

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

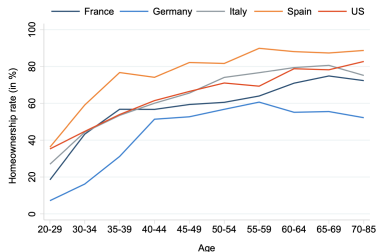
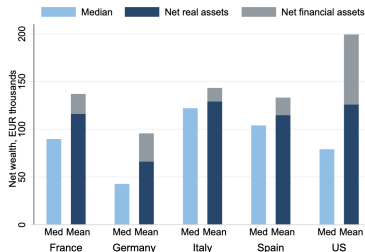
A Discussion

Vimal Balasubramaniam

Queen Mary University of London

October 2023

What drives heterogeneity in housing wealth across countries?



- ▶ Persistent differences in household wealth across countries.
- ▶ What drives these differences?
- ▶ Housing: Large share of wealth.
- ▶ Household choice: To rent or to own?
- ▶ This paper: Quantifies three sets of explanatory factors for persistent differences in homeownership – both in the extensive and intensive margin.

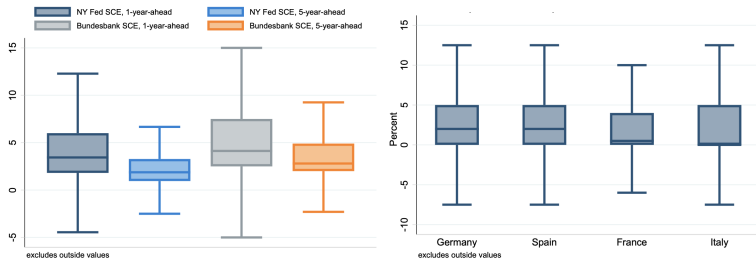
This paper

- ▶ Life-cycle model with:
 1. Risky labour income and house prices.
 2. Discrete-continuous choice between ownership and renting.
 3. Illiquid housing.
 4. Heterogeneous house price expectations, and discount factor.

- ▶ Role of three sets of explanatory factors:
 1. Heterogeneous house price expectations.
 2. Institutional differences: Max LTV, Renting quality.
 3. Heterogeneous preferences: Impatience, Share of housing expenditure.

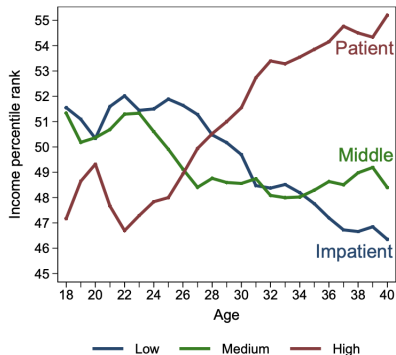
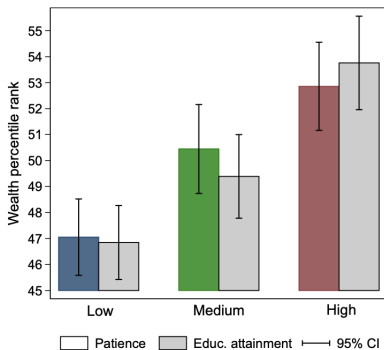
- ▶ Rich model capturing important features in the housing market:
illiquid housing, continuous housing size, risky house prices,
collateral constraints and belief heterogeneity.

1. Heterogeneous house price expectations



- ▶ Short-run more dispersed than longer-run variation.
- ▶ Similar levels of dispersion in expectation across the four European countries.
- ▶ Differences between short and long-run are important.
- ▶ How agents use one or the other in making decisions can be relevant.

2. Heterogeneous discount factor, wealth and income

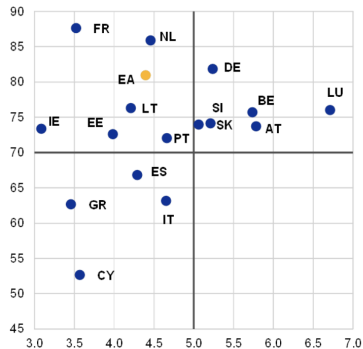


- ▶ Epper et al. (2020), experimental evidence
- ▶ Education captures a lot of the discount factor variation.
- ▶ Late-life income profiles are dramatically different.
- ▶ Insight: Patience pays handsome rewards.

3. Institutional Differences

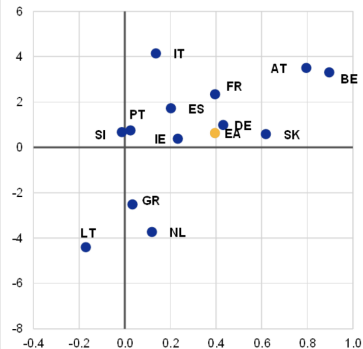
Average LTV and LTI ratios across countries over the period 2016-2018

(y-axis: average LTV ratio in %; x-axis: average LTI ratio as a multiple)



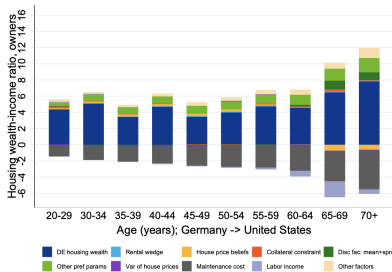
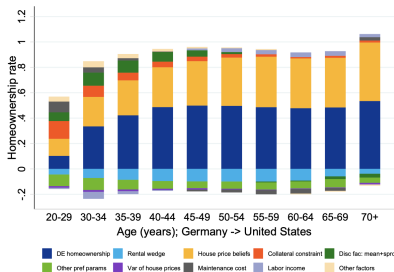
Changes in average LTV and LTI ratios in the 2016-18 period

(y-axis: p.p. change in LTV ratio; x-axis: p.p. change in LTI ratio)



- ▶ Lending standards and their dynamics differ widely across euro area countries.
- ▶ Mortgage Choice (Badarinsa, Campbell, Ramadorai 2016).
- ▶ Current interest costs vs. Lifetime cost minimization could potentially affect choice between renting and homeownership.

Main Takeaway from the paper

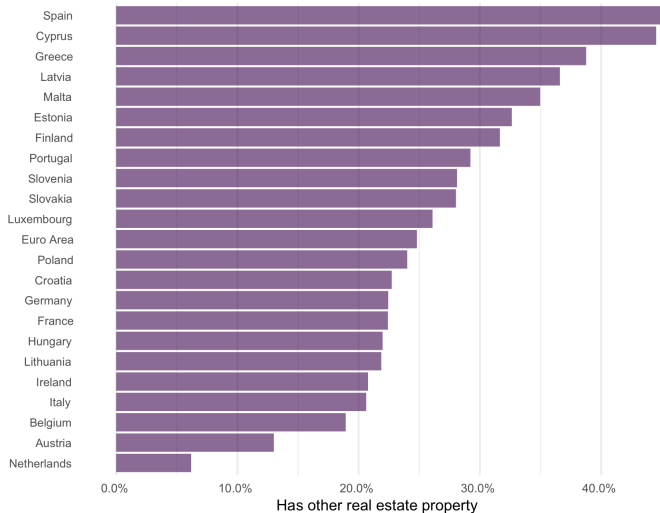


- ▶ Decompose the role of various factors explaining cross-country differences.
- ▶ Very little preference heterogeneity required to explain gaps in homeownership.
- ▶ Main driver: House price beliefs and Maintenance costs.
- ▶ Beliefs affect extensive margin, Maintenance costs the intensive margin.

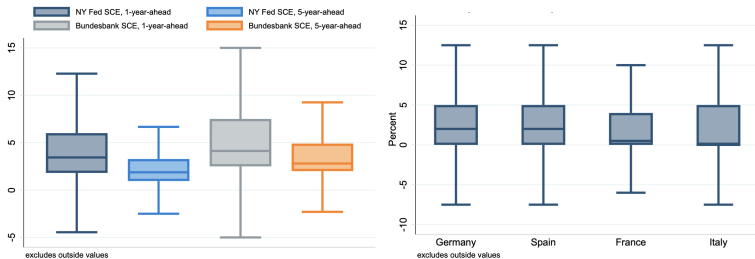
Comment 1: The role of second homeownership

- ▶ Object of interest: Wealth accumulation through housing.
- ▶ Who supplies rentals in the economy?
- ▶ Model does a good job already, but this may fill the gap.
- ▶ Particularly relevant if assessing macro/housing policies.
- ▶ Implications for wealth and income inequality.

Comment 1: Second homeownership is quite important



Comment 2: The horizon for house price beliefs



- ▶ Authors keen on long-run as they focus on long-run homeownership rates.
- ▶ But choice between renting vs. owning (especially for impatient agents) may be affected by short-run beliefs.
- ▶ Does this matter for findings, especially for how important these beliefs are in explaining homeownership?
- ▶ Could potentially improve the importance of preferences too.

Comment 3: Labour income and the decision to move

- ▶ Labour market decisions may potentially be relevant to household choice.
- ▶ Agents may have to trade-off moving to another location for potential improvements to income (and savings).
- ▶ Decision-making on this margin does potentially matter – again might reflect better on preferences playing a role.
- ▶ Relative trade-off between lock-in (due to mortgage) vs. renting in a new place.

Concluding thoughts

- ▶ Very important and well executed paper.
- ▶ The decomposition is a wonderful step forward in understanding countervailing forces that determine homeownership and wealth accumulation.
- ▶ I am yearning to see follow-up papers on:
 1. The effectiveness of various policy instruments (macro-prudential, wealth inequality) in this framework.
 2. Inter-generational wealth transfer (Younger generation may not need to buy a home, if they know they always have one coming their way).