MGIC

BEHIND THE FINDINGS:

A summary of outcomes from the "Bridging the Racial Disparity in Wealth Creation in Milwaukee" report

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The case study

Do homes in neighborhoods with a higher percentage of homeownership experience greater wealth creation over time? How detrimental to housing values are foreclosures, especially when they begin to cluster in a single neighborhood?

We now have insight into how to think about these questions, and many others, thanks to recently completed research. A team featuring University of Wisconsin-Milwaukee faculty researchers in economics, criminal justice and computer science spent more than a year conducting the research before releasing a report titled “Bridging the Racial Disparity in Wealth Creation in Milwaukee.” The research was commissioned by MGIC with the hope that it might contribute to advancing Milwaukee’s Collective Affordable Housing Strategic Plan and add to the broader national discussion centered on equitable homeownership.

The research

What prompted the analysis?

The research effort was motivated by a desire to quantify and better understand the contributors to racial/ethnic disparities in wealth creation through homeownership endemic to Milwaukee. Understanding these contributing factors might inform policy and social investment activities aimed at closing disparities in wealth creation and ensure that successful long-term homeownership does, in fact, create wealth regardless of race and ethnicity.

What were the findings?

The research revealed 2 key insights:

- Households of color in Milwaukee lag in wealth creation, even when controlling for key borrower, property and neighborhood characteristics when compared to white households.
- Low neighborhood homeownership rates are detrimental to home values and, as expected, escalating rates of foreclosure have an increasingly adverse impact on values.

These findings are likely not surprising to longtime participants in Milwaukee community development efforts. However, the research product itself is unique in that it may point the way for targeted policy and investment specifically aimed at addressing factors independently identified as detrimental to home values.

KEY INSIGHTS

Households of color in Milwaukee lag in wealth creation, even when controlling for key borrower, property and neighborhood characteristics when compared to white households.

Low neighborhood homeownership rates are detrimental to home values, and escalating rates of foreclosure have an increasingly adverse impact on values.

The results

The Wealth Creation Index

The output of the data science effort is the Wealth Creation Index, which is additive in nature. In other words, the contributors to wealth creation – or wealth erosion, in this context – have been decomposed into independent values that can be summed to provide a clearer picture of their collective impact. Perhaps the starkest example is the drag-down effect that low rates of homeownership have on value creation. The UW-Milwaukee research found that, when controlling for other factors, home values will be lower in neighborhoods with a homeownership rate of less than 30%. Moreover, for every 1% below 30%, home values are 0.6% lower.

Let's put this in context

The Wisconsin Policy Forum reports that Milwaukee's Black homeownership rate is 25%. Applying the findings of the UW-Milwaukee research team and before considering other factors, we can then surmise that Black homeowners in Milwaukee living in neighborhoods of low homeownership rates are likely experiencing approximately 3% less wealth accumulation through homeownership, attributable solely to where they live.

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KEY FINDINGS

Neighborhoods with high foreclosure rates in Milwaukee experienced a home value decline that is 8 times greater.

Homeownership retention and foreclosure avoidance strategies need to be center to our efforts.

The results

How can this information be helpful?

It makes sense to target increasing the homeownership rate in certain neighborhoods to 30% or higher as an initial objective. If this ownership threshold were achieved, the 3% drag on wealth creation would be eliminated. Achievement of this initial goal could be done through multiple strategies – acquisition-rehab, infill production, and programs aimed at homeownership retention.

Another key finding is that neighborhoods that experienced foreclosure rates above the 95th percentile suffered a 9.6% decrease in home value, whereas neighborhoods that have experienced foreclosure rates below the 95th percentile comparatively suffered a 1.2% home value decline. Said differently, neighborhoods with high foreclosure rates in Milwaukee experienced a home value decline that is 8 times greater. This not only produces the personal trauma that comes with the loss of housing stability, but it also drains accumulated wealth predominantly from households of color. If we endeavor to close the racial wealth gap, then this finding suggests that homeownership retention and foreclosure avoidance strategies need to be center to our efforts, and not just when the nation is gripped by a housing and economic crises.

Advancing the research

Other findings may also prove important to informing strategies:

- **Home values appreciate at lower rates for minority and female homeowners.** On average, Black, Hispanic and female homeowners witness 6.8%, 3.0% and 1.0% less appreciation, respectively. These results are additive; therefore, a Black female-headed household witnesses 7.8% less appreciation. (If in a neighborhood with a 25% homeownership rate, the figure rises to 10.8% less appreciation.)
- **Distance to a higher-quality high school is a key factor associated with home value.** Home value decreases as the distance between a given house and a high-performing high school increases. There was no such relationship for grade and middle schools.
- **Owning is a better tool for wealth creation in Milwaukee.** A 13% difference in wealth accumulation exists between homeowners and renters, even when the loss of wealth attributable to foreclosure is considered.
- **Household income is a key determinant of home value.** Each 1% increase in income is associated with a 0.1% increase in home value. Example: Home value is approximately 1% higher for a homeowner who earns 10% more than a comparable homeowner.
- **Lot size is a key determinant of home value.** A 1% increase in lot size correlates with around a 1.7% increase in home value.
- **Crime negatively affects home value, and educational attainment boosts home value and suppresses the effects of crime on value.** For each one-unit increase in a neighborhood's crime factor score, a 4.9% decrease in home value was observed. Home values are higher in neighborhoods composed of residents with higher levels of educational attainment.

Advancing the research

While the research covered a lot of ground, it also illuminated how much more ground there is yet to cover. As we've discussed the findings with community stakeholders, a rather formidable list of potential enhancements is taking shape:

- Assessing the impact investor purchases have on owner-occupied values
- Assessing the value creation attributable to property improvement/rehabilitation
- Determining if there is an isolated legacy impact on the value growth of properties that were once subject to a racial covenant
- Adding in employment and commercial/retail data to identify impacts on value creation
- Using spatial analysis to define "neighborhood" by modeled outcomes as opposed to geographical boundaries

Conclusion

A tool for targeting outcomes, measuring success

The research lays the foundation for developing a tool that triple bottom line investors and policymakers can use to target social outcomes.

For example, what if strategies were deployed to increase a neighborhood's homeownership rate to 30%?

Using a counterfactual approach set forth in the report, an investor could theoretically determine an expected social return for their investment, calculated as the wealth created through incremental home value growth for owner-households in the affected neighborhood.

Likewise, after some time has passed, the same quantitative methodologies could be used to measure if the investment achieved the intended outcome. The research used well-known industry data sets – Home Mortgage Disclosure Act (HMDA), Black Knight's public property data, American Community Survey (ACS), Milwaukee Master Property File (MPROP) and others – and merged them together to complete a 20-year history of Milwaukee properties, their financing, and their outcomes.

The research focused on "housing returns," which 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. In the event of a foreclosure, even though the entirety of the resulting housing return may not (in this calculation) impact the foreclosed-on owner, the full gain/loss was considered in evaluating housing return.

> **What if strategies were deployed to increase a neighborhood's homeownership rate to 30%?**

The team

From initial concept to its publication in academic research hubs, this report took over 18 months to complte. The leadership, expertise, professionalism, commitment and friendship of these 4 UW-Milwaukee faculty researchers made this journey a labor of love for the MGIC team involved in the research every step of the way.

MGIC would like to thank the several community partners and co-workers who provided input in the establishment of the thesis and the final report review. Our hope is that this report inspires more learning and, more importantly, helps inform solutions that will work to close racial/ethnic disparities in wealth creation through homeownership in Milwaukee and potentially other U.S. cities.

Take a look at other ways you can join us to help underserved populations build wealth through sustainable, affordable homeownership.

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