

Point of Contention: Homeownership and Child Well-Being

For this issue's Point of Contention, we asked four housing economists with substantial knowledge of the topic to argue for or against the following proposition—"The research to date is consistent with a significant causal effect of homeownership on child well-being and the educational attainment of young people." Please contact alastair.w.mcfarlane@hud.gov to suggest other thought-provoking areas of controversy.

Do Kids of Homeowners Do Better Than Kids of Renters?

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At first blush, there is no reason to think that choice of housing tenure should affect child outcomes. Economists think of tenure choice as a financial decision, grounded in the relative costs of owning or renting a house. But a problem exists with the economist's view of the tenure choice problem—for most people, in most time periods, after taking into account the transaction costs and maintenance costs of being a homeowner, owning produces an inferior economic outcome to renting. Yet, even in the aftermath of a period when owner-occupied housing has performed intensely badly, Americans seem to want to be homeowners. The question is, why?

Before we attempt to answer this question, let us look at the evidence for the relationship between tenure and child outcomes. We may divide research papers into two types—those that view the preponderance of the evidence as supporting the idea that kids of homeowners are more likely to finish school, less likely to get pregnant at a young age, have better cognition, and fewer behavioral problems (Green and White, 1997; Haurin, Parcel, and Haurin, 2003; Dietz and Haurin, 2003) and those that do not view the preponderance of the evidence this way (Barker and Miller, 2009; Holupka and Newman, 2012).

All the papers agree on a stylized fact—that using simple econometric models, homeownership, after controls are in place, predicts child outcomes. If all we were worried about was prediction, we could stop the argument at that point. To say one thing predicts another is, however, different from saying that one thing causes another. If something we observe is highly correlated with something we do not observe, and that observed thing predicts an outcome, we can not say whether it is the observed thing or the unobserved thing that is causing the outcome. All papers attempt to control for unobserved characteristics; results across papers vary.

Assume that it is not tenure choice that drives child outcomes, but rather unobservable characteristics: parents who select into owning are simply different from parents who do not. Let us also say that parents who become owners are more likely to have personality traits conducive to being good

parents than those who become renters. This assumption prompts a couple of questions. First, does the process of becoming an owner change the unobserved characteristics of parents? If so, so-called “corrections” for self-selection will mask a very real effect that ownership has on children. But what if the parents who embark on the ownership path are different from others from the beginning? We might then ask why these parents want to be homeowners.

The answer might have something to do with stability. Owners essentially have infinitely lived leases. This longevity indicates they can assure that their children remain in a stable environment, and, more specifically, can remain in a school district that their parents find desirable. Indeed, much of the work referred to in the previous section indicates that, after controlling for tenure choice, length of stay in one home is an important predictor of child outcomes. Parents with 1-year leases are not able to assure their children will have residential stability.

This conclusion raises some provocative questions about America’s institutional arrangements for renting. Other countries in the world, such as Germany, have much stronger tenant protections than the United States, which allows renters to be quasi-owners. Although this quasi-ownership has doubtless benefits to those who rent, it also discourages the market from supplying rental housing, thereby shutting some households out of the market. As such, it is not clear whether offering stronger generic tenant protections for renters would produce a net social benefit.

It is a little strange, however, that choices about the length of the lease seem to be so limited. Households seem to have the choice between the alpha of a 1-year lease and the omega of an infinite lease (that is, ownership). Given that children stay in school for 13 years, one wonders whether a 13-year lease might not be optimal for some households. We observe a very wide variety of leases in the commercial real estate market—office, retail, and industrial tenants frequently sign 1-, 3-, 5-, and 10-year leases.

Well-established literature provides evidence that residential stability is good for children (e.g., Adam 2004). In the U.S. context, ownership is the method by which parents can assure their children stability. Unless we change how real estate institutions in the United States work, homeownership will continue to play an important role in producing positive outcomes for children.

One final note—recent work by Gary Painter, Michelle White, Sarah Mawhorter, and Richard K. Green suggests that those parents who buy homes without making a downpayment have children who behave like children of renters, while all parents who put *anything* down have children who behave like children of all other owners. This finding suggests that the act of saving—even a little bit—has some association with child outcomes.

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