

Access to home-ownership: what are the effects of the economic crisis?

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A 70% home-ownership rate? This is the stated objective of the reform that has recently come into effect in France, even though the effects of the global financial crisis are still being felt. However, an analysis of the property situation in France puts both the risks of a policy encouraging property ownership and the challenges of the reform into perspective.

It is something of an understatement to say that the recent worldwide crisis has changed the context in which public policies designed to encourage access to home-ownership operate. Yet can we conclude that the relevance or implementation of these policies has been universally and uniformly called into question? In what way has this crisis redefined French policy? And does the reform that came into force on 1 January 2011 – whereby the PTZ (*Prêt à Taux Zéro Plus* – an interest-free government loan to cover part of a property purchase)¹ and home mortgage interest deductions² are to be replaced by the new PTZ+ (*Prêt à Taux Zéro Plus*) – really represent a complete change of model?

Before the financial crisis (1996–2007)

In France, as in most Western countries, demand for housing was boosted by the fall in interest rates, and the availability of longer mortgages that this encouraged. Property prices progressively reflected the increased solvency among buyers that resulted from this international situation, and rose by 98% in real terms between 2007 and 2010 – an even greater increase than in the United States over the same period. This phenomenon highlighted an apparent paradox: although decreases in interest rates stimulate demand, the long-term maintenance of low interest rates results in a higher financial burden on households as soon as the length of mortgages starts to increase. Indeed, the maximum debt-to-income ratio for low-income households, or the maximum ratio at which banks agree to lend to these households, remained around 30% for the first year, regardless of whether the provisional duration of the loan was 16 years or 25 years. The overall result was that the purchase of a main residence, which represented approximately 3 years' income for a household in 1996, amounted to 4.5 or 5 years' income in 2007.³

Another knock-on effect of the rise in property prices was a decrease in the effectiveness of public aid. For example, the impact of interest-free loans for the purchase or construction of a new-

1 The PTZ, replaced by the PTZ + (see later), is a complementary loan granted, subject to certain resource-related conditions, to first-time buyers. It is the primary public aid measure available to encourage access to home-ownership in France.

2 Measure implemented in 2007 which authorised the deduction from homeowners' tax bills of interest on mortgages taken out for the purchase of a main residence, within certain limits, for a period of five or seven years, depending on the family situation concerned.

3 Pierrette Briant. 2000. *L'accession à la propriété dans les années 2000*, INSEE. <http://www.insee.fr/fr/ffc/ipweb/ip1291/ip1291.pdf>

build dwelling diminished by more than half: in 1996, such aid amounted to almost 10% of the total cost; in 2006, it was no more than 4%. The main consequence of this is that access to home-ownership has become increasingly difficult for anyone who does not already have a property to sell, i.e. newcomers to the housing market and, above all, young people. While this particular phenomenon has affected most countries – albeit to differing degrees, depending on the elasticity of housing supply – the financial crisis has had very different impacts on the way people access home-ownership in different countries.

The property crisis

In France, as in most countries, the financial crisis resulted in a sudden drop in the number of transactions and construction projects. However, French first-time buyers, unlike their British, Spanish and American counterparts, were not severely affected. The number of payment defaults and repossessions did not rise in 2008 compared to 2007, and remained extremely low in 2009 and 2010, with no equivalent of the extreme phenomena observed in the United Kingdom and Spain. Rising unemployment in France has not, to date, had a noticeable impact on first-time buyers' mortgage repayments. This is no doubt partly because unemployment affects young people and those in unstable employment situations first of all – two categories that yield relatively small numbers of first-time buyers.

Comparisons with a number of other countries (such as the USA, Canada, the UK, the Netherlands, Germany, Italy and Spain) enable us to identify the risk factors for first-time buyers and explain the rather more favourable situation that exists in France.⁴ The first risk factor is related to the proportion of homeowners and the level of debt: the countries where first-time buyers are in greatest difficulty are those which have a high proportion of owner-occupiers combined with a high ratio of mortgage debt⁵ to GDP, particularly where these ratios tend to increase rapidly. This is the case for the USA, Britain and Spain. By contrast, first-time buyers in Canada – a country with as high a rate of home-ownership as the USA, but an average debt-to-GDP ratio – and the Netherlands – which has a very high debt-to-GDP, ratio but one of the lowest home-ownership rates – have managed to come through the crisis unscathed. In this regard, France is situated outside the risk zone, as it is slightly below the European average for home-ownership and has a mortgage debt-to-GDP ratio that is considerably below average. Although the French government is heavily in debt, this is not the case for French households.

A second risk factor is related to the organisation of the credit sector, in terms of both the way loans are secured (securitisation, covered bonds, deposits, etc.) and the unbundling of transactions, i.e. whether credit providers are able to extricate themselves from the management of a given loan. This can be summarised as follows: in order to minimise the risk, the credit provider must not be able to avoid the consequences if the borrower defaults on payment; or, at the very least, the risk must be identifiable and traceable. The bank's involvement must ensure that it carefully evaluates the risk of the transaction. From this point of view, French credit institutions would appear to err on the side of caution. It should also be remembered that, before the crisis, the public authorities' (entirely legitimate) objective was to open up access to credit for atypical borrowers.⁶

The final risk factor is linked to the regulation of the credit sector, and in particular everything related to consumer information and protection. The legal environment in France was designed to make it impossible to sell very high-risk loans at a profit. The crisis has proved that the regulations did their job. It is likely that this fact will delay the possibility of achieving an integrated European

4 For more details, please refer to: ANIL. 2009. *Les accédants à la propriété bousculés par la crise en Europe et en Amérique du Nord*. http://www.anil.org/fileadmin/ANIL/Etudes/2009/accedants_propriete.pdf

5 Ratio of the amount of capital outstanding on housing-related loans (including mortgages) to the gross domestic product.

6 Claude Taffin, Bernard Vorms. April 2007. *Élargir l'accès au crédit des emprunteurs atypiques*. http://www.anil.org/fileadmin/ANIL/Etudes/2007/acces_credit_emprunteurs_atypiques.pdf

mortgage market, which presupposes a downward harmonisation (i.e. relaxation) of national consumer protection rules, each of which constitute protectionist barriers to a certain degree. We should also add that France's network of ADILs (*Agences Départementales d'Information sur le Logement* – housing information agencies based in each *département*) constitutes a source of preventive information that meets the recommendations of experts in countries that have been badly affected by the crisis. To conclude this overview, it would appear that access to home-ownership in France is a safe bet; however, it remains to be seen whether the measures implemented will prove effective.

Weaknesses of the current system

There is little political debate about the appropriateness of encouraging access to home-ownership. France has never really moved away from the principle of free choice when it comes to tenure, with each successive government simultaneously providing assistance for the social rental sector, for investments in the private rental sector, and for access to home-ownership. The difference between individual governments lies very much in the nuances: while some governments have actively sought to create a nation of homeowners, others have simply claimed to help those who wish to become homeowners. Within the European Union, the only countries that have experienced a massive increase in home-ownership rates are the UK and the Netherlands; in both cases, this was achieved by strongly encouraging social housing tenants to buy their properties, although the specific contexts in each country were very different: in Britain, for instance, the vast majority of dwellings sold were single-family houses; in the Netherlands, the social housing stock – mostly flats of a very high quality – was, until recently, universally accessible without any upper income limit. France, on the other hand, has never gone down the road of "right to buy" (the name of the British law, from the Thatcher era, that gave all social housing tenants the right to purchase the dwelling they occupied).

In France, therefore, the challenge involves responding to the principal weakness of the current aid mechanism for first-time buyers, namely its inability to encourage purchases and building projects in the areas where demand is highest. Indeed, financial aid has been so poorly targeted that it has become increasingly unnecessary. In 2007, more than 70% of new-build dwellings that benefited from a PTZ loan were built in Zone C, i.e. areas where pressure on housing and land prices are lowest. Conversely, on the most expensive markets, where demand is highest, aid is available only to first-time buyers who are already able to provide a significant downpayment – bearing in mind that most such contributions are reliant upon family assistance. As market pressure and property prices increase, family wealth takes precedence over income as a determining factor; yet this is an element that public policy has not managed to take into consideration.

In order to correct this relative "blindness" with regard to the geographical distribution of government aid, local authorities were given the opportunity to direct increased national aid towards certain projects or categories of beneficiary, on the condition that the authorities themselves also make a financial contribution. Local authorities seized this opportunity when the recent national recovery plan was launched. Nonetheless, the implementation of this stimulus package should not be deemed a change in housing policy: it is a considerable public expenditure, in both budgetary and fiscal terms, that is primarily intended to save jobs and safeguard the construction sector. Consequently, the principal aim of the reform now involves directing aid more effectively towards those areas under most pressure. In addition, a significant part of this funding will depend on the fulfilment of energy-saving criteria: the amount of aid awarded to projects – whether they involve the purchase of new-build dwellings or existing properties – will be much more generous for low-energy dwellings. In this respect, one might regret that the opportunity was not taken here to restrict aid for existing properties to projects that combine a purchase and renovation work; as it stands, there are fears that this aid might serve only to fuel property price rises. Furthermore, there is now no link between the amount of the PTZ+ loan and any aid that might be distributed by the local

authority. One other aspect has proved particularly controversial, namely the decision to open up access to aid to all first-time buyers, regardless of their income and resources. However, this is the political trade-off for the abolition of home mortgage interest deductions, a measure that sought not to encourage transactions and/or building projects, but rather to reduce first-time buyers' tax bills. Nonetheless, this broadening of access to the PTZ+ loan will rekindle the debate on the effect that these measures will have on the property market: to what extent will the increased solvency available to buyers fuel increases in house prices? Indeed, this is a question that applies to all systems that help relieve demand through financial or fiscal aid.

Clearly, this reform could just as easily have been introduced before the crisis of 2008. Its effectiveness will remain dependent on international fluctuations in interest rates, over which the French government has no control; it therefore does not constitute a radical change, but rather an attempt to refocus the geographical distribution of aid and incorporate energy performance objectives into French policy regarding access to home-ownership; this is the yardstick by which its success will be measured.

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Further reading:

Jean Bosvieux & Bernard Vorms. 2007. *L'accession, à quel prix ?*, http://www.anil.org/fileadmin/ANIL/Etudes/2007/accession_a_quel_prix.pdf

Bernard Vorms. 2009. *Les accédants à la propriété bousculés par la crise en Europe et en Amérique du Nord*, http://www.anil.org/fileadmin/ANIL/Etudes/2009/accedants_propriete.pdf

Bernard Vorms. 2009. *After the crisis: what kind of home ownership policies?*, http://www.anil.org/fileadmin/ANIL/Etudes/2009/ownership_policies.pdf

List of studies carried out by ANIL (France's national housing information agency): <http://www.anil.org/fr/publications-et-etudes/etudes-et-eclairages/table-des-matieres/index.html>

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