Workshop 21 - Home Ownership and Welfare Developments

Security and insecurity of home ownership: Germany and the Netherlands

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Security and insecurity of home ownership: Germany and the Netherlands

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Draft paper
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Abstract
This paper examines the experience of households in two neighbouring countries, Germany and the Netherlands, that both have a relatively modest share of home ownership but significant different housing systems. Germany has a tradition of Bausparkassen, as the Dutch are mortgage champions in the EU. German tax treats owner occupied dwellings as a consumption good, while in the Netherlands the investment good is supported in tax policy. While the German population growth is slowing down, the Dutch population still increases and German house prices are stable as at the same time Dutch prices are considerably increasing for 25 years now.

The central question is whether people in these two different contexts, that are both subject of globalisation and social security reforms, perceive the securities and insecurities of home ownership in a similar way. This paper elaborates on how these differences in housing systems are perceived by individual households. The paper is based on 20 interviews among homeowners and 10 interviews among tenants in both countries. The perceptions of risk and housing wealth are the central issues here.
Security and insecurity of home ownership: Germany and the Netherlands

1. Introduction

Housing occupies a unique place in people’s life’s: Functioning as the reference point of daily life, it is without comparison a target of desires, hopes, individual needs and status. It shelters privacy at which level so ever and yet, it is at the same time strongly affected by political as well as economic and social development. Housing has never been a full part of the free market, as it has neither been a full part of the welfare state. Still, it plays an important role when analysing the self-conception and development of a welfare state: “By studying housing policy, one can (...) also discover much about the direction of public policy as a whole, about the balance between economic and social goals in public policy, and about relative weights given to free market and state intervention in different countries” (Kleinmann 1996: 2).

Housing issues are located at the intersection of citizens’ preferences and governmental intentions. However, citizen’s choices as well as governmental targets are in turn touched and moulded by a fundamental development taking place. Numerous facets of globalisation impact on the nation state and its inhabitants. National competitiveness needs to be maintained and enhanced, obligations of the European monetary union are to be fulfilled, international challenges posed by a condensing economic integration have to be encountered.

Germany and the Netherlands likewise need to meet these challenges. Amongst others, both answer by cutting back welfare expenditure and by transferring responsibilities from the public to the private sector and - as a consequence - to the individual. Although the beneficial support in either country is until now relatively high - if compared to the amount of social expenditures of other European countries (EUROSTAT 2005) - citizens of both countries are faced with a growing personal responsibility to pay for eventualities in life, e.g. health difficulties, unemployment, aging. Here, home-ownership might offer a clear advantage and feeling of security: Home owners can extract equity from their housing enabling them to finance consumption in case of need. Still, home ownership can also be a source of higher risk and insecurity: The high financial commitment being made when buying a house, might turn into pressure in times of a growing instability of the labour market (Behring and Helbrecht, 2002; Doling and Ford, 2003; Boelhouwer, Doling and Elsinga, 2005)

Though they are neighbouring countries and both confronted with the changing situation of the welfare system Dutch and German citizens are faced with emerges in different national
contexts with different historical roots and different governmental preferences. Thus, in these countries housing is also interlinked to another significance, perception and development. The central issue in this paper is home ownership and more in particular households’ perception of (in)security in two different country contexts. We are interested in coping strategies of private households and the role of home ownership there in. How do people in the Netherlands and Germany make use of home ownership as a tool and vehicle for creating (personal, economic) security in their life’s?

2. Research questions and method

The central question in this paper is:

Do German and Dutch interviewees, who are both subject of globalisation and welfare reforms, perceive (in)security of home ownership in a different way?

The paper looks at the following research questions:

1. Which are the most important trends in the labour market, social security, housing market, housing policy and mortgage market that might impact people’s financial security and what are the differences between Germany and the Netherlands?
2. How does home ownership relate to perceptions of financial (in)security? In what respects do German and Dutch interviewees perceive differences and how can this be explained?
3. How do households perceive (in)securities of home ownership, in what respects do German and Dutch interviewees differ and how can this be explained?

This paper is the result of a comparative EU-project on „Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance and social security“ (OSIS). The project included eight countries. The results presented here stem from the country studies on Germany and the Netherlands which describe most important trends in housing, labour, mortgage markets and government policy and will be the sources to answer questions 1 and 2. The results of 30 qualitative interviews in both countries are used to answer questions 3 and 4.

The country studies were based on existing statistics and available literature. The qualitative interviews we carried out in all eight countries. The countries agreed on the key concepts of
interest to be discussed with interviewees. Key terms such as ‘risk’ and ‘security’ were embedded within the topic guide. The topic guide was semi-structured with all areas of the topic guide being covered in interviews. Most questions were open in style with a number of follow-on questions, however on a few occasions quite detailed ‘prompts’ were also included for key questions, for example when asking respondents whether they might consider using housing resources in the future.

Each country was asked to select one local housing/labour market, which had experienced about average economic growth in the recent past. The aim was therefore to avoid very depressed areas and the unusually buoyant areas. In Germany Hanover (and in part Bremen) was the case and in the Netherlands the interviews were held in Haarlem. In each area 20 home owners and 10 tenants were selected; target quotas made sure the interviewees were of different age-groups, employed and unemployed, couples and singles and of different gender.

3. Contemporary changes in the social and economic context in the Netherlands and in Germany

In both countries, in the Netherlands and in Germany the population is increasingly confronted with uncertainty about their future household income. This is not only due to changes on the national labour markets as a consequence of economic globalisation, but also due to demographical transformations and national policy reforms regarding the welfare state. The future households’ economic situation and along with it its assumed predictability – usually seen as a precondition of home-ownership have become rather uncertain and confusing. Yet, despite of some similar trends proceeding both in Germany and the Netherlands, strong differences between the national settings lead to different consequences on the housing market. Thus, the Dutch and German population probably judges the burden of the economic uncertainty differently.

Changes in Demography
Changes on the housing market are heavily influenced by population as well as household development. The German population has been growing slightly since the reunification and reached the peak in 2003 with 82.5 mio. inhabitants (Eurostat 2005). Since then the population has been gradually decreasing, but is expected to decline clearly approximately after the year 2013. The population of the Netherlands, however, has continued to grow and added up to 16.3
mio. inhabitants in 2005 (Eurostat 2005). Yet, experts expect a substantial growth in the number of households in both countries (BBR 2004: 5; Boelhouwer, Neuteboom 2003: 125) mainly driven by higher rates of household dissolution and a steady rise of single households. This development accelerates the demand of a medium-term housing supply. For Germany the turning point of the increasing demand of housing supply is expected approximately by the year 2017 (BBR 2004: 5).

Thus, the last years have been dominated by an increasing demand of housing supply, which called for an adaptation by the housing markets regarding quality as well as quantity. However, especially in Germany the need of housing differs tremendously between the various regions. E.g. the differences between the former socialist German Democratic Republic and the former parts of Western Germany are most precarious: While the population grew in the West from 1991 to 2000 about 0.5%, it shrank in the East about 0.5% annually (BBR 2004).

A highly discussed issue among German society - and also setting off to be an issue in the Netherlands - is a beginning socio-demographical change. Besides a future shrinkage of the population, an increasing aging is expected (Dickmann 2004; OECD 2005a; OECD 2005b); both developments are due to an ongoing decrease of birth rates across Europe (Eurostat 2005). As the pension and welfare system as well as the spatial structure and infrastructures have for years been planned on the basis of population growth, this development has already - or is expected to have - tremendous consequences in the near future. Not only the pension and welfare schemes do not apply any longer, but also increasing vacancies in residential estates and their fall of value, hardly used infrastructure and effects of draining concerning population in peripheral regions are expected (Röhl 2004: 322). The decline of the German population already impacts on the house prices in respect to a stable price level or - highly depending on the regions - to a decrease of value. At the same time Dutch house prices have been considerably increasing over the last 25 years. Regardless of the actual population development the conscience of a precarious (in the German case) or a so far positive house price development (in the Dutch case), moulds essentially people’s views on the financial advantages and disadvantages of housing.
Table 3.1 Development of total German and Dutch population (at 1 January (1000))

<table>
<thead>
<tr>
<th></th>
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</tr>
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<tbody>
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<td>Belgium</td>
<td>10100,6</td>
<td>10130,6</td>
<td>10192,3</td>
<td>10239,1</td>
<td>10309,7</td>
<td>10396,4</td>
<td>10445,9</td>
<td>3.4</td>
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<tr>
<td>Finland</td>
<td>5077,9</td>
<td>5116,8</td>
<td>5147,3</td>
<td>5171,3</td>
<td>5194,9</td>
<td>5219,7</td>
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<td>57936,0</td>
<td>58299,0</td>
<td>58796,5</td>
<td>59500,7</td>
<td>60200,0</td>
<td>60561,2</td>
<td>5.2</td>
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<td>81817,5</td>
<td>82057,4</td>
<td>82163,5</td>
<td>82440,3</td>
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<td>10321,2</td>
<td>10279,7</td>
<td>10221,6</td>
<td>10174,9</td>
<td>10116,7</td>
<td>10097,5</td>
<td>-2.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15341,6</td>
<td>15493,9</td>
<td>15654,2</td>
<td>15864</td>
<td>16105,3</td>
<td>16258</td>
<td>16305,5</td>
<td>6.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>9990,6</td>
<td>10043,2</td>
<td>10109,7</td>
<td>10195,0</td>
<td>10329,3</td>
<td>10474,7</td>
<td>10529,3</td>
<td>5.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>8745,1</td>
<td>8837,5</td>
<td>8847,6</td>
<td>8861,4</td>
<td>8909,1</td>
<td>8975,7</td>
<td>9011,4</td>
<td>3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>57788,0</td>
<td>58094,6</td>
<td>58394,6</td>
<td>58785,2</td>
<td>59217,6</td>
<td>59699,8</td>
<td>60034,5</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: EUROSTAT (2005)

**Labour market**

The labour market of both countries is primarily influenced by increasing flexibility and a slow down of economic growth. Yet, the point of departure is a different one. After a period of severe unemployment with a peak of 11.7% in 1983 (Boelhouwer, Neuteboom 2003: 125) the Netherlands put several reforms for the restoration of the employment into force (e.g. Wassenaar Accord). These caused an efficient improvement of the labour market, which was reflected by the increasing demand of labour force (Elsinga and Toussaint, 2005a). The so-called “Dutch miracle” (Elsinga and Toussaint, 2005a) is basically ascribed to wage restraint and an increase of part-time working, which is still a preferred solution for a majority of women. In turn, female labour participation seems to heighten the chance of entering homeownership (Doling, 2005). Thus, the general increase of working part-time might have added to the growth of home-ownership in the Netherlands.

Since 2001 the economic situation of the Netherlands has deteriorated: The unemployment rate has been rising again and the Netherlands’ economic growth has lagged behind that of the rest of Europe. Still, the share of unemployed persons lies by 4.7%, far below the German share of 9.5% (EUROSTAT 2005). In contrast to Germany, where no short-term recovery is expected, the Netherlands expects a decline of the unemployment rate in 2006 (Elsinga and Toussaint,
2005a). As substantial reforms have been put underway, which cover not only the labour market but also social benefit and health care, the Netherlands is expected to enhance its labour market performance. Overall the general future economic progression is estimated rather positive (OECD 2005).

In contrast the German labour market performance is considered precarious (OECD 2005b). The unemployment rate stays on a high level. To encounter this several major reform steps have recently been legislated and are now phased in. Thus, the current German labour market is heavily influenced by these restructuring activities. The merge of unemployment and social assistance is one of the most important reforms. This manifests itself for the population mainly in the reform step subsumed as Hartz IV or Arbeitslosengeld II, which was put in force at the end of 2004. Its aim is a reduction of the average unemployment benefits on the one hand and a better re-integration into the labour market on the other hand. Besides, benefit duration for older workers not satisfying the job search criteria has been reduced. Due to these state led restructuring activities in the labour market the perceived uncertainty among the German population – and especially among the unemployed – is currently rather high. Numerous current projects, e.g. change of the dismissal protection, debated about by the new government, which came to power in September 2005, add to the uncertain feeling among the population. The more pessimistic outlook on the German than on the Dutch labour market might explain the fundamentally rather sceptical attitude among the German compared to the Dutch population towards home-ownership.

Albeit the differences of the political approach between both countries, essential changes currently mould the labour market likewise, which in turn influence the individual’s housing decisions.

*The job stability decreases*

Long-term loyalty to one employer becomes an outdated concept. Along with this development the share of flexible employment relationship, e.g. temporary contracts, is expected to grow. Although in neither country the percentage of workers holding temporary contracts right from the start has severely risen so far (Elsinga and Toussaint, 2005a, Helbrecht and Tegeder, 2005a), the employee’s reliance on the job stability has nevertheless decreased. Short-term dismissal by the employer due to general staff reduction, company’s move in foreign countries as well as income reductions, have become a potential force for the employer, which in
consequence demand for a disposition to change jobs increasingly flexible. Hereby, less provided employers regarding skills, social or cultural resources are more exposed to the economic upheaval. “Technological transformation and the dominance of service employment provoke major changes in the social risk structure, (…). The standard production worker and the low-skilled could by and large count on a decently paid and secure job in the welfare capitalist era. This is unlikely to be the case in the twenty-first century. The basic requisites needed for a good and secure life are growing and changing at the same time. Those with insufficient skills or cultural and social resources may easily slide into a life course marked by low pay, unemployment, and precarious jobs” (Esping-Andersen 2002: 2).

The entrance to the labour market becomes more difficult for young work-seekers. Generally, younger people are most affected by current labour instabilities, such as unemployment and temporary contracts (Statistisches Bundesamt 2004: 42; Elsinga and Toussaint, 2005a). While the overall share of temporary work contracts has not yet increased tremendously, this moderate development however does not show the relatively high percentage of temporary work contracts among the age group of 15-29 years. In April 1991 11% of this age group worked with a limited contract, whereas in May 2003 there were 20% (apprentices excluded) (Statistisches Bundesamt 2004a: 42).

Besides, the average age of gainfully employed persons has been rising constantly. This is not only the result of the demographic change but also an impact of the delayed access of younger people onto the labour market. The length of training and education periods has risen, which is probably also due to the perceived risk of unemployment (see table 3.2).

| Table 3.2 Unemployment rate in Germany and the Netherlands compared by age (in %) |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Overall German share            | 8,3     | 8,5     | 8,8     | 7,2     | 8,2     | 9,5     | 9,5     |
| German share of persons < 25 years | 15,6    | 15,6    | 15      | 10,6    | 14,2    | 15,1    | 15      |
| Overall Dutch share             | 6,8     | 6       | 3,8     | 2,8     | 2,8     | 4,6     | 4,7     |
| Dutch share of persons < 25 years | 10,9    | 11,1    | 7,6     | 5,7     | 5       | 8       | 8,3     |

Source: EUROSTAT (2005)

Thus the main processes on the labour market indicate a growing flexibility on the one side and a more insecure position especially for younger people on the other side. Regarding
home ownership, which requires a long period of repayment, the situation for younger people to be able to afford regular payments on a stable occupational basis has become rather difficult. Still, the view on one’s own financial capability in the context of buying a house is not only influenced by the actual job situation but also by country specific mortgage strategies as well as overall expectations on the labour market. Both points differ tremendously between the Netherlands and Germany.

4. Social Security Systems
Although diverse in detail the Netherlands and Germany bear a great resemblance in development, standard and mode of the social security system. The welfare system both in the Netherlands and in Germany used to be highly regulated until now and was considered an effective and financially self-supporting system of social protection. Therefore it was perceived rather stable by the population. Since the Second World War the public social security systems of both countries had been gradually extended. Relatively stable health and care protection, unemployment benefits, and pension payments tied a tightly knitted social protection.

Not only as a result of the demographic shift, but also due to national challenges (e.g. the reunification of Germany in 1991) and rising unemployment in the 1990s, the cost for the dense welfare system has become so high that it was judged unaffordable and infeasible by either state. The Dutch as well as the German government dispose of less and less financial scope of public funds, both have started to cut back gradually on social security expenditure – a process which is still ongoing at a good pace. Pension system, unemployment system, care and health care systems are affected likewise.

Already in the 1990s the Netherlands has put several reforms underway, which were supposed to shift people from social benefit dependence into employment. The main target was to tackle benefit dependency and to encourage the return to workforce. Albeit later than the Netherlands, Germany also initiated several reforms with similar objectives. Far reaching changes have especially been made to the duration and financial level of unemployment payments, sickness and pension benefits.

The policy direction of the Dutch and German government clearly heads for more personal responsibility of population: Until now people in need (concerning unemployment, health and
care) are financially supported by the state and therefore covered by insurance on a basic level. Yet, the regulations for claims have become stricter as well as additional payments, which have to be borne by the individual, have increased. In Germany this becomes especially noticeable by changes in the health care system. Here, the current policy focuses on budgeting, competition between the various compulsory health insurance companies and personal accountability of the individual. The last point applies to all social security systems: For the individual it becomes more and more important not only to rely on state-aid support, but to establish a mix of public and private social security. Generally, private insurances become more and more important. This manifests itself particularly in changes regarding the pension: The current pension schemes of the Netherlands and of Germany are both threatened by the demographical change, which puts forth a majority of elder population. Thus, a shrinking working population is confronted by an increasing share of retired people, which also accelerates the need of health and care support. In the 1950s Germany and the Netherlands as most European countries employed a pension scheme that bases upon the inter-generation contract: The working generation pays the pension costs for the retired generation – a concept which in terms of demographical change now puts pressure on the welfare expenditures. From the 1980s on the Netherlands, however, initiated more radical changes to the scheme by reducing the share of public pension payments and increasing the share of capital-funded occupational pension and voluntary individual savings (Haverland 2001: 311). The public pension payment provides a flat-rate benefit to all residents and follows the principle of the inter-generation contract. The occupational pension share relies on earning-related benefit, which are funded by the employee and employer during the period of labour force. These are held in pension funds independent from the firm. An individual saving plan is the third column of the Dutch pension scheme. This multi-tiered pension scheme caused a decreasing percentage of public pension payments: In the late 1990s, the percentage of the public financed pensions as a share of overall pension income was around 45%, while is was around 80-90% in most other European welfare states (Haverland 2001: 309). The small share of public funded pension enables a better adaptation to changing demographic and economic development. Thus, the Netherlands today faces problems regarding pension payments, yet these are less severe than Germany. Its pension scheme is less adaptable. Additionally, it still experiences the aftermath of the reunification, which hit the financial base of the former pension scheme: Increasing unemployment and imprudent labour market strategies (e.g. early retirement for older workers of the former East Germany) reduced the financial scope of the scheme drastically. The prospective of the aging society has put discussions on urgent modification of
the pension scheme on the German political agenda for years. Despite of numerous smaller modifications and adaptations, a breakthrough is yet to come.

However, at the moment both countries react in a similar manner to encounter challenges evoked by retirement schemes, to which they are exposed to different degrees: Incentives for early retirement are cut back (OECD 2005a), benefit duration and amount for long-term unemployed persons are substantially reduced (OECD 2005b). These initiatives aim at extending the duration of labour force, which in turn help to keep social costs bearable. The raise of the retirement age (Elsinga and Toussaint, 2005a), currently being discussed and in part already agreed upon, goes in line with this development.

5. Housing market and housing policy
Both the German and Dutch housing markets are characterised by a to EU standards relatively small percentage of homeownership. Germany even has the lowest share in the EU; since 1945 it stayed with around 40% on an almost constant level. Whereas in the Netherlands home ownership has been increasing considerably in the last decades, the share of owner-occupied dwellings rose from 28% in 1947 to 54% in 2004.

Table 5.1 Tenure structure (% of total housing stock)

<table>
<thead>
<tr>
<th></th>
<th>Owner-occupied</th>
<th>Development of the home ownership</th>
<th>Private rental</th>
<th>Social rental</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1950 2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>39 42</td>
<td>Stable</td>
<td>53 5</td>
<td></td>
</tr>
<tr>
<td>The Netherlands</td>
<td>43 54</td>
<td>Growth</td>
<td>11 35</td>
<td></td>
</tr>
</tbody>
</table>

Source: Combined Report OSIS

The alternative for homeownership: the rented sector
After World War II, in both countries the shortage of housing was resolved with governmental incentives stimulating housing production in the rented sector. In Germany main emphasis was put on the provision of fiscal subsidies to stimulate private building activities, which mainly lead to building private rental dwellings. Currently, around 53% of total housing stock is private rented sector. Housing cooperatives (which also became private landlords during the period of deregulation), commercial and public investors compose the remaining 5% (Helbrecht and Tegeder, 2005a). The Dutch government chose to solve the
shortage by stimulating mass production of buildings by housing associations and local housing authorities, which resulted in a large social rented sector. The social rental dwellings are provided by housing associations: since deregulation private bodies with special legal status based on the Housing Act. The private rented sector concentrates in the larger cities and consists of small private landlords and institutional investors like pension funds and insurance companies (Elsinga and Toussaint, 2005a).

In both countries the rented sector was gradually deregulated. The German government ideally would leave housing to the market; however, in times of the housing shortage after WWII and instable economical climate in the 70s as result of the oil crises the influence increased. Key steps in deregulating the social rented sector were taken in the 1980s; the German government concluded that social housing policy became too expensive. The solution was expected to come from the market and deregulation of the housing market (van der Heijden, Haffner & Reitsma, 2002). The Dutch government saw housing more as a subject of policy. The first half of the 50s the most serious shortage was solved and liberalisation was possible; however, within housing policy this did not yet happen (van der Schaar, 1991). Only in 1995 the grossing and balancing operation took place in 1995, which implied that housing associations became independent in financial terms. However, they still require approval under the terms of the Housing Act (Elsinga and Toussaint, 2005a).

Both countries catch the eye within EU while governments provide, housing allowance, rent regulation and tenant protection both in private and social rented sector (Elsinga et al., 2006). All features that provide tenants with securities. The German government issued a tenants protection act in 1971, which was supposed to protect tenants against eviction. In addition an index of the average rent level was introduced (Mietpreisspiegel), which is constantly modified and used until today (Helbrecht and Tegeder, 2005a). In the Netherlands rental dwellings up to a monthly rent of 605 euros are subject to rent regulation. Only 5% of the rental stock is exempt from rent regulation. Recently this Dutch rent regulation policy is subject of political debate. The current Minister of Housing introduced a new rent policy in 2006, which aim is to increase the non-regulated part to 25% and to further loosen the regulation in the regulated part of the market (Elsinga and Toussaint, 2005a). This change in policy may contribute to insecurity for tenants and influence home owner’s relative perception of security.
**Home ownership: house prices and policy**

In the early 1980s the Dutch experienced a house price bust, then until the 1990s the house prices increased steadily and turned into a kind of price explosion towards the end of the century. This might have an impact on how the Dutch perceive security of being a home owner. In Germany house prices increased more moderately and the dynamics of the housing market differ fundamentally depending on the region. High price regions are selective agglomeration areas in the South, followed by other agglomeration areas in the North. Low-price areas are mainly located in the Eastern parts of the country. In the 1990s the process of reunification highly influenced the German housing market. While the quality of housing in western parts of Germany gradually increased, the housing stock in the former socialist German Democratic Republic (GDR) was in decay (Helbrecht and Tegeder, 2005a). In 2002 the share of vacant conventional dwellings in Germany is 8.2%, compared to 2.2% in the Netherlands (Housing Statistics 2004). As a result of the differences on the housing market, the German might be less secure, both because of the development of house prices and because of possible difficulties to sell a dwelling.

Both countries’ governments promote homeownership from the 1950s onwards (Kloth 2005 p. 189; Behring and Helbrecht 2002 p.117 ff; Elsinga 1995 p. 65). Although there was strong support in the Netherlands for maintaining a large social rental sector, the aim to increase home ownership became more and more important over the decades. Mainly fiscal policy and a mortgage guarantee have an impact on the housing market and tenure choice. The owner-occupied dwelling is considered as an investment good for income tax, which implies that tax is deductible and imputed rent is taxed (see Haffner, 2002). In general this means that the Dutch get a considerable share of their monthly interest payments back. Fiscal policy and particularly the calculation of imputed rent changed many times, but was never removed. However, the fiscal treatment of owner-occupied dwellings is still subject of political discussion. Further, the mortgage guarantee, which was launched in 1956, still plays an important role in accessing homeownership for low-income groups. This guarantee was privatised in 1995 and is now provided by the Home Ownership Fund. This guarantee enables people, who meet the criteria, to get a mortgage to cover all the costs of acquiring a dwelling and therefore improves access to homeownership. Moreover, the lenders benefit from the guarantee because of the ‘zero solvency’ with the guarantee, it enables them to charge for a lower interest of 0.2 to 0.5 percent (Elsinga and Dol, 2003; Elsinga and Toussaint, 2005a).
In Germany, the tradition of a strong rented sector as well as the national financial institutions and fiscal system contribute directly to the low ownership rates (Helbrecht and Smauß, 2003 p. 28). State subsidies have been reduced over the last years; yet there are still diverse small promotional programmes in order to encourage private households to become a homeowner. Most of them stem from the housing shortage after 1945. Until 2005, the highest promotional program was the *Eigenheimzulage*, a grant that the state allocated directly to first-time buyers. During a period of eight years the German state paid home owners 1% of the construction costs of the property as well as 800 euros for each child every year. The German mentality and sociocultural pattern of buying a dwelling only once, might be related to this grant, as it was granted only once in a lifetime. However, the new German government abolished this grant in autumn 2005. Furthermore, the German government is subsidising contract saving for home ownership (*Bausparkassen*). Moreover, depending on income, current and future home owners benefit from diverse governmental bonuses (*Wohnungsbauprämie* and *Arbeitsnehmersparzulage*) (Helbrecht and Tegeder, 2005a).

Table 5.2 Housing market and housing policy

<table>
<thead>
<tr>
<th>Rented sector</th>
<th>Germany</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Private</td>
<td>Social</td>
</tr>
<tr>
<td>Position of tenants</td>
<td>Well protected, housing allowance, rent regulation and tenant protection</td>
<td>Well protected, housing allowance however, tenant protection changes in policy rent regulation</td>
</tr>
<tr>
<td>House price developments</td>
<td>Stable, decreasing moderately; great differences between regions</td>
<td>Crash early eighties; price explosion late nineties</td>
</tr>
<tr>
<td>Main governmental instruments</td>
<td>Grant first-time buyers (<em>Eigenheimzulage</em>); subsidised savings</td>
<td>Fiscal treatment: tax deduction; mortgage guarantee</td>
</tr>
<tr>
<td>Perception owner-occupied dwelling</td>
<td>Once in a life-time: best quality and quantity, high expectations</td>
<td>Housing career, steps on housing ladder</td>
</tr>
</tbody>
</table>

*abolished in 2005

6. Mortgage market

As the percentage of home ownership was rising, the Dutch mortgage market has boomed over the last decade with outstanding mortgages rising over fivefold between 1991-2004. In Germany mortgage finance has been growing, especially during the 1990s, though since then the increases have been modest. The growth in the Netherlands can be attributed to the rising house prices, more generous mortgage terms and the strong demand for higher quality
housing. In addition, a substantial amount has been lent to finance second homes, to refinance existing fixed interest loans at lower mortgage rates and to withdraw housing equity. The most important mortgage lenders are general banks, followed by special mortgage banks and building funds, insurance companies and savings banks (Ball, 2005).

In Germany there is a close cooperation between commercial banks, saving banks, mortgage banks and institutions for contract saving (Bausparkassen). Whereas the mortgage loans are mainly used for building private rental apartments, the Bausparkassen are highly involved in financing homeownership. Although contract saving was developed to offer affordable loans for small-scale residential construction, after 1945 they expanded with the aim to cover homeownership finance of any kind. People save money each month up to a certain sum stipulated in a contract before. Once the savings target has been reached, the Bausparkasse is committed to offer a below market rate, fixed-interest mortgage loan. Participating Bausparkasse system is very common in Germany; around 70% of homeowners owned a contract (Helbrecht and Tegeder, 2005a).

The development of the Dutch mortgage systems was closely linked to the fiscal system described above. Currently, most popular forms of mortgages are the savings mortgage and the interest-only mortgage. The end of the 1980s the savings mortgage was introduced and agreed on by the tax authority. An amount is deposited in a savings account that can be used to repay the mortgage after thirty years in one payment, so complete advantage can be taken of the deduction of mortgage interest. This type of mortgage was overtaken in the middle of the 1990s by the investment mortgage, based on shares. The repayment is not deposited in a savings account, but in an investment trust fund (shares). Yet, after dropping share prices the investment mortgages became less attractive and the end of the 90s the interest only mortgages evolved. At present this is the most popular mortgage form in the Netherlands, in most cases combined with a savings mortgage. Moreover, a fixed interest rate period of 5 to 10 years is most common, although in recent years a shift towards slightly shorter periods can be noticed (Boelhouwer and Neuteboom, 2003).

On balance the maximal borrowing capacity of an average Dutch household has risen sharply. When accepting mortgage credits, mortgage banks evaluate the repayment capacity and morality of their clients, together with the collateral and security for the interest and repayment obligations. They are willing to lend up to LTV ratios over 100%. These Dutch
lending practices are in contrast with the German practice. The German mortgage lenders grant credits only if people are able to provide at least 20-30% of the amount by own equity. Therefore accessing homeownership is much more difficult for German younger households, whose financial situation is usually less settled. As a consequence the average age of first-time buyers in Germany is higher than in the Netherlands (Mulder & Wagner, 1998). The findings might suggest that the Dutch run more risks because of their lending practices; however, the percentage of arrears is in contradiction with this conclusion. In Germany a percentage of 2.6% is measured compared to 0.8% in the Netherlands (Neuteboom and Dol, 2005).

Table 6.1 Lending practices

<table>
<thead>
<tr>
<th></th>
<th>Main lenders</th>
<th>Average LTV (new mortgage loans) in %</th>
<th>Type of mortgages</th>
<th>% of owners with a mortgage</th>
<th>% Arrears among home owning households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Bausparkassen Commercial banks Mortgage banks Savings banks</td>
<td>70</td>
<td>Repayment and endowment</td>
<td>47</td>
<td>2.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Commercial banks Insurance Companies</td>
<td>112</td>
<td>Savings and interest only mortgages</td>
<td>88</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Notes: LTV is loan-to-value ratio.
Source: Combined report OSIS; Maclennan et al. (1998)
7. Perception of financial (in)security and home ownership

In both countries most interviewees said to feel rather secure about their income level, they felt more or less in control of the expenses and did not feel an immediate threat of house price busts. However, there appeared to be differences within both countries. In both countries the level of concern or the feeling of security and insecurity seemed to be related to the level of income. Low-income households found it difficult to save money and rather spend it on something else than insurances. In both countries there appeared to be interviewees who seemed to be at risk and tried to ignore insecurities as a way of surviving. Furthermore, people who had experienced financial misfortune, like unemployment or houseprice decrease themselves or in their close environment appeared to be more aware of risks. Despite these similar difference in within the countries, the German and Dutch interviewees seem to differ in their level of concern or worries. In the remainder of this section we will describe different perceptions and illustrate them with some quotes of interviewees. The differences seem to relate to the differences in the institutional context of both countries.

Both the German and the Dutch interviewees explained that they bought a dwelling once they considered their employment and relationship situation to be stable. Stability regarding employment and relationship was clearly needed to buy a property. However, this opinion regarding job and relationship stability seemed to develop differently in the two countries. The German interviewees held the common belief that financial stability and assumed predictability of future income were most crucial to home ownership. Among the Dutch interviewees more various beliefs were pronounced considering the burden of economic stability. Some thought that still a permanent labour contract was needed before one should buy a property. Others adjusted their ideas about the required level of security.

The interviewees were asked to respond on a vignette with the following information: a young man and woman, both of whom still live with their parents, want to form a household and ask advice about whether they should buy a property or rent one. The woman has a secure job in a bank but the man has less secure work and has had a series of temporary jobs although some have lasted as long as a year. In Germany interviewees advised to rent, according to them more stability was required to enter home ownership (see quotation later on). However, in the Netherlands some interviewees were adjusting their view when advising young entrants on the housing market:
As long as he’s earning money it doesn’t matter whether the job is permanent or not. [...] You can always find a job if you’re willing to work. I don’t think that a secure job should be a condition for buying a house. The banks want it, but if you can show that you have always found yourself a job, what does it matter if there are no permanent positions.

(Home owner, Female, 32, Netherlands)

According to others the couple should not worry too much, the financial situation will work itself out in the long run.

You worry, especially in a situation like this, that you can’t cope with the payments. I know that from my own experience, I thought that’s far too much, far too expensive, impossible, and then it always turned out ... well, maybe we were lucky ... better than you expected. You see things far worse than they are. Once you live there, you get pleasure from your home. A lot of things just fall into place. That’s what I think.

(Home owner, Male, 49, Netherlands)

These advices were often underpinned with the argument that young people cannot find an appropriate and affordable dwelling in the rented sector. The social housing sector is considered as inaccessible and the private rented sector as too expensive. They explain that the monthly expenses are lower when people would buy a property. Consequently, they adjusted their views about the importance of certainties like financial stability and about relationship stability.

German interviewees considered renting as the most appropriate type of tenure for young people. Besides, renting offers the financial scope to establish the required amount of financial resources for homeownership. Leaving the parental house young Germans rent a dwelling, save money, take care of security concerning relationship and job and finally when all demands are met, they enter home ownership at an older age than the Dutch (see Mulder & Wagner, 1998)

Of course it’s a question how rich they are. It’s comprehensible that they want to move out, but even with one person being surely employed, I wouldn’t buy a flat or house. I would wait and see how their living situation develops and also the financial
situation. If they don’t dispose of an incredible inheritance or something like that, than I as a young person wouldn’t put all my money and resources into home-ownership. I would rent and live and travel. That would definitely be more important to me than buying a home. Live for a start before getting settled.

(Home owner, Male, 58, Germany)

Additionally, the labour market and social security seem to be important. In both countries major changes take place; however, German interviewees showed more concern about their situation than the Dutch. In Germany the unemployment rate is 9.5% (2005), which is higher than in the Netherlands (4.5%; see labour market). This implies that the Germans, in general, are faced with the consequences of unemployment more often. As a result, they might perceive this risk as more likely to happen than Dutch interviewees. They explained that they themselves feel in control of the situation and in case of job loss they would be able to find a new job. In this connection it should be mentioned that the interviewees who experienced unemployment did feel vulnerable. Further, from the German responses it was clearer that they expected social benefits to be cut back in the future, as the state would withdraw from the welfare system gradually. The younger people for example worried about the amount of pension they would receive by government in future (also see social security). Dutch interviewees appeared to be more optimistic; they trusted the social security system, the employers and their own capabilities.

_I don’t look at unemployment as a risk. No, I have a secure job with a solid Collective Labour Agreement and that kind of thing, but I also have the idea that as long as I stay healthy, I can afford to earn a bit less without affecting my ability to pay the mortgage._

(Home owner, Female, 49, Netherlands)

Thinking about unemployment the Dutch interviewees refer to the collective labour agreements and to the relatively generous unemployment benefit of 70% (vs. 60% in Germany) of their last earned income. Moreover, they pointed out that it is often possible to accept redundancy with favourable conditions. The interviewees did not expect difficulties repaying the mortgage every month when receiving such a benefit. Their most important reason for concern is their health, the inability to work and therefore a drop in income. In case
of job loss or relationship breakdown a homeowner is not able to adjust the housing situation as easily as a tenant.

**Immobility**

Inflexibility or immobility is mainly emphasized by German interviewees among both tenants and homeowners. In the Netherlands this feeling of inflexibility is not emphasized among homeowners; although, it is an argument for some young people to stay in the rented sector for a while until they settled with regard to work and relationship. The reason that the German homeowners are more aware of the immobility associated with home ownership, might be due to the fact that most German homeowners tend to perceive their current property as the final one (Helbrecht and Tegeder, 2005a). When a German household buys a dwelling then they have the intention to stay there the rest of their life. In contrast, Dutch interviewees are speaking of steps in a housing career. It must be mentioned here that home ownership often is accompanied with having a family, having children. This fact in itself can also have the consequence that people feel more tied to their living area. The difference in the feeling of immobility in the two countries does not relate to the height of the transaction costs (Germany 4.5%; Netherlands 12.0%).

Furthermore, some German interviewees fear that it could be difficult to sell the property.

*Surely, home ownership suggests a kind of security, but on the other hand, it also means quite a financial risk, because one can’t sell a house as quickly, easily and securely as in the past time or in other regions.*

(Home owner, Male, 50, Germany)

Some German interviewees described difficulties to sell dwellings after parents’ death and fear unfavourable housing market developments. Due to the shortage on the Dutch housing market, also in the part where the interviews took place, house prices were still slowly rising and it was still rather easy to sell.

**8. The perception of security and insecurity of homeownership**

In both countries interviewees mention that home ownership means responsibility. This responsibility has both a negative and positive side. On the one hand it is negatively pressing,
some interviewees experienced the debt as a great pressure. Every month a home owner must repay a small part of the loan plus interest. In both countries first-time buyers take up loans for as long as 30 years. However, on the other hand, in the long run the debt is getting smaller and the owner-occupier is building equity. This equity means having a nest-egg, which can provide a feeling of security. However, differences come up while house price developments, fiscal policies and mortgage products differ. Related to the repaying every month is the security considering monthly housing expenses. When comparing the controllability and stability of mortgage repayments to rents more differences between Germany and the Netherlands come up.

**Housing equity**

First, an owner-occupied dwelling is considered as a financial buffer, something for a rainy day, a nest egg. In general, both in the Netherlands and in Germany interviewees regard their dwelling as a good and save investment. This feeling seemed to be based on experiences of rising house prices the last decades in both countries. However, in Germany especially the younger generation is pessimistic about future house price developments. They expect the prices to decrease because of the demographic changes: the population is shrinking and the dwelling supply is getting larger than the demand. Some of the German interviewees already experienced difficulties to sell a dwelling of their parents that was not maintained properly. Some of them mentioned that a rented dwelling is the most uncomplicated way to insure against the risks of homeownership. In the Netherlands people still expected house price increases and felt very secure about the equity, although they often remarked that they did not expect the prices to increase as fast as in the past decades. Some tenants remark that they feel as if they missed the boat, they thought that young people should buy because of the advantages.

German and the Dutch interviewees show different attitudes towards mortgage-debts. In the Netherlands the interviewees found it completely obvious that entrant on the housing market take up mortgages over 100%. Whereas German interviewees felt they should save a deposit first and then lend 70-80% of the value of the dwelling. Further, Dutch interviewees stated that it was not wise to repay completely and favoured the interest only mortgage for at least a part of the debt. The difference is illustrated in the loan-to-value ratios and the percentages of owners with a mortgage in Germany and the Netherlands.
One of the explanations for this difference can be found in the responses to the following vignette: ‘A friend inherits 50,000 Euro. She has a mortgage of 70,000 Euro and expects to work for another 16 years. She asks your advice about what to do with the money. What would you advise her to do and why?’ In general the German interviewees believed that people should repay the mortgage and the Dutch thought they should not.

Pay the mortgage off right away! Each repaid Euro saves interest and compounded interest. Only in case she finds a capital investment, which offers her more interest than she pays now for her mortgage, I would tell her to invest. But that’s impossible to find at the moment. No, each repaid Euro is worth gold. I would always repay!

Homeowner, Female, 37, Germany

Well, not for the mortgage! Put it in stocks and shares! I would invest it in stocks or have a nice holiday. I don’t know what kind of person she is. Or as a nest egg, or something… I wouldn’t repay the mortgage, while that would be unfavourable for the deduction. And when she keeps working…

Homeowner, Male, 50, the Netherlands

Another advantage of home ownership and building up housing equity is the prospect of living rent-free at old age or in case of need having a financial provision by selling the dwelling. Some Germans called their dwellings ‘a pension in stone’. Young German interviewees feel more insecure about the amount of their future pensions and therefore attach value to this advantage of homeownership. Despite the reluctance to fully repay a mortgage, also the Dutch perceive living rent-free or at least with lower expenses at old age as an advantage compared to renters.

Monthly housing expenses
Not only do home owning interviewees feel secure about their monthly housing expenses at old age; also during the usual mortgage period they feel secure about their monthly regular housing expenses. When the home owning interviewees compared their situation to tenants they felt that mortgage repayments were more stable or even diminished. In the Netherlands interviewees were referring foremost to these monthly housing expenses; as this was more favourable as compared to rent increases for tenants. The reason that the Dutch emphasised
this advantage can be partly explained by the plans of the ministry to liberalise the rents\(^1\). However, the Dutch interviewees mention insecurity due to the current policy debate about whether or not to rescind deduction of mortgage interest for income tax. They perceive this possible policy change as a risk, while it would push up the monthly housing expenditure and might put house prices under pressure.

As described earlier, German interviewees find it important to repay the mortgage; therefore, they cut back their expenses (e.g. on leisure, holiday, car), in particular those who just entered home ownership. They want to take advantage of the decreasing monthly repayment rate. The released money in turn can be used to bring forward consumption that had previously been restricted due to the high amount of outstanding debts.

_By now I think it’s a good feeling, because I notice that the amount I pay to the bank every month, decreases every month. I didn’t think of that before we owned our home. (...) We’ve also repaid a lot already that also means freedom, because I have to pay less. Freedom to spend the money on other things._

(Home owner, Female, 41, Germany)

Most Dutch interviewees did not experience decreasing monthly mortgage expenses, while they had other types of mortgage products (savings and interest only mortgages) than German interviewees.

An important assumption, that interviewees in both countries made, is that interest rates will not affect their monthly expenses. For most interviewees this seems a rather reasonable thought, while they have fixed term interest rates. People’s experiences of decreasing interest rates lately might partly explain this confidence in interest rates.

9. Conclusions

Do German and Dutch interviewees, who are both subject of globalisation and welfare reforms, perceive security/insecurity of home ownership in a different way? was the central question in this paper. The results of the interviews presented in the paper show that the answer is: yes they do. Feelings of security and insecurity concerning home ownership and

\(^1\) The plans could possibly result in a considerable rent increase for many tenants.
income differ consistently between these two countries. These differences can be explained by different contexts. Interviewees’ perceptions of (in)security appear to depend on the experience of financial misfortune in their close environment. Interviewees become aware of risks when their neighbour becomes unemployed or their friend experienced repossession because of mortgage arrears. Differences in perception can be explained by differences in labour, housing and mortgage markets in both countries. Moreover, changes in social security, the pension system and housing policy that might happen, make households feel insecure because they do not know what will happen. Finally, a very important development that overarches the German market as well as policy changes is the declining population in Germany.

Both German and Dutch interviewees consider home ownership mainly as a cornerstone for security in various ways. Home ownership provides security since housing equity is considered as a nest egg, as pension in stone, a possibility to live rent free in the old age and something to leave for the children. However, building up housing equity appears to differ in both countries. German interviewees want to pay off the mortgage as soon as possible, while Dutch interviewees plan an as high as possible mortgage for as long as possible because of tax reasons. Moreover, German lenders apply strict lending rules while Dutch lenders are eager to provide mortgages with high loan to values. Also housing markets and house price developments differ. House price increases in the Netherlands were considerably higher in the Netherlands than in Germany. It could be concluded that for German households paying off the mortgage is the most important way to build up housing equity, while for the Dutch house price increases are more important. This might explain the fact that young households in the Netherlands are encouraged to buy as soon as possible while German households wait and save before buying.

Interviewees also showed feelings of insecurity concerning their owner occupied dwelling. German interviewees worry about house price development and about difficulties of selling the dwelling, while Dutch interviewees mainly worry on possible changes in the fiscal treatment of home ownership.

The impact of buying a property seems to differ between both countries. In the Netherlands buying a dwelling seems to be perceived a step in a housing career. In Germany most people buy a dwelling for life and therefore wait until their household situation is more or less stable.
Buying a dwelling is perceived as entrance of a new stage in life and a goodbye to being mobile. This means that buying is a very important event in Germany and may be treated with more caution than in the Netherlands. Moreover, people save and wait before buying, buying in Germany seems therefore to be considered as a sign of security.

Both the Dutch and Germans are confronted with reforms of the welfare state. German interviewees appeared to seriously worry about unemployment, pensions, social security and they are not so much concerned about changes in housing policy. Dutch interviewees seem to rely on social security when exploring the effects of possible financial misfortune but they worry about changes in housing policy (rent policy and tax policy) but. In both countries housing equity is considered as a financial resource for the old days. However, German interviewees more often emphasise that their own home is their pension in stone. This difference in emphasis might be explained by the difference in pension system in combination with population decline. The future consequences of the shrinking population are very present and threatening in Germany.

Different perceptions of (in)security of home ownership can to a large extent be explained by differences in the context. However, this leaves the question if culture matters or in other words if perceptions of German and Dutch households under the same circumstances would be the same, unanswered.
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