Cities are the main source of countries’ economic activity and are home to the majority of their population. Since the 20th century, cities have grown at an accelerated rate, tending to incorporate an ever increasing number the population within their boundaries, which has led to the current situation in which urban areas contain almost 80% of the inhabitants in advanced countries, with mega-cities becoming increasingly prevalent in different parts of the world (UN, 2018). Large cities’ role as generators of economic growth and employment (leading economic recovery as a direct effect of the development of agglomeration economies) has earned them recognition as ‘vibrant’ cities that drive higher incomes (World Bank, 2009:24-25).

It appears that the city’s success is centred on the increased attraction of the population, especially of households seeking skilled jobs with higher wages (Glaeser and Saiz, 2003), leading to the creation of “superstar cities” where higher-income households are concentrated. In these cities, real estate dynamics reflect competition for existing housing, raising residential prices through the expulsion of those households with insufficient income (middle and low incomes). The latter must commute or emigrate (Lucas, 2012; Mattioli et al., 2017), generating a relocation of households in space that encourages an unequal distribution of income (Gyourko et al., 2013) and that becomes more extreme in the case of the most expensive cities, as two of the results of this process.

People also move to cities in search of higher quality services, especially consumer services. As cities become more specialised over time, the retail and leisure sectors also offer better facilities and products, acting as an engine of attraction for residents and temporary populations with higher incomes (leading to the coining of the term ‘consumer city’; Glaeser et al., 2001). It is not surprising that the most specialised cities are short-break destinations for a large part of the population (Barron et al., 2021) because of their particular characteristics,
their beauty, or their particular cultural attractions (Carlino and Saiz, 2019). Such attractiveness also makes them a residential alternative (temporary or permanent) for other households or companies wishing to invest in recovering historical areas (referred to as gentrification; Wachsmuth and Weisler, 2018:1151) for residential or business purposes as a way of exploiting their growing attractiveness (capitalising on the rent-gap defined by Smith, 1979), which also pushes up the prices of space in the most paradigmatic areas of the city.

The underlying principles of smart cities attempt to provide a technological solution to these processes, intending to organise the population’s mobility, reduce all kinds of waste and emissions, and improve the city’s operational efficiency. However, few analyses have been carried out from the perspective of residential markets, except for those that corroborate the two main ultimate effects of this process: a weakening of the ability of households to own and maintain a home, referred to as the ‘new urban dimension of the affordability crisis’ (Wetzstein, 2017:3159; McKinsey Global Institute, 2014); and the expulsion of middle- or low-income households to surrounding urban areas, referred to as the ‘suburbanisation of poverty’ (Bailey and Minton, 2018; Kneebone and Garr, 2010), which accentuates differences in the spatial distribution of income. Both these phenomena (the urban affordability crisis and the suburbanisation of poverty) increase inequalities.

To this dynamic one must also add the generalised worsening of income distribution in advanced countries associated with globalisation (Williamson, 1997) and the struggle to increase the competitiveness of economies, which translate into wage inequalities (Helpman, 2016) and which have exerted a generalised downward force on wages (at the global level) and widened the gap in their distribution, reducing household incomes in many of the world’s capitals, and immediately affecting the accessibility of housing (before other consumption). Research analysing this in the 21st century corroborates that this problem has been underestimated and did not emerge in its full severity until the global financial crisis (GFC) (Haffner and Hulse, 2019).

The evolution of residential prices following the GFC has only partially adjusted to the decline in purchasing power resulting from the worsening income distribution. The internal processes of affordability losses in the most dynamic cities have continued even with the recovery in full force, accentuating their most pervasive effects (e.g. the informal construction of dwellings housing 20–40% of households in some cities, concentrated in poor areas; Liu et al., 2012; Lai et al., 2017).

However, the question remains as to why residential markets have not reacted as in the past to increases in demand, increasing construction and dampening price pressures. Over the last decade, as a result of the legacy of the GFC in the form of lower financing volumes (Aalbers, 2008:160–161), property markets have seen a tightening of lending conditions and a reduc-
tion in the supply of new housing, forcing low- and middle-income households (who need financing to become homeowners) to turn to the rental market. Tightness in rental markets is increasing for endogenous reasons and the dynamics mentioned above, which are accelerating with the recovery following the GFC.

The sum of both influences may have increased the urban affordability problem of the 21st century, leading to a new dimension concerning the lack of affordability ’ex-post’. Specifically, the accessibility problem no longer arises only at the first entry point of households (the first barrier to homeownership, basically the availability of savings) but also arises when the household has already enjoyed housing, possibly over a long period of time. This is due (in absence of falling income) to the revision of rents every period (if the property is rented) or to the increase in the borrowed capital’s interest rates (if credit has been used to purchase the property and this credit has variable rates), both of which are already affecting middle-income households. Rising rents have been the fundamental source of unaffordability since the recovery from the GFC until the impact of the COVID 19 crisis. Note that the sources of the two residential affordability problems are different in nature, which is an excellent example of this phenomenon’s multidimensional nature and its occurrence in cities that are disparate in terms of their characteristics. In the absence of ’ex-post’ affordability, any variation in rental prices will increase the uncertainty of those households most exposed to housing cost increases, and this uncertainty may modify fundamental decisions in their life cycle, with irreversible effects on society in the form of delayed household formation or delayed childbearing.

Residential affordability problems may create a ceiling, as described by Gyourko et al. (2013), resulting not only from rising residential prices and rents and a shrinking supply of new units but also from the existence of wealth assets and intergenerational and spatial inequalities, which fall, in some cases, within the domain of urban rather than social policy (Haffner and Hulse, 2019:7).

The problem has no conventional solution.

References


