Home-ownership in Europe: How did it happen?

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A B S T R A C T

We use data from the third wave of the Survey of Health, Ageing and Retirement in Europe (SHARELIFE) to document the different ways individuals first became home-owners across countries and over cohorts over the second half of the 20th century. Focusing on first-time home owners we find that younger cohorts became home-owners earlier and were more likely to do it through credit, less likely to inherit their home directly. Having higher human capital, being employed, married, having children and living in an urban area, all make it more likely to purchase a home with a mortgage. The persistence of family help in accessing home-ownership in many countries demonstrates the interrelation between family, market and the state in most of continental Europe.

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1. Introduction

Around 70% of Europeans aged 50 or over are home-owners. Home-ownership rates are high in effectively all countries, as recently documented in Angelini, Brugiavini, and Weber (2012). This fact has important effects on the composition of household wealth: for a vast majority of older Europeans, the most important component of their wealth is housing. It has also an important impact on welfare, as many consider their home as a security for old age, self-insuring them against rent or pension risk (see Conley & Gifford, 2006; Laferrière, 2011a). Hence it is important to know how people acquired their home or what could have prevented others from doing so.

The question we address in this paper is how older Europeans became home-owners. Did mortgage markets play a key role, or was help from family the key factor behind the widespread home-ownership rates we observe today? We exploit life-history data for 13 European countries to focus on the first part of the life cycle and analyze the choices of first-time home buyers.

The life-cycle model of saving under borrowing constraints predicts a hump shaped home-ownership age profile. The ownership rate increases with age as people save and become home-owners, and declines in old age as people draw on their housing equity (Artle & Varaya, 1978). Taking up a mortgage usually requires a
down-payment and young households might have to delay home-ownership until they have accumulated enough assets (Chiuri & Jappelli, 2003). Intergenerational transfers, both in the form of inter-vivos gifts and of bequests, might help overcome credit constraints and shorten the saving time (Engelhardt & Mayer, 1998; Guiso & Jappelli, 2002). The employment history of the individual and the spouse are also likely to be important (Attanasio, Bottazzi, Low, Nesheim, & Wakefield, 2012). The home may also be directly inherited. Therefore, the development of the mortgage market as well as family background and resources are likely to play a major role in determining the timing and the means of access to home-ownership.

To explain the motivation of intergenerational transfers, economists have developed models of altruism and exchange within families, which help study how the micro family level reacts to and interacts with the macro level of the public transfers (for surveys see Arrondel & Masson, 2006; Laferrière & Wolff, 2006). It can be shown that the motivation of the private transfer, together with the way it is financed, help predict the interaction between family and the “welfare state”. Sociologists, demographers and historians have characterized welfare state patterns and also described how family transfers interact with the welfare state (e.g. among many Albertini & Kohli, in press).

The organization of long term care to elderly parents has been extensively studied in that context (Brandt, Haberkern, & Szydlík, 2009; Isengard & Szydlík, 2012). What is often discussed both by economists and sociologists is the substitution and/or complementarity between the micro and the macro levels. For instance, the introduction of public pension systems (a public transfer to the old) helped reduce co-residence between aged parents and their children, as retired parents could afford living on their own. Therefore, public help (pension income) substituted for private help (housing services). More recently, generous public pensions have instead induced young people to keep living with their parents, particularly in those countries that provide little direct help to the young. Therefore, public help (pension income) complements private help (housing services) (Rei-Held, 2006).

Less frequently analyzed is the direct impact of parental transfers on first-time home-ownership, especially in a comparative international perspective (Mulder & Smits, 1999; Mulder & Smits, in press; Spilerman & Wolff, 2012). In spite of its importance housing is rarely studied within the rest of the welfare state (exceptions are works by Alessie, Brugiavini, & Weber, 2006; Kemeny, 2001; Kemeny & Lowe, 1998; Poggio, 2012). Housing systems are less easily characterized than pension provision, long term care or education financing (to take both upward and downward intergenerational transfers as examples). The frequent neglect of housing in descriptions of the welfare state might stem from its characteristics: housing is a necessary place to live, it is both a consumption good and a form of investment, and it can be rented, built or purchased. These characteristics explain the historical role played by the family, the governments and the market. Governments, following private initiatives from society, have been heavily involved in housing policies at various levels, national or local, in all European countries over the last century. Many governments stepped in by freezing rents during World War I. Rent regulation and control, social housing, saving incentives, tax breaks, interest rates and credit subsidies have all been used after World War II (WWII).3 Finally the credit sector played an increasingly large role. The development of housing credit can be partly documented, but it is not easy to characterize past housing policies over the 20th century for each country. Within continental Europe some countries, such as The Netherlands, had a large rental sector, most of it subsidized; others, such as Italy, had very little or shrinking rental housing. Access to home-ownership meant something different in a country where there was little alternative to owning, or where subsidized housing was reserved for low-income households than in a country where renting was widespread and social housing largely available.

The very concept of home-ownership is not as simple as it seems. Even leaving aside differences between freehold and leasehold, more important in England than in the rest of Europe, some countries like Sweden, Denmark and the Czech Republic offer cooperative housing. In this paper we consider cooperative housing as equivalent to owner-occupation, even if the attitude of a cooperateur differs from that of other owner-occupiers. Poggio (2012) rightly points out that home-ownership cannot be always equated to high quality home as compared to renting, especially in countries where there was little rental sector, or where new rentals were reserved for middle-class families.4 Due to lack of data for the first half of the last century, we do not attempt here to go beyond using country dummies as proxies for more detailed description of local arrangements. We only theoretically introduce the housing context as an additional explanation for our findings.

We use data from the third wave of the Survey of Health, Ageing and Retirement in Europe (SHARELIFE) to document the different ways younger households first became home-owners across countries and over cohorts. In particular, we focus on first-time home owners and analyze the determinants of how the property was acquired, including demographic characteristics and parental background, in addition to cohort and country dummies. The survey provides a unique source of information to analyze housing finance arrangements as it collects retrospective data on early life conditions, the socio-economic background and the entire accommodation history of respondents who are now aged 50 and over in 13 European countries.

An interesting feature of our data is that it covers countries characterized by strong family ties (such as Italy,


3 Angelini, Laferrière, and Weber (2011) offer a digest of housing policies in Europe.

4 The same happened in France where social housing in the 1950s and 1960s de facto did not house the poor (Laferrière, 2011b).
Spain and Greece) as well as countries typically associated to weaker ties (particularly Sweden, Denmark and The Netherlands) but with a strong role played by the welfare state. Two of the countries we consider (Poland and the Czech Republic) were for a long time under Communist rule. Our data also include individuals who belong to different generations: some were born well before WWII, some immediately before it, and some after it, and therefore they came of age in very different periods of recent European history (this is particularly relevant for countries like Germany). Our data provide extremely valuable information on the life histories of the respondents – particularly detailed on their living conditions at age 10 – so we can address the question of the role played by early life conditions in providing access to economic resources (in this case: housing wealth) later in life. The rest of the paper proceeds as follows: Section 2 describes the data, Section 3 presents our estimation results and Section 4 concludes.

2. Data and descriptive statistics: how do people become home-owners?

The third wave of the Survey of Health, Ageing and Retirement in Europe collected information on the life-histories of over 25,000 individuals aged 50 and over in 13 European countries, including early life conditions, parental background and complete work, accommodation and health histories. We focus on first-time home-ownership and only consider individuals who accessed ownership before age 50. This is consistent with the survey design that interviews individuals aged 50 or over and with the notion that most individuals who become home-owners do so before that age, as documented in Angelini et al. (2012). We only consider housing spells in which the respondent was living independently after the self-reported nest leaving year. If the respondent declares that she has never established her own household or started to live on her own, then she is excluded. 2.5% of all individuals aged 50 or more said they never established their own household.

We define three broad cohorts: cohort 1 of those born before 1935 (21% of the sample), cohort 2 of those born between 1935 and 1944 (31%) and cohort 3 of those born between 1945 and up to 1954 (48%), whom we call the “baby-boomers”. Even more important than the date of birth is the date around which each cohort started to set up their own household and became home owners, just before or after the end of WW2 for cohort 1, in the 1960s for cohort 2 and at the end of the 1970s for cohort 3.

Fig. 1 shows that from one cohort to the next access to home-ownership happened at earlier ages in most countries: overall, median first home-ownership age was 31 for the owners of cohort 1, 29 for cohort 2, and 27 for cohort 3. This trend parallels the increase in home-ownership over cohorts, especially important between the oldest and the middle cohort (Angelini et al., 2011).

The SHARE questionnaire provides also information on the means through which respondents acquired their home: whether it was purchased or built by own means, with a mortgage, with help from family, received as a bequest, as a gift or acquired through other means. The categories are not mutually exclusive as in many cases individuals bought their home through more than one mean. Table 1 summarizes the various combinations of modes indicated by the respondents. The most common mean of acquisition was through a credit (57%). In 43% of the cases people mention their own means that is their savings, either alone (22.5%) or in combination with a credit or other means (20.3%). The home was acquired through a gift or by bequest in 11.5% of the cases. Other types of family help are mentioned by 13.7% of the respondents, in combination with a credit in 5.2% of the total cases.

Fig. 2 presents the proportion of those who say they used solely their own means to first become home-owners before age 50, by cohort and country. This mode was frequent in Greece, Italy, Spain, Poland and the Czech Republic, but also in Austria and Germany for the older cohorts. We come back to these means of access to home-ownership in the multivariate analysis.

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5 Even under communist rule, private home ownership was not abolished in Poland or Czechoslovakia (see for instance Mandic, 2010).
countries, points accessed

Fig. 2. Purchase of a home before age 50 solely by own means, by country and cohort.

Fig. 3 provides the same information for those who accessed first home-ownership via a credit or a mortgage. The increase between cohort 1 and cohort 2 is around 20% points in France (catching up with the two Nordic countries, The Netherlands, Switzerland and Belgium where mortgages where already developed before WWII) and Germany, even if this country somewhat lags behind. The increase from an already high level has been important in The Netherlands where most if not all of the younger cohort home-owners got a mortgage. For some other countries, such as Spain, Italy and Czech Republic, housing credit did not benefit a majority of those cohorts, even if the progression over the century has been important.

As the mortgage industry developed, other means of access to home-ownership declined from one cohort to the next. Purchasing solely by own means became less frequent, and direct gift or inheritance declined (Fig. 4). In the older cohort in central European countries (Czech Republic, Poland, Austria, Germany), Italy and Greece more than a quarter of those who accessed home-ownership before age 50 did it through a family inheritance of a gift. The proportion was only around 18% in Spain, Switzerland and France, 12% in Belgium, and much lower elsewhere. For the baby-boomers the proportion is lower, even if it remains strikingly high (around 25%) in Poland, the Czech Republic, Greece, Austria and Italy. It is still 16% in Germany. To the extent that the decline in inheritance was accompanied by wider access to formal credit it probably helped democratize access to home-ownership, as it made it less dependant on parents’ ownership. However, even if people do not inherit a family home directly, the parents help them buying it (Fig. 5). The family remains an important source of help for all cohorts. Family help is mentioned by more than 10% of baby-boomers (who acquired a home before age 50) in Austria, Greece, the Czech Republic, Switzerland, Germany, Italy and Poland. Excepting Switzerland, they are the same countries where gifts and bequest are frequent. It is interesting to note that Spain does not appear here unambiguously similar to the above familialistic countries. Credit is as developed as in Austria, bequest is around the level of Switzerland, but family help is mentioned as rarely as in the Nordic countries.

3. Multivariate results

We now turn to a multivariate analysis of the individual determinants of the means of access to

Fig. 3. Access to credit for purchase of a home before age 50 by country and cohort.

Fig. 4. Inheritance and gift as a means of access to home-ownership before age 50 by country and cohort.

Fig. 5. Purchase of a home before age 50 with help from family by country and cohort.
home-ownership. First, we estimate four separate logit models for the probability of accessing home-ownership solely by own means, or with a mortgage, or through a gift or a bequest or with help from family (Table 2), respectively. It is important to remember that the last three categories are not mutually exclusive and it is possible, for example, that an individual bought the home partly through a mortgage and partly with help from family and by own means (2.9% of the cases according to Table 1). In estimation we control for gender, age and health status at first home-ownership, for whether the person was married, had children and was employed when she became first-time owner, whether she had already invested in the financial markets (in stocks or mutual funds on the one hand, in individual retirement accounts or life insurance policies on the other), the occupation of the parents and early life (age 10) conditions, in addition to cohort and country dummies.
Employment and marriage dummies are proxies for own and potential spouse’s resources.

Among the age 10 controls we have an indicator for having less than 10 non-school books at home (that plays a key role in explaining returns to education, as shown in Brunello, Weber, & Weiss, 2012), the number of facilities in the parental home (inside toilet, running water, central heating and the like) expressed in the deviations from the country and cohort specific average, the number of rooms per capita, the self-reported assessment of relative school performance in verbal and mathematical subjects. We also control for whether either parent was missing at the same age. We also take into account parental socio-economic conditions: we control for the breadwinner’s occupation (high-skilled, medium skilled or low-skilled), and whether the parents ever were home-owners.

The post war period in Europe was characterized by major migration flows from rural to urban areas, as agricultural jobs became less attractive and widespread. We also want to test whether home purchase decisions have most likely been affected by migration. Fortunately, the SHARELIFE data set contains records of all moves, and we can therefore construct variables based on whether the respondent lived in a rural area or a village not only at age 10, but also at the time when he or she first became a home-owner. We introduce two indicators for moves from rural to urban and from urban to rural, controlling for the parental location by a dummy for “rural area (or village)”, as opposed to all urban locations. We also control for the highest education attained, as this information may correlate with migration decisions as well as with the way the first property was acquired. Standard errors are clustered at the household level to take into account possible intra-household correlation.

The results show that being male or having children at the time of purchase makes it more likely to have resorted to a mortgage. The coefficients on age at ownership imply that the older the respondent was at the time of purchase, the more likely she used a mortgage, or accessed by own means, but the less likely she used family help or received the house as a gift or bequest.

The socio-economic background also seems to play an important role. Children of high skilled workers are more likely to receive help from family and less likely to take up a mortgage. There is a clear income gradient in the help from family. In addition, having already invested part of the savings in stocks or mutual funds and a higher education level make it more likely to get help from family. Receiving a house as gift or bequest is more likely when the parents were themselves home-owners or when there were more rooms per person in the parents’ home. This can read as a sign of higher socio-economic status, but also of fewer siblings to compete for inheritance. More precisely, children from middle-class families are less likely to inherit than those of both high skilled and low skilled workers. Those who are employed, who have children, or who have invested in life insurance or retirement account also less likely to inherit. Hence a high economic status of the family is not unequivocally linked to inheriting a home. In other words, the inherited home might not be of a high value. This is important to keep in mind when thinking of

retirement savings, as the scope for equity release may in some instances be lower for those inherited homes. By contrast individuals with a mortgage look more like self-made men (indeed they are less likely to be women), tend to have more human capital than family capital (they were good at math and language), and have to wait longer till they are married and with children to access home-ownership, probably because they had to build up a down-payment. Employed individuals are also more likely to be able to buy the house with a mortgage. Long term investment (in life insurance and individual retirement accounts) is positively related to mortgages, negatively to own means and gifts and bequests. With the exception of Belgium, countries where access to home-ownership though credit was frequent are also countries where the rental sector, including social housing, was developed. It is likely that the supply of affordable rental housing helped those cohorts save for down payment and access to home-ownership.

Those who accessed a home only through their own means lived in less comfortable homes at age 10, have low human capital, no asset, and do not come from home-owner families. Our data do not allow to probe further, but it confirms that accessing only by own means seems a traditional non-market oriented way of access to a home, where the local community and family played a role as access to credit was inexistent (Poggio, 2008). The place where the parents lived is important. Having parents living in a rural area (or a village) makes it more likely to have accessed home-ownership by inheritance or gift and less likely to have used credit. Parental location has no effect on the likelihood to get monetary help from the family. Three explanations come to mind. One is that rural parents may have given the land on which to build a house; the others are that mortgages are less needed in rural areas where homes are cheaper than in urban locations, and that credit access might be easier in cities than in the country. Besides home purchase decisions have most likely been affected by migration: respondents who moved to the city from the countryside would gain easier access to credit, and they would need it more because of higher prices, but miss the opportunity to inherit their parents’ place and make it their home. We report estimates of the marginal effects of the two indicators for moves from rural to urban and from urban to rural. More precisely a move from rural to urban is an indicator for the case where parents lived in a rural area or a village when the respondent was aged 10, while the respondent lived in a non-rural (hence urban) area at the date of first home-ownership (and the reverse for a move from urban to rural). The respondent may well have occupied another home as tenant in between. Around 40% of the sample lived in a rural area or a village when aged 10, while 34% did so when they accessed home-ownership. Overall migration for rural to urban areas affected 15% of the sample, the reverse move around 9%. Migration from rural to urban strongly prevails in all countries (but Switzerland) for the oldest cohort, and is much more common also for the middle cohort, except in Switzerland and Germany. For the youngest cohort the picture is less clear-cut, with migration from urban to rural prevailing not only in Switzerland and Germany, but also in France.
and Italy. Such urban to rural migration and the importance of rural living are linked to the demand for new owner occupied houses as opposed to rental apartments in more densely populated areas. These patterns are qualitatively similar even if we look at individuals who became home-owners before reaching 40 years of age. Respondents who stayed in a rural area or migrated from urban to rural were less likely to have used a mortgage and more likely to have received the home as a gift or a bequest. Respondents who instead migrated from the countryside to the city were more likely to have used a mortgage, and less likely to have inherited their home than those who did not migrate. This points to the importance of location in the choice of the means to access to home-ownership, and probably also in access to home-ownership, as the supply of rental housing also differs by location.\(^6\)

The results also show (Table 2, column 2) that in countries where the mortgage market was well developed, such as, in order of importance, The Netherlands, Denmark, Switzerland, Belgium and also France and Sweden, more people used access to credit for their home purchases than in countries where it was not developed, such as the Southern countries, Poland, the Czech Republic or Austria (the reference country is Germany). Overall, the use of formal credit to access home-ownership has increased over time, while help from family (column 4) has always been important, for all the cohorts, only declining slowly for the younger one. The mirror image of the development of mortgages is the decline in direct gift or bequest of a home, especially between those born before and after 1935 that is those who accessed in the late 1950s or 1960s when the credit market started to develop. Access through mortgage also increased for those who accessed in the 1970s compared to the immediate after WWII, as the credit market became less regulated. We also observe the steady decline over cohorts of the likelihood to access solely by own means. Gift and inheritance are more important in Italy, Greece, Poland, the Czech Republic, Austria and Germany than in the rest of Europe. Financial help from the family is also more likely in these countries and in Switzerland, that is countries mostly characterized by strong family ties, stem family or communitarian family regions. Access to a first home only by one's own means is more likely in Poland, Italy, the Czech Republic and Austria, all countries where family help was also most likely, to which Spain is now added. This geographical pattern suggests that relying on own means and family help to access home-ownership are positively related, in contrast to access through the mediation of credit.

4. Conclusions

Housing wealth is the largest part of non-pension household wealth for a vast majority of individuals approaching retirement in Europe. Understanding by what means individuals become home-owners is an important issue both from a theoretical standpoint and for policy purposes, as housing wealth may be drawn upon in old age to complement low pensions.

In this paper we have documented how the age when individuals first become home-owners varies across countries, but even more markedly has been declining over time in all countries. Over the second half of the twentieth century, younger cohorts became home-owners earlier, possibly as a result of better access to credit, or because of the higher standard of living brought about by the unprecedented growth of the post-war period.

Even among the 50+ a mortgage was the means to get a first home for the majority. The use of credit increased steadily from one cohort to the next. The decline in gift or inheritance of a home is clear for the middle cohort, i.e. those who accessed home-ownership in the 1960s, compared to those who accessed before. Help from family remained important for all cohorts and allowed becoming home-owner earlier, probably by meeting the required down payment to secure a mortgage. A higher human capital, as seen through capacity at age 10, being employed, married, having children and living in an urban area helped get a mortgage and relying less on family help.

The importance of family help, gift or bequest, and access “solely by own means” in Southern and Central Europe (communitarian or stem family countries, from Spain to Germany) points to the weight of tradition. If such help is part of a family contract of exchange between generations, this is likely to have been important for the welfare of the elderly and of those who currently take care of them. As in more than a third of the cases of family help individuals also used a mortgage, we conclude that family, governments, who often encouraged home-ownership or social housing, and markets were often complement. The persisting importance of family help also points to persisting inequalities in access to home-ownership, in spite of the development of credit. Our analysis of life-history data has allowed us to highlight the role of these factors, as well as of early life conditions, family background, parental location and migration patterns in 13 European countries, in determining the role of formal markets and more informal family transfers in allowing widespread home-ownership before the age of 50. A more detailed study would be needed to relate housing purchase to the provision for long term care or to pensions, especially in view of the various forms of housing equity release that are becoming available.

References


