



Disentangling the housing satisfaction puzzle: Does homeownership really matter?

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ARTICLE INFO

Article history:

Received 30 April 2008
Received in revised form 25 March 2009
Accepted 12 June 2009
Available online 21 June 2009

JEL classification:

D1
R2

PsycINFO classification:

2340
3120
3920

Keywords:

Housing satisfaction
Subjective well-being
Homeownership
Fixed-effects
Housing aspirations

ABSTRACT

There is a general consensus that homeownership has beneficial effects for both individuals and society in many outcomes. However, research regarding the effect of homeownership on individuals' subjective well-being remains inconclusive. In this paper, for the first time, we provide empirical evidence for the link between homeownership and housing satisfaction using panel data. We use the eight waves of the European Community Household Panel (ECHP) covering the period 1994–2001. We observe that renters who become homeowners not only experience a significant increase in housing satisfaction, but also after changing their tenure status, they obtain a different utility from the same housing context. This evidence might provide support to the hypothesis that a share of the differences in the perceived utility derived from housing can be attributed to (un)fulfilled expectations or aspirations regarding homeownership.

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1. Introduction

Self-reported satisfaction with various aspects of individuals' lives has been the focus of many psychological and sociological studies. Only recently has the subject figured on the research agenda of economists. This interest stems from the fact that many individuals' economic decisions are aimed at maximising well-being,^{1,2} which in turn is determined by the level of satisfaction in certain life domains (among other reasons). Given this interest, there has been an increase in the literature on the analysis of the determinants of subjective well-being (SWB) or happiness.³ Using German data, Van Praag and Frijters (1999), Van Praag, Frijters, and Ferrer-i-Carbonell (2003) and Ferrer-i-Carbonell and Frijters (2004) studied the determinants of SWB, but with emphasis on measurement and econometric aspects. Van Praag et al. (2003) found empirical evidence that

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¹ Using Russian and German data, Frijters (2000) tested whether individuals try to maximise self-reported levels of satisfaction. His results provided some support for this hypothesis.

² Using EU data, Diaz-Serrano and Stoyanova (2008) found strong support for the relationship between self-reported housing satisfaction and residential mobility. Using German and UK data Clark, Georgellis, and Sanfey (1998) and Clark (2001) found evidence that job satisfaction is a good predictor of job quits.

³ In the literature, the terms *subjective well-being*, *life satisfaction* and *self-reported happiness* are often interchangeable.

self-reported satisfaction in different domains (i.e. job, financial situation, housing, health, leisure and the environment) are important in explaining individuals' SWB.

Using US data, Easterlin (2006) found that life-cycle happiness is mostly determined by an individual's satisfaction in the main domains. He observed that satisfaction in each domain depends not only on objective conditions but also on individuals' goals and aspirations in each domain. In this paper, we focus on one of the most important satisfaction domains: housing satisfaction.⁴ In a broader context, although there is a vast literature that shows the private and social benefits of homeownership,⁵ the research regarding the link between housing satisfaction, happiness and psychological outcomes is more limited and produces ambiguous results. Using three different datasets Rossi and Weber (1996) only found weak support for the positive link between happiness and homeownership.⁶ Bucchianeri (2009) matched three different datasets in her study of the link between homeownership and individuals' well-being. She found that homeowners were not happier than renters in a number of psychological outcomes.⁷ However, using two-period data on the same individuals, Rohe and Basolo (1997) observed that renters who became owners significantly differed in their level of housing satisfaction compared with those who remained as renters during the same period.⁸

The main shortcoming in these studies in particular, and in earlier literature in general, is the fact that the data used does not allow to control for individual heterogeneity. Rossi and Weber (1996) and Bucchianeri (2009) used cross-section data, while the dynamic approach in Rohe and Basolo (1997) only considers two-periods and the regression analysis is based on single OLS. An additional problem in the latter study is that they compare a group of renters that rent for a period of 18 months, with a group of renters that not only become homeowners but also move to new dwellings. This analysis design does not make it possible to disentangle to what extent the satisfaction gap between groups comes from changing the tenure status or from improving the housing context.

In this paper, we propose a stronger test based on panel data, which allows us: (i) to control for individual fixed-effects, and (ii) to construct alternative samples to separate the impact of dwelling mobility from the change of tenure status in the housing satisfaction gap between tenures. Controlling for individuals fixed-effects is a relevant feature in our study since it accounts for the non-observed individual heterogeneity that may arise from non-observed individual characteristics or from the fact that different individuals may have a different perception of the same scale.⁹

The main goal of this study is not only to estimate the direct impact of homeownership on housing satisfaction, but also to ascertain whether identical residential characteristics provide, on average, different utility to dwellers once they become homeowners. We hypothesize that a different perception of the same housing context might exist as a result of unachieved aspirations or expectations regarding homeownership. To test these hypotheses, we estimate the determinants of housing satisfaction using panel data from the European Community Housing Panel (ECHP). Instead of simply comparing homeowners with renters, we focus on a sample of individuals that change their tenure status during the sample period. Finally, we decompose the satisfaction gap between tenures. This decomposition allows us to decompose the housing satisfaction gap between tenures into two components. The first is attributable to differences in the housing and household characteristics between tenures. The second picks up the effect of changing the tenure status, holding the housing context constant. We find this analysis is important because residential satisfaction is a suitable variable to be used as a barometer to assess the performance of housing programmes and policies.¹⁰

The remainder of this paper is organised as follows. Section 2 describes the theoretical framework. Section 3 describes the empirical strategy used in this study. Section 4 describes the data used in the empirical analysis. Section 5 presents the results and the main empirical findings. Finally, Section 6 summarizes and concludes.

2. Conceptual framework

The balance between individuals' aspirations and their achievements as a determinant of individuals' happiness has its origin in psychology. However, this issue has also become relevant in economics research and studies aiming at estimating the determinants of individuals' well-being (see e.g. Campbell, Converse, & Rodgers, 1976; Easterlin, 2006; Frey & Stutzer, 2002; Stutzer, 2004). This approach has also been taken as a baseline in studies dealing with housing satisfaction (see e.g. Campbell et al., 1976; Galster, 1987; Michelson, 1977; Weidemann & Anderson, 1985). In the context of housing, the aspirational approach implies that individuals cognitively construct a reference condition for all important features of their

⁴ Van Praag et al. (2003) found that housing satisfaction exerts a positive effect on SWB, though the effect is greater for job and financial satisfaction.

⁵ See Dietz and Haurin (2003) for an extensive overview and references.

⁶ These datasets are the National Survey of Families and Households (NSFH), the General Social Survey (GSS) and the American National Election Studies (ANES).

⁷ This author matches the Day Reconstruction Method Survey (DMR) with property tax records and the 2000 US census.

⁸ These authors use quasi experimental data coming from about 200 interviews of low-income households.

⁹ The potential bias caused by unobserved individual characteristics and data limitations in estimating the link between residential satisfaction and homeownership is already pointed out in Galster (1987).

¹⁰ Since 1999, under the US Department of Housing and Urban Development's (HUD's), a Real Estate Assessment Center (REAC) has conducted physical inspections and reviewed financial management operations, and resident satisfaction for individual local housing authorities (LHAs). The level of residents' satisfaction is included in a survey (initiated in late 1999) whose findings are used by the public housing authorities to determine follow-up actions based on the survey results. Housing authorities that consistently perform poorly may be taken over by HUD. In the construction of the performance index, 10 of 100 points correspond to residents' satisfaction. See Varady and Carrozza (2000) for further details and results derived from the analysis of this data for Cincinnati. Carswell and James (2008) provide an example about the use of housing satisfaction to evaluate housing counselling agencies in the US.

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