Welcome to the
Emerging Topics in Economic Development Series

Urban Economic Development Association of Wisconsin

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Supported Research

Bridging the Racial Disparity in Wealth Creation in Milwaukee

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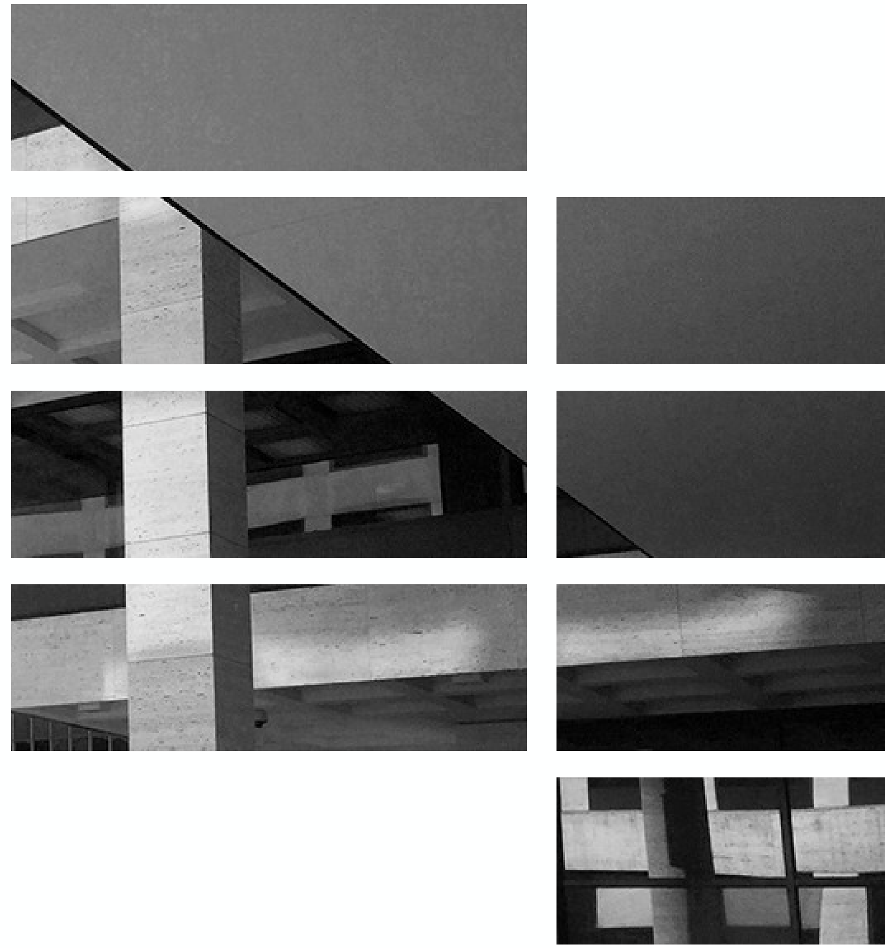
Overview

- Background
- MGIC's Strategy
- Project Charter
- Two Key Takeaways
- Next Steps
- Addendum

  (UW-Milwaukee Summary Report)



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Background

- In the Fall of 2021, a collaborative of 80+ public, private, non-profit and philanthropic stakeholders finalized the City of Milwaukee's Collective Affordable Housing Plan (the "Housing Plan")
- The Housing Plan is the culmination of several months of stakeholder collaboration to identify root causes and potential solutions to Milwaukee's racial/ethnic inequity in housing
- The collaboration was led by the Community Development Alliance (the "CDA") which is tasked with administering the **Housing Plan** through ongoing collective action
- MGIC participated in the collaborative process and provides support to the CDA and many of the community-based organizations with which it partners *(e.g., ACTs Housing, United Community Center, Housing Resources Inc., Urban Economic Development Authority, Take Root Milwaukee, Habitat for Humanity)*
- The Housing Plan's objectives align squarely with MGIC's own equitable homeownership strategic focus and further provides a unique opportunity to test-and-learn solutions to Milwaukee's persistent racial/ethnic housing equity challenges
- MGIC supported this research project with the goal of creating an analytical tool that can be used constructively to direct policy and investment to help **People** grow wealth through homeownership while assuring **Place** isn't left behind

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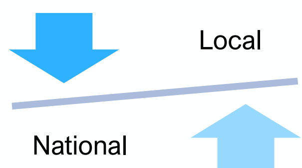
Our Equitable Homeownership Strategy Statement

Advance the values of diversity, equity and inclusion and take the lead in engaging and collaborating with stakeholders toward the following Desired Outcomes:

- <u>Increasing</u> the number of families prepared and ready to own a home
- <u>Expanding</u> sustainable homeownership opportunities for creditworthy home buyers
- <u>Closing</u> the racial/ethnic gaps in homeownership

Our Areas of Focus:

Policy	Research	Partnerships & Promotion	Product



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Project Charter

- Our objective was to address the question “What works?” when it comes to increasing household wealth created through homeownership in Milwaukee neighborhoods, especially for minorities
- Specifically, the intended outcome was the invention of a **Wealth Creation Index** that could be applied to measure the individual and collective impacts a neighborhood’s characteristics have on the amount of wealth created for the area’s owner-households
- The UWM Research Team addressed this evaluation opportunity through a data science effort using quantitative methods to comprehensively identify – and measure the effects of – drivers of home ownership as a generator of wealth
- Seven data sources (spanning back to 2005) were used with the central activity being a machine-learning exercise in which Black Knight Public Property Data, Home Mortgage Disclosure Act (HMDA) data, and Milwaukee’s Master Property File (MPROP) were merged to form the primary dataset
- The research began in January 2022, was completed in April 2023, and is being published in various academic research portals

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Two Key Takeaways

While the final report is rich with compelling findings, we direct attention to two (2) takeaways that could be immediately useful in informing potential solutions

A homeownership rate of 30% is a critical threshold for a neighborhood to minimally achieve in order to foster wealth creation

- When below the 30% threshold, each additional 1% decrease in the homeownership rate is associated with a 0.6% decrease in home values
- Stated differently, a home that is in an area where just 24% of homes are owned has a value that is 6% lower than a comparable home where 30% of homes are owned (when controlling for multiple other factors)
- When a neighborhood's homeownership rate is at or above 30%, there is no statistically valid drag on home values

Gains in wealth through homeownership could be made by identifying neighborhoods with low homeownership and taking intentional measures to increase the homeownership rate to above 30%

Foreclosures result in a loss of home value, and neighborhoods that experience a high number of foreclosures suffer from substantial value loss

- Black and Hispanic homeowners in Milwaukee have been more likely to experience foreclosure
- The effect of foreclosure is non-linear
- Foreclosed homes in neighborhoods above the 95th percentile in foreclosure rate lose 8x the value of foreclosed homes in other neighborhoods
- When foreclosures reach a certain threshold in a neighborhood, the disamenity effect creates a downdraft on home values

Public policy is often focused on increasing homeownership, but aiding homeowners in avoiding foreclosure will reduce homeownership gaps and restore foundational wealth for minority owners

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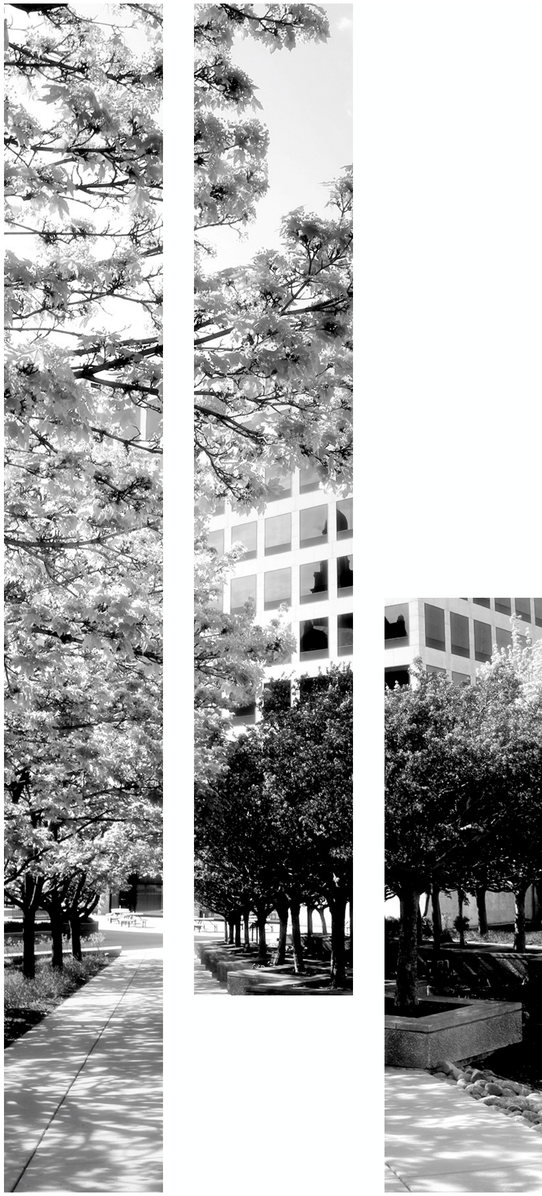
Next Steps

- Publication of the report in academic research hubs
  (e.g., SSRN - https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4515860)
- Publication of the report in academic research journals
- Engagement with Milwaukee housing and policy leaders
- Engagement with the national housing research community (including academic researchers, policy organizations, and trade groups)
- Media plan for broader Milwaukee-area awareness
- Potential research enhancements –
  - Evaluate impact of other factors, individually and collectively (e.g., homebuyer education, property age, jobs, vacant lots, adjacency to foreclosures, additional amenities not captured in initial data sets)
  - Spatial analysis to explore “neighborhood” beyond traditional statistical subdivisions
  - Expansion to other geographies where collective action is underway or taking root

Addendum

University of Wisconsin-Milwaukee Research Team Summary



Bridging the Racial Disparity in Wealth Creation in Milwaukee

(Research Supported by MGIC)

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- **Rebecca H. Konkel**, Assistant Professor, Department of Criminal Justice & Criminology
- **Jangsu Yoon**, Assistant Professor, Department of Economics
- **Tian Zhao**, Associate Professor, Department of Computer Science

Background

- Housing wealth is a significant portion of households' balance sheets worldwide
- Appreciation in housing values is a valuable hedge against inflation and a primary source of wealth accumulation
- For many low- to middle-income (LMI) households, homeownership is often their largest source of investment due to limited alternative opportunities
- Racial wealth disparities persist in the United States, even with recent progress in homeownership opportunities for historically disadvantaged minorities
- Since 1949, the median wealth of Black households has rarely exceeded one-tenth of the median wealth of White households (Kuhn et al., 2020)
- Milwaukee, one of the most racially and economically segregated metropolitan areas in the U.S., faces magnified challenges in wealth accumulation for racial minorities (Massey & Tannen, 2015)

Research Overview

- Study objective: Examine factors contributing to wealth creation, with a focus on housing returns in Milwaukee County, to identify potential areas for policy and investment initiatives
- Data sources: Individual housing transactions (Black Knight), socio-economic features from the Home Mortgage Disclosure Act (HMDA), assessed home price data from the Master Property File (MPROP), and additional data on school quality, crime, and amenities
- Methodology: An econometric machine-learning approach was employed to merge data and track wealth creation among households over time
- Definition: “Housing returns” are defined as an owner’s annual unlevered rate of return –
  - This includes home price growth/decline over time; and
  - The resale value of a foreclosed home – Even though the resulting gain/loss does not impact the foreclosed-on owner, the value was considered in evaluating housing returns

Wealth Creation Index

- The research's econometric machine-learning model produces output referred to as the Wealth Creation Index ("Index")
- The Index allows for wealth creation through homeownership to be separated into the various components that are accretive or decretive to housing returns
- Changes in the Index can be measured over time, provided ongoing data availability supports statistically significant output
- The Index can inform place-based strategies; and for investors focused on the triple-bottom line, the Index can provide a way to quantify social impact
- The methodology will be made available to the housing research community as it should have applicability in evaluating housing returns in other cities facing similar racial/ethnic disparities

Main Findings of the Research Project

<u>Home values appreciate at a lower rate for minorities and female homeowners</u>

- On average, Black homeowners witness 6.8% lower appreciation
- This disparity is 3% lower among Hispanic homeowners and 1% lower among female homeowners

<u>Disparities in returns get exacerbated for foreclosed properties</u>

- Hispanic, Black, or female homeowners are more affected by foreclosures
- Not only do they see lower than average home value appreciation, but also, when their homes go into foreclosure, the associated decrease in value is more pronounced

<u>Foreclosure has a non-linear effect</u>

- When the percentage of foreclosed houses within a given area is below the 95^{th} percentile, foreclosure declines home value by 1.2%; on the other hand,
- If a house has been foreclosed in a neighborhood with foreclosure rates above the 95^{th} percentile, these houses experience a 9.6% decline in home value

Main Findings of the Research Project *(cont'd)*

<u>The ownership ratio in a neighborhood affects home values</u>

- The owner-occupied cut-off threshold is 30%
- Specifically, when the share of owner-occupied housing units within a given neighborhood is equal to or exceeds 30%, there is a positive impact on home values
- Conversely, when less than 30% of housing units are owner-occupied (i.e., renter-occupied) home values are lower

<u>Distance to a higher-quality high school is a key factor associated with home values</u>

- The distance to a high school exceeding expectations in terms of quality is important
- Home value decreases as the distance between a given house and a high performing school increases

<u>Owning is a better tool for wealth creation for households in Milwaukee County</u>

- There is a 13% difference in wealth accumulation between homeowners and renters, even when the loss of wealth attributable to foreclosure is considered

Main Findings of the Research Project *(cont'd)*

<u>Household income is a key determinant of home value</u>

- Each 1% increase in income is associated with a 0.1% increase in home value
- Stated differently, home value is approximately 1% higher for a homeowner who earns 10% more than a comparable homeowner

<u>Lot size is also a key determinant of home value</u>

- A 1% increase in lot size correlates with around a 1.7% increase in home value

<u>Crime negatively affects home values; educational attainment boosts home value</u>

- For each one-unit increase in a neighborhood's crime factor score, a 4.9% decrease in home value was observed
- Neighborhoods composed of residents with higher levels of educational attainment experience higher home values, and neighborhood educational attainment suppresses the effects of crime on housing values

Policy and Investment Implications

- Homeownership is key to the development of one's wealth, especially for LMI households
- Appropriate policy tools are needed to increase access to homeownership for wealth creation among lower-income, minority, and female individuals
- Policy and investment interventions should be considered to produce better results, such as –
  - Providing financial assistance to homeowners who are at risk of losing their homes may reduce foreclosure rates: and
  - Policies and initiatives that aim to stabilize the housing market and prevent widespread declines in property values may also help to reduce the number of foreclosures
- The threshold effect in the impact of homeownership on home values in a neighborhood provides a rationale for government support of homeownership

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