Dynamic Analysis of Household Portfolios Choices: An Empirical Study of Real Assets Holdings Post-COVID-19 and Financial Crisis in Europe

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Abstract

This research examines the shifting preferences of household portfolios regarding real assets—main residence, privately owned enterprises, other real estate, and automobiles—after significant international economic events such as the 2008 financial crisis and COVID-19. We analyze the household data of Survey of Health, Ageing and Retirement in Europe (SHARE) from 2006 to 2022 in 28 European countries. Employing the two-stage least squares (2SLS) estimator for Probit regression models to address potential endogeneity issues, the research anticipates that households will treat automobiles, privately owned enterprises, and other real estate assets as complements rather than substitutes. The outcomes from the interaction terms suggest that households owning primary residence and automobiles will likely continue investing in other real estate or private enterprises. Furthermore, the findings from Multinomial Logit regressions indicate that people with higher financial risk-averseness will be more inclined to own a main residence and invest in other real estate assets while being less likely to include private business ownership in their portfolios. In contrast, our study indicates that people reporting higher self-perceived life satisfaction and happiness will exhibit positive correlations with holdings in real estate and automobiles but demonstrate a negative correlation with owning or managing private enterprises. This trend is particularly relevant in the context of the post-COVID-19 economic recovery and financial crisis of 2008. Additionally, households with substantial net wealth are anticipated to maintain diversified investments across all categories of real assets, including main residence, own enterprise, automobiles, and other real estates. Households with higher income levels are expected to prioritize investments in other real estate, whereas those benefiting from larger inheritances may predominantly allocate their resources to private enterprises.

Key words: household portfolio; real assets; risk aversion; inheritance; life satisfaction; Covid-19; European countries; SHARE.