

**HOUSING
MARKETS
IN THE EUROPEAN
UNION**

HOUSING CONSTRUCTION

- Residential construction as a share of GDP is currently just over half than its 2006 level, and construction is recovering much slower than prices.
- There is huge disparity across Europe in the cost of construction investment, with Switzerland, Sweden and Norway showing the highest costs.
- High building standards and requirements are posing a significant challenge to the provision of social and affordable housing in a number of countries.

There has been a significant reduction in construction activity in a number of countries since 2000, with the global financial playing a particularly significant curbing role in countries that had previously experienced a prolonged boom (OECD, 2016). Overall across the EU, residential construction today represented on average about 3.7% of GDP in EU countries, compared to about 6% in 2006 (Eurostat). Nine years into the crisis, the aggregate picture in the EU on the housing supply side has remained relatively constant since 2008 (with some exception such as Sweden, where construction has increased significantly over the past 3 years after a decade of subdued supply). This trend doesn't match the development in house prices which in the meantime have stabilized and have recently started to increase (see House Prices, below).

One explanation for the slow responsiveness of EU housing supply lies in the fact that building land is scarce and the price of land ever-increasing. In Luxembourg for instance a major issue at the moment is to identify and mobilize land for affordable housing provision, and the government is working on an agreement with municipalities around this objective. In Ireland, work has been undertaken to identify sites, including sites in public ownership, that housing associations can get access to, but there has yet been no co-ordinated programme to translate these sites into an active development programme. Speeding up the planning process is also necessary as the EC points out for instance in the case of the UK and Sweden (European Commission, 2017). Moreover, in some countries there is currently scarcity of workers and/or companies in the construction sector (EMF, 2016). Most important, high construction costs can pose a severe challenge for the provision of affordable housing. According to data on construction price levels (Eurostat), the most expensive countries for construction investment after Switzerland are Scandinavian countries, followed by Germany, France, The Netherlands and Austria. In some of these countries, where building quality standards and regulations are already very high, affordable housing providers are increasingly concerned with the cost of new construction and trying to find ways to reduce it. For instance Swedish municipal housing companies have introduced a framework agreement procurement ('Kombohus') to build energy-efficient and accessible adapted homes at a construction price that is 25 per cent lower than the average. In Austria discussion is ongoing on whether to include as part of newbuilt some smaller dwellings and/or dwellings with fewer amenities so as to reduce prices.

NEW: EUROPEAN CONSTRUCTION SECTOR OBSERVATORY

The European Construction Sector Observatory has been set up by the European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs

(DG GROW) and the Executive Agency for Small and Medium-Sized Enterprises (EASME). The ECSCO website provides access to a wide range of industry data and analysis, from evidence on how Member States are performing in relation to the five thematic objectives of Construction 2020 Strategy, to insights on national policy developments, trends and experiences. It includes country fact sheets, policy fact sheets and analytical reports.



Find out more:
https://ec.europa.eu/growth/sectors/construction/observatory_en

MATCHING SUPPLY AND DEMAND

- As a consequence of construction not keeping up with demand, housing shortages are emerging more clearly, especially in large cities/metropolitan areas with a growing population.
- This has been reported notably in the UK, Sweden, Ireland, Luxemburg, but also at local level in the Netherlands and Germany.
- Migration has put further pressure on already tight housing markets.
- Shortage contributes to increasing prices and rents.

A number of countries have identified a shortfall in new housing supply compared to demand raising from household formation and demographic change. Furthermore, regardless of whether the aggregate national dwelling stock is sufficiently developed, across countries there are significant housing shortages in attractive urban areas due to rural-urban migration.

For instance, Germany highlights a growing housing shortage in the agglomerations and in a growing number of other towns, as in the last decade housing construction has not kept up with population development in metropolitan areas and in university cities. In 2016 around 290,000 new dwellings were built, an increase by 130,000 units compared to 2010. But the actual new construction still falls short compared to the estimated need for 400,000 new dwellings per year and the shortage of social/affordable is particularly acute.

In Ireland, according to estimates by the Housing Agency (Housing Agency, 2015), an average new supply of 21,000 units per year would be required in the period 2015 to 2017, but new construction in 2015 amounted to only 12,666 units. Despite a moderate increase in supply in 2015, the UK housing market continues to suffer from a shortage of housing, with supply lagging behind demand for decades. In order to make up for the long-term shortfall and to keep up with population growth, between 225,000 and 275,000 additional homes are needed each year in England only. This stands at odds with the 141,000 completions in 2016 and has severe implications on housing affordability, in particular for low to middle income households.

Much of Sweden is facing a housing shortage, primarily in its metropolitan regions as the country has one of the highest levels of urbanisation in the EU. Overall, 255 out of 290 municipalities report a shortage of housing, especially for young people, newly arrived and elderly people who are looking for an apartment more suitable for their needs. Approximately 710,000 new dwellings are needed over the next 10 years.

In the Netherlands a strong population growth is expected the four major cities, as opposed to shrinking population in the peripheries of the country. Housing demand is expected

to increase in the period 2015 to 2019 by approximately 73,000 a year. At the same time, expected housing supply is around 62,000 new homes per year (up from only 48,400 in 2015).

HOUSE PRICES

- House prices in 2016 showed the highest increase since the crisis
- There are huge differences at local level, in general house prices in cities are higher and rising faster

House prices are one of the key determinants of housing affordability, and monitoring their development is also important to identify potential risks for the overall economic and financial stability. Data released by Eurostat in the spring 2017 (see Eurostat, Housing price statistics) show that house prices, as measured by the House Price Index, rose by 4.1% in the euro area and by 4.7% in the EU in the fourth quarter of 2016 compared with the same quarter of the previous year. Although still way below the growth registered in 2006, this is the highest annual growth rate since 2009, showing house prices have overall recovered since the crisis. Nevertheless, data show different trends across EU countries. Among the Member States for which data are available, the highest annual increases in house prices in the fourth quarter of 2016 were recorded in the Czech Republic (+11.0%), Hungary (+9.7%) and Lithuania (+9.5%),

while prices remained nearly stable in Italy (+0.1%). Looking at the deflated (or 'real') house prices index (which is part of the scoreboard indicators used in the Macroeconomic Imbalances Procedure (MIP) of the European Commission), in 2016 eleven countries registered an annual growth rate equal to or above the 6% 'alarm' threshold adopted in the context of the MIP. They included Bulgaria, Czech Republic, Hungary, Latvia, Malta, Austria, Portugal, Romania, Slovakia, Sweden and the UK.

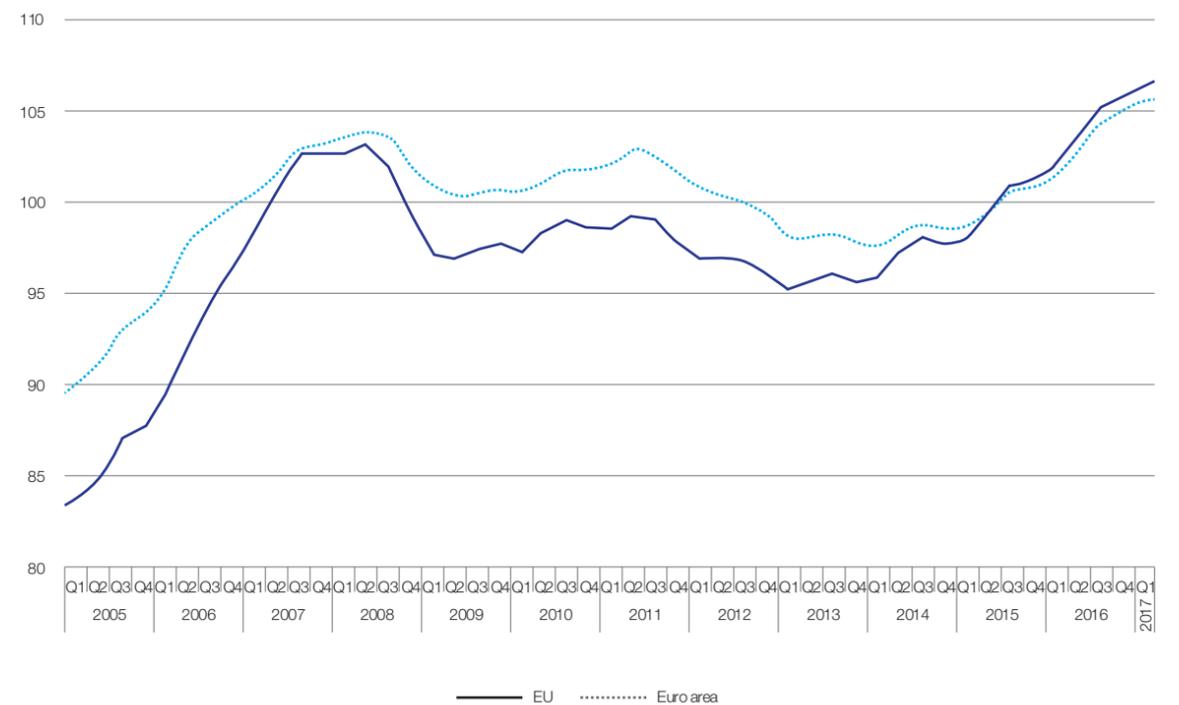
However, national house price indices may mask considerable variation in regional house price levels. In the majority of countries house prices are highest in capital city areas. Raising house prices risk to eventually push large segments of the population out of cities (OECD, 2016b), with a negative impact on lower income households' access to opportunities and jobs. Furthermore, generally speaking, house prices in major cities are not only higher but also rising faster compared to the rest of the country (EMF, 2016).



Find out more:

- Eurostat, *Housing Price statistics*
http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_price_statistics_-_house_price_index
- Eurostat, *Macroeconomic Imbalance Procedure (MIP) Scoreboard*
<http://ec.europa.eu/eurostat/web/macroeconomic-imbalance-procedure>

HOUSE PRICE INDICES, 2005 - 2017
 Euro area and EU aggregates. Index levels (2015=100)
 Source: Eurostat



TENURES

- **Owner-occupation is the most common type of tenure, although with huge variations across countries.**
- **However some trends can be observed over the past 10 years: an overall decrease in owner-occupiers and increase in tenants.**
- **More specifically, since 2007 the share of owners with a mortgage increased at the expenses of owners outright, and the share of tenants who rent at market price increased while those renting at reduced rent decreased.**
- **Overall renting is more common among low incomes compared to owner occupation.**

The most common tenure in Europe is owner occupation, with an average 69.4% of the population living in owner-occupied housing against 30.6% tenants. However, this masks wide variations in tenure distribution across countries. Most former communist countries of Central and Eastern Europe show a very high share of home-owners without mortgage, as after the fall of the communist regimes tenants were offered to buy the dwellings in which they lived at a low price. In Southern European countries outright ownership rates are also high. In most English-speaking and Nordic countries, Belgium and the Netherlands owners with outstanding mortgages are the most common tenure type. Only in Switzerland and Germany renting is more common than owning

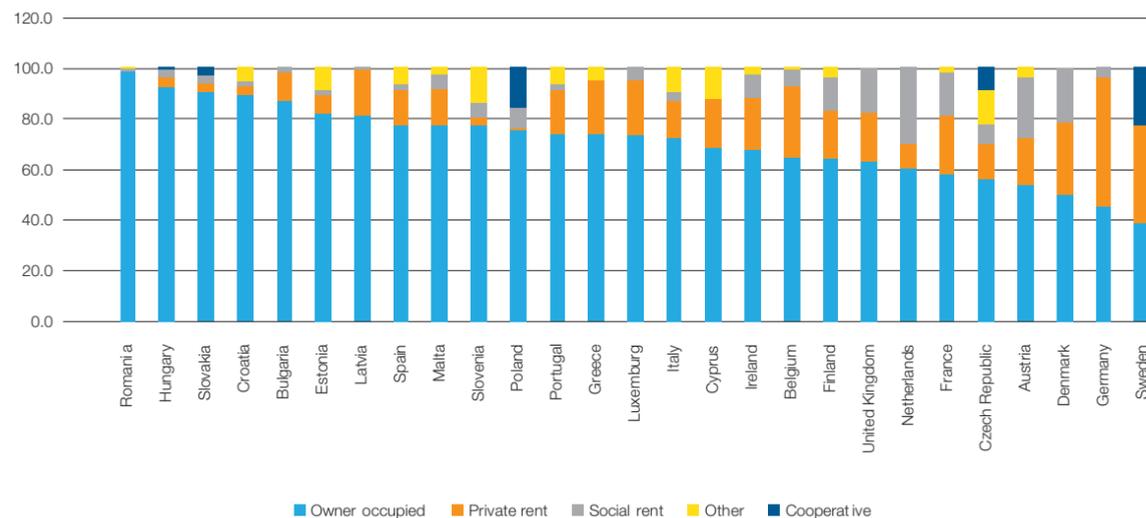
your home (OECD, 2016).

However, a number of countries have registered a decrease in the share of owner-occupation since the turn of the century, corresponding to an increase in the share of tenant households in the private rental market - for instance in Ireland and the United Kingdom.

This trend is reflected in the EU average: keeping in mind that there are significant cross-country variations, since 2007 the share of owners with a mortgage increased slightly (from 25.6 to 27%), that of owners outright decreased (from 47.2 to 42.2%). Over the same period, the proportion of tenants at market price increased significantly (from 12.6 to 19.9%) and that of tenants paying a reduced rent decreased (from 14.6 to 10.9%) (Eurostat, SILC). Experts point out that while in some countries the decline in owner-occupation rates has been concentrated in the period following the global financial crisis, in many others countries this decrease was as great, or even greater, during 'boom' years – as a result of increasing house prices and worsening affordability (Whitehead and Williams).

In general terms, a household's likelihood to own the dwelling (with and without outstanding mortgages) increases with income (OECD, 2016). However, in countries like Greece or those in Central and Eastern Europe there are very high levels of homeownership rates also among poor households, reflecting the overall tenure structure of the housing market.

Tenure split in EU Member States
Dwellings in each tenure as share of total occupied housing stock, latest year available

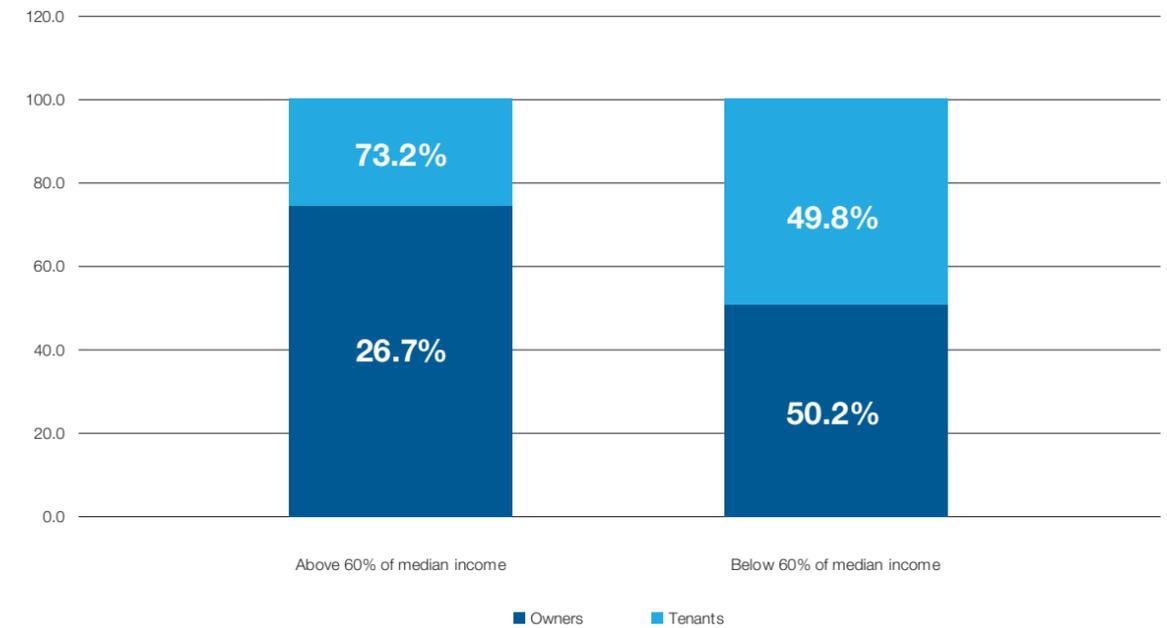


Notes:

- Sources vary across countries, see the country profiles in Part V for details.
- Germany: under 'private rent' we include the share of rental dwellings which are let at market rates. The wording is not fully adapted to the case of Germany, see the country profile for further details.
- Netherlands: under 'social rent' we include all lettings by housing corporations. See the Netherlands country profile for details.
- Sweden: under 'private rent' we include both dwellings rented by private providers (19%) and those rented by municipal housing companies (19%) which follow the same rent rules. See Sweden country profile for further details.
- United Kingdom: under 'social rent' we include all lettings by housing associations and local authorities, without differentiating between what is defined as 'social rent' and 'affordable rent' at national level. See the UK country profile for details.

DISTRIBUTION OF THE POPULATION BY TENURE STATUS AND INCOME GROUP

EU 28 average
Source: Eurostat SILC



MORTGAGES: STILL TRYING TO STRIKE A NEW BALANCE?

- **Since the crisis, in some countries there has been significant deleveraging.**
- **Whereas in others the volume of mortgage lending has kept expanding.**

Ten years ago, persistent dysfunctionalities on mortgage markets inherited from the previous decade greatly contributed to the largest financial crisis in half a century (Bouyon, 2017). Since then, significant deleveraging processes have been observed in some EU markets, such as Ireland, Portugal and Spain. In these economies, the 2016 volumes recorded for both outstanding and gross residential lending were much below 2007 levels, although a timid recovery could be observed in recent years. By contrast, the volume of mortgage activities moved around significant upward paths in Belgium, France, Germany and Sweden, and stagnated somewhat in the Netherlands and Denmark (Ibid.).

Interest rates on mortgage loans in the EU have been historically low in recent years, as a reaction to the expansionary monetary policy stance of the ECB and other central banks in the EU (EMF, 2016). Nevertheless, both lender institutions and households are still very risk averse (Whitehead and Williams, 2017). There is lack of data on first time buyers across the EU, but where evidence is available it shows that lack of affordability and job and income insecurity make it harder for young households to access home ownership. Furthermore, higher deposit requirements means that potential mortgage borrowers have to save longer for a deposit. In this context, access to parental wealth, the so called 'Bank of Mum and Dad', has become more important for

first time buyers in many countries including France and the United Kingdom (Ibid).



Find out more:

- *André, C. (2016), "Household debt in OECD countries: Stylised facts and policy issues", OECD Economics Department Working Papers, No. 1277, OECD Publishing, Paris.*
<http://dx.doi.org/10.1787/5jm3xgk1f2-en>
- *Bouyon, S*
www.ecri.eu/publications/commentaries/recent-trends-and-developments-european-mortgage-markets
- *EMF (2017) Hypostat, European Mortgage Federation*
<https://hypo.org/emf/publications/hypostat/>
- *Whitehead, C. and P. Williams (2017), "Changes in the regulation and control of mortgage markets and access to owner-occupation among younger households", OECD Social, Employment and Migration Working Papers, No. 196, OECD Publishing, Paris.*
<http://dx.doi.org/10.1787/e16ab00e-en>