## EU country-specific recommendations

While it has been acknowledged that the European Union does not have an official mandate in the housing field and that the EU Member States have exclusive powers in matters of housing policy, the European Semester Country Specific Recommendations (CSRs) have addressed issues related to housing since 2011.

The CSR recommendations passed within the European Semester sit in a wider European policy context.

Under the jurisdiction of the **DG for Economic and Financial Affairs**, the **European Semester**is the yearly cycle of economic policy coordination that provides the framework for steering and monitoring Member States' economic and social reforms to reach the Europe 2020 targets. In 2010, the Commission proposed a '**Europe 2020 Strategy**' to follow on from the **Lisbon Strategy.** Endorsed by the European Council in March 2010, the Europe 2020 Strategy for smart, sustainable and inclusive growth sets five ambitious targets - one of these is to lift 20 million people out of poverty and social exclusion by 2020.

The key role of the European Semester is of an economic nature and it serves as a measure to address the effects of the economic crisis that began in 2008. All Member States have translated the Europe 2020 goals into national targets that are to be achieved by 2020. 'The semester is an EU level framework for coordinating and assessing Member States' structural reforms and fiscal/budgetary policy and for monitoring and addressing **macroeconomic imbalances'.** In line with these goals, the Commission started a new cycle of EU economic governance and the first European Semester in 2011. [1]

**Assessment / findings:**

- Housing is in all 28 EU member states a challenging topic. In 2017 four countries received Country Specific Recommendations (CSRs) in the field of housing: Ireland, The Netherlands; Sweden and United Kingdom. (You will find them in the paragraph about the respective country.)
- CSRs are very much based on **economic analysis**, while social considerations are not enough taken into account. →Housing is treated as a commodity not as a right.
- For the first time in 2018 the instrument of the "**Social Scoreboard**" was introduced in the CSR. This is a good approach, however "social housing" is not listed as an indicator.
- The **housing cost overburden rate** is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40 % of disposable income ('net' of housing allowances) (eurostat). For poorer household it is considerably higher.
  → Total housing costs should not be higher than 25%, which is already one fourth of the disposable income.
- It would be appreciated if there was more data on big cities.
- In some CSRs there is an "executive summary", in some there isn't. Therefore each CSR was summarized to about one paragraph with the emphasis on

[1] Dr. Orna Rosenfeld, Theme: European Semester and country-specific recommendations (CSRs)

affordable housing. If you want to read the full text: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester_en

1. **Austria:** Prices have risen particularly strongly in the Vienna region, where some overvaluation can be observed. Nevertheless, the price increases do not appear to be credit-driven as the level of household mortgages remains relatively low. Furthermore, the rental market and social housing play a strong role in Austria, so that the house price increase mainly affects wealthier households as well as tenants in the private urban rental market.

2. **Belgium**: Household debt stood at 60% of GDP in 2016. This represents an increase of about 20 percentage points of GDP since 2000, when it stood at 40% of GDP. One of the main reasons for the rise is the rapid increase in lending for housing purchases. This lending is underpinned by the recent sharp drop in interest rates, although mortgage interest tax deductions have been made less beneficial.

3. **Bulgaria**: The level of housing deprivation is high. 11.6 % of population (EU average 4.9 %), including 21.5% of children, suffer from severe housing deprivation. The housing cost overburden rate and overcrowding are also high, and people in monetary poverty are particularly affected. More than 1 in 10 Bulgarians live in houses without a bath, shower or indoor flushing toilets, five times the EU average.

4. **Croatia:** As the economic recovery gained ground, real prices of dwellings picked up by 2.1% in 2016 in spite of low demand from the household sector. The rebound in house prices witnessed since 2016 has been driven by increases in the prices of existing real estate, which are nevertheless still below their 2010 levels. By contrast, the prices of new residential properties have continued to decline.

5. **Cyprus:** The housing market is recovering. Housing transactions have picked up and prices are recovering, particularly in the luxury segment. The increased construction activity is supported mainly by self-financing and foreign investment. However, major obstacles to transferring and issuing property title deeds have not yet been resolved.

6. **Czech Republic**: Housing prices are increasing rapidly against a backdrop of high demand, constrained supply and regulatory obstacles. Since 2013 housing prices have increased faster than nominal income, especially in Prague. Although the government tries to streamline the procedures, building regulations continue to put pressure on the housing supply, contributing to the price rises. The market has become one of the fastest-growing in the EU, keeping credit growth strong. The central bank has limited tools for ensuring stability, but there are ongoing discussions about imposing binding lending limits.
   Affordability is deteriorating as housing price growth outpaces nominal income growth.
   The legal framework for the social housing plan is still lacking. Current legislation does not address the lack of affordable and quality social housing in the times of record price rises in rental housing.

7. **Denmark**: Following several years of substantial housing price increases, overvaluation risks are emerging, particularly in the main urban areas. The

prices are driven to a large extent by income growth and demographic change and fuelled by very low interest rates and the nominal freeze of property taxes. Although housing construction has been robust, population growth has been outpacing housing stock increase in the major urban areas. **Housing prices have grown more strongly than these factors warrant and there are consequently signs of overvaluation in the housing market, particularly in the main urban areas.** A reform agreed in May 2017 will realign property taxes with actual property values, putting an end to the pro-cyclical property tax regime from 2021.

8. **Estonia:** House price increases slowed down over 2016 - 2017 as housing supply caught up with demand. Housing construction remained buoyant in 2017, while construction investment picked up over 2017 in the other sectors of the economy as well. As a result, price pressures in the construction sector have resurfaced, but not to the degree seen in the 2008 boom Growth in lending for house purchases continues but is still broadly in line with GDP and wage growth. Overall, considering that house price pressures have eased and lending growth is still relatively moderate, risks stemming from the housing market are contained.

9. **Finland: T**he Finnish housing market has very large regional disparities. In the greater Helsinki area, the average price per square metre in 2017 was twice the level registered elsewhere. Most new jobs are created in the greater Helsinki area. The move from the countryside to urban areas is continuing. Housing demand is therefore large in the greater Helsinki area and housing supply in Finland does not always keep up with increasing demand. As a result, house prices are increasing faster than income there. In many other areas, prices have actually dropped relative to income and market rents, as the population migrates to urban centres and declines (Nordea, 2017). This appears to be an impediment to labour mobility, especially for lower-skilled workers and families with limited revenues.

10. **France:** Access to housing remains nonetheless a matter of concern for people living in poverty. The severe housing deprivation rate has been increasing since 2013 and stood at 2.7% in 2016. This rate is below both the EU (4.8%) and the euro area (3.5%) averages. Severe housing deprivation is affecting 9.8% of households living under the poverty threshold, above the euro area average of 8.9% (11.8% in the EU). As in the rest of the EU, house ownership is an important factor, as 6.2% of tenants were exposed to severe housing deprivation in 2016, compared to 1.7% of owners (6.4 % and 1.6 % in the EU). By keeping rents low, social housing enables tenants to limit the share of income spent on accommodation, which in 2016 was equal to 27.3% against 40.7% in the market sector for people having income in the bottom quintile of the income distribution. Social housing is distributed unevenly on the territory and mostly concentrated in deprived urban areas.

11. **Germany:** The housing market is facing strong demand fuelled by rising incomes, low interest rates, and high levels of net migration. Price heterogeneity across regions has increased strongly, especially in and around the major urban centres. More investment could help make affordable housing more widely available. Most studies agree that Germany faces a significant

construction backlog in major and intermediate urban areas, though there is no agreement on the extent of this gap.
Filling the housing supply gap could have a significant impact on the current account surplus.
The Federal Government has introduced a number of measures aimed at alleviating the shortage of dwellings.

12. **Greece**: CSR documents for 2018 are not available.

13. **Hungary**: Hungary experienced the strongest rise in house prices in the EU in 2015 and 2016 with an annual increase of around 13.5% in real terms. At the regional level, house prices in Budapest show a much stronger increase than in the rest of the country. In spite of the recent increase, house prices remain below the peak reached in 2007 and valuation metrics such as the price-to-income and price-to-rent ratios are below their long-term average .A considerable part of the population faces severe housing deprivation. The respective rate stood at 16.9% of the population in 2016 compared to the EU average of 4.8%. This proportion reaches one-third among those at risk of poverty or social exclusion, and one-fourth under 18 years of age. Housing deprivation among Roma persists with 33% of Roma living in households without access to drinking water and 38% lacking other basic amenities such as toilet, shower or bathroom (COM-FRA 2017). No significant improvement is visible in the field of social housing (Habitat, 2017).

14. **Ireland: T**he government has repeatedly intervened to tackle the undersupply of housing, but it will take time for the measures to have an effect. Against the backdrop of a limited housing stock, residential property price growth accelerated. Years of low investment following the economic bust are taking their toll on the availability of supporting infrastructure for residential sector construction (such as water and transport), constraining housing supply. Although prices did not seem overvalued in 2016, affordability is a concern.

**CSR Ireland 2017:**

| | |
|---|---|
| ***CSR 2:*** *Better target government expenditure, by prioritising public investment in transport, water services, and innovation in particular in support of SMEs. Enhance social infrastructure, including social housing and quality childcare; deliver an integrated package of activation policies to increase employment prospects of low-skilled people and to address low work intensity of households.* | **Some progress**<br>• Some progress made in improving the quality of expenditure.<br>• Some progress made in relation to social housing, and the affordability and accessibility of quality childcare but there are still concerns.<br>• Some progress made, with the presentation of the Action Plan for Jobless Households, but groups furthest away from the labour market still require an integrated approach to helping them enter it. |

15. **Italy:** Growth in mortgage loans and consumer credit is benefiting from the recovering housing market, low interest rates and improved consumer

confidence.

16. **Latvia**: Social housing is scarce and hard to access. Social housing represents only 0.4% of total housing stock, compared to the EU average of 8% (Housing Europe, 2017). Large proportion of Latvian population is facing severe housing deprivation. In 2016, 15.5% of Latvians lived housing that was overcrowded and showed at least one measure of deprivation. This contrasts with the EU average of 4.9%. One in five children (under 18) faced severe housing deprivation. Among the population at risk of poverty or social exclusion, 23.4% lived in overcrowded, poor quality housing, with children living in poverty being particularly vulnerable. In 2017 overcrowding rates were high, both for those at risk of poverty (47%) and for the general population (41.9% in 2017).

17. **Lithuania**: Following a period of relative stagnation, house price growth has picked-up in the last three years Since 2014 real house prices have grown by 5.1% on average annually driven by positive economic trends and supported by generally favourable credit conditions. Mortgage credit has been on a steady rise since the end of 2015 and grew by 8.6% y-o-y (rapid real house prices increases are considered to be a signal that real estate bubbles are forming. The specific indicator used is *% y-o-y change* in Deflated House Price Index, with a threshold of 6%.) in December 2017. Household indebtedness started to grow as well, although from the lowest levels in the EU.

18. **Luxembourg:** Fast-growing housing prices in combination with increasing household indebtedness are raising concerns about the sustainability of households' debt. Prices are currently at an unprecedentedly high level and are increasing both in relation to income and rents. An adverse economic or financial shock may challenge the sustainability of the ongoing upturn in the property market. In particular, deteriorating economic growth prospects, tightening financing conditions or rising long-term interest rates could worsen the debt servicing capacity of households, and might represent a risk for the seven domestic banks where property-related exposure is highly once concentrated. On these grounds, in November 2016 the European Systemic Risk Board issued warnings and recommendations to 8 Member States, including Luxembourg. However, given the underlying momentum in the residential property market, Luxembourg has already introduced relevant macro-prudential measures to reduce significantly potential risks to financial stability. Recently, a proposal was adopted by the government, including a set of relevant measures to avoid a build-up of household vulnerability, although it needs to be approved by the Parliament and details on the benchmarks are not known.

19. **Malta**: House prices are increasing sharply driven by several factors. In recent years, house prices increased considerably, by 5.8% and 5.6% in 2015 and 2016, respectively (see also European Commission, 2017a). This growth rate was sustained in the first half of 2017, at 5.3%. Factors behind these developments include strong economic activity, buoyant labour market together with rising numbers of foreign workers, and low interest rates which make property a more attractive asset. Lower interest rates have both reduced the cost of borrowing and boosted demand for property through portfolio

rebalancing.
Despite increasing house prices, housing in Malta is generally affordable, though there are increasing concerns for low-income households. Overall housing conditions are favourable (Housing Europe, 2015). Indeed, the overcrowding rate in 2015 was at 3.5%, one of the lowest inthe EU, and considerably below the EU average of 16.8%. However, the severe housing deprivation rate for tenants who rent at market price is 10.1%, significantly higher than for home owners (0.5%).

## 20. The Netherlands

The housing market continues to recover with increasing regional differences. At the national level, house prices are gradually moving towards the pre-crisis peak in 2008. At the end of 2017, the national house price index is. The housing market continues to recover with increasing regional differences. At the national level, house prices are gradually moving towards the pre-crisis peak in 2008. At the end of 2017, the national house price index is expected to have reached 94% of the 2008 level. While annual house price growth nationally was around 6% in 2017, it was much higher in the four largest cities: Amsterdam recorded house price growth of 13% in 2017, Rotterdam and Utrecht 11% and The Hague 9%. The rise in house prices in the four largest cities is not accompanied by increasing credit to households. Since 2016, credit growth in these cities has been decoupled from house price growth, falling to roughly 0% year-on-year by the end of 2016, suggesting that house purchases are financed by savings rather than credit (DNB, 2017a).
A buoyant housing market boosts household assets, but may also lead to further imbalances. Driven by low interest rates, house prices and transaction volumes have increased sharply in recent years. Rising house prices have positive wealth effects and gradually lift affected households out of negative housing equity. At national level, house price valuation indicators do not point to overvaluation. However, there are signs that house price increases in some regions cannot be explained by fundamental factors alone. Nominal debt levels have started to rise again, albeit much slower than house price growth, which limits financial vulnerabilities.

Table 2.1: **CSR progress**

| **The Netherlands** | **Overall assessment of progress with 2017 CSRs: some progress** |
|---|---|
| <u>*CSR1:*</u><br>*While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand,*<br><br>*including investment in research and development.*<br><br>*Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility.* | The Netherlands has made **some progress** in addressing the structural part of CSR1([1]):<br>• Substantial progress has been made in using fiscal policies to support potential growth and domestic demand.<br>• Some progress has been made in increasing investment in research and development.<br>• Some progress has been made on the housing market recommendation. |

## 21. Poland

Banks have tightened rules on housing loans, primarily due to regulatory factors, including new rules on acquiring agricultural real estate and more

stringent risk parameters following supervisory recommendations.
Labour mobility is hampered by sector-specific arrangements (such as the special social security system for farmers), shortcomings in the housing market and transport infrastructure.

**22. Portugal**

Housing affordability may become an issue for low-income households in view of recent increases in house prices. Despite a slight decrease when compared to 2015 (33.5%) almost 30% (29.1%) of the resident population with lower incomes are overburdened by housing costs. In addition, the recent rise in housing prices is likely to worsen the situation for people who have low incomes and are socially deprived, particularly in the country's two largest cities. To address the issue, the government is implementing 'a new generation of housing policies' (several measures have recently been approved) which intend to introduce tax incentives for owners to rent at lower prices. Portugal performed well concerning housing deprivation, yet 10.3% of people lived in a condition of insufficient living space, the same percentage as the 2 previous years (below EU average). However, the severe housing deprivation rate decreased between 2014 and 2016.

**23. Romania**

Housing deprivation and exclusion affect large parts of the population. A large share of the population faces severe housing deprivation (19.8% versus 4.9% in the EU). The figure is also high for children. Housing cost overburden, though decreasing, remains an issue, with one in eight households allocating more than 40% of their income to housing costs in 2016. Housing overcrowding is well above the EU average, especially for Romanians in monetary poverty.

**24. Slovakia**

Growth in property prices is underpinned by low interest rates, a favourable outlook for household incomes and limited housing supply. The ability of households to borrow has been boosted by a falling risk of unemployment, accelerating earnings growth and record-low interest rates. Annual growth in house prices rose to 7% in 2017 with the average house price reaching 90% of its 2008 peak. The strongest recovery was in the Bratislava region, where property prices climbed to 96% of their pre-crisis value, reflecting in part tight planning restrictions that limit new construction. High rents in more prosperous regions also restrain internal labour mobility, especially from the central and eastern part of the country, where long-term unemployment is still a challenging economic issue.

**25. Slovenia**:

House prices bottomed out in 2014 and have since increased at a relatively modest pace. The price level remains significantly lower than before the crisis and analytical models (e.g., price-to-income, price-to-rent) do not indicate significant over-valuation. This modest growth has taken place despite rather restrictive lending conditions. Loans for house purchases, as a share of GDP, have been in decline since 2013. The supply of new housing has been rather limited, as investment in housing construction is low. The market still has some inventory from the past, but this appears to be running low.

26. **Spain**: After the sharp adjustment that largely prompted the financial sector crises, the housing market and construction sector have consolidated their recovery. Housing prices have risen for almost four years in a row. However, there remains a large stock of unsold houses, notably in some regions, and the recovery does not show potentially harmful price dynamics (Philiponnet and Turrini, 2017). The development of the real estate market remains crucial for banks' profitability.

27. **Sweden**: After two decades of rapidly rising house prices, the housing market experienced a gradual decline in autumn 2017, before rising somewhat again in January 2018, but prices remain above fundamentals. Key structural issues include tax incentives favouring home ownership and mortgage debt, and continued accommodative credit conditions coupled with still relatively low mortgage amortisation rates. In addition, despite a sharp rise in new construction in recent years, there is still an ongoing supply shortage, particularly of affordable homes around major cities. This shortage in housing supply is linked to structural inefficiencies, including limited competition in the construction sector due to barriers to entry for small and foreign firms and the ability of large developers to control land resources. There are also barriers to efficient usage of the existing housing stock. In the rental market, below-market rents create lock-in and 'insider/outsider' effects. In the owner-occupancy market, capital gains taxes reduce homeowner mobility. The housing shortage also hampers labour mobility and can contribute to intergenerational inequality.

Table 2.1: **Summary table on CSR assessment (1)**

| **Sweden** | **Overall assessment of progress with 2017 CSRs: Limited** |
|---|---|
| **CSR 1:** *Address risks related to household debt, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes, while constraining lending at excessive debt-to-income levels. Foster investment in housing and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and revising the design of the capital gains tax. (MIP relevant)* | **Limited progress**<br>• No progress on limiting mortgage interest tax deductibility or increasing recurrent property taxes<br>• Substantial progress on constraining lending at excessive debt-to-income levels<br>• Some progress on fostering investment in housing and improving the efficiency of the housing market |

(1) This does not include an assessment of compliance with the Stability and Growth Pact
***Source:*** European Commission

28. **United Kingdom**

Housing costs are high and housing supply still lags growth in demand. While house price growth has slowed in recent quarters, affordability has continued to decline due to low wage growth. Home ownership has fallen significantly among younger age cohorts in recent years, increasing intergenerational inequality. A cyclical recovery and government policy reforms have contributed to a continued pick up in residential construction. However, new housing supply remains insufficient, particularly in areas of high demand. The government recognises the problem and has set ambitious objectives to increase supply in the coming years. At the same time, the government has reaffirmed its commitment to limiting development around urban centres.

Table 2.1: **Assessment of progress with 2017 CSRs**

| **The United Kingdom** | **Overall assessment of progress with 2017 CSRs: Some progress** |
|---|---|
| **CSR 1:** *Pursue a substantial fiscal effort in 2018-19 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of the United Kingdom's public finances.* | **CSRs related to the Stability and Growth Pact will be assessed in spring once the final data is available.** |
| **CSR 2:** *Take further steps to boost housing supply, including through reforms to planning rules and their implementation.* | **Some progress** in boosting housing supply. |
| **CSR 3:** *Address skills mismatches and provide for skills progression, including by continuing to strengthen the quality of apprenticeships and providing for other funded "Further Education" progression routes.* | **Some progress** in addressing skills and apprenticeship issues. |

***Source:*** European Commission