

Immigrants' Legal Status and Homeownership Rates

Homeownership symbolizes the achievement of prosperity, stability and success and, as such, represents the attainment of many individuals' dreams in a wide range of countries. Immigrants, just like natives, pursue homeownership because of its many advantages, ranging from tax relief to building wealth via home equity, which, in turn, allows for home equity loans to finance education or business opportunities, as well as for a cash reserve (Chandrasekhar 2004). Furthermore, homeownership has been credited with fostering good citizenship by promoting investments in social capital and local amenities as it creates incentives to invest in the quality of the neighborhood, which is capitalized into the value of the home (DiPasquale and Glaeser 1999). Therefore, a variety of countries have implemented housing policies encouraging homeownership. Yet, as noted by the literature on immigrant housing, a significant homeownership gap still remains between natives and immigrants (e.g. Coulson 1999, Bogardus Drew 2002, Borjas 2002, Painter *et al.* 2001, Papademetriou and Ray 2004, Diaz McConnell and Marcelli 2007, Diaz McConnell and Redstone Akresh 2008).

This study will examine homeownership by recent immigrants in Spain using a recent survey of 15,465 Spanish immigrants released by the *Instituto Nacional de Estadística*, i.e. *Encuesta de Inmigrantes* (ENI). Our focus is on the role played by immigrants' legal status in explaining their homeownership rates. The analysis adds to the existing literature in two important regards. First, we focus on the role played by immigrants' legal status on their homeownership rates, as well as on the importance of improvements in legal status on improvements in housing. Many housing surveys do not include information on legal status, while others exclusively focus on legal immigrants. Finally, a few studies have used survey data to compare homeownership rates for naturalized citizens and noncitizens (Coulson 1999, Clark 2003, Krivo and Kaufman 2004, Toussaint-Comeau and Rhine 2004). However, the aforementioned literature has not examined the value of being documented, as opposed to undocumented, on immigrant homeownership rates.¹

Second, unlike the previously cited literature, we focus on Spain –a country that constitutes an interesting case study given the impressive growth of its immigrant population during the past 15 years. Within a decade, Spain saw its foreign-born population quadruple from 1.2 percent of the Spanish adult population (300,000 individuals) in 1991 to 4.0 percent (1,370,000 individuals) in 2001 (*España en Cifras*, 2008). Between 2001 and 2005, the foreign-born doubled to account for 8.0 percent of the Spanish population (3,100,000 individuals) and, as of January 2007, immigrants represent 10 percent of the Spanish population (i.e. 4.5 million immigrants out of 45.2 million inhabitants). Yet, homeownership rates among immigrants are not only significantly lower than those of natives, but the gap between both groups is widening over time. Using data from the 2001 Housing Census, Pereda *et al.* (2004) indicated that 84.7 percent of natives owned the home where they lived, 9 percent rented, and 6.3 percent had other housing arrangements (subletting or living for free in someone else's home). In contrast, only 25.7 percent of foreigners owned the home where they lived, sixty-nine percent rented it, and 5.3 percent had a different type of housing arrangement. Furthermore, the fraction of the foreign-

¹ An exception is the work by Diaz McConnell and Marcelli (2007), who examine the role of various legal statuses on the likelihood of owning a home for a sample of 380 Mexican adults residing in Los Angeles County Census tracts with high concentration of Mexican immigrants in 2001. However, as they note themselves, the results of their analysis cannot be extrapolated beyond that group.

born owning a home has decreased to 12.9 percent from 2001 to 2005. In contrast, the percent renting or leaving in other type of arrangements has increased to 77.6 and 9.4 percent, respectively (Pereda *et al.* 2004). Finally, a significant proportion of immigrants (32 percent) indicate that the main reason for residing where they do is the lack of proper documentation and, among the undocumented, this fraction reaches 61 percent (Pereda *et al.* 2004).

Table 1 provides preliminary evidence of the fact that homeownership appears to be related to migrants' legal status using the ENI. In particular, undocumented migrants are significantly less likely to own their home than their legal counterparts. Additionally, according to the figures in Table 2, improvements in legal status are also related to homeownership improvements in the host country. To assess the impact of immigrants' legal status on their homeownership rates from more than a mere descriptive level, we estimate the following model:

$$H_i = \alpha + X_i\beta + \gamma U_i + \eta_r + \mu_r + \varepsilon_{ir} \quad (1)$$

where H_i is the outcome of interest, whether it is homeownership status (set to one if the migrant lives in owner-occupied housing, and zero otherwise). The vector X_i includes socio-demographic characteristics of migrant i –such as: age, gender, race, ethnicity, educational attainment, Spanish fluency, marital status, number of children, income, asset at home, time in Spain, and whether they will return home. The vector U_i indicates whether migrant i is undocumented, η_r are the regional cost of living index, and the vector μ_r are regional fixed-effects that account for regional differences in homeownership rates, regardless of their source. We also account for the local cost of living index. Overall, our interest lies on γ , which measures how migrants' legal status is correlated to their homeownership rates. We then go one step further and evaluate the impact that improvements in legal status have on immigrants' improvements in homeownership using retrospective information on the migrant's housing at the time of entry (i.e. t minus the number of years in Spain or: $t\text{-yrsinSP}$) and on the time of their last immigration status adjustment. Specifically, we estimate the following model:

$$\Delta H_i = \alpha + X_{it}\beta + \delta \Delta IS_i + \eta_r + \mu_r + \varepsilon_{i,r} \quad (2)$$

where our focus is on δ .

To interpret γ (δ) as the casual effect of migrants' legal status (improvements in immigration status) on their homeownership rates (improvements in homeownership rates), we use instrumental variable methods in the estimation of equations (1) and (2). Our instruments include information on whether the home country is a member of European Union, whether it has colonial ties with Spain, whether it is a neighboring country, distance to and trade share with Spain. All instruments are tested to confirm their validity and all models are estimated as linear models for computational convenience.

Overall, the analysis sheds some light on the important role played by immigrants' legal status and legal status adjustments in explaining their homeownership rates and improvements in housing ownership rates in a recent immigrant-receiving economy, as is the case with Spain. By underscoring the value of becoming legal on immigrants' homeownership, our findings emphasize the value of past regularization processes and their consequences for the housing market.

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Table 1: Homeownership and Legal Status

Homeownership	Proportion	t-statistic
Legal	0.35	-
Undocumented	0.04	46.64***

Notes: The hypothesis being tested is $H_0: [\text{mean (legal)} - \text{mean (undocumented)}] = 0$. The alternative hypothesis is: $H_A: [\text{mean (legal)} - \text{mean (undocumented)}] \neq 0$. *** Signifies statistically different from zero at the 1% level or better, **at the 5% level or better and *at the 10% level or better.

Table 2: Improvements in Homeownership and Improvements in Legal Status

Improvements in Homeownership	Proportion	t-statistic
Improved in Legal Status	0.27	-
Did Not Improve Legal Status	0.11	14.76***

Notes: The hypothesis being tested is $H_0: [\text{mean (legal)} - \text{mean (undocumented)}] = 0$. The alternative hypothesis is: $H_A: [\text{mean (legal)} - \text{mean (undocumented)}] \neq 0$. *** Signifies statistically different from zero at the 1% level or better, **at the 5% level or better and *at the 10% level or better.