HOW TALENTED PEOPLE CHOOSE WHERE TO LIVE: New evidence on UK cities

New research by Luisa Gagliardi sheds light on the importance of amenities and quality of life as a determinant of the location decisions of skilled individuals. It does this by looking at differences in local amenities and the spatial sorting of highly qualified workers across neighbourhoods within UK cities. This makes it possible to untangle the role of amenities from that of differences in the availability of better job opportunities across urban areas.

The analysis, to be presented at the annual congress of the European Economic Association in Geneva in August 2016, makes use of 1.3 million housing transactions over the period 1995-2011 to estimate the value of local amenities that is capitalised into housing prices.

The resulting composite indicator captures a set of factors that contribute to the perceived quality of life in each neighbourhood – from the crime rate to the availability of restaurants and café, libraries, museums, green areas, etc. Then this composite indicator is employed to investigate whether skilled individuals sort disproportionately into high amenity neighbourhoods within each city.

The results show that highly educated individuals exhibit a level of amenity consumption that is 10% higher than that of lower skilled workers earning a similar income, which lowers to 6% once differences in job market opportunities at city-wide level are factored out.

But most of this preference effect is explained by the willingness of skilled individuals to forgo a portion of their wages to live closer to similar people, such that their level of amenity consumption when compared with lower skilled workers reduces to 0.16% after accounting for the neighbourhood’s demographic composition. This finding suggests that skilled individuals are prepared to pay a substantial premium to avoid less wealthy and educationally poor neighbourhoods.

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Talented people do not just care about work: they are also concerned with their surrounding environment, the opportunities for leisure and entertainment, the quality of schools and hospitals, and a whole array of lifestyle factors.

Places such as Boulder in Colorado have fuelled their economy by attracting and retaining qualified workers thanks to their desirability as a place to live. London, which reinvented itself as a global metropolis hosting the high tech cluster known as the ‘Silicon Roundabout’, now faces new challenges of success. Factors such as congestion and pollution affect the quality of life and push high skilled workers away.

Overall, the analysis in the new study points at gentrification processes in UK cities as a highly cumulative phenomenon, which is endogenously determined by the local demographic composition. This evidence provides a more nuanced view on the role of amenities as a factor of attraction of high skilled workers.

Although the demographic composition of residential neighbourhoods is what highly qualified individuals ultimately care about, differences in amenity levels may still play a
role in initiating the sorting into previously un-gentrified neighbourhoods, with this process reinforcing over time as a consequence of the location decision of individuals with a similar taste for the characteristics of their closer neighbours.

Important implications for planners and policy-makers emerge from this study. As ‘liveability’ is increasingly seen as key to attract talented workers, low crime rates, good public amenities, culture and entertainment are all factors that policy-makers can influence if they want to boost the city’s appeal to top tier skilled individuals.

The attraction of whom is both a critical factor of success and an increasingly challenging task, even more in an era in which skilled workers can choose among an even wider spectrum of places to locate themselves.

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