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Extended-family resources and racial inequality in the transition to homeownership

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ABSTRACT

We use longitudinal data from the Panel Study of Income Dynamics to examine how access to financial resources in the extended family affects the accumulation of wealth among non-owners and how these resources subsequently affect transitioning into homeownership. Our findings show that economic conditions of the extended family have substantial effects on non-owners' wealth accumulation and likelihood of becoming homeowners, even after adjusting for individual sociodemographic and economic characteristics. We find significant effects of extended-family wealth for both black and white households, but effects of extended-family income insufficiency for blacks only. Consequently, limited access to wealth and greater level of poverty in the extended family hamper blacks' transition to homeownership. Our results show that the level of extended-family wealth necessary for black householders to equalize their likelihood of becoming homeowners with whites is very high. In fact, our findings indicate that white householders embedded in extended families with no net wealth are just as likely to make the transition to ownership as are black householders with affluent extended families. These findings support arguments related to the importance of extended-family resources in processes of residential attainment but also point to important racial differences in not only levels but also consequences of these family resources.

1. Introduction

While the burst of the housing bubble has focused attention on the risks associated with homeownership, equity in housing still constitutes the single largest share of the typical American family's net worth. Ownership also remains deeply immersed into the American ethos as a cultural marker of "having made it," and the transition into ownership continues to be regarded as a major step in the life cycle by a majority of Americans (Perin, 1977; Rohe and Watson, 2007). The benefits of ownership are not merely limited to the individual, as neighborhoods are also strengthened by residents with financial, social, and political stakes in their communities (Rohe et al., 2000). With these positive qualities of ownership in mind, the fact that black households are two-thirds as likely to own housing as white households (US Census Bureau, 2010) is indicative of a powerful form of social and economic inequality.

Research seeking to explain the racial disparity in ownership is abundant, and generally has considered the roles of individual-level socioeconomic characteristics, such as income and education, and institutional and contextual factors, such as discrimination and segregation, as primary antecedents. More recent scholarship has emphasized the roles of extended-family economic resources, particularly parental wealth, in explaining racial differences in residential attainment

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(Charles and Hurst, 2002; Crowder et al., 2006; Conley, 1999; Oliver and Shapiro, 1995). The implication of these studies is that families rely not only on their own economic resources, but on those of non-household members to secure more desirable residential arrangements. Residential decision-making – including whether to move, to purchase a home, the price range that binds the housing search – is thus influenced by the economic capacity of others to which a household maintains close ties.

Existing empirical research, however, has focused almost solely on the economic capacity of parents. In actuality, families may draw on the assistance of not only parents, but siblings, grandparents, uncles, aunts, in-laws, and other members of the extended family. The extant literature has also been rather narrowly directed at wealth, despite the fact that the financial burden of having to provide assistance to others in need can also influence wealth accumulation and the ability to buy housing, albeit in the reverse direction (i.e., hindering ownership). The fact that black households are disadvantaged not only in terms of their access to potential sources of outside wealth (i.e., parental and extended-family wealth), but also in their social relationship to more economically vulnerable family members, suggests a doubly-disadvantaging process that inhibits black families from acquiring housing. To date, little research has been dedicated to delineating the nature of this dual disadvantage or the effect on racial differences in housing acquisition.

A further limitation of past research is that it has yet to consider the processes through which extrahousehold family resources influence residential outcomes. The assumption of research highlighting parental wealth is often that affluent parents ease the transition into ownership by assisting with downpayments or providing other forms of direct financial assistance (e.g., paying closing costs or supplementing mortgage payments). Certainly, these are convincing explanations, but they may not be the only means through which wealth operates. Being embedded in wealthy family networks may also provide a real or perceived safety net against the risks of ownership or be associated with socialization processes that place differential value on the importance of ownership (see Conley, 1999).

In this study, we use longitudinal data from the Panel Study of Income Dynamics, 1985–2005 to address these shortcomings of prior research by exploring how levels of wealth and poverty among members of the extended family (e.g., grandparents, parents, siblings, and children) affect the transition to homeownership, and how disparities in extended-family resources affect racial inequality in ownership. We also provide evidence on *how* extra-household financial resources affect homeownership by examining whether their effects are explained by direct financial transfers between family members. Four questions guide our research:

(1) How do differences in extended-family wealth and poverty affect the accumulation of resources available for the transition to ownership?
(2) To what extent is the racial disparity in the transition to homeownership explained by racial differences in extended-family wealth and poverty?
(3) Are the effects of extended-family economic resources on the transition to ownership different for white and black households?
(4) And, are the effects of extended-family wealth and poverty explained by the receipt and provision of economic help from/to others outside the household?

2. Background

Recent data reports the black–white gap in homeownership to be about 29 percentage points, with 74% of white householders owning compared to 46% of black householders (US Census Bureau, 2010); and while the racial gap in homeownership has declined since the middle of the twentieth century (Collins and Margo, 2001) it remains large (Shapiro, 2004; Simmons, 2001) and may again be growing with the current racial differences in foreclosure rates (Immergluck, 2009; Rugh and Massey, 2010).

The conventional framework for explaining this disparity in the levels of homeownership is the *microeconomic thesis* which views inequalities in residential attainment as a consequence of group differences in socioeconomic resources. Given the powerful role of income, education and (own) wealth in shaping the acquisition and value of housing (Alba and Logan, 1992; Boehm, 1993; Krivo and Kaufman, 2004; Rosenbaum, 1996), it follows that individuals and groups, such as African Americans, with fewer economic resources should have less attractive residential options, and a more difficult time becoming homeowners, than their more advantaged, white counterparts.

Yet, group socioeconomic differences do not appear to explain disparities between blacks and whites in residential outcomes. Indeed, the segregation literature suggests that the role played by income in explaining patterns of black–white residential segregation is modest at best (Fischer, 2003; Iceland and Wilkes, 2006; Massey and Denton, 1993). Similarly, significant racial differences in homeownership exist even among households with similar socioeconomic resources (Alba and Logan, 1992; Rosenbaum, 1996). To explain these persistent racial disparities in residential outcomes, the *stratification model* emphasizes the barriers and constraints faced by minority groups in seeking, financing, and purchasing housing (see Alba and Logan, 1992). This perspective typically draws attention to the dual housing markets created by discriminatory practices of banks and mortgage lenders (Squires and Kim, 1995), real estate agents (Yinger, 1995), and federal transportation, tax, and housing policies (Massey and Denton, 1993). Racial prejudices and stereotypes held by dominant group members further restrict the residential circumstances of minority groups by influencing their willingness – manifest in both in- and out-migration decisions and resistance to newcomers – to share neighborhoods with members of other racial groups