

## Location as an Asset

Adrien Bilal, *Princeton University*

Esteban Rossi-Hansberg, *Princeton University*

The location of individuals determines their job opportunities, living amenities, and housing costs. We argue that it is useful to conceptualize the location choice of individuals as a decision to invest in a “location asset”. An asset with cost equal to the location’s rent, and with a payoff that determines job opportunities and, potentially, the human capital of children. As with any asset, savers in the location asset transfer resources into the future by going to expensive locations with good opportunities. In contrast, borrowers transfer resources to the present by going to cheap locations that offer few advantages. As with other assets, holdings of this asset depend also on the comparison of its rate of return with that of other assets. Differently from other assets, the location asset is not subject to borrowing constrained so it is used by individuals with little or no wealth that want to borrow. We provide an analytical model to make this idea precise and to derive a number of related implications, including an agent’s mobility choices after experiencing negative income shocks. The model can rationalize why low wealth individuals remain in low income regions with low opportunities. We contrast the core predictions of our theory with detailed French individual panel data.