



# Housing markets in the EU: recent trends and policies

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This presentation expresses my views and not necessarily the ones of the European Commission.  
I also thank Mr. Peter Wallin for his useful inputs.



# Recent trends of housing markets in the EU

# Why are housing markets evolutions important for macro imbalances analysis?

Housing market evolutions can be causes / symptoms of macro imbalances:

- Housing problems can worsen financial crises, make deleveraging more painful (decrease of housing prices (HP) diminish collateral values and accentuate credit constraints) & endanger financial stability
- Wealth effects (housing often  $> 50\%$  of wealth, but debated effects) may amplify business cycles
- Misfunctioning of housing markets alter optimal factor allocation and workers mobility (see Trannoy and Wasmer (CAE, 2013) for the case of France)

# Follow-up of housing markets by the EU

**Inclusion of house prices evolutions in the scoreboard / MIP procedure:**

- Real: main indicator
- Nominal: auxiliary indicator

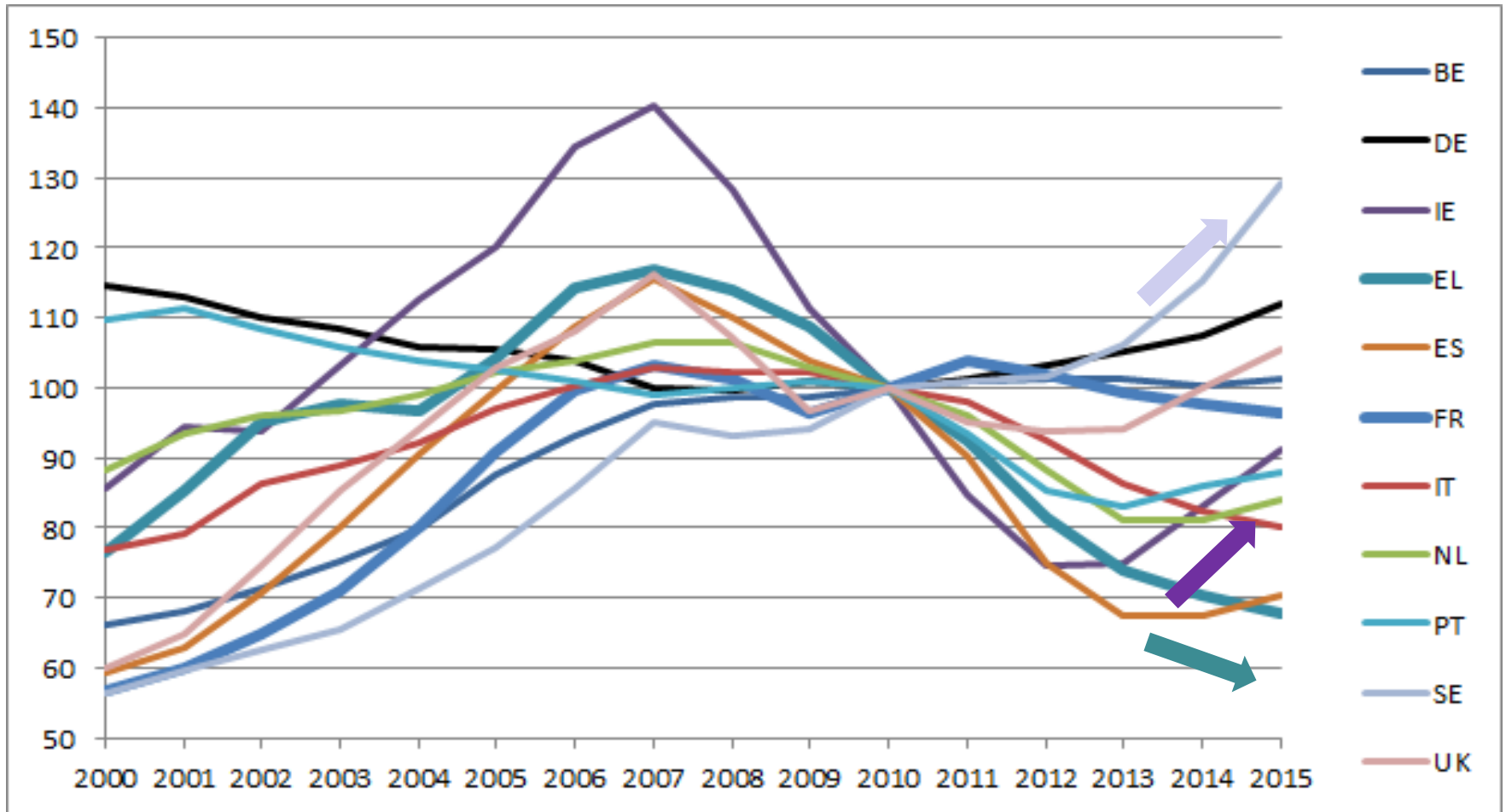
## Housing forecasts

**Analytical approaches in IDRs:** price to rent or to income, housing markets institutional features, analysis of rental markets (LIME) and exploratory approaches (house prices in levels: see reserve slides)...

# Why are house price forecasts important?

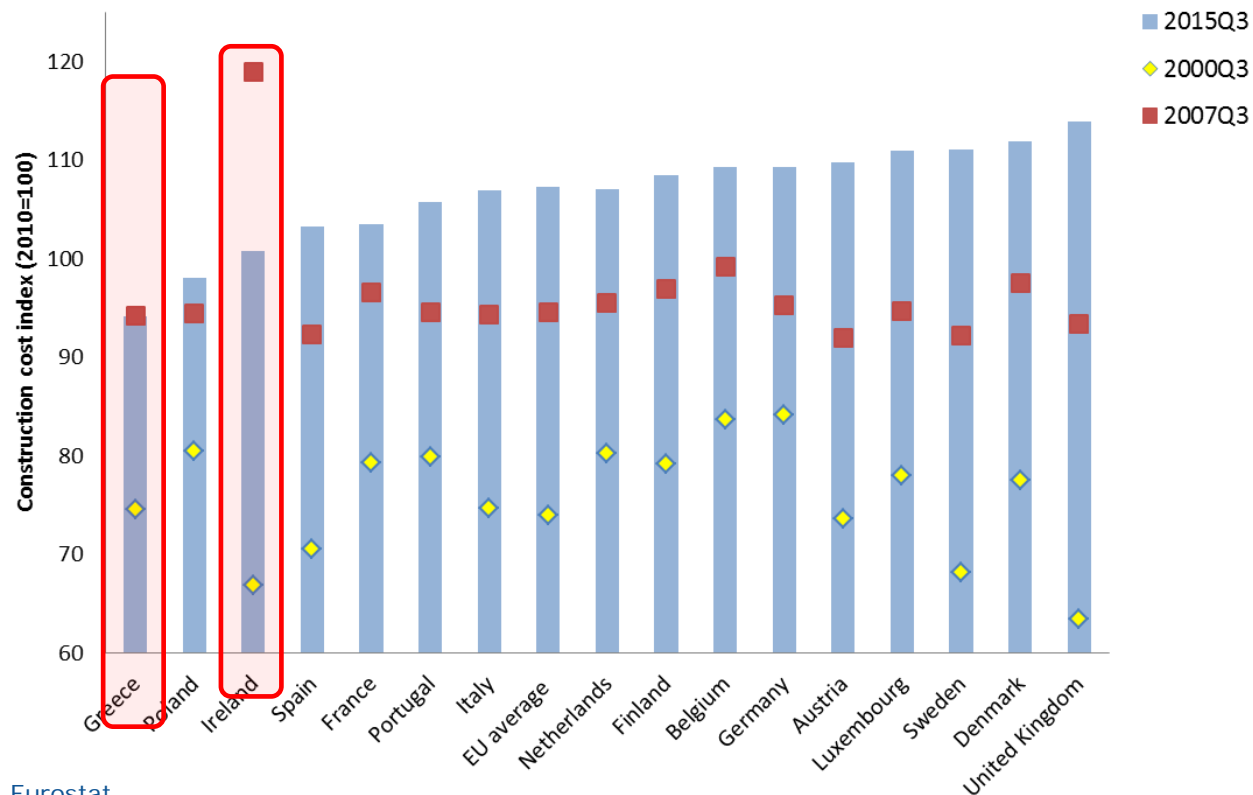
- **House prices play a key role in bank stress test scenarios via banks' asset valuations**
  - Scenarios used to simulate the effect of a HP adjustment on economic activity and on non-performing loans (NPLs).
- **A complement to the "usual" macro variables in the EU forecast**
  - Feedback effects on sentiment, consumption & investment.
- May help **households to get more certainty about future prospects** (but Lucas critique...)

# Index of deflated HP (100=2010)



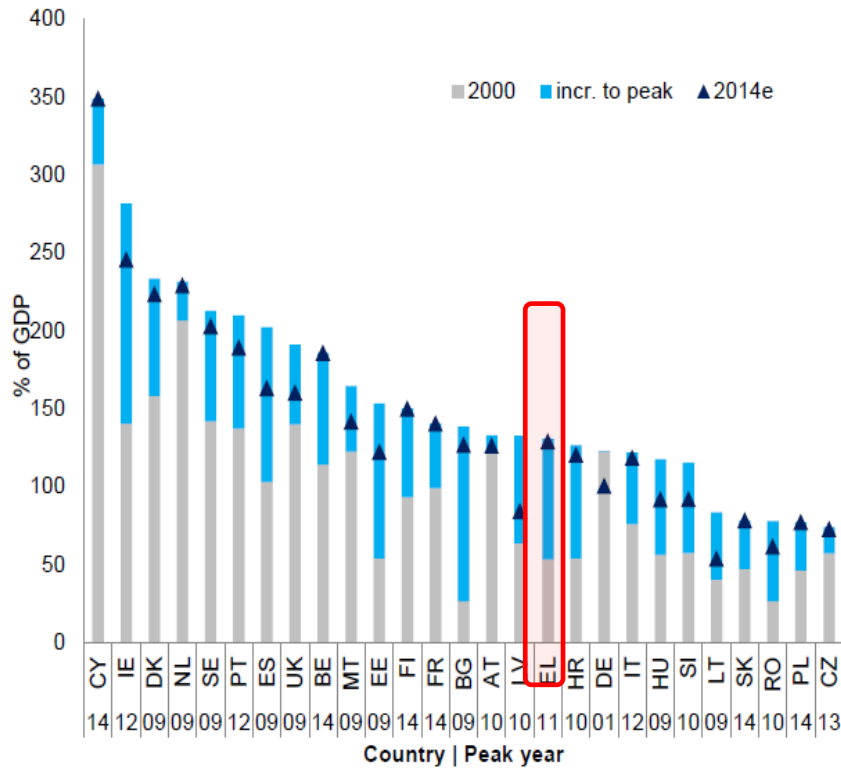
# ...fuelled by +/- dynamic construction costs

Construction cost index for selected EU countries (2010 = 100)



# ... and with financial consequences

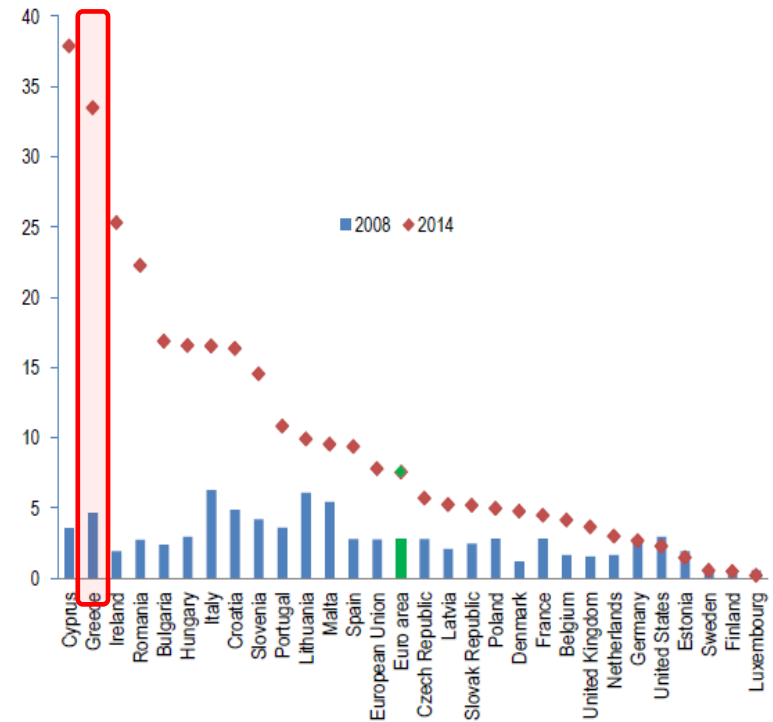
Graph 1: Private sector debt adjustment



Source: Eurostat

N.B.: figures also include corporate debt

Graph 2: Non-performing loans problem



Source: IMF



# 2015: several countries should flash

Preliminary

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Belgium	5.3 <sup>0</sup>	6.1 <sup>0</sup>	9.7 <sup>0</sup>	6.4	4.8	1.2	-0.1	1.4	1	0.2	0.1	-1.1	1.0 <sup>P</sup>
Bulgaria	11.3 <sup>0</sup>	42.8 <sup>0</sup>	27.2 <sup>0</sup>	12.3 <sup>E</sup>	18.4 <sup>E</sup>	17.6 <sup>E</sup>	-21.0 <sup>E</sup>	-12.3 <sup>P</sup>	-9.6 <sup>P</sup>	-5.3 <sup>P</sup>	0.4 <sup>P</sup>	1.5	3.6 <sup>BP</sup>
Czech Republic	10.0 <sup>0</sup>	-2.6 <sup>0</sup>	0.4 <sup>0</sup>	5.7 <sup>E</sup>	15.9 <sup>E</sup>	7.7 <sup>E</sup>	-4.7	-2.3	-1.3	-3.6	-0.8	1.8	3.9 <sup>P</sup>
Denmark	2.0 <sup>0</sup>	7.7 <sup>0</sup>	15.6 <sup>0</sup>	21.4	0.9	-7.9	-13.1	0.3	-4	-5	3.1	3	6.3
Germany	-1.4 <sup>0</sup>	-2.4 <sup>0</sup>	-0.3 <sup>0</sup>	-1.4	-3.7	-0.3	1.2	-0.9	1.4	1.8	1.8 <sup>C</sup>	2.2	4.1
Estonia			27.2 <sup>K</sup>	41	12.1	-16.5	-37.1	2.1	2.6	3.7 <sup>C</sup>	7.4 <sup>C</sup>	12.8	7
Ireland	10.0 <sup>0</sup>	9.2 <sup>0</sup>	6.3 <sup>0</sup>	12	4.3	-8.4	-13.2	-10.3	-15.4 <sup>C</sup>	-12.0 <sup>C</sup>	0.4	11.1	9.8
Greece	2.7 <sup>0</sup>	-1.0 <sup>0</sup>	7.8 <sup>0</sup>	9.7 <sup>E</sup>	2.2 <sup>E</sup>	-2.5 <sup>E</sup>	-4.6 <sup>E</sup>	-8.0 <sup>E</sup>	-7.6 <sup>E</sup>	-12.0 <sup>E</sup>	-8.9 <sup>E</sup>	-4.9	-3.8 <sup>FC</sup>
Spain	13.6 <sup>0</sup>	13.0 <sup>0</sup>	9.8 <sup>0</sup>	9.5 <sup>E</sup>	6.3	-4.8	-5.8	-3.7	-9.8	-16.8	-10	0.1	4.1
France	10.0 <sup>0</sup>	12.7 <sup>0</sup>	13.3 <sup>0</sup>	9.7	3.6 <sup>B</sup>	-1.8	-4.9	3.6	3.9	-1.9	-2.6	-1.7	-1.3
Croatia	0.9 <sup>0</sup>	8.5 <sup>0</sup>	7.9 <sup>0</sup>	13.9	8.8	-2.5	-8	-7.8	-2.2	-4.6	-5.7	-1.2	-2.4
Italy	3.2 <sup>0</sup>	3.7 <sup>0</sup>	5.4 <sup>0</sup>	3.1	2.7	-0.5	-0.1	-2.2 <sup>B</sup>	-2.1 <sup>P</sup>	-5.4 <sup>P</sup>	-6.9 <sup>P</sup>	-4.6	-2.7 <sup>P</sup>
Cyprus	-2.4 <sup>0</sup>	8.7 <sup>0</sup>	2.8 <sup>0</sup>	8.7	8.2	0.5	-6.7	-7.9 <sup>P</sup>	-4.6 <sup>P</sup>	-5.9 <sup>P</sup>	-4.7 <sup>P</sup>	0.3	3.2 <sup>P</sup>
Latvia	16.9 <sup>0</sup>	-4.3 <sup>0</sup>	13.5 <sup>0</sup>	41.2 <sup>E</sup>	22.1	-10.9	-35	-8.7	4.1	-0.3	6.6	5.1	-3.7 <sup>R</sup>
Lithuania	11.5 <sup>0</sup>	8.3 <sup>0</sup>	22.7 <sup>0</sup>	22.6 <sup>E</sup>	19.3	-1.7	-32.8	-8.6	2.4	-3.2	0.2	6.3	4.6
Luxembourg	9.2 <sup>0</sup>	11.6 <sup>0</sup>	8.3 <sup>0</sup>	8.4	4.7 <sup>B</sup>	1	-1.8	4.3	1.1	2.4	3.7	3.7	5.1
Hungary						-3.1	-9	-5.9	-6.9	-9.4	-4.6	3.1	11.6
Malta	15.0 <sup>0</sup>	13.3 <sup>0</sup>	4.6 <sup>0</sup>	17	19.5	7.2	-6.2	-1.1	-3.5	0.5	-1.5	2.4	2.3 <sup>P</sup>
Netherlands	0.5 <sup>0</sup>	2.4 <sup>0</sup>	3.2 <sup>0</sup>	1.6	2.5	0	-3.5	-2.7	-4	-8	-8.2	0	3.6
Austria	-1.3 <sup>0</sup>	-3.6 <sup>0</sup>	2.4 <sup>0</sup>	2.0 <sup>E</sup>	2.1 <sup>E</sup>	-1.1 <sup>E</sup>	3.5 <sup>E</sup>	4.4 <sup>BE</sup>	3	4.8	2.9	1.4	3.5
Poland							-5.3 <sup>E</sup>	-6.1 <sup>E</sup>	-4.6	-6.6	-4.7	1.1	2.8
Portugal	-2.4 <sup>0</sup>	-1.6 <sup>0</sup>	-1.5 <sup>0</sup>	-1.4	-1.9	1.0 <sup>B</sup>	1	-1	-6.5	-8.7	-2.7	3.6	2.4
Romania							-27.1 <sup>E</sup>	-13.8	-15.8	-9.1	-2.8	-3.2	1.7
Slovenia		6.5 <sup>0</sup>	11.9 <sup>0</sup>	14.1	18.8	1.3	-10.3	-1.3	0.9	-8.1	-6	-6.6	1.9 <sup>P</sup>
Slovakia				11.3 <sup>K</sup>	25.7	12.8	-12.8	-5	-5.2	-5.9	-0.4	1.5	5.5
Finland	5.2 <sup>0</sup>	7.7 <sup>0</sup>	7.1 <sup>0</sup>	5.6 <sup>P</sup>	3.9 <sup>P</sup>	-2.5 <sup>P</sup>	-0.4 <sup>P</sup>	4.8	0	-0.4	-1.3	-1.9	-0.2
Sweden	4.9 <sup>0</sup>	8.5 <sup>0</sup>	8.5 <sup>0</sup>	11.1	10.9	-2	0.7	6.4	0.8	0.7	4.7	8.6	12
United Kingdom	14.3 <sup>0</sup>	10.1 <sup>0</sup>	9.5 <sup>0</sup>	5	7.7	-8.1	-9.7	3.5	-4.8	-1.5	0.5	6.3	5.4

## Main findings of the EC's 2015 & 2016 IDRs:

In the whole: **cooling off** of housing mkt: contributed to subdued dynamics in households' debt

HP: **corrected at least partially in most countries** after the crisis, with exceptions (FR, BE)

Conversely, in **UK, SE & IE, HP** are **growing again**, potentially leading to further increases in mortgage debt



## Latest EU's CSRs related to housing: boost investment when necessary and correct distortions

**IE:** Enhance the quality of expenditure [...] and by prioritising government capital expenditure in [...] housing.

**UK:** Take further steps to **boost housing supply**, including by implementing the reforms of the national planning policy framework.

**NL:** Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by **decreasing mortgage interest tax deductibility**.



## Latest EU's CSRs related to housing: boost investment when necessary and correct distortions

**LU:** Address **bottlenecks** that **hamper housing investment**.

**SE:** Address the rise in household debt by adjusting fiscal incentives, **in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes**. Ensure that the macro-prudential authority has the legal mandate to implement **measures to safeguard financial stability** in a timely manner. Foster investment in housing and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and by revising the design of the capital gains tax to facilitate more housing transactions



# Which framework for public policies & how to assess them?

# Structural housing features & mortgage mkts

## Demand constraints

- Impact of **demographics**, migration, size of HHS
- Tax incentives and ease of getting credit

## Supply constraints

- Do **zoning regulations and planning processes** allow housing supply to grow sufficiently?
- Is there sufficient competition in the construction industry to **keep construction costs in check**?

## Property taxation

- Are tax incentives to encourage home ownership well-designed and **not overly generous**?
- Are property assets taxed appropriately and in a way that **encourages housing market liquidity**?

## Rental market regulation

- Does the **rental market provide an accessible and affordable housing option** for people who do not wish or are unable to buy a home?

## Mortgages & macroprudential policies

- Is there an appropriate balance between making mortgages affordable and keeping household indebtedness in check in order to **avoid building a debt-fuelled housing bubble**?

## **Different dimensions of public intervention in housing**

### **Supply-side policies for housing & mortgage mkts:**

- Land & urban regulations: works in LT but by-side effects (size of local tax bases, congestion costs)
- Fiscal incentives for landlords to rent: can be efficient in ST, but may be followed by a fall & generate a need for lasting & costly measures
- Prudential regulation (reserve requirements, debt to income, mortgage market features): needs of balance btw financing the economy and limiting financial risks
- Social housing: limited in most countries (exceptions: NL, FR...) & may create distortions



## Different dimensions of public intervention in housing

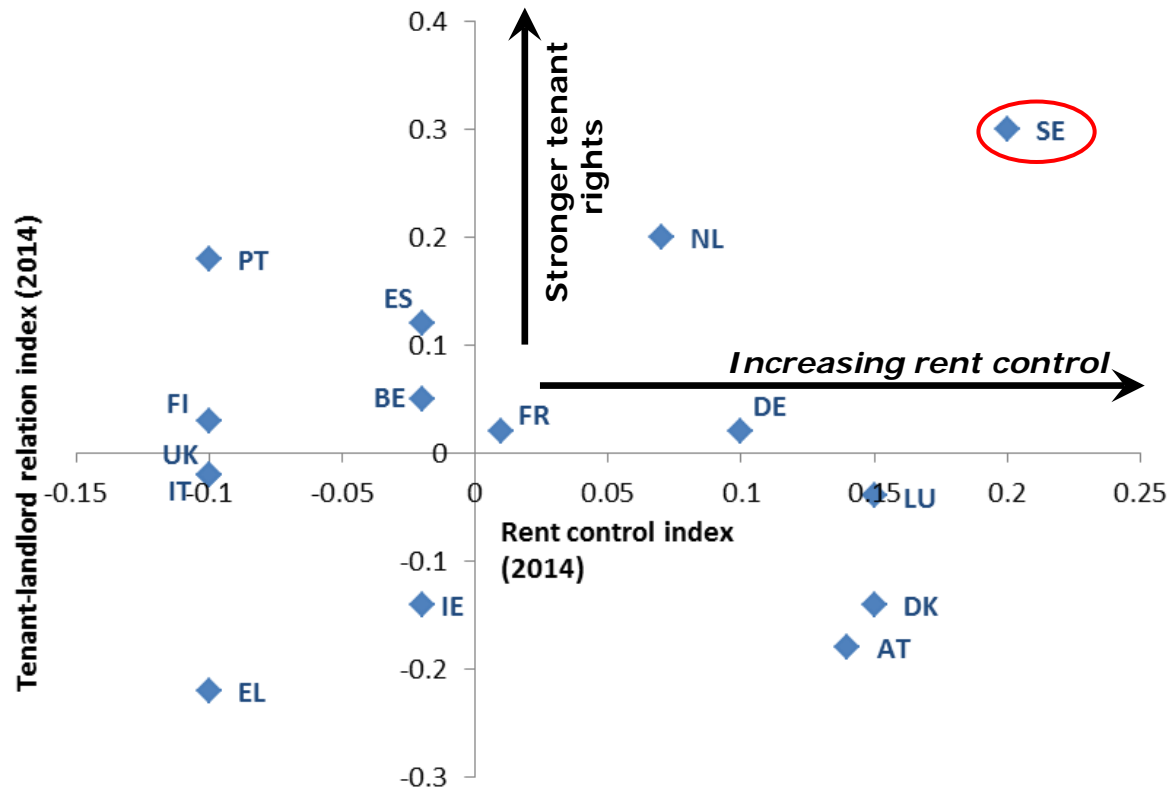
### Demand-side policies for housing & mortgage mkts:

- Tax incentives such as low property taxes / interest rates deductibility: may only be a transfer that favors landlords & disputable efficiency
- Diminish transaction costs (monetary and administrative, for the entrance and the exit, for sales and rent): raises mobility and thus allocative efficiency



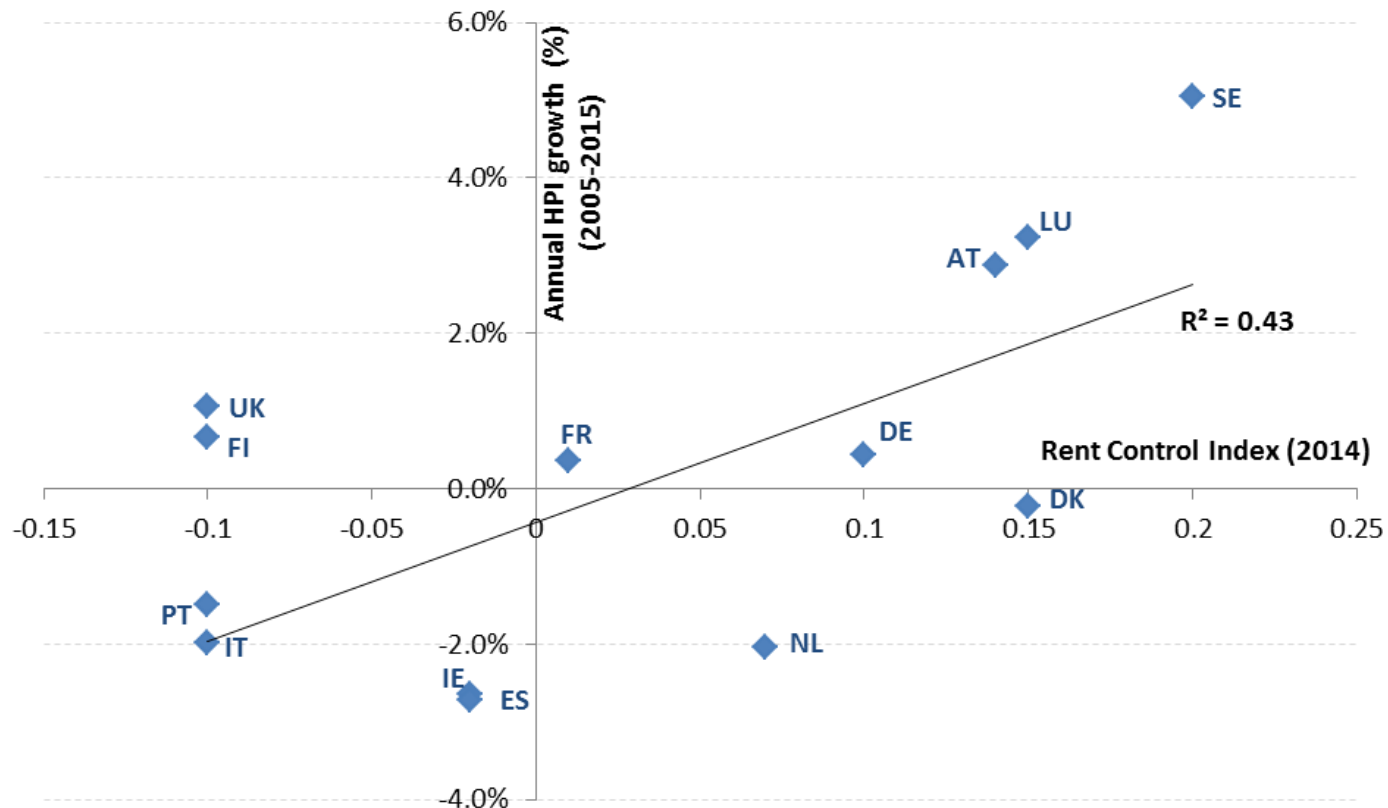
# Among other, rental market regulation

Rent Control Index and Tenant-Landlord Relation Index for EU countries



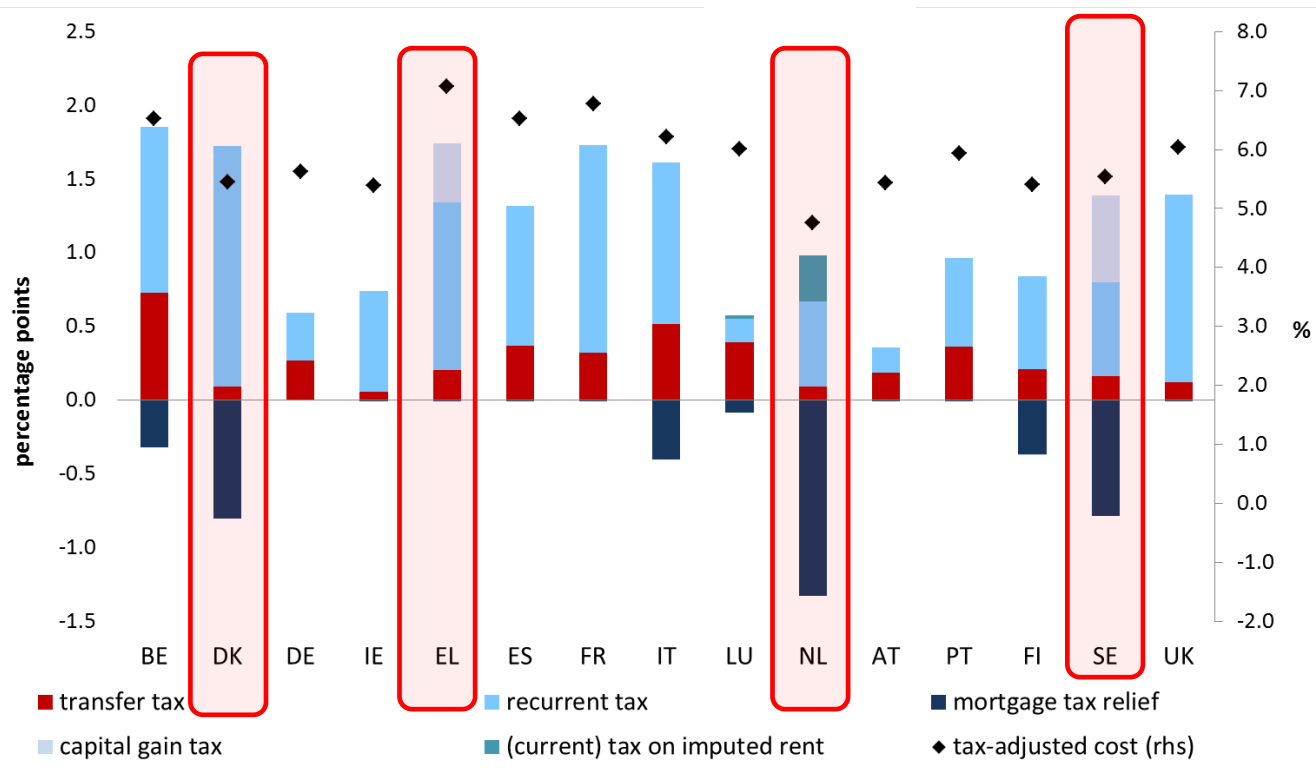
# ... can add to upwards HP pressure

House price growth (2005-2015) versus Rent Control Index



# Many taxes on housing demand but mortgage tax relief can be sizeable

"User cost of owner-occupied housing" and contributions of taxes (2015)





## Public interventions & how should they be packaged?

Still a need for an **assessment** of **public policies** with economic methods (counterfactuals...)

Related questions about housing public policies:

- Should they cover all dimensions (e.g. social housing)?
- How to best favor supply and/or demand: **efficiency** of direct expenses/subsidies/laws + need of stable fiscal and legal environment to lower uncertainty
- **Best level**: local, national, EU, mix, especially in GR where regional markets are quite different?
- Improvement of the **information**: Cf. Tenlaw project or need for precise cadaster information.



# Complementary approaches

## General need of transversal /connected views

Need of **consistent & harmonized** data ➡ examples:

- **Heterogeneity** of statistics on housing prices (capital/rest of the country, different time length...)
- **Lack** of data on land prices

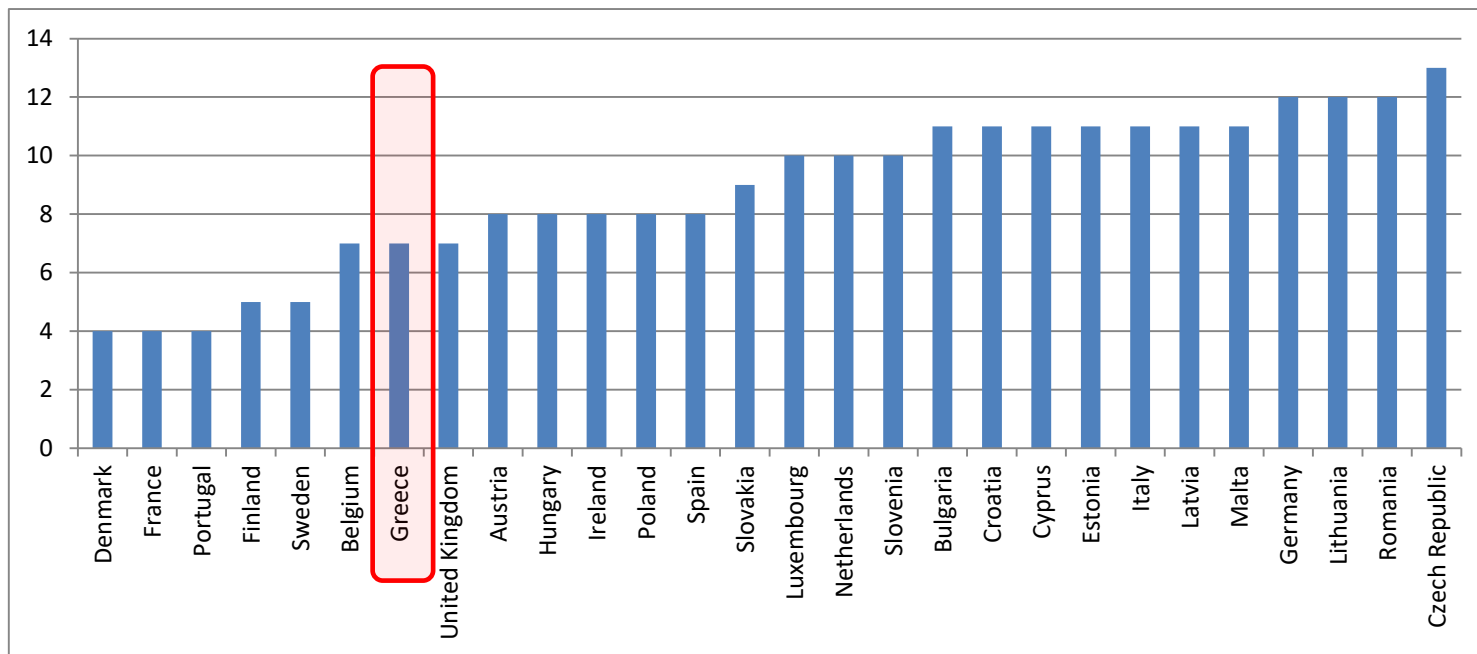
Need also to connect housing policies with the treatment of financial (stock of NPLs of the financial sector) and insolvency issues (balance between lenders and creditors): see Macroeconomic Relevance of Insolvency Frameworks in a High-debt Context: An EU Perspective

[http://ec.europa.eu/economy\\_finance/publications/eedp/pdf/dp032\\_en.pdf](http://ec.europa.eu/economy_finance/publications/eedp/pdf/dp032_en.pdf)

# RESERVE SLIDES

# Many tax incentives on housing demand

Ranking of countries depending on fiscal measures on demand



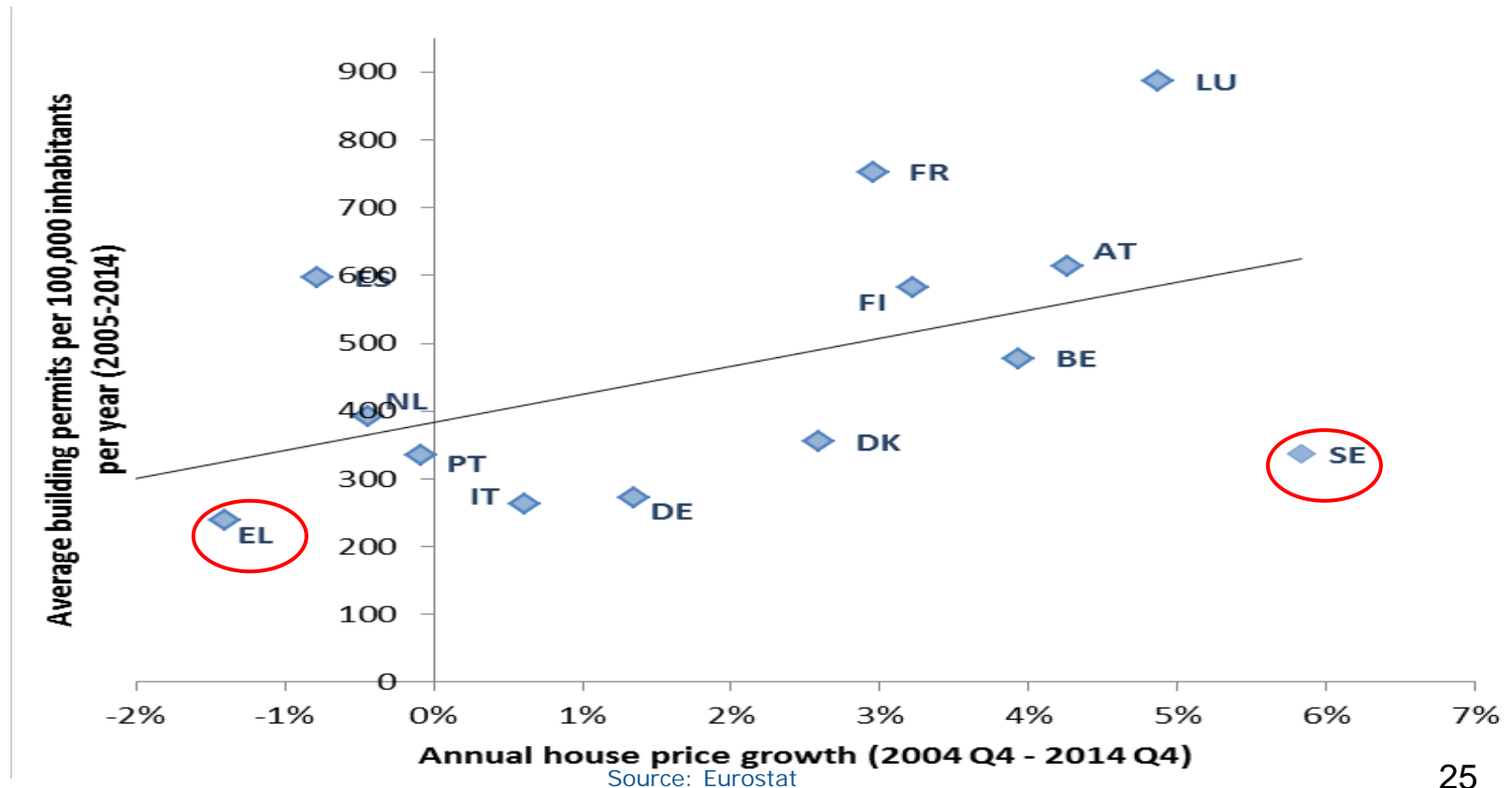
Source: European Commission

Note: the indicator sums up the rankings on three fiscal measures: property tax, capital gains tax and VAT on construction of new buildings. Smaller values correspond to more fiscal constraints.

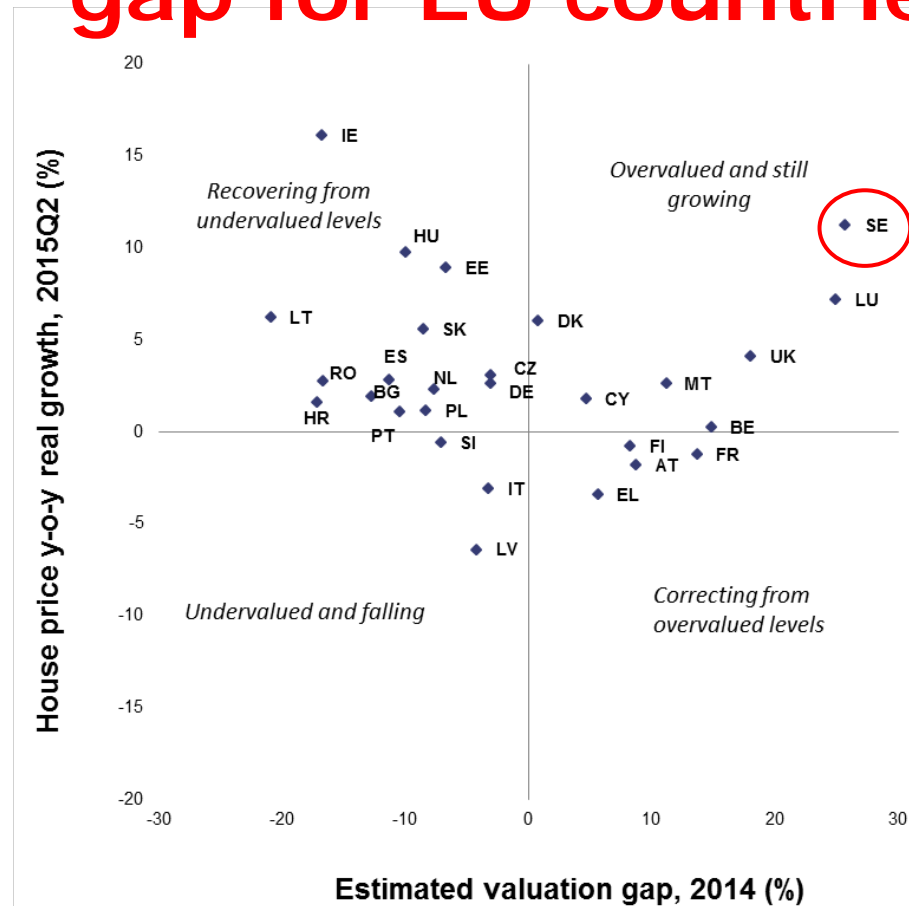


# Different supply constraints in EU

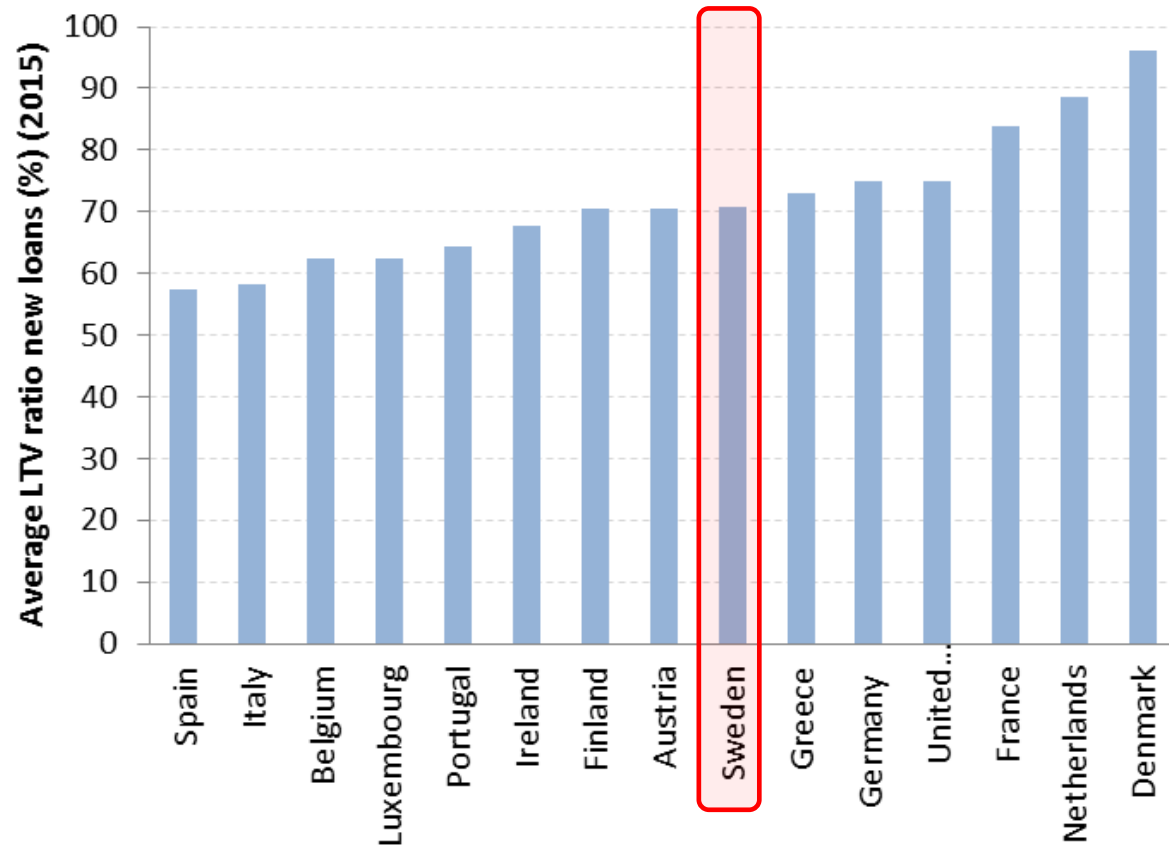
Average annual building permits per 100k inhabitants vs. HP growth (2005-2014)



# House price growth versus valuation gap for EU countries

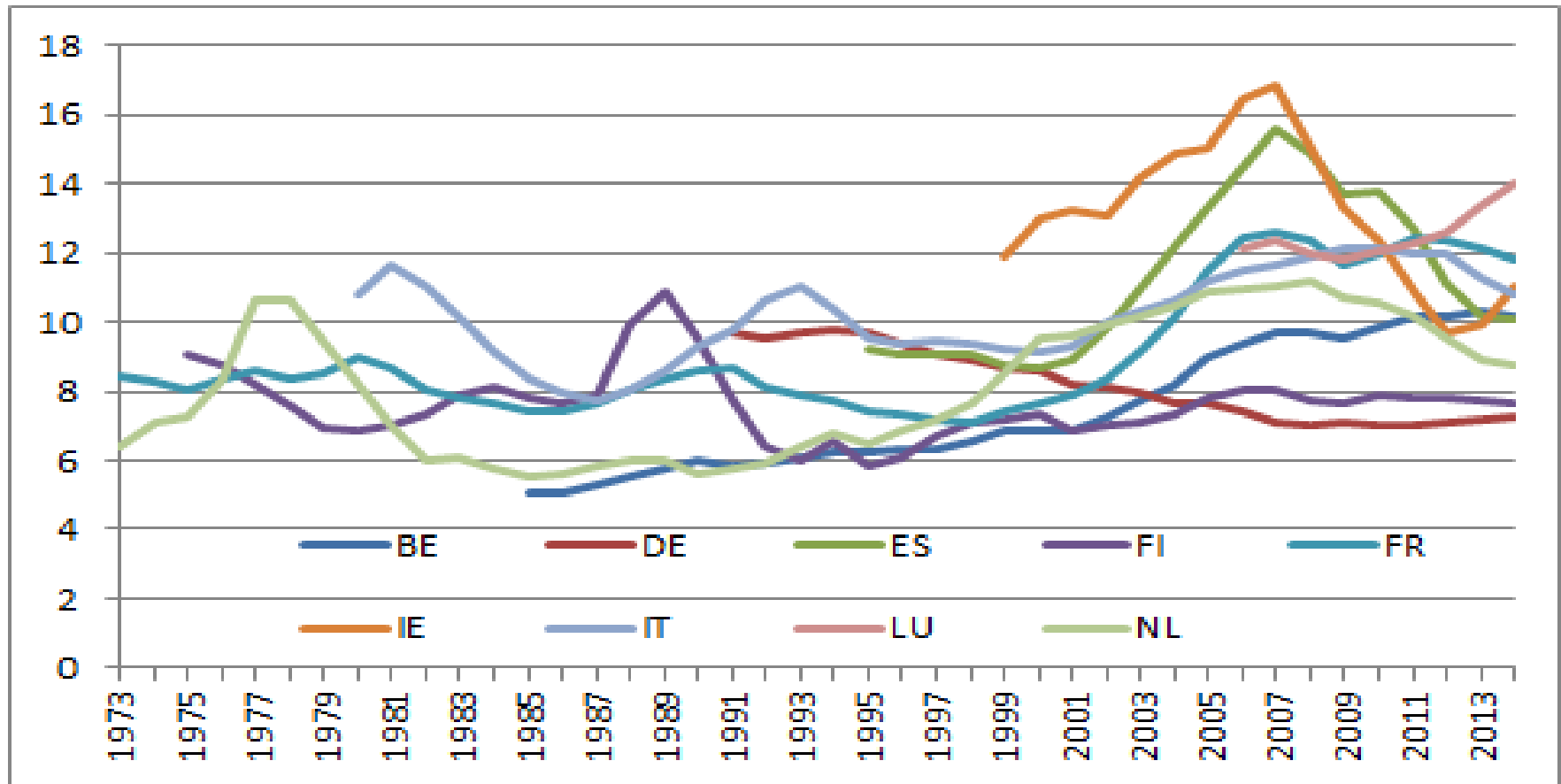


# Loan-to-value ratio on new loans



# Still room to improve statistics in housing

*Evolutions of price-to-income (for a 100 m<sup>2</sup> dwelling)*



Sources: national statistical institutes, central banks, censuses, own calculations (ongoing provisory work at DG ECFIN, do not quote)