

# What explains the differences in homeownership rates in Europe?

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## Introduction

When we talk of Europe we generally mean the EU and think of it as a single region in the world. But it is impossible to ignore that it is made up of a number of very different countries, each with its own language, dialect, cultural values and attitudes to housing tenure and housing finance. There are vastly different rates of home ownership, mortgage debt, house price inflation and so on. This diversity makes the EU an interesting region, particularly as it strives to achieve greater integration of its financial and housing finance markets and as it welcomes ten new members.

One issue that comes up time and again is the reason why home ownership is more important in some countries than in others, and indeed why in some countries there is the implication that there is an obsession with owning your own home. This article aims to throw some light on the differences in attitudes and reasons for this across Europe.

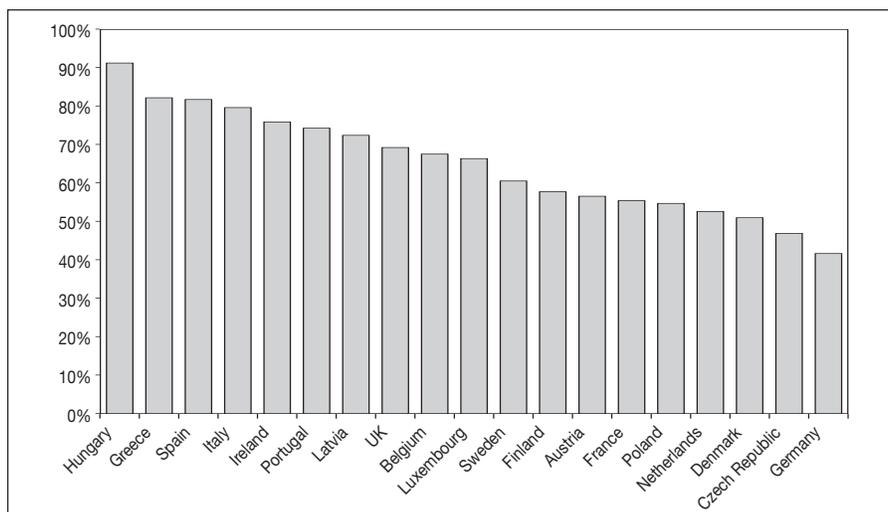
## Levels of Owner-Occupation

The first place to start is to show the range in the levels of ownership. As the chart shows there is a wide range in the levels of owner occupation. The weighted average for the EU15 countries at the end of 2003

was approximately 64%, but there are big differences. The Southern European countries have the highest levels of owner occupation. Among the EU 15 countries Spain, Greece and Italy all have owner occupation rates of 80% or more. And Germany, while a much larger economy than those countries in the South, has an ownership rate of only 42%.

In the new member countries of the European Union ownership levels also tend to be quite high due to the mass privatisations. But the way in which these were carried out means that there are big differences. Hungary has the highest rate of owner occupation at 92%, while the rate in

Chart 1: Owner occupation rates in Europe, %



Source: EMF, OECD

<sup>1</sup>The author's views are her own and not necessarily those of the European Mortgage Federation

the Czech Republic is only half of this. Exact data is not readily available for all new members and in some member countries it is not yet clear what exact proportion is actually owner occupied, rather than privately owned. Some of these may be privately rented for example; these rates are therefore likely to alter over time as the markets settle down.

Another issue with the data is that in many countries the data is calculated using all dwellings, many of which are not actually occupied as primary residences yet are still privately owned. These could be empty dwellings or second homes that are occupied for only part of the time. This can make a difference to the exact numbers, but is unlikely to change the broad ranking hugely. For example, in Greece if we look at households only, the rate of owner occupation is about 76% compared to 83% if all dwellings are included, showing that occupation levels are still among the highest in the region. So while there are some difficulties with the data, the chart still illustrates the large differences across the region.

**Reasons for Differing Levels of Ownership**

Having seen the levels of owner occupation it is interesting to look at the reasons why they differ so much. Is it purely about regulation or are there issues about attitudes to owner occupation that are important too?

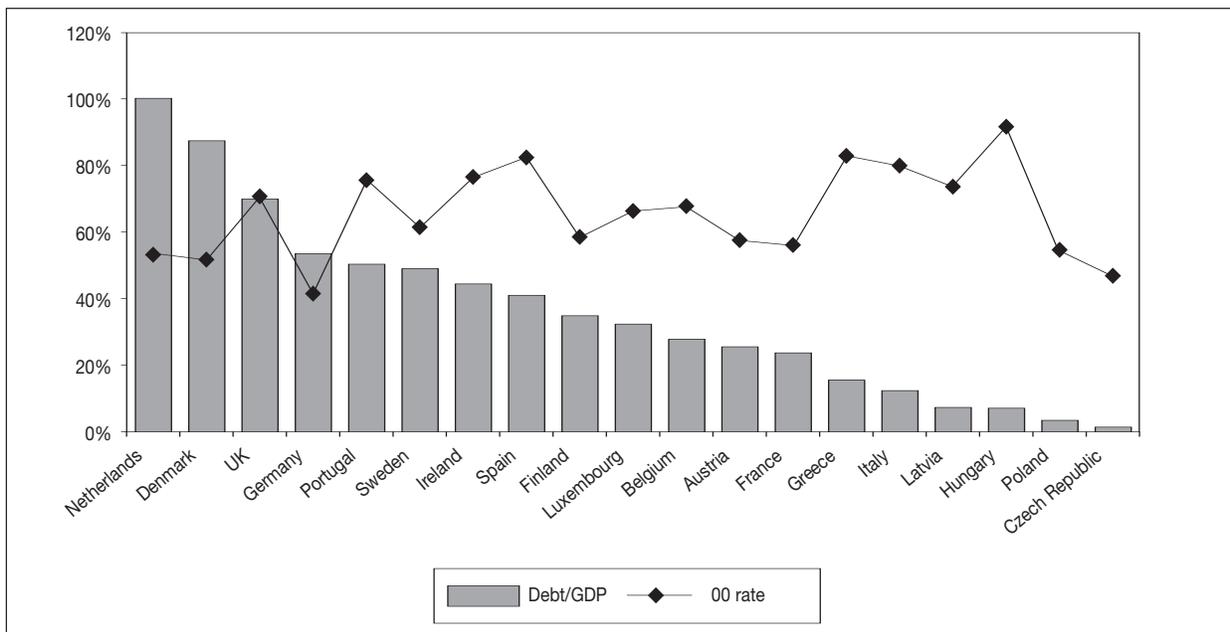
There are several individual factors that affect the way the markets develop, but they all fall into the broad categories of supply and demand and regulation. Among the factors are those that affect the levels of construction such as planning laws, construction standards and fiscal policies that affect the relative costs of housing provision in different tenures. Because taxes also affect the relative costs of purchase these have an impact on demand too. The efficiency of the housing finance system, which affects the cost of borrowing, also has an effect. Government policies aimed at other economic or social goals, such as education, or explicitly reducing government's role in the provision of housing can also have an impact by

affecting the age at which individuals enter the market for housing or reducing the supply of tenures other than owner occupation.

The overall strength and wealth of the macroeconomy might be expected to affect ownership levels, but not necessarily the way one would expect. Some of the highest ownership rates are in the poorer European countries, perhaps reflecting the higher costs of ownership in the wealthier economies. Less tangible cultural differences are also often stated as a reason for differences in owner occupation rates too. But perhaps we should ask why these cultural differences have grown up and remained. Is the culture itself derived from economics because of the different transactions costs of buying and moving house cause us to behave in different ways?

We can start by looking at how owner occupiers in different countries typically go about obtaining the homes that they live in. As Chart 2 shows, there seems to be some negative correlation between the highest home owning countries and the levels of

**Chart 2: Mortgage Debt to GDP ratio 2002**



Source: Eurostat, European Mortgage Federation

mortgage debt. With the exception of Spain and Ireland where rapid growth in house prices led to large increases in the proportion of mortgage debt to GDP in recent years, typically, the highest ownership countries are among those with the lowest levels of mortgage debt.

This might seem a bit perverse, so why is it the case? In the South of Europe in particular there is a strong tradition of the family being very involved in the accommodation choices of their children. Children tend to live with their parents much longer, until they get married, and so enter the property market relatively late in life when the parents are in a significantly better position to help them financially. It is not uncommon for parents to buy property for their children and the property that they do buy tends to be big enough for them to live in and even raise children in. Recent Eurostat work looking at household projections showed that the proportion of children living at home was highest in the Southern states and Ireland and the lowest in Scandinavia.

But why have these markets grown up in this way? There are many reasons. Housing

finance systems in the Southern European countries were not as well developed as in the North in the past. This could be demand or supply led, or a combination of both. The South of Europe was in general poorer, making credit riskier for lenders, so for many the only way to own a home was to rely on the family. The housing finance market did not develop quickly because of lack of demand; property and land was passed down through families as part of the law and hence the culture grew up.

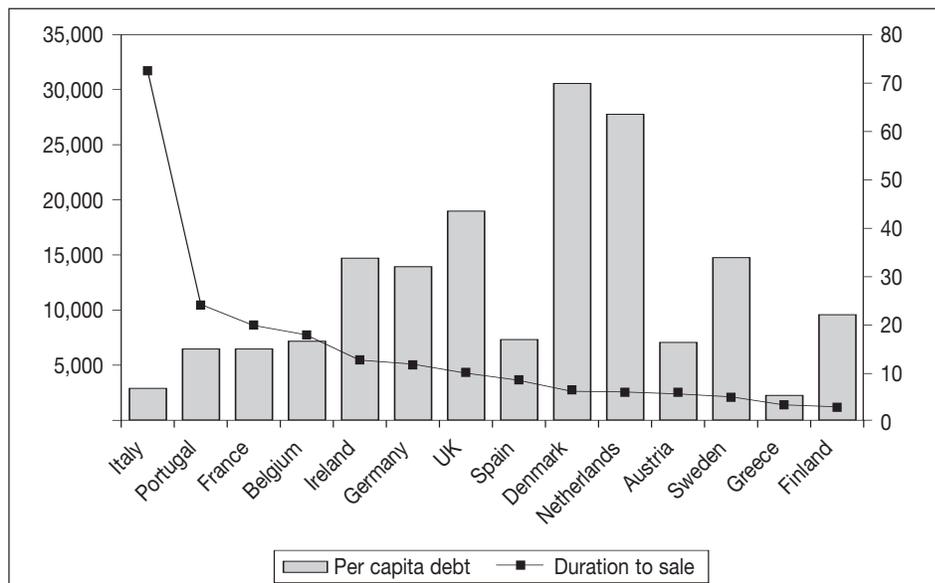
When finance markets are developing one would expect lenders to be risk averse but even as markets develop the legal and administrative systems can affect lenders' attitudes and hence access to housing finance. Lenders have to take into account the risk of default in their underwriting decisions. Where the risks are high, finance prices will be correspondingly high and thus choke off demand. If we look at the time taken to complete the whole legal procedure, from the writ of execution to the actual distribution of the proceeds of the sale when a property is re-possessed there seems to be some negative correlation, at the extreme, between the level of per capita debt and the time it takes to distribute the

proceeds of sale in the event of default, and this too may be part of the explanation for lower levels of financed owner occupation in the Southern states. And once the culture grows up it takes a long time to change.

Greece is another example of how legal issues have an impact and become part of the culture. The Greek housing finance market was very small. In 1988 total residential mortgage loans accounted for only 2.5% GDP, compared to 20% now. The need for housing finance was perhaps limited by the existence of the dowry system. Up until as late as 1983 this was a part of Greek law and meant that daughters would frequently be given a house when they married. While the law has now been repealed, the culture remains. But even in Italy and Spain, countries where there was no dowry system, a similar strong bond between the family and the ownership of property exists. The housing finance markets in these countries too were much smaller twenty years ago, in particular in Italy where in 1985 it represented only 3% of GDP.

That is not to say that in Northern Europe families are not as caring, but typically

**Chart 3: Per capita debt and months to distribution of sale proceeds**



Source: EMF

prices are higher and there are fewer financial opportunities to provide a home for children when they are younger. In these countries prices are higher but the housing finance systems are also more developed helping people to buy, even with less support from the family.

Entering the market later in life also has an impact on turnover levels. And if parents help to buy a property large enough to raise a family in there is less need for mobility throughout the 'housing lifetime', even among the younger homeowners. This contrasts with the Northern European markets where the 'property ladder' is a more familiar concept.

It is possible that policies towards education that encourage young people to study until they are older will have an impact on ownership levels going forward. We have already seen the age of first time buyers increase significantly in countries like the UK over the last two decades. This is largely due to increasing prices which make it more difficult to enter the market, but this itself is likely to be affected by the later age young people begin earning and therefore able to save for deposits.

Supply is of course an important factor. The amount of available housing in each tenure group will have an effect on relative prices and thus the tenure choices of individuals. The UK and Germany are wealthy countries with similar population densities (see table on page 30) but they have very different owner occupation rates. In Germany the government has supported policies which favour the provision of rental accommodation. In the UK the rental sector is small and has benefited from fewer government incentives than owner occupation. In Germany 56% of people rent from government or private landlords compared to only 17% in the UK. So, when considering levels of ownership it is impossible to ignore other types of tenure. The size of the rental sector, either social or private, can have an impact. If the supply of rented accommodation is small this will push up its cost and also increase demand for accommodation in alternative tenures. Equally if owner occupation is expensive,

rental becomes an attractive option – providing the supply exists. And increasing costs in one tenure can lead to a supply response. In Ireland increasing supply of rental property resulting from the rapid increase in house prices has led to a fall in the overall proportion of owner occupation in recent years, from over 80% in the mid 1990s to 77% now. This of course does not mean that the overall numbers of owner occupiers has fallen, only the proportion of the total.

In the Scandinavian countries where there is also less of a family role in house purchase for children, and where prices are higher, the rented sector is more developed. This is also true in France where the rental sector accounts for 45% of the tenure. And of course in Germany where the majority of households rent. By contrast in Latvia, where the owner occupation rate is almost 75%, the rental market is very small and not considered to be a business activity.

Planning laws are an important factor that can introduce distortions into the markets and affect the tenure choices of individuals. The UK is an example of a country which is highly densely populated and where the demand for housing outstrips supply in the areas where the jobs are. But new supply is limited by planning restrictions which pushes prices up making it too expensive for many to buy, even if that is their tenure preference.

Of course there are preferences which affect the elasticity of supply and demand of the different tenure types and these may be affected by the cultural attitudes towards housing tenure. For example in Belgium there is a phrase "Les Belges naissent avec une brique dans le ventre" or "The Belgians are born with a brick in their belly". If you look along a typical Belgian residential street, even among the old houses there are rarely two the same, each having been built by a different architect. Belgians still take on these projects, building homes that will accommodate their family and with the intention of staying for as long as possible. Belgian planning laws have been permissive and allowed individuals the freedom to buy a plot of land where they liked and build

upon it. This disparate system meant that there were fewer opportunities for mass developers. Things are changing now as planning laws become stricter, but the brick is likely to remain in the belly or at least in the heart of the Belgians for some time to come.

Germany is interesting because it is a wealthy economy, but it has the lowest proportion of owner occupation in Europe. Yet the Germans do aspire to own their own property. The reason they don't is because of cost. In Germany, restrictive planning laws have limited the supply of land available and this pushes prices up. Very high construction standards mean that building a house is very expensive. In addition taxation policy has favoured investment in rental housing, which has led to the odd situation of owning a house but choosing to rent it out and to rent a different one to live in. These fiscal laws are now beginning to change and we may therefore see the beginning of slow changes in the tenure breakdown.

Overall, Government policy towards housing is a major factor in tenure choice. In the UK for example the high rate of ownership is in fact relatively recent, spurred on by the policy of selling off social rented property to tenants in the 1980s, thus restricting the opportunities to rent. When the government changed political colour in 1979, the owner occupation rate in the UK was only around 55% - similar to the level in France. It is clear that in the new member countries of the EU, privatisation of the housing stock has also been a very important and in some of these countries home ownership levels are very high. Indeed the highest rate of owner occupation appears to be in Hungary, where 90% of the stock is owner occupied. But depending on how the privatisations were dealt with rates can be much lower. In the Czech Republic and Poland the rates are below the weighted average for the EU15 of 64% at 47% and 55% respectively.

Government policy towards other things is also relevant. For example a policy encouraging greater, self financed, student numbers will have a two fold impact on the

age and amount of entry into home ownership. The first because potential homebuyers will have had fewer years in paid employment to allow them to save a deposit and secondly from the increased levels of debt that they enter the labour market with, prolonging further the age at which a property can be purchased.

Other drivers of home ownership levels are factors such as the wealth of the country and the fiscal policies of its governments. High levels of tax relief on owner occupied housing clearly stimulate this choice of tenure. While these are now beginning to be withdrawn or reduced to assist only those on moderate incomes, they have been available and continue to exist in several countries. For example in the Netherlands tax relief was available on all mortgage interest, not only for main residences but also on a second home mortgage until 2001. And most European countries still have some sort of tax relief on interest payments. In the new member states interest rate subsidies provided an incentive to borrow to buy a property, and while these too are being withdrawn as members join the EU, they have had a significant impact.

**A property ladder?**

The concept of the property ladder, it seems is most familiar to the northern Europeans, with the UK a country where it is most common. But where property prices have increased dramatically buyers are attracted both by the investment potential and the desire not to be left behind. They thus buy in at the bottom of the ladder and use the capital gain to move up as quickly as possible. Others, typically in Southern Europe will buy, inherit or receive a gift of a property and will stay for a long time.

In the past the typical age of the first time buyer was probably relevant here. In the Northern European countries typically people have bought their first house or flat at a younger age. They would buy whatever they could afford as soon as possible and move several times. The gap in the age of first time buyers across Europe has narrowed over the years as affordability issues have become important and the prices of the smallest properties have increased. In fact in the UK in 2003 the average age was 34. This compares to 28 in 1980. In Sweden anecdotal evidence suggests that the typical age of buyers in

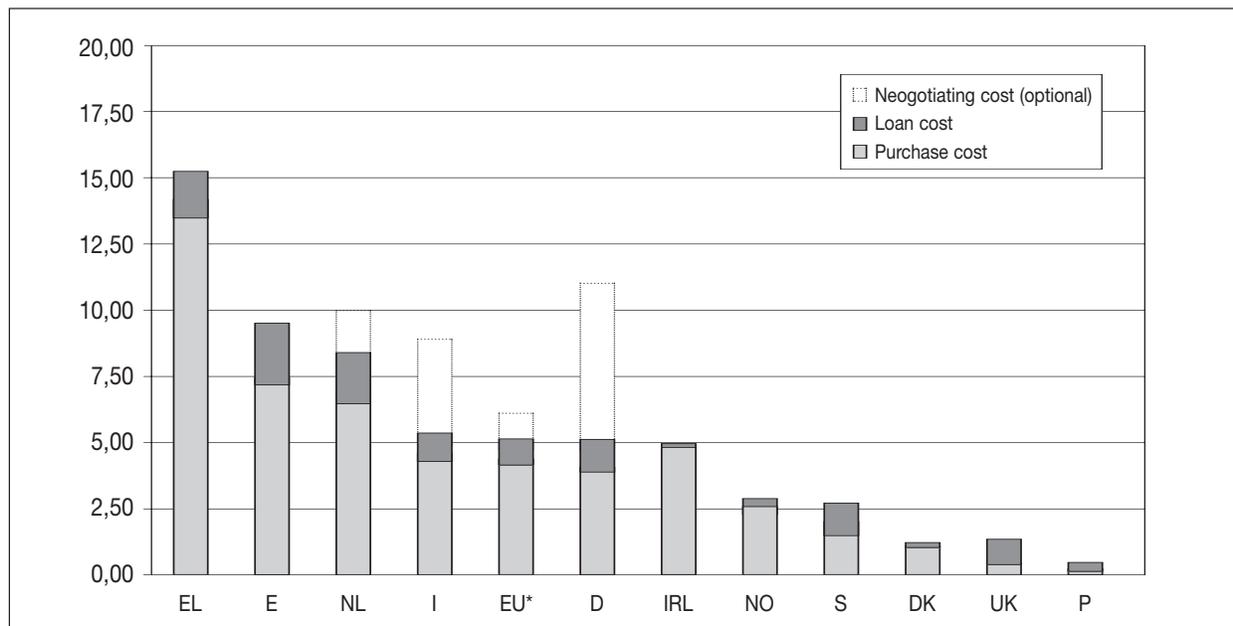
smaller cities is around 27 and in larger cities where the prices are higher, about 35. This increase in average first time buyer age might suggest that lower mobility rates have developed over time. But, in the UK, turnover levels are as high now as they were in 1981. Across Europe, where the data is available, it can be seen that the highest turnover rates are in the UK and Ireland at 6% and 7% respectively, compared to Denmark and Sweden at about 1-2%.

**Obsession or economics?**

So, why do these differences in owner occupation levels grow up and why do they persist? The answer would appear to come from economics. Evidence from an EMF study in 2001 showed that transactions costs were highest in the southern countries – in particular Greece and Spain and lowest in the northern European countries – notably UK, Sweden and Denmark.

Belgium was not included in this study but using a real example of a self build house, the additional taxes in the form of registration fees for the property *and* for the loan along with VAT on the building add up

**Chart 4: Cost breakdown by country in 2001 (% of purchase value)**



to more than 20% of the value of the property (including the land). But for many this is still cheaper than buying an existing property given the freedom of choice over location and specification.

This type of evidence would suggest that cost is the major reason for lower turnover in the southern countries compared to the North, and why, in most of Europe people

range in the levels of property tax levied across the European countries and a recent study commissioned by the European Mortgage Federation showed that government intervention can distort the markets in Europe, affecting its structure, price and cost levels. Such distortions may arise on the funding side where governments intervene by favouring one type of funding mechanism over another, or

On the demand side price is probably the most important factor, with tenure dictated by relative affordability. The availability of housing finance is therefore an issue that can help to increase access to owner occupation. The efficiency of the systems, which affect the price, also has a further impact. And there is also the relative elasticity of demand which is affected by attitudes to different tenures.

Population density, pop/km	1985	1995	2000	2001
Finland	14	17	17	17
Sweden	19	22	22	22
Ireland	51	51	54	55
Spain	76	78	79	80
Greece	75	79	83	83
Austria	90	96	97	97
France	101	106	108	109
Portugal	109	109	111	112
Denmark	119	121	124	124
Luxembourg	142	158	169	171
Italy	218	190	192	192
Germany	218	229	230	231
UK	234	240	241	241
Belgium	323	332	332	332

buy or build a house to live in for a very long time. It would seem that this is a major reason why the cultures have developed in the ways that they have.

There are also differences in how individuals see their home. In the UK we know that homeowners are keen to upgrade their main residence if their income increases or they come into money, whereas other Europeans are more likely to invest in a second home. Indeed 50% of Swedes have access to a holiday home. The market for holiday homes is well developed in Spain, and in Greece they account for 14% of the stock. It is possible that higher prices in the UK resulting from land supply issues and demand from people looking for a place for their first residence dissuades this in the UK, but increasingly we are seeing British people buying property abroad so maybe we will see in time a movement towards continental behaviour.

Different regulations, for example the wide range of different taxes, subsidies and guarantees available in different countries contribute towards the range in prices across Europe. OECD data shows a vast

they may influence lending for example by offering borrower guarantees or subsidised loans.

Differences in distribution mechanisms in each country also affect the markets and also the final cost of loans. Branch based distribution is vastly more expensive than the more fragmented intermediary system, or the increasingly technologically based methods of distribution. Where efficiency savings are made these can be passed on to consumers and make borrowing to buy a property more attractive.

### Conclusion

So what are the reasons for different ownership rates in Europe? There are factors from the supply and the demand side. On the supply side, the availability of housing in a preferred tenure is important. If it is limited, its cost increases and alternative tenures will be chosen. These relative costs can be affected by government policies on planning, construction standards and taxation incentives.

But these supply and demand factors are affected by government policies too, in terms of planning, tax reliefs, policies on privatisations of housing stocks; policies on other social issues such as education that have an impact on the age that people enter the property markets. And administrative and property laws that affect the potential losses lenders may incur too.

But relative supply and demand elasticities are affected by cultural issues. In the South children stay with the family longer and are helped to own a home. But one might argue that this culture has grown up because of the lack of other types of tenure available and the lack of a well developed and affordable housing finance system in the past. In others, where costs are higher due to regulations or supply issues, there is still evidence that there is a desire to own one's own home but the costs are prohibitive and alternative tenures are used.

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