LOW HOMEOWNERSHIP IN GERMANY - A QUANTITATIVE EXPLORATION

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Abstract

The homeownership rate in Germany is one of the lowest among advanced economies. To better understand this fact, we evaluate the role of specific housing policies which tend to discourage homeownership. In comparison to other countries with higher homeownership such as the United States, Germany has an extensive social housing sector with broad eligibility criteria, high transfer taxes when buying real estate, and no tax deductions for mortgage interest payments by owner-occupiers. We build a life-cycle model with uninsurable income and housing risks and endogenous homeownership in order to quantify the policy impact on homeownership and welfare. Adjusting all three policies has a strong impact on housing tenure choices, closing the gap in homeownership rates between Germany and the United States by about two thirds. At the same time, household welfare would be reduced by moving to a policy regime with low transfer taxes, but it would improve in the absence of social housing, in particular when coupled with housing subsidies for low-income households. (JEL: D15, E21, R21, R38)

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