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# Mortgage Market and Regional Development in Greece: Peculiarities and Consequences

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## RÉSUMÉ

Cet article examine les inégalités régionales à travers le prisme du marché hypothécaire et des prix des logements en Grèce, comme un exemple de l'Europe du Sud dans les années 2000. Il est généralement accepté que ces dernières années l'approfondissement financier de l'économie est devenu une grande dynamique qui caractérise les économies développées, dont le marché hypothécaire constitue une grande partie (Sassen, 2009). Cette tendance croissante en direction du système financier n'évolue pas dans un espace neutre, homogène, mais on pourrait détecter des différenciations spatiales et sociales entre les régions. Ainsi, certaines régions ont un accès limité à des ressources financières, alors que les villes jouent un rôle central dans l'immobilier et le marché hypothécaire, avec des prix élevés de l'immobilier, et sont devenues un véhicule important du développement inégal bien au-delà de l'échelle du local/ville (Golubchikov, 2013). Dans ce contexte de villes qui sont souvent des lieux conçus pour maximiser les intérêts d'une petite élite puissante (Aalbers, 2013), nous discuterons de l'« urbanisation » du marché hypothécaire résidentiel.

## MOTS CLÉS

Marché hypothécaire, développement inégal, inégalités, développement régional, immobilier urbain

## ABSTRACT

This paper examines regional inequalities through the lens of the residential mortgage market in Greece, as an example of the South of Europe in the 2000s. It is commonly accepted that in recent years the financial deepening of economies has become one major dynamic that characterizes advanced economies, with the mortgage market constituting a great part of it (Sassen, 2009). This growing trend towards the financial system does not function in a space-neutral, homogeneous way, but one could detect spatial and social differentiations and inequalities across regions and multiple scales. In that context, certain regions have limited access to financial resources, while cities play a central role for real estate and mortgage market, with high property prices, and have become a major vehicle for the production of uneven development far beyond the local/city scale (Golubchikov, 2013). In a framework in which cities "may be conceived as places designed to maximize the interests of a small, powerful elite" (Aalbers, 2013), the "urbanisation" of the residential mortgage market will be discussed.

## KEYWORDS

Mortgage market, uneven development, inequality, regional development, urban real estate

## INTRODUCTION

This paper examines regional inequalities through the lens of the mortgage market and house prices in Greece, as an example of the South of Europe in the 2000s. It

is commonly accepted that in recent years the financial deepening of economies has become one major dynamic that characterizes advanced economies, with the mortgage market constituting a great part (Sassen, 2009). This growing trend towards the financial system does not function in a space-neutral, homogeneous way, but one could detect spatial and social differentiations across regions and multiple scales. First, the notion of *financialization* is useful to consider in order to describe the new finance-led growth regime of accumulation (Boyer, 2000). In that context, the financial industry is transformed “from a facilitator of other firms economic growth into a growth industry in its own right” (Engelen, 2003; Aalbers, 2008).

Figure 1. Homeownership rates in Europe (Aalbers, 2009)



Figure 2. Mortgage debt to GDP ratio (Aalbers, 2009)



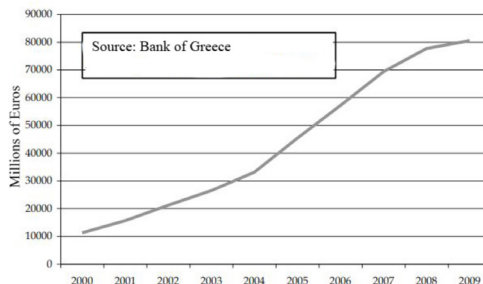
There is no question that the notion of home financialization that was used to describe Anglo-American economies captures multiple sides of reality. What I shall discuss further is the regional geography of the financial practices addressed by the housing sector of a South European country, and especially of Greece. Therefore the first element of my argument is that (i) financialization as a process is expanded through particular mechanisms beyond the Western paradigm, when referring to the particularities of financialization processes elsewhere and that (ii) financialization or financial practices embed or are embedded in regional development, as they includes spatial differences in multiple scales. For example, EU policies have not resulted in one, unified mortgage market, but in various European markets, due to different tax regulations, cultural and structural status, and mainly because of barriers that derive from mortgage intermediaries and the unequal treatment of foreign mortgage lenders (Aalbert, 2009).

Furthermore, the second element of my argument is that, in the context of neoliberal agenda, certain regional hegemonic blocks took advantage of the global or national financial markets. These particular elites or regional hegemonic blocks create, along with regions internal characteristics, hierarchical relationships between developed regions and peripheral regions that remain in the financial, economic and social margins.

### 1. EXPANSION OF THE MORTGAGE MARKET AND THE RISE IN HOUSE PRICES IN GREECE

Greece, as other Southern European countries, is traditionally characterized by high rates of home ownership, a weak welfare state, a limited role of financial institutions, an important role of family networks, the construction sector as primary field of growth and the important role of land property (Allen *et al.*, 2004; Abraci, 2008) <sup>2</sup>. Serious economic changes followed in the 2000s, with the entry of Greece into the euro area along with the deregulation of consumer credit in 2003: household borrowing increased at a strong annual rate (28%), mainly during the period from 2002 to 2007. Specifically, in 2002 the outstanding amount of the total mortgage loans in Greece was €21 billion referring to 700,000 households, whereas in 2007 it was €69 billions resulting to almost 1,200,000 households – constituting 30.2% of the GDP.

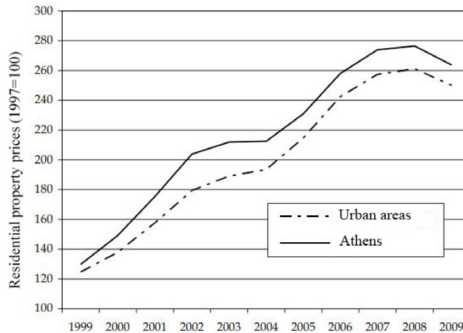
Figure 3. The outstanding amount of total mortgage loans in Greece, 2000-2009  
Source: Bank of Greece



<sup>2</sup> Small-scale land ownership, small construction capital and small family enterprises, access to housing through private savings and family assistance have been the characteristics for the postwar system of housing production in Greek cities.

A crucial matter is the relationship between house prices and the mortgage market. The expansion of the mortgage market came along with increases of rents, real estate prices, consequent profitability of housing. Specifically, house prices in Greece rose dramatically during the decades 1990-2000, and with great tensions in the two periods 2000-2002 and 2004-2006, following similar trends in many other “developed” countries (Emmanuel, 2008). In a parallel direction, one can witness the explosive growth of the construction sector.

Figure 4. Evolution of house prices from 1999 to 2009 in Greece  
Source: Bank of Greece



## 2. REGIONAL DEVELOPMENT OF THE GREEK MORTGAGE MARKET

Methodologically, the research is based on archives from the Bank of Greece, including the absolute number of residential mortgage loans per region, the average number of property prices per region and the average size of property per region. These data are related to data from the Hellenic Statistical Authority, such as the level of GDP. The year 2007 is regarded as crucial since it provides a clear image of the expansion of Greek mortgage market, the increase of house prices along with transactions and construction activity, before the 2009 crisis that changed the economic and political landscape.

Although on a national level data depict a spatially homogeneous mortgage market, there are serious subnational variations *between the different regions within the country*.

The three larger urban centers in terms of population concentrate the largest part (60%) of the residential mortgage market in 2007. The region of Attica stands at a strong rate of 44.3%, the region of Thessaloniki in the Northern part of Greece at a rate of 12.15% and the region of Achaia at 3.39%. Then, follow 6 regions between 1.51 and 2%, 11 regions between 1 and 1.5% and 31 regions that concentrate an absolute percentage of 0-0.99%. One can witness concentration in the national mortgage market, since each of the 48 regions (48 out of 51) concentrates below 2% of the residential mortgage loans which results to 40% of the Greek total mortgage market (diagrams 1 and 2). From the one hand, one should not forget that in “peripheral” regions, as family plays a more important role in acquiring housing facilities, credit possibilities sometimes are not needed compared to more urban regions. In that context, the real estate market is smaller in these “peripheral” regions, which goes along with relatively reduced prices and the different housing production and allocation strategies. On the other hand, the fact that the mortgage market is less developed in the “periphery”

is not only based on the limited demand in those areas, but also on the financial exclusion addressed to the social groups that live there because of the occupational and social criteria of the banks' credit scoring system –for example employees in the service sector are more likely to take a loan than those in the rural sector. This resulted in more options in the mortgage markets of Greek urban centers or touristic regions.

Diagram 1. Total number of Mortgage Loans per Prefecture in Greece, 2007  
Diagram produced by the data of National Bank of Greece

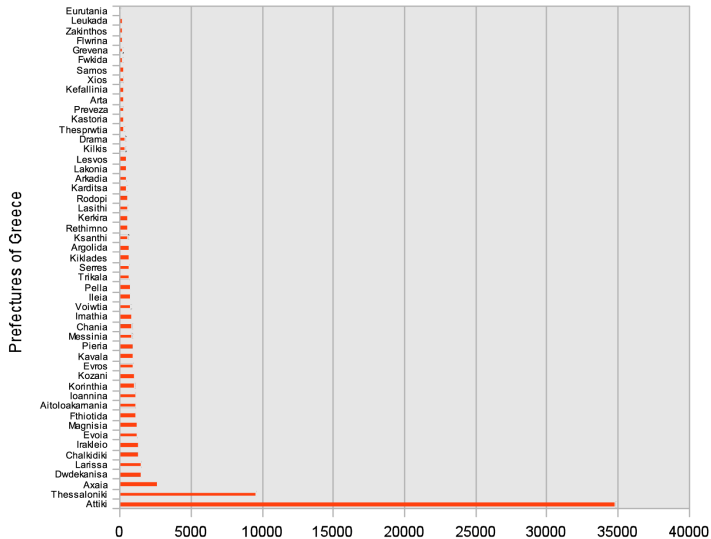
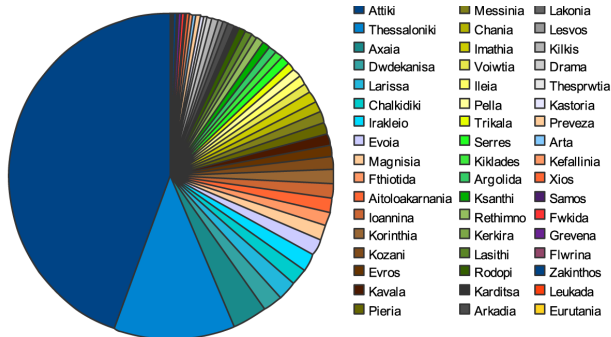
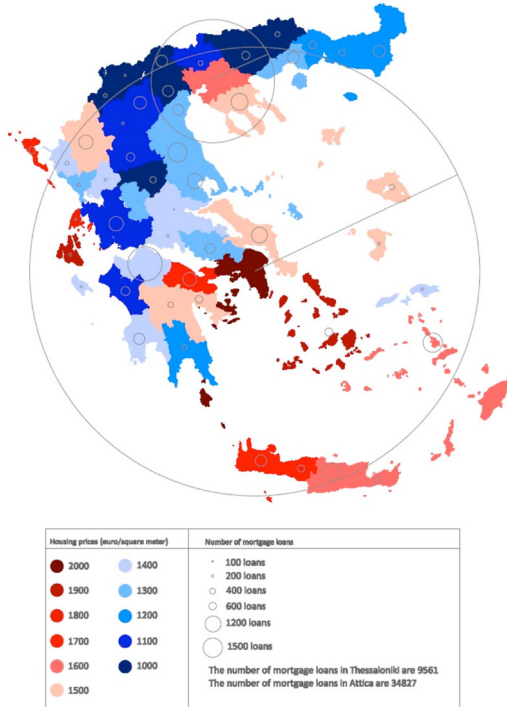


Diagram 2. Distribution of Mortgage Loans per Prefecture in Greece, 2007  
Diagram produced by the data of National Bank of Greece



Furthermore, it is important to interconnect the spatial differentiation of the residential mortgage market with house prices per region, in order to understand how they fuel the economy, how homeowners and developers depend on them, and in general their role in the neoliberal era (figure 5).

Figure 5. Spatial differentiation of house prices and number of mortgage loans, 2007  
 Diagram produced by the data of National Bank of Greece



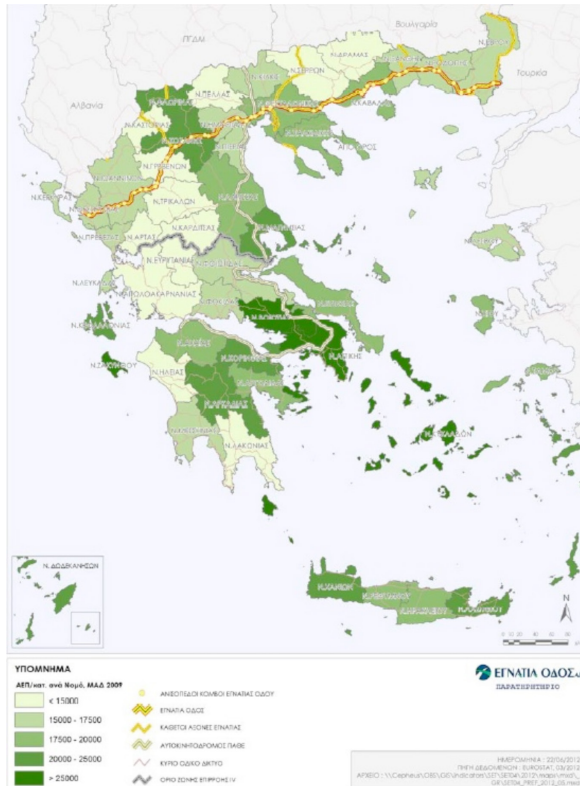
The analysis of quantitative data shows that the highest house prices are sited in Attica region (2,011 euro/m<sup>2</sup>), so the dramatic increase of mortgage loans in Attica is related to high property prices. Then, two regions follow, Cyclades (1,999 euro/m<sup>2</sup>) and Kefallinia (1,921 euro/m<sup>2</sup>), both touristic regions with a small-sized but high-priced mortgage market but high prices. Between 1,400 and 1,800 euro/m<sup>2</sup> stand regions with a significant development of tourism or medium sized urban centers. Between 1,100 and 1,400 euro/m<sup>2</sup> are twenty four regions, most of these being the most peripheral, spatially and economically: they are characterized by rural economies, mountainous landscape or constitute the border regions of Greece, but hold significant “invisible” local labor markets (Vaiou and Chatzimichalis, 2008). One can witness a distinction between the more “developed” and expensive Southern regions of Greece and lower prices in the “underdeveloped” Northern part of the country.

In that context, questions arise like the following: Are mortgage markets expanding because of house price increases or *vice versa*? Yet, even if it seems logical that the mortgage market simply enables access to homeownership when it is too expensive, the argument that is illustrated here is the exact opposite. By interconnecting with housing market, the mortgage market fuels the property prices, since it increases the demand.

We can witness that the size of the mortgage market result in higher property prices, considering also the level of GDP, housing shortages, housing production and allocation strategies.

Figure 6. GDP per region, 2009

Source: Egnatia Odos A.E.

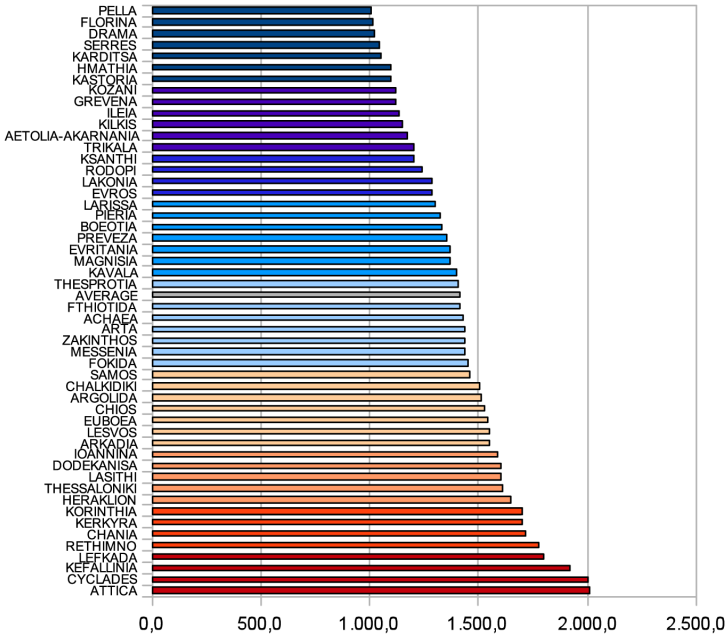


One can witness that the mortgage market has a strong relation to GDP per region, which needs further investigation. The GDP in 2009 is higher in Attica, since it concentrates 1/3 of the country population and economic activities. Higher levels of GDP are present in the Southern part of Greece, and mainly in the island regions of Cyclades, Creta, Dodekanisa, Samos, as well as the Eastern part of Peloponissos, Ioannina and mainly the coastal regions of Northern Greece. On the other hand, regions that are sited at the mountain backbone of the country, across the borders, in the Northern part of Greece, and some regions of Peloponissos, note low levels of GDP. Property prices and mortgage market seem to follow a parallel route to this differentiation.



Diagram 3. House prices in the regions of Greece, 2007

Diagram produced by the data of National Bank of Greece



In this context, the classic polarisations and inequalities –that have traditionally existed from the 1980s between Greek regions– come to the forefront, like the high concentration of population and economic activities in Athens, the abandonment of agricultural areas and the recession of former industrial areas. In that context, the financial system, and especially the residential mortgage market, followed and enhanced the already established inequalities and did not function in a direction of setting social criteria and strengthening local economy of spatially or economically peripheral regions. Still, it remains a question if the activation of the banks in the housing sector concluded to a larger polarisation of the population than the traditional one.

**CONCLUSION**

The Greek mortgage capital is not homogeneously distributed in the different Greek regions and the residential real estate market is not developed at the same level across the country. First of all, large cities are crucial nodes that spatially dominate the mortgage markets and the house prices. Specifically at a national level, Athens concentrates a great proportion of the real estate mortgage capital along with financial actors and the highest prices. Thus, one could consider that *the mortgage market is a urban market*. Cities become privileged terrains for capital accumulation through neoliberal policies like privatization of public property or services, construction of large scale projects, commercialization of the housing sector through the mortgage market. Different but not equal actors are concentrated in urban centers: financial institutions, political power, developers,

businesses and land entrepreneurs that try to extract profit from the city. The different social groups that live in cities are vulnerable in the house prices increases, the residential loans they have to repay along with the cuts in salaries and public services. In that context, cities have become a major vehicle for the production of uneven development (Golubchikov, 2013) and they “may be conceived as places designed to maximize the interests of a small, powerful elite” (Aalbers, 2013). One could highlight that the “urbanisation” of residential mortgage goes beyond the local/city scale and has effectively reinterpreted the comprehensive national-scale urban policies.

Another asymmetry was created since the price increase of urban centers resulted in increased house prices in the “peripheral” regions, the social groups living there had limited access to financial resources. It is commonly known that banks tend to prefer certain households with higher financial capacity, households that relate to properties that are *spatially part of a more developed real estate market or part of a more economically developed region*, so that it can create or contribute to an existing capital flow. Furthermore, this unequal development of the mortgage markets and property prices are spatially reflected in the classic South-North division of Greece, that traditionally characterizes the development of Greece and is reproduced by the function of mortgage markets.

Despite the state legislative regulations for regional integration through incentive programs, it is important to analyse the role of financial institutions, since they have their own criteria in order to evaluate potential borrowers/homeowners and, thus, seriously affect the development of the different regions within the country. Mapping the unknown but crucial field of mortgage markets and its relation to house prices provide a valuable starting point for future policy-making on behalf of local economy, regional equality and justice.

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