

## POSITION PAPER

# Towards a new European Affordable Housing Plan

Brussels, 16/12/2024

### FIEC calls for

- **A coordinated approach to drive tailor-made housing-friendly reforms under the responsibility and competency of Member States.**
- **The mobilisation of both private and public investment.**
- **Prudential rules imposed by Basel III to be eased, in order to mobilise private investment.**
- **Improved access to mortgage loans for households and young people.**
- **A streamlined regulatory and administrative working environment for construction companies, with clear rules which can accelerate construction processes, lower building costs and eventually create overall affordability.**
- **Greater support to research and innovation, as well as digitalisation, through EU funds to increase the productivity of the construction industry.**
- **All relevant actors to further work on raising the attractiveness of the sector to tackle the shortage of skilled labour.**

## 1. Background – housing challenges across the European Union

### Socio-economic context

In some EU regions, and in particular in cities and economic centres, population is growing (incl. with migration). Families are smaller, population is ageing and needs new services related to housing. There is a concentration of population in large and medium cities. The consequences are housing shortages and rising housing prices in these areas. Building suitable, sustainable and affordable housing is becoming one of the biggest urban challenges facing Europe's large and medium cities. And many more remote territories face similar challenges, combined with difficulties linked to their territories (e.g. limited access to public services).

### Living conditions

From an individual perspective, many factors must be considered: housing availability and financial capacity in the first place, but also accessibility, location, connection, insulation and general comfort. Large cities need to attract and retain several categories of people who are strategic for the well-functioning of the city: nurses, firemen, policemen, teachers, etc. Also, housing affordability cannot be seen in isolation from energy and transport costs.

### Crisis in residential construction and renovation

The latest FIEC figures show that the residential construction sector has been declining significantly in several EU Member States.<sup>1</sup> Overall, new construction and renovation of housing fell by 2.6% in 2023 and is expected to fall another 5.7% in 2024. A further deterioration in the housing situation is therefore to be expected. Indeed, low investment in new housing and renovation, driven by high costs, is affecting demand across the EU. Beyond the impact on our sector, housing shortage across the EU is huge. In several countries, measures by governments to tackle the crisis in housebuilding have so far proved insufficient.

**While housing policy remains under Member States' jurisdiction, FIEC points out that there is an urgent need for a coordinated EU response to address the shortage of affordable and sustainable housing. In particular, more consideration should be given to the option of reviewing EU rules, funds and policies that have an effect on national housing markets, with the aim of promoting simplification, streamlined processes, fair competition and economic growth to the benefits of all<sup>2</sup>.**

---

<sup>1</sup> <https://fiec-statistical-report.eu/european-union>

<sup>2</sup> As highlighted in the Draghi Report, we will not be able to finance our social model and environmental goals without focusing all our efforts into increasing productivity to drive growth.

## 2. Understanding the roots of housing challenges

### High building costs

High building costs are one of the many factors leading to the current housing crisis. Construction costs rose to an all-time high after the impact of the COVID pandemic on supply chains, the energy price surge and supply chains disruptions caused by the war in Ukraine, as well as rising costs for labour and spiking interest rates.

All in all, the final price of a building covers a wide range of costs: acquisition of the land, promotion, architects, procurement, planning, financing, marketing, potential disputes, taxation/VAT and of course the production itself. The latter entails a range of sub-costs: labour (employing, training, retaining staff), products and materials, demolition waste, transport, energy, insurance, taxation, ...

Especially financing costs and the unseen rise of interest rates that quadrupled within a year has negatively impacted the construction activity.

As regards the acquisition of land (both greenfields and brownfields), here again costs are rising. It can represent around 30-40% of the final purchase price in Western Europe, and up to 50-60% of the final purchase price in the most frequented areas. Indeed, in those most densely populated areas, land is scarce, and zoning rules are slow to evolve.

### Heavy regulatory environment

The regulatory environment, although not new, represents another huge burden for the production of housing. Whereas the vast majority of housing-related rules are national, regional and even more local rules, the EU adds a further layer of rules, sometimes even gold-plated at national level.

FIEC supports the Green Deal and the construction industry has a key role to play in the achievement of its objectives. However, the various related environmental legislations<sup>3</sup>, especially with regards to the energy efficiency of housing, can add further constraints, which again leads to higher costs, usually borne by the end purchaser. To ensure a high-quality Affordable Housing Plan and tackle energy poverty, compensatory measures and fiscal incentives must be introduced to reduce the additional costs due to environmental regulations for buildings – including for affordable rents.<sup>4</sup>

For instance, currently the production of “green housing” is more expensive than “traditional” one because “green” construction products, machineries, etc. are at the moment more expensive than traditional ones. Moreover, the new construction techniques involved require further costs to upskill the workforce.

In addition, it is necessary to provide legal certainty and stability to the various stakeholders, for them to be able to programme operations, which due to their long-term lifespan, cannot bear unforeseen changes in the regulatory framework under which they have been planned.

---

<sup>3</sup> E.g. Energy Efficiency Directive, Renewable Energy Directive, Energy Performance of Buildings Directive, Nature Restoration Law, Soil Monitoring Law, Construction Products Regulation, *Circular Economy Act*, Water Framework Directive, Urban Wastewater Treatment Directive

<sup>4</sup> The EU does not and shall does determine how Member States set rents.

## **Heavy bureaucracy**

Bureaucracy and lengthy administrative procedures, combined with the shortage of civil servants in many places, are additional burdens, both in terms of time and cost, for the production of housing (e.g. obtaining a building permit can take a very long time).

### **3. What kind of European Affordable Housing Plan do we need?**

#### **Affordable housing as a broad and flexible concept**

FIEC welcomes the European Commission's initiative for a European Affordable Housing Plan. In this framework, the concept of "affordable housing" should be understood in a broad and flexible way, to achieve a social mission to the benefit of the entire population. Hence, such concept is distinct from the various definitions of "social housing" which exist at national level and should be preserved.

The Plan should address the problem of housing shortage with regard to its 2 components: quantity and quality. It should also address both new residential construction and the renovation of existing housing.

#### **"Simplification" as key word**

The European Affordable Housing Plan should help streamlining the supply of affordable housing along the key word "simplification". Any additional EU initiative must tackle the existing unnecessary regulatory and administrative framework and by no means add an extra burden. This Plan is also an opportunity for regulators at various levels (EU, national, regional, local) to achieve an overall better coordination.

Therefore, FIEC advocates for a 'housing-friendly' implementation of recent EU legislations and also a "housing-friendly" approach to future EU legislations, particularly in energy, environmental and digital regulations, to reduce construction costs and permit burdens in Member States with very diverse building codes. The construction industry should be involved in such processes. Special attention needs to be given to housing in the implementation of the Nature Restoration Law and the finalisation of the Soil Monitoring Law. In particular, Member States should be given guidance on reforming urban planning, streamlining administrative processes for the construction and rehabilitation of buildings, and simplifying their administrative structures in charge of housing policies and procedures (i.e. single governance models).

FIEC believes that it is essential to mitigate the negative impact on the availability of building land, particularly in densely populated areas and regions where significant demographic growth and severe land shortages are expected. Again, EU related legislations, like the Nature Restoration Law, are relevant, but should be flexible enough to adapt to national specificities and demographic constraints. Indeed, it will be crucial to find the right balance between preserving a healthy soil and restoring nature and meeting social needs such as the growing housing and mobility demand from citizens. Therefore, Member States should be given guidance on adopting integrated approaches that reconcile environmental and socio-economic objectives.

Concretely, zoning and permitting processes should become significantly faster and simpler. Also, municipalities should make better use of brownfields for housing purposes.

## **Boosting the offer**

Productivity, efficiency and cost-effectiveness can be improved via digitalisation (including permits and administrative procedures, logbooks, Building Information Modelling, etc.), robotization, Artificial Intelligence, industrialisation, modular and offsite construction...

Looking more specifically at serial and industrial construction, FIEC believes that it is part of the sector's future and can help to some extent to remedy the shortage of skilled labour and improve construction quality. However, such industrialisation must be an overall process where the end-product can be customized according to the client's needs and requirements. Moreover, in case of economic downturn, the production facility remains and makes the product unit cost much higher. Hence, the issue at stake is not only about building on site or prefabricating offsite, but about streamlining the whole construction process. With this transformation, the building process will eventually become quicker, cheaper, safer, increase quality and offer a higher added value. For this purpose, construction companies and in particular SMEs need to be accompanied in this process.

Standards need to play a supportive role in bringing down construction prices. European standards play a crucial role to ensure that construction companies can source a wide range of construction products on the EU market.

As regards labour, the European Affordable Housing Plan needs to address the current problem of labour and skills shortage in the construction sector. While new types of jobs and new ways of working can improve the attractiveness of the sector, construction companies will also need to invest more in Vocational Education and Training of young people, as well as life-long learning to upskill and reskill their workers. Amongst others, training in Health & Safety, to tackle hazardous substances during the housing renovation process is a relevant issue at stake and a possible pull-factor for young people and their families.

In order to broaden the supply of the rental market, together with affordable rents, Member States shall avoid applying regulations that disincentivise property owners from renting out their properties (e.g. when rents are not paid, slow and costly eviction procedures). Member States shall adopt rules aimed at ensuring more stability and mutual trust in the rental relationship.

## **Supporting the demand**

On the demand side: there is a clear need to urgently put in place measures for ensuring access to affordable housing via financial and fiscal incentives, attracting private investments, supports for loans and mortgages, easing of prudential requirements for credit, administrative simplification, etc.

## **4. Stepping up funding for affordable and sustainable housing**

### **Mobilising private investment by easing the prudential rules**

While public funding is constrained by the rules of the Stability and Growth Pact, private financing needs to be channelled towards housing projects. For this purpose, the current prudential rules from Basel III and the regulatory guidance from the European Banking Authority (EBA), which require banks to make high provisions for investment in new construction projects (i.e. housing development and acquisition), should be eased to avoid that construction companies face a credit crunch. Indeed, investing in housing projects should not be considered as riskier or less attractive than investing in other activities.

Public-Private Partnerships should also be further explored and exploited to leverage investment in affordable housing.

The European Investment Bank (EIB) shall increase its funding for the housing sector, including through the forthcoming Pan-European Investment Platform for affordable and sustainable housing. Also, the funding mechanisms should be reformed, so they become easier and more SME friendly.

### **Enhancing the mobilisation of EU funds towards sustainable and affordable housing**

With a view to the next European multiannual financial framework (MFF) from 2028-2034, for which negotiations will begin in 2025, FIEC believes it is important to prioritise the promotion of affordable housing. However, also before the new MFF, the European Commission needs to ensure that more funding for sustainable and affordable housing in Europe is made available. In this respect, the Pan-European Investment Platform which is expected to start soon and channel further much needed investments into the building sector is most welcomed.

The Social Climate Fund should support the buildings and transport sectors with decarbonisation. It is fed by the revenues from the Emissions Trading System and is due to start in 2026. The Commission should examine whether the Social Climate Fund could also be used for energy-efficient new buildings. This would mobilise further funding to support housing construction.

In addition, FIEC emphasizes the need for a balanced mix of financial support policies, exploring the creation of an "EU Housing Fund," and encouraging Member States to efficiently utilize EU funding at the national level.

Other industries, such as steel or cement, obtain large support to decarbonise their industries. Construction should also get incentives, for instance, for prefabrication of low emission building elements, the replacement of machinery with more modern low emission ones and other innovations. FIEC proposes to fund construction companies – e.g. through Horizon Europe, ERDF, etc. as well as national funding – for such innovative construction models.

The construction sector should also become a priority sector in the attribution of European resources for digitalisation.

The European Commission should also explore the possibility to earmark the funds remaining from the Recovery and Resilience Facility (RRF) towards housing projects.

The European Commission should furthermore explore the possibility to link reforms and investments in housing to the various conditionalities of the EU Semester.

All in all, the coordinated action of the EU and Member States in the form of incentives and financial/funding support can play a leveraging role and attract more market-based developments, in addition to social housing programmes.

### **Financial and fiscal incentives for households and young people**

For households and young people in particular, mortgage rates play a crucial role. Currently, in many EU countries, most housing transactions are blocked due to the high interest rates imposed by the European Central Bank (ECB), combined with high housing prices. Prudential rules from the ECB aim at avoiding housing bubbles. However, considering the current housing crisis all over the EU, the current rules are too restrictive towards housing loans. FIEC advocates that households should be given better lending opportunities through easing these prudential rules.

Moreover, Member States should be incentivised to make better use of the existing rules under the Mortgage Credit Directive. In parallel, the European Commission should consider the need of revising the Mortgage Credit Directive.

Furthermore, FIEC advocates to develop further housing-friendly fiscal measures for households. In particular, the existing possibility to apply a reduced VAT rate for housing renovation and social housing could be extended. For instance: a “super-reduced” VAT rate should be applied for sales of affordable housing to young people to minimise the need for prior saving to buy.

## **5. A new governance at European Union level for better coordination**

FIEC fully supports the proposal to set up a Task Force on Affordable Housing within the European Commission and would be more than willing to actively contribute to it. FIEC reminds EU policy makers that the construction sector will play a key role in addressing Europe’s housing shortage and must be involved in discussions aimed at finding a solution to this problem.

FIEC supports the willingness to improve the collecting of data and statistics on housing at EU level. The uniform monitoring of the housing situation in the various EU countries is a necessary and basic start of EU involvement in housing.

FIEC supports the creation of an EU Housing Alliance, as well as the organisation of an EU Annual Summit on housing. It is important that all relevant stakeholders meet on a regular basis to assess the evolution of the situation, map investment needs, discuss challenges and solutions, and exchange best practices.