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# Housing provision in 21st century Europe

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ABSTRACT

European housing markets exhibited considerable volatility so far in the 21st century while affordability worsened for many. Boom-bust has had greater housing impacts than any specific housing policy, which illustrates the difficulty in policy terms of seeing housing in isolation and the central significance of interlinked relationships between housing, the economy and financial markets. Europe historically invented a powerful set of interventionist tools to alter housing circumstances but, as the overview of rental markets here indicates, today they have mixed success. Examples of what to avoid in policy are at least as common as exemplars.



## 1. Introduction

Crisis and affordability are central themes here, because so far in the 21st century they have dominated European housing provision. Experience has been varied but central are events surrounding the Global Financial Crisis (GFC) and the travails of the Eurozone and policy reactions to both. Therefore, no examination of housing policy can ignore them. Weaved into the narrative is an analysis of some key structural policy issues as they help to explain why some European countries were particularly badly affected while others were not. Affordability has been a growing problem, partly because the booms priced out many while the aftermath saw plummeting housebuilding and credit availability.

Variety is another theme as Europe's 900 million people live in a large number of countries. There are nearly 20 with populations of 9 million or more, plus another 28 smaller ones. So, inevitably there are diverse housing experiences, institional frameworks and policies. A long tradition of activist housing policy also exists. So, one unifying characteristic is political rhetoric, which generally projects notions of effective and fair micromanagement though the evidence is mixed to say the least.

Though conditions and costs do vary widely, it remains the case that in aggregate Europe is relatively well housed in contrast to the past. Yet, paradoxically, dissatisfaction with housing provision is currently pervasive. On the upside, most people can find decent (if not ideal) accommodation with their means (if only just) in (tolerably) convenient places. On the downside, policy makers almost everywhere are pondering how improve affordability and whether more or less intervention is the way forward.

Subsequent sections can only cover a small amount of the potential issues that could be discussed. After identifying what makes Europe special and noting four key characteristics that need to be borne in mind in policy debate, the impact of the 2000s boom–bust cycle is examined. Following this, there is consideration of one of the prime features that distinguishes European housing policy, that with regard to rental housing.

## 2. Europe as a special case

Europe has a rich history of housing policy that has often be used as templates elsewhere. This is especially true of those countries with a strong state-led social welfare tradition. Observers identify this as something that makes Europe special: with an observed divergence from, for example, the USA in welfare interventions from the 1920s onwards (Alesina, Glaeser, & Sacerdote, 2001). They put this down to the major transformations of Europe as a consequence of the two world wars and the intervening years of chaos and depression. Social and political upheavals during this period weakened tradition elites, strengthened strong reformist movements and forged a myriad of countries that, at least for a time, had relative social homogeneity. In combination, these features help to nurture policies of state-led mutual support with political parties having to put social wellbeing at the centre of their programmes. A strongly interventionist role for the state was set in motion that continues today nationally and in the super-national European Union.

Post-war rapid economic growth made welfare policies feasible

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and they become firmly entrenched by the last quarter of the twentieth century. Housing policy was a key element in this state welfare/mixed economy framework. In varying ways, both owner occupation and rental housing were supported through demand and supply-side programmes. However, more recently the old parameters have been breaking down (Hemerijck, 2012; Chatham House, 2015) and there has been considerable policy change amidst broad institutional continuity.

Those traditions were most successfully imbedded in North Western Europe – Benelux, France, Germany, Austria, the Nordic countries and the UK. By contrast, Central and Eastern European (CEE) countries have over the past quarter of century been refashioning market-based economies from a post-war 'state socialism' legacy, while Southern ones have each had further distinct 'take-off' trajectories. Yet, they all have lower levels of formal social provision and stronger traditions of family supports, including with respect to housing (Morris, Kovacs, & Harboe, 2014). Housing standards are generally substantially lower, in CEE especially, and there are typically high levels of owner occupation.

## 3. Four important features of European housing

Europe exemplifies a number of key features of contemporary housing provision that it is useful to identify.

1 Institutional distinctiveness

Its countries each contain their own unique set of housing institutions and policies. They highlight that housing markets remain national and local in character. Even with globalised finance, distinctive characteristics of mortgage markets abound. Understanding may involve intellectual tools that transcend national boundaries but outcomes are filtered through specific institutions and political processes (Ball, 2006). So, it is difficult to read off policy conclusions from simple comparisons. Space does not enable detailed evaluation of the impact of these distinct European structures of housing provision but their existence is implicit in what follows.

2 Scarcity amidst plenty

Though basic needs of shelter and health are generally met, housing shortages abound. A prime cause is the desire to crowd into a small part of the available land, especially into booming regions. For example, in England only 6% of all land is in residential use and new housing takes up far less (DCLG, 2015). Therefore, scarcity is to a considerable degree socially created, with location having pre-eminence over housing affordability and quality. Inequality is exacerbated by competition for this prized urban space.

3 Regulation and path dependency

European housing is highly regulated with myriad rules and organisations that have evolved topsy-turvy over time and been influenced by the ebbs-and-flows of political fashion and path dependency. It is unlikely that anyone would design what exists in its entirety from scratch. However, reform has to start from what exists and so inevitably tends to meet resistance and to be slow and path dependent.

4 Cyclical variability

Housing markets are characterised by cycles. European countries, as elsewhere, have experienced many phases of boom and bust in their housing histories. Moreover, looking at the very long-run it is clear that these cycles are relatively weakly correlated across countries in timing and amplitude (Ball & Morrison, 2000; Barras, 2009), though the Global Financial Crisis (GFC) proved a common turning point in many countries, but not all.

## 4. The great 21st century boom and bust

### 4.1. The Boom

The great 21st century European house price boom was unprecedented. By 2007, real house prices had at least doubled over the past decade in the Nordic region, Benelux, France, the UK, Ireland and Spain. Shorter booms occurred in new build markets in Central and Eastern Europe. By contrast, there were only modest price rises in Italy and real falls in Germany, Austria and Switzerland; partly because their housing market cycles were and remain distinctive. A combination of events put so many European countries at the forefront of the global house price excesses of the 2000s. They are briefly considered below.

Optimism was fed by the length of time of the rise in prices. Economies were strong and the scourges of high inflation and instability seemed to be finally beaten. Nominal interest rates had been falling for a long period of time and credit conditions were becoming looser. Both consumers and lenders fooled themselves into believing that a new era had dawned, which helped to stoke up expectations of ever-rising house prices.

Change was also taking place in mortgage market structures. Residential mortgage backed securities, which hardly existed in Europe at the turn of the century, provided substantial new sources of funds; especially in the UK, Spain, Ireland, and the Netherlands. They facilitated the entry of new lenders. Incumbents then retaliated against falling market shares by relaxing their own lending criteria. Elsewhere, previously sedate mortgage markets, such as Denmark's, saw lender competition escalate via new, higher risk products. The outcome was that outstanding mortgage debt to GDP levels rose strongly in the UK, Denmark, Ireland, Spain and the Netherlands: though not at this time in others, such as Sweden and Norway, where mortgage market structures changed little.

The introduction of the Euro added further stimulus to household debt. It brought lending rates down sharply in southern Europe and added to consumer euphoria, particularly in Ireland, Spain, Portugal and Greece.

It would be wrong to see the Europe's 2000s boom simply as a credit bubble built on the shifting sands of real and perceived change. Underlying structural conditions contributed much. For example, favourable tax breaks for owner-occupiers and generally low property taxes added to the fuel. Not all countries offered mortgage interest tax deductibility for owner-occupiers but those that did saw some of the highest price increases.

Housing demand was spatially concentrated into areas where supply was shortest. Demographics and migration added to accelerating market momentum. Net migration grew particularly after expansion of the European Union into Central and Eastern Europe, putting further pressure on local housing markets in the net recipient areas. However, offsetting such costs are positive aggregate contributions to economic growth and public finances, which could be argued to more than counter-balance them (Dustmann & Frattini, 2014; Peri, 2013). The net flow of migrants (internal as well as foreign) has been concentrated in capital cities and, at the European level, across southern France, northern Italy, the Benelux countries and much of the United Kingdom (Eurostat, 2014a).

Supply-side conditions contributed much to price escalation. With a few exceptions, rental-housing supply was stagnant or declining, with investment discouraged by rent controls, and thus