Preferences for Hispanic Neighborhoods

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Research Questions

• Hispanics became the largest minority group in the United States since 2005
  – Yet, we do not know much about preferences for residential segregation with respect to this group.

• What is the household willingness to pay (WTP) for an increase in the share of Hispanic neighbors?
  – How housing prices change in neighborhoods that are becoming “more Hispanic”?

• Are these preferences (WTP) for the Hispanic make-up of a neighborhood similar across types of households?
Background Literature

• Long literature studying the relationship between African-American residential segregation and housing prices
  – Early studies usually found that blacks paid higher house prices: discrimination or reduced housing alternatives?

• Literature summary by Cutler, Glaeser, and Vigdor (1999):
  • Discrimination (blacks pay higher house prices)
  • Preferences for racial segregation among whites or decentralized racism (lower prices in black neighborhoods)
### Neighborhood “Model”

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<th>Neighborhood W</th>
<th>Neighborhood M</th>
<th>Neighborhood H</th>
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- Assume people in W have preferences for living with other whites.
- Assume people in H have preferences for living with other Hispanics.
• If white and Hispanic individuals living in the mixed neighborhood have preferences for segregation, then prices should be lower in M.

• But comparison between W and H unclear (depends on WTP of each group)!

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• When preferences are not similar across households: people who chose to live in M probably do not have very strong racial preferences! **WTP of the individual in M (marginal individual) is different than the average of her group.**

• In general, the WTP of the marginal individual is expected to be different than of the others in her group (for example, a white household in a mixed neighborhood may have a higher WTP to live in a mixed neighborhood than the average white household).
How Do We Actually Estimate These Preferences?

• Under certain assumptions, changes in prices due to changes in neighborhood composition are indicative of preferences.

• **BUT** this is a complicated empirical question because changes in prices may be due to other confounding factors:
  – Omitted housing and neighborhood characteristics
  – Taste for race vs. socio-demographics?
  – Endogeneity of location with respect to prices
  – Few data sets with real transactions and few data sets with exact location of each housing choice
Two Methods Shown in the Paper

• Bayer, Ferreira, McMillan (2007)
  – Deal with omitted variables and preference heterogeneity using choice model (BLP) applied to confidential Census data from the Bay Area in 1990
  – Neighborhood choice at the block group level

• Ferreira and Saiz (2008)
  – Deal with omitted variables using a panel data of all housing transactions in a market from 1988 to 2007
  – Measure effect of changes in Hispanic share at the block level

• Caveat: Applications used data from six counties in the San Francisco Bay Area
Results: Willingness to Pay

- Naïve model shows a large negative association between Hispanic owner shares and housing prices, but it is muted once we control for house and environmental attributes.

  - All perceived negative impact of increasing Hispanic share is due to other neighborhood features that are correlated to Hispanic ownership.

  - Hispanics do not make neighborhoods worse; but they tend to choose (afford) to live in neighborhoods that are becoming worse or that have worse amenities.

  - Housing prices effect of a change in Hispanic share in a mixed neighborhood is negligible.
Results: Variation in Preferences

• But preferences are not similar across households

• House prices change negatively when Hispanic shares increase in neighborhoods that were mostly white in 1990
  – A 10% increase in the Hispanic share reduces house prices by 1% at the block level.

• Whites are willing to pay a premium (relative to Hispanics) when increasing the white share of their neighborhoods
  – And Hispanics pay a premium (relative to whites) when increasing the Hispanic share of their neighborhoods.

• This pattern of variation in preferences may lead to self-segregation in the market place.