

Press Release

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Shifts in Housing Costs Exacerbated Rise in Income Inequality

Changes in housing expenditures dramatically exacerbated the rise in income inequality in Germany since the mid-1990s, according to a new paper by **Christian Dustmann (University College London)**, **Bernd Fitzenberger** and **Markus Zimmermann (Humboldt University Berlin)**. The researchers find that the share of household income spent on housing in the lowest income fifth (those 20% with the lowest incomes) increased from 27% in 1993 to 39% in 2013. In contrast, the same share declined from about 16% in 1993 to 14% in 2013 for the top fifth (those 20% with the highest incomes). This trend aggravated the rise in income inequality when measured in real disposable income (i.e. after housing costs are accounted for), with inequality between the middle and the bottom of the distribution rising almost threefold.

These are the central findings of the most comprehensive analysis to date of the link between housing expenditures and income inequality in Germany. In particular, the study shows:

- Inequality between the middle and the bottom of the distribution of income *after* deducting housing expenditures rose between 1993 and 2013 almost threefold compared to income inequality *before* housing expenditures, as measured by the 50/10 ratio between the median [50 percent value] and the 10 percent lowest net household income. Before deducting housing expenditures, the 50/10 ratio increased from 1.75 to 1.97, i.e. by 22 percentage points. However, when considering income after deducting housing expenditures, the same 50/10 ratio increased from 1.97 to 2.59, i.e. by 62 percentage points. This means that in 1993 the income net of housing of a median income person was about twice as large than for a person with the 10 percent lowest income, while the ratio increased to about 2.6 in 2013.
- Inequality between the top and the middle of the income distribution (measured by the ratio between the 10 percent highest net household income and the median) also shows a stronger increase when housing expenditures are accounted for, but less so than the 50/10 ratio.

- The sharp increase in after-housing net real household income inequality is caused by housing expenditure rising faster for those with lower incomes than for those with higher incomes.
- A main reason is a steep increase in housing expenditure for those who rent property, which stands in contrast to the favorable development of mortgage rates that benefited homeowners. This has exacerbated the increase in income inequality because homeowners are mainly located at the upper part of the distribution, and those who rent are concentrated further down.
- Other factors that contribute to these trends are changes in household structure (the rising number of single households), and residential mobility toward larger cities.
- Rising housing costs in conjunction with declining real incomes at the lower end of the income distribution result in a particular strong decline in consumption and savings possibilities among low-income households.
- The research also shows that younger birth cohorts spend more on housing and save less than older birth cohorts did at the same age.

What are the consequences of all that? Professor Dustmann points out: “In comparison to the US and the UK, developments in housing expenditures in Germany are relatively modest, but the strong rise in inequality of after-housing disposable income has worrying consequences for savings rates, which fell for those 20 percent with the lowest incomes from 2% in 1993 to -1% in 2013.” Professor Fitzenberger adds: “It is concerning that a large and growing share of low-income individuals does not save, in particular as Germany’s strict mortgage regulations reduce the possibility of wealth accumulation through housing property for the less well-off. Rising inequality in savings is therefore even more likely to contribute to higher wealth inequality in the future.”

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Notes for editors

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The investigation is based on data from the Income and Expenditure Survey (EVS), the German Socioeconomic Panel (GSOEP), and the OECD Affordable Housing Database. The main analysis was conducted based on the EVS and the GSOEP and the main findings coincide.

The research was conducted by Christian Dustmann from UCL's Centre for Research and Analysis of Migration (CReAM) and Bernd Fitzenberger and Markus Zimmermann from Humboldt University Berlin.

It is available published at:

http://www.cream-migration.org/publ_uploads/CDP_16_18.pdf