

HOMEOWNERS ARE MORE EDUCATED, HAVE MORE WORK EXPERIENCE AND FIND NEW JOBS FASTER

Homeowners are typically more educated and have more labour market experience than people who rent their accommodation. And while unemployed homeowners are less likely to move for job reasons, they find new jobs in the local labour market much faster than renters. They therefore have shorter spells of unemployment, and their probability of finding employment is 42% higher than that of renters.

These are the central conclusions in a new study of the link between home ownership and unemployment by Professor **Jakob Roland Munch** and colleagues. The results, which are published in the October 2006 *Economic Journal*, come from analysis of a large sample of workers in the Danish labour market.

The results are consistent with a simple theory of how people search for jobs in the labour market. In the event of unforeseen unemployment, homeowners do not search intensively for new jobs in distant labour markets because in doing so they would incur relatively high moving costs.

Instead, to avoid having to sell their homes and incur the costs of mobility, they are more willing to accept jobs in the local labour market at a lower wage rate than renters. The net effect of being less willing to move and more willing to accept local jobs may be positive or negative and is in that sense an empirical question.

The impact of home ownership on unemployment has attracted much attention, and these results are at odds with previous research building on macroeconomic data. For example, one often cited study found that countries or regions with a 10 percentage points higher proportion of homeowners have a two percentage points higher unemployment rate. Since many European countries have high home ownership rates, it has been suggested that home ownership may be an important determinant behind Europe's relatively high unemployment levels.

The relationship between home ownership and unemployment is linked to labour market experience and the housing tenure choice of each individual worker. The conflicting conclusions from micro and macro data thus highlight the importance of using individual level data to study individual behaviour.

One key advantage of using micro data is the possibility of taking into account the fact that homeowners typically have more favourable labour market characteristics than renters: they are typically more educated and have more labour market experience.

Homeowners in most Western countries receive favourable tax treatment of the capital invested in their homes, which tends to raise the proportion of homeowners. The results of this research suggest that such a policy cannot be criticised for leading to higher unemployment. Home ownership rather improves individual labour market outcomes.

But this is not to say that home ownership should be subsidised since such positive returns only accrue to the individual homeowner. Favourable tax treatment of homeowners would only be called for if there are market failures in housing markets, or if home ownership brings about important positive external effects on, for example, crime or citizenship.

ENDS

Notes for editors: 'Are Homeowners Really More Unemployed?' by Jakob Roland Munch, Michael Rosholm and Michael Svarer is published in the October 2006 issue of the *Economic Journal*.

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