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“Envisioning an Exit Before Entering”

Purpose: To provide a cautionary note concerning home purchases so that Black Americans (Afrodescendants) do not experience a perfect revisiting of the 2008-9 Global Economic and Financial Crisis amid the current “greater fools economy.”

Introduction

US citizens and foreigners know the core definition of the “American Dream:” Owning an enterprise that generates income and wealth in the form of nonfinancial (homes and automobiles) and financial (investments in interest bearing checking, saving, crypto currency, debt securities, and share equity accounts). A key signal of achieving the dream is the purchase and, ultimately, the ownership of the home.

Because so many Black Americans (Afrodescendants) have been locked out of this “dream” for so long, we continue to pine for it. So much so that we exceed irrationally our preferred risk levels to realize the “dream.” As evidence and a reminder of this, the share of Black Americans who enjoyed homeownership fell from 49.4 percent during 2003 and the runup to the 2008-9 Global and Economic Financial Crisis (GEFC) to 40.6 percent during 2019 before a solid delayed recovery began toward the end of the first Trump Administration. during 2019.ⁱ

There is no need to recount all the factors that led to the outcomes just mentioned. We got in over our heads when the US economy was running hot with very low interest rates and enough jobs for Black Americans to force our unemployment rate to its second lowest level of 8.3 percent in 2007 since statistics began to be collected in 1971.ⁱⁱ When those conditions turned south, Black Americans lost employment rapidly and had little-to-no financial reserves to retain our homeownership.

This cautionary note begins with the realization that we are about 20 years from the onset of the GEFC. History informs us that the cycle for US housing crises is about 20 years in duration and it enables Finance and Real Estate industries to further expand their power and wealth. As the housing cycle renews (the Federal Reserve Board is continuing its recent decision to reduce interest rates from an already relatively low level), we suggest that there are six factors that should be considered as Black Americans confront a new opportunity to expand our homeownership. This time, however, we should do so with a well-informed and long-term vision of our future.

Affordability and Six Factors

It is common knowledge that Black American households reflect about 66.9 percent (\$56,020) of the average (median) annual income compared with that of the nation (\$83,730).ⁱⁱⁱ Also, for 2024, the average sales price of existing (\$410,100) and new (\$420,300) single-family homes was/was not above the reach of that average Black American household.^{iv}

Comprehensive and accurate statistics on sales prices of new and existing condominiums for very recent periods are difficult to identify. However, for 2023, the median sales price for new **and** existing units was \$358,200 (December 2023).^v

Given the foregoing statistics on median income and single-family home and condominium unit prices, the reality is that the median Black American household **cannot** afford to purchase a single-family home or a condominium unit. The numbers just do not work out.

In other words, more than any other racial or ethnic group in the US, condominiums represent the most affordable housing choice for Black Americans—but only for those who have household incomes sufficiently above the median value. Perhaps it is this reality that explains the low level of administrative requirements that are associated with condominium purchases and tax assessments. We use this cautionary note to highlight six key aspects of condominium purchases and related real property taxes that Black Americans should consider carefully before deciding to purchase a condominium in a homeowners' association.

Condo Purchases

Appraisals

Appraisals are probably the most important aspect of decision making when purchasing a condominium. Appraisals are designed to provide an estimate of the fair market price of a property for which a prospective purchaser has expressed an interest. While not an expert on appraisals, the following are two reasonably well-known facts about appraisals.

- Appraisals for single-family homes versus condominiums are performed differently.^{vi}
- One of the most important differences in the preparation of appraisals for single-family homes versus condominiums is that the latter includes a special component (“Project Analysis”) that is not included in appraisals for single-family homes. Specifically, this component of the form includes requests for information about the budget and fees of homeowners' associations, but such information can only provide a partial report on associations' financial health.^{vii} Moreover, the “Project Analysis” section of the form permits appraisers to fail to provide the information requested, as long as a sufficient explanation for the absence of information is provided. Unfortunately, the evidence is that this information requirement is not always fulfilled by appraisers for a variety of reasons: e.g., an inability to obtain easy access to associations' financial information; and, to the extent that associations' financial information is available, appraisers may not possess sufficient knowledges, skills, and abilities to analyze adequately financial information and provide related beneficial information in the appraisal report so that prospective purchasers receive a high-quality “reading” of the financial condition/health of the relevant condominium associations.

Because establishing a price for a good or service is inextricably linked to available information about that good or service, it follows logically that the more information available the better. In this case, it is imperative that information about a condominium association's financial health be accounted for when estimating the price (absolute and relative) of condominiums within the association.

Importantly, when market sales prices do not reflect the fundamental underlying (intrinsic) value of goods or services, then excessive market volatility can result in higher inflation or deflation than would otherwise occur.

Maintenance Fee Trends

The availability of historical data on maintenance fees for condominium associations is also very important for decision making about condominium purchases. Such historical data can serve as underlying information for estimating related historical trends. There are at least four scenarios that might be observed from estimated historical trends:

1. Maintenance fee amounts that seem to be randomly assigned. This scenario may reflect assignment of maintenance fees that produce ideal outcomes for a condominium association.
2. Maintenance fees that appear to be constrained to uncomfortably low levels and reflect a weak and slight upward trend.
3. Maintenance fees that appear to trace the rate of inflation.
4. Maintenance fees that seem excessively high, and that exceed the inflation rate.

When confronting a decision to purchase a condominium using only the four scenarios outlined above, we believe that it is wise to eschew scenarios 2 and 4. Scenario 2 may signal that an association wishes to optimize sale opportunities versus maintaining the property in tip-top condition. Scenario 4 may signal that an association is in catchup mode to offset the type of poor maintenance programs that are highlighted in Scenario 2. Scenarios 1 and 3 are likely to be the more benign of the four scenarios.

Potential Special Assessments

A decision to purchase a condominium should never exclude research to identify whether a "Special Assessment(s)" is in the offing in the near-, medium-, or long-term future, and the reason(s) for these special payments. In other words, a new condominium owner probably expects, and certainly prefers, a scenario that entails no sizeable extra payments to an association for a considerable period after purchasing the property. Failure to capture information about prospective "Special Assessments" before making a purchase decision may prove to be so financially devastating to new owners that they could be forced to abandon their newly obtained property due to a failure to make "Special Assessment" payments because they have insufficient financial resources.

Moreover, while financial resources may be available to meet "Special Assessment" payments, knowledge of the reasons for such payments may motivate prospective buyers to either halt the acquisition effort or to accelerate it.

Condominiums' Real Property Taxes

Flawed Tax Assessment Methodologies

First, requirements to pay current and future real property taxes are integral to decisions to purchase a condominium. As you know, local governments prepare estimates of the assessed value of real property each year and then compute the real property tax bill by applying newly determined tax rates. Most local governments characterize their “assessed values” as equivalent, or nearly so, to real property’s fair market value, which in turn, is expected to be reflected in sales prices.

Therefore, as a prospective owner of a condominium, one should consider the following:

- If local authorities produce estimates of “assessed value” using recent sales prices of relevant “comparable” properties and/or the property in question, then it is important to remember the above section on appraisals. That is, if appraisals are flawed (because they are based on incomplete information), then recent sales prices may reflect transactions in the marketplace, but they may not reflect the fundamental underlying (intrinsic) value of the property in question. Such conditions can produce prices that are associated with higher inflation or deflation than would otherwise occur. By extension, estimates of “assessed value” are likely to be higher or lower than would otherwise occur if condominium appraisals were based on more complete information and enabled sales prices that are determined in a market where more accurate knowledge of the fundamental underlying (intrinsic) value of properties is available.

Second, “assessed values” that are derived by local government are based on a weighted average (mean) of comparable properties. Econometricians have discussed long and energetically the robustness of averaging and about improvements to parameter estimates that are derived from larger and more diverse versus smaller and less diverse data samples.

The caution extended here to prospective buyers of condominiums is that certain local governments may select all the required comparables to prepare an assessed value for a particular condominium unit from the association that includes that unit. That is, the assessed value could be said to be derived incestuously and that it represents a relatively small and nondiverse sample.

Therefore, given flaws in methods used to estimate assessed values that are discussed above and the just mentioned incestuous nature of assessed values derived from a smaller and less diverse sample of comparable units than may be available, one may be justified in calling into question assessed value estimates.

Property Tax Trends

It is important for prospective purchasers of condominiums to analyze trends in the property tax bills for properties being considered for purchase. When considering a condominium purchase, this due diligence process parallels the four scenarios presented in the above “Maintenance Fee Trends” section. Return to the just-mentioned section and its four scenarios and replace “Maintenance Fees” with “Property Taxes” and identify and analyze the related implications for buyers of condominiums.

Hazard Mitigation Plans

As the final of six selected and important factors to consider before signing on the dotted line, we recommend that prospective buyers review a publication that should be available in each US state. Some version of the publication may also be available at lower levels of government (county and municipal). The following words are likely to appear in the full title of the publication: “Hazard Mitigation Plans.” Typically, this publication includes forecasts of potential future hazards for states, and costs that may be incurred to mitigate these hazards.

Prospective purchasers of condominiums should make every effort to obtain this publication in advance of making a purchase decision.^{viii} The publication should include estimates of the costs that may be incurred to mitigate damage that may result from hazards that are forecasted. Economic theory indicates that, *ceteris paribus*, the higher the value of future tax payments (property or otherwise) that are associated with a property’s location, the lower the price prospective purchasers will be willing to pay for the property.

Conclusion

Ideally and theoretically, and with all else being equal, economic agents would always prefer the acquisition of a single-family home over a condominium unit. Often, however, Black Americans (Afrodescendants) are priced out of the single-family homes market and are left to buy condominium units. Therefore, this cautionary note advises these buyers to research thoroughly as many aspects as possible of their buying decision before closing the deal. We have discussed at least six, selected factors that should motivate serious research and consideration before buying a condominium: Appraisals, Maintenance Fees, Special Assessments, Property Tax Assessments, Property Tax Trends, and Future Taxes that are likely to be imposed to collect revenue as extant and forecasted hazards are mitigated and to pay for the destruction caused by these hazards.

Before ending this cautionary note, we bring to mind the powerful relationship between economics and psychology. To clarify, consider what is known about African housing units prior to European intervention on the Continent. Whether in urban centers or rural villages, we do not recall observing the proliferation of stacked housing units. The Western World is the author of this high-rise method of constructing human housing. Beyond the physical destruction and loss of life that occurs from time-to-time when we hear about the collapse of residential high-rise buildings, condominium units in these buildings can cause unit owners to feel compressed and trapped beneath so many floors above their heads. Imagine as an owner that there are n floors above you and that your mind must break through those floors or you must exit a window before rising to the 30 thousand feet level to reach a favorable vantage point from which to contemplate developments in our world. In our view, these are not the most favorable of circumstances.

The most salient and summary takeaway from this cautionary note is that, if one chooses to enter the condominium housing market to purchase a unit in an association, then one should be certain to develop an exit strategy even before entering.

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ⁱ St. Louis Federal Reserve Board (2025). FRED Economic Data. “Homeownership Rates by Race and Ethnicity: Black Alone in the United States.” <https://www.fred.stlouisfed.org>, (Ret. 011126).

ⁱⁱ St. Louis Federal Reserve Board (2025). FRED Economic Data. “Unemployment Rate - Black or African American.” <https://www.fred.stlouisfed.org>, (Ret. 011126).

ⁱⁱⁱ US Census Bureau (2023). “Table H-5. Race and Hispanic Origin of Household—Households by Median and Mean Income: 1967-2024.” *Current Population Survey, 1968-2023 Annual and Social and Economic Supplement (CPS ASEC)*. <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html>, (Ret. 011126).

^{iv} For existing homes, the source of the median sales price is Google’s LLM AI BOT Gemini, which cites the National Association of Realtors. https://www.google.com/search?q=US+Median+Sales+price+of+Existing+Single-Family+Homes+for+2024&sca_esv=db221f584b6c527b&rlz=1C1ONGR_enUS971US971&ei=gk1kacigOtHkPIPz6nciQ8&ved=0ahUKewjI6e3964SSAxVRJEQIHc8UN_EQ4dUDCBE&uact=5&oq=US+Median+Sales+price+of+Existing+Single-Family+Homes+for+2024&gs_lp=Egxnd3Mtd2l6LXNlcniAIPVTIE1lZGlhbiBTYWxlcylBwcmlljZSBvZiBFcGlzdGluZyBTaW5nbGUtRmFtaWx5IEhvbWVzIGZveciAyMDI0SP8WUPwCWPcRcAF4AZABAJgBqAGgAfYJqgEDMC45uAEDyAEA-AEBmAIloAK7CMICChAAGLADGNYEGEfCAGUQIRigAcICBRAhGKsCmAMAiAYBkAYIkgcDMS43oAeHMbIHAAuN7gHtAjCBwMyLTjIByKACAA&scient=gws-wiz-serp. For new homes, the source is the U.S. Department of Commerce, Census Bureau (2025). Table 1b.—New Privately Owned Homes Sold and For Sale. <https://www.census.gov/construction/nrs/current/index.html>. (Both Sources Retrieved 011126)

^v For new and existing condominiums, median sales prices were obtained for Googles LLM AI BOT Gemini. This source gathered scattered statistics on condominium sales. There is a paucity of comprehensive and timely statistics on condominium sales.

https://www.google.com/search?q=US+Median+Sales+price+of+Existing+condominium+units+for+2023+or+2024&rlz=1C1ONGR_enUS971US971&oq=&gs_lcrp=EgZjaHJvbWUqCQgBEEUYOxjCAzIJCAAQRRg7GMIDMgkIARBFgDsYwgMyCQgCEEUYOxjCAzIJCAMQRRg7GMIDMgkIBBBFGDsYwgMyCQgFEEUYOxjCAzIJCAYQRRg7GMIDMgkIBxBFgDsYwgPSAQk0MzE1ajBqMTWoAgiwAgHxBUx0nU6nPtmg8QVMdJ1Opz7ZoA&sourceid=chrome&ie=UTF-8. (Ret. 011126).

^{vi} Condominiums are ensconced within homeowners’ associations; however, single-family homes may also be organized in certain homeowners’ associations/communities.

^{vii} The reference is to Freddie Mac Form 465 and Fannie Mae Form 1073, which are required appraisal forms for purchasing condominium units. The forms are titled Individual Condominium Unit Appraisal Report. <https://singlefamily.fanniemae.com/media/14251/display> (Ret. 010625).

^{viii} We recommend that, after obtaining the publication, prospective condominium purchasers tour relevant portions of the state where the condominium is located and assess hazard probabilities and, thereby, trends in property taxes that will be imposed to cover the cost of mitigating those hazards.