



The Key to the House

How Wealth Transfers Stratify Homeownership Opportunities

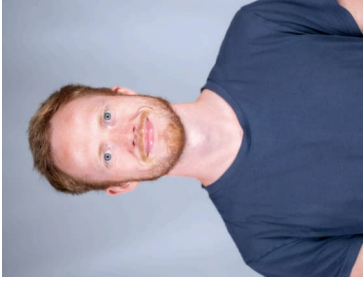
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Research project: *The effect of parental wealth on educational decisions*

Motivation

- Homeownership depends strongly on social origin, measured e.g., via...
 - ... *wealth transfer receipt*: Top quintile of wealth transfer recipients is 66 percentage points more likely to own a home than bottom quintile (Cohen Raviv and Hinz (2022))
 - ... *parental homeownership*: Individuals whose parents were homeowners are ~18 percentage points more likely to own a home (extrapolation based on Lersch and Luijkx (2015))
 - ... *parental social class* (Oesch 5): 49% higher service class vs. 51% small business owners vs. 42% low skilled workers own a home (in 2021, own calculation based on SOEP v38.1)
- Benefits of homeownership:
 - Wealth accumulation (Wainer and Zabel (2020))
 - Health and well-being (Munford, Fichera, and Sutton (2020))
 - → Underlying mechanisms unclear

Theory I

Explanations for social stratification in homeownership:

1. Intergenerational transmission of SES (Spilerman and Wolff (2012))
2. Socialization (Lersch and Luijkx (2015))
3. Reduced housing costs (Suh (2020))
4. Knowledge (Charles and Hurst (2002); Troy et al. (2023))
5. Local housing markets and social networks (Helderman and Mulder (2007))
6. Assortative mating/partnerships (Trinh, Lersch, and Schunck (2023); Cui et al. (2021))
7. Family transitions (Billari, Hiekel, and Liefbroer (2019); Leopold and Schneider (2011))
8. Transfers and credit access (e.g., Blickle and Brown (2019); Lee et al. (2020); Suh (2020), Spilerman and Wolff (2012))



Theory II

Transfers and homeownership:

- Differences in transfer receipt by parental social class (Albertini and Radl ([2012](#)); Wiborg and Hansen ([2018](#)), Trinh ([2023](#)))
- Effect of transfers on homeownership (overview: Wang and Squires ([2023](#)))
- Mediation of social stratification in homeownership via transfers
 - Transfers more important than child's SES (FR: Spilerman and Wolff ([2012](#)))
 - Approx. 15% mediated by gifts (NL: Helderman and Mulder ([2007](#)))



Theory III

Expected and actual transfer receipts:

- Existing studies look only at received (i.e., actual) transfers and mostly early in the life-course
- Inheritances less relevant because they occur too late in life (Cigdem and Whelan (2017))?
- Expected transfers could affect transitions, too → Underestimation of importance of transfers, if ignored
- Why should transfer expectations matter? (Müller, Pforr, and Dräger (2023))
 - Permanent income hypothesis: Households consume according to their predicted permanent income over their life course (Basiglio, Rossi, and Van Soest (2022); Malo and Sciulli (2023))
 - Psychological insurance function: Reduced risk aversion because future transfers could buffer adverse life events



Research questions

1. How do *expected* inheritances and gifts affect the transition to homeownership?
2. How do *actual* receipts of inheritances and gifts affect the transition to homeownership?
3. To what extent can social stratification in homeownership be attributed to social stratification in *expected* and *actual* inheritances and gifts?

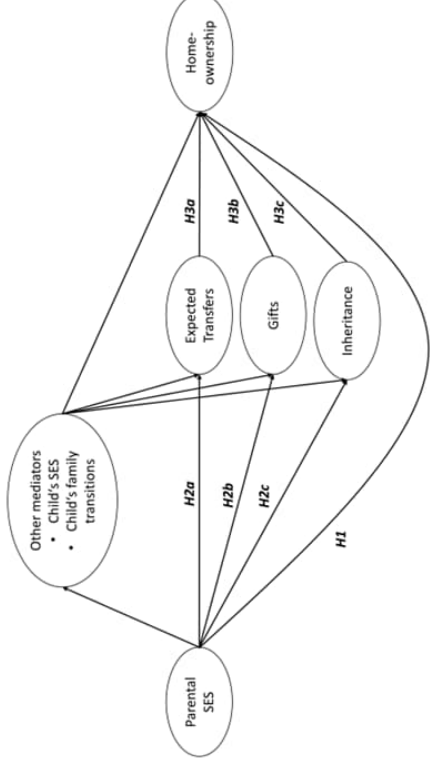


Contributions

1. Evaluate the relative importance of transfers for social stratification in homeownership
2. Effect of received (i.e., actual) transfers AND expected transfers on current behavior
 - → direct test of the psychological insurance function of wealth



Hypotheses



- *H1*: High parental SES individuals are more likely to become homeowners.
- *H2*: High parental SES individuals are more likely to expect transfers in the future (*H2a*), and to receive gifts (*H2b*) and inheritances (*H2c*).
- *H3*: Individuals who expect transfers in the future (*H3a*), who received larger amounts of gifts (*H3b*) or inheritances (*H3c*) are more likely to become homeowners.
- *H4*: Expected transfers and received gifts and inheritances will partially *mediate* the association between parental SES and the likelihood to become a homeowner.

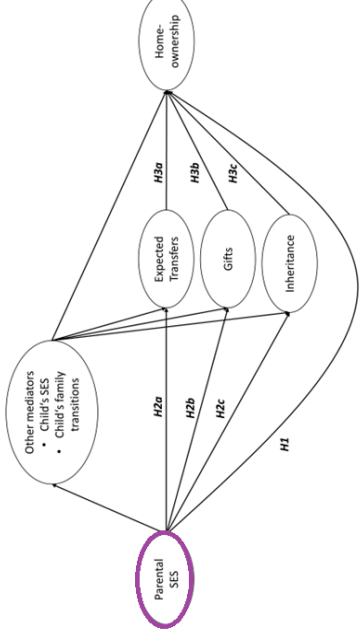
Data

- SOEP v38.1
- Participation in 2001 (N=22,063)
- “At risk” of transition to homeownership in 2001
 - Renting
 - Homeowner, but not head/partner of head of household
 - N=13,018
 - All transitions until 2021
- Multiple imputations for missing values in all variables (except homeownership: Von Hippel ([2007](#)))
 - CART (Categorization and Regression Trees: Burgette and Reiter ([2010](#)))
 - 20 datasets
 - Rubin’s rules for standard errors (Rubin ([1987](#)))

Variables I

Parental SES

- 5-class Oesch scheme
1. Higher service class: 16%
 2. Lower service class: 16%
 3. Small business owners: 9%
 4. Skilled workers: 45%
 5. Low skilled workers: 14%

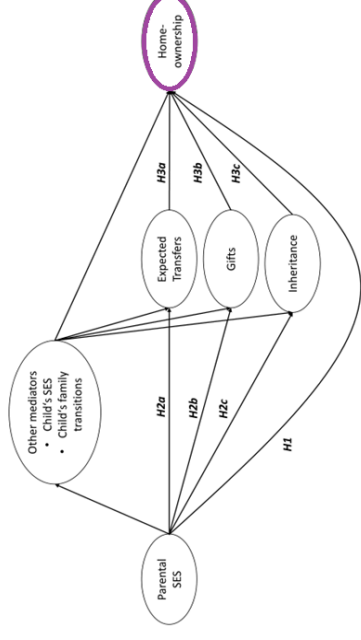
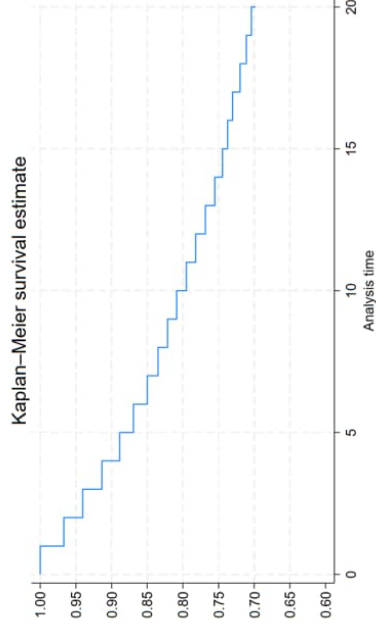


Variables II

Homeownership (annually)

= Living in a self-owned house AND being household head or partner of head

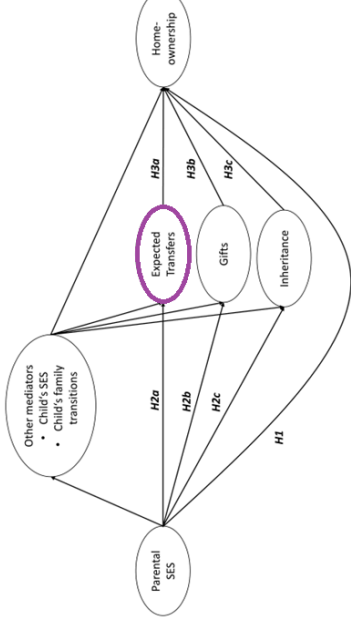
- Until 2021 (or until they dropped out), about 20% of the persons in our sample transitioned to homeownership



Variables III

Expected transfers (2001, individual level)

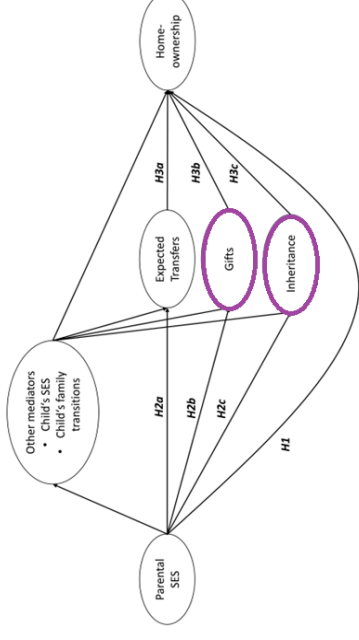
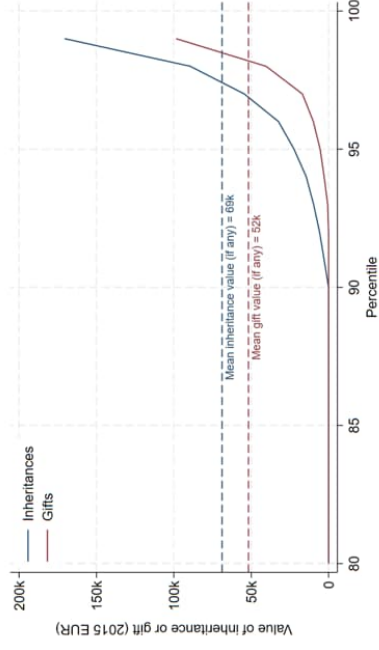
- “What do you think, are you going to inherit something or receive a gift of substantial value (again) in the future?”
 1. “Yes, this is certain” (6%),
 2. “Yes, probably” (9%),
 3. “No” (60%),
 4. “Do not know” (24%).



Variables IV

Received transfers (annually, household level)

1. Value of received inheritances (adjusted to CPI): 16.5% receivers, mean €94k
2. Value of received gifts (adjusted to CPI): 8% receivers, mean €47k



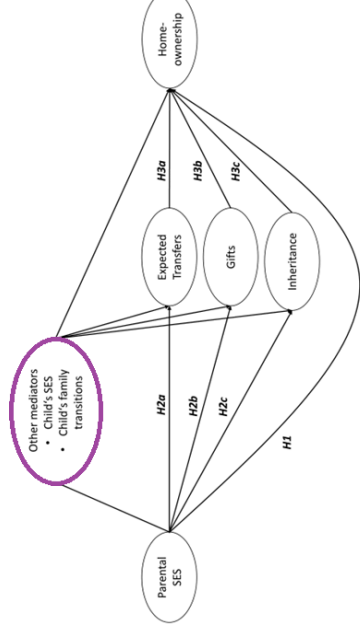
Variables V

Baseline confounders:

- Gender
- Migration background (native vs. 1st generation vs. 2nd generation)
- Age, Age²
- East vs. West
- No. of siblings

Other potential mediators:

- Own and partner's social class* (Oesch)
- Hhd income* (cpi-adjusted, adjusted to hhd size)
- Degree of urbanity
- Family transitions*: childbirth, marriage
- Housing status



Summary statistics

Homeowners		At risk	All
		Mean	Mean
Parental Oesch	Higher Service Class	13%	16%
	Lower Service-class	12%	16%
	Small business	16%	9%
	Skilled worker	46%	45%
	Low skilled worker	13%	14%
Age (yrs)		52	42
Gender	male	48%	48%
Migration background	None	90%	77%
	direct	8%	18%
	indirect	1%	5%
Place of residence 1989	East	23%	32%
	West	75%	62%
	Abroad	2%	7%
	Head & Owner	100%	0%
Housing status 2011	Renting & head	0%	78%
	Owner but not head	0%	14%
	Renting and not head	0%	9%
	Married	79%	52%
	Single	3%	3%
Family status	Divorced	6%	10%
	Widowed	12%	10%
	Higher Service Class	40%	35%
	Lower Service-class	19%	17%
	Small business	7%	3%
Own Oesch (2001)	Skilled worker	26%	30%
	Low skilled worker	9%	15%
	Higher Service Class	37%	20%
	Lower Service-class	15%	9%
	Small business	6%	2%
Partner's Oesch (2001)	Skilled worker	23%	17%
	Low skilled worker	8%	10%



IW BERLIN Urbanity	No partner	10%	43%	30%	
	Large city	17%	25%	22%	
	Medium city	15%	20%	18%	
	Small city	20%	23%	22%	
	Rural	48%	33%	40%	
Log. Equivalized hh income		Mean	€1,730	€1,471	€1,575
Siblings	siblings	2	2	2	2
Expected transfers	Yes, sure	6%	6%	6%	
	Yes, likely	10%	9%	10%	
	No	64%	61%	62%	
	Don't know	20%	24%	23%	
Received inheritance	Yes	17%	10%	13%	
Inheritance value			€15,700	€7,000	€10,600
Inheritance value (inh=yes)			€94,700	€67,700	€82,100
Received gift	Yes	9%	9%	8%	
Gift value	Mean	€3,800	€4,400	€4,200	
Gift value (gift=yes)	Mean	€47,400	€48,000	€47,800	
N		9,333	13,018	22,351	



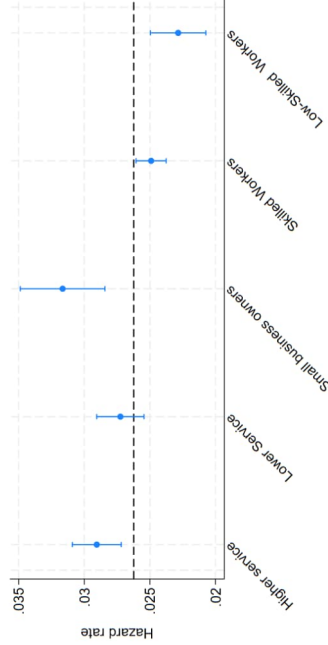


Results I

Parental SES \Rightarrow Homeownership (H1)

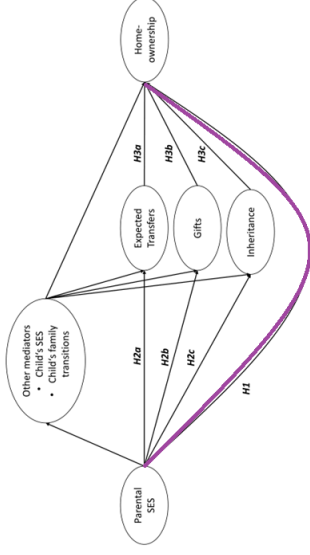
- Discrete time survival analysis (Prentice et al. (1978))

$$Hazard(Homeowner)_t = \beta * PSES + \gamma * Controls + \delta + \epsilon$$



Hazard rate by parental SES.

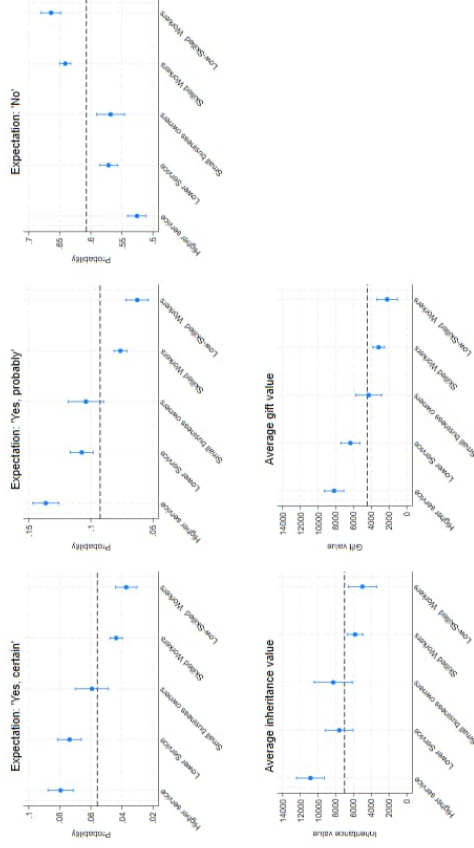
- Vertical lines show 84%-confidence intervals.
- Non-overlapping confidence intervals indicate that estimates are statistically significantly different on the 95%-level.



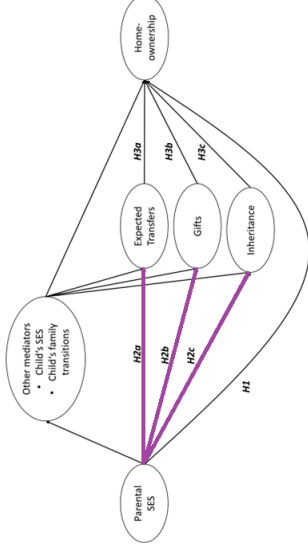
Results II

Parental SES \rightarrow Transfers (H2)

- Multinomial regression for expectations
- Linear regression for the value of gifts and inheritances



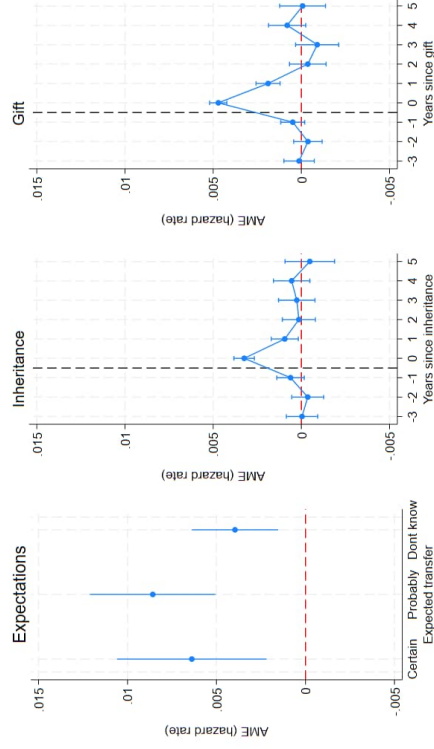
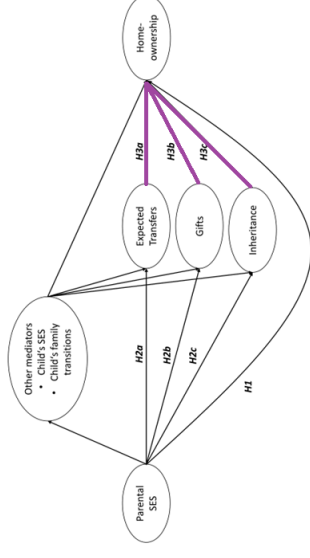
Differences in expected transfers, received inheritances, received gifts.



Results III

Transfers → Homeownership (H3)

- Discrete time survival analysis (Prentice et al. (1978))

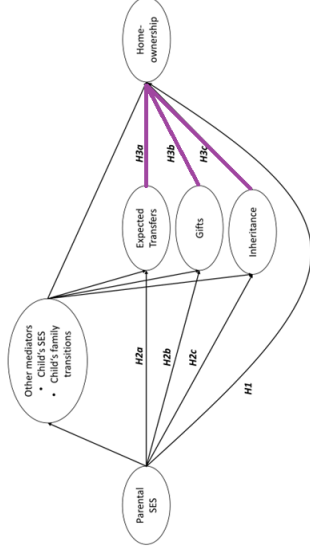
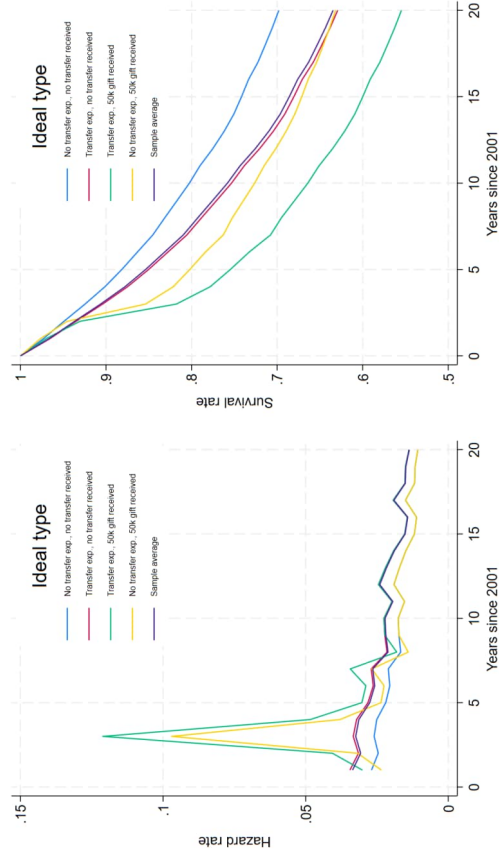


Effect of receipt of inheritance or gift on the hazard of transition to homeownership.

- The effects on actual inheritance or gifts show the effect of a log increase.
- 95% Confidence intervals.

Results IV

Ideal types → Homeownership (H3)



Survival rates for different combinations of expected and actual gifts.

- blue: 57%; pink: 5%; yellow: 0.3%; green: 0.4%

Results V

Parental SES \Rightarrow Transfers \Rightarrow Homeownership

Mediation of social stratification in homeownership

$$Model\ 1: Hazard = \beta * PSES + \gamma * Controls + \delta * year + \epsilon$$

$$Model\ 2: Hazard = \beta * PSES + \gamma * Controls + \delta * year + \theta * other\ mediators + \epsilon$$

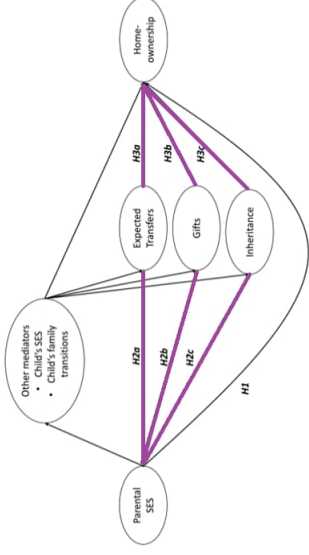
$$Model\ 3: Hazard_t = \beta * PSES + \gamma * Controls + \delta * year + \theta * other\ mediators + \vartheta * Expectation + \sum_{t-5}^{t+10} \mu * \log(inheritance\ value_t) + \sum_{t-5}^{t+10} \sigma * \log(gift\ value_t) + \epsilon$$

β_1 = Total social stratification in homeownership

$\beta_1 - \beta_2$ = Social stratification due to *other mediators*

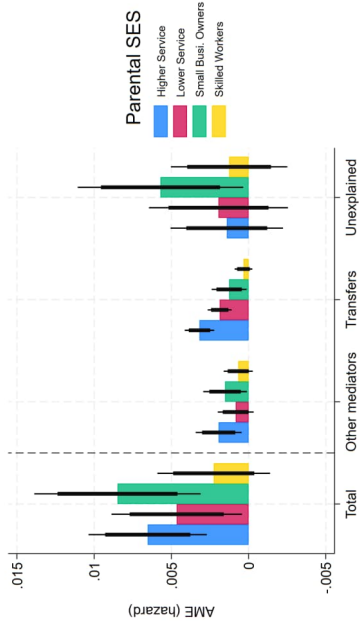
$\beta_2 - \beta_3$ = Social stratification due to transfers (expected transfers, received inheritances & received gifts together)

β_3 = Unexplained social stratification in homeownership



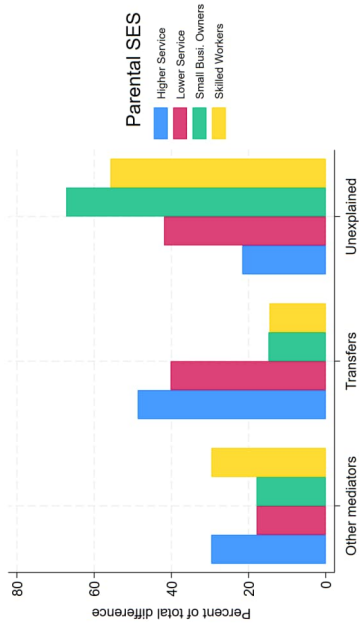
Results VI

Parental SES \Rightarrow Transfers \Rightarrow Homeownership (Mediation)



Decomposition of social stratification in homeownership.

- Thick vertical lines indicate the 84%-Confidence Interval.
- Thin vertical lines indicate the 95%- Confidence Interval.



Decomposition relative to total social stratification in homeownership

Results VII

Mediation Table: Proportion of differences in the transition to homeownership mediated by transfers, with different operationalisations.

	Expected transfers	Received inheritances	Received gifts	Received inheritances and gift	Expected transfers and received inheritances	Expected transfers and received gifts	All three
Higher Service	20.7	14.4	27.9	38.5	31.9	43.0	51.4
Lower Service	18.3	7.3	25.9	30.9	23.3	39.6	42.9
Small Business Owners	8.2	2.3	6.8	7.9	9.7	13.5	14.0
Skilled Workers	7.6	9.5	0.3	8.2	16.2	7.7	14.4

- ➔ **All 3 measures of transfers contribute to differences in homeownership by parental SES.**
- ➔ **Excluding any of them leads to an underestimation of the importance of transfers to the effect of parental SES on homeownership.**

Robustness Checks

- Allowed for time-varying confounders
 - income, marital status, number of children, own and partner's social class
- ➔ Transfers explain an even larger share of the differences by parental SES



Conclusion

- Moderate levels of social stratification in the transition to homeownership
 - Limitation: Measurement of SES?
- Transfers are the “icing on the cake” for children of high SES parents
 - For business owners the direct path of generational transfers is more relevant
 - For other classes, advantages mostly passed on via facilitating their own SES
- Transfers are main mediator for social stratification in homeownership, despite low prevalence of received transfers in observation window → *Transfers as a key to the house*
- Individuals who expect transfers more likely to transition to homeownership → underestimation of the role of transfers when looking at received transfers only



Further steps

- “How” was the house acquired (new house, old house, inheritance)
- Is there a loan on the house?
- Do people who expect an inheritance react differently than people who do not?





Thank you for your attention.

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The Contraception Project



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