



Housing wealth accumulation: The role of public housing[☆]



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ABSTRACT

The public housing sector provides housing units at below-market rents, potentially allowing its tenants to save for a downpayment more quickly than they would have otherwise. In this paper, we analyze the effect of a spell in public housing on age at first-time homeownership using the French Housing Survey. We use a pseudo-panel approach that takes into account the specificities of the local housing market, to derive individual tenure transitions from multiple cross-sections data, for the period 1979–2006. Using an IV strategy to control for a potential selection into public housing, we jointly estimate public housing tenancy and duration before first-time homeownership, and take into account unobserved heterogeneity. Our results indicate that a spell in public housing increases the hazard to homeownership, supporting the idea that, in France in the study period, the public housing policy provided an important pathway to homeownership.

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1. Introduction

In most European countries, a strong public housing sector provides affordable and good quality housing to a substantial share of the population. From a public policy viewpoint, understanding how public housing shapes the labor prospect of individuals, as well as

their later housing consumption, is essential. Yet, there is no consensus on the effect of this policy, since the literature has provided evidence of both positive and negative externalities on individual outcomes.¹

This question is of particular interest in France where the public housing sector is large - with 37% of the rental housing stock in 2006,

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¹ Fertig and Reingold (2007) test the existence of an effect of public housing on health. Currie and Yelowitz (2000) show that the seemingly negative effect of public housing on individual outcomes is driven by unobserved heterogeneity. Once controlled for this unobserved element, they show that public housing decreases the likelihood to live in overcrowded housing and children are less likely to have been held back at school. Newman and Harkness (2002) show that on the long run, children who have grown up in public housing tend to fare better as adults, which could be interpreted as the consequences of improved housing conditions and increased expenditures on items that benefit children development. Jacob (2004) finds no direct effect of public housing on student outcomes in Canada, although there is an indirect negative effect through the concentration of public housing in deprived neighborhood. Reingold et al. (2001) find similar results for the effect of public housing on social capital investment and labor participation in the US. As to labor-market outcomes, Currie and Yelowitz (1998) and de Graaff et al. (2009) find negative effects of public housing. Using French data, Dujardin and Goffette-Nagot (2009) show that public housing has no direct effect on unemployment risk, even though the concentration of public housing in deprived neighborhood may alter the public tenants' long term career opportunity.

and more than 10 million public tenants (a sixth of the total population), affordable – rents, which don't depend on income, are on average 40% below market prices, and inclusive – 70% of the French population is eligible. The high income ceiling for eligibility explains that the economic situation of public housing tenants, although poor on average, is varied: according to the 2006 French Housing Survey, 18% of public housing renters belong to the four highest deciles of the income distribution.² As a consequence, there are large potential welfare gains for public housing residents.

Quantifying how the induced welfare gain influences households' consumption and saving behavior remains challenging, as the determinants of the selection into public housing are likely to affect both consumption and savings. *Le Blanc and Laferrère (2001)* report that public housing tenants consume more than their counterparts in private renting, with 10% more of housing services and 11% more of other goods. One could suspect a similar effect on savings, and potentially homeownership attainment. The underlying mechanism is that a spell in public housing might increase the household's ability to constitute a downpayment and hence foster homeownership attainment. As a consequence, the public housing policy might be an instrument indirectly promoting homeownership.

This paper provides an empirical test of the existence of an interplay between a spell in public housing and the homeownership decision. In particular, we study the effect of a spell in public housing on age at first-time homeownership.

Using repeated cross-sections from the French Housing Survey (FHS, hereafter), we create a panel data with information on both households and housing characteristics. We jointly estimate age at first-time homeownership and the probability for the previous housing to be in public renting. We control for self-selection into public housing using an IV strategy based on the share of public housing within rental housing in the urban area where the household lived before its last residential mobility. We introduce unobserved heterogeneity to account for any remaining correlation between previous tenure and age at first-time homeownership. Following *Heckman and Singer (1984)*, we adopt a discrete distribution approach to limit the effects of distributional assumptions on estimation results.

The potential positive effect of public housing on savings may be tempered by negative effects on individuals' labor market outcomes. As shown by *de Graaff et al. (2009)* on European data, and despite a continuous reallocation of individuals across housing sub-sectors, public housing tenants face higher mobility costs and have lower mobility rates than renters in the private sector because of the scarcity of public housing offers. In France for instance, according to the French Housing Survey 2006, public tenants have been in their current dwelling for 10 years on average, to be compared to 5 years for tenants in private housing and 17 years for homeowners. Therefore, they are less mobile on the job market and have fewer job opportunities. Furthermore, the remote location of public housing often results in lower employment levels due to spatial mismatch. Also, the social composition of public housing projects could generate negative neighborhood effects, and public housing could hence constitute a poverty trap. Last, this in-kind subsidy might increase consumption of housing or other goods, and not to additional savings. The existence of positive and negative impacts leaves the final effect of a spell in public housing on subsequent homeownership attainment undecided, which motivates our analysis.

Our results show that public housing played a role in helping some households achieve homeownership in the study period,

supporting the idea that public housing can foster the housing wealth of some part of the population, speeding up transition to homeownership.

The rest of the paper is structured as follows. *Section 2* presents the data and the pseudo-panel procedure. *Section 3* is devoted to the econometric model and the identification conditions. In *Section 4*, we provide some descriptive statistics and our estimation results. The last section concludes.

2. Data

2.1. Data source

Our estimation uses data from the French Housing Survey (FHS). The FHS is conducted every four years since 1955 on large and representative samples of the French housing stock. The survey provides both the characteristics of the housing (tenure, number of rooms, floor area, comfort level) and the characteristics of the households living in these housing units (socio-demographics, income, labor-market situation). Moreover, it includes some retrospective information, in particular, the year of arrival in the current dwelling and the tenure of the former dwelling, the latter however only for households which moved in the four years preceding the survey.

Ideally, we would like to study the impact of the whole household's housing history on homeownership attainment. This would require however a panel data with a long time dimension, given the low residential mobility rates. To the best of our knowledge, there does not exist any panel data with a sufficiently large time range and detailed housing information to study housing mobility in France. This is why we rely on the FHS.

The 2006 FHS records 29,257 households living in urban areas in metropolitan France, aged 18 to 75. *Table 1* provides the arrival dates of these households depending on tenure in 2006. This table shows in particular that households mobile between 2003 and 2006, for whom the previous tenure is known, account for one third of the sample. Since mobile agents are a non-random sample of the population, using the subsample of mobile agents only would cause a sample selection bias. To avoid this bias, we need to recover the previous tenure of the other two thirds of the sample. This is the aim of the pseudo-panel approach described in the following.

2.2. Pseudo-panel approach

Even though the FHS is not a panel data, it is repeated every four years on a representative sample of households living in metropolitan France. Hence, using these repeated measures, we can use a set of tracking conditions to impute the tenure of the previous dwelling for the households surveyed in 2006 who arrived in their housing before 2002, for whom previous tenure is not reported. The idea to use several cross-sections to recover individual transitions is commonly referred to as a pseudo-panel approach and was initially developed by *Deaton (1985)*. The principle of the method is to consider that matching different individuals observed in different time periods allows to recover a "pseudo-panel", of which observations can be treated as if obtained from a standard panel survey. In practice, we embed a matching method in the pseudo-panel algorithm. In addition to household characteristics, we include also urban area of residence and housing characteristics to match households between the 2006 and older FHS. We do not consider households living in rural areas before or after their last housing transition because of the difficulty to conceive rural areas as a homogenous housing market.

More specifically, our pseudo-panel procedure consists in matching households from the 2006 FHS for whom previous tenure is unknown to households observed in the five previous FHS (1984

² The large definition of public housing potential beneficiaries also explains that demand for public housing accommodation largely exceeds supply and the existence of long waiting lists for public housing applicants. See *Laferrère and Le Blanc (2006)*, and *Verdugo (2015)* for more information on the French public housing system.

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