

The perils of the rising costs of homes

Many Europeans feel buying a home is a symbol of success and the dream of home ownership drives many to overstretch themselves with little to no buffer



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Housing is expensive, at least that's how it feels for most of us, according to our two [ING International Homes and Mortgages](#) surveys.

For anyone living in London, this is not surprising, but our survey goes beyond the British capital – to nearly 15,000 people in 15 different countries where on average six in ten say housing is expensive in their area. Seventy-eight percent of home owners are happy with their home – yet only 59% of renters say the same, the [second report](#) found. And while 65% of Europeans feel that buying a house “is a symbol of success”, the dream of home ownership is beyond the grasp of many.

Almost half (48%) of renters believe they will never be able to buy. That feeling is particularly strong in the UK (56%), Germany (56%) and beyond Europe, in Australia (62%).

Don't push me 'cause I'm close to the edge

Worryingly, one in five (20%) find it “difficult” or “very difficult” to pay their monthly rent or mortgage. More than four in ten (41%) who had a budget in mind when house-hunting ended up

at the top end (29%) or even over (12%) their budget. Additionally, nearly a quarter said the costs of keeping their home running are higher than they expected.

These findings – that housing is expensive, people are overstretching, and many find it difficult to keep up – are an important combination. When [housing costs rise relative to income](#) this can squeeze household finances, leaving less left over to save or invest. We know from [previous surveys](#) that three in 10 have no savings at all. When you include those who have less than the equivalent of three months' pay saved, the figure reaches 50%. With outsized housing costs and little to no buffer, people may be left vulnerable to an unexpected shock in income or expenditure. What if the heating breaks down?

[Read our full report ING International Survey Homes and Mortgages](#)

Don't stop me now

Most people in Europe (59%) expect housing prices to continue to rise over the next 12 months. The only countries where fewer than half expect a rise are the UK (44%) and Italy (38%).

A third (33%) believe “house prices never fall”, too, suggesting an underappreciation of the risk involved in home ownership. It may be very reasonable for people to think that house prices are *unlikely* to fall *in a given area over a given timeframe*, but to think that house prices *never* fall misses out on the potential risks of buying a home.

Perhaps then it is not surprising that many buyers have stretched themselves to the very top of their budgets.

Higher and higher

High prices may be contributing to further housing price increases, partially through our psychological and emotional response to them. [Research by the Bank of England](#) found that, for a nearly identical property, people who buy when property is expensive tend to hold out for higher sale prices than those who bought for less.

By traditional economic theory, the value of the house, and therefore the sale price, should not depend on the price at which it was bought. But in the human equation, no one wants to feel like they've made a bad investment, so those who bought when prices were higher tend to ask for higher prices when they sell it on. This held true for people who didn't have a mortgage, so can't be attributed to a need for capital for the next deposit.

In an environment where the majority of people view house prices as expensive and a significant proportion of people are buying at the top of their budget, these conditions could be exacerbating the problem. In other words, the conditions of the market (expensive house prices) and our psychological response to them (being loss-averse and therefore holding out for even higher sale prices) are mutually reinforcing forces.

More than a feeling

Expensive housing is, of course, a situation that no one person alone can fix. Supply needs to be looked at, alongside potential measures such as the review of [loan to income ratio caps](#).

From the consumer side, it would be worthwhile for people to be prudent when selecting a home – so that stretching doesn't become *overstretching*. What if interest rates rise? What if I don't get that promotion? What if there is a medical emergency in my family with associated bills to be paid?

Asking these uncomfortable questions now could prevent financial fragility in the months or years to come.

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