

Executive Summary

1. Access to affordable housing – a basic human need and central dimension of well-being – has become increasingly challenging in many countries. House prices and rents have been rising; thus, housing costs have been absorbing an increasing share of household income relative to other spending items, such as health, education or transport. During 2005-15, this share rose by five percentage points on average, amounting to 31% of income for middle-income households across most OECD countries. Disadvantaged social groups are being particularly affected, many of whom find it difficult to afford quality housing, even more so in areas that are close to jobs. They also often live in overcrowded spaces, with poor living conditions, a situation that has been particularly evident during the COVID-19 crisis due to mandated stay-at-home orders. Moreover, before the pandemic, homelessness had been on the rise in around one-third of OECD countries.
2. To a large extent, the affordability challenge has its roots in the housing sector's failure to supply enough dwellings where demand is strong, such as in job-rich urban areas. In part, these supply-demand mismatches stem from geographical constraints and regulatory restrictions in many cities, including those related to land-use and zoning provisions. Other factors, such as rental market restrictions and landlord-tenant regulations, also have a bearing on the efficient functioning of real estate markets, as they can discourage investment in the construction and upkeep of dwellings.
3. A third key challenge alongside affordability and efficiency is related to environmental sustainability: The residential sector accounts for 17% of energy and process-related emissions of greenhouse gases and 37% of emissions of fine particulate matter globally. Therefore, efforts to meet agreed emission targets require ambitious initiatives to reduce the carbon footprint of construction and improve the energy efficiency of the existing building stock. Because dwellings have a long lifespan, efforts in this area have long-lasting consequences for the environment. Energy poverty also tends to be more prevalent among disadvantaged social groups, compounding the affordability challenge: across the OECD area, on average nearly 20% of low-income people (defined as living in households with income below 60% of the median) report having difficulty heating their homes.
4. Addressing these three, interconnected challenges requires policy action across a wide range of domains while recognising complementarities and trade-offs among different policy objectives. In particular, a few policy levers can deliver progress across multiple objectives, including social housing investment, land-use regulations and housing taxation. In particular:
 - Public investment in housing development has shrunk from 0.17% of GDP in 2001 to 0.06% of GDP in 2018 on average across OECD countries. Greater investment in social and affordable housing would have the dual benefit of protecting low-income or vulnerable households, while directly expanding the housing supply and, as a result, alleviating upward pressure on house prices. To fully seize the benefits of social and affordable housing, new construction needs to meet high environmental standards and should contribute to the development of inclusive, socially mixed neighbourhoods, whilst avoiding social and economic segregation.

- Land-use policy reforms can remove obstacles to expand supply in response to demand pressures and consequently help mitigate house price increases in high-demand areas. This can be achieved by removing overly tight building height restrictions or minimum lot size requirements. Also, governance arrangements should avoid overlapping responsibilities across and within levels of government and ensure that decision-making is based on the needs of entire metropolitan areas, rather than those of individual jurisdictions.
- Relying less on housing transaction taxes and more on annual taxes on immovable property while shifting the base of these taxes from the value of structures to current land prices would bring multiple benefits. The move away from transaction levies towards recurring taxes would lower obstacles to mobility, facilitating labour market adjustment and boosting economic growth. Shifting the basis from the value of structures to current land prices would encourage construction in valuable developable areas, helping to address supply-demand mismatches. Many countries are underutilising recurrent property taxes and have substantial scope for increasing these levies, which provide local governments with a key and stable source of funds to finance local services, including in the area of social housing.

5. By contrast, some reform options involve trade-offs among policy objectives, calling for compensatory measures to ensure balanced progress. In particular:

- Reducing tax incentives for mortgage holders helps to curb house price pressures, fostering market efficiency and promoting long-term affordability. In particular, phasing out mortgage interest relief, which mostly benefits higher-income households, would deliver distributional benefits. However, before prices adjust, such a change makes it more difficult for new buyers, often young families, to become homeowners. Gradualism is therefore important in the implementation of reforms in this area. Reform packages would also benefit from complementary action to remove impediments to the expansion of supply in areas of high demand, as discussed above.
- Greater flexibility in regulating landlord-tenant relations, including rent control, can encourage housing investment, reduce supply-demand mismatches and lower barriers to residential mobility. However, reforms could penalise vulnerable incumbent tenants in the short term, calling for compensatory measures, including for example an increase in the provision of social housing. This is particularly important during the recovery from the COVID-19 crisis.
- More stringent environmental standards that are necessary to achieve agreed emissions goals can put upward pressure on the costs of construction and maintenance and in turn on house prices. Compensatory measures may therefore be needed to reconcile sustainability and affordability objectives. They can involve, for example, subsidies for energy-efficiency upgrading, which could be financed at least in part by raising recurring property taxes along with measures to ensure that the rental sector is properly covered. Financial regulation can also contribute to easing the funding of the energy transition by allowing mortgage issuers to take into account in their pricing and credit conditions that more energy-efficient homes will have better long-term value, including when they finance renovation.

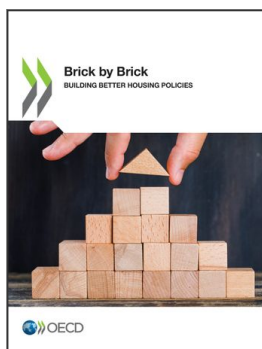
6. These interlinkages, and the many more covered in the report, underline the importance of efficient governance across levels and spheres of governments, as well as the government agencies responsible for housing policies. Housing policy functions are highly decentralised, with municipal or sub-municipal authorities having a critical role in residential land-use decisions in two-thirds of OECD countries. Indeed, responsibility for land-use regulation is shared across levels of government in one in every three OECD countries. This organisational setup creates coordination challenges; for example, horizontal coordination among local governments in a metropolitan area can do much to ensure that land-use policies reflect citizens' needs in ways that are coherent with environmental, social and economic objectives. Nationally, a whole-of-government approach is necessary to ensure consistency and coherence between, for example, macro-prudential and housing finance regulations, on the one hand, and tax policy, on the other.

7. All these challenges and associated policy choices will need to be considered against a background of sizeable shifts in technology, tastes and preferences, as well as evolving demands that are shaped by secular trends, current policy settings and future reforms:

- Demographic change, underpinned by rapid population ageing in many parts of the world, will bear on the nature and location of the homes that will be demanded, as well as the ability to adapt the existing housing stock to the needs of an ageing population in a manner that is affordable and sustainable.
- The COVID-19 crisis could prompt long-lasting changes in work practices and habits, including more widespread teleworking, which could reshape real estate markets. For example, reduced demand for office space in central business districts would be consistent with greater demand for larger homes in peri-urban and rural areas, especially where mass transport infrastructure facilitates commuting. Simultaneously, the shift towards online shopping could gain further momentum, leading to lower demand for commercial real estate and reshaping the “high street” in most modern cities. These changes could create potential for converting urban office and commercial real estate into housing.
- The business model of online digital platforms for short-term rentals has also been significantly affected by the COVID-19 crisis. The lingering impact of the crisis may for some time prompt a reconversion of dwellings into long-term rentals with benefits for the functioning of the private rental market. However, further in the future, as the threat of COVID-19 recedes, a renewed rise of digitally enabled short-term rentals could again put pressure on demand for housing space.

8. This report summarises the empirical evidence and policy insights developed under the aegis of the OECD Horizontal Project on Housing. The Horizontal Project brought together the collective expertise and experience of a number of OECD committees during 2019-20, including the Economic Policy Committee; the Employment, Labour and Social Affairs Committee; the Environment Policy Committee; the Regional Development Policy Committee; the Committee on Statistics and Statistical Policy; and the Committee on Fiscal Affairs.

9. The report is an integral part of the OECD Housing Policy Toolkit that includes a Housing Dashboard and Country Snapshots that allow comparing indicators of outcomes and policy settings across countries. The Toolkit offers policymakers and analysts cross-country comparative analysis and indicators to inform policy choices, bearing in mind country-specific differences in context, preferences and policy settings.



From:
Brick by Brick
Building Better Housing Policies

Access the complete publication at:
<https://doi.org/10.1787/b453b043-en>

Please cite this chapter as:

OECD (2021), "Executive Summary", in *Brick by Brick: Building Better Housing Policies*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/5c999818-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.