

ROUTLEDGE ADVANCES IN SOCIOLOGY

Homeownership, Renting and Society

Historical and Comparative Perspectives

Sebastian Kohl



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Homeownership, Renting and Society

It is well known that the US has a much higher homeownership rate than Germany. Cultural, land scarcity and welfare state explanations have been mobilized to explain the difference. Sebastian Kohl rejects such explanations and comes up with three explanations rooted in nineteenth century developments: differences in municipal governance over land use, mortgage lending institutions and the organization of residential construction.

Manuel B. Aalbers, *Associate Professor of Geography at KU Leuven, Belgium*

On the eve of the financial crisis, the USA was inhabited by almost 70 percent homeowning households, in comparison to about 45 percent in Germany. *Homeownership, Renting and Society* presents new evidence showing that this homeownership gap already existed between American and German cities around 1900. Existing explanations based on culture, government housing policy or typical socio-economic factors have difficulties in accounting for these long-term cross-country differences.

Using historical case studies on Germany and the USA, the book identifies three institutional domains on the supply-side of the housing market – urban land, housing finance and construction – that set countries on different housing trajectories and subsequently established differences that were hard to reverse in later periods. Further chapters generalize the argument across other OECD (Organisation for Economic Co-operation and Development) countries and extend the explanation to cover historical differences in homeownership ideology and horizontal property institutions. This enlightening volume also puts forward path-dependence theories in housing studies, connects housing with vast urban-history and political-economy literature and offers comprehensive insights about the case of a tenant's country which contradicts the tendency towards universal homeownership.

Providing an all-new historic-institutionalist explanation of the German–American homeownership gap, this title will be of interest to postgraduate students and scholars interested in fields including: Housing Studies, Sociology, Urban History, Political Economy, Social Policy and Geography. It may also be of interest to those working in housing field organizations and ministries.

Sebastian Kohl is a researcher at the Institute for Housing and Urban Research, Uppsala University, Sweden.

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This book is dedicated to my partner. *Ты ждала, и я вернусь ...*

Abbreviations

AFL	American Federation of Labor
BLA	Building and loan association
BLS	Bureau of Labor Statistics
ECA	Economic Cooperation Administration
FHA	Federal Housing Administration
GDR	German Democratic Republic
HOLC	Home Owner Loan Corporation
LTV	Loan to value
LVA	<i>Landesversicherungsanstalten</i> (Regional social security funds)
NAREB	National Association of Real Estate Boards
NSDAP	National Socialist Party
OECD	Organisation for Economic Co-operation and Development
OPA	Office of Price Control
PWA	Public Works Administration
RPAA	Regional Planning Association of America
SLA	Savings and Loans Association
SPD	<i>Sozialdemokratische Partei Deutschlands</i> (German Social Democratic Party)
VA	Veterans' Administration

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Introduction

This book offers some new answers to an old puzzle: Why do German-speaking countries have significantly lower homeownership rates than English-speaking countries? The question was first raised by Jim Kemeny around 1980. As this book shows, cross-country urban homeownership patterns in general and what I call the American–German homeownership gap can even be traced back over a century ago. Even though the Great Recession brought the American homeownership rate down to 62.4 percent, the German homeownership rate of about 45 percent has recently not increased, in spite of historically low interest rates and a strong post-2008 recovery, making relatively stable country rankings of one of the most central properties of housing regimes an ongoing research puzzle. Ever since the recent phenomenon of housing booms and busts, particularly in countries with rising homeownership rates, this puzzle has made it from the back-rooms of specialized housing research to the front pages of leading newspapers (Palmer 2011). Why then did countries with similar economic and urbanization histories turn into widely different regimes with regard to housing tenure?

Using historical case studies of the USA and Germany, the first three chapters of this book claim that variegated historical developments in three institutional domains with roots in the nineteenth century set countries on different housing paths: city planning, mortgage finance and the residential construction sector. I argue that market-based city planning, the development of savings and loans and the mass production of single-family houses tended to urbanize the USA in the form of suburbanized cities of single-family homes. By contrast, corporatist city organizations, the presence of bond-financed mortgage banks and non-profit housing associations and a craftsmen-based construction sector forced Germany to inherit a system of cities with dominantly rental apartment buildings.

In both cases, the emergence of these path-dependent institutions in the late nineteenth century may account for the century-long American–German homeownership gap. What is more, Chapter 4 generalizes these findings to the world of OECD countries. In this broader picture, two additional factors help explain the different trajectories in the Southern and Eastern European as well as Scandinavian housing regimes: first, the unequal spread of homeownership ideology and policies; second, the timing and importance of apartment or cooperative ownership institutions. The book's general contribution to the understanding of

2 Introduction

homeownership differentials in general is to give an *institutional, supply-side-driven historical political-economy* explanation supported by unique international data on housing form, tenure and finance.

Popular answers to the German–American homeownership puzzle generally cite cultural factors, the American dream of homeownership and the absence of such a dream in Germany. All household surveys about German housing preferences, however, seem to reject this easy answer. Another quick response concerns American land abundance: Does it not automatically lead to easily affordable homeownership and make a book-length treatment of this subject completely redundant? This response, however, misses the point that some of the most densely settled countries such as Belgium or Singapore have very high homeownership rates and that the share of land costs in overall housing costs has sometimes been even lower in Germany than in the USA (Knoll et al. 2015). After all, the supply of scarce *urban* land depends heavily on municipal institutions. Housing scholars, in turn, would most likely cite different ways of government intervention following World War II: while Germany turned to social housing construction policies, the US government supported homeownership through mortgage subsidies. Yet, the homeownership gap is much older than the first housing policies so that the latter may even be the product of the former. Finally, econometric answers tend to use basic structural variables, namely urbanization, GDP and volumes/prices of the construction sector. The puzzling fact about homeownership, however, is that countries with similar urbanization, mortgage indebtedness and construction industry levels can still produce divergent homeownership paths.

A main thrust of the book is therefore to disaggregate these global figures into different institutions channeling these processes: not urbanization rates per se, but the form of cities – low-rise suburban or high-rise compact – is thus important for the way in which urban land is distributed. Not the rise of mortgage volumes per se, but the type of mortgage-lending institution, whether refinanced through deposits or bonds, becomes relevant. After all, mortgage levels are not informative about what mortgages are spent on and higher mortgage indebtedness may not lead to higher homeownership levels. It is not general construction sector investments and productivity levels, but the specific market segment for the mostly owner-occupied single-family houses that is important. If cheap single-family houses are not produced, homeownership affordability becomes a problem.

This book examines a phenomenon that defies the prominent convergence thesis about housing and housing policy (Donnison and Ungerson 1982; Harloe 1995). It is true that the OECD and even the global homeownership trend is generally one of a continuous rise ever since the interwar period. Prior to the crisis of 2008, there were probably more people living in their own homes in the developed world than ever before. This trend was accompanied by an increase in the average size of housing units as well as their quality in terms of amenities (bathrooms, own WC and kitchen, water, electricity and sewage supply). Furthermore, all housing policies underwent a transformation from postwar capital