ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

In December 2020, content from *Real Estate Research* became part of *Policy Hub*. Future articles will be released in *Policy Hub: Macroblog*.

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December 23, 2013

Exploring Immigrant Contributions to Housing Demand

Since we relaunched the *Real Estate Research* blog earlier this year, I've contributed two posts exploring various aspects of housing demand. The first post considered what type of housing demand (renter-occupied versus owner-occupied) we should be expecting. The second post examined the long- and short-run trends in household formations to inform how much housing demand we could expect. A key factor in determining how both aspects play out is the trend in immigration. The inflow of the foreign-born population serves as one of just two channels that drive population growth and in turn household growth. (The other channel is the birth rate of the native-born population.)

Several studies since the housing downturn have explored the trend in immigrant inflows and projected household demand for the coming decade. According to a September 2010 working paper written by George Masnick, Daniel McCue, and Eric Belsky and released by the Joint Center for Housing Studies at Harvard, an increase of between 11.8 million and 13.8 million households, depending on whether you use low- or high-immigration assumptions, is projected between 2010 and 2020. Likewise, Dowell Myers and John Pitkin prepared a report earlier this year for the Research Institute for Housing America projecting an increase of 12.8 million households between 2010 and 2020, of which immigrants account for 4.12 million, or 32.2 percent. Looking back to previous decades, Myers and Pitkin note that the 4.03 million immigrant households that arrived between 2000 and 2010 accounted for 35.9 percent of the growth in households, while the 4.36 million immigrant households that arrived between 1990 and 2000 accounted for 31.8 percent. While it is nice to have a range in mind for how many immigrant households we can expect, it is only meaningful if it is accurate.

So how accurate are these projections? It depends on immigration policy discussions and the pending legislation on immigration reform. As a reminder, the White House released a blueprint in May 2011 in an effort to advance immigration reform. After some chatter in 2011 and 2012, a bipartisan bill (S.744: Border Security, Economic Opportunity, and Immigration Modernization Act) was introduced in April 2013 and then passed by the Senate in June 2013. While not much progress has been made on this particular bill since June, several groups have come to the table with reports on the various impacts of immigration in an effort to better inform the public and policymakers. In this vein, it seems worthwhile to consider some of the literature from academics and trade organizations investigating the impact of immigration on local housing markets.

Most recently, in October 2013, the Bipartisan Policy Center released a report with analysis that "demonstrates that...fixing our broken immigration system will benefit our economy." The sensitivity analysis measured the impact of reform to immigration policy on the housing market and found that "demand for housing units increases as new immigrants enter the economy and form households, accelerating the current housing recovery and fueling growth in this sector of the economy."

Jacob Vigdor, professor of public policy and economics at Duke University, has also looked into the impact of immigration. In a report released by the Partnership for a New American Economy and the Americas Society/Council of the Americas in September 2013, Vigdor estimates that each immigrant adds 11.6 cents to the price of the average home. Vigdor's analysis also revealed four additional findings about the impact of immigrants on the vitality of American communities. First, he found that the effects of immigration on house prices are strongest in the Sun Belt cities. (See this map with complete data for each of the counties studied.) Second, he concluded that immigrants tend to avoid places with the worst housing affordability problems. Third, Vigdor found that immigrants often revitalize less desirable neighborhoods in costly metropolitan areas. And lastly, he pointed out that immigration has stabilized declining rural areas and stanched the decline of Rust Belt cities. For more detail on these and other findings, check out a video clip of Vigdor's presentation of findings to an assembly of Atlanta Fed real estate business contacts.

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It is worth noting that Vigdor was not the first to find that an inflow of immigrants causes house prices to rise. In a 2006 *Journal of Urban Economics* article, Albert Saiz demonstrated that an inflow of immigrants increases demand for housing, thereby causing rents and house prices to rise. Specifically, Saiz found that "an immigration inflow that amounts to 1 percent of the initial metropolitan area population is associated with increases in housing values and rents of about 1 percent." This increase in house price provides some benefit to existing homeowners, but the corresponding increase in rents has negative consequences for renter households, causing some to move away from the area.

There are certainly pros and cons on each side of the policy discussion around immigration reform. It seems rather important, though, to not lose sight of the mostly positive impact that immigrants have on local housing markets.

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