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Racial Climate and Homeownership

TIMOTHY F. HARRIS AND AARON YELOWITZ[†]

An important question aside from outright discrimination is whether poor underlying race relations in an area might create a chilling effect on homeownership for minorities. From 2012 onward, there were a series of high-profile events in the U.S. related to police brutality which highlighted racial tension. Using Google Trends, we characterize a locality's underlying racial climate based on search interest in these charged events. We use data from the American Community Survey prior to any of these flare-ups and show that the ownership decision for blacks is responsive to the racial climate; black homeownership in localities with the most charged racial climates is 5.6 percentage points lower than in the least charged racial climates based on a sample of movers. (JEL: J15, R31, K42)

I. Introduction

For more than 80 years, United States government policy has explicitly sought to promote homeownership. One way in which it has done so is by making homeownership a more lucrative investment. The tax code offers a multitude of advantages for homeownership, including the mortgage interest deduction, exclusion of significant portions of capital gains, property tax deductions, exclusion of imputed rental income, and implicit subsidization of interest rates through government-sponsored entities (Poterba and Sinai, 2008; Davis, 2012).

Why the preference for ownership? There are several conceptual arguments that relate to private or societal benefits. First, on the investment side, owner-occupied housing can be viewed as a hedge against rent risk.¹ In addition, homeownership has been found to increase wealth accumulation, often with magnitudes of approximately an additional \$10,000 in wealth per year of ownership (Turner and Luea, 2009). Second, some studies find that ownership is associated with more favorable outcomes for the family's children and the larger community. Haurin, Parcel and Haurin (2002) find that ownership leads to a higher quality

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¹Sinai and Souleles (2005) find that the probability of homeownership increases faster with rent volatility for long-horizon households than for short-horizon households.

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