Financial parasitism and the global housing crisis

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Rent and housing costs in most major cities have skyrocketed since the financial crisis, cutting deeply into workers' standard of living and prompting concerns about a new global housing bubble. Driving the soaring cost of rent is a global financial system that is being pumped full of cheap credit by all the major central governments at the expense of workers around the world.

Prices in some areas boggle the mind. San Francisco's average asking price for a one-bedroom apartment went from $1,258 per month in January 2010 to $4,126 in February 2016. In London, the average home price has doubled since 2009, from about £300,000 ($437,600 USD) to £600,000 ($875,100).

Hong Kong's housing market, which largely avoided the US real estate crash, more than tripled in its average sale between 2004 and today. The city is now considered the least affordable place in the world, with the median Hong Kong home price worth 19 times the city's average skilled white-collar worker's annual salary.

Housing and rental markets are so high that the Swiss bank UBS estimates that the majority of the world's urban real estate markets are now "significantly overvalued."

What is most striking about the colossal increase in prices, however, is how divorced it is from the incomes of the vast majority of the global population, which are moving in the opposite direction.

Historically, rent prices have tended to move with income and inflation. For example, in the United States the median home price adjusted for inflation remained largely flat between 1970 and 1998, fluctuating slightly above and below $160,000. This was a period in which workers' incomes were also flat. After 1998, however, the housing market skyrocketed, with the median home price rising from about $160,000 in 1998 to $275,000 in 2006, the peak of the finance-driven boom. This jump was driven by all manner of financial speculation, including rampant criminal behavior, which had been let loose by the lowering of interest rates by the US Federal Reserve.

The housing market today is going through a new version of the 2006 housing crisis. However, unlike 2006, this process is global. Nearly every major capitalist government in the world is pursuing a policy of near-zero interest rates, encouraging rampant speculation in both the stock market and the real estate market.

This trend can be seen clearly in the United States. Between 2001 and 2014, the average real rental price rose 7 percent nationwide according to Harvard University's Joint Center for Housing Studies. During that same period, median household income dropped by 9 percent.

In Los Angeles, the second largest city in the US, 40 percent of families either make poverty wages or are unemployed. As families and individuals increasingly struggle to make ends meet, rent has increased sharply in LA. In January 2010, an average one bedroom apartment went for $1,224 a month. Six years later, the cost was $1,935. And the worst is not over. A 2016 forecast by USC Casden Multifamily predicts that in the next few years rent will "soar." It is no wonder that homeless in the city grew by 16 percent in just two years between 2013 and 2015.

Another way of capturing the growing divide between wages and rent for hundreds of millions of workers around the world is the Median Multiple, the ratio between median household income and average home price. According to the Demographia International Housing Affordability 2016 Survey, a Median Multiple of three and under is considered affordable (e.g., a family making $50,000 a year buying a house at $150,000 or less). A multiple exceeding five is considered "severely unaffordable."

In 2015 Demographia surveyed 367 cities inside the UK, US, Canada, Australia, New Zealand, Ireland and Japan. According to the group, the 10 most unaffordable cities were: Hong Kong with a Median Multiple of 19.0; Sydney (12.2); Vancouver (10.8); Melbourne, (9.7); Auckland (9.7); San Jose (9.7); San Francisco (9.4); London (8.5); Los Angeles (8.1) and San Diego (8.1). All of these cities have experienced a doubling or even tripling of their Median Multiple since 1998.

The surge in prices and collapse in income has led to more renters on the renting market, since buying has become out of reach. In the United States, between 2005 and 2015, there were 9 million new renting households. This is the largest gain on record for a 10-year period according to Harvard University's Joint Center for Housing Studies. In 2015, 37 percent of all US households rented, the highest level since the mid-1960s, and up from 31 percent in 2005.

Workers are now becoming trapped in this situation, as they spend more of their income paying for rent and are less and less likely to be able to buy a house. In 2001 in the US, 41 percent of renters spent 30 percent of their income or more on rent. This rose to 49 percent in 2014. In the same year, 26 percent of the renting population spent more than half of their income on rent. In the UK, a fifth of all young adults now stay in their parents' home until they are at least 26. In 2015, 31.5 percent of US young people aged 18 to 34 lived at home, up from 27 percent in 2005.

While workers suffer under crushing rent burdens, landlords and investors are raking in millions if not billions. This year, a total of 184 billionaires made their wealth through real estate. This was up by 22 individuals from the year before, even as the overall number of billionaires went down from 1,826 to 1,810 individuals.

Those who make money off of rents do not add anything to the productive system. While a certain amount of money can go to maintenance and upkeep, vast and increasing sums of money made by real estate are from the pure monopoly status of owning land.

The wealth of these billionaires principally comes from the unsavory fact that in order to keep the global economy afloat, the central banks around the world have pumped the major banks full with cheap credit.

As UBS Global notes in its 2015 Global Real Estate Bubble Index, "Loose monetary policy has prevented a normalization of housing markets and encouraged local bubble risks to grow." They write that much of the "overvaluation" in the global housing stock comes from a "dependence on low interest rates."

"Price-to-rent (PR) multiples are greatest in Zurich, Vancouver, Hong Kong, Geneva and Singapore. The extremely high PR multiplies indicate an undue dependence of housing prices on low interest rates. Paris, London and Sydney follow suit and form a trio of cities with PR multiples around 30. House prices in these cities are vulnerable to a sharp correction should interest rates rise."

In other words, the deluge of cheap credit provided by the world's central governments to their major banks has unleashed an orgy of speculation. The world's richest are getting even richer by doing nothing as their real estate investments shoot through the roof. Meanwhile the vast majority of the world's population must pay increasingly obscene amounts just to have a place to live.

As Lenin noted in his work *Imperialism*, in capitalism's state of decay there is an "extraordinary growth of a class, or rather, of a stratum of rentiers, i.e., people who live by 'clipping coupons', who take no part in any enterprise whatever, whose profession is idleness."

This describes exactly the parasitic layer of real estate moguls, whose money comes not from producing anything of value to the world economy, but by sucking away money from the system in the form of rent. There is no one who benefits from high rents except the small layer of people who control the vast majority of the world's property.

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