

# Real Estate

SPRING 2002

# Research Brief

LUSK



CENTER  
FOR REAL ESTATE

## **PATHWAYS TO HOMEOWNERSHIP: LOCATION AND HOMEOWNERSHIP CHOICES OF AFRICAN-AMERICAN HOUSEHOLDS IN LOS ANGELES**

### **INTRODUCTION**

**W**hile the U.S. homeownership rate rose perceptibly over recent years to a record 67.1 percent in mid-2000, the longstanding white-minority homeownership gap of about 28 percentage points has changed little over the past 20 years. By late 1999, close to 74 percent of whites had achieved homeownership status, compared with only about 46 percent of African-American and Hispanic households. As a stated policy objective, the U.S. Department of Housing and Urban Development seeks to boost the national homeownership rate to 70 percent by 2006. Clearly, achievement of that goal requires significant upward movement in homeownership rates among racial and ethnic minorities.

The lower homeownership rates among African-Americans and Latinos have been attributed in part to their lower incomes and wealth, among other factors (see, for example, Wachter and Megbolugbe (1992), Gyourko and Linneman (1996), and Coulson (1999)).

Results of our recent paper (Painter, Gabriel, and Myers [2001]) indicated that differences in income, education, and immigrant status largely explained the homeownership choice gap between Latinos and whites in Los Angeles County in 1990. At the same time, our estimates suggested a sizable and persistent homeownership deficit among African-American households (relative to white households) in Los Angeles County even after adjusting for differences in characteristics of the two groups.

The research upon which this *Brief* is based, seeks distinct pathways to homeownership among the African-American population of Los Angeles County (Gabriel and Painter, 2001). In a departure from most homeownership analyses, this paper focuses on how location characteristics and location choice affect the likelihood that African-American and white households will own homes in the Los Angeles and San Bernardino County areas. We model movers' location decisions and homeownership versus rental decisions.<sup>1</sup> We then used the model results

Author:

**Gary Painter**

Assistant Professor

School of Policy, Planning, and  
Development

University of Southern California

Voice: (213) 740-8754

Fax: (213) 740-1801

E-mail: [gpainter@usc.edu](mailto:gpainter@usc.edu)

**USC Lusk Center for Real Estate**  
**Stuart Gabriel, Director**  
**Stan Ross, Chairman of the Board**

A Joint Center of the  
Marshall School of Business and the  
School of Policy, Planning,  
and Development

Lusk Center for Real Estate  
University of Southern California  
331 Lewis Hall  
Los Angeles, California 90089-0626  
TEL: (213) 740-5000  
FAX: (213) 740-6170

Internet: <http://www.usc.edu/lusk>

to simulate what homeownership rate African-Americans in each geographic area would be likely to achieve if they had the same economic characteristics as whites. Thus we can gain new insights into the disparate intrametropolitan location and homeownership choices of distinct African-American groups.

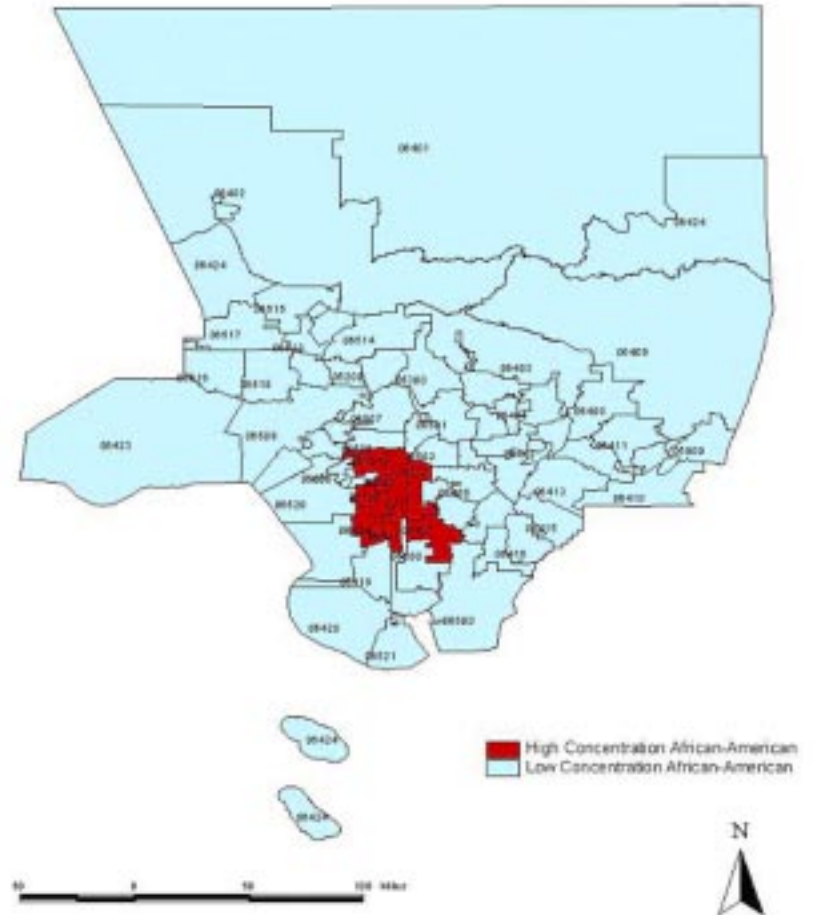
## DATA AND SUMMARY STATISTICS

We start with a population of African-Americans (and their white counterparts) who lived in Los Angeles County in 1985, but who had moved during the subsequent five years. We focus on three groups within the African-American community that could be thought likely to have different tastes and preferences with regard to housing; (1) movers to the Inland Empire (San Bernardino County), (2) movers to South Central Los Angeles (LA), and (3) movers to other areas within LA County. (See Figure 1 for a map of the distinction of the two LA areas.) Movers to these locations were chosen because these destinations represent quite different geographic, socio-economic, demographic, and place characteristics that would likely attract households with differing housing market preferences.

To test for other factors that may influence a household's decision to locate in particular areas and the decision to own, we use data drawn from the public use microdata sample (PUMS) file of the 1990 decennial census. The analysis focuses on both LA and San Bernardino counties because, during the period covered in the analysis (1985-1990), the populations changed in ways that were quite different from the surrounding counties in Southern California. Figure 2 shows that the proportionate representation of African-American households expanded markedly in San Bernardino County, from 5.75 percent in 1980 to 9.36 percent in 1990. In contrast, the African-American household share declined from 13 percent to less than 11 percent in LA County over this same period, in part reflecting the movement of African-American households into the Inland Empire. In Orange and Ventura Counties, African-American household shares stayed at about 2 percent over the decade. At the same time, the share of the population that was white declined in each county (Figure 3).

Figures 4-6 show that the three regions differ substantially in terms of income level, racial composition, and median house price.<sup>2</sup> While South Central LA had house prices similar to those of San Bernardino County, the racial and

Figure 1: African-American Concentration in LA County



ethnic composition of the two counties was very different. South Central LA was home to substantially higher numbers of African-American and low-income households, relative to other parts of the metropolitan area. Further, African-American households moving to San Bernardino were likely to live in neighborhoods characterized by only 10 percent African-American households, relative to the 68 percent African-American household representation in typical neighborhoods of South Central LA. African-American moves to other parts of LA County were to areas characterized by relatively small minority populations, but relatively high house prices. Compared with their African-American counterparts, the majority of the white population lived in communities with much fewer minorities.

The figures also indicate substantially lower levels of African-American household income and wealth in South Central LA relative to other parts of LA or San Bernardino Counties. White income levels were highest in other parts of LA County, relative to the South Central or San Bernardino areas. Thus, there was a sharp contrast between white and

African-American households in their choice of living in San Bernardino. It was the *more* affluent African-American households and the *less* affluent white households that chose to move to San Bernardino County. Nonetheless, at about \$37,000, the relatively higher incomes of African-American households remained well below those of typical white households entering the San Bernardino area.

## RESEARCH FINDINGS

The results of the location choice models provide interesting insights into the types of white and African-American households that choose each area. For example, the probability of residing in South Central LA is significantly higher among middle-aged African-American households (aged 35-64) than among younger African-American households (aged 25-34). In contrast, no significant age effects are estimated for white household moves to South Central LA. Increases in permanent and transitory income significantly raise the likelihood of African-American households moving to San Bernardino and lower the likelihood that white households will move to South Central LA. Among white households, however, increases in income also exert a significant negative effect on the likelihood of moves to the Inland Empire. African-American households headed by female were more likely to locate in South Central LA, and married households of both groups were more likely to live in San Bernardino County. Finally, we find that higher house prices in any region lower the probability of moving to that region for all households.

We next estimate homeownership choice models for both groups of households in the three study regions. In general, the findings are consistent with previous literature on housing tenure choice (see, for example, Painter, Gabriel, and Myers [2001]). Among demographic and economic characteristics, increases in the age of the head of the household, household marital status, higher transitory and permanent incomes, and higher levels of education all increase homeownership probabilities. Among both African-American and white movers to more expensive LA suburbs, higher levels of household wealth—as proxied by dividend and interest income—are significant to homeownership choice.

Although there were many similarities across race and place, there were also some notable differences in the determinants of ownership. The importance of increases in income in raising the likelihood of homeownership among African-American movers to South Central LA and San Bernardino County was substantially greater than those of their white counterparts, respectively. Sizable and depressive effects of unmarried status were estimated for white households regardless of choice of location; those effects were particularly pronounced among white households moving to South Cen-

tral LA. Among African-American movers to South Central LA and to the Inland Empire, marital status did not play a significant role in choosing homeownership.

Among neighborhood characteristics, higher levels of area immigrant population reduce homeownership choice significantly among both white and African-American movers to South Central LA. The estimated coefficient on immigrant population had a negative and significant, but less depressive, effect on homeownership choice among white movers to San Bernardino County. In contrast, higher levels of area Asian population significantly raised homeownership propensities among both African-American and white populations in both South Central LA and San Bernardino neighborhoods. The estimated positive effects of increases in Asian populations on home ownership choice in South Central LA were much greater than those estimated for San Bernardino County.

Results further indicated significant variation across racial groups in the effects of neighborhood African-American population on housing tenure choice. Higher levels of African-American population significantly boosted homeownership choice only among African-American movers to South Central LA and to other parts of LA County. As suggested above, typical destination neighborhoods of African-American movers in San Bernardino County were characterized by relatively low levels of African-American population; among African-American movers to San Bernardino County, a negative but insignificant coefficient was associated with the presence of neighborhood African-American population. All things equal, the increased presence of African-American population significantly damped homeownership choice among white movers to non-central parts of LA and to San Bernardino County.

## SIMULATIONS

The final piece of the research concerns estimating the size of the differential in African-American/white homeownership rates after adjusting for differences in socioeconomic and location characteristics. Overall, the homeownership gap for African-American households is 23 percentage points. In order to determine how much these gaps reflect variations in characteristics (income, wealth, education, and house prices), we use a decomposition technique that is common in the tenure choice literature (e.g., Wachter and Megbolugbe [1992] and Painter, Gabriel, and Myers [2001]).

Table 1 presents the key results of this simulation exercise. We focus on socio-economic characteristics (including household income and educational attainment) and neighborhood-level poverty, because those were the measures with the largest and most important differentials between Afri-



African-Americans and whites. (When other variables were included, the results did not change substantially.) Among African-American movers to non-central areas of LA County, the unadjusted homeownership gap with whites was a substantial 28 percentage points in 1990. In contrast, for African-Americans that moved to South Central LA or to San Bernardino County, the unadjusted homeownership gap with whites in 1990 was 19 and 18 percentage points, respectively. Throughout, the homeownership gap narrowed little by attributing the education levels of white movers to those of African-Americans. In marked contrast, the white/African-American gap in homeownership choice contracted substantially when income levels of both groups are equated. In fact, this simulation exercise eliminated the white/African-American homeownership gap among movers to South Central and Inland Empire areas. However, a substantial 14 percentage point residual differential remained among African-American movers to other parts of LA County, even after adjusting for racial variations in economic characteristics. In that case, additional attention to the context of the destination neighborhood was required to reduce further the white/African-American tenure choice gap in other parts of the LA County. A simulated reduction in the poverty level of the destination neighborhoods of African-American movers, which derives from attributing poverty status of white mover neighborhoods to those of African-Americans, reduced the unexplained residual in white/African-American homeownership choice to 9 percentage points.

In total, these simulations suggest that the homeownership gap between African-American and whites falls by more than three-fourths (Table 2). These results differ from those in Painter, Gabriel, and Myers (2001) because that research compared the African-American population to the white population in all of LA, and not just in the areas in which members of the African-American community actually live. When this is done, the gap in homeownership rates after adjusting for economic and location characteristics is only 4 percentage points. It should be noted that this is still substantial, and different from other racial groups, but it is much smaller (11 percentage points) than previous research in the same region.

## **CONCLUSIONS AND POLICY IMPLICATIONS**

In sum, this research sought to improve our understanding of the persistently low levels of homeownership among African-American households by focusing on how location characteristics and location choice affect the propensity to own among African-American and white households in the Los Angeles area. Three important facts emerged:

- 1) White and African-American households make location choices very differently as their household income increases.

- 2) African-American households are much more likely to own in areas with higher numbers of African-American households than are whites.
- 3) Incorporating location choice into the context of homeownership choice leads to a greater understanding of where homeownership rate differentials between African-American and white households exists.

In particular, two distinct pathways to homeownership appear to exist for African-American households in the LA area. The probability of owning a home among African-American households moving to South Central LA and to San Bernardino County was identical to the probability for white households of similar incomes. A remaining question concerns the residual homeownership choice deficit among African-American movers to other parts of LA County. One possibility is that our empirical structure did not fully account for the endogeneity of location choice in the tenure choice model, and future research will address this point. Another possibility is that households with different preferences are choosing to live in the other parts of LA County. For example among African-American households, households headed by a single person are most likely to live in other parts of LA County. Those African-American households may be choosing to live in more expensive areas even though they may not be able to own a home. That result could be due to better job opportunities in non-central parts of LA, better schools, or to racial steering of potential African-American homeowners away from these areas. Unfortunately, our data do not allow us to distinguish among those hypotheses. Improved understanding of remaining differentials in homeownership choice remains the focus of our ongoing research.

## **REFERENCES**

- Coulson, E. (1999). Why are Hispanic- and Asian-American Homeownership Rates So Low?: Immigration and Other Factors, *Journal of Urban Economics*, 45, 209-227.
- Gabriel, S., and G. Painter, (2001), "Paths to Homeownership: An Analysis of the Residential Location and Homeownership Choices of Black Households in Los Angeles," [http://www.usc.edu/schools/sppd/lusk/research/papers/pdf/wp\\_2001-1007.pdf](http://www.usc.edu/schools/sppd/lusk/research/papers/pdf/wp_2001-1007.pdf).
- Gyourko, J. and P. Linneman (1996). An analysis of the changing influences on traditional household ownership patterns, *Journal of Urban Economics*, 39, 318-341.
- Painter, G., S. Gabriel, and D. Myers (2001). Race, Immigrant Status, and Housing Tenure Choice, *Journal of Urban Economics*, 49, 150-167.
- Wachter, S. and I. Megbolugbe (1992), Racial and Ethnic Disparities in Homeownership, *Housing Policy Debate*, 3, 333-370.

<sup>1</sup> The simplifying assumption that a household decides where to live and then chooses between owning and renting is the standard formulation in the literature, although the decision is probably more complex in reality. Future research will address these concerns.

<sup>2</sup> For a full description of differences in characteristics, see Table 2 in Gabriel and Painter (2001).