Trends in Intergenerational Home Ownership and Wealth Transmission

Jo Blanden, Andrew Eyles, and Stephen Machin

Centre for Economic Performance

UNIVERSITY OF SURREY

LSE — THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Introduction

Wealth has always been seen as a crucial factor underlying permanent welfare.

A large literature focus on inequalities in wealth. A smaller literature looks at the intergenerational transmission of wealth (Mulligan, 1997; Piketty, 2000; Charles and Hurst, 2003; Black et al, 2015; and Fagerang, Mogstad and Rønning, 2018)

It is much more difficult to analyse trends in intergenerational transmission.

This paper seeks to begin to fill this gap, by comparing the persistence of home ownership and using this to comment on intergenerational wealth persistence.

We use data from two British cohorts, a long run longitudinal data set, and a comprehensive dataset covering wealth holdings.

Home Ownership

Home ownership is convenient as it is commonly collected in a number of datasets.

The widespread availability of ownership measures mean we can look at *trends* in intergenerational linkages.

Trends in home ownership are of interest, independent of the wealth effect, if ownership increases welfare directly.
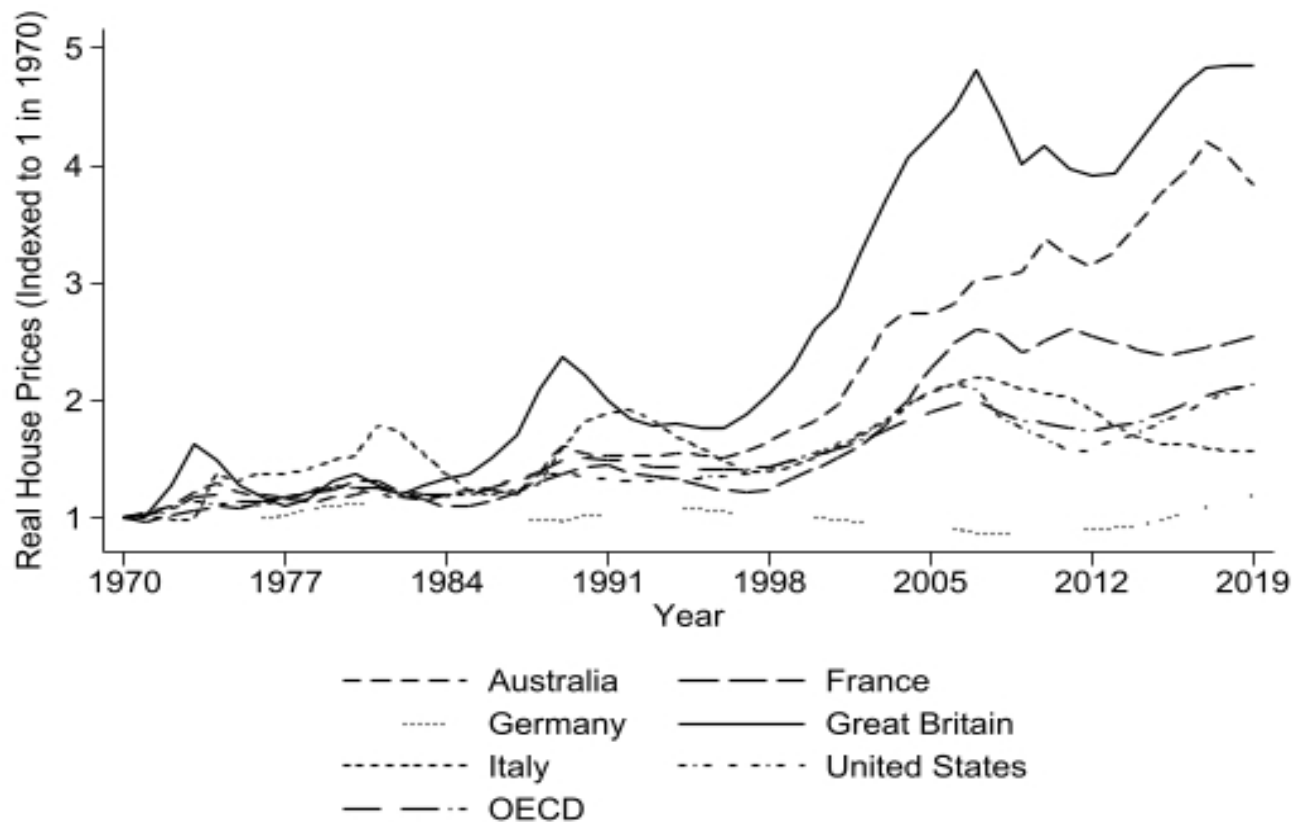
Structure

1). Home ownership in the UK

2). Intergenerational patterns of home ownership in the UK

3). The relationship between ownership and wealth.

4). What can we say about intergenerational wealth correlations?

5). Conclusions

Cross Cohort Changes in Home Ownership
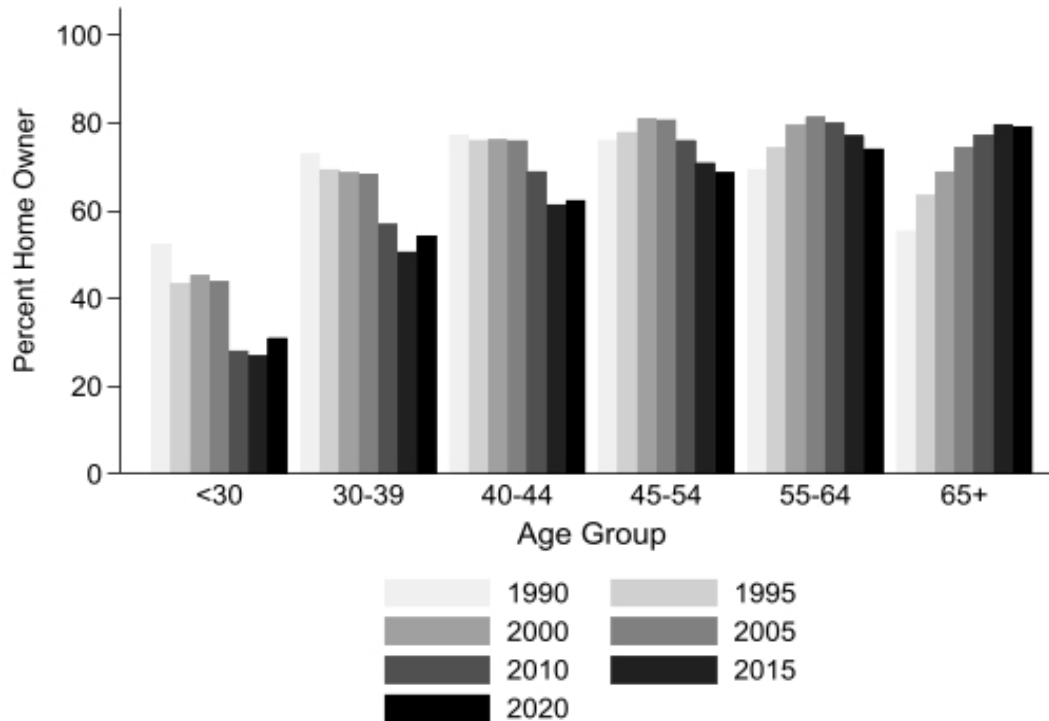
Source: LFS

The UK from an International Perspective

Notes: Author's own calculations using OECD house price indices. Figure refers to real house price growth.

Intergenerational Correlations in Home Ownership

	NCDS 2000	WAS 2011	BCS 2012	WAS 2015	Change (4)-(1)
	(1)	(2)	(3)	(4)	(5)
A. Basic Intergenerational					
Parent home owner	0.141 (0.009)	0.220 (0.026)	0.217 (0.014)	0.265 (0.031)	0.124** (0.032)
B. Compositional Controls					
Parent home owner	0.135 (0.008)	0.186 (0.025)	0.188 (0.014)	0.231 (0.031)	0.096** (0.034)
Home ownership year	2000	2011	2012	2015	
Parent home ownership year	1974	1983	1986	1987	
Sample size	8352	1771	6181	1271	

Notes: Panel (B) adds controls for age, age squared, average age of parents, the square of this, gender, the presence of a father during childhood, and the presence of a partner. All parental variables in the WAS are retrospectively asked and individuals are prompted to report values as they were at age 14. For this reason, parental age at observation is unobserved. For obvious reasons, we do not control for age in the two cohort regressions (Columns (1) and (3)). Robust standard errors are reported in parentheses.
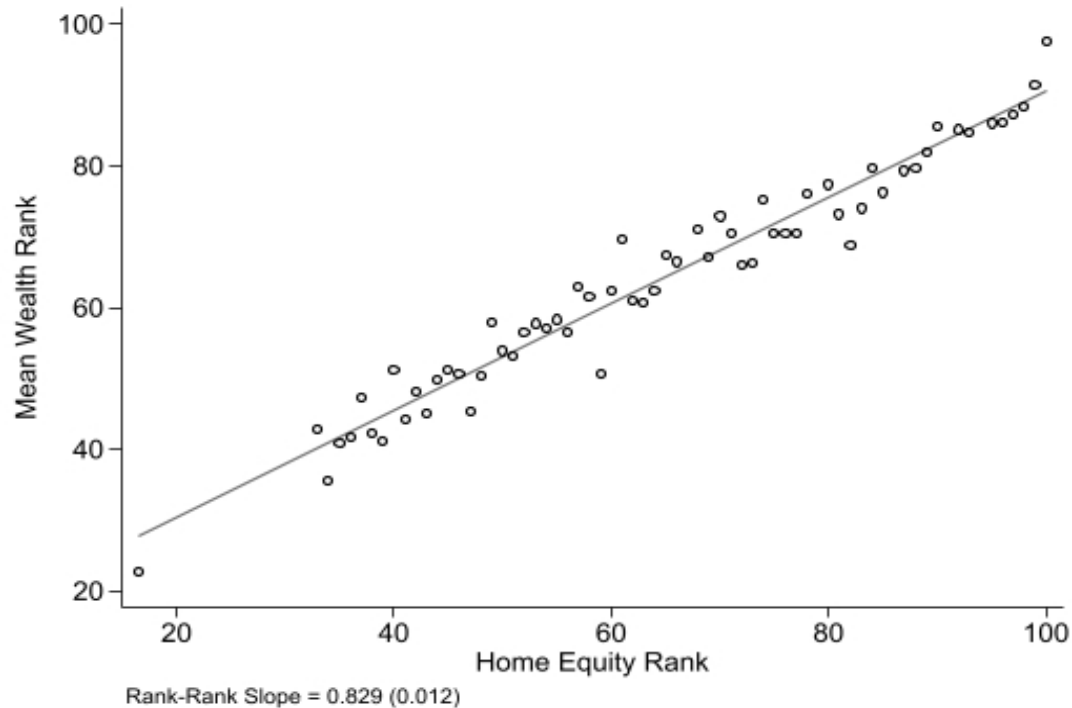
What (might?) these results mean for wealth? - 1
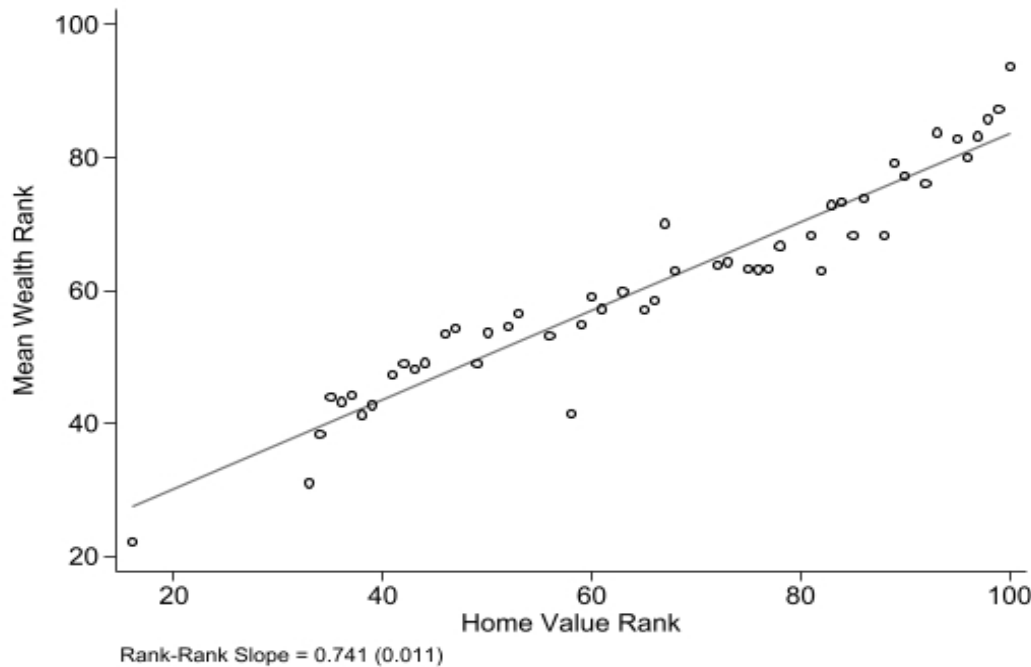
Rank-Rank Slope = 0.741 (0.011)

Notes: Figure 5 plots the average percentile of wealth within each percentile bin of home equity and home values using data from the 2015 WAS. Bins are not of equal size because percentiles are calculates using all ages and household weights. As a result of this, we remove bins with fewer than five observations. Rank-rank slopes are calculated from the underlying microdata.

What (might?) these results mean for wealth? - 2

Rank-Rank Slope = 0.829 (0.012)

Notes: Figure 5 plots the average percentile of wealth within each percentile bin of home equity and home values using data from the 2015 WAS. Bins are not of equal size because percentiles are calculates using all ages and household weights. As a result of this, we remove bins with fewer than five observations. Rank-rank slopes are calculated from the underlying microdata.

Direct Evidence of Parental Ownership/Wealth Gradients - 1

	WAS 2011	WAS 2015	Change (2)-(1)
	(1)	(2)	(3)
A. Home Owner			
Parent home owner	0.220 (0.026)	0.265 (0.031)	0.045 (0.040)
Sample size	1771	1271	
B. Wealth Percentile			
Parent home owner	0.151 (0.013)	0.194 (0.012)	0.043* (0.01)
Sample size	1771	1271	
C. Log(Total Wealth)			
Parent home owner	0.813 (0.083)	1.143 (0.105)	0.330** (0.134)
Sample size	1748	1251	

Notes: Total wealth is the percentile in the total weighted wealth distribution and includes financial wealth, property wealth, and pension assets.

Direct Evidence of Parental Ownership/Wealth Gradients - 2

	BHPS 2016, Age 42	BHPS 2011, Age 33/34	BHPS 2016, Age 33/34
A. Home Owner			
Parental home owner	0.267 (0.118)	0.319 (0.070)	0.369 (0.076)
Sample size	168	334	211
B. House Value Rank			
Parental home owner	0.246 (0.074)	0.284 (0.042)	0.265 (0.045)
Sample size	168	334	211
C. House Value Rank			
Parental house value rank	0.415 (0.081)	0.363 (0.052)	0.390 (0.060)
Sample size	168	334	211

Notes: House value ranks come from self-reported values for the main residence. These are ranked in the BHPS sample.

Bringing the Evidence Together - 1

$$W_{is}^{parent} = \eta_0^{parent} + \eta_1^{parent} HV_{is}^{parent} + \varepsilon_{is}^{parent}$$

$$W_{it}^{42} = \eta_0^{42} + \eta_1^{42} HV_{it}^{42} + \varepsilon_{it}^{42}$$

- If the rank relationship between wealth and housing values is truly linear
- And if the slope if the same across the two cohorts (parent and child)
- Rank slopes between parental and child housing values give us the rank/rank slope for wealth.
- If the housing-wealth relationship has changed, we can 'convert' slopes in housing wealth to slopes in total wealth by dividing through by $\eta_1^{Parent} \Big/ \eta_1^{42}$

- We find very little evidence that the rank slope between wealth and housing values has changed over the previous 25 years

**Bringing the Evidence Together - 2**

- Drawing credible inferences on trends is difficult.

- Functional form assumptions on the relationship between ownership correlations and rank slope correlations can help us. We consider three:

  1. Constant additive relationship between ownership correlations and rank slopes
  2. A constant ratio between ownership and rank slopes.
  3. Percentage changes in ownership correlations mirror percentage changes in rank slopes.

Bounds on Intergenerational Wealth Correlations, Additivity
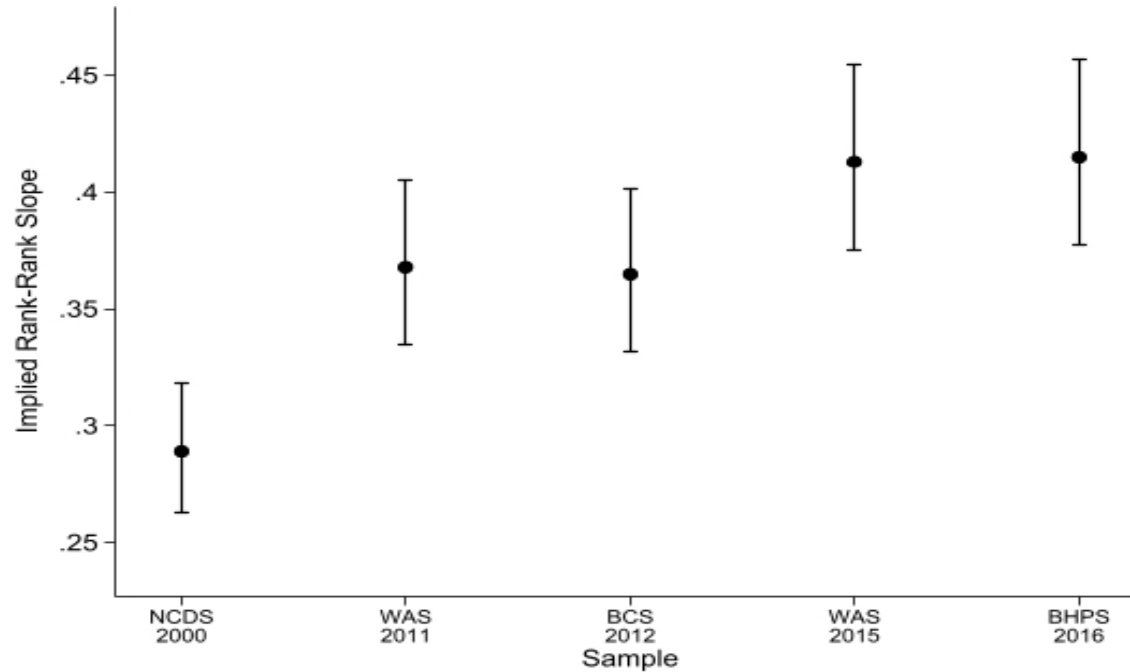
Notes: This Figure uses estimates of intergenerational home ownership correlations (taken from the BCS, NCDS, and WAS), the estimate of the rank slope in parental and child housing values (taken from the BHPS), and estimates of the relationship between home ownership and wealth, taken from the WAS, to provide bounds on the rank-rank slope between parental and child wealth. We convert the estimates of home ownership correlations to estimates of rank slopes in housing wealth by assuming a constant difference in these two coefficients over time. As we can estimate both in the 2016 BHPS, we an estimate the difference as 0.148

Bounds on Intergenerational Wealth Correlations, Constant Ratio
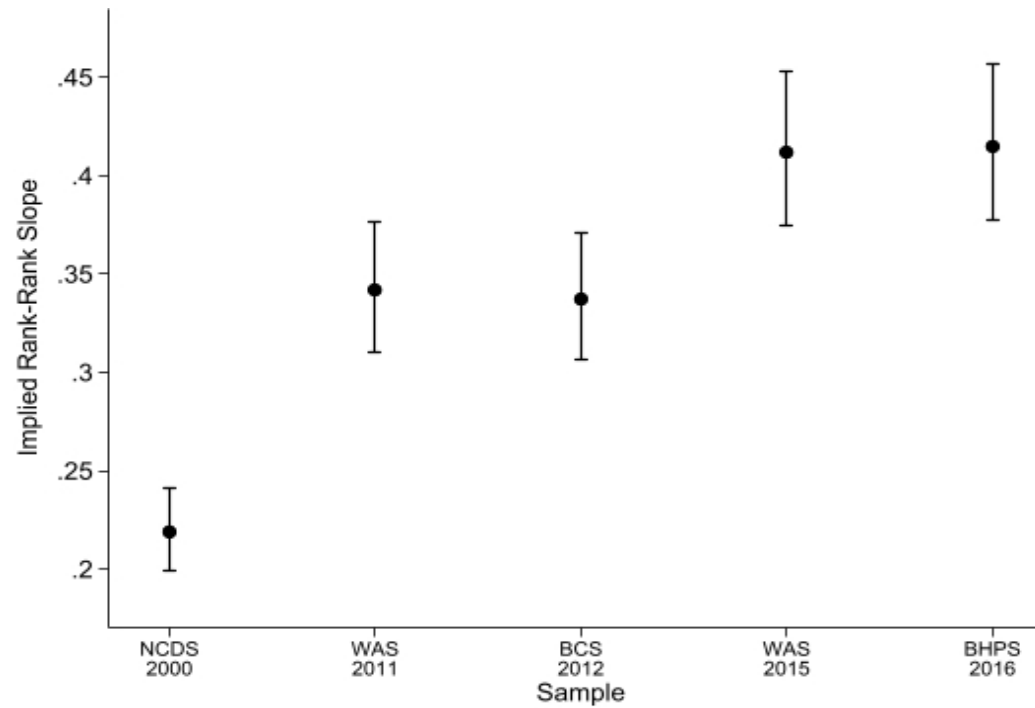
Conclusions

We argue that intergenerational persistence of home ownership provides a useful indicator of the intergenerational persistence of wealth.

In the UK this appears to have fallen when comparing a cohort born in 1970 with one born in 1958. This is partly due to a change in overall mobility and partly a consequence of house price changes.

Evidence from the US suggests no change and that UK has shifted to US level of persistence, this is true both for income and wealth mobility.

Home ownership is more tightly correlated with wealth in the UK making the problem even more severe.