



The Changing Role of Housing in Wealth Creation

Homeownership and Wealth: Buyer Beware!

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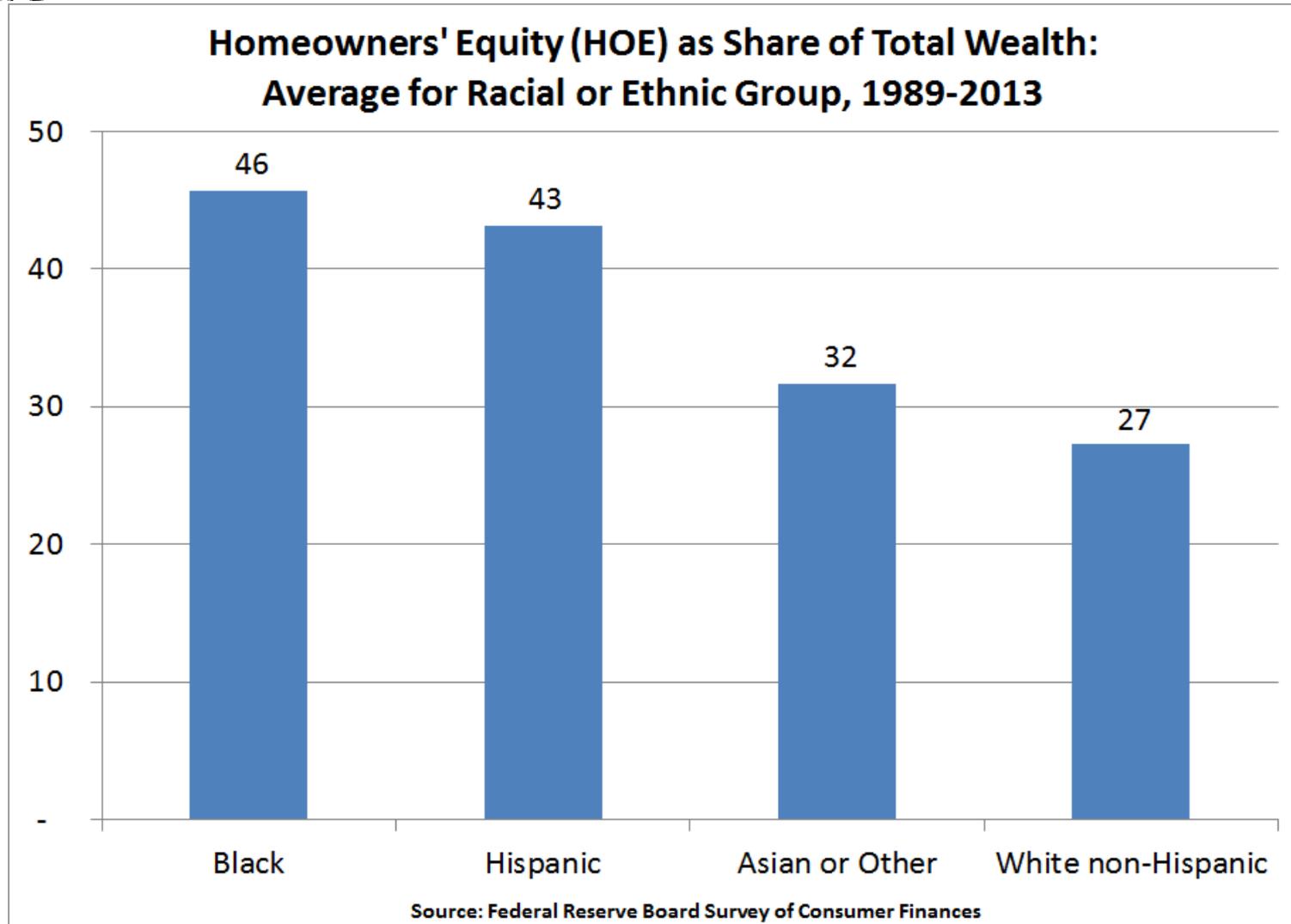


Homeownership and Wealth: Buyer Beware!

- **Homeowners' equity (HOE) has been the largest component of African-American and Hispanic wealth for many decades.**
- **But homeownership has been less effective and riskier than other assets (e.g., mutual funds) in building wealth regardless of race or ethnicity.**
- **Principles of sound financial management are even more important for financially vulnerable families:**
 - **Maintain adequate liquidity**
 - **Diversify assets broadly**
 - **Keep debt under control**
- **Homeownership makes all three more difficult.**



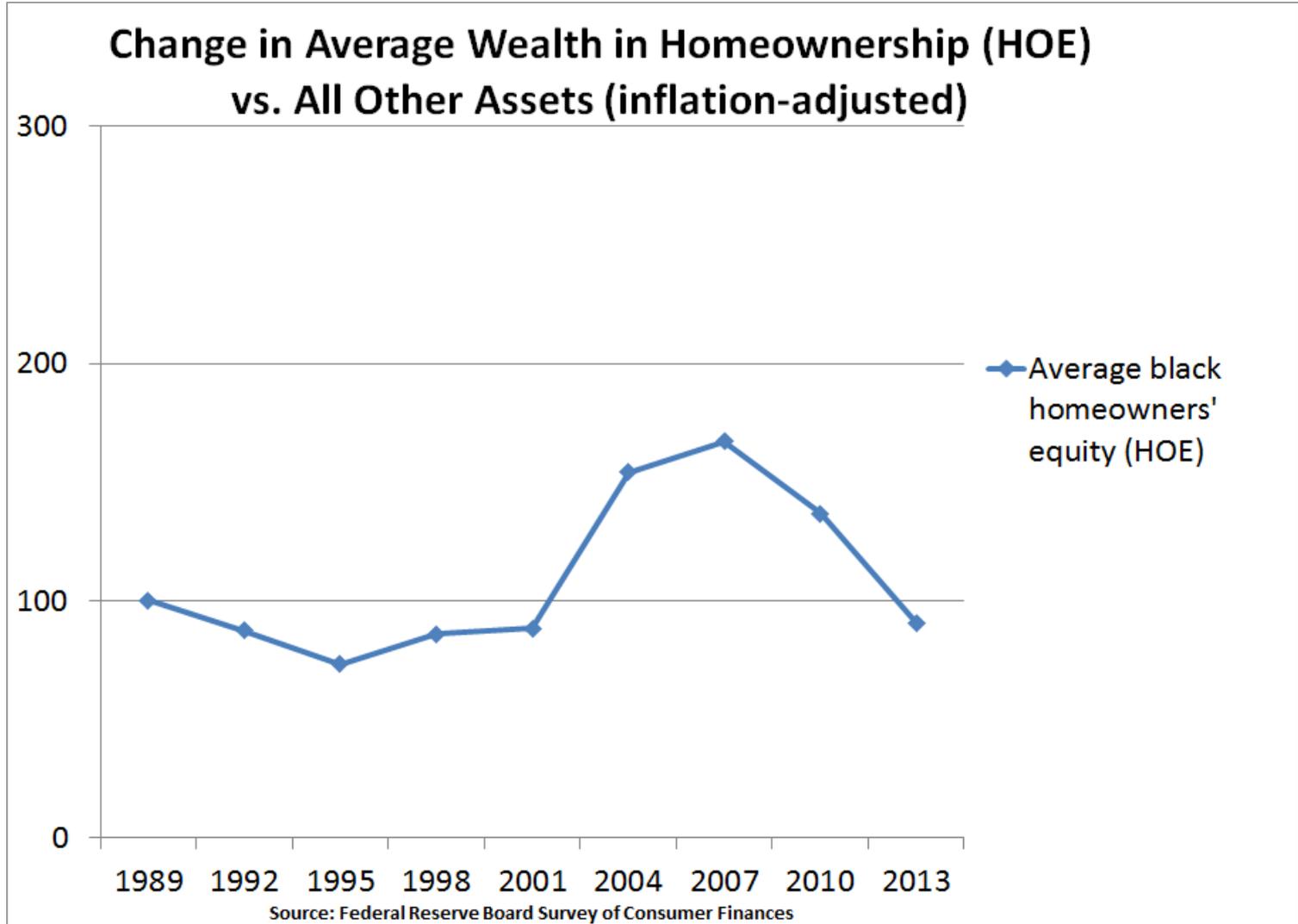
HOE is the Largest Component of Wealth for Black and Latino Families





Black Homeowners' Equity (HOE) Has Increased Less than Other Assets

Indexes
equal 100
in 1989

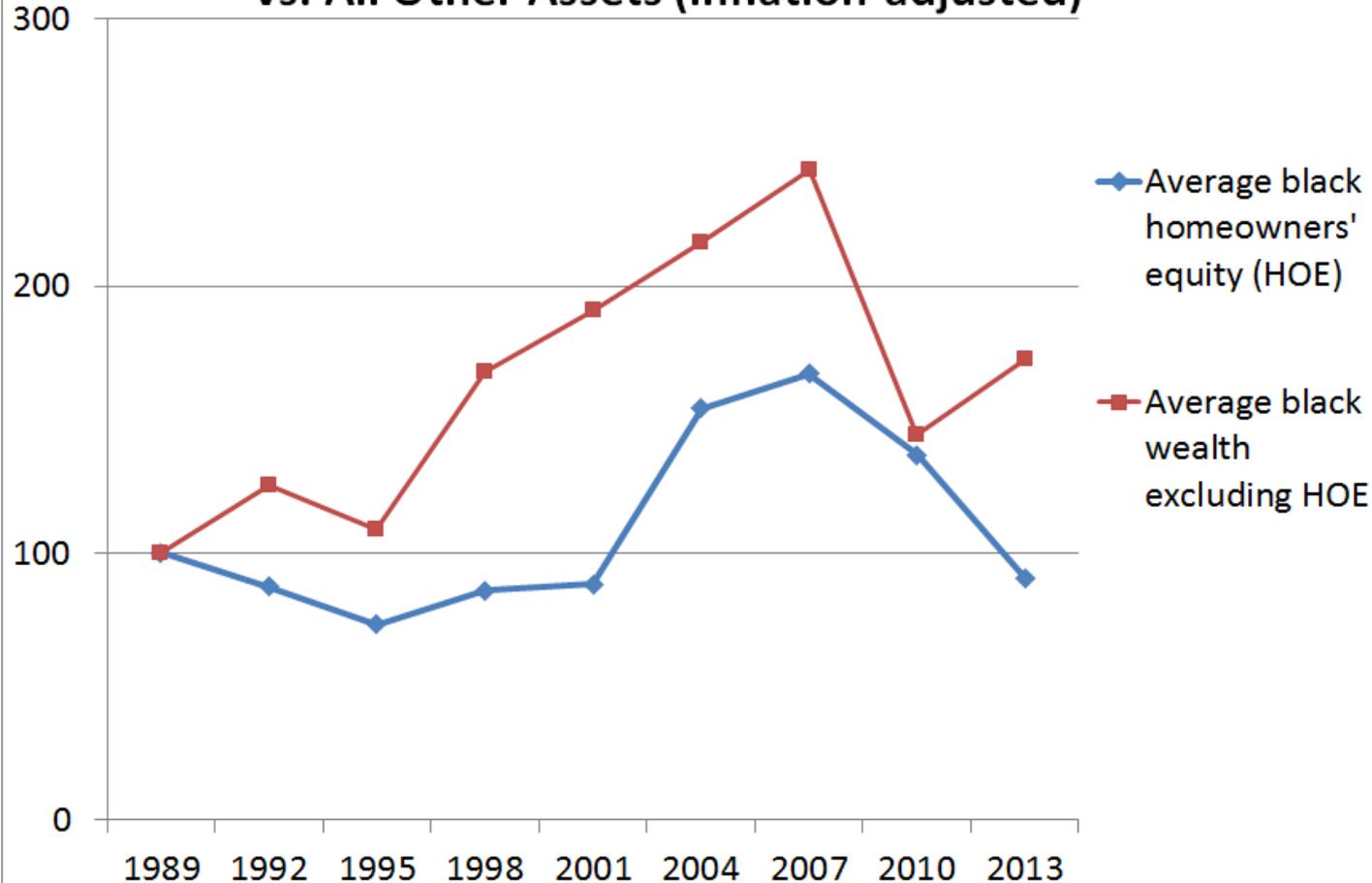




Black Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



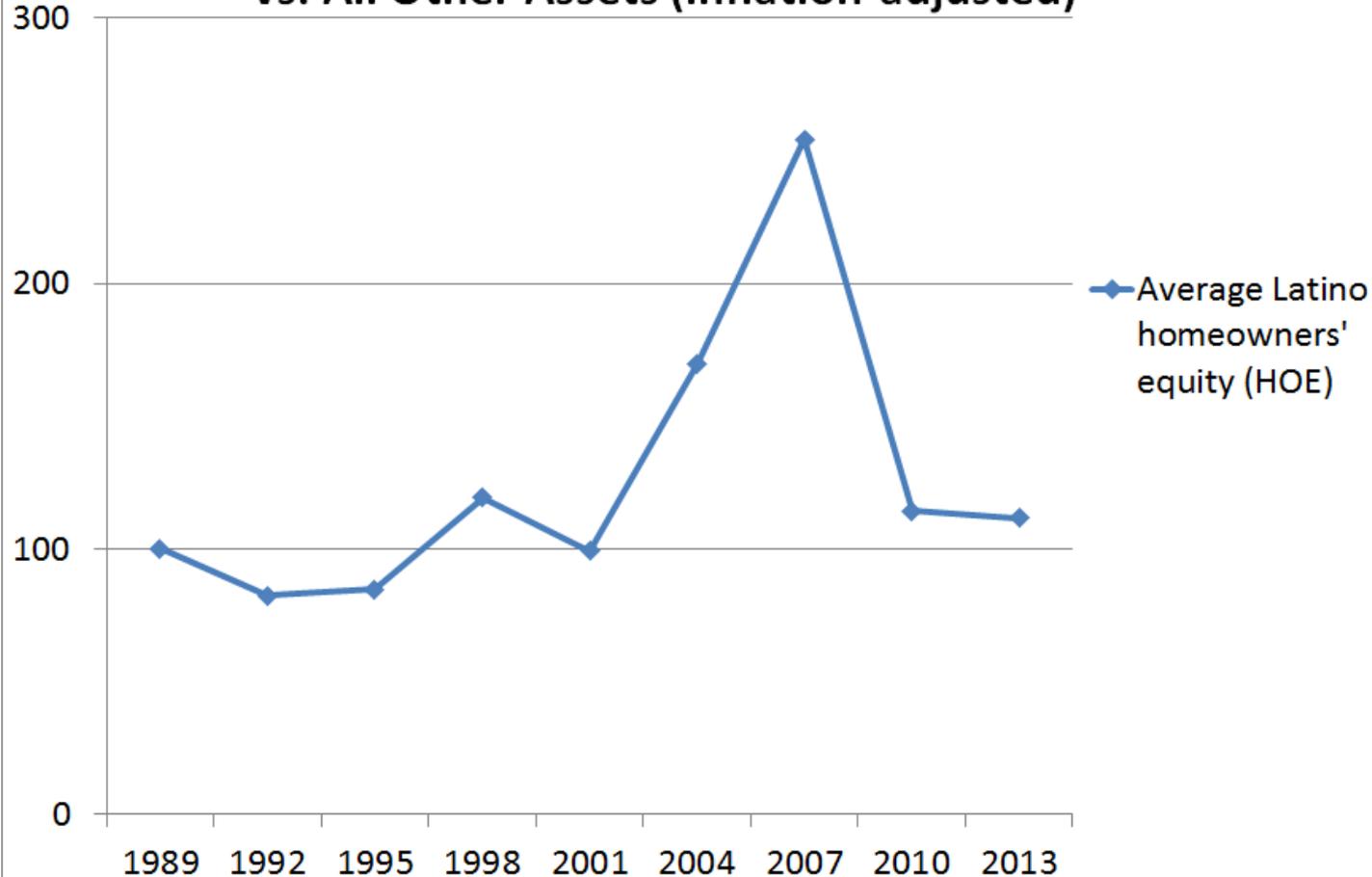
Source: Federal Reserve Board Survey of Consumer Finances



Latino Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



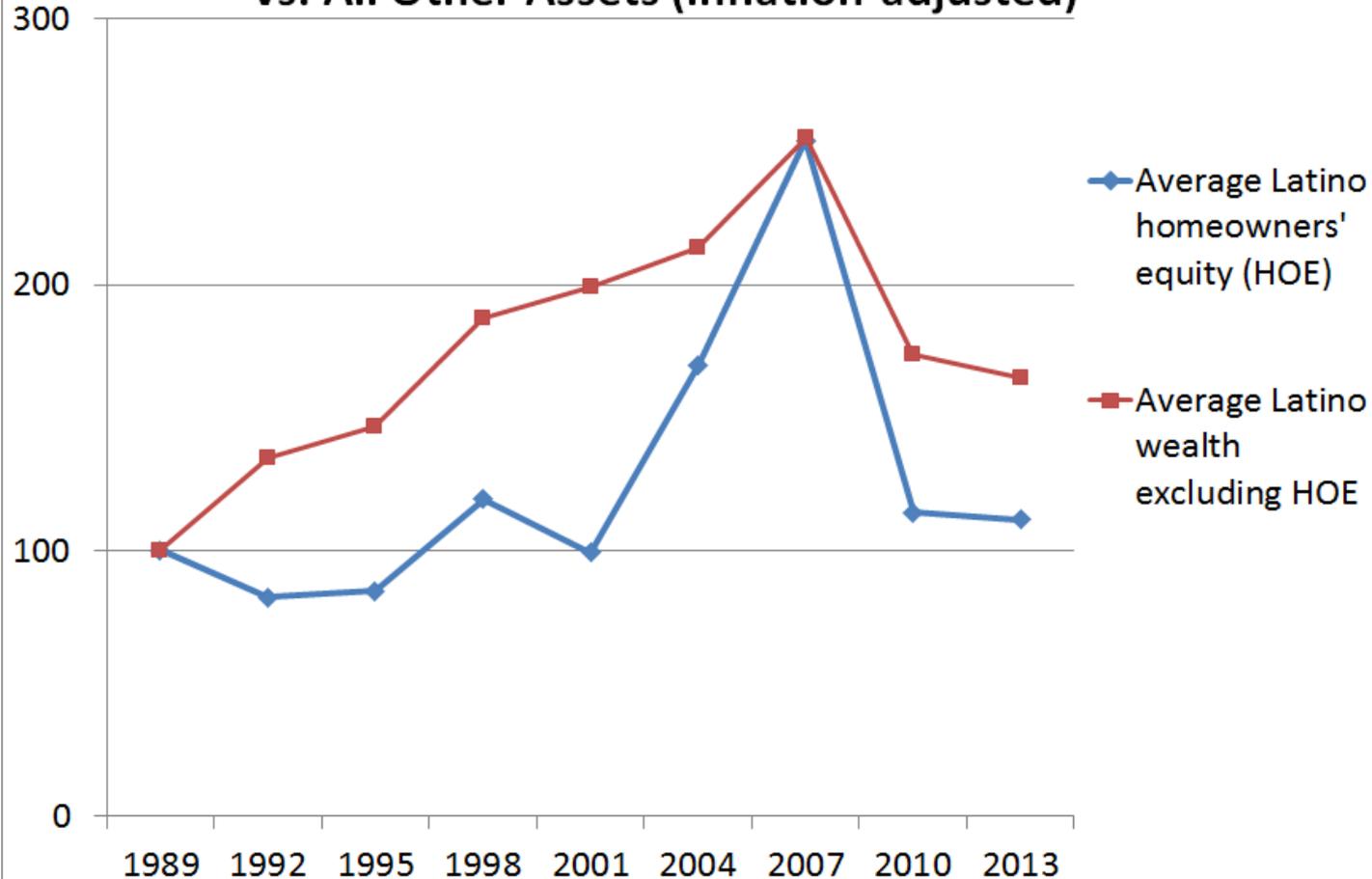
Source: Federal Reserve Board Survey of Consumer Finances



Latino Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



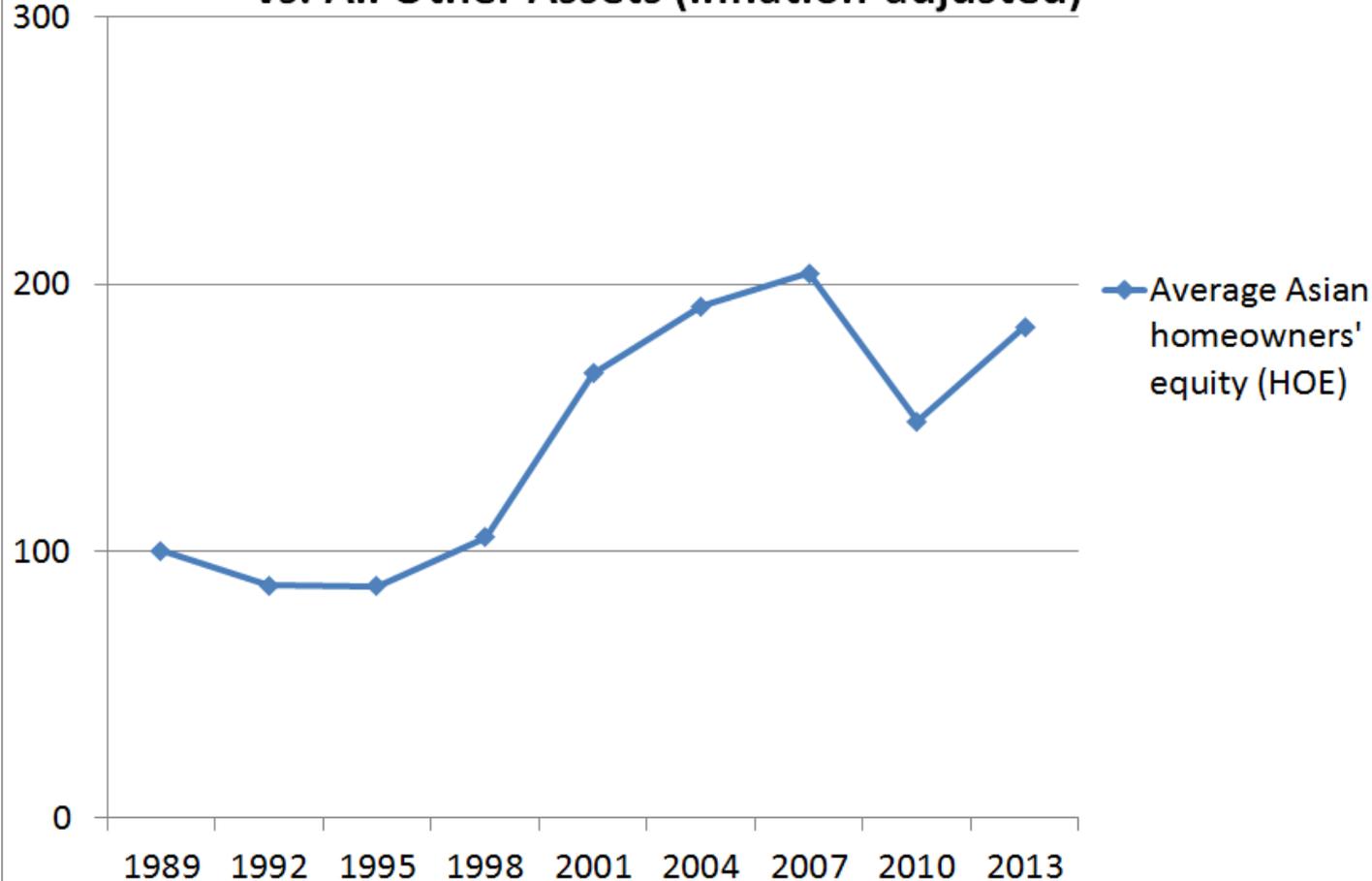
Source: Federal Reserve Board Survey of Consumer Finances



Asian Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



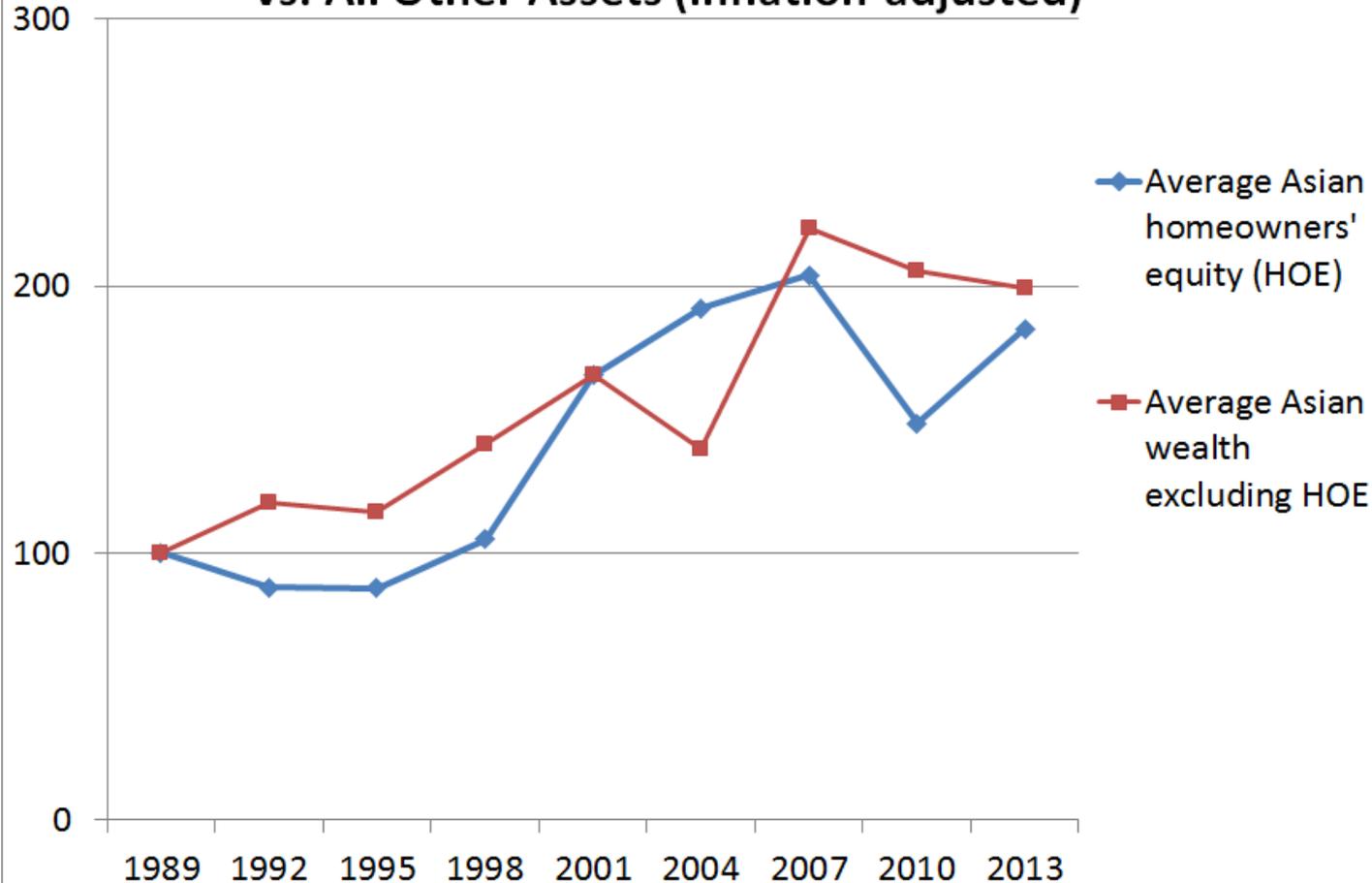
Source: Federal Reserve Board Survey of Consumer Finances



Asian Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



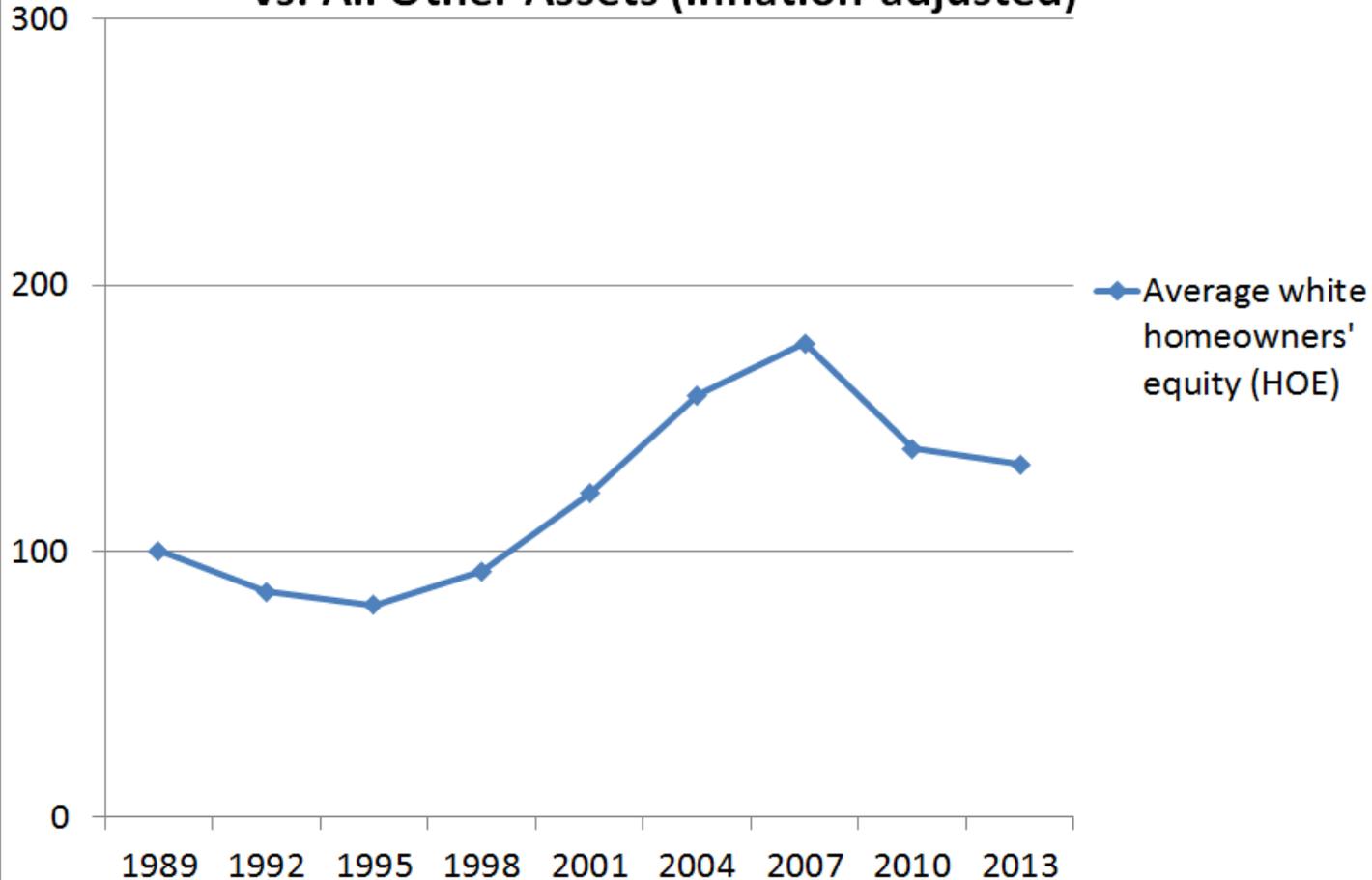
Source: Federal Reserve Board Survey of Consumer Finances



White Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



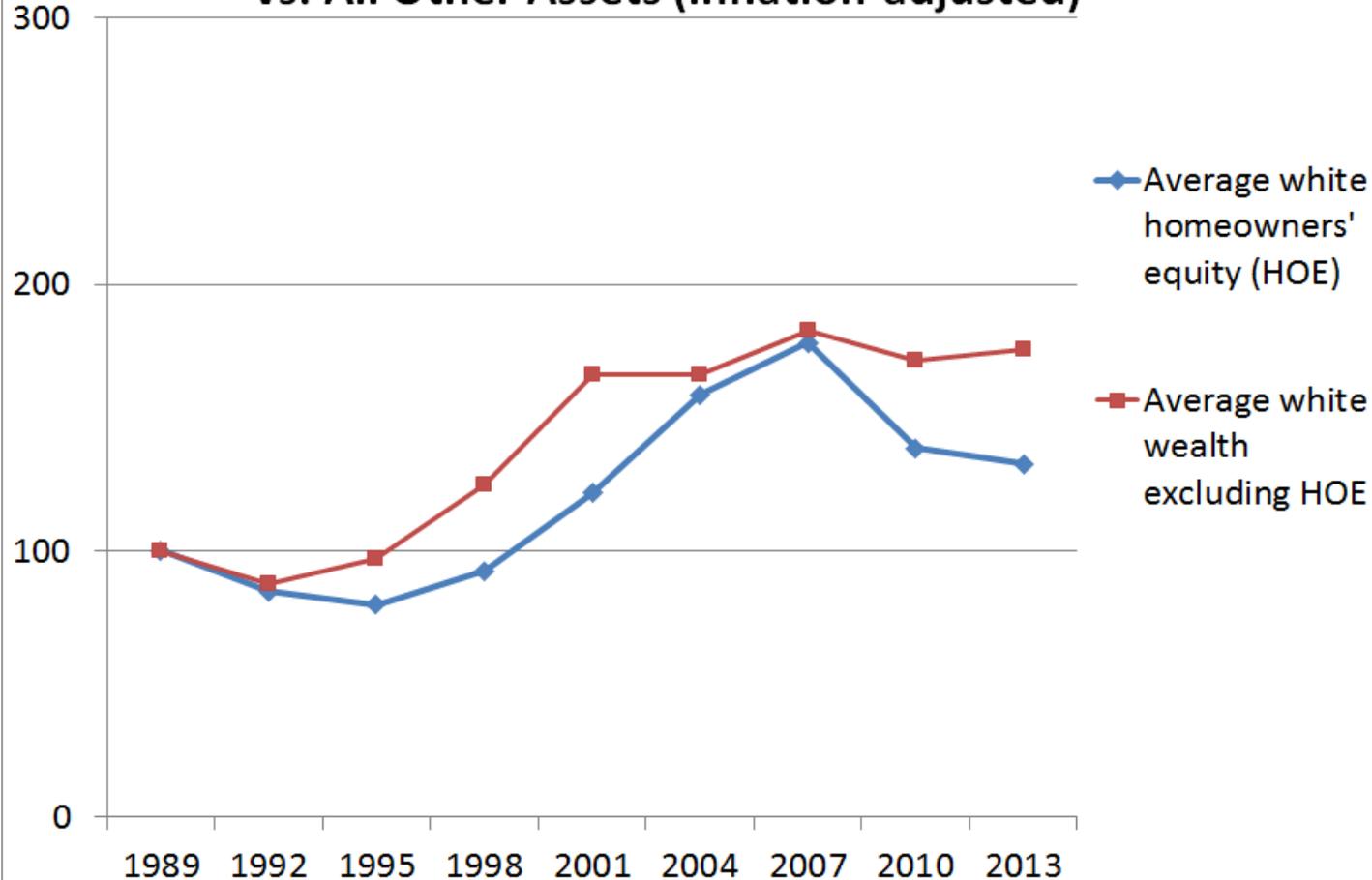
Source: Federal Reserve Board Survey of Consumer Finances



White Homeowners' Equity (HOE) Has Increased Less than Other Assets

**Change in Average Wealth in Homeownership (HOE)
vs. All Other Assets (inflation-adjusted)**

Indexes
equal 100
in 1989



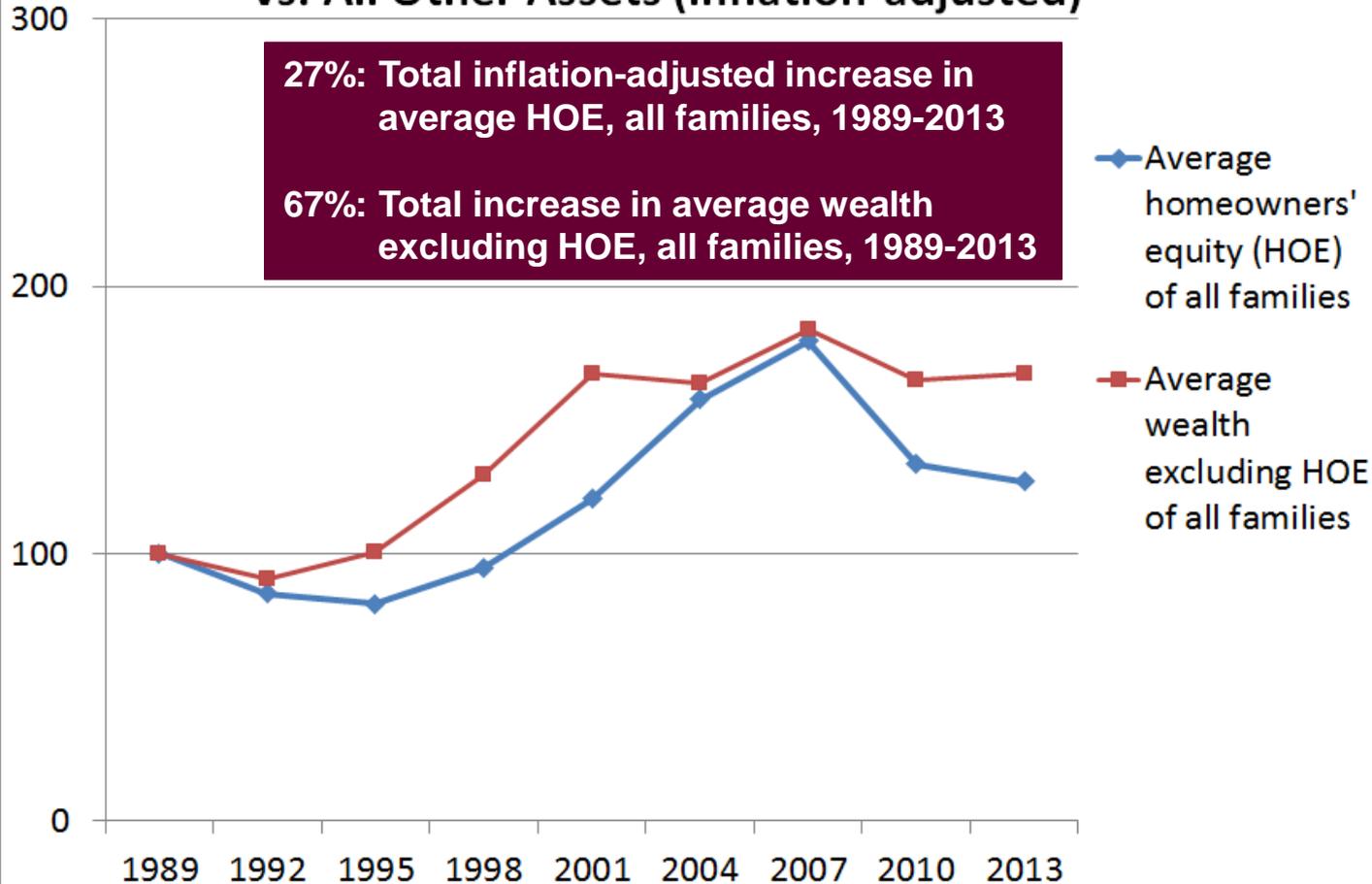
Source: Federal Reserve Board Survey of Consumer Finances



Overall Homeowners' Equity (HOE) Has Increased Less than Other Assets

Change in Average Wealth in Homeownership (HOE) vs. All Other Assets (inflation-adjusted)

Indexes
equal 100
in 1989

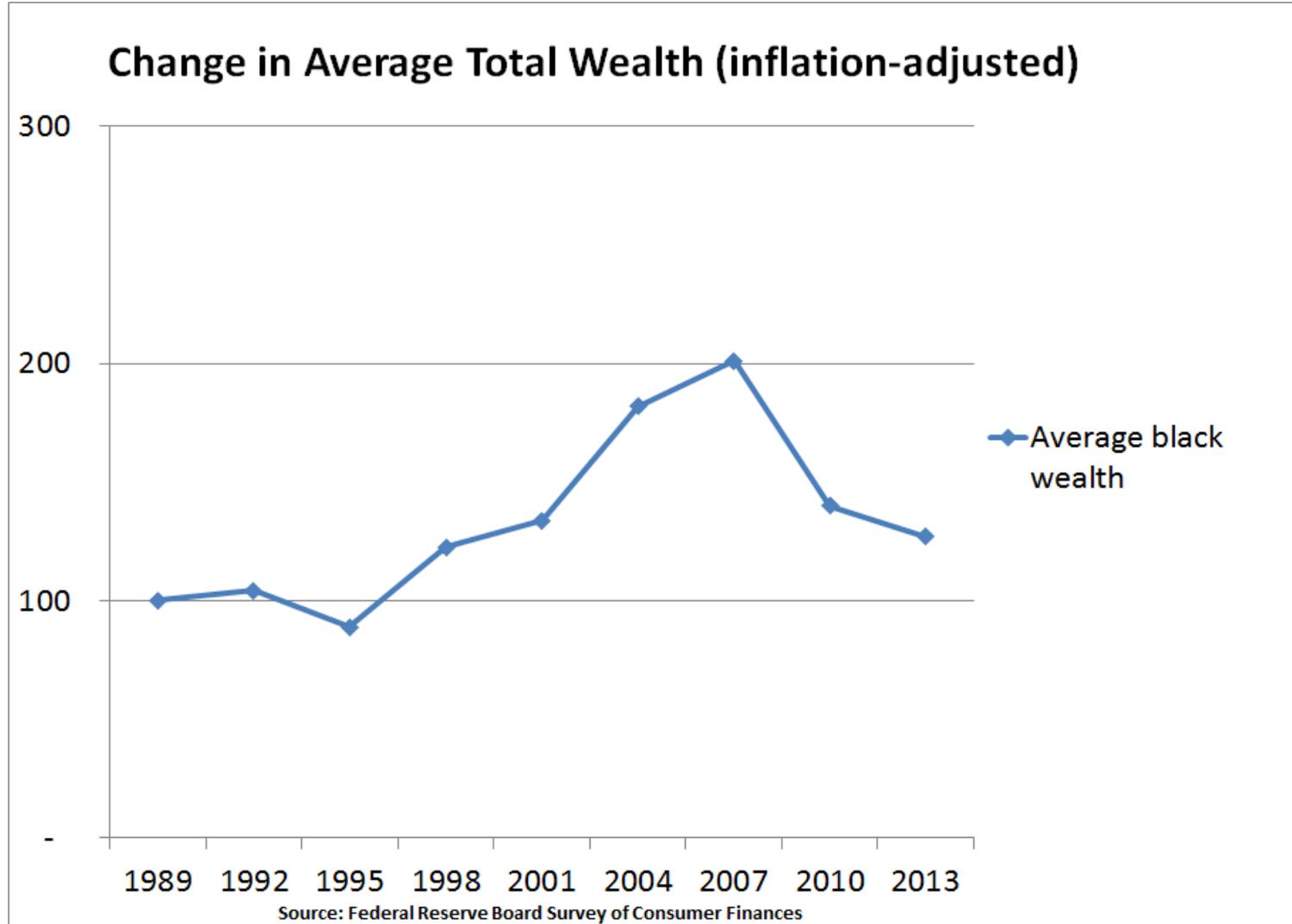


Source: Federal Reserve Board Survey of Consumer Finances



High HOE Share + Poor HOE Performance = Lagging Wealth for Blacks and Latinos

Indexes
equal 100
in 1989

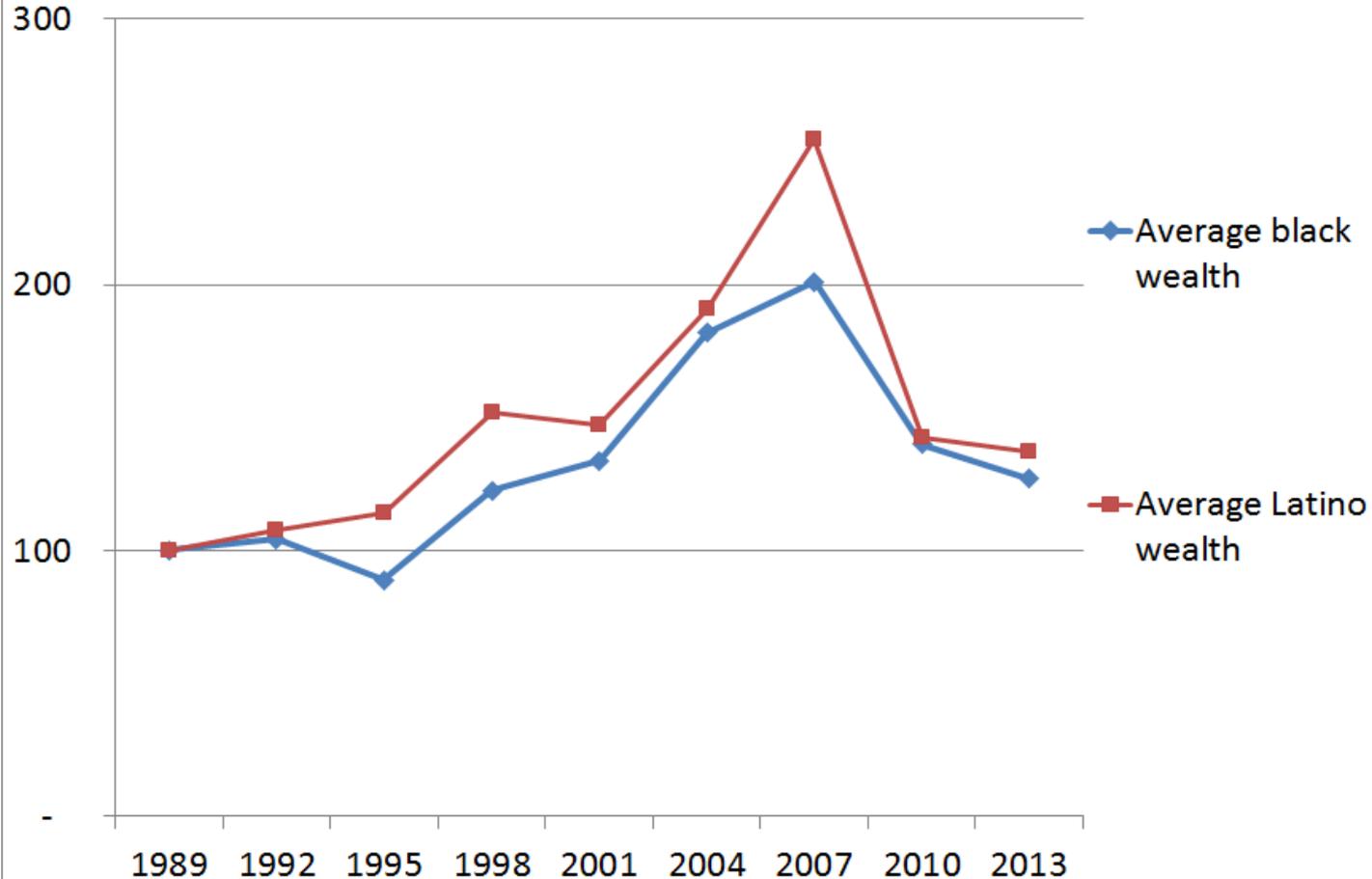




High HOE Share + Poor HOE Performance = Lagging Wealth for Blacks and Latinos

Change in Average Total Wealth (inflation-adjusted)

Indexes
equal 100
in 1989

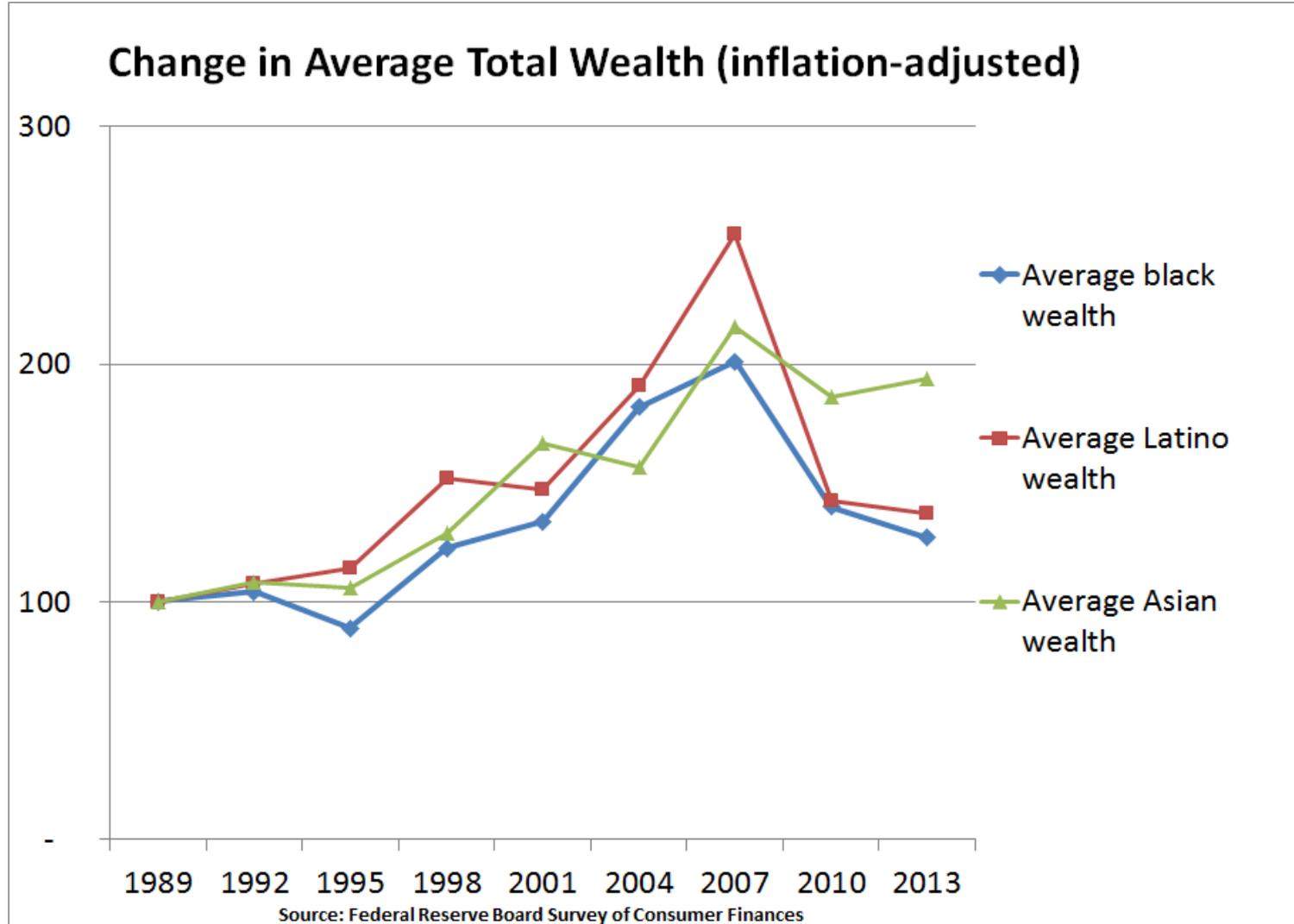


Source: Federal Reserve Board Survey of Consumer Finances



High HOE Share + Poor HOE Performance = Lagging Wealth for Blacks and Latinos

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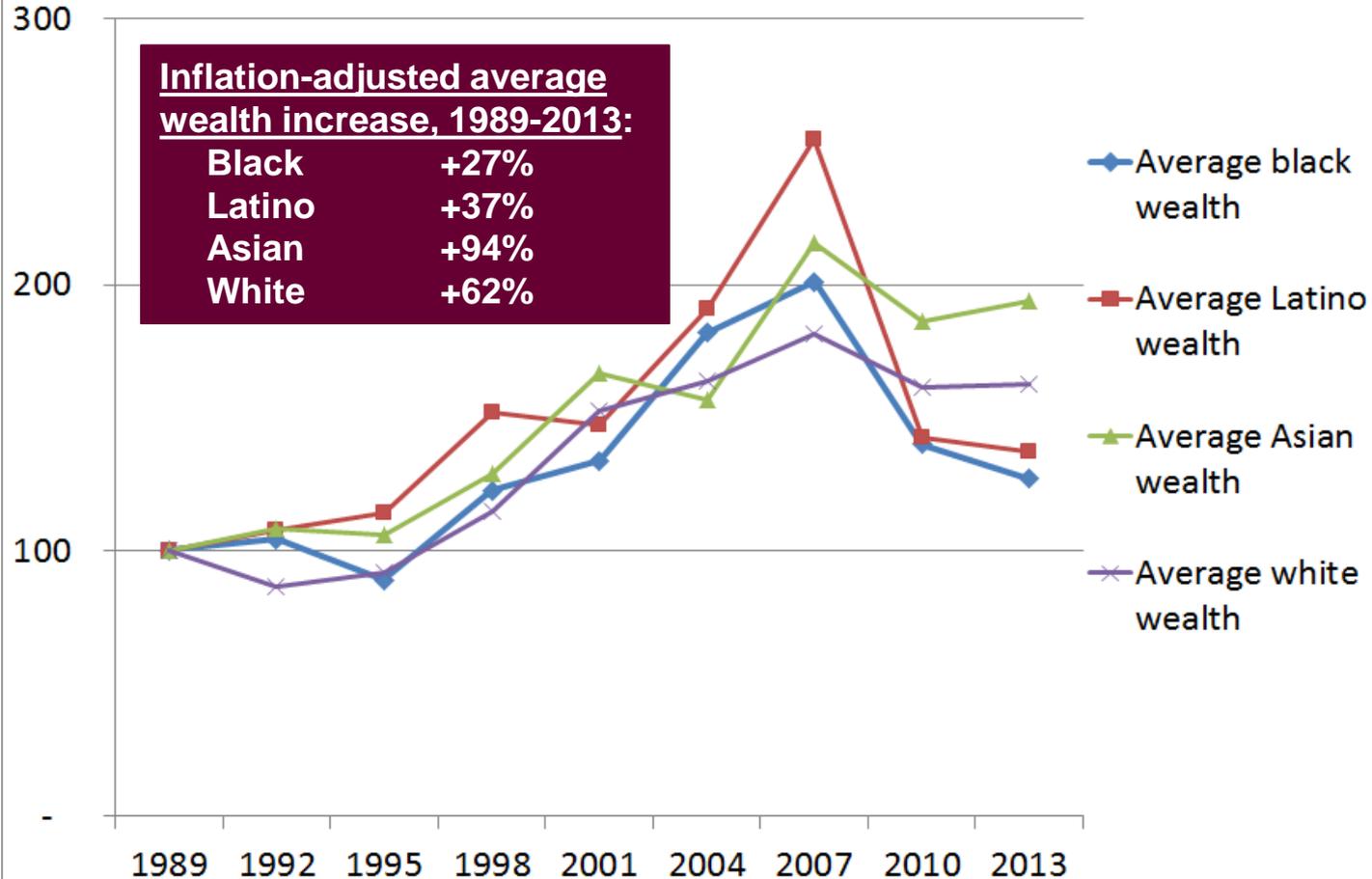




High HOE Share + Poor HOE Performance = Lagging Wealth for Blacks and Latinos

Change in Average Total Wealth (inflation-adjusted)

Indexes equal 100 in 1989



Inflation-adjusted average wealth increase, 1989-2013:
 Black +27%
 Latino +37%
 Asian +94%
 White +62%

Source: Federal Reserve Board Survey of Consumer Finances



Homeownership Hasn't Built Much Wealth But At Least It's Safe—Right?

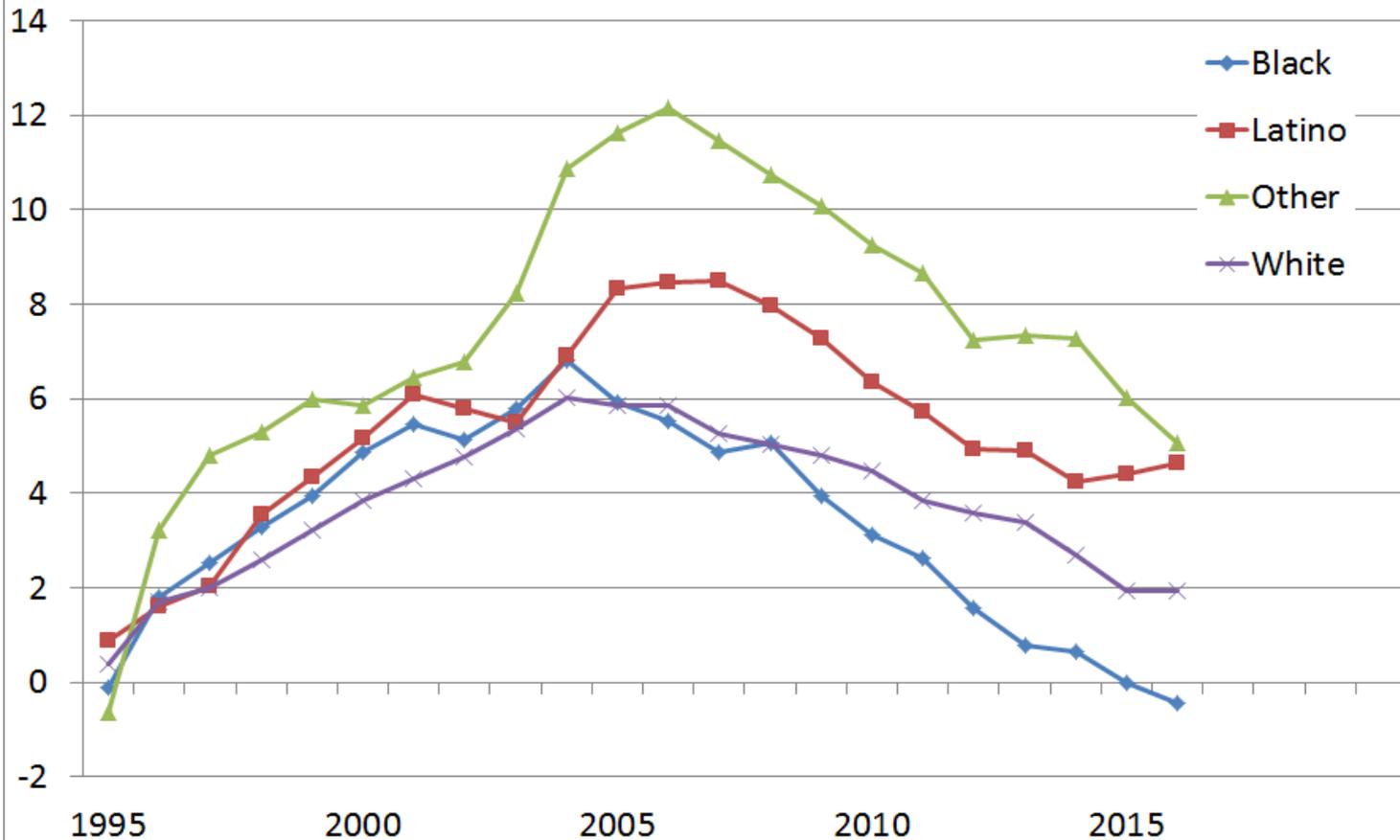
- **Wrong!**
- **Homeowners' equity (HOE) has been more volatile than other wealth during the last quarter century.**
 - **Volatility of 3-year returns, HOE vs. all other wealth:**
 - **Black HOE was 19% more volatile than other assets.**
 - **Latino HOE was 101% more volatile.**
 - **Asian HOE was 8% more volatile.**
 - **White HOE was 27% more volatile.**
- **Homeownership rates have fluctuated a lot, with many families (around 10 million) losing their homes in recent years.**



Homeownership Rates Increased Sharply Before Dropping Sharply

Percentage-point change since 1994

Percentage-Point Cumulative Change in Homeownership Rate by Race or Ethnicity Since 1994



Source: Census Bureau



Good Financial Management is Critical for Financially Vulnerable Families

- **Maintain adequate liquidity**
- **Diversify assets broadly**
- **Keep debt under control**
- **Homeownership can make vulnerable families illiquid, undiversified and debt-burdened.**





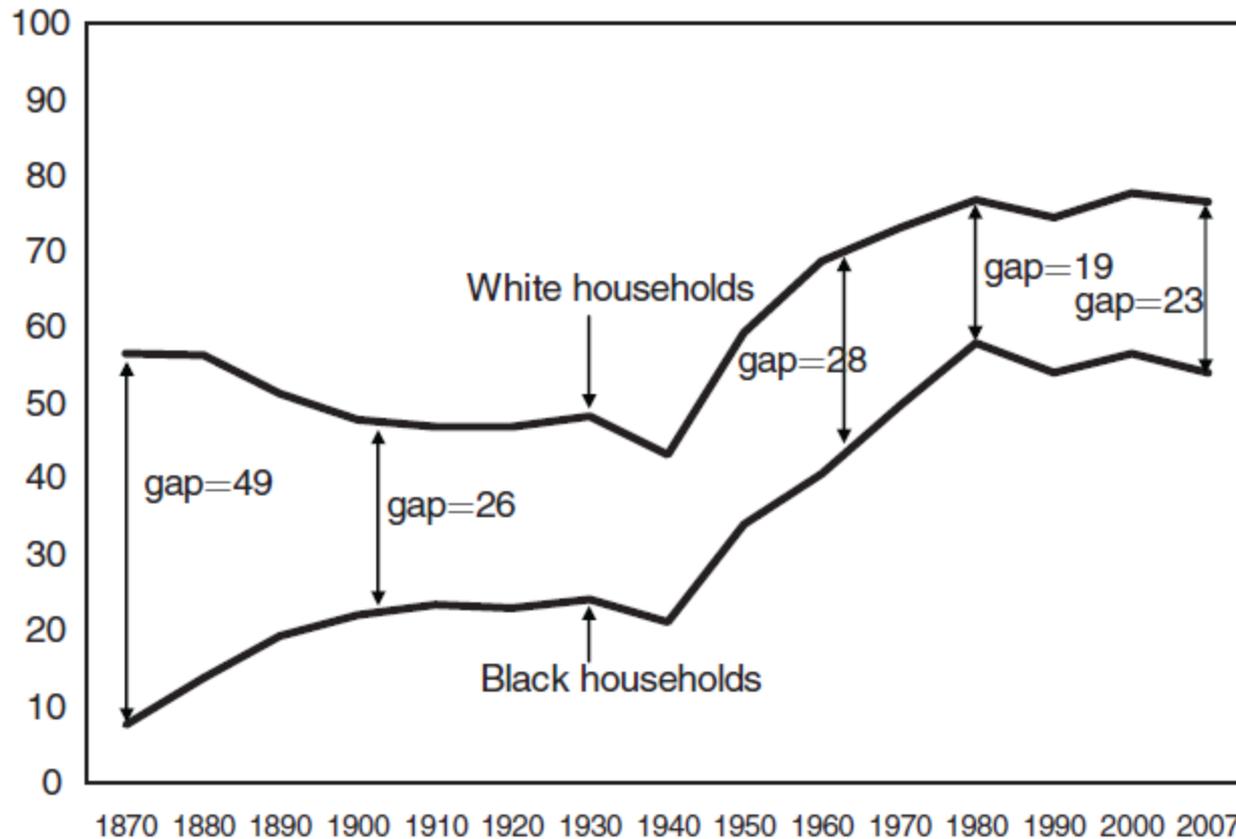
In Sum: Homeownership Is Not the Only—or Best—Way to Build Wealth

- **Homeowners' equity is a large but risky component of wealth, especially for African-American and Hispanic families.**
- **Good financial management includes:**
 - **Adequate liquidity**
 - **Diversified assets**
 - **Manageable debt**
- **Homeownership makes all three more difficult as shown by the disappointing wealth experiences of many families and groups with large housing concentrations.**



Appendix: Black Homeownership Gap Was Little Changed, 1900-2000

Homeownership Rate: Percent of Households



Source: William J. Collins and Robert A. Margo, "Race and Homeownership from the End of the Civil War to the Present," *American Economic Review* 101 (2011), No. 3, pp. 355-59.