Measuring the Effects of “Adults Only” Age Restrictions on Condominium Prices†

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***Abstract*. Current U.S. housing policy prohibits discrimination in the sale or rental of housing or in the provision of brokerage services on the basis of race, color, religion, sex, national origin, disability, or familial status. Since 1988, an exception to this policy has permitted owners and operators of buildings and facilities that were intended to be operated as housing for older persons to discriminate against younger residents, including families with children and pregnant women, without violating the nation’s fair housing laws. This exception was clarified by the Housing for Older Persons Act of 1995 which precisely defines the type of facility that qualifies as housing for older persons. The purpose of this study is to consider whether such restrictions have a measurable effect on housing prices. Based upon data from condominium transactions in southeast Florida, the results presented here suggest that age restrictions have a positive price effect, holding other determinants of condominium prices constant.**

Introduction

Despite the public policy trend in the United States over the last several decades to ensure every American’s right to equal treatment with respect to housing, one demographic group has managed to preserve its ability to segregate itself from other societal groups. Under current interpretation of the nation’s fair housing laws, “older’ Americans are well within their rights to group themselves together geographically and prohibit “younger” Americans from establishing a residence in their enclave. Specifically, residents of a qualified housing facility or community can adopt a policy that restricts occupancy to those 55 years and older to ensure that current residents are surrounded by other adults and not bothered by the sounds and sights of younger residents who might otherwise disturb a peaceful existence.

Because occupancy restrictions against younger residents could easily eliminate substantial numbers of potential residents in most housing markets, one might suspect that such a policy would imply reduced total demand (other things held constant) for the housing units and, therefore, reduced equilibrium prices of the units. If, however, such a policy results in a net increase in total demand (other things held constant) for the housing units in a given market from persons who place high value on living only among other older persons, occupancy restrictions against younger residents may in fact increase the equilibrium prices of the housing units. The question considered in this study is

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whether age restriction policies have an observable impact on housing prices in a given market. Understanding the price effects of age restrictions on housing prices is important for housing developers and current owners who are contemplating age restriction policies, as well as public policy makers who are struggling to comprehend housing issues facing older Americans.

To measure the effects of "adults only" restrictions on housing prices, we collect data relating to individual condominium unit transactions in Broward County (Fort Lauderdale), Florida, and specify a hedonic model for these transactions that permits testing for price effects associated with the age restriction policy. The results suggest that a statistically significant price premium is associated with policies restricting occupancy to "adults only," indicating that age restrictions are a value-enhancing amenity in this condominium market. The results are similar to those reported by Guntermann (1997) in his study of the impact of age restrictions in the mobile home market.

The first section of this study traces the legislative and administrative history of age restrictions in American housing policy. The second section develops a hedonic model for testing for price effects of age restrictions in condominium markets. The third section describes the data collected for this study and the results obtained from applying the model to the data. The final section summarizes the conclusions.

Legislative and Administrative History of Age Restrictions in Housing

Protection against housing discrimination was first established at the national level in the United States by Title VIII of the Civil Rights of 1968. While the general purpose of the Civil Rights Act was to prohibit all forms of discrimination on the basis of race, Title VIII of this Act was specifically worded to focus on housing discrimination. Known as the Fair Housing Act, Title VIII prohibited discrimination in the sale, rental or financing of housing and in the provision of brokerage services to housing market participants on the basis of race, color, religion, or national origin. Six years later (1974), the Act was amended to prohibit discrimination on the basis of gender.

In 1988, the U.S. Congress again amended the Fair Housing Act to include not only race, color, religion, sex, and national origin, but also persons with handicaps and "familial status" as protected classes. The term "familial status" specifically refers to (1) pregnant women, (2) anyone securing legal custody of a child under the age of 18, and (3) families with children, including families in which one or more children under 18 live with a parent, legal custodian, or a designee of the parent or legal custodian.

At the same time Congress classified children and pregnant women as members of a protected class, it also established an exemption to the Fair Housing Act for communities that wished to restrict occupancy to housing for older persons. This exemption permitted the establishment of "adults-only" retirement communities where the environment is tailored to fit the specific needs of older persons. Under the exemption, a building or community could discriminate based on familial status if the building or community qualified as housing for older persons. The exemption permitted discrimination against children and pregnant women if the housing falls into any of the following categories: (1) housing that is part of a local, state, or federal program that is specifically designed and operated to assist elderly persons, (2) housing that is intended for and solely occupied by persons 62 years of age and older, or (3) housing that was intended to be operated for occupancy by at least one person 55 years of age or older per unit and that offered significant facilities and services specifically designed to meet the physical or social needs of older persons.

While the first two of these criteria provide clear standards, the final criterion required interpretation by the Department of Housing and Urban Development (HUD). The 1988 amendments to the Fair Housing Act directed the HUD Secretary to develop regulations that could be used to determine whether a housing facility qualified for the exemption. The regulations developed by HUD required communities or buildings to qualify as housing for the elderly based on a list of HUD-approved facilities and services that were targeted toward older residents. Examples of approved facilities and services include communal recreational facilities, congregate dining, and on-site vision or hearing tests. Not surprisingly, the regulations were met with many challenges soon after their publication and HUD quickly revoked the regulations due to the threat of litigation.

In 1992, Congress attempted to resolve this issue by requiring HUD to issue revised rules that more clearly defined the phrase "significant facilities and services specifically designed to meet the physical or social needs of older persons." HUD developed and proposed new rules in 1994, but the new rules were once again withdrawn in response to continued disapproval. The latest changes to the Fair Housing Act were approved by Congress in 1995 in an attempt to create a "bright-line" test for determining if a housing development is exempt from the prohibition against familial status discrimination.

The ambiguity of the phrase "significant facilities and services" was eliminated by the Housing for Older Persons Act of 1995. This Act deletes the "significant facilities and services" requirements from the third criterion of the Fair Housing Act and defines housing for older persons as housing facilities or communities intended and operated for occupancy by persons 55 years of age or older where at least 80% of the occupied units are occupied by at least one person who is 55 years of age or older.

By this amendment, a housing facility or community need only be able to verify that it meets the 80% occupancy threshold to quality for an exemption to the Fair Housing Act. If the facility or community qualifies for the exemption, the facility or community can require that at least one person in each household that wishes to begin residence be at least 55 years of age or older. (Either of the first two criteria can still be used to qualify for the exemption.) Some have argued that this "bright-line" standard makes it much too easy for a facility or community to exclude families with children. Using an example expressed by Senator Joseph Bidden, a development consisting of 100 units, occupied by two persons each, could be occupied by as few as eighty residents (less than half of the total number of residents) who are 55 or over and still qualify as housing for older persons (Senate Rep. 104-172, Comm. on the Judiciary, 104th Cong., 1st Sess., p. 16).

In summary, federal law and regulations have explicitly permitted the creation and operation of "adults-only" housing communities since 1988 under certain circumstances. Though there was some early ambiguity about whether a community or building with at least one resident less than age 62 could qualify for the exemption to the Fair Housing Act with respect to familial status prior to the passage of the Housing for Older Persons Act of 1995, "adults-only" communities have been and will continue to be an important segment of the nation's housing market. The question of whether there exists price differentials for housing units that are subject to restrictions against younger residents within a given housing market is an empirical issue to be considered here.

Model

A variation of the well-known hedonic housing price model is employed to explore that effects of age-restrictions on housing prices (see Rosen, 1974). This model explicitly introduces age restrictions as an independent variable in the hedonic price equation. Because they are frequent candidates for age restrictions, the model is developed with respect to individually owned condominium units. To test for housing price differentials relating to age restrictions, we estimated the following hedonic model for condominium sale prices, P_i:

$$P_i=\beta_0+\beta_1 AGEREST+\beta_2 PCTOVER55+\beta_3 U+\beta_4 N+\beta_5 C+e. \tag{1}$$

In this specification, *AGEREST* is a binary variable indicating the presence of an age-restriction policy, *PCTOVER*55 is a measure of the proportion of older persons living in the neighborhood, U is a vector of characteristics describing individual condominium units, C is a vector of characteristics describing amenities available to residents in the development, and N, a vector of characteristics describing the neighborhood surrounding the development. *PCTOVER*55, U, C, and N are included as control variables. The β coefficients are parameters to be estimated and e is a random error term.

The primary parameter of interest in the regression analysis is the coefficient on *AGEREST*. β_1 is a measure of the degree to which age restrictions affect the price of condominiums in this market, holding the characteristics of individual units, the condominium development, and the neighborhood constant. If β_1 is significantly greater than zero, this is evidence of a price premium in age-restricted communities. The second independent variable, *PCTOVER*55 is specifically included in the model to control for the impact of the neighborhood's age composition on condominium prices. This variable is calculated as the percentage of persons 55 years of age or older in the neighborhood (census tract) as of the 1990 Census of Population. If the estimate of β_2 is statistically significant and negative, then condominium unit prices can be said to be decreasing as the percentage of older residents in the neighborhood increases.

Data and Empirical Results

The data for this study consist of a sample of condominium transactions that occurred in Broward County, Florida between January 1, 1995 and June 30, 1996. Using the TRW Property Data Disc for the county, we identified 2,969 transactions that were recorded in the public record during this time period with information regarding the address of the property, its transaction price, sale date, census tract number, various characteristics of the condominium unit, and name of the condominium association of which the property is a part. We then conducted a telephone survey of representatives of the condominium associations to determine whether the property qualified for the housing for older persons exemption to the Fair Housing Act during the study period. During the telephone interview, we also asked the representatives about various amenities in the development that are available to residents (golf course, pool, tennis courts, parking arrangements, security, etc.). Of the original 2,969 condominium transactions that occurred during the study period, our final sample consists of 802 observations (27% of the total). Some observations (990) were dropped from the sample due to insufficient information in the public record, and others (1,177) were eliminated because representatives of the condominium association could not be identified or because the association elected not to participate in our telephone survey.

Model Specifications

Two different specifications of the hedonic price equations are estimated using Ordinary Least Squares (OLS). Model I employs actual sales price as the dependent variable, while Model II employs the price per square foot of living area as the dependent variable. Both specifications of the model allow testing of the null hypothesis that there are no measurable price differences associated with age restrictions in condominium prices.

The independent variables included in both specifications are identical except that the variable *BEDS* is substituted for *LIVAREA* in Model II. The independent variables in Model I include: *AGEREST* (whether the representative reports that the facility enforces an "adults-only" age restriction policy), *PCTOVER*55 (percentage of residents in the

Exhibit 1
Descriptive Statistics for the Variables Included in the Regressions
(802 observations)

	Mean (and number of observations for binary variables)	Std Dev. (Non-binary variables only)
Sale price	35,163	13,726
Price per sq. ft	38.196	12.668
Age restriction policy	0.404 (324)	
Square feet of living area	929.52	185.31
No. of bedrooms	1.70	0.515
Age of unit (in years)	18.167	3.992
No. of units in development	924.27	1,030.3
Assigned parking?	0.234	
Pool?	0.933 (748)	
Golf?	0.253 (203)	
Tennis?	0.756 (606)	
Waterfront?	0.307 (246)	
24-hour security gates	0.082 (66)	
Night security guard	0.045 (36)	
Neighborhood per capita income	15,836	4,934.3
Percent of residents in neighborhood over 55	0.405	0.167
Area 0	0.241 (193)	
Area 1	0.011 (9)	
Area 2	0.010 (8)	
Area 3	0.196 (157)	
Area 4	0.112 (90)	
Area 5	0.015 (12)	
Area 6	0.009 (7)	
Area 7	0.133 (107)	
Area 8	0.056 (45)	
Area 9	0.116 (93)	
Area 10	0.101 (81)	

Exhibit 2
Ordinary Least Squares Regression Results, with Standard Errors in Parentheses

	Model I Dep. Var.=*PRICE*	Model II Dep. Var.=*PSQFT*
Constant	−34,043 (4,017)	5.746 (3.607)
AGEREST	5,035.3 (1,293)***	3,978 (1.259)***
*PCTOVER*55	−15,028 (4,011)***	−6.757 (3.950)*
MONTH	83.003 (60.25)	0.054 (0.060)
PROPAGE	16.478 (90.53)	0.068 (0.090)
LIVAREA	41.698 (1.955)***	n.a.
BEDS	n.a.	3.185 (0.611)***
POOL	19,261 (2,096)***	15.261 (2.071)***
PARKING	2985.6 (1.366)**	0.342 (1.332)
NUMUNIT	1.3626 (0.955)	−.001 (−0.001)
GOLF	494.31 (1,262)	2.966 (1.256)**
TENNIS	5,182.1 (1,235)***	4.694 (1.23)***
WATER	211.47 (1,414)	2.966 (1.400)**
NITESEC	5,214.0 (2,182)**	7.404 (2.158)***
GATES	12,139.0 (1,699)***	7.184 (1.681)***
PCI	0.538 (0.111)***	.0003 (.0001)***
*AREA*1	33,976. (4,072)***	28.124 (4.028)***
*AREA*2	−1,362.9 (3,612)	−3.108 (3.572)
*AREA*3	−5,153.9 (2,012)**	−5.752 (1.990)***
*AREA*4	−2,076.1 (1,960)	−0.362 (1.938)
*AREA*5	−8,861.4 (2,948)***	−10.329 (2.921)***
*AREA*6	−19,139.0 (3,731)***	−12.864 (3.683)***
*AREA*7	10,660.0 (1,955)***	12.502 (1.893)***
*AREA*8	−11,564. (2,358)***	−5.3863 (2.332)**
*AREA*9	9,274.7 (2,312)***	10.502 (2.264)***
*AREA*10	−10.178.0 (1,763)***	−7.681 (1.744)***
Adj. R^2	66.29%	61.28%
F-statistic (24,777)	66.63	53.82

Single, double and triple asterisks indicate significance at the 10%, 5% and 1% levels, respectively.

census tract who are 55 years of age or older, based upon 1990 Census of Population estimates), *MONTH* (a time-trend variable equal to zero in January 1995 and increasing by 1 per month), *PROPAGE* (the age in years of the unit at the time of transaction), *LIVAREA* (square feet of living area in the unit), *POOL* (whether the facility has a swimming pool), *PARKING* (whether each unit has at least one assigned parking space), *NUMUNIT* (number of units in the development), *GOLF* (whether a golf course is part of the development), *TENNIS* (whether tennis facilities are present in the development), *WATER* (whether the development is a waterfront community), *NITESEC* (whether the facility has a night-time security guard), *GATES* (whether the community has gated entrances that require a pass key or explicit permission to enter), *PCI* (per capita income of residents in the census tract in which the unit is located based upon 1990 Census of Population estimates), and *AREA*1 through *AREA*10 (binary variables indicating the location of the property within the county in comparison to the omitted location, *AREA*0). Descriptive statistics for all variables used in the OLS regression analysis are provided in Exhibit 1.

Results

Estimating both specifications of the model described above provides the results shown in Exhibit 2. Overall, the models appear to provide a good fit for the data. The adjusted R^2's for Models I and II are 66.29% and 61.28%, respectively, and the F-statistics for both models are significant at the 1% level. Though not shown, we also investigated other functional forms of the models (log-linear and semi-log), but the fit of the model was not improved based upon tests proposed by Davidson and MacKinnon (1981).

The primary parameter of interest in each of the hedonic price equations is the coefficient on *AGEREST*. The results of both specifications of the model are shown in Exhibit 2. In both cases, the coefficient on *AGEREST* is positive (5,035.3) and statistically significant at the 99% confidence level, indicating that age restriction policies provide a value-enhancing amenity in this condominium market of approximately 14% of the average transaction price of condominiums in this sample ($35,163). In terms of price per square foot, the coefficient on the age restriction variable indicates a premium of approximately 10% to the transaction price of the average condominium in the sample.

Of secondary interest is the coefficient on *PCTOVER*55. The negative coefficient suggests that neighborhoods with a larger proportion of older residents tend to have lower housing prices, though this result is only marginally significant in Model II. Results for the remaining control variables are self-explanatory and generally consistent with prior expectations.

Conclusions

This study empirically examines the price effects of age restrictions in the southeast Florida condominium housing market. Using a sample of 802 individual condominium unit transactions that occurred between January 1, 1995 and June 30, 1996, we propose and estimate a variation of the standard hedonic price model in which a binary variable is included to capture potential price impacts for age restrictions along with various control variables. The findings indicate that residents in this particular market are willing to pay a premium for the right to live in an "adults-only" community, suggesting that age restrictions result in a net increase in demand for the units, other things held constant. Future research may provide insights into the demographic and economic characteristics of neighborhoods that attract adults-only developments. Housing analysts, developers, owners, and policy makers should be aware that voluntary age restriction policies may tend to increase the price of housing in a given market.

References

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