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The Impact of Employment on Housing Prices: Detailed Evidence from FDI in Ireland

Kerri Agnew\textsuperscript{1} and Ronan C. Lyons\textsuperscript{2}

Abstract

Access to employment is one of the most valuable amenities offered by cities. In urban economics, this is the principal driver of the bid-rent gradient and is a key determinant of housing prices and land values. However, little is known about the causal effect of employment on housing prices, due to the problem of identification. This study presents the first causal estimates of employment changes on housing prices, both sales and rental. It does this by using a purpose-built spatially granular dataset of 1.4 million housing prices and FDI employment, covering Ireland 2007-2013. Identification rests on a combination of rich spatio-temporal variation due to the abundance of FDI in Ireland, a rich set of location controls and an inelastic housing supply in the period covered. The main results show that 1-2 years after 1,000 extra jobs have been created, monthly rents in nearby properties will be between 0.5% and 1% higher. The effect on prices is at least 2% but less consistent across specifications. On average, net job creation in export-oriented FDI firms 2009-2013 added roughly €48 million to the stock of wealth of owner occupied real estate and €8 million to the stock of wealth of the rental sector. We also estimate that the aggregate effect of the stock of FDI jobs in 2013 on Irish housing prices is €440 million, or just over 1%.

JEL Classification: R10 R21 F23. Keywords: Housing Prices; Employment; Foreign Direct Investment; Ireland; Hedonic Regression

1. Introduction

Urban agglomerations lie at the heart of modern economies, with cities accounting for less than 1% of land use globally but the vast majority of economic activity. In understanding the economics of cities, the concept of the bid-rent gradient is central, as it captures the opportunity cost of distance from urban centres. The value of urban centres reflects both consumption and labour market amenities, with recent discussion often focusing on the rise of consumption amenities (see, for example, Glaeser et al 2001). Nonetheless, employment remains perhaps the single most important amenity offered by a location.

This paper examines the impact of changes in employment in internationally trading firms on housing prices nearby, both sales and rental. The creation of a job in an internationally trading firm should boost housing demand, thus increasing housing prices and the value of land nearby. This includes direct effects – the new worker’s wage. There is a strong link between the housing market and the labour market, as individuals generally prefer to live close to their workplace\textsuperscript{3}. It also includes indirect effects, as that worker’s wage circulates through the local economy. Vice versa, job destruction will decrease the demand for housing.

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\textsuperscript{3} Böheim and Taylor (2002) find that employment reasons have the largest impact on the probability of moving between different regions in the UK, and Clark and Withers (1999) find that job changes are an important factor in the decision to move house. Related to this, Hwang and Quigley (2006) construct a model of local housing markets using a panel of 74 U.S. metropolitan areas. Among other findings, they show that changes in employment affect housing prices mainly through changes in housing demand. Furthermore, using a dataset of
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