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Home sweet hurdle

Europe's housing crisis is more than a numbers game — it's about the growing inequality that shapes where people live, work and raise their families

The topic of housing has moved up the political agenda. During recent regional and national elections in Spain, Austria and the Netherlands, different political parties attempted to gain votes by offering their respective visions for solving the housing affordability crisis. And a crisis it is indeed for many Europeans. According to the latest Eurobarometer survey from autumn 2024, housing is among the top 5 priority issues people think their country is facing.

The perception of housing being a pressing issue has a clear economic grounding. Between 2005 and 2023, average disposable incomes of Europeans have increased by a mere 17 per cent, while rents have gone up by 34 per cent and house prices by 76 per cent. However, the housing affordability problem is not only a financial one but, crucially, it is one that risks deepening economic and social divisions in European societies in the long term.

The decoupling of house prices and rents from incomes has two main drivers. First, the financialisation of housing has meant that housing has increasingly been treated as an asset, putting the value of a house above the value of an affordable and stable place to live. Speculative investment in housing has been buoyant, especially during the phase when interest rates were low on the capital markets. Houses were among the few investments that offered substantial yields. Second, a combination of a lack of investment in new affordable and social housing and the privatisation of existing public or non-profit housing has led to a shrinking housing stock of affordable and secure homes across many European countries.

But what have these developments in the housing market done to the social and economic fabric of European societies?

We are all paying the bill

While the problems resulting from rapidly rising house prices and rents have now come to the political forefront, for a long time, house price inflation was not simply an economic side effect but a politically desired outcome. For homeowners, inflating house prices have resulted in significant wealth gains. Windfall gains were often higher than what people were able to earn from a waged income. This phenomenon was not only observed in cities like London, where house price increases have oftentimes surpassed comparable earnings over the same period.

Speculative investment poured into the housing market, whilst it became increasingly difficult for households on average incomes to access the property market. At the extremes, this vicious circle generated societies with multiple homeowners extracting surpluses from rented properties on the one hand and precariously housed renters with no access to housing wealth on the other hand. This division has become particularly evident in many Anglo-American societies, whose economic foundations have been shaped by the neoliberal logic, according to which private wealth should replace the welfare state. The new social divisions emerging in this 'Asset Economy' are hence fundamentally shaped, if not produced, by the housing market.

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However, the short-term logic of the economic policies that have boosted the wealth of some individuals at the expense of other sections of the population who have not benefitted from rising house prices has also had dire economic consequences. The affordability problem is a drain on purchasing power and has come at a cost to the public purse, too. Housing allowance spent by public authorities – a good indicator of affordability problems at household level – has seen a significant increase in most European countries. In other words, taxpayers are subsidising expensive rents, predominantly of private landlords, without having any lasting effect on the affordability or quality of the housing that is on offer.

As such, housing affordability problems are not just a financial problem for those affected but are also an economic burden. Two studies on the economic impacts of housing associations in Austria have evidenced that better affordability is not only beneficial to purchasing power and the local economy but also leads to lower public expenditure on housing

allowances. Moreover, the presence of affordable housing at cost-based prices has a price-dampening effect on the entire housing market.

A new engine of inequality

The households most affected by high housing costs are those on lower incomes. As housing is an essential good, housing costs cannot be reduced in line with income levels. This is why lower-income households are required to pay a disproportionate amount of their income on housing costs. While the average share of housing costs on disposable incomes is 20 per cent, the figure is 38 per cent among low-income households (those having a disposable income of below 60 per cent of the national median income).

The housing affordability crisis also has ramifications at a neighbourhood level. Pressures in the housing market have a sorting and steering effect along socio-economic lines, in particular in urban areas. While higher-income households can afford to live in desirable and well-connected central areas, lower-income households are increasingly faced with a reduction in choice when it comes to where they can live. Although segregation in European cities is still modest compared to other international cities, socio-economic segregation can increasingly be observed in European capitals, too.

Affordability problems hence not only risk producing financial instability and reduced consumer spending but also create lasting divisions in the social fabric of our cities and neighbourhoods. People affected by economic insecurity and unstable housing conditions are far more likely to feel excluded from society, which can lead to loneliness, isolation and feelings of resentment. Moreover, geographical inequalities exacerbate social disparities, as children grow up with differing economic and social resources, along with unequal access to quality amenities and education. A European-wide study has shown that even access to green spaces or clean air is strongly dependent on material and financial resources.

What's next for politics?

An affordable and secure home is essential for social cohesion, while its absence fosters social and economic exclusion. But what does this mean for political action?

A clear mismatch exists between the short-term nature of political cycles and the long-term impact of effective housing policies. This disconnect may explain why, in many countries, housing policy fails to provide

meaningful solutions to the housing crisis. Instead, governments often resort to short-term fixes, driven more by ideology than by evidence-based strategies. Yet, a positive long-term vision for improving affordability and stability in the housing market would be needed now more than ever.

Evidence suggests that a negative outlook on the future is one of the strongest predictors of support for the far right. There is a growing risk that far-right movements will exploit anxieties about the future, as seen in countries like Ireland, the Netherlands and, more recently, Germany. Instead of addressing the root causes of the housing crisis, the politics of blame – framing the lack of affordable housing as a result of migration – risks not only deepening polarisation in the housing debate but also obstructing the development of effective solutions. A more constructive path lies in tackling the structural causes of the housing crisis – rooted in economic inequality and policy failures – through evidence-based approaches that foster social cohesion rather than division.



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