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Contents lists available at ScienceDirect

Journal of Housing Economics

journal homepage: www.elsevier.com/locate/jhec

Superstar cities and the globalization pressures on affordability

ARTICLE INFO

Keywords:

Housing affordability
 Superstar cities
 Housing supply and demand
 Housing price
 Housing affordability index
 Mixed-income community
 Inequality
 Crowding out effect
 Living arrangement
 Housing policy

JEL classification:

R20
 R30
 R50

ABSTRACT

This paper provides the introduction to the special issue on Superstar Cities and the Globalization Pressures on Affordability in the Journal of Housing Economics in 2019. The paper discusses the broad picture of the special issue, and briefly introduces the topics covered in this issue, including the consequences of housing unaffordability in superstar cities; the measurement of housing affordability; and the policy solutions to improve housing affordability in such cities.

1. Introduction

The original and influential paper by [Gyourko et al. \(2013\)](#) on superstar cities suggests that the inelastic supply of land along with an increasing number of high-income households nationally lead to persistent high house prices in those superstar cities and crowd out lower-income households. Such crowding out effect could be more severe, given the increasing level of globalization and international capital flow ([Katharina, Schularick, and Steger, 2017](#)). The papers in this special issue on Superstar Cities and the Globalization Pressures on Affordability offer new insights from the three aspects: the consequences of housing unaffordability in superstar cities; the measurement of housing affordability; and the policy solutions to improve housing affordability in such cities.

2. Consequences of housing unaffordability in superstar cities

A world in which only a few can afford housing is not sustainable. Today, however, most mega-cities around the world, especially those superstar cities that are growing rapidly are facing major challenges in providing affordable housing for their residents. Key workers such as teachers, police officers, firefighters, and nurses cannot afford to live near the communities they serve ([Menon et al., 2019](#)). One of the most remarkable cases, China has experienced rapid urbanization process, and many Chinese cities are growing at an unprecedented rate in recent decades. Several studies have documented serious housing affordability challenges in urban China, especially in the superstar cities ([Shen, 2012](#); [Wu et al., 2012](#); [Li et al., 2018](#)). In this special issue, two papers document the consequences of rising housing prices in Chinese cities

from two different perspectives.

[Li and Wu \(2019\)](#) document the consequences of rising housing prices on family co-residence decision in urban China. Simple summary statistics already suggest a positive correlation between price to income ratio and frequency of intergenerational co-residence (Figure 3 of their paper). Using a nationally representative panel dataset (China Family Panel Studies, CFPS) and adopting causal identification strategy, they find that city-level housing price has a positive effect on co-residence, and such effect is larger for those who do not own a house, who have a lower level of wealth, and who are relatively younger. In addition, the young couples are more likely to co-reside with their husband's parents. Given the importance of population aging as a worldwide issue, the consequences of housing affordability on old-age living arrangements worth the attention of policymakers.

The paper by [Chen, Hu, and Lin](#) in the special issue ([Chen et al., 2019](#)) investigates whether housing unaffordability in Chinese superstar cities crowds out elites, defined as those who have a master's degree or higher level of education. They use both micro- and macro-level data from China's Urban Household Survey and statistical yearbooks and find that elites still prefer superstar cities. However, the attractiveness of superstar cities has declined over time, and the next-tier cities become increasingly attractive to elites. The overall message conveyed from this paper is that housing unaffordability in superstar cities may crowd out high-skill elite class.

3. Measurement of housing affordability

The papers in the first area document the consequences of housing unaffordability in superstar cities. From the perspective of

<https://doi.org/10.1016/j.jhe.2019.101638>

policymakers, effective policies targeting on improving housing affordability in superstar cities require accurate measurement of household affordability burdens. In this special issue, Ben-Shahar et al. (2019) contribute to the measurement of housing affordability by introducing a new measure that adjusts for normative variation in housing consumption. The intuition is that different households may have different consumption demand for houses. Therefore, they employ extensive micro-data on Israeli households from 1998 to 2015 to identify the typical housing consumption bundle of households stratified by demographic and locational characteristics. Using such consumption-adjusted housing affordability index, they document a decline in housing affordability in Israel over the sample period. More interestingly, the comparison of the new measure and the traditional measure shows that failure to correct for housing consumption variability results in an underestimation of affordability burdens among a large number of sample stratifications. Additionally, the new measure also gives rise to elevated Gini measures of housing affordability inequality.

4. Policy solutions to improve housing affordability in superstar cities

Given the unfavorable consequences of housing unaffordability in superstar cities, what kinds of policies should be implemented to ameliorate such problems, and whether such policies are effective? Two papers in the special issue discuss housing policies in superstar cities from both empirical and theoretical perspectives.

Deng et al. (2019) study the housing market cooling measures in Singapore, including seller's stamp duty, additional buyer's stamp duty, total debt servicing ratio, change in loan-to-value ratio, among others. These policy measures were implemented by the Singapore government from September 2009 to December 2013 to cool down the overheated market. Using both macro-level economic data and micro-level house transaction datasets, they find that the cooling measures in Singapore appear to be effective: house prices have fallen by 10–15% according to different price indices for the public and private housing sectors. Meanwhile, such policies do not seem to generate any major negative impact in the broader economy.

Dokow and Luque (2019) discuss the Mixed-Income Housing model in the United States aiming at alleviating social problems associated with ghettoization, which appears in a number of superstar cities around the world. Taking a theoretical approach, the paper tries to understand how the Mixed-Income Housing model may influence the way households living in mixed-income areas provide local public goods, either through political institutions or in a more decentralized private manner. Their model predicts that individuals choose which public good to attend on the basis of income and that there are individuals in the same location but with different income that choose

different public goods at different distances. Also, when the distance to the public good of jurisdiction is a too large, poor resident prefer belonging to a smaller jurisdiction to economize on the cost of their frequent traveling to the public good. From a policy point of view, this result may justify a government subsidy to public goods serving small jurisdictions.

5. Conclusions

The papers in this special issue offer empirical evidence and theoretical discussions on the consequences, measurement, and policy prescriptions on the unaffordability problem of superstar cities. On the one hand, unaffordability problem in superstar cities may generate profound economic and social consequences, spanning from household co-residence arrangements to the location choices of high-skilled labor. On the other hand, the papers in the special issue convey a more optimistic message that improved measurement of housing affordability and effective policy arrangements can help alleviate the unaffordability problem in superstar cities.

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