

Owner-occupied homes pay quantifiable benefits for neighborhoods

January 13 2014, by Victoria Fryer

Homes with owner-occupiers versus renters provide annual estimated benefits to the community in excess of \$1,300 per property, a research study has concluded.

N. Edward Coulson, professor of business economics and the King Fellow in Real Estate at the Penn State Smeal College of Business, and Herman Li of the University of Nevada, Las Vegas, set out to quantify the benefits of homeownership with this premise: "If homeownership is valuable to the owner's neighbors, then those neighbors should be willing to pay more to live near owner-occupiers."

The researchers published their results in a recent issue of the *Journal of Urban Economics*.

By measuring shifts in local housing prices as [homeownership rates](#) in the area change, Coulson and Li were able to quantitatively estimate the value of a transition from rental status to ownership, concluding that a transition "from rental to ownership in a typical neighborhood would create about \$1,327 per year in externality value."

In the past, the value of homeownership has largely been qualified through the [behavioral patterns](#) of owners versus renters and the subsequent positive effects in the community.

Such behavioral patterns include the suggestion that dwelling and maintenance appearance is better kept by homeowners, that children

raised in owned homes have higher graduation rates and cognitive abilities, and that homeowners are more civically involved in their communities. However, even these nonfinancial benefits have been called into question by more recent research.

According to the researchers, putting a dollar amount on the benefits of homeownership, in part, helps to justify the government subsidization that helps people in the United States buy homes. The desirability of such subsidies—including federal benefits such as the deductibility of mortgage interest payments from income as well as state- and local-level benefits—has been called into question in the wake of the recent economic downturn.

Coulson and Li assert that there should be a more compelling, quantifiable justification for the government subsidies that support homeownership. That more compelling argument, they write, is that "ownership creates external benefits; that ownership not only creates private benefits but also benefits for the neighborhood and broader community."

Provided by Pennsylvania State University

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