How Racial Differences in Housing Returns Shape Retirement Security

Amir Kermani\textsuperscript{1} and Francis Wong\textsuperscript{2}

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\textsuperscript{1}UC Berkeley and NBER
\textsuperscript{2}LMU Munich
Housing and the Racial Wealth Gap

- Large and persistent racial wealth gap
  - Median white family: $188k
  - Median Black family: <$20k most years since 1949 (Kuhn et al. 2020)
  - Narrows to about half at retirement thanks to Social Security (Hou and Sanzenbacher 2021)

- Housing is single-largest asset class for median American household
  - Favorable rate of return (Jorda et al. 2019), government subsidies

- Puzzle: increases in Black homeownership without wealth convergence
  - 23% → 45% between 1920 and 2021
Racial Wealth Gap

**Explanation**: racial disparity in housing returns (Kermani and Wong 2022)

- Gap due to greater exposure to distressed sales (not slower house price growth)
- Explains two-fifths of gap in primary housing wealth at retirement

**New question** (this paper): how do racial disparities in housing returns shape retirement security?

- Today: neighborhood quality
- Also in paper: owning vs. renting, consumption volatility
This Paper

**Linked administrative data:** property records + mortgage records + address histories

- 7m ownership spells (1990-2020)
- 6.3% Black, 13.8% Hispanic

**Finding:** higher returns $\implies$ ↑ neighborhood quality for retirement-age households

**Mechanisms:**

- Amount of wealth at retirement (direct channel)
- Persistent impacts of foreclosures: fewer minorities become homeowners after transitioning to renting

**Implications:**

- Racial differences in housing returns cumulate to racial differences in neighborhood quality at retirement
- Policy solutions should target upstream disparities (e.g., labor market disparities)
Rate of Return to Housing

Unlevered rate of return:

\[ 1 + ROR_u^i = \left( \frac{P_{i1}}{P_{i0}} \right)^{\frac{1}{T_{i1} - T_{i0}}} \]

Note: can also construct a levered return to incorporate mortgage, maintenance, taxes, etc.
Recap: Kermani and Wong (2022)

Compare ROR for homeowners who bought property in same year, same county

\[ ROR_i = \alpha_0 \mathbb{1}\{\text{Black}_i\} + \alpha_1 \mathbb{1}\{\text{Hispanic}_i\} + \mu_{g(i),y_0(i),y_1(i)} + \varepsilon_i \]
How do racial differences in returns impact differences in retirement security?

**Channel:** increase in overall wealth → access to desirable neighborhoods

**Empirical question:** what is the effect of realized returns on neighborhood choice for homeowners who sell their home after age 55?

\[ \Delta Y_i = \sum_r (\beta^r \cdot ROR_i \cdot 1[r(i) == r]) + \mu_{c(i),y_0(i),y_1(i),x(i)} + \mu_r(i) + \varepsilon_i \]

- \( ROR_i \): annual returns realized by homeowner \( i \) of race/ethnicity \( r(i) \)
- \( \mu \) (fixed effects): commuting zone × purchase year × sale year × deciles of purchase price
- \( \Delta Y_i \): measure of neighborhood quality
  - Tract demographics from Census
  - Healthcare quality: Dartmouth Atlas index of ambulatory care
  - Life expectancy: causal estimates of CZ effect from Finkelstein et al. (2021)
  - Crime: county-level from Chetty et al. (2016)
Finding: housing returns can have large influence on neighborhood quality

Panel A. Impacts of Realized Returns

- Coefficients interpretable as effect of 1pp increase in annual returns
- Finding: benefits for all groups, but suggests minority households benefit less along some dimensions
- Motivation for future work: racial differences in constraints/preferences?
Additional Results

1. **Consumption**: Homeownership mitigates racial gaps in food consumption volatility at retirement
   - Descriptive exercise from PSID

2. **Mechanism**: “Homeowner → Renter → Homeowner” takes longer for minorities, exacerbated by distressed sales
   - Construct hazards using address histories

3. **Mechanism**: Labor market shocks have stronger impact on foreclosures for minorities
   - Use Great Recession CZ shocks from Yagain (2019)
Conclusion/Policy Implications

Existing finding: large racial gap in realized housing returns (Kermani and Wong 2022)

New finding: racial gap in housing returns $\rightarrow$ gaps in retirement security

- Access to high-quality neighborhoods
- Consumption volatility

Implication: housing policy during working years critical for addressing disparities at retirement

- Goal: prevent financial distress from leading to foreclosures
- Minorities have less stable incomes, less liquid wealth
- Short-run: policies that accommodate income instability and illiquidity (e.g., more flexible mortgages)
- Ultimate solution: address disparities in labor market
Consumption volatility

Panel A. Consumption over the Life Cycle

Panel B. Consumption Around Home Purchase

- Volatility: symmetric change in food consumption
  $\frac{|c_t - c_{t-1}|}{c_t + c_{t-1}}$

- Increase in volatility for Black homeowners suggests more binding consumption commitments
Panel A. All Sales

Panel B. Regular Sales

Panel C. Distressed Sales

- Hispanic
- Black
- White
Great Recession Shocks

Panel A. Terciles of Great Recession Shock

Panel B. Impact on Foreclosure Rate