

Impact of COVID-19 on Housing: how can policies support a healthy recovery?

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<https://www.oecd.org/housing/policy-toolkit/>

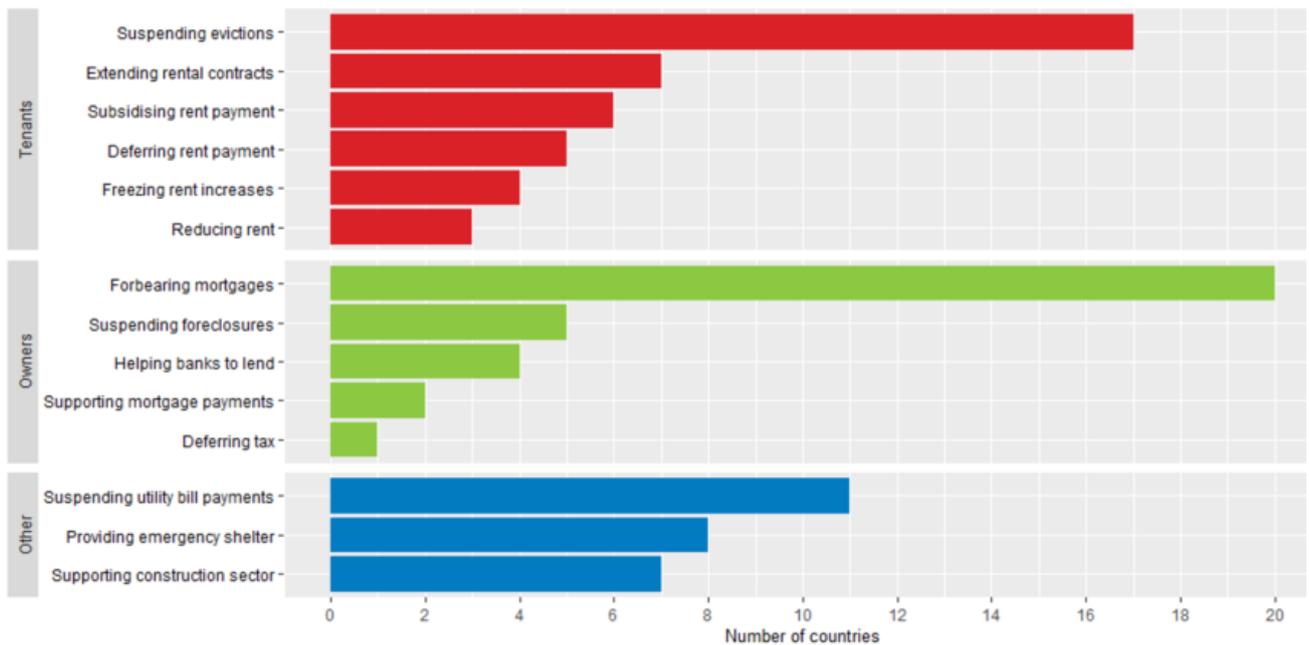
The COVID-19 pandemic has hit the housing sector particularly hard, but governments have swiftly responded with an array of measures to alleviate the negative consequences of the crisis for tenants, borrowers, builders and lenders. Most, if not all, of these measures are meant to be temporary. If they are maintained for too long, they can stand in the way of a robust recovery and/or impair the responsiveness of the housing market to the evolving needs of society. This blog reviews new OECD evidence of the impact of the COVID-19 crisis on construction and discusses policy trade-offs between the objectives of preserving short-term housing affordability for tenants and mortgage-holders, facilitating mobility and ensuring sufficient, environmentally sustainable supply. The full study is available on the OECD “Tackling the coronavirus” online hub: Housing Amid Covid-19: Policy Responses and Challenges.

The COVID-19 crisis has severely hit the housing sector

The spread of the COVID-19 pandemic destabilised the real estate sector throughout the world. Containment measures involved total or partial shutdowns of construction sites in many countries, and the associated income and revenue losses for households and enterprises adversely affected the outlook for the different segments of the property market, depending on the timing and stringency of confinement and the severity of the public health crisis, which differed across countries.

New OECD analysis draws on Google Trend data to mimic the construction sector's Purchasing Managers' Index (PMI) for a wide range of countries for which the PMI is not available. The results confirm the slump in the construction sector's confidence during confinement but also suggest that the conditions have improved markedly across most countries, without, however, reaching February levels (Figure 1). It is noteworthy to remember that, following the original PMI's definition, a positive reading of the index only suggests that activity is expanding not that output has come back to pre-crisis levels. It will certainly take some time in many countries before residential construction reaches pre-COVID-19 volumes. Besides, there remains considerable uncertainty about the extent to which the economic slump is going to weigh on future demand and the prospects of the sector at large.

Figure 2. Most support measures targeted tenants and homeowners



Note: The sample includes all 37 OECD and 9 non-OECD countries. See detailed country-coverage in the Annex.

Source: OECD (2020^[1]), DIW, Arena Housing Project.

Crisis-response measures are needed but involve policy trade-offs

While meeting an important objective of supporting tenants and borrowers during the crisis, several measures pose difficult policy trade-offs over the medium term (Figure 3). For example, if they are maintained for an extended period, measures that aim to preserve near-term affordability may create disincentives for the maintenance and expansion of the housing stock, as well as thwarting residential and labour mobility in the longer term. They may also undermine economic and financial resilience.

Measures that preserve housing affordability for mortgage-holders and tenants in the short term can have adverse longer-term side-effects. They can undermine resilience or compromise the long-term functioning of the housing market. If maintained for too long, tax advantages for mortgage-holders feed into house prices, creating instability and eroding affordability. A tightening of rent controls makes it more difficult for

people who don't already rent a dwelling to rent one and over time exacerbates housing shortages. Public authorities would do well to adopt a calendar for the phasing-out of COVID19-related tax advantages for mortgage holders and rental-market restrictions. Doing so would avoid letting emergency measures become new bottlenecks to the long-term efficiency of housing markets that would ultimately undermine affordability, inclusiveness and sustainability objectives.

By contrast, expanding capital spending on social housing, coupled with provisions ensuring that eligibility is portable, can generate benefits for both near-term affordability and long-term supply with limited adverse consequences for mobility. Furthermore, this kind of direct intervention in the market provides an opportunity for governments to promote and accelerate the spread of construction techniques that are aligned with environmental-transition sustainability objectives.

Figure 3. Housing policy responses to Covid19 involve trade-offs and complementarities

	Near-term affordability	Financial and economic resilience	Long-term efficiency		Environmental sustainability
			Mobility	Supply	
Defer or cap rent payments	😊	😞	😞	😞	
Suspend evictions or further regulate landlord-tenant relations	😊	😞	😞		
Provide mortgage borrowers with tax relief	😊	😞	😞	😞 some more supply but much higher prices	
Relax macroprudential policy settings	😊	😊 if temporary 😞 if maintained			
Increase housing allowances	😊		😊		
Expand public capital spending on affordable housing supply	😊		😊 if rights portable 😞 if rights not portable	😊	😊
Ease land-use restrictions	😊	😊	😊	😊	😞 without with environmental standards

Note: Green means that the policy in the row supports progress towards the objective in the column; orange means that the policy in the row hampers progress towards the objective in the column; white means that there is no known effect.

Source: (Causa, Woloszko and Leite, 2019^[2]; Cournède, Sakha and Ziemann, 2019^[3]; Cavalleri, Cournède and Özsöğüt, 2019^[4]; Causa and Pichelmann, 2020^[5]; Béтин and Ziemann, 2019^[6]) and authors' elaborations.

Furthermore, easing land-use restrictions is a way of

facilitating the recovery of homebuilding and better aligning the supply of housing with evolving demand and the needs of society. Reforms to ease land-use restrictions deliver greater benefits if conducted within an integrated spatial planning framework across government sectors and hierarchies. The goal should be to encourage housing construction and improve affordability while enhancing neighbourhood liveability and avoid excessive spatial divergence in the access to public services, transportation systems and social infrastructure. Fostering residential construction could also accelerate the transition to a low-carbon economy provided that the new buildings are required to comply with sufficiently ambitious environmental standards.

Facilitating construction and redevelopment would also allow accommodating the possible long-term change in housing demand that the COVID-19 crisis may prompt. There is a possibility that the COVID-19 crisis may lead to lasting mutually linked changes in housing demand and work organisation. Preferences could shift in favour of living in lower-density areas and working remotely. This could slow or even reverse urban-rural divergences. First, such a shift would relieve demand pressures in overly-dense areas. Second, flexible workplace amid more teleworking would free office space for conversion to residential units in city centres, provided land use can accommodate the change. The combination of such demand and supply effects could reduce regional home price differentials and contribute to reducing residential segregation.

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