



Home ownership and household debt: implications for housing policies

The percentage of home ownership in Cyprus is 70.7%, compared to the Euro-zone average of 65.9% (Eurostat). With the rebound of the Cypriot economy in recent years, one of the main pillars of GDP, the real estate sector, has exhibited signs of notable improvement.

Even though the sector has been exhibiting improvement in recent years, the supply of new residential units declined from 17.795 in 2008 to very low levels of 2.455 units in 2016 (CyStat). The increase seen in 2017 and 2018 in the licensing of new residential units will have tangible results in terms of supply only after some years. At the same time, there has been an increasing demand for properties, mainly for residential units (purchase and rental), fuelled by both local and foreign buyers/tenants, but also by students, short-term rental platform users, etc.

The above circumstances have considerably raised the capital and rental value of residential properties. Indicatively, it is reported that the average house price has risen by 6.2%, year on year, as of the second quarter of 2018 (RICS). Even more remarkable is the annual increase in rental rates, which range between 8.4% and 30.4% (RICS) depending on the reporting town (with a national average increase of 17.8%).

According to IMF data, households in Cyprus (along with the Netherlands) maintain the highest debt in relation to the country's GDP, while a survey by the European Central Bank indicates that the average borrowing of domestic households owning a dwelling is the highest in the euro area, both in absolute terms and in relation to the average income of households. Excessive borrowing is reflected in the percentage of non-performing household loans, which exceeds 50%. In addition, according to Housing Europe, a particularly high percentage of the population in Cyprus has gone into arrears in mortgage or rent payments. Cyprus also has the second highest percentage of citizens (after Bulgaria) who are unable to keep their house warm, based on the Severe Material Deprivation Indicator (SMD), which is significantly higher (11.7% in 2017) than the European average (6.7%) (CyStat).

The combination of all of the above, has led to major challenges but also to market distortions. It is therefore necessary to implement an integrated and targeted housing policy, which shall be characterized by both a short-term and a long-term horizon. A strategy that will involve a multi-faceted and innovative approach with an integrated partnership between the Government, the various state authorities (e.g. town planning authorities) and the private sector. The strategy should provide, inter alia, for some form of protection for distressed households, who are unable to service their borrowing which is collateralised on their primary residence. The implementation of the ESTIA scheme will definitely facilitate a large number of borrowers, but it is a fact that certain borrowers may be judged as non-viable and will, therefore, not be able to join the scheme as their debt will be deemed to be unsustainable.

There is a number of models that have been successfully applied overseas to mitigate such problems. In the short-term, the mortgage to rent scheme could be adopted as an immediate remedy to the distressed households mentioned above, which would enable these families to continue living in their home surroundings, albeit in a rented state, without the psychological turmoil and social stigma that a forced house move would typically entail. In the event that an ESTIA-eligible, but adjudged as non-viable, household decides to sell its



home in order to move to more affordable premises, a loan write-down of the difference between the outstanding loan balance and the selling price shall be also granted along the lines prescribed by the ESTIA scheme. Last but not least, a State subsidisation, to eligible borrowers, of the cost to obtain expert advice by licensed insolvency counsellors would go a long way in assisting them in effectively managing their financial affairs.

Arguably, a longer-term vision of affordable housing is also needed, as is the case in many European countries. For example, the Netherlands has the largest share of social housing in the EU, accounting for 32% of the housing stock and about 75% of the rental stock. In France, social housing accounts for about 17% of the housing stock. In England, social housing accounts for 17,5% of the housing stock and is controlled by councils and housing associations. Under the Housing Act of 1980, tenants of social housing can buy the property they occupy under the “Right to Buy” scheme at large discounts.

In addition to centrally regulated housing policies, the private sector has a major role to play in increasing the supply of affordable housing through various schemes and measures in the form of town planning incentives, again taking the lead from our European counterparties; for instance, the obligation to build affordable housing as a criterion for the licensing of specific projects. According to Housing Europe, in Paris, in an effort to increase social housing, there is an obligation for at least 30% dwellings to social housing in all projects by private developers covering >800 sq.m.

Ultimately, social housing policies have many social and economic benefits, improving in particular the well-being of vulnerable sections of the population. The right to housing should be, invariably, extended to all members of the society.

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