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<https://www.stlouisfed.org/publications/in-the-balance/2019/renter-tradeoffs-amenities-price>

# Renter Households Face Trade-offs When Choosing Amenities or Price

## KEY TAKEAWAYS

- The share of U.S. renters has grown, and like owners, they face trade-offs when deciding between a better home with more neighborhood amenities and a lower price.
- Amenity-driven renters are more likely than price-driven renters to be four-year college grads, married or partnered, and parents of children under age 18.
- Both types of renters tend to have low to moderate incomes and savings.



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The share of renters in the U.S. has increased in recent years to nearly 2 in 5 households in 2016.<sup>1</sup> Individuals and families choose a home for a variety of reasons beyond price and the home's physical characteristics, including neighborhood-specific amenities.<sup>2</sup> Such amenities include public safety, school quality, and access to shopping, parks, libraries and places of worship.

Choosing where to live is a complex decision. It also ranks among the most important life choices, not least because these decisions have long-term consequences for social and economic mobility. Neighborhoods and counties sort on characteristics such as race and income.<sup>3</sup> And recent evidence shows that location within a city or region can predict upward or downward economic mobility, with neighborhoods impacting children's future social, economic and educational outcomes.<sup>4</sup>

For many households, decisions about housing location shape pathways for future success.<sup>5</sup> Within and between cities, differences in housing prices reflect consumers' awareness of these varying opportunities. Renters therefore must weigh the benefits of local amenities and overall neighborhood quality (typically associated with higher rents) with lower housing prices but potentially reduced neighborhood quality.

## Demographic Differences between Amenity- and Price-Driven Renters

Using data from the Federal Reserve's 2016 Survey of Household Economic Decisionmaking (SHED), we compared the economic and demographic traits of renters who moved for better amenities (i.e., "amenity-driven") with those who moved for financial reasons (i.e., "price-driven").<sup>6</sup>

- Amenity-driven respondents (17% of renters who moved in 2015 or 2016) indicated that they moved for a better-quality or larger home, and/or for a better-quality neighborhood or school.

- Price-driven respondents (19% of renters who moved during the same time frame) indicated that they moved because their rent had increased and/or to save money.<sup>7</sup>

These motivating factors are often at odds for families shopping the U.S. housing market. A seemingly “either/or” scenario raises concerns over housing access, including neighborhood transitions and potential displacement of low- and moderate-income residents, as well as several questions, which we can begin to answer:

- Are families who seek out higher-quality homes, neighborhoods or schools more willing or able to make financial trade-offs?
- Are families who move because of financial pressures more likely to have low to moderate incomes?

We find descriptive evidence supporting both possibilities in the table below. Price-driven renters reported having low income (below \$25,000) at a higher rate than amenity-driven renters: 45% versus 33%, respectively. However, price-driven renters also reported higher levels of savings and investments: Almost 20% held savings and investments valued at \$50,000 or more, compared with less than 6% of amenity-driven renters.

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## Financial and Demographic Characteristics of Households

		Amenity-Driven Renters	Price-Driven Renters	All Families
<b>Age</b>	Age, mean (SE*)	33.5 (1.1)	34.8 (1.5)	47.4 (0.3)
	\$0 to \$24,999	32.9%	44.9%	28.1%
	\$25,000 to \$49,999	33.2%	25.1%	21.3%
<b>Household Income</b>	\$50,000 to \$99,999	20.9%	18.6%	26.3%
	\$100,000 or more	13.0%	11.3%	23.5%
	White	62.1%	59.0%	64.6%
	Black	14.3%	18.2%	11.7%
<b>Race or Ethnicity<sup>8</sup></b>	Hispanic	17.7%	10.0%	15.7%
	Other race	0.4%	11.8%	6.7%
	Two or more races	5.5%	1.0%	1.3%
	Less than \$10,000	68.9%	61.6%	35.1%
	\$10,000 to \$49,999	21.3%	16.8%	18.1%
<b>Savings and Investments</b>	\$50,000 to \$249,999	4.3%	12.9%	22.7%
	\$250,000 or more	1.2%	5.7%	16.4%

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\*Standard error (SE) is the estimated standard deviation of the statistical sample populations shown here.

NOTE: The “All Families” group includes renters, homeowners, and those who indicated they neither rented nor owned their home.

SOURCES: Federal Reserve 2016 Survey of Household Economics and Decisionmaking and authors’ calculations.

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It’s possible that these findings for amenity-driven renters reflect:

- upward mobility expectations—i.e., that renting better homes in neighborhoods with greater amenities is consistent with an expected future socioeconomic status; or
- the willingness and ability to trade short-term savings cushions for better future economic prospects for themselves and their children.

As shown in the figure below, amenity-driven families were more likely than price-driven families to be college graduates. Four-year college graduates tend to have higher incomes and accrue more wealth over their

lives.<sup>9</sup> Relatedly, amenity-driven families also may have hard-to-observe greater access to credit markets, thus helping to facilitate these consumption choices.<sup>10</sup>

Secondly, amenity-driven renters were much more likely to identify as married/partnered and to have children. Their married or partnered rate was over 20 percentage points higher than that of price-driven renters, and they were more than twice as likely to have at least one dependent child. As such, amenity-driven respondents may be more willing to bet on the future, spending down their savings to “invest” in themselves and their children by living in higher-quality neighborhoods and school districts.

## **Renters’ Shared Traits: Fewer Assets and Liquidity-Constrained**

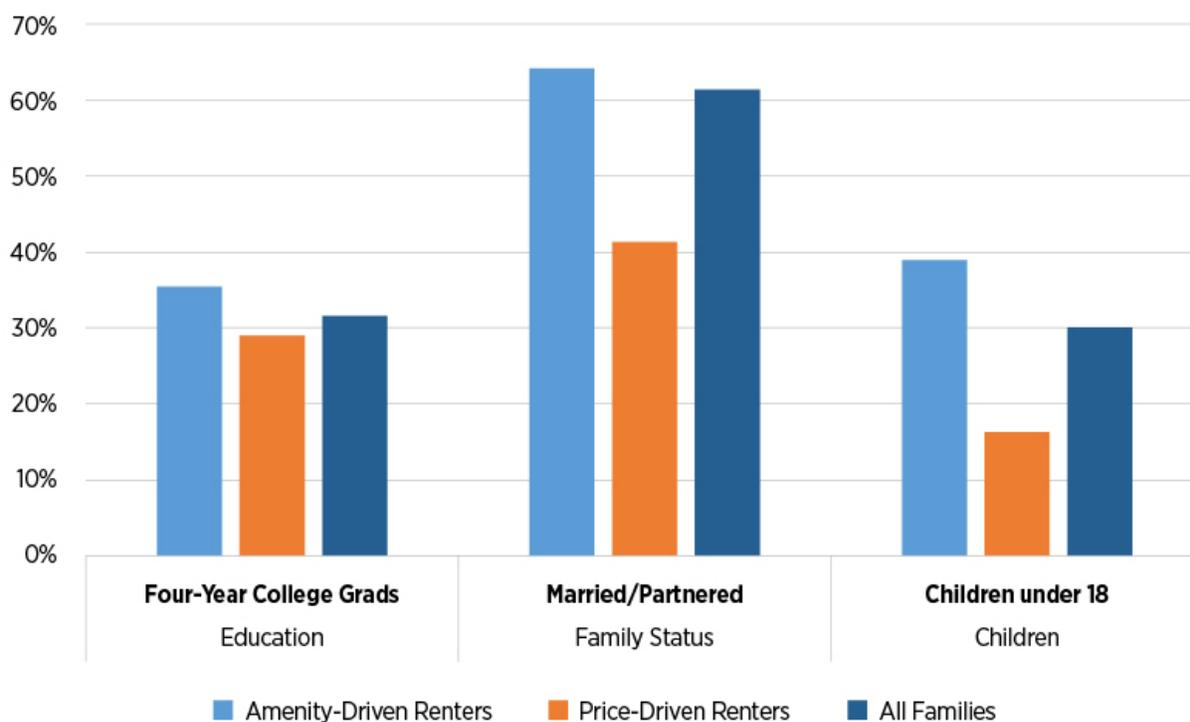
While price- and amenity-driven renters are distinct in many ways, they share some common characteristics. For example, both groups were far less likely to report significant levels of savings and investments when compared with the “all families” group. As noted in the table, both groups were also more than a decade younger on average than the “all families” set. These findings are likely connected, and reflect that younger households do not typically hit their peak earnings levels until their 40s and 50s.

Additionally, both groups reported being more liquidity-constrained than the “all families” group. When asked how they would handle a \$400 emergency expense, 56% of those in the “all families” category said they would pay it with cash or its equivalent, compared with 43% of price-driven renters and 39% of amenity-driven renters.

Finally, we found that racial and ethnic differences between amenity- and price-driven renters were not especially pronounced. Both groups were less likely to be non-Hispanic white than those in the “all families” group, consistent with lower homeownership rates among minorities.<sup>11</sup>

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## Education and Family Composition of Renters and All Families



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NOTES: The “All Families” group includes renters, homeowners, and those who indicated they neither rented nor owned their home. From left to right, the bar graph shows the share of families that completed a four-year college degree, are married or partnered, and have children under the age of 18. Shares are shown separately for amenity-driven renters, price-driven renters, and the all families group, respectively. In that order, the shares of families headed by a four-year college graduate were 35, 29 and 32 percent, respectively; the shares married or partnered were 64, 42 and 61 percent, respectively; and the shares with at least one child under 18 were 39, 16 and 30 percent, respectively.

SOURCES: Federal Reserve 2016 Survey of Household Economics and Decisionmaking and authors’ calculations.

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Upon examining the reasons behind housing moves for renters, we found that a substantial share noted preferences for either saving money by reducing housing costs or relocating to better neighborhoods. While families presumably desire both low prices and amenities, they frequently face the difficult task of choosing between them. Given new evidence on the role of location as a driver of economic mobility, the constraints facing such families raise important implications for the design of place-based policy. Policymakers will need to consider the evolving nature of home rentals; and renters with dependent children will need to continue weighing important and distinct housing choices.

### Endnotes

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2. Machin, Stephen. "Houses and Schools: Valuation of School Quality through the Housing Market." *Labour Economics*, December 2011, Vol. 18, No. 6, pp. 723-29.
3. Aliprantis, Dionissi; Carroll, Daniel; and Young, Eric. "Can Wealth Explain Neighborhood Sorting by Race and Income?" Federal Reserve Bank of Cleveland, Working Paper, August 2018.
4. Chetty, Raj; and Hendren, Nathaniel. "The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects." *The Quarterly Journal of Economics*, August 2018, Vol. 133, No. 3, pp. 1107–62.
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6. The 2016 SHED asked renters who had moved in 2015 or 2016 why they moved. See variables R5D\_a through R5D\_i. <https://www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-introduction.htm>. We grouped respondents into price-driven and amenity-driven groups based on their responses. However, there could be demographic differences in how respondents understood the questions. Future work will address this possibility.
7. The price-driven and amenity-driven groups are mutually exclusive. While 14% of recently moved renters chose a combination of reasons under "price-driven" and "amenity-driven," we focused on those who selected only "price-driven" or "amenity-driven" reasons in order to illustrate the price/amenity trade-off that often occurs when deciding where to live. See the 2016 SHED variables R5D\_a through R5D\_i for other reasons. <https://www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-introduction.htm>.
8. The Hispanic group includes respondents of any race who selected Hispanic as their ethnicity. All other groups are considered non-Hispanic.
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## ABOUT THE AUTHORS



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