

Staying Put:

The Housing Decisions of Asset-Rich, Cash-Poor Elderly Households

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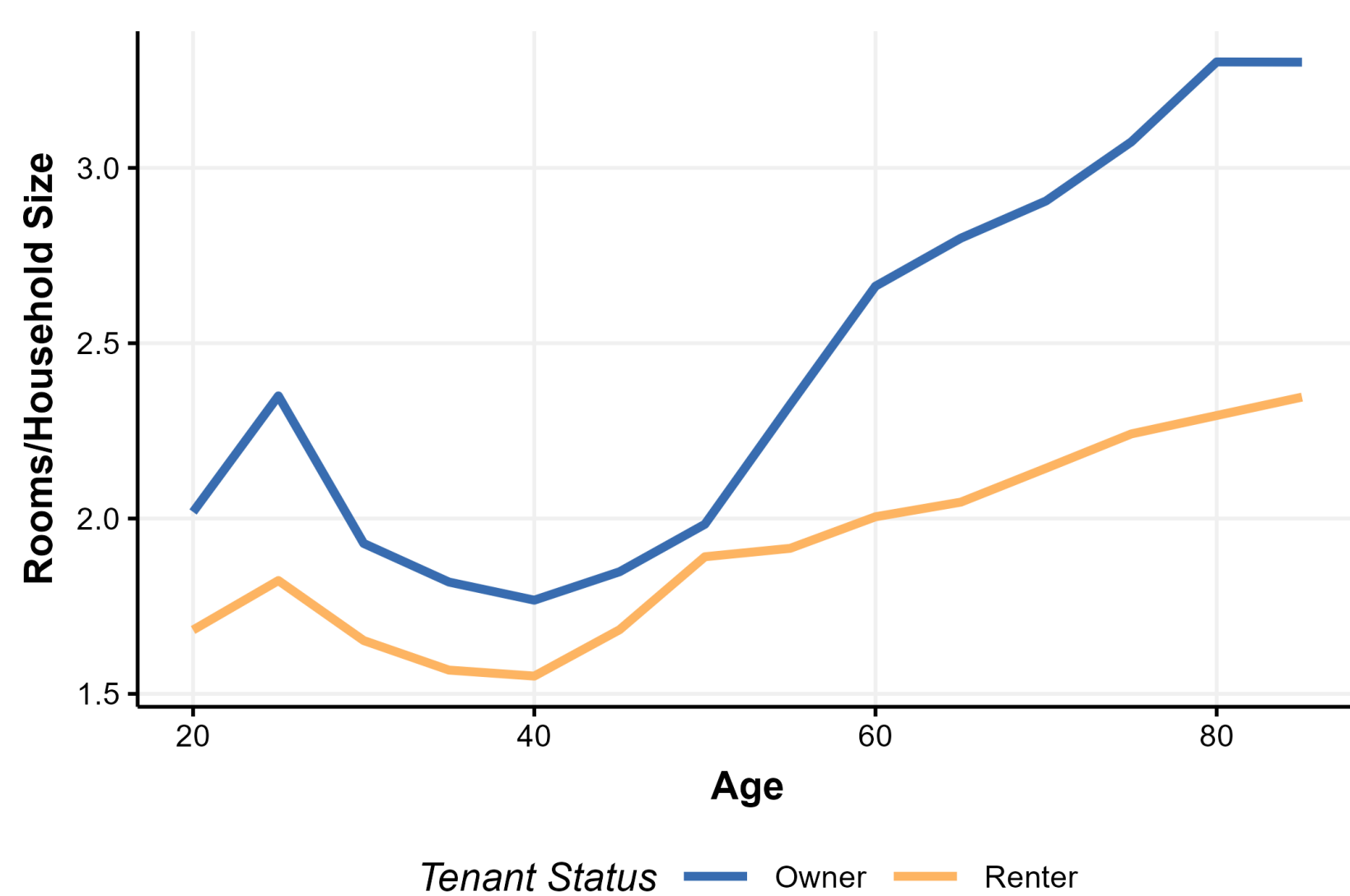


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Introduction & Data

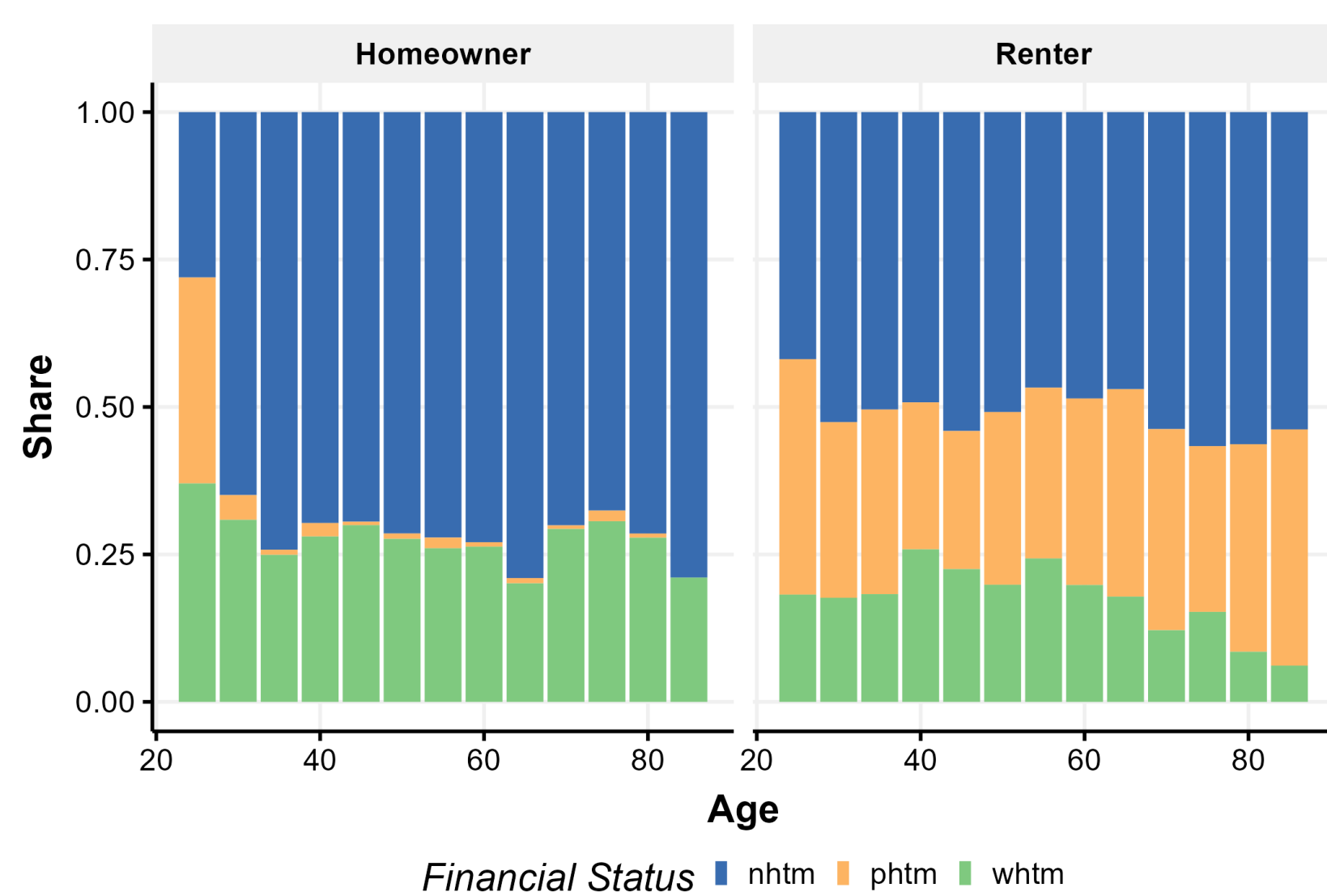
- Elderly home owners rarely adjust dwelling size
 - Creates mismatch between generations
 - Financially constrained elderly locked-in in costly properties
 - Contributes to retirement consumption drop

Figure 1: Rooms over the life cycle



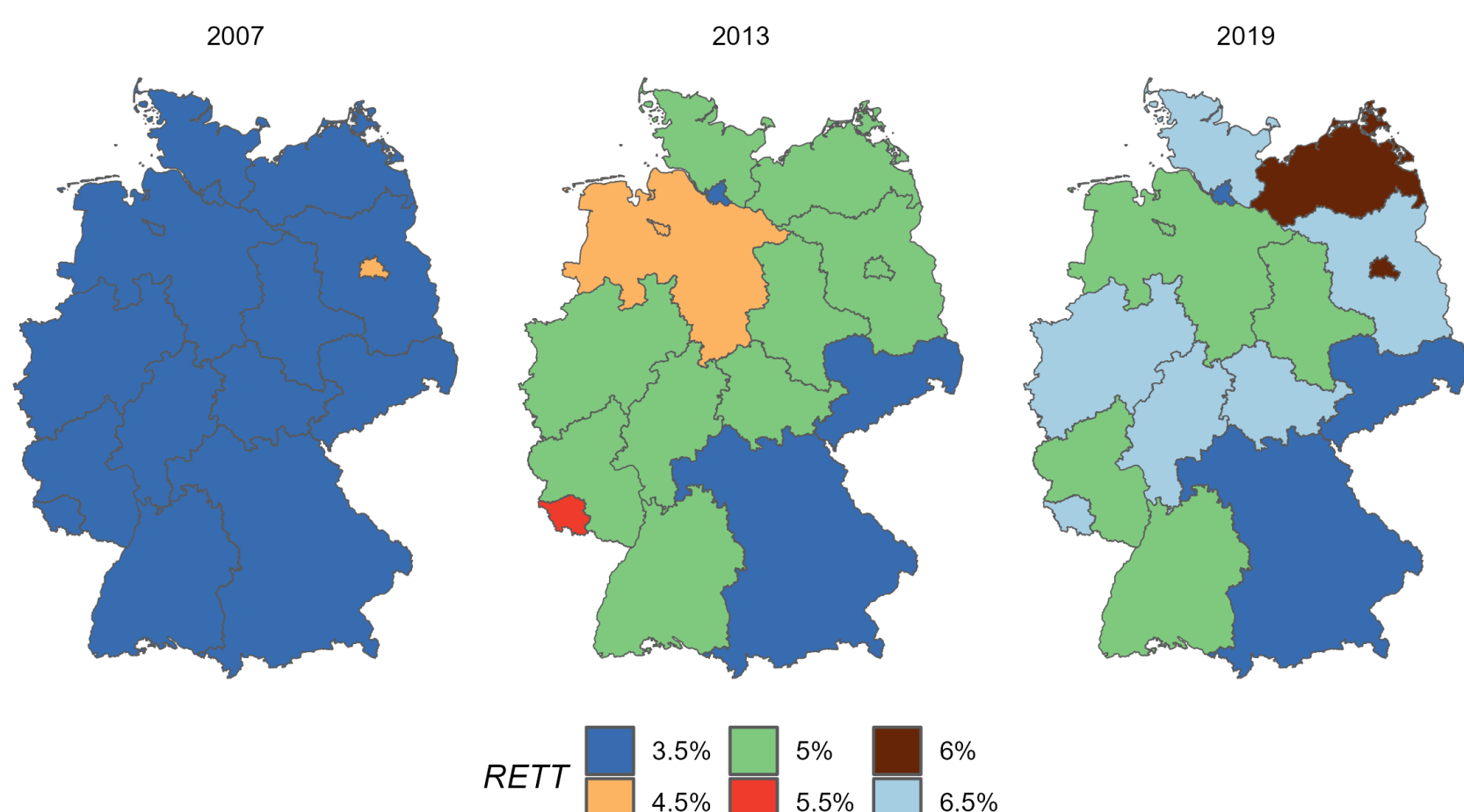
- In Germany 25% of home owners are wealthy hand-to-mouth

Figure 2: Financial constraints by tenant status



- Real estate transfer tax (RETT) makes adjustments costly. Varies by federal state in Germany

Figure 3: Real estate transfer tax



Research Questions

- Do real estate transfer taxes discourage elderly households from downsizing?
- How much of the retirement-related consumption drop is due to lack of downsizing?

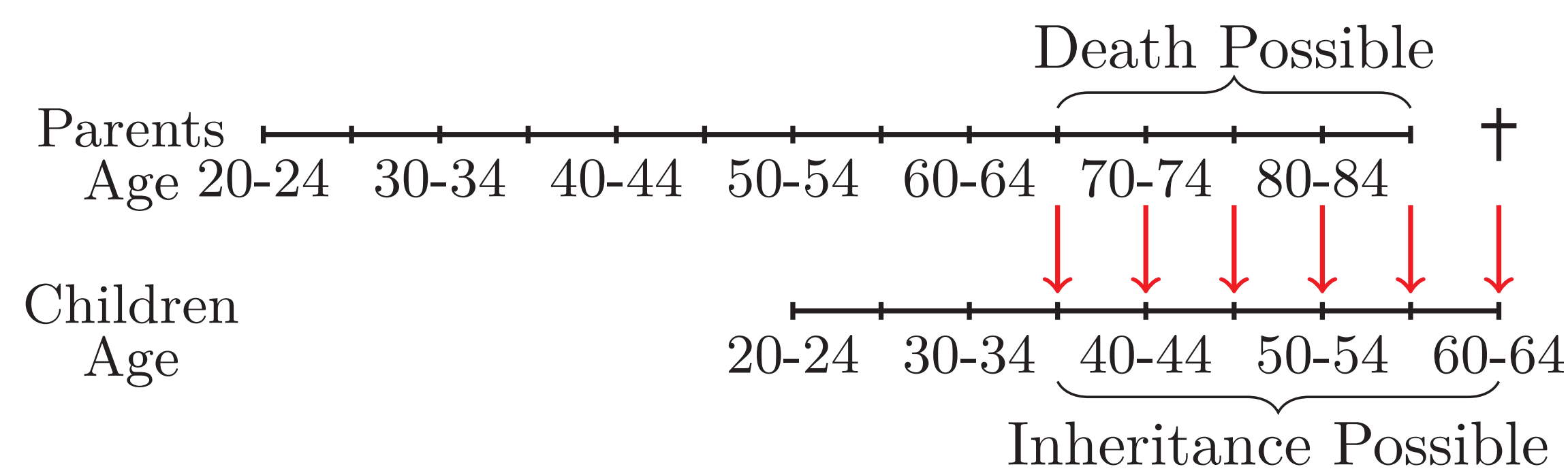
- Estimate effect of RETT on downsizing behavior using SOEP data
- Develop life-cycle model to simulate policy counterfactual (reducing transfer taxes) and investigate transitional dynamics

Methodology

Empirical Model

- Probability to downsize next year, $p_{i,t+1}$
- Logit model: $\text{logit}(p_{i,t+1}) = \beta_0 + \beta_{1,t} * \Delta \text{RETT}_{state,t} * \text{owner}_{i,t} + \beta_{i,t} * \mathbf{X}_{i,t} + \delta_t + \delta_{state} * \text{GGK} + \epsilon_{i,t}$
- Control variables:** age, net income, education completed, marital status, household size, health status, real estate prices, rents, vacancy rates **Fixed Effects:** year and state + municipality size (GGK) pair

Life-Cycle Model

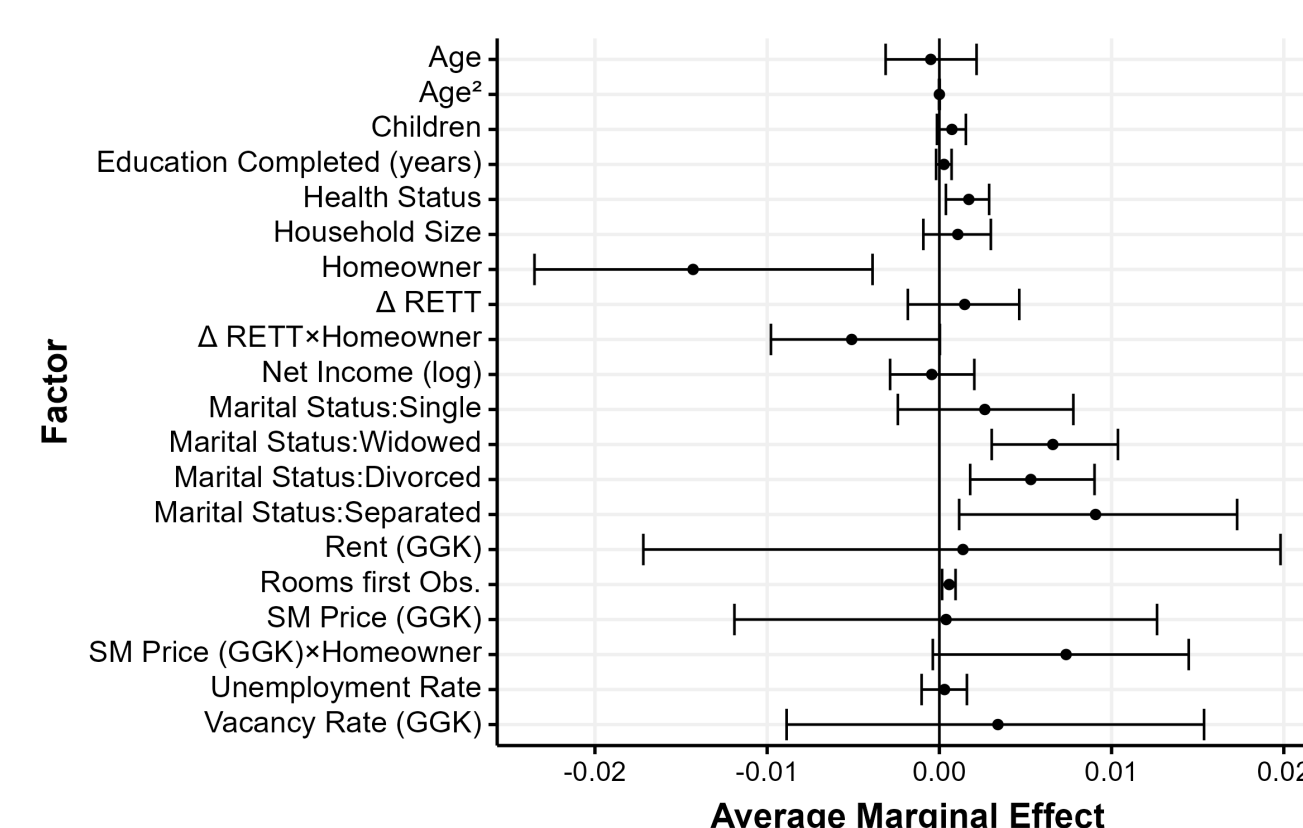


- Bewley style life-cycle model with housing decision and bequest motive (Yang, 2009; Kaas et al. 2021)
- Two asset economy
 - Risk-free government bond (a) \rightarrow fixed interest rate ($r > 0$)
 - Housing wealth (h) \rightarrow house price (p) = 1 in steady state
- Housing market à la Kaplan et al. 2020

Empirical Results

Each unit increase in RETT decreases the likelihood to downsize for home owners by **0.5pp** (AME).

Figure 4: AME: Probability to downsize



Quantitative Results

Benchmark

- Housing service consumption diverges over the life cycle
- Home owners only switch if they draw negative shock

Figure 5: Home ownership rate over the life cycle

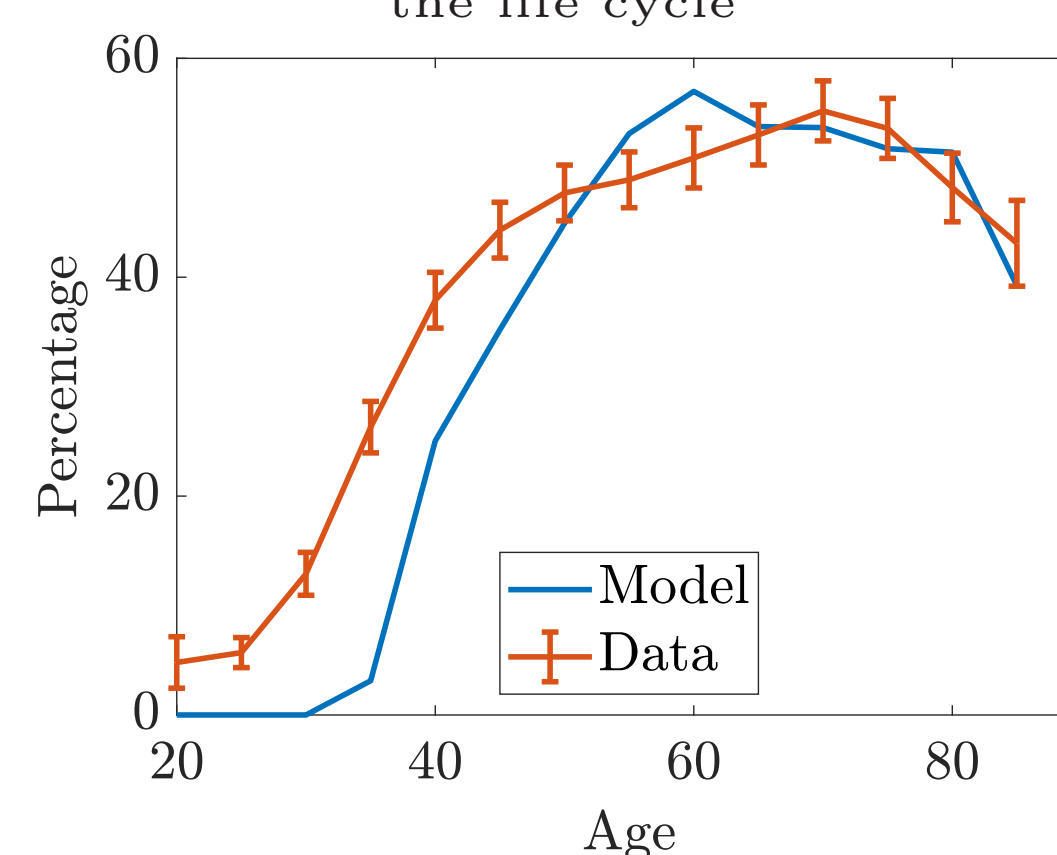
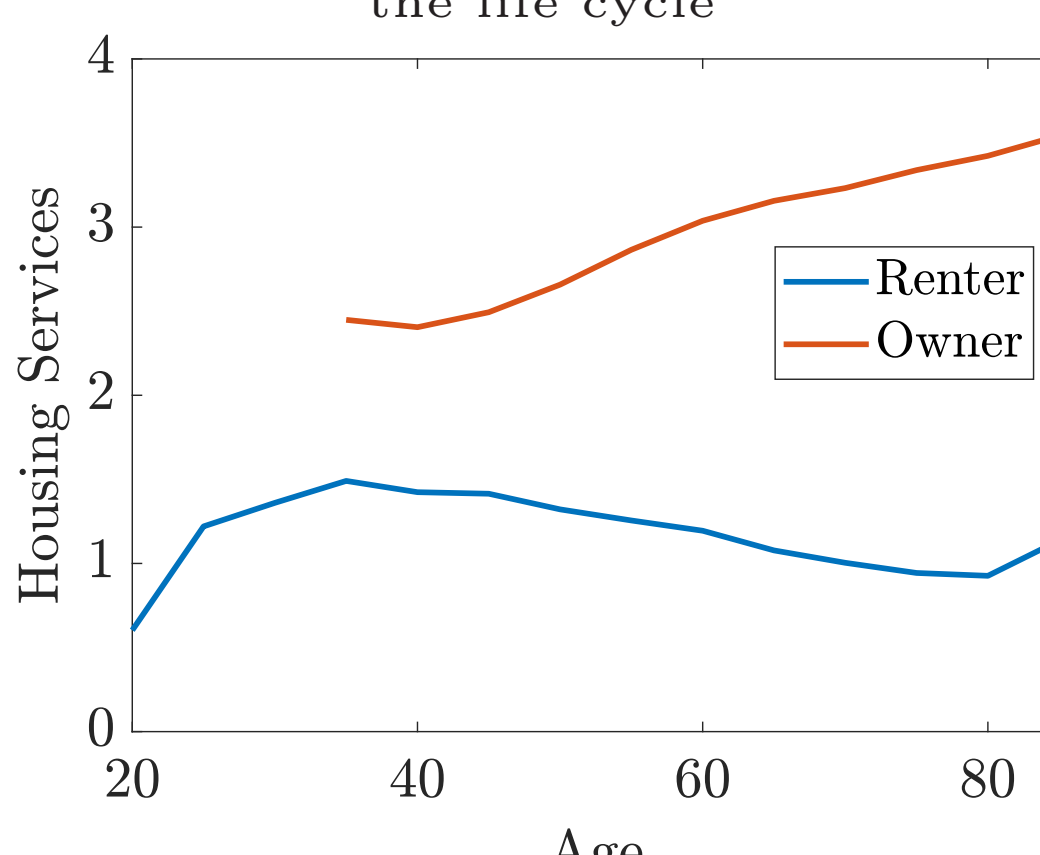


Figure 6: Durable consumption over the life cycle



Counterfactual

What happens if there is an **unexpected and permanent** reduction in the transaction costs?

Figure 7: Nondurable consumption of different generations

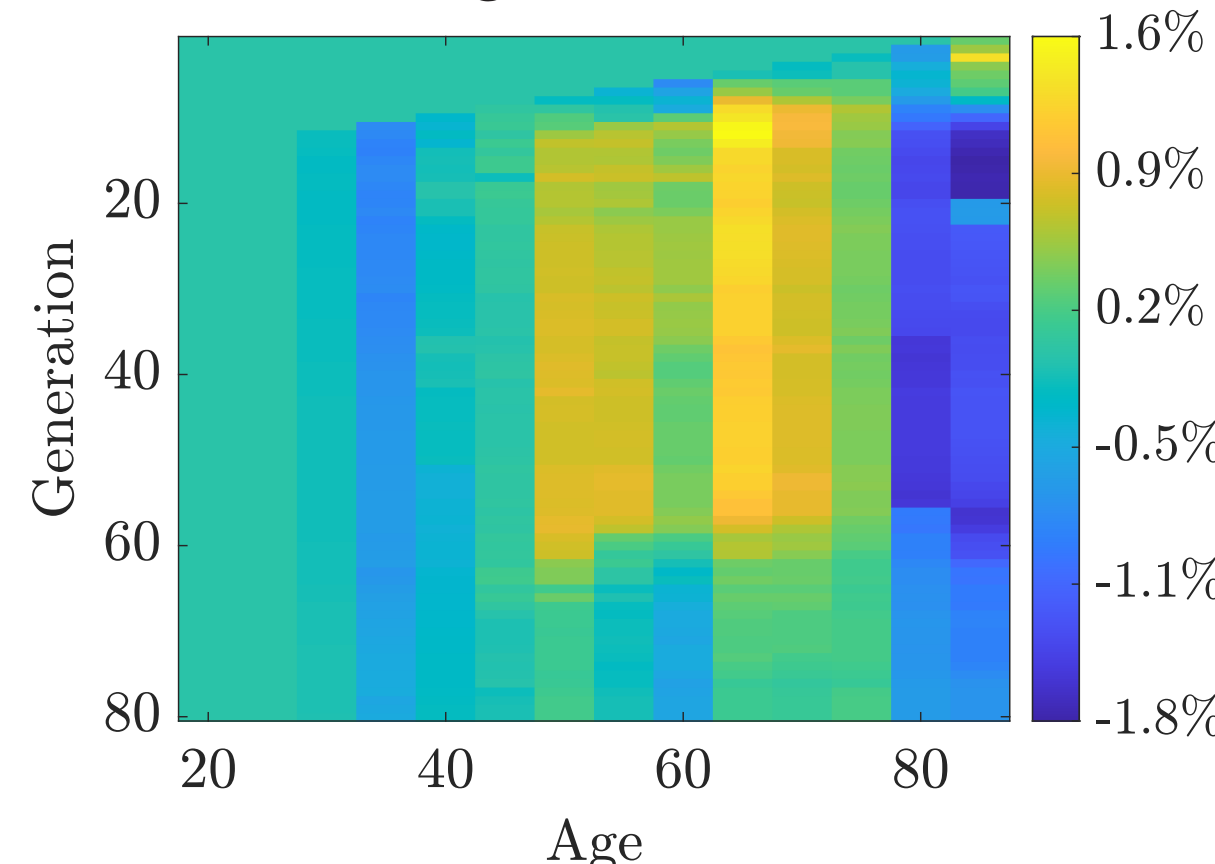
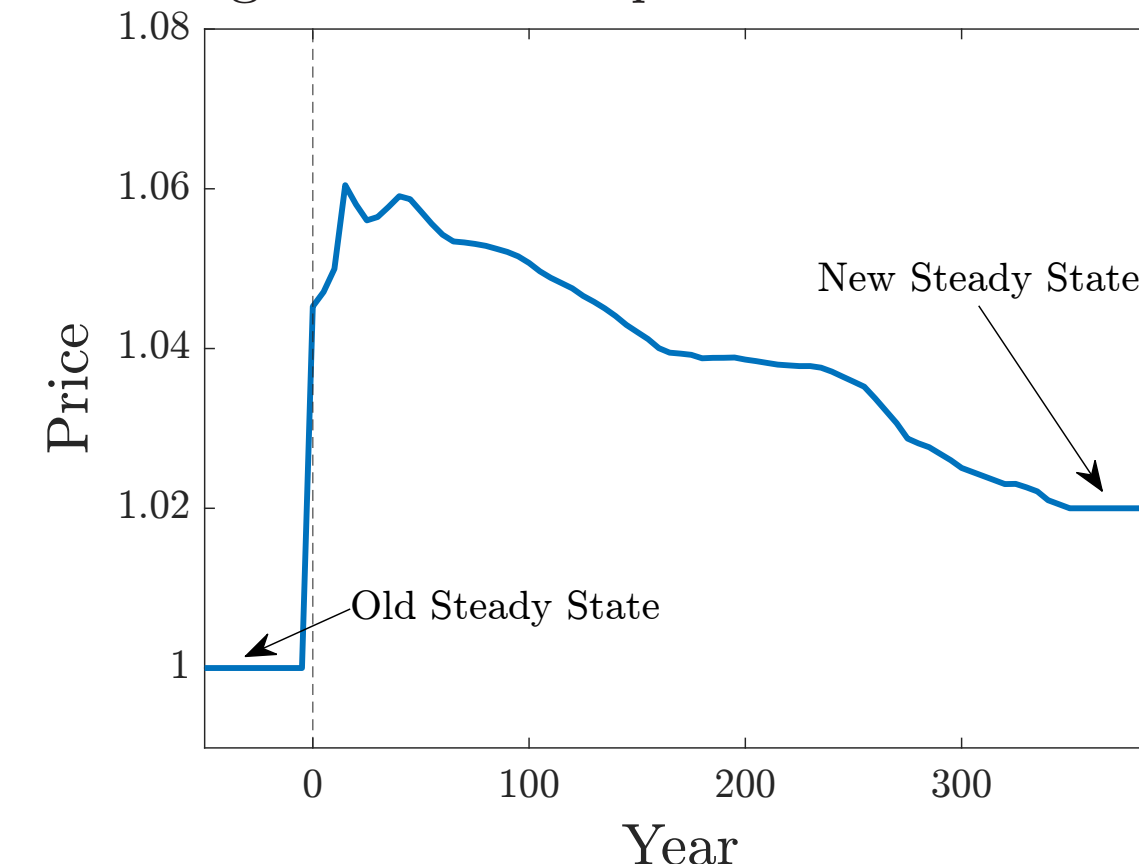


Figure 8: House price evolution



- Households that are home owners when tax is decreased gain the most in consumption terms
- In the long run
 - Prices increase by 2%
 - Home ownership rate and old-age consumption decreases by 0.6%