More Next Blog»

Spatial Economics Research Centre

Wednesday, 25 April 2012

Home-ownership and entrepreneurship

It's sometimes argued that housing wealth provides a source of equity for entrepreneurs that helps explain why business start-ups may be higher in areas with high house prices. But these arguments ignore the fact that home ownership (especially if it comes with lots of leverage via a high loan to value mortgage) is risky and that homeowners might therefore avoid other risky activities (like entrepreneurship). An interesting new paper by SERC colleagues Philippe Bracke, Christian Hilber and Olmo Silva suggests that this is indeed the case - purchasing a home *reduces* the likelihood of startin entrepreneurial activity by 20-25%.

This effect is larger when focusing on entrepreneurs who employ dependent workers or who hold managerial and professional positions. This suggests that home ownership is negatively linked to 'genuine entrepreneurship' – and thereby to firm creation, innovation and ultimately economic growth – anc not to 'self-employment out of
necessity' or as a 'last resort option'.

Previous research in this area has highlighted a positive correlation between home ownership and entrepreneurship. But this paper improves on that research by following households over time using monthly data from the British Household Panel Survey (BHPS) covering the period between 1991 ar 2008. In the cross-section this data also shows a positive correlation between home ownership and various measures of self employment. However, once they follow people over time to control for hard to observe characteristics
such as innate entrepreneurial spirit, risk tolerance or persistent wealth they find that *becoming* a homeowner significantly reduces the propensity of becoming an entrepreneur. Moreover, this negative link is much stronger when focusing on homeowners with mortgages, but weaker for those with lov loan to-value (LTV) mortgages. This implies that leverage may sharpen the trade-off between becoming a homeowner and starting a business. The negative link between home ownership and entrepreneurship remains strong and significant for 24 to 42 months after purchasing a house – when leverage is highest – and wanes thereafter.

These findings highlight the dangers in making simplistic links from area differences in the 'availability of firm finance' (in this case via home ownership to area differences in entrepreneurship.

Posted by Prof Henry G. Overman on Wednesday, April 25, 2012

G+1 Recommend this on Google

1 comment:

Trevor Lohrbeer said...

I read about this study over at BostInno (Want to Be an Entrepreneur? Don't Buy a House) and thought the comment I added might be valuable here too.

From my perspective, as a serial entrepreneur for the past 15 years, home ownership requires more time and money than renting. The demands of home improvement and repairs take away from time and money that can be spent starting or growing a business. And the upfront cash required for a down payment lowers cash savings that could be used for startup capital or as a buffer if the business fails.

Last year I sold my house and evaluated the "costs" of buying, from the context of an entrepreneur who gets a far greater return on his time and money investing in his business than in his house. I summarized my analysis in 4 Reasons to Rent, Not Buy.

Interestingly, I personally don't view the house as a "risky" investment and that buying a house reduces my willingness to take other risks. It's purely a resource constraint issue.

The correlation with weaker Loan To Values may be due to the fact that people with mortgages with higher LTVs often have other savings as well (so have a greater buffer and more access to capital) and may have owned a house in the past (so require less effort to own a new house due to a lower learning curve and owning more maintenance tools).

4 June 2012 at 19:54

Post a Comment

Newer Post Home Older Pc

Subscribe to: Post Comments (Atom)

Simple theme. Powered by Blogger.