Housing affordability in Europe: a critical survey of issues

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Presentation at SUERF conference *Housing markets – squaring supply and demand*
Session 1: Evidence on housing affordability

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Overview

1. EU housing in four charts
2. Who is struggling to afford housing?
3. Housing supply
4. Demand house prices
5. State of housing affordability policies

Source: D. Mihaljek, *Housing affordability in Europe: a critical survey of issues*, HNB Surveys, S-43, May 2026.

Main takeaways

1. History has seen much worse housing problems – and we`ve found our way
2. Many affordability issues arise from policy mistakes
3. Coherent narrative and policy agenda on affordability are missing
4. Governments need to return to social housing provision
5. Need to modernise housing policies, many are a legacy of distant past
6. Need to change our mindset on the economic significance of housing

Leitmotiv

Es hat alles zwei Seiten. Aber erst, wenn man erkennt, dass es drei sind, erfasst man die Sache.

Everything has two sides; but only if you conceive of something as having three sides can you really capture the subject.

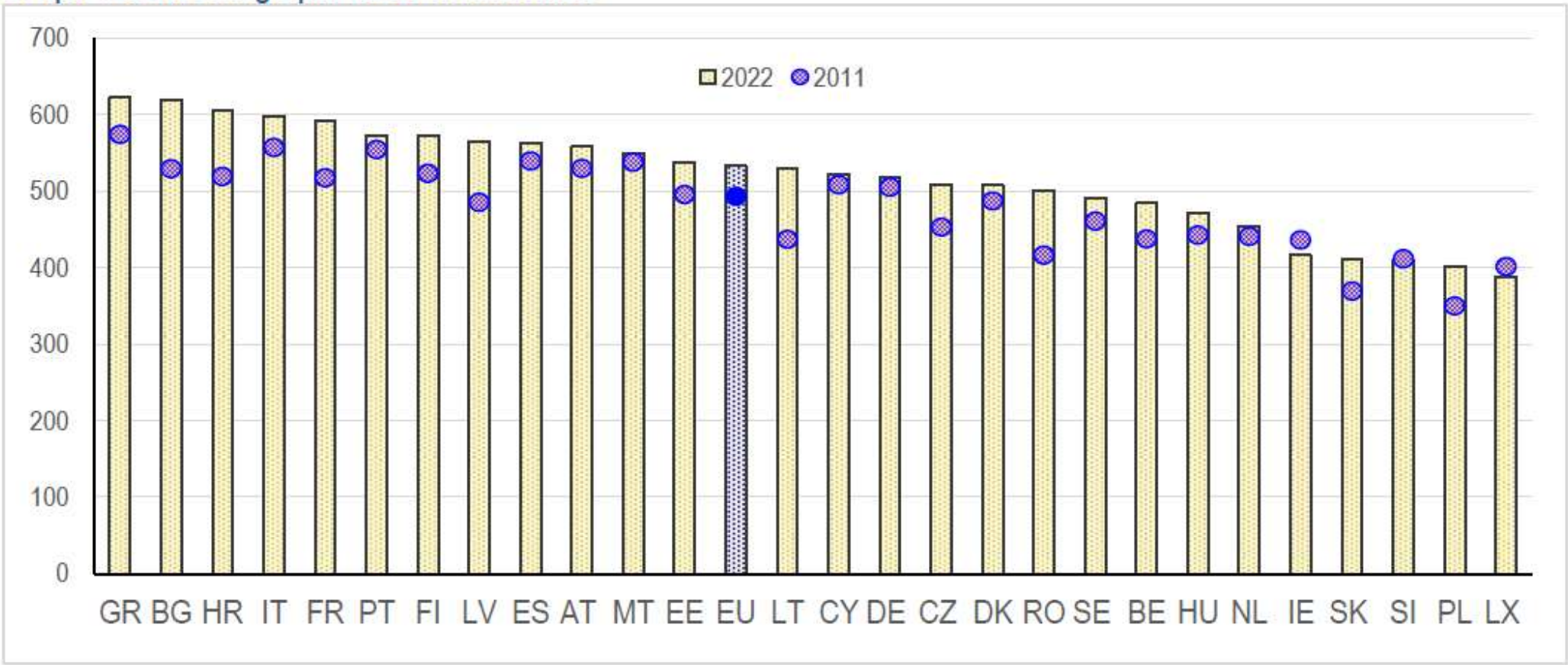
Heimito von Doderer (1896–1966)
Tangenten. Tagebuch eines Schriftstellers 1940–1950

EU housing in four charts

Housing stock

238 million dwellings in 2022 (OECD; 189 mil. Eurostat) = 1.2 dwellings/household
No. of dwellings rising faster than population

Graph 12. Dwellings per 1000 inhabitants[1]



[1] OECD affordable housing indicator HM 1.1.1.

Source: OECD; author's calculations.

EU population

Population

- 452 mil. in 2026, projected to peak at 453 mil. in 2029
- 39% living in cities, 36% in towns and suburbs, 25% in rural areas
- Working age population 64%, children 14%, elderly 22% (2025)
- Life expectancy at birth 81.5 yrs (2024)

Households

- 203 mil., 23% with and 77% w/o children (2025)
- Single person HHs grow fastest

Migration

- 4.4 mil. non-EU → EU 1.5 mil. EU → EU 1.5 mil. EU → non-EU (2023)

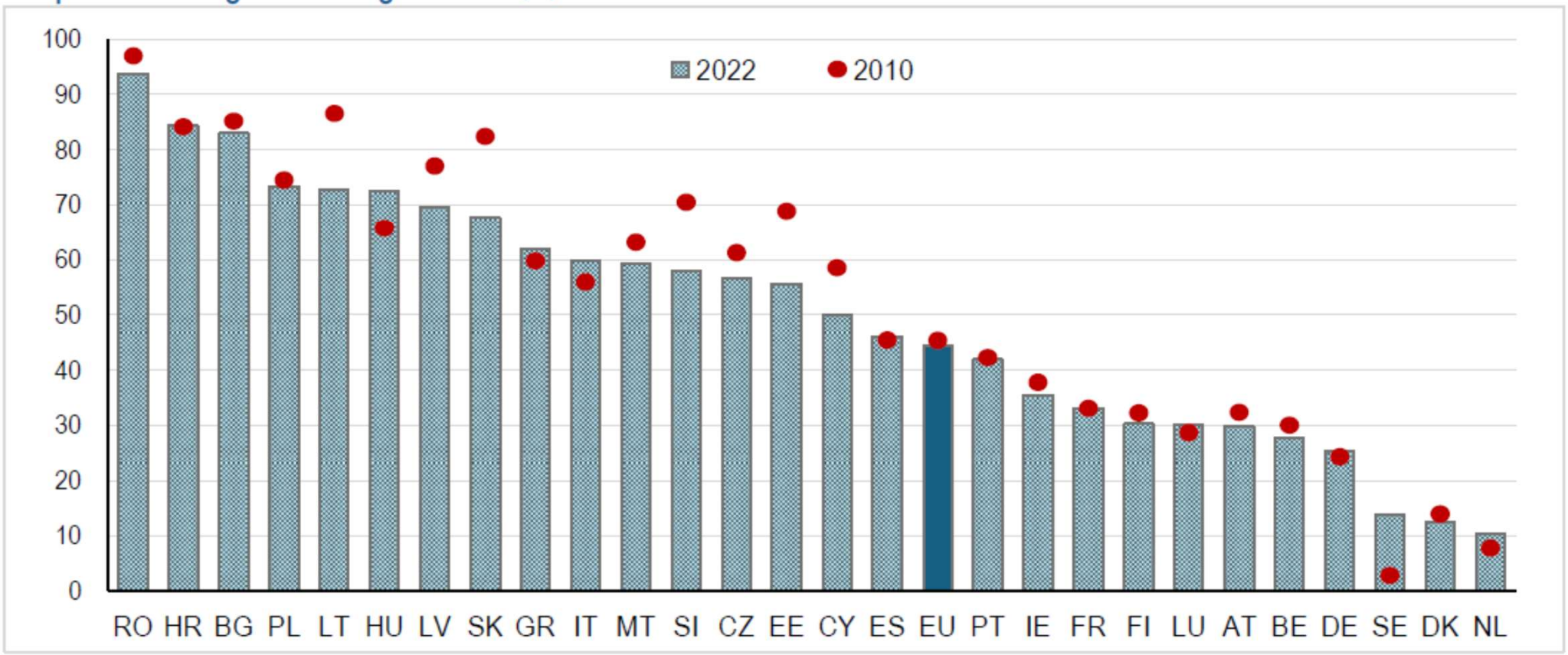
Social

- 20.9% of people at risk of poverty or social exclusion (2025), 4.6% total pop.
- 1.44 million homeless (2026), 0.3% tot. pop.

Housholds in most EU countries are outright owners, w/o mortgage

But their share is falling

Graph A6. Outright housing owners (%)[1]

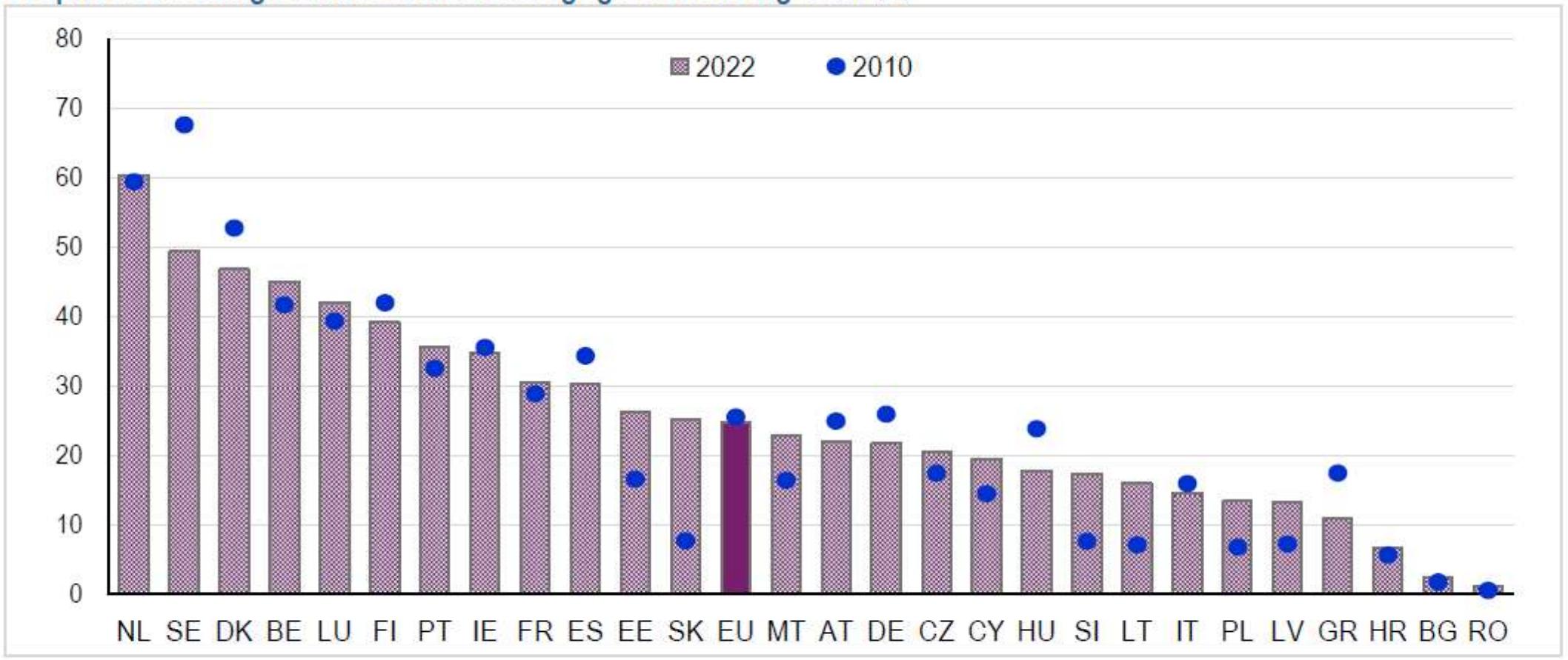


[1] Outright housing owners with no outstanding mortgage, as a percent of all households (OECD affordable housing indicator HM1.3 A2).

Source: Eurostat; OECD; author's calculations.

Share of owners with a mortgage falling in 12, constant in 7, rising in 8 EU countries

Graph A7. Housing owners with a mortgage or housing loan (%)[1]

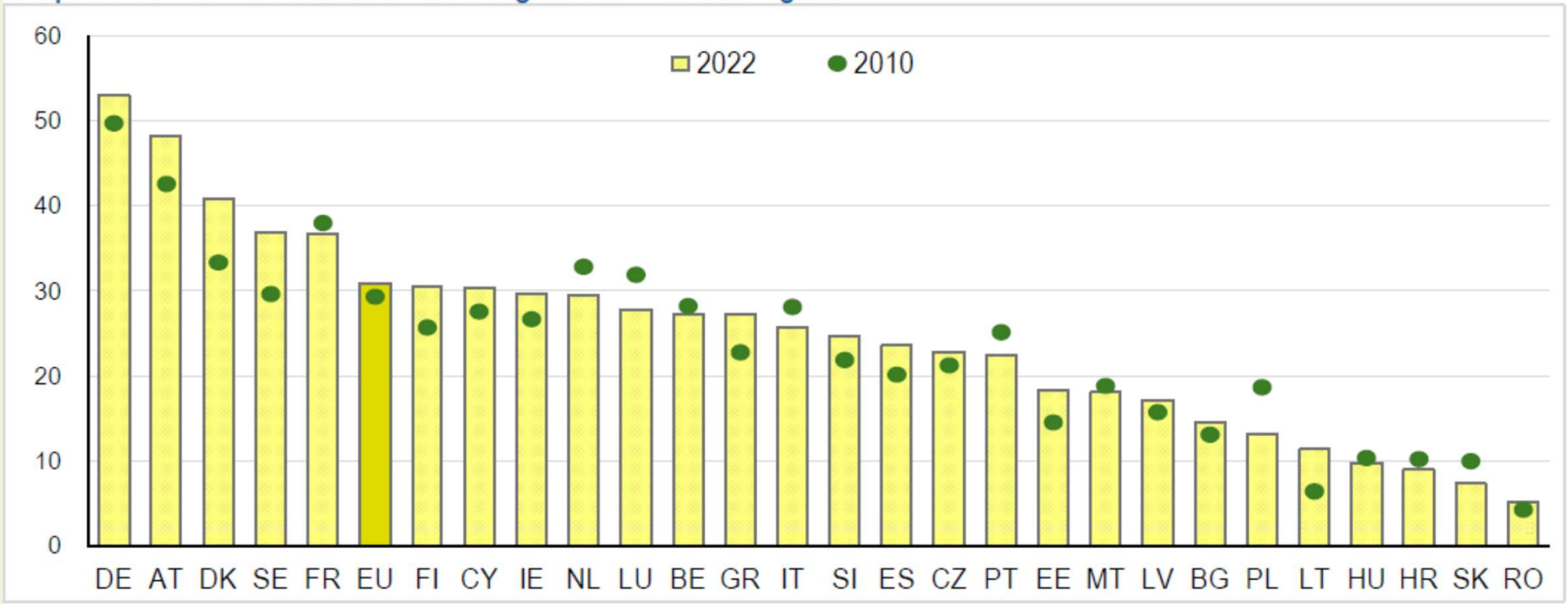


[1] Housing owners with a mortgage or housing loan, as a percent of all households (OECD affordable housing indicator HM1.3 A2).

Source: Eurostat; OECD; author's calculations.

Share oh HHs living in rented housing is increasing

Graph 16. Share of households living in rented housing (%)[1]



[1] Households living in privately rented housing, subsidised rental housing, and other arrangements, including housing provided for free (OECD affordable housing indicator HM1.3 A2).

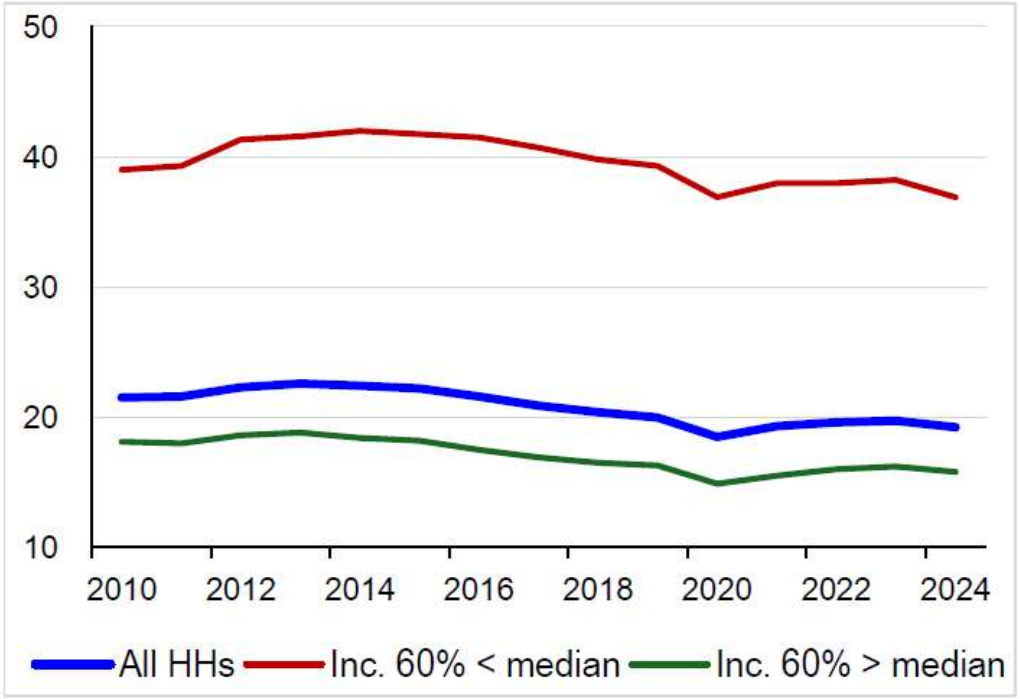
Source: Eurostat; OECD; author's calculations.

Housing affordability – who is struggling?

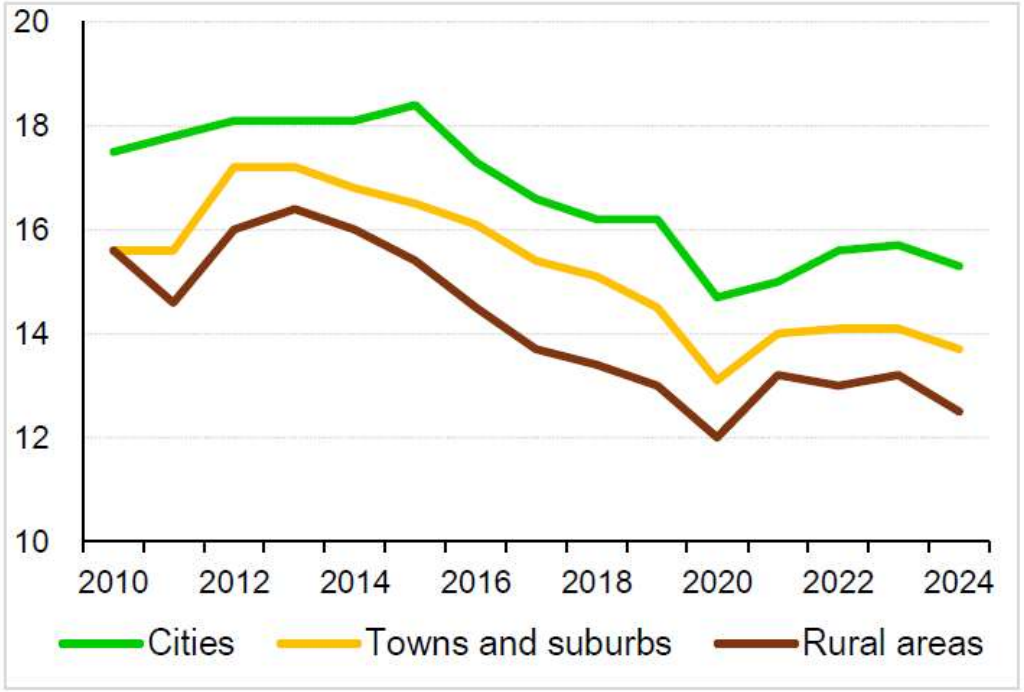
Households with income below 60% of median face high housing costs

Graph 1. Median housing costs in percent of disposable income, EU27 aggregates

By income status[1]



By degree of urbanisation[2]

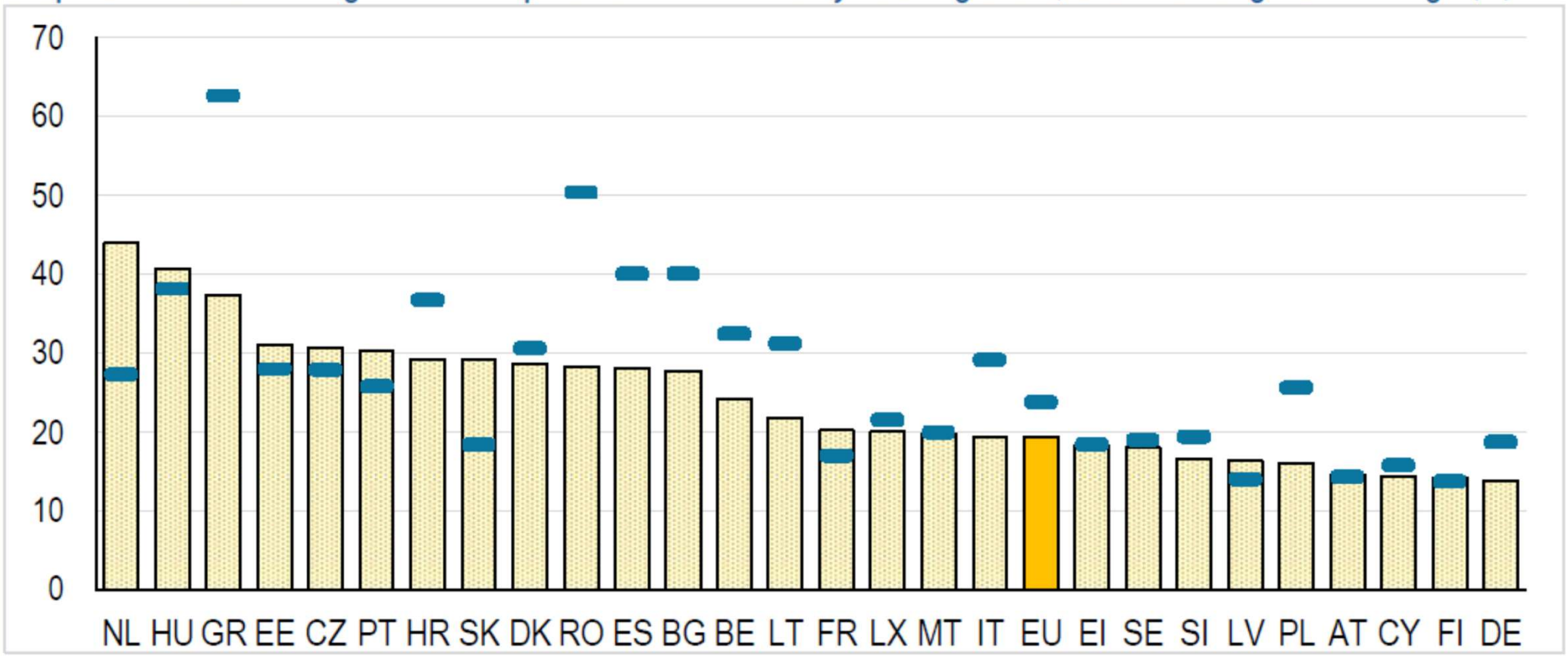


[1] Median shares of total housing costs in disposable income, for all households (All HHs), households with income below (Inc. 60% < median) and above 60% of median equivalised income. [2] Median shares of total housing costs in disposable income for households living in cities, towns and suburbs, and rural areas. For definitions of total housing costs and disposable income see footnote 8 in the main text.

Sources: Eurostat; left-hand panel: Share of housing costs in disposable household income, by type of household and income group [ilc_mded01]; right-hand panel: Median of the housing cost burden distribution by degree of urbanisation [ilc_lvho08b].

Tenants renting at market price struggling in many countries

Graph 2. Tenants renting at market price overburdened by housing costs, 2024 vs. long-run average (%)[1]

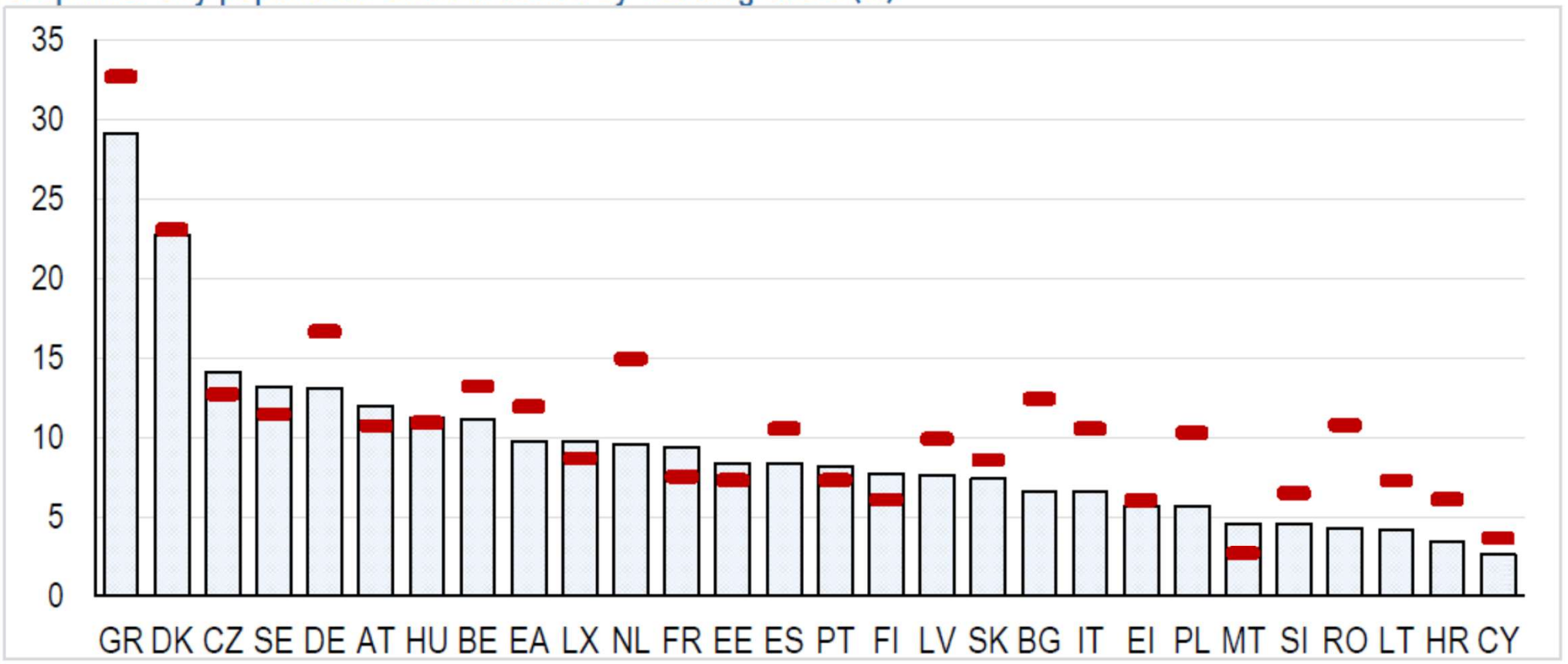


[1] Percentage of tenants renting at market price living in a household where total housing costs exceed 40% of disposable income (excluding housing allowances). [2] The bars denote the overburden rates in 2024, the dashes long-term averages (from 2005 or later to 2024).

Sources: Eurostat, Distribution of population by housing cost burden and tenure status [ilc_lvho28]; author's calculations.

Overburden rates in cities creeping up, though still mostly low

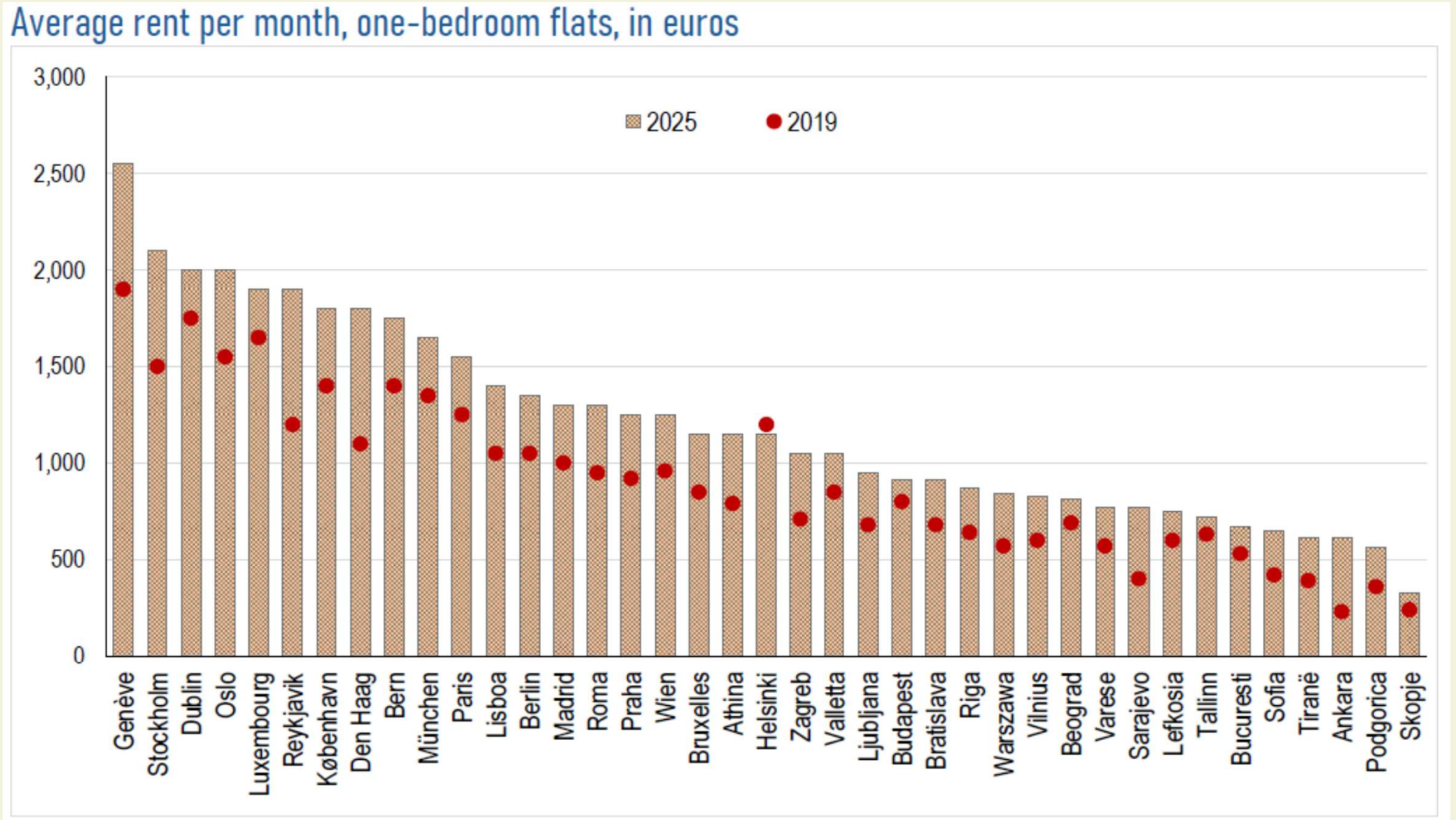
Graph A2. City population overburdened by housing costs (%)[1]



[1] Percentage of the population living in a household where total housing costs exceed 40% of disposable income (excluding housing allowances). The bars represent the housing cost overburden rates in 2024, the dashes their long-term average values (since 2005 or later if data not available). For definitions of total housing costs and disposable income see footnote 8 in the main text.

Source: Eurostat, Housing cost overburden rate by degree of urbanisation [ilc_lvho07d].

But rents for one-bedroom flats in major cities increased on ave. 38% b/w 2019 and 2025

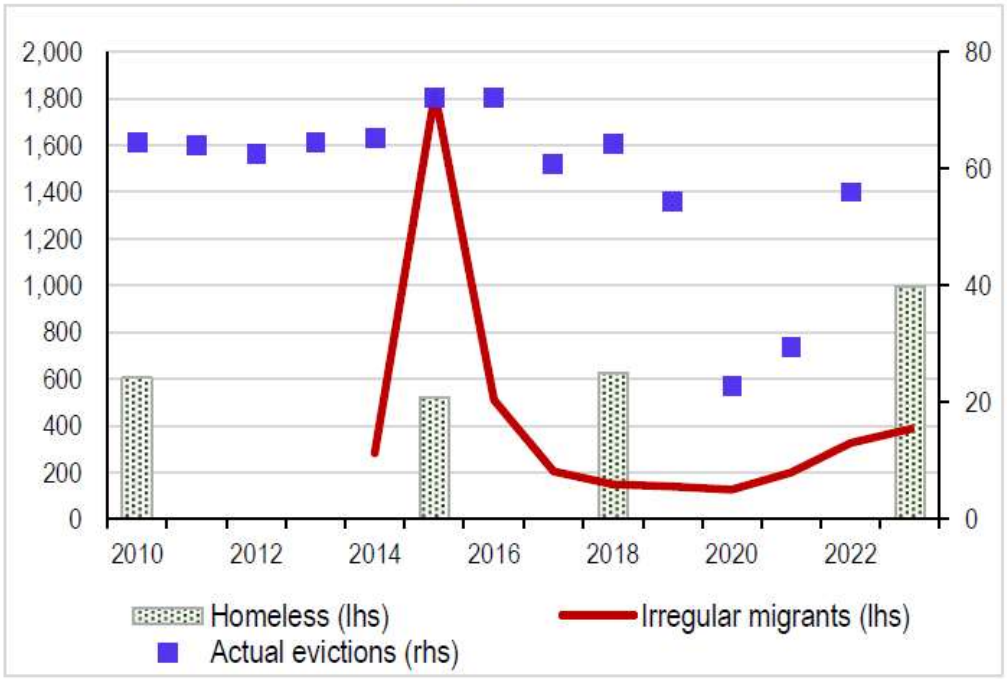


Source: Eurostat, Average rent per month in cities by type of dwelling [prc_colc_rents]; author's calculations

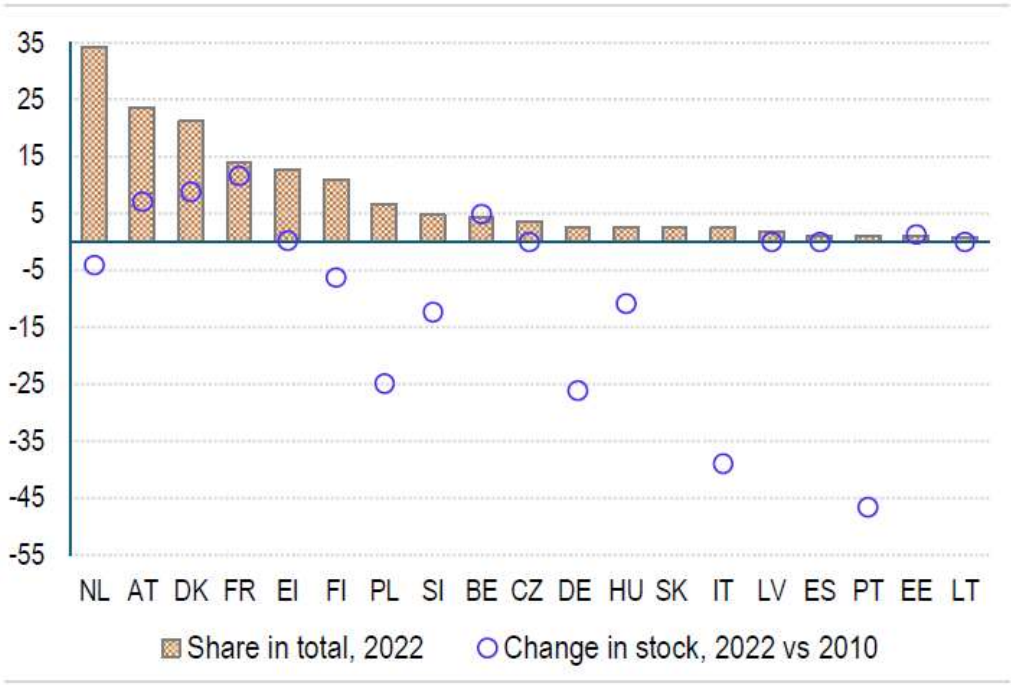
Socially vulnerable groups left behind in terms of housing

Graph 6. Vulnerable population segments and social housing

Homeless, evicted and irregular migrants ('000)[1]



Social housing stock (%)[2]



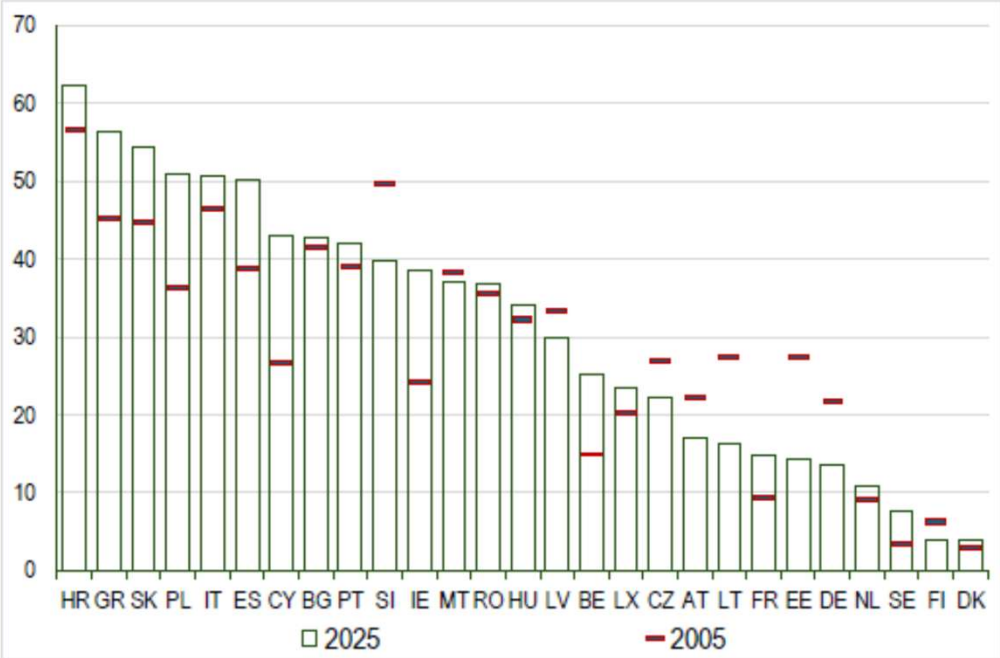
[1] Estimated number of people experiencing homelessness (OECD affordable housing indicator HC3.1.A); actual evictions (indicator HC3.3.1A); and irregular migrants into EU. [2] Social rental dwellings as percent of the total housing stock in 2022, and percentage change from 2010 to 2022 (calculated from OECD affordable housing indicator PH4.2.1A).

Source: Eurostat; OECD Affordable Housing Database 2024; author's calculations.

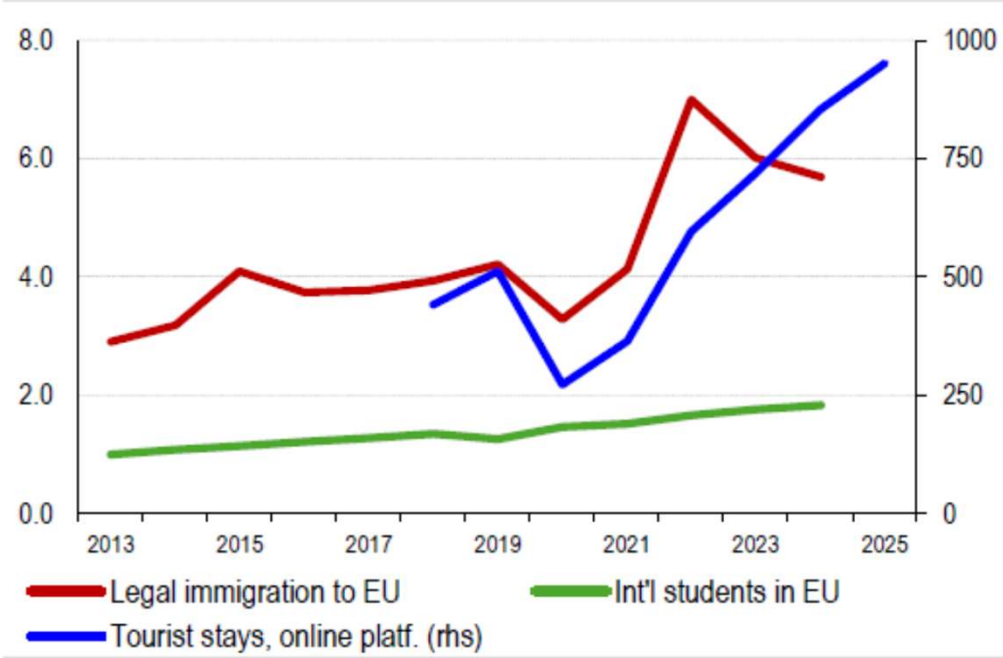
Other groups facing affordability issues: young adults, int'ly mobile, int'l students

Graph 8. Other sources of housing affordability pressure

Young adults living with parents, 2025 and 2005 (percent)[1]



Internationally mobile workers, int'l students, short tourist stays (mil.)[2]



[1] Persons 25-34 years old living with their parents, percent of all persons in this age group. Data for Croatia start in 2010, for Romania in 2007. [2] Total legal migration from EU and non-EU countries to EU27; mobile students from abroad (EU and non-EU) in EU27 countries; and guest nights spent at short-stay accommodation offered via collaborative platforms, in millions.

Sources: Eurostat, Persons living with their parents or contributing/benefiting from the household income [ilc_lvps08]; Immigration by broad group of country of previous residence [migr_imm12prv]; Guest nights spent at short-stay accommodation offered via collaborative economy platforms by mode of accommodation - experimental statistics [tour_ce_oam]; Mobile students from abroad enrolled by education level, sex and country of origin [educ_uoe_mobs02]: author's calculations.

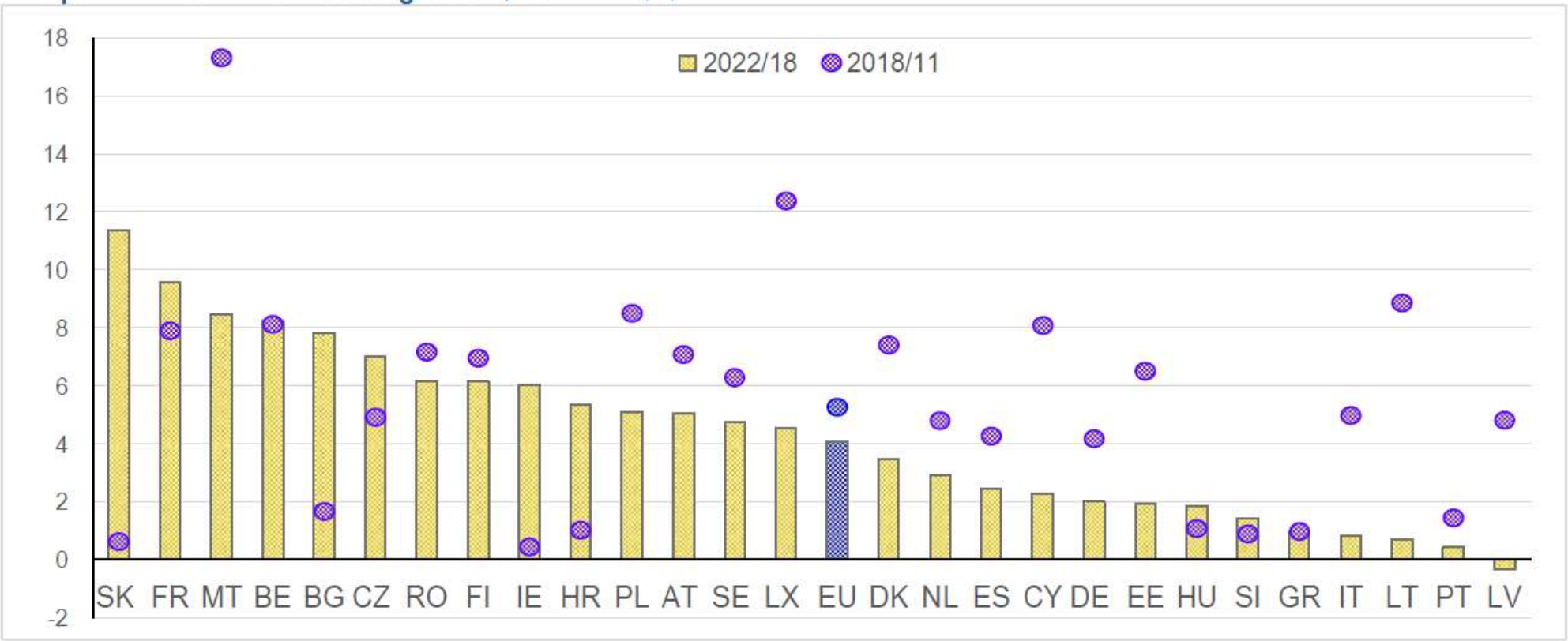
Note: Affordability measures are static. We need much better statistical data to assess affordability.

Housing supply

Housing stock is high but residential construction is slow

- 1.2 mil. new dwellings built in 2022, 1.5 mil. in 2011
- Only a few countries built more homes in 2018–22 than in 2011–18
- New construction flow is slow: 56 years to replace half of the housing stock at current speed (vs. 20 yrs in DE, 30 yrs in HR after WWII)

Graph 13. Growth of housing stock, 2011-22 (%)[1]



[1] Percentage change in total housing stock between 2022 and 1018, and 2018 and 2011, respectively.

Source: OECD; author's calculations.

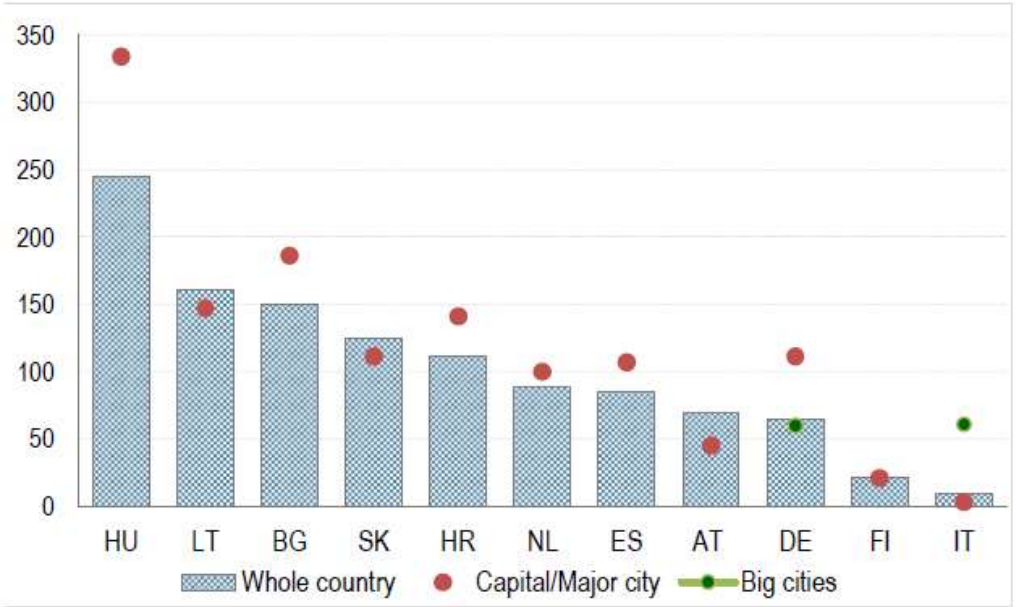
Indirect evidence of tight housing supply

– House prices rising much faster in some cities

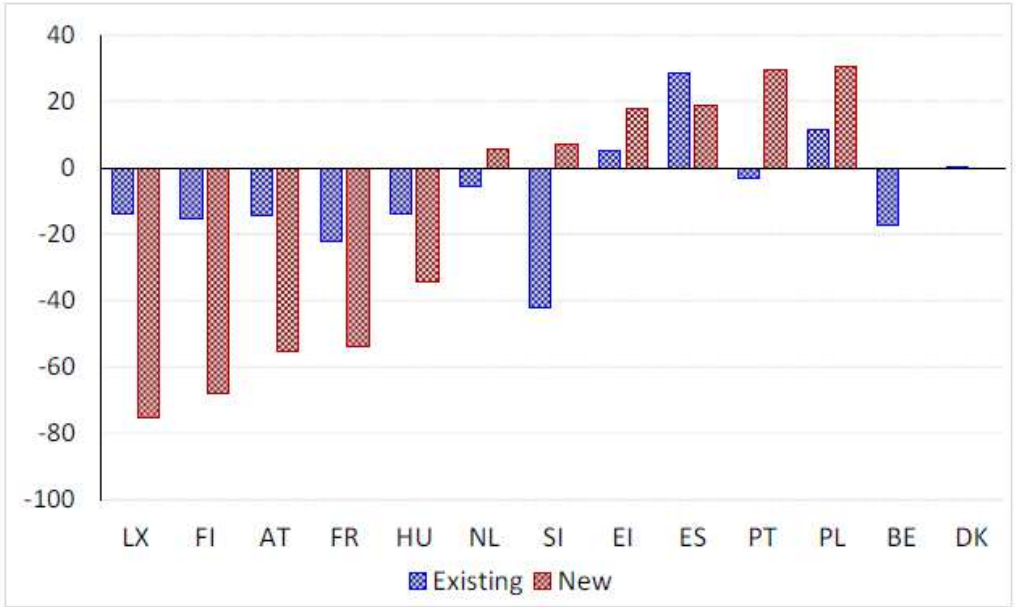
– Sales of new and existing housing lower than before the pandemic

Graph 14: Indirect evidence of housing shortages

House prices, whole country and major cities, 2015–25 (2015=100)[1]



Sales of dwellings, 2024 vs. 2019 (%)[2]



[1] Cumulative growth, all types of dwellings (new dwellings for Finland), pure prices (price per square meter for Austria, Bulgaria, Finland and Slovakia). For Austria and Croatia, whole country excludes capital city. [2] Changes in the number of newly built and existing dwellings purchased by households.

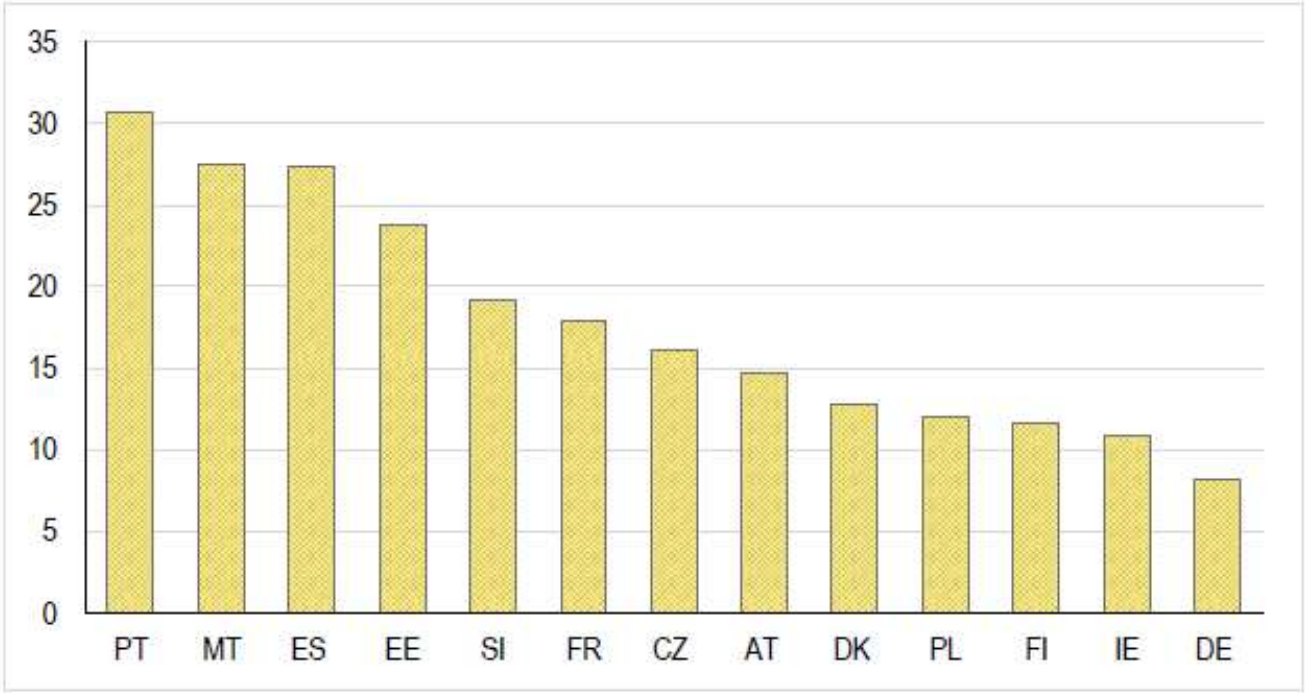
Sources: BIS, Residential property prices; Eurostat, House sales, number and index (2015=100) [prc_hpi_hsna]; author's calculations.

Are seasonal / vacant homes to blame for tight supply?

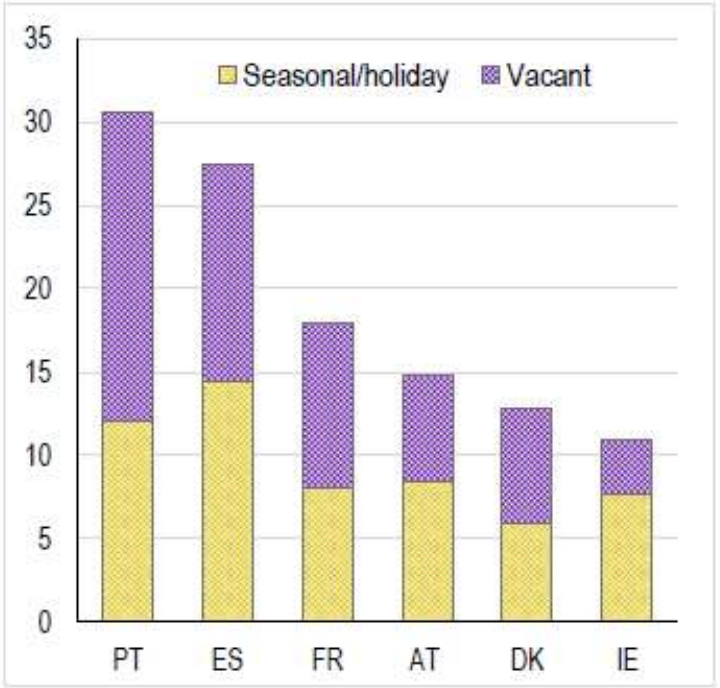
- Some relation to tourism but no clear pattern across countries (or time)
- BE, DE, FR, EI, LX, UK: secondary properties rented, compensate for low pensions, esp. self-empl.
- Southern EU, CESEE, FI: secondary properties used by family; B&B not used for active landlordism

Graph A5: Seasonal / holiday homes and vacant dwellings (%)[1]

Total



By use



[1] Percentage of the total dwelling stock, 2022 or latest year available.

Source: OECD.

Why is residential construction slow?

Two main explanations (not mutually exclusive):

- Building restrictions / red tape
- Low productivity in housing construction

No agreement in empirical literature

- (Large) negative impact of **building restrictions** based mainly on US research
- In EU, many places have **overbuilding** problem, building restrictions not well enforced
- But clear evidence of obstacles due to **permitting**, rigid heritage protection etc.
- Better urban / spatial planning needed to release land for housing development
- Low productivity partly a **statistical artefact** – off-site activities not included
- **Shortage of workers** leads to construction delays

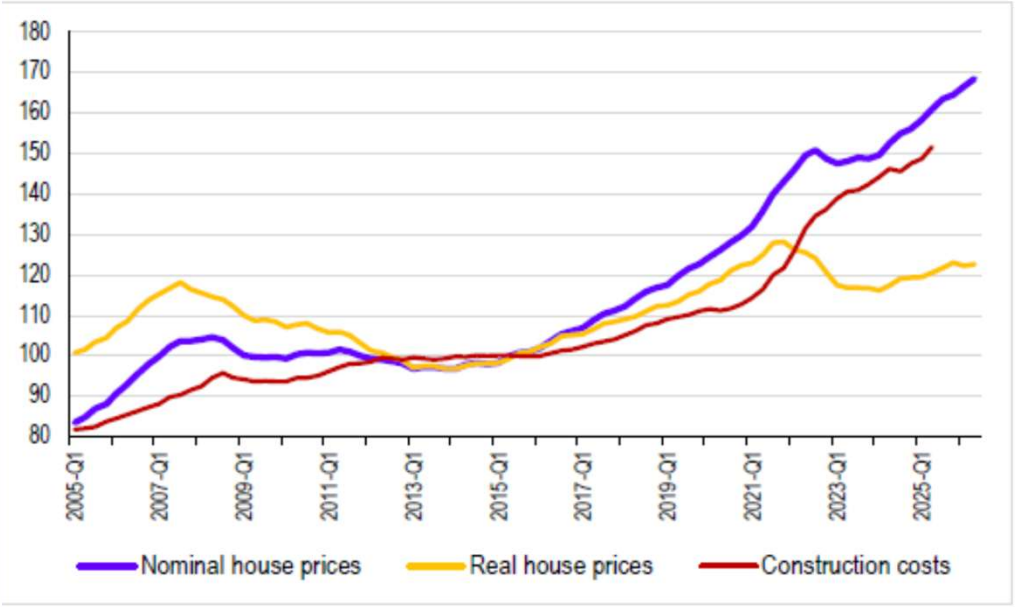
Housing demand and house prices

House prices holding up well despite macro shocks in past 10 years

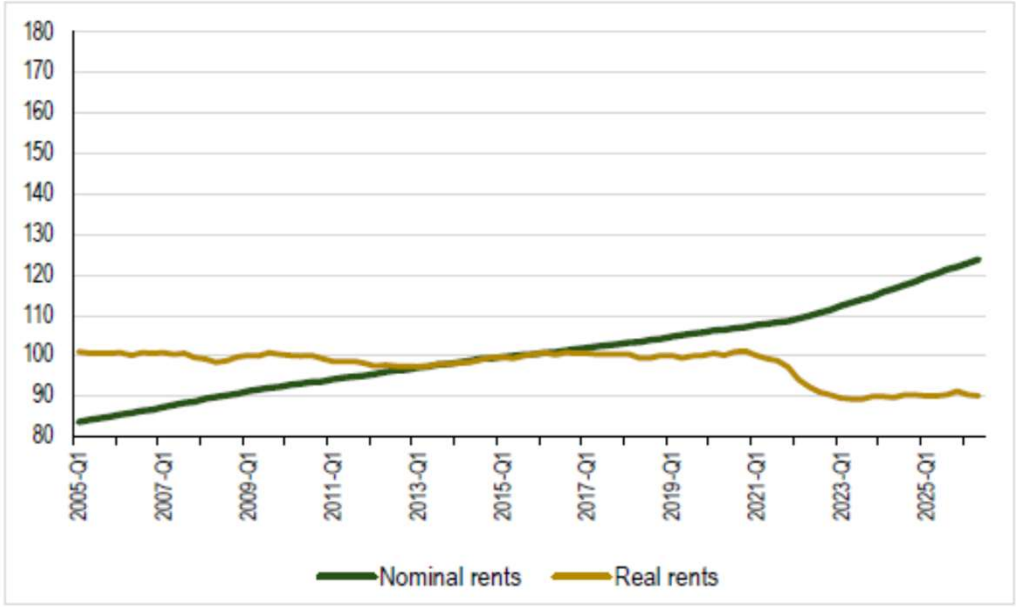
- 67% nominal, 21% real increase from 2015 to mid-2026
- Decreased since 2015 only in FI
- Grow in line with construction costs
- Nominal rents up 23% since 2015, real rents down 10%

Graph 9. House prices, construction costs, and rents in EU27, 2005–26 (2015 = 100)

House prices and construction costs[1]



Rents[2]



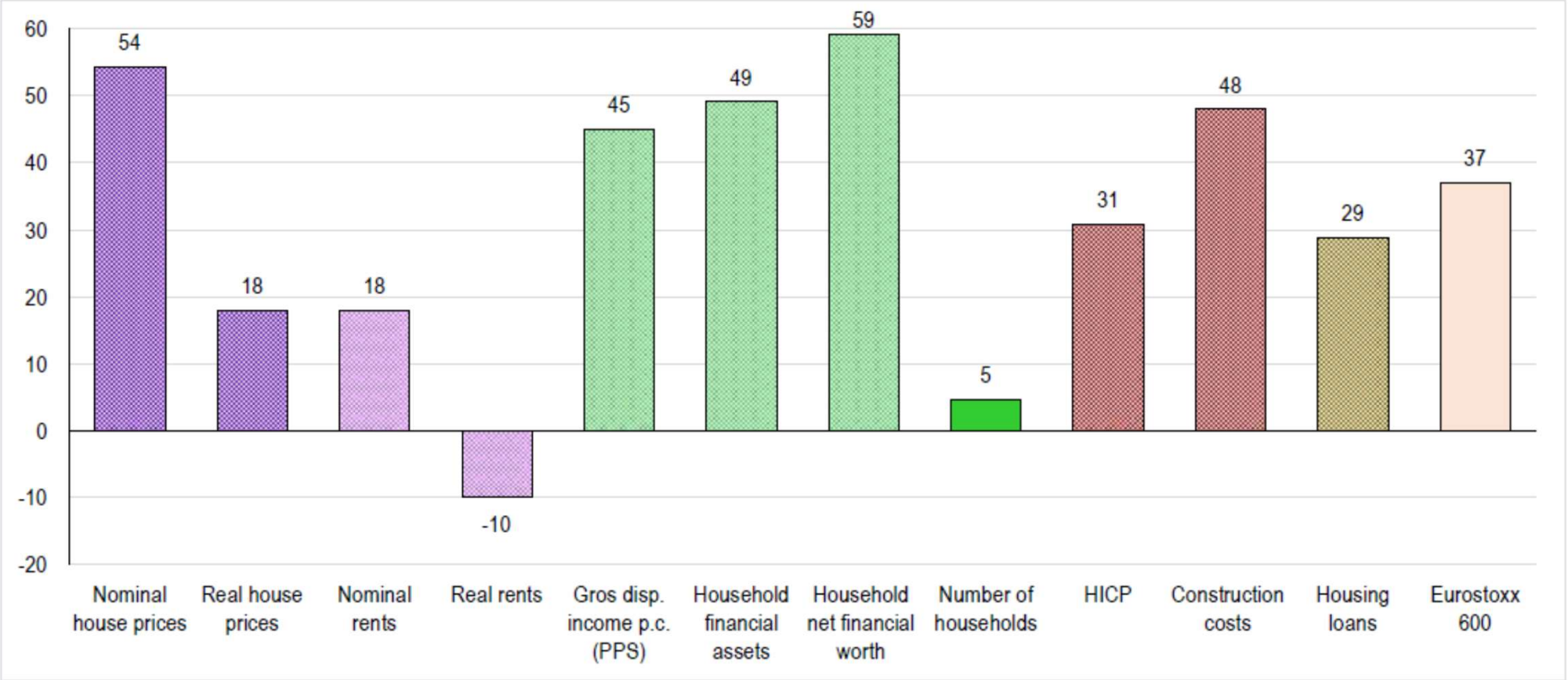
[1] House price index for purchases of newly built and existing dwellings; and construction producer prices for new residential buildings (except residences for communities), neither seasonal nor calendar adjusted. Real house prices obtained by deflating nominal prices with HICP. [2] Actual rentals for housing, from HICP monthly data; real rentals obtained by deflating nominal rentals with overall HICP.

Sources: Eurostat, House price index (2015 = 100), quarterly data [prc_hpi_q], HICP - monthly data (index) [prc_hicp_midx], Construction cost of new residential buildings [teiis510]; author's calculations.

House prices well explained by demand fundamentals

Graph 10. Determinants of long-term growth in EU house prices, 2015–24[1]

Cumulative growth, %

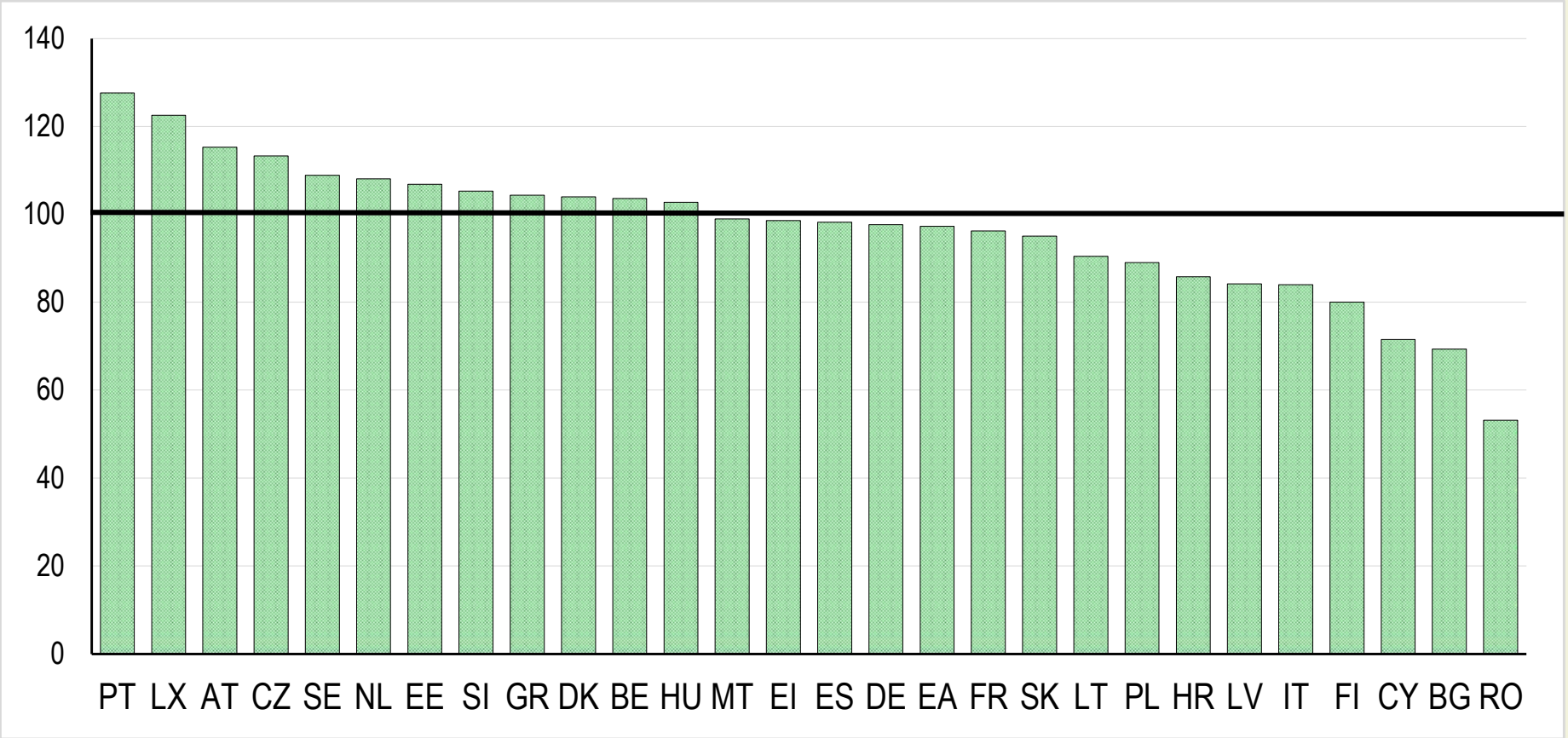


[1] Data for EU27, except for housing loans (euro area).

Sources: Eurostat; ECB; author's calculations.

House prices not out of line with income growth

Graph 5. House price-to-income ratios, 2024 vs. long-term average[1]



[1] Current house price-to-income ratio relative to the long-term average (from 2000 or later). Income is calculated as adjusted household gross disposable income per head of population.

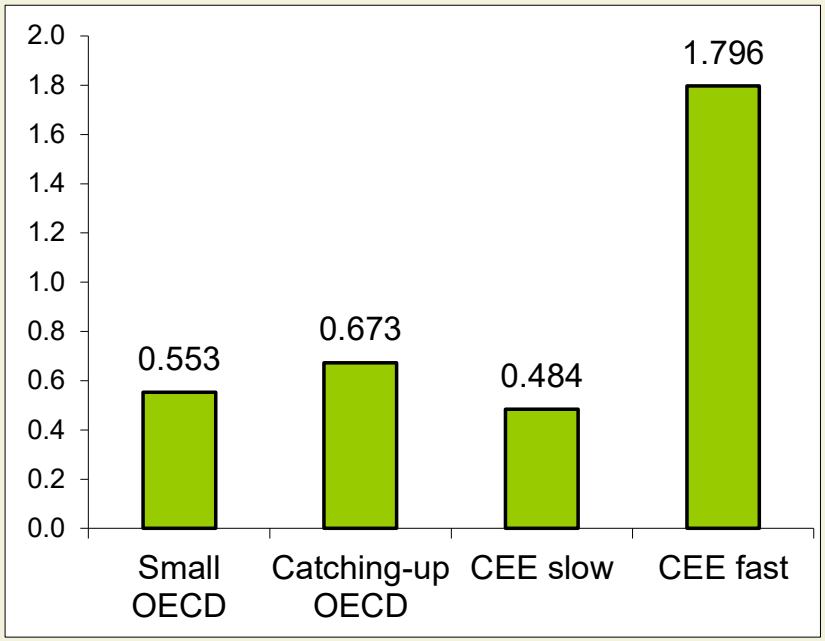
Source: Eurostat, Standardised house price-to-income ratio - annual data [tipsho60].

Not much discussed – high income elasticity of demand for housing

- House prices typically increase more than proportionately with the rise in income
- Income measures used in estimates make a difference

Pre-GFC estimates

(1973/1993-2006; real p.c. GDP)



Source: Egert and Mihaljek (2007).

Pre-covid estimates

Real p.c. GDP

- Non-US advanced economies (1966-2015): 1.20–1.55
- EMEs (1976-2015): 2.10–1.90

Source: BIS WP 665.

Real disposable income per household

- UK (1964-2017), 2.40–3.00

Source: Meen and Whitehead (2020)

Not much discussed – wealth growth as a driver of house prices

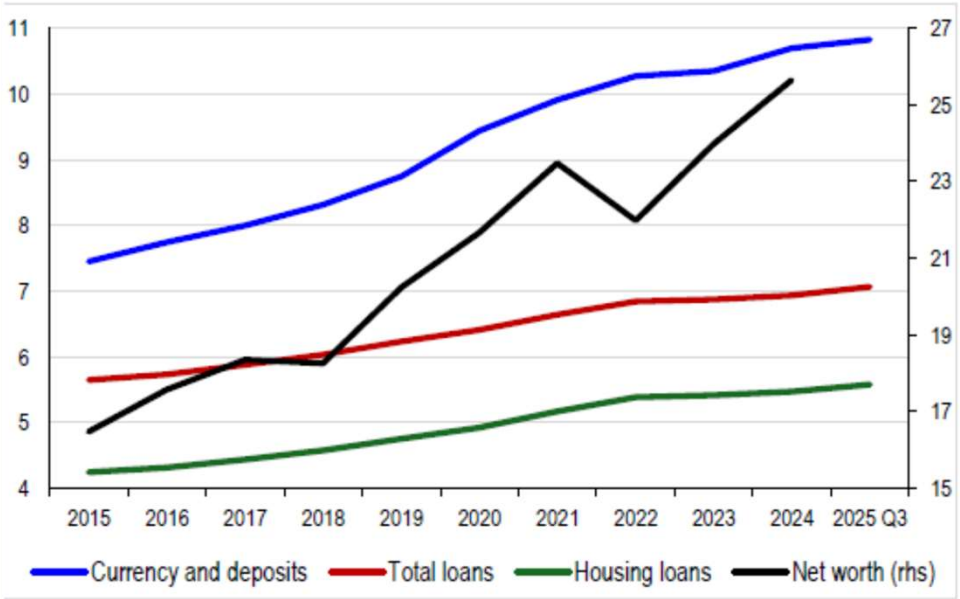
- Empirical work focuses on credit and interest rates as key demand determinants
- But **mortgage lending has been weak** despite low int. rates pre-2022
- Instead of loan demand, low int. rates stimulated growth of HH **cash and deposits** …
- … and in the absence of good investment alternatives, these were channelled to housing
- In recent years, a large share of residential **properties purchased w/o mortgage**

  Spain > 25%, Austria & Germany (new/prime) 40–50%, France (secondary) 30–35%

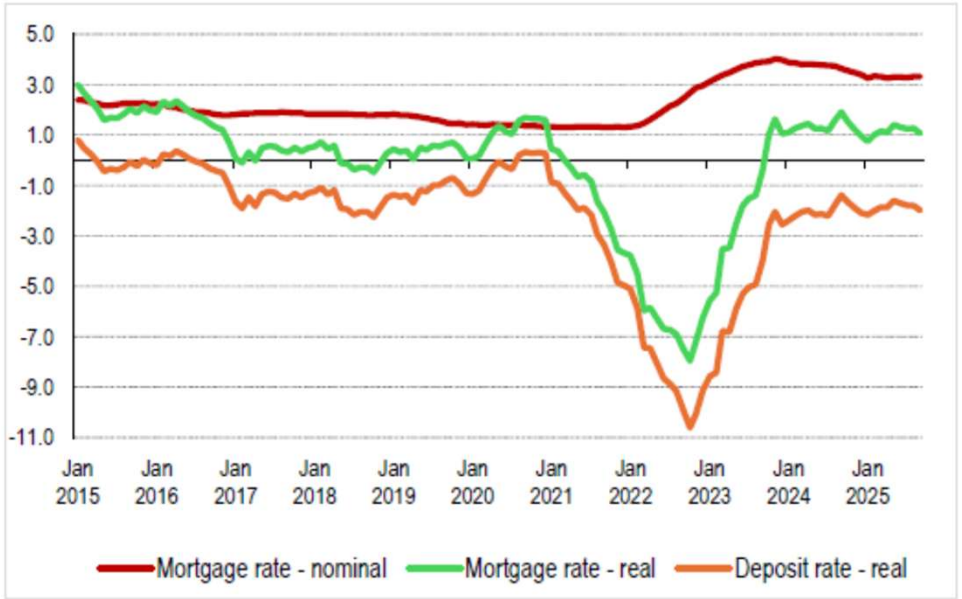
  CESEE 50–70% (realtors' data)
- Little effort in some countries to prevent money laundering through housing investment, check origin of funds, tighten AML compliance
- Tax policy can do only so much, given high income/wealth elasticity of demand

Graph 11: Euro area household financial assets, loans and interest rates, 2015–25[1]

Household loans, liquid assets and net worth (€ tril.)



Household mortgage and deposit rates (%)[1]

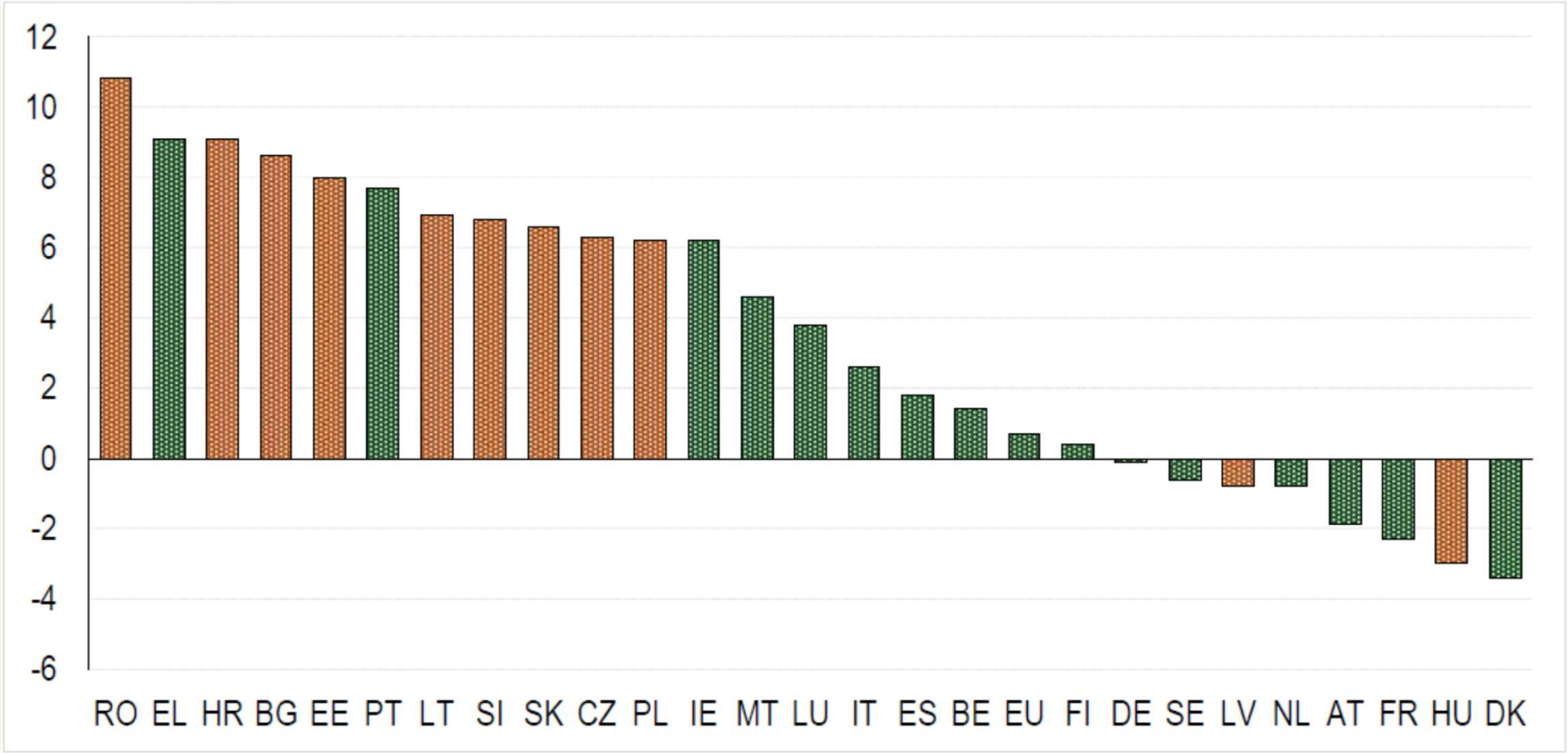


[1] Interest rates on loans for house purchase are calculated by weighting the volumes of new loans with a moving average of the stock of existing loans. Deposit rates are euro area commercial bank interest rates on households' overnight deposits. Real rates calculated by deflating nominal rates with HICP.

Sources: ECB; Eurostat; author's calculations.

Change in the share of currency and deposits in total household wealth, 2015-18 vs. 2001-04

In percentage points



Sources: Eurostat and ECB, *European Institutional Sector Accounts*; Kozina et al (2021); national data; author's estimates.

Not much discussed – empirical estimates of int. rate elasticity are low

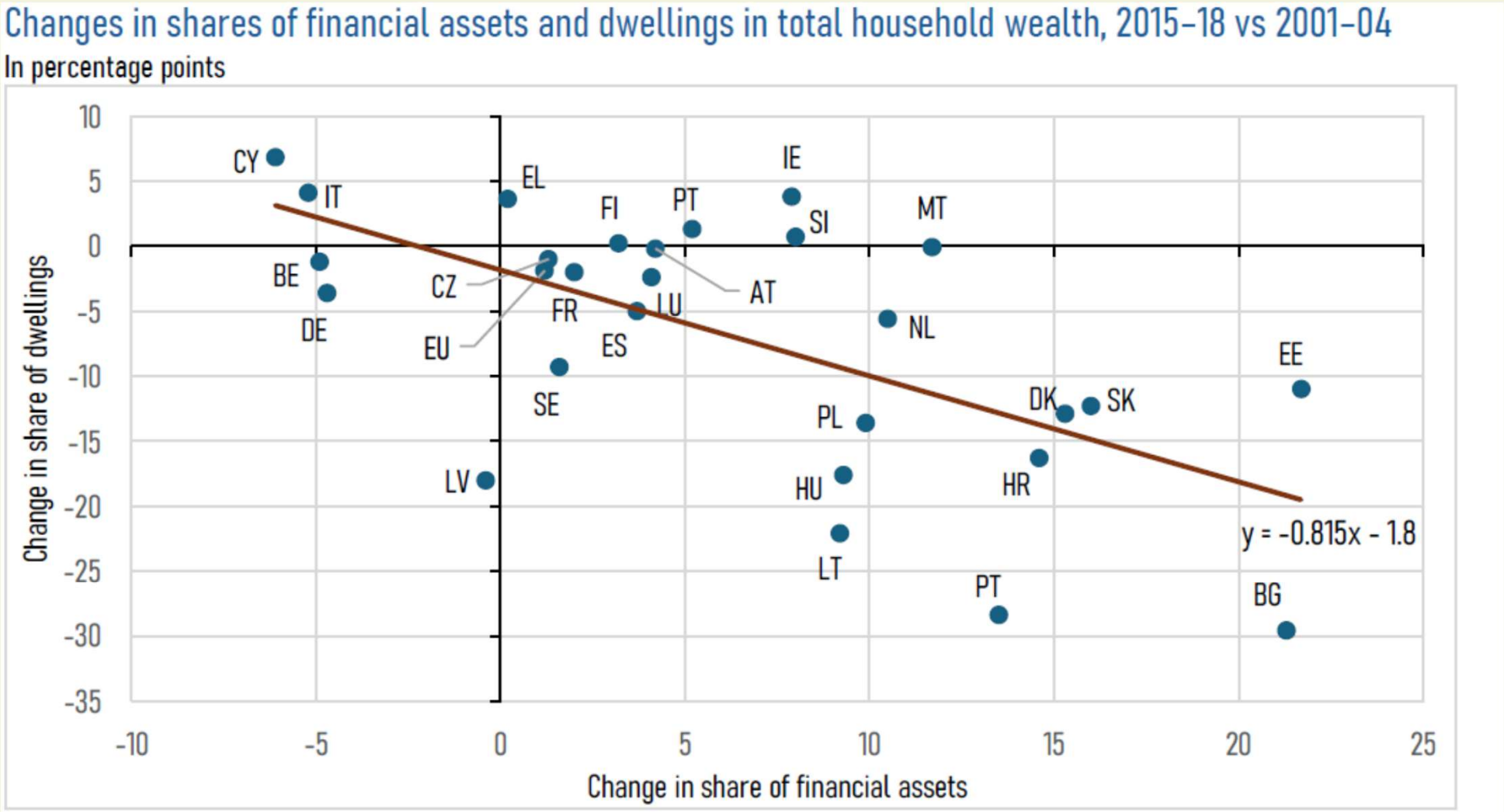
- **Financial-investment model** dominates in empirical literature: living in one's own home versus selling it and moving into a rented flat are two alternative assets → very high int. rate sensitivity of housing demand
- **Puzzle**: estimates of int. rate elast. ¼-½ lower than predicted by this model (Kuttner, 2014)
- One reason: housing is not a liquid asset, **transaction costs** of changing tenure very high (not discussed in the lit.)
- Another reason: modelling approach, not enough attention paid to lagged effects of MP
- Note also: rental markets narrow, highly regulated; hardly an alternative to HO

Policy dilemma

- If housing demand is sensitive to int. rates, monetary policy can affect the housing cycle …
- … and macroprudential regulations can affect mortgage borrowing
- But should we do when housing is not sensitive to int. rates, and a large share of purchases is not mortgage-financed?

Neglected – lack of alternatives to housing investment

- Strong housing demand partly reflects low returns to financial investments in EU, incl. bank deposits (negative real rates) and equities/corporate bonds post-GFC
- In CESEE countries that saw some financial deepening, share of housing in HH wealth ↓

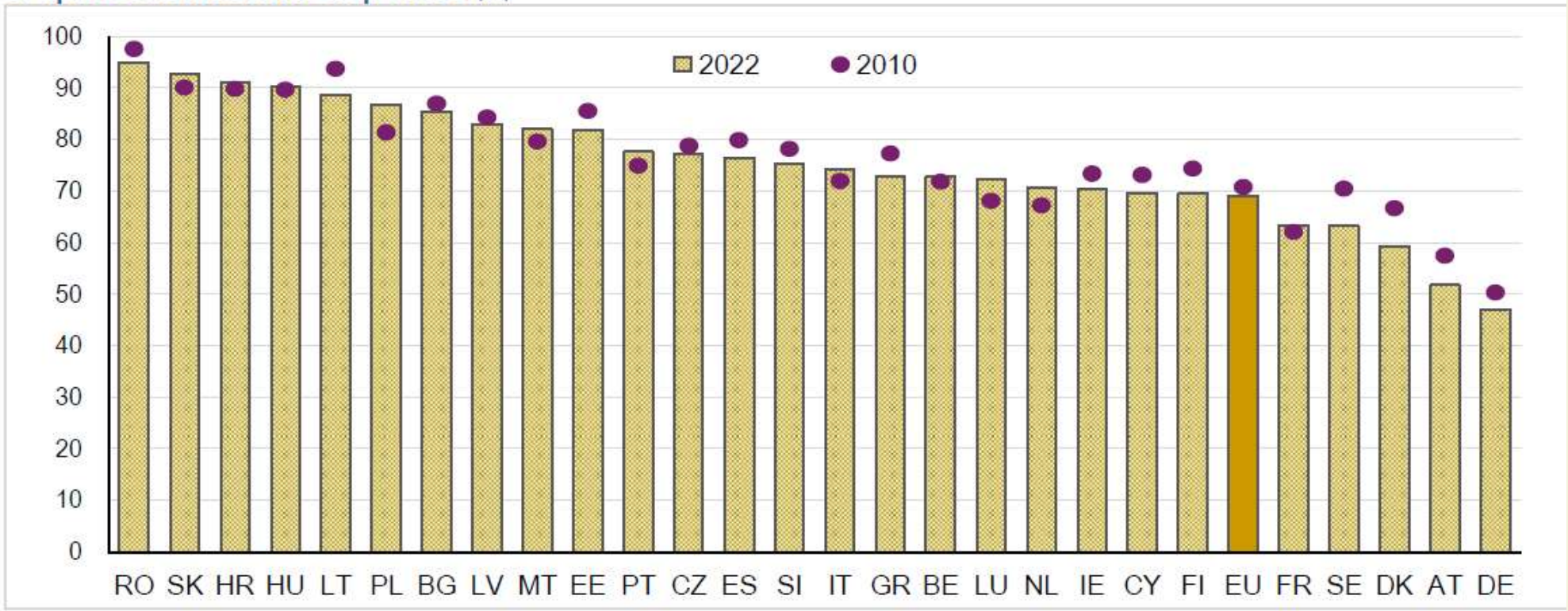


Sources: Eurostat and ECB, European Institutional Sector Accounts; Kozina et al (2021); national data; author's calculations

Not much discussed – culture of homeownership

- Powerful psychological and sociological forces behind homeownership
- Strong in southern Europe, CESEE, English speaking countries
- HO grants permanent access to valuable networks –neighbourhood, local schools, associations etc.
- Confers social status that can be transferred to future generations, serve as substitute to pension

Graph 15. Homeownership rates (%)[1]

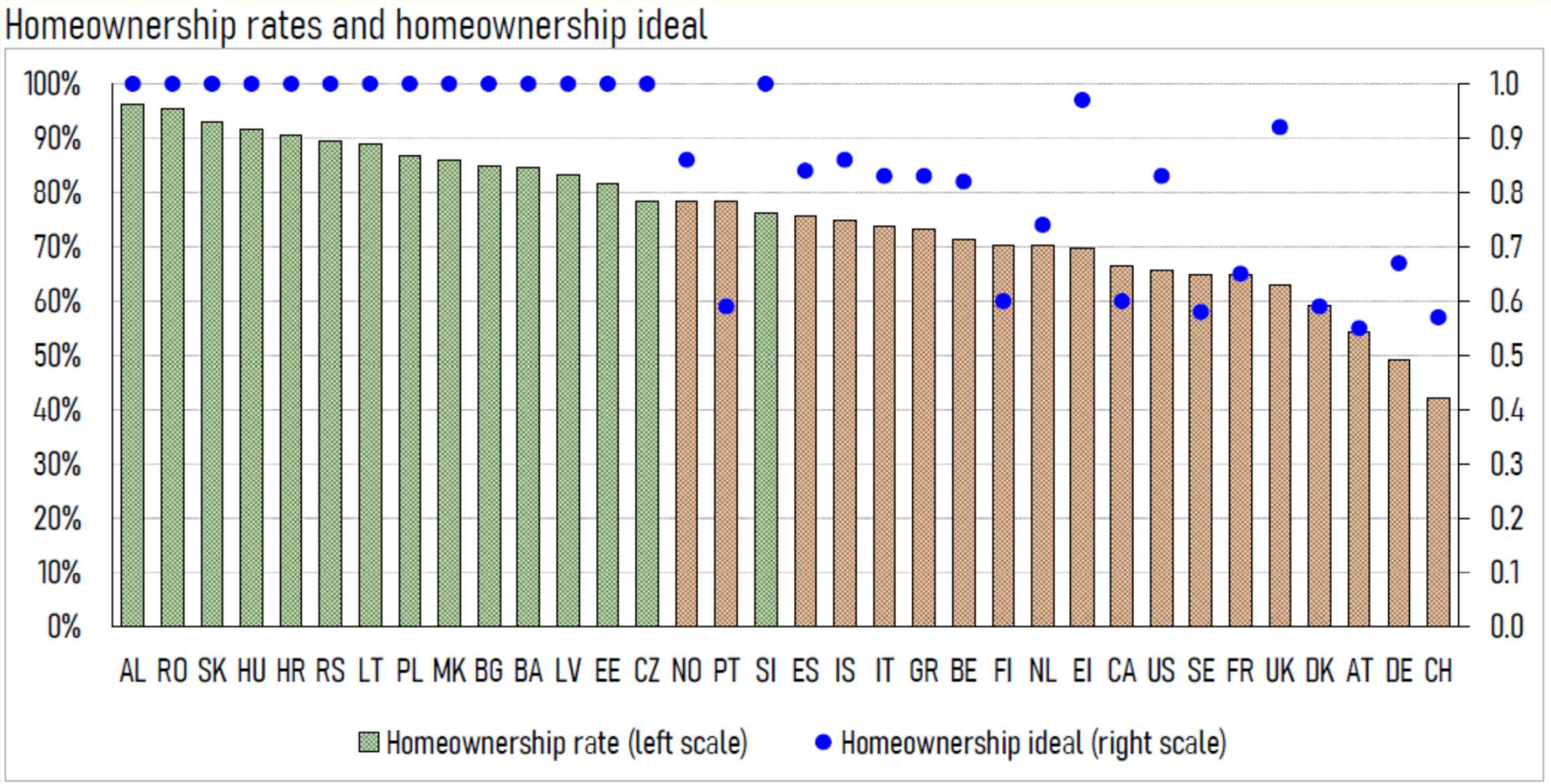


[1] Outright housing owners or owners with a mortgage, as a percent of all households (OECD affordable housing indicator HM1.3 A2).

Source: Eurostat; OECD; author's calculations.

Homeownership a matter of policy, not just culture

- "Homeownership ideal", content of political party manifestos from 19 AEs since WWII (1920 for US)
  ≈ probability of any given government in a country defending HO
- EU Parliament debates focus on owner-occupied, not rental housing



Percentage of household who are outright owners or owners with mortgage

Sources: Eurostat (2023); OECD (2024b); national data; Kohl (2018); Bonefačić Mihaljek (2025).

State of housing affordability policies

Current state of policies

Two regional groupings, reflecting differing HO rates / rental sector sizes

1. Western and Nordic countries
2. Southern and CESEE countries

Three policy clusters

1. Demand-side
2. Social housing
3. Supply-side

Neglected policy issues

- Interactions of different housing policies (can cancel or reinforce each other)
- Administrative costs of different measures unknown (ex-ante and ex-post)
- Agglomeration effects – *the* economic case for affordable housing rarely invoked
- Subordinated position of housing in economics discourse and policy

Demand-side policies

For renters in private rental markets

- **Rent controls** – increase inequality, reduce maintenance, investment, housing quality and mobility, destabilise aggregate housing market. 19th c. and WWI legacy
- **Housing allowances** – increase income stability, positive social effects, may both increase and reduce work incentives. Associated with higher rents

For homebuyers and homeowners

- **Grants for purchase/construction** – increase house prices and urban sprawl, do not improve access to housing for low-income families
- **Mortgage interest deductions** increase house prices, no impact on HO
- Little evidence on effectiveness of mortgage guarantees, downpayment assistance, targeted tax reliefs, preferential housing saving terms

To discourage excess demand for housing

- **Taxes on second homes, vacant properties, foreign buyers**
- Ineffective in reducing rents or durably reducing vacancy rates (FR); reduce sales in short but not long term (FR); may reduce excessive construction and overbuilding (CH)

Social housing policies

- Significant **positive effects** for tenants, social cohesion; can provide counter-cyclical buffer when private housing market slumps
- **Should be priority for most governments.** Supply and operation of social housing, eligibility criteria to access social housing require good governance

Supply-side policies

For residential real estate developers

- To increase supply of housing at below-market rents or prices – grants, low-interest loans, loan guarantees
- Reduced VAT, other taxes paid for newly built dwellings, conversions to housing
- Sale of plots of publicly owned land at reduced prices for affordable housing construction
- Typical condition: set aside e.g. 25% of dwellings constructed for affordable/social housing

For homeowners, rental property landlords, housing cooperatives, local gvts.

- Typically for energy efficiency, housing quality upgrades
- Grants, tax reliefs, loans at preferential rates, loan guarantees, insurance programmes

Almost no studies evaluating effectiveness of supply-side policies

Economic case for affordable housing rarely invoked

- Substantial **agglomeration effects** arise from locating businesses, workers and people in close proximity to each other
- Agglomeration effects enhance productivity and economic growth, but they also put pressure on housing markets.
  - On the demand side, higher wages paid to attract the more productive workers and better amenities that cities offer increase the demand for a limited stock of housing
  - On the supply side, greater housing density, congestion, and physical, regulatory and political economy constraints limit the expansion of the housing stock
- The outcome is **urban house price inflation** and **worsening housing affordability**
- Potentially highly productive labour force participants – internationally mobile workforce, young adults, international students – may not fill the job vacancies in major urban centres of innovation and productivity growth because of lack of affordable housing
- Higher housing costs coupled with congestion and other negative externalities may reduce the benefits of agglomeration

Subordinated position of housing in economics discourse and policymaking

Prevalent view of housing

- Merely a shelter, primarily social issue
- Improvement needed for health, environmental, energy conservation, climate reasons
- Inherently unproductive, threat to stability as a key driver of business/financial cycles

Time to reassess the economic role of housing

- Housing attributes affect human capital formation via life-long learning and work
- Housing is key to capture the benefits of agglomeration economies
- Housing demand and supply are large, stable growth sources, more so than infrastructure
- Significant multiplier effects, incentive to innovate
- With technology, mobility, housing has become globally tradeable

→ Change the mindset on housing and housing policies

Quiz: Who is this complaining about affordability? Where and when?

My arrival caused a great sensation throughout the whole city, and I went the round of all the newspapers for three successive days. Everyone wants to know me. I had to dine out six times this week.

I have nice and comfortable, but shockingly expensive lodgings. My landlord is Italian, he is also a cook and serves me four very respectable meals … but everything is terribly expensive here.