

The Paradox of the Joneses: Superstar Houses and Mortgage Frenzy in Suburban America

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Abstract : Despite a major upscaling of suburban houses since 1980, house satisfaction has remained steady in the United States. At any point in time, however, house satisfaction increases with size. This paper shows this paradox can be explained by the rise in top housing size inequality. Combining data from the American Housing Survey from 1984 to 2009 with an original dataset of three million suburban houses built between 1920 and 2009, I find that an increase in size at the top of the distribution offsets the positive effect on house satisfaction of an equivalent rise in own housing size. Homeowners who experience a relative downscaling are also more likely to upscale and subscribe to new loans. In the absence of keeping up with the Joneses, I estimate the level of mortgage debt would have been 13.5% lower at the eve of the 2008 financial crisis. These results are robust to household fixed effects and concentrated in counties with lower segregation. They suggest a causal link between top income inequality and mortgage debt.