

Definition and measurement

Housing costs are critical determinants of the living conditions of individuals and households. The main indicator of housing costs used below is the share of household income that is devoted to housing, based on data from the annual national accounts of OECD countries. Housing expenditures of households, as defined in national accounts, include actual and imputed rents (the rent-equivalent that home owners would pay for a house with similar characteristics to the one they own), spending on housing maintenance and repairs, as well as the costs for water, electricity, gas and other fuels. They exclude the interest and repayments on loans for home purchases as inclusion of these alongside imputed rents would amount to double counting. Imputed rents are a better measure of “true” housing costs, as some part of mortgage repayments should really be seen as household savings. Because of the long delays in data collection and dissemination, national account data on housing costs presented here only extend to 2003 for most countries.

Information on housing costs is also available through household income and expenditure surveys. The advantage of survey data is that they allow analysis of housing costs by different characteristics of households and individuals. The disadvantage is that the range of items included varies across countries (according to whether these costs include public rent subsidies, the cost of utilities and mortgage payments). This section presents information on the ratio of rental costs to income for people at different points in the distribution of (equivalised) disposable income. Computations are based on micro-records from the Luxembourg Income Study and national surveys (France and Canada), as well as from published summary tables for the United States (based on similar but not fully comparable definitions). Apart from differences in definitions, cross-country comparability of these survey data is also affected by different sampling and non-sampling errors.

Concerns about housing affordability have become more important following the sharp rises in home prices and rents recently recorded in most OECD countries. Housing is the largest component of both the expenditures and assets of households. As a consequence, higher housing prices can both strain the budget of those households that do not own their main residence and increase households’ wealth and financial well-being for those that do. On average, across the 15 countries included in Figure EQ8.1, the importance of housing costs as a share of household disposable income has increased moderately since 1995, from close to 20% in 1995 to more than 21% in 2003. The increase extended to 2005 in the United Kingdom, and to 2004 in France and Germany. Most of this rise appears however to reflect higher rents imputed to home owners, while actual rents paid by households increased only marginally (from 4.1 to 4.3% of household disposable income, on average) from 1995 to 2003.

House-price inflation will affect the living conditions of households differently depending on whether they are home owners or renters, and whether they rent in the private sector or in public housing. Patterns of home ownership vary largely across OECD countries. The share of the housing stock occupied by owners is above 60% in Mexico, the Slovak Republic, Greece, France, Finland, Norway and the United States but below 40% in Germany (Figure EQ8.2). Social housing is very important in Canada but also in France, Finland, Denmark and

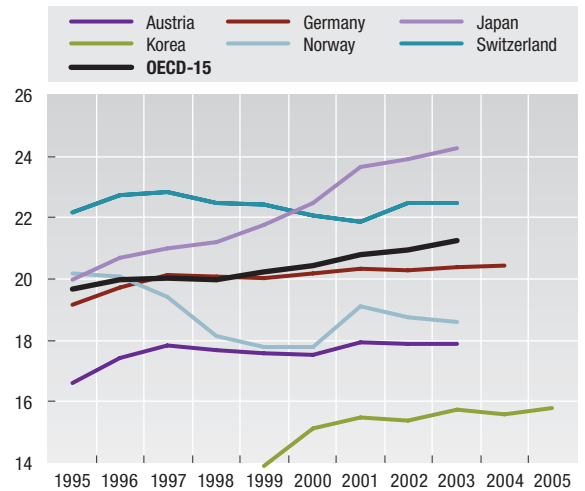
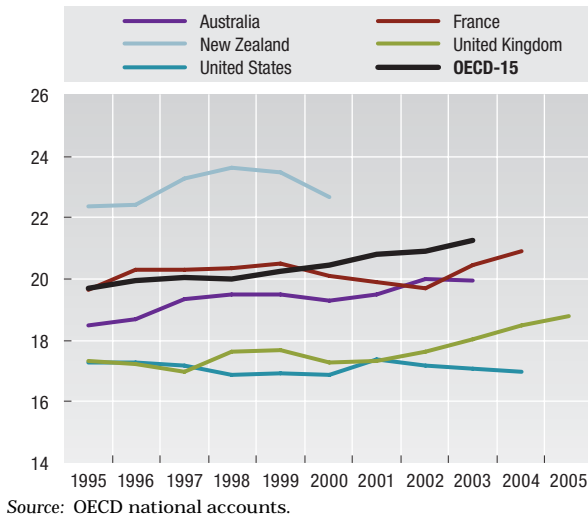
Poland. While the provision of social housing, rented at below market prices, implies a subsidy to households, this subsidy often does not benefit the poorest households society: in France, for example, 80% of social housing units are occupied by households that are not income poor, while less than 1/3 of the income poor live in a social housing unit.

Rental costs weigh more heavily on households with low income. On average, across the 16 OECD countries shown in Figure EQ8.3, rental costs in the early 2000s accounted for more than 30% of the income of households in the bottom quintile of the distribution, as compared to 22% and 16% for those at the middle and the top. When these costs exceed a given level of household income, housing becomes unaffordable (ICCRSS, 2001). Some OECD countries use specific measures of housing affordability: in Canada, around 35% of households devoted 30% or more of their pre-tax income to housing in 2001, well above the level recorded ten years earlier but below that of 1996; in Australia, 8.8% of households were classified in 2004 as living in “housing stress” (i.e. belonging to the lowest 40% of the income range and paying for housing more than 30% of their income).

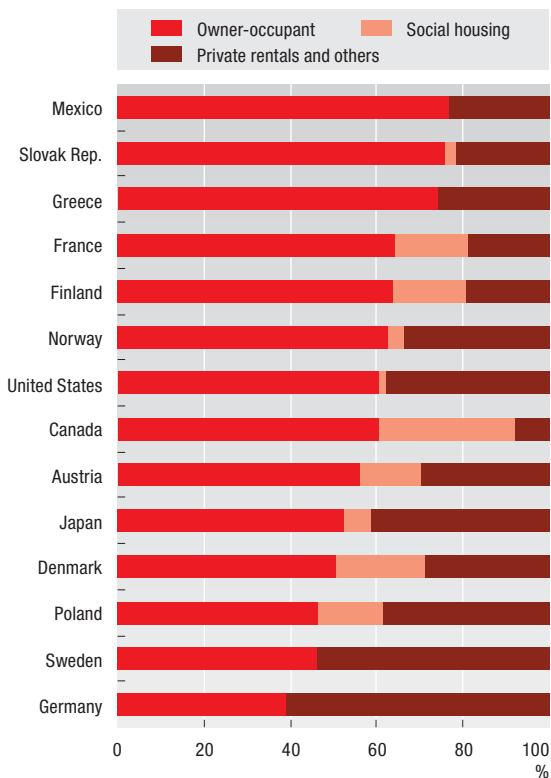
Status indicators: Material deprivation (EQ1), Earnings inequality (EQ2), Poverty persistence (EQ7).

Response indicators: Public social spending (EQ5).

EQ8.1. Rising housing costs in most OECD countries
 Spending on housing, in percentage of household disposable income, 1995-2005

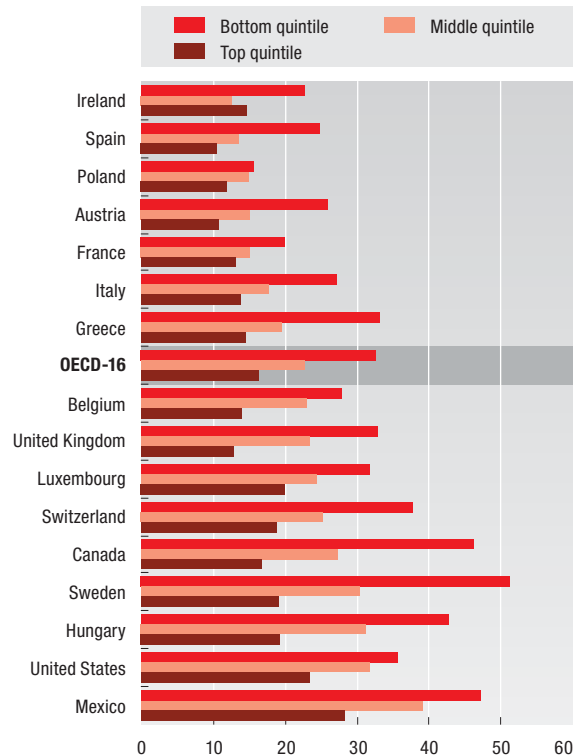


EQ8.2. Different patterns of home ownership
 Composition of the housing stock, in percentage



Source: Data collected by the OECD Public Governance and Territorial Development Directorate in the context of the project on "socially sustainable housing".

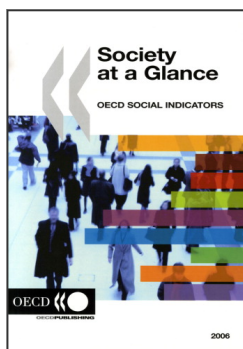
EQ8.3. Poor tenants spend a larger proportion of their income on rents than the rich
 Rental costs in percentage of net disposable income among tenants by income quintile, percentage



Note: Rental costs refer to net rents paid (including utilities in some countries). Individuals are ranked by their equivalised disposable income except in the United States (where they are based on discrete levels of gross family income).
 Source: Calculations based on the Luxembourg Income Study (LIS) and national data.

StatLink: <http://dx.doi.org/10.1787/562376451186>

Further reading ■ Harding, A., B. Phillips and S. Kelly (2004), *Trends in Housing Stress*, NATSEM, Canberra. ■ Interdisciplinary Centre for Comparative Research in the Social Sciences - ICCRSS (2001), *Housing Stress: An Overview of Risk Populations and Policies in the EU*, Vienna.



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