Decarbonising the Housing Sector: Pathways to Net-Zero Emissions by 2050

Category: Climate
written by oecdecoscope | March 28, 2023



Reducing carbon emissions from the building and use of homes is complex and requires a dedicated policy mix, including carbon pricing, subsidised investments and regulations.

Securing the health of Ireland’s future

Category: Ireland
written by oecdecoscope | March 28, 2023



In recent decades, Ireland made impressive strides in developing its economy and raising living standards. However, structural reforms remain key to prepare for Ireland’s future

fiscal pressures due to rising ageing costs, and the need to ensure adequate supply of affordable housing and enable a sustainable green transition.

Addressing the housing challenges in Central and Eastern Europe

Category: Housing
written by oecdecoscope | March 28, 2023



The historical development of housing in Central and Eastern European countries continues to have implications for the tenure, type, quality and affordability of housing today, calling for policy actions to address a looming affordability challenge.

Improving economic

opportunities for all in Belgium

Category: Belgium,Housing
written by oecdecoscope | March 28, 2023



Continuing labour market reforms, tackling inequity in education and supporting housing affordability would promote equal access to life chances in Belgium.

Statistical Insight: Location, location, location – House price developments across and within OECD countries

Category: Housing,Statistical Insights
written by oecdecoscope | March 28, 2023
by Pierre-Alain Pionnier, OECD Statistics and Data Directorate

Housing is key to wellbeing. Real estate typically forms the most important asset of households and their most important source of debt. Not surprisingly given their correlation with

the economic cycle, house prices are also one of the most widely tracked economic indicators. However, despite their importance, including for macroeconomic policymaking, as the 2008-09 financial crisis well illustrated, there are few internationally comparable statistics to show how house price developments vary across regions and cities within countries. This is despite the common understanding that changes in house prices within countries are rarely uniform (e.g. there may be 'ripple' effects). Policies that target the 'national' therefore may miss differences across regions and in turn add to the geography of discontent. This Statistical Insights describes a new OECD database on national and regional house price indices that aims to fill this gap.

There are significant differences in house price developments across countries…

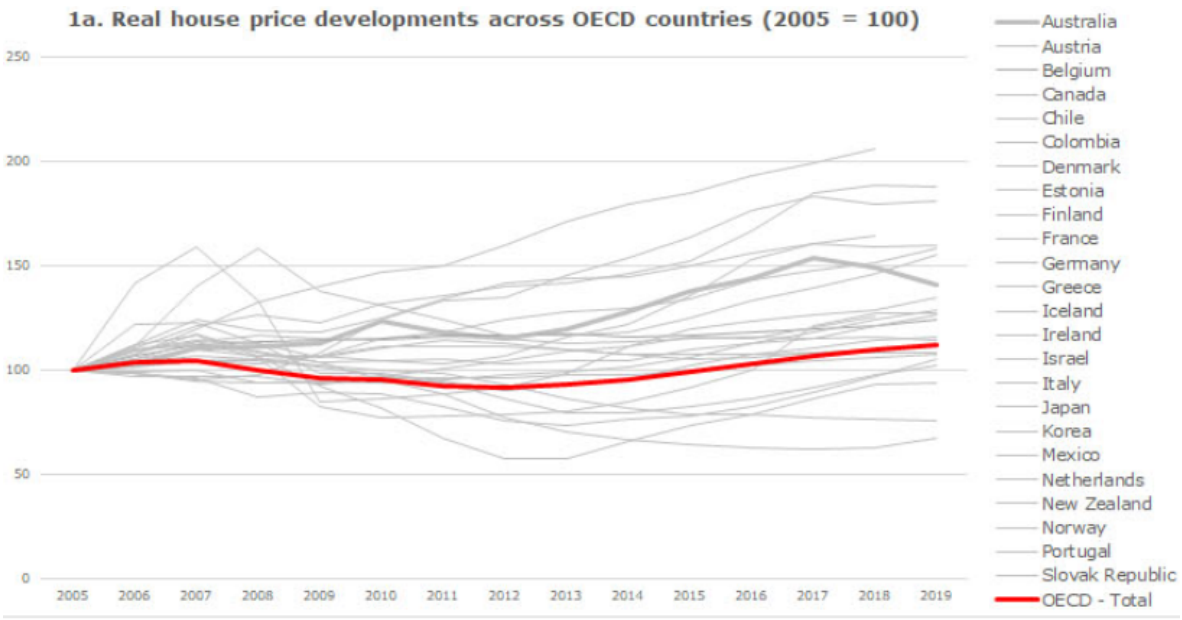
The bursting of the housing bubble in the United States played a key role in the 2008-09 financial crisis, which rapidly turned into a global recession. Even though real house prices (i.e. adjusted for general inflation) declined in several OECD countries, the extent of declines and subsequent 'recoveries' differed significantly across countries (Figure 1a). For example, in 2018, house prices in real terms in Colombia were double the levels in 2005, whereas they remained 40% lower in Greece.

This shows that beyond global factors such as those that drove the financial crisis, country-specific factors also matter. These include population growth, land-use restrictions, real household incomes, real interest rates, mortgage market regulations and supervision, lending patterns (at fixed or variable rates), tax relief on mortgage debt financing, and transaction costs such as stamp duty.

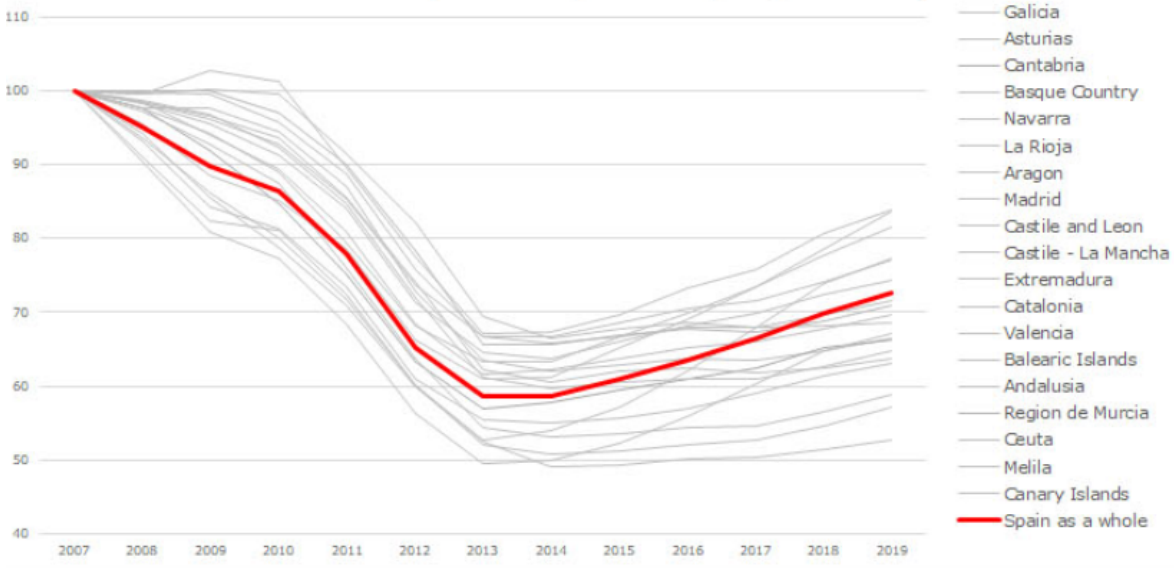
… but also within countries.

A focus on national price developments does not however tell the full story. Significant differences in the evolution of house prices also exist within countries. For example, while real house prices in Spain declined by 40% on average between 2007 and 2013, and then began to recover, in 2019 they remained nearly 50% lower in Navarra but only 15-20% lower in the Balearic Islands, Ceuta and Melila (Figure 1b). In Mexico, most regions show limited variation around the national average, with real increases ranging from around 10% in the Hidalgo region to around 30% in Yucatan between 2005 and 2018 but this is not universally true. The Federal District for example, which includes Mexico City, saw real prices rise by more than 70% over the same period (Figure 1c). In the UK, Northern Ireland and the region of London show much wider fluctuations in house prices than the rest of the country (Figure 1d).

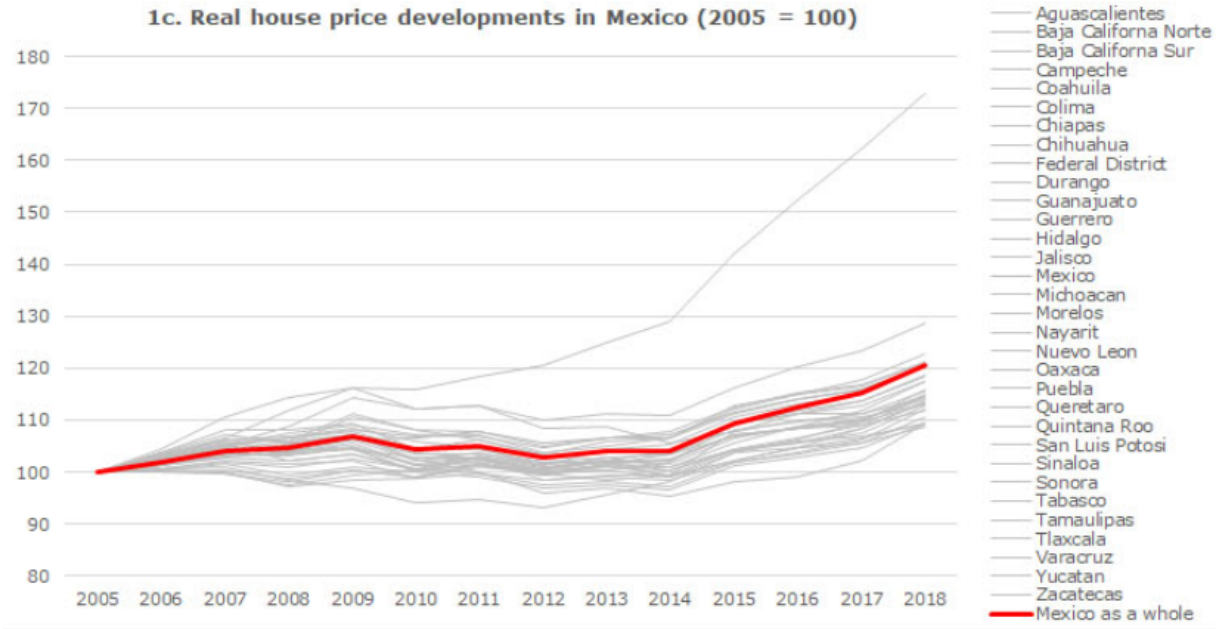
Figure 1: Real house price developments across OECD countries, and within Spain, Mexico and the United Kingdom



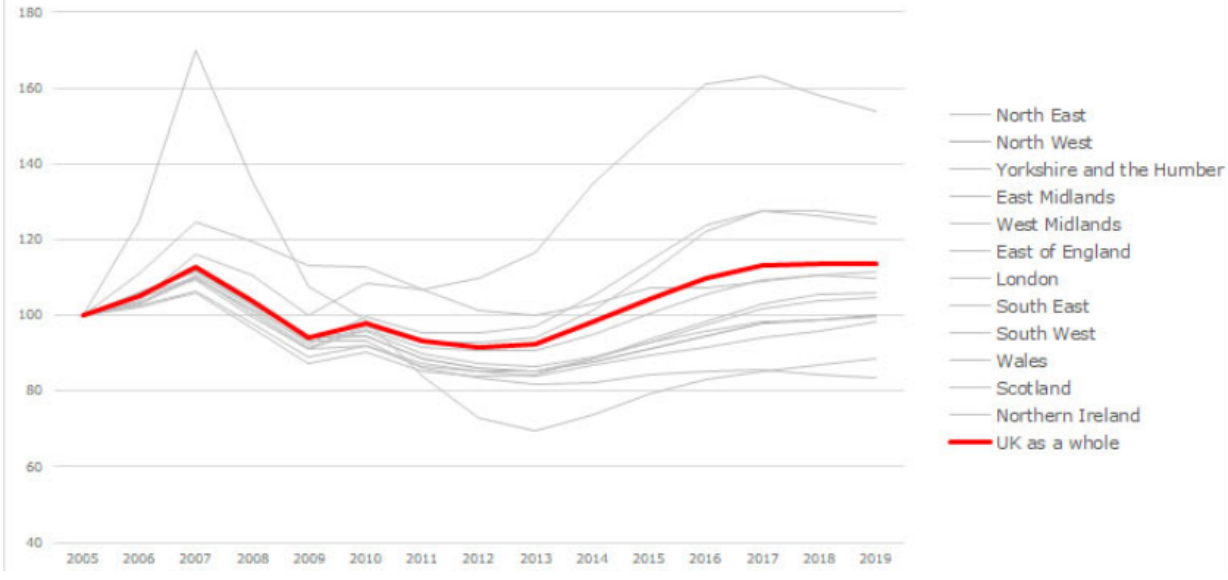
1b. Real house price developments in Spain (2007 = 100)



1c. Real house price developments in Mexico (2005 = 100)



1d. Real house price developments in the United Kingdom (2005 = 100)



Note: The evolution of real house prices is the difference between the evolution of (nominal) house prices and the evolution of consumer prices (i.e. general inflation).
Sources: OECD database on national and regional house price indices, OECD national accounts database.

In recent decades, some large cities have seen significant growth in house prices.

In recent decades, an 'urban resurgence' (Glaeser 2020), driven in part by better-paid jobs within cities, the willingness to live closer to them, and better access to cultural amenities has led to gentrification and above (national) average house price growth in some of the largest cities. For example, house price inflation in Inner London was around double that of the rest of the United Kingdom between 1995 and 2019. Similarly, house price inflation in Paris between 2005 and 2019 was around 50% higher than in the rest of France (Figure 2).

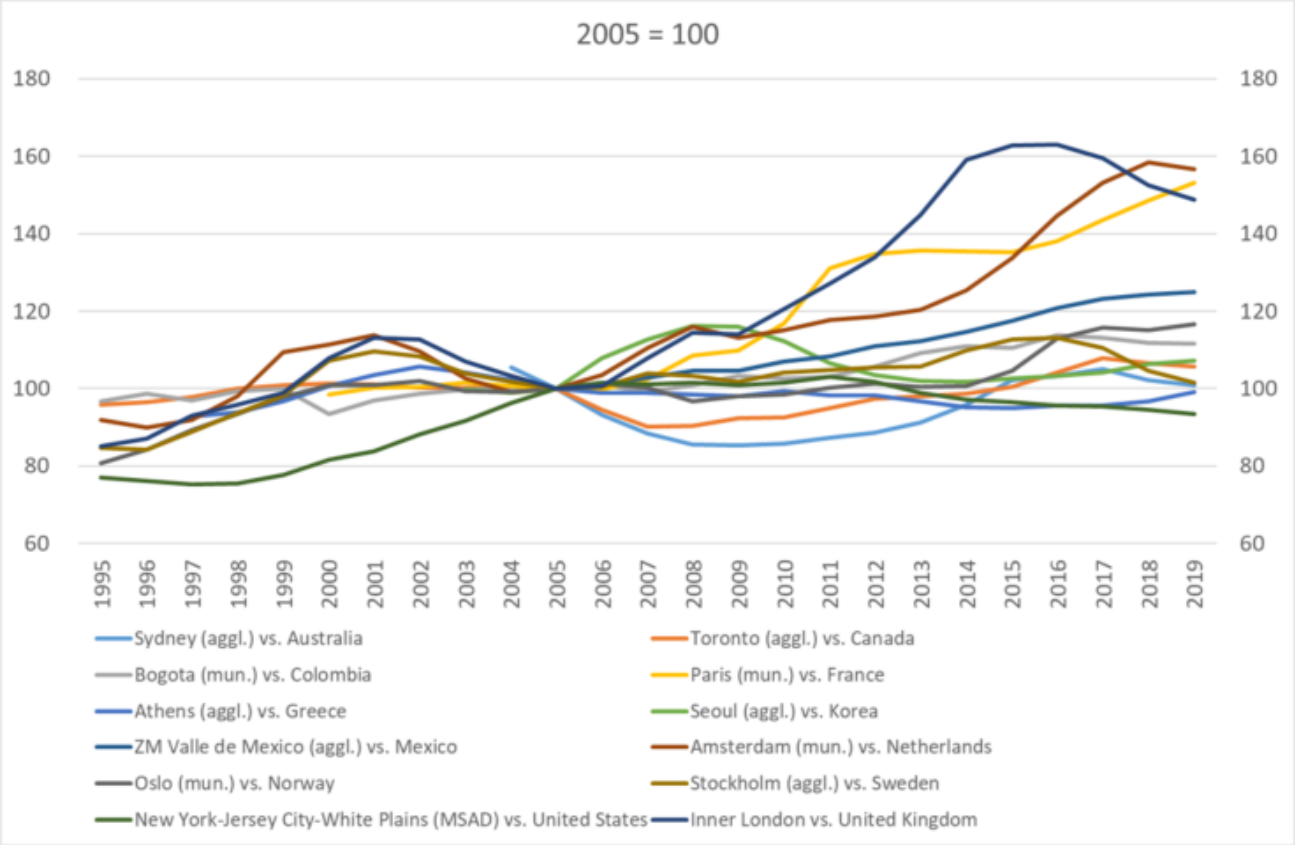
Nevertheless, this does not exclude large differences across large cities within the same country. For example, the OECD database shows that house prices in the metropolitan area of Los Angeles have grown twice as fast as in the metropolitan area of Chicago since the mid-1990s. Moreover, Glaeser et al. (2012) also emphasise differences in house price developments within cities, with typically faster price growth in recent years in neighbourhoods closer to city centres.

Notwithstanding the fact that economic policy may be suboptimal if one ignores house price heterogeneity within a country, the impact of this heterogeneity on housing affordability may act as a barrier to mobility to households seeking employment in parts of the country where labour demand is higher but cannot always afford to do so due to differences in house prices.

In the years to come, it will be important to assess whether a

more systematic use of digital tools to telework following the COVID-19 pandemic will reverse the gentrification of cities and ‘urban resurgence’ phenomena. Granular data on house price developments within countries and cities will become even more relevant for doing so.

Figure 2: Relative house price developments in the largest city and the whole country



Note: For each country, the above chart depicts the relative house price evolution in the most populated city as compared to the rest of the country. Price ratios are normalised to 100 in 2005.
Source: OECD database on national and regional house price indices.

The measure explained

House price indices are index numbers measuring the rate at which the prices of residential properties (flats, detached houses, terraced houses, etc.) purchased by households change over time. These indices adjust for quality differences between dwellings sold in the current period, relative to the reference period. In other words, they aim at measuring pure price changes. They cover both new and existing dwellings whenever possible, independently of their final use (to live

in or for rent). These prices include the price of the land on which residential buildings are located and they are compiled by official statistical agencies following international statistical standards.

Calculating real house price growth, i.e. controlling for national general inflation, allows for a more meaningful comparison of house price dynamics across countries. The deflator used is the deflator of consumption expenditure of households, compiled according to the 2008 System of National Accounts (SNA). It is important to note that the deflator is typically only available at national level, meaning that the same deflator is used for all regions within a given country, and therefore, that heterogeneity in consumer price dynamics across the different regions of a country is neglected.

Where to find the underlying data

- OECD National and regional house price indices: headline indicators
- OECD National and regional house price indices: Complete database
- OECD National accounts database

Further reading

- Glaeser E.L., J.D. Gottlieb and K. Tobio (2012): Housing Booms and City Centers. American Economic Review: Papers and Proceedings, 102(3), pp. 1-10
- Glaeser E.L. (2020): Urbanization and its discontents. NBER Working Paper26839
- ILO, IMF, OECD, UNECE, Eurostat, World Bank (eds.), (2013): Handbook on Residential Property Price Indices
- OECD (2020): OECD Territorial Grids

Housing-related policies matter for economic resilience

Category: Housing,Uncategorized
written by oecdecoscope | March 28, 2023



By Boris Cournède, Sahra Sakha and Volker Ziemann

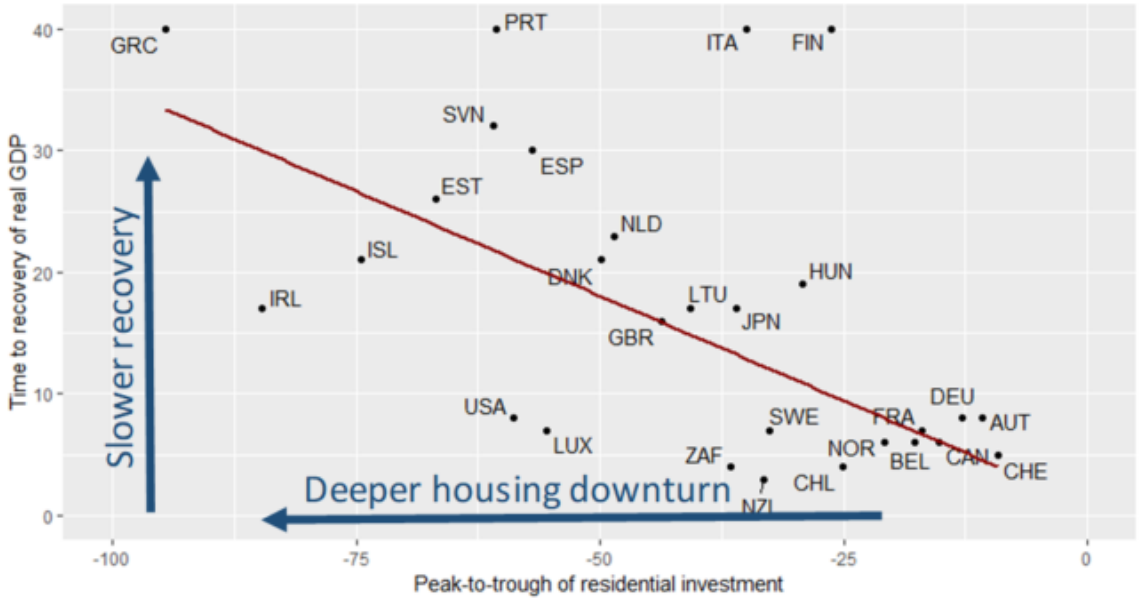


https://www.oecd.org/housing/policy-toolkit/

Policies that shape the housing market, such as rules concerning mortgage lending, homebuilding and rental regulation as well as taxation, can have a considerable impact on economic crisis risks and the capacity to recover from a crisis. The reason is that housing market developments strongly influence the business cycle and macroeconomic trends. Changes in house prices, rents and mortgage interest rates prompt variations in household wealth, income and expenditure that often have a sizeable impact on aggregate demand and inflation. Furthermore, house price fluctuations affect residential investment, which is a component of GDP. Countries with sharper declines in residential investment in

the aftermath of the global financial crisis generally needed more time to recover from the crisis and regain the pre-crisis level of real GDP (Figure 1).

Figure 1. The recovery from the global financial crisis took longer in countries that experienced deeper housing downturns



Note: Time to recovery in quarters (equals 40 if not recovered by 2018). Peak-to-trough in % of pre-crisis peak.
Source: OECD Economic Outlook database.

New OECD empirical studies have probed the transmission of housing-related shocks to the real economy and the role that policy plays in (a) mitigating or amplifying shocks and (b) facilitating or hampering a recovery. The aim is to identify which housing policy-related reforms can foster economic resilience. These studies used a range of econometric techniques, including quantile regressions, probit estimation and propensity-score matching.

The main findings are (Table 1):

- Tighter loan-to-value (LTV) caps are associated with a reduced likelihood of severe downturns but also slower recoveries and lower growth. Overall, the evidence confirms earlier results that LTVs seem to entail a trade-off between growth and crisis risk.
- More demanding capital requirements also appear to involve the same trade-off, as they are linked with a

reduced incidence of downturns but lower median growth. Risk weights that penalise risky mortgages more are tentatively linked with stronger episodes of positive growth, which would be consistent with the hypothesis that they encourage a more efficient allocation of credit.

- More stringent rental market regulations are associated with severe downturns that are more likely and more protracted, which may be related to bottlenecks in housing supply and lower labour mobility. On the other hand, tighter rental regulations, which aim to protect tenants against adverse economic shocks, appear to be associated with reduced extreme output losses (measured by GDP-at-risk).
- Higher effective taxation of housing is associated with less severe downturns. Moreover, countries with higher taxation experience more moderate house price fluctuations and smoother residential construction cycles.

Table 1. Main effects of tightening housing-related policies on resilience

	GDP-at-risk	Crisis risk	Severity of downturn	Strength of recovery
LTV caps		↘		↘
Capital requirements for mortgage loans		↘		↗
Rental regulation	↗	↗	↗	
Property taxation			↘	

Note: The table summarises the results of empirical exercises performed throughout the study. Green means a favourable outcome and red an unfavourable one. Only significant results are shown. GDP-at-risk refers to the bottom 5% quantile of the distribution of quarterly real GDP growth. Tightening means increases in policy indicators, except for LTV caps where a decrease of the policy value signifies a tightening. Detailed report:

Taken together, these results mean that, in the management of macroeconomic risks from housing, policies that shape the housing market itself, such as its regulation and taxation, are at least as important as tools to manage the flow of credit. Well-functioning housing markets are therefore important not only to improve housing affordability but also

to enhance macroeconomic resilience.

References:

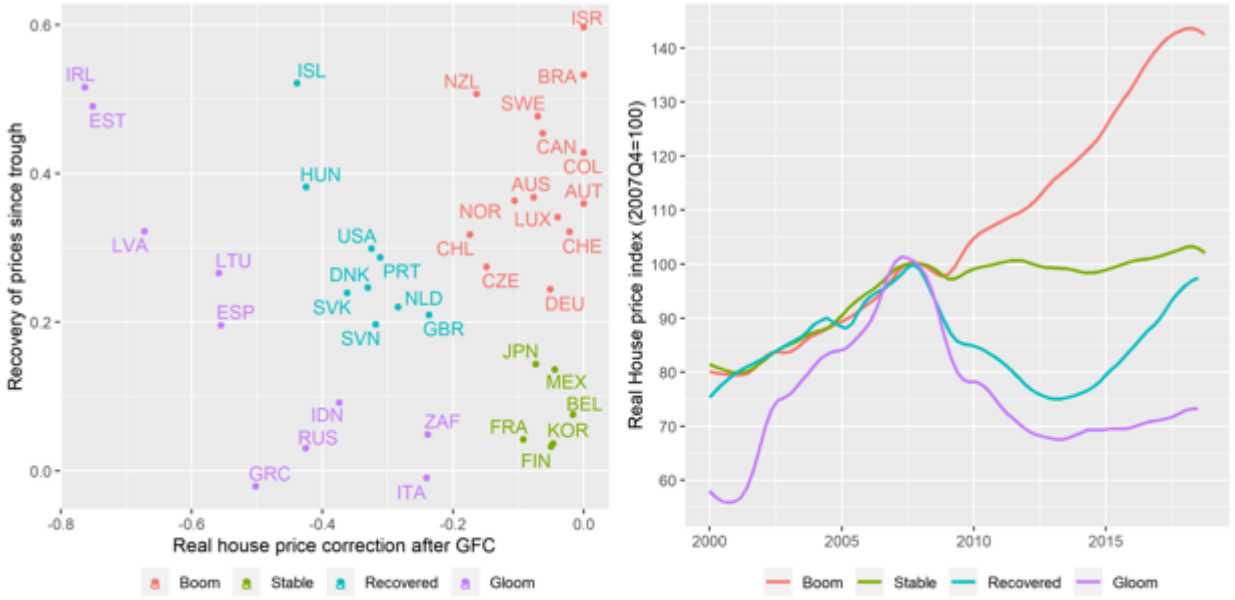
Cournède, B., S. Sakha and V. Ziemann (2019), "Housing Markets and Economic Resilience", *OECD Economics Department Working Papers*, OECD Publishing, Paris, https://doi.org/10.1787/aa029083-en.

Are there ways to protect economies against potential future housing busts?

Category: Canada,Germany,Sweden,Uncategorized
written by oecdecoscope | March 28, 2023
by Boris Cournède, Maria Chiara Cavalleri, Volker Ziemann, OECD

Housing, a large and volatile sector, is often at the centre of economic crises, as a trigger or amplifier. The current situation, which is characterised by house prices approaching or exceeding pre-crisis levels in many countries, raises questions as to whether these price levels may be indicative of a possible impending correction and what can be done to reduce housing-related macroeconomic risks.

Figure 1. House price developments since the global financial crisis



Note: The right panel depicts average price movements per country group using local regression techniques. "Boom" and "Stable" countries encountered a limited prices correction (<20%) during the global financial crisis. The former witnessed sharp increases thereafter (>20%) and the latter did not. "Recovered" and "Gloom" countries experienced a major real house price correction during the crisis (>20%). The former benefited from an equally strong rebound while the latter did not.
Source: Cavalleri, M. C., B. Cournède and V. Ziemann (2019), "Housing Markets and Macroeconomic Risks", *OECD Economics Department Working Papers*, No. 1555, OECD Publishing, Paris.

The OECD has been developing models that allow assessing to which extent economic trends associated with housing booms, such as steep house price increases or strong debt expansion, can fuel the risk of a severe economic downturn (Turner, Chalaux and Morgavi, 2018). About half of the countries covered by the models are estimated to face real yet limited risks (above 20% but below 30%) of experiencing a severe downturn over the medium term, with housing trends playing a significant role." Model results suggest that housing booms can fuel crisis risk domestically but also across borders as a consequence of international financial links (Cavalleri, Cournède and Ziemann, 2019).

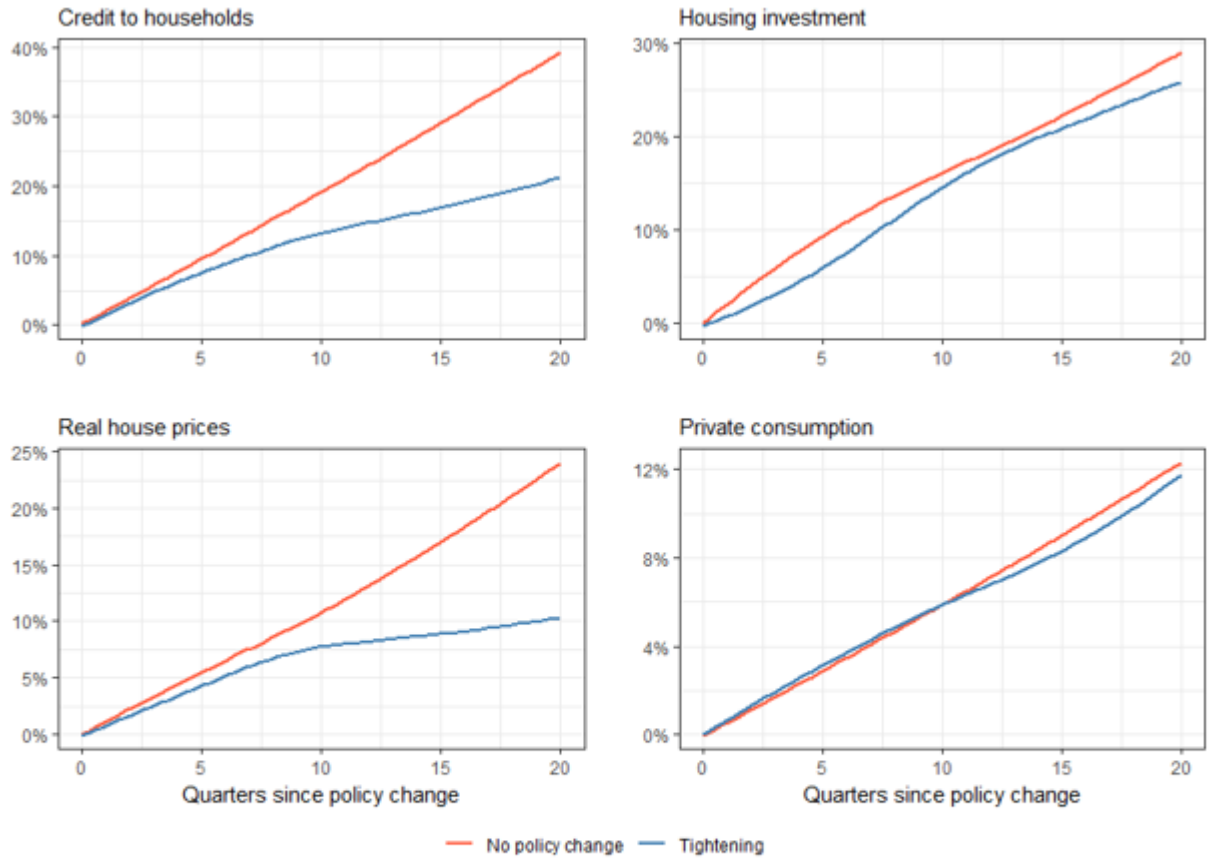
Countries can reduce housing-related risks in particular by:

- Capping the size of loans relative to house prices. New evidence suggests that such caps are capable of containing house prices and mortgage lending incurring limited economic cost (Figure 2): housing investment is only marginally reduced and there is very little effect on consumption. Tighter loan-to-value ratios are also

linked with a lower risk of severe downturns.

- Limiting the size of loans relative to income. This measure holds promising potential but has been seldom used so far, which means there is little scope yet to evaluate it ex post.
- Tightening bank capital requirements for riskier housing loans. Measures of this nature are linked to more moderate output fluctuations and stronger recoveries after downturns.
- Reducing the tax advantages given to housing assets. Higher effective taxation of housing assets (which can come from higher property taxes or lower income tax breaks for housing) favours smoother housing cycles.

Figure 2. Effect of tightening LTV caps



Note: The treatment group consists of episodes where countries tightened their LTV caps at time=0. The control group comprises episodes where countries did not implement such a policy change although their conditions were otherwise similar. This treatment group has been determined by propensity matching techniques using a probit model with real and financial variables as covariates. The lines show averages for each group.

Source: Cournède, B., S. Sakha and V. Ziemann (2019), "Housing Markets and Economic Resilience," *OECD Economics Department Working Papers*, forthcoming, OECD Publishing, Paris.

References:

Cavalleri, M. C., B. Cournède and V. Ziemann (2019), “Housing Markets and Macroeconomic Risks“, OECD Economics Department Working Papers, No. 1555, OECD Publishing, Paris.
Turner, D., T. Chalaux and H. Morgavi (2018), “Fan Charts around GDP Projections Based on Probit Models of Downturn Risk”, OECD Economics Department Working Papers, No. 1521, OECD Publishing, Paris.

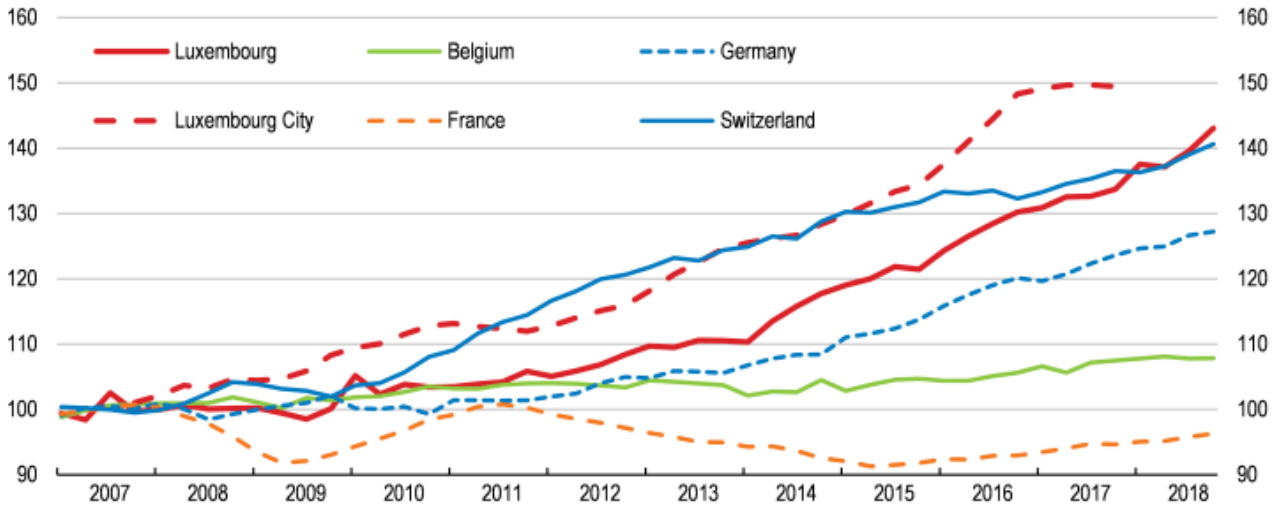
Making access to housing more affordable to all in Luxembourg

Category: Luxembourg
written by oecdecoscope | March 28, 2023
by Jan Strasky, Luxembourg Desk, OECD Economics Department

Luxembourg’s economy has been buoyant – robust growth has strongly outpaced the euro area average over most of the past decade. However, this success creates new problems, in particular in the housing market, which the 2019 Economic Survey of Luxembourg [link] analyses in detail. Strong population growth, mainly reflecting the number of foreign workers attracted by a buoyant economy, has kept housing demand growing for many years. When coupled with supply-side restrictions, such as limited use of land available for construction and cumbersome zoning restrictions, the imbalance between demand and supply stokes rising house prices (Figure 1). Increasing mortgage debt also raises the debt service burden for a larger share of households than in other countries and a tight rental market impedes housing affordability for poorer parts of the population.

Figure 1. Real house prices are growing strongly

Index 2007 = 100, s.a.



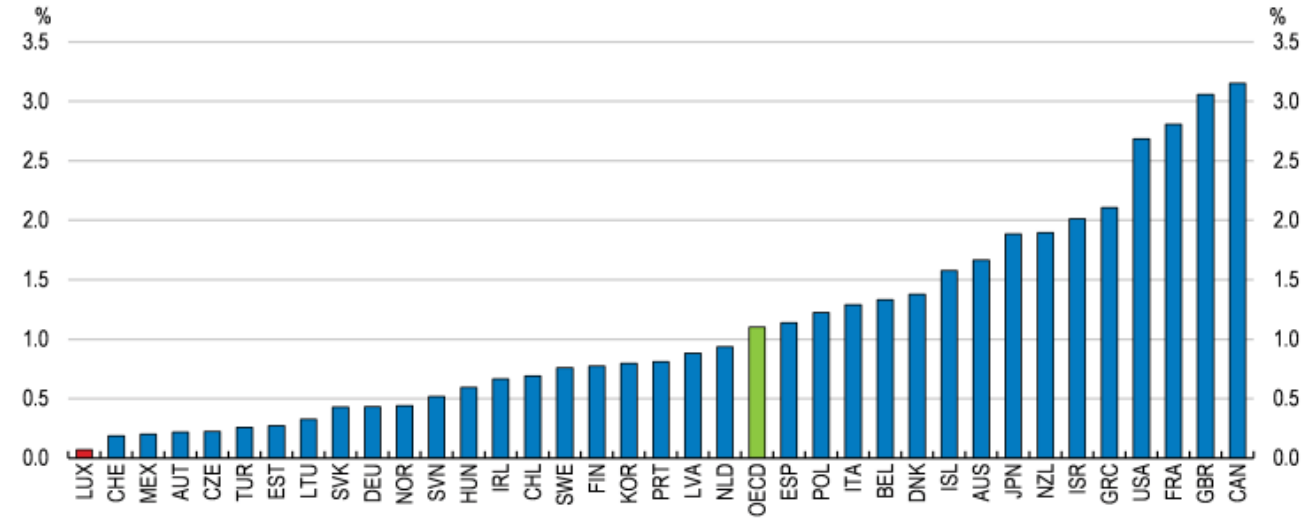
Note: For Luxembourg City, nominal annual values were linearly interpolated and deflated using a house price deflator calculated from the OECD Analytical House Price Indicators database.

Source: OECD (2019), *Analytical house prices indicators* (database); and Observatoire de l'Habitat.

As the housing stock has not expanded in line with growing demand for many years, the essential part of the solution is an increase in construction of new housing. Although the land available for housing construction seems sufficient, it is mainly in private ownership and many landowners do not have a strong incentive to sell or develop their land. In order to reduce the practice of land hoarding, where constructible land is kept undeveloped to capitalise on continuing land price increases, the opportunity cost of holding land for construction should be increased. Possible ways of doing so include introducing land value taxes on land zoned for housing construction or imposing sanctions on landowners and developers for non-use of building permits. Higher recurrent taxes on immovable property, based on up-to-date valuations reflecting the market price of the property, could also

help to incentivise the owners to sell vacant dwellings (Figure 2).

Figure 2. Recurrent immovable property taxes are low
Share of recurrent immovable property tax revenue in GDP, 2016



Source: OECD (2019), *OECD Global Revenue Statistics* (database).

Both municipalities and the central government could improve the situation in this area. Municipal autonomy in spatial planning decisions is high and the current framework has not delivered sufficient supply of housing.

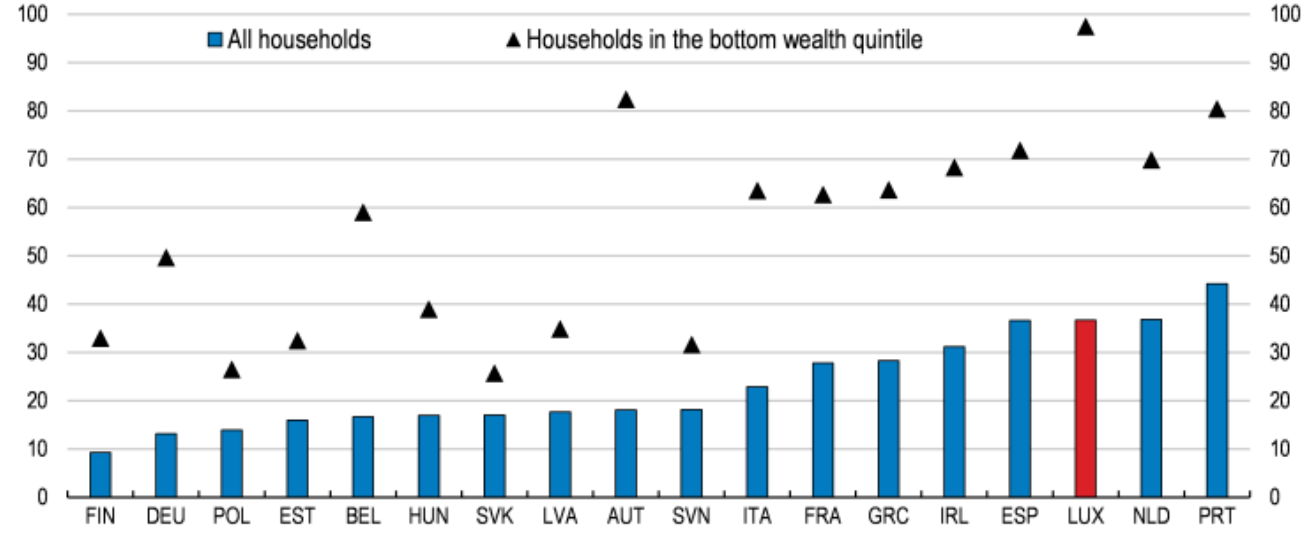
Some instruments exist in the law, but are simply not used. This is the case of an annual tax on constructible land not developed for more than three years, and also of a tax on unoccupied housing. Other instruments, such as a special property tax on building land for residential purposes, were introduced more broadly, but they are based on obsolete cadastral valuations and provide negligible revenues.

Given the high level of urban sprawl, which has important environmental costs, new housing construction should aim at increasing residential density, namely by constructing higher buildings,

in particular
around transport hubs. To soften municipal resistance to densification, the
targets on new housing construction agreed between the municipalities and the
central government in the Housing Pact could be extended to include numerical
targets for densification measures or social housing construction. It is clear
that a lot remains to be done by the central government, too. For example, a
reduction of mortgage interest deductibility could help reduce demand for
owner-occupied housing, while financing for new land acquisition by public
providers of social housing would help expand the stock of social rental
housing. Measures reducing demand for owner-occupied housing would also help
reduce the build-up of already high household indebtedness, which creates risks
for poorer households (Figure 3).

Figure 3. The share of over-indebted households is high, in particular for those with low wealth

Share of households with debt-to-income ratio exceeding 300%, 2014



Note: Computations of these shares only include households with mortgage on their main residence. The debt-to-income ratio calculates total outstanding debt on main residence divided by annual household gross income.

Source: HFCS database, LWS database, OECD (2019), *OECD Affordable Housing Database* .

The stock of social rental housing is small in international comparison, despite recent efforts by social rental management companies, and often allocated to tenants who are not those most in need. The low stock reflects many factors, including the historical policy of building affordable housing for sale, which could later be re-sold on the private market. This practice has now been phased out and the public housing providers focus on building social housing for rental, rather than for sale. The allocation of social housing also needs to be improved. The admission criteria for social housing are often flexible and with low transparency. Recurrent means-testing should be combined with tailored plans for re-entering the private rental sector, similar to those used by social rental agencies. Housing allowances and rents in the social housing sector could also become more geographically differentiated, reflecting the differences in market rents across municipalities: for example, Luxembourg City has clearly higher market rents than the north of the country.

Reference:

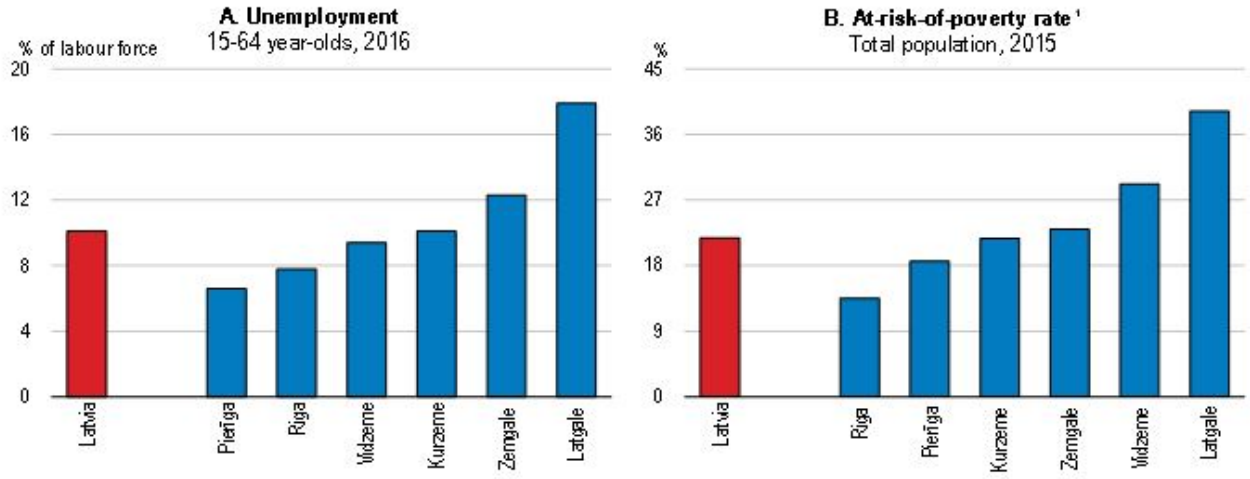
OECD (2019), OECD Economic Surveys: Luxembourg 2019, OECD Publishing, Paris.

Boosting economic opportunities and wellbeing in Latvia: why housing matters

Category: Latvia,Uncategorized
written by oecdecoscope | March 28, 2023
by Andrés Fuentes Hutfilter, Germany-Latvia Desk, OECD Economics Department

Unemployment is still above 8% in Latvia and contributes to poverty, in part because many unemployed have been without a job for an extended period of time. High unemployment and poverty are concentrated in some regions (Figure 1).

Figure 1: Poverty is high in regions with high unemployment rates



1. Share of population with disposable income below 60% of median household income.

Source: Central Statistical Bureau of Latvia.

Housing policies shape residential mobility and can encourage workers' movement to jobs (Andrews et al, 2011). The 2017 *Economic Survey of Latvia* therefore argues that good housing

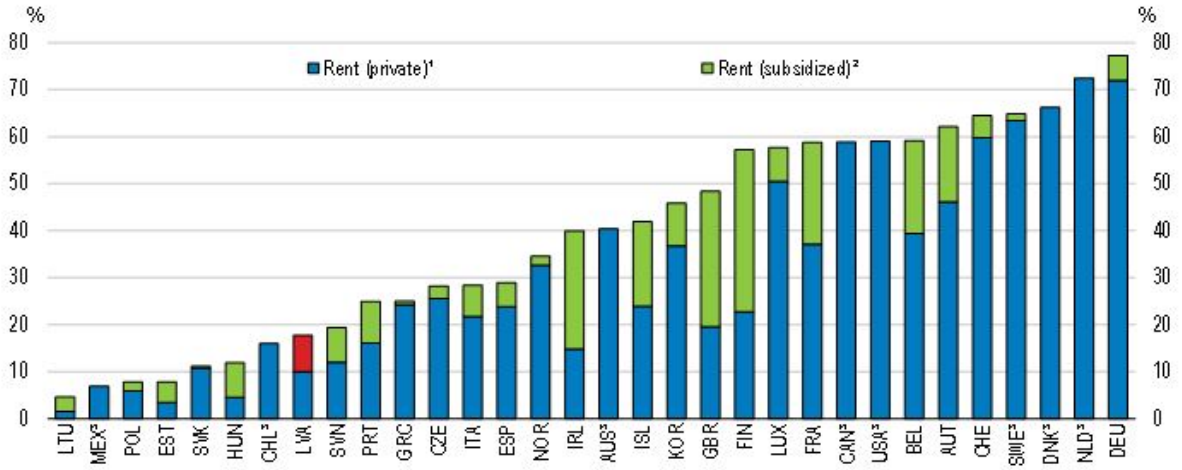
policies help reduce unemployment in high-unemployment areas. By helping workers find better jobs, they can also boost productivity and wages. Housing policies are particularly relevant for young people since they have a naturally higher propensity to move. Good housing policies could also encourage young people to seek opportunities in Latvia rather than emigrate.

Affordable quality housing is also important for wellbeing. Overcrowded housing is widespread among low- and middle-income households in Latvia. The share of households' housing spending in total expenditure (26%) is high, and higher than in other countries with similar income level, such as Estonia. Policies are therefore needed to make quality, affordable housing available in neighbourhoods which are well connected to employment opportunities.

Few households rent their homes, even among low-income households (Figure 2). Home owners from high-unemployment areas are likely to find it difficult to afford buying housing in areas with good employment opportunities, where house prices are likely to be higher. There is little development of new housing for rent. Legal uncertainty and long legal procedures hold back the development of the private rented housing market. Reducing tax evasion and fostering long-term lease contracts could also make contracts more reliable and make rented housing more attractive for tenants. Several OECD countries have also successfully expanded affordable housing by requiring private developers to allocate a proportion of the dwellings as affordable units (Salvi del Pero et al., 2016).

Figure 2: Few low-income households rent their homes

Share of rental housing, low-income households, 2014 or latest year



Note: Low-income households with income in the bottom quintile of the net income distribution. For Chile, Mexico, Korea and the United States, gross income is used due to data limitations.

1. Share of households renting their dwelling at market prices on the private rental market.
2. Share of households renting their dwelling at reduced market prices.
3. Data on tenants renting at private include tenants renting at subsidized for Australia, Canada, Chile, Denmark, Mexico, the Netherlands and the United States. For Sweden, data on tenants renting at subsidized are not capturing the full extent of coverage due to data limitations.

Source: OECD (2016), *OECD Affordable Housing Database*, Table HM1.3.3, December *(http://www.oecd.org/social/affordable-housing-database.htm)*.

Social housing is scarce and waiting lists are long, especially in the Riga area, where unemployment is low and good jobs more abundant. Government spending on social housing and on cash housing benefits for low-income households is low. Support only covers a small share of the low and middle income population. More funding for low-cost rented housing in areas of expanding employment would boost employment and lower poverty. An eligible person can only apply for assistance in the municipality where she resides, limiting labour and residential mobility. A nation-wide register that allowed eligible persons to apply for social housing where they expect better job opportunities could support residential mobility.

References:

OECD (2017) *Economic Survey of Latvia.*

Salvi del Pero, A., Willem, A., Ferraro, V., Frey, V. (2016), “Policies to promote access to good-quality affordable housing

in OECD countries," *OECD Social, Employment and Migration Working Papers,* OECD Publishing, Paris.

Andrews, D., A. Caldera Sánchez and Å. Johansson (2011), "Housing Markets and Structural Policies in OECD Countries", *OECD Economics Department Working Papers*, No. 836, OECD Publishing, Paris.

New Zealand has recently enjoyed strong economic growth, but housing and population ageing pose challenges

Category: New Zealand,Uncategorized
written by oecdecoscope | March 28, 2023
by David Carey, New Zealand Desk, OECD Economics Department.

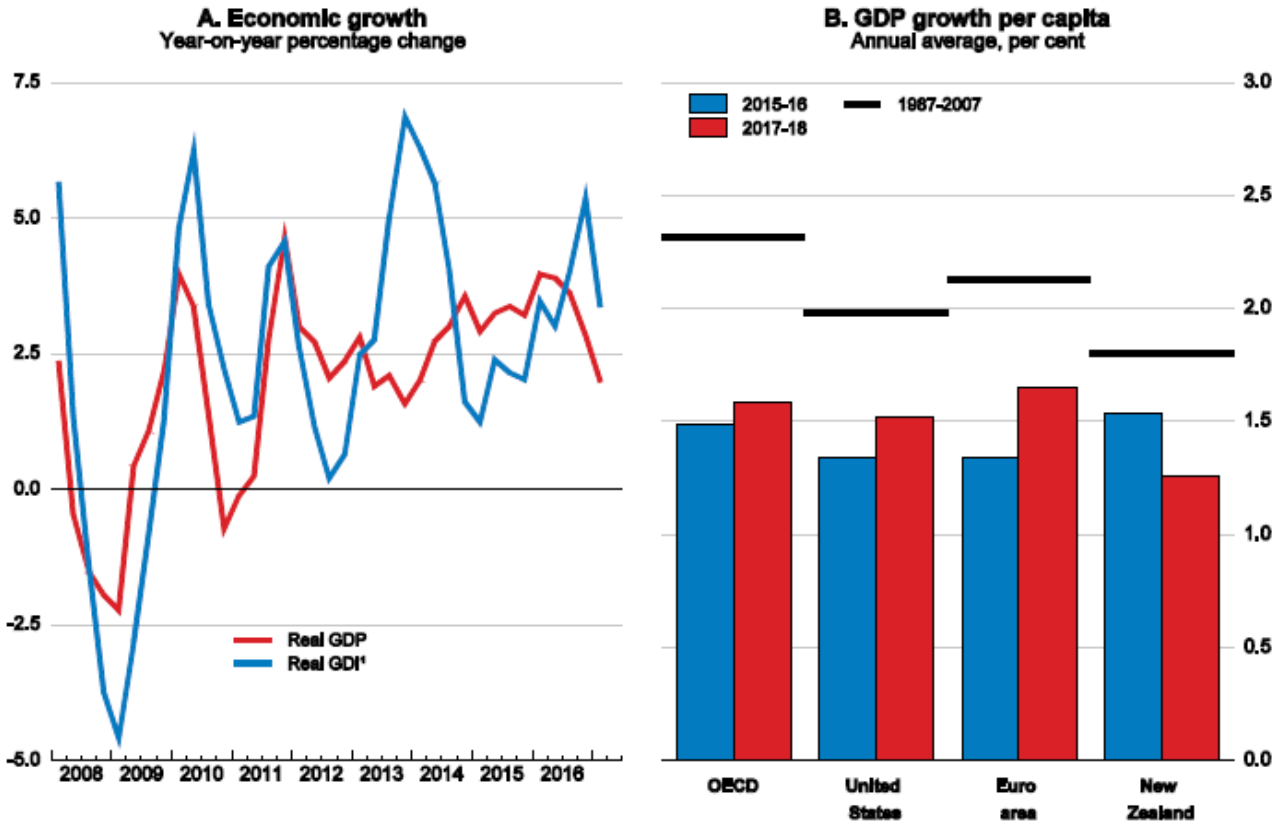
New Zealand enjoyed strong economic growth during 2016, driven by high net inward migration, solid construction activity, booming tourism and supportive monetary policy, although in per capita terms growth has been more in line with that in other advanced economies. The terms of trade have rebounded to near record levels, boosting income growth. Growth eased somewhat during the last quarter of 2016 and the first quarter of 2017, in part due to temporary factors including the impact of unfavourable weather conditions on agricultural output and disruption from the November 2016 Kaikōura earthquake. The OECD projects that growth will return to around 3% in 2017-18, supported by export growth from strong tourism demand and

increases in dairy exports. However, slower net immigration is likely to curtail both consumption and residential construction, and the wind-down in the Canterbury earthquake rebuild will curb construction expenditure, more than offsetting the boost from the Kaikōura rebuild and the recently announced increases in infrastructure spending. The unemployment rate is expected to edge down to 4 ½ per cent by the end of 2018 and wage growth to rise moderately. Consumer price inflation should rise sustainably to 2% by the end of 2018, as the effects of oil price falls pass and capacity constraints bite.

While appropriate on the basis of the Reserve Bank of New Zealand's inflation projections, current monetary policy settings have the downside of fuelling increases in house prices and household debt. As discussed in the accompanying housing blog, both have reached high levels by historical standards and in comparison with most other countries. Further progress is needed to reduce housing supply restrictions, and macro-prudential policy may need to be tightened further, notably by the implementation of debt-to-income limits to reduce financial stability risks.

The government's prudent approach to fiscal policy puts New Zealand in good stead to cope with future global shocks and natural disasters. Like other countries, New Zealand also faces large spending pressures from public pensions and health-care costs in the longer term. To this end, the government has announced its intention to increase the age of eligibility for the public pension by six months each year from 2037, reaching 67 by 2040. Budget savings would be larger and inter-generational equity greater if this increase were to be brought forward, the transition period lengthened and the pension age subsequently indexed to life expectancy. The planned focus on increasing public-sector productivity should help to contain long-term increases in health-care outlays.

Economic growth has been strong, less so in per capita terms



1. Real GDI equals real GDP adjusted for changes in the terms of trade.

Source: Statistics New Zealand and OECD, Economic Outlook 101 database.

References

OECD (2017), OECD Economic Surveys: New Zealand, OECD Publishing, Paris.