

Low-income homeownership and wealth growth: Evidence from a propensity score analysis

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Research question

- Does homeownership contribute to financial well-being for low-income households?



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Wealth inequality

- The top 1% of households hold 20%-34% of wealth (Kopczuk and Saez, 2004; Wolff, 2007)
- Gap may be increasing

Variable	Top 1.0%	Next 4.0%	Next 5.0%	Next 10.0%	Top 20.0%	4th 20.0%	3rd 20.0%	Bottom 40.0%	All
<u>A. Net Worth</u>									
1983	8,315	1,375	598.2	323.0	1,001.9	154.8	64.3	5.4	246.4
2004	14,786	2,645	1,062.7	576.7	1,822.4	243.6	81.9	2.2	430.5
% change	77.8	92.3	77.7	78.5	81.9	57.3	27.3	-58.7	74.7
% of gain ^a	35.1	27.6	12.6	13.8	89.1	9.6	1.9	-0.7	100.0

Source: Wolff, 2007



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The expansion of low-income homeownership

Table 1. Evolution of Homeownership Rates by Income Quintile, 1994-2006

Year	Overall	Quintile				
		1	2	3	4	5
1994	62.4	34.2	50.2	64.9	76.8	86.8
2000	65.6	38.4	54.7	69.3	79.8	87.9
2006	68.8	38.0	56.7	71.9	83.9	91.1
<i>Percent change</i>						
1994-2000	5.1	12.2	9.0	6.8	3.9	1.3
2000-2006	4.9	-1.1	3.7	3.8	5.1	3.6
1994-2006	10.3	11.1	12.9	10.8	9.2	5.0

Source: Current Population Survey, March Supplements for 1994, 2000, and 2006

Source: Bostic and Lee, 2009



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Concerns about low-income homeowners



High initial
outlay



Inflexible
monthly
costs



Unexpected
expenses



The housing
crisis



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30 seconds that aren't about money

- Let us not forget that a home is not just another investment
- Non-economic benefits of homeownership
- Efficacy and the lived-in environment



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Data

- Community Advantage Program Panel
- Owners (N=995)
- Renters (N=663)
- 2005 and 2008 Wealth Modules



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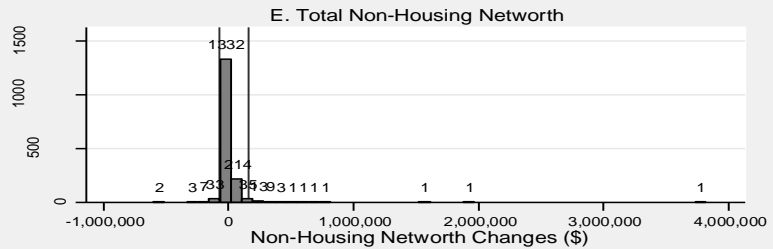
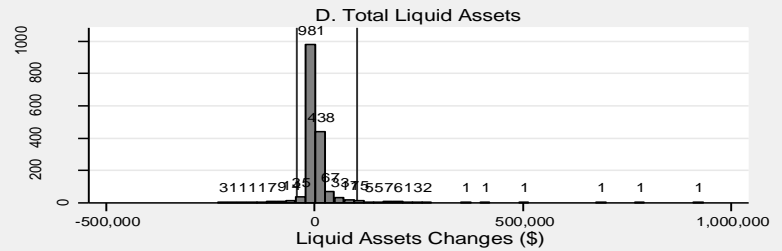
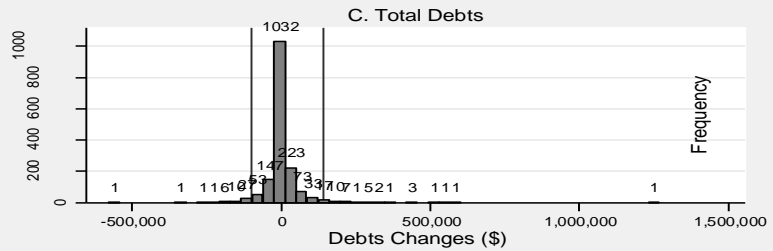
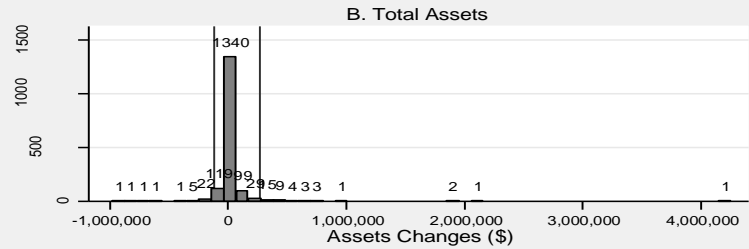
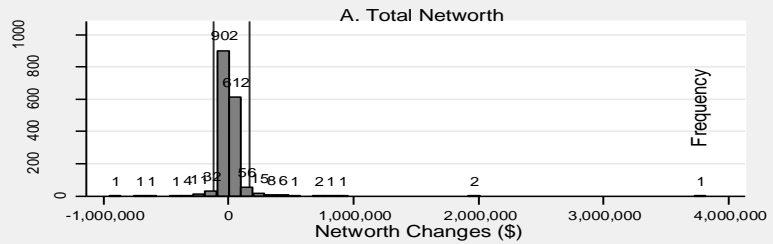
Outcome variables

- Wealth operationalized as net worth
- Total assets
- Total debts
- Liquid assets
- Non-housing net worth

- **Analysis:** Difference in differences
 - $Y_5 - Y_2 = \text{constant} + B \cdot HO + B \cdot X$



Challenges in measurement

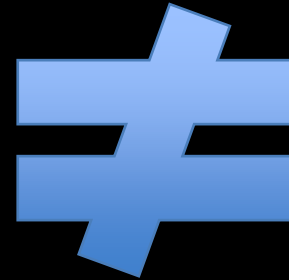


Dispersion problem

	Net worth	Asset	Debt	Liquid Asset	Non-housing Net worth
Min / Max	-\$950,317 / \$3,822,329	-\$979,070 / \$4,254,680	-\$577,048 / \$1,268,490	-\$231,536 / \$933,168	-\$598,248 / \$3,822,329
Group Mean					
Owners	15,082 (130,037)	20,214 (158,270)	5,132 (83,240)	9,319 (51,732)	12,692 (108,669)
Renters	10,789 (158,113)	15,295 (175,147)	4,506 (35,112)	5,659 (51,984)	9,656 (6,010)
Difference	4,293	4,919	626	3,660	3,036



A selection problem



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Ways renters differ from owners in analytic sample

- Age
- Gender
- Race
- Education
- Marital status
- Number of children
- Number of adults in the household
- Employment status
- Income
- Change in income
- Housing cost as a fraction of income
- Tract level
 - Disadvantage
 - Median housing cost



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How to address the selection problem?

- Ordinary least squares regression
- Kernel-based matching
- Matching estimators
- Propensity score weighting



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After matching, balanced panels



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Trimmed (2.5% per tail) sample results

	Net worth	Asset	Debt	Liquid Asset	Non-housing Net worth
Min / Max	-\$113,324 / \$168,908	-\$119,144 / \$264,399	-\$99,537 / \$142,209	-\$43,198 / \$102,338	-\$73,249 / \$162,860
Group Mean					
Owners	11,272 (45,714)	11,294 (55,075)	897 (40,040)	5,778 (19,330)	6,375 (33,909)
Renters	740 (21,970)	5,899 (31,697)	2,923 (19,206)	2,459 (12,940)	947 (20,667)
Difference	10,532***	5,395	2,027	3,319***	5,427***
DID Estimate					
OLS	4,171	-6,444*	-5,180*	1,437	-2,333
Kernel-based matching	13,160***	8,639	-2,502	4,294***	8,489***
Matching Estimators	11,427***	10,196***	-879	5,292	6,937***
Propensity Score weighting	14,904***	10,679*	-1,939	4,047***	10,102***



Conclusions

- LMI homeownership is a good investment in the short-run
- Homeownership not associated with excess debt
- No evidence of substitution, opposite actually looks more likely
- Potential measurement issues
- Convergence of methods



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Questions?

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