

Housing Choices of Muslim Immigrants in Italy

Ozden Sungur, PhD

Huron University College at Western, Canada

Abstract

This paper aims to study housing choices of Muslim immigrants in Italy using micro level data collected by the ISMU Foundation. For this purpose, a probit model of home ownership is estimated using demographic variables such age, education, marital status, family characteristics, religion as well as financial variables measuring household expenses and financial difficulty. This is intended as a first step in uncovering household preferences for various investment alternatives among Muslim population in Western societies.

Keywords: Home ownership, housing finance, immigrant

Introduction

There are unique characteristics of the Muslim communities who live in western countries that require a closer look at their preferences regarding home ownership, not only as a portfolio investment and a means of accumulating wealth but also as a mechanism for social integration.

The first set of features concerns the demographic changes. Pew Forum on Religion and Public Life predicts a global trend with a 73% rise in Muslim population between 2010-2050 making it the fastest growing religious group overall. As such Islam is the only major religious group that is expected to grow at a higher rate than the world's population. Muslim population has not only been on the rise but also on the move. According to statistics from the 2010 Global Religion and Migration Database, Muslims count for 27% of all international migrants. With the Syrian refugee crisis still unfolding, this figure likely underestimates the current distribution.

Another characteristic of Muslim population that can further propagate current demographic trends and make the housing question more pressing is the high fertility rate. Averaging at 3.1 children per woman, the fertility rate for Muslims exceeds that of any other group underlying a potential link between high population growth rate and demand for home ownership. Augmenting this effect further is the current age distribution

according to which the highest percentage of women in their primary childbearing years is of the Muslim faith.

Factors that are expected to affect attitudes towards housing demand include the role faith plays in economic affairs. Islam as a religion prescribes a set of rules for conducting economic and financial transactions. The term Islamic Finance (IF) can generally be defined as the provision of financial services and products on the principles of Islamic shariah (law). Some basic principles of Islamic Finance are prohibition of riba (interest), gharar (uncertainty), and gambling. Another defining characteristic of Islamic Finance is that it is supposed to link financial transactions with activities in real economy and arrange for sharing of entrepreneurial risk. The main implication for housing finance industry is the need for mortgage products that are structured according to these tenets of Islamic Finance. There are a variety of mortgage products such as *ijarah* (redeemable lease), *murabahah* (installment credit purchase) and *diminishing musharakah* (declining balance partnership) that are based on these principles.

It is predicted by the International Organization of Securities Commission that by 2015, investments undertaken according to these principles will account for half of the savings of the world's estimated 1.2-1.6 billion Muslims. Yet, we have very little insight into economic preferences of Muslim populations living in Western societies when it comes to shariah compliant investment opportunities. A 2010 report on Islamic Housing Finance in Canada commissioned by the Canada Mortgage and Housing Company notes that without such information it is impossible to understand how market demand would respond to an ever growing array of Islamic Finance products and services. Earlier work by Maurer (2006) on Islamic mortgages in United States also underlies this lack of systematic studies about Muslim attitudes towards Islamic Finance in particular countries or across different countries.

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The 2012 Islamic Finance Guide reports that real estate sector dominates the most recent market developments in Islamic Finance in countries such as UK and Canada. Home ownership remains an important financial goal among the Muslim population in Canada, which is projected to triple in the next 20 years to account for 6.6% of Canadian population by 2030 according to a recent report by Pew Forum on Religion and Public Life. In UK, one of the contributing factors to the development of the housing sector of the Islamic Finance market was the 2004 abolishment of double stamp duties resulting in more competitive shariah compliant mortgages. Another important development in 2004 was the launch of Islamic Bank of Britain as the first standalone Islamic Bank in the Western world with the

approval of the Financial Services Authority. Currently, there are about 20 banks providing shariah compliant products and services through Islamic windows including some big banks such as HSBS and Lloyds TSB. Consequently, UK established itself as the leading European country in Islamic Finance activities. The UK experience can provide a useful road map for considering how the expansion of Islamic Housing Finance fits within the current Canadian legal, regulatory and tax framework.

In contrast to UK, currently there are no Islamic Banks or windows operating in Italy. Nevertheless Italy remains an interesting case due to government involvement in producing detailed market studies to promote the country as a viable market for Islamic Finance. The country report published in the 2012 Islamic Finance Guide mentions the availability of extremely detailed surveys and market analyses categorized by the countries of origin and the banking services used by the Muslim community in Italy. These data could be utilized to study financial behavior of the Muslim community to fill the existing gap in our knowledge of consumer preferences toward alternative investment opportunities. Such a study could provide interesting insight since the Italian Muslim population is characterized by a variety of countries of origin and not dominated by a single nationality more like the Canadian Muslim population.

The 2011 Italian Report on Migrations provides interesting statistics comparing housing situation of immigrants and Italians. The report is based on Income and Living Conditions survey study conducted by Istat (Italian National Institute for Statistics) in 2008. In the survey, the immigrant status is defined by country of birth where those born outside of Italy are classified as either EU immigrants or extra-EU immigrants. According to statistics provided from the survey, renting or subletting is most common among extra-EU immigrants with 58.8% compared with only 16.1% of renters among Italians. In contrast, a high percentage of Italians are homeowners. Specifically, 71.4% of Italians live in a house they own whereas only 28.4 of extra-EU immigrants are homeowners. In both cases, the figures for EU immigrants fall in between the two although their housing situation resembles that of other immigrants more closely. The survey also provides information on mortgages and other loans homeowners take out for purchase or renovation as well as the interest rates carried on these loans.

The figures provide a very interesting comparison on relevant economic data and indicate further investigation into possible sources of the difference in housing situation is worth undertaking. The literature on determinants of homeownership provides evidence that certain demographic factors such as marital status and financial variables such as income uncertainty have significant effect on homeownership rates. For example, Fisher and Gervais (2011) show that most of the decline in number of young

homeowners in US between 1980 and 2000 can be explained by increasing income risk and an increasing trend for marriage age observed during the same period. In the Italian population surveyed by the Italian National Institute for Statistics, employment stability appears to be different between Italians at 10% and immigrants at 15%. Whether the observed variation in employment stability could have a similar causal effect on home ownership as income uncertainty is an interesting question that deserves further investigation. Marriage status should also be investigated as a potential determinant of difference in homeownership across immigrants and Italians.

It should be stated that although the survey sheds light on some important aspects of the housing status of immigrants in Italy vis-à-vis Italians, it stops short of identifying the immigrant's country of birth. It also provides no information on religious affiliation. Therefore, it is not possible to quantify the casual effects of any ethical considerations based on religious affiliation on home ownership decision. The next step in uncovering household preferences for various investment alternatives among Muslim population in Western societies is control for these factors using datasets that collect demographic and financial variables for groups of households with different religious affiliations.

For this purpose, I use the cross-sectional data set collected by Regional Monitoring for Integration and Multi-ethnicity The dataset comprised of surveys covering the period 2001-2011 containing information on various demographic characteristics of immigrants in Italy including religious affiliation and housing situation. Of particular interest for the purposes of this study, the following information is collected:

- Demographic variables: age, education, marital status, family characteristics, religion
- Financial variables: Household expenses, questions on financial difficulty

Housing has been paid special attention in the surveys due to its role in facilitating integration of foreigners. There is also recent emphasis on family to facilitate analysis of increasingly family-oriented immigration to Italy.

I will study the homeownership decision using a probit model. The time dimension spanning years 2001-2011 will be utilized to investigate the effect of the financial crises on homeownership decision by including time dummies.

Conclusion

This analysis aims to provide a complementary analysis of household portfolios by focusing on housing decisions of Muslim immigrants in Italy. It

will also provide a comparative view of homeownership status of Muslim households living in other western countries such as Canada and the UK.

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