Higher property prices are not only associated with higher income inequality but also with a higher inequality in household spending, our research shows . We examined three decades of data from 1982 to 2012 in Iran, where income inequality is the highest in the Middle East. We found that a 1% increase in housing costs increases income inequality by 0.125%. This is taking into account other important economic, political and social determinants of inequality (such as income per capita, inflation, government spending and the quality of political institutions). We also found that inequality of spending increases by 0.248% when housing costs are 1% higher.

Although our findings are based on data from Iran, this a common theme for much of the developing and developed world. For example, a similar study in Singapore shows a significant correlation between increasing private property prices and increasing income inequality.

Researchers in the UK also argue that increases in housing prices change the distribution of welfare towards home owners, and away from non-homeowners. Anot her study showed housing is driving a long-term rise in income in seven large developed economies (the United States, Japan, Germany, France, the UK, Italy, and Canada).

Income inequality is among the top challenges for policy makers globally. In a recent survey of 1,767 leaders from academia, business, government and non-profits, The World Economic Forum’s Global Agenda Council found increasing income inequality to be top global concern in 2015.

Income inequality has several harmful consequences for societies. For example, a World Bank study shows that income inequality has a significant negative effect on GDP in the long-run. Inequality has also been identified as one of the main drivers of social unrest in the Arab World , in the recent British vote to leave the European Union and in the US Presidential election.

Why housing costs and inequality are linked

There are a number of reasons why increases in house prices and inaccessibility of housing can lead to increased income inequality.

Property is a very important asset for households that brings many income advantages. Some of these include a return on investment from increases in house prices and the savings households make when they don't have to pay rent. So unaffordable housing restricts low-income households from accessing these financial benefits.

There are also intergenerational effects of housing on inequality. If affordable housing decreases, wealthy families and lower income families become more segregated. This leads to greater differences in education for the children of poor and rich families. For example, research shows parents can make it more likely for their children to grow up to be high income earning adults through the education and the peers that their children have. Those who have a better quality schooling are more likely to earn more as adults. Because of this research also indicates wealthy parents have an incentive to cluster into neighbourhoods with other wealthy families, to decrease the cost of providing high quality education for their children, and for other social reasons.

If there is less affordable housing it makes it easier for this segregation to occur, increasing inequality. For example, there is a significant gap between the quality of education between northern parts of Tehran (home to Tehran's most expensive houses) and southern parts of Tehran.

Rising house prices also stop the migration of unskilled labour to more productive regions, this in turn slows down a mixing of people with different incomes in these areas. This mixing can reduce income inequality, as poorer geographic regions experience faster economic growth .

Rising house prices may also lead to a concentration of wealth, this means those who have wealth also have greater returns on it.

In terms of tackling this type of inequality, governments should expand access to affordable housing finance to lower income families. Policymakers also need to redefine capital gains tax on investment properties to reduce the income differences between landlords and tenants.

Finally, taxation that better caters to low income first-time home buyers may allow lower income households access not only to more stable housing, but also to the longer term financial benefits associated with owning their own homes.

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