A Link Between College Enrollment and the Housing Boom/Bust

Lovenheim recently published a statistical study of the theoretical link between housing wealth and college enrollment. This a timely issue given the very weak housing market of recent years and the public concern about access to college and the national need for a competitive labor force. Lovenheim makes the following points, among others:

1. “Considering the reduction in family resources caused by these problems in the housing market, it is likely that many families will face increasing constraints in their ability to finance college in the near future. These constraints will exacerbate the negative long-run effect of the housing bust on economic growth to the extent that they restrict the supply of high-skilled, college educated labor…The central implication of this work [the study] is that college attendance is sensitive to these fluctuations, and future research is needed on policies that can insulate the training of high-skilled labor from variation in the housing market…” [p. 766]

2. “Using the Panel Study of Income Dynamics (PSID), I find that a $10,000 increase in housing wealth during the 2000s increases the likelihood of college attendance by 0.71 of a percentage, or 1.37%. Because home equity increased by $57,965 between 2001 and 2005, this marginal effect leads to sizable changes in college enrollment due to the housing boom. The effect of housing wealth is most pronounced for those with the fewest resources; a $10,000 increase in home equity leads to a 13.8% increase in college attendance among families that earn less than $70,000 per year…” [pp. 765-766]

3. “Importantly, these estimates suggest that this [lowest-income] group will be most affected by the subsequent housing bust, in which prices have declined nationally by 35% since the 2006 peak…the college investment decisions of the middle class families who comprise the majority of the lower-resource sample will be most negatively affected by the loss of wealth entailed by the recent housing market decline…” [p. 758]

4. [Lovenheim explains the theory behind this link as follows:] “Consider a credit-constrained student, for whom it would be optimal to invest in college if she could borrow at her internal rate of return but whose family lacks sufficiently inexpensive access to credit to make the investment worthwhile. If this student’s home grows in value, this increases the amount of equity that can be used as collateral. Since home equity loans are relatively inexpensive, this home price change potentially reduces the average interest rate at which a family can borrow the funds for a college education. Thus, variation in home prices can affect college attendance decisions for otherwise liquidity-constrained students…” [pp. 747-748]

The study should interest policy makers and researchers involved with higher education. Michael F. Lovenheim (Cornell University) provides details in an article (“The Effect of Liquid Housing Wealth on College Enrollment”) published in the peer-reviewed Journal of Labor Economics (October 2011, Vol.29, No.4, pp. 741-771). Readers with a background in quantitative social research and economics will find the content and style of the paper accessible.

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[Abstract by Willard Hom, Director of Research, Analysis & Accountability, Chancellor’s Office, California Community Colleges, 12/29/2011]