Keeping house prices in check: the role of policy

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Setting the scene: the challenges at play
In most OECD countries, house prices and rents have risen fast over the last decade and a half.

Note: End point is 2022Q2 for CAN and USA, 2022Q1 for other countries except AUS, AUT, CHL, NZL (2021Q4) and COL and RUS (2021Q3).

Source: September 2022 update of Figure 1.1 in *Brick by Brick: Building Better Housing Policies*, OECD (2021).
Prices and rents have continued to rise as economies reopened from the pandemic

Source: OECD Main Economic Indicators, September 2022.
Housing has accounted for a rising share of consumption

Share of housing expenditure in household final consumption (%)
Low-income social groups are particularly challenged

Percentages of low-income households overburdened with housing costs,
2019 or latest available

Note: A household is considered overburdened with housing costs when these absorb more than 40% of their disposable income. Low-income households are defined as the bottom income quintile of the disposable income distribution.
Rising costs also affect living conditions

Share of overcrowded households,
by quintiles of the income distribution, 2018 or latest year

Policy considerations
Main long-term drivers of housing costs

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Note: The findings are based on empirical analysis of the experience of 21 OECD countries over 1980-2017 (see source study for more details).
Source: [How responsive are housing markets in OECD Countries?](https://www.oecd.org) National level estimates, 2019
Demand: demographic and income growth are important drivers

Largest population growth across OECD countries

Strong real GDP per capita growth

Demand: housing taxation varies across countries

Taxes on immovable property dominates in most countries
Share of property tax in total tax receipts, 2021

Demand: tax relief is not uncommon

Many tax systems include specific tax relief
Estimates for the tax system as of 2016

Demand: many countries underutilise property taxes

Shares of property-related taxes in total tax revenues (%, 2017)

Demand: property taxes are the main subnational revenue source

Demand: the pandemic is reshaping demand patterns and prices

House prices have tended to rise more in the peripheries than the centres of large urban areas

Changes in prices per square meter, mid-2019 to mid-2021

Note: the symbol marks the population-weighted centre

Demand: house price gradients are shifting within metro areas

The curve relating house prices to distance to the city centre has flattened in large urban areas.

This change has been stronger in large urban areas with:
- Larger centre-periphery price differentials pre COVID-19
- Little green space in city centres and much of it in the periphery
- No big drop in the quality of internet access when moving away to the periphery
- Larger population or higher density
- More restrictive containment measures during the pandemic

This reshaping of demand magnifies the benefits of flexible supply, deep rental markets, low transaction taxes and costs.

Source: "Changes in the geography housing demand after the onset of COVID-19: First results from large metropolitan areas in 13 OECD countries," OECD, 2022
Supply: land-use planning: avoid overlap and NIMBY

The land-use governance indicator

High values signal potential inefficiencies due to:

- Overlap in responsibility between different levels of government
- Land-use decisions are taken at a too local level → NIMBYism

Supply: rental market regulations affect supply responses

Rent control is tight in many countries (a low number implies flexibility)

Landlord-tenant relation regulations balance the interests of both parties

Decarbonisation efforts may put pressure on costs

Global housing CO2 emissions need to fall rapidly in the Net Zero by 2050 scenario

Annual new construction makes up only a very small share of housing → much expensive retrofitting is needed


Source: OECD Affordable Housing Database.
Thank you

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