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Global housing supply has lagged the rate of population growth, pushing rents and prices to unaffordable levels. Boosting supply levels needs to be at the heart of any housing affordability strategy

TACKLING HOUSING

AFFORD

In newspaper headlines, social media and coffee-shop conversations, housing affordability is a hard topic to avoid. Almost every major city in the developed world suffers from expensive housing, whether for sale or rent.

Prices in 10 major economies have risen by more than 70% since 2013, while incomes are up just 23% over the same period. Since 2022, buyers and renters have also had to deal with rising interest rates in most global markets.

Electorates are not pleased: nationwide polls found that 41% of Australians and 47% of Canadians view housing costs as a top-three issue of concern.

But providing affordable housing is not only about keeping people happy; it also makes a city more attractive to citizens and companies looking for somewhere to live and work.

Savills Tech Cities research has revealed a movement of people and firms from large, expensive cities to smaller cities such as Denver, Bristol and Tallinn, where the cost of living may be lower. In most of the international markets we analyse here, supply shortfalls are driving unaffordability.

In the past decade, housing supply has failed to keep pace with the rising population. This has pushed rents and prices to unaffordable levels as many markets face historic, accumulated shortfalls.

While supply problems faced by developed markets are similar, the approach taken to housing delivery and market regulation differs. EU nations tend to have larger proportions of rental housing and the sector is regulated. Nations such as the US and Australia have smaller stocks of public or social and rental housing and less regulation.

The EU: regulated rentals

The Netherlands has a two-tier system of “liberalised” and “non-liberalised” (regulated) rents, which account for three-quarters of rentals. The majority of this non-liberalised housing stock is owned by housing associations, which are ▶

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ABILITY

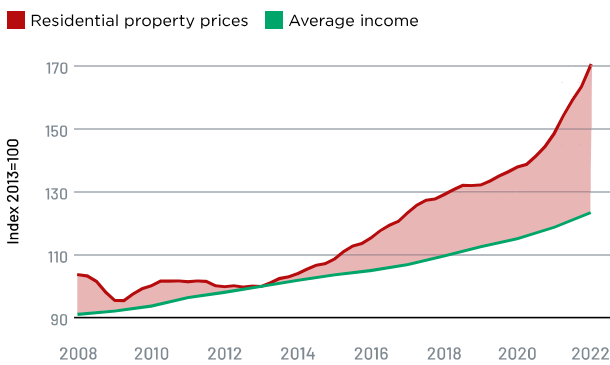
THROUGH SUPPLY



obliged to offer affordable homes. The Dutch caretaker government has proposed bringing more rental housing into the non-liberalised pool by scoring properties on a variety of factors, including energy efficiency, with housing falling under the threshold becoming regulated stock. However, it's still unclear whether this proposed regulation will obtain a majority in the Dutch House of Representatives.

Average income growth compared with residential property price growth since 2013

AVERAGE OF 10 MAJOR ECONOMIES*, NOMINAL, INDEX 2013=100



Source: Savills Research using BIS & OECD.
*Countries: Australia, Canada, Germany, Japan, Spain, the Netherlands, Sweden, Singapore, the UK and the US

Rental apartments in Sweden are strongly regulated by law. All landlords negotiate rent annually with the Swedish Union of Tenants. While the nation's housing shortage is relatively small compared to other European countries, new development has slowed due to the removal of government subsidies amid rising construction and financing costs.

Maryrose David, Head of Research at Savills Sweden, says: "The previous housing subsidy scheme supported supply – especially in regional cities, which kept pace with population growth. Its absence poses further challenges in the development of rental housing. However, decreasing population growth means the shortfall should stay in check."

Spain has a tightly regulated rental market but a much smaller proportion of public housing (only 1.6% of total stock) than similar markets. New legislation was introduced in 2023 to further regulate the market and encourage the provision of rental housing. City governments are offering land for development and a time-limited controlling stake to private companies that finance affordable housing. However, the land will remain public in the long term.

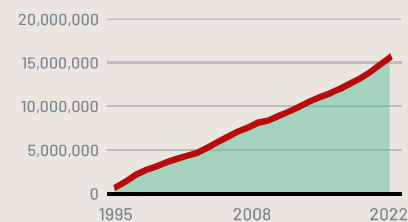
Regulation is often seen as a barrier to the supply of new rental homes – but this is not necessarily the case, according to Richard Valentine-Selsey, Head of European Living Research at Savills. "Institutional investors need regulatory certainty to underwrite investments," he says.

"The biggest challenge for investors is uncertainty around regulations. If they're unsure of the regulatory landscape, they'll wait to invest until there's certainty. Regulators should also be mindful that investors need to make a return in order to deliver and manage new housing."

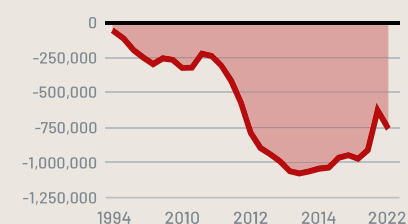
THE SUPPLY-DEMAND MISMATCH: ACCUMULATED HOUSING SUPPLY RELATIVE TO POPULATION GROWTH A SIMPLE NATIONAL-LEVEL COMPARISON

ASIA PACIFIC

JAPAN

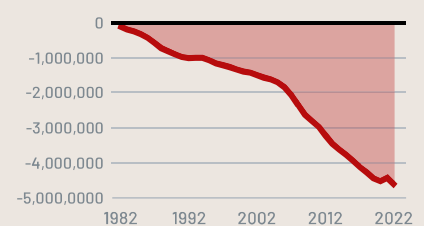


SINGAPORE

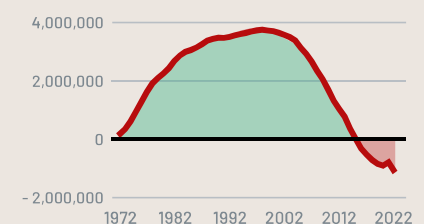


ANGLOSPHERE

AUSTRALIA



UK



Comparing national supply and demand metrics

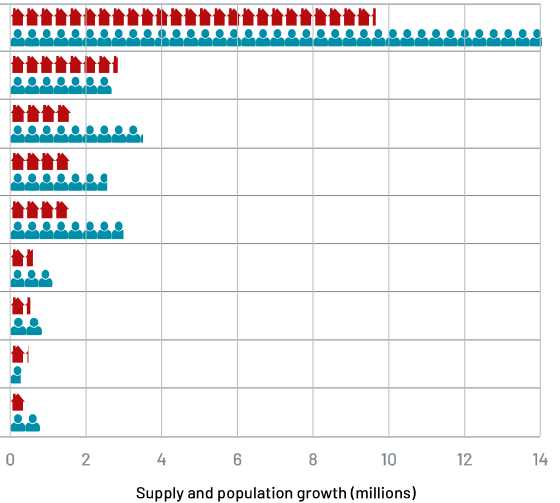
INCOME GROWTH VS HOUSE PRICE GROWTH

🏠 2015-2022 House price growth 📈 2015-2022 Income growth



POPULATION GROWTH VS HOUSING SUPPLY GROWTH

🏠 2015-2022 Supply growth 👤 2015-2022 Population growth



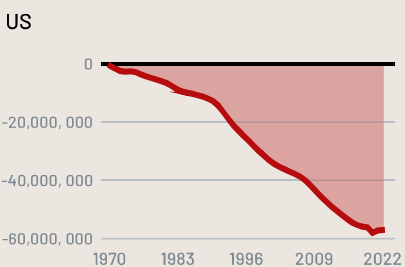
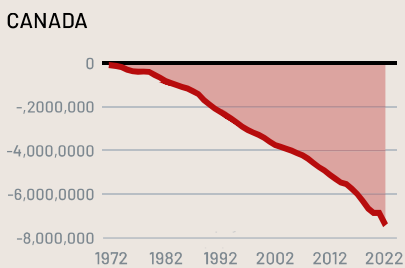
Source: Savills Research using national statistics & BIS. *indicates lagged housing start statistics for supply growth

Lighter-touch regulations in the Anglosphere

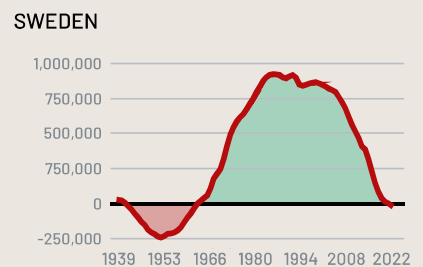
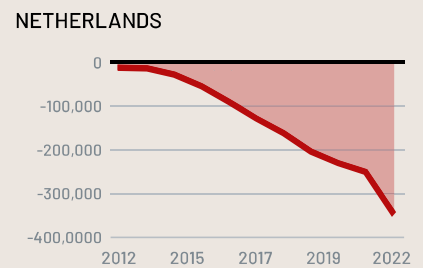
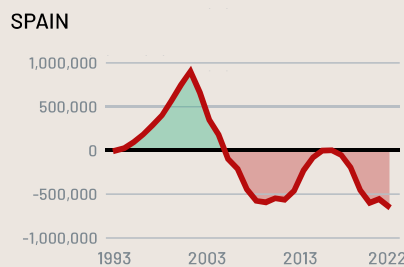
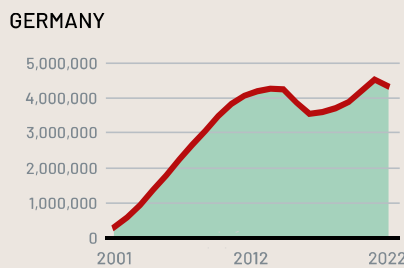
The English-speaking markets of Australia, Canada and the US have similar characteristics: light regulation of rental properties and small public housing programmes. Canada and Australia have implemented restrictions on foreign purchasers of residential property.

The UK market mixes the wider Anglosphere and the EU approaches. Social housing has historically played a large role, housing half the population at its peak, but has fallen to 17%. Much of the UK's affordable housing supply comes in the form of Section 106 agreements, whereby each new development is required to feature a percentage of affordable homes.

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EUROPE



Source: Savills Research using national statistics

NEITHER THE PRIVATE NOR THE PUBLIC SECTOR CAN MANAGE THE HOUSING AFFORDABILITY ISSUE ALONE

However, Emily Williams, Director of UK Residential Research at Savills, says: “The immediate challenge is the slowdown in overall delivery over the last 18 months, which will limit the amount of affordable housing funded through developer contributions.

“If government wants more affordable homes delivered through Section 106, a key focus should be increasing land supply. Meanwhile, housing associations and local authorities need clear, long-term plans for grant funding and social rent setting policy to give them the confidence to commit to development.”

Different dynamics in Asia

The Asian markets profiled here differ widely from each other and from other international markets. Nonetheless, they face similar challenges.

China is unique in that it has built a substantial number of homes over the past decade while population growth has come to a standstill. However, urbanisation continues – in particular the migration of workers from provincial areas to first-tier cities such as Shanghai and Beijing.

As a consequence, says James Macdonald, Head of Research at Savills China, housing affordability is not a China-wide issue. “It is a first- and second-tier city issue. As with many globally competitive cities, most companies tend to congregate around a few cities generating jobs and attracting talented workforces.”

Another factor driving unaffordability, he says, is that housing is a preferred investment in a nation with few alternatives. The cost of holding property is minimal, so many investors leave the homes they buy empty. China is working to solve these problems – by encouraging the development of rental housing, for example.

As in China, housing affordability is a problem only in certain areas of Japan. While the overall population is declining, large and dynamic cities such as Tokyo and Osaka

are growing; net migration in Tokyo rose by more than 125,000 last year. Rents and prices have been rising in Tokyo and limited supply is likely to accelerate this trend, despite the delivery of a considerable amount of new housing at a national level. Furthermore, the overall picture is complicated because Japan’s housing stock is constantly demolished and rebuilt, meaning many new homes are not adding to the overall volume.

Singapore has one of the most sharply divided two-tier markets in the world. More than three-quarters of the population lives in housing built by the nation’s Housing Development Board (HDB), which creates public housing for sale. This allows 90% of citizens to own their home. The private housing or “condo” market is regulated to protect citizens and permanent residents: foreigners buying property must pay 60% stamp duty. Nonetheless, population growth since the pandemic has driven sharp rises in rents and prices in the condo market.

The need for housing investment

These examples demonstrate that there’s no single solution for boosting housing supply and improving affordability. It’s clear that neither the private nor the public sector can manage this alone.

National balance sheets are stretched and higher interest rates mean borrowing to develop social housing is more difficult. Meanwhile, the private sector has to deal with inflation in construction, labour and finance costs.

Working together, the private sector can bring capital and expertise, while the public sector can provide access to land and a transparent business environment. If affordable rental housing can provide a suitable return to institutional investors, it will free up tens of billions in investment capital. A survey conducted by Savills Investment Management and Savills, involving real estate investors with total assets under management of more than €700 billion, found these investors alone seek to allocate €63.8 billion to the European Living sectors over the next three years.

Cities and nations worldwide have ambitious decarbonisation goals. Institutional providers of affordable housing can help with these by upgrading assets and converting obsolete properties such as disused offices or shopping centres, as regeneration is supported by zoning and regulation.

Densification and placemaking will also be crucial in delivering affordable housing. City governments should aim to bring landowners together to regenerate districts. Regeneration can provide sustainable homes on a tighter footprint, along with shared amenities and open space.

Every year a nation or city is undersupplied with housing, the problem of affordability is compounded – so the sooner the public and private sectors can co-operate on this at scale, the better. ■



CITY-SPECIFIC SOLUTIONS

Affordability problems differ between cities. Solutions include incentivising developers to build smaller homes and public ownership

Minneapolis: densification boosts supply

Urban sprawl is characteristic of most US cities, with a host of single-family homes in the suburbs. The city of Minneapolis recognised this use of land – which accounted for 70% of zoning – was a key factor in rising house prices.

In 2019, the city government decided to tackle urban sprawl and increase residential density by limiting single-family zoning. It also made the apartment development planning process easier and allocated \$320 million to affordable housing subsidies.

These policies helped cut house price growth to 1.5% year-on-year in February 2024. Rents in the city have risen by 32% since 2015, compared with a 60.2% nationwide increase.

Vienna: city ownership brings affordable rents for some

Vienna is unusual – even in Europe, where social housing is widespread – in that it houses a quarter of its population in 220,000 city-owned apartments. A further 200,000 co-operative buildings mean more than half the city's residents live in subsidised apartments.

City apartments are open to anyone who has lived in the city for two years and earns less than €57,600. No one is evicted if their earnings grow above that level.

The city never sells public housing estates and reserves land for social housing. Furthermore, any residential development with more than 5,000 sq m (53,800 sq ft) of living space must be two-thirds allocated to subsidised housing.

Nonetheless, a chunk of the city's population must still deal in the more expensive open rental market, at least until a subsidised apartment becomes available.

ANDREW ALLEN

GLOBAL CHIEF INVESTMENT OFFICER AT SAVILLS INVESTMENT MANAGEMENT



“ Investors look to rental housing

Institutional investors have recognised the opportunity in the living sector, where the imbalance between demand and supply presents a strong base for investment.

Rental housing can provide high-quality, long-term, dependable income streams for conservative investors. Meanwhile, supply shortages in many countries mean building or funding housing development will be a rewarding investment strategy. Investors will need to factor in zoning risks, the costs and timing of construction, and the exit route of the investment.

The shortage of existing stock and high demand is causing rents to rise sharply in many markets, which increases the likelihood of policy intervention – namely some form of rent regulation – to address affordability. While this is a challenge, we do not believe rental regulation is inevitable or necessarily detrimental to investment, as long as it is consistent and transparent.

Development is likely to be rewarding for those investors able to take on the risks and deliver much-needed housing, which will also provide stable returns for core investors. This suggests the living sector should be a preferred target for institutional investors.

