

Preferences for Hispanic Neighborhoods

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Research Questions

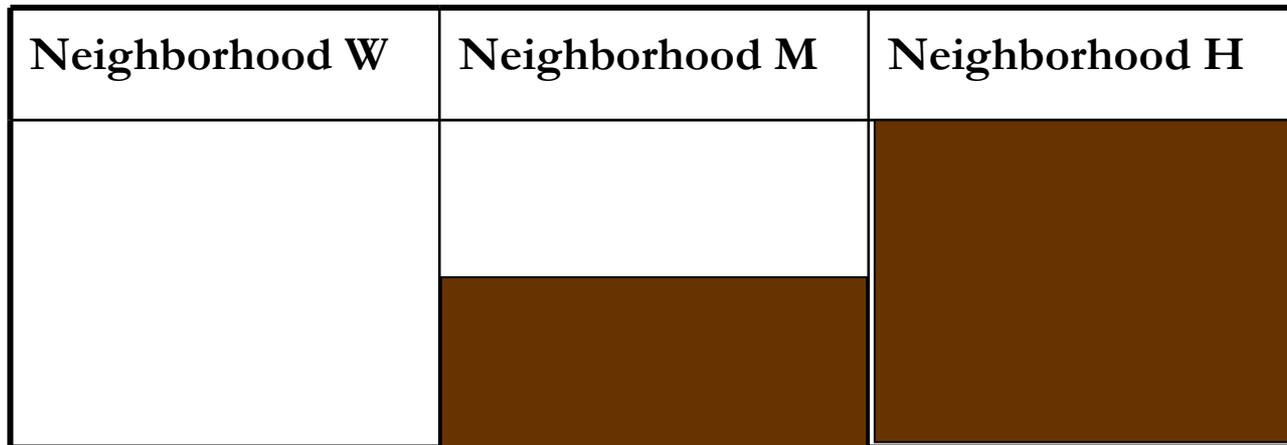
- Hispanics became the largest minority group in the United States since 2005
 - Yet, we do not know much about preferences for residential segregation with respect to this group.
- What is the household willingness to pay (WTP) for an increase in the share of Hispanic neighbors?
 - How housing prices 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”

Neighborhood W	Neighborhood M	Neighborhood H



- 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) !

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.