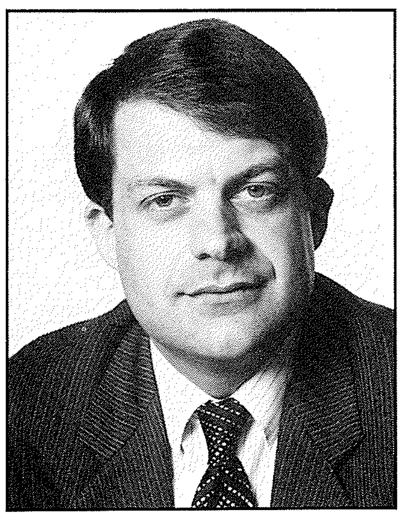
Home ownership and renting: international comparisons

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.

Per Capita Income Levels and Owner-Occupation

Country	GNP per Capita US$ 1984	Owner-Occupation %	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.

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 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 comparison 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

Percentage of Households

Age of Head of Household	**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		68	62	53	
45-59	59	66	78	74		61
60-64	50		75		49	
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 extemely 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:

(a) 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.

(b) 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.

(c) 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.

(d) Owner-occupation is higher in rural than urban areas.

(e) 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:

(a) Poor countries have very high levels of owner-occupation.

(b) Switzerland has by far the lowest level of owner-occupation, followed by West Germany and the Netherlands.

(c) Of the wealthier industrialised countries, Norway and Australia have the highest levels of owner-occupation.

(d) 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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Home ownership in Canada back on an upward curve

After a period in which the rate of owner-occupation fell, the proportion is now back over 60%, says Eugene Flichel

ACCORDING to the latest published census, the Canadian population was 24.3 million in 1981. Appropriately, 97% of this population made up the 8.3 million private households in Canada, of which 5.2 million, or 62%, owned their homes. The remaining 3.1 million, or 38% of the private households, occupied rented accommodation. Some 82% of home-owners lived in single-detached dwellings, while 83% of renters lived in multiple-unit housing.

Canadians typically form separate households in their twenties. Newly-formed households usually rent their dwellings. Those who aspire to become home-owners will begin to save toward the required down-payments for their first home. Homes which first-time buyers can afford are average-sized and modestly-priced pre-owned units. Home-owners with increased income and a need for more housing over time will subsequently move up to larger and more expensive houses. It is common for elderly households to retain home ownership, although some will prefer carefree alternatives such as renting.

The overall rate of home ownership is influenced by the age distribution of households and tenure choice. The determinants of tenure choice include family needs, affordability, security of tenure, tax considerations and government policies.

Post-war baby boom generation

The national home ownership rate was 66% in 1951. The rate remained unchanged in 1961. Over the next 10 years the proportion of home-owners declined to 60% of households in 1971. During the 1970s the rate of home ownership rose again to reach 62% in 1981.

The pattern of home ownership observed in the past two decades was one of the legacies of the post-war baby boom generation. The latter refers to Canadians born between 1952 and 1965. The post-war baby boom was caused by a combination of high fertility rates and a large number of females reaching child producing age.

The requirement to house the baby boom generation was initially met by rented housing. This began to be felt in the 1960s and culminated in increased renter household formation and a corresponding decline in the rate of home ownership. This trend was reversed in the 1970s by ageing and the movement of the baby boom generation from renter tenure to home ownership.

Changing age composition

Canadian housing policies in the 1970s were also a factor shaping recent home ownership trends. A variety of government incentives such as grants, interest-free loans and tax-deductible savings improved the accessibility of home ownership. The non-taxation of capital gains on principal residence and on imputed rents made home ownership financially attractive *vis-à-vis* other non-tax preferred investments.

Recent government initiatives to protect borrowers against extraordinary increases in interest rates at mortgage renewal, and to facilitate the return of long-term mortgage money, further improved the security of home ownership.

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Family house in Quebec.

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The effect of favouring home ownership is to reduce rental to a residual choice among households. This has had the effect of changing the mix of home-owner population. Between 1961 and 1981, home ownership rates declined in the under age 25 bracket from 24% to 18%, in the age 55 to 64 bracket from 75% to 74%, and in the age 65 and over bracket from 77% to 63%. During the same period, home ownership rates increased in the 25 to 34, 35 to 44 and 45 to 54 age brackets from 50% to 52%, from 67% to 72%, and from 73% to 76% respectively. This suggests that accessibility to home ownership has increased for middle-age households but decreased otherwise.

Move up-market

There are a number of interesting developments resulting from the increase in home ownership rates amongst middle-aged households. One is the emergence of a move up-market which is geared to the needs of a more affluent and demanding clientele. Homes being built today are more expensive, considerably larger, contain more standard features, and have a higher degree of customisation. This increase in unit construction value has moderated the adverse impact of steadily declining house-building volumes since the late 1970s in response to lower rates of household formation.

Renovation fever

There is an increasing number of home-owners who prefer to renovate their own homes rather than to trade up. For some, renovation is trendy. For others, it is the means to upgrade without having to move. As a result, in the past few years expenditure on renovation has exceeded expenditure on new housing construction, although the ageing of the housing stock in Canada is also a contributory factor. While most of the work is conducted by firms primarily engaged in new construction, firms which specialise in renovation are increasing.

Coming of age of condominiums

Condominium tenure appeared in Canada in the late 1960s. It was initially conceived as a means to make home ownership affordable to first-time buyers in the face of rising land costs in several major urban centres. The demand for condominiums throughout the 1970s was limited as the preference for freehold tenure remained strong and because of the perception of lower price appreciation potential.

In the past few years, the industry has switched from building condominiums as low-cost starter homes to marketing them as one alternative in luxury accommodation. The demand has increased, particularly among high-income "empty nesters" and older people. Less expensive condominiums are still being built, but they are purchased primarily for investment purposes and are occupied by tenants.

Increased borrower conservatism

Home purchase typically involves the use of mortgage financing. Adjustable rate mortgages, where the rate of interest is subject to change in accordance with prevailing market interest rates when the mortgage is renewed for another term, are the benchmark mortgage instrument in Canada. Record high and volatile interest rates during the early 1980s have brought about an aversion to mortgage debt. This is particularly so among borrowers who had to renew their mortgages at considerably higher interest rates during that period.

As a result, borrowers are now paying down their mortgage debt at increased rates. The results of a survey conducted last year showed that mortgageless home-owners represented about half of all home-owners in 1986, up from 46% some five years ago.

Canadian home-ownership rate

Age of Household Head	Home-owners as % of all households				
	1961	1966	1971	1976	1981
Under 25	23.9	16.4	14.3	19.0	18.3
25-34	49.8	46.1	42.9	51.6	52.1
35-44	67.5	67.2	67.1	70.9	72.0
45-54	73.2	7.25	72.5	74.3	75.8
55-64	75.1	72.8	71.5	71.9	73.6
65 and over	77.0	72.1	67.8	64.3	63.0
Overall	66.0	63.2	60.3	61.8	62.1

Source: Statistics Canada. Census of Canada, 1961, 1966, 1971, 1976, 1981.

Conclusion

Measured against indicators such as facilities, crowding and physical conditions, Canadians are very well housed. Home ownership is a goal within the reach of the vast majority of Canadians, although changed market conditions have made two incomes a pre-condition for an increasing number of households. Single-person households and childless families are historically tenants. That is slowly being changed by the investment aspect of home ownership. ■

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Over half French homes now owner-occupied

Philippe Lemarie explains that there are more home owners in France, and that they are getting younger

FRANCE has recently become a country where homes are primarily owner-occupied. In fact, with a depressed property market over the past 10 years marked by a sharp reduction in housing starts, in conjunction with an ageing population and demographic growth at a slower rate than in the past, the number of owner-occupied homes is now increasing constantly and rapidly. This phenomenon can be explained not only by incentives which make home ownership attractive, but also by fundamental changes in the composition and status of households.

The housing stock has increased in France in recent times by 318,000 units per annum to reach a total of 24.2 million dwellings at the end of 1984. This total can be divided into 20.1 million main residences, 2.3 million secondary residences and 1.9 million vacant premises.

More detailed analysis of main residences alone reveals that homes are increasingly owner-occupied with the number of owner-occupiers having increased from 45.5% in 1973 to 46.6% in 1978 and 51.2% in 1984.

Expressed as a figure rather than a percentage, the increase in recent years in the number of owner-occupiers owning their main residence is even more pronounced. While the annual progression in the number of main residences slowed down during the 1980s, decreasing from 303,000 per annum (1973-1978) to 242,000 (1978-1984), the number of owner-occupied homes, in contrast, showed a faster increase — it gathered momentum from 179,000 per annum (1973-1978) to reach a figure of 266,000 (1978-1984).

Of course, this generalised percentage figure fails to reveal the very marked underlying differences: first, according to the socio-professional category of households (this ranges from 34% in the case of employees and 41% for manual workers to 75% for agricultural workers, 60% for retired persons and 55% for managerial and higher professional categories), but also according to the type of residential area.

For this reason the number of owners of their main place of residence is low and stagnating in Paris (24%), is progressing significantly — though it is lower than the overall position — in the Paris region and in urban communities of more than 100,000 inhabitants (43%), while the figure is markedly higher in rural communities where it reaches 72%.

These statistical data are a sign of the interest shown by the French with regard to their homes, and the fundamental role of financial decisions in the desire to acquire a better home. At the same time, demographic and sociological developments have brought about profound changes in the housing market.

To some extent, these have disturbed the output-dominated approaches which, since the war, have determined the analysis of new housing construction in France, with lifestyle and the living environment gradually becoming at least equally important as criteria of judgment and also, therefore, of personal orientation with regard to property.

Demographic changes provide the fundamental explanation for the development of the property problem in France; apart from the general feature of a slight population increase (+0.4% per annum on average over the past 10 years), the most important trends have been essentially of a socio-cultural nature and can be summarised as follows:

- An ageing population. The number of persons over 60 will increase from 10 million in 1985 (18.1% of the population) to 12 million in the year 2000 (20.4%).
- More rapid increase in the number of households than in the number of inhabitants. The rate of the

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first is, in fact, double that of the second, primarily due to the following changes: later and fewer marriages, with the lowest marriage rate for 40 years — 4.8 marriages per 1,000 inhabitants — a very large increase in the number of divorces, and a rapid increase in the phenomenon of families living apart.

- Increase in the number of one-parent families, which represent 6% of the total number of families.
- Desire to find a better home. The notion of quality now plays a more important part in the housing market, with people seeking a larger living area.

The most tangible results of the French taste for property investment, coupled with recent demographic trends, is to be seen in the rise in the number of private homes and the decreasing age of the owners, even if, as could be expected where a commodity representing a sizeable investment is involved, it is still the older householders who for the most part own their homes.

Studies carried out — based on the most recent census data — confirm that the increase in the number of owner-occupiers is taking place among the younger age groups, due to the effect of available credit and the many forms of financial assistance which have sprung up over the last 25 years to encourage and facilitate acquisition of property.

Among those who have acquired property since 1974, 38% of the heads of the household are under 35 years of age. Those who have acquired old property are on average two years older than those acquiring new property, which is a direct result of the nature of financial assistance, which was reserved until very recently exclusively for new properties. Thus, 23.1% of those acquiring old properties are over 50 years old, whereas the figure is only 15.6% for this group in respect of new property.

In terms of home occupancy, an estimated 39.6% of owner-occupied properties are under-occupied (compared with 27% for the total number of households), and 7.7% are overcrowded (compared with 15.8% for the total number of households), with the latter percentage being 8.1% for old property and 4% for new.

The trends referring specifically to the status of the owner-occupier can be seen in the most recent changes in property ownership, according to age and composition of the household, as shown in the tables. ■

Changes in the Level of Ownership Between 1962 and 1982, by Age of Head of Household

Age of head of household	1962	1975	1982
Under 25 years old	9.4%	8.2%	7.2%
25-29 years old	16.0%	19.8%	20.6%
30-34 years old	26.8%	34.2%	40.0%
35-39 years old	35.2%	45.1%	51.5%
40-44 years old	38.8%	50.9%	57.1%
45-54 years old	43.1%	55.2%	60.9%
55-64 years old	49.9%	56.7%	63.5%
65-74 years old	54.6%	58.0%	61.0%
Over 75 years old	54.5%	53.1%	54.0%
Total population	41.6%	46.6%	50.7%

Level of Property Ownership by Age Group

Age	Level of ownership main residence	Level of ownership — other home (secondary or similar)	Level of home ownership
Under 30 years	16%	4%	20%
30 to 39 years	49%	10%	56%
40 to 49 years	58%	21%	67%
50 to 59 years	65%	30%	73%
60 to 69 years	65%	26%	70%
70 years and over	55%	18%	60%
Total	52%	18%	59%

Level of Property Ownership by Households, According to Their Composition

Composition of the household	Level of ownership main residence	Level of ownership — other home (secondary or similar)	Level of home ownership
Single person	38%	13%	43%
Childless couple	61%	24%	67%
Couple with 1 child	55%	20%	62%
Couple with 2 children	61%	19%	69%
Couple with 3 or more children	65%	15%	72%
One-parent family	29%	11%	37%
Others	56%	22%	62%
Total	52%	18%	59%

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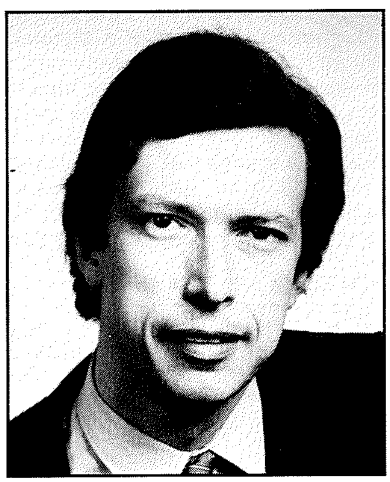
UK owner-occupation rate should approach 75%

Given the economic advantages, home ownership in the UK will continue to rise, says Adrian Coles

OWNER-OCCUPATION has grown strongly in the United Kingdom in the 20th century. From less than 10% in 1914, the figure rose to 63% in 1986 and is forecast to rise to nearly 75% by the year 2000. This article looks at the reasons for the emergence of owner-occupation as the dominant tenure in the UK and changes in the levels of owner-occupation among particular age groups.



The growth in owner-occupation

Before 1960 the lack of interest in housing tenure, relative to the pre-occupation with the subject found in British housing circles today, means that statistics on the subject are rare. The earliest year for which any estimate is available is 1914; it is commonly assumed that in that year 10% of dwellings in England and Wales were owner-occupied, although there is no direct evidence to confirm this figure.

In terms of numbers, there may have been 800,000 owner-occupied dwellings in 1914 out of a total of 7.9 million. The vast majority of the remainder were privately rented, with just 20,000 homes in the public rented sector.

The first reasonably reliable estimate of dwelling tenure is for 1938. In that year 3.7 million dwellings were owner-occupied, equivalent to 32% of the total of 11.4 million dwellings in England and Wales. (Housing statistics in the UK are often difficult to interpret because of the differing geographic areas covered. Some statistics refer just to England and some to England and Wales; others cover Great Britain, which is England, Wales and Scotland, while some of the more comprehensive statistics cover the UK, which is Great Britain plus Northern Ireland.)

The next estimates were not prepared until 1951 and, perhaps surprisingly, show a decline in the level of owner-occupation in England and Wales to 31%. The long-term upward trend in owner-occupation really began in the 1950s; by 1960 owner-occupation in England and Wales stood at 44%, passing 50% in Great Britain in 1970, 55% in 1979 and 60% in 1984.

At the end of 1986 almost 63% of the 22 million dwellings in Great Britain were owner-occupied. Table 1 shows the growth in owner-occupation in Great Britain since 1961.

Reasons for the growth in owner-occupation

A number of reasons have been put forward to explain the growth of owner-occupation. Some writers have concentrated on the emotional aspects of home ownership and the Englishman's need to control the environment in which he lives by owning the bricks and mortar which surround him. The famous phrase "The Englishman's home is his castle" is a reflection of this. However, many would assert that the effects of government policy provide a more rational explanation of recent trends.

The first important point is the presence of stringent rent controls. In the private sector "fair rents" are set by a rent officer, who is required to ignore economic factors such as scarcity and the number of people seeking rented accommodation when making his recommendations.

The result has been that since 1915 (when rent controls were introduced on a "temporary" basis) the returns available to investors in rented housing have not been sufficient to attract an adequate supply to the market. Those who own rented housing have often sold into the owner-occupied market once vacant possession becomes available, often on the death of elderly and long-established tenants.

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The second important factor is the unique deductability of mortgage interest for tax purposes. Other types of debt do not enjoy this concession. Owner-occupiers with mortgages pay a rate of interest which is lower, by an amount equivalent to the basic rate of tax (currently 27p in the pound), than the gross rate charged by the lender. The lender recovers the difference from the government.

This assistance is available on mortgage loans up to £30,000 (the current average existing mortgage in the UK is £15,000 and the current average new mortgage £25,000), and for those with high incomes relief at their marginal rate (which can be as high as 60p in the pound) is available.

In the past tax relief was offset by a tax on the notional income occupiers obtained from their own houses, but this was abolished in 1963. Also, no capital gains tax is payable on any profits made on the resale of owner-occupied homes.

This is a complex area and a number of other investments are, in fact, exempt, but housing is generally regarded as being favourably treated in this respect. The owner-occupied housing market, therefore, operates in a uniquely favourable fiscal environment.

The sale of public sector rented accommodation to sitting tenants is especially important in explaining the recent rise in owner-occupation. Since 1980, when the Conservative Government introduced a statutory "Right to Buy" for most public sector tenants, a million dwellings, equivalent to over one sixth of the stock, have been sold, all at substantial discounts to their free market values.

Tenants have also been encouraged to buy by the rapid rise in public sector rents in the early 1980s, which resulted in a substantial reduction in general subsidies to council housing (although poorer tenants' income support has been increased). The chart shows the level of council house sales in recent years.

The economic environment has reinforced government policy. High rates of inflation, often in excess of interest rates in the 1970s, rapidly reduced the value of owner-occupiers' mortgage debt while at the same time increasing property values, and for many years housing was seen as the only hedge against inflation available to ordinary people.

The return to positive real interest rates and lower inflation rates has not reduced the attractiveness of holding mortgage debt, or of owner-occupation, because of the enhancement by government of the incentives in favour of owner-occupation and also because of structural changes in the mortgage market, which have increased the competition to provide finance for home owners.

Owner-occupation and age

One of the unusual aspects of housing policy in the UK is that adults are (perhaps inadvertently) encouraged to purchase houses at a very young age. The virtual absence of a market rented sector, combined with allocation policies in the public rented sector that discriminate against the young and childless, means that the easiest way for young single people and married couples to establish a household is to buy. In Britain in 1984 28% of heads of households under the age of 25 were owner-occupiers, a very high proportion by international standards.

It is notable, however, that in recent years the proportion of young households that are owner-occupiers has declined significantly, from 34% in 1979 to 28% in 1984. This may be due to the recession, which has had a particular impact on the ability of young people to obtain jobs. In all other age groups owner-occupation has increased since 1979. Table 2 shows figures for 1972 (the earliest which are available), 1979 (the year

Table 1. Housing Tenure, Great Britain 1961-1986

Year (end-year unless specified)	Owner-occupied (% of Total)	Public Sector Rented (% of Total)	Private Sector Rented & Other (% of Total)	Total Dwellings (000s)
April 1961	42.3	25.8	31.9	16,273
April 1966	46.6	28.4	25.0	17,468
1966	47.2	28.7	24.1	17,660
1968	48.8	29.5	21.7	18,234
1970	50.0	30.4	19.6	18,731
April 1971	50.1	30.4	19.5	18,833
1971	50.6	30.6	18.9	19,000
1972	51.6	30.5	17.9	19,214
1973	52.5	30.4	17.1	19,417
1974	53.0	30.7	16.3	19,629
1975	53.4	31.1	15.5	19,837
1976	53.7	31.4	14.8	20,127
1977	54.1	31.7	14.2	20,378
1978	54.7	31.7	13.7	20,626
1979	55.3	31.5	13.1	20,826
1980	56.2	31.2	12.7	21,031
April 1981	56.4	31.1	12.5	21,061
1981	57.1	30.6	12.3	21,182
1982	58.6	29.5	11.9	21,338
1983	59.9	28.6	11.5	21,521
1984	60.9	27.9	11.1	21,715
1985	61.9	27.3	10.8	21,895
1986	62.9	26.6	10.4	22,072

Sources: Housing and Construction Statistics No. 29, 1st Quarter 1979;
Housing and Construction Statistics 1975-1985 (HMSO);
Hansard, 23 February 1987 (HMSO).

before the introduction of Right to Buy) and 1984 (the latest which are available).

The most rapid growth since 1972 has been in the 30-59 age groups and the two groups within this category now have the highest rates of owner-occupation. This is partly due to the ageing of 1972's main owner-occupier groups, the 25-44-year-olds, and partly due to more people buying their own homes in middle age.

In particular, local authority sales to sitting tenants have expanded owner-occupation amongst the over-40s; the average age of those buying their own council house in 1985 was 43, compared to 31 for all first-time buyers.

Despite the decline in home ownership among very young households, the future growth of the overall level of home ownership seems assured. Market research undertaken for The Building Societies Association in 1986 showed that 77% of adults saw owner-occupation as their ideal tenure in two years' time, with 80% expecting to be owners in 10 years' time; among 20-34-year-olds over 90% expected to be in this category by the mid-1990s. Given the current institutional arrangements, there seems little doubt that the actual rate of owner-occupation will rise to well over 70% during the 1990s. ■

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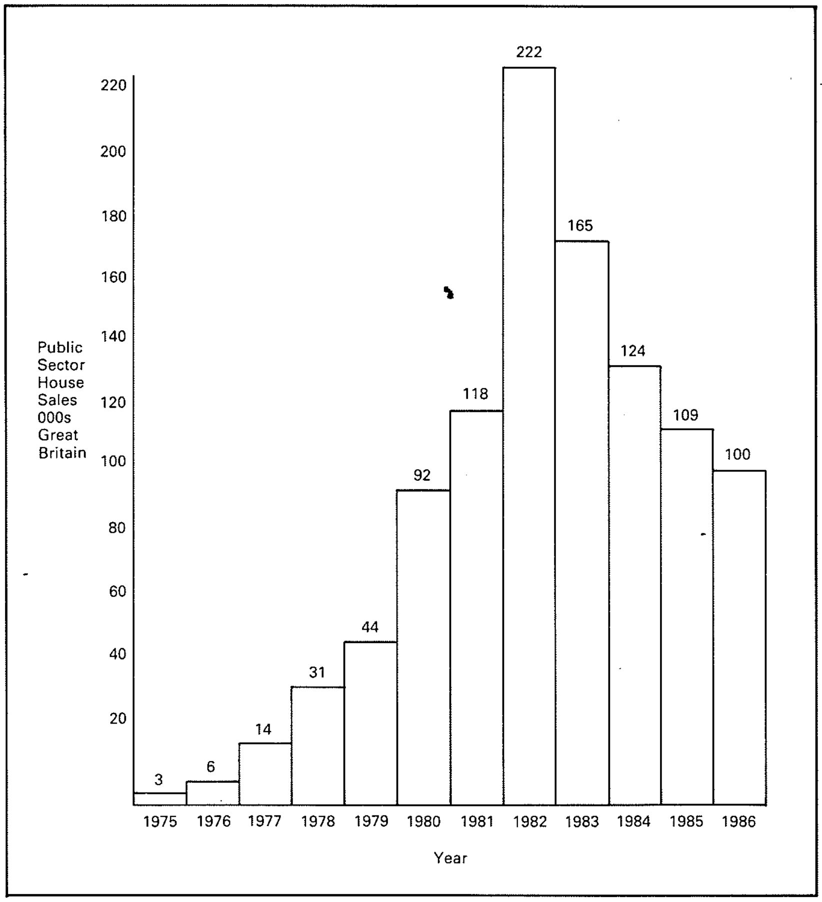

Table 2. Tenure by Age of Head of Household, Great Britain

Age of Head	Percentage of Households in Age Group in Owner-Occupation		
	1972	1979	1984
Under 25	32	34	28
25-29	51	52	57
30-44	57	63	71
45-59	49	54	66
60-64	46	44	53
65-69	48	47	49
70-79	44	42	48
80+	46	41	45

Source: *General Household Survey*, 1972, 1979, 1984, Office of Population Censuses and Surveys.

Further rise expected in US home ownership

After faltering in the past five years, the owner-occupation rate is rising once again, as James Christian explains

FOR many years, the United States has considered itself to be a "nation of home owners". From the country's earlier days national policy has sought, with varying degrees of generosity, to facilitate the achievement of owner-occupancy for most, if not all, US households.

Until the 1980s, the statistical record attested eloquently to the success of this policy and to the desire of individual families to become home owners. Indeed, from the end of World War II until 1981 the percentage of US households who owned their own homes rose steadily, pausing only twice and never declining. (*See graph 1.*)

However, in 1981 the home ownership rate started to go into a decline that carried it back to the levels of the late 1960s. Not until 1986 did the rate appear to reach bottom and rise slightly.

Economic conditions account in large measure for the reversal of such a long-standing upward trend in owner-occupancy. Unemployment rates soared to modern records in the early 1980s as the US experienced its worst recession since the 1930s. And, fuelled by the nation's highest rate of inflation, mortgage interest rates rose to historical highs and remained in double digits until 1986.

Steadily declining mortgage interest rates, a much slower rate of increase of home prices than had been produced by the inflationary 1970s, and an economic expansion now approaching record length should, however, have combined to generate a quicker recovery of the

home ownership rate.

That this recovery has been delayed and that it is not yet well established invite the consideration of additional, largely non-economic factors.

In reality and in aspiration, home ownership is essentially a phenomenon of the family. A variety of demographic and cultural changes have combined to alter this profile of US society. In 1950, only 9.1% of all US households were single-person households. By 1986, that proportion had risen to 23.9%. As a result of improving medical technology and health insurance programmes, many of these single-person households are elderly, but the trend has risen much more rapidly among the young.

One-person households aged 25 to 44 — the prime home-buying age group — increased from 2.2% of all households in 1960 to 7.3% in 1985. One-person households aged 45 to 64 remained relatively constant, rising only from 5.0% in 1960 to 5.8% in 1985. Elderly (65 years of age and over) one-person households rose from 5.4% to 9.5% of all households.

Greater access to higher education, the desire of women to pursue careers outside the traditional context of the family, and more liberal community attitudes toward cohabitation and divorce have created opportunities for young people to realise many of the benefits of marriage without the responsibility of family. Even married couples display a growing reluctance to undertake the responsibility and financial burdens of raising children. Average household size in the US has fallen from 3.37 persons in 1950 to 2.69 persons in 1985.

These phenomena by no means typify society, but they dull the cutting edge of the demand for home ownership and contribute to a slower rate of recovery of the home ownership rate than would otherwise be expected.

Life styles are, of course, dependent to some extent on economics. The personal saving rate offers a good reflection of this interdependency, one that has special relevance for home ownership in the present context.

Downpayments required to qualify for a home loan have risen in the US in recent years. Concurrently, median household incomes have risen somewhat more slowly than median home prices. Consequently, young households are facing higher initial cash requirements to become home owners.

In 1984, for example, a downpayment of approximately 23% of the home price was required, on average, to secure a mortgage loan. At an existing median home price of $72,683 in that year, a buyer needed cash amounting to $16,741 — no small sum for a young, first-time home buyer. But in 1986, with average downpayments up to about 26% and the median home price up to just over $80,000, cash requirements jumped to $20,744, an increase of 24% in just two years.

However, personal saving rates in the US have been falling over this period — from 6.3% of disposable personal income in 1984 to only 3·8% in 1986, the lowest rate since 1947.

A variety of factors explain this general decline in the personal saving rate, and among them are the changes in life style among young households discussed in part earlier. As priorities have shifted away from family formation and family-oriented objectives toward independent careers and current consumption, the priority accorded to saving for the downpayment on a home has also shifted.

To some extent, high home prices and high downpayment requirements may have become so daunting that they have encouraged this change in priorities.

Thus, a vicious circle develops: young households who could afford to make monthly mortgage payments are so overwhelmed by the extent of the sacrifice they must make to accumulate a downpayment that they save even less than they would otherwise.

What lies just ahead, however, promises a slow reversal of the trends discussed above. The postwar "baby boom" in the US is maturing and with that, one can expect to see a return to more traditional values. Signs of these changes are already evident.

Birth rates are rising as the "baby boom" generation begins to make now-or-never decisions about having children. And many of those who have already chosen to form a family are opting to return to the kind of suburban, single-family detached homes in which they themselves were raised to bring up their own children.

For these young families, home ownership is a natural corollary to family formation and they can be expected to make the necessary sacrifices to achieve that objective.

The re-establishment of these fundamental bases for home ownership will develop slowly, even in a favourable economic climate. How that climate will be maintained will depend significantly on US economic policy and on the nation's fortunes in the world market. But if this can be accomplished, a steady rise in the home ownership rate in the United States can be expected over the balance of the 1980s and through the 1990s. ■

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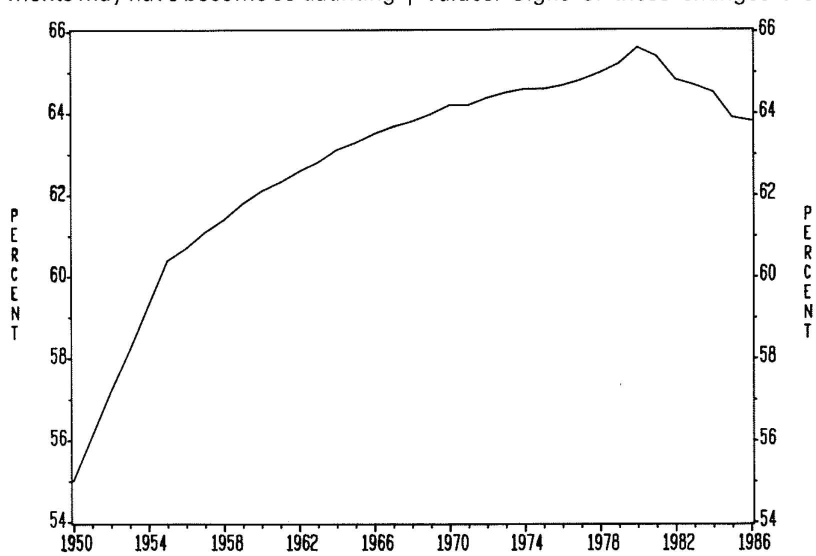
Home Ownership Rates, by Age of Head of Household

	1981 %	1982 %	1983 %	1984 %	1985 %	1986 %
Under 25	20.7	19.3	18.8	17.9	17.2	17.2
25-29	41.7	38.6	38.3	38.6	37.7	36.7
30-34	59.3	57.1	55.4	54.8	54.0	53.6
35-39	68.9	67.6	66.5	66.1	65.4	64.8
40-44	73.7	73.0	72.8	72.3	71.4	70.5
45-49	76.2	76.0	75.2	74.6	74.3	74.1
50-54	78.3	78.8	78.8	78.4	77.5	78.1
55-59	80.0	80.0	80.1	80.1	79.2	80.0
60-64	80.0	80.1	79.7	79.9	79.9	79.8
65-69	77.6	78.0	78.7	79.3	79.5	79.4
70-74	75.4	75.2	75.3	75.5	76.8	77.2
75 and over	69.8	71.0	71.9	71.5	69.8	70.0



Graph 1. US home ownership rate, 1950 to 1986. Source: US Bureau of the Census.

Profile: The Korea Housing Bank

Formed only in 1967, the bank has already financed 1.4 million homes

ESTABLISHED under the Korea Housing Bank Act in July 1967, the Korea Housing Bank, which has the aim of improving housing conditions through the effective raising and supply of funds, has made rapid progress since its inception.

Total assets, including the National Housing Fund accounts, whose management has been entrusted to the KHB, were 6,585.0 billion Won (US$7.64 billion) at the end of 1986, making them 2.4 times greater than five years before. The bank's activity represents approximately 87.5% of the formal housing finance system in Korea on the basis of a housing loan balance as of 31 December, 1986. Up to the end of last year, KHB had financed the construction and purchase of 1.4 million units, totalling 6,001 billion Won (US$6.97 billion) from the Korea Housing Bank accounts and the National Housing fund accounts.

Korea's housing situation

Some 53.3% of Korean families live in their own homes, the remainder living in rented accommodation, company houses, etc.

During the period of the 5th Five-year Economic and Social Development Plan (1982-1986), a total of 1.15 million units were constructed by private and public sector developers, and the average ratio of housing investment to GNP during the same period stood at 5.3%. The Government has planned to provide a total of 1.73 million units over the 6th Five-year Economic and Social Development Plan period (1987-1991).

With regard to this basic goal, a variety of policies are to be pushed forward, including an increase in rental housing construction and an increase in the ratio of small houses being constructed through fiscal and financial support.

Housing finance system

The housing finance system in Korea can be divided into private and public sectors. The former consists of the Korea Housing Bank, the Citizens National Bank and life insurance companies, and the latter, the National Housing Fund and the National Agricultural Co-operatives Federation. Most of the housing finance in Korea is covered by the KHB and the NHF, and the management of the NHF is entrusted to the KHB.

Organisation

The KHB has 17 departments within its headquarters, plus a network of 168 branches in the main cities. The total number of employees stands at 7,300. The overall policies are decided by the board of directors, comprising the chairman, president and six non-executive directors. The chairman and the president are nominated by the President of the Government.

Fund mobilisation

The main sources of KHB's funds are its capital, deposits, the KHB bond and long-term borrowings, with deposits the most important. Most of the deposits are offered at the same terms as those of commercial banks, so the deposits are competitive. Exclusively offered by KHB are the Housing Instalment Savings Deposits and the Housing Subscription Time Deposits.

The Housing Instalment Savings Deposit (HISD) is a contractual housing savings system based on a contract between a saver and KHB under which the former, in need of funds for housing construction or purchase, undertakes to save a certain monthly instalment over the specified period, and the latter grants him eligibility for a housing loan within the contract amount.

The HISD can be subscribed to by an individual or a house builder; in the case of the former the contract period ranges from three to 20 years and the contract amount is a maximum of 15 million Won (US$17,400) with an interest rate of 9% per annum on a compound basis. In the case of subscription by a house builder, the contract periods are one, two, three, four or five years and the interest rate is 10% per annum.

The Housing Subscription Time Deposit (HSTD) is designed to give priority to subscribers who have deposited a specified amount of 2 to 5 million Won (US$2,300-5,800) for a set period of time at the end of which they want to purchase condominium units constructed in metropolitan areas and large cities by private house builders. The HSTD interest rate is the same, 10%, annually as for the HISD.

The Workers' Asset Formation Deposit system, occupying the largest part of KHB's fund mobilisation, was initiated by the Government to help workers improve their properties. Accordingly, the depositors are offered a premium and tax relief in addition to interest on their savings by KHB so the deposit is guaranteed a higher interest rate than any other deposit instrument in Korea. At the same time, subscribers are eligible for a housing loan when they meet specified deposit requirements.

KHB Bonds have in the past been issued on the bank's own credit. However, as they were not a favourable source of funds because of their short-term repayment period and high interest payments, they are issued only when a severe shortgage of funds is expected.

Housing loans

In accordance with the Korea Housing Bank Act, KHB is required to invest more than 80% of the total amount raised in housing mortgage loans. KHB's housing loans are available for individuals or members of housing co-operatives who want to construct or purchase their own homes, and entrepreneurs who wish to construct company houses to sell or to rent to their employees. They are also available to builders who will sell or rent each completed dwelling unit to individuals.

The housing loans are classified into a number of types according to their uses, for example: individual housing loans, collective housing loans, loans for builders' operation, loans for housing materials production, housing-site development loans.

The size of houses eligible for such loans is restricted up to the maximum of 100 sq metres on a floor area basis and, in case of purchase of an existing unit, there are also restrictions on the age of units financed (not older than 10 years). Loans made to home buyers have a maturity of up to 20 years and an 11.4% interest rate, and those to house builders, three-year maturities and an 11.5% interest rate. Lending to home buyers can be up to 100% of appraised net value of a unit.

National Housing fund

The National Housing Fund (NHF) was established by the Government as separate from the accounts of the Korea Housing Bank in July, 1988, with the object of supporting the housing conditions of low-income people. The Korea Housing Bank has been entrusted with its management and operation.

The major sources of funds for the NHF are contributions from the Government, National Housing Bonds, National Housing Pre-emption Subscription Deposits, and deposits from various pension funds, etc. At the moment, the National Housing Bonds are divided into two types: Type I, which must be purchased by those requiring permits or licences for various activities and making various registrations, and Type II, which are absorbed by the prospec-

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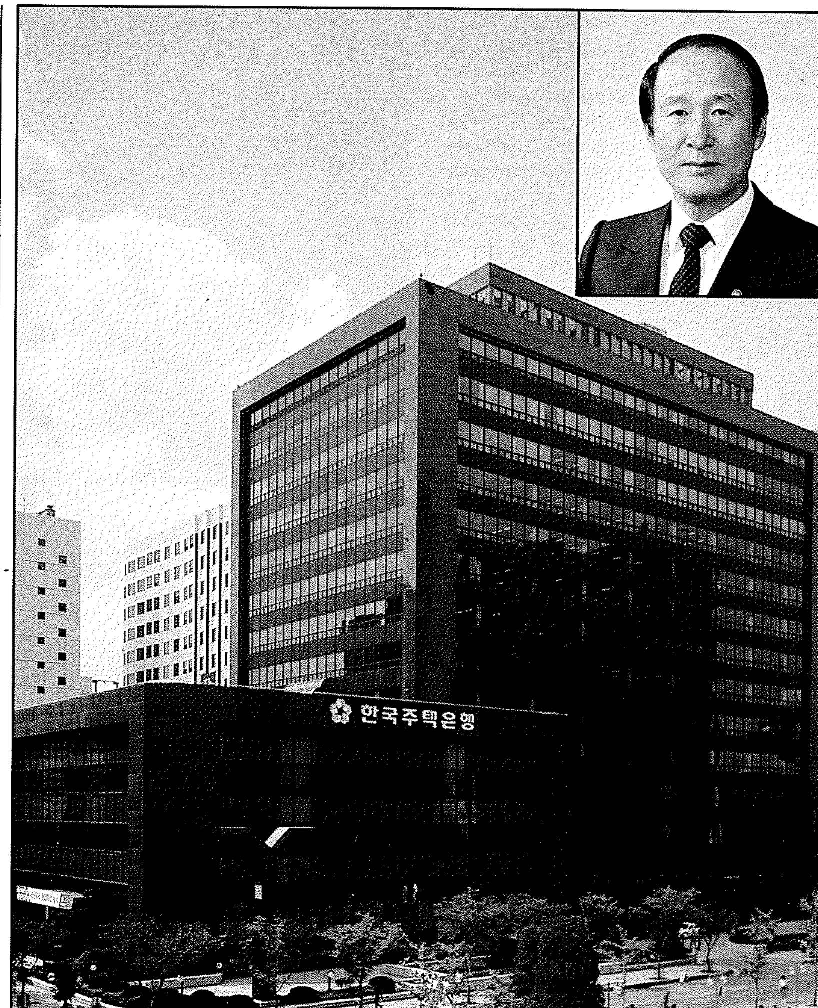

Kwan-Young Lee, pictured above with the headquarters of the Korea Housing Bank, has been KHB's president since January 1986. He has previously been Director of Planning in Seoul, the Director General of the Construction Administration Bureau, Assistant Minister of Planning and Management and Vice Minister at the Ministry of Construction.

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tive purchasers of condominiums that are constructed in speculative areas with a bond-bidding system.

Both are low-cost sources of funds for NHF, with Type I bonds currently yielding 5% fixed interest per year with a maturity of five years, and Type II bonds currently yielding 3% per year with a maturity of 20 years.

The National Housing Pre-emption Subscription Deposit scheme was designed to induce those who wish to purchase or rent an NHF-financed housing unit constructed by the Korea National Housing Corporation or local governments to deposit, in advance, monthly instalments, and to give a saver priority for purchasing or renting the home. The deposits yield 8% interest per annum.

NHF housing loans are made primarily to private and public sector developers constructing small houses with an exclusive dwelling area of 60 sq metres or less. The loans to developers are converted to mortgages and passed on to each purchaser at the time of sale.

A low interest rate of 5% per annum is applied for rental housing construction loans for the purpose of promoting the construction of such units, while the interest rate on collective housing loans is 10% per annum, a little lower than that on commercial loans.

The future

Looking ahead at housing finance in Korea, it appears that meeting people's needs for further progress in housing development through support of the public sector will be further stressed. The rationale for such a prospect is based upon the present situation in which the ratio of households residing in self-owned houses remains below a satisfactory level, and too wide a gap exists between the income level of most households and current housing prices.

However, very recently the Government's housing policy has changed to differentiate clearly the role of public sector agencies from their private sector counterparts, so that the public sector will support the low-income brackets under a certain income level, and the financial needs of the remaining income brackets will be met autonomously in the private housing finance market.

On the other hand, in the commercial finance market, the financial deregulation that has been implemented since 1980 has progressively expanded in the areas of interest rates, financial instruments and banking management.

In these circumstances, the KHB will meet a new and more competitive atmosphere in deposits and loans. However, considering the specialised nature of the housing finance area today in Korea, it will be some time before other financial institutions participate actively in the housing finance market. The KHB's role as the leading institution in the Korean housing finance market looks set to be maintained for some time.

Homes financed by the Korea Housing Bank.

Housing Loan Performance by Year

Year	KHB Account		NHF Account		Total	
	Units, '000s	Amount, billion Won	Units, '000s	Amount, billion Won	Units, '000s	Amount, billion Won
1967-1981	298	721	366	673	664	1,394
1982	66	398	51	264	117	662
1983	77	474	81	501	158	97
1984	54	346	120	897	174	1,243
1985	52	333	98	557	150	890
1986	57	386	87	479	144	865
Total	604	2,658	803	3,371	1,407	6,029

Note: (1) Loan amounts include loans for builders' operations and facility loans for housing materials production.
(2) US$ 1.00 = 861.40 Won (end 1986)

German bausparkassen help finance nine million homes

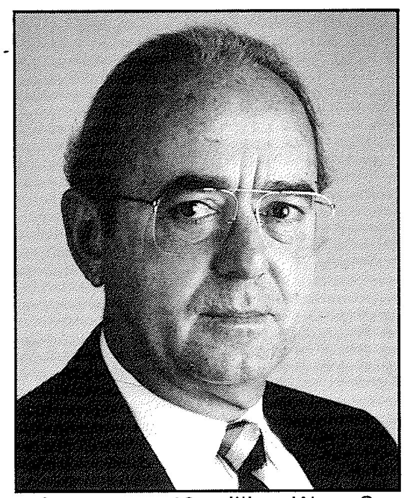
Germany's savings and loan system has been highly successful and, says Dr Otto Schäfer, could be used in developing countries

SINCE the war, Germany's bausparkassen have helped to finance more than nine million homes in the Federal Republic. During this period, they have paid out to their customers in excess of DM700 billion for the construction of new housing and the acquisition of formerly occupied housing units, as well as for modernisation and restoration work, the conversion and extension of existing housing housing units, and the acquisition of building land.

Today, the bausparkassen administer 24.6 million contracts representing a total contract amount of DM851 billion. At the end of 1986, the combined total assets of all 30 German bausparkassen amounted to more than DM158 billion.

Table 1
Amount paid out by the German Bausparkassen for housing construction

Year	Amount paid out in billion DM
1955	1.6
1960	4.1
1965	9.0
1970	19.2
1975	29.9
1980	48.1
1985	44.4



At present, 16 million West Germans have one or more savings and loan contracts with a bausparkasse. In fact, every third person over the age of 18 is a saver with a bausparkasse.

In 1986 alone, 2.7 million contracts representing a total contract sum of DM82.4 billion were concluded, and building loans to the amount of DM41.5 billion were paid out to savers. The German bausparkassen thus represent by far the largest group of institutions involved in the financing of housing construction in the Federal Republic of Germany (see table 2). Three out of four newly constructed housing units in individual houses are today financed partly by a bausparkasse.

A self-contained financing system

The bausparkassen's dominant position is due primarily to the particular character of the German savings and loan system for construction.

In contrast to almost all other countries, and in particular to the Anglo-Saxon countries, the German bausparkasse method of operation is

Table 2
Financing of housing construction by institutional investors[1] in 1985

Financing institutions	Total amount paid out for housing construction million DM	%
Bausparkassen in total	44,406	41.3
Private bausparkassen	(29,942)	(27.8)
Bausparkassen incorporated under public law	(14,464)	(13.5)
Mortgage banks	28,390	26.4
Savings banks	29,218	27.2
Life insurance companies	5,506	5.1
Funds of the institutional investors	107,520	100.0

[1]Funds of the banks and public sector not ascertainable.

based on a self-contained financing system. Based on the amalgamation of savers to form a self-help community, this system is independent of the capital market and its interest rate fluctuations. The savers with a bausparkasse undertake a contractual obligation to make regular savings contributions to joint funds, from which they receive the amount subscribed for under the contract according to a system of priorities (allotment).

The amount covered by a contract with a bausparkasse is made up of the savings accumulated by a saver in the bausparkasse (40% to 50% of the amount covered by the contract) and the contractual building loan, ie, the difference between the amount covered by the contract and the savings actually accumulated by the saver in the funds of the bausparkasse.

This type of savings and loan system is characterised by the identity of saver and borrower. The saver remains a creditor of the bausparkasse until he has been paid the savings he has accumulated in the funds of the bausparkasse, but once the building loan has been allotted to him, the saver then turns into a debtor of the bausparkasse.

On conclusion of the contract, the bausparkasse saver acquires a legal claim to a saver's building loan. The low interest rate of this loan is fixed over the entire life of the loan and is virtually unrivalled by other competitors: it may be 4.5%, 5%, 6% or 6.5%, depending on the tariff. It is totally independent of capital market developments, and interest rate escalation clauses and/or variable interest rates do not exist in the savings and loan system for construction.

Thus, anyone considering a building project has a clear basis for calculations right from the beginning. During the saving period, the savings accumulated by the saver are credited with an interest rate which is fixed at 2.5%, 3%, 4% or 4.5%, depending on the interest rate which will be charged during the loan period.

The bausparkasse saver can make use of the loan — which is granted exclusively for housing purposes — as soon as he is eligible for allotment, i.e. once the following conditions have been fulfilled: the minimum savings period, the minimum savings balance of 40% or 50% of the amount subscribed for under a contract, and the qualification figure, which depends on the overall funds available.

The contractual amount subscribed for initially, which is equal to the savings at the time of allotment plus the amount of loan entitlement, is then paid out to the saver according to this time-savings system. After it has been allotted, the loan is repaid by the saver within a stipulated period.

The German bausparkassen offer a great variety of savings contract tariffs which differ by their interest rates as well as their savings and/or repayment rates, enabling every saver to choose a method of financing tailored to suit his own individual circumstances. The maturity of the loans varies between around 6½ and 18 years, depending on the tariff.

Comprehensive range of financing methods offered

Financing possibilities are also available to those customers who are not entitled to a loan under a savings and loan contract with a bausparkasse but who need the money because, for example, they have spontaneously decided to buy, restore or modernise a house or apartment.

Credit institutions offer financing facilities to such customers who require immediate access to capital. They offer to make available the funds required to accumulate the necessary amount of savings or to prefinance a savings and loan contract with a bausparkasse which has not yet been allotted. Such loans are currently offered at a relatively low interest rate of 6% to 7%. Moreover, they are free from redemption and are repaid out of a bausparkasse's savings funds once the savings and loan contract for construction has been allotted.

One of the characteristic features of the German system is that it combines various elements regarding the available methods and financing institutions, while the customer is at the same time only involved in one single, very simple procedure and will normally receive an "all-in-one" offer. Such a package comprises, for

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Apartments in Kehl, West Germany.

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instance, a share of up to 45% of the "appropriate costs" of a house in the form of a fixed-interest rate loan, which is refinanced via the capital market through the issue of mortgage bonds. A further share of 25% to 30% is financed by the bausparkasse, and a third share of about 10% is offered by a bank as an additional loan at a variable rate of interest. The remaining funds are provided by the saver's own capital (savings accumulated by him in the funds of a bausparkasse). 100% loans are unusual in Germany.

All the larger groups of credit institutions — particularly savings banks, co-operative banks and commercial banks — offer such "all-in-one" packages, which include savings and loan contracts with a bausparkasse. In fact, a bank, a bausparkasse, a mortgage bank, and an insurance company are often united in one group of such institutions or have concluded an agreement for regular co-operation.

The advantage which this system of combined suppliers has for the customer is that he will only have to compile the required documents once. He has to submit only one application for a loan, and this will need to be examined only once. The customer creates only one mortgage (the very flexible "charge on land") and he often only has one contact-partner for the entire correspondence and transactions. This partner will also pay out the actual loan and undertake collection transactions at a later date. The advantage this system offers to the borrower is its flexibility and the broad choice the borrower has between:

- various methods of financing, ranging from methods based on long-term fixed interest rates to those based on variable interest rates;
- early debt clearance or loans free from redemption;
- insurance against possible risks by including insurance schemes;
- the possibility of taking advantage of all tax concessions granted for taking out life insurance contracts as well as savings and loan contracts for construction; plus, of course,
- readily-available help to overcome any difficulties which arise.

State incentives

The State encourages the accumulation of capital by granting house-building bonuses or tax advantages. The bausparkasse saver can choose which type of incentive he prefers. He may receive a bonus of 14% (plus 2% for each child) of the savings accumulated annually up to savings of DM800 (single persons) and DM1,600 (married couples), provided that his income is below a certain level (DM24,000 for single persons, and DM48,000 for married couples).

If he meets these requirements, the saver may alternatively be able to deduct his savings instalments from his taxable income as special providence scheme expenditures. Moreover, the State encourages contractual saving activities with a bausparkasse under the Equity Participation Law by granting a savings bonus to workers.

Advantages of the German system

The decisive advantages of the German contractual savings and loan system for construction are to be found in the consistency of the system. This means that:

- Financing through a contractual savings and loan system with a bausparkasse is independent of capital market developments.
- The interest for the building loan is fixed right from the beginning at a low rate which hardly any competitor can match.
- The builder or buyer consequently does not undertake any risks regarding interest rate fluctuations.
- The financial burden is clearly calculable from the outset.
- In contrast to many other countries, where high interest rates have at times brought housing construction activities to a standstill, the low interest rate on loans granted by a bausparkasse in the Federal Republic has helped to keep the financial burden at a justifiable level for the builder or buyer, respectively, even at times when interest rates are extremely high.
- The relatively high continuity of payments made by the bausparkassen results in continuous development in the field of housing construction. Thus in 1981, for instance, more than 220,000 housing units were completed in owner-occupied houses or condominiums despite high capital market interest rates, which sometimes exceeded 13%.

Bausparkasse savers contribute an average of around 40% of the cost of financing their houses from their own capital funds. This relatively high share of capital funds is mainly the result of the system of accumulating savings under a savings and loan contract. The share of capital funds they can invest is significantly higher than that of persons who do not save with a bausparkasse and constitutes — together with the building loans granted at a fixed low rate of interest — certain insurance against risk for the saver, which should not be underestimated.

Consequently, the number of problem cases, i.e., those cases in which the builder or buyer runs into financial difficulties, is far smaller with the bausparkassen than with the other credit institutions. As a result, the accumulation of capital funds via contractual savings and loan schemes with a bausparkasse is deliberately encouraged by the State in the Federal Republic, even though some restrictions have had to be made in past years within the framework of cutbacks in public expenditure.

A sound method of financing

With the official encouragement of owner-occupied housing in Germany as from 1 January 1987 onwards, the Federal Government has taken a deliberate decision against the possibility of deducting interest on loans, i.e., the encouragement of the use of borrowed capital by granting tax advantages. The advantages are granted independent of the extent of outside financing. The system of the limited deduction of interest on loans which had been introduced to the Federal Republic at times in the past was merely an integrated part of an economic policy programme, which was intended to stimulate housing construction.

The encouragement of contractual saving not only provides the builder or buyer with a much sounder method of financing, but is at the same time considerably cheaper and more effective for the State than the encouragement of debt.

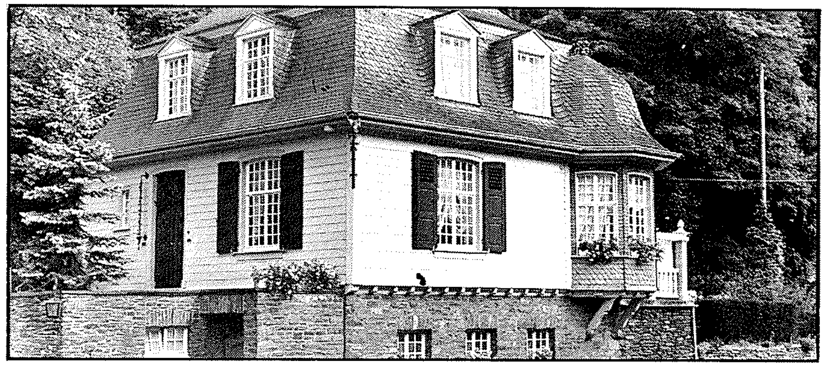
The prerequisite for an adequate basis of capital funds is usually the accumulation of an appropriate amount of savings over a certain period of time. On average, people who build or acquire their own house or condominium in Germany accumulate savings over a period of around seven years. The fact that the average age of buyers currently ranges between 37 and 38 years is not due to the obligatory period of saving required under the building-saving system, because many of the savers with a bausparkasse are young people between the age of 18 and 25 years who might very well become the owner of their own house or apartment at the age of 25 to 30 years. Quite frequently, other factors constitute an obstacle:

Since the period of vocational training in the Federal Republic is usually longer than in many other countries, many young people start to earn a reasonable income relatively late in life, and consequently also start their own family late (the average age of marriage is 30 years for men and 27 for women).

The quality requirements for owner-occupied houses or apartments in Germany are probably among the highest in the world, ranking second after Switzerland. People prefer to save up more money over a longer period of time rather than be forced to compromise in their demands.

As a result of these high quality requirements, housing costs are very high compared to international standards.

In contrast to most other countries, over the coming years a large number of capital assets in Germany will be transmitted by succession for the first time since the end of the war. In future, it will thus be possible to acquire real estate more easily and at an earlier stage.



Attractive family house near Aachen, West Germany.

Over the past four decades, the German contractual savings and loan system has given impressive proof of its efficiency. The system requires efforts from the individual (savings accumulated), while the support granted by the State in the form of premiums or tax reliefs has to be considered as "help for self-help".

As an "integrated contract system", the German savings and loan system is also particularly well suited for the financing of owner-occupied housing in developing countries. This has been confirmed by numerous inquiries and requests for information made recently by these countries. This system might be useful for a developing country if the population is encouraged to acquire owner-occupied housing by saving up a sound amount of own capital funds rather than adopting a system under which the builder or purchaser of an owner-occupied house or apartment is encouraged to run up high debts without having saved up any money at all. The high rates of inflation prevailing in many developing countries are by no means an obstacle to the process of contractual saving. Ways and means can be found which prevent the saver from having to "run after the prices with his saving instalments".

The experience gained by the German bausparkassen has shown that those who are prepared to cut down on their demands regarding consumer goods in order to accumulate a certain amount of savings are also better able to raise the financial instalments for the payment of interest and the redemption of their loans.

DM 1.99 = $1 at end-1986.

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How Sri Lanka is tackling housing finance problems

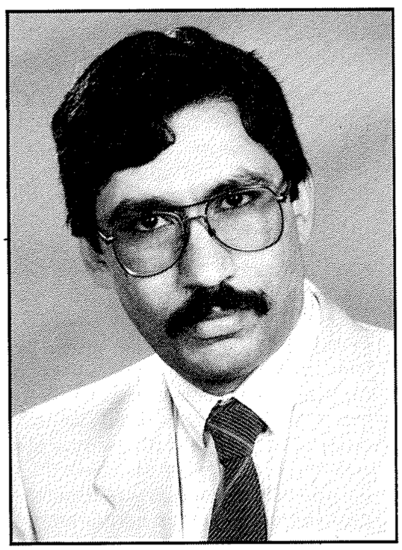
Babar Mumtaz explains the effects of the Million Houses Programme

BETWEEN 70 and 80% of total house-building investment in Sri Lanka is provided by the households themselves. A 1966 Central Bank study found that 65.7% of private investment in housing came from the households' own funds and only 4.3% was through loans from banks. Some 18.6% was through loans from other sources, 3.1% through sales of assets, and 8.3% from grants, etc.

In a poor country like Sri Lanka this obviously reflects not so much the financial strength of the households as the inability of the formal financial systems to meet households' needs, in particular those with low incomes. With almost 80% of the population living in rural areas, incomes are irregular, and a quarter of all those with incomes earn less than Rs5,000 ($185) a year.

For the majority of rural households, building with traditional materials has meant a relatively small requirement for cash. Walls and floors can, in the main, be made from locally available materials which the household can readily transform into mud-blocks and mortar. The cash is required for the roof (roofing sheets or tiles and the supporting timber), for doors and window shutters and for paying for professional work by the local 'baas unehe' (master builder).

Though small as a percentage of the total value of the house, these cash requirements are nevertheless crucial, and their absence has prevented households from even considering, let alone attempting, construction.



By providing small loans for various types of needs, the Million Houses Programme — described below — is acting at the catalyst that is making house construction an activity within the grasp of lower income households.

The Million Houses Programme and housing finance: the financial package

The Million Houses Programme generalised the different needs of households to produce a series of alternatives, called the Housing Options Loan Package (HOLP) ranging from Upgrading (of house or lavatory) to a New House (consisting of an incremental or core house and individual services), and from a series of individual Utilities (improvement to, or installation of, a well, lavatory or electricity), survey and other fees to Sites and Services (in schemes with communal or individual services with or without core houses).

Each of these packages has an upper limit, ranging from Rs300 for a lavatory to Rs16,000 for a core house in a Sites and Services scheme. Small loans, up to Rs7,500 ($277), at 3% interest (larger loans have higher interest rates) are repayable over periods between five and 15 years. Loans are made available in four stages relating to construction, with each preceding stage inspected and certified by the Housing Authority's officers.

Delivering finance

The Million Houses Programme was decentralised to each of Sri Lanka's 25 districts, each headed by a district manager (DM) of the National Housing Development Authority (NHDA). The DM was responsible for the final selection of applicants and for disbursing and recovering loans. Each district was subdivided into gramodaya manadalas, or village voluntary societies, comprising representatives of all (registered) voluntary societies operating in a particular village.

The gramodaya manadala draws up a list of eligible applicants to be forwarded to the DM. This is aimed at eliminating political bias or favouritism while allowing for local conditions and circumstances to be taken into account. In return for good performance, the gramodaya manadalas were promised extra funds to allow them not only to put forward more

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applicants, but also grants to carry out other development work in the village.

Each gramodaya manadala was to put forward the names of 10 households that met the selection criteria (low income, proof of need/enterprise, no previous loans, no other house) to the district manager. With 4,300 eligible gramodaya manadalas in Sri Lanka, this gave a total of 43,000 housing loans, and the total funds available for the rural housing subprogramme in 1984, Rs200 million, were divided equally among them to give an average loan figure of Rs4,650 ($170) per household.

However, with most DMs unable or unwilling to delegate, decentralisation stopped at the district level. During the first year, most DMs had little time for anything else but signing loan applications and authorising payments. In some of the larger districts, the DM was dealing with 100 authorisations a day.

Recovering finance

Most of the initial effort had gone into devising the HOLP and procedures for selecting applicants and generally handling the loan-disbursement side of the Million Houses Programme. Relatively little thought was given to the loan recovery procedures.

The responsibility for collecting repayments was given to the Special Services Officer, the lowest level of government official. Each SSO is responsible for two villages and would have to collect 20 loan repayments for each year of the programme every month, a total of perhaps 200 payments, and this would leave him with no time for any of his other regular functions.

The Programme also suffered initially from a lack of emphasis on repayments. Whereas there were many officials and individuals who wanted to be associated with the selection procedure and be seen to be helping households get loans, there was no such enthusiasm for identification with recoveries and repayments.

The inevitable result of this was that while the Programme reached a remarkably large number of families, who, moreover, managed to complete the construction of their houses, the recovery of loan repayments was very low. The rural housing sub-programme (RHSP), which was targetted to reach 36,984 families through normal loans in 1984, managed to benefit 39,788 families and of these 16,092 (43%) by end 1984, and 36,640 (96% of the target) by the end of 1985, had completed construction. Against this, loan recoveries were 42.76% at the end of 1984, and in some districts less than 10% of the amounts due had been recovered.

During 1985 (with 30,136 families targeted, and 30,792 reached), both the rate of completions (55%) and recoveries (56%, still very low) showed improvements. More interestingly, the average value of the loan decreased from around Rs5,300 ($206) in 1984 to Rs3,700 ($135) in 1985, a reflection of the DMs' understanding the system and peoples' demands, leading to an increase in upgrading houses and lavatories and a corresponding decrease in new house construction.

Towards the end of 1984 the administrative problems associated with the NHDA controlling loan applications and recoveries through its own bureaucracy were becoming apparent. At a workshop in Kandy, the notion of further decentralising the process within the district was mooted, and the Kandy district manager agreed to look into the possibility of using local savings and loan associations, the thrift societies.

Using co-operatives

Thrift societies have been in existance in Sri Lanka since 1910, mobilising credit in connection with rural agricultural activities. After 1957, most other co-operative societies were merged to form multi-purpose co-operative societies, and these increasingly took over the credit-provision role, which led to a decline in thrift societies. By 1980 co-operative credit societies and thrift societies had been reduced to a quarter of their 1960 levels, limited largely to workplace related societies.

However, since 1980, there has been a resurgence following a reorganisation of thrift and credit societies on both district and national levels. In 1981, credit societies started carrying out banking functions, and, by 1985, 250 Co-operative Banks had been established throughout the country.

In 1985, when Kandy District agreed to pioneer loan administration using thrift and credit co-operative societies, the assistant district manager, (NHDA), was also the secretary of the Thrift and Co-operative Society Kandy District Union.

The performance of Kandy District in both disbursing loans and making recoveries has been remarkable. At the end of 1984, Kandy had recovered only 5.6% of the amounts due, but by the end of 1985, using thrifts, the district had recovered almost 80%.

Essentially, the thrift society administers the NHDA loans programme locally. The district manager makes over the total sums due to the members of each thrift society which then disburses them, and later recovers repayments and makes them over to the NHDA in one lump sum. This reduces the operations for the district manager by a twentieth.

In general, the thrifts in Kandy are not only working very well as far as the Million Houses Programme is concerned, they are also providing an opportunity for villages to take control over many other areas concerned with their overall development. One society, for example, is offering English language lessons free to its members as an incentive to join. Others are using funds to provide for increased employment opportunities including necessary training, especially for women.

Transferring to other areas

As a result of the successes of

Kandy District, the Million Houses Programme intends to transfer all its districts to using thrift societies during 1986-87. Thereafter, loans will be available only through thrifts. Moreover, the urban housing sub-programme will also be operated through thrift societies.

Remarkable though the Kandy experience has been, the use of thrifts as a universal solution may create situations that will pose an even greater problem than under the original system. Kandy was fortunate in having a committed and experienced assistant district manager who not only understood what the NHDA was doing, but, as secretary of the district union, was able to mobilise fully the thrift and co-operative movement. Other districts have neither such experienced staff nor such connections.

One of the strengths of the thrift and credit societies has been that they have operated on a small scale, using their own members' resources. This has resulted in a strong social commitment to encourage development. With the inflow of NHDA funds, it is likely that control will be less scrupulous. Moreover, the sudden expansion of thrift societies will pose a severe strain on providing training to the members.

While programmes of training and generating awareness have been instituted, it is unlikely that the required cadre can be put in place in sufficient time, or that it will be able to cope with the enormous workload.

A novel difference for the thrift societies will be the nature of housing loans. Larger sums of money are involved, and the loans do not of themselves generate an income or otherwise enhance the financial capability of the borrower. Finally action against defaulters tends to become emotive, and it is difficult to justify taking over the whole house when the loan or the outstanding amount may only be a small (even insignificant) portion of the value of the house. In rural areas this is further complicated by lack of buyers even if the society was to get possession.

In urban areas, the problem is further complicated, first because of the difference in rural and urban social conditions, and secondly because of the difference in the housing needs of urban households. Whereas rural societies were formed on the basis of mutual trust built up among people who have long lived side by side, the mobile nature of urban households makes this more difficult.

On the other hand in rural areas, small amounts of cash make the difference in being able to build or not build or improve a house. In such areas, shortage of cash is not so much of a problem as land. Few of the target households have access or title to land, and that is their greater need. Joining a thrift society cannot remedy this and therefore the Urban Programme needs to focus on more than just loans to individual households.

However, if thrifts are formed not among current neighbours but around new/future housing sites, with membership open to those who will eventually live as neighbours, then the thrift society could indeed help not just with housing finance but with developing communities. This requires a wholly different way of using thrifts, and one which has not yet been explored.

The form of finance developed in the Million Houses Programme has a number of subsidies built into it, in the form of low interest rates, in not charging for the considerable administrative and technical support costs, and finally in what will inevitably be a high default rate (perhaps as much as 20%).

Nevertheless, the total subsidies are considerably less than in previous housing programmes, and there is the further merit that, for once, the subsidy is at least going to the poorer households. More important than that is the fact the the Programme is developing a sense of self-reliance, in decentralising decision-making and is reaching such a large number of people. ■

Housing investment in Sri Lanka
(Rs Million in Current Prices)

	1979	1980	1981	1982	1983	1984	1985	1986
PUBLIC SECTOR								
Total Urban Invest	372	1021	625	696	393	424	328	345
Million Houses Prog								
Rural SubProgramme						189.8	217.6	257.4
Families Reached						43213	49679	55856
Average Loan, in Rs						5300	3700	3600
TOTAL PUBLIC SECTOR	608.8	1981.5	812.2	912.1	(600)	(600)	(600)	(600)
BANKING SECTOR	153	308.8	252.5	338.0				
State Mortgage Inv Bank								
Total Loan Amount	27.4	35.8	68.9	89.4	158.4	367.6		
Number of Loans	533	554	778	1069	1508	3413		
Avg Loan, in Rs	51407	64620	88446	105040	107700			
HOUSEHOLDS								
Total Investment	1979.0	1516.9	3982.	4876.9				
As % of Public	68.7	39.8	78.8	79.4				

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Major legislative change for New Zealand societies

Deregulation has gone further than expected, giving building societies far wider powers

LEGISLATION will shortly be enacted in New Zealand which will, in effect, remove all of the constraints on the activities of building societies in that country. Indeed, the Act can be considered to be more of a mutual institutions' act than an act governing the activities of specialised housing finance institutions.

This article briefly sets out the traditional role of building societies in New Zealand, the legislative changes envisaged and the future path likely to be taken by the societies.

The traditional position

Building societies in New Zealand have had little more than 20% of the mortgage market. That market, and the financial markets generally, have been subject to extensive regulation and government intervention. This has been reflected in the activities of the government-owned Housing Corporation, the largest individual lender, and also by regulations on interest rates which have served to frustrate normal market forces and have led to a somewhat inefficient mortgage market.

Building societies operated in this market under specific legislation, the Building Societies Act 1965. Like similar legislation in other countries this largely confined building societies to the activities of raising retail savings and making loans for house purchase.

The Labour Government has recently been deregulating the financial markets and this has put significant pressure on building societies because of their restricted activities. Modest changes in the legislation have been expected on the lines of those recently implemented for United Kingdom building societies.

The new legislation

On 3 April, 1987, The Building Societies Amendment Bill was introduced into the New Zealand parliament. It was generally expected that it will become law in May or June. The Bill goes very much further than the limited deregulation that had been expected. As far as possible the legislation attempts to assimilate building society and company legislation and wherever there were restrictions on the activities of building societies these are removed.

Effectively, the legislation covers only the constitution of building societies and not their activities. The philosophy is institutional neutrality in line with the policy of the government which had been established some 18 months ago.

The major feature of the Act is that it provides that, subject to any restrictions which a society itself may have imposed, the functions of a society should be to provide services of any kind for its members or for any other purpose. This compares with the previous objects clause by which a building society existed for the purpose of raising, by the subscriptions of members, a fund for making advances to members.

The new section expressly provides that the provision of services includes the provision of financial services, which includes, but is not limited to, any services relating to the lending of money, the provision of credit, the giving of guarantees and indemnities, the sale and purchase of financial obligations, debts and securities, the discounting of credit instruments, banking, investment, insurance, trusteeship and foreign exchange dealing.

Consequently, the whole of Parts III, IV and V of the 1965 Act are repealed. These are the parts of the Act which placed restrictions on the powers of societies to make advances, to invest surplus funds and to borrow money. The previous Act required, for example, that 85% of advances had to be for residential purposes and secured by mortgage of land, and Part V of the Act provided for borrowings not to exceed two thirds of the value of shares.

A new section provides that, subject to any restriction contained in the rules of the society, a society may invest any money belonging to it or acquired in the course of its business for any purpose connected with the function of the society or to the extent that any money is not immediately required for the performance of that function in any manner that the society thinks fit.

The powers of control of the Registrar of Building Societies are also repealed. For their prudential supervision societies have been responsible to the Reserve Bank and this will continue.

The new legislation makes provision for a building society, by special resolution, to convert to a public com-

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pany limited by shares under the Companies Act 1955.

New Zealand building societies

The building society industry in New Zealand is heavily concentrated. The largest building society, the United, has recently been accounting for nearly half of building society activity. The assets of the United were NZ$1,024 million (US$525 million) at the end of September 1986. The society grew rapidly in its last financial year following a board decision to widen the access to mortgage finance to members of the general public.

It believed that in the increasingly free market environment, restricting lending products to the existing customer base would have severely constrained the ability of the society to remain a significant force in the mortgage and financial markets.

The society has decided to remain as a building society for the time being and not to seek to convert to company status. It has recently been involved in a number of significant initiatives. In 1985 it established the United Realty World Network, a franchised estate agency operation which now comprises 55 real estate offices. These offices help to market loan and savings accounts and enable customer relationships to be developed, not necessarily related to a property sale or purchase. It is intended to expand this network further.

The society has also introduced the United Life Care Programme which involves the development of a number of high quality retirement villages throughout the country. The villages are all owned, free of mortgage, by United Life Care. Residents purchase a licence to occupy or a leasehold interest, and make a once only payment towards a life care trust. This amount is amortised over the first 40 months of occupancy.

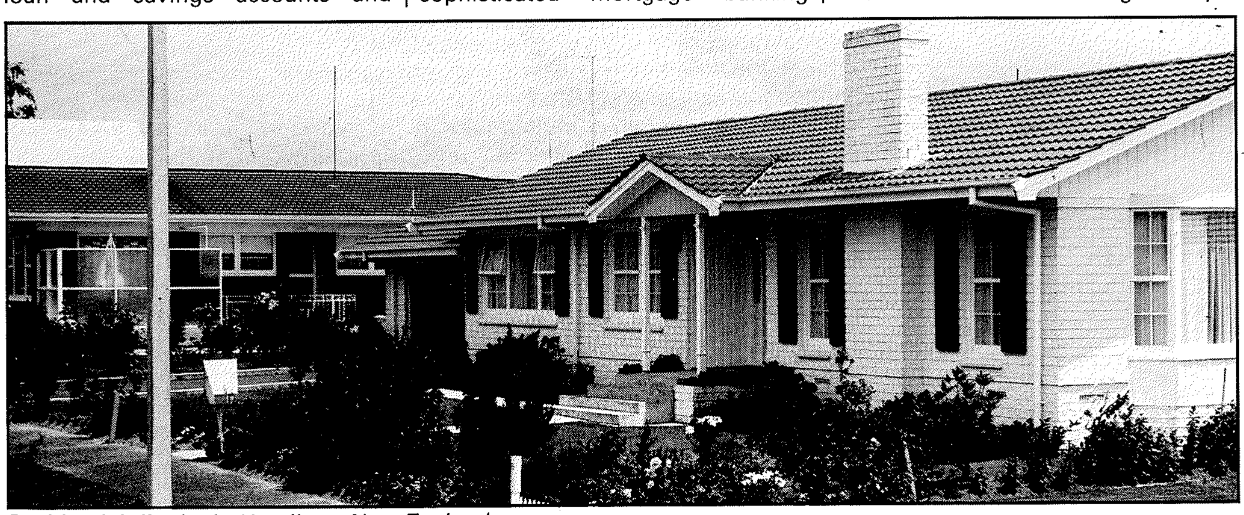
Residents also pay a weekly service charge to cover the operating costs of each village. United Life Care will repurchase units from residents at the original cost of the leasehold interest, or licence to occupy, less the costs of refurbishing the units to the original standard.

United also owns allied Mortgage Guarantee Company Limited, a mortgage guarantee and mortgage broking company. This was established in 1970 to provide mortgage insurance for lenders. It has also developed a sophisticated mortgage banking facility, which in recent years has been dominating the activities of the Company. It currently administers nearly NZ$100 million (US$51 million) of mortgage funds.

The deregulation of the finance industries is seen as providing AMG with an opportunity to widen its primary role as an insurer of other lenders' loans. It will also become involved in the establishment of a secondary mortgage market in the USA.

United intends to move in the direction of becoming a mortgage banking operation. Among new mortgage products which it has developed are low start mortgages, personal loans, transferable mortgages and offshore funded mortgages for commercial borrowers.

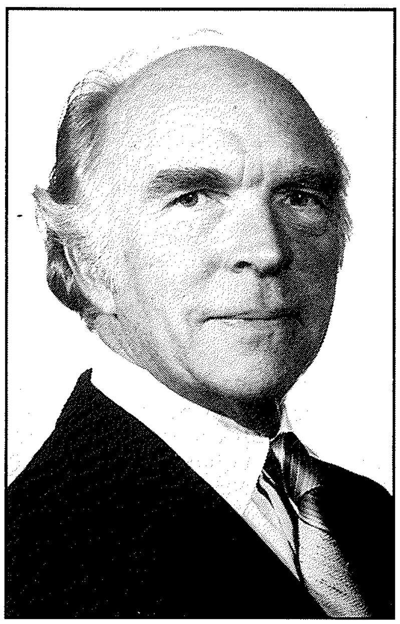
The second largest society in New Zealand, the Countrywide, had assets of NZ$540 million (US$237 million) at June 1986. It operates through 50 branches. The Countrywide has announced its intention of converting to company status and becoming a banking institution. The intention is to establish a holding company in which the Bank of Scotland (a British based bank) will take 40% of the equity, General Accident Insurance Company will take a further 40%, with the remaining 20% being floated. The Countrywide will then cease to be a building society.



Residential district in Hamilton, New Zealand.

UN Commission on Human Settlements meets in Nairobi

IUBSSA senior consultant, Eric Carlson, reports on the Tenth (Commemorative) Session of the United Nations Commission on Human Settlements



ONE hundred governments were represented and more than 500 delegates, observers and others came to Nairobi for the Tenth (Commemorative) Session of the United Nations Commission on Human Settlements (UNCHS) in April. Their main objectives were to review progress reports on programmes relating to the International Year of Shelter for the Homeless (IYSH) and to discuss proposals for a New Agenda for Human Settlements and A Call to Action on Shelter and Services for the Poor.

The Commission also recalled its establishment following the UN Conference on Human Settlements (Habitat) held in Vancouver in 1976, and the recommendations for national and international action which followed from that event which was attended by representatives of 132 governments.

The setting this time was quite different, with lowered expectations and little optimism. Although all governments were invited to the Commission session, a substantial number did not attend. Others which had formerly been active participants, such as Argentina, Australia, Bangladesh, Brazil, Ireland, the Philippines, Venezuela and Yugoslavia were represented only by their diplomatic missions in Nairobi. Although 33 non-governmental organisations (NGOs) came to the Commission session there was no international representation from the construction industry, housing and town planning, architects, engineers etc. Apart from the International Federation of University Women, there were no representatives from universities or educational institutions.

Though the lack of housing finance systems and resources were mentioned by some delegations as impeding efforts to develop and produce housing and shelter, only three governments included representatives of housing finance institutions on their delegations: Canada, the United States and Uruguay. Housing finance had no major place on the agenda before the Commission, nor was it recommended for priority consideration in future international action programmes. Nonetheless, the two largest housing finance organisations in Kenya, the East African Building Society and the Housing Finance Company of Kenya Ltd, did host a major reception for all delegations, NGOs and others present at the Commission session.

The Prime Minister of Sri Lanka, the Hon R. Premadasa, delivered the opening keynote address, with five specific proposals for international action, including the creation of a Global Housing and Shelter Bank. But these proposals received little support from government delegations.

In his welcome speech to the Commission, the President of Kenya, Daniel Arap Moi, though supportive of the IYSH, raised questions regarding the effectiveness of United Nations programmes and wondered whether the costs of large conferences could be translated into the building of houses.

Colombian economist Enrique Penaloza, who had served as secretary general of the 1976 Habitat Conference in Vancouver, returned to the international spotlight in Nairobi by serving as chairman of Committee I dealing with the IYSH. He presented a message from Colombian President Virgilio Barco regarding the massive programmes for housing and slum eradication being implemented there, involving co-ordination of resources among municipalities, public services, social security funds and external funding. Under new arrangements the Corporations for Savings and Housing will be obliged to invest 12% of their new savings and present resources into a fund for

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low-cost housing upon which they can also draw, but only for provision of housing which is severely cost-limited. Colombia has offered to host a future session of the UNCHS and to assist in developing new strategies and directions for relationships with international financing institutions.

Among other developing countries making strong presentations dealing with housing finance were Costa Rica, Uruguay, India and Zimbabwe. The Costa Rican delegate pointed to the creation of a new mortgage bank for housing as a fundamental element of strategy for meeting housing needs in this country. India circulated its draft national plan for housing which calls for development of a national housing bank. The president of Uruguay's National Mortgage Bank described the immense difficulties of obtaining loans or resources for housing and infrastructure through existing institutions. Zimbabwe described the various approaches to increasing resources for housing, including government guarantees, the extension of building society loans to low-income beneficiaries, allocation of National Housing Fund loans to all local authorities, and generation of new funding through 9% tax free paid-up permanent shares (PUPS) in building societies.

Perhaps the most impressive national report was that of the People's Republic of China. In addition to multiple IYSH activities in 1987 China would build some 2.7 million flats in urban areas and four times this number in the countryside, so that 50 million people will move into new homes. During the past five-year plan 16 urban dwelling units per thousand population had been completed annually and 11 per thousand in the rural areas. The government was now encouraging the purchase and construction of houses by individuals, supplying land, granting loans, and providing building materials at low cost, with tax exemption for dwellings bought by individuals.

Several delegations pointed out that only a small proportion of aid now flowing to developing countries is directed to projects to improve shelter and living conditions of the poor. In 1982 less than 5% of concessional aid (including grants) and some 6.5% of official non-concessional aid was allocated to housing, urban and community development, water supply, solid-waste disposal and the production of building materials. The annual average for such aid in past years was some $3 billion, small in relation to the size of the problem. In some developing countries one-third of the population is living in slums and squatter settlements; an even higher proportion in the large cities.

By the year 2000 eight out of 10 people will be living in developing countries, which must meet the new needs created by a world population growth of some 80 million per year, or 1.2 billion between 1985 and the year 2000. The majority of this new population is likely to be poor and two-thirds of the population increase will take place in the urban areas, an average of 51 million people per year or 140,000 per day during the rest of the century. By the turn of the century 18 of the expected megacities with more than 10 million people will be in developing countries. In the light of the above conditions, recommendations before the Commission were that bilateral and multilateral funding organisations and regional development banks should consider as a first step to increase their grants and lending for shelter and services to at least 10% of their total assistance.

The amounts pledged by governments at the Commission's session, for the IYSH and its follow-up and for the UN Habitat and Human Settlements Foundation for the work programme of the Habitat Centre, were modest. A few were notable because they represented a break from the previous lack of commitment in this field.

For example, for the first time the USSR made a pledge of $300,000, and for the second time the USA made a pledge of $400,000. Other pledges included: Italy, $350,000; Finland, $1 million (for a three year programme); Canada, $1 million (for continuing support of information programme); Sweden, $350,000; Japan, $500,000. The Netherlands had contributed $750,000 for IYSH projects and Sri Lanka had paid in $1 million.

Some countries, including France and West Germany, stressed their support for international housing through bilateral government or non-governmental channels. But in all, the pledges for the IYSH programme remained several million dollars short of the targets originally established.

The representative of the Habitat International Council, David Hall, president, representing non-governmental organisations, expressed strong dissatisfaction at the inadequacy of the voluntary contributions by many of the member states, especially the industrialised countries. It is truly shameful, he said, that many wealthy countries make only very small contributions or none at all . . . especially when some of them benefit indirectly through contracts for parts of the work programme going to firms in their respective countries.

As IUBSSA's representative to the Commission session, I recalled the long-standing supportive posture of IUBSSA for international work in the housing finance field. IUBSSA had actively participated in the project on housing finance carried out by the former UN Committee on Housing, Building and Planning, which had resulted in the 1968 proposals for establishment of an International Housing Finance Corporation or other international financing facility.

I also pointed out that there had been an enormous growth and development of financial technologies in the past decade. One result was the greatly increased interna-

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tional capital flow for investment in housing bonds and mortgage securities. Three main areas now deserved special attention: (1) the provision of resources for housing improvement through small-scale credits and loans through credit unions, co-operatives, housing associations and civic groupings of various kinds; (2) the development of special techniques for enlisting the co-operation of housing finance institutions in housing and shelter improvement efforts; (3) development of capacities and instruments to enable more countries to participate in the vast international markets for mortgage securities. This meant that, where feasible, countries should first endeavour to develop their own secondary markets for mortgage securities, thereby providing a lead-in for future international developments in this field.

I stated that the above three approaches offer possibilities for future financing of housing and human settlements going far beyond that available through public sector budgeting for this sector, or that available through the United Nations, World Bank and Regional Development Banks, or other international organisations.

At the Commission session there was marked ambivalence, as between public and private sectors, regarding the concepts, policies and responsibilities for the provision of housing. The recommendations of the Second International Shelter Conference, held in Vienna in September last year, stressing the importance of public-private sector partnership in the housing field, were referred to by several governments and the report was circulated to delegations.

The Indonesian delegation, for example, drafted a resolution drawing upon the Vienna recommendations, calling upon all countries to develop housing finance policies and institutions which stimulate development of capital markets by mobilising household savings from all income groups and to provide loan opportunities for all such groups. The African Union of Building Societies and Housing Finance Institutions had convened a special workshop in Mangochi, Malawi, from 27 to 29 March, funded by the US Agency for International Development, to review and consider the Vienna recommendations in the light of African country experience. The Vienna recommendations were amended to meet African needs and were forming the basis for further dialogue between public and private sectors in Africa.

In their country reports, some governments gave special attention to how they were encouraging housing production by self-help building methods and group organisation. The private sector and NGOs, espe-

The role of NGOs

OF THE 100 governments represented at the Tenth (Commemorative) Session of the UNCHS, only two or three included representatives of non-governmental organisations as members of their delegations. But the NGOs themselves took part in several events to sharpen their role and image with respect to human settlements improvement. These included an International Seminar — NGOs: Their Role in Shelter, Services and Community Development — from 30 March to 1 April; the Global Conference of NGOs on Human Settlements, from 2 to 4 April; and board meetings for the Habitat International Council on 5 April.

The International Seminar included participants from 45 third world-based NGOs, 12 international NGOs and 16 multilateral, bilateral or private donor agencies. They issued a Declaration, Working Principles and Recommendations. The Declaration asserted the right of all people to adequate shelter and opposition to forced eviction as well as the role of low income people as city builders and governments as enablers. It stressed the unmet needs of women and children, and the importance of a multisectoral approach. It endeavoured to define the relationship between NGOs and community based organisations (CBOs) which do so much of the building in developing countries.

It also defined the relationships between governments and NGOs and set out a strategy for international donor-NGO relationships for the future. It prepared a plan of action and developed a resolution regarding networks and coalitions, which *inter alia* would transform the Habitat International Council into a global coalition, changing the composition of its board, designating a developing country representative as secretary general, and changing its name to "Habitat International Coalition — NGO Alliance on Human Settlements." The HIC subsequently accepted in principle the recommendations for its change of name and internal reform, subject to membership ratification.

The Global Conference sponsored by the HIC featured reports of many case studies from different countries in the following areas: shelter, services, construction, employment, legislation, land, finance, research and education, training and information. Detailed plans of action for NGOs to work in each of these areas was developed. Grassroots NGOs were urged with respect to finance, to organise income generating activities, particularly in building materials production, to raise capital for shelter and to increase self-reliance. Support NGOs would provide information to the grassroots about how financing works; train in proposal writing; lobby finance institutions to develop conditions which suit the poor; and help the poor organise income generating activities, particularly in building, and to pay for building.

Copies of the report of the International Seminar of NGOs are available from the Mazingira Institute, PO Box 14550, Nairobi, Kenya or from the Habitat International Council, 41 Wassenaarseweg, 2596, The Hague, Netherlands.

cially at community level, account for much of the planning, construction and financing of housing and shelter. But in Nairobi few governmental representatives gave recognition to these basic factors. Both the Netherlands and Sweden did, however, stress the important role of NGOs in their statements to the Commission, as did the USA and Canada in advocating public-private sector approaches toward meeting housing and shelter needs.

The executive director of the UNCHS, Dr Arcot Ramachandran, in his address to the Global NGO Forum held from April 1 to 4 in Nairobi, underscored the importance of NGO participation and involvement in dealing with all aspects of the shelter problem. He said that given the sheer numbers involved in the shelter crisis new and creative ways have to be found to fully mobilise the resources of the private sector.

He suggested that in the first instance building societies and savings and loan associations by their very nature and function must assume a central role in meeting the challenge. Mechanisms should be found to bring together low income groups and housing finance institutions which would allow for greater generation of resources for the construction and improvement of shelter. He added that there are already a number of examples in developing countries where partnerships between private housing finance systems and low income communities are successfully under way. These views were not reflected in the draft work programme of the UNCHS for the next biennium, as housing finance was not listed as a priority area.

It does not appear likely that housing finance institutions as such will have any major role within the present United Nations structure. Judging from the recent experience of the UN Commission in Nairobi, governments generally are not ready to release their control of resource mobilisation and other significant housing finance measures so as to permit any significant specialised development in this field. Moreover, judging from the Tenth (Commemorative) Session, governments there seemed content that the present UNCHS-Habitat Centre remain a minor entity in the United Nations system.

The recommendations of the Commission will now pass to the UN Economic and Social Council for consideration at its July session in Geneva, and then to the UN General Assembly's 42nd Session convened for New York in October. ■

Generation of financial resources*

'On the domestic side, it is clear that countries will have to mobilise financial resources from internal sources more than they have in the past. Human settlements finance must not be conceived only in terms of housing finance. It should be clear that resources mobilised for settlements development are resources mobilised for redevelopment: the two are indistinguishable. Beyond this, rather than rely on taxation mechanisms to raise capital for investment, governments should make use of their regulatory and legislative powers to provide incentives and opportunities for the formal and informal private sector, to contribute its resources to key settlements development objectives.

International financing should be seen as an important component of human settlements programmes. Since it will always be minute in comparison with total programme needs, it should be reserved for special development-priming, and prototype purposes, based on strict replicability criteria and aimed at the support of local initiatives rather than the satisfaction of aid-agency priorities. All allocation of financing should be based on the contribution the expenditure will make to economic development.

Developing countries typically show a low aggregate propensity to save because they lack the institutional infrastructure to mobilise domestic savings. However, most developing countries possess an untapped potential of domestic household savings which, without an effective financial system, tend to flow into non-monetary assets and other stores of value that are counted as consumption rather than savings in national income accounts. By giving attention to human settlements as a leading sector for investment, economic development can be promoted, and economic development goes hand-in-hand with financial development. Increased activities in human settlements can, in particular, help to develop effective housing-finance institutions. The possibility to offer access to long-term credit for housing can provide an additional inducement for households to transfer funds from cash holdings and hoards into deposits with formal-sector financial institutions. By mobilising these under-utilised funds, the domestic capital pool can be increased and used for economically productive investment.

The discussion of financial-resource mobilisation has, for too long, been confined to arguments about the distribution of public budgets between central and local governments, and the financial viability of low-income mortgage institutions. The issue has to be seen as one of capturing all the sources of governmental, commercial and private funds, and devising the mechanisms for channelling all funds into appropriate investment avenues. It has to be approached as a complex exercise in business management and resource accumulation, rather than as a competition over sectoral allocations of a finite resource pool.'

**From "A New Agenda for Human Settlements," Report of the Executive Director, UN Commission on Human Settlements, presented at Tenth (Commemorative) Session, 6-16 April, 1987, Nairobi, Kenya.*