

# Do housing bubbles redistribute wealth? Evidence from Spain

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# Do housing bubbles increase wealth inequality?

## The intuition:

- Rising housing prices increase the wealth of **incumbents** while requiring larger investments and leverage by **late entrants**.
- Real estate purchase by late entrants is a wealth transfer towards incumbents, funded by debt.
- From boom to bust: when prices peak and decline, late entrants have high debt and declining asset values.
- Timing of home purchase correlated with age: transfers are likely to be **inter-generational**.

E.g. Schwartz and Seabrooke, *The Politics of Housing Booms and Busts* (2009)

# Some doubts

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How long does this process take? Can a 10-15 year boom/bust cycle substantially change wealth inequality?

Do losses in the bust phase erase incumbents' gains?

How much redistribution actually takes place? Unless incumbent owners become renters, they must themselves purchase new housing at inflated prices.

Do inter-generational transfers eventually eliminate inequalities?

**Empirical question: how big is any redistributive effect?**

# Housing and wealth inequality

What is the role of housing assets/liabilities in wealth inequality?

- For many non-wealthy households, housing comprises a substantial portion of their net wealth.
- Homeownership rates are important determinant of average wealth and wealth inequality.

However:

- Total wealth inequality may be driven mostly by financial wealth holdings of the top 1% (Saez and Zucman 2015)
- Wealth differences between homeowners and renters may be more important than among homeowners (Bezrukovs 2013)

# Booms and bubbles: the Spanish case

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## Why Spain?

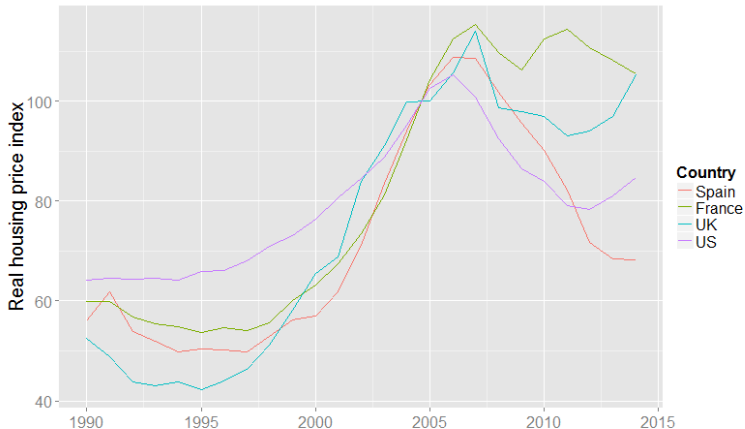
- Sustained housing boom from c. 1998 to 2007, followed by bust
- Impact of liberalization and financialization: large-scale household debt a new phenomenon
- Impact on the eurozone crisis
- Moderate wealth inequality due to high homeownership
- High-quality data almost spanning the boom-bust cycle

Spain is the only (?) non-LME country that experienced a boom-bust cycle for which household wealth surveys are available over most of the cycle.

# The Spanish bubble: comparative perspective

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Data source: Dallas Federal Reserve

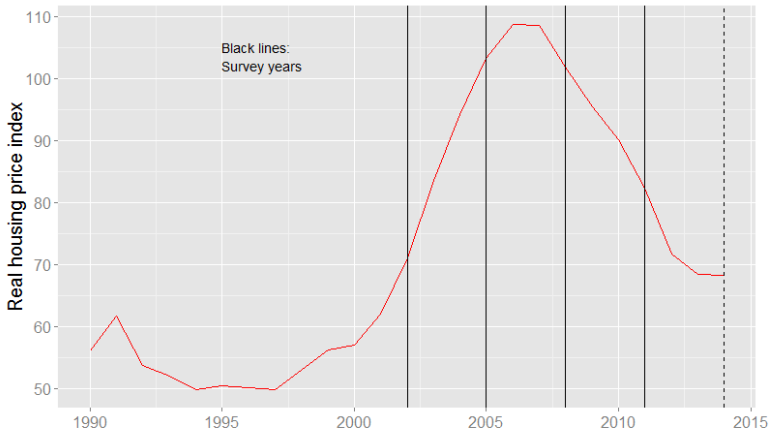
## Bank of Spain's Survey of household finance (*Encuesta financiera de las familias*)

- Spanish component of the ECB Housing Finance and Consumption Survey (HFCS)
- Waves every 3 years since 2002
- Cross-wave panel component (not used here)
- Oversample of wealthy households; multiple imputation to address non-response

# Data availability over the boom-bust cycle

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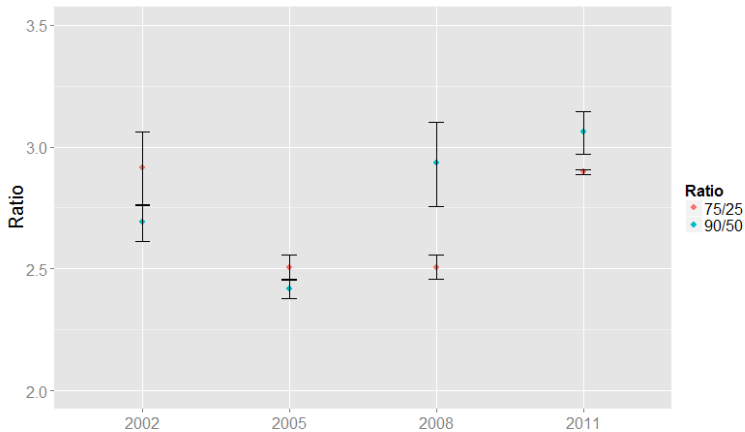




# Inequality of net housing wealth

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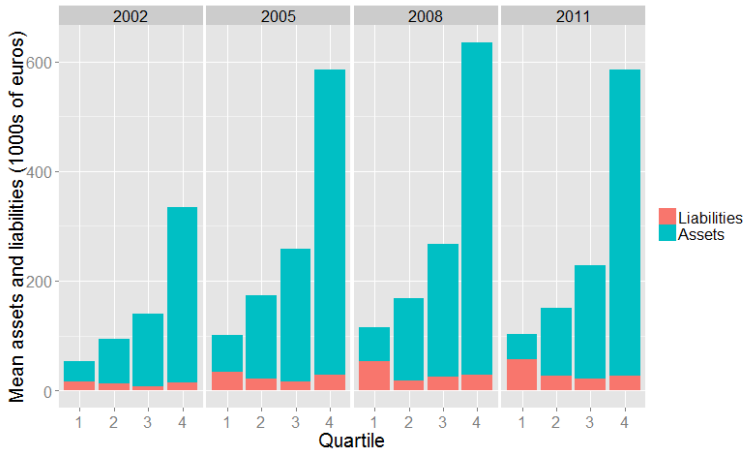
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# Assets and liabilities

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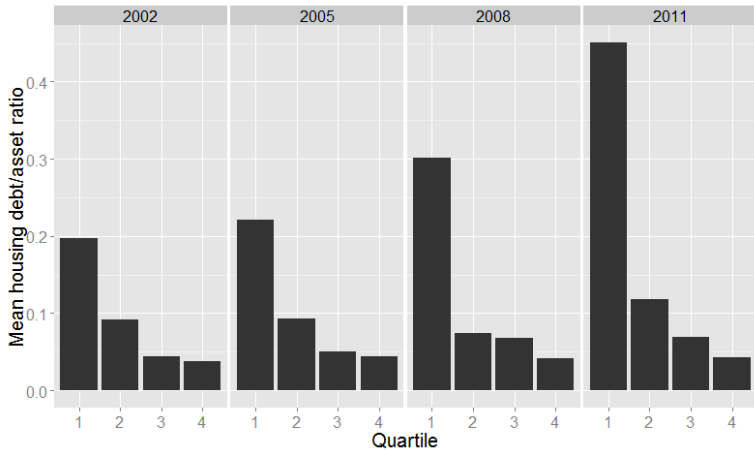


Note: bars superimposed, not stacked

# Asset and liabilities

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# Cohort definitions

Birth cohort	Age in 1995	Type
<1935	>60	Senior incumbents
1936-1950	45-59	Incumbents
1951-1965	30-44	Possible Incumbents
1966-1993	<30	Late entrants

Average age of home purchase: 33 years

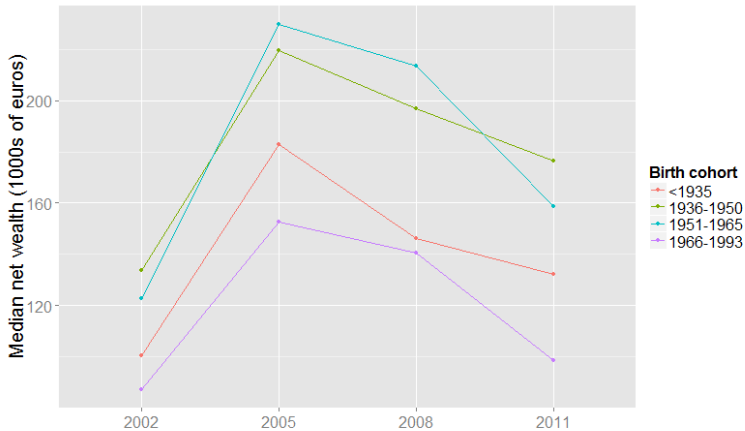
Year prices begin to increase: 1998

The problem: late entrants will also have lower wealth because they are younger (age versus period effects)

# Net housing wealth by cohorts

Housing  
wealth  
redistribution

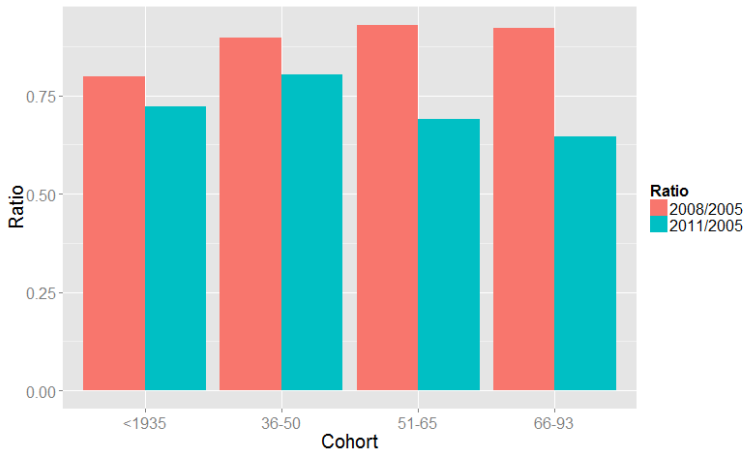
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# Decline in housing wealth by cohorts

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wealth  
redistribution

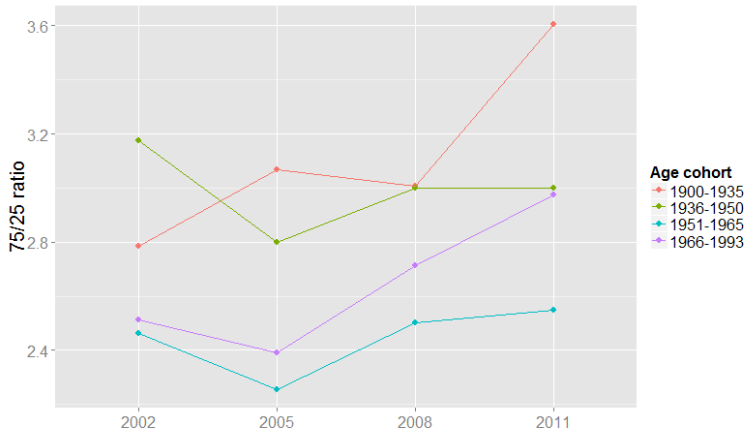
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# Within-cohort inequality (75/25)

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redistribution

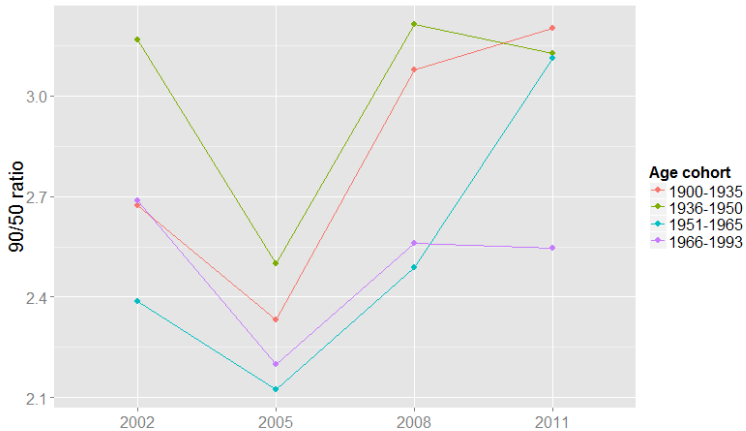
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# Within-cohort inequality (90/50)

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# In an ideal world...

Given perfect data, I would like to compare:

Group	Purchase cohort	Obs. 1	Obs. 2
"incumbents"	1993-98	1998	2008
"late entrants"	2002-2007	2007	2017

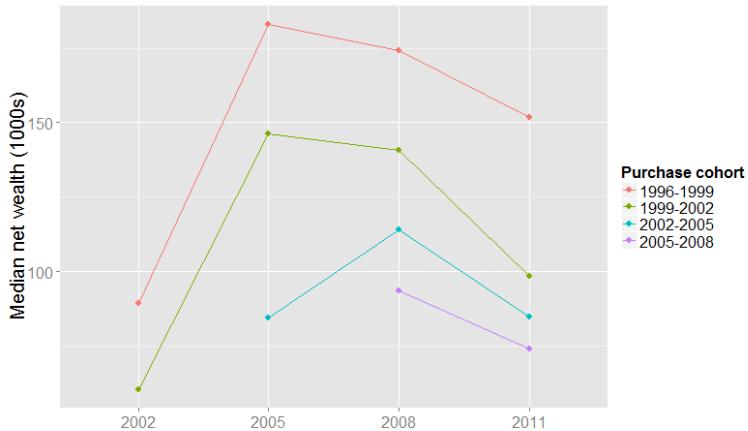
But I don't have perfect data, so I compare 3-year purchase cohorts:

- 1996-1999: Recent incumbents
- 1999-2002: "Early late" entrants
- 2002-2005: "Medium late" entrants
- 2005-2008: "Late late" entrants

# Housing wealth by purchase cohort

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# Provisional conclusions

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- Cyclical pattern of wealth inequality
- Substantial but not huge increase in housing wealth inequality during bust phase
- Surprising increase in within-age cohort inequality – possibly due to finer-grained differences in purchase timing
- One decade may not be long enough to produce substantial inter-generational redistribution