

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. The price-to-income ratio is the nominal house price index divided by the nominal disposable income per head (OECD, 2024a). 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

Real house prices have increased considerably – especially since the pandemic – and housing has become less affordable relative to household incomes.

Over the past three decades, real house prices increased by nearly 60 index points on average across the OECD, with important fluctuations over this period (Figure HM1.2.1; also see OECD (2021a); OECD (2021b); OECD (2023); OECD (2024c)). Leading up to the Global Financial Crisis, between 1996-Q1 and 2007-Q1, real house prices increased by over 31 index points on average (from 74.6 to 106.0), before dropping sharply. From 2012, real house prices resumed an upward climb, surpassing the pre-Crisis peak in 2017-Q1 (106.2 index points) and accelerating rapidly at the onset of the COVID-19 pandemic in 2020. In 2022-Q2, real house prices reached their highest point over the past three decades – at just under 135 index points – before a slight decline that began in early 2023. However, the latest data from Q3-2023 suggest that prices have begun to trend upwards.

Meanwhile, on average, the price-to-income ratio has generally followed a similar trajectory as real house prices over the past three decades. The evolution of the price-to-income ratio suggests that housing became relatively less affordable in the period leading up to the Global Financial Crisis, followed by a period of relative affordability until the second half of the 2010s, when housing affordability began to steadily decline. Housing became, on average, much less affordable at the outset of the COVID-19 pandemic, as house prices increased faster than incomes; the increase in the ratio also reflects the income shocks faced by some households over the course of the pandemic. The most recent data suggest a slight easing of housing affordability after 2022. However, it is important to note that these data do not take into account the cost of borrowing; higher interest rates in recent years have

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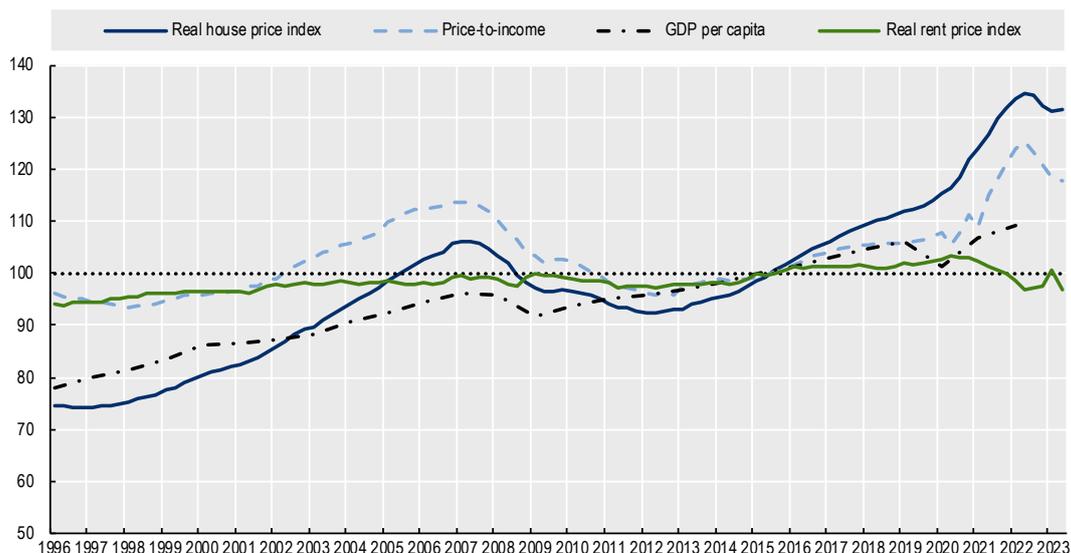
increased the cost of borrowing, making housing less affordable for households (for further discussion, see OECD, 2023).

Meanwhile, over the same period, GDP per capita across the OECD increased on average, but to a more limited extent relative to real house prices.

Long-term trends data for the EU can be found in the online worksheet HM1.2.1b.

Figure HM1.2.1: Development of house prices, OECD average, 1996-2023

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 34 countries and does not include Colombia, Estonia, Hungary or Slovenia for which data were not available over the entire period. Due to data constraints, the OECD total for 2022 and 2023 is calculated using CPI country weights data from 2021.

Source: OECD (2024b), OECD Analytical House Price Database.

Cross-country data reveal important differences in the evolution of house prices and housing affordability.

Real house prices

There are important cross-country differences in the evolution of real house prices in recent decades (Figure HM1.2.2 – Panel A). Prior to the pandemic, between 2005 and 2019, real house prices increased in 31 countries, with Colombia, Canada, Chile, Israel, and Sweden recording the largest increases (by at least 50 index points) over this period. Just six countries recorded a drop in real house prices over this period, most significantly in Greece, Italy, and Spain (by at least 20 index points).

Between 2019 and 2022, which reflect the evolution of real house prices over the course of the COVID-19 pandemic, real house prices increased in all but three countries (Colombia, Finland, and Italy). In 13 countries, real house prices increased by over 25 index points over this period, most notably in Türkiye (by 64 index points), Luxembourg (by nearly 40 points), Iceland (36 points), and the United States (33 points). By contrast, real house prices decreased between 2019 and 2022 by nearly 4 points in Colombia and by one index point or less in Finland and Italy.

To assess the evolution of housing prices *within* countries, the [OECD National and Regional House Price Indices Database](#) provides data on housing price developments at national and regional level (see OECD, 2020 and OECD, 2024c).

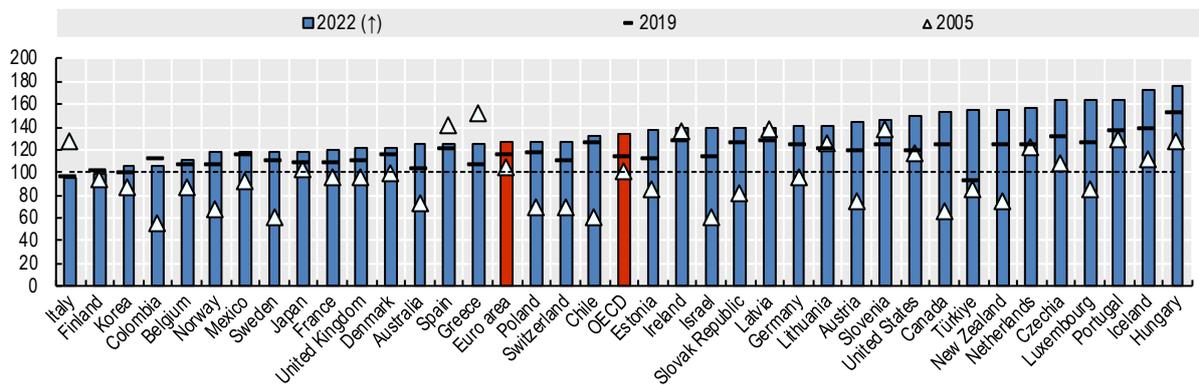
Real rental prices

In the rental market, considering first longer term trends prior to the pandemic, rent prices increased in real terms in 23 countries between 2005 and 2019 (Figure HM1.2.2 – Panel B). Estonia and Lithuania recorded the largest increases over this period (by around 41 and 58 index points, respectively). By contrast, Greece, Mexico, and Costa Rica recorded a drop in real rent prices over this period of about 30, 23 and 13 points, respectively. However, in Greece, the drop in real rent prices (30 points decline) was smaller than that of real house prices (45 points).

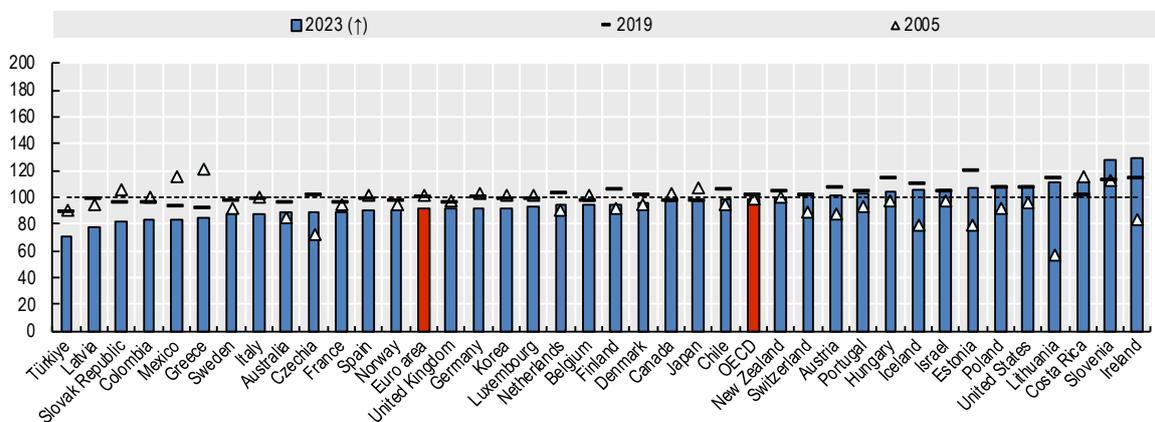
Between 2019 and 2023, over the course of the pandemic, rental prices declined, on average, in 32 countries, in contrast to the dramatic growth of real house prices over the same period. This may be related to caps on rent prices and other artificial rent suppression measures that were implemented in response to the COVID-19 pandemic (see OECD (2021) and indicator PH6.1 for further discussion on emergency support measures introduced for tenants at the outset of the COVID-19 pandemic). Real rent prices declined by over 10 points in 8 countries between 2019 and 2023, while smaller declines were experienced in 24 countries. The largest declines in real rent prices were recorded in Latvia (around 20 points) and Türkiye (over 18 points). In contrast, Ireland and Slovenia recorded the highest real growth in rent prices from 2019 to 2023, both by around 15 points.

HM1.2.2. Housing prices increased in most countries since the pandemic.

A. Real house price index 2022, 2019, and 2005 2015=100



B. Real rent price index, 2023, 2019 and 2005, 2015=100



Notes: 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 (Eurostat et al., 2013)). 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, Luxembourg, and Slovenia (2007), Czechia (2008) and Türkiye (2010).

2. The present publication presents time series which extend beyond the date of the United Kingdom's withdrawal from the European Union on 1 February 2020. In order to maintain consistency over time, the "European Union" aggregate presented here excludes the UK for the entire time series.

3. Due to data constraints, the OECD - Total for 2022 and 2023 is calculated using CPI country weights data from 2021.

Source: Calculations based on OECD Housing prices (indicator), <https://dx.doi.org/10.1787/63008438-en> (accessed February 2024).

Price-to-income ratio

When considering the evolution of the price-to-income ratio, there are also marked differences across countries.

Prior to the pandemic, between 2015 and 2019, OECD countries can be broadly grouped into two categories (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, Colombia, Denmark, Estonia, Finland, France, Greece, Italy, Japan, Korea, Latvia, Lithuania, New Zealand, Norway, Poland, the Slovak Republic, Slovenia, Sweden, Switzerland, Türkiye, the United Kingdom, and the United States
- *Steady increase in price-to-income ratios above 110 index points:* Austria, Canada, Chile, Czechia, Germany, Hungary, Ireland, Luxembourg, Mexico, the Netherlands, Portugal, and Spain

From the onset of the COVID-19 pandemic in most countries (second quarter of 2020) until the most recently available data (including the third quarter of 2023 where available), five scenarios can be highlighted (see the online worksheet HM1.2.1 for country-specific results):

- *Steady increase in price-to-income ratio (signifying a steady decline in housing affordability):* Portugal
- *Increase in price-to-income ratio before reducing slightly, staying above pre-pandemic levels:* Austria, Canada, Czechia, Estonia, Greece, Japan, Lithuania, the Netherlands, New Zealand, Norway, Spain, Switzerland, the United Kingdom, and the United States
- *Increase in price-to-income ratio before declining to pre-pandemic levels:* Belgium, Germany, Denmark, France, Hungary, Ireland, Latvia, Luxembourg, Poland, the Slovak Republic, and Sweden
- *Initial increase in price-to-income ratio before dropping below pre-pandemic levels:* Colombia, Finland, Italy, and Korea
- *Initial decline in price-to-income ratio before a steady increase:* Australia and Chile

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. As indicated in OECD

(2024b), this provides information on how nominal house prices have changed over time relative to prices in the general economy. 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 rental prices come from the OECD Main Economic Indicators database or from Eurostat and refer to Consumer Price Indices (CPIs) for Actual rentals for housing (COICOP 04.1) (OECD, 2024b). 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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