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## Journal of Housing Economics

journal homepage: [www.elsevier.com/locate/jhec](http://www.elsevier.com/locate/jhec)

## Ethnic disparities in the transition to home ownership

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## ARTICLE INFO

## Article history:

Received 9 March 2013

Revised 11 December 2013

Accepted 14 January 2014

Available online 25 January 2014

## JEL classification:

R21

## Keywords:

Immigrants

Housing tenure

Discrete time duration

Non-linear decomposition

## ABSTRACT

This paper examines ethnic disparities in the transition to home ownership using longitudinal register data from the Netherlands. The study performs a discrete duration model to account for individual and parental background and neighbourhood conditions. Subsequently, the size of explained variance in the home ownership gap between Dutch and ethnic minority groups is estimated using the Oaxaca–Fairlie non-linear decomposition method. The analysis indicates that the home ownership gap is the highest for Moroccans (0.07) of which only 0.042 is explained by the observed characteristics. For Turkish residents, 0.043 of the total 0.046 gap is explained by their background characteristics. The estimated transition rate to home ownership for Surinamese migrants would have been slightly higher than for Dutch residents if they had the same characteristics as Dutch residents. Western migrants have the smallest gap (0.024), of which 0.021 is explained by their observed characteristics.

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## 1. Introduction

An increasing share of population in European countries is composed by immigrants and their descendants. In the housing markets of many countries, immigrants are predominantly tenants and less likely homeowners (Dawkins, 2005; Boehm and Schlottmann, 2009; Constant et al., 2009). This has possibly implications for the socioeconomic position of immigrants and their integration in the host society as well as housing market prospects. This study aims to quantify the homeownership gap for various ethnic groups with respect to Dutch and the effects of variables that are thought to determine homeownership. This paper contributes to the literature in three distinct ways. Firstly, we use unique register panel data of the entire Netherlands population and apply a new methodology to estimate the ethnic gap in homeownership. Secondly, we do estimate the transition to homeownership to identify

more precise effects of a series of time-varying variables, rather than simply estimating homeownership probabilities. Thirdly, this study is also unique considering its focus on an European country outside of the US and new immigrant groups.

Home ownership is an important form of wealth accumulation and a central dimension of social well-being. Depending on the national context and housing-market circumstances, ownership tends to offer financial benefits in the form of tax deduction rules, inflation protection and asset appreciation. It is also linked to better physical and psychological health and greater life satisfaction, as well as improved educational, behavioural and social outcomes for children (Coulson and Dalton, 2010; Haurin et al., 2002). In addition, home ownership is positively associated with neighbourhood amenities such as quality of schools, public services and space, and health. It encourages individuals to invest in local amenities and social capital and thereby improve their community (Coulson and Li, 2013; DiPasquale and Glaeser, 1999; Engelhardt et al., 2010).

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Home ownership has been evidenced to be relatively low level for racial and ethnic minority groups in immigration countries. Most of previous research on racial and ethnic disparities in home ownership was conducted in the United States. A lot of studies focused on black–white home ownership differentials (Kain and Quigley, 1972; Gyourko and Linneman, 1996; Gyourko et al., 1999; Gabriel and Painter, 2003; Deng et al., 2003; Gabriel and Rosenthal, 2005; Hilber and Liu, 2008). Later studies also examined home ownership differentials between immigrant groups (Hispanics and Asians) and whites (Alba and Logan, 1992; Krivo, 1995; Coulson, 1999; Painter et al., 2003, 2004; Yu, 2006; Wachter and Megbolugbe, 1992; Megbolugbe and Cho, 1996; Haurin and Rosenthal, 2009; Cortes et al., 2007; DeSilva and Elmelech, 2012). These studies have established the existence of a significant disparity between whites and blacks and other ethnic groups, although there are disparities across the groups.

European research on ethnic home ownership gap is scarce and mainly limited to Germany. Constant et al. (2009) show that immigrants are significantly less likely to own their homes compared to natives. They suggest that home ownership levels of immigrants are positively correlated with a stronger commitment by immigrants with the host country, for a given set of socio-economic and demographic characteristics, regardless of the degree of their home country orientation. Sinning (2009) confirms the relatively low level of home ownership among immigrant households and shows that immigrant home ownership does not increase with the duration of residence in Germany which would be expected from assimilation perspective.

In many European countries, immigrants and their descendants tend to be less likely to own a home and, instead, a disproportional number live in social housing in large cities (Whitehead and Scanlon, 2007). A large social housing sector may be a factor which explains why home ownership is less attractive. In the Netherlands, non-western immigrants are strongly concentrated in the social housing sector and, their home ownership level is significantly low. Financial constraints in combination with the affordability of social housing may be partially responsible for the low home ownership level. However, it is quite likely that other factors can potentially explain low home ownership among some ethnic minority groups, such as restrictions of access to other types of housing and mortgages, a strong home-country orientation of an ethnic group, different preferences for forms and location of investments, preferences for certain residential locations, and the availability of affordable housing in these locations and discrimination. Besides general benefits, home ownership has additional implications for migrants. Most importantly, migrants' home ownership is seen as a commitment to the host society and an important step toward assimilation into mainstream society (Alba and Logan, 1992; Mulder et al., 1998). Ethnic disparities in home ownership are therefore a source of concern because home ownership is associated with prosperity and the transition to home ownership is seen as an indicator for improvement in the position of household. This study aims to provide empirical evidence for determinants of ethnic home ownership gap which will give a direction for policy interventions to in-

crease home ownership rate among immigrants. In particular, the separate contributions of observed disadvantages in socioeconomic position of immigrants will be assessed and the size of unobserved differences for each immigrant group will be quantified.

Most studies which seek to explain ethnic and racial differentials in home ownership used cross-sectional data. Only a small number of studies used a dynamic analysis to quantify determinants of ethnic gap in home ownership (Dawkins, 2005; Boehm and Schlottmann, 2009; Charles and Hurst, 2002). This paper builds on previous work by examining the transition to home ownership using longitudinal register data for the period between 1999 and 2005 for ethnic groups in the Netherlands. The use of longitudinal data allow us to isolate the relationship between a large number of explanatory variables and home ownership much more effectively than can be done with cross-sectional data for which endogeneity bias is likely to be a serious concern. This paper examines how individual socio-economic and demographic characteristics, parental background and neighbourhood characteristics contribute to ethnic gaps in transition to home ownership. First, we estimate home ownership transitions for separate ethnic groups using discrete time duration models and register data for entire population between 20 and 45 years in the Netherlands. We then apply Oaxaca-type decomposition method (Fairlie, 1999, 2005) and an alternative decomposition to quantify the explained component of ethnic disparities in home ownership transitions. Finally, we perform robustness checks.

## 2. Role of ethnicity in home ownership

Relatively low home ownership rates among racial and ethnic minority groups have usually been ascribed to their weak socio-economic position. However, differences in home ownership levels for some minority groups can be only partly explained by differences in socio-economic characteristics. An unexplained residual is often attributed to unobserved factors, such as ethnic preferences and discrimination in the credit and housing markets (DeSilva and Elmelech, 2012; Coulson and Dalton, 2010; Constant et al., 2009). This study aims both to delineate separate contributions of observed characteristics and to distinguish the contribution of unobserved factors which may be attributed to ethnicity such as ethnic preferences and discrimination. Since our administrative data include a large set of relevant observed variables, remaining unexplained differences in home ownership rates are likely attributable to ethnic background. We expect that this unexplained ethnicity component will be larger for low status ethnic minority groups that are at a relatively long distance from the Dutch population in terms of socio-economic, demographic and cultural characteristics (Kullberg et al., 2009).

Regarding observed characteristics, literature on ethnic and racial disparities in home ownership has generally considered a set of determinants which can be grouped into household socio-economic characteristics, institutional structure, ethnic group specific factors and ethnic residential segregation (Constant et al., 2009; Alba and Logan, 1992).

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