

Living through high inflation increases home ownership

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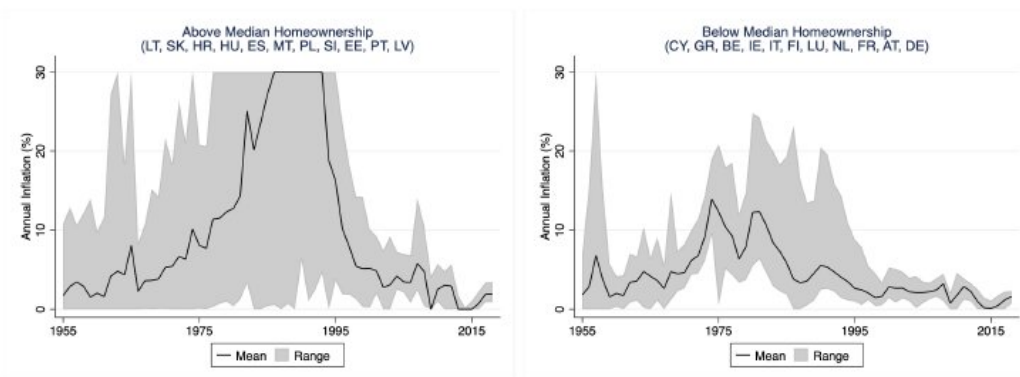


Figure 1. Inflation history in above- and below-median homeownership countries

Note: Inflation data from HFCS. Above- and below-median homeownership based on average country homeownership rate across all three HFCS waves. Figure plots the mean and range of inflation across listed countries. Inflation for chart capped above at 30% and below at 0%.

Credit: UC San Diego

People who experience periods of high inflation are more likely to buy a home, according to a new study from the University of California San Diego's Rady School of Management.

The paper, to be published in *The Journal of Finance*, uses various sources of data which reveal [households](#) that have been exposed to high inflation are more likely to invest in real estate. The study suggests many homeowners buy because they are motivated to protect themselves from

possible future price hikes.

The study is the first to reveal that [personal experience](#) with inflation is a driver of home ownership.

"We think one reason people choose to buy instead of rent is because they are worried about future inflation, which may drive up both rent and house prices," said Alex Steiny Wellsjo, study co-author and assistant professor of economics and strategy at the Rady School.

"People who have lived through high inflation in the past may expect higher inflation in the future, causing them to wish they were a homeowner. This is especially true if they can finance with a fixed-rate mortgage, further protecting them from future inflation."

Wellsjo added that the implications of the high inflation people are currently experiencing around the world will have a lasting impact on housing markets.

"Our paper suggests that cohorts living through the current inflationary period will have a higher demand for housing for years to come," she said.

To find out how people make home ownership decisions, Wellsjo and co-author Ulrike Malmendier, a professor with a joint appointment at the Haas School of Business and economics department at UC Berkeley, conducted a novel survey of 700 homeowners in six European countries (Austria, Germany, Ireland, Italy, Portugal and Spain).

Respondents on the survey were asked: what are good reasons to buy a home, whether they have personally experienced high inflation, whether they were worried about future inflation and whether inflation impacted their own decision to buy a home.

Of those surveyed, 50% indicated that "real estate is a good investment if there is inflation." People who had lived through high inflation were 21% more likely to be worried about inflation in the future and 74% more likely to say that inflation affected their own decision to buy a home.

The authors also used data from the European Central Bank's Household Finance and Consumption Survey of 220,000 households across 22 European countries, which revealed that the effects of experienced inflation are large. For example, for the typical household, increasing their inflation experiences from 2% to 5.4%, would increase their likelihood of owning from 65% to 75%.

Households' exposure to past episodes of higher or lower inflation can help to explain differences in the composition of homeownership both within and across countries.

For example, in Germany and Austria, less than half of households own a home. But 85% or more own in Lithuania, Slovakia and Croatia, countries that have histories of high inflation. Similarly, only 57% own their home in France, which has had more price stability, but 82% do in neighboring Spain—a country with a long history of inflation.

"These households with similar demographics and in similar financial situations make systematically different tenure decisions," write Wellsjo and Malmendier. "While [financial institutions](#) play an important role, as do house prices, housing supply and demographics, we show that economic histories experienced by potential homeowners and especially inflation experiences, strongly predict investment in housing."

The effect of personal experiences appears to be powerful and long-lasting enough to influence even the homeownership decisions of immigrants who move to a new housing market and still respond to the

inflation exposure they experienced in their home countries.

Using data from the American Community Survey, Wellsjo and Malmendier identified household heads who immigrated to the U.S. from outside the country. They were able to calculate the household's lifetime inflation experiences during their time in their home country and in the U.S. and how that impacted their purchasing decisions after immigrating. Once again, they find that household heads who experienced higher inflation over their lifetime were more likely to be homeowners.

"We show that the relationship between prior inflation and home purchasing choices is not explained by housing market conditions, nor by indicators of current economic conditions or other economic experiences," the authors write. "The impacts of experiencing high [inflation](#) have a long-lasting effect on home ownership."

More information: Rent or Buy? Inflation Experiences and Homeownership within and across Countries, *The Journal of Finance* (2023).

Provided by University of California - San Diego

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