The Housing System

A mechanism for increasing wealth and income inequality.

Anything else?

David Hulchanski

University of Toronto

12 June 2016
The HOUSING SYSTEM

1. Definition
2. Criteria for assessing
3. Macro context
4. Role of housing assets
5. Current: Mechanism for increasing wealth and income inequality
6. Future: Mechanism for adequate production, choice & affordability
1

The “Housing System”

DEFINITION
Bourne, 1981

“a typically vague but convenient shorthand expression to encompass the full range of inter-relationships between all of the actors (individual and corporate), housing units and institutions involved in the production, consumption and regulation of housing.”

“It is thus a much broader term than housing market or sector.”
Priemus, 1983

- the complex of actors, including their many relationships and interactions, that are involved in housing.

- the context is important in the development of a housing system, particularly the economic, demographic, political and spatial factors which influence the system and are themselves influenced by the housing system in turn.
It is important to make a distinction between

1. the organisation of the housing market (the institutional structure),

2. the actors (supply & demand), and

3. housing policy.

These factors interact with exogenic factors (the context) to determine the objective characteristics of the housing system.
The housing system refers to the interaction between actors & institutions in time & space.

It is part of a wider societal system; thus its different parts are influenced by broader, external factors such as economic, socio-cultural and demographic trends.

Housing system outcomes, in turn, have an impact on the broader societal system.
Harry van der Heijden, 2013

The main constituents of a housing system:

- **Demand Actors**: households & their housing preferences

- **Supply Actors**: producers of housing & housing services (building firms, developers, commercial & social landlords, and intermediaries, e.g., real estate agents and property consultants)

- **Institutions**: the rules, norms and regulations under which a system functions
What shapes housing systems?

Demand
Supply & Institutions
meet in the housing market &
generate the outcomes of the housing system

Harry van der Heijden, 2013
Economic & Demographic Pressures play the major role in shaping housing systems

One of the conclusions that can be drawn from this analysis is that these similar trends in both the housing policies implemented and the development of housing systems occurred partly under the influence of such exogenous factors as economic and demographic developments. This applies more to housing than to the other pillars of the welfare state as housing is far more market-driven. In this sense, we subscribe to Donnison’s (Donnison, 1967; Donnison and Ungerson, 1982) view that economic and demographic developments are key in shaping in the development of housing policy and housing systems. These factors are of great importance in a context where consumers, suppliers and the government operate on housing markets.

Harry van der Heijden, 2013, p.183

DRAFT 12 June 2016
What about the role of government in shaping housing systems

Housing policies of both right & left of centre governments did not correlate strongly with their ideological stance.

Rather it was the:

– specific housing market situation
– associated factors of housing tradition
– institutional structure of the housing market

Governments will try to achieve their political objectives within this context.

Harry van der Heijden, 2013, p.187
What about change, a 'system shift' in the housing system?

1. Change is not impossible, but will meet with strong resistance.

2. The scale, function and relationship between the various tenures is relatively stable.

3. The institutional and instrumental context in which housing markets operate and develop is also relatively stable.

4. There are functional imperatives of economic accumulation and political legitimization.

Harry van der Heijden, 2013, p.187
2

Criteria for assessing housing systems.

What is an Inclusive Housing System?

PRODUCTION, CHOICE, AFFORDABILITY
An Inclusive Housing System ought to

1. stimulate adequate housing production
2. help produce a mix of housing choice (tenure, location, and quality)
3. assist those who cannot afford adequate, appropriate housing

United Nations Centre for Human Settlements, Support Measures to Promote Low-Income Rental Housing, 1993
Housing System OUTPUTS

1. Housing stock (size & composition)
2. Production level (new & rehab)
3. Distribution to households
4. Cost (expense-to-income ratio)

Boelhouwer & Van der Heijden, 1992
Different Housing Systems have different mix of Housing Tenure

HOUSING TENURE: The terms and conditions (rights & responsibilities), legal and cultural, by which housing is owned, occupied, and maintained.

<table>
<thead>
<tr>
<th>Tenure</th>
<th>CA</th>
<th>UK</th>
<th>NL</th>
<th>SE</th>
<th>DE</th>
</tr>
</thead>
<tbody>
<tr>
<td>OWN</td>
<td>69</td>
<td>63</td>
<td>58</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td>PRIVATE RENT</td>
<td>26</td>
<td>18</td>
<td>10</td>
<td>20</td>
<td>53</td>
</tr>
<tr>
<td>PUBLIC RENT</td>
<td>2</td>
<td>15</td>
<td>--</td>
<td>18</td>
<td>5*</td>
</tr>
<tr>
<td>N-P RENT</td>
<td>3</td>
<td>3</td>
<td>32</td>
<td>22 *</td>
<td>--</td>
</tr>
</tbody>
</table>

Note: rounded off approximations; * = its complicated/mixed
3

The Housing System

MACRO CONTEXT: INEQUALITY, TAX REVENUES
The Gini coefficient takes values between 0 for a perfectly equal income distribution where every person has the same income, and 1 which refers to a situation of maximum inequality where all income goes to one person. OECD average = 0.30.
Total Tax Revenues as a Percentage of GDP, 2010

Fifteen OECD Countries in Three Groups

Nordic Countries
- Denmark
- Sweden
- Norway
- Finland

Western European Countries
- Belgium
- France
- Austria
- Netherlands
- Germany

Anglo-American Countries
- United Kingdom
- New Zealand
- Canada
- Ireland
- Australia
- United States

48%
46%
43%
43%
43%
42%
39%
36%
35%
32%
31%
28%
26%
25%
Divided Societies: Inequality is a Choice

“I see us entering a world divided not just between the haves and have-nots, but also between those countries that do nothing about it, and those that do.

“Some countries will be successful in creating shared prosperity — the only kind of prosperity that I believe is truly sustainable.

“Others will let inequality run amok.”

Joseph Stiglitz, 2013
The Housing System

HOUSING ASSETS
Housing Assets: Policy Questions

• Is there a difference between people with and without housing assets?

• Have housing assets become more flexible and ‘liquifiable’ due to public policy?

• Does location matter (country, region, city, neighbourhood) in terms of housing assets?

• Is housing playing a larger potential role in social outcomes than in the past?
Globalization and the Housing Asset Rich

Geographies, Demographies and Policy Convoys

Abstract: This article explores the importance of housing assets in shaping the global landscape of opportunity and disadvantage. In doing so, it is concerned with four key issues. First, it seeks to highlight the increasing significance of housing related wealth at a global scale. Second, it is concerned with the uneven and potentially divisive impact of housing asset accumulation, within and between societies. Third, it seeks to show how economic, geo-demographic and policy contexts combine to produce different outcomes for different population cohorts. Fourth, it discusses the way in which more market driven housing systems and housing wealth accumulation are changing the social policy environment. The underlying argument of the article is that the dynamics of housing markets and housing assets are of growing significance in relation to contemporary patterns of risk, opportunity, vulnerability and privilege and need to be embraced more thoroughly in social policy debate.
Life Course Implications of Housing Assets

“who you are, where you are, and when you achieve home ownership are critical determinants of future trajectories.”

Ray Forrest, 2008
Transformative Potential of Housing Assets

“the positive and negative impacts of housing assets in relation to

• social stratification and social inequality,

• the distribution of wealth and its deployment within and between households and generations,

• the macro-economic consequences of remortgaging and equity release, and

• the uneven spatial impact of these processes within cities, regions and globally.”  Ray Forrest, 2008
Transformative Potential of Housing Assets

“By transformative potential I am referring to ... and

• the uneven spatial impact of these processes within cities, regions and globally.

Toronto example → →
Neighbourhood Income & Population, City of Toronto, 1970-2010

Socio-Spatial POLARIZATION

Census Tract Average Income compared to the CMA Average
- High Income (More than 20% Above)
- Middle Income (Within 20%)
- Low Income (More than 20% Below)

Total Population (thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>High Income</th>
<th>Middle Income</th>
<th>Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>287 (14%)</td>
<td>1,313 (63%)</td>
<td>484 (23%)</td>
</tr>
<tr>
<td>1980</td>
<td>268 (13%)</td>
<td>1,277 (60%)</td>
<td>588 (28%)</td>
</tr>
<tr>
<td>1990</td>
<td>353 (16%)</td>
<td>1,163 (51%)</td>
<td>754 (33%)</td>
</tr>
<tr>
<td>1995</td>
<td>377 (16%)</td>
<td>870 (36%)</td>
<td>1,143 (48%)</td>
</tr>
<tr>
<td>2000</td>
<td>392 (16%)</td>
<td>798 (32%)</td>
<td>1,304 (52%)</td>
</tr>
<tr>
<td>2005</td>
<td>419 (17%)</td>
<td>703 (28%)</td>
<td>1,373 (55%)</td>
</tr>
<tr>
<td>2010</td>
<td>540 (21%)</td>
<td>737 (28%)</td>
<td>1,337 (51%)</td>
</tr>
</tbody>
</table>

Income Definition Notes:
Individual income is for persons 15 and over, from all sources, before-tax. Census tract boundaries correspond to those that existed in each census year. Income for 2010 is based on all taxfilers for 2006 CT boundaries.
Neighbourhood Income Change: City of Toronto, 2012 vs. 1970

Change in census tract average individual income compared to the Toronto CMA average, 2012 versus 1970

- City #1: Increase of 20% or More (146 Census Tracts, 26% of the City)
- City #2: Increase or Decrease is Less than 20% (165 Census Tracts, 32% of the City)
- City #3: Decrease of 20% or More (207 Census Tracts, 40% of the City)

Top of 3D map:
Income Increases
Blue = City #1;
White = City #2

Bottom of 3D map:
Income Decreases
White = City #2;
Brown = City #3

Individual income for persons 15 and over, from all sources, before-tax.
Census tract boundaries are held constant to Census 2001 (515 CTS).

Data Sources:
Statistics Canada,
Census Profile Series 1971,
Canada Revenue Agency,
T1FF Taxfiler data, 2012

www.NeighbourhoodChange.ca

City #1: Average Individual Income Increased 20% or More

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>Black</th>
<th>South Asian</th>
<th>Chinese</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>81%</td>
<td>3%</td>
<td>2%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>2006</td>
<td>80%</td>
<td>3%</td>
<td>3%</td>
<td>7%</td>
<td>8%</td>
</tr>
</tbody>
</table>

City #2: Average Individual Income Less than 20% Increase or Decrease

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>Black</th>
<th>South Asian</th>
<th>Chinese</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>69%</td>
<td>7%</td>
<td>5%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>2006</td>
<td>61%</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
<td>15%</td>
</tr>
</tbody>
</table>

City #3: Average Individual Income Decreased 20% or More

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>Black</th>
<th>South Asian</th>
<th>Chinese</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>46%</td>
<td>12%</td>
<td>14%</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>2006</td>
<td>34%</td>
<td>12%</td>
<td>20%</td>
<td>16%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Mount Olive - Silverstone - Jamestown Neighbourhood Improvement Area (43% Income Decrease)

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>Black</th>
<th>South Asian</th>
<th>Chinese</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>30%</td>
<td>27%</td>
<td>24%</td>
<td>2%</td>
<td>16%</td>
</tr>
<tr>
<td>2006</td>
<td>15%</td>
<td>23%</td>
<td>40%</td>
<td>2%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Notes: Income is census tract average individual income for persons 15 and over, before-tax. Income is measured relative to Toronto average and change is in terms of percentage points, 2010 versus 1970. Income 2010 is for all taxfilers. Constant 2001 census tracts boundaries.

J David Hulchanski, University of Toronto
Neighbourhood Income Change: Cities of Chicago & Toronto, 2010 vs. 1970

Income: Individual income for persons 15 and over, from all sources, before-tax.

Change: Change is in terms of percentage points. The 2010 average individual income of the census tract is divided by the metropolitan area average for that year and the same is done for 1970. The difference (2010 minus 1970) is multiplied by 100 to produce the percentage point change for each census tract.

Census tract boundaries: Chicago census tract boundaries are held constant to Census 2010 (794 CTs); Toronto’s are for Census 2001 (515 CTs).

Population: Chicago 2.7 million; Toronto 2.6 million (2010).

Size: Chicago 598 sq. km.; Toronto 686 sq. km.

Change in census tract average individual income compared to the metropolitan area average, 2010 versus 1970

City #1  Increase of 20% or More
  Chicago 21% of CTs; Toronto 25% of CTs

City #2  Less than a 20% Increase or Decrease
  Chicago 26% of CTs; Toronto 34% of CTs

City #3  Decrease of 20% or More
  Chicago 53% of CTs; Toronto 40% of CTs
Life Course Implications of Housing Assets

“The divisions between the housing asset rich and the housing asset poor can be conceived of at different spatial scales to evoke a multilayered and intertwined geography of advantage and disadvantage.”

Ray Forrest, 2008
The Current Housing System

A MECHANISM FOR INCREASING WEALTH & INCOME INEQUALITY
Piketty’s Theory

The core of Piketty’s theory or model is that

1. an unequal distribution of wealth is reinforced by high rates of saving from wealth based returns rather than labour income.

2. that a high elasticity of substitution between capital and labour allows capital, or property, to grow without inducing a fall in the rate of return to property.

3. this proposition runs counter to the equilibrating tendencies of neoclassical models

Maclennan and Miao, 2016
Piketty’s Prediction

• that the patterns of the last 30 years will continue in this century

• that \( r \) will be greater than \( g \), perhaps by a larger amount than at present (this fact is “the central contradiction of capitalism.” 2014, p. 571)

• that ‘if \( r > g \), the wealth of the capitalist class will grow faster than the incomes of workers, leading to an “endless inegalitarian spiral” (p. 572).

Maclennan and Miao, 2016
The Housing System & Piketty’s Model

Piketty’s work has important implications for

• how housing researchers and economists might think about major economic patterns within housing systems.

• how housing markets, and rising housing asset values in particular, will impact $r$ & $g$.

Housing markets and outcomes are embedded at the core of growth and inequality.
Facts about Housing & Urban Land (1)

• Supplies of developable land remain inelastic and housing supply elasticities are universally low.

• Supply inelasticity is a fundamental rather than passing feature of housing systems

• The interaction of spatially concentrated economic growth & housing supply inelasticity has a key role to play in shifting wealth patterns

Maclennan and Miao, 2016
“The conditions set out above determine that housing and land values will rise faster than the overall (income) growth rate.

As long as land and housing are privately owned and a ‘patrimony’ perspective on capital is employed, then the incomes and asset values of property owners will rise ahead of the overall growth rate.”

Maclennan and Miao, 2016
Facts about Housing & Urban Land (3)

“Ricardo’s scarcity thesis ‘meant that certain prices might rise to very high levels over many decades. This could well be enough to destabilize entire societies. The price system plays a key role in coordinating the activities of millions of individuals...The problem is that the price system knows neither limits nor morality.’

It is time to put this perception of housing markets, and house price rises, at the core of research and policy thinking.”

Maclennan and Miao, 2016
Implications of Property Ownership (1)

Fact: there is a wider distribution of property ownership than a century ago.

• Greater resistance to further density increases (NIMBYism) makes housing supply more inelastic.

• Owners are the majority of voters within most democracies.

Maclennan and Miao, 2016
Implications of Property Ownership (2)

Therefore: **tax policies** emerge that favour

- Home ownership, and
- small scale landlordism, and
- preclude the taxation of ‘scarcity rents’, or unearned capital gains.

Maclennan and Miao, 2016
Implications of Property Ownership (3)

Therefore: Governments also take extensive measures to

• prevent house prices from falling,

• support the formation and perpetuation of housing wealth gains and the inequalities that flow from them.

There is thus “an expanded rentier class who expect and defend unearned wealth gains.”

Maclennan and Miao, 2016
Housing System Implications (1)

• “The fundamental nature of housing markets in modern economies is that they present the potential for growing concentration of wealth and for $r$ to exceed $g$ for long periods.

• “A high $r$ driven by rising house prices raises upper and middle income wealth.

• “It will also tend to reduce the disposable incomes of poorer, younger and renting households.”

Maclennan and Miao, 2016
Housing System Implications (2)

“OECD countries have come to organise their housing systems as mechanisms for encouraging rentier returns and increasing wealth and income inequalities.”

The Housing System:
A mechanism for increasing wealth and income inequality

Maclennan and Miao, 2016
Conclusion re Housing Policy

• an urgent need for a renewed political economy of housing policies.

• the consequences of house price inflation & housing asset ownership are central policy issues.

• House price outcomes and housing wealth patterns need to be at the core of major debates about distribution and growth.

Maclennan and Miao, 2016
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Future

Housing System Change

A MECHANISM FOR ADEQUATE PRODUCTION, CHOICE, & AFFORDABILITY?
A Decent & Humane Housing System

must couple shelter with

• security, warmth, peace and independence,
• living space and space to grow,
• nurturing and refuge and support,
• independence and protection and recreation,
• access to work and culture,
• good relations with neighbours and strangers.

How do housing systems change?

1. Change is not impossible, but will meet with strong resistance.

2. The scale, function and relationship between the various tenures is relatively stable.

3. The institutional and instrumental context in which housing markets operate and develop is also relatively stable.

4. However, the functional imperatives of economic accumulation & political legitimization need to be addressed occasionally.

Harry van der Heijden, 2013, p.187
Housing System Change

Change what?

- **Demand Actors**: households & their housing preferences
- **Supply Actors**: producers of housing & housing services (building firms, developers, commercial & social landlords, and intermediaries, e.g., real estate agents and property consultants)
- **Institutions**: the rules, norms and regulations under which a system functions
Conclusion from

“We believe that Capital in the 21st Century provides new insights on changing wealth patterns and thought frameworks to examine them.

“It provides a strong set of foundations on which to think through housing related issues.

“It is time to debate housing capital in the century ahead.”

→ What does “debate housing capital” mean? ←
Germany’s Housing System: Not a mechanism for increasing wealth & income inequality?

“The German housing system: fundamentally resilient?”

Abstract  The initial research question was: How can we explain the fact that the German housing system was seemingly unaffected by the financial crisis? The relative macro-economic stability of the German economy is part of the story, but the initial question led to a more fundamental analysis of why there had been no precrisis excesses in the German housing market. The longer term lack of volatility in Germany is just as in need of explanation as the excesses elsewhere. An important part of the explanation may be the particular tenure structure of the German housing market—which is characterized by a low homeownership rate and a large market share for private landlords. This structure was shaped over time by institutional development. In particular, mortgage finance systems and habits did not develop independently of that tenure structure. Equally, that tenure structure arises in part from regulation and housing subsidy systems that do not favour homeownership.

German house prices: 10% decrease in real terms over 30 years. UK +230%.
bition in January, Ms. Hendricks announced that her government will fund the construction of 300,000 to 400,000 new units of social housing each year (for both refugees and established Germans), year after year, for the foreseeable future.

No other government in the Western world is spending this kind of money on housing – and it has been decades since any government has deployed architectural solutions to social problems on this scale. When finished, it will be the equivalent of having created a second
What is the problem with the housing system in Anglo-American nations?

- Income & wealth inequality
- Discrimination
- Policy focus on house ownership: The lack of tenure neutrality in policy & culture
  - Housing subsidies in Canada: $6B ownership; $2B social rental; $0.5B private rental
- Regulation of rental housing providers
- ____________________________
- ____________________________
For an inclusive housing system

- Decrease house ownership subsidies
- Tax real estate flipping and unearned capital gains (betterment levies)
- Mandatory inclusionary housing & zoning
- Subsidize private & social rented housing construction and rehabilitation

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References


