Abstract for “Homeownership Promotion in Belgium, Germany and the Netherlands – A Decomposition Approach to Explain Differences in Homeownership Levels”

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The topic of homeownership has received increasing interest over the past years, also because of the role of the housing market in the Great Recession. Tenure status is an important determinant of financial security of households, with housing costs representing a large share of the household budget, especially at the bottom of the income distribution. Across European countries we find considerable differences in tenure status: Germany, for instance, has with less than 50% a very low share of homeowners, while Belgium is with around 70% at the higher side of the spectrum and the Netherlands has a homeownership rate somewhere in between these two countries. Homeownership is both a wealth component and a means of old-age provision (see Frick and Grabka, 2003). Earlier studies have shown that homeowners have significant lower poverty rates than renters do (e.g. Frick et al. (2010)): especially elderly homeowners have lower housing costs than renters, as they in general paid have off their mortgage. Moreover, owning a house is an important component of household gross wealth, providing households with an extra means of facing financial problems. Little is however known about why homeownership rates differ across countries (Andrews and Caldera Sanchez (2011) investigate the determinants of increasing homeownership rates within countries over time): is this due to different socio-demographic patterns, economic differences or policies? Nevertheless, we think that getting a better grasp of these divergent rates is relevant for an improved understanding of differences in distributive outcomes across countries as well as from a policy perspective.

In this paper we compare three countries (Belgium, Germany and the Netherlands) that not only differ substantially in terms of homeownership rates, but also in terms of housing policy instruments. These countries are also not substantially affected by housing bubbles which ease the comparability. We try to find the determinants of these differences in homeownership rates and try to gauge to what extent housing policies play a role here. As policy instruments we focus on those that directly impact on disposable household income, notably tax measures (e.g. mortgage interest tax reliefs, property taxes), direct housing subsidies (like the so called Eigenheimförderung in Germany) and cash and in-kind housing benefits (e.g. through social housing). We will use a Fairlie decomposition method (see Fairlie, 2005), which is developed for binary dependent variables as an extension of the Blinder-Oaxaca decomposition. As covariates for understanding differences in homeownership rates across these three countries we use socio-demographic characteristics of the household (e.g. age, family status and household type, migration background, household income, health status, risk preferences), information about how the property was acquired (to capture the impact of inheritances), housing price-to-rent ratios, and institutional variables (e.g. mortgage interest payments, debt/income ratio, housing benefits). With this decomposition method, it is also possible to derive the contribution of the different covariates in explaining the difference in homeownership rates across countries. The analysis will be performed in a first instance on the Socio-Economic Panel for Germany and the EU-SILC for Belgium and the Netherlands. We will also explore the potential of using the newly released Household Finance and Consumption Survey (HFCS) from the European Central Bank for our study, thus studying in more depth the wealth component of homeownership.
References


