

The OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE)



Confronting the cost-of-living and housing crisis in cities

OECD Regional Development Papers

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Executive Summary



Cities across the world are battling a housing crisis, driven in large part by the increasing unaffordability of housing in recent decades. This is putting pressure on household finances, especially for lower-income groups and the young, which has been exacerbated by the on-going cost-of-living crisis that saw inflation in the OECD reach recent record highs last year. But it is also raising broader issues around homelessness, housing quality, and the role of housing in climate change mitigation.

In many cities, housing supply has failed to keep pace with rising demand. Public investment in new homes has declined across the OECD in recent decades, and increasing scarcity of land, restrictive building regulations, and rising construction costs are also impacting on private investment, especially in affordable housing. Fragmented housing governance arrangements and limited human and financial capacity of subnational governments add to these systemic issues.

At the same time, some cities are also struggling with excessive amounts of vacant premises, which has been exacerbated by the rise of teleworking during the COVID-19 pandemic and the increase in underused commercial space and office buildings. Poor-quality or inadequate housing is another serious challenge in many cities, impacting not only on residents' well-being but also on household finances and climate objectives, as many poor-quality homes are also energy inefficient.

Whilst public finances have also been strained by recent crises, addressing these challenges is more important than ever because the costs of inaction are increasing, both for people and for governments. Supporting public and private sector investment in more and better housing, can have widespread spillovers and benefits for people and societies, while also reducing government expenditures over the long term, including on associated health and social care costs that are often associated with poor quality housing, and on future spending in climate adaptation. More and better-quality housing, where it is needed, can also help drive job mobility and, in turn, more inclusive economic growth.

City mayors have a critical role to play. They hold key powers over land use, affordable housing, infrastructure, and in some countries, over the provision of social services. This paper highlights the systemic issues underlying the housing crisis in many OECD cities and beyond, including through the prism of the current cost-of-living crisis. It recognises that there is no one-cap-fits-all solution and that actions needs to take account of the heterogeneity of local contexts, and provides inspiring examples of how cities have been addressing these many challenges. It identifies five policy priorities to tackle the cost-of-living and housing crises in cities, while highlighting that trade-offs between policy objectives need to be considered and managed carefully, notably between quantity, affordability, quality and sustainability objectives:

» **Target the most vulnerable population groups in cities.** To ensure that support measures to respond to the cost-of-living crisis are inclusive, they need to be targeted to those who have been hit hardest by recent shocks. In addition, while emergency responses to homelessness are necessary to manage short-term transitions, homelessness policies need to focus on prevention. Many cities also need to provide safe, secure and affordable housing for refugees, as a starting point to potential employment.

» **Boost housing supply in cities, where it is most needed.** This can be achieved through various channels, including: investing more in affordable and social housing, in particular through a broad range of financing tools (see below); ensuring that land-use planning policies are not overly restrictive and are conducive to private housing developments; building “up” rather than “out” where possible, so as not to sacrifice environmental outcomes; by better utilising existing housing stock and repurposing vacant housing; and by fostering community-led housing solutions.

» **Improve housing quality in cities to respond to the cost-of-living crisis and to global mega trends.** Good-quality housing can be promoted through building codes, and potential supply-side support to developers. To be consistent with climate objectives, most existing buildings will need to be renovated but actions are needed to ensure that the right incentives and support mechanisms are in place, especially for lower-income households. Housing in cities also needs to be resilient to disasters, adapted to demographic changes, and connected to jobs, amenities and transport hubs.

» **Strengthen housing governance,** by better aligning housing policies across and within levels of government and through spatial planning that spans across functional territories; by promoting stakeholder engagement; and by enhancing human capacity in subnational governments.

» **Mobilise a wide variety of financing tools,** from both public and private sources. Local policy makers can leverage a range of financing mechanisms, including tax incentives, public-private partnerships, and government grants to spur private investment in housing. Capital gains and recurrent property tax, as well as land value capture instruments, can be used to finance housing development.



Résumé

Les villes du monde entier sont confrontées à une crise du logement, due en grande partie au caractère de plus en plus inabordable des logements au cours des dernières décennies. Cette situation pèse sur les finances des ménages, en particulier ceux à faible revenu et les jeunes, et a été exacerbée par la crise actuelle du coût de la vie qui a vu l'inflation dans la zone OCDE atteindre des niveaux records l'an dernier. Mais elle soulève également des questions plus larges concernant le sans-abrisme, la qualité du logement et le rôle du logement dans l'atténuation du changement climatique.

Dans de nombreuses villes, l'offre de logements n'a pas réussi à suivre le rythme de la demande croissante. L'investissement public dans les nouveaux logements a diminué dans la zone OCDE au cours des dernières décennies, et l'investissement privé, en particulier dans les logements à prix abordable, est affecté par la rareté croissante des terrains disponibles, les réglementations restrictives en matière de bâtiments ainsi que l'augmentation des coûts de construction. La fragmentation des dispositifs de gouvernance du logement et les capacités humaines et financières limitées des gouvernements infranationaux viennent s'ajouter à ces problèmes systémiques.

Dans le même temps, certaines villes sont également confrontées à un nombre excessif de logements vacants, une tendance qui a été exacerbée par l'essor du télétravail pendant la pandémie de COVID-19 et par l'augmentation des espaces commerciaux et des immeubles de bureaux sous-utilisés. La mauvaise qualité ou l'inadéquation des logements avec les besoins des ménages est un autre défi important dans de nombreuses villes, qui a un impact non seulement sur le bien-être des habitants, mais aussi sur les finances des ménages ainsi que sur les objectifs climatiques, car de nombreux logements de mauvaise qualité sont également inefficaces sur le plan énergétique.

Alors que les finances publiques ont également été mises à rude épreuve par les crises récentes, il est plus important que jamais de relever ces défis, car le coût de l'inaction augmente, tant pour les personnes que pour les gouvernements. Soutenir les investissements des secteurs public et privé dans des logements plus nombreux et de meilleure qualité peut avoir des retombées positives considérables pour les personnes et les sociétés, tout en réduisant les dépenses publiques à long terme, notamment les coûts de santé et d'aide sociale qui sont souvent associés à des logements de mauvaise qualité, ainsi que les dépenses futures liées à l'adaptation au changement climatique. Des logements plus nombreux et de meilleure qualité, là où ils sont nécessaires, peuvent également favoriser la mobilité de l'emploi et, par conséquent, une croissance économique plus inclusive.

Les maires ont un rôle clé à jouer. Ils détiennent des prérogatives essentielles en matière d'aménagement du territoire, de logements abordables, d'infrastructures et, dans certains pays, de fourniture de services sociaux. Ce document met en lumière les problèmes systémiques qui sous-tendent la crise du logement dans de nombreuses villes de l'OCDE et au-delà, notamment à travers le prisme de la crise actuelle du coût de la vie. Reconnaissant qu'il n'existe pas de solution unique et que les actions à mettre en œuvre doivent tenir compte de l'hétérogénéité des contextes locaux, ce document fournit des exemples inspirants de la manière dont les villes ont relevé ces nombreux défis. Il identifie cinq priorités de politiques publiques pour lutter contre les crises du coût de la vie et du logement dans les villes, tout en soulignant que les arbitrages entre les objectifs de politiques publiques doivent être pris en compte et gérés avec attention, notamment ceux entre les objectifs de quantité, d'accessibilité financière, de qualité et de durabilité :

- » **Cibler les groupes de population les plus vulnérables dans les villes.** Pour s'assurer que les mesures de soutien destinées à répondre à la crise du coût de la vie soient inclusives, elles doivent être ciblées sur les personnes qui ont été le plus durement touchées par les chocs récents. En outre, si les réponses d'urgence au sans-abrisme sont nécessaires, les politiques publiques doivent se concentrer sur la prévention. De nombreuses villes doivent également fournir aux réfugiés des logements sûrs, sécurisés et abordables, comme point de départ à leur emploi potentiel.
- » **Augmenter l'offre de logements dans les villes, là où les besoins sont les plus importants.** Cet objectif peut être atteint par différents moyens, notamment : en investissant davantage dans le logement social et abordable, en particulier grâce à un large éventail d'outils de financement (voir ci-dessous) ; en veillant à ce que les politiques d'aménagement du territoire ne soient pas excessivement restrictives et soient propices à la création de logements privés ; en densifiant et en visant un développement urbain compact plutôt qu'étalé lorsque cela est possible, afin de ne pas sacrifier la dimension environnementale ; en utilisant mieux le parc de logements existants et en réaffectant les logements vacants ; et en encourageant les solutions de logement coopératif.
- » **Améliorer la qualité des logements dans les villes pour répondre à la crise du coût de la vie et aux grandes tendances mondiales.** Les codes de construction et un potentiel soutien aux promoteurs du côté de l'offre peuvent favoriser l'amélioration de la qualité des logements. Pour être compatibles avec les objectifs climatiques, la plupart des bâtiments existants devront être rénovés, mais des actions sont nécessaires pour garantir la mise en place des bonnes incitations et des mécanismes de soutien, en particulier pour les ménages à faible revenu. Les logements dans les villes doivent également être résistants aux catastrophes naturelles, adaptés aux changements démographiques et bien connectés aux emplois, équipements et services publics, et transports.
- » **Renforcer la gouvernance en matière de logement,** en alignant mieux les politiques de logement entre les différents niveaux de gouvernement et au sein de ceux-ci, en promouvant un aménagement du territoire qui couvre les zones économiques fonctionnelles au-delà des limites des villes, en encourageant l'engagement des parties prenantes, et en renforçant les capacités humaines au sein des gouvernements infranationaux.
- » **Mobiliser un large éventail d'outils de financement,** à la fois publics et privés. Les décideurs politiques locaux peuvent tirer parti de nombreux mécanismes de financement, comme les incitations fiscales, les partenariats public-privé et les subventions publiques pour stimuler l'investissement privé dans le logement. Les plus-values et l'impôt foncier récurrent, ainsi que les instruments de captation de la valeur foncière, peuvent être utilisés pour financer le développement du logement.





Cities are faced with a compounding cost-of-living and housing affordability crisis

The cost-of-living crisis in cities

Russia’s war of aggression against Ukraine in early 2022 disrupted global markets, sending food and energy prices skyrocketing and adding to inflationary pressures at a time when the cost of living was already rising rapidly for households. While there are some marked differences in inflation rates across countries, inflation reached an average of 9.6% in 2022 across OECD countries (Figure 1), more than double its 2021 level (4.0%) and its highest since 1988. Despite widespread labour shortages, in most OECD countries wage growth has not kept pace with the rapid rise in inflation, reducing household purchasing power (OECD, 2023[1]).

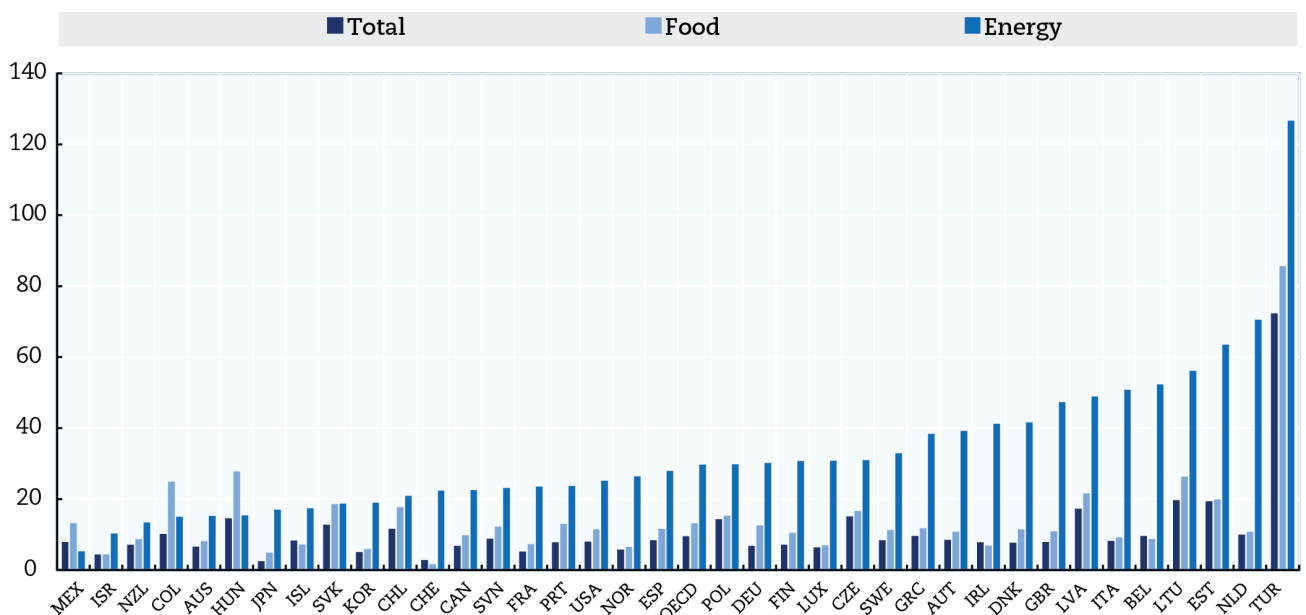
Rising food and energy prices are pushing up the costs of other key services such as public transport and childcare. For example in New York City (United States), Milan (Italy), or Paris (France), commuters have had to absorb substantial increases in their metro or bus fares. Some cities, such as Porto (Portugal), Montpellier (France), or Tallinn (Estonia), have introduced free

public transport – sometimes for several years – to shield users from inflationary pressures and also as a way to incentivise people to use more public transport and help meet climate objectives. Childcare providers have also had to raise their fees. In the UK, nearly three-quarters of local authorities report that many of their local childcare providers have increased prices charged to parents in 2022 (Jarvie et al., 2023[2]).

The cost-of-living crisis could further deepen inequalities in cities as the consequences of higher costs can disproportionately affect low-income households. While the distributional impacts of surging energy prices on household budgets vary between countries ((Causa et al., 2022[3]) and (Blake and Bulman, 2022[4])), where inflation weighs more on low-income households than on higher-income households, forcing vulnerable groups to rein in spending on other basic needs such as food and health, discontent and mistrust may deepen (OECD, 2022[5]).

» Figure 1. Inflation reached high levels across all OECD countries in 2022


Inflation (CPI), total, food and energy, annual growth rate (%), 2022



Source: OECD (2023[6]), Inflation (CPI), <https://doi.org/10.1787/eee82e6e-en>.

Not all cities have been equally affected. In the UK, for example, cities and large towns in the north are more affected by the cost-of-living crisis than other places in the country, due to higher energy usage stemming from poorer home insulation and higher car-dependency. In these cities, inflation has been up to 30% higher than in southern cities (Rodrigues and Quinio, 2022[7]).

City administrations also face rising energy costs, driving their bills up (e.g. heating of public buildings and facilities) and undermining their capacity to provide or ensure key public services. These higher costs have put further pressure on budgets already squeezed by the COVID-19 crisis (OECD, 2020[8] and OECD, 2022[9]). Many cities have therefore taken measures to mitigate the budgetary impacts of rising costs. For example, as part of its energy sobriety plan, the city of Paris implemented a set of measures to achieve 10% energy savings, including decreasing temperatures in all public buildings, lowering the temperatures of municipal swimming pools by 1 degree, turning lights off in all municipal buildings from 10pm, and indeed, switching off the Eiffel Tower lights from 11.45pm (instead of 1am). The city of Paris also announced it will increase the local property tax by more than 50% in 2023 to maintain public service continuity and accelerate the green transition.



Inflation reached an average of 9.6% in 2022 across OECD countries, more than double its 2021 level and its highest since 1988.

The housing affordability crisis in cities

The cost-of-living crisis has been compounded by a longstanding crisis in housing affordability. Whilst house prices in many cities have recently seen some falls in many cities, they have been on an upward trend for several decades, outpacing growth in income in most OECD countries. Real house prices rose by 77% between 1996 and 2022, compared to GDP per capita growth of only 29% (Figure 2). While this sharp rise in house prices will have created wealth effects for homeowners, it has made access to homeownership increasingly unreachable for many households, especially as concomitant rising rents have made it harder for tenants to save for deposits. Rising rents have also made them more vulnerable to shocks, as seen during the COVID-19 pandemic (OECD, 2021[10]).

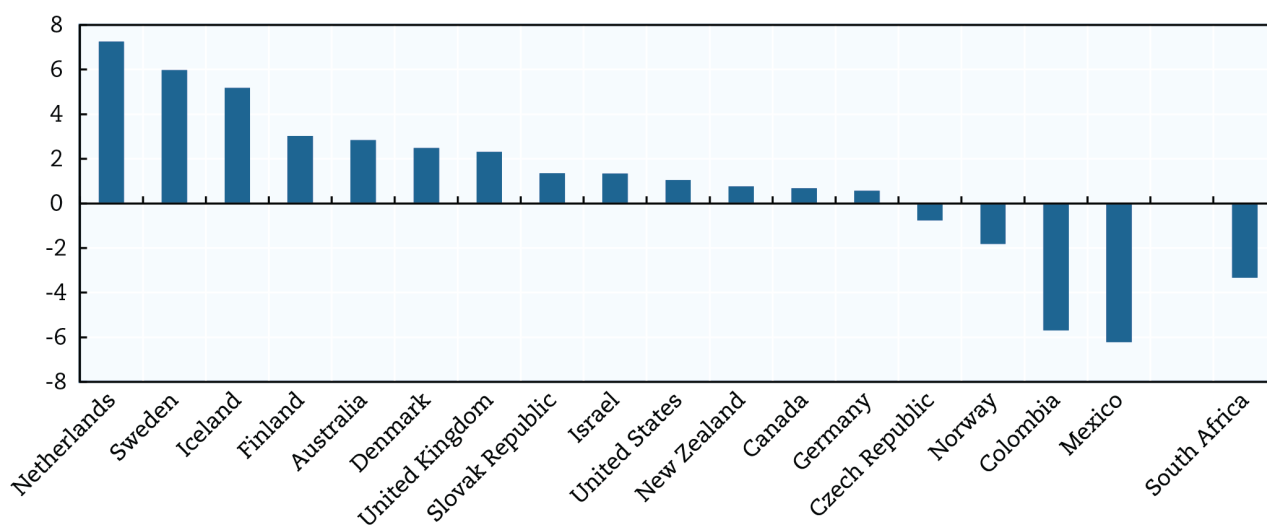
On top of this longer-term trend, OECD countries experienced a nearly 20% year-on-year increase in

housing-related expenses (including utilities, rents, maintenance and repair) in 2022, mainly due to the increase in energy prices (OECD, 2023[6]). Housing-related expenditures, such as the costs of maintenance and utilities, have soared at a time when 15% of households in the bottom income quintile of OECD countries (for which data are available) were already unable to afford adequate heating for their dwellings. These expenditures will remain high even if inflation levels off in 2023 and 2024. Indeed, at 22% of household final consumption expenditure in 2019, housing is the single-largest spending item in household budgets across all income groups, and its share of household spending has increased over time (OECD, 2023[11]). Longer-term efforts to expand housing supply have also been hit by increased construction costs and higher costs of finance for developers.

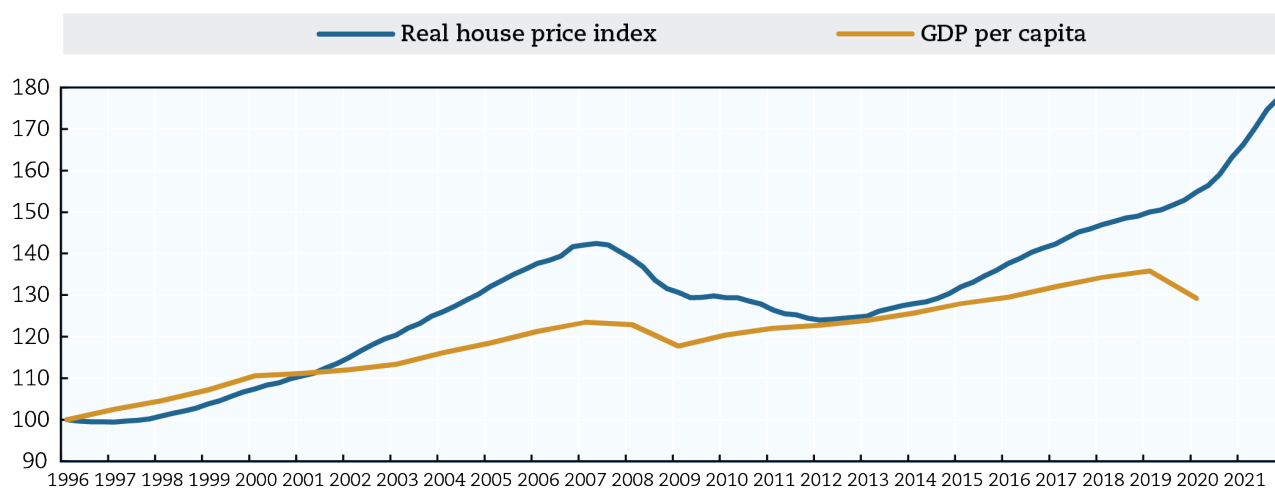


» Figure 2. Housing cost is increasing across the OECD

Panel A. Year-on-year changes in the price of housing-related expenditures, relative to overall inflation, 2022 Q4



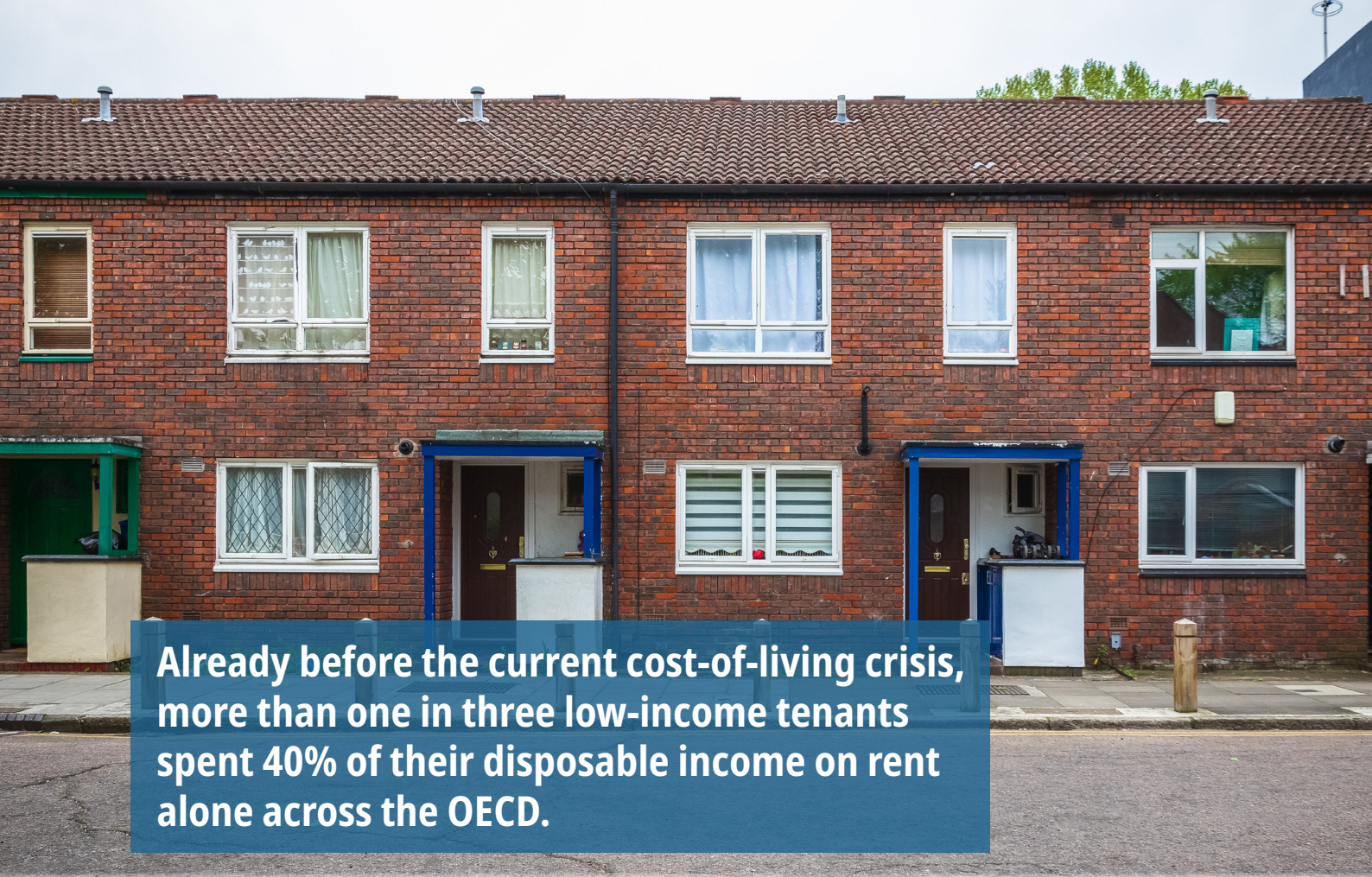
Panel B. Real house prices and GDP per capita, OECD average



Note: For Panel A, Housing-related expenditures include i) actual and imputed rents for housing, ii) maintenance and repair spending and iii) water, electricity, gas and other fuels, and miscellaneous services, as defined in the Classification of Individual Consumption According to Purpose (COICOP). The figure covers only 18 economies because it excludes countries for which homeowners' imputed rents data are missing in the source. By contrast, countries with missing data for maintenance and repairs of dwellings (Mexico and Colombia) are included in Panel A, as this group of items has a much smaller weight than imputed rents. For Panel B, 1996 levels correspond to 100.

Source: OECD (2023[6]), Inflation (CPI), <https://doi.org/10.1787/eee82e6e-en> (Panel A); OECD (2023[11]), OECD Affordable Housing Database, HM1.2.1. Development of house prices, <https://www.oecd.org/housing/data/affordable-housing-database> (Panel B).





Already before the current cost-of-living crisis, more than one in three low-income tenants spent 40% of their disposable income on rent alone across the OECD.

Low- and middle-income households bear the brunt of these two compounding crises. Already before the current cost-of-living crisis, more than one in three low-income tenants spent 40% of their disposable income on rent alone across the OECD (OECD, 2023[11]). Because of rising costs of living and higher interest rates, low- and, also, middle-income households have increasing difficulties in paying their rents or mortgages, threatening housing security. In many cities, this has led to more evictions, especially as temporary eviction bans and other emergency housing support measures introduced during the COVID-19 crisis (OECD, 2020[12]) are being phased out across many OECD countries (OECD, 2023[13]). In the US at least, low-income households have also been priced out of urban centres, moving instead to peripheral suburbs at a higher rate than for richer households (Rutan, Hepburn and Desmond, 2023[14]).

Low-income households are also more likely to live in poor quality or overcrowded dwellings (OECD, 2021[15]) and less likely to be able to afford regular maintenance or improvements to their dwellings, while at the same time facing barriers to move to better-quality housing (OECD, 2023[13]).

Beyond the direct effects of higher housing-related costs on households' budgets, the cost-of-living crisis and the associated high interest rate environment has further constrained access to homeownership for low- and middle-income households due to greater difficulties in saving for deposits for housing purchases or because monthly payments of variable-rate mortgages, which represent the majority of existing

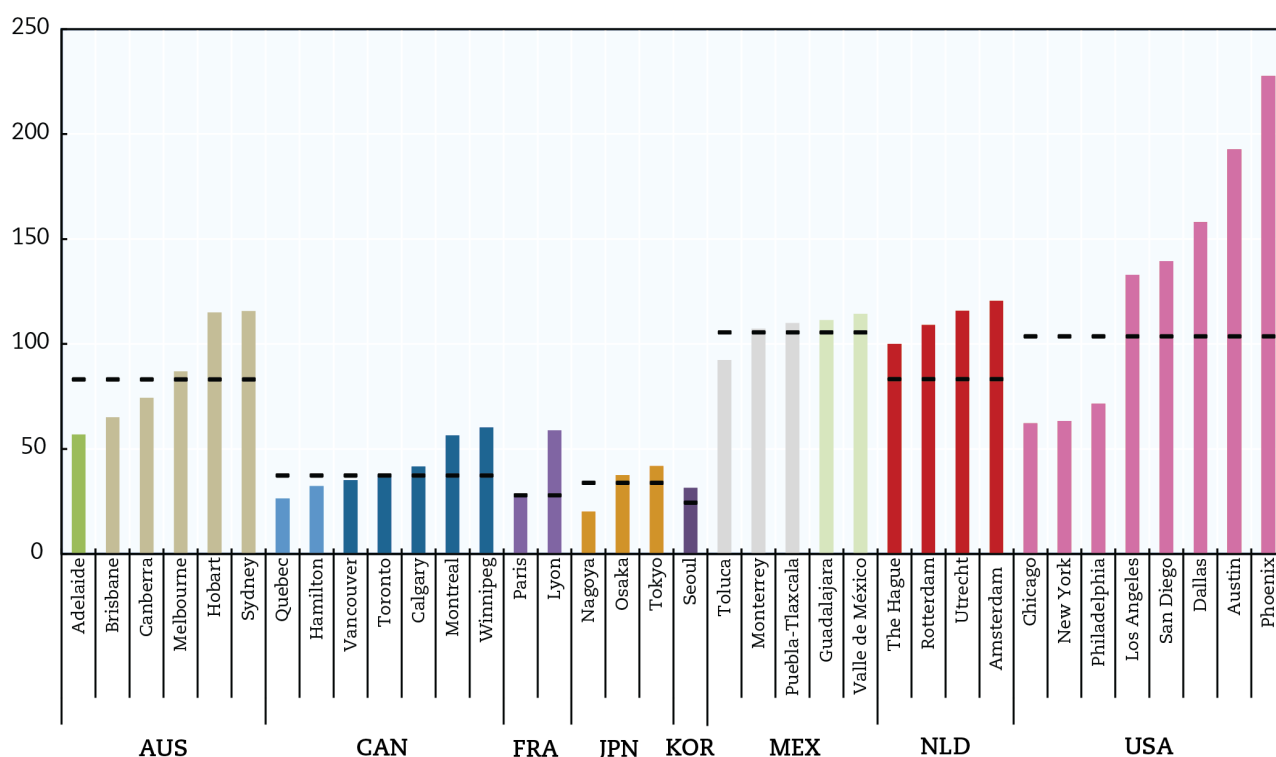
and new loans in several OECD countries (OECD, 2023[13]), have become too costly.

Accessing decent, affordable housing has also become harder for young adults in recent years (Cournède and Plouin, 2022[16]). Today's youth, and especially low-income youth, often have more difficulties accessing quality and affordable housing than previous generations, and, in many countries, they increasingly struggle to become homeowners, which limits their ability to build wealth (OECD, 2021[15]) – wealth accumulation through homeownership being a policy objective pursued by many governments typically through preferential tax treatment of owner-occupied housing (Causa, Woloszko and Leite, 2019[17]).

Within countries, cities have become the focal point of this crisis, as house prices and rents have often risen more quickly than national averages (Figure 3). Indeed, on average over 2020 and 2021, only 40% of city residents across the OECD reported being satisfied with the availability of good-quality, affordable housing in their area, compared to over 50% for rural residents (OECD, 2021[10]). Moreover, in 2021, across 17 OECD countries with available data, buying a house in a metropolitan region was 40 percentage points (pp) more expensive than in a region far from a metropolitan area, and within metropolitan areas, city centres are on average 30% more expensive than suburbs (OECD, 2022[5]). Low-income households are most affected, but also the so-called “squeezed middle class” whose incomes have failed to keep pace with rising housing costs, and who have often needed to move to cheaper areas away from employment opportunities and access to basic services and amenities.

Figure 3. Housing costs are rapidly increasing in cities

Evolution of real house prices, %, Q2 2012-Q3 2022



Note: Dotted lines correspond to country averages.

Source: OECD (2023[18]), National and Regional House Price Indices (Indicator), <https://stats.oecd.org/Index.aspx?DataSetCode=RHPI>.

Homelessness has also become a mounting challenge for cities. Official estimates suggest that less than 1% of the population is homeless in most OECD countries for which data are available, but this is an underestimate, as definitions vary widely across countries and numerous data gaps persist (OECD, 2020[19]). Nevertheless, it is estimated that prior to the COVID-19 pandemic, homelessness increased in about one-third of OECD countries in recent years, and sometimes considerably, such as in Iceland where homelessness rose by 168% between 2009 and 2017, although the homelessness rate remained low, at 0.1% of the overall population (OECD, 2020[19]). Increasing energy bills, rising rents and escalating food costs could push more and more households to the brink of homelessness. In England, recent data show that the number of people estimated to be sleeping rough rose in autumn 2022, for the first time since 2017 (UK Department for Levelling Up, 2023[20]). Furthermore, people experiencing homelessness settle where they can find support and services such as shelters, food banks and

other organisations that provide relief for low-income groups and people experiencing homelessness, which is often more the case in cities.

Failing to act on homelessness imposes extremely high costs on individuals. Various studies show for example a stark difference in the average life expectancy between people experiencing homelessness and the general population – by as much as 30 to 35 years according to some researchers (OECD, 2020[19]). People experiencing homelessness not only face higher mortality rates than the general population, they are also more at risk of diseases, substance abuse and mental illness, among other health problems. Tackling the consequences of homelessness also generates costs for governments, including on health care, housing and other types of assistance, for which subnational governments are often responsible (OECD, 2020[19]), reinforcing the benefits of preventative policies rather than emergency solutions.



Systemic housing issues and policy avenues

Systemic housing issues in cities

Mismatch between housing supply and demand

Several structural factors explain elevated housing demand in cities. These include trends in urbanisation and the concentration of populations (including refugees and migrants) in urban centres in search of better opportunities and lifestyles (Awaworyi Churchill, Hailemariam and Erdiaw-Kwasie, 2020[21]). Falling marriage rates and rising divorce rates (OECD, 2023[22]) are generating additional demand for (smaller) housing units (OECD, 2021[15]). Increases in tourism and the proliferation of short-term rentals through platforms such as Airbnb also play a role in some cities (García-López et al., 2020[23]). In Lisbon, for example, the high share of flats registered as short-term rentals (up to 20% in some historical neighbourhoods) has contributed not only to increases in house prices in specific areas but has also forced many locals to leave the city centre altogether, impacting among others on well-being, social cohesion and indeed resilience.

Increased speculative investment in real estate, together with low interest rates up until 2022, has also contributed to driving house prices up in some places, especially prime city locations (Shelton, 2021[24]). According to a recent study, the rate at which institutional investors, such as private equity and pension funds, are acquiring housing has even accelerated in major European cities since the

COVID-19 pandemic. European capital cities have been the primary location for these investments, with Berlin ranking first with more than EUR 40 billion in housing assets in institutional portfolios, followed by London, Amsterdam, Paris and Vienna. While large cities are more likely to attract most of the residential real estate investments, the Netherlands and the UK have also seen large institutional transactions happening in smaller cities too (Gabor and Kohl, 2022[25]). Whilst these investments may stimulate additional supply into the market, there are also risks that the financialisation of housing may lead to housing units being effectively removed from the housing-market as places to live, exacerbating housing shortages. Generous tax treatment of housing through tax subsidies including allowances and deductions have also increased housing demand (Millar-Powell et al., 2022[26]).



Alongside these pressures, there is a need to accommodate record numbers of displaced households due to conflicts, climate change, compounding food, energy and cost-of-living crisis, and natural disasters.

At the end of 2021, there were 27.1 million refugees around the world (UNHCR, 2022[27]). In 2022, many conflicts and natural disasters forcibly displaced many more people from their homes. As of February 2023, over 8 million refugees from Ukraine were registered across Europe (Hegedüs, Somogyi and Teller, 2023[28]), while the Türkiye-Syria earthquake that occurred in February 2023 left 1.5 million people homeless in the south of Türkiye. In many parts of the world, the influx of refugees has added to pre-existing pressures on housing markets, especially in cities, where many refugees prefer to settle in order to access employment opportunities and pre-existing social networks (OECD, 2022[29]). In Poland, for example, the population of Rzeszów, the largest city in south-eastern Poland, close to the country’s border with Ukraine, increased by more than half between February and April 2022. In the city of Barranquilla, Colombia, as much as 10% of the population comes from people fleeing Venezuela.

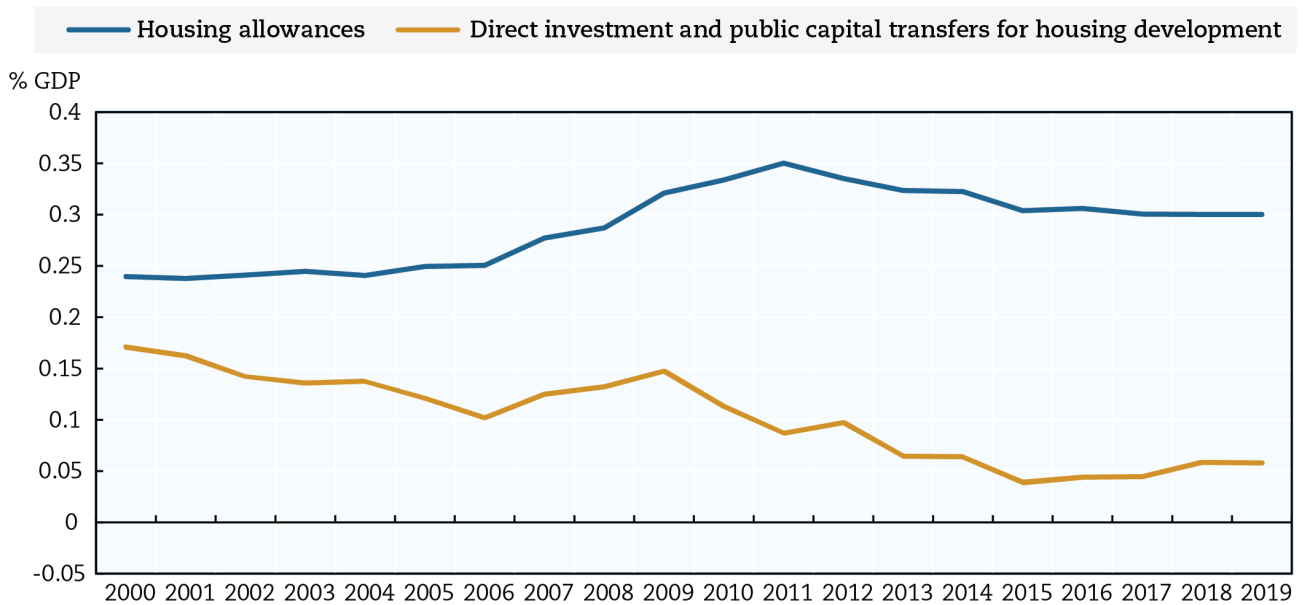
Cities must also grapple with changing preferences following the pandemic. Many large metropolitan areas have experienced higher price growth in the suburbs than in their city centres, partly due to work-from-home trends that have remained elevated since

2020 Q1 (Ahrend et al., 2022[30]). This has made urban peripheries less affordable for low- and middle-income households in particular. Recent research also shows that cities close to metropolitan areas had higher house price rises during the pandemic (2020-21) – in contrast with the pre-pandemic period (2018-19) (OECD, 2023[13]).

Housing supply has, for the most part, been unresponsive to these pressures. Public investment in housing has been declining over the past two decades across the OECD (OECD, 2023[11]) (Figure 4), and has failed to keep pace with rising housing demand, especially among low-income households. Direct public investment in dwellings has declined significantly since the Global Financial Crisis in 2007-08, amounting to less than 0.01% of GDP in 2018, while the share of social housing has fallen in all but six OECD countries since 2010 (OECD, 2021[10]). By contrast, demand-side housing assistance such as “housing benefits” (in the United Kingdom), “rent assistance” (Australia), “rent supplement” (Ireland, New Zealand), or “housing vouchers” (United States), measured in terms of public expenditure on housing allowances, has increased from 0.25% in 2000 to 0.3% of GDP in 2019 (OECD, 2023[11]). Capital gains tax exemptions for owner-occupied housing are also significant, resulting in substantial forgone tax revenue. There is a risk that without careful targeting, such measures will strain public finances and, in tight housing markets, add to upward pressure on house prices if there are no concerted efforts to expand the housing supply.

» **Figure 4. Public investment for housing has declined but current expenditures are high**

OECD-30 average, as % of GDP, 2000 to 2019



Note: Direct investment refers to government gross capital formation, defined according to the EU COFOG (<https://ec.europa.eu/eurostat/documents/3859598/5917333/KS-RA-11-013-EN.PDF>). It refers to the acquisition less sales of fixed capital, inventories, and valuables. Public capital transfers refers to indirect capital expenditure made through transfers to organisations outside of government towards housing development. Housing development includes the acquisition of land, the construction or purchase and remodelling of dwelling units, and grants or loans to support the expansion, improvement or maintenance of the housing stock.

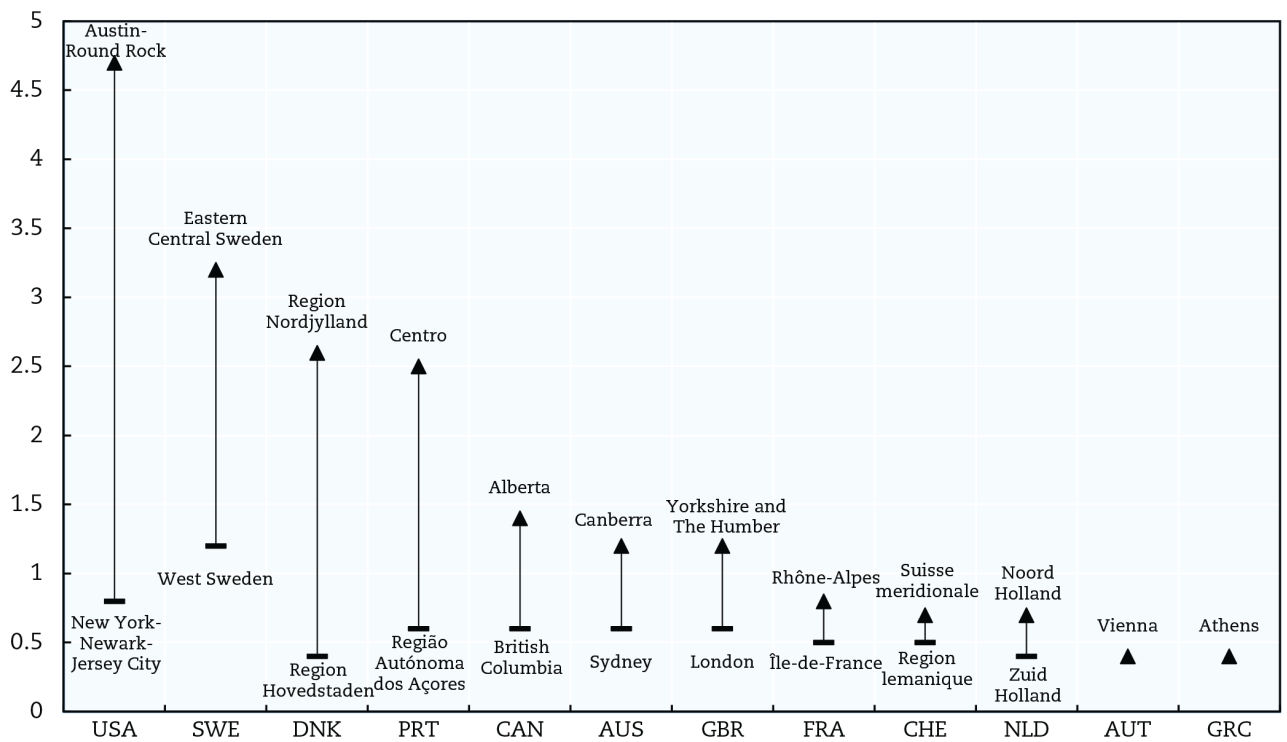
Source: OECD (2023[11]), OECD Affordable Housing Database, <https://www.oecd.org/housing/data/affordable-housing-database>.

Building new housing to respond to high demand can be difficult. Constraints include a lack of developable land, overly restrictive land use and building regulations that make it harder and more costly to build or restrict densification (Cavalleri, Cournède and Özsögüt, 2019[32]). For countries where data are available, housing supply tends to be least responsive to demand in larger cities (Figure 5): precisely where it is needed most. Post-COVID-19, rising construction costs and a lack of raw materials have also contributed to a decline in the amount of housing being built, worsening housing affordability in many countries and cities (OECD, 2021[10]).

By contrast, in particular in depopulating and shrinking cities – about one in five metropolitan areas across the OECD since 2000 (OECD/European Commission, 2020[33]) – population loss and the associated decrease in housing demand can lead to increasing numbers of vacant and abandoned buildings, which can also discourage investment in neighbouring areas where supply may be needed. Several US once-industrial cities have experienced steady population losses creating challenging pockets of so-called “hypervacancy” (Mallach, 2018[34]).

» **Figure 5. Housing is more difficult to build in large cities where it is needed most**

Metropolitan housing supply elasticities, lower values correspond to greater difficulty in increasing housing supply



Note: A larger supply elasticity means that, for a given change in house prices, homebuilding expands by a greater amount.

Source: Bétin, M. and V. Ziemann (2019[31]), “How responsive are housing markets in the OECD? Regional level estimates”, OECD Economics Department Working Papers, No. 1590, OECD Publishing, Paris, <https://doi.org/10.1787/1342258c-en>.



Since the COVID-19 crisis and the rise of teleworking, many cities have also seen increases in empty office spaces. Teleworking has risen to record levels since the COVID-19 outbreak (OECD, 2021[35]) and is likely to persist into the future. The Global Survey of Working Arrangements, surveying 27 countries suggests that employees work on average 1.5 days from home, and that they desire to work an average of 1.7 days into the future (Aksoy et al., 2023[36]). This has renewed interest in converting underused commercial and office buildings into much needed residential housing in cities, although this can be difficult to implement due to technical, financial and regulatory challenges.

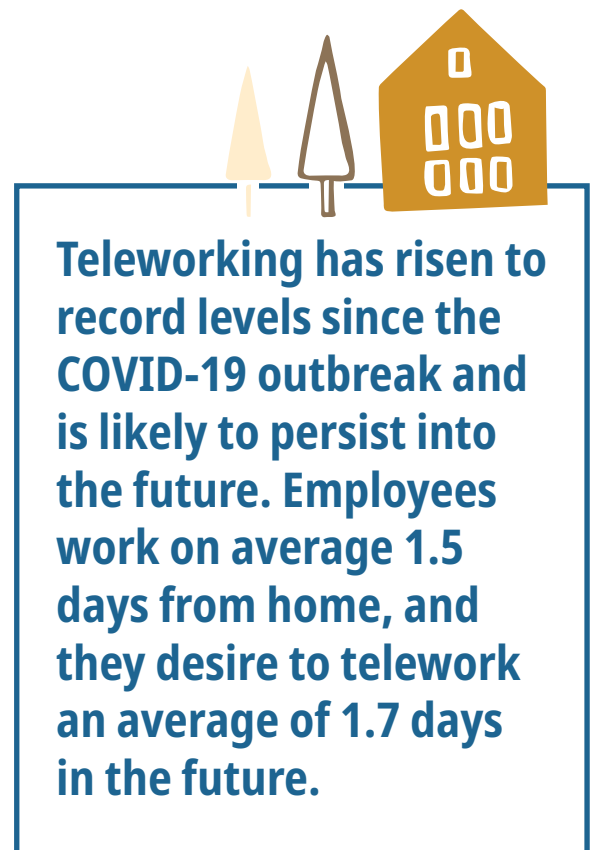
The utilisation of existing housing stock is also an issue in many cities where supply challenges exist. In Paris, for example, there are around 114 000 vacant housing units, out of around 1.1 million housing units (i.e. about 10% of vacant housing) (Ministère de la Transition Écologique, 2022[37]), although some of these are due to temporary vacancies arising from lags between sale and acquisition as well as residential mobility. Housing vacancies in cities where housing demand is high can also partly be explained by investors speculating on property and leaving units empty until land values increase rather than letting housing units to tenants who might be difficult to evict, especially if rent levels are planned. Limited implementation of vacant property taxes may also contribute to underutilisation of existing housing stock. Planning and building regulations may also prohibit sub-divisions or otherwise make it prohibitively costly to renovate housing for the rental market.

Poor-quality and inadequate housing

Poor-quality or inadequate housing is a serious challenge for cities, with far-reaching economic, social and environmental consequences. Many people across the OECD live in homes with limited living space, especially low-income households (16.4% of low-income households live in overcrowded homes on average in the OECD) (OECD, 2023[11]). Living space is also typically more limited in urban areas. In 2018, dwelling space per person was 15% lower in London than the national average, and among private tenants, space available decreased from 30.6 square metres to 24.6 square metres per person between 1996 and 2018 (Greater London Authority, 2021[38]). In Europe, rates of overcrowding are consistently higher in cities than rural areas or towns and suburbs (Eurostat, 2022[39]).

Living in low-quality or inadequate housing conditions can lead to lower educational outcomes for children (OECD, 2021[40]), reduced access to job opportunities, decreased well-being, and health issues. The pandemic renewed concerns around housing quality gaps, and especially around overcrowded housing conditions, as people were spending much more time at home and overcrowding made it more difficult for people to self-isolate, increasing the risks of contracting and spreading the virus.

Other measures of housing deprivation such as leaky roofs, damp walls, floors or foundations, a dark dwelling, or the absence of essentials such as sanitary facilities are also more prevalent among low-income



households. Furthermore, housing can often be unsuitable for people such as the elderly or people with disabilities to live safely and independently (Plouin et al., 2021[41]).

Housing can be inadequate due to being poorly located or lacking in supporting infrastructure and amenities including public services, transport and social infrastructure, creating numerous challenges, including access to jobs, longer commuting times, and ability to telework among many others.

Housing in cities can also be energy inefficient, driving energy bills up and undermining climate objectives. Housing accounts for more than a quarter of CO2 emissions in OECD countries (OECD, 2023[13]). In the EU, around 65% of residential buildings were built before the 1980s. Buildings constructed before 1945, which account for 23% of all building stock, lose five times more heat than those built after 2010 (EC, n.d.[42]). The recent rise in energy prices has put low-income households at even greater risk of energy poverty. The cost of inaction on energy efficiency is huge. Poor energy performance of housing has wide consequences, that go beyond higher energy consumption and greenhouse gas emissions, as it can lead to respiratory diseases, allergies, lower well-being and in turn higher health costs. Relatively simple measures however, such as improving insulation can lead to better health outcomes (IEA, 2019[43])



Housing accounts for more than a quarter of CO2 emissions in OECD countries.

Fragmented housing governance and limited capacity of subnational governments

Increased decentralisation over the last 30 years has meant that subnational governments are responsible for around 75% of expenditures in housing and community amenities in the OECD (OECD, 2023[44]). However, housing governance remains fragmented within and across levels of government and policy sectors. More than half of OECD countries have three or more ministries directly involved with housing policy (OECD, 2021[10]), and many OECD countries lack a spatial planning framework that aligns national, regional, and local housing goals (OECD, 2017[45]). This often leads to incoherent housing policy.

Efforts to expand housing supply are also hindered by limited financial and human resources in subnational governments. Often, they lack key skills in planning, finance, and administrative procedures. They also lack funding both to deliver new affordable housing and supporting infrastructure and services. In the UK, the New Homes Bonus, a grant paid by central government to local councils to reflect and incentivise housing growth in their areas, aims to overcome these types of hurdles. In addition, many cities are making greater use of financial instruments including Public-Private partnerships (PPPs) and local asset backed vehicles, as well as seeking to generate new funds through property taxes. However, a lack of fiscal decentralisation can limit local authorities' ability to engage in these ventures.



Policy responses: the what, how, and who

The costs of inaction are high, both for people and for subnational governments. The housing affordability crisis is stretching households but also the public purse through the need to pay for rental assistance and other types of subsidies. There are also costs to health arising from poor housing conditions, and issues of segregation, economic and social isolation. Failing to invest in improved housing is ultimately a false economy that has far-reaching negative consequences. On the other hand, investing in housing improvements can have widespread spillovers and benefits for people and societies, while potentially reducing government expenditures over the longer term.

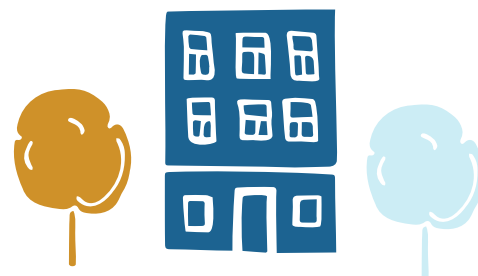
Housing policies often come with trade-offs. For example, rental housing allowances can boost rents and land prices if supply is rigid (Moreno Monroy

et al., 2020[46]). Efforts that aim to control foreign investment or speculation in housing may lead to a reduction in supply, as this investment is often needed to fund new construction projects (Gorback and Keys, 2020[47]). Meanwhile, rent controls can reduce landlord returns, potentially undermining investment in new housing and housing quality improvements (Diamond, 2018[48]), while raising the quality of housing through new energy or quality standards can add to the costs of accommodation, and, especially if minimum sizes are regulated, reducing supply. Similarly, efforts to clamp down on short-term accommodation like Airbnb may negatively impact the tourism industry, at a cost to local jobs and income. These trade-offs need to be carefully considered when designing housing policies to ensure that they achieve their intended goals without unintended consequences.

The what – Top priorities

Boost housing supply

- **Invest more in affordable and social housing:** Countries including Australia, Argentina, Canada, France, Ireland, Portugal, and the UK, have recognised social and affordable housing as a crucial counter-cyclical investment opportunity to help support jobs and SMEs in the building sector, provide affordable housing, and prevent homelessness (OECD, 2021[15]). Investments in social housing can also promote mobility and well-being and support environmental sustainability goals, as well as stimulate economic recovery (OECD, 2021[10]).
- **Ensure that land-use planning policies are not too restrictive and are conducive to private housing developments:** Sound planning is important to ensure that housing is high quality, safe, well located, well supported by public services and infrastructure, and in line with environmental objectives such as net-zero by 2050. Planning policies should be flexible and allow sufficient new housing to be built to meet demand, preferably through densification rather than building outward and being sensitive to the impact built-up area increases have on carbon emissions and biodiversity loss. This will require continually re-evaluating sites, policies, and urban boundaries based on population projections, and avoiding overly restrictive building regulations. Local governments will need support from central governments in implementing such planning measures.
- **Build “up” not “out” where possible:** Housing needs to be supplied without sacrificing environmental outcomes. Sprawling cities promote car-centric lifestyles, land degradation, and the loss of vegetated land. New housing should preferably be accommodated through the reuse of brownfield sites and densification (Moreno Monroy et al., 2020[46]). This is not only environmentally beneficial, but also reduces service delivery costs for subnational governments while also potentially improving the socioeconomic outcomes of low-income households by reducing their distance from jobs and services.
- **Increase housing supply in cities and better utilise existing housing stock through innovative solutions:** Efforts should be made to repurpose vacant housing and foster community-led housing solutions such as housing cooperatives, community land trusts, or resident-driven construction initiatives. Self-build housing can also play a crucial role in expanding the housing supply in cities, as a form of housing that is more affordable. Rather than discouraging foreign investment, flexible zoning plans can encourage developers and investors to put underused areas and office space to new uses (OECD, 2021[10]), while taxes or fees on vacant properties, together with proper land use monitoring, could ensure that speculative stock is brought back into use.





The potential for job creation is estimated at 10 to 30 jobs for every USD 1 million spent on energy efficiency measures in

Improve housing quality to respond to the cost-of-living crisis and to global mega trends

- **Enhance housing quality:** High-quality housing, as well as adequate size of housing, can be promoted through building codes to establish quality requirements. However, it is important that these are designed in consultation with developers and property owners to ensure that costs are minimised, to avoid negative consequences on affordability and housing supply. Local governments will need national government support to properly implement and enforce these codes. At the same time, additional investments and public subsidies and other supply-side support to developers may be required to expand the supply of affordable and social housing so that more people can access good-quality dwellings (OECD, 2020[49]). Improving housing quality can have far-reaching positive consequences, such as increasing life expectancy and years of schooling, especially for low-income households or people living in informal settlements (Frediani, Cociña and Roche, 2023[50]). Investment in neighbourhood revitalisation programmes to improve neighbourhood quality, such as public spaces, can also boost the overall accessibility to jobs and services, enhance the liveability and social cohesion of urban areas, and reduce spatial segregation.
- **Improve the energy efficiency of the existing housing stock to reach climate targets:** While national policies can ensure proper carbon pricing of housing-related emissions, local policies can also help reach climate objectives, for example through building codes' energy efficiency requirement for new units, and most importantly by fostering energy efficiency improvements of the existing housing stock (OECD, 2021[51]). To be consistent with net-zero objectives by 2050, most existing buildings will need to be renovated and the rate of building energy renovations needs to increase considerably, from about 1%-2% of existing stock today to 5% per year as soon as possible. That means creating stable incentives for property owners and renters to make the right investments, and programmes to subsidise the upgrade of affordable stock. These investments and subsidies can yield many co-benefits such as job creation (the potential for job creation is estimated at from 10 to 30 jobs for every USD 1 million spent on energy efficiency measures in buildings) and improvements in well-being and health, creating significant public health savings (OECD, 2022[52]). According to the IEA, in the EU, improving indoor air quality with enhanced energy efficiency measures and electrical equipment is estimated to save as much as EUR 190 billion per year in public health spending (IEA, 2014[53]). Carefully designed tax incentives for energy efficiency renovations can also contribute to reaching climate objectives. Importantly, bringing the public along, through for example community-led renovations of multi-apartment buildings (REE Observatory in CEE and Habitat for Humanity International, 2023[54]) and demonstrating the necessity of these efforts will be crucial.
- **Ensure housing is resilient to disasters:** Impacts of disasters and climate change are more than twice as significant for poor households than others, according to the World Bank, because they tend to live in the most vulnerable areas (i.e. under threat from floods, earthquakes, landslides, etc.) and often with poor housing standards (Hallegatte et al., 2017[55]). Beyond rebuilding after disasters, making housing resilient to disasters before they occur is necessary to ensure people are safe, as well as to save reconstruction costs that may occur later on.
- **Adapt the housing stock to demographic changes and make cities "age-friendly":** Existing and future housing supply needs to adapt to demographic changes, particularly to population ageing and to the trend towards smaller and more households. Apart from retrofitting buildings or constructing adapted housing to respond to new preferences and needs, these demographic shifts also need to be taken into account in urban planning and the provision of supporting infrastructure and services. Flexible housing units that can adapt to different household sizes could also be built to respond to future demographic changes.

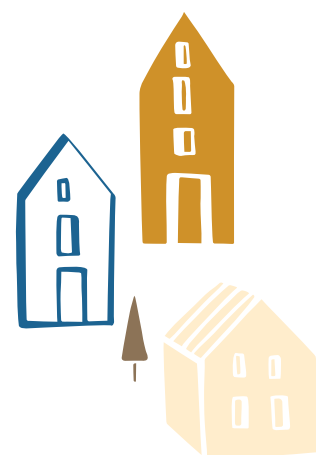
The how and the who – Housing governance and finance

Improve housing governance

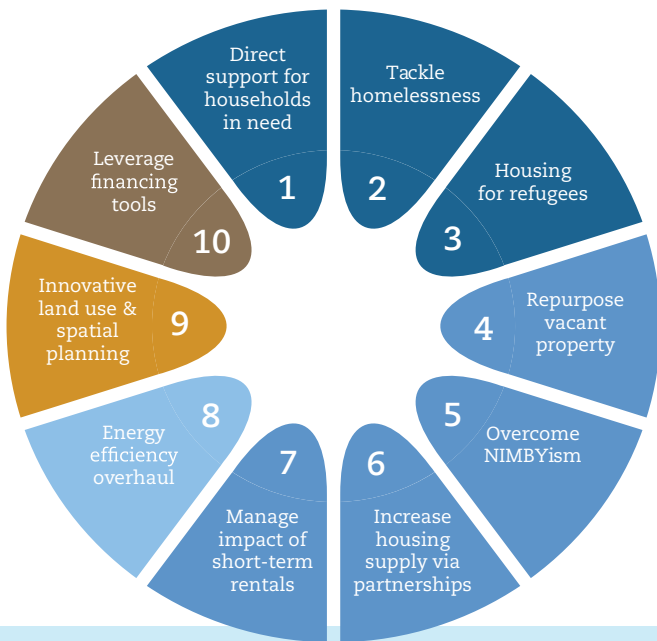
- **Coordinate housing policies through spatial planning across functional territories:** Housing and planning should be guided by spatial plans that span functional economic areas, which will often transcend historic city administrative boundaries (OECD, 2021[10]). This is because measures to increase housing supply, support certain groups of population or improve housing quality can create trade-offs for interconnected neighbouring areas. For example, measures to restrict housing supply in commuting towns within functional urban areas can put additional pressure on city centre affordability.
- **Promote stakeholder engagement:** Subnational government officials can engage with a wide range of stakeholders to increase social and affordable housing supply, including the private sector, not-for-profit housing providers and the community. This should be done under sound guidelines for citizen participation processes (OECD, 2022[56]). Partnerships such as joint development agreements with private developers or not-for-profit housing providers can help unlock significant developments. Such partnerships can bring wider benefits including capacity building across the housing industry, as well as increased local employment and training opportunities. Engaging a broad cross-section of community members in the development and implementation of a housing strategy can also help address opposition to new housing (the so-called NIMBYism – Not In My BackYard) and enhance trust in governments.
- **Enhance human capacity in subnational governments:** Subnational governments need the right skills and expertise to implement policies to enhance the housing offer, including the capacity to design the right financial instruments.
- **Join forces with national governments:** Given that many housing policies that have impacts at the local level are decided at the national level (e.g. housing taxation, climate policies, budget of social housing, spatial planning, major infrastructure etc.), national policies and especially national urban policies need to set out clear guidance and long-term funding to tackle the affordability crisis in cities (OECD, 2021[10]).

Mobilise a wide variety of financing tools

- **Mobilise public and private sources to finance more housing in cities:** To increase affordable housing supply for all in cities, both public and private, including community, a wide range of financing sources need to be tapped into. Local policy makers can leverage a range of financing mechanisms, including tax incentives for home improvements, public-private partnerships, and government grants to spur private investment in housing. Additionally, policy makers can foster social impact investing, which involves channelling capital towards investments that generate positive social and environmental outcomes. Green bond issues can be an important funding source for subnational governments to undertake the investment required to improve energy efficiency in buildings, while revolving funds can support the development and maintenance of the social housing stock (OECD, 2021[10]). Subnational governments can also use fiscal instruments to generate resources while unlocking stock (e.g. by taxing vacant properties). More generally, capital gains and recurrent property taxes should be used to help pay for affordable housing and investments in housing improvements ((OECD, 2021[10]) and (OECD, 2022[57])).
- **Utilise Land Value Capture (LVC) to finance and facilitate housing development:** LVC refers to policy instruments that capture, for public use, a portion of the land value uplift generated by public interventions, such as infrastructure development or permissions for land use changes. These uplifts are generally high in areas with greater demand for housing. LVC, together with well-designed and implemented recurrent property taxes, can also help recuperate value gains resulting from public decisions and utilise these gains for inclusive purposes (OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center, 2022[58]). For example, cities can oblige developers to provide affordable housing as a condition for development approval. Cities can also require the provision of certain housing types as a precondition for relaxed density regulations which make the land more valuable.



Spotlight on 10 policy instruments through which cities can address the cost-of-living and housing crisis



The previous sections have identified some key challenges for cities including: a mismatch between housing supply and demand; poor quality housing; fragmented housing governance arrangements; and limited fiscal capacity of subnational governments. Cities are already tackling these issues, and much can be learned from these experiences. The following section presents policy examples to prompt a discussion on the way forward for cities. It brings together ten key policy agendas under five policy themes that address one or more of the systemic issues mentioned previously, and discusses how local leaders have addressed them, together with some key lessons learned from individual city experiences.



Box 1. Framework conditions for affordable cities and housing for all

- **Heterogeneity** of cities means that the design of housing policies will differ depending on local housing markets, demographics and characteristics, requiring tailored policy responses. Housing policies that work well in one city may not be effective in another.
- **Inclusiveness** is an essential component of any strategy to address the housing affordability challenge amidst the cost-of-living crisis because some population groups are disproportionately affected. Failing to prioritise these groups can exacerbate existing inequalities and perpetuate social exclusion, whereas investing in adequate housing for these groups has far-reaching societal gains.
- **Sustainability** should also be a priority in the design of housing policies, e.g retrofitting, in order to accelerate progress on net-zero goals.
- **Stakeholder engagement** including community groups, residents, and the private sector can help to reduce disputes, build consensus, and streamline and garner support for policy implementation. It can also ensure that policies reflect the needs and concerns of those who will be most affected by them.
- **Monitoring and evaluation** are important for housing policy because they allow policy makers to assess the effectiveness and impact of their policies, identify areas for improvement and make evidence-based decisions.
- **Trade-offs** between policy objectives need to be considered and managed carefully, notably between the quantity, affordability, quality and sustainability objectives, as many housing policies can have unexpected negative consequences. For example, providing demand-side housing assistance may, in tight housing markets, add to upward housing pressures; imposing requirements on developers can disincentivise new housing projects or drive up the cost of housing developments, thereby resulting in fewer affordable units; or focusing only on increasing the supply of housing can be at the expense of quality or sustainability of housing or can generate new challenges in terms of providing the right supporting infrastructure, or contribute to urban sprawl and negative environmental externalities if urban expansion is not kept in check.

Targeting the most vulnerable population groups in cities

Making ends meet in cities through targeted direct support for households most in need

Inflation and high costs of living can have a devastating impact on households, with intergenerational impacts by trapping households in inadequate neighbourhoods with poor prospects of social mobility. Cities' schemes to address the cost-of-living and housing crises often involve a multipronged approach. **Bogotá**, Colombia has implemented various instruments such as the Solidarity System, which provides a basic income to those suffering the impacts of the COVID-19 pandemic alongside the Solidarity Rent Scheme that has provided rent subsidies for over 3 000 households since the COVID-19 crisis. Another instrument implemented by Bogotá is the Mi Ahorro, Mi Hogar (My Savings, My Home) programme which provides a monthly contribution to rents for a period of 12 months to female-headed low-income households who are most in need. Meanwhile, **Toulouse**, France offers direct support to at-risk populations through programmes such as Instal'toit, which grants interest-free loans to Toulouse citizens aged 18 to 30. These monthly instalments between EUR 100 and EUR 500 are reimbursable within 2 years, helping students and young workers pay rent and other housing costs. The city also provides grants for the elderly and people with disabilities to renovate and adapt housing to their specific needs. This benefits the most vulnerable households with incomes lower than EUR 1 500 a month for a single person and below

EUR 2 500 a month for couples. The HomeMod Programme in **Chicago** aims to increase accessible housing and provide home modifications for people under 60 with disabilities. Funded primarily by the US Department of Housing and Urban Development, the programme is supplemented by private donations and funding from other sources including the Chicago Housing Authority. While the programme is open to people with all types of disabilities, people with mobility impairments make up the majority of participants. In **Bristol**, UK, the Hope Rise programme is an innovative model of a development of newly built modular starter homes, constructed on stilts above an operational public car park. This project was brought about through a partnership between the City Council, the Bristol Housing Festival, a developer of modular homes, and charity YMCA Bristol, to provide accommodation for vulnerable young adults.

In order for support measures to be inclusive and have a redistributive effect, they need to be targeted specifically to those in need, namely the low-income and minority households that have been hit hardest by recent shocks. Without proper targeting, direct support and subsidies can strain already tight fiscal budgets and be counter-productive by stimulating demand, further increasing the price of housing.



Bogotá, Colombia



Rennes, France

Tackling homelessness in cities

In **Victoria**, Canada, the city government has implemented the **Regional Housing First Program** to tackle homelessness. It has allocated 200 of 1 000 housing units developed so far to people transitioning out of homelessness, and 50 units towards those with physical mobility issues. The city has also gathered government funding from multiple levels to provide an additional 280 units for currently people experiencing homelessness. **Denver**, USA is addressing homelessness by working together with the private and philanthropic sectors through the Social Impact Bond Program. This innovative performance-based financing tool loans funds to actors in these sectors who provide housing and supportive services to people experiencing homelessness, reimbursing these actors if programmes achieve their goals. **Rennes**, France has implemented a programme that offers housing solutions to more than 900 people, the majority of whom are children, including through the use of vacant municipal property and the provision of property belonging to developers or landlords being made available for urban renewal operations. The city also offers social support to help families with administration, in collaboration with institutional and associative partners. Through the project “The essential is home”, the city of **Turin**, Italy provides temporary housing to people experiencing homelessness, sometimes in existing social housing as part of a model of collaborative living, which facilitates territorial integration and the creation of neighbourhood networks.

Tackling homelessness is complex and calls for collaboration and partnership across a wide range of stakeholders, including the private and non-profit sector, and for coordination across municipalities and subnational governments. In addition, while emergency responses to homelessness are necessary to manage shocks and short-term transitions, homelessness policies need to focus mainly on prevention through Housing First (i.e. homeless assistance scheme that prioritises providing permanent housing to people experiencing homelessness) or housing-led approaches. Finally, tackling homelessness is not just about providing housing. Homelessness also has detrimental effects on health, educational outcomes, employment, and social integration, meaning that providing an integrated service response depending on people’s individual needs and including administrative, social, and economic assistance to the homeless population is vital. Providing access to mental health and addiction treatment, employment opportunities, and education can help individuals move towards self-sufficiency and reduce their reliance on public resources.

Providing safe, secure and affordable housing for refugees in cities

As the number of people forcibly displaced worldwide has reached record levels, the role of local authorities around the globe in providing housing for refugees has become more important.

Many cities have implemented measures to ensure refugees have access to safe, secure and affordable housing. Prior to the recent earthquakes, **Gaziantep**, Türkiye was host to around 500 000 refugees, and the city took steps toward developing sustainable housing for them. Gaziantep closed its temporary refugee camps and provided land to build social housing for its refugee population. The city had built 5 000 such housing units as of 2021 and will continue to confront the challenge of housing refugees, as well as people with disabilities and low-income residents. In the aftermath of the February 2023 earthquake, the city is studying its zoning practices to design and implement zoning plans that provide resilience to natural disasters while providing safe housing for Turkish and Syrian refugees. **Medellin** (Colombia) has expanded its Línea 123 Social Auxilio Habitacional Transitorio (Transitional Housing Assistance) to include migrants and refugees. In **Warsaw** (Poland), some companies ceded buildings and office spaces to host Ukrainian refugees, while the city transformed office buildings into accommodation centres for the most vulnerable. **Albuquerque**, USA provides training to local landlords to raise awareness about temporary support through

its “Rent to a Refugee” programme (Roberts Lamont, 2022[59]). **Barranquilla**, Colombia is beginning to pilot targeted interventions in high-risk areas for its most vulnerable population in communities with a high concentration of migrants. These interventions combine limited housing subsidies with access to employment programmes (job training, capacity-building, reskilling), as part of a multi-pronged solution that aims to lift residents out of extreme poverty and into formal employment and housing.

Several lessons can be learned from these experiences. Providing information and making it easy to access housing solutions is key, as well as removing overly complex or lengthy administrative barriers. Promoting innovative housing solutions for refugees above and beyond temporary accommodation is also critical, for example by engaging with citizens, the community and the private sector and refugees themselves in decision-making, while also considering specific needs such as people with disabilities, families, etc. Subnational governments also need to make sure that the housing provided by private homeowners is safe and adequate.

Safe, secure, and affordable housing for refugees is vital to foster health and overall well-being, but only provides a starting point to seek employment and make social connections. Housing solutions for refugees therefore need to be part of a comprehensive package that provide integration support, education and job opportunities (OECD, 2022[60]).



Gaziantep, Turkey

Solving the mismatch between housing supply and demand in cities

Repurposing vacant property

The shift in the geography of housing demand post-COVID-19 has required cities to attend to property vacancies, especially in city centres. **Florence**, Italy has introduced an initiative that converts unused buildings, including civic properties in the city centre, into social housing to support young families and the elderly in need of affordable accommodation. This approach has the double benefit of addressing the city's housing issues in a creative and sustainable way without any construction footprint. **Bogotá's** Master Plan for Habitat and Public Services proposes a technical assistance strategy to promote the rehabilitation and adaptation of unused buildings, as well as the subdivision of existing homes. According to the plan, support will be provided to property owners, architects, and professionals in the sector, and financial incentives will be implemented to facilitate the reuse and subdivision of housing. The creation of a test-bed for building reuse is also proposed, through the development of emblematic public projects and knowledge exchange with private actors and academia. **Buenos Aires**, Argentina launched the Refacción más fácil programme in 2023 through which homeowners and tenants are offered financing to refurbish or improve their unoccupied housing units.

Repurposing existing space for housing, both vacant and underutilised, should be done in an inclusive way that benefits low-income and marginalised households. It will require a collaborative effort between the public and private sector, possibly through incentives targeting owners and developers or Public-Private Partnerships, in order to fully utilise vacant private stock. This could be done, for example, by relaxing zoning and density restrictions, on the condition that the vacant plots will be refurbished to accommodate affordable housing units, and by keeping urban expansion in check so that it does not produce negative environmental consequences due to urban sprawl for example or increases the costs of delivering public services and infrastructure.



Buenos Aires, Argentina

Overcoming NIMBYism and BANANAism

NIMBYism (Not In My BackYard) – and its more radical version BANANAism (Build Absolutely Nothing Anywhere Near Anything) – refers to objections residents may have to proposed developments in their local area, because they fear new housing developments will blight their property or overburden local services. Consequences of NIMBYism include lengthy procedures, increased costs of development, property rights disputes, and ultimately an inability to meet local housing demand.

Some countries like France have passed laws to require some cities to dedicate 20% of their housing stock to social housing (Law Solidarité et Renouvellement Urbains – SRU). Cities are also implementing some measures to tackle NIMBYism. In an effort to promote diversity in its neighbourhoods while also addressing the critical shortage of affordable and social housing, **Montréal**, Canada established the Bylaw for a Diverse Metropolis. This bylaw, which came into force in April 2021, requires that anyone developing a project that involves adding at least one dwelling with a residential area of more than 450m² signs an agreement with the city to contribute to its social, affordable and family housing either by building new dwelling units, transferring land, or paying a financial contribution. In Germany, most major cities use inclusionary zoning, i.e. the requirement on developers to provide a share of housing units in new developments as affordable rental units. In 2020, the city of **Frankfurt** passed a new regulation that not only requires the provision of 30% affordable rental units in greenfield developments but also the provision of 10% affordable owner-occupied units, 15% co-operative units and 15% free-market rental units (OECD, 2021[61]). **Bogotá**, Colombia also requires that at least 20% of development areas within urban expansion projects are dedicated to affordable housing, according to stipulations in national legislation. Similarly, the **Düsseldorf** city council passed the so-called Housing

Action Plan (Handlungskonzept Wohnen) in 2013, which requires that at least 50% of the apartments with contracts with the City of Düsseldorf must be publicly subsidised and affordable.

While these measures are legal means that tackle NIMBYism through imposition, NIMBYism can also be overcome by enhancing engagement with the community. Providing local residents with better information about housing development is necessary to overcome prejudice and fear. Changing the vocabulary to designate social housing can also be helpful to fight negative connotations, for example by emphasising that these housing units will be home to key workers (Urban Land Institute Colorado, 2016[62]). Mixed-income local neighbourhoods and access to affordable housing for all households, including for people who provide essential services to others, also enhances resilience, as seen during the COVID-19 crisis.

Encouraging stakeholder engagement at the onset of the design of a project, and not as an afterthought, can also help foster buy-in and reduce opposition. Early conversations with local residents can help understand and anticipate specific community objections and find potential YIMBYs (Yes In MY BackYard) in the community before broader engagement efforts start. Engagement can happen through informal meetings, focus groups and interviews with local residents. Making the benefits of affordable housing clearer, such as associated improvements in neighbourhood infrastructure and public services can also help increase buy-in in the community. As always, the trade-offs of policies, such as for social housing, need to be considered to limit market distortions and the disincentivising effect of regulations, possibly by linking certain benefits with social housing requirements.



Frankfurt, Germany



Reykjavik, Iceland

Increasing housing supply in cities through partnerships and alternative ownership

Alternative housing solutions can also help boost housing supply to better match demand. Community land trusts, for example, are non-profit, community-led organisations that allow local communities to collectively acquire and own land, creating shared value and enabling communities to serve as the steward for affordable housing, community gardens, civic buildings, shared workspace, etc. These organisations not only help increase housing supply and promote affordability, they also foster social cohesion in neighbourhoods. Other examples of community-led housing solutions and alternative ownership models include housing cooperatives whereby a housing unit is owned and controlled jointly by a group of people who have equal shares, membership and occupancy rights to the housing. Other alternative affordable housing solutions include senior community housing for elderly people.

Reykjavik, Iceland together with the national government, allocates initial funds for non-profit housing cooperatives, which are in charge of constructing apartments on behalf of their members, or of renting them out. These include associations for the elderly, unions, student associations and some private housing cooperatives. The city has used its organisational and planning power to mix social housing in all districts with a focus on affluent areas. 25% of new housing units will be managed by non-profit housing associations, and up to 3 000 new rental and residential rights apartments will be built over the next few years in collaboration with rental and residential rights associations. The city of **Leipzig**, Germany promotes cooperatives or so-called *Ausbau* building model whereby in exchange for very low rents, tenants agree to help renovate their building. Former Champion Mayor city **Bologna**'s Porto 15 is the first public housing project in Italy for people under 35

years old. The city renovated a publicly owned building located in the city centre, adding shared services such as a communal living room, kitchen, and laundry to each floor in the 18-unit building. In addition to Porto 15, another 3 000 housing units in Bologna are dedicated cooperatives and maintain below-market rents. The city of **Turin** has implemented the Youth Solidarity Housing (*Coabitazioni Solidali Giovani*) initiative with support from the *Compagnia di San Paolo* Housing Programme and other non-profits, which provides cohabitation communities for youth between the ages of 18 and 30. These youth live in publicly owned housing and benefit from reduced rents, in exchange for making themselves available for 10 hours a week for the benefit of the community. There are currently six such communities spread across six different neighbourhoods. In **Bogotá**, Colombia, the Plan Terrazas programme allocates subsidies to low-income families to help them improve and expand the size of their housing through self-building, at a lower cost than formal housing, and valuing popular knowledge and community practices at the same time. The city's target is to provide 1 250 subsidies for an approximate value of USD 14 000 each.

While some of these solutions are not new and could help boost supply, their use has remained limited. Champion Mayors examples such as Leipzig and Bologna show that creative action can be taken at the local level directly. On the other hand, examples like Reykjavik show that strategic partnerships with key stakeholders, including other levels and sectors of government can make new solutions viable. Importantly, regulations need to be adapted to incentivise use of these solutions, and incentives for their use could be provided for by local and national governments.



Bologna, Italy

Managing the impacts of short-term rentals

The increase in the number of short-term rental housing units in touristic city-centres has in some places contributed to housing shortages and rent increases. Other common complaints from residents also include excessive noise, increased insecurity, and modified neighbourhood feel. In some places, the proportion of short-term rentals can be relatively high. In New York, for example, according to some studies, the increase in short-term rentals has reduced available housing stock by 10%. In the European Union, short-term accommodation rentals represent nearly one-third of the total supply of tourist accommodation, and this has been boosted by the rise of online platforms (European Committee of the Regions, 2023[63]). In Amsterdam, short-term holiday rental listings rose from 4 500 in 2013 to 22 000 in 2017. In Lisbon, the share of short-term holiday rentals in some historic districts such as Alfama amount to more than half of the overall apartment stock. In the centre of Florence, short-term holiday rentals have increased by 60% since 2015, and in Kraków by 100% between 2014 and 2017 (Eurocities, 2022[64]).

While there has been a decline in the volume of available short-term rentals following the COVID-19 crisis, many cities around the world have been pursuing solutions to manage some of the negative consequences of short-term rentals, such as limiting occupancy or the number of short-term rental days or even introducing a ban, requiring renters to register and pay a lodger's tax, repurposing these short-term rentals into affordable housing, or redirecting revenue generated from short-term rentals to affordable housing. [Lisbon](#), Portugal, for example, launched in July 2020 the Safe Rent Programme (Renda Segura) whereby it offers to pay as much as three years of rent up front to property owners and to exempt them from

property and capital gains taxes to switch their short-term rental units into long-term lets for locals. The programme enables landlords to lease their properties to the municipality for a minimum of five years. The city finds tenants through an affordable housing programme targeting young people and middle-class families, allowing key workers who had been priced out to return to live in the city centre.

Enforcing the rules at city level can be challenging, however, due to the lack of available data on property uses. A first step therefore is to improve data collection. In March 2023, the European Council agreed on a common position to create a data collection and sharing framework at EU level (Council of the European Union, 2023[65]). Furthermore, while cities have primarily been responsible for regulating the short-term rental markets, local regulations can be affected by higher tiers of government which are in charge, for example, of defining what constitutes "tourism accommodation" (Colomb and Moreira de Souza, 2021[66]), and approaches at different levels of government can be at odds with each other. Barcelona's decision of banning short-term private rentals of under 31 days, for example, was overturned by the Spanish Supreme Court in January 2022. Tax treatment of short-stay accommodations should not be more favourable than for long-stay rental, and income from short-stay rentals should be taxed properly. Trade-offs also need to be considered carefully as short-term rental platforms support the tourism sector – indirectly providing important economic opportunities for cities. Trade-offs also need to be carefully considered when deciding between spending public funds on transforming short-term rentals, as opposed to spending these funds on increasing overall housing supply.

Implementing energy efficiency overhaul to future-proof housing

To be consistent with net-zero objectives by 2050, most existing buildings will need to be renovated. The cost-of-living crisis and the associated surge in consumers' energy bills has accelerated the urgency to improve the energy efficiency of housing. Data shows that the reduction in running costs between the most efficient and least efficient homes can be up to 75% (IEA, 2022[67]).

Municipalities play an important role in implementing energy efficiency improvements. In **Barcelona**, Spain, city-led home energy assessments and subsidised energy efficiency measures for households suffering from energy poverty have helped to reduce energy use and costs by up to 19% (or EUR 225) a year (C40, 2022[68]). Barcelona has also committed to renovate 15 000 homes between 2022-2025. **Toulouse**, France is conducting building improvements through multiple projects, each designed using a low-carbon approach with the aim to promote local employment and initiate a programme of urban recycling actions. The city has demolished 2 375 unfit units and rebuilt 2 283 since 2015. Toulouse has also signed a contract with a social enterprise to provide more than 1 500 adapted and

affordable rental accommodation units by 2026 and has committed EUR 77 million to quality improvements. **Bilbao**, Spain has invested EUR 1.5 million in support for energy renovations in 150 buildings, including in disadvantaged neighbourhoods. In April 2023, the city of **Brussels**, Belgium launched a large-scale renovation programme of 37 000 social housing units in various neighbourhoods of the capital-city, for a total budget of EUR 500 million. These renovations are expected to reduce tenants' heating consumption by an average of 65%, reduce CO2 emissions by 61%, and improve the living comfort of housing units.

Cities need to implement a range of measures, including introducing more stringent energy efficiency targets in existing building stock, and engaging with homeowners to encourage renovations. To accelerate the pace of renovation of buildings which requires substantial financing, cities can also draw on ambitious national and international plans such as the US Inflation Reduction Act, the REPowerEU Plan and Japan's Green Transformation (GX) Initiative which put energy efficiency improvements as a top priority for investment (IEA, 2022[67]).



Promoting innovative land-use and spatial planning

Spatial planning influences the structure and social and economic trajectories of neighbourhoods and cities. Good planning can ensure that housing supply is responsive, and communities are sustainable and well supported by key infrastructure, services and amenities.

As part of its Municipal Plan, Green Plan and Housing Programme, **Reykjavik**, Iceland will in the next ten years aim to build 16 000 additional units of housing on existing plots in the current urban area, rather than through urban expansion. The current municipal plan calls for 100% of new residential units to be developed within the current urban area, while also requiring that residential density is increased in brownfield sites, minimising the need for new land or land reclamation. As the fastest growing city in the Netherlands, **Utrecht** is implementing the Utrecht Spatial Strategy 2040 to transform the city into a sustainable, comfortable and resilient urban centre that balances densification and urban greening. The city aims to develop as a 10-minute city with strong connections between urban centres and transport hubs, making new housing accessible, sustainable, and equitable while preserving green spaces and adding new ones to ensure a higher quality of life for residents. **Renca** updated its Communal Regulatory Plan in 2022 to protect and improve the quality of life of its residents through sustainable urban development. The new plan aims to make land use more flexible, by allowing for mixed uses and multiple activities, while also maintaining

historical preservation districts and providing incentives for development of green areas and sustainable transport solutions, with the overall aim to promote territorial justice and sustainability while providing residents with better access to opportunities.

Planning systems should provide for sufficiently relaxed density and flexible land-use regulations so that housing development can occur while also keeping urban expansion in check. Densification also has the added benefit of reducing per capita costs to deliver public services and infrastructure, which is beneficial for many cities that are burdened with increased responsibilities and tight budgets. Plans should also seek to unlock brownfield sites and other underutilised land in cities as a priority and ensure that affordable housing is well served and connected to economic opportunities. This could be done, for example, by planning affordable housing provision through densification in areas near transit corridors that provide good access to central areas with jobs. Engaging with local communities is also central to ensure successful spatial planning that meets communities' needs. In **Buenos Aires**, Argentina, the participation of the community has been central to the design and implementation of physical interventions in the most vulnerable neighbourhoods such as Rodrigo Bueno Barrio Padre Mugica, Playón Chacarita and Barrio 20, including the construction of new housing and the provision of public services and amenities (public spaces, health centres, etc.).

Renca, Chile





Oklahoma City, U.S.

Leveraging financing tools

The cost-of-living crisis has further burdened cities already dealing with financial pressures arising from the pandemic. They will need to mobilise new financial instruments to drive development. Municipalities can leverage private urban investment to make urban space more inclusive, resilient and sustainable, and promote affordable housing developments. This can be done through multiple instruments such as infrastructure levies, fees and charges for development rights, strategic land management, or through tax incentives for inclusive urban private investments. Municipalities can also tap into green, social and sustainable financing instruments such as green or social bonds to finance municipal investments and align them with policy objectives of sustainability and inclusion (OECD, forthcoming[69]).

Frankfurt, Germany is one of many cities that uses Land Value Capture (LVC) via developer obligations to finance and directly provide for affordable housing. Frankfurt requires up to 30% of housing units to be affordable renting units in exchange for development approval, while also collecting “development contributions” (Erschließungsbeiträge) to cover costs associated with infrastructure in the vicinity of these developments. Similarly, **Bogotá, Colombia** established in its recent Land Management Plan a mechanism to capture land value through urban obligations to obtain public space, public service networks, equipment for social services and social housing in exchange for greater urban development. **Oklahoma City, USA** has implemented the Metropolitan Area Project 4 (MAPS

4), which levies temporary penny sales taxes in the city to generate USD 978 million to pay for capital improvements, including housing. The Oklahoma City Housing Authority, which manages social housing properties in the city, also receives USD 400 million from other private and public funds, which will go toward the redevelopment and construction of social housing units. **Madison USA's** Housing Forward plan addresses housing needs in the city via USD 2 million in financial assistance from various sources including housing land trusts, federal grants, and local budgets.

An important lesson for affordable and social housing finance is that funds should be raised from private and non-profit sectors as well as the public purse. For example, LVC through developer obligations allows affordable and social housing to be financed and built by the private sector where land values are high enough to absorb them. Similarly, Public-Private Partnerships, when implemented such that private rent-seeking behaviour is tempered, can aid in providing private sector funds to housing development projects, especially in cities where housing is already expensive and demand for housing development is high. Community land trusts and other non-governmental organisations can also aid in lowering the costs of providing affordable housing, for example by using government owned land or establishing public and private investment funds to acquire land on behalf of a specific community. In turn, this land could be used to finance or directly facilitate affordable housing development.

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