

Love Thy Neighbor: Income Distribution and Housing Preferences

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Summary

Do homeowners prefer living in an area with a more equal distribution of income? We answer this question by estimating a semi-parametric hedonic pricing model for about 90,000 housing units transacted in Hong Kong between 2005 and 2006. We first identify a hedonic price function by locally regressing the rental price of the housing unit on its intrinsic and neighborhood characteristics, one of which is the Gini coefficient for household income of the constituency area. We then combine the estimates with a log utility function to obtain the heterogeneous preference parameters. Finally, we estimate the joint distribution of the preference parameters and demographics. We find that most homeowners have a strong distaste for inequality in their neighborhood, and the distaste increases with income and goes down with education level. Counterfactual experiments show that reallocating Public Rental Housing by half can increase the welfare of homeowners by about HK\$8,000 on average per year, an amount which is equivalent to increasing the housing unit by 20 square feet or reducing the age of the unit by 5 years.