The Wealth Inequality Illusion: Have House Prices in More Expensive Areas Really been Rising at a Faster Rate?

Eric Levin

University of Glasgow
Department of Urban Studies
25 Bute Gardens
Glasgow
G12 8RS
Scotland
UK

Tel: +44 (0)141 330 4081
Email: e.levin@lbss.gla.ac.uk

Co-Author: Gwilym Pryce (University of Glasgow)

ABSTRACT

Previous work on UK house price appreciation (Thomas and Dorling 2004) has suggested growing inequalities among homeowners. Houses in high house price areas have increased at a significantly faster rate than houses in low price areas. But is this really true? Or are the results, in fact, the product of a methodological error? We use simulated data to compare the results from inequality measures that use final-period house prices with measures based on first-period house prices. We show that even random house price inflation drawn from a uniform distribution will produce apparent growth in inequality when final-period (rather than first-period) house prices are used as the explanatory variable. Using first-period house prices reveals the true distribution of price increases (i.e. entirely random across areas: on average, housing in more expensive areas in the first-period does not increase in value at any greater or lesser rate than in other areas). We then apply the same comparison using actual UK house price transactions data and discuss the implications of our findings for housing policy.

Key Words: housing, wealth, inequality