

The Adverse Effects of Rising House Prices on Economic and Social Indicators

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Outline

- Hassan's research in real estate
- Future of house prices
- Positive side of rising house prices
- Negative side of rising house prices
- Three sample research papers
- Ideas for future research

Real estate
economics

Hassan's research in real estate

Real estate
investment

- House prices and divorce/marriage
- Efficiency of construction and real estate firms
- Determinants of residential construction
- Foreign investment in construction industry
- Aged care accommodation pricing
- Office vacancy during the COVID-19 pandemic
- Determinants of REITs return
- Work-from-home and housing wealth
- Ripple effect in housing market
- Drivers of foreign real estate investment
- Housing wealth and household consumption
- Housing wealth and business start-up
- Defaults on mortgages
- Analysis of real estate brokerage industry
- Landlord-tenant practices across countries
- Analysis of housing policies

Social issues

Housing policies

Future of house prices

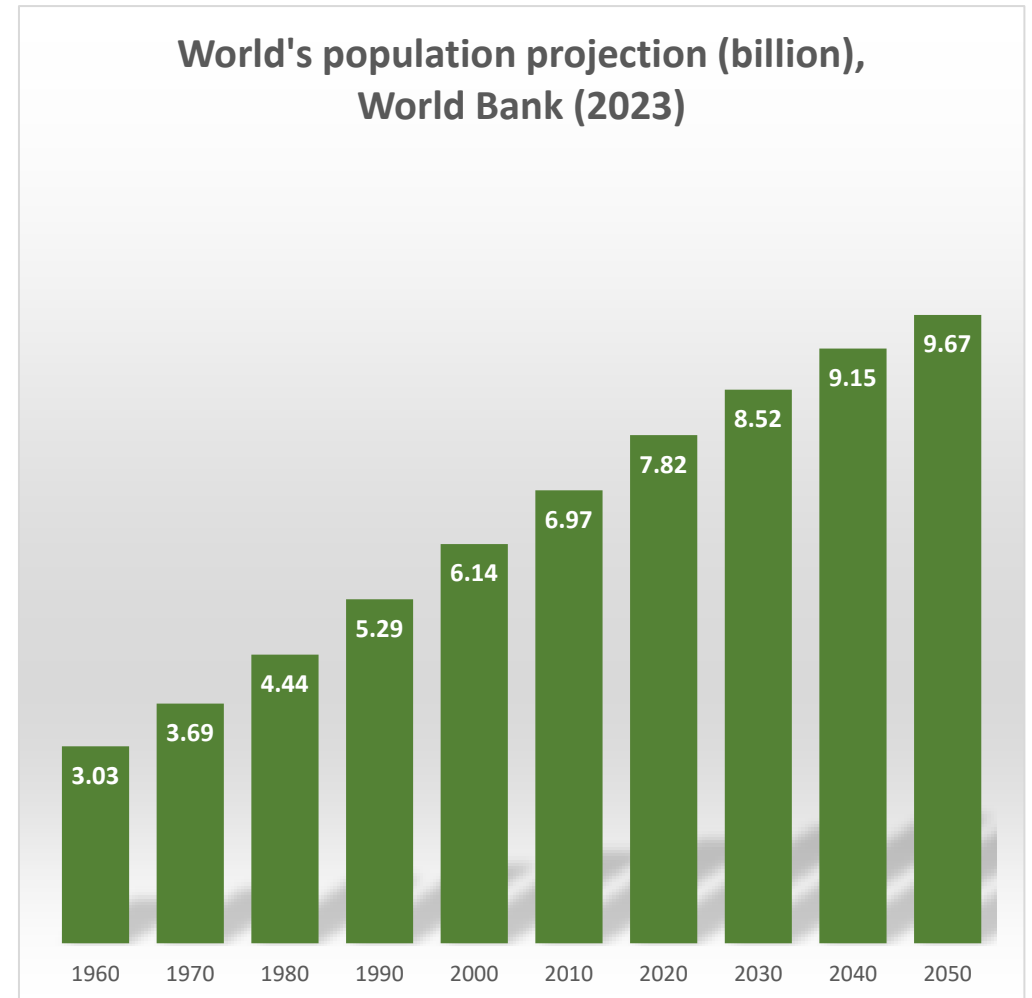
Commercial and residential properties will be more important in accommodating the economic activities and households at the global scale for the next few decades.

- **Population growth and urbanization**

About 56% of the world's population – 4.4 billion inhabitants – live in cities. By 2050, nearly 7 of 10 people will live in cities (World Bank, 2023).

- **Heat, drought and sea level rise** will lead to a significant increase in unlivable areas in the world.

Implications: Increase in land/house prices, housing unaffordability & widening the housing wealth inequality



Positive side of rising house prices # 1

- Boosts housing supply (it may occasionally result in excess construction (e.g., “ghost cities” in China))
- Drives economic activity and boosts employment across diverse sectors including construction, banking, insurance, mortgage brokerage, property valuation etc.
- Strengthens households' confidence and drives consumption expenditures, through the housing wealth and collateral channels. This is particularly evident in increased spending on durable goods and services, such as international travel.
- Increases the formation of small business (mostly through housing collateral channel)
- Results in economic growth by stimulating both consumption and investment.

Positive side of rising house prices # 2

- Generates revenues for governments (e.g., stamp duty and mortgage registration fees)
- Provides high adjusted returns for property investors
- Attracts foreign real estate investors
- Positively impacts the mental and physical health of homeowners without debt

In neo-liberalized welfare systems, citizens are held accountable for their future well-being. They are encouraged to maximize their economic potential and accumulate wealth, particularly in real estate.

Negative side of rising house prices # 1


- Negatively impacts the mental and physical health of renters and first-time home buyers
- Decreases marriage and birth rates
- Increases divorce rate
- Contributes to higher levels of wealth and income inequality
- Decreases labor force participation among those who own property (without debt).

Negative side of rising house prices # 2

- Exacerbates the housing affordability crisis by driving up rents and mortgage payments
- Hinders the formation of new small businesses in developing countries
- Reduces firms' R&D expenditures and innovative activities
- Increases instances of land grabbing and money laundering
- Escalates corruption within city councils
- Deteriorates environmental quality



House prices and labour productivity growth: Evidence from OECD countries

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ABSTRACT

This study examines the association between real house prices and labour productivity growth in 24 OECD countries over the period 1972–2019. By applying the panel fixed effects and Pooled Mean Group-Autoregressive Distributed Lag (PMG-ARDL) estimators, the results show that labour productivity growth is negatively and significantly associated with real house prices. This finding provides empirical support for the ongoing discussion on the adverse impact of excessive housing market activities on productivity.

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KEYWORDS

House prices; Labour productivity; OECD; Panel data

Why labour productivity?

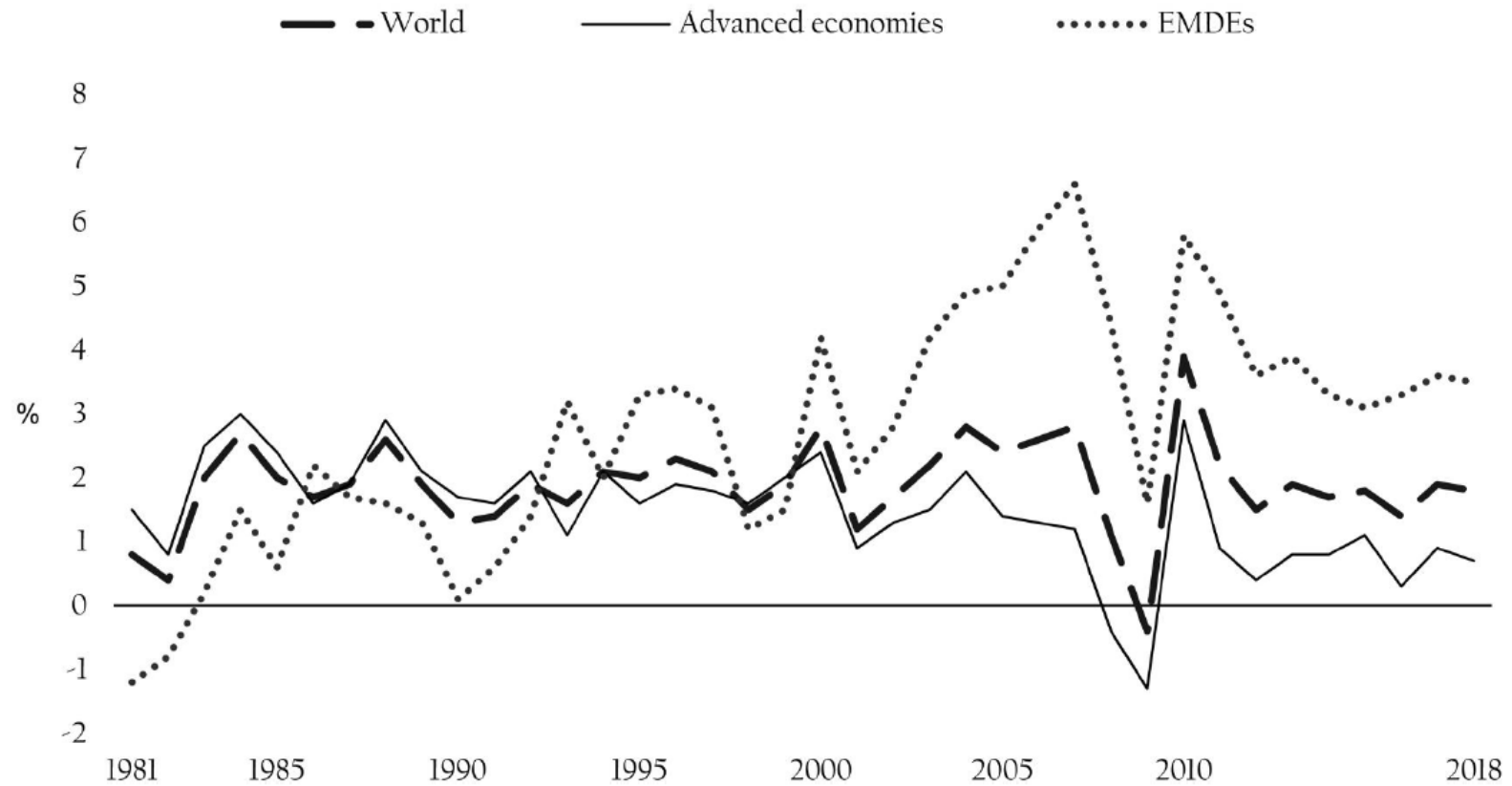


Figure 1. Global, advanced economies, and emerging market and developing economies (EMDEs) productivity growth.

Gap in the literature, method and key findings

Gap

There is a lack of empirical macro-level research investigating the relationship between real house prices and labour productivity growth across countries and over time.

Data

24 OECD countries over the period 1972–2019.

The sample economies are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Israel, Italy, Japan, Luxemburg, Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, and the US.

Method

Panel fixed effects and Pooled Mean Group-Autoregressive Distributed Lag (PMG-ARDL) estimators. Other determinants of labour productivity growth are controlled.

Findings

Labour productivity growth is negatively and significantly associated with real house prices. Why?

- Diverting capital investment into real estate which are considered as low productive assets
- Rising house prices and rents (generally housing costs) can drive employees out of the most innovative clusters (or productive locations)
- Rising housing costs take funds out of households' investment in education and training

The impact of house prices on labour productivity growth in highly complex economies is weaker than in less complex economies.

Urban house prices and investments in small and medium-sized industrial firms: Evidence from provinces of Iran

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Abstract

Using data from provinces of Iran from 2005 to 2016 and applying panel cointegrating regressions, I find that increases in real house prices have a negative and statistically significant effect on investments in small and medium-sized industrial firms. There are at least three possible mechanisms through which increases in house prices adversely affect industrial entrepreneurship. They (1) generate housing construction investment opportunities with high returns, (2) attract many urban adults with tertiary education to the real estate brokerage industry, and (3) encourage people to save more to buy houses (which is one of the prerequisites for marriage in Iran).

Keywords

house prices, industrial firms, Iran, SMEs, urban adults

Gaps in the literature

- The theoretical and empirical literature emphasises two positive channels and two negative channels through which house prices influence business formation.

[housing collateral enhancement & housing wealth effects] **vs** [housing investment opportunity & marriage crowd-out]

Developed countries (+)

China (-)

- I focus on Iran's economy and expect that the increases in housing prices have dampened the investments in small and medium-sized industrial firms, *ceteris paribus*.

Similar patterns in China and Iran

The case of Iran is comparable to that of China because:

- (1) in both countries homeownership has a high social value
- (2) both countries have experienced increases in house prices
- (3) real estate (particularly housing) is a very popular investment choice for Iranian and Chinese investors
- (4) there is evidence in both countries that house price increases have generated real estate investment opportunities with high returns which divert capital away from the industrial sector and into the real estate sector
- (5) it is challenging for Iranian and Chinese homeowners to cash-out the growth of their housing wealth for other investment purposes, unless they sell their houses

Contribution to the literature

Introducing an additional negative channel in Iran

Increases in house prices and residential property transactions led to the growth of the real estate brokerage industry.

- The significant growth of the industry has **attracted many urban adults with tertiary education** to this sector
- In 2018, 158,220 real estate brokerages were registered in Iran. Of those registered, 312 agents had PhD degrees, 2,411 had a master's degree, 19,621 had a bachelor's degree and 10,893 had an associate's degree.
- In 2018, 40% of real estate brokers in Tehran had engineering degrees.

Data, Method and findings

Data

I use data from 31 provinces of Iran over the period 2005–2016.

Dependent variable

Investments in issued operation permits of industrial firms (LOP\$) and LOP\$ per capita (LOP\$C), Source: Ministry of Industry, Mine and Trade of Iran

Explanatory variable of interest

I use average house prices per square metre (1,000 Rial) at the province level (Source: Statistical Centre of Iran)

Control variables

Economic activities, access to finance, level of education, and sanctions.

Estimation method

Panel FMOLS

Key finding

Increases in real house prices have a negative and statistically significant effect on investments in small and medium-sized industrial firms.

Divorce and the cost of housing: evidence from Iran

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Abstract Divorce trend in Iran has become a serious social concern that is suspected of being influenced by rising housing costs in an oil-based economy. Iran has the highest growth rate of divorce among Islamic countries in the Middle East and North Africa region. Using data from 30 provinces of Iran from 2002 to 2010, this paper examines the relationship between housing costs (house prices and rents) and divorce rate, controlling for other macroeconomic variables such as unemployment, inflation, and education in addition to regional, cultural, traditional, and conventional attitudes toward divorce. By applying panel fixed-effects and dynamic generalized methods of moments methods, our results suggest that increases in housing costs erode marital stability in Iran. Our main results are also supported when we focus on the *shocks* in housing costs, using the Vector autoregressive based impulse response and variance decomposition analyses of divorce rates at the national level from 1982 to 2010.

Motivation

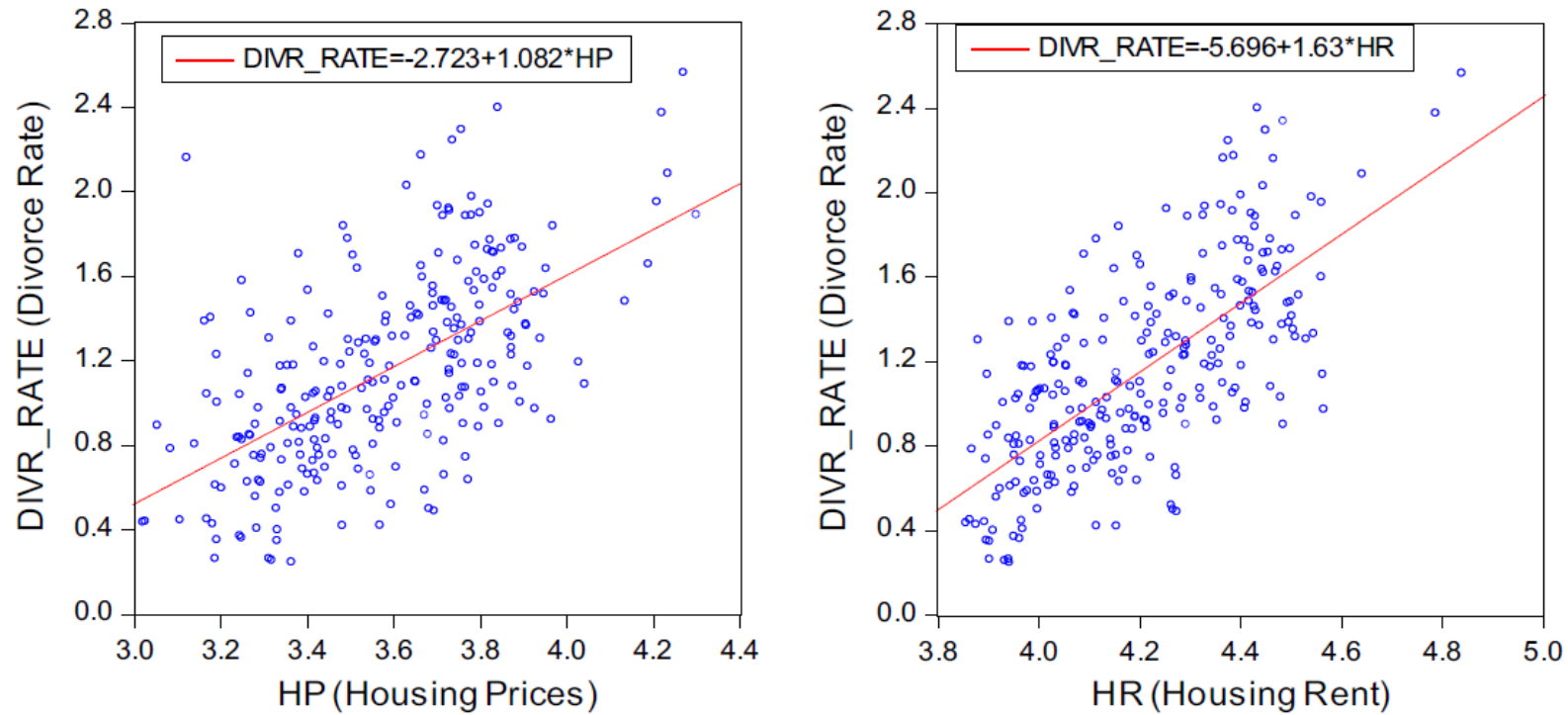


Fig. 3 Bivariate correlation between housing costs and divorce rates in a panel of Iranian provinces (2002–2010)

Our contributions

The economic literature on divorce provides two opposite predictions about the association between economic conditions and divorce risks:

- (1) Relational stress or psychosocial stress perspective
 - (2) Relative cost or the cost of divorce perspective
- no empirical study has analyzed this link in a developing economy, especially in the Middle East Muslim dominated region.
 - introducing the concept of *Mehrieh* to the literature on economic determinants of divorce, explaining how changes in prices of real estate and gold coins may affect the divorce decision in an Islamic society.

Data, method and findings

Data

We use data for the period of 2002–2010 for 30 provinces.

Dependent variable

The divorce rate as the number of divorces per 1,000 individuals in a province.

Source: Iran's National Organization for Civil Registration. سازمان ملی ثبت احوال ایران

Explanatory variables of interest

- Average house prices per square meter (1,000 IRR)
- Average rents per square meter (IRR)- Source: Statistical Center of Iran

Control variables Unemployment rate, inflation rate, and women's education [Source: Statistical Center of Iran]

Estimation methods panel fixed-effects, generalized methods of moments (GMM) and Vector autoregressive (VAR)

Findings

- increasing housing costs have positive association with marital instability
- higher levels of unemployment and public and private spending on education are positively associated with divorce rate