Homeownership Trends Worldwide

by Nasser Munjee

INTRODUCTION

The emergence of cities about two or three thousand years after agriculture was firmly established heralded a new form of socioeconomic entry which would be uniquely "human." It also created the great divide: the town and country, the one to be identified with the production of manufactured goods, commercial activities and intellectual pursuits and the other supplying the food and raw material for the survival of these new concentrations. Cities also quickly began to emerge as centers of political power around which several constituencies would quickly evolve. The concentrated environment would encourage social contact, the dissemination of information and bring in its wake a certain energy and innovation which was unlikely to be generated in a purely rural setting. This in turn would attract more people, which was necessary to fuel the economic activity that cities implied. The problem posed by the concentration of human-kind had arrived.

During the millennia between the birth of urbanized life and the beginning of the industrial revolution, there were a handful of cities in history that had, from time to time, populations approaching 1 million. In 1900 there were a dozen such cities; in 1980 there were over 230; at the end of the century there will probably be 450. Half the world’s population and three-quarters of the western world’s population live in cities. Clearly, the mega city is a creature of the late 20th century with 21 cities around the world with a population exceeding 10 million. The industrial revolution, though not dependent on it, had marked a turning point in the way humans had chosen to live and work. That process is with us today and continues to confound us not only in the industrialized world but in societies struggling to enter modern post-industrial society.

In the last half of the 19th century in the United Kingdom, demographic pressures had clearly created appalling urban environments, as was noted by the Royal Commission on Housing for the Working Classes in 1885. Just before World War I, 90% of all homes were privately rented with the remaining 10% being owner occupied. The war saw legislation designed to be temporary under the Rent and Mortgage Interest Restriction Act of 1915 which fixed rents, gave tenants security against eviction and prevented increases in interest rates on mortgages. Rent restrictions have remained in force ever since in the U.K., but the measure made its impact as far away as India.

Tenure choice has since largely been influenced significantly according to public policy objectives that have been framed from time to time and have formed the basic philosophical underpinnings of the fiscal treatment of housing. Much of this stems from the political compulsions of the times and the economic philosophy that underlies their formulation. After the severe Rent Act in Britain during the First World War, private tenanted accommodation began to decline, as renewals dried up and new forms of tenure shifted towards ownership. The politics of homeownership was gradually coming into its own.

THE POLITICS OF HOMEOWNERSHIP

Herbert Hoover claimed that "a family that owns its own home takes pride in it and has a more wholesome, healthful and happy atmosphere in which to bring up children." More recently, George Bush proclaimed that "Homeownership continues to be one of the highest social priorities in America," and former H.U.D. Secretary Jack Kemp claimed that "democracy can't work without the component that goes to the heart of what freedom is all about—the chance to own a piece of property." Most of the countries surveyed show that politicians are willing to back up this rhetoric with funds through public policy initiatives especially in the domain of fiscal incentives.

Within national legal systems, rights can be established in two ways: through the constitution and through legislation passed by parliament. Statutory obligations can also be derived from existing legislation or conventional prevailing practices. Most European states acknowledge housing or shelter to be a concern for citizen well-being, though they arrive at this conclusion from a number of different directions. Only France and Britain have cre-
ated a right to housing. (Portugal, though creating a right, has not enacted it in any way.) Belgium, Denmark, Germany, Luxembourg, and the Netherlands have all provided an indirect claim to housing through legislation and practice. Spain, Greece, Ireland, and Italy have not established any specific right to housing. It seems, therefore, that the right to housing as a politically defined concept is a hesitant one, with most states relying on accepted practice to take care of the issues.

With a known population of homeless people in the European Union of the order of 2.5 million, reflecting a rate of homelessness of 7 persons per 1000, the issue of low-income housing remains a live and important one. Housing rights may not solve the problem; it will require effective processes in place which will create the entitlements to decent shelter that need to be considered.

In the United States, homeownership is frequently discussed in political discourses, though it is not specifically mandated in the United States Constitution. Housing is emphasized and normally finds an important place in every party platform at all elections, though the law in the United States Tax Code that most supports the principle of homeownership is the substantial deductibility from tax of interest on mortgages below U.S. $1 million for a principal residence and one second home.

The notion of constitutionally guaranteed rights to shelter, however, has now become an international issue, with many powerful nongovernmental groups lobbying the United Nations Centre for Human Settlements to push this concept as a major item in the upcoming Habitat II conference on Human Settlements and Sustainable Cities in Istanbul next year. Where basic needs cannot be met through constitutional guarantees in most developing societies, it is more than likely that incorporating housing as a specific right will actually alter the conditions of shelter on the ground. Governments will be keener to ensure a competitive and neutral stance between tenure choice in order to respond to local, economic and social needs of home occupiers and intervene in the housing market only in those cases where it can support carefully defined target households who are unable to exercise their vote in the market place.

THE ECONOMICS OF HOMEOWNERSHIP

The importance of homeownership as the underlying foundation for a property-owning democracy cannot be overstated. Most western societies have based much of their early economic evolution on this one notion. Even today in the United States, 45% of GDP constitutes the total loans outstanding against property mortgages or something of the order of U.S. $3 trillion. The housing finance systems of most major economies constitute a major part of their financial systems. In Britain over 50% of the personal sector’s liquid assets amounting to over £175 billion have been held with building societies. Singapore built its modern society on the basis of huge investments in housing. In the early 1960s it spent over 40% of its annual budget on the construction sector dominated by multi family homes which fueled the Singapore economy. Hong Kong similarly drove its economy on the basis of a massive housing and construction program.

While economic factors such as income and prices are major determinants of the demand for housing, demographic influences play a major part in the demand function. The household is the basic unit that most obviously influences the demand for housing, and therefore trends in household formation and the type of household being formed are a critical input into forecasting future growth potential of the sector. Conversely, inappropriate land policies and therefore high and rising housing costs, can also influence demographic factors, delaying the process of household formation, as is the case in major cities in India.

Housing investment, through the ultimate motivator for the savings necessary to bring it about—the powerful urge to own one’s own home—has been used successfully in most open societies. Closed political systems—China, many parts of Eastern Europe and the Soviet Union—also acknowledged the importance of housing but assumed that this was a basic need to be provided by the state to all citizens according to their place in the economic system. The state not only built and allocated housing but undertook to maintain it across cities in the entire country, something the national budget could not forever sustain. As the wage system excluded state-provided benefits (housing being among the most expensive) the entire wage structure of the society was determined net of housing and other expenditures. In the period of transition currently taking place, this aspect is proving to be very complex. How can you privatize housing without affecting the entire wage system in the country?

The macroeconomic effects of shelter policies are to this day little understood. We still know very little of the relationship between housing investment and development; between housing policy and structural adjustment and housing investment and the business cycle. Homeownership is a tricky concept, as it does not readily relate to unique economic variables but rather is dependent on a number of economic, social and demographic factors. We know that housing demand even in developing countries is sensitive to income and to prices, and that supply is elastic in the long run. When it comes to homeownership, what are the factors that might produce an interpretive curve?

Chart 1 shows a ranking of homeownership rates taken from the United Nations Compendium of Statistics across countries. It demonstrates the randomness with which countries are ranked, with Bangladesh emerging as the highest and Switzerland as the lowest. The first developed country emerges at rank 22 followed by Norway, the United Kingdom, and
the United States. If we look at some of the data in a different way, Chart 2 looks at selected countries chosen by region in relation to their per capita GDPS. Many of the lower income countries of Asia, Latin America, the Middle East, and the Island States are bunched on the top left hand corner indicating GDP at or below $5,000 per capita and high ownership rates. The stream stretching towards the middle of the diagram are mostly high income countries of Europe, other developed countries, Asia, and the Gulf. It would appear from this diagram that the definition of a house is fundamental to the statistics being used. Developing countries have high ownership rates of informal housing and many have large rural populations that live in their own homes. The statistics, therefore, say little of the quality of housing, simply giving the ownership pattern. Even plotting the graph on the basis of urbanization rates rather than GDP does not show an appreciable pattern (Chart 3). Countries with low urbanization rates are likely to have high ownership rates, as homeownership is likely to be higher in a predominantly rural economy. What then does homeownership really depend upon?

**TAXATION AND HOMEOWNERSHIP**

Governments in most countries reflect their attitude to homeownership in the fiscal system. Some countries, such as the U.K. and U.S., have actively promoted homeownership; others have taken a much more neutral stance on homeownership, preferring to offer a variety of tenure arrangements with a vibrant rental sector, such as in Germany and the Netherlands. Economists tend to treat housing as an investment asset when taking into account both taxable capacity of the household and the allocational effects of a nonneutral taxation system. The English-speaking world has tended to rely much more heavily on taxes on income and profits, whereas others have relied more heavily on indirect taxes and high social security contributions.
Recognizing that homeownership confers some inherent advantages on taxable capacity, as compared with a renter at the same income level who pays rent out of taxable income, many tax systems have introduced the concept of notional incomes arising out of the hypothetical income that owners could have derived from renting their unit on the open market. The U.K., France, Ireland, Australia, and West Germany have abandoned the taxation of imputed income, owing to administrative difficulties and high costs arising out of assessments, policing and enforcement. Denmark, Finland, Greece, Luxembourg, the Netherlands, Spain, and Sweden, on the other hand, have continued the practice. By far the most generous tax benefit for owner occupation has been tax relief on interest payments on mortgage loans. The U.K. has recently tightened these provisions, while the U.S. continues with extremely generous provisions.

Other forms of taxation include capital gains taxation, which has been exempt for all practical purposes in most OECD countries; and tax benefits on savings plans toward downpayments for a home. Canada, France, Germany, and Japan have a variety of mechanisms to provide incentives for savings, such as deductibility of savings from taxable income, tax allowances, and bonuses. Housing finance institutions themselves have benefited from substantial tax advantages to enhance the flow of mortgage finance. The Irish government, for example, has taxed interest on building society savings at a composite rate lower than the standard rate of tax. The savings and loans in the United States were originally exempt from federal income taxation; this was removed in 1951 and replaced by a bad debt tax allowance and a maximum tax rate provision. In the United States secondary market debt also benefits from certain tax advantages where interest on bonds is tax exempt.

In Australia, private renting comprises 20% of the housing stock and receives only 7.7% of total government gross housing expenditure outlays. An estimate of the sum of direct and indirect subsidies to renters and owners indicated that homeowners received A$26 per week compared to only A$4 for renters. In sum, it is difficult to gauge the impact of fiscal benefits on homeownership; in the United States one study estimated that the removal of favorable tax provisions would lead to a fall of about 4.4% in owner occupation. With the inflationary 1970s and 1980s, governments are becoming concerned with the tax revenue losses resulting from present benefits to owner occupation and the fall in the after-tax real user cost of residential investment which may create an overinvestment in housing assets at the expense of other forms of capital that are urgently needed. It may well be argued that overly generous treatment of owner occupation is now beginning to misallocate scarce capital as homeownership moves beyond self-occupation to second homes and the over consumption of space.

HOUSING FINANCE

The essential objective of a housing finance system is to promote homeownership and to enhance the stock of housing in a nation. In countries with well-developed housing finance systems, homeownership has become the major preferred tenure of the majority of citizens. The flexibility of the system and its connectedness to the financial system at large will also ensure that homeownership becomes a possibility at relatively early ages in the life cycle, as demonstrated in the U.K. Chart 4 indicates the ratio of Mortgage Loans to Total Housing Investment in a number of countries. This ratio provides a measure of the extent to which financial deepening has taken place in the housing sector through a workable housing finance system and thus the extent to which homeownership is accessible to the population. In Asia, Thailand, Malaysia, and the Philippines are achieving respectable ratios, and all three have well-developed insti-
tutional structures for housing finance through specialized lenders as well as commercial banks. Central and Latin America, Mexico, and Colombia have well-established systems, while the rest are clearly at an early stage of development. India, too, is at the lower end of the spectrum, as the housing finance system is only just maturing into a respectable institutional network. Brazil’s low ratio demonstrates the impact on the housing finance system of the collapse of the BNH in 1984 after 20 years in operation. The collapse occurred largely as the result of underindexing at very high inflation rates, which provided heavy subsidies to mortgage borrowers, culminating in the bankruptcy of BNH.

In developing countries, Thailand’s example is an extremely interesting case study of the simultaneous development of a market-oriented housing finance system reinforcing a very responsive supply system (even though the major specialized lender is wholly government owned). Both put together has resulted in a high and rising homeownership rate, a high degree of financial deepening in the sector and an affordability ratio amongst the best in the world. Variants of the strategic issues addressed by the government of Thailand could well prove to be a major best practices case study for many developing countries.

INTERNATIONAL TRENDS
Europe

The European Union is likely to face major impacts of closer economic integration through labor mobility. The Social Charter proclaims that freedom of movement is one of the “fundamental social rights” and if the spatial distribution of economic growth centers and hence job opportunities are going to be affected by economic integration so will housing responses. The demand for housing seems to be robust in southern Europe as a result of demographic developments but less robust in northern Europe.

As Chart 5 indicates, in most European economies, homeownership rates have been well above 50% in 1990. Two European economies are exceptions to this rule, namely Germany and Switzerland, where rental housing still constitutes a major part of housing tenure at 58% and 69% respectively. Even if one observes the relationship of homeownership to GDP in Europe itself, the results do not produce any discernible trend. Two countries which are among the highest per capita GDP, Germany and Switzerland, have the highest rental housing; countries such as Ireland and Greece, with relatively low GDP per capita, have relatively high owner occupation rates.

The high cost of average dwellings (at about nine times average annual net after tax income
compared with four times in the U.S.), more rigid housing finance terms and high equity-to-loan ratios, slower response times to changes in demand and a history of low rates of inflation (making housing a less attractive portfolio choice) may explain some of the discrepancies in ownership rates. Rent controls also have been less pervasive in France and Germany with fewer fiscal incentives for owner occupation and indeed greater incentives to invest in rental housing.

Germany has faced a major challenge with respect to unification of the East and West, which involved the reinstatement of private property, the creation of housing and housing finance markets, and the phasing out of severe rent controls. Chart 6 shows the ownership pattern of housing in East and West Germany as of 1989. The East suffers from old and crumbling buildings, 41% of them dating to pre-World War I, and from having 40% of the stock in state ownership.

Homeownership appears to be a rising trend in most countries in Europe. Germany is an exception once again and has had a fairly steady owner-occupation ratio at about 40%, with owner occupation actually falling over the period 1960 to 1990. France has seen rates rise from about 41% to 54% over the same period. Luxembourg has increased from 49% to 64%, and similar rates are found in Norway, Spain and Finland. Switzerland has had the lowest level of owner occupation in Europe at 39%, down from 34% in 1960. Surprisingly, owner occupation is less pronounced in urban areas and is less than 10%.

**United States of America**

The United States was built on the basis of new settlements, as waves of immigrants moved westward; by the beginning of the century, half of all Americans already owned their own homes. Chart 7 indicates that homeownership rates in the United States have been fairly steady throughout this century with rates...
Chart 7. Housing Tenure in the United States

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<thead>
<tr>
<th>Year</th>
<th>Rented</th>
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<tbody>
<tr>
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Chart 8. Change in Home Ownership within the USA, 1980–1990

rising from about 48% in 1900 to 64% in 1990. Ownership rates vary from about 52.2% in New York to 74.1% in West Virginia, the variation being largely explained by the rates of urbanization of each state. As Chart 8 illustrates, however, 32 states have shown a decline in homeownership rates varying between –0.1% and –4.8% in the period 1980–90. Falling incomes and economic activity seems to have reduced homeownership rates at first. This in turn reduced house values sustaining the downward trends in incomes and employment. The converse was true in most states showing a rising trend in homeownership. Regional imbalances have, therefore, a significant impact on tenure arrangements.

Homeownership is still a fundamental part of the American dream. Forty-six million new and good quality homes have been built in the last quarter century; and driven by the baby boom tradeup demand, the value of single-family home building climbed by late 1994 to US$135 billion, over US$9 billion above the previous peak in 1978. Nevertheless, upfront costs of homeownership are still a significant burden for first-time home buyers. Downpayment and closing costs remain at about 20% of the cost of a typical unit, which amounts to $14,000, representing about 58% of a first-time buyer’s income in 1994.

Rental housing is home to most of the low-income population in the U.S. Over the past 20 years, the number of renters with incomes of less than $10,000 had increased from 7 million to 10.1 million while at the same time the number of homeowners with incomes above $50,000 had increased from 9.2 million to 17.9 million. These trends have lowered the homeownership rate for low-income households with incomes below $10,000 to 40%. Rising rents during the 1970s and 1980s have accentuated this problem with the largest increases at the low end of the market. In major cities, 45% of low-income renters face severe payment burdens. Of these, 35% pay half their incomes toward rent. The problems of minorities are especially severe.

When you compare same-age households between different groups, although trailing behind native born white households, substantial numbers of black and Hispanic households aged 25–34 in 1980 became homeowners by 1990. The homeownership rate for black households with heads aged 35–44 in 1990 went up to 44% and for Hispanics up to 52%. Immigrants had the highest homeownership rates in the minority grouping of 55%, doubling from 25% in 1990.

The United Kingdom

The U.K. has had a slightly different experience. The most desired form of tenure is homeownership, with a high proportion of young owner occupiers. Owner-occupation
proportions have risen markedly, especially in the most recent period 1980 to 1992, from about 55.3% to 68%. Local authority ownership which had peaked at about 32% in 1978 had declined to 21.3% by the end of 1992. This followed the strong policy by successive conservative governments to the "right to buy" local authority houses under the Housing Act 1980 for England and Wales. This also sharply reduced public sector house building. As in the United States, rental housing and local authority housing has increasingly been occupied by lower income households or those that are economically inactive—those who are retired or unemployed. With the decline of public sector involvement in housing, the Housing Associations have filled this gap since the 1970s under the supervision of the Housing Corporation. Priority has been given to rental accommodation at fair rents, with special attention being placed on the problems of the elderly and those with special needs. Since the 1980s, however, they have had to give a greater priority to homeownership though they continue to serve those that need "affordable housing."

The U.K. is especially significant for its age profile of homeownership. Chart 9 shows an international comparison with some European countries as well as Japan, New Zealand, the U.S., and Canada. The U.K. outperforms the others in all of the first three age groups. (Except for New Zealand in the third.) With the downturn in the housing market over the last few years, there seems to be a preference for private renting among the young in the short term with a clear preference for homeownership in the long run. This, together with other measures, are likely to make private renting a much more attractive proposition in the U.K. Owner occupation is losing the large tax relief it once had and is now limited to £20,000, probably less than half the cost of an average dwelling. Other fiscal incentives through the Business Expansion Scheme and other schemes to encourage property owners to rent their property might indeed produce the revival of a market that now accounts for only 5% of the housing stock and which has had little new investment in the sector for many years.

**Russia and Eastern Europe**

Moving to the other side of the spectrum, Eastern European economies all suffer from similar symptoms: large state-enterprise and cooperatively owned housing, poor amenities and maintenance, a quality of housing which is poorly correlated to the income of its occupants and administered rents by a central authority. Achieving housing market reforms, though a high priority, will be difficult unless a financing mechanism can be put in place. This in turn depends on legal reforms conducive to collateralized lending, as well as the establishment of property rights and fairly functional land markets. Chart 10 illustrates the typical ownership of the total stock of housing in socialist economies, with the bulk in state ownership and much of the privately owned units in the countryside.

Russia is an interesting case history of a socialist economy transforming its economic mechanisms to conform to market systems. Transformation of homeownership is a core element of housing reform in Russia. During the 70-year period of state communism, Russia had one of the most regulated housing markets in the world; now the bulk of the housing stock has been privatized with the adoption of new laws that permit the transfer of housing units to their occupants. Chart 11 demonstrates the impact on homeownership of this new trend.

Essentially there is a two track strategy: a major thrust to privatize the stock of housing and a major reform in the pricing and delivery of services in those units that remain in the public inventory. (About 67% of the national housing stock was in the state rental sector before reform; in Hungary it was 9%; Poland 34%; Czechoslovakia, as it was then known, 45%). Any reform would have to begin here. State-owned housing constitutes units owned by municipalities, state-owned enterprises and government agencies. For a housing market to emerge, a significant number of housing units must emerge for open sale or rent. In order to achieve this quickly, the privatization law offered very generous terms to tenants.
Chart 10. Housing Stock By Ownership in Russia

Chart 11. Privatisation of Apartments in Russia

who were given free vouchers whose value was the average square meter of average quality housing in the city times the number of his entitled area; the tenant was to pay the difference between the assessed value of the unit and the value of the voucher. Despite these terms, tenants were reluctant to "buy," fearing the additional charges for maintenance and property taxes. In 1992, an amendment to the privatization act to accelerate the rate of privatization in effect made privatization mandatory and free, eliminating the voucher system.

Municipal housing has been rapidly privatized, as opposed to departmental housing. This is largely due to the conditions imposed on housing as enterprises themselves are privatized: their housing stock cannot be included in the property privatized but must be negotiated and financed with the agreement of the local authority. As the process of privatization of enterprises continues, it is safe to say that a large number of houses will be shifted from enterprise or departmental ownership to that of municipalities and eventually appear in the open market. Local authorities have suffered a large foregone revenue from the "giveaway" program; but given the reluctance to "buy," a more aggressive pricing structure may have become a nonstarter.

In summary, housing privatization is a clear success in terms of the number of units being transferred to their occupants, though the momentum has significantly diminished from its peak in 1993. Rental housing costs are being reformulated to cover full operating costs, combined with housing allowances. In addition, housing construction itself has been privatized and new firms have begun to emerge. Russia has also begun the introduction of a housing finance system previously nonexistent. As high inflation rates have made the process difficult, the sector has been largely ignored by financial institutions; commercial banks are only just emerging as cautious lenders in this market.

DEVELOPING ECONOMIES

Most developing economies suffer from a shortage of housing in terms of household formation and the rate of growth of the housing stock. Much attention and time is spent on determining an estimate of the housing shortage or need. The causal process can move both ways from the condition of the housing market to demographic change or indeed vice versa from demographic change to the state of the housing market. In Eastern Europe the acute housing shortage illustrates that both household formation and the birth rate are influenced by the cost and availability of hous-
ing. Many developing countries such as India, Pakistan, Sri Lanka, and some of the Asian Tigers, as well as such nations as South Korea, which have difficult land markets and therefore expensive housing, all suffer from the “shortage” syndrome. Markets do indeed influence demographics. People do “double up” in hard times; housing costs and the rate of household formation are inversely related.

While studies have been done which seem to suggest that income and the stage-of-life cycle are important determinants, as is the relative cost of owning versus renting, remarkably few studies have been done on tenure choice. Developing countries with large informal sectors indicate high “ownership rates” which include informal housing. The definition of what actually constitutes acceptable housing is an important element in comparing statistics between countries with vastly different GDPs per capita. A large fraction of informal housing is owned; as incomes rise they might rent from the formal sector and then upgrade once again to formal sector ownership. Homeownership per se only arises beyond a certain threshold of life-cycle earnings expectations. Any attempt at subsidizing households below this level results in the majority of households cashing in their housing entitlements for more urgent needs and reentering the housing market at a later stage of development. Property right definitions, land titling, and reasonable functioning of land markets seem to be the building blocks on which the supply of housing can be enhanced for all income groups. These are the very same building blocks which would be required by a sustainable and growing housing finance system which would support the effective demand for housing. Housing policies in developing countries should indeed be focusing attention on both sides of the equation and sequencing reforms in a manner which addresses both ends of the market.

Countries in Asia are in very different stages of economic development. Is there any relationship between owner occupation and stages of development? Half of all Korean households were homeowners in 1990; Japan 62%; Singapore 71%; Hong Kong 28%; Taiwan 80%; and Thailand 77%. India and Bangladesh recorded homeownership of well over 85%. Chart 12 shows the distribution of ownership among various states in India. Urban owner occupation is significant in most states in the country. Hong Kong, in contrast, adopted housing policies to enhance public rented houses and thus had a low rate of homeownership with the public rental sector accounting for 47% of all units. Singapore, on the other hand, has promoted homeownership with only 16% of units remaining in public ownership.

South Africa is an interesting anomaly in the developing world with an almost first world financial system and a third world housing problem. Of a total housing stock of 3.5 million (of which about half are occupied by the white population), about 1.3 million are in the informal sector. Much of the housing finance system had catered to the formal system through 27 building societies. These have now all converted into banks under new legislation which scrapped the distinction between banks and building societies. Now about 84% of the banking sector’s assets are essentially held by four banks. Very little of this new rationalization has created the financial products to cater to the large and growing informal sector. This is precisely the agenda for housing development in South Africa in the next decade; this will be watched with interest in the developing world.

THE "POST SHELTER SOCIETY"

Anthony Downs, in a paper written in the 1980s, argued forcefully that despite understandable concern, there is overwhelming evidence that too much capital was used in financing housing. Americans, he argued, no longer view housing as shelter but rather as an instrument to accumulate capital and protect themselves against inflation. In George Sternlieb’s phrase, he called it the “Post Shelter Society.” The heart of this argument was that at a particular threshold of income, people over consume space and acquire it at progressively earlier ages. Housing therefore becomes a portfolio choice of households. There is nothing wrong with this per se—it’s desirable for all the traditional reasons—but should it, when a particular stage is reached, con-

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<th>Chart 12. Home Ownership Trends in India</th>
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<td>States</td>
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<tr>
<td>100%</td>
</tr>
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<td>60%</td>
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HOUING FINANCE INTERNATIONAL
continue to attract favorable tax treatment relative to other forms of investment?

In the 1970s and 1980s in both the U.S. and U.K., inflation was high and rising. In inflationary periods, the relative advantages of homeownership are greatly magnified. Not only do housing investments prove to be an effective hedge against inflation, the carrying cost of housing declines through time as the real value of debt service payments is eroded. As a result of these effects, combined with the considerable fiscal advantages in place, millions of households in the U.K. and U.S. rushed into homeownership as soon as they possibly could. Owner-occupant households increased in excess of household formation. The effect of this was essentially to reduce consumer savings out of current income as more and more savings were in the form of home equity. Borrowing was a means of enhancing savings, which made the phrase "What you owe today, you will be worth tomorrow" so apt. Inflationary expectations accelerated this process until recent times.

Homeownership rates of 60% or more having been achieved by most developed countries highlights the converse: the retreat of the rental market for housing. The "over-attraction" of homeownership may have severe effects on that segment of the population that prefers rental tenure arrangements.

This brings up the issue of the production of housing and whether the type of housing being built suits the needs of the population at large. Housing finance may have had the effect of increasing the price of housing if the supply of housing did not respond in locations where it was needed and for income groups that needed it. The housing association in the U.K. turned out to be one type of intervention to deal with this problem.

In the United States, the Office of Management and the Budget estimates that allowing homeowners to deduct property taxes and mortgage interest payments from taxable income cost the federal government US $55 billion in foregone tax revenue in 1993; and allowing homeowners who are over 55 to exclude $125,000 in capital gains on housing from tax cost an additional $4.4 billion.

In the U.K., the conservative government enhanced tax relief on mortgage interest to £30,000 in 1974; this has remained unchanged. Inflation in house prices has eroded this advantage significantly. Other reliefs have also been reduced, such as for home improvements, double taxation, higher tax relief and reducing the rate at which tax relief was granted. The combined effect of all these measures has resulted in a fall in the proportion of total mortgage interest met by tax relief from about 40% in 1980 to under 10% at present. This sharp reduction has been achieved with little political impact and has saved the exchequer several billion pounds annually.

It would, therefore, appear that there is overwhelming evidence to support the principle of homeownership, and there simultaneously appears to be impressive evidence that policies to promote homeownership in many developed economies have gone too far. These policies are now having the effect of over consumption of housing by homeowners who normally belong to an income category that would have owned a home regardless. Housing policies need now to become tax neutral in relation to other investments. Policies should concentrate on promoting homeownership, especially to lower income households, without putting in place a system that leads to over consumption.

CONCLUSION

When Pericles of Athens declared his city "thrown open to the world," one could hardly have imagined what this might one day come to mean. We are gradually, though inevitably, becoming citizens of the world through communication links that were hardly dreamt of a mere five years ago. True citizenship once meant being a member of a city; we have arrived at an age where the competitive advantage of nations might well be the attractiveness of their cities for business as well as pleasure. Housing citizens—whatever form of tenure that might entail—will emerge as the basic building block of civilized life in the modern technological age. The mega cities of today pose a major challenge for new institutional and governance mechanisms that will need to evolve to ensure that those without shelter and basic services for dignified human existence are a condition of the past. As one commentator observed:

"The chief function of the city is to convert power into form, energy into culture, dead matter into the living symbols of art, biological reproduction into social creativity. The positive functions of the city cannot be performed without creating new institutional arrangements capable of coping with the vast energies modern man now commands: arrangements just as bold as those that originally transformed the overgrown village and its stronghold into the nucleated, highly organized city."

These words were written over 35 years ago by Lewis Mumford in his Cities in History. They have a resonance which we would all do well to heed as we approach the next millennium.

NOTES

1 Only in the United Kingdom (legislation enacted in 1970s and 1980s obliges the relevant housing authorities to house the homeless subject to very specific conditions) and France (Loi Besson in 1990) does a specific right to housing exist. In the French legislation housing is recognized as a right for all citizens whereas in the U.K. the nature of the obligation on the relevant housing authority is subject to the satisfaction of several conditions.

2 Rosen 1979
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