Demand-side drivers of the housing crisis

Irish Housing Agency Annual Conference

Josh Ryan-Collins
Associate Professor in Economics and Finance
UCL Institute for Innovation and Public Purpose (IIPP)
@jryancollins

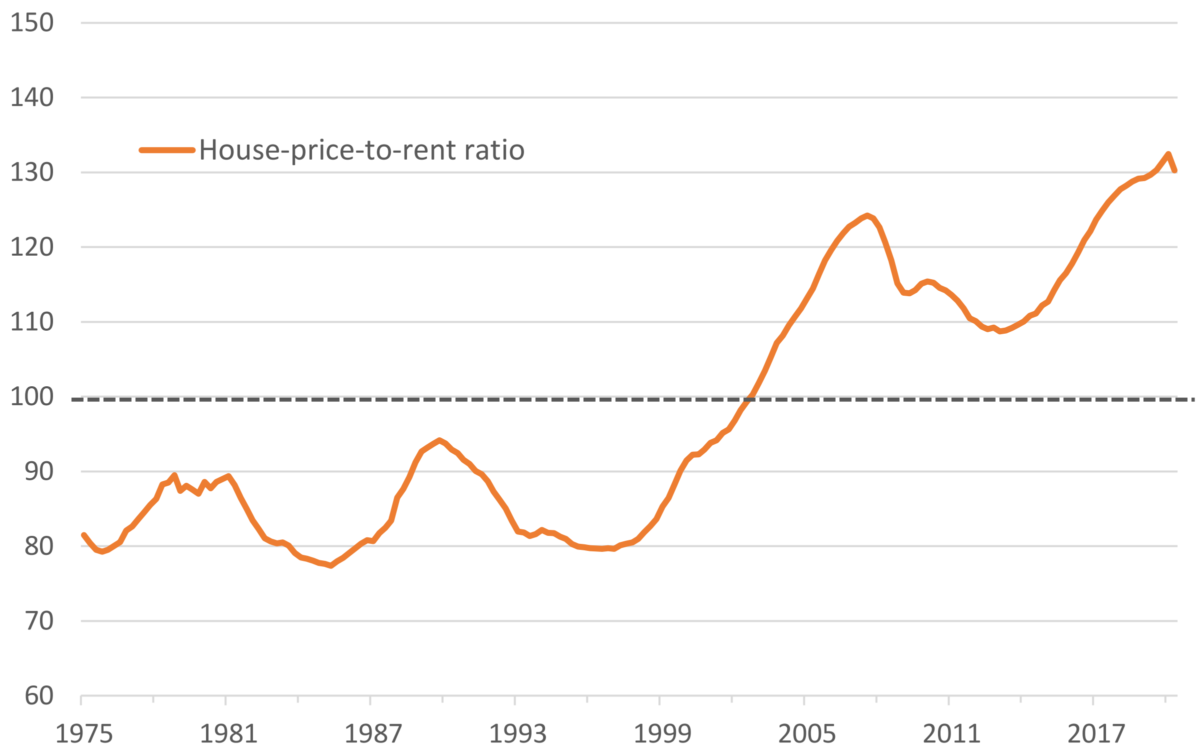
24th November 2022, Dublin

Lack of supply cannot explain price-to-rent ratio dynamics

Evolution of house prices and rents in the Euro-area 19 countries, 2005-2021

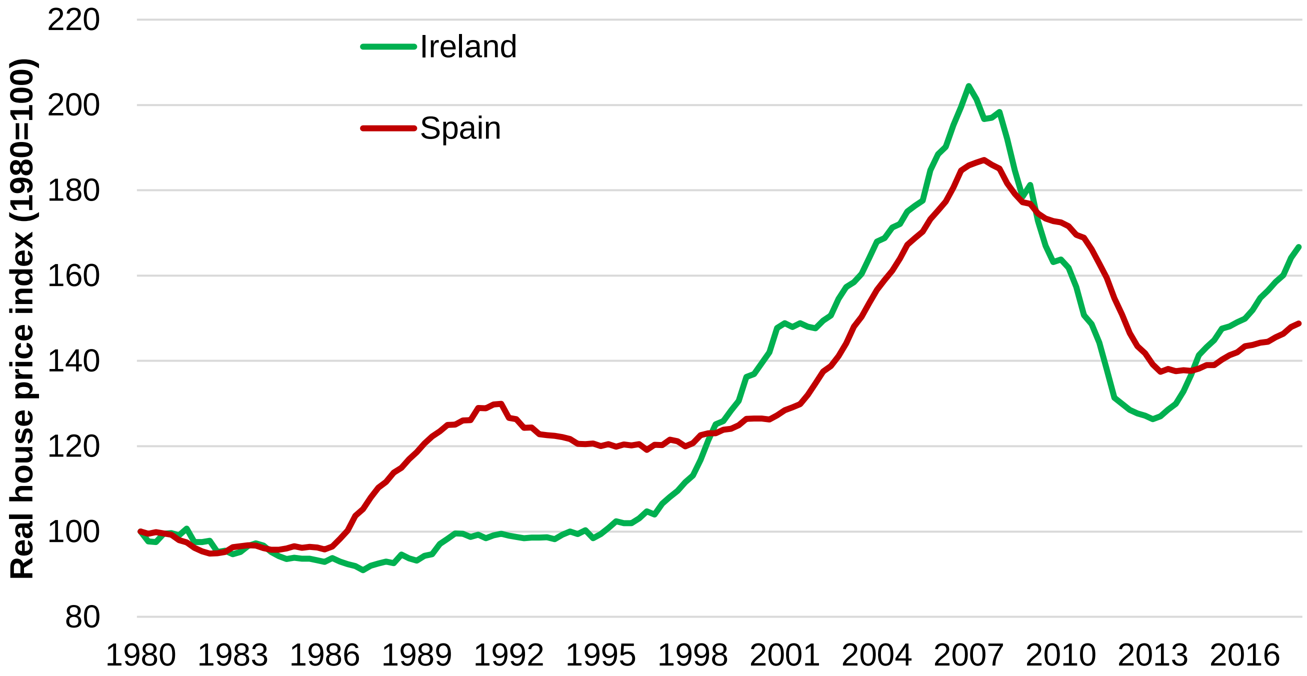
Source: Eurostat

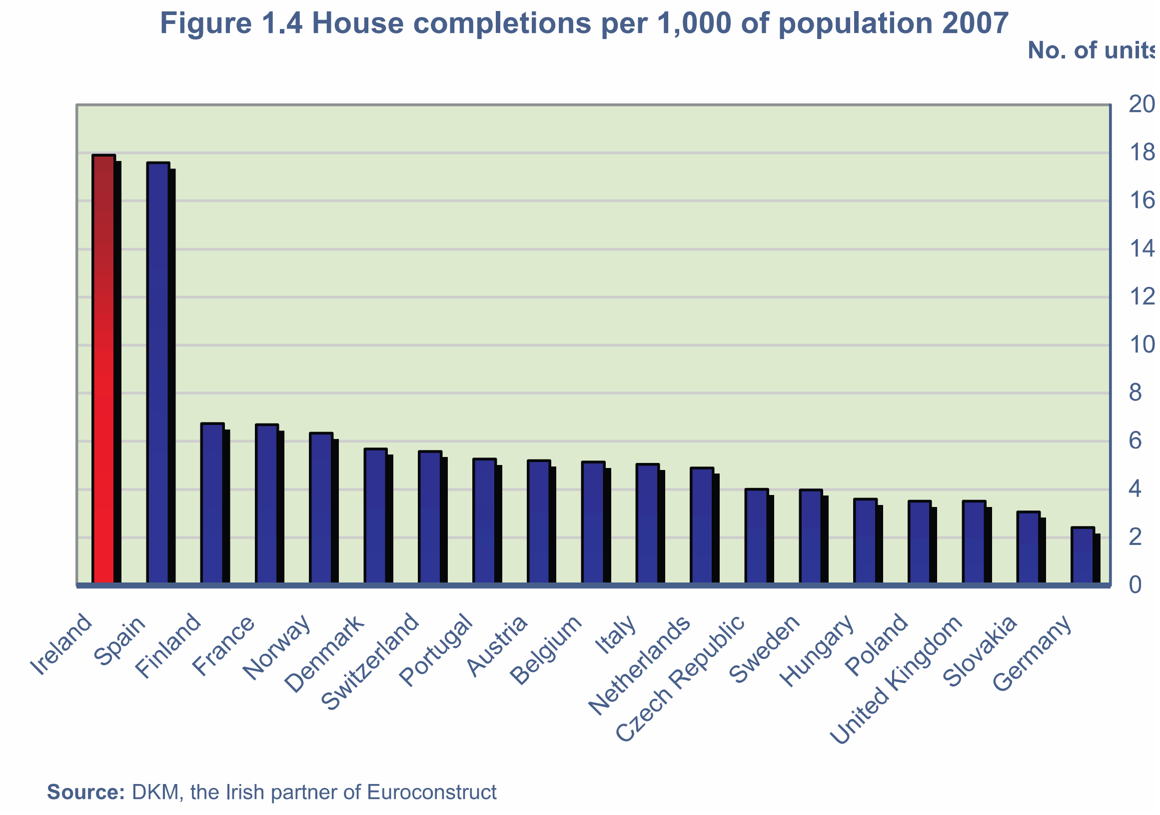
Long-run house-price-to-rent ratio across 16 OECD economies, 1975-2020 (indexed against long run average =100)



Source: OECD Analytical house prices

Supply cannot explain housing bubbles and volatility of house prices



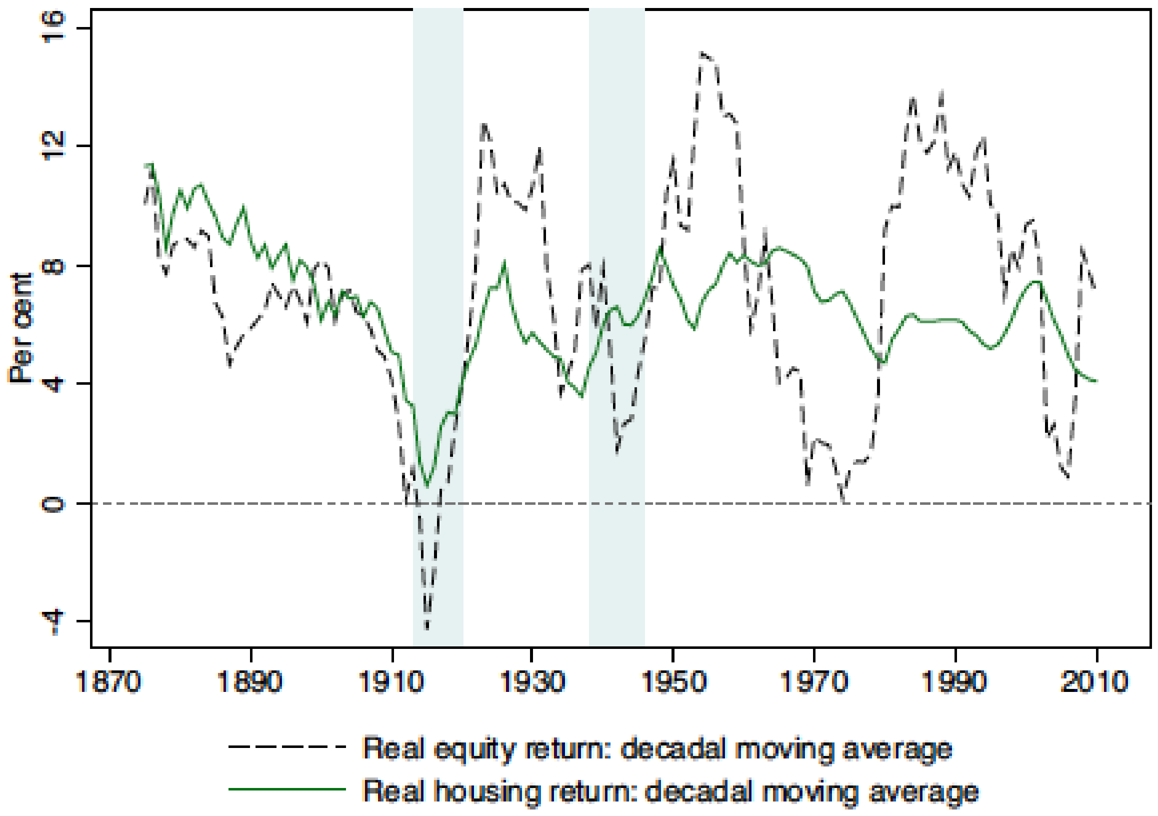


Source: OECD analytical house price indicators

Understanding the demand for housing

- 2 forms of demand for housing, not easily untangled:
  - Consumption good
  - Financial asset and store of value
- High 'income-elasticity of demand': 10% increase in incomes leads to 20% more spending on domestic space (Cheshire and Sheppard, 1998).
- Demand for housing is a function of credit availability, cost of capital (interest rates), running costs (including taxation) and expectations.
- Return on housing (capital gains + rental yields) has averaged around **7%** in high income economies over the past 150 years (Jorda et al 2019).

Mean returns on housing & equity for 16 countries, weighted by real GDP

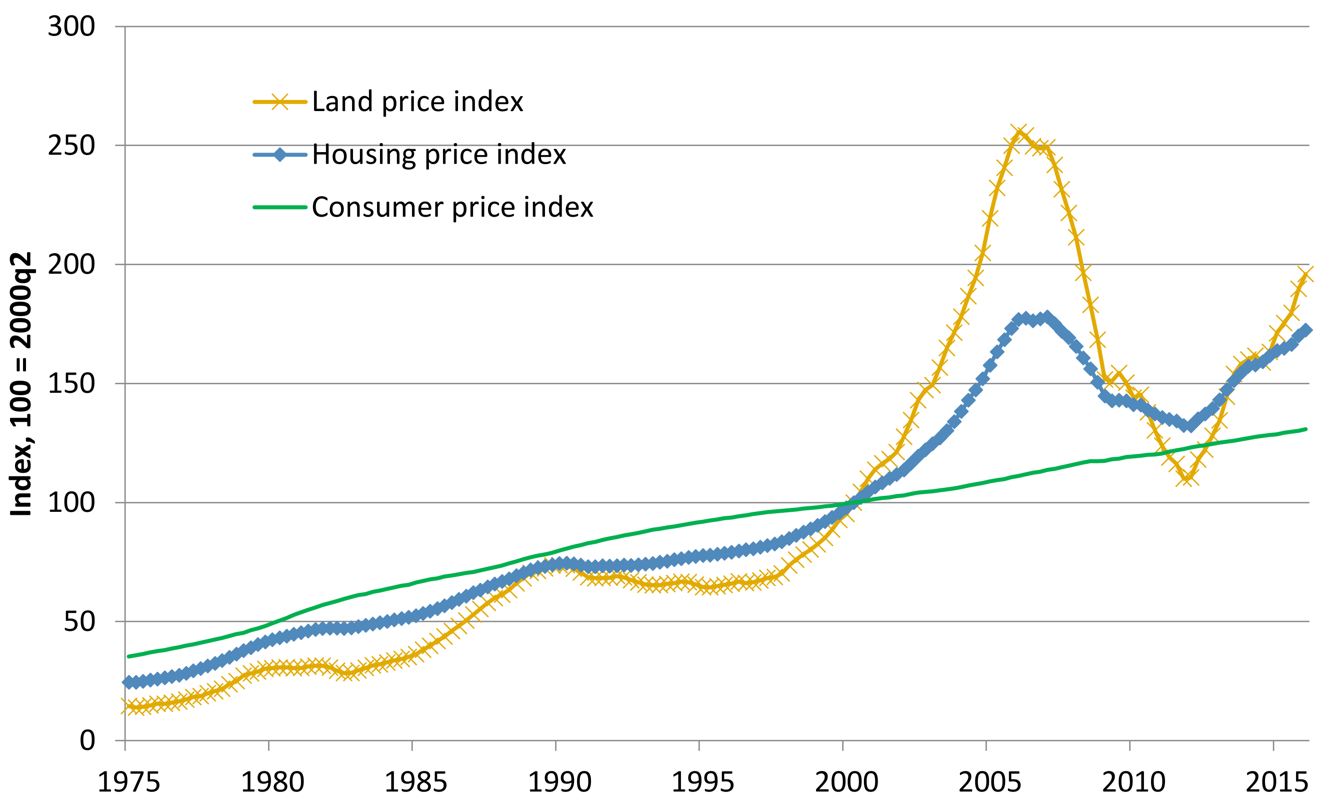


Source: Jorda et al 2019, The Return of return on Everything (1870-2015), Quarterly Journal of Economics, p1270

House prices driven by demand for *location* - land values

- 81% of house price increases between 1950 and 2012 in high income economies can be explained by rises in land values (Knoll et al 2017)
- Land (or location) is inherently inelastic in its supply
- Land-owners absorb surplus created by economic growth via rising capital gains and rents: *economic rent*

Land, house and consumer price indices for US, 1975-2016 (1945=100)

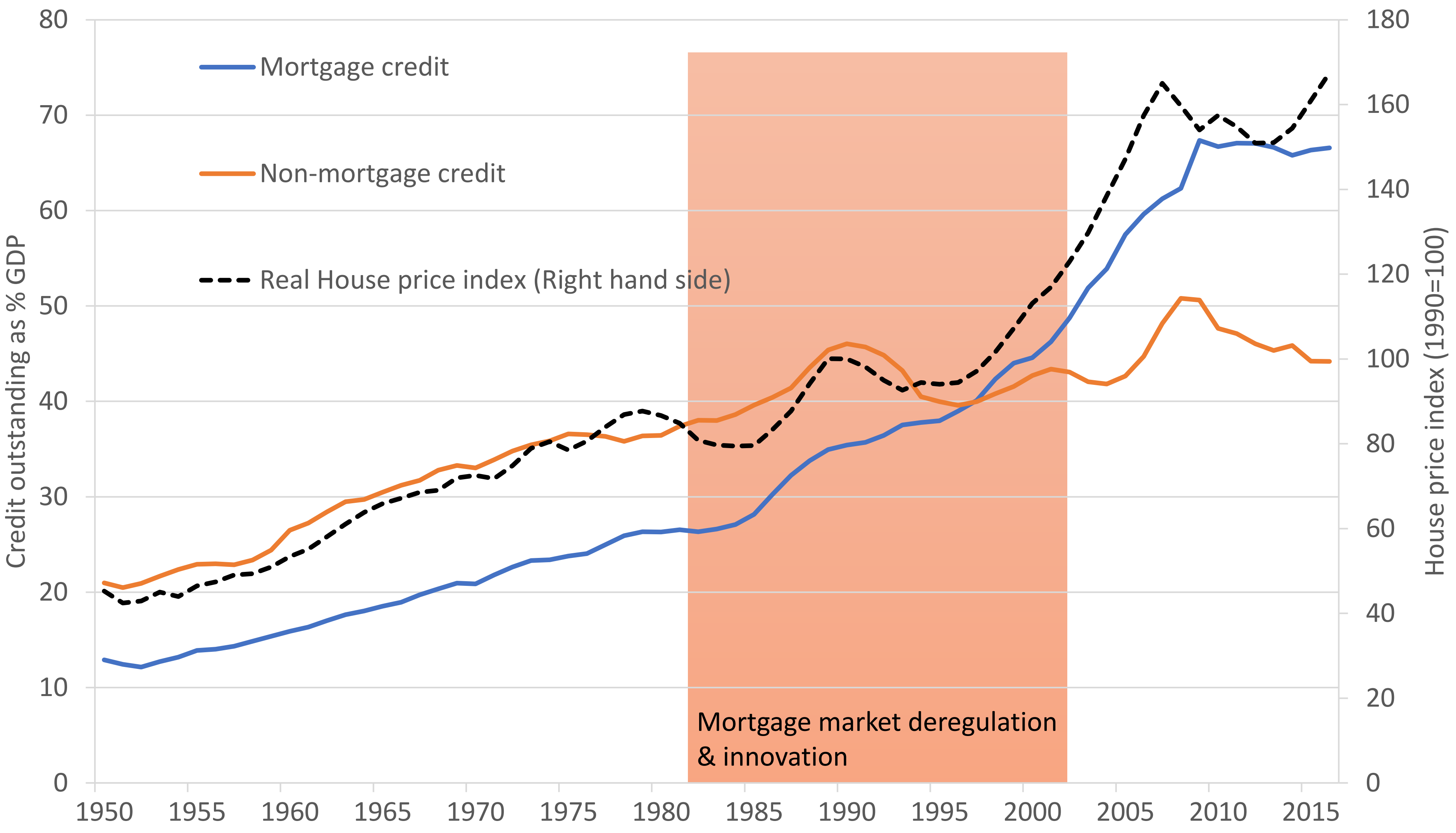


Source: Lincoln Institute of Land Policy: http://www.lincolninst.edu/resources

Land and finance – opposites attract

	Land	Credit/money
Supply	High inelastic – desirable location inherently limited	Highly elastic: determined by banks' & investors' confidence & regulation
Mobility	Fixed/immobile	Highly mobile, increasingly global
Value through time	Appreciates in value with economic growth, enabling rent extraction. Key source of **collateral**.	Normally depreciates unless invested or lent. Needs collateral.
Economic role	Conflicting economic uses: consumption good (housing) / financial asset	Supports capital investment & innovation / inflates existing assets generating capital gains

Financialization 1.0: the mortgage credit & securitization boom



Source: Jorda-Schularick- Taylor macrohistory database www.macrohistory.net; Ryan-Collins (2019) 'Breaking the housing-finance cycle', EPA

Financialization/rentierization

1. **Liberalised financial system**: leads to positive feedback cycle between credit and land values and home equity withdrawal to support consumption (Ryan-Collins 2018)
2. **Dominance of private *landed* home-ownership as form of tenure**: enables *capture* of land rents (privatization of public housing, liberalization of development policy)
3. **Property-oriented macroeconomic regime**: zero/low taxes on landed property, public subsidies for market rents, low interest rates.

- Political alignment between interests of middle and upper middle class, finance & real estate sector and politicians

Source: Ryan-Collins, J., and Murray, C.. "When homes earn more than jobs: the rentierization of the Australian housing market." *Housing Studies* (2021): 1-30.

HOUSING STUDIES
https://doi.org/10.1080/02673037.2021.2004091

Routledge
Taylor & Francis Group

OPEN ACCESS Check for updates

When homes earn more than jobs: the rentierization of the Australian housing market

Josh Ryan-Collins[a] and Cameron Murray[b]

[a]Institute for Innovation and Public Purpose, University College London, London, United Kingdom of Great Britain and Northern Ireland; [b]Henry Halloran Trust, University of Sydney, Sydney, Australia

ABSTRACT

This article develops the concept of housing market 'rentierization' to describe the shift in the treatment of housing away from its use as a consumption good to an asset from which economic rent can be extracted. Rentierization encompasses, but goes beyond, the 'financialisation of housing' that has been the focus of attention in the recent political economy of housing literature as it involves changes across land and housing market policy, fiscal-policy as well as financial policy spheres. We examine Australia as a canonical example of rentierization, conducting a historical case study that examines the returns to land and housing over the 20th century and trace its roots to developments that preceded the financial liberalization of the 1980s, including the privatization of public housing in the 1960s and 70s.

ARTICLE HISTORY
Received 7 August 2020
Accepted 18 October 2021

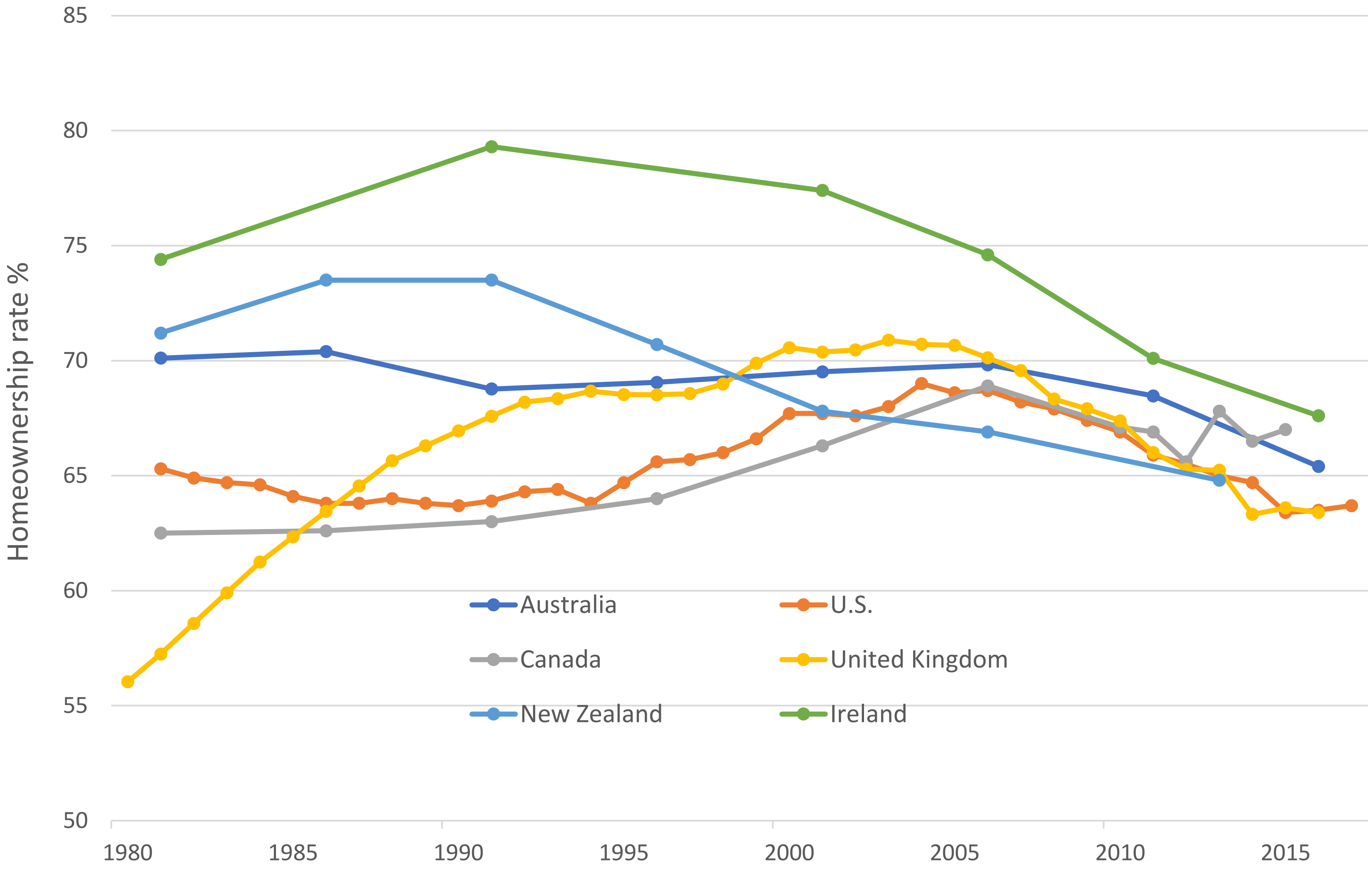
KEYWORDS
Housing; land; economic rent; financialization; privatization; credit; taxation; homeownership; Australian economy

JEL
R21; R30; R31; R38; 018; E44; G21; G28

1. Introduction

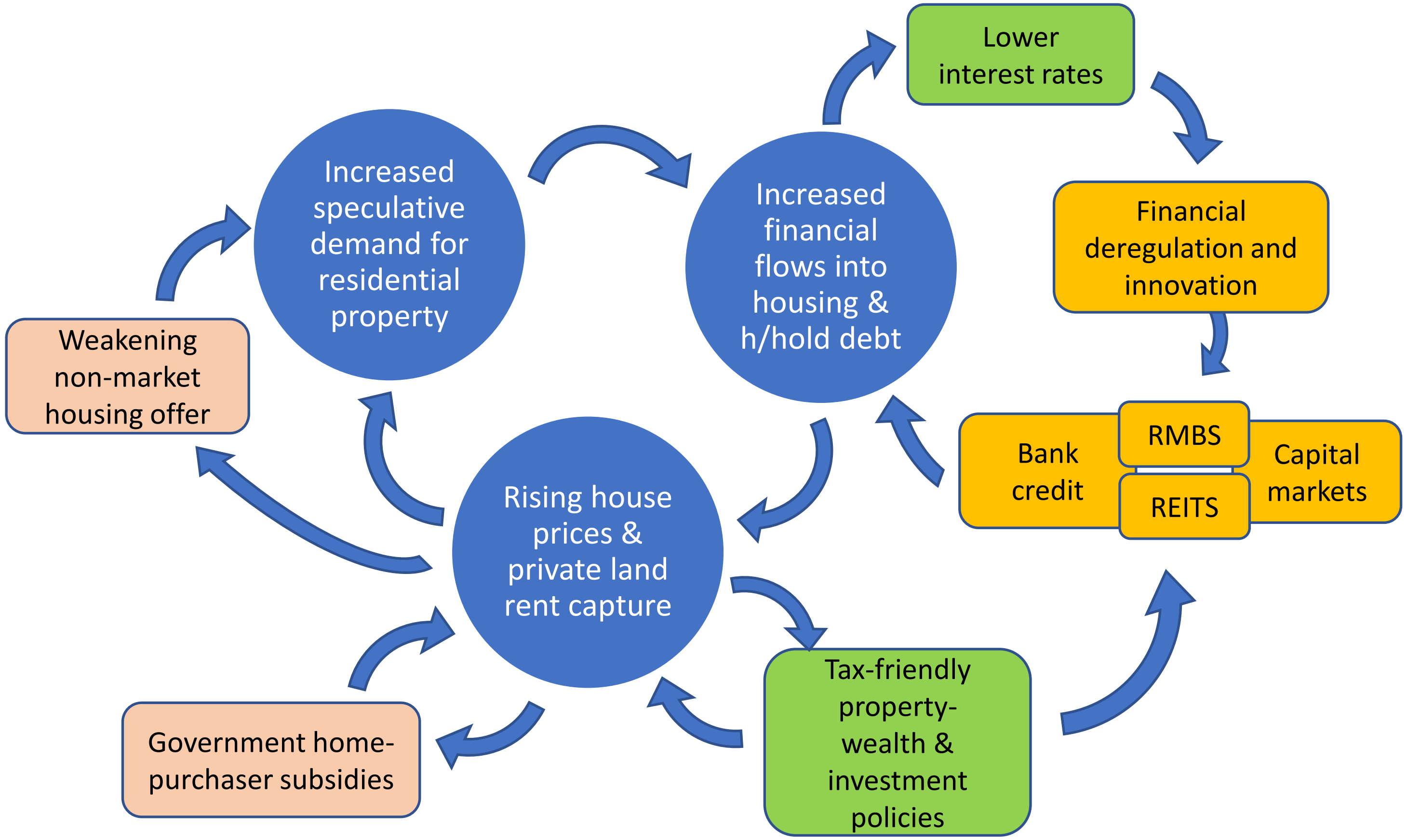
Housing affordability is a major economic and public policy challenge for advanced economies (The Economist, 2020). In recent decades attention has turned to the demand for housing as a financial asset as well as a consumption good in determining house prices. The term 'financialization of housing' has become established in the literature to describe this trend and the wider role of the financial sector in determining house market dynamics. Housing financialisation is usually dated from the liberalization and deregulation of mortgage finance in the 1980s and 1990s, continuing through to the globalization of housing finance via residential-mortgage backed securitization in the 2000s (see, *inter alia*, Aalbers, 2016; Gotham, 2009; Rolnik, 2013). It is a term that has been subject to critique for being vague and amorphous (Christophers, 2015; French *et al.*, 2011) but remains the dominant frame for describing recent changes in high-income economy housing markets.

The decline of home-ownership and concentration of housing wealth in the ‘home-owning democracies’



Source: Ryan-Collins (2018) Why can’t you afford a home?, Polity, p3; Sebastian Kohl https://www.sebastiankohl.com/data

Re-enforcing drivers of rising house prices and land rent extraction

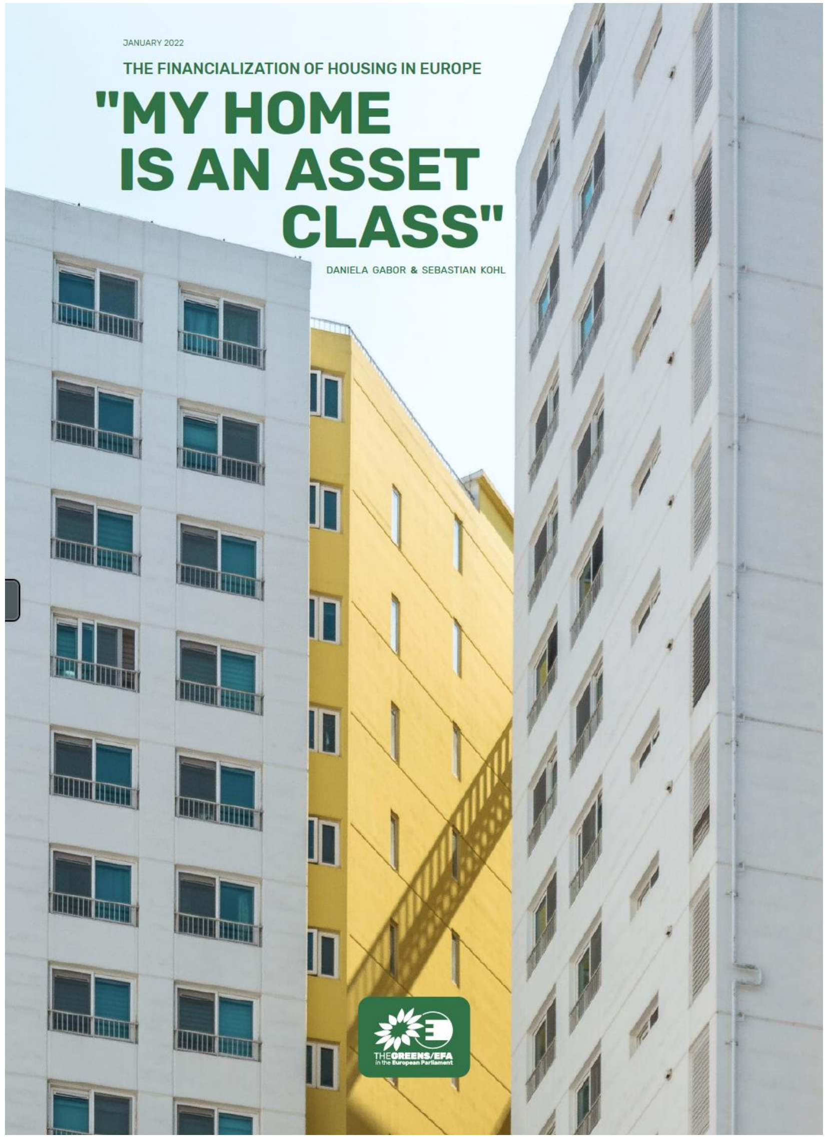


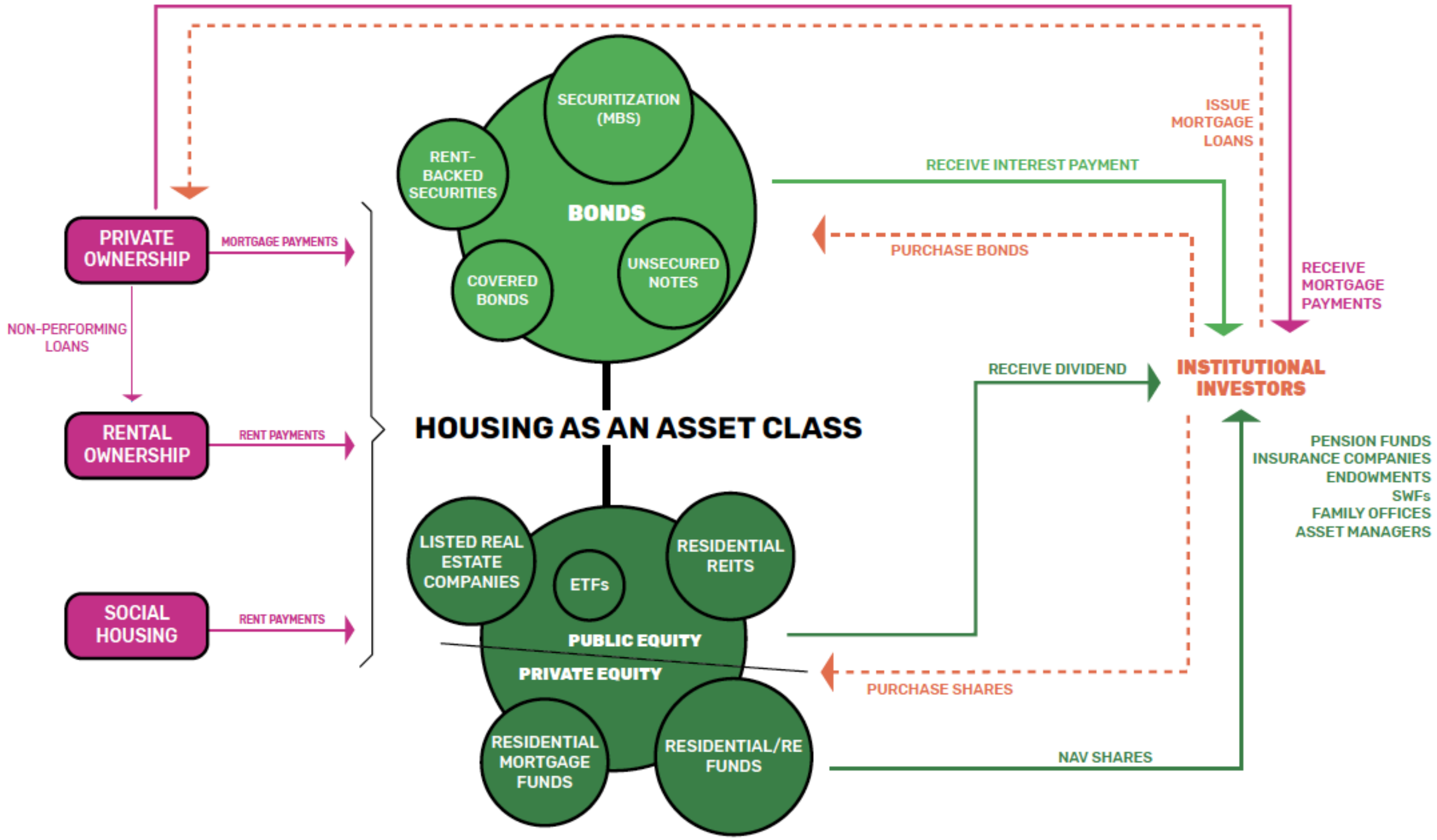
Source: Adapted from Ryan-Collins (2018) Why Can't you afford a home, polity, p35

Housing financialisation 2.0

- Re-embracing of securitization – EU 'Simple Transparent Standardized' program has lowered capital requirements for RMBS
- QE driven down yields on government bonds
- PRS & Social housing opened up to REITS, real estate funds, private equity, hedge funds and & other international investors
- Low rates mean investors leverage v. cheaply against real estate, continuing the cycle
- PRS going from an "alternative asset" to a "core asset"
- State *action*:
  - Generous tax breaks for institutional real estate investors
  - Privatisation of public housing programs
  - Deregulation of rental markets
  - Rising housing benefits for PRS tenants
- Station *inaction*: collapse in provision of public/social housing

Housing as an asset class for institutional investment

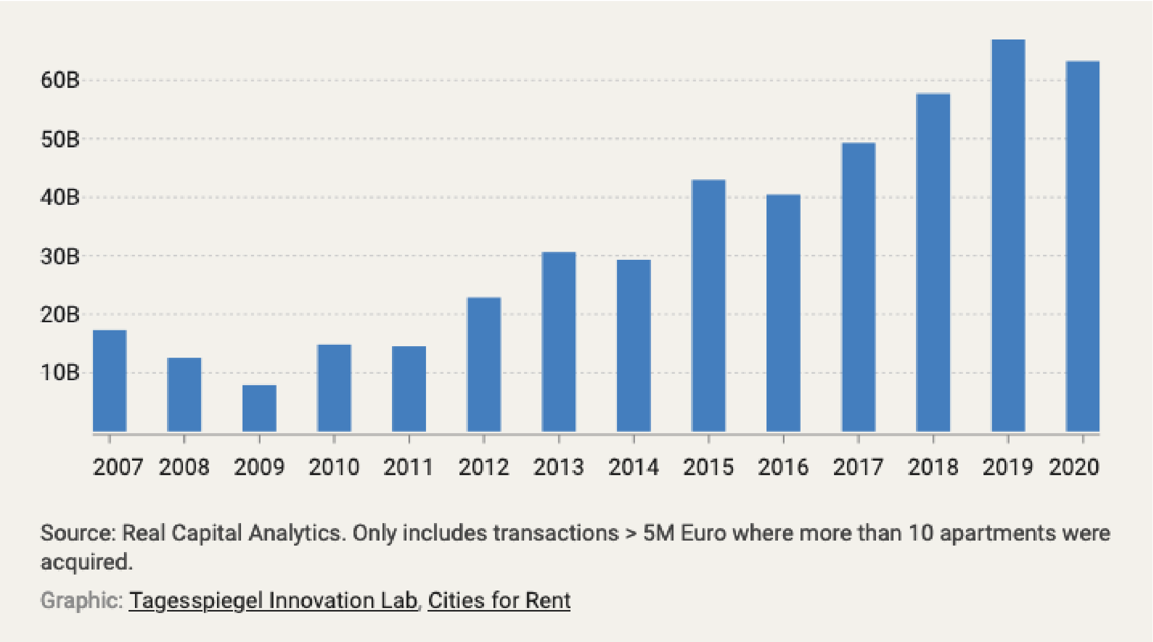




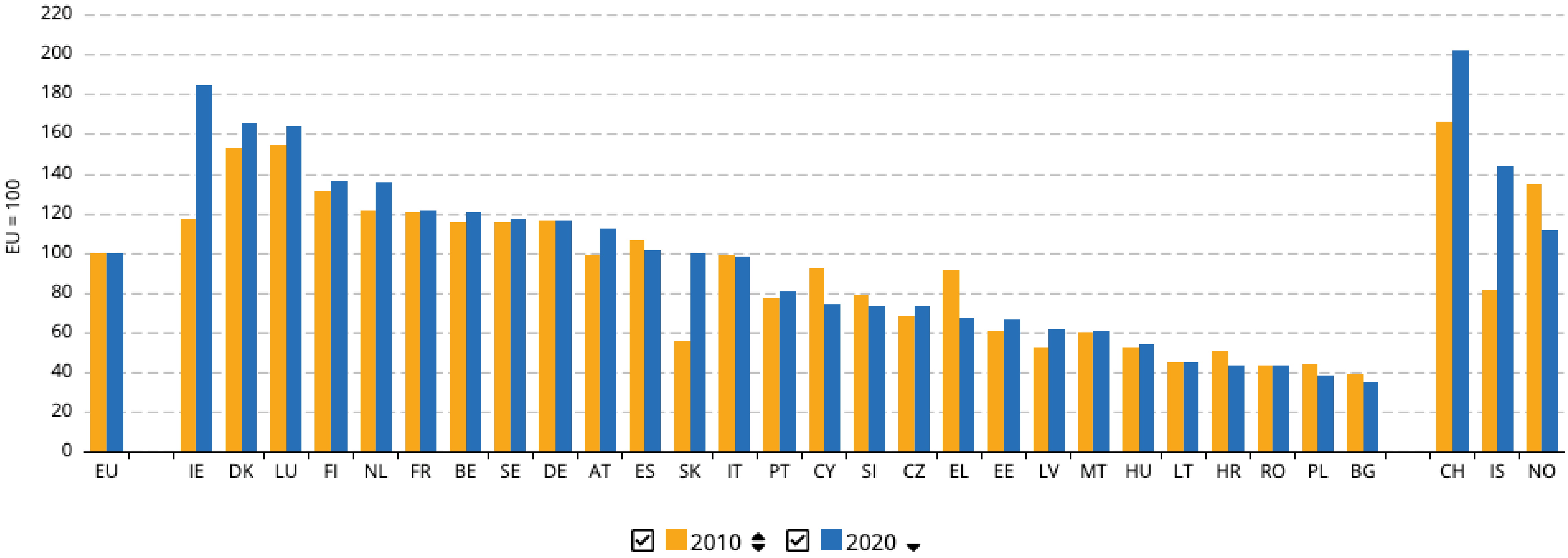
Source: Gabor, Daniela, and Sebastian Kohl. "" My Home is an Asset Class": The Financialization of Housing in Europe." Greens/EPA (2022).

The synchronization of the 'global city' real estate market and the growth of institutional buy-to-let

Value of corporate buy-to-let investment (>5m Euro) in Europe, 2007-2020

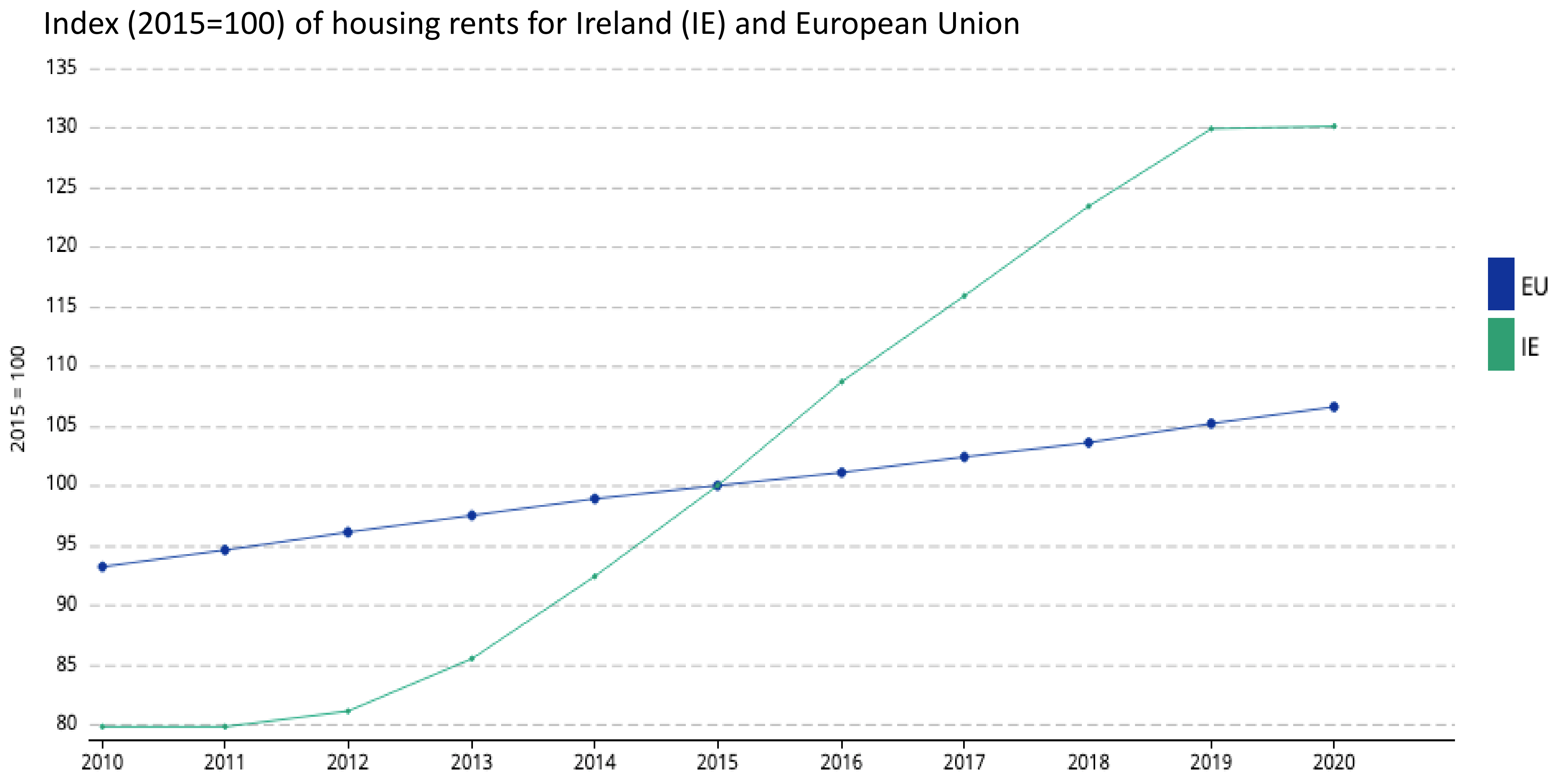


Ireland has had the biggest increase in housing costs (including rent + utilities) in the EU between 2010-2020, 84% above EU average.



Source: Eurostat https://ec.europa.eu/eurostat/cache/digpub/housing/bloc-2a.html?lang=en

Mainly driven by 63% increase in average rents (cf 14% rise in EU)



Source: Eurostat https://ec.europa.eu/eurostat/cache/digpub/housing/bloc-2a.html?lang=en

The rentierisation of the PRS in Ireland

- Recovery plan from GFC heavily relied on attracting in foreign investment into housing stock: NAMA, creation of REITS and REIT tax benefits (Hearne 2020)
- Tenancies let by corporate landlords increased by 44.6% between 2018 and 2020 from 16,789 to 24,692 (Lima et al 2022)
- Strategies to 'close the rent gap' including:
    - aggressive rent increases (Lochlain 2021)
    - formation of oligopolistic local market positions via mass acquisitions
    - Land banking/keeping properties vacant to maintain market prices (Hearne 2020)
    - 'Renovictions'/mass evictions (Kapila 2019)
- Rent control introduced in Dublin from 2016 but exemptions for corporate investors
- Creation of Housing Assistance Payment (HAP) direct to private landlords subsidizes the PRS & guarantees a return; has not kept pace with rent rises. €460m paid to corporate landlords under HAP between 2014-2020.

Overconsumption of space and resources?

Ecological Economics
Available online 22 August 2022, 107562
In Press, Corrected Proof

A home for all within planetary boundaries: Pathways for meeting England's housing needs without transgressing national climate and biodiversity goals

Sophus O.S.E. zu Ermgassen [a], Michal P. Drewniok [b, c, d], Joseph W. Bull [a], Christine M. Corlet Walker [e], Mattia Mancini [f], Josh Ryan-Collins [g], André Cabrera Serrenho [c]

Show more

Add to Mendeley Share Cite

https://doi.org/10.1016/j.ecolecon.2022.107562 Get rights and content

Under a Creative Commons license Open access

Highlights

- The primary government response to England's housing affordability crisis is to build 300,000 new homes per year
- Using embodied and operational emissions models we estimate the government's business-as-usual housing strategy consumes England's whole cumulative carbon budget [1.5°C] by 2050
- Other strategies for meeting society's housing needs are theoretically possible, but they face a challenging political economy
- 'Growth-dependencies' in the housing sector mean social welfare risks declining if house prices and construction rates fall
- Solutions include decarbonising the existing housing stock through rapid retrofitting, and policies disincentivising the overconsumption of floorspace

Screenshot

Support the Guardian
Available for everyone, funded by readers
Contribute Subscribe
Sign in
The Guardian
News website of the year

News Opinion Sport Culture Lifestyle

World UK Coronavirus Climate crisis Environment Science Global development Football

The age of extinction Housing

England's housing strategy would blow entire carbon budget, says study

Target of 300,000 new homes a year not sustainable, finds researchers, with negative biodiversity and climate impacts

England can't go on building new houses forever, the researchers say. Photograph: Bloomberg/Getty Images

The age of extinction is supported by
the guardian .org
About this content

Phoebe Weston
@phoeb0
Tue 23 Aug 2022 00.01 BST

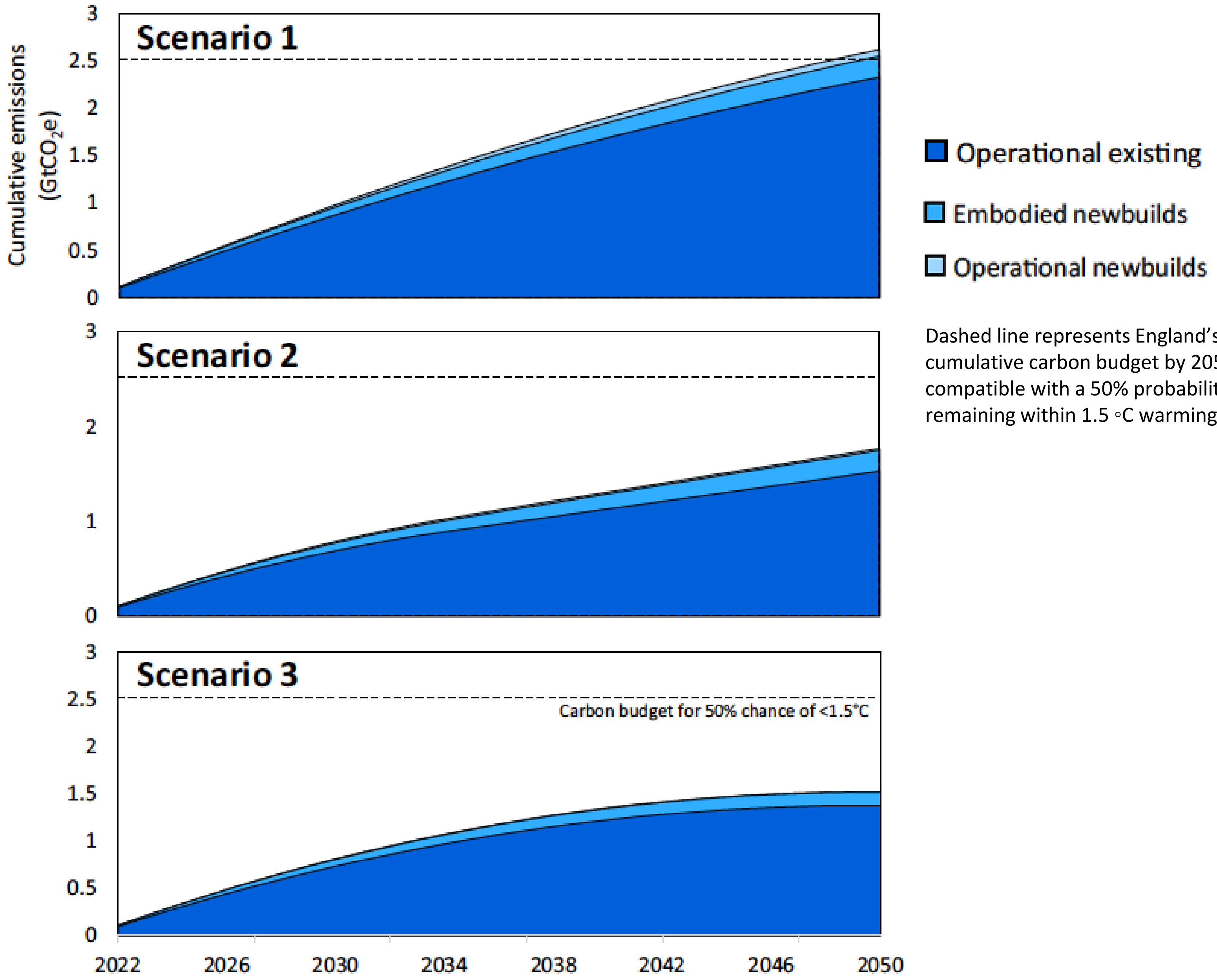
England would use up the entirety of its 1.5C carbon budget on housing alone if the government sticks to its pledge to build 300,000 homes a year, according to a new study.

Three scenarios for housing emissions (new + existing stock)

1. **Existing strategy:** 300,000 new homes p.a. & existing retrofit plans = 104% emissions budget (92% existing stock, 12% newbuild)

2. **Ambitious green supply side scenario:** same rate of new build but new home standards introduced so all newbuilds zero carbon from 2035 & existing stock retrofitted so that it is as efficient as contemporary newbuilds = 70%

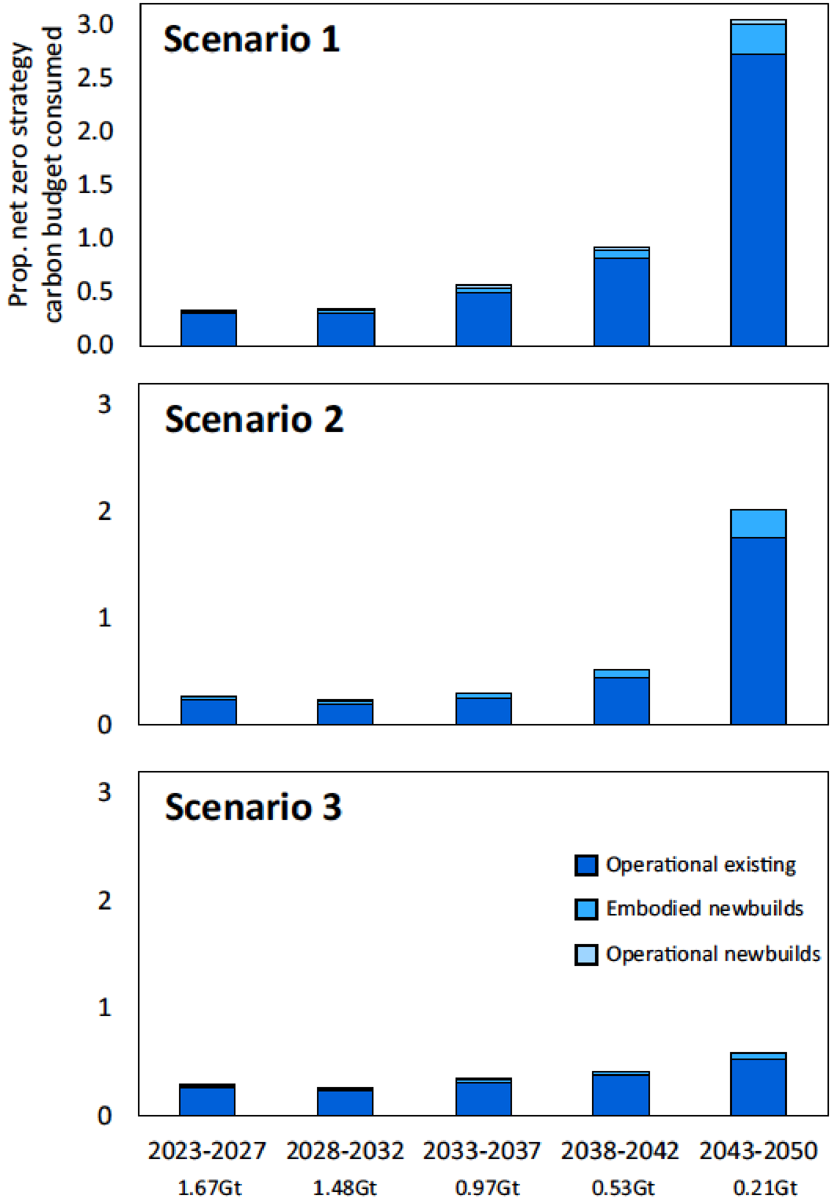
3. **Ambitious retrofit:** extremely ambitious decarbonisation of the existing stock (so the existing stock achieves zero emissions by 2050) and more efficient use of housing space to reduce the need for new housing construction and the associated embodied emissions (to zero net additions by 2035) = 60%



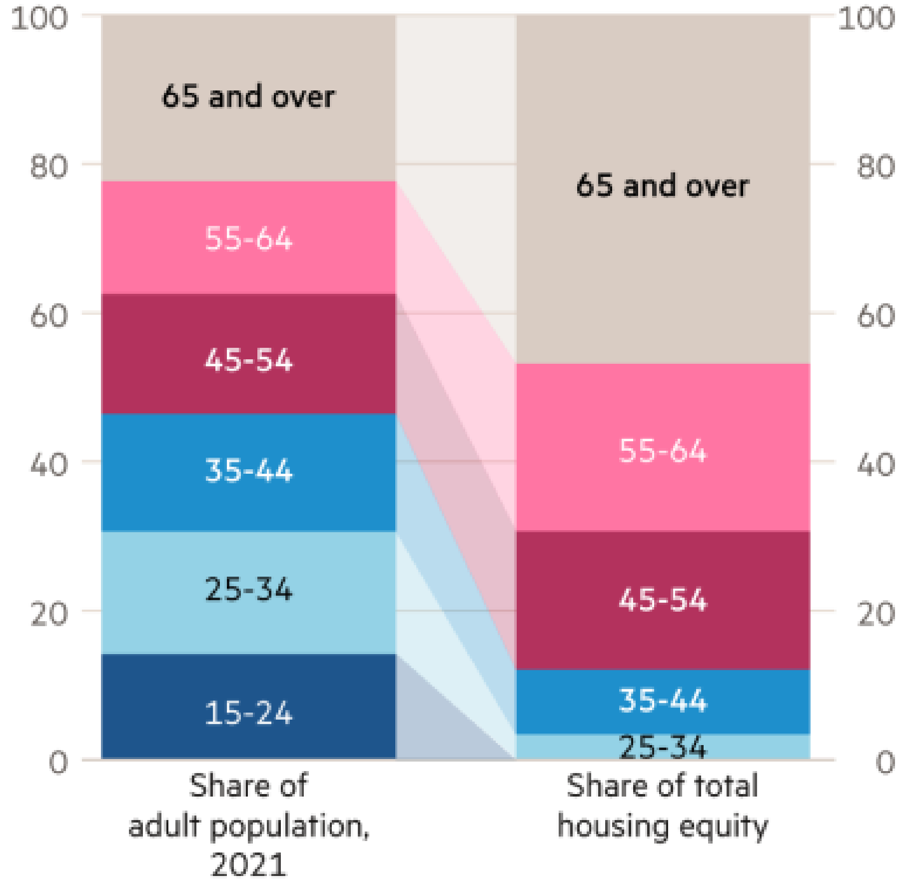
Dashed line represents England's cumulative carbon budget by 2050 compatible with a 50% probability of remaining within 1.5 °C warming.

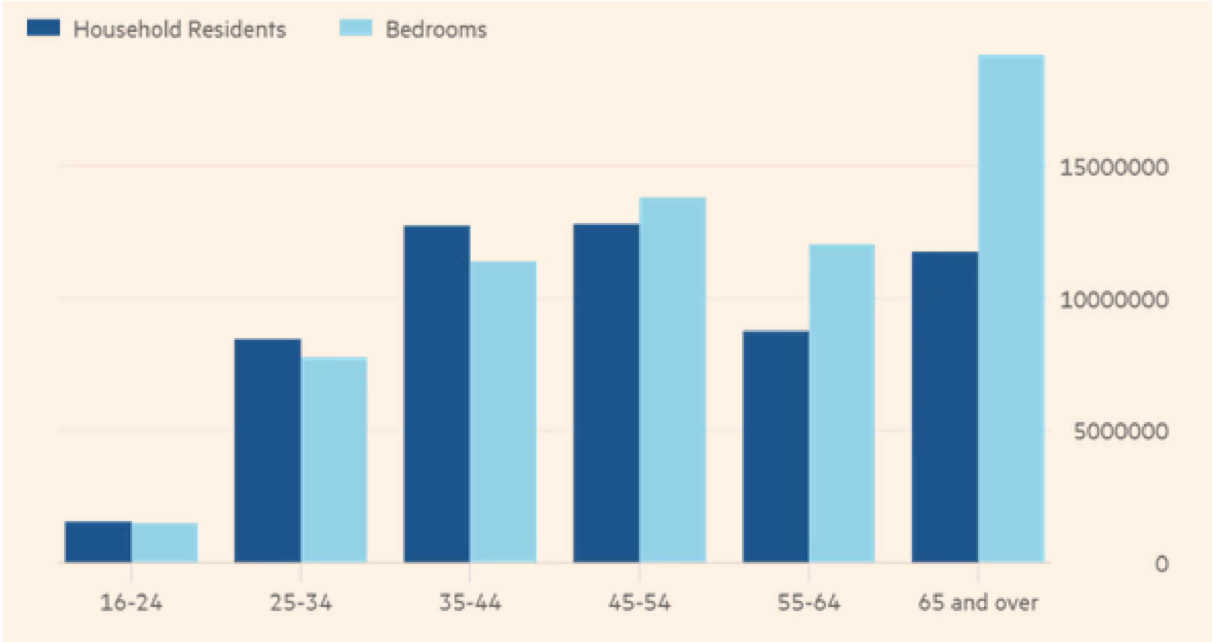
Proportion of England's future carbon budgets consumed by housing under three scenarios

- Reducing the rate of housebuilding to zero net additions by 2035 can save 6% of the cumulative budget for 1.5 C by 2050 in avoided embodied and operational emissions.
- In later carbon budgets, concrete and construction materials consume larger proportions of the budgets as hardest to decarbonise.
- *"Next to wood use in buildings, a development towards more intense use of buildings (modelled as lower average floorspace per capita) is a highly effective mitigation strategy that combines sufficiency with large energy and material savings in all countries and regions."* (Pauliuk et al 2021, 'Global scenarios of resource and emission savings from material efficiency in residential buildings and cars', *Nature Communications)*



Over 65s own 47% of England's housing wealth and most 'extra' bedrooms





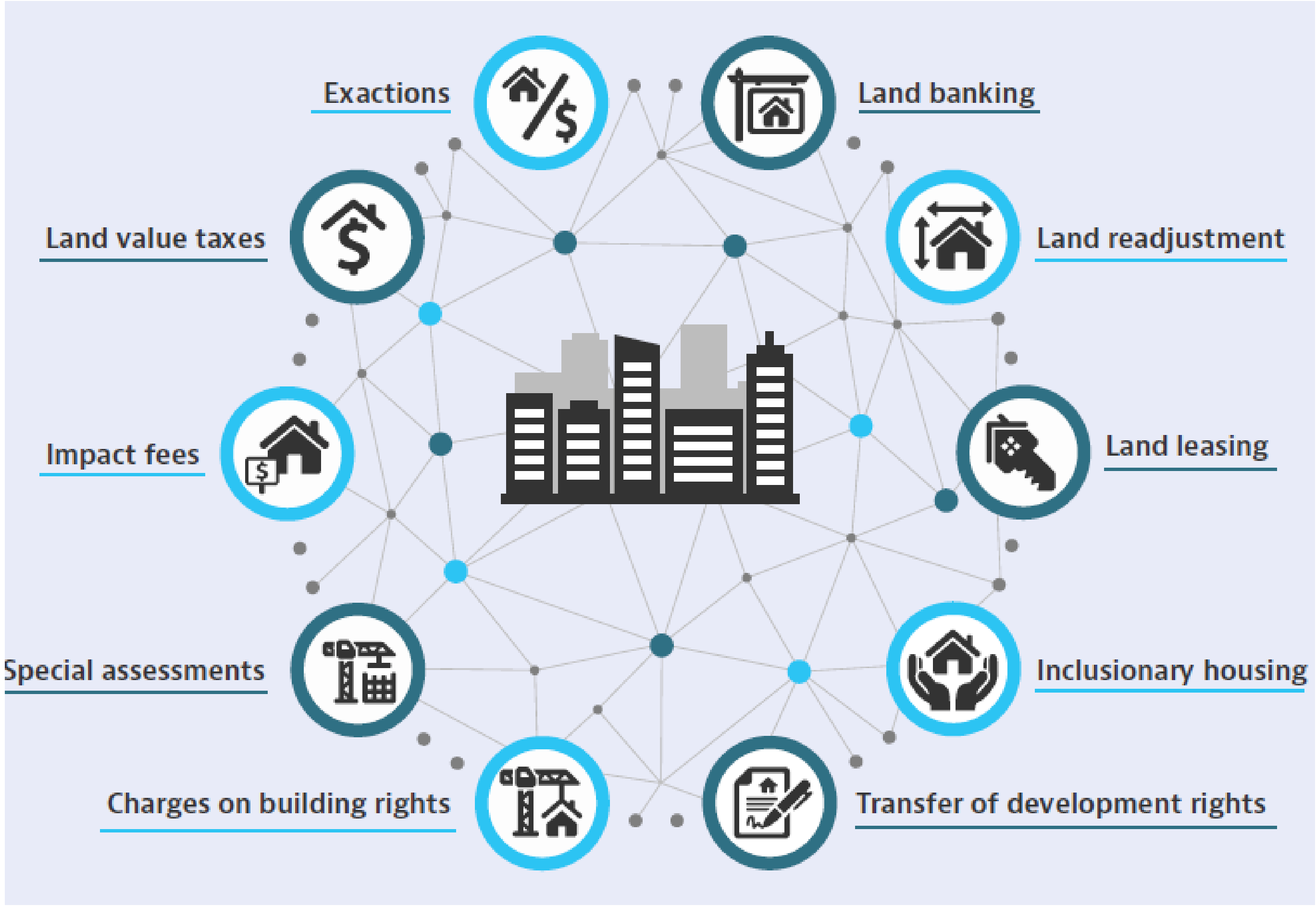
Source: Hudson, N, 'The Great British housing wealth divide', FT, 9th September 2022

Policies to support affordable housing for all within planetary boundaries

Status quo	Policy alternatives
Financial regulation and reform	• Macroprudential policy & credit guidance focused on affordability not just fin. stability • Stakeholder and relationship banking • Stronger regulation for institutional investment to support affordable renting
Housing/planning policy	• All new build should be net-zero and affordable • Stronger Land Value Capture policies for local govt.
Macroeconomic regime	• Punitive taxation for overconsumption of domestic space (second homes, spare bedrooms, energy efficiency: e.g. Green Land Value Tax (Muellbauer 2018) • House prices better reflected in monetary policy
Ecological considerations	• More attention to *existing stock*: Major investment in retrofit, heat pumps, home insulation

Range of tools to support land value capture

- Taxation
- Public ownership and public land banking
- Planning tools



Source: OECD (2020) Building a Global Compendium on Land Value Capture, https://www.oecd.org/cfe/cities/land-value-capture.htm

State-directed finance

Affordable housing, Barcelona-style

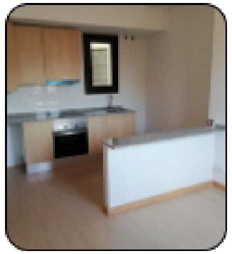
3 major strategies for growing the public housing stock:

Development

- 8,000 units
- 80% affordable and social rentals – 20% long-term leases
- 67% direct action IMHAB – 37% PPPs
- 1,2 billion €
- 19,000 residents
- 13,000 jobs

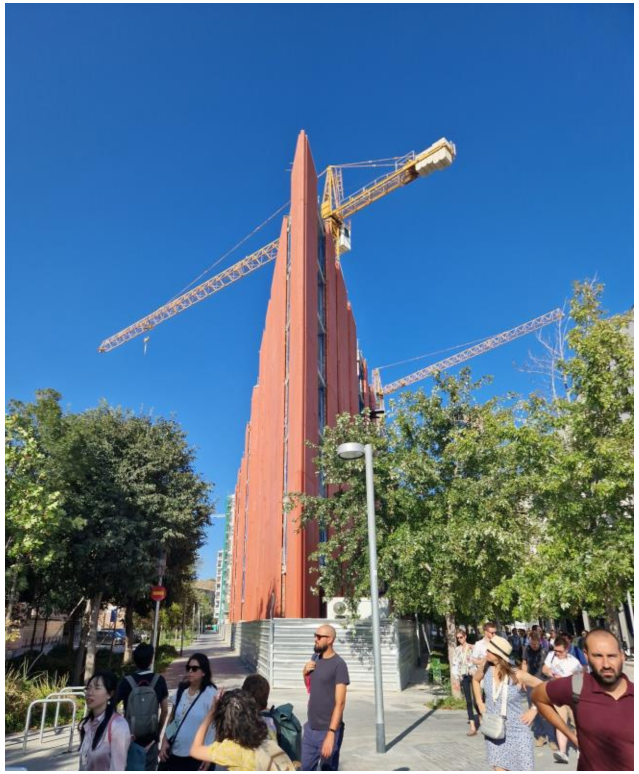
Purchasing

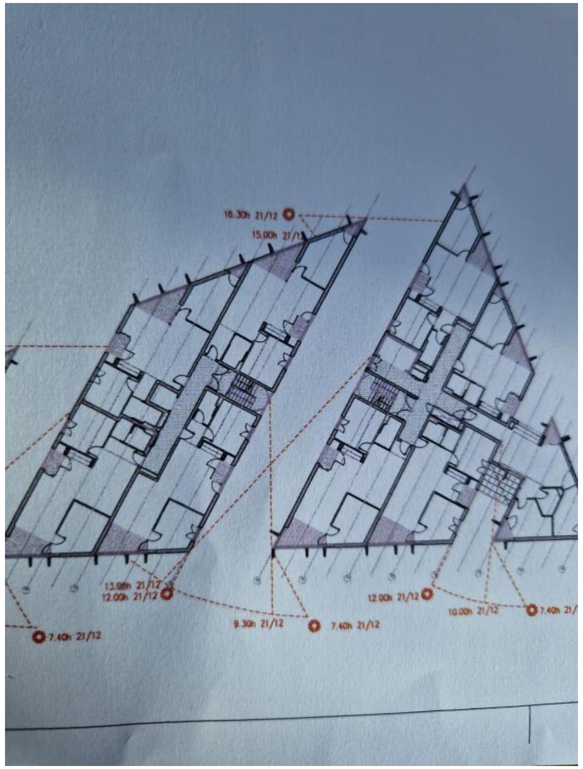
- 1,000 units
- 100% affordable and social rentals
- 125M€
- 7,000 jobs



Mobilization

- 1,500 units
- 100% affordable and social rentals
- 25M€
- 6,000 jobs



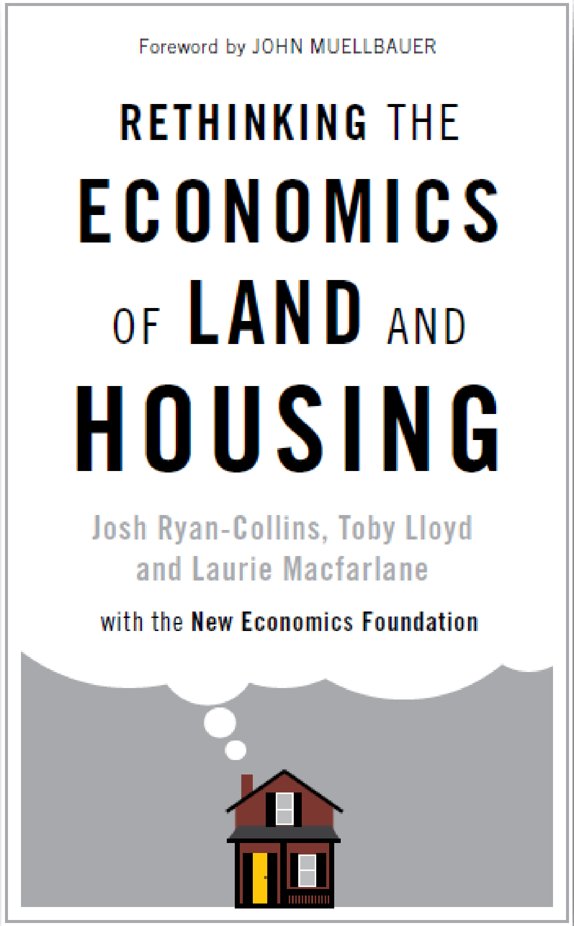


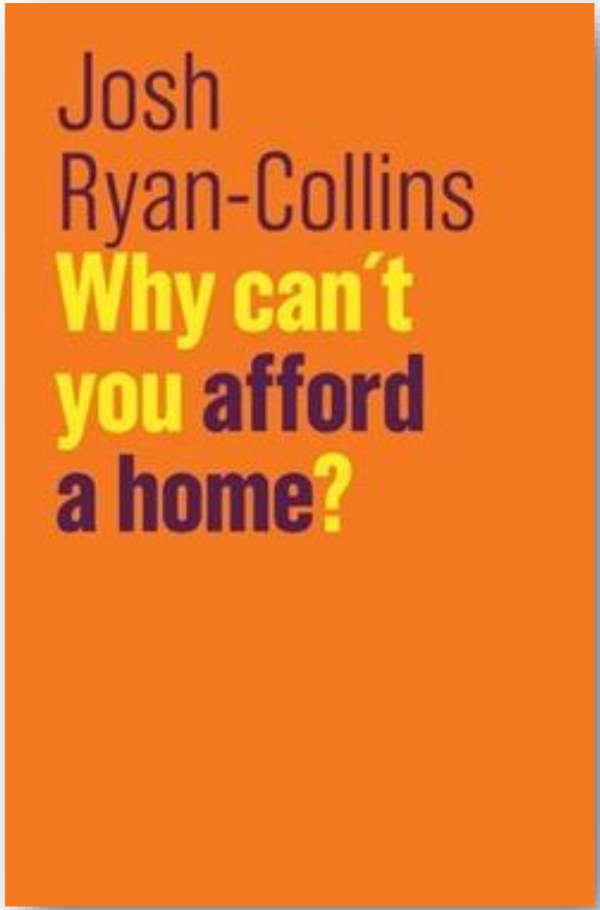
Institut Municipal de l'Habitatge i Rehabilitació

Source: institute Municipal de l'Habitatge i Rehabilitacio, presentation given by Javier Buron Cuadrado.

Summary

- Land (and housing) have unique economic properties
- Deregulated land market will tend towards *monopoly*, rent extraction & inequality
- Deregulated financial sector and low interest rates will tend towards real estate lending & investment, pushing up prices & capturing land rents
- Policy makers must *shape the land market* and regulate finance to socialize these rents and provide affordable housing and efficient infastructure
- Range of land value capture tools available






Theme issue article

Economy and Space

EPA: Economy and Space
0(0) 1–23
© The Author(s) 2019
Article reuse guidelines:
sagepub.com/journals-permissions
DOI: 10.1177/0308518X19882811
journals.sagepub.com/home/epn
SAGE

Breaking the housing–finance cycle: Macroeconomic policy reforms for more affordable homes

Josh Ryan-Collins
UCL Institute for Innovation and Public Purpose, UK

Abstract
This paper argues that the housing affordability and wealth inequality crises facing advanced economies are driven by the emergence of a feedback cycle between finance and landed property. The cycle has been created by the increasing policy preference for private home ownership coupled with the liberalization of bank credit and accompanying financial innovation. Under such conditions, landed property becomes both the most attractive form of collateral for the banking system and the most desirable form of financial asset for households and investors. The housing-finance cycle emerged in Anglo-Saxon economies in the 1980s but has since spread to most advanced economies. Demand-side reforms, more than the supply-side reforms that dominate policy discussion, are required to break this cycle. Two reforms are discussed: (a) structural and institutional reforms to banking systems, including central banks; and (b) land policy reforms targeted at reducing the potential for rent extraction and speculative profits from property ownership.

Keywords
Housing, land, economic rent, financialization, credit

Introduction
This paper argues that the advanced economy housing affordability crisis has its roots in the interaction between the strong policy preference for private home ownership, realized through various state subsidies and fiscal advantages, and a deregulated and (globally) liberalized financial system. Their interaction creates a positive feedback cycle that drives


HOUSING STUDIES
https://doi.org/10.1080/02673037.2021.2004091

Routledge
Taylor & Francis Group

OPEN ACCESS
Check for updates

When homes earn more than jobs: the rentierization of the Australian housing market

Josh Ryan-Collins[a] and Cameron Murray[b]

[a]Institute for Innovation and Public Purpose, University College London, London, United Kingdom of Great Britain and Northern Ireland; [b]Henry Halloran Trust, University of Sydney, Sydney, Australia

ABSTRACT
This article develops the concept of housing market 'rentierization' to describe the shift in the treatment of housing away from its use as a consumption good to an asset from which economic rent can be extracted. Rentierization encompasses, but goes beyond, the 'financialisation of housing' that has been the focus of attention in the recent political economy of housing literature as it involves changes across land and housing market policy, fiscal-policy as well as financial policy spheres. We examine Australia as a canonical example of rentierization, conducting a historical case study that examines the returns to land and housing over the 20th century and trace its roots to developments that preceded the financial liberalization of the 1980s, including the privatization of public housing in the 1960s and 70s.

ARTICLE HISTORY
Received 7 August 2020
Accepted 18 October 2021

KEYWORDS
Housing; land; economic rent; financialization; privatization; credit; taxation; homeownership; Australian economy

JEL
R21; R30; R31; R38; 018; E44; G21; G28

1. Introduction
Housing affordability is a major economic and public policy challenge for advanced economies (The Economist, 2020). In recent decades attention has turned to the demand for housing as a financial asset as well as a consumption good in determining house prices. The term 'financialization of housing' has become established in the literature to describe this trend and the wider role of the financial sector in determining house market dynamics. Housing financialisation is usually dated from the liberalization and deregulation of mortgage finance in the 1980s and 1990s, continuing through to the globalization of housing finance via residential-mortgage backed securitization in the 2000s (see, *inter alia*, Aalbers, 2016; Gotham, 2009; Rolnik, 2013). It is a term that has been subject to critique for being vague and amorphous (Christophers, 2015; French *et al.*, 2011) but remains the dominant frame for describing recent changes in high-income economy housing markets.

- Ryan–Collins, Lloyd and Macfarlane (2017) *Rethinking the Economics of Housing and Land*, Zed Books
- Ryan-Collins (2018) *Why can't you afford a home*, Polity
- Ryan-Collins (2019) "Breaking the housing finance cycle", *Environment & Planning A: Economy and Space*
- Ryan-Collins and Murray (2021) "When homes earn more than jobs: the rentierisation of the Australian housing market"

- Twitter: @jryancollins