Thematic Working Group: Housing Affordability (ECO)

Thematic presentation

Housing affordability in the EU: before and after the economic crisis

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Presentation by Thematic expert

Darinka Czischke

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EUROPEAN UNION
European Regional
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Affordability of housing in the EU

Definition

- There is no single definition or measure of affordability
  - ❑ "Housing provided at sub-market prices to households on low incomes. (…) affordable housing encompasses various forms of low-cost ownership and partly-rented, partly-owned dwellings." (Oxley, 2004)
  - ❑ "Typically 'affordable' housing is defined as not being above a specified proportion of household expenditure, often now 30%" (Paris, 2007)
- Concerns about 'affordability' have arisen in response to a number of recent developments:
  - ❑ Rising incomes (from 'need' to 'affordability')
  - ❑ Shift towards more privatised forms of housing provision
  - ❑ Sustained house price inflation (low interest rates, mortgage tax-relief)
  - ❑ Emphasis on home-ownership (distributional inequity?)
  - ❑ Residual role of social housing (but 'partial' or shared-ownership schemes for lower-income groups)

Affordability of housing in the EU – PRE- ECONOMIC CRISIS

Housing market indicators: Consumer indebtedness in Europe (selected countries)

	% change 2004-2005	Private sector credit as % share of GDP 2005	2006*
Netherlands	9	173	183
Denmark	8	171	182
Switzerland	4	167	175
UK	6	166	179
Ireland	20	162	192
Portugal	4	147	160
Spain	17	146	166
Luxembourg	24	133	185
Austria	7	113	118
Sweden	7	112	-
Germany	0	111	113

Table 1.1: Consumer Indebtedness In Europe

* estimate

Source: Central Bank of Ireland Financial Stability Report 2006

- Boom in mortgage markets bigger than house price inflation
- Rapid growth in mortgage debt
- Mortgage lending rose at double digit rates in 2006 in 8 out of 12 euro zone countries
- Greece, Ireland and Spain: highest increases
- Ireland and Spain joined heavily indebted league
- Housing market 'stability' (Ball 2007) BUT distributional inequity (Ball 2007, Doling 2007)

Affordability of housing in the EU – PRE – ECONOMIC CRISIS

Housing market indicators: Housing repayment difficulties: self reported experience grossed to national totals (2001)

	Numbers reporting that they experience housing costs as a heavy financial burden	Numbers reporting mortgage arrears	Mortgage arrears as percentage of all mortgagees
Belgium	311 933	52 822	3.8
Denmark	110 211	6 823	0.5
Finland	89 355	47 831	7.5
France	1 066 764	111 410	1.7
Germany	1 005 300	195 349	2.6
Greece	107 933	57 666	17.3
Ireland	64 578	16 579	3.7
Italy	1 105 732	72 772	3.2
Netherlands	35 810	25 208	0.8
Portugal	207 530	8 487	1.3
Spain	1 178 223	102 074	3.4
United Kingdom	544 894	89 988	0.9

- Growing evidence that paying for housing (specifically housing loans) has become problematic for large numbers of households in the EU (Doling & Ford 2003; Horsewood & Neuteboom 2007)
- Arrears more likely where the household:
  - low income
  - recently experienced unemployment
  - low educational levels
  - other debts
  - single parent
  - young

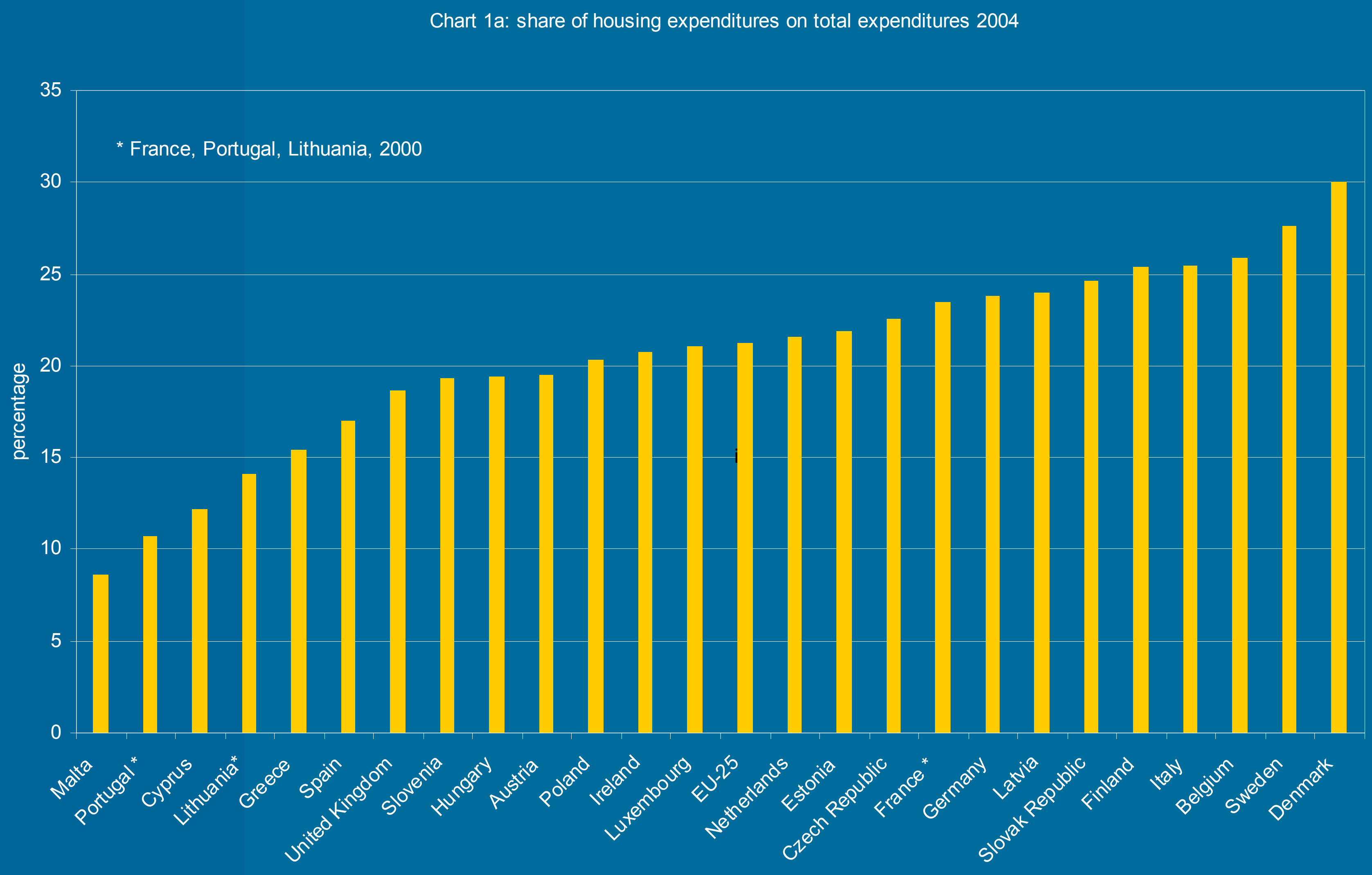
Affordability of housing in the EU

Indicators

- A range of indicators refer to affordability but none of them is all-encompassing
- Some 'typical' indicators used:
  1. Housing expenditure as a proportion of total household expenditure
  2. Share of households receiving housing allowances
  3. General price index in relation to house price index
- 'Ratios' and 'average' approach have limitations: do not account for other variable factors, e.g.:
  - Labour market
  - Income and wealth distribution
  - Interest rates
  - Lending prices
  - Size and quality of dwellings
  - Changing proportions of first and second buyers
  - Growth of second / holiday homes
  - Trade-offs by households

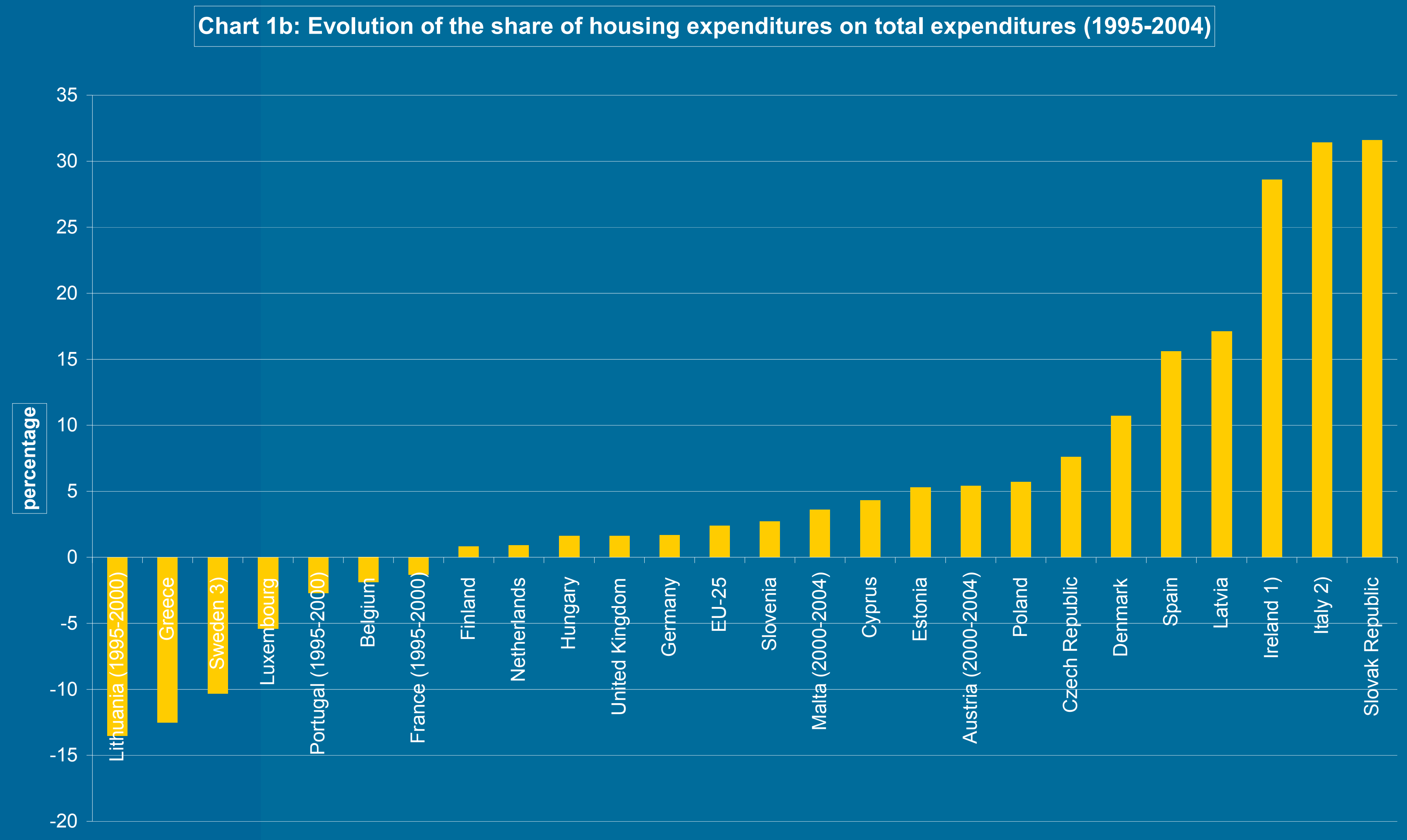
Affordability of housing in the EU – PRE-ECONOMIC CRISIS TRENDS

Share of housing expenditures on total expenditures



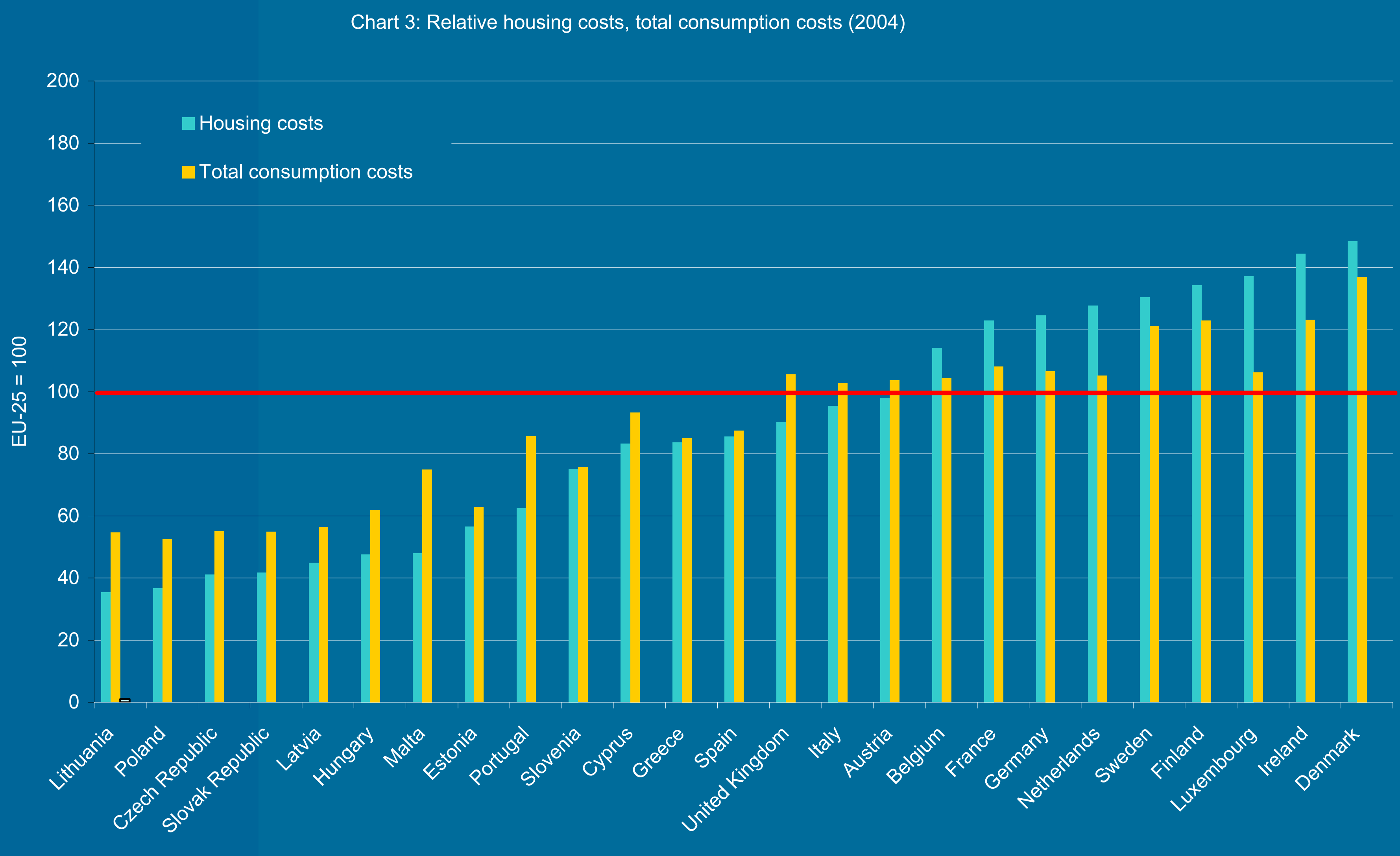
Affordability of housing in the EU – PRE-ECONOMIC CRISIS TRENDS

Evolution of the share of housing expenditures on total expenditures



Affordability of housing in the EU – PRE-ECONOMIC CRISIS TRENDS

Housing costs and total consumption



Affordability of housing in the EU

Impact of Housing Allowance on housing affordability for renters living in poverty

The **burden of housing costs** on poor households seems to be significantly **reduced** by **housing allowances** in Sweden, UK, France & Denmark

Country	Rent as % income before housing allowance	Rent as % income after housing allowance	Reduction in %	% of households receiving housing allowances
Belgium	24.8	26.5	1.8	na
Portugal	14.7	14.5	-0.2	na
Netherlands	33.5	33.2	-0.3	14
Germany	39.4	38.7	-0.6	7
Spain	22.6	20.5	-2.1	12
Italy	26.7	24.3	-2.4	0.5
Ireland	17.3	13.8	-3.5	5
Austria	28.2	24.2	-4	na
Greece	41.1	35.3	-5.8	0.6
Denmark	41.7	31.4	-10.2	21
France	32.5	21.3	-11.3	23
UK	39.3	25.3	-14	12.9
Sweden	54.9	35	-19.9	6.3
EU	**36.7**	**28.8**	**-7.9**	na

Source: Stephens & Lynch, 2005

Housing affordability in the EU: key issues

- In 2006/07 on average the percentage of households' incomes spent on housing across the EU was below the consensual threshold of affordability (30%).

- However, clear disparities between new and old EU member states.

- Housing tends to be the most expensive item in household consumption in North-Western Europe.

- Complex interactions between the wide range of subsidies, benefits and programmes in each country.

- Regional disparities with regards to affordability.

- Interactions between different housing market segments
  - E.g. attractive cities with high house prices face shortage of affordable rental housing)
  - Dynamics of house-price investment triggers an increase in demand for housing in property hotspots and hence an increase in rents.

Housing affordability – (post) economic crisis

Who has been affected, and how?

- **Home-buyers:**
  - repossessions
  - lack of money in the market
- **Tenants:**
  - tougher rent payment conditions (strict rent collection)
  - less non-housing services by providers
- **Developers:**
  - stopping projects
  - no credit
- **Social housing providers:**
  - developers’ best friends
  - low-risk & public guarantee attracting bankers
  - BUT tougher lending conditions