

# Urban History Matters: Explaining the German-American Homeownership Gap

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## Abstract

Jim Kemeny once noted that English- and German-speaking countries have different housing regimes. The homeownership rate in the United States has continuously been about twenty percentage points higher as compared to Germany. This homeownership gap is for the first time traced back to before World War I on the urban level. Existing approaches, relying on socio-economic factors, demographics, culture or housing-policy, cannot explain the persistence of these differences in homeownership. This article fills this explanatory gap by making a path-dependence argument. It argues that 19<sup>th</sup> century urban conditions either began to create suburbanized single-family house cities like in the US or compact multi-unit-building cities like in Germany. The denser the historically grown building structure of a city, the lower its homeownership rate today. Economic and political reinforcing mechanisms kept the two countries on their paths. The article's contribution is to give a historic and city-focused answer to a standing question in the housing literature.

**Key Words:** housing tenure, homeownership, urban history, path dependence

## Introduction

The pronounced differences in international homeownership rates have been a question for housing researcher ever since Jim Kemeny observed that some countries with relatively high GDP-per-capita values displayed surprisingly low homeownership rates (Kemeny 1980; 1981; Doling 1997:95f). More particularly, he opposed countries roughly affiliated with German culture to Anglo-Saxon countries between which one observes a homeownership gap of about 20 percentage points. Throughout most of the 20<sup>th</sup> century, homeownership was dominant in English-speaking countries, while their German-speaking counterparts remained countries of tenants. Other scholars have followed this classification of central continental, corporatist lower-homeownership countries and English-speaking high-homeownership countries (Doling 1997: 82ff; Hoekstra 2005; Schwartz/Seabrooke 2008).

This difference came crucially to the fore during the financial crisis: volatile housing prices tended to occur in OECD-countries where homeownership rates were high or had increased in the preceding decade (Andrews/Sánchez/Johansson 2011). In the US, the Great Recession (Brocker/Hanes 2012) resembled the Great Depression (Field 1992) at least with respect to the fact that strong homeownership expansion prior to the crisis served as a good predictor for foreclosure rates during the crisis. At the same time, German house prices remained relatively constant across several pre-crisis decades and no domestic mortgage-overlending troubled the financial sector.

This article addresses the original opposition of these country groups, but takes a refined look at the differences between the English-speaking settler countries (Veracini 2011), with the US as exemplary case, and the more settled continental countries, taking Germany as country case. The homeownership trajectory of these settler countries and their cities differs from the British motherland in that they all started from higher historic levels of homeownership, particularly in young cities, and that therefore their 20<sup>th</sup>-century rise was not as steep as in the UK.

Existing explanations of these pronounced international homeownership differences have relied on cultural, socio-economic, demographic and institutional factors, using variables of the last decades. I review these explanations in the first section of this article to highlight two major limitations: on the one hand, they cannot account for the persistent *level*-differences between Anglo-Saxon and German homeownership rates that existed even prior to the large-scale post-World-War-II (WWII) government interventions. On the other hand, by comparing *nations*, *national* housing policy and *general* economic trends, existing explanations tend to neglect characteristic differences in urban form as crucial explanatory level.

This article goes beyond the limitations of existing approaches by arguing that it was the historical form of cities and their main building types, established in large parts during the big urbanization waves starting in the 19<sup>th</sup> century that accounts for today's *level*-differences in homeownership rates. In short, urban history matters. I argue more particularly that the creation of suburbanized cities of single-family houses facilitated the development of more homeownership, while the development of compact multi-unit-building cities favored permanent rental housing.

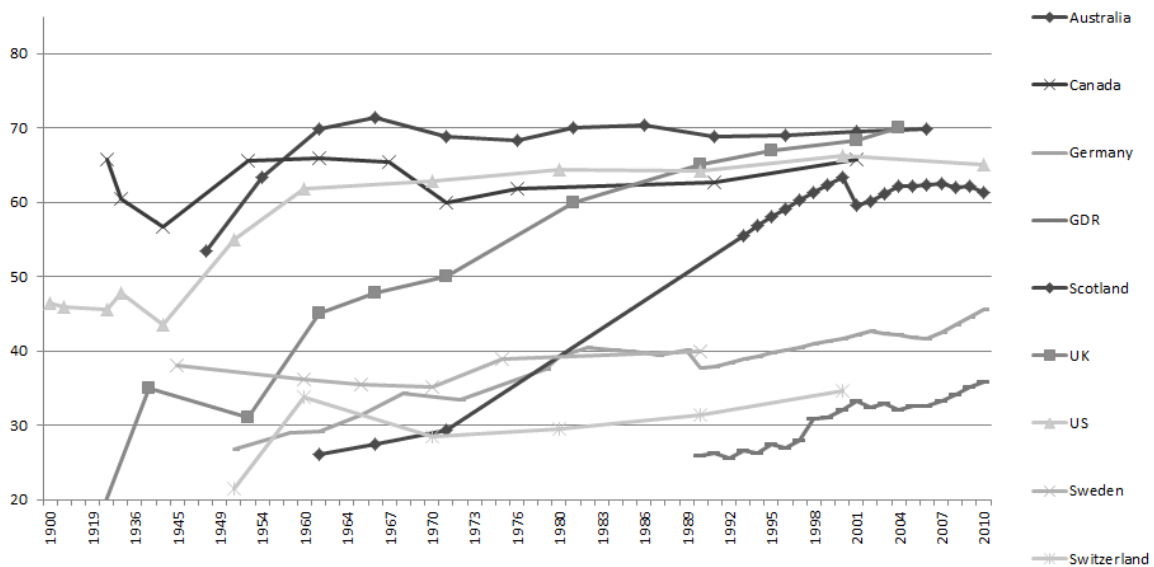
The article thus provides empirical evidence for a type of path-dependence explanation in housing studies, i.e. the idea that events and developments that originated over a century ago and which require historical analysis are causally important for hard-to-reverse developments in later time (Bengtsson/Ruonavaara 2010). While the long-lasting quality of housing units has long been noted, this is, to my knowledge, the first such analysis of long-term dependencies in urban housing markets and building structures. In contrast, some work on long-term patterns of urban systems (Arthur 1988), settlement densities (Martí-Henneberg 2005) or housing-policies (Malpass 2011) already exists.

The second section thus introduces the critical juncture. Using the US and Germany as paradigmatic comparative cases, I show how specific urban-policy and housing-finance factors created the homeownership-facilitating sprawled cities in the US, yet compact cities of multi-story buildings in Germany. That section also makes fertile use of urban history literature to show its relevance for explanations of national housing differences of recent periods. Historic building substance and urban form, however, is only a necessary and not a sufficient condition for later high homeownership because Southern or Eastern European countries moved to high homeownership in spite of a multi-unit building tradition. The third section therefore explains why there is a long-term impact of the historical building structure in Germany and which mechanism kept Germany on its path. The conclusion highlights the importance and limits of the finding and suggests further research along the lines of this study.

## **1 Existing explanations**

Data on national developments of homeownership for most countries is only available for the 20<sup>th</sup> century. The existing, dispersed information on pre-1900 homeownership rates suggests a declining tendency (Petrowsky 1993; Topalov 1987: 79ff; Collins/Margo 2011). On the one hand, with the bourgeois revolution, rural ownership tended to rise thanks to land distribution, the end of feudalism or simply due to the eviction of non-owners to cities. On the other hand, urban homeownership rates tended to fall as traditional craftsmen's ownership gave way to cities of small capitalist landlords and tenants (Harloe 1985:2). In the course of growing urbanization and industrialization ever more low-income groups concentrated in urban areas where renting became the most frequent form of tenure. Between roughly 1920 to 1950, the modern tendency of rising homeownership rates set in in virtually all Western countries, only temporarily set back by recessions. The following chart displays this tendency as well as the important level differences between countries:

**Figure 1: Homeownership rates of selected countries**



**Source: UN and national statistical offices<sup>1</sup>**

A *first* and rather popular but not much academically defended explanation for the Anglo-German homeownership gap cites long-lasting cultural preferences. But even in the academic literature one finds explanations such as: “The culture of home ownership is integral to the North American way of life” (Choko/Harris 1990:74). A problem of these explanations is that they often do not account for regional variance within countries or for inter-temporal changes in preferences. Moreover, there is no internationally comparative study about homeownership *preferences* though there is an abundance of respective national surveys undertaken from national statistical bureaus, popular magazines or private research institutes often working for agents of the homebuilding and finance industry.<sup>2</sup> The percentages found for those desiring homeownership differ as to how much survey-questions inquire about mere desires or realizable plans. It is nonetheless surprising that most surveys find over 70% of people desiring homeownership across countries. If the cultural-difference thesis is supposed to hold for the 19<sup>th</sup> century as well, then migration history seems to offer a falsifying natural experiment: German immigrants in the US prior to WWI did not only adapt to the high American homeownership rates, they even surpassed other immigrant groups and sometimes those born in the United States. “Of all the nationalities considered, the largest proportion of owners shown in 1900 is 58.1 per cent for

<sup>1</sup> An important note on the German homeownership rate of 1950: the official *unit-based* homeownership rate is given as 39.1% at a time when most air-raid destructions of predominantly urban tenement housing was still apparent, two million people still lived in barracks with many others doubling up, 35.6% of households subleasing and the secretary of housing estimating a housing deficit of 4.8 million units, mostly rental (Schulz 1994:32ff). If one considers therefore the household-based homeownership rate, one arrives at the more realistic homeownership rate of 26.7% in 1950 (Glatzer 1980:246).

<sup>2</sup> See for a list of these surveys in Germany (Biedenkopf/Miegel 1978:18ff) and the United States (Megbolugbe/Linneman 1993:660).

persons of Scandinavian parentage, as contrasted with 52.9 per cent for white persons of native (United States) parentage, and 51 per cent for those of German parentage“ (US-Census 1902: ccxiv).

A *second* group of important existing explanations relies on socio-demographic and economic factors to explain homeownership variation across nations, regions or individuals. There is a large number of quantitative studies of homeownership variation on the international, interregional and individual level of mostly the post-1980 period (Lerbs/Oberst 2012; Andrews/Sánchez 2011; Lauridsen/Nannerup/Skak 2009; Gwin/Ong 2004; Fisher/Jaffe 2003; Behring/Helbrecht/Goldrian 2002; Coulson 2002; Angel 2000; Struyk 1976; Schmidt 1989; Eilbott/Binkowski 1985). Most of these studies, also for reasons of data availability, account for homeownership differences in terms of socio-economic, demographic and population density variables, and result in quite acceptable levels of explained variance. There are, however, crucial limits to these studies. First, there is a missing data problem for all internationally comparative studies, as crucial housing variables are still lacking. Secondly, these studies mostly consider only the most recent decades in spite of the fact that the differences in homeownership *levels* between various countries range back much further. Moreover, only small percentages of homeowners in a given year are new homeowners who could still potentially be affected by variation in socio-economic variables. Most homeowning, reflecting the housing stocks durability, is a legacy of conditions of a distant past. Thus, while these studies are good at explaining year-to-year *variation* in homeownership on various levels, they offer a less convincing account as to why the *level*-differences came about in the first place.

A *third* group of explanations focuses on different government policies. Jim Kemeny himself offered a first such account: countries such as Sweden or Germany had developed a cost-renting sector of social housing provision offered comprehensively to a wide range of citizens (Donnison 1967). The government subsidized construction of such building units and their cheap rents after the mortgage-amortization period tamed the overall rent market and this unitary rental market offered an attractive and accessible alternative to homeownership (Kemeny/Kersloot/Thalman 2005). A second account, recently offered in this journal, rather highlights the unique German policies in favor of a functioning *private* rental market (Voigtländer 2009). Both Kemeny (2005) and Voigtländer (2009) convincingly argue that the co-existence of a well-functioning rental market offers an attractive alternative to homeownership (also Kurz 2004: 51). Whereas Kemeny mainly has in mind the non-profit housing sector that can pass on cost-rents to tenants especially when capital costs are amortized, Voigtländer puts the emphasis on the price-control effect of competition in the private rental market, which in Germany is also supported by several landlord-directed subsidies.

A further host of studies explain the higher homeownership rates through institutional arrangements favoring household indebtedness as social policy alternative (Castles 1998; Castles/Ferrera 1996; Doling/Horsewood 2011) or even privatized demand Keynesian demand stimulus (Crouch 2009). Indeed a correlation of countries' welfare state expenditures and homeownership (Schmidt 1989: 94) or private debt rates (Dalton/Gifford 2006: 71; Prasad 2012: 229f) can be found for the post-1980

period. The conservative parties in most countries tended to cut back housing and other subsidies (Pierson 1989) while enabling an international financial market to provide easier access to mortgages (Schwartz 2009). The limitation of this type of explanation is twofold: on the one hand, they cannot explain why the homeownership gap had existed even prior to the first government housing policies. Though housing policies controlling most of the mortgage financing in the post-war eras certainly had large impacts, they did not reverse the initial differences. On the other hand, it remains puzzling why in almost all countries both welfare states and homeownership rates grew in parallel from the 1950s onwards.

The limits of these existing explanations thus seem to call for an explanation relying on more historic factors which yet can be shown to have explanatory relevance today. The most natural candidate for such an explanation is offered by the path-dependence approach which, in its most basic form, posits that "history matters" (Sewell in Pierson 2000:252). In one more refined form (Mahoney 2000), the approach includes a random initial event of big causal importance which is claimed to be reinforced by different kinds of mechanisms.<sup>3</sup> In housing studies, path dependency explanations have been spelled out by three conditions: the critical juncture event A, the decision-making process B reacting to A and the mechanism leading from A to B (Bengtsson/Ruonavaara 2010: 196). I deviate from the existing path-dependency definitions to better fit the case under study. First, I do not start the explanation from a *random, single* event in the 19<sup>th</sup> century. Whether cities turned into single- or multi-family-house cities, was part of a longer city-building *process* for which I cite a number of *systematic*, non-random *conditions* which help to understand the initial divergence. Second, the overall urban and regional building development often was beyond the control of single political-decision making, which is why this is not a path-dependency of housing policies, but of housing structures.

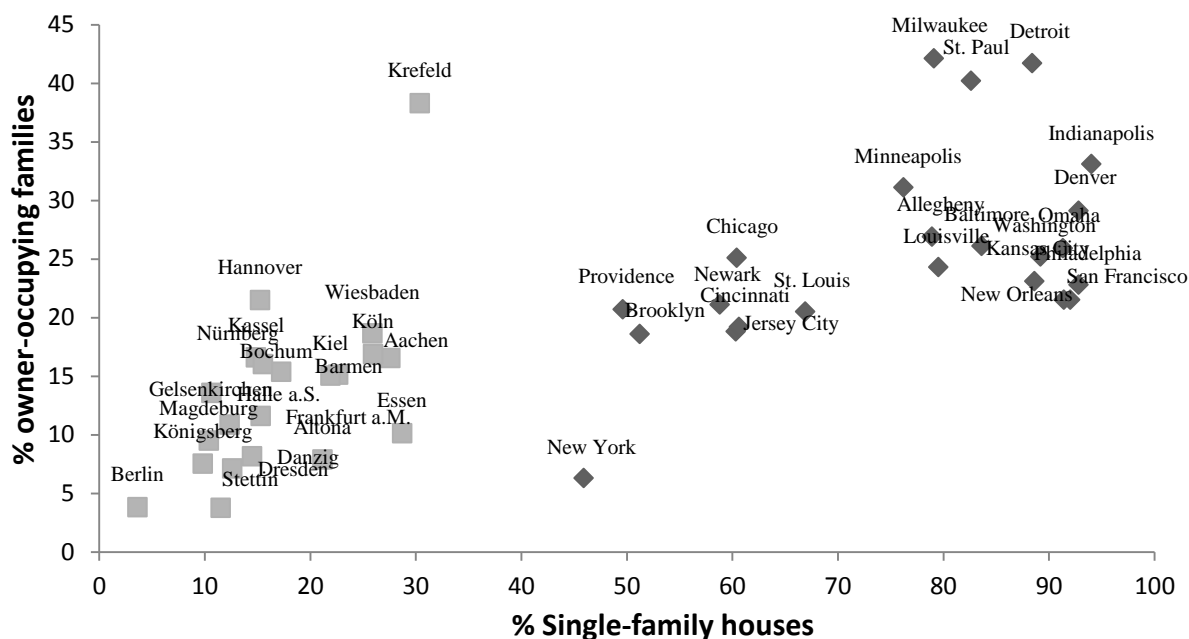
## **2 Historical creation of suburbanized or compact cities**

In my explanation I will take seriously Kemeny's (1992:123ff) suggestion to consider city structures as an explanatory factor and I will take into account the most frequently found limitation of existing explanations: the historic dimension of cities. Consider the percentages of single-family houses and homeownership rates of the major German and American cities prior to WWI, at a time when the first urbanization waves had been absorbed by the massively expanding urban fabric:

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<sup>3</sup> A second more elaborate form consists in citing specific sequences of events, where the order of events makes a difference to the outcome.

**Figure 2: Urban homeownership and single-family house rates**



Source: (Baron 1911; RWZ 1918; Tygiel 1979)<sup>4</sup>

One can observe two things: first, the historic data reproduce the very same homeownership gap found for later periods at a much earlier point in time and, second, these systematic differences can be reproduced at the urban level and seem to be related to a building-structure variable, i.e. the single-family-house cities seem much more accessible to homeownership than the cities of multi-story buildings. This relationship also holds intra-nationally. The inter-national difference is further confirmed by the earliest systematic, comparative study of 30 German and American cities, undertaken by the British Board of Trade at the beginning of the 20<sup>th</sup> century. It distinguishes between two broad types of cities according to their physical structure and layout. At one extreme one finds the British and American case, or also the Belgian case on the Continent, “[...] that is to say, the small house occupied by one or two families is the predominant type, whilst tenement houses play only a very small part, and even where they exist, are rarely of large size“ (Board-of-Trade 1908a:viii). At the other extreme, the report finds that “[t]he German working classes are housed almost exclusively in large tenement buildings, frequently constructed round a central courtyard, each building containing a number of separate dwellings” (Board-of-Trade 1908b:xl).

The question to be answered in this section is therefore: what prior causes created these different city types in Germany and the US? In the following, I cite four major factors in turn: the absence or

<sup>4</sup> German data refer to house-owners generally, not only owner-occupiers and are therefore even overestimated. Due to low construction in the war years I may combine the German 1918 building structure with the 1907 ownership data.

presence of feudal shackles, the different urban policy regimes, socio-economic factors and differences in urban real estate institutions.

First, 19th century European and particularly German cities inherited three types of institutional and physical features which privileged a tradition of apartment-living in multi-story buildings, setting them apart from American ones: strict city limits, an absolutist city-planning style and an apartment-living middle-class of state employees.

Continental cities and German ones in particular kept physical, institutional and psychological growth-restrictions much longer than did their American counterparts (Jerram 2007:394). It is not an accident that Max Weber defined cities as “closed settlements” with dense population and lines of directly attached houses ([1921/2] 1980:727). Due to the late German nation-building, city walls as sign of city autonomy and protection played a much more important role in Germany than they did, for instance, in France (Wolfe 2009). Whereas the Napoleonic wars meant a huge wave of defortifications of German towns, many walls still persisted throughout the 19th century, whether for reasons of national security or as defense against suburbanites, whether for reasons of city pride or of tax collection (Mintzker 2012:212). This meant that much of the urban population growth accelerating from 1700 onwards (Bairoch 1988:215) had to be absorbed in the existing area by building up and compressing the urban structure to sometimes 90 to 100% of the built up area (Spiethoff 1934). Cities used their walls and remaining restrictions against liberal settlement practices to deny suburbanites political rights of social and police protection and settlement in the city. Prior to 1760, German cities seem to have managed the slow population growth and kept overall urban density below 240 inhabitants per hectare, with some poorer higher-density areas (Weber 1995). Around 1901, however, German inner cities counted among the most densely settled areas when compared to other European or American cities: the number of persons per building ranged from 18,0 in the lower-rise Rhenish cities to Berlin’s 75,9, averaging at 28,9 for 18 major German cities, while the corresponding American numbers ranged from Philadelphia’s 5,4 to Manhattan’s 20,4 with an average below 10 (Eberstadt [1909] 1920:6, 574).

While these factors explain why the existing urban fabric of German cities differed, maybe unsurprisingly, from that of the newly founded American cities, they do not explain, of course, why the city growth did not occur in the mode of sprawling single-family houses. They also leave unexplained the cases of German cities newly founded in the 19<sup>th</sup> century, like Oberhausen whose 14% stock of single-family houses in 1918 (RWZ) was even below the German urban average. More explanatory factors, such as the absolutist city-planning idea of a presentable city are thus necessary. Attached multi-story stone constructions, already existent as a building type in form of *insulae* in Roman times (Liedtke 1999), had reemerged in the 12<sup>th</sup>-century with the urban renaissance though they became crucial as an architectural ideal in the Italian Republics and in the absolutist town-planning that originated in France after 1648. In this tradition, feudal authorities developed certain building types that private builders when asking for the feudal building favor had to adopt, the overall



goal being to create uniform and symmetrical patterns along the axes linking the monument-bearing squares. This tradition was applied in the few feudal city renovations or extensions such as Berlin's *Friedrichstadt* or in newly planned towns of feudal residence (Fehl 2012:61ff). Frederick the Great also replaced 300 low-rise buildings by four-story structures between 1769 and 1786, granting the value-added to the otherwise ignored property owner, and was even surpassed by this enforced urban redevelopment by his successor (Hegemann 1930:176ff). Whereas these building types represented at most four-story-houses, the typical rental barracks had up to six stories (Hartog 1962:36). But both were built for wealthy families, sporting at least four rooms that could eventually be subdivided to accommodate various low-income families and boarders (Fehl 1988). But especially the more expensive front apartments were inhabited by wealthy bourgeois who showed renting to be a status-compatible form of living.

This points to a final feudal inheritance that was lacking in the United States, namely a apartment-renting urban middle-class consisting of the state apparatus of civil servants and soldiers. These respected social strata were tied to city-living, while their general mobility made renting the primary choice. In fortified, garrison- and particularly Prussian cities – above all in Berlin – soldiers and their families represented a strong segment of the demand for rentals. They made up up to one third of the population. Not only were they billeted as typical tenants in bourgeois quarters, but the first urban garrison constructions of the 18th-century are said to have produced a spill-over of rental-barrack-living into civil life (Hegemann 1930:167). Renting soldiers and well-respected officers, enmeshed in civilian life, were a common sight in many towns (Sicken 1988). “Certainly, once the middle classes become confirmed apartment-dwellers in any town, there is very little chance of escaping from the ‘apartment-trap’ thus created, even if external restrictions on growth [fortifications] are removed” (Sutcliffe 1974:9).

Second, the aforementioned factors merely tell a story until the second half of the 19<sup>th</sup> century when huge urbanization movements changed the face of German and American cities. Between 1871 and 1910 the number of big cities of more than 100.000 inhabitants grew from 8 to 48, while the share of the population living in these cities rose from 4.9 to 21.3% (Schott 1912:1). Between 1870 and 1910, American cities of more than 100.000 grew from 13 to 50 (US-Census 1902b; 1922). The third major factor in explaining the different city shapes has to do with the different urban policy regimes in American and German cities. Sam B. Warner famously described the 19<sup>th</sup> century American city as “private city,” by which he meant that cities were instruments subservient to private business interests and the particularistic political machines mobilizing segregated city districts where equal chances to access land or business existed (Warner [1968] 1987: 156, 202). In contrast, and simplifying a bit, I will refer to the German city type as the “public city” where an aristocratic, entrepreneur-like and real-estate owning elite lived. It was supported by a professionalizing municipal administration and developed general city-planning and forms of overall welfare, sometimes referred to as municipal

socialism (Krabbe 1985). These different types of political organization of the city acted on the form of the city and its building stock in the following ways.

German municipalities, looking back on a rich history of local autonomy, could already count on a developed local administration, civic pride of local residents and a managerial city government of the local elite in the 19<sup>th</sup> century. Property-based electoral rules, established in most German cities until 1918, guaranteed a continuous identification of the middle-classes with their city and problems of the urban masses were dealt with collectively through the development of building codes rather than through flight from the city into suburbs. City-extension planning and rigid building norms usually prevented the growth of cities through “wild settlements” which would have facilitated the move to (low-income) homeownership (Fisch 1989). Even in new industrial cities in Germany, built from scratch like Oberhausen, orderly city development in multi-story buildings was common (Reif 1993:117). Extension-planning, an envied particularity of German city governments of the late 19<sup>th</sup> century, meant an orderly development along established thoroughfares, where abutters had to carry the cost for street construction and the (municipally provided) sewage and water infrastructure (Wischermann 1997:412; Hartog 1962). Where in the US suburban houses and infrastructure could grow as capital was built up, contemporary reformers criticized cities for imposing on future owners considerable front-load costs, only realizable through higher-rise buildings (Eberstadt [1909] 1920:229f). As cities organized the various local network industries – German cities had amongst the highest number of municipalized enterprises (Pinol/Walter 2003:189ff) – overall city-extension planning remained rather conservative in order to use existing networks at higher capacities.

Especially with regard to local transport, this led to fewer new suburbs and reduced supply of accessible suburban land. In American cities, meanwhile, land developers instrumentalized private transport to create more clientele for the offered suburban land (and suburban houses). This capitalist mode of city-extension, fueled by competition between private transport companies, led to stronger centrifugal forces in American cities (Yago 1984; McKay 1988). Thus, as a 1890 US census comparative study reveals, US cities spread over many more acres per inhabitant. Much of that acreage remained unbuilt (US-Census 1895). This corporately organized suburbanization (Doucet/Weaver 1991) was mostly addressed at the city-center fleeing middle classes who, due to universal suffrage, were politically losing the city to ward-based, segmented interests and immigrant-votes buying political machines. Exodus from cities was further pushed by (violent) crime rates in American cities that exceeded German ones by several times, while Germany had by far the highest number of police-men per inhabitant (Johnson 1995: 230). Suburbs in the US after 1900 also developed as politically autonomous units, while German cities continued to incorporate them (Nolte 1988). Thus, the idea of planning the city as a whole was less established in American cities, ostentatious City Beautiful constructions of city centers or romantic curvilinear suburbs excepted (Reps 1965). Less municipal control on urban development also meant that new constructions and spontaneous suburban development were much less controlled, so that self-constructed suburbs in

wooden frame-constructions – in German cities non-flammable, less accessible material was the norm – meant an accessible opportunity for homeownership-seeking lower-income classes or immigrants (Harris 1996; Simon 1996; Kirk/Kirk 1981).

Third, major economic differences certainly explain part of the strong homeownership variation at the time. As the aforementioned study of the British Board of Trade revealed, Americans had both higher wages, lower costs of living and better housing quality than their European peers (Board-of-Trade 1911). Writing in 1906, Werner Sombart noted cheaper housing costs as one of the factors impeding the rise of socialism in the US (1906: 96ff). At the same time, private horse- and streetcar companies pushed suburbanization and made available sufficient urban land for construction (Warner 1962). Finally, the beginning use of prefabrication methods for balloon-frame wooden houses, abundant and easily transportable wood as building material as well as the absence of enforced building regulations facilitated the construction of homes, often by their owners themselves.

In Germany, on the contrary, *real* wages were much lower, already due to the protection premium on many food items (Board-of-Trade 1908b). At the same time, most cities were dominated by an elite bourgeois class of property owners for whom the business of rental housing was economically quite attractive and politically almost the only way to absorb the high number of frequently pauperized migrating poor. As apartment ownership remained legally impossible until 1951, the offered building structure itself channeled workers into a class of renters in German cities. As ownership of workers in industrializing Europe did exist – Belgium and some French cities are good examples (Board-of-Trade 1908a; Board-of-Trade 1909) – the material conditions alone could not have been the sole cause.

A final, little noted difference between German and American cities consists in the composition of the organized urban mortgage markets of the later 19<sup>th</sup> century. While building and loan associations (BLAs) and other deposit-based (specialized) banking institutions became dominant in urban real estate finance in the US, German cities became more and more constructed through large capital-market financed mortgage banks (Kohl forthcoming). Instead of savings clubs of the BLA-type, where collective savings are employed for individual construction, non-profit organizations emerged in Germany that constructed on their own account to lease housing units to their tenants. BLA-like institutions were not established in Germany prior to the 1920s and only grew to considerable size after WWII. The upshot of these differences in real estate institutions is that they go along with differences of building types and tenure. The member-based local savings-club-like deposit institution BLAs were more likely to finance smaller housing units, often for owner-occupation, and moreover had a strong ideological commitment to homeownership from the 1890s onwards (Bodfish 1931). Bond-market-financed German mortgage banks, on the other hand, had an organizational preference for larger investments, with less individual administrative costs and constant revenue flows from rents. Weak regulation of the private mortgage banks without state support in the US led to recurrent defaults and crises of overlending which meant that bond-financed mortgages were not established prior to the 1930s (Snowden 1995:262; Lea 1996:158). The German non-profits, in turn, building for a

lower-class clientele in urban areas, were thus often forced into building more economic rental buildings of various units. As a result, mortgage banks became a driving force for more city-building through multi-story rental units (which were much criticized by contemporary reformers (Eberstadt [1909] 1920:402)), while the non-profits served the remaining lower tenant strata with reformed tenement buildings (Kantzow 1980:141; cf. Jenkis 1973:166). The BLAs, in turn, became associated with the creation of cities of small, often suburbanized houses, giving easy credit to people outside the commercial banking circuits. There is a rough association of homeownership-rates and the extent to which their financial structure relied on the BLA-tradition and the rise of this financial institution has mostly accompanied the rise of homeownership rates (Bühler 1965; Mason 2004).

Many of the above causes do not only explain the systematic differences between German and American cities, but equally those between lower-rise Western and denser Northeastern cities within the US, also found in figure 2. Lionel Frost (1991) made the interesting observation that these younger Western cities within former Anglo-Saxon colonies in general came to share many common characteristics during the “settlement revolution” (Belich 2009) that distinguished them from their eastern and European counterparts. One of these characteristics has been the preponderance of detached single-family housing units as compared to multi-family units and apartment-houses, which are more often found in Eastern and Midwestern cities such as New York, Cincinnati or Providence. Western cities offered more available land, which was additionally less encumbered by prior ownership rights or by pre-existing municipalities. Cheap prefabricated wooden house constructions, easy land-division using the gridiron, and a higher number of BLAs also set them apart from the East, where an abundance of banks catered to the financing needs of generally richer second-generation immigrants. The later city extensions in the West could also rely on modern transport technologies which allowed immigrants to found new “settler colonies” (Veracini 2012) in the suburbs, once the frontier had reached the Pacific coast.

### **3 Relevance of different historical paths today**

From the previous discussion it should be clear that living in *fin-de-siècle* American and German cities was an entirely different way of living. At the cost of simplification, one can say that better real wages, lower building costs, more accessible land, less building norm obstructions and easier BLA-credits allowed for more construction of single-family houses, often owner-occupied, but still quite often rented in the United States. To the contrary, in Imperial Germany, lower-income citizens were accustomed to an apartment-living tradition, had less income and less easy access to land and mortgages to get small housing units, while landlord-dominated cities had an interest to develop presentable, rent-income generating cities. The question asked in this section is to what extent the resulting differences in building type – single-family houses or multi-story buildings – and city shape – compact or suburbanized – are still relevant for today's homeownership differences.



the yardstick against which the new offer is evaluated. This is often expressed in terms of building codes or building trade traditions. Through the density of the existing offer, the land prices for further city extensions are already determined. The existing offer itself is also difficult to reverse because urban property, due to high urban property prices and the traditions of small landlordism, is split up in many different lots which are difficult to coordinate. Moreover, the economies of scales of the local network industries – street-layout, public transport, water, sewage and electric networks – work in favor of constructing cities along the once-set-out lines, disallowing for major revisions.

One crucial time period, in which the influence of this mechanism can be studied, is the post-WWII era in Germany where air raids had destroyed more than 40% of all housing units in larger German cities (von Beyme 1987: 38ff). Contemporaries like the garden-city proponent Hans Kampffmeyer, Jr. had hoped that the destruction of 1,5 million rental barracks and the demolition of another 2,4 million would be a turning point in German city construction (Kampffmeyer 1948). But contrary to hopes of garden-city inspired planners, the reconstruction showed remarkable patterns of continuity in ownership and building structures. Though some land consolidation and street-layout change took place, leading to more street area and less dense buildings at times, compulsory action against property owners were rare overall and plans reconfiguring the city as suburbanized garden-city were realized virtually nowhere (Rabeler 1997:66f).

The economies of scale behind the once constructed urban fabric were among the strongest driving forces in favor of continuity: “First of all, the course of city streets could not simply be changed. Second, although the combination of high explosive bombs and fire bombs used during the war had razed many buildings to their foundations it was usually less expensive to rebuild the ruins than to build anew” (Schildt 2002:145). Instead of using new materials, 25 of 39 surveyed cities organized local rubble-recycling organizations to use the existing (brick) stones for new construction (von Beyme 1987:106). Reconstructions in the literal sense such as in Freudenstadt were rare phenomena, traditional but assimilative construction was the most widespread form: “Proportionability (*Maßstäblichkeit*), preservation of proportions, small-scale (*Kleinteiligkeit*) and organic construction as well as identical materials, not reconstruction, were guiding values of this model” (ibid. 178). Architects usually took the old eaves height of building as a starting point, often including an additional floor for economic reasons (Hafner 1993:64). Third, and most importantly, the almost untouched underground infrastructure determined many of the lines along which cities were reconstructed: “Munich reported damage to its electrical system at 6.58%, its gas system at 15.71%, its water system at 4.21%, its sewer system at 4%, and its telephone lines at 40-50%. In Berlin, about 95% of the underground capital survived, including the subway system, underground parking, and underground storage facilities” (Diefendorf 1993:19). Thus, the connection of housing to the even more durable settlement, land division and public-works infrastructure acted as strongly preserving material forces.

Second, political reinforcement mechanisms concerning both the homeownership and the rental sector were at work in maintaining countries on their respective paths. The critical juncture had left the US with savings and loan associations which became an important part of the lobby groups that directed US housing policies in the direction of private homeowner support during the New Deal (Mason 2004). Both Democrats and Republicans supported homeownership ideas, while the union and Democrat support for public housing in the US constituted only an intermezzo. In Germany, on the other hand, the cooperative rental sector organized as a strong local, but also national lobby in favor of more support for rental social housing. The social democratic party (*SPD*) became their prime political partner: more social rented housing was supported in German states (*Länder*) with *SPD* governments (Jaedicke/Wollmann 1983) and large social housing estates, mostly held by non-profit companies which moreover were obligated to use all funds for further construction, loomed large in cities with *SPD* majorities in the city councils (Schöller 2005:189).

With regard to the private rental sector, the political support for landlords and the legal developments of tenancy law and apartment-ownership were crucial in connecting historic building structure and today's homeownership rates: all countries with historic single-family house stock turned into high-homeownership countries, while only those countries with multi-unit building stock remained tenant countries where national tenancy law protected *both* tenants *and* landlord interests and where legal apartment-ownership was restricted.

The historic single-family houses, which were still dominantly rented in the US before the 1940s<sup>7</sup> (Fisher 1951:94), provided a physical shape that allowed an easier legal transfer of the rented unit to the sitting or other tenants, once tenant income allowed for an attractive offer and, more importantly, once federal rent controls pushed landlords into alternative investments such as industrial or war bonds. In the 1940s alone, an estimated three million units were converted (Fetter 2013:7). Between 1940 and 1950, the homeownership gap jumped from 43.6 to 55%, in spite of the further urbanization that went along with armament production (US Census). The Bureau of Labor Statistics reported an increase of the homeownership rate from 41 to 47% between 1940 and 1944 alone, for which the declining new construction could have been hardly responsible (BLS 1946:560). To my knowledge, similar conversion trends for the WWI-period are not reported, but the WWII-experience seems to suggest that much of the post-war homeownership increase in the US, supposedly pushed by suburbanization, has a strong competing cause in the conversion of already built single-family houses into properties owned by the tenants.

A similar conversion of the multi-story units in Germany has not taken place for a legal and an institutional-economic reason. Legally, contrary to Scotland or southern European countries, where owner-occupied multi-story buildings are common, there was no apartment-ownership institution between 1900 and 1951 and even before and after this period, the institution was legally not privileged. Only from the late 1970s onwards did singly-owned apartments begin to spread. The main

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<sup>7</sup> In the large US cities of more than 100.000 inhabitants in 1900, there was an average single-family house rate of 65,7%, while the homeownership rate was only 21,7% (US-Census 1902a).

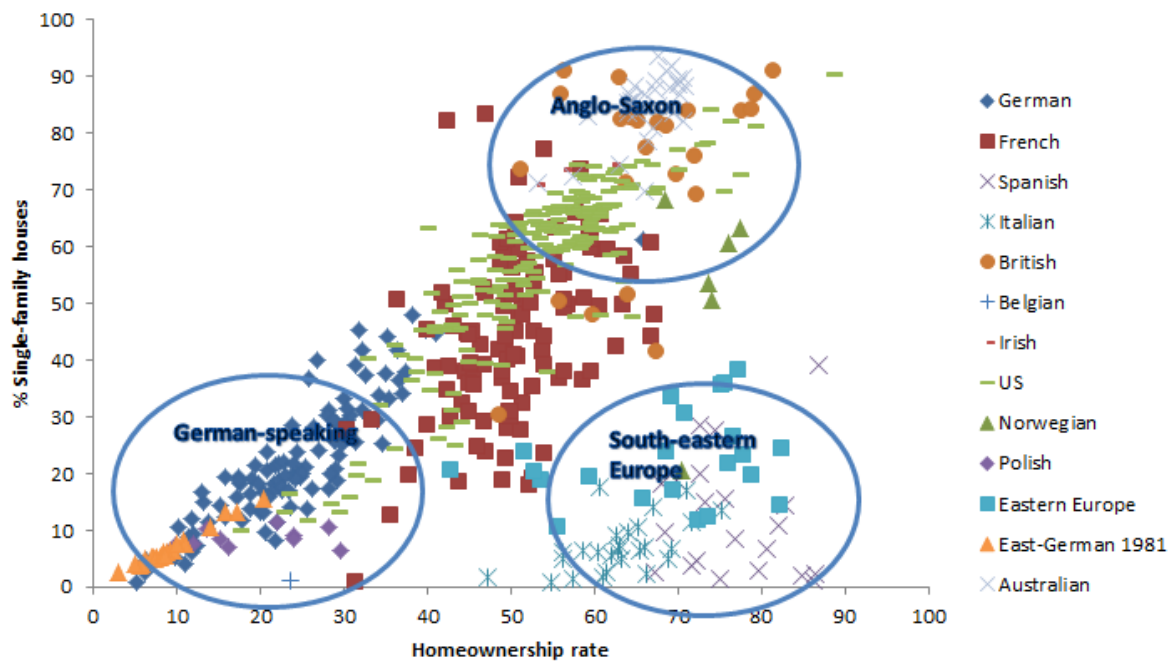
concern against this legal institution was apparently the idea that separate ownership of apartments would not guarantee a proper management of the building and that it would generate too many legal disputes (Thun 1997:136ff). The legal conversion of a singly-owned building into various apartments for sale, on the other hand, has been less attractive to landlords due to extended rent restrictions and rights-to-stay for sitting tenants (Thomas 1992:187). Thus, both private and public rental stock in Western Germany was less often converted than in Great Britain, while the East German state or cooperative rental stock was hardly sold to sitting tenants to the same extent as in other post-soviet countries. On the one hand, the sale of state or cooperative property was not motivated by a social policy in favor of the spread of individual housing ownership. On the other hand, given the attractions of tenancy, tenants did not see the need to pay extra money for owner-occupation of units they could inhabit at good rents anyhow.

The institutional-economic reason has partially been put forward already by Voigtländer in this journal (2009). Part of the reason why German landlords did not sell off individual units had to do with the generous housing investment policies and the moderate interventions in rent control, while yet developing a tenant-protecting legislation. On the one hand, the tendency to decree national rent price stops, as witnessed in countries with higher inflation rates such as France, has been unknown in Germany and the return to free market rents was the earliest in Europe, accompanied by tenant subsidies which continuously grew to cover around 3.4 million households in 1991 (Voldman 2013:146; BRBS 1998). Compared to the US, where rent legislation failed to become nationally regulated (Malpezzi 2011: 86), on the other hand, German tenants have been better protected from arbitrary evictions and excessive rent increases. This intermediary position is also reflected in Malpezzi's international rent control index of about 1990 in which countries tend to fall either into highly regulated or highly unregulated regimes, while Germany ranks in the middle (Malpezzi/Ball 1993). To the extent that rents develop more or less in line with prices for sales of individual units, landlords have no particular incentive to get rid of their investment in entire buildings. When compared with French or southern European cities, therefore, German cities have still a much higher degree of buildings owned by single landlords. Overall, in 2000 the nine largest French cities showed an average rate of co-owned apartment buildings of 42% (Moncan 2002), while in a sample of the 42 largest German cities in 2011 (Zensus 2011) 14.3% was the comparable figure.

The roughly three filled quadrants of the following graph, combining single-family-house and homeowner percentages in various cities of mainly the 1990s, summarize the outcome of the historic mechanisms mentioned:



**Figure 4: Varieties of urban form and tenure**



**Source: Eurostat urban audit, calculated averages 1989-2012; US City-data book 1994; (Destatis 1994); Australian Population Census**

Wherever single-family houses dominate the building structure, cities turned into high-homeownership cities. This does not only hold for English-speaking countries, but also Belgium and even Scandinavian countries, reflecting a historic building-structure frontier across northwestern Europe which runs counter usual regime classifications of these countries (Lichtenberger 2002:198f; cf. Hoekstra 2005). Wherever multi-unit buildings prevailed, apartment-ownership remained less developed and a political tenant-landlord compromise was found such as in the German-speaking and some neighboring countries, low-homeownership cities remained. Note the extreme point that the historic GDR-cities occupy as example of soviet urban housing. Finally, south-eastern European cities, where private or public rental stock has been sold to tenants turned into high-rise, high-homeownership cities.

## Conclusion

Answering the question of the German-American homeownership gap, this article mainly makes two contributions: First, the “methodological nationalism” (Le Galès 2002; Wimmer/Glick Schiller 2002) underlying many studies, in two-case or quantitative comparisons, should at least be broken down to smaller units of analysis, if not start from them in the beginning. I opted for considering the *urban* homeownership differences, both because of their salience and their importance in terms of population. Secondly, the focus on very recent explanatory factors – often those also manipulable by

possible policy interventions – should at least be supplemented by more historic ones. If I am right, then the long-term influence of land-parcel-, city- and building structures could equally be looked for in cases of other explananda in the housing literature.

The findings support path-dependence approaches as applied to housing phenomena. The above explanation shares the feature with path-dependence explanations that it reveals the importance of historically distant occurrences for today's outcomes. It differs, however, in that no single event-like, contingent critical juncture can be easily identified. City-building and re-building is too much of a continuous process. The other difference is that I do not claim that the initial differences were due to some chanceful events, but that one can clearly indicate explanatory factors that created either the suburbanized or compact city type. The economic and political mechanisms detailed above also show that the initial differences do not suffice to understand the varieties of 20<sup>th</sup> century city developments. The article thus addresses the demand for also explaining change in path-dependence processes (Ebbinghaus 2005; Malpass 2011): the urban *layering* involved in suburbanization and the *conversion* of existing stock into different uses best describe the institutional processes of change involved (Streeck/Thelen 2005).

The story about urban historic differences and their long-term influences bears the potential to be extended to other countries and cities, particularly other Anglo-Saxon settlement societies and Austria and Switzerland. A comparison between Spanish and Anglo-Saxon settler societies or the explanations of European outliers such as Belgium or England/Wales could be fruitful next steps. Further research could thus connect to an emerging literature about the historic economic similarities and long-term consequences of settler economies (Acemoglu/Johnson/Robinson 2001), in which urban infrastructure investments were seen as important driver of growth (Carter/Sutch 2013: 45). In that literature, differences in formerly Spanish and English colonial cities with regard to municipal institution building and its growth effects have been found (Engerman/Sokoloff 2013: 94). The case comparison invites to look at more systematic urban differences between old settled and new settler cities.

Quantitative comparisons on historic cities especially open up avenues toward new findings which, given the long-term influence and durability of housing, could shed even more light on today's housing environments. It was beyond the scope of this article to follow more closely the precise mechanisms through which the urban homeownership rates were kept stable over time. More research into the inheritance of urban real estate, the social structure of landlordism and urban land reform politics would be required to answer these more intricate questions. Finally, a comparison of the Scottish or southern-European with the German case could reveal which conditions furthered the sale of apartments to sitting or other tenants in those countries and whether this might be related to housing-policy being a pension-policy alternative. This could help to explain the surprisingly homogeneous national clusters in the urban varieties of housing form and tenure.

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