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HOUSE PRICES AND HAPPINESS

The state of the housing market seems to foster a ‘feelgood factor’ among the British public when house prices perform well – and vice versa. That is one of the conclusions of new research by the Centre for Market and Public Organisation (CMPO), reported in the latest issue of *Research in Public Policy*. The study by **Anita Ratcliffe** finds that:

- There is a positive relationship between house prices and reported well-being for both homeowners and non-homeowners.
- House prices seem to matter because they reflect something else that is relevant to well-being, such as 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. So house prices seem to be simply an economic barometer rather than a causal driver of happiness.

To understand the link between house prices and happiness, the research looks separately at homeowners and non-homeowners. If both groups report higher levels of well-being when house prices are higher, it suggests that house prices matter only in so far as they reflect economic conditions.

But if homeowners report higher levels of well-being when house prices are higher and non-homeowners report lower levels of well-being, this suggests that the former are made happier by the increased wealth reflected in their property’s value. At the same time, non-homeowners are made less happy because getting onto the property ladder requires higher levels of saving, and because rents move in line with house prices.

The study constructs 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. Data on reported well-being come from the British Household Panel Survey, which has interviewed a representative sample of UK households every year since 1991, and so covers both good and bad times in house prices and economic conditions.

The 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, the study looks 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.

The research also considers 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.

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