

2016

Homeownership and Inequality



CALIFORNIA ASSOCIATION OF REALTORS®





Introduction

Homeownership remains an effective means of accumulating wealth. A 2014 editorial in the *New York Times* noted that, “...even with the substantial decline in wealth after the housing bust, the net worth of homeowners over time has significantly outpaced that of renters, who tend as a group to accumulate little if any wealth.”¹ Indeed, homeownership was central to the idea of the formation of the American middle class in the post-WWII era. Communities like Levittown in Pennsylvania became symbols of the American Dream, where ordinary citizens could find prosperity—largely through homeownership.

In many ways, this reputation is well deserved. By 1970, homeownership had risen to nearly 65% and more Americans began accumulating wealth with the average net worth growing by its fastest pace in more than two decades. At the same time, the U.S. poverty reached its lowest level (14.0%)—one that we haven’t seen since—in 1969, and inequality had fallen to its lowest level in recorded history during the same year.

However, as Dr. Raphael Bostic points out in his seminal piece² on the topic, this important vehicle for wealth accumulation and prosperity was not uniformly available to all Americans. Through a variety of mechanisms—including exclusionary zoning, restrictive covenants, discriminatory policies by real estate boards and brokers, and “red lining” by the FHA, amongst others—the benefits of homeownership were largely denied to large swaths of the population. Research shows that 98% of FHA loans made between 1934 and 1968 went to white Americans.³ Even Levitt himself, who has been dubbed “the father of modern suburbia,” refused to sell a single property to black families until compelled to do so during following desegregation.⁴

This historical lack of access for non-whites has had an impact on wealth inequality that persists to this day. Recent studies show that the wealth gaps between whites and ethnic minorities are at their highest levels since the Federal Reserve began capturing this data more than 30 years ago.⁵ There is some evidence that non-whites were largely the targets of unsustainable lending and borrowing practices, which have only helped to exacerbate these gaps in the wake of the Great Recession.

There is little doubt that the United States has made tremendous strides in racial and ethnic relations since the 1950s. However, we find ourselves still facing challenges in terms of addressing inequality and ensuring that all Americans have equal access to prosperity. Indeed, all evidence points to a problem that is getting worse rather than better, and suggests that reducing wealth inequality amongst racial and ethnic lines by improving minority homeownership remains a relevant and important policy objective moving forward—particularly in California.

¹ New York Times Editorial Board, “Homeownership and Wealth Creation,” November 29, 2014, [The New York Times](#).

² Raphael Bostic, “The Black History of Housing in America: How the Dream Was Deferred,” *Home Matters*, February 2016.

³ George Lipsitz, “Government Policies and Practices that Increase Discrimination,” July 2008, Testimony from the National Commission on Fair Housing and Equal Opportunity.

⁴ Mary Jo Patterson, “On the Frontlines of Freedom: A Chronicle of the First 50 Years of the American Civil Liberties Union of New Jersey,” *iUniverse*, February 29, 2012.

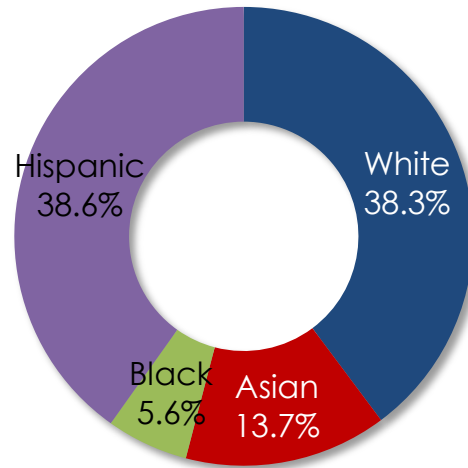
⁵ Rakesh Kochhar and Richard Fry, “Wealth inequality has widened along racial, ethnic lines since end of Great Recession,” December 2014, Pew Research Center.



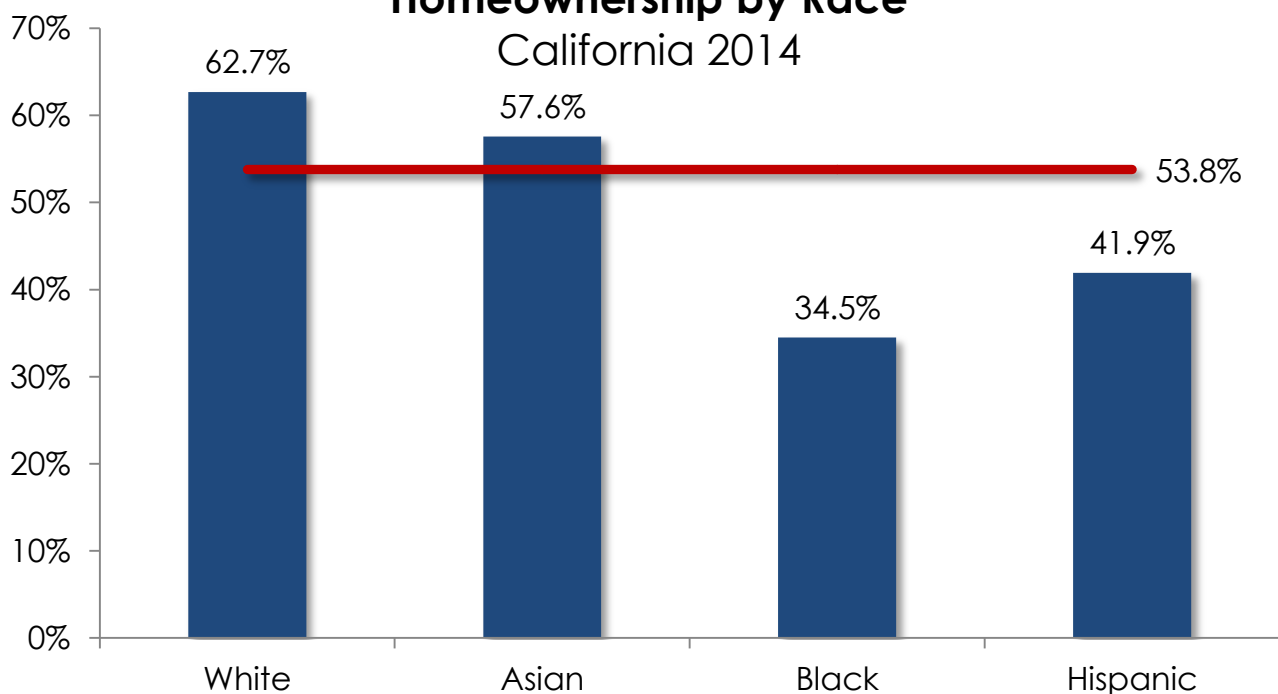
Lay of the Land

California is one of the most diverse states in the nation, with no true majority ethnic group. In fact, more than 44% of the Golden State population is comprised of black and Hispanic residents, compared with just 27% in the remainder of the U.S. Not only is our population base far more diverse, but housing plays an oversized-role in our economy. To illustrate, consider the Census Bureau's measures of poverty. Under the official poverty estimates, California has the 18th highest poverty rate in the nation at 15.8%. However, the Census' Supplemental Poverty Measure, which adjusts the threshold used to determine whether a family is "in poverty" or not for the cost of living in a state, tells a different story. California ranks #1 for worst poverty rate in the nation with 22% of families living in poverty after adjusting for housing costs. Because of our diversity and the importance of housing in our economy, the discussion of race and homeownership is even more relevant to California today.

Population by Race California 2014



Homeownership by Race California 2014



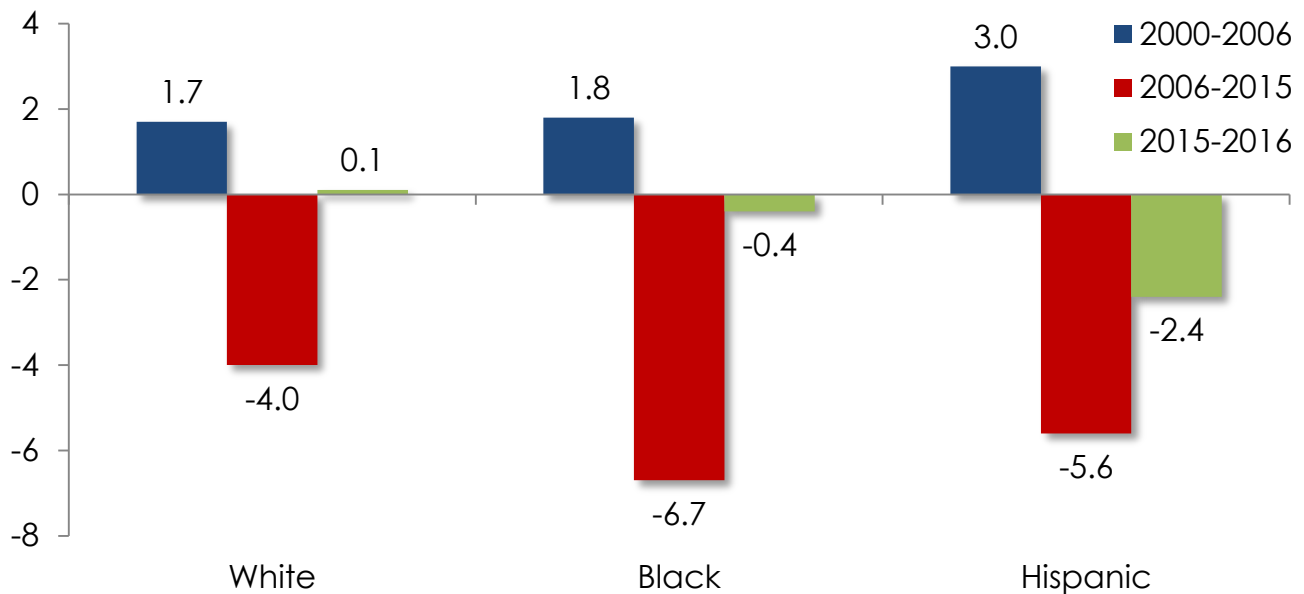


Unfortunately, there remains a persistent gap between homeownership across racial and ethnic lines in our state. In the most recent data available, 53.8% of California households owned their own home. White and Asian Californians both exceed the upper bound, with white homeownership of 62.7% in 2014. At the other end of the spectrum, just 34.5% of black households and 41.9% of Hispanic households were homeowners in 2014 based upon our analysis of the 2014 American Community Survey.

Impacts of the Great Recession

There is strong evidence that non-whites were the target of unethical lending and borrowing practices during the financial crisis and that these practices exacerbated the ownership and wealth inequality in its aftermath. For example, between 2000 and 2006, homeownership rose more for black and Hispanic households (Hispanic homeownership up almost twice as much as white homeownership).

Changes in Homeownership Rates United States



However, homeownership rates fell much farther for black and Hispanics: after rising by 3 percentage points, homeownership actually fell by 5.6 percentage points by the first quarter of 2015—wiping out more than a decade’s worth of growth. Similarly, black homeownership rose 1.8 percentage points, and fell by 6.7 percentage points as markets collapsed. Black and Hispanic homeownership rates have also yet to recover while white homeownership appears to have levelled off.

In other words, the Great Recession has actually ended up hurting minority homeownership disproportionately.



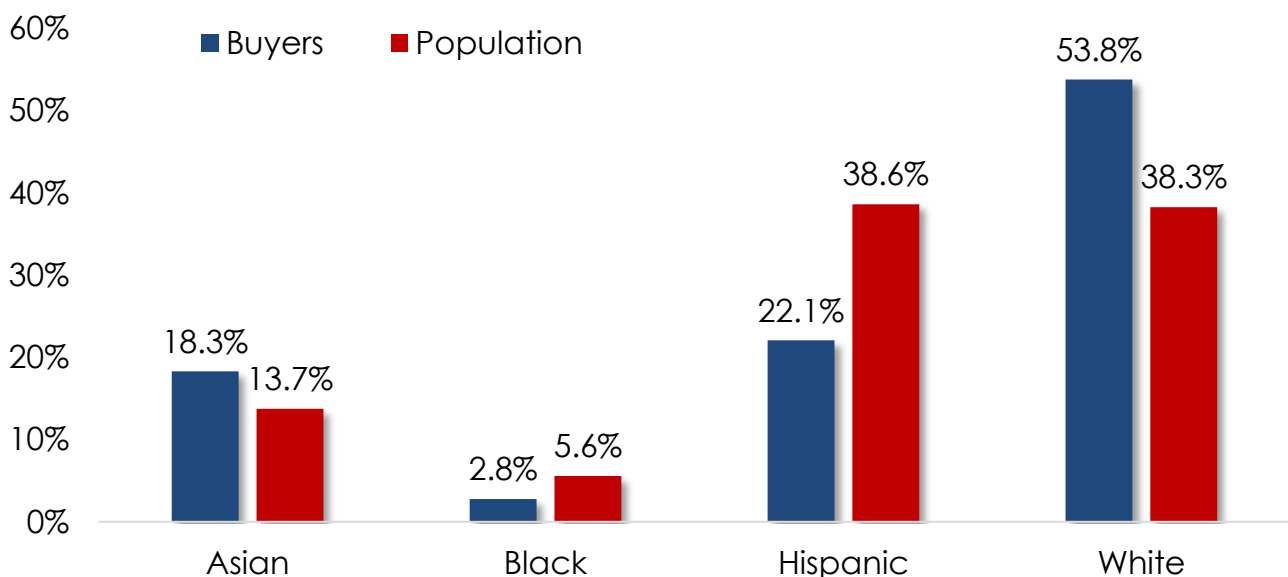
A Mounting Deficit

There can be no doubt that both black and Hispanic households have made tremendous strides economically over the past several decades. For example, a recent report⁶ on Hispanic homeownership reports many strong developments for Hispanic household nationwide, including:

- There were 245,000 new Hispanic homeowners in 2015
- The Urban Institute’s projection that Hispanics will account for 52% of new homeowners by 2030
- Hispanic incomes are up, while poverty is down since 2012
- Hispanics account for 66% of the growth in the U.S. labor force since 2000
- Hispanics account for 73% of the growth in overall employment since 2000

Also highly encouraging is the fact that the percentage of Hispanics and blacks with a degree has also risen significantly over the decades. And yet, despite this progress, there remains a persistent gap in both homeownership and wealth equality across racial and ethnic lines. Specifically, much of these gains in the number of homeowners and jobs and households reflect the fact that the Hispanic population is the fastest growing ethnic demographic in the nation. Yes, there were an additional 245,000 new Hispanic homeowners in 2015, but Hispanic homeownership was essentially flat that same year. In other words, because Hispanics continue to grow as a share of the population, they need to create new homeowners at an increasing rate just to keep pace. That is not to diminish the considerable gains that have been made by black and Hispanic Americans, as pointed out by NAHREP and others, but rather to point out that despite this progress there is still a lot of work to be done to close the gap.

Home Sales vs. Population Base California 2014



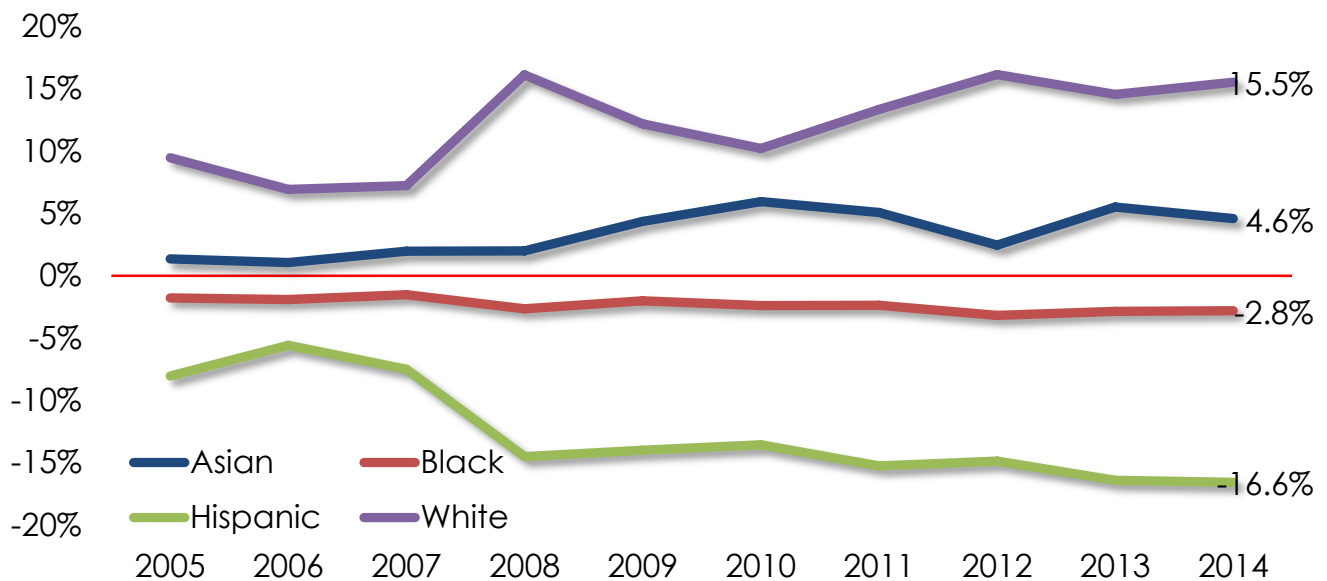
⁶ “State of Hispanic Homeownership Report 2015,” National Association of Hispanic Real Estate Professional, 2015.



Blacks and Hispanics in California continue to “punch below their weight” when it comes to the real estate market. In other words, the uptick in homeowners is due to the sheer uptick in the number of black and Hispanic households rather than a disproportionate economic gain that closes the ownership gap.

For example, Hispanics purchased almost 83,000 homes in California during 2014, which is up more than 11% over 2008. However, that represents just 22.1% of all home sales in the state that year. Given that Hispanics represented 38.6% of the population base, that represents a 16.6% deficit in the number of Hispanic buyers relative to their size of the state. Similarly, black residents have consistently accounted for a smaller proportion of transactions than they represent in California’s population. What’s more, these deficits are growing. While white and Asian residents continue to over-purchase homes – relative to their population size, blacks and Hispanics continue to fall farther and farther behind with little evidence of abating. In fact, 2014 was the largest under-participation in California’s real estate market by Hispanics in nearly 10 years.

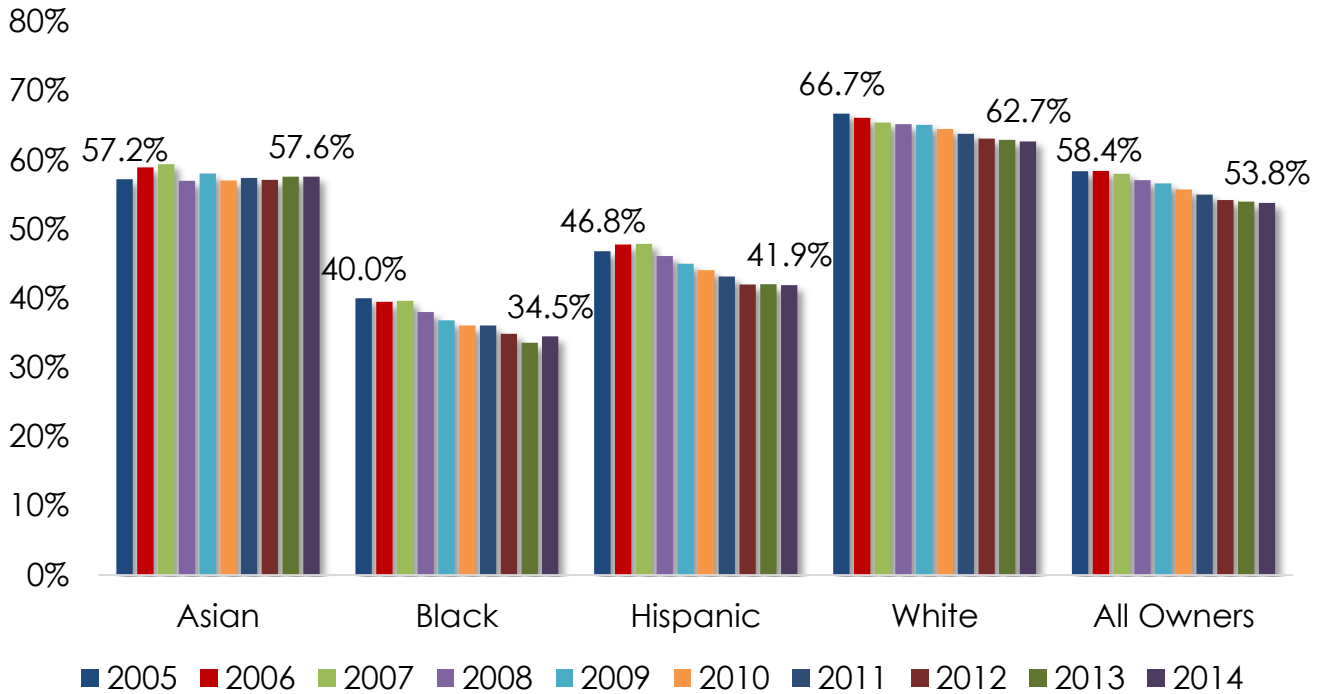
California Transaction Surplus/Deficit by Race/Ethnicity



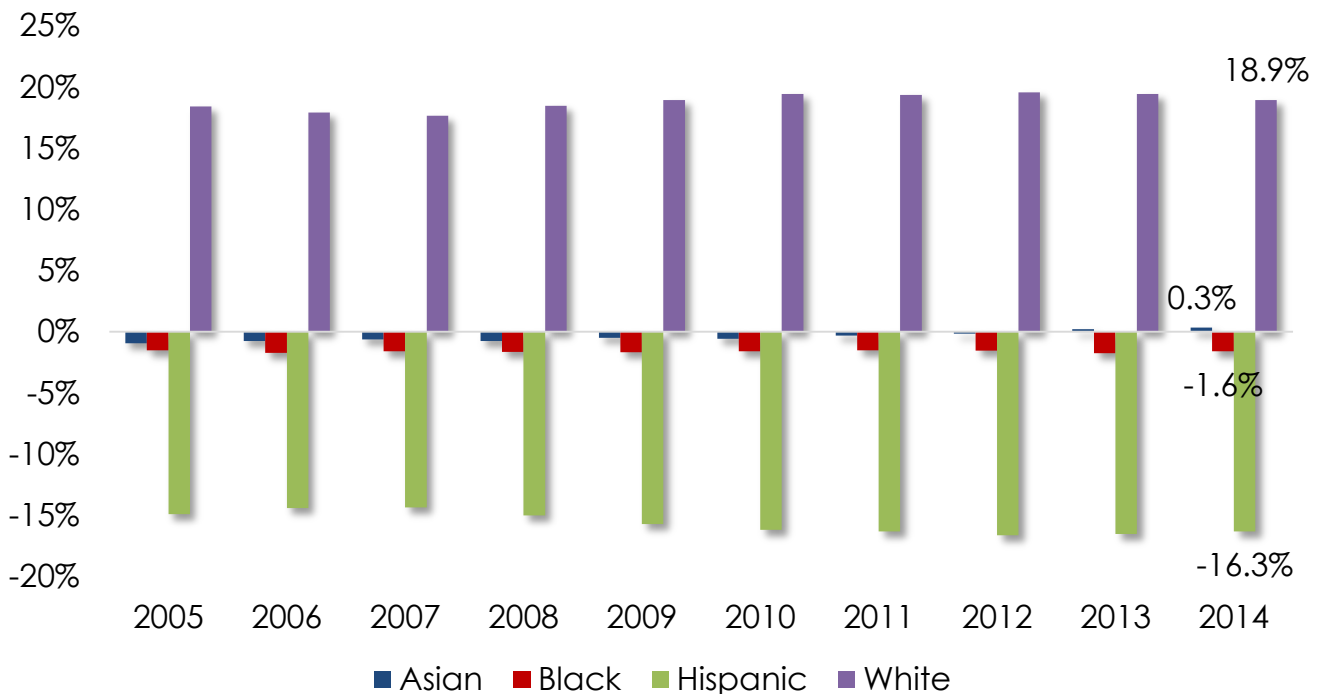
The unfortunate result of this chronic under-participation in real estate sales is that homeownership rates continue to fall for black and Hispanic households in California. Part of this is cyclical and associates with the housing collapse, but the declines have been much steeper for blacks and Hispanics. More importantly, homeownership rates have fallen in relative terms as well because the population has continued to expand, so that the number of homes that blacks and Hispanics “should” be buying (holding everything else constant) continues to rise while homeownership falls. As such, there is a mounting deficit, not just in transactions, but in overall homeownership. While Asians have actually reached parity in recent years, where their share of the population is roughly equal to their homeownership rate, the deficit amongst blacks and Hispanics remains near all-time highs.



California Homeownership by Race/Ethnicity



Surplus (Deficit) of Homeowners vs. Population



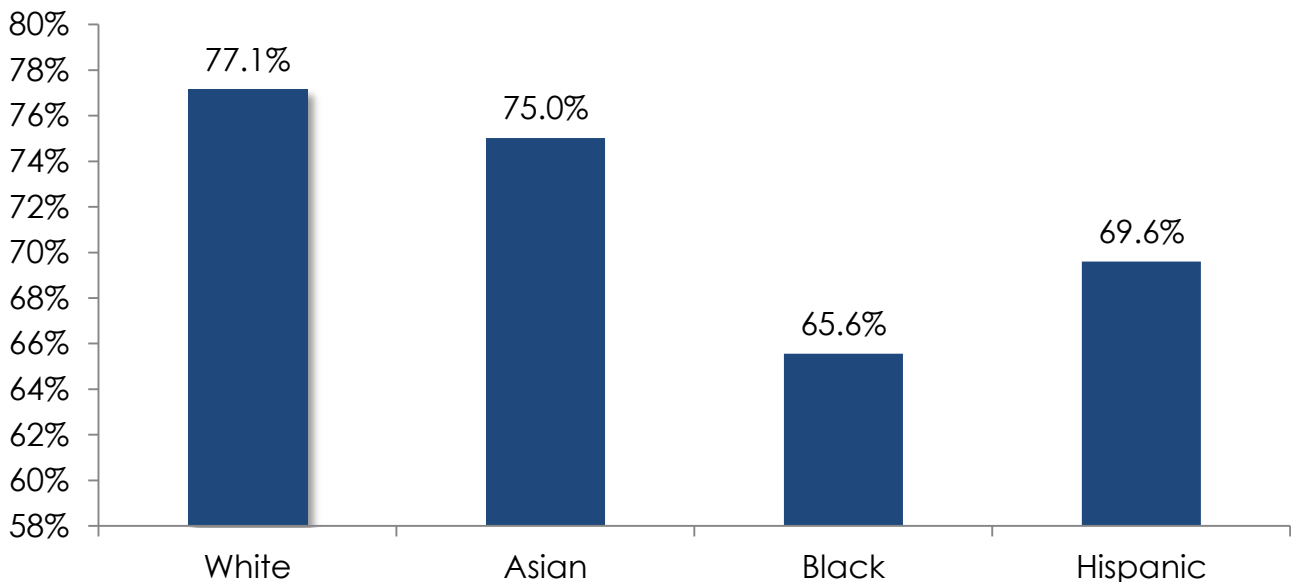


Not Just Demographics

Finally, it is worth noting that this is not simply a demographic phenomenon. One might argue that because there has been a systematic deficit in education, and therefore incomes, that this is not a housing-specific issue. Some go even further; suggesting that the focus should be on boosting access to education and reducing the cost of obtaining a degree, and that once these goals are achieved then the deficits in homeownership will sort themselves out.

This argument falls flat for two reasons. First, even after controlling for incomes, black and Hispanic households in California own homes in smaller proportions. Analyzing data from the 2014 American Community Survey, C.A.R. found that amongst households earning more than \$100,000 per year, 77.1% and 75.0% of white and Asian households owned their own home. However, just 69.6% of Hispanics and 65.6% of black households earning over \$100,000 per year own homes. Thus, income cannot explain away this deficit in homeownership as that gap persists even amongst high-income earners.

Homeownership for \$100K+ Households California 2014



Second, this is where the legacy of lack of access for non-whites may be continuing to weigh on homeownership, and thus wealth inequality, along racial and ethnic lines. The systematic under-participation in real estate amongst black and Hispanic households that dates back to the first half of the 1900s has inhibited the accumulation of wealth that is available to be passed on to future generations. Thus, even though many more of today's black and Hispanic Californians are in the upper income brackets compared to their predecessors, they do not have access to the inter-generational wealth transfers that households who began accumulating wealth in earlier generations may be able to provide their children to help them get a foot on the property ladder.



Conclusions

Ultimately, homeownership is an effective means for building wealth, reducing inequality, and improving the quality of life for all of our residents. Some argue that investing in the stock market would yield similar returns to the investor as investing in a home over the long run. However, the unfortunate reality is that renters rarely own non-cash financial assets and fail to accumulate meaningful wealth fairly consistently. It is also important to point out that this is one of the few ways that a typical household can make a leveraged investment. Your bank provides between 80% and 96.5% of the capital needed to finance the purchase, and yet the homeowner is allowed to keep any appreciation on that home as profit. The bank only wants its money back with some pre-specified amount of interest for the risk they are taking.

In that context, homeownership is an important vehicle for wealth creation because it creates a form of forced savings with significant upside potential. In addition, real estate is one of the few investments subsidized by federal, state, and local governments: owners receive mortgage interest deductions; they shelter capital gains from taxes upon the sale of a primary residence; and they benefit from property tax savings through Proposition 13. Oh, and by the way, in addition to all of these tax benefits, you get to live there too.

Unfortunately, the historic disparities of homeownership have persisted along racial and ethnic lines and have indeed regressed in the wake of the Great Recession. This poses a problem not just for the current generation who will face challenges getting their feet on the housing ladder in large enough numbers to reduce the homeownership gap, but this will put subsequent generations in a more difficult position moving forward as they will lack the inter-generational wealth that could otherwise be deployed to help generate wealth for millennials and beyond.

Closing the homeownership gap along racial and ethnic lines should remain a priority for reducing wealth inequality, political polarization, poverty, and improving our quality of life. This will be of particular importance to California, which has one of the most racially/ethnically diverse demographics in the nation, and an economy that is increasingly weighted towards the housing sector.



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