Residential tenure and Labour market outcomes

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Contents

1. Introduction

- Studies on homeownership generally reveal its positive influences.
  (e.g. Child bearing, Home maintenance, Social capital)

- Continuing debates on its effects on labour market outcomes.

- Oswald (1996, 1997, 1999): Homeowners are unemployed due to low mobility.

- Munch et al.(2006): Less mobile but not necessarily unemployed but may accept local wage.

2. Proposition

- Homeowners may have a strong incentive to maintain job stability due to immobility.

- When immobility is combined with the pressure to meet mortgage payments, the incentive may become even stronger.
  - Costs of failing to pay for mortgage may be more painful than for rents. (e.g. repossession)

  - Accommodation alone often accounts for the largest share of household spending.

3. Empirical Analysis

- Labour market outcomes
  1. Employment status
  2. Length of time with one employer
  3. Work efforts
  4. Job transfer behaviour

- British Household Panel Survey
  - Rich sets of variables on housing and job characteristics
  - Advantageous in controlling for unobservable heterogeneity of individuals
  - Helpful in constructing instrumental variables with detailed geographical location.

Employment status

- Whether just being a homeowner can affect employment status.

- Dummy dependent model

  EMP = f(TEN, other controls)

  - EMP: 1 if employed, 0 unemployed (economic inactive excluded)
  - TEN: 4 tenure types (OO, MO, PB, PR)
  - others: demographics, education

OLS estimation

	(1) OLS (W1)	(2) OLS (W1)	(3) OLS (W1)
Tenure (MO omitted)			
Outright HO	-.034***	-.001	-.001
Pub. renter	-.183***	-.149***	-.134***
Priv. renter	-.089***	-.061***	-.057***
Demographics		Yes	Yes
Education			Yes
Region	Yes	Yes	Yes
Adjusted R^2	0.0590	0.0933	0.0989
Obs.	5790	5790	5790

Role of mortgage payment

- No significant difference between OO and MO implies that the mortgage payment may not play a role in determining employment status.

- Need to test explicitly the effect of mortgage payment.

- Three types of mortgage variables
  - Mortgage value in nominal term
  - Mortgage value/ housing value (LTV ratio)
  - Remaining years for mortgage payment

Role of mortgage payment

	(1) Mortgage value	(2) LTV ratio	(3) Years to pay mortgage
Tenure (MO omitted)			
Outright HO	-.001	-.005	-.009
Pub. renter	-.143***	-.130***	-.120***
Priv. renter	-.076***	-.054***	-.041*
Mortgage variable	0.0001***	.005	.001**
Demographics	Yes	Yes	Yes
Education	Yes	Yes	Yes
Region	Yes	Yes	Yes
Adjusted R^2	0.0968	0.0968	0.0976
Obs.	5790	5790	5790

Endogeneity issue

- Homeowners are generally correlated with higher probability of employment.
- No guarantee that this relationship is entirely causal.
- Homeownership is an endogenous variable as jointly determined by a number of individual and HH characteristics.
- If important characteristics are omitted, the OLS estimates of tenure variables are biased and inconsistent (Omitted variable bias).
- Partial mitigation of inconsistency by Fixed and Random effect models which control for time-constant heterogeneity of individuals.

Fixed & Random effect model

	(1) Pooled OLS	(2) FE	(3) RE
Tenure (MO omitted)			
Outright HO	-.009***	-.001***	.005*
Pub. renter	-.140***	-.014***	-.073***
Priv. renter	-.044***	-.0003	-.016***
Demographics	Yes	Yes	Yes
Education	Yes	Yes	Yes
Region	Yes	Yes	Yes
Within R^2		0.0112	0.0085
Between R^2		0.0522	0.1418
Adjusted R^2	0.0909	0.0349	0.0837
Obs.	122082	122082	122082

Fixed & Random effect model

- Different estimate results between FE and RE.
- Hausman test supports FE model.
- Generally both estimators indicate that OLS overestimates the effect of homeownership on employment.

Instrumental variable approach

- The endogeneity is also caused by simultaneity of HO and employment, which cannot be mitigated by FE and RE estimation.
- IV approach uses a part of variation in endogenous variable (HO) explained by exogenous variable (IV).
- IV should be correlated with HO and uncorrelated with error terms (any individual and HH variables not included in the regression).
- In the previous research, homeownership rate in the neighbourhood area is often adopted as IV.

OLS & IV estimation

	(1) OLS (W1)	(2) IV (W1)
Tenure (MO omitted)		
Outright HO	-.001	-.043
Pub. renter	-.134***	-.200***
Priv. renter	-.057***	-.184***
Demographics	Yes	Yes
Education	Yes	Yes
Region	Yes	Yes
Adjusted R^2	0.0989	0.0830
Obs.	5790	5790

4. Conclusion

- Mixed results: FE model says HO does not affect EMP while IV approach it does.

- More IVs are needed to test the validity of homeownership rate as IV.