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Intra-Metropolitan Mobility,
Residential Location and
Homeownership Choice Among
Minority and White Households

Part 1

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Executive Summary

INTRA-METROPOLITAN MOBILITY, RESIDENTIAL LOCATION, AND HOMEOWNERSHIP CHOICE AMONG MINORITY AND WHITE HOUSEHOLDS: ESTIMATES OF A NESTED MULTINOMIAL LOGIT MODEL

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Recent years have witnessed substantial academic research and policy debate regarding access to homeownership, particularly among racial and ethnic minorities (see, for example, Gabriel and Painter (2002), Painter, Gabriel, and Myers (2001), Rosenthal (2001), Coulson (1999), Gyourko and Linneman (1996), and Wachter and Megbolugbe (1992)). In part, the debate arises from sizable and persistent gaps in homeownership attainment among those groups. While the U.S. homeownership rate rose to a record high of almost 68 percent in 2002, the longstanding white-minority homeownership gap of 27 percentage points was little changed. In 2002, about 74 percent of white households had achieved homeownership, compared with only about 48 percent of African-American and Hispanic households.

In 2002, the Bush Administration articulated a policy goal of adding 5.5 million minority households to the ranks of U.S. homeowners by 2010. That goal follows in the wake of similar policy initiatives by the Clinton Administration, whereby the U.S. Department of Housing and Urban Development specified a national homeownership goal of 70 percent by 2006. The HUD goal implied a full 15 percent reduction in the homeownership gap between white and minority households.

Homeownership is expected to confer significant benefits on minority populations and neighborhoods. Homeownership attainment typically is accompanied by increased consumption

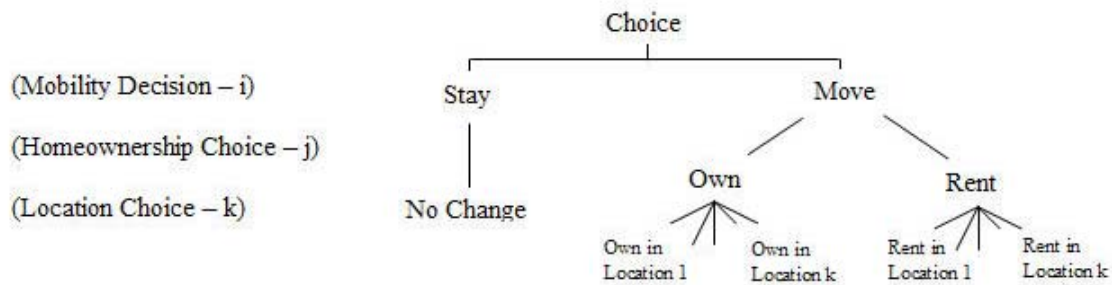
of housing services and improved housing conditions. Further, homeownership comprises a primary investment vehicle of American households; in that regard, elevated homeownership among minority households undoubtedly would serve to boost their wealth and economic status. Research also indicates that homeownership confers benefits to neighborhoods, in the form of improved property upkeep, neighborhood safety, school quality, and other neighborhood amenities (see, for example, Green and White (1997), Coulson et al, 2002).

While recent research provides new insights regarding the determinants of minority homeownership, results fail to fully explicate the persistently damped homeownership rates of African-American households. Prior studies, however, fail to structure and to jointly evaluate the mobility and residential location decisions that typically accompany the choice of housing tenure. The intra-metropolitan mobility and residential location choices of minority and white households may vary considerably, owing in part to the different endowments, constraints, and locational preferences of those groups. Among minority households, various factors may work to limit mobility and choice of residential location, so as to constrain the homeownership choice. An improved understanding of the linkages between those decisions and homeownership choice may yield new insights and better-informed policies to enhance minority homeownership.

Our Approach

This study estimates a three-level nested multinomial logit model of household intra-metropolitan mobility, residential location, and homeownership choice. In so doing, the study applies individual level 1990 Census data to test relevant economic, demographic, and neighborhood hypotheses in the Los Angeles Consolidated Metropolitan Area (CMSA). The model is then simulated to assess the effects of changes in household endowments, neighborhood racial composition and other amenities on the intra-metropolitan mobility, residential location, and tenure choices of minority and white households.

The model can best be represented by the following choice structure:



This framework allows for location characteristics to influence the decision to own and the decision to move, while controlling explicitly for the role of mobility in homeownership choice. The integrated structure of the model also allows for homeownership choice to affect location choice. Finally, this methodology allows us to simulate the impact of changes in household demographic, economic, and other characteristics on the likelihood that a household will choose to own a home and will choose to locate in a particular area. In that context, we evaluate the extent to which differentials between whites and minorities in household and locational characteristics affect the racial gap in homeownership.

The data utilized in this study are drawn from the public use micro-data sample (PUMS) file of the 1990 decennial census. The data file is comprised of a 5% sample of all individuals living in Los Angeles, Orange, Ventura, Riverside, and San Bernardino Counties. These counties of metropolitan Los Angeles comprise close to 11 million residents and are dramatically diverse in both their residential composition and in their array of neighborhood living environments. For purposes of residential classification, households are placed into groups that resided in the City of Los Angeles, other parts of Los Angeles County, or the Counties of Orange, Ventura, San Bernardino or Riverside during the 1985 – 1990 period.

The data are sufficiently rich and numerous to identify differences between minority and white households in the economic, demographic, and neighborhood characteristics governing

mobility, residential location, and tenure choices. The data provide excellent information on demographic factors (race-ethnicity, age, marital status, persons per household, workers per household, migrant origin and history), economic factors (salary income, asset and other income, occupation and education level of the householder) that may influence a household's choice to move or buy a house. In addition, location characteristics such as house prices, rents, and population racial composition drawn from the PUMS, and county-level crime rates drawn from Department of Justice records are included in the location choice model to control for housing market differences and differences based on household preferences.

Results

The models were separately estimated for black, white, Latino, and Asian households. Sample sizes for the racially stratified models include 94,449 white households, 12,764 black households, 22,439 Latino households, and 12,158 Asian households. All variables are included in each racial grouping except that immigrant status is added for the Latino and Asian models for both the decision to own and the decision to move.

The results demonstrate that control variables are consistently important in determining homeownership, location, and mobility decisions for each racial group. However, those results do suggest numerous important variations across minority and white households. For example, marital status is much more important in lowering mobility for whites than for other ethnic groups. While important for all groups in determining the likelihood someone would buy a home, the importance of income was most important for African-American households. The study also demonstrates that Latino immigrants are much less likely to own a home than are Latino native-born households. This effect is insignificant for Asians and is consistent with recent studies of immigrant populations (see Painter et al (2001) and Painter et al (forthcoming)).

There were also some notable differences in the results concerning household location choice by ethnic group. As expected, the estimated coefficients on the house prices difference terms are negative and significant throughout, while African-American households are found to

be most sensitive to differences in house prices and rents. In addition, the increased presence of county minority population exerts a strong positive influence on the location choice of African-American households. Finally, the difference in county crime rates lessens the likelihood that a household will move to a particular area, but is not statistically significant in the Latino and Asian sub-samples.

Model Simulation

One of the benefits of estimating homeownership in the context of the nested logit model is that we are able to simulate the effects of changes in household and location characteristics on the decisions to own, on where a household locates, and on whether they are likely to move. Figures 1-4 highlight the results of two sets of simulations for African-Americans and Latinos that chose to move during the study period.¹ In these simulations, we adjust the socioeconomic characteristics of blacks and Latinos to that of whites and lower the crime rates in the City of Los Angeles and then quantitatively assess the implications thereof on the choice to own a house and on the location choices of households.

Figure 1 highlights the results of simulations that increase minority incomes and equate other minority socioeconomic characteristics to that of whites. As is demonstrated in Figure 1, homeownership rates for African-Americans more than double in the City of Los Angeles and Ventura County, and record substantial gains in most other areas. The white-minority homeownership gaps fall most in those areas that are the most expensive. Overall, the gaps in homeownership rates between whites and African-Americans falls from 29 to 12 percentage points. Figure 2 depicts a similar simulation for Latinos. As with African-Americans, Latino homeownership rises dramatically in the City of Los Angeles and Ventura County; further, Latinos experience larger gains in Orange County than do African Americans. Overall, the homeownership gap between whites and Latinos falls from 18 percentage points to 6.

¹ Many more simulations are shown in the full report available at <http://www.realtor.org/Research.nsf/Pages/NCRERHousingOpp?OpenDocument/???>

As is shown in Figures 3 and 4, a simulated 20 percent reduction in overall crime rates in the City of Los Angeles also has important implications for household moves. Among African-Americans and Latinos, the sizable reduction in the city's crime rate results in an approximate doubling in that locality's share of movers choosing to own, while the share of movers choosing to rent doubles for African-Americans as well. Households are drawn from all areas, largely including Orange, Ventura, and other parts of Los Angeles County. Among other things, this simulation points to the substantive local economic and development externalities of city policies to enhance public safety. Finally, other simulations show that renters are much more likely to respond to changes in house prices and rents than are owners. One would expect this to be the case, as it is easier for renters to adjust their locational choice than for owners.

Summary and Conclusions

Three primary findings emerge in the analysis:

1. African-Americans have greater sensitivity to house price and income changes than do other groups. This suggests that as economic status rises, there is a greater potential for homeownership increases among African-Americans than Latinos.
2. Equating the socioeconomic characteristics of minorities and whites closes the homeownership gap by more than 70 percent. The gains in homeownership are found in primarily the more expensive areas of the Los Angeles Metropolitan area.
3. Changes in location characteristics can have dramatic impacts on the residential choices of households. Changing house prices or minority concentration has immediate impact on the location of renter households, but little impact on the residential choices of homeowners. On the other hand, lowering crime rates will cause some renter households to become owners, and change the location of owners.

In sum, research findings underscore the fundamental importance of gains to minority economic status in the advancement of the homeownership goal. Perhaps more than any existent policy, upward economic mobility on the part of minorities would aid in their attainment of homeownership.

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Figure 1: African-American Homeownership Rates with White Household Socioeconomic Characteristics

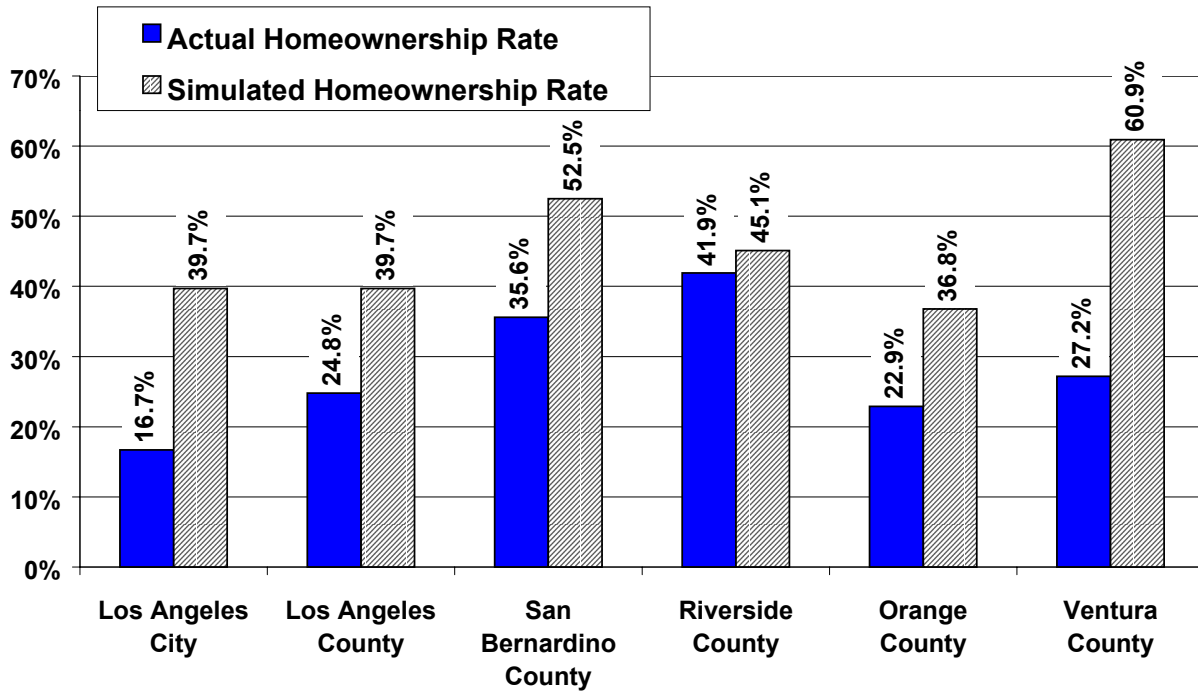


Figure 2: Latino Homeownership Rates with White Household Socioeconomic Characteristics

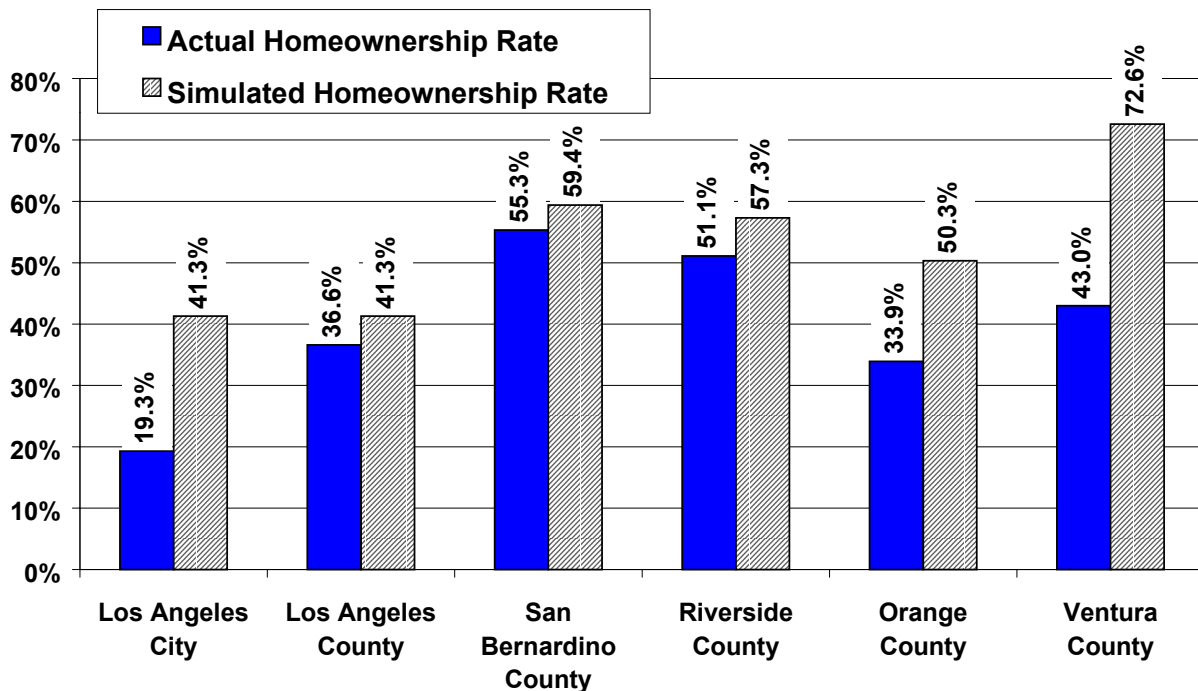


Figure 3a: Change in African-American Homeownership and Location Choice due to a 20% Reduction in Crime in Los Angeles City

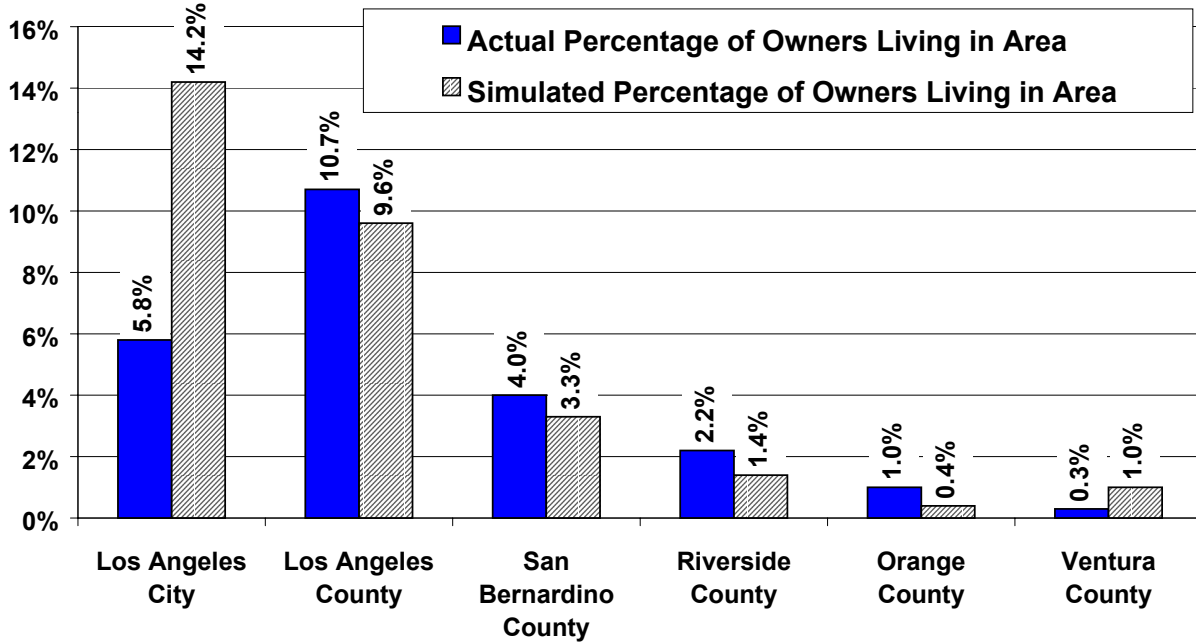


Figure 3b: Change in African-American Renters and Location Choice due to a 20% Reduction in Crime in Los Angeles City

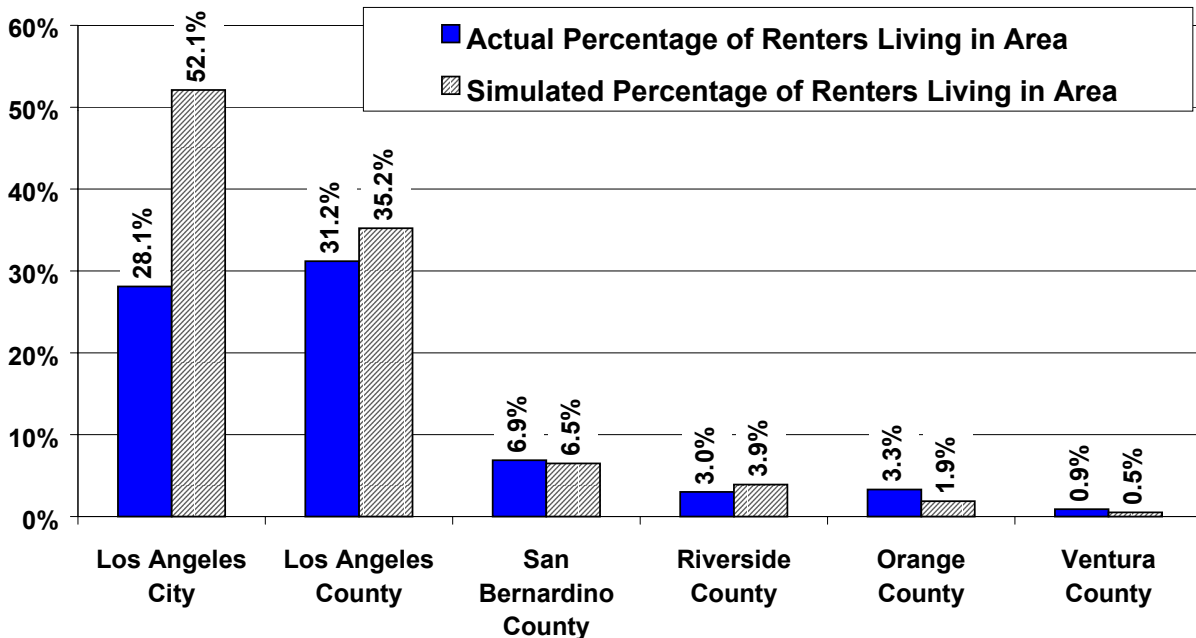


Figure 4a: Change in Latino Homeownership and Location Choice due to a 20% Reduction in Crime in Los Angeles City

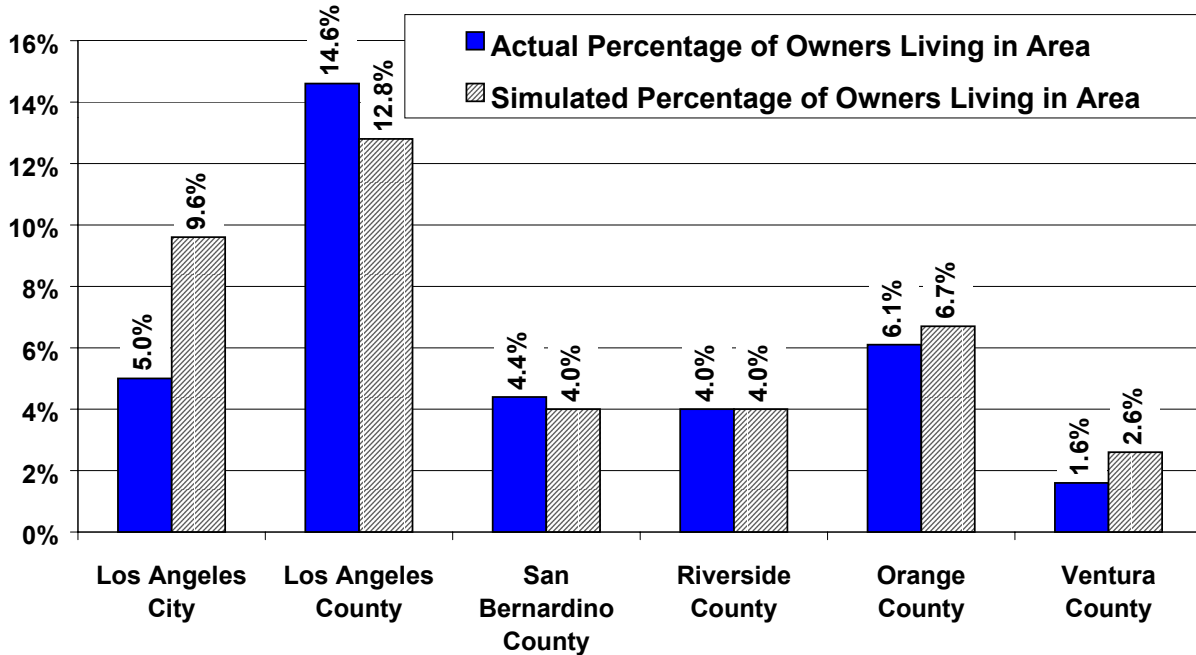
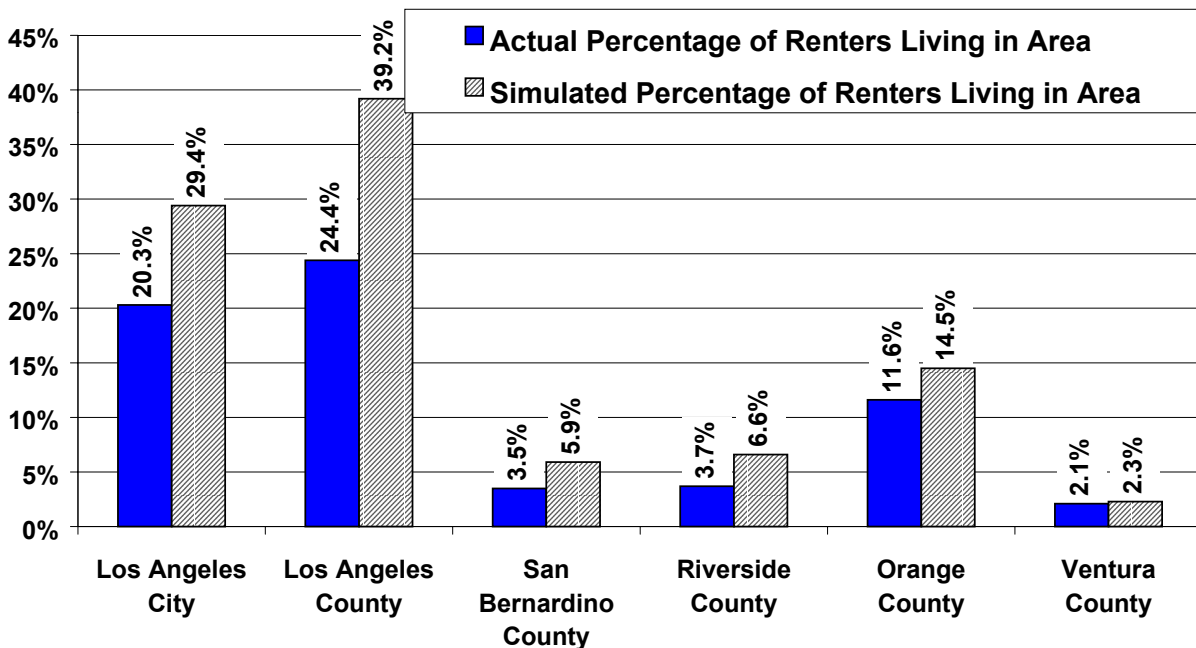


Figure 4b: Change in Latino Renters and Location Choice due to a 20% Reduction in Crime in Los Angeles City



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