

## **Ghost Cities and Empty Houses: Wasted Prosperity**

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### ***Introduction***

If we go back to the beginning of the new liberal economy in the mid-1970s, the triumph of an economic system that had once been considered invalid surprised the world when the United States and the United Kingdom followed the new model and their economies grew in unprecedented and unexpected ways.

The new measures that promoted economic growth fostered less state control over the economy, a progressive privatization and spread of private initiatives to all areas of economic activity, and the liberalization and opening of the domestic economy to the international market. Deregulation measures helped to create an atmosphere of greater permissiveness. A broad field of action was opened to private intervention, facilitating the rapid expansion of the market and the generation of economies of scale, to which dozens of countries hungry for economic growth were rapidly joined.

Productivity grew enormously hand in hand with labor supply and employment. The relative competitive advantages created by the new economy (which led to cheap labor and more technology) cheapened goods and services, which enjoyed growing demand as they became more widely accessible. This in turn generated a widespread phenomenon of better public welfare and a higher quality of life.

The consumer economy had triumphed, and the system had expanded to all spheres of the market. An increasing number of people migrated to cities in order to benefit from the improved welfare which they could offer, and deregulation facilitated the rapid growth of urban areas where the economy was concentrated. As a result, in the mid-1990s the construction of major infrastructure, services and housing became one of the major driving factors of further economic growth.

Financial institutions took advantage of the rapidly expanding market context, introducing individuals with mid to low incomes, now eager to pursue more prosperous lifestyles, into the system. They facilitated access to credit through high-risk subprime mortgages with high interest rates. In this way the property market opened its doors to the banking sector, bringing mutual benefit and prosperity to economies and citizens worldwide. The improved quality of life and widespread prosperity, accompanied by a carefree mortgage indebtedness supported by banks and governments alike, fueled property growth and therefore also economic growth: an unprecedented affluence became the ubiquitous norm.

In the mid-2000s, when many countries experienced substantial GDP growth and their unemployment rates had significantly decreased, property prices exploded.<sup>1</sup> The number of housing units constructed, and thus also the rate of mortgage lending, reached historic highs.

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<sup>1</sup>Dol, K and M. Haffner (eds) (2010) *'Housing Statistics in the European Union 2010'*. Ministry of the Interior and Kingdom Relations, The Hague. [Web search January 2012]

In 2007, Ireland and Spain alone created more than twice as many dwellings per capita than other European countries.<sup>2</sup>

In China, in the last decade dozens of new cities and new urban developments have been built on the outskirts of cities. In this emerging country approximately 4,400 million m<sup>2</sup> of living space was constructed between 2000 and 2010, which is enough to accommodate 175 million people; in the same period the population grew by only 75 million people.<sup>3</sup> In Mexico the housing sector grew 12% in 2004, four times more than the country's economy itself. In Mexico City alone, 3 million social housing units were built between 2000 and 2006.<sup>4</sup> In Egypt, about 80 new cities linked to already existing cities nationwide have been constructed since the 1980s. The satellite cities around Cairo were originally designed to accommodate 15 million people by 2027.<sup>5</sup>

In developed countries like the USA, Spain and Ireland, with high housing demand and easy mortgages, speculation became a daily practice at all levels and therefore home prices soared along with sales. The logic was this: it is necessary to buy before prices rise even further, since property never depreciates and it is an investment safe from the risks of inflation. Nevertheless, the property drive stopped responding to the real needs of the population, and real estate fever led to a huge stagnated capital. Interest rates rose, the ability to pay back loans and mortgages decreased, especially among middle- and low-income individuals (those particularly susceptible to high-interest subprime mortgages), and the increase in late payments paralyzed the lending capacity of banks. As a result, banks began to possess more capital in real estate than financial liquidity. The ultimate market failure (the market supplied more real estate than is efficient) added to the failure of the financial system itself, which curbed international economic growth and brought to an end a brief period of economic prosperity and improved welfare.

In a number of developing countries in Latin America, Africa and Asia, many real estate developments were taken over by real estate speculation. Developments originally planned as new opportunities for lower- and middle-income sectors, as were common in Egypt or Mexico, or designed to absorb the massive influx of population migrating from rural areas, such as in China, have now become housing developments with prices inaccessible to lower-middle income people and infrastructure which is not adapted to the needs of the average population. In many cases urban developments were located far from services and facilities, with few mobility options, and therefore planned to favor private vehicle transport, thus promoting a segregated and unsustainable use of the city. In these cases, the market provided goods and services to a sector of the population already well served. The market failure occurred due to the misidentification of the target population coupled with a massive failure of urban planning.

In any case, economic growth has occurred hand in hand with rising property prices internationally, and this, generally, has coincided with a higher incidence of real estate speculation; a combination that is not likely to have a happy ending. The union of mortgage markets and property markets<sup>6</sup> led to a global financial crisis, which is reflected in foreclosures, evictions, a drastic decline in property demand, cessation of the construction sector, an exponential rise in unemployment and subsequently also in situations of precariousness, depopulation and migration, among other consequences.

<sup>2</sup>Kitchin, R., J. Gleeson, K. Keaveney, and C. O'Callaghan (2010) 'A Haunted Landscape: Housing and Ghost Estates in Post-Celtic Tiger Ireland', National Institute for Regional and Spatial Analysis (NIRSA) Working Paper 59, <<http://www.nuim.ie/nirsa/research/documents/WP59-A-Haunted-Landscape.pdf>> [Web search January 2012]

<sup>3</sup>Estimation based on an average requirement of 25m<sup>2</sup> per person.

National Bureau of Statistics of China (statistics only available in Chinese) <<http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>> [Web search February 2012].

<sup>4</sup>Vassalli, C. P. and M. Y. Sánchez (2009) 'Producción Masiva De Vivienda En Ciudad De México: Dos Políticas En Debate' [Masshousing production in Mexico City: twopolicies up for debate], Centro-h, Revista de la Organización Latinoamericana y del Caribe de Centros Históricos [Journal of the Latin American and Caribbean Organization of Historical Centers], No. 3, abril 2009, pp. 15-26 <<http://www.revistacentro-h.org/pdf/38.pdf>> [Web search February 2012]

<sup>5</sup>UN-HABITAT (2011) 'Cairo: A city in Transition', *Cities and Citizens Series- Bridging the Urban Divide*. The American University in Cairo / UN-Habitat, Nairobi

<sup>6</sup>Dol, K and Haffner, M. (2010) *Housing Statistics in the European Union 2010*. Ministry of the Interior and Kingdom Relations/ OTB Research Institute for the Built Environment, Delft University of Technology, The Hague

## Ghost Cities And Empty Houses

The unregulated growth of a real estate market concerned with immediate rather than long-term benefits has left behind scattered developments and cities with poor urban planning, where millions of houses remain empty after a brief period of economic prosperity. Houses fulfill no temporary or secondary purpose despite being fully built and ready to move into; some are for sale or rent, or vacated deliberately by their owners, either abandoned or simply held as investments as the owners wait for new buyers or for future use by daughters and sons.

The phenomenon of empty houses is generally manifest to a greater extent in places where the housing market had over exploded. In Western Europe, we have the alarming cases of Spain and Ireland. In Spain nearly 7 million homes were built between 2001 and 2010, while population growth did not exceed 5.2 million in the same period. At the same time, housing prices more than doubled,<sup>7</sup> and today Spain has more empty and unoccupied dwellings than any other country in Europe. The number of empty houses could reach 6 million according to the assessments of various experts,<sup>8,9</sup> which is equivalent to 85% of households built in the last ten years and almost double the number of empty houses recorded in 2001.<sup>10</sup>

In Ireland, more than 10% of the housing stock remains vacant, with this figure reaching 14.7% in the 2011 census;<sup>11</sup> this means that one out of six housing units in the country remains empty. In Ireland altogether the so-called "Celtic Tiger" has left behind more than 2800 so-called "ghost estates" (urban developments of ten or more dwellings in which more than 50% of the houses are empty or incomplete),<sup>12, 13</sup> according to a survey carried out by the Irish government in October 2010.<sup>14</sup>

Vacant housing stock rates in Finland, Germany, Denmark and France are between 5% and 10%, and the remainder of the countries in Western Europe has vacancy rates below 5%, with Sweden and the Netherlands having the lowest rates of vacancy, 1.7% and 2.2% respectively.<sup>15</sup>

Paradoxically, in Western Europe the data for the countries with the highest percentage of vacant homes contrasts with overall property trends. Spain and Ireland have the highest rates of home ownership in Western Europe, at 82 and 79% respectively, followed by Portugal, Greece and Italy (75,74 and 73%), where the economic crisis has had the worst effect after a period of unprecedented economic growth paired with the unprecedented momentum of the local housing markets.<sup>16</sup> In fact, in Spain there are far fewer households for rent than empty: 1.8 million, or 6-7% of the total, according to results of the Rental Housing Survey conducted by the Ministry of Housing in 2006. Meanwhile, in the EU the average rental housing stock falls between 40% and 50%<sup>17</sup> of the total housing stock.

<sup>7</sup>Banco De España (2012) 'Indicadores del mercado de la vivienda', *Síntesis De Indicadores* ['HousingmarketIndicators', Synthesis of Indicators] <[http://www.bde.es/webbde/es/estadis/infoest/si\\_1\\_6.pdf](http://www.bde.es/webbde/es/estadis/infoest/si_1_6.pdf)> [Web search June 2012]

<sup>8</sup>Martínez, J. C. (2012) 'En España un 20% de las viviendas están vacías' ['In Spain 20% of housingunits are empty'], El País <[http://www.elpais.com/articulo/economia/Espana/viviendas/estan/vacias/elpepueco/20120105elpepueco\\_6/Tes](http://www.elpais.com/articulo/economia/Espana/viviendas/estan/vacias/elpepueco/20120105elpepueco_6/Tes)> [Web search January 2012] <<http://www.eleconomista.es/vivienda/noticias/3653831/01/12/En-Espana-podria-haber-hasta-seis-millones-de-pisos-vacios.html>>

<sup>9</sup>El Economista (2012) 'En España podría haber hasta seis millones de pisos vacíos' ['In Spain there could be up to six million empty houses'], <<http://www.eleconomista.es/vivienda/noticias/3653831/01/12/En-Espana-podria-haber-hasta-seis-millones-de-pisos-vacios.html>> [Web search January 2012]

<sup>10</sup>Banco De España (2012) 'Indicadores del mercado de la vivienda', *Síntesis De Indicadores* ['HousingmarketIndicators', Synthesis of Indicators] <[http://www.bde.es/webbde/es/estadis/infoest/si\\_1\\_6.pdf](http://www.bde.es/webbde/es/estadis/infoest/si_1_6.pdf)> [Web search June 2012]

<sup>11</sup>Central Statistics Office Ireland (2012) *Census 2011 Results* <<http://www.cso.ie/en/census/index.html>> [Web search February 2012]

<sup>12</sup>Kitchin, Rob and Gleeson, Justin and Keaveney, Karen and O'Callaghan, Cian (2010) *A Haunted Landscape: Housing and Ghost Estates in Post-Celtic Tiger Ireland*. Working Paper Series.No. 59. Working Paper. NIRSA - National Institute for Regional and Spatial Analysis. <<http://www.nuim.ie/nirsa/research/documents/WP59-A-Haunted-Landscape.pdf>> [Web search February 2012]

<http://www.bbc.co.uk/news/world-europe-11596357>

<sup>13</sup>British Broadcasting Corporation (2010) 'Audit shows 33,000 'ghost' houses in the Republic' <<http://www.bbc.co.uk/news/world-europe-11596357>> [Web search February 2012]

<sup>14</sup>Central Statistics Office Ireland (2012) *Census 2011 Results*, <<http://www.cso.ie/en/census/index.html>> [Web search February 2012]

<sup>15</sup>UN-HABITAT (2011) 'Affordable Land and Housing in Europe and North America.' Volume 4. UN-Habitat, Nairobi

<sup>16</sup>UN-HABITAT (2011) 'Affordable Land and Housing in Europe and North America.' Volume 4. UN-Habitat, Nairobi

<sup>17</sup>Inurrieta, A. (2007) 'Mercado de vivienda en alquiler en España: más vivienda social y más Mercado profesional'

[The rental property market in Spain: more social housing and more professionalsontheuptake]. Documento de trabajo N°. 113/ 2007.

In countries with the lowest amount of vacant housing stock this pattern repeats itself: Sweden, Germany and Denmark are the countries with the lowest percentage of homeowners, at 38%, 45% and 49% respectively, followed by Austria, the Netherlands and France (55-65 %).<sup>18</sup> These are countries where the leasing structure provides a wide range of possibilities ranging from public to private renting and lease-to-purchase,<sup>19</sup> and where economic growth and prosperity have not been strongly based in growth generated by the property market.

The overall picture shows millions of empty houses even as simultaneously thousands of people are evicted from their homes due to mortgage insolvency. The number of evictions in Spain has tripled since the crisis began, and almost 300,000 foreclosures were conducted before mid-2011. Evictions continue to rise and thousands of families are left homeless. Around 200,000 evictions of both landlords and tenants have been enforced since the beginning of the crisis,<sup>20</sup> equivalent to an average of 110 families evicted from their homes per day since 2007. In the case of Ireland, only a third of the nearly 300,000 empty homes would be sufficient to cover the needs of 98,000 people in need of housing assistance.<sup>21</sup> In the United Kingdom, almost a million empty homes could accommodate half the population in need of housing.<sup>22</sup>

If we move to Eastern Europe, despite the widespread belief that there is a significant housing shortage, we find surpluses ranging from 786,000 units in Romania to 58,000 units in Albania. The housing surplus as a percentage of total housing stock fluctuates between 7 to 24%, with Albania (7%) at the bottom end, and Bulgaria and Montenegro (24%, respectively) at the top end of the extremes.<sup>23</sup> These percentages are factored with the ownership of second homes taken also into account.

In the United States, 8.4% of dwellings remained unoccupied in 2011, which in absolute terms means that there are more than 11 million empty homes across the country.<sup>24</sup> Only one third of these houses would be required to cover the housing needs of about 3.5 million people in the US, who are homeless at some point throughout the course of the year. Eight million foreclosures have been conducted since 2007, an average of 4,400 per day, and an estimated eight million more will be performed before the projected end of the crisis.<sup>25,26</sup>

The foreclosure approach of the financial system as a solution to what is really only one part of the financial crisis means that more and more families are living without adequate and secure housing, while the numbers of empty houses on banks' assets lists increase; this is a perverse situation, a wasted prosperity in times of crisis and need.

The same phenomenon can be found in some Latin American countries. In this case also it is a phenomenon that is more pronounced in countries that have experienced strong growth in the construction sector over the last decade. Nearly 5 million houses went uninhabited in Mexico in 2010, equivalent to 14% of the housing stock; 4.6 million of them were located in urban areas.<sup>27,28</sup>

Fundación Alternativas 2007. <<http://www.falternativas.org/laboratorio/documentos/documentos-de-trabajo/mercado-de-vivienda-en-alquiler-en-espana-mas-vivienda-social-y-mas-mercado-profesional>> [Web search February 2012]

<sup>18</sup>UN-HABITAT (2011) 'Affordable Land and Housing in Europe and North America.' Volume 4. UN-Habitat, Nairobi

<sup>19</sup>UN-HABITAT (2010) 'A Practical Guide for Conducting Housing Profiles'. UN-Habitat, Nairobi

/ ESPON, (2010). 'European Regions 2010: Economic Welfare and Unemployment'

<[http://www.espon.eu/main/Menu\\_Publications/Menu\\_MapsOfTheMonth/map1103.html](http://www.espon.eu/main/Menu_Publications/Menu_MapsOfTheMonth/map1103.html)> [Web search February 2012]

<sup>20</sup>El Mundo (2011) 'Zapatero: Tomaremos nuevas medidas para proteger a los hipotecados en problemas' [We will take further steps to protect the mortgaged in trouble] <<http://www.elmundo.es/elmundo/2011/06/28/suvienda/1309259129.html>> [Web search June 2012]

<sup>21</sup>Housing Agency (2011) 'Housing Needs Assessment 2011'. Gníomhaireacht Tithíochta, Housing Agency, Dublin

<<http://www.environ.ie/en/Publications/StatisticsandRegularPublications/HousingStatistics/FileDownload.27864.en.pdf>> [Web search February 2012]

<sup>22</sup>British Broadcasting Corporation (2011) 'Charity pressures councils over million empty homes' <<http://www.bbc.co.uk/news/uk-16021539>> [Web search February 2012]

<sup>23</sup>UN-HABITAT (2011) 'Affordable Land and Housing in Europe and North America.' Volume 4. UN-Habitat, Nairobi

<sup>24</sup>Estimations based on U.S. Census Bureau News. November 2011. Blanco, Z.G.

U.S. Department of Commerce (2011) 'Residential Vacancies and Homeownership in the Third Quarter 2011', U.S. Census Bureau News, November 2011, <<http://www.census.gov/hhes/www/housing/hvs/qtr311/files/q311press.pdf>> [Web search February 2012]

<sup>25</sup>National Coalition for the Homeless (2009) 'How Many People Experience Homelessness?' National Coalition for the Homeless. Bringing America Home. Washington DC <[http://www.nationalhomeless.org/factsheets/How\\_Many.html](http://www.nationalhomeless.org/factsheets/How_Many.html)>. [Web search February 2012]

<sup>26</sup>Global Research (2012) How Many People Have Lost Their Homes? US Home Foreclosures are Comparable to the Great Depression. Global Research. Centre for research and globalization. <<http://www.globalresearch.ca/how-many-people-have-lost-their-homes-us-home-foreclosures-are-comparable-to-the-great-depression/5335430>> [Web search March 2012]

<sup>27</sup>BBVA (2011) 'Situación inmobiliaria México. Análisis económico. Julio 2011' [The Property Situation in Mexico. Economic analysis. July 2011]. Servicio de estudios económicos del BBVA. BBVA Research.

<[http://www.bbva.com/KETD/fbin/mult/1107\\_SituacionInmobiliariaMexico\\_20\\_tcm346-262669.pdf?ts=29112011](http://www.bbva.com/KETD/fbin/mult/1107_SituacionInmobiliariaMexico_20_tcm346-262669.pdf?ts=29112011)> [Web search January 2012]

This number is enough to cover more than half of the extensive housing deficit recorded in Mexico in the same year.<sup>29</sup> More than half of the uninhabited housing is located in the Border States and in states with high emigration rates. In some of these states the rates of unoccupied housing exceed 18% (Baja California, Chihuahua, Zacatecas and Tamaulipas).<sup>30</sup> According to the director of the Institute of the National Housing Fund for Workers (INFONAVIT) more than a third of the inhabitable dwellings in the country have been abandoned.<sup>31, 32</sup>

In the case of Brazil, 6.1 million dwellings stand empty according to the latest census conducted in 2010;<sup>33</sup> this constitutes 9.02% of Brazilian housing units, a number that exceeds by 700,000 units the housing deficit of 5.4 million dwellings (85% of them in urban areas).<sup>34</sup> The percentage of empty houses and the overall housing deficit contrasts with the social function of property as defended by the Brazilian Constitution and the Statute of the Cities.

Sao Paulo and Minas Gera have the highest number of empty housing units of all the Brazilian states, with nearly 1.1 million and 690,000, respectively, according to the 2010 census. According to the Sinduscon-SP (the Union of Construction Industry of the State of São Paulo), only 15,000 more dwellings are needed to solve the housing shortage in the State of Sao Paulo, and could provide housing solutions for families currently without shelter or adequate housing. 245,000 units would still remain vacant after accommodating all homeless or precariously housed families in Minas Gerais.<sup>35</sup>

Other Latin American countries such as Chile and Venezuela have high- to mid-range vacancy rates, with 9.6% and 7.7% of houses unoccupied, respectively. There are 424,000 unoccupied dwellings in Chile, the majority of these located in urban areas. The urban area of Valparaiso has the highest rate of empty dwellings: nearly one out of every five homes remains empty, according to the latest census of 2012.<sup>36,37</sup> Peru and Nicaragua have lower rates of vacancy, with 4% and 2% of dwellings considered to be abandoned;<sup>38,39</sup> these figures do not account for the number of empty dwellings for rent or sale.

The data are even more staggering in countries like Egypt or China. In these countries, the scale of housing vacancy is on another level altogether. We are not speaking only about empty housing, but about half-empty cities where sometimes more than 80% of the housing stock is vacant.

<sup>28</sup>Infonavit (2011) 'Síntesis INFONAVIT Nacional 7 de Julio 2011'. [National INFONAVIT Study, 7th July 2011]. <http://portal.infonavit.org.mx/pdfs/110707.pdf> [Web search January 2012]

<sup>29</sup>Sociedad Hipotecaria Federal (SHF), Fundación CIDOC (2011) 'Estado Actual de la Vivienda en Mexico 2011'. [The State of Housing in Mexico in 2011], pp. 28-29. <http://www.shf.gob.mx/ESTADISTICAS/EDOACTUALVIVIENDA/Paginas/edoactualvivmex.aspx> [Web search January 2012]

<sup>30</sup>BBVA (2011) 'Situación inmobiliaria México. Análisis económico. Julio 2011' [The Property Situation in Mexico. Economic analysis. July 2011]. Servicio de estudios económicos del BBVA. BBVA Research. [http://www.bbva.com/KETD/fbin/mult/1107\\_SituacionInmobiliariaMexico\\_20\\_tcm346-262669.pdf?ts=29112011](http://www.bbva.com/KETD/fbin/mult/1107_SituacionInmobiliariaMexico_20_tcm346-262669.pdf?ts=29112011) /> [Web search January 2012]

Infonavit (2011) 'Síntesis INFONAVIT Nacional 7 de Julio 2011'. [National INFONAVIT Study, 7th July 2011]. <http://portal.infonavit.org.mx/pdfs/110707.pdf> [Web search January 2012]

<sup>31</sup>CNN EXPANSION (2011) 'Abandonan casas por desempleo: Infonavit' [Abandoned dwellings due to unemployment: Infonavit] <http://www.cnnexpansion.com/economia/2011/03/29/el-desempleo-despide-a-la-vivienda>

<sup>32</sup>CNN EXPANSION (2011) 'Desempleo propicia abandono de vivienda' [Unemployment promotes dwelling abandon] <http://www.cnnexpansion.com/obras/2011/03/29/vivienda-abandono-mexico-infonavit-obras> >

<sup>33</sup>Instituto Brasileiro de Geografia e Estatística-IBGE (2011) 'Sinopse do Censo Demográfico 2010' [Synopsis of the 2010 Census]. Ministério do Planejamento, Orçamento e Gestão. Rio de Janeiro [www.ibge.gov.br/home/estatistica/populacao/centso2010/sinopse.pdf](http://www.ibge.gov.br/home/estatistica/populacao/centso2010/sinopse.pdf) [Web search February 2013]

<sup>34</sup>Ipea - Instituto de Pesquisa Econômica Aplicada (2013) 'Nota Técnica estima o déficit habitacional brasileiro' [Technical Note estimates the Brazilian housing deficit]. Governo Federal do Brasil. [http://www.ipea.gov.br/portal/index.php?option=com\\_content&view=article&id=18179](http://www.ipea.gov.br/portal/index.php?option=com_content&view=article&id=18179) > [Web search February 2013]

<sup>35</sup>Portal Brasil (2010): 'Número de casas vazias supera déficit habitacional do País, indica Censo 2010' [Number of empty houses overcomes housing deficit in the country, the 2010 Census indicates]. Governo Federal do Brasil. <http://www.brasil.gov.br/noticias/arquivos/2010/12/13/numero-de-casas-vazias-supera-deficit-habitacional-do-pais-indica-censo-2010> > [Web search February 2012]

<sup>36</sup>Instituto Nacional de Estadística (2002) 'Resultados generales Censo 2002'. Chile. [http://www.ine.cl/canales/usuarios/cedoc\\_online/censos/pdf/censo\\_2002\\_volumen\\_II.pdf](http://www.ine.cl/canales/usuarios/cedoc_online/censos/pdf/censo_2002_volumen_II.pdf)

<sup>37</sup>INE-Instituto Nacional de Estadística (2012) 'Censo 2011' [2011 Census]. República Bolivariana de Venezuela [http://www.ine.gov.ve/index.php?option=com\\_content&view=category&id=95&Itemid=9](http://www.ine.gov.ve/index.php?option=com_content&view=category&id=95&Itemid=9) > [Web search February 2012]

<sup>38</sup>Instituto Nacional de Estadística e Informática (2007) 'Censo de Población y Vivienda 2007' [Census of Population and Housing 2007]. Peru <http://inei.inei.gob.pe/inei/RedatamCpv2007.asp?id=ResultadosCensales?ori=C> > [Web search February 2012]

<sup>39</sup>INIDE-Instituto Nacional de Información de Desarrollo (2005) 'Censo 2005' [2005 Census]. Nicaragua <http://www.inide.gob.ni/>

A renowned Chinese economist, Yi Xianrong of the Chinese Academy of Social Sciences (CASS),<sup>40</sup> issued a joint statement with the media in 2010 based on data provided by the national electricity company—information later denied by the power companies—revealing that 64.5 million urban electricity meters in China registered zero consumption over a period longer than six months. Many of the empty dwellings had been sold but remained unoccupied. This leads to the hypothesis that China has enough housing stock to accommodate 200 million people,<sup>41</sup> which is more than the 187 million people who lived in precarious housing in the same year<sup>42</sup> and almost a third of the nation's total urban population (665 million according to the 2011 census).<sup>43</sup>

The square area of completed housing units that remains unsold per year in China increased significantly from 2007 to 2008, after the onset of the crisis, from 67 to 90 million m<sup>2</sup> of housing completed but unsold (an area with the capacity to house up to 1 million people).<sup>44</sup> Since those dates, the Chinese national statistics department has stopped publishing these data, and the sixth national census, which was expected to clarify key data such as the housing vacancy rate in April 2011,<sup>45</sup> has not yet been published.

The lack of statistical transparency in this regard keeps the truth about empty housing in China in the dark. However, facts and evidence clearly demonstrate that the phenomenon is tremendously prevalent. This is true of the city of Kangbashi, a satellite city of Ordos located in the autonomous region of Inner Mongolia, which was planned to hold 1 million inhabitants but had only 50,000 residents in 2010.<sup>46</sup> A Bloomberg report states that 90% of Kangbashi's private buildings have been purchased but only 5% are occupied. For this reason the city is well known as a "ghost town" or an "empty city". Government workers and entrepreneurs who go to work in Kangbashi every day return in the evening to the old city, Dongsheng, where their children go to school.<sup>47</sup>

Analysts estimate that there could be up to a dozen cities like Ordos in the country, with new sprawling developments and suburbs remaining almost deserted. In the southern city of Kunming, for example, an area of nearly 65 square kilometers called Chenggong New Area has caused alarm because of a similar situation of empty streets, buildings, and offices. Dantu City has been almost empty for over a decade. In northeast Tianjin, golf courses, hot springs, and thousands of homes in the district remain empty five years after completion.<sup>48</sup>

According to an assessment mentioned by the *Financial Times*, the housing vacancy rates in China reached an average of 20% for all residential properties completed in the last five years, and for up to 60 to 90% for luxury homes and suburban apartments.<sup>49</sup> The central government has already taken steps to control and slow down the property market, fearing the detrimental impact on the economy that housing excesses can have and in order to prevent the outbreak of a potential housing bubble similar to those witnessed in numerous countries in the West. Nevertheless, the Chinese government has plans to build 36 million units of affordable housing in the current Five-Year Plan, a move meant to dampen price increases in the private housing market and to improve social welfare.

<sup>40</sup>Asia News (2010) 'Property speculation leaves 64.5 million vacant homes in China'. 07 September 2010. <<http://www.asianews.it/news-en/Property-speculation-leaves-64.5-million-vacant-homes-in-China-18895.html>> [Web search February 2012]

<sup>41</sup>Based on a reference requirement of 25m<sup>2</sup> per person.

Xie, Andy (2010) *Fear Empty Flats in China's Property Bubble*. Caixin online. 08 March 2010. <<http://english.caixin.com/2010-08-03/100166589.html>>.

<sup>42</sup>UN-Habitat (2008) 'State of the World's Cities 2010/2011. Bridging the Urban Divide'. UN-Habitat, Nairobi...

<sup>43</sup>National Bureau of Statistics of China (2012) 'Census 2011'. <http://www.stats.gov.cn/english/>

<sup>44</sup>National Bureau of Statistics of China <http://www.stats.gov.cn/english/>

<sup>45</sup>People's Daily Online (210) 'China's housing vacancy rate likely to be released in April 2011'. 12 November 2010. <<http://english.people.com.cn/90001/90778/90862/7198024.html>> [Web search February 2012]

<sup>46</sup>Yu, S. (2011) 'Why Roubini may be wrong on China's property doom' *Financial Times*. May 12, 2011 <<http://blogs.ft.com/beyond-bricks/2011/05/12/why-roubini-may-be-wrong-on-china%E2%80%99s-property-doom/#axzz1mXDFChfj>> [Web search February 2012]

<sup>47</sup>Quartly, J (2010) 'Ordos rises from the grassland' *China Daily*, 16 September, <[http://www.chinadaily.com.cn/usa/2010-09/16/content\\_11313108.htm](http://www.chinadaily.com.cn/usa/2010-09/16/content_11313108.htm)> [Web search February 2012]

<sup>48</sup>Barboza, D. (2010) 'Chinese City Has Many Buildings, but Few People' *New York Times*, 19 October, 2010 <<http://www.nytimes.com/2010/10/20/business/global/20ghost.html?adxnnl=1&pagewanted=all&adxnnlx=1322738684-BC+hgnWy4oSrv18FhgX3A>> [Web search February 2012]

<sup>49</sup>Yu, Sun (2011) 'Why Roubini may be wrong on China's property doom' *Financial Times*. Beyondbricks, 12 May 2011. <<http://blogs.ft.com/beyond-bricks/2011/05/12/why-roubini-may-be-wrong-on-china%E2%80%99s-property-doom/?Authorised=false#axzz2sZLmUM67>> [Web search February 2012]

In 2010 the government built an estimated 10 million affordable dwellings for purchase or for lease, and the construction of 7 million more dwellings was planned for 2012.<sup>50</sup>

In the case of Taiwan almost one out of five homes remained unoccupied in 2010, or 1.56 million housing units, according to a report launched by the DGBAS.<sup>51</sup> Keelung City has the highest housing vacancy rate, with one out of four dwellings unoccupied.<sup>52</sup>

According to the Ministry of Housing, the vacancy rate in urban areas is 9% in India, the only observed incidence in which the urban vacant housing rate exceeds the rural rate. The figure for India includes not only residential buildings but rather buildings with all types of uses. India has 15.8 million empty houses, which, despite being a moderate percentage in absolute terms, is in fact enough to cover more than half the country's housing deficit.<sup>53</sup>

The African continent has no confirmed data or studies pertaining to housing vacancy in most countries, but a similar phenomenon of vacant cities can be found in Egypt. The vacancy rates are very high in urban areas, reaching 20-30% of the housing stock.<sup>54</sup> The idea of creating new cities in the desert around Cairo was conceived for the first time in the Master Plan of 1975. The Government's intention was to decentralize the population within Cairo and to reduce the congestion of human settlements in the Nile Valley, driving the population out of the city and offering alternatives to informal and squatter settlements.<sup>55</sup>

Today, a third generation of new towns is under construction, and collectively they are expected to host 15 million people by 2027. According to a World Bank analysis and to the 2006 national census, the population of the new cities in Cairo's desert did not exceed 150,000 in 1996. In 2006 only 602,000 people lived in the new cities, representing absorption of only 14% of Cairo's total population growth in those 10 years.<sup>56</sup>

Although a minimal fraction of the target population has moved to these cities, building policies have been maintained and have even increased, with more new cities and more state investments in their construction. With suburban density patterns and services tailored primarily to the private car, the living conditions in the new cities continue to be unaffordable and problematic for most of the population, so workers prefer to commute daily from their homes in Cairo and other cities to the new industrial zones.<sup>57</sup>

### ***What Causes Can Be Identified?***

The fact that vacant housing rates stand above the level of technical stock required for the smooth operation of the market is caused by a number of factors depending on context and leads to some very different situations which must be dealt with differently according to location.

High vacancy rates can be caused by a variety of factors: poor housing conditions, remoteness of facilities and infrastructure, decisions of home owners not to obtain an income from their properties out of fear of possible leasing risks. More simply, high vacancy rates can be attributed to the presence of a housing surplus as a result of depopulation or oversupply, which has attended to a demand factor that does not correspond to actual housing needs. It is also sometimes the case that the so-called "baby owner" makes a strategically pro-active purchase for themselves or for their children, anticipating future need for housing by several years.

<sup>50</sup>Ulrich, Jing (2012) 'China's Nuanced Policy Approach - Supporting Growth without Reviving Bubbles'. JPMorgan Chase & Co, HANDS-ON CHINA REPORT. January 9, 2012.

<<https://www.jpmorgan.com/pages/jpmorgan/investbk/global/ap/hos>> [Web search February 2012]

<sup>51</sup>Taiwan News (2011) 'Taiwan has 1.56 million vacant house units: statistics'. Central News Agency, 03 November 2011. <[http://www.taiwannews.com.tw/etn/news\\_content.php?id=1748444](http://www.taiwannews.com.tw/etn/news_content.php?id=1748444)> [Web search March 2012]

<sup>52</sup>Taiwan News (2011) 'Taiwan has 1.56 million vacant house units: statistics'. Central News Agency, 03 November 2011. <[http://www.taiwannews.com.tw/etn/news\\_content.php?id=1748444](http://www.taiwannews.com.tw/etn/news_content.php?id=1748444)> [Web search March 2012]

<sup>53</sup>Ministry of Home Affairs (2011) 'Census of India 2011. Housing Stock 2001-2011'. Government of India.

<[http://www.censusindia.gov.in/2011census/hlo/hlo\\_highlights.html](http://www.censusindia.gov.in/2011census/hlo/hlo_highlights.html)> [Web search January 2012]

<sup>54</sup>UN-HABITAT (2011) 'Cairo: A city in Transition', Cities and Citizens Series- Bridging the Urban Divide. The American University in Cairo / UN-Habitat, Nairobi

<sup>55</sup>UN-HABITAT (2011) 'Cairo: A city in Transition', Cities and Citizens Series- Bridging the Urban Divide. The American University in Cairo / UN-Habitat, Nairobi

<sup>56</sup>UN-HABITAT (2011) 'Cairo: A city in Transition', Cities and Citizens Series- Bridging the Urban Divide. The American University in Cairo / UN-Habitat, Nairobi

<sup>57</sup>UN-HABITAT (2011) 'Cairo: A city in Transition', Cities and Citizens Series- Bridging the Urban Divide. The American University in Cairo / UN-Habitat, Nairobi

In these cases, the houses can remain empty for the intervening period due to a social aversion to renting, and thus the proportion of vacancies is permanently elevated. There are also many markets where the incidence of housing demand, especially in the most dynamic markets, corresponds to the goals of purchasers for whom dwellings constitute an investment rather than a fixed asset (housing),<sup>58</sup> in these cases there are houses with owners that stand empty and are ultimately wasted.

In the countries analyzed where the proportion of unoccupied housing exceeds 10%, oversupply in the housing market is one of the most significant factors contributing to high rates of housing vacancy. Oversupply usually occurs when a real estate market bursts at the same time as a failure of the banking sector and the financial regulation system, subsequent to permissive and uncontrolled urban and territorial planning that usually leads to real estate speculation and in many cases to corruption in the urban planning sector.

The role of urban planning in housing bubbles has been definitive. If zoning and planning permissions had not been so excessively granted, urban development could not have progressed as it did regardless of banks' lending levels. In a real estate boom urban planning should act as a counterweight to the pressures of urban development so that a stable housing market can be maintained and boom-bust cycles prevented, even if that means that officials and planners must make unpopular decisions.<sup>59</sup>

In countries where construction was the driving force of the economy before the crisis, intense urban developments were allowed in view of public and private financial interests. This resulted in huge housing bubbles that burst dramatically and radically transformed the property market, with drastic falls in housing prices, widespread negative equity, and the collapse of construction sectors. In the case of Spain, urban development corruption played a large role in the process, with an abuse of power on the part of public officials in relation to land speculation and with gross negligence of urban planning and environmental regulations for illicit financial gains.

In Eastern Europe, part of the imbalance between housing vacancy and demand can be attributed to the migration of population in search of employment and educational opportunities to places with more dynamic labor markets. This is the case in Albania, Bulgaria and Moldova. Massive displacement of the populations in those countries affected by war has caused an increase in the rates of vacant housing in areas where people are reluctant to return. In the housing markets of Croatia, Montenegro and Bulgaria,<sup>60</sup> however, we cannot forget the importance of second homes when calculating vacancy rates.

If we look to China, it can be observed that since the liberalization of the real estate market in 1999, private construction has increased exponentially and has increasingly become an engine for economic development. This trend has been supported by rapid urbanization urban migration and growth. As a result, since that time private property in China has been viewed as a safe haven against inflation. In fact, in late 2010 bank deposits guaranteed an interest rate of only 2.5%, below the inflation rate, which for months had been fixed at 3%.<sup>61</sup> As has been witnessed in more developed countries, real estate speculation took over the market, increasing housing prices and putting them out of the economic reach of lower-middle-income Chinese. Low-interest loans for both builders and buyers boosted real estate investment, made possible also by low labor and land costs; this, along with low levels of renting rooted in the ancient socialist policies of the country, has resulted in millions of owned properties remaining empty, unused for their intended social function.

In the specific case of Taiwan, the increasing vacant housing rate is attributed to a dissonance between the forecasted population growth and the real population growth in the last 10 years.

<sup>58</sup>Vinuesa, J., (2008) 'La Vivienda Vacía En España: Un Despilfarro Social Y Territorial Insostenible' ['The Empty dwelling in Spain: An Unsustainable Social and Territorial Wastage']. X Coloquio Internacional de Geocrítica. Diez Años De Cambios En El Mundo, En La Geografía Y En Las Ciencias Sociales, 1999-2008 [X International Symposium of Geocriticism. Ten Years of Changes in The World, in Geography and in Social Sciences, 1999-2008]. Universidad de Barcelona, 26 - 30 May 2008. <<http://www.ub.edu/geocrit/-xcol/74.htm>> [Web search January 2012 ]

<sup>59</sup>Kitchin, R., J. Gleeson, K. Keaveney, and C. O'Callaghan (2010) 'A Haunted Landscape: Housing and Ghost Estates in Post-Celtic Tiger Ireland', National Institute for Regional and Spatial Analysis (NIRSA) Working Paper 59, <<http://www.nuim.ie/nirsa/research/documents/WP59-A-Haunted-Landscape.pdf>> [Web search January 2012 ]

<sup>60</sup>Tsenkova, Sasha (2009) 'Housing Policy Reforms in Post Socialist Europe Lost in Transition'. Contributions to Economics. ED. Physica-Verlag Heidelberg. 2009.

<sup>61</sup>Asian News (2010) 'Crisis in China: 64 million empty apartments' 15 September 2010 <<http://www.asianews.it/news-en/Crisis-in-China:-64-million-empty-apartments-19459.html>> [Web search February 2012]



Housing construction has increased by an average of 1.4% annually since 2000, while the population has actually only increased by 0.4%, an increase that is less than half that experienced in the previous decade.<sup>62</sup>

The high rates of vacant housing in Egypt are, again, also primarily due to the lucrative speculation associated with housing, which since the 1990s has encouraged the housing boom in the desert around Cairo and the concomitant frenetic development of luxury buildings and exclusive gated communities. Analysts suggest that there is an oversupply of top-range dwellings that remains vacant and awaiting buyers. In addition, a freeze on rental prices in some areas where the old rental system is still in place, the administrative difficulties accompanying the sale of properties, and general urban decay can be added to the list of causes of the vacant home phenomenon in Egypt. Many dwellings are also empty in more informal urban sectors, which illustrate the speculative nature of investments even in these locations.<sup>63</sup>

The increasing vacant housing rates in Mexico also coincide with a significant over-development of the real estate market. The states with the highest vacancy rates, such as Baja California, Chihuahua, Zacatecas and Tamaulipas, are located on the border with the United States or are part of the group of labor-sending states. These areas suffered, more severely than other parts of the country, the effects of the global recession and this helps to explain why approximately one out of four uninhabited houses in Mexico documented in 2010 (23%) was located in this region. In states with high emigration rates, housing vacancy rates are, as in urban areas, higher than those recorded in the rest of the country.<sup>64</sup>

Extrapolating from a study of the national entity of credit for housing purchase (INFONAVIT), which addresses the housing needs of the middle-low income workers, it can be established that more than one third of the dwellings are empty because of a lack of basic services, another third because they are located too far from work, school or family, 10% because they require too great an investment in refurbishment, 7% because they are too small, and 3% only for reasons of insecurity (contrary to what is commonly thought). A consultant from the Mexican Institute for Competitiveness (IMCO) stated that the ghost communities are already a reality following from the granting of a large number of mortgage loans in municipalities with low competitiveness in housing. She referred specifically to locations that do not offer a sufficiently decent quality of life, because they lack goods and services such as transportation, water and sanitation, electricity, garbage collection, basic security or an efficient cadastral system and real policy for urban development.<sup>65</sup>

In Brazil, meanwhile, the high number of empty homes is mainly due to the inability of the population to pay the rent,<sup>66</sup> and to a pattern of migration away from the major urban centers that began in the 1980s. This migration was primarily caused by the move of the higher-income population to the cities' suburban outskirts and by simultaneous governmental attempts to eradicate *favelas* in the city centers. Today, Brazil's city centers still have a half of their housing stock empty, despite gentrification processes promoted by local governments.

### **Conclusion: Consequences and Implications**

New urban developments based on the emergence of a rampant and uncontrolled property market in the last 15 years are common to both developed and developing countries. The consequences of this state of affairs are diverse and have a strong impact on the social, environmental and economic systems further reflected in the quality of life of the populations. Correcting the consequences of overdevelopment and false prosperity will require years of reform and the reformulation of a failed system. Above all, however, these ills represent a step backwards in social welfare and demand a period of reflection on the ethical and democratic crises that plague countries in addition to economic concerns.

<sup>62</sup>Taiwan News (2011) 'Taiwan has 1.56 million vacant house units: statistics'. Central News Agency, 03 November 2011. <[http://www.taiwannews.com.tw/etn/news\\_content.php?id=1748444](http://www.taiwannews.com.tw/etn/news_content.php?id=1748444)> [Web search March 2012]

<sup>63</sup>UN-HABITAT (2011) 'Cairo: A city in Transition', Cities and Citizens Series- Bridging the Urban Divide. The American University in Cairo / UN-Habitat, Nairobi

<sup>64</sup>Sociedad Hipotecaria Federal (SHF), Fundación CIDOC (2011) 'Estado Actual de la Vivienda en Mexico 2011'. [The State of Housing in Mexico in 2011], pp. 28-29. <<http://www.cidoc.com.mx/estudiospdf/2011/EAVM+2011.pdf>> [Web search January 2012]

<sup>65</sup>[Spanish] National INFONAVIT Study: 8 August 2011. <http://portal.infonavit.org.mx/pdfs/110808.pdf>

<sup>66</sup>Elias, D.; Pequeno, R. (2005) 'Espaço urbano no Brasil agrícola moderno e desigualdades socioespaciais' ['Urban space and social spatial inequalities in the modern agrarian Brazil'] Terra Livre. Quarterly of the Associação dos Geógrafos Brasileiros. ANO 21 – Vol. 2 No. 25. p. 12 Article 29. July-December 2005: <[http://www.agb.org.br/files/TL\\_N25.pdf](http://www.agb.org.br/files/TL_N25.pdf)> [Web search February 2012]

The building fever, which was accompanied by access to credit over the real creditworthiness of citizens, has led to a critical credit situation in many countries. Prosperity built on the sands of a golden age has now been translated into debt, foreclosures, evictions, lack of access to credit, and a halting of construction sectors that were once major drivers of economic growth. The collapse of building sectors, which once generated millions of jobs, has left behind thousands of unemployed persons, mostly migrants who went to the golden countries in search of the new European or American dream.

In Spain, Ireland, and the United States, all properties whose prices rose unsustainably have now fallen to below their former sale prices, and owners without sufficient solvency to pay their mortgages cannot even pay their debt with the re-sale of their households; this is the so-called *negative equity*. After a period of frenzy in property purchases, fueled by fears of a continuing and disproportionate rise in housing prices, times of austerity have already arrived, and potential buyers continue to wait for prices to fall further. The housing market is stagnant, and with it the economies that heavily depend on it.

Meanwhile, housing stock owned by banks is on the increase, thousands of people have been and are still being evicted and social movements throughout the world are condemning the unequal distribution of wealth. In the documented countries alone there may be more than 110 million empty households and accommodation for more than 300 million people.

In the United States, foreclosures are still on the rise, and will continue to rise as housing prices continue to fall and unemployment continues to increase. A growing number of owners, four times higher than in 2006, have a negative equity value and owe more to the bank for their mortgages than the current value of their homes.<sup>67</sup> Throughout the country sprawling urban developments, oversupply, and forced housing abandonment have left behind empty neighborhoods and a subsequent chain of related social consequences. Schools, for instance, are also affected by increasing rates of housing vacancy, since education is funded by property taxes charged in each jurisdiction.

In China, as a result of the measures undertaken by the government to cool the property market, sales have fallen 60% in the 14 largest cities in the country.<sup>68</sup> Access to housing is already a privilege, and huge infrastructure must be maintained that has no current use. The proliferation of scattered developments and unplanned urbanization, paired with corruption, has had and do have serious impacts on the environment. Major infrastructures were planned with an eye to private transport, thus creating unsustainable urban mobility systems; town planning changes of land use and reclassifications were inflated as against the value of the land in question, leading to the occupation of protected natural areas with high environmental value.

In Mexico, 7% of the unoccupied dwellings in the INFONAVIT portfolio have been the object of vandalism. These housing units are mostly located away from the services and infrastructure that maintain the dynamism and density of urban areas.<sup>69</sup> While the mass production of housing can return an economic benefit to the municipalities attracting vast investments in the construction sector, in the long-term disordered urban sprawl results in serious urban mobility issues and public service maintenance problems. This is manifested in the medium term in high rates of uninhabited dwellings and "ghost communities"<sup>70</sup> prone to poor security. Social movements that struggle for dignified housing in Brazil occupy empty houses and buildings located in the city centers. These movements have also increased in recent years in developed countries where thousands of people have been evicted. The illegality of these occupations shows the imminent tension of a conflict about social rights, when property interests differ from the interests of fundamental human rights such as the right to adequate housing:<sup>71</sup> a wasted prosperity that is generating discussion worldwide.

<sup>67</sup>Congressional Budget Office-CBO (2009) 'A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook'. Congress Of The United States, March 2009.

<<http://www.cbo.gov/ftpdocs/100xx/doc10014/Chapter2.6.1.shtml>> [Web search March 2012]

<sup>68</sup>Asian News (2010) 'Crisis in China: 64 million empty apartments' 15 September 2010 <<http://www.asianews.it/news-en/Crisis-in-China:-64-million-empty-apartments-19459.html>> [Web search February 2012]

<sup>69</sup>[Spanish] National INFONAVIT Study: 8 August 2011. <http://portal.infonavit.org.mx/pdfs/110808.pdf>

<sup>70</sup>[Spanish] National INFONAVIT Study: 8 August 2011. <http://portal.infonavit.org.mx/pdfs/110808.pdf> (Gabriela Alarcón Esteve, consultant at IMICO)

<sup>71</sup>Aliano, Janaina B.(2007) 'Movimento de Moradia no Centro (MMC)' ['Housing Movement in town']. Anais do II Seminário Nacional. Movimentos Sociais, Participação e Democracia. [Social Movements, Participation and Democracy]. 27 April 2007, Universidade de São Paulo, Brasil. <[http://www.sociologia.ufsc.br/npms/janaina\\_a\\_bloch.pdf](http://www.sociologia.ufsc.br/npms/janaina_a_bloch.pdf)> [Web search February 2012]