



Discrimination in rental markets: Evidence from Norway

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ABSTRACT

This paper examines discrimination in the rental housing market. We analyze a rich data set on rental contracts from Norway. We find that tenants born abroad pay a statistically significant and economically important premium for their dwelling units after controlling for a comprehensive set of apartment, individual and contract specific covariates. Moreover, we find that the premium is largest for tenants of African origin. Finally, Norwegians whose parents were born abroad also face a statistically significant and economically important rental premium that is directly comparable to the premium paid by tenants born abroad.

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1. Introduction

Discrimination is socially unacceptable. It compromises equal opportunity and hurts individuals. This paper is the first to use market prices to examine the presence, assess the magnitude and investigate the causes of discrimination in a European rental market. We analyze a large sample of rental contracts using a unique dataset on tenants, landlords and dwelling units. We ask if there are economically important rent differentials between ethnic groups. This rich dataset allows us to quantify the scope and magnitude of discrimination faced by ethnic minorities in equilibrium. We find relatively important rent differentials between Norwegians and Non-Norwegians. Moreover the rent premium for first generation Norwegians is essentially the same as the rent premium for Non-Norwegians despite the fact that this group is closer to the reference Norwegian group in terms of socio-demographic characteristics. We interpret these findings as evidence of taste based discrimination.

While the economics of discrimination has its origins in the study of labor markets (Becker, 1957; Phelps, 1972; Arrow, 1973), discrimination is likely to be found in most markets. Competing theories attribute differences in outcomes for otherwise comparable members of distinct groups to two main – though not mutually exclusive – causes. The first, where an agent acts “as if he were willing to pay something either directly or in the form of reduced income to be associated with some persons instead of others” (Becker, 1957) is often referred to as taste based discrimination. The second is driven by the existence of real differences between groups, which are observable at the group level but not for individual group members. Decision makers then make decisions about individuals using information about their groups; this is known as statistical discrimination. For example, in the rental market, an agent may be charged a rent that reflects the expected return of their group rather than their individual expected return.

Taste based discrimination in rental markets may be due to landlords with a taste for discrimination or it may be due to tenants' taste for discrimination. In the later case, landlords fail to provide tenure to minorities because they fear that this will hurt their rental business with the majority. This is often referred to as customer based discrimination.

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Discrimination harms individuals and most countries have active policies against discrimination. The efficiency of such policies relies on the nature and mechanisms behind the discrimination.

Empirical analysis of rental markets looking for evidence of either statistical or taste based discrimination is far from straightforward. One approach is experimental. An auditor posing as a potential tenant (or buyer) attempts to transact with a landlord (or real estate agent). A causal link between ethnicity and discrimination is established by varying the group membership of the auditor. Discrimination takes the form of different information about the number of potential houses, asking prices, and financing being provided to prospective tenants or buyers of different races. (See Yinger, 1986; Ondrich et al., 1999, 2003; Choi et al., 2005 for details, and Ahmed and Hammarstedt, 2008 for an interesting recent example.) These field experiments have been crucial in establishing a causal link between race and discrimination in the housing market. However, audit studies are expensive and sample sizes are typically small.

Examining the abundant literature on discrimination in US housing markets, Ross (2008) shows the important role of neighborhood segregation. Special care is needed regarding the spatial dimension in regression analysis, as discrimination of one ethnic group in a neighborhood potentially affect prices for other groups and other neighborhoods. In particular, if African Americans are excluded from some neighborhoods, a potential shortage of housing for this group may result in a price premium. This contrasts a scenario where whites pay a premium in order to live in a predominantly white neighborhood. Interestingly, Cutler et al. (1999) find that segregation has been in slow decline since the 1970s, though it remains an important phenomenon. According to Clapp and Ross (2004), increasing minority representation in a given labor market tends to reinforce existing patterns of school segregation. Kiel and Zabel (1996) show that modeling housing price differentials excluding segregation variables such as “percentage non-whites” may lead to biased estimates, and a risk of incorrectly inferring an absence of ethnic price discrimination.

In this paper we analyze data from Norway. Norway is an interesting case to study because until very recently it was a linguistically and ethnically highly homogeneous country without much immigration or a colonial history. The recent influx of non-western immigrants is a novel phenomenon and is not the result of a long endogenous historical process. As a result, the presence of past discrimination is less likely to confound evidence of current discrimination.¹ In particular, Norway lacks a history of ethnically segregated housing markets; all Non-Norwegians live in majority Norwegian neighborhoods. Housing discrimination, Galster (1991) suggests, contributes to negative outcomes for minority groups, and the negative impact of segregation is self reinforcing. Oslo, Norway's largest city, shows signs of emerging segregation. Discrimination in the rental market may contribute to segregation and prevent acceptance and inclusion in the Norwegian society.

Our main finding is that Non-Norwegians pay roughly 8% more for rental accommodation on a *ceteris paribus* basis. The difference is statistically significant and economically important. We find that the rental premium is largest for tenants of African origin. The results are robust to several sensitivity checks. We proceed to find evidence regarding the nature of the discrimination. Several refinements of our regression model seem points towards taste based discrimination. Our analysis of small scale landlords indicates landlord based discrimination. Most notably, Norwegians born in Norway of Non-Norwegian parents also pay essentially the *same* premium for rental housing. This finding make it unlikely that greater a higher search cost for minorities is the main reason for the rent premium.

The paper proceeds as follows. We begin by describing the data drawn from the Norwegian rental survey, and present our analysis of rental contracts. We find differences in rent between the groups that are both economically important and statistically significant. We subject our main results to a sensitivity analysis by testing several competing theories that could explain our findings. The final section concludes.

2. Data

The presence and magnitude of discrimination in rental markets are empirical questions. In this section, we discuss the linked survey and administrative data that provide the basis for our analysis. A detailed survey of the Norwegian rental stock was conducted as part of a consumer price index construction. Information on the hedonic characteristics of each apartment was collected, as was information on the rental contract terms, and tenant demographics. We linked the tenants in the survey to information in Statistics Norway's register of all residents in Norway, allowing us to determine whether a tenant is Norwegian by birth and, if not, their country of origin. In what follows, we refer to these groups as Norwegian and Non-Norwegians, respectively. Note that the most recent arrivals in Norway live in housing provided by the authorities and as such are excluded from our sample. Tables 1 and 2 report summary statistics for each group.

There are a several differences between the groups in our sample, the most striking being education. Non-Norwegian

Table 1
Summary statistics for tenants by country of birth.^a

| | Norwegian (n = 2474) | Non-Norwegian (n = 414) |
|----------------------|-------------------------|----------------------------|
| Female | 49.8% | 38.2% |
| Age | 34.1 (13) | 34.5 (11) |
| University degree | 28.2% | 12.3% |
| Oslo | 33.6% | 53.6% |
| Single | 52.7% | 46.1% |
| Living with spouse | 34.3% | 43.2% |
| Living with kids | 3.5% | 6.5% |
| Living with parents | 0.4% | 0.2% |
| Living with siblings | 1.3% | 2.2% |
| Living with friends | 9.3% | 7.5% |

^a For a more detailed description of variable definitions see Table A3 in the appendix. Standard deviations of non-Boolean variables are given in parentheses.

¹ See Lundberg and Startz (1998), who provide a theoretical argument for the persistence of racial inequality.

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