which meant a decrease in relative terms. However, the development took two forms. During the recession years there were no major changes in income distribution. The recession resulted in a loss of income, but this was fairly evenly distributed across the income groups and the restructuring of the welfare state was an important tool. The least well-off did become poorer, but the same thing happened to those who were better off as well. The post-recession period was clearly different; since 1995 income differences have increased and the relative position of low-income groups has deteriorated. This development has been explained by the fact that strong growth in property income has benefited mainly the highest income group, but another important reason for the increasing inequalities has been the changes made to income security (transfers) (Kautto & Uusitalo, 2004, pp. 88-89, 99).

In the 1990s, social security benefits, such as unemployment benefit, social assistance and housing allowance, were modified in a way that weakened the level of minimum security. No increases were made in the levels of benefits and the terms on which they were awarded were tightened (see Kautto & Uusitalo, 2004, pp. 88-89; Niemelä & Salminen, 2003, pp. 61-64). At the same time, the overall need for income protection has remained high as a result of widespread and prolonged unemployment. Unemployment and changes in income security have forced the recipients of minimum benefits to rely quite extensively on the municipal social assistance that was intended as a last resort.

From the 1990s onwards the most important form of state housing subsidies has been housing allowances. The share of the total state housing subsidies represented by housing allowances has grown considerably, as the state has withdrawn from providing direct subsidised housing finance for housing production and as the importance of tax deductions on mortgage interest has diminished. In the new millennium the proportion of total state support for housing in the form of housing allowances has increased, reaching 61% in 2003 (cf. Statistics Finland, 2004, p. 184). Housing allowances are granted to low-income households in Finland irrespective of the type of tenure. However, little of this support has benefited owner-occupiers. Only 6-7% of all recipients of housing subsidies were owner-occupiers during the period 1999-2003 (ibid., p. 154). Moreover, as the number of households – especially renting households – receiving housing allowances has increased, the level of benefits has fallen. In the same way as some other income transfers, housing allowances became increasingly means-tested during the 1990s. The conditions for receiving the benefit were tightened for one and two-person households and the level of rents taken into account was not increased, which resulted in the housing allowance lagging behind the increased cost of living. (Kautto & Uusitalo, 2004 p. 89)

Furthermore, the recent improvements to income security have remained very modest, without any real impact on the purchasing power of benefits. The government, on the other hand, has continued its policy of reducing income tax. Since tax reductions have not been adjusted to the modified income made up of social security, the people relying on social security have had only a limited benefit from the new, more lenient taxation. As Kautto, Parpo & Sallila (2006, pp. 238, 240-243, 246) predict, further increases in income differences amongst Finns seem likely in the future. They claim that Finland will gradually lose its traditional status as a country with a low risk of poverty.

Housing policy and housing tenures

There are three characteristic features of the Finnish 'housing regime'. Firstly, the system is based on the presupposition that households satisfy their housing needs mainly by relying on sources other than public provision of housing, either in the private housing market or by self-promotion of housing. Secondly, housing policy has been understood to be a branch of social policy. Its function has been to help households that cannot help themselves to acquire decent housing. In the past housing policy measures became more intense only in acute crisis situations, such as those after the world wars, and were abolished when normal conditions returned. Since the 1960s housing policy has become more institutionalised, and its objective has been to raise the housing standards of the population gradually, especially for those people who are less well-off, using selective measures. Thirdly, the Finnish housing system is

a dualist one with two distinct housing sectors: one where a relatively free market reigns and the other where access is regulated by means testing and waiting lists. Jim Kemeny has described dualist rental systems where one part of rental housing is private and profit-driven and another part is public and non-profit-making (Kemeny, 2006, p. 2). In the Finnish case, this dualism applies to the whole housing system, as part of the owner-occupied sector has in the past been subsidised and means-tested (Ruonavaara, 2006, pp. 219-220).

The development of the tenure pattern from 1950 to 1990 is characterised by the dominance and the growth of home ownership and the decline of private renting (see Table 4.1). The figures conceal, however, an important change. In the 1950s, there was a clear distinction between urban communities and rural ones; in the former renting was by far the majority tenure, in the latter home ownership was dominant. With the rapid industrialisation and urbanisation of the country since the 1950s this has completely changed. The share of owner-occupation in urban municipalities has increased and is approaching the home ownership levels in the countryside. Cities of tenants have been transformed into cities of homeowners and the difference between urban and rural tenure patterns has diminished considerably. However, this has also resulted in a change in the form of home ownership. A significant proportion of urban, owner-occupied dwellings are flats in blocks and terraced houses. Flat ownership is organised in Finland through institutions whose name has a variety of translations in English, including housing corporation, condominium or housing company (a literal translation of the Finnish term would be 'dwelling joint-stock company'). Housing companies bear some resemblance, on the one hand, to the Swedish type of co-operative housing called tenant ownership and, on the other hand, to what is known in English-speaking countries as a 'condominium'. However, its legal form is sufficiently different from that of a condominium that it cannot be considered to be the same thing. It is closer to Swedish co-operative housing, although the ownership rights and responsibilities it grants to the owner are considered to be more extensive than in tenant ownership (see Ruonavaara, 2005, for a discussion of the housing company form in comparison with tenant ownership). In the latest statistics just under half of owner-occupiers were housing company owners.

The trend towards the increased predominance of home ownership changed in the 1990s. Table 4.1 shows an interesting and unique development when compared with the rest of Europe. During the 1990s the proportion and the absolute number of owner-occupier households started to decline. It was at its highest at the beginning of the decade, when 72% of households were owner-occupiers. By 2002 it had fallen to 64%. A number of reasons for this can be identified, of which many have to do with the exceptional economic depression which Finland suffered in the early 1990s (see, for example, Doling & Ruonavaara, 1996; Ruonavaara, 2003). The growth of home ownership halted, as people were no longer able to buy houses because of unemployment

Table 4.1 Households by tenure in Finland, 1950-2002 in %*

Tenure	1950	1960	1970	1980	1990	2000	2002
Owner-occupiers	56	60	60	63	72	64	63
- House owners	53	51	44	37	38	34	33
- Housing company owners	3	9	16	26	34	30	30
Co-operative owners	–	–	–	–	–	1	1
Tenants	43	39	38	30	25	32	33
- Private**	42	37	34	19	13	16	17
- Public**	0	2	4	11	12	16	16
Other or unknown	1	1	2	7	3	2	4
Households (in thousands)	999	1,211	1,421	1,752	2,037	2,295	2,354

* Subtenants and other households without a dwelling of their own (the homeless, inmates of prisons and institutions, the elderly in old people's homes etc.) are not included in these household figures.

** The percentages for privately and publicly financed rental housing for the years 1950-1970 are estimates based on production statistics for state-financed rental housing.

Source: Ruonavaara, 2006, Table 5.1

and the increase in short-term work, but also because the range of housing alternatives widened to a certain extent.

Finland has also been a country of mass home ownership in the sense that home ownership has been the majority tenure in all socioeconomic groups (cf. Ruonavaara, 1989), even though the clear differences in the home ownership rate according to income, age and family status have remained (cf. Ruonavaara, 1996).

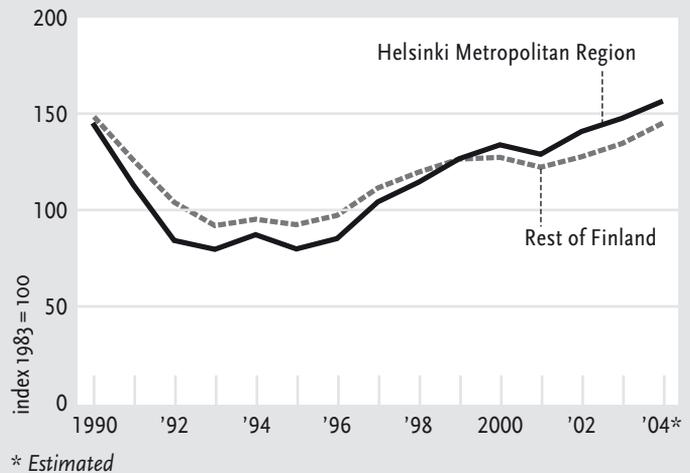
Anneli Juntto (2004a; 2004b) has studied the housing careers of Finns in order to find out whether they became more differentiated between 1990 and 2001. She found that disparities between the income deciles had significantly increased as regards the tenure status, type of housing, housing space, dependence on housing allowance and housing-related consumption. Those with the highest incomes had increased their lead over the others, whereas the relative position of the lowest groups had weakened. The housing career of the lowest income group had actually deteriorated as compared to the situation in 1990. As Juntto (2004a) puts it, the owner-occupation of detached housing has become a more popular form of tenure among well-to-do groups in Finland, a kind of peak of their housing careers, which is no longer within the reach of low-income groups, least of all in the country's growth centres.

Juntto (2004a, p. 108) presents several causes for the deepening differentiation of housing careers. Firstly the increase in income differences has led to a situation where there are fewer opportunities for low-income groups to achieve a higher level of housing. Secondly, renting has become more common and family breakdowns more widespread, the amount of income available for tenants to spend on their rents has been steadily falling and rent levels have risen by more than the costs of owner-occupation. Thirdly, the relatively low housing costs in mortgage-free owner-occupation have further broadened the income gap and increased the proportion of people in low-income groups.

The differences in the housing careers increased not only in terms of the income scale, but also on the basis of the age divide. The current very low

interest rates tempt new entrants into the owner-occupancy market to take out large loans, which they pay off over a longer repayment period than previous generations did. The new homeowners from the younger generation have large mortgages and spend a large proportion of their income on housing and will continue to do so for decades, given the longer loan periods (Juntto *et al.*, 2006).

Figure 4.1 Development of real selling prices of second-hand flats in Finland, 1990-2004



Source: Statistics Finland, 2006

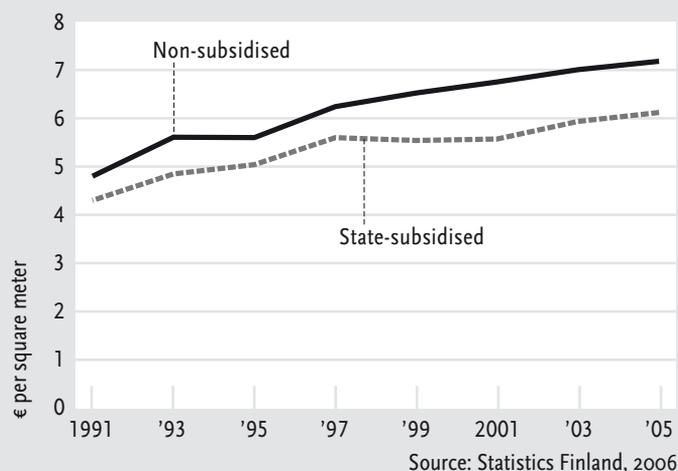
The housing market and house prices

In the aftermath of the depression Finnish housing provision underwent substantial changes. The private rental market, which had been shrinking, saw an extraordinary level of re-growth. Housing policy also changed. The previously generous tax incentives for home ownership were eroded by changes in the principles of taxation and the generally low interest level. The subsidy policy was oriented more towards selective measures and production subsidies were reserved only for social rental housing.

The 1990s recession resulted, amongst other things, in the collapse of the property and housing markets. These markets were clearly overheated in the late 1980s and the speculative bubble burst when the depression came. During the late 1980s the easier availability of credit and rising income levels created a large demand for housing, which resulted in a building boom. The economic depression that hit Finland at the end of 1980s brought this phase to an end. Annual production fell from 65,000 dwellings in 1990 to 21,000 in 1996; in the present decade housing production has stabilised at a level of 27,000-28,000 new dwellings per year (Statistics Finland 2004, p. 125).

At the end of the 1990s the high housing prices plummeted, resulting in negative equity for large numbers of new homeowners, and the home ownership market came to a standstill for a number of years. By the end of the 1990s the Finnish home ownership market had begun to show signs of recovery, judging from the numbers of sales and the rise in prices. Since the beginning of the new millennium housing prices have been growing steadily. Figure 4.1 shows the development in the price index of real prices of flats from 1990 to 2004, that is nominal prices adjusted for inflation. The figure shows the development of prices relative to 1983 prices, not their level. In reality prices in the Helsinki metropolitan area have been considerably higher than in the rest of the country.

Figure 4.2 The development of real rents in Finland, 1991-2005 (adjusted to 1991 prices)



The figure also shows the deep decline in housing prices in the early 1990s and their rise after that. In the Helsinki region real price levels have surpassed the 1990 level, and in the rest of Finland they are approaching that level. This implies that the owner-occupier market has indeed recovered, but the price development has also caused concern. Recently experts have

warned about the possible overheating of the owner-occupier market, and it has even been suggested that the state should abolish some of its subsidies for owner-occupation.

If owner-occupation suffered a setback, the same was not true of renting. The extraordinary revitalisation of the private rental market in the early 1990s was partly due to the conversion of unsold, newly built housing intended for sale into rental dwellings during the early years of the depression. However, the gradual deregulation of the rental market certainly had a more lasting impact on the renaissance in private renting. Until the early 1990s Finland had a system of rent regulation that controlled rent levels in the private rental market. This was abolished and the final traces of rent regulation had disappeared by 1995. In addition the regulations concerning rental contracts were relaxed which had the effect of reducing tenants' security of tenure slightly. The free market in rental housing and a tax reform, which reduced taxation on capital income, acted as an incentive for investors and small-scale owners of housing to become landlords. With the steady growth in the state-subsidised, non-profit rental sector, rental housing has recovered some of its position as an alternative to home ownership.

The deregulation of rents created a situation in which rent levels in the private and the subsidised market started to diverge (see Figure 4.2). When rents in the private sector were deregulated, those in the subsidised sector remained cost-based and increased more slowly than in the subsidised sector. However, the difference has not been very great even in recent years, partly because the structure of the housing stock in the two sectors is different. There is more newly built rental housing in the subsidised than in the private sector, and the average rent levels do not differ significantly from the private sector as a result of the historically high costs of the new housing stock.

Changes in the labour market and the housing market have created a situation where some of the 'old truths' about the Finnish housing system are less evident than before. Moreover, the changes in the financial markets have also

had an impact on the environment in which households make housing choices. The deregulation of the financial markets in the late 1980s contributed to the economic and housing market crises of the early 1990s. But they also resulted in more positive developments; since the end of the depression, the housing finance markets have functioned much more effectively than before. There are more financial products available for homebuyers than before with more flexible and varied terms and, most importantly, loan interest rates have remained at a relatively low level. The lower interest rates and longer repayment periods have enabled more people than ever before to buy houses. On the other hand, the present high prices of dwellings have largely offset the benefits of cheaper loans (Kärkkäinen *et al.*, 2006). In the face of these changes it could be argued that the country has been undergoing a significant transformation in the way in which the housing market works and the way in which people's housing careers are likely to develop, in comparison with the system in place during the majority of the post-war period. Therefore, the views of Finnish people on the security and risks of different forms of housing are particularly interesting to investigate.

4.3 Housing decisions and the meaning of tenure

Perceptions of owning and renting

Even though the Finnish labour and housing markets have undergone major crises during the 1990s and in the period which followed, our respondents' views on housing and their tenure preferences are consistent with the very conventional viewpoints held by Finns. Home ownership and especially owner-occupation of detached houses is the form of housing that is generally believed to be preferred by Finns. However, there is very little fresh survey evidence relating to the housing values and attitudes of the population.

Housing at some of the interview locations in the Ilpoinen neighbourhood in Turku, Finland.



Recent surveys of young people's housing preferences, for example, do show that home ownership is still the preferred form of tenure, and no substantial changes in these preferences seem to have taken place. However, this should not be regarded as self-evident following the experience of the housing market crash in the late 1980s and early 1990s. In our sample, home ownership is the preferred form of housing and tenure amongst both homeowners and tenants.

For respondents in Turku housing means, first and foremost, a home – a place of privacy and a place where one can feel safe. These two qualities, privacy and safety, are the basic attributes of the description of a home, and occur frequently in the answers given by both homeowners and tenants. A homeowner describes her feelings:

“It gives you a feeling of security and protection from the world outside. And it's also your own private space. I mean, in a way you never know what's happening inside your neighbour's four walls. You only see what's happening on the outside. But anyway, this is somewhere that's really mine; nobody can come in unless I let them in” (homeowner, woman, 56 years old).

Apart from this broad agreement between the interviewees, there are some important tenure-specific differences in the meaning attached to the home. For homeowners housing means not just privacy, but also *being independent and free from external control*; it means that you can do as you like with the property, and there is no landlord to check what you do. For some respondents the feeling of being at home is directly proportional to the extent of the environment in which they can operate freely. For those who own a detached house with a yard or a garden around it, housing often means being busy and doing various things outside, such as gardening, something that is virtually impossible for tenants and also for many homeowners living in blocks of flats. Here tenure and house type are closely interrelated, although these actually are two different things. The difference is more evident in Finland than in countries where the owner-occupation of flats is non-existent or rare, because a substantial proportion of owner-occupied housing is in blocks of flats. Moreover, detached housing is rarely available to rent. As the preferred type of housing in Finland is generally detached houses, this may also bias tenure preferences towards owner-occupation.

For the tenants in our sample, home is not in the first place associated with the freedom to do what they want. The only freedom they associate with housing is the freedom from debt and from the responsibility of maintenance that is a burden for some homeowners. In addition, some owner-occupiers refer to their *feelings of pride and sense of achievement* when describing their perceptions of their home. This is congruent with the view expressed by many homeowners when we asked them about the role of home ownership in the country as a whole. They said that being a homeowner is a matter of status,

performance and esteem. For older people a house or a flat of their own is not simply a property and an indication of financial success, but also an essential link between the generations.

Tenants refer less often and much less emotionally to the special meaning of their home than homeowners do. They are more inclined to understand their home as (merely) a roof over their head, in other words a consumer product. Some even claim that being a renter does not have any additional or special meaning for them. According to a young couple (both starting their working career) their rented flat is not a home which they strongly identify with but rather a temporary place to live, because they are intending to buy a property as soon as they have secure jobs.

When exploring the meaning of tenure, it is especially interesting to find out to what extent housing is associated with themes of economic security and financial investment. When homeowners are asked what are the main reasons for buying and owning a house rather than renting, one reason they often give is financial rationality: they think that *in the long run it is a more affordable type of housing* than renting. In other words, over time they will probably be better off, in terms both of saving capital and cutting their housing costs.

For some owners this preference is not so much an ideological choice, in the sense that they see intrinsic virtues in home ownership itself, but rather – as they wish to point out themselves – a very practical decision. In particular those owners who have had a long housing career in the rental sector and have changed tenures later in life justify their decision by referring to the high costs of renting. They have calculated and compared the expenses of different forms of tenure and reached the conclusion that over time the cost of ownership will be lower than the cost of renting.

For the owners with a longer career of owner-occupation, the superiority of ownership seems to be self-evident. They do not question their choices. When asked about the reasons, they justify their decisions on the basis of rational economic motives; they have chosen to own their own home because in the long term this offers a more affordable means of housing than renting. Furthermore, paying a mortgage is seen as preferable to paying rent to a landlord, because it allows them to accumulate wealth for themselves and not for someone else. For many of the owners the motive is clear and simple: “It just makes no sense to give money away.” The economic rationality is often linked to arguments about the feeling of freedom and well being that home ownership is seen to give.

“I have the impression that if you rent a property and pay your money to someone else, in ten years’ time you will have paid a lot of money to your landlord, and you won’t have anything to show for it. — It’s just like taking money out of your wallet and giving it to someone else. It feels bad” (homeowner, male, 58 years old).

When buying a house or a flat and paying a mortgage, you are at the same time *building something (equity³) for yourself*, which is an opportunity that a renter misses out on entirely. This is the central idea shared by many homeowners as they explain their housing preferences. As it is repeated over and over again in the discussions with the owners, it starts to sound more or less like a myth⁴ that governs the Finns' perceptions of the housing system. Tenants largely share the homeowners' preference and the related views about economic rationality, but they believe that they do not have the financial means to achieve their housing goals. They are also very cautious about the financial risks associated with home ownership. To some extent, tenants feel that the dominance of home ownership creates normative pressures relating to the way in which people's housing careers should develop. The norm of home ownership is associated with financial resources and employment status: if you are employed and have a regular income, you should own a property, otherwise you are not "sane" – a conventional piece of wisdom that one of our respondents wants to challenge:

"But other people do not regard me as a sensible person, because they think that you should only pay for things which will belong to you one day. I am an exception because I do not share this piece of wisdom. I have a very different piece of wisdom; I don't want to be in debt" (tenant, male, 40 years old).

Relationships between housing decisions, labour markets, social security and personal well being

Life course considerations, financial reasons and housing considerations are the main motives behind interviewees' major decisions about their housing. The most prevalent reasons for respondents to leave their parental home are work, study and relationships (marriage or cohabitation). After the first move – the big separation – the reasons become much more diversified. In addition to so-called life course factors (study, employment, relationships, starting a family), the moves are also based on factors relating to housing itself, such as housing circumstances (space, equipment, outdoor areas etc.) housing costs, availability of different forms of housing, tenure and housing security (sales, eviction).

When asked whether and how other aspects of life impact on their housing decisions, the interviewees usually speak about their *work situation* (respondent's own or partner's), *the environment for children to grow up in* (playground, day care, schools) or the importance of *relationships* (relatives, friends) either

³ The respondents themselves do not use the Finnish language equivalent of the word.

⁴ By 'myth' we mean here a generally held belief about a state of affairs that members of the culture in question 'know' to be true without examining any evidence for it (see Ruonavaara, 1994).

encouraging or preventing them from moving. For the tenants, however, the most decisive reasons are connected with their *financial situation*. It is the *small income* of a single parent, unemployment or poor employment (part-time, precarious) or just lack of money and financial resources that prevents renters from fulfilling their housing goals. The renters do not want to put their financial situation at risk by getting into debt and therefore they would rather continue renting, even if they would clearly prefer to own a property.

By tracking the decisions made in respondents' housing careers, it is easy to identify a pattern of tenure shifts which progresses predominantly in one direction: from renting to home ownership. Most homeowners have rented at the beginning of their career, but only one tenant has been an owner-occupier before being in the current situation of 'forced' tenancy due to unemployment and a reduction in income. This result supports the conclusion that, for Finnish respondents, it is home ownership and not renting that is the target and the peak of their housing career (with regard to tenure).

For some respondents in our sample it is easier to identify how other aspects of life affect housing decisions than vice versa. Tenants who have no history of owner-occupation at all have difficulties in understanding how housing, and in particular the form of tenure, has influenced their lives. In contrast, the homeowners who have previously been tenants can easily compare the two forms of tenure and analyse the impact that both have had on their lives. They mention the following effects of home ownership on their lives:

- Spending money: initially the need to pay the mortgage restricted their spending in other areas, but as soon as the mortgage is paid off, there is more freedom to buy other goods.
- Relationships: the threshold for separation or divorce and moving away is higher when owning.
- Hobbies and leisure: more time and more money are spent on building work, decorating and furnishing.
- Social activities: greater willingness to take part in decision-making and managing community issues, for example involvement in a homeowners' housing company, in voluntary work, in environmental matters etc.
- Employment: paid employment is necessary in order to be able to pay the mortgage. One husband has passed up a job opportunity because it is too far away from home.
- Studying: flexible mortgage payments have enabled some respondents to study because the payment conditions are better than when renting (a single parent claims that she could not have done this if she had been paying rent).
- Lifestyle or way of life: a more organised and settled way of life is needed (a regular rhythm). Some owners refer to qualities such as taking responsibility for one's actions and self-control when speaking about the positive attitudes that they are developing because of home ownership (in contrast to renting).

- Health and well-being; owners of a detached house with a garden maintain that their house is keeping them young, healthy and happy because they spend a lot of time doing all the little jobs in their garden. They also believe that they do not need a holiday home or summer cottage because they are already close to nature.

A good, steady job is necessary because it provides the financial resources needed to purchase a house. However, when homeowners are asked about the factors that have impacted most on their housing decisions, relatively few describe their job as a major resource for building up a housing career. This may imply at least two things. Firstly, for many people employment may be such a self-evident factor in this context that it is not immediately recognised – unless it is lacking and therefore complicates the financial situation. Secondly, it may imply that, besides employment, there are other significant resources for homeowners. For instance, intergenerational transfers offer an additional resource for home ownership. Most homeowners have either inherited property, assets or money, or expect to inherit something in future. Therefore it may be that permanent employment with a regular income is needed (and acknowledged) particularly in those cases where people cannot rely on the help of their parents' accumulated housing equity to buy their own houses.

The tenants seem more likely to recognise the value of a good job when buying a house than the homeowners do. Employment and finances are the main factors which impact on their housing decisions. This may be due to the unfortunate fact that they do not have a good job themselves and have not inherited property or money (with the exception of one tenant interviewed).

A couple of the homeowners in our sample who have not been so lucky with their housing finances are of the opinion that mortgage payments tie homeowners more tightly to the employment situation they are currently in. Those who are unemployed or have previously experienced periods of unemployment are evidently concerned about their employment situation and the possible finance problems, which may be caused by breaks in their working career. A female homeowner with a history of unemployment is pessimistic about the possibilities of the younger generation becoming homeowners because of the growing share of temporary employment and increasing insecurity in the labour market:

“It [the role of owner-occupied housing] will change now because of this uncertainty — — you have a temporary job and so on — — you may work in Pori⁵ and live here and — — a lot of people are still building their own houses⁶ but not as many

⁵ A town about 150 kilometres north of Turku.

⁶ A considerable share of owner-occupied detached housing in Finland is, at least to some extent, self-built.

as before — — it was possible to build at that time because people had guaranteed steady jobs and they lived their whole life in the same place — — but not any more” (homeowner, female, 55 years old).

Even though full employment self-evidently provides important financial resources for buying a house, this does not imply that permanent employment is regarded as an essential precondition for becoming a homeowner. On the contrary, only three homeowners regard the insecure employment situation of the fictional young couple in vignette 1 as sufficiently critical to have an impact on their suggestions for what the couple should do. The majority of homeowners (13) would advise the young couple to buy a home of their own. Six homeowners believe that the couple should rent first, and three of them explain their suggestion on the grounds of the potential risk of the relationship breaking down and not because of the insecure job. However, the tenants recognised secure employment as a necessary precondition for becoming a homeowner and framed their suggestions accordingly.

The use of housing resources

For many owner-occupied households in Finland, the flat or house is the most valuable piece of property they own. Respondents in Turku not only believe that home ownership is an affordable type of housing, but they also tend to believe that it is a profitable investment as well. However, as will be seen later, in the Finnish context a house or a flat where you live is not regarded as being similar to other financial investments, but instead is considered to be a very special kind of investment.

Generally, respondents' views on the overall profitability of housing as an investment are based on their profits from the sales of previous properties, on estimates of the value of either their own or somebody else's property and on the constantly rising house prices over the last ten years in the cities in the south and west of Finland. Furthermore, many owners mention that they have benefited from the tax deductions on mortgage interest. Only one owner thinks that her household has not benefited financially from housing. The reason for this is that the family built the house at a time when interest rates were high and building was very expensive. Just like the owners, the renters tend to believe that home ownership is currently paying off. As some renters comment, home ownership must be highly cost-effective because the prices of both rental and owner-occupied housing are so high. However, two tenants want to point out that they cannot see housing in terms of a financial investment at all, but instead as an investment in well being.

For the interviewees using housing as a financial resource primarily means being able to buy another, better, bigger house. Occasionally respondents even seem to think that using housing equity for purposes other than buying a new home or financing repairs and extensions to the old one is simply not appro-

appropriate, unless there is a really pressing need to release money. Spending the money on leisure and travel is considered to be a frivolous use of hard-earned housing equity. A middle-aged man believes that it is financially worthwhile to be a homeowner, but for him using the housing equity for other financial purposes is not even conceivable:

“It [an owner-occupied house] could be that [a financial investment] for somebody else. For people who inherit property it probably is a financial investment, but for me it isn’t — because I don’t have any plans either to spend the money or gamble with my house” (homeowner, male, 49 years old).

In the past, respondents have used housing as a financial resource in three main ways: Firstly, they have used the profit from the sale of a previous dwelling to buy a new one. This is the most common way in which respondents have used housing equity. Secondly, they have used the house or the dwelling as a collateral security for a loan, either for housing or some other purchase. Thirdly, they have used the profit from the sale of a property or part of their mortgage to pay off other debts. Quite a few maintain that they have not used their housing as a financial resource at all and some are a little confused about what is actually meant by making use of housing as a financial resource. Furthermore, when the interviewees were asked an open-ended question about whether they believe their housing would provide them with a financial resource in the future, a number of them were hesitant to answer. They replied initially that they had not considered their housing to be a financial resource of any kind. This reflects perhaps partly the fact that schemes for using housing equity have not been available in Finland until very recently.

Similarly, the future purposes that the respondents consider they could use their housing equity for are most often related to housing: either for purchasing a new property (better-equipped, bigger, better location) or for further home improvements (rebuilding, redecorating). Only few would consider using it for purposes such as consumer goods or care needs. Instead, for many it is important to pass on the ‘nest egg’ they have built up in their house to their children to ensure their well being.

Whilst only a few would themselves consider using housing equity for purposes such as consumer goods or care needs, more of the respondents, however, were ready to accept the idea that fictitious friends (in vignette 2) could increase their income or pension by releasing housing equity via an equity release scheme. The respondents who are ready to accept the scheme argue that this allows elderly people to be more independent and fights over the inheritance to be avoided. Those who reject the scheme think that it disregards the needs and wishes of inheritors, that it is not a very reliable way to obtain an income because most of the profit will go to the banks anyway or that the state should take care of those people whose pension is too

small. The third group of interviewees might approve of the scheme, if it was improved or used only under certain conditions, such as (a) if the homeowners have no children or other heirs or (b) if there is a really serious need for money.

Overall, the idea of using housing equity as a source of finance seems still very new and strange for many respondents. For some people housing and, particularly the owner-occupied home, represents a kind of a 'sanctuary', which should not be mixed up too closely with economic considerations.

4.4 Security and insecurity

When asked about whether their housing makes them feel secure, most respondents irrespective of tenure answered 'yes'. In the interviews there are only few references to the more prevalent elements of insecurity (financial stress and worries). Also judging by the low perceived likelihood of risks occurring, the households seem to be in a relatively safe position – or at least they seem to feel that this is the case! The recession of the early 1990s and the restructuring of policies in its aftermath have only had a minor impact on the lives of the average Finnish households, and this evidently did not affect everyone, but mainly those who had lost their jobs or their assets or had had to content themselves with a lower standard of living.

The households' feelings of security or insecurity do not in any consistent way correspond with the divide between owners and renters. Homeowners feel safe because home ownership provides security of tenure: no one can sell their housing and drive them away, or at least not that easily. However, it is not possible to conclude from this that in general homeowners feel more secure than tenants. There are, however, qualifications to the general feeling of security. One owner-occupier even points out that home ownership means "security, but only if my pocket can stretch to it" (homeowner, female, 40 years old).

The securities of renting

The perception of security varies more within both tenure groups than between them. The social tenants, living in housing owned by a municipal or other non-profit organisation, feel their tenure to be secure because they know that they cannot be evicted unless they misbehave, commit a crime or fail to pay the rent over a long period. They also feel relatively financially secure, because their landlords are obliged to do all the maintenance and, furthermore, they know that they will be eligible to receive the municipal housing allowance or social assistance in the case of economic hardship. Some tenants reflect on security by contrasting their present situation with the potential situation of the homeowners. They feel secure because they know that

they will not have the problem of paying a large mortgage if they become unemployed, are seriously injured or ill.

The situation is more complex for the tenants in the private sector. Out of four private tenants in the sample, there are two contradictory and two relatively vague cases with regard to the security of tenure. On the one hand, there is a completely unworried middle-aged couple who have a trusting attitude towards their landlord because they regard him as being very reliable. They believe that they do not need to worry about being given notice to leave. On the other hand, there is an unemployed young lady who feels very insecure about her tenure. In her case, a rental flat she is occupying with her husband and son was recently sold to a new owner, and the family heard about this only when they were signing their new contract. The fact that the information had been concealed has obviously had an impact on her feelings of insecurity. For her, being a tenant implies insecurity and stress, because she does not know how long they can remain living in their home.

The security of home ownership

Homeowners do not necessarily feel more secure than renters, but they nonetheless spend more time thinking about the issue. They also refer to a wider variety of aspects concerning housing-related risk and security than renters do. One important aspect of security related to home ownership derives from the knowledge that there is a 'nest egg' or 'seed money' invested in the property, which the owner will receive (with a profit at best) when selling the property. One homeowner explains the benefits of home ownership and her feeling of security:

"When you have been paying for your own property — in small amounts — but anyway, you build up a kind of 'nest egg'. One day perhaps, if you urgently need to sell your property, you can cash in the 'nest egg'" (homeowner, female, 26 years old, male, 29 years old).

Even the owners whose equity is not that large tend to believe that their home is an investment that will naturally pay off. Furthermore, if the owner has a family, the 'nest egg' gives a feeling that the children are likely to have a comfortable start to their life and housing career in the future.

The homeowner who is quoted is young and has no personal experience of the housing market crash. However, the strong belief that there will be a 'nest egg' to be collected one day seems to be embraced more generally by the other homeowners, since only one reflects on the potential risks of a fall in house prices or a rise in interest rates. And even that respondent feels that these risks are not very likely to come to anything. This, perhaps, indicates the firm confidence Finnish homeowners have in the workings of the property market.

Those who have experienced financial, social or other hardships at some point in their lives usually feel more insecure than the others. Unemployment, divorce, death, illness, injury, bankruptcy, aging and eviction are incidents and turning points in life that have caused the respondents to reflect on the security of their housing and finances. However, even though these people may feel insecure and anticipate risks, they do not relinquish the idea that home ownership provides them with security. The explanation is that for them *home ownership itself functions as a means of insuring oneself against insecurities*. The response of one unemployed homeowner to a question about how home ownership contributes to her feeling of security is as follows:

“It’s simply that I’ve got a bit of money stashed away when or if — — I sell it [the dwelling], I’ve got about twenty grand, [but home ownership does] not [contribute to security] in any other way in particular” (homeowner, female, 39 years old).

Besides financial security, homeowners often contrast their security of tenure with the insecure situation of (private) tenants. Homeowners’ security of tenure and financial security together may provide *a safe base from which to tackle other kinds of insecurities in life*. This point is inherent in the ‘life-story’ of a middle-aged immigrant, for whom owning a home has brought feelings of existential security. At the time she was looking for housing in Turku, she had lost the close ties with her relatives and had experienced the sudden death of her fiancé. Furthermore, she had undergone a difficult operation and was also evicted because her flat was sold. All of these experiences had made her think of the fundamental insecurities of life, such as being disabled, sick or helpless. How could she go on living, if she did not even have a place of her own? Therefore, home ownership provided her with some compensation for the lack of ontological security caused by the tragic incidents and the absence of kinship ties.

Another interesting factor is the notion of *growing self-confidence* associated with home ownership by a middle-aged Finnish homeowner who has previously rented. She says that she feels secure because she has more self-confidence now than she did when she was a tenant and is able to take part in the decision-making process relating to her house and its surroundings.

Housing-related risks and the role of housing in risk perception

In their overall assessment of the potential risks which threaten their housing situation, both tenants and homeowners give the impression that they have a relatively trusting attitude towards life. Risks related to housing seem somewhat unclear and diffuse and, for the most part, the respondents believe the risks to be possible, but not very likely.

Homeowners take into account a wider range of risks than tenants. They mention risks such as accidents, deaths, serious illnesses, losing children or

husband, disabilities etc. These are risks that do not come up in the tenants' interviews. Homeowners are mainly concerned about their health and problems that might prevent them from working. Homeowners over the age of 40 feel anxiety about health-related problems and about their continued ability to remain in their current homes. Women are usually worried about the health of their husbands. These worries are intertwined with concerns about paying the mortgage on their own or maintaining the house. For older homeowners, financial risks are more unlikely because their mortgages are already relatively small or have already been paid off. However, younger homeowners also feel relatively confident about their prospects of finding another job if they become unemployed.

The concern of homeowners about a wider range of risks may be explained by the fact that they realise that they have a lot to lose if a misfortune were to happen to them and they were forced to give up their home. Their home may be something to hold on to, a point of reference which represents their whole life. If their home, which is a place of security and a haven in a harsh world, is threatened, people feel that they are very much at risk. For homeowners, being forced to move may equate to losing their independence, not to mention the effort, time and money they have put into their home:

"Now I feel that...as long as I stay healthy I won't leave my home at any price... I've had a hell of a job sorting out the house (laughs)...I've repaired the whole place from the rooftop to the cellar and... and it has a sort of sentimental value, you know..." (homeowner, male, 63 years old).

For tenants their finances are critical and they regard financial risks as being more likely than homeowners do. The renters also mention the deterioration of the neighbourhood as a possible risk. However, the social renters are confident of managing even in the case of unemployment, as they believe that potential increases in rent will be relatively small. Overall the tenants occupying flats owned by municipal or non-profit organisations tend to feel more secure than the tenants living in the private sector of rental housing (although their security is not seen as being equivalent to that of homeowners). Being a tenant is not considered a risk per se, but unfortunate incidents in other areas of life (unemployment, divorce etc.) may influence the housing situation, acting as a catalyst which causes deterioration and uncertainty. All in all, the risks seem rather distant and hypothetical for most tenants. One reason for this may be that younger tenants who are living in social rental flats acknowledge that the risks relating to their current housing are minimal because "they simply cannot go any further down the scale". The tenants who are firmly heading towards home ownership and consider their tenancy as a temporary phase may easily overlook the risks of their current housing, because they are more occupied with calculating the risks of ownership.

“We’re probably at the bottom of the food chain here (laughs) — so, there’s no way of falling further down. — Of course, when I think of my own work situation and so on, there are certainly risks — like breaks in employment — But even then, let’s say, if I was unemployed, I could easily stay living here” (tenant, male, 29 years old).

Despite the fact that the tenants in our sample are less wealthy, less prosperous, less secure (insured) than the homeowners and more often meet the criteria of marginal status than owners do, their perceptions of risks and security do not differ much from those of homeowners. As mentioned above, the feeling of security in the present housing situation does not clearly follow the divide between homeowners and tenants, and there is more variation within the groups than between them. Within each tenure group the feeling of security is more closely related to the past experience of insecurities and risks than to the socioeconomic situation of the household. For those respondents who have experienced major difficulties or tragic events in their lives, the risks are more concrete and more readily anticipated. A woman who was shot at in her garden on the housing estate where she lived previously feels that there is a real risk of her current and otherwise calm and decent neighbourhood deteriorating. She uses the word ‘fear’ when referring to antisocial neighbours. The respondents who have not experienced insecurities of this kind are more ambiguous and obscure in their assessments of possible risks.

Risks and insecurities predominantly concern those people who have experienced serious threats in their life and those who have memories of financial or social hardship. However, in our study, the deep recession of the 1990s, the high rate of unemployment and the housing crash seem not to have made owners more sensitive or cautious about the risks of home ownership. On the contrary, many of them seem to be even bolder than ever. A ‘tough’ attitude towards individual risk-taking was identified particularly amongst the younger homeowners and the owners in more marginal positions (two factors which often coincide). The younger owners do not have personal memories of social crises, such as the housing market crash. They may also have been grown up in a more risky institutional environment than the older generations have. Some of the owners actually feel safe and secure even when they are expressing their awareness of the ‘objectively measured’ insecurities of their own situation. For example, a young single mother who acknowledges her risky situation which involves a relatively large mortgage and a fixed-term work contract says she feels that being a homeowner has a lot to do with experiencing security. On the other hand she still comments:

“But really, I’m not sure if it actually makes any difference [owning or renting], because if the worst came to the worst, it would probably mean losing my home” (homeowner, female, 30 years old).

It seems that losing one's home might be even worse than losing one's prosperity!

For some owners the risk is an inherent part of home ownership. Risks are natural and facing up to them is a worthwhile step on the way to becoming a homeowner. One of the owners, who initially suggested that the couple in vignette 1 should rent, believes that buying might be the right decision to take:

“If you have such bad luck that you can’t get a steady job within a few years, it seems to me that you might well have to change your views [on buying a home] — — A certain degree of risk-taking might be worthwhile, because it would eventually be for your own benefit” (homeowner, female, 55 years old).

In contrast to the risk-taking homeowners, the tenants, who are in the most vulnerable position financially and in terms of the labour market, are very sceptical about the possibility of satisfying their housing preferences. The changes in Finnish society seem to have made them cautious about home ownership. They regard financial security as being highly critical; they do not want to risk their finances by getting into debt and will continue to rent even though they much prefer home ownership and believe that it is more affordable than renting. A tenant describes how she feels about a potential move to home ownership:

“There is a kind of feeling of insecurity, if you aren’t able to look after your finances, as so many people have lost their properties. In the 1990s a lot of people got themselves into huge debt trouble. — — I think we’ve returned to the same situation, where people are taking out very large loans without the means to pay them back. — — But I always try to play safe so that there won’t be any risk” (tenant, female, 50 years old).

4.5 Safety net strategies

Precautions against possible risks – elements of safety net strategies

For respondents in Turku saving money and having insurance are the most common precautions taken against possible risks to housing. The interviewees usually rely on multiple safety nets, in other words they have both savings and insurance policies and, in addition, they rely on some extra sources of support, such as social networks. Family and friends are possible sources of help, especially for the younger respondents, but only if the help needed is relatively small or short-term.

The renting and homeowning households are relatively dissimilar in terms of the *nature and level of the safety nets* they have in order to counteract hous-

ing-related risks. The renting households in our sample are far less likely to make private arrangements to secure their finances and housing careers than the homeowners. The renting households tend to rely mainly on publicly provided welfare and compulsory social insurance⁷ in the event of getting into difficulties, whereas homeowners count more on private insurance, savings, loans and flexible arrangements with the banks. Some homeowners even have their loans insured, and one 26-year-old owner points out: "I don't believe we are taking any risks, because our mortgage is insured anyway." This is a relatively new phenomenon in Finland, although mortgage insurance is becoming more and more common for new housing loans. Renters not only have less insurance than homeowners but also have fewer savings, not to mention investments in stocks, shares, funds or properties other than their home. These are rare among tenants, whereas some owners have made investments of this kind.

Concerns about children and the insecurities of life have a major influence on the planning strategies of the respondents. In this case, the insecurities of life refer to all the factors that may cause uncertainty in relation to finances, such as unemployment, illness, divorce, increases in rent etc. For homeowners owning property and having a mortgage are important factors as well, whereas housing seems not to influence the tenants' decisions. Many homeowners feel that they have to take more responsibility for financial matters after purchasing a home: "The debts must be paid first and any money that's left will be spent on everyday life", as a 38-year-old homeowner remarks. Paying the mortgage plays a decisive role in the older homeowners' economic planning:

"That's why I rented a house first and then moved to a small house of my own and then to a bigger one and so on — — and when I started to buy things I always made sure that I could definitely pay off my debts — — whatever happened"
(homeowner, male, 63 years old).

Whilst the respondents believe that home ownership is a financial investment that pays off, selling one's own home, however, is not the primary strategy that they would choose in the case of economic hardship. For instance, the threat of unemployment (vignette 3) does not affect the respondents' strong preference for keeping their homes. The majority of both owners and renters would advise the couple with a mortgage in their mid-fifties to consider all the other options first before selling their home in a situation where the husband was being made redundant and the wife's salary was not enough to cover their expenses. Particularly if the couple definitely wants to stay on

⁷ By compulsory insurance we mean social security, which is financed by the deductions from employees' salaries and by the membership fees for trade unions.

in their current house/flat, they should first negotiate with the bank for new repayment conditions or try to find new jobs. Some respondents advise the couple to cut back their expenses and live more thriftily. Only a few people would advise the couple to sell their home and look for a cheaper one to buy or rent instead.

It is reasonable to assume that, if home ownership itself acts as a risk prevention strategy, in other words a home that you own provides a long-term base from which to tackle other insecurities in life, the home is not likely to be treated as a source of funds for day-to-day living requirements or any other purposes. This might also explain why respondents are not very enthusiastic about using the financial resources in their home ('housing equity') for various purposes.

To what extent do people count on social security?

In general, homeowners are more likely than tenants to rely on private arrangements, such as personal insurance policies, savings, loans and negotiations with banks for flexible payment schemes, in order to secure their finances. Tenants have savings and insurance policies as well, but in addition they depend on publicly provided welfare and compulsory insurance if a disaster were to happen in their lives. Only a few homeowners believe that they could turn to the public authorities (municipality) for help in the case of housing problems, whereas the majority of the tenants would feel quite comfortable with this possibility.

Respondents in Turku tend to believe that individuals bear the main responsibility of their housing problems, but if the individuals are not themselves the cause of the financial troubles they are suffering from, 'society' should offer some sort of publicly funded aid:

"People are responsible for their own affairs. That's how it should be in the first place. If they end up [in trouble] because of illness or something, then society should — — help them, and the banks should also come forward so that — — they can get over the difficult times, so that their lives will not fall apart because of a single incident. But I still think that people are responsible for their own lives" (homeowner, female, 50 years old).

About half of the homeowners support this kind of mixed model of responsibility. The other half is divided equally between those who assign the main responsibility to individuals without any qualification and those who allocate it to a collective body – for example, a network of public and third sector organisations. Most of the tenants share the homeowners' mixed model of responsibility. One interesting variant of this argument is a case where the interviewee reasons that owner-occupiers should bear the responsibility for their housing cost problems individually. However, if selling the property does

not help the owner-occupier household to resolve its problems, the public authorities should help. And they should also help the tenants, who do not own any property. In this case public assistance is reserved for the people without their own properties. Those who most unambiguously favour the idea that the state and local authorities should bear the main responsibility for housing cost problems belong to the group of tenants:

Q: *“In your opinion who should be responsible for helping households that are in trouble?”*

A: *“The state. Well, unless someone tries to take advantage of the state or the local authority. — — That needs to be controlled very strictly. But if you really are in a difficult situation, then the state should definitely help”* (tenant, female, 30 years old).

However, those who think the state should bear the main responsibility are also a minority among the tenants.

4.6 Conclusions

Although our small-scale qualitative study does not allow us to draw conclusions about whether and to what extent the recent developments in the institutional context and socioeconomic environment described at the beginning have impacted on the Finnish households' views in general, we can, however, discuss whether and to what extent these developments are reflected in the interviews with the respondents in Turku.

When exploring the *meaning of housing* and the *housing preferences and goals*, we did not encounter any major surprises. As a rule our respondents in both tenure groups prefer home ownership to renting, which is very congruent with the traditional Finnish viewpoint (with regard to tenure). As stated above, this is by no means self-evident. The negative experience of the housing market crash during the economic depression could have made people more suspicious of home ownership, the revitalised rental housing market might have changed their views about renting, the individualisation of lifestyles that many housing researchers have identified might have made people reluctant to be tied down to housing debt etc. Such attitudes were, however, not prominent in our data.

For our interviewees the superiority of home ownership derives from several qualities that respondents associate with this form of tenure. First of all, home ownership is preferred, because in the long run it provides a more affordable means of housing than renting. Secondly, paying a mortgage is seen as preferable to paying rent to a landlord because it allows you to accumulate wealth for yourself and not for someone else. Thirdly, whilst home-

owners and tenants basically assign exactly the same qualities, privacy and safety, to the home, there are some tenure-specific characteristics, such as independence, freedom to do what you want, pride and a sense of achievement, that are unique to home ownership. In conclusion, for homeowners housing provides a place to identify with, whereas in the case of renting it is often regarded purely as a means of satisfying housing needs. In addition, home ownership is usually perceived as an investment which is likely to be a profitable one, not only in the narrow sense of finances, but also in a broader sense, as a welfare resource.

Our results concerning the superiority of home ownership are supported by the recent survey on the housing preferences of young Finns. According to this study (Ilmonen *et al.*, 2005) the younger generation is not giving up on the idea of home ownership, as was suggested at the beginning of new millennium, when it seemed that the desire and the opportunities to purchase property were decreasing in the country (see Matala, 2000). In the middle of the first decade of the new millennium, most young Finns see renting as being only a temporary phase and are firmly heading towards home ownership. In 2005 the majority of people aged between 18 and 29 regarded ownership of a detached house as the best option for them (Ilmonen *et al.*, 2005 p. 74). So-called pull factors in the home ownership market, such as easier terms for obtaining mortgages, improved availability of various financial products and the very low interest rate resulting from, for example, competition between the banks have been much stronger forces than was initially assumed and have made home ownership even more attractive.

On the level of the *possibilities and conditions for satisfying housing preferences*, our results suggest contradictory trends. On one hand, there is a strong conviction amongst interviewees that home ownership will naturally pay off, even in the cases where the financial and other risks are relatively large and also in the cases where the housing equity is relatively small. In part this may indicate a trend towards improving financial conditions for buying and retaining a house. It may also reflect *the change in attitude or behaviour*. The younger generation in particular has no personal memories of the economic hardships of the 1990s and seems to have a lower threshold for risk-taking than the older generations. In our sample, the younger homeowners, who presently face various 'objectively measured' insecurities, such as fixed-term contracts, unemployment, single parenthood, low income or large mortgages, have a relatively bold and tough attitude towards the risks of home ownership. This attitude is clearly represented in the following reply: "A certain degree of risk-taking might be worthwhile, because it would eventually be for your own benefit." We can conclude that both the improved conditions for buying and retaining a house, together with the tougher attitude towards individual risk-taking as an adaptive model of behaviour in circumstances of growing insecurity, contribute to the continuing superiority of home ownership.

On the other hand, in the meantime the material and social inequalities between Finns have increased and the social security system has suffered cutbacks and restructuring (less universalism) and these developments have probably also affected people's options for satisfying their housing preferences. Our purposive sample also includes tenants in a more marginal position with regard to employment, income, wealth, education and health. They lack the financial means to satisfy their housing preferences and are very sensitive to the individual risks of home ownership. In sharp contrast to the risk-taking homeowners, who seem not to be bothered by the problems of the Finnish labour market or the social security system, this group is evidently affected by these developments. These people are prevented from fulfilling their housing goals because of low income, unemployment or part-time employment and lack of savings and other financial resources. They regard financial security as being highly critical; they do not want to risk their finances by getting into debt and will continue renting even if they clearly prefer home ownership and believe that it is a more affordable means of housing than renting.

Under the current institutional and socioeconomic circumstances, where there are, on the one hand, an increasing number of financial options available to households for buying housing and, on the other hand, growing material inequalities and less social security provided by the welfare state, it seems likely that there will be increasing differentiation between people's opportunities for achieving their housing goals. In particular those people who rely on publicly provided social security will lose out under these circumstances. There is research evidence to support this view. Anneli Juntto (2004a and b) has found that disparities between the income deciles had notably increased as regards the tenure status, type of housing, housing space, dependence on housing allowance and housing-related consumption between 1990 and 2001. People belonging to the highest income group had increased their lead in the housing career over the others, whereas the relative position of the lowest income groups had deteriorated as compared to the situation in 1990.

However, despite the fact that recent social developments have a negative impact on the prospects of households in the more marginal labour market and housing market, it is important to indicate that the overall situation is relatively positive. On average, Finnish households are more prosperous than ever before. This is evidently reflected in the respondents' perceptions on security in relation to their present housing situation. Nearly all of our interviewees consider that their housing provides them with security. In our sample, differences in perceived housing-related economic and social security do not follow tenure divisions. This is slightly surprising as the widening income gaps and differentiation of people's housing careers would suggest that tenants, who in general are less well off, would feel less insecure than homeowners. However, increasing differentiation may be reflected in the fact that experiences of security and insecurity vary considerably within both tenure groups.

Homeowners do feel that they enjoy more security of tenure than tenants, but among them are those who feel insecure because of their weak economic position. Tenants in municipal and non-profit rental housing have a relatively high level of security of tenure, whereas some tenants in private rental housing feel their situation to be insecure and stressful. In the tenants' case the institutional division between regulated semi-public and private rental housing is directly reflected in interviewees' experiences.

Among homeowners, those who have experienced payment difficulties feel more insecure and for them the whole issue of security and insecurity is a more concrete one than for others who have not had difficulties of this kind. Home ownership itself seems to function for our respondents as a means of insuring themselves against insecurities. There is a 'nest egg' to be used, albeit reluctantly, in times of financial trouble and to be passed on to one's offspring. Moreover, security of tenure over one's own home provides a base from which to tackle other kinds of insecurities. There are, in fact, some grounds for believing that owner-occupied housing has the potential to act as a buffer against risks. House prices have risen quite rapidly since the late 1990s, and therefore the wealth stored in housing has accumulated in the home ownership sector.

For most respondents in Turku the risks relating to housing are possible rather than likely. Homeowners, who are predominantly older than renters, worry mainly about their health, housing maintenance and the ability to remain in their homes. For tenants, financial worries are at the top of the list. Tenants in municipal and non-profit housing are positive about managing even in the case of unemployment. As tenants in our sample represent more vulnerable households, it is worth noting that they have a relatively trusting attitude towards life and the Finnish welfare system, in spite of the pressure on the welfare state to cut expenditure and increase means testing.

A certain differentiation (dualism) is evident when discussing safety nets and precautions taken against risks. Homeowners have various private arrangements, for example insurance policies, savings and even investments in funds and properties, whereas tenants rely more on publicly provided welfare and compulsory social insurance. Homeowners' financial strategies are motivated mainly by mortgage payments and maintenance of the home. Tenants plan their finances largely according to their employment situation and disposable income. Our interviewees believe that the individual household should bear the main responsibility for its housing, but if it ends up in serious difficulties, society should come to its aid, especially if the trouble is not self-inflicted. There is a clear homology with the way in which the basic principle of the Finnish housing regime is characterised at the beginning of the chapter. Perhaps the view of individual responsibility coupled with collective responsibility for the deserving poor is the typical Finnish approach to housing.

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5 Germany

Home ownership, a Janus-faced advantage in time of welfare restructuring

Gudrun Tegeder & Ilse Helbrecht

5.1 Introduction

Germany is a parliamentary democracy with a federal political system. The state consists of 16 *Bundesländer* (federal states), which have sovereignty in certain political areas (for example, education). Germany is the most populous state within the European Union (Eurostat, 2006) and also one of the most densely populated (National Board of Housing, 2005, p. 12). In May 2004 there were 39.1 million households with approximately 82.9 million inhabitants. 15.4% of the population lived in rural areas, 48.8% in urban areas and 35.8% in suburban areas (Statistisches Bundesamt, 2005a). In comparison with 1994 the proportion of people living in rural areas (18.7%) and in suburban areas (32.4%) had decreased, while in urban areas it had stagnated. On average 231 people live in one square kilometre.

The population has been growing slowly but steadily since reunification in 1989. The marginal growth of the population is expected to continue until approximately 2013, when a noticeable decline is expected. Nevertheless, experts expect a continuing growth in the number of households until approximately 2017 (BBR, 2004 p. 5), which will accelerate the demand for housing. The number of households has increased since 1991 by 11%, whereas the average size of households has decreased. In April 1991 2.27 people shared a household, whereas in March 2004 the figure was 2.12 people. This development is mainly driven by the steady rise in single households. The proportion was 37.2% in 2004 (BMVBW, 2005 p. 29). In general there has been an increasing demand for housing in recent years, which has required the housing markets to adapt in terms of both quality and quantity. However, the processes differ tremendously between the various regions. For example, the differences between the former socialist German Democratic Republic and the former areas of West Germany are most noticeable. While the population grew in the west by about 0.5% between 1991 and 2000, it shrank in the east by about 0.5% annually (BBR, 2004).

In addition to reducing in size, the German population is also expected to age (Dickmann, 2004 p. 13). Since the pension and welfare system, together with the spatial structure and infrastructures, have for years been planned on the basis of economic prosperity and population growth, this development has already had or is expected to have significant consequences in the near future. An increasing number of empty properties in residential estates, under-used infrastructure and effects caused by the reduction in population in peripheral regions are expected (Röhl, 2004 p. 322). In addition, the pension and welfare systems will also be transformed. The tightly-knit welfare system, which has slowly been introduced since the era of Bismarck at the end of

the nineteenth century, needs to be modified to accommodate future developments. The status quo of the German welfare system is poorly suited to meeting new social challenges and is similar in this respect to the developments in the welfare systems in all EU countries (Esping-Andersen, 2002 p. 147). Currently the welfare system is undergoing total restructuring and is subject to profound financial cutbacks. Yet in comparison to other EU countries, German state social protection offers extensive coverage and high levels of support.

Collecting the data

The interviews were conducted in the course of the summer of 2005, mainly in the city of Hanover, which is situated in the north of Germany. It is the capital of the province (*Bundesland*) of Lower Saxony. The resident population of the city of Hanover is 515,729¹. The percentage of foreign residents is 14.6% and therefore considerably higher than the national German average of 8.9%. Population growth has only been moderate over recent years and it is currently stagnating. The suburban areas, which are the main destination of people leaving the city of Hanover, have seen an increase in population. However, there is a net migration gain of people aged between 20 to 35 years for educational reasons (university town). The estimated student population is 40,000. Despite the decline in the population, the number of households is constantly increasing. Currently there are around 298,000 households.

The economy of Hanover mainly provides skilled and professional jobs. Service-oriented businesses (for example, financial and insurance services, tourism and trade fairs), together with scientific and research institutes, are relatively well represented. In addition, a number of government institutions are concentrated in Hanover. A range of manufacturing companies is located in the city, offering low-skilled or unskilled jobs (for example, Continental AG, Bahlsen). Nevertheless, the unemployment rate in Hanover is above the German average. 11.4% of the inhabitants of Hanover are unemployed (Germany: 8.8%).

In general, the housing market in Hanover is considered to be stable. The proportion of empty housing is around 2.8%, whereas 2% is considered necessary to enable mobility. The percentage of owner-occupied housing in Hanover (35-40%) is only slightly below the national average (41-43%). There has been a moderate increase in the number of owner-occupied properties within the city of Hanover.

In line with general developments in Germany, renting costs have hardly increased since 2000. The national average rent is € 6.09 per square metre, while in Hanover it is € 5.5 per square metre. The cost of building land has decreased; depending on the location one square metre costs between € 150

¹ On January 1, 2006.

and € 200 and is therefore only slightly more expensive than the average in the western parts of Germany (€ 140 per square metre). The mean price for a detached house of average quality in Hanover is about € 182,000. Compared to other German cities with more than 500,000 inhabitants this price is relatively low (for example, Hamburg: € 260,000; Cologne: € 310,000; Munich: € 485,000).

The profile of the households interviewed

Thirty households were interviewed during June and July 2005. They are characterised by the following features:

- the respondents are aged between 25 and 67;
- 11 households are renting, whilst 19 are homeowners still paying a mortgage;
- in 8 households one person was unemployed and looking for work;
- until now none of the households has experienced foreclosure, although some have had payment difficulties, and have cut back on other spending or received support from the state;
- 7 households can be considered to be marginal².

5.2 The main developments in the labour market and social security

Development of (un)employment, flexibility of labour

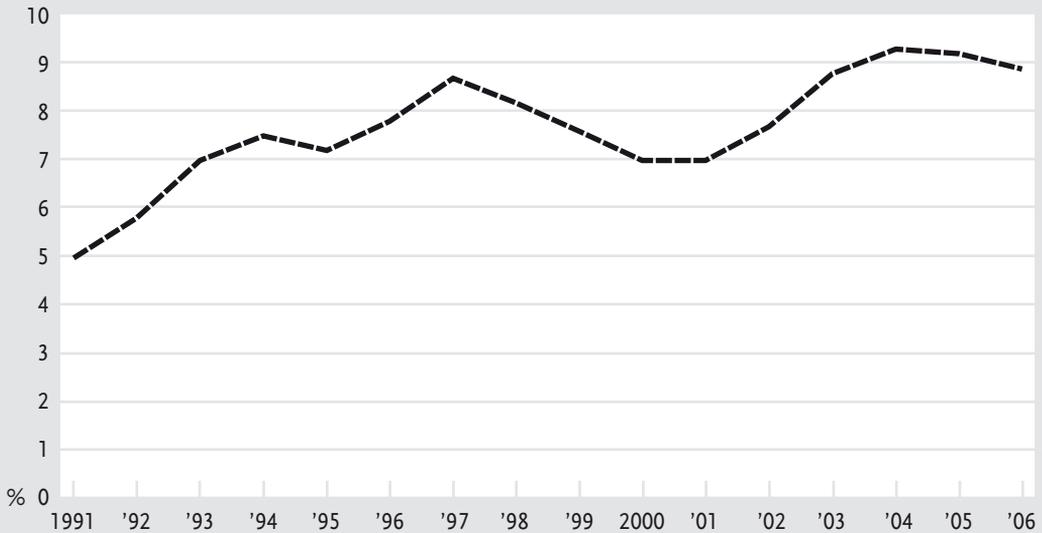
The current development of the German labour market is primarily influenced by increasing flexibility, rising unemployment, a shift in the age structure and national reforms. Although the German economy has started to strengthen, this has not yet had a direct effect on the labour market (see Figure 5.1). The proportion of temporary employment has been gradually increasing. In March 2005 the unemployment rate³ was approximately 10% (4.3 million unemployed people). The noticeable increase in unemployment in 2004 was caused by one of the most important reforms (referred to as *Hartz IV* or *Arbeitslosengeld II*), which came into effect at the end of 2004. It merges unemployment and social assistance and aims to reduce the average unemployment benefits, on the one hand, and to improve the re-integration into the labour market of the long-term unemployed, on the other hand.

There is extensive protection for employees against dismissal, although a

² Being marginal includes a combination of criteria: low household income (per head), low standard of education and training, little financial means and lack of safety nets.

³ The German unemployment rate includes part-time workers, who work less than 15 hours a week. Around a quarter of the German unemployed are estimated to be under-employed part-timers. Thus, the unemployment rate is only partially comparable to unemployment rates in the United Kingdom or the United States.

Figure 5.1 Unemployment rate in Germany, 1991-2006



Source: Statistisches Bundesamt, 2006 p. 24

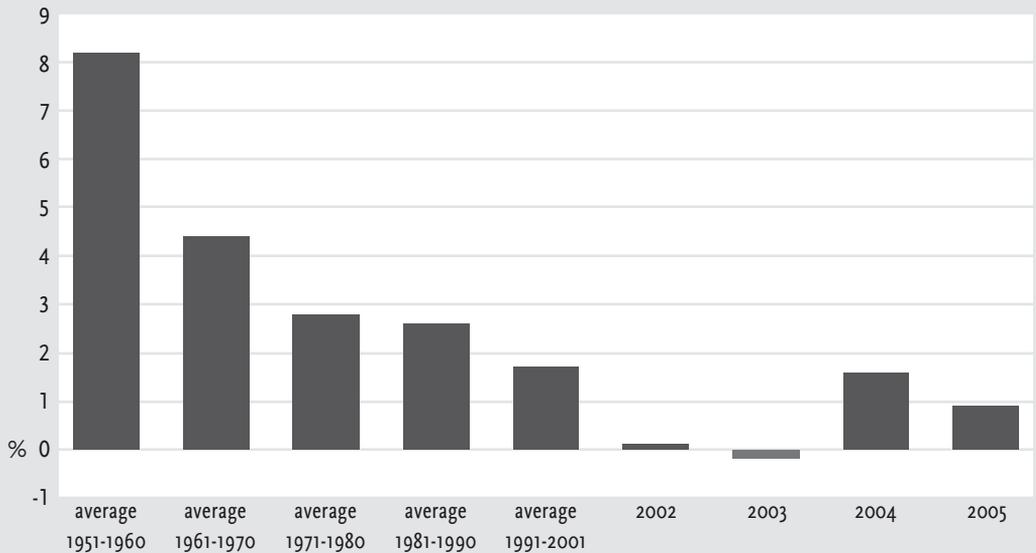
number of measures which make dismissal protection less restrictive have been taken from 2004 onwards. In particular the number of social criteria that employers have to take into consideration in dismissal decisions has been reduced. In addition the number of employees above which dismissal protection legislation applies has been increased from 5 to 10 (OECD, 2004). In principle, the period for dismissal is set by state regulations at between a minimum of one month and a maximum of seven months, depending on how long the employee has worked for the employer. So, for example, if an employee has worked for a company for ten years, the employer has to give four months notice to the end of the calendar month. Generally, three months notice is agreed upon in the employment contract.

Flexible and non-conventional labour conditions are growing in importance:

- Part-time employment has increased. In 2004 7.2 million people worked part-time, 2.3% more than in 1993. The proportion of female part-time employees is approaching 85%. More than half of them would prefer full-time employment, but are unable to find a full-time job (Statistisches Bundesamt, 2005, p. 37).
- The proportion of temporary workers has increased by 25% between 1993 and 2004. 2.3 million people have temporary jobs.
- The number of people employed by a temporary employment agency (*Zeitarbeitsfirma*) has also risen by 28.8% between 2002 and 2005 (BZA, 2006).

Generally, younger people and women are most affected by the current instabilities in the labour market, such as unemployment and temporary contracts (Statistisches Bundesamt, 2004a, p. 42). The average age of gainfully employed people has been constantly rising. Currently it has reached around 40.8 years (Statistisches Bundesamt, 2004a, p. 39). This is not only the result of the de-

Figure 5.2 Development of German GDP, 1951-2005*; annual change in %



* Direct comparison between 1951-1991 and 1992-2005 is not possible due to different evaluation units (the former Federal A Republic of Germany without the GDR before 1991 versus the current Federal Republic of Germany).

Source: Statistisches Bundesamt, 2006, p. 7

mographic changes, but also one effect of the delayed entry of younger people onto the labour market. The length of training and education periods has increased, which is due to the perceived risk of unemployment among younger age groups, on the one hand, together with the educational programmes which are intended to reduce the potential proportion of working people (Esping-Andersen, 1990, p. 148).

There is also an increasing number of self-employed people, in particular in the form of one-person companies with no additional employees. The objective of a reform which has recently been implemented by the state in response to the increasing flexibility of the labour market is to support initiatives of this kind. The introduction of the so called 'me Inc.' micro enterprises (*Ich-AG*), on the one hand, and the establishment of mini-jobs, on the other hand, represent two new forms of small-scale self-employment which receive financial support from the state during their first years of existence. In both cases the main responsibility and costs of social protection are transferred to the employees. Short-term employment with a variety of employers is also possible.

These changes in the labour market indicate both a growing flexibility and a more insecure position, in particular for younger people. It has become relatively difficult for young people to buy a home because of the length of the repayment period, the need for regular payments and therefore for stable employment. As a consequence, home ownership has become less and less affordable for young households. Therefore the very slight increase in home ownership among young households, which Faller et al. (2001, p. 20) noticed in 2001, is unlikely to change in the future.

The development of the economy (GDP)

Although Germany is the largest economy in Europe, its recent performance has not been very dynamic (Figure 5.2). Currently the economy is recovering slowly. However, the poor performance of the labour market continues to affect the perceptions and the confidence of the German people. Consumption rates remain low, whereas saving rates are continuing to increase (Statistisches Bundesamt, 2006, p. 24). The lack of growth in real wages has added to people's reluctance to spend (GdW, 2006, p. 73).

Economic activity is projected to strengthen from 2006 onwards (OECD, 2006a). This growth is mainly due to a strong increase in exports, traditionally the backbone of the German economy. GDP is projected to grow by 1.75% in 2006 and by 1.5% in 2007 (OECD 2006b). The government deficit is expected to remain slightly below 3% in 2006, before falling to 2.25% in 2007, as revenues are boosted by an increase in value added tax.

Developments in social security

Between the end of the nineteenth and the beginning of the twenty-first century, the social security system was constantly expanded and supplemented. A highly regulated and tightly-knit system was established which included provision for unemployment, health, pensions, accidents and care. It was considered to be an effective and financially self-supporting system of social protection, which provided citizens with cradle-to-grave security. However, as Esping-Andersen points out, Germany "is a welfare state built on the traditionalist conservative and Catholic principle of subsidiarity, meaning that women and social services (outside health) belong to the domain of the family" (1990, p. 224). A bias in favour of the traditional male breadwinner concept is evident in the distribution of welfare. As social insurance is interlinked with employment, the welfare system protects in particular those with a stable, life-long career. It is not adequately equipped to meet the social needs of workers with irregular careers and also provides insufficient provision for women, who constitute the majority of part-timers. The increasing proportion of non-conventional households together with flexible and variable labour conditions present a challenge for the German welfare system.

In addition, as a result of demographic shifts, the reunification of Germany in 1991 and international forces, the former welfare system is no longer affordable. This affects the pension system, the unemployment system, the care and healthcare systems in similar ways. In each of these systems, a number of steps have been taken to reduce government expenditure. Measures such as increasing co-payments, reducing the catalogue of fully funded health services, stricter eligibility requirements and a general cut in benefits have been gradually phased in. As the process of restructuring the welfare system to produce a fiscally sustainable system is not yet complete, the future form and amount of these benefits are currently unclear.

However, social protection spending in terms of a percentage of GDP remains among the highest in Europe. In 2005 30.2% of German GDP was spent on social protection. Until now people in need have received financial support from the state. Health insurance provides up to six weeks⁴ sick pay and also covers temporarily employed and part-time workers. The state still covers the cost of unemployment insurance. Benefit payments for long-term unemployed or disabled people still cover their minimum living costs. But the regulations for claims have become stricter and co-payments have also increased. It is increasingly important for people not only to rely on state support, but also to establish a mix of public and private social security measures. Therefore private insurance policies are becoming more and more important. In addition to pension and life insurance, people perceive home ownership as a secure private provision for old age (Arndt, 2005). Home ownership is also a means of investment, which is not taken into account in the case of long-term unemployment. If a long-term unemployed person owns their own home, its value is not offset against the benefits, provided that the size of the property is considered to be 'adequate' (a term which has to be interpreted in each case). As a result, people can still receive financial support from the state even if they own a house or a flat. Therefore, home ownership is still regarded as a stable form of financial security, because to a certain extent it remains untouched by the state.

Unlike many European countries, social security benefits are not provided via a centralised state-run system. Instead, the German government provides these benefits via a complex network of national agencies and a large number of independent regional and local entities – some public, some semi-public and many private.

Housing-related social services and benefits

Together with social expenditure, housing-related subsidies have also been reduced over recent years. The majority of direct means of support, which came into effect as a result of the housing shortages caused by the destruction of World War II, have been abolished.

■ Until 2006 the state allocated funds directly to first-time buyers. This was called the *Eigenheimzulage*. Over a period of eight years the German state paid 1% of the construction costs of the house (up to a maximum of € 1,250 p.a.), as well as € 800 for each child. As the *Eigenheimzulage* was granted only once in a lifetime, it is regarded as having helped to develop the German mentality and sociocultural pattern of buying a house only once in a lifetime (Behring & Helbrecht, 2004). Following the announcement of the abolition of the bonus, many people who wanted to own their own homes tried

⁴ If a person is ill for a longer period, the compulsory health insurance fund provides a small sickness allowance per day.

to buy a property in 2004 in order to benefit from this payment.

- The annual state bonus (*Wohnungsbauprämie*) for current and future homeowners is currently under discussion, but is still in place. However, this bonus is related to contract saving exclusively for home ownership. Depending on the margin of income, it amounts to 8.8% of the annual savings. The *Arbeitnehmersparzulage* is another tool, also related to contract saving, which provides indirect support for current and future home ownership. If a person's or a couple's assessable income does not exceed € 17,900 p.a. or € 35,800 p.a. respectively, the state offers a bonus of 9% of the annual savings up to € 400.

Only taxation is still used as a means of promoting home ownership. Owner-occupiers do not have to pay tax on their hypothetical equity earnings in the form of saved rent (*Konsumgutlösung*). Owner-occupied residential property is not subject to tax. As a consequence the owner can keep the saved rent, on the one hand, but, on the other hand, it is not possible for him to deduct expenses for maintaining the property from his taxable income. In contrast, owners of rental housing are able to benefit from tax exemptions. Unlike other European countries (for example, Finland and Luxembourg), in Germany homeowners are not able to deduct part of their mortgage interest payments from their taxes or taxable incomes. However, this is possible for homeowners who rent their properties out.

There are also a few additional programmes in the federal states (*Bundesländer*) in Germany which promote home ownership. However, these have also been gradually reduced over recent years. Nowadays the federal states mainly subsidise environmental housing.

5.3 The main developments in the housing market

Until now home ownership has been supported by different ideologies and therefore by different political parties. The conservative alliance (CDU/CSU) in particular used to stress the importance of home ownership, because from their point of view there was a strong correlation between home ownership and family policy (Häussermann & Siebel, 2000, p. 147). In practice, however, priority has often been given to current social and political challenges. The extensive destruction of the urban landscape in the course of World War II resulted in a serious lack of housing. As this led to a fundamental social and housing crisis, after 1945 the German state offered a range of incentives to accelerate building by the private sector of homes for owner-occupation and private rented housing. Various forms of tax abatements and savings grants were used to support owner-occupation. Nevertheless, during the reconstruction

period political emphasis was put on the provision of subsidies to encourage new investment in rented housing. In order to reduce the housing gap quickly, social housing programmes (*Sozialer Wohnungsbau*) were also implemented. The government used rent control to prevent rent increases resulting from the post-war housing shortage.

During the period of full employment in the 1960s rent control was gradually suspended. The housing market was characterised by deregulation. The responsibility for constructing new housing was successively transferred from the state to private investors. Funding for social housing was gradually cut back by the state and then withdrawn altogether in the 1980s. In the past Germany had a strong, well-developed social housing sector. In the course of successive changes in the welfare system, social housing has been privatised on a large scale. Today, hardly any social housing is provided directly by the government. Instead, the regional and municipal governments are responsible, often in co-operation with housing societies. These, however, are to some extent financially supported at a national level (*Soziale Wohnraumförderung*). In the course of the deregulation activities during the 1980s and 1990s, the government put more and more emphasis on supporting the individual in need (*Wohngeld*), instead of investing in the construction of new social housing. The objective is to offer the beneficiaries access to wider housing segments, extending beyond the small segment of very low-priced housing. As a result government social housing programmes provide indirect subsidies for rented housing, but unlike in Britain, for example, do not contribute to the social rented housing stock.

The inflation during the 1970s caused a boom in housing construction. Another result of inflation was an increase in interest rates and a corresponding rise in the costs of social housing (Tormann, 1990, p. 920) which meant that additional expenditure was needed. In order to compensate for the possible consequences of rent increases, the government passed a tenant protection act in 1971, which was supposed to protect tenants against eviction. In addition an index of the average rent level was introduced (*Mietpreisspiegel*), which is constantly modified and is still used today. This enabled tenants to assess whether the rent they paid was fair. This instrument played an essential part in establishing a strong rental housing sector. During the 1980s housing policy was dominated by further deregulation. In 1990 70% of newly constructed houses were no longer subsidised by the state (Donner, 2000, p. 191). Now the deregulation of the housing market has been completed. Despite some remaining government instruments relating to social housing and owner-occupation, the state has reduced its influence.

In the 1990s the German housing market was highly influenced by the process of reunification. While the quality of housing in the western parts of Germany gradually increased, the decay of the housing stock in the former socialist German Democratic Republic (GDR) was highly obvious. In a similar way

Table 5.1 Housing conditions in the former GDR 1994-2002 assessed by the head of household, in %

	1994	1998	2002
Homeowner			
Good	54	65	70
Needs partial renovation	40	29	27
Needs full renovation	6	6	3
Renter			
Good	24	45	64
Needs partial renovation	55	41	28
Needs full renovation	21	14	8

Source: Statistisches Bundesamt, 2004c, p. 515

to the West German housing market, the East German housing market was dominated by the rental housing sector. However, in the GDR rental housing was built and administered by the state, which invested very little in housing maintenance because

of a lack of finances. Despite the nationalisation of private property, some of the former owner-occupied housing remained privately owned. Due to the economy of scarcity these housing estates were also characterised by decay and temporary construction.

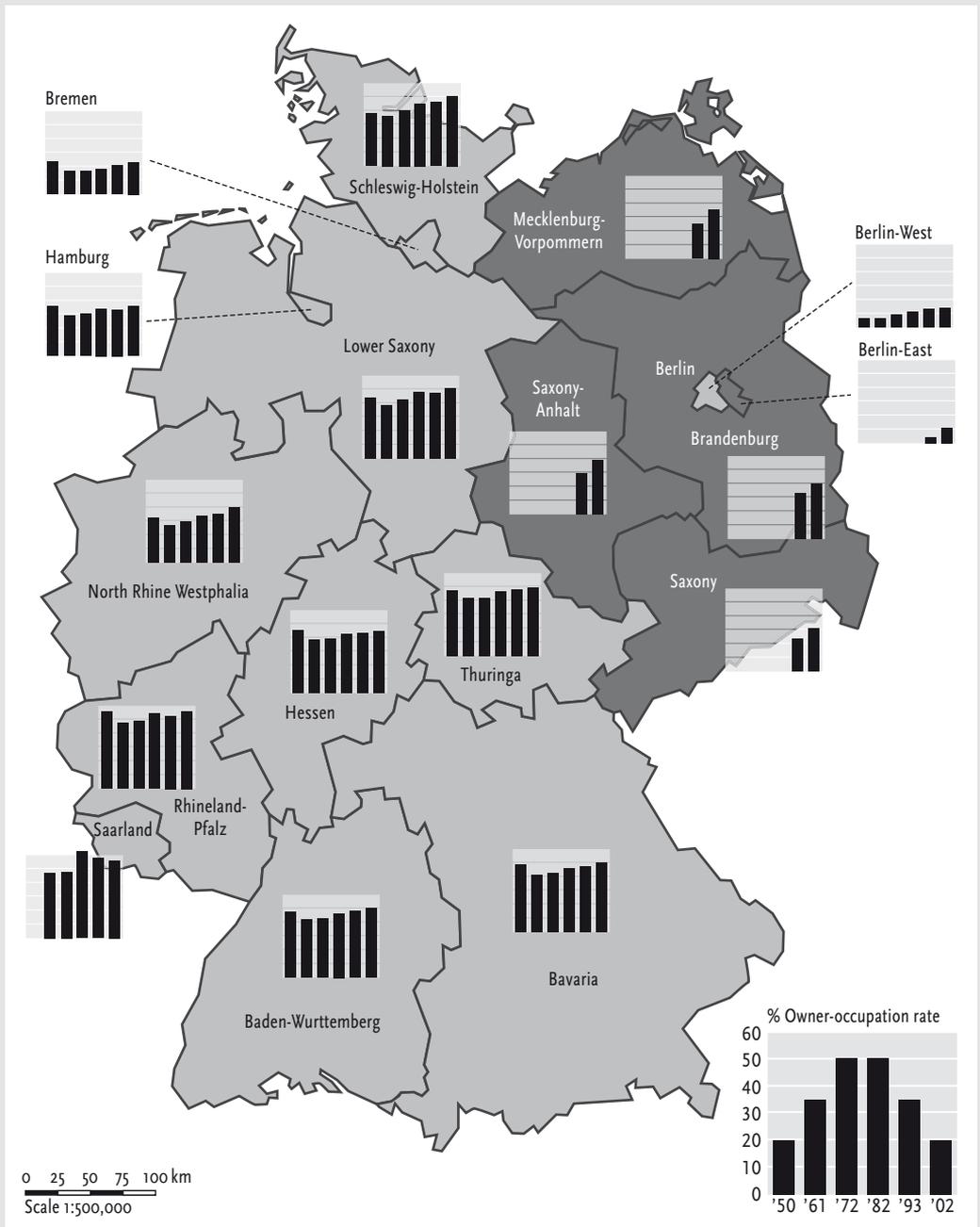
After the reunification in 1990 policy makers were faced with a situation characterised by two main factors in the eastern parts of Germany, where private home ownership had been prohibited:

- High vacancy rates and large derelict areas within the cities meant that intensive redevelopment was urgently needed. Using the state of the housing as assessed by the head of household in Table 5.1 as an indicator of the housing quality, it is clear that investment in housing has helped to improve conditions.
- Simultaneously, German reunification triggered an immense building boom in the area of the former socialist German Democratic Republic which reached its peak in 1993 and 1994. Although the building boom of the 1990s has gradually diminished in size, it is still in evidence. Particularly in the suburbs, spacious new housing estates are still being created which are leaving inner city areas empty (GdW, 2006, p. 34). Reunification has also led to a fundamental divide in the German housing market. As job opportunities are limited in the former socialist parts of East Germany and unemployment rates are considerably higher, many people have moved to the western areas. The population of cities in the east is gradually shrinking and therefore the number of vacant flats and houses is increasing.

Since 1945, the owner-occupied sector in Germany has remained at a constant level of approximately 40% – a fairly small proportion compared to the rest of the EU. Currently, this trend seems to be coming to an end and a decrease in the owner-occupation rate has been observed (GdW, 2006, p. 39). This is mainly ascribed to age-group-related changes⁵ and the abolition of the gov-

⁵ People born in the 1960s, a decade characterised by high birth rates, are now past the age of buying their first homes. Consequently, their demand for home ownership has been satisfied. Birth rates are much lower in the subsequent age group.

Fig. 5.3 Differences in owner-occupation rates between German regions 1950-2002 (regions of the former GDR are indicated by a dark-grey background)



Data Source: Statistisches Bundesamt 2004, p. 522

ernment bonus (*Eigenheimzulage*) in 2006. The latter triggered a small building boom in 2005, which satisfied the demand for the coming years. The owner-occupation rate varies significantly between cities, regions, and federal

Table 5.2 Age and income structure of households by tenure, in Germany (in 2002)

	Homeowner %	Tenant %	Subtenant %	Overall in 1,000s
Age of head of household				
<30 years	7.2	84.3	8.5	3,520.5
30-59	43.2	55.0	1.8	19,188.1
≥60	50.1	48.4	1.5	13,164.4
Monthly household net income*				
<500 euros	16.3	69.4	14.3	953.5
500-1,300	24.0	71.9	4.1	9,480.2
1,300-3,200	43.4	55.1	1.4	16,654.1
≥3,200	68.1	31.5	0.4	4,648.3

* Only households with income declaration.

Source: Statistisches Bundesamt, 2006

states (Länder) within Germany. In the region of the former German Democratic Republic (GDR), as well as in regions which are highly urbanised (for example, Hamburg, North Rhine-Westphalia), the owner-occupation rate is relatively low (Figure 5.3). In addition the price of property varies fundamentally depending on the region. The expensive regions include selected agglomeration areas in southern Germany, followed by other agglomeration areas in the north. Areas where property prices are low are mainly located in the east of the country.

Transaction costs in Germany are considerably higher than in other European countries (National Board of Housing, 2005). In addition to the cost of the property itself, each homeowner has to pay property tax, which is imposed by the municipality. Although property tax is calculated using standardised rules in Germany, the municipalities require different amounts to be paid. On average it amounts to 3.5% of the property value. Property tax has to be paid on flats, houses, other property and part-ownership. Additional costs are incurred for inclusion in the cadastral register and for the solicitor. These amount to between 2% and 4% of the property value. Overall, the average transaction costs range from 7% to 11% of the property value, depending on whether an estate agent is used or not (Donner, 2000, p. 185). Together with other factors, these fairly high transaction costs contribute to the relatively low home ownership rate in Germany. Access to home ownership is strongly influenced by income and life cycle (see Table 5.2).

Due to the long tradition of moderate rent control and rent acts, the rental market remains attractive (Helbrecht & Schmauß, 2003). Landlords must have a good reason for terminating a tenancy agreement and usually need to give three months notice. The Rent Regulations Act, which was passed in 1971, regulates rent increases for those with existing tenancies. Rent increases must not exceed a maximum limit indicated by an index. This instrument is intended to guarantee security of tenure. As this act does not apply to new lettings, the rent structure on the rental housing market remains flexible. As a consequence of the tenant protection system, the subjective motivation and the objective necessity of private households to afford home ownership

are not as high as in most other European countries. Private investors dominate the rental sector. 50% of all the approximately 22 million rental apartments belong to private individuals (Behring & Helbrecht, 2000, p. 164). Housing co-operatives (which also became private landlords during the period of deregulation), commercial and public investors make up the remaining 50%. Compared to other European countries professional involvement in the supply side of the housing market is therefore relatively low, which consequently brings a financial advantage for tenants. Net rents in Germany have hardly risen at all over recent years, while the additional charges for heating, water and electricity have raised the average price of gross rents. Again, the differences between the regions within Germany are clearly visible, with high rent levels in the metropolitan areas of the south and low rent levels in the east and north.

5.4 Housing decisions and the meaning of tenure

After having outlined the institutional framework that determines the situation of the German housing market, the household interviews will now be analysed. The focus will be on the households' perceptions of security and insecurity with respect to housing.

Perceptions of home ownership and renting

Although the home ownership rate in Germany is relatively low, this tenure is nevertheless of major importance to most respondents. In this case homeowners and tenants share similar views. Home ownership is favoured mainly because the home:

- a. can be decorated and modified to meet the owner's requirements without the need to consult a landlord;
- b. is said to offer the best living conditions for families;
- c. is still considered to be a safe, stable investment, although some homeowners are worried about future developments in the housing market;
- d. in the long run seems to be a favourable economic housing option, because the housing expenses will decrease once the mortgage has been paid off.

a) Freedom to build

Both homeowners and tenants enjoy the idea of building a home to suit their own preferences and needs. However, many tenants also modify or modernise their rented flat or house to suit their preferred lifestyle, but they complain that it was "a waste of money", either because they have to return the house or flat to its original state when they move out or because they do not benefit from the investment in the long term, as they will move out at some point.

b) Best living conditions for families

Home ownership is regarded as the most suitable tenure for families. Children have enough space both inside and outside the house to be noisy and creative. This applies especially to detached houses. In addition owner-occupied houses offer a reliable location and environment where children are familiar with the neighbourhood and the infrastructure and therefore feel safe.

“It was important for us to have a garden for our child and to stay in the city. We wanted to give our child an environment where she can play freely without restrictions. So the garden was very important” (homeowner, female, 35 years old).

c) Safe and good investment

“Generally, I’m very cautious and that’s why I think it’s OK to invest money in housing. It’s a safe investment in the long run. You don’t get good interest rates, but in return it is safe. A safe investment and provision for old age” (homeowner, female, 52 years old).

Homeowners and tenants believe investment in home ownership to be sensible, although many of them worry about the uncertainty of future developments in the housing market. However, they ignore the fact that they are exposed to the potential risk of a negative development in the housing market.

d) Economic housing option

The argument of financial rationality is frequently mentioned in the interviews. Owning is regarded as more economic than renting in the long run, because paying the mortgage leads to a reduction in the monthly payments. In addition you are paying into your own pocket and not into someone else’s, as one male respondent puts it.

Although home ownership is generally preferred, renting is not stigmatised in any way. Unlike in Great Britain (Doling *et al.*, 2003, p. 221), it does not automatically indicate a low social status. Instead it is associated with a high level of flexibility (in terms of job changes, relationships and financial situation) by both tenants and homeowners. Renting offers better financial scope and enables people to adapt to changing living situations more easily. Renting seems to be the favoured form of tenure, primarily when people move out of their parents’ home. All the homeowners interviewed had experience of the rental sector from this period of their lives. Usually, homeowners have a history of several moves within the rental sector before buying a house. The relationship between tenant and landlord is usually described as pleasant. Only a few people experienced major conflicts. Even those who did have problems and have now changed to a different form of tenure say that their bad experience of the rental market was not the decisive factor in their move to

home ownership. However, they value their autonomy. Older tenants are content with their form of tenure but they prefer home ownership when discussing the ideal housing situation. If older tenants have chosen to rent because it provides suitable conditions for a certain way of life (for example, sharing a house with other people who will look after each other during illness and old age), they do not favour ownership.

Owners and tenants surprisingly tend to have similar views about the emotional meaning of housing. The home is most often associated with *privacy* and *shelter*. The first term refers to a place where people can lead their own lives (also as a family) without unwanted 'intruders'. They can decide who is allowed to come into their home and who is not. The home is the private centre of the family's life, a meeting point and a place where the family or the individual can live according to its own chosen lifestyle. This leads to the second term *shelter*. This captures the meaning of housing as the opposite of the outside world (job, society etc.) which often comes with negative connotations. Housing is perceived in emotional terms as a shelter from the harshness of day-to-day life, which also serves as a place for personal recreation and recovery. People refer to it as a refuge, a fort or a castle.

"Firstly, home is a place where I can relax; it's like a fort where I can ignore everything that's happening at work, stress, problems. Instead, it's like - I call it - a sort of ideal world. Home for me is closely connected with harmony, happiness and complete satisfaction" (homeowner, female, 41 years old).

The combination of these qualities associated with 'home' contributes to the respondents' social and physical integrity. This again leads to a certain feeling of security, which is by no means only mentioned by homeowners. The home as a safe haven represents a constant in life, which is not affected by the outside world. So housing offers a feeling of security, because people are sure that they can lead their lives in an individual and yet unchanging way, despite external factors such as the general future of society and politics.

"I know it's my home – despite everything that's going on outside. The economy is in complete turmoil at the moment. When I go to work in the morning, I don't even know whether I've still got a job. But my home and everything that's there will always be mine" (homeowner, female, 50 years old).

This feeling of security is strengthened by independence from a landlord. In this context independence involves two factors. Firstly, homeowners cannot be evicted by a landlord. Secondly, the landlord cannot influence the lifestyle of the homeowners. The homeowners' perceived power to decide about everything to do with their home reinforces its significance as the opposite of the outside world. The freedom to decorate and design the home as they

want also establishes a greater emotional bond with the house, which is not as strong amongst tenants.

“We put our heart and soul into our house, we put in a great deal of energy and effort, because we did a lot of the work ourselves. (...) We did everything ourselves. And that’s why we want to hold on tightly to our home and would do a lot, almost anything, to keep it. More than you would do for a rented flat. It’s a completely different emotional relationship. It’s much stronger” (homeowner, female, 50 years old).

There is one group which is an exception to this. These are homeowners who have bought different houses depending on their circumstances and show the same low level of emotional bond with their housing as most of the tenants. From their point of view home ownership is about a place to live or a good investment, or both.

Unlike tenants, almost all homeowners regard their current housing as the final place they will live in. They would only move in the case of necessity. This correlates with the results of other studies, which show that most people only buy a house once in their lifetime (for example, Behring & Helbrecht, 2002). For homeowners as well as tenants owning a house or flat means being settled, which some homeowners approach with positive and others with mixed feelings, as they feel that their life will be less flexible.

“My approach to home ownership is rather ambivalent. Well, it means that you’re tied to a specific area. In the past I used to move jobs and job locations often. Sometimes I was too spontaneous, both when I was still alone and then later with my family. If I had owned a house at that time, I wouldn’t have been able to be as flexible. I’ve also noticed that other people feel the same way. Home ownership does make people inflexible in some ways. Our company quite often has job vacancies and we wonder why people don’t apply. Then we find out that people own their own houses and don’t want to move. They won’t move to a different town even for a much better salary” (homeowner, male, 49 years old).

The relationship between housing decisions and the labour market, social security and personal well being

A person’s position in the labour market and family situation are the most crucial factors which impact on housing decisions. Three key areas of housing decisions can be identified which are strongly influenced by these factors.

- Choice of housing location – The choice of housing location is mainly influenced by a suitable infrastructure for children (crèche, schools, playgrounds in a ‘good and safe’ social environment and where the people who take care of the children live near by). In order to meet as many of these criteria as possible, parents obviously put less emphasis on their own requirements for specific housing conditions or personal lifestyle factors. These usually

also have an impact on the choice of a specific location (for example, the importance of a certain social environment and infrastructure).

- Housing career – Work, study or marriage and cohabitation are most often mentioned as reasons for people to move from one home to another. These are also the central motives for people to leave their parental home. Increasing expectations of quality and comfort also prompt a house move. These are closely interlinked with the respondents' life course and career. In the early stages of their housing histories, people usually have low incomes and therefore are prepared to accept low standards of housing. In many cases, people want to experience different housing conditions, for example flat-sharing. As people grow older and their family situation changes, their expectations of living standards increase. Because home ownership is considered to offer the best quality of life, for most interviewees it is the theoretical goal of their housing career. The circumstances which respondents lived in as children also influence their views on tenure. If their parents owned the home where they grew up, their long-term tenure preference and objective will also be home ownership, which is generally taken for granted rather than regarded as being something special.

“My parents used to own three houses and therefore I always knew that I would like to own a house myself one day. (...) It was always clear to me that I would take the plunge and buy a house as soon as it was financially possible” (homeowner, female, 35 years old).

As soon as home ownership becomes a realistic option in financial, occupational and family terms, this group tries to change their form of tenure.

- Choice of tenure – Households' position on the labour market and their income are crucial factors in their choice of tenure. As soon as the household is judged to have a reliable income – it does not necessarily need to be high – buying a house becomes feasible. This attitude applies to both tenants and homeowners. All homeowners bought their homes on the basis of two incomes or at least one full-time and one part-time income. Female participation in the labour force is closely linked with home ownership (Doling, 2005). However, it is impossible to find evidence for the direction of the correlation. The participation of both partners in the labour force could be a financial precondition of home ownership. Or it could be the result of a decision made freely by both partners on the basis of their individual attitudes to work and gender. In any case the income criteria are very closely connected to the family situation. If a satisfying and stable job coincides with a growing family, people are more likely to buy a home than if they have no children. As long as the circumstances of their job, income, family and partnership remain unsettled, people tend to prefer to rent. The same applies to people whose jobs

require a high degree of mobility. Generally, the more affluent people are, the more home ownership comes into consideration. This affluence could either be a result of a good income or of inheritance. For example, two of the couples interviewed bought a house because they inherited money and simply did not know what to do with it except to invest it in property.

To a lesser extent the housing situation also has an impact on living conditions. Generally, tenants consider themselves to be less affected by housing than owners. The financial responsibility and the emotional bond with their home is less well-developed. Most of them feel free to move if they need to or if the conditions of their rental change.

“Not a lot can happen to me, because, well, I’m not responsible. Well, I do have a certain kind of responsibility, but I can move out of this flat. If the rent goes up or something like that, I’ll simply move out” (renter, female, 29 years old).

The impact of housing on financial matters is mentioned both by homeowners and tenants with little financial scope⁶. Both have cut their spending on leisure and holidays. However, homeowners have an advantage in the long run. Owners who have been paying back their mortgage for a while will benefit from decreasing monthly repayments. The money which this makes available can be spent in areas where spending had previously been restricted because of the high outstanding debts.

“It’s a good feeling, because I’ve noticed that the amount I pay to the bank is falling every month. I didn’t think about that before we owned our own home. (...) We’ve repaid a lot already which also means more freedom, because I have to pay less. Freedom to spend the money on other things” (homeowner, female, 41 years old).

Home ownership apparently affects the way in which people spend their spare time. The home becomes the spatial and social centre, where most of people’s spare time is spent. Homeowners can invite people to their houses, have parties etc. This applies to a lesser extent to less affluent people, who may not have sufficient disposable income to spend on leisure.

Although the position on the labour market has an impact on housing, housing hardly seems to have any effect on jobs. None of the respondents ever considered (or would do so in the future) using equity from the house for occupational purposes (for example, setting up a company or investing in a company). They would not use the equity for purposes of early retirement

⁶ Homeowners who claim to have little financial scope either have a relatively low income or have deliberately chosen a high loan-to-value ratio, because they prefer not to have high levels of outstanding debt.

either. Housing has hardly any influence on the choice between full-time and part-time work. Most homeowners work full-time, because the outstanding mortgage does not allow them to work part-time, although they would prefer to. In the case of job mobility, homeowners in search of another job (either because of unemployment or the desire to change jobs) feel restricted to the town they currently live in. They emphasise the feeling of spatial immobility that complicates the search for a job.

Use of housing as a financial resource

In Germany homeowners and tenants alike are not familiar with the idea of using housing as a financial resource. Most have not considered using their housing in this way. However, they often implicitly regard housing as a 'pension in stone' or as a financial asset which they can rely on in the case of need. This shows a certain general awareness of housing as a financial resource even though it is not mentioned directly. Instead there appeared to be a 'learning curve' while talking about the financial possibilities of housing. Although most respondents approve of this concept theoretically, they would hesitate to put it into practice. There are many reasons for this, which in most cases remain vague. People do not like sharing their home with strangers (if they had to rent part of it). If they had to remortgage, they would worry about not being able to pay the mortgage off. They simply do not feel comfortable with the idea of borrowing twice or even more against their home.

Only a few owners used their housing as a financial resource in three different ways:

- One option was to use property to be able to move to a slightly larger or more suitable house. In this case most people simply transferred the equity from one property to another.
- Some owners remortgaged their houses for modest amounts in order to be able to afford the costs of improvements, which were intended to add value to the property.
- A few people rent out a second property in order to finance their current housing. This either helps to pay the rent or to repay the mortgage. Renting out a second property seems to be the most convenient way of taking financial advantage of housing. Obviously, other options (such as down-sizing, renting out parts of the house) appear to homeowners not to be attractive or architecturally possible. As Hanover is a research city where exhibitions and trade fairs are held, a minority of homeowners and tenants take the opportunity to accommodate visitors for a couple of days. This seems to be a good way of earning some extra money without entering into major emotional and spatial commitments.

People would only consider using their housing as a financial resource in the future if there were no other alternatives. Selling the dwelling to move to a

smaller property or renting out parts of the property are seen as the most acceptable ways of accessing equity. The theoretical motives for this are based on clear priorities. Maintenance of the property, care needs and the children's education are considered appropriate reasons. Additional spending on consumption (such as leisure activities and holidays) or for occupational purposes are not regarded as suitable reasons.

- Maintenance of housing – Housing-related activities are considered the most appropriate use of housing equity. Furthermore, maintenance and home improvements are viewed as a means of adding value to the home.
- Care needs – Many people worry about financing unexpected care needs or care in old age. In this case home ownership provides a feeling of financial security. As most owners do not regard their current housing as being architecturally suitable for the provision of care, the most common idea is to sell the house in order to rent an appropriate flat. For reasons of pride, remaining independent of their children's (financial and practical) help if they need care or when they become old is very important to most homeowners and tenants. Therefore, they would rather use their housing equity to remain financially independent than receive support from their children, which would allow them to keep their inheritance intact. As a result many interviewees approved of the concept which is currently unknown in Germany of using your property to supplement your pension income. Although you own your house outright, you take out a new mortgage on the house. In turn, you receive a capital sum but only pay interest on the loan. The capital sum borrowed is repaid on the owner's death when the house is sold.
- Children's education – Using housing resources to fund children's education seems to be regarded as important and worthwhile. A good education is seen as a life-long investment and the best 'insurance' against unemployment.

5.5 Security and insecurity

The security of home ownership and renting

Different notions of security can be identified in the interviewees' statements and world-views. Many homeowners feel a sense of financial security and insecurity at the same time. On the one hand, they value the feeling of owning a property, which guarantees certain financial advantages. Living rent-free after the mortgage is paid off and having a financial buffer for unexpected eventualities are the benefits most often highlighted. On the other hand, some owners feel that they have a financial burden because they are not sure about their financial future.

However, the feeling of security provided by home ownership seems to outweigh the sense of insecurity. Although people worry about future negative developments in the housing market, home ownership still contributes

to their security as they cannot be evicted in old age and they do not have to leave a familiar environment. It is interesting, however, that this fact is only emphasised by homeowners. Tenants say that they feel equally secure because they rely on the tenancy agreement. Against the background of perceived uncertainty about the future of the German pension scheme as a result of political changes and general cuts in welfare spending, homeowners have a feeling of security because they will always have a place to live, a 'roof over their head', regardless of their pension income. In this case marginal homeowners have a greater sense of financial security than marginal tenants, although their financial responsibilities and therefore their financial risks are much higher. They argue that, if things go wrong, they could always sell their house in order to pay off the mortgage.

In addition to the emotionally reassuring idea of always having a place to live, home ownership is regarded as advantageous by marginal homeowners or owners with a precarious job situation (for example, with a series of temporary employment contracts) with regard to the state long-term unemployment benefit (*Arbeitslosengeld II*). If an unemployed person owns a home, it is not taken into account in the calculation of unemployment benefits, as long as the size of housing is estimated to be 'adequate'. For example, owner-occupied flats or houses are not allowed to exceed a maximum of 130 square metres. In the case of bigger homes, the owner may be obliged to rent out a part of the property. If the owner has not yet paid off the mortgage, interest payments will be made by the state, which also covers additional housing costs. Therefore despite the fact that they own a house or flat, people can still receive financial support from the state.

Marginal tenants, who are in precarious job situations and who have to rely only on state aid in the case of unemployment, feel less secure. Although state aid covers the rent, certain requirements have to be fulfilled, for example the size of a flat must not exceed a certain number of square metres per person. Consequently, some marginal tenants fear that they may have to move to another flat if they become unemployed, as otherwise this might result in a fall in their standard of living. The majority of tenants, who have a more or less average level of financial resources and safety nets (for example, savings, social network), do not have a great feeling of financial insecurity. If their position on the labour market is good or they are relatively affluent, people feel financially secure regardless of their type of tenure. For affluent tenants the need to buy a property for financial reasons appears less important, because they rely strongly on their income, their job position or other financial resources.

Overall, tenants regard themselves as being more flexible and able to adapt to changing financial circumstances by moving flats. Additionally, some mentioned that they feel financially more secure than they would as owners, as they do not have to cope with unexpected repair costs or maintenance in the

same way as homeowners do. Two renters, who used to own a house, even feel a sense of relief that they no longer have to be responsible for their housing. One female renter puts it this way:

“In some ways it’s just like buying a kind of service. The landlord owns a house, cares for it, maintains it and I pay for it” (renter, female, 32 years old).

Perceptions of risks to housing

When assessing risks, renters and homeowners both have a confident attitude towards life. However, homeowners in particular reflect upon the potential risks and try to prevent them occurring as far as they can in financial and practical terms.

Unemployment and unexpected health problems requiring long-term care are recognised as presenting the greatest risk for the housing situation.

“If I had to retire now or could not work any more because of illness and care needs, I could not afford this flat any longer. I would have no other choice but to sell it” (homeowner, male, 58 years old).

Although only a few people say that they have a totally secure job (for example, teachers employed by the state), both the respondents’ job history and their financial background seem to have an impact on the perception of housing-related risks. Those who have positive experiences in terms of their job history, income stability and financial resources worry less about the severity of the risks. Finances can be used to cushion the impact of a number of eventualities and a greater variety and number of insurance policies can be taken out. Homeowners and tenants in precarious job situations or with fewer financial resources are aware of their vulnerability. They would be more severely affected by risks, as they have only a small financial cushion to rely on.

Homeowners see a greater variety of risks affecting their housing security and also believe that the possible risks will cause a greater burden for them. This is obviously a result of the increased financial responsibility, the greater emotional bond and the reduction in spatial mobility. The death of a partner, the inability to work, unemployment which requires a move to a different city and the deterioration of the neighbourhood are identified as risks which will change their housing circumstances significantly. Divorce and relationship breakdown are mentioned as a theoretical risk but one which is only mentioned by those respondents who have either experienced this themselves or in the case of their parents’ relationship. In general, homeowners perceive the possible loss of their housing to be more of an emotional issue, as the occurrence of a risk could significantly change their housing situation. In the worst case they would have to move to a different type of tenure, which always involves a feeling of losing a certain social status and which is also more visible to others.

5.6 Safety net strategies

Safety nets

Respondents generally combine different methods of protecting themselves against housing risks (Table 5.3). Homeowners are usually better protected than tenants both in terms of the amount of insurance and the variety of protection methods.

Insurance

Insurance is the most important protection instrument. In general homeowners and tenants have taken out good insurance cover within their financial scope. However, homeowners are insured against a greater variety of eventualities. All of them have an endowment or life insurance policy as a condition of their mortgage and at least compulsory health insurance (CHI). The tenants also have health insurance. In the case of unemployment the state covers the costs of the CHI. All the employed respondents also have compulsory long-term health insurance. With regard to the home itself, it is common to take out buildings insurance, household insurance and an owner's insurance policy.

In the case of unemployment, most people tend to rely on state unemployment benefit, which covers 60% of the previous income for a certain period depending on the length of time that the person has been working. Few of the homeowners who have already experienced unemployment have still invested in housing, knowing that property is not taken into account for long-term unemployment benefits. Although there has been a major restructuring of state unemployment support, most people still seem to be confident about their benefits. Many respondents also have a private insurance policy for occupational disability.

All homeowners and tenants hope to receive at least a small state pension which will cover their minimum living costs. However, they worry about the amount that they will receive. Therefore some of them have also taken out an additional life insurance policy or private pension insurance. As the homeowners plan to have paid off their mortgage by the time they retire, they view their property as a protection against financial difficulties in old age. If they are not able to maintain their property, they could sell it in order to buy or rent a flat.

Households with a relatively low income usually have the compulsory insurance policies, which are not particularly expensive because they are calculated on the basis of a certain percentage of the income.

Savings

Both marginal and non-marginal households and both tenants and homeowners consider their savings to be an essential short-term buffer for all

Table 5.3 Differences in safety nets between homeowners and tenants in Germany

	Homeowners	Tenants
Insurance policies	Dependent on financial means	Dependent on financial means
	Greater variety of insurance policies	Less insurance than homeowners
Savings	Considered as a buffer against all eventualities	Considered as a buffer against all eventualities
	Build up savings for maintenance	Less money saved than homeowners
Social network	Important, but most people would try to avoid asking the family for support	Important, but most people would try to avoid asking the family for support
	Possible for a limited period of time	Possible for a limited period of time
Home ownership	Deliberate increase in monthly repayments to pay off the mortgage as soon as possible	

eventualities. The amount of savings varies considerably and about a third of the respondents – most of them tenants – only have a very small amount of money saved. This would not cover their living expenses at all and certainly not in the long term. The homeowners try to build up their savings to cover the additional costs of housing maintenance. For this purpose, many homeowners have also renewed their contract saving (*Bausparkassen-Versicherung*). As a consequence homeowners usually have more money saved than tenants.

Home ownership

Some people increase their mortgage repayments voluntarily in order to pay off the mortgage as quickly as possible. Although they have to cut back their spending on consumer goods and leisure, they are taking advantage of their situation, which they consider to be good at the moment, but uncertain in the future, because of the precarious labour market. The knowledge that they own the house outright apparently makes them feel less at risk.

Social network

Financial or practical support from friends and family is usually considered possible for a limited time. Some people have already received this kind of support during a period of unemployment. Almost all the respondents could at least go to live with their family or their friends for a period of time. However, most do not count on this and would try to avoid it for reasons of pride or shame.

Attitude

The following finding does not help the respondents to manage risks in financial terms, but instead seems to help them to cope with severe risks where there is a lack of a safety net. Tenants with limited financial means tend to have a similar attitude towards possible risks. They either assume that the state will support them in the case of need or they discredit private protection methods, saying that they are an indication of a narrow-minded or over-cautious approach. In the latter case, people seem to turn their financially insecure position into a view of life which is chosen voluntarily. This attitude allows them to suppress their worries about the future or about insecurity.

Importance of the social security net

The social security net has an important place in people's lives. Regardless of the ongoing welfare cutbacks, both homeowners and tenants still benefit from a well-developed social security net. Certain kinds of welfare provision which form part of the safety net are not even mentioned by most respondents, as they are taken for granted. This applies to health insurance and care insurance.

“Well, everyone has health insurance! I just have the compulsory health insurance”
(homeowner, female, 52 years old).

“Those are the normal insurance policies, like health insurance, that everyone has”
(homeowner, male, 58 years old).

A minimum level of health and care insurance is available to all respondents. If they are worried about health problems affecting their housing security, they are thinking about long-term and severe problems, which might entail high costs not covered by the CHI, for example, because of the need for a special treatment. The level of additional insurance against health problems does not differ between homeowners and tenants.

As a result of various state-led restructuring activities in the labour market and the rising unemployment rate, the respondents feel uncertain about their future labour market position. However, they are confident that they will receive unemployment benefit if they need it and this is calculated on the basis of their former income level and period of work. All the respondents feel reassured by the knowledge that they will receive unemployment benefit or at least social security benefits. While savings and shares are taken into account in the calculation of long-term unemployment and social security benefit, home ownership of properties up to a certain size is disregarded. Therefore, home ownership is more attractive to respondents than other assets and savings. Furthermore, as there is a poor selection of private unemployment insurance products, home ownership is viewed as a financial resource and a way to retain a certain standard of living even during difficult times.

“The state does provide support for people who are in financial difficulties. (...) I think that's good. It also applies to home ownership. People who own a house don't have to sell it immediately, just because they are receiving long-term unemployment benefit. I'd like to stress that I think that's good. But at the same time, people also have to change their attitudes. They can't always expect the state to help them any more” (homeowner, female, 47 years old).

However, people are not sure how to deal with the general risk of unemployment in the long run, as they feel that they are not able to do anything to prevent it.

“What are you supposed to do if you become unemployed? Everyone who works will receive unemployment benefit if they need it. And that’s the only thing that employees can do to protect themselves against unemployment” (homeowner, female, 49 years old).

In the case of pensions, respondents rely less on the state than they do if they are unemployed. Here, home ownership becomes most crucial. Respondents feel highly uncertain about their future pensions and expect a gradual reduction in payments. As property has proved to hold its value during long periods of inflation and currency reforms in the past (Häussermann & Siebel, 2000), it is still considered to be a safe investment, even though many respondents are aware of possible falls in housing prices.

“Recently, I had another letter from the bank saying that I should come and talk to them about financial provision for my old age. But I think property is more secure than shares or things like that, because you never know what will happen. That’s the point. I don’t have any confidence in future developments, but property is always safe” (renter, female, 36 years old).

Strong path dependency becomes evident. Although property will not inevitably retain its value in the future, people stick with traditional attitudes. People also feel reassured by the tangible nature of home ownership. At least they can live rent-free in their old age.

“We did make some indirect provision for our old age before we bought our house. We just made sure that we didn’t spend all our money and tried to put some aside. We also invested some smaller amounts in long-term shares. And now we have put everything into home ownership. This means that our house is our provision for our needs in old age, where we can live rent-free. We are already living in the provision for our retirement” (homeowner, female, 50 years old).

Most respondents were aware of the need for the welfare system to be restructured, but they were concerned and complained about future welfare provision. They would prefer to retain the existing welfare system and this confirms the findings of similar studies (for example, Svallfors & Taylor-Goober, 1999; Esping-Andersen, 2002).

5.7 Conclusion and further discussion

The German state used to provide a well-organised welfare system which was biased in favour of employees and had origins that traced back to the end of the 19th century. German citizens became used to paying high social

costs, but also to relying on an effective social security system, which protected them against most eventualities. The long-term positive growth in the labour market and economic development also contributed to people's natural confidence in their ability to cope with difficulties of all kinds. People who are currently entering retirement had never regarded unemployment as being a probable risk (Esping-Anderson, 2002, p. 10). However, home ownership was valued as being the most stable type of investment, because property was the only asset which had proved its value during periods of inflation and currency reform in Germany. As a result of changes in national and international factors, the German state is currently restructuring its welfare system, in line with many other European countries. The ongoing restructuring process is transferring responsibility for protection against risks, which had formerly been the role of the state, to the individual. German citizens are being confronted with a new economic, social and political order in which they have to take more and more responsibility for potential individual risks. The open-ended nature of the future welfare system and the decline in economic prosperity are both contributing to citizens' confusion and often lead to concerns about future living conditions. In these circumstances to what extent does home ownership provide citizens with a feeling of financial security? Or is home ownership instead perceived as a source of financial disadvantage as increasing income volatility complicates long periods of mortgage repayments?

Overall the security of home ownership outweighs the insecurity, although both homeowners and tenants say that their form of tenure makes them feel secure and insecure in different ways. Home ownership engenders a feeling of security which is based on the benefit of future rent-free living and the financial resource that the property represents. However, tenants do not have the same financial responsibility as homeowners do. Homeowners often feel both an emotional and a financial pressure. The financial pressure is not only caused by the outstanding mortgage, but also by possible repair and maintenance costs. Renting also offers security, as tenants are more flexible and able to react to changing living and working conditions. Young people in particular do not want to tie themselves down to one area and take on financial responsibilities in the face of an unsettled employment situation. Home ownership is seen as an obstacle that is financially and geographically incompatible with occupational flexibility. This is probably a result of the general belief that people only buy a property once in a lifetime.

Homeowners and tenants alike regard job stability as a precondition for home ownership. Once people have bought a property, their feeling of financial security, which was originally based on positive job expectations, increases. Therefore the perception of financial security is seldom triggered by home ownership itself, but instead derives from the perceived stability of the labour market position. On the basis of this interpretation, home ownership is an

expression of perceived financial security resulting from positive labour force participation and, in its turn, home ownership strengthens the perception of financial security. Usually a growing family and stable employment coincide. Children are the major influence on the decision in favour of home ownership, as this kind of tenure is believed to offer the most suitable environment for bringing up children. In this case home ownership is seen as an investment in the children's quality of life. It is regarded as a means of providing children with a safe place to live, which might also suggest a certain financial status.

The respondents have not yet paid much attention to the potential of home ownership for extracting equity from housing. Homeowners refer to housing as a theoretical financial resource and 'a haven for their old age', but have never thought about taking advantage of the financial equity. It is difficult for them to imagine using their housing to finance other areas of their lives, for example investing in a business or buying consumer goods. Against the background of the ongoing process of transferring responsibility for risks to individuals and welfare cutbacks, this could offer advantages for both homeowners and state finances. It increases owners' independence from the state and improves their social position. When owners use housing assets to finance support in their old age or care needs, they remove a financial burden from the state (Doling & Ford, 2003, p. 232). However, homeowners are not aware of this possibility and this is not just because of the prevailing mentality. Lending practices in Germany do not facilitate the use of equity to a great extent and in particular not in old age, as is the case in Great Britain, for example. Nevertheless, some respondents approved of this method of using housing equity in the context of health and care needs in old age, because it would offer a way of enjoying financial security while remaining independent of relatives and the state welfare system. Passing on the equity to their children is less important than the desire for independence.

Respondents do not perceive ownership as a financial instrument for individual protection except to the extent that it offers the benefit of rent-free living and a 'safe haven' in old age. Neither do they believe the social position of tenants to be more precarious. Tenants do not feel at a social disadvantage because they rely on their tenancy agreements and rent regulations. This attitude reflects the historical pattern of a strongly regulated rental sector. However, home ownership provides a feeling of financial security especially among marginal owners, despite their expectations of negative developments in the housing market. They do not apply these general developments to their individual circumstances and instead appreciate the fact that they have financial equity. The historically undisputed importance of home ownership as a stable asset still echoes in most people's minds. It is only in the younger age groups that a few respondents indicate that they are also considering other forms of financial investment, which might be a more secure

alternative in the future (for example, funds, shares, insurance). These kinds of investment usually require less long-term responsibility and are therefore more compatible with changing, unconventional labour conditions. In general, home ownership has not yet been assigned greater importance as an instrument for countering individual risk within a diminishing welfare state, although it is still associated more with financial security than insecurity. Whether home ownership will become more important in terms of individual financial security will depend on future housing market developments and policies, changes in lending practices, the future growth of investment alternatives and – most importantly – the future of welfare policy.

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6 Hungary: Escape into home ownership

József Hegedüs & Nóra Teller

6.1 Introduction

Hungary has a population of 10 million people, of which approximately two thirds live in urban areas. Around 1.8 million people live in the capital, which represents almost 20% of the total population. Hungary became a member state of the European Union in 2004, 15 years after the transition to a democratic market society.

Hungary: A transition country of super home ownership

Political changes have brought about major reforms in the structure of the government, economy and society. The two main processes of the transition were privatisation and decentralisation. In 1990, the share of state ownership in the economy was over 85%. However, following the privatisation that has taken place over the last 15 years, the share of the state sector has shrunk to 20%. During the decentralisation process local governments were given a wide range of responsibilities for public and social services (water, sewerage, public transport, urban planning, housing, basic health care etc.). Although GDP and related living standard indicators had reached their pre-transition levels by 2000, reforms had not been completed in some of the major sectors, such as energy, health care, public transport and education. The autonomy of the local governments, resulting from decentralisation, helped the restructuring process. However, conflicts between central and local government over responsibilities and public resources tended to lead to 'perverse' behaviour by the public institutions, such as 'rent-seeking', tax competition, morally dubious behaviour and underuse of the local tax base¹. More striking changes came about in the social structure. The emergence of visible poverty due to mass unemployment, low labour market activity (resulting from early retirement, forced postponement of education etc.) as well as increasing income and regional inequality contributed to social and political instability. Social security which, although at a low level, was guaranteed by the state has disappeared since the transition, and the formation of a new welfare regime (system of safety nets) has left some social groups basically unprotected. Housing, as one of the basic

¹ The effects of the otherwise successful decentralisation were diminished by these 'perverse' behaviour patterns. Rent-seeking meant that local government focused in a one-sided way on maximising the central grant at the expense of real local needs. Morally dubious behaviour occurred when a local government signed a contract with private players (banks, public service companies) expecting the cost of the contract to be paid by central government, for example taking out a loan which they are not able to pay back, or accumulating unpaid expenses, such as hospitals, occasionally schools, and public transport companies.

human services, played a prominent role in the process of social change.

After the give-away privatisation scheme was implemented in the housing sector, home ownership became a dominant form of tenure in Hungary, as was the case in most of the other transition countries. However, even after 15 years of transition, no new housing regime has been established. The housing sector that exists today developed as a consequence of the economic transition and the trends in the housing system can be interpreted as an 'outcome' of the restructuring processes in the political and economic system, such as decentralisation, privatisation, the emergence of private banking, the reform of the social security system etc. Hungary is one example of a country where 'super home ownership' prevails and where the majority of the homeowners have full equity (there is still no substantial mortgage market). When the housing system was restructured, both the risk and security aspects of home ownership turned out to be relevant and have to be interpreted in the context of the social problems related to the transition from a centrally planned economy to a democratic market society.

Methodology

This chapter is based on the results of 30 interviews conducted in Hungary during the summer and early autumn of 2005. The interviews aimed to clarify the role of home ownership with regard to the behaviour and attitudes of the households interviewed in other areas of their lives (labour market, education, savings strategies, family life etc.).

The interviews were carried out at various locations in Budapest and one respondent was chosen from a nearby agglomeration area. We covered multi-unit buildings in good and less good locations, single-family houses, large housing estates and suburban areas. This means that various layers of the housing market and most social strata have been included in our sample.

We used two recruitment methods: we approached most interviewees through gatekeepers, but we also used the snowballing method in some cases. The rationale behind using both methods was that family care centres were able to provide us with respondent families in hardship, but the original aim of relying on housing managers to recruit households with mortgages (high status households) proved to be somewhat unreliable and inadequate. Therefore, in the case of the latter group, we predominantly relied on interviewees to give us further contacts.

As a result, notwithstanding the benefits of the methods and the results of matching the predefined quotas for the interviews, we were only able to compile a sample which overemphasises the interviewees from the rental sector and those living in hardship. While analysing the housing careers, another weakness of the sample became apparent: due to the urban focus during recruitment, there are only few respondents who have reported their own experiences of the relationship between housing decisions and access to the

job market. It seems that employment is considered as an issue only in the first stage of the housing career, because staying in the urban environment of the capital city means that there are plenty of job opportunities available and therefore a relatively good labour market position.

This chapter discusses the main developments in the labour market and the social security system after the beginning of the 1990s. It then explores the changes in the housing sector, focusing on the privatisation of the public rental sector, which resulted in super home ownership in Hungary. Subsequently, the households' housing decision strategies are elaborated upon in the context of tenure structure, and the perceived aspects of security and insecurity are examined. Lastly, safety net strategies are analysed and we conclude that there are at least three aspects to be observed while discussing the risks and security of home ownership in Hungary, namely the effects of the transition, the importance of the family background and the short- and long-term consequences of poor decisions in the housing career on other areas of life and vice versa.

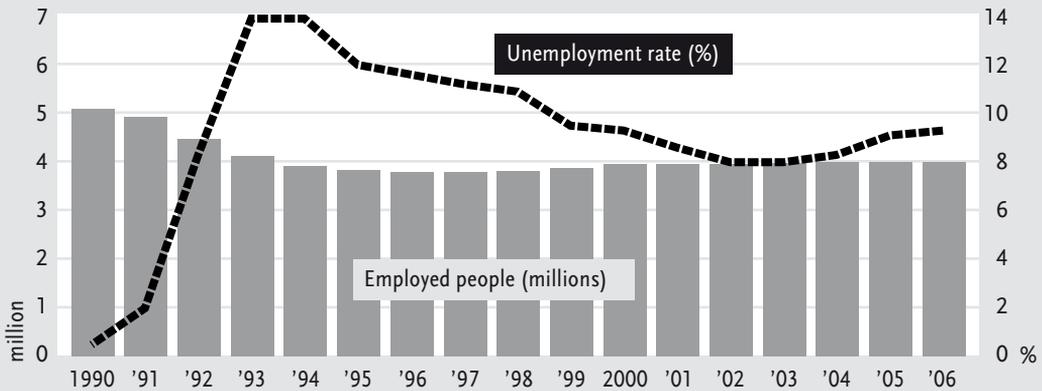
6.2 The main developments in the labour market and social security

The Hungarian economy underwent a transitional recession at the beginning of the 1990s and, as a consequence of an austerity programme, the economy had slowly begun to recover by 2000. However, the much-needed structural changes in sectors including education, health care and social services had not been carried out. The lack of reforms and the generous income policy of the government from 2000 to 2006 caused a huge fiscal deficit, and forced the government to prepare a second austerity programme encompassing the necessary structural reforms.

In the 1990s, the changes in the labour market resulting from the closure of many previously state-owned companies and the restructuring of the production sector meant that the employment rate decreased dramatically – more than 1 million employees left the job market (see Figure 6.1). The falling employment rate has put an extraordinary burden on the public economy, which is a more serious problem than unemployment (which is slightly better, i.e. lower, than in other European countries, although quite high compared to the almost full employment before the transition). Unfortunately, alternative employment solutions (i.e. flexible employment) have not gained much ground in the Hungarian labour market and this is also clear from the stagnating activity rate in Hungary (around 54% from 2004 onwards).

Household incomes fell at the beginning of the 1990s, but reached the pre-transition level in 2001). Between 2002 and 2004 there was an increase in income brought about by the public sector income policy. As this increase was

Figure 6.1 Unemployment rates (%) and the number of employed people in Hungary, 1990-2004



Source: EUROSTAT, Central Statistical Office

Table 6.1 Indexes of income inequality in Hungary, 1982-2004*

	1982	1987	1995	2004
Income ratio of the lowest and highest percentiles P10/P1	3.8	4.6	7.5	7.6
Robin Hood index	14.9	17.0	21.0	21.4
Gini coefficient	n.a.	0.2358	0.2964	0.3121

* The Robin Hood index is equal to the portion of the total income that would have to be redistributed for there to be perfect equality; while the Gini coefficient is a measure of inequality of a distribution, defined as the ratio of area between the Lorenz curve of the distribution and the curve of the uniform distribution to the area under the uniform distribution.

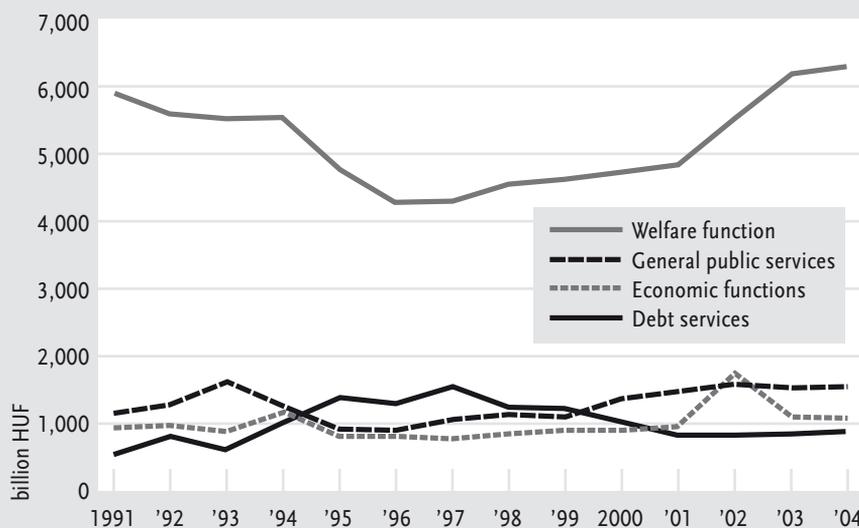
Source: M. Keszthelyiné-Rédei & Zs. Szabó, 2006

not justified by economic performance, the rise in living standards increased the government deficit. (The government deficit increased in the election years: 1994 8.4%; 1998 6.8%; 2002 9.2% and in 2006 it will be more than 10%. The only other EU countries with figures as high as this are Portugal and Greece).

During the 1990s poverty became one of the most important social issues. While the average income decreased, income inequalities increased dramatically in the first part of the 1990s, and remained stable over the last decade (Table 6.1). The ratio of the average income in the lowest percentile to the average in the highest percentile increased from 4.6 in 1987 to 7.6 in 2004; the decrease between 1995 and 2004 was less significant. (The other two indices support the same conclusion).

There was a decrease in the welfare functions of the state during the first half of the 1990s and a slow increase after 1998 (Figure 6.2). In 2004, the total welfare expenditure amounted to 32% of GDP. The majority of the social welfare budget was spent on pensions (25.8%), education (18.2%) and the health care system (17.1%) and only 28.4% of it (around HUF 1,845 billion) was spent on social welfare functions.

Figure 6.2 Public sector expenditure on services in Hungary, in billion HUF (at 2004 prices)



Source: Benedek *et al.*, 2006

Table 6.2 Composition of social welfare expenditure in Hungary in 2004

	Billion HUF	As a % of total social welfare expenditure	As a % of GDP
Services in kind*	297.6	16.2	1.5
Price subsidies of social services**	541.5	29.3	2.7
Tax allowances	398.1	21.6	2
Insurance-based transfers	158.9	8.6	0.8
Means-tested benefits	108.7	5.9	0.5
Universal transfers	338.8	18.4	1.7
Total	1843.6	100	9.2

* For example, housing allowance, social meals, medication, funerals etc.

** For example, care for the elderly and nursery school fees, benefits paid to vulnerable families for school books.

Source: Benedek *et al.*, 2006

Means-tested social benefits account only for 5.9% of total social welfare expenditure (Table 6.2), and the targeting efficiency of these programmes could be criticised. According to Benedek *et al.* (2006), some universal programmes (for example, child benefit) reach the poor quite efficiently without means-testing procedures. However, the social welfare programmes, overall, are very poorly targeted, and the neglect of social sector reform contributed to the fiscal crisis of 2006.

Poor targeting of social welfare programmes is also related to large-scale tax evasion and poor income measurement in social programmes. The informal

economy was estimated to be as much as 25-33% of GDP between 1990 and 1997 (Laczkó, 2000). The fiscal crisis is related to the welfare policy, which, given that it seeks to maintain a broad range of social services at a low level of willingness to pay taxes, is not a feasible or sustainable option.

As a consequence of the postponement of reforms, several groups in Hungary were confronted by an inadequate welfare system, among them pensioners, the unemployed, the sick, families with three or more children and single and single-parent households. Due to the decentralised nature of some social benefits, they also sometimes vary among settlements. Typically, these are the groups that face hardship in paying housing costs because of low incomes or disproportionately high housing expenditure.

In a similar way to the other former socialist states, before the transition housing was considered primarily to be part of the social commitment of the state, and it was rapidly excluded from state control and financing after the political changes. The more extensively the state withdrew from housing supply, allocation and control, the more the market mechanisms prevailed. The East European Housing Model (Hegedüs-Tosics, 1996) was built into the centrally planned economy that can be characterised as a socioeconomic system with high job security², low, highly subsidised housing service prices and small income differentials. In the housing system in this economy, the vast majority of services were provided 'in kind' or at below-cost prices and were allocated according to consumers' 'merits' (Kornai, 2000). As a consequence of the low, subsidised housing prices, an enormous shortage developed, leading to the emergence of a dual housing market³. In the formal housing market, there was no need for housing assistance (because of the subsidised, low-cost housing services), but the informal market was not officially acknowledged and therefore no income support was offered in this area.

6.3 The main developments in the housing sector

6.3.1 Introduction

In the pre-transition period the main features of the Hungarian public rental sector were the very low rent level, the huge backlog in maintenance and the 'ownership' rights of tenants. The public rental sector made up around

² To be unemployed was considered a 'crime', which led to a high level of 'inside unemployment' (meaning that many jobs with low salaries and almost 'no work' were retained in companies).

³ 'Dual housing market' refers to the existence of an informal housing market alongside the state-controlled housing sector: self-help construction, private transactions in the public rental sector, private property market transactions, markets for subtenancies and a small private rental sector (Hegedüs, 1992).

Table 6.3 Tenure structure in Hungary, 1970-2001, in %

	1970	1980	1990	2001
Public rental	26.2	26.0	19.0	3.7
Other rental	7.1	2.5	7.0	3.6
Owner-occupied	66.5	71.3	73.6	91.9
Other	0.3	0.2	0.4	0.7
Total	100	100	100	100
(N)	3,034,383	3,416,565	3,687,996	3,723,509

Source: 2001 census, Central Statistical Office

20% of the housing stock, but reached almost 40% in urban areas. The rental sector operated as a 'unitary' system (Kemeny, 1995), in the sense that there were no major differ-

ences in the social composition of the tenants among the sectors. Moreover, a critical analysis of the socialist housing system indicates that access to public rented property was distributed unevenly among different social and income groups, and the better-off families had a better chance of obtaining rental housing (Szelényi, 1983; Dániel, 1985). However, this fact could be explained partly by the allocation policy ('the role of the state') and partly by market allocation. Between 30% and 35% of the tenants in 1992 accessed their housing through private transactions, in other words they obtained their housing on the 'grey' market and became renters. (Hegedüs, Mark & Tosics, 1994). At the same time, it is important to mention that by 1990 the proportion of owner-occupation in Hungary was significant and was already higher than in many western European countries (see Table 6.3 for an overview).

The collapse of the centrally planned economy brought about radical changes in the housing sector. The new housing regime gave preference to privatisation and liberalisation in the housing sector, which increased the significance of home ownership, both as a source of security and as a source of insecurity.

After the political changes at the end of the 1980s, three stages in the housing policy can be identified:

- 1989-1994: crisis management (privatisation of the state-owned rental units to the sitting tenants, privatisation of the construction and development companies, consolidating the collapsed portfolio of 'old loans');
- 1995-2000: developing new institutions (emerging housing finance institutions: contract saving banks, mortgage banks etc., changes in legislation);
- 2001 onwards: new housing programme supporting the middle class through housing finance subsidies, and the slow start of social programmes.

6.3.2 Crisis management (1989-1994)

In the first period (1989-1994) the government tried to manage the housing crises related to the economic decline and the 'deep subsidy' system of the socialist period. The government 'moved out of the housing sector' by cutting subsidies and reducing their direct role. Decentralisation was part of this process as local governments were assigned to manage the housing allowance programme, partly financed from their own resources. The housing policy of this period could be characterised basically as crisis management. The Housing Act (1993) and the Social Act (1993) made it clear that the government was

not taking responsibility for housing, but was leaving it open to future intervention. The subsidy system was changed in order to decrease the burden on the budget, but no major changes were made in the concept of the housing policy. The decisions taken in this period made it clear that politicians did not accept the idea of targeting. Nevertheless, this idea became an increasing part of the government programmes. The privatisation process speeded up, resulting in 'super home ownership' in Hungary.

Until 1994, local governments were free to make decisions on privatisation. The majority of local governments supported privatisation on the basis of both short-term political and longer-term financial considerations. The political reason for privatisation on the part of local governments was to 'favour' their residents, and they were supported by 'faith' in privatisation in general⁴.

There were several financial reasons for privatisation, such as the backlog in maintenance, and the continuing operational losses, as the rents only covered 30-45% of the actual costs. A key element in local governments' decision to privatise residential property was the future rent levels that could be imposed. The local governments expected heavy political pressure in the case of rent increases. In fact privatisation speeded up during the early 1990s and, after the 'soft' right-to-buy Housing Act of 1993, a new impetus was given to privatisation.

Direct financial considerations and increasing security were determining households' willingness to buy the units. The main financial motivation was to capitalise on the potential 'value-gap' of the rental unit, in other words to capture the difference between the value of the property as a rental unit and as an owner-occupied unit. The average price a household had to pay was around 10% of the market price. The absolute figure of the 'value gap' increased with the quality and location of the unit, which had a huge regressive allocation effect. The selling prices were set at 15% of the market price⁵, 10% of which had to be paid in cash and the remaining amount in monthly instalments for 15 years at a 3% interest rate. (It was not a loan, but a 'delayed' payment.) Alongside the 'value gap', security was the most important issue. It is true that public tenants had enjoyed a high security of tenure over the previous forty years, and they had paid low rents, with rent increases below inflation. After the regime change, most of the tenants expected rent increases and a reduction in their 'ownership' rights (for example, the right of tenure swapping or inheritance).

Altogether less than 5% of the stock remained in the ownership of the municipalities. In the overwhelming remainder of the flats that could not be

⁴ Housing privatisation was also strongly encouraged by most of the international donor agencies.

⁵ The price was set at 30% of the market value if extensive modernisation had been undertaken within the previous 5 to 15 years, and 40% if the modernisation had been undertaken within the previous 5 years.

sold, the sitting tenants remained as renters of municipal units. There were a number of reasons for this that are connected to the insecurity aspect of home ownership, namely, that in their case buying the flats would not have been possible due to lack of financial resources or existing arrears. They could not have borne the financial burden of paying the rate of interest or even any expenses related to housing maintenance (for example, repair costs). As a result, the municipal housing stock residualised, because higher value housing had already been sold by 1993, and after 1996 40% of the privatised stock belonged to the lowest value quintile. According to the results of a survey carried out in 1999, the lower the status of the household, the more likely it is to live in municipal housing: 44% of households where the head of a family is an unskilled worker live in municipal rental housing, whereas this figure is only 8.4% among white-collar workers. In 10 years, household income in the public rental sector decreased from 86% to 74%, expressed as a percentage of household income in the owner-occupied sector by 2003. It is an interesting fact that the most active group of households that chose to privatise by 1999 were those with a head of household over 60 years of age (CSO 2001).

In the middle of the 1990s a number of new laws made the creation of a market-based housing finance system possible. As a result of these changes in the legal framework, legal tools for securing property loans and ensuring rapid access to collateral in the event of the borrower defaulting on a mortgage were established⁶.

6.3.3 Developing housing finance institutions (1995-2000)

In the second period (1995-2000) new institutions were established and the legal background improved. Meanwhile, the level of the subsidies gradually decreased as a consequence of the falling housing output. Two basic financial institutions were set up: the contract saving banks and the mortgage banks. The law on contract savings banks was very controversial as the subsidies given to savers made the housing subsidy system more regressive, and there

⁶ For example: 1. The 1993 Act on the Regulation of Rent and Sale of Housing exempts private landlords from the requirement to provide alternative housing to an evicted tenant; 2. Amendments to the sections of the Civil Code on mortgages and liens adopted in 1996 and a 1994 act covering court procedures permit foreclosure and repossession without the lengthy judicial proceedings required under previous law; 3. The Civil Code now permits the lender to sell the property itself without court intervention if the parties have agreed on this in the loan documents; 4. Amendments to the Civil Code provide that, for residential property, the parties may agree that the borrower must hand over the property unoccupied in the event of foreclosure; 5. The 1997 Act on mortgage banks and mortgage bonds changed the priority for payment to a mortgage lender from the proceeds of a foreclosure sale from last place to fourth place, ahead of taxes, social security and other public debt.

was no direct relation between the subsidies and the increase in housing investments. The changes to the legal background of housing finance were an important element of this period. The attempt to tackle the problem of the inflationary environment and changes in the subsidy system had a temporary effect on the housing sector. The housing policy concept declared the need for reform of the subsidy system, but changes mainly served the purpose of reducing the budget burden. From 1998 a new rhetoric was presented in the housing policy, namely the need to support middle-income citizens, but for two years nothing significant happened.

6.3.4 The middle class in focus: new housing programmes (2001 onwards)

In the third period (2001 onwards) the government started an active programme backed by positive macroeconomic changes. The programme introduced new subsidies (interest rate subsidy, mortgage rate deduction from personal income tax and mortgage bond subsidy) primarily in the owner-occupied sector, but also in the public rental market. To enhance the effect of the programme, the subsidies were increased step-by-step. The new government of 2002 inherited a very controversial system consisting primarily of housing loan subsidies and were faced with the problem of how to restructure it. The left-wing government elected in 2002 promised in its election campaign to keep the subsidies in the housing sector unchanged and even guaranteed increases in some elements of the subsidy system (for example, an increase in premiums for contract savings and in the advance down payment subsidy for new construction), but in the end the unsustainability and low targeting of the subsidy programmes caused radical changes in 2003-2004. During these four years of subsidised housing loans the housing loan portfolio grew eight-fold or ninefold in size and the percentage of GDP represented by loans increased from 1% in 2000 to 7% at the end of 2003 (around 500.000 households took out loans in this period). This substantial increase was facilitated by the fact that the portfolio was at its lowest point at the start of the millennium (previously subsidised loans had mostly been paid back and there was only a small number of new loans), therefore the development started from almost zero. The amount and extent of subsidised loans were reduced and more emphasis was put on upfront down payment subsidies, socially targeted housing allowances and rent subsidies. The number of subsidised loans fell as the share of (cheaper) foreign currency-based loans increased by 2005.

As part of the housing programme launched in 2000, a grant programme for local governments was introduced, which supported five housing areas: the rental sector, energy saving measures, rehabilitation programmes, land development and renovation of housing owned by churches.

The most important element of the grant programme was the support of

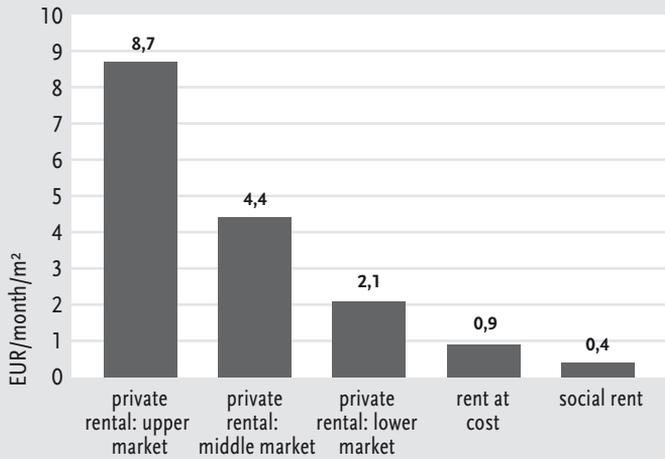
Figure 6.3 Housing subsidies 1998-2004 in billion HUF in Hungary

the public rental sector. The programme gave an investment grant to local governments of up to 75% of the investment costs for various purposes: social rental, cost-based rental⁷, housing for young families, homes for the elderly. In the years between 2000 and 2004 several hundred local governments took part in the programme. The total investment amounted to HUF 60 billion and close to 13 thousand units were established.

After the change in the government, there was also a shift in the housing policy. The mortgage programme with the modification made prior to the election of 2002 was unsustainable, unjust and inefficient. The changes in the composition and the real increase in the housing subsidy programmes clearly show the shift to mortgage subsidies as opposed to other programme elements (see Figure 6.3). Budget expenditure increased, which, in parallel with other popular measures (for example, the large increase in public employees' salaries), created a fiscal problem. The first victim of the budget cut was the social rental programme, which was stopped after 2004. The 'high' cost per unit was the justification for curtailing it. (However, the value of the mortgage programme subsidy at the time was higher, and it had a clear regressive income effect as opposed to the rental programme's social effect.) The products that were most popular, but that since then have been severely cut back, were subsidised loans for newly built homes (5-35 years, both fixed and variable interest rates of 7.5-9.5%, with a loan-to-value ratio of 40-60%) and for existing homes (similar terms but with an interest rate of 7-11.5%). In addition to this, substantial PIT exemption was offered between 2002 and 2005, which was later reduced. Since then, foreign currency-based loans have taken over the leading position among housing loans. This type of loan has only existed since 2004, but, as the subsidies were cut back, it quickly became pop-

⁷ Cost-based rental was allocated according to the locally defined procedures (typically by social criteria), and basically forced the local governments to charge a minimum of 2% of the investment cost per year.

Figure 6.4 Rents in different submarkets in 2005 in Hungary



Source: estimates based on CSO, 2003

ular. However, in 2004 it made up less than 20% of the outstanding loans, but represented quite a considerable proportion of the newly issued loans. (Hegedüs & Somogyi, 2006).

As part of the safety net features, the housing allowance is one of the means-tested social welfare programmes that apply to the housing sector. The Hungarian scheme

introduced in 1993 had a very limited role because of a lack of incentives for local governments to provide substantial contributions to housing costs. The context of the scheme consists of what are generally the two approaches taken by welfare programmes in Hungary: one approach uses programmes defined by the central government (parliament), and the other uses programmes managed by local governments (mixed finance). The housing allowance system, introduced in 1993, remained a 'low budget' programme (100% financed by the municipalities) and, consequently, utility and rent arrears increased during the 1990s. According to the Hungarian Household Panel survey, in 1992 11.7% of the households indicated that they had real difficulty in paying utility costs and rents. By 1997 the proportion increased to 15.4%. (HHP, 1998). The housing surveys of 1999 and 2003 indicated that 6-7% of the households were in arrears (CSO, 2004). However, other sources have estimated that an even larger proportion of households had arrears problems. Realising the significance of the social problems related to arrears, from 1997 the government began launching programmes to offer incentives to local governments to manage the arrears issue.⁸ Nevertheless, no substantial results were forthcoming and in 2003 a new housing allowance scheme was developed and an arrears management programme introduced (Hegedüs-Teller, 2004). In 2004, the management of the housing allowance programme changed, and the funding is now shared (10-90%) between local and central government and the eligibility criteria and minimum subsidy amount are now set centrally. By this time, housing allowances made up around 4.8-3.6% (decreasing) of the total social welfare benefit programmes in 1998 and 2002⁹. 2004 brought about a new rent allowance initiative, which opened up the way for the private rent-

⁸ Local governments are theoretically interested in arrears management, since normally at least part of the utility companies (mostly water and sewage treatment plants) are (co)-owned by the local governments.

⁹ Other income transfers should be taken into consideration, for example, pensions, family benefits etc.

Table 6.4 Major changes in the housing policy in Hungary, since the transition in 1989

Years	Governments	General policy	Some concrete actions
1989/90	1990-1994: Conservative	1989-1994: crisis management	Government moves out of the housing sector, privatisation of state-owned rental units to sitting tenants, privatisation of the construction and developing companies, consolidation of the collapsed loan portfolio of 'old loans', Housing Act (1993), Social Act (1993), decentralisation of housing tasks and benefits, new laws and amendments ensure the formation of housing loan products on the financial market.
1991			
1992			
1993			
1994			
1995	1994-1998: Socialist and Free Democrat	1995-2000: develop- ing new institutions	Two basic financial institutions are set up: contract sav- ings banks and mortgage banks, related legislation is passed in 1997, advance subsidies for new housing con- struction are increased, which had a short-term effect on housing output.
1996			
1997			
1998			
1999	1998-2002: Conservative		
2000			
2001		After 2000/2001: new housing programme	Introduction of new subsidies: interest rate subsidy, PIT mortgage rate deduction, mortgage bond subsidy in 2001, at the same time grant programme for social hous- ing introduced.
2002	2002 onwards: Social- ist and Free Democrat (re-elected in 2006)	supporting the middle class through housing finance subsidies, and slow start of social programmes	
2003			Radical changes: a cutback in mortgage subsidies and a halt to social housing construction, at the same time to compensate for the negative effects, the government raised the upfront subsidies in 2003/2004, a new (but not very effective) housing allowance scheme and rent allowance scheme was introduced in 2004, new mort- gage programmes were initiated for social rentals at the end of 2006, but no investments have yet been made under the scheme.
2004			
2005			
2006			

al sector to become a part of the housing policy. The government decided to launch a rent allowance programme using public private partnership (PPP) schemes for rental investment in 2004 (Hegedüs-Teller, 2005). The proposal failed because the guaranteed rent level (requested by the investors through the proposal) was unacceptably high (twice the existing market rent). At the same time the importance of the social rental sector was never questioned in government documents, but the cutback in the subsidies had a severe impact on new investments in this sector. In 2005, a new attempt was made using housing policy to influence the private rental sector and link it to social functions. A new rent allowance programme was introduced, which aimed to use the private rental sector for social housing purposes (MRI, 2006). Local governments could apply for a rent allowance for low-income families who had children and a private rental contract. The rent allowance paid by central government could be a maximum of 30% of the rent or € 25-30 per month, and local government had to contribute a minimum of the same amount as central government. The local governments could apply for 3 years' worth of rental allowances. The programme was a fiasco and only very few local governments

have put forward proposals.

To underline the importance of initiatives of this kind, it is worth highlighting the gap between the private and the public rental sector. In addition to the closed nature of the social rented sector, this can be best characterised by huge disparities between the rents in the different layers of the rental sectors. As the 2003 survey carried out by the Central Statistical Office states, renters in the public sector normally spend 7% of their household income on rent, whereas this proportion in the private sector is nearly four times as high at 27%. The nominal differences in rents illustrate this even more clearly (see Figure 6.4). Therefore it is obvious that, even with a large rent allowance (i.e. the unsuccessful rent allowance scheme, see above) for the private sector, households in serious financial hardship will not be able to afford to live in private rented accommodation.

To summarise, the major changes since 1989/1990 are indicated in Table 6.4. These institutional changes began with extensive privatisation and led to a differentiation among the tenures. At the same time the layers of the housing market form the framework for housing decisions, and therefore explain the effects that good and bad timing of housing decisions could have on a person's housing career. These are defined by the changes in the labour market and the safety net at specific times.

6.4 Housing decisions and the meaning of tenure

6.4.1 The meaning of tenure

The social meaning of tenure under the socialist housing system was developed on the basis of special legal, economic, social and cultural factors that influenced the housing system.

In the socialist system public rental was considered to be 'safe' tenure in terms of both:

- transferability (the right to swap from private ownership to public and vice versa, as well as the right to inherit tenure from relatives); and
- predictability of the rent burden (rents were typically around 5-6% of average income).

Owner-occupation and its variations (for example, ownership of a 'co-operative housing' unit) was a relatively safe form of tenure, in terms of the predictability of costs and in terms of the rights and obligations attached to it. All other forms of tenure, such as sub tenancy, private rental, hostels (for workers) and status as a family member etc. were considered to be a 'socialist' version of homelessness. The status of tied accommodation was not as clear and depend-

Housing at some of the interview locations in Budapest, Hungary.



ed on the authority to own and manage it. Tenants in tied accommodation had limited rights, but the actual effects depended on the individual cases.

The transition changed not only the structure of tenure (through privatisation, see the previous section), but also the meaning of it. Even before the transition, in other words at the end of the 1980s, there was constant pressure to increase rents in order to provide cost recovery in the sector (which would have required rental rates to be four times their actual level at the time). As our research has shown, the uncertainty created by this pressure was one of the most important factors influencing the willingness of residents to become homeowners during the process of privatisation. However, the uncertainty accompanying the transition intensified the impact of this factor and public rental became a non-preferred form of tenure, representing the 'residual' solution for households that could not buy their own homes or had no access to owner-occupation arrangements. The status (meaning) of private rental has not changed very much since the transition and the private rental sector has become less regulated (no rent-setting, lack of contractual relations etc.). In addition both the landlords and tenants reportedly feel in a vulnerable position.

The meaning of housing for residents in the first instance is that it provides a place to live, relax, feel 'at home' and be secure. However, further investigation into and reflection upon the situations in question has produced a more comprehensive description of the perception of housing. According-

ly, owner-occupation can be described in two ways: as a consumer good and as an investment good. Typically, households think of privately owned units as consumer goods which require a lot of investment. Nevertheless, in times of hardship, the role of privately owned units as investment goods gains in importance when the possibilities for solving financial problems are considered and evaluated.

The convenient setup of a unit was one of the primary needs of residents in several cases, regardless of the particular tenure type. Most interviewees felt emotionally attached to their flats; residents were mostly proud of the design and decoration of their flats, especially if they had invested their own time and skill in renovation or refurbishment.

Housing comes to be seen as an investment most often during periods of financial hardship. Difficulties in paying maintenance costs and management fees related to condominiums for flats in blocks were prevalent among low-income households. Despite the tendency to treat housing as an investment when hardships and difficulties arise, households' decisions on housing are not solely motivated by the state of their financial affairs. Although some households' economic circumstances would suggest that housing wealth ought to be used, emotional attachments and the memories of the years spent in particular dwellings lessened the investment nature of housing (the value of housing as an investment good). On the other hand, housing is clearly considered to be an investment when the housing decisions are explained. When choosing a place to live, households' and residents' considerations of the lifestyle offered by particular dwellings are combined with the aim and expectation of making a good investment. Several respondents pointed out that when choosing their current flats or thinking about the future, it was important to them to be aware of the position of their dwellings on the housing market. The possibility of losing money because of a poor housing decision is an idea common to most of the respondents and could be responsible for the note of caution expressed by interviewees regarding this matter. This caution can be attributed to the learning process related to the transition.¹¹

The respondents were asked to give a detailed picture of their housing decisions in terms of tenure choice, and they reflected on this issue, among others, when answering the questions in vignette 1 about the options of a young couple who were considering setting up house together.

The interviews demonstrated the disadvantaged position of the private

10 Our sample is biased because we have a clear over-representation of households in arrears.

11 In addition to the financial difficulties, households are also aware to some extent of legal insecurity. As a result of the learning process dating back to the initial years of the transition period, the possibility of being cheated by the housing mafia in any housing transaction has increased households' awareness of potential threats to their security.

rental sector and gave the following features of this sector as reasons for its position:

- discrimination against families with children and Roma, resulting in limited options for them in the private rental market, as well as difficulties in entering the market and in renting from generally distrustful landlords;
- financial disadvantages resulting from the fact that renting a flat on the private market is a drain on financial resources and reduces residents' ability to save for further housing expenditure and investments (rent essentially being thought of as 'payments for nothing');
- limited possibilities for creating a personalised environment and the inconvenience of having your privacy easily invaded by a landlord;
- legal insecurity deriving from the lack of contractual relationships or the attitudes of landlords, in addition to uncertainty regarding compensation and support for investment in housing.

Private rental is seen as temporary accommodation and a form of housing most appropriate for transitional periods of one's life. These include the period before starting a family or setting up a household, the period after divorce or family separation and periods of study or university attendance. It is also seen as a means to allow households to move to larger cities with better job opportunities.

The public rental sector typically shares some of the disadvantages of the private sector, particularly the financial elements, such as residents' lack of control over rents and maintenance costs. However, the public rental sector offers a higher degree of security than the private rental sector. As pointed out by some respondents, regular rental payments and fulfilment of the contractual conditions of public rental schemes result in secure tenure, meaning that a municipality (landlord) will not terminate a contract and is likely to propose extending the contract, provided that residents have met its requirements. We must point out that those respondents who remained in the public rental sector (for example, those who were not able to buy the dwellings they had lived in before the privatisation process) are typically worse off today, with financial difficulties or family problems, mostly relating to unstable relationships. However, public rental has also provided upward mobility for formerly homeless families, who would not have been able to enter the private rental sector, let alone the ownership sector. Another group which has made use of the possibilities of upward mobility offered by the public rental sector are better-off renters who cannot afford to leave the public rental market, but, as a result of their higher monthly incomes, can afford to pay higher rents and utility costs for better quality public rental property.

Owner-occupation is perceived to be the best type of tenure, as it allows for the most freedom of choice and independence, combining all of the benefits of the consumer good and the investment good, in contrast to the other

forms of tenure that are perceived solely as consumer goods. Especially when compared to private rental, owner-occupation is very different from renting and offers the important benefit of being able to accumulate your own wealth. Before the transition, public rental properties could be 'purchased' on the market, but this option no longer exists and the current marginalised and closed nature of public tenure has led to it being devalued in the eyes of most homeowners.

In contrast to public tenure, owner-occupation has become more prestigious and owning a flat is seen both as the result of a successful career and as a necessary stable starting point for young people (the other tenure types require more effort or are inaccessible to young people). The change in tenure preferences is also a result of the transition learning process. As a result the small gap between these two types of tenure before the transition has widened significantly in the past 15 years.

This gap can be illustrated by the case of a 47-year-old private tenant. When she realised that her public rental property would be returned to the municipality after the transition process and that her children would not have the chance to 'inherit' tenants' rights, she immediately began looking for ways to acquire privately owned dwellings for her children. Today all of her children have their own flats (either through purchase or life annuity schemes) where they can live independent lives:

I: "Even the lady in the neighbouring flat thought it would be the best if we bought her home from the municipality for my daughter at a low price which would also allow us to help her financially. (...) This means that all the kids have their own independent private home."

R: "Was it a financial burden at the time to buy all these flats?"

I: "No, at the time it cost around 400 to 500 thousand Forints, it was not a big sum."

R: "Did you think about whether or not you should buy these former public rental flats?"

I: "It seemed the most natural thing in the world. We didn't even consider not doing it."

6.4.2 Housing decisions

Our hypothesis, based on the qualitative interviews, is that housing decisions, at least at the stage of starting a family, are not individual but family decisions, where both the material and non-material resources of the extended family are necessary in order to have a successful start to a housing career. In addition to providing some material resources, family networks are important for transferring household management skills, which can be important in times of hardship. Of course, the family background is most influential for

those in the first stage of their housing careers (first-time buyers), but it also has an influential role when inheritance issues or economic hardships arise. The primary role of the family in establishing a household's current housing conditions has been identified in many cases as being the provision of financial resources and the development of patterns for a successful housing career. A 32-year-old woman moved into private rented accommodation in Budapest around 14 years ago. Since then she has moved several times, to her brothers' and sisters' homes and to other locations (all of her siblings live either in private or public rented property). All of her brothers and sisters were prepared to offer their homes when anyone was in need of temporary accommodation. The siblings also provide each other with financial help if needed, and help to take care of each other's children. This co-operative attitude is considered to be a pattern of primary importance in the way in which they have managed difficulties in their lives.

R: "Where did you move to in Budapest?"

I: "My sister already lived here, so first I moved to her place. (...) Then I moved to my boyfriend's place, it was a private rented flat and there were three of us living there. Then we moved to his own flat. He has always had this flat. He just lived with his friends because it was fun. Then he sold this flat and we moved to Újlipótváros (a district in Budapest). Then we broke up after 6 years."

R: "Where did you move then?"

I: "Since then I have been moving around private rented flats. There was even one flat where I only lived for 3 months."

R: "And how do you find these flats?"

I: "Actually, through friends, not through ads. (...) If you answer ads, they get to know that you are a Roma and they say that the flat has already been rented. (...) I think I've moved around 12 times during the last 6 years."

Beginning a housing (and life) career without family support means that difficulties are more likely, especially if you start a family early or have an unplanned pregnancy, get divorced, are made unemployed or have alcohol problems etc. It is not only a question of a lack of financial support, but also the inability to manage a household budget, which is largely because the necessary patterns were not in place.

Family co-operation mostly takes the form of parental help for children who are living independently. Sometimes, however, the reverse is true and children who are living independently provide support for their parents. In these cases, it is most often the poor and inadequate pension system or the parents' overspending on housing which obliges the children to set up a network to support their parents. Strong family networks enable households to use their common assets in the most appropriate way. The lack of a strong, supportive network can lead to a poor housing career. At the beginning of the housing

career of one of the public tenants (32 years old), her family network was still intact. All of her siblings were sharing their resources. With the onset of the transition, however, some of them were offered the chance to buy their own flats, while others were not. This happened during the first stage of the transition when inequalities started to increase. In the end, one of the siblings did not share her financial gains from selling off her privatised flat and this resulted in a conflict with the other family members. Since then, our interviewee has moved from one run-down public rental unit to another, with few opportunities for improving the quality of her home. Meanwhile, her sister, who is now better off, was not prepared to offer any support to her family.

In addition to the family network strategy, individuals' personal abilities also have a major influence on housing decisions. However, the roles these factors play depend on the financial opportunities of the individuals' families, namely the availability of savings, a reasonable, stable income and other assets under the control of the family, as well as on demographic pressure, for example establishing a first home, changing household structure due to a divorce, having children etc. The interviews have shown that families or households are only able to weigh up the different options and optimise the outcomes of their decisions, if they are not under demographic pressure (setting up a household, children, divorce, becoming independent), or do not have to deal with significant financial difficulties. Financial factors, such as a low income and difficulties in paying utility costs, may result in households deciding to downsize. In these cases housing is a tool with which to resolve financial problems by accessing the wealth stored in housing. However, housing decisions that result in downsizing can also reduce the stability of the household's status (for example, because of a failure to understand the problems or poor money management). A 38-year-old interviewee, who is a homeowner with high levels of debt, is currently selling off her property, with the intention of downsizing:

I: "They (the municipality) sent me the papers three years ago so that I could buy the flat. At that time I didn't think it was important, and, anyway, I couldn't afford to buy it."

R: "What was the rent at that time?"

I: "It was 5,000 and then they raised it to 15,000. Now I realise I should have bought it then. Then after a while they offered to sell it to me again."

R: "How did you manage you buy it?"

I: "I wanted to get a social grant, but they said that wasn't possible. May 2005 I bought it for 2.8 million. I have to make monthly payments of 14 thousand and something for 25 years. I've only just been able to afford the first payment. All the costs and I'm already in arrears, it's horrible. (...) It's very hard to save money, sometimes I only cook every second day (...) I can only save money on food. (...) They say the flat is worth 16.8 million."

R: "That sounds good."

I: "I've already advertised the flat, and I would be prepared to sell it for 16 or even 15 million."

R: "What will you do with the money?"

I: "I'll buy a house for 10 million somewhere outside the city, 30 or 40 km away. And then I'll start up a business, a small pub, to give my sons a secure future. The eldest is just finishing school, he had to repeat a year. The younger one wants to become an engineer, I think electronics would have been a better choice. (...) I want to move to a place where we can take the train with the girls, and my eldest son will get a driving licence and we'll buy a small, cheap car for him, and then he can take his brother to town. He would prefer to live in private rented accommodation with his friends. (...)"

R: "And who will pay the rent?"

I: "From this money we can pay for his flat for a year. Of course he'll have to find a job. We've had some big discussions about this."

Financial factors can also derive from the institutional circumstances, for example an advantageous mortgage subsidy system, such as the one currently in place in Hungary, which has encouraged some households that might not otherwise do so to enter the housing market. The fear of missing out on a profitable opportunity was clearly the reason why some of the interviewees bought their properties.

In summary, if there are no prevailing demographic or financial driving forces, the individual decisions come into play. These can be grouped according to the basic choices households have to make. As indicated above, the less demographic or financial pressure on the households, the more important these factors are.

1. Housing estate versus non-estate location – Housing estates have lower value housing with high utility costs, although the infrastructure is convenient. The fact that the properties impose a particular lifestyle and are less prestigious means that some households choose not to live on estates or feel uncomfortable when they do. This may also have the opposite effect because properties on estates typically cost less and this is one of the ways in which families with average or low incomes can enter the housing market.
2. Multi-unit building versus family unit (suburban) – The question of different lifestyles and housing quality also forms the basis for the choice between flats and single-family housing. Taking family histories and patterns into account, lifestyle differences can have a major influence on housing decisions.
3. Location choices: close to relatives – A further choice pointed out by the interviewees, which was also clear from their housing histories, was the preference for living close to relatives. We found that households tend to

make localised housing decisions and not moving far away from relatives is a key element in this. The desire to stay close to family members applies, even if all the family members live in Budapest, where public transport makes all areas of the city easily accessible. It seems that for couples starting a family, this is one of the core aspects when it comes to choosing the location for new housing.

4. Health issues – Health problems are one of the issues that might force families to make a housing decision. They may have to move house or stay in their current home so that they have easy access to medical care.
5. Trade-offs – One of the key points made by the interviewees is that housing decisions are predominantly characterised by trade-offs. Some typical factors which influence housing decisions include the preference for good quality housing versus the cost of the housing, a prestigious location versus the quality of the property, cheap housing and low maintenance costs versus limited job opportunities. The trade-offs can be a combination of the driving forces, such as demographic pressure and financial difficulties, and the above-mentioned individual factors.

To conclude, there is a variety of impacts on the housing decisions made by households. The factors can be grouped into three main categories: (1) the influence of the family network both on access to housing and on finding the best solutions, (2) demographic and financial factors, and (3) individual factors which are closely linked to the above-mentioned aspects.

In the interviews it was relatively difficult to identify any decision-making situations that would have showed the impact of housing on other decisions. In most cases, income problems were relevant for a large proportion of housing expenditure, compared with other expenditure in the household budgets. Therefore cutting back on spending on holidays, food and clothes or remaining in work for a longer period etc. in order to finance housing (mortgage payments or utility costs etc.) largely seems to be the result of a low or unstable income, and the direct link between home ownership or renting and other areas of households' lives can be largely interpreted in this way.

Conversely, the positive impact of housing or housing resources on other areas of life can be observed in some cases. Despite the fact that housing is rarely used as a resource for other expenditure, if there is a windfall gain (for example, inheritance), the property (or equity) that is acquired can be used in part for other purposes, usually travelling or refurbishing the house etc.

In addition to describing the short-term effects of housing decisions on the households' lives, most interviewees gave a long-term evaluation of their housing career. All of them were aware of the fact that there had been opportunities for good and bad decisions in their housing career, which are not easy to evaluate objectively. Moreover, it is almost impossible to predict the 'effectiveness' of the decision at the time that it is made. It must be stressed

that the respondents tended to legitimise their decisions at the time of the interview regardless of the objective effects. While discussing the impact of financial factors on their housing decisions, a common feature was that most respondents highlighted the importance of knowing how to make the most of the opportunities offered by housing schemes, including housing privatisation and mortgage subsidy programmes. Two young owners in our sample were involved in housing transactions at the times when house prices were low (1996-1999) and mortgage subsidies high. They were aware of this at the time and tried to maximise the subsidy. This allowed them to accumulate housing equity and they were able to climb the housing ladder with its help at a later date. Both of them felt it was very important to be aware of housing prices so that they could sell their properties at the best time and minimise possible losses.

The respondents were generally aware of the financial opportunities offered by current mortgage subsidy programmes, often because they have been heavily advertised. Because of changes in the state subsidies at the end of 2003, many respondents felt that these subsidies were unreliable. A key element of making a good decision at the right time is knowing when to pass up on this kind of option or being prevented from making the most of it. Some other decisions which were felt to be 'bad' or 'risky', have actually had a long-lasting effect on the respondents' housing career and indirectly on their life chances.

One of the owners in our sample (47 years old) had a very complicated housing career, in which, in his judgement, he had made several mistakes. His parents divorced and they lived in cohabitation for a long time. They then moved to a flat which was worth much less than the one they should have had.

I: "There are so many things that I would do differently now. (...) I: We lived in that flat from 1957 to 1969, and we moved when I was 11. (...) The problem was that this young communist guy was a tenant living in one of the rooms, and, of course, it was logical that he would be offered the opportunity to buy the flat. It was already possible to privatise state housing at that time, at the end of the sixties. (...) He bought it in the mid sixties, at that time for 3 thousand and 30 thousand in instalments, today it is worth about 30 million. It was a wonderful flat. (...) and of course we became illegal tenants. (...) He invented something to complain about every day. (...) I still hate him even today.

R: "And what happened then?"

I: "We were given a flat in Bimbó street (a high value area), a three-room flat, but there was an employee at the council housing department who lived in a shared flat and he mixed up the documents, so he moved to the Bimbó street flat instead of us and we went into the shared flat. (...) And then all of us tenants moved into four different flats at the end of 84. (...) It all went well, we were like a big family. But

you have to think about what could have happened if we had got that Bimbó street flat at that time.”

The interviewee has had a life annuity contract for more than 15 years and shares the house with an old lady. The contract was not drawn up properly and he has practically no legal protection either against his son (they have serious disagreements) or the old lady (she has already sued him several times). He runs a second-hand bookshop, which does not provide him with security, and his pension will be most probably small. Until the legal situation has been cleared up, he has no other resources that he can take advantage of.

There are a number of ways in which housing and housing decisions can impact households' lives. Mostly, it is the financial burden caused by a low or unstable income which has an effect on the purchase of other items, but in marginalised households it also affects food consumption. The relationship between housing and other areas becomes obvious when households have to divide their scarce resources between housing consumption and other consumer goods. Of course, mortgages and loans for consumer goods can increase the problems of financial security.

Housing and employment are in theory interrelated in a number of ways. However, the features of some other sectors (for example, the social security net and pension system) also have to be taken into account when explaining the relation between employment and housing decisions. Because our sample is urban, there were just a few examples that explicitly related to this issue, with the exception of two major circumstances. These are the risks that may have an impact on housing and, in some cases, the explanation for the initial move to Budapest.

I: “I had a job until 2000 and then I came to Budapest. I was unemployed and there were no work opportunities here. Then I saw this ad, offering a job in a medical factory as a ‘hired workforce’. The ad was placed by an employment agency.”

R: “Where did you live?”

I: “The agency provided accommodation, it was a workers hostel. We lived there for a year. Then they moved us to the agency’s own holiday resort next to the Danube in Népsziget, which was better. The workers’ hostel was just 15 minutes from the factory, the holiday home was a long way away.”

R: “What was it like living there?”

I: “First of all three of us shared a 20 square metre room. It was really crowded. We didn’t have to pay the rent, the agency deducted it from our salary. In 2000 it was about 50 to 60 thousand. They also paid for four trips home a month.”

R: “Were you able to save any money?”

I: “No, and if you compare it to other salaries in medical factories, they paid us very little. (...) The holiday resort was much better, actually the whole environment was better. But it took an hour to get to work, on two buses and the metro. The flat was

the same standard as this one. (...) We were lucky because only two of us shared one room.”

R: “And then came 2003.”

I: “Yes, I checked some ads and also listened to what other people were saying. You can find out about opportunities when you talk to people. (...) And then I moved to Sanofi. At the time I started to look for a normal rented apartment. I could have stayed in the holiday resort, but this was a better option. I have been living independently since 2003.”

I: “If I what I believe is correct, I don’t have any chance there (in his home town) of finding a job that pays a proper salary. Unless a miracle happens, there isn’t any hope of getting a well-paid job.”

The decision to remain on the job market instead of retiring and being dependent on a poor pension system is related to income problems. Those families who are in private rental accommodation seem to be more likely to be forced to stay longer on the job market and have a more flexible approach to job offers than those in the public sector or without mortgages, because the burden of the constant high expenditure on housing and the threat of losing their home as a result of income difficulties force them to stay active for as long as possible.

6.5 Security and insecurity

6.5.1 The roots of security

With the transition overall security was reduced in Hungary, which had a range of impacts on people’s lives. Growing unemployment, consumer price rises and the lowering of the real value of wages have resulted in the emergence of new strategies and a keen perception of risk factors.

In the households’ strategy, housing security and job security are closely related. Financial security in the first place is ensured by a reasonable, stable job. On the other hand, households with insecure jobs also have insecure housing. Home ownership contributes to the financial security of the households in proportion to the value of the dwelling, but only as a second option.

As a result of the transformation in the meaning of tenure, interviewees highlighted the fact that, because private rented property is barely affordable, the people living in that kind of accommodation have less financial security, because they cannot save any money. In addition to being unable to save for a rainy day, tenants feel even less secure because of the possibility of arbitrary rent increases. There is a similar risk in the public rental sector, but since most public sector landlords operate a social housing portfolio, the rises are likely to be moderate. Therefore, households in the rental sector generally feel much less secure than households in the owner-occupied sector.

Financial security apparently results from a stable job and reliable income. When investigating financial security in the owner-occupied sector, some additional elements with a direct impact on the assets or equity stored in housing increase in importance. Of course, the larger and more predictable the growth in the value of the housing is, the more secure the households feel. However, financial security in the owner-occupied sector which results from the value of the property is also dependent on the strategy of ensuring a share in the property (for example, having more than a 50% share) or, in contrast, excluding partners from ownership in the flat. The perception of financial security is also related to the respondents' previous experiences, if their housing situation has been affected by the loss of a job or the breakdown of a partnership and the resulting change in the household income.

One of the young public sector tenants in our sample has sole tenant's rights, which means that her partner does not have any influence on the housing decisions. This has further implications:

I: "Why would you buy this flat?"

R: "Only so that I have a flat that belongs to me. Look, this flat used to be like a pigsty. Renovation meant adding an 11th coat of paint to the other ten. (...) But I want to make sure that the money I spend on it will stay in my pocket. Who will reimburse me for all this renovation work?"

I: "Would you sell the flat in an emergency?"

R: "No. Never. Whatever I was offered, I wouldn't sell it."

I: "Do you want to spend the rest of your life here?"

R: "No, that's not the reason. You see, there are people who just buy and sell. (...) But if I've worked as hard on something as I have done on this flat, I start to love it. I would not sell it."

I: "May I ask whether this also has to do with your past, that you're looking for certainty and stability?"

R: "You might be right. (...) You see, we've had to make so many compromises already, when I was living with my mother (homeless provision) and in the railway carriage (homeless provision)."

I: "Getting back to the purchase: will you involve your partner in the decision?"

R: "No way. You see, if you've done all this by yourself, there's no room for your partner. (...) You're on your own. (...) And he doesn't have any plans at all. I have plans and I go through with them. (...) I'll buy the flat in my name. I've never had a partner who would have contributed anything to this flat. If he does something useful, we can talk about it. (...) I won't put at risk something that I've worked so hard for."

One particular feature of the process of increasing financial security is the use of life annuity schemes to accumulate wealth and add to the financial resources available for housing (or inheritance). On the other hand, taking out a life annuity means using the property as financial security (in our sample

there was only someone who had inherited a property). While some respondents thought that this was an effective way of accumulating wealth and increasing financial security, others pointed out the controversial nature of this type of solution (waiting for someone to die).

The households have different levels of financial resources. The marginal interviewees who are in constant financial difficulties rarely have any other resources than the property they live in. According to our observations, those who are most vulnerable to health problems or unemployment have the fewest resources, such as insurance policies or savings, since putting money aside would cause even more hardship on a monthly basis. If there is the possibility of saving some money or if the respondent has a windfall gain, it would be put in a *Bausparkasse* savings account or a very secure form of financial investment. Only a few respondents, mainly those from the older generation, have additional property assets. This is related to the former housing regime which allowed people to invest their money in other properties. Some respondents have a second home or a share in a second home. In all but one case ensuring that the financial resources were secure was all about giving the children a better start and increasing the value of the intergenerational transfer. It had little to do with increasing the respondents' own security.

According to our interpretation, the households' perception of their financial security is related to the efforts they make to save some money. The ability to set some money aside each month provides most of them with the feeling of security, although it is obvious that in the case of unexpected health problems or unemployment, these scarce resources would not be sufficient to cover a longer period. On the other hand, the property plays a role in the households' financial security to the extent that the households consider the property to be part of their asset portfolio. However, this is seldom a practical approach and is mentioned as a theoretical option. In times of hardship, using the financial resources stored in housing would probably mean downsizing. In addition the families would be likely to spend the additional money very quickly, and thus worsen their position even more.

A special case which was often discussed during our interviews is the case of life annuity schemes.¹² The respondents who take out a life annuity use their housing as a life-long financial resource. The motivation for the other party, who was (unintentionally) also represented in our sample, is the possibility of making money. This means that during the course of the life annuity scheme, which might last for decades, the beneficiary provides for the financial security of the testator. However, this method of using housing to

¹² Life annuity schemes involve an older person contracting a younger household or person to provide for his or her basic needs and to make a monthly payment, and in return the couple or person will inherit the older person's property after his or her death.

increase financial security prevents the prospective beneficiary from accessing the 'investment' at any time.

6.5.2 Use of housing resources

When discussing the meaning of housing, we pointed out that housing is viewed both as an investment and as a consumer good. It was easy to see that households typically have an ambivalent attitude towards the use of housing resources, which derives from the nature of housing as an investment. The interviewees are aware of the value of their homes in the case of owner-occupied units. However, they sometimes 'overvalue' their homes. On the other hand, they tend to be very reluctant to use their homes for consumption purposes. This is also related to the current institutional setup, as there are currently high transaction costs involved in accessing the money stored in housing (see Hegedüs & Teller, 2005). The housing histories shed light on the way in which households use the financial resources from housing. Generally the money from one house is used to buy and refurbish the next one. This strategy is the result of institutional factors (for example, taxes on the sale of property), but is also due to the fact that housing investments are considered to be safer and less risky than other types of investment. This may be because house prices had not fallen, but had only risen or stagnated up to the time of the interviews.

There were also some examples of using housing resource to start a business, which is generally considered to be risky. The reasoning behind this argument is largely related to the current economic structure. If there is no other way of accessing the necessary finance, housing resources could be used to set up a business. The transition process had taught people an expensive lesson; the risk involved in converting housing resources into business capital still seems to be high. One interviewee, whose father has learnt a 'lesson' of this kind, pointed out that his father did not consider housing and business to be different types of resources. He referred to both of them as an investment. The nature of housing as an investment is more obvious in those cases where households have second homes. Owning additional properties is clearly regarded as an investment.

Most of the interviewees thought using housing equity for housing purposes in the future was the ideal solution. Using equity for other purposes is only possible if the household decides to downsize or has a windfall (inheritance). The reasons given for downsizing were unemployment, difficulties in paying the monthly utility bills or in affording essential requirements, such as food. However, the option of 'downsizing' is a realistic way of paying off debt (and even making money available for additional consumption). Households in arrears usually underestimate the risks of moving into a less expensive home, because typically they are not aware of the fact that a lack of access to the

job market and effective safety nets, which is often the case with lower priced housing in smaller towns and villages, might cause them even more problems.

One of the findings of the institutional analysis was that the reverse mortgage schemes used in Hungary would solve the problems of the typical 'cash poor and asset rich' households. The interviewees emphasised that using housing equity as a pension supplement (see vignette 2) was, in theory, a good idea. They themselves would leave their property to their children and would only consider reducing their children's inheritance by using the money stored in their housing if their children were sufficiently well off. Another typical case is when elderly people move into smaller, less expensive homes on retirement, which they can afford even with a small pension. Since we had no interviewees who had done this, only their relatives, we were only able to explore the perception of this kind of strategy from the perspective of the next generation.

These findings strongly support the assumption that one of the crucial elements of the current housing regime is the importance of intergenerational transfers in the housing career and their role in housing decisions. The potential financial resources in housing are always weighed against the prospective inheritance for the children or grandchildren. Another common factor of intergenerational transfers is that, if the parents make a substantial contribution to the children's housing wealth, they also partially control the housing decision, whether this is the choice of location, choice of dwelling or part-ownership of the property. This means that the party making the contribution (parents) feels obliged to pass on the wealth they have accumulated and the party receiving the contribution (children) relies on the inheritance, which they can use for upward housing mobility. Most respondents did try to avoid stating this explicitly, particularly if their (grand)parents were still alive. Nevertheless, it was obvious that their inheritance had enabled them to gain a foothold on or move up the housing ladder, or to make expensive property investments. This means that the moral factor has a dual influence. On the one hand, it is seen as morally necessary to pass on your housing wealth and, on the other hand, the inherited wealth must be used effectively, in other words for upward mobility.

A lack of intergenerational transfers weakens the households' position on the housing market. It seems that if the family network is not able to provide an intergenerational transfer to allow children to start their housing career, they will struggle to leave the private (or public) rental sector and to accumulate sufficient resources of their own to take out an affordable loan.

6.5.3 Insecurity stems from four risks

As we indicated in the discussion of the changes in the meaning of tenures, the households are very aware of risks, as a result of the learning process

that is connected to the main features of the transition. The nature of risk perception is strongly related to the lack of adequate safety net arrangements. Generally, there are four types of risks which families are confronted with job insecurity, family risks (divorce etc.), health risks (accidents etc.) and housing cost risks (rent increases, rising housing costs etc.). Typically these risks are related and can reinforce one other, resulting in an unmanageable situation.

Most of the respondents feel a sense of job insecurity, even in those cases where well-educated people 'predict' their future position. There is a contradictory phenomenon in which higher status households overvalue the risk, whereas more marginal households tend to underestimate their risk and would rather rely on 'positive scenarios' of their future. A young couple living in a private rented property (both aged 33) do not think that either of them are likely to lose their jobs. Although the husband had to leave his last secure job in a hospital because of serious health problems and now works as a baker, they are very optimistic: "I can find another job in a couple of days if I lose this one." Similarly, working in the public sector can involve a certain risk. One young woman in our sample (private owners, 28 and 35 years old), who will qualify as a doctor in a few years said that it was impossible to predict the future. However, she added that her husband "works for a capitalist, and he could lose his job at any time, but I work in the public sector where there is high job security."

Family risk was an unpopular topic. The respondents who had already experienced problems in their relationships were more likely to mention the relevance of risks of this kind and all of them pointed out that it was very difficult to predict family risks. Very few respondents have ever made any arrangements (preparations) for a possible future 'family risk'. Divorces or relationship breakdowns can directly influence people's housing position, either by forcing them to move, by causing household budget problems as a result of the loss of one income or by obliging them to downsize.

According to the interviewees, the Hungarian social security system is obviously not in a position to deal with health risks. In the case of a serious health problem, the security system cannot help and, in practical terms, if there is no strong family network, households could easily lose their homes. Interestingly, the loan market has developed a specific response to this risk. New loans now come with a special life insurance policy which covers this issue.

The fourth type of risk which households are aware of is the housing cost risk. Utility costs have been rising throughout the last fifteen years and in particular affect those people who cannot control their housing consumption (for example, in houses with district heating). In this respect, some types of tenure are more exposed to this risk than others, since both public and private landlords can increase the rents, which is a further housing expenditure item outside the tenants' control. Mortgage payment increases can also affect

households, for example if interest rates rise, especially in the case of foreign currency mortgages, as some respondents pointed out.

Housing risks generally affect all types of tenure. As indicated above, the perceptions of the households can be grouped into four types of risks, which impact all the households' strategies equally and expose those living in the rental sector to even higher risks. However, those homeowners who live on the margins of society, who are practically 'abandoned' because their family network is weak or completely lacking and who have very little support from the social security system feel considerably more at risk (for example, divorced, ill and unemployed people or single mothers). In addition, those households who have already experienced job insecurity, family, health or housing cost risks have a higher risk awareness. As a result of the learning process, some households develop strategies which attempt to compensate for the poor safety net or lack of family cooperation etc. (see Section 6.6).

Objective measures of insecurity can be defined in several ways: lack of knowledge of the possible transaction costs related to housing, low job security, poor health, unstable relationships, high housing cost to income ratio and the lack of savings or safety nets. Most of the households interviewed face at least one of these types of insecurity. However, crises rarely occur. The level of perceived risks is mostly lower than would objectively be appropriate.

6.6 Safety net strategies

Perceived housing risks are related to other types of risks, such as job market risks, family risks, health risks etc. It is very rare for households to encounter housing risks separately. Therefore the households have combined strategies for managing these risks. There are some basic patterns in the way the households attempt to counteract risks. Relying on the family network in the first instance is one of the main approaches. If the family and close relatives do not have sufficient means to help one another or if the family network only plays a limited role in the households' lives (because it is lacking), the second option is to rely on individual strategies. A third approach is to make use of the opportunities provided by the safety nets.

6.6.1 Family networks

In most cases in our sample the 'family safety net' is the most important element. The family network plays a special role both at the stage when respondents are starting their own family and in times of hardship. The advantages of the collective strategy are that it maximises the potential use of the subsidies and optimises the gains and losses from housing transactions and consumption.

Nevertheless, the power of the family safety net might be limited, partly because the family's capacity in terms of financial resources and housing assets is not enough to help family members who are in major difficulty and partly because social values put constraints on financially viable solutions. The family safety net serves as a last resort, and seemingly there are families which are more open to solutions of this kind and others which are reluctant to make use of this option.

6.6.2 Individual solutions with constraints

Alongside family network solutions for counteracting risks, individual solutions seem to be the second approach that the respondents would take. Individual solutions mainly comprise savings, insurance schemes and, as some respondents pointed out, the side-effect of the wealth accumulated in housing. We observed that the significance of the individual safety net solutions is increasing, which is also related to the learning processes resulting from the transition. However, families with a lower income typically neglect this option, because this would cause an additional burden on their monthly budget. One example in our sample is a 58-year-old homeowner who remained in the public sector but had the chance to move in recent years to a more expensive and better quality property. Even in his case, insurance schemes of this kind are a major burden:

I: "Have you or your partner inherited anything from your parents or grandparents?"

R: "No, we haven't. My wife had a small holiday house when we married. Besides that, no, we don't have anything. We just have the car, but we are still paying off the loan. And I have a life insurance policy, which will mature in four years if I survive this illness (cancer). With the money we get from the policy we might be able to buy another car without needing a loan. The payments are just horrible. (...) My doctor told me that I should take things more slowly."

6.6.3 Safety net: the last resort

The third approach to counteracting housing risks is to rely on the social security safety net. Although some of the respondents have considerable difficulties in their everyday lives, they try to avoid using this solution. In some cases they were unable to find the necessary information which they would have needed to get the best possible support from social security. Applying for social assistance is considered by most of them to have a stigma attached, and they think that they should only rely on social security if they reach rock bottom.

I: "Do you have any payments that are in arrears at the moment?"

R: "Well, yes. It's just one electricity bill. But you know, school has just started and all four kids needed a lot of things. (...) And the girls' father didn't help either, he bought a school bag and that made me really anxious because this is something we really didn't need at all. (...) And I haven't paid the management fee yet, because the bill hasn't come. (...) And the payments on the loan for the flat, I've only paid the first two months, but not the rest."

I: "And what did you do then? Did you go to get some help?"

R: "I heard from a friend that the family welfare service has this debt management system. And guess what happened. The first time we went there, we found out where it was (...) and my friend came with me. And so we went there, it was at the beginning of the summer and there were a lot of gipsies sitting outside. We went on past as if we weren't going there at all."

I: "Were you afraid to go into the office?"

R: "No, but when you see all these people, you know that being poor is something to be ashamed of. (...) But in the end I was in such difficulties that I had to go."

In conclusion, there are three layers of strategies for counteracting risks. In addition to the family network, which seems to be the most reliable form of security, many respondents use individual solutions. However, these solutions are costly and may put a large financial burden on the households. The groups most exposed to risks cannot take advantage of the numerous insurance and savings programmes that would give them more security in the long run. The third strategy for counteracting risks is open to the poorest people and those with the weakest family networks and fewest resources. Social security provision focuses on the most vulnerable households. The attitude towards social security, especially those services which are linked to debts or an extremely low income level (and not to normative thresholds, such as the number of children, illness etc.), is that it comes with a major stigma attached.

The three above-mentioned planning strategies seem to interrelate to the extent that those respondents who cannot count on help from their family network are more likely to set up individual strategies or turn to the social security safety net if they are in trouble. Those people who do not have the resources to set up individual solutions are forced to turn to social security for assistance. The tools for counteracting risks come from a variety of sources. It is worth emphasising that the pattern which households tend to follow is based on their previous experiences, on structural factors and also on models which they have observed through socialisation. In addition, since the most vulnerable households can be found in the social rented sector, the reliance of households of this kind on social security is more obvious than in the case of those households which own houses or are in the private rental sector.

The main findings we can draw from the interviews are biased in this respect, since marginal households were recruited through social care cen-

tres and therefore we have some families who are already making use of the social security safety net. However, as we pointed out above, if the two first levels of safety net are not available to a household, the social security system will help them to maintain at least a minimum standard of living. Some of the interviewees have strongly criticised the social security system (for example, a homeowner aged 51 who is in arrears with payments, see the example below, and homeowners aged 54 and 47 also in arrears, see the second quotation). From others' statements we also gained the impression that relying solely on state welfare is a very inadequate strategy.

I: *"And what do you think are the roots of your difficulties?"*

R: *"I'm sure that it's the state. What kind of a state is it, if it doesn't stop you losing your home just because you're ill or unemployed?"*

I: *"Did you go straight there?"*

R: *"No, they'd asked me at least ten times. I'm not used to asking for help. I was always the one helping other people. It was very difficult to ask."*

I: *"And how much do you have to pay?"*

R: *"And that's the other thing. In the end I have to pay HUF 900 more than I used to pay. (...) I'm not paying less at all, there's my own part of the payment and then I have to pay the rest as well."*

I: *"If I've added it up right, this is around 20 thousand. Is this something you should be paying?"*

R: *"Yes. But the reason why we have these arrears is because we couldn't pay the bills. Now we have to pay even more. (...) But this is the other side of the coin."*

(...)

R: *"And this something you can't mess about with. You have to pay it. And, in addition, I have to go there every month to show that I've paid the bills."*

The Hungarian welfare system has improved over recent years. By broadening its the targets and the measures available, it has become more generous. On the other hand, it is obvious that the social benefits are very low, and do not function effectively in many cases. Sick pay, unemployment benefit and maternity pay only provide for the basic necessities and the housing allowance scheme on average only covers up to 20% of the total housing costs. For families in need, these services are important, but at the same time they do not allow them to stabilise their situation and the families are very likely to become poorer as a result.

6.7 Conclusions

The effects of the institutional changes in Hungary – among them the fact that ownership became the secure type of tenure par excellence after the

transition – have been clearly demonstrated by the results of the interviews. Moreover, some aspects that were less pronounced in previous research findings were given even more weight: the importance of family networks, the households' strategies for optimising their financial resources, counteracting risks, provision for increased security based on previous experience of bad choices and the effects of the transition. In addition, in the analysis of the interviews some structural factors came to light that illustrated the relationships between the different layers of strategies.

In conclusion, some key points can be identified in terms of factors which have an impact on the security and insecurity of home ownership and renting and the nature of the differences between the effect of the same factors on the different tenure sectors. The most important findings relating to the effects of the transition, the role of the family background and the consequences of bad decisions are explained in detail below.

Effects of the transition

The transition in Hungary has affected the housing system and the welfare system to a large extent. In addition, economic instability, the restructuring of the job market and the emergence of new housing institutions have had an influence on the households' current strategies. As a result of the move to a market economy and the change in the tenure structure, previously unknown risks have emerged and only a fragile set of security measures have been put in place by the state and the households.

The risk elements which emerged in the housing sector during the transition years resulted in a variety of responses on the part of social, institutional players and on the part of the households. It seems that the state (social housing) plays an increasingly small role in the housing and welfare systems, the safety net puts a greater and greater burden on the families and it provides help only to the neediest families (very low income households and those in a crisis situation).

The restructuring of the tenancy system in Hungary has been marked by latent differences between the tenure types, which were accompanied by different forms of adaptations at all levels. The households identified insecurity factors and tried to avoid them by strengthening their position and moving to more secure forms of tenure. The new players on the market economy transferred the cost burdens, which had previously been hidden, to the consumers and this increased the risks involved in housing. This has elicited responses from the social bodies and from politicians. As we have shown, the most important new elements of the developing housing regimes in the transition countries can be interpreted as an outcome of the adjustment strategies put in place by the different players, in which 'risks' played an important role. Housing privatisation and affordability problems (arrears and access to housing) can be reinterpreted in the context of this analytical framework.

The role of the family background in risk and security elements

Qualitative research produced evidence that the family background plays a key role in the individual housing career, both from the perspective of security and risk. This finding is particularly valuable, because quantitative research typically does not give deep insights into the nature of this problem, nor is an institutional overview capable of highlighting the importance of the family network in the context of housing.

When people are starting a family and becoming first-time owners or tenants, support from the family is crucial. Almost all the respondents who have a stable housing situation ('not marginal') received substantial family support at least in the early stages, and almost all the respondents who are in a marginal housing situation failed to receive family support. In the later stages, family support becomes less important, but the housing position of the households is very much influenced by their starting point. This fact has an important consequence for policy conclusions: the safety net and housing programmes should primarily focus on households without a supportive family background.

It is not only the potential resources of families (that is, the amount of assets they have) that are important, but their standards, behavioural rules and the capacity to co-operate as well. The efficient use of family resources depends, for example, on the co-operation of the family members, in other words how efficiently they can use their assets and how effectively they can co-ordinate their job market strategy. The capacity of the families (especially after relationship breakdowns) to handle different types of hardship depends to a large extent on this factor.

The consequences of 'bad decisions' on life chances and housing career

There are a number of background conditions which influence both housing careers and life chances. Marginalised households are typically exposed to all the risk elements, but bad decisions on housing transactions can play a very influential role. Bad decisions are defined by the structural and institutional circumstances of the housing system and in Hungary these structural factors are related to the features of the transition and the developing housing finance system and welfare state.

As we indicated during the discussion of factors that influence housing decisions, the awareness of housing as an investment, especially during the housing privatisation period, offered the possibility of increasing wealth and financial security. Households that did not take up the privatisation option (not those who were unable to buy their properties at the time) are in a considerably worse situation today. Ignorance about increasing transaction costs in a turbulent housing market produces similar results.

In addition to the failure to make the most of housing privatisation, bad investments in housing can also be regarded as poor decisions. This includes

poor positioning of housing on the market and reacting too slowly to structural changes. For example, moving to houses which were less affected by the considerable price increase at the end of the 1990s has prevented some households from accumulating housing wealth. Moreover, postponing housing decisions in recent years has had a similar outcome. Because access to the beneficial housing system was restricted at the end of 2003, households who postponed their housing transactions until after this deadline have missed out on a profitable opportunity to maximise the available housing subsidy.

However, it is important to explain that bad decisions and life chances also have a reciprocal relationship. Households without adequate information (about the housing market, financial products, subsidy schemes etc.) because of their marginal position, are more likely to make decisions that will further worsen their life chances. In addition, there is often a lower level of risk awareness among these families.

We can conclude that the rising risk awareness which is strongly related to the learning process that people have undergone in Hungary since the beginning of the 1990s has pushed households towards home ownership, a form of tenure which offers greater security than both private and public rental. Home ownership is also considered as an investment, especially since the housing market experienced a boom between 2000 and 2005, but most importantly it is an asset that can be inherited and bequeathed, and therefore plays a crucial role in intergenerational transfers. Houses can, however, also be sources of insecurity: increases in the prices of consumer goods and energy often result in dangerous payment arrears for the marginalised population groups. In the case of a job loss or an unexpected health problem, there is a significant lack of support mechanisms to protect homeowners from having to downsize. It seems that the dynamic processes of the past 10 to 15 years, in other words the emerging housing finance system, have reinforced the dominance of the home ownership sector. In contrast there has been a slow improvement in the public rental sector which has helped to make this residual sector more sustainable and to develop social services and housing allowance schemes which have a wider coverage and are better targeted than the embryonic schemes at the beginning of the 1990s.

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7 The Netherlands: Positive prospects and equity galore

Janneke Toussaint & Marja Elsinga

7.1 Introduction

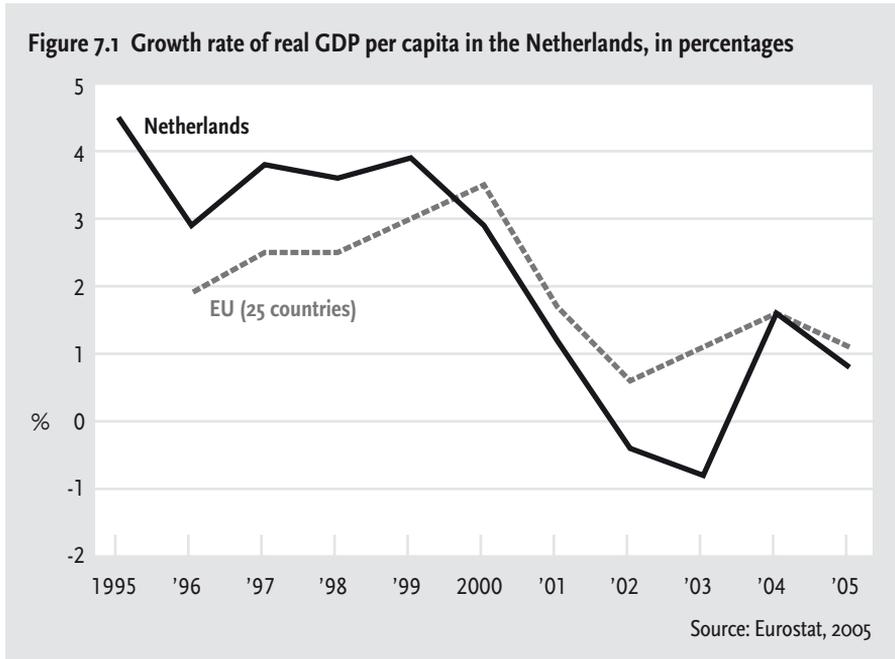
The Netherlands is a country in North Western Europe with a population of 16.3 million, living in an area of 41,526 km². With an average of 395 people per square kilometre, the Netherlands is the most densely populated country in Europe. In the last decade the population has grown by 6.4% (Eurostat, 2005), which is considerably higher than the EU average.

The Netherlands has had a centre-right coalition government in recent years. This government has continued and, in some areas, accelerated the ongoing developments in welfare policy. The overall direction involves a move from a combined corporatist and social democratic model towards a more liberal model. The challenge is to find a compromise between market incentives and the protection of vulnerable people. Recently the welfare scheme for disabled people was redesigned and the whole health care system was restructured. There is a similar trend in housing policy. There has been a shift from bricks-and-mortar subsidies towards housing allowances. Social housing associations have become financially independent and bricks-and-mortar subsidies have been abolished.

The interviews for the research in the Netherlands were held in Haarlem, a city in the west of the Netherlands near Amsterdam. It has a population of approximately 148,000, which makes it the 13th largest city in the country. One of its features is its sizeable creative class. In addition, the educational level of Haarlem residents is equal to the Dutch average. The proportion of single person households in Haarlem is relatively high at 43.3%, compared with the Dutch average of 33.9%. The working population of Haarlem has a slightly higher annual disposable income than the average Dutch citizen, at € 16,400, as against € 16,300 (in 2000). Unemployment, at 4.1%, is somewhat lower than the average in the Netherlands, which is 5.0% (in 2003).

Over half (51.2%) of the people of Haarlem own their own home, 35.3% rent in the social sector and 13.5% in the private rental sector. The figures for the Netherlands as a whole are 54.2% owner-occupied, 36.8% social rental and 9% private rental. In comparison with other urban municipalities in the Netherlands, Haarlem has a large proportion of pre-war housing (51.7%, compared with an average of 27.1% in the Netherlands). This gives the city its historic character, but also means that the dwellings are relatively small. House prices in Haarlem have risen rapidly nonetheless, and have doubled since 1997. This increase is comparable with house price developments in the Netherlands in general.

A relatively small geographical location was chosen within Haarlem: the Rozenpriel district and its surrounding area. This is a neighbourhood where



the average disposable income is slightly lower than the Haarlem average, and unemployment a little higher. It was thought that this would make marginal owner-occupiers easier to find.

7.2 The main developments in the labour market and social security

7.2.1 The labour market: economic downturn, no increase in flexibility and mobility

In 2005 the Dutch labour market had a relatively high employment rate of 73%, compared to 64% as an average of 25 EU countries, a relatively low unemployment rate and a large proportion of part-time workers (Eurostat, 2005). The 1990s were characterised by relatively good labour market performance in the Netherlands, which is usually put down to wage restraint and the increase in part-time working, two important components of the so-called 'polder model'. The climate of permanent negotiation between the government, unions and employers resulted in relatively harmonious industrial relations, increased labour flexibility, reform of the social security system, a policy of encouraging participation in the labour market and a generally effective macroeconomic policy. There were jobs in abundance and wages increased. However, since 2001 the labour market has been shrinking and the rate of unemployment rising, from 3.5% in 2001 to 6.5% in 2005. In contrast with the 1990s, economic growth in the Netherlands has lagged well behind that of the rest of Europe and the world (see Figure 7.1).

In comparison with other European countries, a large proportion of employees in the Netherlands work part-time. The majority of working women are

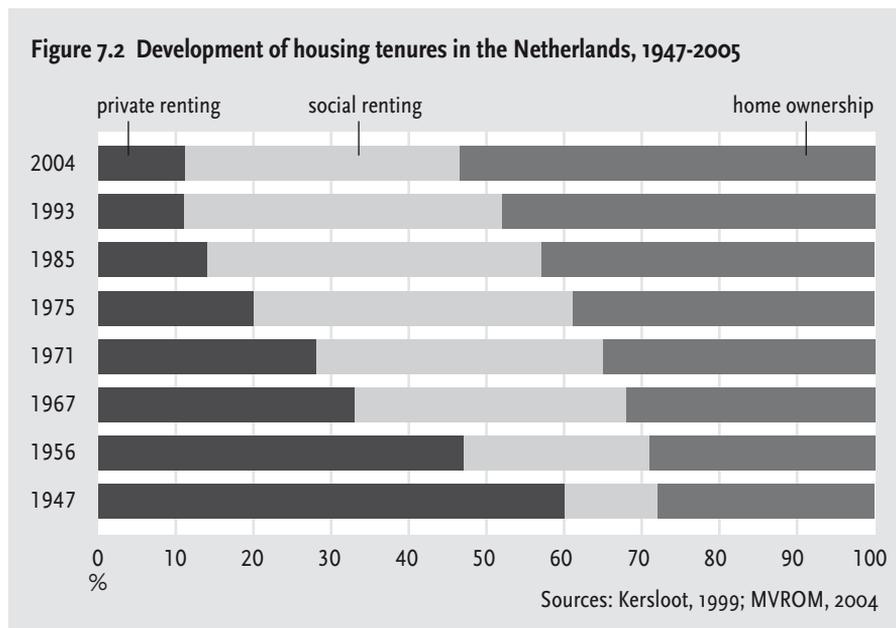
employed on a part-time basis (71% in 2003). But, as well as often being a preferred solution for women, part-time work is also being taken up by more and more men. In 2000, almost 18% of men worked fewer than 35 hours a week. By 2003 that figure had reached 20% (CBS, Statline). The proportion of fixed-term and flexible-hours employment contracts rose from 4% in 1970 to 10% in 1998, although it has since fallen again. In 2003, 7% of employment relationships were defined as 'flexible' (CBS, Statline).

Hence, there is no sign in 2005 of uncertainty in the labour market caused by flexibility and mobility. Instead it seems that employers value having a stable workforce. And employees, too, appear to prefer a permanent employment relationship (SCP, 2004). The unfavourable repercussions for pensions and careers also play a part in this. The figures from Statistics Netherlands (CBS) show that the extent to which people change jobs is not so much increasing over time as linked to the state of the economy. People are more likely to move from one job to another in prosperous periods than during a recession (SCP, 2004; CBS, Statline).

7.2.2 Social security: emphasis on returning people to the workforce and targeting

While the labour market seems to remain relatively stable, the government has taken drastic measures relating to the social security system. In 2005, government policy places more emphasis upon returning people to the workforce. By taking part in the labour process, says the government, people become more economically independent, more socially integrated and have better prospects for the future. Underlying these measures is the idea that individual citizens can, to a greater or lesser extent, exert an influence over risks, such as unemployment and illness. The assumption is that a policy directed towards returning people to work results in a falling benefits bill and therefore lower taxes, since the financial base expands. The government is encouraging older people to participate in the labour market by dismantling early retirement provision. Those previously deemed incapable of working are being re-examined under stricter medical criteria. The government is also attempting to increase the differential between net wages and benefits, in order to ensure that the social security system supports the return-to-work policy. To this end, collective benefits were frozen in 2004 (SCP, 2004). In comparison to the 1980s government support has decreased and benefits are intended for only a small group of the most unfortunate people, 'those who really need it' (targeting). In line with the international trend the system has become more selective and is only guaranteeing a minimum level of income.

These policy changes are being driven in part by a perceived urgent need to keep the budget deficit within set limits over the next few years and in part by more fundamental considerations, such as the affordability of the system in



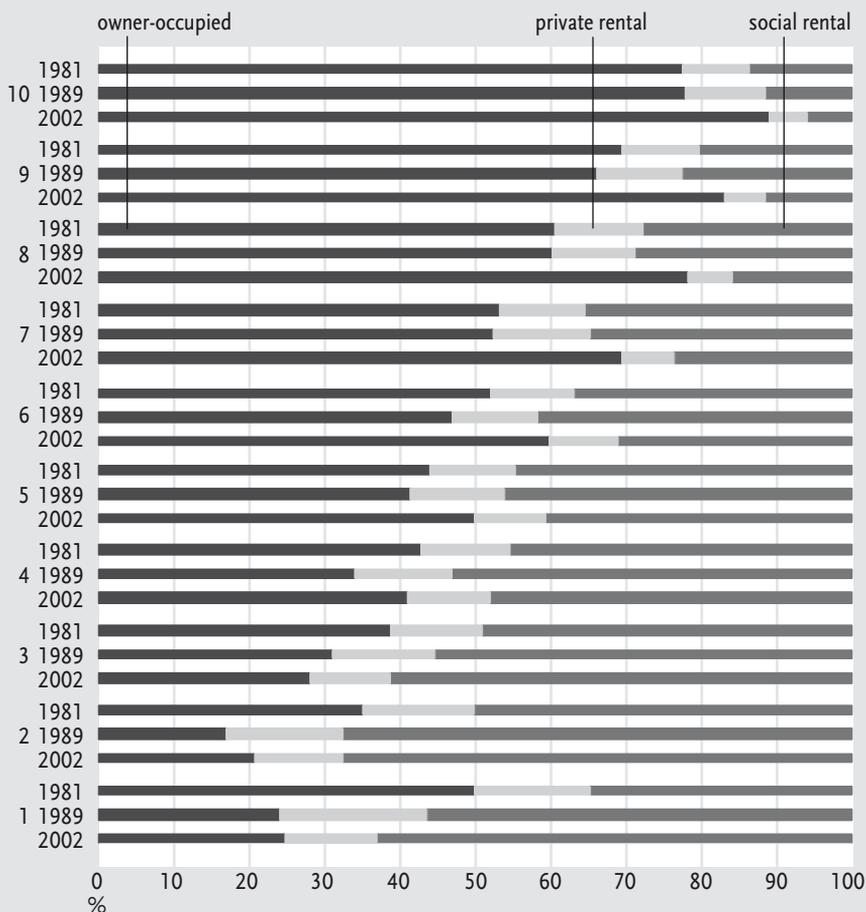
the long term and a response to the growing trend towards personal responsibility in society as a whole. Moreover, it is hoped that they will help overcome future obstacles to the social security system. The most worrying and most discussed phenomenon with an influence on social security is the ageing population. Individualisation and an increasing variety of lifestyles present a second challenge for the Dutch social security system. Another development affecting social security is the fact that the Netherlands finds itself, like other countries, in an increasingly dynamic and competitive international environment. European economic integration, in particular, is extremely important to the future of the Dutch welfare system (Caminada & Goudswaard, 2003).

7.3 The main developments in housing

7.3.1 The development of housing tenures

In 1947, the proportion of owner-occupied homes within the total housing stock was approximately 28%. Private renting was obviously the dominant form of tenure in the post-war period. In the years that followed, home ownership and social renting both grew significantly and steadily. In the mid 1980s the social rental and owner-occupied sectors were roughly equal in size. In the last two decades home ownership has become the majority tenure in the housing market as Figure 7.2 shows.

Figure 7.3 gives an overview of housing tenure by income band (10%) for the period 1981-2002. This figure shows the situation in 1981 during a crisis in the housing market, in 1989 when the market had recovered and in 2002 after more than a decade of substantial house price increases (see also Figure 7.4). Among the higher income deciles home ownership has increased considerably since 1989. Among the lower income deciles home ownership decreased

Figure 7.3 Housing tenure in the Netherlands by income deciles, 1981, 1989 and 2002

Source: Housing Demand Survey, Statistics Netherlands

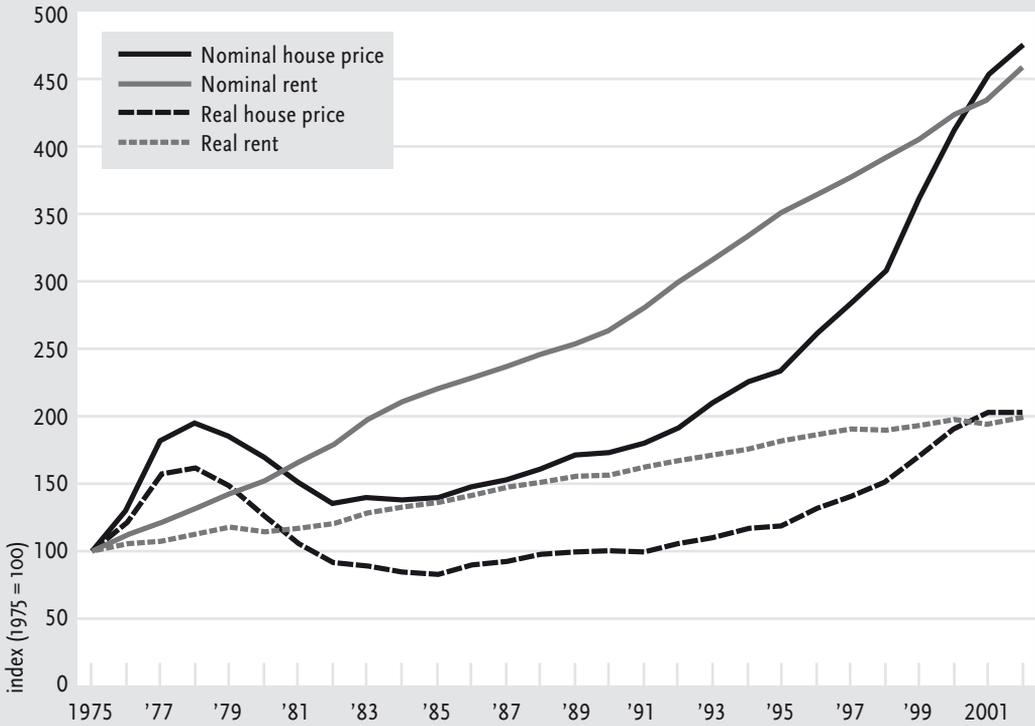
between 1981 and 1989 and increased a little after 1989. This figure also shows that the social rental sector lost the higher income groups during recent decades, while the share of lower income groups increased.

All tenants enjoy tenure protection. Contracts for rental dwellings in the Netherlands are normally permanent. The landlord can only terminate the contract for a limited number of reasons as described in the Dutch Civil Code. Not only the contracts but also the rents of 95% of the rental dwellings are regulated. This regulation specifies a maximum rent for each dwelling as well as a maximum annual rent increase. The entire experience of renting results in feelings of security among tenants (Elsinga, 1998).

7.3.2 The development of house prices, rent and mortgages

After a serious collapse at the beginning of the 1980s, house prices in the Netherlands increased and during the late 1990s prices more or less explod-

Figure 7.4 Nominal and real house price and rent development in the Netherlands, 1975-2002, index: 1975=100



Source: Ministry of Housing, Spatial Planning and the Environment, 2004

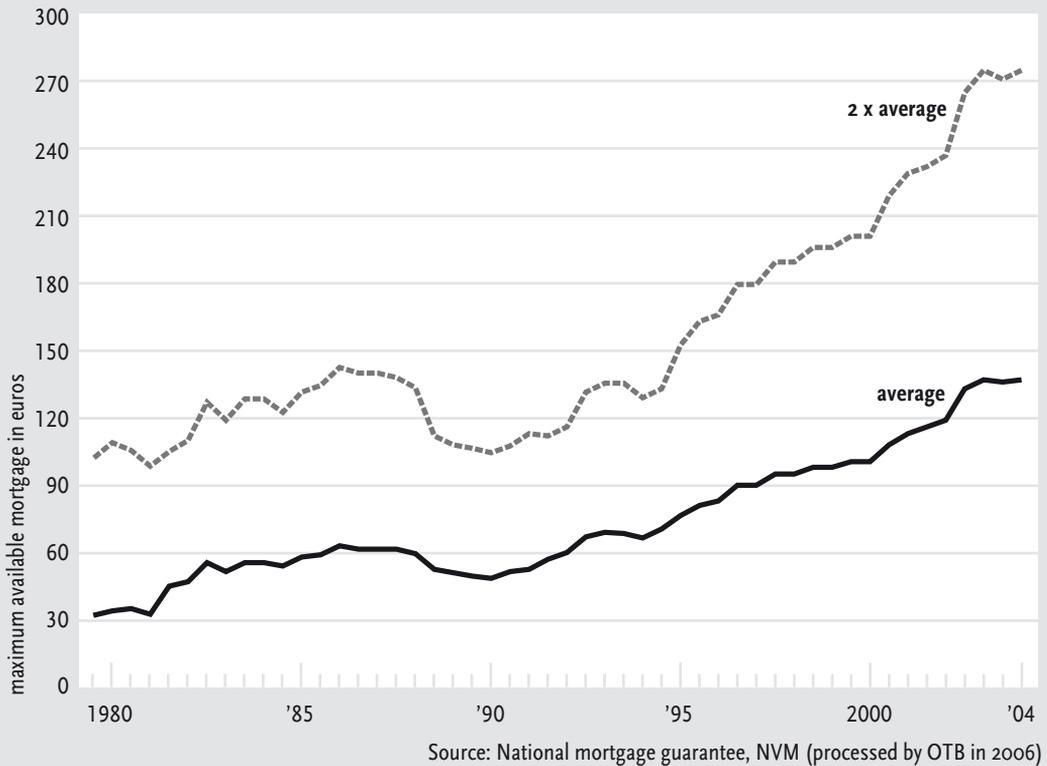
ed. Over this period of more than twenty years there were no serious falls in house prices and repossessions were very rare (Boelhouwer & Neuteboom, 2003). However, there was a major collapse at the start of the 1980s during the serious economic recession, as is shown in Figure 7.4.

Since the 1970s rents have increased more steadily. Until recently the relative increase in rents was quite high compared to house prices. This can be explained by the government policy of allowing relatively high rent increases in order to phase out subsidised rents. The two lines representing the real house price and the real rent, show that the prices in the home ownership and in the rental sector doubled over a period of 27 years. This enormous increase made access to home ownership more difficult.

A number of studies showed that homeowners have benefited from house price increases in recent decades (Boelhouwer 2002, Elsinga, 1996). For lower income groups, renting appears to be the better choice, because for them the income tax advantages of home ownership are smaller and, in addition, housing allowance is available in the rental sector (Elsinga & Conijn, 2001).

The affordability of home ownership is highly influenced by the opportunities and criteria that are used in the mortgage market. The development of mortgage systems was closely linked to the 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 forms was developed

Figure 7.5 Maximum available mortgage for average and double average incomes in the Netherlands, 1980-2004



that took maximum advantage of the tax opportunities¹. In addition to the unique supply of housing mortgages in the Netherlands that exploit the fiscal opportunities made available by the government, the calculation of the maximum financing limits is also particularly high in international terms (Neuteboom, 2002).

On balance, the maximum borrowing capacity of an average household has risen sharply. Figure 7.5 shows the development of the maximum available mortgage for average (€ 27,500 in 2004) and double average incomes. The calculations assume a financing burden of 35% (of the gross income), which is reasonably similar to the standards actually applied 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, an average household could finance the purchase of an average house. As a result of high house price increases and despite low interest rates, it became more and more difficult to buy this average house, as Figure 7.5 shows. For households with higher incomes the situation is somewhat better. And people with average incomes on the transfer market, who have property to sell, are in most cases able to buy at least

¹ On average, homeowners can deduct their interest payments at 35% (maximum 52%).

an average house. First-time buyers are rarely able to buy an average house (€ 260,000 in 2005). Therefore the accessibility of home ownership has recently moved back onto the political agenda.

7.3.3 Developments in housing policy

The government is involved in the affordability of housing both for homeowners and tenants. Although the policy is presented as increasing freedom of choice and the independence of the consumer, the Minister of Housing has the clear intention of promoting home ownership. One of the most important measures for stimulating home ownership is fiscal policy.

The owner-occupied dwelling is considered to be an investment good for income tax purposes, which implies that interest on the mortgage is deductible and imputed rent should be added to the taxable income. In 2001, for the first time in many years, there was a substantial change in the income tax policy relating to home ownership. Mortgage tax relief was limited to a period of thirty years. Another relevant change was the restriction of the reduction in mortgage interest for second mortgages for other purposes than investment in the house. In general the taxation instruments can be considered the most important means of encouraging home ownership. This fiscal treatment of owner-occupied dwellings is simultaneously a subject of political discussion and a taboo.

Further, the mortgage guarantee, which was launched in 1956, still plays an important role in providing access to home ownership for lower income groups. This guarantee was 'privatised' in 1995 and is now provided by the Home Ownership Fund. This fund is a financially independent foundation that offers guarantees at a price that is intended to cover costs. Central and local government will act as backstop if the fund gets into financial trouble. This guarantee enables people who meet the criteria to obtain a mortgage to cover all the costs of acquiring a dwelling and therefore improves access to home ownership (see also Section 7.3.2).

To encourage the sale of rental sector units and home ownership among low income groups, the Encouragement of Home Ownership Act (*Wet bevordering eigen woningbezit*; BEW) was introduced in 2001. This act provided for an income-related subsidy, payable to all lower income households (not only tenants), subject to a ceiling on both the purchase price of the property and the loan taken out. Until now only a few hundred households have succeeded in acquiring this subsidy.

In 1995 an important change took place in the Dutch social rental sector: the grossing and balancing operation. This operation involved cancelling all government loans against the current subsidy obligations. Although housing associations became completely independent in financial terms after this step, they still require approval under the terms of the Housing Act. The tasks

Table 7.1 Policy instruments for housing-related benefits for owner-occupied and rental housing in the Netherlands

	Explanation	Government expenditure
Income tax	Imputed rent is taxed (% of house price) Mortgage interest is deductible at a marginal tax rate	1.5 billion euros income 9 billion euros expenditure
Mortgage guarantee	Guarantee to the lender which enables high loan-to-income ratios and a reduction in the interest rate	(The government is the backstop for the privatised fund)
Housing allowance for homeowners (BEW)	Income-dependent subsidy for homeowners	1.4 million euros (claimed budget)
Housing allowance for tenants	Income-dependent subsidy for tenants	1.6 billion euros (claimed budget)
Rent regulation	Limits rents and rent increases for social housing associations and private landlords	–
Tenure protection	The Civil Code specifies the conditions	–

Source: Ministry of Housing, Spatial Planning and the Environment, 2004; Ministry of Finance, 2005

and other operating conditions of the housing corporations are laid down in a separate government order drawn up pursuant to the Housing Act. The Social Rental Sector Management Order (Dutch abbreviation: BBSH) stipulates that approved housing corporations have the task of providing good, affordable housing for those who are unable to pay market rates and of ensuring that the neighbourhoods are liveable places. In exchange for this the corporations are granted tax benefits, can buy council land at reduced rates for the purposes of building public housing and can have their loans guaranteed by the Social Housing Guarantee Fund (WSW). The WSW is a private body that guarantees associations' loans. The government provides a safety net if too many claims are made on the WSW.

There are no more supply subsidies available for housing associations. Central government's involvement in the affordability of housing consists of the housing allowance and rent regulation. The housing allowance for tenants is considered to be a key instrument in housing policy, according to the recent policy document. This income dependent subsidy is available for tenants in the social as well as the private rental sector. Around one million households receive this housing allowance of on average € 130 per month (MVRM, 2004).

The government is also involved in the rental sector through the rent regulation policy (see Table 7.1). Social rental and private rental dwellings up to a monthly rent of € 570 are subject to rent regulation. This regulation implies a maximum rent for each dwelling and a maximum annual rent rise. Only 5% of the rental stock is exempt from rent regulation. Because of this regulation and the social rent policy of housing associations, rents in the social rental sector are below the market level. In 2004 and 2005 this rent regulation policy was the subject of political debate. The Minister of Housing, Spatial Planning and the Environment introduced a new rent policy in 2004. The aim of this policy was to increase the non-regulated part of the rental market from 5 to 25% and to further relax the regulation in the regulated part of the market (MVRM, 2004). This rent policy is part of the broader aim of the Minister of

Housing, inspired by EU policy, to deregulate the housing market and reduce the size of the social rental sector.

7.4 Housing decisions and the meaning of tenure

7.4.1 The meaning of tenure

In general, the homeowners and tenants interviewed give the same meaning to a dwelling: a home, safety and a place where you can be yourself. Nevertheless, the forms of tenure do have a different meaning. In the current context a preference for home ownership is discernible among both tenants and owner-occupiers. There seems to be a widely held belief that it is better to buy a house if you can afford it. The main reasons are the financial benefits and the wider choice. When questioned about the financial aspects, the interviewees say that when you rent, your money just flows away, but when you buy, it comes back to you and you can build up capital. For most of the interviewees owner-occupancy also means the freedom to adapt their home to their own taste. Some feel proud that they have bought a home. Others say that they attach no special importance to being an owner-occupier. If the choice in the rented sector was as great as in the owner-occupied sector and the expense was the same, they would be just as happy to rent.

Some tenants have a clear preference for owner-occupancy; in particular those who have owned their own home in the past. Tenants see the advantage of being independent of the landlord and of really having something for themselves. They watch the value of properties increase and feel that they have missed the boat. Younger tenants often have the prospect of buying a home in the future when, for example, their income increases. Others prefer to buy if they are setting up a home with a partner. However, another tenant explains that she felt that renting was the obvious thing to do and never really thought about it. This interviewee feels that the importance of home ownership is greatly exaggerated in the Netherlands. She says that more and more people are getting into financial difficulties because of the increasing number of mortgages. She would not consider owner-occupancy because she is happy with her present situation.

If you have to rent, then it is best to do so in the social sector. Therefore, many people hope to find a long-term home in the social rented sector. The tenants indicate that for them renting means no maintenance and therefore security.

“Suppose you’ve bought a house and discover rot somewhere, it can cost you thousands. In that sense I feel safe, financially as well” (tenant, female, 32 years old).



Housing at some of the interview locations in the Rozenprieel neighbourhood in Haarlem, the Netherlands.



Interestingly, most of the owner-occupiers specifically stress another positive characteristic of renting: the freedom to move around. A rented home means mobility. When asked about the downside, most of the owner-occupiers and some of the tenants mention ‘money down the drain’ and dependence on a landlord.

Several interviewees, both tenants and owner-occupiers, quote rent increases as an argument against tenancy. Some specifically mention the Minister’s plans to deregulate part of the rental market (see Section 7.3.3). Another group of tenants puts this threat into perspective, saying that they are legally protected and that rents can only be raised within certain limits. They are confident that the rents would still be affordable. Many regard the social rented sector as one that offers people with lower incomes ‘more house for less money’. A single mother says she has considered buying, but is not happy about the properties she can afford.

Table 7.2 Overview of the meaning of different types of housing tenure in the Netherlands

Home ownership	Social renting	Private renting
Build up equity by repaying mortgage	No maintenance means security	Quickly find a place to live
Wider choice	Freedom/mobility/flexibility	Expensive
Freedom to adapt the house	Money down the drain	For young people starting to live independently
No special meaning	Dependent on landlord	Conflicts with landlords
Independent	Uncertainty about the level of future rents	Unpleasant dwellings
Profit from rising house prices	More house for less money	Antisocial neighbourhoods
Connected with relationships and family life	Anti-social neighbourhoods	Stop-gap solution
The inconvenience of debt	Little choice	Freedom and flexibility
	Waiting lists	

Stories about antisocial neighbourhoods with social rented housing dominate the responses of the owner-occupiers in particular. Despite such objections, some owner-occupiers say that, given the chance, they would like to live in a social rented dwelling. Among them are single women living with or without children. They appreciate the freedom enjoyed by tenants and the fact that the maintenance costs are paid by the housing association. And they prefer not to have the inconvenience and obligations of a mortgage. Some are not eligible for social rented housing because they are not economically or socially tied to the city. If they had been eligible, they would have been confronted with the fact that there is very little choice in the rental sector. Interviewees point at the long waiting list for rented property; it takes, on average, 7 or 8 years to get a dwelling in Haarlem, most of which are in less attractive neighbourhoods.

The private rented sector is regarded as a sector where you can quickly find a place to live, as opposed to the social rented sector with its long waiting lists. The interviewees indicate that it is expensive compared with social rented housing. Their experience of the private rented sector stems mainly from the time when they started living independently. The relationship with the landlord is not always plain sailing. Conflicts with landlords, unpleasant dwellings and antisocial neighbourhoods are mentioned time and again.

In the private rented sector people move house more often, not just because the accommodation can be run-down or because people have to leave, but also because the composition of the household is more subject to change when people are young and are still studying or looking for work. A home in the private rented sector is therefore just a stop-gap for the majority of interviewees. It gives them the freedom and flexibility that they need in their lives at the time. Some of the women interviewed also found accommodation quickly in the private rented sector after a divorce.

Table 7.2 contains an overview of the meaning of different types of housing tenure.

7.4.2 Housing decisions, work and income

Work and relationships appeared to be the main impacts on the housing decisions of the Dutch interviewees. Before we turn to work and hous-

ing, being the focus of our research, we first briefly reflect on relationships and some other influencing factors. Important factors include the structure of the household, in particular whether the respondent is in a relationship or starting a family. The decision to live together can prompt couples to take the step from renting to buying a home, for some the purchase of a home belongs in the nest-building, starting-a-family phase. Breaking off a relationship forced some interviewees to find alternative housing; some who already owned a house jointly could buy a home again afterwards, while others rented. Furthermore, after a baby is born moving house is often motivated by the need for more space, more rooms or a garden. Conversely, when their children left the home, some moved to a smaller dwelling. The proximity of family or friends influenced interviewees who want to live near their family or the place where they grew up. Finally, health impacted on housing decisions of an interviewee with serious back problems; she moved from a top-floor to a ground floor flat.

The question whether housing was impacting upon their lives was a difficult one; housing in itself does not have a deep influence on household's lives. Again work and income appeared to be relatively important, and will be discussed extensively below; further, a low rent enabled a young woman to travel more often; a young man said his rental dwelling provided him the peace and quiet he needs to develop further in his profession.

Now we will turn to the relationship between work and housing decisions. In general terms, work and income have a major impact on housing and housing also has an effect on work or income. For our purposes we will focus on the choice of a certain type of tenure and the decision to move to another location. With regard to the work situation we will take the stability of the income and location into account. Income was mentioned from different perspectives: the level of the income, the security of the income, for example a permanent contract, full or part-time work and finally in connection with retirement and pensions.

The impact of work on housing

In the Netherlands the impact of income on the type of tenure appeared to be self-evident. A number of homeowners say that financial setbacks could prompt them to rent a dwelling. Interviewees mention unemployment or a fall in their capital as a reason for moving to rented housing. Almost all tenants say that they are living in rented housing because they could not obtain a mortgage. However, some tenants were able to get a mortgage and yet made the choice to rent. The social rented sector gives them an affordable and relatively good quality house. People in the higher income group buy property and have a wider choice. People in the lower income group rent property. In addition to the level of income, job stability (having a job with a permanent contract) is an important factor in the decision to rent or buy.

Not only a stable income, but also the stability of the job location is important when deciding whether to rent or to buy. One female tenant deliberately moves between jobs and has the freedom to give up her home whenever she chooses and move elsewhere. She feels that this pattern of work and housing is more suited to rented accommodation.

Although all the homeowners found job location stability and a certain level of income important when buying a house, some seem to see things differently for new entrants to the housing market. When house prices are increasing, many interviewees think that the sooner you buy the better. This emerges from the advice in response to vignette 1, which describes the situation of a young man and woman who together want to get a foot on the property ladder. She has a steady job with the council and his work is less secure; the question is whether they should buy or rent.

Interestingly, many owner-occupiers do not see job insecurity as a reason not to buy a house. Many of them have never found themselves in financial difficulties or else they have managed to cope with money problems without too many ill effects. In general, tenants are more cautious and feel that more security is needed before embarking on home ownership. They feel that the young man in the vignette should find a permanent job before buying a house.

“Speaking for myself and looking at my children, I think that if you don’t have that much money, it’s better to rent. ... I wouldn’t advise them to buy. Why? Because, it’s such a rigmarole. They’re better off without it. And when you buy you are so settled, you’re tied, financially and to the relationship. It’s great to want to be together, but it’s all so uncertain these days” (renter, female, 61 years old).

Further, owner-occupiers and tenants agree that work location has an influence on housing decisions. An owner-occupier explains that if his job is in another part of the country, his family will move house. A number of female respondents have followed their (ex-)husband’s job and some had moved around a lot. Others mainly moved house for work reasons at the start of their professional career. After their children were born, they tried to find work closer to home.

The impact of housing on work and income

Many respondents disagree that housing influences the choice of full or part-time work. They rejected the idea that they work more hours to pay for their house. However, one woman (homeowner, 47) explains that she would like to work more to reduce the size of her mortgage. After her divorce, she bought out her husband and is now paying the mortgage herself. She is also partially disabled and has to live frugally in order to make ends meet. Two other single women also say that they want to keep their steady jobs.

“I know that I can’t possibly earn any less. Sometimes I look around for another job. But suppose my income fell sharply, then it would be difficult to stay here. What choice do I have? There isn’t anything cheaper. I would have to live in a smaller flat. That wouldn’t be as nice as living here. Yes, my options are limited. I need a permanent income” (tenant, female, 39 years old).

In contrast to the pressing need to work more or the dependence on a steady job, for some respondents housing provides opportunities. A renting couple explains that the security of their rental dwelling was a crucial basis when they started their own business – if they had been owners, they would have been scared of losing the house if the business failed. For two men, owning their own house means that they can stop working. Both have an income from their very large houses, which were partly inherited. They let apartments on the top floor. The respondents from another household can work fewer hours as a result of the sale of a previous house.

Housing also seems to have an effect on income considerations for people who have retired. Many people find it self-evident that older owner-occupiers have relatively low housing expenses and do not have to worry about their house.

Some respondents mention that their owner-occupied dwelling has an influence on their pension. One man has already retired and is living off the rent he receives for two apartments. He sees his home as his provision for his old age. One couple sees their home as a supplement to their future pension. Because they work as freelancers, their pension capital is not as large as they would have liked and they see the house as a solution:

“Yes, if you don’t have that money put aside for a rainy day, you need to top up your pension. I know that I need to bridge a two-year gap... yes and I also... and that could play a role, so that is certainly a factor, yes” (homeowner, couple, 39 and 40 years old).

7.4.3 Home ownership: a source of wealth?

The Dutch say that their homes have turned out to be a good investment. This perception of the home as an investment appears to stem from the unexpected increase in house prices during the 1990s and the possibility of cashing in the surplus value. The equity in the homes has been used in different ways. The most obvious way for the interviewees to access the capital in their homes was to sell them, with the profit being used to buy another house. The interviewees described this as a property career. The gains were also used to help their children buy a house, or as an extra source of income.

After the rapid price increases in the 1990s, many people used the surplus value of their homes to take on another mortgage or to renegotiate their

present one. Interest on mortgage loans used to be tax deductible for consumer purchases, and some interviewees used the money they borrowed to buy things like a camera, a car or a caravan, while others invested the money or put it into a pension fund. In some cases, the money was used to buy out a partner in the wake of a divorce or to start up a business. The law on income tax changed, however, and from 2001 the interest was only tax deductible if the money was actually re-invested in the home itself. From then on, interviewees used the surplus value only for home improvements.

“It seemed that the value of the house had risen so much, and at that time we really wanted a new kitchen, a new bathroom, a shed and a fence. We thought that if we used the savings we already had, and also saved a bit more, it would take too long, so as we just wanted to get on with it, and the money was available to borrow, that’s what we did” (homeowner, male, 49 years old).

Some interviewees consider it unwise to cash in the surplus value – they think that people are just saddling themselves with more debt. They do not wish to take out an extra mortgage on the equity of their house. It is worth noting that many interviewees see their home and the equity in their home as a fund for emergencies. Generally, they do not want to use their home for financing items like health care, leisure activities, starting a business, working less or for buying a second home.

Another possibility the Dutch interviewees mention is renting out part of the house. For some this is a preferable way of generating income in emergencies. One woman mentions renting as a possibility if her husband were to die and leave her unable to cope financially. Some interviewees already rent out their homes and, for them, the rent forms a substantial portion of their monthly income. They expect to continue doing this in the future.

7.5 Security and insecurity

The Dutch interviewees, both renters and homeowners, said they feel secure about their housing situation. They find it hard to imagine circumstances that would force them out of their homes. Some interviewees believe that only disasters, such as war, a general economic crisis or flooding, could have a negative effect on their housing situation. Nevertheless, certainties and uncertainties concerning income, expenses and, for homeowners, equity are mentioned after some prompting. The interview findings clearly show that security and insecurity are closely related to the level of income. The interviewees were primarily concerned with their ability to pay their monthly expenses.

7.5.1 Security of home ownership and renting

When asked, some owner-occupiers say that their home provides them with security and that they regard their position as an owner-occupier as an advantageous one. The dwelling is viewed as a nest egg, as money in reserve. If the need arises, the owner is able to sell the property and move into rented accommodation.

“Now I have a safety net if the going gets tough. In that case I could sell this house, rent something for next to nothing and get by. Of course, the fact that it has now paid for itself 10 times over is very relevant. I have made a fortune on this house. It’s now worth half a million guilders” (homeowner, female, 42 years old).

In addition to equity, an owner-occupied dwelling offers interviewees another way of obtaining money, namely let out part of their houses to increase their income. Others considered it as an option if their financial situation were to deteriorate, for example, if a partner died.

Furthermore, owner-occupiers also mention the security of their monthly expenses. Interviewees often refer to the tenants’ insecurity regarding future rent increases (see Section 7.3.3). As time passed, the incomes of the interviewees tended to rise and the mortgage expenses remained more or less the same, since many of the interviewees opted for fixed-interest periods. The idea that they will have paid off the mortgage by the time they are old also adds to their feeling of financial security.

The value of all the interviewees’ homes increased. In the end, the houses were worth more than the loans that the owners took out. All the interviewees refer to the enormous house price increases in the 1990s. However, many note that, in the short term, the only effect of the rise in value is that they have to pay more tax. As long as they do not move house, the surplus value means nothing to them. Nevertheless, many mention it as a pleasant surprise. The interviewees do not expect house prices to rise in future as much as they did in the 1990s. In general, their answers indicate that they expect prices to stabilise, and in the long term to increase.

Renting also provides financial security. If tenants suffer a drop in income, they cannot be thrown out onto the street, because there is always the possibility of the housing allowance. A decrease in income is compensated for by an increase in the housing allowance (see Section 7.3.3).

“Yes, of course you have a certain feeling of security, because, how shall I put it, look, you have a mortgage on your own home and you can no longer pay your expenses, so you are kicked out. All right, the same thing can happen in a rented house, too. Except that if you are unable to pay the rent, you still have the housing allowance to fall back on. Yes, there’s always a way out” (tenant, male, 64 years old).

Table 7.3 Security of renting and home ownership mentioned in the interviews in the Netherlands

	Homeowners	Tenants
Income	Equity – nest egg for emergencies Letting out part of the house	Housing allowance Tenant protection/security of tenure
Expenses	Stable or falling mortgage expenses Low or no expenses in old age	Rent regulation No maintenance
Equity	Price increases in the late 1990s	

Others refer to the option that a social housing association might provide a cheaper dwelling in the case of financial problems. Security of tenure in the Netherlands makes tenants feel sure of a roof over their heads (see Section 7.3.3). A young couple have decided to take the plunge and start their own business, because they rented their home. They say that a home of their own could have been put at risk if the business ran into difficulties. Both in the social and private rented sector, rent regulation guarantees affordability and therefore security in relation to expenses. In addition, tenant protection provides Dutch tenants with the security of a rented roof over their heads for as long as they want. Moreover, the interviewees state that they will not be faced with unforeseen expenses, because the housing associations are responsible for maintenance.

Table 7.3 sums up the securities of renting and home ownership mentioned in the interviews.

7.5.2 Income insecurity and risks

Interviewees were asked what risks might affect their housing situation. It was striking that people were initially unsure as to how to answer this question. Their circumstances are generally secure and they are not used to the idea that events may arise that force them to leave their homes. Only after some careful thought did the interviewees come up with different scenarios, but even here they were in many cases able to put them into some sort of perspective by imagining solutions. The cause for worry most often mentioned by tenants and owners alike is health. Poor health could mean no longer being able to work and therefore meet your monthly financial obligations. This answer represents to some extent the media attention to policy changes with regard to people incapable of working at the time of the interviews (see Section 7.2.2).

Unemployment was also mentioned as a factor, but again, it was played down. It was pointed out that it is often possible to take redundancy with favourable conditions, and that the unemployment benefit of 70% of your previous salary is often enough to be able to pay the mortgage or rent.

“I don’t look at unemployment as a risk. No, I have a secure job with a solid Collective Labour Agreement and that kind of thing, but I also have the idea that as long as I stay healthy, I can afford to earn a bit less without affecting my ability to pay the mortgage” (homeowner, female, 49 years old)

Moreover, most interviewees count on being able to find another job in a short period of time.

Another uncertainty related to the monthly housing expenses touched upon by home owning interviewees was government policy (see Section 7.3.3). A change in the tax system relating to home ownership and therefore a restriction on tax relief was mentioned as a serious threat. This is not surprising, as the costs of running a house would increase, while there is a chance that house prices would fall as a result of a change of this kind.

For tenants too, government policy is mentioned as a source of uncertainty, with the relevant minister giving landlords more scope for rent increases (see Section 7.3.3). It remains to be seen to what extent social housing associations will use these powers. Opinions are divided on this issue.

Tenants' uncertainties are limited to their income and expenses, whereas homeowners also have to deal with a debt. One tenant sees owning a home with a mortgage in itself as an uncertain situation. If you can't pay it, you're in trouble. She has an aversion to borrowing and explains that if you save, you earn interest, but if you borrow, you have to pay it. Her conclusion is that it is better not to borrow money because if you do, you are totally dependent on the bank, while having to pay back more money than you borrowed in the first place.

The way in which house prices are increasing also has an influence on some homeowners' feelings of insecurity. For example, it was a source of tension for a married couple who had extended their mortgage in order to rebuild their house as they wanted it. The mortgage is now the same as the value of the house. In response to the question of what the rise in house prices means, the woman said that it was a big relief. Some interviewees reveal that buying is a stressful business, in particular at the beginning, because they had concerns about being able to pay the mortgage and about how the value of the house would change in relation to the loan.

Some homeowners who were in an unfavourable financial situation say that a home of their own, despite rising values, does not necessarily constitute security as far as they are concerned. One of them has lost his job. Half his income goes towards paying the mortgage. This owner-occupier is proud of the fact that, in spite of being unemployed, he can afford his own home. He says he can manage financially, although he is afraid that he will not be able to look after his house properly and that it may fall into serious disrepair. When he can no longer cope with the financial demands, he confesses to not opening his bills.

A degree of financial uncertainty can also be detected in another household. Following her divorce, a woman wanted to remain in the house with her two children. In order to be able to do this, she wanted to use the surplus value of the house to buy out her ex-husband. At first, no mortgage lender was willing to lend her the money. In the end this woman arranged an interest-only mortgage. When the children are older, she was planning on working

Table 7.4 Insecurity for tenants and homeowners mentioned in the interviews in the Netherlands

	Homeowners	Tenants
Income	Health problems Unemployment (downplayed)	Health problems Unemployment (downplayed)
Expenses	Tax policy change Maintenance	Policy change: liberalisation of rents
Equity	Having a debt House price developments Dwelling falling into disrepair	

more in order to pay off the mortgage. However, she now will not be able to as she is ill and partially disabled. The costs of the mortgage are high in relation to her income – it accounts for almost half of what she earns. Nevertheless, this woman is sure to have considerable excess equity in her home. This helps her feel that she has a breathing space. If she sells up and starts renting, that will release some capital.

Table 7.4 sums up the insecurities for tenants and homeowners mentioned in the interviews.

7.5.3 Insecure homeowners?

Some unemployed homeowners, who were selected because they were thought to be marginal, appeared to feel secure. The relatively high level of Dutch social and employers' benefits for unemployment and disability appears to play a role here.

“I am unemployed, which could be a risk. If I, even if I ... in the end I get 70% of my most recent salary, and I am able to pay for anything I want. I can't spend as much on my hobby or all sorts of other things [...] So even if you are unemployed, you still have enough income to be able to pay the mortgage” (homeowner, male, 57 years old).

In addition, some uncertainties that have a reasonable chance of occurring have not entered the interviewees' minds. From a study of the Home Ownership Guarantee Fund (WEW), it appears that most repossessions related to negative equity are characterised by high loan-to-value ratios and a relatively large mortgage which is part interest-only (Elsinga & Dol, 2002). Therefore, it is striking that some people take out high mortgages relative to the value of the house, sometimes up to 117%, and often a relatively large mortgage that is part interest-only, which could give rise to a feeling of insecurity. Nonetheless, some people with a high mortgage are completely unconcerned. They take it for granted that the purchasing costs are covered by the mortgage, which results in a high loan-to-value ratio. What is more important to them is that they can afford the monthly mortgage payments. Additionally, it is interesting that none of the interviewees regards relationship breakdown as a threat to their housing situation.

Furthermore, the mortgage guarantee is not mentioned as providing a feeling of security. Some people do not even realise that they have one, but when they take a look at their mortgage documents after the interview they discover that they do. Finally, not a single owner-occupier mentioned a rise in mortgage interest rates as a risk factor. This can only be explained in part by the fact that most have fixed interest periods.

In general the Dutch interviewees trust their own ability to earn an income and trust their employers and social security. Furthermore, they seem to trust in future house price increases while they have the recent experience of rising house prices. For some, when the financial situation becomes really threatening, a psychological mechanism seems to come into play. They try to ignore the situation as a means of surviving. However, this approach was only seen in a few cases. Most interviewees felt in a secure position with regard to their income, expenses and housing equity and based this feeling on their experiences in the past.

7.6 Safety net strategies

Savings or insurance policies are intended to cater for general financial risks. A number of households made their own conscious decision to take out various policies to cover multiple risks. Some have savings to cover emergencies. Yet the interviews show that no specific measures have been taken to cover risks to the housing situation. Nevertheless, many couples wanting to buy a house are obliged to take out life insurance by a mortgage provider. The single owner-occupiers were usually advised to take out housing costs insurance, which pays out in the event of unemployment or inability to work. It is conspicuous that interviewees use their inheritance in full or in part as an extra fund to cover emergencies. They either put it in a savings account or invest it on the stock market.

Owner-occupiers are more likely than tenants to have insurance. This can be explained firstly by the fact that they are encouraged to do so by mortgage providers. Secondly, a number of tenants say that they do not have as great a need for insurance, because of the housing allowance facility. If their income should drop, their housing allowance would increase. This makes it a kind of insurance. Other tenants have savings and a conspicuously large number of tenants are confident of receiving help from family and friends should the need arise. A single woman says she has a fantastic ex-husband and a friend, both of whom would be sure to help her in an emergency. She adds that everyone needs to have confidence in life. The situation for most owner-occupiers is different. They say that they themselves have primary responsibility and only in extreme cases would they fall back on their family, which would then usually be their parents.

Tenants with insurance usually have clear motives.

"Yes, we have taken out insurance against being made redundant. We did this because we have heard so many stories about people losing their jobs, so we wanted to cover the risks, and holidays are also very important to us" (tenant, female, 55 years old).

Another couple who rent have insured against accidents and have surviving dependents' insurance. In this case the woman's illness seems to be an important factor in the choice of risks to insure against. Moreover, the man has his own business and is therefore not eligible for unemployment benefit.

The level of income seems to play a significant role in the decision as to whether to take out insurance or save money. The level of housing costs as a proportion of net income also has some bearing in this regard. If the monthly mortgage payments are high, there will be little money left for proper savings or insurance.

For some, insuring against risks is not the highest priority. Others say that they cannot afford it or that no insurance company will accept them. Some interviewees also say that they are confident of finding a new job quickly or resolving the situation in some other way. Others think the matter is unimportant, and their philosophy is one of: 'if you worry you make things worse'. Finally, one man says that he puts matters of this kind completely out of his mind.

"It's something I'm reluctant to think about. So I don't think about it, and neither do I worry about it all the time. I think my approach is a good one. And if everything did go wrong for some reason, then I hope people would lend a hand or offer advice. But until something happens I'm not going to be a doom-monger, always wondering 'what if'. No, I think that would be a waste of energy. But I do definitely think it's terrible if it happens" (homeowner, male, 53 years old).

It would also appear that self-employed people, both in the owner-occupied and the rented sectors, do more financial planning, referring, for example, to a 'strategic investment portfolio' and a 'business reserve' for emergencies.

The home influences the financial planning of many owner-occupiers. For instance, one owner-occupier says he is no longer able to save because his housing costs are so high. Others say in contrast that their home is a nest egg and that they look upon it as something for a rainy day (see Section 7.4.3).

Social security as a safety net

The interviewees were asked who should be responsible for providing households in financial difficulties with support for their housing costs. All the owner-occupiers say that the individual should normally be responsible. Some

add that the government does have a role in extreme cases, but that the money should never end up in the wrong hands.

One remarkable response came from a woman who made a clear distinction between the responsibility of tenants and homeowners.

“Where renting is concerned, the government is responsible: local or national government should provide support. But it is a different matter with an owner-occupied home,..... because then you could have money available to help yourself” (homeowner, female, 63 years old).

The tenants regularly express the opinion that the government is responsible and then mention the housing allowance. However, the tenants also have reservations.

“I think the government should be responsible. I think that they are the most appropriate source of help, and I don’t mean just national government, but also local government. Look, if you were to ask me what I think about people who have an expensive house and are unwilling to work, then I would say: look for a job and start work” (tenant, female, 44 years old).

It is striking that both those who see an obvious role for the government and those who say that the government should step in only in emergencies emphasise that the financial support should not be too generous and that the household in question should also make some effort. The interviewees’ opinion implicitly reflects the debate surrounding the welfare state in the Netherlands: people should take more responsibility for themselves, with the government providing a safety net.

7.7 Conclusions

The key question is whether home ownership has an impact on securities and insecurities in people’s personal lives. In this connection it is important to mention first of all that the Dutch do not worry much. When talking about their personal situation, they do not mention developments in the labour market and social security as a threat. None of the working interviewees believe that they are likely to be made unemployed. If this were to happen, and for some it did, then social benefits are seen as being relatively generous. Moreover, among many interviewees there seems to be a belief that if people are willing to work, they can find a new job. That is probably also the reason why the Dutch interviewees regarded illness as the most serious threat, because if you are ill it is very unlikely that you would be able to earn an income. However, the interviewees did not believe that this would inevitably

lead to them having to move house. Furthermore, most of them had pensions that were separate from their house, except those who had let part of their house. Therefore, in this sense home ownership in the Netherlands does not seem to make people feel more secure about their income. However, the equity does provide a feeling of security.

Despite the fact that the rented sector is still relatively large and well-stocked and that renting is valued by tenants because of the lack of maintenance and the flexibility involved, the Dutch favour home ownership because 'when you rent your money just flows away, but when you buy, it comes back to you and you can build up capital'. This argument shows that the investment factor does play a role in the choice of tenure type.

Although using equity did not appear to be an obvious choice in the case of a drop in income or for other purposes, the house price rises in the late 1990s had a major impact on the use of equity and the significance of owner-occupation as an investment. Most homeowners now have a large amount of surplus value, which makes them feel very secure. Some respondents accessed part of their equity for spending purposes. However, when the tax system changed and the interest was no longer tax deductible, if the money was used for consumption, the Dutch changed the way in which they used the equity and re-invested it in their house, as this was still eligible for tax deductions. Their use of equity is influenced by a rapid increase in house prices and by fiscal regulations. Therefore the home as an investment is a consideration for people who become owner-occupiers; they feel comfortable to have a nest egg in case of emergencies and to have reduced housing expenses at old age. However, they do not relate the use of equity to an increasingly insecure labour market and social security situation.

Remarkably, for many interviewees letting a part of the house seemed a more acceptable way to obtain money from the owner-occupied dwelling than using equity. Some of the interviewees were letting part of the upper floors of their houses. Others referred to it as an option if something happened to their partners and their financial situation deteriorated as a result. One interviewee also regarded this as a potential source of additional income in old age.

In addition, the interviewees did not seem to be worried about high mortgages in relation to the value of their dwellings and about large mortgages that are part interest-only. It is a normal way of lending money. Only a few people envisage a possible fall in house prices and they believe that in the end the prices will always rise. This is probably also why people believe that work is the main influence on decisions concerning housing and not vice versa.

Notably, one of the few things that both tenants and homeowners worry about is housing policy. Homeowners refer to a possible change in the favourable fiscal treatment of the owner-occupied dwelling and tenants worry about changes in rent regulation. Both of these things would result in higher monthly housing expenses.

The homeowners interviewed mainly bought their properties when they had a stable income and relationship and most of them did so when they wanted to start a family. When talking about young people who currently have to decide whether to buy or to rent, ideas about the need for security of this kind seem to have changed. Many of them say, 'the sooner the better'. In this connection not only the investment, but also the conditions in the rented sector are an important factor. The social rented sector is regarded as being difficult to access and the properties in the private rented sector are either very expensive or of poor quality. The interviews suggest that a change is taking place in the types of households entering the owner-occupied sector. The home ownership sector used to be a place for secure households. Now it is also the appropriate choice for people who do not yet have a secure job and are not yet settled in a relationship.

Diminishing income security could increase the importance of home ownership as a financial resource and could therefore also represent a fault line between homeowners and tenants. However, in the Netherlands equity is seen as a reserve or a nest egg and not as a necessity for protecting yourself against risks. The labour market and the social security system are still perceived as being secure. The interviewees at least believe their own situation to be secure. There is a clear division caused by differences in the amount of wealth accumulated by the interviewees; those who bought before the price explosion made huge profits and are currently in a very secure position. In the meanwhile house prices have not decreased since the 1980s. These experiences have an impact on choices of the younger generations on the housing market. These people are additionally confronted with a less accessible social rented sector. Consequently, they have chosen home ownership and are faced with heavy financial burdens.

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8 Portugal: The sense of home

Pedro Perista & Isabel Baptista

8.1 Introduction

Portugal is now a parliamentary democracy. Since the advent of democracy in 1974, centre-left and centre-right governments have alternated. In 2006 there was a centre-left government, which was elected in 2005 and which followed three years of centre-right government.

The population is approximately 10 million, living in an area of 89,000 km². 55% of the population lives in urban areas, defined as localities with 2,000 or more inhabitants, and 45% in rural areas. There is a strong concentration of population in coastal areas and particularly in the two major metropolitan areas: Porto, with approximately one million people and Lisbon, with about 2 million people.

The Portuguese empirical data was gathered in the town of Caldas da Rainha¹. The municipality covers an area of 256 km² or 25,916 hectares and has a population of 48,846 inhabitants (2001). Since 1991, the population has grown by 5,641, which corresponds to an increase of 13.1%. The population of the town in 2001 was 25,228, of which 46.7% were men and 53.3% women.

This is a relatively young municipality. In 2001, children represented 22.9% of the population, compared to 16% in the country as a whole. Similarly, the elderly represented only 12.4%, significantly below the figure of 16.4% for the country overall.

In 2001, the activity rate in the municipality was 49% (55% for men and 43.3% for women) and the unemployment rate 6.5% (4.5% for men and 8.9% for women). 6.8% of the population worked in the primary sector, 34.5% in the secondary sector and 58.8% in the tertiary sector. In the population of Portugal as a whole, 12.8% of people work in the primary sector, 33.8% in the secondary sector and 53.4% in the tertiary sector.

Most companies are small or medium-sized (38 employees per company, on average). The main industry is faience pottery. In 2002, purchasing power was slightly higher than the national average (101.34).

In 2001, the two urban *freguesias* contained 12,969 dwellings in 4,718 buildings. Of these, only 2.5% date back to before 1919. 10.2% were built between 1919 and 1945, 30.2% between 1946 and 1970, 35.9% between 1971 and 1990 and 21.2% between 1991 and 2001. In the municipality, 79.5% of all dwellings were owner-occupied. Of these 29% had a mortgage or loan and 71%

¹ The town is located in the municipality of Caldas da Rainha, in the 'Centro' region of Portugal. It is 10 km from the coast and 90 km from the capital, Lisbon. The municipality of Caldas da Rainha is made up of 16 *freguesias*, fourteen rural areas and two urban areas, which form the town.

were owned outright. Social housing is highly residual, consisting of only 92 dwellings.

Empirical data was gathered through thirty interviews with homeowners and renters of dwellings located in the two urban *freguesias* of the municipality of Caldas da Rainha. The interviews were conducted between the months of May and July 2005. The distribution of the interviewees was as follows: twelve non-marginal homeowners, nine marginal homeowners and nine tenants. Approximately two-thirds of the interviewees were aged under 45 and the remaining third were aged 45 or over.

Two-thirds of the interviews were conducted in households consisting of couples and one third in single households. Half of the respondents were female and nearly a third were male. In the remaining situations, both members of the couple were present and involved in the interview.

8.2 The main developments in the labour market and social security

Developments in social security

The revolution of 1974, which brought to an end half a century of Fascist government, is the high point of Portuguese history in recent decades. The situation today is the result of the developments of the last 30 years, but the legacy of the Fascist period can still be seen in various areas.

The Portuguese social security system, in its present form of universal entitlement, dates back to the post-revolution period, although the Basic Social Security Act was passed only in 1984. The difficult situation of a considerable proportion of the elderly population, for instance, derives from the fact that pensions are relatively low and often come from the non-contributory system, because before 1974 social security contributions were the exception, rather than the rule.

However, despite its youth, the social security system has already been faced with its own financing crisis. This crisis is related to arguments about the introduction of ceilings and contributions for complementary systems.

Social assistance has been characterised by different forms of discretionary behaviour. The allocation of benefits has been heavily dependent on the subjective evaluation of social workers. In this context the issue of the 'deserving poor' and the 'undeserving poor' is clearly pertinent. Some population groups still remain out of range of most benefits as a result of the eligibility criteria for access to the benefits. The homeless are an obvious example. Given their situation, their access is severely limited, because of their 'withdrawal from the world' and because of the way others see them.

These factors, among others, raise the issue of how universal the system actually is. Only in the late 1990s, with the implementation of the guaranteed

minimum income (RMG), now referred to as the insertion social income (RSI), the only benefit granted as a right within social assistance, has it been possible to reduce the discretionary character of the system and implement it universally. In 2003, the number of people receiving benefits was 367,690.

But even the RSI does not reach everyone. This benefit is divided in two components. The first is financial and the second consists of an insertion programme. Fulfilling the terms of the insertion programme, based on a return to the labour market or on (re)entry into the education system, is a condition for continuing to receive the financial component of the benefit. For the homeless (but also for other extremely vulnerable sections of the population), this is very difficult to achieve. Most homeless people (who are sleeping rough) are not receiving the RSI, either because they have not applied for it or because they have not fulfilled the obligations at some stage.

Therefore, it is not surprising that poverty in Portugal, although levels have fallen over recent years, still currently affects about one in every five people. The at-risk-of-poverty rate after social transfers and inequality of income distribution (7.2% in 2004) is the highest in the EU² and has shown little improvement since 1995. The older age groups (in particular women), and children are the most affected by poverty.

The magnitude of the problem relates, on the one hand, to low wage levels, which shape the existence of a considerable number of the working poor. On the other hand, it is also affected by the weaknesses of the Portuguese welfare state, namely the low level of benefits it provides, as well as the existence of defects in the social security system. For a long period the system left entire groups of the population, who for various reasons were not entitled to any social benefit, totally unprotected.

The failure of the transfer system to prevent poverty can be explained by the fact that the system uses wage levels as its reference point. Therefore, in the context of low wages, transfers are also obviously low, even if replacement rates are good. Transfers under the non-contributory system are even lower. In 2006, the social pension³, for instance, amounted to € 187.62. Moreover, the social insertion income⁴ is based on the social pension and therefore has the same value.

In 2002, expenditure on social protection represented 25.4% of GDP, while in the EU25 the same figure was 27.7%. Although between 1998 and 2002 Por-

² <http://epp.eurostat.ec.europa.eu/>.

³ The social pension is paid to those aged 65 or over, under the non-contributory social security system for those who have made few or no social security contributions and whose gross monthly income is no higher than 30% of the national minimum wage.

⁴ This is also a benefit paid under the non-contributory social security system to those suffering from 'severe economic deprivation', in other words those whose income is lower than the value of the social pension.

tuguese expenditure on social protection showed an annual average growth of 6.1%, in 2003 it amounted only to € 3,192 per head, just over half of the expenditure in the EU25, which was € 6,012.

Portugal's population is projected to age more quickly than most other EU member states in the years to come. The old age dependency ratio is forecast to increase significantly from 25% in 2004 to 58.1% in 2050. Public pension expenditure, which was 11.1% of GDP in 2004 and by then already above the EU average, is predicted to increase by 9.7 percentage points up to 2050.

Access to health care, although guaranteed by law in the universal public system, is complicated by huge waiting lists in hospitals for consultations and surgery and by difficulties in seeing doctors at health centres. Moreover, despite not having reached maturity, the Portuguese public health system is already starting to be dismantled. Means-tested payment for services is being introduced and there is a trend towards the privatisation of health services, in particular hospitals. In recent years new public hospitals have been transferred to private management.

Total health care expenditure (in 2003, 9.6% of GDP and 1,797 per capita, in purchasing power parity terms, PPP\$) is above the EU average⁵ in relation to GDP (increase of 2.6% of GDP since 1992), but below it in per capita terms (an increase over time: 1,079 in 1995 but negative real growth rates in recent years). Public expenditure (69.7% of total expenditure, 6.7% of GDP and 1,249 per capita PPP\$) is below the EU average, although it has increased in the last decade (62.6% in 1995).

The participation of both men and women in the labour market presents renewed challenges regarding the work-life balance. Portugal is in a unique situation within the context of the European Union in terms of the relationship between activity rates and the level of provision of services and equipment to support families. Policies still reveal a certain degree of reliance on the 'welfare society' and on 'welfare families'. Female employment rates are relatively high but coverage rates for child care and in particular for services and equipment for the elderly, despite an increase, remain very low. On the other hand, little support is given to families who choose to care for family members.

The conditions for accessing support services are determined by the predominance of private for-profit facilities, both for child care and care for the elderly. This means that a large proportion of people cannot afford to pay for these services. However, the importance of the non-profit private sector must also be stressed. Without these charitable organisations, even fewer services would be available.

⁵ EU average of 8.81% of GDP and 2266.21 per capita in 2003.

Developments in employment, unemployment, flexibility of labour

Over recent years, Portuguese activity and employment rates have been consistently higher than those for the EU as a whole. The overall employment rate decreased from 68.4% in 2000 to 67.5% in 2005, but the Lisbon targets are still within reach and all the intermediate Stockholm targets were achieved in 2005, including those for women (61.7%, as compared to 56.3% in the EU25) and the older age group (50.5%).

The female employment rate continued to increase even during the economic slowdown, from 60.5% in 2000 to 61.7% in 2005. In contrast, the employment rate of the older age group fell slightly from 50.7% in 2000 to 50.5% in 2005. There was a significant fall in the youth employment rate, which decreased from 42.2% in 2000 to 37.1% in 2005 (40.5% for men and 31.4% for women).

Throughout the 1990s, Portugal was one of the EU15 countries with lower unemployment rates. In recent years, however, there has been a major increase in unemployment. Until 2000 the rate was falling (4.2%), but from 2000 until now it has increased significantly, reaching 7.6% in 2005. This increase has been particularly significant in the area of long-term unemployment, which now accounts for approximately half of total unemployment. The youth unemployment rate almost doubled between 2000 and 2005, from 8.8% to 16% (13.6% for men and 19.1% for women). The gender gaps in employment and unemployment still favour men, but have narrowed slightly since 2000. The gender pay gap in the private sector remained at almost 25% in 2005.

The unemployment rates by educational levels indicate that the highest rates are still to be found amongst the intermediate levels, mainly for the holders of the third cycle and secondary education, for all age groups and for the youngest age group (15-34 years). The low level of development in Portugal, which continues to accept less-skilled workers, explains the fact that unemployment rates for the population with lower levels of education, in particular those with the first cycle, are below the overall unemployment rate, both for all age groups and for the youngest age group. However, this situation will not be sustainable in the long run, because the reorganisation currently in progress is being speeded up and the traditional sectors of the economy are being modernised. As a result and despite positive developments since 2000 (42.6%), the number of early school leavers remains high. The figure was 38.6% in 2005 (46.7% for men and 30.1% for women). The youth education attainment level has also increased from 42.8 in 2000 to 48.4 in 2005 (40.4 for men and 56.6 for women). These two educational indicators are a long way from the EU averages and the situation is particularly serious for men, with the gender gap increasing since 2000.

Perhaps more important than unemployment in explaining the situation of people in Portugal are the characteristics of a large proportion of jobs. Badly paid jobs lead to a high proportion of low income workers and a strong under-

ground economy⁶ hampers access to social rights.

The structure of employment has also been changing. The 1990s saw an increase in the proportions of part-time employment and temporary employment, which now represent around 11.5% and 20% of the total workforce, respectively.

With regard to the flexibility of labour, Portugal has traditionally been a country with high levels of rigidity. Between 1989 and 1991 there was a relaxation of the employment protection legislation. Restrictions on dismissing employees were eased as a result of a wider range of admissible grounds for sacking people and the abolition of prior authorisation of collective dismissals. Previously, the only grounds for dismissal were disciplinary, but the law was made less restrictive and permitted dismissal for poor performance (failure of the employee to adapt to the job) and economic redundancy. This seems to be reflected in the Portuguese averages of the indicators of the restrictiveness of employment protection legislation (EPL).

In fact, from the late 1980s until the late 1990s there was a significant decrease in all Portuguese averages. Nevertheless, it must be stressed that despite the relaxation in employment protection, the relative position of Portugal within the OECD has moved towards the axis of countries with the strictest legislation, which indicates that the Portuguese legislation to reduce employment protection was less extensive than in other OECD countries. In recent years, the situation has not changed significantly.

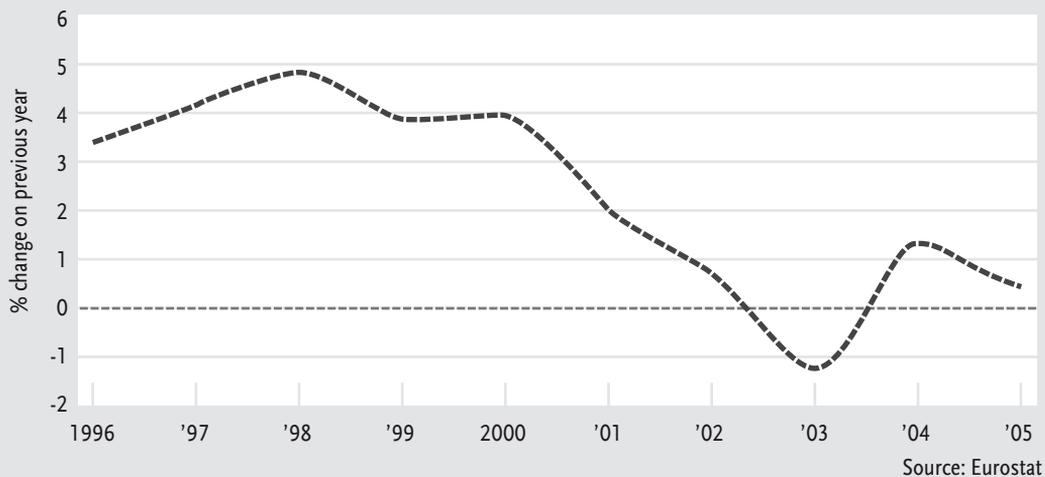
Employers' pleas for an easing of employment protection legislation find an echo in the recommendations of bodies like the OECD, which believes that restrictions create labour market segmentation, limit mobility and block technological and managerial innovation. The International Monetary Fund⁷ also considers that additional steps to increase labour market flexibility are needed. The continued steady growth of labour costs, even in the face of increases in the unemployment rate in recent years, high rates of long-term unemployment and heavy reliance on fixed term-contracts and self-employment all testify to the presence of significant rigidities in the labour market, as do standardised international measures of employment protection.

Developments in the economy (GDP)

After a continuous increase in the GDP during the 1990s at average levels of 4% per year, in 2001 there was a considerable slowing down of the economy. In the period from 2001 to 2006 the average GDP growth rate was below 1%

⁶ McKinsey Consulting estimates that nearly 30% of Portuguese workers in areas other than agriculture are working in the underground economy.

⁷ Portugal – 2006 Article IV Consultation, Preliminary Conclusions of the Mission, Lisbon, July 17, 2006 (<http://www.imf.org/external/np/ms/2006/071706.htm>).

Figure 8.1 Real GDP growth rate in Portugal (% change on previous year)

per year and in 2003 GDP actually fell (Figure 8.1). Between 1991 and 2004, Portugal had the fifth lowest increase in GDP of the OECD countries. This trend seems to underline the structural weaknesses of the economy, together with a development model based on low wages and poor quality jobs where unskilled labour activities often result in low levels of productivity and a high number of working poor (11.4% in 2003). Economic recovery is slowed down by a difficult budgetary situation with a general government deficit of 6% of GDP in 2005, associated with external deficits and high levels of private sector debt. The forecast for 2006 is that the GDP per inhabitant in purchasing power standards in Portugal will represent 71.8% of the EU25 average (66.3% in the case of the EU15).

8.3 The main developments in housing

The development of housing tenures

Tenure structure in Portugal has changed significantly in recent decades. Although the proportion of outright owners has remained fairly stable, the proportion of mortgage holders has increased considerably. This increase derives almost exclusively from the reduction in the private rental market (Table 8.1).

The number of owner-occupied dwellings increased from 1.6 million in 1981 to 2.7 million in 2001, while rented dwellings decreased from 1 million to 740,000 in the same period. The importance of home ownership is indicated by the increase of 28% in the total number of dwellings between 1981 and 2001.

Another relevant factor that has an impact on the housing market is vacant property. In 2001 11% of all dwellings were vacant, which makes a total of 544,000 dwellings. Of these, 105,000 were for sale and 80,000 to rent. Taking into account that 28,000 were awaiting demolition, this leaves a total of 331,000 empty dwellings. Despite this, enough housing has been built each year in Portugal to accommodate around 1% of its population.

Table 8.1 Tenure structure in Portugal in 1981, 1991 and 2001, in %

	1981	1991	2001
Outright owners	48.7	50.3	51.9
Mortgage holders	7.9	14.5	23.8
Private rental	38.9	30.6	17.0
Social rental	4.5	4.6	3.3
Owned by parents/grandparents or children/ grandchildren	---	---	3.9

Source: INE, Census

ty come into the market as a result of the possibility of establishing new contracts without rent constraints. However, it must be stressed that the restrictions on rent updates remained and still apply today for all contracts drawn up before 1990. Another recent change is the option of drawing up renewable contracts for periods of five years. The tenant can terminate the contract after giving notice, but the landlord is bound by the entire term of the contract.

In addition to its failure to develop support mechanisms for the private promotion of housing (at least with the necessary scope), the Portuguese state has not increased the levels of social housing over recent decades. Therefore, social housing has never been a real alternative, since it has only been available to the most vulnerable people on the fringes of society. In 1981 social housing represented only 4.5% of the housing stock occupied as the normal residence. Twenty years later this figure had decreased to 3.2%. Only 1% of all buildings and 1.7% of dwellings built in 2003 were supported by the state. New social housing is destined almost exclusively for former shantytown dwellers. The process of rehousing these people forms part of the Special Rehousing Programme (PER). This was started in 1993 and is intended to resolve the problem of shantytowns and of the illegal occupation of land, and to transfer responsibility for the majority of social housing from the state to local authorities.

The development of housing policy

From 1976 to 2002 the Portuguese state based its housing policy almost entirely on a means-tested, subsidised mortgage credit system. However, at the beginning of the 1990s the credit rationing system was terminated by the Bank of Portugal and commercial banks were authorised to make credit freely available. Since then the majority of people have had the opportunity to buy their own homes. In 2001 three in every four dwellings were owner-occupied, while ten years before the figure was 65%. In 1981 only 57% of all dwellings were owner-occupied. This sharp increase has its roots in a number of factors. In addition to the above-mentioned characteristics of the rental market, in recent decades access to housing credit has been made easier and interest rates have been reduced significantly. These changes took place in 1996, as a consequence of the process of joining the euro. The interest rate fell to around 5% in 2000 from its previous level of around 20% at the beginning of the 1990s.

The increase in the proportion of homeowners resulted in a growth in debt. According to the Bank of Portugal, in 1992 on average every Portuguese person

The private rental market was affected by its rigid structure and by the rent freezes in 1940 and after the end of dictatorship in 1974. Not until 1986 did some flexibility

owed about 18% of their available income. By 2004 that figure had increased to 117%. In 2001 only one in four Portuguese households felt that they did not have a financial burden caused by housing costs. For a quarter of the population the burden was a heavy one.

Currently there is only one fiscal policy which promotes home ownership. This consists of tax deductions of mortgage payments and the respective interest rates, up to a certain limit. The other previously existing fiscal policy ended in 2005. This had allowed people tax deductions of 25% of their annual savings in building society accounts. In the declaration of 2005 this deduction was abolished. According to the government, this policy was intended to be temporary and to encourage saving and home ownership only for a limited period of time. However, once again it was probably not a coincidence that it was implemented in the context of a high level of public deficit.

8.4 Housing decisions and the meaning of tenure

For most Portuguese respondents, the dwelling is seen as a home or a refuge rather than an asset, which reveals the strong emotional ties that people have with their residences. This is true both for homeowners and renters. Among renters, those with rental contracts that date back over long periods tend to express these feelings more strongly, but even those with recent contracts do not usually regard their home as a temporary residence and still have an emotional attachment to it.

Only in a few cases do the respondents regard their homes simply as a roof over their heads or as an investment. For one of the respondents, the idea of the home as an investment goes hand in hand with the idea of it as a burden, creating mixed feelings which cannot easily be separated. Another interviewee, who has owned his home only for two years, considered it to be mainly an additional motivation to keep on going, which gave further meaning to a 'life of work'. Buying comes as a natural step in the respondents' lives and they are encouraged to buy by the small or non-existent difference between the values of rents and mortgages. Job security, for instance, although understandably important is not a decisive factor when entering into home ownership.

As for tenure, the strong promotion of home ownership over the last few decades and the small or non-existent difference between the value of rents and mortgages are certainly the reasons why all the homeowners and most of the renters state a preference for home ownership. Only those who are afraid of getting into debt express a preference for renting.

The avoidance of debt is one of the few perceived benefits of renting and this is closely associated with the fact that it is the only choice for those peo-



Housing at some of the interview locations in Caldas da Rainha, Portugal.

ple who are unable to buy because of a low income, because they are elderly or both. Another important advantage of renting relates closely to the recent history of the Portuguese housing market, in other words to frozen rents, which have resulted in long-term tenants paying very low rents.

The main advantage of buying, referred to by almost all the interviewees, concerns equity. For the respondents it makes sense to spend money on their own property rather than on something they will never own.

“Since I had to pay, I wanted to pay for something that was mine. Nowadays renting costs much the same as paying a mortgage. So obviously I wouldn’t ever rent somewhere. And buying a property is a capital investment. I would never pay for something that would never be mine” (non-marginal owner, female, 29 years old).

“One day, it (the home) will be mine. Just imagine getting to the age of 50 or 55 and still paying rent... If things go well, I’ll buy another property. If they don’t, I’ll get to that age and my mortgage will be paid off and I’ll have a pension to live on. That’s my idea. If I went on renting...the later I left it to buy a house, the longer I would have to keep on paying for it and I was always afraid of that” (non-marginal owner, male, 28 years old).

Sometimes, even the idea of renting produces a negative reaction.

“I was in a rented house for so many years. Would I rent another one? No! At some point, it was just not worth paying the rent. For the same amount or little more I could have my own home. And this way I don’t have a landlady coming after me to collect the rent or anything else. At least I’m in charge of my own destiny and what happens to my home” (marginal owner, female, 33 years old).

Therefore for some people, owning also seems to represent independence. Ownership seems to be the only way of ensuring that no one is interfering in your life. The respondents are aware that until the mortgage is paid off in full, the bank has something to say in the matter, but they also know that as long as the mortgage payments are made regularly, they will not be hearing from the bank. This cannot be taken for granted in the case of landlords.

Changing tenure is a valid option for almost all renters, although it would be heavily dependent on improved financial circumstances, as these are the main reason for the majority of people choosing to rent. In contrast, as mentioned earlier, the initial reaction of the owners is to reject almost immediately the idea of renting. They would only consider it if they had serious difficulties, in other words health problems. But even if this was the case, the owners would prefer to move into a cheaper property, rather than renting.

This is most probably associated with the idea of the rental market being the last resort. Buying is so deeply rooted in most people’s minds, for the reasons mentioned previously, that renting is seen as a strange choice, which is only appropriate for those people who have no possibility of obtaining a loan or who have tax or legal problems.

The main influence on people’s initial housing decisions is unquestionably relationships. Marriage or living with your partner is the main reason for people to leave the parental home. Among the younger respondents there are few single-person households and this is largely due to financial reasons. The high prices in the private housing market and the lack of alternative, affordable (social) housing do not make life easy for single-person households. Most of the people interviewed who were living alone had chosen this option because of relationship breakdown.

Housing decisions are also determined, although to a lesser extent, by the labour market. Some of the interviewees had already moved house at least

once because of their jobs and others had even moved abroad, but this is not a common occurrence. The fact that the town only exerts a low level of attraction means that people can remain living in their existing homes while working in the town. It is only in major cities that larger numbers of people move house because of their jobs, but even in these situations people tend to move only once and then stay in the new area.

Using housing equity to access finance seems to happen only rarely in Portugal. Even in the case of relationship breakdown, on only one occasion was the property sold in order to allow the ex-partner to have access to his share of the money.

Equity seems to be regarded from two different perspectives. Although, as mentioned above, equity is identified as a major advantage of buying, it is not the primary reason for doing so, given the emotional ties which people seem to have with their homes. In addition, even if people are aware that their dwelling has increased in value since they bought it, they are also aware that moving will not allow them to access the money. Because prices everywhere have gone up and not just in a certain area, moving to another house will not in itself provide them with any extra money.

For tenants, the choice of renting is, in some cases, related to an awareness of the difficulties or even the impossibility of buying, which is consistent with the advantages of renting identified by the buyers.

“Next year I will turn 40. My salary is reasonable but the salary that I am declaring for tax purposes is fairly low. I think the state doesn’t give much help to single people. Before I started renting this place, I went to the bank and they told they would not give me a loan...and at that time I was ten years younger” (tenant, female, 39 years old).

From this perspective, people do not regard their dwellings as an investment, even though most people definitely believe that the process of buying and selling property is still one of the most profitable transactions they will make, although to a lesser extent than before. However, people clearly distinguish this concept from home ownership and do not really consider this to be an investment. Even the idea of housing as a financial resource only seems to come to mind after direct questioning. It does not appear to occupy a central role in people’s thoughts. As such, it is not surprising that people have not used their homes as a financial resource in the past. A few households used the difference between the estimated value of the dwelling and the loan they applied for to obtain some additional money at the time of taking out the loan. This allowed those households to acquire capital – between € 5,000 and € 10,000 – at a lower interest rate. The money was then spent on cars, furniture or refurbishing the house. Only one of the households took out a second mortgage to buy a car. As for the remaining households, the money resulting

from the sale of the previous home was always used for the next one.

When first asked, most respondents say that they would not consider using housing equity in the future. The main focus is on housing as a home and on paying off the mortgage.

“My objective is to pay it off as soon as possible because you never know...two incomes are one thing, but one income is a different matter altogether. So, my objective is to pay it off as soon as possible so that I no longer have the expense and feel more relaxed” (marginal owner, female, 53 years old).

Once the house has been paid for, it acquires a new and important meaning, that of an asset to leave to the children. Almost all the interviewees believe that it is important to leave their house to their children. Interviewees also tend to value the possibility of giving their children a roof over their heads. They want to offer them help, which they themselves did not have, to get started on the ‘ladder’ and protect them from possible ‘snakes’.

Only after direct questioning did the respondents consider using the equity themselves and, in almost all cases, only for health reasons. Nonetheless, the respondents clearly emphasise that it would have to be a pressing need and a situation in which they had no other choice.

However, it seems worth mentioning one specific situation, where the respondent uses unusual reasoning. One homeowner would consider using his home for almost all of the purposes mentioned. But what is most interesting is that the education of his children is definitely not one of them.

“We made long term plans. We opted to repay the loan over 18 years, to coincide with the time when our child, whose birth was already planned, went to university. When she is 17, our home will be paid for and we can do whatever we like” (non-marginal owner, male, 37 years old).

Conversely, when they reflect on the theoretical situation of other people, some of the respondents believe that using housing equity may be a good idea. This is because the hypothetical situation concerns elderly people. In Portugal, the elderly are extremely vulnerable to poverty. Some respondents mention the generally low levels of pensions and the weaknesses of the social security system in order to justify their support for the use of housing equity.

8.5 Safety net strategies

The respondents’ safety nets do not seem to have a very tight mesh. Almost all the homeowners have compulsory life insurance (a few have older contracts that did not require this insurance), but this is their only safety net,

apart from the compulsory insurance against accidents at work that most people have. Only a few interviewees took out non-compulsory insurance policies, to cover unemployment, for instance, despite the fact that this represents a major concern. According to a significant number of respondents, it is not that they do not recognise the importance of these safety nets, but rather the feeling that their incomes are too low.

“If our monthly income isn’t enough for us to pay our debts and survive, then it will certainly not be enough to open a savings account. It’s like when everybody says that there will be no money to pay for our retirement. My impulse is to open an account and put my tax money in it. But that’s not possible and it isn’t possible to pay the taxes and save money. So, we will sort that problem out when we get that far” (marginal owner, female, 33 years old).

This quote raises the issue of disillusionment about welfare provision. People are aware of the weaknesses of the Portuguese welfare system, which in addition has no specific provision for housing. These perceptions may have been reinforced by the recent government trend of withdrawing from a number of areas. The failure of the system to provide adequate protection stems from the fact that it is based on wage levels. As a result, if wages are low, then transfers are obviously also low, even if the replacement rates are good.

Apart from this, however, the major problem with public welfare policies concerns the delay between submitting the application and receiving the benefit. There is a delay of several months that obviously has serious consequences at all levels. There is very little data available in this area, but there is empirical evidence from people who resort to local social security services for financial support because of the impact of these delays on the families’ ability to survive. It is not surprising that some respondents describe how they took things into their own hands in order to find an immediate solution to their problems.

“We are trying to save some money and we’re succeeding. This money will allow us to survive for two or three months if I become unemployed, but two or three months without a job...that’s why I say...if I have to carry buckets of cement, I will do” (non-marginal owner, male, 30 years old).

The family is often the major buffer in cases of hardship. Almost all the interviewees are confident that someone in their close family would help them if they had problems. However, for many of the respondents asking for help would be exceedingly difficult, as most people believe that everyone should be responsible for their own finances. In addition their strong feelings of pride would prevent them from asking for help. In contrast, in some cases the help given by other people is the only thing which is stopping the situation from becoming even worse.

“After paying the rent, I only have € 35 left. If I didn’t get help from my children, I don’t know what I would do” (tenant, female, 73 years old).

In terms of equity, only homeowners with mortgages which are about to come to an end feel that their property represents a reasonable sum of money. For the others, the equity is very limited and few of them are aware of the possibility of making use of it.

When considering other people’s options if they get into difficulties, the alternative which most of the respondents mention is downsizing, in other words selling their current home and buying a smaller and cheaper one. This approach seems to indicate a considerable difference between the way in which people perceive their homes and the way they would use it if they had problems. The home as a haven seems to give way to the home as an asset.

However, it is important to interpret these results with caution, as they represent opinions about a third party⁸. If the respondents were asked directly about their own specific situation, the results could be different. Moreover, when people refer in their answers to their own personal case, there is a discrepancy between what they would do themselves and what they suggest that others should do.

Two important factors which need to be taken into account in this context are whether the respondents have children and whether they have emotional ties with their home, both of which will have a significant influence on whether they are prepared to sell. As we have already mentioned, a house is often more than just a place to live and is regarded as something which the children will inherit. If the homeowners have children, selling the home is often regarded as throwing away their inheritance.

Consequently, the respondents tend to think that if the home has no sentimental value for the owner, especially if he or she is older, then the best option is to sell and buy a smaller one. This seems to be particularly relevant in the case of people whose household has become smaller as the children have left the parental home.

The strong attachment to the home is perhaps more clearly reflected in the answer of one respondent who says that...

“... if they sell the house when they are only three years away from paying off the mortgage and then rent another house... little by little they would be killing themselves. They would never see things in the same way again. They would always re-

⁸ Respondents were asked to give advice to a couple in their mid-fifties. The couple still has three years remaining on their mortgage and their house has increased in value by 300% since they bought it. The wife works part-time and the husband has just learned that he will be made redundant in three months time. The wife’s salary is not enough to cover all of their outgoings but they do not have any outstanding debts apart from their mortgage.

gret what they did. Losing everything for the sake of only three years...having really bad luck...that starts to affect you. It would definitely have a serious impact on them” (non-marginal owner, male, 28 years old).

The second most frequently mentioned option is to look for work. One possibility is for the man who is being made redundant to find a new job. Despite growing levels of unemployment, there is a feeling that there is always work that you can do, even if you need to make a sacrifice of some kind. The respondents feel that having a job and an income is essential.

“As I see it, there’s only one thing they can do and that’s to sell. (...) if, at the age of 50, I have to carry buckets of cement...it’s not great but it’s unavoidable, at least for two or three months (non-marginal owner, male, 30 years old).

Another option is for the part-time worker to get a full-time job. The standard working pattern in Portugal is full-time work, both for men and women. The proportion of part-time workers is lower in Portugal than in the rest of the European Union. Therefore increasing the working hours of the part-time worker seems to be the natural solution.

Another option suggested involves negotiating with the bank to extend the deadline for repaying the mortgage and also investigating the possibility of taking out a second mortgage to cover the initial impact of the man’s unemployment. Sometimes, the respondents also associate this second option with the search for a job, which is essential for the medium and long-term viability of the option. There is the feeling that banks are likely to be interested in negotiating credit extensions, particularly if the mortgage is reaching its end. The suggestion of a second mortgage seems to be, in most cases, the result of a learning process, as this was largely unfamiliar to most of the interviewees at the beginning of the interview. In addition it is not clear whether every respondent who suggested this solution fully understood the medium-term implications of a second mortgage, in other words having a larger amount to repay each month.

Conversely, other respondents only seem to have considered the medium-term implications. In these cases, they believe that taking out another loan is out of the question, because if the people have no way of paying one loan, they will not be able to pay a second one.

Relatively few people mentioned the option of resorting to unemployment benefit or redundancy compensation, which, in the former case, indicates once again the weaknesses of the system. The respondents do not question the entitlement to the benefit, but they are not confident about relying on the system. They refer to the above-mentioned delay between becoming unemployed and receiving the benefit. Some respondents even use their personal experience to illustrate the difficulties of this delay.

It is interesting to see how the respondents' personal experience of housing influences their views on this subject. One respondent who had lived in a series of rented rooms promptly suggested renting out a room as a new source of income. This was one way of generating revenue from their own home. Similarly, a respondent who always contributed to the family budget while she was working and living at her parents' home suggested the possibility that the couple could ask their children, if they had any, for help.

"We also need to see whether they have children, whether the children live with them or not and whether the children can help. They can discuss the problem with their children and suggest that, if the children help them for the remaining three years, afterwards they will have a house which is worth much more than they have spent. If not, they (the parents) will sell the house, spend the money and the children will lose their inheritance" (marginal owners, 29 and 30 years old).

It is revealing that nearly half of the marginal homeowners, but only one of the non-marginal owners, suggest that the couple should make personal sacrifices in order to reduce their expenses which would allow them to keep the house. This seems indicative of these two groups' different perspectives. Making sacrifices, which means in most cases cutting back on spending wherever possible, is necessary in order to achieve the more important objective of keeping their home, which is a refuge and an essential part of their lives.

Another respondent, however, takes the idea of making sacrifices even further, and emphasises how important it is for him to avoid hardship.

"Some people spend money in a good restaurant instead of cooking a bowl of soup at home" (marginal owner, male, 48 years old).

The different perspectives among the homeowners are reinforced by the fact that nearly all the marginal owners say that they feel powerless in the face of unemployment. They believe that it is not easy to predict and in most cases they do not have enough disposable income to save or take out insurance policies. Different factors which affect their lives are also mentioned.

"It's always possible but it's difficult to judge. Different things happen in life and we have to keep investing in our children or in our health. The political changes in society also do not allow... And there are those little extravagances, like holidays, because we really need to recharge our batteries. We can always hope that next year will be better" (tenants, 59 and 58 years old).

One in three of the non-marginal owners also expresses a feeling of powerlessness, but, unlike the marginal owners, they often mention options such as savings, making additional loan repayments or starting a pension plan.

There is also a clear differentiation between the respondents when we analyse their opinions regarding the responsibility for providing support to households which have problems with their housing costs. Marginal owners and tenants tend to believe that the state is responsible for providing support. However, it is important to mention that the respondents' answers indicate that a service of this kind should be set up, as the Portuguese state currently offers no specific housing assistance to homeowners. For some of the respondents there is clearly no other option but the state, because this type of service is considered to be outside the scope of private companies.

The weaknesses of the social security system are implicit in the opinions of other respondents.

"I think that that's what social security is there for. We tend to think of social assistance as something for down-and-outs. As a result, there isn't anything left for people with real needs and difficulties and nowhere to go for help" (tenants, 59 and 58 years old).

Relatively few respondents refer to the banks or do not mention any organisation which they think should provide support. There are also respondents, mostly older people, who believe that no help should be offered at all. These interviewees sometimes refer to the situation during the dictatorship period when state intervention in areas such as this was non-existent. They also say that nowadays people are always expecting something from the state.

The respondents give a number of different reasons for this. On the one hand there are those people who relate housing cost problems to a lack of determination or self-discipline⁹. These respondents make a plea for individual responsibility.

"Honestly, no. A few moments ago, I heard on the radio that there are more mobile phone numbers in Portugal than there are people...when you can't, you just can't! I'm not saying that no one needs help, but I am saying that: 'I have a car, I smoke, I have a mobile phone and a dog and...oh dear, this month I can't pay the mortgage' isn't acceptable. Perhaps I'm missing the point because, thank God, I've never had any problems. But my father worked hard to get where he is. I also work hard and if I can't go on working in sales, I'll work in a coffee shop or anywhere, because I have no problems with that. But I imagine that many people would have problems with doing that sort of work" (non-marginal owner, female, 27 years old).

⁹ This seems largely consistent with the fact that, according to the European Values Study (1999), 41.9% of the Portuguese population considered laziness or lack of willpower to be the most important reason for living in need. The overall figure in all the countries surveyed was 24.1%.

Individual responsibility is felt to be the essential factor, as the respondents recognise that the country's situation is far from perfect. There is a belief that while there are still considerable weaknesses in areas which are regarded as basic requirements, such as the health care system, then this kind of housing support should be postponed. In some cases, and given such circumstances, some respondents even thought that providing this type of housing-related support would be just be a waste of state funds and the taxpayers' money.

Other respondents use their own personal experience to illustrate their reasoning, even if this obviously has serious implications.

“Everyone must be prepared to make sacrifices. People must not rely on help and support. They must do what I did. I worked in France and I was working day and night until I became completely disorientated. This afternoon I will be working for four more hours and after that I will work until after midnight. Tomorrow it will be the same. This is my life. It involves a lot of sacrifice. On Saturday I started working at 7.30 and I got home after midnight. I only went home to eat a banana. That was all I ate during the day. Even I don't know how I can take it” (marginal owner, female, 54 years old).

Conversely, only a few of the non-marginal owners refer to the state. Most of these owners believe that the banks should be responsible for helping households with housing cost problems. They think that, together with the clients themselves, the banks should take some responsibility for protecting homeowners, by providing advice that can help prevent their clients from getting into difficulties and jeopardising the bank's investment.

On the other hand, only the non-marginal owners suggest that the responsibility should lie with the Portuguese Association of Consumers' Rights, which is probably a good indication of their experience of the service provided by this association since 2000 to people with debt problems.

Some of these respondents mention the state but nearly half of them refer to its regulatory role rather than its direct intervention in this area. The state is seen as being responsible for the creation of a legal framework which obliges all companies that offer credit to provide a service explaining to people all the consequences of borrowing. It is assumed that if the state imposes laws on the private sector, the companies will have no option but to comply with them.

Regardless of the answers the respondents give, one issue which constantly comes up concerns the deserving character of those with housing cost problems. The respondents state very clearly that any help from any type of organisation must be carefully monitored. This would ensure that people who are trustworthy and who are intending to pay would get help, whilst ensuring that those who are not paying because they do not want to do not receive any help.

Most respondents, if they were to receive sudden windfall, would use it in one of two ways. On the one hand, there are those people who put a strong emphasis on repaying the debt, using all the money or at least a significant part of it, to pay off the mortgage. This would reduce the burden on their monthly finances, but perhaps most importantly would give an intrinsic feeling of relief which the tenants in particular valued.

On the other hand, there are those who would use part to repay the debt and use the rest of the money as a cushion. Options such as investing all the money or putting it all in a bank account are clearly residual.

8.6 Security and insecurity

The feelings of insecurity and the risks perceived by households vary considerably. For marginal homeowners, the perceived risks are immense, because almost everything, from unemployment or health problems, to accidents or even neighbourhood deterioration would have a major impact on their housing situation.

“In that case...everything would go down the drain. An increase in my monthly repayments is out of the question because I can't pay more than this. If I'm ever ill, the bank will have to repossess the house because there's nothing I can do. If I had any savings I would use them until I got better, but as I don't have any put money aside...” (marginal owner, female, 53 years old).

Tenants also express similar feelings, although to a lesser extent. Some of these respondents, with old rental contracts, had some concerns about possible changes resulting from the proposed new law on housing rents, which aims to bring the old, low rents up to market levels. Unemployment is referred to by all the groups but especially by the non-marginal homeowners. For these people, their job guarantees that they will remain relatively well-off, hence their natural concern about this subject.

The importance which these interviewees place on neighbourhood deterioration is also very interesting, in contrast to the answers of the two other groups. This indicates that they have greater housing mobility, but also provides information about the location of the homes of each group.

“If the neighbourhood was horrible, I would move. That's really important. It's also important not to have neighbours who make everything dirty and leave rubbish lying around...” (non-marginal owner, female, 32 years old).

However, the risks already experienced by the different groups are also different. Among the non-marginal homeowners, only one household experienced

a risk, in this case unemployment, whereas among marginal homeowners nearly half of the households had had experiences of this kind, which made a major contribution to their poor financial situation.

“I had an accident at work and I’m not earning any money” (marginal owner, male, 48 years old). “A few months ago my husband became unemployed. This has had a big impact on us. That was why I...the nerves...that was the reason. I got anxious because I knew I wasn’t going to have enough money to pay for everything and our child wasn’t working at the time. It was complicated. And now I am getting sickness benefit. And that’s complicated” (marginal owner, female, 38 years old).

For most homeowners, at least when they first discuss the issue, income security and housing security seem to be two separate things. It seems that any problem or risk could affect every area of life, in addition to housing.

As mentioned previously, people seem to think that even if something happens which has direct and serious implications for their income security, it will be easier to maintain a house they own than a rented one. Home ownership also seems to provide security in the sense that banks are perceived as easier to deal with than landlords. Also, in addition to the option of making use of equity, home ownership security seems to derive from the perception that housing costs will eventually come to an end.

In conclusion, the home as a haven seems to be systematically protected by the feelings of commitment and sacrifice which have been mentioned previously, even if this implies having a very basic standard of living. On the other hand, housing security seems to be strongly connected to the security of life in general and hard work. The home as a refuge is also a place of shelter from the aggressive outside world.

8.7 Conclusions

The nature of the Portuguese housing market is heavily determined by the events of 1974 which brought the dictatorial regime to an end. This includes the process of rent freezing, which made the rental market highly unattractive for landlords. On the other hand, social housing has never really played a major role and it is and has been aimed almost exclusively at the resettlement of shantytown dwellers. Therefore home ownership is almost the ‘natural’ choice of tenure, further supported until recently by state promotion in the form of subsidised credit and tax reductions.

Taking into account the fact that these policies are now longer in place, that the housing market is severely saturated and that short-term changes are being implemented in the rental market, it seems plausible that the Portuguese housing market is on the threshold of a new phase.

Insecurity seems to be a growing problem in Portuguese society. Debt has been growing significantly and has even exceeded the amount of available household income. Housing debt is only a small part of this phenomenon, but the number of repossessions has been rising.

Coverage rates of public policies are relatively high, but there are considerable delays between submitting an application and receiving the benefits. Moreover, insecurity clearly becomes an issue when about 30% of the labour force is working in the underground economy, employment security is under threat and unemployment is rising.

In addition, no special provision has been made by the state with regard to housing insecurity. Therefore, ultimately it is the responsibility of 'welfare families' to deal with housing insecurity. The last resort is discretionary social assistance which has only a minor impact on the problem.

Given the weaknesses and insecurities in the system, home ownership seems to represent an oasis of safety and stability. The feeling of possession seems to comfort both outright owners and mortgage holders, even those who do not have significant financial resources.

Home ownership in Portugal represents, most of all, a haven of independence and intimacy. Owners develop emotional ties with their homes. The strength of these links often helps the owners to develop their identities. In these cases, housing seems to mould social identities, paving the way for social recognition and inclusion.

Among the tenants, only those with frozen rents have a feeling of security, which comes from their low monthly housing payments. Housing affordability is an issue for Portuguese tenants with newer contracts and high rents, as well as for marginal homeowners. It is not unusual for households to spend very significant amounts of their monthly income on housing, a situation which is aggravated by the low salaries that are typical of the Portuguese labour market. As a result a significant proportion of households feels highly insecure and lives often on a knife edge.

Therefore people seem to derive a feeling of security from home ownership, regardless of their objective living conditions and resources. Home ownership seems to encompass concepts of permanence and stability, in contrast to the unstable and temporary character of the rental market.

It is common for people to stay in the same home for several years. Although tenants seem to move more often in search of better conditions and the opportunity to own their own home, the emotional investment made by homeowners seems to discourage them from moving.

Renting seems to be regarded as a last resort rather than a choice. In fact, it has been shown that in the Portuguese context the rental market is not a real alternative, given its biased structure.

Relationships play a central role in housing issues. In a context where economic conditions restrict the access to housing, relationships still represent

the main reason for moving out of the parental home. Furthermore, relationships are also the primary reason for respondents to access the money stored in their homes, since equity does not seem to be an important part of people's views of housing. On the other hand, economic conditions also restrict other areas of the respondents' lives. The majority of them have cut their spending in other areas because of housing.

However, housing is widely seen as a good investment and equity is said to be an important asset, often a decisive factor in the choice to buy a house. Nevertheless, the emotional significance attached to housing seems to prevent the respondents from considering their own home purely as an investment and as a source of equity. The possibility of using the equity in the future is not welcomed with much enthusiasm. Likewise, only a few respondents had used housing as a financial resource in the past.

Health reasons seem to be the only motivation for respondents to use the equity stored in their homes. Once again, for some interviewees, there is a considerable difference between their own situation and hypothetical situations, where respondents support the use of housing equity.

Their reluctance does not even seem to be based on the awareness of the existence of an effective support network. The respondents' safety nets rarely have a tight mesh. In most cases, their financial resources only represent small cushions and their insurance policies are generally limited to compulsory mortgage-related insurance. However, the respondents do believe other types of insurance to be important, because they are aware of the weaknesses of the welfare system. Despite this, the majority of the respondents do not take out additional insurance policies, mostly because of financial constraints.

In this context 'welfare families' continue to play a major role, by preventing hardship in some cases and by acting as an important safeguard, even if used only as a last resort. Although equity may act as a potential buffer in the future, solutions based on individual effort emerge as the main driving forces for overcoming difficulties. Personal sacrifice, with all its implications, is still the preferred solution for a significant proportion of the respondents and, for others, hard work seems to be the best method of ensuring success.

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9 Sweden: To own or to rent?

Eva Andersson

9.1 Introduction

The key question for this chapter is the impact of housing tenure, particularly home ownership, on securities and insecurities in people's personal lives in Sweden. In order to describe the impact of home ownership on (in)security, it is necessary to investigate the institutional framework: the labour market, the social security system and the housing (financial) market. In addition and very importantly, the results from an interview study in 2005 will be used to illustrate and explain perceptions of security and insecurity among homeowners and tenants (for comparative reasons).¹

This chapter has the following outline. In Section 9.2 the Swedish labour market and the social security system, which form the basis for the insecurity and security of homeowners, are described. Section 9.3 outlines the developments in the housing market. Comparisons between housing tenures (regulations, prices etc.) and housing affordability are particularly important in this respect. After this rather general overview, the results of the Swedish OSIS interview study are presented. Section 9.4 covers housing decisions, choices and the meaning of tenure among the 30 households interviewed. The question of (in)security among both renters and homeowners is described in Section 9.5. Section 9.6 deals with the respondents' safety net strategies. That section ends with a further discussion on security and insecurity before and after 1993 on the basis of the results.

This chapter outlines the situation in Sweden which, at the time of the interviews, had a population of about 9 million and a social democratic government, (the social democratic government had been in power since 1994, but one year after the interviews in 2006 a centre-right alliance government was elected). Historically, Swedish welfare policy in general and housing policy in particular has focused on a general welfare policy approach. It is based on proportional taxes and transfers for every income group in relation to social, educational and other welfare policies.

However, there is a fundamental difference between, for example, the housing sector and the school system, from a welfare perspective. The housing policy acts through the market. The state does not allocate housing, instead it regulates the housing market. The traditional concepts of general and selective welfare are not directly applicable, because they have to be adapted to a policy that works using voluntary contracts in a market. In the housing policy sector there is no direct public control involved in the presumed distinc-

¹ This chapter is based on Andersson & Turner (2005) and Andersson (2005).

tion between general and selective welfare. Swedish housing policy should be regarded as having selective goals and being managed using indirect measures (Bengtsson & Rothstein, 1997, p. 269).

In addition, the policy system works in a volatile environment, with rapidly increasing house prices in some regions and stagnant and very low prices in other regions at the time of the interviews. The pattern very much reflects the urban and rural divide in Sweden. Urbanisation has been increasing in Sweden for at least a decade. This urbanisation process is driving the increasing price gap between regions and between municipalities. The consequences of this price development are easy access to owner-occupied housing in low-price regions, and a large affordability gap in high-price regions. This constitutes another challenge for the housing policy of today (Turner, 2005).

Other challenges are the growing population of pensioners who are putting new demands on both the general economy and the housing market. There is awareness that later generations are not entering or taking part in the housing market on quite the same advantageous terms. Another challenge is the fact that the municipal housing sector and, in particular, its rent regulating role are called into question from time to time.

Despite being confronted by these challenges, the Swedish social security system remained intact in 2005. It is possible to assume that homeowners (and tenants) in Sweden felt very secure because of the extensive protection mechanisms. On the other hand there were missing links in this protection and it was clear that many Swedes had little scope for accommodating cost increases or falling incomes. If the interest rate increases rapidly or some components of the welfare system are abandoned, people could face serious housing risks. A related question is whether the risks are relevant for all types of households and, if not, which kinds of household are more at risk than others with regard to housing? This question was explored in the interview study conducted in Sweden in 2005.

9.2 The main developments in the labour market and social security

This section covers the main developments in people's income security in relation to the labour market and social security.

9.2.1 Developments in (un)employment, flexibility of labour

In March 2006 the unemployment rate in Sweden was about 5.5% (www.scb.se, 2006). However, the structure of the labour market is changing and the proportion of temporary employment is increasing. This is a move towards

a more flexible labour market, driven by commercial interests and partly accepted by the former government, but more so by the current one. It has a major impact, predominantly on young households. It restricts access to home ownership and creates a feeling of insecurity for those who are already homeowners. The banks are reacting to this development by placing less importance on the variable part of the household income. This improves the situation for young households and for households with irregular, but adequate incomes (by allowing them to have larger mortgages). However, these responses are not sufficient to fully alleviate the situation.

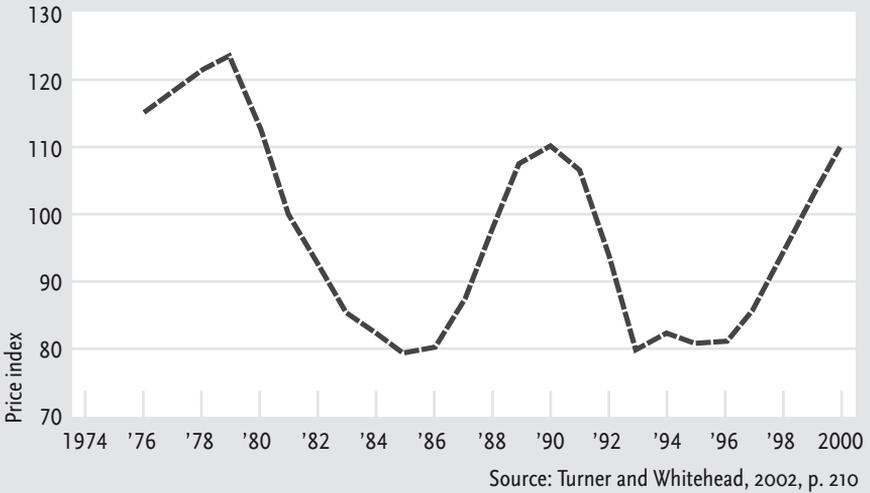
In contrast those people with a stable job have a reasonably secure position and are protected by regulations, such as a requirement to give three or more months notice when making employees redundant. For unemployed people who are members of a trade union, the unemployment benefit society (*A-kassa*) will pay 80% of their income for 300 days, at the time of the interviews. Those who do not belong to unions will have lower benefits. The current demographic situation in Sweden with a growing number of people of retirement age has put the focus on pensions. When the pension system in Sweden was revised, there were concerns about pension amounts and whether they were sufficient to cover housing costs, for example. There is also the option of taking early retirement, before the age of 65, and a growing number of people are doing this. As the majority of the future pensioners have assets in the form of housing, they will probably manage, but they will certainly see their incomes decrease.

9.2.2 Developments in the economy

One aspect that was emphasised and often referred to by the interviewees was the economic recession (housing crash) in 1990-91 in Sweden. (A similar recession affected the rest of Europe). (Andersson & Turner, 2005). The housing market crash was not a single event and did coincide with several economic and political changes in Sweden (Turner & Whitehead, 2002). Unemployment was at a high level and still increasing. Interest rates were also rising, housing subsidies had been reduced and prices were falling. For the homeownership respondents the most important factor was probably the falling prices (see Figure 9.1).

For households that had bought property in the late 1980s, falling prices had an impact in the early 1990s (see also Figure 9.1). It either locked households in or left those who moved with significant outstanding loans. For households living in Co-operative Housing Associations (CHAs) the charges were significantly increased as a result of reduced interest subsidies. Together with high interest rates on mortgages at the beginning of the 1990s, the charges laid the foundations for high housing costs. In cases where households had used housing equity when house prices were high, some had to leave their homes, which at the time could not be sold. Renters were also affected by the housing mar-

Figure 9.1 Real price index for owner-occupied, single-family houses in Sweden, 1976-2000 (1981 = 100)



ket crash, since the interest subsidies for landlords were significantly reduced. The consequence was rent rises, as wick later will be shown in Figure 9.4.

For some respondents in the interview study the housing crash and its aftermath have had a significant influence on their future housing circumstances, including their security and insecurity. It has influenced their position on the housing market and their opinions about housing.

9.2.3 Developments in social security: the main features of the system and current discussion

The foundation of the Swedish social security system can be divided into three areas of economic security. The first is economic security for families and children, the second is economic security in the case of sickness or disability, and the third is economic security in old age. The social security system is an extensive concept and therefore only the main features are described below, in other words, no concrete benefit levels are given. However, those outside the system or those for whom benefits are too low or cover too short a period to allow them to manage their current housing, they are important in this study.

In the field of economic security for families and children, parental insurance, housing allowance for families and child allowances are the most important benefits. While parental insurance for 480 days (80% of income for 390 days, lower benefit level for 90 days) and child allowance are general benefits, housing allowance is not (see Section 9.2.4).

The second field of economic security in the case of sickness or disability is also the second largest in expenditure terms (after economic security for pensioners). Among the important benefits relating to the (in)security of housing are sickness insurance, (80% of salary), and for those with longer or undefined absences from the labour market sickness, activity compensation

and work injury benefit. These benefits have been the subject of criticism and have been restricted because of a rapid rise in expenditure in the late 1990s and early 2000s. In addition there has been a decline in expenditure in the last two to three years (for unemployment benefits, see Section 9.2.1).

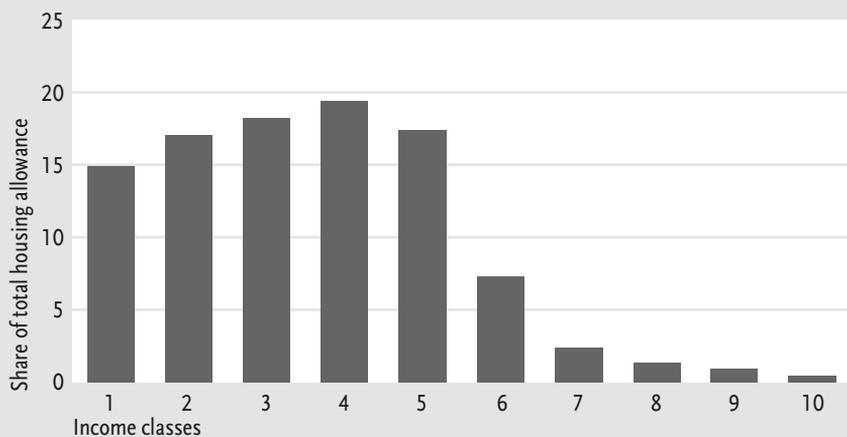
The third and the most costly and largest field of social insurance includes, for example, old age pensions, survivor's pensions and housing supplements for pensioners. As the pension system has undergone several changes, many people approaching the age of 65 have difficulties in estimating their exact pensions and are worried about the future.

As an indication of the limitations of the social security system, the coverage of some benefits has been decreasing over time and as a result of rising incomes and costs etc. In the case of parental insurance and sickness benefit, 80% of 7.5 so-called base amounts have been covered (in 2005 when the interviews were conducted). The downside of this policy was that 1.4 million employees earned more than this and therefore were only covered by the general insurance to a lesser degree. However, most employees had additional agreements with their employer to cover a salary above 7.5 base amounts. From July 1, 2006, 10 base amounts were covered by the general insurance, which gave a larger proportion of the employed population 80% of their income. This change reduces the risk of having a significant cut in income in the case of sickness or parenthood, which in turn also affects homeowners with limited financial resources (Government press release, 2006).

The selective social security system includes the social allowance, which is a last resort and is administered by the municipalities. The social allowance is meant to be temporary and therefore not a solution to long-term income difficulties which cause housing affordability problems. In the recent Swedish debate, examples have been given of people 'falling between' sickness and employment benefits and therefore being forced to apply for social allowance. Since this is a recent phenomenon, the concern is that this is a result of the government's efforts to reduce sickness benefit, which has been significantly increased in the past.

As a result of the comprehensive nature of the social security system, the general picture of a poor person in Sweden, according to the National Board of Health and Welfare (2006), is someone who is outside the labour market and the social security system. Those people who are able to establish themselves on the labour market qualify for the social security system. According to the Board, a full-time, minimum salary is enough to keep a person out of poverty. The same is true for those who have been employed and receive benefits from the social security system. An apparent risk of persistent poverty remains for people without a specific income from work and without an income from the pension system, unemployment benefit or sickness insurance. The risk is higher for groups of young and foreign-born people among whom there are high unemployment levels. Illegal immigrants are the most

Figure 9.2 Distribution of the housing allowance across ten different income classes in Sweden



Source: Andersson & Magnusson, 2003; ECHP data

marginalised group in Sweden because they have no safety nets, except for emergency care (The National Board of Health and Welfare, 2006). Poor people outside the labour market and the social security system are over-represented in the category of homeless people and supposedly also within the undefined group of people with severe housing problems.

9.2.4 Housing-related social services and benefits

Households with children are eligible for housing allowance. Housing allowance is given firstly to families with children under the age of 18, secondly to families with children over the age of 18 who are receiving study allowances and loans or extra child subsidies and thirdly young adults aged 18 to 29 without children. The size of the allowance depends on the structure of the household, the housing costs, the income and finally the size of the dwelling. Figure 9.2 shows the distribution of the housing allowance across ten different income classes (deciles) (Andersson & Magnusson, 2003).

In 1999, about 30% of families with children (in total 1.1 million families with children under the age of 18) received housing allowance at some time during the year (SOU, 2001, p. 129). The benefit was principally paid to single parents in the rental sector. The housing allowance was also important for families with adults on low incomes and several children.

The distribution in Figure 9.2 shows that the largest shares of housing subsidy are paid to households in the middle classes and somewhat smaller shares to low-income households. The reason for this could be that households in the lower income classes, for example single students, have such a low cost of living² that they will end up below the limit for housing subsidy. Housing supplement for pensioners is a benefit related to income (in other

² For example, low rents or no children to support.

words old age pension, survivor's pension or sickness insurance or compensation) for people over the age of 65.

9.3 The main developments in the housing market

What are the main developments concerning housing and how does home ownership compare to other forms of tenure? This section deals in particular with tenure forms, how housing affordability differs between owners and renters and the background of rising rents, security of tenants and financial housing issues.

9.3.1 Developments in housing tenures

The public housing sector in Sweden underwent a boom during the 1960s and 1970s. Between 1951 and 1970, 42% of new construction in the housing sector consisted of public housing. During a later period, 1981 to 1999, the proportion of new construction was 17.6%. While the proportion of new public housing has increased, privately-owned rented housing has decreased. From 1945 until 2005 owner-occupied housing increased from 38 to 43% of the housing market (see Table 9.1). However, during the period from 1970 until 1980 there was rapid growth in owner-occupied housing in Sweden. The simultaneous building of rented multi-family houses and owner-occupied housing is described as a paradox in Swedish housing history (Almqvist, 2004). The paradox consisted of the government strongly promoting and building (through municipalities) rental housing and Swedes themselves wanting and building owner-occupied houses (Almqvist, 2004). The co-operative housing association sector (here the equivalent of ownership) has increased from 4 to 17% of the market (see also Table 9.1). CHAs were initially seen as a special form of rented flats. Later on, they were moved, from an ideological and political point of view, into the privately occupied sector.

So-called direct and indirect ownership demonstrate the difference between private home ownership and ownership in CHAs. Indirect ownership of housing means that "...the right to the dwelling is linked to participation in an association which owns the building and the site (or which leases the site)" (Nordic Council of Ministers, 1998, p. 73). CHAs in Sweden and housing joint-stock companies in Finland are regarded as providing indirect ownership (Nordic Council of Ministers, 1998, p. 18). The position of direct and indirect owners is almost the same, for example in that owners can take advantage of increases in house prices, but are also exposed to the risk of losses when house prices fall. Households that are indirect owners have a slightly higher level of security, in that the association is responsible for a part of the loan for

Table 9.1 Tenure forms in Sweden 1945 to 2005, in %

Year	Owner-occupied housing	Co-operative housing	Public housing (rented)	Private housing (rented)
1945	38	4	6	52
1960	34	9	14	43
1970	34	13	23	30
1980	41	14	24	21
1990	40	15	25	20
2005	43	17	40 (public and private)	

Source: Turner, 2003 (for 2005, estimates by Tommy Berger at IBF, from SCB statistics, i.e. FOB90 and production and demolition statistics)

by social housing in other countries are covered in Sweden by local authority-owned housing companies, so called public housing. Swedish municipalities have the responsibility to provide housing for their residents. Dwellings owned by the municipalities come from a long tradition of the welfare state. The Swedish public housing sector is comprehensive, whereas an organisation offering social housing is residual, that is only for poor and vulnerable households.

The normal tenancy agreement in Sweden, regardless of whether the homes are private or public rented dwellings, is for an unlimited period. (Where students are living in rooms or apartments exclusively intended for students, there are limited agreements related to the student's activities, in other words the length of the course.) Agreements expire after a formal notice of termination submitted by the tenants, for instance if they want to move. The landlord can also terminate a tenant's agreement, but this is difficult because the tenants are protected by the so-called 'right to take possession of the dwelling' (*besittningsrätt*). Grounds for a landlord to evict a tenant include non-payment of rent (together with other necessary conditions), the improper use of the dwelling (noise, damage) and subletting without permission.

If the dwelling is sublet, a limited tenancy agreement is possible. The right to take possession of the dwelling applies for subletting tenants after two years in the dwelling, according to the law (<http://www.hyresratt.nu/indexsida.htm>). Around 0.6% of all Swedish households were living in sublet dwellings in 1999 (SCB, 2002b, p. 10).

From the 1990s through to the present day the criticism of the general welfare policy has focused in particular on the housing sector. The system for setting rents (*bruksvärdessystemet*), which has been in place since 1968, is unique to Sweden and is an example of a general policy imposed by the state. The private landlords have to follow the rents set by the municipal housing companies (after negotiations with the tenant associations), on the basis of the criteria of quality, location etc., when they revise their rents. The system provides protection against large rent increases and against the development of a highly differentiated market for similar rented housing. This regulation or system for rent setting has recently been subject to severe criticism, but still remains in place.

From a life cycle perspective, 57% of children aged between 0 and 17 live in

the housing. The households are not responsible for this shared debt. All of the direct owners' capital is at risk if there is an economic decline.

The rental market is divided into the public and private sector. The problems solved

owner-occupied detached houses (SCB, 2002). About 50% of Swedes aged 18 to 29 live in rented multi-family houses. The majority of people over the age of 29, who frequently have a family, live in owner-occupied housing. Around 16% of pensioners, who generally have smaller households, live in co-operative multi-family houses and 33% live in rented multi-family houses. Few immigrant families own their own houses. The reasons for this include discrimination, higher unemployment and attitudes towards ownership (Abramsson, 2003).

Home ownership therefore remains an important sector of the housing market in Sweden and especially so for families with children. Compared to other countries, however, public housing has a strong position because it is not only available to people with limited financial resources. The importance of home ownership and rented housing differs from region to region, because the norms and available forms of tenure vary throughout Sweden. According to a study by Lind and Bergenstråhle (2004), people in the three metropolitan regions (Stockholm, Gothenburg and Malmö) place less importance on living in owner-occupied detached housing than people in medium-sized towns (the answer to a question on the preferred form of tenure). The variation reflects the pattern of availability and price. While detached owner-occupied housing is in short supply in the metropolitan regions, there is a surplus in other parts of Sweden.

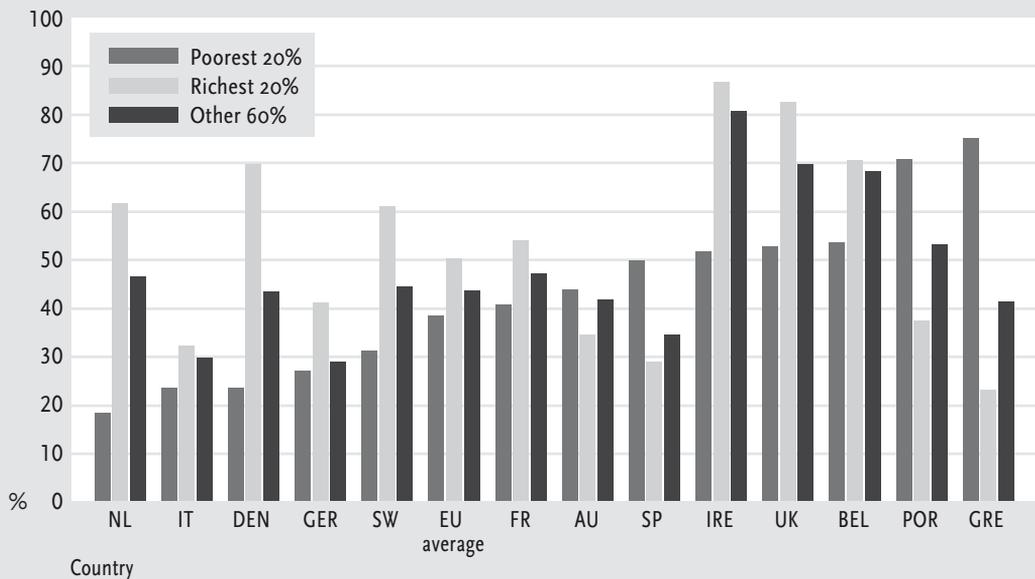
As a reflection of the values attached to the tenure forms described above, 79% of people in the northern, sparsely populated regions of Sweden live in owner-occupied housing. In the northern, densely populated areas 67% of people live in owner-occupied housing. In the central southern parts of Sweden the figure is 60%, in Gothenburg and Malmö 51%, and finally in Stockholm 41% (Almqvist, 2004, p. 17).

9.3.2 Developments in rents, housing costs, house prices and housing finance

The general developments in the economy affect the development of rents, housing costs, housing prices and finance. As mentioned, the housing crash of 1990-1991 is a clear indication of this. Since then, or in particular from 1994 onwards, there has been a remarkably long period of house price increases and falling interest rates (see Figure 9.1 and Figure 9.5). This long period alone makes the situation risky for new entrants to the home ownership market because they expect or fear a drop in prices.

The security and insecurity of home ownership is very much dependent on household characteristics, such as the affordability of mortgages, family relationships, employment etc. The proportion of disposable income spent on housing costs is a crucial issue for security and insecurity. In an interview survey conducted by a Swedish insurance company as many as 39% of people

Figure 9.3 Proportions of rich, poor and other households living in single family housing in EU countries (all housing tenures)



Source: Andersson & Magnusson, 2002

responded that they would have to move if their costs increased or their disposable income decreased by € 180. The survey gives an example of the vulnerability of many households should there be increases in interest rates or changes in the social protection offered by society (Länsförsäkringar, 2005).³

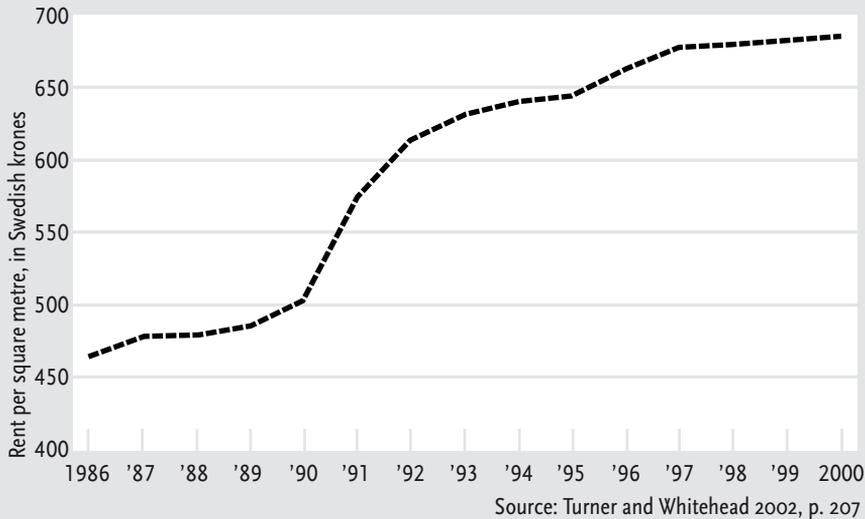
As part of a comparison of the characteristics of homeowners across EU countries, Figure 9.3 gives an approximate picture of households in single family housing (note that the figure does not show homeowners only). Relatively few poor people⁴ in Sweden live in single family housing. This sector is dominated by the richest 20% whereas, for example, in Portugal people living in single family housing are predominantly poor. There are many reasons for this, but one explanation might be the proportions of different housing types in the Swedish housing system, where the owner-occupied sector is relatively small and the alternative for poorer households has traditionally been the rented sector, which is comparatively large.

In Sweden, homeowners are wealthier than renters, taking into account the value of the housing and the possibility of using equity. In Sweden, where the homeownership sector is smaller than in southern Europe, the residents come from wealthier parts of the population. A comparison of the quintiles shows that only 9% (out of 20% on average) of the poorest quintile are homeown-

³ Despite small margins for increases in costs, very few homeowners are in real difficulties, for example, at risk of having their property repossessed. The same applies to evictions in Sweden.

⁴ The basic definition of poverty is income-related. Poor households have a disposable income of a maximum of 60% of the median household income. Income is not, however, always a valid measurement of poverty. People with low incomes may not show signs of poverty whereas people with incomes above the poverty line may do so.

Figure 9.4 Development of rents per square metre, 1986-2000 in Sweden, for a dwelling with three rooms plus kitchen, belonging to a municipal housing company (in 1999 prices)



ers, while the figure for the richest quintile is 29% (Kreft, Turner & Yang, 2005, p. 41). In addition, the cost of housing as a proportion of disposable income is 20% for homeowners in owner-occupied housing and 21% for residents in CHAs. The figure is highest for renters, who spend 26% of their disposable income on rent (SCB, 2002, p. 8).

As the share of income spent on housing is a vital factor in the insecurity and security of households, we will look more closely at how housing cuts the disposable income of households. Housing costs reduce the disposable household income of the poor sometimes to a greater extent than other income groups. Historically, there was a significant rise in this proportion between 1990 and 1992 due to a change in the Swedish tax system. In 1963 Swedish households used 19% of their disposable income for housing consumption; in 1995 the same figure was 28% (Wigren, 1997).

Magnusson (2000) describes a 40% increase in rents in the period from 1990 to 1997 (see also Figure 9.4). When compared with the total private consumption figure, there is also a rise in the proportion spent on housing. A study by Wigren points to the division of households into smaller units, in other words the continual shrinking of households, as one of the most important reasons for the development of housing costs. Other results of interest from Wigren's study relate firstly to higher proportions spent on housing by renters than by owners⁵. Secondly the results show higher proportions spent by the poorest 10% than by the richest 10% and thirdly higher proportions spent by the youngest people (under 20 and between 20 and 23). These groups spending a large proportion of their income on housing costs also saw the larg-

⁵ Owners in this case refers to both owner-occupied detached housing and co-operative housing associations (CHAs).

est increase in the proportion during the period 1963 to 1995 (Wigren, 1997). Insecurity for those spending a large proportion of their income is a result of the fact that these groups are often single, in other words more vulnerable to unemployment, young, (which means that they have a lower or insecure income) and finally poorer.

There is also an affordability problem in high price regions, such as Stockholm, Gothenburg and Malmö. However, it is important not to exaggerate this, as most of the price development can be explained by a fall in the nominal interest rate. Housing expenditure remains constant at a given loan-to-value ratio. The problem is that the real value of debts is increasing rapidly, because of increasing prices in combination with the constant loan-to-value ratio. This makes it more difficult for young entrants to the market to buy properties, as they generally have low levels of non-housing wealth with which to compensate for falling house prices. They also tend to have larger mortgages than older, more established homeowners.

A lock-in effect can be seen in the metropolitan regions where households living in rented apartments (or small owner-occupied apartments) do not have the opportunity to save in order to buy a property in the future. In addition, households living in lower priced regions do not have the possibility of moving to the metropolitan region, because they would make too large a loss when selling their property and because the cost of moving into the metropolitan housing market is too high. From this perspective, moving house is not easy or affordable, but in legal terms there are no specific barriers between different tenure forms.

Over the years, the banks (in the widest sense of the term) have introduced more generous lending conditions. This is an effect of the house price boom over the last decade, which has led to housing being seen as a safe investment. This may also be stimulated by a relatively less successful stock market and limited house construction. The supply of funds has led to fierce competition among banks to lend money to homeowners. The result has been a lower interest rate⁶, a higher loan-to-value ratio (up to 90% in some transactions) and long repayment periods of 30 years or more. The falling interest rate is shown in Figure 9.5 by year and quarter. A possible problem in the future could be an increase in interest rates, which will be difficult to manage for households with small margins. As most households have a fixed interest period of on average 14 months (since 2000) or a flexible interest rate, the effect of an increase will be immediately apparent (Turner, 2005).

From the perspective of the state, the only form of risk mitigation is private mortgage insurance policies. There are also, as in all countries, bank legislation and lending practices that govern the risk exposure allowed in the bank-

⁶ Banks offer different interest rates.

ing sector. The current view is that future and present incomes are relatively more important than the property collateral, at least compared to the situation a decade ago, when loans even used to follow the houses (i.e. were kept by the new owners). A specific state authority monitors bank performance and banks are obliged to report abnormal debts etc. Around 80% of

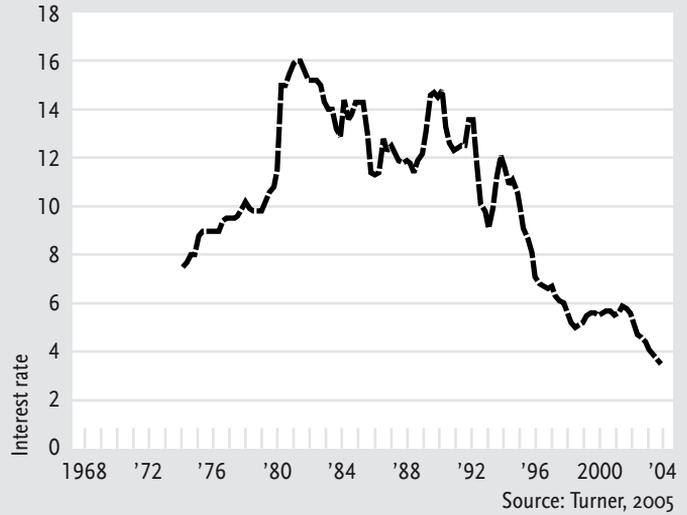
private homeowners and 30% of those in CHAs have a mortgage (BHU, 2002).

Since 1996 the prices of CHAs have increased by 300% and of owner-occupied housing by 170%. These figures cover the whole of Sweden (Turner, 2005). Some regions have had a much more modest increase, whereas others, such as the three metropolitan areas, have seen a more rapid increase. Despite this, the idea that the equity in the house can be accessed for consumption purposes in old age or as a safeguard against loss of income is not yet widespread in Sweden. There is, however, reason to believe that this perception is gradually changing as a result of a sustainable price increase and weakening pension systems. Withdrawal of housing equity can also be a way of managing property tax (Kreft, Turner & Yang, 2005).

Both owner-occupied housing and CHAs are subject to property tax, which is administered by the national government.⁷ Initially no property tax is paid on newly built dwellings. Thereafter it is paid at a decreased rate. Property tax is a certain percentage (1% in 2005) of the assessed tax value and this percentage is under constant discussion. Every property is supposed to have a tax assessment value equivalent to around 75% of the market value. Since the tax reform in 1991, long-term homeowners with houses in attractive locations have seen their property tax increase. This increase in the property tax has caused insecurity among some homeowners. In 2005 a regulation was introduced to raise the tax in stages for households with increased property tax. In addition, the property tax should not exceed 5% of a household's income and there are procedures for deductions (Skatteverket, 2005).

Only limited protection is available for homeowners in the event of unemployment and loss of income. However, this could change if the long-term house price boom were to turn into a bust. This would have such a profound

Figure 9.5 Interest rate by year and by quarter 1974-2004 in Sweden



⁷ Co-operative housing associations (CHAs) pay property tax for the dwellings in the co-operative. The individual households are not always made aware of the actual amount. Landlords of rented housing also pay property tax.

impact on security that both the government and the banking sector would probably introduce more flexible measures and safeguards to protect the economy and to minimise credit losses, such as mandatory life insurance. For individuals and households, however, there is still the ordinary social security system with sickness benefit, early retirement, housing allowance, social allowance and unemployment benefits etc.

9.3.3 Developments in housing policy

In contrast to many other European countries, home ownership has not been promoted in Sweden. Instead there was a national housing policy aimed at building apartment blocks for ordinary families, the so-called Million Programme which lasted from 1964 to 1975. A starting point for Swedish housing policy has been to foster equality and social justice in and through housing and town planning. In part the goal has been to create better housing for poor people. However, the norm and the dream for households and especially families with children is owner-occupied housing (Almqvist, 2004). During the 1970s there was a wave of new construction of owner-occupied housing, which was also reflected internationally. Once again, in the 1990s there was a move to owner-occupied houses and on this occasion to the countryside around Swedish towns (Almqvist, 2004, p. 19). However, there was an earlier programme to support poor families who wanted to build their own homes. This early policy (1905-1948) was meant to prevent the depopulation of the Swedish countryside and to make Sweden more self-supporting in food production in the event of war.

9.4 Housing decisions and the meaning of tenure

The following sections of this chapter present the results from an interview study conducted in Gävle, Sweden in 2005 with 30 households. The interviews were conducted with a similar interview guide and identical vignettes to those used by all the countries participating in the OSIS project (Belgium, Finland, Hungary, Germany, Portugal, the Netherlands and the UK).

The meaning of housing includes the feeling of security and the opportunity to be yourself in your own space. This does not seem to differ between the different forms of tenure. Neither does the feeling of permanence differ between tenures. These were the results of the interviews which are described in detail in this section. After some thought a few of the owners interviewed expressed the opinion that renting was more secure. In their opinion, renting will not result in any expensive surprises because it is just a question of picking up the phone and asking the housing company to do the maintenance.

Housing at
some of the
interview loca-
tions in the
Brynäs and
Sättra neigh-
bourhoods in
Gävle, Sweden.



How do people perceive owning and (social and private) renting?

Since the meaning of housing differed very little between the tenures, the main concern, which was frequently mentioned (using almost the same words), was that it feels good to pay money to yourself, a reference to mortgage payments for homeowners.

M⁸: “You do pay money to yourself and it’s a form of saving. There is saved capital invested in your property” (homeowner, male, 62 years old).

In addition renting was perceived as an increasingly expensive alternative when interest rates are low. The conclusion is that the meaning of housing in general does not differ between tenures but respondents do recognise differences in costs. For some, however, a specific physical property may have significance if it is owned because of the long-term commitment and perhaps the simple fact of ownership. Despite this the meaning that any housing

⁸ In the quotes, M stands for male, F for female and I for interviewer.

should have is expressed in the same way, whether or not the respondents' current housing matches the criteria.

Regardless of their current form of tenure, the respondents also presented a unanimous view of their preferences for housing and tenure at different stages of their lives. This was particularly clear when they were asked about their ideal housing and housing location. An average-sized house by the sea or a lake in the countryside, but not too far away from the city was the preferred choice. The imaginary location was around Gävle (where the interviews were conducted) or in Sweden, for all but one respondent. Consequently, tenants and owners expressed both the general meaning of housing and their preferences for housing and tenure in similar terms.

The first and most important reason for owning is that it seems to be a financially advantageous alternative, but according to the respondents there are exceptions at both ends of the life cycle. In other words, renting is seen as an acceptable alternative for young people as well as for the elderly. The respondents' own preferences changed as they grew older, which was also clear from their housing history. The exceptions were a couple (renter, female, 42 years old) who had always rented because they said they were not able to do the maintenance on a property and a man (homeowner, male, 55 years old) who believed that renting was unthinkable even in old age, because he had visited rented housing through his work and did not like the neighbourhoods.

When respondents were asked about a fictional young couple and their housing decision (in a vignette), the responses they gave were similar. The young couple were advised to rent. It is easy to move if they change jobs and they would probably not have enough money to buy, the respondents believed. Some added that banks would not lend the couple money because they (probably) have low incomes and one had an insecure job. The respondents also believed that this was the easiest solution, as this is a trial period for the couple. It is the first time they have lived together and if they separate there will be no difficulties with mortgages.

There were also signs that disadvantaged renters preferred the municipal housing companies (MHCs) to private landlords. One respondent (renter, male, 33 years old) lived in an MHC apartment, but said that he preferred it to living in private rented housing because that had a private feel to it and you were subject to the landlord's arbitrary decisions. He strongly advised his brother (who had recently arrived in Sweden) to do the same. Another respondent (renter, male, 45 years old) said the same thing and was angry that he had to stay in property belonging to a private landlord, at the bottom of the scale, as he said. He was, however, refused an apartment by the MHC, because of large debts that were being handled by the head of the enforcement district (*Kronofogdemyndigheten*). Like the majority of renters, he would like to live in the MHCs, possibly for the same reason mentioned above, that is in order to have more privacy and a wider choice of apartments.

When respondents were asked about the role of home ownership in Sweden in general, and people's preferences, owning a property was the most common answer. However, many respondents added that some people definitely prefer renting because of the service they get. Likewise young people were seen as preferring to rent. One woman (homeowner, female, 59 years old) said that home ownership was less important in Stockholm and therefore its importance depended on the availability and choice in the town. One respondent elaborated on the issue of the value of owning per se and wondered whether it was the greater variety and different forms of housing that are available to homeowners that make ownership attractive. She did think that a wider supply of different types of rented property would change people's preferences in favour of renting.

F: "You know I don't think it's ownership itself, but the choice available. That you want...No, but I do think it's the choice of where you think you want to live and what suits you the best and sometimes this means buying your own property. But I think that if there were a bigger and a more varied supply of rented housing, then more people would rent" (homeowner, female, 46 years old).

I was expecting respondents to explain that they felt proud and had a sense of achievement when discussing their preference for ownership, but they did not. One reason for this might simply be that people do not perceive the differences between owning and renting in that way, but another reason might be an unwillingness to sing their own praises. A feeling of pride in your own achievements in housing is closely related to making comparisons with other people. It might not be politically correct to spell out the fact that you are better off than others. I do not know if this attitude is particularly pronounced in Sweden, but it might be the case. However, a few respondents (for example, renter, male, 42 years old, homeowner, male, 55 years old and homeowner, male, 64 years old) reminded me of the fact that they wanted to purchase because they always end up in 'better' neighbourhoods and that neighbourhoods with renters are less well looked after and not as nice. This description of residential segregation (in both class and ethnic terms) is almost taboo, but a few respondents, including one immigrant (renter, male 33 years old), emphasise apparent differences between residential areas. Nevertheless, the reason why only a few seemed to feel proud of their achievements might be as simple as the fact that respondents did not think about housing in that way. It is important to remember that Gävle is a medium-sized town where class, neighbourhood and tenure differences may not be as pronounced as in larger towns, such as Stockholm, where the differences between neighbourhoods are clearly obvious.

How do housing decisions relate to the labour market, to social security and to personal well being?

A wide range of life events had influenced the respondents' housing decisions. Factors such as relationship breakdown or moving in with a partner and other considerations, including larger or smaller houses for a growing or shrinking family, were frequently mentioned. The importance of these life course events is apparent in the responses. A couple described their housing history from living separately in rented apartments as students, moving in together in a rented apartment, living together in a CHA terraced house where their first child was born through to the big house they have today now that they have two children (homeowners, female, 35 years old, male, 36 years old). The woman emphasises the role of the children in her housing decisions.

F: "I'm always thinking about the children and if you have children, a family, and all that, then maybe you're more likely to feel that you want to own."

F: "I can imagine that it's more important during that time of your life, anyhow."

I: "Yes."

M: "Yes, that might be it" (homeowners, female, 35 years old, male, 36 years old).

Some respondents, but not many, had moved because of a change of job. The reason might be that the majority of the respondents had lived in or around Gävle since they were young and did not want to move. Others had moved to Gävle to study in the first place but had then started work and stayed on. Even if they changed job, there was no reason to move, because they could commute. In addition, employment can be an influence because it allows you to accumulate more financial resources. This in turn has given some respondents the possibility of moving to better housing. Two women said that they had just followed their husbands' jobs (renter, female, 64 years old) and (homeowner, female, 53 years old).

There was a clear relationship between the nature and type of employment and housing decisions among the interviewees. Households with average to high incomes had a stable housing situation and lived in good quality housing, often privately owned.

For most of the respondents, housing decisions did not seem to be subject to restrictions, but their housing history often included one or more forced moves when they were young. As a result of education or relationship breakdown, the rent or the payments became too high. One exception was the respondent (renter, male, 45 years old) whose debts are a case for the head of the enforcement district (*Kronofogdemyndigheten*). Because of his debts he could not rent an apartment from the MHC (municipal housing company). In addition some private landlords were not prepared to rent property to him and the banks would not lend him money to enable him to become a homeowner. His current landlord (private) had his parents stand surety for him. His

housing decisions were limited to a very small selection of apartments.

M: "It didn't happen of its own accord, it was more a situation I have been in for several years really, I am not allowed to rent without my parents as guarantors because I have debts of several hundred thousands. It's alimony and I still have mortgages since the divorce."

I: "Yes."

M: "Even if I have been earning, sometimes very large amounts, I haven't had any security, you know. We had been looking at several apartments before this one, which I really wanted, one in the middle of town with five rooms for 4600 with a tiled stove and stuff like that. But I wasn't allowed to take that one, the housing company said, they had a tougher policy. And I had been at Gavlegårdarna [MHC] and had accumulated a lot of points over a number of years, but, for a municipal company and the biggest in Gävle, they have possibly the most unfair rules. (...) You can only have a maximum debt of 20,000 and I have very much more" (renter, male, 45 years old).

According to the respondents, housing really does not have an influence on households (reverse causality) other than restricting their holidays. This was the case for the marginal households⁹. Those respondents who said that they had problems affording holidays also said that they had never been abroad on holiday and some had had complaints from their children. Their children made comparisons with friends' families that could afford to travel.

When prompted, some respondents 'discovered' an impact of housing that they had not identified in the first instance, but they said the impact was minor. In a housing market like the one in Stockholm, where housing is hard to find, one respondent said that she could only take jobs that were within commuting distance. She would not give up her much sought-after rented apartment for a job. She added that this was the time when finding a job was easy (homeowner, female, 54 years old). A couple with children had calculated that they could stay in their house while studying (with study and housing allowance) and admitted that they might have cancelled their education plans if they had had to move. The impact of housing may be minor, but another interpretation is that the respondents justified the restrictions, in particular those caused by high housing costs. They justified the costs unconsciously because of their desire to stay living in the same house. Housing was

⁹ Eight households are characterised as marginal. They have a combination of the following factors: high loan-to-value ratios, low incomes, experience of problems with paying mortgage or rent, living in lower segments of the housing market, one or more members of the household unemployed or unable to work and a lack of (private) safety nets. Two households have significant debts. One of these has such serious debts that this has consequences for the choice of housing available to him.

not seen as the cause of financial problems. Instead the problems were attributed to, for example, a low income or the cost of having a large family.

In my position as an interviewer I sometimes felt that their situation was sufficiently difficult to justify moving, but they themselves had found ways to cope with it. This was especially true for marginal households. They did not find the problems too serious and therefore did not move. However, the respondents often said that they would prefer to move and improve their financial situation, rather than having affordability problems and letting their housing have an impact on other areas of their lives.

Do people intend to use their housing resources? Under what circumstances and how?

The respondents were asked about housing equity from three perspectives: a case in a vignette, their own possible future use and their past or current use of housing equity. Despite being mentioned during the interview and advertised recently in Sweden, the concept was new to the majority of respondents and had to be explained.

In the vignette where respondents were asked about the use of housing equity for a couple's pension, many regarded the idea positively. However, the result that the children and grandchildren would not inherit the total value of the property troubled some respondents. On the other hand, if people could not afford to live and had a large asset, there was no doubt that they should use it, the respondents believed. Others did not like the idea of using housing equity at all and said that the banks would trick them, that loans are not a good solution or that it was not worth it. The best option was to sell the house and downsize or even rent. When asked if it was a good idea to use housing equity for pensions, one respondent (renter, male, 33 years old) said that he simply does not like debts and loans.

Concerning their own future use of housing resources, many said that they would have to be in a position where there was no other solution, but then more than half of the interviewees took a positive approach. The most popular use was home improvements, followed by care needs (acute), the purchase of a holiday home and pensions. Some respondents would also consider using the equity in the future so that they could stop working or work part-time. None of the respondents were in favour of using the equity to buy another property to rent, start a business or take holidays.

Some respondents had already used equity (compare this with the possible future use and the case in the vignette) for improvements to housing, to buy a car and furniture and one household used it for a caravan. It was a delicate ethical question for some of the older households, because they have been taught that loans have to be paid off. The younger households often had a more open attitude towards using equity.

Improvements to the house are considered to be an investment and large

amounts of money are sometimes needed, which makes this a reasonable purpose for using housing equity. In general, people would prefer to make use of other savings or to pay for things out of their monthly incomes, even if they have used housing equity before. A couple of households chose to take out a higher mortgage when they first moved in so that they could pay for renovations that they planned to carry out. A similar reason for a few households to take out a higher mortgage was to buy furniture. These were young people starting a new home.

The next most common use of equity was buying a car, which had been done previously by three households and considered by a number of others. However, this says something about the attitude to the use of equity among the households interviewed. Despite increased advertising, its use is still limited.

The thought of using housing equity in order to work part-time was a new one and none of the respondents had ever done this. The majority would not do this in the future either. They preferred to 'cut their coat according to their cloth'. Accordingly, many had had housing and job careers which ran in parallel. When they started to earn more, they moved to higher quality and larger houses. For many this meant a difficult period when buying, but their situation improved with time.

None of the respondents had used housing equity to start a business or to finance a pension or early retirement. The elderly respondents in particular began talking about ethics when the suggestion was made to use housing equity for these purposes. They felt it to be very wrong to spend what you had saved throughout your life and, in addition, they did not believe that you should put your home at risk.

Furthermore, none of the respondents said that they had moved in order to access finance from housing (even though some moves had had this result). Some marginal households did move because they could not manage the rent, the CHA charges or the mortgage payments, but this did not result in access to finance (the value of the house or apartment had fallen). Some older homeowners mentioned that they might move to access finance when they retire. A common strategy mentioned was to sell the house or apartment and buy a smaller property or rent in order to enjoy their retirement.

My interpretation is that it is difficult to judge if the respondents really would use housing equity for the purposes that they said they could use it for in the future, because for most of them this was the first time they had even considered the possibility.

9.5 Security and insecurity

Financial security and insecurity is an everyday question for many households. The interaction of housing systems, the household structure, finance

and social security is sensitive to small changes in any area. Many Swedes have small or non-existent buffers against increasing costs, social insurance or relationship breakdowns or other events in their lives.

What are the securities of home ownership?

Most respondents feel financially secure about their housing and say that, as long as they prioritise their housing costs, nothing will happen to them. They will manage to pay and there will be no reason for them to be evicted or for their house to be repossessed. This applies to both renters and owners.

Those with well-paid jobs, savings and large amounts of housing equity feel more secure than the others. In the group of interviewees these were, in particular, people who owned their own homes and who had been born in the 1940s and 1950s. The 'secure group' also included some 'lucky' young couples who had just started to realise that their homes were also a major asset in terms of equity. One respondent (homeowner, male, 38 years old) was very proud about his choices, which had made him and his family wealthy (wealth in the form of equity since house prices had increased, but which was still less than that of the older owners). It is important to note that he is now 38 years old and bought his first home in 1997. His only experience of home ownership is that of a period of rising house prices and falling interest rates. This fact might be an explanation of his feelings. One woman (homeowner, female, 29 years old) reflected on the issue of housing as an investment over different periods.

I: "You nevertheless generally assume that it is a good investment, to invest in a property?"

F: "Yes, we (...) did enter the housing market at that point, so up until now, that's how it has been. There are other people who have bought property at a totally different time, I don't know when but maybe 20 years ago or something like that, when interest rates were very high and prices were rising slowly" (homeowner female, 29 years old).

How should we consider the financial security of homeowners which results from house price increases in relation to the non-existent financial security of renters? There are also the different opportunities of the different generations to take into consideration. Have they created their own security? Many respondents simply remained living in the same place, made a fortune and became financially secure. The quotes below reflect a feeling of compassion for younger people on the housing market today. The housing market is seen as more risky and unfair today, also in relation to tenants.

M: "It's awfully unfair really, our society, in that you (...) if you have been lucky like us in having a house like this, which is cheap housing and then you hear about

people who are paying 6-7000 a month in rent and they get nothing in return and barely make both ends meet, you know, and they don't have a penny to put aside" (homeowner, male, 55 years old).

M: "In fact, you could say that those of us who were born during the 1940s have got our houses for free, but it's bad really because inflation has paid for them. Or the savers have paid for our houses. It's not very nice really, but that's what has happened."

I: "Yes, and now the situation is quite different."

M: "No, and if you bought a house in the past, you could see better times coming, but I doubt if things will get better later on. It's inflation that does it and you don't know whether that's going to happen. People who are buying expensive houses today might have to put up with very high housing costs throughout their whole lives, you know" (homeowner, male, 64 years old).

Apart from equity, the other factor that made homeowners feel secure was their comparatively low housing costs. This meant that the risks that were mentioned did not seem relevant to them. In addition, younger, well-informed households enjoyed the flexibility of mortgages, compared to tenants' rents. They did not have fixed loans. Whenever their income changed, they could also change the payments on the loan. This was the case for the couple with children who had stayed in their own house while they were studying (homeowners, female, 35 years old, male, 36 years old). They did not make any payments for three years. Another well-informed woman (homeowner, female, 46 years old) said that if you have a house, you have to follow and investigate developments in the economy. In her opinion you have to plan your finances actively instead of just paying off the mortgage like many older people do.

Not all the respondents feel secure. One marginal respondent (homeowner, female, 59 years old) was not sure whether she could stay on in her current home at the time of the interview and another respondent (homeowner, male, 56 years old) was about to move because of relationship breakdown. A third respondent, who rented a property, (renter, female, 64 years old) was not sure whether she and her husband could stay in their current home when she too retires next summer.

Even though most respondents felt financially secure, another important exception was those people who were buying, selling and paying co-operative charges in the early 1990s, at the time of the housing market crash. Some respondents are still suffering from the after-effects of the crash. One household (homeowner, female, 53 years old) had to leave their apartment in a CHA because the charge had increased and the mortgage interest rate had risen. They got nothing in return for their housing. All over the country, the CHA charges increased, but the worst cases were in newly built housing with large shared loans. The government reduced the housing subsidies, which only made the difficult situation worse.

What are the securities of (social and private) renting?

One important aspect of security for tenants is that they will not have any unexpected costs as a result of housing maintenance. This factor was very much appreciated by the respondents. On the other hand the costs for tenants will not fall when they retire, as is the case for homeowners who have paid off their mortgages over time.

The tenants interviewed were aware of the fact that the normal tenancy agreement, whether private or public, is for an unlimited period. Some also trusted the local Tenants' Association (*Hyresgästföreningen*) to do a good job in restricting rent increases (renter, female, 64 years old). As these opinions were recorded before the new centre-right alliance government began discussing free rent setting, it would be interesting to compare them with people's current thoughts and concerns.

What do people perceive as serious risks? What is the role of housing in their perception of risk?

When discussing serious risks and housing, the starting point for most respondents, apart from the marginal households (8) in the survey, is that it is not something that they worry about. They believe the risks to be small in general terms, even after discussing particular issues.

However, when asked specific questions, households did discuss the risks and this is described in the text below. Many respondents answered that a reduction in income in the form of unemployment or sickness benefit would not force them to move. They would have less money to spend on other things, but they would still be able to afford their housing costs. However, some have started to think about the fact that they will have a lower income when they retire. One renter said that she and her husband would try to stay in their apartment when she retires, but that they are considering the option of downsizing to make their housing costs more manageable (renter, female, 64 years old).

Costly repairs were not a concern for non-marginal households either. They said that they had savings which would cover repairs and, if necessary, they could use housing equity. Some older homeowners saw the risk that, as they got older, maintenance would be difficult for them to carry out. Hiring people to do the work would be relatively expensive in their opinion. For renters maintenance is not an issue, since it is included in the rent.

When asked a question about rent or interest rate increases, non-marginal households said that they could manage. Some households did even mention possible help from the government, if the circumstances became too bad. The explanation was that if they were in trouble, the majority of homeowners in Sweden would also be in difficulty, and then the government would have to step in.

Neither marginal nor non-marginal households felt insecure about the land-

lord selling the house or, for that matter, neighbourhood deterioration. They just did not see it as a risk in their neighbourhood and with their landlord.

For all the households consisting of couples, the risk of separation was the most important factor. Some households with low housing costs did not believe that they would be forced to move in the event of a relationship breakdown, but for most it was obvious that they would have to reduce their housing costs by downsizing.

Understandably, the situation for marginal households differs with regard to the above-mentioned issues. They already live at or just under the limit of what they can afford. Rent increases or increases in mortgage interest rates are risks for them. Because of this, most marginal homeowners have fixed rates as a precautionary measure. Fixed rates are a safety measure, but at the same time they result in higher costs when interest rates fall. Costly repairs are another source of insecurity for marginal homeowners, most of whom did not have housing equity which they could use.

Tenure is not the main reason behind the households' perceptions of risks to housing. The most important factors are the affordability of housing, together with household size, age and employment. However, there are very different preconditions for the two groups of owners. Owners in CHAs formed in the 1980s or 1990s, that is before or during the housing market crash in Sweden, have worse conditions than the other owners. One example is the single, unemployed respondent (homeowner, female, 59 years old), who was aware of a number of risks and could only afford her apartment because her daughter (unemployed, 36 years old) was living with her. The main reason for her difficulties was that the CHA where she lived had suffered in the crisis at the beginning of the 1990s. Because of this she still paid a high monthly charge, plus electricity and broadband. The same respondent has had past experiences of affordability problems.

I: "Are you experiencing or have you experienced in the past difficulties with paying loans or charges?"

F: "Yes. It was when I became unemployed and couldn't make ends meet, you know, but I managed. But then I had nothing left for myself. All my money went on the loan and the housing costs and I survived on around 2000 a month. And I don't have much more than that to live on today either, but I could say that I've organised my life on the basis of that."

I: "And it's been like that for a while, with your income being relatively low?"

F: "Yes, yes" (homeowner, female, 59 years old).

For this woman the affordability of housing together with her household size, age and employment were all relevant factors for her insecure situation.

In order to explain the importance of the factor of household size and age for the perception of risk, we can include all the respondents. This is because

the majority of them talked about periods of affordability problems when they lived alone, when their children were young, when they had large, new mortgages and when one of the parents was either working part-time or staying at home. Respondents who were in this phase of their life when the housing market crash occurred often suffered badly. One respondent (homeowner, female, 42) was affected in this way and her experience shows in her response to a vignette.

F: *“Yes, I think the prices for the co-operative apartments have become so high, that I would be afraid to buy second-hand now. You hear about prices of 500 to 600,000, so I would probably advise them to get a rented apartment.”*

I: *“To start with a rented property?”*

F: *“Yes, because prices could suddenly fall and they’d be left there with all those mortgage payments. Right now it is like that (...) so if it was my son I would advise him to start with a rented apartment (...)”*

F: *“I don’t think many apartments are overpriced at the moment.”*

I: *“Because they have increased [in price] that much?”*

F: *“Because I’ve seen what can happen [with prices]. I was there when prices fell. So right now... but otherwise I would think it’s a good idea to buy housing” (homeowner, female, 42 years old).*

My interpretation is that the level of risk faced by the households interviewed is not a question of eviction or repossession. This does not even apply to the marginalised households. Their housing situation is not so serious that they will be threatened with homelessness. It is more a question of where to set the limit of the value of staying in their present housing as against the costs. How much is the household willing to pay before downsizing? There is clearly a risk of not being able to afford basic everyday requirements. For the marginal households, for example, it is not possible to go abroad on holiday. This is mentioned by many of the marginal households and had been the reality for many of the respondents in the past.

Some respondents who expressed feelings of insecurity could change their housing situation and would be better off if they either sold their co-operative housing or bought a home, if they were renting (homeowner, female, 59 years old, renter, male, 45 years old and renter, female, 34 years old). However, the present low interest rates are exceptional and moving house in these circumstances might be a cause of uncertainty. Home ownership as the low-cost alternative to renting has changed the ‘normal’ pattern for people when considering housing and affordability in Sweden.

9.6 Safety net strategies

What is the role of home ownership in people's financial planning; do they take precautions, or simply rely on the social security system?

Do people take precautions against possible risks? What are the elements of the safety net strategies?

According to the respondents, the first method of counteracting perceived housing risks is to use savings. However, the amount of savings varied greatly. Non-marginal homeowners were best prepared in this respect, while the marginal households had little or no savings at all. About half of the respondents also gave examples of things (cars, etc.) which they could sell if they were short of money.

With regard to precautions against risks, generally the respondents did not have private mortgage insurance, but had some savings, which they had not put aside solely for the purpose of housing. Three households (homeowner, female, 56 years old, homeowners female, 29 years old and male, 31 years old and homeowner, female, 46 years old) had mortgage insurance, which included protection if the other household member died. These were households where either partner could remain in the home and pay the costs themselves in any case.

The majority of those under the age of 45 said that their parents would help as a last resort. This was the case especially if the problems were small and could be solved within a reasonably short time. Many respondents over the age of 45 said they had no family that could help. If the problems were more permanent, then the households would turn to the municipality and apply for housing allowance and, in the worst case, social allowance. However, many knew they were not eligible for social allowance. On the other hand many had already been receiving housing allowance for some time. Even the non-marginal households had received housing allowance.

Many of the respondents had private pension savings and almost all of them had a private insurance for accidents and sickness, which were intended to cover other eventualities, but which would help out indirectly in the case of housing problems. Joining an unemployment benefit fund also seemed to be a natural choice. In a vignette the income of a hypothetical unemployed man in Sweden would be reduced to 80% of his original earnings, but the household could stop paying the mortgage, which was the suggestion made by many respondents.

M: "I see no reason for that [having to move], it depends on their financial situation in general. It's not as if he won't be paid anything when he's made unemployed (...) just going on these facts I would say they will probably survive anyway" (homeowner, male, 28 years old).

Interestingly, the respondents in a marginal or difficult situation felt the situation of the household in the vignette to be more insecure than the others did. They themselves had experienced problems, such as unemployment benefits arriving late, which had caused them problems because they had no margin for error. All but one of the eight marginal households advised the couple in the vignette to sell the house.

M: "It seems to me that they wouldn't be able to afford to stay there. From a purely financial point of view, it might be a good idea to move to something cheaper" (renter, male, 42 years old).

It may seem that the financial planning strategies described above differed by tenure, because the homeowners could afford to save more and take out more insurance policies. However, those respondents with savings and insurance said that they had had the same arrangements throughout their housing history, that is both when renting and owning. As a result it seems that having a higher than average income is the most important way of counteracting perceived risks to housing.

To what extent do people rely on social security?

Of all the forms of support available, housing allowance was the first to be mentioned by the interviewees, if there were housing problems. No one believed this benefit to be wrong in principle. However, some were against its use and believed that it had been overused in the past. One renter said that clearly the responsibility lies with the individual and the state or municipality should not interfere until the situation is really acute. He then referred to his partner's more liberal ideas. The couple had different opinions and both of them were aware of this.

M: "There you just want benefits straight away!"

F: "Yes, it depends on the individual too. Not everyone can handle money, that's just the way it is" (renter, male, 29 years old, female, 22 years old).

Among the households interviewed (like the one quoted above), it seemed that the men were inclined to believe that people should handle their own problems. The women respondents were largely satisfied with the current system.

One respondent (renter, female, 34 years) thought that the MHC has a responsibility and should make greater efforts to build less expensive properties. The rents for housing that had recently been built by the MHC were far too high, she said.

In general the households interviewed did rely on the social security system as a last resort. They counted on unemployment benefit and sickness insurance, for example, and in the worst possible situation on social allowance.

The question of whether the perception of risk relates to more objective measures of insecurity is in itself an interpretation of the respondents' situation. As stated above, some of the respondents could downsize in order to reduce their housing costs. This is the responsibility of the respondent. Measures to be taken by society include the provision of a variety of benefits, such as unemployment benefit, sickness benefit, housing and social allowance and pensions. As a researcher and an outsider, it is very difficult to say whether these measures live up to the respondents' expectations, but they certainly diminish the households' risk.

9.7 Further discussion

The ambitious objective of the OSIS project was to identify the origins of security and insecurity in the interaction of housing systems with jobs, household structures, finance and social security. One hypothesis of the OSIS project is that a restructuring process is taking place throughout Europe. This restructuring relates to citizenship and social rights, in which housing is an important factor. This is a difficult hypothesis to test and it has only been possible to make suggestions about its accuracy. However, in one respect this restructuring process is one of the things which I have identified as a result of this survey.

The signs of restructuring that I have found are not abstract and can be described as modified conditions on the housing market. Lower interest rates on mortgages, increased house prices and relatively high rents for tenants have changed the landscape of housing for Swedes. This long period of price growth is exceptional and, together with the low interest rate, it forms the framework for the current situation. According to the respondents, the previous equality between the different forms of tenure has changed in favour of a clear advantage for homeowners, and private homeowners in particular (see Figure 9.6).

This might be the beginning of a restructuring of the housing market and the question is whether people have identified these changes and, if so, how they regard them. One example which indicates that some people have not fully realised what has happened is when homeowners mention risks such as maintenance costs, while at the same time having large housing equity, plus householders' comprehensive insurance and savings. There is a tradition of seeing homeowners as being less secure and tenants as more secure, but today the reverse is true. Tenants have to pay high rents and do not know whether rents will increase in future. They have no housing equity to supplement their pensions and are often not able to save much. Interestingly, a description of the situation both before and after the housing market crash can be found in the interviewees' answers (see also Figure 9.6).

Figure 9.6 Position of owning and renting on the security and insecurity scale before and after 1993 in Sweden (preliminary summary of the respondents' views)

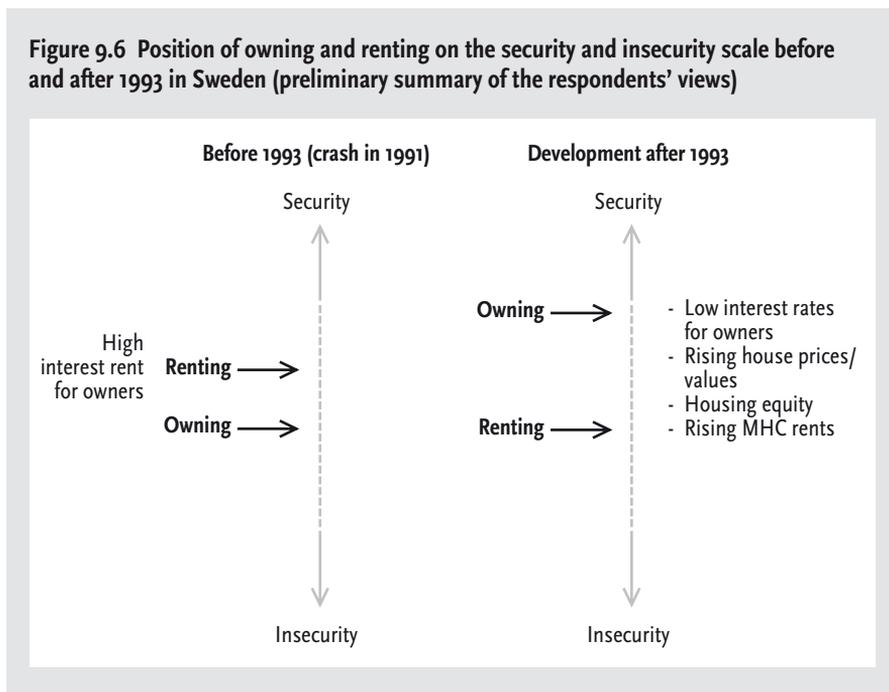


Figure 9.6 indicates a change in the relationship between renting and owning. However, there is particular interest in homeowners in the OSIS project. Interestingly, a distinction between private and CHA homeowners can be identified, where private homeowners are the real 'winners' and co-operative homeowners believe that their position combines security and insecurity. The timing of both buying and selling housing has been crucial for future housing costs, as well as for the financial situation of Co-operative Housing Associations (CHAs). Because of the differences in their financial situations, the charges for co-operative housing vary greatly.

The picture presented by the media is of the greatest importance for the two situations before and after 1993 which are illustrated in Figure 9.6. Are housing issues sensitive to trends? I have not carried out any systematic research on the view presented by the media of mortgages, future house prices, interest rates or publicity for using housing equity. Despite this, my feeling is that people seem to be referring to an ongoing discussion and share the opinions on these issues that can be found in media. Consequently, the media may also help to shape security and insecurity.

Apart from the possible view of housing and house prices given by the media, the most important finding concerns a widening gap resulting from the reconstruction of the housing market. The interviews make it clear that there is a gap between, on the one hand, couples born in the 1940s, who own a house and, on the other hand, young couples and single people (both old and young) who do not own property or who entered the housing market during a less favourable period. Young entrants to the housing market are vulnerable to (more or less strongly perceived) risks of higher interest rates. Older, marginalised households (for example single people) may never have recovered from the housing market crash in the early 1990s and feel a sense of

insecurity about their pensions and about whether they can afford to stay in their current home. The wealthiest households in my survey have the lowest housing costs. This division according to age and tenure became clear as a result of the respondents' experiences.

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10 United Kingdom: Safe as houses?

Deborah Quilgars & Anwen Jones

10.1 Introduction

The United Kingdom consists of four nations: England, Scotland, Wales and Northern Ireland. England is home to nearly 84% of the UK's 60.2 million population (Table 10.1). The UK population continues to grow at an annual rate of about 0.5%, although growth is uneven across the UK, with parts of Southern England and Northern Ireland seeing an increase of around 10% in the last ten years whilst Scotland and Northern England have experienced a slight decline in population.

The UK has an ageing population, with an average age of 38.8 years, compared to 34.1 years in 1971. The changing population profile can be explained by declines in both fertility and mortality rates as well as international migration into the UK. In 2005, net inflow migration stood at 185,000 (including a net migration of 60,000 people from the A8 countries). In 2001, the UK had a minority ethnic population of 4.6 million (7.9% of the total population).

The majority (nearly 80%) of the UK population live in urban areas, though these areas represent only 9% of the total land area. Over a quarter (26%) of the UK population live in London and the South East. Population density over the UK is high compared to many other areas of Europe, with an average of 244 people per square kilometre.

In the late 1990s, Scotland, Wales and Northern Ireland all held successful referendums on devolution, leading to the establishing of separate Parliaments or Assemblies in the four nations (the Northern Ireland Assembly was subsequently suspended). Devolved powers are greater in certain areas, for example health and education. The UK Parliament retains overall authority and control of a range of reserved powers including social security policy (covering both income benefits and state support with housing costs). Within England, increasing responsibilities are also being placed at a regional level, with the establishing of nine Regional Assemblies. Lastly, but importantly, 365 local authorities (285 in England; 32 in Scotland; 22 in Wales; 26 in Northern Ireland (soon to be reduced to 6)) across the UK are charged with implementing policy at the local level across a wide range of areas, including housing.

Table 10.1 UK population by nation

Nation	Population	Per cent of total population
England	50,431,700	83.8
Scotland	5,094,800	8.5
Wales	2,958,000	4.9
Northern Ireland	1,724,400	2.9

Source: National Statistics, mid-2005 estimate,
<http://www.statistics.gov.uk/>

The research study

The UK OSIS interview study was conducted in York, a local authority and city in the Yorkshire and Humber Region of England with a population of approximately 182,000. York's economy provides a strong base of skilled and professional jobs and the city's skills profile is untypical of the North of England: the high level of manual and management skills in the York labour supply is similar to the South West and South East regions of England.

York has a buoyant housing market, with high demand for social housing and, as in most areas of the UK, high demand for affordable owner-occupied accommodation. Also in common with other parts of the UK, York has experienced significant rises in house prices in the last decade, with the average house price just slightly lower than the national average. There are four higher education institutions in York and an estimated student population of more than 30,000, which contributes to high demand in the private sector housing market.

The recruitment of the interview sample was primarily undertaken in one area of York (Holgate/Acomb) that is typical of the city, with the exception of having a smaller student population. A random sample of households was mailed on three occasions with householders asked to reply if they were interested in taking part in the research. A small number of respondents were also recruited through snowballing via personal contacts at the university.

Thirty interviews were conducted during the early summer and autumn of 2005 with a mix of single people and couples (with and without children), of whom two-thirds were owner-occupiers (20), and the remainder social tenants and private renters (5 of each). Eight of the households had one or more adults unemployed or unable to work (six owner-occupiers and two tenant households (one social renter and one private renter)). Respondents were mixed in terms of socioeconomic and demographic characteristics, a small number were wealthy, most were fairly comfortably off and a number of respondents (both owners and tenants) were living on low incomes, sometimes supplemented by welfare benefits, or were totally dependent on benefits. Eight of the homeowner respondents were considered marginal because of their low incomes or the precariousness of their financial position, particularly a high income to mortgage ratio.

10.2 Main developments in labour market and social security

Development of (un)employment, flexibility of labour

In line with globalisation pressures, a period of labour market restructuring has occurred in the UK that has seen a reduction in the proportion of full-time jobs (72% of employees in 1981 to 63% in 1996, and predicted 59% by 2006

Table 10.2 UK employment participation rates, 2004

	Employment		Unemployment		Average earnings
	in 1,000s	(%)	in 1,000s	(%)	(£)
England	23,947	(75)	1,142	(5)	26,915
Wales	1,313	(71)	68	(5)	23,920
Scotland	2,442	(75)	134	(5)	23,124
Northern Ireland	728	(68)	36	(5)	22,521
United Kingdom	28,431	(100)	1,380	(5)	24,024

Source: Labour Force Survey, cited in Siebritis, 2005

(Lindley & Wilson, 1998)); an increase in part-time employment; and a slight increase in self-employment. 'New' jobs are much more likely to be part-time or temporary positions. Other forms of flexibility in the labour market, including temporary contracts and agency work, have also increased during this period, although this still represented a minority of employment situations in 2004. Pay flexibility has also seen some growth (e.g. zero hours contracts, where employees are only paid for the hours they are required). Mortgagors are more likely to be in permanent, full-time positions than tenants, however it is estimated that about one fifth of mortgagor heads of households are in precarious labour market positions (Ford et al., 2000).

In addition, UK employment legislation was significantly relaxed in the 1980s, which resulted in less protection for employees against redundancy, as well as less safety net protection should they become unemployed (see Section 10.3). Trade union powers were significantly restricted in the 1980s and wage councils were dismantled.

However, alongside this restructuring, labour market participation rates have risen in all four UK nations over the last decade. Unemployment fell by about half from over 9% to less than 5% in 1994-2004 (Table 10.2). Although the unemployment rate increased slightly to 5.5% in 2006, labour markets remain presently favourable to sustaining home ownership, with the UK having the fourth highest employment rate of the EU25 at 71.7%, just above the Lisbon 70% target for 2010 (DWP, 2006). Attitudinal research suggests that there is a consensus that people no longer have a 'job for life' in the UK. For the most part, people are aware of labour market changes, the influences of global markets and the presumption that they will have to change jobs at some point. However, qualitative work reveals that people retain a belief in their ability to secure employment, feeling secure in the labour market if not secure in their present job (Quilgars & Abbott, 2000).

Development of economy (GDP)

The UK economy has enjoyed a period of considerable stability for over a decade, with low levels of unemployment combined with low levels of inflation and low interest rates. The Gross Domestic Product (GDP) has expanded for 55 consecutive quarters, the longest unbroken post-war expansion, and has been above growth in the eurozone for ten consecutive years (DWP, 2006). The forecasted GDP growth at constant prices (2000) for 2006 in the UK is 2.4%, which would represent a rise on 1.9% in 2005 but slightly less than 3.3% in 2004. In-

terest rates increased by a quarter-point in mid-2006 to 4.75%, marking the first rise in two years. Inflation growth was also running slightly higher than target following oil price rises in the first half of 2006. However, overall, the economic context remains favourable and contrasts quite considerably with the conditions of the late 1980s and early 1990s, when interest rates were as high as 15% and unemployment was about double its present rate.

The relationship between housing and the economy should be noted for the UK. Britain has always been a country where buoyant housing markets and high street spending go hand in hand (Hamnett, 1999), with the UK showing the highest correlation between private consumption growth and real house price change of any OECD country between 1970 and 2002. With house price rises (see below), mortgage equity withdrawal (MEW) totalled nearly £57 billion in 2003, making up nearly 20% of gross lending. In recent years a wide range of new options have been introduced, allowing borrowers unprecedented access to housing assets in a context where spend against secured loans does not have to be accounted for (but, obviously, has to be paid for) (Smith, 2005). MEW clearly has implications for the wider economy because of its impact on consumer spending and on household finances and indebtedness; on housing investment and the future quality and condition of the housing stock.

Development in social security

Income benefits

Statutory income benefits are relatively modest in the UK. Non means-tested national unemployment benefits were reduced in 1996 when the contributory unemployment benefit, previously lasting 12 months, was cut to 6 months. Their rate is paid at the same subsistence level as means-tested income benefits (currently either Jobseeker's Allowance (JSA) for economically active claimants or Income Support (IS) for other claimants). Redundancy payments are statutorily provided after someone has been employed for two years. However, such payments are modest, representing one week's pay for every year worked.

Recent survey data indicated that nearly three quarters of households taking out a mortgage since 1993 have access to some form of employee benefits, should they become ill or suffer an accident (Ford *et al.*, 2004). However, not all adults in a household are entitled to these benefits, and whilst for some employee benefits might take the form of a period of full pay for six months and a further six months on half pay, for others the protection could be much more limited. The provision of sick pay by an employer is not a statutory requirement over and above statutory sick pay arrangements which provide a subsistence amount. For those unable to work due to illness or disability, slightly enhanced income benefits are available in the form of Incapacity Benefit and a range of disability premiums and benefits.

Housing-related benefits

Means-tested Housing Benefit is provided to both social and private renters in and out of work and usually covers the majority if not all of rental costs. However, recent changes have seen some reductions in the scope of the benefit, particularly through the introduction of local reference rents which create a ceiling for benefit payments. A new form of housing benefit, the Local Housing Allowance (LHA), is currently being rolled out nationally for private tenants. The LHA will fix eligible rent for a particular household type in an area, providing a shopping incentive to search for cheaper housing but also leaving renters with a shortfall if they cannot find suitable accommodation within this limit.

Social protection for owner-occupiers who are unable to work has also been reduced over the last decade. In the UK, Income Support Mortgage Interest (ISMI), first introduced in 1948, provides limited means-tested assistance with interest (not capital) payments for people receiving income benefits during periods of unemployment or inability to work. However, since 1987 this provision has been progressively restricted, most notably from October 1995 when new borrowers faced a longer qualifying period of 39 weeks before receipt of ISMI. Pre-October 1995 borrowers now qualify for ISMI after eight weeks but receive only half of the eligible interest for the next four months, and full eligible interest thereafter.

There is no specific housing assistance for homeowners who are in work but on a low income, although the introduction of tax credits, first for working families in 1999 and then later extended to single working households in 2003 (Working Tax Credit (WTC)) provides some additional support that may indirectly assist low-income homeowners in meeting their mortgage commitments. However, in 2000/2001, take-up of WTC was only 50% of eligible homeowners compared to 75% of eligible tenants.

Reductions in ISMI for homeowners were accompanied by a policy shift in safety-net provision whereby the government expected mortgagors to provide cover against unemployment, sickness and accident via the private insurance market (Department of Social Security, 1997; ODPM, 2002). Whilst government policy encourages reliance on private insurance, there is no statutory requirement to take out insurance: homeowners are expected to act as responsible and rational citizens (reflecting wider ideological shifts away from welfare to individualised provision). Borrowers have particularly been encouraged to take out one particular form of insurance, Mortgage Payment Protection Insurance (MPPI), which typically covers mortgage payments for 12 months. However, take-up of MPPI stood at only 21% of all borrowers in 2005, hardly changed since 2000 (CML, 2006a). Other insurance can also play a role in helping to meet housing costs, with a recent survey indicating that 40% of recent (since 1993) mortgagors have Critical Illness insurance and 20% possess Income Protection (Ford et al., 2004). Different insurance products, how-

ever, cover for different eventualities and borrowers have to ‘stitch together’ a patchwork of provision with other safety nets such as savings and employee benefits, with estimates that only 12% of households have short-, medium- and long-term safety nets (Ford *et al.*, 2004). Whilst only 0.9% of mortgagors were estimated to have arrears of three months or more in 2005 (CML, 2006b), the number experiencing difficulties in paying or having short-term arrears is larger (Quilgars & Stephens, 2007). Evidence also suggests that those who most need cover are not always those who have it (Ford *et al.*, 2004).

Pension policy

There are a number of key elements of pension provision in the UK. Firstly, Pension Credit is an income-related benefit that provides, or contributes to, a guaranteed level of income. Secondly, the State Pension is paid to everyone who has enough qualifying years through having paid or been treated as having paid or been credited with National Insurance (NI) contributions. In addition there is an additional State Pension, an earnings-related part of the State Pension built up in the State Second Pension or the State Earnings Related Pension Scheme (SERPS). Thirdly, and increasingly encouraged, are private pensions, which include occupational pensions (also known as work or company pensions) and personal pensions (including stakeholder pensions). A personal pension is purchased from a pension provider such as a bank, life assurance company or building society and contributions are possible across (and between) jobs. Occupational and personal pensions will provide a regular income in retirement (via an annuity policy) and there is usually also an element or option to provide a lump sum on retirement.

Pension policy is undergoing significant changes in the UK. The Pensions Bill 2006 contains a number of reforms, including the following: making the basic State Pension more generous by restoring the link with earnings; increasing the number of people entitled to a full basic State Pension by reducing the number of years it takes to build up a full basic State Pension (from 39 years for women and 44 years for men to 30 years); raising the retirement age from 65 to 68 between 2024 and 2046; and streamlining regulation of private pensions, making it easier for people to plan and save.

10.3 Main developments in housing

Development of housing tenures

In 1900, only 10% of the UK population owned their own properties, with the vast majority renting in the private sector. Since then, home ownership has grown steadily, although not evenly, to a position where it is now the majority tenure, with 70% of households in England now being owner-occupiers (see Table 10.3). Northern Ireland has the highest levels of owner-occupation at

Table 10.3 Households by tenure, England

	1981 Number of households		1991 Number of households		2001 Number of households	
	in 1,000s	%	in 1,000s	%	in 1,000s	%
Owner-occupation	9,860	57	13,050	68	14,552	70
Private renting	1,904	11	1,824	9	2,092	10
Housing association	365	2	564	3	1,104	5
Local authority	5,095	30	3,872	20	2,906	14
Total	17,225	100	19,309	100	20,655	100

Source: ODPM, 2004

75% of total stock, followed by Wales at 73%, with Scotland having the lowest levels at 64%. Post-war governments have consistently encouraged home ownership through various schemes and tax relief provisions, including Mortgage Interest Tax Relief (MITR) until 2000. In particular, the Right to Buy policy has allowed pre-1988 social security tenants to buy their homes at a substantial discount off the open market price.

In the post-war years the development of state or municipal housing was important, and this tenure increased from 12% in 1945 to 32% in the 1970s. However, since 1979, public housing has been manoeuvred into an increasingly residual role by restrictions in investment and selling of (usually the highest quality) stock. For example, more than 1.8 million former tenants purchased their council home through the Right to Buy policy in the 1980s/1990s. By 2001, only 14% of English households lived in local authority housing (Table 10.3). Since 1997 Labour governments have continued to pursue policies to privatise and diversify housing away from direct state provision.

Other sectors have remained small although not insignificant. Since the 1970s, the housing association sector (more recently known as Registered Social Landlords (RSLs)¹) has been preferred to local authority housing as the alternative for people unable or unwilling to enter home ownership or private renting. However, growth has been from a very low base, with only 5% living in this tenure in England by 2001 (Table 10.3). Nonetheless, since the late 1980s, local authorities have been able to transfer their stock to housing associations, with 150 having done so² by 2005 - a surge in the last five years in particular means the proportion now living in RSL properties is likely to have increased. Right to Buy (and a similar Right to Acquire policy for housing association homes built or acquired with public subsidy after 1997) has also applied to the housing association sector.

For the last 25 years, a number of 'shared ownership' schemes have also existed to assist people to become part-homeowners when they are unable to afford to become full homeowners. To date, these schemes have been very small in scale, complicated and inequitable, each scheme only applying to certain people in particular circumstances (Low Cost Home Ownership Task

¹ Registered Social Landlord (RSL) is the technical name for social landlords registered with the Housing Corporation (funder and regulator of housing associations). The vast majority of RSLs are housing associations.

² This includes some partial stock transfers.

Force, 2003). However, in recognition of increasing affordability concerns, the government has simplified the system, introducing a 'home-buy' system that applies to all tenures (ODPM, 2005a): Social HomeBuy enables local authority and housing association tenants to buy a share in their home at a discount; New Build HomeBuy enables people to buy a share of a newly built home (usually built by a housing association); and Open Market HomeBuy enables people to buy a home on the open market (with a housing association holding the remaining share). The Right to Buy and Right to Acquire schemes continue to be available to local authority tenants and certain housing association tenants.

The dwindling private rented sector has also been supported and encouraged, primarily through deregulation (and some short-lived tax break schemes) over the last twenty years. The private rented sector has seen a recent boost through the growth of Buy to Let landlords in the early 2000s. Whilst the proportion of households living in this tenure has not changed significantly since 1981, with 10% of English households living in private rented stock in 2001 (Table 10.3), the nature of the sector continues to change over time. The private rented sector tends to offer Assured Shorthold Tenancies to tenants, which commonly provide six months' security. In contrast, the majority of tenancy agreements in the social rented sector are Assured Tenancies which do not specify a time limit, obviously providing a greater degree of security.

Affordability issues

The UK housing market has been characterised by a number of periods of rapid house price inflation since 1970. Rapid house price inflation occurred in the 1980s, leading to a market characterised by increasing housing equity. However, a downturn in the late 1980s and early 1990s left some newer owners in negative equity. The price of the average UK house has risen by 187% to £179,000 since February 1996, with prices increasing by 240% in Greater London (Table 10.4). One of the consequences of house prices increasing at a faster rate than earnings is that affordability for first time buyers is now a particular problem. The average age of the first time buyer increased from 31 years in the mid-1980s to 34 years in 2004. A recent study (Wilcox, 2005) calculated that more than 1.25 million younger households in England, Scotland and Wales had incomes too high to qualify for Housing Benefit for social housing but too low to afford a mortgage on the cheapest two- or three-bedroom properties in their area.

With the earlier expansion of the sector, home ownership has become an increasingly diverse sector, with half of the lowest income quintile households now being homeowners (Burrows & Wilcox, 2000). Whilst arrears levels have been relatively low for the last decade (approximately 100,000 per annum), there are signs of rising rates (Cunningham, 2006), and poorer home-

Table 10.4 Regional house price performance in the UK, since 1996

	Average price Q1 1996 (£)	Average price Q3 2006 (£)	10 year change (%)	10 year change (£)
North	50,170	143,970	187	93,800
Yorkshire & the Humber	51,119	138,268	170	87,149
North West	52,505	144,590	175	92,085
East Midlands	53,427	154,877	190	101,450
West Midlands	61,790	170,518	176	108,728
East Anglia	58,529	174,722	199	116,193
Wales	51,149	150,687	195	99,538
South West	62,627	195,930	213	133,303
South East	78,584	232,645	196	154,061
Greater London	79,191	269,188	240	189,997
Northern Ireland	50,601	167,391	231	116,790
Scotland	58,334	122,511	110	64,177
UK	62,453	179,425	187	116,972

Source: Halifax House Price Index (1996):

<http://www.hbosplc.com/economy/includes/28-10-0610yrsOfRisingPrices.doc>

owners, along with those purchasing recently with high Loan-to-Value mortgages, are likely to be at greater risk of finding it difficult to meet mortgage payments.

In the rental sector, deregulation of rents over the last three decades has led to rises in housing costs in both the social and private sectors. For the most part, Housing Benefit has met these costs for those not in the labour force or on low incomes. However, for others, similar levels of rents and mortgages in some areas (less so now with rising house prices) have provided an incentive to move into owner-occupation where this is affordable.

Development of housing policy

With home ownership expanding into new areas and new groups, today I see Britain as one of the world's greatest wealth owning democracies where the widely held chance for not just some but all to own assets marks out a new dimension in citizenship and makes Britain a beacon for the world. Chancellor (Finance Minister) Gordon Brown (ODPM, 2005b). An independent evaluation of English housing policy over the period 1975–2000 (Stephens *et al.*, 2005) identified three main 'policy clusters' that dominated housing policy development. Deregulation and liberalisation was the first cluster of reforms, including both mortgage market deregulation in the 1980s that expanded access to finance, and privatisation, mainly through the Right to Buy policy. Throughout the period, home ownership was seen as the 'natural' and 'normal' tenure by successive governments. Whilst no tax incentives now exist to enter home ownership, the government continues to attempt to expand the sector, most recently through a raft of measures to promote shared ownership (via the new HomeBuy scheme (ODPM, 2005a)). The second policy cluster that dominated housing policy in 1975–2000 was restructuring of housing subsidies from 1975, when more than 80% of subsidies were supply-side subsidies

for the provision of affordable homes, to 2000, when more than 85% of subsidies were on the demand side, reducing housing costs mainly through Housing Benefit. The third policy cluster relates to asset restructuring, including the transfer of much local authority housing to the housing association sector as well as increases in the availability of private finance. A fourth theme could be added in the early 2000s: the promotion of asset-based welfare which, while in its infancy, is increasingly identifying the potential of housing wealth to meet a range of needs such as care in older age and supplementing of pensions (Smith, 2005). The further expansion of home ownership is part of the wider policy to increase the holdings of savings and assets (whether immediately accessible or not) of households on the assumption that people will provide their own safety net, thereby minimising the need for state welfare.

10.4 Housing decisions and meaning of tenures

Views on owning and renting

Almost all respondents, irrespective of tenure, described their housing firstly as somewhere to live or a roof over their heads, and a home. In general they saw their home as providing a safe haven from the outside world, and security and privacy. In addition, respondents said their home was a place to enjoy family life, to relax, to entertain friends and somewhere for all their personal possessions.

However, both tenants and owner-occupiers tended to favour home ownership over renting. Tenants and owners felt that home ownership meant freedom to do what one liked with a property, for example, to build an extension, study or a new kitchen and to decorate it how they pleased. Homeowners also said that buying their home had given them independence but some stressed that home ownership also brought responsibility, for example having to meet mortgage payments and other housing costs (for example, maintenance). Some homeowners and tenants (some of whom had owned in the past) felt that buying a house was an achievement and something to feel proud about; a small number felt that there was a certain status to being a homeowner, but an equal number felt that it carried no special status and that some people were just fortunate to be able to buy. Although homeowners did not tend to describe their homes as an investment, almost without exception owners said that their homes provided financial security, particularly over the longer term. A number of respondents felt that they had invested a great deal in their homes, both emotionally and financially (especially in the early years of home ownership).

Most tenants expressed similar attitudes towards their homes as homeowners and they too often talked about security, safety and having privacy and their own space. Most (although not all) social rented sector tenants felt that



their tenancies were secure and this helped them feel as though the property was their own (see Section 10.5). This was not the case for private renting, with most people feeling this was the most insecure tenure of all, although one tenant did feel that she had achieved a better quality of housing by renting privately rather than via council housing.

The main reason given by owners (and renters) for preferring home ownership themselves was that one day the property would be theirs. Renting was widely regarded as wasted money and almost every respondent (including most tenants) described rent as 'dead money'. However, there were exceptions. Three tenants did not agree and stressed that renting is the only option for some people. Two of these tenants had experience of home ownership but both had had their homes repossessed and had been homeless. A number of owner-occupiers felt that they had been lucky to enter the property market at the time they had. The reason that tenants chose to rent was because they could not afford to buy a property (or one that they liked) at the present time. A few expected this to change (for example, one person was planning to buy a house after her divorce settlement) but others felt that they would never be in a position to buy unless they won the lottery.

Although nearly all respondents said that owner-occupation was or would be their preferred tenure, only a very small number could see no benefit at all in renting. Both owners and renters felt that tenants had more freedom to move (this was more the case for private rented sector tenants) and that they did not have to worry about costly repairs and maintenance. Most of the respondents who had rented accommodation earlier in their lives felt that

Housing at some of the interview locations in the Holgate area in York, UK.

this had suited them at the time; they either could not afford to buy at that time or they were moving around for employment, study or relationship reasons.

Tenants also felt that renting allowed them to live in a better standard of accommodation than they could afford to buy on their income. Social tenants in particular thought that their homes were decent and relatively cheap and probably much bigger than anything they could possibly afford to buy. One of the tenants whose home had been repossessed in the past and who then lost her home because of a relationship breakdown commented:

“It was nice being a homeowner because I did feel more secure and also because it does give you that bit of status I suppose, you sort of feel ‘I own this’ ... it was nice to plant things in the garden and these are going to be here for me to see for a long time ... but it is better to rent securely than buy precariously” (private renter, female, 30s).

Housing decisions and labour markets, social security and personal well-being

Respondents described various influences on their housing decisions. Sometimes these reasons were relatively clear, especially when respondents explained why they first left the home they grew up in (e.g. to work, study, travel or set up home with a partner). However, the influences on housing decisions thereafter were usually more complex and interrelated with decisions about employment, relationships, family formation, relationship breakdown, affordability, experience of other forms of tenure and a range of other considerations (e.g. location, schools and the type of property).

Employment factors

The main factor in the decision to buy a property for most respondents was having sufficient and secure income from employment, usually but not always from two incomes, and the main reason that almost all tenants chose to rent was that they did not have enough money to buy. Many respondents (owners and renters) simply said they had to work to pay their housing costs and it was clear that many could not manage without two wages. Employment was also an important factor in shaping people's housing histories (location and their choice of tenure) for reasons other than mobility. Many respondents had moved to York because of their jobs or their partner's and work also influenced where they chose to live in the city, with a few people saying that they needed to be close to the railway station or to have easy access to the motorway.

Most of the respondents who had moved around the country for employment reasons stayed in the private rented sector; this was especially the case for people when they were single or worked in insecure employment (short-

term contracts), who found the private rented sector gave them the freedom to move around more easily. They then moved into owner-occupation later, and this was achieved quite easily for those moving up the career ladder, although rising house prices did mean affordability was heavily influenced by timing. Few households had spent periods of time in the social sector and then moved into owner-occupation; mobility was possible within social housing but not as commonly sought or as easily achieved as in the private rented sector. In particular, the 'freedom to move' was associated with private rental housing.

Other households were already on the property ladder and sold up and bought another property when they moved to new jobs in other parts of the country, because once on the property ladder they wanted to stay on it. People with families were more reluctant to move for work reasons and a couple of households chose to commute rather than to move because they had young families, although one couple said that they would move if they had to for employment. A couple of people said that they might have changed their jobs or career if they had not had to pay a mortgage and a few respondents said that owning a property would make it more difficult to move to another part of the country because the whole process of finding another property to buy (including learning about the new area, schools, location, etc.), the expense of the transaction and moving costs was time-consuming and expensive. However, no-one said that owning their home had stopped (or would stop) them from moving if there were good reasons to do so.

Few people thought that they would retire early or take part-time employment because they owned their home, although one couple used some of the proceeds from the sale of a house to allow one partner to take a career break to care for the family and to pay for her to take a Masters course.

Social security

The relatively low level of social security entitlement for those unemployed or unable to work meant that people could not choose to move from renting to buying a home whilst not working. However, a number of those respondents who were already homeowners and unemployed or unable to work explained that they were able to remain in their homes because they were receiving some help in the form of benefits (ISMI, see earlier) or had some savings. This was not, however, a very secure position for homeowners who had no savings. One unemployed homeowner (aged 56) explained that she desperately wanted to return to work so that she could start paying off the mortgage, build some equity and pay for much needed work on the house. A couple of respondents had experience of being repossessed in the past (for example, one respondent became homeless when her husband's business failed) and now saw renting as more secure because of this experience. Unemployed tenants who were in receipt of Housing Benefit and income benefits for unem-

ployment or ill health felt less pressure to have to return to the labour market for housing reasons although they still wanted to work for personal reasons.

Affordability

Related to (but not solely explained by) employment or social security factors, one of the major influences on housing decisions was the cost of home ownership. Having the money for a deposit (in some cases through interest-free loans or gifts from family) and a steady and sufficient income was usually (although not always) necessary to secure a mortgage. A few respondents who had bought their homes said that they had not really been in a position to buy, either because they did not earn enough or did not have enough money to pay for the survey on the property, legal fees, and all the associated transaction costs. However, they were so keen to buy that they found ways to overcome these problems. One respondent explained that her employer had helped her by telling the mortgage lender that she earned a couple of thousand pounds a year more than she actually did.

Some respondents said that it had been cheaper to buy a house with a mortgage than to rent when they first entered the property market and it therefore made economic sense to buy a property. Most tenants (see housing preferences) would have bought a property if they could have afforded to do so. In some cases people had taken the opportunity to buy their social rented house at a discount under Right to Buy but even this was beyond the means of some social rented sector tenants.

Personal factors

Relationships and family formation were a key influence on housing decisions. Older respondents had often left the parental home to marry. Some began married life in rented housing and went on to buy their own homes once they could afford to do so. Younger homeowners often lived with their partners for a time in private rented accommodation and only bought a property once they were settled in employment or wished to start a family. Respondents often had fairly complicated relationship histories and this was reflected in their housing moves. In a few cases relationships had broken down and this often meant a move into the rented sector by necessity as people could not afford to buy alone (in particular, the social rented sector is accessible for women with children although one or two moved into private renting to give them a wider choice of housing, as well as avoiding the 'stigma' of social housing). In most cases, these respondents went on to set up home with a new partner and a few re-entered (or were planning to re-enter) home ownership. In a few cases, the breakdown of a relationship and domestic violence had resulted in respondents becoming homeless for a time before being rehoused in the social rented sector.

Another important influence on housing decisions was change in the com-

position of the household, usually having children. A few homeowners said that one of the main reasons they bought a house was because they wanted to start a family, and others said that once they had children they felt that home ownership would provide more security and stability. Having children sometimes resulted in a move to a larger property and respondents also mentioned moving to a nicer area or a property with a garden. None of the older homeowners had moved to a smaller property because their children had moved away; one respondent (a social tenant) explained that although her children had moved away they still liked to visit and considered her house as their home so she felt reluctant to move. Some former and current social rented tenants explained how they applied for more appropriate family accommodation when they started a family.

Other influences on housing decisions included generally wanting a better quality of life. Respondents talked about wanting a larger garden, living in a nicer area, and being closer to relatives, good schools or leisure facilities. Some tenants felt that they were able to enjoy a better quality of life because they rented, they felt they had decent sized properties and could afford to take a holiday and do things that they would not be able to afford to do if they had a mortgage. A couple of tenants said that they could afford to buy a property if they took on extra work but they felt that this would not be a good thing for their families. Older homeowners described how they had struggled when they first bought a property and their families were younger. One respondent said he had not taken a holiday for seven years and that he spent all his spare time working on his property and even went without proper food. However, for the most part, homeowners seemed happy to accept that buying a home would mean some financial difficulties or their having to go without extras because of the long-term benefits and security they associated with owning their home.

Some respondents said their housing and its location had a beneficial impact on their lives; living in a nice house and in a nice area was seen to be important for their well being and especially for children. Owners and tenants talked about the importance of location and not living in a 'rough area', although tenants clearly had less choice about where they lived (it is possible to move within the social rented sector but respondents suggested that this was not very easy to do). A couple of respondents (owner and renter) felt that where one lived and the tenure affected employment opportunities as employers discriminated against people from 'rough' areas and social housing.

Use of housing resources

Whilst housing was first and foremost viewed as a consumption good, most respondents recognised that home ownership was now an 'investment', irrespective of whether they had consciously thought this when they had purchased their home and that they had accrued housing 'resources'. This was

particularly associated with the rise in house prices over time (see earlier): all homeowners (with one exception of a very recent buyer) had seen substantial increases in equity (with properties tending to at least double in value), and were very aware of the current market and able to estimate the value of the sale of their property on the open market. Most respondents, however, did consider that increases in house prices were largely meaningless unless they were planning on downsizing or exiting the property market.

M: "It's money that we have made but it's not money in our hands, it's what we call paper money."

F: "Only when we downsize will we feel the benefit" (homeowners, male 54, female 55).

Many respondents already had experience of moving, usually to a larger property (moving up the 'property ladder'), and whilst people tended to transfer most of the equity from one property to another, it was not unusual for people to keep back a small amount for other uses, particularly home improvements. Three marginal homeowners had also used the sale of their previous house to pay off non mortgage-related debts. It should be noted that in all cases the reason for moving was to improve their housing situation, not to access equity. However, most people appeared to consider that equity withdrawal at this point was an obvious thing to do and no-one struggled with the concept or process. In addition, a smaller number of respondents had remortgaged in order to undertake home improvements, including upgrades of existing rooms as well as extensions, loft conversions or conservatories, explaining that this was "adding value to the house".

For most, therefore, the use of housing to date was being reinvested in other housing uses. However, three households had utilised their equity on a number of occasions and for different uses, including funding career breaks to start a family, undertaking training, holidays, keeping money aside for a 'rainy day' and for home improvements. In addition, one respondent had established himself as a private landlord through using equity from his own home directly to purchase two further properties (with a third in the pipeline). These people described a 'learning curve' with respect to accessing equity, and whilst people tended to take out relatively modest amounts (remortgaging less than half of the value of their equity), respondents explained how easy it was to access this financial resource and with an implication that they were actually encouraged to do so by financial institutions.

Most UK respondents understood the concept of using money stored in their house for future activities, but few had thought this through in any detail, with people more likely to have a general awareness that this could be a resource for the future. A couple of people explained that they could not understand why someone would consider this, but most people would consid-

er using their housing resources in the future in some way. Renters appeared to be just as aware as owners of the potential of housing equity, and were able to comment on others' experiences or plans, if not their own.

It was clear that some possible future uses of housing resources were seen as more likely or more acceptable than other potential uses:

1. Housing as 'pension'

The potential use of housing as a financial resource in retirement was the most likely area that respondents had considered as a concrete plan. Although a couple of households stated that they had good pensions, for many housing was seen as the way that they would effectively negotiate later life. A few saw their housing as their pension and had more heavily invested in housing specifically for this reason (for example, one single male homeowner had put all his resources into buying and redeveloping a house). Some were seriously considering downsizing or selling their house to fund their retirement, but generally most people had not thought about the details of how they would use this 'pension', rather more simply just seeing it as a possible 'saviour' for future needs.

"...we are of the age that we are a little concerned about pensions, and it may be our trump card. Neither of us has been in jobs for long enough to accrue huge pensions ... so it may well be our trump card on the pensions, finances front..."
(homeowner, female, 45).

However, Vignette 2 revealed that many people, whilst not necessarily against using some (if not all) of their housing resources to supplement a pension income, were quite wary about the mechanisms available to do this: there was a scepticism about whether schemes like these were good value and could be trusted.

2. Meeting care needs and responding to a reduced welfare state

In contrast, a common response was that people felt they might have to spend housing resources on care needs in the future because of reduced welfare and government policy on selling houses for care – this for some would be a 'forced' use of their housing equity. Renters were aware that they would not have this resource to draw on in the future – they actually felt that this was a good reason to continue renting as they saw people struggling to buy their own home only to have to sell it later to pay for care.

3. Housing-related activity

Home improvement was seen as the most appropriate use of housing resources simply because it was a housing-related activity and also added value to the property at the same time. A couple of people anticipated helping their

children purchase their first property. A number of people also expressed a desire to invest in a second property in the future, although some thought this was likely to be more realistic than others.

Whilst the reasons above were justified by most as a good use of housing resources, there were some circumstances where people were more reluctant to use these resources. Most people worried about spending their housing resources on activities that might place their home at risk. In particular, whilst a few people had thought about setting up businesses, or buying additional properties, most respondents were clear that they would never think about doing something that would put their first home at risk.

In addition, very few respondents felt they could justify spending housing resources to fund leisure and holiday items, unless this was deferred to retirement. In effect, households were implicitly working to a hierarchy of 'worthy' activities in considering the use of housing equity. For example, some people wanted to spend money on children's education as this was seen as highly important.

Finally, although views were quite mixed on the importance of inter-generational transfers per se, the most common view tended to be a preference for leaving something to children. However, this was coupled with the recognition that they were likely to have to use some of the resources to support themselves in retirement as well. Inter-generational transfers, therefore, were not an insurmountable issue for the use of resources, rather people hoped to balance both of these needs as appropriate.

10.5 Security and insecurity

Homeowning and security

All homeowners tended to feel quite financially secure. This was rather surprising because some households had far more resources and safety nets to fall back on than others, and some respondents had higher incomes or much lower mortgage costs. The main reason for feeling secure was that almost every respondent had built up some equity (only one first time buyer who had only lived in her home for a few months had no equity) and they felt that this was sufficient to provide them with some financial security in the short, medium and long term.

"We have more security because house prices have gone up so much, if everything went wrong you could sell up and still have some capital, it does make you feel secure" (homeowner, female, 34).

The feeling of security among homeowners was based on the belief among almost all respondents that property prices would continue to rise (if more

slowly) and that interest rates would not rise too much. Some had 'fixed rate mortgages' where the interest rate they paid was set at a certain level, usually between 1-5 years, and they felt that this would protect them from interest rate rises which they only expected to be short-term. Very few respondents mentioned that property prices could go down but they did not appear to believe that this would really happen. Overall, homeowners were very optimistic about the future growth in house prices. This is perhaps surprising given that the UK has suffered economic recessions and house price crashes in the recent past which resulted in many thousands of people having their homes repossessed and many thousands of homeowners left in negative equity. Similarly, homeowners were also very optimistic about their labour market prospects and tended not to mention unemployment as a risk (see Sections 10.6 and 10.7), and this added to their sense of financial security.

Homeowners talked about security in terms of having something 'behind them' and about housing providing security for their children, for example, if they were to die then their children would not be left without a home. One respondent said he felt secure because the house was his - although he acknowledged that technically the property belonged to the bank. Another marginal homeowner pointed out that even if he had to sell the property there would still be enough equity left to provide a degree of security. Whilst some marginal homeowners did not find it easy to pay their mortgage and other housing costs and had to do without extras such as holidays (in one case a respondent said he went without food) they did not see this as a particular hardship nor did it make them feel financially insecure. Paying a mortgage was regarded as saving, as the property would one day be theirs and (they almost all believed) would certainly be worth a lot more than they had paid for it and would therefore provide them with financial security.

None of the homeowners said that they felt financially insecure, although a few indicated that they had concerns either about meeting their payments every month or not having enough money to save for 'rainy days' or other necessities (one respondent, for example, had not renewed her buildings insurance). One man described his financial situation as 'stretched' (meaning he found it difficult to meet his financial commitments and have enough money to live on) but he had chosen to try to pay his mortgage off quickly and therefore his monthly repayments were high (nearly 60% of his income). One first time buyer was considering taking another lodger (she bought the house with the intention of letting a room but the first lodger left) to increase her income so that she could save some money each month towards holidays or towards work on the house. One owner said that nothing makes one feel secure these days although he was currently financially secure. One respondent who was unemployed said that while she was only fairly secure at the moment as she had a very small income (social security payments covered most of the interest on the mortgage) she was awaiting a divorce settlement

and was confident of the outcome and of her future financial security.

Renting and security

Tenants were less likely to feel financially secure than homeowners. Many were living on low incomes and were unable to save much (if any) money or to buy financial products such as pensions and insurance to secure their financial futures. Most (though not all) tenants did not have well-paid or particularly secure jobs and there seemed little opportunity for them to improve their labour market position or to increase their wealth; obviously, unlike homeowners, they would not see any return on the money they had paid for housing. Three of the tenants seemed unconcerned about their financial security – it seemed that they were resigned to the fact that they had no resources and that they could rely on social security benefits which, while not generous, would provide a relatively secure source of income and pay for housing costs. However, some low-income tenants who were in receipt of Child Tax Credit (a means-tested allowance for parents or carers of children who are still in full-time education) were worried about the reduction in income when their children completed their education.

However, a few tenants said that they felt more financially secure than homeowners because they did not have to worry about costly repairs, whilst some said that they did not have to worry about mortgage repayments (but these tended to be households in receipt of benefits who did not have to worry about paying their rent either).

“The other thing with renting I think is that you don’t have to worry about paying a mortgage off, or missing a payment and having your house taken off you, when you are renting you are a lot safer ... we don’t pay rent and we don’t pay poll tax (community charge or local tax) and our repairs are done for nothing” (social renter, female, 38).

Those tenants who were planning to buy felt that owner-occupation would secure their financial future; a couple of these tenants had (or were expecting) substantial amounts of money which they would use as deposits.

Whilst not necessarily feeling financially secure, tenants did feel secure about their housing in terms of as long as they paid their rent and did not breach their tenancy agreement; they could stay in the property as long as they wished. One reason that tenants appeared to feel secure was that they were either in receipt of Housing Benefit (which is not available to owner-occupiers) or could depend on this in the event of a reduction in income. However, all respondents generally described the private rented sector as the most insecure form of tenure. A number of respondents (current owners as well as tenants) had had to leave private rented accommodation, often more than once, in the past because landlords had decided to sell whilst others had

faced rent increases or Housing Benefit reductions which made the property unaffordable. One private rented sector tenant said she felt fairly secure as the landlord had bought the property under the Buy to Let scheme (Buy to Let mortgages are specifically for properties that are to be rented out) and so was unlikely to want to sell it in the near future.

Risks to housing

Overall, most respondents recognised few risks to their housing when first asked the question in interviews, but tended to acknowledge a greater range of potential risks when prompted to reflect by the researchers. Nonetheless, as the above section suggested, householders tended to feel relatively secure overall and most risks were seen as negotiable.

Homeowners tended to recognise a greater range of risks to their housing security than renters, although not all of these were felt to be very likely to occur in reality. Unemployment tended to be the first risk that people mentioned, but this was usually followed up with a reference to either their job being quite secure (usually due to the nature of the employment, for example, teaching) or one of the two jobs in the household being secure even if the second was less so – highlighting the importance of two potential income streams. However, despite this, relationship breakdown was not often perceived as a risk, usually not mentioned at all or not as a real concern:

“I suppose he could leave me – although I don’t think he would but I don’t suppose anyone does, do they” (homeowner, female, 34).

Most people recognised some health risks when prompted, but most people stated that this was not something they worried about, particularly younger householders.

Overall, homeowners did not perceive many housing-related risks. People did mention the possible increases in mortgage rates if interest rates rose, low payments resulting from poorly-performing endowment policies and negative equity but felt these risks were quite low in the current economic climate. Substantial repairs to the house were mentioned as a possible risk by a few people but most did not think neighbourhood deterioration was an issue. However, the person who had set himself up as a private landlord and purchased a number of properties did worry about the economic and broader political risks:

I: “Do you see any risks that might have an impact on your housing situation?”

M: “Yes, many risks, anything could happen. One big terrorist attack in London and the whole thing could collapse ... the property market could collapse ... It’s not (going to collapse) unless something really bad happens to the country, it’s not, but you never know” (homeowner, male, 33).

The first set of risks that renters identified were closely connected to their position in the housing market. Problems with the payment of Housing Benefit was mentioned by a few people, some of whom had direct experience of Housing Benefit problems in the past, where late payments had meant their tenancy had been put at risk (and in one case, eviction followed). In the case of private renters, a couple of people were paying 'top-ups' to Housing Benefit (see earlier) of approximately £100 a month, however this was not specifically mentioned as a risk although rent rises in general were. Private renters perceived a greater risk from landlords selling their properties and therefore asking them to vacate the property.

Income security was also an issue mentioned by a few renters. Two single parents were very worried about the implications of changes to their receipt of tax credits and family allowances as teenage children grew up and were no longer considered 'dependents'. A number of people were working part-time or were self-employed and their income levels were subject to some fluctuation, which was mentioned as a possible concern. Unemployment, however, was less frequently mentioned as a risk than for owners, apart from in connection with health concerns (see below). The fact that most renters were single meant that they were more dependent on one income than homeowners. Most had already experienced relationship breakdown so this was not identified as a risk.

Finally, many renters were quite worried about the risk of deteriorating health. Poor or increasingly poor health was both a fear for renters who were currently working (as they may not be able to work and did not think benefits would be adequate) and those who were already unable to work but feared their health may get worse in the long term. However, two social renters did point out that the council would probably be able to respond to their increasingly poor health by moving them to more appropriate accommodation.

10.6 Safety net strategies

Influences on strategies

Overall, respondents felt quite confident in their abilities to manage the risks they perceived. However, as with the nature of risks themselves, often people had not thought through their potential strategies in great detail. Some strategies involved planning ahead (such as saving or taking out insurance), but others relied much more heavily on people's ability to cope (such as getting another job or relying on family). Most mentioned a number of strategies that together would hopefully enable them to 'cope' with income loss, although some only identified one main safety net that they could rely on.

Better-off homeowners were generally in a better position to take precautions than marginal homeowners and renters. The most important influence

on whether and how people planned for eventualities was the resources available to them via employment, as well as more widely via resources inherited or built up through property, inheritance or savings. Renters generally (though not exclusively) had lower disposable incomes and had very limited opportunity to save. This was also the case for some of the marginal homeowners whose greatest resource was stored in their home.

A second key factor influencing planning strategies appeared to be people's overall personality and belief system with respect to planning ahead or living life for today. Many people explained that they simply did not worry and did not feel a need to plan extensively or, conversely, were very risk-averse and therefore had to plan. This was difficult for people to explain but parental influences were thought to have been important, as well as past experiences (such as illness), as well as wider societal influences encouraging people to spend and accept debt. Some young people, though not all, appeared to be more willing to accept higher levels of debt than older households.

F: "Loans aren't things that we really like, I mean having a mortgage is bad enough, because you are owing money to people in effect."

M: "Usually, if we can't afford it, we don't get it..."

F: "We have a credit card and every time a bill comes in, we pay it straight away."

M: "I couldn't live like what kids do these days, they don't seem to have any financial, they just pay, pay, pay..."

F: "I think I'd die if I got a red demand ... I think if I die tomorrow, at least I won't owe much" (homeowners, male 54, female 55).

Other life experiences, particularly having children, were felt by some to have made a difference to their likelihood of planning. A few people also felt that they had become more thoughtful with respect to future planning on becoming a homeowner, although this was not a prevailing view (and could also mean there were now no extra resources available to save).

Types of safety net

One of the first strategies households mentioned to address the perceived risk of unemployment was to find another or more than one job (or for one's partner to increase their working hours). In the main, people felt that there was little that could be done to prepare for redundancies, although a minority did raise the possibility of taking out insurance cover. However, insurance was most likely to be thought of as a potential safety net to address health problems, and a number of households had some form of insurance (usually Critical Illness Insurance – see earlier). Others looked to employee benefits to cover a period of sickness, with the best jobs providing six months' full pay and six months' half pay. People rarely had both employee benefits and insurance.

Respondents had varying levels of savings, but for most, savings were minimal and only represented a short-term resource. Some mentioned that being sensible and not ‘overstretching’ themselves financially was a form of preventative safety net. One or two, however, said they might turn to debt companies or their lenders for assistance with managing over-commitments. A key difference between homeowners and renters was the former seeing the potential for their property to provide them with a safety net. Although this was seen as a last resort, people often felt comforted by the knowledge that they could access this equity through selling the house or downsizing.

Very divergent views were expressed with regard to potential family support. Most could rely on some support financially or in kind, but often this would be short-term, or people felt that again this would be a last resort.

“Only my parents ... They would help me out financially for a while but it would be the case that I’d have to get a job – they’d help for a couple of months ... I wouldn’t want to sell the house ... If the worst came to the worst then I could always move back to my parents’ again and let this house out while I looked for another job” (homeowner, female, 35).

State support was seen as an important safety net by some renters but not for homeowners.

Overall, respondents were quite positive about their ability to draw on their own resources to respond to crises - it appeared that some felt more comfortable ‘responding’ to difficulties than planning ahead to counteract them.

“My first and foremost safety net has always been my own resources, I know that no matter what happens in life, I can deal with it, there is nothing that is going to be that bad ... I mean I am strong and I am healthy and I am intelligent, and if I lose my job I will go and get another job, and even if it’s not as good I could get two or three jobs ... And if it was something out of my hands, like ill health, then I know that I have good relationships around me that I have also invested in...” (private renter, female, 33).

Views on social security as a safety net

Overall, few respondents identified social security as the main or a major safety net. This was particularly the case for homeowners who were sceptical about the likelihood of receiving any support from the government (although in actuality, homeowners do qualify for limited support with paying mortgage interest payments after a nine-month waiting period – see earlier).

F: *“They [the state] don’t help anybody now do they?”*

M: *“I wouldn’t know, I wouldn’t know what you could claim”* (homeowners, female 37, male 38).

Many (though not all) homeowners also felt that the individual was responsible for supporting themselves with housing costs during periods of income or job loss. Others felt just as strongly that the state did have a responsibility to householders, especially given the level of taxes and national insurance contributions. Renters were more likely to justify the state's involvement in supporting those at risk, although again not exclusively so. Most renters did identify the state as a potential resource to rely on at times of crisis, especially with respect to paying housing costs via Housing Benefit. However, at least one renter was quite confused about their entitlement to benefits if they became unemployed.

10.7 Conclusions

Owner-occupation continues to be the tenure of choice in the UK and one that continues to be promoted and encouraged by the present government. Although tax incentives are no longer used to support home ownership, the UK government continues to attempt to expand the sector through shared ownership initiatives, an increasing emphasis on asset-based welfare policies and general political rhetoric.

In this study, householders felt that home ownership offered many benefits, the most important of which was the security of knowing that the house would be fully owned or 'theirs' one day. Home ownership was preferred to renting mainly because respondents (tenants and owners) believed that rent was 'dead money', but other factors included the freedom to do what one liked with the property, independence, security (not having a landlord who might ask them to leave) and the long-term security respondents felt home ownership offered. Nevertheless, most respondents could see some benefits to renting, in particular mobility and not having to worry about costly repairs and maintenance.

The main factor in the decision to buy was having sufficient and secure income from employment, and the main reason that almost all tenants chose to rent was that they did not have enough money to buy. Although some younger or marginal homeowners said that they had less disposable income to spend on leisure and holidays and a couple of people did without necessities, it appeared that such sacrifices were accepted by owners as part of buying a home. Respondents also felt that having a nice home in a good location had a beneficial impact on the well being of the family and was particularly important for children.

Homeowners felt more financially secure than tenants; although a few indicated that they had concerns about meeting housing costs or saving money for a 'rainy day' this did not appear to concern them. Most tenants felt less financially secure, they tended to be living on low incomes from benefits or

employment and were unable to save much (if any) money to secure their financial futures. Homeowners also felt financially secure because they were confident that the housing market would continue to prosper over the long term and that their fixed rate mortgages would protect them against future interest rate rises. They were also optimistic about their future prospects in the labour market. The main reason, however, for the sense of financial security among homeowners was that they had all (except one first time buyer) built some equity, in some cases a fairly substantial amount.

Although respondents tended to describe their houses primarily in terms of a home, homeowners and tenants also regarded home ownership as an investment and an asset. This was the most important aspect of home ownership that most tenants felt they had missed out on. This view was based on the steady growth of house prices over the years, particularly the dramatic rises in recent years. Most respondents were aware that they could use the equity and talked about doing so in the future, but few had thought about this in any detail. Most respondents felt that housing equity should be used only for certain 'worthy' purposes and should not be wasted on leisure activities. However, a learning curve did seem evident for those homeowners who had used their equity other than to move house, with people explaining how easy it was to repeat the process and to use resources for an increasing range of other pursuits. In some respects, the findings of the study matched well with the concept of an asset-based welfare state, with people aware of the potential to use housing resources for retirement and care issues, however understanding of these processes tended to be in their infancy, and a learning curve for spending could potentially work against this policy if householders in the future spend a substantial proportion of their housing resources before retirement.

Homeowners did not feel greatly at risk of losing their home, even though some appeared to be far more secure than others in terms of the employment status of the household, income levels, cost of mortgage and other resources. Respondents generally felt able to cope with any risks but it was evident that they had not always thought through any strategies in great detail and some were only able to identify one main safety net. Among the safety nets or strategies respondents felt they could rely on were: finding another job; insurance (for ill health); employee benefits; state benefits; savings; and moving to a cheaper property and using the remaining equity to live on. A few, mainly younger, respondents said their families could help, but this was seen to be a short-term solution and one that most people would rather not rely on. Ultimately, people's planning strategies depended mainly on their resources, although other factors like general outlook on life, past experiences, age and having children also had an impact. Renters were more likely than homeowners to consider relying on the state for assistance with housing costs, with many (though not all) homeowners feeling that it was their responsibility to pay for their housing costs if they were unable to work.

Overall, home ownership and security appeared to be closely related in respondents' minds in the UK. People tended to be (over-)optimistic about future house prices and the economy, as well as their own resources if they were to meet any unforeseen eventualities. Whilst it was clear that most respondents did have considerable equity and might be prepared to use this in the future, these strategies were poorly thought out at present. Whilst homeowning was preferred over renting, UK respondents did still identify an important role for renting and felt it did offer a different form of security – not in a financial sense, but rather in providing reliable and affordable housing – and also, along with homeowning, ontological security by providing a home and a base for family life.

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11 Home ownership and income insecurity

A comparison of household interview studies in eight European countries

Janneke Toussaint & Marja Elsinga

11.1 Introduction

Previous chapters have given detailed accounts of how people in eight EU countries perceive the security and insecurity aspects of home ownership in relation to renting and in the context of developments in labour markets, financial markets and social protection measures in their country. The aim of this comparative chapter is to gain more insight into differences and similarities between countries with regard to how people relate home ownership to income insecurity and to what extent they perceive home ownership as security. This aim is inspired by the idea that home ownership would become increasingly important for financial security and part of personal financial strategies when income security diminishes. This idea forms the central hypothesis for reflection. Our analysis sought to answer the following objectives:

1. How do interviewees perceive income (in)security? To what extent do they take private measures and count on or do not count on social security?
2. To what extent do interviewees perceive home ownership as secure and prefer it to renting for security reasons?
3. To what extent do interviewees perceive home ownership as a financial resource?

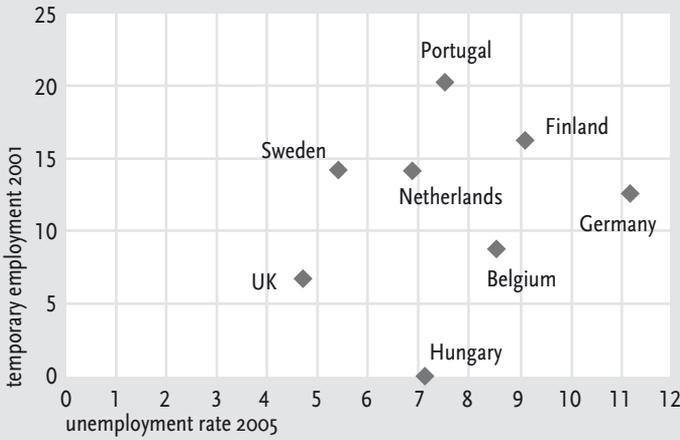
For all three objectives we consider differences and similarities between countries and question how households' perceptions could be related to the institutional context. The way in which the analysis was carried out is described in Chapter 2. In this chapter we describe the results of the comparison. The text is structured in order of the objectives. Every section start with a brief sketch of differences and similarities between countries in some key indicators of the institutional context. We then report on differences and similarities in households' perceptions and explore links with institutional contexts. Finally, in the last section we attempt to give some more concise answers to the objectives and raise some thoughts about the central hypothesis that home ownership will be more important for financial security and part of financial strategies when income security diminishes.

11.2 Income insecurity

11.2.1 Some statistics

Households' income and perceptions of income security depend on individual circumstances. However, since labour markets and social security differ from

Figure 11.1 The unemployment rate (2005) and the share of temporary employment in seven countries



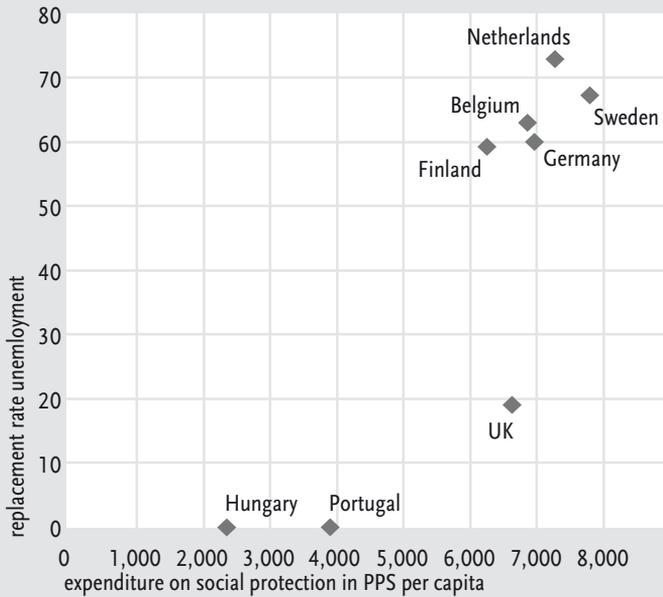
Source: OECD Employment Outlook; European Labour Force Surveys

country to country we assume that there most probably is a country effect. In this section we provide a brief overview of some key indicators of the labour market and social security in the countries included in this book.

Labour market participation differs from country to country, as do the types of contracts. Figure 11.1 provides a schematic overview of two indicators of the labour market in seven of the eight countries: the unemployment rate and the share of temporary jobs. We assume that labour market security is lower when the unemployment rate is higher and when the share of temporary jobs is higher. We observe the most secure labour markets in the lower left part and the most insecure in the upper right part of the figure. According to this figure the labour market in the UK can be considered as quite secure, mainly due to its low unemployment, while the markets in Portugal, Finland and Germany are less secure.

Welfare systems differ between countries, as shown in Figure 11.2. A number of countries (Belgium, the Netherlands, Finland, Sweden and Germany) combine high expenditure on social protection and a relatively high

Figure 11.2 Expenditure on social protection and the unemployment replacement rate in eight countries

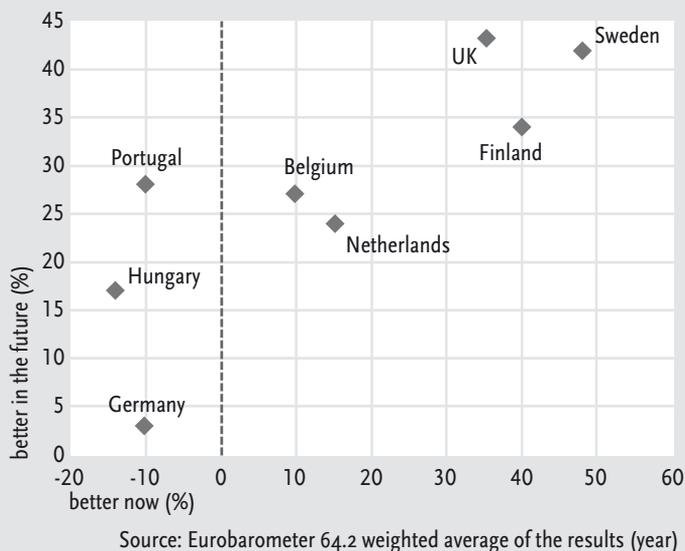


* There are no figures on replacement rates for Hungary and Portugal: these are shown on the x-axis.

Sources: Horsewood & Neuteboom (2006); Eurostat

replacement rate. In Portugal and Hungary the welfare state is much less developed and has a relatively low level of expenditure on social protection.

Figure 11.3 People's perception of the socioeconomic situation, perception of the current situation compared to the recent past and expectations about the future, in eight countries



Feelings of income security and insecurity do not relate only to features of the labour market and the welfare state but also to people's more general expectations about the future. Figure 11.3 provides an overview of people's average opinion about the future situation in a country. This figure shows that people in Sweden, Finland and the UK consider the situation to be better than in the recent past. In these three countries people are also rather optimistic about the future. In Hungary,

Portugal and Germany, on the other hand, people consider the situation to be worsening at the moment. But the perception of the future in these countries is different. People in Portugal and Hungary are fairly optimistic; people in Germany, however, are less inclined to believe that the situation will improve in the future. The Netherlands and Belgium are in between in both respects.

11.2.2 Perceptions of income risks and safety net strategies

The results of the household interview studies show that in all countries interviewees believed that their own financial situation was not much at risk. Risks were perceived as unlikely to happen; moreover, people trusted their capabilities and resources to solve problems if they showed up. Yet in all countries interviewees who experienced risks themselves or had close relatives or friends who had experienced risks had different perceptions; for them the probability of risks was higher compared to those who had never experienced risk. Moreover, in some countries several interviewees who seemed to be at risk in terms of factors like low incomes, relatively high expenses and hardly any resources did not reflect on these risks as much as researchers expected. According to the Hungarian researchers these interviewees tended to underestimate risks; the Dutch researchers found that some vulnerable interviewees ignored risks; while in Germany the researchers reported that these households regarded social provision as a right and they often discredited taking out private insurance as narrow-minded or overcautious. The researchers interpreted these attitudes of some vulnerable interviewees as a kind of psychological coping strategy.

Income insecurity: Hungary, Portugal and Germany

Between countries there were differences in the perception of income insecurity, which seemed related both to the current labour market and social security situation, as well as to past developments and future prospects (see Section 11.1). In Hungary and Portugal the interviewees seemed most afraid of the severe financial consequences of risks; this was especially true for households that qualified as marginal households. In these two countries, the main risks concerning income that were mentioned were job loss, family risks and serious health problems. The concerns following from the high perceived level of risks could not be lowered by the welfare system. In Hungary, even interviewees who had considerable financial difficulties tried to avoid relying on the state. Social benefits were seen as a last resort and only appropriate for the most desperate; benefits would automatically carry with them a social stigma. The Hungarian researchers explained that although the national welfare system has become more generous by broadening targets and measures during the process of transition, it still does not offer opportunities to improve circumstances and impoverishment is very likely to happen. The Portuguese researchers explained that a delay of several months between application for and receipt of benefits causes Portuguese interviewees to resort to self-initiatives and reliance on so-called 'welfare-families'. Furthermore, they argued that even though unemployment benefits are specified by a fixed replacement rate, this is rather low as in general wages in Portugal are low. The feeling of income insecurity in Portugal and Hungary seemed to be considerably higher than in the other countries, and within these two countries the level of one's own and family resources were of crucial importance in protecting oneself from the potentially negative consequences of risks.

German interviewees also perceived a relatively high level of risk, and particularly feared unemployment and health problems. Unlike the Hungarians and Portuguese, German interviewees did count on social security; all claimed to feel reassured by the knowledge that they would receive unemployment or at least social benefits. Nevertheless, the German researchers stated that the changes occurring in the labour market and the welfare system made German interviewees feel insecure, as did future uncertainties about further developments of the welfare state. Thus, although the actual welfare level is still rather high compared to other countries, the changes and insecurity about future developments seemed to make the German interviewees worry about risks.

Income security: Belgium, Finland, the Netherlands, Sweden and the UK

In Belgium, Finland, the Netherlands, Sweden and the UK most interviewees mentioned risks, yet they often put them into some sort of perspective by conceiving solutions. Most regarded it as unlikely that a loss of income would impact on their housing situation. In Belgium, Finland, the Netherlands and Sweden the main reason for this was the considerable benefit (both from

Box 11.1 Risks quoted from the country chapters

The above quotes illustrate that homeowners as well as renters have very trusting attitudes towards future life. Although when it comes to housing opinions are more blurred, for the most part respondents consider risks unlikely to happen (Belgium).

In their overall assessment of possible risks threatening their housing situation both tenants and homeowners give the impression that they have a rather trusting attitude towards life. Risks related to housing seem somewhat unclear and diffuse and, for the most part, respondents consider risks possible but not very likely (Finland).

When assessing risks, both renters and homeowners show a trusting attitude towards life. Still, homeowners in particular reflect upon potential risks and try to prevent these as much as financially and actually possible (Germany).

As pointed out while discussing changes in the meaning of tenures, the risk awareness of households is very high as a result of the learning process that is connected to the main features of the transition. The nature of risk perception is strongly related to the lack of sufficient safety net arrangements (Hungary).

Interviewees were asked what risks might affect their housing situation. It was striking that people were initially unsure as to how to answer this question. Their circumstances are generally secure and they are not used to the idea that events may arise that force them to leave their homes (The Netherlands).

The feelings of insecurity and risks perceived by households differ considerably. For worse-off owners, perceived risk is immense, revealed by the feeling that, for the most part, everything, from unemployment or health problems to accidents or even neighbourhood deterioration, would have a big impact on their housing situation (Portugal).

When discussing serious risks and housing, the starting point is that apart from the marginal households (8) in the survey, respondents do not worry about it. They assess risks as small overall even after discussing particular issues [...] My interpretation is that the level of risk faced by the interviewed households is not a question of being evicted or that of repossession. Not even for the marginalised households (Sweden).

Overall, most respondents recognised few risks to their housing when first asked the question in interviews [...] as the above section suggested, householders tended to feel relatively secure overall and most risks were seen as negotiable (UK).

state and employer) that they would receive. Many who received benefits in these countries still lived in the same dwellings as they did when they had a job. Only in the case of accumulation of several risks (e.g. loss of income and relationship breakdown) could the situation become problematic; however, generally this was perceived as very unlikely to happen. Interviewees in the UK saw most risks as negotiable; in the case of unemployment, for example, they referred to a secure second job in their household. Compared to interviewees in Belgium, Finland, the Netherlands and Sweden, the interview-

Table 11.1 Countries grouped on the basis of perceived level of income insecurity and type of safety net strategies

	Self-management/ family support	Counting on state/ employers' provision
Income insecurity	Portugal Hungary	Germany
Income security	United Kingdom	Belgium Finland the Netherlands Sweden

ees in the UK did not refer as much to social provision: they seemed much more focused on self-management, which in this case implies finding a new job, using savings or other resources. Remarkably,

when speaking about state support UK interviewees made a clear distinction between tenants and homeowners: owners should be able to solve their financial problems whereas tenants should receive state aid. Some interviewees in Finland and the Netherlands mentioned this distinction too.

Grouping countries on the basis of income insecurity and financial strategies

On the basis of perceived income insecurity and financial safety net strategies, we can divide the countries into four categories (see Table 11.1). The first category is occupied by Hungary and Portugal: here, the perceived level of income insecurity is quite high compared to the other countries and interviewees mainly relied on family support. In the second category is Germany: here, interviewees did rely on social provision although they were worried about changes in the welfare system and they did regard the labour market situation as rather risky. Thirdly, in the UK interviewees were rather unconcerned about possible drops in income, and instead of relying on state aid the UK interviewees had private financial strategies set up or relied on self-management if something were to occur. Among the fourth category consisting of Belgium, Finland, the Netherlands and Sweden, interviewees had a trusting attitude as far as income was concerned and they relied on social benefits or employers' settlements in the event that they became unemployed.

If we take these groups into consideration and explore the relations to the institutional contexts (figuring key characteristics 'Labour market and social security'), it appears that the perceptions are remarkably congruent with the characteristics of national institutional contexts, with one exception. In Finland interviewees said they felt secure, whereas labour market indicators showed the level of insecurity on the labour market to be relatively high. For example, Germany has similar labour market characteristics to Finland. In both countries the unemployment rate is relatively high and from the early 1990s onwards labour became more flexible: part-time work and fixed-term contracts increased. Subsequently, in the same period both national governments were confronted with affordability problems in their welfare systems and cutbacks in public spending. In both countries politics, welfare reforms, and the necessity for further cutbacks in social provision remained themes for discussion. Nevertheless, German interviewees appeared to feel more insecure than the Finns. This different perception of income insecurity might be related to recent economic developments. The Finnish researchers speak

of a strongly performing economy, whereas the German researchers show a slowly recovering economy.

Perceived risks and financial strategies: differences between homeowners and tenants

In Belgium, Finland, Germany and the UK researchers reported that homeowners reflected on a broader variety of risks than tenants. They explained the difference by the fact that, compared to tenants, mortgaged homeowners would have a greater financial responsibility; they would have more to lose, and a greater emotional attachment to their homes. In Germany the researchers stated that homeowners assumed a greater spatial immobility; they reasoned that this might trigger reflections about how to handle risks.

In Finland, Germany, Hungary, the Netherlands, Sweden and the UK researchers reported that homeowners take more private safety net measures; different factors were said to have an impact on this difference. In Sweden and the UK, the researchers remarked that for the most part more affluent homeowners were taking out insurance and setting aside savings, since it was affordable for them, in contrast to marginal homeowners and tenants. The same seemed to impact on the difference between renters and homeowners in Hungary. Here, the researchers reported that tenants face higher risks than homeowners, as tenants, and especially public tenants, appeared not to have any safety net at all. The Dutch researchers stated that mortgage lenders had encouraged homeowning interviewees to take appropriate measures. In Germany the researchers explain the larger amount of savings of homeowners by the need to save for maintenance, and the opportunity to save in the *Bausparkassen*. Finally, in the UK and the Netherlands the researchers noted that housing allowance is available for tenants and not for homeowners.

Thus in most countries researchers found differences in the range of perceived risks and the safety net strategies among homeowners and renters. Homeowners usually reflected more on their housing situation and relied more on private safety nets. Different reasons were brought up as explanations; often home ownership was compared to renting. Firstly, the type of tenure in itself was said to impact on the greater reflection among homeowners: home ownership would mean a greater financial responsibility, having more to lose, and homeowners have to save for maintenance. Secondly, differences in household characteristics were said to have an impact: namely, homeowners would have more means to save or to spend on insurance. Thirdly, in some countries institutional arrangements were said to impact on homeowners' safety net strategies: mortgage lenders strongly encouraged insurance, the government encouraged homeowners to save, and homeowners lacked housing allowances as part of their safety net.

11.3 Home ownership: the secure type of tenure?

11.3.1 House price developments and housing policy

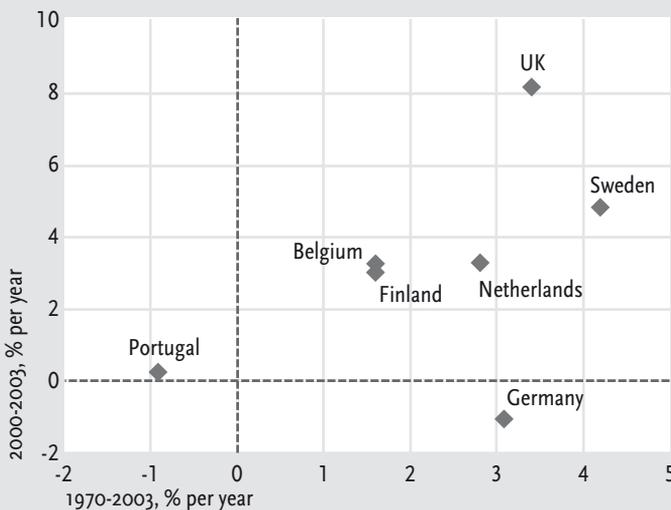
House price developments

The extent to which households perceive home ownership as a security undoubtedly relates to house price developments. Figure 11.4 shows that the UK experienced real house price increases of 8% per year on average in the period 2000–2003. In a number of other countries (Sweden, Belgium, Finland and the Netherlands) house prices increased by 3 to 5% per year. House prices in Portugal increased only slightly and in Germany prices generally dropped, though within the latter country considerable differences exist between regions. House price developments over a longer period are also likely to impact on people's perceptions of security of home ownership. Figure 11.4 shows that in the UK, Sweden, the Netherlands and Germany real house prices increased by around 3 to 4% over the period 1970–2003. In Belgium and Finland yearly increases amounted to 1.6% while in Portugal house prices decreased during this 33-year period. The Hungarian housing market saw a dramatic boom in 1997–1998 with doubling of real house prices and a steady growth after.

Home ownership appeared to be a secure asset with a considerable return

on investment in particular in the UK, but Sweden also performed well and the scores for the Netherlands, Belgium and Finland also allow us to conclude that home ownership is a secure investment. However, it is doubtful whether home ownership can be called a secure investment when considering the house price developments for Portugal and Germany in Figure 11.4.

Figure 11.4 Average real house price change 1970–2003 and 2000–2003 in % per year, for seven countries



* No figures available for Hungary.

Source: Bank of International Settlements

Table 11.2 Housing policy towards home ownership

	Belgium	Germany	Finland	Hungary	Netherlands	Portugal	Sweden	UK
Home ownership encouraged	yes	yes	yes	yes	yes	yes	no	yes
Mortgage guarantees	yes	yes	yes	²⁾	yes	²⁾	yes	no
Subsidised saving		yes	yes	yes ³⁾	no	²⁾	no	no
Subsidy (interest subsidies/grants) ¹⁾	abolished	abolished	interest subsidy	yes ³⁾	no	interest subsidy, means-tested	abolished	no
Low income home ownership					yes			yes
Interest deduction	yes	no	yes	yes	yes	yes	yes	no
Tax on imputed rent	yes	no ⁴⁾	no	no	yes	no	no	no
Housing allowance	no	yes	yes	yes	yes	no	yes	yes ISM ⁵⁾

1) Scanlon & Whitehead, 2004.

2) Data not available.

3) RICS European Housing Review, Michael Ball, 2005.

4) Germany does have a depreciation allowance (see <http://www2.wiwi.hu-berlin.de/institute/hns/publications/German-Housing-Policy-Crossroads.pdf>).

5) Income Support Mortgage Interest (payment covers part/all of mortgage interest only).

Source: Quantitative Studies OSIS, Institutional Studies OSIS

Housing policy: home ownership

We also expect housing policy to have an impact on the perception of home ownership as a secure tenure, not only policy with regard to home ownership itself, but also policy with regard to the alternative: renting. Table 11.2 shows that in most countries encouragement of home ownership appears to be a policy objective. Sweden is the only exception. The ambition to encourage home ownership appears in countries with a relatively high home ownership rate (Belgium and the UK) as well as countries with a lower rate (Germany, the Netherlands). Different policy instruments are deployed to achieve this aim. Mortgage guarantees, savings facilities, interest subsidies and grants enable first-time buyers in particular to get an adequate loan and hence a foot on the property ladder. Homebuying programmes specifically targeted at enabling low income households to buy exist in the UK and the Netherlands.

The fiscal treatment of home ownership is a more general facility. A crucial point is whether governments see home ownership as an investment or as a consumer good. The first choice should logically result in deduction of interest and costs and the addition of imputed rent to household incomes before tax. If the second choice is made, the dwelling is not relevant for income tax. It appears from Table 11.2 that the UK and Germany see an owner-occupied dwelling as a consumer good and there is no interest deduction or addition of imputed rent to income before tax¹. Belgium and the Netherlands consider home ownership as an investment and therefore interest can be deduct-

¹ The UK withdrew mortgage tax relief in 2001. See, for example, <http://www.hmrc.gov.uk/ria/miraswithdrawal.pdf>.

Table 11.3 Housing policy towards renting

	Belgium	Germany	Finland	Hungary	Netherlands	Portugal	Sweden	UK
Policy social renting	small sector	decreasing public renting, social renting by private landlords	stable minority tenure	residual sector	large sector under discussion	rehouse from shanty towns	no exclusive social housing	transfer from public to housing association
Rent control through social renting	income dependent	Mietspiegel (rent scale)	yes	no	yes	yes	yes	yes
Rent control through private renting	indexed rents	Mietspiegel (rent scale)	no	no	up to € 615 per month: yes > € 615: no	old con-tracts: yes new con-tracts: no	yes	no
Security of tenure through private renting	3 years, possible extension	yes	free contracts	free contracts	permanent contract up to € 615		yes	6 months
Security of tenure through social renting	yes	yes	yes	yes	yes		yes	yes
Housing allowance	no	yes	yes	yes	yes	Yes: young people in private sector	yes	yes

* Data not available.

Source: Institutional Studies OSIS, additional data from researchers in the project

ed and imputed rent should be added. Other countries seem to be somewhere in between. There is a large variation across the countries in the amount of interest that can be deducted, ranging from a limited amount (Belgium), to deduction at a fixed rate (Finland, Sweden), to full deduction at a marginal rate (the Netherlands).

Housing policy: renting

We explored rental policy in the eight countries and have summarised the results in Table 11.3. This table shows the large differences in size of the rented sector. When it comes to the security issue, policy towards rents and the law on security of tenure seem to be relevant here. After all, when rents are regulated and tenants can count on a permanent contract, they have more reason to feel secure than when rents are unregulated and contracts are temporary. Table 11.3 also shows that social tenants in most countries can count on rent regulation and security of tenure, while arrangements in the private rental sector appear to vary over countries. In the Netherlands, Sweden and Germany there is rent control in this sector, whilst in other countries there are free rents. Policy towards the rental sector is expected to have an impact on the role of renting and therefore also on the role of the alternative: home ownership.

Box 11.2 The advantage of building equity in country chapters

They have chosen to buy, because ownership is in the long run more affordable than renting. The recurrent answer is that renting means losing money, while ownership is a financial investment and in the end leads to 'free' housing (Belgium).

When asking the reasons they justify their decisions by a rational economic motive [...] Furthermore, paying a mortgage is seen as preferable to paying rent to a landlord because in that way one is accumulating wealth for oneself and not for someone else. For many owners the motive is very clear and simple: "it just makes no sense to give the money away" (Finland).

Home ownership is favoured mainly because the home [...] in the long run seems to be a favourable economic housing option, because once the mortgage is amortised the expenses for housing will decrease (Germany).

Owner-occupation tenure can be described in two ways: as a consumer good and as an investment good [...] In times of hardship, privately owned units' roles as investment goods gain importance when the possibilities for solving financial problems are considered and weighed (Hungary).

When questioned on the financial aspects, the interviewees say that when you rent your money just flows away but when you buy it comes back to you, you build up capital (the Netherlands).

For respondents it only makes sense spending money on their own property rather than spending money on something they will never own (Portugal).

Since the meaning of housing differed very little between tenures the main point of concern frequently mentioned (in almost the same wording) was that it feels good to pay yourself, referring to mortgage payments when owning (Sweden).

The main reason given by owners (and renters) for preferring home ownership themselves was that one day the property would be theirs. Renting was widely regarded as wasted money and almost every respondent (including most tenants) described rent as 'dead money' (UK).

11.3.2 Perceptions of the financial security of home ownership

Before we consider the role of home ownership in the interviewees' financial safety nets, we will first explore to what extent home ownership is perceived as a security. Many interviewees in all countries valued home ownership since homeowners put money in their own, instead of their landlord's, pockets. Although equity is not a term that can be translated immediately into every language (see Chapter 2, Table 2.1), it seems that interviewees in all countries refer to the advantage of building 'equity'. For example, the Finnish researchers summarised the interviewees' responses with "one important aspect of security attached to home ownership derives from the knowledge that there is a 'nest egg' or 'seed money' invested into the property, which is returned (with a profit at best) to the owner when selling the property". This reasoning is similar in all countries (see Box 11.2).

When prompted, in all countries interviewees agreed that home ownership is or appeared to be an investment; however, they did not always initially think of their homes as an investment. In the first place a house was a roof over one's head, but when house prices rose, interviewees seemed to become more and more aware that this roof was an investment too. In a strikingly similar way in all countries, interviewees expected house prices to go up. Remarkably, in Germany, where prices have gone down in some areas and interviewees claimed to be concerned about house price developments, they at the same time referred to home ownership as a stable and secure investment. This discrepancy suggests that people can still judge home ownership as financially attractive when they build equity without considerable revenues from house price increase. In Portugal house prices decreased, yet interviewees did not refer to this unfavourable house price development.

Housing equity and mortgage debt

In general it seems that the lower the mortgage and the larger the amount of equity, the more secure home ownership is. However, mortgage debts did not always seem to be straightforwardly related to perceptions of security or insecurity. A remarkable contrast appeared between the perceptions of the German and the Dutch interviewees. The Dutch seemed rather unconcerned about relatively high loan to value ratios. They perceived it as normal for young people to take up mortgages that are higher than the value of their house; moreover, repaying a mortgage with an inheritance was considered as unwise as one would then forego the advantages of the deduction of interest for income tax for homeowners with a mortgage. In contrast, the German interviewees explained that young people should first rent in order to save for a deposit for home ownership. In the event of receiving an inheritance, they would without any exception use it to repay the mortgage. The Dutch researchers explained that the interviewees seemed to have confidence in a favourable house price development and apparently have faith in income security for young people. The German interviewees, on the contrary, were insecure about house price development as a consequence of the ageing population; they were also worried about unemployment and social provision.

In connection with this issue the Finnish researchers reported a remarkable finding. They argued that the experiences of the economic recession and a crashing housing market in the 1990s did not make all Finnish homeowners more careful and cautious. Young and marginal homeowners in particular seemed to have a 'tougher' attitude towards risk-taking in home ownership. Although they did not have personal experience of the housing crash, the researchers suggest that these respondents were raised in a more risky institutional environment than that of older generations. Accordingly, they felt safe and secure even if they expressed their awareness of certain insecurities, such as a combination of a big mortgage

and a fixed-term work contract, for example. The Finnish interviewees said they regarded the risks as worthwhile because buying was eventually for their own benefit.

In Finland, Sweden and Portugal, interviewees stated that the possibility of flexible arrangements with mortgage lenders enhanced the feeling of security as a homeowner. In Finland and Portugal they thought that in the event of unemployment homeowners should negotiate with the bank and arrange new repayment conditions. The Swedish researcher noticed that some young and well-informed interviewees enjoyed the flexibility of mortgages; when the incomes of these interviewees changed they could change the payment of the mortgage. In the UK the interviewees did not mention this opportunity as a factor that contributes to security; however, interviewees here had used it for temporary career breaks, to start a family or undertake training.

Security and insecurity of home ownership: a matter of good and bad decisions

In Hungary researchers described home ownership both as a source of security as well as a considerably 'risky business'. The interviewees tended to speak in terms of 'good' and 'bad' housing decisions that could have long-lasting effects on housing careers and indirectly on people's life chances. The Hungarian researchers explained that in the process of the transition, tenure preferences changed rapidly from renting to owning; a large part of the former rental stock had been sold to private owners. It had been crucial for households to make the right decision at the right moment, as the market was volatile and state subsidies unstable. Moreover, dwellings were often of a very low quality, it was unclear how much they were worth and how much investment they would need to remain in a reasonable condition. The insecure institutional context in transition Hungary seems to greatly enhance the perception of home ownership as a risky business. In Hungary, housing policy and the housing market impacted strongly upon the perception of home ownership as risky. Still, interviewees thought that being a homeowner was worthwhile and that home ownership was the most secure tenure, and therefore that risks should be taken.

11.3.3 Perceptions of renting relative to home ownership

Home ownership is often perceived as the secure type of tenure. Building housing equity plays an important role; however, not in all countries did interviewees perceive home ownership as the best type of tenure in any case. In Belgium, Finland, Germany, the Netherlands, Sweden and the UK renting was considered as the more secure type of tenure for people with lower incomes and for people with unstable lifestyles, jobs and relationships: mostly young people who wanted to be free of the obligations of a mortgage and mainte-

Table 11.4 Interviewees' perceptions of renting

Acceptable alternative	Temporary solution	Last resort
Germany	Finland	Portugal
the Netherlands	UK	Hungary
Sweden	Belgium	

nance. In Germany, Sweden and the Netherlands renting was also seen as an option for older people and people with unstable lifestyles and an acceptable longer-term alternative; while in Finland, the UK and Belgium interviewees saw renting more as a temporary solution and the aim was to end up as a homeowner.

In contrast, interviewees in Hungary and Portugal perceived renting only as a last resort, as the only option left when people are unemployed, unable to work due to illness or disability, have experienced relationship breakdown, or are in financial difficulty. Therefore, being a tenant in these countries appeared to have a large impact on social identity. In Portugal the researchers reported that home ownership appeared to be important for social identity and paves the way for social inclusion. Positive aspects of renting were rarely put forward. Another part of the negative perception of renting seems to be caused by insecure rental contracts with landlords. The Hungarian researchers reported that tenants felt much less secure than homeowners. Hungarian interviewees regarded private rented dwellings as hardly affordable and they feared an arbitrary rise of rents; although less likely to occur, the latter risk also accounts for the public rental sector. Moreover, the rents in the private rental sector are considered to be high and insecurity is experienced with regard to rent increases. In Portugal a division should be made between new and old rental contracts, as the level of insecurity is different in these two groups. In contrast to the Portuguese with new contracts, the tenants with old contracts profit from very low rents. Nevertheless, the Portuguese researchers explain that these tenants with old contracts now fear that the rents will be equalised with market rents as the government is reconsidering this rent regulation system.

Social - private

When we explore links with institutional characteristics these findings seem to be related to housing markets and housing policy. In Portugal and Hungary, the share of rental dwellings is relatively small and governments do not have the strict rent regulation and tenants' protection they have at least for the public rented sector in Belgium, Finland and the UK and both for the public and private rented sector in Germany, Sweden and the Netherlands (see Table 11.4).

Although in the Netherlands and Sweden interviewees refer to renting as more secure than owner-occupation, they also express worries about future developments. In both countries the researchers argue that a change in the perception of security and insecurity of tenure is occurring. The Dutch researchers argue that the insecurity about renting was mainly caused by the fact that the Dutch government was discussing liberalisation of a certain share of the rented housing stock at the time of the interviews. The Swed-

ish researcher concludes her chapter by reporting that tenants are subject to high rents and they are insecure about future rent developments; furthermore, they have no housing equity to increase their pensions and often little space to increase savings. These findings suggest that the absence of an affordable and acceptable alternative to home ownership that is not protected by rent regulation and tenant protection enhances the perceived security of home ownership.

11.4 Use of home ownership as a financial resource

11.4.1 Some statistics on housing finance

Few homeowners have the means to buy a house outright. In most countries it is common to have a mortgage. There are, however, clear differences between countries. First of all, the proportion of homeowners with a mortgage differs across countries, ranging from 15% in Hungary (where modern mortgage market products were introduced only at the beginning of this century) to 88% in the Netherlands. At first glance the differences are remarkable and suggest a potentially enormous impact on the security and insecurity of home ownership. The value of the mortgage compared to the market value of the house for recent buyers varies from 70% in Germany and the UK to 112% in the Netherlands.

Table 11.5 provides an overview of mortgage use. The Dutch are heavy users, with a high share of mortgagees and high loan to value ratios. Moreover, interest-only loans are rather popular. It could be said that Dutch homeowners are not building as much housing equity as they could. Although there is a lack of data, Table 11.5 also shows high figures for Sweden, where housing equity is being used for other aims in order to optimise their fiscal result. Hungary and Portugal are the best equity builders, while the other countries are in between.

The next question we will address is the risk associated with a mortgage. To what extent do households take risks to build up equity? The type of mortgage can give an indication of the risk. Investment and endowment mortgages in general are considered more risky than repayment mortgages. Moreover, longer fixed interest periods can be considered as a kind of insurance and risk reducer. Table 11.5 shows that Belgian mortgages seem to be most safe while UK and Dutch mortgagees have risky mortgage types and UK mortgagees also have variable interest rates.

Final measures of risk are housing arrears and repossessions, which are shown in the last rows of the table. This table provides a varied picture. The UK and Germany are remarkable for their high numbers of repossessions,

Table 11.5 Housing finance

	Belgium	Germany	Finland	Hungary	the Nether- lands	Portugal	Sweden	UK
% of owners with a mortgage (2001)	44	47	40	15	88	29	³⁾	61
LTV recent buyers (2001)	80-85	70	75-80	³⁾	112	70-80	90-100	70
Duration of loan (2001)	15-20	25	15-20	15-20	30	25-30	30-50	20-30
Possibility of freeing up equity (2003) ¹⁾	no	yes	yes	³⁾	yes	yes but not marketed	yes	yes
Variable rate or fixed-interest period (2001)	Fixed 20	Fixed >5	Variable rate	Fixed, floating rate ⁴⁾	11	<1	1	Variable, short-term fixed
Use of more risky types ²⁾					+			+
Arrears % of owners (2001)	3.8	2.6	7.5	³⁾	0.8	1.3	³⁾	0.9
Number of repossessions (2001)	230 ⁵⁾	30,000	low	new	1,720	low	low	16,300

1) Doling & Ford, 2003.

2) Investment and endowment mortgages.

3) Data not available.

4) See OECD, 2005, Housing Finance Markets in transition economies, Paris.

5) Only Flanders.

Sources: Quantitative Studies OSIS, Institutional Studies OSIS

although they are large countries, and Finland catches the eye by its high rate of arrears. The Dutch, as the largest mortgage users, do not stand out in terms of high arrears or high number of repossessions.

11.4.2 Perceptions of the role of home ownership as a financial resource

The question is whether home ownership is perceived as a financial resource and is part of people's financial planning, either in terms of reduced housing expenses due to being an outright owner, by selling, or by mortgage equity withdrawal. Interviewees in all countries mentioned the advantage of reduced housing expenses in old age, and selling and using the proceeds to buy a new house is also rather common practice. However, the interviewees also appeared to have rather divergent ideas about the role of home ownership as a source of financial security for welfare needs. Cashing in equity either by selling the house or by using certain mortgage products that enable the release of capital from the house are not common practice. Subletting is also mentioned as an option in the event of emergencies in some countries.

Reduced housing expenses

The most self-evident advantage of building equity is that over time mortgage expenses normally decrease and once a mortgage is repaid housing expenses are strongly diminished. This advantage of home ownership is mentioned in

most countries. It is an important advantage of home ownership for Belgian interviewees. They refer to old age, as they expect their incomes to be lower when they retire and in this respect contrast the position of outright owners to the position of tenants. In Germany researchers reported that some interviewees voluntarily increased the rate of their mortgage repayment to reduce mortgage expenses and to eventually become outright owners. These interviewees cut back their spending on consumables and leisure, and said that they took advantage of their current living situation, which was considered good at the moment but unclear for the future. Reduced housing expenses are probably perceived as a self-evident feature of owner-occupation in Finland and Hungary, as it is not mentioned in these countries' chapters.

Releasing housing equity: selling and mortgage equity withdrawal

The action of accessing money from the owner-occupied dwelling for welfare needs did not seem to be common for all interviewees. The Finnish researchers summarised interviewees' perceptions of the house as being a kind of 'sanctuary'. In all countries some interviewees brought up objections against the use of their homes as a financial resource.

Different reasons for the aversion to access equity by using a flexible or second mortgage can be uncovered. Interviewees in Finland and Sweden did not like equity withdrawal while they would have to use additional mortgage products and they distrusted the banks or thought that banks would unreasonably profit from these kinds of loans. Remarkably, Swedish and Finnish homeowners also argued that they felt more secure as mortgage lenders were perceived as flexible with regard to repayment conditions. In Germany interviewees said they would feel uncomfortable taking up an extra mortgage as they would fear not to be able to repay it. The German researchers showed that homeownership interviewees in particular worried about unemployment and immobility as a result of home ownership. Furthermore, the German interviewees shared the idea of repaying a mortgage as soon as possible. In Portugal and Hungary interviewees explained that they felt emotionally attached to their homes and did not want to sell them; they regarded equity release as a theoretical option as a very last resort. Finally, in Finland, Hungary, Portugal and the UK interviewees ideally wanted to pass at least a considerable share of the capital on to their children.

Although in all countries some interviewees showed resistance to the use of their home as a financial resource, this did not necessarily imply they were all opposed to the use of housing equity. In comparison with interviewees in the other countries, the British perceived using housing equity as rather normal and in contrast with interviewees in other countries everybody understood the concept of mortgage equity withdrawal for pension purposes. British interviewees mentioned a broad range of possible uses of housing equity: from home improvement to taking a career break; from undertaking train-

Box 11.3 Resistance against using the home as a financial resource mentioned in the countries' chapters

[...] An overwhelming majority of the owners do not consider using housing resources. If it is considered, it is linked with becoming older [...] But by the same token and following the general logic, a significant number of respondents seriously doubt whether it would be a good idea to use housing property to supplement pension income (Belgium).

Overall, the idea of using housing equity as a source of money seems still very new and strange for many. For some people housing and particularly the owner-occupied home represents a kind of "sanctuary", which should not be mixed up too deeply with economic considerations (Finland).

In Germany homeowners and tenants alike are not familiar with the idea of accessing equity from housing. Most have not considered utilising their housing. Yet they often implicitly regard housing as a 'pension in stone' or a source of wealth that they can rely on in case of need [...] Only if there were no other alternatives would people consider using their housing as a financial resource in the future (Germany).

[...] The dwellings play a role in households' financial security to the extent that the households consider the dwelling as part of their wealth portfolio. This is, however, seldom the practical approach and is mentioned as a theoretical option, and in times of hardship and accessing the wealth stored in housing, downward mobility has disadvantages and the families would most probably consume the 'gained' financial resource very quickly [...] they tend to be very reluctant to mobilise their homes for consumption purposes (Hungary).

Some interviewees consider it unwise to cash in the surplus value; they think that people are just saddling themselves with more debt. They do not wish to take out an extra mortgage on the equity of their house [...] the equity in their home [is seen] as a fund for emergencies (The Netherlands).

On a first approach, most respondents do not consider using housing equity in the future. The main focus is on housing as a home, to be paid for over time in order to be allowed to rest once the mortgage ends [...] Once paid, the dwelling will gain a new important meaning, that of an asset to leave to the children (Portugal).

Elderly respondents in particular started to talk about ethics when suggestions were made to use housing equity for these purposes. It was something deeply wrong to spend what you had tried to pay off all your life and in addition housing could not be risked (Sweden).

Most UK respondents understood the concept of using money stored in their house for future activities but few had thought through this in any detail [...] A couple of people explained they could not understand why someone would consider this [...] (UK).

ing to care in old age; and in the end they would like to have some equity left to pass on to their children. The Swedish and Dutch interviewees also considered using, or had used, housing equity for various purposes. In the Swedish chapter the researcher specified the group that was mainly opposed, namely the elderly, while the younger interviewees considered the idea of using housing equity as more acceptable. Although not yet used as such, some

Table 11.6 Dominating perceptions of the use of housing equity and the importance of intergenerational transfers

	Not common to use equity	Common to use equity
Intergenerational transfers important	Finland Hungary Portugal	UK
Intergenerational transfers less important	Belgium Germany	the Netherlands Sweden

young Swedish interviewees did perceive the use of housing equity as appropriate to boost their income when they stopped working, or if they

wanted to work part-time. In the Netherlands too, many interviewees did not seem to have difficulties with the idea of accessing housing equity through a second mortgage; although the range of purposes became smaller in the latter country when the tax regulation changed (see Section 5.3).

An important reason for accessing equity, or perceiving it as a possibility, seemed to be related to being familiar with the process of accessing equity and being familiar with mortgage products that enable access (see Table 11.6). The British researchers report that financial institutions encouraged people to use mortgage equity release products, and indeed the British respondents are the ones in our sample of countries that saw the most various options for accessing equity. Furthermore, asset-based welfare and the role of home ownership is a topic of policy debate in the UK and not in other countries.

Furthermore, the Dutch case reveals that a relation with tax policy is probable. When equity could be cashed irrespective of taxes for all consumption purposes, the Dutch did use it for all kinds of purposes. However, when this tax policy changed, and tax was only deductible when equity was used for reinvestment in the dwelling, then interviewees only used it for reinvestment. The perception of home ownership as a financial resource in the UK and the Netherlands indicates the powerful influence of both financial institutions and tax policies on the accessing of equity.

In addition, the conditions of the housing market, social security and the labour market might play a role. In the UK, Sweden and the Netherlands house prices have been mostly on the rise, and arrears were relatively low; and at the same time the level of income security was relatively high in all three countries.

Subletting

Subletting appeared to be another financially profitable aspect of being a homeowner: it was mentioned as an acceptable option in the adjacent countries Belgium, Germany and the Netherlands. For some interviewees it was an option in the event of need (see Table 11.7): in Belgium some interviewees solved their precarious financial situations by subletting. In the Netherlands it was at the time of the interviews a financial strategy for more affluent interviewees who either inherited or had large resources that they wanted to invest. Although some German interviewees remarked that they did not consider subletting as attractive because they did not like sharing their homes with strangers, subletting was perceived as the most acceptable way to use home ownership as a financial resource, besides selling.

Table 11.7 Ways to use home ownership as a financial resource and relative importance in interviews

	Reduced housing expenses	Selling	Equity withdrawal	Letting
Belgium	+++	+	+	+
Finland	-	+	+	-
Germany	+++	+	+	+
Hungary	-	+++	-	+
the Netherlands	+	+	++	+
Portugal	+	+++	+	+
Sweden	+	+	++	-
UK	+	+	+++	-
-	not mentioned			
+	mentioned			
++	emphasised as relatively important			
+++	specifically related to income insecurity and part of financial safety net planning			

The home as a financial resource for welfare needs?

As Hungarian and Portuguese interviewees experience high income insecurity we expected that home ownership would be more important for them as a financial resource. Although the interviewees did not find it appropriate to use equity for a whole variety of purposes, they did perceive home ownership as an important asset in case of emergencies. In this sense Hungarian interviewees did emphasise the primary importance of home ownership in times of financial hardship. The Portuguese researchers explained that interviewees would first sacrifice all other joys as much as possible; however, in the event of health problems or in old age, and only if no other option remained, interviewees said they would consider using housing equity. In Germany, another country in which income insecurity was relatively high, interviewees regarded home ownership both as a constraint and an opportunity. On the one hand they were bothered by the perceived immobility; in the event of job loss one would be limited in the area in which one could find a new job. On the other hand if the mortgage were repaid housing expenses would be diminished, and then a homeowner would be financially better off than a renter in the event of unemployment or low pensions.

11.5 Conclusions

The aim was to gain more insight into how people relate home ownership to income insecurity and how institutional factors impact on this. In a context of growing income insecurity, the growing rate of home ownership and deregulated mortgage markets that offer a growing range of products were expected to create new securities and insecurities for homeowners. The central hypothesis posed at the beginning of this chapter was that home ownership would be more important in people's lives for financial security and an aspect

of people's financial safety net planning when income security was lower. To provide a basis for reflection on this area, we will first give answers to the objectives with which we started this chapter.

How do interviewees perceive income (in)security? To what extent do interviewees take private measures and count on or do not count on social security?

The perceived level of insecurity differed among countries, as did their strategies, and relations with the statistics were rather clear. We were able to distinguish four types of countries according to interviewees' perceptions of income security and insecurity and on the basis of safety net strategies. Interviewees in countries in the first category perceived a relatively high level of income insecurity and their strategy was based on self-management and family support. These countries, Hungary and Portugal, had in common that their labour markets were relatively insecure and social security was relatively low. In these countries interviewees argued that social security could not improve people's situation; on the contrary, people would do better to avoid relying on benefits as a social stigma was attached to using them. Furthermore, the importance of family support and one's own resources were considered as crucial for perceptions of security and insecurity.

Interviewees in the second category, Germany, also expressed feelings of income insecurity, yet they did rely on social security. This country is characterised by an insecure labour market and a relatively high welfare level. The perception of income insecurity, despite the relatively high level of social provision, was explained by unfavourable changes that had occurred in the labour market and social security. People's future prospects about the socioeconomic situation were also rather pessimistic.

In the third type of country interviewees perceived income security and their safety net strategies were mainly based on self-management. This country, the UK, was characterised by a relatively secure labour market. Furthermore, the strategies could be explained by the liberal welfare regime.

Finally, in the fourth group of countries interviewees perceived income security and relied on social welfare. Most of these countries – Belgium, Finland, the Netherlands and Sweden – were characterised by a secure labour market and social security. However, one country, Finland, was characterised by a relatively insecure labour market situation. Recent developments and future prospects would seem to be the explanatory factor here; people in this country were relatively optimistic about current and future socioeconomic development.

Homeowners usually reflected more on their housing situation and had more savings and insurance compared to tenants. Different reasons were brought up that relate to home ownership in itself: a greater financial responsibility, having more to lose, homeowners needed to save for maintenance,

households' financial characteristics: homeowners have more means to save or spend on insurance, and institutional characteristics: mortgage lenders strongly encouraged insurance, governments encouraged people to save, and homeowners lacked housing allowances as part of their safety net.

To what extent do interviewees perceive home ownership as secure and prefer it to renting for security reasons and how is this related to income (in)security and the housing and mortgage market?

Although a roof over one's head was mostly the most important reason to buy, housing equity was an argument mentioned early on in all countries when interviewees explained their choice for home ownership. Interviewees said they would rather pay money into their own pocket than a landlord's pocket. To be able to buy a house and to put that money in their own pocket, most interviewees took up a mortgage. In the beginning the mortgage was perceived as a burden; in the long run interviewees said they would feel more secure because of diminishing housing expenses. The perception of home ownership as a safe and stable investment appeared not to be straightforwardly related to recent rising house prices (Germany); thus the perception of home ownership as secure is not fully dependent on the functioning of the housing market.

We witnessed a mixed picture of security and insecurity attached to home ownership in Hungary, where house prices had been volatile, the quality of part of the owner-occupied sector is low and housing policy has been unstable. To put it briefly, the housing market and housing policy contributed to the insecurity of home ownership; nevertheless home ownership was perceived as the most secure type of tenure.

Home ownership appeared not always to be perceived as the most secure type of tenure. This was mostly the case in countries where renting was perceived as an acceptable alternative to home ownership. In countries where there was a considerable share of rental dwellings and housing rental policy, and specifically rent regulation and tenant protection, was well arranged for both the private and the social rental sector, in Germany, Sweden and the Netherlands, renting was perceived as acceptable for those on low incomes, for young people, for people with unstable lifestyles, like those in unstable employment, for example, and lastly for elderly people, who do not like to have responsibility for maintenance in older age. In Finland, the UK and Belgium, countries where only the social rented sector was protected, interviewees regarded renting as the best type of tenure for lower income households and as temporary housing for young people, however, the emphasis is put on renting as a temporary solution. Finally, in countries where both sectors are marginal and mostly poorly protected (Hungary and Portugal) it is perceived as a last resort for people who are financially not able to enter home ownership; the sector is perceived as highly insecure.

To what extent do interviewees perceive home ownership as a financial resource and how does this relate to the institutional context?

If we consider the use of home ownership as a financial resource it appears that home ownership is used as such in all countries. Home ownership, for example, provides reduced housing expenses, housing equity can be accessed by selling or by taking up a second mortgage, and finally home ownership provides the opportunity to sublet part of the house. However, not all these ways of using home ownership as a financial resource were self-evidently applied as such in every country. The benefit of reduced housing expenses in old age appeared to be a commonly valued security, as was using the proceeds of a sale for buying a new dwelling, whereas selling and mortgage equity withdrawal for welfare needs were perceived with more restraint.

When we consider to what extent home ownership as a financial resource is related to welfare needs, we consider only a few countries. In Belgium interviewees explicitly linked home ownership to reduced housing expenses in old age. In Germany, too, reduced housing expenses were related to future income insecurity, not only in old age but also in the event of unemployment. In Hungary and Portugal the owner-occupied dwelling was seen as a last resort to rely on in case of dire financial need, in which case the dwelling would be sold. In the UK interviewees reflected on taking a second mortgage as part of their financial planning.

Notably, in Sweden and the Netherlands releasing housing equity by taking up another mortgage was rather common practice yet reflected upon more as a kind of surprise, a bonus, as unexpectedly house prices had been rising rapidly.

Home ownership as an asset: a new perception?

Now we return to the central hypothesis stated at the beginning of this chapter. To what extent is home ownership more important in people's lives for financial security and to what extent is it an aspect of people's financial safety net planning when income insecurity is low? Income insecurity covers both labour market and welfare provision (Table 11.8 shows the overview).

In Hungary and Portugal interviewees were most insecure about their income and relied on private measures. We expected that in these countries home ownership would be perceived as relatively important for security reasons. Indeed, home ownership was perceived as the secure type of tenure and as a financial resource to rely on in case of emergencies for welfare needs – interviewees mostly thought of selling, which would have a sweeping effect on their lives. In Hungary home ownership did not only provide security to the homeownership household, but often had a function in a broader family network. However, home ownership was not only the secure type of tenure for financial reasons, but also because renting was not perceived as a serious

alternative in either country. In Portugal tenants were considered as socially excluded. In Hungary home ownership was also described as insecure, since the timing and the process of buying could have far-reaching consequences for the rest of people's lives and the quality of the dwellings caused insecurities.

In Germany changes in social security and a risky labour market made people insecure about their incomes despite a still rather generous social provision. On the basis of the central hypothesis we expected that the meaning of home ownership would be changing in Germany, and would become more important for security reasons. We found divergent effects of the perceived income security changes on the meaning of home ownership. On the one hand, home ownership was said to be part of financial planning as housing expenses decrease while repaying the mortgage. Reduced housing expenses were not only related to old age, but people were also very much motivated to repay as quickly as possible so that if they were to lose their jobs, their housing expenses would be considerably lower. However, on the other hand, interviewees appeared to be much more careful before entering home ownership and some homeowners felt rather inflexible as a homeowner. The obligations of a mortgage were perceived as a burden and home ownership as a cause for immobility. Renting was seen as more secure in periods of unstable jobs, relationships and financial circumstances.

In the UK, people did not rely on social security but more on self-management. Home ownership was expected to provide security as a financial resource. This appeared to be true, most importantly through mortgage equity withdrawal; rising house prices appeared to be an important factor that enhanced the feeling of security in this respect. Still, people were careful and generally wanted to leave an inheritance for their children.

In Belgium, Finland, Sweden and the Netherlands people were secure about their incomes and relied on social security. In these countries we expected that home ownership was not an important tenure for financial security. Generally however, home ownership was seen as a nest egg, a fund for emergencies, yet not explicitly related to welfare needs. The only exception was Belgium, where home ownership was perceived as part of financial planning for old age, as homeowners would then have lower housing expenses compared to tenants. Furthermore, in Sweden and the Netherlands withdrawing equity was a rather common practice, yet it was perceived more as a surprise or bonus than as a part of financial planning.

Whereas in all countries reduced housing expenses and having a nest-egg were perceived as a financial security, interviewees in Hungary, Portugal, Germany, the UK and Belgium seemed to relate home ownership explicitly to income insecurity. The ways in which people would use their homes as part of their financial strategy were different: reduced housing expenses and selling were the most common strategies; mortgage equity withdrawal

Table 11.8 Ways to use home ownership as a financial resource and for what purposes, mentioned in interviews

	Reduced housing expenses	Selling	Equity withdrawal	Letting
Belgium (Ghent)	Old age	New house Intergenerational transfer	Business startup	Emergencies Business startup
Finland (Turku)		New house Emergencies Intergenerational transfers	Home improvement Emergencies	
Germany (Hanover)	Unemployment Old age	New house Emergencies	Home improvement Care needs Children's education	Emergencies
Hungary (Budapest)		New house Emergencies (both self and family) Intergenerational transfer		Emergencies
the Netherlands (Haarlem)	Old age	New house Intergenerational transfer Income Emergencies Old age	Camera Cars Caravan Pension fund Old age Home improvement Buy out partner Emergencies	Emergencies Make living Old age
Portugal (Caldas da Rainha)	Old age Education of child	New house Emergencies Intergenerational transfer	Health care Old age Emergencies	Emergencies
Sweden (Gävle)	Old age	New house Old age Intergenerational transfer	Home improvement Stop working Working part-time Cars Furniture Caravan	
UK (York)	Old age	New house Home improvements Pay off other debts Intergenerational transfer	Home improvement Training Career break Leisure and holiday Deposit for a rainy day Old age Care needs Buy second property Business startup Children's education	

was only common practice in the UK where considerable house price increases occurred and where mortgage equity release products were available. The importance and security of home ownership appeared not to be straightforwardly related to benefits of building up housing equity and income insecurity

ty. Factors that influenced this relationship were most importantly the rented sector, and the extent to which this sector provided a fully acceptable alternative to home ownership; and also the quality of people's homes and worries about maintenance and further unstable housing policy raised insecurity of home ownership in some countries.

We expected that home ownership as an important source of security was a new development as labour markets become more flexible, social security diminishes and the financial market delivers more and more equity withdrawal products. However, this research suggests that home ownership provides people with security in rather traditional ways, namely by reduced expenses in old age and by selling. This raises the question of whether home ownership obtains a 'new' meaning as an asset in the context of temporary jobs, periods of unemployment and a government that withdraws from social security. Chapter 12 will elaborate further on this question and consider the associated concept of asset-based welfare policies.

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12 Reflections on asset-based welfare and future research

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12.1 Introduction

Housing equity plays a role in people's financial planning in the eight countries of this study. In all eight countries, households consider housing equity as a nest egg and financial security that can be relied upon in the event of bad luck. Moreover, in some countries we found signs of what we could call asset-based welfare planning: housing equity is used for purposes that could be part of welfare facilities provided by the government. In other words, we found some signs of what we might call 'housing asset-based welfare'.

The idea of asset based welfare was developed in the USA and is considered to be a complementary system to traditional welfare tools. In Europe, the UK and Sweden have launched asset based welfare programs. Housing equity could be considered as part of such a program and as an addition to existing welfare programs. Here we explore how this concept, which was developed in an Anglo Saxon context, could apply to housing in eight different countries. We search for signs of housing asset based welfare exploring households' perceptions and behaviour and the institutional contexts of the eight countries.

This chapter further reflects on the concept of asset-based welfare that was introduced in Chapter 1. It describes what is meant by asset-based welfare and how asset-based welfare policies can be shaped. We elaborate on what could be considered as housing asset-based strategies for households and housing asset-based policies. We then reflect on the previous chapters and describe the signs for housing asset-based welfare in the eight countries.

Finally, we reflect on these signs of asset-based welfare, on the OSIS project and current developments and point at issues of importance for future research in this field.

12.2 Asset-based welfare

12.2.1 What is asset-based welfare?

Sherraden (1991) introduced the concept of asset-based welfare as an alternative to a means-tested welfare regime. His observation is that means-tested welfare provision has failed. Such policies make the poor dependent on the government and are not able to create opportunities for these people. Sherraden sees a role for assets in welfare policies, and believes that assets change the way people think about the world: they start thinking about the long term and set long-term goals. Moreover, holding assets supposedly increases participation in the community and investment in self, financial instruments

and enterprise for greater returns. He therefore holds the opinion that an active social policy that promotes engagement is better suited to a post-industrial society than traditional welfare arrangements (Sherraden, 2003). He further developed the concept of asset-based policy and poses that any asset-based policy system should complement, not replace, existing income-based policies. A mature asset-based policy should be shaped by four core principles: inclusive, progressive, coherent and development. The most important principle is inclusiveness: a policy should be large-scale and fully inclusive, with progressive funding, in order that everyone participates and has resources for life investments and social protection.

This idea of asset-based welfare policy is criticised by, for example, Emmer-son & Wakefield (2001), who doubt the independent effect of asset-owning on individual life chances. They state that the existing evidence of individual effects on individual life chances is not strong enough to justify a large-scale programme of asset-based welfare policies. Perhaps more convincing are arguments that engaging people in the process of saving, and thereby learning to plan ahead and learning about financial institutions, can help poorer people to create more opportunities in life (Emmerson & Wakefield, 2001). Their criticism points at the independent effect of assets: they do not believe that assets change the mind. But they do recognise that the role of learning – with help if necessary – to plan for the longer term can be a way to provide households with opportunities.

12.2.2 Is there a role for housing?

Housing is an important asset and for many households the largest investment they will make in their lifetime. Moreover, home ownership is encouraged by many governments and there are different underlying reasons for such policies. Building assets, encouraging responsibility of households and encouraging households towards involvement in their community and in society as a whole are reasons for governments to encourage home ownership (see, for example, Rohe, 2001). Ideas on encouraging home ownership were mentioned in policy documents in Germany and the Netherlands as early as the 1950s (Behring & Helbrecht, 2005; Elsinga & Hoekstra, 2005). The ideas behind policies to encourage home ownership are surprisingly in line with the basic idea of asset-based policy. The encouragement of home ownership can therefore be considered as part of an asset-based policy.

In the UK, asset-based policies are becoming normal in the policy discourse and housing equity is part of this. According to Groves, Murie & Watson (2007) housing is no longer a wobbly pillar of the welfare state alongside a generous, redistributive welfare system. Housing has become, rather, the keystone for a more individualistic economic and social policy agenda. It is citizens taking responsibility for their own welfare and investment in home ownership that

provides the mechanism for welfare in different stages of life. Home ownership is increasingly seen as the key to life chances. Groves *et al.* (2007) consider the Right to Buy, Shared Ownership and Home Buy schemes as instrumental in an asset-based housing policy.

In this chapter we are looking for signs of housing asset-based welfare in the eight countries under study. We will therefore elaborate on the ideas of Sherraden about the effect of holding assets and his ideas on asset-based policy. We will describe what could be considered as housing asset-based welfare and take the perceptions and behaviour of households and the way housing policy is shaped into account.

We can distinguish three signs of what can be considered as housing asset-based perceptions and behaviour (non-exhaustive list):

- households consider home ownership as an asset;
- households use housing equity in their financial planning;
- households take housing equity into account for their safety net and welfare needs.

Considering housing policy, we will take two of the four criteria as described by Sherraden into account: inclusiveness and progressiveness. Unfortunately it is not possible to reflect on the other two criteria since the collected material does not allow for conclusions in these areas. We can translate the two principles of Sherraden into three signs of housing asset-based policies:

- home ownership is encouraged by housing policy;
- the encouragement of home ownership is targeted at low income groups;
- the encouragement of home ownership is inclusive, thus addressing all households and thus not stimulating lower income groups to rent.

12.2.3 Signs of housing asset-based welfare

Households' perceptions

Although a roof over one's head was the most important reason to buy, housing equity was an argument mentioned early on in all countries when interviewees explained their choice for home ownership. Interviewees said they would rather pay money into their own pocket than a landlord's pocket. The security of being a homeowner was not always self-evident, however: in general it mainly provided security for those people who were secure about their incomes when they entered home ownership, and for all homeowners once they repaid their mortgages. In some countries and for some groups of people (e.g. low income households, households with short-term relationships and jobs) renting was perceived as preferable for security reasons, either as a temporary solution (Finland, Belgium and the UK) or as a long-term acceptable alternative (Germany, Sweden, the Netherlands), dependent on housing policy that dictates the security of renting. Renting was seen only as a last resort,

and for people without any financial opportunities, in Hungary and Portugal. Here, tenants were perceived as being socially excluded. In Hungary home ownership was also described as insecure, since the timing and the process of buying could have far-reaching consequences for the rest of people's lives and the quality of the dwellings caused insecurities.

Homeowners usually reflected more on their housing situation and had more savings and insurance compared to tenants. Different reasons were brought up: a greater financial responsibility, having more to lose, the need to save for maintenance, homeowners have more means to save or spend on insurance, mortgage lenders strongly encouraged insurance, governments encouraged people to save, and homeowners lacked housing allowances as part of their safety net. Thus, not only does having an owner-occupied home – an asset – stimulate homeowners to build a private safety net, as Sherraden assumes, but also household characteristics, financial institutions and government policies.

Home ownership could be benefited from as an asset in three ways: first by reduced housing expenses once the mortgage is repaid, second by selling the house and using the proceeds, and third by mortgage equity withdrawal. Reduced housing expenses in old age appeared to be common practice, whereas selling and mortgage equity withdrawal was often a more troubling perspective for households in the event of a drop in income. In all countries people seemed cautious about accessing housing equity; they referred to their homes as a 'sanctuary' that should not be caught up too much in economic considerations. They seemed to strive towards outright ownership and in some countries interviewees wished to pass the capital on to their children.

However, the options of selling and mortgage equity release were sometimes used without question when one wanted to buy a new house, or when house prices had risen so much that one did not feel at risk by releasing some housing equity. Therefore we now distinguish another dimension that evaluates the different kinds of purposes and related levels of necessity of the use of housing equity. We distinguish three categories: housing equity as part of financial planning; housing equity as a bonus; and housing equity as part of a safety net strategy (see Table 12.1).

When we speak about housing equity in financial planning, we mean that people assume certain income developments over their lives, and they perceive housing equity in relation to this development. This specifically holds in every country for reduced housing expenses when living on a pension and being outright owner. The Belgian interviewees explicitly made the link with pensions; reduced housing expenses were perceived as an important advantage of homeowners in old age. In Hungary and Finland reduced housing expenses were not mentioned, yet we assumed this was a self-evident advantage of home ownership. Furthermore, selling in old age and moving to the rental sector formed part of the financial plans of some interviewees in the Netherlands and Sweden.

Table 12.1 Perceptions of home ownership and housing equity

Housing at asset	Home ownership in financial planning			Housing asset part of safety net strategy	
	Reduced expenses	Selling	Mortgage equity withdrawal	Income insecurity & welfare needs	Nest egg
All	All	All	the Netherlands Sweden UK	Germany Hungary Portugal UK	All

In the Netherlands and Sweden, people mainly perceived the opportunity of mortgage equity withdrawal as a pleasant surprise and they used housing equity as a bonus resource. For example, they bought a caravan, furniture or financed the renovation of their shower and sink into a luxurious bathroom. In these countries, mortgage equity withdrawal did not add to financial security. In the UK, mortgage equity withdrawal was also to some extent used as a nice surprise for, for instance, a holiday or buying a second property; however, for the UK interviewees housing assets also have a more emergent role in their safety net strategies.

Housing equity being part of a safety net strategy is the final category to be used in the event of an unexpected drop in income or welfare needs. Here we can distinguish two roles of home ownership, first as a nest egg to be used in inconceivable worst-case scenarios; and second as a financial resource directly related to income insecurity and welfare needs. In all countries, home ownership is perceived as a nest egg. In Hungary, Portugal, Germany, and the UK, however, home ownership contributed directly to financial security. In Hungary and Portugal becoming a homeowner was regarded as important for financial security, selling the house was perceived as a last resort for emergencies; it would have a sweeping effect on interviewees' future lives. In Germany interviewees related reduced housing expenses explicitly to the risk of unemployment and in the UK people perceived mortgage equity withdrawal as a rather acceptable way to release equity, mainly for old age, but also to protect against potentially negative financial consequences of risks.

Housing policy

We will now search for signs of housing asset-based welfare in housing policy using the three criteria described in the previous section. The first criterion is encouragement of home ownership. Table 12.2 shows that all countries except for Sweden encourage home ownership. This policy aim is achieved in different ways, ranging from regressive tax policies to instruments targeted at lower income households, as shown in Table 12.2. In Germany, Finland and Hungary there are government-supported saving schemes which encourage people to save for the down-payment necessary to buy a house. Enabling access to home ownership is also possible by increasing borrowing capacities. A government mortgage guarantee is an instrument which allows a higher loan to value and can result in a lower interest rate. Five of the eight countries apply a government mortgage guarantee. This instrument enables households to enter home ownership without saving or with less saving.

Table 12.2 Housing policy

Encouragement of home ownership	Targeting low incomes				Renting satisfying alternative
	Savings guaranty	Mortgage	Grant/ Subsidies	Intermediate tenures	
Belgium	Germany	Belgium	Finland	UK	Hungary
Germany	Finland	Germany	Hungary	the Netherlands	Portugal
Finland	Hungary	Finland	Portugal		
Hungary		the Netherlands	UK		UK*
the Netherlands		Sweden			Belgium*
Portugal					
UK					

* Social housing is a reasonable but stigmatised alternative to home ownership.

Then there are grants, interest subsidies and housing allowances. In Finland, Portugal and Hungary subsidies and grants for low income households are available. The UK has the Right to Buy scheme, which provides a reduction on the sales price of the dwelling. Finally, intermediate housing tenures have been developed in the UK and the Netherlands. The UK has the Shared Ownership and Shared Equity schemes, which enable households with lower incomes to buy at an affordable price and to partly rent (Shared Ownership) or to pay back a certain amount after selling (Shared Equity). In the Netherlands different housing associations apply similar but slightly different Shared Equity schemes (for example *Koopgarant* and *Sociale koop*). These new tenures do not only make housing more accessible but also reduce the risk of house prices going down.

The scope and effectiveness of such programmes was not the object of our research but the results indicate that such policies are not inclusive policies as meant by Sherraden. On the contrary, in many countries there is a social rental sector meant for lower income groups. For some households home ownership is highly desired but only social or private renting is accessible. In other countries (Germany (private and social renting), the Netherlands, Sweden, Finland, the UK and Belgium), there is government support to create a satisfactory alternative in the rental sector for lower and other income groups. For the latter two countries it could, taking the result of the interviews into account, be discussed whether social renting is a satisfactory alternative or a last and marginal resort.

Housing asset-based welfare?

We found that homeowners are using housing equity in their financial planning: low housing expenses in old age are considered more or less explicitly as part of financial planning. Moreover, we found signs of housing equity in safety net strategies: housing equity plays a safety net role, for example, in the event of unemployment or other emergencies. This was the case in Hungary and Portugal, where housing equity lies at the core of interviewees' safety net strategies. In the UK and Germany, welfare regimes are under discussion and households do not rely on the government but think about their own safety nets. Although the level of facilities in the UK is considerably low-

er than in Germany, in both countries households translate policy discussions and worries about the future into a safety net strategy, for example for the case of a drop in income, where housing equity plays an important role. In Sweden, Finland, Belgium and the Netherlands households rely to a large extent on welfare benefits for income security. Belgium, where housing equity has a key role in particular in pension planning, stands out in this respect more than the other three countries.

Housing equity appears to be part of households' financial planning and there is a relation to the level of welfare facilities. The lower the level, the more important housing equity is in households' safety net strategies. Housing equity is mostly used in the more traditional way: having low housing expenses in old age is considered as most important. Mortgage equity withdrawal appeared to be an abhorrence to many households: saving money in the house is a virtue while withdrawing money is considered a vice. However, there are also households who are withdrawing equity and households who would consider doing so in the future. This trend can be found in countries with rapid house price increases. House price increases that exceed average price increases provide households with extra.

Considering households' perceptions and housing policies we conclude that Hungary and Portugal show most similarities to what could be called a housing asset-based welfare policy: home ownership is encouraged, subsidies are targeted and there is low government support for alternative tenures. However, the housing policy does not yet meet all the criteria of Sherraden. In particular the inclusiveness criteria is not met: apparently the targeted subsidy schemes do not provide access to all and the result is that there are tenants who would prefer to be homeowners but are not able to access this housing tenure.

Our research results provide more fuel for reflection on Sherradens' concept of asset based welfare and more in particular the idea of housing asset based welfare. First the relation between assets and opportunities: our results show that being a homeowner is no guarantee for opportunities: the previous chapters report on the lives of marginal homeowners and show that home ownership does not necessarily create opportunities.

Being a homeowner is not a guarantee for better life, but being a tenant can mean a stigma. In countries where home ownership is the majority tenure and the tenure desired by most people, home ownership becomes the norm as in Hungary, Portugal and to a lesser extent Belgium and the UK. The interviews show that assets do not necessarily provide opportunities for low income groups but it appears that being outside ownership has a stigma. Not being a homeowner means having fewer opportunities.

Then the practical and emotional consequences of housing being a part of a safety net. The cases of Portugal and Hungary very clearly show the problem of housing equity as a safety net facility. When in need, people cannot

access their safety net and they have to move, on top of the other problems or threats they experience.

A housing asset-based policy could strengthen the fault line between home ownership and renting in particular when such a policy does not provide access to housing equity for all households. That is why Sherraden emphasises an asset-based policy should be inclusive. An inclusive policy that would provide access to home ownership will impact on the meaning of tenure. Renting will become a choice instead of a restriction, or will end up as a redundant housing tenure since there will be no demand for it. In other words, a housing asset-based policy that meets the inclusiveness criteria of Sherraden is likely to lessen the fault line.

12.3 Discussion

This section explores options for future research. It starts with a number of questions resulting from the research findings described in this book relating to the possible role of housing in the concept of housing asset-based welfare. It then elaborates on the scope of the OSIS project and on recent developments and the implications of these developments for future research.

12.3.1 Further questions on housing asset-based welfare

The concept of asset-based welfare and in particular a role for housing equity seems a tempting addition to welfare arrangements for governments who are coping with changing societies and welfare budgets that are often under pressure. Housing equity can be an addition or alternative to existing welfare arrangements such as pensions. Such a shift, however, has many consequences. The previous chapter unravelled how households deal with housing equity under changing circumstances such as changing welfare states and financial markets. Such a shift also deals with responsibilities and dependencies and new ideas of what is considered fair and sustainable. Asset-based welfare policies suggest a shift from governments towards individual households: a shift with a number of drawbacks or at least unanswered questions concerning the role of housing.

Financial planning

Income support feeds the stomach but assets change people's minds, as Sherraden (1991) poses. This project explored the minds of homeowners and tenants and in particular their perception of housing equity and their safety net strategies. The interview results showed differences between homeowners and renters. Homeowners in general worry more and have more insurance. However, this insurance is not always the result of better planning and

well considered insurance strategy but sometimes just an obligation to protect the lenders that provide the mortgage. So there is an indication that assets change the mind. The asset management however, is not only felt as creating opportunities and financial control in particular where financial institutions play a role. The interview results showed that distrust towards lenders exists. In particular in relation to equity release, households are afraid that these products are in the first place beneficial for lenders. Moreover, the results show that holding assets does not automatically make households good planners. If housing equity becomes more central in households' financial planning and their safety net strategy, the relations with lenders and financial advisors will become more intense. Flexible mortgage payments and mortgage equity withdrawal may become more usual options in households' planning. Therefore the role of lenders and financial advisors, the transparency of the equity release market and financial education of borrowers are subjects that need further attention.

Social equality

Housing asset-based policies might impact on social equality on the differences between income groups. An increase in home ownership has an impact on housing equity and therefore on social equality. Malpass (2006) states that currently housing equity amplifies social inequality in the UK. Others found that home ownership is not a key to success, as for example described by Ford *et al.* (2001) and Norris *et al.* (2006). Homeowners can get into serious financial problems, leading to repossession.

Moreover, the generation aspect is at stake. Esping-Andersen & Sarasa (2002) reconsider what they call the generational conflict. They point at the fact that the recent retirement cohorts are the triple beneficiaries of circumstance. They spent most of their active life in periods of rapid real wage growth, full employment and rising job security with concomitant experience-based salary gains. This cohort also benefited from considerable house price increases and could build equity. When this generation uses mortgage equity withdrawal to supplement their income this will have an impact on future generations. They might be spending their children's inheritance or be SKI-ing (Spending the Kids' Inheritance) their equity away (Rowlingson & McKay, 2006).

Lastly, we come to the difference between homeowners and tenants. Will such a policy result in an income distribution that runs analogously with tenure distribution? In other words, are tenants the lower income groups and homeowners the non-low-income group? Moreover, is there a place for renters or maybe for intermediate housing tenures in a housing asset-based policy?

House price development at the core

In the idea of asset-based welfare and in particular housing equity release, house price development is crucial. In many studies it is assumed that house

prices structurally increase more than inflation. Such an assumption might be doubted in the long run. House prices can also decrease as the current crisis in the USA shows. The effects of house price decrease are showed in the case of Germany in our project; Germany is one of the European front-runners in ageing. Such a development impacts on the way households perceive home ownership and make their housing decisions. The fear for house price decreases increased risk awareness in Germany and resulted in hesitations about entering home ownership. Important questions therefore are how house prices will develop in the future and how periods of house price decrease can be overcome.

If housing equity becomes a key asset in financial planning it is crucial for households to be informed about house price developments for their financial planning and in particular about the risk of house price decline. Moreover, when housing may become an element in an asset-based welfare strategy, house price developments will seriously impact on the future of welfare. This raises questions about the usefulness of housing equity insurance, and the idea of intergenerational social security and may be even a new financial order as described by Shiller (2003).

The role of government

House price development is also more than relevant for governments. If house prices rise faster than any other object, home ownership becomes relatively more and more expensive. A policy to enable access to home ownership for lower income groups will therefore become more and more expensive. Moreover, such a policy will become a pillar for house price increases. The question is what role government intends to play in this respect. Smith (2006) states that in the absence of active governance around the use of housing wealth, whole economies and entire housing systems are susceptible to the risk embedded in a new financial order of owner-occupation.

Another question for governments is how they define their aim in housing policy. Is the only aim to provide access and hope for independent homeowners that plan and finance their own future? Are the homeowners that fail and the renters who are out of the system responsible for their own fate and no concern of the government? Or is there a role for the government in stimulating stable house price development providing some kind of safety net? In other words, the sustainability of housing asset-based welfare and the role of government are issues that demand further development and research.

12.3.2 Countries covered by research

It is clear from earlier chapters that between countries there are differences that appear to influence the ways in which households think about home ownership in relation to security and insecurity. These differences include the

institutional framework in the form of their labour markets, at least insofar as they will influence the actuality and perception of the likelihood of unforeseen unemployment. The nature of the financial product, for example whether housing loans are fixed or variable interest, may also be important in shaping the perception of a household's level of risk, while the type and generosity of social insurance will provide households in different countries with greater or lesser protection against the consequences of adverse events. There are also significant cultural variations, such that in some countries the role of the family as an agent of social welfare, or the view of real estate as a family project transcending generations rather than an individually-owned product, is part of a complex picture.

Given the diversity between nations, alongside an objective of achieving an understanding of security and insecurity aspects of home ownership across Europe, the question arises of which member states need to be investigated, and if that is not to be all of them, then which countries will form the appropriate sample?

At the time at which the OSIS project was conceived and proposed (2002) the European Union consisted of 15 member states. Aside from any methodological considerations about whether or not sufficient information about the main variations could be estimated from anything other than a hundred per cent sample, financial considerations determined that interviews would be held in a maximum sample of seven or eight countries. Against this constraint, attempts were made to ensure a selection that covered what appeared to be the main variations. Thus, the selection included examples of countries with different types of welfare systems (according to the Esping-Andersen type classification of regimes), different levels of home ownership and renting as well as different types of (labour and financial markets) economic growth (see methods). It was perhaps in the then accession states that the greatest under-representation occurred. Of the 10 countries that were to become member states in 2004, and the two in 2007, forming the current EU27, Hungary alone was selected.

One challenge to be faced in obtaining a more inclusive picture of security and insecurity, then, is to extend the analysis, through all the stages of achieving conceptual equivalence and realistic vignettes, to more countries, particularly to the newer member states.

12.3.3 Recent developments

If we endeavour to extend the geographical scope of the investigation reported here, there are other extensions that warrant consideration. Five or six years on from the conception of the study, the world has changed in important ways: the institutions we have seen as forming part of the context of individuals' thoughts and actions have evolved, while policy debates in the European

Union, as well as the member states, have taken new directions and new emphases. These changes by no means make the study of security and insecurity redundant; they remain central considerations for the European household and, indeed, the changes arguably make them even more so. Rather they suggest, at the least, that the emphases of the investigations merit some re-balancing and even that new avenues for investigation should be pursued.

Of the many changes affecting Europe, two seem particularly significant. The first is the expansion in size and activities of financial markets that are making the investment in and the realisation potential of home ownership more accessible. The second is demographic changes that are influencing both the intergenerational equation as well as encouraging one of the security aspects of home ownership, namely its promotion as a complement to – perhaps even a substitute for – social protection.

Financial markets

Recent economic research covering a number of countries reports that in 2000 in France, Germany and Italy about half of total household wealth was housing wealth, with the proportion being about 65 per cent in Spain and just below 40 per cent in the Netherlands and the UK (Altissimo *et al.*, 2005). In that this indicates the quantitative significance of the wealth held by European households in the form of housing, other research has demonstrated both that some households are willing to realise some of their housing wealth in order to support consumption, and that their willingness is tied to the nature of the financial markets and financial products available in their countries. Thus, economic studies of housing wealth and consumption (e.g. Catte *et al.*, 2004; Ludwig & Slok, 2002) show that the marginal propensity to consume relative to housing wealth is, in the countries tested, significant and positive. In other words, when house prices rise so that households have more housing wealth, consumption also rises, and indeed generally more so than an equivalent rise in financial assets. However, the marginal propensities were higher for those countries with higher levels of mortgage debt as a ratio of GDP – that is, in the Netherlands, Sweden and the UK rather than in Germany, France, Italy and Spain.

This being the case, it is significant that, while there are large differences across EU member states in mortgage debt as a ratio of GDP, in all member states the ratio has been increasing (EMF, 2006). Moreover, there has been a general tendency for the range of products available, including equity release products, to increase (EMF, 2006). The ECB's July 2006 survey of bank lending indicated that in the eurozone about 10% of loans secured against real estate were used for some purpose other than to purchase a principal residence (ECB, 2006). All of this suggests that financial market developments have been, and will continue to be, significant in shaping the opportunities for, and the practice of, using housing assets.

Demographic change

The processes of demographic change are leading to a Europe where, on the one hand, fewer people are having children and those that do have fewer children, and, on the other hand, the ratio of retired to working age people is increasing. Both factors appear to have implications for the way in which housing assets are being viewed as a source of income in old age.

In recent years the practice of SKI-ing (Spending the Kids' Inheritance) has gained some popular recognition, particularly but not only in the UK. In itself this may be taken to reflect a new reality in which the bequest motive has become less dominant. One possibility is that as more people reach old age without having had children, questions of the home as a bequest and the significance of intergenerational transfers and solidarity take on a different hue: some might want to leave a charitable bequest, but evidence from the UK indicates that increasing numbers want to spend it on themselves (Rowlingson & McKay, 2007). In short, if there are no children, SKIING is not possible and is simply replaced by spending. To the extent that birth rates have fallen in all member states and are particularly low in southern Europe and some of the former communist countries that have become newer member states (see Mulder & Billari, 2006), we might want to explore what this means for housing as a family project, and the extent to which its role as a financial investment for use by the buyer becomes more important.

Such a direction takes on added relevance in the context of the growing perception in the EU and the member states of the need to address the challenges of demographic change (see European Commission, 2005). Here, a 'pensions crisis' brought about by the plummeting dependency ratios is a particular concern. Thus, as the Kok Report had argued:

These developments will have profound implications for the European economy and its capability to finance European welfare systems. Ageing will raise the demand for pensions and healthcare assistance at the same time as it reduces the number of people of working age to produce the necessary income (European Commission, 2004 p. 13).

An earlier response to these problems is recorded in a view reported in a communiqué from a meeting of the housing ministers of all the then EU member states. This view was that older homeowners should make use of their housing assets to pay for their old age: In most EU member states, older people live in owner-occupied housing. This means that many older people possess capital in the ownership of their homes. The ministers were aware of the need to explore new ways of helping older people to safely utilise their capital, for example, to obtain the housing and support services they need, to repair or adapt their existing homes or to release income to cover the costs of support services or to purchase new accommodation with support services availa-

ble (Finland, 1999 para. 9). This is consistent, in turn, with some more general developments in the systems of social protection in some member states through the promotion of the idea of asset-based welfare. Home ownership can be seen as a means whereby individuals may build up a sort of personal provident fund which can be called upon when needed. Thus, one response to the perceived European-wide problems of ageing populations and the sustainability of state pension schemes is to encourage more people to become homeowners and to see their homes as a form of personal pension provision. In that way forced, personal saving in the housing market may be viewed as substitutes for tax and public spending.

While this may be a matter of public policy development, European homeowners may be adapting their strategies in response to them. Thus research in the UK (Cerny *et al.*, 2006) has concluded that national patterns of household wealth, including the relative size of housing wealth, are sensitive to demographic changes and pension reforms. For example, people tend to hold more housing wealth when state pension rates are lower and populations age so that “links between the property market, demographic change and pension reform seem to be significant” (Cerny *et al.*, 2006 p. 25).

12.4 Conclusion

Developments on the one hand in financial markets, and on the other hand linking demographic change with public policy moves toward supporting the use of housing assets, are changing the context for European homeowners. This enormous shift in housing markets, financial markets and demographic developments will have a large impact on households and on housing and social security systems. In this changing context the importance of the security and insecurity aspects of home ownership is reinforced.

This book reports on the link between housing equity and welfare in particular as a resource for old age. This link is clear: home ownership is a way of saving for old age and it is considered as a nest egg. However, equity release is everything but common. To many households saving is a virtue and withdrawing money is seen as a vice. There are however signs of growing importance of equity release in particular countries with rising house prices. This might be a welcome and tempting trend, however a trend with clear risks and drawbacks and a trend which requires excellent financial skills by individuals, governments and lenders to take sustainable decisions. The current US mortgage crisis makes clear that even for professional financial institutions calculating and pricing risk is everything but easy.

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The Department of Sociology at the University of Turku (<http://www.soc.utu.fi/en/>) was established in 1926 and is the oldest sociology department in Finland. The present teaching staff consists of two professors, a lecturer, a sen-

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The Department of Sociology's mission is to generate new information and understanding of Finnish and European societies through research, and to provide high-quality teaching. The role of comparative research has recently become more important in the department's research activities. In addition to basic research dealing with general theoretical and methodological issues of sociology, the main fields of research in the department include: cultural change, education, environmental questions, housing, social problems, social stratification and social mobility, and sociology of work.

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OTB Research Institute on Housing, Urban and Mobility Studies (www.otb.tudelft.nl) was founded in 1985. OTB specialises in independent research and consultancy in the field of housing, construction and the built environment. The institute is part of Delft University of Technology. The core activities of OTB Research Institute are scientific research and contract research and policy advice. The policy areas of OTB Research Institute are centred around various aspects of the built environment. Housing Systems is one of the seven research groups in OTB. The objective of this group is to examine and explain the manner in which housing systems function, thereby contributing to the development of theory and the housing debate.

Portugal

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CESIS – Centro de Estudos para a Intervenção Social (Centre for Studies for Social Intervention, <http://www.cesis.org/>) is an independent not-for-profit organisation of researchers with a wide range of disciplinary backgrounds working to promote evidence-based, policy-relevant research at both national and European levels. Founded in 1992, the centre’s first publications on poverty (dating back to 1986) played a major role in launching this line of research among the scientific community in Portugal, and at the same time gave a powerful impetus to public and political awareness of the phenomenon of impoverishment in Portuguese society. The centre has, since then, attempted to deepen and enlarge this scope of research by disseminating its research results with a view to: 1. their application in a wider context; 2. direct action being taken to promote an evidence-based definition of efficient policies for eradicating processes of social marginalisation/exclusion; and 3. increased visibility of the needs and expectations of marginalized and excluded people.

Sweden

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The Centre for Housing Policy at the University of York (<http://www.york.ac.uk/inst/chp/>) was established in 1990 with the support of the Joseph Rowntree Foundation, and is one of the largest housing research centres in the UK. The centre is committed to a research focus that explores the relationship be-

tween a wide range of housing issues and other aspects of social policy. A key research theme is changes in home ownership, including affordability issues, safety nets, and the security and wealth aspects of owner-occupation. Recent work has been completed for the EU, the Department of Communities and Local Government, and the Council of Mortgage Lenders.

John Doling holds the chair in Housing Studies at the University of Birmingham. He has researched and written widely on housing systems and housing policy, urban regeneration, poverty and social exclusion, and ageing. In recent years, the main concentration has been on home ownership – particularly related to economic and political change. The focus of attention has been on Britain and other advanced industrialised countries in Europe, North America and the Asia Pacific Region. He has coordinated a number of EU-funded projects including HOSE (Home Ownership – Social and Economic Problems), APPLE (Ageing Populations: Policy Lessons from the East) and OSIS (Origins of Security and Insecurity).

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Changes in housing, welfare policies and labour markets situate households in new dynamics, roles and relationships. More and more European households are becoming homeowners: mortgage debts increase, but at the same time housing wealth accumulates. Further, welfare regimes are gradually dismantled, labour markets become more flexible and financial markets become more competitive. These changes impact on households' perceptions and housing decisions. But how?

Can home ownership be considered a safe haven in a world that becomes more and more insecure? Do homeowners consider housing equity as additional income in old age? Is home ownership considered an asset that can be released in case of welfare needs? These are questions that lie at the core of this research project. This book reports on perceptions and housing strategies of more than 200 households in eight different countries. Countries that are situated in different parts of Europe and that have different histories, institutions, policies and cultures.


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