

Home ownership and renting: international comparisons

Mark Boleat analyses the two main types of housing tenure and examines their varying characteristics in different countries

THERE are two basic forms of housing tenure, owner-occupation and renting. In simple terms the owner-occupier owns the dwelling in which he lives while the tenant has an agreement to occupy the dwelling, perhaps for a limited time, for which he pays rent to the owner. While this broad categorisation is sufficient for many purposes, within the two categories there are a number of sub-divisions, and at the margin the dividing line between owner-occupation and renting is blurred.

Moreover, the characteristics of owner-occupation in one country may not apply in others, and indeed, one can have the perverse situation of owner-occupation in one country having the characteristics of renting in another, and vice versa.

Housing tenure—theoretical considerations

Before considering statistics on owner-occupation it is helpful to analyse on a theoretical basis the demand for particular types of housing tenure, and therefore for patterns of housing tenure which one would expect to exist both within countries and between countries. This theoretical analysis can be considered by reference to major variables, in particular, wealth, age and location.

In some industrialised countries it seems to be accepted that owner-occupation is associated with wealth, and certainly the statistics show that



the wealthier people are the more likely they are to be owner-occupiers. However, there is no particular reason why owner-occupation should be associated with wealth, or renting with lower income groups. It is not a case of owner-occupied housing being more expensive, because the same dwelling must cost exactly the same whether it is rented or owned, unless there is some distortion through the tax system or through restrictive legislation. Owner-occupation and renting are merely different ways of paying for the same commodity and they do not alter the basic price.

The very poorest people, in the third world countries, are unable to pay any rent because they have no income. If they squat or build themselves a basic shelter they will be classified as owner-occupiers. As incomes increase in developing countries, so the proportion of the population renting can be expected to rise as some of those who can afford to rent a dwelling do so, and hence transfer from owner-occupation.

In industrialised countries there is no reason to expect an exact correlation between wealth and housing tenure. If people can afford to buy or to rent, then the decision as to which tenure they have will depend on a number of factors of which income or wealth is not particularly significant. Probably the most important is whether the household intends to live in the dwelling for a long or short period of time.

Owner-occupation inevitably carries with it substantial transaction costs, and, moreover, it generally takes a period of weeks, if not months, to complete the purchase of a dwelling. By contrast, rented housing, even though it may be more expensive, carries with it few transaction costs and can be acquired and disposed of very easily. In practice, it is often possible for a tenant to walk out of a dwelling with no loss to himself even if this is in breach of the tenancy agreement.

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The general conclusion on this point must be that wealth is of direct importance in determining housing tenure only to the extent that people who have no income or wealth are not in a position to pay rent, and therefore are owner-occupiers of very poor property. Indeed, they may

often be squatters. Beyond this there is no reason for any direct correlation between owner-occupation and wealth although there is a significant indirect correlation because of the age factor.

Age is a far more important direct variable. It is possible to devise a theoretical life cycle of housing requirements. In industrialised countries most new households are established between the ages of 20 and 25. The time at which a household is established will depend on a number of circumstances including real incomes, wealth and the availability of housing.

The natural inclination of people at this age is to leave their parents' home to set up on their own, but the time when they are able to do so will depend on their income and the price and availability of housing. In recent years in all industrialised countries there has been a steady reduction in the age at which households are established, largely reflecting the increase in living standards.

Initially, most households will want to rent as this is the most flexible form of tenure. The point has been made that transaction costs are much lower than in the case of owning, and that a renting arrangement can usually be negotiated more quickly than the purchase of a house.

When households first set up on their own they are not likely to want to remain in their first home for more than a short time, in particular because their income at that stage will be comparatively low and they do not wish to commit themselves to a long-term housing arrangement based on that low level of income. Renting is therefore particularly suitable for young people who are anticipating only a short period of occupation, who may possibly wish to move between areas quite quickly, and also who may expect to set up household with another person fairly shortly when there would be different housing requirements.

It is at the stage when a household wants to settle roots more firmly — and that will often be on marriage, or on a permanent co-habitation arrangement — that owner-occupation becomes more attractive. Depending on circumstances, initially a small owner-occupied flat or house may be all that can be

Per Capita Income Levels and Owner-Occupation

Country	GNP per Capita US\$ 1984	Owner-Occupation	
		%	Year
Switzerland	16,330	30	1980
Luxembourg		59	1981
USA	15,390	65	1981
Norway	13,940	67	1980
Canada	13,280	62	1981
Sweden	11,860	55	1980
Australia	11,740	68	1981
Denmark	11,170	52	1980
West Germany	11,130	37	1978
Finland	10,720	61	1980
Japan	10,630	63	1983
France	9,760	51	1982
Netherlands	9,520	43	1981
Austria	9,140	50	1981
Belgium	8,610	61	1981
United Kingdom	8,570	59	1981
New Zealand	7,730	71	1981
Singapore	7,260	55	1980
Italy	6,420	59	1981
Israel	5,060	71	1978
Ireland	4,970	74	1981
Spain	4,440	77	1980
Greece	3,770	72	1981
Argentina	2,230	68	1970
Uruguay	1,980	51	1975
Portugal	1,970	56	1981
Brazil	1,720	60	1970
Chile	1,700	53	1970
Colombia	1,390	54	1973
Tunisia	1,270	79	1984
Paraguay	1,240	82	1972
Costa Rica	1,190	60	1973
Ecuador	1,150	67	1982
Peru	1,000	81	1981
Dominican Republic	970	72	1970
Thailand	860	89	1976
Honduras	700	72	1974
Philippines	660	89	1970
Bolivia	540	70	1976
Pakistan	380	78	1980
Sri Lanka	360	69	1980
India	260	85	1971
Bangladesh	130	90	1981

Source: *International Housing Finance Factbook*, IUBSSA, 1987.

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afforded, and subsequently larger units can be purchased as incomes increase and as there is a need to accommodate children. A decision between owner-occupation and renting will depend on a variety of factors, but generally the older a household the more likely it is to want to be more firmly settled, and hence the more attractive owner-occupation will be in relation to renting.

As households move into old age so the attractions of owner-occupation diminish. A house may be too large after children have left home and maintenance of it can become a burden, as the physical and sometimes financial capacity to undertake even basic maintenance and repair work diminishes. One would therefore expect moves into smaller owner-occupied units or into rented housing.

Generally, there are grounds for expecting a high level of renting among younger households and a very high level of owner-occupation in the middle and upper age groups, with perhaps a slight tail-off in the older age groups. However, this theoretical pattern is capable of being greatly distorted by legislation on rented housing and by the operation of housing subsidies.

A final variable which influences housing tenure is physical location. One would expect owner-occupation to be higher in rural areas than in urban areas, reflecting the different characteristics of people who live in the two types of area. In rural areas the turnover of population is much lower and when people acquire housing it is likely to be for a fairly long time.

Cities tend to attract younger and more mobile people and there is a more rapid turnover of population. A logical pattern to expect, therefore, is that owner-occupation is highest in rural areas and lowest in the centre of large cities.

Patterns of housing tenure

The accompanying table shows an international analysis of the proportion of owner-occupation in compari-

son with per capita income levels.

The theoretical pattern described earlier can be seen clearly. The very poor countries have extremely high levels of owner-occupation. Of the industrialised countries it is very difficult to find a correlation between GNP per capita and the level of owner-occupation. Indeed, Switzerland stands out as having the highest GNP per capita and the lowest level of owner-occupation, and West Germany is another country with high incomes and low owner-occupation.

Within Britain there is undoubtedly a correlation between income and owner-occupation. In the highest income groups over 80% of people are owner-occupiers while in the lowest income group the proportion falls to 30%. The reasons for this and other characteristics of housing tenure in Britain are discussed subsequently.

The theoretical life cycle of owner-occupation can be illustrated by the statistics in the table below.

It will be seen that each country has its lowest level of owner-occupation in the under 25 category with the peak figures occurring in middle age and with a slight decline in old age, except in the case of West Germany.

The table provides a useful framework in which distortions to the theoretical pattern can be discussed.

In Britain in particular, but also in many other countries, the theoretical life cycle of housing tenure does not correspond to reality because of legislation and regulations. In particular, there is not a free choice between owner-occupation and renting because of the distortions arising from the subsidy system and legislation controlling the level of rents.

The figures for Britain show a very high level of owner-occupation among younger age groups compared with the other countries, but a sharp decline in the older age groups. However, it needs to be noted here that this last phenomenon exists simply because people in the older age groups have never been owner-occupiers. Britain has been experiencing a very rapid growth in owner-occupation, probably unmatched in any other country, and as those in the middle age groups get older so the proportion of owner-occupation among the elderly will increase.

In Britain the subsidy system operates in such a way that the poorest people are better off as tenants, and middle and upper income people are better off as owner-occupiers. Moreover, the housing which is available to poor people is public authority rented housing which is not popular for a variety of reasons which cannot be discussed here. Such housing is also generally available only to fami-

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Owner-Occupation by Age, International Comparison

Age of Head of Household	Percentage of Households					
	Great Britain 1982	Australia 1980	Canada 1982	USA 1983	West Germany 1982	France 1982
Under 25	30	23	17	19	4	7
25-29	54	52	44	38	15	42
30-44	67	66	68	62	53	
45-59	59		78	74		49
60-64	50	75	71		63	
65+	45	81	61	71	63	58
Total	56	72	63	62	40	51

Source: *BSA Bulletin*, No 43, July 1985.

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lies with children and to the elderly, and not to unmarried people or to young married couples without children.

One therefore has a position that in Britain people want to be owner-occupiers at the earliest possible age and increasingly the only people remaining as tenants are those who find owner-occupation relatively expensive, given the subsidy system. This explains the extremely high level of owner-occupation among younger households in Britain.

The contrast with West Germany is particularly marked. The normal pattern in that country is for people to rent perhaps three or four dwellings before they finally purchase their one and only owned dwelling, which they may well have built to order when they are in their mid-30s. Such a dwelling will continue to be occupied into old age.

The table provides powerful evidence on the effects of government regulation in overriding natural market forces. The figures for Canada, which has a housing system relatively undistorted by subsidies, are probably as near to a theoretically perfect pattern as one could expect. The figures for Britain reflect a housing system that allows little or no choice to many households but to become owner-occupiers and which provides rented housing only for the poorest people.

Finally, it is necessary to comment briefly on the differences in housing tenure by type of urban location. The table showing the country data provides useful information on this point. It may be noticed that of the English speaking countries the Republic of Ireland and New Zealand have the highest levels of owner-occupation at over 70%. This is connected with the fact that of the English speaking countries they are the most agricultural. More generally, the theoretical picture of there being a higher level of owner-occupation in rural areas is shown in countries at various stages of development.

Housing Tenure by Type of Location, West Germany, 1978

Tenure	Densely Populated Regions		Regions with Small Agglomerations		Rural Areas		All Areas	
	000	%	000	%	000	%	000	%
Owned	4,107	30	2,744	46	1,671	51	8,522	37
Rented	9,698	70	3,198	54	1,588	49	14,484	63
All	13,805	100	5,942	100	3,260	100	23,006	100

Source: Ministry of Regional Planning, Building and Urban Environment.

For example, in the Philippines over 90% of units in rural areas are owned whereas in urban areas the figure is little more than 60%. In India in 1971 74% of units in rural areas were owned whereas in urban areas the figure was just 47%. In France in 1975 the level of owner-occupation was 67% in rural areas, 42% in urban areas and only 34% in Paris.

The table above shows figures for West Germany which, although it has a low level of owner-occupation by international standards, has a fairly typical distribution by type of area.

Conclusions

Theoretical and empirical study of housing tenure leads to the following general conclusions:

- Poor countries tend to have high levels of owner-occupation, largely because many people are unable to pay rent; "ownership" is a difficult term to apply to such people as they may have no legal rights to their dwelling.
- There are no theoretical grounds for expecting a correlation between wealth and housing tenure, and in practice there is no such correlation for industrialised countries.
- There are good grounds for expecting a life cycle of housing tenure with people initially being tenants, then moving to owner-occupation and some moving back to renting in their old age.
- Owner-occupation is higher in rural than urban areas.
- Government housing policies

(for example, in respect of restrictive legislation for private landlords) and housing subsidy policies can greatly distort what would be a natural tenure distribution.

The major conclusions in respect of tenure differences between countries are:

- Poor countries have very high levels of owner-occupation.
- Switzerland has by far the lowest level of owner-occupation, followed by West Germany and the Netherlands.
- Of the wealthier industrialised countries, Norway and Australia have the highest levels of owner-occupation.
- Britain stands out as having a very high level of owner-occupation among younger age groups, and Germany and Australia high levels in older age groups. ■

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