

### Rent or buy? Structural differences in Europe

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In Europe, Switzerland and Germany have long trailed at the bottom of the league in terms of residential ownership, despite increases versus the 1990s. The reasons for this are complex: both countries have a relatively well developed rental market – to some extent the reason for and the consequence of the lower owner share. In addition, there are specific historical reasons, such as the development of council housing in Germany after World War II, which contributed to the strengthening of rental supply, and the repercussions of Germany's post-war division (still lower ownership rates in eastern Germany). As for Switzerland, it was virtually impossible until 1965 to create condominiums in multifamily housing.\* In addition, property prices were in part rather high relative to household income.\*\*

From an economic point of view, high ownership rates can be a double-edged sword. Home-owners typically save more and residential property forms part of individual pension provisioning. However, home owners also tend to be less mobile. In fact, coexistence of well-functioning purchase and rental markets may help to increase financial market stability because the risks of a real-estate bubble with potential large damage to the economy are lower.

However, more than ownership rates per se, what matters for financial market stability is how home-ownership is financed. Here, a closer look reveals differences between Germany and Switzerland: while the latter has an even lower ownership rate, the share of the population which has to pay off a loan for its residence is higher in Switzerland (roughly 40% vs 27% in DE). Similarly, mortgage debt of households as a percentage of GDP currently stands at less than 40% in Germany but over 100% in Switzerland.

\* Condominium apartments as a form of housing were not anchored under civil law until 1965. The canton of Valais was an exception.

\*\* See Andrews et al. (2011), as well as Voigtländer (2008) for Germany and The Federal Office of Housing for Switzerland.

Please see also:

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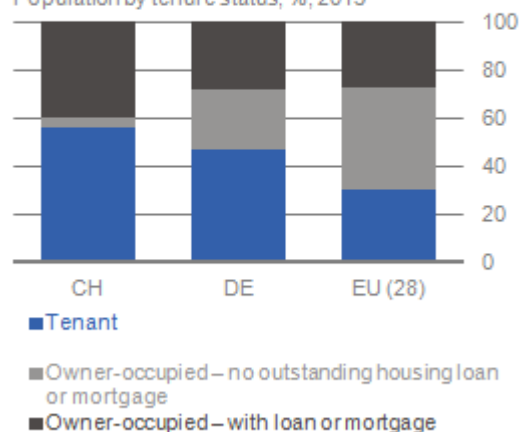


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Population by tenure status, %, 2013



Sources: Eurostat (EU-SILC), Deutsche Bank Research

