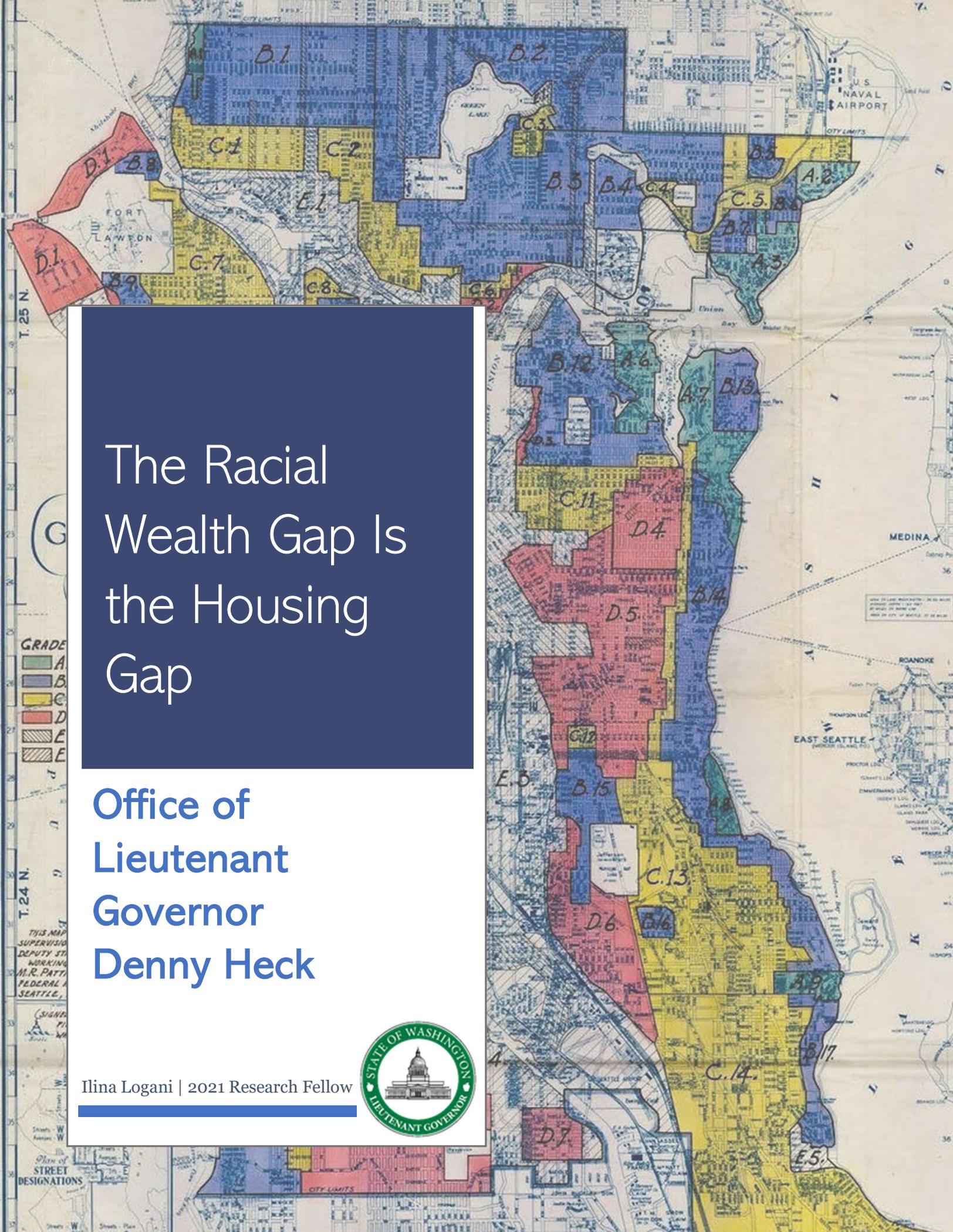


# The Racial Wealth Gap Is the Housing Gap

Office of  
Lieutenant  
Governor  
Denny Heck

Ilina Logani | 2021 Research Fellow



## INTRODUCTION

Homeownership is the number one net-worth building asset for the average household in the United States. Home equity makes up the largest portion of the net worth of the typical American household (and constitutes more than half the net worth of the typical low-income American household). By serving as a forced savings mechanism, a catalyst for household wealth, and a path out of poverty for many Americans, homeownership becomes a key factor in the building of intergenerational well-being: the children of homeowners are far more likely to become homeowners themselves.

Even as owning a home in America has long been a central tenet of the American Dream, certain segments of the American population have been systemically locked out of the chance of homeownership. A history of housing and labor market discrimination has positioned Americans of color—and in particular, Black, Indigenous, and Hispanic Americans—to be long underrepresented in homeownership rates and to be disproportionately impacted by the nation's housing affordability crisis. Unequivocally, inequitable access to housing is the key driver of the racial wealth gap in America today.

The adverse impacts of the racial wealth gap do not stop with Americans of color. When a large swathe of our population is kept from homeownership and from full economic participation, the entire economy suffers. Local markets miss out on the economic multiplier that each new house brings; communities lose the new jobs that come as new neighborhoods are created and new families move into the local economy. This has tangible economic implications for communities across America. The racial wealth gap is the housing gap—and both gaps, if left unresolved, will continue to cost the nation trillions of dollars (and will cost Washington State billions of dollars) with each passing year.

## EXECUTIVE SUMMARY

### Two Key Facts:

#### 1. Housing is a key source of wealth for Americans.

For the average American, homeownership acts as a forced savings mechanism, a catalyst for household net worth, a driver of intergenerational wealth and well-being, and a path out of poverty towards financial stability. Owning a home has always been one of the most important tools for Americans to build and retain wealth.

#### 2. Access to housing in America is racially inequitable.

Black, Indigenous, or other People of Color (BIPOC) Americans have lower homeownership rates, are disproportionately impacted by the nation's housing affordability crisis, and are less able to build home equity than White Americans—primarily due to historical inequities and systemic racism in the housing market. They are more likely to live in “low-opportunity” neighborhoods today and are more likely to occupy homes in formerly redlined neighborhoods, both factors that impact home values and intergenerational wealth.

### Implications for the Racial Wealth Gap:

Given that housing is unquestionably a chief source of wealth for the average American—and given that Americans of color are often locked out of homeownership and building home equity—the racial housing gap is without a doubt the key to the gap in net worth and wealth between White and non-White Americans. In shutting BIPOC Americans out of a major financial asset and intergenerational wealth-building tool, they have historically been both slower to gain wealth and faster to fall out of it. This has direct implications for America's widening racial wealth gap.

### Implications for Our Broader Economy:

America is facing dual housing crises: one of housing unaffordability across America, which disproportionately affects Americans of color, and one of systemically inequitable access to housing for non-White Americans.

These dual crises both have significant implications for our current and future economic growth. The housing industry holds a strong multiplier effect on our economy: every new home built and bought generates new GDP exponentially, while every unit prevented from being built or bought holds back our economy by a fraction greater than one. Moreover, lack of access to housing is a key driver in the racial wealth gap. In holding back countless Americans—especially people of color—from homeownership and in perpetuating the racial wealth gap, our dual crises are costing the nation trillions of dollars in GDP growth each year. With Washington State's uniquely large housing gap, the state, too, is losing billions of dollars in GDP growth annually.

The math is simple: when a large segment of our nation's population is held back from homeownership through systemic inequity and a housing affordability crisis, the entire economy suffers.



## A PRIMARY SOURCE OF WEALTH FOR AMERICANS

**By acting as a forced savings mechanism, a catalyst for household net worth, a driver of intergenerational well-being, and a path out of poverty towards financial stability, owning a home has always been one of the most important tools for Americans to build and retain wealth.**

### *A Forced Savings Mechanism*

Homeownership promotes wealth-building by acting as a powerful and compounding forced savings mechanism. Between deductible mortgage interest, tax-free treatment on gains when a home sells, and the ability to “itemize” property taxes, housing has historically been a strong wealth-building asset for Americans.<sup>1</sup>

Moreover, home values tend to rise with inflation while the interest on the home’s mortgage stays the same. As such, though the amount paid for the home remains steady, the value of the house increases by the rate of inflation times the cost of the house—raising home equity for the homeowner and further increasing the economic value gained by purchasing a house.<sup>2</sup> This home value appreciation can enable homeowners to glean greater proceeds if they choose to sell the now-appreciated asset or borrow against the additional equity.<sup>3</sup>

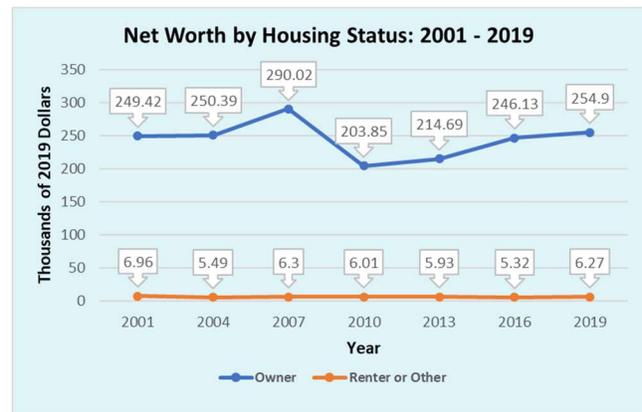
<sup>1</sup> “The Proof is in the Numbers: The Positive Economic Impact of Residential Development.” Nevada Rural Housing Authority. Accessed at: [https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)  
Neal, Michael; Choi, Jung Hyun; Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at:

<https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf>

<sup>2</sup> “The Proof is in the Numbers: The Positive Economic Impact of Residential Development.” Nevada Rural Housing Authority. Accessed at: [https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)  
“The Effect of Inflation on Housing Prices.” SF Gate, July 13, 2021. Accessed at: <https://homeguides.sfgate.com/effect-inflation-housing-prices-2161.html>

### *A Catalyst for Rising Net Worth*

Homeownership in the United States has always been the number one net worth-building asset for the average American. According to the Federal Reserve, in 2019 the net worth of a homeowner soared to \$255,000 where a renter’s averaged \$6,300—making the average homeowner’s net worth forty times that of a typical renter.<sup>4</sup>



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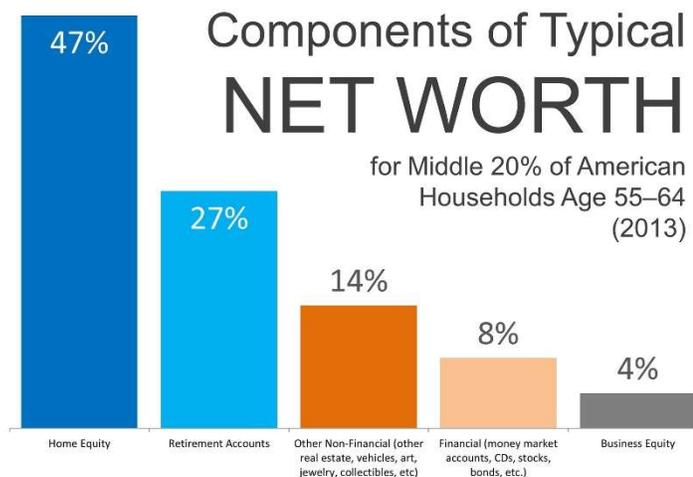
Nguyen, Joseph. “Is There a Correlation Between Inflation and Home Prices?” Investopedia, October 21, 2020. Accessed at: <https://www.investopedia.com/ask/answers/correlation-inflation-houses.asp>

<sup>3</sup> “How does homeownership contribute to wealth building?” Habitat for Humanity Evidence Brief, December 2020. Accessed at: [https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

<sup>4</sup> Bond, Michaelle, and DeMoe, Dominique. “Gaps in Black and white home ownership transcend a booming market and threaten to leave some behind.” The Philadelphia Inquirer, March 3, 2021. Accessed at: <https://www.inquirer.com/real-estate/housing/black-home-ownership-national-association-realtors-report-20210303.html>

<sup>5</sup> Survey of Consumer Finances, 1989 – 2019. Board of Governors of the Federal Reserve System, last updated September 28, 2020. Accessed at:

Part of this vast distance between homeowners and renters is the fact that home equity constitutes the largest share of net worth for the average American household,<sup>6</sup> enabling homeowners to exponentially build wealth while renters remain far behind.



Components of Typical Net Worth, 2013 <sup>7</sup>

The flip side of this story is the housing affordability crisis keeping households across America from becoming homeowners. Currently, there are 3.5 million younger families across the nation who have remained renting where, barring the affordability crisis, they would otherwise have been able to purchase homes.<sup>8</sup> The earlier a home is bought, the longer it can serve as a wealth-generating asset. Our housing affordability crisis is delaying younger

[https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Net\\_Worth;demographic:housecl;population:all;units:median;range:1989,2019](https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Net_Worth;demographic:housecl;population:all;units:median;range:1989,2019)

<sup>6</sup> “Economic Impacts of the Housing Sector.” The University of North Texas, 2001. Accessed at:

<https://govinfo.library.unt.edu/mhc/responses/058001b.doc>

<sup>7</sup> Rapoza, Rhonnie. “Homeownership: A Key to Well-being in Retirement.” Island Land Company Inc., July 15, 2015. Accessed at:

<https://www.islandlandcompany.com/homeownership-a-key-to-well-being-in-retirement/>

<sup>8</sup> Lowrey, Annie. “The Great Affordability Crisis Breaking America.” The Atlantic, February 7, 2020. Accessed at:

<https://www.theatlantic.com/ideas/archive/2020/02/great-affordability-crisis-breaking-america/606046/>

generations’ wealth accumulation, consigning the millennial and Gen Z cohorts to worse net-worth trajectories throughout the rest of their lives.

### ***Intergenerational Implications***

The benefits of owning a home do not stop with the wealth-building of the individual homeowner. Rather, homeownership brings substantial positive changes to both surrounding communities as well as future generations.

Neighborhoods where more families own homes, for instance, are associated with higher participation in civic activities and volunteering, lower crime rates, and better health outcomes.<sup>9</sup> Much of this can be explained by the tendency of homeowners to move less frequently than renters, contributing to a more stable neighborhood, higher social and community involvement, and better property maintenance.<sup>10</sup> All of these in turn raise property values, both adding to the value of the neighborhood and further increasing the homeowners’ net worth.<sup>11</sup>

The children of homeowners are some of the primary beneficiaries of ownership. They tend statistically to transition to homeownership earlier than children of renters, thereby accumulating wealth over a longer period. Moreover, their homeownership rates are 25 percentage points higher than the children of renters.<sup>12</sup> Therefore, owning a home promotes both intergenerational homeownership and wealth building. Children who

<sup>9</sup> “Snapshot of Race and Home Buying in America.” National Association of Realtors. Accessed at:

<https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>

<sup>10</sup> “Economic Impacts of the Housing Sector.” The University of North Texas, 2001. Accessed at:

<https://govinfo.library.unt.edu/mhc/responses/058001b.doc>

<sup>11</sup> Ibid.

<sup>12</sup> “How does homeownership contribute to wealth building?” Habitat for Humanity Evidence Brief, December 2020.

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[https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

grow up in a home owned by their family show better educational performance and achieve higher levels of education—meaning they are more likely to earn a higher income than their peers who come from renter families.<sup>13</sup>

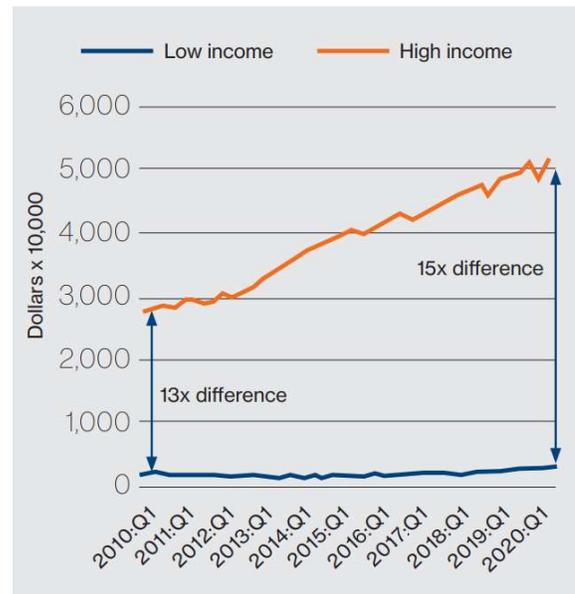
Additionally, children of families who moved to lower-poverty neighborhoods—typically characterized by homeowners rather than renters—saw their earnings increase by approximately 31%, had an increased likelihood of living in better neighborhoods as adults, and a lower likelihood of becoming a single parent.<sup>14</sup>

### ***A Path to Financial Stability for Low-Income Homeowners***

The wealth gap between high-income and low-income households in America is a wide one: for every dollar in net wealth accumulated by a high-income household, a low-income household can amass just seven cents.<sup>15</sup> Yet homeownership has proven to be one of the strongest and most reliable paths to closing this wealth gap and to financial stability for low-income families: home equity typically accounts for over half the net wealth of a low-income household if they own their home.<sup>16</sup>

Low-income homeowners with sustained ownership and affordable loans have been shown to have higher wealth accumulation (both housing and non-housing wealth) than comparable renters, achieving

greater financial returns through homeownership than through renting.<sup>17</sup>



*Distribution of Household Wealth for Low- and High-Income Households*<sup>18</sup>

Unequivocally, homeownership is a key wealth-building asset for the average American—and *especially* for low-income families—acting as a powerful net-worth builder, a driver of upwards social mobility, and a generator of intergenerational prosperity.

<sup>13</sup> Boehm, Thomas P., and Schlottmann, Alan M. “Housing and Wealth Accumulation: Intergenerational Impacts.” Joint Center for Housing Studies of Harvard University, October 2001. Accessed at:

<https://www.jchs.harvard.edu/sites/default/files/media/imp/liho01-15.pdf>

<sup>14</sup> “The Problem.” National Low Income Housing Coalition, 2021. Accessed at: <https://nlihc.org/explore-issues/why-we-care/problem>

<sup>15</sup> “How does homeownership contribute to wealth building?” Habitat for Humanity Evidence Brief, December 2020. Accessed at:

[https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

<sup>16</sup> Ibid.

<sup>17</sup> Boehm, Thomas P., and Schlottmann, Alan M. “Housing and Wealth Accumulation: Intergenerational Impacts.” Joint Center for Housing Studies of Harvard University, October 2001. Accessed at:

<https://www.jchs.harvard.edu/sites/default/files/media/imp/liho01-15.pdf>

<sup>18</sup> “How does homeownership contribute to wealth building?” Habitat for Humanity Evidence Brief, December 2020. Accessed at:

[https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

## A TALE OF TWO MARKETS

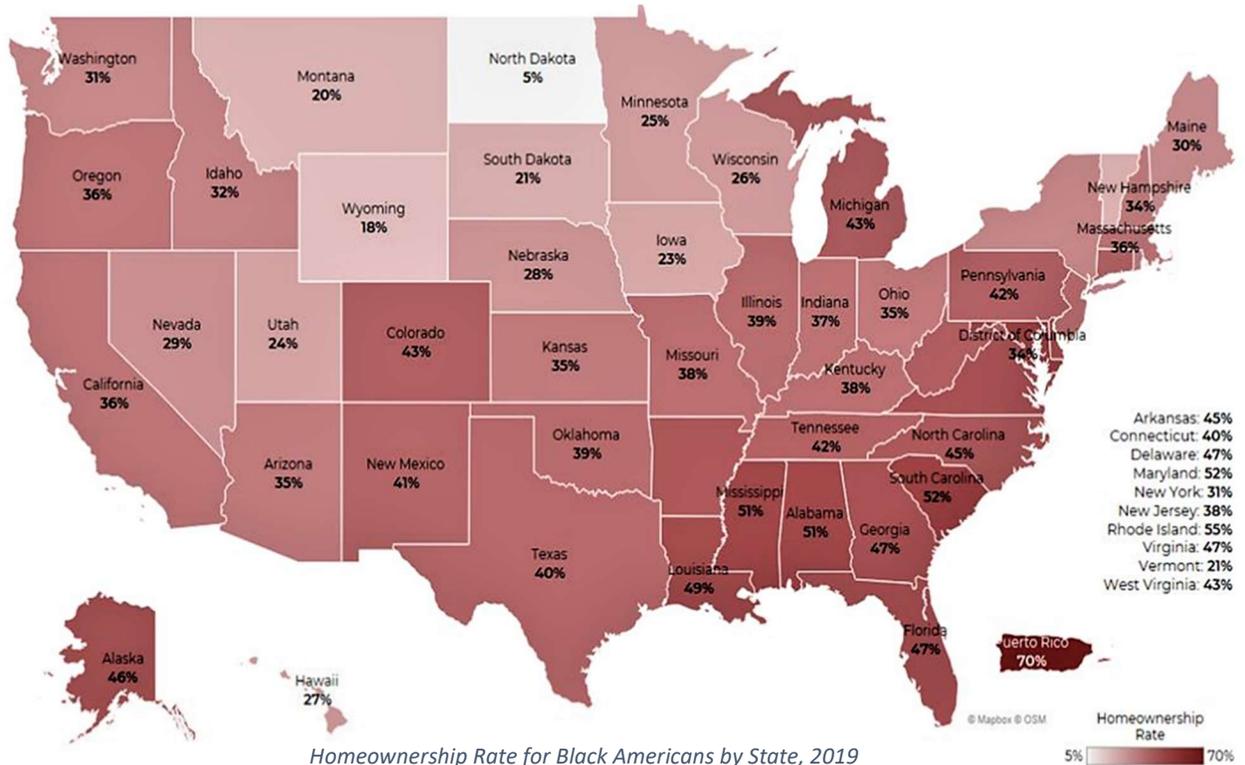
**Black, Indigenous, and other People of Color (BIPOC) have lower homeownership rates, are disproportionately impacted by the nation's housing affordability crisis, and are less able to build home equity than White Americans—primarily due to historical inequities and systemic racism in the housing market.**

While total homeownership in 2020 hovered around 65.3% in the broader United States, by race tells a different story: though 74.5% of White households owned homes in 2020, just 44.1% of Black households, 49.1% of Hispanic households, and 59.5% of Asian households owned homes in the same year.<sup>19</sup>

In Washington, the numbers paint the same picture. Total homeownership in the state was 63.8% in 2019— but while White homeownership was 67%,

**Homeownership by Race**

Black homeownership was only 31%, translating to a 36% gap in homeownership between Black and White Washingtonians. Hispanic homeownership in Washington did not fare much better, hovering at

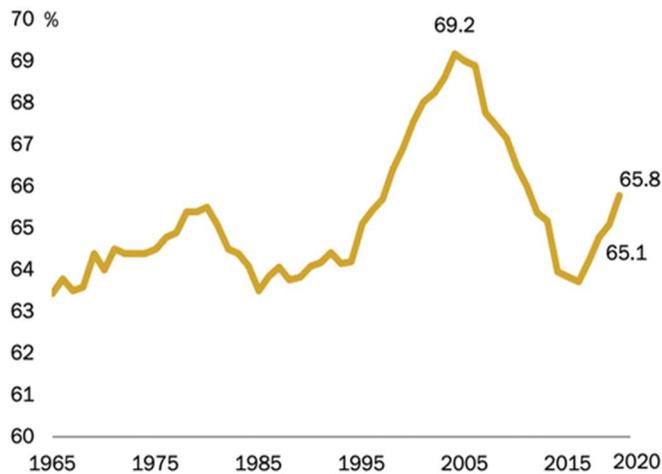


<sup>19</sup> "Homeownership Rates by Region." U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, April 27, 2021. Accessed at: <https://www.census.gov/housing/hvs/files/qtr121/hown121.i.pg>  
 Fry, Richard. "Amid a pandemic and a recession, Americans go on a near-record homebuying spree." Pew Research Center, March 8, 2021. Accessed at: <https://www.pewresearch.org/fact-tank/2021/03/08/amid-a-pandemic-and-a-recession-americans-go-on-a-near-record-homebuying-spre/>

<sup>20</sup> These statistics and accompanying graph were originally accessed in a National Association of Realtors report: "2021 Snapshot of Race and Home Buying in America." National Association of Realtors. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>  
 "Homeownership Rate for Washington." U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis, last updated March 9, 2021. Accessed at: <https://fred.stlouisfed.org/series/WAHOWN>

Between 2019 and 2020, the number of homeowners in the United States increased by around 2.1 million households, or 2.6%—the seventh largest percentage increase in homeowners since 1965.<sup>21</sup> The homeownership rate accordingly rose by 0.7 percentage points (from 65.1% of households owning their own home in 2019 to 65.8% in 2020).<sup>22</sup>

Homeownership rate (%), fourth quarter, nonseasonally adjusted



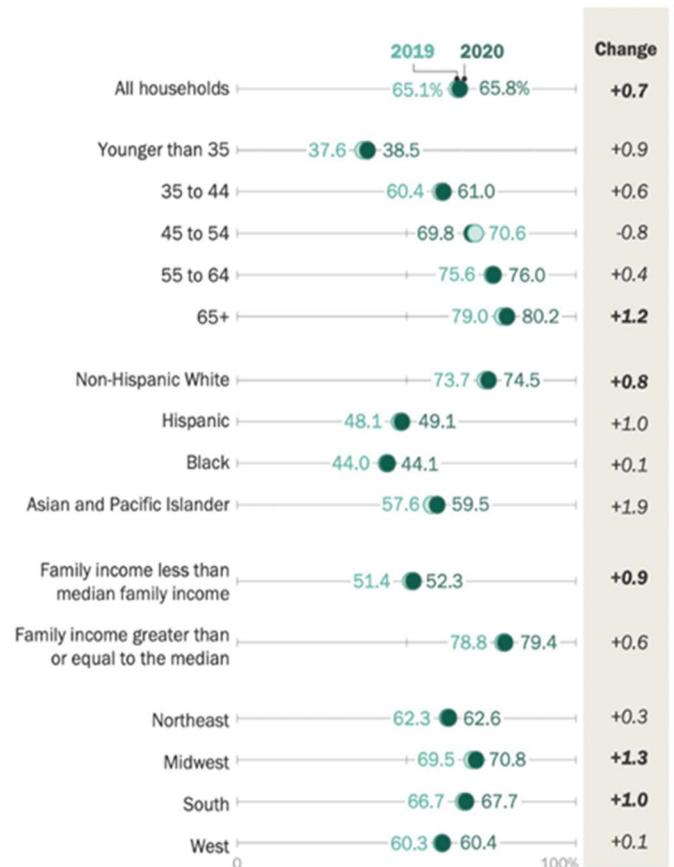
U.S. Homeownership Rate Significantly Increased Between 2019 and 2020<sup>23</sup>

Still, this modest growth in homeownership has not been equitably distributed, concentrated primarily among White and Asian families in America. The homeownership rate for White households in the United States increased from 73.7% to 74.5% between 2019 and 2020; meanwhile, the rate for Black families increased a marginal 0.1 percentage points, from 44% to 44.1%.<sup>24</sup>

<sup>21</sup> “NAR Report: Snapshot of Race and Home Buying.” Seattle King County REALTORS, September 3, 2020. Accessed at: <https://www.nwrealtor.com/2020/09/03/nar-report-snapshot-of-race-and-home-buying/>

<sup>22</sup> Fry, Richard. “Amid a pandemic and a recession, Americans go on a near-record homebuying spree.” Pew Research Center, March 8, 2021. Accessed at: <https://www.pewresearch.org/fact-tank/2021/03/08/amid-a-pandemic-and-a-recession-americans-go-on-a-near-record-homebuying-spreed/>

Homeownership rate (%), fourth quarter, nonseasonally adjusted



Change in Homeownership Rate for Various Demographics in the United States, 2019-2020<sup>25</sup>

Note: Statistically significant changes are in bold.

While overall U.S. homeownership has been increasing over the past five years—rebounding to 65.8% in 2020 from a low of 62.9% in 2016—Black homeownership *decreased* in 47 States between 2008 and 2018.<sup>26</sup> In fact, over the past 15 years, Black homeownership has seen the most dramatic

<sup>22</sup> Ibid.

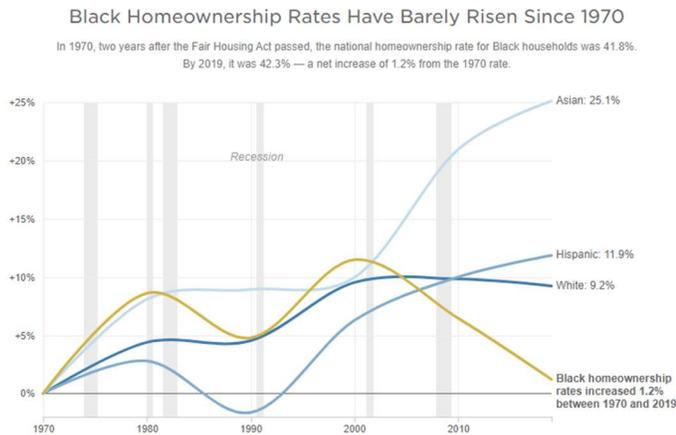
<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Jones, Dave. “The Home Ownership Racial Disparity in Washington State.” Windermere Real Estate, February 25, 2020. Accessed at: <https://windermereabode.com/the-home-ownership-racial-disparity-in-washington-state>

drop of any racial group in the United States, with their homeownership rate descending in 2019 to nearly as low as it was in the 1960s, when housing discrimination was still explicitly legal.<sup>27</sup>



Homeownership Rates by Race/Ethnicity: 1970 – 2019 <sup>28</sup>

The simultaneous increase in national homeownership between 2016 and 2020 and the decades-long decrease in Black homeownership have together created a troubling trend: most homes in the United States are bought by White families. In 2019, 81% of homes purchased in the country were bought by White households. Comparatively, only 7% of national home sales in 2019 were purchased by Black households (and in

Washington, only 3% were purchased by Black households).<sup>29</sup>

### ***Disproportionate Impacts of the Housing Affordability Crisis***

The United States (and particularly Washington State) is unquestionably in the midst of a housing affordability crisis, driven by low housing supply and continuously rising housing demand.<sup>30</sup> The key to this problem is obvious: we are not building enough homes, neither nationally or statewide. Housing has become unaffordable for every household, especially so for families that are median- or low-income.

Due to zoning regulations, opaque permitting processes, and high fixed costs of building, suppliers across the country have targeted the construction of more expensive housing over the past decade, concentrating on single-family and high-rise multifamily buildings instead of on duplexes, triplexes, courtyard apartments, and townhomes.<sup>31</sup> The latter types of housing—known as “missing middle” housing—are not just more affordable for the average family; they are also the main residence types purchased by Black and Hispanic homeowners. Only 54.5% of Black households live in single-family homes compared to 74.5% of White households, largely due to historical exclusionary zoning laws in which single-family

<sup>27</sup> Asante-Muhammad, Dedrick; Buell, Jamie; and Devine, Joshua. “60% Black Homeownership: A Radical Goal for Black Wealth Development.” National Community Reinvestment Coalition, March 2, 2021. Accessed at: <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

Chang, Ailsa; Intagliata, Christopher; and Mehta, Jonaki. “Black Americans and the Racist Architecture of Homeownership.” NPR Code Switch, May 8, 2021. Accessed at: <https://www.npr.org/sections/codeswitch/2021/05/08/991535564/black-americans-and-the-racist-architecture-of-homeownership>

<sup>28</sup> Chang, Ailsa; Intagliata, Christopher; and Mehta, Jonaki. “Black Americans and the Racist Architecture of Homeownership.” NPR Code Switch, May 8, 2021. Accessed

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<https://www.npr.org/sections/codeswitch/2021/05/08/991535564/black-americans-and-the-racist-architecture-of-homeownership>

<sup>29</sup> “2021 Snapshot of Race and Home Buying in America.” National Association of Realtors. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>

<sup>30</sup> Logani, Iliana. “Washington State’s Housing Affordability Crisis.” Office of Lieutenant Governor Denny Heck, August 2021.

<sup>31</sup> “Affordable Housing Update: Report to the Legislature.” Washington State Department of Commerce, February 1, 2020. Accessed at: <https://www.commerce.wa.gov/wp-content/uploads/2020/03/2019-AHAB-Annual-Report.pdf>

homes were zoned primarily for majority-White neighborhoods.<sup>32</sup>

Indeed, there is a strong relationship between exclusionary zoning and the lack of housing opportunities for Black and Brown households across America. The housing market has historically been structured to exclude these households through zoning codes that incentivize the construction of large, expensive homes in majority-White neighborhoods over smaller, more affordable homes.<sup>33</sup> Missing middle housing is “missing” as a direct result of development patterns that limited housing variety and supply based on race—patterns that now impact housing affordability for everyone nationwide.<sup>34</sup>

While just 63% of White Americans can afford to buy a typical home in America, the numbers drop further for Black and Brown families: only 43% of Black Americans and 54% of Hispanic Americans can afford to do the same. And while about half of Washington’s White residents can afford to buy a typical home, just 32% of Black residents and 33%

of Hispanic residents can afford a typical home in the state.<sup>35</sup>

	White	Black	Asian	Hispanic
Washington	48%	32%	63%	33%
United States	63%	43%	71%	54%

*Share of Households That Can Afford to Buy the Typical Home in 2021: Washington State vs. the United States<sup>36</sup>*

Moreover, because people of color are more likely to be first-time homebuyers compared to White Americans, our national and state housing inventories, which disproportionately exclude affordable starter homes, also disproportionately prevent households of color from becoming homeowners.<sup>37</sup>

Without a diverse spread of housing options at different price points, lower-income households—and especially households of color—continue to be priced out of our neighborhoods.

The affordability gap between White and BIPOC households means that in Washington, as in the

<sup>32</sup> Passy, Jacob. “The housing emergency most harms people of color: Black Americans face an unequal housing market—and coronavirus could make it worse.” MarketWatch, June 3, 2020. Accessed at: <https://www.marketwatch.com/story/the-housing-emergency-most-harms-people-of-color-black-americans-face-an-unequal-housing-market-and-coronavirus-could-make-it-worse-2020-06-03>

“Missing Middle Housing Study: Research Compendium.” Housing Arlington, 2020. Accessed at: <https://housing.arlingtonva.us/missingmiddle/research-compendium/>

“Policy Brief: Missing middle housing.” Local Housing Solutions. Accessed at: <https://www.localhousingsolutions.org/housing-policy-library/missing-middle-housing/>

<sup>33</sup> “Missing Middle Housing Study: Research Compendium.” Housing Arlington, 2020. Accessed at: <https://housing.arlingtonva.us/missingmiddle/research-compendium/>

Perry, Andre M. “How racial disparities in home prices reveal widespread discrimination.” The Brookings Institution, February 24, 2021. Accessed at: <https://www.brookings.edu/testimonies/how-racial-disparities-in-home-prices-reveal-widespread-discrimination/>

<sup>34</sup> “Missing Middle Housing Study: Research Compendium.” Housing Arlington, 2020. Accessed at: <https://housing.arlingtonva.us/missingmiddle/research-compendium/>

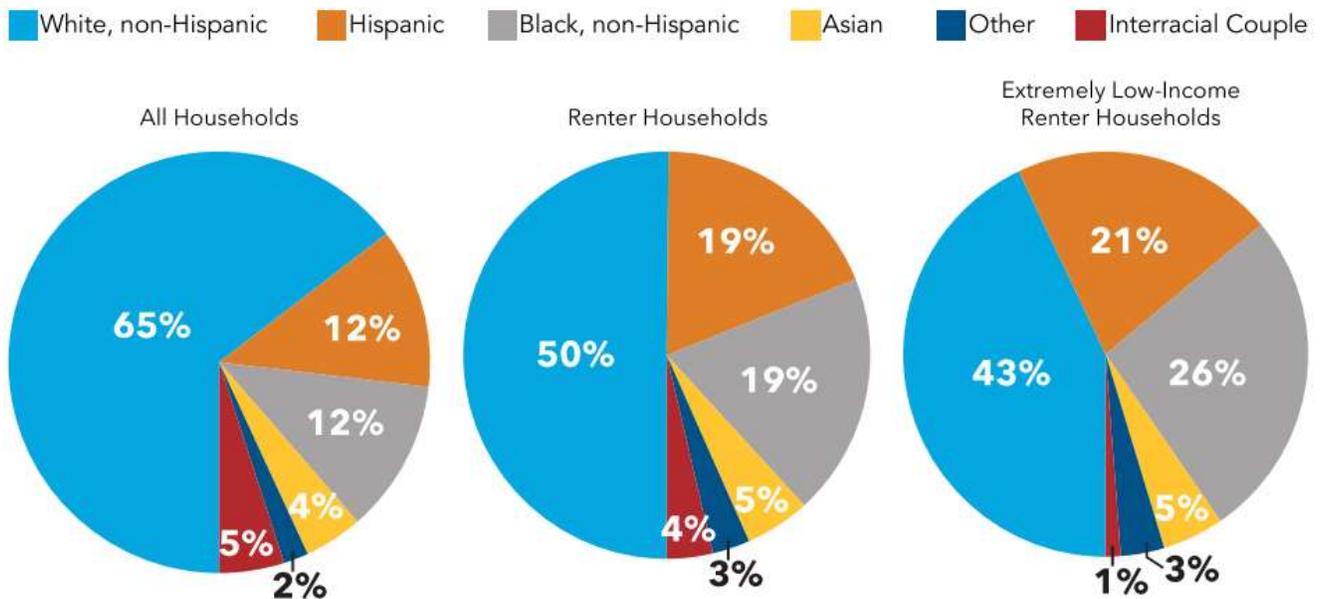
<sup>35</sup> Here, affordability was defined by computing a qualifying income for a 30-year fixed rate mortgage assuming a 10% down payment. “Snapshot of Race and Home Buying in America.” National Association of REALTORS Research Group, February 2021. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>

<sup>36</sup> “2021 Snapshot of Race and Home Buying in America.” National Association of Realtors. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>

<sup>37</sup> Perry, Andre M. “How racial disparities in home prices reveal widespread discrimination.” The Brookings Institution, February 24, 2021. Accessed at: <https://www.brookings.edu/testimonies/how-racial-disparities-in-home-prices-reveal-widespread-discrimination/>

rest of the nation, Black, Native American, and Hispanic households are more likely than White households to be renters and are even more likely to be extremely low-income renters—that is, renters with incomes at or below 30% of their area median income.<sup>38</sup> Across the nation, 20% of Black households are extremely low-income renters, compared to just 6% of White households.<sup>39</sup>

homelessness and make up more than 50% of homeless families with children.<sup>40</sup> Native Americans, Native Hawaiians, Pacific Islanders, and Hispanic Americans similarly make up a disproportionate share of people experiencing homeless relative to their overall population distribution.<sup>41</sup>



Source: 2018 ACS PUMS.

Racial and Ethnic Composition by Housing Type

This overrepresentation among low-income renters means that households of color are more likely to struggle to afford rent and face housing instability, eviction, and homelessness. While Black Americans represent 13% of the population of the United States, they are 40% of all Americans experiencing

In Washington, too, people of color are disproportionately homeless. As of 2020, for every 10,000 people in Washington, there are 269.4 Native Americans who are homeless, 140.3 Black people who are homeless, and 32.6 Hispanic people

42

<sup>38</sup> "Embedding Racial Equity in Housing." National League of Cities, July 9, 2020. Accessed at: <https://www.nlc.org/article/2020/07/09/embedding-racial-equity-in-housing/>

<sup>39</sup> "Racial Inequities in Housing: Fact Sheet." Opportunity Starts at Home. Accessed at: <https://www.opportunityhome.org/resources/racial-equity-housing/>

<sup>40</sup> "Racial Inequities in Housing: Fact Sheet." Opportunity Starts at Home. Accessed at:

<https://www.opportunityhome.org/resources/racial-equity-housing/>

"Embedding Racial Equity in Housing." National League of Cities, July 9, 2020. Accessed at: <https://www.nlc.org/article/2020/07/09/embedding-racial-equity-in-housing/>

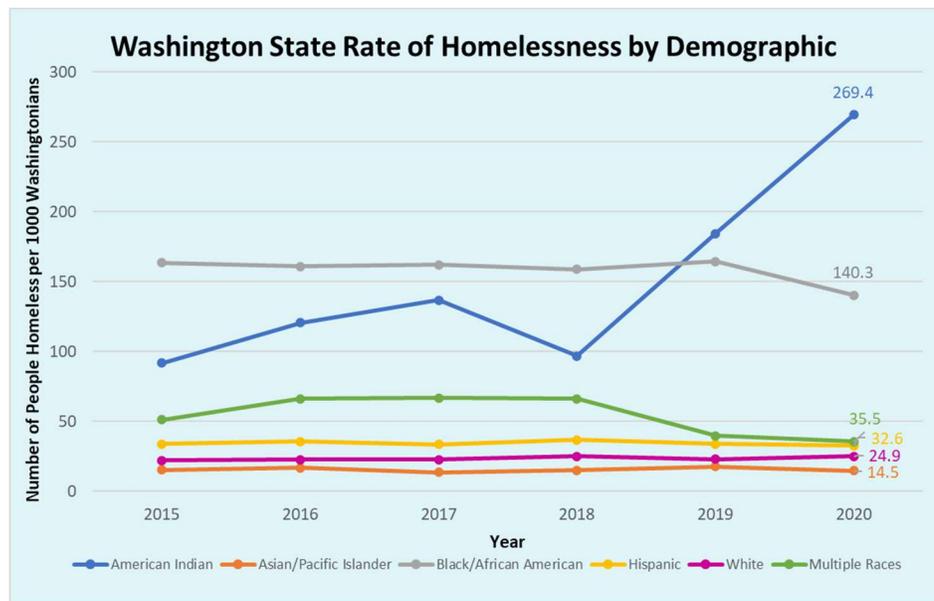
<sup>41</sup> "Racial Inequities in Housing: Fact Sheet." Opportunity Starts at Home. Accessed at:

<https://www.opportunityhome.org/resources/racial-equity-housing/>

<sup>42</sup> Ibid.

who are homeless.<sup>43</sup> In comparison, there are 24.9 White homeless people in Washington for every 10,000 people.

equity, for instance, had a little above half the median equity of White households in 2015; Hispanic households had only about 64%.<sup>45</sup>



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### **Barriers to Building Home Equity for Racial Minorities**

The disparities between White and non-White households do not stop at homeownership and homelessness rates. Even for non-White households that do own their own homes, key barriers to building home equity—that is, to building a positive difference between mortgage debt and the current value of the home—keeps many Black and Hispanic households from accessing the full wealth-generating advantages of homeownership. Black households with housing

<sup>43</sup> “State of Homelessness: Homeless Demographics.” National Alliance to End Homelessness. Accessed at: <https://endhomelessness.org/homelessness-in-america/homelessness-statistics/state-of-homelessness-dashboards/?State=Washington>

<sup>44</sup> Data from National Alliance to End Homelessness. Ibid.

<sup>45</sup> Schuetz, Jenny. “Rethinking homeownership incentives to improve household financial security and shrink the racial wealth gap.” Brookings Institute, December 9, 2020. Accessed at: <https://www.brookings.edu/research/rethinking-homeownership-incentives-to-improve-household-financial-security-and-shrink-the-racial-wealth-gap/>

The racial difference in home equity reflects differences in underlying home values and total amount of mortgage debt between racial groups in America. Homeowners of color tend to have lower home values relative to the values of White-owned homes. For example, in 2018, while the median value of a White-owned home was \$220,000, the median value of a Black-owned home was just \$155,000.<sup>46</sup> In 90% of the largest metropolitan statistical areas, the median home values for White homeowners exceeded those for Black and Hispanic

homeowners.<sup>47</sup>

Homeowners of color are also disposed to have more mortgage debt due to a tendency to purchase more affordable homes with larger mortgages. Before the COVID-19 pandemic, Black and Hispanic homeowners were more likely than White homeowners to have a mortgage and had more median mortgage debt relative to their home’s value than White homeowners did.<sup>48</sup> Indeed, the average first-time Black homeowner today is likely to owe more in mortgage debt than their White counterparts on a home with less value, averaging

[homeownership-incentives-to-improve-household-financial-security-and-shrink-the-racial-wealth-gap/](https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf)

<sup>46</sup> Neal, Michael; Choi, Jung Hyun; and Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at:

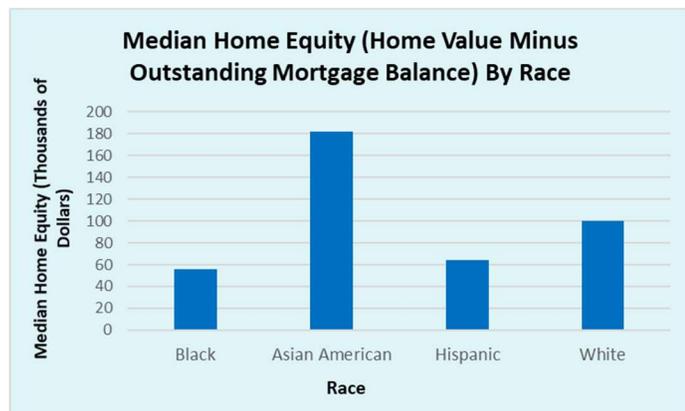
<https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf>

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

### **The Racial Wealth Gap Is the Housing Gap**

\$90,000 in mortgage debt compared to White first-time homebuyers' \$75,000 in mortgage debt.<sup>49</sup>



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The combination of lower-valued homes and higher mortgages has meant that Black and Hispanic homeowners have, on average, less housing equity than White homeowners.

This trend can be explained partially by income disparities between racial groups and partially by systemic housing discrimination in the United States. Presently, the interest rates on mortgages charged to borrowers of color are around eight basis points higher than those charged to White borrowers with similar financial characteristics.<sup>51</sup> Black homebuyers in particular pay on average 29 basis points more than comparable White homebuyers.<sup>52</sup> And during the housing boom of the early 2000s, Black and Hispanic borrowers were more likely to receive subprime loans and adverse pricing, which strip home equity through excessive fees paid to lenders.<sup>53</sup>

<sup>49</sup> Asante-Muhammad, Dedrick; Buell, Jamie; and Devine, Joshua. "60% Black Homeownership: A Radical Goal for Black Wealth Development." National Community Reinvestment Coalition, March 2, 2021. Accessed at: <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

<sup>50</sup> Data from Brookings Institute: Schuetz, Jenny. "Rethinking homeownership incentives to improve household financial security and shrink the racial wealth gap." Brookings Institute, December 9, 2020. Accessed at: <https://www.brookings.edu/research/rethinking->

Overall, the higher interest rates that disproportionately saddle Black households translate to over **\$22 billion** in lost equity to Black homeowners.<sup>54</sup>

With more expensive mortgages and less valuable homes, Black and Hispanic households are slower to transition to homeownership, more likely to fall back to renting after owning a home, and less likely to return to homeownership after transitioning back to renting than White households at similar income levels. **Fewer than half** of low-income homeowners of color still owned houses within four years of becoming a homeowner (the majority slipping back into renting instead); in contrast, 60% of White homeowners at similar income levels remained owners four years later.<sup>55</sup>

### ***Historical Systemic Inequities***

It would be impossible to discuss the wide racial gap in homeownership and the ability to build home equity without discussing the key role played by historical inequities in the housing market. A national legacy of racist housing policies and systemic discrimination—federally enforced redlining; racially restrictive housing covenants; zoning; blockbusting; the Jim Crow Era's "Black Codes"; the post-World War II GI Bill; the New Deal's Fair Labor Standards Act and the Federal Housing Administration's discriminatory policies; neighborhood steering; mortgage discrimination; and much, much more—have long kept Black Americans and other Americans of color from

[homeownership-incentives-to-improve-household-financial-security-and-shrink-the-racial-wealth-gap/](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

<sup>51</sup> "How does homeownership contribute to wealth building?" Habitat for Humanity Evidence Brief, December 2020. Accessed at:

[https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

<sup>52</sup> Ibid.

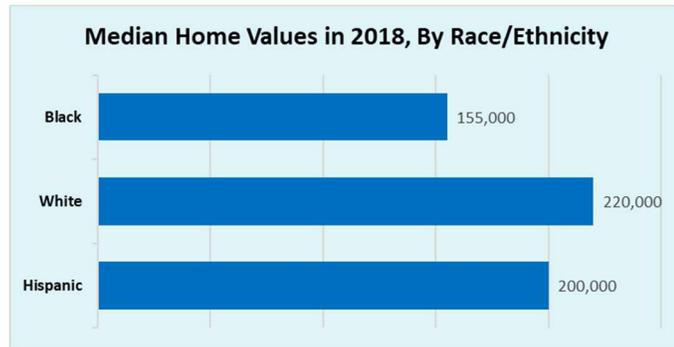
<sup>53</sup> Ibid.

<sup>54</sup> Ibid.

<sup>55</sup> Ibid.

accessing the same quality of housing that White Americans have long had access to.<sup>56</sup>

Though many of these discriminatory policies are now considered unconstitutional, systemic racism in the housing ecosystem continues to harm Black homeowners through the persistent devaluation of majority-Black and majority-Brown communities.



57

<sup>56</sup> “Racial Inequities in Housing: Fact Sheet.” Opportunity Starts at Home, 2021. Accessed at: <https://www.opportunityhome.org/resources/racial-equity-housing/>

“2021 Snapshot of Race and Home Buying in America.” National Association of REALTORS, February 2021. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>

“How does homeownership contribute to wealth building?” Habitat for Humanity, December 2021. Accessed at: [https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

Neal, Michael; Choi, Jung Hyun; and Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at: <https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf>

Chang, Ailsa; Intagliata, Christopher; and Mehta, Jonaki. “Black Americans and the Racist Architecture of Homeownership.” NPR Code Switch, May 8, 2021. Accessed at: <https://www.npr.org/sections/codeswitch/2021/05/08/991535564/black-americans-and-the-racist-architecture-of-homeownership>

According to The Brookings Institution, homes in predominantly Black neighborhoods—regardless of their quality—are valued 23% lower than homes in predominantly White neighborhoods, averaging \$48,000 less per home.<sup>58</sup> The cause of this devaluation is multifold: some appraisers use a neighborhood’s racial composition as a proxy for crime and poverty, which contributes to home value gaps.<sup>59</sup> At the same time, zoning—which was historically used to steer industrial activity towards minority neighborhoods, disproportionately exposing them to toxic runoff and depressing land values—continues to limit current home value appreciation in these neighborhoods, contributing to the gap in home prices.<sup>60</sup> Redlining pushed by the Federal Housing Administration also created a “self-fulfilling prophecy” for majority-minority neighborhoods: cut off from sources of investment,

Demby, Gene. “For People of Color, A Housing Market Partially Hidden from View.” NPR Code Switch, Accessed at: <https://www.npr.org/sections/codeswitch/2013/06/17/192730233/for-people-of-color-a-housing-market-partially-hidden-from-view>

<sup>57</sup> Data from the Urban Institute:  
Neal, Michael; Choi, Jung Hyun; and Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at: <https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf>

<sup>58</sup> Perry, Andre M. “How racial disparities in home prices reveal widespread discrimination.” The Brookings Institution, February 24, 2021. Accessed at: <https://www.brookings.edu/testimonies/how-racial-disparities-in-home-prices-reveal-widespread-discrimination/>

<sup>59</sup> Neal, Michael; Choi, Jung Hyun; and Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at: <https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf>

<sup>60</sup> Ibid.

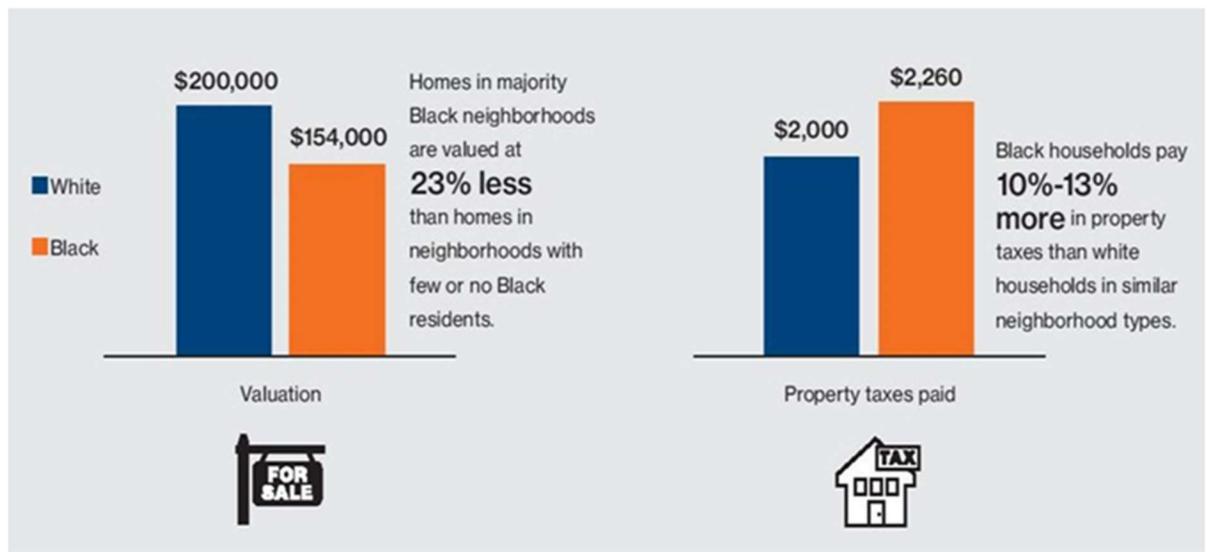
these neighborhoods deteriorated and lost value in comparison to majority-White neighborhoods.<sup>61</sup>

These patterns are reflected today in the persistently low valuation of Black and Brown neighborhoods.

Black and Hispanic homeowners also pay higher property taxes than White homeowners, to the tune of an additional 10 to 13 cents per dollar paid by White households. Majority-minority neighborhoods tend to receive higher tax-assessed values of homes within the community, with a

lower likelihood that the occupants will appeal assessments. Such practices amount to **an extra \$300 to \$390 of annual cost** for the average Black and Hispanic homeowner.<sup>62</sup>

redlined neighborhood than in a greenlined neighborhood.<sup>63</sup> It should come as no surprise, then, that most Black and Hispanic children live in “low-opportunity neighborhoods” characterized by higher poverty levels and crime, higher levels of environmental hazards, lower employment rates, lower school quality, lower income, and lessened access to infrastructure, transit, healthcare, groceries, and banks. Most White children, on the other hand, live in “high-opportunity neighborhoods” characterized by the opposite.<sup>64</sup>



*Black-White Gap in Home Valuation and Property Taxes Paid*

Old patterns are difficult to erase: multigenerational housing discrimination means that even now, Black Americans are nearly five times more likely to own a home in a formerly

<sup>61</sup> Coates, Ta-Nehisi. “The Case for Reparations.” *The Atlantic*, June 2014. Accessed at: <https://www.theatlantic.com/magazine/archive/2014/06/the-case-for-reparations/361631/>

<sup>62</sup> This statistics and accompanying figure were gathered and created by Habitat for Humanity. “How does homeownership contribute to wealth building?” Habitat for Humanity Evidence Brief, December 2020. Accessed at: [https://www.habitat.org/sites/default/files/Evidence-Brief\\_Wealth-building-for-homeowners.pdf](https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf)

<sup>63</sup> Chang, Ailsa; Intagliata, Christopher; and Mehta, Jonaki. “Black Americans and the Racist Architecture of Homeownership.” *NPR Code Switch*, May 8, 2021. Accessed at: <https://www.npr.org/sections/codeswitch/2021/05/08/991535564/black-americans-and-the-racist-architecture-of-homeownership>

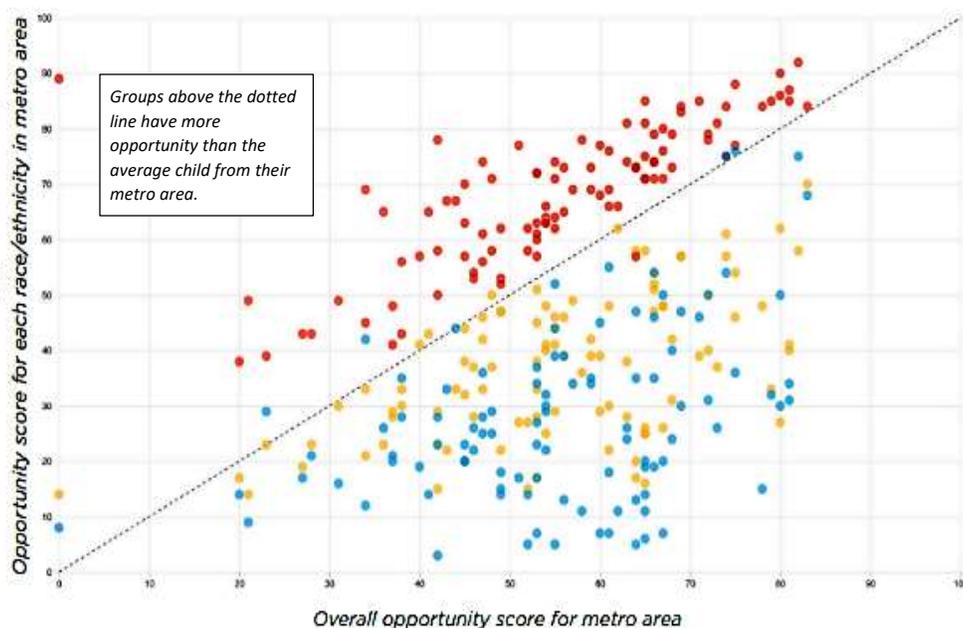
<sup>64</sup> “Racial Inequities in Housing: Fact Sheet.” *Opportunity Starts at Home*, 2021. Accessed at: <https://www.opportunityhome.org/resources/racial-equity-housing/>

## Across the U.S., White Children Have More Opportunity Than Their Black And Hispanic Neighbors Do

In 95 of the largest 100 metro areas, black and Hispanic kids have a lower opportunity score than the average for that area. White kids, on the other hand, have a higher opportunity score than average in 99 out of 100 metro areas.

● Overall ● Hispanic ● White (non-Hispanic) ● Black

Source: Child Opportunity Index 2.0, Institute for Child, Youth and Family Policy, Brandeis University.  
Credit: Daniel Wood/NPR.



65

The cumulative effect of centuries of systemic racism is this: BIPOC homebuyers are more likely to own homes in disadvantaged neighborhoods that experience limited or even negative home appreciation, and they are forced to pay more on average to enter these neighborhoods in the first place.

This exponentially limits the amount of wealth that households of color can accrue, making them ever more reliant on debt to attain homeownership and further perpetuating the cycle. Spatial isolation was the key to the devaluation of and disinvestment in majority-minority communities across America, stripping wealth from communities of color before it had a chance to grow.

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*Despite clear indicators that homeownership serves as a secure, reliable, and compounding source of intergenerational wealth, there exists a clear racial divide in access to housing in the United States—two distinct housing markets, segregated by race.*

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<sup>65</sup> "Racial Inequities in Housing: Fact Sheet." Opportunity Starts at Home, 2021. Accessed at:

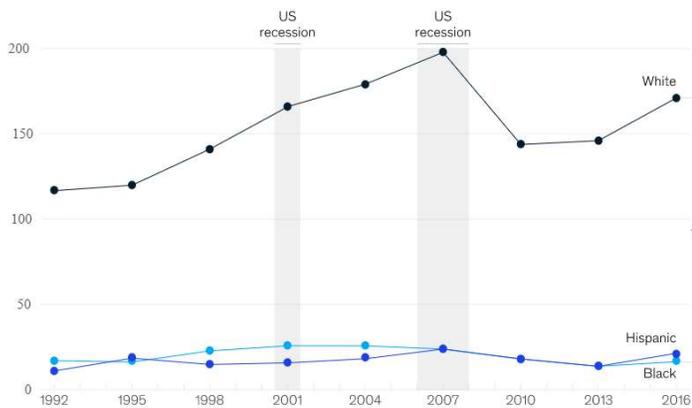
<https://www.opportunityhome.org/resources/racial-equity-housing/>

# THE CHIEF DRIVER OF THE RACIAL WEALTH GAP

**The racial housing gap is key to the gap in net worth and wealth between White and non-White Americans. In shutting BIPOC Americans out of a major intergenerational wealth-building tool, they historically have been both slower to gain wealth and faster to fall out of it.**

## The Gap in Net Worth

Given both the wealth-generating effects of owning a home and the limited access to homeownership and home equity for households of color, it is no surprise that there is a wide and persistent gap in wealth between White and non-White families. In 2019, the net worth of the typical White family—\$188,200—was almost eight times larger than the net worth of the typical Black family at \$24,100.<sup>66</sup>



Median Family Wealth by Ethnicity/Race, 1992 – 2016, \$ thousand <sup>67</sup>

## Locked Out of Intergenerational Wealth

Owning a home has long been the central canon of the American Dream. A roof over your head and a place to call home is more than mere shelter and

<sup>66</sup> “2021 Snapshot of Race and Home Buying in America.” National Association of REALTORS, February 2021. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2021-snapshot-of-race-and-home-buyers-in-america-report-02-19-2021.pdf>

<sup>67</sup> “Report: The economic impact of closing the racial wealth gap.” McKinsey & Company, August 13, 2019. Accessed at: <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap#>

more than a passport to American belonging; it is the key driver in the building of intergenerational wealth. Homeownership is the main policy strategy that will move toward closing the racial wealth gap. Black and Brown households, shut out of affordable and accessible housing for generations in America, have been locked out of the securest way to pass down long-term wealth. The homeownership rate of White households far exceeds that of Black and Hispanic households, and the homeownership gap between Black and White households is widening. Because of this, White families—who have built more home equity throughout history—have been more able to pass down wealth to their children by ensuring better access to safer neighborhoods and better education, as well as by helping them buy their own homes.

Undeniably, White households are better able than non-White households to assist their children with down payments or to give them greater access to financial assets, which can both boost the size of the home their children can afford and lower their amount of mortgage debt.<sup>68</sup> Young White college graduates are more likely to receive financial support from parents when purchasing a home than young Black college graduates, making it easier in turn for future generations of White

<sup>68</sup> Neal, Michael; Choi, Jung Hyun; Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at: <https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf> Lerner, Michele. “One home, a lifetime of impact.” The Washington Post, July 23, 2020. Accessed at: <https://www.washingtonpost.com/business/2020/07/23/black-homeownership-gap/>

## The Racial Wealth Gap Is the Housing Gap

Americans to begin building wealth earlier in life through homeownership.<sup>69</sup>

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Shutting households of color—especially Black households—from this wealth-building mechanism

TABLE 2

Median Family Income and Financial Assets among Renters and Homeowners in 2016, by Race or Ethnicity

	White	Black	Hispanic
<b>Median family income</b>			
Overall	\$60,758	\$35,442	\$38,480
Renters	\$35,442	\$27,341	\$29,366
Homeowners	\$76,960	\$50,632	\$52,657
<b>Median financial assets</b>			
Overall	\$50,700	\$3,900	\$2,520
Renters	\$4,970	\$1,580	\$1,140
Homeowners	\$96,850	\$19,370	\$9,270

Source: Survey of Consumer Finances.

has unequivocally been the central driver behind the staggering wealth gap between Black and White Americans.

### ***Slower to Gain Wealth, Faster to Fall Out of It***

Homeowners in predominantly Black and Hispanic neighborhoods gain wealth at only half the speed of homeowners in predominantly White neighborhoods, even as homes across the country skyrocket in value.<sup>71</sup> This is largely due to the continued devaluation of homes in once redlined neighborhoods, still predominantly occupied by households of color. A home located in an area

<sup>69</sup> Neal, Michael; Choi, Jung Hyun; Walsh, John. “Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership.” Urban Institute, August 2020. Accessed at:

<https://www.urban.org/sites/default/files/publication/102781/before-the-pandemic-homeowners-of-color-faced-structural-barriers-to-the-benefits-of-homeownership.pdf>

<sup>70</sup> Ibid.

<sup>71</sup> Perry, Andre M. “How racial disparities in home prices reveal widespread discrimination.” The Brookings Institution, February 24, 2021. Accessed at:

<https://www.brookings.edu/testimonies/how-racial-disparities-in-home-prices-reveal-widespread-discrimination/>

<sup>72</sup> Passy, Jacob. “‘The housing emergency most harms people of color:’ Black Americans face an unequal housing market—

given a “hazardous” rating in the 1930s is today worth just 85% of the median value of a home in a nearby non-redlined neighborhood.<sup>72</sup>

Even for Black and Brown households that have accumulated wealth through homeownership, this wealth is smaller and has not grown nearly as much as the wealth of their White neighbors.

This has staggering implications for Black homeowners’ ability to retain wealth once they accumulate it: almost 70% of middle-class Black children are likely to fall out of the middle class as adults.<sup>73</sup>

Moreover, it means that during national economic crises, Black families take longer to recover and lose more of their wealth in the process. In the wake of the Great Recession, White wealth levels began to recover almost immediately afterward between 2009 and 2011; meanwhile, Black families continued to experience severe declines, with the typical Black household losing 40% of their non-home-equity wealth.<sup>74</sup>

### ***Homeownership is the Key Policy Strategy Toward Closing the Racial Wealth Gap***

Housing is the chief way to reduce intergenerational poverty and close the racial

and coronavirus could make it worse.” MarketWatch, June 3, 2020. Accessed at: <https://www.marketwatch.com/story/the-housing-emergency-most-harms-people-of-color-black-americans-face-an-unequal-housing-market-and-coronavirus-could-make-it-worse-2020-06-03>

<sup>73</sup> “Report: The economic impact of closing the racial wealth gap.” McKinsey & Company, August 13, 2019. Accessed at: <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap>

<sup>74</sup> Burd-Sharps, Sarah, and Rasch, Rebecca. “Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations.” Social Science Research Council, June 2015. Accessed at: [https://www.aclu.org/sites/default/files/field\\_document/disc\\_rimlend\\_final.pdf](https://www.aclu.org/sites/default/files/field_document/disc_rimlend_final.pdf)

## ***The Racial Wealth Gap Is the Housing Gap***

wealth gap. Studies have shown that increasing access to affordable housing is the single most cost-effective policy strategy for increasing economic mobility and reducing childhood poverty in America.<sup>75</sup> A 2015 report from Brandeis University found that boosting the returns on homeownership for Black families could reduce the wealth gap between Black and White Americans by more than \$17,000, or 16%.<sup>76</sup>

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*“Inequality compounds in exactly the same way as interest—small, nearly negligible differences accrue into significant gaps over time. Racial inequality in access to homeownership is real [and] is compounding existing inequality.”*  
*- Morgan Stanley*

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<sup>75</sup> “The Problem.” National Low Income Housing Coalition, 2021. Accessed at: <https://nlihc.org/explore-issues/why-we-care/problem>

<sup>76</sup> Passy, Jacob. “‘The housing emergency most harms people of color:’ Black Americans face an unequal housing market—

and coronavirus could make it worse.” MarketWatch, June 3, 2020. Accessed at: <https://www.marketwatch.com/story/the-housing-emergency-most-harms-people-of-color-black-americans-face-an-unequal-housing-market-and-coronavirus-could-make-it-worse-2020-06-03>

## PURE ECONOMICS

**The housing industry holds a strong multiplier effect on our economy. Every new home built and bought generates new GDP exponentially; conversely, every unit prevented from being built or bought holds back our economy by a fraction greater than one.**

**The math is simple: when a large segment of our nation's population is held back from homeownership through systemic inequity and a housing affordability crisis, the entire economy suffers.**

### ***Multiplier Effect***

The impact of building a new house does not stop at the point of sale. Every stage of the housing cycle boosts GDP, offering benefits to all by generating a wave of economic activity throughout the local community.

Broadly, there are four major economic ripples generated from the construction of a new home:

#### ***1. Local Hiring Before and During Construction***

The stone in the pond that produces the first ripples is dropped before noticeable construction activity even starts: money trickles into the community initially through local attorneys, engineers, architects, designers, and other professionals hired to begin planning for the new construction.<sup>77</sup>

This economic activity spreads as local industries become increasingly involved in the home building: jobs, wages, and local taxes (including permitting, utility connection, and impact fees) are generated as soon as shovel hits soil and continue throughout the development, construction, and sale of the home.

<sup>77</sup> "The Proof is in the Numbers: The Positive Economic Impact of Residential Development." Nevada Rural Housing Authority, November 2016. Accessed at: [https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)

<sup>78</sup> "The Economic Impact of Home Building in a Typical State: Income, Jobs, and Taxes Generated." National Association of Home Builders, April 2015. Accessed at:

With an obvious increase in construction-related jobs in the local community, a similar rise is seen in jobs in retail and the sale of components; in transportation and trucking; in off-site improvements such as road and sidewalk work; in infrastructure work like water systems and sewage; and in professional services like home inspections.<sup>78</sup>



#### ***2. Local Buying During Construction***

The second wave comes during the construction period itself, as the profits earned by locals through the construction process are turned over and spent on other locally produced goods and services. Because construction workers tend to live close to the construction site, a sizeable portion of their

<https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/economic-impact/economic-impact-state-2015.pdf>

"The Proof is in the Numbers: The Positive Economic Impact of Residential Development." Nevada Rural Housing Authority, November 2016. Accessed at: [https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)

wages are spent in the local community for food, entertainment, and other services.

A 2001 study by the Center for Home Ownership found that a sizeable portion of the income generated by construction is spent locally, which in turn generates more local income and more local spending that continuously recycles this money back into the community, multiplying as it goes.<sup>79</sup> A separate 2016 study by the Nevada Rural Housing Authority found that when construction workers become consumers in the local economy, they support additional jobs in 16 local industries.<sup>80</sup>

Construction workers are not the only local employees to receive and spend wages: appraisers, insurance agents, rental companies, cable and internet providers, cleaning and window washing services, locksmiths, landscapers, hardware stores, appliance and furniture stores, and dozens more also take part in the housing ecosystem ripple effect.

### *3. Local Home-Related Buying Post-Purchase*

The third set of ripples are generated through the local income produced throughout the purchasing and occupation of the home. During the first year after closing on a house, buyers of new homes tend

to outspend non-movers 2.6 times, while buyers of preexisting homes also outspend non-moving owners, spending twice as much in the economy.<sup>81</sup>

Most of this additional spending is concentrated on furnishings and new appliances like washers and dryers, lawnmowers and other yard equipment, and refrigerators and televisions: 2/3 of the new homes built in 2015 came with no clothes washers or dryers, and 36% had no installed refrigerators, allowing buyers of new homes to spend in the local economy for these appliances.<sup>82</sup> Homebuyers also spend a large amount on home alterations (and property repairs for buyers of existing homes) in the first few years after moving.<sup>83</sup>

### *4. Long-Term Local Economic Effect*

When a new household moves into the neighborhood, a myriad of businesses benefit. Households moving into a new home generally spend around 3/5 of their income on goods, services, and entertainment within the local economy: on groceries, car repairs, beauty salons, gas, clothing, fitness centers, school supplies, and much more.<sup>84</sup>

At the same time, the new household begins paying taxes to local governments, expanding the tax base.

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<sup>79</sup> "The Proof is in the Numbers: The Positive Economic Impact of Residential Development." Nevada Rural Housing Authority, November 2016. Accessed at: [https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)

<sup>80</sup> "The Proof is in the Numbers: The Positive Economic Impact of Residential Development." Nevada Rural Housing Authority, November 2016. Accessed at: [https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)

<sup>81</sup> Siniavskaia, Natalia. "Spending Patterns of Home Buyers: Appliances, Furnishings and Property Alterations." National Association of Home Builders, July 5, 2017. Accessed at: <https://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=257993&channelID=311&ga=2.174727074.1093549992.1499375907-912917446.1499375907>

<sup>82</sup> Siniavskaia, Natalia. "Spending Patterns of Home Buyers: Appliances, Furnishings and Property Alterations." National

Association of Home Builders, July 5, 2017. Accessed at: <https://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=257993&channelID=311&ga=2.174727074.1093549992.1499375907-912917446.1499375907>

<sup>83</sup> Siniavskaia, Natalia. "Spending Patterns of Home Buyers: Appliances, Furnishings and Property Alterations." National Association of Home Builders, July 5, 2017. Accessed at: <https://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=257993&channelID=311&ga=2.174727074.1093549992.1499375907-912917446.1499375907>

<sup>84</sup> "The Economic Impact of Home Building in a Typical State: Income, Jobs, and Taxes Generated." National Association of Home Builders, April 2015. Accessed at: <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/economic-impact/economic-impact-state-2015.pdf>

A typical new household pays 1.25% of its income to user fees and taxes (property taxes, taxes on cars, sales taxes, and otherwise), a fraction of which becomes income for local government employees and a larger fraction of which is spent on services for the broader community.<sup>85</sup> The National Association of Home Builders estimates that 100 new tax credit apartments generate around \$827,000 in taxes in the first year.

Thus, the ripples multiply again, spreading to other sectors of the local economy until virtually no corner is untouched and a permanent increase in the level of economic activity is achieved.

The construction multiplier is one of the highest of any major industrial sector in the United States: an estimate notes that every dollar spent in residential construction contributes a total of \$3.08 to U.S. GDP, making the **total output multiplier 3.08**.<sup>86</sup> In 2019, for instance, private sector residential construction outlays in 2019 totaled \$515.4 billion; multiplied by 3.08, we find that this investment in residential construction contributed a total of \$1.6 trillion to GDP that year, or 7.4%.

The residential construction industry also supports 21.66 new jobs per \$1 million spent in direct outlays and has a personal income multiplier of 1.08—meaning that for every dollar spent in the industry, \$1.08 is generated in new personal earnings for all affected sectors (both direct and indirect).<sup>87</sup> Using the 2019 statistic, it is estimated that spending on residential construction generated \$558.9 billion in new taxable labor income and supported 11.2 million jobs across all sectors of the economy.<sup>88</sup>

The Economic Impacts of Residential Construction in 2019  
(in billions of current dollars, jobs in millions)

Source	Direct Outlays	Total Output	Personal Earnings	Jobs Supported
Residential Construction <sup>1</sup>	\$515.4	\$1,587.3	\$558.9	11.2
Ancillary Outlays <sup>2</sup>	\$515.4	\$1,297.2	\$373.7	8.7
Totals	\$1,030.8	\$2,884.5	\$932.6	19.9

Sources: U.S. Census, *Value of Construction Put in Place*, May 2020  
Bureau of Economic Analysis, RIMS II, Type II, Table 1.5.

<sup>1</sup>direct residential construction outlays, U.S. Census.

<sup>2</sup>includes estimated soft costs, site development and infrastructure costs, marketing, sales and closing costs, utilities hook up, furnishing and moving directly linked to new construction that are excluded from the Value of Construction Put In Place; these are estimated here at 50% of total combined outlays for illustrative purposes.

<sup>85</sup> “The Economic Impact of Home Building in a Typical State: Income, Jobs, and Taxes Generated.” National Association of Home Builders, April 2015. Accessed at:

<https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/economic-impact/economic-impact-state-2015.pdf>

“The Economic Impact of Home Building in a Typical State: Comparing Costs to Revenue for State and Local Governments.” National Association of Home Builders, April 2015. Accessed at:

<https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/economic-impact/economic-impact-state-comparing-costs-2015.pdf>

“Impact of Affordable Housing on Families and Communities.” Enterprise Community Partners, 2014.

Accessed at: <https://homeforallsmc.org/wp-content/uploads/2017/05/Impact-of-Affordable-Housing-on-Families-and-Communities.pdf>

<sup>86</sup> These statistics and the accompanying figure come from Leading Builders of America.

Fuller, Stephen S. “The Contribution of Residential Construction to the U.S. Economy.” Leading Builders of America, May 14, 2020. Accessed at:

<https://leadingbuilders.org/wp-content/uploads/2020/07/Residential-Construction-Economic-Study-5-2020.pdf>

<sup>87</sup> Fuller, Stephen S. “The Contribution of Residential Construction to the U.S. Economy.” Leading Builders of America, May 14, 2020. Accessed at:

<https://leadingbuilders.org/wp-content/uploads/2020/07/Residential-Construction-Economic-Study-5-2020.pdf>

<sup>88</sup> Fuller, Stephen S. “The Contribution of Residential Construction to the U.S. Economy.” Leading Builders of America, May 14, 2020. Accessed at:

<https://leadingbuilders.org/wp->

And these estimates are conservative: the value of \$515.4 billion does not include related spending on infrastructure, landscaping, sales, furnishings, marketing, and more, which nevertheless would not have existed without the construction of the home. Nor does it include the ripple effects outward as increased earnings in these sectors are in turn spent throughout the local economy.<sup>89</sup> As such, the true total contribution of the housing sector to national GDP per year is estimated to average **between 15% to 18%** and has maintained this pattern since the early 1990s.<sup>90</sup>

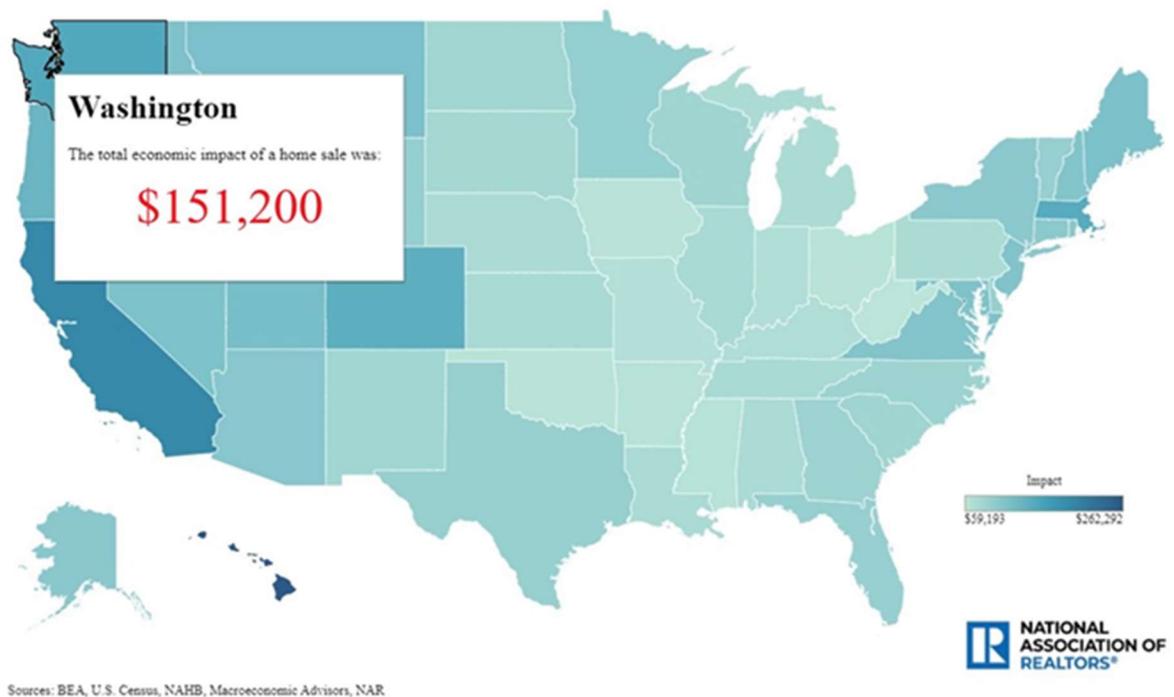
Indeed, in 2021, residential construction employees reached about 872,000, with the housing market accounting for 17.5% of GDP just the year before.

### **Washington State's Multiplier**

The multiplier effect can be narrowed to the state level as well. In 2020, the

economic impact of a typical home sale in Washington was \$151,200.<sup>91</sup>

This contribution was calculated by summing the income generated from real estate industries; additional expenditures related to the home purchase; the housing multiplier effect; and additional home sales induced by the new home production.<sup>92</sup>



[content/uploads/2020/07/Residential-Construction-Economic-Study-5-2020.pdf](https://content/uploads/2020/07/Residential-Construction-Economic-Study-5-2020.pdf)

<sup>89</sup> Fuller, Stephen S. "The Contribution of Residential Construction to the U.S. Economy." Leading Builders of America, May 14, 2020. Accessed at: <https://leadingbuilders.org/wp-content/uploads/2020/07/Residential-Construction-Economic-Study-5-2020.pdf>

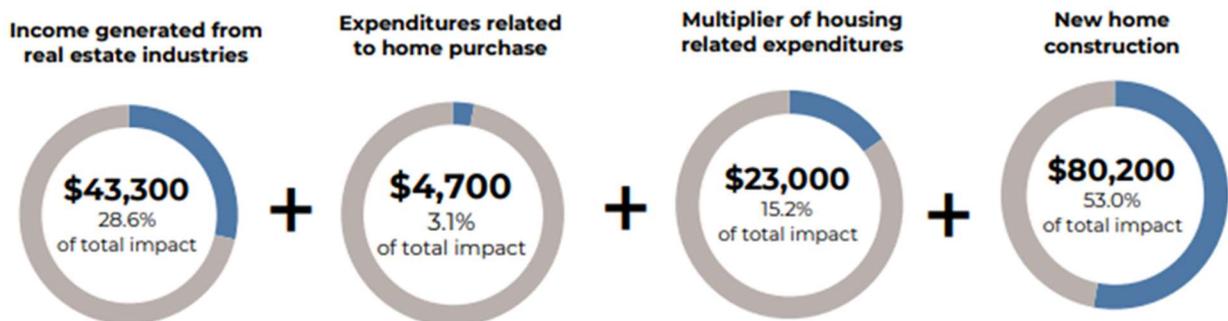
<sup>90</sup> "Housing's Contribution to Gross Domestic Product." National Association of Home Builders, 2021. Accessed at: <https://www.nahb.org/news-and-economics/housing-economics/housings-economic-impact/housings-contribution-to-gross-domestic-product>

<sup>91</sup> These statistics and accompanying figure were gathered and created by the National Association of Realtors. "State-by-State Economic Impact of Real Estate Activity." National Association of Realtors, 2020. Accessed at: <https://www.nar.realtor/reports/state-by-state-economic-impact-of-real-estate-activity>

<sup>92</sup> "The Economic Impact of a Typical Home Sale in Washington." National Association of Realtors, 2021. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2020-state-by-state-economic-impact-of-real-estate-activity-washington-3-31-2021.pdf>

Overall, the real estate industry in 2020 accounted for \$115.2 billion in Washington—or 18.6% of the gross state product.<sup>93</sup>

businesses and industries are deterred from moving to the local economy. The region never cashes in on the potential economic growth that new housing construction makes possible.<sup>95</sup>



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*The Total Economic Impact of a Typical Home Sale in Washington State is \$151,200*

### **The Negative Ripple**

Just as spending in the housing sector has the potential to accelerate economic growth, stagnation in this industry too has a powerful negative multiplier effect on our economy, dampening GDP growth.

Without affordable and racially equitable housing, a negative ripple occurs in a near mirror of the positive ripple effect that new housing creates. Local businesses cannot attract the young, newly educated workforce they need for expansion as attainable starter housing dwindles. Young professionals leave local economies due to high housing costs, migrating to more affordable areas and taking with them their income-generating impacts on the rest of the community. New

We also see a growth in traffic congestion and diminished quality of life in areas where new residential construction has dried up. With a growing community workforce needing to purchase homes farther and farther away from the local economy, travel time increases, leading to a loss in consumer free time—hence, a loss in consumer spending and in local annual business income.<sup>96</sup> In fact, a 2019 study found that traffic congestion cost the U.S. economy \$179 billion each year.<sup>97</sup>

In keeping large swaths of our population from joining the ranks of homeowners, we are not just freezing the generative ripple effect of our housing multiplier—we are actively dragging our economy back.

<sup>93</sup> “State-by-State economic Impact of Real Estate Activity.” National Association of Realtors, 2020. Accessed at: <https://www.nar.realtor/reports/state-by-state-economic-impact-of-real-estate-activity>

<sup>94</sup> “The Economic Impact of a Typical Home Sale in Washington.” National Association of Realtors, 2021. Accessed at: <https://cdn.nar.realtor/sites/default/files/documents/2020-state-by-state-economic-impact-of-real-estate-activity-washington-3-31-2021.pdf>

<sup>95</sup> “The Proof is in the Numbers: The Positive Economic Impact of Residential Development.” Nevada Rural Housing Authority, November 2016. Accessed at:

[https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)

<sup>96</sup> “The Proof is in the Numbers: The Positive Economic Impact of Residential Development.” Nevada Rural Housing Authority, November 2016. Accessed at:

[https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact\\_web.pdf](https://nvrural.org/wp-content/uploads/2016/11/EconomicImpact_web.pdf)

<sup>97</sup> Clark, Brian, and Smith, Jordan. “How traffic jams cost the US economy billions of dollars a year.” CNBC, December 23, 2019. Accessed at:

<https://www.cnn.com/2019/12/24/traffic-jams-how-they-form-and-end-up-costing-the-us-economy-billions.html>

### **The Racial Wealth Gap Is the Housing Gap**

## What Our Dual Crises Are Costing Us

America is faced with a dual housing crisis: one of overall housing affordability, and one of racially inequitable access to housing that feeds into unaffordability. Together, our dual crises are costing the nation trillions of dollars in GDP growth each year.

Research shows that our affordable housing shortage alone is costing the American economy about \$2 trillion each year in lowered wages and productivity.<sup>98</sup> A large part of this loss is the negative multiplier effect accompanying stagnating homeownership: without the stability of an affordable home or attainable rent, household earnings and overall spending in the local economy are at stake. Studies have estimated that GDP growth between 1964 and 2009 would have been 13.5% higher if families had been given access to affordable housing. This translates to a \$1.7 trillion increase in overall income and \$8,775 in additional wages per worker.<sup>99</sup>

But the story is much larger than mere housing affordability: GDP is also slowed by the racial wealth gap, which is driven in large part by the housing gap. Some studies estimate that closing the Black-White and Hispanic-White racial wealth

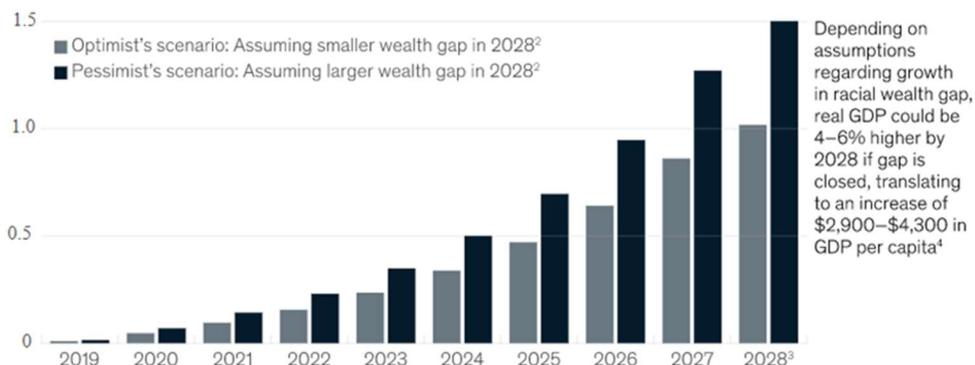
gap in the United States would boost consumption and investment within the U.S. economy by an additional \$2 to \$3 trillion (8% to 12% of our GDP), all through providing new avenues for people of color to participate in the economy—not least of which is the housing economy.<sup>100</sup> This growth amounts to \$6,000–\$8,500 in annual income per capita.

Other national estimates suggest that closing the racial equity gap would boost GDP by 0.5% a year over the next few decades, leading to a total of \$8 trillion in growth by 2050.<sup>101</sup>

Conversely, if the current racial wealth gap is left unabated, it will cost the U.S. economy between \$1 and \$1.5 trillion between 2019 and 2028 through the dampening of consumption and investment—4 to 6 percent of the projected GDP for 2028.<sup>102</sup>

**By closing the racial wealth gap, the US GDP could be 4 to 6 percent higher by 2028.**

Real GDP increase from closing racial wealth gap, \$ trillion<sup>1</sup>



<sup>98</sup> “The Problem.” National Low Income Housing Coalition, 2021. Accessed at: <https://nlihc.org/explore-issues/why-we-care/problem>

<sup>99</sup> “The Problem.” National Low Income Housing Coalition, 2021. Accessed at: <https://nlihc.org/explore-issues/why-we-care/problem>

<sup>100</sup> Chui, Michael; Prince, Sara; and Stewart III, Shelley. “America 2021: The opportunity to advance racial equity.” McKinsey & Company, February 17, 2021. Accessed at: <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/america-2021-the-opportunity-to-advance-racial-equity>

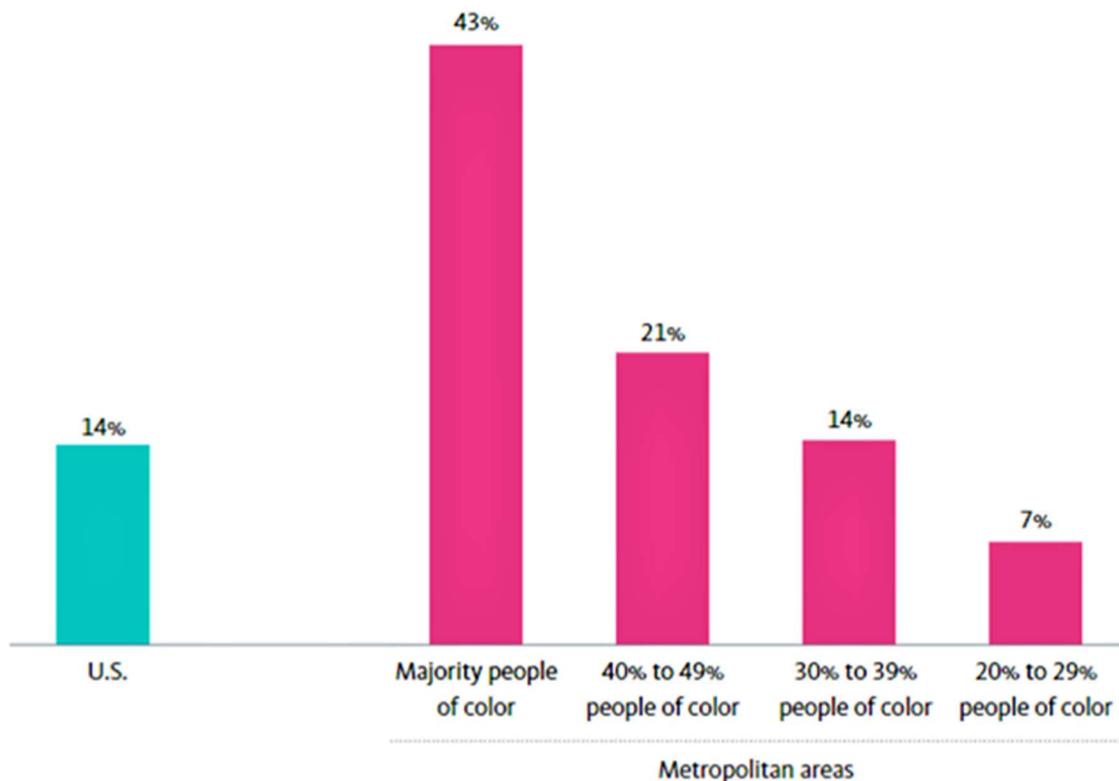
<sup>101</sup> Harrell Jr., Eddie, and Wittenberg, Joel. “Closing the Racial Equality Gap Would Generate \$8 Trillion in U.S. GDP Growth.” U.S. Chamber of Commerce, June 25, 2020. Accessed at: <https://www.uschamber.com/on-demand/economy/closing-the-racial-equality-gap-would-generate-8-trillion-in-u-s-gdp-growth>

<sup>102</sup> These statistics and accompanying figure were gathered and created by McKinsey & Company. “Report: The economic impact of closing the racial wealth gap.” McKinsey & Company, August 13, 2019. Accessed at: <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap>

The United States' largest metropolitan areas, home to the most diverse populations across the nation, are also the ones that most desperately need heightened access to affordable and racially equitable housing. Increasing such access would unequivocally begin to close our racial wealth gap and would exponentially boost our nation's GDP.

Estimates suggest that the country's 150 largest regions could collectively grow their GDP by 24% if

they addressed racial inequities in income and wealth; Los Angeles alone stands to gain \$510 billion per year.<sup>103</sup> Such estimates are conservative—they do not include the multiplier effect within local economies that comes with increasing housing access for people of color in America.



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*Estimated GDP Gains from Racial Equity in America's Largest 150 Metros, by Share of People of Color*

<sup>103</sup> Treuhaft, Sarah. "Want a Stronger Economy? Focus More on Racial Inclusion." PolicyLink, 2014. Accessed at: <https://www.policylink.org/blog/shelterforce-equity-atlas>

<sup>104</sup> Treuhaft, Sarah; Scoggins, Justin; and Tran, Jennifer. "The Equity Solution: Racial Inclusion is Key to Growing a Strong New Economy." PolicyLink, October 22, 2014. Accessed at: <https://policylink.app.box.com/v/equity-brief>

## CONCLUSION

The chain of logic facing our housing economy is simple. Homeownership is the key asset that generates and maintains wealth for American households; simultaneously, our nation faces the dual housing crises of housing affordability and racial inequity in access to housing. The former severely limits homeownership rates among all Americans, but especially for people of color in our country—a rate that has the potential to boost our GDP by trillions of dollars through cascading multiplier effects. The latter restricts the wealth-building potential for people of color and is the key driver of the racial wealth gap in America, a phenomenon that drags back our economy by an additional trillions of dollars. Investing in affordable, accessible homes and racially equitable housing practices would undeniably strengthen families, communities, local economies, and our national economic health by boosting access to our economy for people of color. By continuing to trudge onwards in a housing ecosystem that is unaffordable, stagnant, and structured on historically inequitably housing practices, we hold back our national and state economies to the detriment of all.