

How do house prices affect social mobility?

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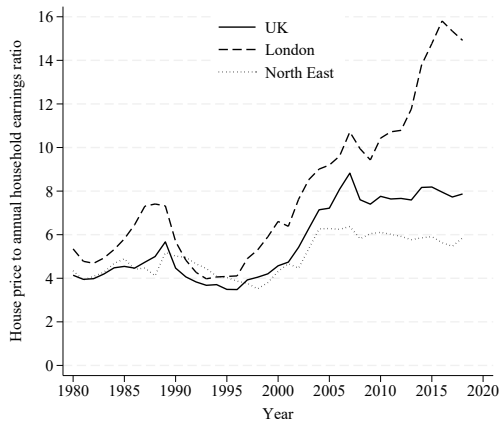
Introduction

House price boom - especially from mid-1990s to mid-2000s

- ▶ Doubling in house price to earnings ratio in UK

Boom in house prices concentrated in London and the SE

Figure: House price to earnings ratio



Source: Nationwide index and Family Expenditure Survey (1980-2020).

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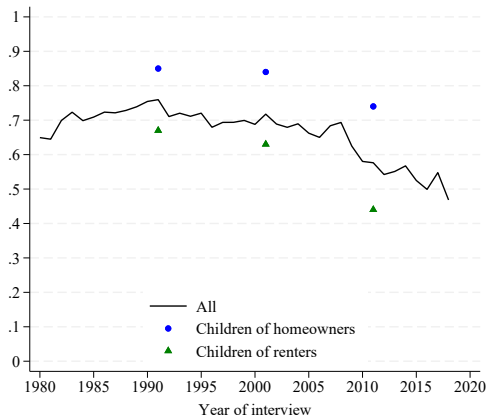
- ▶ Doubling in house price to earnings ratio in UK

Simultaneously, homeownership rates have fallen for younger people

- ▶ Fall in homeownership was larger for children of renters

Decline in homeownership larger for children of renters

Figure: Homeownership rates for 30-36-year-olds



Source: Bell et al. (2018), using the Longitudinal Study.

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1. Are these two facts connected? Did the boom in house prices affect social mobility?
2. Does parents' housing wealth shape young people's choices over where to locate, and their labour market opportunities?
3. More fundamentally: does parents' housing wealth have a *causal* impact on children's outcomes?

Data

Data on individuals in England and Wales from different censuses (1971 onwards) have been linked through the ONS Longitudinal Study

- ▶ Scotland and Northern Ireland have separate censuses
- ▶ So far we use data up to and including the 2011 census

Can see records of individuals when they are children - and info on their parents and homes - when they are growing up and after they have left home

Use this to compare children of the 90s-00s property boom (born 1974-1983) with each other in 2011 and with previous 'cohorts' at same stage of life

- ▶ Aged 8-17 in 1991 census
- ▶ Aged 28-37 in 2011 census

*NB: the census doesn't ask about value of home or earnings so we have to impute these based on available info

Challenge

Simple approach: compare situations of children of parents with more or less housing wealth

But young adult's outcomes are determined by many factors:

- ▶ Parental resources, house prices, local economy, child's preferences...

When we see that children of wealthier parents are wealthier themselves, does this reflect the impact of parents' resources (e.g. housing wealth), or other (correlated) factors

Ideal experiment: Randomly hand out wealth to some parents and not others - then measure impacts on children

- ▶ This would be very expensive...!

Our approach

Our approach:

1. Take an outcome - e.g. children's home ownership rates when they're 28-37
2. Compare the *gap* in these outcomes for owners and renters
3. If this gap grows larger in areas that see faster house price growth, attribute to housing wealth
 - ▶ (rather than differences across areas, or permanent differences between owners and renters)
4. Also: control for parents' occupation, education and other characteristics

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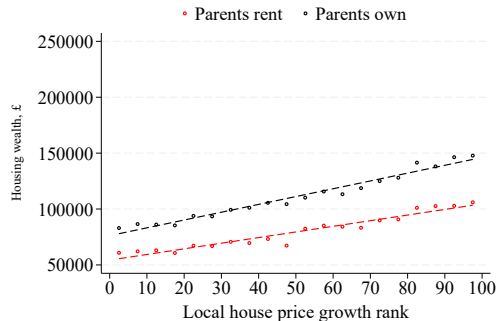
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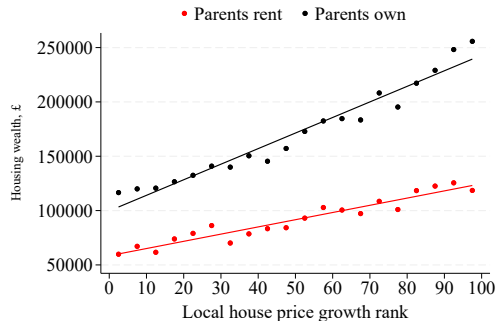
Now for a graphical illustration...

Results: housing wealth

Pre-boom cohort (28-37, 1991)



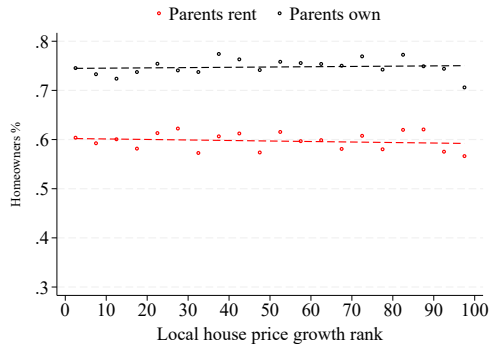
Post-boom cohort (28-37, 2011)



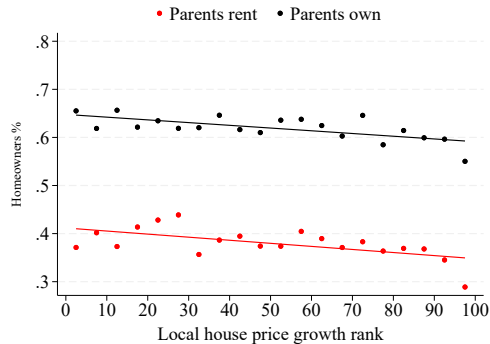
Source: ONS Longitudinal Study

Results: homeownership

Pre-boom cohort (28-37, 1991)



Post-boom cohort (28-37, 2011)



Source: ONS Longitudinal Study

Takeaways so far

These patterns hold up in more complete regression analysis

Finding: Having parents who have £100,000 more gross housing wealth causes a child to attain around £15,000 more in gross housing wealth at age 28 to 37.

But no effect on homeownership rates ('getting on the housing ladder')

⇒ children of richer parents just as likely to buy, but when they do buy, they buy more valuable homes

What accounts for this?

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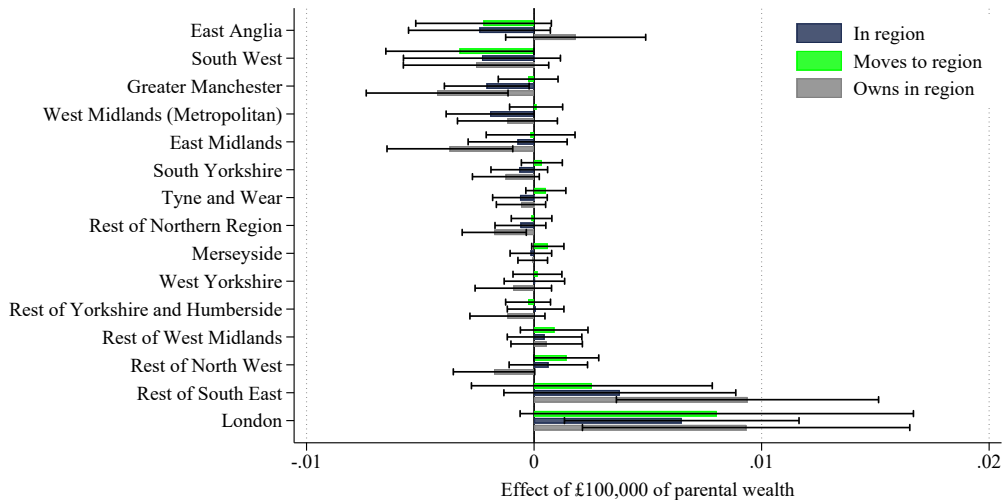
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⇒ children of richer parents just as likely to buy, but when they do buy, they buy more valuable homes

What accounts for this?

- ▶ Key reason is *where* people are buying when they buy

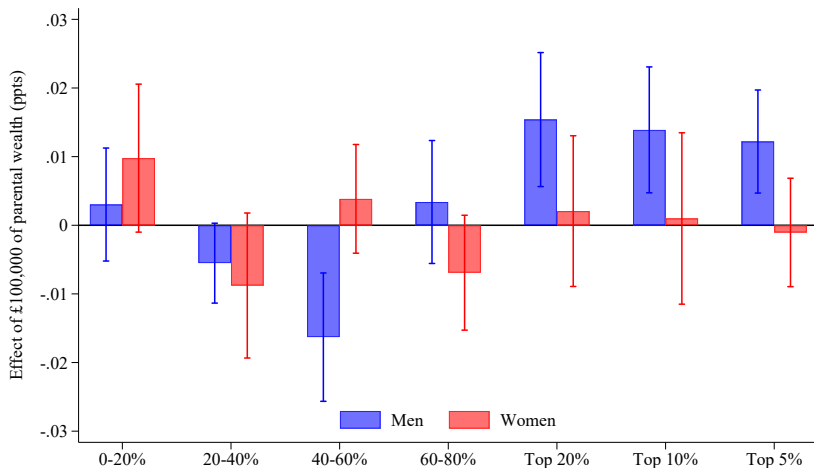
Effect on being in, owning in, and moving to/from regions



Labour market opportunities

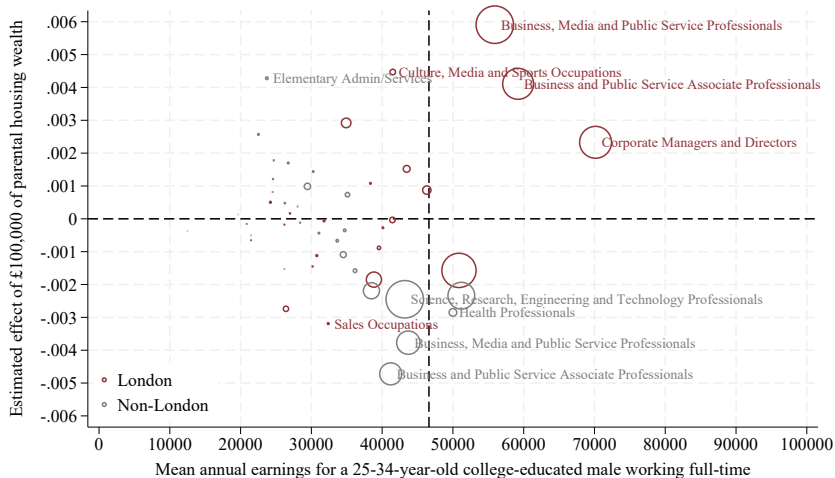
- ▶ Parental housing wealth thus helps children gain, or maintain, access to the most prosperous places in London and the SE.
- ▶ Did this (along with other advantages conferred by wealth) translate into greater success in the labour market/higher wages?
- ▶ While earnings aren't asked about in the census we do know what types of jobs people hold (occupation, industry hours, worked) giving us a measure of their earnings potential...

Effect of parental wealth on probability of having earnings in selected quantiles



Source: Authors' calculations using the ONS Longitudinal Study and Labour Force Survey.

Which occupations?



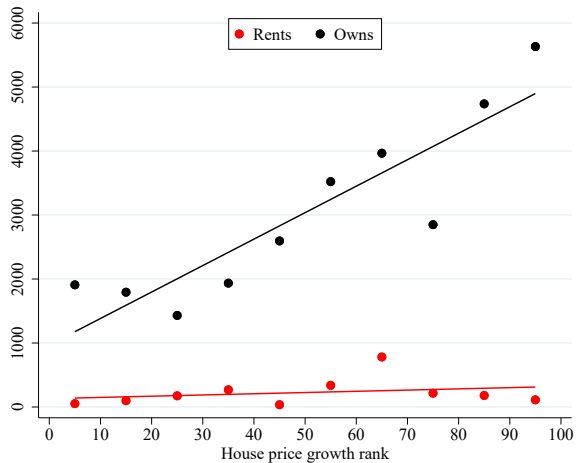
Source: ONS Longitudinal Study with earnings imputed from the Labour Force Survey. Note: Marker size is proportional to share of 25-34-year-old male employment in that occupation group. Dashed black line indicates mean earnings overall.

Mechanisms

- ▶ Parents who do better out of the housing boom could help their children in a number of ways
 - ▶ Leave bigger inheritances
 - ▶ Invest more when they are children
 - ▶ Financial transfers made during the parents lifetimes (e.g. when children are buying a home)
- ▶ Does third of these matter?
- ▶ The Wealth and Assets Survey asks about gifts given to children

Wealth transfers from parents to children

Figure: Value of gifts given over 2 years (£)

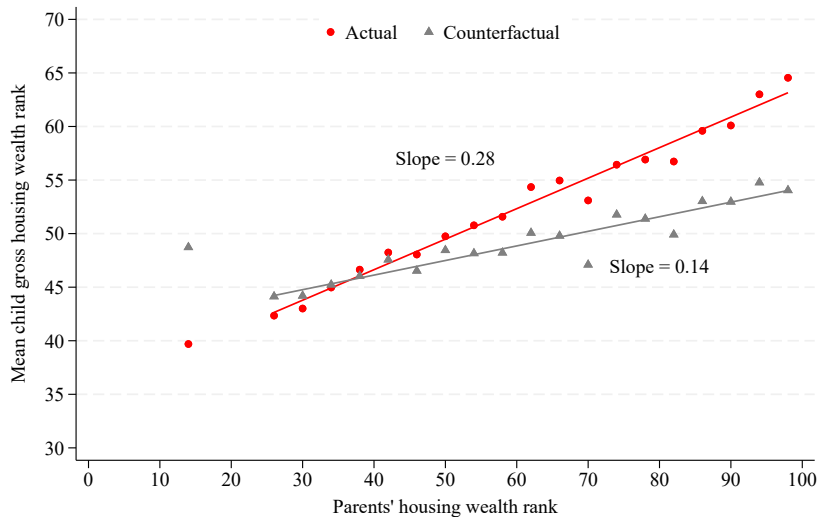


What does this mean for social mobility?

Question 1: What is the effect of a parent climbing the distribution of (gross housing) wealth by 1ppt on the rank of the child?

Question 2: What would this have been had all parents seen no (real terms) gain in housing wealth in the boom years?

'No boom' counterfactual



Conclusions

- ▶ Children of parents who benefited from property boom, more likely to...
 - ▶ Have greater property wealth themselves
 - ▶ Buy house in London
 - ▶ For men: enter highest-earning occupations
- ▶ Property wealth gains among parents confers advantages to their offspring
- ▶ $\implies$ policies that affect housing wealth gains would affect social mobility
 - ▶ Taxation
 - ▶ Housing supply constraints in booming areas