

October 2017

## Research briefing:

### Public expenditure on housing: the shift from capital spend to housing allowances. A European trend?

This briefing explores the growing crisis of affordability across Europe in the context of a shift in public expenditure on housing, from a comparative European perspective. It shows that while there has been a shift from capital funding towards housing allowances across the EU, this shift is particularly pronounced in the UK.

#### Key findings:

- There is a growing affordability problem across the EU, especially among younger people and those living in urban areas, but in particular among private renters and low-income households.
- Housing cost overburden rates<sup>1</sup> are higher in the UK than across the EU, in particular among private renters.
- Despite the lack of affordable housing options, public expenditure on new housing development has declined across the EU.
- Total expenditure on housing development in the EU has declined by 44%, from 48.2bn Euros in 2009 to 27.5bn Euros in 2015.
- Over the same time period, expenditure on housing allowances in the EU has increased from 54.5bn to 80.8bn Euros.
- There is been a significant shift in overall public expenditure on housing, with a growing proportion being spent on housing allowances at the expense of capital funding.
- This shift has been particularly pronounced in the UK, where 85% of all public money on housing is spent on housing benefit.
- The UK now has the highest per capita spend on housing allowances across the EU.

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<sup>1</sup> According to Eurostat, a household is overburdened when total housing costs represent more than 40% of its disposable income ('net' of housing allowances).

## Introduction

Housing affordability is becoming a growing issue, not only in the UK but across Europe. A large number of individuals and households are struggling to find affordable accommodation, in particular younger people and those living in urban areas. Yet despite this, many European countries have seen their budgets for building new affordable homes reduced. At the same time, the lack of affordable housing and in many cases stagnating or even falling real incomes have led to an increase in the number of people needing assistance in the form of housing allowances to cover their housing costs. This briefing looks at some of the commonalities and differences in the ways in which public funding for housing is used across Europe and how this has changed over the last few years.

## The context: a European housing crisis and the need for affordable housing

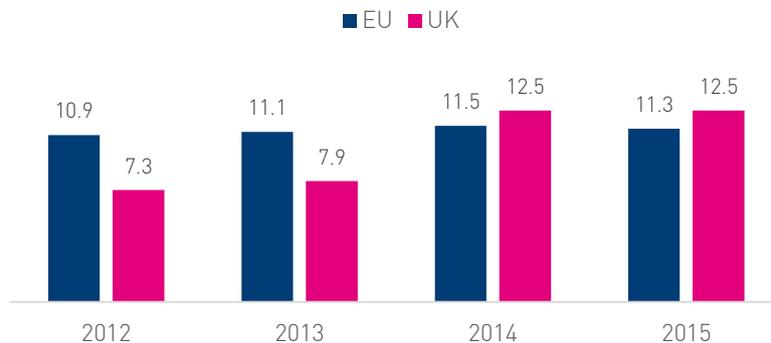
A growing number of Europeans are struggling to find affordable housing options. In 2015, around 1 in 9 (11.3%) households in the EU were overburdened by housing costs. According to Eurostat, a household is overburdened when total housing costs represent more than 40% of its disposable income ('net' of housing allowances).<sup>2</sup> There is however a significant variation in the degree to which households are overburdened across different countries of the EU. Greece stands out as the country with by far the highest proportion (41%) of households being overburdened by housing costs. While this is certainly a reflection of the ongoing economic crisis and lower household incomes, housing cost overburdening is also a growing problem in many countries where incomes are well above the EU average, such as the UK, Denmark or Germany, where between 13% and 16% of all households are overburdened. Moreover, the proportion of households overburdened by housing costs has increased both at EU level (from 10.9% in 2012 to 11.3% in 2015) and even more so in the UK, from 7.3% in 2012 to 12.5% in 2015.

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<sup>2</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing\\_cost\\_overburden\\_rate](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing_cost_overburden_rate)

**Figure 1: Proportions of households overburdened by housing costs, 2012 to 2015**

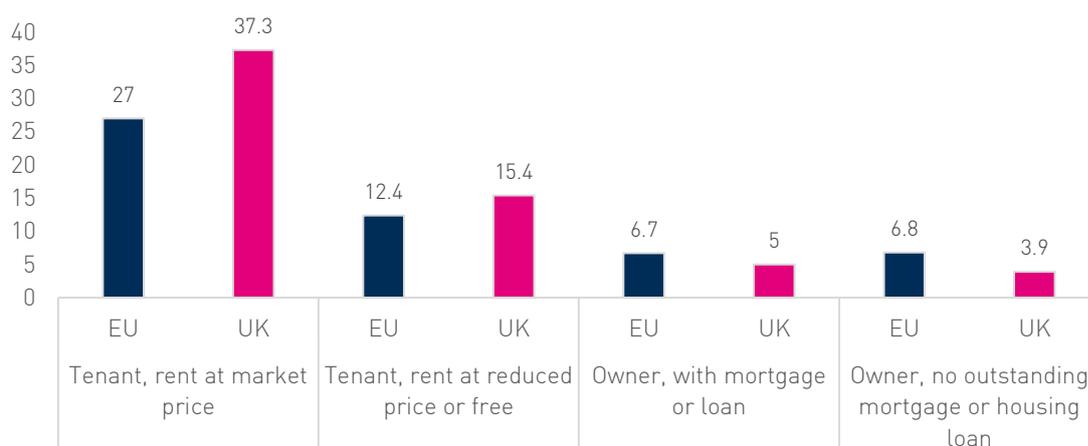
Source: Eurostat, EU-SILC survey



The situation is particularly severe in many European cities, where the proportion of households overburdened by housing costs is significantly higher than in rural areas. 13.4% of those living in urban areas in the EU are overburdened by housing costs, compared to 9.1% in rural areas. In the UK, it is 14.7% in urban areas, compared to 9.5% in rural areas. However, one of the biggest differences in overburden rates can be found across different tenures. Issues of affordability are a particular problem for many private renters in Europe and in particular in the UK. More than a quarter (27%) of all households in the EU and more than a third (37.3%) of all households in the UK are overburdened by rent payments in the private sector.

**Figure 2: Percentage of households overburdened by housing costs, by tenure, 2015**

Source: Eurostat, EU-SILC survey

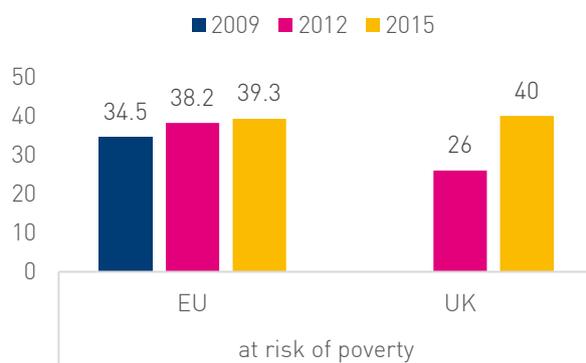


However, one of the biggest changes that has occurred in recent years in this context is the growing number and proportion of low income households facing affordability issues. The proportion of EU citizens with incomes below 60% of national median incomes (and therefore

considered at risk of poverty) who are overburdened by housing costs, has grown from 34.5% in 2009 to 39.3% in 2015. In absolute figures this represents an additional 3.7m low income households in only six years who are now facing severe housing affordability issues. While the proportion in the UK is 40% and hence roughly in line with the EU average, this represents a stark increase from a figure of 26% only a few years back in 2012.

**Figure 3. Percentage of households at risk of poverty overburdened by housing costs in the EU and the UK, 2009 to 2015**

Source: Eurostat, housing cost overburden rates (data for the UK only available from 2012)



These figures clearly indicate a growing need for affordable and social housing across Europe. However, in the midst of this crisis of affordability we see a reduction in public expenditure for the construction of new affordable homes in many European countries. Public investment in building new homes across the EU both expressed as a proportion of GDP spent on housing and spend per capita has actually decreased.

### A shift from capital funding to housing allowances

There are various types of interventions or policies governments can use to achieve desired housing outcomes, ranging from building subsidies (so-called 'bricks and mortar subsidies') over low interest rates for prospective homeowners, to supporting low income households with housing allowances. The range becomes even bigger if we compare housing policies across different European countries, each having a very distinct system of financial measures geared towards different tenures for different income thresholds, and available under different conditions and eligibility criteria. In some countries, housing policies even vary by region, as is the case for instance with the nine federal states in Austria or the four countries of the UK. Despite this complexity, the literature on housing research broadly distinguishes between supply and demand side interventions, sometimes also referred to as object and subject subsidies.

Historically, the housing shortages many European countries faced in the wake of World Wars I and II have been tackled by large government investment programmes into building new homes. Building subsidies were seen as the most effective way of dealing with this problem. In many cases this was achieved via the construction of public or social housing. As a result the most severe housing shortages have been alleviated and housing standards have improved. In recent decades, many European countries have seen a notable shift from such supply-side subsidies towards housing allowances. Kemp (2007) has pointed out a few reasons why this shift has occurred:

- Access to housing has increasingly been treated as an income rather than a housing (supply) problem.
- A shift from universalist to targeted welfare regimes. While supply side subsidies have become seen as 'indiscriminate', i.e. not being targeted enough towards those in need, housing allowances, which are usually means-tested, became to be regarded as a more targeted approach.
- Increased emphasis and reliance on market-led solutions: the belief was that governmental (supply-side) subsidies were an interference in the market, whilst housing allowances would provide low-income households with access to market housing.
- There has also been a growing view that housing allowances would provide more consumer choice and be less paternalistic in providing (social) homes.

Crucially, given the current context in which even many middle income households are struggling with housing costs and where it has increasingly become clear that the private market does in many cases not provide affordable or adequate housing options, the need for capital funding for building new affordable and social homes is growing across Europe.

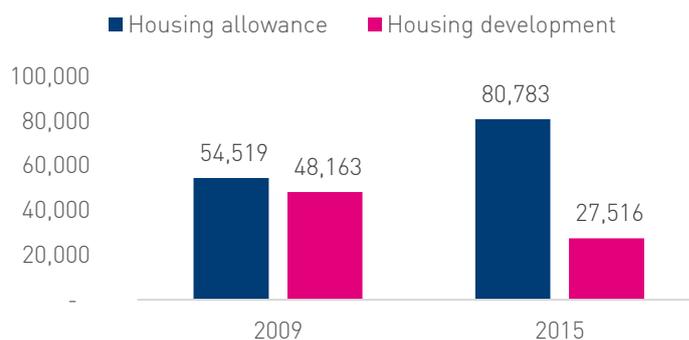
Yet despite the increased housing need in the majority of EU countries, a common trend that can be seen across Europe is the decrease of capital funding in recent years. At the same time, a growing number of households are struggling with housing costs and require financial assistance in the form of housing allowances. And although housing allowances are undoubtedly an important pillar in ensuring affordability and diversity in different neighbourhoods in the short term, in the long run, they prove to be more expensive than investing into building new homes. And this is only the financial side of the argument, not to mention the additional benefits to society, neighbourhoods and communities in terms of preventing poverty, social exclusion and ensuring residential diversity. This shift in the way in which public monies on housing are spent is evidenced in figures from Eurostat.

## What does this shift look like?

Despite the aforementioned diversity of European housing systems and several exceptions in this regard, there are some commonalities across the countries of the European Union. Capital spending on building new homes across all EU countries has almost halved (-44%) in recent years, from totalling 48.2bn Euros in 2009 to 27.5bn in 2015. This amounts to a reduction from an average spend of 96 Euros per citizen per year in 2009 to 54 Euros in 2015. This reduction in public investment is also reflected when set in relation to the respective GDP in each year. While in 2009 0.4% of GDP in the EU went into building subsidised homes, the proportion was reduced to 0.2% in 2015.

**Figure 4: Public spend on housing in the EU: housing development and housing allowances (in million Euros)**

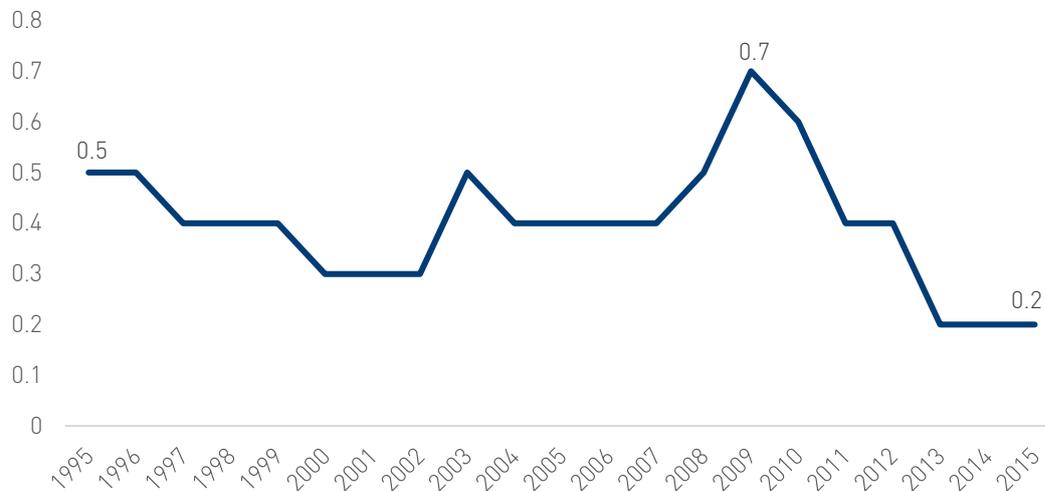
source: Eurostat, General government expenditure by function (COFOG)



Over the same time period, the drop has been even more pronounced in the UK, where expenditure on housing development has dropped from 0.7% of GDP in 2009 to 0.2% in 2015, a reduction from £11.4bn to £5.3bn in absolute figures. This development is reflective of a longer term trend of falling investment into building affordable homes in the UK, from a level of 0.5% in 1995 to 0.2% in 2015.

**Figure 5. Percentage of GDP spent on housing development in the UK, 1995 to 2015**

Source: Eurostat, General government expenditure by function (COFOG)



Crucially, while capital funding for constructing new homes has decreased, spending on housing allowances in the EU has actually increased over the same time period, reflecting the crisis of affordability faced by many Europeans. In 2009, European households received 54.5bn Euros in housing allowances, a total that was relatively close to the total capital spend in that year. The situation has changed substantially in subsequent years. In 2015, total housing allowance spend in the EU has increased by 48%, from 54.5bn Euros in 2009 to 80.8bn Euros in 2015. Over the same period, housing allowance spend in the UK has risen at about the same rate (45%) as across Europe - however, from an already very high level.

Put differently, per capita spend on housing allowances in the EU has gone up from 109 Euros in 2009 to 159 in 2015. Set in relation to the total GDP of the EU, this reflects an increase from 0.4% of GDP in 2009 to 0.5% in 2015. There are however large variations as to the levels of housing allowance expenditure in different European countries. With around 520 Euros per person per year (in 2015), the UK spends by far the most on housing allowances in the EU, followed by Ireland, (452 Euros), Denmark (339 Euros), France (309 Euros) and Iceland (263 Euros).

**Figure 6: Average per capita spend on housing allowances per year (top 5 and EU average), in Euro**

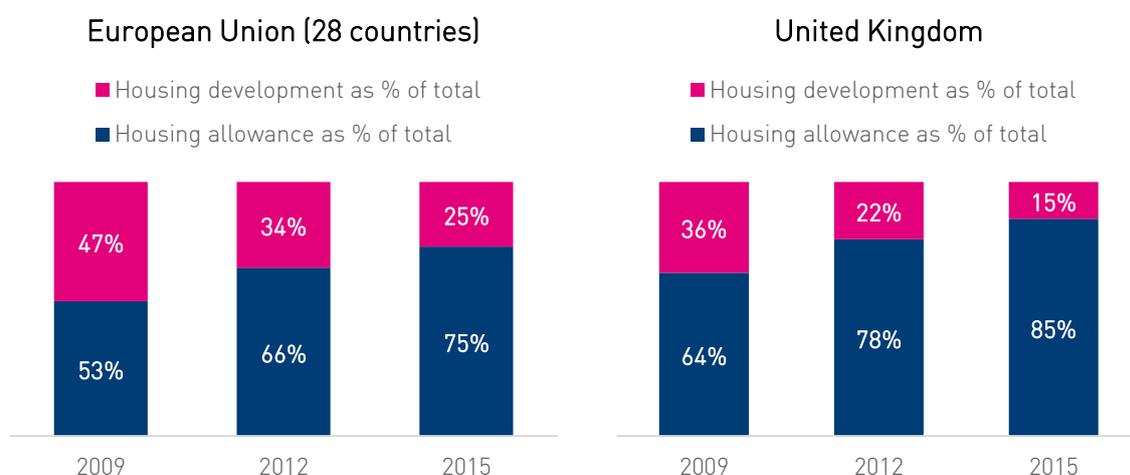
source: Eurostat, General government expenditure by function (COFOG) and NHF calculation



This shift in the distribution of how public monies for housing are used has meant that instead of building new homes, more money is going into housing allowances. While in 2009 around half (47%) of public spending on housing in the EU went into building new homes and 53% into housing allowances, the ratio has now shifted to 25% and 75% respectively. This shift is even more pronounced in countries such as the UK, the Netherlands or France, all countries with a considerable social housing sector. For example, in the UK in 2009, around two thirds (64%) of public spending on housing went into housing allowances (benefit) and 36% into building new homes. In 2015, the ratio has shifted even further towards housing allowances. In this year, 85% of all public spending on housing went into housing benefit and only 15% into building new homes.

**Figure 7: Public expenditure on housing: proportions on housing development and housing allowances in the EU and the UK, 2009 to 2015**

source: Eurostat, General government expenditure by function (COFOG)



## Conclusion

Given the current undersupply of new homes and the resulting crisis of affordability that an increasing number of Europeans are facing, it is time to rethink government policies towards housing across Europe. This crisis of affordability will not only continue to push up expenditure on housing allowances but will also have a range of other detrimental social and economic consequences, including housing cost induced poverty, rising levels of segregation and gentrification as well as restricted access to labour markets and better paid jobs. Crucially, expenditure on building new affordable and social homes is an important investment into the infrastructure of a society and economy, as Cédric Van Styvendale, president of Housing Europe, has highlighted in an interview: "Social housing is a crucial investment, it's definitely not an expense. Housing associations actively change society by providing homes, offering jobs, bringing people together."

## References

Kemp, Peter, ed. (2007): Housing allowances in comparative perspective. Policy Press, Bristol.

Interview with the new president of Housing Europe, Cédric Van Styvendael (22 June 2017): "Social housing should be at the core of social Europe", available at:

<http://www.housingeurope.eu/resource-960/social-housing-should-be-at-the-core-of-social-europe>