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HOMEOWNERSHIP AND ITS BENEFITS

At the request of President Clinton, the U.S. Department of Housing and Urban Development (HUD) is working with dozens of national leaders in government and the housing industry to implement the National Homeownership Strategy, an unprecedented public-private partnership to increase homeownership to a record-high level over the next 6 years. The ideal of homeownership is so integral a part of the American Dream that its value for individuals, for families, for communities, and for society is scarcely questioned. This paper provides a brief survey of research into the nature and significance of homeownership's presumed benefits, particularly for lower income households and other underserved populations.

Introduction

The desire for homeownership is deeply rooted in the American psyche. Owning a home embodies the promise of individual autonomy and of material and spiritual well-being that many people sought in coming to this country. In addition to its functional importance and economic value, homeownership has traditionally conveyed social status and political standing. It is even thought to pro-mote thrift, stability, neighborliness, and other individual and civic virtues.

Throughout this century, there has been bipartisan support for Federal policies designed to encourage home-ownership. Herbert Hoover called the owner-occupied home "a more wholesome, healthful, and happy atmo-sphere in which to raise children." Lyndon Johnson promoted homeownership as part of a strategy for addressing the urban ills of the 1960s, declaring that "owning a home can increase responsibility and stake out a man's place in his community....The man who owns a home has something to be proud of and reason to protect and preserve it." Ronald Reagan said that homeownership "supplies stability and rootedness."

President Bill Clinton has linked increasing homeowner-ship to the challenge of expanding opportunity for work-ing families. Speaking to the National Association of Realtors in November 1994, he expressed a national consensus that "more Americans should own their own homes, for reasons that are economic and tangible, and reasons that are emotional and intangible, but go to the heart of what it means to harbor, to nourish, to expand the American Dream."

However, the American Dream became more distant for many during the 1980s, as the national homeownership rate fell from its historic high of 65.6 percent in 1980 to only 64.1 percent in 1991. The decline has been sharp-est among segments of the population for whom access to the homebuying market has traditionally been most difficult. The homeownership rate for very low-income families with children fell by almost one-third, from 39 percent to 27 percent, between 1980 and 1991. Even among moderate-income households, homeowner-ship dropped by 10 percent. Homeownership rates stagnated at

approximately 43 percent for blacks, while homeownership among Hispanics fell from 43 percent in 1980 to 39 percent in 1991.

Perhaps most alarming has been the decline in home-ownership among families under age 35, when most first-time homebuying occurs and the preference for ownership is strongest. In 1980 almost 45 percent of families in this age cohort owned a home; by 1991, the percentage stood at less than 38 percent.

To reverse this trend, President Clinton directed HUD Secretary Henry G. Cisneros to work with leaders in the housing industry, representatives of nonprofit groups, and officials at all levels of government to develop a National Homeownership Strategy that would increase ownership opportunities among populations and communities with lower than average homeownership rates.

This unprecedented public-private partnership is founded on a deeply rooted and almost universally held belief that homeownership provides important advantages that merit continued public support. The National Homeownership Strategy cites four fundamental benefits:

"Through homeownership, a family...invests in an asset that can grow in value and...generate financial security."

"Homeownership enables people to have greater control and exercise more responsibility over their living environment."

"Homeownership helps stabilize neighborhoods and strengthen communities."

"Homeownership helps generate jobs and stimulate economic growth."

The validity of some of these assertions is so widely accepted that economists and social scientists have seldom tested them. However, the nature and significance of homeownership's actual benefits particularly for lower income, minority, and younger families has profound implications for national housing policies and programs. The following pages will briefly review evidence on the four premises that undergird the National Homeownership Strategy.

Homeownership and Wealth Accumulation

Purchasing a home is the largest investment that most families will ever make. Homeownership has been called a "forced savings plan" in that an owner-occupant's payments on mortgage principal are retained as equity in a comparatively illiquid asset. Wealth is accumulated to the extent that the constant-dollar value of the owner's equity exceeds any decline in the home's value.

But accrued equity is only one potential financial benefit of homeownership. Buying a home with a mortgage is a leveraged investment: even though only a small part of the purchase price is paid as a downpayment, the buyer controls all appreciation in the value of the property and absorbs any loss in value as well. General trend data on housing prices confirm that owner-occupied homes have performed well as long-term investments. Real prices for the

median-priced home increased by a total of 41 percent between 1960 and 1989. Even the lowest-priced houses increased in value by almost 30 percent.

However, many external factors can affect whether and at what rate a home's value increases or decreases. Changes in interest rates influence demand for housing and its attractiveness relative to other investments. Regional economic downturns, such as the oil "bust" in the Southwest during the mid-1980s, can severely de-press housing prices. The dynamics of a particular housing market or the fortunes of a particular neighborhood can also be a strong determinant of local home values.

Nonetheless, homeownership has become a critical factor in moving up the economic ladder. Home equity is the largest single source of household wealth for most Americans. Median net wealth for homeowners exceeds \$78,400, while renters accumulate less than \$2,300, or 3 percent of this amount. For homeowners, almost 60 percent of their wealth is in the form of home equity. For minority homeowners, home equity is an even more important component of wealth, representing more than three-fourths of their median net wealth of approximately \$48,300, almost 100 times the median wealth of the average black renter (barely \$500). For owners in the lowest income brackets as well, equity in single-family homes constitutes more than half their wealth.

Homeowners also enjoy important tax advantages. The value and distribution of Federal tax preferences for homeownership, such as the deductibility of property taxes and mortgage interest and the one-time exclusion of capital gains, are currently a matter of contentious debate. It is estimated that three-fourths of the \$100 billion foregone in Federal tax revenues in 1994 due to these preferences will benefit the wealthiest 20 percent of all households. However, some economists reply that the comparative benefit would show a tilt toward less affluent owners if these calculations included the advantage that owner-occupants enjoy over landlords by not being taxed on the return on investment they receive by essentially renting to themselves.

Thus the economic evidence is clear in affirming that homeownership is a good investment that increases wealth for families of all races and incomes. However, critics of homeownership point out that the economic benefits of homeownership for lower income and minority families should also be balanced against its financial risks. The lower average incomes and educational attainment of these groups make them particularly vulnerable to economic downturns that can result in job loss and, eventually, foreclosure. Indeed, newly published research on FHA-insured mortgages indicate that default risk is higher among black and lower income borrowers, although the explanation for this finding is far from clear.

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Homeownership and Personal Well-being

Homeownership is thought to be an important element in achieving personal fulfillment. When asked to define the good life, polls have shown that many Americans value owning a home over such factors as an automobile, a happy marriage, an interesting or high-paying job, and good health. Homeownership is credited with increasing:

SELF-ESTEEM. Homeownership, as a commonly recognized symbol of social status in the United States and other countries, could influence one or more aspects of self-esteem reflected appraisal (the impact of homeowning on the esteem in which one is held by others), social comparison (homeownership as a measure of one's status and success relative to others), and self-attribution (ownership as an indicator of personal success). But because homeowners are more likely to possess other attributes positively correlated with high self-esteem such as higher incomes, occupational status, and education isolating the importance of homeownership can be difficult. Research on the determinants of self-esteem has not been designed to make this distinction.

CONTROL. It is often argued that homeownership enhances the homeowner's sense of control over her life and environment by offering greater privacy and protection against involuntary displacement. However, critics such as Achtenberg and Marcuse counter that low-income homeowners are less likely to benefit in these ways because lack of wealth makes them more vulnerable to displacement and less able to escape deteriorating neighborhoods.

LIFE SATISFACTION. Because owning a home is a widely shared and cherished goal indeed, an expectation of most Americans, many scholars have reasoned that its attainment would tend to increase the homeowner's overall contentment with life. Although a number of researchers have investigated the effects of housing on life satisfaction, their work has focused on housing quality rather than tenure.

Despite the rhetorical attention given to these issues, there is very little empirical evidence regarding the presumed psychological benefits of homeownership, particularly for lower income families. However, one small survey of low-income renters and first-time homebuyers in Baltimore does attempt to measure these benefits directly. Rohe and Stegman discovered that the low-income homeowners in their survey showed significantly higher levels of life satisfaction than similarly situated renters. While their survey uncovered little evidence that homeownership measurably influenced self-esteem or perceived control, large majorities of the respondents agreed, when asked

directly, that owning a home had made them feel better about themselves and heightened their feeling of control.

Another topic that researchers are only beginning to explore is whether children benefit as well from living in an owner-occupied home. Various reasons for a correlation have been asserted, from environmental differences to the more developed life skills of homeowners. Others have speculated that unmeasured personality attributes that make some adults more likely to become homeowners also enable them to raise children more successfully. Recently published research by Green and White finds that children of homeowners are significantly less likely than children of renters to drop out of school, to have children while a teenager, or to be arrested before age 18. The differences were largest among low-income households. However, as with the other research discussed in this section, it is difficult to show a direct causal relationship between homeownership and behavioral patterns.

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Homeownership and Neighborhood Stability

One of the most persistent claims made for homeownership is that owners have a greater economic and emotional stake in their community and thus are more likely than renters to act in ways that maintain and strengthen that community. While there is a rich sociological literature on the social and political life of communities, it concentrates on the importance of factors such as age, sex, income, presence of children, and residents' attitudes about their neighbors and neighborhood. However, several studies have considered the possible correlation between tenure choice and:

LENGTH OF RESIDENCE. In a seemingly direct sense, neighborhood stability means that residents are less likely to move

away. Homebuying is frequently viewed as signifying a family's commitment to remain in the community. Numerous studies have consistently shown that homeowners are less likely to move than renters, and that neighborhoods of owner-occupants have lower residential turnover, even after accounting for life cycle factors and housing characteristics. However, as Rohe and Stewart point out, factors such as lower incomes, which are also associated with length of residence among homeowners, "may have mitigating effects on overall neighborhood health, especially in the long run."

NEIGHBORING. It is thought that homeowners, unlike more transient renters, will more readily forge the informal social and mutual support relationships that foster close-knit, nurturing communities. In fact, several studies have found evidence that homeownership is positively associated with higher levels of neighboring. Overall, however, research on this topic has yielded decidedly mixed results, with some scholars finding no significant differences in neighboring behaviors and at least one study of three British towns showing that renters actually had more friends in their neighborhood. However, none of these studies can establish whether homeownership in itself causes changes in neighboring.

UPKEEP. Advocates frequently explain their support for homeownership programs by asserting that such efforts promote improved neighborhood housing conditions and enhanced home values: owner-occupants are more likely than absentee landlords or their tenants to maintain and improve their properties. Research conducted by Galster affirms this belief. After controlling for a series of structural, household, and neighborhood characteristics, owner-occupants spent more on maintenance, were less likely to defer repairs, and reported fewer housing problems. The contrast in maintenance efforts was "especially strong when comparing low-income households," suggesting that increasing ownership among such families could have a marked effect on neighborhood housing conditions.

CRIME PREVENTION. Beginning with Jane Jacobs, both scholarly and popular commentators have observed that the dynamics of stable neighborhoods seem to deter crime: strangers are recognizable and residents, by the everyday acts of watching and using their surroundings, discourage illicit activity. Architect Oscar Newman has postulated that physical design features which assert this territoriality by demarcating and allocating space as semi-private can make the area more "defensible." Under this theory, neighborhoods of detached homes, where outside space is identified with a single family, are inherently safer than high-rise apartment blocks. Substantial research confirms that neighborhoods of single-family homes in good repair both traits associated with owner-occupancy, albeit imperfectly (particularly among lower income families) tend to experience less crime, although the precise reasons for this phenomenon are still unclear.

SOCIAL POLITICAL ACTIVISM. Another reason offered for the greater safety of predominantly owner-occupied neighborhoods is that stakeholders are more willing to commit time and resources to organizations and activities that promote social cohesion or address local problems. In fact, data have consistently shown that homeownership is associated with social and political participation, although tenure is less important than other attributes characteristic of homeowners, who tend to be older and have higher levels of income and education.

According to a 1986 nationwide survey by the National Association of Realtors , homeowners were more likely than comparable renters to volunteer time to community and religious organizations, to attend public hearings and to vote in national elections, to join community improve-ment groups, and to participate in voluntary organizations. Rohe and Stegman's longitudinal study of low-income, first-time homebuyers found that homebuying increased a household's activity in neighborhood and block associations, but in the short term had little effect on participation in school, church, social, and political organizations beyond their immediate environment. Such results have generally been found to hold equally true whether the owner is motivated by a desire to protect their property's investment value or by some less tangible reason.

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Homeownership and Economic Growth

Perhaps the greatest macroeconomic benefit of home-ownership is seen in the millions of jobs it creates for American workers. Building 1,000 single-family homes creates almost 2,100 full-time jobs. Almost half of these jobs are in onsite construction work; another 20 percent involve employment in transportation, trade, and other locally based services. Still more employment is created through the resulting increase in demand for household goods and services. Approximately 3 million workers are employed in residential construction, and industries

that provide construction inputs employ another 3 million. Because housing production has such strong "multiplier" effects, construction activity is credited with the power to jump-start other sectors of the economy.

Given its vast size and labor-intensive nature, it is hardly surprising that housing market activity is closely watch-ed as a barometer of the Nation's economic health and as a harbinger of future trends. Total annual investment in residential property (\$282 billion in 1994) is over 4 percent of the entire U.S. gross domestic product (GDP). Investment in housing is estimated to account for at least one-third of the change in GDP as the national economy moves into or out of recession.

This investment in housing fuels an immensely powerful engine of economic activity. The use of the Nation's housing stock (rent and mortgage payments and related expenditures) represents more than 9 percent of GDP and 14 percent of personal consumption. Another 12 percent of personal consumption expenditures go toward household operations (including furniture, appliances, utilities, and maintenance).

The emergence of a strong secondary market for home mortgages has dramatically expanded investor partici-pation in the housing market. Twenty years ago, banks and thrifts retained up to three-quarters of residential mortgages in their portfolios. However, since the late 1980s, Fannie Mae and Freddie Mac have purchased more than half of all newly-originated home mortgages. Most of these mortgages are pooled as mortgage-backed securities and sold in the secondary market, where they are purchased by mutual funds, pension funds, and a wide range of other institutional investors. These in-vestors were holding \$1.5 trillion in mortgage-backed securities at the end of 1993, or nearly half of all residential mortgage debt.

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The National Homeownership Strategy

For over 60 years, the Federal Government has played an important role in making the American Dream of homeownership a reality for

millions of families. It created the Federal Housing Administration (FHA) and Government-sponsored enterprises such as Fannie Mae to enhance the availability and affordability of home mortgage funds. HUD and other Federal agencies have provided billions of dollars in grants and loans to support affordable home construction and rehabilitation and to aid low- and moderate-income families in buying their first home. Incentives for homeownership have been written into the Nation's tax code.

However, Federal institutions, policies, and programs alone cannot meet President Clinton's goal of record-high levels of homeownership within the next 6 years. Under the leadership of Secretary Cisneros, HUD has forged a nationwide partnership that will draw on the resources and creativity of lenders, builders, real estate professionals, community-based nonprofit organizations, consumer groups, State and local governments and housing finance agencies, and many others in a cooperative, multifaceted campaign to create ownership opportunities and reduce the barriers facing underserved populations and communities. The National Homeownership Strategy is committed to:

CUTTING HOUSING PRODUCTION COSTS. Although the high cost of building and rehabilitating housing is a nationwide dilemma, the National Homeownership Strategy recognizes that the specific causes and thus many of the solutions vary significantly among local and regional markets. Accordingly, the National Partners have endorsed a wide range of complementary strategies to:

Reduce regulatory barriers that can significantly increase the cost of producing and rehabilitating affordable housing, including high-quality manufactured housing.

Encourage the production of modest "starter homes" that would be affordable to first-time homebuyers.

Stimulate the development of new building technologies, materials, and processes that could make homes more efficient to produce and operate.

MAKING FINANCING MORE AVAILABLE, AFFORDABLE, and FLEXIBLE. The inability (either real or perceived) of many younger families to qualify for a mortgage is widely recognized as a very serious barrier to homeownership. The National Homeownership Strategy commits both government and the mortgage industry to a number of initiatives designed to:

Cut transaction costs through streamlined regulations and technological and procedural efficiencies.

Reduce downpayment requirements and interest costs by making terms more flexible, providing subsidies to low- and moderate-income families, and creating incentives to save for homeownership.

Increase the availability of alternative financing products in housing markets throughout the country.

TARGETING ASSISTANCE TO UNDERSERVED COMMUNITIES. Decline and disinvestment have left many pockets of urban and rural America without the mortgage capital, infrastructure, and economic opportunity needed to make homeownership feasible for current residents and

attractive to prospective ones. The National Homeownership Strategy urges government, employers, lenders, insurers, and nonprofits to undertake strategies that will:

Build the capacity of local actors to foster affordable homeownership in their own communities.

Promote homeownership opportunities in areas easily accessible to employment.

Revitalize distressed urban neighborhoods so that they can attract and retain homeowners.

Expand homeownership in rural America through initiatives that recognize the unique challenges and resources of nonmetropolitan areas.

OPENING THE HOMEBUYING MARKET TO UNDERSERVED POPULATIONS.

Discrimination, inflexibility, and lack of information continue to keep homeownership out of reach for many Americans, including racial and ethnic minorities, people with disabilities, and others. The National Homeownership Strategy acknowledges a special need and presents a special opportunity to reach out to historically underserved populations through actions that:

Promote fair housing and fair lending by removing barriers that deter many Americans from seeking buying, insuring, or maintaining a home in the neighborhood of their choice.

Increase employment diversity in the homeownership industry.

RAISING AWARENESS OF HOMEOWNERSHIP OPPORTUNITIES. Although moderate interest rates and steady housing values have raised the National Association of Realtors Housing Affordability Index to its highest level in 20 years, many particularly younger families no longer believe that the American Dream is within their reach. The National Homeownership Strategy calls for a coordinated nationwide campaign to promote the accessibility of homeownership and emphasize its "importance...as a national value."

EXPANDING HOMEOWNERSHIP EDUCATION AND COUNSELING. A little help can make a big difference for first-time home-buyers struggling to cope with the challenges of finding and buying a home, as well as with the ongoing responsibilities of ownership. Lower income households in particular may lack important information about housing opportunities and financing options, or may need to develop their household budgeting and maintenance skills. The National Homeownership Strategy calls for creating "a new paradigm" that would "make counseling an integral component of the services made available at the local level to potential homebuyers." The Strategy proposes research, capacity-building, information-sharing, and other actions intended to:

Improve the quality, effectiveness, and availability of pre- and post-purchase counseling and education services.

Develop a dependable source of long-term funding for nonprofit homeownership counseling agencies.

Foster greater coordination at the local level between real estate

brokers, lenders, and local providers of homeownership counseling and education services.

Conclusion

The United States has much at stake in the success of the National Homeownership Strategy. Although research on some key points remains inconclusive, the preponderance of the existing scholarship confirms the validity of many of the benefits popularly attributed to homeownership. Homeownership is a key source of individual wealth and national prosperity. Overall, home-owners seem to be more content with their own lives and more likely to participate in the life of their neighborhood.

In some respects, the advantages of homeownership are greatest for the households who currently have the least access to them. Minorities derive a greater share of personal wealth from homeownership than whites. Home-ownership seems to make a particularly significant difference in the physical condition of low-income neighborhoods and, perhaps, in the lives of low-income children as well. By improving access to homeownership for those previously underserved, the National Home-ownership Strategy can, as Secretary Cisneros has predicted, "make a real difference in the lives of millions of American families, and in our communities, for years to come."