

Wealth accumulation in Great Britain: The role of house prices and the life cycle

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Motivation and questions

- Trends in wealth distribution and household wealth accumulation patterns.
- The role of changes in house prices and of the life cycle/age and other household characteristics.

Theory and evidence

- Age differences alone are expected to account for a substantial proportion of observed wealth inequality (Atkinson, 1971).
- The accumulation of assets can result from changes in the composition and value of wealth portfolios.
- Little agreement on the effects of rising house prices on overall wealth inequality and its interactions with patterns of wealth accumulation (Davies and Shorrocks, 2000).

In Great Britain...

- Housing wealth as the largest asset component of lower and middle income households (RCDIW, 1977, 1979; Henley, 1998)
- Rise in home ownership (especially between 1981-1991; Appleyard and Rowlingson, 2010)
- Rise in house prices (at least doubled in all regions over this period; Hills, 2007)

The data

- British Household Panel Survey (BHPS)
- Net worth = financial wealth + housing wealth
- Financial wealth (incl. savings, investments, debt)
- Housing wealth (estimated current value-outstanding mortgages and loans)
- Unit of analysis = the household

Empirical strategy

- ❑ Two samples:
 - Cross-section 1995, 2000 and 2005
 - Panel of 2,075 households 1995-2005

- ❑ The impact of house prices is estimated by simulating the distribution of housing wealth in 2005 in the hypothetical scenario in which house prices remained at their 1995 levels (in real terms).

Empirical strategy

- Adjusting the value of housing wealth
 - Housing equity or wealth: defined as the estimated current value of property to which any existing mortgage is subtracted
 - Property estimated current value adjustment: use the CLG mix-adjusted house price index (HPI), taking into account house price growth by region, to adjust ECV to 1995 prices
 - Mortgage value adjustment: mortgage values are adjusted for those households who purchase a property over the 1995-2005 period.

- Compare changes in wealth - at 2005 prices and “adjusted” values - for an indication of the extent to which these are shaped by house prices rather than other factors.

Wealth inequality

	1995	2000	2005
Total net wealth			
Gini	0.69	0.65	0.59
Share	100	100	100
Financial wealth			
Gini	0.89	0.94	0.98
Share of tot net wealth	32.1	18.4	13.3
Housing wealth			
Gini	0.65	0.64	0.56
Share of tot net wealth	67.9	81.6	86.7

Source: Own analysis of BHPS.

Wealth inequality and house prices

	Percentiles			Mean	Gini coefficient
	10	50	90		
Net household worth at 2005 prices (£000s)					
1995	-0.1	47	217	86	65
2005	0	146	427	194	53
<i>Change at 2005 prices (actual house prices)</i>					
<i>Absolute</i>	+0.1	+99	+210	+109	
<i>Percentage</i>		208	97	127	
Net household worth at adjusted house prices (£000s)					
2005* (adjusted)	-0.6	61	223	93	64
<i>Change at adjusted prices</i>					
<i>Absolute</i>	-0.5	+14	+6	+7	
<i>Percentage</i>		29	3	8	

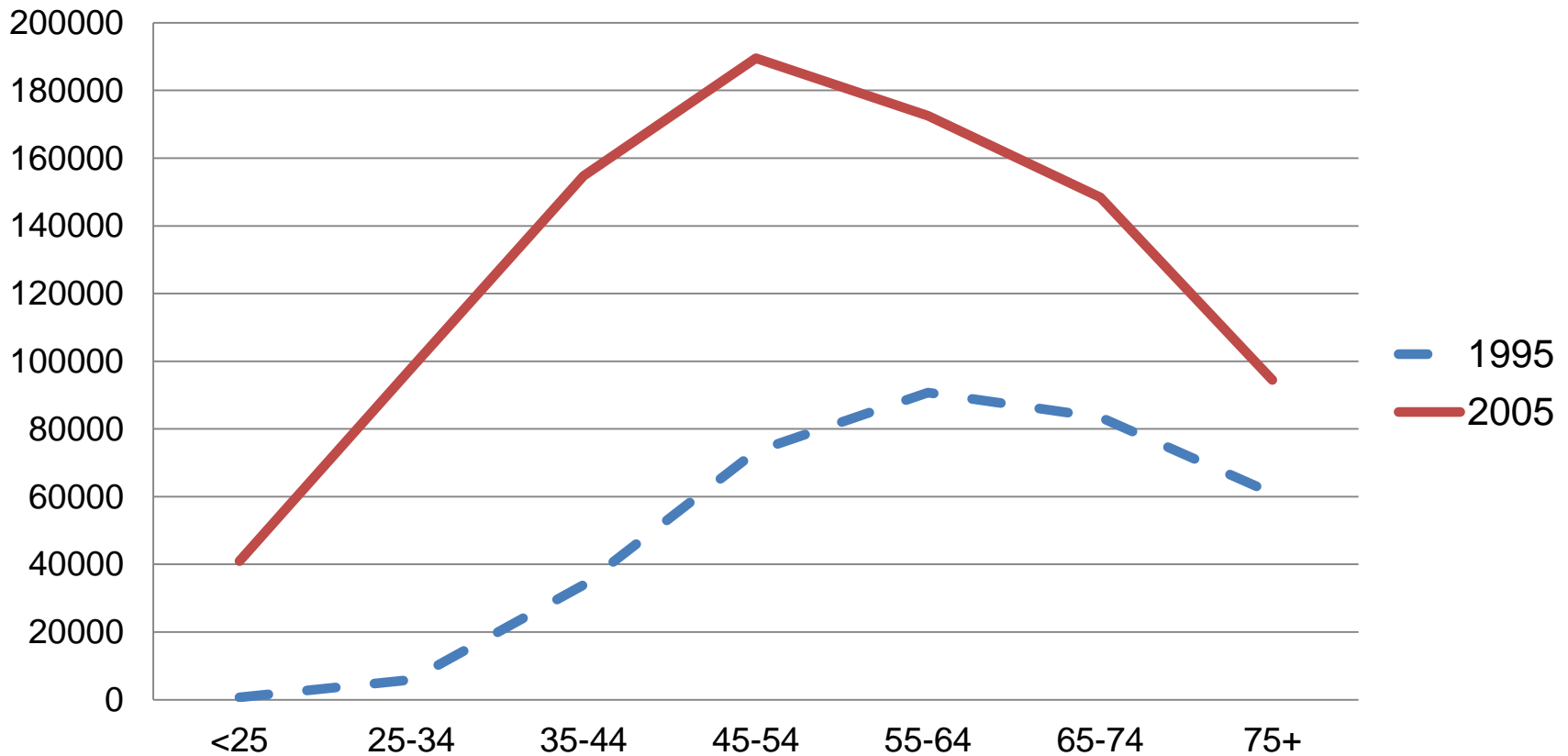
Source: Own analysis of BHPS. Sample of households with data in both years.

Wealth accumulation, household characteristics and house prices

- Age
- Initial wealth
- Tenure
- Partnership status

Age-wealth profile at 2005 prices

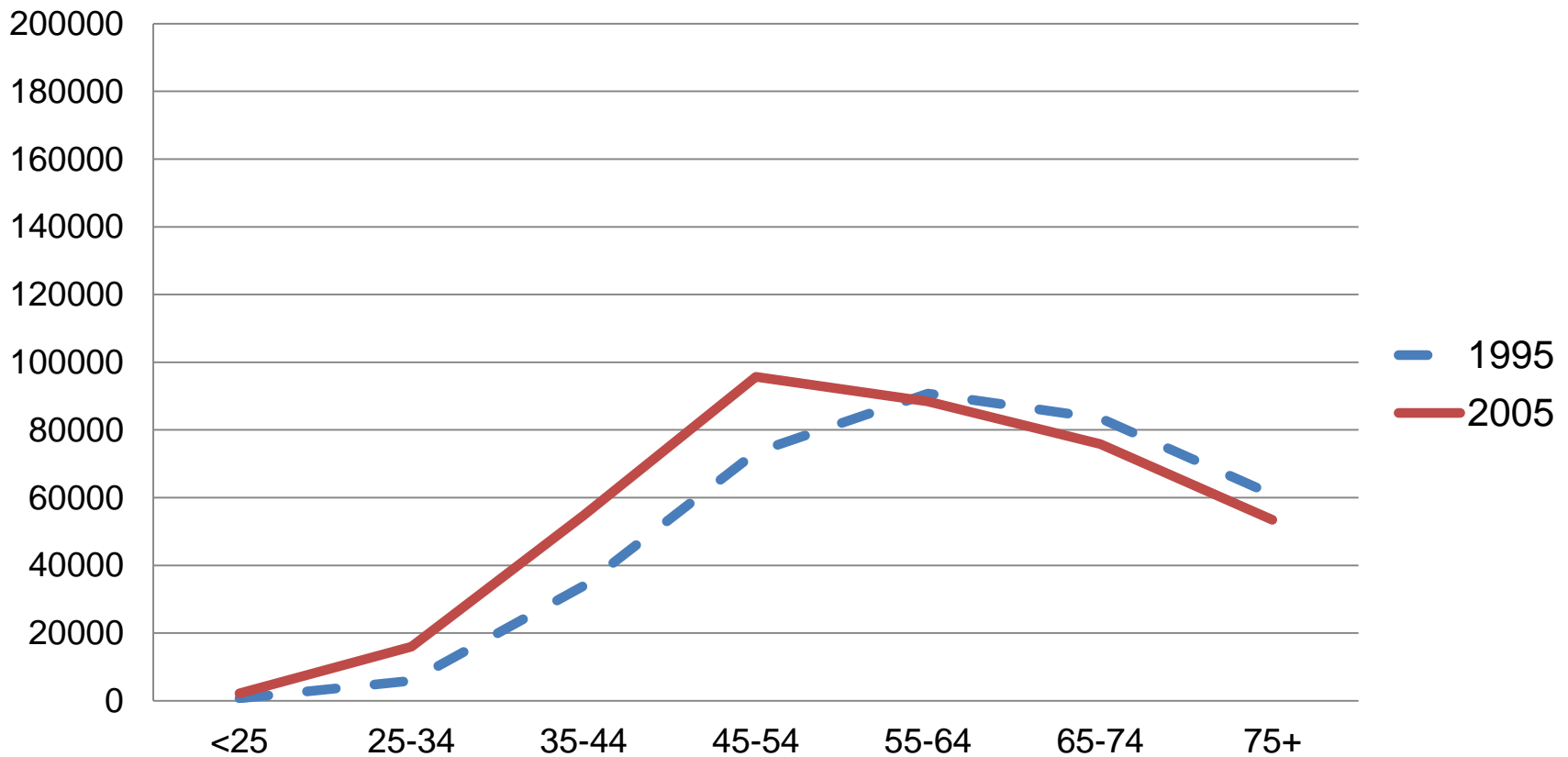
(Median net wealth, £, by initial age of household head)



Source: Own analysis of BHPS. Sample of households with data in both years.

Age-wealth profile at adjusted prices ("without the house price boom")

(Median net wealth, £, by initial age of household head; house values adjusted to 1995 house prices)



Source: Own analysis of BHPS. Sample of households with data in both years.

Wealth accumulation, ageing and house prices – initial wealth

	Quartile group of net worth in 1995 (mean; £000s)			
	Bottom	Second	Third	Top
Age under 60 in 1995				
1995 (at 2005 prices)	-2	16	58	209
2005 (at 2005 prices)	54	140	196	404
Change actual prices	+56	+125	+138	+195
<i>2005* (adjusted)</i>	<i>12</i>	<i>44</i>	<i>86</i>	<i>208</i>
Change* (adjusted)	+14	+28	+29	-1
Aged 60 and over in 1995				
1995 (at 2005 prices)	5	61	111	330
2005 (at 2005 prices)	15	111	200	403
Change actual prices	+10	+50	+89	+72
<i>2005* (adjusted)</i>	<i>11</i>	<i>60</i>	<i>108</i>	<i>238</i>
Change* (adjusted)	+6	-1	-3	-92

Wealth accumulation, ageing and house prices – qualification levels

Highest qualification in (1995)	Age group (in 1995)		
	Under 35	35-59	60 and over
Change at actual prices (2005)			
Degree or higher	+179	+196	NA
A-level or professional	+89	+128	+92
O-level	+76	+105	+36
Lower or none	+41	+72	+41
Change at adjusted prices			
Degree or higher	+41	+56	NA
A-level or professional	+9	+22	-14
O-level	+9	+23	-36
Lower or none	+3	+9	-7

Source: Own analysis of BHPS. Sample of households.

Wealth accumulation, ageing and house prices – house tenure

	Change in median household net worth by age and tenure (£000s)			
	Initial age under 60		Initial age 60 or over	
	Actual house price	Adjusted house price	Actual house price	Adjusted house price
Outright owner in both years	+108	+2	+82	-13
Mortgagor became outright owner	+157	+38	+129	+4
Mortgagor in both years	+124	+15	-	-
Tenant became mortgagor	+90	+27	-	-
Tenant in both years	0	0	-	-

Wealth accumulation – partnership

Partnership status	Age group in 1995		
	Under 35	35-59	60 and over
Change at actual prices 2005			
Couple in both years	+104	+135	+82
Single in both years	+60	+86	+43
Partnership formed	+104	+117	-
Partnership dissolved	+13	+91	+72
Change at adjusted prices			
Couple in both years	+8	+28	-11
Single in both years	+12	+12	-6
Partnership formed	+18	+15	-
Partnership dissolved	-2	+8	-8

Median (quantile) regression on final (2005) wealth (controls include region and number of children)	Final wealth at 2005 prices	Final wealth at adjusted prices
Initial wealth	0.91***	0.56***
Age in 1995	1,079	1,357***
Age squared	-9.27	-11.41***
QUALIFICATIONS: omitted, Lower or none		
Higher degree	71,690***	32,460***
A-level	13,980***	5,760***
O-level	3,390	1,350
TENURE: omitted, Tenant throughout		
Outright owner throughout	78,360***	31,880***
Mortgagor throughout	93,440***	18,910***
Mortgagor to outright owner	127,110***	58,790***
Tenant to mortgagor	65,720***	17,880***
PARTNERSHIP STATUS: Omitted, Single throughout		
Couple throughout	13,880***	5,420***
Partnership formed	9,130	3,800
Single	-6,360	-3,810

Summary of findings

- Between 1995 and 2005 absolute differences in wealth widened considerably. However, wealth grew fastest in percentage terms in the middle of the distribution and inequality fell.
- This reflected two trends:
 - Financial wealth became more unequal but represented a smaller share of the total
 - Housing wealth became a greater share of the total and the most rapid percentage increase in housing wealth occurred in the middle of the distribution.
- According to the simulation, trends in house prices played an important role: if house prices had remained at their 1995 values, inequality levels would have been very similar to those in 1995.

Summary of findings

- At actual house prices, all age groups increased their mean and median wealth.
- Within age groups, absolute gains were larger for those who were initially the most wealthy; have higher qualifications; are in a couple; and mortgagors, especially those that started as mortgagors and became outright owners.

Summary of findings

- Abstracting from the house price boom, final wealth levels would first increase and then decrease with age; higher degrees and being a mortgagor are associated with higher final wealth.
- Those who gained most from the house price boom appear to be those that were initially wealthiest, in middle age, more qualified, and mortgagers.
- Those who ended up as owner-occupiers were both the most wealthy at the end and had the largest wealth increases.