

Immigration and Real Estate Markets

*Immigrants, who are home
buyers and tenants, are an
important driver of housing
demand in selected
metropolitan areas.*

FOREIGN-BORN FAMILIES accounted for about 11 percent of U.S. households in the 2000 Census, making immigration an important influence on the current evolution of U.S. real estate markets. But immigration will be even more important for future housing demand, as between 2005 and 2050, immigration is expected to account for half of the country's population growth.

Given the size of the immigrant housing market, many salient questions arise. What types of houses do immigrants want? Do they rent or buy? How do they finance their homes? Where will they locate? What is their impact on housing prices, rents, and the housing stock?

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HOMEOWNERSHIP PATTERNS

Homeowners have a stake in the future of their communities. They tend to become more involved in the neighborhood and invest in improving its physical appearance. They are likely to be active politically. Therefore, it is important to note that the homeownership rate for immigrants is lower than for the native population. In 2000, the percentage of immigrant owners was almost 20 points below the percentage of native-born owners. Why? One hypothesis is that since immigrants have lower incomes, are younger, and often belong to minority ethnic groups, they have correspondingly lower homeownership rates (similar to native-born people in these groups). Table I adjusts for key observable characteristics, but finds that these traits account for a relatively small proportion of the homeownership gap. Another hypothesis is that immigrants are disproportionately in metropolitan areas such as New

York, Los Angeles, and Miami, which historically have relatively low homeownership rates. Adjusting for this factor notably reduces the homeownership gap, yet it remains sizable.

Other reasons for the lower immigrant homeownership rate are easy to pinpoint. Since many immigrants send their savings home rather than accumulate the downpayment to buy a house, they are less likely to be homeowners. Others are short-term residents, with no intention of settling in the United States permanently. This is particularly true of the large student immigrant population. Immigrants who do wish to buy a home face obstacles. For example, most do not have a U.S. credit history such as credit card usage or bill payments. Therefore, the underwriting programs used by mortgage lenders—which require credit scores—represent a formidable barrier.

In time, immigrants who stay tend to assimilate to the homeownership propen-

Table I: Homeownership gap between immigrants and natives

Homeownership gap	Year		
	1980	1990	2000
Unadjusted difference	-12.00%	-14.40%	-19.70%
Controls for socioeconomic characteristics	-12.10%	-12.60%	-16.4%
Controls for socioeconomic characteristics and metropolitan area location	-5.70%	-6.60%	-10.30%

Source: Borjas, George J. (2002), Homeownership in the Immigrant Population.

sities of natives. In 2000, the homeownership rate for immigrants who had been in the country for more than 20 years was 67.5 percent, only slightly below the national rate of 70 percent, as opposed to 18.5 percent for those immigrants who had been in the country fewer than five years. Thus, long-term immigrants accumulated the financial resources and credit data to become “typical” homeowners.

While these factors may account for the homeownership rate gap between natives and immigrants, they do not explain why this gap has been increasing since 1980. Indeed, after controlling for immigrant socioeconomic characteristics and location, Table I reveals that the immigrant-native ownership differential widened by 5 percent over the last twenty years.

One reason for the widening of the homeownership gap is a change in the national origin of immigrants. Immigrants in some national groups have a higher saving propensity and thus are able to accumulate mortgage down-payments faster. They may also have differential propensities to return to their home countries. George Borjas reports that in 1990, the homeownership rate for Italian immigrants was 78.8 percent, for German immigrants 70.5 percent, and for Chinese immigrants 56.5 percent. On the other hand, for Mexican immigrants it was 38.4 percent, for Salvadoran immigrants 17.3

percent, and for immigrants from the Dominican Republic 14.2 percent. Since immigration from Mexico, Central America, and the Dominican Republic increased during the 1980-2000 period, this reduces the propensity of new immigrants to own accordingly.

Despite the fact that homeownership rates are lower among immigrants, most immigrants eventually buy a home. Recent research shows what type of homes immigrant new homeowners want. It is interesting that immigrant new homeowners and native new homeowners purchase housing units of roughly similar quality. For example, about 70 percent of both groups bought single-family detached houses. However, immigrants have a higher propensity to buy condos in buildings with two apartments or more.

The age and size differences between the homes of immigrant and native first-time buyers are small. However, because immigrant households are larger, immigrant new homeowners tend to live at somewhat higher densities than native first-time buyers (368 sq. ft./person vs. 500 sq. ft./person). Thus, their effective housing quality is arguably slightly lower.

Immigrant new homebuyers tend to make larger down-payments. This is especially true for Asian immigrants. Possible explanations include cultural attitudes, or the fact that, faced with the applicants' shorter credit history and lower credit

Table II: First-time homebuyers since 1997

Characteristics						
Type of Housing Structure	Immigrant		Native			
One-unit building, detached	71%		73%			
One-unit building, attached	12%		8%			
Building with two apartments or more	10%		6%			
Mobile home	7%		13%			
Age of Building						
Pre-1950	19%		23%			
1950-69	27%		23%			
1970-84	25%		21%			
1985-2001	28%		34%			
Median sq. ft. of unit	1,326		1,400			
Median sq. ft. per person	368		500			
Location Types						
Metro Status	Foreign-Born			Native-Born		
	Number	Percent	Percent in Metro Areas	Number	Percent	Percent in Metro Areas
Central city	454,558	36%	38%	2,119,995	27%	35%
Other MSA	753,174	60%	62%	4,049,575	51%	65%
Non-metro	53,800	4%	n/a	1,708,864	22%	n/a
Total	1,261,531	100%	100%	7,878,434	100%	100%

Source: R. Drew, "New Americans, New Homeowners: The Role and Relevance of Foreign-Born First-Time Homebuyers in the U.S. Housing Market." Joint Center for Housing Studies at Harvard University, August 2002.

scores, lenders may require higher down-payments.

Immigration has little impact on rural areas and exurbs: only 4 percent of immigrants live in non-metropolitan areas (versus 22 percent of natives). This is equally true for immigrant new homeowners. Within metropolitan areas, native and immigrant home-buyers make similar choices between central cities and suburbs. Since 1997, 62 percent of immigrant first-

time homebuyers in metropolitan areas purchased their homes in the suburbs, compared to 65 percent of natives. Thus, even if immigrants (especially renters) initially have a greater propensity to live in the central city, immigrant new homeowners move to the suburbs in roughly similar proportions to natives.

Despite the fact that immigrant homeowners do not differ much from native homeowners in their housing demands,

the homeownership rate among immigrants in 2000 was only 49 percent. Thus, 51 percent of immigrants were renters, compared to 32 percent for natives. According to the Urban Institute Immigration Studies Program, immigrants account for 20 percent of low-wage workers, and we know that low-income households tend to rent. In fact, the immigrant share in the national rental market is 17 percent (28 percent in the West and Northeast). Therefore, nearly one in five renter households is an immigrant family. This is clearly a very important trend for the multi-family market. In large, immigrant-target cities, immigrants will constitute a growing source of demand for multi-family rental units. Understanding these markets and learning more about the housing preferences of immigrant renters will be key for policy makers and multi-family entrepreneurs.

IMMIGRANTS AND HOUSING PRICES

Immigration increases the demand for housing, but does it affect housing prices and rents? Since immigration will be driving much of the U.S. population growth in the near future, some argue that immigration will drive up housing prices. However, immigration's impact on prices also depends on the elasticity of the hous-

ing supply. In some markets, supply is very elastic: there is plenty of available land and entitlements are relatively easy to obtain. In such areas, a housing unit is typically sold at a price close to its replacement cost (construction costs plus a modest land cost). In other markets, such as the Northeast and California, where supply is very inelastic, higher prices are the primary response to increased demand.

Research shows that at the national level the supply of housing is fairly elastic. If immigrant population growth were spread broadly, it would translate into only minor housing price appreciation. However, immigrants cluster in selected metropolitan areas where the housing supply happens to be rather inelastic. The result is that in the cities that function as "ports of entry" for immigrants, rents and house prices are expected to rise.

Table III shows the main immigrant port-of-entry metropolitan areas from 1983 to 1997. These areas are ranked by the number of legal permanent residents who arrived. Table III also provides estimates of the immigration "impact" on population; that is, the total number of new immigrants during the fifteen-year period as a ratio of the initial total population of the metropolitan area. This immigration "impact" ranges from 15 percent for San Jose and San Francisco and 19 percent for New York to 25 percent for Miami. Indeed, immigrants tend to cluster

Table III: Metropolitan areas ranked by legal immigration, 1983-1997

Rank	Metropolitan Area	Legal Immigration 1983-1997	Total Population 1983	Impact
1	New York	1,576,355	8,384,789	18.80%
2	Los Angeles-Long Beach	1,05,7856	7,890,314	13.41%
3	Miami	435,697	1,725,589	25.25%
4	Chicago	408,727	7,259,019	5.63 %
5	Washington	338,378	3,632,843	9.31 %
6	San Francisco	253,691	1,531,795	16.56%
7	Anaheim-Santa Ana (Orange County)	243,263	2,072,418	11.74 %
8	Houston	215,113	3,150,230	6.83 %
9	San Jose	206,228	1,367,215	15.08%
10	Oakland	186,436	1,843,567	10.11%
11	Boston	182,568	5,359,877	3.41 %
12	San Diego	174,730	2,003,313	8.72 %
13	Newark	163,320	1,953,448	8.36 %
14	Philadelphia	146,834	4,791,248	3.06 %
15	Bergen-Passaic	143,482	1,298,675	11.05%
16	Nassau-Suffolk	132,523	2,621,072	5.06 %
17	Dallas	125,081	2,249,095	5.56 %
18	Seattle-Bellevue-Everett	113,649	1712491	6.64 %
19	Jersey City	106,735	566,829	18.83%
20	Detroit	105,756	4,229,636	2.50 %

in remarkably few metropolitan areas, with the top ten metropolitan clusters accounting for 53 percent of all immigrants in metropolitan areas. In contrast, these areas account for less than 20 percent of the U.S. metropolitan population. Since immigrants tend to settle in metropolitan areas with large immigrant communities, once a critical mass of immigrants is established in a city, further immigration is likely.

How much faster have housing prices and rents been growing in metropolitan areas that receive sizable immigration? To

answer the question, it is necessary to disentangle the impact of immigration from the impact of other economic factors. For example, immigrants are generally attracted to metropolitan areas where employment prospects and wages are rising.

Using data from the last thirty years, I have used statistical techniques to separate the impact of immigration on housing prices from the impacts of other economic variables. This analysis reveals that an immigration inflow in a metropolitan area equal to 1 percent of its initial popu-

Figure 1: Non-native born population, Manhattan, 2000

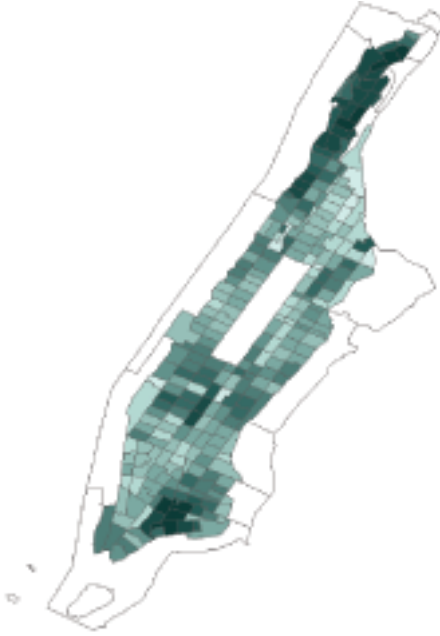
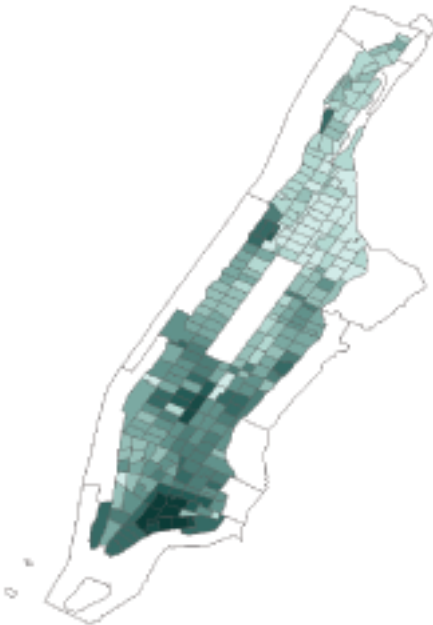


Figure 2: Asian population, Manhattan, 2000



lation was associated with a roughly 1 percent growth in both housing prices and rents in that metropolitan area. For example, in a metropolitan area with one million inhabitants, 100,000 new immigrants drive up housing prices and rents by about 10 percent. This is a robust result, applying to all metropolitan areas receiving significant immigration inflows. Thus, the evidence indicates that immigrants exert a positive influence on both housing prices and rents in the areas where they settle.

Is this a tide that raises all ships equally? Immigration is clearly favorable to housing price growth in a metropolitan area because it fosters population and economic growth in the region. But what about specific neighborhoods within a metropolitan area? Recent research carried out with Susan Wachter analyzed the evolution of housing prices in “immigrant neighborhoods” in the cities that received substantial immigration over the period from 1970 to 2000. Our conclusions are that home values grew substantially faster in the metropolitan areas where immigrants were concentrated, but within these metropolitan areas housing price appreciation was *relatively* less strong in immigrant neighborhoods.

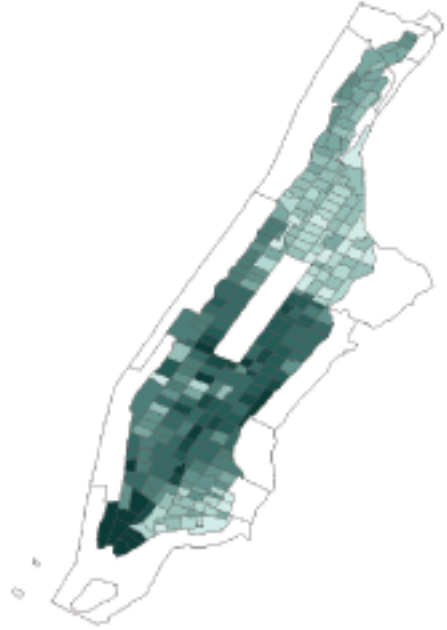
Chinatown, in New York City, provides an interesting example. Figure 1 portrays the distribution of the non-native born population in Manhattan by Census

tracts. Tracts with higher non-native born densities are darker. The highest immigrant concentrations are in the upper west side of Manhattan—corresponding roughly to the Washington Heights and Inwood neighborhoods—and in the southeastern tip of Manhattan, that is, Chinatown. Figure 2 confirms that the southeast area of the island has the greatest concentration of the Asian population in Manhattan.

My earlier research suggests that New York City's housing prices and rents are more expensive, in part, because of major immigrant inflows. Table III indicates that the number of legal immigrants from 1983 to 1997 amounted to about 20 percent of the metro area's population in 1987. Consequently, immigration has been putting upward pressure on the city's housing market. We might therefore expect Chinatown to be relatively more expensive than neighborhoods that contain fewer immigrants. Yet Figure 3 demonstrates that this is not the case. In fact, Chinatown is among the least expensive neighborhoods in Manhattan.

Why do housing prices grow at a slower pace in immigrant neighborhoods than in other neighborhoods in the same city? We tested three nonexclusive alternative explanations. All three turned out to be important. The first is the housing quality in neighborhoods with high concentrations of immigrants is lower because immigrants may be more likely to tolerate

Figure 3: Housing rents, Manhattan, 2000



certain negative characteristics of a neighborhood, such as pollution or noise. The second explanation is that immigrants are generally more price-sensitive than natives, and tend to move to neighborhoods where housing prices are increasing more slowly. The third is that some natives may find immigrant enclaves unattractive places to live. Recent research with Edward Glaeser indicates that from 1970 to 2000, housing prices tended to increase most slowly in neighborhoods with poorly educated residents. While in 1990, 26.2 percent of male immigrants 25 years or older were college graduates (roughly the same proportion as natives), the share of immigrants with less than a high school diplo-

ma was 37.1 percent, much higher than for natives (14.1 percent). Thus, on average, neighborhoods with high concentrations of immigrants tend to have lower levels of education.

It is important to point out that in the long run (more than two decades) it is likely that immigrants and their offspring disperse from the port-of-entry metropolitan areas. That is, in time, immigrants assimilate. Therefore some immigrants and their offspring can be expected to leave immigrant enclaves for other cities. When that process of decentralization occurs, housing demand will decrease in immigrant cities and increase in alternative locations. Thus, since supply is highly elastic at the national level, the long-run impact of immigration on housing prices will be relatively small.