



Why the Housing Cost Burden Should Not Exceed 25 % of Income

Problem Description

Housing is a fundamental human right¹. It is a fundamental human right to have access to adequate and secure housing. Only those protected from the arbitrary actions of others can live in a manner that is both adequate and safe. It is therefore evident that the protection of tenants against arbitrary termination and the protection of tenants against arbitrary pricing are fundamental tenets of a functioning tenancy law. Only those who are able to afford their housing in the long term, according to their individual means, can live adequately and securely.²

In 1974, the International Union of Tenants (IUT) published the "Charter for Tenants" which states in Article V, "Rent"³:

"Because housing is a human right, with reference to the Universal Declaration of Human Rights (1948, Article 25)⁴ and the UN International Covenant on Economic, Social and Cultural Rights (1966, Article 11)⁵, the rent should be set at an affordable level. The amount of rent should be in reasonable proportion to income."

The ratio of income to housing costs is a crucial economic parameter on an international scale, as it quantifies the practical affordability of housing.

In 2023 – in the Delft Declaration⁶ – the IUT in Article 2 called for a maximum rate of 25 per cent⁷ of income to be set for housing costs in Europe by 2030:

"Housing costs (including energy and utilities) should not exceed 25 per cent of households' disposable income, which can be achieved through effective rent regulation, including rent reductions and housing subsidies. Housing is a common good and not a financial asset. Housing is for people and not for profit!"

The IUT thus endorsed the recommendation of experts from European cities, EU Member States, the EU Commission, the EIB and Housing Europe, who, after three years of work as the "EU Urban Partnership on Housing", stated in their final action plan that the reference threshold of total housing

¹ The concept of housing as a human right however is disputed and subject to insufficient and inadequate solutions in many legal and policy frameworks.

² Especially for lower income groups, the maximum of 25% of income does not necessarily imply that housing is affordable for these households. It means that governments should provide assistance to such groups e.g. by means of housing allowances or other (financial) aids.

³ <https://www.iut.nu/about-iut/the-tenants-charter/>

⁴ <https://www.un.org/en/about-us/universal-declaration-of-human-rights>

⁵ <https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-economic-social-and-cultural-rights>

⁶ <https://www.iut.nu/news-events/iut-priorities-for-the-european-parliament-2024-2029/>, aka the Delft Declaration,

⁷ This paper offers an extended IUT position with its basis found in Point 2 of the Delft Declaration.

costs for calculating the housing cost overburden ratio should not be higher than 25 per cent of disposable income.⁸

The unaffordability of housing disproportionately affects tenants, exacerbating issues like poverty and social exclusion. When tenants are forced to allocate a significant portion of their income to housing costs, their financial stability is severely undermined, leaving them with limited resources for other essential expenses such as food, healthcare, education, and transportation. This creates a vicious cycle of poverty, as tenants are unable to save or invest in opportunities that could improve their circumstances.

Moreover, high housing costs often lead to social exclusion. Families and individuals unable to afford housing in their preferred locations may be displaced to less desirable areas with fewer employment opportunities, substandard infrastructure, and limited access to essential services. This geographic segregation reinforces inequality and prevents tenants from fully participating in societal and economic activities, further marginalizing them.

Tenants at the lower end of the income spectrum already experience a higher housing cost burden than homeowners. Young people, single households, and single parents face particularly high levels of financial strain, often leading to reduced consumption and diminished quality of life. Rising housing costs reduce the purchasing power of tenants, which negatively impacts the economy as a whole, as the benefits do not translate into proportional spending or investment by landlords.

Addressing housing affordability through measures like effective rent control, subsidies, and tenant protections is essential to breaking this cycle. Ensuring that housing costs remain within a reasonable proportion of tenants' income—such as the recommended 25% threshold—can alleviate the financial strain on low-income groups, foster equality, and promote greater economic and social inclusion. In short, the total housing costs of a household should not exceed 25 per cent of the income.

Challenges

Historical Retrospective

The concept of the ratio between housing costs and income has grown historically – and has its roots in minimizing the risk of default for landlords and debtors vis-à-vis banks.

"The most important practical housing benefit came from the motto 'a week's wages for a month's rent'. In the 1880s, a week's wages for a month's rent was a common way of describing the housing costs of many tenants in the US. [...] What happened over the decades was the transformation of observations about what some households were spending into assumptions about what they "should" be spending. [...] In doing so, it also became a 'rule of thumb' about how to minimize the risk of renting a flat or granting a mortgage to a particular household."⁹

⁸ <https://presse.wien.gv.at/2019/02/11/wien-praesentiert-action-plan-der-eu-urban-agenda-staedtepartnerschaft-wohnen-in-bruessel>
<https://futurium.ec.europa.eu/en/urban-agenda/housing/action-plan/housing-partnership-action-plan>

⁹ David Hulchanski, 1995.

<http://search.epnet.com.myaccess.library.utoronto.ca/login.aspx?direct=true&AuthType=cookie.ip.url.uid&db=buh&an=9512121897>

Share of Housing Costs

The concept of housing cost overburden is defined in various ways in both academic literature and political practice. In Austria, a housing cost burden of more than 25 per cent (excluding energy costs) is considered an overburden at the national level. In contrast, the EU statistics authority Eurostat defines overburdened households as those who spend more than 40 per cent of their total disposable household income (less housing benefits) on housing costs (including energy and maintenance).

Unequal Distribution of Housing Costs using Austria as an Example

A look at Vienna at the turn of the century shows that housing costs were unevenly distributed: While it was considered reasonable for the middle classes to spend around ten per cent of their income on housing, for workers around 20 to 40 per cent of their already extremely tight monthly budget went on rent alone.¹⁰

It is a well-documented fact that in Austria, high-income households have a lower housing cost burden than those at the lower end of the income distribution. Furthermore, the housing cost burden of tenants is higher than that of owners.¹¹ A greater proportion of homeowners (more than 30 per cent) are required to allocate more than 30 per cent of their income to housing costs, in comparison to more than 35 per cent of tenants.

Empiricism Versus Perception

Although owners with credit have significantly higher incomes and spend less of their income on housing costs on average, these households perceive a particularly high housing cost burden. In contrast, tenants underestimate their actual housing cost burden. These contrasts between subjectively perceived and objectively measured housing cost burdens between homeowners and tenants are an interesting example of distorted interests with potentially far-reaching consequences for the formation of individual preferences and political decisions.¹²

Consequently, potential measures to reduce housing costs in low-income groups can make a significant contribution to reducing unequal living conditions. The econometric analysis according to socio-demographic factors also corroborates the high expenditure of tenants and demonstrates that young people, single households and, to a particularly high extent, people living alone who also have children in the household have a high housing cost burden.

Tenant's Perspective on the Housing Cost Burden

Rising Housing Costs Reduce Consumption

Rising housing costs reduce consumption. This is a weighty argument in favor of an effective regulation, as the impact of rising housing costs on the economy as a whole is considerable. As Dieter Gstach has demonstrated¹³, rising housing costs or rents in real terms result in adverse economic consequences, as the diminished purchasing power of tenants and home users is not offset by corresponding expenditure by landlords on consumption or investment.

¹⁰ Feldbauer, Stadtwachstum und Wohnungsnot; Hösl/Pirhofer, Wohnen in Wien, 17 ff.; John, Hausherrenmacht und Mieterelend; Sandgruber, Anfänge der Konsumgesellschaft, 347 ff

¹¹ Wilfried Altzinger, Emanuel List, Momentum Quarterly 2020 Vol. 9, No. 3; 161 ff.,

<https://momentum-quarterly.org/momentum/issue/view/311>

¹² Wilfried Altzinger, Emanuel List, Momentum Quarterly 2020 Vol. 9, No. 3; 161 ff.

<https://momentum-quarterly.org/momentum/issue/view/311>

¹³ 2006, <https://research.wu.ac.at/de/publications/der-einfluss-steigender-wohnungsmieten-auf-den-konsum-eine-makroö-3>

The net effect on overall economic consumption is negative. The calculations demonstrated that a real rent increase of ten per cent reduces consumption in the economy as a whole by two per cent.

Reducing Inequality Means Reducing Rents

A recent study by researchers Konstantin Kholodilin (German Institute for Economic Research) and Sebastian Kohl (Max Planck Institute for the Study of Societies), published in the *Journal of European Social Policy* in May 2023, provides a weighty argument in favor of rent control.¹⁴

In their paper, the authors use long-term data from up to 16 countries between 1900 and 2016 to show that rent controls were able to reduce the wealth-to-income ratio, the share of top incomes, the Gini coefficient, rents and rental expenditure. However, rent controls need to be strict to have a noticeable impact – and only the stricter historical rent controls were able to significantly reduce inequalities. Measures of strict rent controls include rent freezes and rent controls.

The researchers also describe how inflation does not affect all households to the same extent. A 2020 study showed that the lowest income decile in the European Union had an 11.2 per cent higher inflation rate (or 0.76 percentage points more annually) than the top income decile between 2001 and 2015.

Historical Development

In most countries, housing expenditure has followed a similar pattern over time. It initially decreased around 1900, reached a minimum after the First World War with gradual phasing out of rent controls, and then gradually increased again. By the 1960s, housing costs fell below 15% of household income. However, since then, housing costs have steadily risen, with rent controls being abolished or softened in different countries.

Reducing Inequality

Rent controls play a significant role in reducing inequality. By reducing the income of landlords and increasing the disposable income of tenants, they have a redistributive effect. This is because landlords tend to be wealthier, while tenants are generally less affluent. The implementation of rent controls helps to address this imbalance and provide more financial stability for lower-income individuals.

Conclusion

Going forward addressing the housing affordability crisis, the IUT proposes a comprehensive policy roadmap. By implementing measures such as the ones suggested, governments can ensure that housing remains a right rather than a privilege, fostering greater equity and social cohesion.

Introduce Housing Cost Thresholds

Adopt policies that limit housing costs (including rent, utilities, and energy) to no more than 25% of household disposable income, as recommended in the IUT Delft Declaration.

Rent Controls and Regulations

Introducing enforceable rent control measures to cap annual rent increases and prevent speculative pricing in high-demand areas. Historical evidence shows that rent controls can significantly reduce inequality and housing cost burdens.

¹⁴ <https://doi.org/10.1177/09589287221150179>

Increase Public and Affordable Housing Stock

Governments should invest in building and maintaining public housing and incentivise private developers to create affordable housing units. Public-private partnerships can play a vital role in ensuring a sufficient supply of housing.

Promote Mixed-Income Communities

Design urban policies that encourage the development of mixed-income housing, preventing segregation and fostering inclusive communities with equitable access to resources and opportunities.

Monitor and Evaluate Housing Markets

To ensure responsive and evidence-based policy adjustments establish independent housing observatories to regularly assess housing market trends, affordability metrics, and the impact of existing policies.