

Residential sorting, neighbourhood effects and employment

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The purpose of this workshop was to bring together three teams of researchers to share their preliminary findings with LEW14 participants. The workshop was supported by the Institute of Policy Studies as one of the outputs from the coordinator's Hodge Fellowship.

The substantive aim of the workshop was to consider various conceptual and empirical approaches to understanding the relationship between residential sorting, neighbourhood effects and employment. Each of the three papers presented has now been published elsewhere and therefore just the general theme and summaries will be presented here. Although the three papers drew on different data bases and conceptual perspectives they managed to connect at a number of points.

Philip presented the overview paper entitled '*Residential sorting and neighbourhood externalities*' which was subsequently published as "Residential sorting and social mobility in New Zealand" in *Policy Quarterly*, Vol 7, Issue 2, May 2011. The paper argued that the residential sorting process which confers advantages on those who can choose their residential environments may also deny such advantages to others. The policy question therefore was the degree to which residing in neighbourhoods with relatively high levels of deprivation lowered people's prospects of social mobility.

Drawing on analysis of both census data and responses from the *Survey of Dynamics and Motivation for Migration* the paper concluded that, "when it comes to social mobility as represented by movement up and down a scale of neighbourhood deprivation, *where* one begins matters" (Morrison, 2011 p. 50).

"The chances of people changing residence may not be affected by how deprived their neighbourhood is, but their degree of upward mobility most certainly is. After controlling for those characteristics of movers which normally influence

upward mobility we find that high levels of neighbourhood deprivation lowers the average degree of improvement” (Ibid).

Both the workshop presentation and the *Policy Quarterly* paper drew on two papers; (Morrison and Nissen, 2010) and another available later this year (Clark and Morrison, 2011).

Dave Maré presented a paper entitled ‘Residential population location in Auckland’ on behalf of co-authors Andrew Coleman and Ruth Pinkerton which has now been published as a Motu Working Paper (Maré et al., 2011) along with a companion paper (Maré and Coleman, 2011). They focussed on a classic residential location question, namely who locates where and for what reasons and reflected on empirical results from econometric models based the location decision of households who recently settled in the Auckland Region. The first paper uses spatial statistical techniques to examine the economic determinants of residential location patterns in Auckland in 2006. They authors seek to establish the extent to which there are identifiable population subgroups that cluster together within the Auckland Urban Area, and further, to ascertain where these groups mainly live. It confirms previous findings of strong ethnic clustering and identifies clustering by qualification, income, and country of birth. The paper also examines the interaction between incomes, land prices, and population density, and the relationship of land price with access to selected locational amenities.

In their second paper they analyse the location choices of *new* entrants to Auckland between 1996 and 2006, to identify a systematic relationship between residential location choices and features of local areas such as population density, the population composition of the area or its neighbourhood. They focus on accessibility to different types of amenities and pay particular attention to the influence of land prices. For the analysis, the Auckland Urban Area is divided into around 9,000 small areas (“meshblocks”). Location choices are analysed using count data methods applied to microdata from the Census of Population and Dwellings. The results emphasise the importance of own-group attraction. Groups of entrants classified by qualification, income, ethnicity, or country of birth are all attracted to meshblocks or neighbourhoods where their group already has a strong presence. The evidence suggests that this sorting reflects attraction to fellow group members, rather than being due to group members having common preferences for local amenities.

The paper presented by Arthur Grimes and colleagues primarily addresses their State Housing data base (Olssen et al., 2010) but also foreshadowed results of their first analysis which is now available as a Motu working paper (Bergstrom et al., 2011). They noted how 1990s saw a significant sell-off of state houses in New Zealand, while the 2000s saw a material rebuilding of the state house inventory. In their presentation for LEW14 and in their first working paper they provide in-depth documentation of a rich spatially-defined dataset of the stock, acquisition and disposal of New Zealand’s state houses

since the early 1990s. Their 2010 paper examines the dataset's reliability and outlines major national and regional state housing trends since 1993. They detail the levels and changes in the density of state housing in New Zealand's major urban areas, and relate these measures to the areas' deprivation status. The richness and completeness of the dataset, and the fact that it covers two distinct policy periods (driven primarily by exogenous political preferences) offers a strong basis for detailed studies on the societal and individual impacts of homeownership and related matters. They offered several possibilities for future research possibilities that utilise this dataset.

In their second Motu working paper which was written following the LEW14 workshop, they treat the sale of State houses and additions to the portfolio as natural experiments drawing on the fact that the National Government substantially reduced the overall state housing stock by selling a greater number of houses either to existing tenants (through the Home Buy scheme) or, if the house was vacant, to other purchasers (vacant sales). From 1999, the Labour-led government ended home-buys, greatly reduced vacant sales and increased acquisitions, resulting in a major increase in the state house stock.

The research team examine determinants of the spatial distribution of home-buys, vacant sales and acquisitions over the period 1991–2006, focusing on levels of, and changes in, local deprivation status and house prices as determinants. Having modelled the determinants of each category, they then tested whether home-buys, vacant sales, and acquisitions in an area over one five-year period had an effect on changes in local deprivation and house prices in the succeeding five-year period, after controlling for initial levels of, and prior changes in, deprivation and house prices.

They found that state house acquisitions in an area led to a subsequent rise in local deprivation, consistent with the policy aim of providing housing to those most in need. While vacant sales had no material effects, a greater number of home-buys in an area led to increased local real house price appreciation over the subsequent five year period. This finding, based on the results of a politically-driven natural experiment, is consistent with the hypothesis that a scheme that transforms existing tenants into homeowners (at the same location) improves community outcomes for the surrounding neighbourhood.

References

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