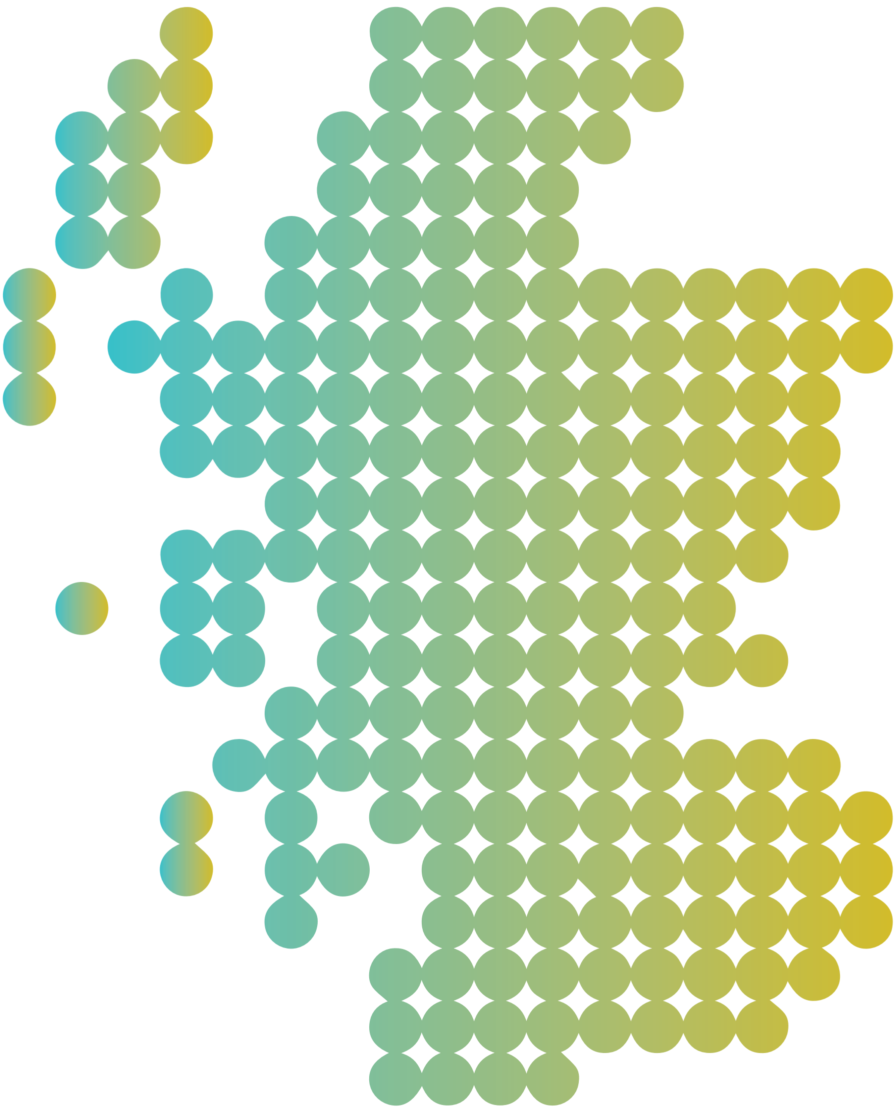
POVERTY AND INEQUALITY COMMISSION

HOUSING WEALTH INEQUALITY IN SCOTLAND

SUMMARY REPORT

July 2019



By Kenneth Gibb (University of Glasgow, CaCHE)
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This short summary report captures the main findings from two Scottish housing wealth inequalities studies carried out for the Scottish Poverty and Inequality Commission: an international evidence review conducted by researchers at the University of Glasgow representing the UK Collaborative Centre for Housing Evidence and Policy Scotland; and empirical analysis of the most recent data produced by the Resolution Foundation. These two reports are published separately.[1]

Key Points

- Total household wealth in Scotland has grown dramatically over time. For example, household housing wealth was equal to less than 7 per cent of Scottish GDP in 1968; today its value measured as a share of GDP stands at 187 per cent.
- Housing wealth has grown far faster than incomes in recent years. Between 1994 and 2017, the real value of Scottish housing wealth grew by more than 350 per cent, compared to 151 per cent for real incomes.
- Wealth in all its forms is less equally distributed than income, in large part because many households have zero (or negative) net wealth while almost all have some positive level of income.
- The *absolute* wealth gap between the housing wealth 'haves' and 'have-nots' has grown as house prices have risen dramatically. In 2014-16, 35 per cent of households in Scotland did not hold any form of housing wealth compared to the £298 billion held collectively by the remainder.
- However, on a *relative* measure, housing wealth inequality has fallen over time in Scotland as rising home ownership has brought more households into the property-owning fold. That said, since 2008 this trend has gone into reverse, as many struggle to become home owners while others leverage existing wealth to invest in additional properties.
- Those on higher incomes and in older age brackets hold the majority of housing wealth. Owning property confers multiple advantages: those with assets are able to take more risks which often then bring rewards; have a greater level of security both in the here and now and in the future; and for those that then rent out property, enjoy an additional income stream.
- Conversely, those on lower incomes and younger people are less likely to hold any housing wealth and are therefore excluded from these benefits. Moreover, there is a growing awareness that housing wealth inequalities can have an effect at the spatial level: large differentials between areas can impede mobility for example, or access to the best schools.
- While the advantages to individuals of holding housing wealth are clear, many have become increasingly uncomfortable with the levels of accumulation for three reasons. First, housing gains have largely been achieved through house price growth

[1] Soaita, A, Gibb, K and Maclennan, D (2019) Housing Wealth Inequalities in Scotland: An Evidence Review. Report to the Scottish Poverty and Inequality Commission. CaCHE/Policy Scotland: Glasgow. Bangham, G and Judge, L (2019) Housing Wealth Inequality in Scotland. Report for the Scottish Poverty and Inequality Commission. Resolution Foundation: London.

rather than active effort on the part of owners. Second, housing wealth is lightly (and regressively) taxed. Third, there is an increasing awareness that many households in Scotland are struggling to find affordable (or indeed any) homes, throwing the rising levels of housing wealth into sharp relief.

- Policy makers could respond to growing concerns about housing wealth Scottish inequalities in a number of ways. They could, for example, take action to enable younger and lower income families to access home ownership (although they should be aware that interventions which stoke demand risk inflating house prices); address the under-taxation of property wealth through fiscal reform; or introduce policies that offer those who have no wish to, or no prospect of, holding housing wealth the same levels of security that those with property assets enjoy.

Context

There has been a growing appreciation in recent years that living standards are determined not just by income (the flow of money into a household) but also by wealth (the stock of money a household owns).[2] Wealth can take various forms: it can be held in financial instruments (for example, a savings account or as shares); in a private pension fund; or as a physical asset (for example, land, an art work or piece of jewellery). But the most visible way that households accumulate and store significant amounts of wealth is through the ownership of residential property.

In 2014-16, total household wealth in Scotland amounted to £981 billion (in 2018-19 prices), comprising £577 billion of private pension wealth, £298 billion of property wealth and £106 billion in financial wealth. This wealth is shared much less equally throughout the population than income, not least because many households have zero (or negative) net wealth while almost all have some positive level of income.

Total wealth inequality fell considerably in Scotland from the mid-1990s until the mid-2000s, continuing the long-run downward trend observed across the 20th century. However, this picture has recently reversed: from 2007-08, wealth inequalities in the UK and in Scotland have begun to grow.[3] Moreover, as the total value of wealth has grown rapidly over time, the gap between those who hold wealth and those who do not has become ever-more apparent. As a result, how wealth inequalities determine housing outcomes as well as broader questions of societal fairness have increasingly come to the fore.

Housing wealth inequalities in Scotland

There are various ways to measure how housing wealth is shared across the Scottish population. To begin, we can calculate the *absolute gap* between the housing wealth 'haves' and 'have nots': for example, in 2014-16, 35 per cent of households in Scotland did not hold any form of housing wealth, compared to the £298 billion held collectively by the remainder. Alternatively, we can look at *relative* shares of those who hold housing wealth: for example, households at the midpoint of the distribution (50th percentile) in Scotland held an average £69,000 of net housing wealth in 2014-16, compared to £291,000 held by those at the 90th percentile.

However, the most common way to measure inequality of any type is by using the *Gini coefficient*, with a larger number indicating a higher level of inequality. On this metric, housing wealth inequality fell in Scotland between 1994 and 2008. However, this has now gone into reverse with housing wealth inequality today on the rise (see Chart 1).

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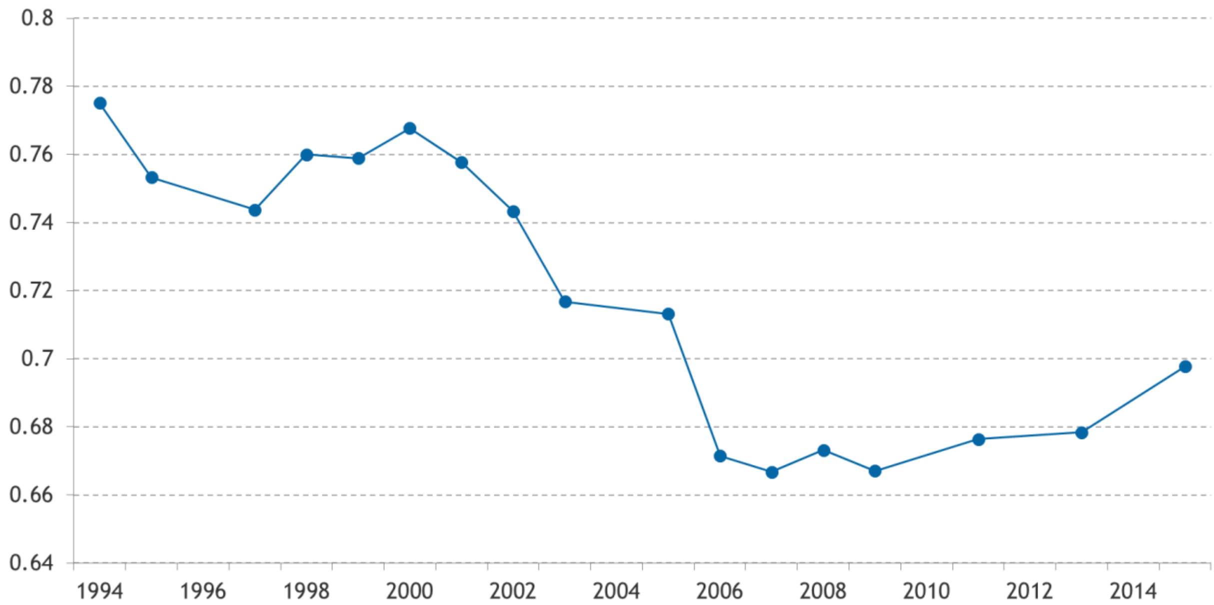
[2] See, for example, T Piketty, *Capital in the twenty-first century,* Harvard University Press 2013 and A Atkinson, *Inequality: What can be done?*, Harvard University Press 2015.

[3] Hills and Glennerster, 2013, "Why the left needs to take wealth seriously, again." *Juncture*, 20(1), 71-79. Kuhl, A. (2017). *Wealth and Assets in Scotland, 2006–2014*. Scottish Government. Communities Analysis Division, Edinburgh.

Chart 1: Gini coefficient of net family property wealth per adult, 1994 to 2014-16



Source: Resolution Foundation analysis of ISER, British Household Panel Survey 1994 to 2007; ONS, Wealth and Assets Survey 2006-08 to 2014-16

Housing wealth inequality fell in Scotland during the period of rapid house price growth, and has risen at a time when house prices have moved very little. For an explanation of *relative* housing wealth inequalities over time we have to look (at least in the first instance) less to price trends, and more to the ownership of private housing stock.

In 1994, for example, 56 per cent of all dwellings in Scotland were primary residences, a figure that rose to a peak of 67 per cent by 2008 as home ownership rates in Scotland expanded. By reducing the share of families who have no property wealth at all, rising home ownership has had an equalising effect on the distribution of housing wealth. From 2008 onwards, however, the picture changes. Home ownership began to fall from this point and by 2018, a larger part of housing stock was held as additional properties (i.e. second homes or properties which are then rented out to others). By concentrating ownership, this trend has driven up housing wealth inequalities.

That is not to say house price trends are unimportant when it comes to determining housing wealth inequalities. There are three ways in particular that they can have an effect. First, escalating prices drive up the value of total housing wealth – and therefore magnify the *absolute gap* between those who hold large amounts of housing wealth and those who hold little or none at all. Second, high house prices relative to incomes will eventually 'lock out' younger and lower income families from home ownership, thereby swelling the size of the 'have nots' group and eventually affecting *relative* measures of inequality. Third, if house prices increase at different rates across the country this would influence the geographic distribution of housing wealth. However, between 2004 and 2018 house prices increased faster in areas with lower starting points in Scotland, thereby closing the housing wealth gap between local authorities (although these often remain considerable).

The impact of housing wealth inequality

While there are those at the margin who may be financially stressed by the process of accumulating housing wealth, in general holding property confers multiple benefits on the owners. The evidence suggests, for example, that those with assets are able to take more risks which often then bring rewards[4], have higher wellbeing[5] and a higher propensity to consume than those without.[6] But owning property has value over and above these general wealth effects in that it also provides a secure home (in the case of the primary residence), a source of often considerable income (in the case of additional properties that are then rented out) and the prospect of negligible housing costs in later life.

This growing understanding of the benefits of housing wealth goes hand in hand with a rising awareness of the disadvantages of *not* being a property owner. Moreover, large housing wealth differentials between local authorities can limit opportunity. High housing costs in more productive areas can serve to constrain mobility into those areas[7], while house price effects may exclude those without wealth from good school catchment areas.[8]

So who is less likely to hold housing wealth in Scotland today? Three groups stand out. First, Chart 2 shows that those on the bottom 30 per cent of incomes hold practically zero housing wealth in 2014-2016. Moreover, even over a short time frame, housing wealth has become more concentrated at the very top of the income distribution. In 2010-12 those in the top decile held on average 2.5 times as much wealth as those in decile 5, compared to the 3.4 times in 2014-16.

[4] Reuschke, D., & Maclennan, D. (2014). Housing assets and small business investment: exploring links for theory and policy. *Regional Studies*, *48*(4), 744-757; and Reuschke, D. (2016). "The importance of housing for self-employment." *Economic Geography*, 92(4), 378-400.

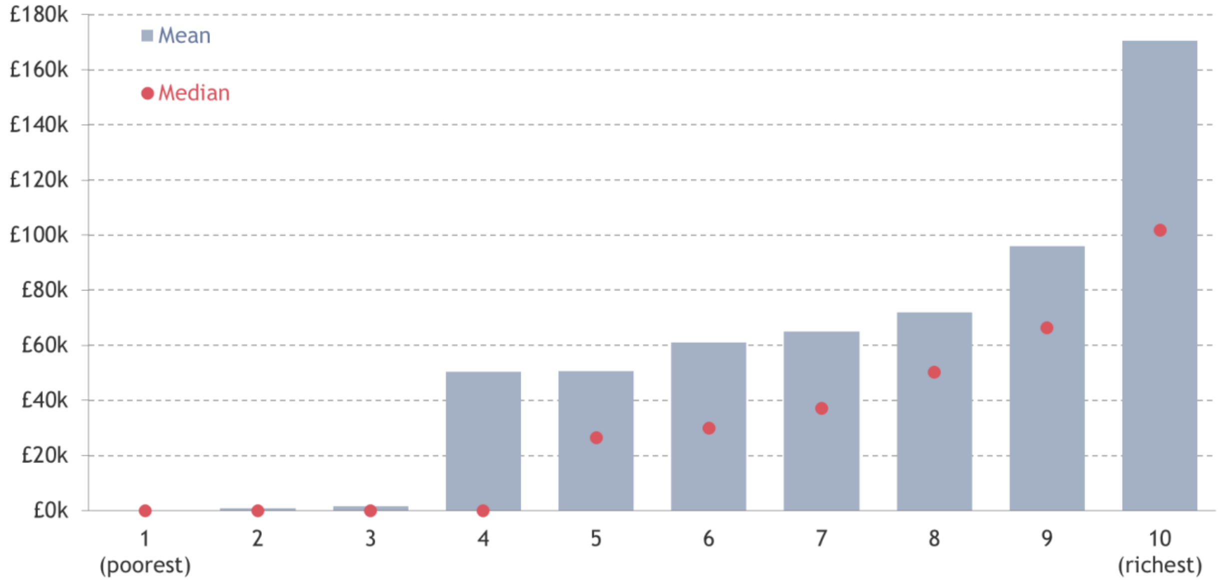
[5] Hamoudi, A., and Dowd, J. B. (2013). "Physical health effects of the housing boom: quasi-experimental evidence from the health and retirement study." *American Journal of Public Health*, 103(6), 1039-1045. Ratcliffe, A. (2015). "Wealth effects, local area attributes, and economic prospects: on the relationship between house prices and mental wellbeing." *Review of Income and Wealth*, 61(1), 75-92.

[6] While some view higher consumption by property owners as a positive thing in that it stimulates the economy, other studies suggest it can exaggerate the cycle and lead to macro-economic instability. See the following different persepctives: Grossmann, V., Larin, B., Löfflad, H. T., and Steger, T. (2018). *The Macroeconomics of Housing and the Dynamics of Wealth Inequality*. Centre for Economic Policy Research; O'Sullivan, A., and Gibb, K. (2012). "Housing taxation and the economic benefits of home ownership." *Housing Studies*, 27(2), 267-279; Buiter, W. H. (2010). "Housing wealth isn't wealth." *Economics-the Open Access Open-Assessment E-Journal*, 4.

[7] Maclennan, D., Crommelin, L., van Nouwelant, R., and Randolph, W. (2018). *Making Better Economic Cases for Housing.* UNSW and New South Wales Community Housing Federation

[8] Good schools can also drive up house prices - McKnight, A., and Karagiannaki, E. (2013). " The wealth effect: how parental wealth and own asset-holding predict future advantage", in J. Hills, F. Bastagli, F. Cowell, H. Glennerster, E. Karagiannaki, and A. McKnight, (eds.), *Wealth in the UK: Distribution, Accumulation, and Policy*. OUP Oxford .

Chart 2: Average net family housing wealth per adult, by Scottish household net income decile (CPIH-adjusted to 2018-19 prices), 2014-16

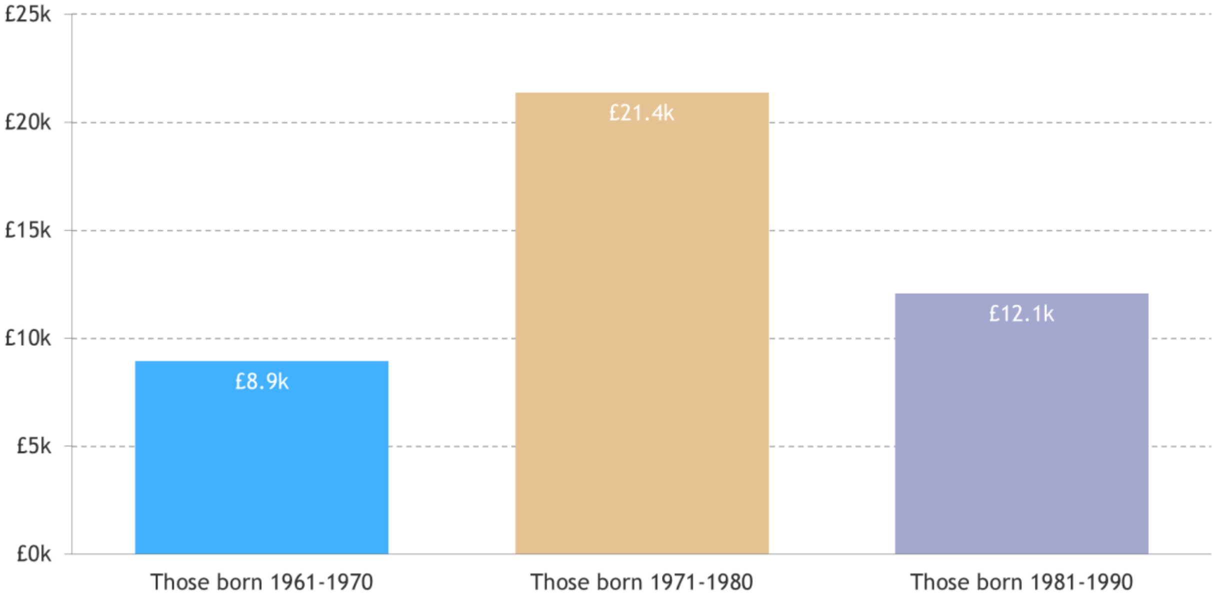


Source: Resolution Foundation analysis of ONS, Wealth and Assets Survey

Second, young people in Scotland today hold less housing wealth at the age of 30 than their predecessor birth cohort, although - and in contrast to England and Wales - not less than those born two decades before (see Chart 3). It remains an open question whether this intergenerational inequality will simply resolve as young people 'catch up' in the home ownership stakes, or whether their sluggish and sometimes precarious incomes combined with continuing affordability challenges will mean that they never become housing wealth holders. It is worth noting that at the UK level, help from family to purchase one's first home has become more important over time leaving those without such support at an even greater disadvantage.[9]

[9] S Clarke & J Wood, *House of the rising son (or daughter): the impact of parental wealth on their children's homeownership*, Resolution Foundation December 2018

Chart 3: Average adult net property wealth at age 30 (CPIH-adjusted to 2018-19 prices), by 10 year birth cohort



Source: Resolution Foundation analysis of ISER, *British Household Panel Survey, Understanding Society*; ONS, *Wealth and Assets Survey*

Third, a range of studies[10] suggest gendered impacts associated with housing wealth following divorce and household dissolution. Taken together, positive *net* housing wealth may provide a safety-net in the short-term in case of divorce/dissolution and that the event of divorce/dissolution may have long lasting effects on the housing wealth held by divorcees and their children. There is a clear gender effect in that divorced males are more likely to re-enter home ownership and less likely to suffer prolonged financial hardship in the long-term. Andre et al. (2019) suggest that men's higher likelihood to re-partner makes the effects of divorce/dissolution less enduring in housing systems that required dual-income to access home ownership. The study also found that the owned home can act as a financial burden for females who face difficulties in paying the mortgage. Overall, the negative (housing) wealth consequences of divorce seem to persist in the long run – significantly more for people of lower income/education levels and for women.

Those who do not own their homes are now more likely to live in the private as opposed to the social rented sector than in the past. Although the new Scottish reforms reduce insecurity for private tenants, uncertainties remain and the reforms are still to bed in. While there is much diversity among landlords, they are on average older and in higher income

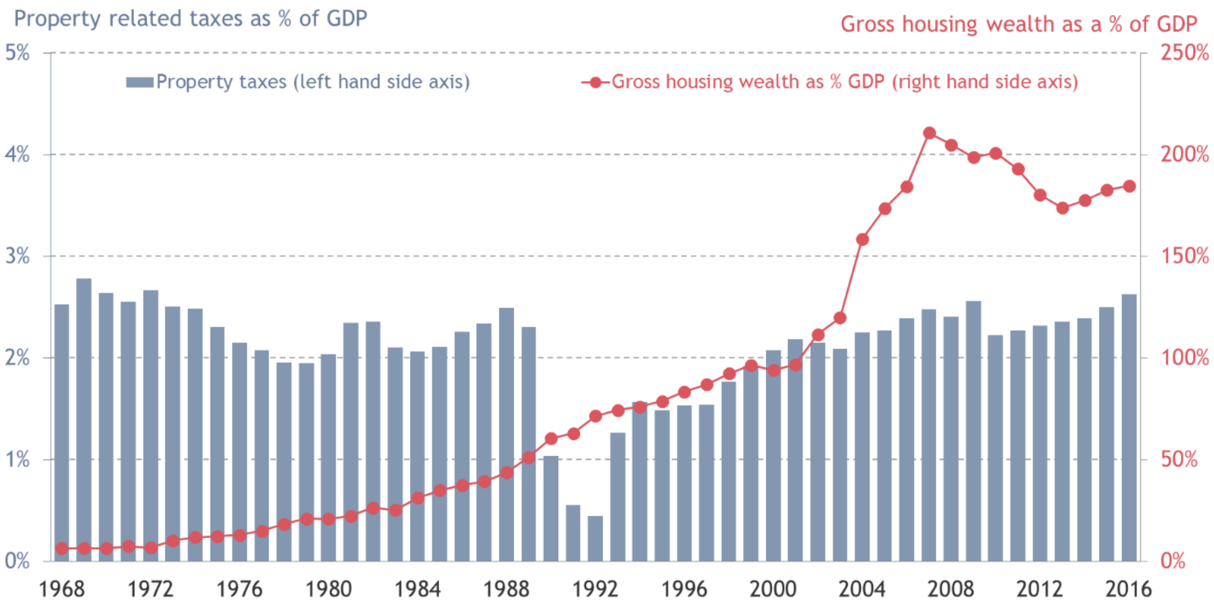
[10] e.g. Hubers, C., Dewilde, C., and de Graaf, P. M. (2018). "Parental marital dissolution and the intergenerational transmission of homeownership." *Housing Studies*, 33(2), 247-283. Andre, S., Dewilde, C., and Muffels, R. (2019). "What do housing wealth and tenure have to do with it? Changes in wellbeing of men and women after divorce using Australian panel data." *Social Science Research*, 78, 104-118. Dewilde, C., and Stier, H. (2014). "Homeownership in later life - Does divorce matter?" *Advances in Life Course Research*, 20, 28-42.

brackets than the population writ-large. While recent legislative changes to the private rented sector in Scotland may have created uncertainties about the benefits of being a landlord, those that continue to hold rental property can enjoy the uplift of house price inflation and also an ongoing rental stream.

Responding to housing wealth inequalities in Scotland

Given the benefits to individuals of holding property wealth, it is not surprising that policy makers have often taken a positive view to housing wealth accumulation over time.[11] However, in recent years, concerns about the growth and distribution of housing wealth have also emerged. There are (at least) three reasons why this has been the case. First, the fortunes of those who hold housing wealth is increasingly thrown into sharp relief by the growing number of people who struggle to find affordable (or indeed any) housing in Scotland today, leading many to question the fairness of significant wealth accumulation. Second, much of the growth in housing wealth has been arbitrary, the product of house price growth rather than active effort on the part of the wealth holders. And third, property taxation has not kept pace with rising housing wealth as Chart 4 shows.

Chart 4: Aggregate housing wealth and wealth-related taxes as a proportion of GDP



Note: Property taxes are Council Tax, Land and Buildings Transaction Tax, Inheritance & Gifts Tax and Capital Gains Tax (with equivalent predecessor taxes).
Source: Resolution Foundation analysis of ONS, Family Expenditure Survey 1961-1983; Labour Force Survey 1984-2018; UK house price index; & OECD stats.

[11] See, however, O'Sullivan and Gibb (op. cit.) who challenge many of the asserted macro and micro benefits attributed to home ownership.

There are a number of ways that policy makers in Scotland could take action to address the growing housing wealth inequalities. One obvious response would be to support sustainable home ownership, especially for those on lower incomes or in the younger age bracket. However, it is worth noting that policies such as Help to Buy risk stimulating demand to the point that house prices are driven up. As a result, policy action to temper the demand to hold additional properties would be a more sensible strategy.

Second, the mismatch between the value of housing wealth and property taxation means there is a strong case for substantial reform on this front. Despite recent action, Council Tax - Scotland's main, and only recurrent, property tax - is still almost as regressive as the Poll Tax it replaced. For example, those living in Band A properties face a Council Tax bill amounting to as much as 2 per cent of the value of their home each year, compared to a negligible share of the property value levied on those in Band H. Council Tax is remarkably flat right across the income distribution, with those in the top decile paying only 2.7 times as much as those in the bottom (compared, for example, with income tax where the richest households pay more by a factor of 30-plus). On both efficiency and equity grounds, then, further policy action when it comes to property taxation would be welcome.[12]

Third, there is a further way that the Scottish Government could respond to housing wealth inequalities – and that is by thinking about how the benefits of holding housing wealth can be provided to those who are unlikely to ever be able to support home ownership. While action has been taken recently to offer private renters greater security, taxing housing wealth more efficiently could also generate public funds that could then be redistributed to support the building of more affordable homes, for instance, or to supplement benefits for families. From a longer term sustainability perspective, these resources could be used to help fund the energy efficient retrofitting of the housing stock. Wider social policy debates continue to examine how housing wealth might best contribute to the long term funding of elderly social care.

Next Steps

In the Scottish Government's national performance framework, the present housing policy vision seeks a well-functioning housing system with the goal of more stable house prices and less emphasis on housing assets as a primary store of wealth. Given what the two studies show about rising housing wealth inequality and the impact this may have on the housing market and general issue of fairness, the Commission is likely to want to remain seized of the agenda in the future.

[12] There is a body of well-regarded policy reform proposals for tax reform and wealth redistribution and any future work on potential policy responses to housing wealth inequality would be worth exploring these fully. See, for example, Atkinson, A. B. (2015). *Inequality: What Can Be Done?*, Cambridge: Harvard University Press; Hills, J., and Glennerster, H. (2013). "Why the left needs to take wealth seriously, again." *Juncture*, 20(1), 71-79; . Mirrlees, J., Adam, S., Besley, T., Blundell, R., Bond, S., Chote, R., Gammie, M., Johnson, P., Myles, G., and Poterba, J. M. (2011). *Tax by Design*, The Institute for Fiscal Studies.

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