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## Housing Market and Economic Development: (Revisited)

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### ABSTRACT

Housing is considered the basis of economic development. Many activities related to housing are closely and directly related to the achievement of economic development goals. Real estate investment has always been seen as a measure of economic growth. That data is clearer and more accurate in developed countries, and the same general effect appears in developing countries with a different degree of influence. Mortgages also aid in the development of financial markets. All over the world and especially in low-income countries, housing construction creates a lot of vacancies, especially in cities.

Housing is an essential part of a country's economy. Its front and back links with different parts of the economy are closely linked. For example, people's needs and demands and social processes with the provision of land, infrastructure, building materials, technology, jobs and housing finance. These linkages enable housing to act as an important driver of sustainable development in society and the economy. For many newly industrialised Asian countries, housing development has been identified as a priority as a mechanism that stimulates growth, creates jobs and acts as an economic stabilizer. This paper shows to what extent housing affects the economy in developing and developed countries. It will be used to describe the characteristics of housing and the relationships between housing and the economy in order to study this relationship.

This paper reviews the literature and previous studies on the relationship between housing and economic growth. While it is clear that housing construction and real estate investment creates jobs, the review found that much more research and study is needed to determine the long-term economic benefits of housing and whether housing financing in particular can be an effective tool for economic growth. (i.e., does housing construction and financing increase economic growth?)

### 1. Introduction

One of the most important advantages of using housing as an engine for development is that it is a national good and is not affected by external changes.

In many newly industrializing countries, housing is viewed as a priority as a mechanism that stimulates growth, creates jobs, and brings economic stability. Does this apply to both developing and developed countries? This is what the paper deals with.

Housing is not a simple activity where housing is

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one of the basic needs of human beings. The right to adequate housing has been classified as a basic human right. Housing represents a type of private property exchanged in the market. Although trade-offs may be necessary between the social and economic aspects of housing, the purpose of central and local housing policies is to ensure the proper functioning of the real estate market and the accessibility of housing for all segments, which lies in the research. (Martin Lux, 2003)

Housing creates expenditures outside of the real estate sector itself, which contributes to the strength of the economy. This expenditure comes from the formation of a stock of individual wealth, and this increase is related to consumption. The formation of housing, leads to a significant increase in spending on residential and non-residential services and goods. This fact increases market efficiency and liquidity. Housing is a tax base and therefore contributes significantly to the financial health of local communities and their ability to provide basic urban services. (Chicago, 2003)

Two aspects of housing activity associated with economic activity are construction and sales. Data on home construction is included in the residential investment component and within the scope that contributes to economic growth.

Housing construction affects economic development through its effect on employment, savings, investment, and infrastructure. In 1945, housing experts came to three perspectives on the role of housing in economic development. At first, most authors described housing as a social expense and a brake on growth. The minority said that housing could be complementary to specific development projects. In the 1970s, housing began to be seen as a contributing factor to growth. (Richard, 2006)

Recently, housing has played a role in development, and housing in Thailand and Singapore has played an important role in shaping and driving economic growth. Housing construction has been the main driver of growth and development in China, and the supply of housing has exceeded demand.

### 1.1. Research Question

The housing sector, unlike more fortunate sectors such as population, or the education, has always suffered from a dearth of comparative statistics. Worse than that, there are no books with an analytical rather than a descriptive global perspective of the housing sector. Housing policy books that adopt a

global perspective are usually collections of case studies that may share common terminology but which contain few overriding theses to hold them together. They contain almost no data to explain similarities and differences among countries, let alone to evaluate statistically the sources of place-to-place differences. This lack of data makes comparisons between countries less useful.

**Research problem can be summarized in the following questions:**

1. To what extent housing is motivator for economic growth?
2. How does housing affect the economy in developing & developed countries?
3. What are limitations of housing led economic growth?

### 1.2. Methodology

In this paper, I will use the descriptive method as a methodology to study the relationship between the two variables.

Quantitative research: Descriptive research is a research method for quantitative data that aims to collect information provided that it is quantifiable. It is a commonly used market research tool that allows us to collect and describe the nature of demographics.

Cross-sectional studies: Descriptive research is generally a partial cross-sectional study in which different sections belonging to the same group are studied and the idea is divided into parts.

The descriptive approach will be used to describe the characteristics of the studied dwellings and relationships; this methodology focuses more on the idea of "what" in the research topic than on "why". First, the main definitions are clarified, and then the relationship between them is shown. The last step includes the results of the study, with an illustrative summary of the most important points addressed in the research.

### 1.3. Research Structure

In the introduction, we highlight housing and its role in economic growth. This is followed by a presentation of the study problem and its dimensions, leading to the research questions, with an explanation of the method used in describing and compiling the data and how to present it, where the descriptive approach was used to describe the phenomenon studied. Then clarify the terms of the study and the relationship between economic growth and housing,

with examples in developed countries and countries, leading to the results of the study and its findings.

## 2. Definitions

### 2.1. Housing concept definition

"Housing is more than just shelter. It includes all social services and facilities related to housing. It has become an important component of the social, economic, and health fabric of every nation. "Housing reflects the social, cultural, and economic values of a community because it shows historical evidence of a country's civilization and is a reliable measure of economic development." (Adesoji, David, 2011).

Smith (1776) defines housing as a commodity; Ricardo (1817)-as a good material with productive capacity; Jevons (1871)-as a constant resource regardless of housing owned or rented; As a capital, it is very similar to a machine if it is operated by a laborer, but as a commodity if it is not always in operation. Scholars Grimes and Orville identified in 1976 that in the afterlife the concept of "accommodation" has become associated with a physical phenomenon, and guidelines for states to provide in most cases relate to construction fees that can vary depending on the type of creation, materials, numerous housing requirements, and quality of creation. (Inita Henile, 2016).

### 2.2. The concept of economic development

Economic development aims to produce the maximum flow of income through: rational use, resource efficiency. As a manifestation of macroeconomic dynamics, it requires a set of quantitative, structural and qualitative transformations. (Alina Haller, 2012)

It is the creation of wealth from which societal benefits accrue. it is more than just a jobs program; it is an investment in growing your economy and promoting prosperity and quality of life for all residents.

The base multiplier used to measure the effect indicates the relative amount of increase or decrease in final income resulting from the injection or withdrawal of expenses. The basic multiplier used to measure the multiplier effect is calculated as the change in income/change in expenses and is used to evaluate the effectiveness of the investment. (AKHILESH GANTI, 2020)

## What is the housing market?

When people buy or sell homes, either to live in or as an investment, we think of that as the real estate market. A home is the most valuable thing many people will ever own.

### Specificity of housing

- Housing is expensive when compared to income, as the need for it arises at a time before people can accumulate wealth equivalent to the price of housing.
- Homes are durable and therefore have value for future generations. Anticipating the future may mean setting high standards that consumers cannot afford today.
- The market is driven by supply and demand, but housing as a supply is slow to respond to changes in demand. The real estate market is "made up" of the current supply of housing.
- Real estate is a real estate asset and therefore there are limited opportunities to move the current supply into new demand areas. This is reflected in the change in housing prices in different regions of the country. (Lund B, 2006)

### 2.3. Difference Between Developed Countries and Developing Countries

The United Nations divides countries into two main categories, namely developed countries and developing countries. The classification of countries is based on economic status, such as GDP, GNP, income per capita, industrialization, standard of living, etc. Developed countries refer to sovereign states whose economies are highly advanced compared to other nations and have great technological infrastructure. (Surbhi S,2020)

The term "developed country" is synonymous with "industrial country, post-industrial country, more developed country, advanced country and first world country". The UK, France, Germany, Canada, Japan, Switzerland and the United States of America are just some of the developed countries. A developing country, on the other hand, is a country with a low level of industrialization. It has a higher birth and death rate than developed countries. Their infant mortality rate is also high due to poor nutrition, poor medical care, and low health literacy. (Surbhi S,2020)

#### 2.4. The link between housing and economy

Housing is of great importance to the quality of life and health of all. Besides being a hugely valuable asset, it has broader economic, social, and cultural significance. The means by which housing is created and changed has an impact on development goals that cherish social justice and poverty reduction. (Kim, Woo-Jin, 1995)

The price of housing is very high compared to the income of the vast majority of families. Therefore, building equity in housing is the best way to save for the vast majority of households. Most families are unable to buy houses directly and can only pay for them when they consume them over a long period of time, creating a unique financial system.

The consumption of the dwelling does not mean the consumption of the dwelling itself, but rather the consumption of its services. The property offers a range of services, including the environment of the area. That housing preference and price depend largely on the quality of the accommodation itself, but also on the environment and location.

Understanding and responding to local demands for growth or regeneration, and being increasingly able to assess the future impacts that business decisions may have on property markets, to assess when and how to intervene in response. The integration of housing, health, education, and transport policies will occupy an increasingly important place in integrated regional and local strategies. (Woo-Jin Kim, 1995)

#### Why is the housing market important to economy?

The housing market directly affects consumer spending. When house prices rise, homeowners do better and feel more secure. Some people borrow more based on the value of their home, whether to buy goods and services, renovate their home, supplement their retirement or pay off other debts.

When home prices fall, homeowners' risk having to sell their homes for less than the value of their current mortgage. So, people are more likely to cut back on spending and refrain from making personal investments. (Bank of England)

Mortgages If many people take out loans that are large compared to their income or the value of their home, it could put the banking system at risk in the event of an economic downturn. As mortgages are the main cause of household debt in the UK. (Bank of England)

Newly built housing has a significant impact as it

contributes directly to the total output (GDP). For example, by investing in land as well as building materials, it creates jobs. The local area will also benefit from new housing construction as newcomers will start using local businesses and services. (Bank of England)

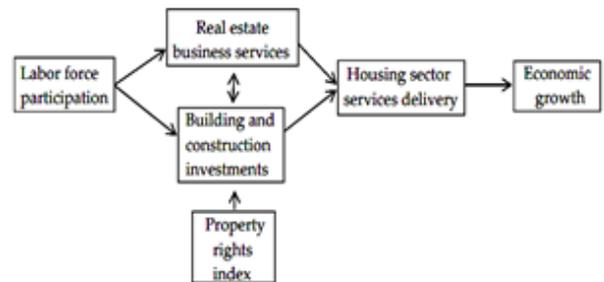


Figure 1: Housing Services Delivery-Economic Growth Model

Source: Authors' conceptual model (2016)

The main measure of economic activity is twofold. The GDP includes all expenditures for building new single-family and multi-family structures, renovating homes, and brokerage fees, which is known as fixed residential investment. Second, GDP includes all expenditures on housing services, which include rents and utilities from tenants and landlords' rents and utilities.

#### 2.5. The indirect impact of Housing on the Economy

Housing plays a role in the broader economy, much like the housing bubble that precipitated the recession in 2007-2009. Home prices affect residential investment and, thus, economic growth. Higher housing prices encourage more construction spending and, thus, economic growth. Fluctuations in the housing market, such as home prices, affect the economy through what are called "wealth effects." An increase in the value of a home encourages residents to spend more than they would at other times, increase the equality with which they can borrow, and increase rental income. Vice versa.

### 3. Housing as a Driver of Economic Development

The real estate and home building markets in various economies are an engine of growth. The real estate sector is important in the economic recovery process, especially during recessions. Especially in more affluent societies, such as the United States and Japan. For example, Green's (1997) study of business cycles in the United States between 1959 and 1992 found that housing drove the business cycle ahead of

all other investments. In Japan, Hirayama (2003) refers to the use of social housing and housing loans as an economic stabilizing factor in increasing demand and creating jobs during the recessions of the 1970s and 1990s, and other countries, such as Thailand and Singapore, also used real estate. Investment as an incentive, can be used to achieve short-term and long-term economic goals. (Harris, Arco, 2006).

### 3.1. Impact and Roles of Housing in Developed Economies

The housing sector influences the national and local economies in several important ways.

- Real estate markets have important macroeconomic impacts. Housing accounts for a significant portion of the annual GDP.
- Housing is an important store of individual wealth, and increasing wealth is closely linked to consumption.
- Housing formation, stimulates significant expenditure on services and goods, whether or not related to housing.
- Housing is a basis for taxation and is thus a significant contributor to the financial health of local governments and their ability to provide basic urban services.
- Housing generates spending outside of the real estate sector itself, which contributes to the strength of the economy as a whole. (Duane Kissick, 2006)

<b>Housing as a Driver of Economic Development</b>	
<i>Developed Economies</i>	<i>Developing Economies</i>
<ul style="list-style-type: none"> <li>• <i>Macroeconomic impacts of housing account for a significant portion of annual GDP.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Housing construction in low-income neighborhoods is a stimulus to creation of small businesses.</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Housing generates expenditures outside the housing sector.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>People are more likely to use their homes as places of employment.</i></li> </ul>
<ul style="list-style-type: none"> <li>• <i>Housing and real estate asset classification leads to greater market efficiency, stability, and liquidity.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Cultural and personal value of housing.</i></li> <li>• <i>Microfinance for housing that may be bundled with loans for business development.</i></li> </ul>

Significant contribution to GDP

Housing construction expenditures include housing-related services: water supply, sewage treatment, road paving, parks and other basics such as urban infrastructure. These contribute 7% of the GDP and thus achieve economic growth. (Chicago, 2003)

#### *wealth builder*

Housing drives consumer spending through the "wealth effect". It is not just housing that generates revenue, but expenditures arise in other forms of wealth, such as stocks and bonds. (Dwan Kesick, 2006)

#### *Multiplier effect on the local economy*

According to US data, housing is a driver of the national economy. The National Association of Realtors reports a multiplier of 1.34 to 1.62 for every dollar spent on direct housing. In terms of jobs, for every job in housing construction, another 2,448 jobs were created in other sectors. Up to 40% of household income is spent on purchases related to housing. The bulk of it is local, which leads to stronger local economies. (Chicago, 2003).

#### *Market efficiency, stability, and liquidity*

Housing provides a capital base that contributes to increased market efficiency, stability, and liquidity. Housing clearly provides shelter and, in some cases, a place to work, and housing is seen as an asset in the financial markets. (Dwan Kesick, 2006)

#### *Local Government Finance*

Housing, through property taxes, contributes significantly to the provision of basic services, such as water, sanitation, transport, and education. The basis of traditional property tax is the market value of the property, and when house prices rise, property appraisals rise as well. The tax is further increased by new construction. In 2001, total property tax revenue in the United States rose by \$185 billion from new residential construction alone. (Chicago, 2003).

### 3.2. Impact and Roles of Housing in Developing Economies

Housing is important in the developing world for the same reasons that it is important in the developed world. whereas investment in housing ranges from 2% to 8% of GDP and represents between 15% and 30% of fixed capital formation. In addition, it is a

storehouse of wealth. According to the studies of the World Bank on developing countries, other studies have indicated that more than 40% of the wealth of urban residents in China, India, and Indonesia is found in their homes. And that up to 55% of consumer wealth is in the housing sector in South Korea. Housing obviously provides shelter, but it also meets other needs in developing countries. (K-H Kim, 2004).

Housing activities in developing countries have economic benefits beyond the housing sector. Studies in developing countries show the same kind of multiplier effect as in the United States. Which means that, for every dollar spent in a developing country on housing, another dollar is spent in other sectors. (B. Rietveld, 1994).

#### *Labor-Intensive Domestic Production*

Housing in developing countries, especially single-family housing for low-income housing, is typically built with locally produced goods, resulting in a greater benefit to the local economy than using imported materials. Also, research has shown that cheaper housing is more labour-intensive than more expensive housing. This means that by building lower-cost housing, not only can more people be housed, but more low-wage workers can be employed.

#### *Stimulation of small businesses*

Housing construction in low-income neighbourhoods in developing countries is an incentive to set up small businesses; some housing is carried out by small businesses, and much of it is in the informal sector. Thus, housing becomes a contribution to the establishment and expansion of small businesses.

#### *Home-Based Income Opportunities*

By providing housing, the potential for creating additional employment opportunities is increased. In fact, there are six additional housing jobs. According to him, housing serves as a store, a factory, a source of rental income, a source of financial activity, an entry point into the urban economy, and a storage space or warehouse.

#### *Development of Land and Real Estate Systems*

Recent innovations in finance help solve "dead

capital" problems, such as ignorance of the financial benefits that real estate brings. It is not uncommon in developing countries for individuals to not register land because they do not see any benefit in registering the ownership of their real estate. Without registration, loans generally cannot be secured by real estate, and equity in real estate represented for other uses cannot be released. As more people take advantage of microfinance and other targeted lending programs, real estate markets are expanding even more.

#### *Development of Primary and Secondary Financial Markets*

Developing capital markets to support housing and infrastructure investment is a key factor in creating more open, accountable, and honest local governments. (Dwan Kesick, 2006)

### **4. Economic Perspective**

Housing is private property because it is not available in a non-competitive manner and does not have the same characteristics as public goods. So, there are differences between housing and standard market goods:

1) Housing is a heterogeneous and multidimensional good. The rent paid for a small apartment can be the same as the rent for a larger house since houses and apartments differ in size, design, age, furniture, property, number of additional spaces, location, environmental quality, accessibility, etc. It is very difficult to measure unit production and housing demand in general.

2) The house is a durable good. It is subject to consumption and investment. There are two types of real estate markets. The first is the housing service. The consumer goods are traded and the price is set for each housing service unit. In the second, the investment commodity, which is the property, is exchanged, and the unit price of the property is determined.

3) The house is a fixed asset in space and cannot be moved from one place to another.

4) The production of housing contributes to the national, local, and regional economies, but the characteristics of the local market often make it difficult to produce a new house at affordable prices. If the local factors are not conducive to the new construction process, the production of a new house may cost much more than the price of an existing

house, such as a large industry.

5) Building new homes has a large economic footprint for suppliers and contractors, and renovating homes has a minor but similar economic effect. (*Martin Lux, 2003*)

## 5. Conclusion

Housing improves residents' quality of life by providing better health, suitable jobs, financial stability, security, and a diverse population. Housing is the main entry point into economic and social development. Many housing-related activities directly contribute to achieving economic development goals. (*Duane Kissick, 2006*)

Investment in infrastructure provides a good way to stimulate the economy because investment in assets that support economic activity gives positive returns to the country. One of the leading options for infrastructure investment is housing.

Housing investment in developing countries can include the construction of new traditional units, upgrading existing units, or provision of sites and services.

Additionally, housing investment can occur in low-income units or luxury units. In the policymaker's view, the qualitative differences between these types of housing investment aren't trivial as the broader economic gains from housing investment are expected to vary by type of investment. (*Harold Katsura, 1984*).

Rising house prices encourage consumer spending and lead to economic growth as a result of the wealth effect. The decline in home prices affects the consumer, builds confidence, and leads to weak economic growth. (Low home prices can contribute to economic stagnation.)

When there is a decline in home prices, there is usually a negative impact on economic growth. When families see home prices fall, the shape of their wealth declines, and their confidence in spending also decreases.

- Falling home prices cause a negative equity trap (a situation in which a home is less than its mortgage value). This leads to a decrease in expenses and prevents the possibility of capital withdrawal.
- Investment in housing is considered and part of the national wealth. Housing is a target in the government's general plan for investments. Housing production is a stock available to various classes and is related to the state of supply and demand.
- Housing Distribution: Housing investment

depends on supply and demand in the market and will be obtained by those who can afford it.

- Involving NGOs in adopting the idea of small settlements.
- Involve the population in the decision-making process, especially when the national strategy calls for them to extend 25% of the Egyptian lands off the Nile Valley.
- Establishing urban plans goals for old towns by considering them as hotspots, and new towns by considering them as attractions. This would establish the desired migration out of the valley. (Nabil 2004)

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