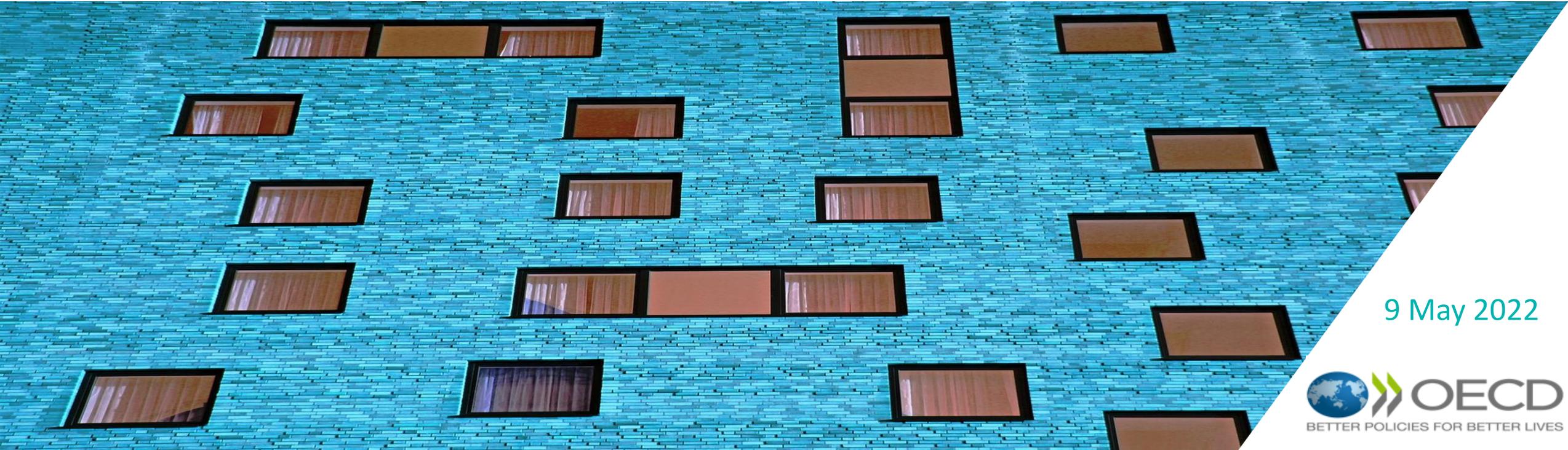




Keeping house prices in check: the role of policy

Luiz de Mello, Director, OECD Economics Department

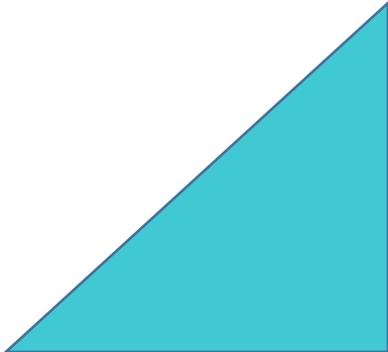
SUERF Workshop, 21 September 2022



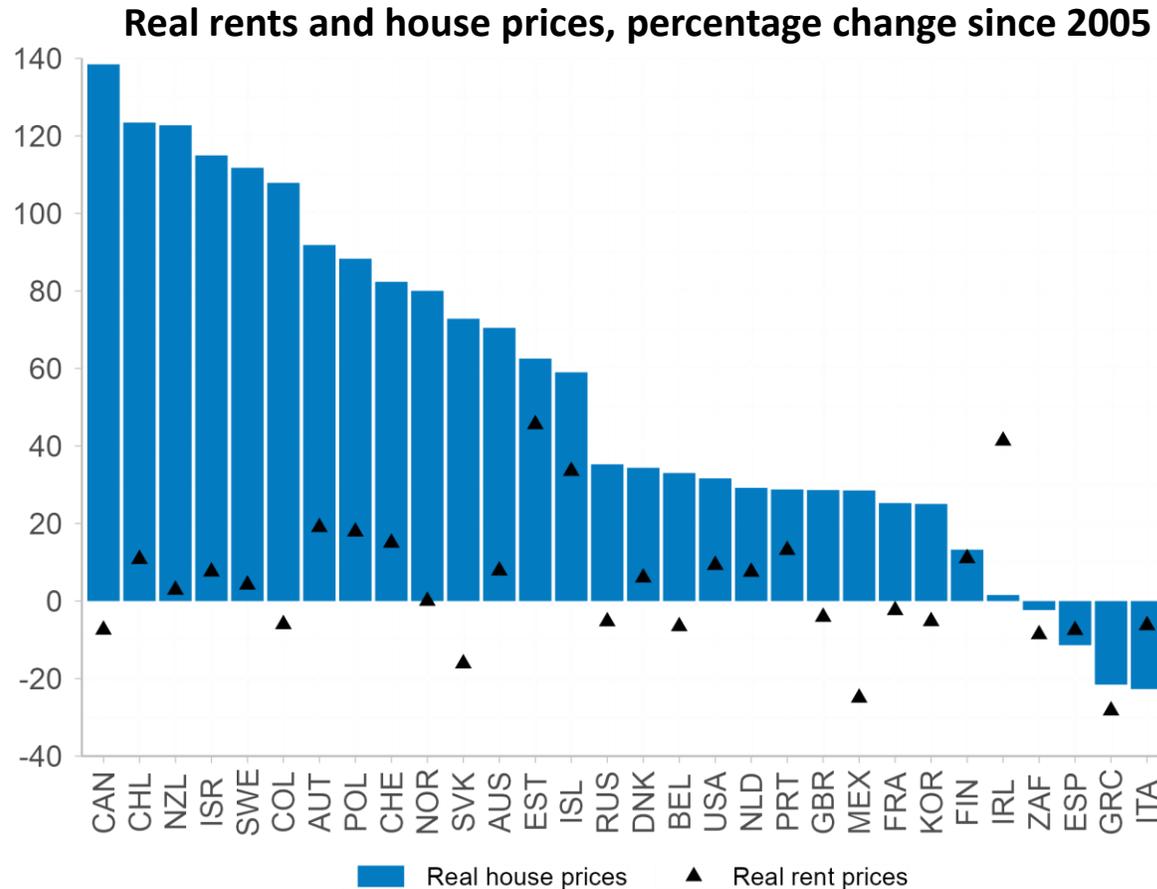
9 May 2022



Setting the scene: the challenges at play



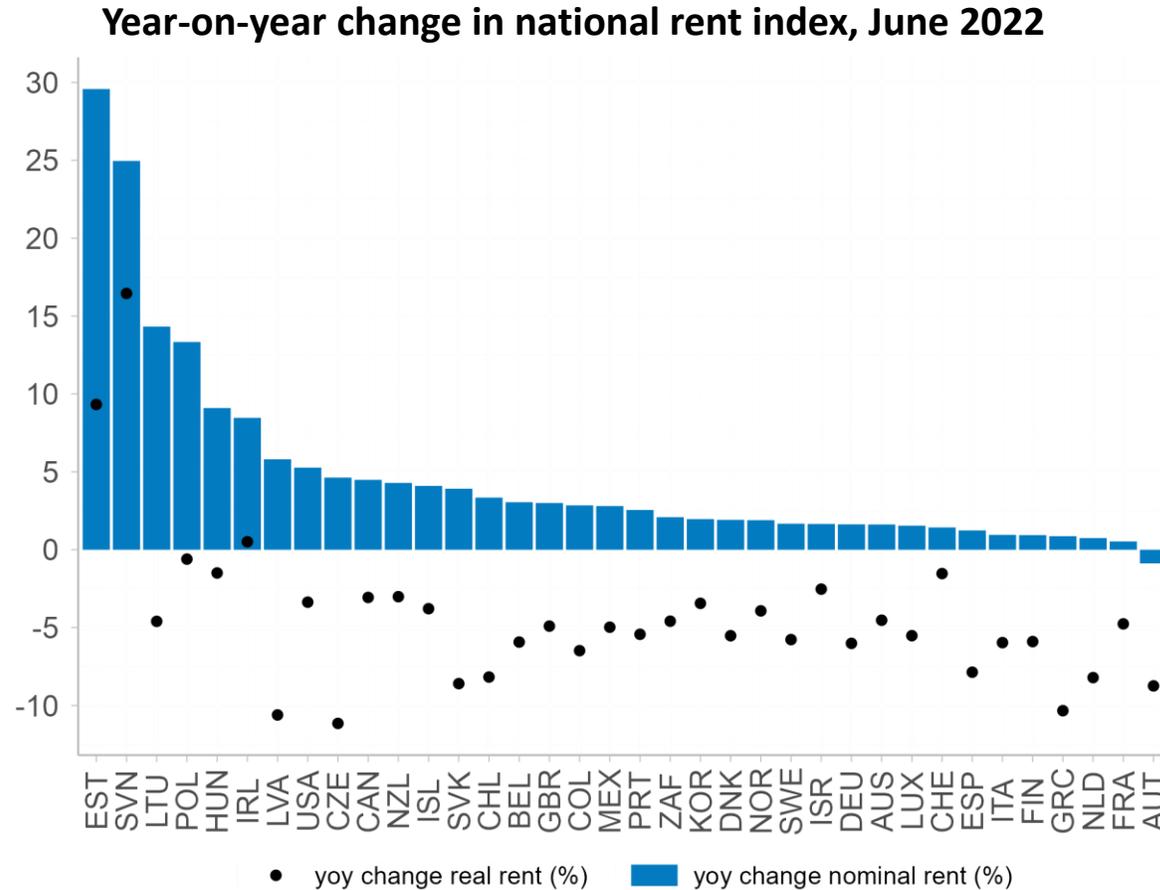
In most OECD countries, house prices and rents have risen fast over the last decade and a half



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).

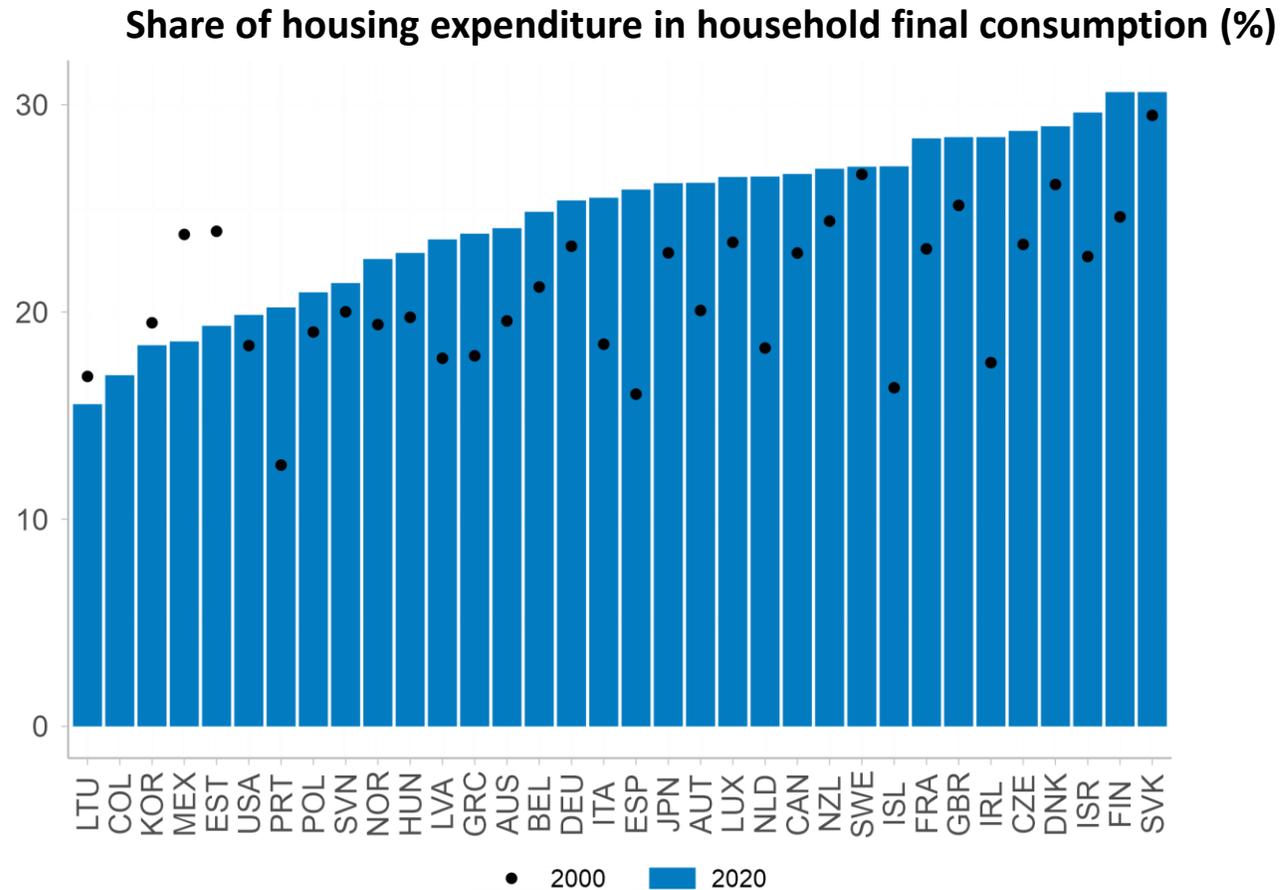
Prices and rents have continued to rise as economies reopened from the pandemic



Source: OECD Main Economic Indicators, September 2022.



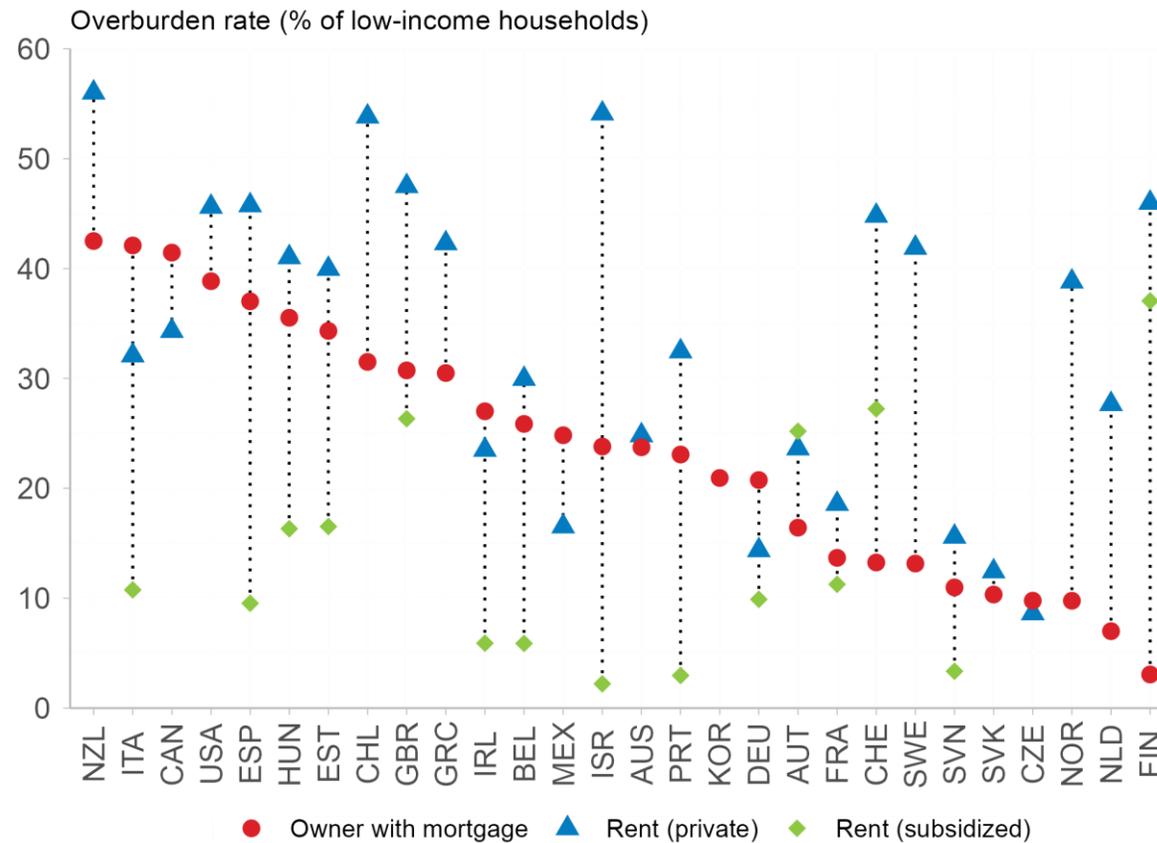
Housing has accounted for a rising share of consumption



Source: OECD National Accounts and OECD calculations.

Low-income social groups are particularly challenged

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



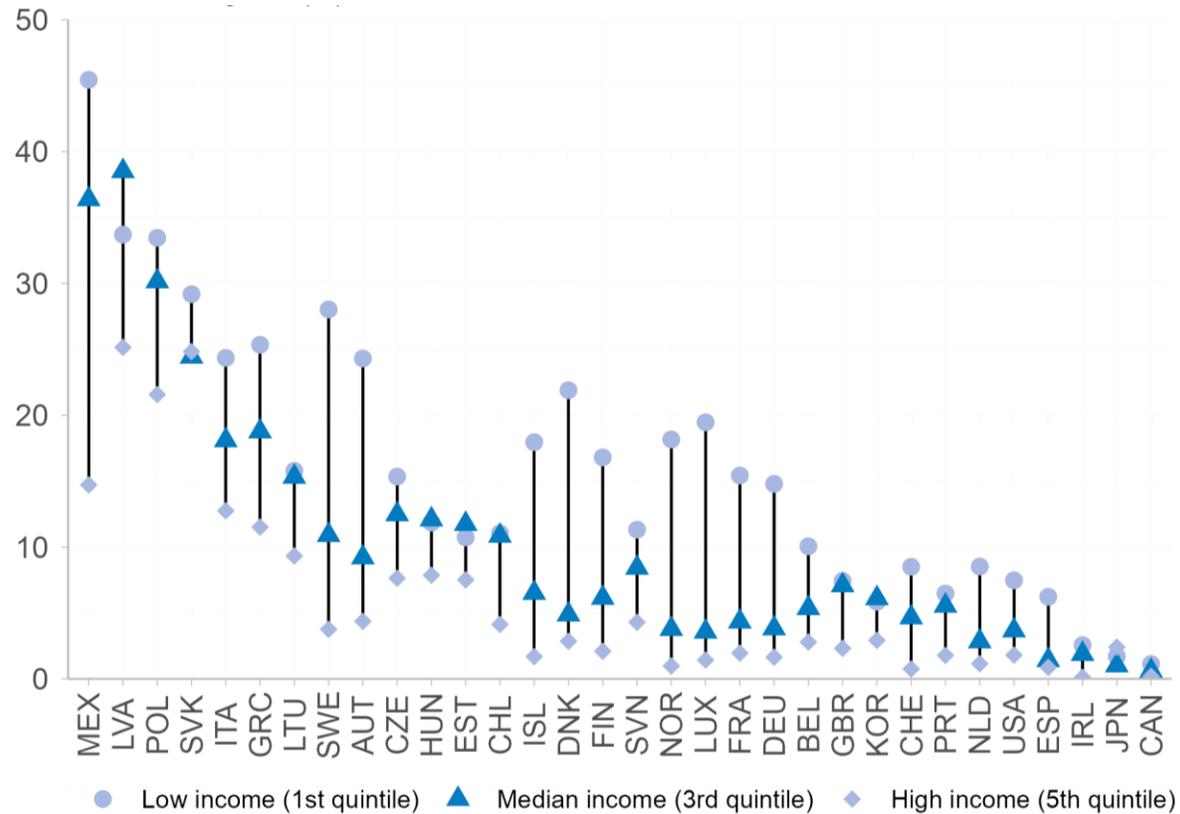
Note: A household is considered overburdened with housing costs when these absorb more than 40% of their disposable income. Low-income households are defined as the bottom income quintile of the disposable income distribution.

Source: [Brick by Brick: Building Better Housing Policies](#), OECD (2021).



Rising costs also affect living conditions

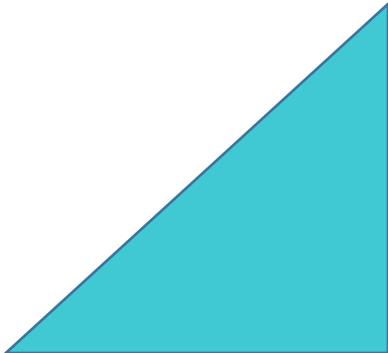
Share of overcrowded households,
by quintiles of the income distribution, 2018 or latest year



Source: [Brick by Brick: Building Better Housing Policies](#), OECD (2021).



Policy considerations





Main long-term drivers of housing costs

Demand side	Supply side
Demographics	Geography
Household income	Land-use regulations, zoning
Tax treatment of housing assets, income	Landlord-tenant regulations
Property tax system	Construction costs

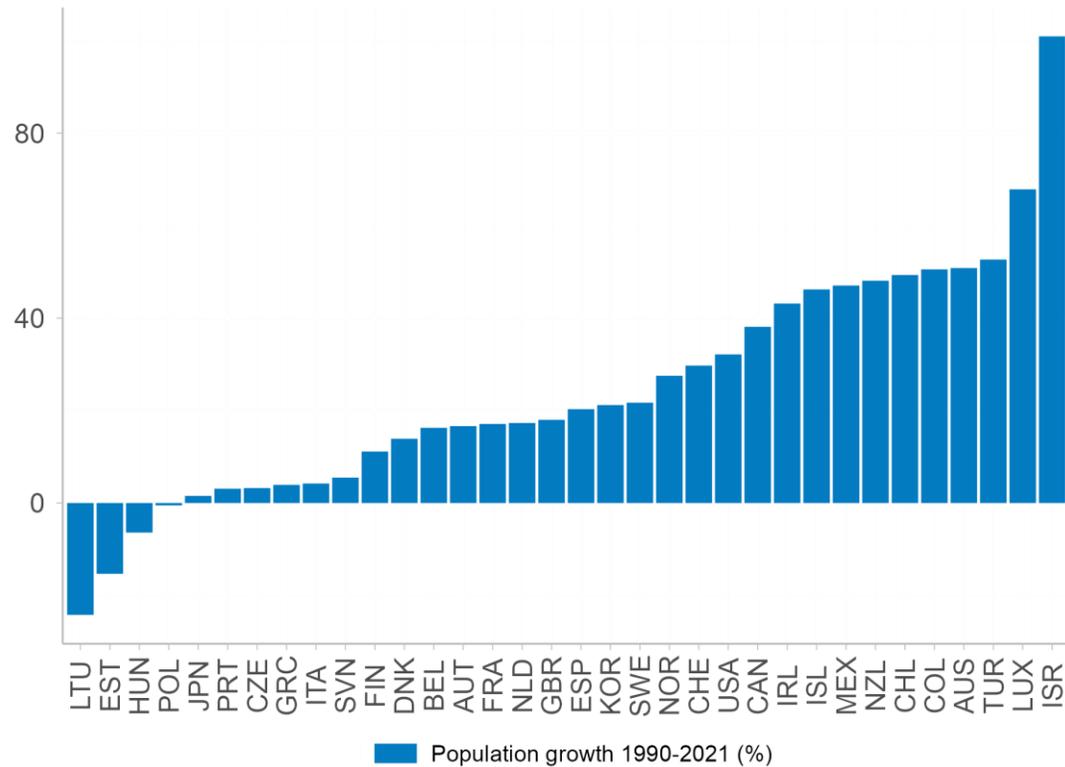
Note: The findings are based on empirical analysis of the experience of 21 OECD countries over 1980-2017 (see source study for more details).

Source: [How responsive are housing markets in OECD Countries?](#) National level estimates, 2019

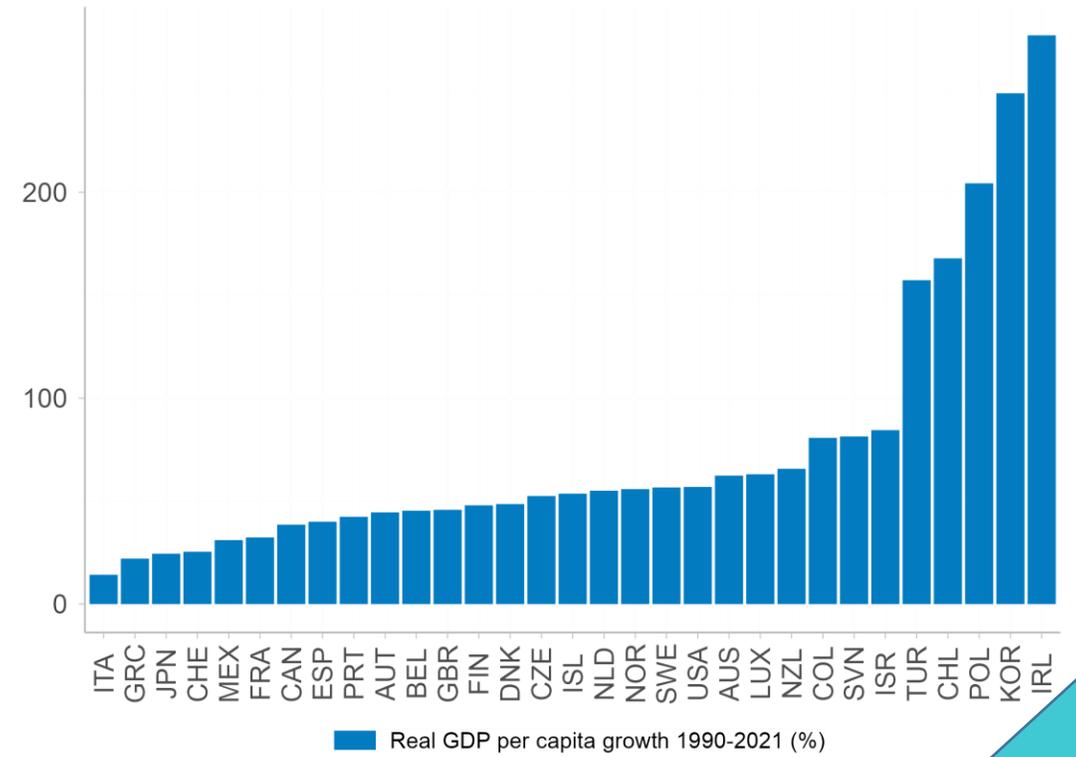


Demand: demographic and income growth are important drivers

Largest population growth across OECD countries



Strong real GDP per capita growth



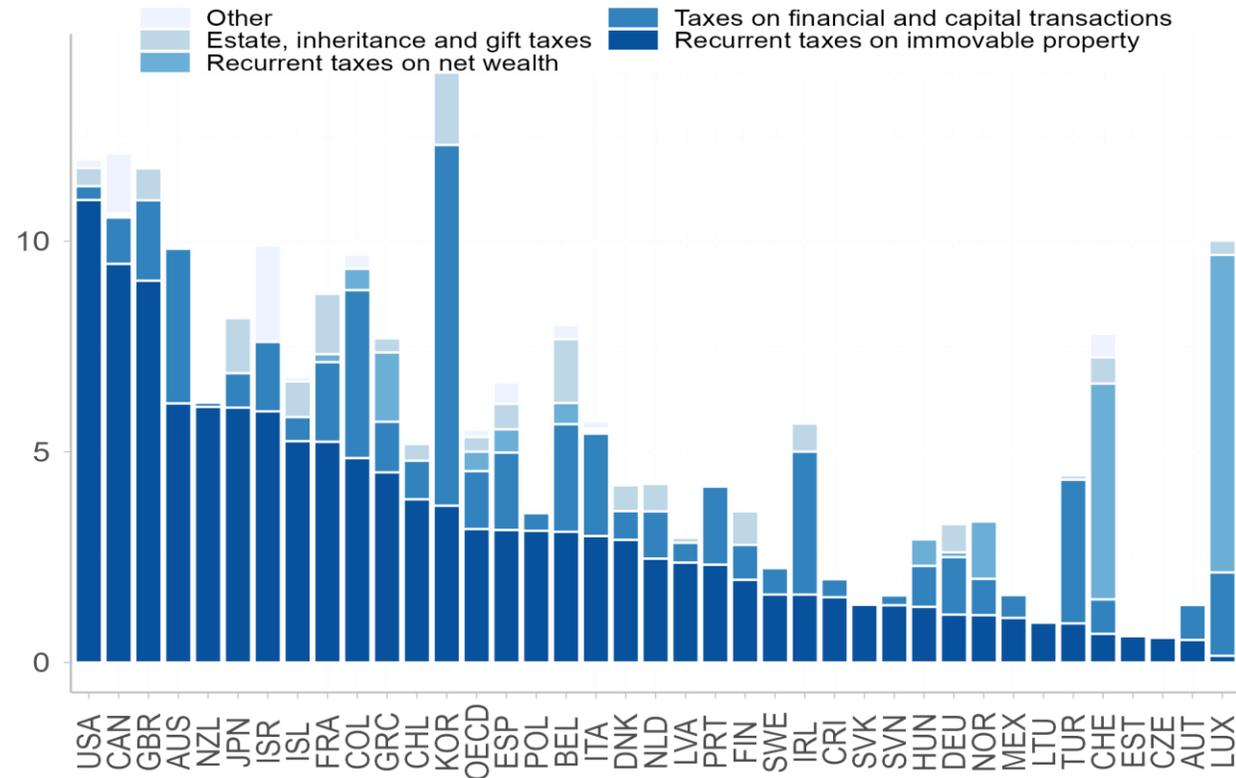
Source: OECD Analytical Database, OECD, 2022.



Demand: housing taxation varies across countries

Taxes on immovable property dominates in most countries

Share of property tax in total tax receipts, 2021



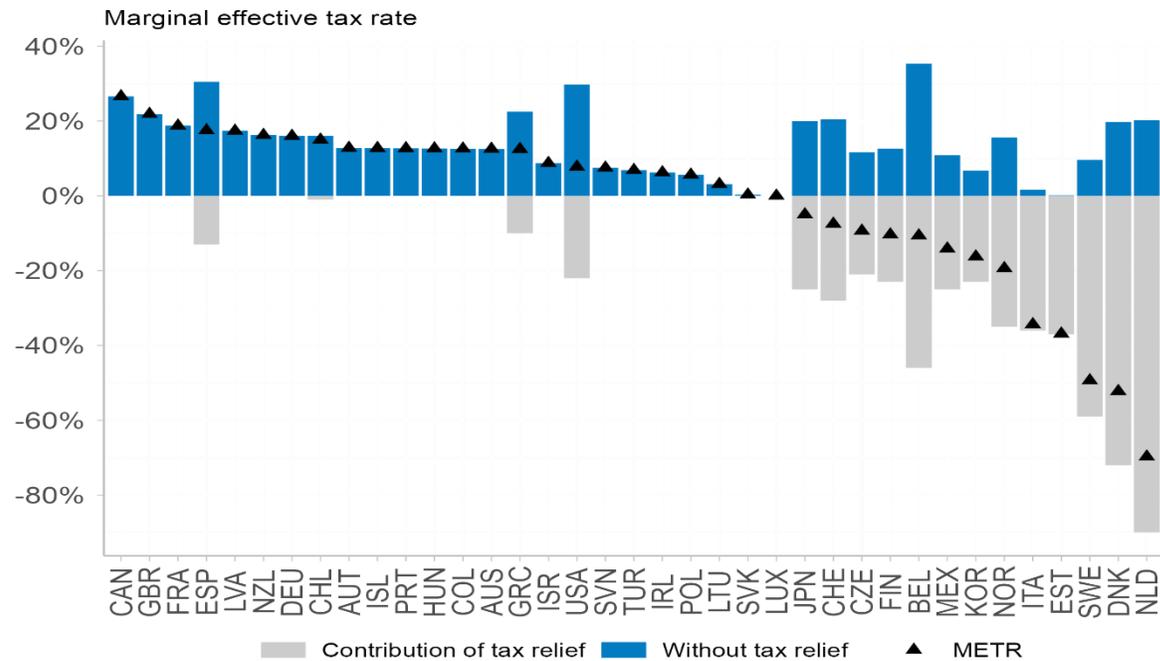
Source: [Housing Taxation in OECD Countries](#), OECD, 2022.



Demand: tax relief is not uncommon

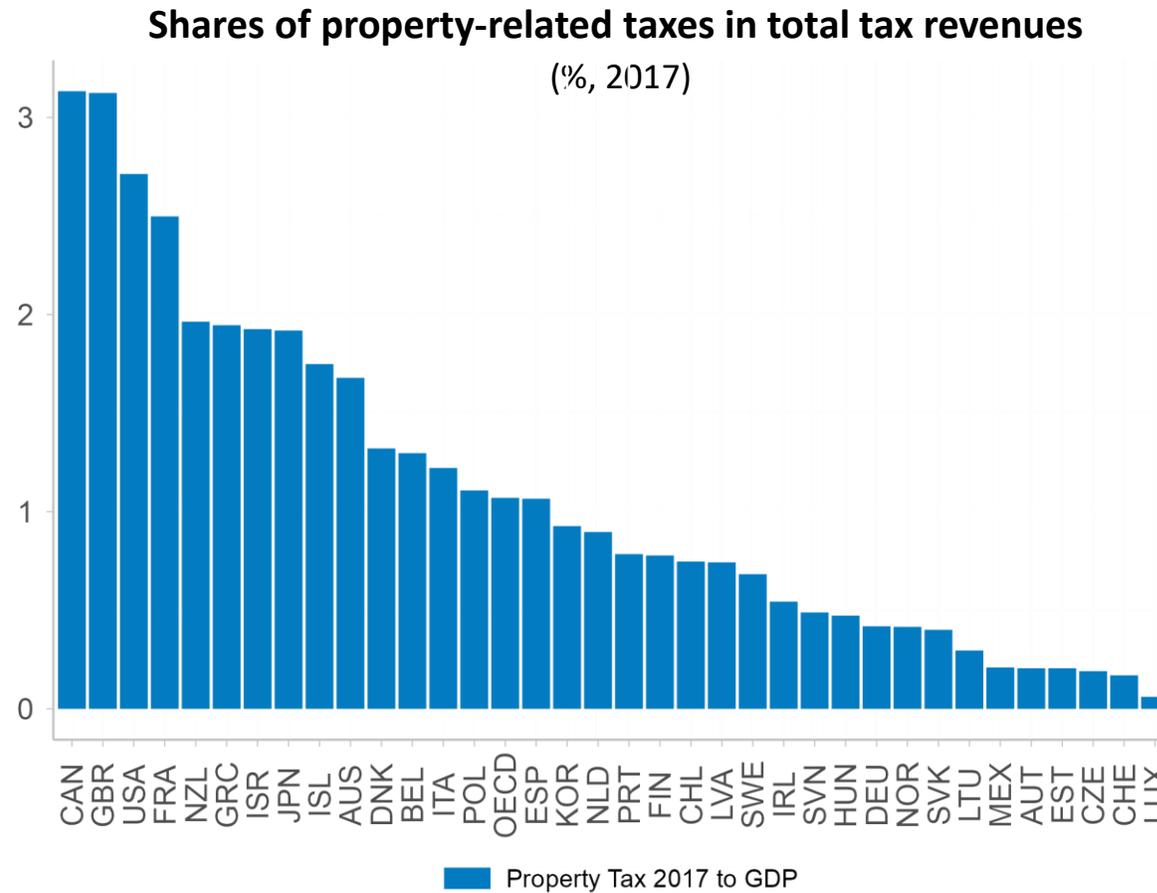
Many tax systems include specific tax relief

Estimates for the tax system as of 2016





Demand: many countries underutilise property taxes

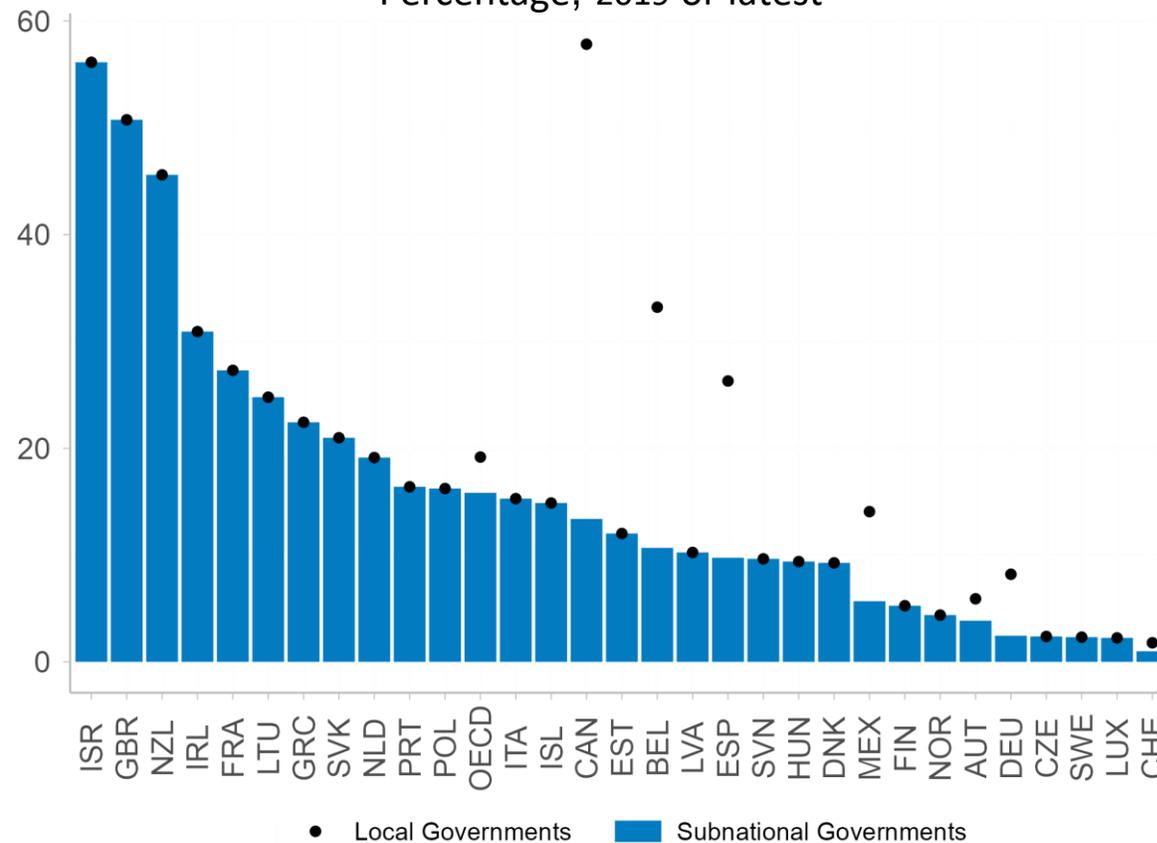


Source: [Making Property Tax Reform Happen in China: A Review of Property Tax Design and Reform Experiences in OECD Countries](#), OECD, 2021.



Demand: property taxes are the main subnational revenue source

Share of recurrent taxes on immovable property in local and subnational government revenues
Percentage, 2019 or latest





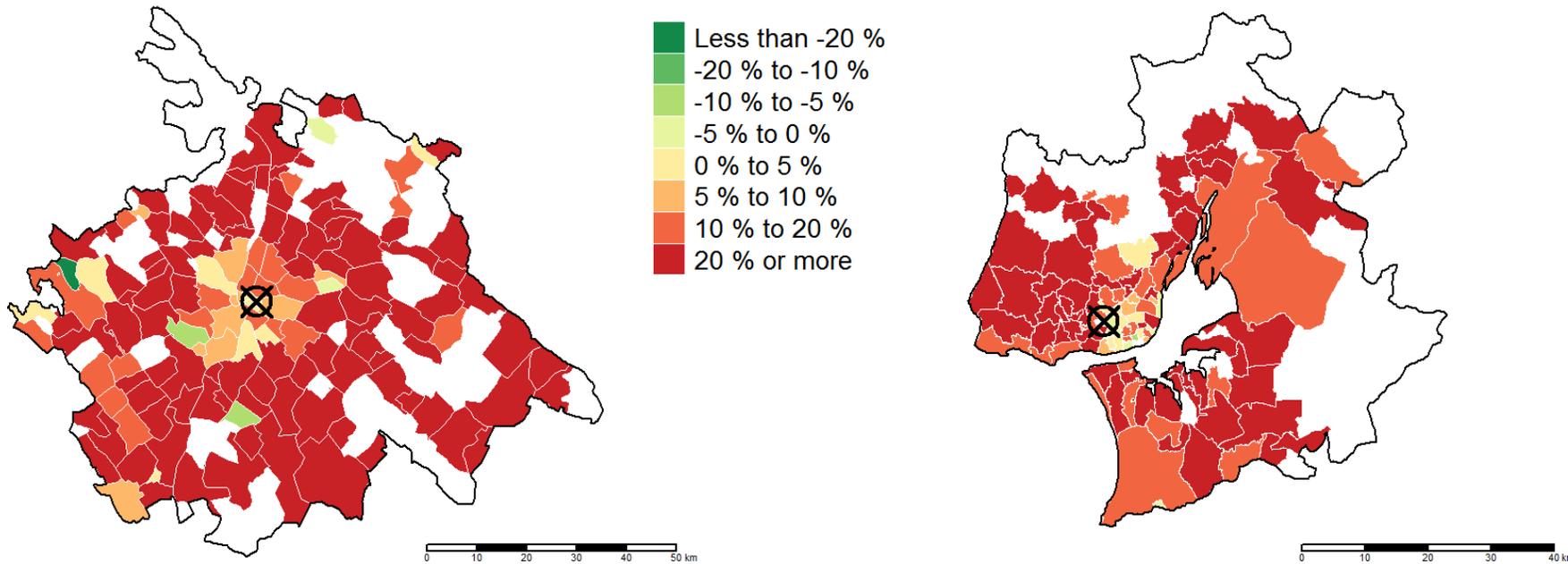
Demand: the pandemic is reshaping demand patterns and prices

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

Budapest

Lisbon

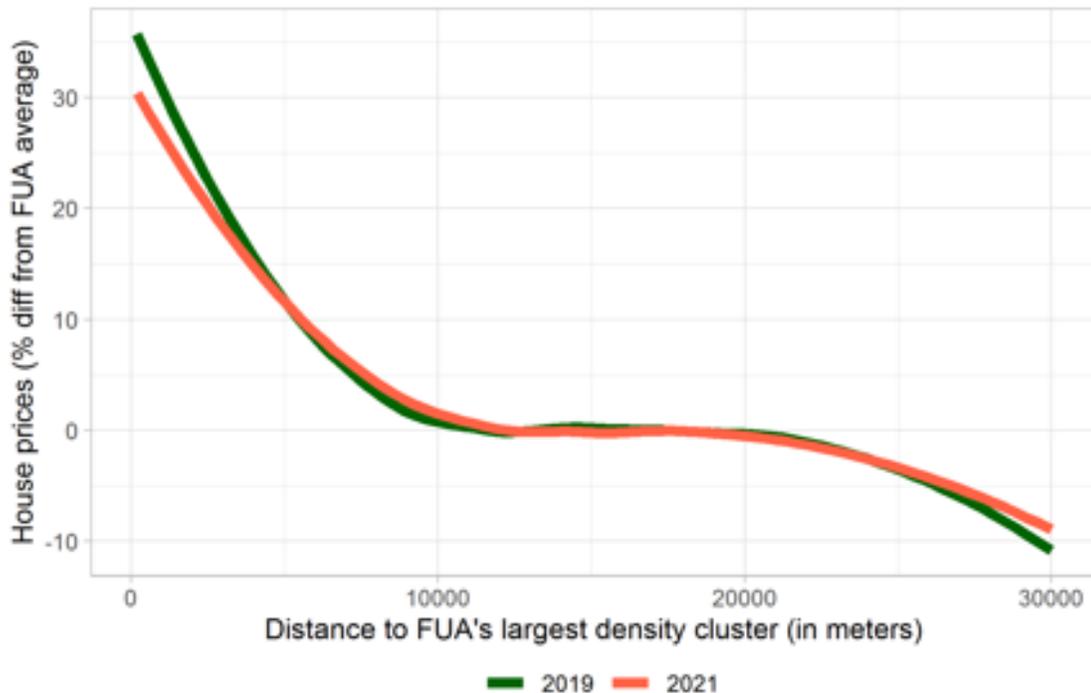


Note: the symbol marks the population-weighted centre



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



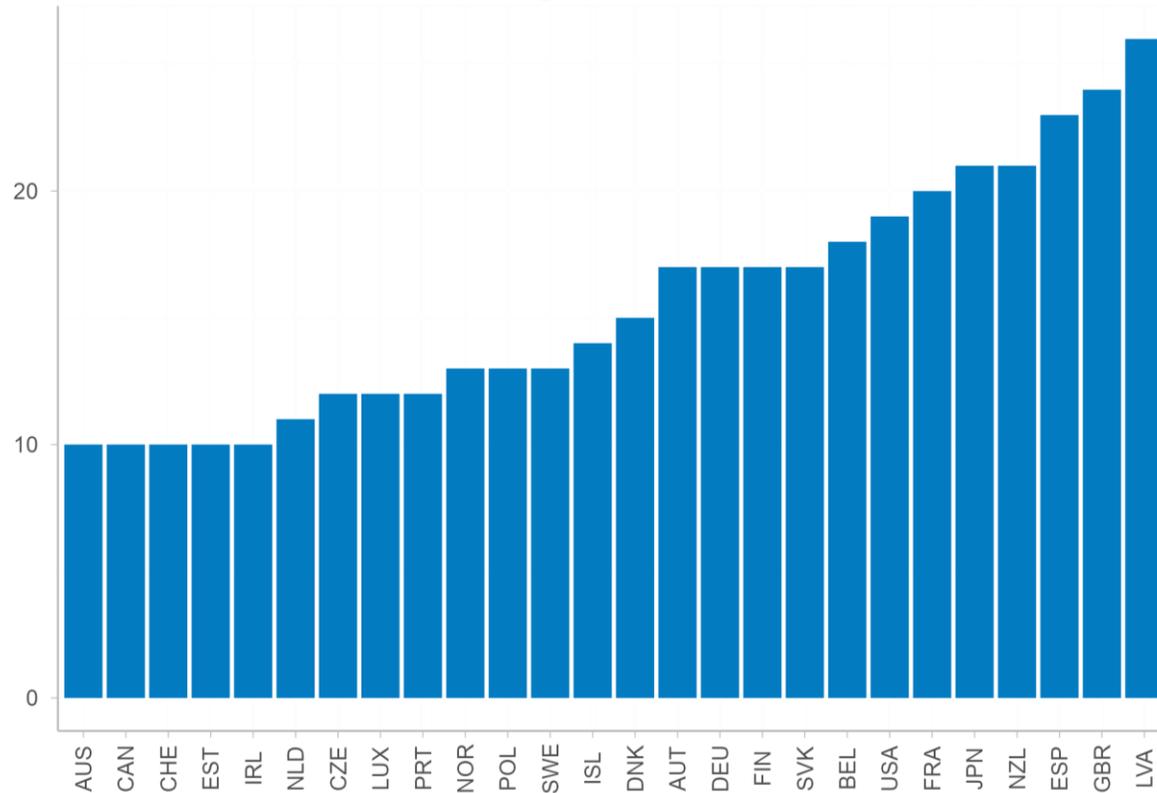
This change has been stronger in large urban areas with:

- 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.

Supply: land-use planning: avoid overlap and NIMBY

Land-use governance indicator



The *land-use governance indicator*

High values signal potential inefficiencies due to:

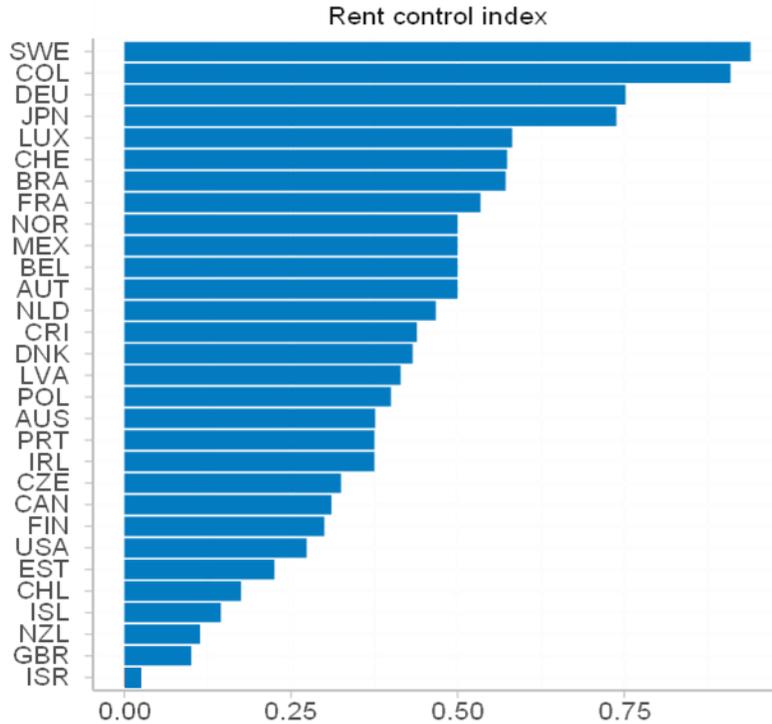
Overlap in responsibility between different levels of government

Land-use decisions are taken at a too local level → NIMBYism

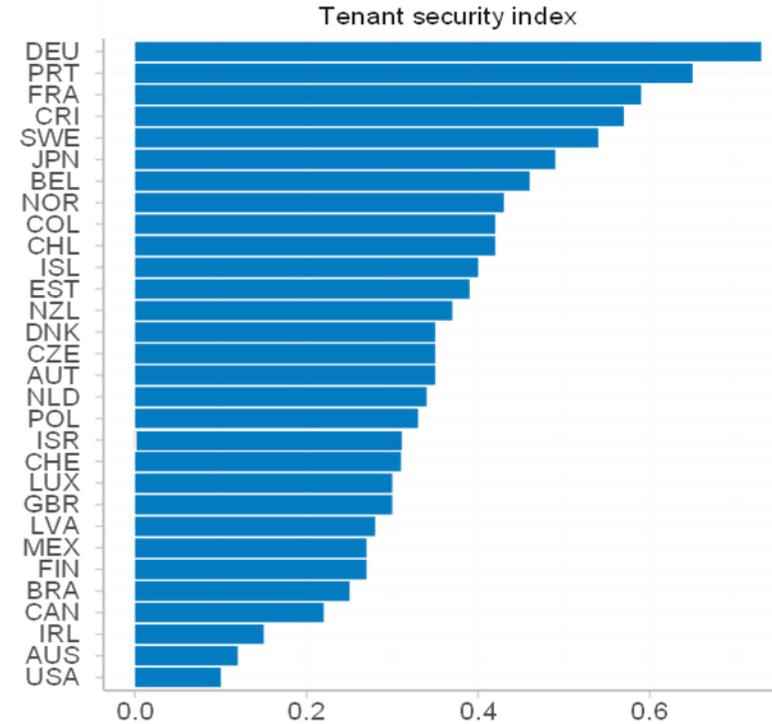


Supply: rental market regulations affect supply responses

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

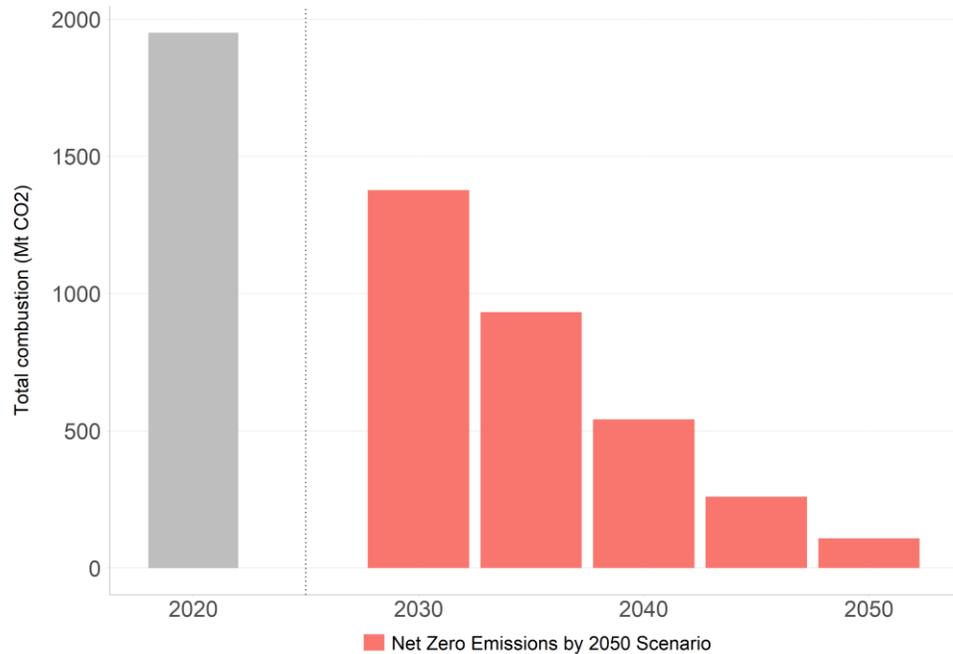


Landlord-tenant relation regulations balance the interests of both parties



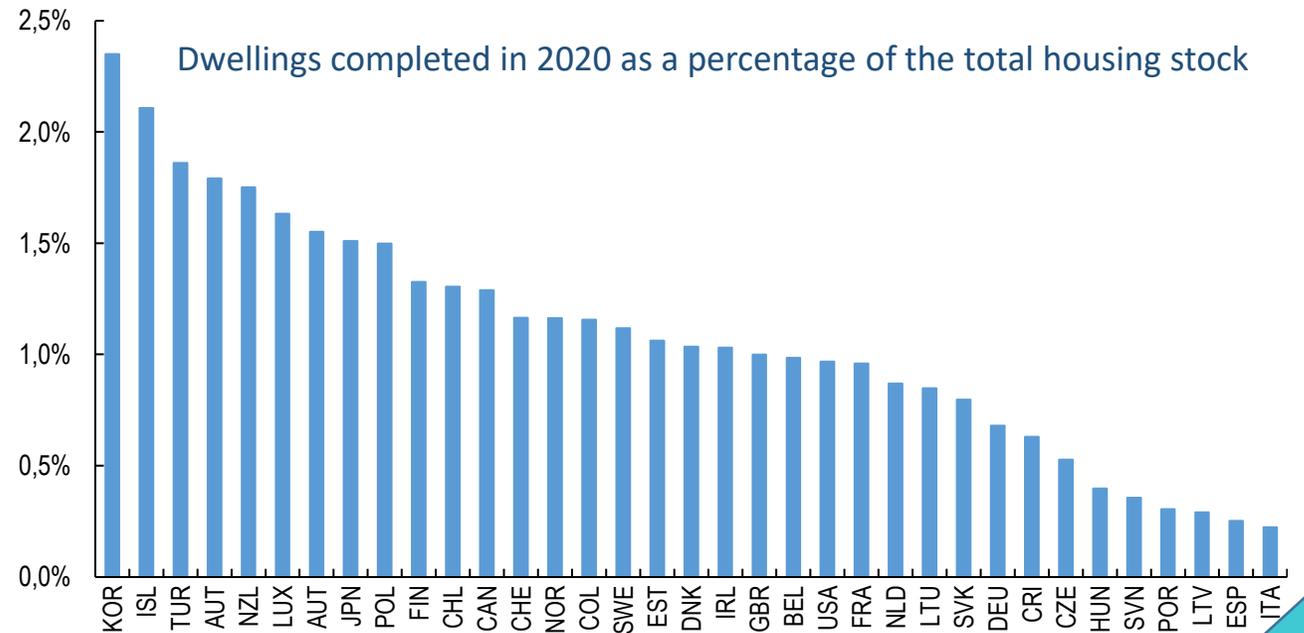
Decarbonisation efforts may put pressure on costs

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



Source: World Energy Outlook 2021, IEA.

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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