

# Housing and the cost of living in early modern Toledo



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## Abstract

Data on housing costs and rental markets for the early modern period are notoriously scarce. Using a new database of rent paid on 183 properties belonging to the Cathedral Chapter of Toledo between 1489 and 1600, we reconstruct housing costs for various social groups and trace the effect of exogenous shocks on the rental market using hedonic techniques. We document a well-functioning market that responded swiftly and predictably to exogenous shocks. We then explore the impact of adding rent to early modern price indices and estimates of living standards. Price indices show a moderate effect. The addition of rent reduces the gap between Toledo and two northern European locations by up to 9.5%.

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## 1. Introduction

Housing is one of the most essential services consumed by human beings, and real estate has long been a key store of wealth. The decision of where to reside is a central one in the life of virtually every individual.<sup>1</sup> Yet, as the focus turns to times past, our knowledge about housing, real estate wealth, and location decisions declines exponentially. Few systematic data on real estate values or housing costs exist anywhere in the world before 1800. Without them, our knowledge about a crucial element of living standards remains incomplete.

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<sup>1</sup> The field of urban economics studies the nature of cities, including their spatial distribution, the economies of agglomeration they generate, and the location decisions of individuals. For an introduction, see Glaeser (2008).

We present a new database of rents for 183 urban properties owned by the Cathedral Chapter of Toledo, observed yearly between 1489 and 1650. Toledo was Castile's – and indeed Spain's – second largest city in the sixteenth century. It often hosted the royal court; it also served as the main spiritual center and was a thriving commercial hub. Our sample is composed of houses and shops from a wide variety of neighborhoods in the city, rented to people of very diverse social extraction. Leases were adjudicated at public, competitive auctions, thus ensuring that we are observing market rents. Detailed data on location and property size allow us to identify housing costs for various groups with precision, and to estimate the hedonic determinants of demand for housing. We are thus able to produce a more accurate picture of living standards that has been possible so far.

While price history has long been a preoccupation of economic historians, most research on early modern Europe continues to rely on the efforts of the International Scientific Committee on Price History in the 1930s. Because ISCPH data were sourced almost entirely from institutional archives, two major items in the standard consumer basket are often absent from it: bread, which was often baked at the institutions themselves, and rent. Allen (2001) provides an elegant solution to estimating bread prices where they are not available, using the “parts plus labor” regulation in force in most European cities. As for rent, progress has been slow and spotty. Lindert and Williamson (1983) introduced a rent series for their eighteenth and nineteenth century English indices. Ormrod et al. (2011) have compiled a decadal index for London from 1580 onwards, but their rent data only covers a single city block. For the Netherlands, the work of Lesger (1986) has allowed a detailed view of rental costs in Amsterdam between 1550 and 1850. These data were used by Van Zanden (2005) to study living standards between 1450 and 1800, and by Eichholtz et al. (2011) to construct a quality-adjusted rental index. Scholliers (1962) provides an index of rents for Antwerp starting in 1500.<sup>2</sup> Indices constructed with Scholliers' methodology also exist for Brussels (Avondts, 1971), Bruges (Mason, 1959), and Ghent (Van Ryssel, 1967). Barbot and Perocco (2013) study rents in Milan between 1560 and 1660. For Spain, Llopis et al. (2009) and Llopis and García Montero (2007) introduced rent in their price indices for the seventeenth

and eighteenth centuries. With the exception of a handful of Flemish and Dutch cities, however, there is very little indication of rental costs for early modern Europe.<sup>3</sup>

Price histories are crucial for evaluating living standards, both in absolute and in comparative terms. Without the benefit of rent data, these exercises require assumptions on both the share of rent in expenditure and on the behavior of the series. On the first count, it is often assumed that rent did not exceed 5% of expenditure for a working class family.<sup>4</sup> Our data suggests that, in sixteenth century Toledo, the norm for working class families was close to double that amount. On the second issue, the standard assumption is that rents behaved in the same way as the general price indices. Our data provide a clear counterexample, with the paths of rent and that of the general index diverging for periods that could span decades at a time. To assess the impact of rent on existing estimates, we reconstruct the analysis of comparative living standards in Allen (2001). Adding rent has a measurable, if not dramatic, impact on the consumer price index. However, when comparing living standards between different locations, the results can be noteworthy. The gap in living standards between Amsterdam and Toledo, for example, is reduced by 9.5% after the addition of housing costs.

In Section 2, we give some background on the history of Toledo and its Cathedral Chapter. Section 3 provides a detailed description of our data, and Section 4 teases out the main trends in the cost of housing. In Section 5 we examine the determinants of housing costs and present hedonic rent indices for different quartiles of the rent distribution. In Section 6, we explore the implications of adding rent to consumer price indices and estimates of living standards. Section 7 concludes.

## 2. Historical background

### 2.1. *The golden age of a city*

Settled continuously since pre-Roman times, Toledo enjoys a privileged location almost at the geographical center of the Iberian peninsula. Set atop a hill and surrounded on three sides by the Tagus river, the site is easily defended, while sitting at the crossroads of the major trade routes that cross the central plateau. Already

<sup>2</sup> Schollier's series are somewhat problematic. His methodology makes it impossible to back out actual rent costs, and the quality of the index is quite variable — for example, data on only 9 properties are used for the years before 1570. It is also not possible to determine to what extent these rents reflected market prices.

<sup>3</sup> Historical real estate purchase data are even more rare. Eichholtz (1997) constructed a quality-adjusted index of purchase prices of buildings in the Herengracht canal of Amsterdam between 1628 and 1973, while Raff et al. (2013) studied property transactions in Beijing between 1644 and 1840.

<sup>4</sup> See Section 6 for a detailed discussion of this assumption and its effects.

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