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ATTAINING HOME EQUITY

Owning a home signifies middle class status and the achievement of the American Dream. Through the tax code, banking regulation and direct market intervention, public policies have long been designed to foster homeownership. Unfortunately, the benefits have accrued mostly to white Americans, while numerous obstacles have been thrown in the path of blacks and other minorities. In recent years, however, both public agencies and private financial institutions have attempted to redress racial disparities in homeownership.

Federal policy began to shift during the 1960s, with the Fair Housing Act of 1968 representing the high-water mark. In the 1970s, attention turned to financial market access with passage of the Equal Credit Opportunity Act (ECOA), the Home Mortgage Disclosure Act (HMDA), and finally the Community Reinvestment Act (CRA). The latter was the first national legislation to place an affirmative responsibility on financial institutions to serve minority homebuyers.

Prodded by the CRA, many private financial institutions have aggressively pursued lending opportunities in the minority market. While banks are not rated under the CRA specifically for their service to minority communities, their performance on other geographic and income tests often necessitates a strong presence in those communities. Moreover, they have increasingly recognized the growth potential of minorities as a market for home mortgages and other types of consumer loans. Many banks have established community development groups which specialize in developing inner-city lending opportunities.

The government-sponsored mortgage market agencies have facilitated bank lending to minority households. In 1994, Fannie Mae launched a \$1 trillion initiative designed to promote ownership among blacks and other underserved groups. This past March the agency made an additional 10-year, \$2 trillion commitment, which included a plan to invest \$420 billion specifically in minority mortgages. The Ford Foundation has recently teamed up with Fannie Mae, providing a \$50 million grant for credit enhancement of low-wealth and minority mortgages.

The recent release of data from the 1999 Housing and Vacancy Survey (HVS) offers an opportunity to assess

progress in expanding minority homeownership in New York City. Although the city has the lowest rate of homeownership in the nation, it also has a diverse and growing base of middle-income minority households. Our analysis of the HVS data indicates that the 1990s were a time when the homeownership gap between whites and nonwhites narrowed considerably, but the homes of minorities have not appreciated as rapidly as those of white New Yorkers.

Closing the Gap

National trends show modest gains in the homeownership rates of minorities. But in New York City at least, nonwhites, and especially blacks, are indeed moving closer to whites in rates of homeownership.

At the outset of the 1990s, the homeownership rate for whites in the city was 40 percent, compared to 32 percent for Asians, 22 percent for blacks and 12 percent for Hispanics. Those rates reflect ownership of conventional homes, co-ops and condominiums. With the exception of blacks, whose rates of homeownership started increasing in the early 1990s, rates of homeownership were relatively flat between 1991 and 1996. During the latter part of the decade the homeownership rate of nonwhites, and especially of blacks, began to inch closer toward that of whites. By 1999 the white ownership rate was 42 percent whereas for Asians, blacks and Latinos it was 35 percent, 29 percent, and 14 percent, respectively.

Another way of measuring changes in minority homeownership is to consider the ratio of nonwhites' rates of ownership to that of whites. In 1991 the Asian rate was 80 percent of the white rate. Reflecting a slightly steeper increase in ownership during the late 1990s, the Asian rate had risen to 84 percent of the white rate by 1999. The narrowing of the gap was especially dramatic for African Americans. Whereas the black homeownership rate was only 55 percent of the white rate in 1991, by the end of the decade it had reached 69 percent of the white rate.

In contrast to other minority groups, Latinos made very little progress in closing the homeownership gap during the

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Research Watch

Homeownership and Social Capital

The personal benefits of homeownership are uncontested. They include the accumulation of wealth through home equity, tax advantages, a higher social status, and a greater sense of control and financial security. Much public policy on homeownership, however, is predicated on the belief that homeowners make better citizens because they have a greater incentive to become socially and politically involved in their communities. That assumption has only recently been subjected to empirical scrutiny, and the link between homeownership and social capital has been found to be more ambiguous than public policy admits.

Are Owners Different?

Demographically, homeowners are indisputably different from renters. The National Opinion Research Center's General Social Survey (GSS) shows that homeowners are generally older, have achieved a higher level of education, are more likely to be married and generally have higher incomes than renters. There are behavioral differences as well, including that owners have a higher voter turnout and are involved in more nonprofessional organizations than renters. Those differences exist even when owners and renters with similar levels of education and income are compared.

Within the last decade, social scientists have tried to uncover the root of these differences between owners and renters. It is a classic selection problem: Are owners different because they own, or do they own because they are different? It is unclear whether behavioral differences are the effect of an inherent difference between those that choose to own and those that choose to rent, are related to the characteristics of the neighborhoods in which they live, or result from the financial benefits and incentives ownership provides.

Using before-and-after data on approximately 300 low-income homebuyers and renters in Baltimore, William Rohe

and Michael Stegman (1994) found that ownership in itself did not necessarily lead to greater local social participation. Although owners were more likely to participate in neighborhood or block associations than renters were, they did not have higher rates of participation in school, social, and political organizations.

Rohe and Stegman's findings are generally representative of the national experience. Using the GSS and the American National Survey of Families and Households, Peter Rossi and Eleanor Weber (1996) found that owners evidenced a higher sense of satisfaction and were more likely to be involved in community improvement groups than renters. However, on a wide range of social measures from political participation to ethnocentric views, owners and renters were largely similar.

In the most recent study on homeownership and social capital, Denise DiPasquale and Edward Glaeser (1999) showed that length of tenure was a major factor in the community involvement of both owners and renters. Homeowners tend to be more active in their communities because they move less often than renters, but once the length of tenure is taken into account, renters are just as likely to be involved in their community.

Some of the most remarkable research on homeownership focuses on children. Richard Green and Michelle White (1997) tested the connection between parents' homeownership and their teenagers' chances of becoming parents or dropping out of high school. They found that 17 year-old children of low-income homeowners were 9 percentage points less likely to drop out of school than the children of similar renters. They also found that there is a higher probability that daughters of renters will become teen parents. The effects were not as pronounced among higher-income families. When Green and White tested for selection bias between owners and renters, the differences remained. The evidence, however, is not as straightforward as it seems; they also found that longer tenure mitigates the adverse effect of renting on children's success. That is consistent with other research that suggests that residential mobility can be harmful to children, especially adolescents.

Implications of the New Research

The recent research on homeowner effects encourages policy makers to rethink long-held assumptions. Homeownership is an efficient means of building equity among low-income groups, and since homeowners typically have more education and higher incomes, homeownership programs will remain an important community development strategy. But some of the social benefits of homeownership may also be attained through policies that provide more stable housing for low-income renters, reducing disruptive moves and encouraging greater community involvement. ♦

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1990s. The Latino rate of homeownership as a percentage of the white rate was 32 percent in 1999, compared to 31 percent in 1991.

The overall picture that emerges from the HVS is one of nonwhites, and particularly blacks, becoming more similar to whites in their housing tenure. This trend was especially pronounced in the late 1990s. Despite the progress, however, sizeable gaps remain. Latinos in particular stand out as a group lagging substantially behind the others in terms of homeownership.

Incomes and Life Cycles

Because purchasing a home requires significant financial resources and usually involves securing a mortgage, factors such as income, wealth and credit history are important determinants of homeownership. Social scientists have also found life cycle factors to be important. Age, marital status, and the presence of children are among the primary life cycle considerations associated with home buying. To the extent that nonwhites differ from whites in economic resources or life cycle factors, ownership rates among groups might also differ.

Another possible explanation for the gaps in homeownership rates between whites and nonwhites is dis-

and other household demographics, it can go a long way in shedding light on the likely causes of the gap.

For example, in 1999 Asians, blacks and Latinos were 77 percent, 50 percent and 21 percent, respectively, as likely as whites to own their homes. Adjusting for differences among groups in income, education, immigrant status and life cycle factors using a multivariate logit analysis, the ratios are 89 percent, 64 percent and 32 percent, respectively. This means, for example, that an Asian with the same education, income, age, immigrant status and family composition would be 89 percent as likely to own a home as a similar white. These adjusted ratios suggest that sizable gaps remain even after controlling for those factors. But it is important to remember that factors such as wealth and credit history have not been accounted for.

It is interesting to evaluate changes in the adjusted rates during the course of the past decade. It turns out that the gap in homeownership rates between whites and nonwhites narrowed continuously, especially among blacks and Asians. After adjusting for the relevant factors, African Americans were found to be 64 percent as likely as whites to own their home in 1999, compared to only 51 percent as likely in 1991. Likewise, Asians went from being 74 percent as likely in 1991 to being 89 percent as likely in 1999. Only among Latinos was the increase relatively small, going from 30 percent in 1991 to 32 percent in 1999.

For both Asians and blacks the ratio of their adjusted homeownership rate to the white rate increased significantly during the 1990s. This could mean that their wealth and credit histories relative to whites was improving, or that discrimination was declining.

For Asians, an increase in their wealth relative to whites is a plausible explanation. An analysis of income trends not presented here shows their incomes relative to whites improved substantially during the 1990s. To the extent that current income translates into wealth, this could go a long way in explaining the relative increase in the adjusted rate for Asians during the 1990s.

For blacks, an increase in wealth relative to whites is a less plausible explanation. National data show that the disparity in wealth between whites and blacks has been *increasing*, and there is little to reason to suspect that New York City is bucking the trend. In addition, the incomes of African American New Yorkers did not improve relative to whites during the 1990s. Nevertheless, more black households may have reached the threshold at which home owning becomes financially attractive.

The efforts initiated during the 1990s to increase black homeownership may have contributed to the improvement. Certainly, the Community Reinvestment Act, which became easier to enforce during the 1990s with improved HMDA

Actual and Adjusted Homeownership Rates in New York City

	1991	1996	1999
Actual Homeownership Rates:			
	(percent)		
White	40.1	40.2	42.0
Black	22.5	25.1	28.5
Hispanic	12.3	12.8	13.5
Asian	32.1	31.7	35.2
Minority Odds of Owning a Home Relative to Similar White Family:			
	(percent)		
Black	50.5	60.6	64.4
Hispanic	29.6	33.1	32.2
Asian	74.1	78.4	89.0

crimination in housing or mortgage markets. Although the most blatant forms of discrimination have largely disappeared, more subtle forms may still persist. The influential study by the Federal Reserve Bank of Boston, for example, found that blacks are 8 percentage points more likely than whites to be rejected for a mortgage, even after all known credit variables are controlled for.

The HVS does not allow for a similar analysis of discrimination in the New York market. But because it does provide detailed information on income, education, family composition,

data, played an important role. An increase in bank mergers and other actions requiring regulatory approval may also have promoted CRA vigilance.

The relatively low incomes of Hispanics are probably the primary cause of their low homeownership rates. With a median income of \$13,000 in 1999, New York City Latinos earned substantially less than whites, Asians, or blacks. One might suspect that the immigrant status of many Latinos further depresses the homeownership rate of the group. But even among native Latinos, the homeownership rate is only 17 percent—still substantially below that of other groups. Discrimination may play some role, but that interpretation does not explain why Latinos' adjusted homeownership rates did not improve as much as blacks' did during the 1990s. Nor does it explain why Latinos nationwide do not lag behind other groups in terms of homeownership as much as they do in New York City.

Average Housing Values in NYC by Race of Owner

	1991	1996	1999
	(thousands of 1999 dollars)		
White	255.3	221.4	276.2
Black	177.2	140.3	154.6
Hispanic	197.8	164.3	170.1
Asian	229.2	182.3	212.6

Value Stagnation

Homeownership is highly prized not only because it conveys middle class status, but also because it is typically an excellent way to accumulate wealth. Indeed, for most Americans their home represents their single biggest asset. Consequently, assisting minority homeownership is one way of leveling the economic playing field.

For most New Yorkers, however, the 1990s were an unkind time in terms of their real estate investments. Among nonwhites the average inflation-adjusted value of homes actually declined. Although housing values of nonwhites began rebounding after 1996, they still did not make up all of the ground lost during the early part of the decade. Even among whites housing values appreciated by only 8 percent over the entire period. The increases during the latter half of the decade reflect the strengthening of the city's economy.

The relative decline in the values of nonwhites' homes during the 1990s reflected two distinct patterns. First, nonwhites' homes depreciated more quickly than those of whites during the early years, so that by 1996 the gap in average housing values had already increased substantially. Second, when the market rebounded during the late 1990s, whites' housing values skyrocketed while those of nonwhites grew

more slowly. Indeed, between 1996 and 1999 the average value of white-owned homes increased by 25 percent. In contrast, during that same period average housing values for Asian, black and Latino homeowners increased by 17 percent, 10 percent and 4, percent respectively.

A somewhat different picture emerges if we examine housing values looking at the median as opposed to the average. Unlike the average, the median is not unduly influenced by extremely high or low values, and differences in housing values between whites and nonwhites do not appear as large. Median housing values for Asians and whites were virtually the same throughout the decade. Even among blacks and Latinos, median housing values hovered around 80 percent of the white median. Using median housing values as our statistic, the gap in housing values between whites and nonwhites does not appear to be widening. Rather, what appears to be happening is an acceleration in housing values at the high end of the housing market.

Although the entire housing market rebounded after 1996, the rebound was especially strong in the high-end market, where nonwhites are scarce. Indeed, within the top 10 percent of the housing market in terms of value, nonwhites represent only 10 percent of owners, whereas they comprise 39 percent of all homeowners in the city. Moreover, the median housing value of the top decile of homes increased by 65 percent between 1996 and 1999, in contrast to a paltry 4 percent increase during that same period for all houses. Because the high-end market is concentrated among whites, their average home values skyrocketed during the latter part of the 1990s.

Whereas it is Latinos who lag significantly behind other groups in terms of ownership rates, blacks are the group with lowest housing values and so may be benefiting least from the wealth-creating potential of homeownership.

One part of the story remains the same, however, for all racial groups. Homeownership was a relatively unprofitable investment for most New Yorkers during the 1990s. For all groups the inflation adjusted median value of homes decreased or remained virtually flat during the course of the 1990s. Although the median also reflects the up-swing in the market that occurred during the latter part of the decade, only Asians and whites had median housing values in 1999 that were as high as those they had in 1991.

Despite the sluggish performance of housing values during 1990s, the sustained expansion of the city's economy is reflected in homeownership patterns. More New Yorkers are becoming homeowners, and housing values are on an upward trajectory. Thus, it appears that the decade ended on a positive note. ♦

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