

Houses and happiness

The ups and downs of house prices are rarely out of the newspaper headlines. But is there any link between how the housing market is performing and how people actually feel? Do rising house prices make homeowners feel any happier? CMPO's Anita Ratcliffe explores these questions.

House prices in the UK more than doubled in real terms between 1995 and 2007 – and more than tripled in some areas, such as Greater London (see figure below). Arguably, people did not expect such rapid increases in house prices – implying sizeable, positive shocks to wealth for millions of households. If homeowners use some of this extra wealth to consume more and enjoy more leisure time, this points to a possible causal mechanism through which rising house prices could have a direct effect on people's happiness.

But there is another possible story involving house prices, which points to a slightly different relationship with happiness. Rising house prices may also reflect general economic circumstances. In boom times, people earn more – and raise their expectations of future earnings – and this affects both house prices, as people consume more housing, and happiness. In this case, house prices are simply an economic barometer rather than a causal driver of happiness, and it is higher actual and expected future earnings that affect happiness directly as well as driving up house prices.

One possible way to understand better what is going on is to look separately at homeowners and non-homeowners. Non-homeowners lose out when house prices rise because getting onto the property ladder requires higher levels of saving, and because rental prices move in line with house prices. This implies that non-homeowners end up consuming less and enjoying less leisure time. Crucially, how people react to economic factors does not depend on their tenure status and this helps to identify what is really happening.

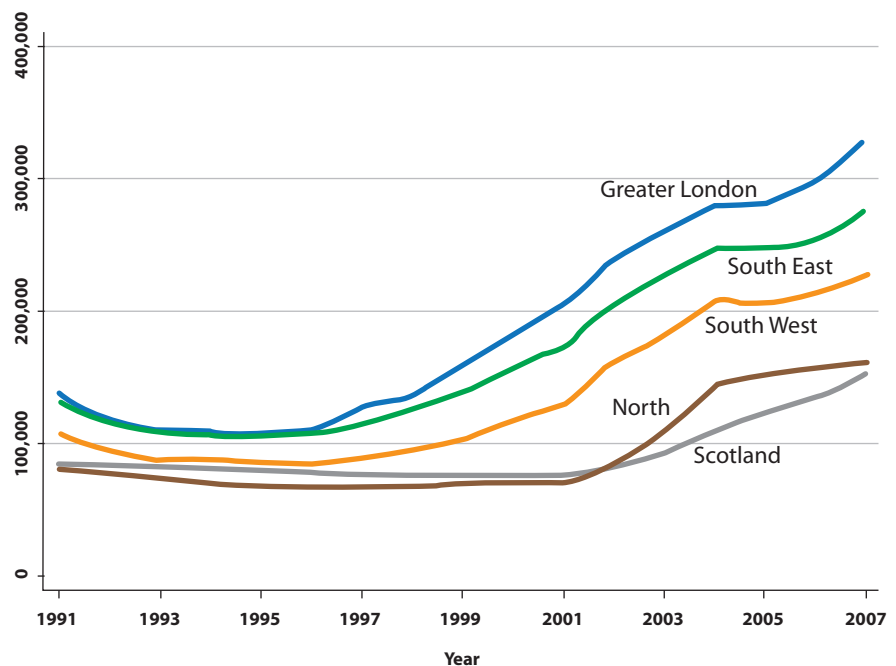


My research has investigated this issue in detail. I look at whether homeowners really do report higher levels of well-being when house prices are higher and I contrast this with the behaviour of non-homeowners. If non-homeowners report lower levels of well-being, this corroborates a wealth mechanism.

On the other hand, if non-homeowners also report higher levels of well-being, it suggests that house prices matter only in so far as they reflect economic conditions.

If reported well-being levels are unresponsive to house prices, it implies that people do not

Real house prices across selected UK regions (£s)



Source: Halifax House Price Index

There is a positive relationship between house prices and reported well-being for both homeowners and non-homeowners

care about house prices, perhaps because they have little effect on consumption and leisure. After all, homeowners must be willing and able to spend wealth locked away in housing before they can consume more and enjoy more leisure time. In practice this may mean that rising house prices have a bigger positive wealth effect for older households who are not looking to trade up.

An advantage of looking at self-reported well-being over consumption or leisure in isolation is that reported well-being picks up the combined effect of these variables, and quantifies how much house price developments matter based on how people feel.

My research is different from previous studies of well-being because I am interested in whether there is a difference in well-being outcomes across homeowners and non-homeowners as house prices fluctuate. Some studies find that more housing wealth, as measured by estimated property values, is associated with better well-being outcomes for homeowners. But the above discussion suggests that it is not possible to reach this conclusion without reference to non-homeowners.

Other studies relate area-level house prices to the well-being of everyone but do not allow the effect of house prices to vary by tenure status (the aim of these studies is to use house prices as a proxy for local price levels). These studies find no effect of house prices on well-being, but the possibility that diverging well-being reports across tenure groups, which leads to a zero effect in aggregate, cannot be ruled out.

My research uses data from the British Household Panel Survey (BHPS), which has interviewed a representative sample of UK households every year since 1991. An advantage of these data is that with multiple

observations of the same person, I can control for fixed unobserved influences that explain why some people report higher levels of well-being than others.

For example, people with a positive outlook on life tend to be happier. This is important if happier people also live in areas with systematically lower (or higher) house prices. This means that the effect of house prices on happiness is identified by changes over time, rather than differences across regions, exploiting the fact that changes in house prices varied quite a lot across different parts of the country.

House prices seem to matter because they reflect something else that is relevant to well-being, such as economic circumstances

I construct a measure of the average house price in cities and towns, which is a more refined geography than used in previous studies and provides a better approximation to the house prices that people face. Area house prices are better than estimated property values because the latter reflect the choices of each household, which muddies the analysis.

Importantly, these data go back as far as 1991 (the first available wave of the BHPS) so my results are identified from fluctuations in house prices during the good and bad times.

My results show that once you take account of the fact that happier people tend to live in areas with lower house prices, there is a positive relationship between house prices and well-being. What's more, this is true for non-homeowners as well as homeowners, suggesting that house prices matter because they reflect something else that is relevant to well-being, such as economic circumstances.

Practically speaking, the association between house prices and reported well-being scores

is small. A 1% increase in house prices shifts well-being scores by less than 1% of a standard deviation in well-being.

To shed more light on what is driving this association, I look for factors likely to influence both house prices and well-being. Area unemployment rates and earnings are potential candidates, but the link between house prices and well-being remains even after controlling for these variables. I also consider financial expectations (which may pick up beliefs about the economy) and neighbourhood satisfaction (which may pick up the quality

of local public services and businesses in an area), but again the link remains.

Ultimately, it is easier to rule out what does not explain the association than to pinpoint what does explain it. This may be because the explanation is purely psychological. Perhaps the state of the housing market – and media coverage of the housing market – foster a 'feelgood factor' when house prices perform well – and vice versa.

This article summarises 'Housing Wealth or Economic Climate: Why do house prices matter for well-being?' by Anita Ratcliffe, CMPO Working Paper No. 10/234

For the full paper, see:
<http://www.bris.ac.uk/cmpos/publications/papers/2010/wp234.pdf>

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The state of the housing market may foster a 'feelgood factor' when prices go up – and vice versa