

HOMEOWNERSHIP AS A MEANS OF WEALTH GENERATION

ABSTRACT

The paper seeks to examine the importance of homeownership for African Americans in the United States (US) grounded on past studies. Leading suggestions and opinions from literatures suggest that homeownership creates generational wealth, provides social status and security, enhances residential choice and economic opportunities. The paper begins by exploring the trends and trajectories in African American homeownership in the US and discusses the benefits (importance) of homeownership. We later outline the emerging challenges of homeownership for African Americans, noting that it remains an effective way of creating wealth. Lastly, the review highlights what can be done to close the homeownership gaps in ensuring that African Americans fully utilize homeownership as a means for wealth generation.

Keywords: Homeownership, African American, Wealth generation, United States

1. Introduction

The concept of wealth has been carefully unpacked across disciplines, especially within the economics and business domains, with some literature and studies stressing wealth disparity as a driver to economic inequality and vulnerability for poorer households (Hanks et al., 2018; Daly et al., 2017). The term has generally been referred to as the sum of the value of household assets, such as financial, retirement savings, home, car, and business minus all debts. Put it, wealth is the difference between what a household owns and what they owe, but more importantly allows families and households to be economically secure and create opportunities for the next generation (Anacker et al., 2012; Shapiro et al., 2013). As argued, such opportunities can allow people to move forward by moving into better and safer neighborhoods through homeownership.

Homeownership has been viewed as an essential wealth-building source and a foundation for economic stability (McCargo et al., 2019). It often goes beyond the notion of putting a roof over one's head to providing financial security and a source of pride for people who have worked hard to provide for their families, as reflected by (Leigh & Huff, 2007). While many have pointed to the benefits of homeownership, especially for African Americans, others have recounted that buying a house is no longer beneficial for many lower-and middle-income families (Black families in particular) as the purchase is often a high-risk financial venture that has enormous, and frequently unarticulated, opportunity costs (Dickerson, 2009). The reason for this has been that homeownership policies in the US are outdated, misguided, and virtually ignore the actual market realities for households within the lower and middle-income bracket (Carr et al., 2016; Dickerson, 2009; Haurin & Morrow-Jones, 2006).

Nevertheless, some studies have emphasized that owning a home can provide a stable place to live and remove significant economic uncertainty in the form of fixed housing costs while acting as a key to upward mobility for low and middle-income families (Leigh & Huff, 2007; McCargo et al., 2019). The review adds knowledge on homeownership as a means of wealth

creation, focusing on Black (African) Americans in the US. The first part of this paper explores homeownership trends in the US and narrows down why African Americans must own homes. The last section of this review unpacks key barriers and factors that inhibit homeownership, particularly for Blacks, and the need for such barriers to be addressed if homeownership remains an effective way of creating generational wealth.

1. African American Homeownership in the US: Trends and Trajectory

When a functional economy experiences turbulence and crisis like the past recessions in the US, households who have financial resources and build wealth would withstand those shocks. Thus, family assets such as homes can help secure loans and other financial opportunities to pay for their children's education, invest in small businesses, and pay-off home loans, among other things. However, the historical context of homeownership is entrenched with racial complexities and unequal income disparities, making it more difficult for African Americans to exploit the full potentials of owning a home (Collins & Margo, 2010; McCargo et al., 2019).

Racial homeownership disparities have been persistent for decades since the Great Depression, with the analysis pointing towards a 30-plus percentage-point gap between black and white homeownership rates which has not decreased since the passage of the 1968 Fair Housing Act (Collins & Margo, 1999; McCargo et al., 2019). For example, a study by Collins and Mago (2010) on estimates of homeownership for African American and white households from 1870-2007 provided insights on patterns of racial differences and trends in homeownership and implications on wealth accumulation and quality of life (Collins & Margo, 2010). Their study confirmed from 1960 to 1980, the racial gap declined by nine percentage points, but it widened by 6 points from 1940 to 1960, and so the net change from 1940 to 1980 was a narrowing of only three percentage points, which then was wiped out by a widening in the gap between 1980 and 2007 of 4 percentage points (Collins & Margo, 2010).

Although the racial gap seemed to decline as raised by Collins and Margo, from 1940 and 2000, the homeownership rate for black households more than doubled, increasing from 22.8 percent to 46.3 percent (see Fig 1). During that same period, the rate for white households grew from 45.6 percent to 72.4 percent, increasing at a lesser rate but growing to a much higher level than the black rate (Leigh & Huff, 2007). The data drawn from an earlier work by Herbert et al. 2005 on homeownership gaps among low-income and minority groups showed a wide disparity in homeownership between the Blacks and other racial groups, mainly the white, as of 2000.

In 2017, the black homeownership rate (41.8 percent) was the lowest of all racial and ethnic groups. Between 2000 and 2017, the black homeownership rate dropped 4.8 percentage points—a loss of about 770,000 black homeowners, while the homeownership rates of other racial and ethnic groups either remained constant or increased (Wong et al., 2013). An indication that in recent years, the gap has widened, with black households experiencing more considerable losses during the housing crisis and experiencing a slower recovery in the aftermath (McCargo et al., 2019).

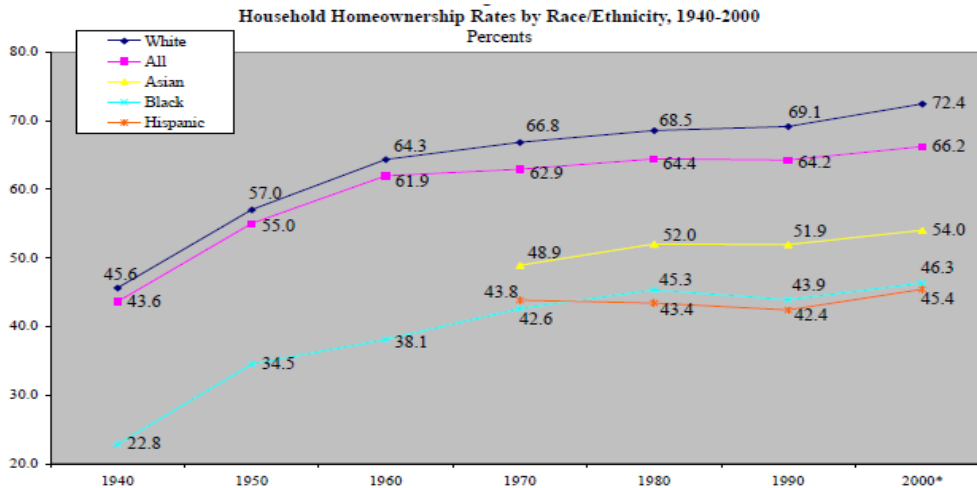
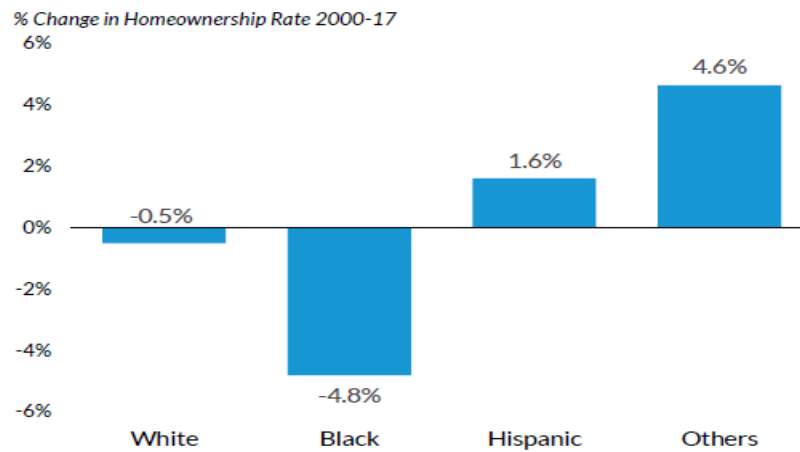


Figure 1: Household homeownership rate by race/ethnicity, 1940-2000.

A similar report presented by the Urban Institute (2019) revealed that from 2000-2017, the black homeownership rate dropped by 4.8 percentage points, while Hispanics and other race/ethnic groups experienced an increase in the homeownership rate. Suggesting that if the homeownership rate stayed the same as the rate in 2000, as shown in Figure 1, there would have been about 770,000 more black homeowner households in 2017.



Source: Decennial Census, American Community Survey, and Urban Institute.

Figure 2: Changes in homeownership rate between 2000-2017.

2. Why Homeownership is Important for African Americans and its Potential Benefits

Despite the devastating effect of the Great Recession on home equities, studies reveal that homeownership is the most important financial investment most people make and the most important pathways to building wealth and establishing healthy communities (McCargo et al., 2019). McCabe, in a 2018 study, conducted a national housing survey of American adults asking for the reasons why people will want to own a home and their responses varied across race and ethnicity (McCabe, 2018). African Americans and Latinos were more likely than whites to identify the social status of ownership, indicating the importance of building wealth as reasons to buy a home. African Americans were also likely to pursue homeownership to improve their housing quality and less likely to view ownership as a tool for accessing more

convenient neighborhoods (McCabe 2018). Research further confirms that homeownership contributes to more significant wealth creation and accumulation and is associated with several commonly desired social, educational, and civic outcomes (Leigh & Huff, 2007; Sullivan et al., 2015). For example, the children of homeowners or living with homeowner parents are more likely to become homeowners at a younger age based on the information obtained over time from their parents, with the ability to lead to generational wealth (Choi et al., 2018; Leigh & Huff, 2007).

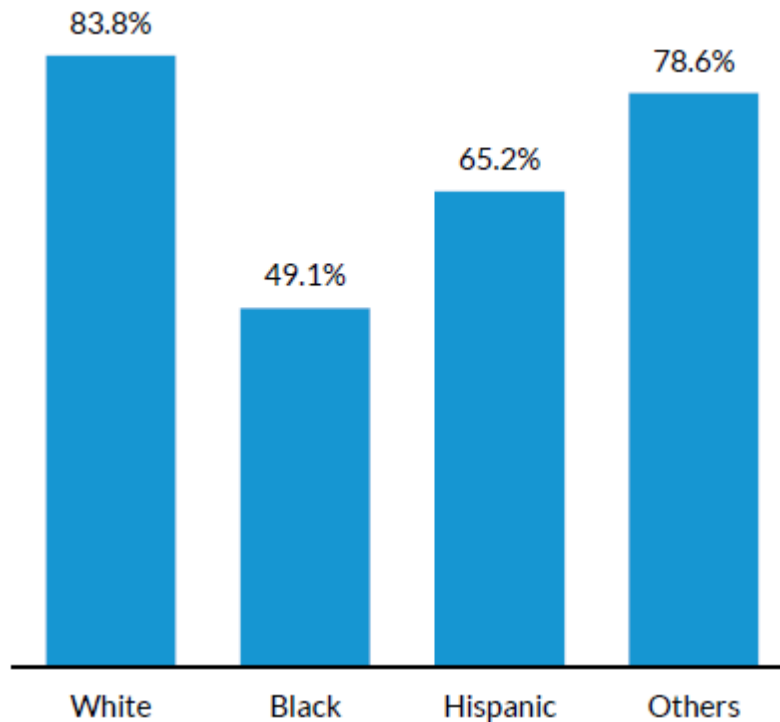


Figure 3: Parental homeownership by race or ethnicity, 1999-2015, as drawn from the Panel Study of Income Dynamics. Source: Choi et al. (2018).

With just 49.1 percent of Black parents owning homes compared to 83.8 percent for whites, research suggests that homeownership can positively influence a young adult's educational attainment, civic participation, and health outcomes. Hence, more Black parents need to consider homeownership as an option to help build future wealth and improve educational attainment for their children (Choi et al., 2018). However, even for households with similar levels of education or occupational status, non-white households report substantially lower levels of wealth than white households given myriad other factors, with some pointing towards racial discrimination (Diette et al., 2015; Hardaway & Mcloyd, 2009). Nevertheless, some have argued that homeownership's social benefits are a highly significant predictor of children's educational attainment (Leigh & Huff, 2007).

Besides, there is the narrative of homeownership as an economic resource for households given the financial benefits and economic opportunities that come with owning a home regardless of a person's racial background (Choi et al., 2018). For instance, in 2004, the median net wealth for black homeowners was \$81,581, compared to a median net wealth of \$1,810 for black renters. This was, however, lower to the median net wealth for white homeowners (\$213,730) and the median net wealth for white renters, which was \$6,200.6,

and these values had increased by 20 percent for both groups by 2006 as reported by (Leigh & Huff, 2007). This claim had been earlier reported by Shapiro in a 2006 study where there was an indication that in 1995, 42.2 percent of African American families owned homes, increasing to a historic high of 49.5 percent in 2004. The 7.3 percent increase in African American homeownership was quite remarkable and indicated striving accomplishment, and success (Shapiro, 2006). Reflecting on the increase in homeownership and net wealth indicates that generational wealth is an essential resource for households, given that it remains the largest component of the wealth portfolios for Black families (McCabe, 2018; Shapiro, 2006).

Homes are generally assumed to experience some degree of real appreciation over time, reflecting increased overall demand for housing due to growth in both population and incomes against a backdrop of a fixed supply of land located near centers of economic activity (Herbert et al., 2013). However, accumulating wealth and homeownership is continuously marred by institutional factors and dynamics enshrined in racial discrimination, particularly for black homeowners (Perry, 2020; Bowen, 2008; Shapiro, 2006). For instance, when a house appreciates over time, there is the possibility of the owner's initial investment to result in real returns given the increase in home values, as argued by (Herbert et al., 2013). Others have reiterated that homeowners are the benefits that come from federal income tax just by owning a home can be substantial. This is because there is the possibility to deduct mortgage interest, and taxpayers can make full use of these deductions to receive discounts on housing costs (Herbert et al., 2013; McCabe, 2018).

Taxpayers, even short-term homeowners, and real estate speculators who purchase homes can avoid paying capital gains taxes on up to \$500,000 in profits they make on the sale of the home because this deduction is available every two years (McCabe, 2018; Dickerson, 2009). For instance, in 2007, the federal budget's estimated total cost for these federal tax benefits for homeowners was nearly \$120 billion (Dickerson, 2009). Notwithstanding, for such benefits to be realized, racial wealth discrimination issues would need to be addressed for Black homeowners to exploit better homeownership benefits of wealth creation and accumulation (Sullivan et al., 2015).

Patterns of racial, class, and wealth stratification reflect enduring challenges that African American households encounter in their pursuit of homeownership (McCabe, 2018). However, for those who are homeowners, evidence suggests that owning a home provides a hedge against inflation in rents over time, especially as housing cost will have to keep the pace of inflation, making rents more volatile with the ability to control it by those renting (Herbert et al., 2013). With the continuous rise in income and wealth inequality, even black families who can afford to own a home, their residential choice will be based on income levels. This choice often restricts homeowners from buying homes in neighborhoods already experiencing lower levels of public and private investment, lower values, and reduced security (Hammond et al., 2020). For instance, Hammond and colleagues explained that in 2018, African American families were 4.5 times more likely to live in concentrated poverty areas,

especially areas often considered "relined" neighborhoods because of wealth and income disparity.

Finally, this section summarizes various opinions raised by scholars on why homeownership is essential, particularly for African Americans. The argument upheld so far is that access to homeownership matters for household well-being and intergenerational economic mobility. Many have pointed towards the positive outcomes of homeownership such as being the main component of wealth creation, forced saving mechanism, hedge against future price increases, higher levels of satisfaction with home and neighborhood engagement, and social status and security (Choi et al., 2018; McCabe, 2018; Shapiro, 2006; Urban Institute, 2019). As discussed here, the different opinions are not exhaustive and exclusive of other factors that have been explored as to why homeownership is essential for African Americans. While these benefits have been well documented, there is persistent inequality in access and attainment of homeownership across racial lines and less wealth accumulation for black households through homeownership.

3. Emerging Challenges of Homeownership as Barriers to Wealth Generation for African Americans

Studies show that primary wealth generators include homeownership, household income, employment, level of educational attainment, inheritances, and financial support from families (Leigh & Huff, 2007; Sullivan et al., 2015). African American households face unique institutional and policy challenges as well as discriminatory practices that cause their wealth to grow at a significantly lower rate than it is for whites, and these challenges are considered to be the main drivers of the increasing racial wealth gap in the United States (McCabe, 2018; Shapiro et al., 2013; Urban Institute, 2019). Significant drivers of homeownership for African Americans have been succinctly discussed by Shapiro and colleagues (2013), summing these challenges into years of ownership, unemployment, education, household income, inheritance, financial support, and pre-existing wealth. All these drivers, amongst others, determines black households' ability to own a home (Shapiro et al., 2013).

The number of years families owned their homes was the largest predictor of the wealth growth gap by race, resulting in significant challenges for Black families to accumulate wealth. According to a study by Shapiro et al. 2013, above 25 percent of African Americans (see Figure 4) identified with years of homeownership as a significant driver in wealth creation (Shapiro et al., 2013). Some of the reasons for fewer years of ownership can be traced back to the slavery and slave trade era where blacks could not own homes (Collins & Wanamaker, 2017). After the 1940s, even with policies in place allowing blacks to own property, other institutional biases and discrimination have to date affected African Americans (Darity et al., 2015).

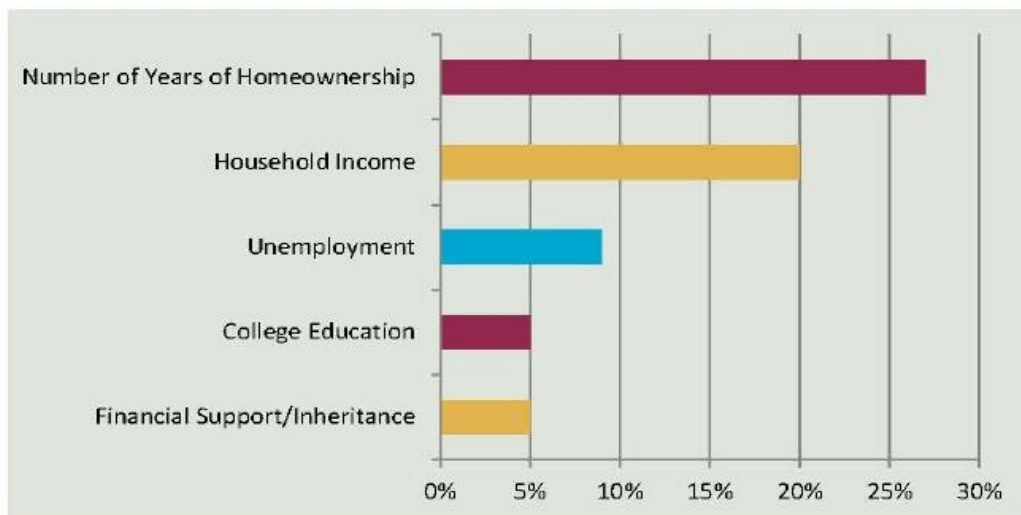


Figure 4: Factors driving increasing racial wealth gap. Source: Shapiro et al., 2013.

Other factors related to foreclosure have affected communities of color, and African Americans are significantly impacted by the housing market given for many years redlining, discriminatory mortgage-lending practices, lower incomes have positioned them to be more recent homeowners (Shapiro et al., 2013).

As discussed throughout this review, income is vital in wealth creation, and homeownership so far has been argued to be important in wealth accumulation and generation (Choi et al., 2018). However, lower incomes have blocked African Americans' homeownership path while creating and reinforcing communities segregated by race (Shapiro et al., 2013). Evidence suggests families of color will soon make up most of the population, but most continue to fall behind whites in building wealth. McKernan's work captured this evidence and indicated that by 1963, the average wealth of white families was \$121,000 higher than the average wealth of non-white families (McKernon et al., 2015). By 2016, the average wealth of white families (\$919,000) was over \$700,000 higher than the average wealth of black families (\$140,000) and Hispanic families (\$192,000).

The economic recession from 2007 to 2009 has widened dramatically following the national house price collapse in 2006 and the high unemployment and underemployment rates of recent years, especially among people of color. An increase in unemployment rates has impacted the blacks' wealth, limiting their ability to own homes (Anacker et al., 2012). Loss of jobs would mean most African Americans will be unable to secure loans and credit, get insurance and local taxes, legal fees, and even maintain ownership over the homes they have (Lofstrom & Bates, 2013; Herbert et al., 2013). With many black families unable to get quality education due to unemployed parents, dropout levels will increase, with many unable to compete in the job markets (Bowman et al., 2018). For Black families who manage to own homes, it may become more complicated in maintaining ownership (Shapiro, 2006; Shapiro et al., 2013). In light of this, residential segregation by government design has a long legacy in the country and underpins many of the challenges African American families face in buying homes and securing wealth for generations to come (Woods, 2018; Carr et al., 2016). It is

because residential segregation artificially lowers demand, placing a forced ceiling on home equity for African Americans who own homes in non-white neighborhoods (Anacker et al., 2012). It is further made worse because whites are far more able to give inheritances or family assistance for down payments due to historical wealth accumulation, compared to black families, as postulated by Anacker et al. (2012).

While these challenges have been discussed as significant hindrances for African Americans in securing homes, section three in this review has provided strong motivations for why homeownership should be encouraged, especially for black families to create wealth. On that note, public policy can play a critical role in creating a more equitable society and helping all Americans build wealth. McCargo and colleagues have detailed out five-point frameworks for reducing racial gaps in homeownership as a way of enabling blacks to create wealth as summarized:

- Advance policy solutions at the local level
- Tackle housing supply constraints and affordability
- Promote an equitable and accessible housing finance system
- Accelerate outreach and counseling for renters and mortgage-ready millennials
- Focus on sustainable homeownership and preservation

These points are essential in changing entrenched patterns of discrimination and reducing the racial wealth gap, which until then will disproportionately affect African Americans across different nested levels and scales (McCargo et al., 2019).

4. Conclusion

This review adds knowledge on the trends and trajectory of homeownership for African Americans and builds the argument that Blacks need to own homes as it remains an effective way of creating wealth. Although the focus was mainly on why homeownership is essential for African Americans, we provided evidence on varied challenges and barriers that Blacks face in securing and maintaining homes. The notion is to ensure that policies can approach homeownership gaps between racial groups to understand the inequalities around wealth creation. Hence, while broader and a more transformative approach in developing policy may be needed, this review seeks to add knowledge on what is critical in closing the gap and ensure African Americans can utilize homeownership to create generational wealth.

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