Home ownership

Getting in, getting from, getting out
Part II

John Doling
Marja Elsinga (eds.)

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An introduction

John Doling & Marja Elsinga

1.1 Origins and themes

Home ownership sectors in most European countries have grown in size. Whatever assets European households have acquired in recent decades, real estate appears to form a significant element in wealth portfolios. Frequently, many national governments have been active in promoting home ownership and therefore a shift in tenure balance. Somehow home ownership is supposed to be beneficial for households and society as a whole. Home ownership provides households with an important asset and also with responsibility which is supposed to have a positive impact for individual households and presumably enables governments to withdraw from the housing market and maybe even from social security. The general question pursued in this book is about the gains and losses accruing to individual home owners and the possible impacts for society as a whole, triggered by the growth of home ownership.

The chapters in this book, with the exception of the introductory and concluding chapters, and one other, were originally given as papers at the European Network of Housing Research, International Housing Conference on Housing in Europe: New Challenges and Innovations in Tomorrow's Cities held in Reykjavik in 2005. The different chapters cover different issues, different methods and stem from different countries.

Two chapters are comparative in that they consider home ownership in more than one country. Most, however, are single country studies. Whereas there is a range of countries covered - for example from Hungary (Jozsef Hegedus and Nora Teller), Denmark (Hedvig Vestergaard, Jørgen Lauridsen, Niels Naanerup and Marien Skak), Ireland (Michelle Norris and Patrick Shiels) and Germany (Anja Szypulski) - there is a particular concentration on the UK (Mark Stephens, Janet Ford, Susan Smith, Peter Malpass and Sinead Power). Actually this very closely matches the country balance of all the papers given at the home ownership workshop, arguably reflecting the relative size of the home ownership sector, the perception and importance of home ownership or the size of the housing research community in the UK.

The focus of the book varies between the individual chapters and cover meaning, policy, access, demand, risk and economic impact. We have organised the order of the chapters loosely around the themes identified in the book's subtitle: getting in, getting from and getting out. Loosely since many chapters cover more than on of these three issues.

Overview of the chapters and their focus

Chapter 2	(Mikael Atterhog) Policy and access (comparative chapter)
Chapter 3	(Michelle Norris & Patrick Shiels) Local policy and access (Ireland)
Chapter 4	(Jørgen Lauridsen et al.) Demand , households, prices (Denmark)
Chapter 5	(Hedvig Vestergaard) Demand and housing type (Denmark)
Chapter 6	(Anja Szypulsky) Policy and access (Germany)
Chapter 7	(Peter Malpass) Policy and effects (UK)
Chapter 8	(Richard Ronald) Meaning and effects (comparative chapter)
Chapter 9	(Sinead Power) Meaning and policy (UK)
Chapter 10	(Jozsef Hegedüs & Nora Teller) Risk and arrears (Hungary)
Chapter 11	(Janet Ford) Risk, policy implications (UK)
Chapter 12	(Mark Stephens) Risk, impacts economy (UK)
Chapter 13	(Susan Smith) Risk, impacts economy (UK)

Getting in covers the development of home ownership and more in particular the demand for home ownership, housing market developments that influence access to home ownership and housing policies that provide financial assistance to improve access to home ownership. Getting from indicates that this home ownership may provide households with advantages such as wealth accumulation and independence that may not be available to tenants. These benefits of homeownership appear to differ over countries depending on housing, house price development, costs of mortgages, housing policy and the meaning of home ownership to people. Finally, getting out refers to the risks associated with home ownership such as the fact that their tenure position may be founded on their ability to meet loan repayments. Some chapters deal with risk for individual households while others focus on systemic risks.

Together, the chapters present an indication of recent and current research activity about home ownership in European countries. In that way they constitute an up-to-date record of what the European housing research community has been investigating with respect to home ownership, including the approaches, perspectives and methodologies. At the same time they indicate trends and developments in home ownership sectors themselves, for example in sector size, price developments, social meanings and economic fortunes.

1.2 Structure and content

While many of the chapters do not fit neatly and exclusively into one or other of these themes or stages, the order they have been placed in nevertheless approximately reflects this organisation.

The book begins with a chapter by Mikael Atterhög, who notes that home ownership rates in most European countries increased after World War II until around 1990, since when – with one or two notable exceptions – they have generally not changed significantly. He uses a compilation of data on home ownership rates for the majority of the more industrialised countries and presents a model of the determinants of home ownership rates – especially the role of government support – which he uses to explain the increase in home ownership rates. Data on government support policies was collected from questionnaires completed by researchers in a number of countries, and the results indicate that there may be a positive correlation between home ownership rates and government support systems. Moreover, it appears that government policies to support home ownership implemented in non-Anglophone countries may have been more effective than policies in Anglophone countries.

Chapter 3, by Michelle Norris and Patrick Shiels, focuses on a single country, Ireland. Its starting point is that the advent of strong economic growth and falling unemployment in Ireland in the mid-1990s drove population growth and rising demand for housing, which in turn cause house prices and rents to rise. They review the evidence regarding housing affordability in Ireland over the last decade, together with government assessments of, and responses to, this evidence. They go on to examine the impact of the Ireland's relatively *laissez-faire* land use planning system on housing affordability and conclude that it has not constrained housing output nationally. Indeed, Ireland's house building rate, which is among the highest in the EU, has probably helped to curtail price inflation. Failure to manage this new supply actively and strategically, however, coupled with the distorting effects of fiscal policy, means that it has not delivered in the locations where affordability problems are greatest or to the households in greatest need. Finally, the authors assess the potential of recent planning reforms, which, by using planning gain to deliver housing for sale and rent to low-income households, are intended to manage supply more effectively and to give planning a more direct role in addressing affordability problems.

Chapter 4, by Jørgen Lauridsen and colleagues, also focuses on a single country, Denmark. The approach here is very different, however, as it is essentially an econometric study of the demand for owner-occupied housing. The authors establish an operational model, which they use to test the effects of a range of factors, including the social composition of population (age, social benefit recipients, household composition, civil status, education, nationality), economic capacity (income), public regulation (regulation of rents, housing subsidies, taxation), competition from alternative housing forms (measured by the supply of subsidised housing), and population density.

Although her focus is also on Denmark and the demand for housing, Hedvig Vestergaard's approach in Chapter 5 is different again. She is concerned only with single-family housing, which has been a preferred housing form in Denmark for half a century, while her approach is not that of the economist. Her enquiry stems from the fact that architects and planners, among others, question the future role of this part of the housing stock, at the same time as surveys show a high level of expressed preference for this housing form. This leads to a number of research questions. Will this housing form be in demand in the future? Is there a mismatch between the needs and demands of future households and the existing stock of single-family houses? What is the role of local planning and regulation in relation to existing housing areas and new housing developments? Thus the theme of the chapter is the past and present of single-family housing in urban and suburban areas. The analysis is a stepping stone to identifying important residential neighbourhood qualities and planning tools for implementing such qualities through local planning and regulation.

In Chapter 6 the focus switches to Germany, with Anja Szypulski's examination of a rediscovered tool intended to encourage home ownership: self-help building. In a number of experimental projects families on low incomes have had the opportunity to build their own houses, using their own labour as a substitute for the financial resources that they lack. These projects combine different strategies: organised self-help in a group of families with technical assistance from housing companies; developing the neighbourhood as a social network by helping each other to construct the linked single-family houses; and finally cost-saving building strategies. The author evaluates these projects.

Chapter 7, written by Peter Malpass, emphasises both the role of central government, at least in Britain, in promoting increases in home ownership, and some of the consequences. He argues that, at a time when welfare states are everywhere in retreat before the advance of global economic forces, the British prime minister has proclaimed that his government is engaged in a fundamental reform designed to create an 'opportunity society'. In this context words such as 'choice' and 'responsibility' have become touchstones of public debate. Individual home ownership is widely seen as the best way both to give people responsibility for meeting their own housing needs and maximise choice. The author presents a critique of the choice agenda, however, arguing that the home ownership market reflects and amplifies income inequalities created in the labour market, and that it is an important engine of further inequality in society, not only in terms of differential access to wealth accumulation but also access to good schools and other spatially distributed scarce resources. Whereas the objective of the mid-20th century welfare state was to distribute public services according to need, the opportunity society aims at an affordability pattern of distribution, at the centre of which is the housing market and owner-occupation.

Chapter 8, by Richard Ronald, also focuses less on getting *in* to home ownership and more on the experiences once 'in' – in our terms what households are getting *from* housing. His starting point is that qualitative research undertaken in societies where owner-occupation dominates housing demand and policy consistently emphasises the economic significance of homes as property investments, which has been linked in turn to discourses on status, security, family housing and welfare strategies. The author explores the economic meanings associated with home ownership comparatively and considers them in terms of divergence between housing systems and the influence of socio-cultural and vernacular factors. It focuses particularly on the relationship between the erosion of market values and home owners' discourses and consumption practices. A specific contrast is drawn between home ownership in the Anglo-Saxon and industrialised East Asian societies, with empirical examples drawn from Britain, Hong Kong and Japan.

For her part, Sinead Power, in Chapter 9, looks solely at the UK, and within that an area of Scotland. She notes that over the past fifty years the housing tenure structure of the United Kingdom has changed considerably, with home ownership becoming the dominant housing tenure and the social rented sector becoming residualised. Bare statistics, however, tell only part of this changing tenure story. Drawing upon the experiences of a group of older people within the Scottish housing system, the author narrates the 'lived' story of how housing tenure has changed its form, function and meaning over this period. It tells the story of the normalisation of home ownership and the residualisation of social renting from the perspective of those who have not only lived through the change but have known something different. The narratives of the participants show how the lived experience of housing tenure sits at odds with some of the political discourse surrounding the concept.

József Hegedüs and Nora Teller, in Chapter 10, describe a rather different reality, that of Eastern Europe. It also takes the book into the getting *out* phase. The transition in 1989-90 brought about a change in the political structure: the establishment of a democratic political system, which eliminated the political constraints on the introduction of market mechanisms. One of the consequences of the shift towards a market economy was the emergence of the risk element in the various spheres of social life at the level of both organisations and households. The authors attempt to describe the risk elements emerging in the housing sector and illuminate various social, institutional and individual strategies to manage them. In the transition process new housing regimes are forming, in which one of the critical questions is how the risk elements of the market society are managed, what role the central state, local authorities, private institutions and households or families will play. The most important new elements of the developing housing regimes in the transition countries can be interpreted as an outcome of the adjustment strategies of the various actors, in which risks play an important role. Focusing on the case of Hungary, the authors reinterpret housing privatisation and affordability problems (arrears and access to housing) in this analytical framework.

The next three chapters are linked, in that their content is based on a commission from the Joseph Rowntree Foundation to explore home ownership futures in the UK. In Chapter 11 Janet Ford analyses the risks faced by lenders and borrowers. The background to her study is the changing landscape of home ownership: changes in the mortgage market, in attitudes towards the use of property and housing equity, and in safety net provision, all of which are potentially new drivers of arrears. The author gives an overview of studies on the risks of home ownership, describes trends and explores future risks that could result from the trends. Finally, she presents various options for mitigating these risks.

Mark Stephens, in Chapter 12, provides an assessment of the systemic risks facing the UK housing market. These are defined here as risks that have spill-over effects affecting the wider market, institutions and the economy. The UK housing market has experienced high levels of volatility since the mid-1970s. The most recent house price boom has placed house prices well beyond normal house price to income ratios, but arguably structural conditions (notably nominal interest rates) suggest that the structural level of prices should rise. The author examines the often conflicting evidence.

In Chapter 13 Susan Smith describes the changing character of home ownership in Britain and states that housing provision in Britain is now 'marketised'. Home ownership can be considered as a product of 'financial marketisation'. This style of product is the kind funded by mortgages, privately insured and managed individually by households whose wealth portfolio is narrowly concentrated on their home. The author focuses on the risks of home ownership and the principles and practices involved in minimising them. She considers a large amount of literature and elaborates on individual risks, systemic risks and ways to mitigate risks. She gives a round-up of the evidence and opinion on the asset value of owner-occupied homes.

In the final chapter the editors, on the basis of the earlier chapters, identify some general conclusions and common trends relating to the three themes: getting in, getting from and getting out.

References

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2 The effect of government policies on home ownership rates

An international survey and analysis

Mikael Atterhog

2.1 Introduction

Background

This paper[1] focuses on factors that may explain why tenure patterns vary from one country to another. Home ownership rates rose in almost all the OECD countries from World War II until the early 1990s. Countries such as Belgium, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, the United Kingdom and the United States experienced growth in the home ownership rate of more than 15 percentage points during the second half of the last century (Donner, 2000; Eastaway and Vero, 2002; Statistics Norway; Stegman, 1995). Home ownership has in fact become the most prevalent tenure form in 18 of 21 countries surveyed for this study (Austria, Germany and Switzerland being the exceptions). Albeit still out of reach for some income groups, owning one's home can in some sense be said to have become less exclusive. home ownership rates reached a plateau in most OECD countries during the 1990s, however (Atterhög and Song, 2006). The level of this plateau varies, depending on social attitudes to home ownership, legal and tax systems etc. (Scanlon and Whitehead, 2004).

As might be expected, research findings show that home ownership has both advantages and disadvantages for societies and individuals (Atterhög and Song, 2006). Households generally seem to believe that the advantages outweigh the disadvantages, however. Elsinga and Hoekstra (2004) used a European Community Household Panel in 12 EU countries, with data from 1700-5600 households (the number varied from one country to another). Although the data show that households are apparently satisfied with their housing situation, irrespective of tenure type (all the average values for both renters and home owners are higher than the value in between the highest and lowest response alternative), they also show that home owners are more satisfied with their housing situation than renters in all the countries included. Adding other variables to a regression model, Elsinga and Hoekstra (2004) found that in all the countries except Austria the type of tenure had an autonomous effect

1 This paper is based on another longer version which includes more text and data. The longer version can be downloaded from http://www.infra.kth.se/BYFA/publikationer/engelskaUppsatserOchRapporter/index_eng.htm (working paper No. 54).

on housing satisfaction. In addition, another study by Scanlon and Whitehead (2004) also found a preference for home ownership by 'stable' middle-income and middle-aged households in all the countries surveyed. Elsinga and Hoekstra (2004) also warned, however, that the higher satisfaction with home owning reported in many studies may be related to higher socio-economic status or the quality of the home itself rather than the tenure type. These types of causality problems are extremely difficult to test for.

Government policies can play an important role in influencing tenure decisions at the individual level. Whitehead and Scanlon (2002) reviewed a very large number of fiscal instruments to improve the availability of affordable owner-occupied housing, such as tax breaks and grants. Atterhög and Song (2006) describe and evaluate the effect of a wide selection of government policies on increasing home ownership among low-income households at four distinct stages in the process: the period when the downpayment is accumulated, the period when the transaction takes place, the period when the home is owned and maintained, and the period when the home is sold.

This paper makes three main contributions: (1) it provides a unique comparison of home ownership rates; (2) it attempts to measure the effect of government support systems on the home ownership sector; and (3) it empirically tests the correlation between home ownership rates and a mix of variables, including government support.

Objectives and methodology

The overall objectives are to measure national home ownership rates and analyse the effect of government policies on home ownership rates. Other relevant factors need to be controlled for, however, when analysing effects of government policies. A basic fixed-effect model was therefore developed and statistically tested using panel data from thirteen countries for the 1970-2000 period. An unbalanced data set on home ownership rates and independent variables was collected from a variety of sources, including published material and the Internet, and directly from organisations. Information on government support systems in the countries examined was collected mainly from a questionnaire completed by national housing experts in the respective countries. A smoothing process was used to create the approximations that were included in the balanced panel data used for the statistical analysis.

2.2 Determinants of home ownership rates

2.2.1 The home ownership function

This chapter identifies and describes factors that may explain why home ownership rates differ from one country to another. Before modelling the home ownership function and applying international data, we need to be aware of the definition of home ownership. The meaning and implications of terms such as home ownership and renting vary substantially from one country to another, depending to a large extent on the institutions, laws and financial arrangements in the country concerned (Elsinga, 2004). The 'Bundle of Rights' associated with property ownership in the United States has been defined by Snare (1972). These rights – and duties – linked to property ownership can differ substantially from one country to another. Moreover, the differences between countries are arguably more evident in the case of apartment ownership than real property. For instance, the bundle of rights is considerably more limited in the case of an owner of a 'bostadsrätt' (roughly equivalent to a condominium) in Sweden than the rights of an owner of a condominium in Latvia. Bundles of rights and duties are also changing constantly. During recent decades a number of innovative measures have been introduced, such as the 'Right of Occupancy' scheme in Finland (Elsinga, 2004) and the Shared-Appreciation Mortgage in the United Kingdom (Atterhög and Song, 2006). This paper applies the definition of home ownership used in each country.

The majority of households that buy a new home are already home owners. In Sweden roughly two-thirds of home buyers are already home owners (Turner, 2004). A shift in home ownership rates only happens on two occasions: first, when more dwellings change from rental tenure to ownership tenure than the other way around; second, when the net balance between constructed and demolished home ownership dwellings is higher than that of rental dwellings in relative terms.

There can be many reasons for households to wish to change their tenure type. The main ones are probably one or more of the following:

- marriage or parenthood (childbirth is a classic reason for buying a home);
- old age;
- financial reasons (inheritance; changed economic situation of the household; actual or expected changes in interest rates, property values, transaction costs or the government support framework);
- more housing autonomy (the desire to have more freedom to make changes to dwellings, e.g. renovate the bathroom);
- general dissatisfaction with the present tenure form (status, standard of living, neighbours etc.).

Scanlon and Whitehead (2004) describe reasons for rising levels of owner-occupation over a period of time. They claim that these can be caused by one or more of four factors: (1) government policy changes (e.g. increased tax breaks, grants to buyers, transfer of housing formerly owned by the government); (2) demographic and lifestyle changes (e.g. baby boom and two-income household effects); (3) falling interest rates; and (4) increased access to mortgage finance. As expected, the reasons for falling levels of owner-occupation are mainly the opposites of the reasons for rising levels. Scanlon and Whitehead (2004) describe mixed results on home ownership rates owing to property market cycles (for details see below), but I believe that their set of reasons is not entirely complete.

I would argue that a generalised function describing the determinants of home ownership at national level would be more similar to the following:

$$HO = f\,(GDP, ID, IR, PV, GS, DC, MT, RC, CB, CV) \qquad (1)$$

HO = Home ownership rate at national level
GDP = The nation's wealth (Gross Domestic Product)
ID = Income distribution within the nation
IR = Inflation rate
PV = Development of property values
GS = Government support
DC = Demographic changes
MT = Mortgage terms
RC = Rental cost
CB = Construction costs and building activities
CV = Culture and value systems

It should be noted that a number of variables have been bundled together to form the last three variables above. A completely generalised function or statistical analysis would therefore need to develop these variables. Moreover, the consequences of some of the variables (e.g. property value, see below) included in the function are not entirely clear. With this in mind, there are obvious risks of multi-collinearity between variables.

Below is a description of the variables included in function (1) subdivided into two groups based on the availability of data for the empirical work in this paper.

2.2.2 Home ownership determinants: data available

Development of Gross Domestic Product (GDP)

The rationale for including development of real Gross Domestic Product (GDP) among the home ownership determinants is that this will typically affect the purchasing power of the population. Since home ownership is the preferred choice of tenure (Elsinga and Hoekstra, 2004) as well as the tenure type typically associated with better dwellings (measured by quality and size), demand for owner-occupied homes is likely to increase if the relative GDP trend is high. Ireland, for example, is a developed country with very high GDP growth rates during recent decades (Kenny, 1999).

Income distribution (ID)

It is not sufficient to know what the level of GDP in a given country is, we also need to take the distribution of this income into consideration. It might be the case that unequal distribution of the national income leads to low home ownership rates, i.e. if a small number of people can afford very expensive dwellings then it is likely that fewer households on lower incomes will be able to afford home ownership. Likewise, a more equal distribution of the national wealth would probably result in more people being able to afford home ownership.

The method most commonly used to measure income inequality is the Gini coefficient (World Bank, 2004; Sanchez, 2002). Although this is the accepted measure of inequality, the method has been criticised, since it is possible to obtain the same Gini coefficient even though the distribution of incomes varies considerably among different income groups (Sanchez, 2002). Different measures can rank the same set of distributions in different ways (World Bank, 2004). We therefore need to use Gini coefficients with some caution. The ones in this study are compatible.

Inflation (IR)

The effect of inflation on housing costs can be substantial, as a high inflation rate can dramatically reduce the real value of a mortgage. The rate has been low in most developed countries during recent years. The long-term impact of high inflation rates, however, can be described with reference to the Swedish case. The average inflation rate during the 1974-91 period was almost 9%. The ratio between a property with a value that increases at the same rate as inflation and a mortgage taken out for the whole sum in 1974 with no repayment of capital would be 4.5 (a net gain of 450% from only paying the interest on the mortgage). A substantial part of the nominal interest on the mortgage was deductible during most of this period, leading to a situation where higher inflation rates reduced mortgage costs to home owners. Although housing policies in Sweden have emphasised tenure neutrality for many decades, the country's high inflation rate indirectly supported home ownership. Many other industrialised countries faced very high inflation rates as a result of the 'oil crisis' in the early 1970s, which lasted into the financially turbulent years of the early 1990s.

Development of property values (PV)

This is a complicated variable. Low property values are very important if home ownership is to be affordable for the less affluent income groups. The effects of property market cycles are not always straightforward (Scanlon and Whitehead, 2004), however. Rising house prices can be an incentive for developers to build more houses or to make houses available earlier, and encourage the transfer of more rented dwellings to ownership through schemes such as RTB (Right to Buy) in the UK. Rising house prices can also make properties less affordable and thereby exclude certain income groups from the market. Moreover, some households may delay buying a home because they hope prices will fall. Falling house prices will have the opposite effects. We should also be aware, however, that a major reason why there are such big value swings on the property market is that the supply of the trading good, properties, is inelastic. We should not therefore expect many households ever to move from rented to owner-occupied during a short period of time unless there are government policy changes such as those which have taken place in the UK and Sweden during the last few decades.

In relation to other investments, Goetzmann and Spiegel (2002) find that housing has a lower historical return in the United States than stocks and bonds, and an even poorer risk-adjusted return, making it a more sensible investment only if it is part of a diversified portfolio. For home-owning low-income groups, the dwelling is typically the household's only major asset. In addition, the Economist (11 September 2004 issue) has published recent home price calculations which indicate that the present risk of buying a home is high, with home prices at a record level in relation to average incomes in Australia, Britain, France, Ireland, the Netherlands, New Zealand, Spain and the USA.

In the EU countries, Boelhouwer et al. (2004) report that average home prices have been volatile during recent decades. In general, the property market has taken on more and more characteristics of the stock market. The main differences relate to the time it takes to transfer a property and the exceptionally high transaction costs, ranging from 2% to 14% of the value depending on the country (Atterhög and Song, 2006). New home owners are especially affected by the transaction costs as they often do not have any equity to mortgage.

Government support (GS)

Government policies can have a significant effect on home ownership rates. Effects of policies are generally difficult to measure and therefore to include in models. I have developed a proxy index for government support based on the responses to a questionnaire sent out to leading housing researchers[2] in the countries included in the study.

Many policies are available to governments wishing to support home ownership, such as interest subsidies (undoubtedly the most important policy), grants, income support etc. (Atterhög and Song, 2006; Whitehead and Scanlon, 2002). Government policies in New Zealand, for instance, have traditionally involved significant market intervention and introduced other measures in support of home ownership (Murphy, 2003; Thorns, 2000). During the 1990s

2 I should like to take this opportunity to express my sincere appreciation to the researchers who have helped me by completing the questionnaire. I shall not reveal their names, however, as I promised them anonymity.

Australia arguably had the strongest pro-ownership policy change (Scanlon and Whitehead, 2004). Government policies in Iceland also strongly encourage home ownership: the national government runs a Housing Fund that provides loans and a government guarantee for 70% of the construction or purchase cost of a dwelling. Even more astonishingly, it refunds home owners' interest charges if they exceed 6% of the household's taxable income (Sveinsson, 2004). Housing policies in Sweden have taken another direction. Governments in Sweden and some other countries have historically strongly advocated the importance of tenure neutrality, i.e. support systems should not support a specific tenure type.

Kemeny (2004) refers to an interesting thesis that he put forward in the 1970s: there appears to be a strong negative correlation between home ownership and welfare systems. Societies with limited public support for pensions have high home ownership rates. In countries such as Australia, Canada and the USA residents need to become home owners 'in the expectation to have low housing costs in old age to eke out the public pensions' (Kemeny, 2004).

Home ownership rates also depend on the extent to which home owners are eligible for housing allowances in times of trouble. Housing allowances are important in many countries. In Germany they account for almost 2% of GDP, and almost four million households in the United States receive them (Chen and Enström-Öst, 2005). Housing benefits and allowances in the Netherlands and Britain, however, are restricted to rented housing (Priemus and Kemp, 2004). Although the majority of recipients of housing grants in Sweden probably live in public sector rented apartments, households in all tenure types are eligible for housing grants, and Chen and Enström-Öst (2005) show that the grants system in Sweden is doing 'a fairly good job in supporting households to obtain and maintain their home ownership'.

2.2.3 Home ownership determinants: data not available

Demographic changes (DC)

Demographic changes have a large impact on the demand for owner-occupied housing, and trends such as baby booms can make a big difference. Historically, the birth or expectation of children has tended to make households yearn for one-family houses with more floor space, which in terms of tenure are typically owner-occupied in most countries.

Mortgage terms (MT)

In general, we would expect falling interest rates and increased access to mortgage finance to make home ownership accessible to households on lower incomes. In all the countries included in a large survey by Scanlon and Whitehead (2004) mortgage interest rates have actually fallen, and the variety of mortgage products has expanded dramatically and pricing has been competitive in recent years. This study will show, however, that home ownership rates have not increased significantly lately, which is rather surprising in this context. It may be that the main result of the increased availability of finance has been higher property values, not an increase in the number of properties on the market.

Mortgage terms vary fairly substantially from one country to another, owing to land law, tax law, consumer protection, financial market structure and socio-cultural differences in each country (Neuteboom, 2003). Whereas Australia and the United States allow LTVs (loan to value ratios) of 95-98%, Germany and France require mortgagors to pay 25-30% in downpayment (Scanlon and Whitehead, 2004). Chiuri and Japelli (2003) analysed 14 countries and found that mortgage availability affects the home ownership distribution across age groups, especially among the younger population. In general, home owners in North-Western Europe borrow much more than their counterparts in Southern Europe, showing that the latter group is more risk-averse. The average outstanding mortgage debt varies from GBP (Great Britain Pounds) 85,000 in Denmark to GBP 5,500 in Italy (Neuteboom, 2003). We should be aware, however, that a 'risky' loan in one country may not necessarily be risky in another country, even though the amount borrowed is higher. Considering the present risk of a price bubble in many countries, many households may have very small margins and there is a risk of an increase in the number of mortgage defaulters and repossessions.

The relationship between the real and nominal interest rate and the home ownership rate is not entirely clear. On the one hand, it is real interest rates that determine the cost of a loan. On the other hand, the increasing average loan burdens of households indicate that there may be a focus on liquidity issues. Since the model already takes account of inflation, however, it would be better to include the real interest rate.

There is evidence that race still affects mortgage availability. The mortgage denial rate for Afro-Americans on conventional home purchase loans in a United States study was almost two-and-a-half times the rate for Caucasians, and the Hispanic rate was 50% higher than the white rate (Canner and Smith, 1991). Although the results in Munnell et al. (1996) may be an overestimation due to the methodology used, they appear to show that the denial rates on conventional home purchase loans for Afro-Americans and Hispanics are either higher or substantially higher than for Caucasians.

Rental cost (RC)

The cost and availability of the main substitute for home ownership, rented housing, is important to households. Many countries have rental indices which can be used for statistical calculations. We should be aware, however, that the rented sector is regulated in most countries, and this typically has a large impact on both the cost and availability of rented apartments.

Construction costs and building activities (CB)
Construction costs are likely to have an impact on both the number of new units on the market and the quality of existing units. If construction costs are reduced then it is less expensive both to build new dwellings and to maintain existing ones.

An alternative to this variable would be the net change in the number of dwellings on the market. This would be the balance of new units on the market and demolished units. It would probably not be wise to include both construction cost and change in the dwelling stock, since these variables are most likely strongly correlated.

Culture and value systems (CV)
Cross-cultural studies show that some values can be regarded as universal. Different people may attach different importance to these values (Hoekstra, 2004), however, and these value systems can differ among populations (nations) and among groups within a population. In Europe we can discern at least three different housing 'regions' based on cultural values (Elsinga and Hoekstra, 2004). The prosperous Central European countries are marked by effective social security systems, which include a large rented housing sector (e.g. Germany and Switzerland). Then there is the Anglophone region, where the rented sector is stigmatised (e.g. the UK). home ownership is a symbol of the success and economic independence of the individual household. In the poorer Southern European countries home ownership is also considered as providing more security, but here the focus is on the extended family (e.g. Spain and Greece).

There are other types of value changes that have more or less impact on human behaviour in different nations, for instance the 'green wave' movement, which prioritised life in a healthier rural environment over industrialised suburban life, or the popularity of communal living (e.g. shared kitchen, kibbutz, etc.). Some of these trends may have an important impact on tenure preferences, although most of them tend not to be relevant in the long run.

2.3 Data description and model

2.3.1 Description of data and sources[3]

A variety of sources were used to collect data. In almost all cases the original source of the data on home ownership rates was the country's government

3 I should like to express my sincere appreciation to Mats Wilhelmsson for useful discussions of the model specification and statistical work in this paper.

bureau of statistics.[4]

This paper defines a household as having home ownership when it has ownership rights and obligations to either a house, row house/maisonette or condominium ('bostadsrätt' in Sweden). Moreover, subletting is very common in some countries (e.g. Norway), but data on secondary residences is typically very difficult to obtain. In some countries, e.g. Sweden, it is also very difficult to influence the situation regarding secondary residences by means of government policy changes. Data on primary residences has been used since this is actually available and we can expect there to be a very strong correlation between the percentage of home owners and the percentage that actually live in the dwellings that they own. In addition, many data sources have been identified for each particular country and their data have occasionally been somewhat contradictory. I have strictly adhered to the principle of using only one source or calculation method for each country in this paper.

As regards the independent variables in model (1) above, data on the development of GDP, income distribution and inflation variables was downloaded from the web sites of the respective organisations responsible for the data. Data on development of real property values was sent in by Nathalie Girouard at OECD. This data was developed for Girouard and Blöndal (2001) but the original source of most of their data was the Bank for International Settlements. Table 2.1 provides an overview of the independent variables.

Whereas inflation and development of real property values represent the annual change in percent, the development of GDP and income distribution variables require some elucidation. The GDP variable is an index consisting of real GDP per capita in constant dollars using the chain method (1996 prices). The Gini coefficient measures the degree to which the income distribution for a population varies from absolute equality: a coefficient of zero (or 0%) indicates a perfectly equal income distribution, while a coefficient of one (or 100%) indicates the highest possible level of inequality.

As already mentioned, only data on changes in prices were available; none were available on real property value levels in different countries. As the effect of changes in prices on the level of home ownership can be questioned, two estimations have been used, one with and one without this variable (see Table 2.8).

2.3.2 The issue of data collection challenges

The empirical work on assessing factors that are of relevance to home ownership rates has been a challenge to some extent. The first problem has been accessing panel data for a sufficient period of time. It takes many years for

4 See footnote 5 for information on how to obtain a full list of sources for home ownership rates.

Table 2.1 Description of independent variables

Variable	Source	Unit
Development of real GDP	Penn World Data, University of Pennsylvania	Index
Income distribution	World Bank*	0-100 scale
Inflation	World Economic Outlook, International Monetary Fund (IMF)	Percent
Development of real property values	OECD/Bank for International Settlements	Percent
Government support	Questionnaire	0-5 scale

* Deininger-Squire database and the World Bank's World Distribution of Income database.

home ownership rates at national level to change, mainly because (1) the supply of housing is inelastic, owing to time-consuming planning procedures and construction processes, and (2) changes in national wealth, demography and residents' value systems are very slow. I would therefore argue that the time period selected by Scanlon and Whitehead (2004), nine years on average, to review changes in home ownership rates in a selected number of countries is far too short. I have used a period of 30 years in the empirical section of the paper. Even this can be considered relatively short in the context of changing home ownership rates.

The second issue relates to how to describe the relevant factors. For instance, governments can support home owners in a variety of ways such as mortgage tax relief, grants to first-time buyers, tax deductions for savings to buy a home, etc. The third problem has been general unavailability of data or interruptions in data series. Historical data on property values, for instance, are only available for some countries. Despite these constraints, it was still possible to collect sufficient data to obtain interesting results.

2.3.3 The issue of balanced data sets

As expected, there was also a general problem of unbalanced panel data sets. Variable data consisted of interrupted series of data and there were mismatches in both the numbers of observations and the years when they took place. During the 1970-80 period one country might have two observations of variable X from 1972 and 1978 and another country might have six observations of variable X from 1970, 1972, 1973, 1976, 1979 and 1980.

The problem was addressed using a smoothing process that creates a balanced panel data set consisting of approximations (with only one missing datum, development of property values in Spain in 1970). The approximations consist of calculated averages for the same range of years for each particular country. The selection of the 'centre' years for the ranges in the analysis was based on the availability of data for the key variable of government support. The following formula was used:

$$Ave_{X_0} = \frac{\dfrac{X_{t-5} + X_{t+5}}{A_t} + (X_{t-4} + \dots + X_t + \dots + X_{t+4})}{B_t} \qquad (2)$$

where:

t	=	The centre year in a range of years. The 'centre' years were 1970, 1980, 1990 and 2000
$Ave\ (X_t)$	=	The average value over the 1965-75, 1975-85, 1985-95 and 1995-2003 period respectively
X_{t-5} ...	=	Values for specific years within ±5 years of the centre year t depending on the availability of data for each specific year
A_t	=	(0,..., 2) depending on the number of years with available data
B_t	=	(0,..., 10) depending on the number of years with available data.

Formula (2) was applied to the development of GDP, inflation, income distribution and property value variables.

There is another advantage of using the technique described in formula (2). This addresses the problem of business cycles: for instance, data was available for every year on the inflation rate variable. Although this fluctuated considerably for a specific period and country, formula (2) provides a more stable, long-term figure.

As regards the countries included, it was necessary to use data on West Germany to represent Germany for all variables, including home ownership rates, otherwise it would not have been possible to ascertain that the German data was reliable and could be used for comparative purposes.

2.3.4 Model specification

The paper will test one linear and several fixed-effect models (Pindyck and Rubinfeld, 1998; Woolridge, 2003). Based on the data available, the linear model below generally describes the statistical work included in this study. A very similar model can be created for the fixed-effect extension of the model.

$$HO_{it} = \beta_0 + \beta_1 GDP_{it} + \beta_2 D_{it} + \beta_3 R_{it} + \beta_4 PVD_{it} + \beta_5 GS_{it} + \varepsilon_{it} \qquad (3)$$

for i (country) = 1, 2,..., 13 (the number of countries included); and t (year) = 1970, 1980, 1990, 2000; where:

HO	=	Home ownership rate at national level (the dependent variable)
GDP	=	Development of the nation's wealth
ID	=	Income distribution within the nation
IR	=	Inflation rate
PVD	=	Development of property values

GS = Government support
$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are constants
ε is an independent error term which is assumed to vary with the constant variance of σ^2 for all *it*.

Although the above model does not include cultural values as a variable, a specific statistical analysis was carried out with the data subdivided into Anglophone and non-Anglophone countries.

There were reasons for using a linear model. To start with, the objective of this paper was only to carry out a simplistic statistical analysis to obtain an indication of whether there could be a correlation between home ownership and other variables. Moreover, there was simply nothing that indicated that another model would better describe the correlations between the variables, and there is nothing in economic theory that explicitly indicates what model would render the best prediction in a situation such as this.

There are likely to be time lags, as it takes time for many variables to have an impact on home ownership rates. This paper, however, applies a smoothing process to approximate averages for variables which would to some extent encompass time lag effects. These effects are also partly taken into account by the fairly long time period used for the analysis (30 years).

Given the uncertainties in the data and the specifications, a very simple model was chosen to make a preliminary evaluation of whether any patterns could be found (for possible improvements see section 6).

2.4 Data

This chapter presents the four-year panel data set that was used for the statistical analysis. The objective was to collect data for as many of the more developed OECD countries as possible. The countries needed to be similar from an economic perspective. France and Italy, two especially important countries owing to their population size and economic influence, unfortunately had to be excluded before the statistical analysis was initiated, as it was not possible to find a housing researcher willing to complete the questionnaire on the government support variable. Other countries were removed during the data collection process, since data on one or more variables were partly or completely missing. Japan was the most influential country in economic terms that had to be excluded. The statistical analysis finally included data from thirteen countries.

2.4.1 Home ownership rates

Reviewing published material for this paper, it is surprising how scattered the data on home ownership rates is. Data is available from a large number of written and electronic sources, but there does not appear to be any single up-to-date compilation.[5]

DHDGP (2002) presents a comparison of the 15 'old' EU countries between 1980 and 2000. There are also some UN Habitat publications with compilations of ownership data, but they date back to the 1980s. Not surprisingly, then, the set of data points available for most countries is rather disparate: data is available for Sweden, for instance, from 1970, 1980, 1985, 1990 and 2002.

Table 2.2 was compiled to show the general trends during the period used for this analysis (1970-2000). It is in two sections, and the columns on the left present data for the countries included in the statistical analysis. The first row of Table 2.2 gives data on the starting level of the home ownership rate in each country.

As the table shows, four countries had a growth in the home ownership rate exceeding ten percentage points during the 1970-2000 period: the Netherlands (18%), Norway (25%), Spain (21%), and the UK (18%). Since ten percentage points is equivalent to one in ten households in the particular country, a growth of about 20 percentage points in only 30 years is remarkably high. Only Australia and New Zealand experienced a decline in the home ownership rate during the selected period, but the change was below one percentage point. In general, most countries have had a relatively strong trend towards higher home ownership rates.

2.4.2 Government support

A questionnaire was drawn up to collect information on the support to the home ownership sector provided by the national governments. It was distributed to leading housing researchers in 23 countries, and 25 researchers completed the questionnaire. The response rate was about 60%. Although some questionnaires were incomplete or unclear, the quality of the majority of the completed questionnaires was high. The results from this survey were used in most of the statistical analysis to represent government support. A government support variable based on our own estimations of the government support in each country was used in one application of the fixed-effect model as

5 Collecting home ownership data was a very time-consuming task. A unique list of home ownership rates in 18 countries between 1960 and 2003 is included in the extended version of this paper, which can be downloaded from http://www.infra.kth.se/BYFA/publikationer/engelskaUppsatserOchRapporter/index_eng.htm (working paper No. 54).

Table 2.2 Home ownership trends in selected countries, 1970-2000

	Starting level	1970s	1980s	1990s
Countries included in statistical analysis				
Australia	H	→	→	→
Canada	M	↗	→	→
Denmark	L	↑	→	→
Finland	H	↑	↗	↓
Germany (West)	VL	↗	↗	→
Ireland	H	↗	↗	→
Netherlands	VL	↑	↗	↑
New Zealand	H	→	↗	↘
Norway	M	↑	↑	→
Spain	H	↑	↑	↗
Sweden	L	↑	↗	→
United Kingdom	L	↗	↑	↗
USA	H	→	→	↗
Countries excluded from statistical analysis				
Austria	L	↑	↗	→
Iceland	VH	↑	→	↓
Japan	M	→	→	→
Portugal	VL	↑	↑	↘
Switzerland	VL	→	→	↗

Starting level: VH = +70%, H = 60-69.99%; M = 50-59.99%, L = 40-49.99%, VL = -39.99%.
Starting median: 56.3%.
↑ = +6% or more, ↗ = +(2-5.99)%, → = ±1.99%, ↘ = -(2-5.99)%, ↓ = -6% or more.

a comparison, however.

The questionnaire asked the researchers to respond to seven questions and give their personal views of the situation in their respective countries in 1970, 1980, 1990 and 2000. A brief summary of the questionnaire is given below.[6]

Begin question 1 to 7 below with 'In your opinion, to what extent has the government in your country supported home ownership in your country...

Question 1: ... through direct grants for buying a home?'
Question 2: ... through making it easier for households to buy a home in other ways than direct grants (e.g. several items listed)'

6 See footnote 1 for how to access the unedited version of the questionnaire.

Question 3: … through mortgage interest tax deductibility?'
Question 4: … through grants and other tax deductions than mortgage interest?'
Question 5: … through the property tax system'
Question 6: … through housing allowances if the household income is too limited to maintain home ownership compared to households that live in dwellings with other types of tenure?'
Question 7: … in comparison to OECD member countries?'

Researchers could reply on a scale from 'Very generous' (=5) to 'Limited' (=1), as well as select 'No support' (=0) or 'Don't know'.

In general, it was quickly observed that researchers found it very difficult to respond to question 7. This is probably due to a lack of overview of the government support systems in different countries; nor is it actually a very easy task to compare countries, given the variety of support measures being used in different countries. It was therefore decided to omit this information from the analysis. It was decided to use an unweighted average of the responses in the analysis. If more than one researcher completed the questionnaire for a country, an average of the responses was used. The rationale for using averages was that it would take too many degrees of freedom in the statistical analysis to use six variables, and it is also debatable whether this would improve the prediction significantly, considering that each value would in most cases be based on one individual value given by a single researcher on a subissue of the broad subject of government support.

This technique does not provide information on variances in the responses (e.g. data series 1, 3 and 5 provide the same average as data series 3, 3 and 3). Obviously there were differences in the variances between countries, but they did not appear to vary substantially and there were no apparent symmetrical differences. In the countries with more than one researcher, however, the researchers' responses sometimes differed to some extent. Although this may be of anecdotal interest, these discrepancies were not expected to have a large impact on the result. The average values for each country based on the responses from the researchers are shown in Table 2.3.[7]

Even though the absolute level of government support is also important, we need to remember that the most important information in Table 2.3 is actually the trend for each country. It is obvious that each researcher has their very personal view of their government's role, and there is a random selection bias for any given country, depending on which researcher completed the questionnaire. It would appear, however, that it is easier for researchers to

7 Footnote 1 explains how to obtain the responses to each question in the questionnaire on government support for home ownership.

Table 2.3 Average values by researchers on questions 1-6 in questionnaire on government support

	1970	1980	1990	2000
Australia	3.0	2.8	2.3	2.5
Austria	2.8	2.7	2.7	2.5
Canada	1.8	1.3	1.5	1.5
Denmark	1.2	1.0	1.2	1.2
Finland	2.3	2.3	2.2	1.8
Germany (West)	2.1	2.4	2.1	1.7
Iceland	1.7	1.7	1.5	1.5
Ireland	3.7	2.7	2.8	2.7
Japan	2.3	2.3	2.3	2.3
Netherlands	1.3	1.3	1.2	0.8
New Zealand	3.2	2.5	1.5	1.2
Norway	2.7	2.9	2.8	2.8
Portugal	0.4	0.7	3.3	3.3
Spain	1.8	2.3	2.3	2.3
Sweden	2.0	2.0	2.0	1.7
Switzerland	1.8	1.6	1.6	1.4
United Kingdom	2.0	1.8	1.8	1.1
USA	2.2	2.2	2.3	2.3

agree on the trend of government support in a given country than the level, and the trend is the most important information for the statistical analysis in this paper, since it is a time series.

Table 2.3 indicates that the general starting level was between 1.3 (limited support) and 3.2 (average support) in 1970 in the case of all the countries, except the outliers, Ireland and Portugal. The trend for the majority of the countries was downward during the selected time period. Australia, Austria, Ireland and Norway were and are relatively generous, according to the researchers. The governments of Denmark and the Netherlands were consistently not very generous to home owners during the selected period.

2.4.3 General descriptives

Table 2.4 summarises the general descriptives (means, standard deviations) of the variables included in this paper, as well as showing the trend for the selected time period, 1970-2000. It shows data for the thirteen countries included in the statistical analysis.

As Table 2.4 shows, the home ownership rate has increased during the selected period by 9.4 percentage points. The data clearly indicate that almost the entire increase occurred between 1970 and 1990, however. Since 1990 there has been no significant change in the average home ownership rate. Furthermore, real GDP has increased by 66%, income distribution has not changed much, and there has been a significant drop in the average inflation rate of 6.4 percentage points. Table 2.4 also shows that there has been a significant increase in real property values of 0-5% per annum, and government support to home ownership decreased during the selected period. The responses from the researchers indicate that the drop in government support occurred mainly between 1990 and 2000. Although the implications of the scale used are rather non-intuitive, it should be noted that a drop of 0.44 over the 30-year period can be considered as rather large.

2.4.4 Missing data and data quality

As already mentioned, some countries had to be excluded from the statistical analysis owing to lack of data. The situation is summarised in Table 2.5. Column 2 provides information on whether a specific country was included in or

Table 2.4 Means and standard deviations (13 countries)*

	Unit	1970 Mean (SD)	1980 Mean (SD)	1990 Mean (SD)	2000 Mean (SD)	Change 1970-2000 Mean
Home ownership rates	%	56.00 (12.27)	61.20 (11.65)	65.06 (12.89)	65.36 (11.78)	9.36
GDP (real)	Index	13726 (2671)	15827 (2927)	19198 (3377)	22818 (3599)	9092
Income distribution	0-100 scale	33.98 (2.78)	33.19 (3.11)	32.48 (4.22)	32.94 (5.83)	- 1.04
Inflation	%	8.59 (1.86)	9.90 (3.27)	4.06 (1.37)	2.18 (0.54)	- 6.41
Development of property values (real)	%	4.67 (3.27)	- 0.34 (1.59)	1.97 (2.33)	4.62 (4.23)	- 0.05
Government support (researchers' estimate)	0-5 scale	2.25 (0.71)	2.13 (0.60)	2.01 (0.55)	1.82 (0.66)	- 0.44
Government support (our estimation)	0-5 scale	2.85 (1.28)	2.85 (1.28)	2.69 (1.38)	2.69 (1.38)	- 0.16

SD = Standard Deviation

* Note that the time periods for all variables in the table (except government support) are as follows: 1970: Average 1965-75. 1980: Average 1975-85. 1990: 1995-2003.

excluded from the analysis. Please note that the importance of the specific variable for the results was considered in the decision-making process. The two most important variables were home ownership rate (the dependent variable) and government support.

Spain and the UK were included in the analysis although the data was to some extent incomplete. Data quality was generally high in the case of both Austria and Switzerland, but these countries had to be excluded, unfortunately, since it was difficult to obtain data on income distribution and development of property values. As regards the other eleven countries included in the analysis (apart from Spain and the UK), it was not uncommon for a data series to be incomplete, but these shortcomings did not appear to be significant.

On the one hand, regarding data quality, a discussion of stationarity may be relevant in this context. If we are willing to assume a common autoregressive parameter across all countries, an augmented Dickey-Fuller test for a unit root can be used to test for non-stationarity (Harter-Dreimann, 2004). As the sample size is small, however, especially over time, we have not conducted the test as we do not have confidence in estimates obtained with such a short time series. According to one specialist in econometrics,[8] observations from 9-10 points of time are required to determine the stationarity status of data.

On the other hand, I would claim that the discussion of non-stationarity

8 Professor Hans Lööf, Centre of Excellence for Science and Innovation Studies (CESIS), Royal Institute of Technology, Stockholm.

Table 2.5 Missing data for a selection of countries

	Model	Home ownership	Development of GDP	Income distribution	Inflation	Development of property values	Government support
Austria	excl.	-1970	OK	-1986	OK	-1987	OK
Iceland	excl.	estimate	OK	n/a	OK	n/a	OK
Japan	excl.	1999-	OK	OK	OK	OK	incomplete
Portugal	excl.	-1980	OK	-1980	OK	n/a	OK
Spain	incl.	OK	OK	OK	OK	-1975	OK
Switzerland	excl.	OK	OK	-1981, 1993-	OK	-1991	OK
Turkey	excl.	n/a	OK	-1972	OK	n/a	OK
United Kingdom	incl.	-1970, 1998-	OK	1996-	OK	OK	OK

excl. = excluded; incl. = included; n/a = not available

may be somewhat skewed. In the present context, the variables included in the model have been carefully selected on the basis of very rational reasons. The only independent variable that is debatable is development of property values, but I also analysed the data without this variable (see Table 2.8). The truth, in fact, is that one can never be completely certain if one has a causal or a spurious correlation. There are many examples of series that are stationary and correlated over a number of years where no causal mechanism can be found. The problem could be due, for instance, to missing data, incorrect function form or data series that are too short.

The standard procedure for making a data series stationary is by differentiating it. This could even increase the uncertainty in the data material, however. For instance, say the ownership share in year 0 is 50 ±3% and the ownership share in year X is 52 ±3%. The development during the time period 0+X would therefore be 2 ±6%, i.e. anything in the interval -4 to 8%. This shows that one can add uncertainty to the differentiated data series with relatively small changes in uncertain levels.

From visual observation of this data set it would appear that the variables income distribution, development of property values and government support are all stationary. Development of GDP and inflation, on the other hand, appear to be non-stationary time series. Moreover, a visual analysis of the home ownership rates reveals that these also appear to be non-stationary in the case of some countries (Denmark, the Netherlands, Norway, Spain and the UK). Although some variables and data series appear to be non-stationary, however, the panel data as such appear to be stationary.

2.5 Results and discussion

This chapter presents the statistical analysis of the model. Before giving the main findings we need to test for collinearity between the independent variables: a standard Pearson correlation test was used, and Table 2.6 presents the correlation matrix.

Table 2.6 Correlation matrix for dependent and independent variables

	Home ownership	Development of GDP	Income distribution	Inflation	Development of property values	Government support (researchers' estimation)
Home ownership	1					
GDP	.078	1				
Income distribution	.027	.104	1			
Inflation	.081	-.712**	.116	1		
Development of property values	.067	.027	-.078	-.245	1	
Government support	.480**	-.230	.128	.299*	.036	1

* The correlation is significant at the 0.05 level (2-tailed). ** The correlation is significant at the 0.01 level (2-tailed).

As Table 2.6 shows, there is a strong correlation between home ownership and government support. There is also a statistically significant and strong negative correlation between inflation rate and GDP: this is in line with theories which argue that higher inflation leads to higher uncertainty, and therefore lower investment and lower economic growth (Barro, 1991, 1995).

As described, this paper uses a panel data set for the statistical analysis. Several methods were used to test model (3) and a fixed-effect extension of the model with the aim of analysing and verifying the results. Table 2.7 shows the differences between the five different applications that were implemented.

Application M1 is a multiple regression analysis where all the variables are entered once. Application M2 introduces country dummies and applications henceforth therefore control for country-related divergencies ('fixed-effect' models). In applications M3-M5 the variables are estimated by stepwise regressions. After the final regression only significant variables remain in the model. The advantage of the stepwise technique is that it increases the number of observations and degrees of freedom, thereby significantly improving the prediction. The disadvantage of stepwise selection is that the model is formally biased at each step, owing to the omission of relevant variables. M4 is identical to M3, except it introduces our estimations of government support instead of the researchers' estimations. The purpose of M2-M4 is to verify that the results of M1 are significant even after controlling for fixed-country effects. M5a and M5b is a special test for two sub-groups, viz. Anglophone and non-Anglophone countries; otherwise the methodology and variables used are identical to M3.

Table 2.8 shows the results of the statistical analysis. T-values are provided in brackets and general statistics are shown in the bottom section of the table. Table 2.8 also shows that many fixed effects appear to be interchangeable in the panel data set. Many countries have fairly similar levels for several variables. M3-M5 use data on these countries as defaults in the regression to increase the degrees of freedom and improve the prediction. A regression was also done based on M3 but with a time variable: the time variable in this regression was highly significant, but both the interchangeable variables GDP and inflation became insignificant. Since one of these variables was usually

Table 2.7 Differences between different applications of the model

Application	Model type	Variable entry method	Countries	Description
M1	Linear	All at once	13	A multiple regression analysis
M2	Fixed-effect	All at once	13	Dummies are introduced
M3	Fixed-effect	Stepwise	13	Variables are entered into model stepwise
M4	Fixed-effect	Stepwise	7	M3, but our variable for government support
M5a	Fixed-effect	Stepwise	6	M3, but Anglophone* countries only
M5b	Fixed-effect	Stepwise	7	M3, but non-Anglophone* countries only

* Anglophone countries: Australia, Canada, Ireland, New Zealand, United Kingdom and USA.

significant in the other regressions, this indicates that time and the two interchangeable variables are strongly correlated – a result that should be expected. The government support variable was still significant (t=4.087).

Table 2.8 shows that the goodness of fit of the model (measured by the adjusted R^2) is high or very high in all the applications except M1. Even though the goodness of fit is low for M1, t-values are still clearly significant for some variables. This shows that the model can partly explain why home ownership rates differ from one country to another. All the applications except M2 show a strong and statistically significant positive correlation between government support and home ownership rates. The problem with M2 is that the dummy variables appear to take most of the explanation power. Applying the stepwise technique in applications M3-M4, thereby increasing the degrees of freedom, we observe that the excluded variables all had fixed effects between 8 and 15. Thus the default in the stepwise regressions was countries with home ownership rates between 60% and 75%, in the upper half of the band (see the intercept in M3).

The table indicates that both the researchers' (M3) and our (M4) estimates of government support are statistically significant. The reason for the difference in the coefficients between M3 and M4 could be that our estimations appear to be more stable over time for most countries than the researchers' estimations. There is also a weak but highly significant correlation between home ownership rates and inflation rate (M3) or GDP (M4). Considering the results of the correlation matrix in Table 2.6, it is not surprising that these two variables are linked to each other and interchangeable.

Some specific examples may make the results easier to understand. M3 shows that an increase of 0.1 in the government support variable will increase the average home ownership rate by 0.4%. Another example: say all thirteen governments decided to abolish mortgage tax relief (average value of relief in 2000: 1.62), then the average government support level would drop from 1.82 to

Table 2.8 Results of the five applications of the model[1]

	M1	M2	M3	M4	M5a	M5b
Intercept	29.150 (1.843)**	49.093 (4.237) **	63.346 (21.437) **	44.231 (10.953) **	67.998 (56.868)**	9.843 (1.956)
Development of GDP (index)	1.048E-03 (2.061)*	5.760E-04 (2.006)	excl.	8.456E-04 (5.234)**	excl.	1.516E-03 (6.415)**
Income distribution (coefficient)	-.334 (-0.837)	-.205 (-0.880)	excl.	excl.	excl.	excl.
Inflation (%)	0.695 (1.074)	-0.462 (-1.410)	-1.087 (-5.549)**	excl.	excl.	excl.
Development of property values (%)	0.278 (0.610)	-0.343 (-1.752)	-0.429 (-2.239)*	excl.	excl.	excl.
Government support (questionnaire, 0-5 scale)	9.481 (3.973)**	1.681 (0.744)	4.174 (3.263)**	–	excl.	9.132 (7.617)**
Government support (our estimation, 0-5 scale)	–	–	–	2.160 (3.605)**	–	–
Australia	–	15.198 (3.145)**	excl.	excl.	excl.	–
Canada	–	7.938 (2.463)*	excl.	excl.	-6.239 (-2.609)*	–
Denmark	–	excl.	-8.382 (-3.027)**	-13.620 (-5.809)**	–	excl.
Finland	–	14.039 (3.694)**	excl.	excl.	–	11.216 (4.600)**

1.55 and the average home ownership rate would consequently fall by 1.1%.[9]

M5 tests whether there is a difference between Anglophone and non-Anglophone countries. The latter have traditionally emphasised home ownership. Also, the average home ownership rate for the six Anglophone countries in the study was 73% in 2000, which should be compared with 59% in the case of the seven non-Anglophone countries. Application M5 in fact indicates that

9 The applications in Table 2.8 have also been tested for two other situations, without the development of property values variable (alt. 1) and with other significance levels (alt. 2). Alt. 1: The reason for this test is that all the variables in the model describe levels, except development of property value, which describes changes. The results from these applications are very similar to those shown in Table 2.8. Alt. 2: The reason for using more liberal significance levels (e.g. 10% for entry) is that there could be a priori expectations regarding the sign of several variables and the relevant alternative should therefore be one-sided rather than two-sided p-values. I therefore tested for 1%, 5% and 10% instead of the significance levels above. In M3 the value of the most interesting variable, government support, is still 4.174 (3.263), and the intercept and the number of variables included do not change either. There are minor changes in model 5, however: government support is 8.819 (7.662) in M5a but still not significant in M5b. Moreover, income distribution also managed to become just significant (1.817) in M5a. From these two perspectives we can therefore conclude that the results shown in Table 2.8 are robust.

Table 2.8 continued

	M1	M2	M3	M4	M5a	M5b
Germany	–	-14.552 (-3.559)**	-28.457 (-11.549)**	-26.198 (-11.042)**	–	-15.896 (-6.602)**
Ireland	–	25.999 (5.065)**	9.959 (3.887)**	11.030 (4.221)**	7.080 (2.961)*	–
Netherlands	–	-6.869 (-1.920)	-17.880 (-6.466)**	-20.478 (-8.493)**	–	excl.
New Zealand	–	19.128 (5.317)**	8.254 (3.376)**	6.605 (2.780)*	excl.	–
Norway	–	14.376 (2.603)*	excl.	excl.	–	excl.
Spain	–	31.304 (7.281)**	21.178 (7.035)**	17.426 (6.102)**	–	29.711 (10.122)**
Sweden	–	1.215 (0.341)	-9.412 (-3.868)**	-9.256 (-3.920)**	–	excl.
United Kingdom	–	10.303 (3.071)**	excl.	-7.106 (-2.829)*	-8.252 (-3.451)**	–
USA	–	9.078 (2.109)*	excl.	excl.	excl.	–
Observations (n)	51	51	51	51	24	27
Unadjusted R^2	0.309	0.921	0.900	0.907	0.633	0.934
Adjusted R^2	0.232	0.881	0.875	0.884	0.578	0.918

* Significant at 0.05 level. ** Significant at 0.005 level.
Abbreviations: – = variable not included in regression; excl. = variable excluded; ns = variable not significant.

there is a strong positive correlation between home ownership rates and government support measures, but only in non-Anglophone countries. Whereas the government support variable was excluded from the fixed-effect model M5a, it was highly significant (t-value 7.6) in M5b and the value was also very high (9.1). The analysis indicates that an increase of 0.1 in the government support variable in the non-Anglophone countries would appear to increase the average home ownership rate by 0.8%.

The results of M5a and M5b were also tested with correlation matrixes. The correlation matrix with the variables in M5b (non-Anglophone countries) indicated a highly significant correlation between home ownership (0.519) and government support, and between GDP and inflation (-0.704). The correlation matrix for M5a (Anglophone countries) did not show any correlation between home ownership and government support, but there was still a highly significant correlation between GDP and inflation (-0.768) and a weak correlation between government support and GDP (-0.440). A possible explanation for the latter correlation may be that governments in countries with high GDP growth may have more fiscal resources for government support to the housing sector. Although the sample is small, we conclude that the results of application M5 are actually surprisingly robust.

It might be thought that this result could be explained partly by the fact that the starting levels of home ownership rates were higher in the Anglophone countries, the logic being that it is marginally more difficult to increase home ownership rates from a level that is already high. The government support variable was not significant, however, if the data was instead subdivided into two datasets based on the level of home ownership rates in 1970 (59-70% compared to 35-53%). Five out of the seven countries in the subset with high home ownership rates in 1970 were Anglophone countries. It would seem, then, that the model is not able to explain why home ownership rates in Anglophone countries are not affected by government support measures.

One can only speculate that the difference between the Anglophone and non-Anglophone countries is explained by the traditional strength of the authorities in the non-Anglophone countries. Apart from Spain, all the non-Anglophone countries are located in Northern or Central Europe and have a tradition of intricate planning systems and building codes, and governments that have played a fairly major role in shaping the urban landscape. It may be that the influential role of non-Anglophone governments has had an impact on the model results.

In conclusion, applications M1-M4 in Table 2.8 tentatively indicate that government support has an impact on home ownership rates. Application M5 also indicates that policies implemented in non-Anglophone countries to support home ownership may have been more effective than in Anglophone countries, but it should be noted that the sample size for M5a and M5b is particularly small.

2.6 Concluding reflections

This study does not claim to provide a complete picture of why home ownership rates differ from one country to another. It has not been possible to collect data on all the explanatory variables identified, for example. The biggest shortcomings are probably the limited sample size and not controlling for differences in mortgage conditions. I would argue, however, that it will always be very difficult, for several reasons, to test and therefore control the quality of a model describing home ownership. The following examples demonstrate some of the problems encountered in determining the home ownership function and, in particular, the importance of government support:

- The sample will always be very small (the number of countries is finite) and heterogeneous.
- Various aspects of the government 'support package' are very difficult to identify and quantify.
- Data will always be of low quality as well as difficult to obtain and com-

pare (especially since data is collected and presented in a wide variety of formats). The European Union has improved the compatibility of European data through its Eurostat, however, and this process is still continuing.

Multi-collinearity between variables creates further complications, although this problem has been somewhat reduced in this paper, as I am using a simplified model.

The results above provide an indication that government incentives may affect home ownership rates, and this appears to be particularly the case in non-Anglophone countries. The goodness of fit and significance levels were relatively high. This paper has only been able to present preliminary results, however, since the sample is too small. To improve model prediction still further the data material and the statistical framework would have to be improved. It will probably be fairly difficult to improve data on home ownership rates for the countries included, but more countries (especially France, Italy and Japan) could be added, and the government support variable could perhaps be improved by using interview methodology and/or a larger set of researchers. It would be particularly interesting to include the determinants in the general home ownership function in this paper that were excluded from the model, such as mortgage terms and construction costs and building activities. In addition, more sophisticated statistical packages for panel data analysis than SPSS would perhaps also achieve even better results.

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3 Unravelling the conundrum

Liberal planning, high housing output and house price inflation in the Republic of Ireland

Michelle Norris & Patrick Shiels

3.1 Introduction

The period since the mid 1990s has been distinguished by a dramatic change in the Republic of Ireland's economic fortunes, as a decade-long recession was replaced by strong growth in Gross Domestic Product (GDP) per capita – which increased from one third below the European Union (EU) average in 1990, to 10% above in 2000 – and falling unemployment which decreased from 13.4% to 4.2% over the same period (European Union, 2002). These economic developments were accompanied by equally dramatic demographic change. Between 1991 and 2002 the population increased by 11% and the number of households expanded by 25% (Central Statistics Office, 2003), marking the end of a, practically continuous, century-long trend of falling or stagnating population (Garvin 2004).

Not surprisingly these economic and demographic developments led to a strong increase in housing demand. Moreover, this demand was further stimulated by cuts in income and other direct taxes; the liberalisation of the mortgage lending market and falling interest rates (Fahey and Maître, 2004). However, the Irish housing stock is relatively small. The number of dwellings per 1,000 inhabitants in this country was only 391 in 2003, compared with 422.3 among all 25 current EU member States (Norris and Shiels, 2004). As a result, the traditional pattern of low and steady rate of residential property price and rent inflation ceased. House prices increased by 251% between 1996 and 2002 which, in view of the large proportion of households accommodated in this sector (77.4% in 2002) generated significant concern among policy makers (Fahey and Maître, 2004; Central Statistics Office 2004). Private rent inflation jumped from 3% per annum between 1990 and 1996 to 14.6% in 2000/2001which had affordability implications for the 11.1% of households resident in this sector in 2002 (Central Statistics Office, 2004). In the social housing sector, these developments brought an end to falling demand and this shrinking tenure – which accommodated 18.4% of households in 1961 but only6.9% in 2002 – proved ill equipped to cope (Central Statistics Office, 2004). Consequently waiting lists for accommodation of this type grew by 76% between 1996 and 2002 (Norris and Winston, 2004).

This chapter reviews the available evidence regarding trends in house prices and housing affordability in Ireland since the mid 1990s and on the basis of this evidence, together with the results of two empirical studies conducted by the authors, the contribution of the Irish land use planning system to these developments is assessed (Norris, 2005; Williams et al, 2002). The Irish system provides an interesting case study in this regard, because although closely modelled on that used in the UK, it is much more permissive, and thus has not significantly impeded housing output in a manner which is often identified as a key driver of house price inflation in the UK (for instance: Chesire, 2004). Recent years have seen a number of reforms to planning in Ireland, intended to remove any impediments to expediting housing output and also to afford it a more direct role in addressing housing affordability problems by using planning gain to deliver housing for rent and sale to low income households. The potential of these measures is examined in the middle section of the chapter. On the basis of this analysis, the closing section of the discussion proffers conclusions regarding the role of land use in driving recent house price inflation in Ireland and identifies other factors which have made a contribution in this regard.

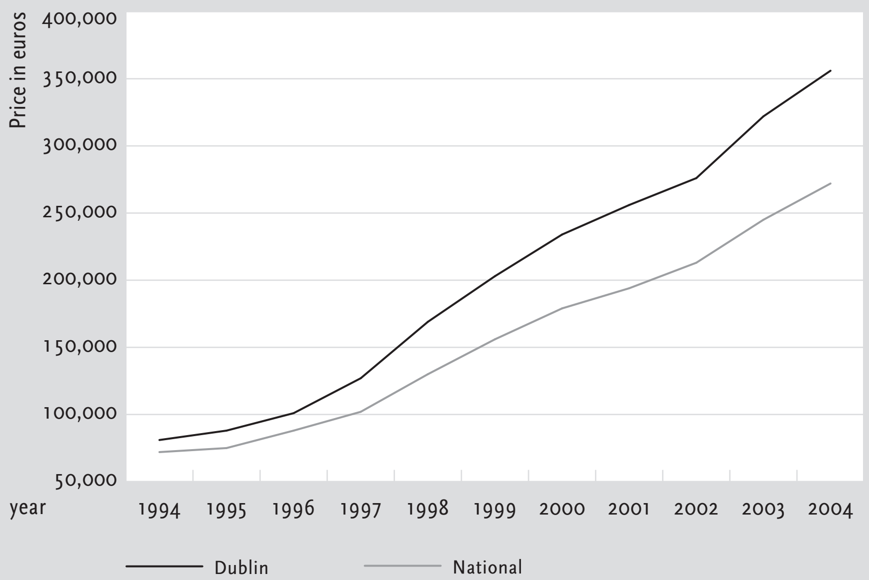
3.2 Recent house price inflation and affordability trends

Figure 3.1 details trends in house price inflation in Ireland between 1994 and 2004 and reveals that most of the unprecedented increase in prices during this period is concentrated in the period since 1998. This graph also demonstrates that prices in Dublin city and largely suburbanised county Dublin grew much faster than in the country as a whole – in the case of new houses by 333% compared to 281% during the period under examination. This uneven inflation pattern has led to the widening of the gap between house prices in Dublin and rest of Ireland. In Dublin new house prices stood at 15.5% above the national average in 1994, but a decade later attained a lead of 31% (Department of the Environment, Heritage and Local Government, various years).

The available evidence regarding the affordability implications of these rises in house prices is set out in Figure 2. In view of the calamitous tone of much of the media coverage and some of the academic commentary (for instance: National Economic and Social Forum, 2000) on housing affordability, some of the trends revealed in this graph are rather unexpected.

For instance, Figure 3.2 demonstrates that the 6.9% of households who are currently local authority tenants devoted a relatively modest proportion of expenditure (7.6%) to rent in 1999/2000, and their expenditure in this regard had remained consistently low over the preceding two decades (Central Statistics Office, 2004). This is because the rents of local authority dwellings (which accommodate 90% of social renting households) vary according to tenants' incomes (see: Clarke and Norris, 2001). In contrast, the proportion of household expenditure which private sector tenants devote to rent increased dramatically from 12.5% in 1987 to 21% in 1999/2000. Research by Fahey et al.

Figure 3.1 Annual house prices at loan approval stage for Ireland and Dublin, 1994 to 2004

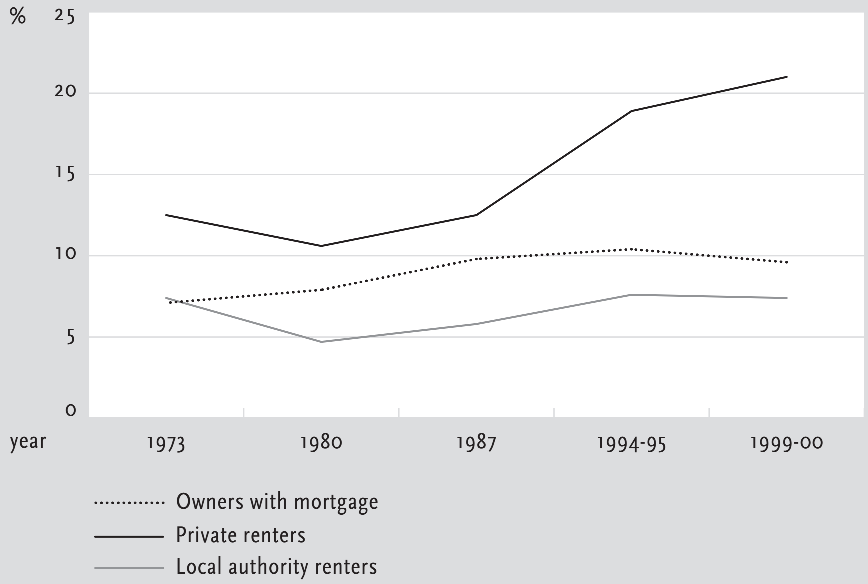


Source: Department of the Environment, Heritage and Local Government, various years

(2004) confirms that this has led to affordability problems. They found that 19% of private renting tenants had incomes below 60% of the national median in 2000, but that when housing costs are subtracted from income, this rises to 27.5%. Figure 3.2 reveals static proportionate housing expenditure among the small majority (51%) of Irish home owners who have a mortgage and Fahey et al. (2004) further substantiate the lack of widespread affordability difficulties among this group (Central Statistics Office, 2003). They report that 11.4% of mortgagors had incomes below 60% of the median in 2000, but this rises to only 13% when housing costs are taken into account. This trend is due to the fact that the strong house price inflation mentioned above, was counterbalanced by a combination of rising disposable incomes, coupled with falling housing costs among this cohort due to interest rate reductions, which more than halved in real terms during the 1990s (European Union, 2002).

However, more detailed analysis reveals an important caveat to this finding regarding the general affordability of owner occupation. Figure 3.3 demonstrates that, the proportion of a 'typical' household income required to service a mortgage on 90% of the cost (normally the maximum loan advanced) of an average priced new home is significantly higher in Dublin than in the rest of the country. This is due to higher house price inflation in the Capital mentioned above. As a result of parallel trends in private residential rent inflation this pattern of regional affordability variations is mirrored in this sector. In Dublin, 26% of private renting households had rent burdens which exceed 35% of income in 2000, compared to only 12% of their rural counterparts (Fahey et al., 2004).

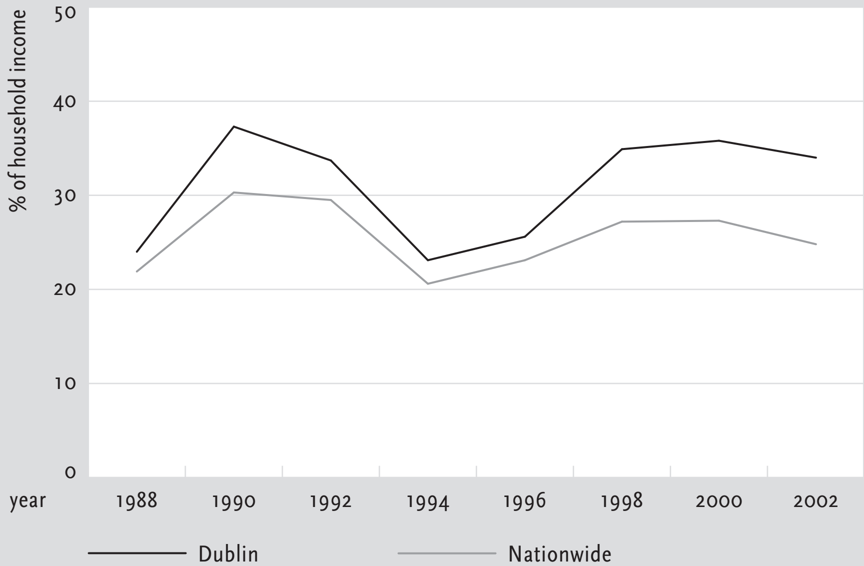
Figure 3.2 Weekly rent and mortgage payments as a percentage of total household expenditure, 1973-2000



Source: Central Statistics Office (1977, 1984, 1989, 1997, 2001)

In addition, a recent report by the government's policy advisory body the National Economic and Social Council (NESC) (2004), argues that the combination of rising house purchase costs and private rent inflation have created serious difficulties for households seeking to access home ownership, particularly in Dublin Thus NESC points out that to accumulate the 10% deposit required to purchase the average new house in 2003, an individual must save 100% of the net annual average industrial wage (rising to 130% in Dublin), whereas in 1989 the equivalent transaction would have required only 62% of net earnings. The fact that the proportion of householders who own their homes fell, by 2.8% between 1991 and 2002, also corroborates this analysis (Central Statistics Office, 2004). Difficulties in accessing home ownership are further evidenced by Ireland's household headship rate (i.e. the proportion of individuals who are heads of households), which for the 25 to 29 age cohort (the primary age group for first time home purchase) was 31.2% in 2005 - only 0.1% above the equivalent figure for 1986, and well below the UK headship rate for this age group which stood at 43.4% in 1991 (Fitzgerald, 2005). McCarthy et al. (2003) argue that this low headship is a function of the difficulties in accessing home ownership and can be explained principally by young adults resident in parental dwellings for longer durations.

Figure 3.3 Mortgage payments on 90 per cent of the cost of an average priced new house as a percentage of net income for 'typical' first time buyer households, 1988-2002



Source: Norris and Winston (2004)

Note: Data refer to two earner, married households (assessed jointly for tax purposes), whose income consists of the average industrial wage, plus the average non-industrial wage. Mortgage payments are assumed to be a 20 year mortgage for 90 per cent of the average new house price for that year, repaid at average mortgage rates for that year.

3.3 Land use planning impediments to housing output

The Local Government (Planning and Development) Act, 1963, which established Ireland's land use planning system, was closely modelled on the UK Town and Country Planning Act, 1947. Like its UK counterpart, the 1963 Act obliged local authorities to specify their spatial development proposals in development plans of at least five years duration (Bannon (ed.), 1989). Plans for urban areas involve the designation of land for residential, commercial, industrial, institutional and amenity use and make provision for necessary infrastructure such as roads. Adherence to the development plan is controlled by means of planning permissions.

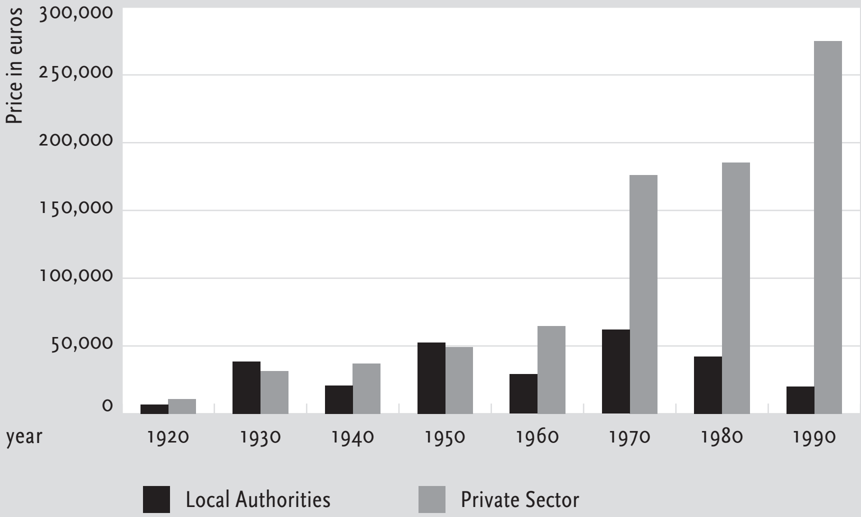
However, compared to the UK, development control procedures have been applied much more liberally in Ireland, as has the development planning process. Many rural local authorities did not regularly revise their development plans until the 1980s (Bannon (ed.), 1989). In addition, the 1963 Act did not require development plans to estimate and make provision for meeting future housing needs, or to specify the appropriate design and density of dwellings. According to Meehan (2003: 65-66) most plans made only '.... limited quantitative assessment of demand for housing', and specified '... maximum but relatively low [housing] densities (generally in the region of 6-10 per acre), but did not address the design/form of housing'. In addition, the Irish planning system is characterised by a virtual absence of strategic regional or national planning. Although a national spatial plan was published in 1968, as were strategies for the Dublin and eastern regions in 1967 and 1985 respectively, the first two of these were implemented only in part, and the third was not implemented at all (Bannon (ed.), 1989). Apart from the establishment of an independent planning appeals body - An Bord Pleanála, in 1977, no significant changes were made to the planning system established by the 1963 legislation, until it was superseded by a new principal planning act in 2000 (Meehan 2003).

Figure 3.4 sketches new house building trends in the Republic of Ireland from the foundation of the State in 1922 until 2000. It reveals relatively low housing output in the period to 1969, particularly by the private sector, consequently local authority built social housing accounted for a large share of total output. However, since 1994, this pattern has sharply reversed and housing production almost trebled in volume compared to the previous decade, to 57,695 units in 2002, most of which were built by the private sector (Department of the Environment, Heritage and Local Government, various years). This constitutes 14.73 units per 1,000 inhabitants, which is one of the highest housing output levels in the European Union (second only to Spain), and substantially ahead of the average for all 25 EU members (4.25 per 1,000) (Norris and Shiels, 2004). As a result, over 20% of the existing Irish housing stock was built between 1994 and 2001 (Williams and Shiels, 2002).

Cheshire (2004), among others (for instance: Evans, 1987; Monk, et al., 1996), argues that the emphasis which the UK planning system places on limiting the expansion of urban areas, which also constrains the supply of development land, is the primary cause of the relatively low housing output in this country and ultimately of the strong house price inflation in real terms since 1960, which in turn has led to problems of housing affordability and price volatility. Figure 3.4 substantiates this analysis because it reveals that private housing output in Ireland has historically been more responsive to changes in demand than the UK, which indicates that the more liberal planning system employed in the former country has not produced the housing supply and affordability problems evident in the latter.

The relatively low level of private house building in Ireland until the 1970s reflects the economic and population stagnation mentioned above, coupled with the underdevelopment of the commercial mortgage lending market – Fahey and Maître (2004) report that, until the 1970s, nearly half of all mortgages were provided by local authorities rather than commercial lenders. Housing demand increased in the 1970s due to a short period of economic and population growth and output expanded accordingly, but it stagnated in

Figure 3.4 Dwellings built by the private sector and local authorities, 1920s-1990s



Source: Minister for Local Government (1964) and Department of the Environment, Heritage and Local Government (various years).

Note: The 1920s refer to 1923-1929 only; private sector building figures from the 1920s to the 1950s only include dwellings built with State aid, but the available evidence indicates that this includes the vast majority of private sector dwellings built.

the 1980s when demand was softened by prolonged recession and emigration (Kennedy et al., 1988). Trends in house prices provide further evidence of housing market equilibrium during this period. In real terms, Irish house prices were only marginally higher in the late 1980s than in the early 1970s (Fahey et al., 2004). Although this inflation pattern has changed dramatically since the mid 1990s, the available evidence does not indicate that new house building and, by extension, the planning system, is a significant contributory factor. On examination of a number of econometric models of Irish housing output, NESC (2004: 43) concludes that '… the initial rise in house completions [in the late 1990s] was less than would be expected given the higher prices, but… private house completions are now in line with or possibly ahead of what would be expected given the fundamentals'. The factors which have precipitated continued house price inflation, despite this over-supply, are examined in the conclusions to this chapter.

The fact that lack of planning does not figure as a causal factor in housing affordability problems at the national level in Ireland does not mean that the system is entirely unproblematic. For instance, there is ample evidence that liberal planning has sacrificed housing quality in the interests of quantity. McDonald (2000) argues that until recently, planned residential development has consisted largely of low-density, monotonous housing estates on the peripheries of towns and cities. In addition, a significant proportion of the recent housing output consists of single-family houses in the open countryside. In 1999, 47.4% of output in rural local authorities areas was in this category, and concerns have been raised about the aesthetics and sustainability of this type of housing (Department of the Environment and Local Government, 2002c; McGrath, 1998).

More significantly, from the perspective of the discussion at hand, the increase in housing output since the mid 1990s, has not been evenly distributed around the country. As Figure 3.5 demonstrates, housing output in Dublin city and suburbs, lagged far behind the rest of Ireland between 1994 and 2004, indeed the size of gap has grown over this period. To put this trend in context, Dublin accounted for 28.7% of the Irish population in 2002 but only 22.4% of the total national housing output between 1994 and 2004 (Central Statistics Office, 2003; Department of the Environment, Heritage and Local Government, various years). NESC (2004) identifies under supply as the primary cause of the housing affordability problems in Dublin, highlighted earlier in this chapter.

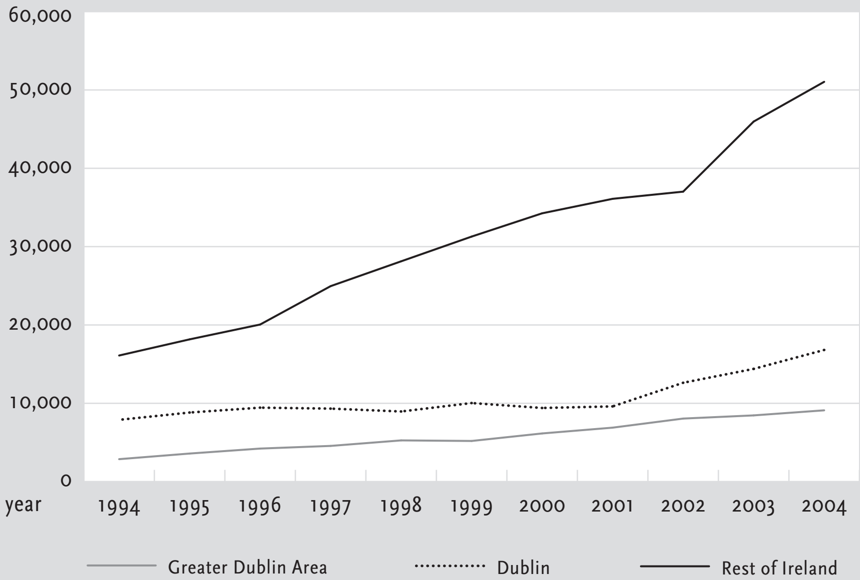
Furthermore, as Figure 3.5 reveals, the lack of output in Dublin has deflected house construction activity to the counties surrounding Dublin which make up the Greater Dublin Area, resulting in a centrifugal pattern of population growth in this region, as better housing availability and affordability has driven young households, in particular, out of the city. The population of the State grew by 8% between 1986 and 2002, but during this period, the population of Dublin city and county grew by only 6.1% and the population of many inner suburbs of the city fell, whereas the population of the surrounding Greater Dublin Area grew by 19% (Central Statistics Office, 2003). This pattern of population growth has placed significant strain on local services and the built environment in Greater Dublin, while amenities such as schools in the city are now underused (Williams and Shiels, 2000). Moreover, because most of these dispersed households continue to commute into the city for work, the transport infrastructure of the region is now working at far beyond the capacity for which it was originally designed (Williams, Shiels and Hughes, 2003).

Research conducted by one of the authors, which comprised analysis of house price, output, land use and population data, coupled with in-depth interviews with key public and private sector actors in the housing development field in Dublin, indicates that the planning system is an important (but not the sole) contributor to this regional supply imbalance (Williams, et al., 2002). Six aspects of this system have been particularly influential in this regard.

Firstly, the shortage of suitably qualified planning staff in local authorities has been an impediment to expediting housing output in the country as a whole (Department of the Environment and Local Government, 2001). However, like many other parts of the public service, recruiting such staff has proved particularly problematic in Dublin, because of the higher cost of living.

A second contributory factor relates to the highly centralised funding system for Irish local authorities coupled with the aforementioned shortcomings

Figure 3.5 Housing output in Dublin, the Greater Dublin Area and the rest of Ireland, 1994-2004



Source: Department of the Environment, Heritage and Local Government (various years)

Note: Dublin includes the operational areas of Dublin City Council and Fingal, South Dublin and Dun Laoghaire-Rathdown County Councils. The Greater Dublin Area consists of the Meath, Kildare and Wicklow County Council operational areas.

in development planning. Bacon and Associates (1998) identified inadequate water, sewerage and road infrastructure as a key impediment to realising housing output on zoned land in Dublin, and recommended that sincecentral government meets most land servicing costs anyway, should substantially increase its funding to rectify this. In contrast, serviced land is not necessary to enable the extensive development of single houses in the countryside, mentioned earlier.

Thirdly, the predominance of low density housing development in Dublin until the late 1990s was an inefficient use of scarce urban land which could have been employed to deliver many more dwellings, built at higher densities.

In addition, pressure on local authority councillors from resident's associations, landowners and the development industry regarding zoning decisions was identified by many interviewees as a critical factor in the planning process. In existing urban areas, this pressure usually restricts housing supply (as the wishes of existing residents are the key political consideration), whilst in peripheral areas (where land owners are more influential) it often facilitates the zoning of land to enable green-field development. In Dublin there have also been delays in servicing lands, which were rezoned by politicians against the advice of local authority planners, due to the engineering and drainage work required (Williams, et al., 2002).

A larger range of criteria must be taken into account in urban planning decisions; these decisions potentially impact on more people so any consultation required is lengthier and there are a larger number of potential objectors to planning applications. As a result of the last of these factors, there is an average two year time lag between the initial granting of planning permissions by Dublin local authorities, and the commencement of construction (Williams and Shiels, 2001).

Finally, the paucity of regional and national land use planning, and the absence of political will to implement the plans which have been formulated, has created a number of problems. A regional housing strategy for the greater Dublin area would probably have identified the abovementioned infrastructural barriers to house building at an earlier stage since many of these traverse local authority boundaries. In addition, for over thirty years following the publication of the (only partially implemented) Buchanan report in 1968, Ireland lacked a national spatial development strategy. For decades, the most serious result of this omission was rural population decline. However, following the economic boom of mid 1990s, the failure to promote alternative growth centres meant that industry, jobs and therefore, households were drawn magnetically to Dublin, as the only city with the population and infrastructure to support it. The resultant growth in regional housing demand made house price inflation almost inevitable (National Economic and Social Council, 2004).

3.4 Land use planning enablers of housing output

Over the last four years a range of reforms have been made to the Irish planning system to address the planning related causes of the housing affordability problems outlined above. These initiatives have had mixed success, although it is important to stress that, due to their recent establishment, the assessment of their achievements presented here is very preliminary.

A number of relevant recent planning reforms have been introduced by the DoEHLG in response to the housing market analyses commissioned from Bacon and Associates (1998, 1999, 2000). Broadly speaking, the least complex of these initiatives have been most successful. For instance, funding for the Serviced Land Initiative, which finances the water, sewerage and road infrastructure necessary to release land for residential development, was more than doubled to €47.8m per annum, 38% of which was reserved for Dublin (Department of the Environment and Local Government, 1998). MacCabe (2003) reports that measure has surpassed its target - between 2001 and 2003 sites for 43,449 dwellings were serviced under its auspices in Dublin. The DoEHLG also published new Residential Density Guidelines for Planning Authorities, which recommended the doubling of densities in suburban areas (Department of the Environment and Local Government, 1999b). These guidelines appear to have had an impact - the proportion of new dwellings in Dublin which are terraced houses or apartments rose by 50% between 1992 and 2002 - although land price inflation may also have been an influential factor in this regard (Department of the Environment, Heritage and Local Government, various years). More importantly, from the perspective of the discussion at hand, this increase in densities contributed to the growth in housing output in Dublin since 2000, which is highlighted in Figure 3.4, above. In addition, extra resources were provided to enable An Bord Pleanála employ additional staff in order to process planning appeals more swiftly and to allow planning schools increase their student numbers and consequently graduate output has grown significantly (Department of the Environment and Local Government, 2001). The first of these measures appears to have reaped benefits in terms of speeding up the planning appeals process. Some progress has also been made in increasing the output of Irish planning schools, recruiting planners from abroad. However, the greater complexity of planning decisions in large urban centres mentioned above, means that they are not appropriate for assigning to inexperienced planners.

The disappointing achievements of some of the other planning reforms recommended by Bacon and Associates (1998, 1999, 2000) largely reflects the complexity and politicised nature of the interventions in question. Strategic Development Zones (SDZs) are an example of the former problem. This measure was originally introduced to 'fast track' the provision of critical infrastructure such as power stations, that may otherwise have been delayed in the traditional planning process by local opposition, but Bacon and Associates (2000) suggested it should be extended to include housing. Three housing SDZs were designated in 2001 – two in Dublin and one in the Greater Dublin Area. However, to date development has commenced on only one of these. This site, at Adamstown in West Dublin, has taken almost four years from designation to the commencement of development, due to the length of time required to determine its layout in detail and to provide the key amenities required before housing development occurs. The latter task is particularly challenging in Ireland because responsibility for the provision of main roads, railways and schools lies, not with local authorities, but with a plethora of other agencies (Williams et al., 2002).

Bacon and Associates' 1999 report recommended that a national spatial development strategy be formulated to balance the distribution of population and economic activity across the country, and effect an even geographical distribution of housing demand away from Dublin. A National Spatial Strategy was subsequently published, covering the period 2002 to 2020 (Department of the Environment and Local Government, 2002b). It aims to achieve balanced regional development by designating a number of cities and towns as 'gateways' (engines of regional and national growth), toward which investment infrastructure, services and amenities are to be directed. Garvin (2004) provides a fascinating account of how the implementation of Ireland's only previous attempt at national spatial planning in 1968, was scuppered by the overwhelming localism of Irish politics, which renders positive discrimination in favour of one locality, over another, practically impossible. The indications are that the continued influence of this factor will consign the National Spatial Strategy, 2002-2020 to a similar fate. For instance, Scott (2005: 9) argues 'Undoubtedly the designation of gateways was underpinned by political pragmatism', as a result of which he questions whether some gateways '… have the critical mass to secure balanced regional development' and suggests that:

> … the number of gateways designated (eight in total) may prove too many in a small economy to effectively develop clusters of economic growth and agglomerations, which have access to large labour markets and sub-supply sectors, needed to counterbalance the dominance of Dublin.

More fundamentally, local interests are likely to undermine the implementation of the strategy, which is to be achieved by means of regional planning guidelines prepared by eight regional authorities. Planning guidelines for the greater Dublin area were published in 1999 (Brady Shipman Martin, et al., 1999). However, these have been largely ignored in the development plans published by local authorities in the greater Dublin area, which have rezoned land for housing far in excess of the amount recommended in the guidelines. A recent legal challenge to one of these development plans, on the grounds of their failure to reflect the regional guidelines, was unsuccessful because the law only requires local authorities to 'have regard to' the latter when devising the former (Simons, 2003).

Apart from the measures described above, the other key recent reforms to the Irish planning system are legislated for in the Planning and Development Act, 2000. This Act consolidates and updates the Irish planning legislation and introduces a number of new measures, the most significant of which, from the perspective of the discussion at hand, are set out in Part V of the legislation. This section obliges local authorities to amend their development plans to incorporate housing strategies which detail how future local housing demand will be met. These strategies must estimate the need for social rented housing, and for 'affordable housing' which, in the Irish context, refers specifically to dwellings for sale, at below market value to low income households. To satisfy this social and affordable housing need, local authorities may employ up to 20% of land zoned for residential development locally. Property developers must transfer the necessary proportion of dwellings, land or sites to local authorities as a condition of planning permission. In return they are compensated at the level of the existing use value (in the case of land), plus development costs (in the case of sites), plus reasonable profit (in the case of houses). The 2000 Act also specifies that housing strategies should take account of the need to counteract undue social segregation in housing between people of different social backgrounds. DoEHLG guidelines recommend that this should be achieved by tenure mixing in estates and ensuring all dwellings are similar in design (Department of the Environment and Local Government, 2000c).

Not surprisingly, these arrangements attracted considerable opposition – particularly from representatives of the construction industry who argued that they alienate home-buyers; reduce housing supply, and increase prices (for instance: Irish Home Builders Association, 1999). Consequently, amending legislation was enacted in 2002 which provides developers with alternative options for meeting their Part V commitments, including: providing cash compensation and/or dwellings, land or housing sites in an alternative location (Department of the Environment, Heritage and Local Government, 2003).

The available evidence indicates that the broad thrust of the reforms introduced by Part V was necessary to address affordability difficulties and expedite supply in appropriate locations. However, the implementation of these provisions has proved challenging.

The formulation of housing strategies should logically lead to better planning of future housing provision, than the previous system whereby only minimalist efforts were made to quantify need (Meehan, 2003). However, local authorities have faced difficulties in accessing the micro level data necessary to make these estimates. Consequently, concerns have been raised that the strategies overstate social and affordable housing need, particularly in rural areas (Threshold, 2002).

Research by one of the authors, incorporating a survey of the number and characteristics of mixed tenure estates built prior to 2003, coupled with case studies of five existing mixed tenure estates, concludes that Part V was necessary to ensure an adequate supply of social and affordable housing in urban areas where land prices are highest and affordability problems greatest (Norris, 2005). In addition, the tenure mixing provisions were required to prevent the development of more large-scale concentrations of social housing in urban areas where most existing concentrations of this type are located.

To date, Part V has had limited impact on total housing output which has continued to grow each year since the enactment of this legislation (Department of the Environment, Heritage and Local Government, 2000). Interviews with home buyers in five mixed tenure estates, carried out as part of the abovementioned study, uncovered very little opposition to tenure mixing, and housing output has increased in the years since the legislation was introduced (Norris, 2004). Williams et al. (2002) raise the concern that the absence of co-ordination between the housing strategies in the greater Dublin area has the potential to distort housing output in favour of the counties surrounding the city, where the Part V provisions are less demanding. The 2003 and 2004 house building statistics do flag some trends of this type (Department of the Environment, Heritage and Local Government, various years). These data, however, could also be plausibly interpreted as a continuation of the long-standing centrifugal development pattern in Dublin revealed in Figure 3.5.

It is also possible that the lack of impact of Part V on total housing output is the result of the low number of social and affordable units delivered under its auspices – which totalled 800 dwellings by the end of 2004. This output rate is probably related to the fact that many dwellings currently being completed are subject to planning permission granted prior to the 2000 Act and therefore, exempt from its provisions. At the end of 2004 1,910 social and affordable units were in the course of acquisition under Part V and agreements were in negotiation regarding the acquisition of further 2,885 dwellings. However, there is also evidence that rural local authorities favour accepting monetary compensations from developers, rather than insisting on the transfer of dwellings. Payments of this type totalled €7.3 million (0.4% of the State's housing capital programme) in 2004. In contrast, Dublin local authorities appear to favour the transfer of dwellings with 70% of the social and affordable housing delivered under Part V in 2004 located in Dublin (Department of the Environment, Heritage and Local Government, various years). If this measure continues to be implemented in this way, it is likely to have a significant impact on housing affordability problems in the Capital, outlined above.

As mentioned above, the implementation of Part V has raised challenges however. Developers interviewed for the aforementioned research complained that the negotiation of Part V agreements prior to the granting of planning permission slows the development process, while social landlords were concerned that appropriate social housing design would be more difficult to achieve through the Part V mechanism. Nevertheless, the research concluded that many of these problems could be resolved by relatively simple measures such as the provision of detailed written guidance for developers (Norris, 2005). The management of most mixed-tenure estates is not problematic, but high-density developments are an exception. Meeting the fees charged by the agents employed to manage such developments has proved problematic for social landlords, in view of the revenue constraints created by the income related system used to determine rents in this sector.

3.5 Other drivers of house price inflation

The evidence presented above indicates that, with the exception of the Dublin area, Ireland's relatively permissive planning arrangements have not had significant negative consequences for housing affordability over the last decade, because this system has not constrained output, which is reflected in an elastic supply response to rising demand. Indeed, between 1998 and 2003, housing output exceeded new household formation by 50% (National Economic and Social Council, 2004). This finding raises the question of which factors did drive house price inflation, if land use planning did not play a significant role.

In the first instance, it is important to acknowledge that the sharp increase in housing demand associated with the radical economic and demographic changes which have taken place in Ireland during the past decade, made significant house price inflation almost inevitable, even in the event of an elastic supply response (National Economic and Social Council, 2004). However, in addition, housing policy factors further compounded this inflationary trend and exacerbated the associated housing affordability problems.

Among the housing policy related drivers of house price inflation, lack of new interventions by government is certainly not the problem. These changes in house prices propelled housing from the lower levels of the political agenda in the first half of the 1990s, to the very top by the end of the decade. Housing was not mentioned in the two key economic policy statements published during the early 1990s (the 1989 and 1993 National Development Plans); nor was it identified as a target in the National Anti-Poverty Strategy (the key contemporary social policy statement); nor addressed in the Partnership 2000 agreement negotiated in 1996 between government, employers and other 'social partners' under Ireland's corporatist policy making system (Government of Ireland, 1989, 1993, 1997, 1996; Allen, 2000). In contrast, the updated versions of these documents, published in the late 1990s, all identified housing as a central issue (Government of Ireland, 2000a, 2000b; Department of Social Community and Family Affairs, 2002). Moreover, the pace of housing policy development quickened. The Department of the Environment, Heritage and Local Government (DoEHLG) which is the ministry responsible for housing published only two housing policy statements between 1990 and 1996, compared to eight since the latter year (Department of the Environment, 1991, 1995; Housing Management Group, 1996, 1998; Commission on the Private Rented Residential Sector, 2000; Department of the Environment and Local Government, 1998, 1999a, 2000a, 2000b, 2002a).

From the perspective of the discussion at hand the most significant features of the housing policy initiatives announced in these various documents are as follows:

- The affordability problem is defined principally in terms of access to home ownership – the DoEHLG published three statements on this issue in the late 1990s, in response to three reviews of the housing market (Department of the Environment and Local Government, 1998, 1999a, 2000a; Bacon and Associates, 1998, 1999, 2000). In contrast, despite the affordability problems among private renters highlighted above, the DoEHLG's Commission on the Private Rented Residential Sector (2000) advised against intervention by government to reduce market rents.

- A range of targeted interventions to enable low and moderate income households to purchase a home were also introduced and social housing output increased.
- The vast majority of the housing affordability measures were national programmes, with relatively minor variations in their terms to reflect local or regional differences.
- As is evidenced by the interventions proposed in the aforementioned DoEHLG statements on housing affordability, the solution to this problem was defined as expanding housing supply, by increasing new building. Apart from relatively minor reforms, little effort was made to manage demand for house purchase (Norris and Winston, 2004). Indeed several new fiscal stimulants of housing demand have been introduced in recent years.

From the perspective of the discussion at hand these interventions are problematic in a number of respects. Firstly, the lack of attention to the affordability of private residential rents meant that the root of the most serious housing affordability problems was not tackled (Fahey, et al., 2004). Nor was key cause of the inaccessibility of the owner occupied sector, as high rents impeded first time buyers' efforts to save the requisite deposit (National Economic and Social Council, 2004). Research currently being completed by the authors indicates that access to the plethora of supports for low income home buyers which have been established over the last decade has been too stringently restricted to the poorest households. Consequently, many of the target households could not raise sufficient funds though mortgages or savings to participate in these schemes, while among those that did gain access, the level of loan arrears are extremely high (Shiels and Norris, forthcoming). In addition, the maximum income limits for access to the vast majority of these schemes (with the exception of the affordable housing provided under Part V of the 2000 planning legislation, described above) are identical countrywide. This means that the many middle income households priced out of the more expensive Dublin property market are excluded from access (Norris and Winston, 2004). Furthermore, although social housing output has increased in recent years, following severe cutbacks in the mid 1980s, Figure 3.4 above demonstrates that in both absolute and relative terms current construction rates in this sector remain far below that which prevailed in the decades before these cutbacks were initiated. Thus, the National Economic and Social Council (2004) has recommended the doubling of current social housing output levels, in order to meet the additional needs created by population growth, urbanisation and the affordability problems in the private rented sector and the inaccessibility of the owner occupied sector.

The fiscal treatment of housing in Ireland is the most significant housing policy related driver of house price inflation, however. Fitz Gearld (2005), the National Economic and Social Council (2004) and McCarthy et al. (2003) attribute continued house price inflation, despite construction rates which exceed new household formation, to demand for dwellings not intended for use as primary residences, that has been stimulated both by increased household incomes and fiscal factors. Specifically, they argue that area-based tax incentives for the construction of dwellings in designated rural and urban areas, coupled with the fact that taxes levied on the capital gains made from increase in the value of investment properties are far lower than income taxes, have led to excess output of new houses for use as holiday homes, and of properties for rent which are often left vacant due to inadequate demand, particularly in rural areas. McCarthy et al. (2003) estimate that 40% of housing output in the three years to 2000, averaging at some 20,000 units per annum is not in permanent use. Fitz Gearld et al. (2003) calculate that the increase in vacant dwellings between 2000 and 2003 added between 15 and 20% to house prices over this period.

In addition, there is evidence that the area based tax incentives for new housing construction has deflected construction resources away from Dublin, whilst inflating house prices in the rural areas where these incentives have encouraged new output. Prior to the mid 1990s, tax incentives for the construction and refurbishment of dwellings applied only in the centres of Dublin and the four other cities in Ireland. However, since then they have been extended to cover many rural towns and villages in the south and east of the country. In addition, several counties in the north west and many coastal towns also received tax designation under the terms of the Seaside Towns Renewal Scheme and the North Shannon Rural Renewal Scheme that were initiated in 1995 and 1998 respectively. According to Fitz Gerald (2005) the greatest increase in vacant or second dwellings between 2000 and 2003 took place in the counties subject to the latter scheme. Consequently, he argues that the 15 to 20% national price increase linked to the construction of vacant houses was considerably higher in these areas.

3.6 Conclusions

This chapter has attempted to unravel the conundrum of continued high house price inflation in the Republic of Ireland, despite housing output rates that are three times higher than the EU average (Norris and Shiels, 2004). It has revealed that although a permissive land use planning regime has enabled very high housing construction rates across the country as a whole, an overly laissez faire approach to regional and national land use planning has meant that this new housing has not been delivered in the areas where demand is greatest, resulting in excessive price inflation in Dublin in particular.

In order to address this problem, a more active approach to land use management has recently been initiated by means of the incorporation of housing strategies into development plans, the use of planning gain mechanisms to deliver social and affordable housing where required and the designation of Strategic Development Zones where large housing developments will be fast tracked through the planning process. The preliminary assessment of these measures presented above is reasonably optimistic about their potential to help correct housing supply imbalances within specific localities and regions, but less optimistic about the existence of political will to implement the strategy to correct the unbalanced population and economic growth at the national level which is the fundamental cause of high housing demand and associated price inflation in Dublin.

In addition, the foregoing analysis has emphasised that housing output is only part of the solution to house price inflation. The absence of efforts to manage housing demand, and the introduction of new measures which have promoted the over consumption of housing for use as second homes or tax shelters, means that prices have continued to rise, despite output rates in recent years greatly exceeding new household formation rates.

Of course, this disproportionate demand for housing also increases the likelihood of a sharp correction in Irish house prices in the event of any softening in current rates of economic growth. Alternatively, should a correction of this type or a sustained period of low house price inflation fail to materialise, the implications for Ireland's tenure structure are potentially significant. Home ownership rates in this country increased steadily from 53.6% of households in 1961 to 80.2% in 1991, however in the decade following the latter year they fell by 3%. At the same time, the rate of private renting which more than halved between the 1960s and early 1990s, expanded from 7% to 11.1% between 1991 and 2002 (Central Statistics Office, 2004). This shift in tenure patterns is obviously related to the developments in house prices and affordability described in this chapter is likely to continue unless inflation moderates.

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4 Explaining home ownership rates in Danish municipalities[1]

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4.1 Introduction

The purpose of the present study is to establish an econometric model for the proportion of homes that are owner-occupied in Denmark during the 1999 to 2004 period within a simultaneous demand-supply framework. The standard of housing in Denmark is high, with approximately 2.6 million dwellings to a population of 5.4 million in 2005, i.e. 2 persons per dwelling. Owner-occupied housing (excl. private cooperative ownership) accounts for 52% of occupied homes (see Table 4.1 and Figure 4.1). The rate has been constant over the last decade, with a slight reduction since 2000, while other European countries have witnessed a tendency for it to continue increasing. If, however, we include cooperative private ownership, which is fairly popular, the current rate increases to 60%, showing a slight increase up to 2000 and stagnating thereafter. Part of the explanation for the popularity of private cooperative ownership is the fact that tenants can set up private cooperatives in order to buy their apartment buildings from landlords that are willing to sell. Table 4.1 shows the ownership rates for different types of housing. As might be expected, the rates are very high for detached single-family houses and farmhouses and low for multi-dwelling houses.

Denmark has a long tradition of regulating and subsidising the housing market. Most cities have rent control for apartments built before 1991 that have not been thoroughly renovated and rent regulations on subsidised non-profit housing based on cost calculations, not on market conditions or quality level. In certain areas this has led to a mismatch between supply and demand, excessive demand for rented housing and reduced mobility (Rent Act Commission, 1997; Ministry of the Interior, 2004; The Economic Council, 2001). Newer rental apartments and owner-occupied homes are traded at market prices. Owners have an imputed rent added to their taxable income, but this is offset by interest payments. Housing allowances are paid to low-income households.

Following a peak at the beginning of the 1970s Danish residential construction declined, reaching a trough in 1995, with only 13,500 completions. Since then it has recovered and completions now number around 27,000 per year. As in other European countries, housing prices have increased sharply over recent years, and a price bubble is now feared. The Danish case is interesting in the present context partly because of the increase in housing prices over

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Table 4.1 Distribution of dwellings in Denmark, 2005

	Number	Percentage	Ownership rate[1]
Farmhouses	128,463	4.9	88
Detached houses	1,054,084	40.5	93
Terraced, linked or semi-detached houses	352,651	13.6	36
Multi-dwelling houses	1,010,098	38.8	13
Other	56,719	2.2	8
Total	2,602,015	100.0	52

1) Percentage of homes occupied by owner. Rates do not include private cooperative ownership.

Source: Statistics Denmark

the period, enabling the effects of prices to be investigated (including short and medium-term price lags), and partly because the market is impacted by the regulation of the rented housing market, which facilitates investigation of the impact of such phenomena on the demand for home ownership.

Theories on determinants of demand for home ownership are summarised in Section 4.2. Theoretical determinants include prices and short and medium-term price changes, official regulation (rent regulation, housing subsidies, taxation), competition from alternative forms of residence (measured by the supply of subsidised housing), the social composition of the population (age, social security recipients, household composition, civil status, education, nationality), economic capacity (income), and congestion (measured by population density and degree of urbanisation).

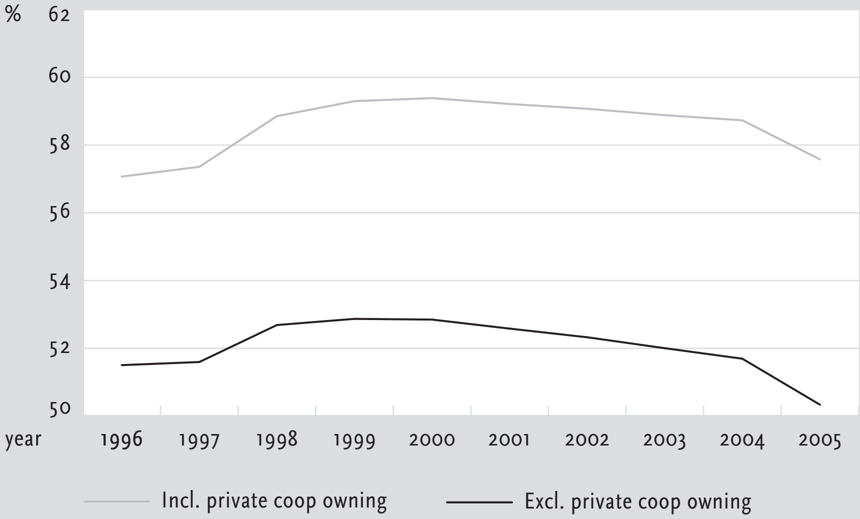
Section 4.3 considers methodological issues and the data to be used for the study. Issues related to the application of pooled cross-sectional data are discussed: this includes parametric instability over time, adjustment for dependency caused by repeated observation, and identifying the effect of prices on home ownership rates.

Section 4.4 presents the estimated results. An initial model specifies that the effects of the determinants are specific to each of the years 1999 to 2004. Within this model, adjustment for dependency across time periods is addressed using a Seemingly Unrelated Regression (SUR) model together with a Two-Stage Least Square (2SLS) approach to account for endogeneity among prices and home ownership rates. The constancy of effects over time is tested using a Wald test. It was found that parametric instability over time can be ascribed mostly to time trends in the parameters, enabling a simplified specification with common parameters across time, combined with time interactions, to be drawn up. Section 4.5 summarises the most important conclusions.

4.2 Demand for owner-occupied homes

Demand for owner-occupied homes is a proportion of the total demand for homes or residential units, the remainder being met by rented homes. The

Figure 4.1 Home ownership rates in Denmark, 1996-2005



Source: Statistics Denmark

purpose of the present study is not to estimate the absolute demand for owner-occupied homes but to find determinants for the proportion of owners, based on Danish data. The question it sets out to answer, then, is what factors significantly influence the home ownership rate, and thus the choice between owning and renting.

Basically, individuals or households choose to own the stock from which housing services flow if this is optimal or welfare-maximising, given their particular economic circumstances. Changes in the economic climate can result in a change in the optimal choice, away from or towards ownership. It follows that a listing of the decisive factors in the economic climate will also be a listing of the factors that influence the demand for owner-occupied homes. Linneman (1986), Rothemberg, et al. (1991), and Hansen and Skak (2005) put forward theoretical arguments for a range of economic determinants of home ownership. This study thus contributes to the present empirical analysis with a list of potential explanatory variables for home ownership rates.

Obviously, important determinants of home ownership are prices and price expectations. A short-term price increase is likely to reduce demand for home ownership and can result in wait-and-see behaviour on the part of prospective buyers, who may delay deciding whether to buy a home until the price increase has proven to be permanent or temporary. In contrast, price increases over several years are likely to affect demand positively, owing to stronger expectations of potential economic gains from investing in bricks and mortar.

Next, favourable tax (or subsidy) treatment of owners relative to renters is seen as an important factor in relation to ownership. For instance, a real estate tax is generally considered to disfavour housing investment compared to other investment opportunities, whereas it plays no part (or only a minor one) in the choice between renting and owning, as it is imposed on both home owners and landlords.[2]

It should also be noted that landlords can be given preferential treatment separately, through favourable depreciation rates and/or direct subsidies, which in a competitive market will benefit tenants in the form of lower rents. In addition, it is important to stress that landlords' gains are only passed on in full to tenants if there is inelastic demand under perfect competition; with a housing market divided into many submarkets, monopolistic competition and oligopoly better characterise the markets, hence landlords' gains are only partly converted into lower rents.

Insofar as buying a house is costly for most consumers, another important factor influencing home ownership is the *financial capacity* of individuals or households. In industrialised countries real estate is typically financed by a combination of a downpayment and a loan to be repaid over a number of years. The property is used as collateral for the loan, which means that if a borrower fails to service the debt the lender can sell the home to recoup the capital. As such procedures can be costly and the revenue is insecure, lenders will prefer to provide loans to individuals with good credit ratings. In practice many households might prefer to be owner-occupiers but are prevented from this owing to low borrowing or financial capacity. As credit ratings increase with individuals' annual income levels (or expected future incomes), ownership rates are likely to increase with household income. Other factors that can affect credit ratings, and thus ownership rates, are educational level or job prospects, and in general a range of personal characteristics that lenders regard as important when assessing creditworthiness. In countries where lenders require a substantial downpayment, wealth will play a correspondingly important role relative to annual income (or expected future income).[3] This would seem to be the case on the American housing market (see Gyourko, 2003).

Owning a home is costly, not only because of the debt servicing that typically follows after purchase, but also because the estate agents' and lawyers' fees and document charges make the purchase process expensive. Any such costs are low or non-existent for a tenant, which clearly shows that owning must have advantages that compensate for this, compared to renting. As the purchase or closing costs are high for owners, and the advantages of owning

2 As regards the taxation of occupants in Denmark, the most widespread tax exemption that favours ownership is the low or non-existent tax on the imputed value of the flow of housing services to owner-occupiers (Economic Council, 2001), which gives owner-occupiers a low net rent compared to non-owners. The higher the breadwinner's marginal tax rate – or tax bracket – the lower the net rent.

3 Access to housing finance in Denmark is fairly liberal, with only a modest weight put on personal income prospects and more on the expected value of the collateral. In recent years new types of loans with low but variable interest rates and low repayment obligations have increased housing demand.

are part of the annual flow of housing services for owner-occupiers, it follows that the expected occupation time and factors that influence closing costs will also influence home ownership rates. For example, students are likely to be primarily renters, as they do not expect to stay put for many years. High closing costs also create a locking-in effect that reduces geographical mobility, as noted by Oswald (1997).

Linneman (1986) invokes differences in production efficiency between landlords and owner-occupiers as an important factor behind ownership rates. For example, landlords internalise externalities that cause problems among neighbours in multi-family structures, and they may be able to use their buying power to reduce maintenance costs. On the other hand, this higher efficiency of landlords in supplying housing services may well be more than offset by the cost of monitoring tenants and limitations on their use of the housing units – and thus the housing services that flow from the units. Linneman (1986) holds the opinion that high production efficiency by landlords in high density residences is the reason why ownership rates tend to fall as one travels from the countryside into city centres. We seek evidence for Linneman's hypothesis in the empirical analysis by testing the significance of a population density variable.

Another point that is relevant here is made by Ærø (2002), who points to exceptionally high renovation and repair activity among home owners compared to tenants. Persons or households obviously differ with respect to the benefit they gain from individual adaptation of housing units, e.g. by changing and painting rooms to suit their preferences. Hansen and Skak (2005), in a theoretical setting, put forward a sorting mechanism in which owners are individuals with a strong preference for individual adaptation of their home. Given high rent levels in congested cities, this model also explains why ownership rates tend to fall when moving from the countryside into city centres. It does not identify or rank persons on the basis of their preference for individual home adaptation, however. Because of contracting problems[?] (e.g. lack of allowances or compensation to tenants for repair work), owner-occupiers have more freedom to adapt their properties, which potentially offsets the closing costs of owner-occupancy.

Accordingly, growing households (in terms of individuals), e.g. young couples with small children, are likely to opt for ownership because of the need to change the interior when children grow up and new ones are born. Along the same lines, self-employed people may be more individualistic than employees and thus have higher ownership rates than wage earners. All this has to be empirically tested in what follows.

Based on these theoretical considerations, Table 4.2 sums up the variables that, based on economic theory, are likely to influence ownership rates. In addition to the economic factors behind demand for owner-occupied homes, there are no doubt also factors of a more sociological nature involved. Two

Table 4.2 Variables affecting home ownership rates

Variable	**Explanation**
Prices Actual price (-) One-year price change (-) Three-year average price change (+)	High prices and short-term price increases make it difficult to buy a home. Medium-term price changes encourage the expectation that prices will increase in the future and thus the propensity to buy.
Favourable tax treatment of home owners Tax bracket (+)	Favourable tax treatment triggered by ownership tends to raise ownership rates; such treatment, e.g. a low imputed rent, is typically more valuable for the higher income tax brackets.
Rent subsidy (-) Rent control (-) Urban restrictions on ownership (-)	Home ownership rates are reduced if an income subsidy is triggered by renting vs. owning. If rent control keeps rents for rented homes artificially below market equilibrium this also reduces the demand for owned housing. If only a fraction of homes can be owned, e.g. for social reasons, this potentially reduces home ownership rates.
Financial capacity Income (+) Nationality (?) Educational level (+) Other personal characteristics Special life events (e.g. divorce, bequest, lottery prize)	With asymmetric information on financial markets, various indicators of borrowers' (home owners') repayment ability will influence home ownership rates.
Expected occupation time Age (-) Rate of 'under-education' (-) Job type	Ownership starts with closing or contracting costs that have to be balanced against benefits in each occupation year. If the expected number of occupation years is low, ownership rates tend to fall. Expected occupation years may also fall in the case of some job types.
Production efficiency for landlords vs. owner-occupiers Congestion (-)	Where many people live together, landlord-scale economies in the production of housing services may be pronounced.
Households differ in the benefit they derive from adapting their homes Self employed (+) More than one child (+) High rent area (-)	Idiosyncratic variations in the benefit households or individuals derive from adaptation of homes results in a market screening where owners benefit most. High rents reduce the net benefit to owners most and squeeze some owners into becoming renters.
Social heritage Parents' choice of tenure	People tend to demand the type of dwelling they used to live in as a child.
Lifestyle Rate of single households (-)	Ways of living, e.g. free single life vs. tied family life, influence ownership rates.

A (+) indicates a positive correlation between the variable and the home ownership rate.

obvious ones would seem to be particularly relevant here. First, there may be a *social heritage*: people may tend to demand the type of dwelling they used to live in as children, and this may also apply to their choice of tenure. The effect on the housing market may be that tenure patterns are very persistent and only change slowly, over generations. Second, demand may arise from consumers' desire to manifest themselves as members of a particular social group and lifestyle. Behavioural patterns of this kind could produce long-lasting bubbles in tenure patterns as modes gather momentum, peak and decay. The consequence as regards an econometric analysis of tenure pattern is that today's ownership rates are influenced by yesterday's ownership rates. A more permanent effect is that a higher proportion of singles who want to remain free and mobile will tend to lower home ownership rates.

4.3 Methodology and data

Based on aggregate data from a sample of 270 Danish municipalities with annual observations from 1999 to 2004, a regression model is estimated to investigate the effects of determinants on the demand for owner-occupied homes. Owing to the nature of the data, some developments in the methodology are called for. As the data were obtained from repeated observation in consecutive time periods, adjustment for heterogeneity is required, as the residual variance of the regression model may change. Adjustment for inter-temporal correlation among observations is also necessary. These adjustments are captured using SUR regression (Zellner, 1962; Greene, 2003). Finally, an issue related to identifying the demand equations needs to be considered. The price of home ownership depresses the demand for owner-occupied housing. At the same time a shift in the demand function will affect equilibrium prices in the same direction as the shift. Hence prices and home ownership are determined simultaneously, so OLS estimation will yield biased results (Greene, 2003). A proper solution is to use instrumental estimation (Greene, 2003), where a supply-side variable is applied as an instrument for prices. For this instrument we took the number of finished buildings per capita.

The data used is aggregate cross-sectional data observed annually in 270 Danish municipalities (five municipalities on the island of Bornholm were omitted owing to data problems) from 1997 to 2004. It was collected from four sources: the Statistical Bank of Statistics Denmark; the Ministry of the Interior's Key Figure Base [*Nøgletalsbasen*]; the Ministry of Urban and Housing Affairs' (2000) report on rent regulation; and the Danish Tax Authority's [*Told & Skat*] (2004) report on property sales prices. Table 4.3 gives an overview of the data, including variable shorthands, definitions and a few descriptive statistics.

4.4 Results

Table 4.4 shows the results from the pooled SUR model with time-specific coefficients, while Table 4.5 reports on the model estimated with common co-

Table 4.3 Aggregate cross-sectional data used for the regression model

Variable	Definition	25% quartile	Median	75% quartile
PSHOOH	% of housing units (one-family and terraced houses and terrace flats) occupied by owner (cooperative housing and student hostels omitted)(1)	62.00	71.00	76.00
PRICE	Average sales price (real DKK) per square meter of one-family houses(4)	51.86	55.73	73.48
SPRICECHANGE	Defined as $(PRICE_{i,t} - PRICE_{i,t-1}) / PRICE_{i,t-1}$	0.034	0.055	0.079
MPRICECHANGE	Defined as $(PRICE_{i,t} - PRICE_{i,t-3}) / PRICE_{i,t-3}$	0.095	0.225	0.285
PSHSUBHOU	% of population living in subsidised housing [almennyttige](2)	5.00	9.00	17.00
PSHHSUB	% of households receiving housing subsidies [boligydelse](2)	8.90	10.90	13.25
PSHRSUB	% of 15-66 year old receiving rent subsidies [boligsikring](2)	2.90	4.00	5.90
REGUL	Housing Regulation Act (rent control) [Boligreguleringsloven] assumed by 2000 (1=yes, 0=no) (3) (Proportion of 'yes' = 0.556)			
PROPTAX	Real Property Tax (in 0/00) [Grundskyldspromille](2)	8.00	12.00	15.00
TAXRATE	Municipal + county tax rate (in %) [Udskrivningsprocent](2)	20.20	20.80	21.30
TAXBASE	Tax base [beskatningsgrundlag] per inhabitant (100.000 DKK)(2)	9.94	10.97	12.10
POPDEN	Inhabitants per square kilometre (10000)(2)	48	69	147
PSHURBAN	% of population living in urban areas(2)	61	71	86

efficients for time periods, and introduces time-interacted variables. In any model the price is instrumentalised using the number of finished new buildings per capita (FINBUILD) as an instrument. Below we report the results table by table, leaving an economic overview of the results for the conclusions that follow. To make the data more readable, variable shorthands are shown in brackets in the description.

It is important when interpreting the results to keep in mind that the data is figures (averages) from municipalities, not observations of households or persons. As Table 4.4 reveals, the impact of prices (PRICE) is generally negative, as expected, although it is insignificant. The effect of short-term price changes (SPRICECHANGE) is negative in most years, while medium-term price changes (MPRICECHANGE) have the expected positive impact on OOH in most years, although this is also insignificant in most years. The low significance of prices may indicate that the price *correlation* between owning and renting is only slightly influenced by absolute price changes. Turning next to regulation variables, subsidised housing consists almost exclusively of rented dwellings (PSHUBHOU), and rent subsidies (PSHRSUB) are naturally for people living in rented homes. Only housing subsidies (PSHHSUB) can also be granted to owner-occupiers, but, as expected, all three variables significantly reduce

Table 4.3 continued

Variable	Definition	25% quartile	Median	75% quartile
PSH716	% of population aged 7-16[1]	11.90	12.90	13.90
PSH1725	% of population aged 17-25[1]	8.07	9.09	10.21
PSH2635	% of population aged 26-35[1]	11.74	12.82	13.89
PSH3666	% of population aged 36-66[1]	40.55	42.33	44.27
PSH67+	% of population aged 67 and over[1]	12.00	13.50	15.00
PSHWIDOW	% of population widowed[1]	5.91	6.61	7.37
PSHDIV	% of population divorced[1]	4.86	5.82	7.40
PSHUNMARR	% of population unmarried[1]	41.91	43.54	44.80
PHCHO18	% of households with children over 18[1]	7.68	8.76	9.88
PHWCHU18	% of households without children under 18[1]	0.00	3.06	5.62
PSHEDUC	% of population with higher education[2]	11.50	13.60	16.45
PSHEARLYR	% of population on early retirement benefit [førtidspension][2]	6.25	7.40	8.80
PSHSOCBEN	% of population receiving social benefits [kontanthjælp][2]	6.70	8.00	9.60
PSHUNEMP	% of population (17-66 year) unemployed[2]	3.60	4.40	5.40
PSH3COUNTRY	Number of citizens from countries outside EU, Scandinavia and North America per 10,000 pop.[2]	10.60	15.70	23.60
FINBUILD	Finished new buildings (m^2 per capita)[1]	0.84	1.37	2.06

Sources: (1) Statistics Denmark; (2) Key Figure Base; (3) Ministry of Urban and Housing Affairs; (4) Danish Tax Authority.

the proportion of owner-occupiers. Municipalities with rent control (REGULATION) also have a higher proportion of renters. Among the three tax variables, personal income tax (TAXRATE) and income (TAXBASE) are seen to be insignificant and with varying signs, while property tax (PROPTAX) seems to contradict the theory, as it is positively correlated to OOH. Looking at the demographic variables, a high proportion of persons aged between 17 and 25 in the population (PSH1725) reduces the proportion living in owner-occupied homes (OOH), no doubt because it is indicative of a high proportion of young people in education who have a short horizon for their present living conditions and therefore opt to rent. The same sign for the coefficient for elderly people (PSH67+) can be explained by their need for smaller homes with care facilities, and the fact that they envisage a short spell in such homes. Consequently, rented dwellings form both the demand and the supply for this type of housing. A high proportion of widowed, divorced and unmarried persons (PSHWIDOW, PSHDIV, PSHUNMARR) reduces OOH: this too is as expected, given these groups' limited financial capacity. This is a factor that also seems to keep immigrants, especially from non-industrialised countries (PSH3C), in rented homes. The proportion of households with children over 18 (PSHO18) is estimated to increase the proportion living in OOH, but this may reflect an

Table 4.4 SUR model with time-specific coefficients

Year	1999	2000	2001
Constant	150.998***	148.504***	155.812***
PRICE	-0.008	-0.005	-0.002
SPRICECHANGE	-0.417	-2.454	1.120
MPRICECHANGE	-0.204	2.244	0.653
PSHSUBHOU	-0.499***	-0.482***	-0.476***
PSHHSUB	-0.055	-0.050*	-0.185***
PSHRSUB	-0.243***	-0.384***	-0.333***
REGULATION	-2.071***	-1.830***	-1.745***
PROPTAX	0.049**	0.036*	0.046**
TAXRATE	-0.111	-0.156*	-0.050
TAXBASE	0.127	0.065	-0.008
POPDEN	-23.903***	-22.843***	-22.965***
PSHURBAN	-0.104***	-0.102***	-0.081***
PSH716	-0.058	-0.089	-0.282**
PSH1725	-0.627***	-0.560***	-0.729***
PSH2635	-0.371*	-0.341*	-0.562***
PSH3666	-0.231	-0.180	-0.257*
PSH67+	-0.682***	-0.726***	-0.793***
PSHWIDOW	-0.438**	-0.323*	-0.400**
PSHDIVORCED	-0.851***	-0.848***	-0.661***
PSHUNMARR	-0.500***	-0.506***	-0.484***
PSHCHO18	0.167**	0.200***	0.241***
PSHWCHU18	1.170	1.441	0.789
PSHEDUC	-0.067	-0.063	-0.067
PSHEARLYR	-0.264***	-0.251***	-0.234***
PSHSOCBEN	-0.177***	-0.146***	-0.096**
PSHUNEMPL	0.173**	0.177**	0.085
PSH3COUNTRY	-0.010	-0.011	-0.027***
Pseudo-R-Square	0.901	0.903	0.907
Ps.-R-Sq.(adj.)	0.886	0.888	0.892

2002	2003	2004	Wald test for parametric stability
146.712***	138.623***	169.687***	9.191
-0.003	-0.011	-0.004	1.050
-5.469	11.562	-22.450*	4.356
3.113	0.642	1.156	2.022
-0.463***	-0.438***	-0.434***	19.417***
-0.234***	-0.180**	-0.220***	23.971***
-0.294***	-0.542***	-0.532***	41.976***
-1.798***	-1.689***	-1.531***	12.159**
0.033*	0.025	0.029	5.590
-0.050	0.084	0.044	9.107
-0.048	-0.001	0.058	7.719
-23.357***	-25.247***	-23.890***	5.644
-0.082***	-0.071***	-0.084***	13.337**
-0.051	0.015	-0.405**	12.059**
-0.607***	-0.364**	-0.511***	11.011*
-0.343**	-0.305*	-0.638***	8.385
-0.129	-0.111	-0.403**	8.437
-0.729***	-0.719***	-1.061***	8.126
-0.245	-0.465**	-0.331	6.497
-0.671***	-0.410***	-0.376*	17.303***
-0.571***	-0.606***	-0.648***	3.911
0.121*	0.246***	0.283**	7.463
0.777	0.583	-0.886	6.476
-0.035	-0.023	-0.033	5.894
-0.220***	-0.240***	-0.233**	0.682
-0.094**	-0.045	-0.013	6.047
0.027	0.110	0.043	7.048
-0.023**	-0.044***	-0.036***	18.279***
0.905	0.904	0.906	
0.890	0.888	0.891	

Overall Wald test for parametric stability (df=145): 384.858***
Overall pseudo-R-Square: 0.916; Adjusted: 0.903

Significance indicated by *** for 1%, ** for 5%, * for 10%.

endogeneity problem due to the fact that owned homes are bigger, so teenagers live at home with their parents longer. Higher educational attainment (PSHEDU) results in better financial capacity, hence a positive correlation with OOH, but this positive correlation is not confirmed, as a negative (though insignificant) effect is estimated. Financial support to poorer households, as measured by the proportion of the population that receives social security benefit, either because they have left the labour market permanently or are unemployed and unable to receive unemployment benefit, and the unemployment rate (PSHEARLYR, PSHOCBEN, PSHUNEMPL), is a priori expected to be negatively correlated to OOH. This is partly confirmed by the significantly negative coefficients for PSHEARLYR and PSHSOCBEN, whereas PSHUNEMPL seems to be positively correlated to OOH. This latter feature may be an expression of endogeneity, as home ownership may reduce geographical mobility. The present investigation, however, includes unemployment as a control variable rather than a focus in itself, so we shall not discuss this topic any further. An interesting discussion of the endogeneity between home ownership and unemployment can be found in Munch et al. (2003).

Table 4.4 also reveals time patterns for some of the variables. Beginning with the Wald tests for parametric stability, and selecting only variables where the tests are significant at the 5% level, the impact of the regulation variables is seen to be unstable over time, where regulation variables include proportion of the population living in subsidised housing (PSHSUBHOU), subsidies for housing costs (PSHHSUB), rent subsidies (PSHRSUB), and rent control (REGUL). The coefficients for the proportion living in urban areas (PSHURBAN), the proportion aged 7-16 (PSH716), the proportion of divorced persons (PSHDIV), and residents from third countries (PSH3COUNTRY) are also seen to be unstable over time. Turning next to the estimated coefficients for these variables, we find some distinct patterns. In the case of housing subsidies (PSHHSUB) there is a fall in the coefficients, whereas in that of rent subsidies (PSHRSUB) they gain in strength over the years. No very good explanations for these opposite trends have been found. Finally, the coefficient for rent control (REGUL) loses strength over the period, which may reflect the fact that only older rental properties are subject to control and new properties have a high rent that makes owning more attractive. As regards the proportion living in urban areas (PSHURBAN), the effect is relatively high at the beginning of the period and relatively low towards the end. In the case of the proportion aged 7-16 the coefficient seems to drop over the period under consideration. As regards the proportion of divorced persons (PSHDIVORCED), the strength of the negative coefficient declines over the years, probably owing to the increased financial capacity of divorced persons, as it becomes more and more common for both spouses in a household to be working.

This suggests that interaction variables need to be added to the model. These are defined as interactions with time (defined as a time trend variable multiplied by the variable in question) for subsidised housing, housing cost subsidy, regulation, rent subsidy, urbanisation, percentage of 7-16 year-olds, proportion of divorced, and immigrants from third countries. Table 4.5 reports on the SUR model with common coefficients for all years, 1999 to 2004.

The two columns of Table 4.5 report on the model without and with time trends respectively. Particularly noticeable in the first column is that the effects of both prices and short and medium-term price changes have the expected signs, although the price is insignificant.

In the case of subsidised housing the impact is negative but gradually falls throughout the period from 1999 to 2004. The impact of housing subsidies is positive at the beginning of the period but gradually moves toward significantly negative throughout the period. Rent subsidies have a negative impact, as expected, and this effect gradually intensifies during the period from 1999 onwards. Rent regulation has the expected negative impact, but it gradually declines throughout the period.

As regards the proportion living in urban areas and the proportion of divorced, the effects are negative but significantly drop towards zero over time. When it comes to the proportion of 7-16 year-olds, the effect gradually moves from insignificantly positive/negative to significantly negative during the period. Thus these demographic variables share a common feature in that they have an effect on the home ownership rate which is significant but generally declines in magnitude during the period.

4.5 Conclusions

An econometric model based on Danish municipal data over the years 1999-2004 reveals significant factors behind the home ownership rate. The existence of parametric time patterns was investigated and accounted for. To a large extent the results provide evidence for the economic theory on home ownership reported in the urban and housing literature.

First, our results suggest that prices and short-term price changes have a negative effect on demand for home ownership, whereas we find medium-term price changes having a positive effect. Second, rent control measures also appear to increase the demand for rented dwellings and reduce home ownership rates. Third, we found an impact of financial capacity and indications that reduced capacity—as measured by rates of widows, divorced, unmarried and immigrants from third countries—also reduces home ownership rates, though the impact of the rate of divorced seems to fall over the period, probably because of gradually improving financial capacity, especially in the case of single women. Fourth, expected occupation time appears to play a role, particularly in the case of young people in education and elderly people who prefer to be renters. Fifth, we found a clear negative effect of congestion

Table 4.5 SUR models with common coefficients

Variable	Initial model		Trends added	
Constant	158.409***	(10.27)	149.810***	(10.44)
PRICE	-0.006	(0.004)	-0.005	(0.004)
SPRICECHANGE	-2.428***	(0.566)	-2.222***	(0.589)
MPRICECHANGE	1.742***	(0.660)	1.678**	(0.714)
PSHSUBHOU	-0.479***	(0.024)	-0.567***	(0.031)
PSHHSUB	-0.087***	(0.029)	0.127***	(0.047)
PSHRSUB	-0.367***	(0.058)	-0.115	(0.098)
REGULATION	-1.581***	(0.477)	-2.725***	(0.568)
PROPTAX	0.040**	(0.019)	0.036**	(0.018)
TAXRATE	-0.066	(0.072)	-0.036	(0.071)
TAXBASE	0.050	(0.045)	0.008	(0.047)
POPDEN	-23.216***	(3.244)	-25.034***	(3.066)
PSHURBAN	-0.079***	(0.016)	-0.099***	(0.018)
PSH716	-0.215**	(0.104)	-0.049	(0.117)
PSH1725	-0.583***	(0.106)	-0.561***	(0.106)
PSH2635	-0.486***	(0.125)	-0.391***	(0.125)
PSH3666	-0.390***	(0.113)	-0.223*	(0.115)
PSH67+	-0.887***	(0.124)	-0.829***	(0.126)
PSHWIDOW	-0.249*	(0.150)	-0.353**	(0.152)
PSHDIVORCED	-0.763***	(0.111)	-0.965***	(0.142)

on home ownership: the economic reason for this may be either higher landlord efficiency in densely populated areas, as proposed by Linneman (1986), or higher rents in congested areas which reduce the net gain from ownership, as suggested by Hansen and Skak (2005).

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Table 4.5 continued

Variable	Initial model		Trends added	
PSHUNMARR	-0.527***	(0.076)	-0.525***	(0.081)
PHCHO18	0.248***	(0.049)	0.195***	(0.049)
PSHWCHU18	0.252	(0.418)	0.531	(0.410)
PSHEDUC	-0.007	(0.040)	-0.035	(0.038)
PSHEARLYR	-0.098	(0.075)	-0.184**	(0.076)
PSHSOCBEN	-0.124***	(0.042)	-0.116***	(0.042)
PSHUNEMP	0.080*	(0.046)	0.118***	(0.046)
PSH3COUNTRY	-0.041***	(0.009)	-0.020*	(0.012)
PSHSUBHOU*T			0.015***	(0.003)
PSHHSUB*T			-0.043***	(0.008)
PSHRSUB*T			-0.046***	(0.013)
REGUL*T			0.160***	(0.042)
PSHURBAN*T			0.003*	(0.002)
PSH716*T			-0.020***	(0.007)
DIVORCED*T			0.063***	(0.014)
PSH3COUNTRY*T			-0.001	(0.002)
Pseudo-R-Square	0.868		0.932	
Pseudo-R-Square(adj.)	0.866		0.929	

Numbers in parentheses are standard deviations.
Significance indicated by *** for 1%, ** for 5%, * for 10%.

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5 Single-family detached Housing: a branch of paradise or a problem?[1]

Hedvig Vestergaard

5.1 Introduction

The theme of this chapter is the past and present of single-family housing in urban and suburban areas in Denmark. The owner-occupied single-family house has been a preferred housing form in Denmark, especially since the middle of the 20th century. But architects and planners, among others, have at the same time questioned the future role of this part of the housing stock, as surveys have showed a high level of expressed preference for it. There is a concern about the demand for this type of housing in the future. Questions are being asked about whether there is a mismatch between the needs and demands of future households and the existing stock of single-family houses. We need to know more about the potential role of local planning and regulation in relation to adapting existing residential housing areas with single-family housing to future needs. The aim of this chapter is to consider some of the issues surrounding single-family detached houses in Denmark. In order to provide an understanding of the wider context, the next section sets out the place of housing in the development of the welfare state, and within that the role of single-family housing, particularly emphasising the expressed preferences for owner-occupation. In the following section the focus turns to how single-family housing was introduced historically, and how the views of different interest groups, including politicians, economists, architects and town planners and feminists, have discussed and looked upon single-family housing.

5.2 Housing in a small welfare state

The general standard of housing in Denmark is high. In terms of the number of housing units and the average size of dwellings the average resident is well housed. This is the result of both high levels of economic prosperity and a high level of subsidy on housing consumption. The housing market is a central part of the welfare state, but the arguments for general subsidies to housing consumption are being questioned. The number of dwellings per 1,000

1 This paper forms part of a research project entitled Single-family detached housing in attractive suburban areas, which receives financial support from The Centre for Housing and Welfare, Department of Sociology, University of Copenhagen. The Centre was established in 2004 as a multidisciplinary research centre under the auspices of Realdania Research. Economic support from REALDANIA is acknowledged.

residents reached 476 in 1990 and the average number of square metres was 50 (see Figure 5.1). This picture has not changed since.

The issue of single-family housing must be located in the context of changes in the general housing market and in housing policies. Between 1960 and 1990 a steady increase in social housing played an extremely important and stabilising role in the relationships between social rented and private rented housing on the one hand and rented housing and owner-occupied housing on the other. In the middle of the 1980s the balance between rented housing and owner-occupied housing shifted dramatically. Owner-occupation became relatively more expensive. In the longer run this shift was due to tax reforms reducing the value of tax relief on mortgage interest payments in the calculation of taxable income. In the short term a new tax on consumer credit and an increase in first-year repayments on mortgages tipped the load, especially for first-time buyers.

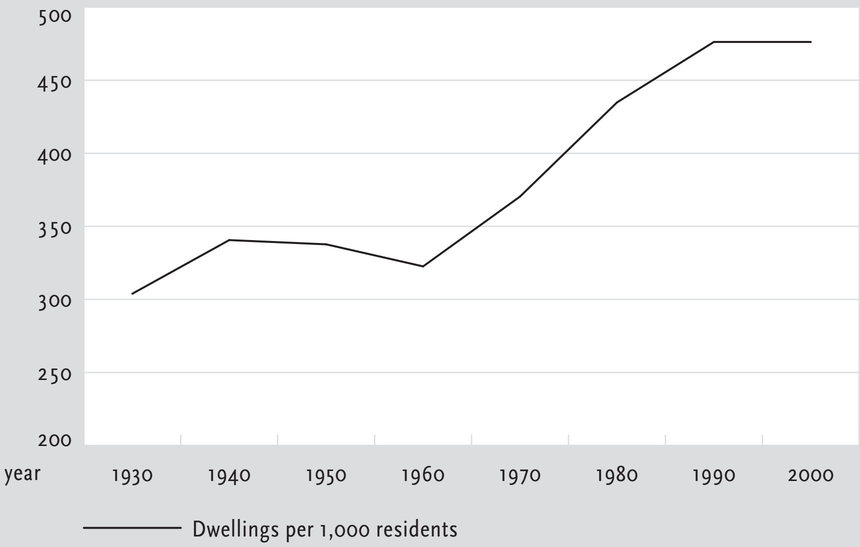
This contributed to a crisis in the owner-occupied housing sector, culminating, at the beginning of the 1990s, in falling prices and foreclosure auctions. The concern about owner-occupied housing spurred the revival of the debate on the desirability and future of detached single-family housing and residential neighbourhoods (see later). The tax reform introduced by the Conservative Liberal Schlüter Government in 1986 can be interpreted as the beginning of a larger strategy to cut the very high level of direct and indirect subsidies to the housing market. It was later reinforced by further tax reforms (Pinsepakken) introduced by the Social Democratic Nyrup Government in 1998.

At the same time, the older private rented housing market was still largely immobilised by rent regulations introduced before and during WWII. The sector is characterised by low rent levels, unwillingness of tenants to move out, and landlords who let their property deteriorate. Three years of committee work to change the regulations governing rented housing did not lead to any politically feasible proposals for change in the older private rented sector (Boligministeriet, 1997). This has created a major obstacle to reducing subsidy levels generally in the housing market. Finally, the financial arrangements for social housing mean that rent levels in the older stock are very much lower than in the newer stock. These imbalances throughout the housing market mean that households who will never be in a position to pay their own housing costs are often trapped in the most expensive housing in the social sector.

The general aim of the welfare state's housing and taxation reform in Denmark is to fundamentally alter a situation in which very high taxation levels feed a high level of direct and indirect subsidy. In housing the specific aim is to move to a system in which households are subsidised according to their social needs rather than the type of tenure which they happen to occupy. But this aim is very difficult to handle politically without risking losing the political mandate on Election Day.

For a long time until 2001 housing and housing policy questions were rather neglected subjects in the Danish policy debate. Even during the parliamentary

Figure 5.1 Number of dwellings per 1,000 residents, 1930-2000



Note: From 1960 rural areas are included.

Source: Danmarks Statistik, 1931, Table 4, p. 41; Danmarks Statistik, 1942, Table 5A, p. 96; Danmarks Statistik, 1953, Table 4A, p. 104; Det økonomiske Råd, Formandskabet, 2001, p. 224

election campaign in the autumn of 2001 (also the recent campaign in January 2005) the lid was kept on, thanks to a promise to tenants not to touch the rules on setting rents. For a number of years the focus had been mainly on urban and urban policy questions, but increasing difficulties faced by households wishing to gain access to affordable housing in economic pressure areas such as the Copenhagen metropolitan area spurred a heated debate in the press. The non-availability of private rented housing, the long waiting lists for social housing, and increasing house prices in the owner-occupied sector all became matters for discussion. Table 5.1 lists the problems and challenges in the Danish housing market in 2000 (Vestergaard, 2001, p. 7) together with an indication of what has happened to them since. This gives an overview of the housing policy issues confronting the Social Liberal Nyrup Rasmussen government and what the Conservative Liberal Fogh Rasmussen government coming into office in November 2001 has managed to do about them by 2005.

Housing market regulations and subsidies

The Danish housing market encompasses four different sectors, each characterised by a different set of legal regulations and economic instruments. The four sectors are:

- owner-occupied dwellings
- private rented housing
- social housing (rented housing provided by non-profit housing associations)
- cooperative housing (where the occupants own part of the cooperative and have the right to use a specific apartment).

Table 5.1 Problems and challenges in the Danish housing market

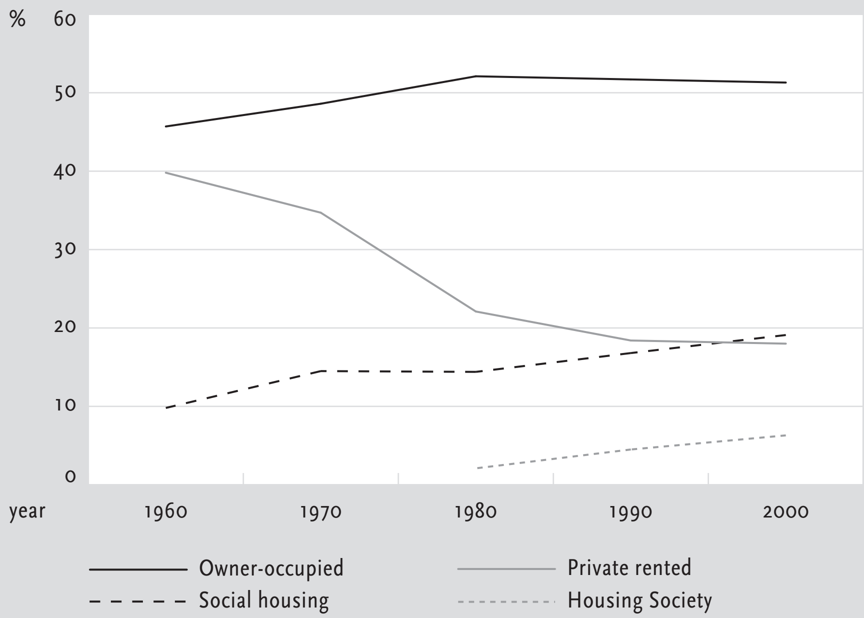
Problems and challenges in 2000	The state of the art in 2005
Increasing concentration of socially deprived and ethnic minorities on social housing estates.	The problem has continued to increase, and a 'Ghetto Programme' was launched in May 2005 in order to improve a large number of estates, neighbourhood schools and institutions and to give residents incentives to move into other residential areas. A specially appointed Programme Committee is advising the Government.
Difficulty in providing housing for maladjusted persons.	The status is the same.
Lack of physical accessibility.	The status is the same, but measures are included in the Ghetto Programme.
Inefficient house building of low technical and architectural quality.	Still on the agenda. Building prices going up owing to demand pressure.
Poorly functioning rental market and utilisation of the housing stock. Not an open market for private rented housing from before 1991 in most urban areas, and waiting lists for social rented housing.	A proposal to sell off social housing presented at the beginning of 2003 has resulted in the introduction of a trial period for selling 5000 social housing units to residents. None has been sold as of May 2005.
Lack of maintenance, deprivation and decay.	Still on the agenda, especially in relation to deprived housing estates and housing in low-demand fringe or rural regions.
Low equity in the owner-occupied housing stock.	Price increases in high demand areas, conversion of loans and decreasing interest rates. This has made first-time buyers and others with low equity potentially vulnerable to market changes. There is talk of a price bubble.
Lack of political initiative.	The first Fogh Rasmussen government abolished the Department of Housing and Urban Affairs and distributed housing issues across various government departments, in particular the Ministries of Economic & Business Affairs, Social Affairs, Refugees, Immigration & Integration Affairs, the Environment and Finance.

The rents in the last three sectors are highly regulated, and private rented housing has been a diminishing sector (see Figure 5.2).

Since 1980 owner-occupied housing has amounted to about 50-52% of the housing stock. Housing investments receive an indirect subsidy through the tax system, because imputed rent from equity invested in the house is taxed at a lower effective rate than the rate at which private market rents are taxed. Specifically, interest payments are deducted from capital income to arrive at the taxable income, to which a tax rate of about 33% is applied, whereas the property tax on a typical owner-occupied house is only about 15%.

There is a natural positive correlation between a household's income and its housing consumption, and as the imputed rent subsidy is perfectly correlated with the value of the house, the subsidy can be expected to rise with income. This was confirmed by an analysis (Det Økonomiske Råd, 2001), which revealed that high-income groups among owners receive markedly higher subsidies than low-income groups. The analysis pointed to the same conclusion for households in rented dwellings. But the number of high-income resi-

Figure 5.2 Ownership and type of tenure, 1960-2000



Source: Det økonomiske Råd, Formandskabet, 2001, p. 234

dents in rented dwellings is very small.

The indirect subsidy to owner-occupied housing amounted to about DKK 15 billion after the 1998 tax reform, which reduced it by about DKK 6 billion. Public finances are also affected by individual (income-dependent) housing support, urban renewal projects and direct support to social housing and new cooperative housing. Total support to the housing market exceeded DKK 30 billion in 1999. From then on the indirect subsidy to owner-occupiers has been further reduced, owing to decreasing interest rates. Also, subsidies to residents in social housing have decreased, as they continue to pay fixed interest on state-guaranteed loans despite falling market interest rates.

The overall picture is that Denmark has a highly regulated and subsidised housing market without any of the desired distributional effects being clearly evident; instead, there are serious adverse effects, in the form of distorted consumption and reduced mobility. Consequently independent economists have recommended dismantling the regulation of the housing market (Det Økonomiske Råd, 2001). This would mean neutral tax treatment of investment in owner-occupied housing and financial investments, the complete dismantling of rent controls, abolition of direct support to social housing and new cooperative housing, and taxation of the return on equity in the social housing and cooperative housing stock.

These recommendations, however, have had no effect, as the benefits of such a policy would be long-term and would affect a minority of households – especially young and mobile ones – who do not command the politicians' attention on Election Day.

Table 5.2 Housing stock by type of building and type of tenure (as of 1 January 1999)

	Type of tenure					
Type of building	**Rented housing**	**Owner-occupied housing**	**Not occupied**	**Not stated**	**Total**	**%**
Farmhouse	15,599	112,695	7,429	117	135,840	5
Single-family detached house	71,838	910,910	25,820	1,762	1,010,330	41
Terraced house	185,025	117,953	6,599	1,096	310,673	13
Multi-storey building	797,494	123,099	41,899	989	963,481	39
Student hostel	29,045	7	4,184	88	33,324	1
Other	8,964	5,902	5,190	1,883	21,939	1
Total housing stock	**1,107,965**	**1,270,566**	**91,121**	**5,935**	**2,475,587**	**100**
%	45	51	4	0	100	

Source: By- og Boligministeriet, 1999

Table 5.3 Preferred type of tenure in 5 years' time, 1986 and 2001 (percentage)

	Type of tenure, 1986 and 2001									
Preferred tenure in 5 years' time	**Owner-occupied**		**Rented**		**Cooperative**		**Other, not stated**		**Total**	
	1986	**2001**	**1986**	**2001**	**1986**	**2001**	**1986**	**2001**	**1986**	**2001**
Owner-occupied	89	88	29	46	10	25	31	34	68	71
Rented	1	6	44	43		7	4		12	16
Cooperative	1	2	7	6	61	62	7		6	8
Other			3	1	3	1	36	58	2	1
Undecided	9	4	17	4	26	5	22	8	12	4
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Number of respondents	692	1,028	257	372	53	98	30	14	1,032	1,512

Source: Statens Byggeforskningsinstitut & Amternes og Kommunernes Forskningsinstitut, 2001, p. 76

Housing preferences

The owner-occupied single-family house is regarded as the ideal form of housing in Denmark, the top rung of the housing ladder for households. About 40% of the 2.4 million housing units are detached single-family houses, and about 90% of these are owner-occupied (see Table 5.2).

Many more households would like to occupy such properties if they did not have budget restrictions making it impossible. A representative survey of housing preferences in 2001 showed that 46% of all tenants wanted to move to an owner-occupied house within five years (Statens Byggeforskningsinstitut & Amternes og Kommunernes Forskningsinstitut, 2001). In a similar survey in 1986 the figure was 29%. In 2001 only 5% of tenants were unsure about the type of tenure they wanted within five years, as against 20% in 1986. Al-

Table 5.4 Present and preferred type of housing within 5 years in 2001: respondents planning to move house (percentage)

	Present	Preferred	Difference
Single-family detached house, after 1990	1	18	17
Smallholding[?], farmhouse	3	12	9
Older villa or brick house	11	20	8
Other	3	3	1
Terraced house	10	7	-3
Single-family detached house, 1960-1990	21	17	-4
Block of flats	51	22	-28
Total	**100**	**100**	
Number of respondents	446	446	

Source: Statens Byggeforskningsinstitut & Amternes og Kommunernes Forskningsinstitut, 2001, p. 80

together more than 70% of Danes wanted to be or become owner-occupiers within five years in 2001, as Table 5.3 shows. Those with preferences for owner-occupation were predominantly below 50 years of age, living with a partner and planning to move house.

Among survey respondents planning to move house the preferred house types were new single-family detached houses built after 1990, older villas or traditionally built brick houses and farmhouses, which by their nature are all in limited supply (Table 5.4). The least wanted were blocks of flats and single-family detached houses built between 1960 and 1990, which are in much more abundant supply. Nearly 50% of all single-family houses in Denmark were built between 1960 and 1990 in the form of prefabricated or modular standard houses (Møller, Christiansen, Aaen & Tejsner, 1998).

A lot of untested factors might have influenced the answers of those planning to move within five years' time in 2001. One of them might be the common knowledge that regular private rented housing is not available in the regulated areas and there are long waiting lists for attractive social housing estates.

The housing market situation

Since 1993 the Copenhagen metropolitan area and Århus in the East of Jutland have experienced population growth while the West of Denmark has lost population. Economic activity and new business have improved in the eastern parts of Denmark, placing pressure on the urban housing markets. Copenhagen has relatively less single-family housing and owner-occupied housing than the rest of the country. By 2000, when new house building in Copenhagen was practically immobilised, a pressure cooker situation started to build up following price increases. Rent regulation meant a lack of – underpriced – *private rented* dwellings built before 1991 on the open market, and older properties were gradually being sold off to sitting tenants forming tenants' *cooperatives*. At the same time new units are hard to let at market rents even in Copenhagen, as they lose out to owner-occupied dwellings. Segregated and deprived *social housing* estates with a concentration of marginalised and excluded residents, and residents on low incomes or living on social security, have generally become an increasing problem. At the same time dwellings on social housing estates outside the urban pressure areas with high rents have become harder to let.

Consequently the concentration of higher-income groups in *owner-occupied housing*, especially in urban pressure areas such as Copenhagen and Århus, has become more pronounced. Here a demand-driven price increase has also taken place as a result of unavailability of building plots. Relatively limited new building but extensive reinvestment activity in owner-occupied housing took place in the 1990s (Statens Byggeforskningsinstitut & Amternes og Kommunernes Forskningsinstitut, 2001). In the pressure areas especially, established home owners have enjoyed an equity increase, and first-time buyers of single-family housing have become older (Lunde, 2005). Spokespersons for larger real estate lenders have characterised the situation as a 'private party'. The 'entrance fee' has become so high that it is difficult for newcomers to join the market. The relative price increase for smaller owner-occupied flats has been even higher. First-time buyers have been squeezed out of most of the Greater Copenhagen region, and the metropolisation of the whole of Zealand and part of Scania is foreseen. The issue of housing for key workers has reached the political agenda and was important in the local election campaigns in 2005.

In addition, the housing market has become increasingly polarised since the beginning of the 1970s, with low-income groups concentrated in rented dwellings, e.g. deprived social housing estates, and higher-income groups concentrated in owner-occupied housing, e.g. residential areas with single-family housing.

5.3 Single-family detached housing: a branch of paradise or a problem?

A single type of tenure or house type has never been unanimously promoted politically in Denmark, but the single-family detached house has become almost synonymous with owner-occupation, and blocks of flats with renting. This pattern does not hold in practice, as many private rented blocks of flats have been subdivided and sold off individually or bought by the sitting tenants as cooperatives.

In the Danish context the single-family detached house dates back nearly 150 years. Members of the Copenhagen upper class started building villas illegally for permanent residence outside the city's fortified areas, prompted by serious overcrowding and a cholera epidemic in 1851. This signalled the separation of housing and work, and a desire to live in the fresh air and be in contact with nature. This housing ideal – inspired by the Italian villa – became the standard for the nuclear family, where the wife and children would stay at home while the husband went out to work. Freedom of trade, industrialisation and new transport systems (steamboats, trains, trams and automobiles) were accompanied by increased urbanisation, new cities and new housing. The separation of home and workplace became prevalent, as did smaller households. This happened first in the leisured classes, and generations later among their servants. Next, wage earners in the new industries in the secondary and tertiary production sectors in the expanding cities came to live in rented dwellings. Later, especially after 1965, Danish wage-earner households became engaged in self-provision, and the number of people in the primary sector – farming, fisheries etc. – decreased. People left the countryside and went to work and live in the towns and cities. Around 1980, when futurists started to write about themes such as Third Wave Society, a future new computerised cottage industry and distance work, the predictions were that paid work would come back home and people would start to leave the cities and suburbs (Toffler, 1980). But people still go to work at the office at the same time as 'on-line' and 'flexible' working is bringing work everywhere where people are. Some dream about a house in the countryside, others are attracted to city life. Households with a choice, i.e. who can afford to buy the housing they want, are realising their dreams, and in Denmark it seems that the single-family detached house matches this dream. These houses are in high demand, house prices are booming, reinvestment has picked up and new building of individual houses is back as a market option in urban pressure areas.

So what is the problem with single-family detached housing? The market is functioning. Houses are being bought and sold. Households can get housed, at a price. At present there is a potential source of frustration for young people and newcomers to the housing market in that they are unable to obtain any of the privileges that older established households have. On the one hand they cannot get into the regulated market for attractive rented dwellings, as older households by their nature are ahead of them on the waiting lists. On the other they will not be able to buy a property for owner-occupation in the more attractive residential neighbourhoods, as they have had less time to accumulate wealth than older households. These are rather obvious frustrations that households express in an up-and-coming market. But the Danish academic debate has a long tradition of severe criticism of single-family detached housing and residential areas with this type of housing – a debate which often figures prominently when the market is going down. To simplify matters, the participants in the debate are grouped into five categories here: political parties; architects and town planners; feminists; economists; and political scientists.

The political parties

The Social Democrats have supported social housing built and managed by non-profit housing associations since 1919. Their first choice was a municipal housing model, but it was the independent housing association model that gained broader political support (Bro, 2000). After WWII especially, the housing associations became seen as the most important agents in expanding and rationalising house building. This pattern broke up in 1973, when Erhard Jacobsen, MP and Mayor of a Copenhagen suburb, left the Social Democrats and formed a new centre party, Centrum Demokraterne, based on support from a rapidly increasing number of home and car owners (Vestergaard, 2004a). At the beginning of the 1980s the Social Liberals came to be identified with support for cooperative housing. Subsidies for new cooperative schemes were introduced. In 1976 sitting tenants organised in a cooperative were given first option to buy their block of flats from the private landlord if the latter was willing to sell, the argument being that nobody should own another person's home. The Liberal Party and the Conservative Party have been looked upon as supporters of home ownership. But in practice they have not tipped the balance in favour of home owners when in government. This did not happen in the 1980s, nor has it happened in the first decade of the 21st century, now that they are back in office. On the contrary, home owners and especially first-time buyers have been negatively affected by loan and credit restrictions and tax reforms introduced by the Schlüter Government in the middle of the 1980s. And the recent attempt by the Fogh Rasmussen Government to introduce the Right to Buy in the social housing sector has been turned into a two-year experiment from 2005 to 2007. In addition, social housing affairs were transferred from the Conservative Vice PM's Ministry of Economic and Business Affairs to the Ministry of Social Affairs in the autumn of 2004. Neither the Right to Buy nor any other housing issue was a theme in the February 2005 election campaign, when the government retained office. Housing seems to be a no-go area for political parties wanting to get into office.

Architects and town planners

The design of the single-family house in the form of villas for the upper class involved architects (Weylandt, 1995). More ordinary houses were built by local builders in the traditional style. At the beginning of the 20th century local building was refined as a result of a popular movement to improve building culture (Floris, 2005), which also involved architects. No special economic benefits attached to living in your own house until the middle of the 20th century. Subsidies for new building of the different types of tenures did not disfavour or favour owner-occupied housing.

From 1946 to 1958 there was e.g. a countrywide subsidy scheme for individually built 'state loan' houses for low-income households as well as for social housing built by housing associations. The houses were of a modest size and the involvement of an architect was mandatory. The result of this scheme was a refinement of the small single-family house, but the houses did not come up to what the architects considered should be the standard for such houses (Dybbroe & Meyer, 1959). An evaluation of the scheme including 650 individual cases recommended that the production of these houses be standardised in future in order to optimise the ratio between user value and production cost.

With the end of subsidies for individually built houses, architects more or less abandoned the market for new single-family housing around 1960. They went to work on plans for large housing estates, which leading architects looked upon as the ideal housing form (Buhl, 1948; Vestergaard, 2004b).[2]

Then, when quantitative regulation of building starts was discontinued in 1965, a building boom was set off, continuing until 1973. About half of the present stock of single-family detached houses and blocks of flats was built in that period. Until the beginning of the 1970s architects and planners were few and they were only involved in the development of new residential neighbourhoods with single-family houses to a fairly limited degree. But the critique of single-family detached housing continued, and to it was added criticism of the large system-built social housing estates. Architects and planners evaluated neither the open high-rise nor the open low- rise new suburban residential areas as a success. A kind of compromise was found in an architectural competition and development work on densely built-up low-rise housing initiated by the Danish Building Research Institute at the beginning of the 1970s (Lind, 2000). Small densely built-up low-rise housing projects became trend-setting in a period of limited residential building activity. In 1981 a remarkably important document giving all the data on how to develop good new housing areas was issued to the Danish municipalities by the Spatial Planning Department (Planstyrelsen, 1981). This included recommendations on issues such as how to plan so as to obtain dense, varied, energy-saving and traffic-safe neighbourhoods. The recommendations were the result of more than twenty years of debate on and research into how to plan new residential

2 Throughout Europe the marketing of the idea of high-rise housing was originally closely related to a wish for a modernistic and rational way of life, close to nature as well as to the city. The high-rise concept included city services and collective amenities for households. Easy access to public transport, cinemas, cafés and shopping facilities and schools was an important part of the concept. The house itself would contain services such as meal preparation, laundry, cleaning, library, reception, child care etc., thus replacing paid housemaids – who in practice became close to non-existent by the end of the 1950s – and setting the housewife and mother free from being tied to the home 24 hours a day. Cooking and child care was to be taken over by staff paid by the residents as part of the rent. This new denser or more concentrated form of housing would also eventually help to save the countryside from being virtually extinguished by urban sprawl of detached single-family houses and terraced houses. For many people 'high-rise living' was a fervent wish in the 1950s, inspired by the planners' vision of 'the good life' in tower blocks.

areas. The key words included residents' involvement, densely built-up low-rise housing clusters, common facilities and community centres. The document postulated that the era of single-family detached house building was over for good. The planners recommended densely built-up low-rise housing. Villas were out and individual densely built-up low-rise homes were in.

The economic crisis that hit the market for owner-occupied housing from 1987 to 1993 prompted a revival of the critique of single-family detached housing. The issue now took on an environmental and energy-consumption and pollution dimension (Jørgensen, 1995) in addition to those of urban sprawl, transport and the loss of typical landscape and arable land. Deserted residential areas with derelict standard houses built in the boom period from 1965 to 1975 were predicted. Lenders organised architectural competitions on the future of single-family housing areas and on how to change and rebuild existing standard houses and residential areas (Nue, 1996). An extensive book on the history and the development of single-family housing with the title *Behind the Hedge: The Danish detached house for better and for worse* (Lind and Møller, 1996) was published. Exhibitions on single-family housing were held (Dirckinck and Holmfeld, 1998; Lund, 1999). But the revival of the market masked the problems of single-family housing, if there were any. Recent research into housing cultures suggests that single-family detached housing is what people want and everybody will end up there if they can afford it. According to Bech-Danielsen and Gram-Hanssen (2004) people are not only looking for good housing, essentially they are searching for themselves. And the possibility of privacy is a very important factor in wanting to live in single-family detached housing. Most leading commentators among past and present architects and planners, however, never liked detached housing and open low-rise residential areas. Architects tried to get back onto the market for single-family housing when there was an upturn in building activity, but they did not succeed, and manufacturers of standard houses have been very quick to pick up on the demand for new building of more individualised houses (Dirckinck-Holmfeld, 1998). Timber-built houses of Swedish, Baltic and North American origin have also entered the market.

Feminists

Feminists are critical of traditional house building and the practice of urban planning as it developed after WWII. Remote suburban residential areas with large housing estates or standard houses have made it impossible for women to manage home, children, work and transport within a reasonable time frame (Koch, 1978). A vision or model of a society organised in small, well-planned units with a high degree of local self-management was developed. An important theme was proximity of home, work and recreation (Forskergruppen for det nye hverdagslivet, 1987). These ideas have since become mainstream, in the sense that the demand for housing is highest in areas that can offer this proximity (Albæk, 2005). The argument is that this is where the creative and well-educated want to live and companies demanding this flexible and highly trained workforce want to locate.

Economists

Economists are critical of the functioning of the Danish housing market, in particular the very high level of direct and indirect subsidy, the negative effects on work incentives and distribution of consumer opportunity (Det Økonomiske Råd, 1970 and 2001). The preservation of the immobilising regulation of the market for rented dwellings and low property taxes are seen as the main problems. Measures to abolish the regulations and to go in the direction of a free housing market are advocated. This conflicts with the stance of pressure groups representing the interests of established tenants and social housing organisations. In the debate, type of tenure (owner-occupied versus rented) easily becomes mixed up with type of dwelling (detached house versus flat) and political orientation (liberal/conservative versus left-wing). As a result, as well as advocating a free housing market, economists have gained the reputation of being against rented housing and for owner-occupied housing. The next step is for them to promote owner-occupied single-family detached housing at the expense of rented housing and a regulated market for rented housing. So they would be ready for Paradise if it wasn't for the snake: they *also* advocate increasing property taxes.

Political scientists

According to political scientists, economists have misunderstood their role and have too little respect for political life and democracy, as for generations they have continued to give advice that nobody – especially no politician – likes or is able to use in practice (Christensen and Kristensen, 2002). In order to remedy this situation in the field of housing a study of values, attitudes and wishes in relation to homes and housing politics was conducted (Mandag Morgen, 2003). It showed that the Danes' attitudes and preferences in relation to housing policy were based on values and holistic thinking before taking economic factors such as their budgets into consideration. According to the study the most important quality criteria for Danish housing policy are:

- '*Solidarity: Do the weakest citizens have rights and protection in reality?*
- *Justice: Does the housing market function in a transparent, fair and just way or are some being exploited or exploiting connections and short cuts?*
- *A basis for personal freedom: Are housing conditions trapping some citizens in circumstances that are much less free than what the rest of the population enjoys?*' (op. cit., p. 5).

Also the study confirms the preference pattern in relation to single-family detached housing from other recent studies (Statens Byggeforskningsinstitut and Amternes og Kommunernes Forskningsinstitut, 2001; Ærø, 2002 and 2004). This is not surprising, as they all use a version of the questionnaire developed by Ærø. The important piece of the Danish housing policy puzzle from the study is: people living in rented dwellings do not want additional burdens (such as property taxes) on owner-occupiers, as they expect to move to a single-family detached house and become owner-occupiers themselves.

5.4 Conclusions and discussion

Denmark has a dual housing market, one for rented housing (mainly flats) and one for owner-occupied housing (mainly single-family detached houses). The division of work between the two markets has been as follows: when the economy is in high gear, owner-occupied housing goes up and rented flats in social housing become vacant; when the economy is going down the reverse situation obtains. Once the Danish economy approaches the bottom of the business cycle, as in 1974-5, 1982-3 and 1992-3, and forced house sales become a political problem, fresh initiatives are taken to patch up the situation. In the 1990s the lenders became seriously concerned and decided to investigate the basics of the market for single-family detached houses: what is the product, what are the possibilities of this product, where is the demand coming from today and where will it come from in the future? This work continues despite the fact that the economy has been booming since the beginning of the 21st century and almost any property for owner-occupation can be sold very fast.

An important issue here is to identify the problems that single-family detached houses and residential areas with this type of housing have that can and ought to be handled. This could be done at the level of the local community (neighbourhood governance body or owners' association), the municipality or regional or national bodies. Are there 'urban renewal' tasks which will not be tackled unless societal measures are taken? It might be tempting to take the critique of professionals from the 1940s to the 1980s and use that as a measure for what to change and what to implement in these areas. But that would hardly satisfy present and future residents. So how do we avoid creating new problems by implementing solutions to old problems? How do we best identify the role of local planning and regulation and what it can do in relation to improving the functions and qualities of existing residential areas with single-family housing?

Security is a new problem in Danish residential areas with single-family housing which has been absent from the agenda until recently. This could be an important issue in future measures to improve and upgrade these areas. A demand for protected housing areas, where residents can enjoy a feeling of safety and protection from potential crime, could be a vehicle to motivate present and future individual owners of single-family detached houses to invest in area improvement measures. Gated communities could be a likely future, but of course not a desirable one.

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6 Home ownership for young families through self-help housing

A traditional concept newly rediscovered

Anja Szypulski

6.1 Introduction

In Germany, the level of home ownership is very low compared to international levels. Home ownership rates vary greatly between the European countries: in wealthy countries such as Germany (42.2%) and also Switzerland (36%) the rate is far below the European average (France 56%, Great Britain 70%, Norway 85% and Spain 86% (BBR, 2004)). Additionally, the influx of young households to the owner-occupied sector has continued to decline in Germany during the last decade. The low home ownership rate contrasts with the widespread dream of owning a home and a housing policy which has had increasing home ownership as a major aim for a number of decades.

The low increase in the home ownership rate is due primarily to the high cost of building (plot, cost of entry in the land register and notary) and the fact that the supply is not sufficiently differentiated. The ratio between house prices and average household net income per year remains high in a European comparison, at 5.6:1 (BBR, 2004, p. 79). On top of the strong influence of prices and incomes, the structure of the housing market and settlement are important factors in explaining differences within Europe. The German housing stock is owned mainly by private households: in 1993 73% of all housing units were the property of single persons, couples or joint owners, with only about 25% owned by housing companies or cooperatives. Private households are the most important landlords in Germany (West), owning 58% of rented housing units (Becker, 2005, p. 1300). In conjunction with a strong Rent Act, recently revised, the structure of rented housing is attractive for many households. This was one of the findings of the comparative study by Behring and Helbrecht (2002), which investigated the causes of the different rates of home ownership in selected European countries. The authors made an attempt to identify the essential influences on the proportion of owner-occupied housing units and to uncover corresponding regularities in the comprehensive complex of housing and its linkages with almost all other areas of life. The results showed that the way in which a state deals with the problem of protecting the public against the risks of individualisation in modern societies plays an important role in the creation of home ownership.

Increasing the home ownership rate has been a central aim of German housing policy since the introduction of the Housing Act in 1956. The political decision to encourage home ownership serves several purposes: to create

Year	Germany	Germany (West)	Germany (East)
1993	38.7	41.6	26.3
1998	41.4	43.6	31.6
2002	42.2	44.1	33.8

Table 6.1 Home ownership rates in Germany, 1993, 1998 and 2002

Source: BRR, 2004, p. 80

wealth; to encourage home ownership as a means of providing for retirement, particularly in the context of demographic change; to support the building industry; and as a tool of family politics (single-family homes were seen as a form of housing that is ideal for households with children).

As Table 6.1 shows, there has been an increase in the home ownership rate in both parts of Germany. The public subsidy system for home ownership changed in 1996, and the rate rose after the introduction of the new tool – the owner-occupied housing allowance (*Eigenheimzulage*). Owing to the high cost of the allowance it has increasingly become the focus of attention for money-saving measures. Various suggestions for the reform of the allowance to improve social and regional targeting were examined in an ex-post analysis of the housing allowance statistics by the Federal Office for Building and Regional Planning (BBR), which showed that the allowance was an important element in wealth creation and provision for old age (BBR, 2002). It was abolished at the beginning of 2006 for reasons of economy, however.

Subsidising home ownership was also part of social housing policy. 8.7 million social housing units were built between 1950 and 2001, 5.8 million rented and 2.9 million owner-occupied (Becker, 2005, p. 1301). In recent years the subsidy structure in the social housing sector has shifted from rented to owner-occupied housing: over two-thirds of social housing units in Germany were built as owner-occupied homes in 2001 (BBR, 2004).

Against the current background of demographic change, promoting home ownership in the cities as a way of making housing there more attractive and preventing out-migration into suburbia is under discussion. Encouraging home ownership in the cities is seen as an important tool of fiscal, social and urban development: a study by the German Institute for Urban Studies has analysed the objectives, strategies, problems and opportunities in Germany (Echter/Brühl, 2004), with particular reference to the development of innovative local authority tools to support home ownership. Another topic under discussion is whether creating home ownership by building new homes and selling rented apartments to individual owners (privatisation) could significantly help stabilise disadvantaged neighbourhoods (BBR, 2003). Introducing self-help in the construction process can be seen as a way of supporting home ownership, especially for borderline households.

This has been applied in the housing developments of the International Building Exhibition (IBA) at Emscher Park, a structural project of the Land of North Rhine-Westphalia (Germany), which took place in the Northern Ruhr district (Emscher Zone) from 1989 to 1999. The aim of the IBA was to develop a realistic perspective and a new model of qualitative development to cope with the region's structural problems. Until the late 1980s the region was dominated by coal mining and the steel industry. A massive change in the industrial structure resulted in cultural and economic problems such as high unemployment and large brownfield areas.

The IBA planning region covered 803 square kilometres and 17 cities with a population of 2.1 million. A large amount of activities, projects and initiatives were generated and implemented in line with the central idea of the IBA, a concept of revitalisation and sustainable development for the region.[1]

In addition to ecological aspects such as water, nature and open space, and the economical renewal of a former industrial region, housing was an important area of activity: over a period of ten years 2,500 flats were built in 20 housing projects with special development and architectural qualities, representing experiments with new forms of housing and resident participation.

The IBA emphasised participation as a constituent element of these projects which contributed to the high social quality of the housing programme. The idea was that including community centres and amenities would reinforce the concept (Beierlorzer, 1999).

In addition to these activities, in 1990 the IBA developed the concept of self-help housing projects (*Einfach und selber bauen*).[2]

By 2000 seven developments containing some 230 single-family homes had been built through organised self-help housing schemes. These projects were designed to provide a boost for new-build estates and represent a qualitative contribution to social housing. Two factors played an important role in this context: inner-city building and increasing the ownership rate, especially in the Ruhr district. The rate in North Rhine-Westphalia was very low, compared to the average rate in Germany, at 38.7% in 2002 (BBR, 2004, p. 83).

6.2 The concept of the self-help housing projects

The *Einfach und selber bauen* housing projects were designed to ease the housing problems of young families and low-income households in general. The concept developed from the historical debate on housing cooperatives in the 1920s and the traditional significance of self-help in house-building in the working class and in suburban areas (Henderson, 1999; Novy, 1983). Self-help projects aim to improve not only the supply but also the quality of housing and the surrounding area. The projects were based on a garden city-inspired

1 The final presentation of the International Building Exhibition documented 120 projects (IBA Emscher Park 1999).

2 'Building simply and for yourself', i.e. housing projects using simple construction techniques and self-help by the owner.

model of small estates with single-family homes clustered around pedestrianised streets and communal amenities such as a community centre (*Gemeinschaftshaus*).

The target groups for the projects were young families on low incomes who were unable to become home owners without financial assistance. To achieve the goal of home ownership, various strategies were combined: cost-saving construction techniques, inclusion of ecological features, organising self-help in a group of families with technical assistance from housing companies, and self-help as a way of reducing the cost of financing.

The financial concept: self-help as a substitute for financial resources

The financial concept tackled the difficulty of financing housing for low-income households by enabling them to substitute self-help for the financial resources that they lacked. To finance a home in the social housing sector in Germany requires a personal capital of at least 15% of the cost of building, which many low-income households with children simply do not have. The families in the projects replaced about 10-15% of the total construction cost with self-help, which thus became a constituent element of housing financing, in addition to loans and grant schemes.

One of the initiators, Henry Beierlorzer, anticipated that a single household would be able to save €15,000 on average through self-help. This substantial contribution to housing financing only works if the self-help starts with the shell and households work about 1,500 to 2,000 hours on the building site. The families did the self-help work in addition to their regular jobs, in evenings, week-ends and holidays (Beierlorzer, 1999, p. 66). The projects were built as organised self-help schemes with professional assistance from housing companies on the financial and technical aspects. A group of families worked together on each house in the estate, with advice from the housing companies. From the financial point of view, the professional assistance resulted in additional cost.

Home ownership in the social housing sector

The combination of cost-saving strategies and organised self-help made it possible to develop a new type of home ownership: home ownership in the social housing sector. Even households on low incomes – this was the idea of the initiators of the projects – could become home owners through self-help.

Plot size, amount of living space and fitting-out was geared to the limits on and conditions for rented social housing. To present a real alternative to subsidised flats, however, the cost of housing in the self-help projects had to be comparable, so the total cost of a home had to be less than €160,000, i.e. equivalent to a maximum of €1,500 per m². The projects were seen as having the advantages of enabling people to live in their own home with a garden and in a small neighbourhood. Implementing the projects required the active support of the municipal authorities in providing suitable land at a reasonable cost and assistance with planning procedures.

The development of neighbourhood on small estates

One of the main ideas of the self-help projects was to develop 'good neighbourhood and community', which was seen as significant to improving the social quality of housing. The traditional types of housing built in the 1960s and 1970s no longer address the needs of many people today. Employing self-help in construction responded to the families' demand for self-determination and participation. Social networks were expected to emerge at an early stage as a result of the mutual help in the construction process.

The size of the projects ranged from 20 to 52 families. All the projects included community centres or communal areas such as playgrounds and green spaces. These amenities were intended to be used as meeting places and for communal activities; they also compensated for the limited amount of space in the individual houses and gardens due to the restrictions of social housing. The technical infrastructure, communal paths and green spaces had to be maintained by the families.

The projects focused not only on building affordable houses but also on developing small *garden city-inspired* estates in the tradition of the workers' estates of the Ruhr district. The *Einfach und selber bauen* projects started out from an urban concept: they have a compact urban structure and consist of terraced houses clustered around communal areas. Parking spaces and carports were decentralised to achieve a car-free area in the middle of the estates.

The architectural concepts for the self-help projects were selected by means of a competition, for which the housing companies received financial support from the IBA. The designs were required to outline cost and resource-saving strategies. All the projects were built in accordance with the German low-energy standard (under the Federal law on environment-friendly and energy-saving standards). Some of the houses were timber-built. In general, the designs had floor plans with rooms of the same size so as to be flexible in use. Also, two important cost and resource-saving strategies were applied: (a) a common technical infrastructure for water and electricity supply and district heating and (b) storerooms next to the houses instead of basements.

Conditions for participating in the self-help projects

The main condition for applicants wishing to take part in one of the self-help projects was willingness and ability to work a certain number of hours on the building site. How many hours families needed to work depended on their financial resources (income and personal capital) and whether they were able to obtain loans and grants, so each family had different working conditions and needs. Before the projects started, the housing companies in charge of developing and marketing the estates carried out intensive counselling with the families to develop a reliable financial concept revolving around a realistic assessment of the working hours each member of the family would be able to put in.

The assistance the housing companies provided consisted in organising the whole of the self-help projects, from the architectural competition, planning, the selection of families, the development of financial concepts to technical advice and supervision of the families during the building process. The families worked together to build all the houses, not only on their own house.

During the building process the housing companies kept detailed records of the working hours put in by the families. The value of the self-help work was calculated on the basis of the average price for the work if it had been done by professionals excluding the cost of materials and supervision. All the participants in a project were assigned the same value for one hour's work, irrespective of their individual skills. The average value in all the projects was about €7.50 per working hour on the building site.

This article refers to the results of my thesis (Szypulski, 2004) and looks at the families' experiences of the self-help projects, focusing in particular on how they assessed the strategy underlying the projects (the creation of home ownership and the development of social networks through organised self-help).

6.3 Research design: evaluation of the self-help housing projects

The evaluation of the projects consisted of qualitative empirical research and a standardised survey. 27 qualitative face-to-face interviews were held with families (couples) in five projects. In addition, a standardised survey of all seven IBA-projects was carried out, which was answered by 44% of the residents (N=89).

An important part of the organised self-help was the assistance from private housing companies, and experts from these were interviewed on the technical and financial aspects.

6.4 Results of the empirical study

Social structure

More than half (57%) of the couples interviewed were aged between 31 and 40. The average age was 34.4 years. Altogether the ages were between 22 and 63 years. At the time of the study most of the families (57%) had two children, 26% had three children and 17% had one child. When construction began over half the children were aged between 0 and 6 years.

Table 6.2 Employment of the interviewed couples

Employment	Husband	Wife
Full-time	25	1
Part-time	–	13
Unemployed	2	13
Total	**27**	**27**

Almost all the husbands worked full-time, only two were out of work when construction started. The situation of the women interviewed was different: only one worked full-time, 13 worked part-time and 13 were unemployed. More than two-thirds of the men interviewed were working in skilled trades (see Table 6.2).

Motivation

In most cases couples stated a number of motives for joining the self-help projects. One important reason was the wish to own a home. The self-help projects gave them an opportunity to realise the dream of owning their own home. Even low-income households were given a chance to build a house despite their financial limitations. Given the assistance from professional companies, financial and technical supervision and counselling on loans and grant schemes, the respondents assumed that the normal risks of home ownership would be minimised. The projects provided a well-organised framework in which the process of building appeared to be manageable. Because of their lack of financial resources most of the families saw self-help as the *only* way they could build a house.

In addition to financial motives they also mentioned the quality of the housing, e.g. design, a child-friendly environment and ecological aspects. The decision to own a home and join a self-help project was highly influenced by the difficulties low-income families had finding suitable affordable housing. Unlike in studies of self-help schemes in Germany in the 1980s (Schäfer, 1985; Maharens, 1988; LEG, 1987), motives such as self-determination and self-fulfilment were not actually mentioned. Most of the families were interested not in self-help but in owning a home: the self-help approach was one way to achieve this goal.

To the limits of capacity: working hours, stress and family conflicts

The construction work required a lot of time and physical effort. The large amount of time involved sometimes caused conflicts with the family and social contacts. While they were building the houses the families had no leisure time, no holidays and hardly any time for social contacts and family.

The respondents worked 1,580 self-help hours on average, comparable with an additional full-time job. The amount of time ranged from 800 to 3,000 hours, and the construction time from 9 to 18 months. Many families worked more hours than originally planned in order to complete the work. Almost all the respondents (94.3%) described the building process as an exhausting time. Important stress factors they mentioned were: number and age of children, construction time, physical effort and exceptionally large amount of time, illness, lack of support from friends and work colleagues, conflicts within the family and conflicts on the building site (with other families or with architects and site supervisors).

The project was a family affair: both men and women could work on the building site. The families organised the self-help in different ways: in most cases the men worked on the building site and the women looked after the household and the children. It was difficult to maintain a normal family life because of the large amounts of time spent on the building process.

The respondents were ambivalent about the physical effort involved: the circumstances of the building project and pressure to succeed sometimes led them to ignore the physical effort. Everyone interviewed described the construction period as an exceptional situation where the limits of capacity were reached in various ways. This suggests that self-help housing requires a family and job situation which functions without problems. Additional difficulties such as illness, lack of support from friends and work colleagues and conflicts on the building site could cause crises.

Financing and grants

A core condition for cost-saving building was the availability of land. In the seven self-help projects it was mainly the municipal authorities that provided the families with construction sites. In four of the projects the families became long-term leaseholders (the *Erbpacht* system). The financial and technical assistance from the housing companies created additional costs: the fee for the financial counselling came to 5.4% of the cost of building (Beierlorzer, Boll, et al., 1998, p. 39). The technical assistance comprised the architectural work and advising on and supervising the organised self-help.

Depending on the size of the houses and the price of the plot, the total cost ranged between €120,000 and €168,000 (Table 6.3). The cost of building (excluding financing costs) came to about €850-1,025 per m².

The financial structure of the self-help projects comprised money from grant schemes (*Wohnungsbaufördermittel*), personal capital, self-help and outside funds (market loans) (Table 6.4). The financial assistance to each family from the housing grant scheme depended on income and size of the household. Averaged out over all the projects, 9.6% of the cost of building was financed by personal capital; the self-help work contributed 9.9%. Thus the proportion of personal capital was significantly lower in the self-help projects than in the traditional funding of home ownership (27% personal capital, Schätzl, 2003) and social housing (21-27% personal capital (IFS/advis, 2003)).

At the start of the projects the respondents' personal capital was between €0 and over €50,000: only about 20% of the families had the 15% of the cost of building needed (over €32,500). Just under 80% did not have enough personal capital to build their houses without self-help: 39.7% had under €12,500 and 38.5% under €25,000. The self-help work accounted for an average of €12,000-16,000 in all the projects.

Not only is the cost of building important to families on low incomes, so are acceptable monthly housing costs. The results of the empirical study

Table 6.3 The self-help housing projects

Projects/Housing units	Size of houses	Total costs	Price of building land (plus development)
Bergkamen (22)	3 types: 81, 92, 110 m²	€ 125,000 - 161,500	55 € /m² (7.50 € /m²)
Duisburg (52)	2 types: 84.5, 95.5 m²	€ 113,000 - 124,500	Long-term lease (4%) 82.5 € /m² (7.80 € /m²)
Gelsenkirchen (28)	3 types: 77, 83-91, 102 m²	€ 120,000 - 161,000	75 € /m² (20 € /m²)
Lünen (30)	4 types: 84, 93, 104, 122 m²	€ 123,000 - 167,000	Long-term lease (4%) 75 € /m² (25 € /m²)
Herten (20)	2 types: 92, 111 m²	€ 146,500 - 163,000	Long-term lease 3 € /m² (43.50 € /m²)
Recklinghausen1 (37)	3 types: 88, 100, 105-111 m²		Long-term lease (4%) 145 € /m² (35 € /m²)
Gladbeck[1] (42)	4 types: 96, 98, 110, 111 m²	€ 154,100 - 168,100	127 € /m² (46.5 € /m²)

* The projects were not finished until after the evaluation and were therefore not included in the analysis (Design: Szypulski see also Beierlorzer/Boll 1998)

Table 6.4 Structure of housing financing (in %)

Self-help projects	Grant scheme	Personal capital	Self-help	Outside funds
Bergkamen[1]	–	–	–	–
Duisburg	30.4	6.2	12.1	51.3
Gelsenkirchen	25.2	10.1	9.6	55.1
Gladbeck[2]	24.4	11.7	10.2	54.5
Herten	32.1	12.0	9.3	46.6
Lünen[2]	30.6	6.9	9.5	53.0
Recklinghausen[2]	27.7	10.5	8.9	52.9
Mean of all projects	**28.4**	**9.6**	**9.9**	**52.2**

1 No figures.
2 Not for all housing units (Design: Szypulski see also Beierlorzer/Boll 1998: p. 11).

showed that the main factor in reducing monthly housing costs was the low-interest loans from the grant schemes. Averaged out over all the projects, the monthly housing costs (without heating) increased from €495 to €830. The families were paying significantly more for their housing than before the self-help projects, on average €335 more per month.

A few families with more personal capital and middle to high incomes also participated in the projects. They were not obliged to work on the building site to finance their houses. There were large differences between the families in terms of self-help working hours, personal capital, outside funds and resulting monthly housing costs, and these financial and social differences caused problems and conflicts in some projects.

To summarise: about one-third of the families had zero or under €5,000 of personal capital. As regards the financial structure of the projects, the proportion of personal capital was low compared to that in the funding of traditional home ownership and social housing. It can be concluded that the target group – young families on low incomes – was reached. The organised self-help added 9.9% to the financial resources on average, providing access to home ownership. The families' differing financial situations at the start resulted in different amounts of self-help hours worked and a broad variance in monthly housing costs.

How the self-help was organised

The organised self-help had a special organisational structure. The housing companies provided technical and financial assistance. The families were not involved in the planning process and their influence on the design of their own houses was limited. They were given advice on the building site by an expert who was responsible for organising and coordinating the mutual help and the building process. The concept of organised self-help demanded special commitment, time and organisational efforts on the part of all the participants. The organisational structure was complex. The expert was responsible not only for providing technical advice (technical competence) but also for the group process (social competence). Only one of the companies had any experience of self-help housing. Apart from the cost of the architectural competition the housing companies did not receive grant monies to cover special expenses. Housing companies have two main motives for getting involved in self-help projects: (a) to gain access to a new housing market sector and (b) to be associated with a pilot project that enhances their reputation. At the interviews the expert said very clearly that organising a self-help project is not a viable business proposition.

The results of the empirical study showed that the families were ambivalent about the input from the housing companies. The respondents were positive about the intensive counselling on the financial concept and grant schemes, and the calculation of self-help hours worked was satisfactory. 77% of the respondents questioned the assessment of how many self-help hours a family can realistically work (independent of financial necessities), however. One of the problems frequently mentioned in the interviews was that the projects were often delayed: just under 80% of the respondents confirmed this problem in the survey. 45% of the respondents criticised the way the building supervisor and the architect worked together. In connection with the lack of cooperation, the respondents also complained about lack of transparency in decision-making. Just over two-thirds were dissatisfied with the communication between the building supervisor and the families and the information provided. More than half of the respondents wanted more participation and influence in decision-making (e.g. house and garden design). The findings show that the success of self-help housing depended on the housing companies' qualifications and experience: the expert and 'adviser' on the building site was a crucial factor in the building process.

Working together, living together: self-help and community

Self-help is often seen as an ideal way to participate in decision-making and develop social networks. My interest was mainly in how the participating families saw working together during the building process, 'neighbourhood' in the new homes and use of the communal amenities.

Two-thirds of the respondents described the cooperation during the building process as harmonious. Different types of knowledge, skills and abilities were directed towards the aim of house-building and used to help one another. The working atmosphere depended on the size of the self-help group. The interviews also showed there was a high degree of mutual dependence in relation to the working hours needed because of personal capital. One of the self-help projects suffered from massive conflicts, caused by the families' differing social status. Some of the families had enough personal capital and therefore only needed to do a small amount of self-help work. Some members of this group were trained; others had no experience of construction, but the value of the self-help work was calculated based on the work done by all the families. Because of the financial situation these differences caused massive conflicts within the group.

Four of the projects included building community centres to support the idea of 'neighbourhood'. The families had to fund these in addition to their own houses. In the final phase their construction presented a problem in all the projects: there was no more capacity (time and energy) left to finish them at the end of the building process. The combination of home ownership and neighbourhood was limited by the families' resources: building the community centres meant additional work and additional cost.

Despite the criticisms of the self-help and the community centres, most of the families interviewed were positive about neighbourhood. The close relationships developed during the building process gave the projects a personal character. Communication and mutual help were mentioned as important aspects of neighbourhood.

Assessment of the self-help projects

Most of the families (78.7%) were satisfied with their new homes, as the new housing and neighbourhood represented a significant improvement in their quality of life.

The amount of living space (80-110 m^2), size of the garden etc. were limited because of the social housing regulations. In spite of these limits, living space increased by about 21 m² and the number of rooms by about 1.2 on average, compared to the housing situation before the self-help projects. Also, all the families had a garden. The respondents were mainly positive about the design of the house and the infrastructure. One criticism made by one-third of the respondents was that private space outside the houses was insufficient or absent.

The interviewees emphasised the improvement in housing conditions for their children: each child had its own room and there were enough playgrounds on the estates. They found looking after the children much easier than before, because the playgrounds were situated inside the car-free estates and all the families felt responsible for the children. Contacts with other children were also mentioned as a positive factor, as well as the playgrounds.

Over half the respondents (55.1%) characterised the neighbourhood as good, though this depended on the self-help project: conflicts between the families and between the families and the housing companies were reported in two projects.

6.5 Conclusions and outlook

The empirical study showed the complexity of self-help housing: motivation, limits of capacity, common interests and conflicts. Many strategies envisaged by families to cope with the exceptional situation were analysed. The viability of the *Einfach und selber bauen* self-help concept was confirmed as regards the target groups, the financial concept, the quality of housing and—to some extent—the development of neighbourhood. The interviews and the results of the survey showed a clear improvement in the families' housing situation, but the empirical data also demonstrated another perspective on the self-help approach: the self-help projects were also seen as 'too much', as an excessive demand which took most of the families to the limits of their capacities. The families embarked upon the projects because of financial difficulties, and they endured enormous pressure and a heavy workload putting in the self-help hours required. Organised self-help gave them the opportunity to help one another during the building process, but it also created mutual dependence, as the value of one self-help hour depended on the work done by all the families in the project.

As no income restrictions were imposed at the start, families that did have enough personal capital also participated in the projects, and this led to social conflicts, as these families were not forced to work on the construction site as much as the other families. Some of the families criticised the composition of the self-help groups and questioned the social justice aspect of the projects.

More than half of the interviewees worked more than a realistic limit of self-help hours. They described the building process as exhausting, with effects on family, partnership and health. The intense physical and psychological efforts also had a negative impact on the development of neighbourhood. In spite of the difficulties described during the building process, many projects resulted in a well-functioning neighbourhood. Working together led to close contacts between the families during, and in many cases after, the building process. To create neighbourhood and community, two constituent elements were required: a good balance between communal and private space, and the interest and commitment of the families.

The combination of self-help, cost-saving strategies and grants gave low-income households the opportunity to become home owners. Self-help replaced the personal capital that would normally amount to at least 15% of the total cost of building. The main element in home financing, however, was not self-help but grant aid. Given the enormous efforts involved in the large amount of self-help hours worked, it needs to be asked whether grants should be larger. It is essential to limit the self-help work to a realistic amount.

The following recommendations are made, based on the results of the empirical study:

1. To improve the management of the construction work and the quality of supervision and advice, organisational deficits that cause delays need to be prevented. Establishing a communication structure and optimising the construction process are core conditions for a well-organised self-help project.
2. The success of self-help projects can be ensured by technical assistance from an expert who informs and advises the families. He or she needs social competence as well as technical competence. Housing companies should provide well-trained and experienced staff to support the families.
3. The families need to be properly informed about the amount of work involved in construction and be provided with realistic plans for the financial concept and the self-help work. They need to be given more opportunity to participate in decision-making and influence the design of their own houses.

Self-help housing represents a negligible proportion of the German housing market. Individual self-help (one household with help from family and friends) is quite a common way to build a house, especially in rural areas, whereas organised group self-help projects require experienced housing companies. The self-help housing projects analysed – like similar projects in the 1980s – were mainly pilot schemes. In view of the efforts required from the families and the housing companies, self-help housing is likely to be limited as a source of housing supply. The risks of home ownership were seldom discussed in the German debate on home ownership, despite the fact that borderline households in particular are at high risk of running into payment difficulties (Höbel, Kloth and Berendt, 2004).

The Federal housing allowance was an important tool of housing policy to create home ownership. Owing to pressure to consolidate public spending and the high volume of allowances, it was abolished at the beginning of 2006. Apart from this, low-interest loans from the social housing grant schemes (run by the *Länder*, e.g. North Rhine-Westphalia) were the main factor in reducing the monthly housing costs in the self-help projects.

The self-help projects for low-income families will not become a substantial new market sector, however. As an alternative to traditional home ownership, cooperative housing is currently enjoying a revival, not only for families but also for the elderly. A central issue in the debate on housing policy is government support for cooperative housing as a way of providing for retirement. The next question is whether cooperative housing can be seen as the third main form of housing provision, alongside home ownership and rented housing.

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7 Housing policy in an 'opportunity society'

Home ownership and the amplification of inequality

Peter Malpass

7.1 Introduction

The expansion, to a greater or lesser extent, of social housing was a common characteristic of post-1945 welfare states in Europe. Now, however, social housing is everywhere in decline and owner-occupation is on the increase (Priemus and Dieleman, 2002). This chapter is concerned with the distributional implications of the rise of individual home ownership within the context of changing welfare states where citizens are increasingly seen as consumers, and where choice replaces allocation.

It is widely accepted in the contemporary academic literature that the various welfare state structures or regimes (Esping-Andersen, 1990) that were established or developed after 1945 have been under stress for some time now. Ideas of crisis, retrenchment, decline, retreat and collapse have been applied to welfare states across the developed world. Of course the governments responsible for devising and implementing change policies adopt different terms, preferring to talk of reform and modernisation. Different countries had distinct welfare states, and each is responding in its own way to the pressures arising from globalisation and the collective loss of confidence in the power of nation states to protect their populations from international economic competition. In general, however, we can say that there is a tendency to cut back on universal public services funded by taxation, and to emphasise instead the virtues of low taxation, coupled with individual choice and responsibility. Housing, as the least decommodified of the services usually identified as components of welfare states, has been at the leading edge of reform (Harloe, 1995).

In international comparative terms Great Britain has been identified as undergoing more radical welfare state retrenchment and modernisation than most other advanced market economies since the 1980s (Esping-Andersen, 1996, p. 15; Ellison and Pierson, 2003, p. 6). In the 1980s housing was identified as the service that had been targeted for reform (Le Grand, 1991); as the Conservative governments led by Margaret Thatcher pioneered the privatisation of public services and utilities, housing was their most successful and lucrative experiment. The numerical impact of the privatisation of public housing through the right to buy is well known: a million houses were sold within less than ten years (Forrest and Murie, 1988; Wilcox, 2004, p. 102). In the early 2000s the British government proclaimed itself to have embarked on 'the most ambitious programme of public service investment and reform since the 1940s' (Office of Public Service Reform, 2002, p. 7). Housing is not often mentioned in this context, but in fact the demunicipalisation process is being pressed forward, and by the end of 2005 nearly one million former council houses had been transferred to new landlord organisations in England alone (Malpass and Mullins, 2002; Gibb, 2003; Pawson, 2004).

In a speech on welfare reform in October 2004 the British prime minister, Tony Blair, characterised the modernisation of public services as moving on from the twentieth century idea of a welfare state to the creation of a twenty-first century 'opportunity society' (quoted in Malpass, 2005, p. 69). In Blair's vision of the future markets, competition, choice and responsibility are the key organising concepts. It is therefore appropriate to begin with a reminder that such ideas have been debated for many years. For example, in the 1960s there was a lively exchange between writers such as Richard Titmuss and critics of universal welfare services, including Milton Friedman, whose book *Capitalism and Freedom* was published in 1962. Referring to the likes of Friedman (who later became one of Thatcher's ideological mentors) in an essay called *Choice and 'the Welfare State'* Richard Titmuss (1968, p. 139) wrote that:

> Broadly, their argument is that as large-scale industrialised societies get richer the vast majority of their populations will have incomes and assets large enough to satisfy their own social welfare needs in the private market without help from the state. They should have the right and freedom to decide their own individual resource preferences and priorities and to buy from the private market their own preferred quantities of medical care, education, social security, housing and other services.

He went on to say that, according to market enthusiasts,

> The concepts, the working classes, and the markets have all changed. They have been changed by affluence, by technology, and by the development of more sophisticated, anonymous and flexible mechanisms of the market to meet social needs, to enlarge freedom of choice, and to provide not only more but better quality medical care, education, social security and housing.

These arguments have a highly contemporary feel, and I start here partly to draw attention to the fact that the choice debate has been around for a long time, and partly to highlight the way in which ideas that are now espoused by the political mainstream were then confined to the wilder shores of right-wing demagoguery. This paper is a critical reflection on the notion of choice, with special reference to the consumption of housing. It draws on evidence from Great Britain but seeks to make a more general argument about choice-based housing policies which may have some wider resonance. It arises not from a perverse determination to argue against political consensus just for the sake of it, but from a number of concerns: first, the poverty of the choice debate, and the need to argue for a more balanced analysis, recognising that choice of itself is neither good nor bad, but that it needs to be understood as context-specific and judged in terms of outcomes. Second, the problem about choice as a basis for social policy is that the predominant means of providing choice is the market mechanism, and the market is about promoting, or at least accepting, inequality, rather than ameliorating it. Third, my understanding of the postwar welfare state is that it was, in part at least, designed to operate as a counterweight to the inherent tendency within capitalism towards greater inequality. Britain is now a much more unequal society than it was in the thirty years after 1945, however, and the modernised, choice-based, welfare state is much less effective in challenging and redressing the market's tendency towards inequality. Indeed, I shall argue that contemporary housing policy is not only tolerant of increased inequality but actively supportive of it.

The prominence of choice, and the political consensus it commands in Britain, is revealed in the titles of the Conservative government's white paper of 1995: *Our Future Homes: opportunity, choice and responsibility*, and Labour's green paper of 2000: *Quality and Choice: a decent home for all*. More recently, the policy statement, *Sustainable Communities: Homes for All*, (ODPM, 2005, p. 6) opened with the claim that it shows how the government 'will offer greater choice and opportunity in housing across the country' (i.e. England), and choice is a theme running through the document. More generally, a joint memorandum issued by three government departments set out the case for user choice in public services (http://www.cabinetoffice.gov.uk/opsr/documents/doc/the_case_for_extending_choice_in_public_services.doc). Included in this memorandum was the following claim:

> Both theoretical and empirical evidence points to choice serving as an important incentive for promoting quality, efficiency and equity in public services – and in many cases more effectively than relying solely or largely upon alternative mechanisms such as 'voice'. Choice emerges as both a means of introducing the right incentives for improving services for users, and as a desirable outcome in and of itself: that is, it is both intrinsically and instrumentally valuable. In this sense, it is at the same time both a tactical and strategic contribution to the drive to improve services for the people who use as well as vote for them.

I want to argue, however, that choice is a weasel word, a seductive device concealing that what is really afoot in the creation of an 'opportunity society' is promotion of the interests of the better-off and toleration of wider social inequality, to the further disadvantage of the poor. I want to suggest that, unless appropriate policies are put in place, the long-run outcome will be that housing will contribute to a continuing trend towards greater social and economic inequality.

7.2 Some propositions about choice

Before looking at choice in relation to housing I want to start with a few points of a more general nature. First, picking up the point about the importance of context, what needs to be considered is who is making what kinds of choices, how and with what level of knowledge and other resources. To understand and evaluate choice we need to know how choices are mediated, which generally tends to mean the market mechanism.

Second, it is sometimes said that the market is a 'continuous referendum' in which consumers/voters cast their votes in the form of the choices they make between rivals for their custom and favour. The analogy is false, however, to the extent that choice in market-based consumption is rarely if ever the same as voting: in an election or referendum we all have one vote, but in the market spending power is highly variable, so that some people have much more choice than others. Choice is therefore not something that you either have or do not have. It is not to be understood as the equivalent of an on/off light switch, but as a dimmer light switch, a spectrum from zero to maximum. By its very nature the market mechanism gives most choice to those with the greatest purchasing power. This means, of course, that the richest people not only have the freedom to choose from the whole range of whatever is on sale, but that they are the only ones who can choose the most expensive goods and services. Limited purchasing power means not only less choice but also denial of access to the best (to the extent that quality is associated with price) or most sought-after. Indeed, markets tend to sort consumers and patterns of consumption so that the richest people not only have most choice but also the best and most of what is available. The converse is also true of course, and the poor get the least choice and the worst of whatever is available. They get to choose only from among the items that everyone else has rejected, which is a very effective way of reminding people where they stand in the social hierarchy. Thus, whether choice is a good thing or not depends on where you happen to be on the scale of purchasing power. In practice, to defend markets and choice is to defend inequality.

Third, markets tend to be organised in a way that choices are made by individuals or individual households, and as such people are encouraged to make choices that reflect their own personal needs and preferences, irrespective of wider considerations of the general interest. An individual's right to choose what to spend their money on is something that is staunchly defended, but there must be situations in which it is right to curtail that right, for example, when the exercise of individual choice is demonstrably damaging to the interests of other people. I would say that the sale of council houses fell into this category, as does the right to buy your way to the top of the hospital waiting list for surgery. I will come back to this when we look at housing in more detail, but what I want to suggest is that in policy terms individual choices tend to be prioritised over collective choices and the general good.

Fourth, it is interesting to consider what is meant by the idea of 'more choice'. When we say that the rich have more choice what we mean, surely, is that they have the opportunity to choose different goods and services, at different prices. So more, or real, choice is not just about the number of options but also the qualitative differences between them. The opportunity to choose, of itself, is no guarantee of consumer satisfaction: if all you can choose from is a range of uniformly cheap, poor quality products then the freedom to choose is worth very little. And if all you can choose from is the range of goods that others have rejected then that is not much fun either.

Fifth, a related point, made by Bauman (1998, pp.58-9), is that markets depend upon the idea, or as he says, the cult, of difference: consumers are attracted to buy this product rather than that because they believe it to be different from its rivals. He also suggests that choice enhances satisfaction: 'Goods acquire their lustre and attractiveness in the course of being chosen' (Bauman, 1998, p. 58). He then goes on to contrast the emphasis on difference and choice in markets to the appeal to 'the idea of the *sameness* of the human condition, human needs and human rights' underlying the welfare state.

Sixth, is *some* degree of choice not better than none at all? I think the answer to this question is, it depends. If your market-based options are all poor quality and poor value for money, while the no-choice public service is of good quality, then obviously choice is not worth having. Take for example the marginal home buyer, who has a choice confined to dwellings at the bottom of the local housing market, where all that is on offer is, say, nineteenth-century terraced houses in poor condition and requiring a level of investment that this purchaser cannot afford, then surely he or she would be better off being allocated a council house (especially if it met the decent homes standard, which is not being imposed on the private sector).

Finally, following on from the last point, choices imply risk and responsibility. Every choice carries the risk that a different choice would have yielded better outcomes, but responsibility for your decisions is the price you pay for choice. Again, the ability to deal with risk and responsibility is unevenly distributed across the population. The links between choice and risk have of course been highlighted by writers such as Beck, Giddens and Lash (1994), and by Ford, Burrows and Nettleton (2001). More recently the American writer Barry Schwartz (2004) has referred to the paradox, and indeed the tyranny, of choice, arguing that it is possible to have too much choice and that beyond a certain point it becomes oppressive.

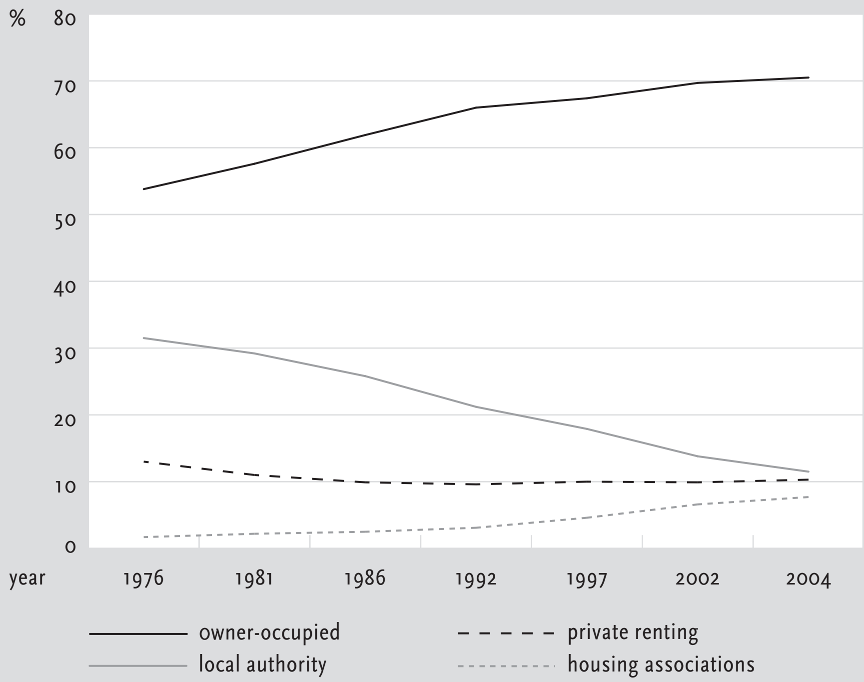
7.3 Choice in housing policy

The British housing system has always been choice-based, in the sense that it has been dominated by the private market; historically the great majority of people rented from private landlords, but throughout much of the 20th century private renting was in decline, while owner-occupation was growing. At the same time, social renting waxed and waned, growing from negligible proportions in 1900 to more than 30% in the mid-1970s, before shrinking again in response to aggressive privatisation policies (see Figure 7.1).

This section looks at the way choice is built into contemporary British (or, to be more accurate, English) housing policy, arguing that although there is considerable emphasis on the idea of choice, and people are encouraged to exercise choice in the consumption of housing, in fact the framework within which decisions are made is designed to lead to certain sorts of outcomes. It is not choice as such that is given priority, but choices supporting and reinforcing the housing market. The whole system is heavily skewed, and there is an underlying presumption in favour of the market, against non-market-based tenures and against alternative ways of offering choice. This was highlighted in the headline attached to the press release accompanying the publication of the ODPM's *Homes for All* statement: 'Five year action plan helps more onto home ownership ladder'. There are many other examples of policy statements revealing the government's preference for some choices rather than others. For instance, in the green paper of 2000 one of the key principles of housing policy was stated to be 'Giving responsibility to individuals to provide their own homes where they can, providing support for those who cannot' (DETR, 2000, p. 16). This clearly implied that people who have the financial resources to operate in the housing market do not have the choice to opt for social housing, an interpretation that is strengthened by another passage in the green paper, this time from the chapter entitled 'Choice in social housing'. In a discussion of alternatives to points-based lettings systems it was suggested that housing registers should be banded, to include a band for people deemed to be in no particular need of social housing. 'People with no particular need for social housing might include those who do not need social housing because they are capable of finding suitable housing in the private market. They would not normally get social housing if someone with a greater priority wanted it' (DETR, 2000, pp.82-3). This comes close to the introduction of a means test for social renting, and actually approaches the position where access to social housing for people 'with no particular need' will be merely to help the provider organisation fill dwellings that would otherwise remain vacant. In this situation the choice lies with the supply side rather than the demand side, which is quite contrary to the rhetoric of choice as a way of empowering consumers.

Both quotations from the green paper suggest a settled view within government as to the residual role for social housing, which in itself helps to structure the sorts of choices that individual consumers will make. Tenure choice is clearly not a level playing field, and here it is appropriate to point not only to the barriers erected against the better-off who might wish to enter

Figure 7.1 Housing tenure in the UK



social housing but also the incentives (in the form of the right to buy) that have been in place for twenty-five years, encouraging the better-off within social housing to move out, into owner-occupation. The right to buy was, and is, a scheme that exalts individual choice, irrespective of the damage done to the whole of the social rented sector as a result. It must also be acknowledged that the right to buy is a one-way street: there is no question of people having the same legal right to choose to sell their homes back to the local authority (which reveals that the real issue is not individual choice but state disengagement from housing provision).

The rights given to individual tenants under the right to buy need to be contrasted with the way that current policy responds to collective choices made by tenants in transfer ballots. Here again there is considerable rhetorical emphasis on the importance of the democratic choice exercised by tenants, and again the choice is influenced by a range of inducements offered to encourage the 'right' outcome from the government's point of view. In the last decade or more, transfer ballots have taken place against the backdrop of a clear government view about the future ownership and management of social rented housing, and the policy framework is structured to bring this about, rather than to offer tenants a true choice. There are, of course, many instances of tenants deciding to vote against transfer options (a quarter of all ballots fail (Pawson, 2004, p. 14)), but they are not taken seriously or treated as definitive. For example, Imrie and Raco (2003, p. 27) quote the case of a New Deal for Communities project in London where the community tenants proposed plans to improve local housing through local authority-led action but were told to go back and come up with a more 'appropriate' solution, acceptable to the government. 'If community policy agendas differ, or run counter to what central and local government believe is the 'right' thing to do, then various disciplinary technologies and financial systems may be used to restrict the resources available' (quoted in Imrie and Raco, 2003, p. 28). The determination of the government to secure its objectives irrespective of the collective choices made by tenants was demonstrated in October 2004 when John Prescott (the Deputy Prime Minister) wrote to all council leaders to assure them that they were expected to select one of the three options set out by his department (stock transfer, arm's-length management company and private finance initiative), and that there would be no financial support for the so-called fourth option of local authority stock retention.

Following from the last point is the observation that the government has been much more energetic, imaginative and determined in finding ways to encourage people to exercise choices that take them out of local authority housing than it has been in relation to the exercise of choices within social renting as a whole. The only high-profile initiative has been choice-based lettings, about which it remains relevant to say that in areas of high demand choice is very difficult to provide without substantial increases in supply, and in areas of low demand applicants already had choice anyway.

7.4 Evaluating choice in housing

The argument to be developed in this section is that in order to come to a view about choice-based housing policy we have to look at the context: we have to look at who is making what kinds of choices, with what sorts of outcomes, i.e. who gets what in terms of tenure and territory? We have to look at how choices are mediated, and this means chiefly looking at the market. I propose to concentrate on the owner-occupier market, since this represents 70% of all housing consumption in Great Britain, and 87% of the private housing market. Senior ministers in the British government have recently spoken of the objective of creating an additional 1 million home owners over the next five years, lifting the proportion to 75% (HM Treasury/ODPM, 2005, p. 3). I also propose to concentrate on the idea that owner-occupation reflects and amplifies inequalities generated elsewhere, chiefly in the labour market (and not just the current labour market, for it is affected by inequalities generated in previous decades and stored up as housing wealth, which now cascade through time and across generations as (lightly taxed) inherited wealth).

There can be no doubt that, by redistributing the ownership of domestic property from the few to the many, the growth of owner-occupation has enabled a large proportion of the population to acquire valuable capital assets and to accumulate wealth on a scale not previously contemplated. Within the owner-occupier market, however, there is very wide variation in the amounts of wealth accumulated by owners in different circumstances. And in an era when owner-occupation is not only the main source of wealth accumulation for the majority of people but also a key factor in determining access to credit and locational advantage, to be excluded from that market is more disadvantaging today than at any time in the past. At the same time we can say that with 70% of households on owner occupation, home ownership as such is a positional good of diminishing cachet and value, hence the premium prices paid for particular locations and other desirable attributes.

Owner-occupation is a system for rewarding people who are generally better off in the first place. For a large majority of people, access to owner-occupation is income-related (very few can buy their first house outright, and therefore buying is dependent on ability to raise a mortgage and to sustain regular repayments). This means that many low-income households are excluded from the benefits (and risks) of owning, although it does not mean that there are no poor home owners – people can become poor after buying their home, and outright owners have average incomes well below those of mortgaged owners, reflecting the generally lower incomes of elderly people (Burrows, 2003). On average, purchasing owners (as distinct from outright owners) have incomes more than three times the average of council tenants (Wilcox, 2003, p. 121). While wealth accumulation cannot be guaranteed to home owners, there is a high probability of gains over time, but for non-owners there is the certainty that they will not benefit from increasing property prices. In fact not only do tenants not benefit from higher valuations, they tend to face increases in rents as a consequence (to the extent that rents reflect property values set by the owner-occupier market). Thus their different relationship to changes in property prices tends to widen the differences between owners and tenants, accentuating pre-existing income differences. This could be addressed through the tax system, but the exclusion of the principal home from liability for capital gains tax and the high (and regularly raised) threshold for inheritance tax signal that equity, fairness and tenure neutrality are less important to governments than encouragement of owner-occupation.

To the extent that access to owner-occupation is dependent upon income, then, it is interesting to speculate on the implications of the increased numbers of women in the labour force. In the early years of the twentieth century women constituted 29% of the total workforce, and the demands of child care tended to mean that it was difficult for married women to remain in paid work, but by 2000 53% of women over the age of 16 were in employment, and women made up 46% of all workers (Lindsay, 2003). There are two aspects to consider; first, the continued tendency for women's incomes to be lower than men's suggests that the housing market would reflect this form of inequality, in the sense that households dependent on women's earnings would, on the whole, be disadvantaged compared to households with male earnings.

Second, however, the rising curve of female employment implies a growth of two-earner households, which in turn suggests that these would have an advantage over one-earner households, whether male or female. In principle it would seem plausible to argue that two-earner households, with enhanced purchasing power, would tend to lift house prices, and that this would produce a situation in which two incomes became necessary. Thus one-income households would become a relatively disadvantaged group; clearly this cannot be any more than a tendency, because there are single-earner households with incomes above those achieved in others where there are two earners. It does suggest, however, that the possession of two incomes is likely to be more important for the sustainability of owner-occupation among low-income households, and that, as a direct consequence, family break-up is more likely to have an adverse impact on women in such households (Early and Mulholland, 1995). The general point here, though, is that, to the extent that the market adjusts to the increased spending power of two-earner households, single earners are disadvantaged, and single earners who are women are, on the whole, more likely to be disadvantaged to a greater degree.

As the previous paragraph has indicated, choice is not evenly distributed; the main constraint is purchasing power (in the case of housing this is usually a combination of down payment and access to credit). As in any market, those with the greatest purchasing power have the widest choice, and effectively monopolise the most desirable houses commanding the highest prices. The majority of first-time buyers seek loans covering a high proportion of purchase price, which means that income is the key determinant of the level at which they enter the market. In some circumstances down payments can be crucial, as will be discussed below. During the 1990s average advances to first-time buyers ran at 84.3% of the purchase price (Wilcox, 2003, p. 127), and it is interesting to note that as the housing market recovered and prices rose after 1996 the average percentage advance fell, implying additional down payments were necessary to make housing affordable, and/or that rising prices squeezed some people (those on lower incomes who required high percentage loans) out of the market altogether. There is evidence to suggest that both of these effects have been at work in London in recent years: median deposits placed by first-time buyers increased threefold, to £17,000, between 1997 and 2001, and median earnings of first-time buyers increased by more than two-thirds in the same period, much more than earnings generally (ODPM, 2002).

The main point to be made here is that inequalities in incomes tend to be mapped onto the housing market, with the better-off in the highest-priced houses in the most desirable locations and low-income marginal purchasers having to make do with the meanest and least well located dwellings. The notion of 'the housing ladder' is deeply embedded in public debate about housing in Britain, but we need to remember that it is a flawed metaphor to the extent that it implies that all climbers start at the bottom and finish at the top. A better metaphor would refer to a set of escalators, starting and finishing at different points and moving at different speeds. Higher earners tend to join higher and travel further, and faster. Widening income inequalities since the late 1970s, fuelled by tax cuts for the rich in the 1980s, promoted greater price variation, with implications for mobility and wealth accumulation. The definition and measurement of the gains made by owner-occupiers has been energetically debated in the housing literature (Saunders and Harris, 1988; Saunders, 1990; Duncan, 1990; Forrest et al., 1990; Hamnett, 1999), and there is no need to do more here than acknowledge that there are different ways of approaching the problem. While there can be no certainties in this area, it is nevertheless clear that the experience of home owners in the British housing market since 1945 has been that house prices have tended to rise (at an average real rate of 2.5% in the 1971-2001 period (Barker, 2003, p. 6)), and although it is possible to identify periods when prices were falling in real terms, in the longer run houses have proved to be a very good form of investment. In general it can be said that people buying high-priced houses are likely to make larger capital gains in absolute terms. The picture is complicated by time, geography and social class, however. A study of home owners in the south-east of England in 1993 by Hamnett (1999, Chapter 4) reports evidence to support the idea that higher socio-economic groups buy more expensive houses and make higher absolute gains, but that this is partly due to greater mobility – gains reflect the number of moves and the tendency to trade up each time. Hamnett (1999, p. 100) concludes that:

> Measured over their entire housing career… professional and managerial owners gained almost twice as much in absolute terms as manual groups, which reflects the more expensive property they are able to buy… In the long run, professionals and managers gain more than other groups in both absolute and percentage terms… Class and income strongly influence gains for comparable cohorts of buyers, but over the long term date of purchase is the most important determinant of absolute gains. An unskilled worker who bought in the 1960s or 1970s will, almost inevitably, have a larger gain than a professional or managerial owner who bought in the last few years but, when length of time in the housing market is held constant, social class reasserts its importance.

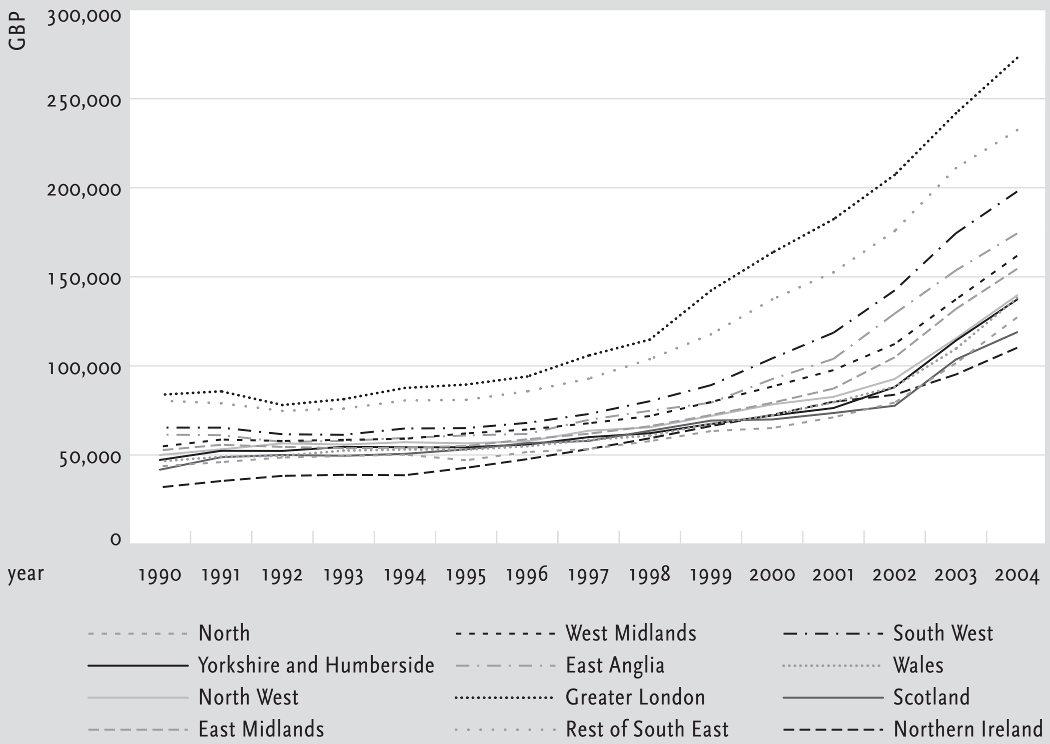
Hamnett's evidence related to the south-east, and it is important to acknowledge the wide variations in prices around the country, as illustrated in Figure 7.2 (Bramley et al., 2004, Chapter 3). In 2002 the average house price in the UK was £128,634, but in Greater London it was £206,839, and in Yorkshire and Humberside only £88,041. Thus the Yorkshire and Humberside average was only 42.5% of the London average, and the gap has grown wider over the years. In 1969 the Yorkshire and Humberside average was 55% of the London average. A person who bought a house in Bradford or Leeds in 1969 at the regional average price of £3,436 would have accumulated £84,605 by 2002, whereas a similar buyer in London would have gained just over £200,000 in the same time (BSA, 1979, Wilcox, 2003). Some consolation can be drawn from the fact that house prices vary more than incomes on a regional basis, making owner-occupation more affordable in the north.

In addition to regional price differences there is also evidence of variation in relative price levels over time in local housing markets. A factor that seems to be of increasing significance in this context is the relationship between house prices and school catchment areas, although solid research evidence is rather thin (as distinct from anecdotal evidence, of which there is a lot). Butler and Robson (2003a, p. 5, 2003b) report that estate agents in London are increasingly marketing houses on the basis of their school catchment area, arguing that this is a reflection of the introduction of parental choice and the publication of school league tables. Being in the right catchment area can add tens of thousands of pounds to the value of a house. Education is just one of the geographically distributed resources influencing prices in the housing market, and, of course, it is safe to assume that the better-off use their superior purchasing power to maximise access to these benefits and privileges. More recent research suggests that schools alone can contribute one-third of the price of a house, and that 'most of the value of more expensive homes can be contributed by the capitalised value of… locationally fixed public goods, neighbourhood characteristics and local amenities' (Cheshire and Sheppard, 2004, F392). The same authors also suggest that:

> Many of the public goods, overtly funded from taxation and which we think of as naturally being provided on an equal basis to all households are really much better thought of as being allocated through the housing market. Consumption of them is thus condition[al] on household income in just the same way as consumption of foreign holidays, private education, personal security services or broadband internet access is condition[al] on income (Cheshire and Sheppard, 2004, F392).

The trend among the better-off physically to separate themselves from wider society by the adoption of barriers and gates is an extreme form of the more general tendency, identified by Cheshire and Sheppard, to seek the most congenial and advantageous neighbourhood in which to live. To the extent that this interpretation is an accurate description of how people with plenty of choice behave, and if scarce urban resources are mainly distributed via the housing market, then it seems to raise doubts about the government's aspiration that '… within 10-20 years no-one should be seriously disadvantaged by where they live' (SEU, 2001, p. 8).

Figure 7.2 UK house prices by region



7.5 Conclusion

In conclusion I want to reiterate the point that the market remains the main mechanism for mediating choice in housing (although not necessarily in other areas of British social policy where choice is also being promoted), and that this tends to reflect and amplify inequalities generated elsewhere. As Hamnett has pointed out,

> The home ownership market in Britain has functioned as a massive, though far from random, lottery, distributing differential gains and losses to millions of owners across the country and over time. It is far from random because there is a broadly consistent pattern of gains and losses depending on type of property bought, where and when, and who bought it (Hamnett, 1999, pp. 10-11).

Sixty years ago the welfare state was established to reduce risk and inequality, to provide collective protection from the vagaries of the private market. The fact that current policies are designed to promote and expand inequality is both a sign of how far we have travelled and cause for alarm. In this situation, and accepting that there is no going back in policy-making, the real challenge in housing policy for the next period is to devise ways of giving meaningful choice to the poor and low-income groups. In other words, to criticise the idea of choice in housing policy is not to oppose all choice but to argue that the outcomes tend to be disadvantageous to the least well-off on society, and that therefore we need to find ways of extending choice to those very groups, but in ways that are not unreasonably risk-laden.

There are real dangers to be negotiated, however, if we are to create a choice-based welfare state that is at the same time fair and redistributive. It seems to me likely that ministers will be persuaded that owner-occupation is the key to the construction of an affordable, choice-based welfare state. Look at it from their point of view: owner-occupiers have hundreds of billions of assets that are difficult to tax, but which could be made to work harder, and could, in principle, provide a choice-based escape route from the so-called demographic time bomb and the impending pensions crisis. In a newspaper article Yvette Cooper (2005) (a minister in the ODPM) focused on what she called 'the wealth gap', arguing that 'measures to increase access to wealth and home ownership for those on low incomes should be an important part of Labour's third term strategy for social justice'. The idea of the wealth gap also appears in the ODPM's *Homes for All* document, and it is interesting how the policy response to the huge disparities in wealth in Britain is to call for more home ownership for the poor, not heavier taxation of the rich. To call simply for more home ownership for lower-income households is not enough, however:

> Home ownership is not necessarily a wise investment for people with low and/or insecure earnings, because of the risk of difficulties in maintaining mortgage repayments, the costs of repair and maintenance and the generally lower value for money at the bottom of the housing market.

If the problem to be addressed is, as Cooper suggests, the 'wealth gap', then increasing the numbers of people owning low-value houses is going to make very little difference, given the tendency for higher-value houses to appreciate faster (partly as a result of the continuing trend towards wider income inequality, which is admitted by Cooper). The minister argues that encouraging people to acquire savings through property ownership is a good thing because 'when the rainy day comes, savings help'. Relying on the housing market to equip people with the means to respond to personal crises is precisely the wrong approach, for it replaces the certainty and fairness of a collective, state-funded service with an individualised and unfair system based on the housing market lottery.

Merely increasing the numbers of low-income home owners will do little or nothing to tackle the wider problem of neighbourhood effects on life chances. Cooper herself says that children's chances in life should not depend on their parents' ability to buy their way out of deprived neighbourhoods, but that is the reality of the market which distributes goods and services on the basis of ability to pay.

Present economic and political circumstances pose severe policy challenges: a substantial proportion of the population have acquired, or expect to acquire, considerable wealth through home ownership. The problem is that, on the one hand, this wealth is politically (and practically) difficult to tax, but, on the other hand, government must be tempted to find ways of tapping housing wealth as a means of paying for a range of services, and providing consumer choice. But because housing wealth is so unevenly distributed, encouraging (or requiring) home owners to draw on their housing equity to pay for services is a recipe for yet more inequality in the consumption of welfare. Such an approach would be to abandon any attempt to use the welfare state to secure redistribution in favour of the less well-off. The alternative would be continue to rely on the market but to intervene more, to tax away some of the unearned windfall gains that currently accrue to the well-off, and to find ways of protecting the least well-off from the vagaries of market forces. Just as choice is a more complicated idea than it is often acknowledged to be in public debate, so devising policies that embrace choice demands a more sophisticated approach than simply shoe-horning ever more people into the owner-occupier market.

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8 Meanings of property and home ownership consumption in divergent socio-economic conditions

Richard Ronald

8.1 Introduction

A critical aspect of the growth of home ownership in modern industrialised societies has been the transformation of dwellings into housing 'properties'. King (1996) strongly emphasises the marketisation and monetisation of housing through the promotion of housing policy and the growth of home ownership in the UK. There is some consensus that in 'home owner societies' (societies characterised by housing systems dominated by owner-occupation policies, and where home ownership has come to be considered 'natural'), tenure is strongly differentiated and has a substantial impact on the meaning and perceived stability and quality of a home and its occupants (Kemeny, 1981; Saunders, 1990; Forrest et al., 1990; Richards, 1990; Murie, 1998; Gurney, 1999). The home as an exchangeable asset in a market, specifically, has led to increasing economic associations and motivations regarding private housing procurement. Furthermore, it has been proposed that the transformation or meaningful construction of housing as property has significant and wide-ranging implications in the restructuring of citizenship rights, welfare relationships, political and socio-economic relations (Kemeny, 1992).

Essentially, while homes have become commodified, the natural process of living or dwelling in a home has been transformed for the majority in home-ownership-orientated societies into a process of housing 'consumption'. This chapter examines the implications of this transformation through the analysis of a number of socially and culturally diverse industrialised societies where home ownership has, in recent decades, come to dominate policy and household practices. We consider the impact and interaction of modern housing consumption with socio-cultural factors in order to discern the relative influence of vernacular processes. Indeed, growing levels of owner-occupation have been considered a growing aspect of global neo-liberalisation, but have been strongly differentiated in terms of development pathways (see Doling and Ford, 2003; Stephens, 2003). We focus on meanings attached to home ownership identified in the expanding, but largely un-integrated, literature in this area. Empirical research on the meaning of housing is substantial, although tenure relations and economic meanings have been secondary to familial and emotional ones.

The aims of our analysis are, firstly, to identify the significance of housing as a market property in values, meanings and discourses. Secondly, we aim to assert the comparative significance of the transformation of housing into property, market and investment relations across societies, highlighting the impact of localised system conditions and cultural values in processes of consumption and interpretation. Moreover, we identify this pattern in the context of housing market volatility and value decline, which challenge the basis of consumption meanings. Our concern is largely with the affects of the re-signification of housing as property on home owners, interaction of these values with other elements of the housing and social system and between different housing contexts. In broader terms this provides a basis for considering how households will deal differently, based upon their housing situation, with socio-economic developments such as market upturns and downturns, as well as long-term household strategies.

Section 8.2 of this chapter explores the impact of home ownership on the meanings of home and housing in terms of property and investment. Essentially, we consider the prevailing framework of understanding of housing meanings and discourses in order to clarify the central characteristics of economic meanings which shape household consumption processes. We consider the process of consumption as central in structuring patterns of meaning by which individuals relate to their homes and wider society. Our analysis goes on to consider a small group of societies, which represent a greater level of diversity than traditional 'place-bounded' approaches, as empirical cases or contexts from which contrasts can be made (see Lee, 1999). Hong Kong, Britain and Japan are drawn upon explicitly as socio-economic and socio-cultural contexts for frameworks of economic values attached to family-owned housing which constitute a set of system variables and cultural constraints which mediate consumption and socio-economic relations. Essentially, while we identify a similar process of 'propertisation' of housing in each society and meaning based patterns of economic values, we also identity different dimensions of meaningful consumption.

8.2 Meaning

Use, investment and consumption

Housing behaviour has been difficult to predict owing to the apparent irrationality of individual and institutional behaviour which results in the booms and busts of the housing market. A central element of this unpredictability is caused by the longevity and durability of housing as a commodity (Munro and Leather, 2000, p. 512). The house has the potentiality or simultaneous function of (a) a use consumption good (providing a flow of services such as shelter, warmth and comfort, functional family space, locational access etc.), and (b) an investment consumption good (a store of current asset value and potential capital gains through home improvement or market increase). This duality has been theoretically challenging as an explanatory factor concerning housing decisions such as house moves, tenure change, housing selection and the trade-off between improving the existing dwelling and moving.

Within the literature, approaches which consider home ownership to be primarily motivated by strategies to make capital gains, as opposed to use value (which often characterises differences between economic and sociological approaches), have been differentiated from approaches which see owner-occupation as a mix between different values which interact more complexly. Our approach falls into the latter group and emphasises consumption and meaning as they connect housing choices and actions with contexts.

Gurney (1996) identifies a range of meanings attached to home ownership and draws a specific typology of home owners. This typology includes: 'Lexic' owners, who have a strong ideological attachment to home ownership; 'Pragmatic' owners, who focus on practical benefits (financial benefits, etc.) but do not celebrate self-actualising ownership practices; 'Petty Tycoons', for whom ownership is primarily a financial investment, and who focus on movement in market prices; 'Extrinsic' owners, who see ownership as an achievement and take pride in improvement activities; and finally 'Conflictual' owners, who have no clear views on ownership and may see it as a source of conflict between household members. This structured diversity illustrates the level of complexity between use, investment and other motives and meanings in home ownership. What has been neglected in the literature is diversity between meaning and contexts which frame consumption and vary over time and between cultures.

Consumption within capitalist contexts is normally emphasised in terms of the procurement of goods in a market, which has a socially constructed nature in terms of housing. King (1996) strongly emphasises the difference between housing and dwelling as a verb, which is a natural human process, and housing as a noun, which is bound up with the propertisation of homes in a market context. In approaching the consumption of property, if we take consumption to have a symbolic and material basis including (a) status/identity values, (b) investment and exchange values and c) use values, we can begin to draw a more effective analytical framework for beginning to understand different social dimensions of housing contexts where housing behaviour appears increasingly explicable rather than irrational, and divergence between situations and cases can be understood. As Anglo-Saxon contexts have dominated analyses, by focusing on a diversity of actual contexts where housing systems, cultural values, consumption practices and property markets vary radically we can begin to draw a more comprehensive picture of the impact of meaning and context variables, as well as how housing and tenure, and the salience of housing as an exchange good, mediates divergence and convergence between societies where owner-occupation and private housing markets dominate.

Home owners' homes and the significance of property

Gurney's research (1999) demonstrates that in the UK home ownership has been normalised as the natural basis of residing in a home and that home owners' discourses are strongly prejudiced in these terms, with renters, particularly in public housing, occupying qualitatively different types of dwelling. The meaning of a 'home of one's own' has changed over the 20th century in numerous societies and longer means living in a self-contained dwelling but rather being an owner-occupier (Allan and Crow, 1989). Renting, on the other hand, is often relegated to a minority, residual status confined to those who do not share the dream of ownership or cannot aspire to that level (Clapham, 2005, p. 146). Renting and owning have arguably come to represent mutually defining oppositional concepts. The polarisation of tenure appears to have a substantial effect in defining meanings which we can also attach to the process of transformation from dwelling to property where family life and security, privacy and permanence, independence and status have been bound together with the economic qualities of housing as an investment and asset.

The critical development in many home owner societies is the attachment or integration of tenure with specific meanings related to privacy, autonomy, control, status, lifestyle and identity. The effect of the normalisation of home ownership as a 'natural' tenure in a society may undermine the meanings attached to rented homes and re-appropriate them for the exclusive use of owner-occupiers. The concept of property and the process of consumption of housing, as opposed to a more simple process of securing shelter and dwelling in a home, are clearly influential in understanding how owner-occupiers perceive their homes as a basis for household economic strategies. We can consequently consider tenure and housing as more critical in contemporary social relations, for example following Bourdieu's model (1984) of class conflict, or social class distinction based on competing groups where housing tenure represents cultural and economic capital. More postmodern approaches argue that the structures of modern society such as class, family and community are under dissolution and that individuals have to increasingly create their own individual identity (see Gram-Hanssen and Bech-Danielsen, 2004), which has enhanced the symbolic significance of housing as a marker of identity, where the significance of property and tenure status differentiates households within a wider social nexus.

The symbolic differentiation and polarisation of tenure may be critical in redefining social relations and patterns of social change. Families are increasingly dependent on the market and are accepting greater levels of debt and risk for the sake of owning a property. There are implications for the understanding of social commodification processes where households are increasingly motivated by markets and more inclined to support the principle of private household responsibility rather than social welfare and collectivised accountability (see Kemeny, 1995).

Economic meanings

Economic meanings have a fundamental impact on how housing is consumed in each society. For both King (1996) and Rose (1980) the most important aspect of the re-signification of tenure is the growing significance of housing as property in a market and the monetisation of dwelling practices. For Forrest and Williams (1984) de-commodified forms have been eroded in housing and commodified relations have been reorganised more generally, leading to the intensification of commodification processes at both the levels of production and consumption. King (1996) asserts that the marketisation of housing achieved through government manipulation of housing policy follows a particular model fitting in with global trends of late capitalist social modernity. The wholesale support of the transfer of tenure from public to private (e.g. 'right to buy' policies in Britain in the 1980s and 1990s), constituted a total policy where it appears as if there is no tenable tenure alternative. The primary affect of the ideology is the commodification of housing whereby its significance is determined by its economic value and its currency within a market.

Critically, housing through home ownership has come to signify a means of building an asset, nurturing an investment and making capital gains (Forrest and Murie, 1995). Increasingly, housing as a source of maintaining income or accumulating wealth or securing an exchangeable asset is growing in salience and must be understood in terms of other significant social dimensions such as employment and social welfare. Doling and Horsewood (2003) link rising home ownership with direct effects on labour markets and employment participation where unemployment, re-employment, retirement and pension strategies are strongly influenced by ties to property, property equity, redundant housing costs and rental incomes. We now consider how economic meanings are embedded in the discourses of home owners which mediate housing behaviour and consumption processes.

Saunders (1990) found British home owners to be seriously concerned with profit. 29% of owners in his study bought in order to 'get something in return' for what they were paying out, 20% made explicit reference to home ownership as an investment, 15% said it provided something for their money, and 38% went further and said home ownership gave them an appreciating asset. 34% replied unequivocally that they had made money by owning a house, while only 11% thought they had not (1990, p. 198).

In Winter's research with Australian suburban owner-occupiers, meaningful associations between owning property and specific economic advantages were fundamental to discussions on home ownership (1994). Meanings such as 'making money via sweat equity', 'saving money via forced savings' and the 'devaluation of mortgage payments by inflation' dominated the discourses of owner-occupiers. Home owners strongly attributed financial security to ownership and predominantly perceived the home in terms of investment. This financial security was interpreted as security for later life, and was also seen to extend beyond their owners' own lives to their children's. Financial security was understood to flow directly from the fact of rising property values. Significantly, most owners used the term 'asset' or 'investment' to describe their home. This indicates that owners view their tenure form as a rational economic choice with a likelihood of realising monetary gains. Also, the possibility of financial gain is bound to home ownership within the context of building wealth rather than income.

Richards' study emphasises security in explaining the economic meanings attached to home ownership. There are three aspects of security in this analysis. Firstly, the economic advantages of ownership are often couched in terms of the economic disadvantages and insecurity of renting. Secondly, 'security for the future' concerned 'family futures'. Ownership was the basis of unity and stability and related to meanings of settling down, foundation and permanence. Thirdly, 'building up' in terms of both family and finance was an important aspect of the security of the home. Views about paths into and development of family life were intertwined with financial concerns such as mortgages (1990, p. 122).

The ideological framework itself may be a more unifying force than the heterogeneity of meanings. Richards (1990) argues that home and family are bound together ideologically as the 'proper paths' to life and constitute a normalising ideal of the private world. There is a hegemonic commitment to a normative form of residency incorporating marriage and children on one side, and a progression towards an ideal form of tenure, dwelling and residential community on the other.

The point is that the meaning of security and 'proper paths' attached to housing and the family in home owner societies has been bound up with economic security and associated with owner-occupation only. In terms of economic values renting is the inverse process of owning. The 'wasted rent argument' is a key normalising discourse in home owner societies. Expressions such as 'dead money' and 'money down the drain' are so commonplace in home owners' accounts of reasons to buy housing that their metaphorical status is obscured (Richards, 1990, p. 120). Gurney, however, considers the power of these statements as critical in creating prejudice. Indeed, money has an anthropomorphic quality with the assertion that a tenant, by paying rent, is somehow responsible for its death. 'The powerful negative image of bank notes being eliminated or murdered by the tenant is the antithesis of the positive images of 'husbandry' and 'stewardship' associated with home owners (1999, p. 1715).

8.3 Context

The socio-economic context of owner-occupation

A central problem in assessing the significance of values attached to home ownership is the diversity of cultural-ideological and system contexts in which home ownership has come to dominate housing processes. British and American contexts dominated early debates about the significance of experiences of capital gains made by owner-occupiers, but these debates were argued to be not even transferable to Australian and New Zealand contexts, which were ostensibly similar (Thorns, 1989, p. 214). Only recently has the increase in levels of owner-occupation been addressed in newly industrialised East Asian societies (Doling, 1999; Lee, 1999; Chua, 1997; Hirayama, 2003), which provide a challenge to the home owner society models put forward by Saunders (1990), Kemeny (1992, 1995) and Winter (1994), which tend to reflect the pattern of growth and values attributed to home ownership within an 'Anglo-Saxon model'.

Consumption of owner-occupied housing, we argue, is a socially and culturally framed process which varies over time and between contexts. Even though economic meanings have become central to understandings of owner-occupation, we need to develop sensitivity to the everyday practices of housing purchase, household use and exchange in order to understand the importance of housing discourse and relationships between social actors, markets and social systems. We consider the effects of housing markets in terms of home owners as actors who have experienced the gamete of rapid house price inflation and capital gains to negative equity and capital losses in Hong Kong, Britain and Japan as a means to illustrate the role of transformation of dwelling into property in shaping housing perceptions and behaviours.

We initially focus on Hong Kong as an example of a context of rapid marketisation of housing, with owner-occupation rising from 23.2% in 1976 to 42% by 1987 to 53% by 2001. Housing experiences in Hong Kong have been shaped by: a particularly volatile property market; dense housing conditions and competition for land; immigrant populations and Chinese cultural values. We then consider Britain as a normative example of Western home ownership. Again our focus is on the context of housing experiences and the influence of volatile housing markets in shaping the perceptions and discourses of home owners. Some initial comparisons are made between these societies as a comparative framework before considering the Japanese case, which forms the focus of our contextual comparison. We consider the Japanese housing experience in greater detail, as it provides a more extreme case of social divergence. There are a number of more unusual features of the Japanese housing landscape, the most notable being the continued duration of periods of house price inflation and deflation, and the separation of land and house markets, in terms of context, and family dwelling and welfare practices, in relation to meaning.

In examining these three specific and diverse contexts we aim to identify some of the more universal elements in economic meanings associated with housing in industrialised societies where home ownership dominates housing preferences and practices. These elements relate largely to the commodification of homes as residual containers of household assets and the economic rationalisations of home buyers in unpredictable market conditions. We also aim to triangulate some of the contextual factors which influence home owners' economic perceptions and motivation. These factors often relate to differences in family, employment and welfare practices, and the durability and use value of housing objects.

Housing speculation and investment in Hong Kong

Lee (1999) emphasises how each society demonstrates an evolving consumption culture of housing, with the phenomenon of rapid home ownership expansion in Hong Kong being understandable in terms of the practices and values attached to family property ownership and housing consumption. Middle class formation specifically has been mediated by tenure transformation in Hong Kong, as consumption of owner-occupied housing, especially in modern estates, facilitates the demonstration of shared values and lifestyles of a particular group of Hong Kong families who aspire to housing as an investment and family property (Lee, 1999). Home ownership has been attributed to Chinese family tradition, even though state promotion and public rental housing sell-offs, as in the UK, were the main engine by which home ownership expanded initially.

Forrest and Lee (2004) suggest that the pattern of tenure change in Hong Kong is attributable to three factors including: government control of the ratio of public rental flats against the total housing stock in order to encourage the growth of private homes; state regulation of land supply, which has made it a 'scarce good'; and the influence of Thatcherist colonial government, which sought to encourage a stakeholder mentality and promote home ownership through the right to buy and other incentives. Demographic changes in the form of increasing numbers of baby boomers and mainland immigrants also put pressure on housing and the demand for home ownership. For Lee (1999), however, as property investment was seen as the most effective instrument for capital accumulation in the 1980s and early 1990s, economic considerations have become the prime motivators for home purchase for the Hong Kong middle classes.

Nominal housing values increased ninefold and rents quadrupled in the 12 years leading up to the 1997 Asian economic crisis (see Forrest and Lee, 2004). In explaining the rise of rampant property speculation, Chan (2000) emphasises the 'pro-purchase' and 'anti-renting' discourse that developed in the heated economic climate, while the majority of households exited tenancy and became property owners. Rises in inflation, rents and property values heightened sensitivity to tenure issues and the demand for private housing purchase.

The culture of speculation is a peculiar and particularly salient phenomenon within Hong Kong's home ownership ideology and pattern of housing investment consumption, with home purchases and related activities becoming a significant part of life. For Chan it is not only demand for 'home ownership' but demand for purchasing flats or housing investment. Increasingly, houses are not homes but rather speculations and investments (2000, p. 34). 'Family house syndrome' has been a characteristic family housing investment strategy, especially during the property inflation period in the 1980s and 1990s: this involves the mobilisation of all working family members in order to maximise viable family income for loan credit so as to be able to purchase as many condominium properties as possible (Lee, 1990; Chan, 2000).

Governments in Tiger economies have considered housing as a macro-economic factor, and growing levels of home ownership are seen as a means of driving construction and economic growth. The state also encourages owner-occupation as a means to compensate for, or justify, low social welfare spending, with growing family housing assets seen as a base for self-sufficiency for welfare needs. The potential for wealth accumulation through housing speculation is thus highly salient to families as a means of welfare security and facilitating retirement.

The housing market crashed in Hong Kong in the late 1990s, following the Asian Financial Crisis, leading to losses in property values of more than 60%. Despite losses experienced by many home owners, Hong Kong residents continue to demonstrate commitment to the ideology of housing investment. The government since 2003 has sought to boost the property market by reducing land sales and terminating the Home Ownership Scheme in order to reduce overall supply. The government and people of Hong Kong still appear committed to housing as a means of making capital gains and accumulating wealth, although substantial differences exist between cohorts of purchasers (Forrest and Lee, 2004).

The case of Hong Kong illustrates relationships between symbolic/identity values, investment/exchange values and use values contained within the heated market environment, also fuelled by tight urban constraints and high immigration. Housing as a commodity and its consumption in these terms has considerable impact on wealth accumulation, economic and social stability and the living conditions of households. Arguably, consumption of middle class entrepreneurial/speculator identities has been emphasised in property exchange activities as well as in driving house price inflation. The new urban middle classes of East Asia have relied heavily on consumption as a means to construct identities (Clammer, 2003).

The British home ownership experience

The British context also demonstrates elements of speculative investment consumption meanings and practices, and provides an illustrative case to consider divergence in consumption behaviour and values and, in particular, the response of housing investment consumers to market decline. The UK 1970s property boom established a more imminent perception of gains made through home ownership which had previously been closely allied to the point of entry and length of time in the market (Lowe, 1992). Discourses on housing as an investment ceased to be figurative or long-term and instead became a matter of immediate importance (Pawley, 1978). Inflation also helped to create particular illusionary perceptions about real values and capital gains potential (Bootle, 1996, p. 68). Saunders (1990) found that 1980s home owners demonstrated deliberate and coherent investment strategy in the housing market. What was critical was the establishment of the 'enduring belief that home ownership is one of the best, if not the best, investment accessible to ordinary people' (Doling et al., 1991, p. 110). 'Right to buy' public housing sell-offs also eroded the social rented housing system and made quick profits on housing seem easy.

After a period of substantial house price increases in the mid-1980s, market crash and stagnation followed, with interest rate hikes and escalating numbers of repayment failures and repossessions (interest rates rose from 9.5% in 1988 to 15.4% in 1990, and repossessions rose from 16,000 in 1989 to 44,000 in 1990 and 75,000 in 1991). In 1992 households with arrears of 12 months or more topped 150,000 (CML, 1996). The belief system, policy framework and institutional structure predicated on real house price inflation were suddenly 'knocked sideways' (Forrest et al., 1999).

Problems of the housing market and negative equity disproportionately affected the cohorts of households who had purchased dwellings in the late 1980s and early 1990s. Among samples of households in negative equity, Forrest et al. (1999) found that the desire to get a foot on the first rung of the home ownership ladder and cost ineffectiveness in the private rented sector were the most common motivators for house purchase. As well as economic motivations, respondents expressed fear of being 'left behind' by the market, suggesting that investment consumption was driven by fear of losses made by renting rather than money to be made by speculating. There was a strong belief that a mortgage is buying something in a way that rental payments are not. Even in negative equity a debt is being reduced and at the end of the day there will be something to show for it (1999, p. 99).

Despite negative equity experiences, home ownership remained strongly associated with security, investment and social status and was far preferable to renting. Investment in 'bricks and mortar' still offered security and something to pass on to the next generation, but attitudes were tempered by the recognition that there were no guarantees. Home owners in negative equity were less inclined to stress the investment and accumulative aspects of their properties than use value. While housing was still considered a 'reasonable investment', perceptions of market speculation and market vicissitudes tempered expectations of future activity, with a third of respondents saying that they were now more likely to 'save or invest' a windfall than to use it to trade up into a more expensive house (1999, p. 109).

The destabilised economic environment affected levels of negativity towards home ownership investment among younger home owners, first-time buyers and those who had experienced change in household or economic circumstances, the most. Another critical element was the inability to sell or move home, which was essential for household growth or change, and constrained ability to change jobs etc. For Forrest et al., the impact of the housing market recession and negative equity on the capacity to move can thus be regarded as one of the main problems for home owners, and one which has done most to reduce positive views about home ownership.

Younger owners were strongly aware that they had bought during a period of uncertainty and recession and perceived their situation as very different to that of the previous generation, who had the option of secure council housing, the potential to take advantage of 'right to buy' purchases, and had amassed substantial positive equity. Younger buyers had little expectation or desire to access council housing and, furthermore, did not see their parents' experiences as indicative of their own.

Apparent in these perceptions and discourses of home ownership are intersections of symbolic values, economic values and use values, which were substantially modified by the specific contextual shifts in this period. The significance of housing as property is transformed in terms of a perception of a tradition of owner-occupation established in the 1970s and 1980s following an exceptional period of public housing sell-offs, which had been interrupted by a 'crisis' of market collapse and stagnation. British home owners' accounts reveal the persistence of the importance of home ownership as a household economic strategy despite any real or perceived capital losses.

Munro and Leather (2000) found the balance between use and investment difficult to predict when it came to understanding why and how home owners invested in their homes. The emphasis in the discourse, however, erred towards use consumption. Investment motives were expressed most clearly in relation to preserving the value of what owners already have, because of the anticipation of an inevitable sale in the future or because they hope to pass down the property to their family (2000, p. 519). Munro and Leather also point out, however, that respondents may resist discourses of avariciousness and, naturally, err towards discourses of husbandry leading to greater emphasis on use and utility.

An important distinction they make in the research concerns 'right to buy' home owners who placed more emphasis on home improvements as enhancing their property values than other owners. This, they suggest, should not be understood in terms of greater concern with investment consumption; rather it reflects the desire within this group to mark the change in tenure status. Critically, how perceptions of the home interacted with beliefs about the housing market underpinned actions which should not be seen as simply 'rational' (2000, p. 519).

Comparatively, the meaning of owner-occupation as asset accumulation within a longer tradition of home ownership property consumption seems more significant in the British case, whereas investment in an era of rapid growth and speculation appears more salient in economic meanings of housing consumption in Hong Kong. In both cases the recent erratic growth in housing values implies that housing speculation activities and investment consumption persist in both housing cultures, despite substantial losses experienced by many home owners over the last decades.

Our comparison so far is uneven, emphasising different elements of consumption over different periods in the market cycle in different societies, and it only hints at relationships between economic conditions and dimensions of consumption and economic values of home owners. We now turn more substantively to the case of Japan, where diversity in the transformation of housing into property, market and investment relations is more apparent. Forrest and Lee suggest that the impact of wealth accumulation through home ownership has had little more than cursory attention in Asian contexts, whereas the substantial interest in Anglo-Saxon contexts lies in the relatively early development of mortgaged urban home ownership, which has generated matured cohorts of housing-wealthy (2004, p. 2184). Issues of ageing populations, lifetime transfers and inheritance, growing inequalities between those in and out of owner-occupation and between different generations of home owners who entered home ownership in different contexts, are becoming increasingly critical across societies, and Japan provides a particularly insightful case, as the society which developed mass urban mortgaged home ownership earliest in the Asian context.

Beyond the bubble: home ownership in Japan

Japan demonstrated a radical cultural and policy reorientation toward home ownership in the post-war period. Prior to 1945 rented housing accounted for more than 70% of housing in urban areas (Ministry of Health and Welfare, 1941). Through radical policy changes in the 1940s and 1950s involving rent controls and the introduction of a comprehensive state home loan system, home ownership took over as the main urban tenure (reaching more than 60% by 1955). The social and economic context of the growth of home ownership in Japan contrasts starkly, however, with Western models, owing to the interconnectedness of the expansion of the Japanese construction industry and national economic rebuilding, the structuring of housing loans through government agencies (specifically the Government Housing Loan Corporation (GHLC)), and the practice of family-based economic self-reliance and welfare provision. At the national level, expansion in the housing sector was considered to be the priority, and critical to economic growth.

The scale of increase in Japanese property prices during the economic boom years is remarkable. From 1950 to 1983 the price of the average house increased 147-fold, while average income only increased 25 times. Indeed, the most significant characteristics of the Japanese housing market have been its phenomenal rise and subsequent phenomenal fall. A speculative bubble in land began in the 1970s, as companies and banks increasingly invested in land, thus pushing up the price of owner-occupier home purchases, which forced the state to continuously improve lending conditions (Kanemoto, 1997). Housing policy became more aggressive, with more pressure exerted to encourage people to purchase their own homes with GHLC loans, as a means to maintain levels of economic growth. A cycle was formed in which the improvement of lending conditions encouraged house acquisition, expanded demand for owner-occupied housing boosted housing prices, and when it became difficult to acquire a house, lending conditions were again improved (Hirayama, 2003). The rate of house price inflation became exceptional during the 1980s (between 1980 and 1990 average housing costs in Tokyo increased from 24.8 million yen to 61.2 million yen for a condominium, and from 30.5 million yen to 65.3 million yen for a ready-built single-family house). Price-income ratios rose from 5.0 to 8.0 and 6.2 to 8.5 for a condominium and a ready-built, single-family house respectively (Ministry of Construction, 1995)), and increasing funds, both commercial and domestic, were pushed into this sector.

In 1989 the Japanese economic bubble burst, beginning with massive losses on the stock exchange, followed by a more prolonged decline in property values. Owing to the high rate of new stock entering the market, secondhand housing values have suffered most, with values declining by 50% in most cases of houses purchased during the bubble. The first ten years of economic decline and house price deflation became known as the 'lost decade' in Japan, and there has been little sign of property values recovering outside of new upmarket developments in Tokyo. The pattern of housing transfers has been transformed, as price decreases have trapped many households on the lower rungs of the housing ladder. Incomes have decreased and levels of housing debts have ballooned (see Hirayama, 2003). Compared to the British and Hong Kong housing market crises in the 1990s, the overall pattern of decline in Japan demonstrates remarkable longevity and resilience.

In understanding the context of housing consumption in Japan the institutional practices of the company and the family are critical, as they have fundamentally influenced housing practices, economic behaviour and household welfare provision. The responsibilities of family members as welfare providers are highly explicit in the Japanese social tradition, thus families provide more welfare care and financial assistance than families in other industrialised nations (Izuhara, 2000). Welfare is exchanged in the home in numerous forms and directions and most notably includes child care, care of the sick and elderly, as well as intergenerational financial assistance. Intergenerational households still form a small majority, which often facilitates asset transfers and reciprocal exchanges. The privately owned family house, consequently, has developed particular salience. It is the symbolic basis by which reciprocal family obligations are defined, the physical space where welfare services are exchanged, and, as the main financial commitment and reservoir of family wealth, the economic basis of household welfare (Izuhara, 2000; Ronald, 2004a).

Family housing and financial security have been strongly supported historically by Japan's company system. The lifelong employment system (Shuushin Koyou) and seniority pay system (Nekoujoretsu) have ensured an unusually secure relationship between company and employee. Moreover, companies have historically provided temporary housing and housing loans for employees directly. The family system is, in turn, sympathetic to the company in maintaining particular patterns of housing consumption, such as intergenerational living and intergenerational housing financing, which have enhanced the security and integrity of family housing. The disruptiveness of staff transfers has been alleviated by the temporary provision of company housing, which facilitates the maintenance of a family home elsewhere. Essentially, the need to sell up or move, often encouraged by Western employment systems, has been minimised.

Traditional principles of family self-reliance have been transformed within the modern socio-economic milieu into practices of owner-occupation, welfare exchange and wealth transfer. Concomitantly, companies have supported family home ownership practices directly, via housing loans etc., and indirectly, by providing income security and assured periodic pay increases which are conducive to mortgage-based housing consumption. The long-term economic downturn in the 1990s and early 2000s has begun to erode the institutional network of family and company which have been essential to the expansion of the home ownership system. We now explore the pattern of meaning and consumption in this context in more depth, specifically identifying the importance of the nature of housing commodities in Japan, as well as household practices and relationships which mediate the impact of economic meanings.

Japanese housing commodities and consumption

The two elements which constitute housing commodities, land and buildings, combine in an unusual way in the Japanese context, being very different types of commodities and functioning in separated markets. Modern owner-occupation is dominated by 'scrap and build' approaches, where land is purchased with existing housing usually demolished to make way for a new structure, in order to modernise or improve the living environment. The lifespan of the built unit is between 30 and 50 years, thus land is considered a permanent commodity while the house itself has ephemeral qualities. In the interviews with home owners (Ronald, 2004b) houses were said to be in a constant state of decline from the moment they were built in terms of their condition and use value. Their financial value was considered to diminish rapidly over time, with houses much more than 20-30 years old being practically worthless.

Thus, for Japanese home owners, land is considered a 'real' investment, a permanent commodity that will always hold a value. It can be passed on to other generations as the vehicle of family wealth and status. The house or flat, in contrast, is ephemeral and shares many qualities with consumer durables. This contrasts strongly with Anglo-Saxon contexts, where the perceived permanence of the built unit can be the basis of security and attachment to a property (Richards, 1990). The concept of deterioration associated with the physical object of the house is central to the long-term perceptions owners have of their financial commitment to owner-occupation. The older a building gets, the more the home owner has to spend on regular maintenance in order to simply retain the living standard of the building. This builds up to a point after 30 or 40 years when the house is considered to lose viability as a family home. Many middle-aged home owners, consequently, take on new loans or extend periods of debt in order to demolish and rebuild, or at least renovate their homes.

In interviews with younger home owners (Ronald, 2004b) many saw becoming an owner as a natural development in their lives, but had found the ideals and economic advantages of owner-occupation unrealistic in the post-bubble market context. Rather than investment rationales they emphasised use consumption and the advantages of being on the housing ladder and no longer renting. Most informants expressed relief about having a place or some land of their own. Despite concern about interest paid over the mortgage period, it was always preferable to renting, and the 'common sense' of paying off a loan rather than 'throwing away' money every month on rent conforms very closely with the economic logic and 'wasted rent' arguments identified in Britain and Australia by Gurney (1999) and Richards (1990).

For young Japanese home owners, like British ones (Forrest et al., 1999), the main advantage or reason given in housing discourses for home purchase is financial. A central theme is commitment to the principle of 'rational economic choice' in relation to decisions to spend so much on a family home (Ronald, 2004b). They were also, however, concerned with the financial risks of home ownership and had little faith in the potential to make any economic gains or in their ability to move up the housing ladder. While it seems contradictory that these home owners are motivated by the financial advantages of owner-occupation while having few expectations of realising these advantages themselves, King (1996) suggests that many households enter the housing market in order not to have to worry about its vicissitudes any more, rather than to engage in market investment speculation.

Older groups of Japanese home owners have either made money from buying a home early or have at least paid off substantial mortgage debts. In interviews (Ronald, 2004b) those who had made losses in the long term were relieved that at least they had a property of their own, and capital losses would only be realised if they sold up or moved to another property. Those who had paid off loans were very satisfied, as their homes could serve as family security, or would have some exchange value for their old age care or life after retirement. The diminishing values of property were played down, although there were many acceptances of capital losses. Some were nostalgic about the potential to make money through housing in the days of the bubble, although in real terms none had seen any substantial payoff. In the discourses buying had been necessary and worthwhile, and preferable to paying rent and having nothing to show for it.

What is important in our analysis of economic meanings and discourses is that owner-occupation has been considered naturally superior to renting despite economic contradictions. Although the house is the biggest family asset it has not been as effective a means to build wealth as in other societies, especially for younger home owners. While some older home owners have made 'on paper' profits, younger ones have not, owing to falls in property values. The discursive logic of accumulation and asset building has thus been applied despite sensitivity to the real loss in value and the precariousness of the market.

The concept of debt is a notable aspect of these economic discourses. Japanese respondents (Ronald, 2004b) identified concern about 'roun jigokku' or 'loan hell' in relation to home ownership. This phenomenon is a cautionary folk-tale about households who have over-committed to a loan and either fail or suffer hardship in order to keep up with repayments. Japan's household savings culture (Japan has more than double the level of household savings than most developed industrialised societies (see Ostrom, 1998)) has been emphasised as a particular characteristic of its economic success, and there has been considerable resistance to building systems of credit and borrowing at the household level. Borrowing to buy a housing property is one of the only cases where debt is justified. Ronald's interviewees did not see it as a normal debt, as property was seen as tradable, or a financial base in case of future hard times. The significance of housing as a means to accumulate wealth may go a long way in explaining the ease by which housing loans as a form of debt were incorporated into the cultural tradition of saving. It also reveals the special nature of homes as commodities of economic consumption, which provides some insight into the resilience of home ownership markets in home owner societies where economic prejudices against renting are observed. As we found at the beginning of this chapter, in Anglo-Saxon societies too similar meanings of housing debt are apparent, where mortgages have a special status and interest repayments are considered immeasurably wiser than rent payments.

For Japanese home owners, financial security is no longer considered to flow directly from rising property values, and there is declining expectation of capital gains. What they share with Anglo-Saxon home owners, it seems, is the attribution of financial 'security' to ownership rather than the assumption that an owner-occupied home is a financial 'investment'. It may therefore be appropriate in our conceptual consumption model to differentiate 'investment/speculation' consumption from 'asset/security' consumption in accounting for the relationship between economic meanings and housing. The lack of emphasis on resale value in Japan may help explain why Ozaki's research (2002) found that, whereas Japanese home owners are more concerned with atmosphere and comfort, English home owners are far more concerned with the saleability of their properties.

Comparing meanings and contexts

What unifies the three societies we have considered is that they have all experienced a prolonged period of house price inflation in recent decades where owner-occupiers appear to have accumulated substantial assets while renters have been excluded and seem to have fallen behind, followed by differentiated experiences of housing market decline. In Hong Kong, where speculative behaviours in the housing market and investment consumption have been most evident (Lee, 1999; Chan, 1997), the home ownership system is relatively newly established, and the country has experienced a substantial upturn in housing values in recent memory followed by a reasonably short-lived recession associated with more global economic developments such as the 1997 Asian Financial Crisis. In Britain there have been housing booms in the 1970s, 1980s and 2000s, punctuated with uneven periods of stagnation or slump. While home owners in the British context seem quick to jump on the property bandwagon in terms of mass economic behaviour, research suggests there is a stronger balance between use consumption and investment behaviour (Munro and Leather, 2000; Forrest et al., 1999).

In Hong Kong, housing property speculation and expectations of capital gains were central in accounts of housing behaviour and the economic significance of home ownership (Lee, 1999). Furthermore, Forrest et al.'s data (1999) suggested that in the UK even home owners who have experienced substantial losses on home ownership investments still strongly emphasise economic/investment values. Market recovery in these societies in recent years seems to suggest that the experience of market failure and negative equity is quickly forgotten, or that rationalising discourses are reconstructed rapidly when prices begin to move again. Forrest et al. note that for prospective buyers home ownership is most attractive when house prices are rising steeply and it is least affordable. In calmer market conditions prospective owners are more inclined to wait than enter prematurely (1999, p. 18), which suggests that use consumption quickly takes a back seat to investment consumption under certain economic conditions in these societies. British home owners in negative equity are most likely to consider their situation as a temporary crisis and deal with the situation by sitting and waiting for the market to recover (ibid.).

The Japanese situation contrasts substantially with this, owing partly to the pattern of rises and falls, with a long era of house price stagnation following sustained house price inflation. While an economic rationality is articulated by home owners, there are few expectations of market recovery and making 'profits' on housing. Critical to the strategic readjustments made by actors in the housing sphere during the prolonged era of recession and property value stagnation are practices and perceptions which have become socially embedded in the preceding 'golden era' of housing price inflation. Few individual households in Japan have made capital gains from movement in the housing market since the 1980s, and while there is little concern about speculation, there is confidence in the economic stability of housing purchase. According to a survey on public consciousness of land issues in Japan, 88.1% expressed a desire to own land in 1996, compared to 81.2% in 2002, suggesting that the desire to own housing and land has not changed significantly (Ministry of Land, Infrastructure and Transport, 2003). For Hirayama (2005), the home ownership system has been largely maintained by use values such as the freedom to remodel, refurbish and improve the quality of housing, and it is easy to see why use values have become more salient in home owner's discourses in this economic environment, where maintenance costs are high on owner-occupied properties, housing units are not considered permanent, and the 'land myth', where the scarcity of land is overemphasised and the illusion that land values only move up, has been undermined.

It seems critical, therefore, that values and perceptions established in the process where home ownership becomes the normalised tenure form and housing is transformed from sheltered family dwelling to property and consumption become embedded in housing discourses and rationalisations. Convergence can be seen across these owner-occupier societies in terms of economic meanings where family prosperity is bound up with property-based asset accumulation. Financial security is consistently interpreted as security for later life that extends beyond their owners' own lives to their children's (Izuhara, 2000). Economic meanings subsequently enter other discourses where home ownership becomes the basis of unity and stability and related to meanings of settling down, foundation and permanence. Moreover, while home ownership has been strongly normalised as the 'proper path' through life and family financial strategy, renting has been undermined as a secure or long-term form of residency and has become an 'irrational' economic strategy.

Critically, Winter (1994, p. 99) identifies that home ownership as old age security means something very different in a country where there is no welfare support for the elderly in comparison with one where it is, and this is a significant aspect in accounting for the understandings of Japanese home owners, who rely on the family and family assets as a primary source of welfare. In Hong Kong too, the wealth accumulated by a family through investment activities in the housing market is a central source of security and welfare after retirement. Doling and Horsewood (2003) point out that in the UK also, housing is increasingly functioning as a means of supporting early retirement and supplementing welfare and care. Essentially, this aspect of convergence illustrates how central home ownership is becoming in redefining the balance between socially commodifying and de-commodifying processes.

8.4 Conclusions

This chapter began by focusing on the meaning of housing as a commodified property and identified a set of core values and associations in Anglo-Saxon societies which have become synonymous with owner-occupation. It appears that housing as property consumption has become central in tenure and social relations. The association of particular qualities of the home has been appropriated by home owners, and tenure has become strongly differentiated in terms of meanings. Across the societies we considered there is an apparent polarisation of meaning, with considerable prejudice against renting and renters. While renting may provide security and be more than adequate in supplying a family home, the emphasis on asset/investment and status/identity value over use value becomes critical where home ownership has been normalised. Gurney's (1999) identification of the impact of tenure prejudices begins to illustrate a broader process at work in home owner societies. Once housing has been meaningfully transformed, marketisation can be accelerated, citizenship redefined by property ownership, and the state's housing welfare responsibilities reduced. The principals of family self-reliance and the logic of the market, which undermine welfare systems, are thus linked to the polarisation of tenure and the growth of home ownership. Critically, it is the association of the attributes of housing as property and investment, linked in turn to ideologies of normal, secure family life, which undermines the perceptual viability of renting.

Another aim was to consider the comparative significance of, and differences in, housing property consumption. It appears that the character of market and economic environments has substantial impact in shaping rationalisations and discourse about housing use value, asset value and investment value in owner-occupier societies. Investment and speculation in Hong Kong's owner-occupied properties appears to be driven by the volatility of the housing market and the activity of developers, whereas in Britain the historical pattern of boom and bust has embedded faith in an inevitability of house price re-inflation and housing as a long-term investment. In Japan speculative investment in housing has practically disappeared at the household level, while asset maintenance and use value have become increasingly important. What unifies each of the societies we have addressed is the establishment at some point of a golden era of home ownership, with associated capital gains. Such eras have inevitably been followed by slumps, which vary in character between societies. The eras of housing market growth and decline structure differences between generations in discourses and perceptions as well as in wealth and financial security. Many older generations took advantage of rapid house price inflation, while younger generations maintain the embedded logic of property and investment, despite contradictions in their own experiences and expectations of capital gains.

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9 The construction of tenure

When the political becomes personal

Sinead Power

9.1 Introduction

Over the course of the twentieth century there has been a substantial change in the tenure composition of the UK's housing stock. The promotion and growth of owner-occupation and the decreasing support for, and decline of, both private and public rented housing has been the policy context underlying this changing tenure structure. Statistics tell only part of this changing tenure story. Drawing upon the experiences of a group of older people within the Scottish housing system this paper narrates the 'lived' story of how housing tenure has changed its form, function and meaning over this time. It tells the story of the normalisation of owner-occupation and the residualisation of social renting from the perspective of those who have not only lived through the change but have known something different. The narratives of the participants show how the lived experience of housing tenure sits at odds with some of the political discourse surrounding the concept.

Part one of this paper sets out the housing context in which the options to rent have been restricted, whilst the equity accumulation associated with owner-occupation has made this tenure increasingly financially attractive. This is the housing context through which the participants in this study have lived. Part two of the paper outlines the methodological and conceptual framework used to explore the dynamics of this changing tenure structure. The framework used in this research draws upon three key concepts—the life course, housing pathways and cohort factors—in order to explore the individual stories and experiences behind this tenure change. Part three introduces the research participants and highlights the value of using the experiences of older people to explore the changing housing system. Part four of the paper teases out the individual stories behind the changing tenure profile by exploring separately the experiences of three different groups: (1) long-term public renters, (2) long-term owner-occupiers and (3) participants that have made the switch from renting to owning in later life (i.e. after the age of 50). Taken together these accounts shed light on how individuals experienced the 'normalisation' and promotion of owner-occupation and the simultaneous residualisation of the social rented sector. The narratives reveal changes in what the tenures have to offer as well as in people's perceptions of the tenures. Through these stories we see how economic and political processes become embedded within people's wider social and cultural lives.

9.2 The wider housing policy context

Owner-occupation is the dominant housing tenure sector in Britain. The pace of the growth of home ownership since the end of WWII has been referred to as one of the most fundamental social changes for the British public (Hamnett, 1999). By 2001, 69% of households were home owners in England and Wales, and even in Scotland, where the level of home ownership has traditionally been lower than the rest of Great Britain, 63% of households were home owners by 2001 (www.statistics.gov.uk; www.scrol.gov.uk). Yet this 'nation of home owners' has come into being in the space of a single lifetime.

Over the twentieth century there have been two main phases of political enthusiasm for the growth of owner-occupation. In the first phase, pre-1980, the arguments in favour of owner-occupation presented it as being better than renting from someone else. Within Government papers owner-occupation has been variously described as: one of the best forms of savings; as 'normal'; as 'the most rewarding form of housing tenure' that satisfies a 'deep and natural desire' and as a 'basic and natural desire', the spread of which was 'satisfying deep seated social aspirations'. During this first phase the expansion of owner-occupation took place at the expense of the private rented sector. At the start of the twentieth century the majority of Scottish households rented a dwelling from a private landlord. It is estimated that 90% of pre-WWI stock was privately rented (Scottish Office, 1999). In 1946 the private rented sector still accounted for over 50% of Edinburgh's housing stock, yet by 1971 only 17% of households in Scotland as a whole lived in this sector. Today the figure stands at about 7% of the housing stock (Maclennan et al., 2000). A large part of the reduction in the size of the private rented sector was due to sales to sitting tenants. The Rent Restrictions Acts were one of the main contributory factors to this large number of sales. These Acts meant that selling housing stock was much more profitable than reletting. The political rationale behind the promotion of owner-occupation at this time was rooted in the unpopularity of private renting. Rex and Moore (1967) exposed the private rented sector as a source of exploitation and impoverishment.

In the second phase of the growth of owner-occupation, i.e. post-1980, it was presented as being preferable to ownership by the State and took place at the expense of the public rented sector. In the first phase policies were designed to promote owner-occupation across the board, with the emphasis in the second phase being to promote owner-occupation to lower income groups, with the deregulation of the lending environment and the introduction of 'right-to-buy' legislation. The implementation of 'right-to-buy' legislation under the Tenants Rights, etc. (Scotland) Act 1980 and the Housing Act 1980 gave large numbers of tenants of local authorities, new towns and those housing associations not registered as charities a statutory right to buy their homes at substantial discounts (Forrest and Murie, 1988).

There has also been a 'wealth' of fiscal measures designed to make owner-occupation favourable. The promotion of owner-occupation as a whole has centred on the introduction of tax relief measures (Ball, 1983). These included measures such as the exemption of the sole or main residence from capital gains tax (Forrest and Murie, 1988) and the availability, until April 2000, of tax relief on mortgage interest (Harriott and Matthews, 1998). These measures represented significant subsidies and are a large part of the explanation of why housing became such an attractive asset in the UK.

Hand in hand with this support for owner-occupation there has over time been a decrease in support for public sector housing. Consequently, the public rented housing sector has been described as 'being in turmoil' (Means, 1988:395). The cause of this turmoil can be attributed to the reduction in the funds which local authorities have available for repairs and maintenance, the decrease in the level of new local authority buildings, and increased local authority rents. Increases in local authority rents were particularly significant for working households who were not on housing benefits. State-subsidised housing has been at the heart of strategies and attempts by government to restructure the welfare system, which since the 1970s has been subject to widespread restructuring and retraction (cf. Clapham et al., 1990; Ball et al., 1988; Doling, 1994).

The overall picture that emerges is one where the options to rent have been restricted whilst the financial incentives to own have increased. Multiple periods of house price inflation above the general rate of inflation also enhanced the financial benefits of home owning. Between 1971 and 2001 the average rate of real house price inflation in Europe was 1.1%. In contrast, the UK had a rate of real house price inflation of 2.4% (Barker, 2003). The Council of Mortgage Lenders' mix-adjusted house price figures show that over the 1970s the average price of a house in Scotland increased from £4,500 to £19,100. By 1990 this figure had increased to £51,700. In 2004 the average estimated mix-adjusted price of a dwelling in Scotland was £105,129 (ODPM, 2004).

9.3 The methodological framework

The dynamics of this changing tenure structure are something to explore. What tenure has been made to be – the changes to its form, function and meaning – and how these changes have interacted with the lives of individuals has never been drawn out. The development of a methodological framework, drawing upon ideas of the life course, individual housing pathways and the influence of cohort, provided the framework to explore the stories and experiences behind this tenure change.

The life course is at times a nebulous concept, used in the academic literature in a variety of ways (cf. Hareven, 1978; Cohen, 1987; Featherstone and

Hepworth, 1989; Arber and Evandrou, 1993). Consequently, there is a lack of a consistent body of literature – and indeed clarity – on what is meant by the life course, a point highlighted by Sarah Irwin:

> It is difficult to point to any coherent body of literature of life course studies in sociology or elsewhere, yet life course related issues are increasingly recognised as crucial to understanding people' experiences at a micro level and to understanding general macro level, patterns and processes (Irwin, 2001, p. 16).

On reading this literature, what becomes apparent is that there are two key dimensions to the development of the concept of the life course. The first dimension is that, in contrast to the life cycle, a life course perspective understands that peoples' lives do not necessarily pass through uniform stages (Warnes, 1992). The second dimension is that a life course approach is a means to situate peoples' life experiences within the particular historical and temporal contexts through which they have aged. In this way, a life course approach becomes a way to understand how the wider macro context (be it social, economic and/or political) interacts with the lives of individuals at particular points in both real time, and within their lifetimes. Individuals are understood in terms of how earlier life experiences impact upon current life experience (Kendig, 1990). As Sara Arbor and Maria Evandrou state:

> The life course approach provides a framework for analysing the various influences, which contribute to the life experience of different groups of individuals at particular stages of their lives. It emphasises the interlinkages between phases of the life course, rather than seeing each phase in isolation (1993, p. 9).

The basic methodological and conceptual underpinning of the life course is that we can understand individual lives in terms of their different life 'pathways', such as family, employment, health and housing. A housing pathway (also referred to within the literature as a housing career and a housing history) is an account of an individual's housing experience over their life course. Such pathways are not just about changing tenures and moving, in other words event-based; they are also about changing experiences of housing. Mackintosh et al. (1990) and Clapham et al. (1993) argue for the need to see how 'housing careers' interact with other life careers. That is, as well as being part of a longer-term process, housing is seen as parallel to and interconnected with family, employment, and other life 'careers' which structure an individual's experience over the life course (cf. also Forrest and Murie, 1991; May, 2000; Tomas and Dittmar, 1995).

Conceptualising housing as a pathway – whether we think of it as a 'career', a 'history' or indeed a 'trajectory' – allows us to regard housing as a process as well as an outcome and to move analytically between personal biographies and the social structure: to see how the individual (micro level) interacts with the wider environment (macro level) through which they are passing. Kendig (1990) argues that the idea of a 'housing career' is the conceptual link between the life course of individuals and the operation of the housing market (and to this I would add the operation of the housing system more widely). While the effects of policy tend to be studied at a macro level, a pathways approach allows us to see the impact of policy at a much more real and personal level. The aim is not to generate detailed accounts of individual housing pathways, but rather to understand the key dynamics driving these careers.

Within the framework of a life course perspective a further layer of analytical interest is the cohort dimension. While every household biography is personal and unique, contextual influences – the way policies, practices, economies and societies vary across space and through time – are shared. These shared experiences are manifest as cohort effects. As such, an 'age' cohort may be defined as:

> The aggregate of individuals (within some population definition) who experienced the same event within the same time interval (Ryder, 1965, p. 845).

In this way a cohort is 'a structural category with the same kind of analytical utility as a variable like social class' (Ryder, 1965, p. 845). The common experiences of a cohort are important influences on subsequent behaviour, with successive cohorts differentiated by 'idiosyncratic historical experience' (Ryder, 1965, p. 843). Consequently, cohorts have a composition and character that reflects the wider context through which they aged.

Cohort effects are particularly important for housing analysis, because the impacts of market changes vary depending on people's position along housing and other life careers at the time (Kendig, 1990). So whilst older people may currently be living within in a particular housing policy context (at present this is one in which owner-occupation dominates the housing system), this is not necessarily typical of the bulk of their lives, and it may not be what has helped to form their housing knowledge. Within the parameters of this research many things could be regarded as a cohort effect. In the life course of the study participants, however, the touchstone for housing policy and practice has been tenure. Cohort effects, then, are set within and framed by the changing tenure structure of the British, and more particularly the Scottish, housing stock.

9.4 Using the experiences of older people to explore the changing tenure system

This study focuses on the experiences of a group of people who have lived and ‘aged’ through this changing housing policy context. Thirty-four people were recruited to be part of the research. The youngest participant was 65 years of age at the time of the interview; the oldest was 93 years of age. Thus although all of the participants might be classed as belonging to the ‘older age’ group, there is still a considerable age range (see Table 9.1). This provided me with the possibility of exploring a range of housing experiences over a longer time period, and through a wide range of housing policy contexts.

A point of particular interest in this study is that this wide range of ages has meant that the study participants are members of different ‘age cohorts’ (see Table 9.2). For the purposes of analysis, in this study I identified three different age cohorts. These are the study participants who had turned 50 by 1970, those who had turned 50 by 1980 and those who had turned 50 by 1990. In the methodological framework section I discussed the concept of age cohorts in terms of groups of individuals moving through particular contexts at particular points in their lives. So for example, if we consider the 1980 Housing Act, those social renters who were still in their forties at this point (i.e. they turned 50 between 1981 and 1989 – the ‘age 50 by 1990’ cohort group) were likely to be in a different position in terms of how they could respond to this legislation compared to those who had already turned age 50 by 1970 – yet both are subsumed within the category of older people. Recognising the importance of age cohorts (and not focusing solely on current age) is part of a biographical life course approach that emphasises the importance of understanding individual experiences within their historical context.

Of the study participants 8 are currently social renters with 26 being owner-occupiers. Initially I was concerned that this presented a distorted tenure profile: that I had too many owners and not enough social renters. Further analysis revealed that equal numbers of the study participants had experiences of social renting and owning. Table 9.3, which outlines both the tenure position at age 50 and current tenure position, illustrates this.

To summarise this table, 8 of the participants are long-term renters (see the list of participants in Table 9.4), 9 are tenure changers (i.e. the 17 who were social renters at age 50 minus the 8 who are currently social renters listed in Table 9.6), and 17 are long-term owner-occupiers (listed in Table 9.7).

What is particularly interesting about exploring the housing experiences of this age group is that they have lived through a variety of ‘housing contexts’. In other words, amongst the study participants there are those who:

- Have rented when renting was a norm
- Have owned when renting was a norm

Table 9.1 Participants' age categories

Age categories	65-75 years	76-85 years	86+ years
Number of participants	12	19	3

Table 9.2 Participants' age cohorts

Age cohorts	Age 50 by 1970	Age 50 by 1980	Age 50 by 1990
Number of participants	13	17	4

Table 9.3 Participants' age cohort by tenure

	Age cohorts			
Tenure aged 50	**Age 50 by 1970**	**Age 50 by 1980**	**Age 50 by 1990**	**Totals**
Social renter	7	10	0	17
Owner-occupier	6	7	4	17
Current tenure				
Social renter	4	4	0	8
Owner-occupier	9	13	4	26
Totals	13	17	4	34

- Have rented when ownership was being promoted
- Have owned when ownership was being promoted.

They have been exposed to multiple housing discourses of what is 'best' and what is 'normal'. The story of how they got where they are now encompasses huge changes in the housing policy context as well as changes within their own individual biographies. They have lived through various contexts. The current housing policy environment is the context that they have arrived at but is not the context that they have lived through. Recognising that older people have experience of different policy contexts is very significant, as very little work on older people and their housing recognises the diversity of their experiences. Consequently, they are the perfect group for showing the changing discourse with regard to the normalisation of home ownership. The respondents in this study capture the whole period. The focus on older people within this research is not, therefore, about age but about tapping into their wide-ranging experiences of housing.

9.5 The changing tenure system: exploring individual housing experiences

This section of the paper looks at the experiences of three different groups: long-term public renters (i.e. participants who have been public renters from at least the age of 50 onwards), long-term owner-occupiers (i.e. participants who have been owner-occupiers from at least age 50 onwards) and those who have made the switch from renting to owning in later life (i.e. since age 50). Grouping the participants' narratives in this way, and focusing on these three different types of tenure experiences in later life, allows for an examination of the significance of cohort factors in individual housing experiences. Further, exploring and comparing the narratives of these three groups allows us to see how tenure has changed its form, function and meaning over time, and to see how these changes to the tenure system have interacted with individual lives.

9.6 The experiences of long-term public renters

The stories of long-term public renters shed light on the experiences of those who 'have rented when renting was the norm' and have stayed as renters during a period of the promotion of owner-occupation. By looking at the experiences of those who chose to stay as public renters we gain insights into views of this sector that were formed over a longer time period and in different housing policy contexts. As illustrated in Table 9.4, all of these participants entered the public housing sector in the inter-war years, or in the immediate post-war period when government support for the sector was high. In the 1945-51 period 80% of all new dwellings were built by local authorities (Malpass and Murie, 1999). The views of the sector held by this group of participants differ from some of the more negative current perceptions of public housing with which we are more familiar today. In exploring the housing experiences of this group of older people two key questions are considered. Firstly, I am interested in exploring why these participants chose to stay as public renters in a housing policy context that increasingly favoured owner-occupation. And secondly, I am interested in what impact the changing tenure system has had on the lives of those who chose to remain as public sector housing tenants. Table 9.4 below lists the 'long-term social renters'.

One of the reasons why these participants have chosen to stay within the public housing sector is that their experiences of public renting are different from that which the policy context would have us believe. Many talk positively about their publicly rented homes, as illustrated in Table 9.5 below. We can see from these quotes that the participants talk about the meaning of home rather than about the specifics and meaning of tenure.

The language used by these participants is similar to that usually associated with owner-occupation; but in this instance it centres solely on the 'use' value and not the 'exchange' value. In analysing the participants' housing pathways their stories of their initial access to the tenure is an important reason for these positive perceptions.

These participants became social renters at a time when the perception of the tenure was a positive one: a time when the welfare ideal was emerg-

Table 9.4 Social renters at age 50 and still social renters

Interview	Pseudonym	Age	Current tenure	Decade of entry	Previous tenure
03	Linda	84	Social renter	Mid-1930s	Social renter
16	Sheila	70	Social renter	1930s	Social renter
24	Jean	85	Social renter	Late 1930s/ early 1940s	Social renter
08	Mary	85	Social renter	1940s	Social renter
01	Laura	81	Social renter	Mid to late 1940s	Social renter
28	Peter	76	Social renter	Mid to late 1940s	Social renter
30	Ron	75	Social renter	Mid to late 1940s	Social renter
05	Nicola	74	Social renter	Late 1940s/ early 1950s	Social renter

ing. This group of participants first accessed the public rented sector at a time when renting was perceived as a 'normal', 'desirable' and at times even 'preferable' tenure. Public renting was an alternative to other tenures. There access stories reveal a tenure neutrality about their earlier housing decisions – it is about accessing housing rather than about accessing a specific tenure. The following quotes from Laura and Mary illustrate this point:

> When we got married we just got that house because it was suitable at the time. [Laura]

> And then of course we were on the town waiting list and we got the offer of this house. [Mary]

In Mary's quote the phrase 'of course' epitomises the normality of entering this sector. It is worth noting that this theme also emerges in the narratives of the long-term owners. Such sentiments point towards a more tenure-neutral housing system at the outset of these participants' housing careers. Some of the participants also talk about a more restricted and less familiar mortgage lending climate than that with which we are familiar today:

> Ideally I wish I had bought a house when I was younger, but I didn't know about mortgages and things. [Laura]

> But then you must realise that at a younger age like you that the building society wouldn't give me a loan because they wouldn't give it to young people. [Sheila]

Despite the promotion of owner-occupation, access to mortgage finance was still difficult for some groups. Sheila also refers to owner-occupation at this

Table 9.5 Public renters' meanings of home

Home is a place whose location is important
"Oh it is a lovely, it is very central. It is quiet but it is near the town, which I like. I am a townie; I was brought up in the town. I love the town." [Laura]
"The good things. Well, it is very central, the post office, fishmonger, every kind of shop that you want and the buses. Any kind of buses, whether you are going up the town or down it is quite central, whatever thing you are needin'." [Peter]
A place where you can be yourself...
"Just the space and I have my own things. As you get older some of the things have got the worse for ear but they are yours and you are used to them." [Laura]
And be comfortable...
"It is comfortable enough for me. It is big enough for me." [Peter]
"Well the best thing is that I am well accommodated by it being a warm house. That is most important to me, especially being a diabetic." [Sheila]
And also a place of memories and happy time...
"But eh, och I think I will be there forever more. I wouldnae like to move. I have too many memories. Oh aye." "We used to have wee parties and that. Ken*, we used to be a crowd of us, couples and then maybe one Saturday it would be their house and then another Saturday it would be another house and that was how we enjoyed life. Oh I thoroughly enjoyed it. Too many memories! I wouldnae leave. They'll need to carry me out!" [Jean]
"I was just quite content with the place. We had spent so many years in it together, like you know, I just didnae want to leave. Na I didnae want to leave it. But she spent her last years in this house so I am not going to move out of it now." [Peter]

* Ken: Scots for 'to know'.

time as being a chance, in contrast to what she perceived as more stable public sector housing:

> Well my mother she would take a chance, but my father, no. He was the type, but of course we had a rent-free house. It was a council house. [Sheila]

The perception of the public sector as providing a safe and secure housing option was particularly the case when compared to housing provision within the private rented sector. A number of the participants had previously moved from slum clearance private rented accommodation to the public sector. The move to the public sector was a step up the housing ladder:

> The houses were comin' down and we had to be re-housed you see. [Linda]

> It was old houses but the Corporation condemned them so they gave us so much money so they can knock them down and that is how they gave us the house. [Ron]

'Cohort factors' – in this case the housing climate that existed at the outset of their housing pathways – are a key holding factor in their decision to stay within the public sector. Entering the sector at this earlier time meant that they were housed in more central city locations, which today, in Edinburgh, are considered more favourable than many of the more suburban local authority estates. These current more central positions are protecting them from some of the more negative social renting associations.

Previous research has found that it was the better-off tenants, often living in better areas and houses, who bought their council homes, whereas the less well-off stayed as renters (cf. Kerr, 1988; Lyn, 1991; Doling, 1983, 1993; Brown and Sessions, 1997). For some of the participants in this study, such as Jean, Sheila and Nicola, who are in receipt of housing benefit, it would have involved increased financial expenditure to become owner-occupiers; both in terms of having to pay for repairs and maintenance and increased housing costs. Jean and her husband decided not to buy their flat because of their fear of a large repair bill due to the fact that it was a top flat:

> It was a top flat. It was a flat roof and my husband said 'no'. And it is just as well that I didn't because I was flooded out. The kitchenette roof fell down. [Jean]

Sheila did not consider buying because she was in receipt of a rent rebate and buying would have meant that she had increased housing costs in the form of a mortgage:

> But I didn't consider it because I was getting a rent rebate, so I didn't consider it. [Sheila]

Nicola also turned down the option to buy her socially rented home from the council for £12,000 because she was already in receipt of full housing benefits and would not have had the money to make the repayments on a loan. In contrast, we will see in the 'tenure changers' section of the paper that some of the participants in this study left the social rented sector to become owner-occupiers because this was actually a cheaper housing option for those not in receipt of housing benefit (i.e. higher income groups).

Having explored some of the reasons why some of the participants chose to stay within the public sector, I now consider the impact that the changing tenure system has had on the lives of those who chose to remain within the public sector. Mary's story helps to illustrate some of these impacts. Mary, a member of the 1970 age cohort group, stayed as a public renter because she felt that this sector would best meet her changing health needs. When offered the option to buy their home Mary and her son declined because they felt that this would reduce her future housing options should she need to move for health-related reasons:

> And then my son said, if I decide to buy this house, he says would that put my mother in a position that they wouldn't give her a smaller house? And she said yes, if you buy the house, your mother has got to stay there. But my son was going to buy it and that was the reason.

For Mary this move to a smaller local authority dwelling took place in 1983:

> And it was when I fractured my hip that I got the smaller house. Although I had a bedroom downstairs, the toilet was upstairs so they gave me the wee cottage that I am in now.

Although she made these decisions in the 1980s, at a time when the right-to-buy legislation was in place, Mary actively chose what she then conceived of as a healthy and enabling space over the potential to buy her home as a sitting tenant. Her knowledge of public housing was of a sector set up to meet health needs. As time goes on, and the nature of the stock and the opportunities within it changes, she is stuck as she experiences mobility access problems with this smaller dwelling. A step at her front door restricts her access into, and out of, her home. So her biography shows how what was an enabling option, 'rationally' chosen as such, can turn into a difficulty – not because of Mary's personal circumstances *per se*, but because of the changing housing system; the decreasing size of the local authority housing stock reduces the potential for moves within this stock. Her story thus shows both the potential in, and the compromises of, housing for health in the social sector. In the current housing policy context her decision may not seem so rational. Being part of an older cohort has impacted upon the housing decisions made by Mary and thereby on her current housing position and outcome.

9.7 Changing tenure in later life

All of the participants in this research who were public renters at age 50 had the option to buy their homes from the local authority under the 'right-to-buy' legislation at substantial discounts. Of the seventeen participants in this study who were public renters at age 50, nine subsequently became home owners (see Table 9.6). If the tenure shift had not taken place, these nine participants might have been lifetime social renters. Therefore their stories il-

Table 9.6 Changed from renting to owning after age 50

Interview	Pseudonym	Age	Current tenure	Entry to owner-occupation	Previous tenure
02	Louise	79	Owner-occupier	1980s	Private renter
15	John	65	Owner-occupier	1980s	Social renter
23	Janet	79	Owner-occupier	1980s	Social renter
29	Ann	80	Owner-occupier	1980s	Social renter
31	Sarah	75	Owner-occupier	1980s	Social renter
27	Deborah	73	Owner-occupier	1980s	Private Renter
10	Kate	78	Owner-occupier	1990s	Social renter
26	William	89	Owner-occupier	1990s	Social renter
33	Elizabeth	83	Owner-occupier	1990s	Social renter

luminate the kind of thinking and experience that drove the transition to a 'normalised' and numerically dominant owner-occupied sector. We can also see how these participants have taken on board the discourse regarding the residualisation of the social rented sector. By focusing on the decision to leave the social rented sector as opposed to becoming owner-occupiers we are adding a new dimension to our understanding of housing experiences. It is worth noting that whilst these people are leaving the social rented tenure to become owner-occupiers, they are still staying within the same dwelling.

There has been much debate in the literature as to why a household would choose one tenure over another. There are those (often writing from within the field of the sociology of consumption) who point to attitudinal surveys and argue that home owning is the natural, preferred stance of the individual (cf. Saunders, 1990). On the other hand there are those who argue that 'the existing literature on tenure preferences is marred by an excess of unstructured empiricism or ideological rubbish' (Merrett, 1982, p. 56). Whilst providing a wide-ranging perspective, surveys on tenure preference are said to be of little use in understanding the reality of housing motivations and aspirations, and the means by which these preferences are constructed and articulated (Forrest and Murie, 1990; Gurney, 1999). Although surveys are useful in showing the result of peoples' decisions, they do not tease out the mix of influences – e.g. financial, political or social – that nudge people in one direction or another.

Debates about 'tenure preference', and more particularly about why people become home owners, tend to be framed in terms of a push-pull model of tenure choice. In this model people are invariably 'pushed' from public renting and 'pulled' or induced towards owner-occupation. But what it is that pushes people from public renting and why it is that they are 'pulled' to owner-occupation? Whilst framing the discussion in this way is useful in providing a broad overview of tenure change it does not really help us to understand the complexity of housing motivations and aspirations, as the simplistic (and all too appealing) nature of this representation clouds the reality of how individuals construct and articulate these preferences. As Forrest and Murie state:

> An explanation of tenure choices and preferences need not be forced into an ideological strait-jacket or be one which imposes a simple polarised, mutually reinforcing negative, positive view of tenure (Forrest and Murie, 1990, p. 633).

The tenure preference discussion implies that some people become owners because of dissatisfaction with State modes of housing provision – this 'dissatisfaction' pushes them from the public rented sector. The stories of the participants in this research reveal a different picture. It shows people who have been local authority renters over a long-term period and who, by and large, have been well housed and happy within this sector. These findings concur with those of Kerr (1988) and Forrest and Murie (1990) who both disputed the argument that people buy due to dissatisfaction with the State mode of housing provision. What happened was that, within the changing housing policy context, to continue renting from the council began to make less sense (economically) and began to hold less opportunities and flexibility. Ultimately, to become an owner was the obvious 'choice'. The narratives of the participants reveal a wider awareness (gained through both their own experience and the experience of those around them) of the changing (declining) environment of the public housing sector. It is within these shifting policy boundaries that a range of different housing decisions are made which have the common result of a tenure conversion. The policy climate across one particular time frame thus exerts its 'cohort effect'.

In almost all cases an awareness of the changing context of renting and of the generous financial incentives offered to buy informed the decision to buy. Participants began to look to owner-occupation for choice and welfare, but only in the context of not being able to do so as public renters. In these stories we can see the changing functions of the tenures. Kate's story helps to illustrate this point. Kate lives with her son. She was worried about how he would be housed after she died and as a result decided to buy her home from the council.

> It was as things **[the rent]** got more expensive and I was thinking about my son 'cause if he was left on his own it would revert back to a new tenant and it was going to be more difficult for him to find a place. The rent was going to be more expensive for him because he only paid a share; the social security paid mine you see.

This decision to buy was informed by wider experience of what has happened to a friend in a similar situation. She states that if her son had not been living with her she would not have bought and would have been happy to stay with the council:

Interviewer: And if your son hadn't of been living with you?
Kate: I wouldn't have bought it. I would have gone for a smaller house.
Interviewer: With the council?
Kate: Oh yes, I would have stayed with the council. I have been with the council. My Mum and Dad were with the council.

It was her concern for her son's housing future (and the uncertainty of the public housing sector) that led her to buy. Her awareness of this wider context and the diminishing attractiveness of renting existed alongside the major financial incentives to buy:

> But when my son got the chance to buy mine at £10,500 – that was after it had been rewired – we weren't going to turn it down.

Others too talk about how it became increasingly unviable (financially) to stay within the public sector:

> When I was in the council it was cheaper to buy than to rent so that is really why I did it. Against my better judgement because I don't think that you should sell council houses. But 'cause you only sell the good ones. [John]

> Well, you know because I was still working and I was paying the big rent, a full rent. You know some people get a discount but because I was working I had to pay a full rent. [Sarah]

It is worth noting that both of these participants worked full-time and hence were affected by the rising local authority rents. As members of the 1990 age cohort they were also some of the younger participants in the study. What is interesting about these narratives is that when the participants talk about the financial benefits of changing tenure this is in the context of the increasing costs of renting rather than the financial capital gains of owning.

Increasingly, among the narratives of the participants, the public sector was viewed as offering less choice. Janet talks about her decision to buy. Talking about her future health circumstances, she felt that owning would give herself and her husband more flexibility and housing options:

> Looking to the future well we thought that we had something to sell, if we wanted to move. And then that came about. [Janet]

In contrast, we saw earlier how Mary, a long-term public renter, had previously stayed within the public sector because this was the sector that she felt would be best suited to meeting her changing health needs. Whereas Mary is a member of the 1970 age cohort, Janet is a member of the 1980 age cohort. By looking at their stories of managing their health we can see how the function of the tenures is changing over time. The participants are beginning to look for welfare in the owner-occupied sector, but only in the context of not being able to do so as public renters. Owner-occupation is also seen as giving people more choice in where they live. Connie discusses this below:

> Well, owning my own home has meant that I am able to choose where I live. If you rent, and mind you, rented property is much less available than when I was young and it is very different. And if you want to rent council property it is in pretty run down areas. [Connie]

The increased choice available within owner-occupation reflects the changing form of the tenures.

The key point from this discussion is that those who bought at older ages in the 1980s and the 1990s did not have a burning ambition to own and enjoyed what renting had been. It was the kind of changes in what renting had been and the establishment of a particular kind of owner-occupation that shaped their housing pathways in cohort-specific ways. From these narratives we can see how the changing tenure context, in terms of both its form and function, has worked its way through into peoples' lives.

9.8 The experiences of owning in later life

The third set of housing experiences that I want to explore are those of the long-term owner-occupiers. In contrast to the experiences of the long-term public renters and those who changed tenure after the age of 50, as owner-occupiers from the age of 50 onwards these participants already occupied the 'preferred' housing position. The longer-term perspectives which these participants display on owner-occupation offer a particular take on what owning means. Through their narratives we can see how the meanings attached to owner-occupation are changing.

A key point that emerges from Table 9.7 is that, although I selected the study participants according to current age in order to get different cohorts, an important effect is when they entered owner-occupation. Amongst the 16 'long-term owner-occupiers' who took part in this study, two broad groups can be identified. There are those who bought straight into owner-occupation by the 1950s or before. The second sub-group of owner-occupiers by age 50 entered the sector in the 1960s and 1970s. Whilst this was before the introduction of the 1980 Housing Act (the 'right-to-buy' legislation), when sitting tenants were given the 'right' to purchase their socially rented homes, local authorities still had the 'right to sell' to sitting tenants. Within the stories of

Table 9.7 Owner-occupiers at age 50 and still owners

Interview	Pseudonym	Age	Current tenure	Decade of entry	Previous tenure
04	Alice	93	Owner-occupier	1930s	Owner-occupier
13	Ellen	79	Owner-occupier	1940s	Owner-occupier
18	Karen	82	Owner-occupier	1940s	Owner-occupier
21	Florence	81	Owner-occupier	1940s	Owner-occupier
07	Eve	76	Owner-occupier	1940s-50s	Owner-occupier
25	Helen	77	Owner-occupier	1940s-50s	Owner-occupier
11	Georgina	70	Owner-occupier	1950s	Owner-occupier
17	Elsa	71	Owner-occupier	1950s	Owner-occupier
34	Patricia	66	Owner-occupier	1950s	Owner-occupier
06	June	69	Owner-occupier	1950s	Owner-occupier
22	Angela	74	Owner-occupier	1950s	Owner-occupier
20	Tim	88	Owner-occupier	1960s	Private renter
19	Margaret	78	Owner-occupier	1960s	Private renter
09	Connie	77	Owner-occupier	1960s	Social renter
12*	Irene	82	Owner-occupier	1970s	Social renter
14	Sam	79	Owner-occupier	1970s	Social renter
32	Betty	65	Owner-occupier	1970s	Owner-occupier

* Irene bought her home when she was aged 51.

these long-term owners who bought in the 1960s and 1970s we can already see the beginnings of the shift towards the dominance of owner-occupation. The stories of these participants thus provide a link with the stories of those tenure changers who bought under the later 'right to buy' legislation.

Amongst the earlier group of entrants the overall sense that emerges is that owning has simply been a means to access a dwelling, rather than being about accessing a particular tenure. This bears close parallels with the earlier access stories of the long-term public renters. For a number of participants owning was just what they did, and something that they got used to over their life course. These are people like Alice, Elsa, Karen, Eve, Florence, Helen, Georgina and Ellen. Elsa expresses it like this:

> It is something that we did automatically. I don't know. We didn't think about it.

Patricia states:

> We couldnae get a loan for a house in them days. We couldnae get any mortgages. We tried. We tried everywhere. Rented houses and everything.

Ultimately, Patricia and her husband received a loan from her mother-in-law to buy a house. The second group of owners, who entered the sector in the

1960s and 1970s, have different entry stories; these stories provide a link with the stories of those who changed tenure in later life. Connie and Sam began their housing careers as public renters. Connie decided to buy in the 1960s because she already felt that her housing choices as a public renter were limited. Sam was 'forced' to buy when the council refused to provide him with a house owing to his higher income level.

The policy context discussed earlier in this paper set the parameters for those who were owners at age 50. Those who were owners at this age were never in a position that they could move into public renting. Even had they so wished, public renting was no longer on their horizon of opportunity. Given the circumstances, we would expect those who were owners at age 50 to stay as owners, and this is indeed the case. As home owners we would expect that the way this group constructs and experiences their housing trajectories would fit in with the wider policy context. The view of owner-occupation as a form of wealth accumulation is one that pervades both lay and academic discourses. In the UK hardly a week passes without some newspaper commenting on the rising price of housing and the financial gains to be made from such rapid (albeit only in some areas) house price appreciation. Yet those I interviewed did not (necessarily) become owners to accumulate wealth but because this is how they got housing at that time in their life. This group of long-term owners does not appear to have had the financial gain motive that some commentators and the government support. Whilst participants are aware of what is going on they also resist it. The current meanings and attractions of owner-occupation are not uppermost in their minds. These long-term owners appear to be working on different models of ownership—not least because they will have lived through various booms and slumps. As the sections of their narratives illustrate below, members of this group reject the idea of housing as an investment whilst being aware of the increasing value of their homes (Table 9.8).

It is worth raising the possibility that Betty and John are members of the younger 'age 50 by 1990' cohort and that they would have experienced the 1980s slump in house prices. Following a boom in house prices in the mid-1980s, from 1988 the private housing market faltered and Britain entered a sustained period of depressed housing activity (Malpass and Murie, 1999). As mortgage interest rates rose, repossessions increased. Over this period the number of housing transactions fell and house prices declined. The discourse at this time was that we should not consider housing as an investment but that we should be satisfied with it as a home. Their sense of housing is not based on the current view but on earlier times when it was shaken; although they were interviewed in a housing boom and they recognise this.

A model of ownership that is significant amongst this group of long-term owners, and particularly amongst some of the members of the older cohorts, is the idea that they can pass their housing wealth onto their children and

Table 9.8 Resisting the dominant discourse

Resistance	Awareness
I: Some people consider housing principally as an investment, have you ever considered it in that way? P: Never. [John]	I: And the move involved a change in property value? P: Yes. And it has doubled since I moved. More than doubled in fact. [John]
I: And would you consider your housing as an investment? P: No, it is a home. [Betty]	Well, both my daughters have got their own flat because they didn't want money going to nothing. [Betty]
I: Some people regard housing as an investment. Have you ever considered your housing in that way? P: Well I have noticed that each time we have moved that we have made a profit! [Laughter] And the present one is certainly now valued probably around £120,000. And we paid around £38,000 for it. [Laugh] So it is an investment but I didn't look on it as one. [Sam]	

families:

> I think I think about it as an investment for my children, for my girls, you know. I feel at least I have got something. [1970 Cohort – Florence]

> I would rather the money that was on this go to my family to give them a good start in life. [1970 Cohort – Tim]

> I: And is that an investment for your future?
> P: Well my future. Well just for the family. [1980 Cohort - Ellen]

This model of ownership has potentially significant implications for the success or otherwise of home equity release schemes. Whilst participants are prepared to spend money in the bank, their housing assets are to be passed onto their children. We can also see shifts over time between the different cohort groups in how they talk about owning. Amongst some of the younger members of the group we can also see the beginnings of a change in the use of accumulated housing wealth, from intergenerational transfers to paying for care costs. Forrest and Leather (1998) argue that, in a post-Keynesian welfare state, many older home owners will feel pressured to use the wealth tied up in their dwellings to meet welfare needs. This is an emerging issue of concern amongst some of the younger respondents:

> June: It [owning] gives you something to leave your children too. Hopefully. Rather than go into a nursing home. Well I, because that is what is going to happen next. [June – 1990 Cohort]

> Sarah: But I now find that I get annoyed when I read that you have to go into care and then if you have to sell your house I find that it is a

> shame because as I say most of us have worked very hard for what we have got and I find that that is a shame. I mean if, or when, anything happens to me I still have a sister and brother who are older than me and numerous nieces and nephews and I would like to think that they could get a bit from, you know, after I go, I could leave something for them. But if I have to go into care which I don't know well what happens if they take most of your money away. I mean I wouldn't mind paying so much for care, I mean I never expected anything for nothing but I find it that sticks in your teeth sometime. [Sarah - 1990 Cohort]

From these narratives we can see a change in the participants' perceptions of the function of owner-occupation.

9.9 Conclusion

This paper has explored the study participants' pathways through a changing housing system. Over the life course of the study participants, the biggest change to take place within the housing system has been the shift to owner-occupation as the dominant housing tenure. The tenure structure that this group of people have arrived at in later life is very different to what it was when they first entered the housing system. This paper has looked at the dynamics of this changing tenure structure and in particular at how individuals have experienced this change. These are the stories behind one of the biggest social changes in British public policy, stories previously not told.

In this paper I looked at the collective experiences of this group of participants as they move through this radically changing housing system. I recount stories of how different age cohorts have interacted with the housing system, and in particular with the changing tenure structure, at different points in these lives and at different points in time – hence in different policy contexts. In particular, I am concerned with the impact that their earlier interactions with the housing policy context have had on their subsequent housing pathways, and upon their current housing outcomes. I consider the extent to which current housing positions and experiences may be seen as a manifestation and outcome of these cohort factors. My point is that, whilst particular housing outcomes in later life could be perceived as being particular to older age groups, they are not explained by the category of age per se but are influenced by the policy context through which different cohorts of older households have aged.

In analysing these experiences I explored the significance of cohort by considering the experiences of those who had turned 50 by 1970, by 1980 and by 1990. In discussing the housing pathways of the study participants I illustrate some subtle differences in the perceptions and experiences of those in these three different age cohorts. In this way I further emphasise the diverse circumstances of older people, rather than considering them as a homogeneous population. By grouping the experiences of long-term owner-occupiers, tenure converters and long-term social renters I have been able to illustrate how the use and perceptions of tenure have changed over time. In this way, as well as exploring the implications of individual decisions, by adopting a cohort approach we can begin to understand the politics and dynamics of housing tenure.

This paper narrates the 'lived' story of how housing tenure has changed in its form, function and meaning over more than 50 years, to a point where owner-occupation is the housing norm accommodating nearly 70% of households, and social renting is a 'residual sector' accommodating lower income groups and people whose housing needs are not being met by the market. Through the narratives of the participants we can see the changing form of the tenures as people see less choice in the public sector and more choice within the owner-occupied sector. The paper also sheds light on the changing functions of the tenures. As the subsidies for public renters transferred to the owner-occupied sector, people engaging with this wider context began to look for welfare in the owner-occupied sector. Changes to the tenure system are about more than just housing, as they also impact upon health experiences. As the tenure balance has shifted, peoples' perception of what the tenures have to offer has also shifted. This change in the meaning attached to the tenures has seen the investment and resource potential of owner-occupation becoming more significant.

In the course of exploring what happens in housing in later life we can learn a lot about tenure, and about what it has been made to be in the British housing system. This is crucial, because government policy objectifies tenure differences as if tenure comes with fixed, immutable attributes – when in fact what these stories help to illustrate is that different attributes are built into the sector at different times. Taken together these accounts tell the story – indeed the lived story – of Scottish housing policy and the changing housing system. In doing so, they also go part way to explaining the housing careers and current housing circumstances of a group of older people living in Edinburgh today.

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10 Managing risks in the new housing regimes of the transition countries

The case of Hungary[1]

József Hegedüs & Nora Teller

10.1 Transition and the welfare regimes

The main characteristics of the East-European Housing model (Hegedüs-Tosics, 1996) were the one-party political control over the housing sector, the subordinate role of market mechanisms, the lack of market competition among housing agencies (due to the existing bureaucratic coordination), and a broad control of the allocation of housing services (where utility companies received huge, non-transparent subsidies which were manifested in low consumer prices). Nonetheless, under the heading of this model several 'submodels' (versions) emerged as responses of the individual countries to challenges in the process of the development of the socialist economy. (Turner et al., 1996). According to the 'soft structuralist' approach as put by Doling and Ford (2003), while the main characteristics of the model could be interpreted as a structural explanation, the divergences of the model were considered theoretically as 'policy options' taken by the individual governments. This approach combines a 'rational choice' (policy choice or agency choice) type of explanation with structural elements. In his earlier work Hegedüs followed this argumentation, for example, in the explanation of 'self-help' housing in Hungary. (Hegedüs, 1992)

The transition in 1989/1990 brought about the change of the political structure and the establishment of a democratic political system, which moved away the political constraints of the introduction of market mechanisms. The liberal economic approaches (promoted e.g. by technical assistance agencies) have dominated the literature dealing with issues of transition. (Mykhenko, 2004; Kornai 1998, 2000). They focused on the process of overcoming economic and institutional constraints that hindered the development of the market economy. Parallel to the market development a new type of welfare regime has been emerging, which is to manage the social conflicts of the transition. The relation between the welfare regimes and housing regimes is quite complicated, because of the strong path dependency in the development of the institutional structure and the complex nature of housing systems.

The discussion about housing regimes in Eastern Europe mostly agrees

1 The findings of this paper are closely related to the results of the research undertaken by the authors in the EU 6th Framework Program OSIS Project's relevant work packages (Origins of Security and Insecurity of Homeownership).

that the shift toward the market based housing system happened in different ways and at different 'speed', and thus resulted in different sub-models. The zigzagging way of achieving a market based housing system which can be characterised by a system, in which the market mechanisms dominate the production, allocation and consumption of housing, there is sufficient competition among agents and institutions in the interrelated markets for housing finance, resources and services, and governments provide subsidies that are relatively transparent, progressively targeted and budgeted in sustainable ways (Buckley and Tsenkova, 2001). These changes were to be introduced in an environment with changing structural factors. Hence, the differences that emerged among the countries can be explained partly by exogenous factors, like the strength of the democratic institutions, the extent of the structural changes etc., and also by endogenous factors, i.e. the institutional and legal legacy of the socialist housing system.

The challenges the national governments had to respond to had a lot of common elements. Theoretically there were two basic options after the transition. First: to use the housing sector as an 'engine' of the change; or second: to use it as 'shock absorption' in the sense that one of the aims of the housing policies was to reduce the conflicts caused by the transition (Struyk, 1996), and to give room for manoeuvring for households in economic hardship, similar to how Buckley and Gurenco (1997) interpret housing privatisation in Russia.

The first option was practically unfeasible, because at a time of economic decline the under-maintained and under-financed housing sector could not be totally 'marketed' without huge and unmanageable social conflicts. Even in countries having relatively successful transition strategies, the transformation of the public service sector (health, education and the social sector) had to be postponed, and the main focus was on the production and the financial sector. Hence, in the in-between housing areas – those without social barriers to major market changes like the construction and building material industry – the transformation was possible, whereas, in the area of housing services (water, heating etc.) market mechanisms have resulted in social conflicts through price liberalisation and payment enforcement. The specific solutions used to manage social tensions of the transformation (like decentralisation, housing allowance programmes, price controls, privatisation of the public works) formulated the welfare regimes. Postponing the solution as a part of the 'shock absorption' strategy was a typical reaction, but the structural factors (macroeconomic conditions, government budget deficit etc.) forced the socities to move the housing service sector closer to a system providing cost recovery

The development of the housing systems of the transitional countries has depended on the policy and institutional options chosen under structural constraints (fiscal pressure, new political system, privatised economy, public sector reformed etc.). The emphases are on both the policy and institutional elements of the housing system that are nevertheless able to handle the risk elements (e.g. affordability problems) that emerged due to the strengthening of the market mechanisms. We must stress that it is not enough to deal with policy choices without reflecting on the elements of the manifested institutional background, since the policy options embedded in government papers and government decrees are not sufficient conditions to bring about crucial changes in the housing system and without institutional support (banks, local governments, construction companies) these attempts will not be successful. Thus the analysis of the housing policies without their institutional background can only give limited insight into the process of transition.

The task of the paper is to find the factors which influence these policy and institutional decisions. A comparative research first has to understand the role of the different institutional solutions in a particular housing system, and, on the basis of it, it has to address the question why different countries have chosen different options.

Following this aim, in Section 2, we investigate the emerging of the new housing systems of Eastern Europe by shedding light on the changing tenure structure, the altering meaning of tenures, and the new elements of the housing systems. Based on the findings, Section 3 gives an insight into the background of the residualisation of the social housing sector with the view of the housing privatisation's process in Hungary; and while exploring the risk elements in the home-ownership sector, it concludes that in Hungary, utility related arrears are the main risk elements and they unequally affect different groups of the population. Furthermore, the phenomenon of cash-poor and asset-rich households is discussed that constitutes a new element in the owner occupied sector. The chapter concludes with a brief review of initiatives undertaken to lessen the risk factors of home ownership and to develop the governance of social housing in the area.

10.2 Emerging 'super home ownership'[2] housing systems

10.2.1 Tenure structure in the pre-transition period

In the socialist housing system four main types of tenure could be differentiated. It is important to realise that the 'meaning' of the tenures, which largely derives from property rights, allocation procedures, management systems and housing subsidy systems, not only differed in the various countries, but was changing in time, too.

2 Term used by Stephens (2004).

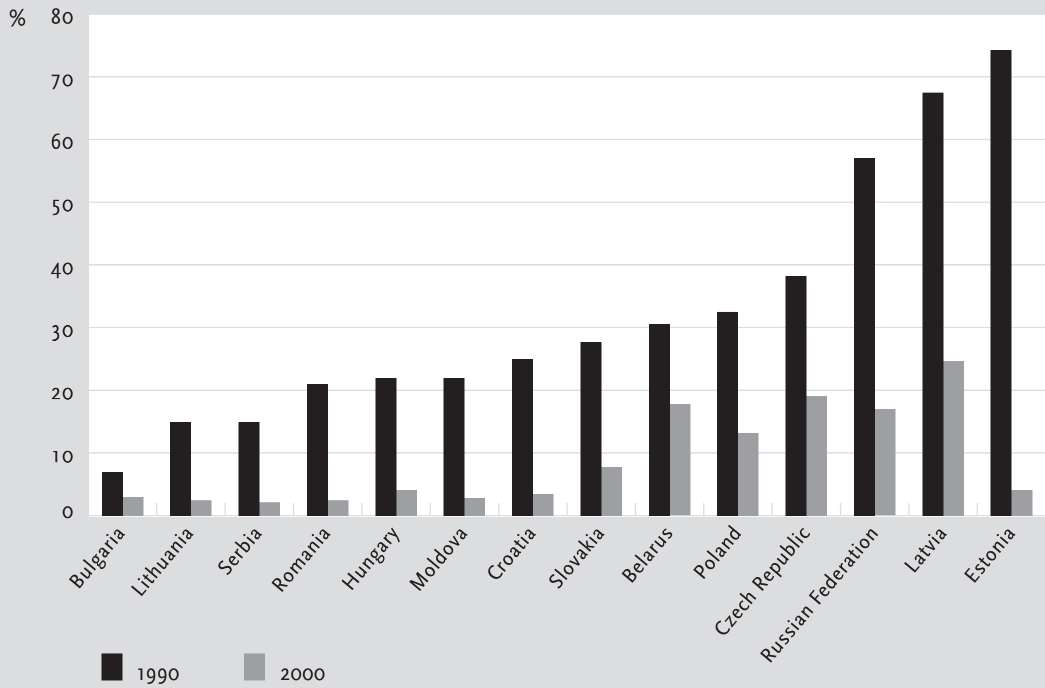
'Public rental' is a comprehensive title that includes several types of public housing, the enterprise housing, the council housing, and the rental stock under the control of both the councils and the enterprises. The enterprise housing fits into the economic and political structure which is dominated by the sectoral ministries, where their big state owned enterprises developed and managed a housing stock. A special type of enterprise housing was the working hostels. They were controlled by the big state owned companies providing shelters basically to the first generation industrial workers migrating from the rural areas. Enterprise housing was very important in the Soviet Union, but even in Poland it was 13%, in Slovakia 6% of the stock (Hajduk, 1996). In the council housing system the local governments (as deconcentrated agents of the central government) had the right to develop, manage and allocate the public housing stock. This was typical in Poland, Hungary, Czech Republic, etc. The third model was developed in ex-Yugoslavia, where, according to the model of socialist self-management, public housing was under the control of the local enterprises and the councils. The tenants typically had strong tenancy rights in terms of the right to exchange, inherit and 'sell' the tenancy rights (see Figure 10.1).

'Co-operative housing' – in principle – represents a tenure form between the public rental and owner occupation in Eastern Europe, but there were only slight differences between living in a co-operative and a state rental, as the construction, allocation, and financing were managed by the organisations under direct state control. In the legal sense there were several types of cooperatives, e.g. tenants' cooperative, owners' cooperative or building cooperative.[3] The cooperative members could typically sell their flats independently, the co-operative being obliged to admit the buyer to co-operative membership, and these flats could also be inherited. In the 1960s, co-operative housing was introduced in the Soviet Union, and later in other socialist countries. Development of co-operatives became a very important element in the housing strategies in the East European countries, and this was reflected in the comparatively large share of units in this legal form.

'Private/individual ownership' dwellings were typical of the rural areas and outer areas of the cities in the region. Private ownership, in principle, means full right of use, disposing, management and possession of

3 Building cooperatives in Bulgaria or in Hungary, cannot be considered as a tenure form, because the cooperatives existed only in the construction period, and ceased to exit after the right of use was issued by the Building Authority.

Figure 10.1 The share of public rental houses as a percentage of the total stock, in 1990 and in 2000



Source: Lux (2003), ECE (2002), MRI (1996)

the real estate, referring mainly to the stock of family houses, mostly with one flat, to smaller and less attractive houses. In practice, several constraints were imposed on private ownership. For instance, private ownership over flats was taken away from the owners during the socialist period, and the tenants with tenants' rights enjoyed the right of possession and management in the sense of investing in the improvement of housing quality. Such flats were then run by the public housing funds, and the owners were responsible for the maintenance of the common parts of the building and of the walls.

'Private rental' was a part of the 'grey' economy, because even in the rental sector, the sitting tenants had the right to sublet their apartments, but in most of the countries, this tenure was not reported. In some of the countries in the region the share of second homes is extremely high, e.g. in Croatia, Bulgaria, Romania, and Hungary. With the development of tourism, second homes have become important economic assets.

The countries in Eastern Europe demonstrated an enormous diversity in tenure patterns before the transition. On average, around 20% of the stock belonged to the public rental sector, which was only one form of the state provision. On the one hand, one extreme was Albania with 35% of public stock, and the other Bulgaria with 7%; the other countries had 15-25% of the stock in public hands. The extraordinarily high home ownership rates in Bulgaria before the transition are striking, but if we understand the actual operation of the housing sector, this fact did not make much difference in terms of the processes in the sector. The other difference was the role of the cooperative sector: in the pre-transition period it was just another form of state controlled housing. The cooperative 'movements' were under the supervision of the state apparatus, thus co-operatives had a considerably different nature from western-type ones.

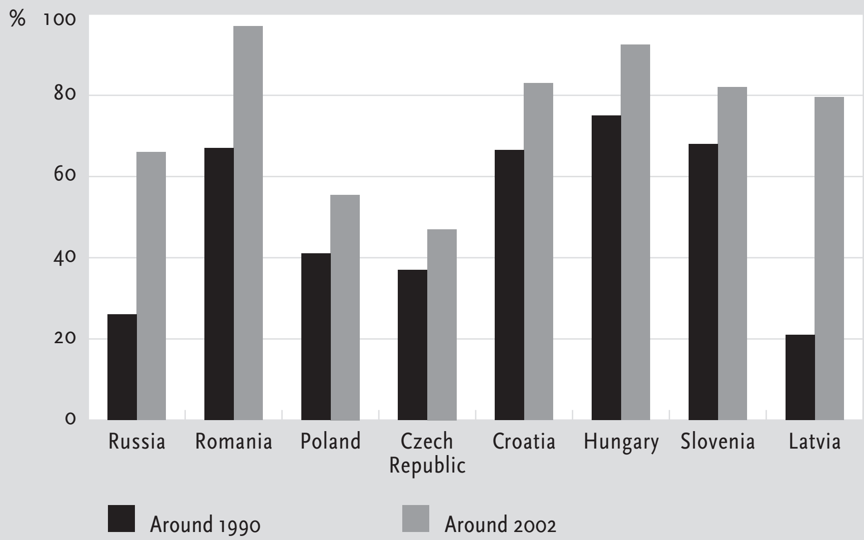
The tenure structure by itself does not say too much about the operation of the sector, as the detailed regulations and unwritten rules made significant modifications on the effect of the tenure form (Hegedüs-Tosics, 1996) For example, in Bulgaria, property rights tied to private (individual) ownership were controlled by several rules, e.g. limitation on selling. In co-operative housing, the 'members' of the co-operative were not free to choose the maintenance companies, the fees were set by law, etc. Thus, it is very important to note that tenure itself was defined by a wide range of detailed regulations. This also means that the names of different tenure types, although their counterparts do exist in the western housing models, cover a variety of contents, and elements mostly common for other tenure types in western housing regimes are related sometimes to 'opposite' categories (e.g. 'selling' rights in the public sector whereas prohibiting private transactions of home owners) (see also Mandic-Clapham, 1996). However, after the transition, these differences have become important and the tenure types nowadays mostly embody juridical categories applied in Western Europe. The processes that reordered the tenure types were privatisation and restitution of nationalised housing and are key elements in understanding the tensions emerging in the housing sector in the European transition countries.

10.2.2 Privatisation and restitution

After 1990, social tensions had emerged in those areas of the public service sector where not all stakeholders' influence on decisions was ensured and the distribution of costs of the transformation was received as unacceptable. Typically, privatisation and restitution affected housing, an area where the above phenomenon was of utmost importance. The changes were broad, were based on a number of reasons (see above), and affected ownership rights and tenancy rights of dwellings, housing asset management, and marketising related public utility services.

Restitution (when former property owners reclaim assets that were expropriated from them or which their families had been forced to sell) played an important role only in the Czech Republic, but it took place in Albania, Bulgaria, Croatia, Slovenia and Romania as well. In the Czech Republic it led to quite a substantially regulated private rental sector (Sykora, 1996) In the other

Figure 10.2 Share of owner-occupied dwellings in the total stock



Source of data: ECE (2002), Hegedüs-Struyk, 2006

countries, restitution has not created a substantial 'sub-market', but it had a huge influence on the operation of the sector through the uncertainty of the property rights. In some countries, the governments obliged themselves by law to provide housing for the affected tenants, but the process was full of conflicts (Albania, Croatia, Czech Republic, etc.). For example, in Croatia, tenants living in units owned by other physical persons (individual landlord) have a 'protected tenants' right, whereas, in Slovenia, the new owners' lobby weakened the 'protected tenants' position, and large debates characterise the regulation of the private rental sector in the Czech Republic as well.

Privatisation in the region followed different methods in terms of legal and institutional setup. In Hungary, after the asset transfer to the newly formed local governments, a right to buy legislation was introduced, while in the Czech Republic no central regulation was applied. As a consequence, privatisation is much slower in the Czech Republic. This suggested to some observers that the Czech Republic followed another model, namely it tried to keep the universalistic rental model. However, without structural changes in the sector (rent regulation, rent allowance, allocation procedures, and transparent landlord-tenant relation) we cannot talk about a new model.[4] In Albania, 98% of the public housing was transferred to private ownership with the exclusion of some households who occupied a larger dwelling that the size prescribed by law or possessed additional own housing. In Moldova and Serbia, the transfer of housing happened without any legal securities, and it served

4 Even today the tenants can sell their right to the tenancy in the Czech Republic, which means the lack of real changes. (Lux. 2003) purely as shock absorption. (Hegedüs-Teller, 2004b) (see Figure 10.2).

Privatisation made the property rights transparent (with the exception of those countries where privatisation happened without legal framework, or the units and dwellings were not transferred together), and it put the burden of the operational and maintenance cost on the new owners, who were not prepared for it either from the financial, or the management point of view. These 'forced owners' today have to face the fact that the maintenance of their ownership has to be financed from own resources. Thus the new housing regimes' foundations are new contents of tenancy rights and the changes emerging from the shift to market economy, including all emerging risks on the households' side (related to the upkeep and maintenance costs).

10.2.3 The elements of the new housing regimes

We argued that countries in transition have common elements in the process of restructuring, which justify an approach to their problems based on the commonality. As a consequence of the 'mass privatisation', owner occupation has become the dominant tenure form in most of the countries. The security and risk elements of home ownership are closely related to these, not merely legal, processes, whereas risk refers to a potential use of the housing wealth. Household have the ability and – under the financial pressures – they were forced to adjust to the changing environment. Their insecurity has been emerged in respect of the potential loss of the asset (or the value of it) due to affordability difficulties or changes on the housing market.

The first common element of the new housing regimes is the lack of 'social housing', not only in the sense of public ownership, but in the operational sense, that is, housing for people who face affordability problems because of unemployment, family or health problems. The institutional solutions are under 'construction', and we can talk about different attempts (e.g. the Polish TBS, or municipal housing and management companies and controlling authorities in other countries) which point into that direction. It is not easy to evaluate the programme attempts from the point of view of political and financial sustainability; in Hungary, for example, the new rental housing construction programme started in 2000 was stopped owing to financial reasons, yet no monitoring has reviewed the effects and outcomes of the large state and municipal spending.

The second common element of the new housing regimes, which is related to the risk and security of home ownership, is the consequence of the hardship paying the increased housing related costs in a 'constrained' macroeconomic environment. This is one of the most important social and political issues in housing which has to be managed by the transitional countries. After the change of the regime, housing related costs increased much faster than real incomes, which, as a result, put a huge burden on the households both in the owner-occupied sector and in the shrinking public sector. As a consequence, a relatively wide share of the households is facing the problem of arrears because they cannot cover the fees for water service, district heating, electricity, communal services and – in the public rental sector – the rent. Contrary to western countries, the affordability problems largely derive from the increased utility costs because of the low level of outstanding loan mortgages (except in Hungary in the case of 'old loans'.). The process of adjustment was more complicated in the urban housing market where the increased burden of utility costs had to be shared in a multi-unit building among the typically new owners.

Due to accumulated arrears, households may face a risk of losing their homes or suffer from equity loss typically in market transactions when they move to a less valuable home and use their equity to pay back the accumulated debt to the utility companies. We must add that in case households are unwilling to move voluntarily, foreclosure procedures can be started. This type of 'downward mobility' is rather new in the transition countries, and it is typical for households that could not adjust their housing consumption to their budget constraints

The third common element in the new housing systems is the introduction of new housing finance systems. In the 90s, independently of how successful the transition was in a political and macroeconomic sense, the housing sector in terms of new construction and housing finance got into a deep crisis. Actually, the housing output decreased to 30-60% of the level of the 90s, and housing finance (if it had existed before) practically disappeared. At the beginning of the 2000s, the housing output gradually started to increase and new, market oriented housing finance institutions have emerged and the importance of housing finance products has started to increase slowly (or in some countries, like in Hungary, at a faster pace).

As Hegedüs and Struyk (2006) point out, the first institutions offering housing loan products were the commercial banks. Later in the nineties, new institutions were established with alternative funding schemes based on new legislation and additional fiscal support. Besides Bausparkassen (Czech Republic, Slovakia, Hungary), mortgage banks and in some countries state agencies were formed (e.g. in Slovenia, Poland and Romania with central budget funding). It is the competition among the institutions and the stabilising macroeconomic environment that have contributed to fostering the housing finance market and product development. In Hungary, in early 2000 an energetic programme targeting the establishment of a housing loan system was launched. During the four years of the subsidised housing loan programme the housing loan portfolio grew 8 to 9 times in size; and as a result, the loan ratio within the GDP increased from 1% in 2000 to 7% by the end of the year 2003.The different pace of development in the region is observable also in this sector: the volume growth of mortgage bonds in Hungary was from €380 to

€4.600 million whereas the Czech Republic's volume growth was from €900 to €1.700 million in the period of 2001-2004.

The fast pace of changes and the forming of the institutional and state funding setup seem to be very typical in the region. The high increase in outstanding loans was facilitated by the fact that the portfolio was at its lowest point at the millennium (previously subsidised loans had been mostly paid back and there was a minimum of new ones), therefore the development started from almost zero level. Because of the strong competition among the banks (which is observable through easily accessible cheap loans) and because of the not well established underwriting procedure there is a fear of producing mass arrears in the next future.

Thus the large increase in outstanding loans contributes to the problem of risk, which in nature is not different from the problems in the more developed market societies, but because of the premature social safety net it may induce the social conflicts of transition. For example, in Hungary the housing loan portfolio in 1990 amounted to 15% of the GDP as a consequence of the liberal housing policy in the 80s. This portfolio actually bankrupted[5] the Housing Bank (which was the state bank and hence also the government, which guaranteed the loan), and a huge subsidy was needed to restructure the portfolio. The majority of the borrowers paid off the 'old-loan' with a 50% discount in 1992-1993. Nevertheless, several thousand households could not or did not want to pay back their debts, and their interest rates were heavily increased (against the contract made in the 80s), which caused a serious problem for most of them. In 2002 and 2003 a programme was introduced to manage these repayment arrears, and app. 28.000 households were helped.

New housing regimes are currently forming in the region. In spite of the common origin, a great variety of different housing institutions have emerged, each reflecting the historical, economic and political realities of a particular country. The specific attributes e.g. of each new housing finance system can be explained by the combination of the influences of existing institutions ('path dependence'), the efficiency of 'knowledge transfer' which is manifested in business models, subsidy system models, management structures, etc.,

5 'Old loans' were made available before 1993 and can be classified into two groups: those issued before 1989 were either interest free loans or had a fixed rate of 3%, and had a state guarantee. The interest rate was raised in 1991. The households had the option to decide whether to pay back the loan in one sum or pay it back either on a fixed 12% rate or the market rate. In the latter case, the remaining loan was reduced by 50%, in case of the fixed rate, the state budget took over the cost of the difference of the market rate and the fixed rate. The other group was represented by loans issued from 1990 to 1994, having a variable interest rate with a government subsidy of at least 15% interest rate subsidy. Since this period was characterised by an especially high interest rate of about 30%, this subsidy was disadvantageous. Moreover, since the subsidy was connected to the repaid sum, all delayed payment resulted in the fact that the remaining sum was 'punished' with the market interest rate. There were app. 135 thousand loans issued before 1989 and 55.000 loans from the period 1990-1994.

and the role of local politics. Different countries are following different paths and it is hard to tell whether the common elements are more significant than the differences. The housing systems in transition countries are under the pressure of different interest groups, and we cannot talk about crystallised systems yet.

10.3 New risk elements in the emerging housing system – the case of Hungary

As a consequence of the economic and social changes of the transition, masses of households were put under financial pressure due to decreasing real income and increasing housing costs. As a consequence of the economic recession of 1989-1993 and the results of privatisation in the economy, unemployment has become one of the most serious social issues. Whereas in 1985 the number of employed persons was 5.4 million, in 1995 it decreased to 3.8 million (at the same time the unemployment rate was around 10%, which underestimate the negative effect of this factor). The unemployment benefit programme was far from being able to compensate the income loss. As a consequence of high inflation (20-38%), real income decreased for the majority of the population.

Adjacent to the privatisation in the economy, the decentralisation process has had a large influence on the outcomes of the transition. In the course of decentralisation, a fragmented system of local governance (10 million people and 3,200 municipalities) was created (Hegedüs, 2003). In this framework, local governments enjoy a wide responsibility in the area of housing services (planning, enforcement of building regulations, operating the local public rental sector, utility companies, setting local utility prices, etc.). With transferring these responsibilities, the central government actually has 'pushed down' at least a part of the political costs of the transition to the local governments. The emerging 'power game' between the central and local level is an important element of the transition.

Housing costs increased as the consequence of the privatisation and decentralisation that – among others – brought about the marketising of the utility companies (e.g. energy, water, garbage collection, etc.) The nascent social security system with its social benefit programmes and schemes could not compensate for this for several reasons: the disadvantageous general economic situation characterised by recession, the prevailing informal economy distorting access to information about the social circumstances, and the institutional arrangement of the social services between the state and the local governments. This new affordability problem was the basic cause of the risks that emerged – in principle – in each tenure form.

Besides the residualisation of the public sector, the prevailing high ratio of indebted households, and the phenomenon of cash-poor, asset-rich households shed light on the new risk elements emerging as a result of the transition process in Hungary.

10.3.1 The residualisation of the public rental sector and its consequences

As a result of the housing privatisation, the public rental sector has become residualised. Although the public sector has been very sensitive to social problems, and in practice actual evictions happened only in the most extreme cases (illegal occupation of units, squatters), the most vulnerable groups have to face the threat of eviction in the case of rent and utility arrears. To understand the process, one must observe the period prior and after 1990, when the current public tenure stock structure and related institutions were reformed (see Table 10.1).

Until 1994, the local governments were free to make any decisions on privatisation.[6] The majority of the local governments supported the privatisation based on both short-term political and longer-term financial considerations. The political reason for privatisation on the part of the local governments was to 'favour' their residents, and they were supported by the 'faith' in privatisation in general. (Housing privatisation was strongly proposed by international donor agencies as well.) There were several financial reasons for privatisation, such as the backlog in maintenance, and the continuous operational losses, as the rents did only cover 30-45% of the actual cost. A key element in the local governments' privatisation decision was the possible future rent level they could set in the public sector to overcome the great deficits. The local governments expected high political pressure in the case of rent increase; thus, most of them opted for a mass scale privatisation. The facts show that accordingly, privatisation speeded up in the first years of 90s, and after the introduction of the 'soft' right to buy Housing Act of 1993, an additional impetus was given to privatisation.

On the households' side, direct financial considerations determined the willingness to buy the units. The main financial motivation was to capitalise the potential 'value-gap' of the rental unit, i.e., to capture the difference in the value of the unit as a rental vs. an owner-occupied unit. The average price a household had to pay was around 10% of the market price. The absolute sum 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 price, at 30% of the market value if extensive modernisation had been undertaken during the previous 5 to 15 years, and 40% if the modernisation had been undertaken within the previous 5 years. 10% of the

6 These points are a reinterpretation of the results of an earlier research (Hegedüs, Mark and Tosics, 1994).

Table 10.1 Change of tenure structure in Hungary, 1970-2001

	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: Census, 2001 Central Statistical Office

so defined price had to be paid in cash, and the remaining part in a monthly instalment for 15 years with a 3% interest rate. (It was not a loan, but a 'delayed' payment.)

Beside the 'value gap' the security issue was the most important among the households' motivations to privatise the units. It is true that public tenants had enjoyed a high security of tenure in the past forty years, and they had enjoyed low rents, with rent increases below inflation. After the regime change, most of the tenants expected rent increases and the shrinking of their ownership rights (e.g. the right of tenure swapping or inheritance). The households' expectations of a definite rent increase indicated the effect of this factor, and it pushed them towards buying their units in order to become home owners in a more secure situation.

A further security related issue was the control over maintenance, which by then was provided on a very poor level by public housing maintenance companies. Households would have liked to obtain decision-making rights in maintenance, including the opportunity to choose the organisation, to have supervision over costs and to be able to direct the maintenance activity toward cheaper solutions. We must add that taking over the control over management involves a particular ambiguity in the new housing regime: obtaining the control over management has raised security, whereas the supplementary costs deriving from the additional renewal and maintenance obligations have pushed the less wealthy home owners into an even more marginal position on the real estate market.

The control of the municipalities over privatisation had diminished by 1993, as by then a common decision of the renters in the given multi-unit building was required; only buildings with an achieved consensus were sold. Nevertheless, higher value housing had already been sold by that time, and after 1996 40% of the privatised stock belonged to the lowest value quintile. According to the results of the survey carried out in 1999, the lower the status of the household is, the more of them are present in municipal housing: 44% of households where the head of a family is an unskilled worker live in municipal rental, whereas this ratio is only 8.4% among the white-collar workers. It is an interesting fact that the most active privatising households by 1999 were those with old (above 60 years) heads (CSO 2001).

The process of the residualisation can be followed with the help of Table

Table 10.2 Household income (100=hh income in owner-occupied sector)

	1992	1995	1999	2003
Public rental	86%	87%	84%	74%

Source: 1992, 1995 HHP, 1999, 2003 Housing Survey (CSO)

10.2: the average household income in the public rental sector decreased form 86% to 74% expressed as a percentage of household income in the owner occupied sector.

In the pre-transition period the rental sector operated as a 'unitary' system (Kemeny, 1995) in the sense of the social composition of the tenants. Moreover, the critical analysis of the socialist housing system points out that access to the public rentals was distributed unevenly among different social and income groups, and the better-off families enjoyed better chances to get into rental housing (Szelényi 1983, Dániel 1985). This fact could be explained partly by the allocation policy ('role of the state'), but partly by market allocation. 30-35% of the tenants in 1992 accessed their units through private transactions i.e., that they bought their units on the 'grey market'.

Altogether less than 4% of the stock remained in municipal ownership. A part of the stock - mostly in the cultural heritage areas in old city centres - was disclosed from privatisation, another part was kept in the hands of the municipalities in order to assure mobility for personnel in their own organisations. In the overwhelming rest of the flats that could not be sold, the sitting tenants remained as renters of municipal units. This had a number of motives 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 rates of credits or even any expenses related to housing maintenance (e.g. those of repair). As a result, the municipal housing stock residualised. Thus, the current social composition of the sector is characterised by the overrepresentation of the marginal groups that have less opportunities in terms of strengthening their status on the housing market and developing housing strategies that would foster their financial perspectives in the long term.

As an outcome, the social character of the public rental has become more important. Despite the fact that in Hungary there is no rent regulation,[7] the local governments did not increase the rents to the cost recovery level: the rents cover only 55% of the maintenance cost of public social housing, which

7 In other countries of the region, different models emerged: in Poland the local government did not use the room for rent increase set by the law, which is 3% of the 'replacement cost'. The average rent in the public (communal) sector is 1.0-1.5% of the replacement value. (Muziol-Weclawowich, 2004). The situation is the same in Slovakia. In Hungary, a similar rent regulation affects solely the newly constructed rentals. In the Czech Republic and Slovenia the central government has the right of rent setting, and has to take the political cost of the rent increase. In the Czech Republic the rents are far from the cost recovery level, and even further from the market level because the public rental sector represents a substantial (17.4%) part of the stock. In Slovenia, the tenants' political influence is much less, and the rent increase is considerably higher. (Fajs, 2004)

Table 10.3 Share of public rental according to the settlement type, 1970-2001

	1970	1980	1990	2001
Budapest	62.5%	57.6%	50.0%	8.6%
County seats	37.4%	36.8%	27.4%	5.1%
Other cities	17.6%	17.3%	10.3%	2.5%
Villages	7.9%	6.4%	1.3%	1.0%

Source: Census, 2001 Central Statistical Office

means that local governments have to fill the gap from their own revenues. (CSO, 2002) There are two reasons for this: partly the tenants' ability to pay sets a limit to the rent increase, and partly the rent increase is considered to be politically unpopular. On the other hand, there is a clear change in the meaning of 'public tenure'. The Housing Act of 1993 made a step towards a system where the social landlords have more rights than before. The point is that the local government 'behaviour' became very important concerning property rights. The tendency is that in the social sector the tenants are losing their 'property' rights and it is becoming more complicated or impossible to 'sell' the tenancy rights. The enforcement strength of the local governments has been further enhanced: even a foreclosure or eviction process could be initiated in case of substantial accumulated utility and rent arrears.

10.3.2 Arrears in the owner occupied sector – main cause of risk

The changes in the economic structure and the institutional and financial results of the decentralisation brought about an increase in the housing costs, which raised social problems that the welfare system was not prepared for. The utility and rent arrears increased in the 90s considerably: while in 1992 11.7% of the households indicated that they had problems paying the utility cost and rents; by 1997 their share increased to 15.4%. (HHP, 1998). The stabilising economic environment contributed to the decrease of the arrears: the housing surveys of 1999 and 2003 indicated that 9-6% of the households had arrears (CSO, 2004), but other sources estimated a larger portion of households with arrears problem.

When observing the reasons for being in arrears more closely, it becomes obvious that the structural changes of the transition have pushed some groups of the population into a more disadvantageous position. Based on the Housing Surveys carried out in 1999 and in 2003 by CSO we have investigated the chances of falling into arrears, and hence facing a larger risk in the home owners' sector.

The share of households having arrears decreased from 9% to 6% between 1999 and 2003. The trend – as it can be expected – is that in both years the chances of having arrears increases moving from the highest income group to the lowest income group and moving from households with high-value housing towards the low-value housing (see Figure 10.3). Nevertheless, we were more interested in the social and economic factors 'explaining' the arrears.

First, based on descriptive statistics, we explored the effects of basic social and demographic variables; second, we set up a logit regression model to see the relative strength of the different factors.

The most important conclusions of the analysis were that households living in Budapest have a higher chance to be in arrears than those living in other settlements. This might be related to the fact that controlling housing consumption is more difficult in the housing stock of the capital city (there is a large share of homes with district heating), and utility costs are higher. This finding is supported by the fact that households in multi-family units have arrears with higher probability than households living in one-family houses.

As pointed out while discussing the residualisation process in the public housing sector, the households in public housing had arrears with a much higher probability than households in the owner occupied sector, and this trend had become stronger by 2003.

The marginalised social position contributes to raising the chances of falling into arrears: the share of households with arrears is increasing among the one-parent households and bigger families (n of family members) The probability to be in arrears increases significantly among the households who have unemployed adults. Those households that have loans have arrears with almost twice higher probability than households without an additional loan repayment burden.

According to their more favourable housing position, households with higher education have arrears with less probability. Households with older 'head' of household have arrears with significantly less probability, which might be connected to the fact that there is a stronger morale of paying the costs even if other consumptions have to be cut, and there is less fixed monthly expenditure.

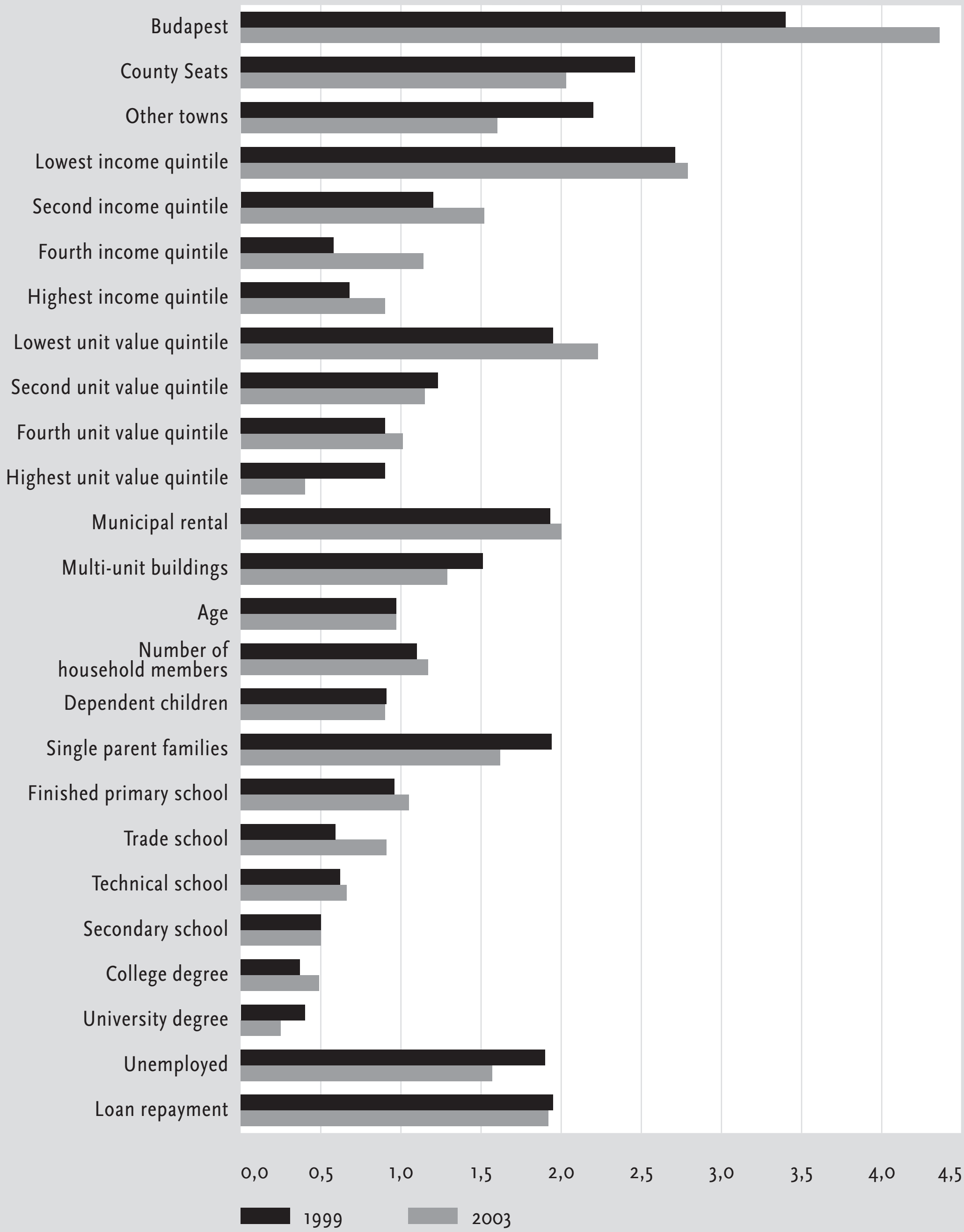
It is worth noting that the structure of the factors is quite stable in time. The relative strength of the variables did not change dramatically between 1999 and 2003. We can conceptualise these factors based on the following factors:

- underclass households (low-income, large families, family head with low education, living in public housing)[8]
- unemployed households
- households with family problems (one-parent households)
- constraints of controlling the housing consumption.

An additional social aspect of arrears, as reported in some cases, households in extreme vulnerable situation (e.g. due to high arrears) may also become

8 In the Rental Panel Survey (1995) 40% of the Roma households had arrears. If we control the other effects of other variables they have 2.3 times higher probability to get arrears problem than the non-Roma households.

Figure 10.3 The Exp (B) parameter for the year 1999 and 2003



victims of the so-called housing mafia, which in fact means that organised groups accessing land registry information grab or illegally rob housing units, leading to evictions. Legal efforts have been undertaken to provide for sufficient safety net for such households and to enable information flow for both home owners and buyers in order to avoid any unlawful registry of home ownership rights, but the holes of the social net and the registry system are still not completely filled.

Realising the significance of the social problems related to arrears, from 1997 the government started launching programmes to give incentives to local governments to manage the arrears issue. However, no substantial results were accomplished, and in 2003, a new housing allowance scheme was elaborated and an arrears management programme was introduced. (Hegedüs-Teller, 2005).The latter one is a kind of 'workout programme', where a portion of the debt is paid off, while the remaining part would be paid back by the local governments with central government help. A special social service ('arrear management service') accompanies the financial help.

10.3.3 The problem of the 'cash-poor and asset rich' households

A further phenomenon connected to the results of the transformation, which is strongly related to the high utility costs and the overwhelming majority of the owner-occupied sector is the problem of the cash-poor and asset-rich households. Especially, the older generation seems to be affected by this obstacle, because of the ungenerous pension system and the limited possibility to increase the household income through re-entering the job market. There are several strategies that are reported as tools to reduce housing costs: controlling other consumption than housing and hence decreasing the utility costs, or reducing housing consumption. E.g. according to the data of the Housing Survey of 2003, 42% of the households aged over 65 years did not heat the whole apartment because of the hardship caused by the high housing costs (see Figure 10.4 and Figure 10.5).

The elderly constitute a growing segment of the society. In Hungary, the elderly have a high home ownership rate and hold substantial housing equity, not less, not more than the average households. The elderly prefer remaining in their homes and keeping their independent living as long as possible. Thus, the usual way for releasing equity from their home (by selling their homes and move to a less valuable one) is not an attractive option. Before the transition, the 'life annuity for apartment', a private contract between an old person and someone else who undertakes to provide care for the old person until the end of his/her life, was a widespread scheme. In return for the care (i.e. financial help) provided, the person inherits the ownership or the tenancy right. This was quite common in the socialist period for young households to have access to housing, especially in the rental sector.

An additional and more transparent solution for easing the hardship of elderly households seems to be reverse mortgage. This financial instrument, in which a home owner borrows against the equity in his/her home and re-

Figure 10.4 'Housing costs put a big burden on the household budget' - according to the age of the household head

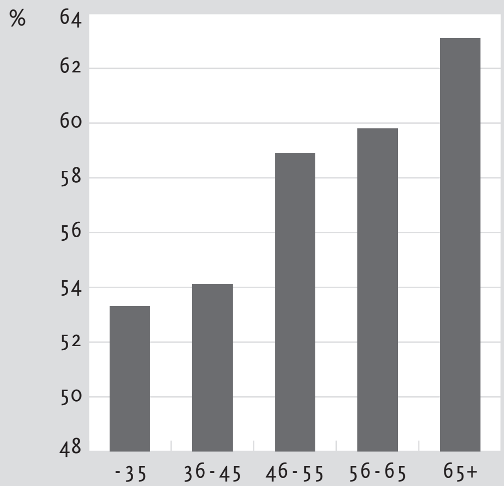
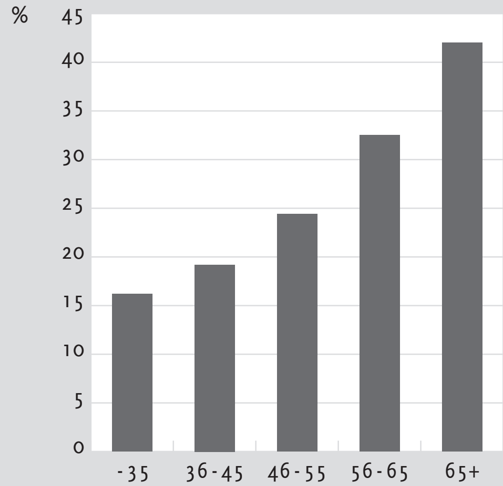


Figure 10.5 'We do not heat a part of the house/apartment to save' - according to the age of the head of household



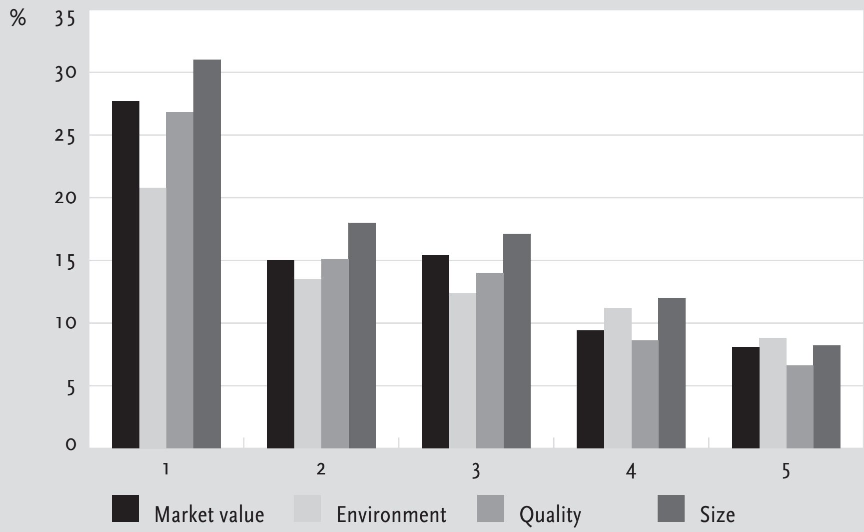
ceives regular payments from the lender, is an annuity that a financial institution offers to the loanee against his/her apartment as mortgage, which can be realised after the loanee's death and only then. In return, the loanee hands over the inheritance rights of the apartment to the financial institution. This would offer an option allowing elderly home owners to use up their equity and age in place in their homes. Already in 1998 financing institutions were allowed to enter the market, and recently there are even more options to choose from in terms of organisations or banks. There are also municipalities that operate such schemes in order to increase or clean up their social dwelling portfolio or to be able to have more influence on rehabilitation processes.

The explanation for the low interest in reverse mortgage lies in the importance of the family relations in social life, especially in housing, which largely substitutes for the lack of the safety net. In the Budapest Rental Panel Survey we raised the question for whom the respondent bought or wanted to buy the apartment during privatisation. In 1991 30% of the respondents answered that they had bought the flat for their relatives (children or grandchildren), in 1995 26%. With age higher than 65 years almost 50% of the respondents think of their relatives to inherit the apartment.

A more recent, nevertheless typical solution to the problem of „cash-poor and asset rich' households is downward mobility, i.e. moving to a smaller and less valuable unit. Especially households with arrears are forced to move to a less expensive unit, freeing up equity and paying off the debt possible. Data show that in most of the cases households move to a region with lower house prices, which, nevertheless, means fewer job opportunities and more dependence on social benefits. Hence, a risk element is connected to downward filtration as an outcome of the move to less valuable areas or dwellings.

According to the Housing Survey of 2003, 20% of the households changed their homes in the last 7-8 years. The respondents evaluated their moves ac-

Figure 10.6 Different types of downward mobility according to income quintiles



1 lowest, 5 highest

cording to four dimensions: size of the housing unit, quality of the housing unit, environment of the apartment and the value of the housing unit. Two important conclusions can be drawn from the data. First: the downward mobility represents 12-26% of the transactions; second: the downward mobility depends on household income and age.

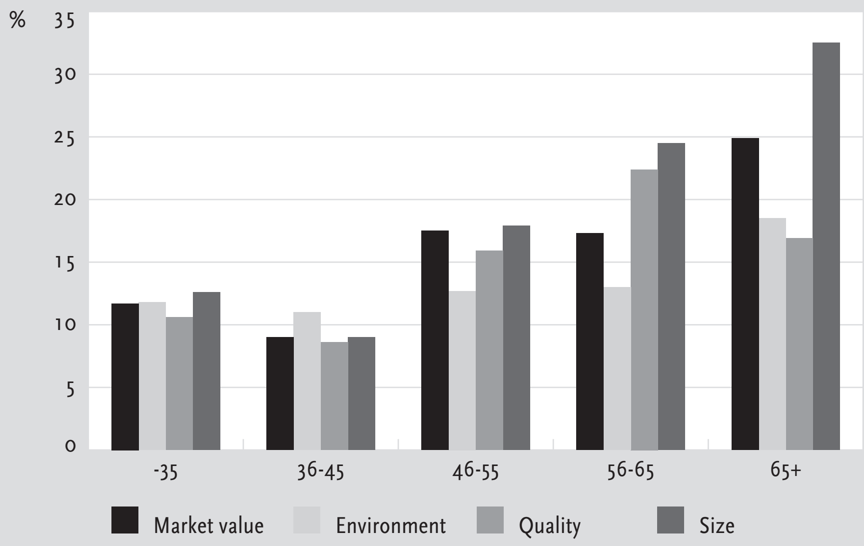
Almost 50% of the moves of the households belonging to the lowest income group is a downward move according to one or more dimensions, and the same is true for the households having a household head older than 65. The nature of downward moves is however different:: the low-income group is forced to use the equity to survive, while the 'old' age group moves – mainly – because of the 'life cycle' (see Figure 10.6 en Figure 10.7).

10.4 Security and governance of housing – main perspectives of the new regimes in CEE

The risk elements connected to home ownership, which mainly derive from restructuring of the utility sector and the institutional and legal setup of the housing system during the transition, raise the questions of potential interventions and alternative solutions in order to increase access to secure tenure and raise the security and affordability of staying in one's dwelling. The forming housing regimes have to face these challenges.

The options that might seem apparent are promoting the supply of affordable tenures and supporting the marginalised households through housing and rent allowance schemes. Thus in the CEE countries the future of the rental sector is one of the most important issues, and it might contribute to forming the housing regimes in the region.

Figure 10.7 Different types of downward mobility according to age of the head of households



In Hungary, the aim of the recently introduced rent allowance scheme (February 2005) is to release households in private rentals from high expenses (app. rent per sqm is 600 HUF (€2.4), about 3-4 times the price of a municipal rental) and provide an alternative to municipal rental units for households who cannot afford to own a flat.[9] This initiative is a further step along broadening the tools for housing affordability and mobility. However, these programmes cannot hide the fact that the country will have to live for a long period without a substantial rental sector, and there is no clear 'vision' in the white papers of the government what kind of a rental model Hungary is promoting.

The other CEE countries are facing the same problems. In the Czech Republic the rent regulation is one of the hot issues. If local governments have the right and the real incentive to increase the rents, the 'tenant middle class' will fight for privatisation, which will lead to a residualisation of the rental sector like in Hungary, Slovakia and Slovenia. The landlord lobby in the restituted stock is the most important proponent for pushing the rent de-regulation, which could be possible only with an efficient housing allowance system. These policy choices will have an effect on the housing regime. In Poland, the non-profit rental (TBS) offered a new model for the lower-middle class rental sector. But the structural changes in the public (communal) rented sector

9 According to the nascent scheme, only young households with children having a maximum monthly per capita income of 150% of the social minimum would be eligible for this allowance, which would cover a maximum of 30% of the rent. The peak rent limit will be set at 42,000 HUF (€168), a considerable rent price for smaller flats. The programme would be managed by the local governments who would enter for 50% central funding. Nevertheless, the low-income limit will most probably disqualify households from this benefit who should live in larger flats and hence bear higher rent costs but whose disposable income would not be sufficient.

seem to be postponed. It is not clear whether the non-profit rental sector will dominate the other part of the rental sector (communal), or the reverse, the TBS will turn into a special case of the existing social rental sector with its limitations.

Based on the examples of western countries, there is a strong interrelatedness between the setup of the rental sector and the features of the demand side subsidies in the rental sector. Also in Eastern Europe, the role of the housing (rent) allowance systems has to be developed very much in line with the size and structure of the rental sectors. Beside the public rental, restituted private rental and new 'non-profit' rental, there is a new private rental sector which is by now only rarely acknowledged by the housing allowance programmes. The affordability problem in the private rental sector (where there is no rent control and no allowance) might be serious in the whole region.

In Hungary, the housing allowance programmes went through a development process after the regime change. Before the transition, as one of the main elements of the socialist welfare regime beside the low rents, the high subsidies for the utility sector provided low housing costs and hence there was virtually neither legitimacy nor need for additional housing allowance. With raising utility costs and emerging arrears, already at the beginning of the nineties, the government introduced a decentralised housing allowance programme, but it played a very limited role in the social benefit programmes because of the lack of financial incentives of local governments. The total cost of the programme reached 1.5-1.6% of the social benefit and family support programme in 2000-2001. The politicians engaged in the social sector realised the importance of housing allowances as housing costs put very different burdens on households depending on the type of unit they live in. A new programme was introduced in 2004, where the cooperation between the central government and local governments is better founded, and hence will lead to a restructuring of the scope of the benefit programme. (Hegedüs-Teller, 2004a) Being in the first years of its operation, the programme will soon have to make corrections such as regional imbalance in targeting, low subsidy sums, single parent households in disadvantageous position, etc. The change of the governance of the housing allowance scheme is a result of a special learning process. Incentives for a larger participation of the local governments were included (shared financial responsibility), and a more transparent regulation was developed. In addition, plenty of effort has been invested in setting up standardised forms of eligibility evaluation and registering the benefits, which will finally ease the bureaucratic burdens of operation for the local authorities.

When observing the surrounding countries' housing allowance systems, a premature set of programmes can be found, which are not linked with the processes of the changes in the housing sector, and rather serve as income maintenance. Hungary offers in comparison a larger coverage than the schemes of the neighbouring new Member States, but gives considerably lower subsidy to the households (see also Hegedüs and Teller, 2005).

10.5 Conclusion

The recent years highlight a possible dynamics of the housing regimes under pressure deriving from the shift to market economy and the change of the tenure structure. So long unknown risk elements have emerged, and only a fragile institutional setup of security elements was elaborated by the states and households.

The risk elements emerging in the housing sector from the transition years resulted in a variety of answers from the side of social, institutional actors and on the household level. Reshaping the tenancy structure in Central and Eastern Europe has been marked by the manifestation of latent differences among tenure types. The households recognised insecurity elements and tried to avoid them by strengthening their position in more secure tenures; the market economy's new actors put the so-long hidden cost burdens on the consumers increasing the risk factors of housing; which has been inducing responses from the social and political actors. As shown, the most important new elements of the forming housing regimes in the transition countries can be interpreted as outcomes of the adjustment strategies of the different actors in which 'risks' played an important role. Housing privatisation and affordability problems (arrears and access to housing) can be reinterpreted in this analytical framework.

The main trend in CEE countries is that the housing system seems to move towards a housing and welfare regime in which the state (public housing) plays less and less role. The social institutions did not have the capacity and resources to operate an efficient safety net in the new environment (low level of employment and unemployment, informal economy, etc.) and it provided help only to the neediest families (very low income households and in crisis situation). While this seems to be close to a combination of the liberal and 'rudimental' welfare regimes (Barlow and Duncan, 1994), the institutional structure of the welfare regime is still in the process of change.

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11 UK home ownership to 2010 and beyond

Risks to lenders and borrowers

Janet Ford

11.1 Introduction and background

Over the last 25 years in the UK there has been growing interest in the extent, causes and consequences of problematic home ownership (defined here as an inabilityf to meet monthly mortgage payments). A similar research focus is now developing in many countries, as the interaction between home ownership, global changes in financial and labour markets and social welfare provision reveals some key tensions (e.g. Berry, 1999; Doling and Ford, 2003). In the UK this growth in unsustainable home ownership has coincided with the expansion of owner-occupation from around 5 million homes in the mid-1970s to over 11 million in 2005, with growth achieved in part by widening access to lower socio-economic groups, in part by demographic change and in part by rising affluence and expectations. The reduction in public sector housing has also been a factor. Over this period there have been several cycles of arrears and possessions, and in most cases each cycle has ratcheted up the base incidence of arrears and possessions (Ford et al., 2001), leading researchers to conclude that risk is now an enduring aspect of the owner-occupied market.

More recently, attention has turned to developing a forward look at risk and home ownership. The impetus for this is the changing landscape of home ownership: changes in the mortgage market; in attitudes to the use of property and housing equity; and in safety-net provision, all of which are potentially 'new' drivers of arrears. There is also evidence of a continuing growth in low-income home owners, and half of those officially defined as poor now own their homes (Wilcox and Burrows, 2000), a third of whom are mortgagors. This trend is not likely to slow, as both housing policy and households' housing aspirations favour wider access to home ownership. A highly competitive mortgage market complements both policy and aspirations. Arguably, however, the focus on access is not matched by a willingness to consider the longer-term perspective and the potential risks that can challenge sustainability. Currently there appears to be either collective amnesia with respect to the five/six-year housing recession experienced in the UK in the 1990s, which saw in excess of 345,000 households losing their homes between 1990 and 1995 and around one in five borrowers with payment difficulties or a belief that circumstances have so changed that it will never happen again. Where any future perspective is offered it is typically in the form of a plea for the State to reinstate and improve the current safety net.

These debates informed the focus of a recent inquiry instigated by the Joseph Rowntree Foundation into future risk and home ownership, which not only stimulated debate on the potential drivers of risk but also sought to develop a number of policy options in mitigation (Ford and Wilcox, 2005). Their concern was both with future risks to individuals and households and to the housing market. This chapter explores the first of these concerns and was first developed, in a preliminary manner, for the Inquiry.[1]

Any attempt to look forward is fraught with difficulty but nevertheless necessary if the potential to prevent serious housing loss to individuals is to be realised. Difficulties relate to the fact that some parts of the argument can only be loosely evidenced, as they relate to potential rather than substantiated trends. As such, this chapter is intended to stimulate a discussion, not to present definitive conclusions. The chapter is organised as follows: first, it provides the briefest account of the current pattern and nature of risk; second, a number of potential future risks are examined; and finally, there is some discussion of appropriate mitigation.

11.2 The recent and current pattern of risks to home owners

Unsustainable home ownership has only ever affected a minority of households, and while the size of the minority fluctuates, at its height in the early 1990s it approached one in five borrowers (Ford et al., 1995). By 2004, however, arrears and possession were at their lowest level since the early 1980s, but the trend is once again upwards (CML, 2005).

The risks to home owners as they developed over the 1990s to today are well documented, as is their socio-economic distribution and their consequences (Ford et al., 2001; Bowie-Cairnes and Pryce, 2005; Survey of English Housing, 1993/4-2005/6).

The key findings about the recent and current risk pattern amongst home owners are summarised below.

- The significant risks to home owners include unemployment, small business slowdown and failure, reduced income from work, relationship breakdown, household change, ill health, over-indebtedness and inadequate public and private safety nets.
- Risks can impact on any home owner, but borrowers from further down the socio-economic scale are more vulnerable (as a result of lower income, greater risk of unemployment, higher ratio of housing costs to income etc.). Thus the extension of home ownership down the socio-economic scale since the early 1980s has increased the proportion of home owners who are vulnerable to risk.

1 In assessing the likelihood that potential risks will materialise for individuals, the likelihood of systemic risk is an important context. This theme is addressed by Stephens (this volume) and the two papers were initially conceived as complementary.

- Both macro structural and cyclical change generate risk.
- The proportion of owners at risk fluctuates over the economic cycle, notwithstanding structural shifts.
- Lying behind those who overtly manifest the impact of risk (in the form of arrears and possessions) is a considerable 'at risk' pool (those reporting that they are paying but with difficulty).
- The housing market itself can constitute a risk (inadequate supply, stretched entry, negative equity etc.).
- Risks to individuals and households (often from fiscal and labour market changes) not only 'damage' households but in turn constitute risks to the housing market and thereby the economy.
- Low inflation has extended the period over which borrowers are at risk.
- A likely consequence of a risk experience for home owners is that they become poor. The evidence indicates that more home owners become poor than start out poor. They are then in a weaker position to manage any further risk experience. In a small proportion of cases the consequence of a risk experience is homelessness.
- Home owners who become poor and downwardly mobile are able to regain economic momentum, on average within a year. A proportion, however, exit the tenure within this period.

Adopting a relatively short-term perspective on risk and vulnerability (the next two or three years) is not unduly problematic. The current composition of home ownership is well documented, and the nature and trend with respect to the central risks is relatively well understood. Most commentators predict that the proportion of households who manifest risk outcomes is likely to rise (CML, 2004; FSA, 2004, 2005). Recent economic circumstances in the UK have been benign: low interest rates have encouraged borrowing and house price inflation has fuelled the 'feel-good' factor but required some borrowers to stretch themselves to enter the market. Arrears, however, are now being driven by increasing mortgage rates and the substantial legacy of consumer debt, a sizeable amount of which is secured on property, sometimes via the debt consolidation process (see later). These risks are likely to be exacerbated where borrowers have had to stretch themselves to enter the sector, either because housing scarcity has raised housing costs and/or because borrowers have low incomes. Further, as is discussed later, the current safety net remains a potential source of risk.

Looking at the longer term is a much more difficult exercise, because the long term is essentially about gauging the persistence of current trends and the likelihood of further structural and cultural change, as well as predicting the amplitude of the economic cycles. Some assessment can be hazarded via a number of more discrete steps and questions, however. Two key questions are considered. What is the likely trend with regard to the proportion of marginal borrowers, and what is the likely pattern of structural and cultural change (new or continuing change) that might generate risks for home owners?

What follows is, to different degrees, an argued but sometimes 'guestimate' process. Information in the form of trend predictions exists for a number of the risk drivers (for example, labour market forecasts are available to 2012 but in other cases, e.g. household dissolution or consumer borrowing, such data are not available). Even where trend data are available there has to be a health warning, as exogenous shocks can alter predicted trends rapidly and significantly. The research deliberately adopts a 'worst case' approach and this should be held in mind in what follows, although 'worse cases' do sometimes materialise. What follows also assumes that housing supply and key institutional structures remain as now.

11.3 Potential future risks

In looking ahead, it is useful to start with the likely continuities. Stable, earned income continues to underpin mortgage borrowing, so the likely nature of labour market opportunities and the risks associated with the labour market remain a central concern. Well-established social trends with respect to cohabiting, marriage and relationship breakdown are likely only to change slowly and thus to remain important risks. A further continuity is the ongoing growth in low-income home owners in line with housing policy objectives. Whether or not inflation will remain low can be debated, but here continuity is assumed. There are, though, some emerging expectations and behaviours amongst home owners that may constitute new risks, for example equity withdrawal, and associated with some of these developments there are product innovations that facilitate them. A number of these trends are considered below. Whether or not they will in reality constitute a risk to individuals and households (as opposed to, or as well as, constituting a risk to the housing market or the economy), and the circumstances under which they will do so, is a matter for discussion.

Changing demographics of home ownership: low-income home ownership
A number of the trends currently visible in the socio-economic composition of home ownership, in particular the growing diversity of the sector, are likely to continue into the future. To the extent that the home ownership sector continues to expand, it is likely that there will be more single-person entrants, more home owners from minority ethnic backgrounds, more older borrowers, and more low- income borrowers.

Of these trends, the most significant in relation to problematic home ownership is the growth of lower-income borrowers, which includes borrowers whose income may not be defined as 'low' per se but who face affordability issues. The number of low-paid workers is on an upward trend and including full and part-time exceeds 10 million employees; housing policy continues to prioritise home ownership, as the preferred tenure and surveys of housing aspirations (CML, 2005) show that nine out of 10 home owners would prefer to own their own home. The significant stream of low-income entrants in the 1990s and early 2000s will continue, even while house prices in some areas are such as to raise affordability issues for those not necessarily defined as low-paid by official measures (Wilcox, 2005a).

Both government and lenders are seeking to ensure continued access for lower-income borrowers, the former to deliver policy objectives and the latter to maintain market share. The need to sustain the skills input to buoyant labour markets in the south of the country is a further driver of lower-income access to home ownership, particularly with reference to key workers. (Key workers are typically public sector workers, teachers, nurses etc. with modest to low pay, where affordability issues may constrain them to move to less expensive areas of the country, leaving acute shortages of key skills). These pressures have resulted in a raft of new or revitalised initiatives: key worker schemes, a renewed focus on conventional shared ownership (where a household buys a proportion of the property and rents the remaining share from the holder of the remaining equity, often a housing association), a compact between lenders and the Treasury to support Homebuy (a form of shared ownership), the continuation of discounted mortgages to assist entry, and via the Office of the Deputy Prime Minister a competition to provide a £60,000 house for sale (excluding land which is the Government's contribution through the recycling of no longer required brownfield sites).

Thus there is unlikely to be any easing back on access to home ownership, particularly amongst those groups who bear the greatest risk of unsustainable home ownership by virtue of a higher risk of unemployment and/or a higher loan to income ratio.

Low inflation

The shift to the policy objective of a low-inflation economy in the UK is relatively recent. While it brings benefits in terms of lower interest rates, it has implications for mortgagors in terms of lengthening the period of time before there is any significant erosion of their mortgage debt. In these circumstances, the higher the initial loan: income ratio, the less room there is to adjust to payment difficulties, and there are clear risks from 'stretching' initial affordability. The length of time over which any eventuality could challenge a borrower's ability to repay is also increased in a low-inflation environment. Further, for borrowers with payment difficulties and who lose all their income, the State will assist with mortgage interest payments after nine months, but in a low-inflation environment borrowers are left with a significant, and only slowly reducing, capital sum which they have to cover from their own resources.

Labour market developments

The process of structural change in the labour market is an ongoing one which has seen key transformations in employment opportunities since the late 1970s (Gregg and Wadsworth, 1999). A number of key shifts, prominent in the late 1980s and 1990s (for example the growth of temporary employment), are currently static, but other changes are, however, predicted to continue.

UK labour market projections to 2012 (Wilson et al., 2004) conclude that over that period 'a generally optimistic picture emerges for the labour market'. In particular: employment is expected to rise, with the addition of 1.3 million jobs over the period, although many will be part-time and the vast majority taken by women; the working age population and the labour force will expand (affected by demographic factors, longer working lives, and rising participation rates amongst women); and the level of unemployment will remain stable at relatively low levels, showing only a very modest increase. Notwithstanding this long-term view, official UK unemployment figures have been rising recently from a low point of below a million people to the current position of around 1.5 million. For most people unemployment will be a relatively transitory experience, although more people will have such an experience. Long-term unemployment (while numerically limited) will remain an issue. Self-employment, which has been static (in percentage terms) since the mid-1990s, has started to increase again.

From the perspective of home ownership, the key labour market issue over the next decade is less the availability of employment *per se* (which will enhance employment stability or continuity, even if it involves repeat short-term contracts) than the trend with respect to employment income. While average wages have risen over the past decade, the in-work income distribution has seen little change in the extent of polarisation, notwithstanding the introduction of a minimum wage. The development of a low-wage labour market sector is now established policy, but it has required the support of other policies, not least the implementation of job seekers' agreements, and ultimately the exercise of sanctions, to ensure that job seekers accept low wage opportunities (Bryson, 2003; Finn, 2003). There is a consequent need to ensure that this policy results in a 'living' wage, and this has in turn led to some restructuring of in-work benefits, which are now provided in the form of tax credits, or supplements to income delivered through the wage packet. Additional tax credits relate to support for households in work with children. The size of the low-pay sector (whichever definition is used) grew throughout the 1990s, and this is likely to be a continuing trend.

Thus, as a consequence of labour market change, more individuals and households now fulfil one of the criteria for entry to owner-occupation because they can demonstrate employment stability. For those who are lower-paid, however, there is a potential fragility in the assumed continuity and adequacy of the structure of the in-work support system and thus successful home ownership. For example, housing (and other) costs can rise without any increase (or an insufficient increase) in the minimum wage and tax credit thresholds, as in the case of rising interest rates or increasing utilities payments. Further, more radical policy change, including less generous tax credits or their complete withdrawal and/or further deregulation of the labour market, cannot be ruled out in the longer term. Thus wider access, but often marginal home ownership, is underpinned in part by wage policies and social security/taxation policies that are open to political adjustments and do not necessarily have long-term certainty. The support to household wages via the tax credit system is also fully dependent on the continued availability of jobs, and hence to be successful in supporting home ownership the policy requires a very shallow economic cycle and the avoidance of recessionary conditions. The tax credit regime is not recession-proof.

Housing as an investment and welfare resource

A second change and potential risk – both structural and cultural – explored here is what might be described as a 'step change' in both the willingness and means to use owner-occupied housing as a resource to manage other areas of life. These changes are a consequence of a number of broad factors, including the availability of housing equity, changing government policy towards asset-based welfare, product innovation, the shortcomings of existing policies (state pensions, private pensions etc.), successive governments' commitment to greater individual responsibility for welfare provision, and changing attitudes to consumption and inheritance (Rowlingson and McKay, 2005).

There is support for the above general contention from households' behaviour. For example, there is some evidence that individuals are making a reassessment of their pension planning arrangements, following poor equity market performance in the late 1990s and early 2000s and a number of proven difficulties with pension providers, and are developing an alternative property investment portfolio using buy-to-let investments (Rhodes and Bevan, 2001).[2] There is also evidence that households are releasing equity from their properties – with up to five ways identified by Benito and Power (2004) – in order to fund other services, such as the purchase of health or social care services, or to meet the increasing costs of education, whether this is fees for private schooling or university fees or the purchase of accommodation for their adult children who are students (often using buy-to let). Evidence indicates that

2 Buy-to-let developed in the UK in the mid-1990s as a mechanism to facilitate the growth of the private rental sector through enabling individuals as well as institutional investors to gain funding for such investment.

equity is also being made available to assist adult children onto the housing ladder through the provision of deposits (SHE, 2004/5). Households are also withdrawing equity for conspicuous consumption items, for debt consolidation, and most frequently for home improvements and repairs. In total 5.8% of owner-occupiers withdrew equity in 2002, with remortgaging being the most common method of withdrawal, the median amount of equity released being £13,800 (Benito and Power, 2004).

In considering the step change in the release of housing equity for a range of investment and consumption purposes, house price inflation is a necessary, but not sufficient condition. Attitudinal change and appropriate product innovation are also part of the changes and have also to be explored (see e.g. Smith, 2005).

The potential and now emerging changes give rise to two questions. How significant are these changes likely to be, and what, if any, risks do they carry for home owners? These are difficult questions to answer, in part because there may only be limited data, but also because a number of the issues are interrelated (for example the willingness to engage in equity release for care depends on attitudes to inheritance, as well as on regulatory structures; the willingness to withdraw equity via a remortgage to help adult children access their own homes depends on the view taken about future employment and income certainty and further equity growth). In addition, many of these changes are relatively recent, and the level of risk needs to be assessed over the long term. With these caveats in mind, the risks associated with a number of the above changes are considered in a little more detail below.

a) Property as an investment: buy-to-let

A growing proportion of home owners in the UK now have one or more investment properties (as opposed to a personal holiday home) in addition to their primary home. Often this property has been purchased using a deposit funded via equity withdrawn from the primary residence (thus increasing the first mortgage). The buoyancy of the buy-to-let market has coincided with the trend amongst young professionals to rent for a longer period before entering owner-occupation (a trend which may not persist), and in some places with the expansion in the number of higher education students. Table 11.1 below indicates the extent of growth in the sector over the last five years.

The risks in buy-to-let include, on the revenue side: the likelihood of finding a tenant at an appropriate rent (which reflects the competitiveness of the market), intermittent voids, the failure to match any interest rate increases with rent increases and the potential for arrears or the depletion of personal savings. While arrears have so far been low compared to mainstream residential mortgages, they have risen from 0.47% of loans at the end of 2000 to 0.7% of loans at the end of the first half of 2005. Risks on the capital side include a forced negative equity sale.

Table 11.1 Number and value of Buy-to-Let mortgages

Year	No. of buy-to-let mortgages outstanding at the end of the period	Value of outstanding mortgages £m.
2000	120,300	6.6
2001	185,000	14.7
2002	275,000	24.2
2003	417,000	39.0
2004	526,000	52.2
2005 (H1)	632,000	63.5

Source: Council of Mortgage Lenders statistical returns

The sharp increase in 2005 is due to previous non-reporting by a major lender. The figures only reflect lending that is formally designated as buy-to-let and do not incorporate loans to individuals used for buy-to-let purposes but not identified as such. The number of loans of this kind is not known.

It is important to be clear that many of the risks discussed are potential risks, and their likelihood has to be assessed. The risk pattern will differ from housing market to housing market. For example, there is likely to be a risk of saturation in buoyant markets that have experienced rapid growth that then tips the market downwards, potentially leaving some buyers with voids and/ or in negative equity. Recent assessments of the London buy-to-let market would be an example but so too might York, where over 30% of the private rental sector is thought to comprise buy-to-let properties, where more properties are in the process of coming on stream and where last year average rents fell. Leeds is another UK city where questions are being raised about the market for the significant number of apartments being developed, often on the assumption of a buy-to-let sale. The impact of the risk is also variable. Short-term voids may be able to be managed, and if not, properties sold. Borrowers will lose money but rarely their primary residence, although this cannot be completely discounted. These risks may be relatively immediate in some places at any one time, but absent in other places with the viability of the sector as a whole only being tested in the longer term.

b) Equity withdrawal and equity release[3] for consumption items, for income or care services

The trend with respect to equity withdrawal since 1997 (when it returned to positive, if low, figures) is an accelerating one: just over £1 billion in 1997 rising to in excess of £45 billion in 2002 (Wilcox, 2004). By early 2004, as a propor-

3 The process of taking equity out of ones property is referred to either as equity withdrawal or equity release. Equity release is typically associated with the process of accessing equity in later life for which a number of specific products, schemes and safeguards have been developed. Equity withdrawal is typically associated with accessing some of the accumulated value in property during the life time of the mortgage by increasing borrowing against the property.

tion of consumer spending, equity withdrawal had surpassed the 6.98% seen at the height of the last housing boom in 1988.

The key risks associated with equity withdrawal are typically discussed in terms of a cyclical increase in interest rates which leaves borrowers unable to pay increased mortgage costs. Equally, in the event of an income disruption which results in an inability to pay, and access to the state safety net, this safety net may not cover the additional borrowing, depending on the purposes for which the equity was withdrawn. Where consumers have significant unsecured debts which they elect to consolidate as a secured loan (by 'withdrawing' or more accurately 'reducing' the equity in their property) this too may be a risk in terms of rising mortgage costs, owing to the higher interest rates typically applied to consolidation loans. Other risks might be a further fall in inflation such that high levels of debt are open to risk for an even longer period of time.

As opposed to seeing equity withdrawal as a potential risk, there is a view that presents the current level of equity withdrawal as a 'one-off' adjustment consequent on the shift to a low-inflation environment. In the longer term the view is that house price inflation will moderate and the combination of limited equity growth and longer exposure before the mortgage is eroded will limit both the extent and inclination for equity withdrawal and thus the risk.

An alternative scenario, however, is that house price inflation will continue to characterise the longer term and that home owners will be willing and able to rely more heavily on the repeated freeing of equity from their property. The associated danger is that loan:income and loan:value ratios are ratcheted upwards over the course of a borrowers' life, in contrast to the historical position where the ratios have diminished as retirement and a drop in income approaches. The length of mortgages may extend, and there is already a visible increase in the number of pensioner mortgagors in the UK, many of whom may be attempting to meet housing costs out of reduced income. Overall these developments increase the length of exposure that home owners have to a wide range of risks, but they do not necessarily constitute a risk *per se*.

The number of older home owners using equity release products to boost income post retirement, or to purchase care services, is also growing. Such mortgages currently account for a tiny fraction of all outstanding balances (0.50% in 2005), but between 10,000 and 15,000 such mortgages have been advanced in each successive six-month period since 2002 (CML, 2005). Following some product and regulatory difficulties in the 1990s, (which manifested themselves as serious financial difficulties for some borrowers), the market and the regulator have addressed some of the worst shortcomings of the product, particularly those that could result in borrowers (or their heirs) being responsible for any negative equity following sale. Whether or not this market still constitutes a risk is uncertain, and it may take some time to assess. The details will clearly be dependent on the form of product used to release equity and the general fortunes of the market.

The risk from product innovation

There has been considerable structural change within the mortgage product market over the last decades. In the 1980s and early 1990s mortgage lenders favoured products linked to equity markets (endowments and pension mortgages), products which have constituted a risk (due to equity market failure) to a significant, if inexact, number of borrowers, despite looking attractive in the. Although equity-based products are now relatively infrequent, the consequences of earlier decisions have yet to be realised in a significant proportion of cases in the form of outstanding mortgage debt past retirement age and the absence of any lump-sum payment to cushion retirement. Both these outcomes raise the possibility of an inability to meet mortgage payments or a 'forced' trading down.

While endowment mortgages are now rarely offered, there have continued to be other product and market innovations which may carry risks. Key innovations span the market from new shared-ownership products to flexible mortgages in the form of current account or off-set mortgages where borrowers run a single account for all their financial transactions, with the mortgage debt benefiting from being lowered by the regular influx of salary payments (for a discussion of 'flexible mortgage' see Smith et al., 2003). For shared ownership, the only guide as to the likely performance of borrowers with such products is past performance. For most of the 1990s the percentage of shared-ownership loans with arrears exceeded the level seen amongst mortgagors with non-shared-ownership products, and at no time were they lower. This finding is not unexpected and reflects the higher than average gearing of low-income borrowers and the social and economic gradient associated with arrears, and the key issue may be the risk associated with a significant increase in low-income borrowers rather than with the use of shared-ownership products. While Homebuy does have a facility to allow borrowers to reduce their share of the equity if circumstances require (staircasing down), not all shared-equity products provide this facility. Thus a key conclusion has to be that 'policy {and product} itself is continuing to support and further a risky environment' (Ford et al., 2001).

Further product innovation relates to the sub-prime market, a market synergistically linked to marginality and risk. The sub-prime market provides for borrowers unable to access the prime market because they have an adverse credit record and/or an unconventional employment record (Munro et al., 2005). As prime lenders tighten their credit scoring (not least as interest rates rise), adjacent sub-prime lenders (some 'owned' in whole or in part by prime lenders) offer a means of access to more marginal borrowers, albeit at a higher rate of interest. Such lenders may also offer mortgages to those who seek 'debt consolidation', but at a risk premium. This in itself will not necessarily cause default but it is a constraint when some other eventuality is experienced and income falls or is lost all together. Typically sub-prime lenders manage any default at speed, in a robust manner and at a higher cost to the borrower. Thus the price of entry to home ownership via this sector is little leeway when any risk is experienced. For those borrowers already in the sub-prime sector for whom there is a repeat experience of default, there are further niche markets which deal with highly adverse credit records but at an even greater cost and administrative stringency.

Industry analyses of the sub-prime market often point to the potential for a virtuous circle: marginal borrowers have the chance to access home ownership that would otherwise be denied to them and to establish sound payment records, whereby they can progress to cheaper loans in the prime market. However, academic research and commentary from advice agencies highlights the potential for a more vicious circle in which entrants face a high cost for credit, which can verge on an exorbitant agreement. Borrowers with such agreements may be unable to maintain them faced with any external disruption to income Indeed, some agreements may be unsustainable even with a secure income.

The growth in more marginal home owners is symbiotic with the growth in the sub-prime lending sector. Similarly, the predicted increase in borrowers who have adverse credit records supports the growth of the sub-prime lending sector. As more borrow more, the risk of default rises, higher borrowing costs are incurred and there is more chance of default. A key risk to home owners in the future relates to the growing share of the market that is sub-prime and the speed and stringency with which it responds to the manifestation of risk.

A further area of product development with potential for concern has already been considered above, in the section on equity withdrawal, and relates to the development of flexible mortgages. Depending on the use of the flexible features, borrowers can build significant additional borrowing, which constitutes a risk in a recession.

Affordability and new patterns of borrowing

Affordability issues have already been discussed in relation to access products, particularly shared ownership. Here, a different response to affordability is considered, shared purchase by two (or more) non-cohabiting borrowers. This was a pattern seen in the mid and late 1980s in response to affordability issues, but one which sometimes led to arrears as one or more mortgage contributors ‘walked away’, either literally or leaving the other borrower to take on a very large debt or sell. Commentators have begun to point to the return of such arrangements following rapid house price inflation in the early 2000s, and the risks remain the same.

High house prices over the next decade may increase the use of this option, possibly encouraged by the constraints on income as graduates start to repay student loans and fees in a context where the income from early graduate jobs in the UK is experiencing relative downward pressure (Elias and Purcell, 2005).

Risks from the safety net

Within the UK the state safety net for mortgagors, established in the late 1940s, has now been restricted, first in 1987 and again in 1995. Borrowers who lose all income can now access State assistance with their mortgage interest payments (up to a maximum of a £100,000 loan) after nine months. The nine-month ‘gap’ can be filled by voluntary mortgage payment protection insurance, which typically pays out after a two-month deferral period. A series of studies have evaluated the nature and effectiveness of the safety net (Ford et al., 1996; Kempson et al., 1990, Ford et al., 2003), presenting a significant critique which is widely accepted by researchers but also by some mortgage market players. The so called safety net has been and will continue to be a significant risk to sustainable home ownership. Drawing on the sources noted above, the key evidence in support of this claim is elaborated briefly below.

Neither safety net provides cover for key risks that result in payment default: relationship breakdown, rising household costs or debts, or reduced in-work income. Where borrowers seek insurance, relatively few have cover for both unemployment and health-related eventualities, and relatively few households cover all contributors to the mortgage. Together these factors result in a very sparse safety net, where even those with insurance can find that the risks they experience are not covered by the policy. Mortgagors are also expected to be able to fund from their own resources the deferral periods in private insurance (usually the first two months of a claim) and state provision, but in a majority of cases are not able to do so. As the percentage of low-income borrowers grows, this problem will also grow. Further, the cost of private insurance is perceived by many as excessive: on an average mortgage it can add £50 per month to costs, and while this assessment is not restricted to low-income borrowers it can particularly constrain their ability to take up the insurance.

Take-up of insurance is also low, no more than a quarter of all borrowers or a third of first-time borrowers. For some the factor limiting take-up is cost, as already noted. The average cost in 1999 per £100 of mortgage payments insured was £5.50, which had only fallen to £4.98 by 2005, despite a very low claims profile in the industry over that period. Further, a quarter of mortgage borrowers distrust the private sector to the extent that they exclude all consideration of private sector insurance. Centrally, however, the safety net system for UK mortgagors is complex and fragmented; its three components (personal resources, private insurance and finally State assistance) are poorly related, provide incomplete cover and are structured in a manner that can result in an inadequate payout. Twenty-one percent of those making a successful claim on insurance still develop mortgage arrears (Kempson *et al*., 1999), while almost half of those in receipt of State support are in arrears due to the nine-month gap before they receive any assistance. Overall, while the safety net mitigates risk for some people and in some circumstances, it remains part of the risk problem for mortgagors in general.

Critically, however, the findings above relate to benign economic conditions, and the current safety net system has not been tested in recessionary conditions. Risk must attach to the likely performance of private insurance companies, which in all probability will seek to limit claims or raise premiums. The pressure on State support may prove to be substantial (despite the sizeable deferral period) and lead to further limitation of support.

One 'test' of the likely future risk to home owners from the current safety net has recently been articulated by Wilcox (2005). To assess the future he revisited 1991/2, the last peak of arrears, and calculated the level of arrears that would have resulted had the current (reduced) safety net been in place then. He concluded that an additional 80,000 households would have experienced arrears of six and more months (an increase of 25%), with a number in excess of this experiencing arrears of between 3 and 6 months. Although any future housing recession is likely to differ in characteristics from that experienced in 1992, the evidence of a weakened safety net, and thus the future risk from the safety net, is significant. Finally, independent of economic conditions, the welfare reform agenda could result in a further shift from the State to the market, and while such proposals (DoE, 2000) appear to have been halted for the moment, they could be revived.

11.4 Mitigating future risk

This chapter has argued that we cannot be sanguine about the future of home ownership and that, potentially, the level of risk will rise and its form evolve, driven by structural changes, cyclical processes and changes in the product market. The current response to risk is inadequate, and forms part of the problem rather than a defensible solution.

The response to future risk comes at several different levels. A long-standing response has been to challenge the dominance of the housing policy goal of home ownership in favour of improved social housing or a buoyant, well–regulated private rental sector. Choice–based lettings, tenant's deposit schemes, arms-length management and flexible tenure are all illustrations of this response. But given that policy has as its objective a further widening of home ownership, along with the evidence on households' aspirations, the final section of this chapter considers the options to provide a more adequate safety net.

Successive changes to the safety net have been informed by public expenditure considerations and fundamentally by welfare reform that sees the individual as needing to take greater responsibility for their own welfare in a market environment that relies on private sector provision for the means to do so. This approach does not reflect adequately either the parties to home ownership or the distribution of rights and responsibilities between them. Earlier work (Ford and Burrows, 1997; Nettleton et al., 2000) which has sought to assess the economic and social costs associated with unsustainable home ownership indicates that lenders, borrowers and the state are 'front-line' parties to any losses, with other groups often indirectly affected (employers, heath providers, children in households that experience homelessness or poverty etc.). On the basis that all three parties – borrowers, lenders and the state – are the key players benefiting from sustainable home ownership, what kind of safety net might be developed that not only reflects these rights and responsibilities but also addresses the major shortcomings in the current approach identified earlier?

11.5 A sustainable home ownership partnership (SHOP)

SHOP is a proposal to move away from an uncoordinated, incomplete, voluntary and expensive system involving three discrete components (personal resources, private insurance and ISMI) to a reconfigured single scheme where borrowers, lenders and the state contribute, the first two via a levy on the mortgage taken and the latter by an agreed drawdown at the point risk materialises. In outline the proposal is that borrowers would contribute 50% of the costs, with 25% coming from each of the other two parties. For borrowers the 'levy' would be part of the mortgage, with each new mortgage or remortgage or interest rate change mirrored in an adjustment to the levy, thus precluding shortfalls at the time of any claim. The scheme would cover all contributors to the mortgage for unemployment, accident and sickness for a period of up to 12 months, but with a proposal that the first two months could remain the borrowers' responsibility or be subject to lender forbearance. In the absence of a return of income after 12 months, continuing payments from the scheme would be means-tested. A compulsory scheme, covering all contributors for key risks, addresses the current problems of incomplete cover and uncertainty about the outcome of a claim.

An initial assessment suggests that the total annual cost of SHOP on a compulsory basis would be of the order of £1.8 billion. Costs to borrowers would be some £1.50 per £100 of mortgage payment. While this would be an additional cost for borrowers who currently elect not to take out payment insurance, it would be a very considerable saving against the average £5.00 per £100 mortgage payment paid by those who currently insure. The costs to the state would not exceed the average costs currently contributed in the form of

Income Support Mortgage Interest (ISMI) over an economic cycle. A fuller exposition of the proposal is given in Ford and Wilcox, 2005.

While the proposal addresses many of the shortcomings of the current safety net, it does raise some key issues. These include the justification for compulsion, which might be answered in terms of the financial benefits of risk pooling but more significantly in terms of the evidence that risk impacts throughout the socio-economic spectrum and in many cases results in poverty and downward housing mobility, and in the evidence of the synergistic relationship between the housing market and the economy (Maclennan et al., 1997) that drives towards a 'public good' argument.

Other issues focus around implementation and administration, but also how SHOP could isolate the housing expenditure in an increasingly complex interpenetration of housing and non-housing expenditure represented by a mortgage. (This is an issue that faces the current safety net system, as already noted).

11.6 Housing tax credits

The benefits (and risks) to home owners of (income) tax credits have been discussed already, but here the proposal is to develop a tax credit that specifically supports housing costs. This proposal might be seen as the latest in a long line of proposals in the UK either for a housing-related allowance for mortgagors or for a tenure allowance addressing the unequal treatment historically experienced by owners in comparison with tenants, whereby in-work mortgagors receive no support with housing costs (Duke of Edinburgh's Inquiry, 1985; Webb and Wilcox, 1991).

Tax credits already offer mortgagors an important cushion in the case of a significant reduction in household earnings short of total loss. This can address the risks from relationship breakdown in a context where both partners are in employment. Tax credits also provide a path back into lower-paid employment for unemployed households, where the evidence is that a return to work may, on average, involve a 10% drop in income (White, 1996). Two shortcomings in the current tax credit system, however, indicate that a designated housing credit would be beneficial: the first is the lower level of take-up of tax credits by mortgagor households, and the second is the continuing unemployment trap that remains for borrowers with higher levels of outstanding mortgage.

Housing Tax Credits are not a standalone response to the risk environment that mortgagors face. Rather they are complements, and this is the case whether the current safety net continues or is replaced by a more comprehensive, principled, approach such as SHOP.

11.7 Conclusion

Mortgage risk has become an enduring feature of home ownership, but one now subject to an evolution whereby the familiar risks from the labour market, ill health and relationship breakdown are being joined by new risks associated with consumer debt and the opportunities available to the State, borrowers and lenders to utilise potential equity growth. There are well recognised problems with the current safety net. Not only does it fail to reflect the costs and benefits to the parties to home ownership, but it is badly aligned with the suggested emerging risk trends.

As part of a process of considering alternative policy approaches, a new proposal for a shared partnership to mitigate risk has been considered, one which expects contributions from lenders, borrowers and the State and in return safeguards all parties, for example against mortgage losses and market failure, against the demands for additional social housing and/or unfavourable economic impacts, and against poverty and homelessness.

The current safety net pushes home owners in difficulty towards the loss of their property via the voluntary or compulsory possession process. Recent research (Meadows and Rogger, 2005) has shown that of those that lose income and are 'at risk', a majority recover their economic stability and position within a relatively short space of time. This is yet further reason to seek a safety net that can retain households within owner-occupation for a period of time that allows them to achieve recovery, rather than one that increases the likelihood of premature exit.

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12 Systemic risk and home ownership in the UK[1]

Mark Stephens

12.1 Introduction: individual and systemic risk

Since the major housing market recession in the early 1990s UK governments have continued to promote what they call 'sustainable' home ownership, implying a difference with the kind of home ownership that was promoted in the 1980s. Since it is not obvious how public policy has altered the nature of home ownership over the intervening years, it is unsurprising that concerns persist about the risks that might be lurking not so far below the surface of the calm sea of low nominal interest rates, low levels of unemployment and rising house prices. This chapter examines one particular aspect of risk, which we have called 'systemic risk'.

Systemic risk has been interpreted intuitively to mean risk at the level of the housing system.[2] Systemic risk can be distinguished from individual risk, where the consequences are confined to individuals – possibly many thousands of individuals – and which is therefore of policy concern, but the consequences are largely confined to these individuals. Systemic risk indicates a risk that has consequences for the entire housing system, where the consequences of risk for individuals have knock-on effects for others, spreading throughout the system. These two categories of risk are not discrete, but the implication of systemic risk is that its consequences may spread throughout the housing market, and even beyond it to affect financial institutions and government.

The benchmark for an accumulation of individual risk giving rise to systemic risk is the housing market recession of the early 1990s. The context was one of an immature market, that is one where levels of owner-occupation were rising quite rapidly, not only through Right to Buy sales but also owing to the release of pent-up demand that had remained unfulfilled whilst the financial system had been regulated. The main sources of risk were high levels of gearing, relatively high proportions of first-time buyers and a prevalence of variable rate mortgages. These risks exposed many individuals to interest rate risk, income risk and negative equity risk.

1 This paper was commissioned by the Joseph Rowntree Foundation's 'Home Ownership 2010 and Beyond' Inquiry, whose terms were to 'adopt a long-term perspective on home ownership with specific reference to the most likely risks at both at the systemic and individual level'. I am grateful to the Inquiry for providing the opportunity to write this paper, and also for comments given by my former colleagues at the University of Glasgow, Kenneth Gibb and Gwilym Pryce, and also Bob Pannell at the Council of Mortgage Lenders.

2 As opposed to the technical term used in financial economics to indicate a risk that affects an entire financial system.

All three risks were fulfilled primarily due to macroeconomic mismanagement. The Treasury failed to appreciate the inflationary potential of the house price boom, and both fiscal and monetary policies were too loose in the first half of 1988. The impact of the newly found liquidity of the housing market on consumption was similarly unanticipated. The subsequent corrective rapid and extensive rise in interest rates, followed by the disastrous experience of ERM membership at the same time as German unification, contributed to a severe recession.

Levels of mortgage arrears and subsequently possessions rose alarmingly, representing an accumulation of individual risk. The impacts of falls in nominal house prices on individual wealth spread throughout the market, in its most extreme form producing negative equity. The Government incurred both direct and indirect costs. Direct costs took the form of rises in social assistance payments for mortgage interest (ISMI), as well as the additional costs of mortgage interest relief arising from higher interest rates. Indirect costs arose as a result of homelessness acceptances of former owner-occupiers (representing 10% of such acceptances in England).

Yet the financial system turned out to be robust. Mainstream lenders suffered rising provisions, but were generally able to pass losses onto insurance companies, which in turn incurred large losses. Only one building society of any size came close to financial difficulty and was taken over. New entrants, which were generally subsidiaries of overseas banks, incurred more widespread losses. Their lack of historic back-books made their loan books riskier than those of established lenders and they tended to withdraw from the market. But there was no general failure in the banking system, as occurred in some Scandinavian countries where a similar property-based boom and bust had occurred, requiring extensive and expensive government intervention.

Debt deflation, the most extreme form of systemic risk in an asset market, was avoided in its purest form. Debt deflation occurs when falling asset prices lead to a downward spiral of debt repayment, the cumulative effect of which is to push down general prices, thus (perversely) increasing the value of outstanding debt, so leading to more forced sales. Something similar may have been occurring within the housing market: although general prices did not fall, nominal asset prices did for several years. Clearly the consequences of housing market risks were felt throughout the economy, and this helps to explain the scrutiny under which the housing market is examined, not least in the management of the macroeconomy.

12.2 Changes in underlying risk over the past decade

A decade after the housing market recession, the UK has been faced with another house price boom, which has naturally given rise to fears of a repeat performance. The purpose of this section is to examine the ways in which the housing market has changed, in order to give a qualitative assessment of changes in underlying risks.

Three areas are examined: owner-occupiers at the individual level; owner-occupiers at the systemic level; and lenders.

Owner-occupiers: individual level

Although house prices have grown significantly, there are several factors that distinguish the current situation from the precarious position that the market reached in the late 1980s.

Loan to Value Ratios (LTVs)

One of the key risk factors in the 1980s was very high loan to value ratios. Primarily these expose borrowers to the risk of negative equity should nominal house prices fall. Negative equity can then prevent distressed borrowers from selling their houses and trading down into more affordable properties should they suffer a loss of income.

Median LTVs for first-time buyers rose from 84-88% in the 1970s to 95% in the 1980s following mortgage market deregulation.[3]

These levels were maintained until around 1998, since when median LTVs for first-time buyers have fallen to 89-90%. In 2004 these fell further, to 87%.[4] One interpretation of these declines is that in the 1980s the main constraint on borrowing was LTV, but in the past few years it has been loans as a multiple of incomes (which have been rising). Whatever the case, on average it would appear that first-time buyers have more equity than did their counterparts in the 1980s.

The pattern is less pronounced among movers. The rise in their LTVs was more gradual than among first-time buyers, rising from 54-59% in the 1970s to 67-73% in the late 1980s/early 1990s. Movers' median LTVs continued to rise in the 1990s, peaking at 75%, and subsequently dropping to 68% in 2004. Clearly (on average) movers have always had more equity than first-time buyers, and this remains the case. Moreover, the balance of lending between these two groups has shifted markedly in the direction of the less risky of the two. First-time buyers accounted for around half of loans for house purchase (by number) in the late 1980s. After peaking at 55% in 1993/94, the proportion of first-time buyers fell steadily to 38% in 2002, then plummeted to 29% in 2003 before rising marginally to 31% in 2004. These data are consistent with the view that many potential first-time buyers are becoming priced out of the market.

3 Unless stated otherwise, statistics are from CML (although CML might not be their original source).

4 Estimated figure, accessed 26 January 2005.

Average figures in themselves have clear limitations, and data on very high LTVs are less easily accessed. A substantial minority of first-time buyers (10% in 2002 and 8% in 2003) took out loans with LTVs in excess of 100% (Vass, 2003). This represented a fall since the late 1980s/early 1990s (when more than half of new loans exceeded the value of the property), but a rise since the mid-1990s (when the proportion was only 4-5%) (Garratt and Pannell, 2001). Although the proportions with LTVs under 75% also increased, there would appear to be a significant proportion of borrowers with little or no equity at the start of their home ownership careers. For these households the movement in house prices, especially in the early years of their mortgage, are the most important determinant of their net equity. In this respect they have an advantage over their counterparts in the 1980s.

Another contrast with the 1980s is that the growth in house prices has been more prolonged. On the other hand, equity withdrawal has risen markedly in recent years – it was negative in 1997 but rose to a quarterly average of £10.1 bn in 2002 and £13.8 bn in 2003, representing 6-7% of disposable income.[5] Nevertheless, the Halifax building society estimates that the level of net equity in the housing system has grown over the past decade, from a ratio of 2.4 to 3.2.[6] The pattern of growing equity is supported by a Bank of England survey (May et al., 2004), which found that the proportion of home owners whose debt was less than half the value of the property rose from 52% in 1995 to 75% in 2004. The proportion of home owners with debts exceeding 70% of their property's value fell from almost one-third in 1995 to fewer than 10% in 2004. The authors attribute at least part of this improvement in the equity position of households to falling loan to value ratios. It might be noted, however, that these comparisons are trough (certainly) to peak (probably) comparisons; it would have been better to compare the previous peak year (1989) to 2004.

Affordability

It is in terms of house prices as a multiple of average incomes that current house prices make the housing market look stretched. These have risen above the peak of the 1980s boom (5.8 in Q1 2004, compared to 5.0 in 1989) and well above the long-term average (of 3.9) (Vass, 2003). Among those actually buying housing, house prices as a multiple of incomes have risen from 3.1 in 2000 to 4.6 in 2004 for first-time buyers, and from 3.9 to 5.4 for movers.[7] There is, however, little rationale for this measure as an indicator of risk for existing

5 Bank of England statistics. Equity withdrawal peaked in Q4 2003 at £16.5 bn., representing 8.4% of disposable income – the highest figure ever. It fell in each quarter of 2004, with a quarterly average of £13.7 bn (Q1–Q3).

6 News report, 29 March. The calculation is that the value of the housing stock has risen from c.£1,000 bn to £2,970 bn, while mortgage debt rose from £410 bn to £935 bn.

7 ODPM data based on simple averages.

owner-occupiers. As a general access/affordability indicator it is also flawed, as it does not relate to household income or income after tax.

At least until recently, however, the situation looked less worrying when the ratio of the mortgage advance to incomes is considered. This reached 2.2 for first-time buyers during the property boom of the early 1970s and 2.3 in 1990 at the end of that property boom. But the ratio did not fall back to 1.7 in the 1990s, as it did in the 1970s, but instead continued to rise slowly. The pace of increase accelerated from 2000, and the ratio rose from 2.4 that year to 3.0 in 2004. The ratio for movers moved upwards in the 1980s, but remained stable at 2.2 until the late 1990s, when it too accelerated – to 2.9 in 2004. Again these figures are averages, and the Miles Review notes that some 45% of first-time buyers in 2003 took out loans worth more than three times their incomes (Miles, 2004).[8]

These trends are consistent with, first, deregulation in the 1980s and, second, the fall in interest rates in the 1990s. Regulation in the 1970s kept borrowing at artificially low levels, while falling interest rates allowed a much larger loan to be serviced for any given income. Arrears and possession data indicate falls to exceptionally low levels (proportionately) – as low as those experienced before deregulation. But these factors do not explain the more recent rise in the income multiples, which are being reflected in a higher (though on average not dramatic) proportion of household income being taken in mortgage payments.[9] These have given rise to fears of a renewed 'frenzy' effect. Transactions rose rapidly to a peak at 470,000 in Q1 2004 (the highest since 1988), but have since fallen to 351,000 in Q1 2005.[10]

Insulation from risks

Three important changes have occurred over the past decade that will affect the extent to which households are insulated from the main risks facing owner-occupiers.

At the individual household level, risk of income loss has been shifted away from government and towards individual households, although it is worth noting that the pre-1995 Income Support for Mortgage Interest (ISMI) system singularly failed to remove the risk of possession. The reform of ISMI in 1995 removed state support for the first 38 weeks of income support eligibility on most new loans. Gradually, private mortgage protection insurance has grown from around 15% of mortgages in 1998 to almost one quarter in

8 The figure for London and the South East was 60%.

9 For English movers these rose from 17% in 2002 to 21.5% in Q3 2004. For first-time buyers they rose from 18.5% in 2002 to 23.4% in Q3 2004. These increases followed fluctuations of 15.7–19.1% for movers and 17.5–19.8% for FTBs since 1993. ODPM statistics, accessed 26 January 2005.

10 Property transactions, England & Wales, seasonally adjusted. ONS.

2003. As is widely observed, however, the new system has not been tested in a recession.

Periodic growth in demand for fixed-rate mortgages has proved to be cyclical, with upswings coinciding with periods of their relative competitiveness in terms of initial interest rate. Nevertheless around a quarter of all mortgages have some kind of fixed interest rate – mostly in the region of 2-3 years (Miles, 2004, Chart 1). This is clearly much higher than in the 1980s, when very few mortgages were fixed. The other dominant trend, however, has been towards discounted mortgages, with the implication that rates will rise in future, independently of general rate rises. This is linked to currently common and ultimately unsustainable pricing practices. These are discussed further below.

An important cushion against the full impact of interest rate rises was progressively reduced during the 1990s and finally withdrawn in 2000. Mortgage interest relief (MIR) reduced the interest rate on the first £30,000 of a mortgage by whatever percentage was set at the time: so until 1991 by 25 or 40%, depending on the mortgagor's tax band. Thereafter it was reduced to 25% for all until 1994; 20% 1994-95; 15% 1995-98; and 10% 1998-2000. So, while the effect of the phasing out of MIR was disguised by falls in general interest rates, households are now more interest-sensitive in this respect. The full impact of an interest rate rise will now be passed onto them. It is low-income households with smaller mortgages that will be affected most, as in proportionate terms MIR was worth most to them. This is not only because MIR met a higher proportion of their mortgage payments; it also represented a higher proportion of their household income.

Owner-occupiers: systemic level

At the systemic level, the question is whether the underlying risk of individual households is sufficient to be spread over the entire housing market.

At present, despite high house prices and high levels of lending, levels of arrears and possessions very low. Much of this is due to the benign economic environment.

Unemployment has fallen and employment risen to levels last enjoyed before economic restructuring in the 1980s and 1990s. Employment polarisation has occurred, with a simultaneous growth in both two-earner and no-earner households, at the expense of the traditional 'male breadwinner' pattern of one-earner households. Employment polarisation since the 1970s has coincided with tenure polarisation, so labour market economists are struck by the concentrations of workless households in the local authority sector.

Inflation and nominal interest rates have also fallen to historically low levels. Mortgage rates averaged 11.5% in the 1970s and 1980s, compared to 6.5-8% in 1993-2000 (Vass, 2003). Since then mortgage rates fell still further to 5.3% in

Q3 2003, before rising to 5.8% in Q1 2004.[11]

Whether systemic risk is likely to be realised depends on two factors. First, whether these economic changes really mark a structural change, i.e. whether they are sustainable, and second, the extent to which structural change has coincided with a favourable stage in the economic cycle. These questions are re-examined later in the paper, as it is clear that the whole housing system remains vulnerable to even quite modest interest rate rises. Various models of the housing market indicate that mortgage arrears and possessions are sensitive to interest rate changes (reported in Miles, 2003, p. 30). A more recent survey (September 2003, cited by Miles 2003, p. 18) commissioned by the Financial Services Authority suggested that a one per cent rise in interest rates would lead to one million families reporting a significant deterioration in their financial position. A 2.5 percentage point rise would cause most mortgagors difficulty with meeting all of their borrowing commitments (i.e. mortgage or other debt). About one in ten said they would fall behind with at least one commitment. Since then base rates have risen by one percentage point and mortgage interest rates by 0.5 percentage points.[12]

A further change in the nature of risk arises from low inflation. Conventionally, low inflation implies lower nominal interest rates, thus easing the initial affordability of borrowing. But the real value of debt is then eroded more slowly than when inflation was higher and the real value of payments are similarly maintained. It is the prolonged nature of the current rise in house prices that has confused the picture. Low general price inflation has delivered cheap mortgages, but asset price inflation and (until recently) falling interest rates have maintained the effect of an inflationary environment concerning net equity, though not the real value of repayments.

Lenders

The mortgage industry has undergone significant restructuring over the past decade. While systemic failure was avoided, the housing market recession prompted a major reconsideration of business strategies. As a result of these, some – mainly larger – lenders adopted diversification strategies, since they regarded the mortgage market as mature and identified other areas, such as long-term savings, as potential growth areas. Other – mainly smaller – lenders opted for specialisation, believing that low-cost operations would be sufficient to allow them to grow in a maturing market. Each of these strategies contains an element of risk: specialisation implies position risk (i.e. all the eggs are in one basket), while diversification implies entering uncharted territory (though

11 Bank and building society 'basic' mortgage rate.

12 On the other hand, if the aim of interest rate rises is to contain housing-related consumer spending, smaller rises would be required than when the impact of rate rises was cushioned by mortgage interest relief.

risks of entering life assurance could be – and often were – reduced through joint ventures with established life companies).

The wave of building society demutualisation (Stephens, 2001) that took place between 1994 and 1997 was also linked to restructuring, but disguised an array of strategies, both defensive and expansionist; the underlying trend, however, was towards consolidation. Consolidation included so-called 'merge-and-eliminate tactics', whereby two lenders with overlapping branch networks would merge, duplicate branches would be closed and head office functions merged, and usually the dominant brand would be maintained at the cost of the other.

The system of dual regulation, whereby the building societies were regulated and supervised by the Building Societies Commission and the banks by the Bank of England, came to an end. From 31 October 2004 virtually all new mortgage businesses have been regulated by the Financial Services Authority, which places more emphasis on consumer protection than did its predecessors.

As in the 1980s, the mortgage market has attracted some new entrants, and these have utilised techniques to 'unbundle' the discrete processes associated with mortgage lending (origination, processing, funding and management), including the use of third-party administrators for processing and management and loan securitisation for funding (Walker, 2002).

Important though these changes have been for the industry, in terms of systemic risk they do not match the fundamental shift away from non-price rationing that was prompted by deregulation in the 1980s. In itself, the restructuring of the mortgage industry has had little impact on lending patterns. There is little evidence to suggest that demutualisation makes very much difference to lending in terms of risk-taking or propensity to pursue arrears aggressively. The greater use of credit scoring and more sophisticated risk assessment techniques in the consideration of applications has been experienced across the industry and has nothing to do with ownership structures. In principle, this should have reduced risky lending, or allowed firms to understand, price for and set aside appropriate capital for higher-risk business.

It is another pricing practice that arose from the housing market recession that may have had the most significant impact on risk patterns within the housing market. As the levels of housing transactions halved in the housing market recession, lenders turned to poaching existing borrowers from their competitors. Borrowers were persuaded to switch to other lenders by discounted mortgage rates and other financial inducements, such as 'cashbacks'. The discounted mortgages were funded by cross-subsidisation from existing customers, and are generally applied to new borrowers, too. Even though the housing market is once again buoyant and transaction levels have recovered, 'churning' has become a permanent feature of the mortgage market, and a feature that has been very difficult to end.

The central argument of the Miles Review is that discounted mortgages, which are generally offered at variable interest rates, make fixed-rate mortgages appear even less attractive than when they are compared to the standard variable rate. Hence they are partly responsible for the high degree of interest rate sensitivity in the system.

12.3 The risks facing the owner-occupied housing system over the next decade

Given the underlying pattern of risk in the owner-occupied housing system, it is possible to identify the main factors that could turn potential risk into the kind of systemic failure outlined in the introductory section.

House price correction due to overshooting

The first and most immediate risk is that house prices may have overshot sustainable levels implied by the underlying pattern of demand and supply. The immediate risk is simply one of reduced equity, and consequent loss of liquidity in the housing market, which would be painful, but in itself not necessarily catastrophic. It becomes highly problematic if combined with a widespread inability to maintain mortgage payments, either as a result of interest rate rises or income loss.

Overshooting (and undershooting) is an inherent feature of (part) asset markets where demand is driven in part by expectations of future prices. Expectations are formed by recent price trends. But at some point asset markets must peak or bottom out. The problem is that we don't know when this is; hence the danger of over/undershooting.

One way in which commentators have tried to establish whether the housing market has seriously overshot is by looking at indicators that have established a long-term pattern. The house price to earnings ratio is one such indicator that has shown a long-term trend of around 3.9 (when house prices are compared to average individual earnings of the whole population), with a tendency to rise to 5-6 in booms before returning to the long-term trend. But for the reasons described above this is a poor indicator of house price sustainability.

There is a case that suggests the housing market has not overshot. Rather it has been moving towards a new and higher equilibrium caused by what Pannell (2002) has dubbed the 'windfall effect' of the newly low inflation and nominal interest rate environment. This analysis does not preclude overshooting having occurred as well, as was experienced in the 1980s, when deregulation provided the basis for a rise in real house prices but the market also overshot.

If house prices require correction then there is a question as to whether the landing will be 'soft' or 'hard'. The case for a 'soft' landing rests on the observation that the main affordability constraint in the current boom is house prices in relation to income multiples (rather than loan to value ratio, as was the case in the 1980s). This has resulted in a degree of self-regulation by potential borrowers, with the proportions of first-time buyers falling and their average age rising (to 34).[13] More broadly, the house price to earnings ratio based on average earnings has risen faster than the ratio based on the household earnings of actual house purchasers. Again this suggests some form of self-correction without implying a crash.

Overshooting may also have occurred if households have misinterpreted the trough of the interest rate cycle as the normal level for a low inflationary environment. Should it provoke interest rate rises above the narrow 'comfort zone' identified by the FSA survey (see above) then the likelihood of a crash grows stronger.

The buy-to-let market is sometimes cited as a potential source of risk for the wider owner-occupied housing market. By value, buy-to-let mortgages accounted for 4.3% of gross lending in 2001, rising to 6.7% in 2003.[14] Although it represents a relatively small part of the total market it has been identified as a factor in fuelling house price increases, perhaps because it is thought to be concentrated at the lower end of the market, which has experienced declining interest from first-time buyers (Economist, 2004). One of the stabilising factors in housing markets, compared to pure asset markets like shares, is that housing also provides a service that is consumed: people don't necessarily sell the house they live in because its value has fallen, as they need somewhere to live. Landlords do not have this constraint. Although housing is not as liquid as shares, owing to higher transaction costs and rigidities arising from tenancy agreements, clearly it can be sold more easily than one's own home.

If the buy-to-let market was driven by the motive to accumulate wealth then there would be grounds for fearing that it could exert disproportionate influence on the whole market. Research by Rhodes and Bevan (2003), however, indicates that landlords are primarily motivated by the wish to receive a long-term rental income, and this applies both to 'part-time' and 'full-time' landlords. Moreover, among those using buy-to-let as part of their pension planning, the objective appears to be to secure a regular (rental) income for retirement, rather than to sell the property.

13 In Australia the pricing-out of younger households caused owner-occupation levels to fall among this group, while the cohort effect maintained the overall level, leading to rises among older households.

14 Curiously, the size of the sector does not seem to have changed, which may indicate that private landlords have been replacing part of the sector left by the corporate sector (see Barker, 2005).

Economic shocks and new macroeconomic management

The second risk that the owner-occupied sector faces is deterioration in the economic environment.

It is sometimes assumed that low inflation and low nominal interest rates are primarily the product of a shift in economic policy/management, typified by central bank independence and a commitment to inflation targeting. In fact the fall in inflation and nominal interest rates has been a world-wide phenomenon, reflecting a general reduction in inflationary pressures. Moreover, the assumption that low inflation means low interest rates is mistaken, because central banks use interest rates to keep inflation low should inflationary pressures arise (internally or externally).

Bank of England Monetary Policy Committee

Members of the Bank of England Monetary Policy Committee have repeatedly made it clear that they target inflation, not asset prices, so in itself house price inflation does not trigger the kind of inflationary shock that would prompt a rapid rise in interest rates. Indeed, rates have been cut during periods of house price inflation. The route through which house price inflation might provoke interest rate rises is through equity withdrawal, now exceeding the levels of the 1980s boom. But it is not clear that equity withdrawal is associated with consumption growth in the same way that it was in the 1980s survey evidence suggests that little feeds directly into consumption, and the savings ratio has been steady for some years. Essentially the liquidity of wealth has been increased, so the potential for an inflationary increase in consumption exists.

External inflationary shocks, by definition, cannot be anticipated, but may be the most likely cause of unanticipated MPC activism. For those devising policies to deal with risk, the question is whether policy should be based on expecting the unexpected, i.e. the degree of risk aversity.

European Central Bank (ECB)

Superficially at least the ECB follows a similar monetary policy to the Bank of England MPC. Inflation targeting is used, although the bias is more deflationary (because the ECB's inflation target is a level that should not be exceeded, whereas inflation should neither excessively be above or below the MPC's target).

British membership of the European single currency is at least a possibility at some point in the next decade, although the prospects of early entry seem remote. The institutional structure of the British mortgage market and the volatility of the housing market were key factors in the Treasury's assessment of British preparedness for membership under its 'five tests' (HM Treasury, 2003).

The risk to the housing market associated with membership of the single currency arises mainly from the asymmetric impacts of interest rate policy when channelled through what remains largely a variable interest rate structure in the UK, in contrast to the core members of the single currency. Whether the UK could move to a more fixed rate structure was, of course, the subject of the Miles Review.

The transition to membership would also have implications for the housing market, as interest rates would have to converge, and this might be problematic for the housing market. The house price boom in Ireland was intensified by this transition.

Regulatory change: Basel II

Probably the most important foreseeable change facing lenders is the introduction of a new capital adequacy regime. The 1988 Basel I accord (implemented through several EU Directives) laid down a minimum risk-weighted credit level of 8%. Within this regime, residential mortgages are treated as low-risk and are accorded a privileged weighting of 50%. Basel II is being implemented in the EU through a new Capital Requirements Directive, which amends the existing Capital Adequacy and Banking Consolidation Directives and takes effect from the start of 2007 (FSA 2006).

The new system attempts to introduce a more sophisticated approach to assessing the risk attached to assets. If lower risks can be demonstrated then less capital will be required. In order to demonstrate lower risks, a mortgage lender would need to obtain sufficient historic data to use the so-called 'advanced internal ratings based approach' rather than the 'standardised approach'. It is widely believed that British lenders do not at present possess sufficient data on default profiles to use the more advanced approach. Lenders would be given a powerful incentive to build up such data in order to gain lower capital adequacy requirements.

Nevertheless, even under the standardised approach, lenders are likely to enjoy a risk weighting of 35% (compared to 50% now) for mortgages with LTVs below 75%.[15] This might have some significant knock-on effects, for example the development of risk-related pricing which, save for the mortgage indemnity guarantees on high LTV mortgages and the sub-prime market, are largely absent from the British system. The Miles Review suggests that if longer-term fixed rate mortgages could be shown to carry less risk than variable rate mortgages, then lenders would be given an incentive to supply more of them. Again the lack of historic data seems likely to act as an impediment to this development.

15 Information from CML.

12.4 Conclusions

Risk is an inherent part of owner-occupation. Risk arises from the nature of housing as an asset whose value can fluctuate over time, the need for most households to maintain regular mortgage payments over a long period, and the uncertainty that arises from most payments fluctuating with interest rates. Since many of these risks are likely to be activated by trends in the wider economy, such as rising unemployment leading to income loss, or rising interest rates, they can affect many or even all owners with mortgages at the same time. Moreover, behaviour can become reinforcing, either through the normal operation of expectations in a (part) asset market, or because the collective distress of borrowers can force house prices – hence values – down for everyone. Thus risk at the individual level can translate into risk at the systemic level.

This chapter has sought to identify trends in underlying risks over the past decade in the owner-occupied sector, at both the individual and systemic level. The evidence is mixed, and more than one interpretation of it is possible. As with all asset booms, it is virtually impossible to determine in advance when a rise in real values arising from sustainable underlying demand and supply pressures passes into an unsustainable bout of speculation. While borrowers generally seem to be less highly geared than in the late 1980s, recent rises in mortgage lending, loan to value ratios, and loan to income multiples make the market look as if it is overheating.

Two main sources of risk are identified in this chapter: either that house prices have overshot and will correct, or that the whole system, which remains interest-sensitive, will be affected by an external inflationary shock that will lead to a rise in interest rates. Changes in the economic regime arising from membership of EMU and in the regulatory regime were also discussed.

This chapter has addressed systemic risk at the level of the housing market as a whole. In the length available, it was not possible to pay proper attention to regional and other sub-market issues. It goes without saying that the housing system has distinctive regional and sub-market patterns. Some areas of the country are experiencing more pressurised housing markets than others, and risks vary accordingly. Similarly, it is now evident that certain submarkets are behaving differently even within regional housing markets. Such fragmentation makes the assessment of risk and any policy responses to it still more complex.

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13 Home ownership: managing a risky business?

Susan Smith

13 Introduction

This paper is about a relatively recent, remarkably subtle but nevertheless dramatic shift in the nature of home ownership in the OECD countries. Here, in the more developed world, housing systems have been characterised by the rise and rise of a particular style of owner-occupation. This style, a product of the 'financial marketisation' of housing, is the kind funded by mortgages, privately insured, and managed individually by households whose wealth portfolio is narrowly concentrated on their home. This version of home ownership has become the dominant housing tenure by virtue of a neo-liberal shift in politics, an increasingly deregulated economy and renewed public interest in the returns on housing investment. These trends can be seen in a number of developed economies, and especially in the English-speaking world. In some important ways, however, they are epitomised, perhaps catalysed, by the UK experience, which is the example taken here.

Owner-occupation in the UK has a remarkable history. This is not the place for details; suffice it to say that in less than 100 years a nation of renters has been transformed into a society of home owner/buyers, so that, from a low of 10% in 1914, owner-occupation had reached 69% by 2001 (rising to 85% among mid-life households). In the half-century from 1951 to 2001 the housing stock as a whole grew by 80% while the number of homes in owner-occupation increased by 320%. But this is the beginning, not the end, of the story I want to tell.

The next twist in the plot is steered by the steady, though uneven, rise in prices which, notwithstanding their distinctive volatility, have peaked four times since 1970 (in 1973, 1979, 1989 and maybe 2005), increasing the value of the owned stock to almost £3×10^{12} by the end of 2003. Indeed, the UK (together with Spain) topped the OECD league table for average annual increases in real house prices between 1971 and 2002.[1] Between 1995 and 2002 the UK was one of only three OECD countries (the others being Ireland and the Netherlands) whose average annual increase exceeded 8%, and whose real rate of house price inflation (like that of only Spain and Ireland) averaged over 3% per year. Since 2000 alone, prices have risen by 60%, reaching an average of £161k by early 2004 (ODPM, Survey of Mortgage Lenders). Adjusting for inflation, these prices exceed the peak of the 1980s boom (Vass, 2004), and the

1 OECD countries referred to in this paper are the 18 included in the International Settlements' residential property price database, plus New Zealand (see Catte et al., 2004).

wealth of many owner-occupiers is accumulating faster in their homes than through their incomes. HM Treasury (2003) now recognises that, as an investment, housing has performed particularly well for the UK, to the extent that, by the end of 2003, the average (median) home owner/buyer had, amongst their assets, as much as £56k of unmortgaged housing equity (Smith and Vass, 2004).

There is a third strand to the narrative of home ownership in Britain, and that is a shift in the regulatory environment which has permitted home buyers to borrow cheaply against their property to release funds to spend on a range of other things. This has changed the way housing assets work for home owners in several important ways: notably it means that, rather than working passively as a means of income smoothing (trading cheap housing costs in older age for higher housing outlays during working lives), housing wealth can be extracted sooner rather than later, and spent today rather than saved for tomorrow or rolled over to future generations. Among European countries, Britain pioneered the process of deregulation that increased the fungibility of housing wealth (Bridges et al., 2004), and the British public led the way in taking advantage of the opportunities this provides (HM Treasury, 2003). Even between 1979 and 1999 (i.e. before the most recent upturn in property values was fully established) overall mortgage equity withdrawal in the UK averaged 3% of household disposable incomes. These positive values stand in sharp contrast to the position in France, Germany and Italy, where the net flow consisted of equity injections into housing, averaging 6% of household incomes. What this signals for the UK is a sea-change in the way that housing equity figures in household economics: in decisions around spending, savings and debt. And in light of all this, it is hardly surprising that the UK Government has proved so interested in the turn to 'asset-based' welfare: the size, spread and fungibility of housing wealth has put a glint in virtually every Ministerial eye, as politicians seek to grapple with a pensions gap, a crisis of care in older age and a suite of welfare needs across the life course (Smith, 2005a).

So housing provision in Britain is now 'marketised' in a number of ways, all of which point to the growing importance of housing assets, link households' money management directly into the world of international finance, and fundamentally affect not just the resources households can deploy but also the suite of risks to which they are exposed. This same shift in the extent and character of owner-occupation also has macro-economic effects, so the changing role and relevance of housing wealth has a bearing on systemic as well as individual risks and their management. And it is the risks (as much as the resource) as well as the principle and practice of their mitigation that are the focus of my discussion, which draws from, and builds on, a more wide-ranging review commissioned by the Joseph Rowntree Foundation (Smith, 2005b).

13.2 Banking on housing: individual risks

There are two key, and rather different, sets of risks for households who put their financial eggs into the home ownership basket. The first, and best documented, set of risks hinge around traditional concerns about the extent of housing debt, and in particular around the implications of this debt for the sustainability of home ownership when incomes are compromised by structural shifts or biographical disruption. The second, less well-aired, set of risks rest more squarely on the concentration of assets into housing, and on the peculiar form and distinctive narrowness of this housing-centred investment portfolio.

Owner-occupation and housing debt

By 2001, 69% of British households were owner-occupiers, and in the decade 1992-2002 the debt required to finance this doubled (Mintel, 2004) rising from 56% to 64% of GDP (Catte et al., 2004). Aggregate levels of secured debt relative to income have tripled since 1980 (Hamilton, 2003) and they rose from 95% to 125% of post-tax income in the five years to 2004 (Hancock and Wood, 2004). This makes British mortgage debt one of the highest in the developed world. Not surprisingly, mortgages account for the vast majority of household debt in the UK, and rising property values (combined with sustained levels of employment) permit households to increase this as they go along (Aoki et al., 2002). As a result, owners are far more indebted than renters (May et al., 2004), contributing the lion's share to what now comprises three-quarters of UK households' total interest-bearing liabilities (HM Treasury, 2003).

Analysing the British Household Panel Survey, Cox et al. (2002) show that, among mortgage holders, the most indebted households (by value of debt) are those with the highest gross assets (i.e. those with large mortgages have the most valuable homes). Because of this, in 2000 at least, positive net housing equity was more than sufficient to offset non-housing debts for most groups of households. The effectiveness of this safety net depends, of course, on home buyers being able to liquidise their assets if they need to, which is not always the case if unemployment rises and markets stagnate.

In this debt-driven housing economy, where the sustainability of home ownership depends on households having an income stream to service their loan, the risk to individuals of losing earned income is what dominates the discussion. Although it is generally recognised that high employment and low interest rates make for a fairly benign economic climate, some suggest that the widespread preference for variable-rate loans in the UK (an average of 65% of mortgages held between 2000 and 2002 were of this type) may put borrowers at risk (Miles, 2004). And even (perhaps especially) if unemployment and interest rates stay low, highly indebted borrowers (in a setting where the average house price to earnings ratio is now 5.7, exceeding its 1980s peak) remain vulnerable to the financial consequences of biographical disruptions of all kinds. These include relationship breakdown, ill-health and premature death of a mortgagor, against which, so far, neither state nor private safety nets offer a comprehensive protection package (Easterlow and Smith, 2004; Ford et al., 2003)

Moreover, as well as having loans secured against their home, owners have the possibility to engage in a wider range of unsecured borrowings than renters (and some mortgages come with an unsecured top up, potentially taking borrowers' loan-to-value ratios over 100%). On top of this, owners are twice as likely as renters to have a credit or charge card, and they are more likely to have borrowings against any cards they do have (Bridges et al., 2004). They are also more likely to have unsecured personal loans of other kinds. Home ownership thus enhances the possibility for households to acquire unsecured debt, and one of the risks this brings is 'debt overhang' – where total borrowings exceed the value of all assets, including those in housing – particularly if house prices remain volatile and property values fall. Since the probability of owing money on unsecured loans decreases as housing equity increases, the highest risks may be incurred by those who are already most indebted (people with lower incomes, or people who stretched themselves to make their most recent home purchase).

Although the debt-to-income ratio in the UK has increased dramatically since 2000, reaching over 130% by mid-2004 (Bank of England figures), there is a cautious consensus in the literature that, overall, the risks around indebtedness are not excessive. Neither Smith and Vass (2004) using the Survey of English Housing, nor Bridges et al. (2004) using the BHPS, nor May et al. (2004) reporting on a recent Bank of England survey, nor Hancock and Wood (2004) commenting on first-time buyers, regard the risks associated with market entry, equity extraction or unsecured borrowing by home buyers as serious in the short term. Smith and Vass (2004), furthermore, expose a financial cushion in the housing wealth of the average home buyer which could withstand a fall of up to 10% in house prices. This is reflected in the UK's historically low rates of possessions, which, in the first half of 2004, were numerically at their lowest since 1982, and at their lowest since 1973 when measured as a proportion of all mortgages (CML, 2004). More recent figures are slightly more circumspect, flagging a small increase in arrears which might feed a modest upturn in possessions (CML, 2005). Thinking ahead ten years, however, it seems unlikely that the climate for home ownership can continue to improve. In which case households with all their financial eggs in the property basket may find themselves at risk. This is the issue I turn to next.

Housing as investment: risky business?

Risk in relation to home ownership is usually thought of in terms of the probabilities of possession as a consequence of over-indebtedness. The risks of low returns on housing investments—the pitfalls of concentrating wealth into an asset which might perform badly relative to other assets—are less well appreciated, notwithstanding the extent of capital loss and negative equity after the 1980s housing boom. Britain is distinctive in the high proportion of personal wealth – 62% – which is concentrated in homes (Banks et al., 2002). The distinctive volatility of house prices in the UK (discussed below as a systemic risk) may therefore impact on individuals by increasing investment risk in the short and medium terms, even if housing wealth accumulates steadily in the long term (a prediction which itself presumes no overall shift to a deflationary environment).

In other settings (notably the USA, where housing and other financial asset portfolios tend to be more balanced) explanations for such concentration of assets into housing as does occur are usually the flip side of explanations for low rates of investment in stocks and shares (e.g. Frantantoni, 1998). Such accounts tend to suggest that one risky investment (housing) is as much as most households can bear. In Britain, however, the concentration of investment into owner-occupation may have a rather different explanation. The Association of British Insurers' (2003) review of the state of the nation's savings suggests that people invest in domestic property because they view it as a reliable store of wealth. Research commissioned by the Financial Services Authority also consistently suggests that consumers believe domestic property to be a relatively risk-free investment, with a good rate of return. Although the high volatility in British house prices may not entirely support this view, its popular tenacity may explain Banks et al.'s (2004) contention that owner-occupied housing is an exception to the 'rule' that risk averse individuals avoid risky assets as price volatility increases.

Banks et al. (2004) in fact argue that one effect of price volatility may be to accelerate the entry of first-time buyers into the market (as a hedge against future prices rises or exclusion). This partly accounts for the relatively high (if declining) rates of owner-occupation among younger age groups in Britain compared, for example, to the USA (Banks et al., 2002).[2] One benefit of early entry is getting onto the housing ladder at all (and potentially accumulating wealth as prices rise); a disbenefit is the lack of funds to invest elsewhere. This may include an aversion to funding social goods, which in turn could have knock-on effects into public support for welfare expenditure. Schmidt (1989), for example, found a negative correlation between rates of home ownership and national spending on social protection, and Boelhouwer et al. (2004) suggest that buyers cannot sustain both their housing costs and the high rates of taxation that a welfare economy demands. Ironically, while low

2 Rates of home purchase are more than 10% higher among 20-39 year-olds in Britain than in the USA (Banks et al., 2004).

social protection may be one consequence of high house prices, it may also fuel price rises as people turn to housing investment to create a personal safety net, knowing that collective measures are on the wane.

Whatever the social implications, it is clear that financially there is only one other private investment, in addition to home purchase, for the average British household: their pension. Although the impact of poor stock market performance on pension funds has turned political and public attention to housing wealth as way of funding retirement, a recent CML/Hanover Housing Association study finds no evidence so far of a wholesale shift of investment from pensions into property. There is, however, a greater tendency among younger cohorts of working owners to say they will rely on property as both a main and a second source of retirement income (J. Smith, 2004). This 'funds for retirement' use of housing wealth is consistent with Benito and Power's (2004) analysis of the Survey of English Housing, which indicates that the largest stream of released equity (extracted through trading down and last-time sales) is more likely to be saved for the future than spent. Certainly among the younger age groups in J. Smith's (2004) analysis, property/home equity is identified more often than other investments (apart from routine savings) as being important for funding older age.

Over the next two decades, rates of owner-occupation may increase among the over-65s in Britain from around 65% to as much as 80%. Since outright owners have a virtual income stream from housing it might reasonably be suggested that older owners can manage on smaller pensions. Indeed, there may be evidence across EU member states that accumulating housing wealth has effectively funded a wave of early retirement (Doling and Horsewood, 2003), either actively through equity withdrawal (mainly by trading down) or passively by enabling close-to-zero housing costs. Whether and to what extent housing wealth can reliably be regarded as an 'active' retirement fund, however, depends (a) on house prices keeping pace with inflation and (b) on the extent to which housing equity has already been mined to fund other things.[3] British households have a wide range of risks to manage with the wealth they have, and few of these risks can be deferred to older age. They include: loss of income through illness or unemployment (this is the most frequently cited risk of owning among mortgage holders interviewed in the Mori Financial Survey for 2003) or through relationship breakdown; increased outgoings demanded by interest rate rises, the costs of maintenance, repair and insurance, the expense of living with illness, and others.

Ironically, just as the fact of being an owner enhances access to some kinds of credit in the marketplace, so it may diminish access to some kinds

3 It also depends on the viability of equity release products which are commercially attractive without putting older households at risk; a challenge considered by Terry and Leather (2001).

of social benefit. Moreover, to the extent that owner-buyers are made dependent on the market to meet a range of welfare needs, it might be argued that the typical British household, and certainly the average owner-occupier, has a too-narrow investment portfolio. Even ordinary savings rates are low in the UK compared to the rest of Europe, and declining. Some analysts argue that concentrating wealth into housing in this way is a wise strategy; that it is more profitable and less risky than investing in portfolios consisting only of monetary assets (see Wullkopf, 2002). Others argue that house prices can – for some mixes of assets over certain time periods – act as a hedge for trends in other investments, and, most critically, that a wider investment portfolio is a way of hedging housing risks (Englund et al., 2002).

Nevertheless, so far there is an extent to which the narrowness of home buyers' investment portfolios in the UK has paid off. Over the long term, HM Treasury (2003) estimates that there is a real rise in house prices of about 2.5% per year; and in the last decade housing has performed especially well as an investment. Iacoviello and Ortalo-Magné (2003) illustrate this, using London as an example. Here, they argue, even households with limited wealth are better off owning their home than they would be by renting and investing in other assets, as long as they are willing to face the financial risk involved.

And these risks do exist (even in the context of an overall appreciating market) and are unevenly spread. Henley (1999), for example, challenges the idea that the 1980s boom produced a big redistribution of wealth to the middle-aged in SE England. He makes the point that there were winners and losers across the board (see also Hamnett, 1999). Likewise, Disney et al. (2002) show that although the average home owner made a real housing gain of over £20k between 1993 and 1999, almost one in six owners experienced a real fall in their housing assets in this period. Indeed, between their peak in 1989 and the bottom of the most recent recession in 1994, average house prices fell by 30%, wiping out over £33 billion of housing wealth (Henley and Disney, n.d). A fall of this magnitude casts real doubt over the extent to which the asset value of home ownership can consistently or reliably be harnessed to either economic or welfare ends. The unequal effects of such volatility also bring into question the idea that widespread housing wealth reduces the need for some kinds of social protection. On the one hand, this raises important questions (which are taken up later), not just over what proportion of households' and the nation's wealth is invested in housing, but how much should be allowed to accumulate there. On the other hand, it is what has prompted Iacoviello and Ortalo-Magné (2003), Englund et al. (2002) and Quigley (2005) to argue that poorer (as well as better-off) home owners could reduce their exposure to financial risk if they were given access to housing price derivatives (a point I return to below).

One of the most rehearsed aspects of the asset value of home ownership revolves around the distinction between consumption and investment issues (especially for policy purposes). It is usually argued that the favourable tax treatment of owner-occupation reflects its positioning as a consumption rather than an investment good (so there are no capital gains or imputed rents for primary residences). It could equally be argued, however, that the way housing is treated for taxation purposes (gains are not taxed, losses are not recoverable against tax) is neither about consumption nor investment, but rather about profit and loss in gambling. An early example from a new suite of qualitative studies of housing transactions in the UK shows that, in the experience of buyers and sellers, and to some extent in that of professional intermediaries, housing gains are more like winning the lottery than accruing interest on savings or making capital gains on shares. The findings of this research redefine 'bubbles of speculation' as an economy of desperation and show just how random the gains and losses of housing investment are from a householder's perspective (see Bondi et al., 2000). Buyers themselves use gambling metaphors to account for their purchase: no wonder bookmakers are finding a market for spread-betting on housing, encouraging gamblers to 'profit from market volatility, or hedge the value of your own property'.

13.3 Ownership options: systemic risks

The changing character of home ownership in a country like the UK draws attention to the way individual households acquire that asset and put it to use. There are wider, systemic, ramifications of, and risks associated with, the wealth component of housing, however. The majority of interest in the past has centred on questions of social and financial sustainability (see Meen, 2004), and this remains critical for countries like the UK which rely on lower income groups to maintain high levels of owner-occupation. The new ownership order, nevertheless, is shifting the spotlight for risk on the one hand onto price volatility, and on the other hand towards the struggle to balance owned housing's economically desirable 'wealth effects' against some less appealing consequences of what might be thought of as 'equity leakage'.

Volatile prices

Recently, 'volatility' has become more of a buzzword than 'sustainability' in the housing policy community. House prices are surprisingly volatile, especially in the UK, which is one of only four OECD countries (with Italy, Spain and Finland) whose standard deviation of annual percentage changes in house prices between 1971 and 2002 exceeded 10% (Catte et al., 2004).[4] Banks

4 Though, puzzlingly, using data labelled 'average percentage deviation of real house price from trend 1970-2001' for eleven European countries, Bridges et al. (2004) only identify France as having levels less than 10%.

et al. (2004) argue that volatility increases demand, and feeds itself, as buyers who might have rented are prompted to enter the market in a setting where 'insuring [against] the risk of house price rises is more important than avoiding the risk of a house price fall' (p. 9). Nordvik (2001) makes a similar point. One result is that prices are higher overall in the most volatile markets, with the consequence that younger households may be drawn into buying earlier, and into larger properties (presumably with higher levels of debt), than they otherwise would.

But higher prices overall are not the only, or even the main, risk associated with volatility. Housing markets have an important economic role, and although (as noted earlier) volatility may be risky for individuals, it is also problematic at a systemic level because of its interaction with broader aspects of economic management: its impact on financial sector soundness, its implications for labour markets and its consequences for consumer protection in the mortgage market (Hilbers et al., 2001; Laslett et al., 2001). Price volatility influences the speed and magnitude with which monetary policy responses to 'shocks' are transmitted though economies, and it has the potential to create macroeconomic imbalances. HM Treasury (2003) is therefore concerned that any instability in housing markets may be translated into instability in economic activity more generally, and Barker (2004) argues that this has already created problems both for business and for economic policy-makers.[5]

There is some debate around the particularity of UK house price volatility, but there is little doubt that it is on the high side of average. Moreover, while a number of European countries experience substantial volatility in prices, these cycles do not appear to be synchronised (HM Treasury, 2003). So it is likely that local (national) factors have a key role to play. In the UK policy arena the favoured explanations for price volatility currently hinge around housing supply issues on the one hand, and the nature of the mortgage market on the other. These are dealt with, respectively, in the Barker (2004) and Miles (2004) reviews.

On the question of supply, the distinctively low responsiveness of housing supply to demand in the UK is a critical issue. Low levels of investment in housing supply may fuel house price cycles as people buy earlier and pay more to avoid exclusion. Although enhancing supply is unlikely to be a cure-all for price volatility, attending to supply issues has a sufficiently wide range of additional social, as well as economic, benefits to place it high on the policy agenda for the medium term. Concerning the mortgage environment, as many as 60% of UK mortgages are interest-sensitive variable-rate loans; no other European country matches this – Italy comes closest with 35%. This may

5 Barrell et al. (2003) are more cautious, arguing that a 10% fall in house prices today would have fewer systemic effects than it did in 1989.

have knock-on effects into price fluctuations, and it also means that households' disposable incomes, as well as their ability to service debts, are overexposed to interest rate variations. Whether this reliance on variable-rate (as well as short-term fixed-rate) mortgages feeds into price volatility overall is less certain: a comparative analysis of the UK and the Netherlands (where longer-term fixed-rate mortgages are more common) finds little to support this (HM Treasury, 2003). Nevertheless, Miles (2004) argues that if borrowers could be persuaded to look to the medium-term risks that are associated with variable-rate loans (rather than to immediate housing outlays) they might choose longer-term fixed rates, and this could reduce volatility. There are, of course, other factors encouraging price volatility (cf. Muellbauer and Murphy, 1997; Westaway, 1993), but whatever the cause, there is a general consensus that such volatility is a key systemic risk, even though (and perhaps because) it is difficult to account for and even harder to predict.

From banking on housing to spending the home?

During the 'housing bonanza' of the 1980s UK governments cashed in, as the sale of council housing netted more than all the other early eighties privatisations put together. This in itself is a useful reminder of the extent to which the asset value of owned homes, while it may be increasingly privatised, individualised and economised, is also a major national, collective and social resource. Owned housing may be an investment and an asset for households, but it is also – and increasingly – being relied on systemically to fulfil a range of human needs and provide a stream of services that are important for social welfare. Perhaps the major systemic risk associated with the future of home ownership is that of failing to strike a balance between these functions for the housing stock. This may be thought of as the risk of another kind of 'bonanza' – a one-off diversion of housing wealth not from the state to the market but from the housing stock into other things. This risk has moreover increased enormously in recent years, as the combination of deregulated lending and increasingly flexible mortgages offers more opportunities than ever before for home buyers to divert equity out of the housing stock. Households may do this to meet welfare needs or to fulfil consumption desires, but the more housing equity is used to fund spending beyond the home, the less available it is to maintain the quality, condition and future standards of owner-occupation. And, currently, there is barely any formal steer, let alone active governance, around the extraction and use of this form of wealth.

It is still early days to judge the effects of products and policies which encourage households routinely to roll money in and out of their property. Economists remain largely locked into the discovery that, notwithstanding the rational assumptions built into Franco Modigliani's 'life cycle hypothesis of saving', households continue to store up their assets into older age, rather than running them down towards the end of their life. This tendency has, of course, been particularly marked in relation to housing assets, which have traditionally been fixed and illiquid, and have formed the major component of most home buyers' legacy to the next generation. But attitudes and practices may be changing (Smith, in press; Smith and Searle, 2006). So at a time when even governments are looking to housing wealth as an insurance policy for later life, and for other kinds of securities, as well as to stimulate consumption more broadly, there may be a case for attending more carefully to the question of what happens to the considerable amount of housing equity that can now be withdrawn, even as it accumulates, across the whole of the life course.

One irony here is that, far from being concerned about such 'leakage', governments may be forced to encourage it, to prop up demand and promote well-being in economies that can no longer rely on boosting social wages to achieve this end. There is a close relationship in the UK between house prices and the consumption of durable goods (Aoki et al., 2002): the UK is just one of four OECD countries which show a long-run relationship between equity withdrawal and consumption (Girouard and Blondel, 2001); and household spending is uniquely sensitive to house prices and housing wealth (HM Treasury, 2003). This is why high house prices are credited with keeping the economy afloat even through periods of recession (Deep and Domanski, 2002). It is hardly surprising that these wealth effects of housing – which are increasingly well documented and often shown to exceed financial wealth effects (Case et al., 2005) – are attractive from the point of view of economic management, or that governments are more preoccupied with the economic rather than housing policy consequences of equity withdrawal.

The systemic risk here is that there is no active governance around the use of housing wealth. The government is clear that owner-buyers should bear the responsibilities and costs of maintaining the quality and condition of the housing stock, but in the owned stock (as distinct from that built for and managed by social landlords) there are no targets set for reinvestment, no warnings or guidelines on how to spend extracted housing wealth, and – especially when prices are rising rapidly – no effective penalties in the housing market for failing to keep the property up to scratch. As I have noted elsewhere: 'quality, condition, repair' does not have the same ring as 'location, location, location' in the world of estate agency, or in a 'changing rooms' culture whose signifiers for adding value rarely connect with the kind of investment needed to safeguard and regenerate the stock (Smith, in press). So it is that between half and two-thirds of the cash released through mortgage equity withdrawal is leaked from, rather than reinvested in, the home (Benito and Power, 2004; Smith et al., 2002). This may or may not matter: there are no benchmarks against which to judge how much of the wealth accumulating in homes should be used to maintain their quality and condition. A round-up of the UK evidence for trends in the style of housing equity withdrawal and in the patterning of spend, however, is set out in Smith and Searle (2006), and here we question the wisdom of a framework which leans to short-term revenue rather than long-run regeneration, and which prioritises individual financial gain and individualised risk-mitigation rather than attending to the social, environmental and financial sustainability of the housing system for the medium term.

In short, whether as a means of funding consumption preferences, or as a way to meet key financial needs, the accumulation of wealth through owner-occupation has the potential to allow significant leakage of housing equity out of the housing infrastructure and into other areas. Individuals have an incentive to grow the market – to build up their housing wealth – precisely because of this; and this strategy is politically attractive too. This is partly why the price of housing in the UK is so high.[6] But from a systemic perspective, is it wise to encourage this; to allow so much personal wealth to be invested in housing? Once there, there are no guarantees, in the current policy environment at least, that it will be used in the way policy-makers anticipate or hope. There is the risk too that the current flurry of equity withdrawal is effectively a one-off response to the price adjustments of a low-inflation economy. Even if property prices continue to appreciate over time, some heroic assumptions would be needed to allow their asset value both to be drawn on today – to provide a safety net against unemployment or to fund education or boost high street consumption – and relied on tomorrow to supplement pensions or fund health and social care.

13.4 Mitigating risks: states and markets revisited

The way the owner-occupied housing market currently works undoubtedly has benefits for individuals and for the economy, but it also has the potential both to unsettle wider economic trends and to expose vulnerable households disproportionately to the effects of this. While it is tempting to assume that strategies to mitigate systemic and individual risk are one and the same, this is not necessarily the case, particularly given the dominant wisdom about how global markets and local housing systems work. There are, of course, some common building blocks: boosting inclusion (growing the market overall and widening its wealth effects); dampening volatility (stabilising the economy and enhancing equity in the distribution of housing gains and losses); managing indebtedness (securing the viability of lending, as well as the

6 Banks et al. (2002), for example, show that even in the mid-1990s, the median value of a home in the UK exceeded that in the US by as much as 14%.

well-being of households); and safeguarding the future of the housing stock (protecting households' investments and securing a viable housing service for UK residents). While systemic risks within the prevailing political economy, however, may best be tackled by one model of risk mitigation (incremental, evolutionary change in the interests of better business as usual), an adequate response to the changing nature, magnitude, and consequences of individual or household risks might demand a rather different approach. Reconciling these models could change the nature of owner-occupation in some quite fundamental ways.

Business as usual: the evolutionary approach

The 'business as usual' strategy for minimising the risks of owner-occupation assumes that the building blocks for an affordable, sustainable housing market are in place. What is needed, if anything, is for financial consumers to 'catch up' with the implications of deregulation, and in particular to improve their financial literacy and capabilities in order to keep pace with the growing range and diversity of financial services available to them.

This view certainly seems reasonable from a mortgage market perspective. The UK (together with Denmark and the Netherlands) has one of the most 'complete' mortgage markets in Europe, judged by the variety of products on offer, the range of borrowers served and low mortgage interest rate spreads (Catte et al., 2004). According to the Council of Mortgage Lenders, taking into account the accessibility of mortgage finance and the availability of information and advice, the UK tops the completeness table (Anderson, 2004). David Miles' (2004) review of the UK mortgage market thus refers tellingly to its strengths, and finds no evidence that it is deeply flawed. There is indeed a general consensus, summed up by Laslett et al. (2001), that: 'the mortgage market as a whole is mature, liberalised and stable'; that its flexibility has had a steadying influence on the economy as a whole (Kok, 2004). What policy concerns there are thus form a patchwork around the difficulties facing 'some classes of borrower'. Thus it is that half of Miles' recommendations focus on ways to improve the advice and information that borrowers receive, and on the importance of creating a fairer, more transparent pricing structure to enable borrowers more effectively to judge the costs and risks of different mortgage products. Even then, the aim is to ensure that any changes 'reflect the current best practice of lenders and financial advisers' (p. 3). The main issue, it seems, is how to share this existing expertise across the marketplace. The reasoning underpinning this is that 'Monetary policy will be easier to manage if households make well-informed decisions about mortgage products that are priced in a transparent and sustainable way and where the risks of different types of mortgage are well-understood' (p. 4).

So one strategy is to use incremental change to make the market as it is work better. Such strategies, according to Laslett et al. (2001) 'must not impede the functioning of markets' and 'should be targeted on specific goals of preventing speculative bubbles, achieving greater regional price stabilisation and protecting vulnerable borrowers' (p. v). To achieve this, these authors, like Miles, place considerable emphasis on information disclosure and consumer education. This same impetus lies behind the Financial Services Authority's drive to document and enhance the public's financial capabilities now that it has responsibility for the regulation of mortgage as well as insurance products.

This 'knowledge plus capabilities approach' does not directly or entirely address recent declines in the overall affordability of owner-occupation (Vass, 2004), although this is tackled to some extent in Miles' (2004) second group of recommendations, which outline ways to reduce the costs to lenders of managing risk, enabling them to offer a wider range of lower interest rate, longer fixed-term, mortgages. This would, Miles argues, both boost affordability and enhance the sustainability of home purchase. If combined with greater accessibility to, and use of, the range of mortgage payment protection products now on the market, this might be regarded as a constructive way to minimise the risks and maximise the benefits of owner-occupation over the short, medium and longer terms. What this line of reasoning draws attention to in particular is the importance of state guarantees in risk mitigation in the mortgage market. Interestingly, these guarantees generally protect lenders rather than borrowers, ostensibly to encourage them to lend to higher risk groups. Lenders servicing the highest risk groups – the subprime market – may additionally be protected by a process of securitisation, which effectively transfers the risk to investors.

The 'evolutionary' model of risk mitigation is a two-pronged strategy whose success hinges on educating borrowers (to enhance their financial skills) and protecting lenders within a framework of 'fair and responsible' lending. This all seems reasonable: a necessary part of reform. But it may not provide a sufficient framework for mitigating risks, for at least three sets of reasons.

First, the capabilities approach to financial services seems at odds with a wider literature on consumption: the same home buyers are regarded as 'duped debtors' on the one hand and competent, calculating customers on the other. The mortgage maze is, it is true, as complex as any, and more challenging than many, and it may well be due for a consumer-friendly overhaul. But it seems unlikely that ignorance, incompetence or inadequacy is the sole, or even the main, reason why vulnerable borrowers are at risk; and it may be equally unlikely that education or capability enhancement is a sufficient route to mitigation. Certainly there are other policy arenas (health education, accident prevention, environmental management, for example) in which this strategy has been tried and found wanting (cf. Roberts et al., 1995). Lay knowledge usually proves to be more extensive and sophisticated than educators expect.

Second, it is possible that the nature of the risks facing British owner-buyers has changed qualitatively as well as quantitatively in the last quarter-century, demanding radical rather than incremental approaches to risk mitigation. Mortgage markets may be nationally inclined, but the viability of lending institutions is increasingly tied into international finance, and there are limits to what states can do to manage this. On the other hand there may be more options than governments typically recognise for states to protect social welfare, even as households' strategies for managing savings and debts are themselves exposed to the vagaries of the international economy (see Smith and Easterlow, 2004 for some ideas). Certainly there may be scope to develop more direct measures to mitigate the risks to individuals; supporting households might be as big a boost to lending as protecting lenders from risky individuals. There is a case too that some of these measures might be implemented by an alliance of business interests and state institutions: that more might realistically be asked of 'the market' without jeopardising the economy, building, for example, on the ideas outline by Janet Ford in this volume.

Third, a particular form of owner-occupation accommodates most people in the English-speaking world. How this element of the housing market works is generally taken for granted; attention is paid to what it achieves for owners (on the one hand) and to the challenge of mitigating its uneven and unequal effects (on the other). When market failure seems to have no market solution the social sector is brought into play. The possibility that 'the market' for homes might be different in any fundamental way – that the bottom line for markets my be defined ethically and socially as well as financially, for example – is therefore rarely entertained. Yet, while a certain inertia on these points might be expected among politicians and policy makers, it is increasingly hard to justify in the research community. Here, the question of what markets are and how they work is coming under its most intense scrutiny for nearly a hundred years. Mitigating the risks traditionally associated with owner-occupation takes an interesting turn when it is tied to a more wide-ranging rethink of markets of all kinds, and of housing markets in particular (a point I have tried to develop in Smith, 2005c).

Towards more care-full markets?

It is traditional in policy circles to distinguish the role of markets 'which work' as price-driven distributive mechanisms from the interventions of a state 'which cares' for those whose needs cannot be catered to commercially at prices they can afford. This distinction is more than evident in British housing policy, where the government has recently been active in promoting welfare-orientated housing environments in what is now (relative to Britain's past) a small social rented sector, while using the mantra 'market solutions to market failures' to inform policies for the private sector. More thought-provoking still is the attempt to introduce some of the most appealing aspects of market provisioning to social tenants (choice-based lettings, for example, as well as equity shares). Reviewing these trends, Donna Easterlow and I have made the following point:

> 'It is striking that no attempt has been made to bridge the tenure divide in the other direction; none of the merits of distributing resources according to need have been transferred into the private sector... Rather than extending an ethos of care by infusing the institutions of the market with some demonstrably effective social practices, it could be argued that these policies are transferring a competitive individualism from the market into spaces once celebrated for their social concern' (2004, p. 1013).

There may, nevertheless, be a case for challenging this trend; for mitigating the risks of home ownership precisely by drawing from Britain's unique store of experience in using housing interventions to meet social aims and applying it to the world of owner-occupation. Certainly it may be worth considering whether housing policy asks and expects too little of 'the market' precisely because its sphere of operation and *modus vivendi* is too often taken for granted.

One option is to boost inclusion in (and thereby to redefine the nature of) 'home ownership' through a more flexible and less discriminatory approach to tenure. An ESRC-funded study of housing for health, focusing on the home ownership experiences of people experiencing ill health, called for greater flexibility in housing tenure, enabling renters to become part-owners and owners to become part-renters as needs and circumstances change (Smith and Easterlow, 2002). The idea of introducing a sliding scale of equity shares and promoting the development of intermediate tenures is currently under consideration by the council of mortgage lenders, as are a range of other schemes for improving flexibility in housing markets (Hoyle, 2004). These could usefully draw from Britain's growing experience of shared ownership, rent-to-mortgage and mortgage-to-rent schemes (see also Bramley, 2004). This flexibility might be used to allow a wider range of households to benefit from the wealth effect of owner-occupation, but it might also be developed to allow home buyers access to the welfare protections that are routinely built into social renting.

Two other ways of harnessing conventional 'market' mechanisms to what might more traditionally be defined as social ends might also be considered. Both are about allowing a wider range of households to benefit from, or manage the risks of, 'financial marketisation' in housing. The first is to harness the micro-finance revolution that has swept some developing economies, into the provision of affordable, sustainable accommodation for poorer people in every type of world region, including countries like the UK and USA. Daphnis

& Ferguson (2004) draw attention to the poor fit between traditional mortgage financing (geared to large loans over the long term) and the needs and financial capabilities of lower-income borrowers (who may prefer smaller loans with shorter repayment periods which are not so heavily collateralised as traditional mortgages).[7] Microfinancial solutions might, they argue, improve the accessibility and sustainability of home ownership; more plausibly in a country like the UK (where self-build for new or extended properties is less common) it might help secure the quality and condition of the stock by facilitating maintenance and repair.

Second, there is the thorny question of house price derivatives. To the extent that owned housing is an investment good, high prices have, as noted earlier, turned it into a rather narrow (and potentially risky) investment portfolio, which has been limited to those able to buy all, or a substantial part of, a dwelling. While home owners and buyers in the more developed world may not, in recent years, have suffered from their inability to hedge housing investment risks, renters have been excluded from housing gains, and some economists now argue that access to housing price derivatives would not only disproportionately benefit poorer home owners (and certainly owners whose homes are appreciating slowly or losing value), but also offer non-owners a chance to use housing assets to diversity their investments (Case et al., 1993; Englund et al., 2002; Iacoviello and Magné, 2002; LeBlanc and Lagerenne, 2004). Furthermore, as John Quigley (2005) pointed out in his plenary lecture to the European Network for Housing Research, housing derivatives offer governments and the business community an opportunity to improve the welfare of housing consumers 'at practically no cost'.

Whether or not this is possible remains to be seen: at the moment housing remains unique among major classes of financial assets in not underpinning a derivatives market. The UK's early attempt to launch such a market in the early 1990s failed,[8] as apparently, did early attempts in other stock markets; the Royal Bank of Scotland's House Price Linked Savings Account (opened in 2000) has closed; City Index no longer offers spread betting on house prices, and IGindex appears to have suspended its service for the time being (except to close existing positions). In the meantime, Goldman Sachs' property-linked warrants and certificates, launched in 2003, currently run to June 2006, and are anyway something of a niche product in where financial markets are concerned. Elsewhere in the world, only the US has dabbled in housing de-

7 Improving this fit might be criticised as a move towards two-tier mortgage lending, but it is unlikely to be any more divisive than the current system, in which the wide range of sophisticated products and services available to higher-income buyers is increasingly detached from the more restricted range of products (often with predatory conditions attached to them) available in the 'subprime' lending market.

8 I am grateful to Donald Mackenzie for drawing my attention to this.

rivatives. Chicago Mercantile Exchange begins trading real estate futures contracts based on house prices in ten US cities in early 2006, offering an institutionally-oriented alternative to the small investor 'hedgelets' derived from house prices in six US cities and offered since 2005 by Hedge Street Inc. If all this eventually works, there may be scope for care-full housing investment strategy to be adopted by governments, or effected through governance, using housing derivatives. It may be possible to develop an infrastructure of risk management around real estate futures that promotes social security and protects owners and renters alike from house price volatility as well as income and interest rate fluctuations. But it is very early days, and since most of the risks outlined in this chapter are effectively those inspired by the individualisation of housing wealth in liberal regimes in an internationalising economy, this further step down the path of financial marketisation is, from a social perspective, rather tentative.

In the end, no single radical, regulatory or interventionist option can mitigate all the risks of the property market: but some mix of policies and practices might move things on. Muellbauer and Murphy (1997), for example, have argued that a reform of property taxes is essential for managing systemic risks around price volatility, while Westaway (1993), who attributed price volatility in the 1980s-90s to credit-based effects, has argued for regulation to control the extent of over-mortgaging. It might be a short step from this to developing other measures to limit the amount of wealth stored in homes, to harness it towards safety nets of all kinds, and/or to divert it into less individualised uses. Most radically there is the challenge of replacing the old divide between states and markets by institutionalising an ethic of care – concerned with the interdependency of households and communities – into a range of practices which currently prize competitive individualism and private gain. This challenge runs through a range of literatures, from international political economy to science and technology studies, from the sociology of finance to the world of economic geography, from political philosophy to grass roots practice. It would be surprising if debates on the nature and future of owner-occupation were left out of this wider struggle to reclaim markets for social ends.

13.5 Conclusion

This paper uses the example of the UK to tell the story of the changing character of housing assets and debt, as home ownership is drawn into the internationalisation of finance and the neo-liberalisation of politics.

I suggest first that these trends expose individual households to a new style of risk, associated not just with the extent of indebtedness and its sensitivity to all kinds of biographical disruption, but also with the narrowness of their investment portfolio. Some narrowness is inevitable, given the complex role of housing as a service, a consumption good and an investment vehicle. But the degree of concentration of wealth into housing is especially worrying at a time when states are unable or unwilling to engage in welfare transfers (indeed when they rely on housing as the foundation for asset-based welfare), and when it concerns an investment whose risks cannot easily be hedged.

Second, I suggest that there is also a broadening of systemic risk from a core concern with the sustainability of owner-occupation towards a wider preoccupation with the economic effects of house price volatility, and the infrastructural impacts of equity 'leakage'. In short, I have argued that, in the absence of active governance around the use of housing wealth, whole economies and entire housing systems are susceptible to the risks embedded in a new financial order of owner-occupation.

Finally, I commented on the way the stakes are changing in the struggle to mitigate these new housing-centred risks. It is tempting to focus here on the enduring struggle over whether states or markets should insure households against the risks of mortgage default. Larger practical questions, however, are looming around the management of markets and the governance of housing wealth: to what extent should households look to their own housing assets, commercial insurance products or other investment vehicles to manage their welfare risks; to what extent could and should governments and the business community be developing a new mix of strategies specifically designed to harness housing wealth towards public welfare as well as economic stability? And above all, to what extent might housing strategies encourage the dualism in states and markets to resolve on a more wide-ranging debate around the imperatives of economy and an ethics of care?

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14 Getting in, getting from, getting out: conclusions

John Doling & Marja Elsinga

14.1 Introduction

The chapters in this book form a snapshot of studies undertaken by European housing researchers interested in home ownership. Within the constraints of the speed of publication in hard copy form - the studies included were completed recently or are even still ongoing - the snapshots are fairly up-to-date. Moreover, even though not all those researchers working on home ownership issues attended the conference in Iceland, and not all of them presented papers on their home ownership work, the snapshots are also fairly comprehensive. As a result, together they enable us to review some of the current evidence on aspects of home ownership across European countries.

Our aim in this final chapter, then, is to summarise these aspects, using as an organising framework the three dimensions of the subtitle: getting in, getting from, getting out. In so doing, our conclusions or summaries cut across the individual chapters, irrespective of their order in the book, but relate to what they have to say that illuminates some aspect of the dimensions. Even so, not all chapters, let alone all parts of each chapter, are referred to specifically, the emphasis being on some of the general issues and debates within each dimension.

In addition to this summary, the further aim of this paper is to set out a research agenda. Based on this summary, it is intended in the final section of the chapter to indicate a number of broad directions in which housing research activity across Europe could appropriately proceed.

14.2 Getting in

Statistical evidence of trends in housing tenure, summarised in the paper by Mikael Atterhög, indicates that over the last few decades there has been a general tendency for home ownership rates in European countries to increase. Although the rate has decreased in some countries since 1990 - notably Denmark and Finland - elsewhere the increase has continued. Overall, then, the picture is one of continuous expansion over the post-war period. Home ownership rates may vary from one European country to another, but, on average, greater numbers—both absolutely and relatively - of European households have got into home ownership than into all other tenure forms put together.

Given this continuing expansion, to the point where home ownership is the majority form of housing provision across Europe as a whole by a large margin, it is perhaps surprising that it does not also dominate the work of housing researchers. In fact, and taking the conference in Iceland to support the argument, more research effort seems to be going into other forms of housing tenure along with generic or non-tenure specific housing issues. But if there is an imbalance between tenure size and research interest, this should not be taken to mean that there are not important issues, questions and debates relating to home ownership, that somehow what has and is happening is unproblematic in either practical or scientific terms.

One such issue concerns the reasons for this growth in home ownership. This was in fact explored by Peter Saunders almost two decades ago (Saunders, 1990), when he pointed to the complexity of the reasons. Central to his argument, however, was the notion that there is a natural preference for home ownership. Evidence suggesting that consumer preferences have indeed played a significant part in tenure choice is briefly reviewed in the present book in Mikael Atterhög's chapter, where he refers to research using the European Consumer Household Panel survey. From this it appears that European home owners are on average more satisfied with their housing situation than tenants, even when controlling for household and dwelling characteristics (Elsinga and Hoekstra, 2005). This does not prove a natural preference for home ownership, however. As Ruonavaara (1990) argues, there are different ways to explain the growth in home ownership. Preferences do depend on the housing system, however, so changes in systems also influence households' preferences.

Although Hedvig Vestergard's chapter also focuses on preferences, the balance of evidence from the various chapters in the present book is that factors other than preferences have had the dominant effect. Perhaps this is nowhere more clearly shown than in the case of the transition countries: as described by József Hegedüs and Nora Teller, the change in tenure structure was most apparent in Eastern Europe, but this seems to have been rather less a consequence of tenure preferences and rather a matter of system-wide development. Further supporting the role of structural factors, Mikael Atterhög shows that getting in to home ownership is also significantly related to the nature and strength of central government policies. In short, when and where government policies are most pro-owning, for example through subsidies and tax breaks, home ownership rates have grown most.

The importance of government policies is indicated specifically with respect to Germany in the chapter by Anja Szypulski, and to the UK in the chapters by Peter Malpass and Janet Ford. For Malpass, recent policy towards home ownership can be seen to match Prime Minister Blair's agenda of choice and the opportunity society: home ownership can be seen as giving people responsibilities and opportunities to choose. Against this background, there has been little enthusiasm - at central government level anyway - for promoting forms of social housing, or otherwise diverting demand and supply away from markets and the private sector. If further increases in the size of the home ownership sector in the UK seem likely on these grounds, this is further supported, as Janet Ford's chapter indicates, by the policy debates and initiatives being pursued in order to ensure that the possibilities of falling out of home ownership are controlled. While these issues are considered in greater detail in a subsequent section of this chapter, we can simply acknowledge here the critical role played by central governments in promoting one form of housing tenure over others.

For their part, Norris and Shiels concentrate on the role of the local state, showing how, in the case of Southern Ireland, local authorities have had a major influence on home ownership developments. One of the important reminders of this chapter is thus that housing policy is enacted by a range of state agencies, thus adding complexity to our understanding of tenure dynamics.

The chapter by Jørgen Lauridsen and colleagues demonstrates, however, that in the case of Denmark, although housing policies are important to the nature of housing demand there are also other factors. The econometric study on which the chapter is based provides evidence of the significant importance to the tenure choice model of e.g. price changes.

14.3 Getting from

But if more and more people are getting in, and if the available evidence suggests that European households are eager to do so - seeing home ownership as a prize to be gained, albeit encouraged or facilitated by policy regimes and growing personal wealth - this nevertheless raises the question of what they expect to gain, in comparison with achieving a different form of housing tenure: in short what do they expect to 'get from' home ownership.

One approach to this question has been through what might broadly be viewed as an economics framework, emphasising the objective attributes of housing tenures. From this perspective it is possible to construct a classification that equates renting with the consumption of a physical structure - a building of a specific size, with so many rooms and specific facilities, e.g. central heating. For its part, home ownership can be equated not only with housing as a consumption good, but also as both an intermediate and an investment good (Boelhouwer et al., 2005). In other words, home owners are able to use their homes both as collateral against a loan and as a direct source of wealth that can be realised.

There is a large and well-known literature, however, on the characteristics of home ownership. It is now widely, perhaps universally, recognised that tenure attributes are contingent: they vary not only from place to place, particularly country to country, but also over time. So what it is to be home owner in, say, the Netherlands in 2006 may be quite different to what it was in 1986 or even 1996, and all of those may be different to what it is, and was e.g. in Spain.

One way in which this can be seen is through variations in the development of financial markets, which have meant that in some countries home owners have been able to use their homes as collateral.

A second approach to the 'getting from' question has been through a broadly sociological framework in which the emphasis is on meanings and experiences. This is the approach adopted in a number of the chapters of the present book. Richard Ronald's chapter, for example, explores the 'getting from' expectations in terms of the economic meanings associated with home ownership. Central to his argument is the notion that, in countries with high levels of home ownership, there has been a growing emphasis on the significance of housing as an investment, linked in turn with discourses on status, security, the family and welfare strategies. While it is possible, as Ronald does, to map trends over space, Sinead Power does so for a single place over time. She shows clearly how home ownership in Scotland changed from a tenure choice into a norm, while social rented housing turned into a residual sector. This has resulted in people benefiting from home ownership, because they are able to meet the norm; hence benefiting from home ownership has become a self-fulfilling prophecy.

These approaches can be seen to provide a general version of the linkage, explored by Peter Malpass, between housing and opportunity. But this also points to another dimension of the 'getting from' issue: whatever the benefits that home owners as individuals see from their position as home owners, governments may also seek to exploit those benefits. Thus if home ownership is perceived as something that the individual can fall back on, perhaps to purchase education or to provide income in old age, governments may see it as an opportunity to transfer welfare provision from the state to the individual. From this perspective home ownership may currently provide benefits that complement those provided by the state, and in future they may be forced to substitute for them. As Susan Smith puts it, the development is one in which the state relies on housing as the foundation for asset-based rather than social welfare.

14.4 Getting out

Whereas home ownership has the potential to provide households with benefits that they might not receive were they tenants, it is also a source of risk. Of course there may be processes whereby home owners freely decide to sell their homes and become renters. In some circumstances this might seem to suit an individual who, perhaps for reasons of ageing and increasing frailty, decides that becoming a tenant could reduce the repair and maintenance responsibilities attached to ownership. But 'getting out' may also be forced on owners. This can - and does - arise where changes in circumstances - unemployment or high interest rates - make it difficult, sometimes impossible, for households to maintain their agreed loan repayment schedules (Boelhouwer et al., 2004).

One avenue of investigation of forced 'getting out' is the focus on the individual home owner. This involves analysing the factors impacting on the individual as a result of changes in personal situations (e.g. illness, unemployment), including those brought about by system-wide changes (e.g. interest rate hikes) and the ways in which social protection measures may modify the effect of the risks. This approach is pursued by Janet Ford in her examination of the causes and consequences of what she refers to as 'problematic home ownership' in the UK.

A second avenue is to focus on the consequences faced not by the individual, but by the system as a whole. The distinction, here, is perhaps best explained with the aid of a direct quotation from the chapter by Mark Stephens (also about the UK):

> Systemic risk can be distinguished from individual risk, where the consequences are confined to individuals—possibly many thousands of individuals—and which is therefore of policy concern, but the consequences are largely confined to these individuals. Systemic risk indicates a risk that has consequences for the entire housing system, where the consequences of risk for individuals have knock-on effects for others, spreading throughout the system. These two categories of risk are not discrete, but the implication of systemic risk is that its consequences may spread throughout the housing market, and even beyond it to affect financial institutions and government.

Both approaches, however, share some concerns. Firstly, there is the concern about whether the phenomenon of forced 'getting out' has become a permanent feature (for the time being at least) of housing systems, or whether it is merely a short-term response. Secondly, there is the concern about the appropriate balance of responsibility as between individual home owners (who may stand to gain from the benefits of home ownership), the state (which may be encouraging households to take the risk) and financial institutions (which hope to profit from their business). The second of these concerns is explored by Susan Smith who, recognising that the use of housing wealth may make whole housing systems and economies susceptible to the risks embedded in a new financial order of home ownership, considers to what extent households should manage their welfare risks and to what extent governments and the business community could and should be developing strategies to harness housing wealth towards public welfare as well as economic stability.

Such issues have relevance not only in the specific UK housing system but widely, throughout Europe. A search for an appropriate balance of responsibility is also well described by József Hegedüs and Nora Teller in Hungary. The shift towards a market economy, going hand in hand with a rapid change in housing tenure structure, has created new risks, while only a fragile, institutional security system has been developed.

14.5 Research agenda

Research agendas are, of course, ever changing. On the one hand, new research fills in some of the gaps in our knowledge and understanding: on the other hand, not only do the ongoing research achievements reveal new gaps, but also the world is ever changing. So, notwithstanding what, on the basis of casual observation, seems to have been a large growth over recent decades in the European housing studies research community, there is no lack of interesting and relevant research questions. The issue here, however, is, what does the snap shot of research presented at the ENHR conference indicate about current, interesting and relevant gaps in our knowledge.

Somewhat surprisingly, given the increasing internationalisation of research – as measured by, for example, the size of the membership of the ENHR, the network's extension to other regions of the world and the large number of conferences – the majority of the papers in the workshop, from which the chapters of this book are taken, were single country studies. This is certainly not to suggest that single country studies are somehow inferior or second best. Nevertheless, the case for comparative, cross country studies is a strong one (see, for example, Doling 1977; Kennett 2001). Scientifically, they offer the possibility of distinguishing between geographically specific and general explanations, while from a policy perspective they offer the possibility of lesson learning. Consequently, without a precise figure, it might be argued that the balance of comparative to single country studies, represented in the chapters in this book, under exploits the potential of the European housing research community to investigate both facts and theories.

Whether or not that view is widely endorsed, the fact is that many would-be comparativists are undoubtedly frustrated by aspects of the research environment in which they are located. Important here is the availability of research funding, much of which remains firmly national and sub-national in focus. In other words, most funding bodies are interested in funding researchers from the country in which they are located to carry out research about issues found in that country. Cross country research teams undertaking cross country, housing studies and funded by international bodies, such as the EU or the European Science Foundation, remain relatively rare.

Also important is the availability of harmonised data. A specific example from the present book is to be found in Mikael Atterhog's chapter in which he has had to derive, from primary data, indices describing national housing policies. More generally, and despite the efforts of bodies such as Eurostat, many variables that could usefully inform cross national studies are not systematically collected and made available. Statistical data measuring aspects of housing policy and housing systems are particularly sparse and unsystematically collected for the former communist countries. For example we do not even have a complete and comparable picture of changes in housing tenure patterns across all the EU member states.

The data limitations issue is relevant to the relative under-representation not only of comparative studies but also of single country studies of some European countries. The fact that only one of the chapters in this book is focused on an Eastern European country, and that southern Europe is not represented at all, is not support for an argument that these countries are lacking significant housing problems, policy questions and scientific curiosity. Rather, it indicates scope for a considerable expansion of housing researchers and housing research.

The general point underlying the issues about the balance between comparative and single country studies, and between studies of different European countries, however, is that part of a larger research agenda would ideally address some of the determinants of the present imbalances. Greater amounts of funding for cross country research, more, and more harmonised, data covering more countries, and expansions of housing research communities are all relevant objectives here.

In addition, to these general aspects of a research agenda for home ownership, the chapters of the present book also indicate some important substantive issues that merit further attention. Here, one research question or topic is identified for each of the getting in, getting from and getting out phases.

Getting in. While we know quite a lot about housing policy in many countries of Europe and some of the ways in which policy regimes differ one from another as well as how they broadly relate to welfare systems, much less is known about other influences on getting in to home ownership. We know little for example about how households in different European countries view housing tenure, how it fits with their life strategies, influencing and being influenced by other decision areas such as their strategizing around household composition, engagement with the labour market and intergenerational relationships.

Getting from. Critical to the question of what home owners get, or how they benefit, from their position as home owners is the nature of financial markets and financial products available in each country, for example the extent to which home owners are enabled to use their home as a financial asset. There are likewise issues about the extent to which national governments are viewing housing as a compliment or even a substitute for social spending, such as state pensions or social care. Actually a number of the chapters demonstrate that these issues are being examined in the UK, but elsewhere, in the form of single country studies and comparative studies, investigation and knowledge about these matters is generally much more limited.

Getting out. Similarly, whereas there is a large UK literature about loan default and repossession, this work has not been replicated in many of the European countries. Part of the barrier for both cross country and single country studies is the lack of appropriate statistical indicators. In general, researchers lack reliable data showing the extent of the phenomena both across space and across time. Nevertheless, other available evidence such as knowledge of the development of flexible labour markets and higher loan to income loans, together with at least some indications of financial difficulties facing home ownership, suggest that the issue of risk and home ownership is a pan European one.

Understanding what is happening and why is important to both theoretical and policy debates.

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Home ownership sectors in most European countries have grown in size. Whatever assets European households have acquired in recent decades, real estate appears to form a significant element in wealth portfolios. Frequently, national governments have been active in promoting the shift in tenure balance. The general question pursued in this book is about the gains and losses accruing to individual households by virtue of their position as home owners. The focus, here, is on financial gains and losses. It also concerns the losses, in the form of repayment risk, related to difficulties that some households may experience in meeting housing loan repayment schedules.

The immediate background to this volume is the Conference: Housing in Europe: New Challenges and Innovations in Tomorrow's Cities held in Reykjavik, Iceland. Hosted by the Urban Studies Institute of the University of Iceland and Centre for Housing and Property Research, Bifröst School of Business, it was held under the auspices of the European Network of Housing Researchers.

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