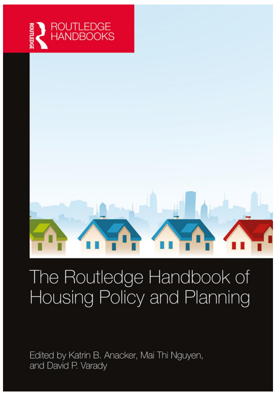

The Routledge Handbook of Housing Policy and Planning

Katrin B. Anacker, Mai Thi Nguyen, David P. Varady

Demographic and Policy Factors Affecting Homeownership Across OECD Countries

Publication details
https://www.routledgehandbooks.com/doi/10.4324/9781315642338-9
Mark Calabria, Vanessa Brown Calder
Published online on: 12 Jul 2019

8

DEMOGRAPHIC AND POLICY FACTORS AFFECTING HOMEOWNERSHIP ACROSS OECD COUNTRIES

Mark Calabria and Vanessa Brown Calder

Introduction

There are perhaps few areas of the economy more directed by government supervision and subsidy than the housing market (Bramley 2003; Malpezzi 2005). A number of countries, including the United States, directly provide housing to eligible citizens, while almost all offer some sort of rental or homeownership subsidy, often via the tax code. Most countries provide some limited supply of publicly owned rental housing, such as council housing found in the United Kingdom or *Habitation à Loyer Modéré* of France (Blanc 2010). Obviously, the construction of housing remains highly regulated, from land use to building codes. Housing also played a dominant role in the recent Great Recession, more so than any other asset class. Housing represents the largest single asset holding for most owner-occupied households, and shelter is universally considered a basic need (United Nations 1948, see also the chapter authored by W. Dennis Keating). For these and other reasons, policymakers, economists, demographers, and others devote considerable attention to monitoring housing outcomes, including homeownership and homeownership rates.

We begin this chapter with an in-depth analysis of homeownership trends in the United States and examine important homeownership policy issues, such as racial and ethnic differences in homeownership, and review federal policies to promote homeownership. We then move to a comparison of homeownership rates among members of the Organization for Economic Co-operation and Development (OECD). We present descriptive statistics across countries, primarily as a panel but with some time series, where data permits. We will discuss cross country differences for select demographic, economic, and policy factors, focusing on housing finance and affordability.

We then focus on the relationship between homeownership and demographic factors such as age, marriage, residential mobility, and urbanization, which tend to strongly correlate with homeownership. We then discuss correlations between homeownership and public policy, arguing that the mortgage interest tax deduction has little impact on the homeownership rate, while other policies such as taxes on imputed rent and the mass privatization of public housing do correlate with changes in homeownership rates.[1] We discuss the United States as a case study to highlight the greater importance of the relationship between demographics and homeownership compared to policy factors. We conclude that in most cases homeownership rates are primarily influenced by demographic and economic factors rather than public policies. Outliers are the result of unique policy choices, such as the taxation of imputed rent in Switzerland.

Homeownership in the United States

The United States has experienced a number of distinct phases in regard to homeownership (see Figure 8.1). The first phase was the colonial period to the Civil War (Collins and Margo 2001, 2011). The second phase, 1865 to 1900, witnessed a modest decline in the homeownership rate among White households but a large increase in the homeownership rate among African Americans, from around 8 percent in 1870 to just over 20 percent in 1900 (Collins and Margo 2001, 2011). With the exception of very small programs for shipbuilders and war production workers in 1918, federal policy toward homeownership was largely non-existent from 1870 to 1890, although some private and local government initiatives did exist (Anacker 2015).

The third phase of homeownership witnessed the birth of various New Deal housing programs, although the homeownership rate remained relatively flat during the 1930s and 1940s due to the Great Depression and the following World War II. While New Deal programs made it easier for middle-income families to obtain mortgages, the effects only became apparent after World War II (Anacker 2015).

The fourth phase of homeownership began at the end of World War II and ended in 1960, and led to the development of the interstate highway system, extensive rent controls in a number of cities, and the creation of the Veterans Home Loan program. Fetter (2013b: 29) estimates that "at least 10 percent of the urban increase in homeownership over the first half of the 1940's [sic]" is the result of rent control as this policy motivated landlords to sell at uncontrolled prices rather than renting at the controlled price.

During this phase, the homeownership rate increased from around 45 percent to 62 percent. Fetter (2013a) estimates that 7.4 percent of the overall increase in homeownership from 44 percent in

Figure 8.1 Homeownership Rate, United States, 1890–2015.

Source: U.S. Bureau of the Census.

1940 to 62 percent in 1960 resulted from the establishment of the Veterans Home Loan program, granted under World War II and Korean War GI bills (Fetter 2013a). Other scholars attribute the increase in homeownership during this period to innovations in mortgage finance and demographic shifts (Chambers et al. 2016).

Between 1994 and 2005 the homeownership rate increased substantially (see Table 8.1). For people younger than 25, the rate increased by nearly 11 percentage points, compared to around 2 percentage points for households aged 55 to 64. This increase was partly explained by the relaxation of mortgage underwriting standards. For example, down payment requirements declined from more than 20 percent in the 1980s to less than 20 percent in the 1990s (Acharya et al. 2011). However, the homeownership rate has decreased after 2005, especially among young households, who typically have lower credit scores (Fry and Brown 2016).

Since the mid-1990s, however, the African-Americanhomeownership gap has grown despite modest nominal gains in the African-Americanhomeownership rate and despite the Community Reinvestment Act, the Equal Credit Opportunity Act, and the Fair Housing Act, which center on reducing racial and ethnic homeownership gaps. Historically, non-Hispanic White and Asian households have had substantially higher homeownership rates than other racial and ethnic groups, for example, African Americans and Hispanics/Latinos (Russell Sage Foundation 2012; U.S. Bureau of the Census 1993). As of this writing, the homeownership rate for non-Hispanic White households is 72.9 percent, more than 30 points higher than that of African-Americanhouseholds at 41.6 percent. Since the Great Recession, African-Americanhomeownership rates have been at low levels that have not been seen since 1970. Hispanic/Latino homeownership rates have largely mirrored those of African-Americanhouseholds. In 2017 the Hispanic homeownership rate was 46.2 percent (Calderon 2017). Asian homeownership rates have tended to be about 10 percentage points higher than those for Black and Hispanic households. In 2018, the Asian, Native Hawaiian, and Pacific Islander homeownership rate was 57.3 percent (U.S. Bureau of the Census 2018).

Since the 1970s scholars have attempted to empirically estimate the drivers of the racial and ethnic homeownership gap (Coulson 1999; Gabriel and Rosenthal 2005; Jackman and Jackman 1980). While factors such as age, household structure, household income, and housing costs, among others, explain most of the difference, racial and ethnic variables usually show statistical significance. Whether discrimination partially explains different homeownership outcomes among racial and ethnic groups remains a point of continued debate (Bayer et al. 2014; Black et al. 2015).

For example, Hilber and Liu (2007) find that the Black-White homeownership gap disappears after controlling for demographic and socioeconomic characteristics including household income, age of the head of the household, household structure, number of years since household formation, education, wealth, parental wealth, and location preferences. The racial and ethnic homeownership gap will ultimately depend upon future trends in household income and wealth, marriage, education, labor force participation, and immigrant status (Anacker 2015).

Table 8.1 Homeownership Rate in the United States by Age, Race, and Ethnicity, 1994, 2004, and 2014.

	All Households	*Age of Householder*					*Race/Ethnicity of Householder*				
		Under 35	*35–44*	*45–54*	*55–64*	*65 and Over*	*White*	*Hispanic*	*Black*	*Asian Other*	*All Minority*
1994	64.0	37.3	64.5	75.2	79.3	77.4	70.0	41.2	42.5	50.8	43.2
2004	69.0	43.1	69.2	77.2	81.7	81.1	76.0	48.1	49.7	59.7	51.0
2014	64.5	35.8	59.7	70.7	76.3	79.9	72.6	45.4	43.8	56.7	47.2

Source: U.S. Bureau of the Census.

Homeownership in the OECD Countries

Despite homeownership being characterized as part of the American Dream, the homeownership rate in the United States is surprisingly similar to that of other OECD countries. Even at the peak of the U.S. homeownership rate at 69 percent in 2004, half of OECD countries still exceeded this rate, with the (unweighted) OECD average of 70 percent. Only six of the current 34 OECD countries have homeownership rates below that of the United States, which was most recently measured at 64 percent (see Table 8.2), while half a dozen OECD countries have rates clustered around that of the United States.

The distribution of OECD homeownership rates closely resembles a normal distribution with a few interesting outliers. Most prominent is that of Switzerland at 44 percent, followed by Germany at 52.5 percent. At the other extreme is Slovakia at 90.3 percent, followed by Hungary at 89.1 percent, both of which are formerly Communist countries where mass housing privatization programs propelled homeownership rates.

In sum, homeownership rates across the OECD appear to be clustered by region. The highest rates are found in Central and Eastern European, often among former Communist Bloc states. Next are those countries located in Southern Europe. The English speaking countries of the OECD fall in the middle, while the Nordic and Continental European countries have the lowest rates of homeownership. Obviously, there are exceptions that stand out. The biggest exceptions to these regional patterns are Norway (with 84 percent), which far exceeds other Nordic countries, and Belgium (72 percent) and Luxembourg (73 percent), which significantly exceed other countries of Continental Europe. The Pacific members of the OECD (Japan and South Korea) also display some of the lowest homeownership rates (61 and 54 percent, respectively). These differences will be discussed later.

This chapter focuses on the 34 members of the OECD due to the greater availability of longitudinal data for OECD countries.[2] The United Nations Center for Human Settlements (UNCH) has periodically collected data for a larger number of countries with data going back to 1993. The first release of UNCH data provided homeownership rates for 106 countries. Interestingly enough, the distribution of homeownership rates in the UNCH data is similar to that found among OECD countries (Fisher and Jaffe 2003), suggesting that a focus on the OECD will have some lessons to offer for non-OECD countries.[3]

This chapter focuses on OECD countries for several reasons. First, while data on homeownership are broadly available, measures of some important drivers of homeownership are not. Country-specific legal, cultural, political, and economic characteristics diverge more beyond the OECD. Second, housing characteristics are more comparable within the OECD than outside of it. For example, the average size of a home in Australia, Canada, and the United States (all over 2,000 square feet) is more than twice that found in the relatively wealthy countries of Germany, France, or Sweden. However, it is more than four times the size of an average house in India. Housing quality is even more difficult to compare within the OECD and between the OECD and other countries. Thus, we limit our discussion to the 34 OECD countries.

Homeownership Rates Since the 1980s

The change in the homeownership rates among OECD countries since the 1980s is worth exploring. Around the time of the fall of the Berlin Wall countries in Central and Eastern Europe, particularly in Slovakia, Poland, Hungary, Estonia, Slovenia, and the Czech Republic, had average homeownership rates that were around 15 percentage points lower than today. This increase over a quarter century is remarkable, similar to the increase that occurred in the United States between the end

Table 8.2 Homeownership Rates Across OECD Countries.

Country	*Most Recent Year*	*Homeownership Rate Most Recent Year*	*Homeownership Rate 1990*	*Homeownership Rate 1980*
Australia	2013/2014	67%	71%	69%
Austria	2014	57%	50%	48%
Belgium	2014	72%	65%	59%
Canada	2013	68%	61%	61%
Chile	2012	67%	72%[1]	N/A
Czech Republic	2014	79%	40%	38%
Denmark	2014	63%	52%	52%
Estonia	2013	81%	N/A	N/A
Finland	2014	73%	65%	68%
France	2014	65%	54%	47%
Germany	2014	53%	38%	31%
Greece	2014	74%	77%	75%
Hungary	2014	89%	74%	70%
Iceland	2013	78%	80%	88%
Ireland	2013	70%	81%	76%
Israel	2011	68%	73%[2]	N/A
Italy	2014	73%	67%	59%
Japan	2013	62%	62%	61%
Luxembourg	2013	73%	67%	60%
Mexico	2010	76%	78%	66%
Netherlands	2014	67%	45%	42%
New Zealand	2013	65%	73%	71%
Norway	2013	84%	67%	78%
Poland	2014	84%	55%[3]	N/A
Portugal	2014	75%	67%	52%
Slovakia	2014	90%	49%	N/A
Slovenia	2014	77%	61%	N/A
South Korea	2014	54%	53%[4]	N/A
Spain	2014	79%	78%	75%
Sweden	2014	69%	40%	42%
Switzerland	2014	44%	31%	30%
Turkey	2011	67%	N/A	N/A
United Kingdom	2013	65%	67%	55%
United States	2014	64%	64%	64%

Source: authors, based on sources listed in data appendix.

1 2000
2 1995
3 2000
4 1995

of World War II and the early 1960s and in the United Kingdom in the 1980s, although to a lesser degree. All these increases were facilitated by significant policy changes. Post-Soviet countries and the United Kingdom engaged in large-scale housing privatization, the latter based on the Housing Act of 1980 and its Right to Buy program for sitting council tenants (Clapham and Kintrea 1996).

Switzerland's homeownership rate also grew from 30 percent in 1980 to 44 percent in 2014, but for different reasons. The OECD Economic Survey attributes the growth in homeownership to a strong economy, a low rate of rental vacancies, unprecedentedly low mortgage interest rates, and a recent policy change that allows homebuyers to tap into mandated pension savings to make down payments (OECD 2015). Schneider and Wagner (2015) attribute the initial low Swiss rate primarily to the legal framework that first allowed for the purchase of housing units beginning in 1965. Nevertheless, the relatively neutral Swiss taxation scheme, which taxes owner occupiers and landlords equivalently yet also provides a tax subsidy for both groups, combined with conservative lending standards, keeps homeownership rates relatively low (Schneider and Wagner 2015).

While there may be some year-to-year variation, and even an uptick associated with a housing boom in places like the United States, Canada, and Spain, a surprisingly large number of countries have seen a stagnant or even a declining homeownership rate overall since 1980 (Buck 2017; Carlson 2017; see Table 8.2). For instance, despite temporary increases during the late 1990s and early 2000s, the United States currently has a homeownership rate matching that of the late 1960s. France, Finland, and Denmark have seen almost no change in the homeownership rate since at least the early 1990s, if not earlier. The relatively slow growth in disposable household incomes in these countries appears to be the primary driver (Arundel and Doling 2017).

Interestingly, some countries in Continental Europe have seen dramatic increases in their homeownership rates since the 1980s. The largest increase in the rate occurred in Germany, from 36 percent in 1994 to 52 percent in 2014. Although the current homeownership rate is still the second lowest in the OECD, the increase by 16 percentage points over 20 years is the largest. The primary driver of this increase was the privatization of state-owned housing stock in former East Germany after 1989, followed by the strong economy with relatively low unemployment rates in the Southern and Western parts of Germany, and the recent record-low interest rates set by the European Central Bank (Jones and Shotter 2017; Nienaber 2016).

The homeownership rate has also significantly increased in Austria and the Netherlands. Austria's homeownership rate increased from 46 percent in 1987 to just over 57 percent in 2014, and the Netherlands' homeownership rate grew from 47 percent in 1994 to almost 67 percent in 2014. In the latter case this growth may be attributed to state policies promoting homeownership, including subsidies for homeowners and a national mortgage guarantee that was introduced around the beginning of the early 1990s (Arundel and Doling 2017; Schiffer 2002; Vandevyvere and Zenthofer 2012). Some countries in Southern Europe have had a similar growth in the homeownership rate, although starting from a higher base. Italy and Greece currently have rates of approximately 74 percent, around 10 percentage points higher than their rates in the early 1990s. Homeownership rates in Spain and Portugal have long been among the highest in Western Europe, for the past few decades hovering in the high 70s (see Table 8.2).

Some countries such as the U.S. may have higher current homeownership rates for cultural reasons that are difficult to measure across countries. In the U.S., homeownership is often associated with the term "ownership society," i.e., the belief that homeownership leads to taking responsibility for and exercising control over an individual's life and surroundings. As President George W. Bush stated, "Part of being a secure America is to encourage homeownership. So somebody can say, this is my home, welcome to my home" (Bush 2002).

While the 2014 World Values Survey (WVS) did not ask questions related to homeownership, respondents were recently queried for the first time on how much freedom of choice and control over their own lives they believed they had, on a scale of 1 to 10.[4] While only 15 OECD countries were included in the particular wave, results show a weak positive correlation between homeownership rates and the value placed upon freedom of choice and control. Surveying individual homeowners provides a similar result: Homeowners report higher levels of perceived control over their lives than renters (Tighe and Mueller 2013). Future research efforts could focus on the present role of culture on homeownership in OECD countries.

Demographic Factors Affecting Homeownership

The strongest and most consistent predictor of the homeownership rate at the individual level is age. As individuals enter adulthood they often rent due to enrollment in higher education, a more fluid relationship with the labor market, and lack of savings for a down payment. As homeownership generally entails significant fixed transaction costs, individuals and households tend to postpone purchase until their employment has reached some degree of stability (Haurin and Gill 2002). In the U.S., homeownership rates are generally twice as high for individuals at retirement age of 65 and over (79.9 percent in 2014) than for individuals under 35 (35.8 percent in 2014) (see Table 8.1).

The transition from renter to homeowner often accompanies another transition—marriage (Hendershott et al. 2009). There is a positive relationship between homeownership and marriage rates. In the United States, every hypothetical percentage point increase in the proportion of married households raises the homeownership rate by 1.12 percentage points (Andrews and Sánchez 2011a). The delay of marriage and childbearing may place downward pressure on homeownership rates in most OECD countries, particularly in Spain, Italy, Germany, and Australia (Andrews and Sánchez 2011b).

However, there is a negative relationship between homeownership and the average age at first marriage. For example, in the United States the median age at first marriage for men has increased from 22.5 years in 1970 to over 28 years as of this writing. Similar increases in the age at first marriage have occurred in other OECD countries. In Germany marriage rates for men at ages 55 to 59 remain over 4 percentage points lower than in the United States (United Nations 2015).

Interestingly, there is a positive relationship between homeownership and the proportion of the population never getting married. In the United States, the proportion of males between 25 and 35 that were never married literally doubled, from 19 percent in 1950 to 39 percent in 2000. However, the homeownership rate for this group increased due to changes in mortgage underwriting, the growth in female labor force participation, and a larger proportion of unmarried but cohabitating singles who are now able to access mortgage credit. The homeownership rate among unmarried individuals in the United States increased from 36 to 43 percent between 1985 and 2015, as well (Pollock 2016). In conclusion, while marriage has remained an important factor of homeownership and the differences across countries, this relationship is likely more fluid than other variables, such as age (Mulder and Thomas 2016).

Previous research on United Nations Communications Group (UNCH) countries[5] found a strong negative relationship between homeownership and urbanization, i.e., the higher the percentage of a country's population that lives in an urban area, the lower its rate of homeownership (Fisher and Jaffe 2003). For example, a hypothetical 20 percent increase in the urbanization rate, similar to the difference in the urbanization rate between France and Spain, would decrease the homeownership rate by about 5 percent. For example, those OECD countries with the highest rates of homeownership, Slovakia, Poland, and Hungary, also have low urbanization rates. Japan has a relatively low homeownership rate of 62 percent and a relatively high urbanization rate, while Switzerland has a relatively modest level of urbanization and the lowest homeownership rate among OECD countries (Fisher and Jaffe 2003). However, there are exceptions to the negative relationship between homeownership and urbanization. For example, Norway, one of the most highly urbanized OECD countries, has one of the highest homeownership rates among countries in Northern and Central Europe.

Furthermore, there is also a positive relationship between homeownership and ethnic diversity in many countries; sociologists have speculated that homeownership provides a way for populations to segregate themselves from people with different backgrounds (Fisher and Jaffe 2003).

In sum, demographic data alone explain about three-fourths of the variation in homeownership rates, on average (Andrews and Sánchez 2011a). However, this finding does not control for policies that ideally should be controlled for. Some of these policies are outlined in the following text.

Policy Factors Affecting Homeownership

In addition to the strong explanatory power of demographic factors, national policy differences, i.e., differences in national political or legal systems, also explain homeownership rates (La Porta et al. 2008).

Fisher and Jaffe (2003) grouped countries by their legal system and found significant differences across them. Countries with legal systems that are entirely or partially based on British Common Law have higher homeownership rates than countries with legal systems that are based on French civil law, followed by countries with Scandinavian or German civil law traditions. The reason for the relatively high homeownership rates in countries with a British Common Law tradition may be that their legal structures are associated with more efficient dispute resolution and greater judicial independence, resulting in more efficient contract enforcement and stronger private property rights. On the other hand, civil law tradition is associated with the opposite: less efficient contract enforcement and greater public ownership of property.

Aside from different legal systems, governments have proactively or inadvertently used a variety of other policy levers to influence homeownership rates. For example, per capita government spending, taxes and homeownership transfers, the Mortgage Interest Deduction (MID), transfer and registration fees, and changes to loan-to-value ratios on government-backed mortgages are all policy factors that may influence homeownership. Per capita government spending is a policy choice that seems to have implications for the homeownership rate. In a cross-national study a higher per capita spending level was associated with a decrease in the homeownership rate because social spending and homeownership both act as forms of social insurance, and more of one means less of the other (Conley and Gifford 2006). For example, if the United States were to increase the size of per capita government spending on public pensions to match that of the Netherlands' relatively large public expenditure on public pensions, the U.S. homeownership rate would decrease by about 2 percentage points, all else equal. Greece, Italy, and Spain are unique because they have relatively high per capita government spending and relatively high homeownership rates (Castles and Ferrera 1996).

Taxes and homeowner-specific transfers also affect the homeownership rate. Most countries that subsidize homeownership generally do so via the tax code and often do so in rather complex ways. Switzerland—a good example of this complexity—allows mortgage interest payments to be deducted. However, Switzerland imposes a wealth tax on net home equity, or home wealth.[6] This tax is posed in addition to the various, and relatively high, transfer, registration, and capital gains taxes that are levied, depending on the amount of gain and period of ownership of residential real estate in Switzerland. The result is that Switzerland has a very low homeownership rate and that those homes that are owned are highly leveraged, or have a high debt to equity ratio. The effects of Switzerland's tax and transfer policies on homeownership and borrowing can be seen via comparison with neighboring Austria, whose homeownership rate is 12 percentage points higher than Switzerland's, and its mortgage debt to GDP is two-thirds lower. Austrian households hold greater equity in the homes they own.

For many countries the most widely offered subsidy to homeownership is the MID, which causes a difference between mortgage interest rates and the after-tax cost of debt financing. Johansson (2011) has analyzed this difference across OECD countries. For example, while the Netherlands and Denmark offer relatively generous MIDs, Italy and Luxembourg offer very modest deductions. The United States, Sweden, and Belgium fall in the middle of this distribution. Surprisingly, Johansson's results suggest that the MID has very little, if any, impact on homeownership rates as this subsidy is capitalized into the price of homes. Indeed, the MID increases home prices. While the deduction benefits existing homeowners, it may cause housing affordability issues for first-time homebuyers. In addition to downward pressure being put on homeownership rates, Johansson claims that the MID has "adverse efficiency effects on housing and other markets by distorting the allocation of saving and investment" (Johansson 2011, 8). Bourassa et al. (2013) conclude that a removal of the MID would likely increase homeownership rates and estimate that while MID policies lower the user cost of housing, such reductions are canceled out by the increase in prices caused via inflated demand. Indeed, the MID causes the greatest increase in house prices in areas where restrictive zoning or land use regulations discourage homebuilding and homeownership.

Similar to the MID, other government policies may inadvertently act as barriers to homeownership. Transfer and registration fees are a good example as they usually cannot be financed and must be paid out of pocket; they can be a substantial barrier to home purchase. As one would expect, the higher the transfer and registration fees, the lower a country's homeownership rate. Germany, with one of the lowest homeownership rates in the OECD, has uniquely high transfer and registration fees, which range from 3.5 to 5 percent of the house price (Just Landed n.d.). Allison (2013, 54) states that "for young people [who] anticipate moving often, the transaction cost (which is material) of buying and selling houses may overwhelm the economic benefits of owning." In the United States, transfer fees are usually well under 1 percent, although they differ widely across states and counties. Even in states at the high end (Delaware) and in the District of Columbia, transfer and recording fees are approximately 2 percent of the house price, still well below that in Germany (National Conference of State Legislatures n.d.). Policy reforms that reduce transfer and registration fees might have a positive effect on the incentives that drive home purchasing decisions.

Interestingly, differences in allowable loan-to-value (LTV) ratios, i.e., the proportion of the mortgage in relation to the total appraised value of the property, do appear to impact homeownership rates across OECD countries, particularly for younger households. The maximum LTV ratio is generally set by either bank regulators or government mortgage guarantors. In the United States, the Federal Housing Administration has a maximum LTV of 96.5 percent (U.S. Department of Housing and Urban Development 2016). Andrews and Sánchez (2011a) estimate that in a typical OECD country a 10 percentage point increase in LTV, from, for example, 80 to 90 percent, increases the homeownership rate of those aged 25 to 34 by 4.4 percent, although increases are considerably smaller for older individuals. Goodman and Nichols (1997) argue that such increases in the allowable LTV may simply be accelerating homeownership for individuals who would have become homeowners regardless.

Conclusion

There is a large literature on the benefits of homeownership, as well as a smaller literature on the costs (Rohe and Van Zandt 2011). The purpose of this chapter was to examine what factors influence homeownership rates. We compared OECD countries and reviewed relevant explanatory variables. In sum, to a rather large degree, homeownership rates are driven by demographics. The largest factor is age, followed by household structure, particularly marital status and urbanization to a lesser degree. The projected aging of the population in the United States and Europe, all else equal, will lead to lower homeownership rates. Declining familial stability and stagnant, if not declining, real wages will likewise negatively impact homeownership. Continued immigration may accelerate the decline in the homeownership rate as immigrant status has a negative impact on homeownership in the short term (Coulson 1999). However, after the Global Financial Crisis, the decrease and convergence of mortgage interest rates may reverse, and interest rates may increase due to economic factors, for example, increased business investment and a strengthening labor market. Alternatively, as a result of the debt crisis and ongoing political and economic uncertainty in a post-Brexit Europe mortgage costs may increase in some EU countries, such as Greece, Italy, and Spain. The net effect is that homeownership rates are unlikely to grow in most of Europe, with exceptions in select countries.

Demographics may well be destiny when it comes to housing, but policy choices are relevant. The most popular policy, the MID, actually appears to slightly lower homeownership rates, a counterintuitive conclusion, as do other subsidies that broadly increase the amount of mortgage debt in an economy (see Figure 8.2) Glaeser and Shapiro (2002) find that the higher the average value of the

Figure 8.2 Mortgage Debt to GDP Ratio, 2012.

Source: authors, based on European Mortgage Federation Hypostat (2013).

MID subsidy, the lower the country's corresponding homeownership rate. In the United States, the bulk of MID benefits go to borrowers who itemize their deductions and who own homes in locations with high home prices, where the MID further raises home prices and puts homeownership further out of reach (Calabria 2013). These households are likely to own a home even in the absence of the subsidy (Glaeser and Shapiro 2002). Groups across the ideological spectrum have called for its reform or elimination and the Tax Cuts and Jobs Act of 2017 reduced the MID and limited its application, though did not eliminate it[7] (Becker et al. 2017). Subsidies that increase the size of the mortgage sector should also be reconsidered, for example, the non-taxation of imputed rent for homeowners relative to renters, especially when they largely increase housing demand without also resulting in an increase in housing supply.

Relaxing down payment requirements in the United States has had a mixed history. Doing so is strongly associated with higher rates of homeownership among households under the age of 35. Yet such gains appear to be highly cyclical and perhaps transitory. Considerable costs in terms of both public subsidy and financial stability are also associated with lower down payments. Given the already low down payment requirements in the United States, it would appear that this option is only open to other OECD countries and is one that should be considered with great caution.

Although all policy interventions have costs and benefits, large-scale privatization of government-owned housing promises considerable gains to homeownership. Housing privatization in both the United Kingdom and the former Eastern Bloc countries resulted in unprecedented increases in homeownership. The Right to Buy program in the United Kingdom raised the national homeownership rate by around 15 percent (Disney and Luo 2017). Given the high levels of socialized rental housing that remain in many OECD countries, such as Austria, Ireland, and the Netherlands, privatization is an option for about half of the OECD countries. Some countries, such as the Netherlands, are currently engaged in such efforts (Braga and Palvarini 2013; Elsinga et al. 2014, see also the chapter authored by Marja Elsinga and Marietta Haffner). Other countries, such as the United States, that lack a history of large-scale government ownership of housing could only see very modest gains from privatization. Even in the United States, where government ownership of housing has been relatively modest, proposals to privatize that stock have via HOPE VI or the Rental Assistance Demonstration (RAD) programs have been met with controversy (Cohen 2014). Still, if improvements in homeownership rates are desired, privatization is a viable method.

Although policy choices may influence homeownership rates, they are only somewhat effective, very costly, and sometimes only temporary. Given policymakers' limited ability to influence major changes in demographic factors and sidestep costly unintended consequences, the most efficient course is likely to remove artificial incentives for homeownership and reform existing policies that act as barriers to homeownership.

Disclaimer

This chapter represents Mark Calabria's views alone and does not represent any official policy of the federal government.

Data Appendix

For United States homeownership trends, all data are from the U.S. Bureau of the Census www.census.gov/housing/index.html. For decennial years, the rate is taken from the Census of Housing, for inter-Census years, data are derived from the Current Population Survey (which is benchmarked to the decennial). The most recent EU figures are from Eurostat http://ec.europa.eu/eurostat. OECD data are used for non-EU OECD countries. As Eurostat only provides homeownership data back to 2003, the following sources are used for historical rates:

Czech Republic, Estonia, Finland, Hungary, Poland Slovakia, Slovenia, Sweden:

The Hague: Ministry of Interior and Kingdom Relations. (2010) "Housing Statistics in the European Union 2010" pp. 64–66, www.bmwfw.gv.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing_statistics_in_the_european_union_2010.pdf

Japan, New Zealand, Switzerland:

Atterhog, Mikael. (2005) "Importance of Government Policies for Home Ownership Rates," Royal Institute of Technology Working Paper No. 54, p. 17, www.kth.se/polopoly_fs/1.167143!/Menu/general/column-content/attachment/54.pdf

Israel:

Global Property Guide (2015) "Israeli Housing Prices Rising Faster and Faster," www.globalpropertyguide.com/Middle-East/Israel/Price-History

Mexico and Chile:

Torche, Florencia, and Spilerman, Seymour. (2006) "Household Wealth in Latin America," United Nations University Research Paper No.2006/114, pp. 8–10, www.econstor.eu/bitstream/10419/63394/1/52137930X.pdf

Data for individual countries also collected from the Turkish Statistical Institute, Statistics New Zealand, Finland's National Institute of Statistics and Geography, Statistics Korea, Statistics Bureau of Japan, Statistics Canada, and Australian Bureau of Statistics. Data also gathered from the Housing Finance Information Network, http://hofinet.org/index.aspx.

European Mortgage Federation Hypostat. (2013). www.hypo.org/Content/Default.asp?pageId=578, and European Mortgage Federation Key Figures 2012, www.hypo.org/content/default.asp?PageID=414.

Notes

1 In countries where imputed rent is taxed such as Switzerland, the Netherlands, Iceland, Slovenia, and Luxembourg, it estimates what rent the owner would pay for a comparable rental unit, hence the imputation of rent. The owner is then taxed on some portion of that imputed rent.

2 The OECD includes the following countries: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

3 The 1994 UNCH data release displays a median of 69.3 percent. The distribution is heavily concentrated in the high 60s and low 70s. The primary difference is that the global outliers in the right tail of the distribution are outside the OECD. Cambodia heads the list with a homeownership rate just over 95 percent. The left tail of the UNCH distribution is primarily OECD countries, particularly Switzerland, Sweden, and the Czech Republic.

4 The WVS wave 6 question covers the years 2010–2014 and includes 60 countries, 14 of which were OECD countries.

5 United Nations Communications Group countries consist of 106 countries, including non-OECD countries.

6 A wealth tax is levied on current asset owners based on current total value of assets, whereas capital gains taxes are levied at the time of an asset transfer (sale).

7 The deduction previously applied to $1.1 million in mortgage debt and now applies to $750,000 in mortgage debt.

References

Acharya, Viral V., Matthew Richardson, Stijn Van Nieuwerburgh, and Lawrence J. White. 2011. *Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance*. Princeton, NJ: Princeton University Press.

Allison, John A. 2013. *The Financial Crisis and the Free Market Cure: Why Pure Capitalism is the World Economy's Only Hope*. Ashland, OR: Blackstone Audio.

Anacker, Katrin B. 2015. "Saving While Black: From the Freeman's Savings Bank, to Public Policy Missing in Action, to a New Down payment Savings Product and Policy." *Banking and Financial Services Policy Report: A Journal of Trends in Regulation and Supervision*, 34(12): 12–18.

Andrews, Dan, and Aida Caldera Sánchez. 2011a. "The Evolution of Homeownership Rates in Selected OECD Countries: Demographic and Public Policy Influences." *OECD Journal: Economic Studies*, 1: 1–37.

Andrews, Dan, and Aida Caldera Sánchez. 2011b. *Drivers of Homeownership Rates in Selected OECD Countries Economics Department*. Paris: OECD.

Arundel, Rowen, and John Doling. 2017. "The End of Mass Homeownership? Changes in Labour Markets and Housing Tenure Opportunities Across Europe." *Journal of Housing and the Built Environment*, 32(4): 1–24.

Bayer, Patrick, Fernando Ferreira, and Stephen L. Ross. 2014. *Race, Ethnicity and High-Cost Mortgage Lending*. Cambridge, MA: National Bureau of Economic Reseach.

Becker, Bernie, Nancy Cook, and Seung Min Kim. 2017. "Republicans Close in on Historic Tax Deal." *Politico*, December 12.

Black, Harold, Thomas P. Boehm, and Ramon P. DeGennaro. 2015. *Is There Discrimination in Mortgage Pricing? The Case of Overages*. Atlanta: Federal Reserve Bank of Atlanta.

Blanc, Maurice. 2010. "The Impact of Social Mix Policies in France." *Housing Studies*, 25(2): 257–272.

Bourassa, Steven, Donald Haurin, Patric Hendershott, and Martin Hoesli. 2013. "Mortgage Interest Deductions and Homeownership: An International Survey." *Journal of Real Estate Literature*, 21(2): 181–203.

Braga, Michela, and Pietro Palvarini. 2013. *Social Housing in the EU*. Brussels/Belgium: European Parliament.

Bramley, Glen. 2003. "Planning Regulation and Housing Supply in a Market System." In *Housing Economics and Public Policy*, edited by Tony O'Sullivan and Kenneth Gibb, 193–217. Oxford: Blackwell Science.

Buck, Tobias. 2017. "Spain: Boom to Bust and Back Again." *Financial Times*, April 6.

Bush, George. 2002. *President Calls for Expanding Opportunities to Home Ownership*. Washington, DC: White House.

Calabria, Mark A. 2013. *Tax Reform and Residential Real Estate*. Washington, DC: CATO Institute.

Calderon, Marisa. 2017. *State of Hispanic Homeownership Report*. San Diego, CA: National Association of Hispanic Real Estate Professionals.

Carlson, Ben. 2017. "Canada's Housing Bubble Will Burst." Bloomberg.com, June 21.

Castles, Francis, and Maurizio Ferrera. 1996. "Home Ownership and the Welfare State: Is Southern Europe Different?" *Southern European Society and Politics*, 1(2): 163–185.

Chambers, Matthew, Carlos Garriga, and Don Schlagenhauf. 2016. *The Postwar Conquest of the Home Ownership Dream*. St. Louis, MO: Federal Reserve Bank of St. Louis.
Clapham, David, and Keith Kintrea. 1996. "The Patterns of Privatization in Eastern Europe." In *Housing Privatization in Eastern Europe*, edited by David Clapham, József Hegedüz, Keith Kintrea, Ivan Tosics, and Helen Kay, 169–191. Westport, CT: Greenwood Publishing Group.
Cohen, Rachel. 2014. "The RAD-ical Shifts to Public Housing." *The American Prospect*, August 28.
Collins, William J., and Robert A. Margo. 2001. "Race and Home Ownership: A Century-Long View." *Explorations in Economic History*, 38(1): 68–92.
Collins, William J., and Robert A. Margo. 2011. "Race and Home Ownership from the End of the Civil War to the Present." *The American Economic Review*, 101(3): 355–359.
Conley, Dalton, and Brian Gifford. 2006. "Home Ownership, Social Insurance, and the Welfare State." *Sociological Forum*, 21(1): 55–82.
Coulson, N. Edward. 1999. "Why are Hispanic-and Asian-American Homeownership Rates so Low? Immigration and Other Factors." *Journal of Urban Economics*, 45(2): 209–227.
Disney, Richard, and Guannan Luo. 2017. "The Right to Buy Public Housing Program in Britain: A Welfare Analysis." *Journal of Housing Economics*, 35: 51–68.
Elsinga, Marja, Mark Stephens, and Thomas Knorr-Siedow. 2014. "The Privatization of Social Housing: Three Different Pathways, in Social Housing in Europe." In *Social Housing in Europe*, edited by Kathleen Scanlon, Christine Whitehead, and Melissa Fernández Arrigoitia, 389–413. Chichester: John Wiley & Sons.
European Mortgage Federation. 2014. *European Mortgage Markets Quarterly Review Q1–2014*. Brussels/Belgium: European Mortgage Federation.
Fetter, Daniel. 2013a. "How Do Mortgage Subsidies Affect Home Ownership? Evidence from the Mid-Century GI Bills." *American Economic Journal: Economic Policy*, 5(2): 111–147.
Fetter, Daniel. 2013b. *The Home Front: Rent Control and the Rapid Wartime Increase in Home Ownership*. Cambridge, MA: National Bureau of Economic Research.
Fisher, Lynn M., and Austin J. Jaffe. 2003. "Determinants of International Home Ownership Rates." *Housing Finance International*, 18(1): 34–42.
Fry, Richard, and Anna Brown. 2016. *In a Recovering Market, Homeownership Rates Are Down Sharply for Blacks, Young Adults*. Washington, DC: Pew Research Center.
Gabriel, Stuart A., and Stuart S. Rosenthal. 2005. "Homeownership in the 1980s and 1990s: Aggregate Trends and Racial Gaps." *Journal of Urban Economics*, 57(1): 101–127.
Glaeser, Edward L., and Jesse M. Shapiro. 2002. *The Benefits of the Home Mortgage Interest Deduction*. Cambridge, MA: National Bureau of Economic Research.
Goodman, John L., and Joseph B. Nichols. 1997. "Does FHA Increase Home Ownership or Just Accelerate It?" *Journal of Housing Economics*, 6(2): 184–202.
Haurin, Donald R., and H. Leroy Gill. 2002. "The Impact of Transaction Costs and the Expected Length of Stay on Homeownership." *Journal of Urban Economics*, 51(3): 563–584.
Hendershott, Patric H., Rachel Ong, Gavin A. Wood, and Paul Flatau. 2009. "Marital History and Home Ownership: Evidence from Australia." *Journal of Housing Economics*, 18(1): 13–24.
Hilber, Christian A.L., and Yingchin Liu. 2007. *Explaining the Black-White Homeownership Gap: The Role of Own Wealth, Parental Externalities and Locational Preferences*. London: London School of Economics.
Jackman, Mary R., and Robert W. Jackman. 1980. "Racial Inequalities in Home Ownership." *Social Forces*, 58(4): 1221–1234.
Johansson, Åsa. 2011. *Housing Policies in OECD and Candidate for Accession Countries: Survey-Based Data and Implications*. Paris: OECD.
Jones, Claire, and James Shotter. 2017. "German Push for Home Ownership Drives Price Bubble Fears." *Financial Times*, January 4.
Just Landed. n.d. *Costs When Buying Property*. N.l.: Just Landed.
La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2008. "The Economic Consequences of Legal Origins." *Journal of Economic Literature*, 46(2): 285–332.
Malpezzi, Stephen. 2005. "Low Income Housing Markets and Policy: Some International Perspectives, and Possible Lessons for Korea." In *Residential Welfare and Housing Policies: The Experience and Future of Korea*, edited by MoonJoong Tcha, n.p.–n.p. Seoul: Korea Development Institute.
Mulder, Clara H., and Michael J. Thomas. 2016. "Partnership Patterns and Homeownership: A Cross-Country Comparison of Germany, the Netherlands and the United Kingdom." *Housing Studies*, 31(8): 935–963.
National Conference of State Legislatures, n.d. *Real Estate Transfer Taxes*. Denver, CO: National Conference of State Legislatures.

Nienaber, Michael. 2016. "Germans Flock to Property as Interest Rates Fall and Rents Rise." *Reuters*, April 24.
OECD. 2015. *OECD Economic Surveys: Switzerland*. Paris: OECD.
Pollock, Alex J. 2016. "Homeownership Rates: It Depends on Whether You are Married." *Housing Finance International*, Autumn: 13–14.
Rohe, William M., and Shannon Van Zandt. 2011. "The Sustainability of Low-Income Homeownership: The Incidence of Unexpected Costs and Needed Repairs among Low-Income Home Buyers." *Housing Policy Debate*, 21(2): 317–341.
Russell Sage Foundation. 2012. *Chartbook of Social Inequality*. New York: Russell Sage Foundation.
Schiffer, Karel. 2002. "Dutch Guarantee Fund for Homeownership; Model for a Single Guarantee Fund for the European Union?" Paper presented at *Eucocatalyst Conference*, Madrid, Spain, September 22, 2002.
Schneider, Martin, and Karin Wagner. 2015. "Housing Markets in Austria, Germany and Switzerland." *Monetary Policy and the Economy*, n.v.(n.i.): 42–58.
Tighe, Rosie J., and Elizabeth J. Mueller. 2013. *The Affordable Housing Reader*. New York: Routledge.
United Nations. 1948. "Universal Declaration of Human Rights." Articles 17 and 25. New York: United Nations.
United Nations. 2015. *World Marriage Data*. New York: United Nations.U.S. Bureau of the Census. 1993. *Black Americans: A Profile*. Washington, DC: U.S. Bureau of the Census.
U.S. Bureau of the Census. 2018. *Quarterly Residential Vacancies and Homeownership: First Quarter 2018*. Washington, DC: U.S. Bureau of the Census.U.S. Department of Housing and Urban Development. 2016. *Federal Housing Administration: Annual Report to Congress*. Washington, DC: U.S. Department of Housing and Urban.
Vandevyvere, Windy, and Andreas Zenthöfer. 2012. *The Housing Market in the Netherlands*. Brussels/Belgium: European Commission.