

Turning the Corner?

Housing Markets Around the Globe



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February 2023

Presentation to IHA Global Meeting

Outline

Turning the corner

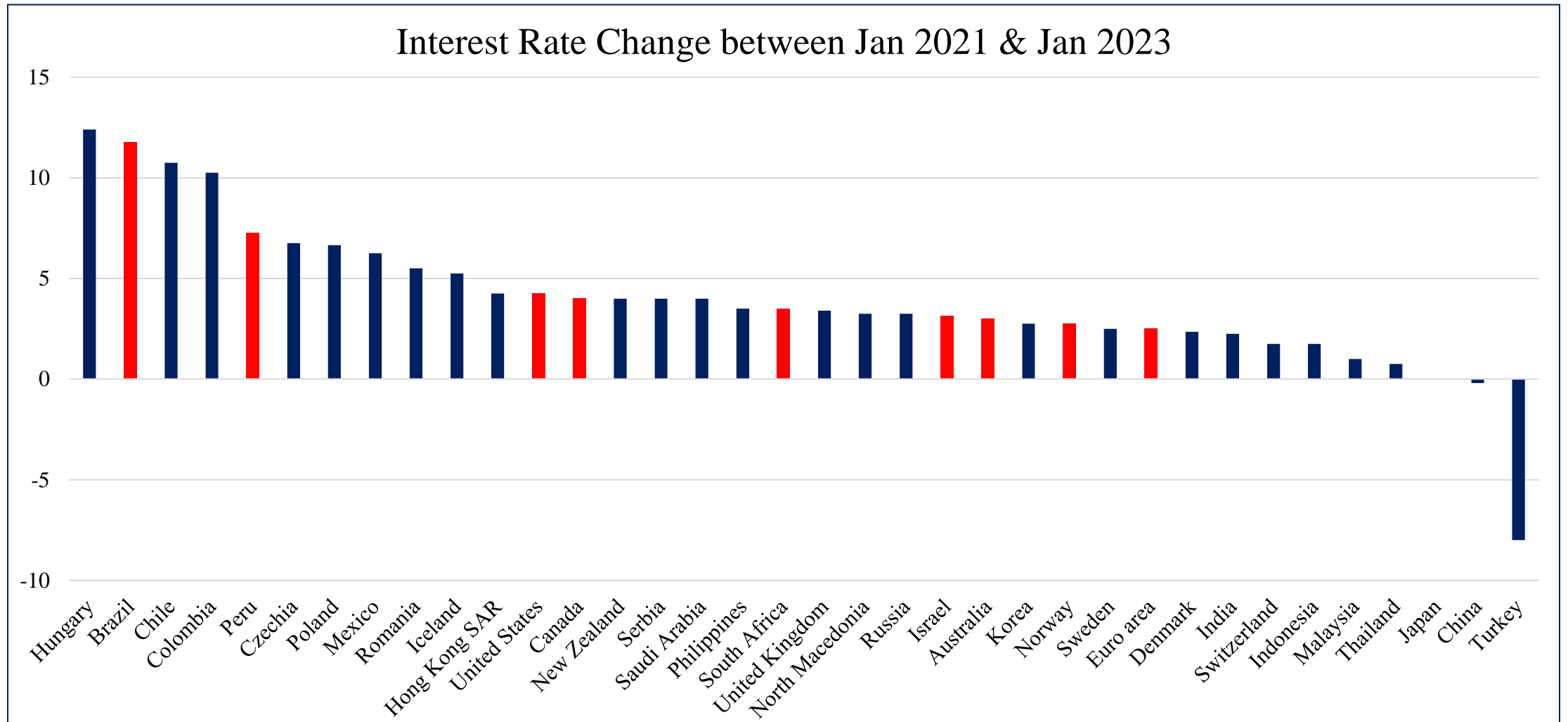
- 1) Are global housing markets turning the corner?
- 2) Housing affordability: is the discussion in academia and policy circles turning a corner?
- 3) I'm turning a corner ...
 - Karan ("Young Hites") and I plan to keep an interest in global housing issues
 - Subscribe to our Substack: Global Housing Watch (it's free)

Global Housing Markets:

Turning a Corner?



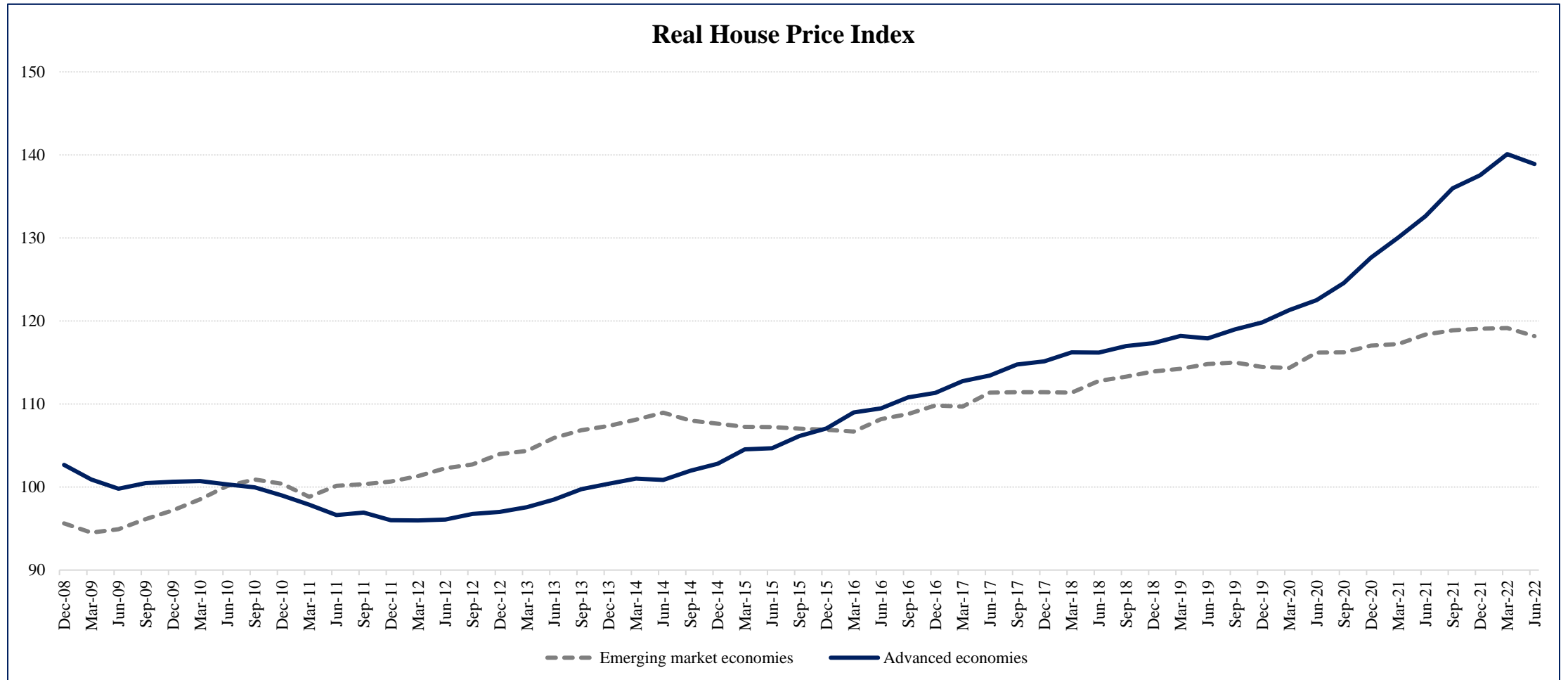
Global Policy Rate Hike Cycle



Source: Authors' calculations based on data from Bank For International Settlements (BIS)

Real House Prices: AEs & EMs

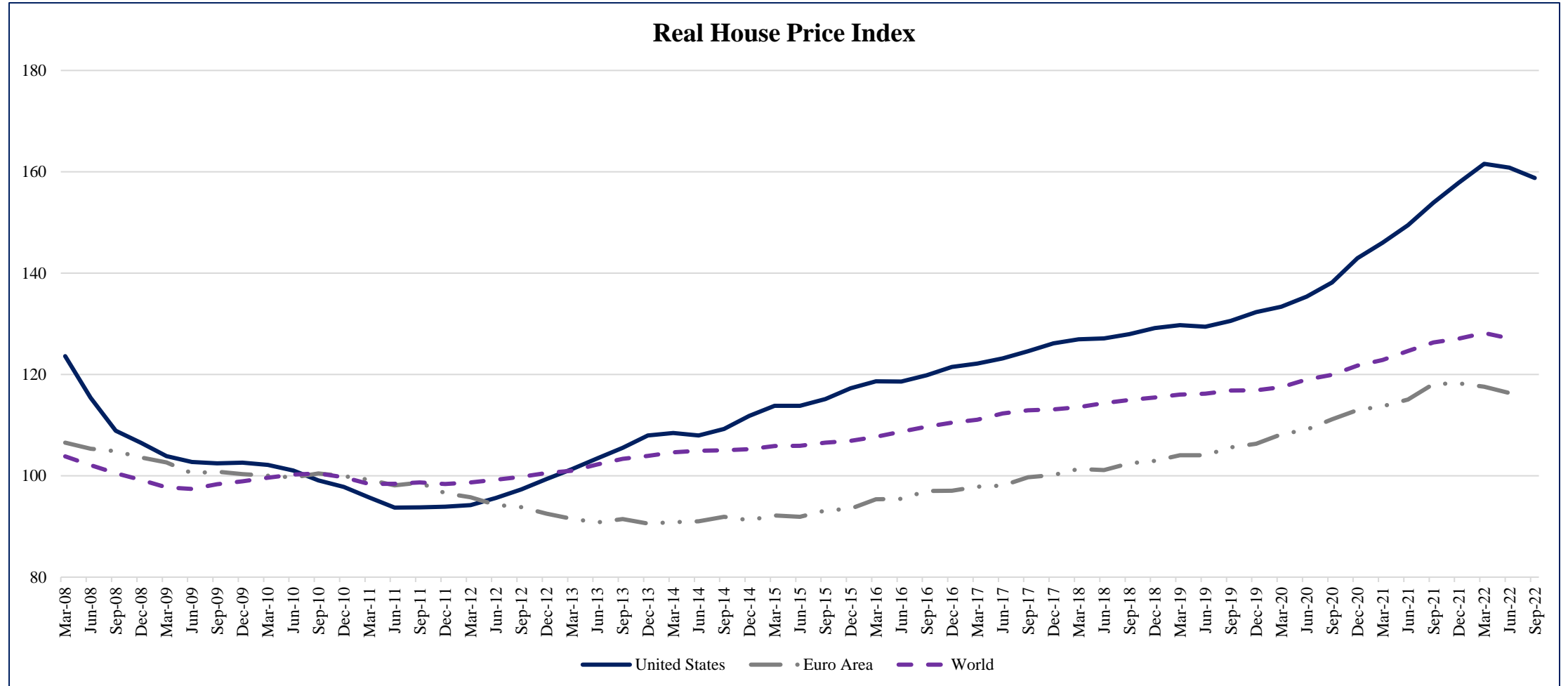
(data through June 2022)



Source: Bank For International Settlements (BIS)

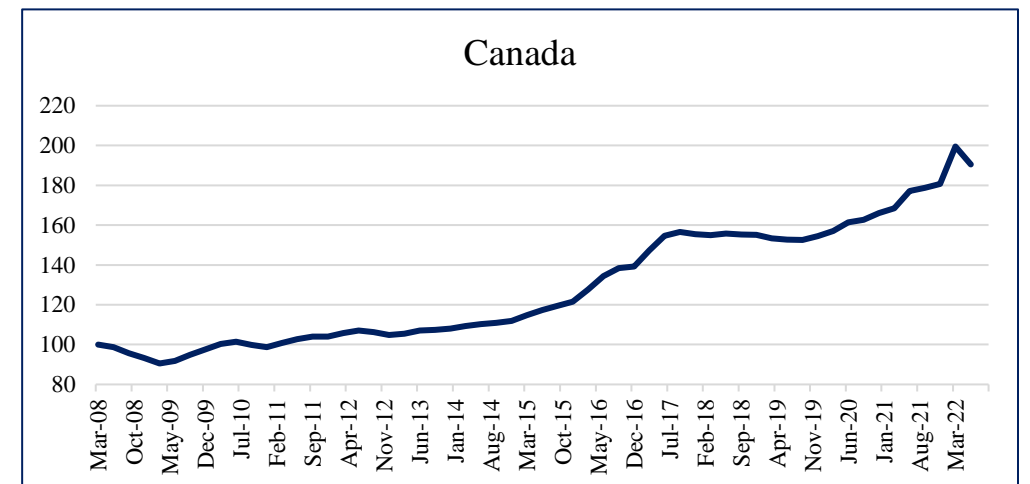
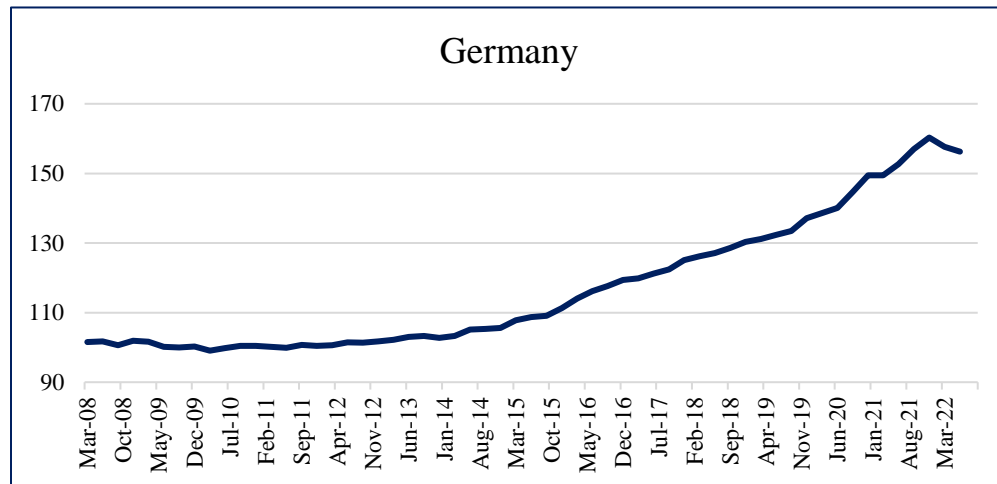
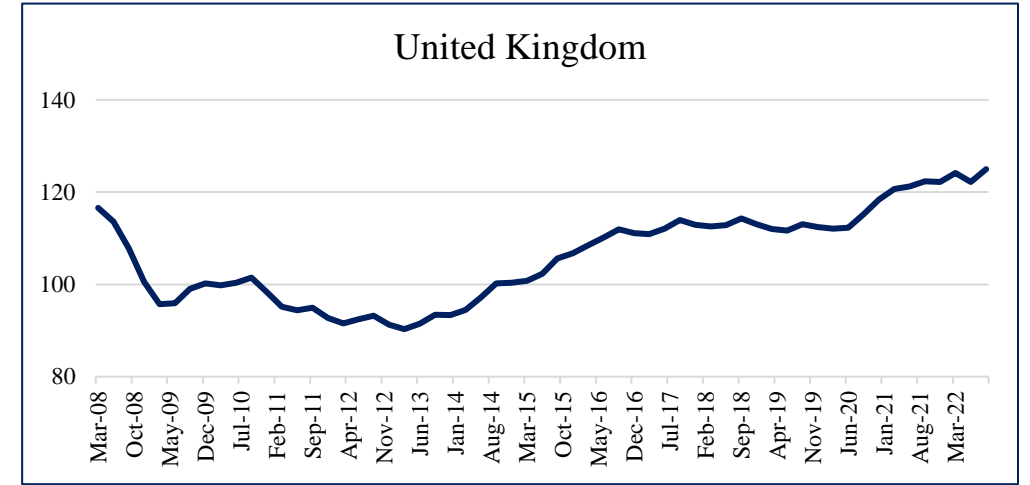
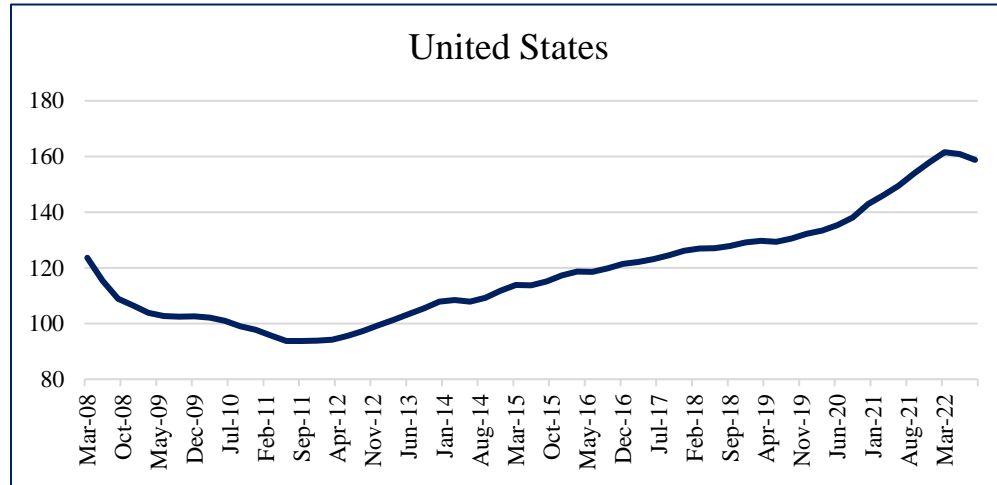
Real House Prices: US & EU

(data through September 2022)

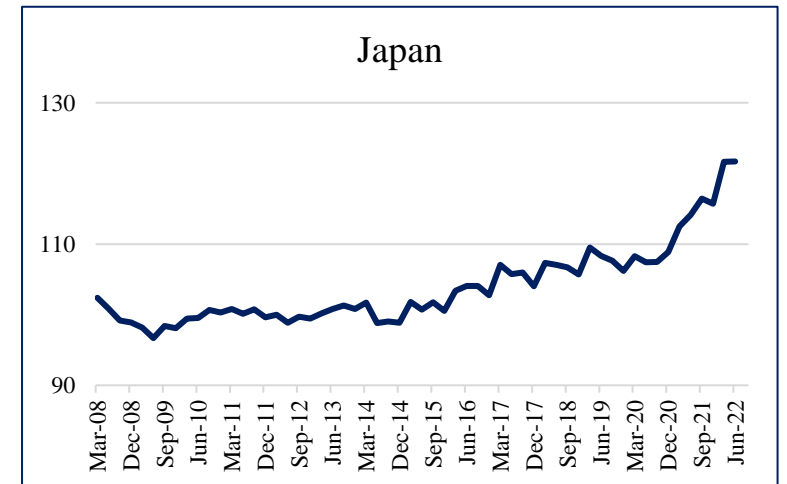
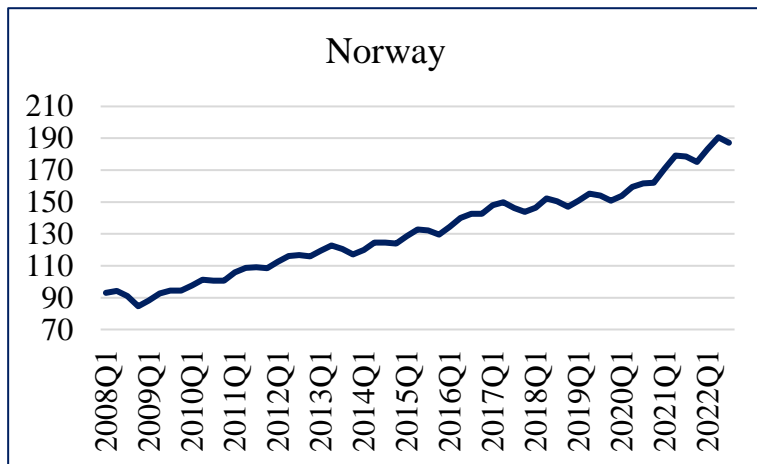
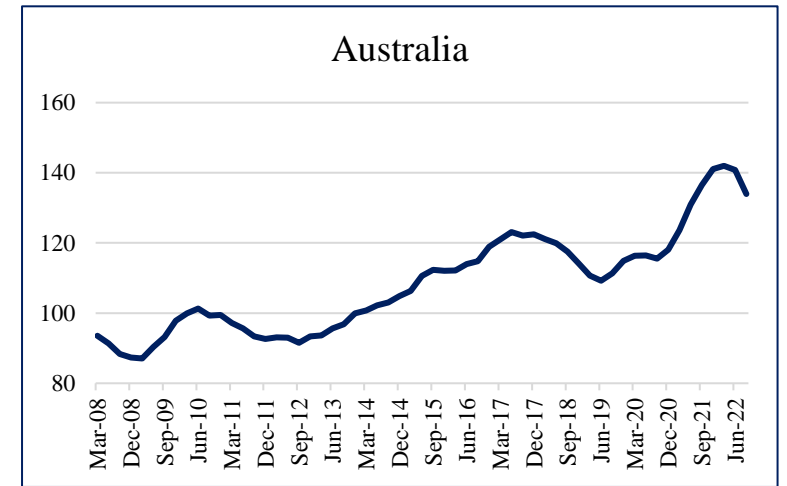
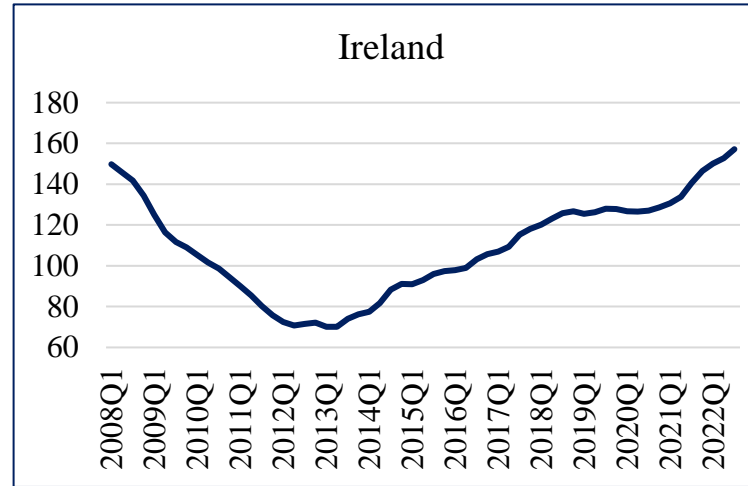
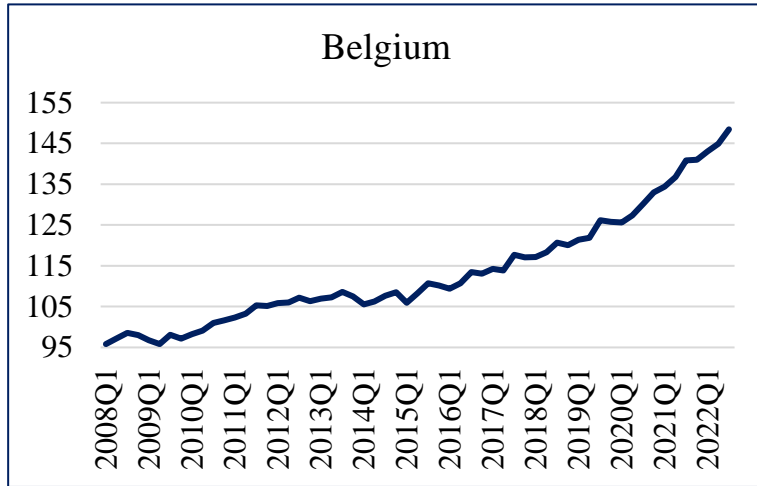


Source: Bank For International Settlements

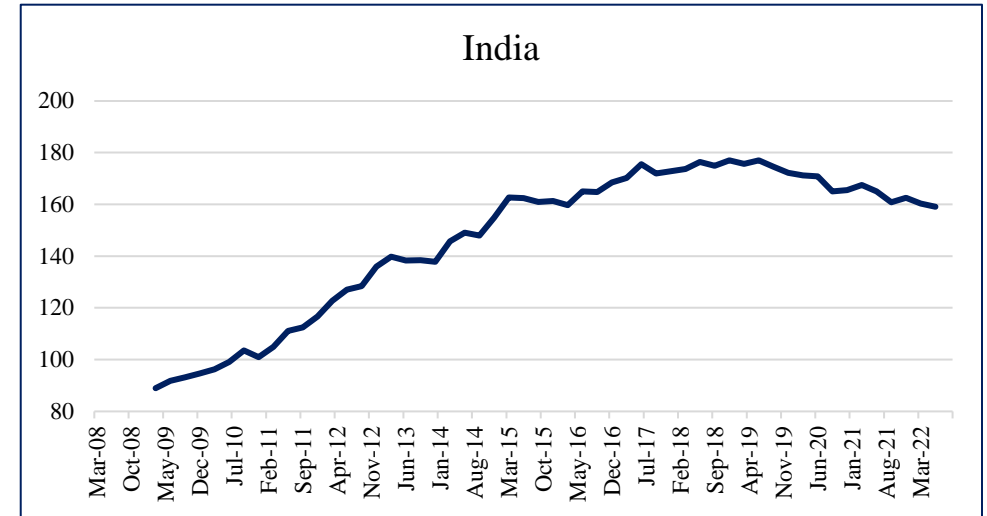
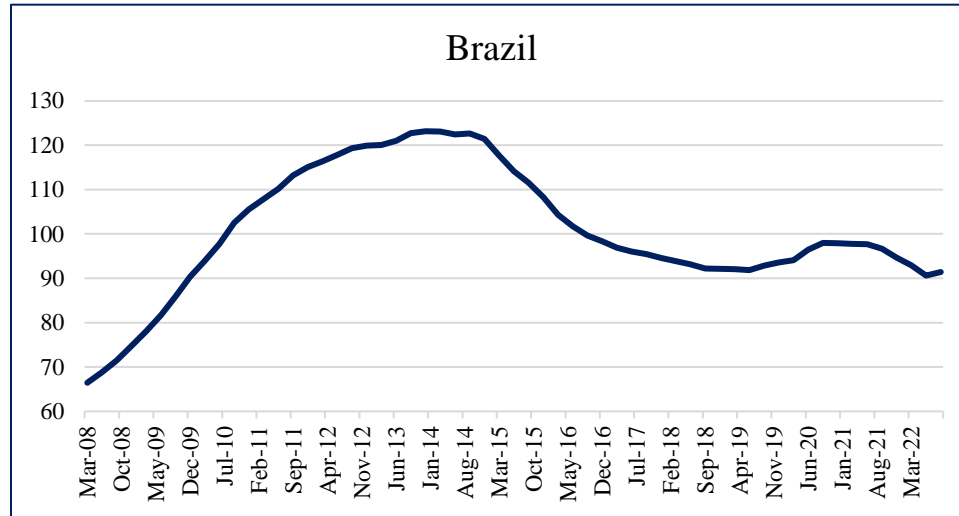
Selected Advanced Economies: BIS



Selected Advanced Economies: BIS

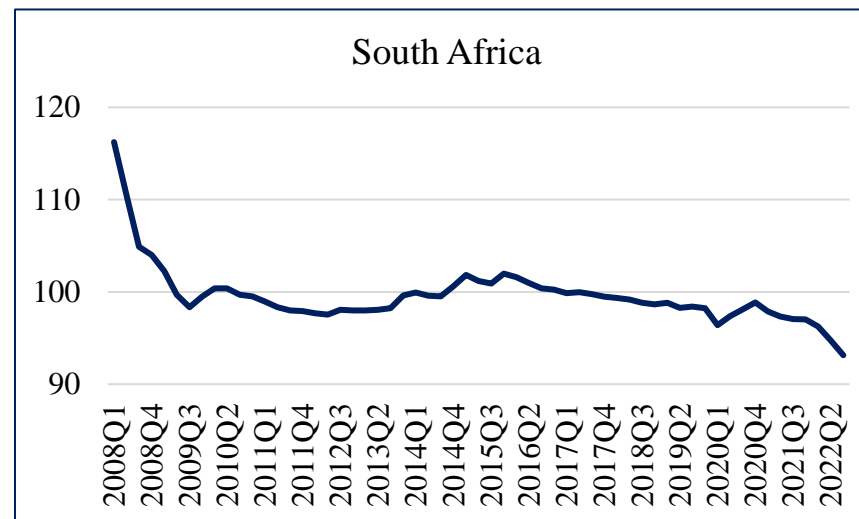
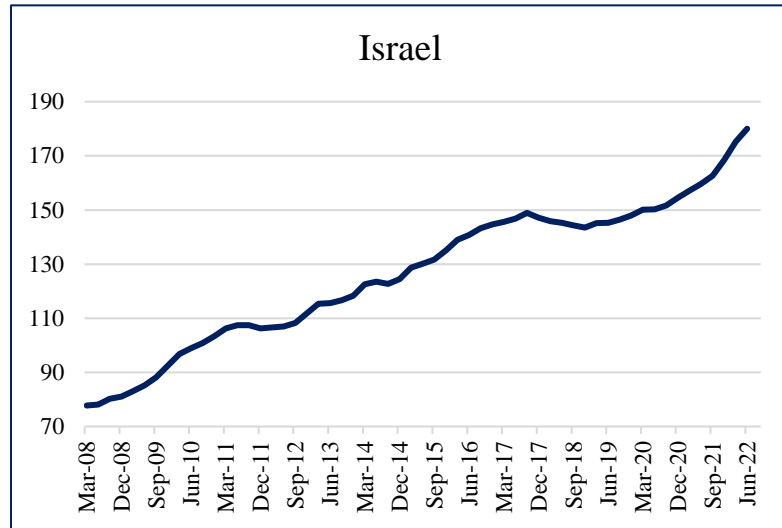


Selected Emerging Markets: BIS



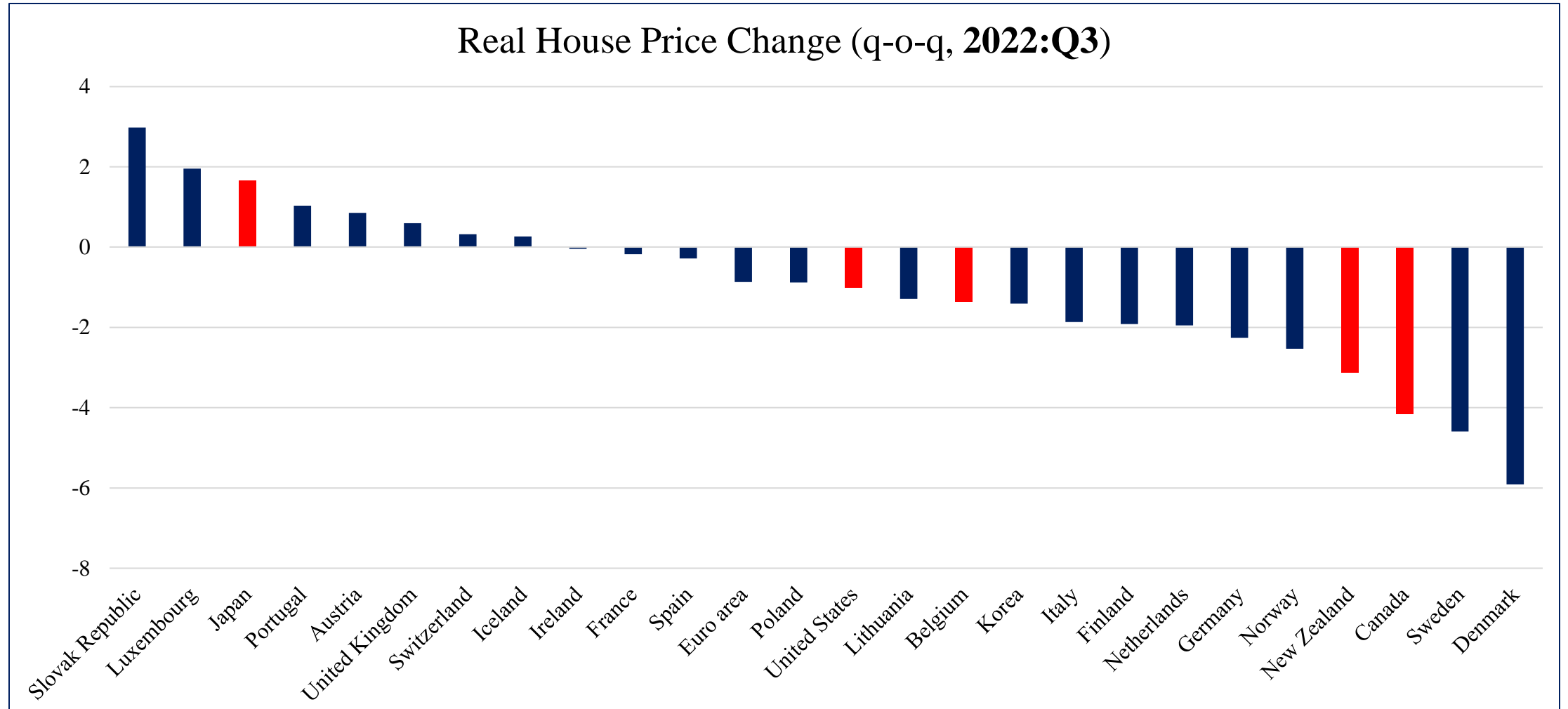
Source: Bank For International Settlements

Selected Emerging Markets: BIS



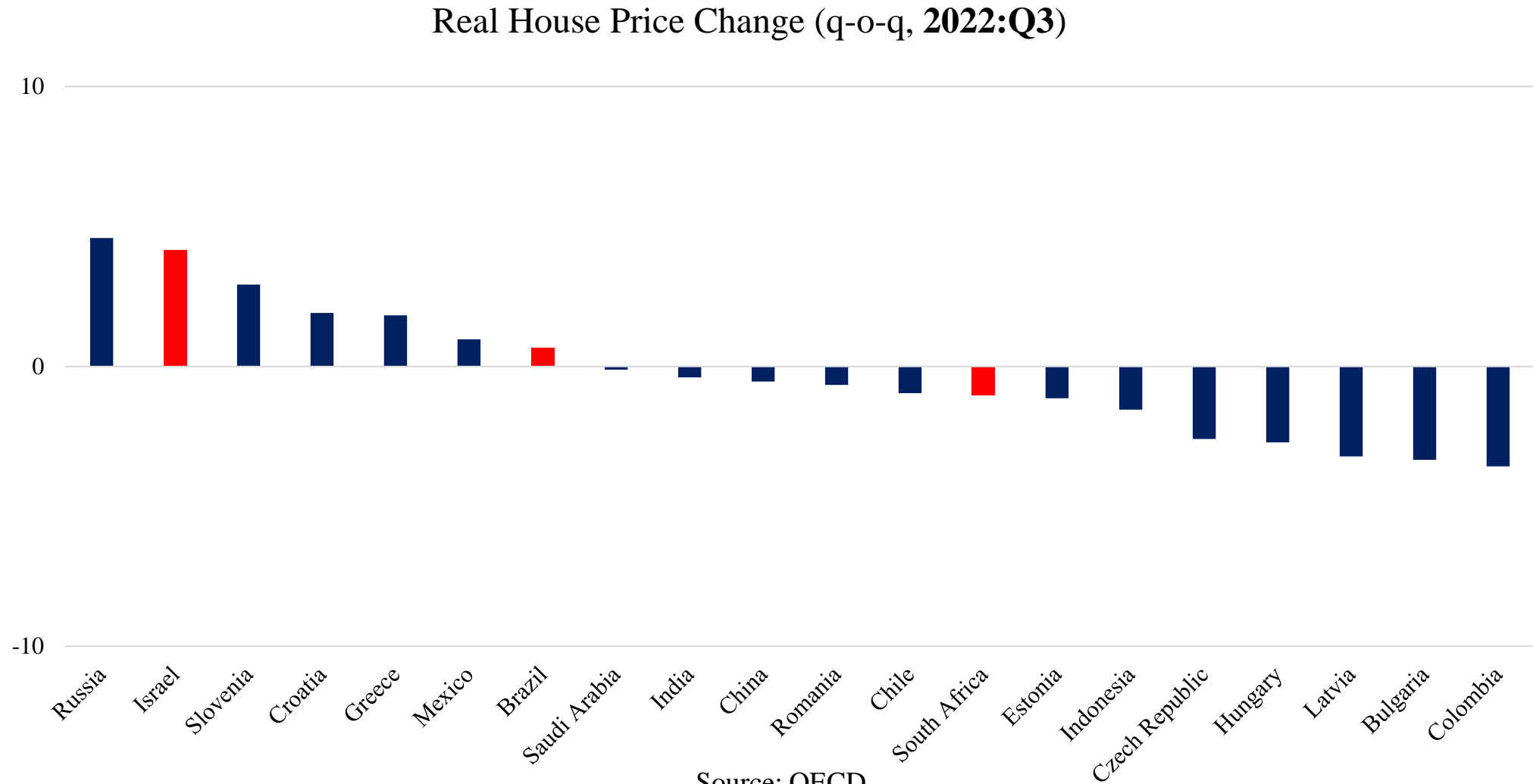
Source: Bank For International Settlements

Advanced Economies: OECD



Source: OECD

Emerging Markets: OECD



Prospects for global housing markets

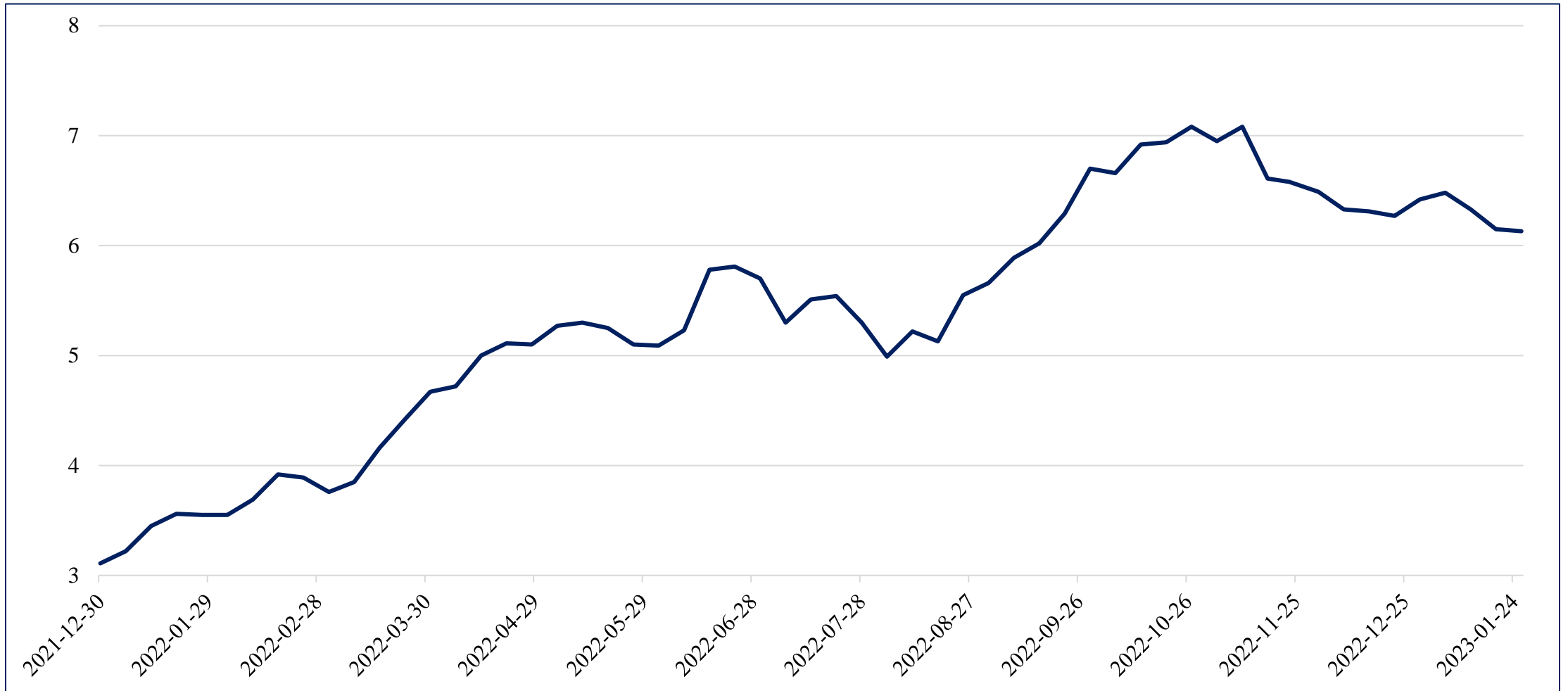
- Drivers are interest rates and income
 - Prospects for interest rates depend on central bank responses to inflation
- IMF: “Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017–19) levels of about 3.5 percent.” (WEO Update, January 31, 2023)
- IMF: “Global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023, then rise to 3.1 percent in 2024.”
 - The forecast for 2023 is 0.2 percentage point higher than predicted in the October 2022 World Economic Outlook (WEO) but below the historical (2000–19) average of 3.8 percent.

Prospects for inflation:

IMF (WEO, January 2023)

- About 84 percent of countries are expected to have lower headline (consumer price index) inflation in 2023 than in 2022.
- Global inflation set to fall: 8.8 percent in 2022 (annual average) to 6.6 percent in 2023 and 4.3 percent in 2024—above pre-pandemic (2017–19) levels of about 3.5 percent.
- Underlying (core) inflation expected to decline: 6.9 percent in the fourth quarter of 2022 (year over year) to 4.5 percent by the fourth quarter of 2023.
- Still, disinflation will take time: by 2024, projected annual average headline and core inflation will, respectively, still be above pre-pandemic levels in 82 percent and 86 percent of economies.
 - In advanced economies, annual average inflation is projected to decline from 7.3 percent in 2022 to 4.6 percent in 2023 and 2.6 percent in 2024—above target in several cases.
 - In emerging market and developing economies, projected annual inflation declines from 9.9 percent in 2022 to 8.1 percent in 2023 and 5.5 percent in 2024, above the 4.9 percent pre-pandemic (2017–19) average.

U.S. 30-Year Average Mortgage Rate: Peaked?



Source: Zillow Group

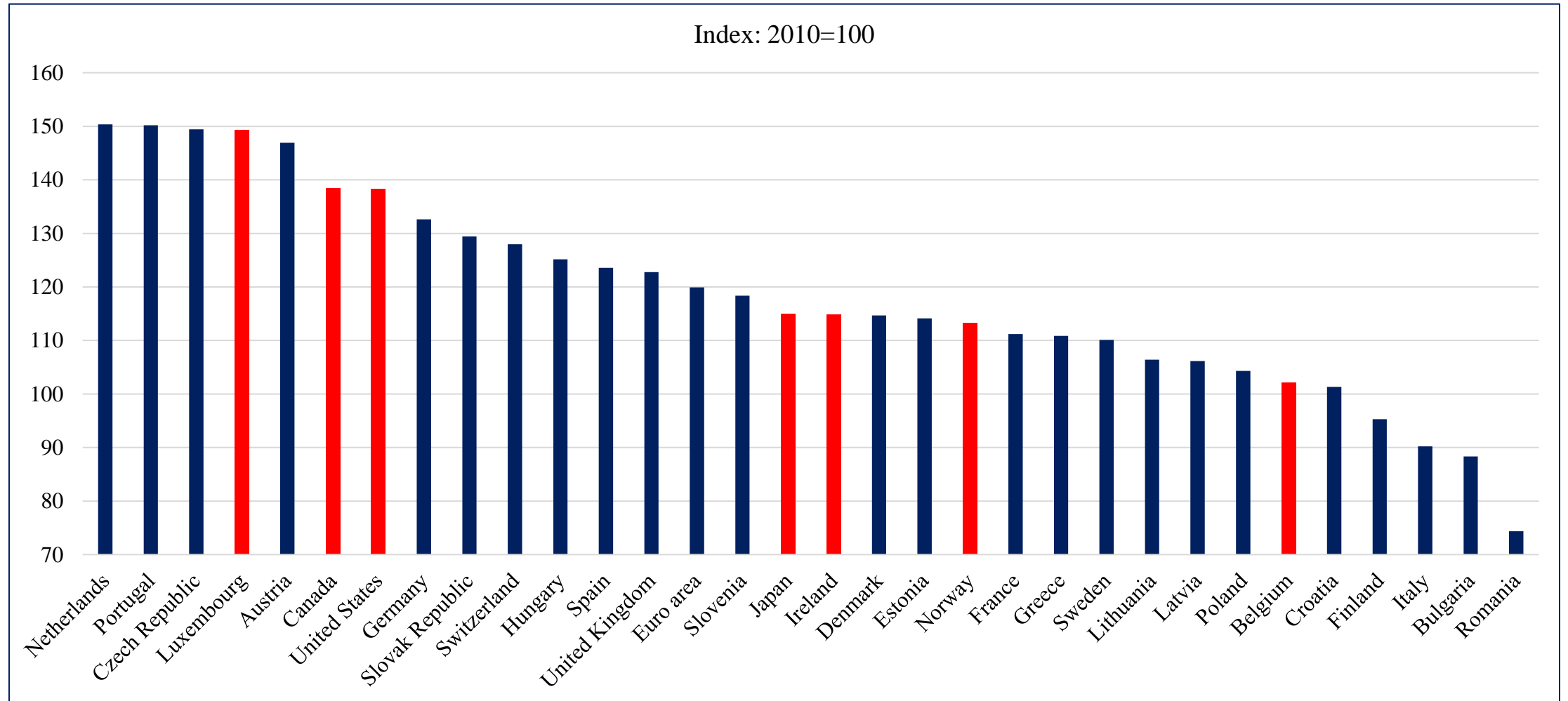
Housing Affordability:

Is the Discussion turning a Corner?



House Price to Income Ratios:

Continue to be used extensively as indicator of house price ‘overvaluation’



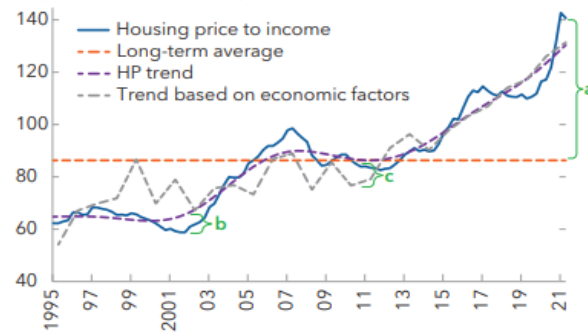
Source: OECD

A recent example:

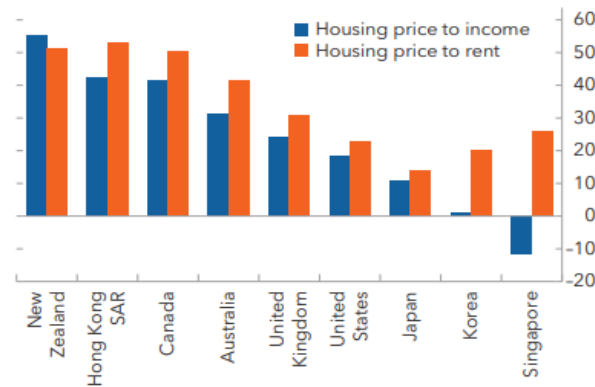
IMF paper on housing markets in Asia-Pacific Region (but it's a good paper!)

Figure 7. Prices Appear Misaligned in Advanced Asia-Pacific

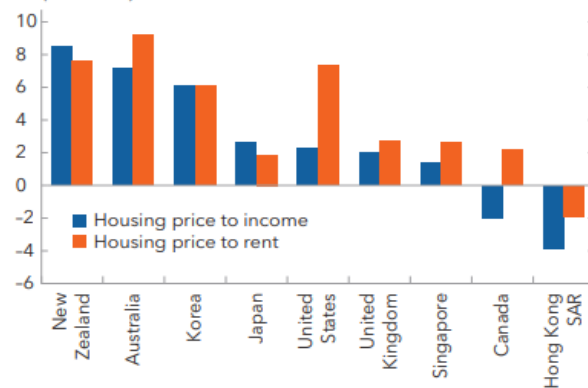
1. New Zealand: Housing Price to Income
(Index, 2010 = 100)



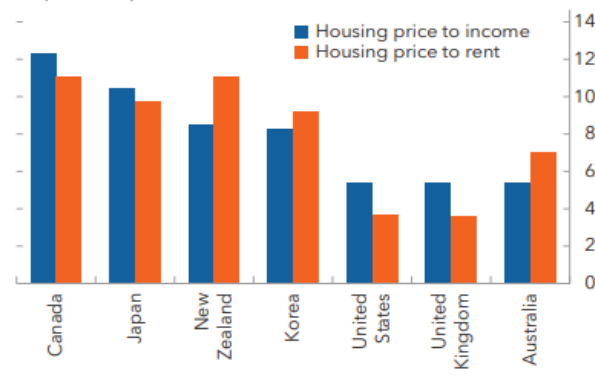
2. Deviations from Long-Term Average
(Percent)



3. Deviations from Hodrick-Prescott Trend
(Percent)



4. Deviations from Trend Based on Economic Factors
(Percent)



Source: IMF staff calculations.

- Deb et al (2022)

“Housing prices in many countries across the region now **appear misaligned**, with significant **downside risk** to prices in the period ahead.”

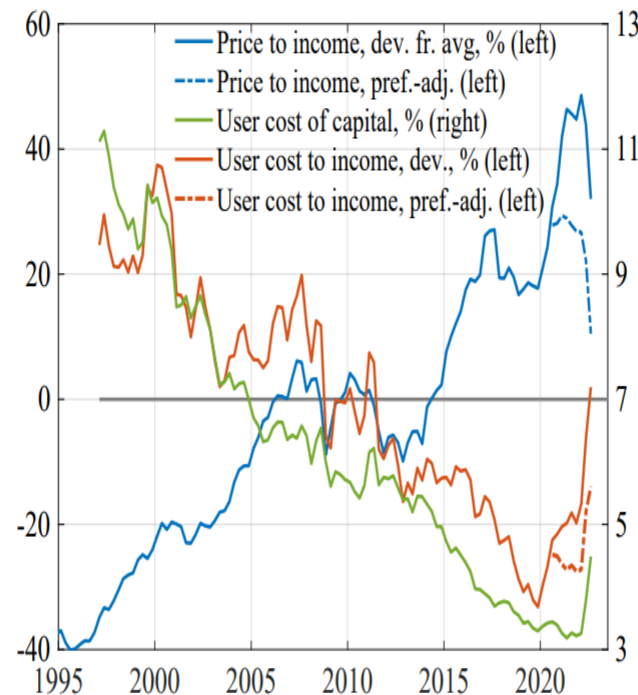
“**Price surges** during the pandemic, especially in the region’s advanced economies (AEs), were facilitated by **low mortgage rates** as central banks implemented very accommodative policy stances, along with **country-specific demand and supply factors**.”

House Price to Income \neq Affordability

- Recent research by Lars Svensson outlines the problem with using price to income ratio as a measure of affordability of houses.
- Dwelling is a durable good, an asset that delivers a flow of services, housing services that are consumed by the owner.
- The purchase price of the asset is not the same as the annual cost of the housing services or the user cost of housing.
- The latter is the correct metric for valuation assessments and not the purchase price.

House Price to Income \neq Affordability: Evidence for Sweden

Figure 1.1: Price-to-income and user-cost-to-income ratios (percentage deviation from historical averages) and the user cost of capital (percent), Swedish houses.



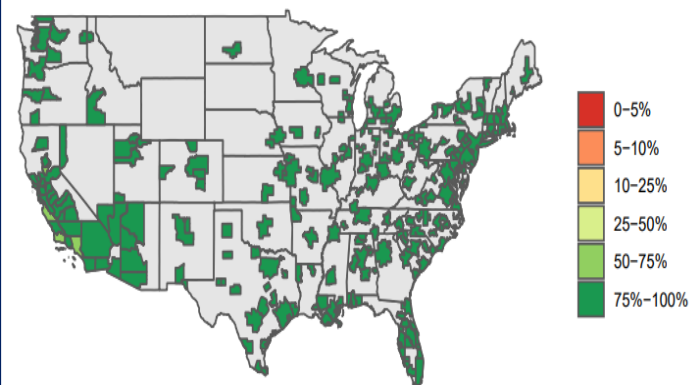
Source and note: Own calculations. See appendix A and figure 3.5 for the underlying data. The “preference-adjustment” is explained in the text. The user cost of capital is from figure 3.4. The last observation is 2022q3.

“For Sweden, the UCTI and PTI indicators turn out to be strongly negatively correlated and even of opposite signs after 2014q1. Both can therefore not be right. If we accept that the UCTI indicator is the right one, it follows that the PTI indicator is not only irrelevant but after 2014q1 consistently wrong in indicating over- or undervaluation.”

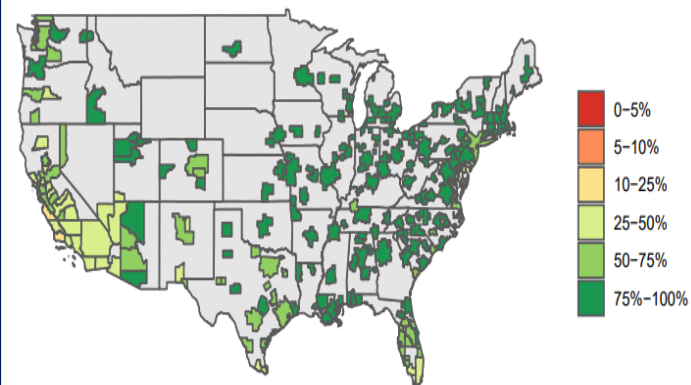
- Svensson (2022)

House Price Affordability: Granular Look

Figure 5: Share of 3BR and 4BR Rental Units Affordable to Married Couples with 2 Children

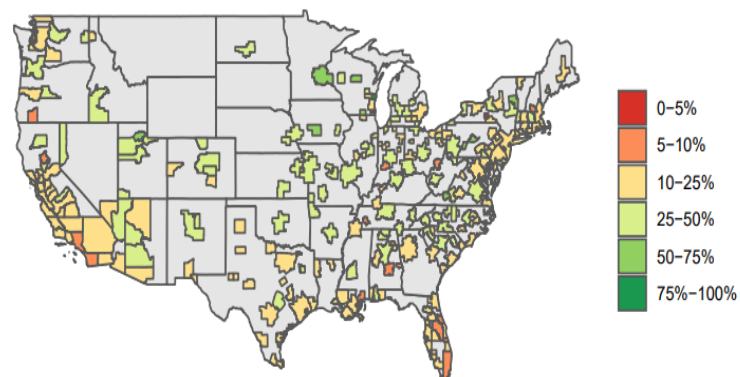


(a) At Median Income of Household Type in the MSA

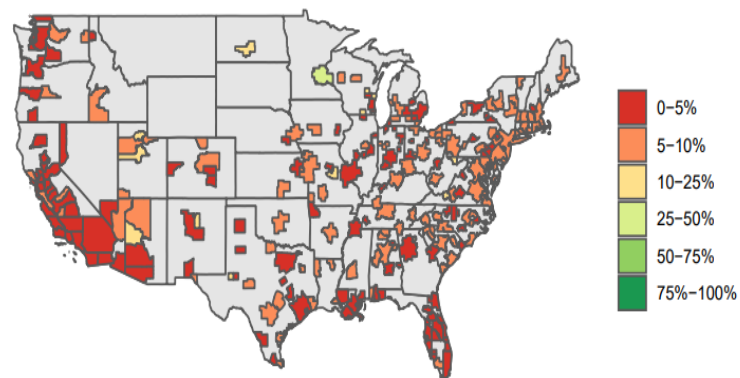


(b) At 30th Percentile of Income Distribution of Household Type in the MSA

Figure 6: Share of 2BR and 3BR Rental Units Affordable to Single Parents with 1 or 2 Children



(a) At Median Income of Household Type in the MSA



(b) At 30th Percentile of Income Distribution of Household Type in the MSA

- Ghent and Leather (2022) find that housing affordability in the US is largely a problem for single-parent families.
- By their method several of the least affordable cities are not the big cities in US Northeast, California or South Florida but instead are cities with both low incomes and low rents.

Turning a Corner

Personal transition



Transitions

- I'm moving to Johns Hopkins University as Director of M.S. in Applied Economics Program (new email: ploungani@jhu.edu)
 - I plan to expand our offerings in real estate economics
- Karan Bhasin (“young Hites Ahir”) and I plan to continue to research and write about global housing markets
 - Subscribe to our Substack: Global Housing Watch (free subscription)

Thank you!



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Additional Slides: U.S. Housing Market

U.S. House Prices: Top of Mind

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71 Greed is driving the US market

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US home prices continued to lose momentum in November

By Anna Bahney, CNN
Published 10:16 AM EST, Tue January 31, 2023

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FINANCE · HOUSING

This is the second-biggest home price correction of the post-WWII era—it's also a fairly mild correction, so far

BY LANCE LAMBERT
January 31, 2023 at 2:37 PM EST

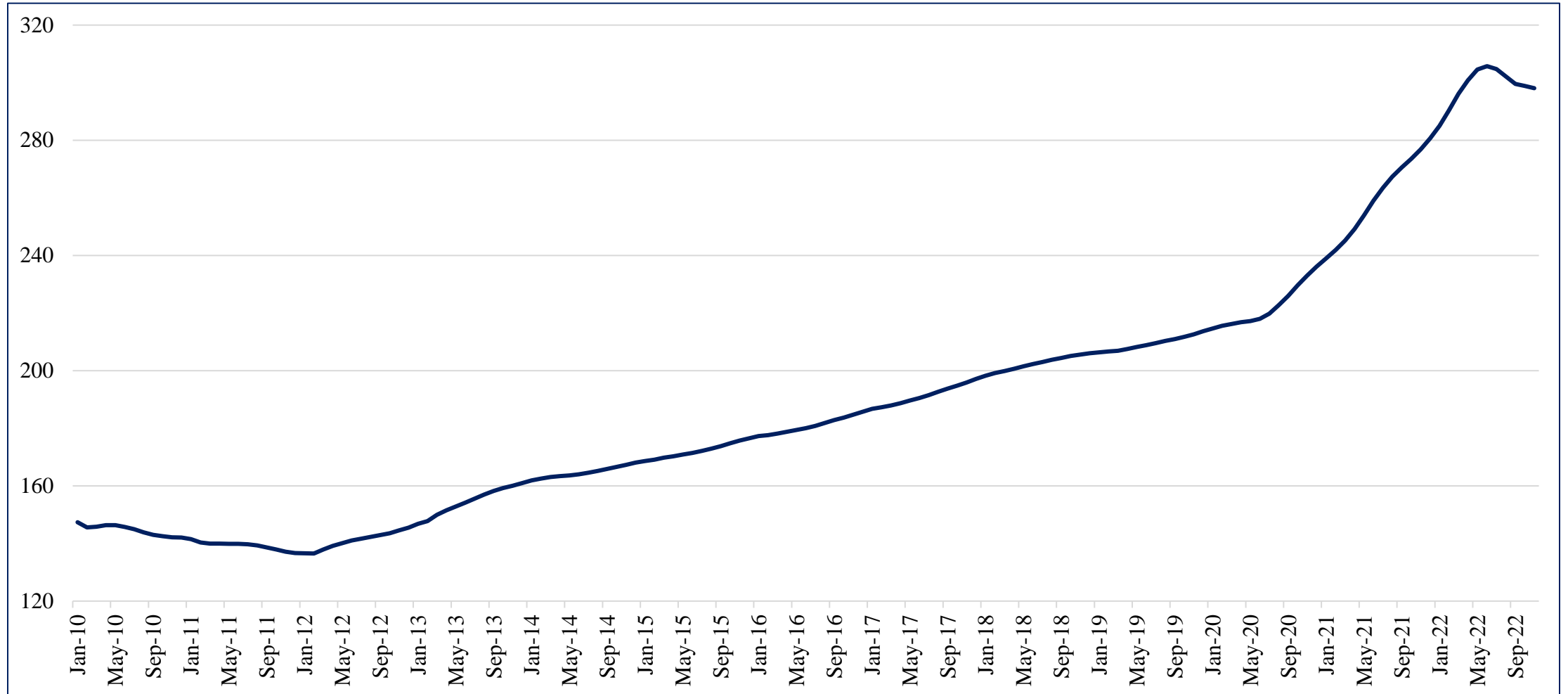
First American [Economic Insights](#) [Blog](#) [Data Center](#)

House Prices Declining Fastest in Overvalued Markets

US home prices dropped for the fifth month in a row in November

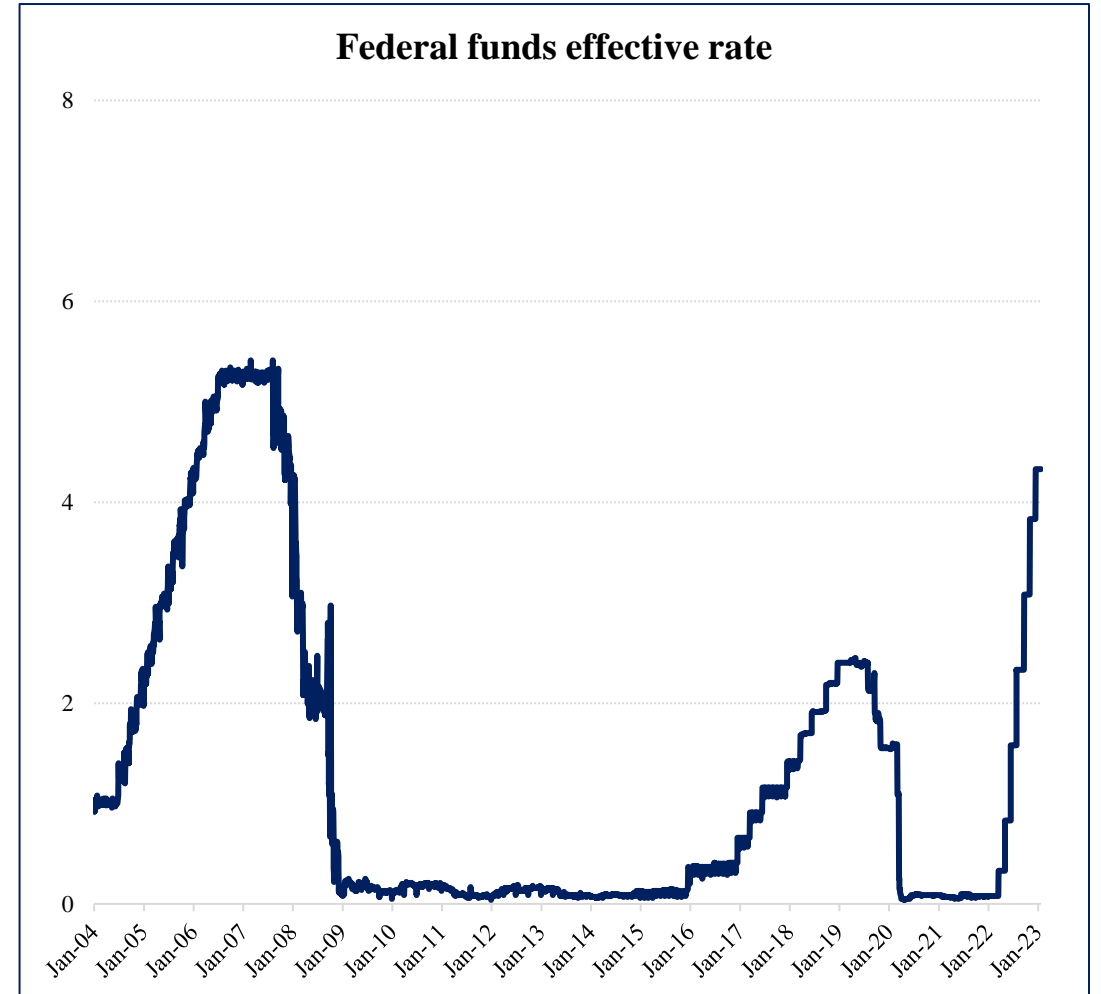
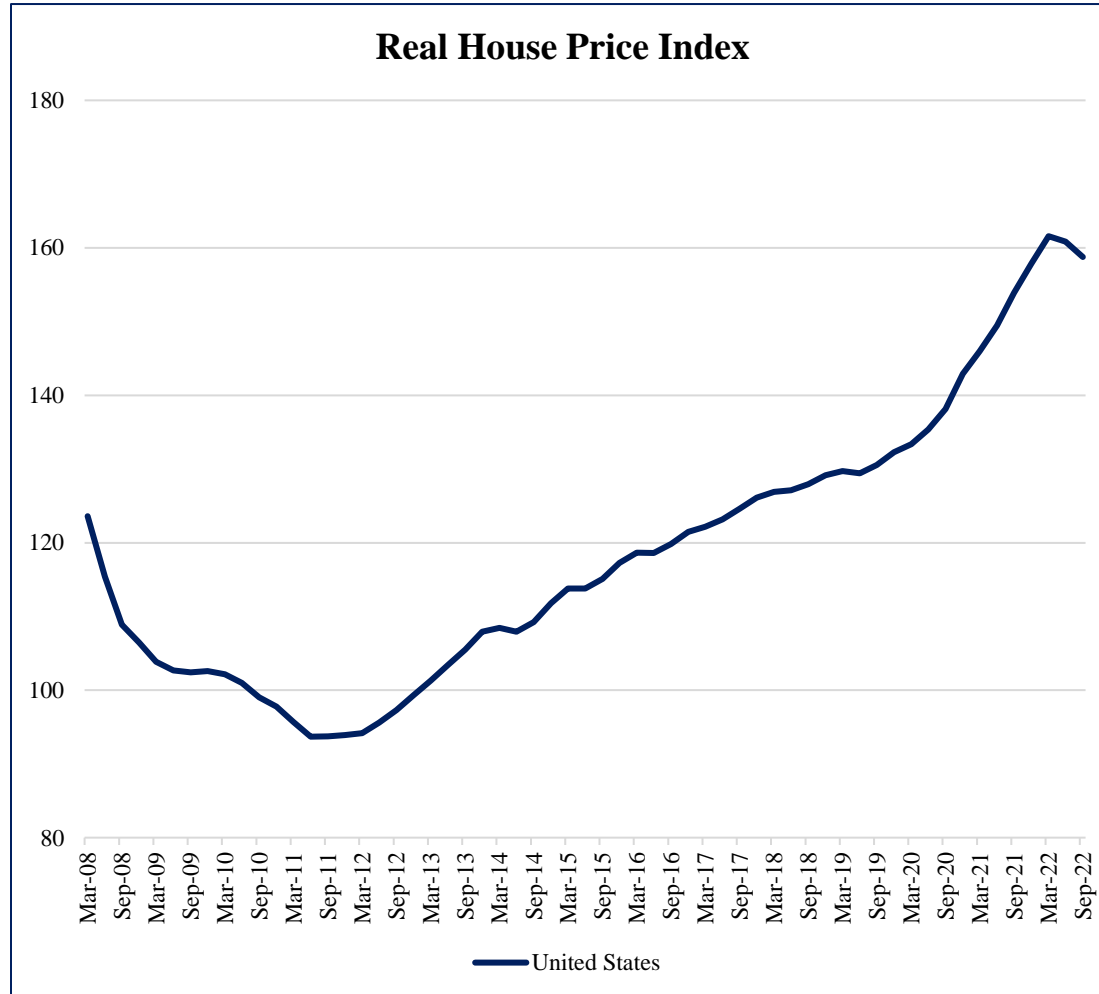
By Anna Bahney, CNN
Updated 12:33 PM EST, Tue January 31, 2023

S&P/Case-Shiller U.S. Home Price Index



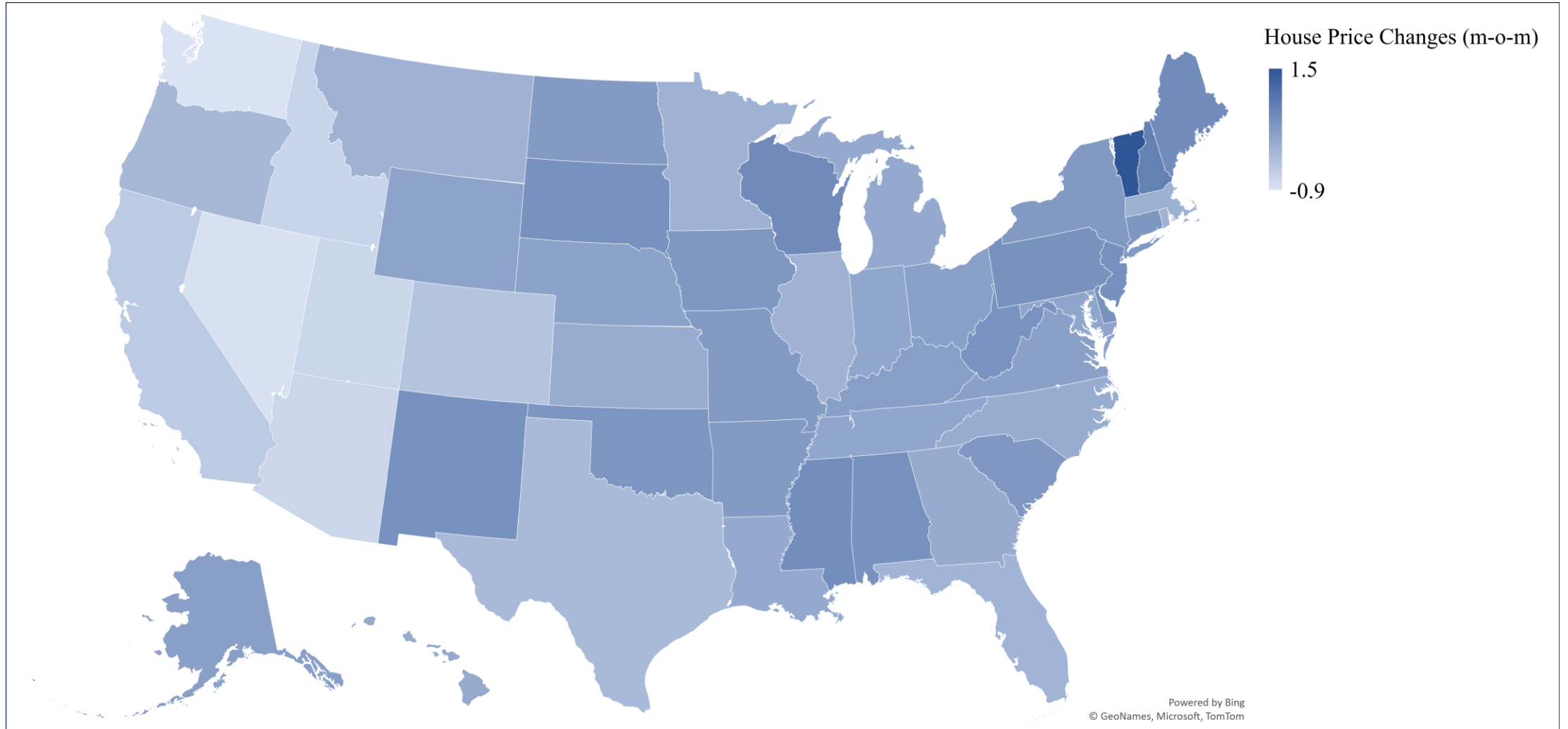
Source: S&P

US: House Prices and Interest Rates



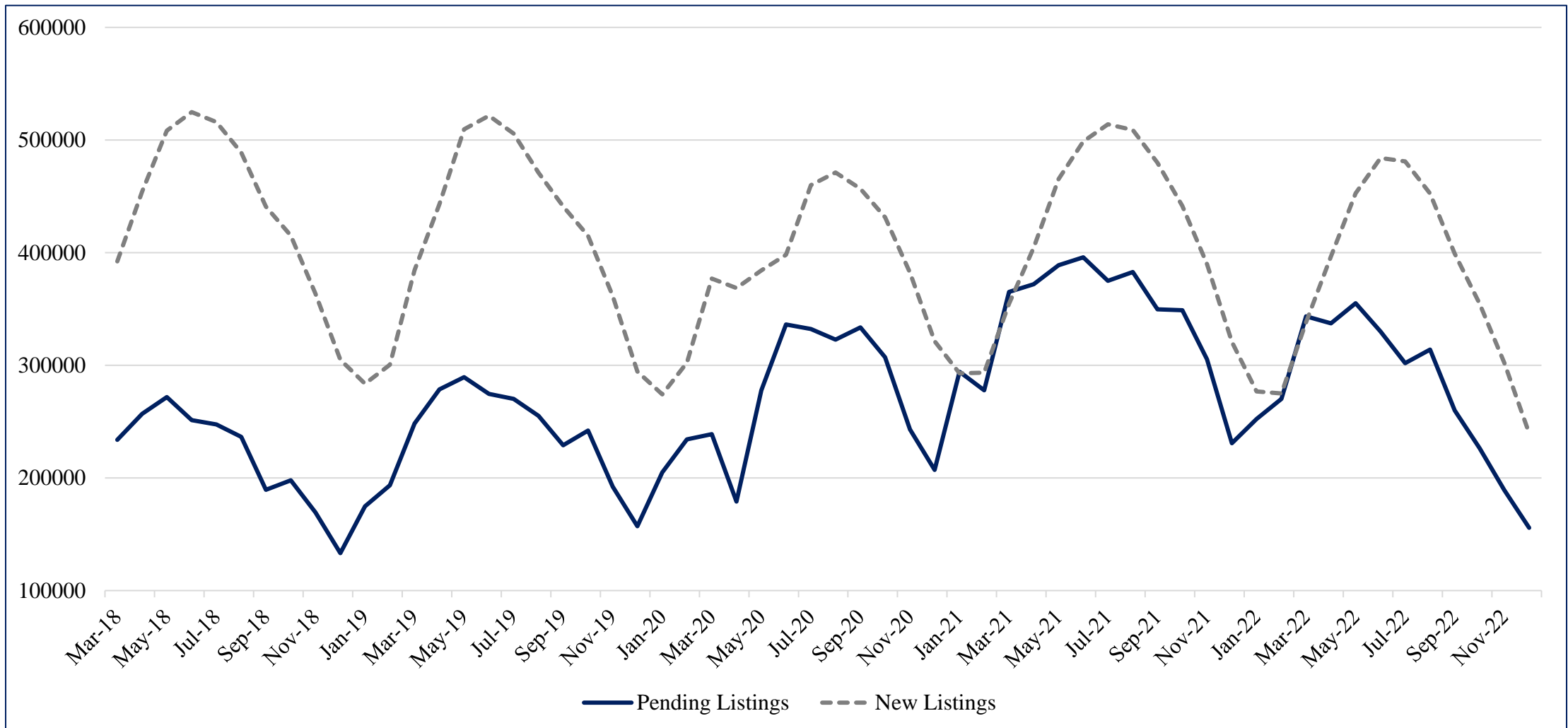
Source: Bank For International Settlements

Single Family House Prices in December



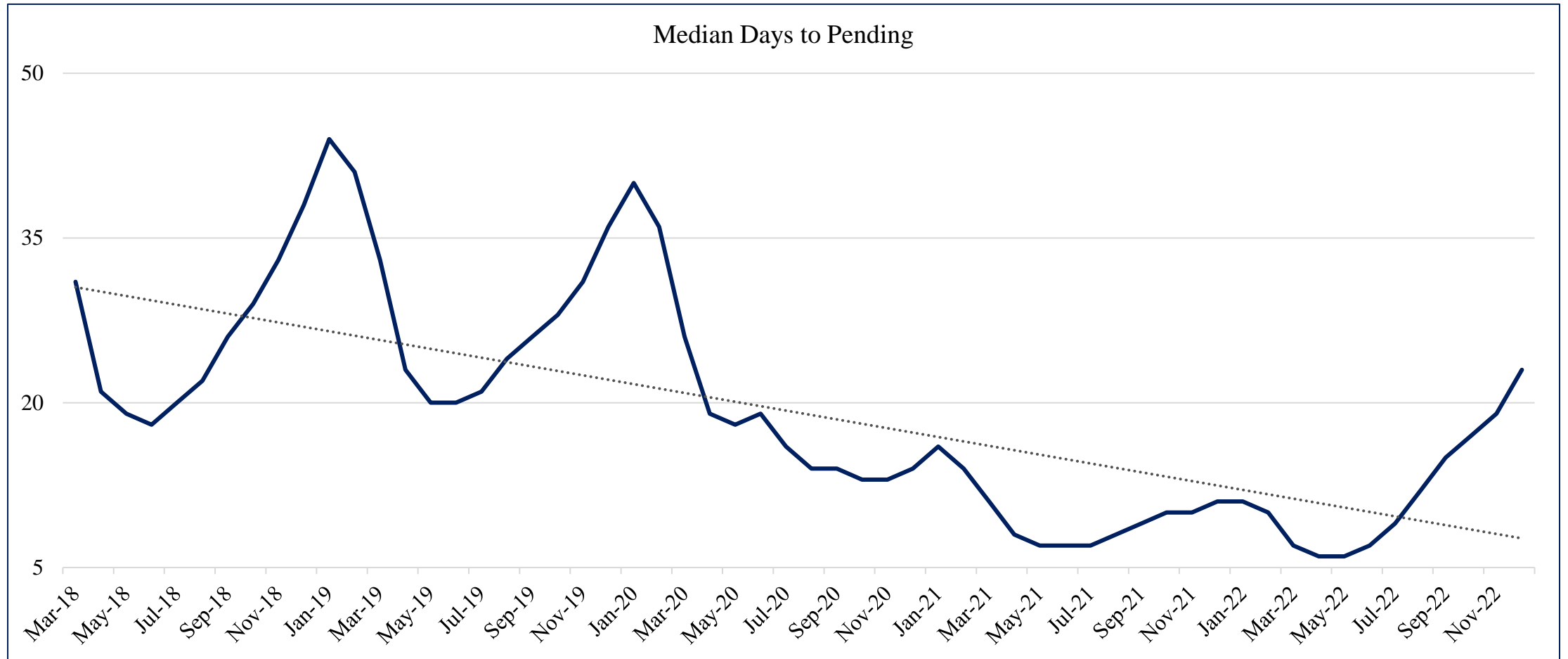
Source: Zillow Group

US New & Pending Listings



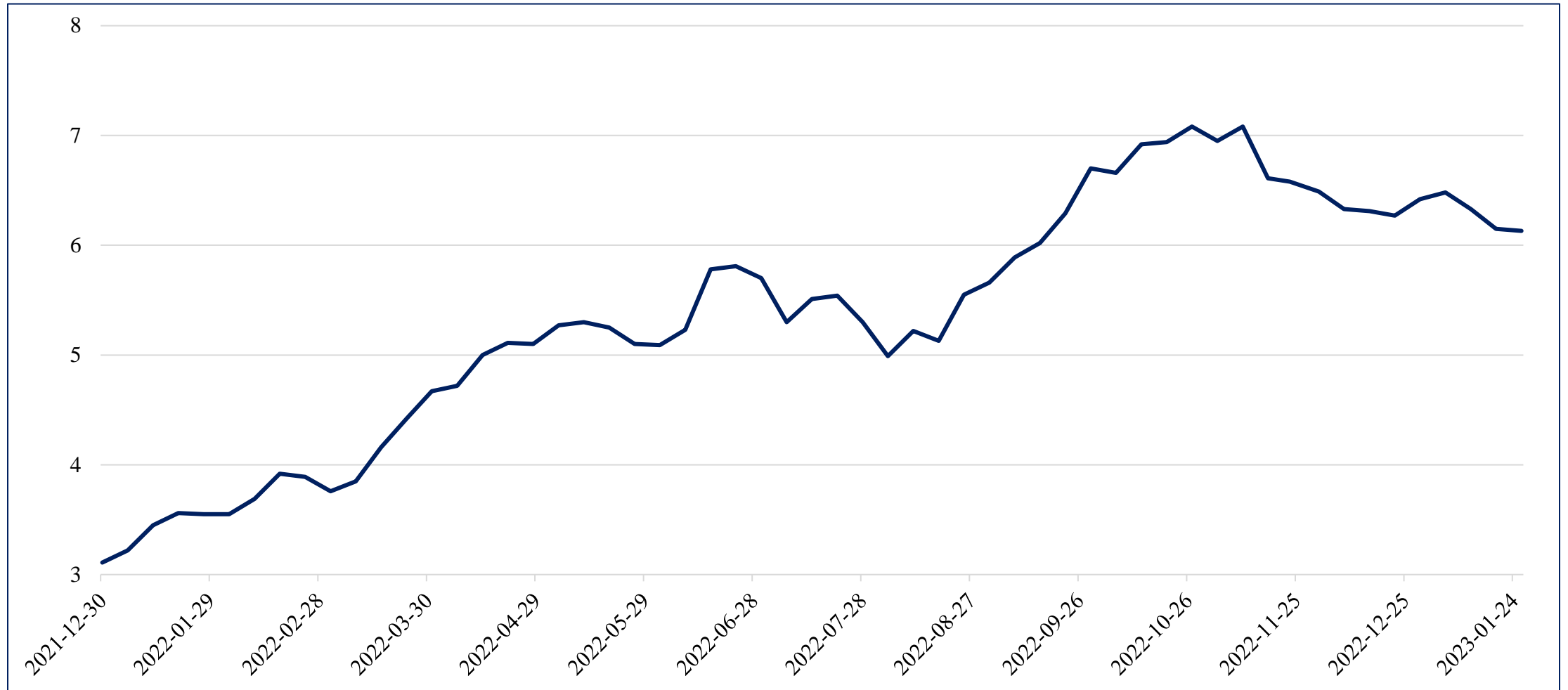
Source: Zillow Group

Median Days to Pending in US



Source: Zillow Group

30 Year Average Mortgage Rate: Peaked?



Source: Zillow Group