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The Impact of Real Estate Market on Household Income and Wealth

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Developments in the real estate market can have a significant impact on the whole economy, as has been shown with the asset price bubble in Japan in 1992 and the US housing bubble in 2007, which affected household investment decisions, wealth inequality and financial stability. In addition, government actions, via regulation, taxes, social spending, also affect the investment decisions on the real estate (residential) market. However, while a vast literature has focused in understanding the interactions between financial and real estate markets, there are fewer papers addressing the question of developments in the real estate market affect household income and wealth inequality.

Housing is an interesting and particular good. It represents the most substantial investment for households. As a follow-up of the crisis, residential real estate taxes are linked to tools under the remit of macro-prudential policies. It includes financial stability considerations, such as how the house is financed (usually, the house is the collateral asset in mortgages).

Our paper aims at providing a deep analysis on household income and (net) wealth indicators in advanced countries in relation to the development of housing market and the government action (mainly via property taxation).

Households' first residence is the most significant component of real assets (half of the total assets), followed by other estate real assets. We aim at analysing the relationship between household wealth distributions and home ownership versus rental levels (including also references to tax exemptions and the evolution of social housing). We observe a clear negative relationship: countries that have lower homeownership rates tend to have higher real estate net wealth inequality.

On the other hand, household decisions on the real estate market (whether to buy, sell or heritage) are also influenced by property taxation. An alternative way for policymakers to look at whether housing is undertaxed is to compare how housing is taxed relative to other investment or consumption goods. As an investment, it competes with the returns of alternative investments,

i.e. pension funds, financial assets, or opening a business. All this has consequences on wealth inequality that will be assessed.

In order to address these issues, the paper uses several data sources, including the standardized Household Sector Report data to obtain estimates on net wealth and the OECD Wealth Distribution Database.