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Global property markets. Frothy again. **Easy money is inflating house prices across much of the globe.** Aug 30th 2014

NEWS

122 2017/10. **THE ECONOMIST**. **Global property markets.** Rising in 18 of the 23 economies. Prices in Spain, which had one of the biggest property bubbles before the crisis, are still falling (and 11% overvalued). Declining in France and Italy too. In contrast, housing markets are buoyant in some northern European countries, notably Britain and Sweden. See New 115.

Global property markets

Frothy again

Easy money is inflating house prices across much of the globe

Aug 30th 2014 | From the print edition

The Economist house-price indicators

	Latest, % change: on a year earlier	Latest, % change: since Q1 2008	Under(-)/over(+) valued, %, against*: rents	Under(-)/over(+) valued, %, against*: income†
Ireland	12.5	-42.2	2	-8
Australia	10.4	26.4	55	33
Brazil	10.4	*na*	*na*	*na*
Britain	10.2	9.7	43	24
South Africa	9.8	32.2	*na*	3
New Zealand	7.3	14.5	74	30
United States	6.2	-1.8	7	-8
Germany	5.1	27.7	-11	-15
Canada	4.9	26.5	76	32
Sweden	4.5	15.2	34	19
India	4.3	*na*	*na*	*na*
Austria	4.2	39.0	12	17
Hong Kong	2.7	99.8	79	*na*
Denmark	2.3	-14.6	13	9
China	2.2	24.6	7	-38
Netherlands	1.9	-17.9	2	18
Switzerland	1.4	28.5	2	-7
Belgium	1.2	14.7	58	46
Japan	-1.1	-15.8	-37	-39
France	-1.6	-1.5	31	27
Singapore	-2.8	18.2	54	*na*
Spain	-4.2	-31.6	11	10
Italy	-4.5	-15.2	-7	4

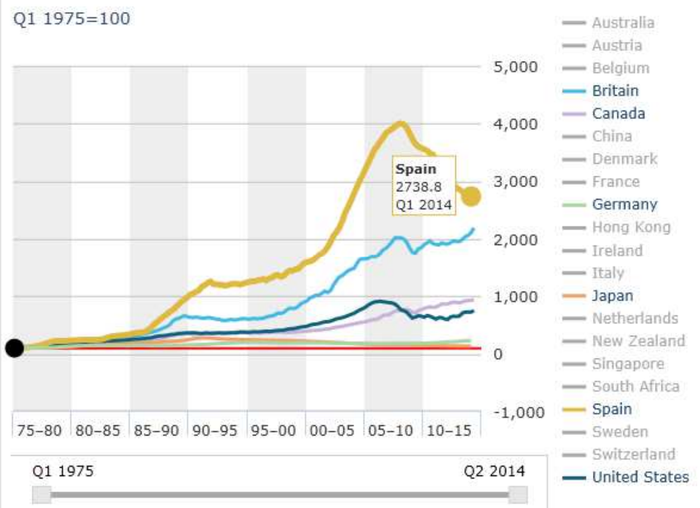
*Relative to long-run average †Disposable income per person

Sources: Haver Analytics; National Housing Bank; OECD; Standard & Poor's; Teranet and National Bank; Thomson Reuters; national statistics offices; *The Economist*

August 27th 2014) and try to spot which bubble might pop next.

The Economist house-price index

House-price index	Prices in real terms	Prices against average income	Prices against rents	Percentage change



Sources: BIS; Bundesbank; FHFA; Instituto Nacional de Estadística; Japan Real Estate Institute; Ministerio de Vivienda; Nationwide; OECD; Office for National Statistics; Standard & Poor's; Teranet and National Bank; Thomson Reuters; vdpResearch

Reset countries

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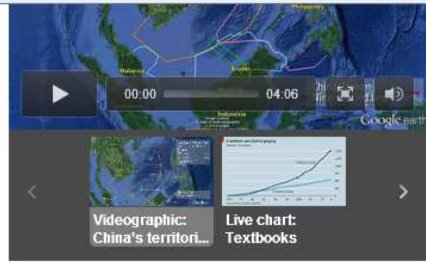

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HOUSE prices are going through the roof. **They are rising in 18 of the 23 economies that we track. And in eight of them, prices are increasing at a faster pace than three months ago**. Yet there are also weak spots, particularly in Europe. **Prices in Spain, which had one of the biggest property bubbles before the crisis, are still falling.** They have kept declining in France and Italy too. In contrast, housing markets are buoyant in some northern European countries, notably Britain and Sweden, and especially so in their capital cities (see article).

Since some form of recovery was bound to occur after the housing slump, how worrying are the renewed signs of exuberance? To assess whether house prices are at sustainable levels, we use two yardsticks. One is affordability, measured by the ratio of prices to income per person after tax. The other is the case for investing in housing, based on the ratio of house prices to rents, much as stockmarket investors look at the ratio of equity prices to earnings. If these gauges are higher than their historical averages then property is deemed overvalued; if they are lower, it is undervalued.

Based on an average of these measures, **houses are at least 25% overvalued in nine countries**. Judged by rents, the most glaring examples are in Hong Kong, Canada and New Zealand. The overshoot in these economies and others bears an unhappy resemblance to the situation that prevailed in America at the height of its boom, just before the financial crisis. Explore the data in our interactive chart below (updated on August 27th 2014) and try to spot which bubble might pop next.

Audio and Video content on Economist.com requires a browser that can handle iFrames.

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BEFORE the financial crisis of 2007-08 low long-term interest rates fuelled an extraordinary house-price boom around the world. That bubble was pricked in the crisis and subsequent recession. Since then, however, central banks' attempts to crank up the recovery by pushing down long-term interest rates to new lows have had a predictable consequence in many property markets. House prices are now rising in 18 of the 23 economies that we track, in eight of them at a faster pace than three months ago (see table).

There remain some weak spots, especially in Europe. Prices in Spain, which had one of the biggest bubbles before the crisis, are still falling. They have also been declining in France and Italy, reflecting continuing economic weakness in the euro zone's second- and third-largest economies. In contrast, housing markets are buoyant in some northern European countries, notably Britain.

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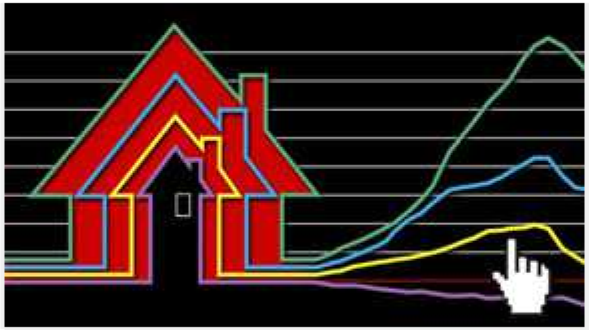
Following an agonising housing slump, America’s property market now looks in good shape. Prices are rising again, but there are few signs yet of history repeating itself. Although low borrowing rates are supporting the market, frothiness seems to be confined to some cities such as San Francisco where the supply of new homes is especially curtailed. This forms part of a broader tendency for property markets to be especially bubbly in big cities, particularly capitals such as London.



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With global monetary conditions so loose, governments are using regulatory tools to cool overheated housing markets. In Canada, for example, the maximum term of the riskiest mortgages has been lowered from 40 to 25 years. Regulators in both Hong Kong and Singapore have repeatedly raised stamp duties and tightened lending restrictions. The measures seem finally to be working, especially in Singapore, where prices are now falling.

China's market is on the turn. Though prices are still higher than a year ago they have edged down over the past three months. Developers are cutting back as a glut of newly-built homes has swamped the market. Since property and construction make up 13% of GDP, a big fall would pose trouble for the economy. But that may be contained since Chinese homebuyers have to chip in big deposits while the government has the fiscal capacity to prop up the market if things turn really nasty.

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Global house prices Location location location

Aug 29th 2014, 13:32by J.M.F. and D.H.

Global house prices

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Housing

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Sky-high house prices in the most desirable cities are holding back growth and jobs

Oct 4th 2014 | From the print edition

A LARGE PART of the recent growth in wealth—in some economies nearly all of it—consists of rising property values, according to Thomas Piketty's analysis. House prices in many parts of the world have been booming for the better part of two decades. The biggest increases have been in rich cities such as London, New York and San Francisco.

Rising house prices are a response to an imbalance between supply and demand. Demand has been affected by the globalisation of economies. As transport costs started to fall at the beginning of the 20th century, many of the manufacturing firms clustered in cities in developed countries left in search of cheaper land and labour. This threw many of those cities into crisis as their tax base crumbled and their public services deteriorated, hastening the exodus. Yet starting in the 1980s cities that had retained a core of highly skilled workers enjoyed a rebound. Population decline slowed and eventually halted, and local economic growth and property prices picked up.

Ed Glaeser, an economist at Harvard University, links this turnaround to the ICT revolution. **Cities enjoy a number of benefits that encourage people to live in them despite higher costs, crowds and congestion. A shorter distance between customers and suppliers (and indeed friends and lovers) is one. The ease with which ideas seems to spread within cities is another.**

The Bay Area of California is a prime example: a place in which ideas seem to reverberate from person to person and firm to firm, and in which those with good ideas can easily tap into networks of engineers, designers and financiers. Similar forces are at work in other large cities around the world. In a paper written with Matthew Resseger, also of Harvard, Mr Glaeser finds a strong relationship between city size and productivity per worker, but only in places with highly skilled workforces. Carl Benedikt Frey and Thor Berger of Lund University note that since the 1980s new work has been getting much more cognitive in nature. They link this to the ICT revolution and to the rapid growth of cities with a core of highly skilled workers.

Yet since the 19th century a dense thicket of zoning regulations has grown up in many of those cities, sending the cost of housing skywards in attractive cities. A generation ago only a handful of cities on American coasts had housing costs much above the cost of new construction. Today most large cities suffer from such an excess, which represents a regulatory “shadow tax” on new construction. Indeed, most of the value of properties in places like London and New York reflects the difficulty of building new homes.

So even as large, high-skill metropolitan economies are becoming more important, they are getting less affordable for anybody but the rich, prompting migration away from the most economically dynamic places towards those that offer good jobs and allow lots of construction. The maths are clearest in America. **In Harris County in Texas, which takes in most of the fast-growing Houston metropolitan area, the median household income is about $53,000 and the median value of an owner-occupied home is $128,000. In California’s Santa Clara County, which includes the heart of Silicon Valley, the median household income is over $90,000 and the median price of a home is $657,000.** A Californian moving to Texas will almost certainly take a pay cut but nonetheless enjoy a higher disposable income.

The difference in housing costs is mostly due to different attitudes to building. Freewheeling Houston approved more than 51,000 new dwellings in 2013 whereas San Jose, home to some of the nation’s worst NIMBYs, approved just under 8,000.

The economic effect of keeping a tight lid on housebuilding is stunning. Enrico Moretti, an economist at the University of California, Berkeley, estimated the employment multiplier of different sorts of work in his book “The New Geography of Jobs”, published in 2012. A new manufacturing job, he suggested, typically creates 1.6 new jobs in the local service economy. In innovative industries, one new position might yield four to five new service-sector jobs within a metropolitan area. But vertiginous house prices stunt this effect. Rich Googlers in San Francisco spend money on homes that might otherwise go to local restaurants or gyms.

In developed economies, all this is having a negative effect on employment, productivity and output. A new paper by Mr Moretti and Chang-Tai Hsieh, of the University of Chicago, estimates that between 1964 and 2009 output in America was 13% lower than it might have been because high housing costs encouraged people to move away.

For homeowners in London, New York or San Francisco, this is all excellent news as long as they plan to sell up some day. Sky-high housing costs mean that more of the gain of new job creation is captured by landlords (or homeowners who get out) than by employers or workers. Technology has raised the return to living in high-skill cities, but has done nothing to make it easier to find a home there.

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