ENDOWMENTS AND MINORITY HOMEOWNERSHIP

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Overview

• Minority-White Homeownership Gaps:
  – Increased during bust (2013) for all groups
  – Large, persistent, and growing for Blacks (2017)
  – Large, persistent, but recently decreasing (2013-17) for Latinos
  – Moderate and declining for Asians

• In Recent Decades Share of Gap for Black-White Households
  Explained by Differences in Endowments Declined

• Consistent with the Role of Borrowing Constraints (Income, Credit and particularly Wealth) in Context of Tight Credit Standards and Rising House Prices
Persistency of Large Gaps Over Time

- White
- Black
- Hispanic

Source: IPUMS, 1900-2010 Decennial Census; 2017 American Community Survey
Homeownership Trends by Race and Ethnicity

- Larger decline and smaller recovery among Black households
- From peak to Q1 2019:
  - White: -2.8 pp
  - Black: -8.2 pp
  - Latino: -2.7 pp
  - Other: -4.6 pp

Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, First Quarter Data
Recent Trends by Age Groups

- More pronounced decline for younger cohort that are also more diverse

Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, First Quarter Data
Persistent Gap in Homeownership Despite Legislation

• Fair Housing Act adopted in 1968 and subsequent acts make de jure discrimination in housing markets illegal and aim to ensure equal access to mortgage credit.
  – Equal Credit and opportunity Act (ECOA, 1974); Home Mortgage Disclosure Act (HMDA, 1975); Community Reinvestment Act (CRA, 1977); Financial Institutions Reform, Recovery and Enforcement Act (FIRREA, 1989); Government Sponsored Enterprise Act (1992)

• Nonetheless:
  – Homeownership rate for black households is 41% in Q1 2019 compared to 73% for white households → 32 pp gap. In 1970, black homeownership was 42% and homeownership gap was 24 pp.
  – For Hispanic households it was 48% in Q1 2019 → 25 pp gap. In 1970, Hispanic homeownership was 54% and homeownership gap was 16 pp.
Research Question

• How did minority-white homeownership gap evolve between 1989 and 2017?
• What factors contribute to explain these changes (or lack thereof)?
Data

- Nationally representative samples with detailed information on households and housing characteristics that are consistent over time.
- Lacks information about household wealth, credit, and employment history that affect a household’s ability to access credit.
Methodology

• Estimate tenure choice logit models.

\[ E(\text{tenure}_i = 1 | X) = F(\beta_0 + inc_i \cdot \beta_1 + \text{hratio}_i \cdot \beta_2 + \text{race}_i \cdot \beta_3 + D_i \cdot \beta_4 + Z_i \cdot \beta_5) \]

• Control for household endowments (transitory and permanent income; age; marital status; gender; household size) and market endowments (value-rent ratio; price-rent price ratio).

• Decompose disparities in homeownership rates into the share accounted for by endowments and a residual share that is unexplained.
Endowment vs Residual

• Compare similar households across race and ethnic groups, holding constant the endowment variables in standard tenure choice models
  – Permanent and transitory income, price-rent ratio, value-rent ratio, gender, age, marital status, family size, location

• Residual: portion of the homeownership gap not explained by endowment
  – Important omitted variables such as individual and parental wealth, credit scores
  – Unobserved barriers such as discriminatory practices and their legacy
Persistent Differences in Income and Location Over Time

Note: AHS 1989, 2005, 2013, 2017 National File. A higher value-rent ratio and a lower price-rent ratio having positive impacts on the decision to own
Key Findings: Increasing White-Black Gap and Smaller Share Explained by Endowment

Note: Controls include Permanent Income, Transitory Income, Price-Rent Ratio, Value-Rent Ratio, Age, Family Size, Married, Gender.
Key Findings: Strong Recovery and Importance of Immigration for Latino Homeownership

<table>
<thead>
<tr>
<th>Year</th>
<th>Residual (Without Control)</th>
<th>Endowment (Without Control)</th>
<th>Residual (With Control)</th>
<th>Endowment (With Control)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>19.5%</td>
<td>18.9%</td>
<td>11.7%</td>
<td>21.5%</td>
</tr>
<tr>
<td>2005</td>
<td>21.2%</td>
<td>11.8%</td>
<td>11.7%</td>
<td>27.4%</td>
</tr>
<tr>
<td>2013</td>
<td>22.9%</td>
<td>15.7%</td>
<td>7.3%</td>
<td>26.2%</td>
</tr>
<tr>
<td>2017</td>
<td>15.6%</td>
<td>17.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Controls include Permanent Income, Transitory Income, Price-Rent Ratio, Value-Rent Ratio, Age, Family Size, Married, Gender.
Key Findings: Moderate and Decreasing Asian-White Gap and Importance of Immigration

Note: Controls include Permanent Income, Transitory Income, Price-Rent Ratio, Value-Rent Ratio, Age, Family Size, Married, Gender.
HO, Age Group and Minority: White vs Black

Note: AHS 1989, 2005, 2013, 2017. Age group: Young (< 35), Middle Age, and Old (> 65);
What Explains Persistence in Gap?

• Lower endowment, particularly permanent income, for minority households contributes to lower access to homeownership.

• For Latino and Asian households, the share of immigrants is also a factor in the lower homeownership rate.

• However, we find an increasing unexplained gap in homeownership for black households, consistent with an increased impact of tightened credit.

• Further, unmeasured differences in wealth (including parental wealth) and credit records likely contribute to unexplained portion of gap.
  – Minority households more likely wealth and credit constrained
  – Credit constrained households more impacted by increase in HPI
  – As long as wealth does not improve, homeownership access would not change
Borrowing Constraints and Homeownership

Acolin et al (2016) estimate that the homeownership rate in 2010-2013 was 5.2 pp lower than it would have been if borrowing constraints were at the 2004-2007 level and 2.3 pp lower than if constraints were at the 2001 level.

Credit availability as measured by Urban Institute remains low.
First Time Access Still Low

First Time Homebuyers

Source: Acolin, Calem, Jagtiani & Wachter 2018
Thank You!