

Discussion of “Racial Differences in the Total Rate of Return on Owner-Occupied Housing”

by Rebecca Diamond and William Diamond

Amir Kermani, UC Berkeley & NBER

Race and Stratification Working Group
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Summary of the paper

- ▶ New method for imputation of rents based on switchers
 - Highlights the importance of unobserved quality differences
 - **Main result:** Hedonic regressions overestimate imputed rent for low price houses

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- ▶ Estimate racial disparities in rental yields as well as total returns
 - Use AHS self-reported valuation, taxes & maintenance + imputed rent
 - Supportive evidence from CEX for R/P disparities
 - **Main result:** Black and Hispanic homeowners have the highest total return once one take into account disparities in rental yields

Comment I: Selection into switchers

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 - Geographic distribution
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- ▶ My takeaway of Rent imputations based on switchers: great idea, can be improved significantly using **MLS lisintgs + DQ + Infutor**

Comment II: Sources of (racial) disparities in rental yields and comparison with previous estimates

- ▶ Rental yields can be different b/c minorities
 - Live in MSAs with higher R/P
 - Live in zipcodes within MSAs with higher R/P
 - Pay higher rents for the same property

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 - Pay higher rents for the same property
- ▶ In Kermani-Wong:
 - in base results, net rental yields is about **20 bps higher** for Black households (compared to White HO)
 - in a robustness using Demers-Eisfeldt zip level adjustment, net rental yields is about **75 bps higher** for Black households
- ▶ Can differences in zip level RtP explain most of the disparity in net rental yields?
 - Would be useful to compare hedonic regression at zipcode-level with switcher design

Comment III: Issues with AHS for measuring total returns

- ▶ AHS most likely misses foreclosures
 - Foreclosures are particularly harmful for minorities
 - In KW, conditional on avoiding a distress sale, minorities have similar or higher total returns on housing

| Total Return Using ziplevel RtP | | |
|---------------------------------|---------------|------|
| | Regular Sales | All |
| Black | 8.00 | 4.87 |
| Hispanic | 8.73 | 3.73 |
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- ▶ Comparison of self-reported values vs. imputed value based on purchase price + MSA price appreciation
 - (racial disparities in) behavioral biases on assessment of home value/ rent value by itself is important to study
 - In NSMO we found Black homeowners to be significantly more optimistic about future appreciation of their houses

Other Comments

- ▶ Can CEX elevated levels of RtP explain part of “benefits of home ownership”?
- ▶ Treatment of improvements/big maintenance costs
 - Depending on whether valuation of property capture these expenditures or not we may want to replace infrequent cost with “imputed” average cost
- ▶ Issues with sample size (bootstrap std errors)
 - No. switchers for Black/Hispanic homeowners is about 4000 (i.e. less than 300 in each survey rounds)