



Research note no. 3

The effects of the financial crisis on housing and the risk of poverty

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ABSTRACT

In the EU, housing is estimated to account for around 60% or more of household wealth, a figure which up to the present crisis tended to increase significantly year by year with the marked rise in house prices in most countries. This rise greatly exceeded the growth of earnings, increasing the attractiveness of house purchase or home improvement as a store of wealth and resulting in a substantial expansion of mortgage debt in relation to income, especially in former communist countries. The recession has led to a decline in house prices, leaving many people with loans which exceed the value of their assets and often at the same time declining income with which to meet their debt servicing charges in a housing market in which there are few potential buyers. The collapse of the market has, in addition, resulted in large-scale job losses in the construction industry, affecting relatively low-skilled workers in particular, many of whom are migrants. In a number of Member States in Central and Eastern Europe, much of the increase in mortgage debt was in foreign currencies, in Euros or Swiss francs which have tended to appreciate against domestic currencies as the recession has hit, so pushing up the value of outstanding loans and adding to the cost of repayment.



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I. Introduction

The present recession, which has spread throughout Europe, has its origins in the housing market in the US and specifically in the sub-prime mortgage sector where a growing number of borrowers defaulting led to the collapse of a number of major lending institutions. At the same time, the financial crisis and the resulting recession have hit the housing market in various ways, increasing the number of people at risk of poverty and exclusion.

The concern here is to examine both the role of housing in the recession and how people are being affected by problems in the housing market. It begins by considering the importance of housing in household wealth and how this has been affected by fluctuations in house prices and goes on to examine the consequences of developments in the housing market for employment in the construction industry, the risk to people of losing their home through repossession or eviction and the chances of this leading to homelessness.

More specifically, the analysis begins by examining the extent of home ownership across the EU and how it varies between Member States as well as between income groups and the extent to which the value of the homes concerned is offset by debt in the form of mortgages taken out to purchase them.

Secondly, it considers the increase in house prices, and in the value of housing leading up to the recession and the subsequent reversal, during 2008 and in the first part of 2009 which was both a trigger for the downturn in activity and a consequence of it.

Thirdly, it examines the effect of the downturn in the housing market on employment in the construction industry, which in many countries had grown appreciably in the preceding years.

Fourthly, it considers the housing difficulties experienced by those most affected by the recession and, in particular, the extent to which it has been accompanied by greater financial stress and increases in repossessions and evictions and how far it is likely to lead to more people becoming homeless

II. Housing as a component of wealth

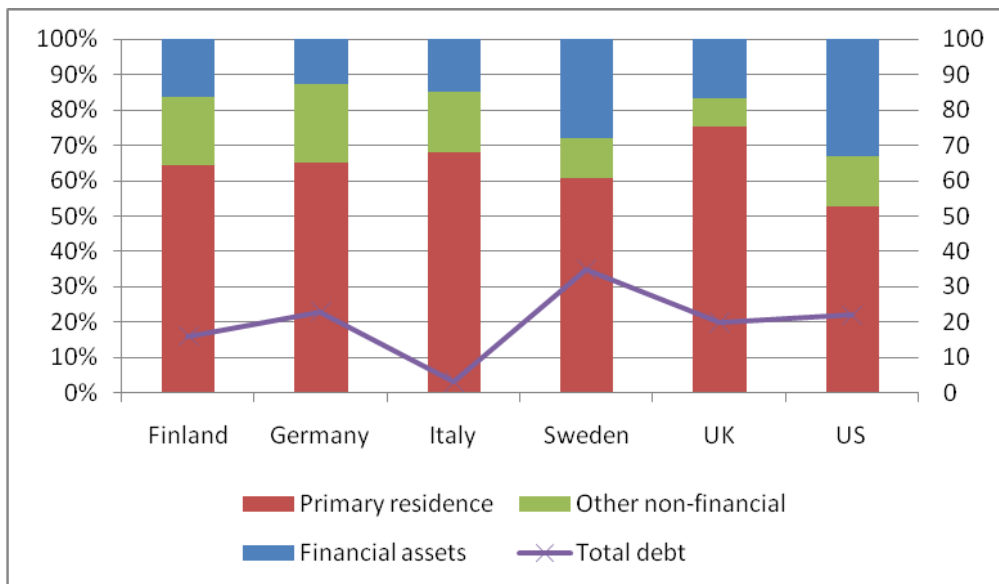
The majority of people in the EU – almost 70% according to the EU-SILC for 2007 – own the homes they live in. Although the proportion from around 54% in Germany and just under 60% in Austria to close to 90% in Hungary, Slovakia and Lithuania and over 80% in most former Communist countries in Central and Eastern Europe, for most households, housing represents a large component of their wealth. For this reason, however, they are exposed to the potentially major effect of fluctuations in house prices on the value of their wealth portfolios.

At the same time, many people have a mortgage on the house concerned and, consequently, debt which offsets in some degree its value in their portfolio. Moreover, since house prices fluctuate while mortgages tend to be related to the initial price paid, the value of a house and the mortgage outstanding on it can diverge markedly from each other, the former exceeding the latter by an increasing amount as house prices rise and the reverse occurring as they fall. Such a fall can lead to home owners having negative equity when the price declines below the value of the mortgage.

The estimates which have been made for some countries (as part of the Luxembourg Wealth Survey Study) indicate that housing represented at least 60% of the total wealth of households in Finland, Germany and Sweden, around 70% in Italy and 75% in the UK (Figure 1), while other property tends to increase the share of housing in wealth portfolios by a further 10-20%.

The scale of borrowing used to finance the purchase of both housing and consumer goods is estimated to vary from less than 5% of accumulated wealth in Italy and between 15% and 25% in Finland, Germany and the UK, as well as the US, to 35% in Sweden. In net terms, therefore, housing makes up a large element in the accumulated wealth of households and, accordingly, changes in house prices can have a major effect on the real value of this and, as a result, on the purchasing power of households. The fall in house prices in many countries after mid-2008 (see below) has unquestionably had a significant effect in reducing the real wealth of households – just as the marked increase in the preceding years increased it substantially – and has reinforced the effect of the recession on their income and purchasing power.

Figure 1: The composition of household wealth portfolios (% of total assets), 2002



Note: The data relate to 1998 for Finland and 2000 for the UK.

Source: Sierminska et al (2007)

III. Changes in house prices

House prices have behaved in very different ways across the EU over recent years, reflecting differences in the nature of the housing market, in the extent of home ownership and the growth of this over time and in the availability of credit for house purchase as well as the regulations governing access to this.

While in most EU countries, prices increased markedly in the 10 years preceding the onset of the current recession, in a few countries, house prices showed little tendency to rise by any more than the general rate of inflation. Similarly, though prices in a number of countries declined significantly during 2008 and in the early months of 2009, in others, prices hardly fell at all or continued to rise even if slowly.

In 11 of the EU15 Member States, therefore, average house prices more than doubled in the 10 years 1997-2007 and in Finland, they increased by 86% (Table 1). In Greece and France, houses prices almost trebled over these 10 years. In sharp contrast, in Germany, prices declined slightly over the period, while in Austria, they rose by only 4% over the five years 2002-2007 and, in Portugal by only 9%.

Table 1: Change in house prices, 1997-2009

	% change in average house prices			% change relative to average wages			% change in house prices 2008-09, Q2
	1997-02	2002-07	1997-07	1997-02	2002-07	1997-07	
BE	31	59	108	13	41	60	6
DK	46	63	138	20	34	61	-11
DE	-1	-3	-3	-7	-6	-13	1
IE	79	39	149	34	6	42	-11
EL	57	84	189	10	44	58	-3
ES	41	75	146	23	51	86	-8
FR	100	48	196	77	27	125	-7
IT	40	46	105	31	30	70	3
LU	45	52	120	8	20	30	
MT	na	57		na	38		-10
NL	82	25	127	48	10	62	0
AT	na	4		na	-7		4
PT	33	9	45	4	-6	-2	-2
FI	35	38	86	15	17	34	-3
SE	53	58	141	28	33	70	-2
UK	79	61	188	41	31	85	-12

Source: European Mortgage Federation. Hypostat 2007, A Review of Europe's Mortgage and Housing Markets for change in house prices 1997-2007.; Eurostat, National accounts for changes in average earnings and Global Property Guide Europe, for changes in the year up to mid-2009. (<http://www.globalpropertyguide.com/Europe/>)

In most EU countries, therefore, house prices rose substantially relative to average earnings over these 10 years, implying an increase in the real value of housing as an asset relative to income from employment and reinforcing the attractiveness of housing as an investment. In France, house prices more than doubled relative to average wages over the period 1997-2007, in Spain and the UK, they rose by 85-86%, in Italy and Sweden, by 70% and in Belgium, Denmark and the Netherlands, by 60-62%.

By contrast, in Germany, prices fell by 13% over the period relative to wages and in Portugal, by 2%, while in Austria, they fell by 7% over the last five years of the period. In the other EU15 countries, although house prices did not rise as much as in the countries

listed, they, nevertheless, went up in each case by 30% or more relative to wages over the 10 years.

During 2008, house prices began to stabilise or to decline in most countries. In Ireland, they started falling during 2007. In the year up to mid-2009, prices fell in 10 of the 15 Member States and remained unchanged in the Netherlands. In Denmark, Ireland, the UK and Malta, they fell by 10-12% and in Spain and France, by 7-8%. In Belgium, however, average house prices rose by 6% and in Austria, by 4%. The decline in the average price of houses sold in the EU countries concerned, moreover, is likely to understate the actual reduction which occurred in the value of any specific property since the evidence suggests that houses being sold in a declining market are the higher value ones which are easier to sell.

A similarly large increase in house prices before the crisis was evident in a number of the Central and Eastern European countries which have entered the EU since 2004. In Slovenia, for example, average prices rose by 14% over the three years 2004-2006, while in Poland, they rose by almost 20% in 2007 and in Slovakia, by 24% in the same year. In the year up to mid-2009, however, prices declined in most of these countries, in a number of cases, precipitously. In Lithuania, they fell by 20%, in Bulgaria, by 22%, in Estonia, by 31% and in Latvia, by a massive 60%.

IV. The build-up of mortgage debt

The substantial rise in house prices over the 10 years leading up to the financial crisis was accompanied in most of Europe by a significant expansion of household debt as people borrowed more to finance house purchases. This growth in borrowing, in part a consequence of the easing of credit and the increasing willingness of banks and building societies to extend loans against assets which were rising in value, fed an upward spiral in house prices as price increases fuelled additional speculative demand by raising expectations of further price rises and the prospect of larger capital gains.

With the exception of Germany, therefore, outstanding mortgage debt increased in all countries over the 10 years leading up to the financial crisis, most especially in the last five years. In Ireland, mortgage debt expanded by over 3 times relative to household income over the 9 years 1998-2007, more than doubling over the last five years of the period from just over 80% of household income to 175% (Figure 2). In Spain, debt increased by over 2.5 times over the period, rising to over 100% of household income, while in the Netherlands and the UK, where outstanding debt was already large in 1998, it increased by around 80%, in the Netherlands, to over twice household income and in the UK, to almost 1.4 times.

Figure 2: Mortgage debt as % of household income in EU15 Member States, 1998, 2002, 2007

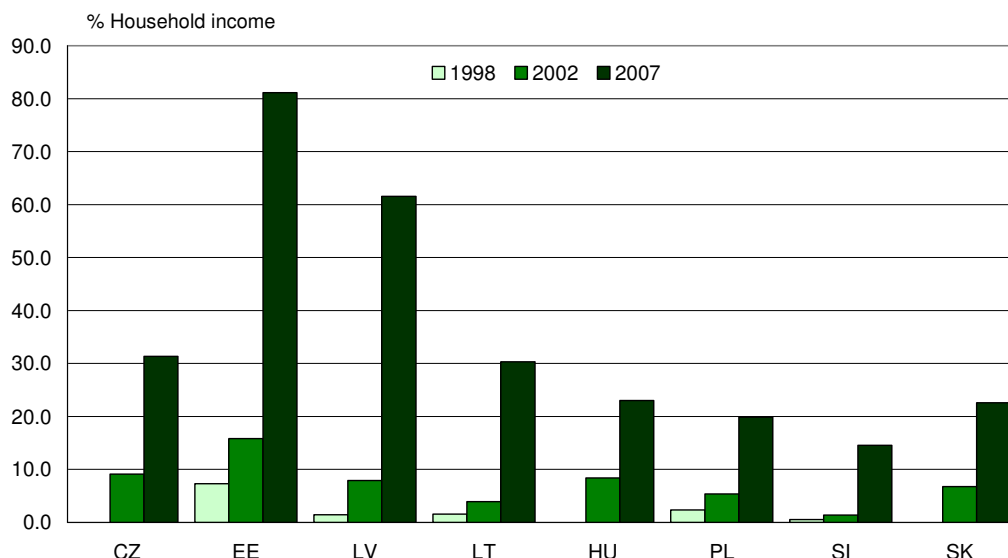


PT: 1999, AT, FI: no data for 1998

Source: European Mortgage Federation. Hypostat 2007, A Review of Europe's Mortgage and Housing Markets, plus own calculations

An even larger increase in borrowing to finance house purchases occurred in the Central and Eastern European countries, where the growth in mortgage debt exceeded the rise in household income by at least 3 times in all countries in the 5 years 2002-2007, though from a much lower level (Figure 3). In Estonia, it increased by 5 times more than the growth of household income to over 80% of the latter, more than in many EU15 countries, while in Latvia, it increased by almost 8 times to over 60% of household income. Much of this increase in debt in both cases, as elsewhere in the region, took the form of mortgages denominated in foreign currency terms, largely in Euros or Swiss francs, which means that its value and the potential burden debt servicing charges pose for households can be increased significantly by a devaluation of the domestic currency

Figure 1: Mortgage debt as % of household income in the new Member States, 1998, 2002 and 2007



LV, SI: 1999; CZ, HU, SK: no data for 1998

Source: European Mortgage Federation. *Hypostat 2007, A Review of Europe's Mortgage and Housing Markets*, plus own calculations

While the value of houses rose over the years preceding the financial crisis, therefore, increasing household wealth, so too did household debt, increasing the servicing costs which needed to be met from income. Although interest rates have been cut to combat recession, this reduction has typically not been fully passed on in lower mortgage rates because of the increased insecurity attached to housing and the pressure on lenders to strengthen their financial position. Moreover, in many cases, people have fixed-rate mortgages, which are unaffected by interest rate falls and although, in principle, it may be open to them to remortgage their house, to do so can involve significant cost. According to the European Central Bank, therefore, around 60% of household debt in the Eurozone is fixed rate, while in the UK, it is around half.

At the same time, despite any reduction in mortgage payments, many households have faced mounting difficulties of meeting these as their income has declined, as noted below. The fall in house prices, together with the financial problems of banks and other lenders and their growing reluctance to extend loans, has also made it increasingly difficult to borrow to cover this cost. New mortgages declined markedly during 2008 and the early months of 2009. In the UK, for example, the number of mortgages granted to first-time buyers and existing home-owners moving house halved during 2008, while the overall number of housing transactions in the year were at a lower level than at any time since the 1950s¹, while in Spain, mortgage lending in August 2008 was almost 45% down on a year earlier².

¹ See Council of Mortgage Lenders, *Annual Report, 2008*

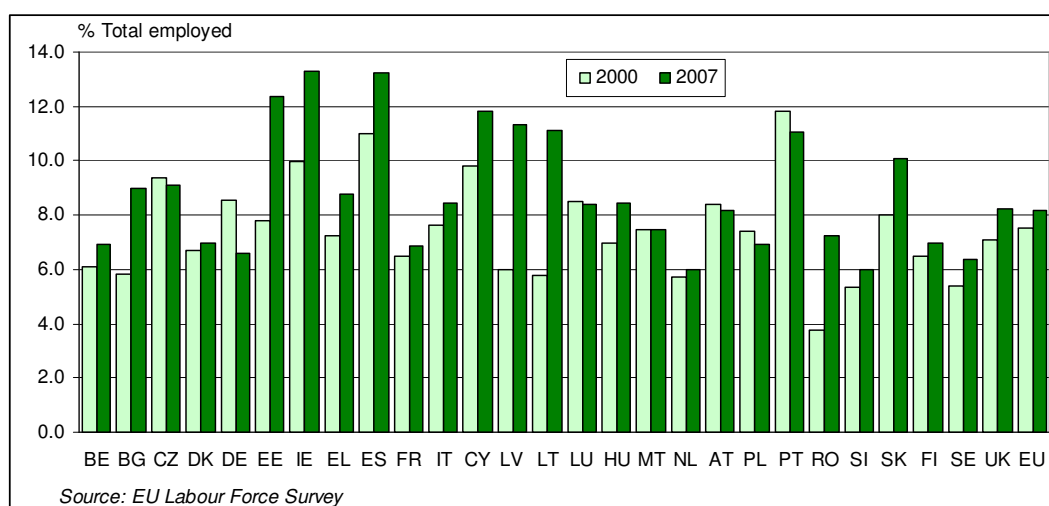
² *European Housing Review – February 2009*, published by RICS (Royal Institution of Chartered Surveyors) <http://www.eukn.org/binaries/eukn/eukn/research/2009/05/2009europeanhousingreviewl.pdf>

In a number of cases, home owners have found themselves with negative equity as price falls have lowered the value of their home below the amount of their outstanding mortgage.

V. Developments in the construction industry

The substantial increase in house prices over the years leading up to the financial crisis over much of Europe followed by a fall during 2008 is mirrored by developments in the building industry, which accounts for a significant number of jobs in all Member States. In the EU as whole, around 8% of the total employed, some 18 million people, worked in the construction industry in 2007, the figure rising to almost 14% in Ireland and Spain and to 11-12% in the three Baltic States and Cyprus (Figure 4). Fluctuations in the housing market, therefore, can have a major direct effect on a sizable proportion of employment across the EU.

Figure 4: Employment in construction in EU Member States, 2000 and 2007



As prices – and the demand for housing – went up, providing an incentive to construct new houses, activity in the industry increased and the number of people employed expanded, in some countries, considerably. Similarly, as prices fell along with sales (see Box), builders have cut back on new construction and have begun to lay off workers, in some countries on a large scale.

Between 2003 and 2007, therefore, employment in the construction industry increased by around 12% in the EU15. Between the last quarter of 2007 and the last quarter of 2008, it declined by almost 7%, a loss of some 700,000 jobs, with further losses occurring in the first part of 2009. In Spain, over the five years 2002-2007, employment in construction increased by 36% and by 2007, as noted above, the construction industry had come to account for around 14% of total employment in the economy. In the year up to the last quarter of 2008, the number employed fell by 21%, or by some 550,000. In Ireland, where the growth in employment in construction in the years preceding the financial crisis was much the same as the EU average, but where the industry accounted for a similar proportion of employment as in Spain, the number employed declined by

20% between the end of 2007 and the end of 2008 and by 25% over the two years up to the last quarter of 2008.

BOX DEVELOPMENTS IN THE HOUSING MARKET IN 2008

In France, housing transactions declined by an estimated 30% between 2007 and 2008 and the number of houses on the market waiting to be sold increased substantially³. The fall continued in the first two months of 2009, when transactions were down by 37% as compared with the same months a year earlier, while in Paris, they were 47% lower in January 2009 than in January 2008.

In Italy, the number of house sales declined by 13% in 2008, when sales were 23% below the peak in 2003⁴, while in Cyprus, the number of properties registered with estate agents was 24% lower in October 2008 than in October 2007 and sales in coastal areas were down by 40% over the same period because of a decline in foreign buyers⁵.

In Spain, the slowdown in the housing market intensified during 2008. In the first quarter of 2008, 28 percent fewer homes were sold compared to the same period the previous year⁶, and in the third quarter housing transactions were 30% lower than a year earlier. At the end of the year, some 1.1 million housing units remained unsold⁷.

In Ireland, the number of new houses completed in 2008 (as indicated by new connections to the electricity network) was down by a third as compared with 2007 and by 45% as compared with 2006. Moreover, since houses completed fell steadily month by month during 2008 and continued to fall in the first few months of 2009, the number completed in March 2009 was two-thirds lower than two years earlier and 70% less than in March 2006⁸.

In the UK, in mid-Summer 2008, site visits and reservations of sites by builders were around 80% less than a year earlier⁹, and private housing starts in England in the third quarter of 2008 were 55% down on the same period in 2007¹⁰. Sales of new houses were down by 64% in August 2008 as compared with a year earlier¹¹ and reached record lows in November 2008.

Most of the workers affected by the reduction of employment in the industry are manual workers with either low skills or skills which are specific to construction, limiting their chances of finding another job. Many in both Spain and Ireland, moreover, are migrant workers with limited access to income support, while many of the other workers are

³ FNAIM (Fédération Nationale de l'Immobilier): <http://www.fnaim.fr/index.html>

⁴ *European Housing Review – February 2009*, published by RICS (Royal Institution of Chartered Surveyors) <http://www.eukn.org/binaries/eukn/eukn/research/2009/05/2009europeanhousingreviewl.pdf>

⁵ RICS: *Cyprus economy and financial system will weather the crisis*, Financial Mirror, 15 March 2009 http://www.financialmirror.com/News/Cyprus_and_World_News/14461

⁶ According to the data from the Housing Ministry, APCE and the National Central Bank, see *Real Estate Crisis Threatens Spanish Economy*, Der Spiegel, 18 July 2008.

<http://www.spiegel.de/international/business/0,1518,566701,00.html>

⁷ *Los españoles huyen de la vivienda*, ABC, 3 May 2009

<http://www.abc.es/20090503/economia-economia/espanoles-huyen-vivienda-20090503.html>

⁸ Data from the Department of Environment, Heritage and Local Government, *Housing Statistics*.

⁹ According to the Home Builders Federation:

<http://www.hbf.co.uk/Research-Home-Builders-Federation-81cfaf9>

¹⁰ Communities and Local Government: <http://www.communities.gov.uk/housing/>

¹¹ According to the Land Registry:

<http://www.landregistry.gov.uk/>

either self-employed (in Ireland) or with temporary contracts of employment, which also limits their entitlement to social benefits.

Although in other parts of the EU15, employment in construction had not yet fallen by the end of 2008, there were signs of an impending steep decline in the figures for new orders. In Portugal, therefore, new orders for building work were down by 23% in the last quarter of 2008 as compared with a year earlier, while in the UK, they were down by 35%, in Sweden, by 38% and in Luxembourg, by 60%.

The growth in employment in construction in the years preceding the crisis was even more substantial in many of Central and Eastern European Member States, though this reflected investment in infrastructure more than new house building. Moreover, the recession in the industry had not yet reached most of them by the end of 2008 and employment continued to rise during the year. In both Slovenia and Slovakia, the number employed in construction increased by around 25% in the four years 2003-2007 and by a further 10-11% in 2008, in both Estonia and Lithuania, it rose by over 50% over the five years taken together, while in Latvia, it more than doubled between 2003 and 2007. In the last, however, employment fell by 23% in the year up to the first quarter of 2009.

Employment in construction also declined during 2008 in Hungary, where recession hit earlier than in other countries because of budgetary and financial problems, falling by 17% in the two years up to the last quarter of 2008, more than offsetting the increase in the three years 2003-2006. Figures for new orders, moreover, presage a continuing decline in the number employed in the industry in Hungary, these showing a reduction of around 45% between the last quarter of 2007 and the last quarter of 2008. These figures also indicate an impending decline in employment in other new Member States, showing a fall of 15% over this period in Slovenia and one of 21% in Poland.

VI. Repossessions and evictions

The onset of the recession has been accompanied by many people facing financial difficulties across the EU, which have led to them not being able to meet their mortgage payments or pay their rents. In the extreme, such difficulties, if they continue, can result in them having their home repossessed by the bank or mortgage company or, in the case of those in rented accommodation, being evicted from their house or apartment. The attitudes to such extreme action by the financial institutions concerned, on the one hand, and landlords, on the other – i.e. their willingness to see families forced to leave their homes – and the measures put in place by governments to help people meet their payments, or to prevent them being evicted in other ways, vary across countries.

Mortgage arrears and repossessions

While in Greece, in particular, many cases of repossession seem to occur when relatively small amounts of debt are outstanding¹², in Ireland, repossession seems to be

¹²*The role of housing in pathways into and out of homelessness*, FEANTSA, 2008. http://www.feantsa.org/files/Housing_Annual_Theme/European_Report/08_European_Report_FEANTSA_Housing_final_EN.pdf

the last resort which is seldom implemented in practice. In 2008, therefore, despite the sharp fall in GDP and employment and the equally large rise in unemployment, there were just 96 cases of home-owners having their house repossessed. In France, in the same year, according to a study by CREDOC, some 12% of households on low income faced the threat of repossession during the three months preceding the survey, three times more than the proportion for households in general¹³.

In Spain, the number of cases of repossession more than doubled in 2008 to almost 58,700 as compared with around 25,950 in 2007¹⁴. There was some tendency, moreover, for the relative number of repossessions to be higher in the less prosperous regions. The largest number of cases of repossession, therefore, almost 20% of the total, occurred in the largest but one of the least prosperous regions, Andalucía, which was more than its share of population (around 18%). More strikingly, some 18% of cases were in Valencia, again a region with a relatively low level of GDP per head which accounts for just 11% of population. At the same time, Cataluña, which is one of the most prosperous regions, also accounted for a larger share of repossessions (19%) than its share of population (16%)¹⁵. This was equally the case for another relatively industrialised region which was particularly hit by the recession, the Basque country (País Vasco), which accounted for 2.5% of repossession but only 2% of population¹⁶.

For 2009, estimates suggest that the number of repossessions could increase further, by around 44% to around 84,500¹⁷, so potentially increasing the number of homeless people, while simultaneously pushing up the number of unsold houses on the housing market.

In the UK, around 182,600 mortgages, 1.6% of the total, were in arrears of more than 2.5% of the balance outstanding at the end of 2008, up from 1.3% of the total at the end of the third quarter and 1.1% at the end of 2007, a rise of some 50% over the year. The number of loans with arrears of more than 2.5% of the outstanding balance went up to 205,300 by the end of the first quarter of 2009, 62% higher than in the first quarter of 2008. In the second quarter of 2009, however, the number of mortgages in arrears increased only slightly, partly reflecting the low level of interest rates as well as the policy of lenders to try to help borrowers through temporary payment problems.¹⁸

¹³ Angotti, M. et al., *Les conséquences de la crise auprès des ménages et plus particulièrement des plus pauvres*, CREDOC (Centre de recherche pour l'étude et l'observation des conditions de vie), 2008. <http://doc.politiquessociales.net/serv1/credoc.pdf>

¹⁴ Data from the General Council of Judiciary Power (Consejo General del Poder Judicial – CGPJ).

¹⁵ *La ruta de las casas embargadas*, El País, 3 May 2009
http://www.elpais.com/articulo/andalucia/ruta/casas/embargadas/elpepiespand/20090503elpand_1/Tes

¹⁶ *1400 familias vascas perdieron sus casas por embargo en 2008*, Gara, 18 April 2009
<http://www.gara.net/azkenak/04/132859/es/1400-familias-vascas-perdieron-casas-embargo-2008>

¹⁷ Estimates made by the CGPJ: *La crisis duplica los embargos de inmuebles a lo largo de 2008*, El País, 13 April 2009.

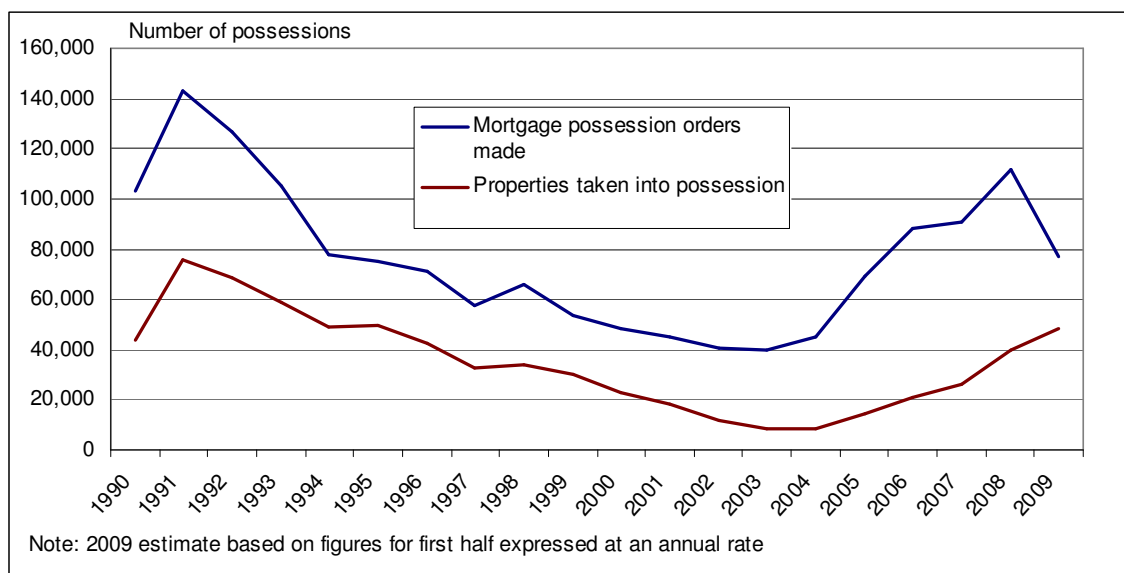
http://www.elpais.com/articulo/economia/crisis/duplica/embargos/inmuebles/largo/2008/elpepueco/20090413elpepueco_2/Tes

¹⁸ Council of Mortgage Lenders: <http://www.cml.org.uk/cml/media/press>

Since 2003, the number of court orders made for repossession has risen significantly from under 40,000 to just over 110,000 in 2008 (Figure 5). Actual repossessions are much less than court orders, since many of them are never served or result in a negotiated agreement to reschedule repayments. Nevertheless, there were some 40,000 repossessions in 2008 (1 in 290 mortgages) according to the Council of Mortgage Lenders. In the first quarter of 2009, the rate of repossessions rose, the number increasing to 12,700 over the three months, around 50% more than in the first quarter of 2008¹⁹, In the second quarter, the number fell back, however, to 11,400. At the same time, the number of possession orders made by the courts also declined and in the first half of 2009 was 30% less, on a seasonally adjusted basis, than a year earlier.

Both the reduction in court orders and the downturn in actual repossessions by lenders during a time a deepening recession and rising unemployment reflect the adoption in the UK of the 'Mortgage Pre-action Protocol' in November 2008 which encouraged lenders to regard repossession very much as a last resort and to search instead for ways of helping people in arrears to reschedule their repayments. Accordingly, possession orders have so far peaked at a level significantly below what they reached in the recession of the early 1990s, though this does not necessarily mean that if the recession continues they will not begin to rise again. It is still the case, however, that repossessions are well above what they have been for most of the past 20 years.

Figure 5 Court orders made for repossession and the number of repossessions in England and Wales



Source: Ministry of Justice and Council of Mortgage Lenders

Although it is important to recognise that repossessions do not necessarily lead to homelessness, a significant number do, as discussed further below.

¹⁹ Council of Mortgage Lenders: <http://www.cml.org.uk/cml/media/press>

Rents arrears and evictions

Just as financial strain caused by the recession can mean people having problems meeting their mortgage payments, so it can also result in people in rented accommodation falling behind on their rents, which could lead to them being evicted from their home. Indeed, many of the most vulnerable groups live in rented accommodation and are more at risk from the recession than home-owners.

The importance of the rented part of the housing market, however, varies across the EU inversely with the extent of home-ownership. It is particularly important in Germany, where almost half of housing is rented, and only slightly less important in Austria, France and the Netherlands, where the rented sector accounts for around 40% of the total (more homes than people given that a disproportionate number of people living alone live in rented accommodation, so that the average size of household in the rented sector tends to be smaller). On the other hand, it is of very limited importance in Spain and also in most of the former Communist countries in Central and Eastern Europe where most people acquired the housing they live in with privatisation.

The importance of social housing within the rented sector, which affects the scale of evictions as well as the level of rent paid, also varies across countries, being particularly important in the Netherlands, where it accounts for around three-quarters of all rented accommodation²⁰, while in France, it accounts for just under 40%. It also accounts for a sizable proportion of housing in the Nordic countries, the UK and Austria, but elsewhere it is of minor importance (see below).

Eviction, however, is not the result only of the non-payment of rent but it can also be a consequence of anti-social behaviour, problems with neighbours, disagreement over the revision of terms at end of a contract period or simply the landlord wishing to terminate the rental agreement. In practice, however, non-payment seems to be the most frequent cause of eviction. The Centre for Secure Tenancy (*Fachstelle für Wohnungssicherung*) in Vienna, for example, has estimated that over 90% of all evictions in the city occur because of financial problems and consequent rent arrears.

Keeping up with rental payments, however, can be difficult, especially where they absorb a large proportion of income. This is often the case for younger people with relatively low earnings, particularly for those starting families. In Spain, for example, the Youth Council has estimated that, on average, young people need to spend almost 60% of their salary on rent if they rent accommodation in the private market²¹. In Belgium, tenants typically have to provide a deposit of several months' rent in advance taking possession of a house or apartment, which can represent a major barrier for those on low income. In France, low-income households living dependent of social assistance as well as young people can encounter problems in renting accommodation because landlords invariably insist that they find someone to act as guarantor.

Legislation governing evictions and the rights of landlords relative to the rights of tenants vary across markedly across the EU. In Germany and Italy, it is particularly difficult to

²⁰ 'Housing Finance in the Euro Area', European Central Bank, *Occasional Paper Series n°101*, March 2009 <http://www.ecb.int/pub/pdf/scpops/ecbocp101.pdf>

²¹ Consejo de Juventud de España: <http://www.cje.org/C18/Inicio/default.aspx?lang=es-ES>

evict tenants and landlords have an obligation to renew contracts if the tenant so wishes. In a number of countries, however, vulnerable groups are not fully protected by law. In the UK, for example, many private tenants have very limited security of tenure, landlords being required in many cases to give tenants only 28 days written notice to quit (though, by the same token, tenants can leave by giving the same period of notice).

In addition, particularly vulnerable groups, such as illegal migrants, drug users or those with a criminal record may be forced to rent accommodation without any legally-binding contract at all, which can mean immediate eviction if they fall behind with their payments.

The impact of the recession on the number of people being evicted from their homes is hard to estimate because of the limited data available, though it is not too difficult to identify those who will be most affected, namely the most disadvantaged groups on the labour market who are more at risk of unemployment and of a sudden reduction in income. In the Paris area, the number of evictions was increasing even before the onset of recession, rising to over 19,000 in 2007²², and, according to a survey carried out by ADIL (*Association Départementale d'Information sur le Logement*) between July and November 2008, 29% of the people interviewed reported either being behind with their rents or being at risk of falling behind²³. A similar survey conducted by CREDOC around the same time found that those living in private rent accommodation were most affected by the current crisis, 25% reporting that their financial situation has deteriorated since the recession began²⁴. In Spain, the number of evictions in Barcelona is reported to have increased by 16% in 2008 as compared with 2007, largely as a consequence of the financial difficulties of the tenants concerned caused by the onset of recession.²⁵

In the countries which have entered the EU since 2004, where, in most cases, the great majority of people own their own homes and do not have mortgages, the threat of repossession or eviction is limited to a smaller group of people. The cost of housing in these countries, however, still represents for many a significant charge on their income even if they have no rent or mortgages to pay because of the high price of energy coupled in many cases with the high cost of maintaining their homes. Although housing costs tend to be lower in relation to income in many of the countries concerned than in other parts of the EU, the difference is not large and for many of the poorer households, they still amount to a substantial proportion of income²⁶.

²² *Recueil statistique relatif à la pauvreté et à la précarité en Île-de-France*, MIPS, 2008

http://www.ile-de-france.pref.gouv.fr/mipes/documents/Mipes_donnees_31_12_2007.pdf

²³ *La part du loyer dans le budget des ménages parisiens*, ADIL75 (Association départementale d'information sur le logement), 2009

<http://www.adil75.org/pdf/LA%20PART%20DU%20LOYER%20DANS%20LE%20BUDGET%20DES%20MENAGES%20PARISIENS.pdf>

²⁴ Angotti, M. et al., *Les conséquences de la crise auprès des ménages et plus particulièrement des plus pauvres*, CREDOC, 2008. <http://doc.politiquestociales.net/serv1/credoc.pdf>

²⁵ *La crisis dispara hasta un 15% los desahucios por impagos en BCN*, el Periódico, 27 January 2009

http://www.elperiodico.com/default.asp?idpublicacio_PK=46&idioma=CAS&idnoticia_PK=581991&idseccio_PK=1022

²⁶ See Research Note on Housing and social inclusion.

In Hungary, for example, nearly 270,000 households are estimated to have accumulated debts in 2008 on maintaining their homes and were over three months in arrears on the payment of these. According to recent surveys, some three-quarters of homes are in need of repair, 40% require partial restoration and another 20% full restoration. The situation is particularly bad in Budapest, where 90% of homes are thought to require work and almost 40% full restoration or demolition.

A further problem is that the outstanding amount of borrowing by households, as indicated above, has increased rapidly over recent years and, moreover, much of this is denominated in foreign currency, so putting households at risk from of the domestic currency against the foreign currency of the loan. Such depreciation has, indeed, occurred over the recent past, resulting in a substantial increase in loans in domestic currency terms which households need to service. In Hungary, therefore, loans in foreign currency accounted for 60% of net household borrowing in 2008²⁷, while in Poland, they accounted for two-thirds of outstanding borrowing for housing purposes in October 2008²⁸ and in Romania for nearly 90% at the end of 2007²⁹.

VII. Social housing in the recession

The purpose of social housing is essentially to provide decent and affordable accommodation. In most countries, it tends to be targeted at the poorest and most disadvantaged members of society, though in some, such as Germany, the Netherlands and the Nordic countries, it covers a wider range of social groups. Nevertheless, in general, those living in social housing tend to consist disproportionately of people living alone, the elderly, ethnic minorities and migrant families as well as those on low incomes generally.

As well as sheltering the most vulnerable groups from the adverse effects of housing market fluctuations, social housing can also represent a source of stability in the market by providing an alternative means of obtaining accommodation and, accordingly, a buffer against excessive increases in rents or house prices. This is dependent, however, on the sector being reasonably large and capable of meeting the demand for social housing.

The protection it provides to vulnerable groups is of particular potential importance in the current recession when the people concerned are the ones most likely to lose their jobs and to have difficulty paying their rents. By the same token, however, social housing associations, local authorities and other providers are tending to experience a reduction in their income and growing financial difficulties making it hard to maintain expenditure on maintenance and repairs and to fund investment in new housing.

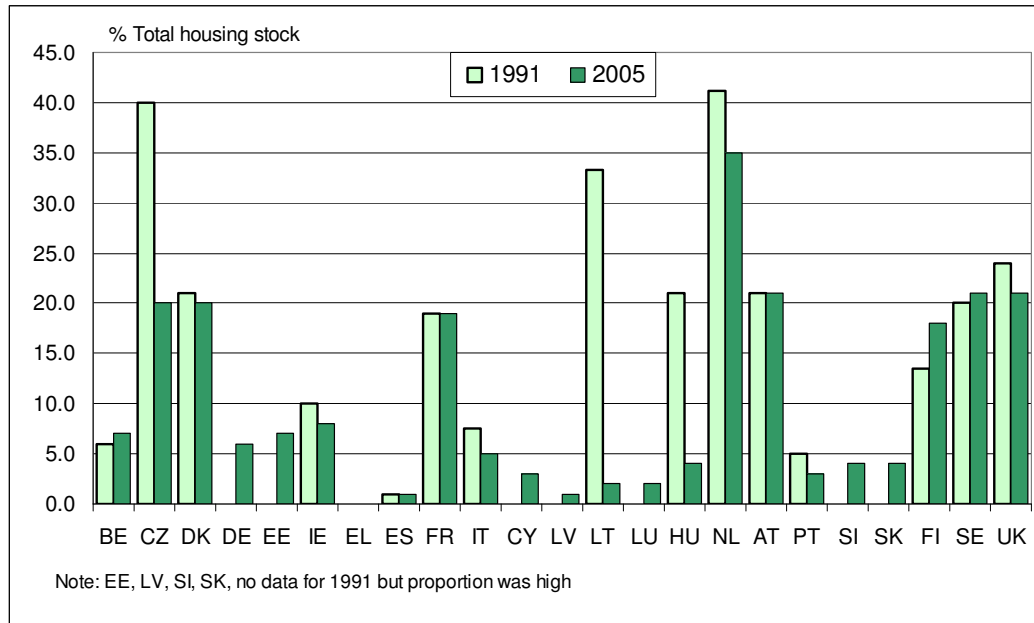
²⁷ Hegedüs, J., *Housing affordability issues in Eastern and Central European countries*, seminar on Housing, social inclusion and the economy, April 2009, Brussels
<http://www.socialsituation.eu/WebApp/Events.aspx>

²⁸ National Central Bank (Narodowy Bank Polski):
http://www.nbp.pl/Homen.aspx?f=en/onbp/informacje/funkcje_banku_centralnego.html

²⁹ 'Housing Finance in the Euro Area', European Central Bank, *Occasional Paper Series n°101*, March 2009 <http://www.ecb.int/pub/pdf/scpops/ecbocp101.pdf>

The role which social housing can play in the recession as well as its ability to provide a long-term source of stability in the housing market, however, varies considerably across the EU with the size of the sector. According to CECODHAS (the European Committee for Social Housing) estimates, it is especially large in the Netherlands, where it accounted for some 35% of the housing stock in 2005, while in Denmark, Austria, Sweden, the UK and the Czech Republic, it was around 20% and in France and Finland, only slightly below 20% (Figure 6)³⁰.

Figure 6: Social housing as a share of total housing stock, 1991 and 2005



Apart from in these 6 countries, social housing is relatively unimportant, accounting for only around 5-6% or less of the housing stock in all the other EU Member States, except Belgium, Estonia and Ireland, where the figure was still only 7-8% of the total. Moreover, except in Belgium, Finland and Sweden, there has been a decline in the share of social housing since 1991.

Nevertheless, there remains a high demand for social housing and long waiting lists in many countries, especially in large cities. In Copenhagen, for example, people can wait many years before obtaining a house, while in France, there are 1.2 million applicants for housing each year but only 450,000 homes that become available for letting. In Lithuania, there were 13,475 households on waiting lists in 2005³¹, while in Ireland,

³⁰ These figures do not seem to be consistent with the data from the EU-SILC on housing tenure described above, which indicate that most people living in rented accommodation in the Netherlands, Denmark, Sweden and the Czech Republic paid market rent, whereas social housing is intended to provide low cost accommodation. It would, therefore, appear that many of those living in social housing and reporting to the EU-SILC considered themselves to be paying market rent.

³¹ Cecodhas, *Housing Europe 2007: Review of Social Co-operative and public housing in the 27 EU Member States*, Oct. 2009 http://www.cecodhas.org/images/stories/research/he2007_en.pdf

around 60,000 households are waiting for social housing, around half of these being unable to afford private sector housing³².

The rent charged for social housing varies from country to country. In Italy for instance, the level is linked to the income of the tenant, which gives rise to a strong demand. In Ireland, and to a lesser extent, in some parts of Germany, rents are also related to tenant incomes. Such a system, however, has disadvantages, since rents set in this way do not necessarily cover costs or reflect the attractiveness of (and demand for) different homes³³. In other countries, rents are often based on the historic costs incurred when the housing in question was first built or renovated which often means that older, often larger and better located estates have lower rents than newer, smaller, less well-located ones.

Although the full effects of the recession on social housing cannot yet be identified, a few aspects are evident. In countries where there is a policy of selling off social housing, sales have fallen. In the UK for example, they declined by 20% in 2008. At the same time, advocates of social housing have pointed to the potential in the sector for alleviating the effects of the recession and saving jobs through renovating homes and building new ones³⁴. In number of countries, however, such as Belgium and the Netherlands, social housing providers have experienced problems accessing credit because of the reluctance of banks to extend loans for building new homes or renovating existing ones³⁵.

Moreover, as noted above, income from rents is tending to decline as tenants lose their jobs or experience a reduction in earnings, which means less finance for maintenance and repair work, which in Central and Eastern European countries in particular, is badly needed. Conversely, social housing offers a potential safety net for people losing their jobs and not being able to pay their mortgage. In Italy, for instance, a new scheme was introduced at the end of 2008 which allows social housing associations to buy the houses of people in this position who then rent them back from the association but with the option of repurchasing them in the future³⁶.

In Spain, the housing department in the Basque region has implemented a similar policy of buying houses from people who have been unemployed for at least 3 months and cannot pay their mortgage, so long as their income in the previous year was below a certain amount, with again the option of buying back in the future. Under the scheme, the department undertakes to pay off the remainder of the mortgage to the bank, though at a reduction of around 20% on the amount due³⁷.

³² Cecodhas, *Newsletter March 2009*: <http://www.cecodhas.org/>

³³ *Social Housing in Europe*, London School of Economics and Political Science, 2007 <http://www.lse.ac.uk/collections/LSELondon/pdf/SocialHousingInEurope.pdf>

³⁴ National Housing Federation: <http://www.housing.org.uk/Default.aspx?tabid=232&mid=1150&ctl=Details&ArticleID=1996>

³⁵ Cecodhas, *Newsletter March 2009*: <http://www.cecodhas.org/>

³⁶ Federcasa: <http://www.federcasa.it/>

³⁷ El País: <http://www.elpais.com/buscar/vivienda>

Through such schemes, the recession could lead to an expansion of the social housing sector in a number of countries. In Sweden, for example, social housing providers report being able to buy property at lower prices, while the housing itself is viewed as a more attractive and safer option by potential tenants³⁸. Moreover, investment in social housing, as noted above, represents a means of overcoming the downturn in the private housing market and so of combating the recession through assisting the construction industry, while at the same time meeting the additional demand for low-cost accommodation from those hit by the recession.

VIII. The recession and the threat of homelessness

There are no reliable estimates of the number of people who are homeless across the EU. They are, for the most part, not included in household surveys, which cover only people living in private households, and as such do not feature in statistics of those at risk of poverty or social exclusion, and there is no uniform way of defining or identifying them in Member States. This is a serious problem, since the people concerned tend to suffer most from deprivation and extreme poverty and, accordingly, are arguably the group most in need of social support and assistance. There is an even more serious lack of information about the personal characteristics and wider circumstances of the people concerned, about their age, nationality and the period of time they are homeless for – whether temporarily or long-term – and about those who might be dependent on them or about their income and the extent of their deprivation.

While definitions of homelessness vary across countries, there is broad agreement on a few of the categories of people who should be included. In particular, there is little question that the definition should cover those sleeping rough, or on the street, or those sleeping in shelters run by local authorities or charities. There is more of a question about the extent to which those living with friends or relatives or in precarious or unsuitable accommodation should be included, especially if they are doing so voluntarily rather than because they have no choice, and if they are included, how they should be identified and counted.

Pathways into homelessness

The reasons why people become homeless are multiple and complex and in most cases involve factors stretching back over many years. These include, in particular, behavioural and social problems, involving, for example, mental health disorders, drug abuse, low education levels, family conflict or domestic violence and social isolation. While repossession or eviction does not necessarily lead to homelessness, or is the primary reason for it, in many instances, it is the final trigger.

Studies undertaken on the pathways into homelessness in the EU over recent years highlight the many factors which can be involved in the process and emphasise that it is rarely the case that a single event, such as being evicted because of failure to keep up payments of rent, can be regarded as the sole, or even perhaps the major, cause.

³⁸ Cecodhas, *Newsletter March 2009*: <http://www.cecodhas.org/>

Accordingly, it is difficult to judge how far the current recession is likely to lead to a big increase in homelessness, given not only the dearth of statistics on the numbers at risk but also the differing levels of effort made by governments across the EU both to prevent evictions and repossessions (see the example of the UK above) and to assist those who do lose their home.

The factors which are likely to contribute to someone becoming homeless can be divided into three broad groups:

- structural factors, which include lack of access to, or availability of, affordable housing, limited access to the labour market and the lack of provision of social services;
- social factors, such as barriers to social inclusion or the marginalisation of a particular group in society;
- personal factors, such as poor mental health, alcohol or drug addiction, a low level of education and lack of qualifications, gambling problems, a criminal record, exposure to domestic violence or lack of family support

These factors can be both underlying reasons for someone being evicted or having their home repossessed and obstacles to being able to find a new home³⁹.

Although the evidence on the link between loss of home and homelessness is sparse, the data available does suggest that a significant proportion of those concerned become homeless and have difficulty obtaining another place of their own. In Denmark, for example, where there has been a substantial rise in the number of evictions since 2002, in 25% of the cases, the people concerned were still homeless one year after eviction⁴⁰. The problem seems to be more acute large cities. In Ile-de-France, for example, 36% of the homeless in 2001 had had no home for over a year (as against 27% in smaller French cities), according to INSEE

In the Netherlands, a survey carried out in 2004 of 120 homeless adults in Amsterdam living on the streets, in day centres and overnight shelters, 88% of whom were men with an average age of 38, found that eviction was a significant direct cause of their situation (accounting for 38% of cases), while the break-up of a relationship was almost as important (35% of cases). Among those evicted, alcohol abuse was a significant contributory factor, while many of those experiencing the break-up of a relationship had a drug addition problem.⁴¹

In Ireland, a survey carried out in 2007 indicated that loss of tenancy was the most important factor triggering homelessness, especially for women, while health problems were an important longer-term contributory factor for men. For around two-thirds of the

³⁹ Pillinger, J., *Homeless Pathways*, Focus Ireland, 2007
http://www.focusireland.ie/htm/research_policy/pdfs/HomPat07.pdf

⁴⁰ *The role of housing in pathways into and out of homelessness*, FEANTSA, 2008
[http://www.feantsa.org/files/Housing Annual Theme/European Report/08 European Report FEANTSA Housing final EN.pdf](http://www.feantsa.org/files/Housing%20Annual%20Theme/European%20Report/08%20European%20Report%20FEANTSA%20Housing%20final%20EN.pdf)

⁴¹ van Laere IR, de Wit MA, and Klazinga NS, *Pathways into Homelessness*, GGD Municipal Public Health Service, Amsterdam, 2009.

people surveyed, therefore, the loss of a tenancy or insecure housing was the main direct reason for them becoming homeless, while 28% had experienced marital breakdown, 44% family breakdown and 61% suffered from alcohol or drug addiction⁴².

In the UK, the statistics compiled from local authority records of those accepted as being homeless (in the statutory sense of local authorities having an obligation to house them) indicate that while eviction or repossession are significant direct causes, other factors tend to be important underlying factors⁴³. While, therefore, for 14% of the households concerned the end of a short-term tenancy was the main direct cause, for another 6%, it was mortgage or rent arrears and for 5%, the loss of rented or tied housing, for 57% of them, it was the breakdown of a relationship or family or friends no longer being able or willing to provide accommodation was the major reason. Breakdown in personal relationships also emerged as the main cause of homelessness – or ‘rooflessness’ – from a survey carried out in England in 2007 of those living rough on the streets⁴⁴.

In Northern Ireland in 2006/07, over 3,000 households of those surveyed gave failing to meet rent payments as the direct reason for being homeless and in the 5 preceding years, the number of people who becoming homeless as a result of losing their private rented accommodation doubled⁴⁵.

In Spain, according to a survey carried out in Madrid in the Winter of 2008, the main reasons for people living rough on the street were unemployment (23%) and family problems (21%)⁴⁶.

From the above, therefore, while repossession or eviction may have triggered the event, there were usually other contributory factors to people becoming homeless. What happens to them once they lose their home depends not only on the friends and relatives that they are able to call on for help but also the accommodation and wider support provided by public authorities and voluntary organisations. This support is not only key to preventing them ending up on the street but to enabling them to get out of the situation they are in, in particular to find a job and to avoid becoming marginalised in society.

⁴² See Jane Pillinger, *Homeless Pathways*, Focus Ireland, 2007 (http://www.focusireland.ie/htm/research_policy/pdfs/HomPat07.pdf) and Megan Ravenhill, *The Culture of Homelessness*, Ashgate Publishing, 2008.

⁴³ Communities and Local Government: <http://www.communities.gov.uk/housing/>

⁴⁴ *Reaching out – a consultation with street homeless people 10 years after the launch of the Rough Sleepers Unit*, Shelter, 2007
http://england.shelter.org.uk/_data/assets/pdf_file/0019/66421/1385_Reaching_Out_report_FIN_Lo.pdf

⁴⁵ *The role of housing in pathways into and out of homelessness*, FEANTSA, 2008
http://www.feantsa.org/files/Housing_Annual_Theme/European_Report/08_European_Report_FEANTSA_Housing_final_EN.pdf

⁴⁶ Red Nacional de Entidades que trabajan con personas sin Hogar, *Informe del segundo recuento nocturno de personas sin hogar en Madrid*, Winter 2008
http://www.enredpsh.org/documentacion_docu.php3?id_article=1267

IX. Concluding remarks

Housing has played a major role in the present recession. It was not only an instigating factor but steep rises in house prices over many years have left many households with high levels of debt, which, for those who have lost their jobs as a result of the economic downturn or have suffered a decline in earnings, have become increasingly difficult to maintain. Moreover, the turmoil in the housing market and the decline in sales has hit the construction industry, in particular, causing large-scale redundancies and giving rise to marked increases in unemployment, especially among workers with either relatively low or very specific skills which make it difficult for them to find alternative employment. Many of those affected in Ireland and Spain, especially, where job losses have been substantial, are migrants a significant number of whom have returned home, though others are in a particularly vulnerable situation with only limited access to income support.

While repossessions and evictions have increased during the recession, the rise has been dampened in a number of countries by government action to assist those affected or to persuade lenders and landlords to agree a rescheduling of repayments. Nevertheless, there is almost certain to be an increase in the number of people losing their homes, though the extent to which this leads to homelessness depends to a large extent on other factors, in particular, the personal characteristics and circumstances of those concerned. It also depends on the measures taken by governments and the systems in place to provide temporary accommodation as well as the extent of social housing to provide a longer-term solution.