

HOUSING AFFORDABILITY IN THE EU

Current situation and recent trends

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CECODHAS Housing Europe's Observatory RESEARCH BRIEFING

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Introduction

With the current financial and economic crisis putting increasing pressure on the budget of European households, the issue of housing affordability raises increasing concern at the European level. Access to affordable housing is among the priorities indicated by the 2012 Annual Growth Survey¹. Similarly, the progress report of the Europe2020 Strategy² highlights that *'the cost and quality of housing are a key determinant of living standards and well-being, especially for the most vulnerable people'*. But what is the reality of housing affordability and what trends can be identified? In this briefing, we gather available information on housing affordability in the EU, drawing on a number of indicators available at the European level.

Summary of key findings

On average 33.8% of Europeans feel that they are facing disproportionate housing costs. The most common perception is that housing affordability has become much worse compared to five years ago and is expected to further decrease in 2012. Finding decent accommodation at reasonable price is particularly difficult in capitals and large cities.

The average housing costs for the overall EU 27 population amount to 22.5% of disposable income. Housing costs are hitting the poor harder: housing costs represent 41% of their income for people at risk of poverty, and the gap between those above and below the poverty line appears to be widening. Overall, in 2010 10.1% of European households, and 36.9% of those with an income below 60% of median equalised income, spent more than 40% of disposable income on housing. Housing expenditures makes up 22.9 % of total household consumption expenditure, an increase from 20.4 % in 2000.

Housing affordability varies significantly across the EU. Whether we consider the overburden rate or share of housing costs on income, the situation for poor households seems to be particularly hard in Denmark, Greece and the UK.

Worsening affordability reflects increasing house prices and rent levels over the past decade, increasing expenditures over domestic energy consumption and lack of choice in terms of tenure options, with a particular shortage of affordable rental housing.

The immediately visible consequences of worsening affordability are to be found in the high level of indebtedness over housing mortgages in a number of countries as well as an increase in the number of households reporting arrears on rents and mortgage payments, as well as on utilities bills. Last but not least, the phenomenon of energy poverty is widespread with an estimated 52.08 million people in the EU unable keep their home adequately warm.

¹ European Commission (November 2011)

² Annex to the 2012 Annual Growth Survey, see above

1. The concept of affordability

1.1 What do we mean by 'housing affordability'?

Concepts of affordability tend to be relative and context-sensitive, i.e. measured against other economic variables such as GDP, purchasing power, etc. The most common approach to define housing affordability is to consider the percentage of income that a household is spending on housing costs.

1.2 When should housing be considered as affordable?

Despite consensus across Europe on housing affordability being increasingly stretched, the idea of what is affordable is subject to national interpretations. The most common notion of affordable housing implies that households that spend more than 30% of their gross income to obtain adequate and appropriate housing have an affordability problem³. Nevertheless, this definition is far from being universally accepted, and poses questions on which costs should be included (such as for instance whether to consider utilities bills). According to Eurostat's definition⁴, a household is considered 'overburdened' when the total housing costs ('net' of housing allowances) represent more than 40 % of disposable income ('net' of housing allowances), where housing costs include mortgage or housing loans interest payments for owners and rent payments for tenants. Utilities (water, electricity, gas and heating) and any costs related to regular maintenance and structural insurance are likewise included.

1.3 What about 'affordable housing'?

A typically Anglo-Saxon concept, 'affordable housing' is generally defined as housing that is available for purchase or rent at a market value affordable to the majority of the population⁵. In particular, the term is used to describe housing provided at sub-market prices to households on low incomes⁶. In the United Kingdom, the term 'affordable housing' refers to both 'social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market'⁷.

2. Perception of housing affordability in the EU

2.1 Financial burden due to housing costs

The European citizens' perception of their financial burden due to housing costs is registered by Eurostat's Statistics on Income and Living Conditions (SILC) survey⁸, through the question *'Is total housing cost a financial burden to your household?'.* Respondents are asked to choose between; a heavy burden, somewhat a burden, not a burden at all. The results show that about a third of European households (33.8% on average) feel that they are facing disproportionate housing costs⁹.

2.2 Housing affordability: part of negative 'social climate'?

The Eurobarometer on social climate in its 2011 edition¹⁰ asked interviewed citizens to give a score according to *how affordable housing is in their country, compare it with the situation 5 years ago, and predict how it would be in 12 months.* The scores relating to affordability of housing in the EU are negative: the EU27 average for the current situation for this question

³ Paris, C. (2007)

⁴ Eurostat, EU statistics on income and living conditions (EU-SILC)

⁵ Norris M. and Shiels P. (2004)

⁶ Oxley M. (2004)

⁷ Department of Communities and Local Government

⁸ Eurostat, EU statistics on income and living conditions (EU-SILC)

⁹ Idem

¹⁰ European Commission (October 2011)

is -3.3, based on a score from -10 to +10. The situation compared to five years earlier received a score of -60 on the better/worse index (which ranges from -100 to +100) and the expectations for the next twelve months are set at -33.

2.3 Housing affordability in European cities

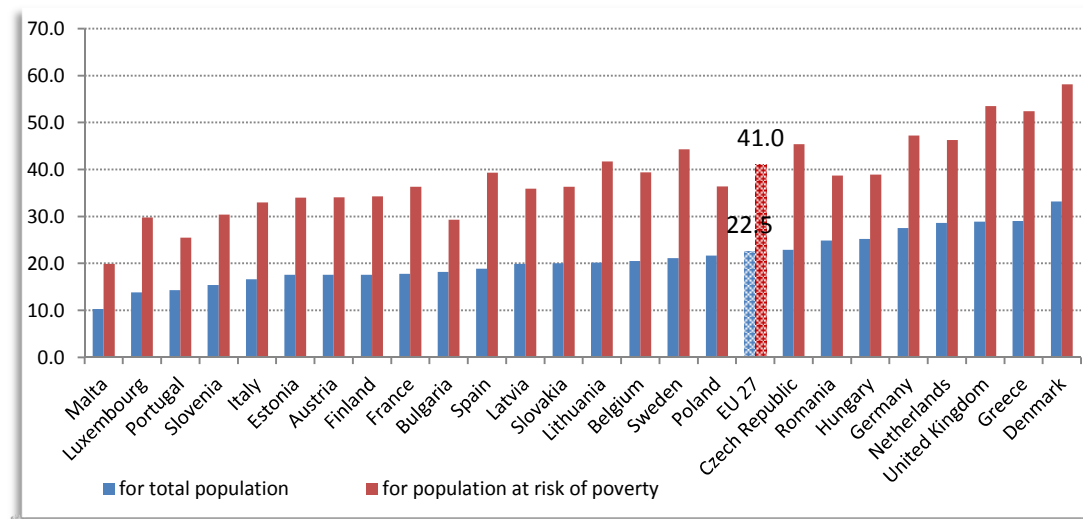
The Flash Eurobarometer Perception survey on quality of life in European cities, collecting people's opinions on a range of urban issues including the availability of quality housing at reasonable price, was conducted in November 2009 to measure local perceptions in 75 cities in the EU, Croatia and Turkey. Apart from 10 cities, respondents held a pessimistic view about the availability of reasonably priced housing; many cities where respondents held such a view were capitals and/or large cities. Almost 9 in 10 respondents in Luxembourg, Munich and Rome (88%-89%) and virtually all respondents in Paris (96%) strongly or somewhat disagreed that it was easy to find good housing at a reasonable price.

3. Income-related indicators of housing affordability

3.1 Share of housing costs in disposable income

When looking at objective indicators of housing affordability (as opposed to the subjective indicators mentioned above), the most interesting indicators at EU level are again to be found in the SILC survey database. The share of housing costs in disposable income (See Chart 1 below) refers to the expenditure on housing compared to the household's income. Housing costs (including utilities) are calculated after deduction of housing allowances.

Chart 1: Share of housing costs as a percentage of disposable income in the EU 27 by poverty status (2010)



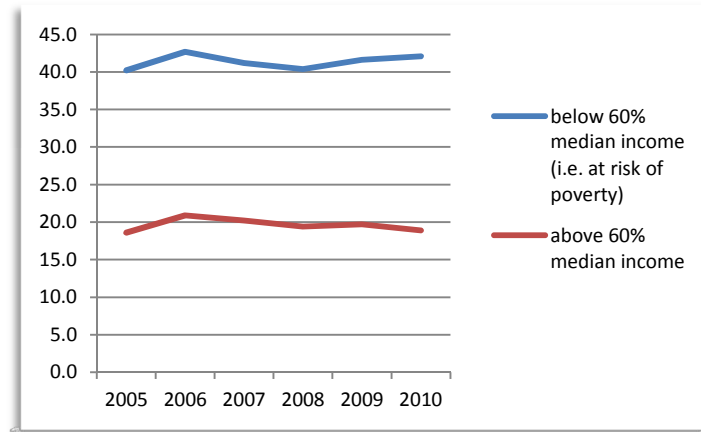
Source: SILC [ilc_mdcd01]. Data not available for Ireland

The situation varies significantly across countries. We can roughly identify three groups of countries. Firstly, those countries above the EU average, namely: Denmark, Greece, United Kingdom, the Netherlands, Germany, Hungary, Romania and the Czech Republic. Secondly, another group between 17% and the EU average ranges from Estonia (17.6%) to Poland (21.7%). Lastly, at the very bottom we see countries where housing costs have relatively less impact on households' income, namely Cyprus, Malta, Luxembourg, Slovenia, Ireland, Estonia, Lithuania and Portugal.

Overall, while the average housing costs for the overall EU 27 population amount to an estimated 22.5% of disposable income, this percentage increases on average to 41% if we look at people at risk of poverty (i.e. those with an income below 60% of the median national income). Interestingly, the gap in housing costs in disposable income between those

with an income above 60% of the national average and those below seems to be widening in recent years (see Chart 2 below).

Chart 2: Housing costs as percentage of disposable income by poverty status, EU 27 (2005-2010)



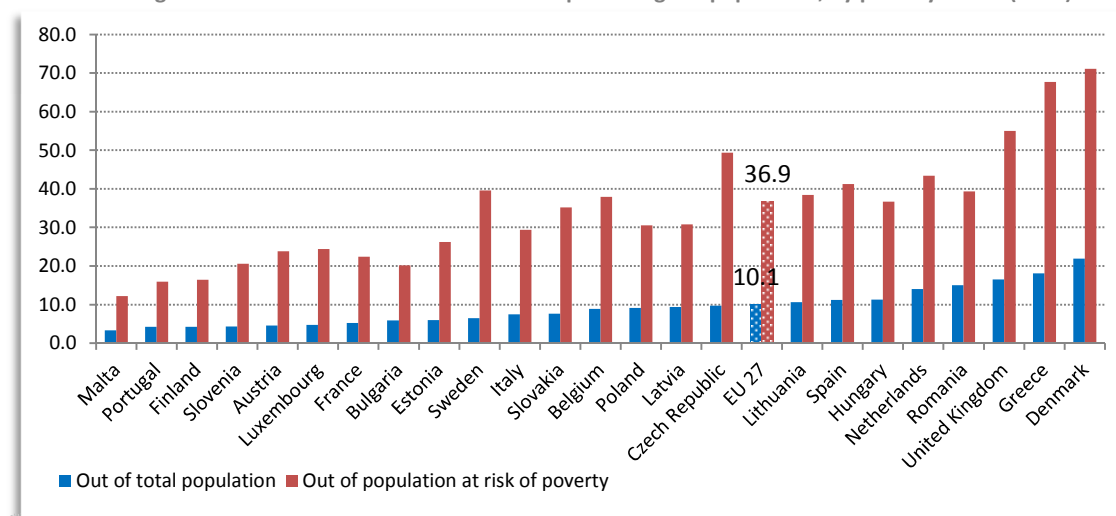
Source: SILC [ilc_md01]

This phenomenon is not surprising if we look at recent developments in socio-economic inequalities. OECD data show that nearly all OECD countries have witnessed rising inequalities¹¹, and the European Commission has acknowledged the aggravating impact the crisis is having on inequalities. Findings from the most recent EU Employment and social situation quarterly review show that most people are affected by the rise of unemployment, but especially hard hit are the young, the low-skilled and migrants. Poverty is on the rise and young adults, children and single parents are particularly at risk. Furthermore, the austerity measures are further aggravating the situation of the most vulnerable¹².

3.2 Housing costs overburden

But when are housing costs considered 'unaffordable'? The *housing cost overburden rate* is defined as the share of population living in households where the total cost of housing accounts for more than 40% of household disposable income (see Chart 3 below).

Chart 3: Housing costs overburden rate in the EU 27 as a percentage of population, by poverty status (2010)



Source: SILC [ilc_lvho07a]. Data not available for Germany and Ireland.

¹¹ OECD (November 2011)

¹² European Commission (December 2011)

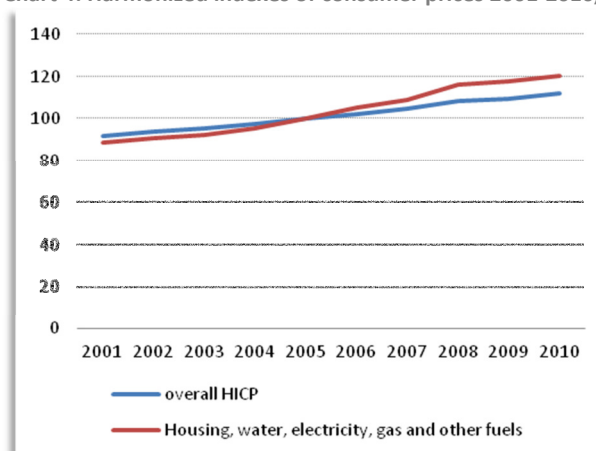
Overall, in 2010 10.1% of European households, and 36.9% of those at risk of poverty, spent more than 40% of their disposable income on housing: they are considered as 'overburdened' by housing costs, i.e. what they have to pay for housing is too much compared to what they can afford. As shown by Chart 3, differences are significant between Member States, roughly reflecting the distribution in Chart 1.

4. Housing compared to other goods

4.1 Consumer price for housing

It is also interesting to look at housing compared to other consumption goods. Interestingly, the housing price index has risen more rapidly than the overall price index since 2004, as shown by Chart 4 below, where the Harmonized Index of Consumer Prices (HICP) for housing includes housing, water, electricity, gas and other fuels.

Chart 4: Harmonized indexes of consumer prices 2001-2010, overall index and housing, EU 27 (2005=100)



Source: Eurostat, HICP [teicp000] and [teicp040]

4.2 Housing related expenditure

Similarly, a regular rise has been recorded in the incidence of housing costs over the total household consumption in all countries. According to a recently published report by RICS¹³, carrying out an analysis based on Eurostat data on households' consumption expenditures, housing related expenditure is currently the biggest component of consumer spending at an aggregated European level. In 2009, the equivalent of €1500 billion were spent on housing in the 27 EU Member States making up 22.9 % of total household consumption expenditure, up from 20.4 % in 2000.

5. Explaining worsening housing affordability

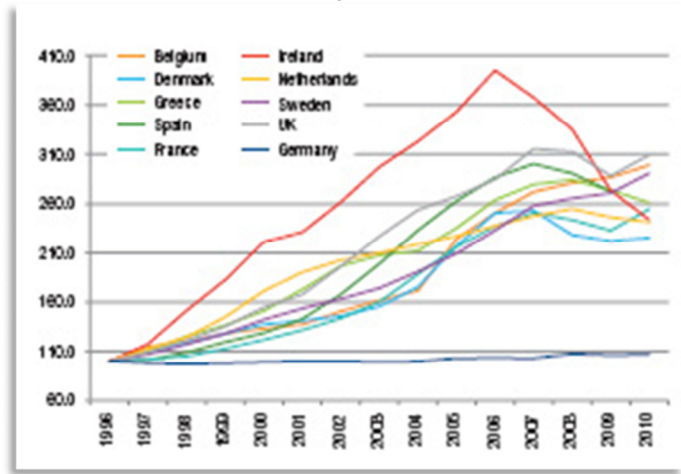
The rising share of household spending on housing partly reflects increased house prices over the past decade almost everywhere in Europe.

The most recent house price cycle has been particularly pronounced, with an average length of nine years of price increases in the period preceding the global economic and financial recession. All euro-area countries except Germany, Austria, Portugal and Cyprus (in the case of Cyprus, due to the short period available) witnessed a cumulative growth in real house prices of over 40% during the housing market expansion phase. A number of Euro-area Member States entered the global economic crisis with overvalued house prices, and despite adjustments since the second half of 2007, other variables such as the price-to-income ratio and price-to-rent ratio may point to a higher misalignment when current levels are

¹³ RICS (2011)

compared to the long-term averages¹⁴. Increases in real rents also added to higher expenditure on housing, but their contribution is likely to be lower than that of prices, as in most countries real rents have grown at a slower pace than real house prices¹⁵.

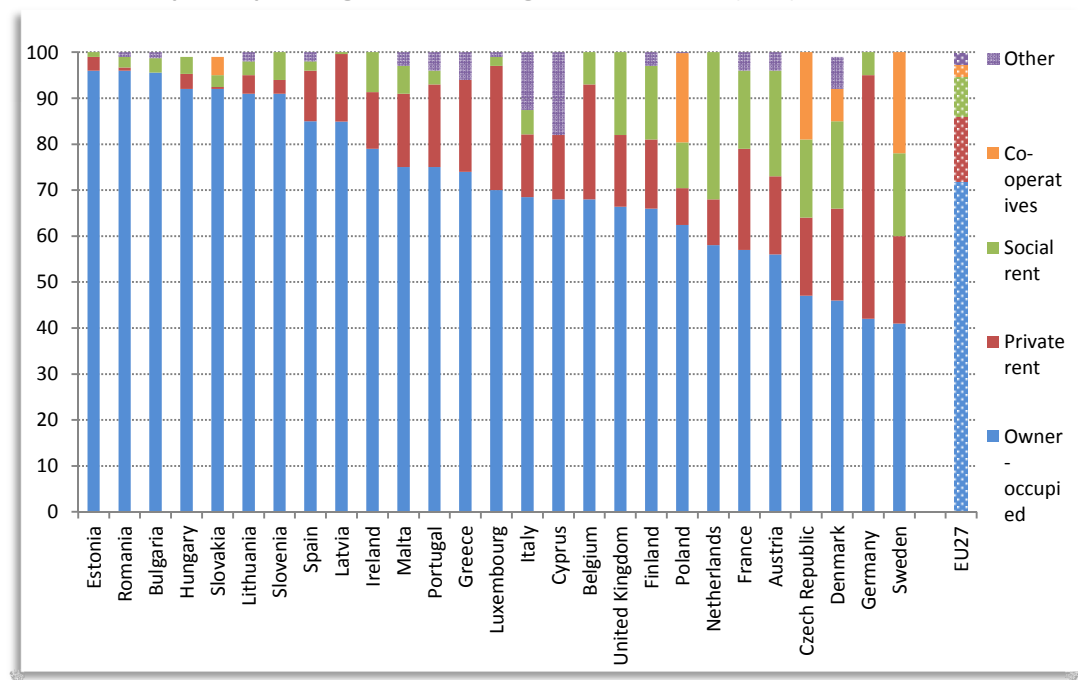
Chart 5: Trends in nominal house prices in selected EU countries, 1996-2010



Source: European Mortgage Federation, HYPOSTAT

Also, the structure of EU housing markets in terms of tenures should be considered when analysing the affordability issue. Since the 1980s, there has been a change in tenures structure which saw the increase of owner occupied housing over rental, and in particular social rental housing, leading to a *shortage of affordable (rental) housing* today. The shortage of affordable housing and the lack of choice between different tenures imply a lack of long-term housing market stability and make it harder for the poorest households to find adequate and affordable housing in an overly owner-occupied market.

Chart 6: Tenure split as a percentage of total dwellings stock in the EU 27 (2010)



Source: CECODHAS Housing Europe Review 2012

¹⁴ European Commission (2011)

¹⁵ OECD (January 2011)

Furthermore, not only house prices but also the energy costs have a significant impact on housing affordability. Utility bill costs have become an increasingly significant part of households' expenditures over the past decade. This is due both to an increase in energy consumption for domestic use, and to the increase in energy prices (see Chart 7 and 8 below). It is also clearly linked with housing quality and energy efficiency, with 87.46 million people in the EU living in poor quality dwellings¹⁶.

Chart 7: Electricity prices for household consumers (Euros/kWh), EU 27 (2005-2011)

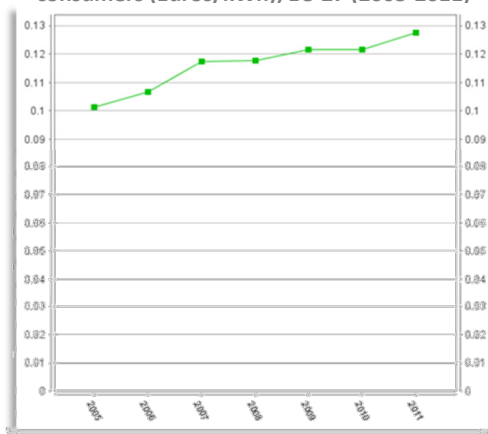
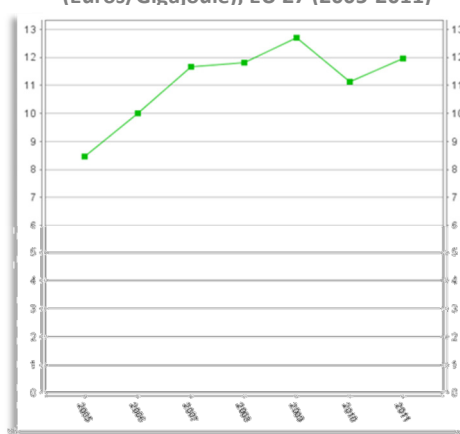


Chart 8: Gas prices for household consumers (Euros/Gigajoule), EU 27 (2005-2011)



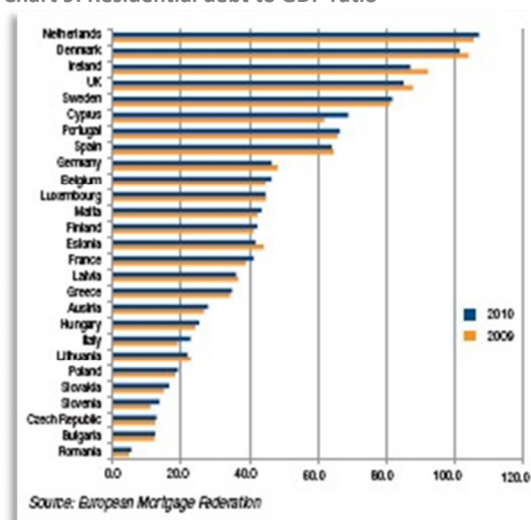
Source: Eurostat

6. Which signals can we see today?

The combination of increasing house prices and increasing levels of home ownership has led to a situation of over-indebtedness in buying a home for many European households. About 26.1% of the population in the EU own their house with an outstanding mortgage¹⁷.

According to the European Mortgage Federation, the average residential debt to GDP ratio for the EU27 increased from 32% in 1998 to 52.4% in 2010¹⁸ (see Chart 9 below). The indicator in 2010 was over 100% for the second consecutive year in the Netherlands and Denmark.

Chart 9: Residential debt to GDP ratio



Source: European Mortgage Federation, HYPOSTAT

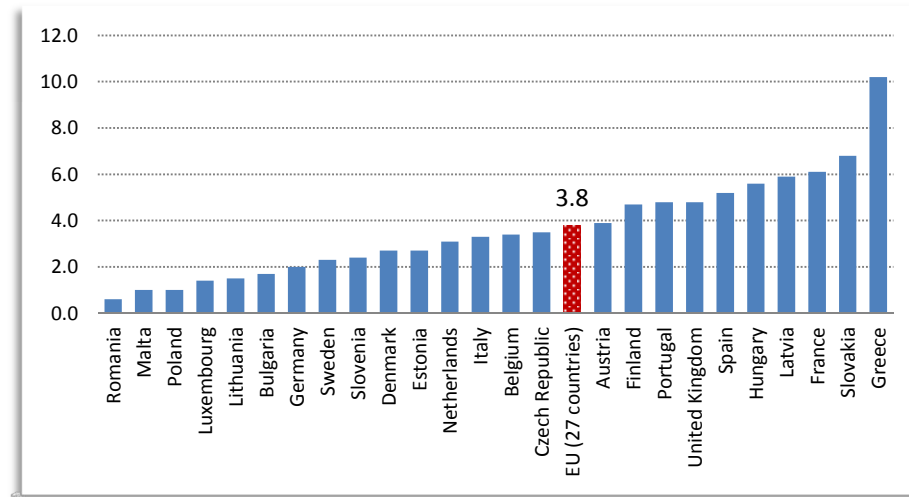
¹⁶ Stefan Bouzarovski, Energy poverty in the EU: A review of the evidence. Presented at DG Regio workshop on 'Cohesion policy investing in energy efficiency in buildings', Brussels, 29 November 2011

¹⁷ Eurostat's Statistics on Income and Living Conditions (SILC), 2010

¹⁸ European Mortgage Federation (2010), HYPOSTAT 2010 A review of Europe's mortgage and housing markets

At the same time, more and more households in the EU are experiencing *problems in paying rents and mortgages*, as demonstrated by the increasing proportion of the population reporting arrears on mortgage or rent payments, as well as utilities bills, particularly in the case of poor households. Indeed, if on average 3.8% of Europeans report arrears on mortgage or rent payments, the proportion increases to 8.6% of those with an income below 60% of the median national income.

Chart 10: Percentage of the population with arrears on mortgage or rent payments (2010)



Source: SILC [ilc_mdcs06]

This situation is further aggravated by the current economic crisis, as shown by the increase in arrears in recent years.

Waiting lists for social housing are increasing, as the provision of affordable housing is not sufficient to keep up with demand. In England for instance housing waiting lists increased constantly from when the information became available, to over 1.8 million households in 2011 (an increase of over 76% since 2000)¹⁹. In France, 1.2 million applicants are registered on waiting lists for social housing and 630,000 in Italy. This trend is most likely to be exacerbated in the current economic downturn. For instance, the number of those in need of local authority housing in Ireland has increased by 75% since 2008, from 56,000 applicants to 98,000.

The phenomenon of *energy poverty* is also increasingly widespread. Energy poverty is the situation in which people are unable to keep warm in the home as a result insufficient income and/or poor housing conditions; a situation which rising energy costs across all countries can only make worse. Although available data are limited, a recent review of the evidence on this phenomenon estimates that 52.08 million people in the EU cannot keep their home adequately warm and 41.74 million face arrears on their utility bills²⁰.

¹⁹ Department of Communities and Local Government, Households on local authorities' housing waiting lists: Excluding households waiting for transfers
<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/rent/lettings/livatables/> (table 600)

²⁰ Stefan Bouzarovski, Energy poverty in the EU: A review of the evidence. Presented at DG Regio workshop on 'Cohesion policy investing in energy efficiency in buildings', Brussels, 29 November 2011

Conclusions

Despite significant differences across countries, all available indicators point to the fact that housing-related expenditure is absorbing an increasing part of households' financial resources.

Housing costs (including the cost of paying for utilities) are hitting hardest the poor, who are spending on average 41% of their income on housing. Especially in the context of the current crisis, the lack of affordable housing options risks to further aggravate inequalities.

The provision of affordable dwellings as well as of housing assistance (such as housing allowances) is key to prevent people from falling in the poverty trap and to tackle housing exclusion. At the same time, thanks to moderate rents/prices, it consolidates the purchasing power of households, promoting their consumption of goods and services.

Furthermore, evidence points at a mismatch between employment opportunities and housing availability as affordable housing is especially hard to find in large cities and economically attractive areas. The existence of affordable housing is key to address the need for workforce housing in the key metropolitan areas.

Finally, the availability of social housing and other affordable housing options can have an impact on the stability of housing markets and therefore of the whole economy. As stated by the European Commission in a recent document, *"the share of social housing has a negative relationship with [macro-economic] imbalances. [...] If low income households are more or less forced to become homeowners because of the lack of alternatives (i.e. the rental market is not well established and there are no adequate social housing opportunities), reducing the occurrence of housing imbalances involves fostering a stable and properly functioning rental market"*.

Housing affordability is therefore not only a fact relevant for the social policy of Member States and the EU, but should also to be considered from an economic policy point of view as a challenge for both individual Member States and the EU as a whole.

This is clearly an appeal to reconsider the role of the supply of, and access to, affordable housing and other services and infrastructures for economic growth.

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CECODHAS Housing Europe's Observatory

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