In this paper we argue that a country’s level of wealth inequality can be viewed as a reflection of the quality of its rental market for housing. Using the ECB’s Household Finance and Consumption Survey (HFCS), we document that the aggregate homeownership rate and various measures of wealth inequality are negatively correlated across Euro Area countries. Empirically, this relationship is driven by the fact that in countries with lower homeownership rates a larger fraction of households only hold very low amounts of wealth. We show that a simple wedge in the rental market can explain the qualitative features of the data using a general-equilibrium life-cycle model of household investment and consumption. A larger wedge incentivizes households to save more at a young age in order to make a down payment and buy a house. This leads not only to a higher homeownership rate but also overall fewer households with low wealth, decreasing cross-sectional wealth inequality. Quantitatively, our model explains around 80% of the variation in wealth inequality seen in the data, where rental market inefficiencies alone can explain around 50%. We show that the welfare losses associated with the rental market wedges identified by our model can be substantial.

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