

Discussion of
Racial Differences in the Total Rate of Return on
Owner-Occupied Housing
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Road Map of the Paper:

- ① Impute rental yield (cleverly) using rank
- ② Use this novel imputation to compare total returns
- ③ Explore mechanism and channel

A Provoking Preexisting Literature

- Kermani & Wong (2024) find the opposite result (minorities experience lower *total housing returns* on average because they are more likely to experience a distressed home sale), but they are imputing race following Demers & Eisdfeldt (2001) - using zipcode-level rent indices within MSA.

Table A6: Alternative Measures of Housing Returns by Race and Ethnicity

	Baseline (1)	Regular Sales Only (2)	Distressed Sales Only (3)	Cash Adjustment (4)	Distress Adjustment (5)
Panel B. Total Returns					
Black	4.44 (9.03)	7.62 (4.96)	-6.66 (11.03)	5.12 (8.43)	4.17 (8.93)
Hispanic	3.51 (11.54)	8.56 (6.38)	-10.25 (11.24)	4.69 (10.78)	3.32 (11.46)
White	6.49 (6.77)	7.80 (5.08)	-3.33 (9.30)	6.80 (6.44)	6.33 (6.74)
Overall	5.92 (7.86)	7.88 (5.25)	-5.46 (10.46)	6.38 (7.38)	5.75 (7.82)
Black-White	-2.04	-0.18	-3.33	-1.67	-2.16
Hispanic-White	-2.97	0.77	-6.92	-2.10	-3.00

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- I think about Diamond & Diamond as showing a superior way to impute rental yields and then applying the new toy in context:
 - (Differences in housing returns by race is a big, important question - tells us about racial inequality.)
 - Underlines the importance of getting the imputed rent right and of the imputation being superior.

Let's Push on the New Method

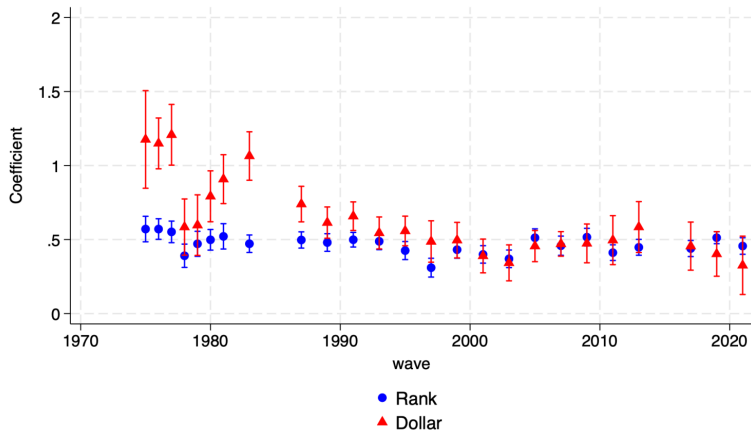
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- **Where** are the biggest differences **geographically** and **hedonically** between the simple rent imputation and the quantile-based imputation alternative used here?
 - There may be interesting economics hidden in these differences.

When are the differences coming from?

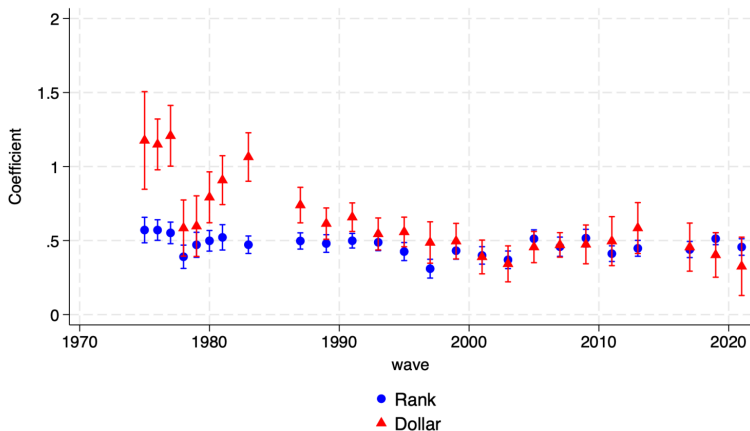
Figure 3.1: Stability of rank-rank versus dollar-dollar relationship between rents and prices



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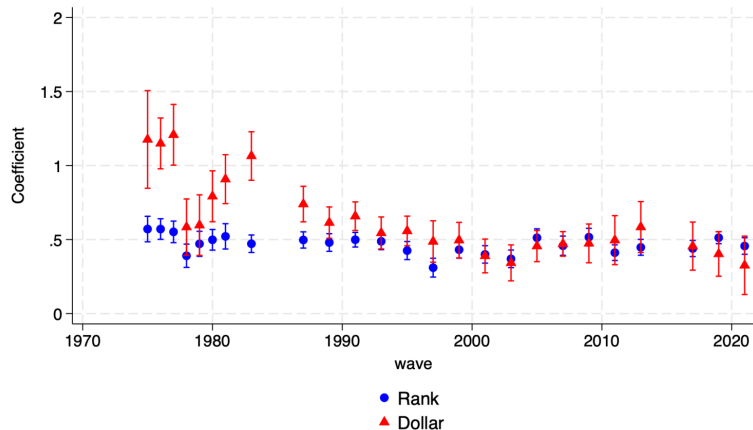
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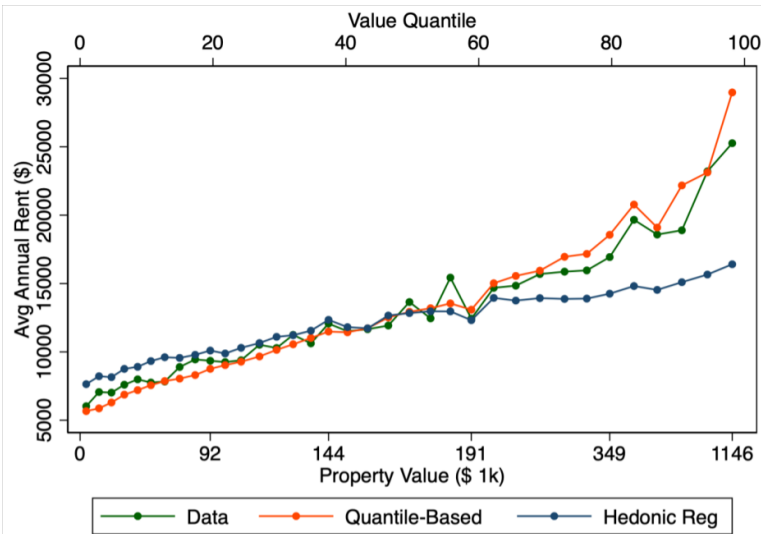
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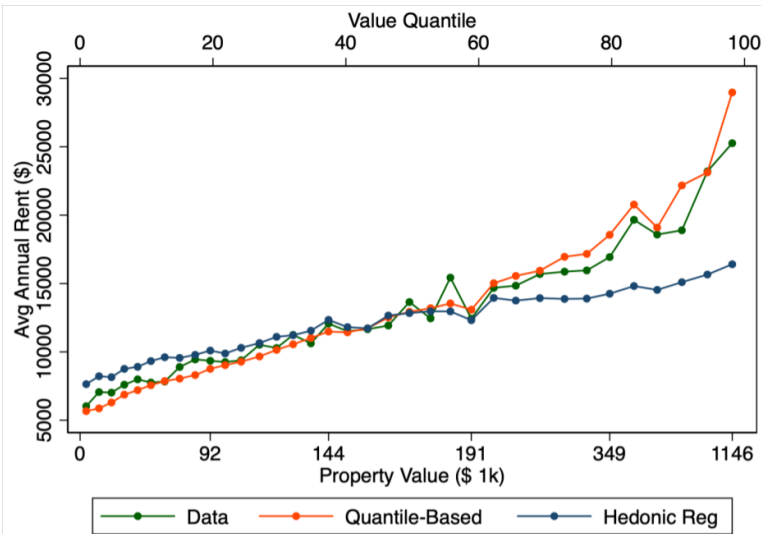


- It seems like most of the difference from using the rank innovation is pronounced in the first <10 years of the sample.
- Are the total returns by race using the hedonic- and quantile-based methods consistent after 1990?
 - This doesn't negate the superiority of the rank method, but it does lead us to ask what was different about 1975-1985.

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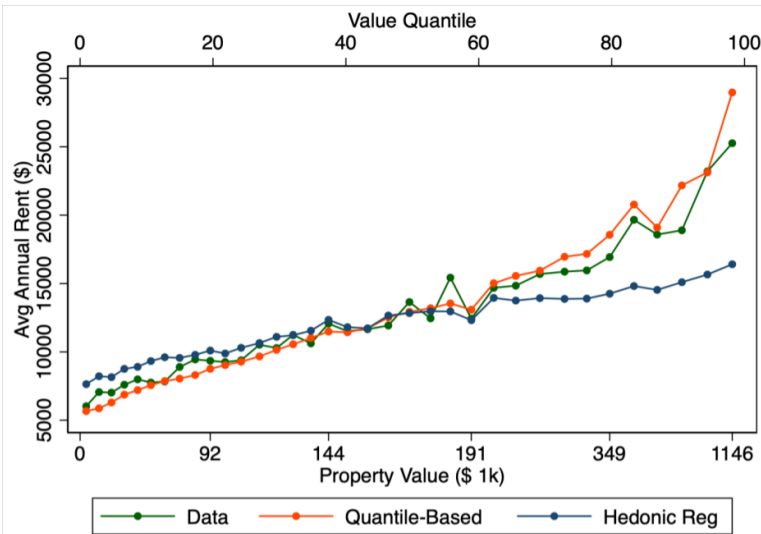
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• The hedonic alternative **overestimates** rents at the bottom of the value distribution and **underestimates** at the top.

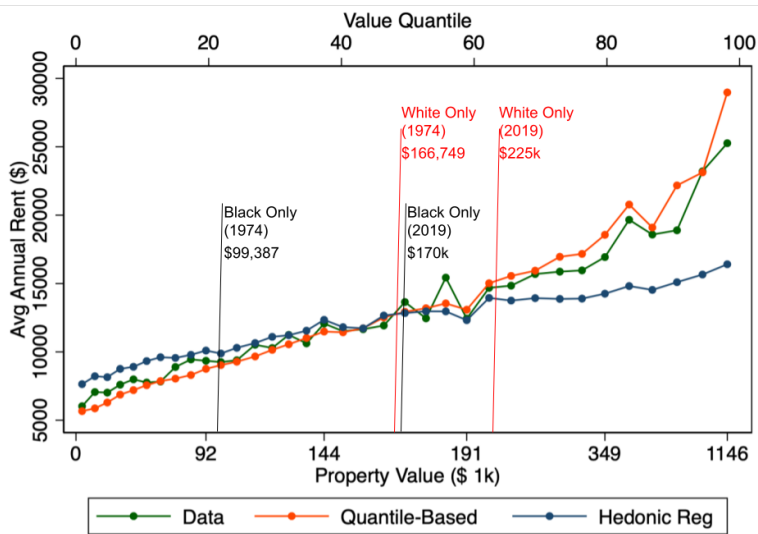
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- Standard errors would help.

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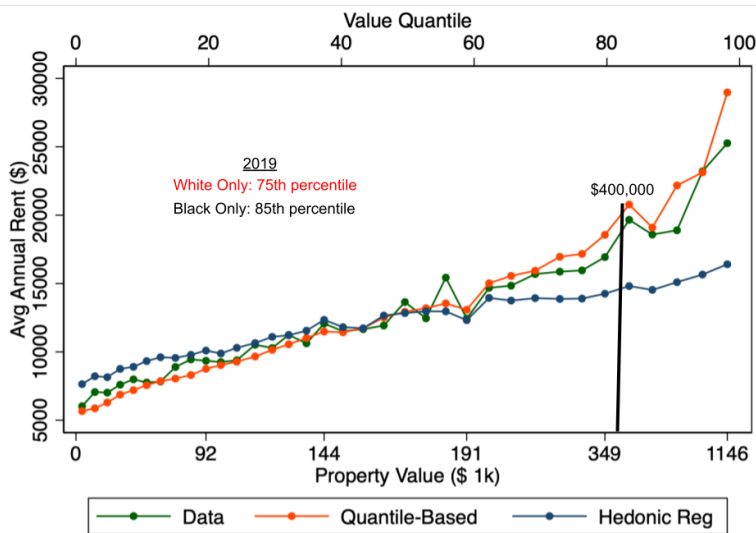
- The hedonic alternative **overestimates** rents at the bottom of the value distribution and **underestimates** at the top.
 - It looks like the quantile-based alternative does the **opposite**. Why?
 - Standard errors would help.
- **SUGGESTION:** Compare to a hedonic regression of rent (\$) onto observables and price (or price rank).

Where are the differences coming from?



- It seems like most of the difference from using the rank innovation is pronounced in the top quintile.

Where are the differences coming from?



- Given the distribution of house values by race, the differences in imputed rents affect white households more.
 - Why does the quantile-based method do so much better for properties with higher values?
 - SUGGESTION: What about differences in the tracking error by geography?

Is this really about race?

- The disparities are fully explained by controls (e.g., education).
 - Should I interpret this as indicative of structural racism or is race just a proxy for different average observables?
 - Is there a causal component of race conditional on the observables?
 - SUGGESTION: for properties experiencing racial turnover, does the rank change?

What about levered returns?

- Total returns are interesting, but the levered returns are also interesting. Differences in financing costs for minorities ([Bhutta & Hizmo, 2021](#), [Ghent, Hernandez-Murillo & Owyang, 2014](#), [Bayer, Ferreira & Ross, 2018](#), and [Butler, Mayer & Weston, 2023](#)) may completely upend the story.
- How would LTVs/down payments expand the narrative?
 - The AHS does not seem to have down payments broken down by race, but maybe one of the other datasets?

Smaller Thoughts

- What about cash purchases (those would not be in these data, I think)? Adjust for cash purchases similar to Kermani & Wong (2024)?
- What about Asian Americans? They are in a unique position with minority status but higher home values.
- Go “the other way” by imputing price for rentals instead of rent for owner-occupied.

Conclusion

- I find the quantile-based rent imputation to be novel and intriguing - I'm sold on it being a thing, but I'd love to have more about how big of a thing it is.
 - There is some in the paper already, but I'd like more exploring where, when, for whom, and why this method is dominating.
- What are the economics that we've uncovered with this paper? More handholding on whether there is racism here and why total returns are the cat's pajamas.