

Why the rent-or-buy dilemma is resurfacing across the eurozone

The rent-or-buy conundrum isn't unique to the eurozone, and by now we're aware that there isn't a one-size-fits-all solution for those trying to navigate today's housing market. For us, there are two key factors – country-specific regulations and the uncertainty surrounding affordability – once again prompting an age-old question: to buy or not to buy?



Rotterdam, Netherlands. We see regulatory adjustments as the key to offsetting affordability hurdles when it comes to homeownership across the eurozone

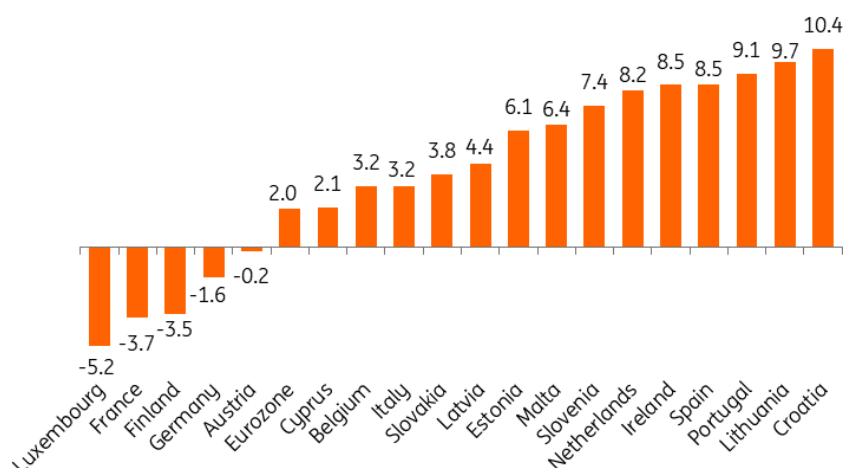
Eurozone house prices up to new highs

Falling mortgage interest rates, lower house prices at the start of the year and rising wages; last year really held a lot of potential for improving the affordability of purchasing a home in the eurozone. At around 4.3%, interest rates on new mortgage loans stood at a 14-year high at the end of 2023, but they had fallen by almost 70bp by the end of 2024. At the same time, eurozone house prices had reached their lowest level in two years by the end of 2023, and following an increase of 4.4% in 2023, nominal wages rose by a further 4.5% in 2024. Inflation came down in parallel, and real wages grew at their strongest pace in 15 years. As a result, new lending to households for house purchases was up by some 6% year-on-year in 2024.

Eurozone house prices had already surpassed their peak level by the end of the third quarter of 2024. And according to Eurostat's just-released house price index, eurozone house prices hit a new all-time high at the end of 2024 on the back of a 0.6% quarter-on-quarter price increase in the fourth quarter. However, substantial differences across member states are lingering.

House price development in 2024

Total (existing and new buildings); annual average rate of change



Source: Eurostat

In Germany, house prices dropped by 1.6% in 2024, marking the first consecutive two-year decline in house prices since 2006/2007. The overall decline in prices, however, masks the gradual recovery of the German housing market that had started at the beginning of last year.

The Spanish housing market represents the other end of the scale, where house price growth has continued at an almost unabated pace in recent years. After having risen by 4% in 2023, house prices were up by 8.5% in 2024.

At 3.2%, from 2.3% in 2023, house price growth accelerated in Belgium last year too. House prices were also up sharply in the Netherlands; following a drop of 1.9% in 2023, they rose by 8.2% last year.

Uncertainty over affordability intensifies debate on “to rent or to buy”

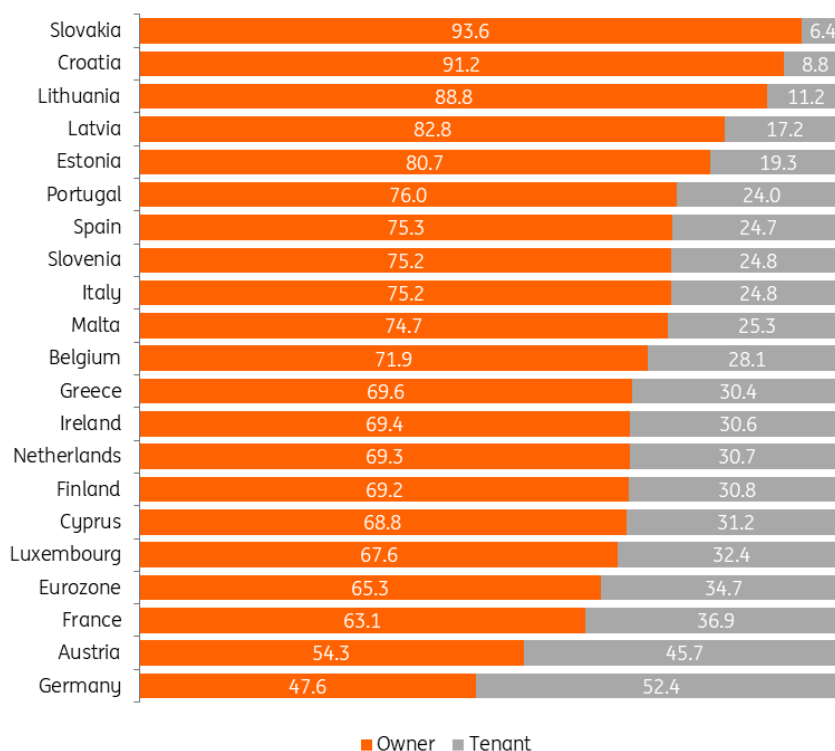
After the purchasing affordability of residential real estate improved last year, signs of a deterioration over the medium term are mounting again. House prices have reached new record-highs, and wage growth is likely to slow. In addition, given the sell-off in eurozone government bond markets at the beginning of March and the prospect of sustainably higher government debt to increase defence spending, everything points to an increase in borrowing costs over the medium term. However, in the near term, escalating trade tensions and increasing growth fears look set to trigger a flight to safe-haven assets. The related decline in government bond yields is not yet impacting our longer-term outlook.

The prospect of higher lending rates accompanied by higher house prices is reviving a question that many consumers are likely to have asked themselves more frequently in recent years: to rent or to buy?

For the majority of eurozone households, the answer to this question seems to be a definite “to buy”. Nearly two-thirds of all eurozone households were living in their own home in 2023. However, looking beneath the surface reveals substantial regional differences.

Distribution of population by tenure status

(%)



Source: Eurostat

In Slovakia, for example, more than 90% of all households live in their own homes. Germany, on the other end of the scale, lives up to its reputation as the “land of tenants” with an ownership rate of less than 50%. At roughly 70%, the ownership ratio in the Netherlands is considerably higher than in Germany, while Belgium and Spain – at 72% and 75% respectively – are even further ahead in the eurozone comparison.

According to an ING survey last year, higher financing costs alone are unlikely to change these trends. Only 23% of Belgian and 18% of Dutch respondents considered renting a property to be the better alternative to buying, given higher mortgage rates. The share of those preferring to buy a property despite higher financing costs was also higher in Spain. Only Germans were more likely to agree than disagree (typical of the so-called land of tenants).

One reason for this, however, might be that the average monthly mortgage payment for households in Germany is higher than the average monthly cost of paying rent. A consumer

survey from the European Central Bank in early 2024 shows that German households are paying an average monthly rent of between €550 and €699. This corresponds to roughly 17% to 22% of monthly net income. The average monthly mortgage payment, including both interest and any repayment amount, however, ranges from 19% to 25% of monthly net income.

For Spanish and Dutch households, repaying a loan is not only more affordable than for German households but actually more affordable than renting a home. This is also the case for the Netherlands, as confirmed by national data from the Federal Statistical Office. According to the Dutch statistical office, renting households had a monthly financial burden of 25.5% in 2022. The monthly cost of paying off the loan was 16.6% of disposable income.

In Belgium, paying off a loan puts a greater strain on monthly net income than paying rent. The average monthly rent payment accounts for approximately one quarter of the average monthly net income. The share of net income required to make average monthly mortgage payments, however, corresponds to 30%. Nevertheless, the number of owner-occupied households in Belgium is significantly higher than that of people living in rented homes. In turn, we'd argue that there must be additional factors influencing whether it is more attractive to buy a home or to rent one out.

Regulatory answers to an existential question

And there is. Various regulatory aspects in each of the eurozone countries affect how attractive buying a property or renting a home really is. For example, regulations making the rental market more favourable exist in some eurozone countries, while the lack of such regulations may explain the low rental rate in others. In Germany, the conversion of rental apartments into owner-occupied apartments requires state governmental approval, and the 'rent brake', which has been in place since 2015, allows landlords to raise rents by 10% above the local market level only. However, new buildings and extensively renovated apartments are excluded.

Comparable regulation came into effect in Spain in 2023. In general, rents may only be increased in line with a certain index. This takes measures like core inflation, for instance, into account. In some regions, rent brakes were also put in place in 2023, aimed at both protecting tenants and incentivising landlords to set affordable prices. In Belgium, rents are generally adjusted for inflation, similar to wages. For properties with poor energy efficiency ratings, a correction factor is applied, resulting in the indexation not being fully applied.

In the Netherlands, governmental policies are generally geared towards stimulating homeownership, although recent policy measures have also aimed to make renting more attractive by increasing the supply of more affordable rental homes. To achieve this, the government introduced new regulations for mid-market rentals, maximising rents based on property quality. Despite good intentions, this has led to a decline in the number of rental homes, making the market even tighter and increasing the difficulty for households to find suitable accommodation. The rent maximisation, in combination with higher taxes for landlords, made renting out less attractive. In turn, some landlords opted to sell their rental properties. So despite its aims, the rent regulation does not yet appear to be benefiting renters.

Regulations also exist for the buyer's market – positive ones promoting the purchase of residential real estate, as well as those making it less attractive. In the Netherlands, mortgage interest rate deductibility still subsidises home ownership. Discounted loans are also granted to first-time buyers.

In Germany, high building standards result in high construction costs. Looking ahead, the so-called “building type E”, which is intended to simplify and speed up construction and to reduce construction costs, could ease this situation somewhat. What remains, however, are incidental purchase costs, which are significantly higher in Germany than in the rest of the eurozone. Property transfer tax, notary fees and estate agent costs, among other things, account for between 9% and 12% of the purchase price in Germany. We see similar incidental purchase costs in Spain, but they are considerably lower in other parts of the eurozone, not least due to tax benefits when buying for owner occupation. In Belgium and the Netherlands, for example, they stand at around 5.5% to 6.5%.

To be or not to be, to buy or not to buy? As we know by now, there's no universally appealing answer to either question. Various regulations on both the buyer and the rental market affect the balance between owners and tenants in the eurozone. The affordability of purchasing a home, however, amplifies the trends set by regulation. In our view, given the rather negative outlook for affordability, tenant markets are unlikely to turn into owner markets in most of the eurozone countries soon – unless regulatory adjustments play a bigger role in offsetting affordability hurdles.

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