OECD Report "Brick by Brick: Building Better Housing Policies" - Implications for the CESEE Region

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SUERF | BAFFI | Bocconi | OECD Webinar
June 28, 2021

The views expressed in this presentation are those of the author and do not necessarily coincide with those of the JVI.
Residential real estate markets in the CESEE region (obviously) share many similarities with RRE markets in other parts of the world.

- Many countries in the region experienced severe RRE boom and bust cycles after EU accession, triggered and aggravated by the Global Financial Crisis.
- Recent years saw again very dynamic RRE developments in the region – as well as a lot of macroprudential policy activity in an effort to smoothen the RRE cycle.
- RRE developments continue to be generally buoyant, despite Covid-induced severe recessions, in synch with the situation in most of Europe and many other parts of the world.

This notwithstanding, RRE markets in the region are to some extent distinct from most other countries (the ‘long shadow of transition’).
Introduction

• What are CESEE – specific aspects of RRE?
  • Home ownership rates and indebtedness – impact of post-transition privatization processes
  • Quantity of housing – impact of pre-transition planning processes and underinvestment in RRE construction
  • Quality of housing (in parts of the CESEE region) – impact of pre-transition building standards and underinvestment in housing stock

• These specific features make some of the OECD housing policy recommendations even more pertinent in the CESEE region than in other parts of the world

• At the same time, they sharpen some of the policy trade-offs that the report highlights
Home ownership and indebtedness

Population by tenure choice

Source: Eurostat.

Note: In certain countries a high share of rental market is regulated (DK, NL).

Home ownership and indebtedness

Share of population with a housing cost burden over 50% of disposable income, 2017 (%)

- Tenant, rent at market price
- Tenant, rent at reduced price or free
- Owner, with mortgage or loan
- Owner, no outstanding mortgage or housing loan

Source: Eurostat (online data code: ic_kho28)
Quantity of housing

Overcrowding rate, 2019 (%)

Note: EU = 17.1

- ≤ 5.0
- 5.0 - ≤ 20.0
- 20.0 - ≤ 30.0
- > 30.0
- Data not available

Source: Eurostat (online data code: lbc_bio05a)
Quantity of housing

Average number of rooms per person, 2019
Quality of housing

Proportion of the population living in a dwelling with a leaking roof, damp walls, floors, foundation, or rot in window frames or floor, by type of household, 2017 (%)

Note: ranked on the share of the total population living in a dwelling with a leaking roof, damp walls, floors, foundation, or rot in window frames or floor.

(*) 2015

Source: Eurostat (online data code: iic_mdho01)
**Investment in housing**

**Investment in housing, 2019**

*(in % of GDP)*

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Housing policy priorities for the CESEE region

- **Development of a rental housing market**
  - Can be done by incentivizing private rental markets, (re-)building a social housing stock and / or supporting limited-profit housing associations
  - Can help facilitate intra-national mobility, which can have a positive impact on growth, especially given demographic trends in the region
  - Can facilitate preservation of financial stability
    - *Countries with a high rate of private homeownership appear to have larger and longer house price and credit cycles (ECB 2019)*
    - *Rental markets provide ‘marginal’ borrowers with a housing alternative*
    - *Reduced the social impact of borrower-based measures, possibly reducing the inactivity bias in macroprudential policy*
  - Developing a rental housing market takes a long time – but this is no argument not to do it!
Housing policy priorities for the CESEE region

- **Increase investments in RRE**
  - CESEE region has issues with the available quantity and (in parts) the quality of the housing stock; yet investment levels are often relatively low and so is the growth in housing stock
  - Need to incentive private RRE investment by e.g. reviewing real estate-related tax systems, planning rules and regulations etc.
  - Role for public support for RRE investment, especially to deal with inclusion issues and possible affordability / sustainability trade-offs
  - EU Cohesion Policy and EU COVID Recovery Funding can help to alleviate lack of fiscal space in the region
Housing policy priorities for the CESEE region

• **Another boom-bust cycle in RRE in the CESEE region?**
  • Risk for another boom-bust cycle substantially reduced due to e.g.
    • The rise of macroprudential policy, which is widely and actively used in the region (Eller, Martin, Schuberth and Vashold, 2020)
    • Banks are better capitalized and funding patterns have become more domestically-based and sustainable
  • This notwithstanding, careful risk surveillance and assessment obviously remain crucial!
Thank you for your attention!

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