

Study: Housing bust could mean lower college attendance

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A study published in the October issue of the *Journal of Labor Economics* suggests an unexpected consequence of the housing bust: lower college attendance.

The study, by Cornell [economist](#) Michael Lovenheim, finds evidence that when home values soared in the late 1990s and early 2000's, many families borrowed against that new equity to send kids to college, boosting overall college attendance nationwide. Now that the boom is over and families have less equity in their homes, it could mean fewer students heading to college, especially kids from middle and lower income households.

To see how the housing boom affected college attendance, Lovenheim looked at differences in [real estate](#) markets around the country.

"Housing prices grew dramatically in the 1990's, but they didn't do so evenly across cities," Lovenheim said. "For example, housing prices in San Francisco increased six-fold during the housing boom, whereas in places like Oklahoma City, prices barely doubled. If housing wealth affects [college enrollment](#), any increases in college attendance during the boom years should be much larger in a place like San Francisco compared to Oklahoma City."

Using data from cities across the U.S., Lovenheim found that a strong [correlation](#) between home prices and college attendance does exist. According to his model, each \$10,000 in home equity increases the

[likelihood](#) of a student enrolling in college by 1.37 percent. "Because home equity increased by an average of nearly \$60,000 between 2001 and 2005, this marginal effect leads to sizable changes in college enrollment due to the housing boom," Lovenheim said.

Overall, Lovenheim estimates that the housing boom increased nationwide college attendance by nearly 8 percent.

The effect of higher equity was particularly strong among middle and lower income families, Lovenheim found. For families earning less than \$70,000, each \$10,000 increase in equity increases the chances of college enrollment by 13.8 percent.

Whether we'll see a similar-sized drop in college attendance as prices decline isn't clear, but these results do suggest some decline is likely.

"Since their peak, home prices nationally have declined by 35 percent, and it has become more difficult for homeowners to borrow against that equity," Lovenheim said. "My [estimates](#) suggest these trends will reduce college-going, particularly among middle class families."

More information: Michael F. Lovenheim, "The Effect of Liquid Housing Wealth on College Enrollment." *Journal of Labor Economics* 29:4 (October 2011).

Provided by University of Chicago

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