

HM1.2 HOUSE PRICES

Definitions and methodology

House prices capture the financial burden of purchasing a dwelling, and their development over time is measured by a (real) house price index. The evolution of rental prices can be monitored over time by the (real) rent price index. Alternatively, house prices can be compared to income (price-to-income ratio) as a measure of the affordability of owning a dwelling. If the price-to-income ratio is above (below) their long-term average, house prices are considered to be overvalued (undervalued).

Meanwhile, the OECD database on regional house price indices shows how house price developments vary across regions and cities within countries (for further discussion, see the OECD National and Regional House Price Indices Database, as well as OECD, 2020a).

Key findings

Considering developments since 2015, on average across the OECD area, the real house price index rose to 121.7 index points in the fourth quarter of 2020 (Figure HM1.2.1, also see OECD, 2020a; OECD, 2020a). Meanwhile, GDP per capita across the OECD increased on average over the 2015-2019 period (but not as fast as real house prices), before decreasing in 2020 (from 106.3 to 100.6) to return to 2015 levels.

On average, the pandemic has not dramatically affected the evolution of price-to-income ratio, though there are big differences across countries

The price-to-income ratio brings together the developments of house prices and income and represents a main indicator of housing affordability. On average in the OECD, this ratio steadily increased from 2012 through the first quarter of 2020, prior to the onset of the COVID-19 pandemic and related lockdown measures in many OECD countries. Long-term trends data for the EU can be found in the online worksheet HM1.2.1b.

The OECD average hides wide differences across countries, however. Based on the evolution between **2015 and 2019** (prior to the COVID-19 pandemic), OECD countries could be broadly grouped into three categories (for countries where data available; see the online worksheet HM1.2.1 for country-specific results):

- *Price-to-income ratio within +/- 10 index points of the base value (100):* Australia, Belgium, Chile, Colombia, Denmark, Estonia, Finland, France, Greece, Italy, Japan, Korea, Latvia, Norway, Poland, Portugal, the Slovak Republic, Switzerland, Turkey, the United Kingdom and the United States.
- *Steady increase in price-to-income ratios above 110 index points:* Austria, Canada, the Czech Republic, Germany, Hungary, Ireland, Israel, Lithuania, Luxembourg, the Netherlands, New Zealand and Spain.

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The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

- *Price-to-income ratio initially rising by more than 10 index points, before falling and then rebounding (remaining above 100 index points):* Sweden.

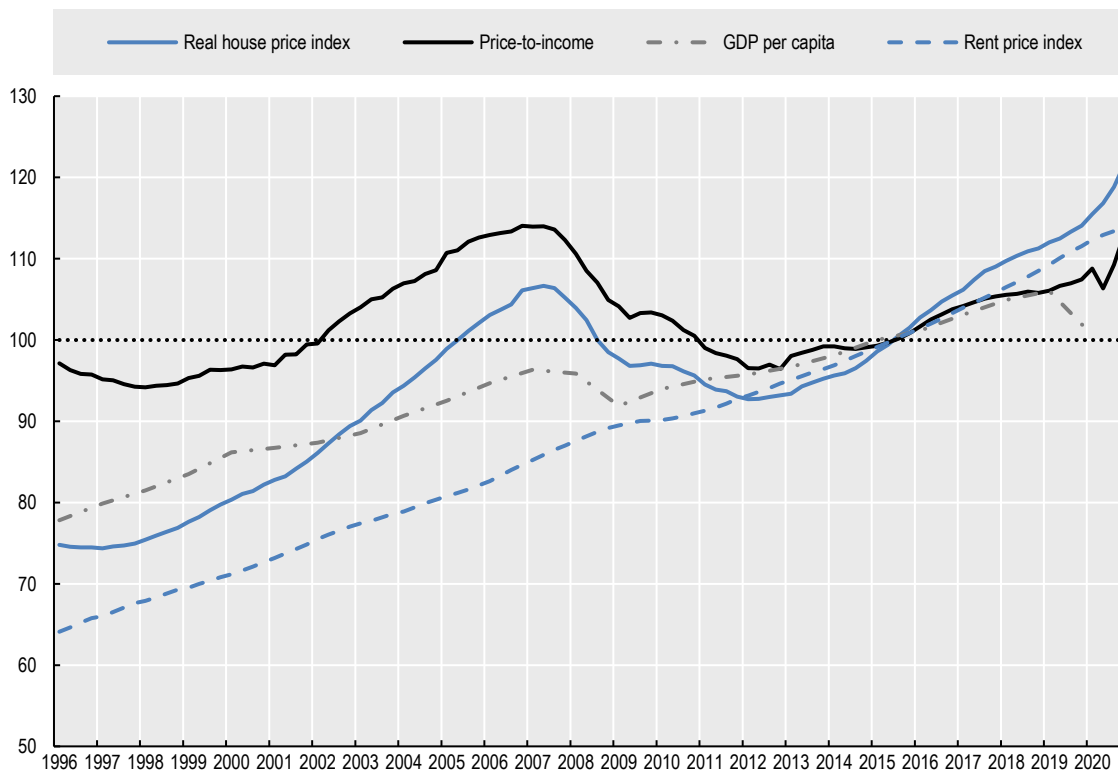
Starting in the second quarter of 2020, the price-to-income ratio experienced a brief and marked decline, on average, before picking up again from the third quarter. By the fourth quarter of 2020, the price-to-income ratio on average across the OECD had surpassed pre-COVID-19 levels, reaching its highest point since the years preceding the global financial crisis.

Again, there are considerable differences across countries. From the **second quarter of 2020** until the most recently available data, including **the first quarter of 2021** where available, five scenarios can be highlighted (see the online worksheet HM1.2.1 for country-specific results):

- *Steady increase in price-to-income ratios:* Austria, Chile, Denmark, Finland, Germany, Hungary, Israel, Italy, Luxembourg, the Netherlands, the New Zealand, Norway, Portugal, Sweden, Switzerland, Turkey and the United States.
- *Decline in the price-to-income ratio, before rising to return to pre-COVID levels:* France and Latvia.
- *Price-to-income ratio initially rising, but falling to below the level of Q1/2020:* Estonia, Lithuania, Poland and the Slovak Republic.
- *Price-to-income ratio falling, before rising to above the level of Q1/2020:* Canada, Greece, Japan, Korea, Spain, and the United Kingdom.
- *Price-to-income ratio falling since the onset of the COVID-19 crisis:* Ireland.

Figure HM1.2.1: Development of house prices, OECD average, 1996-2020

Real house price index, rent price index, price-to-income ratio and GDP per capita indexed to 2015



Note: Rent price index refers to OECD 32 countries and does not include Colombia, Costa Rica, Estonia, Hungary, Lithuania and Slovenia for which data were not available over the entire period. OECD aggregate data for 2020 has been estimated based on 2019.

Source: OECD Analytical House Price Database.

Housing prices have increased in recent decades

Real house prices have continued their steady rise since around 2012 (Figure HM1.2.1), and evidence for 2019 and 2020 suggests that real house prices have continued to grow – in some countries, significantly – during the COVID-19 pandemic. Real house prices rose across the OECD, by 7% on average from the fourth quarter of 2019 to the fourth quarter of 2021 – the fastest year-to-year growth over the past two decades.

Country-specific trends are similar (Figure HM1.2.2 – Panel A). Looking first at longer term trends, real house prices increased in 32 countries between 2005 and 2019, with Colombia, Canada, and Israel recording the largest increases (over 80%) over this period. Six countries recorded a drop in real house prices over this period, most significantly in Greece and Italy (over 20%).

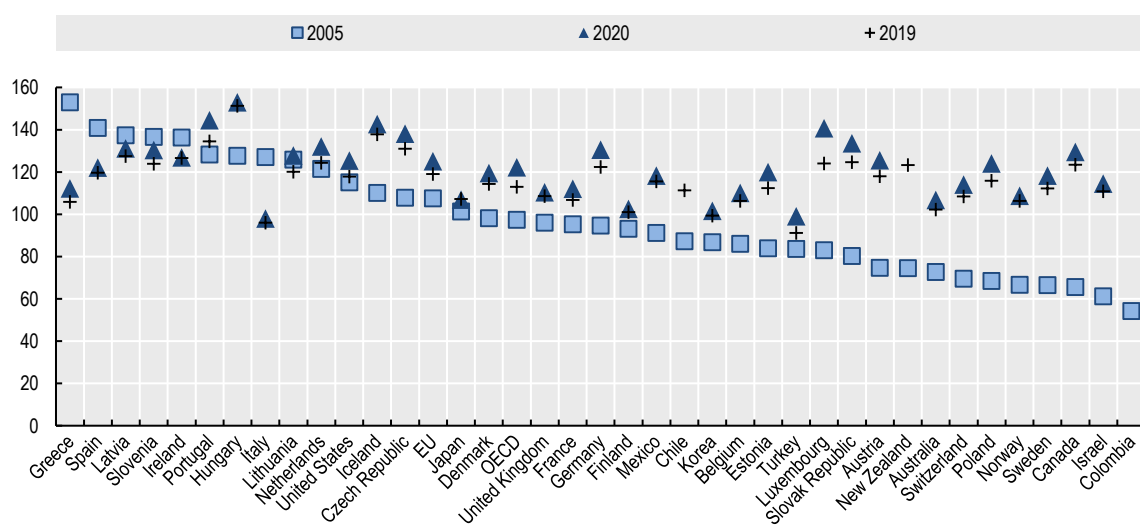
Focusing on the evolution of real house prices between 2019 and 2020 to assess the impact of the COVID-19 pandemic, real house prices rose in all but two countries. In several countries, the growth in real house prices between 2019 and 2020 was significant: 13% in Luxembourg, 9% in Turkey, and 7% in Estonia, Germany, Poland, Portugal and the Slovak Republic. Japan and Ireland experienced stable real house prices between 2019 and 2020.

In the rental market, looking first at longer term trends, rent prices increased in all but two countries between 2005 and 2019 (Figure HM1.2.2 – Panel B). Turkey, Lithuania, Iceland and Estonia recorded the largest increases (over 100%) over this period. Japan and Greece were the only two countries that saw a drop in real rent prices since 2005; however, in Greece, the drop in rent prices was much smaller than that of real house prices (-10% vs. -31% decline).

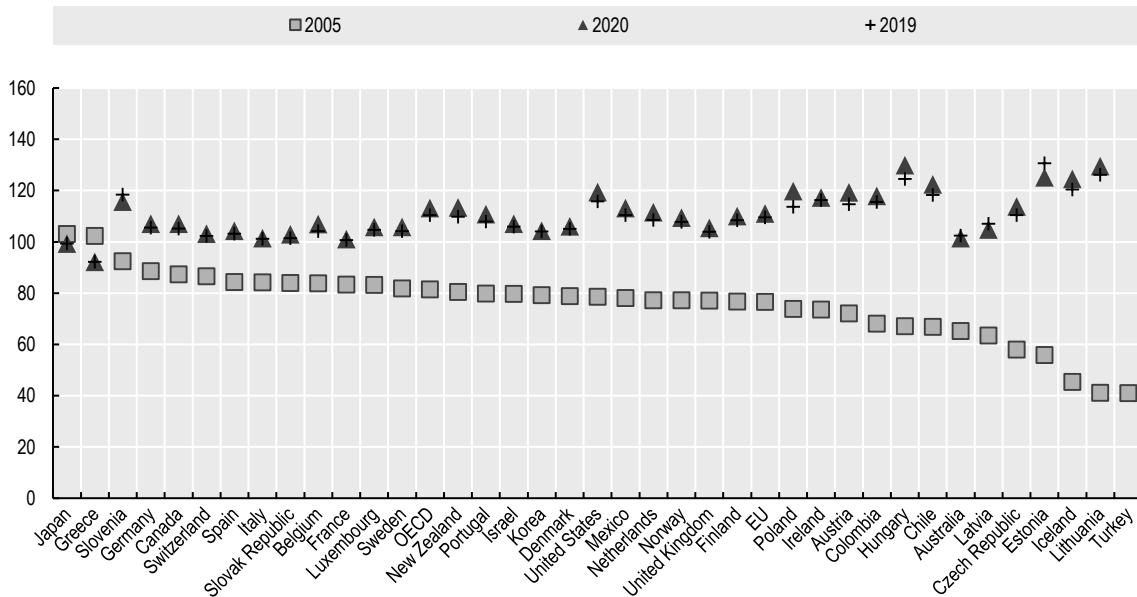
However, between 2019 and 2020, rental prices did not experience the same dramatic growth as real house prices. This may be related to caps on rent prices and other artificial rent suppression measures that were implemented in response to the COVID-19 pandemic (see PH6.1 for further discussion on such emergency support measures introduced for renters). Real rent prices declined in four countries between 2019 and 2020 (Australia, Estonia, Latvia and Slovenia), while remaining largely unchanged in five countries (France, Greece, Italy, Japan and Korea). Turkey recorded the highest growth in rent prices from 2019 to 2020 (9%), yet most other countries recorded growth of between 1% and 3% (Annex HM1.2.A3).

HM1.2.2. Housing prices increased in many countries between 2005, 2019 and 2020^{1,2}

A. Real house price index, 2005, 2019 and 2020, 2015=100



B. Rent price index, 2005, 2019 and 2020, 2015=100



Note: 1. House price indices, also called Residential Property Prices Indices (RPPIs), are index numbers measuring the rate at which the prices of all residential properties (flats, detached houses, terraced houses, etc.) purchased by households are changing over time. Both new and existing dwellings are covered if available, independently of their final use and their previous owners. Only market prices are considered. They include the price of the land on which residential buildings are located (see (OECD et al., 2013[12])). For Panel A, 2005 data were not available in several countries; as such, data for the nearest available year were used: Latvia and Lithuania (2006), Hungary and Luxembourg (2007), the Czech Republic (2008) and Turkey (2010).

2. EU average is based on 19 Euro zone countries. Panel B: Data for OECD refer to 32 countries and does not include Colombia, Costa Rica, Estonia, Hungary, Lithuania and Slovenia for which data were not available over the entire period. OECD aggregate data for 2020 has been estimated based on 2019.

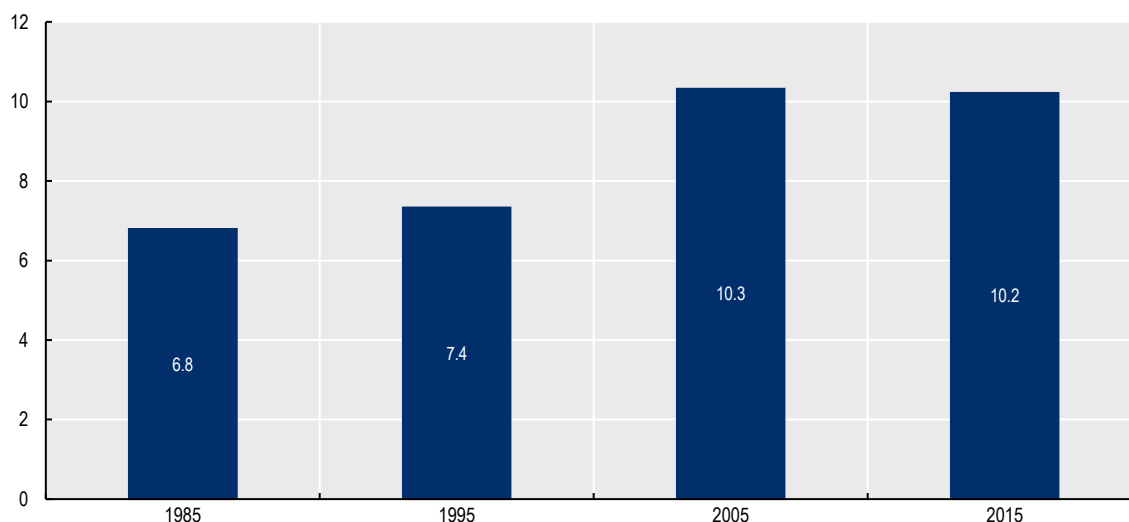
Source: Calculations based on OECD Housing prices (indicator), <https://dx.doi.org/10.1787/63008438-en> (accessed April 2021).

Compared to past generations, today's families pay more to buy a flat

The rising cost of housing means that young families with children – even those with median income levels – are finding it increasingly difficult to purchase a home. Based on price data from capital cities, OECD (2019) found that a median-income couple with two children must spend significantly more to purchase a modest-sized flat than they would have 30 years ago, putting increasing pressures on household budgets and making home ownership less accessible to young families today, relative to previous generations (Figure HM1.2.3). At the same time, real interest rates have fallen considerably since 1985, moderating somewhat the impact of house price increases on housing costs.

Figure HM1.2.3: Today's families pay considerably more to buy a flat than previous generations

Number of years of annual income needed to buy a 60 square meter flat in the country's capital city or financial centre, for a median-income couple with two children



Note: Households included here concern couples with two children at median income levels. The OECD average includes Australia, Canada, Denmark, Finland, France, Germany, Greece, Hungary, Israel, Italy, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States.

Source: OECD (2019), *Under Pressure: The Squeezed Middle Class*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/689afed1-en>. OECD Secretariat calculations based on data from EU-SILC (Europe), SLID and CIS (Canada), CPS March Supplement (United States) and LIS Data Center: Global Property Guide; OECD Residential Property Prices Indices (RPPIs).

New regional housing price indices produced by the OECD

National house price indices are based on house prices from across the entire country. They measure the rate at which the prices of residential properties purchased by households change over time, and aim to measure pure price changes. Calculating real house price growth, i.e. controlling for national general inflation, allows for a more meaningful comparison of house price dynamics across countries. Nevertheless, national house price indices mask considerable variation in regional house price levels. For example, house prices have risen twice as much in inner London compared to the rest of the United Kingdom since 1995; similarly, over the same period, house prices in the Los Angeles metropolitan area increased twice as fast as those in the Chicago metropolitan area (OECD, 2020a). Moreover, across OECD countries, urban residents are, on average, less satisfied with the availability of quality affordable housing relative to rural residents (OECD AHD, Indicator HC1.4).

The OECD National and Regional House Price Indices Database provides data on housing price developments at national and regional level in OECD countries (see OECD, 2020a and OECD, 2021b).

Data and comparability issues

The items in this indicator that reflect historical trends are (in part) based on national house price indices. The OECD Analytical House Price Database shows indices of residential property prices over time, including rent prices, real and nominal house prices, and the price-to-rent ratio and the price-to-income ratio. In most cases, the nominal house price covers the sale of newly-built and existing dwellings, following the recommendations from the RPPI (Residential Property Prices Indices) manual. The real house price is given by the ratio of the nominal price to the consumer expenditure deflator in each

country, both seasonally adjusted, from the OECD National Accounts Database. The price-to-income ratio is the nominal house price divided by the nominal disposable income per head and can be considered as a measure of affordability. The price-to-rent ratio is the nominal house price divided by the rent price and can be considered as a measure of the profitability of home ownership. OECD countries include in their CPI a measure of rentals for housing. However, decisions on the coverage, the adjustment for quality, the treatment of regulated rents and the design of price surveys in cases where the rental market is small or unregulated, may affect comparability of the rent price index across countries. This indicator is an index with base year 2015.

A comparison of nominal house prices levels across countries is difficult, as definitions differ across countries. For example, the level of house prices may refer to different entities (dwellings as opposed to square meters, for example), to different types of dwellings and different periodicity (monthly, quarterly, semi-annual, annual).

Sources and further reading

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