International trends in housing tenure and mortgage finance

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Contents

Executive Summary

Trends in tenure between owner-occupation and renting

- Owner-occupation is the largest tenure in all countries studied except Germany.
- The percentage of owner-occupiers has continued to increase in the majority of countries included in the study, but now seems to be stabilising. Where falls have been observed, they generally reflect cyclical changes in the housing market.
- The proportions of younger households entering owner-occupation are, however, stable or falling, often by quite significant amounts.
- Growth in core middle-aged, middle-income owner-occupation also appears to reached a plateau. People are becoming owner-occupiers later, and slightly fewer mainstream middle-aged households are owners.
- These reductions are offset by cohort effects as hosueholds get older and move into owner-occupation.
- The main reason given for younger households not entering owner-occupation is affordability, although in some countries (notably the UK), the increased availability of more appropriate private rented accommodation is also seen as relevant.
- Given that interest rates have fallen in all countries, and mortgage conditions have eased, affordability problems are mainly the result of increased house prices.
- Some countries have introduced policies to help all first-time buyers (Australia) or those in particular households (UK, USA). In other countries young households increasingly rely on help from family members (Denmark, Netherlands).
- Owner-occupation in the countries studied is expected to increase slightly from current levels because of cohort factors and a tendency in some countries to give increased responsibility to the private sector.
- Ex-communist countries have experienced sudden rises in owner-occupation, taking them to proportions above those found elsewhere in Europe (except in Czech Republic). In these countries, markets may stabilise around lower levels of owner-occupation over the next few decades.
- Social renting across Europe is generally declining as a percentage of the rented sector. Where the percentages have increased, as notably in the USA, it appears to be the outcome of positive government policy — not just changes in other tenures.

Comparing relative housing costs between tenures

- Owner-occupation has generally become cheaper as compared to renting, particularly reflecting lower nominal interest rates. Social renting is particularly cheap in countries such as Australia and the US, where rents relate directly to income.

- The UK is the only country where private renting is more expensive for younger households than owner-occupation.
- For middle-aged households, private rents in most countries exceed the cost of owner-occupation – partly because owner-occupiers costs will largely reflect historic prices.
- Several policy and economic forces seem to be acting to narrow the gap between the cost of owner-occupation and that of renting.

Changes in government taxes and subsidies to housing

- While in most of the countries studied, government policies still favour owner-occupation, this assistance is now beginning to decline. Nevertheless, in many countries (eg, the USA, Iceland), owner-occupation still receives very generous tax treatment.
- Social housing subsidies, while more generous than in private renting, are beginning to decrease leading in turn to higher rents.

Differences in mortgage finance across countries

- Mortgage providers are offering a wider range of instruments than a decade ago, from fully variable to long-term fixed interest rates. Across countries interest rates are now more often linked to the macro economy (such as interest-rate trackers).
- The numbers of mortgage products are increasing across all countries, driven both by competition and consumer demand. While formally the differences in types of mortgages used across countries remain fairly consistent, in practice, there is evidence of movement towards shorter-term, fixed interest rates.
- For example, in the USA there are now many fixed rates offered for less than 30 years — often 5 or 10. In Denmark, there is a shift towards greater use of variable-rate mortgages.
- Although high loan-to-value ratios permit purchasers to buy a dwelling with only a small deposit, there is no evidence that countries with high average LTVs have higher owner-occupation rates among young households.

Risk mitigation strategies

- Increasing variety in borrower types, changing labour markets and social patterns have increased the relative importance of risk mitigation.
- The importance of state guarantees is growing. These, generally, protect the lender rather than the borrower, allowing the lender to make loans to higher-risk groups. Insurance products against fall in value are developing, for example, in the Netherlands.

- The availability of private mortgage insurance is also increasing with the development of both insurance to cover borrowers loss of income and insurance to cover lenders against loss of principal. The UK, Canada, Australia and the USA have the most developed private insurance markets.
- More sophisticated risk mitigation strategies have enabled the growth in non-conforming lending – partly through transferring risk to insurers or through securitisation.
- State help towards mortgage payments when the mortgagor's circumstances change is limited or, in some countries, non-existent. The UK appears unique in having both continuing, if limited, state support and well-developed insurance products to cover loss of income.

Future prospects for tenure patterns

- In the short term, attitudes to the housing market have been shaped by the relatively easy conditions of the last few years. While risks remain, there is now some evidence of lower prices and lower activity in housing markets which were thought to be overheating. This may in turn help to alleviate the access problems faced by younger households.
- Over the longer-term, the evidence is that across most of Europe owner-occupation is maturing. It is, therefore, not expected to grow as rapidly over the next decade as it has done in earlier decades.

Chapter 1

Introduction and aims

In the mid-1990s, the Council of Mortgage Lenders funded a project to examine why the UK housing market is so different from that of other advanced industrial countries. This difference was manifested through the rapid growth of owner-occupation, the extent to which younger households were choosing ownership rather than private renting, and the risks associated with the structure of finance and subsidy in the country (Freeman, Holmans and Whitehead, 1996).

Previous studies have shown that the UK housing market is different to other countries, in having larger numbers of young people in owner occupation and higher private rental costs.

But, does the UK remain different and what are likely future trends?

This and other research revealed the extent of mortgage market liberalisation during the 1980s and 1990s across many of the countries studied. Governments were cutting back on subsidies to owner-occupation, and that new legal arrangements and housing finance instruments were beginning to emerge that were aimed at making markets more robust and better able to meet consumer demands. The research also concluded that the UK was, indeed, different, particularly in terms of the high proportion of younger households entering owner-occupation and the relatively high costs of being a private tenant (a related issue). However, in Europe and other industrialised countries, it was clear that owner-occupation was the tenure of choice for the stable middle-income, middle-aged household in all the countries studied – including countries such as Germany, where renting was still the majority tenure.

Since the mid-1990s there have been many changes in the macroeconomic environment, in government attitudes to tenure and housing assistance, in the choices available to consumers, and in approaches to risk sharing and reduction. Housing and housing-finance markets have continued to develop within a more liberal regulatory environment, and there have been continuing pressures toward integration of markets within the European Community. New trends and challenges are emerging, particularly that of affordability of housing for younger households and, in some countries, notably the UK, equity withdrawal by older owner-occupier households.

It, therefore, seems appropriate to take another look at whether and how the fundamentals are changing. In particular, we ask whether the UK remains different, how government policies and markets are developing across Europe and, at a more qualitative level, what experts in the different countries think about the robustness of the housing and housing-finance systems in their countries – and the likely future trends.

Research aims

This report aims to identify trends in owner-occupation, comparing expenditure, mortgage system developments and risk mitigation between countries

This report, therefore, brings together information about recent international trends in housing tenure, mortgage systems, and housing taxes and subsidies. It updates the 1996 study of patterns of housing tenure, housing cost, and taxes and subsidies in twelve countries, and also examines some of the questions about instruments and risk. The nineteen countries covered in this report include the main European countries with differing housing traditions, but we also discuss several non-European countries, see Table 1.

Table 1: Countries included in study

Australia	Denmark	Hungary	Slovenia
Austria	Finland	Iceland	Sweden
Belgium	France	Lithuania	UK
Canada	Germany	Netherlands	USA
Czech Republic	Greece	Portugal	

Note: The three countries covered in the 1996 report and not in this one are Japan, (excluded due to its very different economic and social environment); Ireland and Spain, (where experts were not able to respond within the required timetable). The majority of new countries included are transition economies, which adds an interesting new dimension to the analysis as these countries are becoming more integrated into the European Community.

The report is made up of two elements: a comparative analysis that makes up the first part of this report and the individual country summaries, which provide a cameo of each country.

In the cross-country analysis section, we bring together the statistical and qualitative information provided by experts in the different countries to address the following questions:

- What are the patterns of housing tenure and how are they changing? Is there an international trend towards increased levels of owner-occupation? Is the proportion of social renting falling compared to private renting?
- What is the relative cost of housing across different tenures? Have these relative costs changed in the last decade?
- What important changes have occurred in tax and subsidy frameworks recently, and what are the implications of these changes?
- What are the principal characteristics of the mortgage system in each country, from the point of view of the borrower?
- What mechanisms are in place to handle risks faced by lenders and borrowers alike?

The second part of the report summarises the material for each country within a common structure. These sections put flesh on the comparisons, and enable a more detailed understanding of how housing and mortgage systems are developing across the nineteen countries.

Methodology

We sent a standard questionnaire to a housing expert in each of the countries in mid-2003. Nine of the nineteen countries were also studied in the 1996 research. The survey questionnaire closely followed that used in the previous research, to facilitate comparisons where possible. Additional questions were included covering mortgage systems, and going into greater depth about tax and subsidy systems. Information from the housing experts was supplemented by material from published and online sources; references are given at the end of each country cameo in the Annex. The summary cameos were checked with the experts in each country.

Together with general trends the research examines two key housing career stages: Young Entrants and Mid-Life households

A particularly important aspect of our methodology is that we look at two distinct points in housing careers – young entrants to the housing market and households at a stable mid-life stage. Our aim was to allow greater understanding of the conditions faced by individuals, and greater consistency in comparisons across countries.

- The ***Young Entrant*** household was defined as a two-adult household without children, with the main respondent aged around 25 years, and an average income for the age group.

- The ***Mid-Life*** household was defined as a two-adult household with two children, with the main respondent aged around 45 years, and an average income for that age group.

These household types were specified because they represent two points in a fairly typical household housing career. They do not, however, make up a particularly large percentage of households — in the UK in 2001/02, for example, of the 19,901 households that participated in the Survey of English Housing; only 12% were Young Entrant and Mid-Life households. These groups do, however, tend to be seen as the leading indicators of change in behaviour.

Our definitions were ideals, and in practice, we found that for most countries the data did not permit such levels of disaggregation. In several countries, we could distinguish between younger and older households, but not between those with and without children; in a few countries, the reverse was true. Further selection of households by income levels was rarely possible. Each country chapter gives details of the data used.

Chapter 2

Tenure patterns

In this section, we first compare overall tenure patterns across countries for the most recent year available. We then look at recent changes for those countries where we have data. Finally, we look at cross-country tenure patterns for Young Entrant and Mid-Life households.

Table 2: All households by tenure, %

Country	Owner-occupation	Social renting	Private renting	Others	Year
Hungary	92	4	3	1	2003
Lithuania	84	4	5	7	2002
Slovenia	82	7	3	9	2002
Greece	80	0	20	0	2001
Iceland	78	2	5	16	2003
Portugal	76	7	15	2	1999
Belgium	74	7	16	3	1999
Australia	70	5	20	5	1999
UK	70	20	10	0	2001/02
USA	68	3	30	0	2002
Canada	66	6	28	0	2001
Finland	64	17	15	4	2001
Austria	57	23	17	3	2001
France	56	17	21	6	2002
Sweden	55	21	24	0	1997
Denmark	53	19	18	9	1999
Netherlands	53	35	12	0	1998
Czech Republic	47	19	10	24	2001
Germany	41	6	49	5	2001
Averages	**67**	**12**	**17**	**5**	

Source: Unless the source is given, all tables in this report are compiled from tables in the country chapters. For explanations of definitions, unusual or missing data, refer to the accompanying footnotes in the relevant chapter.
Notes: For calculating averages in Tables 2, 5, and 9, we have allocated the rental sector in Czech Republic (29% overall) 10% to private rental and 19% to social. Co-operative tenure in Sweden treated as owner-occupation.

The information presented here allows us to identify general trends, but does not permit precise comparisons. Within countries different sources sometimes give different percentages for the same indicator, especially if one source is a survey and another is a census. Also, there are often separate figures for the tenure of dwellings and that of households. In the UK, Germany and the Netherlands, a household is defined in such a way that two or more households can live in one dwelling. But in the USA and France, a household is defined as all persons usually resident in a separate dwelling, so the number of households in total and by tenure necessarily equals the number of occupied residences. The UK is unique in having estimates of tenure as a proportion of the whole housing stock, including second residences and vacant dwellings. Other countries' figures are for the tenure of occupied dwellings. Overall tenure statistics are shown in Table 2.

Owner-occupation dominates tenure choice and continues to grow

Owner-occupation is the largest tenure in all countries except Germany

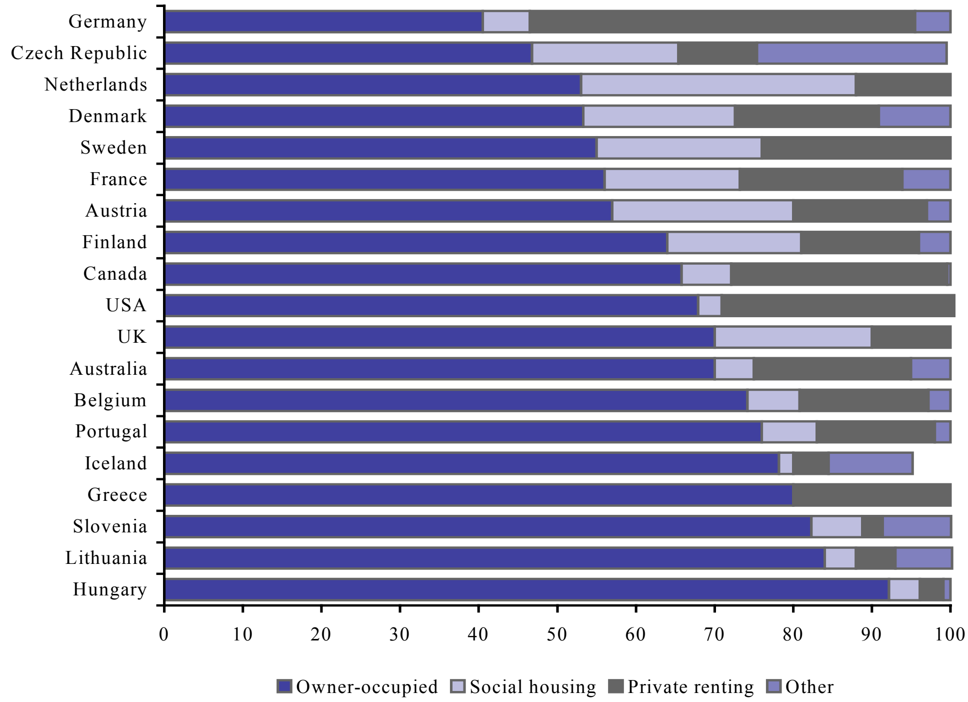
In all countries studied, except Germany, owner-occupation is the largest single tenure category. Overall, percentages of owner-occupation range from Germany (41%) to Hungary (92%). The mean is 67% – only a little below the UK figure of 70%.

The 1996 study of tenure patterns identified three distinct country-groupings by size of owner-occupied sector. Spain and Finland had the highest proportions of owner-occupation at over 75%; a second group (predominantly English-speaking countries) had 60–70% of households in owner-occupation; and the remainder had fewer than 60% of households in owner-occupation. This last group included France, the Netherlands, Sweden, and Germany.

Using the latest available figures, we can again divide our nineteen countries into three groups (see Chart 1):

- *Low Owner-occupation*: Germany, Czech Republic, the Netherlands, Denmark, Sweden, France and Austria have levels of owner-occupation below 60%. These countries (except Germany) are characterised by rather large social rented sectors.
- *Mid-level Owner-occupation:* Finland, the USA, Australia, the UK, Canada and Belgium have levels of owner-occupation between 60 and 75%. All the English-speaking countries studied fall into this group.
- *High Owner-occupation*: Slovenia, Lithuania, Hungary, Greece, Iceland and Portugal, all have owner-occupation levels of 75% or above. The first three are former Eastern bloc countries, where the post-communist economic changes included a mass transfer of state housing to the private sector. Greece is unique in having no social rented sector at all.

Chart 1: Households by tenure



Source: See country chapters

Table 3, below, shows the change in levels of owner-occupation in ten countries over roughly the last decade. The time period covered ranged from five to 14 years, depending on the data sources in the country in question.

Tenure figures continue to show an overall increase in owner occupation… but levels are stabilising

In five of the ten countries, the overall percentage of owner-occupiers rose during the last decade, and in two it was unchanged, indicating a weak trend towards higher levels of owner-occupation (however, as we discuss below, levels of owner-occupation among Young Entrant and Mid-Life households both generally fell). The annual rate of change ranged from – 0.78% in Finland to 1.3% in Slovenia. Slovenia is, however, a special case because of the post-communist privatisation of previously social housing, or restoration of dwellings to their former owners. If we exclude Slovenia, the mean annual rate of increase in owner-occupation among the nine countries is 0.10%. The 1996 study of tenure patterns identified a general trend of increasing owner-occupation rates over the last 45 years. Our analysis clearly indicates a continuation of this trend although the proportion of owner-occupiers now seems to be stabilising in many countries, albeit at different levels.

Table 3: Change in owner-occupation in the last decade, all households

Country	Owner-occupation Earlier year %	Latest year %	Annual % change	Year of data sources
Slovenia	68	82	1.3	1991; 2002
Australia	70	70	0	1994; 1999
UK	68	70	0.34	1994/95; 2001/02
USA	64	68	0.34	1991; 2002
Canada	63	66	0.32	1991; 2001
Finland	71	64	-0.78	1992; 2001
France	54	56	0.13	1990; 2002
Sweden	55	55	0	1991; 1997
Denmark	55	53	-0.13	1990; 1999
Netherlands	47	53	1.14	1993; 1998
Germany	38	41	0.18	1987; 2001
Average			**0.26**	
Average excluding Slovenia			0.15	

Source: See country chapters

Rising levels of owner-occupation can be the result of one or more of the following factors:

- Government policy changes (increased tax breaks, grants to buyers, transfer of housing formerly owned by the government into private hands);
- Demographic and lifestyle changes (baby-boom age cohort reaching property-buying age; rise of two-income households);
- Falling interest rates; and
- Increased access to mortgage finance.

Major reasons for falling levels of owner-occupation include:

- Government policy changes (removal of tax breaks, imposition of new taxes); and
- Rising interest rates.

The property-market cycle also affects levels of owner-occupation; but its effects are not always straightforward. On the one hand, during a period of generally rising property prices, some buyers bring forward purchases in order to buy before prices rise further. Others choose owner-occupation because of the potential for capital gains. In these ways, rising property prices can lead to an increase in owner-occupation. On the other hand, a rising property market, also, can take prices beyond the range of many potential buyers, leading to a fall or levelling off in owner-occupation.

Similarly, falling property prices can lead potential first-time buyers to delay in the hope of further falls. Price falls can result in negative equity for existing borrowers, who may return to the rental sector. These effects can result in lower owner-occupation levels. However, falling prices can also make home-ownership affordable for more households (resulting in higher owner-occupation levels). The net effect of the property-market cycle on owner-occupation depends on the levels of property prices and incomes in the market, and the stage of the cycle that has been reached. Consumer confidence, the extent of flexibility in mortgage lending criteria and pace of innovation in product development and competition will also play a role.

Owner-occupation rates tended to increase in countries with cyclical house price rises, low interest rates and easy access to mortgage finance. But owner occupation fell in countries experiencing either cyclical house price falls or government policies working against home-ownership

As shown in Table 3, in the English-speaking countries (Australia, Canada, the UK and USA), owner-occupation rates were high at the start of the decade and, in all except Australia, they continued to increase over the period. This reflects their shared cultural bias in favour of owner-occupation, cyclical factors, lower interest rates, and easier access to mortgage finance. The effect of government policies seems to have been less important: Australia had the strongest pro-ownership policy change, with the introduction of a grant for first-time buyers, but the overall owner-occupation rate was unchanged (although data on tenure rates in Australia varies according to source - see country chapter).

In three countries — Denmark, Finland and Germany — the proportion of owner-occupiers fell during the period studied. Again, Germany represents a special case because the data for the earlier period apply only to former West Germany, whereas the more recent data are from the entire post-unification country. It is unclear whether, comparing like with like, owner-occupation has in fact fallen in former West Germany.

Of those countries where owner-occupation has fallen, Denmark and Finland experienced strong cyclical downward movement in house prices during the period between 1980 and 2000, causing owner-occupation rates to fall. Owner-occupation rates are expected to rise again if current conditions to prevail. In both Germany and Austria, temporary government policies were put in place during the 1990s to increase the supply of rental housing. These policies destabilised the housing markets in these countries; again, owner-occupation rates will likely recover in future. In some countries, such as the UK and Finland, problems of affordability for young aspiring owners and a lack of alternative tenures between owner-occupation and renting have led to calls for an 'intermediate tenure'. The box below explains how a new type of tenure works in Finland. A number of low cost home-ownership options exist in the UK and new schemes are emerging to fill demand for these aspiring owners.

Intermediate tenure – an example in Finland

In the 1990s, a hybrid ownership rental tenure emerged, using a model first devised in Sweden. In a 'right of occupancy' dwelling, the inhabitant initially pays 10-15% of the market value of the dwelling and then a monthly 'charge for use', covering capital and maintenance costs. The basic idea is that as long as you meet your obligations the owner cannot give you notice to quit. The construction of such dwellings is state subsidised. The 'right of occupancy' can be sold to a third party at a regulated price determined by construction costs (Ball, 2003).

Overall, there is evidence of continued growth in owner-occupation. Several countries with higher-than-average levels of owner-occupation owe these to the transition from collective to market economies. Yet it is also clear that the average rate of growth of owner-occupation is slowing and in some cases decreasing. To examine these trends in more detail we look first at the rented sector and then at different stages in housing careers.

Social renting declines compared to private renting

Over the last decade, social renting as a percentage of all renting fell in seven of the ten countries

Table 4 shows changes in the proportion of social as compared to private renting over the period studied. The second and fourth columns show social renting as a percentage of all renting (which is 100%). Over the period studied, social renting as a percentage of all renting fell in seven of the ten countries for which we have data. The fall was most marked in Slovenia, where 97% of renting households were in social rental in 1991, and only 71% in 2002.

Even excluding Slovenia as atypical, the data show a trend towards a fall in the percentage of renting households in social rental. A widespread move towards more market-orientated provision of social housing has seen a fall in the number of publicly-owned dwellings, and increased use of vouchers and allowances that can be spent on privately-owned accommodation. While the ultimate goal of such policies is still to ensure that the most needy are adequately housed, they result in a fall in the level of social housing as defined here. In some countries, including the UK (and, of course, the former communist countries), dwellings that had been rented from social landlords have been sold or given to their occupants, moving them to the category of owner-occupation.

Table 4: Change in social renting as a percentage of all renting, all households (all renting = 100%)

Country	Social as % of all rental		Annual	Year of
	Earliest year	Latest year	% change	data sources
Slovenia	97	71	-2.36	1991; 2002
Germany	26	11	-1.07	1987; 2001
Australia	24	20	-0.8	1994; 1999
Netherlands	78	74	-0.8	1993; 1998
Finland	58	53	-0.56	1992; 2001
United Kingdom	70	67	-0.43	1994/95; 2001/02
Sweden	49	47	-0.33	1991; 1997
Canada	18	19	0.1	1991; 2001
United States	6	9	0.27	1991; 2002
Denmark	48	51	0.33	1990; 1999
France	38	45	0.58	1990; 2002
Average			**-0.46**	
Average excluding Slovenia			**-0.27**	

Source: See country chapters

Tenure choices of young and middle-aged households

In almost every country, the proportion of owner-occupiers is higher amongst Mid-Life than Young Entrant households

Table 5 gives the tenure breakdown for Young Entrant and Mid-Life households in the most recent year for which data were available. In almost every country, the proportion of owner-occupiers is higher amongst Mid-Life than Young Entrant households. The range of owner-occupation rates among Young Entrant households is very broad, from 17% in France to 95% in Hungary. The spread is narrower for Mid-Life households, ranging from a low of 48% in Czech Republic to 96% in Hungary. If we exclude the countries from the former Eastern bloc and Germany, we still find a wide range of owner-occupation proportions for Young Entrants (17-72%) and a narrower range for Mid-Life households (64-90%).

Although overall owner-occupation rates are general increasing, different patterns emerge when we focus specifically on Young Entrant and Mid-Life households. Table 6 shows the change in tenure of Young Entrant households over the period studied. Data were available for nine countries, spanning periods from three to twelve years.

Table 5: Young Entrant & Mid-Life households by tenure, latest year, %

Country	Young Entrant households: Owner-occupation	Young Entrant households: Social renting	Young Entrant households: Private renting	Mid-Life households: Owner-occupation	Mid-Life households: Social renting	Mid-Life households: Private renting	Year
Hungary	95	3	3	96	3	1	2003
Iceland	70	5	10	90	3	4	2003
Lithuania	61	9	30	90	5	5	2002
Belgium	33	1	64	89	2	7	1999
Finland	39	20	37	85	6	7	2001
Sweden	46	39	15	85	8	7	1997
USA	62		38*	81		19*	2002/99
Australia	47	5	41	80	4	13	1999
Slovenia	46		10*	78		10*	1994
Netherlands	44	41	16	77	20	3	1998
Canada	47		53*	74		26*	2001
France	17	23	53	71	15	11	2002
UK	59	7	34	87	9	5	2001/02
Austria	48	26	26	64	18	17	1999
Denmark	20		80*	64		36*	1999
Germany	49	5	45	49	7	44	2001
Czech Republic	29	22	13	48	14	8	2001
Averages	**47.8**	**15.8**	**29.8**	**76.9**	**8.8**	**10.1**	

Notes: * - represents all renting – breakdown unavailable. Figures in tables 5-7 may not add to 100 because of other tenures not shown. (In the case of Czech Republic, co-operatives of privatised municipal housing account for 28% of Young Entrant and 26% of Mid-Life households. For Slovenia, 41% of Young Entrant and 10% of Mid-Life households were living with parents or relatives.) Data unavailable for Greece, Portugal. For USA, Young Entrant data are 2002; Mid-Life 1999. Calculation of means for social and private rental excludes Canada, Denmark, Slovenia, USA.

There seems to be a clear trend towards falling levels of owner-occupation among younger households, partly due to affordability problems for first-time buyers

In five of the ten countries, owner-occupation levels among young households have fallen over the period studied, and in three they have been stable. There seems to be a clear trend towards falling levels of owner-occupation among younger households, partly due to affordability problems for first-time buyers in several of the countries studied. Of the three countries that saw an increased level of owner-occupation for Young Entrant households (the Netherlands, Sweden and the USA), the increase was very small in two of them. Only in the USA was the change significant. In the 1990s home-ownership became more affordable to first-time buyers in the USA due to low interest rates, and several new government-backed schemes, which were introduced to help first-time buyers and those on low incomes to buy their own homes. House price inflation since then has again made affordability more difficult for those on low incomes.

Table 6: Change in tenure of Young Entrant households, last decade, %

Country	Earlier Year		Latest Year		Direction of change for owner-occupation	Years of data sources
	Owner-occupation	All rental	Owner-occupation	All rental		
Australia	50	46	47	46	Down	1994; 1999
Canada	47	53	47	53	Stable	1991; 2001
Denmark	23	77	20	80	Down	1990; 1999
Finland	41	54	39	57	Down	1992; 1995
France	21	72	17	76	Down	1990; 2002
Netherlands	43	55	44	57	Stable	1993; 1998
Sweden	45	55	46	54	Stable	1991; 1997
UK	74	26	59	41	Down	1994/95; 2001/02
USA	56	44	62	38	Up	1991; 2001

Source: See country chapters

In the UK young people are tending to delay entry into home-ownership – partly because of affordability issues but also because of lifestyle choices. While data is rather sketchy and not available for all countries Table 7 shows the latest available average ages for first-time buyers. In some countries this is quite high for cultural reasons (ie in Slovenia young people commonly to continue living with parents/relatives) while in others such as the UK average age has been increasing over time due to affordability, delay in marriage, and other lifestyle issues.

Table 7: Average age of first-time buyer, selected countries

	Age	Year / trend
UK	34	2003 - Increasing
Australia	32-33	1999 - Increasing
Germany	38	1994 - Decreasing
Netherlands	34	1998
Portugal	25-30	Latest
Slovenia	30-40	Latest

Source: See country chapters

Table 8 shows the change in tenure (owner-occupation vs all rental) of Mid-Life households over the period. In four of nine countries the percentage of owner-occupiers among middle-aged households with children has fallen over the last decade, and in three countries it has remained stable. The exceptions are Finland and Netherlands. In the Netherlands the increase was partly the result of a fall in government support for social housing, meaning it was no longer a viable tenure choice for middle-income households. In the case of Finland the apparent change is almost certainly an anomaly stemming from differing data definitions (see country chapter for details).

Table 8: Change in tenure of Mid-Life households, last decade, %

	Earlier year		Latest year		Direction of change for owner-occupation	Years of data sources
Country	Owner-occupation	All rental	Owner-occupation	All rental		
Australia	81	17	80	17	Stable	1994; 1999
Canada	75	25	74	26	Stable	1991; 2001
Denmark	68	32	64	36	Down	1993; 1999
Finland	79	20	85	13	Up	1992; 1995
France	73	23	71	26	Down	1990; 2002
Netherlands	68	28	77	23	Up	1993; 1998
Sweden	91	9	85	15	Down	1991; 1997
UK	86	14	87	13	Stable	1994/95; 2001/02
USA	86	14	81	19	Down	1991; 1999

Source: See country chapters

While overall levels of owner-occupation increased in most countries over the period studied, levels of owner-occupation for Young Entrants tended to fall

While overall levels of owner-occupation increased in most countries over the period studied, levels of owner-occupation for Young Entrant households (and in some countries for Mid-Life households) tended to fall. The general increased levels of owner-occupation may, therefore, be coming from other household types or housing career stages. It should be remembered, however, that Young Entrant and Mid-Life households as narrowly defined account for only a small percentage of all households – about 12% in the UK. These results may, therefore, be driven in part by small sample sizes and should be treated with some caution. Without collection and analysis of further data it is impossible to say which particular household types are accounting for the increases. In some countries that have had high owner-occupation rates for an extended period of time, current high rates are being sustained by the ageing of the population.

Future prospects: has owner-occupation reached a plateau?

Owner-occupation levels in the countries studied may increase slightly from current levels, particularly because of the continuing dynamics of cohorts moving through their housing careers. They may also further increase because of policy pressures as countries continue to look for means of transferring responsibility to the private sector. In terms of underlying trend, however, the popularity of owner-occupation appears to have reached a plateau. This plateau is at different levels in different countries, reflecting social attitudes to home-ownership, legal and tax systems, and government policies. In the former communist countries, where very high levels of owner-occupation are seen (except in Czech Republic), markets and/or governments may work to reduce them somewhat over the next few decades.

Chapter 3

Household expenditure on housing

The objective of this section is to examine the extent to which costs differ between tenures across the different countries. This is important in itself, but can also help to explain tenure patterns and how they are changing. We look only at households' actual payments – not at imputed costs or the impact of capital gains, so results are only indicative.

The relative costs of different housing tenures can help to explain tenure patterns and how they are changing

In comparing the expenditure on housing in different countries, we compared payments on housing in each tenure within each country. Ratios of expenditure are calculated on housing in the private and social rental sectors to that on owner-occupation, which was set to 100%. In the text we refer to these ratios as relative expenditures. This allows comparisons of the relative costs of different tenures within each country, to be made between countries - see Table 9. It is not meaningful to compare absolute costs between countries, because different data sources use different definitions of housing costs - some include only rent or mortgage payments, while others include heating, local taxes, and/or utilities. Detailed data on absolute costs in national currencies, and housing cost definitions, are included in the individual country cameos. Here, we examine actual average housing expenditures in the most recent years for which data were available, and compare them with expenditure patterns in the early 1990s.

On average across countries, housing costs in the social sector are about 60% of costs in the owner-occupied sector, reflecting both subsidies and rent-control policies. Private rents, on the other hand, are about 80% of owner-occupation costs. This might be predicted on the grounds that the tenants are only purchasing occupancy rights rather than an asset. The cost differential may also, however, reflect differences in the housing itself, with rental units being smaller and perhaps poorer quality than owner-occupied dwellings.

Relative housing expenditure for Young Entrant households

For Young Entrant households, private renting is cheaper than owner-occupation everywhere but in the UK. This echoes findings seen in the study carried out a decade ago and in Table 9 the UK clearly stands out as the most significant cost differential for Young Entrant households.

Young households pay more to rent in the private sector than in the social sector in all countries except Sweden (where rents for privately owned rental units are set in relation to municipally owned units, and there is no "social rented sector" in the strictest sense). The particularly low social rents in Australia and the USA are associated with the fact that rents are set in relation to the incomes of their occupants – and so reflect income distribution rather than housing costs.

For Young Entrant households, private renting is cheaper than owner-occupation everywhere but in the UK. But in many countries private renting is more expensive than owning for Mid-Life households

Table 9: Relative household expenditures on housing, latest year (owner-occupation = 100%)

	Young Entrant		Mid-Life		Year
	Social renting	Private renting	Social renting	Private renting	
Australia	30	69	57	132	1999
Belgium	n/a	74	88	110	1999
Czech Republic	77	78	114	101	2001
Finland		64*		97*	2001
France	65	88	71	108	2002
Germany	75	84	50	57	2001
Hungary	n/a	n/a	95	104	2003
Netherlands	66	67	95	104	1998
Sweden	75	73	79	90	1997
United Kingdom	51	124	64	104	2001/02
USA	23	70	20	73	2001
Average	**58**	**79**	**75**	**98**	
Average from 1996 report	**52**	**74**	**65**	**89**	

Notes: Data unavailable for Denmark, Greece, Lithuania, Portugal and Slovenia. * Finland data cannot be broken down.

Relative housing expenditure for Mid-Life households

Relative expenditure on private and social renting is higher on average for Mid-Life than Young Entrant households. The social sector tends still to be the least expensive, at 75% of the cost of owner-occupation, while private rents in most countries now exceed the cost of owner-occupation for these older households. This pattern was also found in the report published a decade ago - average Mid-Life expenditure in the social rental sector in the mid-1990s was 65%, and in the private rented sector 89%. The higher costs for renting reflect the fact that Mid-Life owner-occupiers often purchase homes many years ago, so their costs are a function of historic prices, while private rents in most cases reflect current prices. Equally, many owner-occupiers have large equity shares by this time in their lives, so there are imputed costs that are not included here. The Czech Republic is the only country where Mid-Life households pay more for social than for private rental.

Calculations for this report show that US relative expenditure on social renting is extremely low for both Young Entrant and Mid-Life households—23% compared with an international average of 58% for Young Entrant households, and only 20% compared with an average of 75% for Mid-Life households. This is perhaps because the social rented sector in the USA, strictly defined, consists only of municipally-owned housing that is rented to the very poorest people; there is no equivalent of housing associations. As noted above social rent levels are also set according to incomes rather than costs. However, these figures must be treated with some caution because of data limitations.

Housing expenditure gap narrows between tenures

Several policy and economic forces seem to be acting to narrow the gap between the cost of owner-occupation and that of renting

Across countries, social renting is always the cheapest tenure option for either household type. For Young Entrant households, private renting is cheaper than owner-occupation, but for Mid-Life households it is more expensive. This is the same pattern as was observed ten years ago.

Several policy and economic forces seem to be acting to narrow the gap between the cost of owner-occupation and that of renting. Low interest rates have reduced the cost of owner-occupation for many households (although this effect can be offset by higher house prices). At the same time a number of governments have cut their involvement in social housing in an attempt to liberalise the rented sectors and reduce government subsidies—thus raising the cost of renting (social renting in particular). However, social rents have not risen everywhere; in many countries (including Denmark, Portugal, Canada and the US) they are based on household incomes or historic costs. The data do show a mixed picture—in some countries (eg, Finland) the gap between owners' and renters' costs has closed somewhat over the last ten years, while in others (Australia) it has widened.

Chapter 4

Taxes and subsidies

An important factor determining tenure patterns is the extent to which governments assist one tenure or another through subsidy and tax relief. There have been considerable changes in the patterns of such assistance over the last decade (notably in the UK with the removal of mortgage tax relief), which can be expected to have impacted on both actual tenure patterns and expenditures and on attitudes to different tenures (Holmans et al, 2002).

There is almost no difference in the tax and subsidy frameworks surrounding housing between Young Entrant and Mid-Life households, so this discussion refers to all households. In countries where tax relief is given at the marginal tax rate, income determines how much relief a household receives. Since incomes differ between Young Entrant and Mid-Life households, there will be differences in the amount of tax relief obtained. However, we are more interested in the characteristics and composition of the tax and subsidy frameworks than in the amount of tax relief or subsidy available to each household.

Is the favourable position of owner-occupation beginning to change?

In most of the countries studied, government policies generally still favour owner-occupation

In most of the countries studied, government policies generally still favour owner-occupation. Tables 11 and 12 in the Appendix summarise the current situation with regard to taxes on and subsidies for owner-occupation. The most valuable right for most households is the ability to deduct from their income, for tax purposes, all or part of the interest paid on their mortgage. Most countries allow this; Belgium also permits deduction of part of the principal. Iceland's tax treatment is notably generous – see below.

Iceland: Tax treatment of mortgage interest

Through its tax treatment of mortgage interest payments, the Icelandic government basically pays all interest over six per cent of household income. Owner-occupiers list housing-loan interest on their tax returns, and from this amount deduct six per cent of total family income. If the result is positive (that is, if the amount of interest paid is geater than six per cent of household income), the Icelandic tax authorities send the household a cheque for this amount at the end of the tax year. This very generous tax treatment encourages borrowing, and means that nominal interest rates are not very meaningful.

Many countries are, however, now lessening favourable tax treatment for owner occupation

There have been changes in several countries over the last ten years that have tended to lessen the favourable tax treatment of owner-occupation.

- Five countries have recently changed the tax treatment of mortgage payments; in all countries it appears that the end result will be less favourable for owner-occupiers.
- France and the UK have abolished tax relief on mortgages for owner-occupiers (France in 1997/98, the UK in 2000). Previously, French owner-occupiers with mortgages received a tax credit equal to 25% of the interest paid on the mortgage, subject to certain ceilings.
- In Finland the percentage of mortgage interest that can be subtracted from tax payable was increased in 1995, from 25% to 29%. However, this form of tax relief is due to be reformed shortly, to target the benefit to first-time buyers and families with children. Existing owner-occupiers will not be affected, but new buyers who fall outside the targeted groups will be.
- In 1998 Denmark reduced the tax rate at which mortgage interest can be deducted, and Greece in 2002 limited full mortgage-interest tax relief to dwellings under a certain size.

In the former communist countries studied, on the other hand, tax treatment of owner-occupiers has grown more favourable over the last ten years. Hungary made tax deductibility for owner-occupiers significantly more generous in 2001 and 2002, and Lithuania introduced mortgage-interest deductibility in 2002.

In almost all the countries studied, sales of owner-occupied housing are free from capital gains tax if certain criteria are met. These may include value ceilings and minimum holding periods (Germany, for instance, increased the holding period from two to ten years in 1998). Greece is the exception here, charging capital gains tax against which the owner-occupier can claim depreciation.

The most common form of subsidy to owner-occupiers is subsidised mortgage interest rates, often following the German *Bausparen* model, see details of the Slovenian scheme below. Eligibility for such schemes is often limited to buyers of new homes, young people, and/or first-time buyers (as in Finland). Some countries, such as France and Portugal, have recently tightened regulations on the use of house-savings accounts to ensure that they are in fact used to purchase housing. Sweden and Lithuania did have subsidised-interest schemes, but have now abolished them.

Subsidised mortgage interest rates in Slovenia

Under the Slovenian scheme, savers contract to save a set amount monthly for five or ten years. They are paid below-market interest rates, but their deposit is topped up by a state-funded premium. At the end of the savings period, the saver is entitled to a loan with a below-market interest rate, which must be spent on housing.

Mixed trends in support for social and private renting

Social housing subsidies are becoming less generous leading in turn to higher social rents

Tables 13 and 14 in the Appendix provide a summary of the current tax and subsidy framework for private and social renting. Private rental property is treated as an investment good in most countries, as it was at the time of the previous report. Expenses (including mortgage interest) are generally deductible from rental income for tax purposes. Capital gains are taxed in most countries; Finland is an exception – here income from rental properties is taxed, but capital gains are not. Social landlords generally receive more favourable tax treatment than private landlords, and often benefit from government grants for construction of social housing or other subsidies.

Recent changes with respect to private renting have generally been relatively minor. The most important changes have been in Germany, which has made its depreciation allowances for private landlords less generous, and has extended the holding period for capital-gains-tax-free sales of rental properties from two to ten years. In contrast the tax treatment of private renting in Australia was improved for investors in 1999 and this contributed to a boom in the housing market since 2000. There is also evidence of government encouragement of private renting in the UK with a HM Treasury consultation in 2004 on introducing Property Investment Funds (similar in format to American Real Estate Investment Trusts). The stated aim of these new funds is to boost investment in property and in the private rented sector specifically.

Overall, therefore, there is a mixed picture. Many governments continue to reduce their involvement in social housing, either by trimming the size of the social sector and/or by cutting subsidies and raising rents. At the same time, a few governments have introduced policies to encourage investment in private renting, which have helped revitalise this sector.

Chapter 5

Mortgage systems

In the next section we examine how each country's mortgage system operates, from the point of view of the consumer, in order to explore whether and how this might affect tenure choices and the age at which households can access owner-occupation (see ECB, 2003; Mercer Oliver Wyman, 2003; Miles, 2003/2004, for detailed comparisons of mortgage systems). This section mainly, though not exclusively, covers mortgages for individual households rather than investor or buy-to-let mortgages. We summarise the available information in Table 15 in the Appendix.

Mortgage systems vary widely according to differences in legal frameworks, economies and cultural factors

Mortgage systems in the countries studied vary widely - as is to be expected, given that in some of these countries the housing finance system is only a few years old, see box on Slovenia below.

Home lending not secured on the dwelling: the case of Slovenia

Mortgage lending, in the sense of a house-purchase loan secured on the dwelling, was only introduced in Slovenia in 1997. Prior to that, housing loans were secured by guarantors or on loan insurance. The loan period was limited to ten years because insurers would only issue insurance for this period. The mortgage system is still in its infancy, and only about 20% of housing loans are secured on the dwelling. The banks still prefer insurance as collateral, because possession is a lengthy, difficult procedure (it takes a minimum of two years and, until recently, if the bank foreclosed the borrower had the legal right to stay in the house as a tenant). This leads to high up-front costs, with redemption costs of up to five per cent of the loan value.

Even within the EU, though, the mortgage systems are very different. The differences reflect,

- national legal frameworks - for instance, loan-to-value ratios are limited by law in some countries; in others, interest rates must be indexed to underlying central bank rates,
- economies – for example, Dutch loan-to-income ratios are rising due to high house prices,
- local habits and preferences – for example, UK home buyers expect to own a series of homes of increasing size, topping up their mortgage with each purchase, while French owner-occupiers expect to live in their home for the rest of their lives.

Despite this variation, there are similarities in trends across countries that we now turn to.

Borrowers benefit from low interest rates

Interest rates have fallen globally over the last ten years, and mortgage interest rates have fallen in all the countries studied. In countries where most loans are at variable rates of interest all buyers, including those with existing mortgages, have benefited from these new lower interest rates - in Finland, for example, 97% of mortgages are on variable rates. In countries where fixed rates predominate, new borrowers benefit from rate falls, but holders of existing mortgages may be locked into higher rates. In some cases holders of fixed-rate mortgages can remortgage without prepayment penalties, but in others they must compensate lenders for their losses if they pay off the mortgage before the end of its term - in Canada mortgages known as "closed" carry a prepayment penalty, while "open" ones do not.

If interest rates were to rise from today's levels this picture would be inverted -holders of fixed-rate loans would clearly benefit compared to holders of variable-rate loans. The USA is the best-known example of a country where interest rates on most mortgages are fixed for the term of the loan (normally 30 years). In Iceland mortgage interest rates are indexed to inflation -that is, the borrower pays a determined real interest rate, plus inflation. The current mortgage interest rate, at 5.1% plus inflation, is significantly higher than in most of the other countries studied but – as described in the box earlier - interest rates are effectively capped relative to income. Across countries more interest rates are now linked to the macro-economy (for example, products that track the base rate set by the central bank). This may prove more risky in theory as borrowers are exposed to changes in interest rates more quickly, although in practice it is not clear whether this will actually prove to be the case.

Mortgage terms and LTVs beginning to increase

There is a general tendency for mortgage terms to lengthen and in some countries LTV ratios are also increasing

There is a general tendency for mortgage terms to lengthen. This has been the case not only in countries where terms were formerly very short (eg, in Lithuania, ten-year terms were common; now the average is 20-25 years), but also in countries such as the USA, where 63% of first mortgages in 2001 were for 30 years. Finland is an interesting example, illustrated below.

Variable-term mortgages in Finland

In Finland the typical mortgage is a variable-rate loan where the monthly payment remains the same and, when the interest rate varies, the loan term varies accordingly. A rapid increase in house prices in Finland in recent years, coupled with a decline in interest rates, has led to a lengthening in loan terms. The typical term is 15-20 years - still short by European standards.

Longer term loans generally go hand-in-hand with higher loan-to-value ratios (LTVs). The European Central Bank points out that "concerning LTV ratios, most EU countries have in place some mechanism that makes it costly for both the borrower and the lender to agree on LTV ratios above 75-80%. Beyond this threshold, capital adequacy ratios are higher, the use of mortgage-backed bonds is restricted and the buyer may be requested to post extra guarantees." (ECB, 2003). In spite of this there is evidence that borrowers in a number of countries are able to get higher LTV ratios than ten years ago. This is the case in Australia, Netherlands, Sweden and Denmark. In some countries, such as Belgium, even where regulations limit LTV ratios, borrowers are able to achieve effective LTVs of 100% by topping up with unsecured loans.

One might expect countries where LTVs are low to have low owner-occupation rates among young households, because they would not have had time to accumulate a large deposit. Conversely, we might expect that countries with high average LTVs would also have high owner-occupation rates for young households. Table 10, below, shows typical LTVs and owner-occupation rates for Young Entrant households.

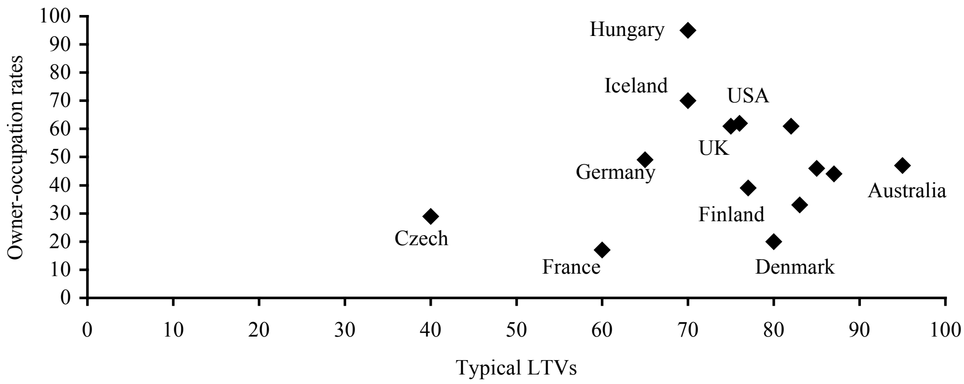
Table 10: LTVs and Young Entrant owner-occupation

Country	Average LTV	Young households owner-occupation rate
Australia	95	47
Netherlands	87	44
Sweden	85	46
Belgium	83	33
Lithuania	82	61
Denmark	80	20
Germany	70-80	49
Finland	77	39
USA	76	62
UK	75*	61
Iceland	70	70
Hungary	70	95
France	60	17
Czech Republic	40	29

Source: See country chapters
Note: Denmark: 80% LTV is legal maximum for mortgage banks, but young entrants normally get loans from commercial banks where higher LTVs—up to 115%--are common. * UK rises to 89% for FTBs

When plotted in Chart 2 it is clear that the relationship is at best a very weak one, indicating that LTVs alone do not explain much of the observed variation in owner-occupation rates. Differences may be due to cultural factors such as a large involvement in the family in the provision of housing in some countries; particularly in the south of Europe.

Chart 2: Relationship between average loan to value ratios and Young Entrant owner-occupation rates



Source: See country chapters

Increasing variety in mortgage products

The range of choice in products is increasing in most countries, driven by competition and consumer demand

The variety of mortgage products offered has burgeoned in recent years. Important product innovations are summarised in Table 16 in the Appendix. At one extreme, former communist countries such as Slovenia now have functioning, albeit undeveloped, mortgage systems. At the other, the UK, where the consumer already had a wide choice of mortgage types, has seen a steady introduction of new products. These include flexible mortgages (which permit over- and underpayments, as well as payment 'holidays') and offset mortgages (where mortgage and savings are in the same or linked accounts, and savings are offset against the mortgage balance). Similarly, in Australia new loan products have included home equity loans and deposit bonds. Under this scheme, in exchange for a fee an insurance company guarantees that the deposit will be paid at settlement, so the purchaser does not have to pay a deposit when contracts are exchanged.

In Slovenia, Austria and Denmark foreign-currency mortgages are important. In Austria the currencies concerned are the Japanese yen and the Swiss franc; in Slovenia and Denmark Euro-denominated mortgages are available. An Icelandic bank has just introduced a mortgage denominated in a basket of foreign currencies. These mortgages appeal to some consumers because interest rates are lower than on national currencies, but borrowers must bear the exchange-rate risk.

Growing competition helps to increase access to home-ownership

Competition forces lenders to develop new products and to price keenly (and perhaps differentially), particularly in those countries with active re-mortgage markets. Strong competition between lenders can lead to a relaxation of entry thresholds, allowing younger and less well-off households to borrow to enter owner-occupation. All else being equal, increased lender flexibility can clearly widen access to home-ownership. However, affordability problems have meant that the average age of first-time buyers in some countries is increasing rather than falling.

There is a general movement to shorter-term fixed rates and higher borrowing levels, but little evidence of standardisation across countries

The general picture is one of increased borrowing in the face of declining money interest rates and of increasing availability of a wider range of mortgage instruments. Competition is strong and pricing is perceived to be keen in most of the countries analysed. If anything, the movement is towards shorter-term fixed rates and towards higher levels of borrowing, both of which from the outset increase exposure to potential risks. Equally, there is little evidence of standardisation across countries. Culture and tradition continue to dominate, although the range of choices for consumers has clearly widened.

Chapter 6

Risk mitigation

In this chapter we ask how different housing finance systems have been addressing the issue of risk -both the individual risks associated with the mortgage borrower, and the more general systemic and policy risks usually arising from changes in the wider economy. Many countries are experiencing an increase in different borrower types in owner-occupation as well as changing social and economic conditions, such as changes in the labour market and increasing divorce/relationship breakdown. In this environment, therefore, risk mitigation becomes relatively more important.

More varied borrower types, changing labour markets and social shifts have increased the relative importance of risk mitigation

There are several types of risk associated with lending on housing, including:

- *Credit risk* – the risk to the lender that the borrower will default on his loan
- *Investment risk* – the risk to the owner-occupier that the value of the home will fall, and with it the value of the owner-occupier's equity
- *Interest-rate risk* – the risk to either party to a loan that the interest rate will move against them
- *Prepayment risk* – the risk to the lender that the borrower will repay a loan (particularly a fixed-rate loan) before the end of its term.

We are particularly interested in how the countries studied deal with credit risk. What mechanisms do they use to insure borrowers and/or lenders against the risk of default? Is public money available to prevent default by private borrowers? Risk management takes place not only through these mechanisms, of course, but also through the operation of the mortgage system as a whole. Credit risk is affected by regulations in each country governing loan-to-income ratios, interest arrangements and loan duration, all of which, as shown in Chapter 5, can vary considerably. It is also affected by the operation of the social security system: in some countries the social security system makes some contribution to mortgage payments for workers who lose their jobs. Credit risk mitigation mechanisms across countries are shown in Table 17 in the Appendix.

State guarantees

Many countries offer state based mortgage guarantees to protect the lender

In Finland, Greece, Hungary and the former East Germany state agencies offer mortgage guarantees in some form. These are often limited to certain types of households — those with low incomes, those in receipt of housing subsidies, or members of certain groups (eg, immigrants from former communist countries in Greece). Increasingly, however, state-based mortgage insurance is available to all owner-occupiers (as, for example, in Sweden). This insurance protects the lender against default-related risks — that is, if the purchaser defaults, the lender will still receive its money. In some cases the state guarantor will (or can) then pursue the borrower for the amount lost.

State guarantees normally protect the lender rather than the borrower. There are some state schemes that do protect the borrower, for example in the case of unemployment - see box below.

Belgium: Flanders insurance against income loss

Since June 1998 purchasers in Flanders have been eligible for Flemish government insurance against income loss. When concluding a mortgage, a household can get ten years' free insurance. If the earner(s) involuntarily becomes unemployed or unemployable, the insurance will make a part-contribution to the repayment of the mortgage (waiting period six months; maximum duration of payments three years, maximum payments apply). During the second and third years benefit levels fall. The scheme is managed by a large insurance company on behalf of the government, which pays the cost of this insurance.

Netherlands: State insurance against fall in value of dwelling

The borrower pays 0.3% of the mortgage amount for a guarantee from the Netherlands National Mortgage Guarantee scheme (NHG). This money goes into a fund to meet potential losses. Under its terms, the NHG will pay if the borrower should be unable to meet interest and repayment obligations. (If the borrower is at fault for defaulting, he/she then owes this sum to NHG.) Moreover, the borrower receives a discount of 20 to 50 basis points on the market interest rate, because the credit risk for banks of NHG loans is practically nil. In addition to indemnifying the lender against default by the borrower, since 1998 the NHG also insures purchasers against a fall in house prices: if the borrower is forced to sell the house by long-term illness, unemployment, divorce, etc, the NHG will make up the difference of the debt.

In Germany, the government introduced guarantees of mortgage payments for low-income households in former East Germany only. Lithuania offers an interesting hybrid - the Lithuania Mortgage Interest Company is government owned, but operates without government guarantees. It offers insurance covering a variety of losses, which aims to improve housing affordability by making low deposits possible.

Private mortgage insurance

UK, Canada, USA and Australia have the most developed private insurance markets

Private mortgage insurance is increasingly widespread, though in many countries it is a very minor player compared to state agencies. The English-speaking countries studied - the UK, Canada, the USA and Australia - are those with the most developed private insurance markets. In a few countries (Canada, for example) state and private insurers compete in the same market, but generally private insurers cover households or risks that are excluded from state cover. As with state mortgage guarantee schemes, there are two types of private mortgage insurance: that which protects lenders against loss of principal, and that which protects borrowers when faced with loss of income.

In the UK, some lenders insure high LTV loans using mortgage indemnity insurance (MII). This protects the lender against losses arising from foreclosure, but is paid for by the borrower. They are a way of allowing consumers to get high gearing without paying increased interest rates. MII premiums or other high lending charges are more likely to be applied on loans with an LTV of over 90%, although some lenders charge these on loans with an LTV above 75%. Other methods of credit risk mitigation used by lenders in the UK include self-insurance, excess of loss insurance, securitisation and use of captives.

In addition, borrowers can often purchase private insurance against loss of income, which will cover their mortgage payments (at least for a certain period). In the Netherlands such policies generally have a term of only one or two years, not the full term of the mortgage. In the UK, Mortgage Payment Protection Insurance (MPPI) can last the full term of the loan, but payouts are usually limited in duration and a waiting period often applies.

Mortgage lenders often require borrowers to take out certain kinds of insurance as a condition of the loan. Insurance is normally required on the dwelling itself, and often on the borrower's life. In Belgium and the Netherlands lenders require borrowers to take out life insurance, and in Germany mortgages for first-time buyers are combined with life insurance.

State help with mortgage payments

Governments (often local governments) in several countries pay all or part of borrowers' mortgage costs under certain circumstances. In the UK, the government provides some means-tested support to borrowers who become unemployed, through the Income Support for Mortgage Interest programme. The government pays mortgage interest, but only after the borrower has been unemployed for nine months. In Australia such payments are made by state governments, and are of limited duration. In the Netherlands if owner-occupiers get into arrears with their mortgage payments they can get a means-tested temporary subsidy from the municipality to cover their housing costs. Recipients are obliged to move within a certain time (generally a year) to cheaper accommodation (normally rented).

Sub-prime lending

More sophisticated risk mitigation has enabled the growth of non-conforming lending

Credit risk is of course particularly an issue in the case of sub-prime lending. The UK and Australia both have significant high-risk lending markets. In Australia, new lenders known as non-conforming lenders specialise in lending to borrowers who do not meet banks' normal lending criteria – who, for example, have a bad credit history or are seeking a loan with a very high loan-to-value ratio. In the UK the non-conforming sector has grown considerably over the last decade with loans available to those with credit-impaired history, and those who need to self-certify/are self-employed. There is also limited availability of products for consumers:

- with credit impaired history in Denmark, France and Netherlands,
- who have previously been bankrupt in Denmark,
- who self-certify their loans in the Netherlands, and
- who are self-employed in most countries.

Mercer Oliver Wyman find that access to mortgage insurance can enable the market to offer higher risk products. This is because the insurer can take on the risk rather than the lender, and can do this more efficiently due to the greater diversification of risk. Markets where mortgage insurance is more common such as the UK have shown greater willingness to offer higher LTV products and loans to higher risk borrower groups (Mercer Oliver Wyman, 2003).

Prepayment risk

Prepayment risk is the risk to the lender that the borrower will repay a loan (particularly a fixed-rate loan) before the end of its term. Assuming there are no prepayment penalties, a rational borrower will want to pre-pay a fixed-rate mortgage if interest rates have fallen since the loan was taken out, because the borrower could then secure another mortgage at the new, lower interest rate. The lender will suffer a fall in its income stream, as it can only re-lend the money at this lower rate of interest.

Lenders can limit pre-payment risk in several ways (for a full discussion of ways of limiting prepayment risk, see Miles 2003 and 2004). They may hedge it, using swaps and derivatives. They may pass the risk on to borrowers by imposing penalties for early repayment of loans. These penalties may be pre-determined fees, or may reflect the cost to the lender of breaking the contract (known as "mark-to-market" charges). Pre-determined fees are common in the UK; for example, a borrower with a five-year fixed-rate loan might have to pay a fee of 5% of the principal for breaking the contract in the first year, 4% in the second year, and so on. Mark-to-market fees are used in Germany. Prepayment penalties are limited by law in some countries and regulations often require that lenders can prove that the prepayment fee relates to losses incurred.

Another option is for the lender to require all borrowers to pay a higher interest rate over the life of their mortgages in order to compensate for the risk that some will prepay their loans. Where mortgages are financed by fixed-rate debt, lenders can make that debt callable, as is the case in Denmark. When mortgages are prepaid, the lender can call (repay) the debt. Investors in callable debt need to be compensated for this possibility, so yields on callable debt are higher than on comparable non-callable issues.

In the USA the typical mortgage is a 30-year fixed-rate loan with no prepayment penalties. Pre-payment risk here is handled by the use of mortgage-backed securities (MBS). Mortgages are bundled by lenders and sold on to investors, who receive the income from the mortgages and therefore assume the prepayment risk. As with callable bonds, investors in MBS demand a higher yield in order to compensate for this risk. Thus fixed-rate mortgages with no prepayment penalties will generally carry higher interest rates than those with prepayment penalties.

In some countries, risk mitigation has focused on protecting the lenders and the financial system. But there is now pressure to find ways of more fully addressing the risks to consumers

Increasing risks result in huge variety of mitigation strategies

It is clear that different countries use very different mortgage and savings instruments, which allocate the risks of changes in cost, value and ability to pay in quite different ways. Increasing lending, shorter-term fixed interest rates and greater use of variable-rate mortgages, together with increasing lending to less traditional households, tend to heighten potential risks, especially those associated with changes in macroeconomic variables.

Some new insurance products are beginning to emerge, addressing variations in value and loss of income, with the help and sometimes the guarantee of governments. Yet this type of encouragement has, in many countries, generally focused more on the risk to lenders than to borrowers. As borrowers also face an increasingly risky environment there is clearly pressure in many countries to find ways of addressing these risks specifically and consumers' financial capability more generally.

Chapter 7

Future prospects for tenure patterns

The patterns of tenure, household expenditure and subsidy discussed in this report are mainly consistent with our understanding in the mid-1990s. But there are also differences – and some concerns.

Although owner-occupation is generally increasing, younger households are none the less entering home-ownership later due to high costs and lifestyle changes

Owner-occupation rates have in general increased and are now on average around 66%. But the rate of increase outside the transition countries has slowed considerably and there is real evidence of stabilisation. The increases that are occurring tend to be the result of cohort effects – because the oldest households had lower rates of owner-occupation – or among non-traditional types of household.

Younger households tend to be entering owner-occupation later. This is in part a reflection of the general trend towards higher house prices and access problems which is a matter of concern in many countries. Increasingly though, changing lifestyles are also playing a role.

It is also worth noting that many of the highest rates of owner-occupation have been achieved in societies that do not make extensive use of mortgage finance; indeed, some do not have highly developed housing-finance systems. In the transition countries this is particularly true - high owner-occupation rates come from the transfer of equity to individuals. Equally they are sometimes the result of self-build or individual equity, often in rural areas. In the UK the relatively high owner-occupation rate would not have been achieved without the Right to Buy policy, which mixed equity transfer with the use of mortgage finance.

In terms of expenditure, there is some evidence that although house prices have increased (often rapidly), outgoings have declined as a result of falling inflation and nominal interest rates. This in turn has fed demand for housing and further increased prices. In many countries movement towards longer-term mortgages, and sometimes to variable-rate mortgages, which have lower initial costs, has reinforced this process. In deregulated markets - and there is evidence across most of the countries examined of liberalisation and increases in the range of products available - this allows households to borrow more. Together with a changing social and economic environment it also increases the risks associated with both interest-rate rises and loss of income.

Further risk mitigation strategies to protect borrowers need to be developed in many countries

New risk mitigation products have mainly focused on protecting lending institutions rather than borrowers. This has further extended the potential lending market, but may again have left the borrower more exposed. The unexpectedly slow progress with respect to protecting borrowers is probably associated with the macro-economic environment of the second half of the 1990s. There has been very little incentive to take account of risk because of falling interest rates and generally stable economies. However, this situation could change quite quickly, resulting in considerable problems, if unemployment, inflation and interest rates were to rise together. Britain is almost alone in developing mortgage insurance to protect against loss of income, but the Netherlands, interestingly, is developing insurance against loss of value. This type of insurance has also been discussed with government guarantees in regeneration and low-demand areas in the UK and in Finland.

The situation with respect to the rented sector appears to continue past trends: the proportion of social rented housing is declining and rents are generally rising in relative terms. Neither Young Entrant nor Mid-Life households – as defined in this study - are likely to be in the sector. In most of the countries studied this sector tends to cater for the old and for the disadvantaged. It is not usually, therefore, a tenure of choice. Private renting is generally cheaper than owner-occupation for younger households, reflecting both high entry costs to owner-occupation and perhaps the smaller size of privately rented units. The UK still stands out as having higher costs of private renting.

Mid-Life households still pay less in owner-occupation remain than in private renting, in part because most such households will have significant equity in their homes. We have not attempted a full economic cost comparison as this depends on data that were not available, especially with regard to capital gains.

In terms of government expenditures it is clear that the emphasis on reducing subsidies and tax relief for owner-occupiers continues. This is associated with greater targeting, especially on first-time buyer, family households. The growing focus in the UK on developing an intermediate tenure is mirrored, with differences in emphasis, across a range of countries.

There is also some interesting evidence of government interest in supporting investment in the privately rented sector through subsidies to provision (USA, UK), attempts to ensure land provision (Finland, UK), and tax transparent vehicles.

The owner-occupied market is now maturing in many countries and is not expected to grow significantly over the next decade

In terms of longer-term trends, the evidence is that across most of Europe owner-occupation is maturing. It is therefore not expected to grow as rapidly over the next decade as it has done in earlier decades. In many national housing markets younger entrants have been facing growing access problems because of rapidly rising house prices in high pressure areas.

In the shorter term, attitudes to the housing market have been shaped by the relatively easy conditions of the last few years. Some of the housing experts consulted for this research were concerned that these might have led to overconfidence. They felt that households and governments in their countries might be relying too heavily on housing debt and are not taking full account of the potential risks if macro-economic conditions were to worsen. At the time of writing, however, markets seem to be stabilising, with some evidence of lower prices and lower activity in markets which were thought to be overheating. This may in turn help to alleviate the access problems faced by younger households.

Appendix of summary tables

Table 11: Tax frameworks for owner-occupation

	AU	A	B	C	CZ	DK	FI	F	G	GR	H	I	L	NL	P	SL	SW	UK	US
Mortgage tax relief		◆	✓		NEW	◆	◆	✗		◆	◆	✓	NEW	✓	✓	✓	✓	✗	✓
Tax on imputed rental income			✓		✗			◆	◆					◆					
No capital gains tax on sale of o-o dwelling (number of years to qualify)	✓ (0)	✓ (2)	✓ (0)	✓ (0)	✓ (2)	✓ (2)	✓ (2)	✓ (0)	◆ (10)		✓ (?)	✓ (2)		✓ Z	✓ (3)	✓ (3)	◆ Z	✓ (0)	✓ (2)
Depreciation allowance for owner-occupiers									✗										

Source: See country chapters
Notes: ✓ = Has existed since mid-1990s; ✗ = Existed in mid-1990s but has been abolished; NEW = Has been recently introduced; ◆ = Existed in mid-1990s and has since been changed; Z = rollover provisions apply

Table 12: Subsidy frameworks for owner-occupation

	AU	A	B	C	CZ	DK	FI	F	G	GR	H	I	L	NL	SL	SW	UK	US
Subsidy to savings for house purchase		✓			✓			◆	◆		◆	✗			NEW			✓
Grants for house purchase	NEW	✓							NEW		◆		NEW				◆	NEW
Subsidised mortgage interest rates		◆	✗		✓		◆	◆	✓	✓	◆	✗	✗		✓	✗		✓
Income-related housing allowance for owner-occupiers		◆			NEW		✓	✓	NEW		✓	✓	✓	NEW		✓	◆	
Improvement grants for owners		◆		✓			✓	✓	✓		◆	✓	NEW				✓	✓
Government guarantees/helps with mortgage pmts of low-income hhlds	✓		NEW				NEW		NEW*	✓	✓	✓	NEW	◆		✓	◆	✓
Regulations permitting shared ownership/equity	✓			✓	✓	✓	✓		✓			✓			NEW	✓	✓	

Source: See country chapters
Notes: ✓ = Has existed since mid-1990s; ✗ = Existed in mid-1990s but has been abolished; NEW = Has been recently introduced; ◆ = Existed in mid-1990s and has since been changed; NEW* = former East Germany only

AU = Australia	A = Austria	C = Canada
CZ = Czech Republic	DK = Denmark	FI = Finland
F = France	G = Germany	GR = Greece
H = Hungary	I = Iceland	NL = Netherlands
SL = Slovenia	SW = Sweden.	

No data for Belgium, Lithuania, Portugal.

Table 13: Tax & subsidy frameworks for renting: Policies affecting mainly private landlord and tenant

	AU	A	C	CZ	DK	FI	F	G	GR	H	I	NL	SL	SW	UK	US
Tax on rental income	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	◆	✓	✓
Depreciation allowed on rental property	✓	✓	✓				◆	◆	✓		✓					✓
Tax relief for renter households	NEW								✓							
Capital gains tax on rental property sale	◆	✓	✓		✓		✓	◆	✓		✓		✓	✓	✓	✓

Source: See country chapters

Notes: ✓ = Has existed since mid-1990s; ✗ = Existed in mid-1990s but has been abolished; NEW = Has been recently introduced; ◆ = Existed in mid-1990s and has since been changed

Table 14: Tax & subsidy frameworks for renting: Policies affecting both social and private landlords and tenants

	AU	A	C	CZ	DK	FI	F	G	GR	H	I	NL	SL	SW	UK	US
Subsidies for private or social landlords		◆				◆		✓		NEW			✓	✓		
Income-related housing allowance for tenants	✓	◆	✓	NEW	✓	✓	◆	◆	✓	✓	✓	✓	◆	✓	✓	✓
Minimum income safety net that meets housing costs				✓		✓		◆			✓	◆	◆		✓	✓
Grants for rental property construction	✓	◆		◆	NEW	✓	✓	◆		NEW		✗				NEW
Rent payments guaranteed by gov't							✓	◆								✓

Source: See country chapters

Notes: ✓ = Has existed since mid-1990s; ✗ = Existed in mid-1990s but has been abolished; NEW = Has been recently introduced; ◆ = Existed in mid-1990s and has since been changed

AU = Australia	A = Austria	C = Canada
CZ = Czech Republic	DK = Denmark	FI = Finland
F = France	G = Germany	GR = Greece
H = Hungary	I = Iceland	NL = Netherlands
SL = Slovenia	SW = Sweden.	

No data for Belgium, Lithuania, Portugal.

Table 15: Some features of current mortgage systems

Country	% of owner-occupiers w. mortgages	Usual length of contract, years	Estimated avg LTV ratio (new loans)	Loan amount based on	Rate structures [1]
Australia	45%	25	90-100%	M.paymt up to 30% hhld income	V
Austria		25	60%		F or graduated
Belgium	56%	20	80-85%	M.paymt up to 33% hhld income	F (75%); M (19%); V (6%)
Canada		25	60%		M or F (48% 5-yr F)
Czech Republic		less than 20	30-50%		
Denmark		30	max 80%		F (75%); M (10%); V (15%)
Finland	42%	15-20 (variable)	75-80%		V (97%); F (2%); O (1%)
France	37.50%	15-20	max 60%	M.paymt up to 30% hhld income	V (15%); F,M,O (86%) (most are fixed)
Germany		20-30 w. initial fix of 5-10	70-80%; max 60% if Pfandbrief-backed		Mainly M and F
Greece	25%	15	55%	M.paymt up to 40% hhld income (income multiple about 3.2)	V (80%); M (15%); F (5%)
Hungary			max 70%		
Iceland	95%	25-40	65-70% from main lender		Indexed against CPI
Lithuania		20-25	70-95%		V
Netherlands	85%	30	87%; max 125% for FTBs	Avg 4.2 x income in 2002	F (74%); M (19%); V (7%)
Portugal	Most	25-30 years[2]	90%		Mainly V
Slovenia		10 years	50%	M.paymt up to 33% hhld income	Mainly V
Sweden		30-40 years	80-90%	Income multiple	F (38%); V (38%); M (24%)
UK	60%	25 years	75%	Avg 2.91 x income 3Q03	As of 3Q03 M (45%); V (52%); O (3%)
USA	62%	30 years	avg 76%		F (82%)

Source: See country chapters

Notes: Adapted from European Central Bank, Structural Factors in the EU Housing Markets, Table 5.1, with additional information for non-EU countries from country researchers' questionnaires.

1 Fixed (F): interest rate fixed for more than five years or until final maturity; Mixed (M): interest rate fixed for more than one year and up to five years; Variable (V); after one year, interest rate renegotiable or tied to market rates or adjustable at the discretion of lender, Other (O)

2 Refers to period up to 2001. With the abolition of legal restrictions on the maximum length, average term may have increased.

Table 16: Recent mortgage product innovations in selected countries

Country	Recent innovations
Australia	Flexible mortgages with variable repayments; Home equity loans; Split-purpose loans (splits loan into two sub-accounts, giving tax advantages); Deposit bonds (insurance company guarantees payment of deposit at settlement); Non-conforming loans; Redraw facilities and offset accounts; New providers including mortgage originators and brokers
Austria	Loans denominated in non-Euro currencies, particularly Swiss franc and Japanese yen
Belgium	Loans available for up to 30 years
Denmark	"Interest-adjusted" loans: interest rate set at regular intervals by sale of bonds; Capped-rate loans; BoligXloans: interest adjusted every 6 months with reference to 10-day average of CIBOR; Interest-only loans since 2003.
Finland	Lengthening mortgage terms; Introduction of state guarantee for mortgages
France	Variable-payment mortgages
Greece	Mortgages with one-year low fixed rates, reverting to variable; 30-year mortgages; Euribor trackers.
Iceland	Housing Financing Fund increases maximum loan term to 40 years; Main bank offers loan denominated in basket of foreign currencies.
Lithuania	Increase in average term from 10 years to 20-25.
Netherlands	Savings or equity mortgages: part of payment covers interest, part goes into fixed-interest savings account or equity account (confers tax advantages).
Portugal	Loans can now run until borrower is 70 years old.
Slovenia	Loans secured on dwellings introduced in 1997; Foreign-owned banks offer Euro-denominated loans.
UK	Flexible mortgages; Offset mortgages (savings and mortgage held in same/linked accounts, with savings offset against mortgage balance); Base rate trackers.

Source: See country experts

Table 17: Credit risk mitigation in selected countries

	Govt agency provides mortgage insurance	Private mortgage insurance available	State helps low-income or jobless pay mortgage	Comments
Australia	✗	✓	✓	State mortgage insurance privatised. Insurance required for LTVs > 75 – 80%
Austria		✓		Private mortgage insurance exists but is not common
Belgium	✓	✓		Flanders pays cost of insurance against loss of income for some households
Canada	✓	✓		Insurance required for LTVs > 75%. About 75% of mortgages insured with govt-owned corporation Average premium 2.5% of amount insured
Czech Republic		NEW	NEW	Arrears low—only high-income households have loans. Low-income owner occupiers eligible for housing allowance that could meet mortgage payments, though such households are unlikely to have mortgages
Finland	NEW	✓	✓	Fee for state guarantee 2.5% of amount guaranteed
France	✓		✓	Credit Logement insures against default-related losses as alternative to loans secured on the property itself
Germany			NEW	Mortgage payment guarantee for former East Germany only
Greece	✓			State guarantee covers only limited groups—e.g. immigrants from ex-communist countries, gypsies
Hungary	✓			State guarantees 80% of construction loans for recipients of housing construction subsidies
Iceland	✓	NEW		Private mortgage insurance introduced 2004
Lithuania	◆			Insurer is government-owned but operates without state guarantees
Netherlands	◆	✓	✓	State company insures against fall in property value. Fee 0.3% of mortgage amount
Sweden	◆		✓	Since 1999 all owner occupiers eligible to purchase insurance from government body
UK		✓	✓	Government pays mortgage interest for jobless after 39 weeks Private mortgage insurance available for lenders and borrowers
USA	✓	✓		Lenders require mortgage insurance for LTVs > 80%

Source: See country chapters

Notes: ✓ = Has existed since mid-1990s; ✗ = Existed in mid-1990s but has been abolished; NEW = Has been recently introduced; ◆ = Existed in mid-1990s and has since been changed

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Country Chapters

Australia

Tenure

Australian households are predominantly home-owners, with around 70% in owner-occupation. This figure has remained relatively stable since 1960, although different sources do paint slightly different pictures. For example, the 2001 census puts the tenure at around 66% with a slight fall since 1986. Of owner-occupiers, 55% currently own their property outright, and 45% have a mortgage.

While the overall percentage of owner-occupiers has remained relatively stabled for 20 years, there has been some change in the proportions of our Young Entrant households that own their own homes, see summary in Table 1. While in 1994 50% of Young Entrant households were home-owners, by 1999 this had fallen slightly to 47%. Census data also supports this indicating that the fall in home-ownership rates of those aged 25-34, may be up to 10% over the last 20 years. The proportion of owner-occupiers amongst Young Entrant households remains considerably lower than in the population at large (47% vs. 70%). The proportion of households in social renting has remained the same, at five per cent, but private renting is twice as prevalent among younger people as in the overall population (41% vs. 20%).

Table 1: Households by tenure, %

	All households		Young Entrants		Mid-Life	
	1994	1999	1994	1999	1994	1999
Owner-occupation	70	70	50*	47	81**	80
Social renting	6	5	3	5	1	4
Private renting	19	20	43	41	16	13
Shared ownership/equity		1		0		0
Other (rent-free, life tenure, not stated, rent-to-buy, n.e.c.)	5	5	4	7	2	3

Sources: All households from Australian Housing Survey 1994 and 1999; Young Entrant Mid-Life households from ABS Household Expenditure Survey unit record files (1994) and unpublished data from Australian Housing Survey 1999 confidentialised unit record file
Notes: *45% for all 25-29 year olds; 55% for all 30-34 year olds; **81% for all 45-64 year olds, but incidence does not change much after 45. In 1994: couples without children, where the main respondent is 25 to 34. 1999: all 25- to 34-year-olds. In 1994: couples with children, where the main respondent is 45 to 64; 1999: all 45- to 54-year-olds

In the last decade the aggregate home-ownership rate in Australia has remained relatively stable. This is turn is due to the offsetting effect of an increase in the number of outright owners due to the ageing of the population, and a fall in the number of households purchasing with a mortgage.

The decline in mortgaged households is attributed to decreasing affordability and an increasing polarisation of incomes, partly because of the rising number of single-adult households.
Our Young Entrant household is defined as a two-adult household without children, with the main respondent aged around 25 years and of average household income for that age group. In Australia, however, the typical first-time buyer in this age group was just as likely to have children as not (43% of all 25- to 34-year-old first-time buyers in 1999 had children, compared with 36% of the age group generally). The average age of the Australian first-time buyer has increased very slightly over time and is now around 32-33 years.

In the past five years there has been an increasing proportion of younger households remaining in the private rental sector. This was temporarily halted by the introduction of a generous First Home Owners Grant of $A7,000 in 2000 (see below for details). The grant was expected to bring forward house purchases that would otherwise have occurred somewhat later, but will not otherwise affect the tenure split amongst young households.

Turning to older households, Mid-Life households are defined as two-adult households with children, with the main respondent aged around 45 years, and of average household income for that age group. The percentage of such households in owner-occupation has remained relatively stable at 80%. Of those who are not owner-occupiers, most are private rather than social tenants.

Housing costs

Tables 2 and 3 show the actual and relative expenditures on housing for Young Entrant and Mid-Life households. For Young Entrant households, owner-occupation was the most costly tenure in 1999, as it was in 1994. Young Entrant households renting privately paid 69% of the amount paid by owner-occupiers, while social tenants paid 30%.

For Mid-Life households the picture is slightly different. In 1994 owner-occupation was the most expensive tenure for these households as well, though the difference between owner-occupation and renting was smaller than for Young Entrant households. By 1999, however, private renting had become 32% more expensive than owner-occupation. This perhaps reflects the fact that these households generally purchased their dwellings before the recent sustained period of house-price inflation, and their mortgage payments reflect purchase prices that are low by current standards. It also reflects an increased proportion of households who own their dwellings outright and so have no mortgage payments.

The average income of the Young Entrant household in Australia was $A1,042 per week in 1999.

Some 48% of all 25- to 34 year-olds lived in a dual-income household (including 80% of couples and 55% of couples with children). Average incomes for Mid-Life households were higher, at $A1,600 p.w. For both household types, about half had two incomes.

Table 2: Actual expenditures on housing, $A/month

	Young Entrant		Mid-Life	
	1994	1999	1994	1999
Owner-occupier	975	1,092	805	572
Social tenant	329	325	624	325
Private tenant	619	758	754	754

Sources: Landt, J (1994); unpublished data from Australian Housing Survey 1999 confidentialised unit record file.

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant		Mid-Life	
	1994	1999	1994	1999
Social tenant	34	30	78	57
Private tenant	64	69	94	132

Source: Authors' calculations

Table 4 shows that, as expected, Mid-Life households tend to occupy more expensive houses than Young Entrant households. Their mortgage payments, however, are lower than those of Young Entrant households, because most Mid-Life households are paying a mortgage on a house bought some years ago, when house prices were lower, and because many have paid off a high proportion of their mortgage.

Table 4: Housing costs for owner-occupiers in 1999, $A

	Young Entrant	Mid-Life
Average house price	185,000	243,000
Average down payment on a mortgage	22,000	N/A: Average equity 196,000
Average mortgage payment	242/week	228/week (for those with mortgage)

Source: Experts' estimates

Mortgage system

The typical mortgage is a 25-year repayment mortgage with a variable rate, but lately there has been increasing use of flexible mortgages with variable repayments. New purchasers generally take out a mortgage covering about 90% or, more recently, 100% of the price of the house. Lenders require purchasers to take out mortgage insurance for loans with high loan-to-value ratios. There are no regulatory constraints on LTVs, and 100% mortgages are becoming more popular. Lenders have traditionally calculated affordability on the basis of repayment constraints, allowing for mortgage payments of 30% of income and take both incomes into account for dual-income households.

There has been a growth in non-conforming lenders in the Australian market since 1997. These are mortgage originators that specialise in lending to borrowers who do not meet banks normal lending criteria—who, for example, have a bad credit history or are seeking a loan with a very high loan-to-value ratio. Non-conforming loans accounted for between two and four per cent of loans written as of the end of 2002 (Reserve Bank of Australia, 2002a).

New loan products have included home equity loans and deposit bonds (where in exchange for a fee an insurance company guarantees that the deposit will be paid at settlement, so the purchaser does not have to pay a deposit when contracts are exchanged).

In general, interest rates have fallen from about 10-12% ten years ago to six to seven per cent now. The benefit of declining interest rates has been largely offset by increases in mortgage debt due to equity withdrawal and trading up for older households, and higher house prices and the resulting higher debt for younger households. Some experts are concerned that commercial lending institutions are not imposing strict enough credit criteria, and are failing to allow for problems if interest rates increase or house prices turn down. Similarly, the Governor of the Reserve Bank has expressed concern that household borrowers have not realised that in a lower-inflation environment, high repayment burdens will not be reduced by inflation.

Taxes and subsidies

Since 1995 there have been some changes in the Australian system of taxes and subsidies that, taken together, have tended to increase the incentives in favour of owner-occupation.

Owner-occupation

Housing is treated as a consumption good for tax purposes in Australia, with no tax on imputed rental income or capital gains for owner-occupiers. This makes housing a more attractive investment than some other sectors of the economy. However, owner-occupiers get no tax relief on mortgage costs and receive no government subsidies apart from the First Home Owners Grant (see below). Some lenders do offer one to two per cent discounts on mortgage rates to first-time buyers for the first 6-12 months of their mortgage. Young Entrant households with incomes below a certain floor will receive mortgage assistance for 12-24 months if their household income falls, but this assistance is not available to Mid-Life households. There is no housing allowance for owner-occupiers.

A First Home Owner's Grant was introduced in July 2000, ostensibly to offset a predicted increase in the cost of housing as a result of the introduction of a goods and services tax. The grant, initially set at $A7,000, was available to any first-time buyer. It was increased to $A14,000 in March 2001, reduced to $10,000 in January 2002, and again brought down to $A7,000 from July 2002. The impact has apparently been to bring forward purchases by households who would probably have become home-owners eventually anyway. In addition, the increase in activity is likely to have had an impact on fuelling a rising housing market since 2000.

Private renting

Private rental sector landlords receive tax relief for nominal interest costs, which are fully deductible from taxable income, and a 2.5% depreciation allowance on new property. Until 1999, real realised capital gains on properties bought after 1985 were taxed. Private rental housing was treated like any other investment, which put it at a disadvantage compared to owner-occupation, where capital gains were not taxed. The capital gains tax regime changed in 1999 from taxation of real, realised gains to taxation of nominal realised gains with a 50% discount for individuals. This change has encouraged investors to borrow to invest in residential property. The principal place of residence had been, and still is, exempt.

Many private-sector tenants receive no housing allowances or income support. Rent assistance in the private rental sector is available only for social security recipients, who generally have incomes in the lower quartile of the income scale and form a minority of private rental tenants.

Public sector rental

Public-sector landlords – that, is, the state housing authorities – do not have to pay any tax. They receive capital grants from government to build housing although in most cases these grants are insufficient to meet maintenance costs for the existing public rental stock. Social-sector tenants receive housing allowances, which allow for expenditure of 20-25% of household gross income on rent.

In 2000 a 10% tax on goods and services was introduced. Housing is exempt – that is, home-owners and renters do not pay tax on their housing expenditure, but they cannot deduct any sales-tax component of costs they incur.

Problems accessing housing

Over the past five years, Australia's economy has been robust and unemployment has declined. Nominal house prices have gone up at a rate of over nine per cent per annum nationally in the five years to 2002, Reserve Bank of Australia (2002b). At the same time, interest rates have fallen, so those able to access finance have reduced problems making mortgage repayments. In general, however, affordability of median priced dwellings has worsened. Moderate-income households in high-cost areas in particular are having problems entering home-ownership. There are no specific schemes to assist households in high-cost areas.

Risk reduction

There are limited state-based temporary mortgage assistance schemes for lower-income households in trouble with mortgage repayments.

Private mortgage insurance is available and is a relatively well-developed market. The government-sponsored mortgage insurer dominated the market until 1997, when it was sold to the US-based GE Capital Corporation (which also owns the major Canadian private insurer – now Genworth). Premiums increase with the LTV.

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Austria

Tenure

Of all households in Austria in 2001, 57% were owner-occupiers. However, if one looks only at Austrian citizens (ignoring the many expatriates living in the country, particularly in Vienna), the figure is over 60% (Ball, 2003). Housing demand in recent years tends to be driven by households whose head is aged over 30 and that include children. Such families prefer to reside in the suburbs and have more savings and higher incomes than younger groups (Ball, 2003).

Table 1: Households by tenure, 1999 and 2001, %

	All households 2001	Young Entrant[1] 1999	Mid-Life[2] 1999
Owner-occupation	57	48	64
Social renting	23	26	18
Private renting	17	26	17
Other	3		

Source: Austrian Statistical Institute, Survey 1999 and Survey 2001
Notes: 1 All households with head of household aged 25 – 35 years
2 Two-adult households (all ages) with children

Because of data limitations, the figures in Table 1 for Mid-Life households are for all two-adult households with children. Owner-occupation among such households is, at 64%, higher than the 57% for all households. Local experts believe that the proportion for Mid-Life households strictly defined (two-adult households with children, where the main respondent is aged about 45) would probably be similar to this 64%.

There is a preference to rent rather than buy, because Austrian rental law gives the tenant a very strong position (see below). In Vienna 82% of households are renters - the rental stock is 1/3 private, 1/3 municipal, and 1/3 co-operatives (Ball, 2003). The proportion of renters is also particularly high in Salzburg.

Since 1994, part-owners of subsidised flats (those who paid more than €50/m^2 when they moved in) have had the right to buy the remainder of the equity in their flats. Tenants of co-operative rental units who do not have any equity, and tenants of municipally-owned housing, have no right to buy.

Housing costs

Approximately 80% of young entrant households in Austria have two incomes. For two-adult households with children, the percentage with two incomes is lower, at around 65%. The mean income for both household types is €2,300/month, including social transfers (eg, for children).

Young Entrant tenants, both private and social, pay less for housing than Young Entrant owner-occupiers. Whilst, Mid-Life private tenants pay more than owner-occupiers, while social tenants pay less (though still more than Young Entrant tenants of either tenure).

Table 2: Actual expenditures on housing, €/month, 1999

	Young Entrant	Mid-Life
Owner-occupier	360	400
Social tenant	320	373
Private tenant	340	420

Source: Austrian Statistical Institute, Survey 1999

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant	Mid-Life
Social tenant	89	93
Private tenant	94	105

Source: Authors' estimates

Average house prices rose one per cent in 2002 after a fall of three per cent in 2001, which was a consequence of overbuilding in the late 1990s. House-price data in Table 4 are from 2002; current figures are about €200/m^2 higher in each category.

Table4: Average house prices, 2002

	All household types
Houses (to purchase existing or build new)	€1400/m^2
Old flats	€1400/m^2
New flats	€2300/m^2

Source: Austria Immobilienindex

Mortgage system

The current average gross interest rate on mortgages is four to five per cent; interest on loans from building and loan associations is limited to six per cent (ECB, 2003). Of mortgages on newly built homes, 55% are from commercial banks, 15% from *Bausparkassen* (housing-specific savings institutions), and 30% are low-interest loans issued by government bodies. The typical mortgage term is 25 years, but the low-interest loans often have terms of 30 years or more.

The average loan-to-value ratio for new loans is 60%. Interest rates are generally either fixed or graduated, with lower rates for the first few years. Loans denominated in non-Euro currencies, particularly the Swiss franc and the Japanese yen, have been popular. International interest rates are charged, and the exchange-rate risk is borne by the borrower.

Taxes and subsidies

Owners-occupiers

For owner-occupiers, there is income-tax relief on mortgage interest, though at a very low level, and owner-occupiers with incomes of over €50,000 are ineligible. There is no tax on imputed rental income. Owner-occupiers who sell their dwellings after a two-year period of ownership are not subject to capital gains tax; investors and second-home owners must hold their properties for ten years in order to sell them free of capital-gains tax.

Until 1989 the federal government dispensed housing subsidies. After that, responsibility passed to local governments, who each have their own programmes and systems. In general, Austrian housing subsidy is targeted at new housing rather than housing in general. The government subsidises savings for the purpose of purchasing a dwelling through the *Bausparkassen* system. In all provinces these savings may be used for purchasing new homes; in some provinces they can also be used to buy existing dwellings.

There are schemes in some provinces to subsidise mortgage-interest rates. These are normally targeted at families (particularly young and single-parent families) from lower- and middle-income groups. Income-related housing allowances for owner-occupiers are given in a growing number of provinces. Purchase subsidies and improvement grants for owners are also available in some areas.

Rental sector

In the rental market, state subsidies are available for landlords in some cases, as are subsidies for construction of rental property. The eligibility rules for these subsidies vary by province. Until the 1990s some provinces gave grants, but now all such subsidies are in the form of loans, interest-rate subsidies and personal allowances to reduce loan payments. Tenants can qualify for an income-related housing allowance, as in most countries; in addition, the minimum income safety net could be expected to meet housing costs.

Austrian law governing rentals is rather complicated. New contracts for rents on pre-1945 stock are regulated by a system of benchmarks, in an attempt to combine market forces with price controls. Rents on some newer housing stock are subject to comparative-rent regulations, some to regulations connected with public loans, and some are not regulated. It is almost impossible for a landlord to break a lease.

Risk reduction

Private mortgage insurance exists but is not common. Since 1997 the Property Developer Contract Act has applied, which requires developers to provide guarantees that if they go bankrupt before a development is finished, purchasers will get their money back or another firm will complete construction.

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Belgium

Tenure

Belgium has a relatively high overall level of owner-occupation, at 74%. In this section we use data from the 1999 Panel Study on Belgian Households, which permits comparisons of different household types. According to more recent data, from the 2001 census, the overall owner-occupation rate is somewhat lower: 68% owner-occupiers, 6% social renting, and the remainder private renting.

The rental market is heavily weighted towards the private sector, housing 16% of all households, while the social rented sector houses only 7%. In nearly all countries studied, levels of owner-occupation are higher among middle-aged Mid-Life households than Young Entrant households, but in Belgium this difference is particularly striking. Only 33% of Young Entrant households were owner-occupiers in 1999. Fully 89% of Mid-Life households owned their own homes. The private sector housed the overwhelming majority of both types of household, with social renting accounting for fewer than 2% of Young Entrant or Mid-Life households.

Table 1: Households by tenure, 1999, %

	All households	Young Entrant	Mid-Life
Owner-occupation	74	33	89
Social renting	7	1	2
Private renting	16	64	7
Shared ownership/equity	N/A		
Other (free in exchange for service)	3		

Source: Panel Study on Belgian Households, 1999 (wave 8), subsequent calculations
Notes: Young Entrants: Couples without children, head of household aged 20 to 29 years. Mid-Life: Couples with children, head of household aged 40 to 49 years

Of owner-occupiers, 56% are buying with a mortgage, while 44% are outright owners (some having already paid off their mortgage).

Housing costs

The discussion of house prices is limited to the Flanders region due to lack of additional information. House prices in Flanders have increased significantly in the last 20 years. "Survey data show that the average monthly mortgage repayment in Flanders was 73% higher in 1997 than in 1976 in real terms" (De Decker and Geurts, 2003). During this period real disposable incomes grew by 5.9%. House prices have increased since 1997 at a rate of approximately 10%

per annum (Hypostat, 2002). Home-ownership also became more polarised, increasing among couples with higher incomes and higher education, and falling among unskilled workers and those with only primary education.

In 1999, Young Entrant households had a median monthly net household income of €1400. Young Entrant owner-occupiers spent on average €470/month on housing, excluding utilities, or 34% of average Young Entrant income. Some 90% of Young Entrant households were dual-income.

Mid-Life owner-occupiers spent, on average, 21% less than younger owner-occupiers (€372 vs €471), reflecting the fact that they purchased their properties earlier. Older private renters, however, spent more than younger ones (€410 vs €347), and more than older owner-occupiers.

Table 2: Median actual expenditures on housing, € / month, 1999

	Young Entrant	Mid-Life
Owner-occupier	471	372
Social tenant	N/A (only one observation)	328
Private tenant	347	410

Source: Panel Study on Belgian Households (wave 8), subsequent calculations
Note: Figures exclude utilities

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant	Mid-Life
Social tenant	N/A	88
Private tenant	74	114

Source: Authors' calculations

Because of high sales taxes and duties, transactions costs for owner-occupiers are very high, averaging over 20% of the cost of a medium-sized dwelling (Ball, 2003). Recent political initiatives have aimed to lower transactions costs in order to speed up mobility, but the changes are, in financial terms, marginal.

Mortgage system

Private universal banks provide about 95% of mortgages. They are most often structured as 20-year loans, where the interest rate is fixed for the first ten years but can thereafter be revised every five. In 1999 such fixed-rate mortgages accounted for over 80% of the market, although this percentage has since fallen to around 50%. Capped-rate mortgages are also common. The number of new mortgages more than tripled between 1990 and 1999; many were remortgages taken out to withdraw equity or to take advantage of falling interest rates.

Under the affordability test normally applied by Belgian banks, borrowers may devote no more than 33% of their income to housing costs. Loan-to-value ratios are not typically used; there are regulations limiting the loan to 80-90% of the assessed value of the dwelling, but it is relatively easy for the borrower to get more by adding a personal loan to the mortgage, thus borrowing over 100% of assessed value.

Historically most mortgages in Belgium have been used to finance house construction rather than purchase of an existing dwelling, but this changed in the mid 1980s. In 2000 banks lent roughly three times as much for purchase as for new construction (De Decker and Geurts, 2003).

Taxes and subsidies

Belgium is a federal state and according to its constitution, housing is a matter for the regions: Flanders (prosperous), the Brussels capital region, and Wallonia (less prosperous). Most households in Belgium are eligible for some sort of housing subsidy, but these subsidies are generally rather small amounts, probably too small to affect tenure choices.

Federal level measures

At the federal level, mortgage payments are tax deductible. Interest payments are deductible in two categories: the basic tax deduction is limited to the imputed rental income on the house, while the additional tax deduction, for principal homes with a mortgage of at least ten years, allows taxpayers to deduct all mortgage interest from household income up to a maximum of 80%. The deduction is taken at the taxpayer's marginal rate. This maximum decreases gradually after year six, and the additional tax deduction ends after ten years. Certain ceilings apply, depending on whether the loan is for construction of a new home or for purchase of an existing dwelling.

In addition, capital payments on principal homes are in some cases tax deductible. For mortgages of at least ten years with special insurance entered into after 1989 (or before 1989 if the house is a social or mid-sized dwelling), some capital payments are deductible. Like the interest-payment deductions, there are two types of capital deductions, basic and additional. Mortgage insurance premiums are also deductible.

Regional level measures

For owner-occupiers in Flanders, there were subsidies for individual households who built new houses, and grants for those purchasing existing dwellings; four times as many construction grants were given as existing-dwelling grants. These grants were replaced by interest subsidies in 1993, which themselves were gradually abolished over the 1990s, as the region's housing budget was directed more towards the construction and renovation of social rented housing. There are still social loans for owner-occupation (with subsidised interest rates) provided by the Flemish Housing Association or the Flemish Housing Fund for Large Families. These institutions receive interest subsidies from the Flemish government. The interest rates they charge are means-tested and correspond to the number of children in a family. In principle the loans are for low-income households, but in practice the target group has never been large, so upper and middle-income households can also access the loans. There are household income limits, which have changed frequently.

For renters in the private sector, the Flemish government has a rent allowance scheme. Low-income tenants who move from a low-quality dwelling to a better one are eligible for a subsidy. The subsidy lasts for 15 years, but is re-assessed every three. The amounts involved are very small.

Wallonia and Brussels offer a number of small subsidies for owner-occupiers (for repair as well as purchase), as well as social loans for big households. There are no rent allowances in these regions of Belgium.

Problems accessing housing

The steady increase in the price of owner-occupied housing and the relative costliness of the private rental sector mean that many one-income households face affordability problems. Social renting is often inaccessible as well; the sector is small in Belgium, and waiting lists are long – families, in particular, must often wait for years.

Risk reduction

Mortgage arrears fell from 25,966 new cases in 1994/95 to 16,146 in 1999/2000, and then rose to 20,154 in 2000/01 (De Decker and Geurts, 2003). De Decker and Geurts go on to estimate that about six per cent of households with mortgages are in arrears; Hypostat says "the total amounts unpaid on contracts on which the arrears had not been settled came to less than one per cent of total outstanding mortgage credit in mid-2002."

Most Belgian lenders require borrowers to take out life insurance. Until recently such insurance was also a requirement for tax-deductibility of mortgage interest, but given that insurers were increasingly refusing to insure people with certain medical conditions, this government abolished this condition in 2001.

Since the late 1990s, anyone making use of subsidies for house purchase has also received government mortgage insurance, which insures the lender against non-payment of the mortgage. In addition, the Flemish government in 1998 introduced an insurance scheme for those with non-subsidised mortgages. De Decker and Geurts give details:

> In June 1998, the Flemish government introduced an insurance against income loss in order to minimise the financial risks of purchase, new construction, or renovation. When concluding a mortgage, a household can get a free assurance from the Flemish government. From the moment a mortgage is concluded, the assurance lasts for 10 years. If during that period a household becomes unemployed or unemployable involuntarily, it can get, after a waiting period of six months, a monthly contribution to the repayment of the mortgage, for a maximum of three years. This contribution does not cover the whole sum. The household still needs to pay €247,89. The contribution is directly paid by the managing authority, which is a large public assurance company that won the contract, to the lender. This sum can be a maximum of €495,78 per month. Normally, it will be smaller since it depends on the household income and the size of the mortgage. During the second year, the benefiting households get 80% of the awarded sum. In year three, this decreases further to 60%. The Flemish government pays the cost of the assurance.

Certain income and dwelling-size limits apply, and applicants need to be in work. Only mortgages over €50,000 are eligible; the average mortgage covered is €87,495. It should also be noted that unemployment benefit is generous in Belgium, and could often be expected to cover mortgage payments.

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Canada

Tenure

Overall levels of owner-occupation have risen slightly in Canada over the last ten years to 66% in 2001. This is in line with the world-wide trend towards higher levels of owner-occupation. Canadian owner-occupation rates were nearly at the same level – about 66% – from the 1950s to the 1970s. Factors encouraging increased owner-occupation include low mortgage rates, accessible conditions for mortgage financing, regulations allowing buyers to use tax-free retirement savings for house purchase, research and application of improved building technologies, a competitive and efficient homebuilding industry, and socio-economic factors.

Because of data limitations it was not possible to analyse tenure patterns for Young Entrant and Mid-Life households. However, the level of owner-occupation for all couples without children, at 77%, was higher than in the population at large. The proportion of owner-occupiers in such households has risen since 1991 at a faster rate than in the population as a whole.

Table 1: Households by tenure, %

<table>
<tr><th></th><th colspan="2">All households</th><th colspan="2">Couples without children</th></tr>
<tr><th></th><th>1991</th><th>2001</th><th>1991</th><th>2001</th></tr>
<tr><td>Owner-occupation</td><td>63</td><td>66</td><td>71</td><td>77</td></tr>
<tr><td>Social renting</td><td>7</td><td>6</td><td rowspan="2">29</td><td rowspan="2">23</td></tr>
<tr><td>Private renting</td><td>30</td><td>28</td></tr>
<tr><td>Other (Band housing on or off Indian reserves)</td><td>0.3</td><td>0.4</td><td></td><td></td></tr>
</table>

Source: CMHC Canadian Housing Statistics 2001, table 57, and CMHC estimates
CMHC "Canadian Housing Observer 2003", Table 16

Housing units specifically dedicated to social purposes (mainly low-income households) account for a small part of the overall housing stock in Canada, housing only about six per cent of households. However, in addition, a larger number of households receive "social assistance" (or welfare) which includes financial assistance to secure a dwelling.

Housing costs

Data on housing costs could not be broken down by Young Entrant and Mid-Life households, but there is information about income by tenure. Owner-occupiers have a significantly higher income than renters in Canada, as Table 2 shows. Some 49% of all owner-occupiers own their dwelling outright. Such owners have incomes somewhat below the national average (because they are likely to be pensioners with reduced incomes), while households with mortgages have higher-than-average incomes. The average income of renters is only about half the overall average.

Table 2: Average income before tax, 1999

	Canadian dollars
All owners	$67,679
Owners without mortgage	$59,249
Owners with mortgage	$75,892
Renters	$35,468

Source: Statistics Canada, Survey of Household Spending 2000, Table 2F0033

The average resale or existing house price in 2002 was $188,138, (NB: does not include new construction). In 1992, the average was $149,572; the increase over the decade was 26%. From 1992 to 2001, the ongoing costs associated with being a homeowner in Canada rose only 6%. On the other hand the cost of renting rose by 13% – more than twice as much.

Rents in the social rented sector depend on tenant incomes; tenants pay 25 to 30% of income, with a subsidy making up the difference to the public or non-profit agency. There are also a number of rent supplement agreements where the subsidy is paid to a private landlord to make up the difference between the rent paid by the low-income household and the agreed market rent for the unit.

Mortgage system

The typical mortgage is a 25-year self-amortising loan. The rate is generally fixed for a period of between six months to five years, after which a new interest rate is set. Canadians can change lenders at this point, shopping around for the best rate and conditions. There are generally no fees for mortgage initiation or for mortgage renewal.

There are two types of mortgage: "closed", where prepayment incurs a penalty, and "open", where the borrower may prepay to refinance at any time. These correspond to UK mortgages with and without prepayment penalties. In 2002, 48% of mortgages had five-year "closed" fixed rates.

By law, banks and other federally regulated financial institutions must insure mortgages where the loan to value ratio exceeds 75%. The maximum permitted LTV ratio for insured mortgages (property purchases only) in Canada is 95%. However, the five per cent down-payment may consist of borrowed funds, gifts or cash incentives from the lender. There are no good statistics on average LTV of new loans, but one survey of 946 mortgage holders put the mortgage/value ratio at 47%. However, a majority of those surveyed had owned their home and paid down their mortgage for some time.

Taxes and subsidies

In Canada, housing is treated as a consumption good with no taxation of imputed rental income nor capital gains, and no mortgage tax relief. This could theoretically favour both housing investment and financing through equity rather than debt. However, OECD statistics show that Canada's Mortgage Financing to GDP ratio (41%) is similar to the 44% ratio found in the USA where housing is treated as an investment. There is no tax relief on mortgage payments, but owner-occupiers are exempt from capital gains tax on the sale of dwellings.

Measures targeting owner-occupiers

The only form of federal assistance for home-buyers is a fiscal arrangement, the Home Buyers' Plan, introduced by the federal government in 1992. It allows Canadians who meet certain eligibility conditions (essentially first-time homebuyers) to withdraw up to $20,000 tax-free from their Registered Retirement Saving Plans (RRSPs) for house purchase. (Under the RRSP scheme, each year an individual may set aside a certain amount for retirement; the amount saved is deducted from income for tax purposes. At retirement age, any RRSP contributions withdrawn from a RRSP are taxed at the contributor's current marginal rate.) The money withdrawn for house purchase remains tax exempt if it is repaid within 15 years. In 1999 the programme was changed to widen accessibility to disabled people or their carers.

About 144,000 people made use of this regulation in 2002, withdrawing more than $1.5 billion in RRSP funds to purchase homes. Since its inception in 1992, some 1.2 million people have participated in the programme, channelling $12.0 billion to the housing market.

Rental sector measures

Landlords are taxed on their income from rental property, and can offset depreciation against this (but not against other income). Some tenants are eligible for income-related housing allowances.

The federal government stopped funding new social housing supply in the early 1990s but continues providing CAD$1.9 billion per year assistance to units supplied in prior years and continues to subsidise the production of new additional housing units on Indian Reserves (First Nations Communities). Some provinces continue to fund new social housing supply.

Since 2001, under the Affordable Housing Program, the Government of Canada also provides financial assistance for the supply of new affordable rental housing. By the end of 2007-2008, the Federal Government's investment in this program will total CAD$1 billion, an amount that will be matched by provincial and territorial governments.

Other subsidies

Assistance for home repairs (Residential Rehabilitation Assistance Program – RRAP) is also provided to qualifying households. CMHC's recently enhanced renovation programs, which help low-income Canadians, have been extended by $384 million over three years.

Canada has no national housing allowances. Some provinces have housing allowance programmes targeting older low-income tenants. Others have 'rent supplement' programmes where private rental units are leased to tenants from the public-housing waiting list; the rent supplement covers the difference between the market rent and what the tenant can afford. All provinces have a means-tested income-support programme. Some provinces include a specific estimate of housing costs in their assistance ("shelter component" of social assistance) while others include housing in their formulae in a non-specific fashion.

Risk reduction

Housing loans can be insured against default with the government-owned Canada Mortgage and Housing Corporation (CMHC), or with its private-sector competitor, General Electric Mortgage Insurance Company of Canada (GEMICO). Both organisations generally offer similar premium rates and programme conditions. CMHC has a larger market share.

Insurance is required on loans with an LTV of 75% or above. The buyer pays an insurance premium that varies according to anticipated risks. For instance, with a LTV of 90% the premium is two per cent of the loan amount. With a LTV of 95% the premium amounts to 3.25%.

Several privately capitalised mortgage insurance firms operated in Canada during the 1970s and 1980s. However, the dominant government mortgage insurer possessed various market advantages, including the ability to assume more marginal risks and avoid adverse risk selection, which make it difficult for private insurers to compete effectively. In 1996, the last domestic Canadian mortgage insurer ceased doing business. GE Capital Corporation, a leading US-based mortgage insurance parent company, recently re-started the private insurance business in Canada. This new program, similarly to previous private programs, closely resembles the government's own policy in terms of coverage features and premium pricing. It remains to be seen whether private sector insurance will succeed in the face of advantaged government competition (Blood, 1998).

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Czech Republic

Tenure

In the Czech Republic it is not possible to separate social housing from other tenures, but rental housing can be classified according to the type of landlord (municipal versus private). However, municipal housing is not defined as social housing, and 90% of all rents in the private rented sector are regulated in the same way as those for municipally owned housing (first-generation rent control, which also applies to private rental housing that was confiscated and later restored to its former owners). This means that renting from a private landlord is, in practice, much the same as renting from a municipality. The Czech Statistical Office did not separately classify private and municipal rental housing in the 2001 census. Estimates are that about 10% of the housing stock is in private rental, and 19% is municipal (Lux, 2002). Altogether rental housing forms 29% of the housing stock.

Table 1: Dwellings/households by tenure, 2001, %

	All dwellings	Young Entrant households	Mid-Life households
Owner-occupation	47	29	48
All renting	29	35	22
Shared ownership/equity	14	28	26
Co-operatives of former tenants (from privatisation of municipal housing)	3		
Other	7		

Source: All households - Census 2001, Czech Statistical Office, Young Entrant Mid-Life: Family Budget Survey 2001
Notes: Young Entrant: Two-adult household without children, head of household aged between 20 and 30. Mid-Life: Household with children, head of household aged between 40 and 50

In 1990 43% of the total housing stock was in owner-occupation and there was no private rental housing at all. Since the beginning of the transition to a market economy, municipal housing has been privatised (the legislative framework on condominiums was approved in 1994) and ownership of co-operative housing started to be transferred free of charge to members. The transfer is proceeding slowly, because co-operatives are resisting. Housing expropriated during the communist regime has been restored to its original owners.

The rate of home-ownership among young couples is estimated to be 29%. Rent regulation has led to a shortage of vacant rental flats, meaning that house purchase is often the only option for newly established households who want their own dwelling. Home-ownership among Mid-Life households is, at 48%, just higher than the national average. Many of these households profited from the privatisation of municipal housing, because of the discounted price at which they acquired their dwellings.

Housing costs

The average monthly income for a Young Entrant household was CZK 22,610, net of taxes, social and health insurance. The typical Young Entrant household has two incomes, as does the typical Mid-Life household. Average monthly net income for a Mid-Life household was CZK 27,041.

Table 2: Actual expenditures on housing 2001, Czech Koruna/month

	Young Entrant	Mid-Life
Owner-occupier	4,750	4,000
Social /private tenant	3,663	4,571
Co-operative tenant	3,708	4,048

Source: Family Budget Survey 2001

Table 3: Relative expenditures on housing (owner-occupation = 100%)

Household type Tenure	Young Entrant	Mid-Life
Social/private tenant	77	114
Co-operative tenant	78	101

Source: Authors' calculations

Owner-occupation is the most expensive tenure for Young Entrant households, but the cheapest for Mid-Life households. This is because many Mid-Life households benefited from price discounts when they purchased their housing, but Young Entrant households have generally had to pay market rates. Renting of any kind is about 23% cheaper than owner-occupation for Young Entrant households, while for Mid-Life households it is more expensive.

The Czech Republic has experienced a swift rise in housing prices since the early 1990s. Last year (2002) house prices rose by an average of 10% nationally, and 15% in Prague. At the same time interest rates fell, leaving affordability much the same.

Mortgage system

The typical mortgage is an annuity loan. The maximum term is 20 years, but the average is lower. Although there are no official figures, loan-to-value ratios are estimated to average 30-50% – very low compared to those in other countries. One bank offers a deferred-payment mortgage.

Taxes and subsidies

Mortgage interest payments are tax deductible up to a limit of CZK 300,000 (£6,818). Owner-occupiers can sell their dwellings without paying capital gains tax after a two-year holding period (five if it is not permanently occupied by the owner and is a rental property). There is a subsidy for house purchase, for which only young people have been eligible hitherto. From 2004, however, there will be an interest-rate subsidy for those acquiring their first home, and the subsidy for young people will be abolished. An income-related housing allowance was introduced in 1996. Both renters and home-owners are eligible, if their income is lower than a set floor. There is a transfer tax with a flat rate of five per cent (falling to three per cent in 2004).

Owners of rental property are taxed on the income from that property. The state offers grants for the construction of new municipal housing. About 33% of the cost is covered by state subsidy. There were no limits on construction costs and no income targeting, and the system has been abused for the construction of quasi-owner-occupied housing. Because of this some restrictions were introduced in 2002.

Rents have historically been subject to rent regulation, which was introduced after World War II and strengthened during the Communist period. Rents are regulated by government decree, and while the constitutional court has overturned two decrees, they have since been replaced by similar regulations. Parliament is now discussing the question, but there is little political will to liberalise rents.

Problems accessing housing

Young households often have problems because of a shortage of rental housing, yet most single-income and young households are unable to take out a mortgage. Their incomes are too low to meet bank lending criteria – a Czech buyer would need to earn almost ten times the average annual income to cover the mortgage on the median-priced owner-occupied dwelling.

Risk reduction

Arrears are not significant (estimated at around 1% of outstanding loans) because only higher-income households take out loans. A system of private mortgage insurance is being developed.

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Denmark

Tenure

Slightly more than half of Danish dwellings house owner-occupiers. Dwellings in social and private rental are almost evenly split, each accounting for slightly less than 20% of all dwellings. Social housing is owned by non-profit, untaxed housing associations. Municipalities do own some housing, but in general it is dedicated housing for people in particular occupational groups (nurses, doctors, army officers). Rental units are on average smaller than owner-occupied dwellings.

Private co-operatives are a minor tenure in Denmark as a whole (6% of all dwellings in 1999), but important in Copenhagen, where they make up 32% of dwellings. A co-operative is a private company formed by a single block or group of houses. The residents are tenants of the company of which they own a part. The percentage that they own is normally the same as the proportion of their dwelling's floor area in relation to the total. This ownership can be sold on, but the market is not free – regulations govern the calculation of prices for co-operatives. The maximum prices for old private co-operatives are only 25-30% of the price for similar owner-occupied flats, although newer co-operatives sell for closer to market rates. The tenure has an advantage over standard owner-occupation in that owners do not have to pay the new property tax (see below). In the last ten years there has been a trend towards transforming private rental dwellings into private co-operative units. In addition, the municipality of Copenhagen has sold about 20,000 dwellings, most of which have become private co-operatives.

Table 1: Dwellings/households by tenure, %

	All dwellings		Young Entrants		Mid-Life	
	1990	1999	1990	1999	1993	1999
Owner-occupation	55	53	23	20	68	64
Social renting	18	19				
Private renting	19	18				
Other: private co-operatives,	5	6	77	80	32	36
public authorities, other	4	3				

Source: All households calculated from Statistic Denmark figures on dwellings, ownership and tenure
Young Entrant and Mid-Life households from press release by Okonomiministeriet, entitled "Opdatering af tal vedr. andelen af familier med ejerandele", 13 June 2001.
Notes: Young Entrants: All households whose oldest member is under 30 years of age. Mid-Life: All households whose oldest member is aged 40-49 years

Levels of owner-occupation for Young Entrant and Mid-Life households fell slightly in the period 1990 –1999, and even more markedly since 1987. In 1987 27% of households headed by someone under 30 were owner-occupiers; this had fallen to 20% by 1999. In 1987 69% of households headed by someone aged 40-49 were owner-occupiers, but by 1999 this was down to 64%. Given that the overall rate of owner-occupation remained almost level (53% in 1987, 52% in 1999), it follows that there were corresponding increases in the rate of owner-occupation in other age groups; the overall rate is maintained because of the aging of Danish society. In fact all age groups under the age of 49 witnessed a decrease in the rate of owner-occupation after 1987, while the rate for households headed by someone aged 50 or over increased.

Last year the government announced proposals (which have been heavily debated) to begin selling social housing units to tenants. In October 2003 it was announced that pilot projects would run for tenants of a number of municipalities and housing associations. Rent and other conditions will remain unchanged for those tenants who do not buy. Experts expect that few, if any, social dwellings will in fact be sold.

A typical housing career for an owner-occupier might involve the purchase of a freehold flat between the ages of 20 and 30, and a house between 30 and 40. There are no statistics about the proportion of owner-occupiers with a mortgage. At exchange rate of 1 DKK = 0.1345 euros

Housing costs

There is little information available about housing expenditure by owner-occupiers. The average house price in the first half of 2002 was DKK 1,146,423. The average price was highest in Frederiksberg, in Copenhagen (DKK 3,436,091) and lowest in Bornholm at DKK 557,908 (Told & Skat, 2003). Real housing expenditures have in general increased during the last ten years, as the fall in interest rates has been more than offset by a remarkable increase in house prices. The highest price rises have been for flats in Copenhagen and other cities.

Social rents, on the other hand, are cost-based, and have hardly changed in real terms over the past decade.

Mortgage system

Specialist mortgage banks have 90% of the mortgage market in Denmark; the other 10% belongs to universal banks (Hypostat, 2003). The most common form of mortgage has until recently been a fixed-interest annuity loan with a term of 30 (or occasionally 20) years. Such loans generally carry no prepayment penalties; this is virtually unique in Europe, and is possible because the loans are funded via callable bonds (Mercer Oliver Wyman, 2003). In recent years, though, long-term fixed-rate mortgages have not dominated the market as they once did.

The maximum legal loan-to-value ratio for principal residences is 80% (or 60% for summer cottages), and loans for most first-time buyers have high LTVs. Purchasers who need to borrower a higher percentage of the property price can get a normal commercial bank loan or a private mortgage (a loan directly from the old owner to the new owner, which can then be sold on).

In 1996 'interest-adjusted' loans were introduced. The interest rate on such loans changes periodically (every six months to five years). The new interest rate is determined by the sale of bonds on the open capital market on a certain day, which is announced in advance. There is generally no prepayment option for this type of loan, which accounted for about 28% of total mortgage lending in 2002.

Recent product innovations include loans with interest-rate caps and a new loan type known as BoligXloans. The interest rate on BoligXloans is adjusted every six months with reference to the ten-day average of CIBOR (Copenhagen Interbank Offer Rate), so they carry an even lower interest rate than annually adjusted loans when the yield curve is increasing. In 2003 laws were passed allowing for the introduction of interest-only loans. These will allow the borrower to choose at any time during the term of the loan to pay only interest for a period of up to ten years. There has also been a rise in the number of foreign-currency loans since Denmark rejected Euro membership in 2000.

For social housing, the 84% of financing costs can come from mortgage banks. The municipality where the property is situated contributes 14%, and the tenants make up the last two per cent (but can get a loan from the municipality to cover this).

Taxes and subsidies

Owner-occupiers

Until 1998, the Danish government taxed the imputed rental income of owner-occupiers. With the so-called "Whitsun package" of tax reforms in 1998 (which took effect in 2000), this was replaced by a property tax set at one per cent of the dwelling's assessed value. At current (low) assessed values, this new tax is a few percent higher than the tax on imputed rental income. Those who were owners before 1 July 1998 receive a discount of 20%. When imputed rental income was taxed, owner-occupiers over 67 years old received a 50% discount. Under the new system this discount is available only for low-income pensioners; those with average and higher incomes pay the full property tax. In November 2001 the government decreed a tax freeze, fixing both property tax and rateable values at 2001 levels.

Mortgage interest, like other private interest expenditures, is tax deductible in Denmark but this so-called 'negative capital income' is not deductible at the taxpayer's marginal rate. The 1998 tax-reform package reduced the rate at which interest could be deducted from an average of 46% to 32-33%, while tax rates for positive capital income were nearly unchanged. Sale of owner-occupied property is free from capital gains tax, except for the first-time sale of a formerly rented dwelling and a very few owner-occupied houses (on big plots). Overall the changes increased the tax burden for owner-occupiers significantly.

Tenants

In the rental sector, a small programme of grants for construction of private rental dwellings was started in 2003. The government subsidises the building of and guarantees mortgages on social housing. Housing benefits for renters go to around 20% of households, including 58% of social tenants and 32% of those renting privately (Ball, 2003). Private rents are controlled, except for dwellings built after 1991. There is increasing pressure for reform of rent control.

Problems accessing housing

There are no government programmes to assist first-time buyers or other discrete groups. Young households are increasingly depending on their parents (whose equity, if they are owner-occupiers, has increased because of house-price inflation) to help them purchase a dwelling. Estate agents have promoted the idea of parents buying small flats for their children.

Risk reduction

Foreclosures and arrears are currently stable at a low level. The number of foreclosures in the worst year (1990) approached 20,300 properties, of which about two-thirds were owner-occupied; by 1999 the total number was 2,400. Arrears in 1990 were near 2.75%, but this figure fell to 0.23% in 1999.

Danish mortgage credit institutions are restricted by law (the balance principle) to funding their lending activities by issuing mortgage bonds with a profile matching the repayment profile of the loan portfolio … (This) and the structure of the market restrict mortgage lenders' risk to credit risk only. These risks have been very low historically and every mortgage bond has been fully paid off. Borrower defaults run at very low levels … and in most cases the collateral will cover any losses (Mercer Oliver Wyman, 2003).

Danish mortgage bonds are callable, so that if borrowers pre-pay their loans the credit institutions can repay bond investors, limiting prepayment risk.

Unemployed borrowers do not receive state benefits to cover mortgage payments. It is possible to purchase life insurance that would cover mortgage payments for a short period, but this is not usual. Some experts feel that the current situation, with highly leveraged owner-occupiers facing possible house-price falls, could be a precursor of real problems in the financial system.

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Finland

Tenure

As Table 1 shows, owner-occupation in Finland has fallen from 71% in 1992 to a level of 64% in 2001, below the average for European countries. This change was due to a historically severe recession, with a large increase in unemployment and foreclosures. The trend is now towards an increase in owner-occupation, with low interest rates, longer loan periods and rents that are high in comparison to loan costs

Table 1: Households by tenure, %

	All households		Young Entrant		Mid-Life	
	1992	2001	1992	1995	1992	1995
Owner-occupation	71	64	41	39	79	85
Social renting	15	17	27	20	11	6
Private renting	11	15	27	37	9	7
Shared ownership/equity	2	1	3	4	1	2
Other/unknown		3				

Source: 1992: Census – Housing 1994:4, Statistics Finland; 2001: Statistics Finland, end 2001, unpublished; 1995: "Toimivatko tulorajat", Jukka Hirvonen, ymparisto *208*
Notes: Young Entrants: 1992: couples of all income levels with children, where the main respondent is under 30. 1995: couples under 35 without children. Mid-Life: 1992: All couples with two children from all age groups and income levels. 1995: Couples of all ages where youngest child is between 7 and 17 years old.

While the data on the overall tenure split allow us to look at developments over about 10 years, data for Young Entrant and Mid-Life households are not as recent. They do show that in the three years from 1992 to 1995 there was a fall in the percentage of Young Entrant households who were owner-occupiers, from 41% to 39%. Over the same period there was a fall in the percentage of social renters and a rise in private renting.

For settled Mid-Life households the change was in the opposite direction – a rise in the percentage of owner-occupiers from 79% to 85%. This may, however, simply reflect the somewhat different definitions of Mid-Life households that were used in the two years. The households covered by the 1995 definition (couples of all ages where youngest child is between seven and 17 years old) would on average be older than those covered by the 1992 definition (all couples with two children, from all age groups and income levels), and we would therefore expect a higher percentage of owner-occupiers in the 1995 group.

In the 1990s, a hybrid ownership rental tenure emerged, using a model first devised in Sweden. In a 'right of occupancy' dwelling, the inhabitant initially pays 10-15% of the market value of the dwelling and then a monthly 'charge for use', covering capital and maintenance costs. The basic idea is that as long as you meet your obligations the owner cannot give you notice to quit. The construction of such dwellings is state subsidised … The 'right of occupancy' can be sold to a third party at a regulated price determined by construction costs (Ball, 2003).

Renting is split roughly equally between the private and social rented sectors. It is clear from the table that renting – both social and private – is in general a tenure choice of the young. Some 57% of Young Entrant households were renters in 1995, but only 13% of Mid-Life households. The difference was slightly greater for private renting than for social renting.

Housing costs

Finnish housing expenditure data are not available for the exact household types that were specified in our questionnaire. Expenditures for owner-occupiers approximating to both Young Entrant and Mid-Life households were obtained. For Young Entrant households, data refer to couples aged below 35 years of age without children. For Mid-Life households, data refer to couples whose youngest child is over seven.

Table 2: Actual expenditures on housing, Euros/month

	Young Entrant		Mid-Life	
	1990	2001	1990	2001
Owner-occupier	623	570	561	544
Tenant	286	362	340	526

Source: "Household Budget Survey", Statistics Finland
Note: Figures include all mortgage and rent payments, repairs, and utilities. Young Entrant 2001: Data include all housing expenditures (eg, interest payments, amortisation, repairs, water, electricity, heating, waste disposal, etc.), net of housing subsidies.

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant		Mid-Life	
	1990	2001	1990	2001
All tenants	45.9	63.5	60.6	96.7

Source: Authors' calculations

Tables 2 and 3 show that in 2001 owner-occupation was the most expensive tenure in Finland, as it was in 1990. Since 1990, the cost of renting in Finland has risen relative to the cost of owning a home. In 1990, the cost of renting for Young Entrant tenants was 46% of the cost of owner-occupation. By 2001 the cost of renting (average of social and private) was 64% of the cost of owner-occupation for Young Entrant households. For Mid-Life households, the cost of renting had risen so much that by 2001 average rents were 97% of average costs for owner-occupation.

Table 4: Household disposable incomes in 2001 currency, Euros/month

	Young Entrant		Mid-Life	
	1990	2001	1990	2001
Owner-occupier	2,634	2,852	3,185	3,396
Tenant	2,097	1,908	3,148	2,534

Source: "Household Budget Survey", Statistics Finland.

It is notable that over the period 1990-2001, the disposable incomes of owner-occupiers rose (by eight per cent for Young Entrant households and seven per cent for Mid-Life households), while the incomes of tenants fell (by 9% for Young Entrant households and 20% for Mid-Life households). This suggests that the composition of the groups of owner-occupiers and tenants changed over the period.

Mortgage system

The typical form of mortgage is a variable-rate loan where the monthly payment remains the same and, when the interest rate varies, the loan term varies accordingly. There has been a rapid increase in house prices in Finland in recent years, coupled with a decline in interest rates, leading to a lengthening of loan terms. The typical term is 15-20 years. Practically all housing loans have variable interest rates, tied to Euribor or to banks' prime rates, and mortgage interest rates change quickly.

Mortgages generally cover up to 70% of the market value of the house. It is possible to get a loan covering up to 85% of the value of the house by taking out a state guarantee (see below). All households are eligible for this guarantee, which costs 2.5% of the guaranteed amount. Lenders will also give loans with higher loan-to-value ratios if, for example, parents guarantee their children's loans or other additional collateral is offered.

The key change in the mortgage system has been the continuous decline in the interest rate since 1995. There has also been a significant decrease in the margins of housing loans (both loans to households and commercial loans for social housing), a lengthening of terms for mortgages (in the early 1990s the average was ten years), and the introduction of the state guarantee for mortgages. The net result has been a lowering of repayments for any given loan size, allowing households to take on larger mortgages. The increase in house prices has, however, diluted these gains. In the social sector, borrowers have benefited from lower interest rates and margins.

Taxes and subsidies

Owner-occupation

Housing is treated as a consumption good for tax purposes, and is thus favoured over other investment goods. Housing investor's pay no capital gains tax if the house has been owned for more than two years, and imputed rental income from owner-occupation is not included in a household's taxable income. Property taxes are low.

Owner-occupiers receive mortgage tax relief. Some 29% of interest payments (up from 25% in 1995) can be deducted from tax payable subject to certain limits, which rarely bite at the current low interest levels. First-time buyers receive a slightly higher deduction of 30%. The average subsidy for a Young Entrant household in 1998 was €50/month. There will be a minor change in tax relief in 2005, when the general deduction is lowered to 28%. The first-time buyers' deduction will remain in 30%, and the limits for deductions for families with children will be increased.

In the 1990s owner-occupiers were eligible for the ARAVA programme, which provided housing loans at interest rates subsidised by the state, subject to household size and income criteria. Demand for these loans, which were allocated by the municipalities, was low. They were replaced by an interest-subsidy scheme for buyers of new single-family homes. Purchasers can apply to their municipalities for these loans, which are allocated on social criteria. There are just under 1,000 new loans annually. Subsidy is paid on that part of the interest rate above 4.5%. During the first five years the rate of subsidy is 70%, falling to 50% in the next five years. In a low-interest environment the value of such a programme can be negligible – in May 2003 the average mortgage rate in Finland was 4.04%, and this programme currently pays no subsidy at interest rates below 4.5%.

A separate savings scheme operates for young people buying their first home. The ASP programme is for people between 18 and 30 who do not own a home. They must save at least 15% of the acquisition price over a period of at least two years. The interest paid on the savings, which is tax free, consists of a basic rate of one per cent, plus an additional two to four per cent agreed with the bank. Interest on the ASP loan is subsidised by the state during the first six years. The subsidy is 70% of the interest rate over 4.5%. The loan is eligible for the mortgage interest tax deduction. The loan amount is subject to a maximum; the country is split into four geographical sectors for this purpose.

Owner-occupiers who meet certain income and family-size criteria are eligible to receive housing allowance, though about 85% of these allowances go to tenants. Many of those eligible are pensioners.

Rental sector

Private rents were controlled until the early 1990s, when this control was gradually lifted. Private landlords must pay capital income tax (income streams deriving from investments and labour income are taxed separately), but they can deduct interest payments and other costs from their taxable income. They pay no capital gains tax. Private-sector tenants are eligible for housing allowances. The tax treatment of owner-occupiers and landlords and tenants in the private sector is thus very similar. However, private landlords in Finland receive no depreciation allowances.

Non-profit housing companies are taxed in the same way as other limited companies, but because all expenses can be deducted, in practice they rarely pay taxes. They pay no capital gains tax, are eligible for the ARAVA loan scheme (which still exists for social housing) and their tenants are eligible for housing allowance. Unlike private-sector landlords they do receive depreciation allowances, as do other limited companies.

There are two systems for social housing production. Originally those dwellings financed with state loans had cost rents, while those financed with commercial loans did not. In the beginning of 2002, cost rents were applied to all new projects in the social rental sector.

Risk mitigation

A partial state guarantee for loans for owner-occupied housing was introduced in spring 1996, with the aim of eliminating the need for personal sureties (typically, parents guaranteeing their children's loans). The state guarantees housing loans granted to private persons for the construction or purchase of a single-family house, or for the purchase of shares or an interest conferring possession of an apartment. There is no application procedure, only a requirement that the general conditions for the guarantee are fulfilled. If the lender forecloses and the property is sold at auction for less than the outstanding amount of the loan, the state will make up the difference (up to 20% of the outstanding loan value).

The loan can cover no more than 85% of the purchase price. The guarantee covers a maximum of 20%, to a limit of €25,250, of the outstanding principal. The primary collateral consists of the dwelling or other real collateral providing equivalent security. A fee of 2.5% of the amount guaranteed is paid to the state. No fee is paid if the loan receives an interest subsidy from the state. This guarantee currently applies to 25% of new mortgages; the stock is about 120,000 guarantees. In the six years of the programme's existence there have been only 20 defaults.

Commercial mortgage insurance policies for borrowers have been very popular in recent years. Unlike the state programme, which offers no protection against the borrower losing his house, commercial insurance will service the mortgage for a limited period of time (typically a year or two) if the borrower falls ill, lose his job, etc.

In addition, home-owners who become unemployed may become eligible for means-tested housing allowance if their income falls below a certain level. However, the means-testing procedure also includes assessment of household wealth, and few owner-occupiers would be likely to qualify. The allowance covers 55% of loan interest or, in the case of pensioners, 100%.

A compulsory arbitration system is in force for all debt problems:

For any kinds of debt problems, not only those caused by housing loans, there is a debt adjustment system that has been operating since 1993. This is … a legally enforced system through which the creditor and debtor can negotiate a payment plan by which the debt is paid. If the parties concerned cannot agree on the plan, the court can make a decision about it. Between 1993 and 1998 42,000 payment plans have been confirmed … Only two per cent of the cases are due to problems caused by housings (Ruonavaara, 2003).

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France

Tenure

The proportion of all households that were owner-occupiers in 2002 was, at 56%, slightly higher than in 1992 and eleven percentage points higher than in 1970. The social rented sector (predominantly *organismes d'habitations à loyer modéré*, or HLMs – some of which are similar to housing associations, and some to council housing) accommodated 17% of households in 2002, up from 15% in 1990. Over the same period, private renting fell from 25% of households in 1990 to 21% in 2002.

A high proportion of owner-occupiers - some 63% - are outright owners. This figure has risen from 56% in 1992. The high proportion is explained primarily by the age structure of owner-occupiers, of whom nearly 60% were aged 50 or over in 1992 (as compared with 47% of all households).

In terms of Young Entrant and Mid-Life households, the tenure pattern in 2002 was broadly similar to the position twelve years earlier. Young households were most likely to be renting privately (53%), and the proportion of young owner-occupiers had fallen from 21% to 17%.

Table 1: Households by tenure, %

	All households		Young Entrant		Mid-Life	
	1990	2002	1990	2002	1990	2002
Owner-occupation	54	56.0	21	17.2	73	71.1
Social renting	15	17.2	20	23.1	9	14.5
Private renting	25	20.7	52	53.3	14	11.2
Shared ownership/equity	6	0	7	0	4	0
Other		6.1		6.4		3.2

Source: 1990: Recensement de la Population de 1990: Logements – Inmeubles, Table 43; 2002 data: Bessiere (2003): table 3, Insee-Premiere, No 880 http://www.insee.fr/fr/ffc/docs_ffc/IP880.pdf ; unpublished data from 2002 French Housing Survey

Notes: Young Entrant: 1990: Couples where the main respondent is less than 40 years of age with no children; 2002: Couples with no children, where head of household is under 30 and not a student. Mid-Life: 1990: Couples where the main respondent is aged 40-64 with 1 or 2 children; 2002: Couples with at least one child, where head of household is between 30 and 39. Other: Sub-renting, furnished accommodation, hotels, tenant farming and sharecropping

Mature households with children were predominantly owner-occupiers (71%). Both household types were somewhat more likely to be in the social rented sector in 2002 than in 1990. In 1997, 55% of rental units were privately rented at market rates; just two per cent were subject to rent control. Municipalities owned 21% of all rental dwellings, while other social landlords (basically HLMs) owned 22%.

Housing costs

Figures on housing expenditure were compiled on a different basis in 2002 than in 1992, so the data shown in Tables 2 and 3 are not directly comparable. The 1992 data on housing costs were taken from the 1992 housing survey, from which data were published by age of reference person and by household type, but not by both. The age-group classifications were used, rather than household type. The 1992 figures for housing costs included mortgage payments or rent excluding service charges, but before deducting income-related assistance with housing costs (available to both tenants and owner-occupiers in France). The 2002 figures, however, do include expenses on utilities (which would increase the figures, compared to 1992) but are net of housing subsidies (which would decrease them). It is, therefore, not very meaningful to compare the absolute expenditure figures from 1992 and 2002. The relative figures, however, can be compared, and tell an interesting story.

What is striking about the relative cost of housing in 2002 is that the costs of both rental tenures have become closer to the cost of owner-occupation. Indeed, for Mid-Life households, private renting is now more expensive than owner-occupation. This change may result partly from the fall in interest rates since 1992, which resulted in lower mortgage payments for owner-occupiers. However, as real interest rates have dropped, new owner-occupiers of all ages have borrowed larger amounts. As a proportion of household income, mortgage repayments remained roughly stable over the 1990s.

Table 2: Actual expenditures on housing—Euros / month

	Young Entrant		Mid-Life	
	1992	2002	1992	2002
Owner-occupier	483	549	479	604
Social tenant	205	359	226	431
Private tenant	311	482	414	655

Source: 1992: Depenses de Logement et Comportements Residentiels en 1988 et 1992, INSEE, Table 407; 2002: unpublished data from 2002 French Housing Survey
Notes: Figures include mortgage and rent payments and utilities; net of housing subsidies
1992 figures in French francs converted to Euros at official rate of FF 6.55957 = 1 Euro.

Table 3: Relative expenditures on housing (owner-occupation = 100%)

Household type	Young Entrant		Mid-Life	
Tenure	1992	2002	1992	2002
Social tenant	43	65	47	71
Private tenant	65	88	87	108

Source: Authors' calculations

Both Young Entrant and Mid-Life households are normally dual-income (71% for Young Entrant; 70% for Mid-Life). Average income for Young Entrant households in 2002 was €2204/month, while Mid-Life average household income was €3368/month. (These figures include income from salaries or self-employment, pensions, minimum income support schemes, unemployment benefits, and the yields on stocks and bonds. Housing subsidies are not included.)

Table 4: Housing costs for owner-occupiers in 2002, Euros

	Young Entrant	Mid-Life
Average house price	88,471	150,887
Average down payment on a mortgage	16,591	56,045
Average mortgage payment	490/month	648/month

Source: Local experts' estimates

Table 4 gives information on average house prices and mortgage payments for owner-occupiers. Caution must be exercised in interpreting figures for Young Entrant households, because they were computed on a very small sample size since most households under 30 years of age are not owner-occupiers.

Real estate prices fell in the early 1990s in the main cities, then have risen since 1997. Outside of the cities house prices rose throughout the 1990s. In the last five years of the 1990s the house prices rose by 23%, but the price of flats went up only 12%.

Mortgage system

The purchase of a house in France is not necessarily funded by a mortgage strictly defined – that is, by a loan secured on the property:

For purchasing housing, the traditional mortgage in France is a personal loan. The lender is interested in the ability of the borrower to repay, rather than in the value of the mortgaged property. As a rule, the price of the property being purchased is not estimated, and a mortgage is not necessarily demanded, it can be replaced by a mutual guarantee. This sort of guarantee is more advantageous than a mortgage for the lender, because the risk of loss is then covered by the guarantor. It is less costly for the borrower - particularly for those who repay the loan quickly. But it depends on acceptance by one of the guarantors whose selection criteria are more stringent than those of lenders (Bosvieux and Vorms, 2003).

The principal guarantor is Credit Foncier, of which the state owns most of the equity. For a one-off payment of about two per cent of the insured amount, Credit Foncier will insure the loan against 100% of any default-related losses. The insurance is used as an alternative to registering a claim on the property, which in France is a costly and time-consuming process.

Borrowers usually get a housing loan from the bank they already save with; this is often accompanied by a requirement that they move all their other accounts to that bank.

In France the mortgage generally runs for a term of 15 to 20 years at a fixed rate of interest. There is evidence that mortgage terms fell in the 1990s, but have been increasing since 2000 as they have in other countries. By law variable-rate products must be indexed to underlying interest rates. The usual form is a constant annuity with progressive amortisation; interest-only mortgages with separate repayment vehicles are rarely used. Lenders normally require a down payment of 20% of the purchase price and calculate affordability on the basis that mortgage payments should make up no more than 30% of the household's disposable income. Most buyers, though, have a much larger down payment, as the average loan-to-value ratio is 60%. The average income multiple in 1999 was 3.05.

The typical mortgage interest rate paid by Mid-Life owner-occupiers in 2002 was 6.39%, somewhat higher than the 5.34% paid by Young Entrant owner-occupiers. This reflects the fact that Mid-Life owner-occupiers were more likely to have arranged their mortgage some years ago, when rates were higher, and are now locked into these higher rates despite subsequent falls in interest rates; they are also less likely to have benefited from PTZ (see below). For example, the fixed mortgage rate in December 1994 was 9.07%.

There is a state-backed scheme, the *pret pour l'accession sociale* (PAS), to allow low-income households to borrow at reasonable cost (see below), but take-up has been low. Most financial institutions are reluctant to suggest it to buyers because of its rigorous regulation.

Specialist lenders and retail banks accounted for 97% of mortgages to households in 1999; the rest were loans financed by a compulsory contribution of employers to construction. Most social rented housing was financed by the state-owned *Caisse des Depots et Consignations*.

Taxes, subsidies, and regulations

The tax system is biased in favour of owner-occupation, because imputed rent is exempt from income tax, whereas landlords pay income tax on their property revenue. (The bias is less strong than it was, though, because of the abolition of tax relief for owner-occupiers—see below.) Capital gains tax is not charged on the main residence and there is a general exemption after 15 years. There is an additional capital tax, "*Impot sur la Fortune"* (IGF), which is levied on any capital of more than € 600,000, in which housing is included whether it is the main residence or not.

Tax relief on mortgages

Tax relief on mortgages for owner-occupiers ended in 1997-98 (it is still available for owners of rental property). Previously, owner-occupiers with mortgages received a tax credit equal to 25% of the interest paid on the mortgage. There was a ceiling on this credit, which varied according to the size of the family and was significantly higher for newly constructed dwellings. If household income was below a certain level, the taxpayer could choose between a zero-interest loan (see below) and tax deductibility.

The *Pret d'Accession a la Propriete* (PAP) was a programme administered by a single state-linked institution, through which low-income households could finance the purchase of a newly built home at below-market rates. It was replaced in 1995 by the *Pret a Taux Zero* (PTZ), available through all financial institutions, which is an interest-free mortgage covering up to 20% of the price of a new house. Only first-time buyers are eligible; income ceilings are higher than for the PAP. This zero-interest-rate loan can be combined with more traditional mortgages, and effectively reduces the average interest rate paid by the beneficiaries by 1.23%. This PTZ can be combined with housing benefit.

Limiting such assistance to new houses distorts the market:

'Assisted' purchases are the first in line when it comes to loss of value, because of the difference in treatment between new and old properties. The priority attribution of public aid to new construction has a perverse effect: first-time buyers on modest incomes being pushed towards new housing that is too expensive for them; a sharp drop in price when subsidised housing is sold on for the first time; and lack of market fluidity. This comes about because, when these properties are resold, they can no longer be bought under the special conditions that are attributed to their initial purchase. What is more, such properties are often found in undesirable areas, where land is cheap, and can be difficult to sell (Bosvieux and Vorms, 2003).

House purchase savings plan

The state also has a house-purchase savings plan, known as the *Plan d'Epargne Logement* (PEL). Every month, for a period of 4-10 years, the household saves a certain amount. The interest paid by the bank includes a government-financed enhancement. At the end of the savings period, the household qualifies for a subsidised-rate mortgage the amount of which is calculated using a ratio of 2.5 between the amount of interest received on the savings and paid on the loan. The interest on the savings, and the mortgage rate, are those in force when the account is opened. Its attractiveness depends on the relative level of interest rates. Its appeal is low at the moment, because market rates are low. In 2003 this programme was modified so that the state-financed enhancement will now be paid only to those households that buy a home at the end of the savings period.

Rental property

Turning to rental property, private rents may be freely agreed for new and renovated dwellings, but subsequent rent increases are tied to the construction price index. Rents for existing dwellings are regulated. Income tax is charged on the rental income of private landlords, net of expenses (including loan interest) and a depreciation allowance. Landlords may deduct from their taxable income up to 65% of the purchase price of a newly constructed home over fifteen years. Rents could not exceed certain limits. The scheme was recently reviewed by the government. Previously, there was a requirement that the dwelling be rented to a low-income household for at least nine years. After the review, the government removed income ceilings on tenants, and raised the rent limits. If expenses are greater than rental income the deficit may be offset against income from other sources, as long as interest costs are not greater than gross rental income and the deficit is below a set limit. If the deficit exceeds this amount, the difference can be deducted from rental income over the following five years.

Means tested housing subsidy

As in most countries, renters are entitled to a means-tested housing subsidy. Since 2001, this allowance has been computed using the same formula for social-sector and private sector tenants. In France, owner-occupiers with mortgages also can qualify for housing subsidy. The amount depends on household income, household size, and the household's housing expenditure. There are maximum reckonable amounts of rent or mortgage interest, which vary with geographical area. The proportion of rent or mortgage interest met from assistance at the margin is always less than 100%, and substantially so except for those on very low incomes. Owner-occupiers purchasing a newly constructed home are entitled to a larger housing subsidy than renters, and renters are entitled to a higher subsidy than owner-occupiers purchasing an existing dwelling.

HLM organisations in the social rented sector are financed by subsidised loans known as PLUS's. These are part grant, and part low-interest loan from *Caisse des depots*, funded by dedicated savings institutions. Construction and renovation works also benefit from a reduced rate of VAT (5.5%) and newly built social housing is exempt from property tax for 15 years (rather than two). Grants are also made towards the cost of improvements to existing dwellings.

Risk reduction

The PAS, or social access mortgage, was set up in 1993 to allow low-income households to borrow at a reasonable interest rate. Mortgages are guaranteed through a fund paid for by the state and the credit institutions that participate in the scheme. If a borrower defaults, the fund covers principal and interest as well as fees owed to the lender. In 1999 the guarantees were broadened to cover the involuntary loss of the main or co-borrower's job. The PAS mortgage has a very small market share.

Lenders generally ask borrowers to take out insurance against death, accident, and sickness, but rarely against loss of employment. This insurance is often issued by a company suggested by the lender, so the mortgagor has no choice. Low-income borrowers are also eligible for housing subsidies, which is a form of implicit mortgage insurance.

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Germany

Tenure

Although German tenure statistics are available from about a decade ago (1987 and 1993) and more recently (2001), one must exercise great care when comparing them. Table 1, therefore, splits out 1987 and 1993 data for the former West Germany only. A minority 38% of households in the former West Germany were owner-occupiers in 1987, although owner-occupation was the majority tenure amongst Mid-Life households. (These were defined as four-person households with net incomes of between DM5,000 and DM10,000 per month; average household income in 1993 was well below DM5,000/month, so the figures are for a small sample of upper middle-class households.)

Amongst Young Entrant households, however (defined as all those below the age of 35 years regardless of household type), only 17% were in owner-occupation in 1993.

In former West Germany, 58% of all households were tenants in 1987, 43% in the private rental sector and 15% in social renting. The proportion of tenants in the private rented sector was higher for Mid-Life than for Young Entrant households.

Table 1: Households by tenure, former West Germany 1987 & 1993, %

	All households	Young Entrants[1]	Mid-Life[2]
	1987	1993	1993
Owner-occupation	38	17	77
Social renting	15	17	9
Private renting	43	66	14
Shared ownership/equity "Genossenschaften"* Other	4	0	0

Source: Census 1987, Table 1.1; Income and Expenditure Survey 1993, Table 1
Note: 1 - All those below the age of 35 regardless of household type; 2 - Four-person households of all age groups with net incomes of DM5,000 – 10,000/month

The 2001 figures are for all Germany. Former West Germany accounts for about 80% of the population of the reunited country. These figures are panel data, rather than census data.

From 1987 to 2001 there was a five per cent rise in owner-occupation in the area of former West Germany. The figure for the entire country was, at 41%, somewhat higher in 2001 than the 38% registered in West Germany in 1987.

Tenure by household type

The breakdown by household type for all Germany in Table 2 shows an owner-occupation rate for Young Entrants of 49%. This is significantly higher than the figure for West Germany alone in 1993, although the data are not strictly comparable. This apparent increase may be partly explained by a fall in the availability of social housing, and by the introduction of a generous grant for first-time homebuyers in 1996 (the *Eigenheim-Zulage*, described below).

Table 2: Households by tenure all Germany 2001, %

	All households		Young Entrants[1]	Mid-Life[2]
Owner-occupation	West: 43	East: 31	49	49
		41		
Social renting		6	5	7
Private renting		49	45	44
Shared ownership/equity "Genossenschaften"*		5	0	0
Other		0	0	0

Source: Federal Office of Statistics; Bundesamt fur Bauwesen und Raumordnung (2001): Wohnungsprognose 2015. Band 10, Bonn. ("BBR 2001"); Bundesverband deutscher Wohnungsunternehmen e.V. (2002: Wohnungswirtschaftliche Daten und Trends 2002/2003, Berlin ("GdW 2002"); Socio-Economic Panel, Waves M & R (SOEP); calculations based on above

Notes: 1 - Two-adult households without children, adults aged 20-29 years; 2- Two-adult households with children, adults aged 40-49 years

* Non-profit housing associations which are jointly owned by the "tenants" ("Genossen") who also exert a democratic control of their management.

The 2001 owner-occupation rate for Mid-Life households was 49% for the country as a whole—lower than the 77% registered in 1993 for West Germany. But local experts agree that the Mid-Life owner-occupation rate has risen in Germany since 1993, not fallen. The decline that Tables 1 and 2 indicate seems to stem entirely from non-comparability of the data – in particular from the fact that the earlier data referred to higher-income households.

Also, the incorporation of former East Germany has had a huge effect on the statistics. Without detailed analysis, though, it is impossible to know to what extent the dramatic differences in the two sets of figures represent real changes in tenure patterns in former West Germany, or simply the incorporation of statistics for former East Germany.

The typical homebuyer in Germany in 1994 was 38 years old (Expert Commission on Housing, 1994). Owner-occupiers typically build their own homes on plots they purchase, with the intention of living there for a long time. The introduction of first-time homebuyer grants in 1996 reduced the financial burden for the first-time buyer and presumably the average age of first-time buyers has fallen since then, though no figures are available.

Social and private renting

There has been a marked decrease in social renting, particularly for younger households, because of the expiration of social housing programmes, which are not replaced at the same rate. Social housing built in the 1980s was funded by subsidised loans, in return for which housing providers were required to set low rents. When the loans were repaid the housing providers were free to revert to market rents, so as the terms of these subsidised loans have expired, social rents have increased relative to private rents. Private renting has risen somewhat overall, and in particular for Mid-Life households. In West Germany in 1993 14% of Mid-Life households rented privately; the 2001 figure for all of Germany was 44%. Rent differentials between private and social rental have narrowed in the last ten years.

The population of western Germany has risen in the last decade because of migration from east to west, but also because of immigration from Eastern Europe and the former USSR and the reunification of Turkish families. There is currently a large oversupply of housing in the east. This is partly due to this migration to the west, and partly to suburbanisation and the very generous depreciation allowances that applied pre-1999 for new rental buildings in the former East Germany to stimulate construction. The housing in 'oversupply' is mainly substandard.

The regional *länder* have responsibility for housing policy and, hence, have an important influence on the mix of housing tenures.

Housing costs

Given the limitations of the data, we can only make broad generalisations about the patterns of housing cost and tenure in Germany, shown in Tables 3 and 4. In our last survey, private renting was shown to be significantly cheaper than owner-occupation for both Young Entrant and Mid-Life households. (Although figures were not available, it was suggested that costs for social tenants were generally about 20% lower than private rental sector costs.) The 2001 figures suggest that while Mid-Life private renters continue to pay about 56% as much as owner-occupiers, the cost differential has narrowed for Young Entrant households. For these young households private renting now costs about 84% as much as owner-occupation. Social renting is somewhat cheaper, but still costs more relative to owner-occupation than did private renting ten years ago. A large stock of empty dwellings in eastern Germany, and adequate supply elsewhere, keeps prices down. House prices fell in 2001 and were static in 2002, in contrast to other EU countries.

The average income for a Young Entrant household in 2001 was DM4,363 per month net of tax. 59% of Young Entrant households were single-income in 2001, and 41% dual income. The average income for a Mid-Life household in 2001 was DM4,972 per month net. The great majority (64%) of Mid-Life households were dual-income.

Table 3: Actual expenditures on housing—Euros / month[1]

		Young Entrant	Mid-Life	
	1988/ 1993	2001	1988/1993	2001
Owner-occupier	669	543 (279)	753	950 (652)
Social tenant	N/A	405	N/A	478
Private tenant	263	457	424	537

Source: 1988 tenant expenditures from Income and Expenditure Survey 1988(5), Table 4.1.6; 1993 owner-occupier expenditures from Income and Expenditure Survey 1993, unpublished; 2001: SOEP, wave R (2001); calculations based on above.
Notes: 1 - Calculated at the official exchange rate of DM1.95583 = €1
2001 figures for owner-occupiers include mortgage payments, heating, maintenance and management; Numbers in parentheses exclude maintenance and management. 2001 figures for tenants include rent, heating, and hot water

Table 4: Relative expenditures on housing (owner-occupation = 100%)

		Young Entrant		Mid-Life
	1988	2001	1988	2001
Social tenant	N/A	75	N/A	50
Private tenant	39	84	56	57

Source: Authors' calculations

Figures for average house price and down payment were unavailable. In 2001, the average mortgage payment for a Young Entrant household was €196 per month (SOEP, wave R, 2001), while the average for a Mid-Life household was €577 per month. The effective interest rate for a ten-year mortgage was in the range of 4.8 to 5.6%.

Mortgage system

Mortgage banks and savings banks together account for over half of outstanding loans. The loan-to-value ratio of *Hypothekenbanken* first-loan mortgages is limited by law to 60%, because they are funded by low-cost covered bonds (*Pfandbriefe*), which are traded on the secondary market as no-risk assets. The average LTV for non-*Pfandbriefe* backed loans is 70-80%.

Some nine per cent of German mortgage lending is accounted for by *Bauparkassen* loans, which carry a lower interest rate than conventional mortgages (although recent falls in market rates have meant that these differentials have narrowed or even been reversed). The *Bauspar* system is a closed system, in which savers contract for a certain saving period (normally seven years) before *Bauspar* loan is granted. It achieves a high turnover rate of means by quick repayment, so although the interest rate is fixed and may be low compared to market rates, the repayment rate of the loan is high and borrowers are affected by liquidity constraints. About 80% of new mortgages have a five- to fifteen-year period of fixed interest, which is then renegotiated. The typical term is 20-30 years.

Taxes, subsidies and regulations

Home-ownership

Housing is treated as a consumption good in Germany. Owner-occupiers and landlords are not taxed on capital gains as long as the property has been owned for more than ten years (increased from two in 1998), but they receive no tax relief on mortgage payments. They may deduct a percentage of the house price from their taxable income for the first eight years as depreciation, subject to certain limits. One-time taxes include a transactions tax of 3.5% of value.

The *Eigenheimzulage* grant scheme was introduced in 1996, replacing a depreciation allowance. The grant is paid to first-time buyers during the first eight years after purchase, and amounts to €1,250 per year for new construction or for purchase of an existing dwelling. In addition, family grants of €800 per year, per child, are paid over the same period. The income ceiling is generous (€70,000 in two years for single people, and €140,000 for married couples, plus €30,000 per child), and a large majority of home-buyers are therefore eligible. Experts regard the scheme as too expensive and not well targeted. The amount payable under the programme and income ceiling were cut in December 2003 by 30%, effective 2004. (The figures above reflect the new arrangements.)

Individual German states also have programmes to subsidise home-ownership, see box below.

Ten German states support home-ownership within the scope of publicly assisted housing (*Eigenheimforderung im Rahmen des Sozialen Wohnungsbaus).* In contrast to the allowance for home-ownership and building society funding … there is no right to this kind of subsidy. Individual decisions by state authorities prevail in cases where applications meet all requirements. Depending on the policy and cash balance of each state, several programmes based upon the second housing act … are offered. In principle, long-term loans with interest rates below the market level are given as well as short-term loans for first-time buyers. Both have the effect of decreasing monthly mortgage repayments. Eligibility is dependent upon household size and income (Pfau, 2003, p107).

Rent controls

Rents are freely negotiated at the time when a household rents a dwelling. After that, however, rent controls apply which are linked to rent levels in comparable dwellings, which are determined by the sheer weight of existing tenancies rather than by the relatively small number of current market transactions. This means that overall rent levels lag way behind current market rents (Ball 2003 p. 55).

Private landlords may deduct their costs from taxable income, and may set losses from housing against income from other sources. Different depreciation rates apply for new and old buildings; landlords can choose straight-line or accelerated depreciation. Until 1998 depreciation rules for private rental housing in eastern Germany were particularly generous, but the allowances (*Sonderabschreibungen*) have now been reduced. The minimum holding period, after which sales of such properties are free of capital-gains tax, has been increased from two to ten years. Owner-occupiers and tenants alike are eligible to receive housing allowance if their income falls below a certain level. This assistance is tenure neutral.

Risk reduction

Mortgages for first-time buyers can be combined with life insurance; households can also take out private insurance against disability. German banks minimise risk in residential lending through prudent valuation. Also, loan-to-value ratios are low. Pre-payment fees are imposed for early payment of mortgages. These are determined by calculating the market cost to the bank of breaking the mortgage contract. In 1996 the government introduced guarantees of mortgage payments for low-income households in former East Germany only.

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Greece

Tenure

Owner-occupation is the overwhelming tenure in Greece, with a figure of 80% commonly quoted. This is up from about 76% ten years ago. Provisional data from the 2001 census put the percentage as high as 83%, although the numbers on which this figure is based apparently do not include immigrants (approximately 700,000 currently reside in Greece). There is virtually no social rented sector in Greece any longer; ownership of almost all social rented dwellings was transferred to their tenants in the 1990s.

Table1: Households by tenure, 2001, %

	All households
Owner-occupation	80
Social renting	0
Private renting	20
Other	0

Source: Economic and Market Analysis, National Bank of Greece, June/July 2003

Most owner-occupiers are outright owners. Reliable figures are not available, but experts estimate that only about 25% of all households acquired their property with a mortgage – the lowest rate in Europe. Until recently interest rates were very high, and buyers relied on help from their families rather than bank loans. Traditionally, owner-occupiers would build their own houses on plots of land, and live in them for the rest of their lives. This is still how a third of owner-occupiers acquire their properties – more outside big cities.

There are no data that would allow us to look at the tenure split for Young Entrant and Mid-Life households. The average age of the first-time buyer in Greece is significantly higher than our Young Entrant household; according to the National Bank of Greece, the average age of applicants for housing loans is between 40 and 45, and the typical first-time buyer household would have two adults plus one or two children.

Housing costs

The only available on housing costs in Greece are estimates that refer to owner-occupiers as a whole, not specifically to Young Entrant or Mid-Life. The average house price is €100,000, and the average mortgage payment is €450/month. House prices in urban areas rose 15% in 2001 and 13% in 2002 (Hypostat, 2002), but figures for the first half of 2003 show that price inflation has slowed to 4.5%.

Mortgage system

Greece is one of the few countries in Europe without specialised mortgage credit institutions, although this is a relatively recent development. Ten years ago there were three institutions through which the government-channelled mortgage-interest subsides, and for that reason they dominated the mortgage market. In the 1990s the rules were changed so that any bank could offer subsidised loans. In consecutive mergers in 1997 and 1998, two of the mortgage banks, the National Housing Bank and the National Mortgage Bank, merged with the National Bank of Greece. Aspis Bank, the last remaining mortgage bank, changed its status to commercial in 2001. Commercial banks have 67% of the mortgage market; the remainder is covered by specialised credit institutions that cater for public-sector employees.

The typical mortgage in Greece is a repayment mortgage with a 15-year term. There are generally penalties for prepayment. There has recently been a spate of innovation in the Greek mortgage market, including the introduction of mortgages with a one-year low fixed rate, which then reverts to variable; 30-year mortgages; and *Euribor* trackers. The current average gross interest rate on a mortgage is 5.5%, down from around 15% in 1998. Some banks offer slightly lower interest rates on mortgage loans to buyers who have held a savings account for at least six months before taking out the loan. The fall in mortgage interest rates and the diversity of products on offer have contributed to a huge increase in mortgage finance, with loan volumes increasing at a rate of over 30% over the past four years as owner-occupiers take out mortgages to cover renovation, etc.

Estimates are that on average, mortgages cover 55% of the market value of the house. Affordability is calculated on the basis of repayments of 40% of family income. Most banks will lend a maximum of 75%. Loan-to-value ratios are low compared to other European countries, partly because purchasers pay a housing sales tax based on the "objective value" of the dwelling. This "objective value" figure is entered in the sales contract, although the market value (and real selling price) is generally 30-40% higher. Because banks cannot lend more than 100% of the value on the contract, this limits LTVs. "Bank of Greece research shows that borrowing is concentrated among the richest households and that the outstanding balance does not exceed annual income, even in the lowest income brackets." (Hypostat, 2002).

Taxes and subsidies

Home-ownership

In Greece home-ownership is treated as an investment good, with taxation of imputed rental income for properties of a certain size (which depends on the size of the family, but in general only affects very large houses). At the same time, however, there is tax relief on mortgage interest—15% of the interest paid annually is deducted from the homeowner's total tax bill. In 2002 the full relief was limited to houses not exceeding 120 m^2 (1,292 square feet); for larger properties the amount deducted is 15% of that fraction of the interest that corresponds to 120 m^2 of the house. Capital gains tax was introduced in the early nineties for individuals but subsequently changed, and now applies only to the sale of property by companies.

Interest subsidy for first-time buyers

There are two types of interest-rate subsidy for first-time buyers. Every individual or family is entitled to a "single" subsidy, provided their annual family income and house purchase price are below certain thresholds (which depend on family size). Subsidies on the loan interest range from 18% for unmarried people to 44% for families with four or more children, and are given for 7.5 years for 15-year loans or eight years for loans with a longer term.

"Double" subsidies are given by the state and the Organisation for Social Housing (OEK), which has an annual quota of beneficiaries. OEK subsidies range from 34% for unmarried people to 56% for families with four or more children; these subsidies are only available for the first nine years of 15-year loans.

Five years ago, when interest rates were high, subsidised loans accounted for about 70% of the mortgage market; now the figure is less than 20% and experts say that such loans are generally only worthwhile for families with more than two children.

Minority groups such as gypsies and repatriated Greeks from former Communist countries benefit from special loan subsidies of 80-100%, as do victims of natural disasters.

Purchasers pay a sales tax of 9% to 11% of the "objective value" of the dwelling. First-time buyers are exempt from this tax on the first €15,000 in value. Property taxes are very low.

Rental property

Rental property is treated as an investment good, as in most countries. Rental property is taxed, and capital gains tax is payable when it is sold. For tenants, the government provides income-related housing allowances and tax relief for renting households. Rent paid can be deducted from taxable income up to Euros 750 annually per family, plus a similar sum per child studying at a Greek university in another town. On balance, tax relief on interest paid by owner-occupiers is probably on average greater than the tax relief provided for renters.

Risk reduction

Experts say that loans are performing better in the last few years than previously, largely because of the downward trend in interest rates. Lenders require owner-occupiers to insure against earthquakes and fire, but all other forms of insurance are optional.

The following categories of loan are covered by a state guarantee for the duration of the loan: loans of up to €60,000 to repatriated Greeks from the former Soviet Union; loans of up to €60,000 to Gypsies, and loans to victims of natural disasters.

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Hungary

Tenure

In Hungary housing was privatised between 1989 and 1997. During this period 15-20% of the housing stock moved from state ownership (which previously owned 25% of dwellings) to the owner-occupied sector. This change was most important in urban areas, where privatisation caused a dramatic change in the tenure structure. The privatisation was basically a give-away, where households paid prices of only 10-15% of market value. As a consequence, in 2000 the estimated share of the rental sector was eight per cent, of which five per cent was public. By 2003 this had fallen still further, to 3.9%. In the period between 1996 and 2003, 36% of purchases or construction of dwellings were partly financed by loans, while 65% used no loan.

Because of the recent housing privatisation, even Young Entrant households are very likely to be owner-occupiers – some 95% of Young Entrant households fall into this category. It should be noted, though, that in Hungary people live with their parents for longer than is the norm in the West – the average age upon forming an independent household is 24 years old. The Young Entrant tenure figures in Table 1 show only the tenures of those young people already living in their own households; they do not reflect the tenure of those still living with parents.

Table 1: Households by tenure 2003, %

	All households	Young Entrant[1]	Mid-Life[2]
Owner-occupation	92	95	96
Social renting	4	3	3
Private renting	3	3	1
Other	1		

Source: Central Statistical Office Housing Survey 2003 (unpublished in this form)
Notes: 1 - Household whose head is aged between 18 and 35, individual or couple; 2 - Couples with children where the head of household is aged between 36 and 50.

Housing mobility is generally low in Hungary. Of Young Entrant households, 32% moved in the seven years up to 2003; this is higher than the overall rate of 20%. Currently the share of the rental sector in the Hungarian housing market is tiny. The government has launched a programme to try to increase the size of the public rented sector, but it has had little effect so far.

Housing costs

Young Entrant households enjoy an average income of €558/month, 10% higher than the overall average. Young Entrant owner-occupiers spend about 20% of their household income on housing (which includes electricity, gas, water, maintenance, heating, garbage collection, and insurance, as well as payments on housing loans).

Mid-Life households have an average income of €708/month, 33% higher than the overall average. In 90% of these households the head of household is an active earner. As Table 2 shows, average expenditures on housing vary little by tenure. Data were not available for Young Entrant renters, but data for Mid-Life renters show that social tenants pay a little less than owner-occupiers, while private tenants pay slightly more—but the differences are small.

Table 2: Actual expenditures on housing, Euros / month

	Young Entrant	Mid-Life
Owner-occupier	114	114
Social tenant	n.a.	108
Private tenant	n.a.	118

Source: Housing Survey 2003
Note: Figures include mortgage and rent payments, heat, utilities, maintenance, garbage collection & insurance

Table 3: Relative expenditure on housing (owner-occupation = 100)

	Young Entrant	Mid-Life
Social tenant	n.a.	95
Private tenant	n.a.	104

Source: Authors'calculations

The average price paid by a current Young Entrant owner-occupier for his dwelling was €30,000 to €35,000, while Mid-Life owner-occupiers paid €42,000 to €46,000. Prices have been rising though, and those who have moved in the last few years have paid more – the current overall average price is estimated at around €50,000.

Table 4: Housing costs for owner-occupiers in 2003, Euros

	Young Entrant	Mid-Life
Average house price	32,000 – 35,000	42,000 – 46,000
Average down payment on a mortgage	20,000 – 25,000	20,000 – 25,000
Average mortgage payment	800 – 850/month	800 – 850/month

Source: Experts' estimates

Mortgage system

The mortgage market continues to be dominated by the National Savings and Commercial Bank, the country's largest financial institution, which has over half of the mortgage market. Loan terms are generally short (under 10 years), as nominal interest rates are high. The maximum loan-to-value ratio is 70%.

Taxes and subsidies

Mortgage interest tax relief was introduced in 1994. Some 20% of the total mortgage payment (amortisation plus interest) could be deducted from personal income tax payable, up to a limit of 35,000 forints/year (245 forints = €1). Only mortgages for new construction were eligible. In 2001 the amount deductible was increased to 40% of total mortgage payments, up to a total of 240,000 forints. In 2002, eligibility was widened to include mortgages on existing properties.

In 1996, the government introduced a scheme to subsidise contract savings, modelled on the German *Bausparen* scheme. This replaced a tax allowance for housing savings that started in 1988. The subsidy was 30% of the amount saved, which was added annually to the saver's account, up to a maximum of 36,000 forints (€147) per year. The ceiling was increased in 2002 to 72,000 forints (€294). Savings must be used for housing purposes, and each household member is allowed to have a separate account. The total amount of savings contracts stood at about 787,000 in 2001, and the size of the average contract was 671,000 forints (€2,739).

Risk reduction

For borrowers in receipt of housing construction subsidies, the state guarantees up to 80% of the amount of new construction loans. Only families with children are eligible for the subsidies (and thus for the loan guarantee). The cost of this is met from the budget.

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Iceland

Tenure

Iceland is overwhelmingly a land of home-owners, with an owner-occupation rate of about 78% according to a recent Gallup survey. Iceland categorises its social housing into rental and owner-occupied stock. The Gallup figures show social rental is minimal, housing less than two per cent of Icelanders, but the survey grossly under-represents social rental housing – experts agree that it makes up about 5% of the housing stock.

Social owner-occupied stock is a legacy of the 1930s working-class movement. Workers were sold flats at cost price, but could not sell them on the open market – if they wanted to dispose of them they had to sell them to the municipality (which at various times had either the obligation or the right to buy them back). At its highest, the social owner-occupied stock made up about 7% of the entire housing stock. After 1 January 2002, the owners of such flats were allowed to sell them on the free market. This social owner-occupied housing now makes up approximately 5% of the entire housing stock in Iceland, a figure that is falling by about one per cent per annum. All in all, social housing accounts for 10% of all housing – five per cent rentals and five per cent owner occupied.

The figures in Table 1 are not strictly comparable with other data in this study, as they are based on a Gallup survey of individuals, rather than households. A 1999 survey of the rental market by Statistics Iceland gave the level of home-ownership as 83%, somewhat higher than the figure in Table 1.

Table 1: Individuals by tenure, 2003, %

	All households	Young Entrants[1]	Mid-Life[2]
Owner-occupation	78	70	90
Social renting	2	5	3
Private renting	5	10	4
Renting from relatives	5		
Living with parents	10	10	1
Other	1	4	1

Source: Gallup Survey August-September 2003 for Ministry of Social Affairs
Notes: 1 - All households aged 25-34; 2 - All households aged 45-54

Icelanders tend to live with their parents in their early twenties and buy a home as they approach their thirties. This trend has become more pronounced as more people enter higher education and property prices rise. According to a Gallup survey carried out in August-September 2003, 53% of individuals aged 20-24 lived with their parents and 25.6% were owner-occupiers. Of those aged 25-34, only 10.4% lived with their parents and 70.1% were owner-occupiers—see Table 1. By their late 40s the overwhelming majority of Icelanders are home-owners.

Because of data limitations it is not possible to compare the expenditure of owner-occupiers and tenants within each of our household categories. As in other countries, though, Mid-Life owner-occupiers pay less for housing than Young Entrants (reflecting the fact that on average they purchased some years ago, when prices were lower), and social tenants pay less than private tenants.

Table 2: Actual expenditures on housing – krona/month, 2003

	Young Entrants	Mid-Life
Owner-occupier	53,300	38,300
Social tenant		34,934 (average for all age groups)
Private tenant		53,140 (average for all age groups)

Source: Gallup Survey on Icelandic Rental Market for Ministry of Social Affairs
Notes: €1 = 86.47 krona ; For owner-occupiers: mortgage payments plus heating costs. For renters: Rent (normally inclusive of heating costs) Heat and electricity payments not separated

Table 3: Housing costs for owner-occupiers in 2003, krona per m^2

	Young Entrant	Mid-Life
Average house price	134,621	208,662
Average mortgage payment	49,000	35,300

Source: Experts' estimates

The average house price for a Young Entrant in the Reykjavik area is 134,621 krona per m^2. About 95% of house purchasers take out a mortgage, while 5% are cash buyers. Most households are dual-income, though no precise figures are available.

Mortgage system

The typical mortgage is an annuity loan from the state-guaranteed Housing Financing Fund. Until recently the normal term was 25 years, but in 1995 the Fund introduced 40-year mortgages, and these now account for the majority of new loans. Until July of this year the HFF operated a bond swap system, through which homebuyers applied for a mortgage bond secured against the property to be bought; however, this system has now been abolished.

The HFF loans up to 70% of purchase price for first-time buyers and 65% for subsequent purchases. Under a separate programme the HFF will lend up to 90% LTV to low-income families. The maximum loan amount is ISK 8 million for older housing and ISK 9 million for new housing. Purchasers who need to borrow more than these amounts (which would not be enough to finance a house in Reykjavik) get top-up loans from banks. Pension funds also lend to their members.

The current government has pledged to increase HFF maximum loan amounts. However, EFTA competition authorities are currently scrutinising the domination of the mortgage market by the HFF, and are expected to report in late 2004. If the report concludes that HFF practices are anti-competitive, the entire system will need to be reformed. As of end-2003, Icelandic government institutions (the HKK and the Student Loan fund) accounted for 60% of the loan market to individuals.

Most mortgages are indexed, generally against the consumer price index. The average interest rate on a Housing Fund mortgage is currently 5.1% plus inflation, while pension fund mortgages are more expensive at 6.1% plus inflation. Although interest rates have fallen, they are high by international standards, and the purchaser has to bear the inflation risk. However, the extremely generous tax treatment of mortgage interest (see below) means that interest costs are effectively capped at six per cent of household income. Nominal interest rates are thus to some extent irrelevant—economists estimate that effective after-tax interest rates are only three to four per cent.

In early 2004 all the Icelandic banks introduced a new mortgage product, denominated in a basket of foreign currencies.

House prices have soared in Iceland in the last five years, but the increased length of mortgages and lower interest rates for top-up bank loans have partly offset this rise, so that owner-occupiers' housing expenditure is largely unchanged. However, first-time buyers do have problems accumulating a down payment in this high-cost housing market.

Taxes and subsidies

Through its tax treatment of mortgage interest payments, the Icelandic government basically pays all interest over six per cent of household income. Owner-occupiers list housing-loan interest on their tax returns, and from this amount deduct six per cent of total family income. If the result is positive (that is, if the amount of interest paid is greater than six per cent of household income), the Icelandic tax authorities send the household a cheque for this amount at the end of the tax year. This very generous tax treatment encourages borrowing, and means that nominal interest rates are not very meaningful.

Sales of owner-occupied properties are free from capital gains tax after two years of ownership. The state gives an implicit interest-rate subsidy through its mortgage guarantee system. Improvement grants are available for older houses. There was a programme for subsidising house-purchase savings, but this was recently abolished.

In the rental market, landlords are taxed on the income from rental property. Private landlords cannot claim depreciation, but social landlords can. Housing benefit for renters is assessed with regard to the claimant's income and assets.

Risk reduction

The State Housing Fund guarantees mortgages; the default rate is very low. In early 2004 the main banks introduced mortgage insurance. A fairly comprehensive government-run assistance programme for home-buyers in distress operated from 1985 to 1999, when it was replaced with a government-run advisory bureau which helps people re-schedule their debts in co-operation with the banks and the Housing Financing Fund.

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Lithuania

Tenure

A very high percentage – 84% – of Lithuanian households are home-owners. The remainder are split fairly equally between social renting, private renting, and rent-free accommodation. (Most rent-free households are probably living with their extended families.) Most housing was privatised in the early 1990s, and since then levels of owner-occupation have remained fairly stable. There may be a small increase in the proportion of private renters in the next five years.

Table 1: Households by tenure 2002, %

	All households	Young Entrant[1]	Mid-Life[2]
Owner-occupation	84	61	90
Social renting	4	9	5
Private renting	5	30	5
Rent-free	6		
Other	2		

Source: Lee, Michael Lithuanian Housing Strategy Project. Sustainable Housing Program Development: Final Report London, November 2002. Table 3.2; Table 3.1; and Lithuanian Free Market Institute. Lithuanian Housing Strategy Project. A Survey of Lithuanian Households. November 2002
Notes: 1 - All households whose heads are aged between 20 and 29; 2 - All households with heads aged between 40 and 49.

Of owner-occupiers, an estimated 99% are outright owners. Only 20% of new owners are buying with a mortgage, and just six per cent of households have ever taken out a housing loan (Diamond, 2002).

Housing costs

Most public renter households chose in the early 1990s to receive ownership of their dwellings at very little cost, using government vouchers (each individual received an allocation, the amount depending on their age). The current cost of home-ownership for existing owner-occupiers is therefore very low. Utilities, on the other hand, account for a large (and increasing) percentage of household expenditure, and many families qualify for utility subsidies (see below). Young Entrant households as a whole (that is, including renters) spend 3% of monthly expenditure on rent and loan repayments, but 24% on water, electricity, heating and other utilities. Mid-Life households spend somewhat more on utilities, with 3% of expenditure on rent and loan repayments and 28% on utilities. The percentage figures for expenditure on rent and mortgage payments are very low because they reflect the high percentage of households that own their own dwellings outright. For those who do make mortgage payments, a household with an average income would spend about 25% of its income making payments on an average mortgage.

Average monthly income for Young Entrant households is €490/month (Lt 1,700, @Lt3.45 = €1). Mid-Life household income is somewhat lower at €460/month.

Most Young Entrant owner-occupiers have inherited their dwelling. The average cost of a newly constructed starter flat in the Vilnius suburbs is €20,000. Existing housing, especially in smaller towns, is cheaper (eg, in Kaunas a one-room apartment in a Soviet-built block is €7,000 to 11,000). For Mid-Life owner-occupiers, a newly constructed four-room family-sized flat in Vilnius costs up to € 70,000.

Table 2: Housing costs for owner-occupiers in 2002

Average house price	€ 20,000 – 70,000
Average down payment on a mortgage	5% with mortgage insurance; 15-30% without
Average gross interest rate on mortgage	4.52%*
Average mortgage payment	€130/month (on €19,000 loan over 20 years)

Note: * As of July 2003 on loan with term of five years or more

Mortgage system

The Lithuanian mortgage system, in its infancy in the mid-1990s, has developed rapidly since about 1998. Strong competition now ensures low interest rates and a choice of mortgage products. Some 7,000 loans were made in 2002, compared with 3,000 in the year 2000. The most usual form of mortgage is a variable-rate repayment mortgage with a 20- to 25-year term. The typical term has increased substantially since the late 1990s, when ten-year terms were common. The loan-to-value ratio is 70-85% without a mortgage guarantee, or 95% with one.

Taxes and subsidies

Since January 2003 mortgage interest payments have been tax deductible for all taxpayers. The deduction cannot exceed 25% of taxable income.

Bustas loan subsidies ended 31 December 2002. This programme, in existence since 1992, had since 1998 been focused on helping the poor, young families, and those living in overcrowded accommodation to buy their own dwellings by deeply subsidising mortgage rates. It was administered by commercial banks, with the state providing an interest-rate subsidy.

This programme was replaced in 2003 by tax relief on mortgages and more tightly targeted grants for a limited group of "needy" families. Families with children where the head of household is 35 or younger, and any family with more than three children, may apply for a grant that covers 10% of the mortgage principal. Orphans up to 35 years old and certain disabled people qualify for a 20% grant. Certain income and house-price restrictions apply.

Improvement loans and grants for owners were introduced as a component of the World Bank-funded Energy Efficiency for Housing Pilot Project in 1997. These were given to homeowner associations for the improvement of space heating of multi-family apartment buildings. Members of such associations tend to have higher incomes and live in better quality accommodation than non-members.

Because the main component of housing cost for most Lithuanians is utility payments, the extensive Utilities Compensation programme can be seen as a form of housing allowance.

It subsidises the cost of heat, hot water, cold water, and sewage, and is one of two main means-tested benefit programs available to low-income households. The UC program is large and expensive. About 13.5% of the country's population (470,100 people) benefited from the UC program in 2001 … One of the oft-mentioned criticisms of the UC program is that the benefit is structured in a way that discourages conservation for consumption up to, but not exceeding, the established norms. A household must pay the full price of any consumption beyond the norms, but as long as it does not exceed the norms, it only pays a fixed share of its income regardless of how much it consumes (Urban Institute and Lithuanian Free Market Institute, 2002).

Problems accessing housing

Affordability is low for first-time buyers, the supply of affordable housing is heavily constrained, and the housing market itself is relatively newly established outside the capital.

Risk reduction

Mortgage insurance is available through the Lithuania Mortgage Insurance Company (LMIC).

"LMIC is government-owned… but is operated on a commercial basis without government guarantees. The insurance covers a variety of losses including: up to 25 per cent of the principal; up to four months of lost interest; and the cost of property insurance, the appraisal, and the financed portion of the insurance premium. The main goal of the insurance is to improve housing affordability by making low down payments possible (as low as five percent instead of the typical thirty percent demanded by banks). Banks are willing to make loans that they normally would not consider because some of the risk is shifted to the insurer. Affordability also improves because most lenders offer an interest rate discount on insured loans. [There is a subsidy] that covers up to 50% of the MIP.

"The MIP subsidy [has been] available to all borrowers who meet the general criteria for state housing support (i.e., no previous ownership, or occupy a unit that is overcrowded, dilapidated, or improperly equipped for the disabled). At the moment it is not clear who among these will be able to take advantage of the [new] MIP subsidy. The new law introduces maximum income and property limits for the first time…" (Urban Institute and Lithuanian Free Market Institute , 2002).

Unemployed borrowers are not eligible for benefits to cover mortgage payments outside the mortgage insurance program.

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Netherlands

Tenure

The overall level of owner-occupation rose in the Netherlands from 47% in 1993 to 53% in 1998—a rise of nearly six percentage points in only five years. This proportion has been rising continuously since the end of the Second World War, when only 28% of households were owner-occupiers. The rise in owner-occupation in the 1990s was matched by a decline in social renting, partly as a result of the sale of some social rented dwellings. Levels of private renting have further declined since the 1998 housing needs survey (from which the information in Table 1 is drawn) to 10% of households.

The tenure pattern for Young Entrant households changed little over the period, but Mid-Life households were more likely to be in owner-occupation in 1998 (77%) than in 1993 (68%). Some of the increase in owner-occupation may also be attributed to changes in government policy towards social housing. The European Mortgage Federation explains:

In the mid 1990s the involvement of the government in social housing decreased … production subsidies were abolished, housing associations became financially independent, etc. The loss of production subsidies resulted in a strong increase in the rent for new dwellings. Although rent subsidies were maintained, it became more expensive to live in new social housing. This development made it attractive for the middle-income groups to purchase an owner occupied dwelling (EMF Country factsheets 2002, p.26).

In the Netherlands social renting used to be a viable tenure choice for middle-class households. Now, though, most such households prefer to buy their own homes, and government policy has allowed the sale of up to 50,000 housing association units per annum to private owners (although in fact from 1998 to 2002 not more than 15,000 dwellings annually were sold). Before 1998, associations sold some of their higher priced stock because of lack of demand by renters. The top end of the rental market then revived due to high price increases in owner occupied stock, and more households who normally would buy turned to renting. Because of this increase in demand, associations became reluctant to sell.

Some 70% of new homes are now destined for owner-occupation; until 1995 this figure was only about 30%. The social rented sector is shrinking in size as increasingly strict income limits are imposed and is now becoming the tenure of low-income households. In 1998 the average first-time buyer was 34 years old. Of first-time buyers, 65% had two incomes, while 35% had one.

Table 1: Households by tenure, %

	All households		Young Entrant[1]		Mid-Life[2]	
	1993	1998	1993	1998	1993	1998
Owner-occupation	47	53	43	44	68	77
Social renting	40	35	40	41	23	20
Private renting	11	12	15	16	5	3
Shared ownership/equity Other	1		2		4	

Source: 1993: Housing Need Survey 1993/94; 1998: Housing Need Survey 1998; Ministry of Housing and Central Statistics Bureau
Notes: 1 - 1993: Couples of average income with no children, where main respondent between 20 and 30 yrs
1998: Households with incomes within 10% of the average, where main respondent between 20 and 30 yrs.
2 - 1993: Couples of average income with children, where the main respondent between 40 and 50 yrs.
1998: Households whose income is within 10% of the average, where the main respondent between 40 and 50 yrs.

Housing costs

In the 1990s, and particularly after 1998, house prices rose sharply in the Netherlands, making it much harder for Young Entrant households (who made up about 27% of all households in the 1998 housing demand survey) to buy a dwelling. Average dwelling prices in 2000 were 2.5 times the level of 1990. As a result, pressure on the rental market has risen. Social dwellings are mostly rented to lower income groups; so the private rental market (which is more expensive) is often the only tenure option for Young Entrant households. As Table 3 shows, owner-occupation in 1998 was half again as expensive as social or private tenancy, whereas in 1993 the difference was much smaller. A recent survey (OTB, 2003) showed that of young households (aged 18 to 30) with an above-average income, more than 90% wanted to buy (although many may not actually do so because of high prices). Parents are increasingly helping their children gain a foothold in the housing market.

Expenditure figures in Table 2 do not include utility payments, and are net of housing allowance.

Table 2: Actual expenditures on housing, Euros / month

	Young Entrant		Mid-Life	
	1993	1998	1993	1998
Owner-occupier	318	424	294	358
Social tenant	256	279	275	339
Private tenant	296	283	366	374

Source: 1993: Housing Need Survey 1993/94; 1998: Housing Need Survey 1998; Ministry of Housing and Central Statistics Bureau
Note: Figures exclude utilities and do not include housing allowance.

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant		Mid-Life	
	1993	1998	1993	1998
Social tenant	81	66	94	95
Private tenant	93	67	125	104

Source: Authors' calculations

For Mid-Life households in 1993, the cost of private renting was nearly 25% higher than that of owner-occupation. By 1998 the difference had narrowed to only four per cent.

Table 4: Housing costs for owner-occupiers in 1998

	Young Entrant	Mid-Life
Average house price	€110,000	€149,000
Average mortgage interest rate	6.3%	6.7%
Average mortgage payment (per month)	€577 (interest 442; principal 135)	€523 (interest 371; principal 152)
Average disposable income (monthly)	€1,574	€2,156

Source: Experts' estimates

Mortgage system

Of owner-occupiers, 85% have a mortgage. This rises to about 99% for Young Entrant households and 95% for Mid-Life owner-occupiers.

Table 5: Type of mortgage in Netherlands, 1998, %

	Proportion of mortgages
Linear repayment	8
Annuity	18
Spaar (saving)	35
Life insurance (equity)	15
Interest only	18
Other	6

Source: Housing Demand Survey 1998

The typical mortgage term is 30 years. In the past interest rates were generally fixed for five years but recently, because interest rates are low, buyers prefer a ten-year fixed rate. Purchasers may choose a fixed rate that lasts up to the full 30 years, however very few choose to do so. Variable rates are rarely used. In the Netherlands, as in Britain, lenders offer a variety of

mortgage types – the product range is one of the broadest in Europe, reflecting the strong competition in the mortgage market, see Table 5.
In the 1990s a variety of loan types were developed to take maximum advantage of the fact that mortgage-interest payments are fully tax deductible in the Netherlands, and most new issuances are savings or equity mortgages. The savings mortgage, a type introduced about ten years ago, accounted for about a third of new mortgages in 1998. With such a mortgage, part of the buyer's monthly payment covers the interest on the loan, and part goes into a fixed-interest savings account. The interest rate paid on this account is the same as the rate charged on the loan; no tax is charged on this interest. After 30 years there is enough in the savings account to repay the mortgage.

A similar mortgage type is the equity-based mortgage, where the second part of the monthly payment is invested in a stock-market-linked investment vehicle designed to pay off the mortgage principal after 30 years. It may or may not be associated with life insurance. In 1998 this accounted for 14.5% of mortgages.

Interest-only mortgages are also significant. The borrower pays interest on the mortgage until the house is sold, when the principal is repaid. Again, this allows borrowers to take maximum advantage of the tax deductibility of mortgage-interest payments. Mortgage types can be mixed—for instance, 50% savings mortgage and 50% interest-only.

The average loan-to-value ratio for households with mortgage guarantees (see below) was about 87% over the period 1995-2001, but in the first quarter of 2001 the average LTV for new home-owners was 104% (Ball, 2003). There are no official or unofficial limits on LTV; mortgages of over 100% LTV may cover costs such as stamp duty (six per cent), estate agents' fees (three per cent), and one or two per cent for the notary. Income multiples have risen from about 3.5% in 1995 to about 4.2% in 2002; some banks will lend up to six times gross income. Since the 1990s lenders have taken into account both incomes of dual-income households.

Taxes and subsidies

Home-owners

In the Netherlands, housing is nominally treated as an investment good, with taxation of imputed rental income. Such taxation is, however, minimal – the home-owner must add a small percentage of the value of his home to his taxable income each year (0.3% for houses worth less than €25,000, rising in steps to 0.8% for houses worth more than €75,000). However, capital gains from housing, unlike those from other investment goods, are not taxed for owner-occupiers.

This means that housing is favoured relative to other investment goods where capital gains are taxed.

Mortgage interest is fully deductible at the taxpayer's marginal rate – on average, owner-occupiers can deduct 35% (maximum 52%). There has recently been some discussion about modifying this very generous tax treatment of mortgage interest, but making changes to this system is would be politically unpopular. Tax relief for second homes was abolished in 2001, and deductibility is limited to a 30-year period.

In addition, there is no tax on capital gains on endowment insurance contracts linked to mortgage loans. The proceeds from such contracts must be used to repay the mortgage. The exemption is limited to €121,000 per person.

Recent changes in the tax and subsidy regime include the W*et bevordering eigen Woningbezit* (Law for the Promotion of Home-ownership), passed in 2001. This programme, known as BEW, is an income-related housing allowance for owner-occupiers which lasts for the full period of the loan (up to 30 years). Households with income and assets below a certain level (between €12,225 and €16,275 in income and €19,875 and €36,292 in assets, depending on household size) can apply. The dwelling price may not exceed €115,000, and the mortgage must be below €103,000; the mortgage itself must be an annuity or savings mortgage (that is, not equity linked) with a fixed interest rate for 15 years. Although policymakers were hoping that about 20,000 households would qualify for the subsidy annually, in fact fewer than 1,000 have been granted. This is in part due to the shortage of suitable properties. In addition, though, there may be a lack of enthusiasm on the part of the banks--the Dutch Association of Home-owners recently conducted a survey in which they sent people who would qualify for the subsidy to several banks. Most banks said they did not know about the subsidy, or offered other types of loans. It now appears likely that this programme will be abolished, because of these factors and because other loan types with lower monthly costs, such as interest-only mortgages or investment vehicles, are more attractive to both banks and customers.

Rental property

Until the early 1990s, central government gave large subsidies for the construction of rental dwellings (mainly for social rental), as well as annual operating subsidies to reduce rents. In 1992 the government gave a lump-sum compensation to recipients in exchange for the cessation of such subsidies, paying an estimated €13.5 billion to Dutch housing associations. As part of this reform package, the housing allowance scheme has been improved.

Problems accessing housing

First-time buyers face a general problem accessing owner-occupation because of the level of house prices. The problems are larger, of course, for those on single incomes than dual incomes. More affluent parents may step in to help, either with outright gifts or by providing surety for loans. Banks have recently begun to promote these options.

Risk reduction

In the Netherlands, according to Mercer Oliver Wyman, prepayment risk can result in considerable additional cost for lenders. This is because only a proportion of yield maintenance fees are recovered in practice due to waiving of fees by banks and pressure from consumer groups accompanied by some consumer-friendly rulings. In addition 15% of the loan may be repaid without charge each year (by law) and prepayment due to moving home is also exempt from charge (Mercer Oliver Wyman, 2003, pp. A43-44).

Normally lenders require that the life of the purchasers be insured. Insurance is also available against loss of income because of accident or sickness, and in the last five years it has been possible to ensure against loss of employment, but these policies cover only one or two years, not the full term of the mortgage. Such insurance, particularly against loss of employment, is not common.

Both lenders and buyers could until 1995 make use of the so-called local authority mortgage guarantee scheme. This was targeted at dwellings below a certain price limit (approximately the median house price). Under this scheme, loans held no risk for the financial institution. Their interest rates could thus be about 20 basis points below the market rate. Any losses from the scheme were shared equally between local and central government.

National insurance scheme

In 1995, this scheme was replaced by a national insurance scheme known as the National Mortgage Guarantee (NHG). The NHG is administered by a private non-profit organisation called the *De Stichting Waarborgfonds Eigen-woningbezit* (Home-ownership Insurance Fund). This organisation receives no state subsidy, but central and local governments will provide an interest-free loan if it gets into financial problems. Representatives of central and local government meet each year to set conditions for what mortgages they will cover.

The borrower pays 0.3% of the mortgage amount for the NHG guarantee. This money goes into a fund to meet potential losses. Under its terms, the NHG will pay if the borrower should be unable to meet interest and repayment obligations. (If the borrower is at fault for defaulting, he or she then owes this sum to NHG.) Moreover, the borrower receives a discount of 20 to 50 basis points on the market interest rate, because the credit risk for banks of NHG loans is practically nil. The mortgage supplier provides a top-up mortgage, which covers transaction costs (about 10% of the sale price). From 2000, only mortgages up to a maximum of *f* 420,000 (€190,500) were eligible; the purchase price was limited to *f* 375,000 (€170,200) for existing buildings or *f* 388,800 (€176,500) for new dwellings. The mortgage therefore can exceed the value of the house, because it may cover transactions costs as well.

In addition to indemnifying the lender against default by the borrower, since 1998 the NHG also insures purchasers against a fall in house prices: if the borrower is forced to sell the house by long-term illness, unemployment, divorce, etc., the NHG will make up the difference of the debt.

As of 31 December 2003, NHG had a fund of €275m; the value of all loans covered was €50bn. Figures for all forced sales are not available, but the number of forced sales with a loss was 59 in 2001, 80 in 2002, and 178 in 2003. So far the fund has been able to meet its obligations without any problem, but its resilience has not been fully tested yet because house prices have been rising (so few forced sales have resulted in losses) and a strong economy has meant few people have lost their jobs.

If owner-occupiers get into arrears with their mortgage payments they can get a means-tested temporary subsidy from the municipality to cover their housing costs. Recipients are obliged to move within a certain time (generally a year) to cheaper accommodation (normally rented).

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Portugal

Tenure

Portugal has always had a relatively high rate of owner-occupation for cultural reasons and because historically there have been few alternative investments. A history of rent control also meant that ownership of rental property was often unprofitable. A typical household would buy or build a house after marriage, often with the help of the extended family. The rate of owner-occupation rose from 66% in 1991 to 76% in 1999 because of the fall in mortgage interest rates and the introduction of important tax benefits for owner-occupiers, including tax deductibility of mortgage interest.

There are no published data on the tenure choices of Young Entrant and Mid-Life households, though experts estimate that about 40% of Young Entrant households are owner-occupiers. The average first-time buyer is 25-30 years old.

Table 1: Households by tenure, %

	All households
Owner-occupation	76
Social renting	7
Private renting	15
Shared ownership/equity	1
Other	1

Source: All household data from INE, Estatísticas da Construção de Edifícios 1993- 1999

Owners built much of the new owner-occupied housing in the 1970s during the rural exodus to Lisbon. Current construction is predominantly in the formal sector. The rate of housing construction is high by European standards – up to end 2000, the building rate averaged 11 dwellings per 1,000 inhabitants/year, more than double the EU norm (Carvalho, 2003, p156).

Although stocks of social housing are low, and heavily concentrated in the two main cities (Lisbon and Oporto), there is a trend for municipalities to sell off their social dwellings. The government has a programme to re-house households living in shanty towns, partly by rehabilitating existing vacant buildings.

Housing costs

Owner-occupiers pay, on average, 45 to 55% of household gross income (the bank ceiling for borrowing) for their mortgages. There is a serious indebtedness problem and some owner-occupiers are selling their homes to reduce debt. Social rents are usually set as a percentage of household income.

Table 2: Expenditures on housing in the Central Region, Euros / month

	Expenditure
Owner-occupier	350 - 600
Social tenant	50 - 300
Private tenant	250 - 750

Source: Social tenant: Municipality of Covilhã; others: unpublished data

House prices rose significantly in the early 1990s but have since stabilised. They are much higher in Lisbon and the Algarve than in interior areas.

Mortgage system

Most owner-occupiers in Portugal have a mortgage. This is a fairly recent development, because commercial banks (which dominate the market) began to supply credit only in 1992, after the National Bank stopped credit rationing in 1990. New loans in 2000 stood at more than five times the level of 1990 (Carvalho, 2003).

The normal mortgage period is 15-20 years (legal maximum 40 years), and there was until recently a rule that the mortgage had to be paid off by the time the borrower was 65 years old. In the last year the banks and the government have permitted loans to run until the borrower is 70 years old, though the borrower is not covered by life insurance after the age of 65.

Carvalho writes that:

Today, mortgage finance is provided by commercial banks and the state bank (the CGD). There are no specialist mortgage finance organisations (other than *Instituto Nacional de Habitação* support for special programmes). There is a strong belief (but no research evidence) that informal financial support to housing remains substantial and very important (Carvalho, 2003).

Most loans have variable rates, which must by law be indexed to underlying interest rates. The standard mortgage interest rate at the moment is about 4.25% plus a further percentage (0.8% to two per cent) that depends on credit insurance, income and age. Interest rates are higher for younger, poorer borrowers with riskier jobs. The typical loan-to-value ratio is around 90%, though it is not uncommon for borrowers to mis-state the price of the house in order to secure 100% mortgages. There is some evidence that owner-occupiers are increasing the size of their mortgages in order to fund non-housing consumption.

In the past, the government subsidised mortgage rates for young people, immigrants and the disabled, but as of September 2002 most of these special provisions were abolished.

Taxes and subsidies

Mortgage payments are eligible for tax relief in Portugal, and there is no tax on imputed rent. Sales of owner-occupied housing do not attract capital gains tax if the proceeds are reinvested in another residence within two years.

New mortgage loans previously attracted government subsidies, but these were reduced and then eliminated in the 1990s.

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Slovenia

Tenure

The very high rate of home-ownership in Slovenia is due to the privatisation of housing (ie, the sale of public rented housing from 1991-1994) and the restitution of dwellings to their original owners (or their eligible heirs), which took place from 1991 onwards. The sale of public rented housing (ie, housing owned by employers, local authorities, state institutions, pension and disability funds, etc.,) to sitting tenants at below-market price resulted in one of the highest rates of home-ownership in Europe.

Table 1: Households by tenure, 2002, %

<table>
<tr><th></th><th colspan="2">All households</th><th>Young Entrant[1]</th><th>Mid-Life</th></tr>
<tr><th></th><th>1991</th><th>2002</th><th>1994</th><th>1994</th></tr>
<tr><td>Owner-occupation</td><td>68</td><td>82</td><td>46</td><td>78</td></tr>
<tr><td>Social renting</td><td>31</td><td>7</td><td rowspan="2">10</td><td rowspan="2">10</td></tr>
<tr><td>Private renting</td><td>1</td><td>3</td></tr>
<tr><td>Living with parents/relatives</td><td></td><td>8</td><td>41</td><td>10</td></tr>
<tr><td>Other/unknown</td><td></td><td>1</td><td></td><td></td></tr>
</table>

Source: Statistical Office of the Republic of Slovenia; unpublished first report of Census 2002; Level of Living Survey, published in Mandic, S: Housing, Quality of Living and Changes in the Last Decade, Družboslovne razprave, 15 (1999)
Notes: 1 - 25- to 34-year-olds

The average first-time buyer in Slovenia is 30-40 years old, in a two-adult household. Compared to most European countries, a very high percentage of Young Entrant households still live with parents or other relatives. It is common for parents to add a floor to their house to accommodate their children (or even grandchildren). Formation of independent households is delayed by the high price of housing. In 2001 the typical (dual) net income for a Young Entrant household was SIT 300,000 (€1,300) per month. For household Mid-Life the figure was SIT 350,000 (€1,350).

Housing costs

Because utility payments make up such a high proportion of housing expenditure in Slovenia we have included them in our cost calculations. Social renting is the least expensive tenure for both Young Entrant and Mid-Life households. Owner-occupation is the most expensive tenure for Young Entrants, while for Mid-Life households private renting is more expensive than owner-occupation.

Table 2: Actual expenditures on housing, 2002, Euros/month

	Young Entrant	Mid-Life
Owner-occupier	Mortgage 400 Utils 152	Mortgage 200 Utils 217
Social tenant	Rent 867 Utils 130	Rent 152 Utils 174
Private tenant	Rent 261 Utils 130	Rent 348 Utils 174

Source: Experts' estimates

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant	Mid-Life
Social tenant	39	78
Private tenant	71	125

Source: Authors' calculations

The cost of housing in the owner-occupied sector rose by a real annual rate of three per cent (new dwellings) to five per cent (existing dwellings) over the period 1996-2001. Nevertheless, many of those households with mortgages have experienced falling housing costs, as the real interest rate on housing loans has dropped dramatically, from about 11% in 1996 to about 3.75% in 2003.

Since the collapse in the system of social-housing finance, all additions to the existing housing stock have been owner-occupied. Construction permits are expensive in Slovenia. For example, it costs €15-25,000 to secure the necessary permits for an average house in Ljubljana.

Table 4: Housing costs for owner-occupiers, 2002, Euros

	Young Entrant	Mid-Life
Average house price	45,000 for existing housing 45,000 – 67,500 for new housing	67,500 for existing housing 60,000 – 150,000 for new housing
Average down payment on a mortgage	25,000	70,000
Average mortgage payment	400	200

Source: Experts' estimates

Mortgage system

Rough estimates are that about 15% of owner-occupiers are buying (or building) a dwelling with a mortgage or other type of dedicated housing loan. About 55% of owner-occupiers are outright owners. Other buyers use loans not secured on the house.

Mortgage lending, in the sense of house-purchase loans secured on the dwellings themselves, was introduced in Slovenia only in 1997. Prior to that, housing loans were secured by guarantors or on loan insurance, and the loan period was therefore limited to ten years because insurers would only issue insurance for this period. The mortgage system is still in its infancy, and only about 20% of housing loans are secured on the dwelling; the banks still prefer insurance as collateral, because possession in the case of borrower default is a lengthy, difficult procedure (it takes a minimum of two years and, until recently, if the bank foreclosed the borrower had the legal right to stay in the house as a tenant). This system results in high up-front costs – loan closing costs are up to five per cent of the loan amount.

The typical mortgage in Slovenia is a ten-year repayment mortgage. Most have variable interest rates – the longest fixed-rate available is three years. The typical LTV ratio is a very low 50%, because of the income criteria applied by lenders: affordability is calculated on the basis that the mortgage payment should account for no more than a third of the borrower's disposable income. Because of the country's high housing prices and the affordability ratio, borrowers are rarely in a position to borrow even as much as 50% of the purchase price.

Several foreign-owned banks have either purchased Slovenian banks or entered the Slovenian market, and these foreign-owned banks usually offer Euro-denominated mortgages, while domestic banks offer tolar-denominated mortgages. Mortgages in Euros have a lower interest rate at the moment; the real interest rate on tolar-denominated mortgages has been 4-5%, though it fell in 2003 to around 3.75%; this is in addition to approximately 7.5% inflation. According to the Bank of Slovenia, the average gross interest rate on housing loans (including mortgages) in May 2002 was about 12.9%. This reflects Slovenia's high rate of inflation (currently 7.5%) compared to EU countries. Even at this level, the rate is much lower than it was six years ago—in 1996 housing loan real interest rates were about 11%.

Taxes and subsidies

Home-ownership

Housing is treated as a consumption good in Slovenia. There is tax relief on mortgage interest payments, with a credit of up to three per cent of income tax payable. Owner-occupiers are exempt from capital gains tax on the sale of dwellings as long as they have owned them for at least three years.

The National Housing Scheme, modelled on the German *Bausparen* system, started in 1999. Under this scheme, savers contract to save a set amount monthly for five or ten years; they are paid below-market interest rates (currently 1.65% for the five-year scheme and three per cent for the ten-year scheme). Participants sign up for coupons, each of which entitles them to save 10,000 tolars/month. The participant's deposits are topped up annually by a state-funded premium of 1-1.25 times the monthly amount saved. At the end of the savings period, the saver is entitled to a housing loan with a below-market real interest rate (currently 2.45% on a ten-year mortgage after saving for five years, or 3.8% on a 20-year mortgage after saving for ten). The first annual scheme, worth €0.5bn, sold out in a few days – the interest rate paid to savers including the subsidy was competitive, but the loan rate was half the market rate. Now, though, bank loan interest rates have fallen and are approaching the rate that will be offered under the scheme. No loans have yet been disbursed. In 2004 the first round of the five-year scheme will be completed, and approximately 22,800 savers will be entitled to apply for loans. Loans must be spent on housing, but savings can be used for anything. New savings schemes have been started every year since 1999, and the total number of savers at the end of 2002 was 69,102.

Rental property

For landlords, the low property tax and low effective income-tax rate on rental income favour housing against other investments.

Reform of the property tax system is due to take place in 2005. Mass appraisal-based taxation will replace the current administrative system of tax-base estimation, and two subtypes of property taxes will be combined into a single tax.

Mortgage interest payments are tax deductible. First-time homebuyers are exempt from local property taxes during the first 10 years.

Problems accessing housing

The high cost of housing and the demanding lending criteria adopted by banks mean that many Slovenian households must live with relatives because they cannot access owner-occupied housing. The National Housing Fund, established in 1992, supports first-time buyers in the following categories: "young families" (below 35 years of age), families with many children, the disabled, or families living in poor housing conditions. They are provided with loans at below-market interest rates (1.75% for ten-year loans, or 3.5% for 20 years). In the past ten years the NHF has provided more than 30,000 loans.

The city of Ljubjana plans to introduce a shared ownership scheme to coincide with the first tranche of people receiving money from the savings scheme. Many will not be able to afford to buy anything with the proceeds, so the programme will allow them to buy a half-interest in a dwelling, with the municipality owning the other half.

Reverse mortgages for the over-65 are also to be introduced in Ljubjana, in a sale/leaseback scheme where the homeowner becomes a non-profit renter until he dies. The municipality will buy the dwelling, paying for it with a monthly annuity out of which the owner pays a non-profit rent.

Risk reduction

Although there is a growing concern with mortgage default, there is virtually no state support for home-owners who experience problems.

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Sweden

Tenure

Although the overall proportion of owner-occupiers in Sweden is low by European standards, it is definitely the tenure of choice for Mid-Life households. Co-operatives (also known, confusingly, as "tenant co-operatives", though they are a form of owner-occupation) are an important tenure in Sweden. In this tenure the co-operative as a whole owns the flat, while the household owns the right to use the flat and can alter it internally. "Co-operative tenure gave residents a proprietary lease; rights to unlimited use of an apartment; a share in the ownership of common facilities and a say in the decision-making of the co-operative association." (Borgegard, and Dawidson, 2000). For our purposes co-operative ownership can be regarded as a form of owner-occupation, which brings the overall owner-occupation figure to 55%.

Most new construction is being built for owner-occupation; either multifamily housing that will be sold as co-operatives or single-family homes that will be sold for owner-occupation. Municipal dwellings are disappearing faster than new ones are being built. Some have been sold off by municipalities to compensate for the decline in housing subsidies (though sales are limited to 25% of the municipality's stock); others have been demolished. As of 2000, some six per cent of the total municipal housing stock was scheduled for demolition by 2010 (Borgegard, and Dawidson, 2000). Municipal housing has been converted to co-operatives, particularly in inner areas of Stockholm and Gothenburg. One reason for their disappearance is that municipal housing no longer enjoys preferential tax treatment.

Table 1: Households by tenure, %

	All households		Young Entrant[1]		Mid-Life[2]	
	1991	1997	1991	1997	1991	1997
Owner-occupation	55	55	45	46	91	85
(1a. of which co-operative)	(15)	(16)	(33)	(20)	(5)	(8)
Renting from municipalities	22	21	33	39	6	8
Private renting	23	24	22	15	3	7

Source: Housing and Rent Survey 1991, 1997
Notes: 1 - Couples with no children where the main respondent is aged between 23 and 27 years; 2 - Couples with children where the main respondent is aged between 43 and 47 years.

There is no real difference between the municipally-owned and private rented sectors in terms of which types of households are eligible, or of rent levels. Municipal housing is not allocated administratively and Sweden therefore has *no* "social rented housing" according to our definition ("accommodation that is allocated administratively rather than through the market"). Municipal housing is built and owned by municipal companies, and is let on a non-profit basis to anyone. This cost-based rent system means that rents can be well below market levels, particularly in attractive areas. This has led to significant windfall gains for those lucky enough to rent these dwellings.

Of all owner-occupiers, 80% have a mortgage, while 93% of households that bought their house during the last five years have a mortgage.

Housing costs

Swedish housing has traditionally been the recipient of generous subsidies. The aim was to provide decent but cheap housing, and rents were set at 20-25% of average disposable income. In the 1990s housing subsidies were cut, and households' housing expenditure increased. Nevertheless, figures for 1997 show that Young Entrant and Mid-Life owner-occupiers spent 25% of their income on housing, and renters spent from 18-23% - still within the range targeted.

Table 2: Actual expenditures on housing, SEK / month

		Young Entrant		Mid-Life
	1991	1997	1991	1997
Owner-occupier	6,850	5,500	6,450	6,500
Municipality tenant	3,050	4,100	4,100	5,150
Private tenant	3,250	4,000	4,000	5,850

Source: Housing and Rent Survey 1991, 1997
Notes: Figures include mortgage and rent payments, water and electricity; not adjusted for housing allowances. The average (dual) income for a Young Entrant household was 21,900 SEK/month in 1997. The average (dual) income for Mid-Life households was 25,600 SEK/month; this was also a dual income.

Table 3: Relative expenditures on housing (owner-occupation = 100%)

		Young Entrant		Mid-Life
	1991	1997	1991	1997
Municipality tenant	45	75	64	79
Private tenant	47	73	62	90

Source: Authors' calculations

In 1997 the cost of owner-occupation was higher than the cost of renting for both Young Entrant and Mid-Life households, as it was in 1991. However, Young Entrant households in 1997 were on average paying more for owner-occupation than older, Mid-Life households; this was a reversal of the 1991 situation.

In both years there was virtually no difference between the cost of renting privately and that of renting from the municipality, because private rents are set with reference to average local rents—which are generally determined in the social sector.

Table 4: Housing costs for owner-occupiers in 1997, SEK

	Young Entrant	Mid-Life
Average house price	626,000	742,000
Average down payment on a mortgage	174,000	314,000
Average monthly mortgage payment	1167	883

Source: Calculations from Housing and Rent Survey and database of sales of single-family houses

Mortgage system

Some 85% of outstanding loans were granted by Housing Credit Institutions, which issue bonds on the capital market. The market share for banks is around 10%.

The typical mortgage until recently was a repayment mortgage with a fixed rate, which is adjustable every five years, and a 30- to 40-year term. However, variable rates are increasingly popular. In 2000-2002 the share of variable-rate loans was 50-70%; in 2003 it was somewhat lower but is now increasing again. The loan-to-value ratio for a first house purchase is generally about 75%, up from about 60% in the mid-1990s. Lenders require a borrower to be in permanent employment, and calculate maximum loan eligibility as a multiple of income. The average gross interest rate on a mortgage was 5.28% in the second quarter of 2003, according to Riksbank statistics. Mortgage rates reached a high in 1995 of 12% for a five-year fixed rate.

Taxes and subsidies

Home-owners

The aim of Swedish housing policy is to keep the tax and subsidy system tenure-neutral. Since the mid-1990s, government financial assistance for home-owners has decreased significantly. Housing is treated as an investment good for tax purposes, with taxation of capital gains and mortgage-interest tax relief for both owner-occupiers and landlords. In Sweden, tax relief is available for all interest payments, not only for mortgages, and therefore the tax system does not favour housing over other investments. There is a real estate tax of one per cent for single-family houses and 0.7% for multifamily houses. (The state reduced the rate from 1.5% because of rising property values.) The tax is levied on the assessed value of the property (which is roughly 75% of the market value). There is a registration fee of 1.5% of the transaction price.

Owner-occupiers are able to deduct 30% of their mortgage interest payments from their taxable income. All realised nominal capital gains are taxed by 30%, but the tax can be rolled over provided the new house is more expensive. There is a stamp duty of 1.5% of the purchase value, and a 'mortgage registration fee' of two per cent of the value of the new mortgage.

If the house was built after 1980 but before 2000, the owners received an interest allowance that went towards payment of the mortgage costs, which provided a considerable benefit to owners of these homes. The Swedish system for financing such construction was deregulated in the early 1990s. Before deregulation, interest allowances for new construction were given to borrowers who had taken out a special type of loan, available only from the state institution. After deregulation, borrowers with such loans from any mortgage lender (or no loan at all) were eligible for the allowance. The state lender then had to compete in the market for this type of loan, and could also compete with other lenders for basic mortgage loans.

The loan that gave interest allowances followed the house, so if the house was sold, the new owners also took over the loan. If they had to borrow more, they could. Older houses that no longer received interest allowances from this system were financed on a free mortgage market. Since 2000, newly constructed owner-occupied houses are no longer eligible for interest allowances.

Low-income owner-occupiers with children receive a housing allowance to help them pay housing costs. The amount of subsidy depends on a formula that takes into account the net value of the owner-occupier's housing equity.

Rental property

Private and social landlords are treated alike for tax purposes, and the structure of the tax framework that applies to them is similar to that for owner-occupiers. They can deduct all their costs from their taxable income. They pay capital gains tax at the slightly lower rate of 28% (30% for owner-occupiers). Landlords receive somewhat more generous interest allowances in that they are paid to all households who live in flats, and owners of houses built after 1975 (instead of 1980 as for owner-occupiers). New loans are no longer eligible for interest allowances. The allowances were highest when the house was new and then decreased over time, so there most dwellings no longer carry them. In the past landlords paid a real estate tax of 2.5%, higher than owner-occupiers did, but the rate has now been decreased to 0.7%. Tenants are eligible for the housing allowance in the same way as owner-occupiers.

Risk reduction

The Swedish social insurance system pays individuals who are unable to work up to 80% of their normal income, which could normally be expected to cover mortgage obligations. There is some guaranteeing of mortgage loans through a state institution, the National Housing Credit Guarantee Board (BKN), which since 1997 has been self-financing. BKN originally provided guarantees only for state-subsidised loans, but since 1999 has also been able to guarantee unsubsidised loans for owner-occupied housing. BKN's guarantee compensates the lender for losses on a guaranteed loan due to the borrower's inability to service the loan. The annual fee is currently 0.5% of the guaranteed amount.

Changes in Swedish housing policy over the last ten years have shifted risk from the state to the builder, owner, and end user, as subsidies and government assistance have been reduced.

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United Kingdom

Separate government departments are responsible for housing policy in the countries of the United Kingdom (England, Wales, Scotland and Northern Ireland). Each conducts its own housing surveys. Survey data are fullest for England, so English data are used except where stated otherwise.

Tenure

In the last ten years the percentage of owner-occupiers in England has increased, as it has every decade since 1950, when it was 29%. The percentage has climbed steadily to its current level at 70% despite fluctuations in property prices.

Overall levels of owner occupation have continued to rise, and Mid-Life owner occupation is holding steady at above 85%. However, there has been a notable fall in owner-occupation levels among Young Entrant households. In 1994/95, nearly at the bottom of a property-price cycle, the percentage of Young Entrant owner-occupiers was higher than the overall percentage. By 2001/02, the owner occupation rate for such households was 11% lower than for the overall population, while the percentage of young households in private rental had increased from 20% to 35%. Steadily rising house prices have brought increasing affordability problems for first-time buyers; recent figures show that the average age of a first-time buyer in England is now 34 (ODPM website). A rise in the age of first-time buyers is not necessarily a bad thing; it may be that some young households are now more satisfied with their options in the rental market than was the case ten years ago, and are less motivated to try to move into owner occupation as early as possible.

Table 1: Households by tenure, %

	All households		Young Entrant[1]		Mid-Life[2]	
	1994/5	2001/2	1994/5	2001/2	1994/5	2001/2
Owner-occupation	67	70	74	59	86	87
Social renting	23	20	6	7	10	9
(Council)	(19)	(14)		(5)		(6)
(Registered Social Landlord)	(4)	(6)		(2)		(3)
Private renting	10	10	20	35	4	5

Source: 1994/95 Survey of English Housing Table A1.2, Department of Environment; 2001/02 Survey of English Housing online, Table S101, Office of the Deputy Prime Minister; calculations from survey dataset.
Notes: Private rental sector includes all miscellaneous tenures.
1 - 1994/95: Couples with no children where the main respondent is aged between 20-29 years.
2001/02: Couples with no children where the main respondent is aged between 25 and 29 years.
2 - 1994/95: Couples with one or more dependent children where the main respondent is aged between 40 and 49 years.
2001/02: Couples with children where the main respondent is aged between 45 and 64 years.

Of owner-occupiers, 60% were buying with a mortgage in 2001/02, while 40% were outright owners. The percentage of outright owners has risen since 1993/95, when it stood at 37%.

There has been a shift in ownership of social rented housing away from municipalities to other social landlords, as some local authorities transfer their housing stocks to housing associations, etc. These transfers must be approved by tenants.

Housing costs

Tables 2 and 3 give data on the cost of housing in different tenures for Young Entrant and Mid-Life households. Household expenditure on owner occupation include mortgage payments as well as endowment payments where applicable. Owner-occupiers will have already made down payments, which are not reflected in these figures. Absolute cost rises over the seven-year period are understated by Table 2, because the 1994/95 data include council tax while the more recent figures do not. The relative expenditure figures in Table 3 are more meaningful.

Table 2: Actual expenditures on housing, £ / month

	Young Entrant		Mid-Life	
	1994/95	2001/02	1994/95	2001/02
Owner-occupier	359	408	360	430
Social tenant	178	207	208	276
Private tenant	384	507	396	449

Source: FES 1993/94 and SEH 2001/02; separate calculations for council tax expenditures
Note: 1994/95 include council tax payments 2001/02 do no; rents-before housing benefit

For both household types, social renting remains the cheapest tenure option and private renting the most expensive. The relative costs of owner occupation and renting have remained fairly stable since 1994/95, with one exception—the cost of private renting for young entrants has increased relative to the cost of owning. The UK has long been unusual in that young households pay more to rent than to own; this difference has widened over the last decade, and the average cost of renting for Young Entrants is now 124% of the cost of owning. This again reflects the

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant		Mid-Life	
	1994/95	2001/02	1994/95	2001/02
Social tenant	50	51	58	64
Private tenant	107	124	110	104

Source: Authors' calculations

affordability problems facing many young households—unable to buy because they have not yet accumulated the necessary deposit, they also pay relatively high rents in the private sector.

Table 4: Housing costs for owner-occupiers, 2003, £

	Young Entrant[1]	Mid-Life[2]
Average house price	119,312	189,029
Average down payment on a mortgage	20,420	88,464
Average mortgage payment	346 (interest only)	344 (interest only)

Source: Council of Mortgage Lenders
Note: 1 - 25-29 yr old FTBs; 2 - 45-54 yr old movers

Table 4 shows average costs for owner-occupiers in 2003. These figures are for all of England. Regional data show a very wide range of house prices, with (in general) lower prices in the north and higher prices in the south-east. According to government figures, the average house price in the county of Cleveland in 2002 was £69,335, while in the London suburban county of Surrey it was £255,565, and in Inner London £288,433 (ODPM website).

Mortgage system

The mortgage market is dominated by former building societies that have become banks. The largest five lenders accounted for 63% of new loans in 2002; the largest ten, for 83% (CML website). Of new mortgages in 2002, 37% were remortgages taken out either to benefit from lower interest rates or to withdraw equity (CML website).

Mortgages in the UK normally have a 25-year term. Table 5 shows the split between fixed and variable interest rates. In contrast to usage in most countries, rates set for one year or more are classified as 'fixed'. The government has recently commissioned a study into whether the introduction of long-term fixed rates, as are typical in America, would reduce the volatility of the UK housing market. The final report suggested that long-term fixed rates were probably not feasible on a wide scale in the UK (Miles, 2004).

The UK market has a high level of product innovation. Readily available mortgage types include flexible mortgages, capped rates, discounted variable rates, offset mortgages, and trackers.

Table 5: Fixed and variable rate lending, 3Q2003

Interest type	% of all loans	Average rate
Capped	3	4.53
Fixed	45	4.03
Variable	52	4.34

Source: Council of Mortgage Lenders website, "Fixed and variable rate lending", table PR3

In terms of loan structure, the stock of mortgages outstanding are roughly evenly split between repayment (annuity) and interest-only. However, more recently new take up has become dominated by capital repayment loans as the repayment vehicles backing interest-only have performed badly. Interest-only mortgages usually have repayment vehicles designed to pay off the principal at the end of the mortgage term. There are several types of repayment vehicle, including saving through PEPs or ISAs (tax-advantaged investment funds), pensions, and endowments (insurance funds). The type chosen depends on the borrower's tax position and attitude to risk.

An endowment mortgage, for example, operates as follows. The borrower makes two monthly payments: one to the lender to cover interest and one to an insurance company. Part of the payment to the insurance company goes to life insurance, which will repay the loan if the borrower dies, and part into an investment account (usually stock-market linked) which will, in theory, pay off the mortgage at the end of its term. Given the performance of the stock market in recent years, however, many endowment policies have not grown enough to pay off the mortgage principal, and borrowers have had to increase their payments into the policies or extend the terms of loans.

The median loan-to-value ratios in 2003 were 89% for first-time buyers and 70% for movers, but it is possible to get loans of 100% of the property's value, or even more. Properties are valued on behalf of the banks by surveyors, who base their assessments on recent prices achieved on similar properties in the area.

Loan-to-income ratios have been rising steadily because of the increase in house prices and the fall in interest rates; ten years ago lenders might have offered 2.5 times the main income plus one times the second income, but now many lenders will lend three times joint income or more. The median income multiple for first-time buyers rose from 2.36 in 1996 to 2.91 in 3Q2003 (CML website). Lenders are increasingly supplementing income multiples with a scorecard approach, using affordability models and looking at applicants' credit and debt history, savings, etc.

Taxes and subsidies

Owner-occupation

Housing is treated as consumption good for tax purposes, with no taxation of capital gains from principal residences, and exclusion of the imputed rental income from taxable income. Historically mortgage interest payments were tax deductible to a limited extent, but this tax break was progressively decreased in value over the 1990s and finally eliminated in 2000. There is a banded transfer tax, or 'stamp duty' (one per cent for properties worth between £60,000 and £250,000, rising in steps to four per cent on properties worth over £500,000). Stamp duty is not payable on purchases of property in certain designated deprived areas.

Owner-occupation has been favoured in a number of ways. The Right to Buy programme allows council tenants to purchase their homes at a discount. The Cash Incentive Scheme gives council tenants grants to leave their home and purchase on the open market. The Voluntary Purchase scheme and the Tenant Incentive scheme are the equivalent grants for tenants of housing associations. Do-It-Yourself Shared Ownership is a scheme run by local authorities, through which a household can purchase a share in a house with a housing association purchasing the remaining share and charging a rent for it. Its aim is to help lower-income households overcome the entry costs of owner-occupation. The Starter Homes Initiative provides grants to "key workers" (defined as public-sector workers in certain posts, including police, teachers, nurses, and transport) to help them access owner-occupation in expensive areas.

Rental sector

The private rental sector is at a disadvantage compared to other investments because there are no special depreciation allowances, and losses from private renting cannot be set against income from other sources for tax purposes. The disadvantage is especially marked when house prices are rising, because private landlords have to pay capital gains and income tax.

Low-income households in both rental sectors are eligible for rent rebates or rent allowances (Housing Benefit).

Problems accessing housing

The steady increase in the cost of housing, since its nadir in 1996, has made it increasingly difficult for some people to access owner-occupation. The problems are particularly acute in London and south-east England, and for first-time buyers and 'key workers' (public-sector employees whose pay is the same everywhere in the country). The government sponsors some limited schemes to help key workers into owner-occupation, but has rejected the idea of local wage flexibility. Other forms of low cost home-ownership are being considered by government and a recent review of housing supply in the UK (Barker 2004), has resulted in a commitment to increase the supply of affordable homes in the UK.

Risk reduction

UK lenders use a range of risk mitigation strategies to manage high credit risk. These include mortgage indemnity insurance, captives, excess of loss insurance, self-insurance and securitisation. Many high LTV loans (traditionally over 75%, but increasingly now only over 90/95%) will be covered through one of these methods. Mortgage indemnity insurance (MII), which protect the lender against losses arising from foreclosure but are paid for by the borrower, are used less than they have been in the past following problems in paying claims in the recession in the early 1990s. Premiums for these policies vary with the loan-to-value ratio and are usually prepaid. Where lenders do not use MII, loans still need to be covered in some way, which is paid for indirectly via higher mortgage rates and/or cross-subsidies from existing borrowers.

The government provides some support to borrowers who become unemployed, through the Income Support for Mortgage Interest programme. For borrowers with loans taken out before October 1995, there is a waiting period of eight weeks before ISMI is payable. Up to 50% of eligible interest is paid for the following 18 weeks, then full eligible interest is covered by ISMI. For people with mortgages taken out after October 1995, there is a waiting period of 39 weeks. Full eligible interest is payable after this point. ISMI is only paid to those who put in claims for unemployment benefit. The eligible interest payable is paid at a standard rate (which may be less than the actual interest rate payable), and is limited to interest on loans of up to £100,000. Studies have shown that for the majority of recipients the benefit does not cover their full mortgage payment, due to this interest-rate limit (Croucher et al, 2003). According to Ford and Doling, "The failure to meet full payments once the benefit is paid results in half of all those receiving state help experiencing mortgage defaults." (Ford and Doling, 2003). Other income protection insurance available to borrowers that cover mortgage repayments in the case of loss of income includes critical illness, permanent health and unemployment insurance.

Private mortgage protection plans (Mortgage Payment Protection Insurance – MPPIs) are also available, which will cover mortgage payments if the borrower becomes sick or unemployed. As of the second half of 2003, 23.7% of all mortgages outstanding were covered by MPPI policies (CML website), which are paid for by the borrower. Some experts consider these to be poor value, with an average premium of £4.95 per £100 monthly mortgage payment (as at end 2003) compared to an "actuarial premium" of about a third as much.

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USA

Tenure

The overall rate of owner-occupation in America, which had been stable at 64-65% nationally from 1960 to 1990, has now risen slightly to 68%. Interestingly, this is the opposite of what was predicted in our 1996 report, which noted that in 1994 the rate of owner-occupation where the householder was younger than 55 had been dropping, and that the only age group for which owner-occupation had been increasing was the over-65s. The higher proportion of owner-occupiers comes predominantly from older age cohorts of the population. The rise in home-ownership has come about because interest rates are at historically low levels, purchasers expect that house prices will continue to appreciate, real incomes are rising, and new forms of mortgage finance have been developed.

The apparent rise in owner-occupation for Young Entrant households in Table 1 is due largely to the fact that the 1991 figure covered childless couples 20-29 years old, while the 2001 figure covered couples under 35 – thus encompassing the age at which most households purchase their first home. To compare like with like, the home-ownership rate for married couples under 35 was 56% in 1994, growing to 62% in 2001. There has therefore been a substantial increase in the rate of home-ownership amongst younger households over the last decade, but not a doubling. The apparent drop in owner-occupation among Mid-Life households again reflects slightly different definitions – the 1991 figure was for couples with children aged 40-49, while the 1999 figure was for couples with or without children aged 35-44. If we assume that older couples, and couples with children, are more likely to be owner-occupiers then the difference probably disappears.

Table 1: Occupied homes by tenure, %

<table>
<tr><th></th><th colspan="2">All households</th><th colspan="2">Young Entrant[1]</th><th colspan="2">Mid-Life[2]</th></tr>
<tr><th></th><th>1990</th><th>1999/2002</th><th>1991</th><th>2001</th><th>1991</th><th>1999</th></tr>
<tr><td>Owner-occupation</td><td>64</td><td>68</td><td>28</td><td>62</td><td>86</td><td>81</td></tr>
<tr><td>Social renting</td><td>2</td><td>3</td><td>2</td><td rowspan="2">38</td><td>1</td><td rowspan="2">19</td></tr>
<tr><td>Private renting</td><td>34</td><td>30</td><td>71</td><td>14</td></tr>
</table>

Source: 1990 all household figures from 1990 Census of Population and Housing, Summary Tape File 3C; 1991 household Young Entrant Mid-Life figures from 1991 American Housing Survey for the United States. 2002 all household figure from CHP, 2003 Table A-5; 1999 social renting figure derived from American Survey of Housing 1999. 2001 Young Entrant figures from Retsinas and Belsky, 2002; 1999 Mid-Life figures from Simmons 2000 Table 3.31
Notes: 1 - 1991: Couples with no children of average income with the main respondent aged between 20-29 years.
2001: Married couples with or without children, where the main respondent is under 35.
2 - 1991: Couples with children of average income where the main respondent is aged between 40-49 years.
1999: Married couple households with or without children, where main respondent is aged 35-44.

The vast majority of married couple households (with or without children) aged 35-54 are in owner-occupation. Those older married couple households who rent have incomes about $30,000 lower than those who own their homes.

It is striking how low the percentage of dwellings in social renting is compared to most European countries. It is not easy to determine which parts of the US housing system are social housing. Figures from the American Survey of Housing 1999 showed that publicly-owned housing, to which residents are allocated by bureaucratic mechanisms, accounted for 1% of all homes; a further 2% was housing that was privately owned but received public funds (including supported housing and housing for the elderly and disabled), and to which access was bureaucratically controlled. We have included both of these types in the "social housing" category of Table 1. A further 1% of homes are occupied by tenants who receive public support via Section 8 certificates and vouchers – a form of housing benefit. The dwellings themselves, however, are privately owned and managed, and we have not counted such homes as social housing. Because only the poorest people tend to live in social housing in the USA, we would expect the social sector to house very few Young Entrant or Mid-Life households (who are by definition not the poorest). The earlier (1991) data showed that just 2% of Young Entrant households and 1 % of Mid-Life households lived in social housing, but later data were unavailable.

The Centre for Housing Policy predicts that the overall tenure mix will be roughly stable for the next 20 years, and while home-ownership rates may rise slightly, rental demand will be sustained by growing groups in the population: immigrants, minorities (who make up 42% of all renters) and older and younger people (especially the children of the 'baby boomers') (CHP, 2003).

Housing costs

In our 1996 report, the US housing-cost data used were not full enough to permit relative-cost calculations for social renting. One striking point that emerges from the latest data is the low average cost of social housing compared to owner-occupation. The data are still imperfect; the housing-expenditure figure for Young Entrant Mid-Life social tenants in Table 2 is the average monthly cost of social housing for all groups (rather than Young Entrants and Mid-Life households specifically). The true Mid-Life figure in particular would certainly be somewhat higher than this (the average difference between Young Entrant Mid-Life costs for other types of housing is 16%, which would imply a Mid-Life social-renting cost of $241). Despite the limitations of the data, it is clear that social housing is very cheap compared to owner-occupation.

Table 2: Actual expenditures on housing, $ US / month

	Young Entrant		Mid-Life[1]	
	1991	2001[2]	1991	2001
Owner-occupier	638	915	781	1058
Social tenant	N/A	208[3]	N/A	208
Private tenant	522	641	580	776

Source: US Census Bureau American Housing Survey for the United States: 1991 and 2001; Simmons 2000 Table 5.10; Bonette 2003
Notes: 1- Married couple households with or without children, householder aged 35-44. 2 - Married couple households with or without children; householder aged 25-29. 3 - Average monthly housing cost in 1998 ($193) for all age groups, inflated by US CPI to 2001.

Table 3: Relative expenditures on housing (owner-occupation = 100%)

	Young Entrant		Mid-Life	
	1991	2001	1991	2001
Social tenant	N/A	23	N/A	20
Private tenant	82	70	74	73

Source: Authors' calculations

The cost of private rental relative to the cost of owner-occupation has fallen for young households in the last ten years. In 1991, the average amount paid for rent was 81% of the average expenditure on owner-occupation; by 2001 this had fallen to 70%. For middle-aged households the proportion remained roughly constant at about 75%.

Table 4: Housing costs for owner-occupiers in 2000, $ US

	Young Entrant	Mid-Life
Average house price	114,000	129,000
Average down payment on a mortgage	27,000	30,000
Median gross interest rate on first mortgage	7.5%	
Median monthly cost for first mortgage	669	

Source: Bennefield 2003, Federal Housing Board monthly interest rate survey, 2001 American Housing Survey, calculations based on the above.

In 2001, 62% of all owner-occupiers were purchasing with a mortgage and 38% owned outright. According to the Federal Housing Board, the average LTV ratio was 76% in 2001 for conventional mortgages on single-family homes. The down payment figures shown in Table 4 were derived by applying this ratio to the respective average house prices. In fact, however, it is probably reasonable to assume that down payments for Young Entrant are generally lower than the figure shown, and Mid-Life down payments are higher.

Mortgage system

Of all first mortgages in existence in 2001, 82% were fixed rate (over the full term) and self-amortising. Small percentages of mortgages took other forms, including variable rate, variable term, graduated payment and "balloon" (a mortgage with a shorter term than that over which the principal and interest are amortised, with options to refinance or repay at the end of that term). In 2001, 63% of first mortgages in existence were for 30 years and about 16% for 15 years, with a range of other terms and a small number of variable terms. There has been a gradual post-war trend for mortgage terms to increase.

The Federal Housing Board's monthly interest rate survey showed that for conventional single-family mortgages in 2001, the average loan-to-value (LTV) ratio was 76%, which represented a slight fall since the early 1990s. 21% of loans had an LTV ratio over 90%, which again was a slight fall. One in six borrowers put down five per cent or less. Typical specialised "affordable" loans, such as those provided by Fannie Mae, may require only three per cent down. Lenders usually require additional credit checks if loaning more than 80% of home value, and usually require private mortgage insurance for LTV ratios over 80%. LTVs of over 100% can be found, but usually at higher-than-average rates of interest.

Taxes and subsidies

There have been few changes in the treatment of housing by the US federal government since our last report. However, states and municipal authorities have their own tax and subsidy systems, which vary enormously.

Housing is treated as a consumption good and receives favourable tax treatment. The imputed rent of owner-occupied housing is not taxed, nor, after a two-year holding period, are capital gains (up to $250,000 for a single person, or $500,000 for couples). Owner-occupiers can deduct mortgage interest (on loans of up to $1,000,000) and real estate taxes from their income for tax purposes, at their marginal tax rate. Rental housing may benefit from accelerated depreciation for tax purposes. However, housing is heavily taxed by local government and is one of the most heavily regulated sectors of the economy.

These tax benefits undoubtedly favour owner-occupation relative to the private rental sector. This is particularly true for higher income households who pay a higher marginal tax rate, and therefore face a lower after-tax cost than do households facing a lower marginal tax rate or households who do not itemise (claim tax deductions individually, rather than applying a standard figure).

Over the 1990s, Fannie Mae and Freddie Mac introduced several new schemes to help first-time buyers and people on incomes up to 80% of area median to buy their own homes. People in "underserved areas" (census tracts with average income below 90% of area median, or average income below 120% of area median and over 30% minority population), veterans, and people in some rural areas are eligible for special assistance.

The recently announced "American Dream Down Payment Programme" will give federal grants to low-income households for down payments on owner occupied homes.

Problems accessing housing

After a big drop in affordability in the 1980s, home-ownership became more affordable for first-time-buyer, low-income and minority households in the 1990s, and this partly accounts for its growth. However, price inflation in the late 1990s reduced the number of homes affordable to those on low incomes. The recent bipartisan Millennium Housing Commission argued that "affordability is the single greatest housing challenge facing the nation" (MHC 2002:14).

The total number of households receiving federal assistance with housing rose steadily from the 1950s to the mid-1990s, but then stabilised, although the total number of US households continued to grow. Only about one-third of those eligible for federal assistance receive it. The total number of rental homes affordable to those on moderate incomes (defined as 60-120% of area median) has fallen sharply due to market movements and the expiry of temporary contracts associated with past federal subsidies.

Differences in home-ownership rates between ethnic groups have been a longstanding concern in the US. In 2001, the overall home-ownership rate was 68% of households, but for non-Hispanic whites it was 74%, for blacks 48% and for Hispanics 47%. Minority home-ownership rates have, however, increased faster than overall home-ownership rates over the last 30 years.

Risk reduction

There is a well-developed market for mortgage insurance in the US. Lenders usually require borrowers to take out private mortgage insurance for LTV ratios over 80%. For mortgages taken out since 1999, PMI is automatically cancelled when the LTV falls to 78%. Unemployed borrowers are not eligible for state benefits to cover mortgage payments.

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