

Real Estate

# Housing and inequality

Expansión (Spain)

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There is growing concern about inequality in the developed economies. Now that we are seeing a recovery in the Spanish property sector, it is worth reflecting on the role that trends in the housing market have played and may play in widening or narrowing differences among people's income and wealth.

The rise in unemployment was the main factor behind the increase seen in inequality among wage incomes in Spain in the past few years, and 50% of this was due to the adjustment seen in the property sector. Therefore one of the consequences of the recovery in employment that we are seeing in the construction sector will be a reduction in inequality. However, the sector will not return to its pre-crisis dimensions. Additionally, growth in productivity remains low and temporary employment high, so it will be difficult for wage incomes of those regaining their jobs to reach relative levels similar to those of 2008.

Apart from this, the adjustment in housing prices explains a significant part of the increase in wealth inequality. Crucially, low and middle income households, whose assets, built up over many years, have been concentrated in the property sector, have been hit particularly hard by the fall in the value of bricks and mortar. Conversely, the households with the highest incomes have a more diversified portfolio of investments, which means that with the recovery in the value of financial assets, their wealth has been affected less. Again, this increase in inequality should correct itself over the next few years as the trend currently seen in prices is confirmed. However, as in the case of wage income, it is unlikely to serve to correct entirely the imbalances that have been generated. For example, some households postponed their decision to buy a home during the crisis, and they will not benefit from revaluation. What is more, the uneven nature of the recovery will open up new gaps, for example between city and country, city centres and outskirts, beach resorts with foreign tourists and purely domestic ones, and so on.

Without giving an exhaustive list, there are other, less obvious, factors whereby the sector has contributed to increasing or maintain inequality. One important one is its role in explaining the lack of geographical mobility in Spain. In this regard, although there have been movements of workers from areas of high unemployment to autonomous regions with less unemployment, the migration observed seems relatively limited. On the one hand, home ownership, households' high level of indebtedness and the fall in prices have limited people's ability and inclination to move. On the other, the lack of supply of suitable and affordable rental housing in the most dynamic cities has constituted a significant obstacle for recovery in employment.

Lastly, the sector has also played an important role in the discontent over the increase in inequality. If this increase had come about as a result of people's conscious, informed decisions, it is possible that the sense of grievance would be less intense. However, the unemployment we saw was anything but voluntary. Also, the fall in prices affected people differently, simply due to the location of the assets, which in many cases depends on factors beyond their control. Crucially, there is a perception that one of these factors may have been the influence exerted by persons, businesses or groups favoured by regulations that have allowed them to extract rents at the cost of the rest of society. In this regard little progress has been made. Although the recovery we are seeing in the sector will serve to reduce some of the imbalances that have been generated, there is a need to push for appropriate public policies involving all levels of the administration, to prevent new forms of inequality taking hold and generating further discontent with their source.

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