ВЛИЯНИЕ МИРОВОГО ФИНАНСОВОГО КРИЗИСА НА РЫНОК ЖИЛЬЯ: МЕЖДУНАРОДНЫЙ ВЗГЛЯД

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AN INTERNATIONAL PERSPECTIVE ON THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON HOUSING MARKETS

Introduction

The international financial crisis of 2007 and 2008 was the first global housing market shock with its impact on falling house prices felt across all continents. The ramifications for housing markets almost a decade on are still being felt partly through the macroeconomic consequences and policy responses. In this paper we demonstrate that the impact was not simply on house prices but more generally across all aspects of the housing market. The global financial crisis known as the credit crunch also exposed some common long term themes across the globe with associated policy questions about the direction of housing markets.

This paper begins by examining the scale of the shock to housing markets across the world, demonstrating how the credit crunch has dominated housing market trends. However, it is important to remember that the story started much earlier in the 1990s, and indeed even earlier with the liberalisation of housing finance in the 1980s. It is therefore important to take an international historical perspective so the paper looks first at the build up to the credit crunch. The paper then reviews the consequences in terms of the immediate price falls and assesses to what extent there has been a recovery. The impacts are shown to vary by country. Finally the paper takes a broader perspective on the implications encompassing housing transactions, construction levels and access to home ownership. This latter part of this paper focuses on the UK and USA.

The Build up to the Credit Crunch

In the middle of the 1990s there was the beginnings of a significant upturn in house prices for most OECD countries although for some it occurred earlier (Ireland, 1992, and Scandinavian countries, 1993) and others later (Canada, 1998, Italy, 1998, New Zealand, 1998, and Switzerland 2000). The Netherlands saw real prices consistently rising over a twenty three year period from 1985 to 2008 with an overall increase of 233%. For virtually all these countries the house price boom continued until a sudden end with the credit crunch. The long upswing saw the doubling of real prices in some countries. The most extreme real increases were Ireland 302%, Norway 199%, Denmark 174% and the UK 173%. On the other hand the US and Canada saw relatively modest real rises of only 56% and 72%, and in Switzerland it was only 20%.

There were outliers from this international upswing with Japan as the most notable example. Instead of an upswing it experienced almost two decades of prices declining in total by over half in real terms over the same period. Germany also suffered a long downward movement in real house prices from 1994 to 2008 which saw a real fall of 26.5%. The reasons for these differences lie partly in the weak economic performance of Japan over this period while for Germany major contributors were the reunification of the country and a declining population.

The international nature of the boom can be partly traced to the development of global capital markets since the removal of exchange controls in different countries from the mid-1980s. One consequence of this globalisation was that it enabled banks to raise wholesale funding from international investors by issuing mortgage backed bonds. This provided the platform for the expansion of mortgage finance especially from the 1990s in many countries, and the ease of credit for house purchase fuelled demand supported by a positive macroeconomic position and population growth. With national new housing supply not responding significantly house prices were inevitably bid up.

Impact of the Credit Crunch on House Prices

For many countries the credit crunch represented a negative exogenous shock to the housing market that brought a premature end to the housing boom. There are differences, partly reflecting the strength of the impact of banking collapses – all those countries worst affected suffered bank failures. But for some relatively immune countries such as Australia, Canada and China the crisis represented only a modest temporary check on a continuing house price boom. The Chinese housing trends are also a function of rapidly expanding urban populations. For Japan and Germany where real house prices have been in long term decline the impact was limited to specific sectors. The German housing market in particular was hardly affected by the credit crunch because the mortgagors had traditionally been subject to low loan to value ratios, and credit availability was not further restricted. The downturn/slowdown in the USA had been ahead of the crisis exposing its subprime lending problems that ultimately instigated the international financial predicaments for the rest of the world (Jones and Richardson, 2014). Denmark too experienced its downturn or certainly the beginnings of one prior to the global financial crisis.

The immediate effect on many national housing markets was a spectacular volt-face in the availability of loan finance as the position turned from feast to famine. The subsequent impacts on many housing markets around the world demonstrated the power and importance of mortgage finance. While each country has a different story the general impact is a short term fall in house prices also subsequently driven in many cases by recession. The fall was most dramatic in Ireland where nominal house prices fell by 38% from the end of 2006 to 2010 (ESRI, 2011). Table 1 reveals that in France and the UK real house prices began to recover or stabilise approximately after a year and a half after a sharp fall. But in many cases countries experienced at least five years of falling real prices from their respective market peak. These countries include Denmark, the Netherlands and the USA. In fact there are some countries that have yet to stem the decline in real prices, namely Greece, Spain and Italy with Ireland just stabilising in 2015.

The cumulative impact of these declines in real house prices is shown in Table 2 for selected countries. Over eight years prices have almost halved in real terms in Greece although it is arguably a special case. While the average Eurozone real price fall was only 11.5% there were drops of more than a quarter for Spain, Italy and the Netherlands. The percentage fall in Denmark was also in double figures. The aggregate fall for Eurozone countries is masked by a rise of 22% in real prices in Germany which did not participate in the boom and whose economy has not been as ravaged as others in the aftermath of the global financial crisis. Similarly Japan records a modest rise in real prices after decades of decline. The market in these countries may have benefitted from lower interest rates.

Market recovery in many countries is being stifled by macroeconomic conditions and policies. This is despite housing markets having been supported by interest rates at historic low levels since 2008. However, the initial international coordinated fiscal boost following the credit crunch was followed by austerity policies across Europe since 2010. There has been only weak muted economic recovery in Europe and global economic growth has been stuttering. Even where the immediate price downturn was stemmed prices have not recovered the ground lost yet. Countries in this position include the USA, France and the UK. These trends partly reflect continuing doubts about macroeconomic prospects and the promise of continuing deflationary macroeconomic policies, concerns about the scale of personal debt, and threats of imminent increases in interest rates on the horizon (and although these keep receding they are still a worry).

Table 1 Real House Price Cycles in Selected Countries before and after Credit Crunch

Country	Upturns	Duration (quarters)	% Change	Downturns	Duration (quarters)	% Change
United States	1995Q1-2006Q4 2011Q4-2015Q2	47 14*	+60.5 +17.3	2006Q4-2011Q4	24	-27.1
Japan	1977Q3-1991Q1 2009Q2-2015Q1	54 23	+80.6 +9.3	1991Q1-2009Q2	*73*	*-44.1*
France	1997Q1-2007Q4 2009Q2-2011Q3	44 9	+117.7 +9.6	1991Q2-1997Q1 2007Q4-2009Q2 2011Q3-2015Q2	26 6 15*	-17.6 -9.5 -9.2
Italy	1997Q3-2007Q4	41	+59.2	1992Q2-1997Q3 2007Q4-2015Q2	25 30*	-28.3 -26.2
UK	1995Q4-2007Q4 2009Q2-2010Q2 2013Q1-2015Q2	48 4 9*	+157.8 +5.1 15.0	2007Q4-2009Q2 2010Q2-2013Q1	6 11	-14.7 -5.8
Australia	1991Q2-2010Q2 2012Q3-2015Q2	76 11*	+139.5 +19.6	2010Q2-2012Q3	9	-8.5
Denmark	1993Q2-2007Q1 2012Q3-2015Q2	55 11*	+177.7 +13.4	*2007Q1-2012Q3*	22	-28.5
Netherlands	1985Q3-2007Q4 2014Q1-2015Q2	89 5*	+205.4 3.3	2007Q4-2014Q1	26	-25.7
Spain	1996Q3-2007Q3	44	+121.5	2007Q3-2014Q4	29	-41.8

Source: OECD quarterly house price statistics
* indicates incomplete trend.

Table 2 Change in Real House Prices in Selected Countries since 2007

Country	Percentage Change in Real House Prices from Quarter 4 2007 to 2015 Quarter 2
Germany	+22.5
Canada	+19.2
Australia	+18.2
Japan	+4.6
South Korea	+0.4
UK	**-5.2**
France	**-9.2**
USA	**-9.5**
Denmark	**-16.6**
Netherlands	**-23.3**
Italy	**-26.2**
Ireland	**-35.0**
Spain	**-39.0**
Greece	**-53.6**
Eurozone	**-11.5**

Source: OECD quarterly house price statistics

A Wider Perspective

Housing market transactions have been at a very low ebb since the credit crunch as the following examples illustrate. Transactions fell by half in the immediate aftermath of the housing market collapse in Spain (Tultavull, 2012). In the UK transactions have fallen by a quarter and households are moving less often (HM Revenue and Customs, 2015). This occurrence has been fuelled by a range of factors including the reluctance of householders to sell when prices are low (in some cases because of negative equity constraints), and the difficulties of finding a buyer, given the mortgage finance constraints.

The financial constraints on demand have contributed in many countries to a dramatic collapse in house building since the banking crisis. Spain with record house building and the UK with low levels were both impacted in the same way and new supply numbers plunged to historic lows. House building in Spain fell by a half between 2007 and 2011 (Tultavull, 2012) In the UK private housebuilding fell by a quarter in the two years after the credit crunch and fell by another quarter in the next two years. It is now at its lowest level since the 1920s despite the population now being much larger and there is a recognised major housing shortage (Jones, 2016). In the USA house building fell by 75% in the three years from the top of the housing boom. Despite some modest recovery it is now still lower than it was in the 1950s (JCHS, 2015). In many ways therefore the most severe market response to the banking problems has been not via prices but in terms of new building construction. This impact is partly because developers had internal financial problems stemming from an overhang of new housing unsold with demand falling away which had led to cash flow problems, and the high asset values of land bought in the boom had to be written down in their financial accounts. In addition banks were no longer able or willing in the short term to fund new development.

The tightening of mortgage credit following the credit crunch has had most effect on would be first time purchasers who were traditionally most dependent on loans representing a high percentage of value. Such loans were initially not available and while there was some subsequent relaxation of these credit constraints mortgage finance is no longer as readily available as before the global financial crisis. Banks are now subject to greater constraints on lending criteria set by national and international monetary authorities.

It has also drawn even more attention to the long standing issue of home ownership rates falling amongst young adults. A starting point is the pricing out of young households from home ownership by the increase in real house prices. There is an irony that the relaxation of credit criteria and new mortgage products from the 1980s on were heralded as a means to expand the market and extend the access to and affordability of home ownership. Across the globe we saw the introduction of variable interest rate and interest-only mortgages, and the reduction of entry barriers by the introduction of lower deposits (Jones, 2012).

Around the world in the housing booms the easing of credit had the opposite effect. The level of owner occupation came under threat as young adults found themselves priced out of home ownership with the rise in real prices as the booms gathered pace. For example in Denmark the absolute and proportional number of Danish owner occupiers under 30 years of age fell significantly and there was also a modest decline in home ownership within the 30-39 years age group over the twenty years up to 2007 (Lunde, 2012). Similarly in Australia home ownership rates have been falling amongst those under 44 years for decades (Yates, 2015). Generally this affordability problem and these declining home ownership rates amongst young adults have been hidden in many countries by the ageing of the population. The rates of owner occupation in the post-war baby boomers continue to be high and are even rising because of inheritance.

This is not a complete explanation of the falling rates of home ownership in younger generations. In Germany where there was excess supply, falling prices and long term tight credit conditions the level of home ownership also fell for those aged under 40 years of age over the same period (Westerheide, 2012). In the 1980s and 1990s Japan also saw falling real house prices but increased affordability barriers to owner occupation amongst the young because of rising unemployment, and the risk.of the latter (Moriizumi and Michio, 2012). The Japanese experience has much in common with the post credit crunch position of many western economies.

The barriers to home ownership for young households in those countries who experienced the long price boom have not been alleviated by the decline in real house prices in the subsequent bust (and the modest recovery where it has occurred). The reduction in the numbers and percentages of owner occupiers has continued. In the USA the home ownership rate has fallen for more than ten years through to 2015 to less than 64% (JCHS, 2015). There has also been a drop in absolute numbers too from a peak in 2006. The same picture is seen in the UK, like the USA the level of owner occupation peaked in 2006 and the number of UK households buying with a mortgage has been falling since 2003. In 2014 it was at its lowest level since 1988 (Jones, 2016).

The levels of owner occupation have continued to fall after the housing market peaks with home ownership rates of young people falling everywhere. This is despite global interest rates being at all time lows. Mortgage finance was difficult to access in the immediate financial environment after the credit crunch but its availability has become easier with relatively higher loan to value loans increasingly obtainable. The essential reasons for falling home ownership lie not in finance but in the workings of the macroeconomy. As noted above global economic recovery from the credit crunch has been muffled in terms of GDP per capita, with a range of consequences. Not only have real earnings for many people not been rising but there has been increasing inequality as many middle order jobs have disappeared. Continuing austerity policies across Europe has also contributed to greater uncertainty in the labour market and insecurity from slow economic growth. This is exemplified by the rise of workers on ‘zero hours’ contracts and self-employed workers in the UK on low wages (Jones, 2016). The position has great similarities with the Japanese experience described earlier.

In these circumstances it is surprising that house prices in some countries have recovered from the depths of the post credit crunch recession. The answer for the UK and USA lies primarily in the growth of private landlords buying properties. House price growth stems from this source (although in London there have been many east European and middle east house buyers who have bought at the top end of the market who have also distorted upward national house price trends). The difficulties of house purchase have meant that young households have turned to the private rented sector as their housing solution. In the USA the private rented sector is at a twenty year high while in the UK it has grown dramatically since the millennium (for the first time in a century) and is now larger than social housing in England (JCHS, 2015, Jones, 2016).

This trend in the UK and USA has occurred against a backdrop of minimal house building and housing shortage that has had a twofold impact on the housing market. The weak supply has pushed up rents that has meant that private landlordism has become more financially attractive. This has led to increased numbers of purchases by private landlords who are able to outbid (would be) owner occupiers. Young first time buyers who would normally underpin the housing market are faced not only with the concerns about the job prospects outlined earlier, but are also as tenants financially burdened by spending a high proportion of their income on rent. The difficulties of saving for a deposit are compounded by many young adults having debts acquired while at university (Jones, 2016; JCHS, 2015).

In summary the wider impact of credit crunch directly impinged on owner occupied sector in a number of ways beyond falling prices including a much lower number of transactions, a substantial reduction in new private housing completions and continuing barriers to home ownership for younger generations. The policy response by governments to date has been constrained by austerity policies that have driven low public expenditure. This has meant that the building of state sponsored social housing or the provision of subsidies for 'affordable' housing aimed at low incomes have been severely restricted (Jones, 2016; JCHS, 2015). The consensus agreement is that the solution lies in an increase in housing supply but so far policy interventions have produced a minimal impact.

Conclusion

The global financial crisis brought the long term housing booms in many countries around the world to an abrupt end highlighting the inter-weaving of the world capital markets. These booms had been supported by the availability of mortgage finance and seen substantial increases in real house prices. The consequences were the pricing out of the owner occupied sector of many young adults. This was also an issue in countries with declining house prices, for example in Japan as a result of the weak economic prospects of young people.

Many countries have still to see house prices recover in real terms. However, the implications of the credit crunch were much deeper than simply a downward price adjustment, affecting even those that had already peaked before it occurred. New challenges now face national housing markets and governments. The short term price adjustment in housing markets was relatively weak in contrast to housing construction activity that was decimated. House building in the UK and USA are still at record low levels. National home ownership rates/levels have continued their long term downward trend because young adults have experienced a combination of weak economic prospects and mortgage availability constraints despite very low interest rates. This has led to the rise of private renting and with a housing shortage the rise of rents.

Even though house prices are lower in real terms than in 2007 in most European countries and interest rates are in a historic trough there is still an affordability problem created by low wages, job insecurity and the difficulty of saving for deposits to buy. The impact of the global financial crisis (just as the housing booms before it) has been on the housing and economic opportunities of the younger generation. There is a evident issue of inter-generational fairness when the post-war baby boomers in their sixties have benefitted from the rise in real house prices. An inadequate supply of housing is the underlying problem and this is a major policy challenge when public financial support to build houses for low income households is hampered by austerity policies and weak economic growth.

There is an argument that the global financial crisis has resulted in structural change in housing markets with in particular the growth of the private rented sector. Indeed it is easy to extrapolate recent tenure changes and come to that conclusion. From another perspective the legacy of the global financial crisis can also be seen as an elongated housing/economic downturn but that the housing market cycle will eventually recover and house building will expand. This would almost certainly see a revival in home ownership as private tenants seek to achieve their long term aspirations to own a house once the labour market and the economy improve. This argument is supported by ultimately a political imperative to address the housing shortages and traditional household expectations.

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