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Global house prices

Castles made of sand

Monetary policy may call an end to the **house-price party**

The Economist house-price indicators

	Latest, % change		Under (-)/over (+) valued, against*:	
	on a year earlier	since Q1 2008	rents	income†
United States	13.6	-5.9	5	-10
Brazil	12.8	na	na	na
Hong Kong	9.7	96.3	81	na
China	8.7	23.0	7	-37
New Zealand	8.7	9.1	71	26
South Africa	8.1	23.4	na	3
Germany	8.1	25.2	-12	-17
Australia	7.6	17.6	49	26
India	7.0	na	na	na
Ireland	5.6	-45.3	-2	-8
Britain	5.5	1.7	36	26
Austria	5.0	37.1	13	16
Switzerland	5.0	27.8	2	-4
Singapore	3.9	22.1	58	na
Canada	3.4	23.0	76	31
Sweden	3.1	11.8	32	17
Denmark	2.7	-16.0	12	8
Belgium	2.4	15.5	62	49
France	-1.5	-0.4	33	29
Japan	-1.6	-15.4	-37	-38
Netherlands	-4.8	-19.2	3	19
Spain	-5.3	-30.0	13	10
Italy	-5.9	-12.2	-4	10

*Relative to long-run average †Disposable income per person
Sources: Haver Analytics; Hong Kong RV; National Housing Bank; OECD; Standard & Poor's; Teranet and National Bank; Thomson Reuters; national statistics offices; The Economist

HOUSE prices are picking up globally. **HOUSE prices are now rising in 18 of the 23 countries we track across the globe, compared with just 12 a year ago.** America tops our table: the Case-Shiller index released on New Year's Eve reported price increases of 13.6% in the year to October 2013. Homes have risen in value by 24% since their March 2012 trough, but they remain 20% below their peak in April 2006.

Builders started work on over 1m new homes in America in the year to November, for only the second time since the financial crisis ended. But

this is far short of the 2.3m recorded in January 2006, and below the long-run average of 1.5m. **In all, American property is enjoying a recovery but not a bubble.**

The Federal Reserve's decision to start tapering its buying of bonds with newly-created money (ie, to scale back the policy commonly known as quantitative easing, or QE) by \$10 billion to \$75 billion a month from January may take some wind out of house sales. Although mortgage rates are rising, thanks to higher bond yields, housing remains affordable. Prices are now at or around fair value according to *The Economist's* measure, which compares prices with the long-run average of rents and personal incomes.

In Britain, prices increased at their fastest rate in three years in October, fuelling fears of a housing bubble (and pop). The north-south divide in the euro area continues—prices still fall in the indebted south. Although by our measure housing is overvalued against both rents and income, Britain did not suffer a housing crash on the scale of America's, largely because supply is so tight. Britain's government scrapped house-building targets in 2010. Projections of new-household formation suggest 290,000 new homes will need to be built every year through to 2031. But in the 12 months to March 2013 housing completions fell to 135,000, their lowest level since records began in 1949.

And homes in Germany are rising at the fastest rate since reunification, although housing is still undervalued against both rents and income.

The north-south divide in the euro area continues: in Greece, Spain and Italy house prices declined by between 5% and 10%.

However, the market has **finally bottomed out in Ireland**: after halving over six years, prices are now 9% above their March low.

Fears grow of a bubble in China, where prices increased by 8.7% in the year to November 2013, according to *The Economist's* index, based on official figures from 70 Chinese cities.

Brazil, which hosts the football World Cup in June, is also having a housing boom. Prices increased 13% in the 12 months to November and in Rio, which hosts the Olympics in 2016, they have trebled since 2008.

India may follow suit: prices across 15 cities with a total population of 100m increased 7% in the third quarter of 2013.

But **Canada** appears to have been successful in cooling its market: its house-price inflation has reduced to 3.4%, though homes still look expensive.

Notes:

The data presented are quarterly, often aggregated from monthly indices. When comparing data across countries, the interactive chart will only display the range of dates available for all the countries selected.

INTERACTIVE GUIDE TO THE WORLD'S HOUSING MARKET

JANUARY 2nd 2014- 02/01/ 2014

The Economist has been publishing data on global house prices since 2002. The interactive tool above (updated on January 2nd 2014) enables you to compare nominal and real house prices across 21 markets over time. And to get a sense of whether buying a property is becoming more or less affordable, you can also look at the changing relationships between house prices and rents, and between house prices and incomes.

Explanation:

This interactive chart uses **five different measures:**

- 1. House-price index—rebased to 100 at a selected date and in nominal terms only.*
- 2. Prices in real terms—again rebased to 100 for the selected date, but the index is deflated by consumer prices to take account of the effects of inflation on purchasing power.*
- 3. Prices against average income—compares house prices against average incomes in each country, rebased to 100 at the selected date.*
- 4. Prices against rents—compares the relationship between the costs of buying and renting, rebased to 100 at the selected date.*
- 5. Percentage change (in real terms)—shows the increase or decrease in real prices between two selected dates.*

1. House-price index 1975- 2013 (38 years)—rebased to 100 (1975-80) at a selected date and in nominal terms only. Up to 4 times in Spainsince 2007, then to 2,8 times Up to 2 times in UK and USA



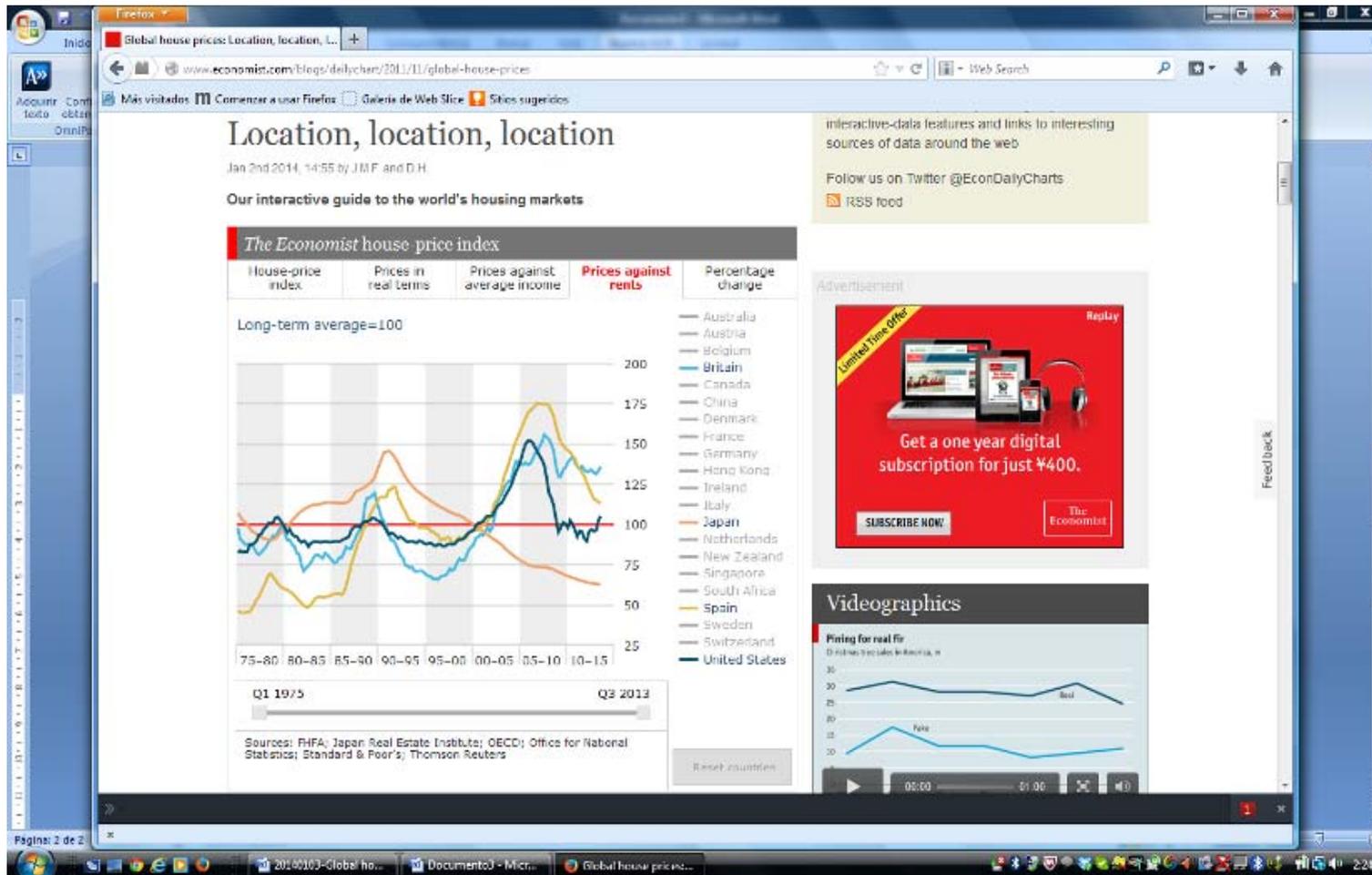
2. Prices in real terms—again rebased to 100 for the selected date, but the index is deflated by consumer prices to take account of the effects of inflation on purchasing power. **Up to 350 in Spain with 2 peaks and now in 230.**



3. *Prices against average income—compares house prices against average incomes in each country, rebased to 100 at the selected date. Spain always overvalued.*



4. *Prices against rents—compares the relationship between the costs of buying and renting, rebased to 100 at the selected date. Spain always overvalued*



5. **Percentage change (in real terms)**—shows the increase or decrease in real prices between two selected dates (1975 and 2013-38 years): **Spain, 125% / UK, 100% / USA: 25% / Japan: -5%.**

