

Housing wealth inequalities in Scotland: an evidence review

Executive summary

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Summary

The distribution of housing wealth plays an increasingly key role in shaping the distribution of wealth and income. The Scottish housing system has transformed over the last 40 years from a rental majority to almost two Scots in three owning their home. Housing wealth is now increasingly affected by new forms of property ownership, for instance, landlord investments, as well as by the key driver: the long term upward if uneven growth in real house prices. Not only is wealth growing for all housing asset owners, it starkly distinguishes them from those who do not own assets and those who are now increasingly reliant on the generosity of asset holders to transfer or otherwise support them in key life decisions such as buying a first home. Housing as an asset plays an important role in shaping the welfare opportunities of older households but it is not clear that this is an effective way of providing for the needs of older people or that there are suitable alternative forms of assistance for those who do not hold such assets. The evidence also supports the intuition that increasing wealth inequality can have lasting impacts that grow over time, helping explain both social immobility and the social gradient of health outcomes.

Housing wealth patterns

In the UK, Wealth is growing relative to incomes and is more unequally distributed. Wealth inequality, however, fell considerably between the 1920s and 1970s, remained stable until the mid-1990s then rose until the onset of the economic crisis in 2007-08. Through the long housing boom, housing wealth grew faster than financial wealth (Hills and Glennerster, 2013). In all periods housing wealth levels vary by age with wealth lowest in the 25-34 age band, peaking in the 55-64 groups before falling after age 65; there were large inequalities within age groups and growing signs of cross-generational transfers of housing wealth in estates and gifts.

Across the OECD, growing shares of home ownership allied to house prices rising ahead of incomes have been associated with sharper wealth differences between tenants and owners but more equal wealth distribution overall (Kindermann and Kohls, 2018). These effects also occurred in the UK but reversed after home-ownership fell back since the mid-2000s. In Scotland, home-ownership rates fell from 66 to 62%. Bell and D'Arcy (2018) and Kuhl (2017) suggest that by 2014-16 Scottish property wealth comprised a quarter of private wealth and that it was highly concentrated: the wealthiest 10% own 43% of the total while the least wealthy 30% had no property wealth at all. No cohorts born since the mid-1960s have accumulated more average wealth per adult by the age of 35 than their predecessors did. Home ownership rates fell for 25-34 year old households from 48% in 2004 to only 32% in 2017.

Housing wealth matters

Do these patterns matter? In most advanced economies, rising housing wealth inequalities have significant economic and social effects. While influential economists (e.g. Buiter, 2007) argue that housing wealth effects are of less significance and have little macroeconomic impact, and can be therefore disregarded, there is now a weight of evidence that these inequalities do matter:

- Housing assets are of growing importance encouraging household spending (Soaita and Searle, 2018; Bell, et al., 2018) and were implicated in the global financial crisis;
- Access to home ownership is increasingly reliant on parental property wealth with negative implications for social mobility (Clark and Wood, 2018; Bell, et al., 2018)
- Housing wealth is cumulative: e.g. buy-to-let has increased dramatically in Scotland over the last 20 years, often facilitated by the re-mortgaging of existing property by owners
- Rising house price and wealth effects reduces productivity growth (MacLennan et al 2019)
- Different rates of house price change create inequalities across UK regions (Chowdhury and MacLennan, 2014).

Wider impacts of housing wealth

Contrasting international evidence

Widespread affordability challenges have put housing wealth accumulation and distribution at the centre of international policy debates. However, lessons from International comparisons need to be carefully assessed (Piketty, 2014); comparable housing wealth data is still hard to produce (Fuller et al. 2019) and contexts and local institutions (e.g. tax systems) may differ.

Wind et al.'s (2017) European research finds that housing wealth has become an internationally important dimension of social stratification. After 1950, home ownership in many advanced economies was important in life-cycle savings and wealth accumulation. However, the acceleration of house prices and rents ahead of incomes after the 1970s disrupted these patterns, with the speculative ownership of assets acquiring a growing role and disadvantaging the poor (Fuller et al, 2019). Rents for lower income groups increased fastest, reducing spending power and creating a 'particular poison for the poor'. Germany and the UK represent two extremes of the 'life-cycle savings' compared to 'asset speculation' motives for accumulating housing wealth. Germany, broadly, adopted a 'savings' approach to home-ownership, which contrasts with the post-1970 UK, where accumulation was primarily driven by rising prices.

Knoll et al (2014) argue that until the 1970s, improvements in transport technologies in advanced economies allowed housing supply to expand without undue house price inflation but after that, developable land expansion became sluggish. Now, metropolitan economic growth is invariably associated with sustained house price increases. International evidence suggests that house price growth acts as a mechanism of increasing inequality, increasingly so in the last 20 years. Different national policy settings and domestic institutions do influence wealth inequality and house price growth: housing wealth inequality is lower where families engage in self-building (e.g. southern Europe), where state-housing privatisation is significant (e.g. former socialist countries) and where ownership is subsidised (e.g. Denmark, Sweden and the Netherlands).

Wider economy effects and consequences for wealth

Research confirms that changes in housing wealth affects overall consumption but differently from country to country. There is growing evidence that housing price/wealth impacts longer-term patterns of further wealth development through:

- *House price effects on Cyclical Instability and Productivity. Evidence* (e.g. Case et al 2001; Muellbauer 1987) found that increased housing wealth boosts aggregate household consumption, increasing the volatility of economic cycles, especially in the growth phase, worsening economic instability and attenuating wealth growth.
- *House Price Changes, Debt and Systemic Stability.* There has been growing macroeconomic policy interest (IMF, 2018) in how house price rises trigger higher household debt and create systemic risks, including potential house price falls.
- *High Rents and Life-Cycle Savings and Asset Effects.* 'Excess rents' faced by younger and poorer households may have significant effects on the savings behaviours of would-be-buyers, delaying buying and their commitment to regular 'mortgage' savings. These effects may shift the life-cycle structure of household savings and wealth, not just at the ownership-entry point but later on retirement, thus having a significant effect on overall wealth (Grossman et al 2008, Lennartz et al 2015; Kindermann and Kohls 2016).
- *House Prices, Wealth and Productivity.* Recent US and Australian research (MacLennan et al, 2015; 2019) notes that a common consequence of higher metropolitan housing costs has been to drive firms and skilled labour away from the most productive locations, and to encourage moves towards lower cost suburban land (with higher transport costs). However, these outcomes also mean that rising house prices may reduce labour productivity and wealth. High housing costs, for renters and owners, are the inescapable accompaniment to rising house prices and housing wealth. It is essential to grasp what these high costs relative to income are now doing to wellbeing and productivity.

Health and wellbeing

Housing wealth inequalities are associated with inequalities in health and wellbeing but the evidence is not all one way. Atalay et al (2017) found that an increase in local house prices tends to increase the physical health of owners but is associated with a decrease in physical and mental health outcomes for renters. Likewise, Hamoudi and Dowd (2013; 2014) found that respondents in areas with higher increases in house prices scored better on multiple health outcomes. There were significant, large differences between owning and renting which was interpreted as a wealth effect on mental health outcomes. In the UK, Fischera and Gathergood (2016) concluded that housing wealth affects the decision to work (or how much) and reductions in time at work have beneficial health impacts. Ratcliffe (2015) finds that local variations in house prices can generate positive well-being effects for both owners and renters. She also raises doubts about the ability of research to control for key factors such as local amenity and employment opportunities, which also explain variation in house prices.

Asset-based welfare

The life-cycle wealth aspects of home ownership have drawn policy attention to how housing assets can form a basis for family 'welfare' in periods of reduced incomes. For instance, subsidy to homeownership has allowed households to transition to retirement (Castles 1998) with smaller pensions while benefiting from rent-free living; or, housing assets can supplement pensions by downsizing or withdrawing housing equity. French (2018) notes that UK homeowners prefer to bequest rather than use their housing wealth for their own consumption, (including social care) and that whilst 40% (London) of pre-retirees expected to downsize and 14% expected to withdraw equity, less than 2% had actually done so 8 years later. Delfani and Dewilde (2014) found that the institutional context of housing and pensions makes the use of housing assets highly specific across countries and social groups. Only where both housing and pensions are provided by the market, such as the UK, does housing wealth substitute for welfare packages for the elderly. Blundell et al. (2016) note that the 33% richest retirees spend faster to maintain their life-style whereas the poorest 33% of retirees save only enough for their funeral.

The withdrawal of housing wealth to address uninsurable financial shocks such as relationship breakdown is under-researched (Costa-Font et al. 2010; French et al. 2018; Wood et al. 2013). Positive net housing wealth may provide a short-term safety-net in the case of divorce but divorce may have long lasting negative effects on their housing wealth as well as on that of their children. Owners who divorce have a higher likelihood of not owning in later life (Dewilde and Stier 2014) and/or having significantly lower housing wealth (Wind and Dewilde 2018). Divorced men are more likely to re-enter ownership (Dewilde and Stier, 2014) and less likely to face prolonged financial hardship than females (Andre et al. 2019).

Concerns about inequality arise where social welfare policy is premised on housing wealth. Inequalities to be considered are those between property 'haves' and property 'have-nots' and those between property-poor and property rich households. Soaita and Searle (2018) found that affluent UK homeowners were insured against every major risk and lacked the only insurance relatively popular among tenants (funeral expenses). Tenants without assets have to rely more on support networks but these cannot be taken for granted, as some have no close family.

Reporting on marginal homeowners and tenants who fell out of homeownership, Soaita and Searle (2018) found they were more likely to be in precarious employment and to have experienced unlucky life events (e.g. illness, domestic violence, relationship breakdown) prior to the accumulation of any net equity (compared to 'successful' homeowners). Koppe (2017) argued that marginal homeowners in the UK comprise 10% of the total and are more likely to be female, younger, experience a relationship breakdown, have high mortgage debt to income and two or more children in the household. For them, home-ownership was not a safety-net but a liability.

Intergenerational Inequalities and Social Mobility

Housing wealth is a key part of the debate on intergenerational inequalities between ‘baby-boomers’ and ‘millennials’ (Kotlikoff 1992; Thomson 1996; Willetts 2010). It is now widely agreed that the impact of housing wealth deepens the fault lines between older and younger birth cohorts, suitably measured. While family solidarity has responded to shrinking welfare states by pooling space, care-time and money across family generations (Rowlingson et al. 2017) this may increase inequality, including via housing wealth (Arundel 2017; Koppe 2018; Whitehead 2016).

Wealth concentration towards higher-income, often older households and economically strong regions means that some people can transfer significant wealth to their children. Parental gifts are offered for different reasons (e.g. to support access to education, rental costs, clear debt) but higher values are given to assist entry into homeownership and even landlordism (Searle 2018). Overall, intergenerational transfers seem to reinforce (housing) wealth inequalities. Commonly, however, the number of people having received large gifts and inheritances is small.

The issue of family transfers raises broader questions of social mobility. McKnight and Karagiannaki (2013) found a strong relationship between parental (housing) wealth and children’s educational outcomes and then on to earnings and employment. Housing assets via inter-generational transfers have a positive impact on the progress of children in employment, earnings, health and well-being. Rowlingson et al (2017) note that gifting is more prominent among the middle-classes than working classes and it decreased between 2004 and 2014. They concluded that *‘such economic independence also enables families to secure the next generation in a similar social class position. Thus, as family support increases in some families, existing inequalities between families are widened and social mobility in society is reduced’*.

Policy Responses

The policy world is increasingly alert to housing wealth inequalities. With much housing wealth accumulated in recent years down to passive windfall gains rather than active savings behaviour, there is a growing sense that such assets should be used, for example, to fund the costs of social care. There is also an increasing appetite for policy action to temper the impacts of housing wealth inequalities through, for example, property taxation reform. Wealth reform proposals are essential to comprehensive programmes for tax and inequality reform (e.g. Mirrlees et al, 2011; Atkinson, 2015). However, as Hills and Glennerster (2013) point out, what is possible compared to what is highly unlikely politically remains a wide chasm to cross. Any policy choices have housing consequences: the non-taxation of housing capital gains encourage households to increase their housing; reduced infrastructure programmes restrict effective supply responses; low-interest rates after 2008 privileged saving through housing rather than other assets.

Scotland has control over several relevant fiscal levers. It may make sense to shift taxation to more fixed factors of production like land, so long as much of the country’s revenue is sourced from more mobile personal income tax and VAT. It could replace council tax with a land value tax, but because the devolved tax base is narrow, it must be managed conservatively, making structural tax reform challenging. Four years after the local tax commission’s proposals to replace council tax led only to the most modest of reforms, the parallel work by the Resolution Foundation looks at what modelling tells us about possible further rounds of council tax reform. This work continues, like the Tax Commission before it, to suggest that a shift to a different form of property taxation is both feasible and potentially progressive. We do note, however, that there are other policy levers that could be useful, for instance, the more creative use of repayable financial transactions from HM Treasury (currently funding Help to Buy in Scotland).

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A full set of references can be found in the main report: http://bit.ly/hwi_july2019