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Housing affordability in Europe: a critical survey of issues

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

Heimito von Doderer

Abstract

This paper reviews housing affordability issues in the EU with a view to framing the ongoing discussion in historical, empirical and policy analysis literatures. Housing affordability has traditionally focussed on the vulnerable and low-income population. Recently it has turned to questions of housing access for middle-income households, and efficiency losses from the lack of affordable housing in urban centres of innovation and productivity growth. The current state of housing affordability varies considerably across the EU. At the aggregate level, some indicators suggest that affordability has improved, others – notably on social housing – that it has worsened. At a more disaggregated level, there is evidence that affordability has deteriorated, especially in private rental markets and some urban centres. Population groups facing affordability problems include the socially vulnerable, many low-income households, and internationally mobile workers, young adults living with their parents, and international students. The paper finds that demand fundamentals and socio-cultural factors can explain fairly well the long-term rise in house prices. The aggregate housing stock is high but is not optimally distributed for affordability purposes. Importantly, new housing supply is coming on stream too slowly from a historical perspective. Housing affordability policies in the EU are numerous, eclectic, and often inefficient. Despite the economic significance of housing, there is still a tendency to view it primarily as a shelter. The rationales for housing affordability articulated in urban economics and economic geography are just beginning to appear in the EU policy discourse.

Keywords: affordable housing, house prices, housing markets, homeownership, agglomeration economies, housing policies.

JEL codes: R210, R28, R52, R31, R38, E31, H72, I38, D14.

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

Contents

1 Introduction

Over the past few years, hardly a week has passed without a major news media outlet reporting on housing affordability problems somewhere in Europe. Discussions in different policy fora often reveal a sense of housing crisis and an urgent need to take policy action to resolve it.[1] Yet a coherent diagnosis of housing affordability problems and possible policy approaches is elusive. This paper aims to fill that gap to some extent. It reviews housing affordability issues in the EU over the longer term, with a view to identifying gaps in our understanding of the topic and framing the analysis and ongoing policy discussions in the context of rich historical, empirical and policy literatures.

One key historical insight is that housing affordability is shaped by complex social, political, economic, and technological forces operating in a given place and time. Historically, affordability has been mostly a city-level issue affecting the low-income households and vulnerable population groups. But over the past decade it has become a broader economic issue. The main insight of the new literature is that big cities have become drivers of economic growth in a service-oriented, digital economy characterised by increasing labour mobility. Shortages of reasonably priced housing relative to incomes of key labour market participants can become a competitive issue in that setting, not just for the cities themselves but also for national economies.

A major difficulty in framing discussions on affordability is that the concept of affordable housing is intuitively appealing but hard to define precisely – it depends on many objective and subjective factors that cannot be distilled into a single indicator that could help reliably identify the state of affordability in a given place at a given point in time. Yet much of the affordability literature has revolved around the quest for such an indicator, only to conclude that different approaches all have some conceptual and practical advantages and shortcomings.

The analysis of available indicators in this paper provides a nuanced picture of the state of housing affordability in Europe. Based on accepted metrics, housing in most parts of Europe is affordable. At aggregate EU and country levels, some affordability indicators have even improved. But the more one disaggregates the analysis spatially and socially, the more issues with affordability emerge. The problem is that good-quality disaggregated data that are necessary for affordability analysis are rare. Such nuanced findings illustrate the need to consider a range of indicators at different spatial aggregation levels and household situations, rather than jump to conclusions about affordability crisis based on limited evidence.

This paper identifies two socially vulnerable population segments and three groups with incomes above the poverty line that evidently face housing affordability issues. The former includes, first, the socially most vulnerable – homeless people, households evicted because they cannot pay their mortgage or rent, and irregular migrants – and second, persons at risk of poverty or social exclusion who are tenants at market rent. The middle-income groups facing affordability issues include young people living with their parents, internationally mobile workforce, and international students. What these three groups have in common is that they encompass potentially highly productive members of labour force who would enhance the economy`s potential by taking up available jobs in the cities that drive growth, but may be discouraged from moving to such cities by high housing costs.

[1] See e.g. European Commission (2025a) and European Parliament (2026).

The paper then asks to what extent current house prices and market rents can be explained by underlying demand and supply fundamentals; the rise in household income and wealth, demographic factors, financing conditions, construction cost, etc. This question lies at the heart of discussions about housing affordability because addressing it allows us to assess whether the current level of house prices and market rents seems appropriate or is more likely detached from fundamentals.

The paper argues that the long-term rise in house prices can be well explained by standard demand and supply determinants. On the demand side, the rise in house prices and market rents has been closely aligned with the sustained rise in aggregate household income and wealth. Between 2015 and 2024, nominal house prices in the EU increased by around 55%, gros disposable income of household by 45%, and household net financial worth by close to 60%. A long period of low policy interest rates contributed to housing demand, though not as much through the credit channel highlighted in the macro-financial literature, as by creating disincentives to save and incentives to invest in housing rather than other assets. Among structural demand factors, the paper reviews evidence on demographic trends, second-home purchases by residents, the surge in demand for short-term tourist rentals, and demand by globally mobile high-income professionals. Some deeper social and economic forces behind the sustained strength of housing demand are also analysed, notably the culture of homeownership and financial deepening.

On the supply side, construction costs have also increased in line with house prices between 2015 and 2024, by 48% vs. 54% in total. The aggregate housing stock in the EU is high, with about 1.2 dwellings per household. The paper asks why affordability concerns nevertheless arise in this context. One reason is that the housing stock is not optimally distributed. Many urban growth centres face housing shortages, while rural and suburban areas have excess supply of housing. Another reason is that the flow of new housing supply is weak: it takes on average 56 years to replace half of the housing stock in the EU, almost three times longer than during the post-World War II reconstruction. Building restrictions and relatively low productivity in the construction sector are probably the main reasons for sluggish homebuilding. But these factors interact with housing supply in complex ways, and trying to address them creates difficult trade-offs. For example, many parts of Europe are coping with side-effects of over- rather than underbuilding because building regulations are neglected.

A key challenge for affordability policy in the EU today seems to be the lack of a coherent narrative on the economic significance of housing. Housing policy priorities in individual countries and at EU level still largely reflect the view that housing is primarily a shelter, and highlight the need to make it more accessible to certain population groups, or to improve it for social, health, environmental, energy conservation, and climate protection reasons. The view that housing attributes affect human capital formation, and that housing is a place of life-long learning and work is rarely invoked. Nor has mainstream economics been helpful in developing that narrative. Macroeconomists tend to view housing as a non-tradeable, credit-financed good that is a latent source of financial instability, and residential investment is generally considered an unproductive activity that does not enhance the economy's growth potential. Arguments developed in urban economics and economic geography about the economic significance of housing in general and affordable housing in particular – that cities can give rise to distinctive and complex agglomeration economies that affect labour markets and innovation systems – are not widely recognised in economics profession, let alone in policy circles.

This incomplete state of awareness about the economic significance of housing is problematic because of the high cost of failed policy attempts to tackle affordability. Since the mid- 19th century there have been numerous policy initiatives

to tackle housing affordability. The few successful ones were in most cases designed by interdisciplinary teams and led by pragmatic leaders, whether housing cooperatives, enlightened industrialists or local authorities who were willing to take political risks and challenge special interests in the economy and the society that wanted to keep status quo. Current housing policies in the EU reflect this historical, demographic and socio-cultural heritage. They are formulated and implemented at all levels of government: local, regional, national, and increasingly at EU level. They target a wide range of affordability concerns, from assisting individual households with heating bills to incentivising multi-billion EU green development projects. And they use a wide variety of tax, spending and regulatory tools. The paper analyses three policy clusters that can be discerned in this complex landscape: demand-side, social housing, and supply side polices. Drawing on the vast empirical literature, the paper assesses the effectiveness of current affordability policies for the most part critically.

The paper is structured as follows. Section 2 provides a brief historical overview of housing affordability issues, starting with developments in the second half of the 19th century, which shape European urban geographies to this day. Section 3 discusses the elusive affordability measurement issues. Section 4 provides a high-level diagnosis of current affordability issues at different spatial (EU, country, region, city) and population group levels. On that basis, social and efficiency arguments for addressing housing affordability are elaborated. Section 5 analyses the sustained rise in house prices, often seen as the main driver of unaffordability, highlighting not only demand and supply but also structural factors. Section 6 reviews current housing policies across the EU and empirical evidence on their effectiveness, with a view to identifying key policy gaps. Section 7 concludes with thoughts on some issues that deserve greater attention in future work.

2 A brief historical tour

Difficulties with access to housing of a decent standard at reasonable cost have been documented since at least the Industrial Revolution, when agglomeration effects started to play an increasingly important role in economically more developed parts of Europe. From the late 18th century, industrialisation pulled rural populations to the cities, where parts of the housing stock were torn down to expand industrial sites and transportation networks. This drove up land values and rents on the remaining housing, affecting not only workers but also better-off households.[2] The potential to expand housing areas upwards or outwards was still limited by building and transportation technologies of the day – the first elevators, steel frame residential buildings, and electric trams appeared only in the 1880s.

The housing shortage had dire consequences for industrial workers, illustrated vividly by economists such as Friedrich Engels (1872) and in numerous works of literary realism. Between 1861 and 1896, for example, the population of Paris increased by 841,000, or 50%, with the largest growth spurt between 1876 and 1881 adding 280,000 inhabitants (Shapiro, 1990). The population of the central arrondissements grew by only 7% during this period, while in the outer districts it doubled, but without nearly enough infrastructure and housing development to serve the working-class population, who lived mostly in slum-like conditions (ibid, p. 43). Only in the late 1890s the city government acknowledged that frequent epidemies and poor health of this population was a national security concern and launched stricter public health programmes, but still without clearing out large pockets of slums and building decent low-cost dwellings for workers (ibid, p. 60). In Vienna, legal protection

[2] After arriving on his first extended visit to London in 1791, composer Franz Josef Haydn wrote to his spouse in Austria that, with some difficulty, he managed to rent a very cosy but shockingly expensive apartment in the Soho district (Robbins Landon, 1981, p. 118).

of tenants against arbitrary evictions and rent increases was established only in 1918; until then, 78% of low-cost dwellings were let monthly (Banik-Schweitzer, 1990). A satirical magazine at the time quoted a Viennese landlord remarking to his friends: "Gentlemen, it's all very simple, I do it this way: a tenant who does not pay rent in time will be evicted, a tenant who does will pay a higher rent next time" (John, 1982, p. 38).

Until the mid-20th century, analysis of housing needs thus mainly dealt with the shortage of urban rental housing for workers migrating from rural areas, or for population groups such as demobilised soldiers and citizens returning to metropolitan cities from former colonies. Policy responses focused on the supply side, with cooperative, private and public sectors all playing a role in the provision of affordable rental housing in cities. For example, the first visionary model of cooperative housing settlements, *Cité ouvrière* in Mulhouse, France, dates back to 1853. A leading example of public sector involvement is community building in Vienna, initiated in 1919–33 and relaunched after World War II.[3] Another is factory towns that enlightened industrialists such as the Czech shoe manufacturer Bata built for their workers across Europe and overseas in the 1920s and 1930s. After World War II, a broad social consensus that access to adequate housing is a fundamental human right was enshrined in the Universal Declaration of Human Rights in 1948 and in numerous national constitutions.

By the early 1970s, the large-scale post-war reconstruction and economic boom had eased the acute housing shortages and significantly improved the overall quality of housing in most European cities. During the following two decades, there was little discussion of housing in policy and academic circles.[4] The academic and policy literatures began to diverge: the former shifted its focus from the supply side to refining the criteria for access to social housing, the latter focused on comparing and contrasting housing policies across countries.

The term "housing affordability" first appeared in European public discussions in the late 1980s, when deregulation of housing finance led to a widespread boom in house prices. The UK government, for example, proposed changes to the subsidy scheme for social rented housing in response to the housing boom (Malpass, 1993). The main affordability issues at the time were the void left by the exit of the public sector from the provision of housing for low-income households, and reduced government intervention in private housing markets through mortgage credit and rent controls (Hallett, 1993). Governments in Germany and the United Kingdom began to privatise social housing; those in Austria, France, the Netherlands and few other countries maintained the stock of social housing but started to build less of it. Across Europe, public spending shifted from social housing to personal housing allowances, while management of social housing was transferred from public authorities to non-profit organisations, which nevertheless had to operate on commercial principles due to cutbacks in subsidies (Hallett, 1993, p. 6). The broader significance of affordable housing for the economy and society was not widely discussed, nor were the side effects of cutbacks in social housing, such as the sharp increase in homelessness in many countries. In retrospect, this is not surprising given the emphasis on retrenchment of the public sector and on market-based solutions that characterised this period of liberal market policies. One indication of the lower priority of housing for policymakers is that its governance was depoliticised and devolved from central to local authorities in many countries, often without commensurate devolution of revenue raising powers.

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[3] See e.g. Bauböck (1979), Stadtbauamt der Stadt Wien (1956), or, for contemporary criticism, Schneider (1926).

[4] For example, Maclennan (1982), a standard textbook on housing economics from this period, has no mention of housing affordability.

Housing affordability disappeared once more from public discussions in the late 1990s and early 2000s. A liberalised and increasingly integrated retail banking system in the EU facilitated the expansion of housing finance, in part through new mortgage products that held the promise of "democratising" the access to housing (Erturk et al (2007). The construction sector responded strongly to credit-supported demand: the share of private residential investment rose from an average of 4½% of GDP in the mid-1990s to 6% in 2007, and to 10–13% in Greece, Ireland and Spain. The stock of dwellings reached over 208 million in 2011, for a combined population of 444 million in EU27. Homeownership rates increased by 5–15 percentage points in all major EU economies between the 1980s and 2010 (OECD, 2024). However, while removing housing credit shortages that households in most European countries experienced for decades, deregulation also opened up the possibilities for financial abuses that eventually contributed to the Great Financial Crisis (GFC) in 2008–09. Interestingly, the literature continued to focus on the criteria for access to social housing in this period, largely ignoring these broader developments.

Following the GFC, housing affordability did not return to policy and research agendas even though income inequality became a prominent issue in mainstream economics due to widespread household indebtedness. It took a large influx of migrants to the EU in 2015–16, another major housing boom that started around 2015, the pandemic, acute labour shortages in the construction sector, and the rise in inflation in 2021–23 for policy and academic circles to start considering affordability issues again. This time, however, policy concerns did not focus on vulnerable and low-income households, but on middle-income urban population. Separately, affordability became part of discussions on sustainable building and green transition in the construction sector.[5] Yet a coherent diagnosis of the evolving nature of housing affordability and a policy agenda agreed by the profession and policymakers are still missing.

3 Measuring affordability

Although the concept of affordable housing is intuitively appealing, it is hard to define precisely because it depends on many subjective and objective factors: individual preferences, social norms, housing costs, household income, housing supply, location, quality standards, access to and cost of housing finance, legal features of real estate and mortgage contracts, etc. All these factors need to be considered when assessing housing affordability, yet they cannot be distilled into a single indicator that could reliably identify what is affordable for a given household at a certain point in time. Much of the housing affordability literature has nevertheless revolved around the quest for such an indicator, only to conclude that different approaches all have some conceptual and practical advantages and shortcomings (OECD, 2021; Ezennia and Hoskara, 2019). One of the few points on which the literature agrees is the need to consider a variety of indicators for households in different situations, for different types of housing and tenures, at different levels of spatial aggregation, and different points in time.

One of the oldest documented affordability metrics is the **monthly rent relative to household income**. It originates in the 19th century household expenditure studies by Ernst Engel (1892, 1895) and Herman Schwabe (1868). At the time, monthly rent for worker families in industrial cities in Belgium and Germany, where Engel and Schwabe collected household budget data, was equivalent to about a quarter of household income – "one week`s pay for one month`s rent". This 25% limit to

[5] The real estate and construction sectors account for an estimated 37% of annual greenhouse emissions globally, two thirds of which are associated with operational emissions from energy needed to heat, cool and power the buildings, and one third with emissions from the production of building materials and the construction process (UNEP, 2023).

"reasonable" housing cost was a benchmark that fiscal authorities in many European and overseas countries used until the 1980s, and mortgage lenders around the world still use widely today.

The **housing expenditure-to-income measures** became more elaborate in the 1980s, when many households gained access to housing finance and interest payments became a larger expenditure item. Partly in response, fiscal authorities and statistical agencies raised the threshold for "reasonable" housing costs to 30% of gross household income in the mid-1980s. In parallel, they began paying attention to a related measure, the housing cost overburden rate, which captures the share of population living in households that spend more than such a "reasonable" share of disposable income on housing. Since 2014, reflecting the increase in indebtedness after the GFC, Eurostat and the OECD set the overburden threshold at 40% of household disposable income net of housing allowances. The agreed statistical definition of housing costs includes all monthly expenses associated with the right to live in a dwelling: for homeowners with a mortgage, interest payments net of any tax relief and gross of housing benefits; for tenants, rental payments gross of housing benefits; and for all households, the cost of utilities, mandatory services and charges, maintenance and repairs, and housing related taxes.

The advantage of housing expenditure-to-income measures is that they can be disaggregated across household types, housing tenures, income levels, and geographical regions, to identify who is struggling to pay for housing and where. But whether 30% of gross income is "acceptable" and 40% is a "burden" is ultimately arbitrary (OECD, 2021, p 2). A more serious weakness of expenditure-to-income metrics is that they cannot account for differences in relative levels of housing and non-housing consumption across income distribution. For example, they may indicate that some high-income households face affordability issues because they spend more than 40% of income on mortgage and housing costs for their very expensive homes, while some low-income households face no such issues because they spend only 20% of income on housing (which could be of sub-standard quality), even though they may have hardly enough money left for non-housing necessities after paying their "affordable" housing costs. Maras (2025) shows, for example, that low-income households in Switzerland remain in inadequate housing because the rent they would face upon relocation is too high. In other words, affordability problems may persist even when current housing costs remain below conventional burden thresholds.

To overcome these shortcomings, there has been an attempt to develop an alternative income-based measure that would not overstate the lack of affordability for some households and understate it for others. The concept of **residual income** thus defines a basket of essential non-housing goods and services, and assesses whether households can afford to buy this basket after paying their housing costs (see e.g. Stone et al, 2011). While theoretically appealing, this approach is open to the criticism that defining "essential" consumption goods and services is arbitrary. The residual income measure could also mistakenly point to deteriorating *housing* affordability if the cost of the *consumption* basket is rising faster than housing costs. Its practicality is also limited because it requires extensive additional data on household expenditures; partly because this, only one EU country, Latvia, has implemented the residual income approach so far.

Another frequently used set of affordability measures are **house price-to-income ratios**. They provide a snapshot of how the relationship between house prices and income varies over time and across cities, regions or countries. If house prices increase faster than incomes, housing should, other things equal, become less affordable on average, and vice versa. However, the price-to-income ratios provide an indication of the extent to which housing is becoming (un)affordable only for a *median* household. They do not consider borrowing costs to acquire housing, nor the quality of housing. Particularly misleading are

metrics such as how many years of average annual income are equivalent to the price of an "average" apartment or square metre thereof. Defining an "average" apartment in each market segment is subjective at any given point in time, let alone over longer periods. Price-to-income ratios are therefore of limited use for policy purposes, for example, to help target housing support to different household groups at the level of a city or county.

Affordability issues can also be identified more directly by comparing **indicators of housing demand and supply** for population groups that traditionally have difficulties with access to housing, such as changes in the number of homeless, disadvantaged, and low-income households on the one hand, and changes in the stock of social or low-rental housing on the other. And there may be other easily identifiable population groups, not necessarily low-income ones, that struggle with access to housing at a given point in time, e.g. young adults, migrant workers, international students, etc.

4. Current housing affordability issues in the EU

This section first assesses affordability with the help of indicators just discussed, using Eurostat and OECD data at EU, country, regional, and city levels, with breakdowns for different income groups, degrees of urbanisation, and tenure statuses. The second subsection looks at indicators of housing demand and supply for two population groups that traditionally face affordability issues and depend on social housing to meet their dwelling needs, the socially vulnerable and the low-income families. The third subsection identifies further population groups, mostly middle-income ones, that in recent years have faced affordability issues. The assessments are illustrative rather than comprehensive, with a view to create a broad picture of housing affordability priorities. The concluding subsection discusses the economic significance of housing affordability.

4.1 Spatial analysis of affordability

At the aggregate EU level, **median housing costs as a share of household disposable income** peaked at close to 23% in 2013, declined to 18% by 2020, and, after rising slightly during the pandemic, decreased again to 19% in 2024 (Graph 1, left-hand panel, blue line). Cost-to-income rations for households with income below 60% of the median were much higher but followed the same time pattern: they peaked at 42% in 2014 and declined to less than 37% in 2024 (left-hand panel, red line).

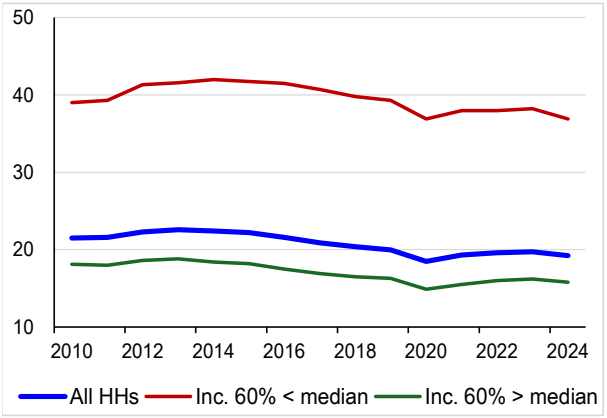
Housing cost-to-income ratios in EU cities were on average 1½ percentage points higher than in towns and suburbs, and 2½ points higher than in rural areas (Graph 1, right-hand panel). At aggregate level, these differences are not that large, suggesting that similar affordability problems could arise in cities, towns and suburbs, and rural areas. The cost-to-income ratios followed a similar pattern over time in all three cases: they increased after the GFC (more sharply in towns and suburbs and rural areas than in the cities), and then declined steadily through 2020 (more sharply in cities). During the pandemic in 2021–23, housing cost-to-income ratios increased, and in 2024 were about half a percentage point higher than in 2020.

In most countries, median cost-to-income ratios were below 15% in 2024 (Appendix Graph A1). One outlier was Greece, with ratios of 30%; another was Denmark (26% in the cities). For households living in the cities, housing costs accounted for a somewhat higher share of disposable income in 2024 than the long-term (2005–24) only in Estonia, Finland, France and Luxembourg (Appendix Graph A1). In Bulgaria, Hungary, Italy, Lithuania and Poland, housing cost-to-income ratios in the cities were up to one-quarter below the long-term average in 2024; in Croatia, the Netherlands and Romania they were one third

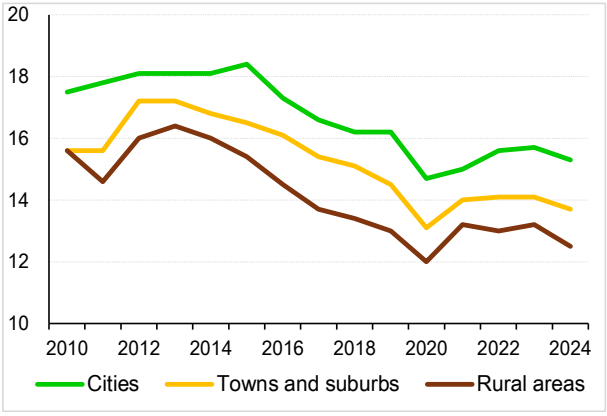
lower. For population of towns, suburbs and rural areas, the above-average housing cost ratios in 2024 were observed only in Estonia, Finland and Luxembourg. Eurostat does not disaggregate housing cost-to-income ratios below the country level.

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].

Clearer evidence of affordability issues emerges when one considers the second widely used indicator, **housing cost overburden rates for different tenure categories**. For the EU as a whole, 19% of tenants paying market rent spent more than 40% of disposable income on housing in 2024 (Graph 2, upper left-hand panel, brown line). In Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Greece, Hungary, the Netherlands, Portugal, Slovakia and Spain, from 24–44% of all tenant households renting at market rent were overburdened by housing costs in 2024 (Graph 2, lower panel). Particularly large increases in overburden rates for market renters were observed in the Netherlands (17 percentage points higher in 2024 than the long-term), Slovakia (11 points higher) and Portugal (4 points higher). Using data disaggregated by household income, Hick et al (2024) also established that affordability risks have become more concentrated on market renters.

For other tenure categories there are no such red flags. Among mortgaged homeowners, just 5% were overburdened by housing costs in 2024, among outright owners, just 4½% (Graph 2, upper left-hand panel, green and yellow lines). The share of tenants with low rent who spent more than 40% of disposable income on housing was about the same in 2024 (10%) as the average since 2010, although it was 1½ percentage points higher than in 2020 (pink line).[6]

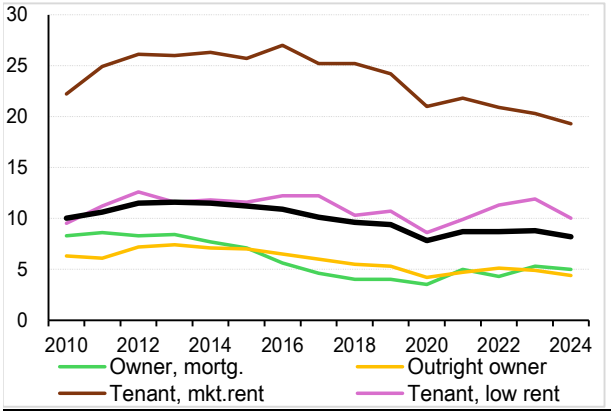
Data on housing cost **overburden rates by degree of urbanisation** provide further insights. At the aggregate EU level, less than 10% of city households was overburdened by housing costs in 2024, the same proportion as in 2020 (Graph 3, right-hand panel). But in Greece and Denmark, 29% and 23% of city dwellers lived in households spending more than 40% of disposable income on housing costs (Appendix Graph A2). In several other countries, including Austria, Czechia, Finland, France and Sweden, the overburden rates for city households, while moderate, were above the long-term average in 2024.

[6] Only Greece had a high proportion of households in this category (38% in 2024); the average excluding Greece was 8%. Greece also had the highest overburden rates in other tenure categories. At the same time, 84% of people living in households with income below 60% of the Greek median were satisfied or highly satisfied with their dwelling in 2023 (Eurostat, 2024a).

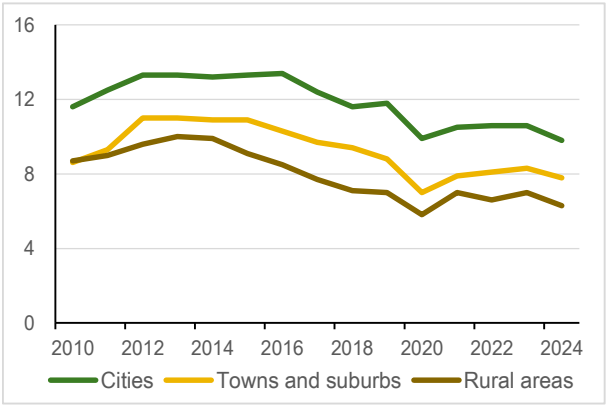
For households living in towns and suburbs and rural areas, the overburden rates were low in 2024 (less than 8% and 6%, respectively), and mostly below their long-term averages (Appendix Graph A2). Greece was the only outlier.

Graph 2. EU population overburdened by housing costs (%)[1]

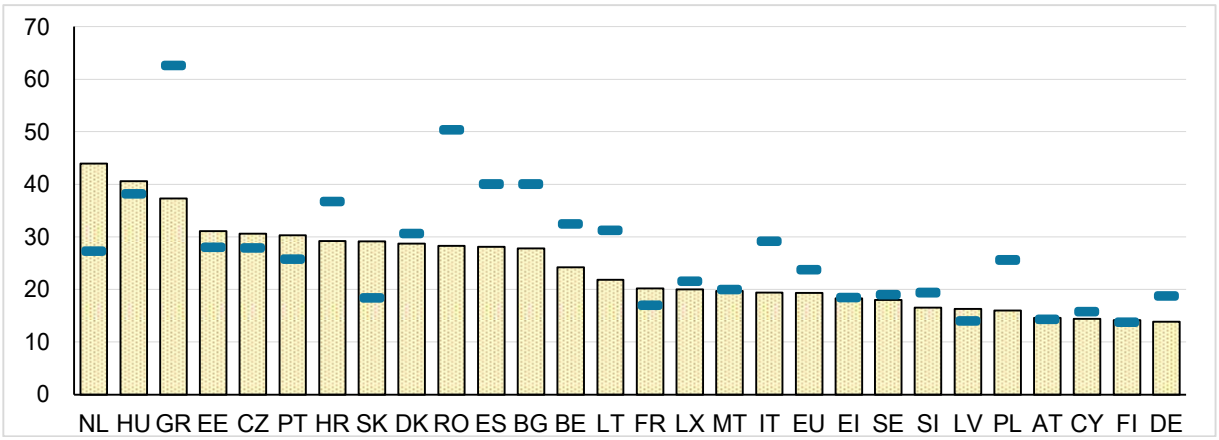
By tenure status



By degree of urbanisation



Tenants renting at market price, 2024 vs. long-run average[2]



[1] Percentage of the population 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).

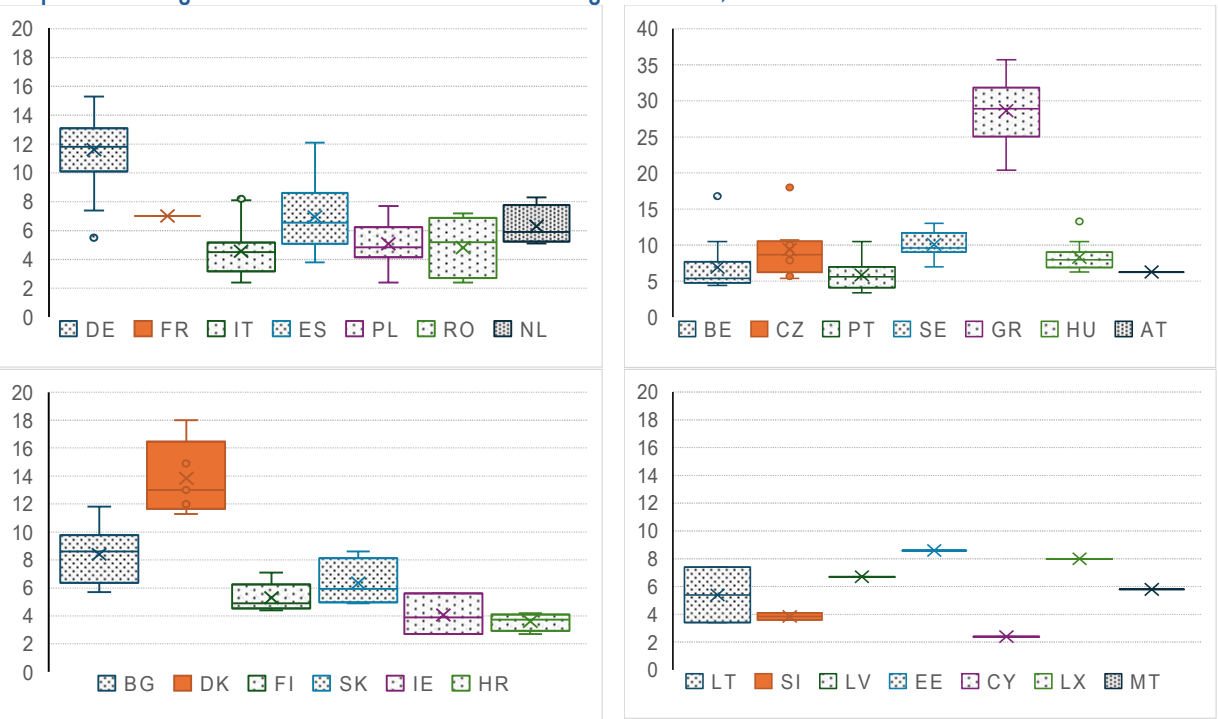
Sources: Eurostat; upper left-hand and lower panels: Distribution of population by housing cost burden and tenure status [ilc_lvho28]; upper right-hand panel: Housing cost overburden rate by degree of urbanisation [ilc_lvho07d]; author's calculations.

The only other level at which spatially disaggregated housing affordability data are currently available is that for the **NUTS 2 regions**. Greece again stands out: in all its 16 regions, housing cost overburden rates were higher than 20% (Graph 3, upper right-hand panel). Denmark, Germany and Sweden were the only other countries with median values of this indicator above 10% in 2024. In Denmark, the overburden rates were in the teens in all its five NUTS 2 regions. Belgium, Bulgaria, Czechia, Hungary, Portugal and Spain had some regions with overburden rates above 10%, but median rates were low. Among the large countries, regional disparities in overburden rates were pronounced in Germany, Italy and Spain (upper left-hand panel). In other countries, regional disparities in overburden rates and their median values were quite low.

Another frequently used affordability measure relates **housing expenditure to total household consumption** rather than disposable income. Data used to construct this indicator are mainly taken from national accounts statistics on final consumption expenditure of households, categorised in the *Classification of Individual Consumption According to Purpose* (COICOP). In addition to maintenance and repair costs, utility bills, and actual rents paid by renters, housing expenditure in this indicator also includes imputed rents, a proxy for the rental-equivalence that homeowners would pay for a house or an

apartment with similar characteristics to the one they own. Why statistical agencies include imputed rent rather than actual mortgage interest payments in housing expenditure-to-consumption ratios is not clear.

Graph 3. Housing cost overburden rates – NUTS 2 regional level, 2024



Note: The boxes represent the interquartile ranges (Q1 to Q3), with a line in the middle indicating the median (Q2). Whiskers extending from the boxes to the minimum and maximum values show the data's range. The dots indicate outliers. Countries with no NUTS 2 regional breakdown for this indicator are shown as lines with crosses. Countries within and across the panels are ordered by population size.

Source: Eurostat, Housing cost overburden rate by NUTS 2 region [ilc_lvho07]; author's calculations.

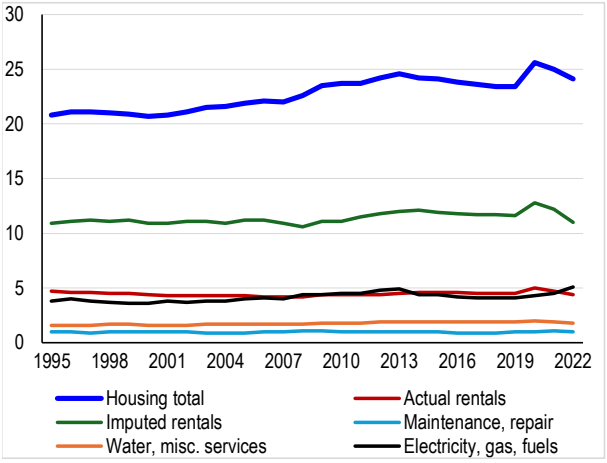
This indicator and its components have been very stable at the aggregate EU level over the past three decades, the only dynamics coming from imputed rents, which are mildly upward-trending, with one peak during the sovereign debt crisis in 2012 (at 22% on average), and another during the pandemic in 2021 (at 23%) (Graph 4, left-hand panel). For most EU countries, changes in housing expenditure ratios since the GFC have been relatively small, with households in Belgium, Estonia, Finland, Italy and Ireland seeing somewhat larger increases (4–7% percentage points).

For potential buyers, a more relevant affordability indicator is the **house price-to-income ratio**. At the aggregate EU level, this ratio has trended upward since the mid-1990s, with a pronounced cycle around the GFC and another one, not yet completed, around the pandemic (Graph 4, right-hand panel). Potential buyers in Finland, France, Italy, Ireland, Spain and CESEE countries have experienced large improvements in the price to income ratio since the GFC. But those in Austria, Czechia, Luxembourg, the Netherlands, Sweden and Portugal have seen the ratio worsen by 8–28% (Graph 5).

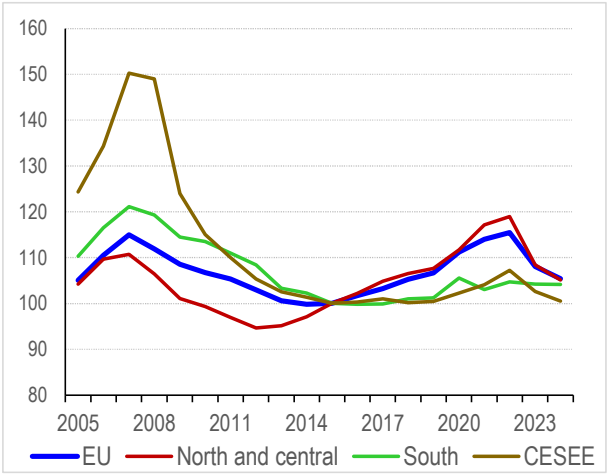
Biljanovska et al (2023) developed a broader house price-to-income indicator for owner occupiers and potential buyers that includes not only mortgage rates but also typical maturity and loan-to-value ratios, the average size of a house, and the average number of household members. Their findings suggest that, since the 1990s, affordability of housing has improved across 40 advanced and emerging market economies, despite a setback suffered during the GFC. The disadvantage of this indicator is that it is currently available only at aggregate country level, and thus cannot capture affordability issues in cities with rapidly rising house prices and rents.

Graph 4. Housing expenditure and price to income and ratios

Housing expenditure as a share of household consumption (%)



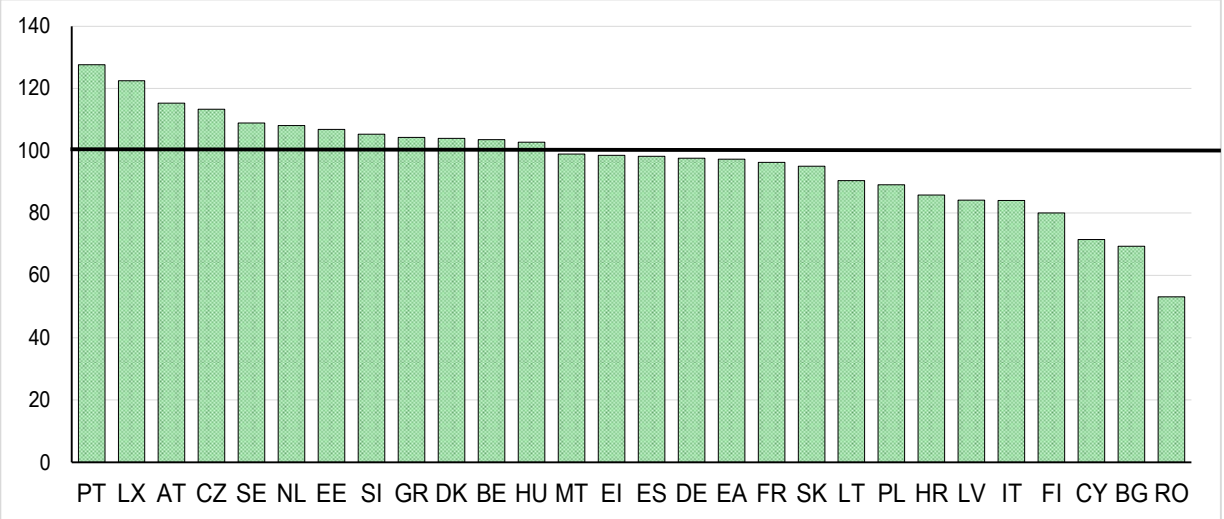
Price to income ratios, 2015=100[1]



[1] Standardised house price-to-income ratio, in nominal terms, 2015 = 100. Income is adjusted household gross disposable income per head of population. North and central Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, and Sweden; south Europe: Cyprus, Greece, Italy, Malta, Portugal and Spain; CESEE: Bulgaria, Czechia, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia and Romania.

Sources: Eurostat, left-hand panel: Standardised house price-to-income ratio - annual data [tipsho60] and author's calculations; right-hand panel: Household final consumption expenditure by purpose (COICOP 1999) [nama_10_co3_p3].

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].

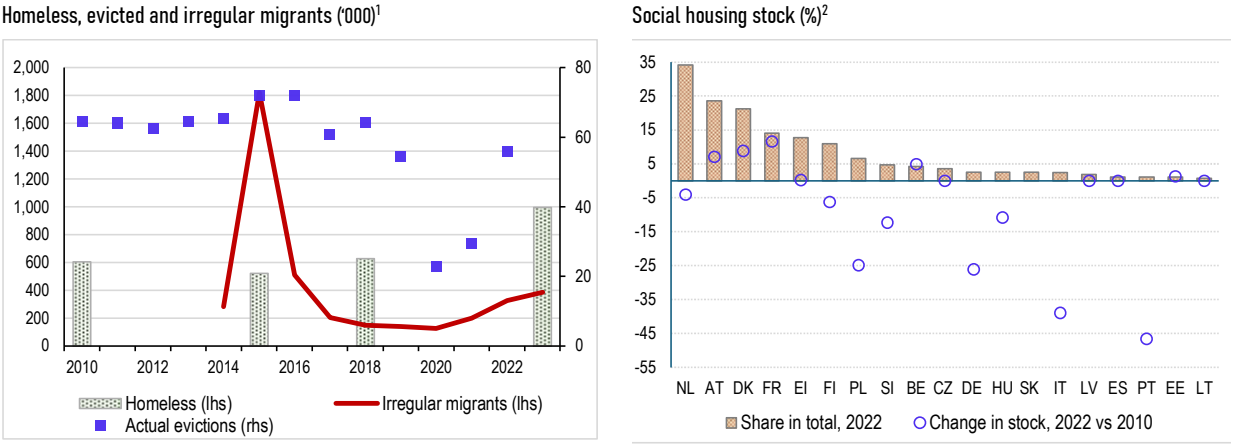
4.2 Social aspects of affordability: vulnerable population and social housing

Affordability analysis has traditionally focussed on two broad groups in society: first, the vulnerable segments of the population who cannot afford to pay for housing under any circumstances and for their lodging and subsistence have no alternative to social protection and charitable aid; and second, the low-income households that cannot afford to pay market rent – or housing costs, if owner-occupiers – and still have enough income left for non-housing consumption necessities.

The **socially most vulnerable** represent a substantial minority, about 1¼% of the EU population. They include an estimated 1 million homeless; some 65,000 households (long-term average) who are evicted each year because they cannot

pay their mortgage or rent; and around 4.3 million irregular migrants who entered the EU over the past decade (Graph 6, left-hand panel).[7] The evidence of housing affordability needs is the starkest precisely for these people: the EU27 homeless population alone increased by nearly 400,000 (65%) between 2010 and 2023, whereas the number of social dwellings *decreased* by 650,000 (6%) for the 17 EU countries for which the time series data are available, with decreases as large as 25–47% in Germany, Italy, Poland and Portugal (Graph 6, right-hand panel). Thus, even without considering the housing situation of low-income households, one can conclude that the dismantling of social housing is a major source of affordability problems in the EU today. This message, however, has yet to be articulated in policy discussions.

Graph 6. Vulnerable population segments and social housing



[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.

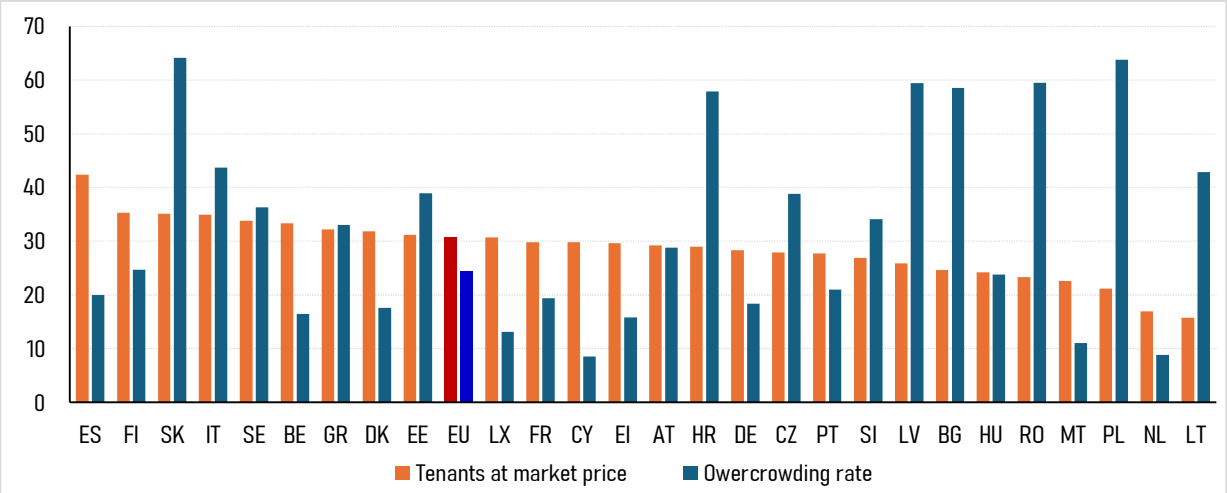
Persons at risk of poverty or social exclusion, a statistical proxy for low-income households, accounted for 21% of the EU population in 2024 (93 million people), down from 24% in 2015 (105 million people) (Eurostat, 2024b). Among them, 38% lived in rental dwellings at reduced price or for free, 31% were tenants renting at market price, 18% lived in own house or apartment with no outstanding mortgage or housing loan, and 10% were paying off mortgage or a housing loan. Most persons at risk of poverty or social exclusion lived in cities (40% at EU level), followed by towns and suburbs (35%) and rural areas (25%). They represented on average slightly more than 20% of population in each of these areas.

A breakdown of data on housing cost overburden rates and living conditions for persons at risk of poverty or social exclusion is not available. However, data for total population suggest that overburden rates are high and living conditions often precarious. As shown earlier in Graph 2, housing cost overburden rates for tenants renting at market price ranged from 24–44% in half of the EU countries in 2024. Given that almost a third of EU population at risk of poverty or social exclusion lived in dwellings rented at market price (Graph 7), they are likely to have been highly overburdened by housing costs. The housing cost overburden rates for all tenants paying subsidised rents was only 10% at EU level in 2024. This suggests that housing subsidies provided material assistance with housing expenses, but only to tenants who were not forced to pay market rent. Separately, overcrowding rates for all families living in rental housing averaged 25% at EU level in 2024. Taken together,

[7] Actual evictions dropped in 2020–21 because many countries banned them during the pandemic.

these data suggest that, among persons at risk of poverty or social exclusion, housing affordability issues are most pronounced for tenants paying market rents.[8]

Graph 7. Persons at risk of poverty or social exclusion paying market rent and overcrowding rates, 2024[1]



[1] Data on overcrowding rates are for all tenants renting at market price, not only those at risk of poverty or social exclusion.

Sources: Eurostat, Persons at risk of poverty or social exclusion by tenure status [ilc_peps07n]; Overcrowding rate by tenure status, EU-SILC survey [tessi173]

4.3 New dimension of affordability: struggling middle-income population

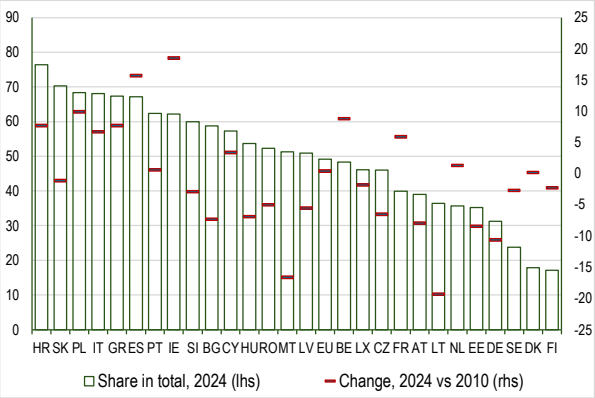
Affordability discussion has recently been extended to some population groups with incomes well above the poverty line, who nevertheless seem to have difficulties finding adequate housing at a reasonable cost. These middle-income groups in fact appear to be more present in current policy discussions than the vulnerable and low-income households. In a recent survey of European cities' mayors, for example, many people in steady jobs and key workers like teachers, nurses and police officers reportedly could not afford to live in the cities they serve (Baldwin, 2025). Other prominent groups are young people living with their parents, internationally mobile workers, and international students. What these groups have in common is that they include potentially highly productive members of labour force. For example, 60% of young adults aged 25–34 were full-time, and 9% were part-time employed in 2024 (EU averages), with the former share stable and the latter rising since 2010.

The country-level shares of **young adults living with parents** are generally stable over the long run, suggesting that they are partly determined by socio-cultural factors. For example, in Denmark, Finland and Sweden 17–24% of 25–34-year-olds live with their parents, whereas in Croatia, Greece, Italy, Poland, Spain and Slovakia 67–76% of persons in this age group live in parental home (Graph 8, left-hand panel). Yet several countries (including Belgium, Croatia, France, Greece, Italy, Ireland, Poland and Spain) have seen increases in the share of young adults living with parents, ranging from 6–16 percentage points since 2010 (red dashes in the left-hand panel). These increases have been closely related to the difficulty of accessing the housing market (see e.g. Cournède and Plouin, 2022; Paz-Prado (2022). First-time buyers face much higher hurdles in terms of downpayments (e.g. up to 30% of the property value in Italy) and mortgage repayments because of the rise in house prices (see Section 5). Banks in some countries also require buyers to have open-ended job contracts to apply for mortgage.

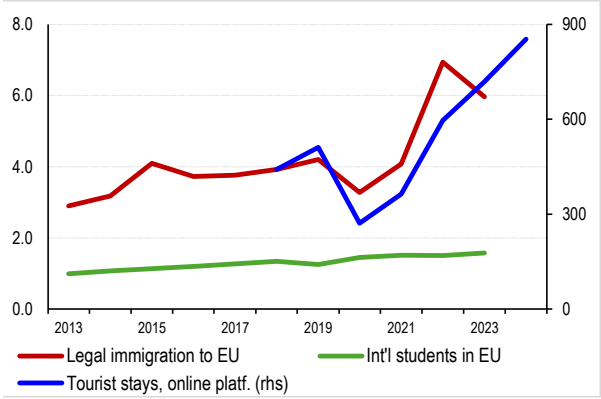
[8] Additional indicators on the quality of housing, such as the inability to keep the home adequately warm, a leaking roof, damp walls, floors, or foundation, etc. also seemed to be correlated with poverty shares, as they were highest in southern and southeastern Europe, and lowest in northern and central Europe.

Graph 8. Other sources of housing affordability pressure

Young adults living with parents (percent and pct. changes)[1]



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



[1] Persons 25-34 years old living with their parents, percent of all persons in this age group. Bars represent percentage changes between 2023 (or 2024) and 2010; dashes represent percentage shares in 2023 (or 2024). [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]; author's calculations.

Total legal immigration to EU 27 countries, a proxy for the number of **internationally mobile workers** and their housing demand, averaged 3.9 million per year between 2015 and 2021 (Graph 8, right-hand panel). In 2022 as the war in Ukraine started, it surged to almost 7 million; in 2023 it fell back below 6 million. EU citizens relocating to other EU countries, mostly with the aim of taking up a job, accounted for nearly 40% of this total (around 1.5 million per year). While about 2.7 million people, mostly EU citizens, emigrated from EU27 to non-EU countries in 2022 (Eurostat, 2024c), it is not known to what degree, if any, their departure increased the supply of housing in the EU. Together with some 1.6 million **international students**, the internationally mobile workers boost housing demand each year by an equivalent of 1¼% of EU population.

Many of these groups also face housing affordability issues, though of a different kind from those affecting the socially vulnerable and low-income families. These include overcrowded application lists and untransparent screening of applicants for rental housing, unregulated bidding and security deposit schemes, and similar issues that may reflect either insufficient regulation (e.g. lack of measures to ensure fairness and prevent discrimination in rental housing applications), or, in some cases, overregulation (e.g. housing shortages due to rent controls; see Section 6).

Other socio-economic trends have also added to rising demand and perceived housing shortages in major European cities. One is the surge in demand for **short-term tourist rental accommodation**, especially after the lengthy lockdowns during the pandemic were lifted. In 2024, e.g. there were 854 million tourist stays in such accommodation in the EU (Graph 8, right-hand panel). Another is the demand for housing by **globally mobile high-income professionals**. A third is the demand perceived to be driven by **speculative**, i.e. house price gain motives.

There is an emerging empirical literature on all three phenomena. Studies on demand for short-term tourist rentals mostly confirm spillover effects on local house prices. A study on Portugal e.g. found that that a 1 percentage point increase in a municipality Airbnb share resulted on average in a 3.7% increase in house prices, with stronger effects in historical centres and touristic areas (Franco and Santos, 2021). A study on Italian cities found that a 1 percentage point increase in Airbnb density led on average to a 0.63% rise in residential property sale prices, with increases of up to 7.7% in cities such

as Turin (Congiu et al, 2023). Mikulić et al (2021) obtained similar results for the effects of tourism on house prices in Croatia. These studies did not quantify what such estimates imply for housing affordability, but their economic significance is potentially large: in Portugal, the number of holiday and short-term accommodation establishments increased 650% from 2015–24, in Italy 74%, Croatia 68%, and Spain 36%.[9]

Demand in the niche property market for globally mobile high-income professionals could affect affordability to the extent that it spills over to house prices and rents in cheaper market segments. Case studies of cities such as Paris (Cvijanović and Spaenjers, 2015) and London (Sá, 2025) indeed found spillovers from the top-tier to other market segments, but with stronger effects for more expensive homes. Sá (2025) detected an even broader trend: using administrative data on properties owned by overseas companies, she established that foreign residential investment reduced affordability and the number of vacant dwellings in all of England and Wales – interestingly, without stimulating housing construction.

Apart from these studies, there is little well-founded evidence of the link between foreign residential investment, whether by high-income individuals or real estate companies, and affordability in large European cities. In media and policy discussions, property speculation is often associated with *any* period of strong market activity and rising house prices, especially where foreign or corporate buyers are present. For its part, the macro literature focuses on the evolution of speculative bubbles, typically housing purchases in a low-interest rate, high-credit growth environment (e.g. before the GFC). However, this literature does not analyse housing affordability.

More insightful are interdisciplinary approaches that study the motivations for secondary property ownership. For example, using data from household finance and consumption surveys, Wind et al (2020) established two distinct patterns in Europe. In Belgium, Germany, France, Ireland, Luxembourg and the United Kingdom, a large proportion of secondary properties are rented, typically as a proactive asset-based welfare strategy that compensates for the limitations of fragmented pension systems, especially for the self-employed. In southern Europe, CESEE and Finland, by contrast, secondary properties are predominantly vacant or used by the family, as holiday homes, or to house other members of the extended family. The recent upswing of buy-to-let properties in some of these countries was found to be a manifestation of the concentration of housing wealth and limited access to homeownership for first-time buyers, typically young adults living with the family, rather than a turn to active landlordism. Such findings indicate that jumping to conclusions about the link between perceived speculation and affordability could be misleading without understanding the motives for purchases of additional housing units.

4.4 Why housing affordability matters?

Affordability issues that people in steady jobs, key workers in public services, young adults, internationally mobile workforce, and international students face have broader economic significance because they may discourage these potentially highly productive labour force participants from filling job vacancies in major centres of innovation and productivity growth. Urban economics and economic geography have identified substantial agglomeration effects from locating businesses, workers and people in proximity to each other. These benefits arise from economies of scale and network effects that reduce the costs of

[9] See Eurostat, Establishments, bedrooms and bed-places in tourist accommodation [tour_cap_nat].

intermediate inputs, allow for pooling and better matching of labour skills and jobs, and facilitate spillovers of knowledge and information flows between economic sectors (Glaeser and Gottlieb, 2009; Rosenthal and Strange, 2020).

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 that stock. The outcome is urban house price inflation and worsening housing affordability (Maclennan et al, 2021). The empirical literature, much of it US-focused, suggests that a doubling of jobs/skills concentrations is associated with a 1–8% increase in productivity and urban wage premia.[10] For France, Italy, Germany and Spain, Ciccone (2002) estimated the elasticity of average labour productivity with respect to employment density at 4½%, similar to the median estimate of 5% for the United States. Marrocu et al. (2013) estimated these elasticities for EU regions between 1996 and 2007 at 3.6–4.1%. More recent estimates for Australia (Nygaard et al, 2021) point to smaller but still substantial effects: a doubling of employment density raises hourly wages by 1–4%, with individual and firm characteristics having a somewhat greater impact than agglomeration. EIB (2016) estimated that if housing supply increased in line with estimated housing needs, so that housing costs in 10% of EU cities with high labour productivity were reduced to the level of their national averages (relative to wages), EU GDP could increase by 1.7–4.5% depending on labour mobility. Increasing housing stock in very productive regions would also reduce income gaps between regions and could thereby EU-wide wage inequality by 1.5–3.2%.

Links between agglomeration, productivity, and housing market dynamics are complex, however. One caveat is that the mode of transportation – commuting by private car or public transport – strongly affects the size of estimates: the wage premia could be even higher if they were not partly absorbed by high commuting costs. Another caveat is that agglomeration effects generate a separate type of housing demand, the one for urban living, which reduces the need for urban wage premia. For example, people in professions such as arts and entertainment, cultural activities, fashion, journalism, etc. are willing to accept lower wages to work and live in attractive locations that offer opportunities for professional networking, cultural enrichment, entertainment, etc. This implies that housing costs may increase, and affordability worsen, even in the absence of urban wage premia induced by agglomeration effects.

A further complication is that a growing body of empirical work elaborates how higher housing costs coupled with congestion and other negative externalities may reduce or even outweigh the benefits of agglomeration.[11] For example, when adjustment is made for housing costs, the main beneficiaries from urban wage premium in Australia were found to be higher-income households. For those in the lower half of the wage distribution, the wage benefit from agglomeration was fully absorbed by higher housing costs (Nygaard et al, 2021). It has been argued that this inequality mechanism may over time bias investment decisions in favour of residential real estate at the expense of entrepreneurial activities that help enhance the economy's innovative capacity (Stockhammer and Novas Otero, 2023). Such differentiated findings become particularly important when framing proposals to address affordability issues. They also highlight the need to consider carefully the allocative efficiency dimension of housing affordability in such proposals.

[10] For overviews see e.g. Combes and Gobillon (2008) and Graham and Gibbons (2018).

[11] See e.g. the overview in Ahlfeldt and Pietrostefani (2019).

5 House prices, housing supply and structural demand factors

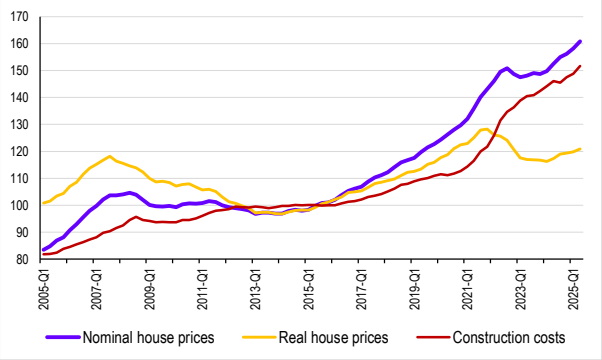
At the heart of discussions about housing affordability lie questions about the "appropriate" level of rents and house prices and adequacy of housing supply. Rather than specifying an econometric model to estimate whether current rents and house prices are detached from fundamentals, this section provides a simple and intuitive analysis of the evolution of house prices and their main determinants over the past two decades. It then looks at evidence of possible housing shortages at aggregate and local levels, and discusses the potential significance of building restrictions and low productivity growth in the construction sector as drags on housing supply. The section concludes with a discussion of some social and cultural factors, notably the culture of homeownership, which can also strongly affect housing demand and house prices.

5.1 Housing demand and the long-term rise in house prices

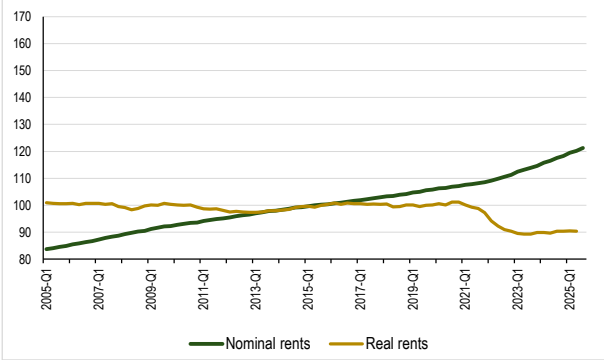
As in most countries around the world, house prices in the EU have followed an upward trend over the past two decades. From 2005 to mid-2025, average house prices increased by 93% in nominal terms and 20% in real terms (Graph 9, left-hand panel). After gaining 25% from 2005 to 2008, nominal prices eased 7% over five years following the GFC. They stagnated between 2013 and 2015, and have since risen steadily, gaining more than 60% by mid-2025 (purple line, left-hand panel). In real terms, the adjustment after the GFC was more pronounced, an 18% decline over seven years. But since 2013, real prices have risen by more than 20%, surpassing the pre-GFC levels though not yet the pre-pandemic peak (yellow line, left-hand panel).

Graph 9. House prices, construction costs, and rents in EU27, 2005–25 (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.

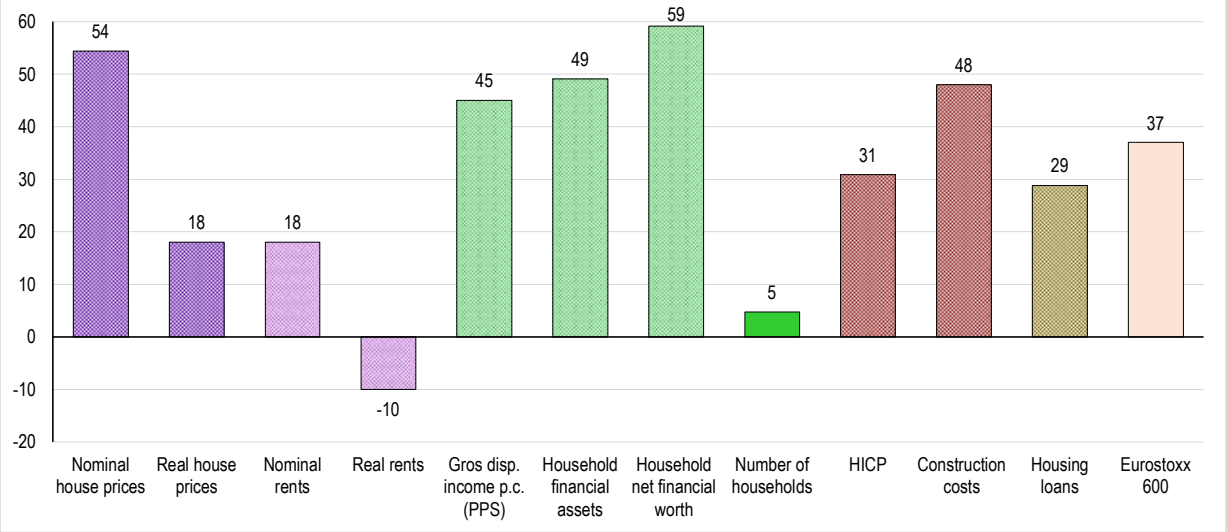
Another indication of the resilience in house prices is that over the past decade real house prices increased in 17 EU member states, by 25–80%, and decreased in only three: Cyprus, Finland and Italy (Appendix Graphs A3 and A4). Rents have increased much less than house prices, by 44% in nominal terms since 2005, and 23% since 2015 (green line, right-hand panel). In real terms, rents were unchanged from 2005 until 2021, and declined by 11% since then (dark yellow line).

While substantial, the rise in nominal house prices has been well aligned with developments in underlying demand and cost fundamentals at the aggregate level. Over the past decade, per capita **gross disposable income of households** (based on purchasing power standard) increased by 45% in EU27 (first green bar in Graph 10), and by more than 50% in 11 member

states. **Household financial wealth** expanded even faster over the past decade, by 49% in terms of **gross assets** and 59% in terms of **net worth** (second and third green bars), further sustaining the housing demand.

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.

Affordability assessments often ignore the empirical finding that house prices are highly elastic with respect to income and wealth. For example, Meen and Whitehead (2020) report a series of studies on the UK housing market for successive subperiods from 1964 to 2017 that consistently estimated income elasticities of house prices at around 2.5%. Sutton et al (2017) estimated income elasticities of house prices in a large sample of non-US advanced economies from 1966 to 2015 at 1.2–1.6%, and in emerging market economies at around 2%. And for the US metropolitan areas, Schuyler et al (2025), recently showed that income growth on average moves one-for-one with house price growth.

Another important demand determinant, the **number of households**, increased by 5% although the overall population grew by only 1.4% from 2015 to 2024. This indicates the ongoing demographic shift toward smaller households that results in steady housing demand. Growth in **construction costs** of 48% has also been well aligned with the increase in nominal house prices over this period (Graph 10, second red bar).

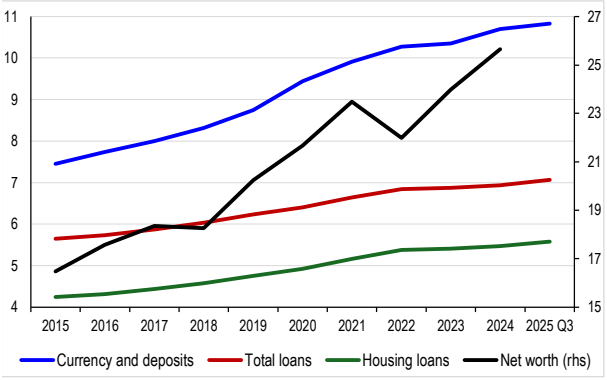
Monetary policy contributed to housing demand as well, though not as much through the credit channel typically highlighted in the literature, as by creating disincentives to save and incentives to invest in real estate. The stock of housing loans in the euro area increased by 29% over the past decade, i.e. less than 3% per annum (Graph 10, penultimate bar, and red line in Graph 11, left-hand panel). The weak growth of **housing loans** is surprising given that **mortgage interest rates** in the euro area averaged just 1.75% in nominal terms (0.08% in real terms) from 2015 through August 2022, and 3.50% (–1.35% in real terms) since the ECB has started tightening (Graph 11, right-hand panel, red line).

By contrast, **household currency and deposits** increased by 44% (blue line in Graph 11, left-hand panel). At first sight this is surprising given the deeply **negative deposit rates** that euro area banks paid their clients: –1.1% on average from 2015 to 2020, and –4.1% since 2021, with dips below –10% in late 2022 (Graph 11, right-hand panel, orange line). One explanation

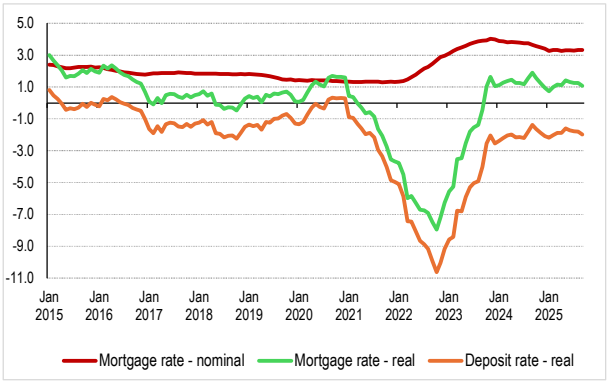
of this puzzle is that negative deposit rates on the one hand, and a steady rise in house prices on the other, provided strong incentives for households with liquid assets to invest in residential property. An additional reason to invest in real estate was the poor performance of alternative investments: the Eurostoxx 600 index, for example, increased just 37% over 2005–24 (Graph 10, last bar), 17 percentage points less than nominal house prices and only slightly more than HICP inflation (31%). Separately, faced with an exceptionally uncertain environment, risk-averse savers may have felt the need to save more despite negative deposit rates to provide for future consumption or retirement needs. Felici et al (2022), for example, present evidence that euro area households started to save more as deposit rates decreased to very low levels.

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.

To what extent negative deposit rates may influence housing demand in the period ahead remains to be seen. Recent estimates for advanced economies other than the United States suggest that a 100 basis-point fall in short-term interest rates, controlling for other factors, can be associated with about 3½ percentage points higher house prices after three years, and 5 points after five years (Sutton et al, 2017). Falling interest rates generally do not boost residential investment on their own, but in combination with rising house prices, income growth, and demographic factors the effect can be large (EIB, 2019). By contrast, a 100 basis-point hike in interest rates slows residential investment on its own, by about 1.1% after five quarters (Kohlscheen et al, 2020). These estimates suggest that the drag on house prices and residential construction from the 450 basis points of ECB's policy rate hikes between September 2022 and September 2023 likely tapered off in the course of 2025. But the policy rate cuts that started in June 2024 may take longer to boost house prices and residential investment. However, if real deposit rates remain negative and house prices rise further, households will again have incentives to invest in housing.

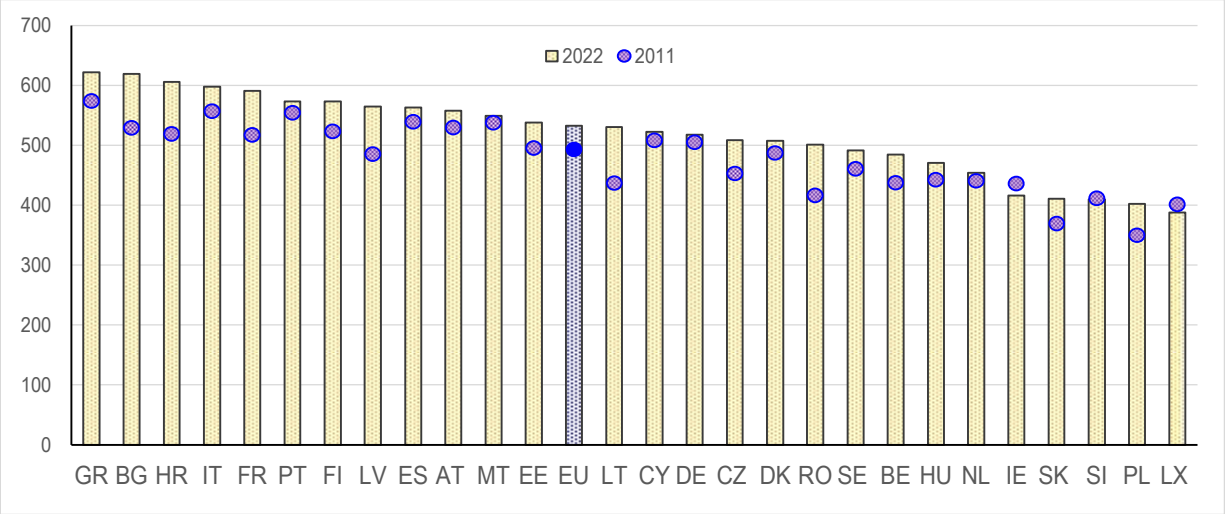
5.2 Supply-side factors and house prices

If demand-side fundamentals have been well aligned with nominal house prices, to what extent have supply-side factors contributed to the strong house price growth? Total **housing stock** in the EU comprised more than 238 million dwellings in 2022, or 533 dwellings per 1000 inhabitants (Graph 12).[12] 19 member states had more than 500 dwellings per 1000 inhabitants; Bulgaria, Croatia and Grece had more than 600. Except for Ireland, Luxembourg and Slovenia, all EU countries had more

[12] Housing stock data come from the OECD's Affordable Housing Database, as comparable Eurostat data are unavailable.

dwellings per capita in 2022 than in 2011. Several countries in southern Europe tend to have larger dwelling stocks relative to population because of tourist industry (Appendix Graph A5). The breakdown by seasonal or holiday homes and vacant dwellings does not reveal any clear pattern, however. The Baltic states are not tourism powerhouses and yet have large housing stocks relative to population. This suggests that other factors discussed below – social, cultural, historical, and policy related – also can explain the housing stock size.

Graph 12. Dwellings per 1000 inhabitants[1]



[1] OECD affordable housing indicator HM 1.1.1.

Source: OECD; author's calculations.

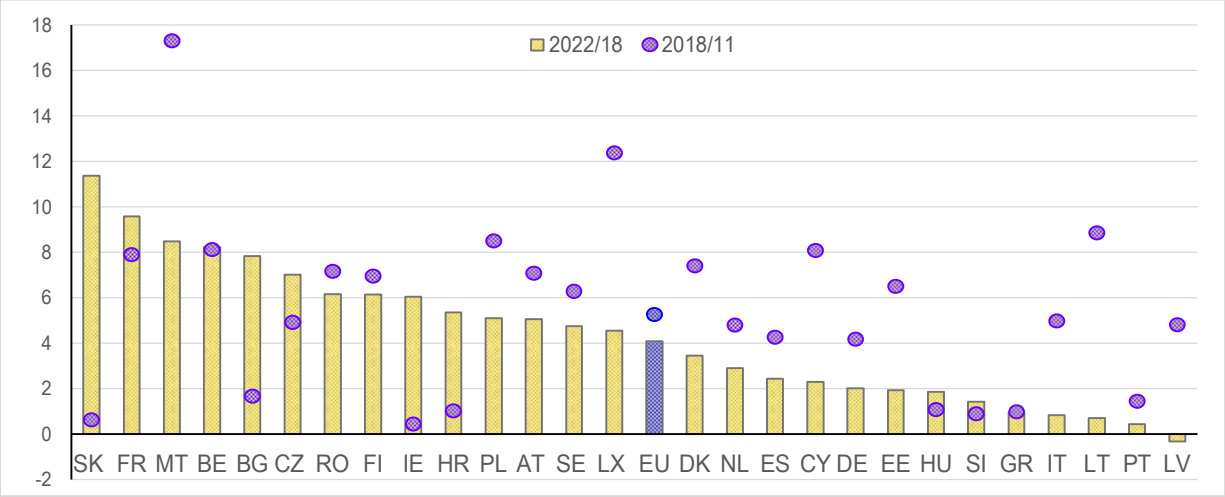
The situation with the **flow of new housing** is less encouraging. Housing construction is proceeding at a slow pace: total housing stock in the EU increased by just over 4% from 2018 to 2022, and only a few countries – Bulgaria, Croatia, Czechia, France and Ireland – built more homes in 2018–22 than during the weak post-GFC recovery in 2011–18 (Graph 13). At the current rate of new housing construction, it would take 56 years to replace half of the existing housing stock in the EU. For comparison, former West Germany replaced half of its housing stock destroyed during World War II in just 20 years, from the early 1950s until the early 1970s (Ulbrich and Wullkopf, 1993). Similarly, 56% of Croatia's current housing stock of more than 1.9 million dwellings was built in only thirty years, from 1945 to 1975 (Šerman and Horvat, 2023).

At city level, housing stock has likely grown even more slowly. Direct evidence is not available, as city-level housing stock and construction data are patchy. But indirect evidence from house prices in capital or major cities and sales of dwellings suggests that **housing shortages in major EU cities** could be severe. In Milan, for example, house price growth since 2015 has been almost six times higher than in Italy as a whole; in Berlin, 73% higher than in Germany; in Budapest, 36% higher than in Hungary; and in Madrid, Sofia and Zagreb, 25% higher than in respective countries (Graph 14, left-hand panel). Sales of existing dwellings in Austria, Belgium, France, Hungary and Luxembourg decreased from 15 to 40% over the same period (right-hand panel, blue bars), even though their prices increased, from 16% in France to 109% in Hungary.[13] And sales of new dwellings in Austria, France, Hungary and Luxembourg decreased from 34 to 76% between 2019 and 2024 (Graph 14, right-

[13] Finland has also seen a large drop in new and existing home sales between 2019 and 2024 (–68% and –15%, respectively). However, Finland is together with Italy and Cyprus the only country with overall weak house price growth in the past decade. Note also that in Austria, Finland, Italy, Lithuania and Slovakia, house prices in capital city have not grown faster than in whole country.

hand panel, red bars), despite strong growth in new dwellings' prices (e.g. from 20 to 50% in Austria, France and Luxembourg, and 150% in Hungary). Likewise, Shortages could be less severe in Ireland, Poland, Portugal and Spain, where sales of new (and often existing) dwellings increased.

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

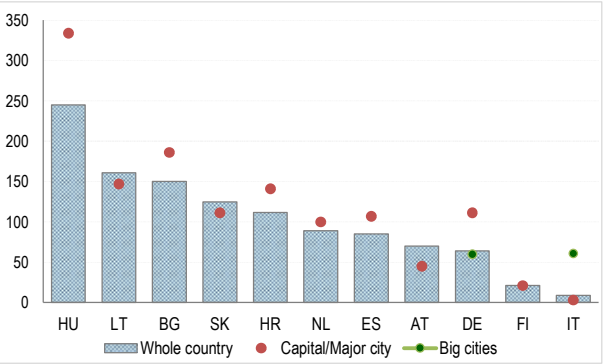


[1] Percentage change in total housing stock between 2022 and 1018, and 2018 and 2011, respectively.

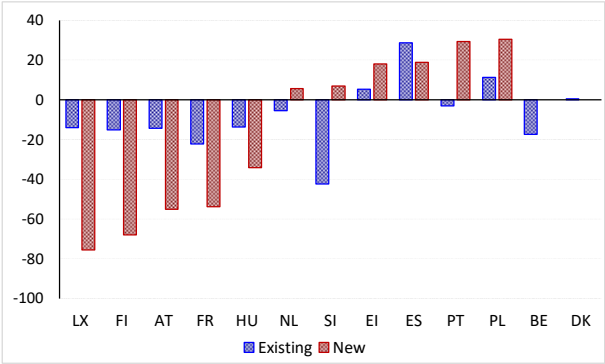
Source: OECD; author's calculations.

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.

EU institutions produced a number of housing shortage estimates in recent years. EIB (2025, pp 207–9) estimated from official demographic projections and building permit data the housing demand in the EU for 2025 at 2.25 million units, and the number of units to be completed at 1.32 million, leaving a gap of 925 000 units. This suggests that the 2023 construction rate of new dwellings should have been 70% higher to meet the additional demand in 2025. Joint Research Centre of the European Commission (2025) estimated that in urban and high-demand regions with strong economies or tourism, the demographic evolution since 2010 would have required 4.6 million homes in addition to what had been constructed. Projections for 2025–35 suggest housing needs to increase by more than 2.5 million units in addition to current construction trends, with about two-thirds of the needs concentrated in Germany, France, Italy, and Spain.

The literature and recent policy discussions suggest two main reasons for sluggish homebuilding: regulatory impediments to supply and weak productivity growth in construction industry.

Restrictive building regulations are often seen as a key constraint on urban housing supply. Because of scarcity of urban land for development, new housing is currently built mainly on plots converted from previous commercial, industrial or public use (e.g., vacated department stores, post offices, factory sites, railroad yards), land reclaimed from the sea and inland waters, or by densifying the existing residential areas, e.g. by lifting the building height restrictions. Relaxing the building regulations on land use can boost housing supply through each of these channels. Keeping or tightening the regulations prevents new supply from coming onstream, which typically boosts house prices and rentals, creates economic rents for homeowners in areas with building regulations, and worsens affordability and inequities in access to housing.

A large body of literature, mostly US based, has argued that housing regulations act as an implicit tax on housing development that is often higher than any negative externality associated with densified construction. More expensive housing markets in the US tend to be both more regulated, have more inelastic housing supply, and tend to experience larger price swings over the cycle (Glaeser and Gyourko, 2018). During the 1996–2006 US housing boom, average real price growth was 94% in the cities with the most inelastic supply, and 28% in cities with the most elastic supply (Glaeser et al, 2008). The restrictions on housing supply and the resulting high house price growth limit the inflow of workers to high-productivity and high-wage areas. Hsieh and Moretti (2019), for example, estimated that the US real GDP could be nearly 9% higher if there were sufficient new construction in just the three high productivity markets of New York, San Francisco, and San Jose. Glaeser and Gyourko (2018) estimated these effects at 2% of GDP at least. But they also noted that the US case was special: land use is exclusively under local authorities' control, so it is relatively easy for incumbent owners to exert political pressure to maintain the status quo of restricted supply. It is not clear to what extent this political economy constraint operates in Europe. Spatial and urban planning take place primarily at central and regional government levels, so it might be costlier for homeowners to lobby against additional housing construction.

The view that supply constraints are a key driver of house price growth is not without challenge. Recent research by Schuyler et al (2025) shows that differences in housing supply constraints are not the fundamental driver of differences in house price dynamics across more than 320 US metropolitan areas. Instead, average income, a key driver of housing demand, was almost perfectly correlated with house price growth from 1975 to 2024. Schuyler et al (2025) note that housing demand can vary with income levels: as income rises from lower levels, some of it translates into demand for additional housing to reduce crowding, as lower-income families tend to be larger. At higher income levels, household size declines and, at some point, additional income increases may not translate as much into demand for additional housing units as into demand for renovating, relocating, or higher-quality housing, which increases prices but not necessarily the supply.

Empirical research on the **effects of regulatory restrictions on housing markets in EU** countries is limited. Hilber and Vermeulen (2016) found that house prices in England would have risen by about 100% less in real terms from 1974 to 2008 if, hypothetically, all regulatory constraints on building had been removed. They also found the effects of regulatory constraints were greater during boom than bust periods. The effect of constraints due to scarcity of developable land was largely confined to highly urbanised areas.

The restrictiveness of building regulations in continental Europe might be similar to that in England. Procedures for issuing building permits are particularly complex (Fauth et al, 2024), which lengthens residential construction and makes it costlier. Streamlining the process could speed up construction and contain its costs. But relaxing the restrictions in many of Europe`s densely populated areas with very scarce land for development could also have undesirable effects. For example, where enforcement of existing regulations has been lax or ignored, overbuilding and degradation of urban or natural environment have often followed (see e.g. Cebrián-Abellán et al, 2019). Areas that rely on tourism are particularly vulnerable because overbuilding undermines sustainability and economic basis of tourist attractions, e.g. by devastating the sensitive coastal environment or straining the infrastructure of historical cities (see Milano et al, 2021; Mihaljek, 2005).

Another explanation for housing shortages has been **weak productivity growth in construction industry**. A recent EIB Investment Survey (EIB, 2024) found that construction companies in the EU lagged significantly behind their US peers in terms of innovation activity and use of advanced digital technology. While this partly reflects a broader productivity gap between Europe and the United States, it is worrying because productivity growth in the US construction industry is itself sub-par relative to the rest of the US economy.[14] Such findings are also puzzling because there has been no lack of capital investment in the construction sector, and industries supplying materials, components and building-related services generally exhibit high productivity growth both in the United States and the EU.

One explanation points to statistical measurement issues. The conventional classification of the residential construction sector is very narrow and includes only on-site construction activities associated with physical assembly of buildings, which tend to be labour intensive and mostly involve low-skilled labour. Off-site activities such as manufacturing of prefabricated components and modules, leasing of building equipment, provision of high value-added civil engineering, architectural and construction-related services, etc. are classified elsewhere. Due to technological development, the share of off-site construction activities has increased steadily, to an estimated one third of the total value added of buildings. When these off-site activities are included, productivity performance of the sector improves. In Norway for example, estimates that include the off-site activities indicate an improvement rather than decline in productivity growth of residential construction in 2000–15 (Ahmad et al, 2020).

Another explanation points to land-use regulations. D`Amico et al (2024) document how US construction productivity boomed from 1940 to 1970 and then plummeted in the past 50 years. Their model estimates indicate that land-use controls limit the size of building projects and the equilibrium size of construction companies, reducing both scale economies and patenting activity in construction. Areas with stricter land-use regulations have particularly small and unproductive construction establishments.

Comparable research for the construction sector in EU countries is not available. Although better statistical measurement would probably show a similar picture on construction productivity growth in the EU as in Norway, the industrial organisation of the sector is such that a major improvement in total factor productivity seems unlikely. At country level, the industry tends to be dominated by a few large, internationally active construction companies that tend to be involved only in major housing projects. On the other side are, as in the United States, thousands of very small, typically owner-operated

[14] See e.g. Pothoff Kacik (2023) and Sawhney et al (2024).

firms that are active only locally and build individual homes or are subcontractors for various on-site activities. Such a dichotomous structure is not conducive to a widespread adoption of new building technologies: 75% of construction companies in the EU do not innovate, and only 55% use advanced digital technologies, compared with 76% of firms in other sectors (EIB, 2025). A breakthrough in productivity of the sector as a whole is thus unlikely without major restructuring of industry, which does not seem to be on the horizon as long as the housing market conjuncture is relatively strong.

5.3 Neglected structural demand factors

The economics literature analyses housing mostly through the lens of its dual economic role as a durable credit-financed consumption good and an investment asset. The discussion in this section, for example, used a standard demand/supply framework that analyses house prices with the help of demand and supply determinants.

An alternative approach considers living in a house one owns versus selling it and moving to rental housing as two distinct "assets" to be priced. The equilibrium occurs when the expected cost of owning a dwelling equals that of renting it. This approach is theoretically appealing because housing, like financial assets, can provide its owners realised and unrealised capital gains and rental returns, and can serve as an efficient store of wealth or collateral to support borrowing (Ryan-Collins, 2024). However, this modelling approach is of limited use in empirical work, because rental markets are often over-regulated or opaque, so that available data on rents, unlike those on house prices, usually bear little resemblance to "true" market rents – the straight green line in Graph 9 (right-hand panel) speaks clearly to this effect. The asset pricing model is also of limited use in policy analyses because it assumes that housing is a liquid asset equivalent e.g. to equities, so that switching between renting and owning a home is costless and instantaneous.

There are, however, important psychological, sociological, and structural economic forces behind housing demand that are neglected in both traditional demand/supply and asset pricing models. The sociology literature, for example, argues that owning a home is *unlike* owning any other asset: it has not only economic but also social and symbolic significance because it grants permanent access to certain networks and groups – the neighbourhood, local schools, homeowners' associations, clubs, etc. (Cohen Raviv and Lewin-Epstein, 2021).[15] Owning a home is also linked with social status that can be transferred to future generations, or can serve as a substitute for social security and retirement needs, with implications for an individual's identity, security, and belonging (see e.g. Blum et al, 1984). Understanding the "**culture of homeownership**" is fragmented across disciplines and there is a lack of systematic studies, but should nonetheless be considered in analyses of long-term housing demand.[16]

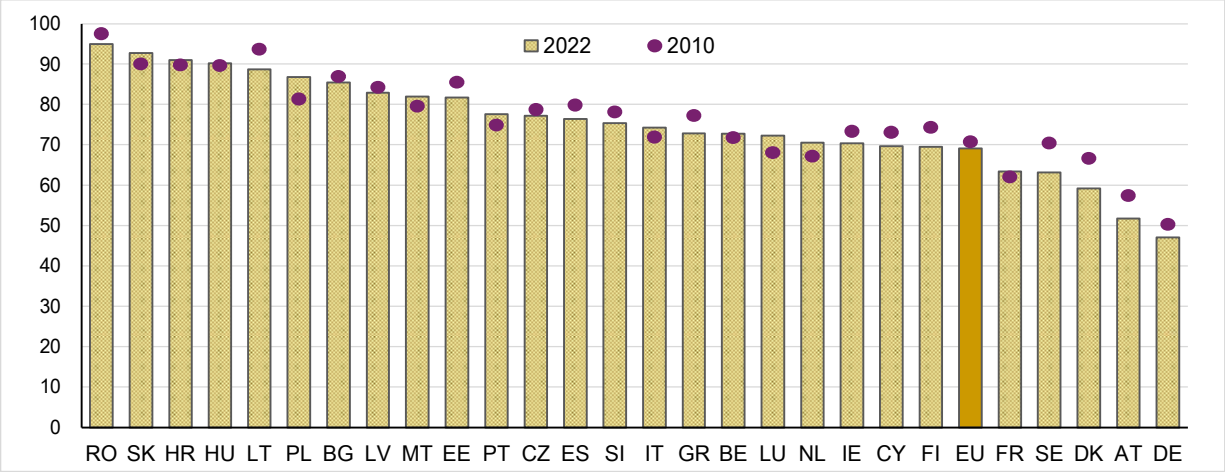
These broader drivers of housing demand, together with some historical and longer-term economic trends, help explain significant and persistent differences in homeownership rates across EU countries (Graph 15). CESEE countries thus

[15] A related literature on the economics of tenure choice highlights positive externalities but not the motivations behind homeownership (e.g. Andersen, 2011; Coulter and Scott, 2015). There is also a literature showing that housing vulnerability can lead to poor mental health (Cobb-Clark and Kettlewell, 2021), and that educational outcomes for children in neighbourhoods with higher homeownership are better (Boehm and Schlottmann, 1999; Haurin et al, 2002).

[16] In a qualitative comparative analysis with global financial integration, domestic market depth, financial regulation, financial literacy, and a measure of homeownership culture, Bonefačić Mihaljek (2024) showed that household debt and housing crises in the 2000s and 2010s have been pronounced in societies with strong homeownership culture (including the Baltic States, Croatia, Hungary, Ireland, Spain, the United States), but absent in those with strong housing rental culture (e.g. Austria, Germany, Switzerland).

have homeownership rates of 80–90% mainly as a historical legacy of the transition from socialist to market economies in the early 1990s, when housing ownership was transferred at nominal prices to the households that previously had housing assigned to them by state authorities or socialist enterprises.[17] But homeownership rates in some of these countries increased further, probably reflecting the strong culture of homeownership mentioned above. By contrast, in Austria, Denmark, Germany and Sweden, homeownership rates declined and the share of households living in rented housing increased (Graph 16), despite a long period of extremely low interest rates. This could be at least partly attributed to the widespread view that renting is "highly desirable" and societal pressure to own is low, as well as the perception that – unlike in CESEE – homeownership is not indispensable for social security and retirement needs (Ronald, 2008).

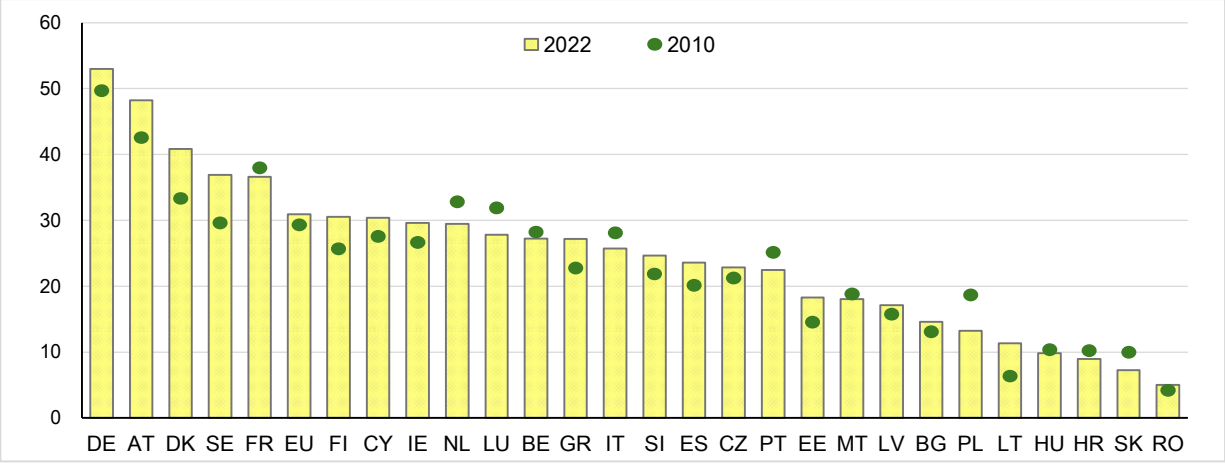
Graph 15. Homeownership rates (%)[1]



[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.

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).

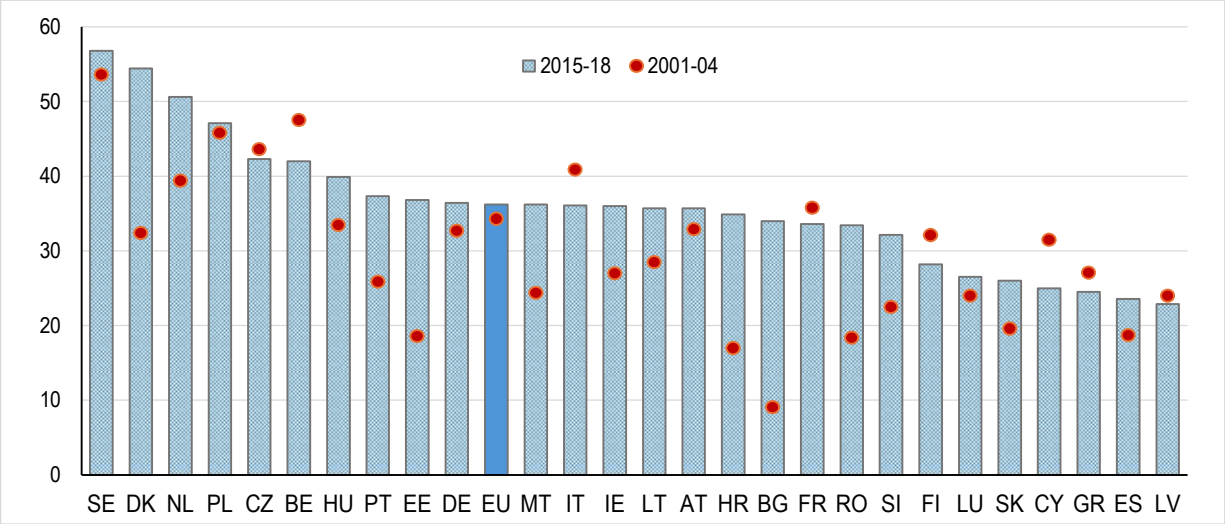
Source: Eurostat; OECD; author's calculations.

Financial development is another long-term economic trend that is often neglected in analyses of homeownership, but can be linked to the historical and cultural heritage of different countries. Between the early 2000s and mid-2010s, net

[17] See e.g. Égert and Mihaljek (2007) and Tsenkova (2009).

financial assets as a share of total financial and non-financial assets of households increased strongly across the EU, notably in CESEE, which had a very low starting point in terms of financial development, but also in Denmark, Ireland, the Netherlands, Portugal and Spain (Graph 17). At the same time, the share of dwellings in total household wealth declined sharply, not only in CESEE, but also in Denmark, the Netherlands, Sweden and, more moderately, Spain (Graph 18). This suggests that households shifted significant parts of their wealth to financial assets and lowered their leverage as financial markets developed and the range of financial instruments broadened.

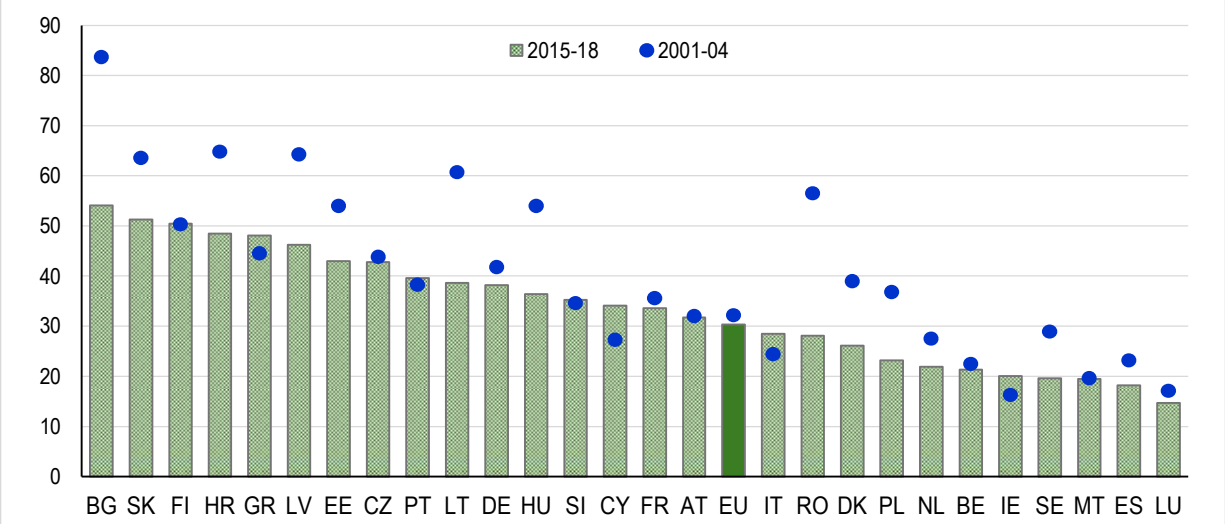
Graph 17. Net financial assets as a share of total household assets (%)[1]



[1] Currency and deposits; debt securities, financial derivatives, and employee stock options; equity and investment fund shares; insurance, pensions and standardised guarantee schemes; and loans; as a percent of total household assets (net financial assets and non-financial assets). Country observations are for different years in the periods indicated, depending on data availability.

Source: Eurostat; Kozina et al (2021); author's calculations.

Graph 18. Dwellings as a share of total household assets (%)[1]



[1] Does not include estimated value of households' holdings of land other than that underlying dwellings; as a percent of total household assets (net financial assets and non-financial assets). Country observations are for different years in the periods indicated, depending on data availability.

Source: Eurostat; Kozina et al (2021); author's calculations.

The breakdown by outright owners and owners with a mortgage (Appendix Graphs A6 and A7) also indicates that, as mortgage products became available more widely, many CESEE households took housing loans despite the already high homeownership rates. This was largely driven by middle-class households, partly associated with aspirational consumerism

in post-socialist contexts (Crăciun and Lipan, 2020), and partly by demographic factors, as young middle-class households needed new homes to accommodate the life-cycle evolution of the household structure. Explaining the strength of housing demand in many countries would be incomplete without considering these cultural and structural and factors.

6 Policies for affordable housing in the EU

Housing affordability policies in the EU are numerous and remarkably varied.[18] They are formulated and implemented at all levels of government: local, regional, national, and increasingly at EU level. They target a wide range of affordability concerns, from assisting individual households with heating bills to incentivising multi-billion EU green development projects. And they use a wide variety of tax, spending and regulatory tools. Cross-country variation of housing policies is significant: almost all member states apply a broad and comprehensive set of tools, with priorities reflecting country-specific demographic, historical, and socio-political factors.

Due to differing homeownership rates and sizes of the private rental sector, two regional groupings with similar policies can be observed: one comprises western European and Nordic countries, another southern and CESEE countries. Three policy clusters can be discerned in this complex landscape: demand-side policies for renters in private rental markets, home buyers and homeowners; traditional social housing policies; and supply-side policies aimed at real estate developers and at renovation of housing by individual and other dwelling owners, including landlords of rental properties, local governments, homeowner associations, and housing cooperatives.

6.1 Demand-side policies

Demand-side policies for the market-based housing segment assist renters, prospective buyers, and homeowners. Historically, they have assisted mostly households renting in private rental markets through rent controls and housing allowances.[19] **Rent controls** typically address the initial rent levels, regular rent and cost increases; lease features (duration, security deposit); tenant-landlord relations (reasons for and restrictions on contract termination, notice period); quality and maintenance standards; and, more recently, govern the short-term tourist rentals. **Housing allowances** are means- and/or income-tested transfers to lower-income households to help them meet rental and other housing costs. Eligibility is mostly based on income, size and composition of households, as well as housing costs. In most countries, housing allowances are designed as entitlement programmes, i.e., subject to availability of public funds, all applicants who meet the eligibility criteria receive the benefit. **Assistance to homebuyers and homeowners** can be provided through grants for the purchase or construction of a dwelling; preferential terms for mortgage loans; downpayment assistance; mortgage guarantees; and preferential tax treatment of housing saving schemes or tax reliefs for specific groups such as families with children, young families, or the elderly. Demand-side policies may also include tax measures aimed at **discouraging excess demand for housing**, such as taxes on empty premises, second homes, and taxes on foreign property buyers.

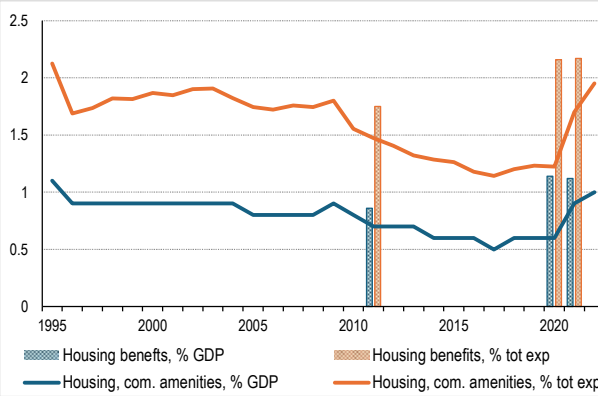
[18] The analysis in this section draws on the author`s contribution to EIB (2025), pp 102–5, and uses information and data from the OECD Affordable Housing Database (OECD, 2024) and the comprehensive literature review by Kholodilin (2025).

[19] While some social housing tenants pay rent, they are typically supported through social housing programmes.

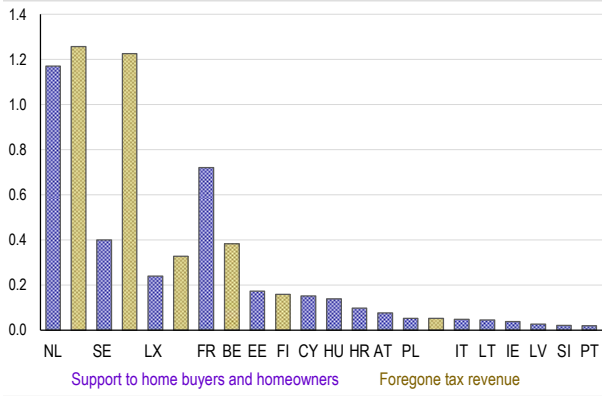
Countries with large private rental sectors (France, Germany, the Netherlands, Nordic countries) have elaborate policies for the rental sector, while those with high homeownership rates (Ireland, CESEE, southern European countries) often have rudimentary policies for private rental markets and gear their public support towards owner-occupiers. Regular fiscal support for housing has increased since the pandemic, after falling steadily after the GFC, though it has yet to return to the mid-1990s levels (Graph 19, left-hand panel). During the pandemic, Czechia, Hungary, Finland, Greece, Ireland, Italy, Lithuania, Portugal and Spain introduced additional (hard to quantify) housing support measures. Total government spending on housing allowances for renters averaged 0.25% of GDP in 2022, ranging from less than 0.1% in CESEE and southern Europe to 0.4–0.9% in France, Germany, the Netherlands and Nordic countries.[20] Somewhat less, about 0.15% of GDP on average in 2022, was foregone in terms of tax revenue to support homebuyers, with CESEE and southern European countries spending less than 0.1% on average, Sweden 0.4% and the Netherlands 1.2% (Graph 19, right-hand panel, purple bars). Tax revenue foregone to support existing homeowners averaged 0.6% of GDP on average in 2019, with Belgium, Finland, Luxembourg and Poland spending 0.1–0.4%, and the Netherlands and Sweden up to 1.3% of GDP (right-hand panel, brown bars).

Graph 19. Fiscal support to private market renters, home buyers and homeowners

Housing allowances and support for housing and community amenities (%)[1]



Fiscal support to home buyers and homeowners (% of GDP)[2]



[1] General government spending on housing as part of social protection benefits (bars) and housing and community amenities (lines) (Eurostat COFOG data). The former comprises social protection payments to households to help with the cost of housing and the operation of social housing schemes. The latter comprises housing and community development, water supply, street lighting, R&D for housing and community amenities, and related spending. [2] Public spending on grants and financial support to home buyers and homeowners, 2022 or latest year available (purple bars) and foregone tax revenue from tax relief for homeowners (brown bars), in percent of GDP, 2019 or latest year available (OECD housing affordability indicator PH 2.1.1).

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

The **effects of rent controls** have been widely documented. Tenants in rent-controlled housing benefit from lower rents, often for long periods.[21] Their gain comes at the expense of residents who end up living in more expensive rental housing that is not subject to rent controls, so housing affordability may worsen overall. Landlords of rent-controlled dwellings are compelled to reduce maintenance spending, leading to lower quality of rent-controlled housing. In a comprehensive literature survey, Kholodilin (2024) identified only two out of 112 published empirical studies that did not find a significant negative effect of rent controls on housing quality. Landlords are also likely to construct fewer new rental units, or may try to convert their rental properties into owner-occupied homes, thereby reducing the overall supply of rental housing

[20] These figures include personal housing benefits and budgetary costs of reduced rents for social housing tenants, which are in the statistics lumped together with housing allowances to private market renters.

[21] In Vienna, for example, children can inherit from their parents the right to live in community-owned rent-controlled housing and continue to pay below-market rents for decades regardless of their income (Peter, 2023).

(Holmans et al, 2002). By reducing residential mobility, rent controls can further result in lower labour mobility (e.g. Causa and Pichelmann, 2020; Sánchez and Andrews, 2011). A recent EU-wide study (Cuerpo et al, 2024) also found significant destabilising effects of rent controls on the aggregate housing market in terms of the volatility of house prices in the face of shocks such as shifts in population, disposable income, residential investment, and long-term interest rates. It advised against the use of rent controls for redistribution purposes, and argued that an efficient, fair and swift judicial system was a necessary step towards unlocking rental markets potential as an alternative to homeownership. It is also worth noting that there is little published information on administrative costs of rent controls for the public sector, or costs of compliance with controlled rents for private landlords.

The reason why rent controls are nevertheless still prevalent is probably their historical legacy. As noted in Section 2, until World War I there was widespread abuse of renters in major European cities, especially low-income working-class families. Institutionalisation of tenants' rights was a very slow and patchy process (see Shapiro (1990) for the case of France). During World War I, mass mobilisations turned low-income workers into a potentially powerful political force, so European governments felt obliged to freeze housing rents (as well as prices of consumer staples) to avoid domestic political instability while fighting the war. Although initially conceived as emergency measures, rent controls were repeatedly extended and ultimately stayed in place in different forms in most countries until today.

The **effects of housing allowances** are also complex. Like other social benefits, they affect incentives to work. By increasing income, they can make employment less necessary. If tied to a job-seeking effort or work but reduced with earnings or withdrawn when income reaches a certain threshold, housing allowances act as a tax, which may reduce the incentive of recipients to seek work or to work more hours. At the same time, housing allowances increase income stability and thereby allow the beneficiaries to allocate more resources to employment-related expenses such as transportation and childcare costs, which may be a substantial barrier to labour market entry for low-income households.

Much of the housing affordability literature has studied these trade-offs. From nearly 100 empirical studies analysed by Kholodilin (2025), most did not find any statistically significant effect, negative or positive, of housing allowances on beneficiaries' employment. However, the allowances seem to be associated with higher average rents: they increase the demand for housing, and with housing supply in this market segment relatively inelastic, rents tend to rise. On the positive side, the allowances seem to improve mental health (Ozdamar and Giovanis, 2017), and can allow females to become financially more independent.

Subsidies to homebuyers and private owners were widely criticised already decades ago for contributing to house price inflation and not improving access to housing for low-income families (Holmans et al, 2002). A recent study of the effects of housing loan subsidies on affordability in Croatia found evidence that house prices increased around the introduction of the subsidy, especially in areas and regions with already active housing markets, and in municipalities that absorbed the bulk of the subsidies (Kunovac and Žilić, 2022). However, the aggregate homeownership rate did not increase. Homeownership subsidies also seem to increase urban sprawl (Daminger and Dascher, 2023; Ermini and Santolini, 2017).

The empirical studies on the **effects of mortgage interest deduction** mostly indicate that they are associated with rising house prices and no significant effect on homeownership (e.g. Bourassa, 2013; Chareyron and Trouvé-Sargison, 2021; Damen and Goeyvaerts, 2026; Gruber et al, 2021; Hoebeeck and Inghelbrecht, 2017; Jappelli and Pistaferri, 2007; Kaas et al,

2021; Slintáková and Klazar, 2018; Vangeel et al, 2022). As with housing allowances, the reason is that mortgage interest deduction increases disposable income and housing demand, but housing supply is inelastic, so house prices tend to rise.

Evidence on the effectiveness of **vacancy, second-home, and foreign-buyer taxes** in reducing vacancy rates and increasing the supply of rental housing is mixed. In France, a 1999 vacancy tax reduced vacancy rates in taxed municipalities by 13% compared with a control group, but most previously vacant units were turned into primary residences (Segú, 2020). A housing tax on second homes in some French municipalities introduced in 2015 led to a decrease in the number of such homes (essentially due to strategic tax reporting), but property prices did not fall (Belgodere and Casamata, 2023). Hu (2018) found that British Columbia's vacancy and foreign-buyer tax had a strong positive impact on the supply of new residential housing in Vancouver. Using transaction-level data, Pavlov et al (2024) established that house prices in Vancouver declined by 6% in neighbourhoods with above-median concentrations of foreign buyers after a foreign-buyer tax was introduced, and overall foreign buyer share of single-family transactions fell below 2% from above 13% in the six weeks prior to the announcement of the tax. In Switzerland, a restriction on the construction of second homes enacted in 2012 significantly reduced excessive construction and building in touristic towns in the mountains, without affecting tourism much in the short run (Stricker, 2022). Because of consistent implementation, such market segmentation helped lower the prices for newer second homes, making it more affordable for residents and local working population to settle in these towns. However, the prices of older second homes that were exempt from regulation increased, and in recent years the law has been partially relaxed.

6.2 Social housing policies

Social housing policies are distinct because they explicitly target financially, socially, or otherwise more vulnerable segments of the population. The supply and operation of social housing is planned and financed mostly by the public sector, but with significant participation of the private sector in many countries (see OECD, 2020). Housing tenancies are better protected and rents generally more subsidised – often in combination with other social assistance – than those paid by low-income households receiving allowances for private rental housing.

Social housing comprised over 14 million dwellings or 8% of the total housing stock in the EU in 2021. Almost all EU countries have some form of social housing. The sector is largest in Austria, Denmark and the Netherlands (over 20% of the total housing stock), moderately sized in Finland, France and Ireland (10–20% of the stock), and small in CESEE and southern Europe. As noted above, the share of social housing in total housing stock has decreased by 3 percentage points since 2010, although the number of vulnerable people such as the homeless and irregular migrants has increased significantly (Graph 6). The decline is related to a slowdown in new social housing construction and privatisation of the stock, whereby old social dwellings were converted into market-rate rental housing (e.g. in Germany).

Public spending to support the operation of social rental housing (OECD affordable housing indicator PH 4.1.1) averaged 0.06% of GDP across the EU in 2022, with Austria and France spending 0.2% of GDP, Germany 0.07%, and other countries less than 0.05%. This spending includes current expenditure aimed at the direct provision of social rental housing (typically to the local authorities that own and manage the stock), and subsidies to non-government providers (grants, public loans from specific credit institutions, interest-rate subsidies, government-backed guarantees). The correlation between the level of public spending and the size of social housing is weak, however, as eligibility criteria, rent setting models (income-based,

market-based, cost-based, utility-based), and providers and management vary widely (for-profit, non- or limited-profit providers, cooperatives, public authorities at different levels of government).

The financially, socially and other vulnerable tenants who gain access to social housing benefit from rents at a fraction of market rates, secure tenancies, and generally improved health, educational and employment outcomes for family members (see e.g. Gibb et al, 2020). Social housing can also have community benefits such as greater social cohesion and better housing quality, e.g. when social housing is integrated with developments for average-income families. Importantly, construction of social housing can provide counter-cyclical activity buffers in periods of private housing market slowdown. Yet most of the literature, especially US-based, has focused on the downsides of social housing, such as negative externalities arising from concentrating social housing in a few local areas (see Hilber and Schöni, 2022).

6.3 Supply-side policies

An important set of housing affordability policies aims at increasing housing supply at below-market rents or prices by providing support to private property developers, who have comparative advantage in construction of affordable housing relative to the public sector. Typical support measures include grants, low-interest loans or loan guarantees to developers for the construction of owner-occupied dwellings; reduced VAT or other taxes that developers pay for newly built dwellings or for conversion of office spaces into residential dwellings; and sale of plots of publicly owned land at reduced prices for affordable housing construction. Dwellings can be intended for owner occupation, rent and other types of tenure, and typically target low- to middle-income households. There is usually a requirement to set aside a minimum share of dwellings, e.g. 25% of apartments in a housing block, for social housing or other tenants selected by public authorities. Almost all EU countries have such support measures in place. In some cases, a single scheme subsidises both the development of new homes and households purchasing these dwellings. In others, it is difficult to distinguish between support measures for affordable and social housing on the one hand, and sustainable and environmentally friendly housing on the other.

Supply-side measures aimed at existing private housing that have been implemented in recent years typically emphasise sustainability, and are an area where the EU has been perhaps most active in terms of funding and regulation. They target different types of dwellings (e.g. poor-quality, built in specific areas or in specific periods) and cover energy efficiency upgrades, repairs, accessibility adaptations, regeneration of buildings etc. Such initiatives are relevant for housing affordability because they help improve housing quality and contain energy costs for households. Typical tools include grants, tax relief, loans at preferential rates, loan guarantees, and insurance programmes. The beneficiaries can be homeowners, landlords of rental properties, local governments, homeowner associations, cooperatives etc.

Public spending on housing improvements (OECD affordable housing indicator PH 7.1) averaged 0.12% of GDP in 2022. It varied widely across countries, with Italy spending about 0.5% of GDP; Austria, Estonia, Germany, Slovakia and Sweden 0.15–0.35%; and most other countries less than 0.01% The regional pattern is similar to other housing policies. The Netherlands has invested heavily in building new affordable housing stock to address shortages in urban areas. Germany, France, and Austria emphasise renovation of existing housing stock to improve energy efficiency (e.g. eco-neighbourhoods in France). They also provide funding for new housing development, often subject to strict energy performance standards (France,

Germany, Nordic countries). In CESEE, by contrast, such projects are largely driven and funded by the EU, as their post-World War II housing stock was built in a period of very cheap energy and requires massive renovations.

The effectiveness of supply-side housing policies has yet to be comprehensively evaluated. Even the budgetary implications of public support to private developers are rarely quantified. A study of "green housing" construction in Switzerland found that the main drivers of environmentally friendly building activity at the community level were income differences and political and linguistic affiliation (the latter as a proxy for cultural norms), while government subsidies had no statistically significant impact (Salvi and Syz, 2011).

6.4 Housing policy interactions and reform potential

Joint effects of different housing policies and their interactions with other economic policies have been rare in the literature. The empirical work has tended to assess the effectiveness of single measures – e.g. rent controls, work disincentives of housing allowances for low-income earners – often in single cities or countries. Findings of such isolated studies are hard to generalise. As a result, housing policies have tended to rely on arguments for or against individual policy measures, without asking how they interact with other policies, and without trying to map out the effects of a whole range of housing policies.

One attempt to study **correlations of different housing policies** was made in an exhaustive review of nearly one thousand empirical studies by Kholodilin (2025). For each policy and its effect, Kholodilin first calculated a difference between the number of studies that found positive and negative effects, thus obtaining a sequence of positive, negative and zero numbers. He then calculated a correlation coefficient for each pair of policies, with the sign indicating whether the policies reinforced (positive sign) or cancelled each other (negative sign), or else had no relationship (zero correlation). The size of the correlation coefficient approximated the strength of the relationship between the two policies.

This analysis showed that rent controls were strongly and negatively correlated with housing allowances, suggesting that the two policies tended to cancel each other's effects on rents. Mortgage interest deduction and land use regulations reinforced each other's (positive) effect on house prices, as did mortgage interest deduction and building regulations. But mortgage interest deduction and property taxes, and land use regulations and property taxes, cancelled each other's effects on house prices. Separately, Kaas et al (2021) found that joint effects of transaction taxes, mortgage interest deduction, and social housing reduced homeownership and welfare in Germany.

Another neglected but important policy issue is **administrative costs** of housing policies. These are likely to be considerable, e.g. checking eligibility for housing allowances and social housing, or checking compliance with rent controls, not to mention compliance with building regulations. When authorities introduce new housing policies, their administrative costs are rarely a consideration. On the positive side, during recent crises, institutional infrastructures built around housing policies adapted flexibly to emergencies. The established administration of housing allowances and rent controls e.g. allowed quick disbursal of fiscal support to households during the pandemic and the energy price surge in 2020–22. It also facilitated implementation of temporary moratoria on mortgage payments and eviction bans. Decentralised implementation of many housing policies can be viewed in the same light, as regions and municipalities are often best placed to design and manage tailored affordability policies. However, this also requires sufficient funding and administrative capacity at the local level.

Further insights come from **political science research**. Antonini et al (2025) studied how housing affordability had entered and evolved within the European Parliament's Monetary Dialogue with the European Central Bank (ECB) between 2009 and 2025. They established that housing affordability has become an increasingly prominent and recurrent theme in the Monetary Dialogue, moving from marginal relevance before 2020 to a central concern during the pandemic related inflation. The Parliament paid most attention to owner-occupied house prices, while mortgage rates play a more complex and lagged role, and rents appeared comparatively marginal. Importantly, centre-right and centre-left groups have gradually mainstreamed the affordability issue. For the United States, Avenancio-León et al (2026) showed that less electorally represented homeowners resembled renters, in that they experienced lower housing appreciation and were less likely to influence local housing policy decisions. To prevent policies that responded primarily to better-off and politically engaged homeowners, one would need to broaden political participation e.g. by expanding civic outreach in housing-vulnerable communities, or institutionalising channels for resident input beyond traditional public meetings.

A broader issue is the **subordinated position of housing policy** in an implicit policymaking hierarchy. Despite its economic significance, housing policy has for a long time been viewed in the literature and policy circles primarily as social in character, and budgetary allocations devoted to the sector as crowding out other public spending or, in the case of social housing and rent controls, private residential investment. A valuable insight in this context is that regarding housing as merely a shelter and housing policies as primarily social in character underestimates the importance of housing for the modern economy (Maclennan et al, 2015). Housing attributes affect human capital formation, and housing is increasingly a place of life-long learning and work. Likewise, cities are not a passive factor in growth; as discussed in Section 4.4, they can give rise to distinctive and complex agglomeration economies that affect labour markets and innovation systems.

Yet, with few exceptions, the main policy response in EU countries over the past decade has been to fine-tune and tweak existing policy approaches rather than reassess the productive role of affordable housing and implement deeper reforms. This seems to reflect strong path dependency of existing housing policies perhaps more than the lack of political will to experiment. For example, housing policy advocates in the EU expanded arguments in favour of affordable housing in in recent years to energy conservation and health, environment and climate protection. This has been reflected, among others, in the statistical indicators presented in Eurostat publications such as *Housing in Europe*.

Arguments in support of affordable housing that have been articulated in urban economics and economic geography for decades have recently started to appear in EU policy addresses and institutional analyses (e.g. Baldwin, 2025; Cousin et al, 2025; EIB, 2025 and 2026; ESPON, 2025; European Commission, 2025a). For example, the *European Affordable Housing Plan* of the European Commission (2025b) identified four broad priority areas: boosting housing supply, mobilising additional public and private residential investment, addressing issues such as short-term rentals and speculation in housing markets, and measures to support housing for young people, the homeless, and vulnerable households. The plan marks mobilisation of significant effort and resources, and reflects a sense of political urgency to deal with housing affordability issues. But it remains to be seen how firmly its implementation will rely on economic arguments for housing affordability and empirical evidence on the effectiveness of housing policies discussed above.

7 Conclusion

This paper has covered a broad range of issues, and it seems appropriate to conclude with some that have been mentioned only in passing but deserve greater attention in future work.

A major effort is required to better diagnose the state of housing affordability and identify key population groups, markets, cities and possibly city areas with greatest affordability needs. As discussed in Section 3, for a more precise assessment one would need to disaggregate the data and analyse a whole range of affordability indicators along the entire income distribution, ideally at regional and city levels. There is a strong potential for improving statistical data in the process.

Not much has been said about governance arrangements and coordination of affordable housing plans and activities between central, regional and local authorities, as well as civil society organisations such as housing cooperatives, in areas including infrastructure development, planning and building regulations, and consumer protection in private rental markets. A major supply-side issue is the slow release of available sites for housing development such as railroad yards, ports, warehouses, post offices, industrial sites and office buildings that are no longer used. A more complicated political economy issue is how to put the existing large housing stock that is not occupied all the time to a more effective use from the perspective of both owners and those facing affordability issues.

Another question not addressed is whether the types of housing and urban infrastructures that have evolved in European cities since the mid-19th century are still adequate for urban living and work today. Public spaces, transportation facilities, and low-cost rental housing built for manufacturing workers in the period of industrialisation, or large apartments built for wealthier families in city centres, may not be well suited for today's economy, society and the more fragile natural environment. The growing number of elderly and changing demographics more broadly also have implications for housing in the future – the EU population e.g. is projected to decline from 2026 on, and only 24% of EU households currently have children (Eurostat, 2023). To address these issues, a multidisciplinary approach involving architects, spatial and urban planners, builders, engineers, economists, finance and legal experts would be needed.

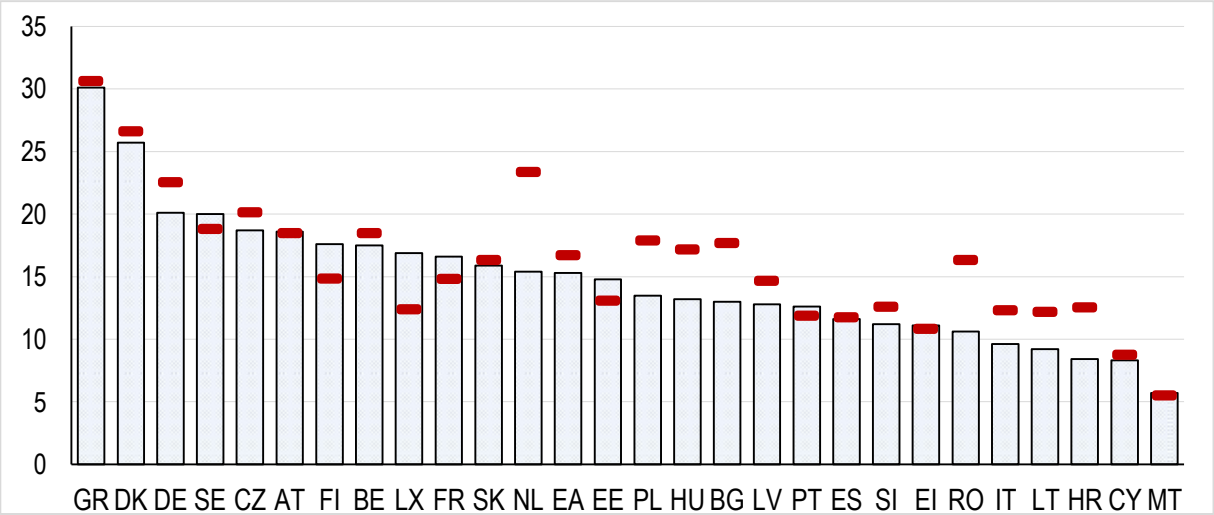
The role of the public sector would need to be reconsidered in this context. The new affordability issues are different from the ones in the past because they are becoming concerned with middle-income households, perhaps at the detriment of marginalised groups in the society. One challenge this raises is the risk of policies being geared towards those who have political voice and financial capacity to access housing on market-based terms, while continuing to underserve the population that has little choice but to rely on the public sector for housing assistance.

At a more macroeconomic level, there still seems to be little real understanding of how the housing sector affects growth and competitiveness, despite its large size in the economy. The economics literature tends to view housing either as inherently unproductive or as a key driver of business and financial cycles. Policy planners tend to account for housing needs in mechanistic terms, by relying mainly on demographic projections. A broader view elaborated by Maclennan et al. (2015), that a well-functioning housing system, efficient in its processes and effective in its outcomes, constitutes productive investment equivalent e.g. to infrastructure investment, with the benefits of long-term competitiveness, productivity, innovation, better services and higher incomes, has yet to find a more favourable hearing in the profession.

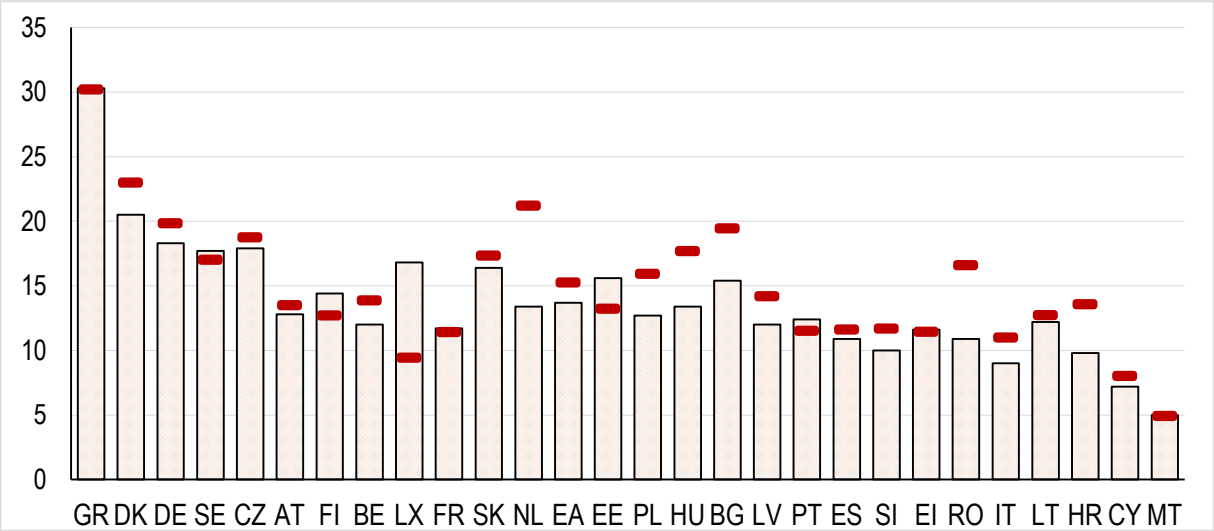
Appendix graphs

Graph A1. Housing cost-to-income ratios (%)[1]

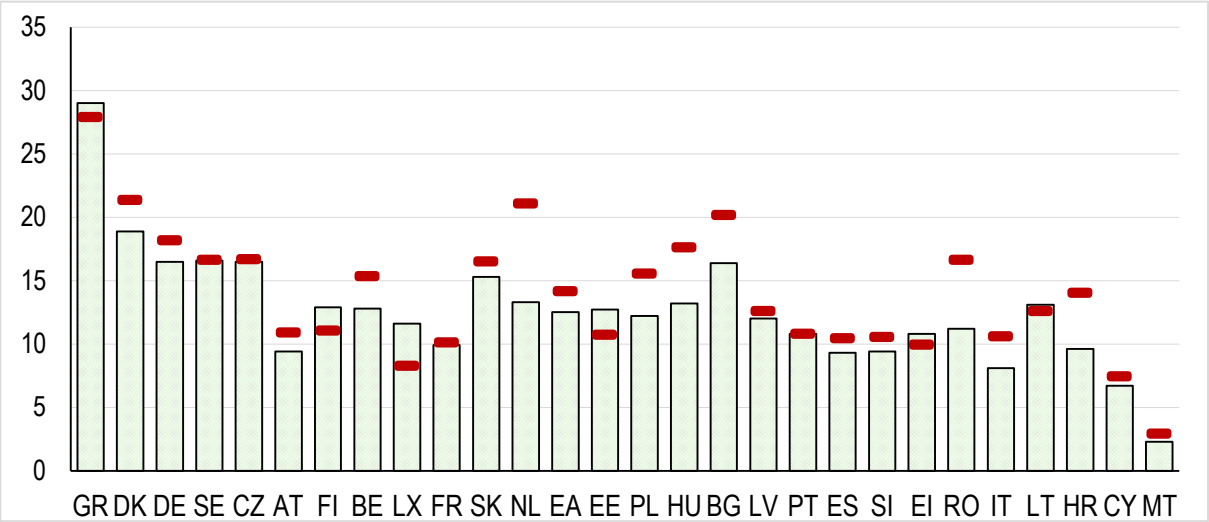
Cities



Towns and suburbs



Rural areas

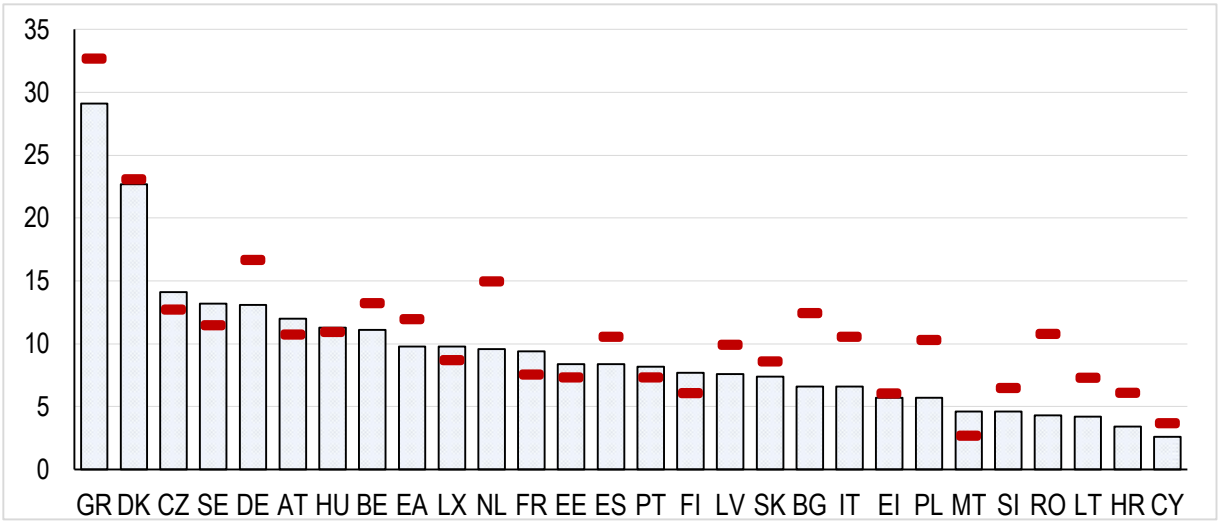


[1] The bars represent the housing cost-to-income ratios in 2024, the dashes their long-term average values (since 2005 or later if data not available). For definitions of total housing costs and disposable income see footnote 8 in the main text.

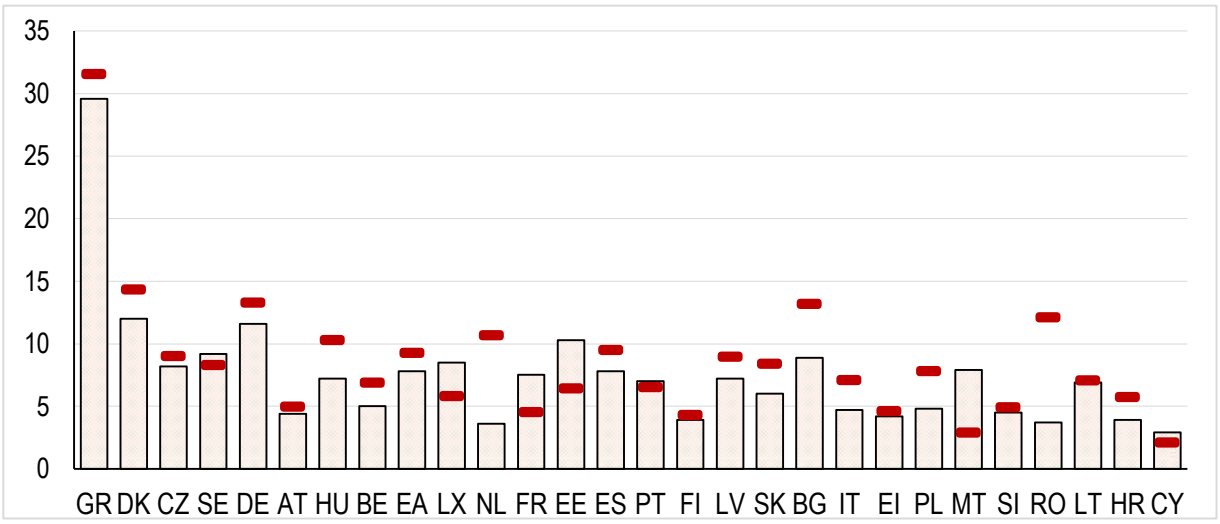
Source: Eurostat, Median of the housing cost burden distribution by degree of urbanisation [ilc_lvho08b].

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

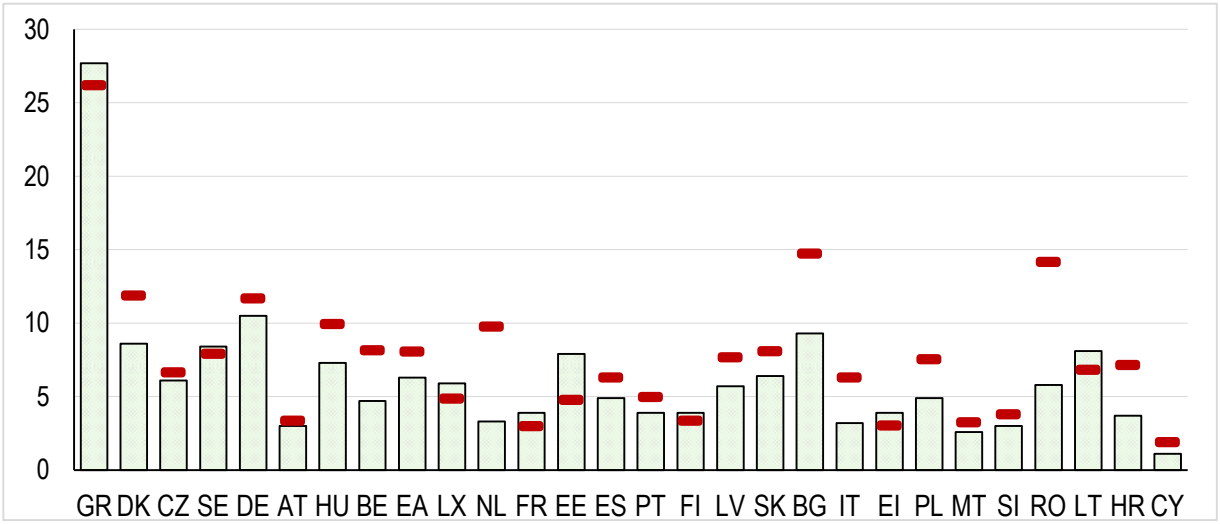
Cities



Towns and suburbs



Rural areas

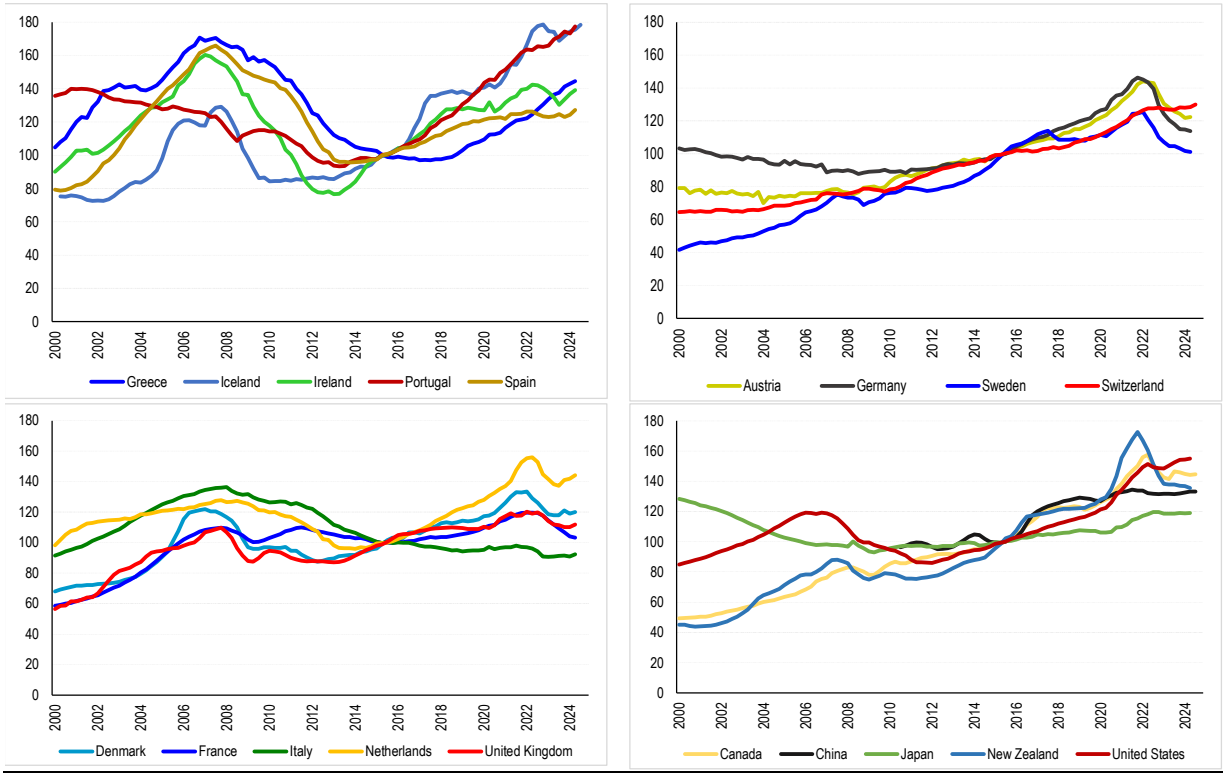


[1] Percentage of the population living in a household where total housing costs exceed 40% of disposable income (excluding housing allowances). The bars represent the housing cost overburden rates in 2024, the dashes their long-term average values (since 2005 or later if data not available). For definitions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

Graph A3. Real house prices in advanced economies, 2000–24

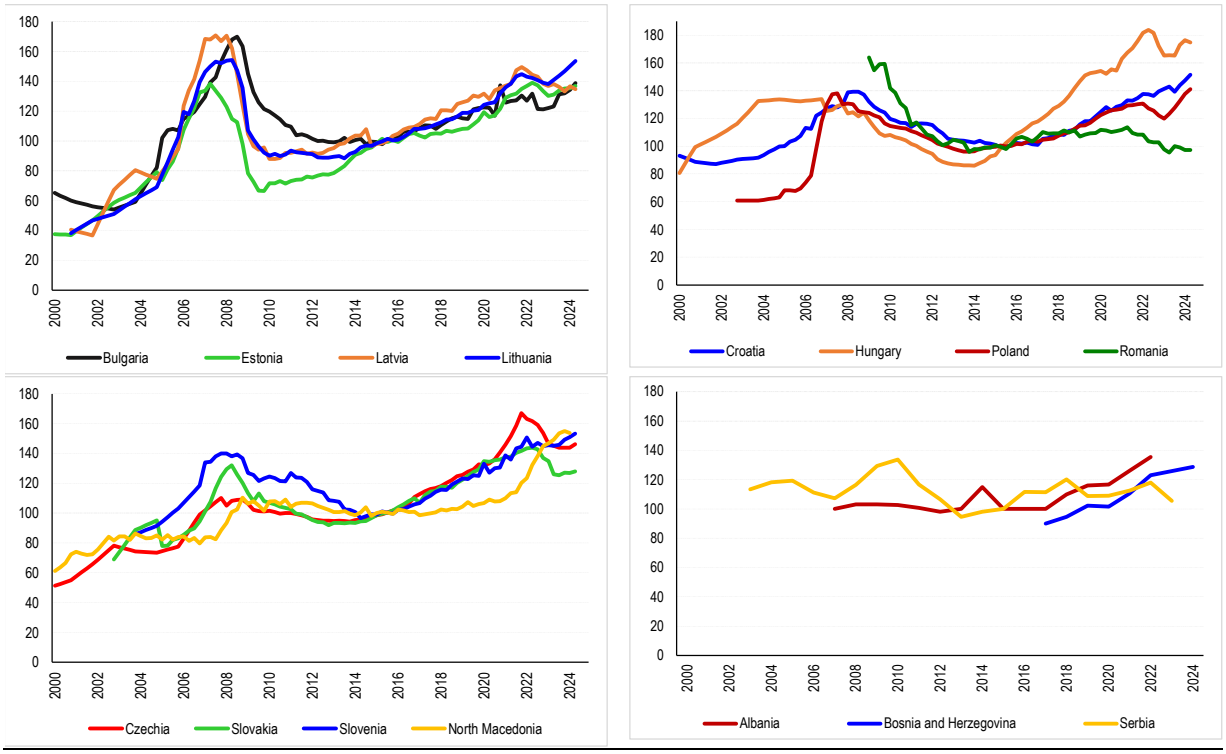
2015=100



Sources: OECD, Analytical House Price database; national data.

Graph A4. Real house prices in CESEE, 2000–24

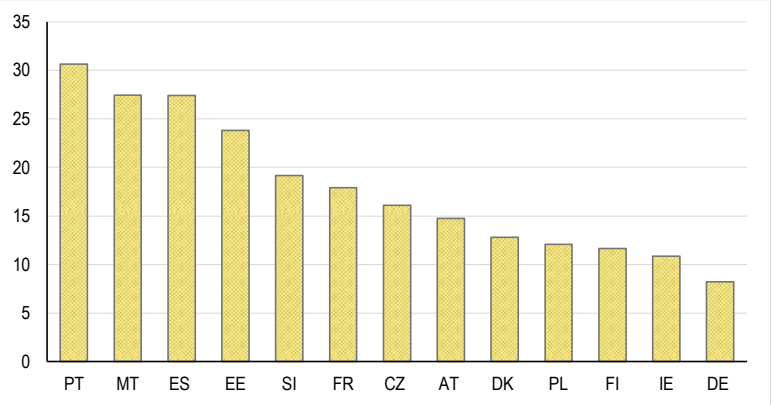
2015=100



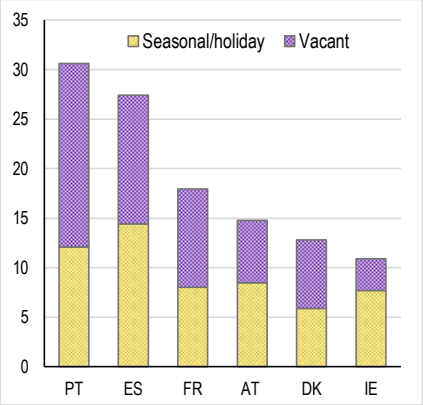
Sources: OECD, Analytical House Price database; national data.

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

Total



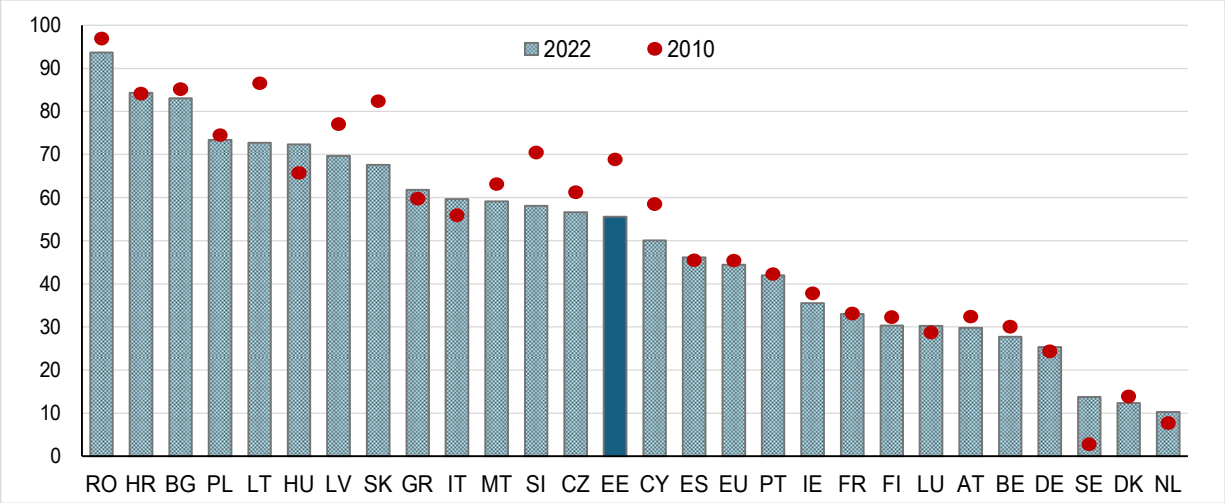
By use



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

Source: OECD.

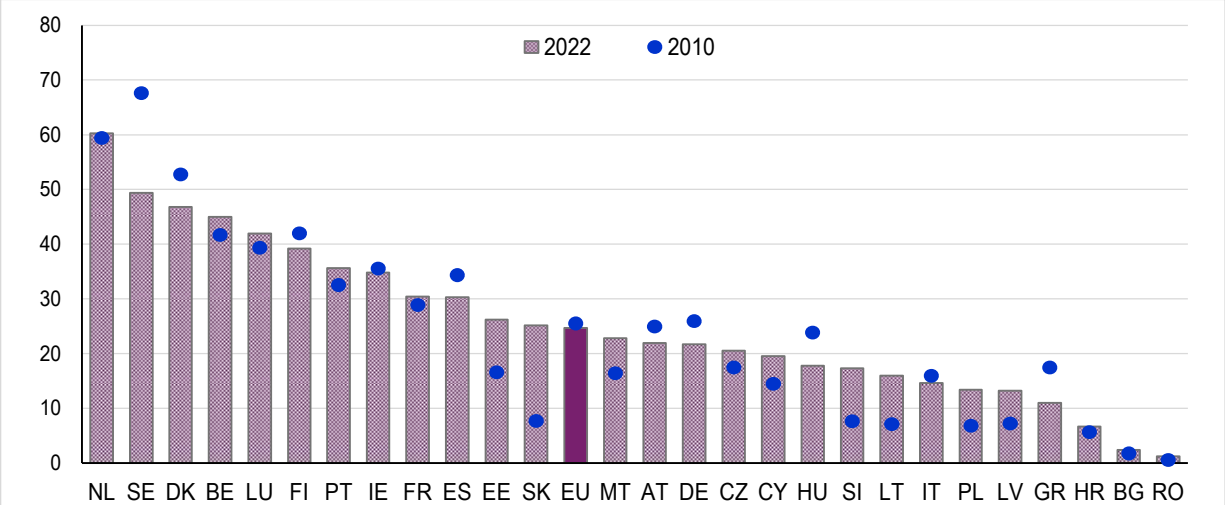
Graph A6. Outright housing owners (%)[1]



[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.

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.

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