Housing Wealth Across Countries:
The Role of Expectations, Institutions and Preferences

August 15, 2023

Preliminary and Incomplete—Please Do Not Quote

Julia Le Blanc[1] — European Commission
Jiri Slacalek[2] — European Central Bank
Matthew N. White[3] — University of Delaware

Abstract

Homeownership rates and holdings of housing wealth differ immensely across countries. We specify and estimate a life cycle model with risky labor income and house prices in which households face a discrete–continuous choice between renting and owning a house, whose sale is subject to transaction costs. The model allows us to quantify three groups of explanatory factors for long-run, structural differences in the extensive and intensive margins of housing: homeownership rates and value of housing wealth of homeowners. First, in line with survey evidence, we allow for differences in expectations of house prices. Second, countries differ in the institutional set-up of the housing market: maximum loan–value ratio and costs of renting, maintaining and selling a house. Third, we allow for differences in household preferences: the dispersion in discount factors, the share of housing expenditure and the bequest motive. We estimate the model using micro data and provide a decomposition to interpret what drives the cross-country differences in housing wealth. We find that all three groups of factors matter, although preferences less so. Differences in homeownership rates are strongly affected by (i) house price beliefs and (ii) the rental wedge, the difference between rental costs and maintenance costs, which reflects the quality of the rental market. Differences in the value of housing wealth are substantially driven by housing maintenance costs.

Keywords Housing, Homeownership, House Price Expectations, Housing Market Institutions, Cross-Country Comparisons

JEL codes D15, D31, D84, E21, G11, G51

[1]Le Blanc: European Commission, Joint Research Centre, Ispra, Italy, email: julia.le-blanc@ec.europa.eu [2]Slacalek: Research Department, European Central Bank, Frankfurt, Germany, http://www.slacalek.com/, email: jiri.slacalek@ecb.europa.eu [3]White: Department of Economics, University of Delaware, United States, email: mnwecon@udel.edu

First version: September 2023. We thank Sabrina Ben Said, André Ferreira Coelho, Neïs Guyot, Fabian Nemeczek, Ana Sofia Pessoa, Javier Ramos Perez, Elisa Reinhold, Camilla Sacca and Gerome Wolf for excellent research assistance, and Chris Carroll, João Cocco, Russell Cooper, Nicola Fuchs-Schündeln, Michael Haliassos, Thomas Hintermaier, Winfried Koeniger, Dirk Krueger, Alexander Ludwig, Benjamin Moll, Gonzalo Paz-Pardo, Monika Piazzesi, Morten Ravn, Martin Schneider, Gianluca Violante and various seminar audiences for useful comments. The views presented in this paper are those of the authors, and do not necessarily reflect those of the European Commission or the European Central Bank. This paper uses data from the Eurosystem Household Finance and Consumption Survey.