Recent trends in EU home ownership

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Home ownership has been a source of concern for many EU28 governments, especially since the start of the economic crisis in 2008-09. After five-to-six years of persistently weak economic performance and in the context of the recently enacted mortgage credit directive - which should affect the principal funding channel of housing purchases – it seems timely to look at recent home ownership behaviours across the EU28, with special emphasis on the major changes. Recent macroeconomic data reveal three striking phenomena: highly diverse home ownership rates across countries – still; significant contractions in ownership in the UK and Ireland (especially among families); and marked contractions in ownership among poorer households in the EU15 since 2007.

1. Introduction

Although home ownership remains largely a domestic policy issue, some rules designed and implemented at the European level are likely to shape home ownership across the EU28, notably those on construction, such as Directive 2010/31/EU on the energy performance of buildings. More recently, the mortgage credit directive, scheduled to be implemented before March 2016 at member state level, is likely to affect the main funding channel of housing purchases in the EU28 and indirectly influence domestic levels of home ownership. Finally, the conduct of monetary policies continuously affects mortgage markets, both through the demand for loans and the supply of loan channels.

An overview of home ownership and its main trends in the EU28 is therefore timely and should offer some useful insight into related policies at the European and domestic level. This ECRI contribution will first analyse the two main methodologies to measure the owner occupation rate (OOR) and assess which one is the more appropriate for the present study. Second, some focus will be placed on the different values of (OOR)s across EU28 member states, and finally, further analyses will be developed on the heterogeneity across different types of households (by considering the level of income and the composition of the household).

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2. Two main methodologies

Two main types of methodologies are used to calculate the OOR. One concerns the ratio of owner-occupied homes to the total number of homes, i.e. the ‘dwelling approach’; the other is the ratio of inhabitants living in an owner-occupied home to the total population, i.e. the ‘population approach’.

Within the ‘dwelling approach’, each dwelling is owner-occupied, rented or unoccupied. The denominator under this approach is therefore the stock of dwellings on the whole national territory. The ‘population approach’ means that households occupy a dwelling either as an owner or as a tenant (or have no address). In this context, the denominator is the national population, and not the number of dwellings. This second approach is based on a survey conducted every year by Eurostat: the European Union Statistics on Income and Living Conditions (EU-SILC) (http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc).

Each approach has different advantages and implicit policy objectives. The dwelling approach focuses on supply policies and aims at providing an overview of the use of the total stock of dwellings in a given territory. In contrast to the population approach, it can partially determine the number of unoccupied dwellings, thereby providing better insight into housing supply and the management of existing dwellings.

On the other hand, the population approach places emphasis on population needs. In contrast to the dwelling approach, the proportion of households with no dwelling can be deduced from the ratios based on the population approach. The purpose of this approach is mainly to provide data for the calibration of policies aimed at influencing the weight of each type of tenure among the population.

While international bodies such as Eurostat publish consistent data on OORs by using the population approach, no consistent cross-section data is available on a large scale using the dwelling approach methodology. This paper will therefore focus on the population approach.

3. Heterogeneity across EU28 members and over time

Across countries: three main groups

In the EU28, the average OOR was 70.6% in 2012 and 70% in 2013. However, the aggregate figure masks heterogeneous rate patterns at the country level. Looking at the actual data in more detail (Figure 1) shows that at least three groups of countries can be distinguished:

- countries with rates below the EU28 average (70%);
- countries with rates between the EU28 average and 80%;
- countries with rates above 80%.

All the countries belonging to the first group are from northern and western Europe: Germany, Austria, France, Denmark, the Netherlands, the UK, Sweden and Ireland. Some of these economies even display very low OORs (such as Germany, Austria, France and Denmark), implying highly developed tenant markets. The low levels recorded are partly the result of specific policy objectives. For example, in the context of the polycentric structure of the labour market in Germany, the development of a broad rental housing market has been considered essential to easing interregional mobility by local regulators.

Considering policy tools, the heterogeneity observed within the group recording rates below the EU28 average might be due a differentiated use of tax policies and social housing
policies. For instance, regarding taxation, home-owners in Germany (OOR: 52.6%) have not benefited from such high levels of subsidisation as in the Netherlands (OOR: 67.1%).

With the exception of Belgium, Finland and Luxembourg, the second category includes economies from southern Europe: Cyprus, Italy, Portugal, Greece, Slovenia and Spain. Different long-term dynamics can explain the high rates of ownership observed in this part of Europe. Home ownership has traditionally been promoted as a means to ensure social stability by the local regulators and several barriers have impeded the ability of local public institutions to manage a public rental stock, especially in Greece and Spain. Furthermore, ownership is also indirectly encouraged by the lack of real investment alternatives for households. Ultimately, the active involvement of the family in real estate has resulted in extended co-residence and levels of outright ownership (share of owners without a mortgage or housing loan) far above the EU15 average, as numerous children inherit the family home through strong intergenerational transfers.

Finally, all the former EU28 communist economies (except Slovenia) are part of the third group: Czech Republic, Latvia, Estonia, Poland, Bulgaria, Croatia, Slovakia, Hungary, Lithuania and Romania. One of the main reasons behind the very high levels in OORs in these countries is the implementation of national policies in the 1990s aiming to promote home ownership via subsidies.

Figure 1. Owner-occupied rate, 2013 (in % – population approach)

* 2012 instead of 2013.

Over time: significant contractions in Ireland and in the UK and stagnation in southern Europe.

Source: Eurostat.

Over the 2007-13 period, despite the financial crisis of 2008-09, the overall OOR has been broadly stable in most EU15 countries for which data are available and methodologies are consistent over time (see Figure 2). As such, the slope of the time series is between -0.5 and 0.5 for 11 out of 15 countries. Nevertheless, the OOR has moved on a significant downward path in Ireland, the UK and Denmark, while it has increased markedly in France.

In both Ireland and the UK, rising unemployment since the start of the financial crisis might have contributed noticeably to the growing volume of mortgage loans in arrears, resulting in
increasing numbers of properties being repossessed.\(^1\) According to the UK government, the annual proportion of mortgages 6-12 months in arrears and houses being repossessed have been on average much higher over the 2008-13 period than in 2002-07 (from 0.30% to 0.65% for arrears and from 0.13% to 0.33% for the repossessions). In Ireland, as a consequence mainly of skyrocketing unemployment, the share of mortgage loans in arrears over 6 months stood at 9.8% in September 2014, up from 2.2% in September 2009 and 6.0% in September 2011 (the proportion of mortgages 6-12 months in arrears reached 3.1% in September 2012 and 2.0% in September 2014). In the meantime, the number of residential properties being repossessed increased by more than 320% between September 2009 and September 2014.

Nevertheless, the dramatic decreases in home ownership registered in these two countries might mirror developments in the segment of first-time buyers (FTBs). Despite the financial crisis house prices are persistently high in the UK, especially in the London area, where numerous overseas purchasers use the local housing market as a ‘safe haven’ investment. Significant tightening in lending standards in 2008-10, particularly around the loan-to-value ratios (LTVs) in the UK have indeed led to a rapid deterioration in the access of first-time buyers to home ownership. Consequently, according to the Council of Mortgage Lenders (CML), in 2011 two-thirds of FTBs received help from parents or relatives when purchasing a house, up from less than one-third in 2005, leaving those who do not have parents or relatives to help with few options other than renting or staying at home. It is also worth noting that over the two last decades some trends have shown that increasing numbers of students, migrant workers and young professionals wish to remain mobile, thereby boosting demand for the private rental sector.\(^2\)

In Ireland, the marked contraction in home ownership admittedly reflects similar trends since 2008-09; nevertheless, the tightening in lending standards and the decreased demand for housing loans have been much stronger than in the UK, especially during the 2007-11 period. Despite the burst of the housing bubble, which led to a house-price correction of roughly 50% and implied in theory greater housing affordability, the quarterly gross residential lending has fallen dramatically in recent years. According to the Central Bank of Ireland, the de-seasonalised amount was only 4.8% of its 2007 average in the first quarter of 2013, before increasing in the following quarters to pass the threshold of 10% only during 2014.

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\(^1\) According to Eurostat, in the UK the average annual unemployment rate reached 5% between 2001 and 2007 and 7.4% between 2008 and 2013, whereas the corresponding figures for Ireland were 4.4% and 12.5%, respectively.

\(^2\) Moreover, on the supply side, changes to housing legislation and the introduction of the buy-to-let (BTL) mortgage have resulted in increased investment in rental properties and the transfer of housing stock to this segment.
4. High impact of household composition

Cross-household divergences span two dimensions: the level of income and household composition.

Lower ownership among the poorest households

In 2013, OORs recorded for households whose income was below 60% of the median income (poverty line) were much below overall averages, especially in western and northern European economies (Belgium, Denmark, France, the Netherlands and Sweden). In southern European economies, OORs were also below average (Greece, Italy, Portugal and Spain), but the difference was less pronounced; mirroring strong intergenerational transfers.

Levels of ownership also depend on household composition

As regards the impact of the composition of households, different trends can be observed. Firstly, age tends to positively affect aggregate home ownership: the households composed of “two adults, at least one aged 65 years or over” have generally much higher OORs. Secondly, household size seems to play a significant role in the level of OOR. Larger households, with dependent children and at least two adults, display OORs above the average. On the other hand, in most EU15 countries, the categories related to “single person” have much lower OORs than average. Thirdly, a specific type of household also recorded very low OORs in 2013: “single person with dependent children”.

Marked contractions in ownership for the poorest households

The evolution in the OORs registered between 2007 and 2013 is not equally distributed among the types of households. The OORs recorded for households above the poverty line have stabilised or increased somewhat, with the exception of those in Ireland and in the UK, where corresponding rates contracted by a stunning 10 pp (see Figure 3).\(^3\) For households

\(^3\) ‘pp’ stands for percentage points.
below the poverty line, OORs have decreased in all EU15 countries, albeit at differentiated rates. As shown in Figure 3, there does not seem to be any specific geographical distribution in OOR variations in the EU15. In northern European member states, the decrease was dramatic in Denmark (-14.1 pp) and Belgium (-10.7 pp) but moderate in Finland (-3.5 pp) and very low in Germany (-0.3 pp). Among southern European economies, Spain recorded a marked contraction (-10.1 pp), whereas Greece and Portugal registered decreases close to the average of the sample and Italy contracted by only -0.8 pp.

Nevertheless, all in all, the marked contractions observed in most EU15 countries spark many negative effects on the poorest households, most likely draining the already low average wealth in this group of households and exposing them even more to the risks of extreme poverty. These alarming figures might have been caused by three simultaneous mechanisms. First, persistently poor households have changed their tenure status, either due to a voluntary sale or to bankruptcy leading to forced sale or repossession. Second, some households classified above the poverty line before 2007 might have changed their occupancy status as a result of their impoverishment. Finally, some poor households classified as tenants before 2007 might have encountered great difficulty in acquiring accommodation, owing mainly to a shortage of affordable houses. To a certain extent, the latter mechanism is likely to be caused by inadequate housing policies and a lower-than-optimal supply of social housing.

Figure 3. Owner-occupied rate among household categories (variation in percentage points between 2007 and 2013; population approach)

* 2011 instead of 2012.

Source: Eurostat.
In some EU15 countries, the variation in OORs was also based on household composition. In 2013,\(^4\) the OOR was below its 2007 level for 11 countries of the sample when considering “households without dependent children” and for seven countries within the category of “households with dependent children”. The corresponding figure was also seven for “two adults younger than 65 years old”, “two adults with two dependent children” and “two adults with three or more dependent children” and only four for “three or more adults”, “three or more adults with dependent children” and “two adults, at least one aged 65 years or over”. Interestingly, for both Ireland and the UK, OORs recorded for “households with dependent children” contracted much more than for “households without dependent children”, whereas opposite patterns could be observed in Finland, Greece, Italy and Luxembourg.

5. Conclusions

Home ownership is quite a complex phenomenon, with multiple aspects and implications. Different conclusions can be drawn from the analyses conducted in the paper. First of all, in absolute terms, three main economic regions can be distinguished in the EU28: northern and western Europe with low levels of owner occupied rates (OORs), southern Europe with high levels and the 12 new member states (NMS-12) with very high levels. Secondly, observations over the period 2007-13 reveal broadly stable trends in the EU15 member states, except for Ireland and the UK, where sharp contractions have been recorded. Finally, OORs among poorer households have contracted in all EU15 member states, and to a dramatic extent in some of them.

\(^4\) It concerns 2010 instead of 2007 for Germany and 2012 instead of 2013 for Ireland.
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