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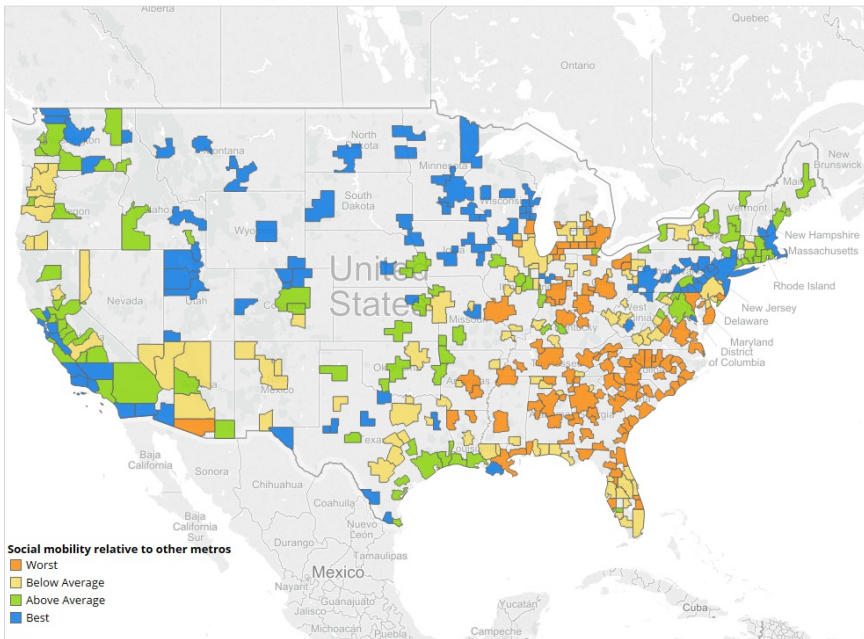
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How Neighborhoods Affect Social Mobility

Ever wonder how your life or that of your children might be different had you or they had grown up in a different community? Harvard economists Raj Chetty and Nathaniel Hendren have been looking at the question from the standpoint of **social mobility** in a long range study conducted in almost every county in the country by [The Equality of Opportunity Project](#). The two studied Americans who were born between 1980 and 1982 and compared the economic status of a child's household in the late 1990s to his household's status as an adult two decades later. Among their areas of focus was how opportunity varies across areas of the country and how families who move across areas improve or lower their child's chances of success.

The study's results take the form of estimates of the causal effects for **each county** in America on upward mobility and these findings are probably not surprising; in a nutshell, neighborhoods do affect upward mobility and every year of exposure to a better environment improves a child's chances of success.

Figure 1: Social Mobility Among Children Growing Up in a Low-Income Family



Source: Zillow analysis of data from the Equality of Opportunity Project (Chetty, Hendren, Kline, and Saez, 2014).

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Housing News Update

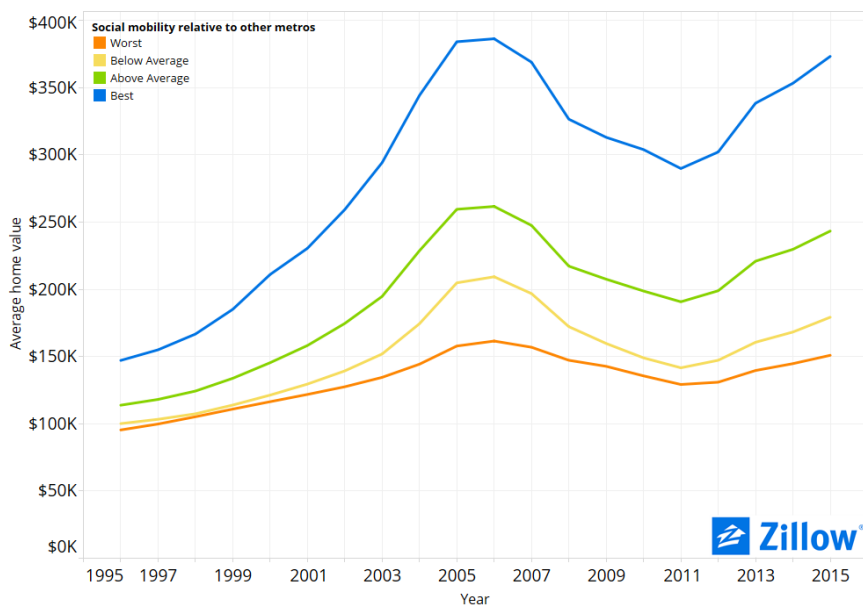
Now Zillow analyst Sarah Mikhitarian has taken some of that data and combined it with her company's housing data and has come to another not terribly surprising conclusion. She concludes, "**Home values and rents have grown more quickly** in the parts of the country that historically have provided the most upward socio-economic mobility for children from low-income families.

While low interest rates making buying a home in the U.S. roughly as affordable as it has ever been Mikhitarian says mortgages are less affordable and home values have increased much more quickly in many areas that have historically offered the best opportunities to children born into low-income families.

She narrowed the Harvard study by focusing on children born into families who earned \$28,800 per year (inflation adjusted) or less, which corresponds to the **25th percentile** of the national income distribution. Typical of what she found was that if one child grew up in San Luis Obispo, California and another in Chicago the first child would eventually climb higher up the socio-economic ladder and earn \$5,300 more per year on average as an adult than would the second child. Meanwhile, in those same communities there was an even greater disparity in the growth of home values, with prices rising 154 percent in San Luis Obispo between the late 1990s and 2015 and only 30.2 percent in Chicago.

Mikhitarian says for families working hard to make sure their children can move up the socio-economic ladder "**rapidly rising housing costs** are threatening instead to kick the ladder out from underneath them." Even for those willing to move across the state or the country to offer their children greater opportunity "it's getting harder to get a foot in the door."

Figure 2: Homes values have increased most in areas offering the most social mobility for low-income children

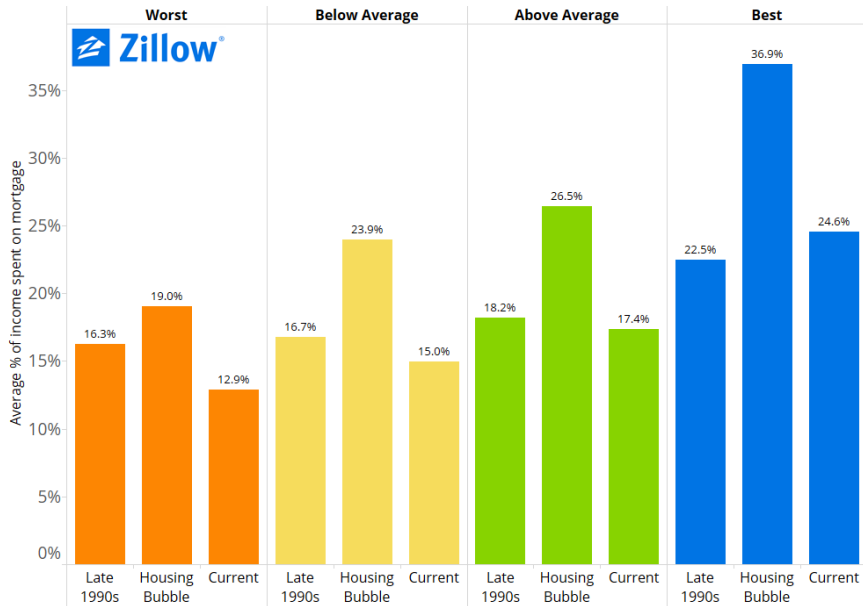


Source: Zillow analysis of data from the Equality of Opportunity Project (Chetty, Hendren, Kline and Saez, 2014) and Zillow Home Value Index.

As Figure 2 shows, the gap in average home values between the counties in the top 25 percent for social mobility and those at the bottom has **nearly tripled** during the last two decades. Zillow's study found that the average price in the late 1990s in those places offering the greatest mobility was \$156,300 while the average in the worst places was \$100,100, a 56.1 percent gap. Today those respective numbers are \$373,200 and \$150,900, a difference of 147.3 percent.

Some of the **best places** for upward mobility for low-income children include fast-growing, coastal metros like San Francisco, New York and Boston while the worse areas are typically in the South and the eastern Midwest, areas where housing and the economy overall are growing more slowly. But while incomes have generally grown faster in places where home values have increased more quickly than in others, they're not growing fast enough. Home prices have, in most areas of the country, far outpaced income growth for several decades. Zillow says this growing home value gap between areas offering the best opportunities and those offering the worst is now being accompanied by an emerging affordability gap.

Figure 3: Homes have become least affordable in areas offering the most social mobility for low-income children

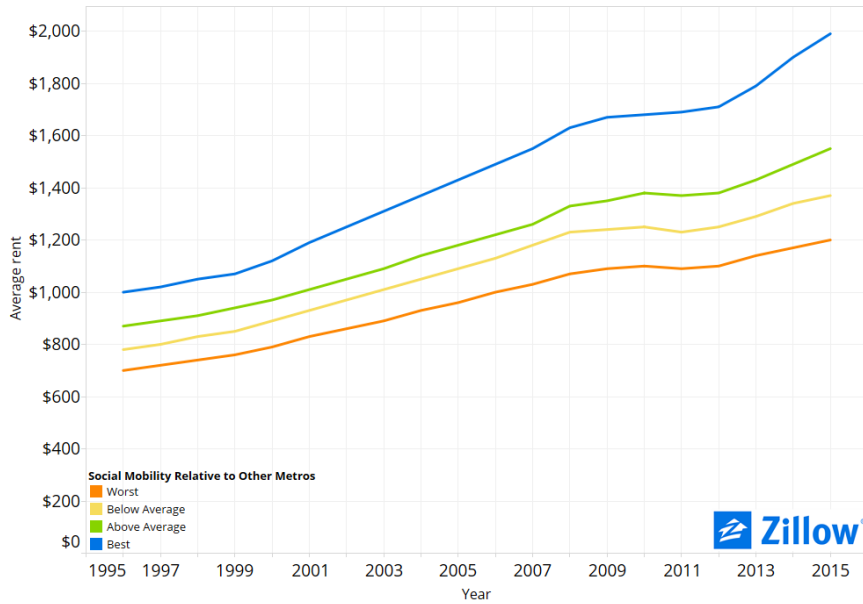


Source: Zillow analysis of data from the Equality of Opportunity Project (Chetty, Hendren, Kline and Saez, 2014) and the Zillow's mortgage affordability series.

Going back again to the late 1990s the typical mortgage payment consumed **16.3 percent of household income** in the lower opportunity areas and 22.5 percent in the highest areas. Today affordability has actually improved a bit in the worst areas where housing now consumes 12.9 percent of income and has gotten worse in the better areas, now requiring a 24.6 percent expenditure. The gap has risen from 6.2 percentage points to 11.7.

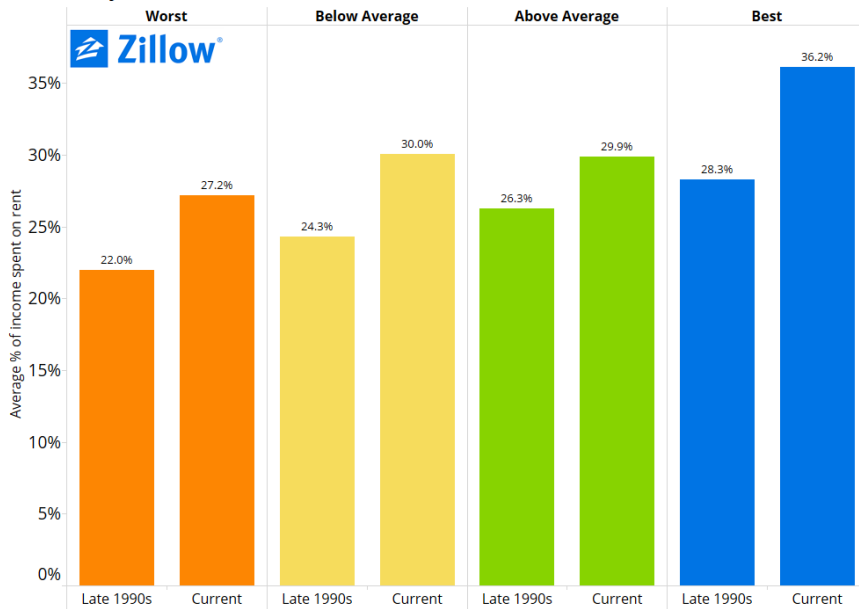
And it isn't just homeowners who are affected. **Rents** have also risen faster in the areas with the best opportunities, increasing over 95.1 percent over the near 20-year time frame of the study and only 66.7 percent for those offering the worst mobility and renters do not enjoy the compensating factor of low interest rates to increase affordability. In the late 1990s renters in the best areas spent 28.3 percent of income on rent and those in the worst spent 22 percent. Today those shelter costs have risen to 36.2 percent and 27.2 percent respectively and the gap between best and worse has increased from 6.3 points to 9.

Figure 4: Rents have risen faster in areas offering the most social mobility for low-income children



Source: Zillow analysis of data from the Equality of Opportunity Project (Chetty, Hendren, Kline and Saez, 2014) and Zillow Rent Index.

Figure 5: Rents are increasingly unaffordable, especially in areas offering the most social mobility for low-income children



Source: Zillow analysis of data from the Equality of Opportunity Project (Chetty, Hendren, Kline and Saez, 2014) and the Zillow's rental affordability series.

Zillow points out that there are still places where the 88.9 million Americans at the bottom of the country's income distribution can find (and afford) a better life for their kids. Many of these areas are in the Great Plains where cities such as Ames, Iowa have historically displayed **high levels** of social mobility while housing remains affordable. Some markets in the Northeast and northern Mid-Atlantic states have seen home prices and rents increase in a generally modest manner while offering some of the best economic advantages. The average child who grew up in a low-income family in and around Scranton in the 1980s and 1990s would be solidly in the middle class by the age of 30 while home values over that period have grown only 56.1 percent and the area's typical home is valued at \$107,200, well below the national median.

Mikhitarian says the trends revealed in her study indicates it will be **increasingly difficult** for the next generation to achieve the social mobility available in the past. "Recent growth in home values over the past few decades could essentially be shutting the door to the middle class by preventing low-income families from being able to affordably live in places that allow them to ascend the socioeconomic ladder." However she says other research from the Harvard study suggests that measures of mobility have remained stable over the last five decades, keeping open the possibility that public policy intervention can help ensure children from all socio-economic classes have the opportunity "to achieve the American Dream."

The Harvard study measured areas of opportunity by child outcomes but another way of evaluating it is by the level of resources available in "good" areas versus those available in areas with less opportunity. Real estate agents will tell you that in two adjoining and fairly homogeneous markets home prices (as well as rents) are usually higher in the one perceived to have the **better school district**. Other resources, especially child-friendly ones such as good recreational areas and libraries, afterschool activities, and high quality child care also feed into the home price calculation.

In order to provide many of these amenities local government must have a **good property tax base**, a combination of commercial or industrial properties, a lot of expensive homes and/or a high tax rate. Where homes have a high market value there are more funds available per household for local government to provide educational and enrichment services - i.e. opportunities for upward mobility.

While Zillow's findings are equally disturbing for future generations either way, we do wonder whether it is levels of upward mobility that is driving home prices, home prices enabling the mobility, or some combination of external variables relating to school districts and infrastructure that's helping both. Either way it appears the nation is facing a snowballing opportunity gap.