

The Relationship of Homeownership, House Prices, and Child Well-Being

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In the fourth quarter of 2012, the homeownership rate in the United States was 65.4 percent for all households. For the groups most likely to have children, the ownership rate was substantially lower, ranging from 21.9 percent for households under age 25, to 34.9 percent for those ages 25 to 29, to 48.6 percent for those ages 30 to 34, and to 60.4 percent for those ages 35 to 44.

Improving child outcomes is important for parents and society. These outcomes include high cognitive abilities, positive behaviors, graduating from high school and attaining additional education, earning high wages, and achieving other positive economic and social outcomes as young adults. The question of whether homeownership affects child well-being is thus important for understanding child outcomes and determining which public policies could be effective in improving outcomes.

Many studies have examined the determinants of homeownership. Economic factors known to positively influence the probability of a household being a homeowner include greater household wealth and permanent income, lower costs of owning (interest rates, property taxes, and transaction costs), greater expected returns on housing as an investment, and higher rental costs (the alternative to owning). Annualized transaction costs are lower the longer a household plans to remain in the dwelling; thus, households that expect to be geographically stable tend to be homeowners. Demographic factors such as marriage increase the likelihood of owning. In addition, it is likely that unobserved household characteristics, perhaps a desire to attain the “American Dream,” increase the probability of a household becoming a homeowner.

The major difficulty in determining whether homeownership *causes* improved child well-being is that many items in the list of factors that increase the likelihood of homeownership also are likely to improve child outcomes. For example, greater wealth permits greater investment in children and also access to better school quality. Greater household stability is more likely for homeowners than for renters and also has been shown to improve schooling outcomes. Owned dwellings are larger than rented dwellings, and the increased amount of space per child has been shown to positively affect child outcomes. Some of the difficult-to-observe household characteristics that increase the likelihood of homeownership are also likely to positively affect child outcomes. These confounding factors must be measured and controlled for in a statistical analysis of child outcomes before any conclusions can be drawn about the causal effect of homeownership.

Another difficulty in establishing a causal linkage between homeownership and child outcomes is theoretically identifying a causal mechanism and then showing that the mechanism is present in U.S. society. Why might homeownership cause better child outcomes? One plausible reason is that homeowners maintain their properties better than landlords or renters. An important aspect of maintenance for older properties is lead paint abatement. Homeowners have a direct incentive to engage in optimal abatement, whereas the incentives for landlords and renters are less clear. Furthermore, it is well established that lead in the home environment negatively affects children's cognition and behaviors. This is only one example of a mechanism that would link homeownership to improved child well-being. The literature identifies few linkages, however, and rarely tests for their effect.

The conclusion of the previous arguments is that it is challenging for empirical work to link homeownership and improved child outcomes. Even so, empirical studies attempt to address the previous problems. Haurin, Parcel, and Haurin (2002) studied child cognition and behavioral outcomes using a multiyear panel dataset that contains extensive information about a child's parents and their socioeconomic situations, thus controlling for a large number of confounding factors. They use statistical methods that attempt to control for which households choose to be owners (self-selection). This analysis concludes that the children of homeowners, compared with the children of renters, achieve modestly higher math and reading scores (measured by a standardized test). An important unanswered question in this study, however, is whether it is homeownership that affects child outcomes or whether it is the characteristics of owned dwellings compared with rented dwellings; examples of these characteristics include building and lot size. This particular lack of clarity occurs in other studies of the effect of homeownership on children. Until this topic is researched further, the question of whether homeownership *causes* improved child well-being should be considered open.

New research on the linkage between housing and child outcomes is following another, more general route. Decades of research have established that lower house prices increase households' demand for housing (the price elasticity estimates tend to be about -0.6). If more and better housing improves child outcomes, then public policies that reduce the price of housing should have a positive effect on children. The linkage between home sales prices and child outcomes is much more complex, however, than a simple linkage between sales price and quantity. Given that housing demand is price inelastic, higher house prices (rented or owner-occupied) imply that households will spend more on housing, leaving less to spend on other goods. This reduction likely includes spending less on children's educational materials and experiences that would positively affect children. Another response to high house prices and increased expenditures on housing may include additional hours worked by the parents, reducing their time inputs to childcare. Recent studies argued that high house prices affect marital stability through an asymmetric effect whereby both rising and falling prices reduce divorce. Also, high house prices may affect fertility. Both changes would likely affect a child's well-being. Because of the capitalization effects, high house prices may reflect high-quality neighborhood amenities such as schools and a child's peers. Overall, the theoretical direction of effect of high house prices on child outcomes is ambiguous, but the presumption is that negative effects will dominate. Empirical work on the linkage of house prices and child outcomes is very limited. Recently, Blau, and Haurin (2013) found that high owner-occupied

house prices reduce children's math cognition but not their reading cognition, behavioral problems, or health. They find no effects of rental prices on any of these outcomes. The effect is greatest for the female children of Hispanics, especially when ages 6 to 10, and for mothers whose cognitive achievement is in the lower half of the distribution. Blau and Haurin also found that living in areas where owner-occupied house prices are high during childhood reduces young adult wage rates, perhaps because of lower cognitive skills in math. The effect on math abilities could occur through multiple mechanisms. For example, higher owner-occupied house prices could result in households choosing to rent, thus forgoing the benefits of homeownership mentioned earlier. Or, higher owner-occupied house prices could result in smaller owner-occupied dwellings, increasing crowding and reducing children's ability to study. Or, as mentioned previously, higher owner-occupied house prices could affect other parental behaviors, including reducing expenditures on educational materials or spending fewer parental hours with their children. Further research is needed to clarify the mechanisms through which house prices affect household behaviors and child outcomes. This research is required before public policies can be optimally targeted.

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References

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