



Global Crisis and Housing Erection in Economies of Today

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ABSTRACT *The crisis appears or arises from anticipation reversals, only when combinations of structural causes and circumstantial elements occur. An anticipation reversal is a compression of the observed price, which is most often faster when investors overbid, also involving herd behaviors.*

On the other hand, the tenfold increase in housing prices, has fueled the speculations. When it is waiting that the prices of the estates to increase more than the value of the loan, it becomes obviously the trend to detain more properties than they can be occupied (for living).

Romania faced a severe economic fall at the end of 2009 (unrecovered until now), registering a decline in every respect (including constructions). Constructions and retail trade registered a decline in comparison with their "boom" in previous periods and lending activity entered a deadlock.

Causes of economic and financial global crisis

Before starting our incursion in the subject, we have to specify that the methodology take into account the comparison, between the present crisis and that one of 1929-1933, in similarities, and the analysis of data regarding the houses' erection for social destination from Romania and EU, or US.

The buildings construction, homes erection, is a very important sector of any national economy, because it is linked to the second floor of Maslow Hierarchy of Needs, that one stipulating safety and security¹. And, a very important segment of population in transitional and emergent countries to be encouraged in obtaining houses is represented by the young people, the most exposed to social risks, consumers with a very high potential, but a low level of the earnings.

On the other hand, the specific aspect analyzed regards the features of the social market economy, introduced by the German school of economic thoughts, a synthesis between the support (the liberty) of the State Law and human beings' aspirations for security and social equity. State, private consumers, competition (market economy) and the necessity of using social levers in the distribution of the wealth created in economy², are the ingredients of this type of economy.

Any crisis arises from a combination of structural causes, with significant circumstantial elements. Among the structural causes we mention: significant external deficits, phenomena of overproduction, under-consumption, over-accumulation, the debt dynamics, the industrial innovation rhythm and the impact of the technical progress.

Thus, short-term gain possibilities dragged along a growing indebtedness of the US citizens, who played or were going to play the stock market. By their herd behavior, investors alienated the economy from the real situation, from any economic foundation, creating a bubble or speculative situation. This led to an explosion in the supply of securities, leading to the crash of the stock market and the listed companies.

According to Kindleberger's³ opinion, anticipations always play a crucial role. The economic agents' anticipations are critical. Under the deceptiveness of rationality, they will continue to pay for an asset more than the observed price.

In 2005, for example, 40% of the living houses (properties) were investments and holidays houses, not for permanent

living. After this period, when it started paying the higher rates, the mortgages were refinanced, due to the rising of prices, and a new series of commissions for creditors.

The crisis of 2008 – both global and financial crisis

Given the speed of information dissemination, the full integration of capital markets and the opening of trade, the economic crisis of 2008 is a global one.

Regarding the typology, considering the collapse of the US banking system, followed by the collapse of the stock markets around the world, we can say that it is a banking and financial crisis (in this specific order).

In 2008, the situation differs, since this is obviously an economic banking and financial crisis. Anticipations, in this stage, were made in the financial as well as the real economy (the real estate market, for example).

The global crisis regarding the buildings sector

A view on the crisis in the United States, which spread worldwide, is given by the developments regarding the US real-estate market, where the total value of properties fell by more than 2,000 bn dollars and 11.7 million Americans now own houses which are worth less than the mortgage.

Devaluations show an 8.4% fall in prices in 2008 and the situation is likely to remain the same in the future, determining more and more Americans to stop paying their installments; the number of abandoned houses will increase and prices will continue falling.

Residences in the center of the capital of the United Kingdom were devalued by 3.9%, the largest decline in prices in 2008. London, the most expensive residential market in the world⁴, entered into recession, the luxury real-estate segment also being affected.

This trend will continue in the future, due to the small number of transactions and especially due to the lowering of the sells prices.

By lowering the prices in the residential markets, prices are expected to be lower, which could lead to unlocking transactions. Real-estate analysts consider the period crossed by the luxury real-estate segment will lead to achieve a realistic level of the purchase prices.

In the EU countries, the sources for financing housing construction also refer to deposits in banks and savings institutions, which are still the most important source of housing financing. The advance that the borrower is obliged to pay for the house should be between 20% and 40% of its total value and funds must be used for urban renovations and for new housing construction within the integrated urban development operations⁵.

Speaking about EU, in terms of the housing financing system and taxation, significant efforts are already being made towards the integration in a common market of the housing loan products in Europe.

Following the global financial crisis, many specialized projects developed by private investors were taken over by the governments and local authorities in the European Union countries and Eastern European countries.

Governments can be directly involved in the financial sector by creating public agencies specialized in supporting the access or providing funds for housing construction. In the EU countries and US, the interest for the housing loans is subsidized by deducting the mortgage interest from the income tax.

Thus, France has launched a plan for helping the construction industry by providing interest-free loans for housing renovation, aimed at creating houses which are integrated with the environment. Also, the French government wishes to buy 30,000 homes at a reduced price in order to support the developers.

The idea of state intervention in the real estate market has been applied in the UK since 2008, the government starting a plan of supporting the local authorities, which purchase properties that have come into the possession of the creditors or are already on sale.

In Austria, which is characterized by a real tradition regarding social housing, the social housing program initiated by the Austrian Government has been continuously developed; today, 60% of the Viennese live in houses that are owned or subsidized by the local council. In Germany, despite the massive sales in the recent years, the number of state-owned houses reached more than 3 millions units in 2007, which is about 8% of the stock of houses on the German market.

The access to social houses built by the German state is limited to a certain level of the income, the beneficiaries of cheap mortgages subsidized by the state including public or private companies, nonprofit organizations or small investors.

ANL⁶ it's a social program in Romania, the selling price being around 40,000 euro per standard house, which is determined by the contacted certified evaluators. ANL is not a commercial company aiming at obtaining profits.

The Ministry of Development has allocated nearly 170 millions euro for housing construction through the ANL program for evicted tenants and social housing in the peak of growth 2008. The forecasts were very optimistic, because in 2008 from 6,000 houses erected, over 3,200 were through ANL. From this year a severe drop of housing market was registered, far away from the previewed 10,000 units to be built.

Developing countries will need all of these benefits as they react in order to limit the damage caused by this crisis.

Conclusions

Even in the field analyzed, we may say that what started from American economy, from the theory and practice in USA, spread out and deepens in the rest of the world. Plastic said in media economics, when US sneezes, the world chills out.

The main advantages of the "First House" governmental program in Romania (transformed short time in "New Home") are the low credit access costs, the guarantee of the state and the increasing confidence of the population in the real estate market, and, regarding the disadvantages, they mainly refer to the preference over old apartments and the fact that it is managed by the state. But, even in these conditions, only a small part from the entire offer of houses of this type is covered by the demand and only a small part from the little economic growth (under 1 %) is due to the construction sector.

From the perspective of real-estate agencies, the program has only positive aspects, because, through it, small transactions have begun to be carried out. Furthermore, the social housing erection has to be understood as a service of general interest.

A disadvantage of the program would be the fact that it is difficult to be managed by the state, which is an issue that will become apparent the moment the bad payers will start to appear.

Another disadvantage is the average price the program addresses, since it orients the purchases towards old houses and, thus, does not encourage the construction of new units, although part of the money returns to the market under the form of advances for new houses, but it is not sufficient in order to re-boost the market and, also, we assist to an important increasing of credit costs.

The housing social constructions are very important for each country, because they addressed to the most affected by risks segments of population. Weak economy, no enough purchasing power for customers, budgetary deficit, therefore no progress in this domain.

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