

# Effects on Consumption and Income Distribution of the Rise in Monthly Housing Expenses in the Housing Market

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## **I. Introduction**

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With the proportion of households paying rent on a monthly basis increasing rapidly recently, there is mounting interest in the effects of a rise in monthly rent on consumption and income distribution. As a rise in monthly rental charges works in such a way as to increase landlords' consumption and decrease that of tenants, the effects of a rise in monthly rents on total consumption are highly likely to vary depending upon landlords' and tenants' propensity for consumption. Notably, the rise in the number of households paying rent monthly, being centered on low-income households, may have a negative effect on income distribution and may, together with the rise in monthly housing expenses, bring about a structural contraction of consumption. In this regard, an empirical analysis is conducted in this paper of the effects of changes in housing market structure on consumption and income distribution, based on a wide range of data sources including the Household Trends survey, the Household Finance and Welfare survey and the SNA.

According to the results of the analysis, the rise in monthly housing expenses has reduced total household consumption to a significant extent, and its effects have been strongly evident mainly in those in low-income brackets and the age cohorts of the under forties. It is noteworthy that an empirical analysis targeting landlords and tenants shifting from leasehold deposit-based to monthly

payment-based rental contracts finds that a rise in monthly housing expenses does not lead to an increase in landlords' consumption but does bring about a decrease in that of tenants. In addition, it can be confirmed from an analysis of income distribution that income imbalances are worsened by a rise in monthly housing expenses. However, it is considered somewhat premature to determine whether these effects of the rise in monthly housing expenses are a transitional phenomenon occurring in the course of changes in the housing market or whether they will continue over the medium and long term. Meanwhile, although in the course of the expansion of the share of monthly rentals the volume of housing transactions has been increasing significantly as the housing market is reoriented toward a focus on real demand, the scale of price increases has been more limited than in the past. Going forward, in order to minimize the negative effects of the progress of housing market structural changes, such as the sluggishness of domestic demand, policy efforts need to be strengthened to increase the supply of public/private rental housing and expand the bases for the income of the low-income groups.

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