

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.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com