

Income Distribution and Home Prices

Real Estate Tech, July 1999

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When an economy reaches a certain stage of development, a “middle-class” which forms the backbone of the private residential market may emerge. Assuming the same total income level, an economy with a more equal income distribution will yield a different stratification of real estate prices than an economy with a more unequal distribution. The following scenarios illustrate the differences: (A) Exactly Equal (B) Less Equal (C) Unequal (D) Very Unequal.

Top	(A)	Home \$	(B)	Home \$	(C)	Home \$	(D)	Home \$
1	5,500	33,000	10,000	60,000	16,000	96,000	24,000	144,000
2	5,500	33,000	9,000	54,000	12,000	72,000	12,000	72,000
3	5,500	33,000	8,000	48,000	9,000	54,000	7,000	42,000
4	5,500	33,000	7,000	42,000	6,000	36,000	4,000	24,000
5	5,500	33,000	6,000	36,000	4,000	24,000	3,000	18,000
6	5,500	33,000	5,000	30,000	3,000	18,000	2,000	12,000
7	5,500	33,000	4,000	24,000	2,000	12,000	1,500	0
8	5,500	33,000	3,000	18,000	1,500	0	750	0
9	5,500	33,000	2,000	12,000	1,000	0	500	0
10	5,500	33,000	1,000	0	500	0	250	0
Bottom								
Total	55,000	330,000	55,000	324,000	55,000	312,000	55,000	312,000
Averg.	5,500	33,000	5,500	36,000	5,500	44,571	5,500	52,000
Median		33,000		36,000		36,000		33,000

A few **observations, implications and speculations** can be made:

- 1) The more unequal the income distribution, the higher the average real estate price.
- 2) The more unequal the income distribution, the higher the real estate prices at the top.
- 3) The more unequal the income distribution, the higher the dependence of the average real estate price on the top real estate prices i.e. taking the top prices away, the average will drop significantly.
- 4) The more unequal the income distribution, the smaller the percentage of the population which can afford private real estate.
- 5) The more unequal the income distribution, the larger the gap between the average and median prices.
- 6) Up to a certain point of inequality, the median real estate price may actually start to drop.

This is one way to contemplate possible real estate price trends given certain observed income distribution trends. In the above example, the cheapest home costs \$12,000 and an income of \$2,000 minimum is required i.e. a home is 6x the income. Naturally, other influencing factors should also be looked at.