Housing, wealth accumulation and wealth distribution: risks and opportunities

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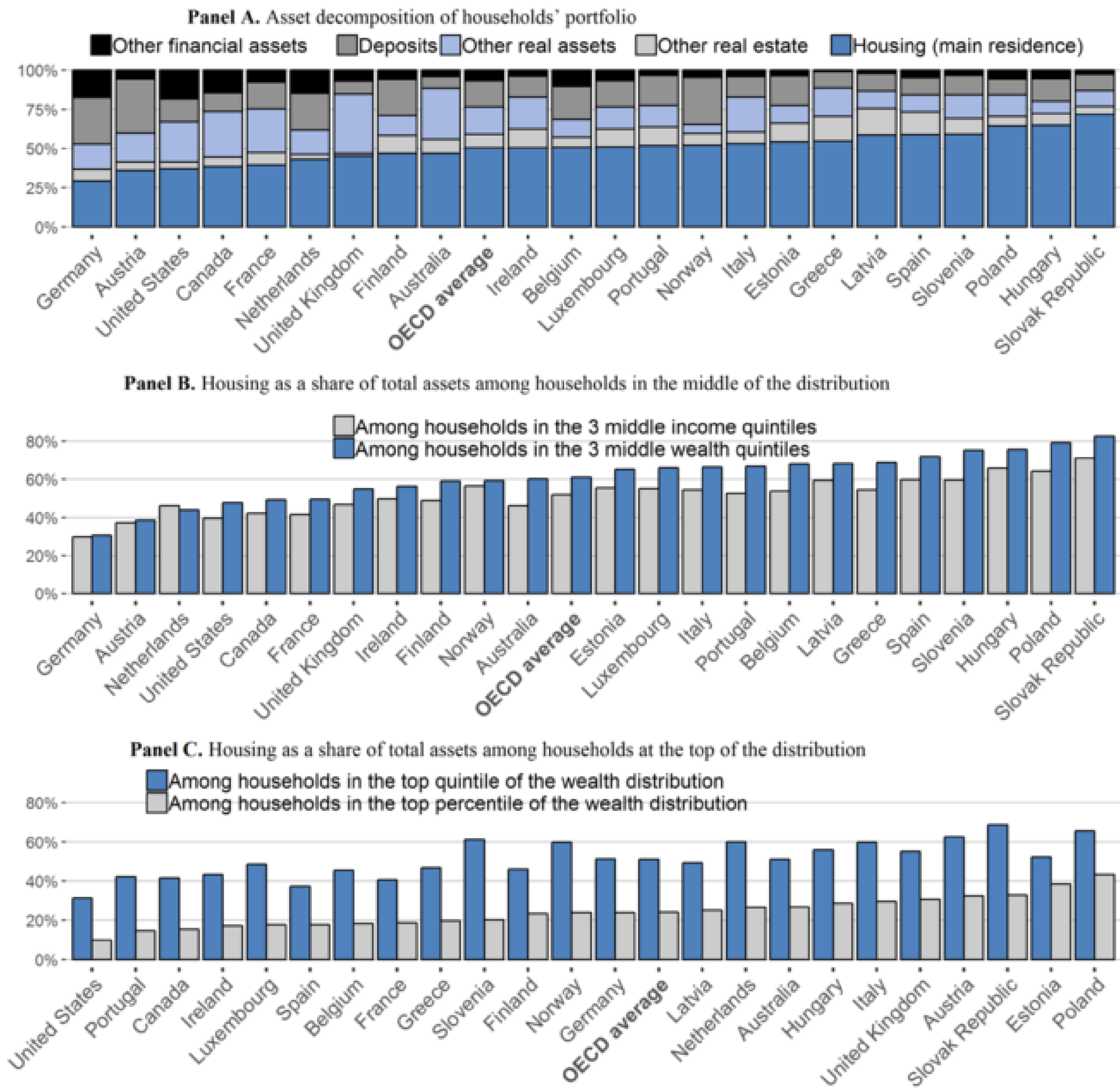
Is housing a vehicle for wealth accumulation for middle class and lower-income groups? Can housing mitigate wealth inequality? Assessing housing from a wealth distribution perspective is all the more important in a context where inequality has been rising, where the capital share of income has increased relative to labour and where wealth inequality is much higher than income inequality, potentially undermining equality of opportunity and social mobility.

In a recent paper (Housing-wealth-accumulation-and-wealth-distribution-evidence-and-stylized-facts_) we shed light on these questions and deliver new evidence and stylised facts on housing, wealth accumulation and wealth distribution, relying on an in-depth analysis of micro-data on household wealth across OECD countries. We assess the role of housing in shaping the wealth distribution by focusing on assets and liabilities, with particular attention to the bottom of the income and wealth distributions.

We document a strong negative cross-country association between homeownership and wealth inequality. Housing tends to equalise the distribution of wealth from a static cross-country perspective because it is the most important and most widely owned asset in household balance sheets: housing is the chief asset of the middle class (Figure 1). Households in the top of the wealth distribution hold more diversified portfolios, including business and financial assets, while less wealthy households own virtually nothing.

Figure 1: Housing is the chief asset of the middle class

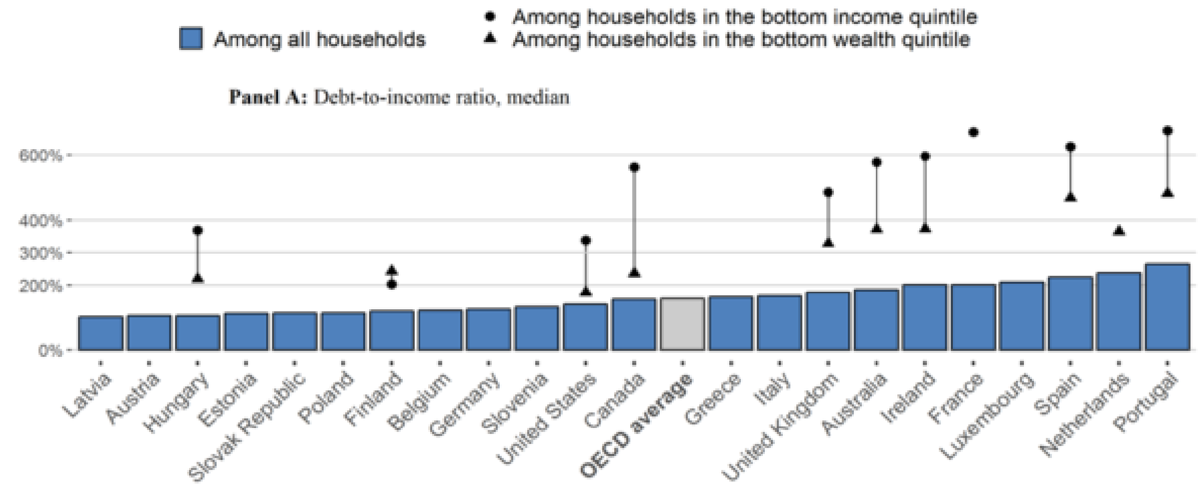


Source: HFCS database, LWS database.

Housing is the primary asset in households' portfolios, but is also their primary liability. This is especially true for young homeowners and homeowners at the bottom of the distribution. Yet one lesson from the financial crisis is that debt creates opportunities but also risks, particularly for vulnerable households. We deliver new cross-country evidence on the socio-economic distribution of mortgage debt and financial vulnerability. This is relevant for monitoring the sensitivity of households to income losses and declines in house prices. Our analysis shows that the strong expansion in mortgages over the last decades, and in particular prior to the financial crisis, is very likely to have contributed to high and sometimes excessive housing-related indebtedness. Debt-to-income ratios are well above 100% in most OECD countries and exceed 200% in some of them (Figure 2). Households at the bottom of the income distribution are particularly vulnerable, with values exceeding the conventional at-risk threshold value of 300%.

Figure 2 Mortgage debt can expose households to financial vulnerability

Debt-to-income ratio, median



Note: The numbers refer to principal residence debt only. These ratios are calculated only for households with principal residence mortgages. The calculation is done only in cases where the number of observations exceeds 50, which is why some data is not shown for bottom income and wealth households.

Source: HFCS database, LWS database.

We compute micro-based tenure wealth gaps, that is, the net wealth ratio between homeowners and renters, in order to shed light on the role of housing as a vehicle for wealth accumulation. We find that homeowners tend to be wealthier than renters, even when housing wealth is excluded. However, we also find that this gap is significantly reduced in a quantile regression framework that controls for household drivers of wealth accumulation. These findings do not strongly support the existence of a causal effect of homeownership on wealth accumulation. Tenure wealth gaps are likely to reflect self-selection mechanisms. Households with a higher ex-ante propensity to save and an appetite for wealth accumulation select themselves into homeownership rather than becoming homeowner making them more prone to accumulate wealth.

Housing is negatively associated with wealth inequality, but also with residential mobility, as documented in our paper: this reflects cross-country differences in the housing tenure mix to the extent that homeowners tend to be less mobile than private renters. This finding is not new. Although causality cannot be easily established, a common conjecture is that mobility is lower among owner-occupiers than renters because owners face higher transaction costs of relocating and therefore spend a longer time in their residence in order to spread the costs over a longer time period.

Overall, even if wealth inequality is lower where homeownership is more widespread, encouraging homeownership is probably not the appropriate policy response to make wealth more equally distributed, as this may imply trade-offs with other policy objectives such as economic resilience and labour mobility.

Read the full paper: Causa, O., N. Woloszko and D. Leite (2019), "Housing, wealth accumulation and wealth distribution: Evidence and stylized facts", *OECD Economics Department Working Papers*, No. 1588, OECD Publishing,

Paris, https://doi.org/10.1787/86954c10-en.