Chapter 2

Requiem for a relationship? Housing in the UK and the European Union

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This chapter provides an overview of housing in a European Union which has changed greatly in the past 25 years. Notwithstanding the UK's referendum to leave, the EU has grown from 12 (mainly wealthy) members to 28, principally as a result of its expansion following the collapse of communism. The single market, intended to fulfil the founding treaty's vision of free movement of goods, services, capital and labour, has largely been completed. Further, 18 countries have joined the European single currency.

The direct role of the EU in housing policy remains limited, as it has no competence in this area. It loosened its prohibition on structural funds being used to support housing investment to facilitate the renovation of ex-public housing blocks in the formerly communist countries. The European Investment Bank has also become an important provider of loans for social housing. A notable housing-related intervention by the EU was the application of 'state aid' rules to housing supplied by housing associations in the Netherlands and by municipal housing companies in Sweden. The rules were held to have been contravened because these landlords were seen as receiving unfair subsidies as they competed against private landlords for 'mainstream' tenants, rather than for those unable to access market housing.

However, the main relevance of the EU (and wider influences) is the way in which it shapes the context in which national housing systems operate.

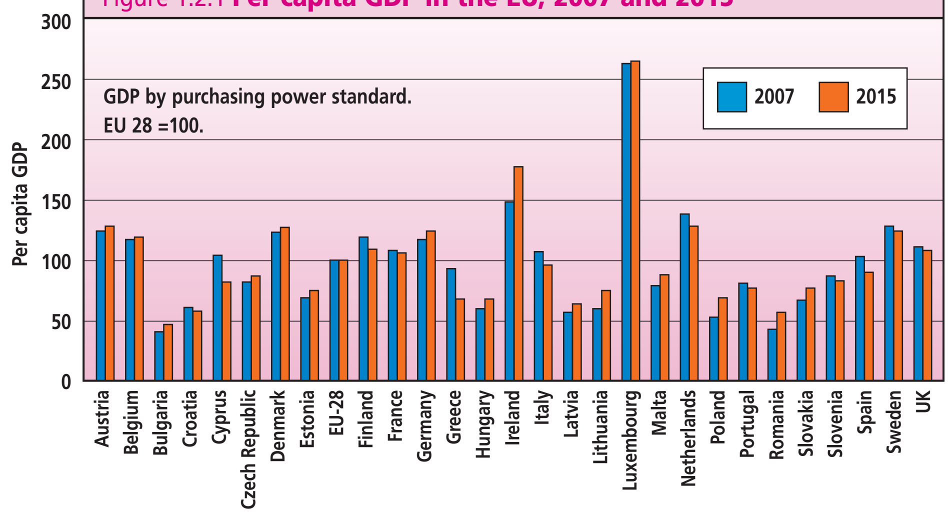
Overall economic performance within the EU

Approaching a decade after the global financial crisis (GFC) began, the EU-28 economy is only three percentage points larger than it was in 2007 – an annual average growth rate of only 0.375 per cent. However, experience varies greatly between countries. Eight countries still had a lower GDP in 2015 than in 2008. Three of these (Croatia, Italy and Cyprus) lay between 90 and 94 per cent of the 2007 level, but Greece has lost about one-quarter of its GDP since 2007. The strongest performers include Poland and Malta whose economies have grown by one-fifth over this period. The three largest economies have now recorded somewhat modest recoveries: Germany's GDP has grown by eight per cent, the UK's by seven and France's by four.

Per capita incomes vary greatly across the EU (Figure 1.2.1). Countries such as Germany, the Netherlands, Denmark and Austria enjoy per capita incomes more than one-quarter above the EU average. The poorest country is Romania with a GDP per capita at only 57 per cent of the EU average. Nonetheless, there have been some relative improvements among the poorer countries. Poland moved from 53 per cent of the EU average in 2007 to 69 per cent in 2015; Romania moved from 43 to 57. On the other hand, Spain moved from 103 to 90, and Greece from 93 to 68. The UK's position fell from 111 in 2007 to 108 in 2015 (it had been 119 in 2004.)

The GFC still shapes the current economic and political context in the EU. It placed huge strains on the union itself. The banking crisis morphed into a sovereign debt crisis in 2010 when some governments were no longer able to borrow sufficient money to bail out banks under their supervision. Ireland, Spain, Greece and Cyprus all received financial support from the International Monetary Fund, European Central Bank and other EU member states as they were unable to 'bail out' banks under their supervision. The price paid by these countries was the agreement to fiscal austerity packages. Ireland and Portugal have now exited the 'bailout'.

Figure 1.2.1 **Per capita GDP in the EU, 2007 and 2015**



Source: Eurostat [tec00114].

Note: Purchasing power standard (PPS) is the term used by Eurostat for the common currency in which national accounts aggregates are expressed when adjusted for price level differences.

More broadly, the ECB, like central banks in non-euro countries including the UK and Sweden, adopted an ultra-low interest-rate policy and employed 'quantitative easing'. This is where central banks issue money and buy securities such as government bonds from mainstream banks, which puts downward pressure on the interest rates charged by the banks. This is intended to promote economic activity by encouraging borrowing. It is also intended to raise consumer price inflation to target levels, but also places upward pressure on property prices.

Beneath these macro-economic changes, there have been labour market, social security and public sector reforms in some countries. These have been intended to control government deficits, and to increase employment and economic growth. Notable examples include Sweden and Germany. These two countries, once the exemplars of (respectively) social democracy and the social market economy, have introduced social security and labour market reforms that have been followed by increased employment levels, but higher levels of poverty.

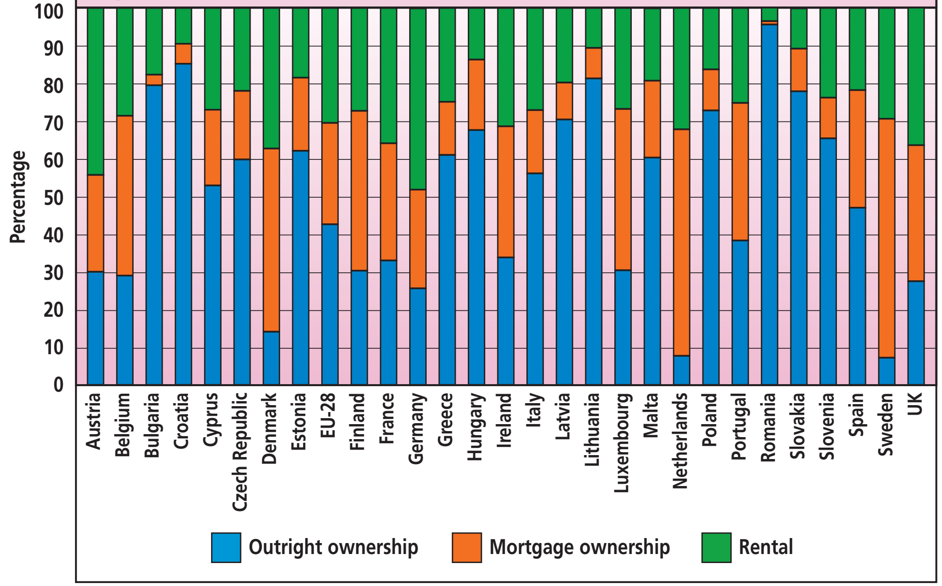
General Housing Trends

Overall tenure

Most EU citizens live in owner-occupied houses,[1] and across the EU as a whole almost seven in ten do so (Figure 1.2.2). It is also true that in every EU member state most people live in owner-occupied housing. However, the range is enormous. Whilst 52 per cent of Germans and 56 per cent of Austrians live in owner-occupied housing, almost everyone (96 per cent) does so in Romania.

But from a UK perspective, the surprising message is that the UK has the fourth lowest level of owner-occupation in the EU-28. Twenty-five years ago, it was common for British commentators to talk about the UK's 'obsession' with homeownership and sometimes contrast this unfavourably with Europe where renting was (allegedly) more popular. After all, the main thrust of UK housing policy over many decades has been to create a 'property-owning democracy'. The change over this period results from the expansion of the EU to include countries with very high homeownership rates, as well as its steady increase in some other countries and its decline in the UK. According to the EU-SILC survey, the rate of homeownership in the UK fell from 71 per cent in 2006 to 63 per cent in 2015, a fall matched only by Ireland.

Figure 1.2.2 **Tenure in the EU, 2015**



Source: EU-SILC [ilc_lvho02].
Note: Based on individuals, not households; data for Ireland are for 2014.

However, despite its decline in the UK, owner-occupation is only six percentage points lower than the average for the EU as a geographic whole. There are many more countries (21) with above-average levels of owner-occupation than below-average levels. The seven countries with below-average ownership levels include the three most populous in the EU-28, so have a stronger influence over the total than do the smaller countries with very high levels of ownership. Nonetheless, it is noteworthy that people in the Netherlands and Sweden are now more likely to live in owner-occupied dwellings than those who live in the UK.

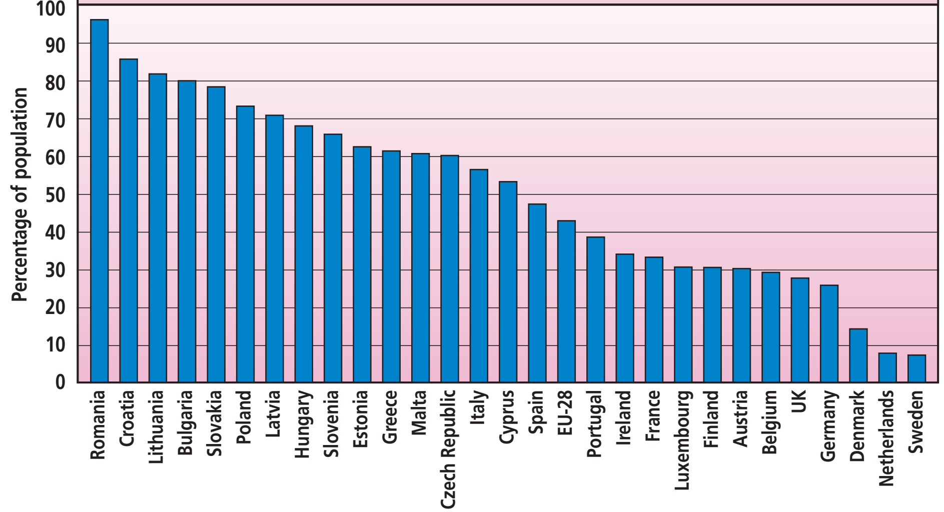
The southern European countries had the highest ownership levels in the old EU-15, and this remains the case. However, the new members from central and eastern Europe have very high levels of ownership. All eleven have homeownership rates in excess of 75 per cent, nine exceed 80 per cent and almost all Romanians live in owner-occupied housing. The countries with levels of homeownership in excess of 80 per cent are sometimes called 'super-homeownership' states.

The processes that have led to these ownership levels are reflected in figures showing the breakdown between outright owners and those who are purchasing with a mortgage. Figure 1.2.3 shows that homeownership (and indeed all housing) is predominantly owned outright in the formerly socialist countries (and in some of the southern European ones). In ten of the eleven formerly socialist member states, more than 60 per cent of people live in non-mortgaged owner-occupied housing. In seven of them, the rate is more than 70 per cent, and in three over 80 per cent. In Romania it is clear that almost everyone lives in an owner-occupied house without a mortgage. By this measure the UK is well down the list.

The phenomenon of high levels of outright homeownership is often a legacy of the socialist and early post-socialist period.[2] It is well known that the newly democratic governments undertook a 'giveaway' privatisation of public housing in the 1990s, so boosting ownership levels. However, in many communist countries there was a strong tradition of something which approximated to ownership under socialism. Rural housing was rarely nationalised under communist governments, and state-sponsored, often self-build, housing was a feature of some countries, notably Hungary and south-east European countries such as Romania. This housing was legally 'personal' rather than 'private' property (as private property was not permitted). The practical difference was that personal property had to be sold at controlled prices and the purchaser could be allocated. This removed personal profit from the system, and therefore what was called 'ownership' lacked an essential feature of its western equivalent: it was not a fully tradeable asset. Moreover, self-build has remained a feature of housing in the post-communist era.

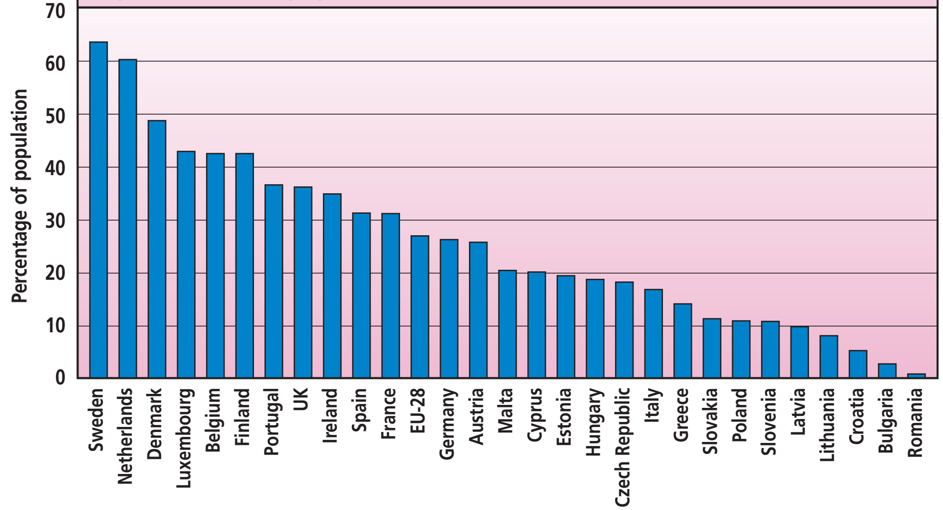
The reverse picture is shown by the levels of mortgaged ownership (Figure 1.2.4). The countries with the highest levels of homeownership overall are also the ones with the lowest propensity to be mortgaged owners. Among the old EU-15 states, Greece and Italy have the lowest levels of mortgage ownership, although Spain and Portugal now have significant mortgaged ownership sectors. Only about one-quarter of people living in Germany and Austria occupy mortgaged owner-occupied housing, which represents around half of total owners. The level in the UK and Ireland (around 35 per cent) is above average in the EU.

Figure 1.2.3 **Outright owner-occupation in the EU, 2015**



Source: EU-SILC [ilc_lvho02].
Note: Based on individuals, not households; data for Ireland are for 2014.

Figure 1.2.4 **Mortgaged owner-occupation in the EU, 2015**



Source: EU-SILC [ilc_lvho02].
Note: Based on individuals, not households; data for Ireland are for 2014.

The striking feature of the graph is that the countries with the highest levels of mortgaged ownership are Sweden, the Netherlands and Denmark.[3] These countries were widely perceived as being primarily rental societies. Denmark, Norway, Sweden and Finland embraced mortgage market liberalisation in the 1980s and experienced a house-price boom and bust that was much more severe than in the UK at the same time. The Netherlands' very generous (though, more recently, somewhat curtailed) mortgage interest tax relief also encourages people to hold mortgages.

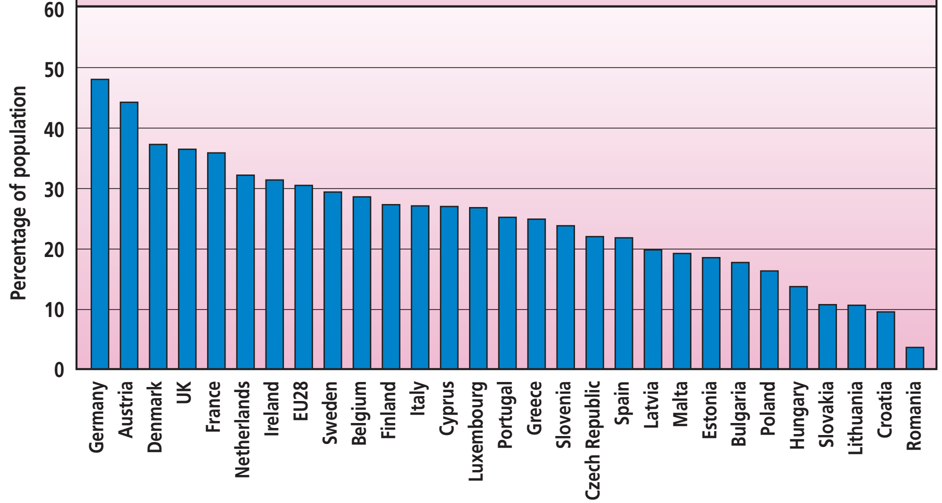
Cultural attitudes towards debt and risk also appear to be an important factor in explaining different levels of mortgage debt. Risk aversion in Germany and Austria is often raised as a reason for their limited scale of mortgage lending. There also appears to be resistance to mortgaged ownership in at least some of the formerly communist countries. Whilst not in the EU, some research in Russia illustrates the point. Whilst it would be normal for people in the UK or US to think of themselves as being 'owner-occupiers', in Russia, the term used frequently by interviewees to describe the same phenomenon was *kabala*, which roughly translates as 'debt bondage'.[4] The legacy of socialist-era tenancies may also be seen in the attitude towards socialist-era rental housing, where tenants' rights were so strong that they became a kind of 'quasi-ownership'. Moreover, in a reversal of how 'public' housing was perceived, managerial and party officials gained first access to it whilst unskilled workers were more likely to be 'homeowners'.[5]

Rented housing

The EU-SILC survey is less helpful for identifying 'social' and 'private' tenures. It uses the categories of 'market rent' (MR) and 'below market rent' (BMR). This makes sense when one considers that there is ambiguity about the term social housing. In some countries 'private' rental housing is not let at market rents because it is subject to rent regulation. In Germany social rented housing refers to housing that is currently in receipt of subsidy, but may be provided by private landlords. Once that subsidy ends (usually when a subsidised loan has been repaid), the housing ceases to be 'social'. Nonetheless it may still be owned by a not-for-profit landlord, and rents may still be set below market levels. In Sweden, the term social housing is still rejected, as the country still formally has an integrated rental sector whereby (historically) private landlords could receive subsidy in a similar manner to municipal housing companies. Rent increases are agreed annually by negotiation between representatives of municipal and private landlords and the tenants' union. However, in the EU-SILC survey the convention appears to be applied unevenly. So, for example, all 'municipal' housing in Sweden and all housing association housing in the Netherlands is categorised as being 'market rental'.

We have therefore not used the split between BMR and MR here as it is misleading. Instead we have produced a graph of all rented housing (Figure 1.2.5).

Figure 1.2.5 **Rental tenure in the EU, 2015**



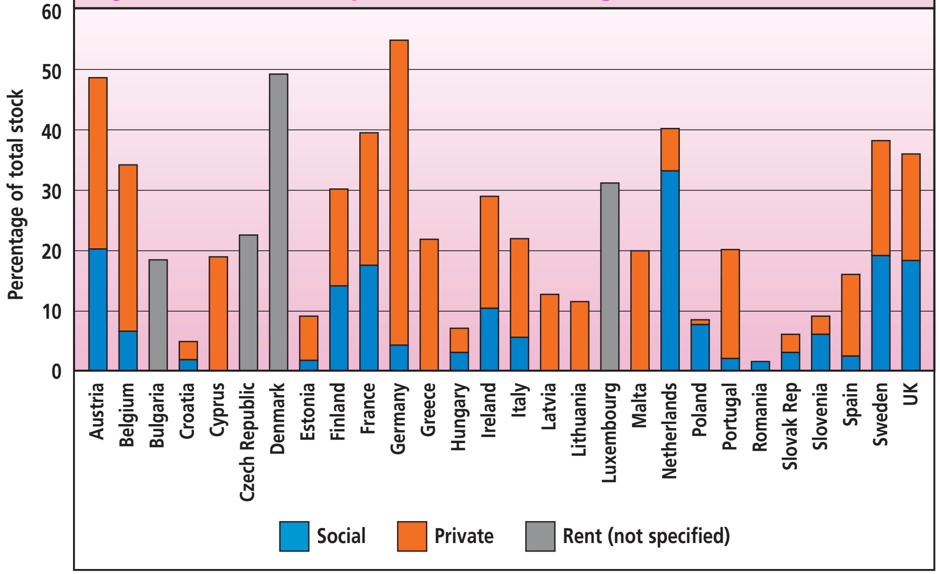
Source: EU-SILC [ilc_lvho02].
Note: Based on individuals, not households; data for Ireland are for 2014.

Social rented housing

A split between the size of social and private housing sectors is given by Housing Europe (see Figure 1.2.6).[6] The figures appear to have been collected from its members and cannot assumed to be consistent. Moreover, it is important to emphasise the difference between the EU-SILC approach (individuals living in households) and 'stock', which appears to be the basis of many of the country estimates.[7] Notwithstanding these difficulties, two things are clear. The first is that 'social rented housing' as understood in the UK is found on any scale in only six or seven other countries in the EU. By far the largest social rented sector is in the Netherlands, where it still exceeds 30 per cent of the stock. Austria, France, Sweden and the UK fall somewhere between 15 and 20 per cent of the stock (here we treat Sweden's municipal housing company stock as being 'social').

We may add Denmark as a sixth country as its HA sector houses also about one in five households. Ireland and Finland have social stocks of between ten and 15 per cent of the total. As indicated above, the very small scale of the *de jure* social sector in Germany is bolstered somewhat by the *de facto* social sector (i.e. housing which is legally not social, but whose not-for-profit landlords rent to people in need at below market rent). However, even including the estimated one million units of *de facto* social rented housing,[8] the sector is still not much more than six per cent of the stock.

Figure 1.2.6 **Social and private rental housing in the EU, 2015**



Source: Housing Europe, The State of Housing in the EU 2015.

Notes: Figures based on members' estimates. These appear mainly to be stock, but this is not always the case. Therefore these figures cannot be assumed to be directly comparable. Sweden's 'public' housing stock is shown here as being 'social'.

These systems play somewhat different roles, ranging from providing a 'safety net', to a more limited 'ambulance service' or – in contrast – to having a 'wider affordability' role.[9] For example, by the 1990s the UK social sector could be characterised as being a 'safety net' for a broad range of low-income households: allocations favoured people in most housing need. It may now be morphing (in England at least) to more of an ambulance service function, whereby it is increasingly regarded as being a temporary provision for a family facing acute hardship until it gets back on its feet. In contrast in the other European countries (but in particular Sweden) social landlords tend to exclude the poorest and most vulnerable households, and instead play a wider affordability role for households further up the income spectrum. Nonetheless, the trend in these countries is for the social/public sectors to house growing proportions of lower-income households. In Sweden, the admission of large numbers of asylum seekers in the 1990s and 2000s has led to concentrations of minority ethnic groups in some peripheral estates built during the 'Million Homes' era in the 1960s and 1970s. In southern, central and eastern Europe, 'social' housing tends to mean very residualised housing for marginalised groups, quite separate (often physically as well as functionally) from the mainstream – a very basic 'ambulance service'. Confusingly, homeownership is sometimes labelled as being 'social' when it is supported in some way even though the target group is often relatively well off.

Housing outcomes

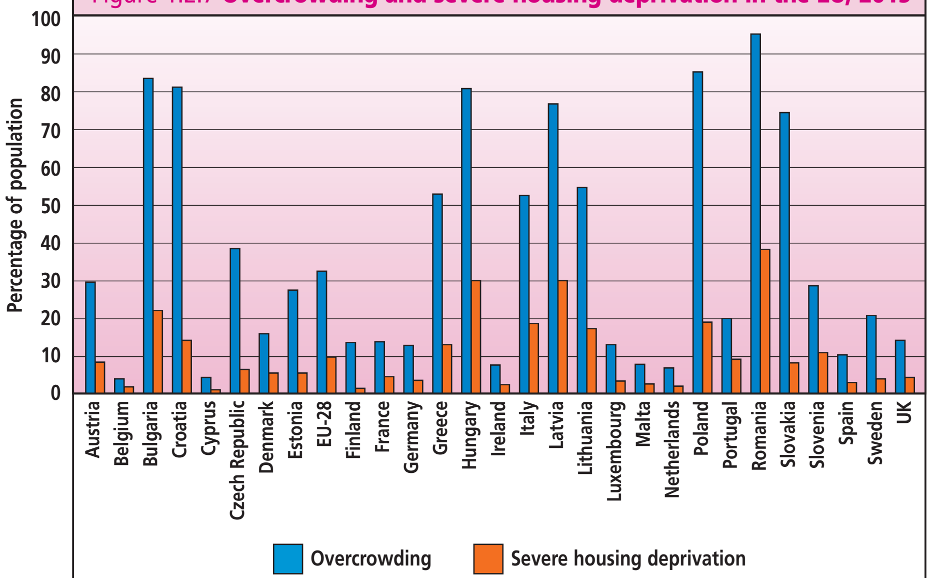
The EU has agreed a number of housing indicators. These relate to affordability, overcrowding, the physical condition of housing and the availability of amenities (such as exclusive use of an indoor flushing toilet and a bathroom/shower). They are open to question, as many of them are absolute whereas what is regarded as being an adequate standard of living tends to be relative according to prevailing income levels.

This is seen very clearly with the indicator: exclusive access to a flushing toilet. Across the EU as a whole, 2.4 per cent of people live in households without such access. In the richer countries, almost no one lacks this facility. But in Romania a third of people live in households without it, an experience shared by almost one-fifth of Bulgarians. More than ten per cent of Lithuanians and Latvians are in the same position.

Overcrowding and severe housing deprivation

The indicator for overcrowding also applies the same standard across countries with very different prevailing living standards and is generally more prevalent in the poorer ones (see Figure 1.2.7). For example, Romania and Bulgaria are among a cluster of poorer countries with overcrowding rates in excess of 40 per cent.

Figure 1.2.7 **Overcrowding and severe housing deprivation in the EU, 2015**



Overcrowding

A household is overcrowded if it does not have at least:

- one room for the household
- one room per couple in the household
- one room for each single person aged 18 or more
- one room per pair of single people, 12-17 years of age, of the same gender
- one room for each single person, 12-17 years of age, not included in the above
- one room per pair of children under 12 years of age.

Severe housing deprivation

The percentage of population living in an overcrowded dwelling which also exhibits at least one of the housing deprivation measures: a leaking roof, no bath/shower and no indoor toilet, or lacking sufficient natural light.

Source: EU-SILC [ilc_mdho06a].

Only a few countries with above-average incomes per capita have overcrowding rates in excess of ten per cent. Yet there are poorer countries with overcrowding rates that are similar to those in richer countries, such as Spain, Malta and Cyprus; Austria, with a per capital income 28 percentage points above the EU average, has an overcrowding rate of 15 per cent.

There are, of course, reasons why there may be a disjuncture between per capita income and overcrowding. Depopulation and ageing populations are likely to reduce overcrowding, whilst a vibrant economy with inward migration is more likely to have a higher per capita income and pressure on the housing market.

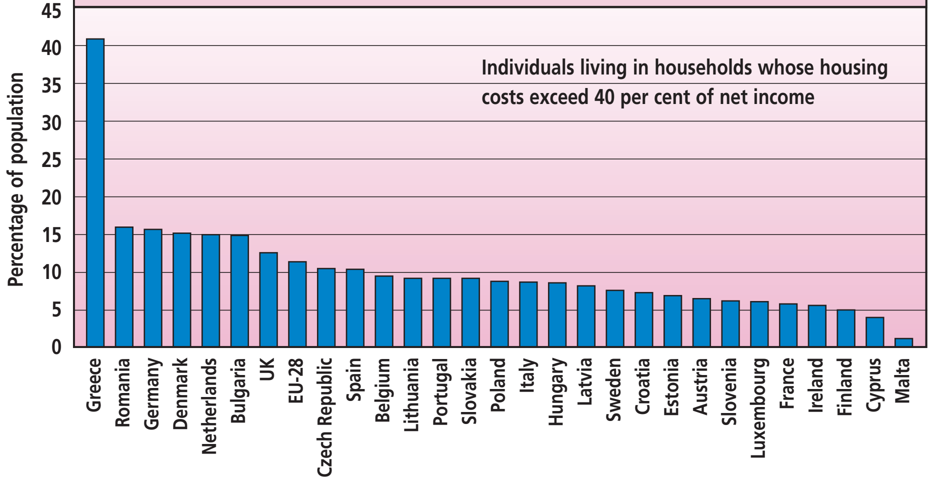
Much the same analysis can be applied to 'severe housing deprivation'. Again there is a cluster of poorer countries with strikingly high rates: Hungary and Latvia at just over 15 per cent and Romania at almost 20 per cent. No country with an above average GDP per capita has a level of housing deprivation over five per cent (the EU average). But again there are seven countries with below-average per capital incomes and severe housing deprivation rates below five per cent. For example Estonia, with a per capita income 75 per cent of the EU average, has the same rate of severe housing deprivation as Denmark with a per capita income at 128 per cent of the average.

Affordability

The EU's indicator of housing affordability is called the 'cost overburden rate'. This identifies excessive housing costs as occurring when they exceed 40 per cent of net equivalised income. The threshold is set higher than in most such ratio measures, but this may be explained by the relatively wide range of housing costs included.[10] Ratio measures of affordability are open to the common objection that they fail to reflect the ability of people on higher incomes to devote greater proportions of their income to housing without causing hardship. Of course this problem within countries is exacerbated in international comparisons that include countries with very different prevailing living standards.

Figure 1.2.8 suggests that the housing cost overburden rate in the UK is slightly above the EU-28 average, along with other relatively prosperous countries, namely Germany, Denmark and the Netherlands. Whilst some poorer countries with high rates of outright owner-occupation have relatively low cost overburden rates, the figures for other relatively prosperous countries (notably France, Ireland and Finland) are strikingly low. Greece, with an overburden rate in excess of 40 per cent, is clearly an outlier. Before the financial crisis struck, Greece had a cost overburden rate of around one-fifth – still the highest in the EU, but closer to the norm.

Figure 1.2.8 **Housing cost overburden rate in the EU, 2015**



Source: EU-SILC [ilc_lvho07a].
Note: Data for Ireland are for 2014.

By expressing the housing cost overburden rate by income quintile, Table 1.2.1 allows for our international comparison to be contextualised by the way in which housing affordability improves as incomes rise within each country. Indeed there is a very clear pattern of affordability improving very considerably between the first and second income quintiles, followed by a smaller but still considerable improvement in the third quintile. The UK follows the same pattern but, along with Germany, the Netherlands and Denmark, retains a higher overburden rate than in France, Finland and Sweden in the second and third income quintiles.

Table 1.2.1 **Housing cost overburden rate by income quintile, 2015**

	First quintile	Second quintile	Third quintile	Forth quintile	Fifth quintile
Austria	**26.7**	**3.4**	**1.3**	**0.2**	**0.2**
Belgium	**32.1**	**10.8**	**3.4**	**0.7**	**0.2**
Bulgaria	**46.3**	**19.2**	**5.4**	**2.6**	**0.8**
Croatia	**31.1**	**4.0**	**0.9**	**0.3**	**0.0**
Cyprus	**11.5**	**4.2**	**2.1**	**1.2**	**0.3**
Czech Republic	**34.8**	**9.1**	**4.7**	**2.2**	**1.1**
Denmark	**50.6**	**16.3**	**6.2**	**1.8**	**0.6**
Estonia	**27.2**	**4.2**	**2.3**	**0.4**	**0.0**
EU-28	**36.4**	**11.4**	**5.0**	**2.6**	**1.3**
Finland	**15.4**	**5.8**	**1.8**	**1.0**	**0.6**
France	**17.5**	**5.7**	**2.9**	**1.7**	**0.5**
Germany	**48.3**	**15.1**	**7.3**	**4.6**	**2.9**
Greece	**96.0**	**65.4**	**31.6**	**10.0**	**1.4**
Hungary	**28.4**	**8.5**	**2.9**	**1.5**	**1.2**
Ireland	**20.9**	**3.3**	**1.9**	**1.0**	**1.1**
Italy	**32.9**	**5.8**	**2.8**	**1.2**	**0.3**
Latvia	**27.9**	**7.3**	**3.1**	**2.0**	**0.7**
Lithuania	**35.2**	**9.0**	**1.4**	**0.4**	**0.0**
Luxembourg	**24.1**	**4.6**	**1.2**	**0.3**	**0.0**
Malta	**4.1**	**0.8**	**0.2**	**0.1**	**0.2**
Netherlands	**41.3**	**14.3**	**9.9**	**5.7**	**4.0**
Poland	**28.3**	**8.5**	**2.3**	**1.6**	**1.2**
Portugal	**32.8**	**8.2**	**3.0**	**1.0**	**0.4**
Romania	**48.5**	**17.1**	**8.5**	**2.9**	**3.3**
Slovakia	**26.7**	**8.4**	**6.0**	**3.2**	**1.1**
Slovenia	**23.1**	**4.1**	**1.7**	**1.4**	**0.4**
Spain	**40.9**	**7.6**	**1.9**	**1.1**	**0.2**
Sweden	**32.4**	**4.0**	**1.1**	**0.1**	**0.1**
UK	**36.7**	**14.4**	**6.1**	**3.7**	**1.6**

Source: SU-SILC [ilc_lvho07b].
Notes: Individuals living in households whose housing costs exceed 40 per cent of net income. Data for Ireland are for 2014.

Comparing affordability among the lowest income quintile brings with it a further complicating factor. This arises from the treatment of housing allowances (such as housing benefit). These are deducted from rent rather than added to income. This makes a big difference to the UK's measure as we rely so heavily on it. If housing benefit were instead added to income then the UK's housing would (by this calculation) appear to be less affordable. The argument in favour of deducting housing allowances from rent is that it means that the impact of demand- and supply-side subsidies is consistent. However, it is not possible to apply this convention consistently to countries that explicitly or implicitly include allowances for housing costs within mainstream social security benefits, so causing another distortion. Germany, for example, has shifted to providing social assistance recipients' help with housing costs through the generic benefit, rather than through *Wohngeld*. The Netherlands, Denmark and Sweden also provide means-tested assistance with housing costs through generic social assistance benefits, as well as through housing allowances. Of course, the UK is shifting steadily towards the German position with the introduction of universal credit, which (other things being equal) will lead to a measured deterioration in affordability.

Housing and mortgage markets

Mortgage debt

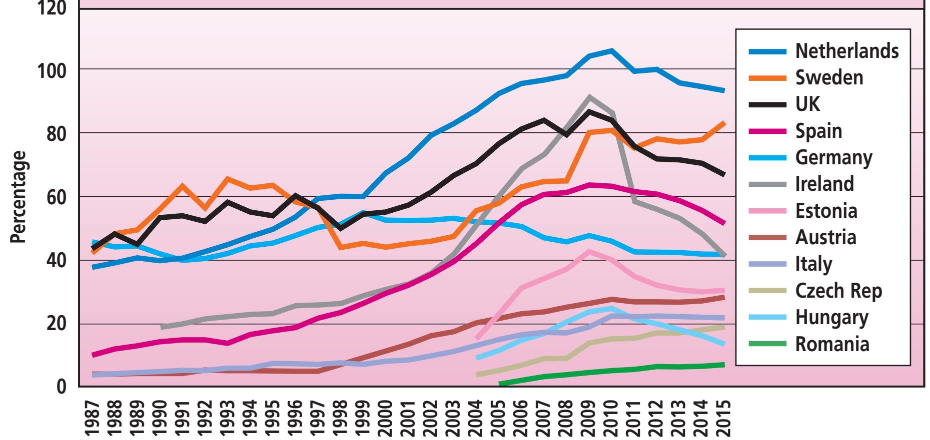
Figure 1.2.9 charts the growth of residential mortgage debt as a share of GDP in selected EU countries since 1987 for EU-15 countries, and since 2004 in the new member states. In the 1980s, mortgage market deregulation was most advanced in the UK, the Netherlands and Sweden, and in these countries, along with Germany, mortgage debt represented more than 40 per cent of GDP. Mortgage debt was especially low in Austria and Italy where it was no more than five per cent of GDP.

Mortgage debt as a share of GDP began to grow particularly from the mid- to late-1990s as the European economies recovered and interest rates fell. In the Netherlands and Denmark it peaked at more than 100 per cent of GDP in 2010. In Ireland it grew from around one-quarter of GDP in 1990 to more than 90 per cent in 2009, slightly more than in the UK. Spain, like Ireland, experienced further drops in interest rates as a result of joining the euro, and mortgage debt rose from around ten per cent of GDP in the late 1980s to around two-thirds in 2009-2010. Mortgage debt's share of GDP has generally fallen since the peak as property price bubbles deflated with the GFC. The fall in some countries, notably Ireland (where it has halved since the peak), coincided with a shrinking GDP. However, a subsequent growth in lending coincided with a rapidly recovering GDP.

A striking feature of the period since the 1980s is the way in which Germany and (especially) Austria have experienced more subdued mortgage markets. Although mortgage debt grew in Austria after the 1980s, it is now at less than 30 per cent of GDP. Mortgage debt in Germany peaked as a proportion of GDP in the late 1990s and actually fell during the boom years in the rest of Europe. (Mortgage debt has also declined in the UK if measured by percentage of households with a mortgage.)

Broadly, the share of mortgage debt is a reasonable signifier of the level of mortgaged ownership: Sweden and the Netherlands have respectively the highest levels of both mortgaged ownership (of the selected countries) and mortgage debt. Conversely, Austria and Germany have respectively the lowest levels of mortgaged ownership and mortgage debt. The UK is something of an outlier in that its share of mortgage debt seems rather high compared with the level of mortgaged ownership, which is only 36 per cent. A likely explanation for this is the growth of buy to let lending, interest-only loans and high loan-to-value ratio mortgages.

Figure 1.2.9 **Residential mortgage debt as a percentage of GDP, selected EU countries**



Sources: EMF Hypostat (various editions).

Notes: 1. 1987-97: Austria and Sweden include commercial loans; 2. 1998: Dutch; 3. 1999-2010 UK data revised; 4. Sweden revised after 2004, and not compatible with earlier dates.

The formerly socialist countries display a similar trend, but at generally lower share of mortgage debt. The strongest growth in the share of mortgage debt occurred in the Baltic states such as Estonia and in Hungary, but in each of these countries the share has fallen considerably since the GFC began. In Hungary significant problems arose from foreign currency mortgages which became unaffordable for many households when its currency devalued. Nonetheless, the trajectory is upwards. In 2004 only one of the new member states had a mortgage share above 15 per cent of GDP and only two over ten per cent. By 2015, the mortgage share was above 15 per cent of GDP in all but three of these countries, although it is above 20 per cent in only three. Romania's mortgage market remains the smallest (in terms of GDP) among the new member states.

The relationship between the share of mortgage debt and the level of mortgaged ownership is perhaps not so clear as in the EU-15. Certainly Estonia has both the highest share of mortgage debt and of mortgaged ownership among the former socialist countries, and Romania has the lowest of both. Most of the countries are bunched between around the 15-20 per cent range of mortgage debt/GDP, and around ten per cent mortgaged ownership. However, the Czech Republic has amongst the highest mortgaged ownership rates (18.2 per cent) of the former socialist countries, but its share of mortgage debt is still under 20 per cent of GDP.

House prices

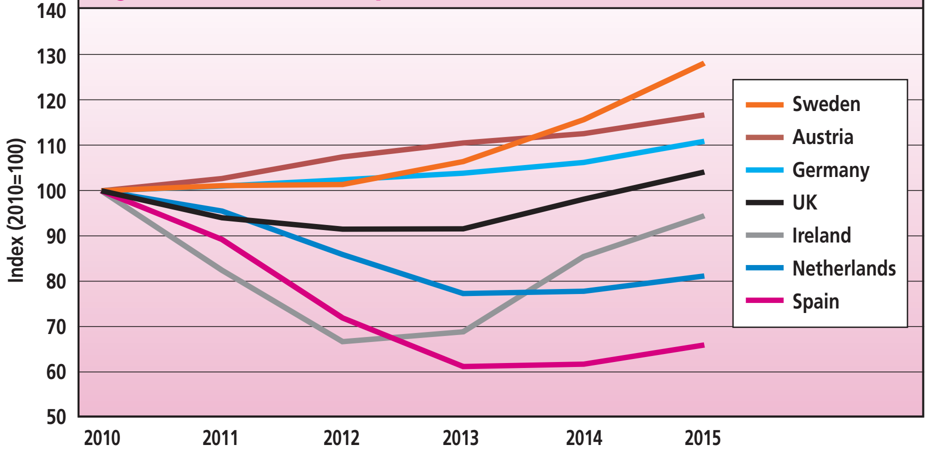
The EU has developed a house-price index, from which a real house-price index has been constructed (see Figure 1.2.10). The index begins in 2010, which is of course after the beginning of the GFC and cannot be taken to represent peak prices. Nonetheless it reveals some of the key trends over a five-year period.

According to this index real house prices fell most in Spain, by almost 40 per cent. Ireland recorded a reduction of one-third, although real prices have now recovered to within six percentage points of their 2010 level. The Netherlands has experienced a considerable reduction in real house prices which are still almost 20 per cent below the 2010 level. Indeed, a total of 17 of the 27 countries for which data are available (Greece is excluded) still have real house prices below their 2010 level.

Since 2010 the most inflationary countries have included Germany, Austria and Sweden where, in 2015, real prices were 10, 17 and 28 per cent above their 2010 levels. While Sweden has a history of house-price volatility going back to the 1980s, Germany and Austria have traditionally had much less inflationary (and volatile) housing markets. In this index the UK is recorded as having real house prices four per cent above their 2010 level, one of ten countries where this is the case.

There is also a mixed experience among the former socialist countries (not included in the chart). Real house prices in the Baltic states are well above their 2010 levels. However, in Bulgaria, Croatia, Poland, Romania and Slovenia, real prices remain well below the 2010 level. In the Czech Republic and Hungary they are closer to, but still below, their 2010 level.

Figure 1.2.10 **Real house-price index (2010=100), selected EU countries**



Source: Calculated from Eurostat [prc_hpi_a] and [prc_hicp_aind].

Housebuilding

Given the concerns about inadequate housing supply in the UK, it is of some interest to compare the UK's housebuilding rates with those of selected other European countries. We can make a crude standardisation of housebuilding rates by expressing them per 1,000 of population.[11] The extraordinary high rates of building in the years leading up to the GFC in Ireland (20 per thousand in 2006) and Spain (12 per thousand in 2007 and 2008) are remarkable. The collapse in Spain in particular was marked (down to one unit per thousand in 2013-15), whereas in Ireland there has been some recovery (to three per thousand in 2015). The relatively stable and high rate of housebuilding in France is notable (averaging six per thousand over the ten-year period 2006-15), and runs at twice the average level of Germany (three per thousand). The Netherlands also recorded a housebuilding rate twice that of the UK (four and two per thousand respectively). Over the period 2006-15, the UK recorded the lowest average annual level of housebuilding among these countries.

Conclusion

Housing systems in Europe are certainly evolving. The overall picture is one in which housing standards are clearly related to national prosperity, but this is not the only factor. Homeownership is the dominant tenure across the EU as a whole, and the UK now has one of the lower ownership rates. However, a significant divide opens up when we consider the balance between outright and mortgaged homeownership. Outright ownership is the dominant tenure in the formerly socialist countries, whereas mortgaged ownership is significant in the Scandinavian countries and the Netherlands.

Social rented housing is a major tenure in only a handful of countries, but forms of subsidised building have left a stronger legacy, even if the buildings themselves are now privately owned. Rental housing is strongest in Austria and Germany, countries that also resisted the huge growth in mortgage debt, especially after the mid-1990s.

Housing outcomes are difficult to interpret because of the contexts in which they occur. Affordability is generally a problem that is most acute among the lowest-income quintiles and improves greatly as incomes rise, whilst still being a significant problem in some countries. Other outcomes, notably overcrowding and severe housing deprivation, are clearly influenced by the level of prosperity in a country.

The extent of house price booms and busts has varied between countries, but building rates appear to confirm the prevalent view that the UK's rates of housebuilding are rather low.

A note on European housing statistics

It should be borne in mind that it is impossible to attain the same degree of comparability in statistics about housing in other European countries as it is (for example) between different parts of the UK. There are considerable definitional differences which mean that statistics do not always strictly compare 'like with like'.

Notes and references

1 These figures are derived from EU-SILC (a household survey) and relate to the percentage of individuals living in a household which occupies a dwelling of a particular tenure. In some countries this differs noticeably from figures showing tenure as a percentage of households.

2 See Stephens, M., Lux, M. and Sunega, P. (2015) 'Post-Socialist Housing Systems in Europe: Housing Welfare Regimes by Default', in *Housing Studies*, 30:8, pp.1210-1234 [DOI: 10.1080/02673037.2015.1013090].

3 In Sweden the 'owner-co-operative' sector has the essential attributes of ownership: an occupier's share in the co-operative is both mortgageable and tradeable on the open market. It therefore facilitates 'ownership' in flats, so performs the role of leasehold in England.

4 Zavisca, J. (2012) *Housing the New Russia*. New York: Cornell University Press.

5 Stephens, M., *et al* (2015), *op.cit*.

6 Housing Europe (2015) *The State of Housing in the EU 2015*, figure 8 (see www.housingeurope.eu/resource-468/the-state-of-housing-in-the-eu-2015).

7 Stock means that an empty house counts as one and a house with five inhabitants also counts as one. Counting people means that an empty house counts as zero and a house with five people counts as five. Obviously the denominator matches the numerator.

8 Droste, C. and Knorr-Siedow, T. (2014) 'Social Housing in Germany' in K. Scanlon, C. Whitehead and M. Fernadez Arrigoitia (eds.) *Social Housing in Europe*. London: Wiley Blackwell, pp.183-202.

9 This typology was developed by Mark Stephens in Stephens, M., Burns, N. and MacKay, L. (2002) *Social Market or Safety Net: British Social Rented Housing in a European Perspective*. Bristol The Policy Press; and Stephens, M. (2008) 'The role of the social rented sector', in S. Fitzpatrick and M. Stephens (eds) *The Future of Social Housing*. London: Shelter, pp. 27-38.

10 Housing costs are gross of housing benefits (i.e. housing benefits are not deducted from the total housing cost), and include regular maintenance and repairs and the cost of utilities (water, electricity, gas and heating). In addition they include: (a) for owners: mortgage interest payments (net of any tax relief), structural insurance, mandatory services and charges (sewage removal, refuse removal, etc.), taxes; (b) for tenants (at market price or at reduced price): rent, structural insurance (if paid by tenants), services and charges (sewage removal, refuse removal, etc. – if paid by tenants), taxes on dwelling (if applicable) (see http://ec.europa.eu/eurostat/statistics-explained/index.php/EU_statistics_on_income_and_living_conditions_(EU-SILC)_methodology_-_housing_conditions).

11 Calculated from EMF (2016) *Hypostat 2016*, Table 13; and Eurostat [demo_pjan].