

No Home for The Young?

Stylised Facts and Policy Challenges¹

By Boris Cournède and Marissa Plouin²

Introduction

1. Young people are among the most affected by the economic, social and mental health effects of the COVID-19 pandemic (OECD, 2021), with their fears about the future intensifying with rising inflation and the outbreak of war in Europe. Unemployment rates of 15-29 year-olds increased in nearly all OECD countries, with the weighted OECD average exceeding 14% at the peak of the COVID-19 crisis in the second quarter of 2020. About half of the 18-29 year-olds who responded to the OECD *Risks That Matter 2020* survey reported that either they or a household member have experienced job-related disruptions since the start of the COVID-19 pandemic in the form of a job loss, the use of a job retention scheme, a reduction in working hours, or a pay cut (OECD, 2021). In many OECD countries, the pandemic has also taken a toll on the mental health of young people: in Belgium, France and the United States, for instance, symptoms of anxiety and depression were 30-80% higher among this age group relative to the population in March 2021 (OECD, 2021). In a US survey conducted in March 2022, adults 18 to 43 were more likely than older generations to report that the pandemic had stolen moments that they would never get back (American Psychological Association, 2022). Furthermore, the inflation spike and sharp escalation of geopolitical risk, itself further fuelling inflation (OECD, 2022), are two sources of stress facing today's younger generation. These challenges come in addition to existing trends that affect young people, which are outlined in the *Updated OECD Youth Action Plan* (OECD, 2021).

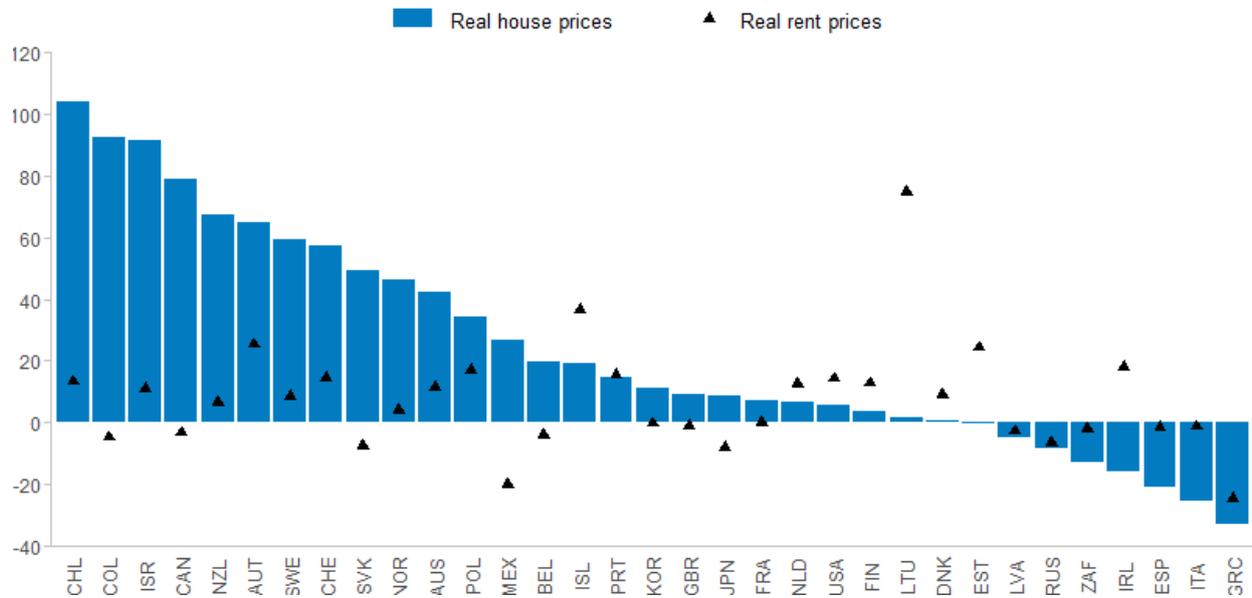
2. Against this background of labour market and broader challenges, many young people also struggle in the housing market. The enduring rise of real house prices over the past decades (Figure 1) has made it increasingly difficult for young households to buy their first home in many OECD countries.

¹ Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

² Boris Cournède Marissa Plouin are members of the OECD Economics Department and the OECD Directorate for Employment, Labour and Social Affairs, respectively. An earlier version was discussed by the Friends of the OECD Housing Horizontal Project Group; the authors are grateful to the Chair, H.E. Mr. Guido Biessen (Permanent Representative of the Netherlands to the OECD), and members of the Group for their comments. They are indebted to Willem Adema (OECD Directorate for Employment, Labour and Social Affairs), Soo-Jin Kim (OECD Centre for Entrepreneurship, SMEs, Regions and Cities) and Luiz de Mello (OECD Economics Department) for their insights and guidance. Special thanks go to Manuel Béтин (OECD Economics Department), Sarah Kups and Pauline Fron (OECD Directorate for Employment, Labour and Social Affairs) for statistical work as well as Elsa Cruz de Cisnero and Celia Rutkoski (OECD Economics Department) for technical preparation. The opinions expressed and arguments employed are those of the authors and should not be reported as representing the official views of the OECD or of its member countries.

The fall in real interest rates and liberalisation of mortgage markets at first provided some relief, before the impacts of these changes were factored into higher house prices. The loosening of monetary conditions, increased private savings and heightened uncertainty in capital markets triggered by the COVID-19 crisis also contributed to the buoyancy of house prices, as residential real estate was perceived as a safe haven.

Figure 1. House prices and rents have risen faster than inflation in most OECD countries
Percentage changes in real house prices and rents, 2006-20

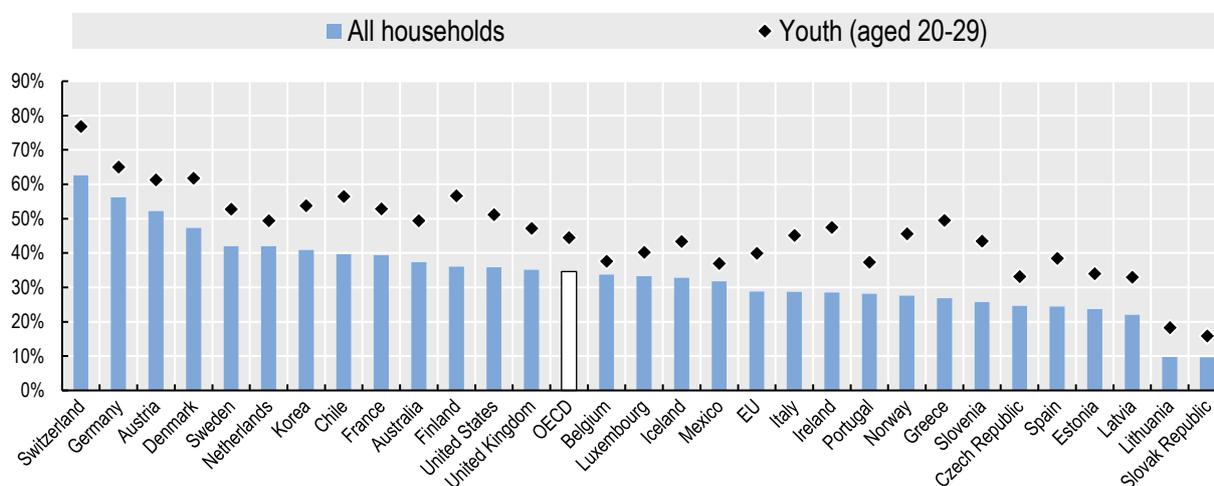


Source: OECD (2021), *Brick by Brick: Building Better Housing Policies*.

3. Compared with the general population, young people aged 20-29 are more likely to live in rental housing, with the widest gaps between these groups in Greece, Finland and Ireland (Figure 2). Due to rising free-market rents, especially in high-productivity cities, and declining or stagnant investment in social and affordable housing, access to quality, affordable rental dwellings has become increasingly difficult. Indeed, rent prices increased faster than general inflation between 2005 and 2020 in all but two OECD countries (Greece and Japan), and by more than a third faster than consumer price inflation in Estonia, Iceland and Ireland. High and rising rents put additional pressure on young people to cover housing costs, and to save up for a downpayment. Access to affordable housing is especially challenging for young people living in urban areas, which prices tend to be high and building and densifying are difficult.

Figure 2. Young people are more likely than the general population to live in rental housing

Share of households living in rental housing or other non-ownership housing tenure¹, in percent, by age group, 2019 or latest year available



Note: 1. The rental category includes both subsidised and market-rate rental dwellings, as well as households living in “other” (non owner-occupied) types of tenure. The present publication presents time series which end before the United Kingdom’s withdrawal from the European Union on 1 February 2020. The EU aggregate presented here therefore refers to the EU including the UK. In future publications, as soon as the time series presented extend to periods beyond the UK withdrawal (February 2020 for monthly, Q1 2020 for quarterly, 2020 for annual data), the “European Union” aggregate will change to reflect the new EU country composition.

Source: OECD calculations based on European Union Statistics on Income and Living Conditions (EU SILC) survey 2019 except for Iceland, Ireland, Italy, and the United Kingdom (2018); the Household, Income and Labour Dynamics Survey (HILDA) for Australia (2019); Encuesta de Caracterización Socioeconómica Nacional (CASEN) for Chile (2017); the Korean Housing Survey (2019); Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) for Mexico (2018); American Community Survey (ACS) for the United States (2019).

4. This note identifies a number of key challenges facing young people in the housing market, and proposes a series of selected policy issues for further research. It contributes to the OECD Horizontal Project on Housing (OECD, 2021).

Stylised Facts

Financial constraints are a big reason that young people rent, even though home ownership remains a strong preference for the majority

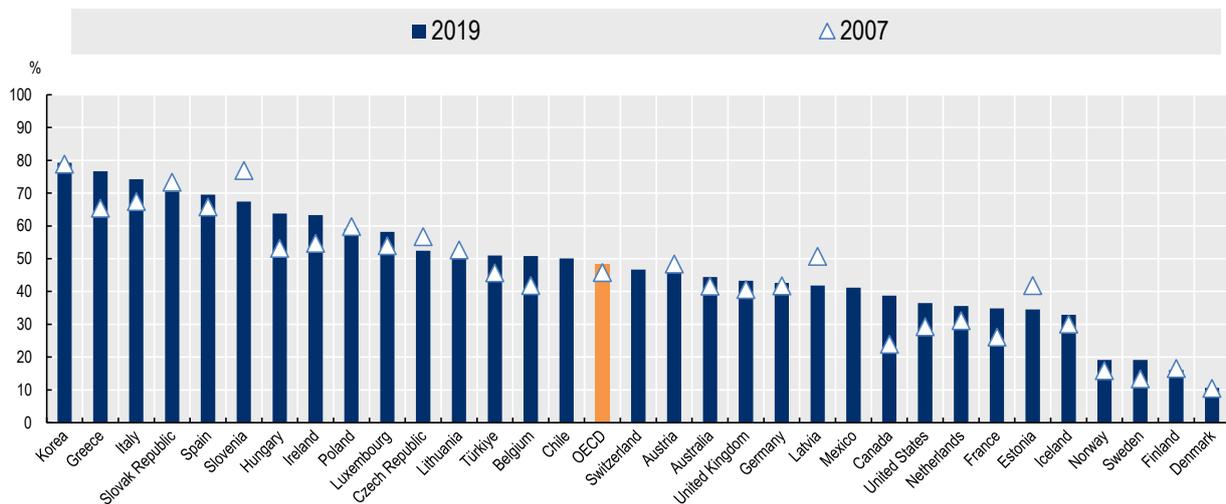
5. The dominance of young people in the rental market (Figure 2) is driven by both circumstances (such as an inability to afford a down-payment to buy a home, or to qualify for a mortgage) as well as choice (due, for instance, to the greater flexibility of renting relative to owning). Overall, financial resources tend to be a much more significant factor (see, for instance, Fry & Brown (2016) and FreddieMac (2018) for evidence from the U.S.). Indeed, when people are asked about their housing concerns and preferences, young adults are more likely than other age groups to report housing affordability as a top concern (OECD, 2019). A majority of young people reported in a 2020 survey that maintaining or securing affordable housing was a major long-term concern (OECD, 2021). Moreover, in questionnaires that have asked people about their housing preferences, the vast majority of respondents (including young people) continue to indicate a preference for home ownership (Corlett & Odamttén, 2021; Fry & Brown, 2016; FreddieMac, 2018).

Few empty nests: Many young people live with their parents

6. In most OECD countries, the majority of young people aged 20-29 live with their parents (Figure 3). The share is much higher – around three-quarters of young adults – in Korea (79%), Greece (77%) and Italy (74%). In over 20 OECD countries, the share of young people living with their parents has risen since 2007, most significantly in Canada, France, Sweden and the United States. On the contrary, living alone is most common among young adults in Norway (41%), Sweden (41%), Finland (33%) and the Netherlands (28%). This is further reflected in the average age that young people leave the parental household, which ranges from over 30 years in Italy and Portugal to under 20 years in Luxembourg and Sweden (Eurostat, 2020). Other types of living arrangements among young people are more or less common, depending on the country: in sixteen countries, at least a quarter of young adults live with a partner, while roommates are relatively commonplace among young people in Canada, Denmark, the United States and the United Kingdom. In the European Union, the share of young students pursuing higher education living in student accommodation³ ranges from at least 30% in the Netherlands and Sweden to below 10% in Switzerland, Portugal and Italy (Eurostudent Database, 2020).

Figure 3. In many OECD countries, the majority of young adults live with their parents

Share of young people (20- to 29-year-olds) living with their parents, 2007 and 2019 or latest year available



Note: Data refer to 2019 except for: Korea (2016); Italy, Australia, Canada, Chile, Iceland (2017); Mexico (2018).

Source: Calculations based on EU-SILC, HILDA (Australia), CASEN (Chile), KLIPS (Korea), ENIGH (Mexico) and CPS (United States).

Mortgages matter even more for the young than for other groups

7. With typically lower income and wealth and greater likelihood of being employed in unstable or informal jobs than older groups, far fewer young households own their homes than their older counterparts (Figure 4). The ability to take a housing loan is a key determinant of young households' homeownership. Mortgage regulations have a larger effect on homeownership for the young than for other groups because of their more widespread lack of capital, credit history and employment stability (Andrews, Caldera Sánchez, & Johansson, 2011). Indeed, across OECD countries, the more easily young households can access the mortgage market, the smaller the gap is between their homeownership rate and that of the wider population (Figure 5). Financial deregulation in the 1980s and 1990s initially facilitated access to the

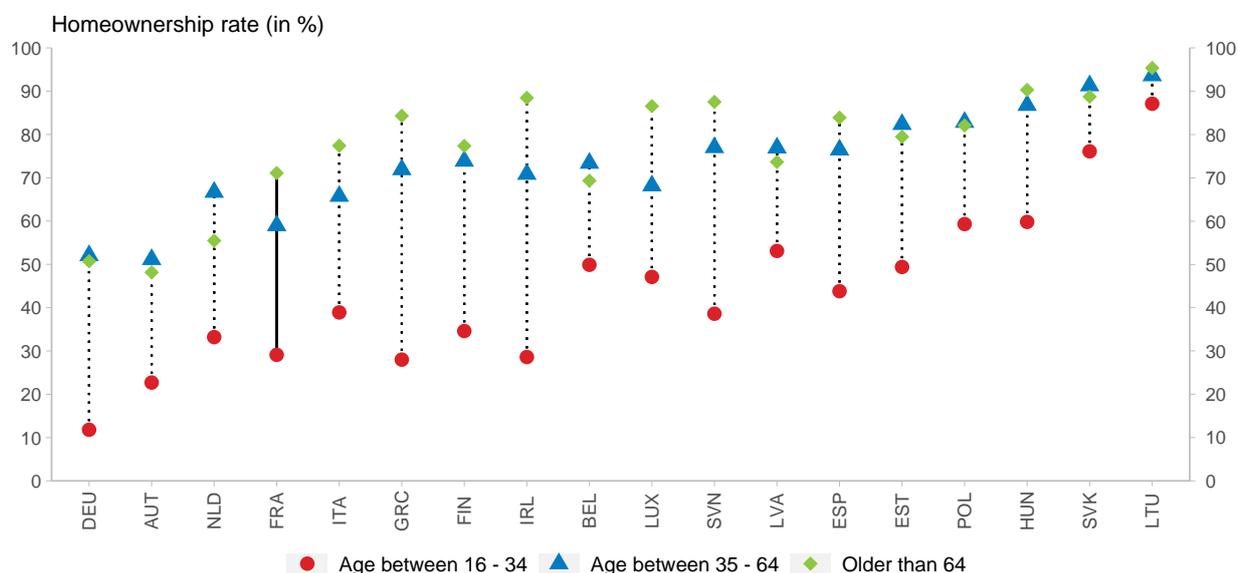
³ Student accommodation is defined as accommodation provided explicitly for students, often subsidised (by government, higher-education institutions, or another public or non-profit organisation). Data are based on the Eurostudent survey and cover young people who are enrolled in any higher education programme.

mortgage market by young households, although over time the effects have become increasingly reflected in higher house prices. Policy initiatives to help the young better integrate the labour market, including by overcoming informality where prevalent, would facilitate their access to the mortgage market.

8. Policies to preserve financial stability, such as macroprudential measures, which have been tightened across OECD countries following the Great Financial Crisis, have made it more difficult for young households to borrow. Caps on mortgage loan amounts relative to values (loan-to-value, LTV) can involve a trade-off between macro-economic financial stability and social-inclusion objectives in the years following their introduction by making it more difficult for young households with low savings to purchase a home (Bekku, Irani, Gabarro, & Peydro, 2020). In the medium to long term, however, more moderate house prices as a result of tighter LTV caps preserve the housing purchasing power of all households, including the young ones (Mavropoulos & Xiong, 2018).

Figure 4. Few young households own their homes

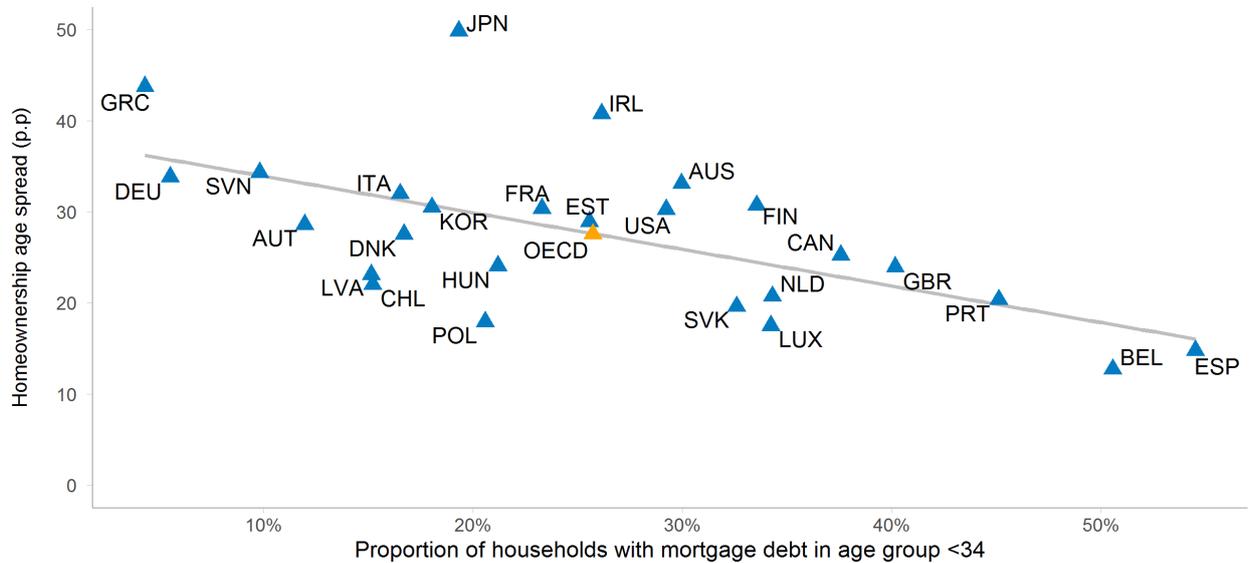
Homeownership by age group, 2017



Note: Compared to the original dataset, some age groups have been merged to keep the graph readable. Merging was done by calculating a weighted average of homeownership rates based on the number of persons in each age group.

Source: ECB (2017) Household Finance and Consumption Survey.

Figure 5. Access to mortgage finance is particularly important for young cohorts



Note: The numbers refer to principal residence debt only.

Source: OECD (2021), *Brick by Brick: Building Better Housing Policies*.

Young people need access to an affordable rental market

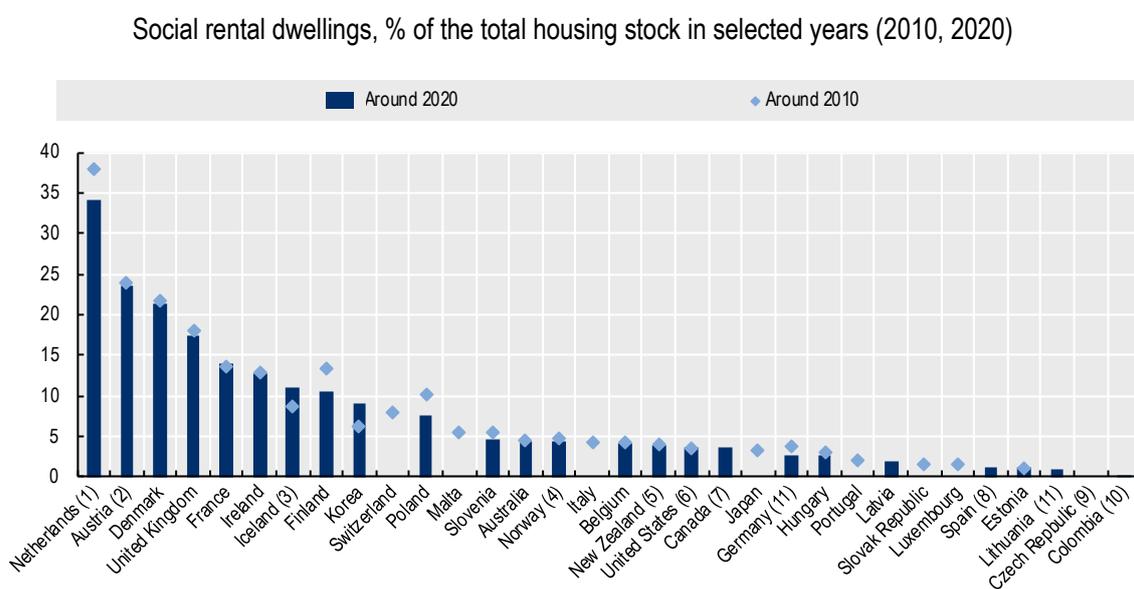
9. As it is increasingly challenging for young households to own their homes, access to affordable, quality rental housing is particularly important for this age group. Both market and non-market options matter, as some will have sufficient resources to rent at market rates while non-market options, such as social or affordable housing, will be better adapted to others.

Lack of social housing in many countries limits young people's affordable housing options

10. Social housing has become scarcer in the vast majority of OECD countries. Social housing⁴ is an important source of affordable housing for young people in a handful of OECD countries for which data are available, including Finland, France, Ireland and the United Kingdom, where social housing is home to over 15% of young people. However, social housing is in short supply in most countries, representing around 7% of the total housing stock on average across the OECD, with wide variation across countries (Figure 6). Moreover, the relative size of the social housing stock has declined over the past decade in most OECD countries. As a result, the lack of social housing further limits young people's access to affordable housing options. Housing allowances can be seen as an alternative to social housing and a way of facilitating low-income households' access to housing, but they involve a risk of being reflected in higher prices, to the benefit of landlords, especially if supply is insufficiently responsive to demand (OECD, 2021).

⁴ Social housing is defined as rental housing provided at sub-market prices and allocated according to specific rules (such as identified need or waiting lists); see (OECD, 2020) for further discussion.

Figure 6. The relative size of the social housing stock has declined in most countries over the past decade



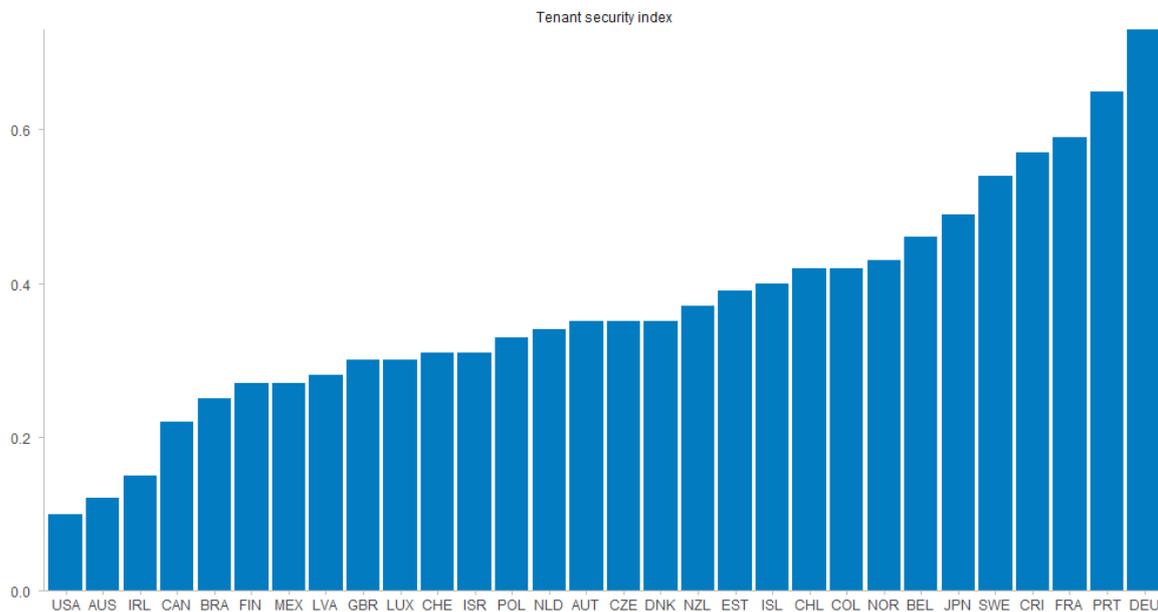
Note: 1. For the Netherlands, the social dwelling stock is estimated based on rent levels charged by landlords as provided by the Ministry of the Interior and Kingdom Relations. These figures include units in private rentals provided below market rent and units provided by housing associations, excluding those provided at market-rate. 2. For Austria, data only refer to the main residence dwellings. 3. For Iceland, data might also include student housing rent from family members for free or at reduced rate. 4. For Norway, data only contains dwellings provided by municipalities (about 75% of all social housing). 5. For New Zealand, data refer to the number of social housing places (public housing) that are funded through central government, and do not include social housing provided by local authorities. 6. For the United States, the social housing stock includes public housing, subsidised units developed through specific programmes targeting the elderly (section 202) and disabled people (section 811), as well as income-restricted units created through the Low-Income Housing Tax Credit (LIHTC) programme; the number of public housing units as well as section 202 and 811 dwellings financed through the LIHTC programme have been adjusted to avoid double-counting, following OECD correspondence with the U.S. Department of Housing and Urban Development. Data for 2019 are preliminary. 7. For Canada, data exclude units managed by the Société d'habitation du Québec (SHQ) for the Province of Quebec. 8. For Spain, the figures may also contain other types of reduced rent housing, e.g. employer-provided dwellings. 9. For the Czech Republic, data only contains dwellings provided by the central government. 10. For Colombia, data only refers to social rental housing produced since 2019 in the semillero de propietarios programme. 11. The most recent share of social housing is calculated based on the previous years total dwelling stock. 12. For Australia, Estonia, Ireland, and Malta the "Around 2010" data are based on responses to previous QuASH rounds. For Australia, Estonia, Iceland, Latvia and Spain the "Around 2020" data are based on responses to previous QuASH rounds.

Source: OECD Affordable Housing Database, indicator PH4.2.

Young people need more affordable rental housing – but overly tight rental regulation can result in a dual market excluding many young

11. A thriving private rental market offering options to young households requires a delicate balance between the rights and responsibilities of landlords and tenants to ensure good-quality secure housing for tenants and a secure investment for landlords (OECD, 2021). Strict rental market regulations (Figure 7), while generally benefitting incumbent tenants, can reduce the long-term supply of rentals (OECD, 2021) and make access to the rental market more difficult for young households. Indeed, landlords with strong demand for their dwellings may select older renters over young households who typically have lower or more unstable income than prime-age households, especially when rental regulations render evictions difficult or expensive in the event that the rent is not paid. Evidence from the Netherlands suggests that tight rental regulations can result in a dualisation of rental markets (Arundel & Lennartz, 2019). In addition to their above-stated benefits on the mortgage side, successful labour-market integration policies for the young would importantly also help them to more easily find a dwelling on the private rental market.

Figure 7. Some countries tightly regulate landlord-tenant relations



Note: The rental regulation indices are derived from the 2019 OECD Questionnaire on Affordable and Social Housing and range from 0 (no restrictions) to 1 (all types of restrictions).

Source: OECD (2021), *Brick by Brick : Building Better Housing Policies*, OECD Publishing.

Youth can often only afford poor quality housing

12. The added difficulties that young households experience in the housing market imply that many youth live in degraded housing conditions. On average across EU countries as of 2019, 26% of the young population lives in overcrowded dwellings against 17% for the general population (Eurostat, 2020). Furthermore, 6% of young people in the European Union, on average, live in dwellings that in addition to being overcrowded also lack daylight, a bath or shower, or a proper roof. Many cities have implemented measures to help young households access affordable housing (Box 1).

Box 1. Examples of city-level initiatives to help young households get a home

Victoria (Canada) set aside a fund for youth projects that gives youth the power to decide which projects to fund in order to introduce them to city budgeting, and to ensure that the city takes their input into account. As a result, Victoria has made different budgeting decisions, including more funding for affordable housing for youth, bike lanes and dealing with climate change.

Rennes (France), where half of the city's population is under 30 years of age, has provided emergency assistance to support young households' access to housing, social connectivity and counselling services for those most at risk. The city of Rennes also helps young people access income assistance services, reduced transport fares and lower rents.

The Hague (Netherlands) introduced in 2021 a plan to eliminate homelessness among young people (OECD, 2021), building on the results of a youth-centered service launched in 2018. The initiative aims to provide ordinary homes rather than emergency shelter and is integrated with social services, in particular to provide adequate health support when needed.

Youth homelessness is a reality in OECD countries, particularly in cities

13. When housing shortages meet personal difficulties and limited possibilities for family support, young people can find themselves homeless. As noted in (OECD, 2021), some OECD countries report a significant, and in some cases growing, share of youth homelessness: roughly 3 in 10 homeless people were young adults in Australia (2016), the Netherlands (2018), Denmark (2019) and Costa Rica (2020). Among countries for which data are available over time, youth homelessness more than doubled in the Netherlands between 2010 and 2018, and increased by 30% in New Zealand between 2006 and 2018 and by 20% in Australia between 2011 and 2016. Meanwhile, homelessness dropped among youth in Canada (by 17% between 2011 and 2016) and Finland (by 25% between 2010 and 2018). It is important to note, however, that the drivers of homelessness, including among young people, are diverse and go beyond housing market considerations (for further discussion see (OECD, 2020)).

Looking ahead: Policy challenges on the horizon and issues for further research

14. Making it easier for young households to find a home that matches their preferences raises a number of questions for the policy-making community, which require further research. Sustained demographic changes, as well as shocks like the ongoing COVID-19 pandemic also point to a number of policy challenges on the horizon that also merit further study:

- To what extent do measures to support mortgage borrowing (guarantees, subsidies, tax breaks, contract savings schemes) help young households access home ownership – and particularly those who cannot otherwise afford to buy a home? To what extent do such measures support mostly older property owners by inflating the value of scarce land?
- Which policies and public supports are most effective in helping youth access affordable, quality rental housing? Measures have been used on the side of demand side (e.g., housing allowances) as well as supply, such as the development of social housing, student housing, and/or affordable rental dwellings? How can policy makers best manage potential trade-offs: for instance, the potential increase in rent levels that can result from housing allowances?
- What measures can ensure that the ambitious building standards and retrofitting efforts required to achieve climate objectives do not exacerbate the housing challenges faced by youth?
- How can governments work with local authorities and other stakeholders to meet the diverse needs of young people who are experiencing homelessness, and to develop sustainable pathways out of homelessness?
- In what ways might the COVID-19 pandemic affect housing market preferences and opportunities for youth? Will young households move to larger dwellings located further from cities? Is there a role for public policies to respond to any shift in youth housing demand?
- How will continued demographic changes, such as population ageing and the trend towards smaller and more numerous households, affect young people's housing preferences and opportunities? What are the benefits and risks of greater autonomy of local authorities in housing policies to help the young, by comparison with a more centralised approach?

References

- American Psychological Association. (2022, March). *Stress in America: Money, inflation, war pile on to nation stuck in COVID-19 survival mode*. Retrieved from <https://www.apa.org/news/press/releases/stress/2022/march-2022-survival-mode>
- Andrews, D., Caldera Sánchez, A., & Johansson, Å. (2011). Housing Markets and Structural Policies in OECD Countries. In *OECD Economics Department Working Papers* (Vol. 2011). OECD Publishing, Paris. doi:<https://dx.doi.org/10.1787/5kgk8t2k9vf3-en>
- Arundel, R., & Lennartz, C. (2019). Housing market dualization: linking insider–outsider divides in employment and housing outcomes. *Housing Studies*, 35(8), 1390-1414. doi:<https://doi.org/10.1080/02673037.2019.1667960>
- Bekkum, S. v., Irani, R., Gabarro, M., & Peydro, J. L. (2020). Take it to the Limit? The Effects of Household Leverage Caps. *CEPR Discussion Paper*(13503). Retrieved from https://cepr.org/active/publications/discussion_papers/dp.php?dpno=13503#
- Corlett, A., & Odamtten, F. (2021). *Hope to buy: The decline of youth home ownership*. Resolution Foundation, London. Retrieved 01 07, 2022, from <https://www.resolutionfoundation.org/publications/hope-to-buy/>
- Eurostat. (2020). *Estimated average age of young people leaving the parental household by sex*. Eurostat Statistics. Retrieved 11 10, 2021, from https://ec.europa.eu/eurostat/databrowser/view/yth_demo_030/default/table?lang=en
- Eurostat. (2020). *Young People - Housing Conditions*. Retrieved from https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Young_people_-_housing_conditions
- Eurostudent Database. (2020). *Students' housing situation*, Mendeley. Retrieved 11 10, 2021, from <https://bit.ly/39OunHN>
- FreddieMac. (2018). *Profile of Today's Renter Multifamily Renter Research*. 2018 February The Harris Poll Consumer Omnibus Results. Retrieved 01 07, 2022, from http://www.freddiemac.com/fmac-resources/research/pdf/Consumer%20Omnibus_Results_Spring%202018_March_21_Harris_Omnibus.pdf
- Fry, R., & Brown, A. (2016). *In a Recovering Market, Homeownership Rates Are Down Sharply for Blacks, Young Adults*. Pew Research Center. Retrieved 01 07, 2022, from <https://www.pewresearch.org/social-trends/2016/12/15/in-a-recovering-market-homeownership-rates-are-down-sharply-for-blacks-young-adults/#most-renters-would-like-to-buy-a-home-in-the-future-but-many-cite-finances-among-major-reasons-for-currently-renting>
- Mavropoulos, A., & Xiong, Q. (2018). Housing consumption and macroprudential policies in Europe: An ex ante evaluation. *IWH Discussion Papers*, 2018(17).
- OECD. (2019). *Risks that Matter*. Retrieved 05 02, 2019, from <https://www.oecd.org/els/soc/Risks-That-Matter-2018-Main-Findings.pdf>
- OECD. (2020). *Better data and policies to fight homelessness in the OECD. Policy Brief on Affordable Housing*. OECD Publishing, Paris. Retrieved 03 16, 2020, from <http://oe.cd/homelessness-2020>.
- OECD. (2020). *Social housing: A key part of past and future housing policy*. Employment, Labour and Social Affairs Policy Briefs. Retrieved 04 15, 2021, from <http://oe.cd/social-housing-2020>.
- OECD. (2021). *Affordable Housing Database - OECD*. Retrieved from <http://www.oecd.org/social/affordable-housing-database.htm>
- OECD. (2021). *Brick by Brick: Building Better Housing Policies*. OECD Publishing, Paris. doi:<https://dx.doi.org/10.1787/b453b043-en>

- OECD. (2021, May). *Supporting young people's mental health through the COVID-19 crisis*. Retrieved from <https://www.oecd.org/coronavirus/policy-responses/supporting-young-people-s-mental-health-through-the-covid-19-crisis-84e143e5/>
- OECD. (2021). *The Updated OECD Youth Action Plan: Building Blocks for Future Action*. Paris: OECD. Retrieved 11 16, 2021
- OECD. (2021, July). *What have countries done to support young people in the COVID-19 crisis?* Retrieved from <https://www.oecd.org/coronavirus/policy-responses/what-have-countries-done-to-support-young-people-in-the-covid-19-crisis-ac9f056c/>
- OECD. (2021). *Young people's concerns during COVID-19: Results from Risks That Matter 2020*. Paris: OECD. Retrieved 01 07, 2022, from https://read.oecd-ilibrary.org/view/?ref=1099_1099612-0juxn9ttthe&title=Young-people-s-concerns-during-COVID-19-Results-from-Risks-That-Matter-2020
- OECD. (2021, July). *Young people's concerns during COVID-19: Results from Risks That Matter 2020*. Retrieved from <https://www.oecd.org/coronavirus/policy-responses/young-people-s-concerns-during-covid-19-results-from-risks-that-matter-2020-64b51763/>
- OECD. (2022). OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine. 2021/2. doi:<https://dx.doi.org/10.1787/4181d61b-en>