Homeownership
Alliance

The Case for a Homeownership Strategy

It is time for a renewed effort to boost the U.S. homeownership rates among people who have been shut out from our primary path to build assets. There is no investment alternative that is as beneficial as homeownership for wealth building for middle class Americans. Homeowners benefit from both equity that builds up as they pay down a mortgage and any appreciation in the value of the home. Thus, homeowners can enjoy a more secure retirement even if they don't have a pension. Homeownership also offers families stable housing costs because mortgage payments on fixed rate loans don't increase, unlike rents. In addition, in half of the largest US cities, it is cheaper to buy a home than to rent.[1]

Homeownership also offers a range of nonfinancial benefits. As the Joint Center for Housing Studies points out, "Americans have long found the idea owning one's home deeply appealing, associating homeownership with increased privacy, independence from landlords and rent increases, control over one's living space, greater wealth, better outcomes for children, and opportunities such as higher-quality schools and safer communities that, for a multitude of reasons, often accompany living in areas dominated by single-family owner occupied housing."[2]

Unfortunately, the benefits of homeownership are not evenly distributed throughout our society. America's growing racial wealth gap and homeownership gap are well documented and interrelated. According to the Urban Institute, while 72.1% of white households own their own home, while only 42% of Black households and 48.1% of Hispanic households are homeowners.[3] This disparity in homeownership rates is then reflected in statistics on household wealth. According to Federal Reserve's Survey of Consumer Finances (Sept. 2020) the median wealth of white households is $188,200 compared to only $24,100 for Black households and $36,200 for Hispanic households.[4]

This matters because as noted in *Closing the Gaps*, "Wealth and income are both critical to building financial security. Wealth (e.g. savings and real estate or business holdings) cushions families against emergencies, provides the means for moving up the economic ladder, potentially grows over time, and can be transferred from generation to generation. Income allows a family to pay monthly bills and to build more wealth. But income is often volatile, and vanish with job loss, or can be curtailed suddenly. During economic crises,

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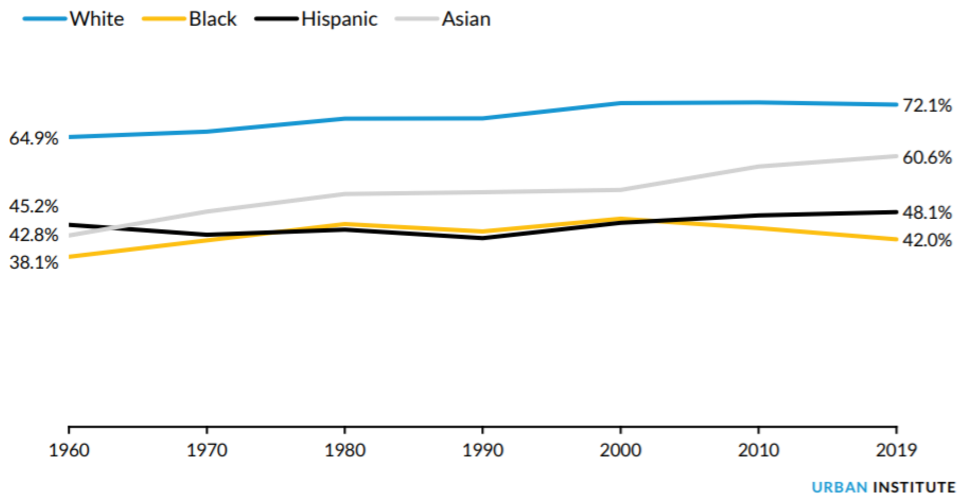
[1] *The Case for Homeownership*, Alanna McCargo, Urban Institute, October 2018
[2] *Homeownership Built to Last*, Joint Center for Housing Studies, 2014
[3] *Closing the Gaps*, Alanna McCargo and Jung Hyun Choi, Urban Institute, 2020
[4] McCargo and Choi, page 2

households with less wealth are worse off than households with more wealth because they have less savings and fewer liquid assets with which to adapt and recover."[5]

FIGURE 3

Homeownership Rate, by Race or Ethnicity



Sources: Decennial Census and the American Community Survey.

Research by Brandeis University's Institute for Assets & Social Policy and the Thurgood Marshall Institute of the NAACP Legal Defense and Educational Fund shows that the homeownership gap is the most significant driver of the racial wealth gap, more significant than unequal incomes and access to higher education. "Among the main drivers were homeownership and the long lasting effects of residential segregation with lower returns from home equity going to Black families than White families…..As homeownership is the principal source of wealth for most American families, the racial wealth gap is less a product of differences in income than of unequal access to homes in good neighborhoods, which in turn produces racialized differences in homeownership, property values and the accumulation of home equity." [6]

Thus, racial disparities in wealth in the U.S. are the outcome of generations of differential treatment, and solutions will have to address all of the different barriers that account for the wide gaps in homeownership rates. Vigorous enforcement of the civil rights laws ensuring fair access the housing market and credit is a necessary first step but our strategy needs to go further. Our homeownership strategy needs to vary depending on the local real estate market conditions. In some geographies, lack of supply of affordable homes in for sale prevents families from becoming homeowners. McCargo and Choi note "Recent home price appreciation has added another barrier to Black homeownership. Since 2009 housing demand has outstripped housing supply as the cost of building has increased. Home prices today far exceed the prices at the end of 2006 before the

[5] McCargo and Choi, p. 2

[6] *The Black-White Racial Wealth Gap,* Institute on Assets and Social Policy and Thurgood Marshall Institute, 2020, p.3

housing market collapsed. There is also a mismatch between the type of housing being built and the type of housing demand."[7]

In other markets, there are different affordable homeownership policy challenges that need to be addressed.   There are geographies where the cost to acquire and repair a property exceeds its fair market value, creating a "valuation gap."   Places with this problem include older cities with significant population loss, but also rural areas and areas with aging housing stock.   Many of these neighborhoods are majority Black. Even when home prices are affordable, potential homeowners have difficulty finding a lender willing to make a mortgage that is larger than the appraised value of the home.

This creates a cycle of blight and disinvestment in neighborhoods and entire communities, as the poor condition of the housing stock along with dim prospects for home appreciation make mortgages difficult to obtain. This matters because the U.S. housing stock consists of mostly single-family homes, and 40% of this housing stock is at least 50 years old, so repair needs are accumulating[8].   Aging, blighted homes are prime candidates to become vacant and abandoned. The conditions described above matter because local housing markets can make or break a community.

Even in markets where homes are affordable and in good repair, there are other barriers to expanding homeownership. For example, another challenge is limited access to mortgage credit for low and moderate income families and families of color, a problem that is ironically the most severe for the least expensive homes because lenders do not make as much money on small mortgages.   Lack of savings for downpayments is another challenge.   Competition with wealthy investors is another problem in some markets for aspiring homeowners.   As single-family rental homes become a more popular asset class, investors both large and small compete with potential homeowners, both by purchasing homes through means not accessible to the typical family (buying note pools or using auction websites) and by coming to the table with cash in hand.

All of these challenges can be addressed by policy changes and the work of mission-driven housing developers and lenders who build affordable homes and work with families to access mortgages on fair terms. This is critical because homeownership is a key building block for stable, vital neighborhoods as well for the health, education and prosperity of individual families. Communities with low rates of homeownership are vulnerable to gentrification-driven displacement in good times or a downward spiral of decline in bad times.   If America is going to make progress in lessening economic inequality, it must close its homeownership gap.

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[7] McCargo and Choi, p.10

[8] *Improving America's Housing Stock 2019*, Joint Center for Housing Studies