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

Homeowners' Equity (HOE) as Share of Total Wealth: Average for Racial or Ethnic Group, 1989-2013

- Black: 46%
- Hispanic: 43%
- Asian or Other: 32%
- White non-Hispanic: 27%

Source: Federal Reserve Board Survey of Consumer Finances
Black Homeowners’ Equity (HOE) Has Increased Less than Other Assets

Indexes equal 100 in 1989

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

Source: Federal Reserve Board Survey of Consumer Finances
Black Homeowners' Equity (HOE) Has Increased Less than Other Assets

Indexes equal 100 in 1989

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

Source: Federal Reserve Board Survey of Consumer Finances
Latino Homeowners’ Equity (HOE) Has Increased Less than Other Assets

Indexes equal 100 in 1989
Latino Homeowners' Equity (HOE) Has Increased Less than Other Assets

Indexes equal 100 in 1989

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

Source: Federal Reserve Board Survey of Consumer Finances
Asian Homeowners’ Equity (HOE) Has Increased Less than Other Assets

Indexes equal 100 in 1989

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

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

Indexes equal 100 in 1989

Source: Federal Reserve Board Survey of Consumer Finances
White Homeowners' Equity (HOE) Has Increased Less than Other Assets

indexes equal 100 in 1989

change in average wealth in homeownership (HOE) vs. all other assets (inflation-adjusted)

Source: Federal Reserve Board Survey of Consumer Finances
Overall Homeowners’ Equity (HOE) Has Increased Less than Other Assets

Indexes equal 100 in 1989

27%: Total inflation-adjusted increase in average HOE, all families, 1989-2013

67%: Total increase in average wealth excluding HOE, all families, 1989-2013

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

Change in Average Total Wealth (inflation-adjusted)

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

Change in Average Total Wealth (inflation-adjusted)

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

Change in Average Total Wealth (inflation-adjusted)

- Average black wealth
- Average Latino wealth
- Average Asian wealth

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

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

Change in Average Total Wealth (inflation-adjusted)

Source: Federal Reserve Board Survey of Consumer Finances
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 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