How Racial Differences in Housing Returns Shape Retirement Security

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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)
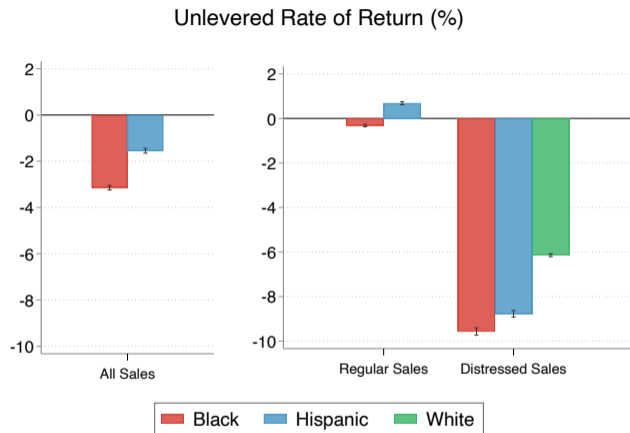
Rate of Return to Housing

Unlevered rate of return:

$$1 + ROR_i^u = \left(\frac{P_{i1}}{P_{i0}} \right)^{\frac{1}{T_{i1} - T_{i0}}}$$

Note: can also construct a levered return to incorporate mortgage, maintenance, taxes, etc.

Recap: Kermani and Wong (2022)

Unlevered Rate of Return (%)

- ▶ 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 $\rightarrow$ 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 $r(i)$

μ (fixed effects): commuting zone $\times$ purchase year $\times$ sale year $\times$ deciles of purchase price

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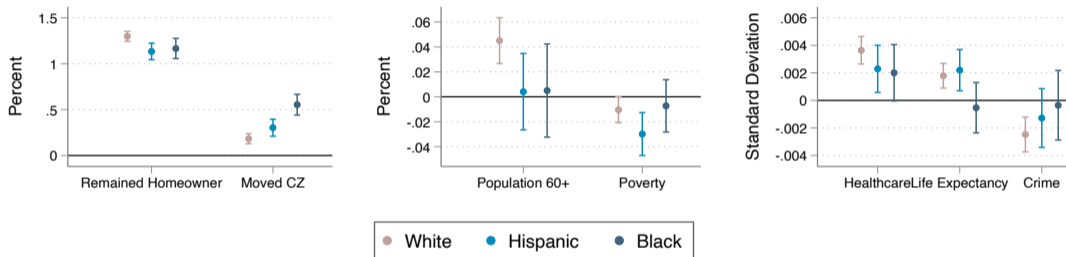
- ▶ Coefficients interpretable as effect of 1pp increase in annual returns
- ▶ Finding: benefits for all groups, but suggests minority households benefit less along some dimensions
- ▶ Motivation for future work: racial differences in constraints/preferences?

Additional Results

1. **Consumption:** homeownership mitigates racial gaps in food consumption volatility at retirement
   - ▶ Descriptive exercise from PSID ▸ Link

2. **Mechanism:** "homeowner → renter → homeowner" takes longer for minorities, exacerbated by distressed sales
   - ▶ Construct hazards using address histories ▸ Link

3. **Mechanism:** labor market shocks have stronger impact on foreclosures for minorities
   - ▶ Use Great Recession CZ shocks from Yagain (2019) ▸ Link

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)
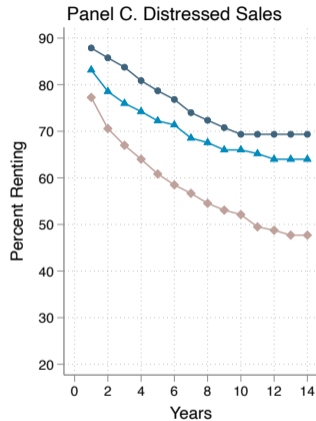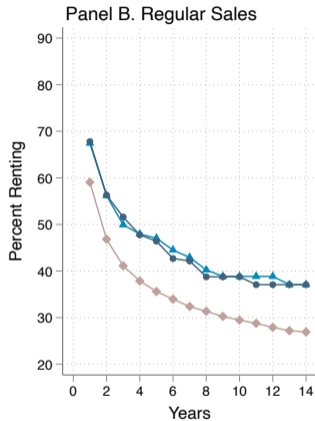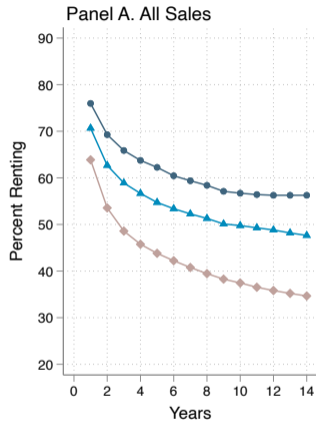- ▶ Ultimate solution: address disparities in labor market

Consumption volatility

Panel A. Consumption over the Life Cycle

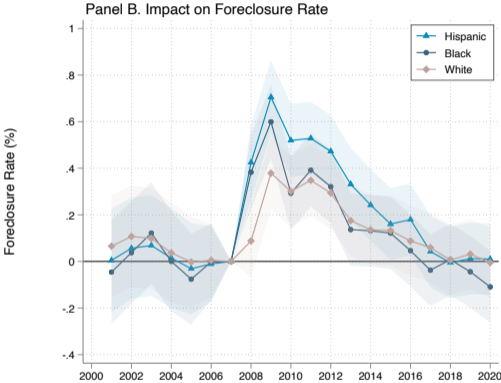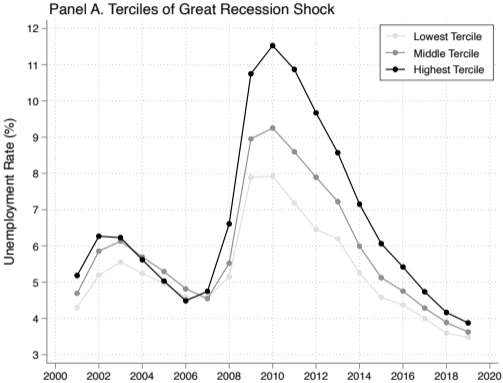Panel B. Consumption Around Home Purchase
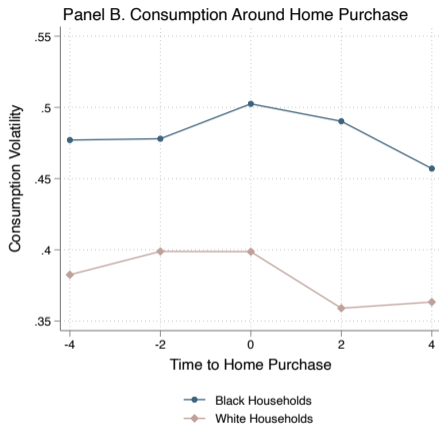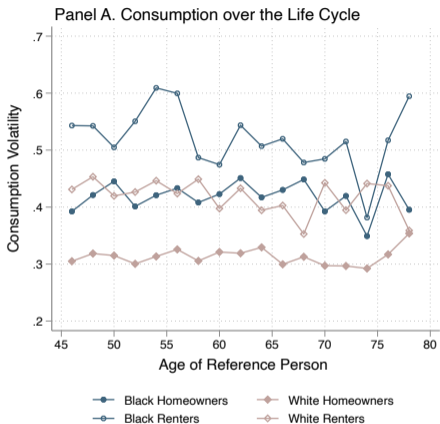
- ▶ Volatility: symmetric change in food consumption $\frac{|c_t - c_{t-1}|}{c_t + c_{t-1}}$
- ▶ Increase in volatility for Black homeowners suggests more binding consumption commitments

▶ Return

Hazard

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

▶ Return