Aside from current income, the parameter of net worth represents a key resource in the economic activity of households. In addition, net worth has a specific function going far beyond the sheer fact of earning (for example, in the form of interest and dividends). It contributes significantly to stabilizing consumption in periods of income loss, while tangible assets can, as in the case of real estate, be used by the owner. A greater net worth may confer economic and political power, and be employed to achieve or maintain an individual’s own high social status, or support the development of his or her children. In this way, personal assets also serve to reproduce and form elites. Finally, accumulating private wealth is an important instrument for old-age security and intergenerational transfers in the form of inheritance or gifts.

Analyzing the size and distribution of net worth separately in eastern and western Germany is not merely interesting in terms of regional differences but also reflects how far the repercussions of the fundamentally different conditions governing wealth accumulation in the two halves of Germany before reunification still continue to resonate more than twenty years after the fall of the Wall. Under the socialist economic system in the former East Germany, citizens there did not have such favorable opportunities to accumulate net worth as in West Germany. For example, it was only possible to invest to a very limited extent in business capital, in other real estate (in particular apartment houses) or shares. Moreover, although under the Economic, Monetary and Social Union on July 1, 1990, wages and pensions were converted at the rate of 1 East German mark to 1 deutschmark, the conversion for individual savings and liabilities was two East German marks to one West German.

PRIVATE NET WORTH IN EASTERN AND WESTERN GERMANY ONLY CONVERGING SLOWLY

In 1993, expressed as a mean, the average net worth of all households in western Germany amounted to 126,600 euros (see Figure 1). By 2003, this figure had risen to 148,800 euros, though in the wake of the financial market crisis it fell to 142,700 euros in 2008. By 2013, a new increase was observed with the figure rising to 153,200 euros. In general, the figures for net worth in eastern Germany are significantly lower. In 1993, households in eastern Germany had a net worth of just 38,400 euros, representing only 30 percent of the comparative figure for western Germany. In the period up to 2013, net worth in eastern Germany grew significantly by 75 percent to 67,400 euros yet, despite this increase, households in eastern Germany still only had assets amounting to 44 percent of households in the west.

Hence, while net worth in western Germany has increased by around one-fifth since 1993, it has risen in eastern Germany by three-quarters. Nonetheless, even almost 25 years after German reunification, the long-term differences in wealth acquisition and asset growth in the post-war years determined by the conditions in both former German states still have a lasting impact on current inequalities in net worth in these two regions of present day Germany.

Real Estate and Property Quantitatively the Most Important Asset Type in Both Parts of Germany

Separate detailed information on the asset portfolio of households in eastern and western Germany is only available for the years 2003 to 2013 (see table). According to this data, real estate and property holdings form

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2. Savings differentiated by age could be directly converted 1:1 (2,000 East German marks per child up to 14 years old; 4,000 East German marks for people up to 59 years old, and 6,000 East German marks for those aged 60 and over).
4. Hence, people living in institutional households such as student dormitories or retirement homes are not included.

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6. Analyses of the development of wealth inequality can be found in M. M. Grabka and C. Westermeier, “Persistently High Wealth Inequality in Germany,” DIW Economic Bulletin, no. 6 (2014) 151-165.
7. This figure may well be reduced further if business assets, which are not included in the EVS, are taken into account, since in particular the proportion of small and medium-sized enterprises with the requisite business assets is significantly higher in western Germany than in eastern Germany. Here, the former socialist economic structure of East Germany continues to negatively impact household wealth over the long term.
In 2013, this accounted for 85 percent of the net worth of all households in western Germany, while the corresponding figure in eastern Germany was only 73 percent. In contrast, gross financial assets (comprising savings, securities, building loan agreements, insurance policies, and mortgages) account for 20 percent in western Germany and 27 percent in eastern Germany. The difference may be due to the fact that households in eastern Germany have relatively more savings than households in western Germany. However, the spread of the Riester scheme does not give any indication of how much wealth is saved in this form of old-age provision.
PRIVATE NET WORTH IN EASTERN AND WESTERN GERMANY ONLY CONVERGING SLOWLY

Table

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<th>Portfolio of Net Worth By Region</th>
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| Former East Germany and Berlin   |
| 2003    | 2008    | 2013    |
| Gross financial assets           | 42      | 53      | 50      |
| Residual consumer loans          | 2       | 3       | 3       |
| Residual education and training  | -       | 1       | 1       |
| Real estate and property assets  | 87      | 75      | 73      |
| Residual debt on mortgages       | 27      | 24      | 20      |
| Gross total worth                | 129     | 128     | 124     |
| Total debt                       | 29      | 28      | 24      |
| Net total worth                  | 100     | 100     | 100     |
| Average value per household in euros |
| Gross financial assets           | 23,200  | 28,700  | 30,900  |
| Residual consumer loans          | 1,300   | 1,600   | 1,800   |
| Residual education and training  | -       | 300     | 500     |
| Real estate and property assets  | 47,500  | 41,000  | 44,900  |
| Residual debt on mortgages       | 14,700  | 13,200  | 12,300  |
| Gross total worth                | 57,700  | 54,700  | 57,200  |
| Total debt                       | 14,000  | 15,200  | 14,600  |
| Net total worth                  | 43,700  | 39,500  | 41,300  |

1 Prior to EVS 2013, West Berlin was classified as the former West Germany and East Berlin as eastern Germany. Source: Einkommens- und Verbrauchsstichprobe (Income and Expenditure Survey EVS.)

In both eastern and western Germany, property ownership is quantitatively the most important asset component.

In relation to all households, the average amount of the various asset or debt components in eastern Germany is lower in each case than in western Germany. Hence, in 2013 households in eastern Germany only recorded gross financial assets of 30,900 euros, equivalent to just 60 percent of the corresponding net worth in western Germany. In contrast, both in west and east, consumer loans as well as loans for education and training, which are quantitatively insignificant, amount to less than 2,000 and 500 euros respectively.

The figures for the residual debt on mortgages reflect the different developments in eastern and western Germany. While residual mortgage debt has been decreasing in eastern Germany since 2003 and only amounted to 12,300 euros in 2013, these liabilities have shown a slight growth in western Germany since 2003 and presently amount to 28,200 euros.

Quantitatively, real estate and property holdings are the most important component of net worth. However, with property assets in eastern Germany amounting to 44,900 euros, this still only represents 37 percent of the corresponding figure in western Germany (119,900 euros).

No Catch-Up Process in Owner-Occupied Residential Property

Given the particular quantitative importance of property ownership, the following examines this in more detail. Here, it is necessary to distinguish between own-
PRIVATE NET WORTH IN EASTERN AND WESTERN GERMANY ONLY CONVERGING SLOWLY

Figure 3

Market Value of Real Estate and Property Holdings
In 1,000 euros

![Market Value of Real Estate and Property Holdings](image)


In eastern Germany, liabilities from mortgages have reached 70 percent of the value in western Germany.

Figure 4

Residual Debt on Mortgages
In 1,000 euros

![Residual Debt on Mortgages](image)


Market value of real estate and property in eastern Germany only amounts to approximately 50 percent of that in western Germany.

er-occupied residential property (for example, an owner-occupied house or apartment) and other real estate and property (land, rented real estate, holiday homes, and so on.). In 1990, the proportion of households living in owner-occupied property in eastern Germany was significantly lower than in western Germany (see Figure 2). Only around one-quarter of all households in eastern Germany owned this form of asset, while over 40 percent of those in western Germany lived in owner-occupied property. Hence, both in the west and the east, the dominant residential form was tenant households.

Although the percentage of owner-occupied property has significantly risen since then, the gap of 15 percentage points has not decreased. In 2013, nearly 50 percent of all western German households were now living in owner-occupied property. In eastern Germany, in contrast, this proportion only rose to around one-third. Moreover, over the past five years, the percentage of owner-occupiers in western Germany increased noticeably faster than in eastern Germany. These differences may well be traceable to the discontinuation of the scheme to provide state subsidies to those buying their own residential property (Eigenheimzulage), which was only in force up until December 31, 2005. Given the same level of subsidies, the significant differences in the price of building land in east and west meant that a family in eastern Germany was far more likely to create property assets through this scheme than a family in western Germany.

In comparison, a slight catch-up process is evident in households with other types of property ownership (see Figure 2). In 1992, for example, 10 percent of all households in western Germany received income from other property, while this figure was less than four percent in eastern Germany. By 2012, this gap had been reduced to approximately half the western German level (12 to six percent).

There is also no catch-up process evident either from the figures for market value developments in residential real estate in eastern and western Germany (see Figure 3). In both regions, the nominal market value has risen by a good 25 percent over the past 20 years. In eastern Germany, market values continue to remain at close to half age and, in contrast to tenants, have a relevant income advantage on this, see J. R. Frick, M. M. Grabka, T. Smeeding, and P. Tsakloklu, "Distributional effects of imputed rents in five European countries," Journal of Housing Economics, vol. 19 (2010): 167-179.

10 See the Eigenheimzulagengesetz (Law on Subsidies for Residential Property). Since 2006, there has no longer been a national program to promote owner-occupied property in Germany. Aside from state subsidy schemes, the key factors fuelling real estate demand also include the level of interest and related financing options, as well as the anticipated level of inflation.

11 Here, these are approximated through the income households receive from other property. As a result, since not all property is let or leased and so produces income, the extent of other property ownership is underestimated.
Condition of Property in East Still Worse than in the West

One factor to explain the lower market value of owner-occupied property in eastern Germany is the condition of the buildings (see Figure 5). In a survey of owner-occupied real estate in 2013, when owners were asked about the need to refurbish their properties, nearly 80 percent in western Germany replied that their property was in good condition, while less than 70 percent of property owners in eastern Germany gave the same response. Although there was a rapid process of improvements (and modernization) in owner-occupied residential property there in the 1990s, this catch-up process has ground to a halt since the start of the 2000s.

Convergence in Living Space and Furnishings

An ongoing catch-up process can still be observed in owner-occupied residential property. While in 1990, the average living space in eastern Germany of 87 square meters (sqm) was still over 20 sqm less than in western Germany, the most recent survey shows this gap decreasing to 14 sqm (see Figure 6). At the same time, over the last 25 years, the size of residential properties in both east and west has grown by over 10 percent. This growth

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12 For example, one of the lowest prices for a used single-family house or duplex can be found in the district of Landkreis Mansfeld/Südharz at only 440 euros per square meter, while the equivalent price in Munich is 6,080 euros. The level of income in the former region is far below average, while the latter is numbered among those areas in Germany with the highest income levels. See J. Lemble, “Deutschland driftet auseinander,” Frankfurter Allgemeine Zeitung, August 30, 2013, 28.
is even more marked when living space is set in relation to the number of household members. Here, eastern Germany has made a major leap forwards. In the early 1990s, each owner-occupier had on average only 37 sqm of space available per person, compared to 50 sqm in western Germany. By 2012, the average living area in eastern Germany had risen by over 50 percent to 57 sqm per person (66 sqm per person in the west).13

A substantial convergence process can also be noted in home furnishing (see Figure 7). Although eastern Germany had a significant modernization backlog, this was rapidly addressed and reduced. For example, while in the 1990s, over 90 percent of all owner-occupied residential properties in western Germany were fitted with central heating, the corresponding figure in eastern Germany was only two-thirds (moreover, frequently coal-powered central heating). From the mid-2000s, the provision of central heating systems in owner-occupied properties in both regions of Germany has been nearly the same, since almost every residential property now has this kind of heating. A similar convergence process can also be observed with regard to the provision of hot water and sanitary facilities with shower, bath, and WC in residential properties. Since the new millennium, both eastern and western Germany have virtually the same level of furnishings.

Conclusion

Nearly 25 years after the fall of the Wall, there are still significant differences in average net worth between eastern and western Germany. The average household net worth of 67,400 euros in eastern Germany is less than half that in western Germany.

No catch-up process has been observed in the spread of owner-occupied property—which is quantitatively still the most important form of asset in Germany. While in western Germany almost every second household is in owner-occupied property, this figure has remained at only one-third for all eastern German households. However, not only is the distribution of owner-occupied real estate lower in eastern Germany, the average market value of these properties is also only approximately half that of western Germany. Here, one can cite as an explanation lower than average pay levels, the continuing high rates of unemployment, and demographic developments with a shrinking population in large parts of eastern Germany. The condition of the buildings in eastern Germany also remains slightly worse than those in the west. A clear catch-up process can be observed in average living space and home furnishings, with eastern Germany nearly closing the gap to western Germany here.

Given the overall lower wage and income levels, and higher unemployment, the opportunities for net worth
formation for the population in eastern Germany may well continue to be worse than for their counterparts in western Germany.\textsuperscript{14} In addition, inheritance and gifts form a significant factor in wealth formation.\textsuperscript{15} Irrespective of east-west migration, one can assume that the largest number of intergenerational transfers in the future cohort of those inheriting will take place within each of the regions analyzed here (east and west), and thus similarly play no significant part in reducing wealth differentials between them.

For wealth formation and old-age security, owner-occupied residential property has a particular significance. In an international comparison, the rate of owner-occupancy in Germany is very low. Germany is one of the few European countries without a national program to promote home ownership. If policy-makers planned to make property ownership more attractive, particularly for the half of the population on a low income, eastern Germany would profit more from state funding instruments due to the lower income levels there and this could then somewhat reduce the net worth differential that still exists 25 years after the fall of the Wall.

\textsuperscript{14} See M. M. Grabka, J. Goebel, and J. Schupp, “\textquoteleft Höhepunkt der Einkommensungleichheit in Deutschland überschritten?\textquoteright; DIW Wochenbericht, no. 43 (2012).


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