

***Housing and Social Change in Europe and the USA***

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1988, Routledge, London and New York

**Owner-occupied Housing:  
a Tenure in Transition**

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**INTRODUCTION**

Recent interest in the study of owner-occupied housing derives from the significance of the sector in meeting current housing needs for most households. After years of policies cutting back on social housing provision and with the decline of private rental sectors, most households now opt for individual homeownership through choice or necessity. At the same time, many of the features related to owner occupation that had been taken for granted in the post-war era, are now being questioned. To mention only a few examples, government financial support for owner-occupied housing provision is being reviewed in many countries, particularly where it concerns subsidies related to income tax deductions for home-owners. Even if there are no immediate changes, such discussions reduce confidence in the fortunes of the sector. Recent experiences in several countries, in addition, have shown that house price inflation is not endemic to the sector. House prices can fall, with major effects for the owner-occupied market as well as for individual homeowners. Elsewhere, price differences between regions are increasing, affecting the rate of mobility within national housing markets. It seems that the context of owner-occupied housing markets is changing rapidly everywhere.

Interest in the study of owner-occupied housing markets only evolved in recent years. Before, attention focused on social housing sectors and state housing policies. As such attitudes to research prevailed in most Western countries, a presentation of a cross-national comparison of owner-occupied housing markets on the basis of existing research is very difficult. Despite

growing interest in the study of owner-occupied housing, understanding of what is constituted by this form of provision is still very limited. Research in this area, in fact, has suffered from much of the same problems as earlier housing studies focusing primarily on state policies (see Chapter 1 for a detailed critique). Recent surveys of owner-occupied housing markets tend to emphasise distributional aspects and are concerned with two issues in particular: (i) the effects of state subsidies to owner occupation and (ii) the accessibility of the sector for differing types of household.

The main issues which policy-orientated studies focus on when looking at owner-occupied housing relate to the question of whether existing forms of subsidy contribute *effectively* to the expansion of the tenure. The problem is seen of particular relevance when state housing policies aim to expand home-ownership to lower-income households. A related issue concerns the *state expenditure effects* of present subsidy arrangements for owner occupation. The costs of income-tax-related subsidies, in particular, have risen considerably in recent years with governments having little ability to control them. The upward trend arises from the terms on which tax-relief subsidies are given, in the face of long-term house price inflation and rises in interest rates. Finally, a major issue in policy-orientated studies of owner-occupied housing concerns the *equity* of the distribution of subsidies. Discussions in this context centre on the regressive, income-distributional effects of mortgage interest rate tax relief and on inequalities in the subsidies given to the different housing tenures.

Proposals to reduce the distributional inequalities of housing subsidies, to reduce state expenditure on mortgage tax-relief subsidies or to target subsidies more effectively towards expanding the tenure are often taken up by politicians. But, although these issues are of major importance, too much prominence is given to the role of the state in determining the way the owner-occupied housing market operates. As will be shown in this chapter, state support for owner occupation has become an integral part of that market, but it also constitutes only one aspect of the social relations of housing provision in the tenure. In order to understand the dynamics of the owner-occupied housing market or, indeed, the effects of state housing policies on the sector, it is imperative to consider the operations of all the major institutions and agencies linked to this market

and the relationships between them. The dynamics of the growth of owner-occupied housing markets are determined by a set of social relations of provision which are specific to each country. The approach includes the study of the contemporary agencies involved in the provision of owner-occupied housing as, for instance, the construction industry, the agencies which control the housing development process, and the mortgage finance industry.

The second theme for research into owner-occupied housing concerns the study of who the home-owners are. Issues addressed in this context relate to whether the tenure has made society more 'democratic' by allowing a wider access to housing and wealth by lower-income households, ethnic minorities and households headed by women. Related questions raised in this context are whether home-ownership changes peoples' voting behaviour and, more generally, how (or whether) the 'property owning democracy' affects class, race and gender relations in society. Others deal with the problem of tenure, class and political consciousness in more sophisticated ways, by not assuming a direct mediation between tenure, class and political practices (see Pratt, 1986; Preteceille, 1986).

Even though the issues raised in these sociological studies are of major interest, most of them are subject to one major problem: distributional- and consumption-orientated housing research generally regards owner occupation as a unified housing market. Even when owner-occupiers are differentiated according to social category and class position, little significance can be given to the social meaning of owner occupation, if the different ways in which home-ownership is acquired (or provided) are not taken into account. Otherwise, tenure classification refers only to the formal ownership rights attached to the house occupied by a household.

This chapter will argue that there are substantial differences in the constitution of owner-occupied housing markets, not only between countries and in different periods of time, but also within national contexts where different forms of owner-occupied housing provision co-exist. The consequences for individuals of home-ownership, therefore, do not only depend on the social or class position of the members of the household concerned, but also on how access to the sector is achieved and how their housing situation is maintained. Within any socio-economic category, there are, for example, major differences

between home-owners who bought their houses years ago, or just recently.

Rather than dealing with the issue of social stratification, this chapter aims to highlight differences in owner-occupied housing provision between six advanced capitalist countries: Britain, France, West Germany, the Netherlands, Denmark and the USA.<sup>1</sup> The aim is to outline, in a comparative way, general frameworks and trends without providing a comprehensive overview and explanation of owner-occupied housing markets and the state policies associated with them. To summarise, owner-occupied housing markets differ between countries in terms of (i) the historical periods in which they expanded; (ii) the social relations that have emerged around owner-occupied housing markets at national levels; and (iii) the political support that has developed for the tenure.

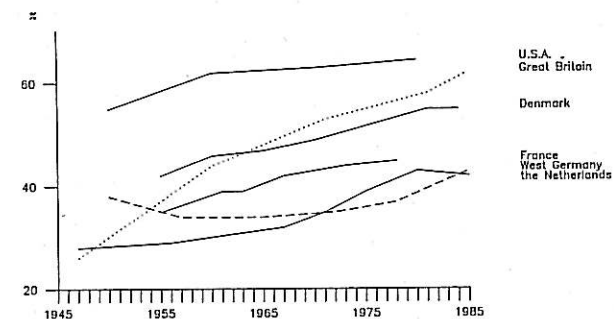
Historical differences in the expansion of owner occupation will be dealt with first, followed by a description of the varying forms of political support for the tenure. An analysis of the major forms of owner-occupied housing provision in each of the countries is then undertaken, including an outline of the differing role of the existing housing stock in this market. The remainder of the chapter will focus on several interrelated issues affecting all national housing markets at the moment: namely, a long-term decline of owner-occupied housing output, market instability, increased mortgage debt and house price inflation (and sometimes deflation). Together these characteristics indicate that owner-occupied housing markets may have entered a severe structural crisis.

### THE OVERALL SIGNIFICANCE OF OWNER OCCUPATION

One indicator for the importance of individual home-ownership is its growth within the existing housing stock, as shown in Figure 3.1 for the post-war era. The differing rates of growth and the variations in the percentage share of the tenure in each country's housing stock indicate that one cannot assume a similar dynamic of development. The USA has the highest rate of owner occupation and has maintained this position throughout the post-war years, unlike Britain, which started with the lowest proportion of home-owners in 1948 and then showed the most rapid expansion. The low initial level of owner occupation

in Britain in comparison to the other countries indicates the importance of urban/rural divisions for the tenure. Britain's population was already fully urbanised by the Second World War, whereas in most other countries urbanisation processes did not reach completion until later. In addition, all the countries considered here, except for Britain, had large agricultural sectors and well-populated rural areas, with owner occupation as part of the forms of land ownership. This includes the USA and explains the high rate of owner occupation there, already 47 per cent of all households at the turn of the century, compared to less than 10 per cent in Britain.

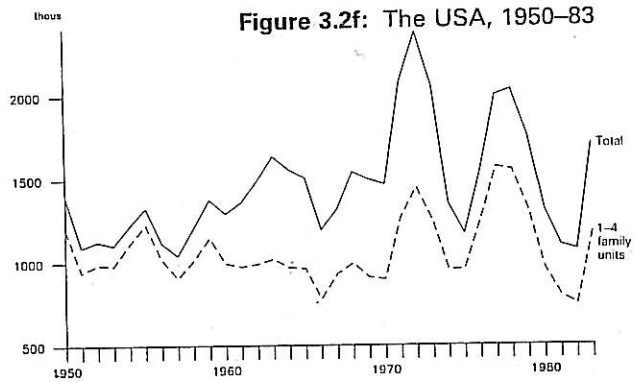
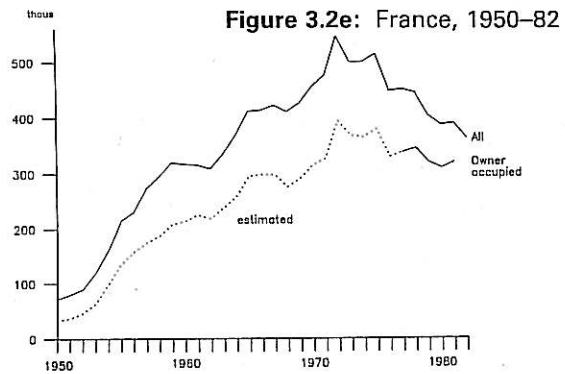
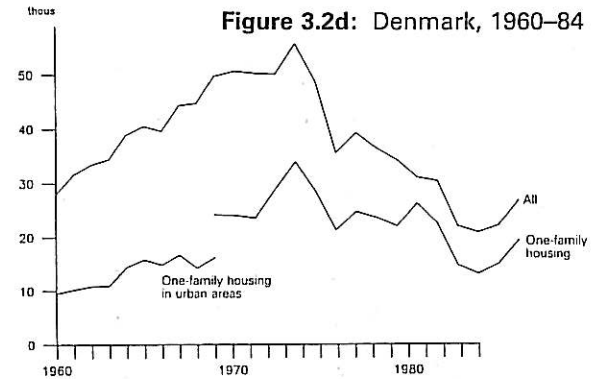
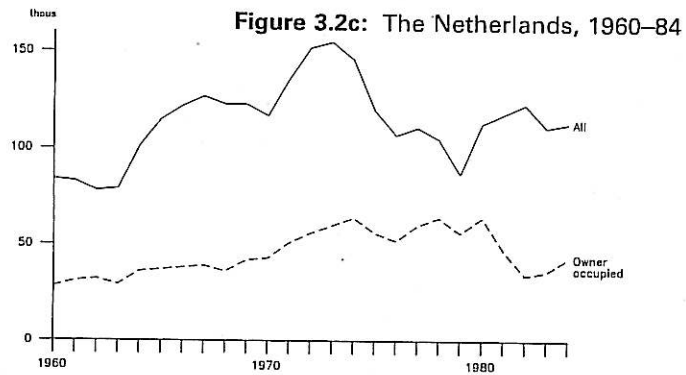
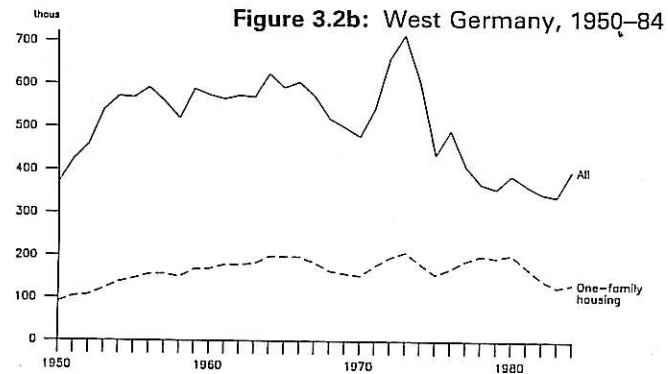
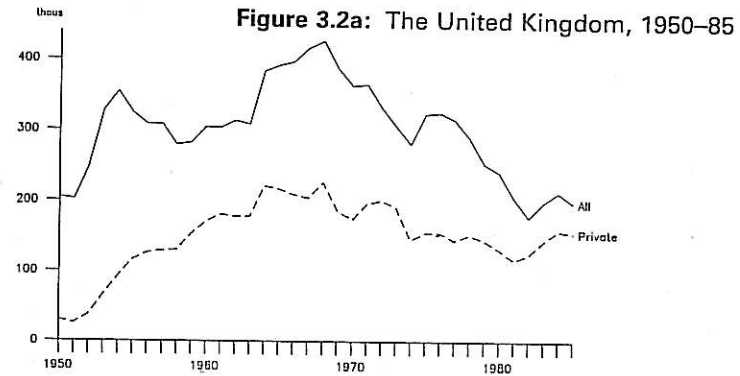
**Figure 3.1:** Owner-occupied Housing: Share of Stock in Great Britain, Denmark, France, the Netherlands, West Germany and the USA



Sources: Britain: *The Social Survey*, 1949; Donnison, 1967; DoE, 1977, *Census*, 1981; *Housing and Construction Statistics*, 1985.  
Denmark: Danmarks Statistik.  
France: Topalov, 1981.  
The Netherlands: van der Schaar, 1979; Dijkhuis-Potgieser, 1982; Buijs et al., 1987.  
West Germany: Statistisches Bundesamt.  
USA: *Statistical Abstract of the United States*.

Differing landownership relations and rates of urbanisation provide some explanation for home-ownership rates at the time of the Second World War, but subsequent developments also differ between countries. The rate of owner occupation declined in West Germany and growth was only slow in the Netherlands until the late 1960s, which indicates that the expansion of owner occupation as an urban tenure is a relatively recent phenomenon in these two countries.

**Figure 3.2: Housing Completions**



Sources: Central Statistical Office, *Annual Abstract of Statistics*;  
 Statistisches Bundesamt;  
 Centraal Bureau voor de Statistiek;

Danmarks Statistik;  
 Topalov, 1983;  
*Statistical Abstract of the United States*.



More information about the rate of expansion of home-ownership can be derived from house-building data. In all countries, owner occupation has become the dominant house-building sector (see Figure 3.2), but this position was reached in different time periods for each country.<sup>2</sup> In Britain, it had already taken place at the time of the speculative house-building boom of the 1930s and the associated decline of private renting. Similarly, in the USA in the 1930s, house building for owner occupation became more prominent, although private renting continued to remain significant. During the decade, however, housing output remained low compared to the 1920s and it was not until the 1940s that owner-occupied house building expanded dramatically. In France and Denmark, owner occupation dominated private house building from the late 1950s and early 1960s onwards; whereas in West Germany and the Netherlands, such expansion only occurred in the 1970s. Historical differences in the growth of owner-occupied house building are obviously reflected in its current share in the housing stock, although the sale of rented housing to home-owners has contributed significantly to the tenure's growth at certain time periods.

The decline in the share of home-ownership in West Germany and its slow growth in the Netherlands are explained by the importance of rented house building until the early 1970s. As discussed in Chapter 2, contributing factors were massive housing shortages caused by the devastation of large parts of the housing stock during the Second World War. The shortage, combined with rapid economic growth, expanding urbanisation and greater household formation in the decades following the war led to state policies which prioritised subsidies to low- and middle-income rental housing in both the social and private sectors. Subsidies were targeted at rental house building because, combined with policies to control rent costs, it enabled greater governmental control over inflation and wage costs. Housing policies were directly linked to economic policies aimed at improving the international competitiveness of national industries. Rental house building in West Germany and the Netherlands was only sustained through the extensive production subsidies allocated to it, whereas owner occupation had taken over the role of private renting as the main provider of housing via the market since the 1950s in the other countries. As shall be shown next, the development of a mass market for

owner occupation was always strongly supported in post-war state housing policies.

#### STATE SUPPORT FOR THE PROMOTION OF OWNER OCCUPATION

Differences in the timing of the expansion of owner occupation are reflected in a similar variety of forms of state support for the sector. This section will only focus on the main long-term types of state intervention, whereas later some of the more recent policy developments will be mentioned. The discussion of forms of state support will concentrate on initiatives to facilitate access to the tenure. Other important issues, like planning and building regulations, the provision of infrastructural services and regulation of the conditions of market exchange will be ignored here.

Given the high costs of private housing provision, a key determinant in the development of a mass market for owner occupation has been the creation of conditions which enable individual households to buy their homes. Improving households' access to the tenure has been a central concern of state housing policies. Three areas of public intervention are important here and the significance of each varies between countries. First, governments have intervened in financial markets to facilitate the availability of long-term loans to house-buyers. This has been particularly important in countries where the relevant financial sector had previously collapsed, as was the case in the USA during the 1930s, or where there was no tradition within the banking system of providing long-term loans, as was true for post-war France, and to a certain extent the USA in the 1920s. Second, production subsidies have been important in a number of countries. In both the Netherlands and France, the expansion of owner-occupied housing markets relied heavily on the availability of housing at prices below the costs of pure market provision. Finally, various types of income-tax-relief subsidy have substantially reduced the costs of borrowing for home-owners, although many of these incentives were not explicitly introduced as housing-policy instruments.

Belying the USA's free-market image, owner occupation there has perhaps enjoyed more government backing than in

any of the other countries included in this survey. Federal support centres on the mortgage market and originated during the great Depression of the 1930s. One of the knock-on effects of the banking crisis of the early 1930s was a virtual standstill in the housing market. Housing starts fell from 900,000 in 1924 to only 93,000 in 1933, a year when 49 per cent of the \$20 billion outstanding mortgage debt was in default (Fish, 1979). The high default rate was exacerbated by the practice of the banking system of providing short-term mortgage loans, usually of three or five years, because of which a large number of housing loans had to be renewed each year. When borrowers wanted to renew loans in the early 1930s, banks had no money and instead demanded repayment of the debts. When borrowers could not repay (partially because banks refused them access to their savings deposits for similar reasons), the properties were repossessed and often sold for less than the price they were mortgaged at (ibid.). Losses on the sales of repossessed houses further contributed to the crisis in financial markets and led to a collapse of the construction industry.

Reviving the housing market and creating jobs in the building industry to relieve high unemployment became the principal aims of federal policies during the 1930s. But rather than subsidising house building, a restructuring of financial markets was envisaged as the most appropriate strategy to boost the housing market. Financial acts under the New Deal created specialised housing finance institutions, whose operation was separated from capital markets and which enjoyed substantial federal regulatory backing (see Chapter 4 for more details). The new housing finance system provided for easily available cheap, long-term, fixed-interest-rate loans, which proved to be the key to a massive expansion of suburban, single-family house building in the decades following the Second World War. Particularly important in facilitating the growth of homeownership in the USA was the mortgage insurance provision of the 1934 National Housing Act. Mortgage loans insured by the Federal Housing Administration (FHA) allow for low down payment ratios and were explicitly introduced as an instrument to revive the construction industry. FHA was joined by a new insurance scheme (the Veterans Administration (VA)) ten years later. The two programmes provided assistance for about 40 per cent of private housing starts during the 1940s, the decade which marks the start of a major expansion of owner-

occupied house building in the USA. The mortgage insurance schemes continued to remain a significant federal instrument in assisting house building. During the late 1960s, for example, the FHA scheme was extended to mobile homes and to moderate-income building and improvement schemes in decaying inner urban areas.

Structural problems limiting the issue of long-term loans to assist individual house-buyers have continued to be key features of the French banking system. By the mid-1960s, state intervention was regarded as necessary to support further development of the owner-occupied housing market. A secondary mortgage market was created in 1967, allowing banks to sell bonds on the money market if liquidity shortages limited their mortgage-lending activities. The French secondary mortgage market, however, did not achieve much real significance. More important for the actual development of mortgage lending was the successful introduction of state-subsidised savings' schemes. The large pool of personal savings that resulted has enabled banks to issue long-term mortgage loans (in a similar way to the savings banks' matching of short-term borrowing with long-term lending; see Chapter 4). Moreover, it has made housing finance extremely profitable for banks, as cheap funds could be used for mortgage lending, enabling them to achieve a wide interest-rate margin. State subsidies for personal savings schemes, in other words, have not been reflected in lower mortgage-interest rates, but rather in increased supply of long-term loans available to house-buyers.

The development of a mortgage market, was also a major precondition for the emergence of a mass market for homeownership in the other countries, but generally it did not require state intervention on similar scales to that in France and the USA. Pre-existing specialised housing finance institutions managed to adapt sufficiently well to the loan requirements of the growing owner-occupied market and government policies simply continued to support the special housing-finance circuits for these lenders for most of the post-war period (see Chapter 4). Subsidised savings schemes, however, were introduced in West Germany. But unlike France, the schemes were linked to just one type of mortgage lender, the *Bausparkasse*, which only offers second loans above those secured for the first 60 per cent of the house prices. Although the subsidised savings scheme was promoted to facilitate higher mortgage to house price



ratios, it did not substantially transform the housing finance system.

Government guarantees on mortgage loans were also introduced in the Netherlands and have been of major importance in promoting home-ownership, particularly at the lower-income end of the housing market. The administration of the Dutch mortgage-guarantee scheme, however, was far less complicated than for the FHA and VA loans in the USA. There were no limitations on the volume of guarantees that could be issued each year in the Netherlands nor restrictions on the type of mortgage loan insured. In the absence of specialised mortgage-lending institutions of major significance, the guarantee scheme did help to draw sufficient funds into mortgage lending.

Subsidies to owner-occupied house building have been important in France, the Netherlands and, to a somewhat lesser extent, in West Germany. Production subsidies have been especially important in France, where several subsidy schemes co-existed for most of the post-war period and helped finance a significant proportion of owner-occupied house building. As mentioned earlier, rental house building prevailed in governmental subsidy policies in West Germany and the Netherlands. So it was not until 1966 that the West German Housing Act was modified by the introduction of an additional subsidy scheme, aimed at supporting building for owner occupation. Although social rented housing could also be built under the new scheme, the form in which the assistance was given was more favourable to home-owners. Subsidies to owner-occupied house building existed in the Netherlands from the late 1950s onwards, but building programmes under the scheme were severely restricted until the second half of the 1960s. Earlier it was feared that if speculative house building developed, the government would lose control over housing costs and output levels and that building resources would be diverted from the rented sectors; issues which have been key elements of Dutch post-war economic policies (Harloe and Martens, 1985).

Production subsidies for owner-occupied house building generally take the form of capital grants or premiums, either lump sums or with payments spread over a number of years, or of below market interest payments for mortgage loans (or even a combination of the two, as occurred in France). Subsidies were usually linked to stipulations fixing limits on the overall investment costs, on house sizes and standards and on the

incomes of eligible house-buyers. Subsidies were aimed at the lower-income end of the owner-occupied housing market and usually, subsidised owner-occupied house building is included in social housing statistics. Although the subsidies are actually given to households, they can be referred to as production subsidies, because they are linked to newly built projects, rather than for the purchase of existing housing, and they in effect sustained builders' profits by allowing higher rates of housing sales under conditions of rising production costs.

A third form of state support for owner-occupied housing is income tax relief, which has been significant in all six countries. Generally, such taxation policies were not introduced as explicit instruments to encourage home-ownership, but rather to provide general fiscal relief on personal borrowing. In Britain, for example, interest payments on all personal borrowing were exempt from taxation until 1969, when the relief was abolished with the exception of housing loans. Similarly in the USA, personal income tax deductions allowable for interest and property tax payments were introduced early this century and have remained unchanged since. Apart from the USA, unlimited reliefs on mortgage interest payments also exist for home-owners in Denmark and the Netherlands. In Britain, there is a maximum loan amount on which interest is deductible which, however, has been adjusted in response to house price inflation. In France interest-rate deductions are more restricted, as these are limited to 25 per cent of interest costs, payable up to a maximum sum.

The West German fiscal scheme for home-ownership is very different. It is based on the ability to offset taxable income by allowances for accelerated depreciation of the nominal value of the house. For taxation purposes, a house is regarded as an investment good on which a depreciation allowance can be claimed. The scheme treats rental and owner-occupied housing similarly, although it is more favourable to rental housing, contributing to the continuing significance of private rental house building by personal investors in West Germany. The tax scheme also accounts for the popularity of the so-called two-family house, whereby maximum use is made of the income-tax-deduction scheme, by an owner living in one part of the house, whilst renting out the other. After the tax benefits of the accelerated depreciation scheme lapse the two houses are often joined together. Another feature of the West German tax

allowance scheme is that, until 1977, it only applied to newly built housing.

In some of the countries, income tax reliefs are partially offset by taxes on imputed rental income. This happens in West Germany, Denmark and the Netherlands. The tax is, however, unimportant as the notional rental value is very low. Such a taxation scheme also existed in Britain, but was abolished by the Conservative government in 1963. Again, the origins of the tax scheme were unrelated to owner occupation, being part of a system of taxing real property primarily aimed at private landlordism.

Another major fiscal incentive helping to shape owner-occupied housing markets is tax exemptions on capital gains made on house sales by individual home-owners. The exemption exists in all six countries. Only in West Germany and Denmark is an exception made when the house is sold within two years of purchase, with a more restrictive five-year period in France. In the USA, on the other hand, tax exemption on capital gains is unlimited, provided purchase is made of a house of similar quality and standard. Deferral of capital gains tax was introduced in 1951 with the explicit aim of promoting geographical mobility for owner-occupiers and of enabling households to trade up within the housing market (HUD, 1973).

Although in some cases certain tax exemptions have consciously been introduced in support of owner-occupied markets, the fiscal treatment of home-owners usually derives from policies related either to private landlords or general income tax policies, which have subsequently been maintained. The impact of favourable fiscal treatment for owner-occupiers has become far more important in recent years with the expansion of owner occupation, post-war house price inflation, the rise in interest rates and with a widening of the income tax net. At the same time, tax exemption schemes have also become more difficult to change as these shelter owner-occupiers from some of the effects of high house prices and rising mortgage interest rates. Fiscal subsidies to owner-occupiers, in other words, have not only become costly for the state, but have in many ways also become an integral part of the structure of owner-occupied housing markets.

Politically, tax-relief subsidies are easier to maintain than production subsidies to housing as the cost effect is not shown as an expenditure in national budgets. Such accounting conven-

tions help to shape political commitments by governments to the expansion of individual home-ownership at the expense of providing support for social rented housing. The commitment has also been influenced by the high levels of owner-occupied output during the long post-war house-building boom, as happened in all six countries and lasted until the 1970s (and the late 1960s for Britain). High house-building levels were seen as 'natural' within advanced capitalist economies, rather than the product of peculiar circumstances, such as high levels of economic growth, rising real incomes and careful state orchestration. The perceived 'naturalness' of the post-war house-building boom, and the growth of owner occupation in particular, have been foundations for policy arguments aimed at withdrawing production subsidies from the social housing sectors.

With the end of the post-war house-building boom, total output in all six countries declined substantially. The main cause of the decline was the collapse of rental house building. Owner occupation became proportionally more significant in house building during the 1970s as a result, even though output levels in this sector have by no means been able to compensate for the overall decline in house building. In Britain, France and Denmark there has been a long-term decline in owner-occupied house building since the late 1960s/early 1970s, while in West Germany and the Netherlands output in the sector remained stable through the 1970s, until a decline set in in the 1980s. Only in the USA was there a rising trend in owner-occupied house building until the late 1970s (see Figure 3.2). Developments in owner-occupied house building have varied between the six countries throughout the post-war period, but one feature that has become a general characteristic is the emergence of increasingly sharp fluctuations in house-building rates. So, despite extensive (and increasingly expensive) governmental support to the tenure, developments in the owner-occupied markets seem increasingly difficult to control, indicating the limitations of the policy prescriptions devised in earlier post-war years. In order to analyse recent developments more carefully, the main forms of housing provision in owner occupation need to be examined.



## FORMS OF OWNER-OCCUPIED HOUSING PROVISION

Forms of provision of owner-occupied housing are defined here by the relations between those who initiate and control house building and the other institutions and agencies that are part of the development process. The latter can include builders, financial institutions, landowners, housing consumers and the state. Any of these participants can, in fact, act as the developer or promoter controlling the development process. I shall focus on the most significant types of agency initiating and controlling owner-occupied housing provision, without giving a detailed account of their social relations with the other participants.<sup>3</sup> Such additional detail is difficult to present, because of the limitations of existing housing research mentioned earlier. Apart from the primacy given to state policies in most housing studies, difficulties also arise when trying to use national surveys of, say, the building industry or the financial sector. Such surveys tend to aggregate data relating to distinctly different structures of provision.

Variations in statistical categories between countries (frequently referred to as a major headache in comparative research), do often highlight cross-national differences in housing provision structures (although not always satisfactorily for our purposes). In Britain, for instance, private house building is regarded synonymous with owner occupation in housing statistics, and speculative house-builders with the type of institution that initiates and controls owner-occupied house building. But in the Netherlands, West Germany and France, private house building is dominated by contractors, rather than speculative builders, which points to traditionally different power relations between builders and developers and, of course, the fact that the two are institutionally separate. Speculative house-builders, as simultaneously builders and developers, are in a European context a specifically British phenomenon and their existence relates to the particular social conditions at the time period when owner occupation initially expanded (Ball, 1983). Speculative house-builders are also important in the USA, where they are referred to as merchant builders, but have never been the sole providers of owner-occupied housing. US statistics, however, do not distinguish house building for sale as a separate category, so its overall significance is difficult to establish. Instead, use can be made of

information provided by the National Association of Home Builders (NAHB), which analyses a builder's main type of investment.

The dominance of contractors in house building in most European countries reflects the prominence of others in the initiation of housing development. Initiators are in these cases usually public, social — limited profit — or private institutions, or indeed private persons who may decide to build rented or owner-occupied housing. House-building statistics in these countries, therefore, tend to distinguish types of developer rather than tenures. Such developers or promoters are the initiators of house building, but use various forms of contractors to undertake the actual building work. They provide land and finance and oversee the house-building process. Builders may also at times perform the role of promotion, but such speculative roles for builders cannot be regarded as a major type of production system. They are quantitatively insignificant with builders only one of the many professional institutions involved in speculative housing developments. Moreover, such speculative activities are secondary to their main activities as contractors.

There are, however, differences in housing promotion for owner occupation and private renting. Modern promoters of rented house building generally opt for a long-term investment and let the housing themselves. In West Germany, for instance, where rental housing constitutes the main part of post-war house building, the largest type of housing promoter is limited-profit housing corporations. These housing corporations build both social and private, rented and owner-occupied housing. Unlike rental housing, promotion of owner-occupied housing necessitates immediate sales to individual house-buyers and a short-term return on investment is expected. With the expansion of owner-occupied house building for sale, new forms of housing promotion arose alongside those linked to rental house building (even though the two types of promotion can be incorporated in the activities of one firm).

In France, the new type of promoter of owner-occupied housing has been described as *promoteurs immobiliers privées*, who from the mid-1950s onwards introduced speculative housing development as a new 'profession' (Topalov, 1974; 1980). A similar expansion occurred in the Netherlands from the beginning of the 1970s, with the growth of the *projektontwikkelaar*,

who integrates all development aspects of house building, from land purchase, financing, to sales to individual house-buyers. They may also build housing, but this is only a minor part of their activities, even when they are building firms (Dreimuller, 1980).

The French *promoteurs immobiliers privées* and Dutch *projektoontwikkelaars* both disappeared in the housing market slumps of the early 1980s, or rather have diverted investments away from house building for sale. Their 'disappearance' shows that speculative housing developments in most European countries have had no tendency towards being dominated either by large housing promoters or the house-building industry itself. In most countries in Europe, centralisation of housing-related capital has been directed more towards the financing of housing production than the producers themselves. In fact, a wide range of professionals and institutions (including banks and builders) entered speculative house building during housing market booms as little own capital was needed. They are geared towards quick turnover and are backed by large financial institutions, which readily offer short-term building loans, regarding housing development as a secure and profitable investment.

The picture is very different in Britain or the USA, where a number of speculative house-builders or merchant builders have developed into giant housing producers with major market shares. Apart from the volume builders, numerous small- and medium-sized speculative builders have continued to exist, particularly in the USA. Unlike the European promoters of owner-occupied housing, speculative builders had from the start made house building and selling integral parts of their operations. When the conditions for a mass market for owner occupation were created, during the 1930s in Britain and in the USA from the 1940s onwards, economies of scale could be achieved by combining land development and house building (see also Ball, 1983 for Britain). Land holding and centralisation within the speculative building industry can be seen as strategies adapted to market cycles which historically have been endemic to house building. Many smaller firms disappear during housing market slumps and stage comebacks during up-turns. Land holding allows large builders to release land for house building when demand rises, whereas capital investments in building are kept low during market down-turns.

Speculative house building in Britain has remained largely institutionally separated from the financial industry. This is different in the USA, where many of the large builders that have arisen from the merger and acquisition boom of the late 1960s, developed skilful financing techniques, plus land-banking and aggressive marketing strategies, as ways to expand their market shares. Each one of the ten leading house-builders created at least one mortgage banking subsidiary during the early 1970s. Initially the mortgage banks were set up to facilitate housing sales, but they eventually also proved to be a major source of earnings during housing market slumps (Schlesinger and Erlich, 1986).

One other major form of housing provision, which is only significant in the USA, is the industrial production of mobile homes. It consists of a highly concentrated industry, characterised by factory-based, production-line fabrication techniques. Distribution of the homes generally occurs via a large number of non-exclusive mobile home dealers and buyers use specially designated, landscaped sites, for which rents are paid.

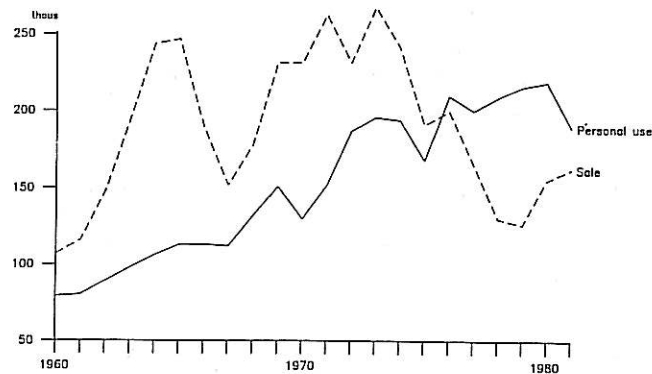
The mobile home industry expanded dramatically during the post-war years. From near insignificance in the 1950s it grew to produce one-third of all new single-family housing in 1972, its peak year of production (HUD, 1973). The sector mainly caters for the lower end of the owner-occupied housing market. Mobile homes are not subject to building regulations and their quality tends to be much below traditionally built housing, even though their size and standards, and the quality of the services provided in the so-called parks where they are stationed, have improved over the years. Industrial production methods have helped to reduce the real costs of the units, but this has been counteracted by the extremely high financing costs of mobile homes (*ibid.*). Ordinary mortgage loans are not available to buyers, because these homes have a short technical life expectancy and cannot be considered as 'real estate' anyway. Instead, buyers are subjected to similar loan conditions as when they buy consumer durables. Government guaranteed FHA and VA loans have also been made available to this sector, but again, at about double the interest rates charged for ordinary mortgage loans.

The final form of owner-occupied housing provision that will be mentioned here is usually referred to as self-building, commissioned house building or custom building. The main

characteristic of self-building is that private persons build for their own use and not for sale on the market, as is the case for all previously mentioned provision forms. Thus the development process is initiated and controlled by the future owner-occupiers, using land which they themselves acquired. Individuals buy a plot of land and then commission an architect and a contractor (usually local ones) to design and build the house. In many cases self-help is also contributed by the future occupier at several stages of the development to reduce expenses. Self-building is traditionally associated with detached housing, designed to the taste and requirements of the client and usually built in rural areas. It is in many ways a pre-capitalist, non-market, form of housing provision and accounts for the high early home-ownership rate of several countries mentioned in the previous section.

A recent innovation in commissioned house building is what can be called catalogue building. Here, an industrially-fabricated house is chosen from a catalogue and assembled on a site which is already owned by the future occupier. Catalogue house building has been expanding in France during the 1970s, from 17 per cent in 1970-73 to 25 per cent in 1975-8 of all new houses sold (and over the same period from 28 per cent to 40 per cent of all commissioned house building; Topalov, 1981). Catalogue building has also developed in West Germany, but on a less significant scale. During the 1970s production remained at a

**Figure 3.3:** Housing Approvals for Sale and Personal Use in France, 1960-81



Source: Topalov, 1983.

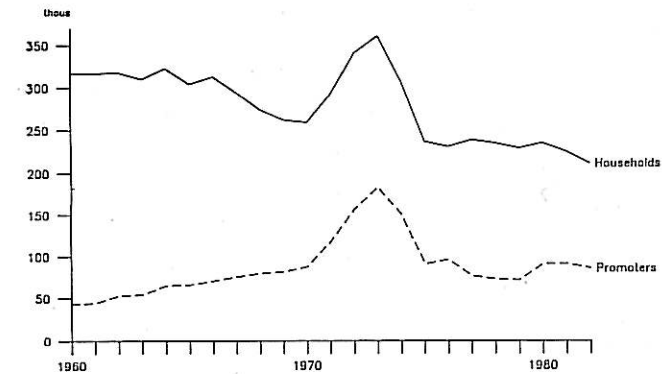
level of 12 per cent of building permissions given to one-family housing (Knechtel, 1983).

Commissioned house building exists in all countries, but is particularly significant in France, West Germany and the USA. It is less affected by general cycles of economic activity, because it is not provided for a market where a buyer has to be found at completion. The land acquisition and building process, in addition, can be spread over longer time periods, proceeding when financial circumstances permit.

From house-building data it appears that commissioned house building in France increased significantly during the 1960s and 1970s, in both relative and absolute terms. Its output shows a continuous growth and it even exceeded the number of houses built for sale by private promoters in the second half of the 1970s (Figure 3.3). A structural change in French owner-occupied house building is further marked by a significant reduction in multi-family house building after 1983, which paralleled the decline of private housing promoters.

Self-building dominated one-family owner-occupied house building in West Germany throughout the post-war period (Figure 3.4). But some qualifications need to be made for the data provided here. The category 'private households' also includes individual persons who invest in private rented house building, a provision structure favoured by fiscal policies. The long-term fall in output for 'private households' is likely to

**Figure 3.4:** Private Housing Completions in West Germany, 1960-82



Source: Statistisches Bundesamt.



reflect the decline of the private rental sector. Further analysis of the data shows that by 1980 about three-quarters of all owner-occupied single-family housing was provided by homeowners themselves (Martens, 1985).

The significance of self-building in the USA is more difficult to deduce from the available statistical information, as house-building data do not distinguish building 'for sale' or 'for own use' or between types of investors/clients. But surveys on the structure of the construction industry carried out by the National Association of Home Builders (NAHB) give some indication of the structural changes that have taken place in recent years. These surveys indicate that builders who have custom home building as their main area of operation have remained stable within the industry at about one-quarter of all home-builders. The number of builders that concentrate activities on single-family house building for sale, however, decreased substantially from the mid-1970s onwards, whilst house building in this sector continued to expand during the 1970s. Speculative single-family house building has shifted geographically towards the 1970s' economic growth areas in the south and west of the country. The shift also occurred in the mobile homes industry and most of the large mobile home manufacturers to date can be found in the south of the USA.

To summarise, various forms of owner-occupied provision exist. Defined by the type of institution or agency that initiates and controls the housing development process, forms of owner-occupied housing provision include speculative house-builders in Britain and the USA; speculative housing developers or promoters, which have been significant in most other European countries and consist of a range of institutions or professionals, which either diversified into speculative housing development, or took it up as a new 'profession'; the mobile home industry as the provider of industrially produced homes (rather than houses) for lower-income households in the USA; and finally, the commissioning of house building by private persons for their own use has continued to exist as a major form of owner-occupied housing provision in many countries.

The importance of each of these provision forms has changed over time and between regions within a country. For example, the shift in the geographical location of speculative house building activities towards the new economic growth areas did not only occur in the USA during the 1970s, but has also been

noticeable, although more recently, in West Germany and Britain. There have also been shifts in building activities away from suburban expansion towards a growing significance of home-ownership within existing urban locations. The shift includes a new emphasis on owner-occupied house building in multi-family, rather than single-family, units and also on conversions of existing buildings for sale to owner-occupiers. The expansion of owner occupation as an urban tenure, however, was accompanied by changes in the significance of the existing housing stock in defining the structure of owner-occupied housing markets which, until then, had mainly been defined by house-building activities.

#### THE ROLE OF THE EXISTING HOUSING STOCK IN OWNER-OCCUPIED MARKETS

One feature that has become a general characteristic of owner-occupied housing markets is the emergence of short-term fluctuations in housing output. Volatility in house-building levels has been a general characteristic of private housing markets for a much longer period of time, but fluctuations have tended to become sharper and shorter-lived in recent years. One major contributing factor is a growing importance of existing home-owners in housing market transactions.

The role of the existing housing stock in housing market activities is perhaps best illustrated by Britain, where less than 15 per cent of annual sales are represented by newly built housing (Ball, 1983; Ball et al., 1986). The large number of existing dwellings offered for sale mainly represent sales by existing owner-occupiers. High levels of house price inflation during the 1970s and 1980s encouraged many existing homeowners to trade-up within the sector, as it allowed them to improve their housing situation for similar long-term costs. With general price inflation, the real value of the initial mortgage debt is eroded, while rising house prices enable existing owners to realise money gains. When existing homeowners trade up, the new purchase will, of course be commensurately more expensive, but if there are high levels of general inflation, households can expect that their housing costs will soon subsequently fall again in real terms.

As activities in the British owner-occupied housing market



became dominated by transactions by existing home-owners, chains of sales became common with more purchases and sales needing to be matched. Market volatility further increased as the level of new building came to depend on house price inflation. Because of a general rise in real construction costs, house prices have to increase at a faster rate than general inflation to sustain house building. House price inflation also affects the type of housing built, because money gains made by existing home-owners had made these households the most profitable category to build for. For this reason, there has been a long-term trend towards building up-market housing in Britain. During housing market slumps transactions slow down significantly as existing home-owners delay housing sales when lower money gains are expected. House-building activities are reduced substantially as a result, particularly in the up-market sector.

In the mid-1970s, transactions within the existing housing stock started to affect the Dutch owner-occupied housing market in a similar way to Britain's, but under very different conditions. Owner occupation has dominated private house building in Britain since the 1930s and over 60 per cent of all households are now home-owners, so that new house building only counts for a small proportion of the existing stock. In the Netherlands owner-occupied house building only started to become significant after the late 1960s and output levels quickly reached a plateau in the following decade.

Sales from the rented housing stock became a significant feature of the Dutch owner-occupied housing market, particularly during the second half of the 1970s. Policies to decontrol rented housing led to a rapid rise in sales by private landlords to owner-occupiers or to property developers who resold to owner-occupiers. From 1975 onwards, prices of existing owner-occupied housing started to rise at much faster rates than prices of newly-built units, which more or less followed the general rate of inflation. (Unfortunately, no Dutch house price data exist for the period between 1974 and 1976, but in 1977, the penultimate year of the house price boom, house prices went up by 32 per cent in nominal terms and 25 per cent in real terms; see Figure 3.7b; page 120.)

House price inflation within the existing stock is partially explained as a 'delayed reaction'. Prices of houses bought from private landlords were initially very low, partially because

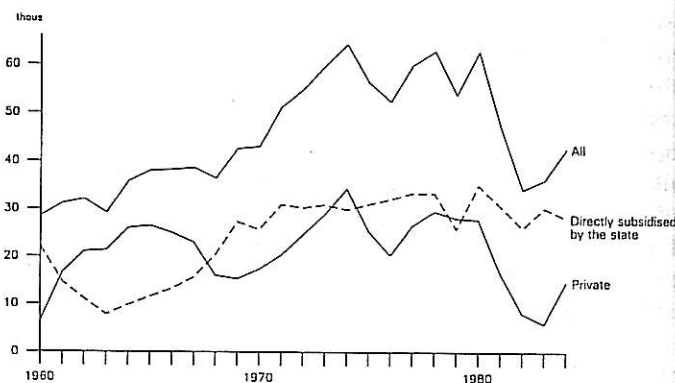
landlords disposed of a large number of units at the same time or offered them to sitting tenants at below market prices. The low price of ex-rental housing was also a consequence of Dutch post-war rent control policies, which meant that the capitalisation of actual rental values resulted in a price much below free market prices. Many landlords were more interested in disposing of their properties than in maximising profits from sales (although profits certainly were made too). House price inflation within the existing stock, therefore, reflected a process of bringing the prices of ex-rental housing up to the general level of market prices. Such rapid price rises encouraged existing home-owners to realise money gains and to trade up, in a similar way as in Britain. The inflationary process was heightened by state policies encouraging home-ownership and the extension of government guarantees on mortgage loans to existing housing, which allowed mortgage loans of up to 100 per cent of the purchase price.

As with the housing market booms in Britain, new Dutch house building in the years of the boom became dominated by up-market housing aimed at higher income groups and traders-up. The building sector for middle-income first-time buyers, for whom production subsidies are provided by the state, was cutback through reductions of subsidy conditions (reflecting the consistent counter-cyclical Keynesian-style policy pursued by successive post-war Dutch governments towards the construction industry). Even so, the up-market sector continued to remain significant (see Figure 3.5). In this way, housing policies in the Netherlands helped to create two distinct sectors of owner-occupied house building: one aimed at first-time buyers, the other at existing home-owners trading up within the sector.

The spectacular boom in owner occupation in the Netherlands during the second half of the 1970s was only short-lived and came to an end in 1978, when house price inflation within the existing stock started to slow down. The possibility of making money gains reduced for existing owners, particularly after house prices started to fall substantially (see Figure 3.7b; page 120). The up-market house-building sector almost totally collapsed as a result (see Figure 3.5). The collapse was accelerated by the effects of the early 1980s economic recession with its high real interest rates, rapidly rising unemployment and declining real incomes.

The sectors most seriously affected by falling house prices

**Figure 3.5: Owner-occupied Housing Completions in the Netherlands, 1960–84**



Source: Centraal Bureau voor de Statistiek, 1960–84.

were luxury housing and the older housing in working-class inner-city areas. In these sectors, house prices declined by as much as half after the late 1970s. House prices only started to keep up with inflation again after 1982 and mainly at the cheaper end of the market. Owner-occupied house building was only viable by returning to the market for first-time buyers with increased support from direct state subsidies. Housing market transactions have continued at a low level as the possibility of realising money gains is still very limited while losses are more likely. The up-market sector has now also turned to building for first-time buyers and since 1983 special land cost subsidies have been allocated to support their development. Relatively few houses are built now by the Dutch private sector without any form of direct state subsidy. Housing policies have continued to create a highly segmented supply — delimited by tenure, promoter and subsidy — all of which are competing for similar types of effective demand during the current housing market slump. Housing offered to the market by existing home-owners only adds to the competition for would-be buyers.

In Denmark, West Germany and France, owner-occupied house building has remained orientated towards first-time buyers. In Denmark, sales by existing owners are of little significance, at least until very recently. Until 1982, such sales accounted for only about 12 per cent of all loans annually issued

by mortgage credit institutions. The same is true for West Germany where, according to a sample survey amongst home-owners who bought between 1969 and 1982, only 7 per cent were previous owner-occupiers (Weissbarth and Hundt, 1983).

Owner-occupied housing markets dominated by first-time buyers do not necessarily imply that sales within the existing stock are unimportant. In France, for example, around 45 per cent of all annual sales are of existing property, a share, however, that has hardly increased since the 1950s. Such transactions are particularly significant in large towns and especially in the Paris region (Topalov, 1981). The second-hand market in France is divided into two sectors. One is of low quality and functions as a market for lower-income households who may eventually improve their properties. The other sector is of a comparable standard to new housing and acts as an alternative for those whose incomes are too high to be eligible for state-supported new housing (*ibid.*). The existing housing stock fills some of the gaps in a very segmented market for new housing. Segmentation in the French housing market, therefore, implies that sales of second-hand dwellings are not necessarily in direct competition with new housing. The secondary effects of an existing housing stock in an integrated market are similarly absent. There is no downward pressure on the purchase prices of new housing during market slumps, nor encouragement of the expansion of new house building during periods of rising house prices.

The type of owner-occupied housing market described for Denmark, West Germany and France contrasts strongly with the type of market in Britain and the Netherlands. The latter two can be classified as unified markets, where both new and existing dwellings compete for would-be purchasers and the transactions of the large number of houses and households already in the tenure influence activities in new housing construction. Moreover, market sub-sectors are linked together through transactions by existing home-owners, including trading-up and down, home improvements and inter-regional moves. As a result, all parts of the national owner-occupied housing market are linked by common market forces (Ball et al., 1986).

In contrast, owner-occupied markets which are dominated by first-time buyers consist of a variety of sub-markets, differentiated by region or housing sector. Fragmentation is encouraged

by the low rate of mobility of existing home-owners. Second-hand sales are limited to stock transfers from rented sectors, or sales by dissolved households, job movers or by those in financial difficulty. New house building meets localised demand and stock transfers concern particular sub-markets, as was illustrated in the case of France.

State policies and conditions linked to mortgage lending have helped to create the distinct types of owner-occupied housing provision in the respective countries. With the exception of Britain and the Netherlands, mortgage finance for buying a second-hand dwelling is less favourable than for new housing. In Denmark, for instance, buyers of existing housing until 1982 could only obtain a loan up to 40 per cent of the purchase price and, in West Germany, tax depreciation allowances did not exist for second-hand dwellings until 1977. In France, no form of state loan or state-supported loan was available for purchases within the housing stock; whereas most sales of new housing are helped by publicly supported finance. Only the most expensive forms of credit are available to buyers of second-hand housing, which helps to explain the segmentation of the French housing market into the sub-markets mentioned above.

Sales of existing housing have become much more important in West Germany since 1977, when tax depreciation subsidies were extended to the sector. The increase in transactions of existing dwellings resulted from a rise in sales of previously rented housing to owner-occupiers, usually accompanied by gentrification processes in certain inner-urban areas, rather than an increase in the mobility of existing home-owners. So, like in France, stock sales seem to represent a different market segment. But the liberation of mortgage lending conditions for existing housing in Denmark had a different effect. Sales by existing owner-occupiers soared from 1982 onwards, a development, which was further encouraged by rapidly rising house prices.

The US owner-occupied housing market seems to combine the characteristics of both a unified and a segmented market, both regionally and within a metropolitan area. By 1984 only about 18 per cent of all transactions were sales of newly-built housing, which indicates that, as in Britain, existing home-owners dominate housing market transactions. Yet, due to the sheer size of the country, a vast number of regional sub-markets

have continued to exist, as indicated by differences in house price changes. Major geographical shifts in employment growth enhanced the evolution of the regional differences in the USA, but also at the same time they help to link housing markets of different parts of the country.

The south and west of the USA (the so-called Sunbelt) experienced massive growth during the 1970s in terms of job creation, particularly in the defence and energy sectors, and a net inflow of population (Tabb, 1984). Suburban expansion was the main characteristic of spatial transformation of cities in these regions and there house building continued to dominate housing market transactions. Substantial inter-regional migration movements towards the Sunbelt meant, however, that not all of the new housing was sold to first-time buyers, but also to movers from the economically depressed regions. In this way, migration movements tend to link up housing markets in different US regions. Within the context of the Sunbelt area, market fragmentation persists because additional house building during the 1970s was mainly encouraged by demand fuelled by rapid job creation and immigration, rather than by demand generated through house price inflation in the existing housing stock. Within the Sunbelt region, sales by existing owners did not compete with new housing construction. Segmentation in the US house-building market also arises through the sectoral division between mobile homes, providing shelter for those in low-paid jobs, and traditionally built units housing the better paid.

House price studies in the 1970s showed a high degree of segmentation in US urban housing markets, particularly in the large cities (see Harvey and Chatterjee, 1974 and Straszheim, 1975). But a reordering of such market hierarchies has taken place in the 1980s. The recent transformation of the older large cities along the US east and west coasts increased the importance of the existing housing stock in defining the characteristics of local owner-occupied housing markets. Inner-city areas had largely been abandoned by the white middle class during the 1960s and were mainly inhabited by a much poorer black population. Federal funds were allocated during the 1970s to improve inner-city areas. But rather than improving the housing situation of the inner-city poor, the use of federal funds and loan guarantees by property developers, backed by financial interests and (sometimes corrupt) city officials, gave



rise to rapid processes of gentrification. Condominiums, owner-occupied housing units in multi-family buildings, emerged as a new, urban housing sector during the 1970s. The sector includes both new construction and conversions of existing, previously rental, buildings and responds to the demand of the white middle class for re-migration to inner-city locations. The growth of service industries during the 1980s and a concomitant creation of well-paid jobs, helped to intensify processes of inner-city gentrification. High levels of house price inflation during the 1980s encouraged existing home-owners to trade up, giving rise to the emergence of owner-occupied housing markets dominated by movers and traders-up in the big cities during the 1980s — a gentrification process that is still taking place.

#### HOUSEHOLD CHARACTERISTICS OF OWNER-OCCUPIERS

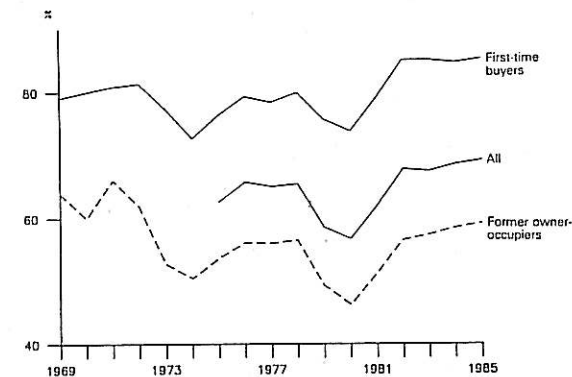
Different types of housing market are reflected in household characteristics of the owner-occupiers. Immobility in markets dominated by first-time buyers means that buying a house is a purchase for life. This is particularly true for households which acquire their homes via self-building, which is the dominant form of owner-occupied housing provision in West Germany and France, and which also is significant in the USA. As self-built houses are designed for the specific needs of the occupiers, they are unlikely to move after the purchase has been made unless they have to. But a low rate of mobility generally implies waiting periods before the big purchase is made, especially as often time is needed to save for down-payments. Down-payment requirements, in turn, reflect the mode of operation of national mortgage finance institutions. In most countries, typically about 20 to 30 per cent of the house price is advanced by the future home-owner with the remaining sum mortgaged. A major exception is West Germany, where about 50 per cent of the purchase price tends to be contributed by the house-buyer in the form of savings or self-help. The latter again stresses the prominence of commissioned house building in that country. Subsidised savings schemes, which exist in both France and West Germany also lead to a tradition of waiting periods before houses are bought. So first-time buyers generally do not constitute newly formed households, but older households with

previous housing careers. The situation is, again, most striking in West Germany, where first-time buyers tend to be 35 years or older (Martens, 1985).

Unified owner-occupied housing markets have different household characteristics. Here, newly formed households are not expected to remain outside the owner-occupied sector until sufficient money has been saved. Instead, households are likely to make a number of purchases during their lifetimes. First-time buyers are often newly formed households, who expect to improve their housing quality a few years after their purchase. The high rate of mobility within unified owner-occupied markets is well illustrated by Britain, where the average life of a building society mortgage is very short, for example, only four years in 1983.

The existence of strong rental sectors facilitates relatively late entry to owner occupation, whereas the much reduced rental housing stock in Britain forces many newly formed households into home-ownership. So, although owner occupation on average tends to represent higher-income households than non-owners everywhere, in countries where the rate of home-ownership is very high, as in the USA and Britain, the tenure represents a much broader section of the population than where rental sectors remain significant in accommodating middle-income households. High home-ownership ratios reflect a relatively high proportion of young and lower-income house-

**Figure 3.6:** Mortgage Debt as a Percentage of House Prices in Great Britain, 1969–85



Source: BSA Bulletin 1987, January.



holds in the tenure. Access to owner occupation for these households is not only facilitated by the process of trading up, as was illustrated for Britain. Sub-markets of low quality housing may provide similar functions in fragmented housing markets, as was illustrated by the mobile-home sector in the USA and for parts of the old inner-city housing stock in France and other countries like Britain (Topalov, 1981; Byrne, 1986).

The expansion of owner occupation towards younger and lower-income households has in all countries been facilitated by an increased role of mortgage debt in financing purchase. Mortgage to house price ratios are especially high for first-time buyers and, therefore, in housing markets dominated by first-time buyers. The high debt ratios for first-time buyers are illustrated for Britain in Figure 3.6, where they are compared with those of former owner-occupiers. The fall in average mortgage to house price ratios for former owner-occupiers in Britain during the 1970s indicates the significance of the money gains made in housing sales, rather than a reduction in mortgage to income ratios. The dominance of existing owners in British housing market transactions led average mortgage to house price ratios to decline during the 1970s, although debt ratios of first-time buyers remained stable. In Denmark and West Germany, where first-time buyers dominate market transactions, average debt ratios rose significantly during the same decade. In West Germany the ratio rose from 46 per cent in the period 1969–72 to 57 per cent in the period 1977–80, and in Denmark, it rose from 71 per cent in 1965 to 88 per cent in 1980 (Weissbarth and Hundt, 1983; Vestergaard, 1982). The Dutch government mortgage guarantee scheme has already been mentioned. It allows for very high mortgage to house price ratios and use of the scheme rose substantially during the 1970s housing market boom.

The average debt to house price ratio of new West German home-owners may seem low in comparison to other countries, but international surveys show that house prices in West Germany are exceptionally high. House price to income ratios in most countries usually vary between 3 and 4, but the ratio is nearly double that in West Germany (Köster and Mezler, 1979). In a recent survey (Nationwide, 1987), house prices are expressed as the number of hours average earners have to work to pay for average houses offered in national markets. Again, for most European countries about 8,000 to 10,000 working

hours are required, whereas this is 20,000 for West Germany. So, although German households may have lower mortgage to house price ratios, their mortgage debt to income ratios compare with home-owners elsewhere.

### HOUSE PRICE INFLATION AND HOUSING MARKET INSTABILITY

High levels of house price inflation have been characteristic of owner-occupied housing markets in all countries since the Second World War. As the cost of providing housing has continued to increase, because of upward pressures on the costs of land, building and finance, long-term house price inflation has become necessary to sustain housing output. The rate of house price increases, however, is ultimately limited by the ability of households to buy these houses. But high post-war levels of general inflation and the growth of personal income and frequent excess demand for housing have all facilitated the long-term house-building boom, which for most countries lasted into the 1970s. Growth has been cyclical, rather than continuous, and post-war fluctuations in house building have tended to coincide with rates of house price changes and with general cycles of national and, increasingly, international economies (see Chapter 5).

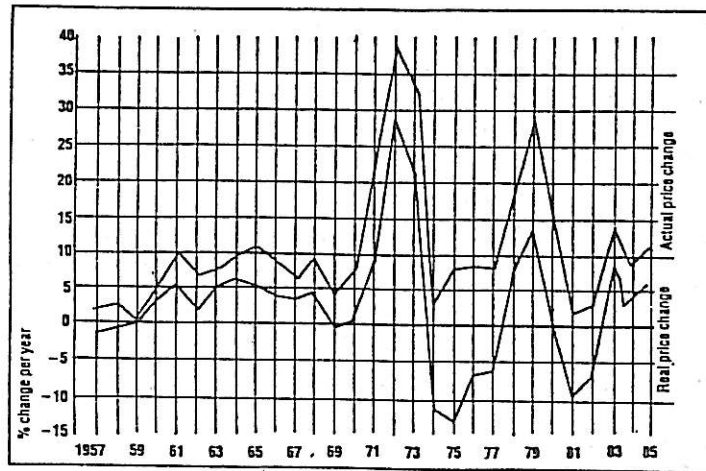
**Table 3.1:** Average House Price Changes in West Germany, 1972–83

	Estimated annual house price change, one-family housing (%)	Annual rate of change of retail prices (%)
1972–5	5–8	5.5–7.0
1977	8–10	3.7
1978	10–15	2.7
1979	>30	4.1
1980	16	5.5
1981	–5	5.9
1982	–5	5.3
1983	–7	3.0

Note: No accurate national data either for new or for second-hand house prices are available for West Germany. The data given in this table are based on an unweighted crude averaging of local data provided by estate agents.

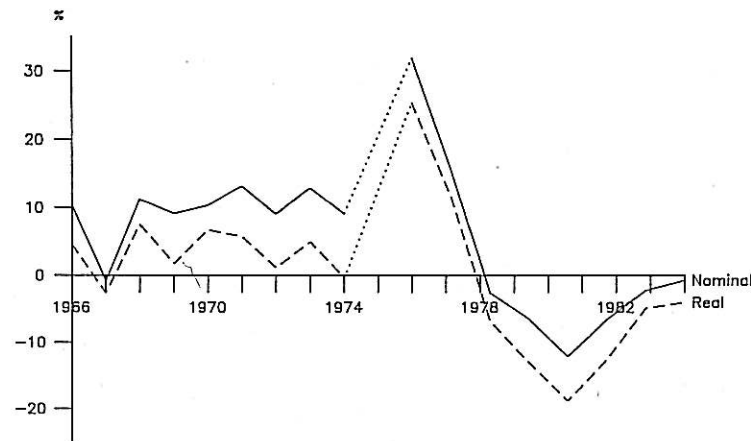
Source: Martens 1985.

**Figure 3.7a:** Owner-occupied House Price Changes in Britain (percentage per year), 1957-85



Source: Ball (1986), *Homeownership: A Suitable Case for Reform*, Shelter, London.

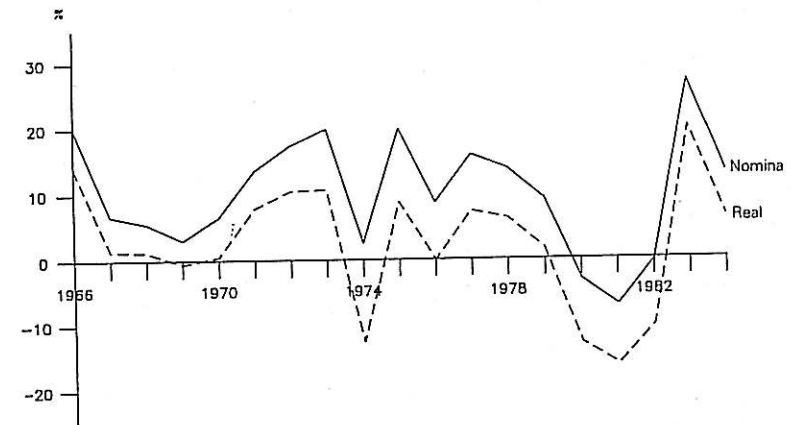
**Figure 3.7b:** House Price Changes of All Owner-occupied Dwellings Sold in the Netherlands (percentage per year), 1966-84



Source: Centraal Bureau voor de Statistiek, 1966-81; Dijkhuis-Potgieser (1985), 1982-4.

Not all countries produce national house price data. Such information is particularly poor for France and West Germany, where no systematic surveys have been undertaken (Martens, 1985). This reflects the fragmented nature of housing markets in these countries and hence the existence of a vast number of regional sub-markets. The house price data that are available are presented in Figure 3.7 and Table 3.1. For most countries the data represent changes in the prices of new housing as it has dominated housing market transactions for most of the post-war period. Exceptions are Britain during the 1970s and the Netherlands during the second half of that decade, where the development towards unified housing markets and the prominence of existing owner-occupiers in market activities are reflected in much higher rates of nominal house price rises during up-turns in housing markets than appeared in previous periods. Similar developments have occurred in the most recent housing market boom in Denmark.

**Figure 3.7c:** House Price Changes of One-family Housing in Denmark (percentage per year), 1966-84



Source: Danmarks Statistik.

Nominal house price rises in all countries were much higher during the 1970s than in earlier decades. In real terms though,

house prices fell at times, as for example in the mid-1970s in Britain and Denmark, but rises have generally been rapid during periods of housing market boom. Despite higher rates of inflation for much of the 1970s, house-building levels have, as a long-term trend, generally either stagnated or declined. Falling rates of house building in Denmark have been explained by the increasing unaffordability of house purchase for most households. House prices had already risen so high, that after housing expenditure and tax deductions, real incomes were in 1977 35 per cent below the 1971 level (Vestergaard, 1982). Similarly, real house prices continued to increase in France after 1975, but not at a sufficient rate to meet the rise in the costs of building and finance (Topalov, 1985). Housing output declined as a result. Unprecedented levels of house price inflation during the 1970s in Britain could not stem a long-term fall in the rate of house building. The decline here is even more striking because rising house prices reflect money gains of existing home-owners, which are contributed to the purchase of new housing in addition to mortgage payments from earnings. Whereas in Denmark and France declining house-building levels mainly relate to the reduced affordability of new housing directly paid out of income. The major house price boom during the late 1970s in the Netherlands also could not stimulate a rise in house building. Instead, and similarly in West Germany, output levels remained more or less stable throughout the decade. Only in the USA did owner-occupied house building expand, because of a sharp rise in housing demand in its Sunbelt region.

General high rates of inflation, another characteristic of the 1970s, gave impetus to the expansion of owner occupation. The growth of the tenure was not necessarily met through new building, but also by sales of rental housing from the existing stock. High levels of inflation made home-ownership an increasingly attractive proposition for many households, as their real incomes rose significantly, while the real costs of the initial mortgage debt eroded substantially within a few years. Inflationary trends, combined with increasingly aggressive marketing strategies by mortgage lending institutions and state policies aimed at promoting the tenure, encouraged more households to become home-owners and to take on much higher debt burdens than they would have done in earlier decades. So during the 1970s, mortgage debt became increasingly significant in facilitating expansion of owner occupation.

Higher mortgage house price ratios allow more households to become home-owners as shorter saving periods are required. Reduced down-payment requirements also make home-ownership more feasible in an era of rising house prices. But at the same time, high debt ratios make home-owners much more vulnerable to changes in interest rates, as the costs of buying a house fluctuate with interest rates.

The housing market booms of the late 1970s were in all countries followed by a major market down-turn during the early 1980s and the consequences were substantial. Housing production was at a low level everywhere and in the Netherlands, Denmark and West Germany house prices fell in both real and, for the first time since the war, in nominal terms too (Figure 3.7). A major crisis in the world economy contributed to cause the housing market slump, as it was associated with sharply rising unemployment, stagnating real incomes and extremely high levels of nominal and real interest rates. Interest rates were particularly high in Denmark, where they increased from about 10 per cent in 1970 to nearly 22 per cent in 1982. The effects of high interest rates were partially offset by the high marginal tax rate, allowing substantial income tax deductions for owner-occupiers with large mortgages. But, as the tax incentive was significant only for higher-income households, high interest rates combined with rising house prices substantially reduced demand for owner-occupied housing for the middle-income groups in the early 1980s. By 1982, house-building rates fell to only about one-third of owner-occupied units produced in the previous peak production year of 1973. So, as in the Netherlands (but for somewhat different reasons), Danish private house building virtually collapsed during the early 1980s. Elsewhere, the decline was less devastating, but still substantial.

The effects of the sharp rise in interest rates were also noticeable in West Germany, where the income-tax-relief scheme for home-owners does not allow for interest rate deductions but only for relief based on an accelerated depreciation of the house's price. By the late 1970s most housing loans had variable (or short-term fixed) interest rates so households were badly hit by market rates of interest, which nearly doubled between the late 1970s and early 1980s. German home-owners who bought during this period therefore experienced large increases in their housing costs. Mortgage defaults and forced



sales grew substantially as a result. But in many cases the auction prices received did not cover the original mortgage costs, leaving many previous home-owners with outstanding debts (Brambling et al., 1983). An interest-relief tax-deduction scheme was introduced as a temporary measure by the West Germany government in 1982, but the workings of the scheme did not give much relief to the housing costs of existing home-owners.

In the USA, the extent of the down-turn in the early 1980s housing market varied sharply between regions. Developments were particularly devastating in three types of region: in the boom areas of the 1970s (the southern Sunbelt), following a crisis in the energy and mining industries; the 'Farmbelt' area of the Mid West, after it was hit by the agricultural crisis; and in regions of the Mid West with significant employment in the automobile industry. Rising rates of unemployment helped to reduce the number of new housing starts substantially in these regions and an increasing number of houses were offered for sale by existing owners who wished to leave the area or could not afford the mortgage anymore. These houses, however, were often sold for much below their initial prices (if they could be sold at all). The geography of housing investment activities has again shifted in the USA, this time towards those parts of the north-east and west, where the service and high-tech industries are expanding rapidly. The slump in the Sunbelt continued into the mid-1980s, and is still particularly significant in oil towns like Houston.

By the mid-1980s, regional disparities in owner-occupied housing markets were also becoming significant in West Germany and Britain, reflecting geographical changes in economic growth and employment. In West Germany housing production has shifted towards the south of the country and in Britain to the south and west. As in the USA, these shifts are reflected in greater regional disparities in house prices.

Generally, the mid-1980s saw a revival of owner-occupied markets and house building, although this still remains limited for the Netherlands. But in some countries, such as Britain, owner-occupied house building by 1987 had reached levels achieved in the speculative booms of the early 1970s. Forecasting future developments of owner-occupied markets is difficult, but there are strong indications that current high building levels cannot be sustained. Housing costs in the late 1980s are

significantly higher in most countries than they were in the previous decade. In the USA, for example, the percentage of households meeting the qualification requirements for a fixed-rate mortgage and a median-priced new single-family house had fallen from 80 to 40 per cent between the early 1970s and early 1980s (FRBNY, 1984/5). Inflation is low and no longer erodes the nominal value of mortgage debt, while real interest rates are very high, rather than negative as they were for much of the 1970s. The future of owner-occupied markets therefore seems perilous everywhere, especially if the world economy experiences another down-turn.

## CONCLUSION

The survey of owner-occupied housing markets in Western Europe and the USA indicates that the tenure is in transition. Bolstered by rising real incomes and major state intervention, home-ownership had become the main housing tenure by the 1980s in all the countries considered. Its role within housing provision, however, varies between countries. Variations include the relative significance of the tenure, its forms of provision and the ways state support is given to the tenure.

The type of market that is constituted by owner occupation and the role of existing home-owners and second-hand dwellings in market transactions also differ between countries. Existing home-owners became more important in market transactions with the growth of the tenure. This has been particularly true in those countries where sales by existing owner-occupiers helped to create unified markets, as occurred in Britain and the Netherlands during the early and late 1970s respectively and in Denmark and in some US cities during the mid-1980s. A dominance of existing home-owners in market activities in unified markets has contributed to a greater instability of owner-occupied markets, as house-building activities have come to depend on the input of money gains realised by sales from existing owners in addition to purchasing power from salaries and wages. So, house prices have to rise at a much higher pace than the general rate of inflation for house building to expand. Conversely, when house price inflation slows down, market activities are substantially reduced. House price falls in unified markets may even lead, as we have seen in the Nether-



lands, to a serious, prolonged market crisis. The situation is different in countries where owner-occupied markets remain fragmented. There, falling house prices, aided by reductions in the standard and quality of new housing, may actually contribute to a revival of house building, as buying a house again becomes affordable for larger sections of the population. It is, however, yet to be seen whether the recent sharpening of the divide between regions of economic growth and decline, occurring in many countries and paralleled by similar differences in house price developments, will lead to greater fragmentation (or regionalisation) of previously unified markets.

Owner occupation has not only become more significant, but the tenure is also changing in other ways. There are pressures on key institutions associated with its provision, particularly those related to mortgage finance and house building, as Chapters 4 and 5 will show. Involvement by the state, despite frequent rhetoric to the contrary, has grown, especially via lost tax revenues caused by the various forms of income tax deduction associated with owner occupation. In addition, production subsidies were extended during the housing market down-turn of the early 1980s in the countries where that subsidy was already significant. And such subsidies were newly introduced in Denmark for 'co-operative housing', a new sector aimed at middle-income first-time buyers. So, state subsidies have not only become more important, but also remain a necessity for expanding owner occupation; both in periods of housing market booms when income tax subsidies shelter home-owners from some of the effects of rising house prices and interest rates, and during down-turns in the market when production subsidies gain significance in boosting owner-occupied house building.

More worrying is the increasing number of households which have entered home-ownership in the last decade that are highly vulnerable to adverse shifts in the delicate balance of housing affordability. Housing costs have risen substantially in the 1980s and low rates of inflation and high real interest rates make home-ownership an expensive purchase in the longer term. The current high costs of owner occupation are also reflected in the very high number of mortgage defaults and repossessions in all countries concerned here, irrespective of whether the housing market is booming or in decline.

## NOTES

1. This paper is a much extended and revised version of an earlier publication, which analysed post-war developments in owner-occupied housing markets in the five European countries surveyed here (Martens, 1985).

2. There are problems with assessing the amount of owner-occupied house building from the statistical information available for some countries. In Denmark, West Germany and the USA, single-family housing has been used to define owner occupation. It is, however, not possible to use this category for France, where, especially in urban areas, large-scale multi-family housing projects have been built for sale to individual home-owners throughout the post-war period. Housing completions in owner occupation in France could be assessed by adding house-building categories indicating the destination for which the dwellings are produced (sale, personal use and second homes). Unfortunately, until 1977 such data only existed for housing approvals. Data for 1950-77 have, therefore, been estimated by using completions of all private housing for this period, which have then been adjusted to the owner-occupied house-building data available for the 1977 to 1981 period. Dutch house-building statistics indicate tenures, whereas for Britain completions in the private sector can be regarded as synonymous with owner occupation (see also Martens, 1985).

3. In the brief description of structures of owner-occupied housing provision it is inevitable to cover some of the material described in greater depth in Chapters 4 and 5. These chapters, however, concentrate on explaining the changes taking place to the institutions associated with mortgage finance and house building.

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