

This essay analyses the worldwide issue of unaffordable housing. It first provides a definition of the issue and arguments on effects and causes supported by data. Then, it analyses more deeply why the problem of unaffordable housing is an issue and gives a proper example to better explain the reason. Lastly, it considers the responsible actors for this issue – the banks and the government – and provides examples of what actions have been taken so far to overcome the problem.

As an effect of stagnant real wage growth and 70 years of housing prices appreciation, in the US and in many other places around the world a proper affordability crisis exploded. This has indirect effects on wealth and racial inequality. Millions of people have housing costs they can't afford, and many others can't afford a house. This implies that people do not have the required money to pay necessities like food, clothing, and medical care, which has an indirect effect on health.

This problem affects more young generations than older ones. According to a report of the World Economic Forum, San Francisco and New York registered an average 2.5% annual appreciation above inflation in housing prices and rents. Among the effects of this rise we find quadrupling housing prices and homelessness rates not recorded since the Great Depression.

In economic terms, the housing market has fallen into a free market trap: the demand for housing is defined 'inelastic', that is it's a basic requirement that consumers will continue to buy whatever the price. This means that, even though the consumer's willingness to pay for a house is lower than the current market prices, prices will continue to rise because the same consumers will tend to prefer to purchase houses to other necessities like food and health. This problem is worsened by continuously increasing population and more and more people moving to big cities.

The issue under examination also has effects on racial inequality: by observing data related to African Americans in the US, it is important to highlight that while the homeownership rate the rate increased from 50% to 70% for Americans, it has only risen from 30% to 40% for African Americans. In San Francisco, African Americans constitute 34% of homeless people, while representing only 6% of the population.

There are numerous reasons why actors around the world should be concerned with the issue of unaffordable housing. Firstly, incomes are too low compared to the cost of housing. On average in the US, in order to be able to afford a typical two-bedroom apartment, at the federal minimum wage of \$7.25 per hour, a worker would need three full-time jobs. Secondly, developing and operating newly constructed housing can't be easily covered. Even people who can afford to buy a house today might not be able to cover the long-term expenses and rising mortgage payments in the future. Thirdly, some governments raise production costs and reduce the overall supply of land for housing development for reasons related to taxation and environmental sustainability. The effect is that the purchase and rent prices of old buildings will continue to rise in the future due to persistently increasing demand. Lastly, governments in many countries are shifting budgets away from housing programs, providing no assistance to people living in poverty.

In order to further illustrate why this problem is a proper issue, it is interesting to observe the case of cage houses in Hong Kong. The city is one of the most economically unequal places in the world and more than 23% of the population lives in poverty. Smaller than 100 square feet, with communal bathrooms and often kitchen-deprived, the cage homes could cost as high as HK\$2000 (more than US\$200). Many factors worsen the problem: the pandemic condemned the inhabitants of the cages to self-isolate in unbearable conditions for months. In addition, the landlords are known for being

inflexible: if the licensee loses their job or receives a late government check, they might be homeless in the blink of an eye. This overall condition has implications on people's mental health, and it needs to be addressed.

Two main responsible actors for the unsustainable appreciation of housing prices of the last 70 years can be identified: the banks and the governments. Together with numerous uncontrollable factors like constantly rising population, they can be considered co-actors in the process of housing prices appreciation.

Banks have benefitted from the mortgage terms that have been rewritten after the Great Depression of 1929. In the US, more than 90% of homes are purchased with a mortgage, and the average mortgage is worth 90% of the home. In financial terms, the higher the value of the property, the higher the interest payments and principal repayment of the mortgage. Banks are allowed by standards and regulations to take in huge risks that entail lower interest and hence home value appreciation.

On the other hand, governments and local authorities are responsible for rising housing prices for two different reasons. The first is related to property tax: in some countries this is the major source of government revenue. Hence, governments often look favourably at housing prices appreciation because it implies higher tax receipts. The second reason is that, as an effect of regulations restricting the surface of land use, smaller pieces of land are available for construction and thousands of below-market units are converted to market rate units.

Local regulations affect the housing development process by influencing direct constructions costs, compliance costs, and by altering financial risks and returns. These changes ultimately have an effect on housing prices as well. Regulations are often burdens when it comes to housing development: there are several steps to take and their duration is uncertain. Developers often start projecting the construction of a house in periods of rising demand. Nevertheless, the process takes a long and uncertain time. In financial terms, uncertainty increases risk, and higher risk implies higher construction costs, which eventually are reflected on the price paid by the final customers. The problem that often rises in specific areas around the world is the following: development costs only decrease in areas with an increasing number of homes, but as long as development costs remain high, no producer finds it profitable and efficient to invest and build in a heavily regulated area. Nor do banks find it profitable to grant loans to real estate agents to build new houses in these areas. This determines a vicious circle in places where the housing supply remains constant for a long period of time, but prices continue to rise due to sale and purchase of the same buildings.

After analysing the background of the issue and how the main actors are related to it, it is now time to look at how the actors are responding to it. It is first important to point out that, according to the IMF, which has been observing rising housing prices especially during the pandemic, if interest rates came back to rise, governments withdrew policy support as economies start to recover, and supply in building materials was restored, house prices would soon normalize. From this analysis we conclude that the ongoing appreciation of housing prices does not have the same dangerous characteristics as the price bubble of over a decade ago that led to the well-known financial crisis of the twenty-first century. Nonetheless, the issue explained above remains, and it is of foremost importance that governments take serious action to reduce housing prices.

Multiple innovative and creative solutions can be found through partnerships between the private and public sectors. For example, governments could start by removing regulatory barriers. New and improved regulatory policies between the private and public sector could improve housing affordability. For example, Symbium, a computational law platform, was developed in San Francisco, in order to show the legislation and regulation in act in a certain jurisdiction, which reduces the

processing time to an immediate response. Furthermore, innovation processes can be used to build more efficiently, by reducing cost and maximising productivity. Again in San Francisco, New Story Charity partnered with a company called ICON in Mexico and uses 3D printing machines to lower costs. An alternative solution is related to finance: in order to allow more people to qualify for a mortgage and buy a house, some companies have developed crowdfunding platforms like HomeFundIt in Baltimore, Maryland, to allow home buyers to use gifts from family and friends to pay for the house. Lastly, another way to solve the issue is by using existing buildings to provide housing opportunities. For example, in Boston, Nesterly developed a platform in which senior owners of houses who need companionship and money can host young students who need a place to stay in their period away from home.

As far as regards concrete examples of what governments have been doing to tackle the issue so far, numerous cities are now planning on working on affordable housing plans, especially after the impact of the pandemic, which has worsened the crisis and led to tremendous conditions millions of workers. Examples can be found in Australia, where the state government of Sydney partnered with the private sector and community housing groups to develop and renovate 23000 social housing units, and in Melbourne, where an apartment project scheme was launched in 2018. The Melbourne Apartment Project – this is the name of the scheme – provides that six out of thirty-four apartments should be sold at the market price in order to subsidize the sale of the other twenty-eight to social housing tenants through a deferred second mortgage. In India, a new and cheaper material called glass fibre reinforced gypsum (GFRG) for housing construction has been found, which reduces construction costs and ultimately lowers housing prices in the long run.

The Chinese cities Chengdu and Chongqing are experimenting an environmentally sustainable solution to the issue of limited land supply for housing development: local governments allow the “tradable land quotas”, through which new housing on periphery can be constructed in return for expanding additional land for cultivation beyond the boundaries of the cities. In Los Angeles there is now a law granting the possibility to turn motels into permanent supportive housing for homeless people, which is a quicker and cheaper solution with respect to new construction. Another way to tackle the problem of high construction costs is related to shortages in construction skills. Hence, London has established the Mayor’s Construction Academy, with the aim of training providers and construction employers, ultimately making the city’s skills training more useful to the construction industry.

In conclusion, major cities all around the globe are facing a housing affordability crisis, which is the result of constantly growing housing prices combined with stagnant real wage growth. More and more people every year can’t afford their house, and this has implications on their health. As the African Americans example shows, this crisis also has racial discrimination effects, and the pandemic has worsened the situation. Banks and governments, together with numerous other factors, are responsible for this crisis. In some cases, regulations are too strict; in others, taxes are too high. In the past few years several local governments have been trying to recover the issue through public programs and partnerships with the private sector. Although the effects of these steps are not readily available, every country should undergo an in-depth analysis and risk assessment of the situation and act immediately where needed.

## References:

- Abt Associated and NYU Furman Center (2021). 4 Reasons Why Housing Is Unaffordable. Local Housing Solutions. <https://localhousingsolutions.org/housing-101-the-basics/4-reasons-why-housing-is-unaffordable/>
- Berlinger, J. (2020, April 26). Social distancing in 100 square feet: Hong Kong's cage homes are impossible to self-isolate in. CNN World.
- Charles, A. Guna, D. (2019, June 06). 10 ways cities are tackling the global affordable housing crisis. World Economic Forum.
- Choy, G. (2020, June 18). Why unaffordable housing affects physical, mental health of Hongkongers. South China Morning Post.
- Fidler, D. Sabir, H. (2019, January 2019). The cost of housing is tearing our society apart. World Economic Forum.
- IMFBlog (2021, October 18). Housing Prices Continue to Soar in Many Countries Around the World. Chart of the week.
- Ivory, A. Colton, K. W. (2020, December 01). Innovative Solutions for the Housing Crisis. Stanford Social Innovation Review.
- Keffler, N. (2021, September 07). Solving the global housing crisis. World Finance.
- Schuetz, J. (2020, January 17). Who's to blame for high housing costs? It's more complicated than you think. Brookings.
- Ting, V. (2021, November 10). Coronavirus: Hong Kong poverty rate hits 12-year high, government figures show. South China Morning Post.