Briefing on Affordable Homeownership and Infrastructure
Briefing Book

Table of Contents

Agenda

2:00 p.m. Introduction and welcome – David Dworkin, President & CEO, National Housing Conference

2:05 p.m. Mike Loftin, CEO, Homewise, Inc. Albuquerque, New Mexico and Nonresident Fellow, Urban Institute - *Homeownership is affordable housing*

2:15 p.m. Panel Discussion – *How homeownership benefits families and the economy and how nonprofits are creating new paths to homeownership*

- Ed Lee, President & CEO, Habitat for Humanity of Greater Cincinnati
- Tayani Suma, Senior Vice President, Real Estate, Atlanta Neighborhood Development Partnership
- Noerena Limon, Senior Vice President for Public Policy and Industry Relations, National Association of Hispanic Real Estate Professionals

2:35 p.m. *How Tennessee is expanding homeownership*
Ralph Perrey, Executive Director, Tennessee Housing Development Agency

2:45 p.m. *H.R. 816, the Restoring Communities Left Behind Act*
Representative Marcy Kaptur (D-OH)

2:50 p.m. *S. 98, the Neighborhood Homes Investment Act*
Senator Rob Portman (R-OH)

2:55 p.m. Conclusion
Natosha Reid Rice, Vice President, Global Diversity, Equity and
Inclusion Officer, Habitat for Humanity

A 7-point plan to increase Black homeownership by 3 million households by 2030

The Black homeownership rate has plummeted to levels not seen since segregation in housing was legal. Even more disturbing is the fact that in the decade since the end of the Great Recession, it has continued to fall, while every other demographic group has seen significant recovery. The reasons for this crisis are well documented and include systemic racism, equity stripping and a significant loss of affordable housing stock and mortgages. It is compounded by multiple generations of explicit discrimination under Federal law that had a direct impact in suppressing homeownership rates for people of color, as well as by the unique factors first generation homebuyers face, like the lack of family downpayment assistance and experienced advice from preceding generations of homeowners.[1]

The numbers tell the story. The homeownership rate for Blacks under age 35 is below 20% – less than half the rate for whites. The gap closes some over the lifecycle, but even for those aged 35-54, the Black homeownership rate is just 50% compared to over 70% for whites.[2] Overall, the gap – more precisely, the chasm – today is even higher than it was in 1968 when the Fair Housing Act was enacted. Bringing the Black homeownership rate up to the level of whites would require increasing the number of Black homeowners by roughly five million, an increase of approximately 72%.

Even more troubling, the Urban Institute projects that over the next twenty years all net new household growth will be from families of color, but that the homeownership rate, left unaddressed, will continue to fall for every age group under age 85.[3] More strikingly, the same study projects that the Black homeownership rate will fall even further by 2040, with the decline particularly pronounced for households age 45-74. As homeownership is an important source of building wealth[4], this is an economic disaster for the Black families who will be unable to achieve homeownership, but it is also a moral and economic problem for the country. The safety and soundness of the future mortgage market depends on there being consumers who can access safe and responsible loans. Acting now to

[1] Alanna, McCargo, and Jung Hyun Choi. 2020. *Closing the Gaps: Building Black Wealth through Homeownership.* Urban Institute

[2] Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu .2020. *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*. Federal Reserve Board.

[3] Laurie Goodman and Jun Zhu. 2021. *By 2040, the US Will Experience Modest Homeownership Declines. But for Black Households, the Impact Will Be Dramatic*, Urban Institute.

[4] Laurie Goodman, and Christopher Mayer. 2018. *Homeownership and the American Dream*. Journal of Economic Perspective, 32(1), pp 31-58.

increase homeownership among underserved communities is a cost-effective solution to strengthen the middle-class and grow the economy.[5]

While there remains a deep desire among Black renters to become homeowners, numerous barriers persist, some overt and some more subtle. To close the gap, Black homebuyers need support through improved and targeted financial and homeownership programming and preparation. Strategic partnerships between lenders, housing counseling agencies, and other key stakeholders are paramount to reaching and supporting underserved communities.

This plan identifies seven sets of tangible, actionable and scalable steps that will make it possible to increase Black homeownership by 3 million net new homeowners by 2030, an increase of more than 10 points in the Black homeownership rate, bringing it to a level never previously attained. From there, new strategies will be developed to close the racial homeownership gap completely.

These recommendations are the work of over one hundred housing leaders that span the political spectrum in every area of housing advocacy and industry. It is the product of two years of work, and hundreds of hours of meetings by the Steering Committee as well as five workstreams that specifically addressed the unique challenges and opportunities regarding mortgage lending; housing production; counseling and down payment assistance; civil and consumer rights; and marketing. Each workstream produced detailed recommendations of tangible changes in law, regulation, business practice and outreach that, once completed, will contribute to moving the dial towards the creation of 3 million net new Black homeowners by 2030. The 7-point steps are focused not only on bringing in new homeowners but also sustaining existing homeowners. They are complementary and needs to be worked on simultaneously in order to increase the effectiveness.

Every organization that has signed on to the seven point plan may not play an advocacy role on every item in the workstream recommendations. But all of the organizations listed below support the objective of increasing homeownership in America by 3 million net new Black households. Our contributions will focus on the areas where we can add the most value, and make the most material progress. No single aspect of this 7 Point Plan will be enough to reach this historic goal. Additionally, studies show that Black homeowners accumulate housing wealth at a slower pace than white homeowners, which also needs to be addressed in the future.[6] While the focus of this first stage is increasing 3 million net new Black homeowners, by working together, we can achieve a critical mass of progress that will get us to our initial object and prepare us for the next phase – closing the racial homeownership and housing wealth gap completely.

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[5] Nick Noel, Duwain Pinder, Shelley Stewart, and Jason Wright, *The Economic Impact Of Closing The Racial Wealth Gap*, McKinsey & Company (August 13, 2020), https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap#; Dana M. Peterson and Catherin L. Mann, *Closing The Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.*, Citi GPS: Global Perspectives & Solutions (September 20, 2020), https://www.citivelocity.com/citigps/closing-the-racial-inequality-gaps/ ; Jeff Cox, *Morgan Stanley Says Housing Discrimination Has Taken A Huge Toll On The Economy*, CNBC, November 13, 2020.

[6] Michael Neal, Jung Hyun Choi and John Walsh. 2020. *Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership*. Urban Institute.

1. **Homeownership Counseling**

   Major barriers depressing Black homeownership include credit, student loan debt, and lack of information and resources for first time and especially first generation homebuyers.[7] Pre-purchase homeownership counseling is foundational to bridging these barriers as well as growing the pool of mortgage ready homebuyers. Counseling borrowers who have been denied mortgage approval is critical to preparing them to reenter the home buyer market. Post-purchase counseling is also an important component of sustaining homeownership, particularly given inevitable volatility in income and expenses. Black homeowners are more likely to switch back to renting, losing the opportunity for building wealth.[8] Post purchase counseling can significantly mitigate delinquency and reduce servicing and loss mitigation costs.[9] It must be better facilitated and monetized. Housing counseling agencies provide in-person and online housing counseling and homebuyer education activities including pre-purchase, post-purchase, delinquency, credit, financial coaching, homebuyer education workshops and classes, financial capability and reverse mortgage counseling. However, they are significantly underfunded. Funding must increase and capacity sustainably expanded. Best practices must be shared and scaled. The value of counseling must be recognized and incorporated into all aspects of the homebuying process for first time, and especially, first generation homebuyers.

2. **Downpayment Assistance**

   Homeownership is the primary way that most Americans build wealth. Unfortunately, historic and ongoing discriminatory housing policies result in Black families and other people of color being excluded from having access to owning a home, even when they have sufficient income to cover debt service. As a result, persistent and growing racial wealth gaps continue with many hardworking families lacking the resources to save for a down payment to purchase their first home. Additionally, many first time home buyers receive down payment support from their family members, especially their homeowner parents. Black young adults, whose parents are less likely to be homeowners and have wealth are less likely to receive support to make downpayment.[10] A substantial, sustainable and targeted down payment assistance program will serve as a critical first step in addressing these disparities, strengthening the wealth building capacity for millions while also growing the economy.

3. **Housing Production**

   Housing supply shortages are greatest for entry-level and lower-priced homes affordable to first-time homebuyers. Rising land prices, zoning restrictions on housing development, costly building permits, labor shortages and the high cost of lumber and other materials all contribute to the under-supply of for-sale, entry-level homes.[11] Many of these costs are fixed, making more affordable starter homes comparatively less economic. Another contributing factor to supply

[7] Laurie Goodman, Alanna McCargo, Bing Bai, Edward Golding, and Sarah Strochak. 2018. *Barriers to Accessing Homeownership: Downpayment, Credit and Affordability – 2018.* Urban Institute.
[8] Jung Hyun Choi, Laurie Goodman, and Alanna McCargo. 2019. *Three Differences Between Black and White Homeownership that Add to the Housing Wealth Gap.* Urban Institute.
[9] Corianne Payton Scally, Camille H. Anoll, Jung Hyun Choi, Patrick Spauster, Leah Hendey, Diane K. Levy, and Bing Bai. 2019. *Responding to a Crisis: The National Foreclosure Mitigation Counseling Program, 2008-2018 - A Capstone Evaluation.* Urban Institute.
[10] Jung Hyun Choi, Jun Zhu and Laurie Goodman. 2018. *Intergenerational Homeownership. The Impact of Parental Homeownership and Wealth on Young Adults' Tenure Choices*. Urban Institute.
[11] Michael Neal, Laurie Goodman, and Cait Young. 2020. *Housing Supply Chartbook*. Urban Institute.

shortages is the lack of market incentive to rehabilitate dilapidated homes in many distressed communities where vacant homes sit underutilized. The cost of new construction or rehabilitation often exceeds what the home could sell for in these communities. This dynamic, known as the "value" or "appraisal" gap, discourages investment and perpetuates a downward spiral of declining home values in communities that have been left behind. Without economic interventions in distressed communities, land use reforms, and public investment in dedicated affordable homes, the shortage of decent, affordable entry-level homeownership opportunities will continue to pose a major barrier to Black homeownership.

4. Credit and Lending

Credit remains a major barrier to homeownership, particularly for Black homebuyers. The high cost of origination and servicing also creates barriers to obtaining home loans in communities where home prices are most affordable and smaller mortgages are essential. Innovation in mortgage credit scoring and mortgage products are an essential component of any successful strategy.[12] Achieving homeownership is not enough. Sustaining homeownership is the ultimate objective. Not everyone is ready to be a homeowner immediately, but credit evaluation needs to do a better job of identifying those that are ready and those that are not ready yet and provide referrals to housing counselors who can turn a "no" into a "not yet." Mortgage products also need to target populations that have not only been historically underserved by the mortgage finance system; they have been specifically excluded. Addressing these inequities requires direct interventions like special purpose credit programs (SPCP) and specified pools for mortgage securitization.

5. Civil and Consumer Rights

A legacy of housing and lending discrimination, which excluded Black households from communities, denied them access to credit, and constrained opportunities to build household equity, all contributed significantly to the homeownership gap we witness today between African Americans and white Americans. The federal government must fully enforce the nation's fair housing and consumer-protection laws to mitigate the role of ongoing discrimination in perpetuating the homeownership gap. The government must utilize, protect, and restore all legal doctrines and provisions of law that address systemic discriminatory policies and other practices that serve as unlawful barriers to housing opportunity. Federal agencies must also be fully resourced to effectively implement fair housing and consumer-protection laws.

6. Homeownership Sustainability

Black homeownership rates have fallen in part because Black homeowners have shorter spells of ownership than white homeowners.[13] Sustaining homeownership has received less attention than helping renters become owners. Loss of a home impacts not only the family experiencing foreclosure, but the expectations for homeownership of their friends and family. For older homeowners, foreclosure may not be recoverable due to approaching retirement.[14] According to

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[12] Karan Kaul. 2021*. Adopting Alternative Data in Credit Scoring Would Allow Millions of Consumers to Access Credit.* Urban Institute.

[13] Jung Hyun Choi, Laurie Goodman, and Alanna McCargo. 2019. *Three Differences Between Black and White Homeownership that Add to the Housing Wealth Gap.* Urban Institute.

[14] Rolf Pendall and Carl Hedman. 2018. Three Goals for Restoring Black Homeownership. https://www.urban.org/urban-wire/three-goals-restoring-black-homeownership by. Urban Wire: Housing and Housing Finance blog. February 27, 2018.

the Federal Reserve Bank of St. Louis, people of color experienced foreclosure rates significantly higher than comparable white homeowners.[15] Early intervention, ex-ante counseling and COVID-19 related homeownership assistance are essential components of sustaining homeownership.

7. Marketing and Outreach

The first step to successfully reaching mortgage ready Black homebuyers is to complete a comprehensive marketing study to develop a targeted advertising and marketing campaign. This will be followed with a major national advertising campaign. Pre-pandemic there were 1.7 million mortgage-ready Black millennials who made $100,000 or more annually, according to Freddie Mac. At least 3 million Black households were identified as mortgage ready, and more than 2 million were able to meet income requirements, but didn't have enough credit history to meet traditional requirements for home loans, Freddie Mac found. Why is this? Without detailed answers to this fundamental question, many of the strategies in this plan will be undercut by a lack of interest. There are likely many factors at play, including the impact of mass foreclosures and equity stripping in communities of color during the Great Recession, the multigenerational impact of racism on attitudes about the meaning of "the American Dream," lack of informed parental support and guidance available to first generation homebuyers, who are disproportionally people of color; significantly higher levels of student debt despite high incomes; and other factors not yet identified. In the 1990s, homeownership among all people of color rose significantly. Moving the needle in the 2020s will require a concerted effort that is consistent with 21st century marketing tools and outlets.

The undersigned are committed to contributing to creating 3 million net new Black homebuyers by 2030 by working collaboratively to achieve our goal and laying the foundation to close the homeownership gap completely.

Black Homeownership Collaborative Steering Committee

Steve O'Connor, Mortgage Bankers Association (co-chair)
Cy Richardson, National Urban League (co-chair)
David Dworkin, National Housing Conference (executive secretary, marketing co-chair)
Jung Choi, Urban Institute
Bryan Greene, National Association of REALTORS®
Derrick Johnson, NAACP
Marc Morial, National Urban League
Lydia Pope, National Association of Real Estate Brokers
Janneke Ratcliff, Urban Institute
Lisa Rice, National Fair Housing Alliance (Civil and Consumer Rights workstream co-chair)
Dawn Chase, NAACP

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[15] Carlos Garriga, Lowell R. Ricketts, and Don E. Schlagenhauf. 2017. The Homeownership Experience of Minorities During the Great Recession. Federal Reserve Bank of St. Louis Review, 99(1), pp. 139-67. https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/the-homeownership-experience-of-minorities-during-the-great-recession.pdf

Black Homeownership Collaborative Members

Cerita Battles, JPMorgan Chase & Co. (Lending co-chair)
Bruce Dorpalen, National Housing Resource Center (Counseling and DPA co-chair)
Marcia Griffin, HomeFree USA (Marketing co-chair)
Simone Griffin, HomeFree USA (Counseling and DPA co-chair)
Mike Kingsella, Up For Growth (Production co-chair)
Charles Lowery, New American Funding (Lending co-chair)
Jeremy Potter, Quicken Loans (Lending co-chair)
Chris Vincent, Habitat for Humanity International (Production co-chair)

Affordable Homeownership Foundation, Inc.
Affordable Housing Centers of Pennsylvania
AGORA Community Services Corporation, NFP
Arizona Housing Coalition
Alyssa Bell
Bank of America
Cal HFA
Center for Community Progress
Center for NYC Neighborhoods
Central Jersey Housing Resource Center Corp.
Centre for Homeownership & Economic Development Corporation, Inc.
CHES, Inc.
Chhaya CDC
Rob Chrane
Cinnaire
Citizens' Housing and Planning Association
Commerce Mortgage
Community Development Network of Maryland
Community Housing Development Corporation of North Richmond
Consumer Credit and Budget Counseling, Inc (d/b/a National Foundation for Debt Management)
Consumer Credit Counseling Service of Buffalo, Inc.
Consumer Credit Counseling Services of Maryland
Conrad Egan
eHome America
Florida Alliance for Community Solutions, Inc.
Framework Homeownership
Frayser CDC
Genworth
Greater KC Housing Information Center
Guild Mortgage
Habitat for Humanity International
Habitat for Humanity of Minnesota
HomeFree USA
Homeowners Employment Corporation
Homewise
Hope Enterprise Corporation/Hope Credit Union

Housing Action Illinois
Housing Options Provided for the Elderly, Inc.
Housing Partnership Equity Trust
Housing Policy Council
JPMorgan Chase & Co.
Sarah Bainton Kahn
Keuka Housing Council, Inc.
Leadership Conference on Civil and Human Rights
Long Island Housing Services, Inc.
Low Income Investment Fund
Mainestream Finance
Manufactured Housing Institute
Margert Community Corporation
Massachusetts Affordable Housing Alliance
Milken Institute
Minnesota Homeownership Center
Mortgage Bankers Association
Movin' Out, Inc.
NAACP
National Association of Hispanic Real Estate Professionals
National Association of Real Estate Brokers
National Association of REALTORS©
National CAPACD
National Community Reinvestment Coalition
National Community Stabilization Trust
National Council of State Housing Agencies
National Fair Housing Alliance
National Housing Conference
National Housing Resource Center
National NeighborWorks Association
National Urban League
Navicore Solutions
NCLC
Neighborhood Housing Services of Chicago
Neighborhood Housing Services of South Florida, Inc.
NeighborWorks
New American Funding
Newtown Community Development Corporation
NHS Brooklyn, CDC, Inc.
Jackie O'Garrow
Olive Hill Community Economic Development Corporation, Inc.
Open Communities
Project LIFT
Proud Ground
Quicken Loans
Rensselaer County Housing Resources, Inc.

RUPCO, Inc.
Rural Community Assistance Corporation
Sconiers Homeless Preventive Organization, Inc.
SKA Marin
Sowing Empowerment & Economic Development, Inc.
Springfield Housing Authority
SSG Community Solutions
St. Petersburg Neighborhood Housing Services, Inc. (d/b/a Neighborhood Home Solutions)
Take Charge America, Inc.
Tenfold
The Homeowners Employment Corporation
The Waterfront Project, Inc.
Troy Rehabilitation and Improvement Program, Inc.
U.S. Mortgage Insurers
Ubuntu Institute of Learning
UnidosUS
Universal Housing Solutions CDC
Up For Growth
Urban Land Institute Terwilliger Center for Housing
Deena Wilke
Ventura County Community Development Corporation
Youngstown Neighborhood Development Corporation

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]

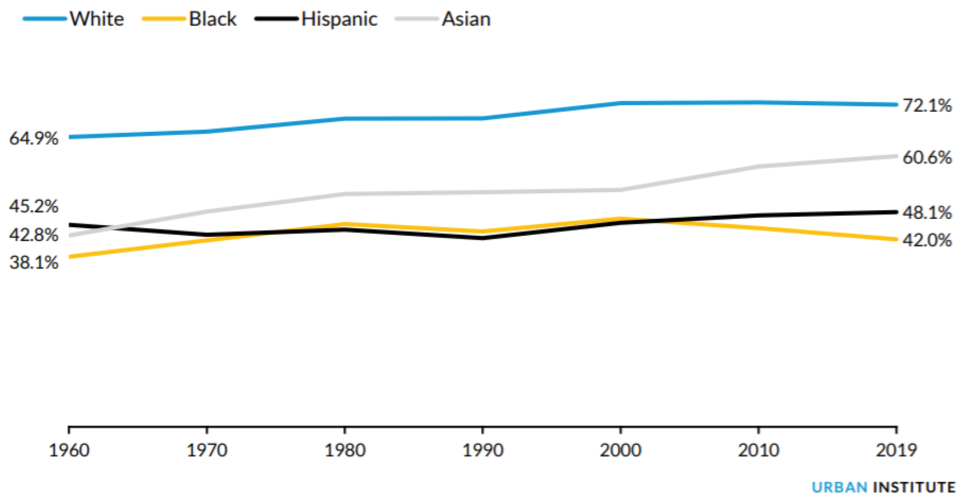
This matters because as noted in *Closing the Gaps*, "Wealth and income are both critical to building financial security. Wealth (e.g. savings and real estate or business holdings) cushions families against emergencies, provides the means for moving up the economic ladder, potentially grows over time, 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,

[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

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[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

Restoring Communities Left Behind Act — Summary

Overview

In economically distressed rural, urban and suburban communities across the country, abandoned and dilapidated homes drag down property values, discourage private investment, compound health problems and impede economic mobility for families and businesses. Without concerted intervention, it can be very difficult for these struggling communities to rebound.

The Restoring Communities Left Behind Act (H.R. 816), a bipartisan bill introduced by Reps. Marcy Kaptur and Rashida Tlaib, will help repurpose blighted properties for affordable homeownership, repair unsafe homes, and support other activities to strengthen housing security and spark economic recovery in highly distressed communities.

These investments will help address our nation's shortage of safe and affordable homes, spur private reinvestment in left-behind communities, and broaden opportunities for families to build wealth and participate in their neighborhood's recovery.

Bill details

The Restoring Communities Left Behind Act creates a competitive grant program administered by the U.S. Department of Housing & Urban Development to support various housing and neighborhood revitalization activities that expand opportunities and spark reinvestment in distressed neighborhoods.

Eligible activities:

- Purchasing and redeveloping vacant, abandoned or distressed properties to create opportunities for affordable homeownership, affordable rental housing or new commercial properties.
- Assisting residents with homeowner repairs, weatherization improvements and improved housing accessibility for seniors and people with disabilities.
- Supporting demolition of abandoned or distressed properties.
- Improving parks, sidewalks and street lighting and other neighborhood infrastructure.
- Establishing and operating land banks and community land trusts to provide lasting affordable homeownership or rental opportunities.
- Purchasing non-performing mortgages.
- Providing housing counseling, assistance with refinancing, property tax relief, title clarification and other forms of assistance to stabilize homeowners facing economic hardships.
- Providing pre-purchase counseling and down payment assistance.
- Engaging resident leaders and community groups in their community's planning and revitalization.

Income targeting: New homeownership units must be affordable to homebuyers earning no more than 120% of area median income (AMI). New rental homes must be affordable to renters at or below 60% of AMI.

Program funding: $5 billion annually between fiscal years 2021–2031. The legislation would also provide $25 million annually for the Self-Help Homeownership Opportunity Program (SHOP) from FY2021–2031.

Eligible recipients: Nonprofit organizations working in partnership with a city or county government, land bank, anchor institution, community land trust, fair housing enforcement organization, state housing finance agency, Community Development Financial Institution, public housing agency or other nonprofit organization.

Eligible localities: Geographic areas at the neighborhood or county level that meet at least four of the following indicators of economic distress:

- Home sales prices that are lower than the cost of rehabilitation or new construction
- High proportions of residential or commercial vacancy
- Low rates of homeownership
- Racial disparities in homeownership
- High rates of poverty
- High rates of un- or underemployment
- Population loss
- Lack of private sector lending on fair and competitive terms
- Other indicators of economic stress

These criteria are designed to reach diverse geographies with a history of disinvestment, blight, and vacant and abandoned properties. These include rural, urban and suburban areas experiencing economic decline, communities affected by the enduring legacy of redlining and continuing racial disparities in homeownership, and pockets of economic distress in otherwise prosperous, growing areas.

Why Habitat supports the Restoring Communities Left Behind Act

Working in disinvested neighborhoods across the country, Habitat sees firsthand the effects that abandoned properties and aging housing stock have on families, their health and their communities. These include declining home values, high rates of respiratory and other diseases and disincentives for private investment.

The Restoring Communities Left Behind Act would provide critical resources for housing providers like Habitat to convert dilapidated properties into affordable homeownership opportunities for low-income families and spur broader community reinvestment. The bill also includes funding for the Self-Help Homeownership Opportunity Program, which will further enable Habitat affiliates to acquire land, purchase abandoned and foreclosed properties and build supportive infrastructure for new homeownership opportunities.

By giving more families access to the security that affordable homeownership provides during crises, the Restoring Communities Left Behind Act would help fortify our communities, economy and nation. These investments would also catalyze neighborhood recovery in distressed communities by stabilizing home values and restoring market incentives for broader neighborhood reinvestment. New construction and repair activities further support economic recovery by creating direct and indirect jobs. And improved properties ultimately help rebuild local tax bases to support a virtuous cycle of neighborhood reinvestment.

By repairing deteriorating housing infrastructure, expanding opportunities for affordable homeownership and increasing overall housing security in left-behind neighborhoods, we can provide on-ramps to economic recovery for all of us.

For more information, contact: Elisabeth Gehl, director of federal relations, at egehl@habitat.org.

NEIGHBORHOOD HOMES INVESTMENT ACT

The Neighborhood Homes Investment Act (NHIA), S. 98 and H.R. 2143, would revitalize distressed urban, suburban and rural neighborhoods with federal income tax credits, mobilizing private investment to build and rehabilitate 500,000 homes for low- and moderate-income homeowners over the next decade.

Every state has neighborhoods where the homes are in poor condition and the property values are too low to support new construction or substantial renovation. The lack of move-in ready homes makes it difficult to attract or retain homebuyers, causing property values to decline. The NHIA would break this downward spiral by creating a federal tax credit that covers the gap between the cost of building or renovating homes and the price at which they can be sold, thus making renovation and new home construction possible. The NHIA would also help existing homeowners in these neighborhoods to rehabilitate their homes.

Builds Upon the Success of Proven Tools:

- The NHIA is based on the successful Low Income Housing Tax Credit, which supports affordable rental housing, but is not designed to build or rehabilitate owner-occupied homes.
- Tax-exempt mortgage bonds and mortgage credit certificates assist homeowners by reducing mortgage payments, but they cannot cover the development financing gap.
- NHIA would complement these other incentives, not duplicate them.

State Control

- States allocate NHIA tax credit authority on a competitive basis and monitor compliance.
- States have annual tax credit authority totaling about $2 billion nationwide.
- The IRS will develop regulations, collect national NHIA data, and monitor state agency performance.

Private Market Discipline

- Project sponsors raise capital from investors to finance home building and rehabilitation.
- Tax credits cover the gap between development costs and sales prices, up to 35% of eligible costs.
- Private investors – not the federal government – bear construction and marketing risks.
- Investors claim the tax credits only after construction, inspection, and owner-occupancy.

Targets Communities in Greatest Need

- Homes will be located in communities where the need for private sector investment is greatest – those with high poverty rates, low median family incomes, and low home values.
- 24% of metro census tracts nationwide, and 25% of non-metro census tracts, qualify for NHIA investments.
- States may also use up to 20% of their allocation to serve additional non-metro census tracts and/or existing homeowners in gentrifying census tracts.
- Maps of eligible NHIA communities in each state may be found here.

Limits Homeowner Incomes, Eligible Costs and Home Prices

- Homeowners with incomes up to 140% of the area/state median are eligible.
- Tax credits are limited to 35% of eligible costs up to the amount of the valuation gap.
- Sales prices are limited to four times the metro area or state median family income (MFI). Example: if MFI is $65,000, the sales price limit is $270,000. Higher limits apply to homes with 2-4 units.
- A homeowner who sells a NHIA home within five years will repay part of the gain (profit) to the state to support additional similar activity: 50% in year 1, phased down to 10% in year 5.
- Limitations on eligible neighborhoods, tax credit amounts, sale prices, homeowner incomes, and short term resales all support neighborhood revitalization without gentrification.

How the NHIA Would Work

1. **States allocate NHIA tax credits on a competitive basis.**

- States publish allocation plans. Project selection criteria include: (1) neighborhood need for new or rehabilitated homes; (2) neighborhood revitalization strategy and impact; (3) sponsor capability; (4) likely long-term homeownership sustainability; and (5) any State criteria.
- States set standards for construction cost and quality and developer fees.
- States allow only the tax credits reasonably needed for financial feasibility.
- 10% of each state's allocations are set aside for nonprofit sponsors.

2. **Project sponsors raise capital from investors and use it to finance home construction and substantial rehabilitation.** Sponsors would include developers, lenders, and local governments.

- Project sponsors develop the homes or work with builders and homeowners.
- Tax credits cover the gap between development cost and sales price, up to 35% of the cost of construction, rehabilitation, property acquisition, demolition, and environmental remediation.
  - For rehabilitation of homes for current owner-occupants, tax credits cover the gap between the rehab cost and the homeowner's contribution, up to 35% of rehab cost.
- Clear, simple requirements ease compliance and accommodate small-scale projects.

3. **Investors claim tax credits after homes are completed, inspected, and owner-occupied.**

- Homeowners make down payments and obtain mortgages to cover the homes' sale price. The tax credit covers the gap between the development cost and the sale price. • Sponsors may use allocated but unneeded tax credits for additional homes.

NHIA Home Financing Example

Property acquisition	$ 50,000
Construction or rehabilitation	150,000
Total development cost	$ 200,000
Less: Sales price	- 160,000
NHIA tax credit = value gap	$ 40,000

Estimated Impact over 10 Years

Based on the financing example above, the impact over 10 years would include:

- 500,000 homes built or substantially rehabilitated
- $100 billion of total development activity
- 785,714 jobs in construction and construction-related industries
- $42.9 billion in wages and salaries
- $29.3 billion in federal, state, and local tax revenues and fees

3/31/2021

Homeownership Is Affordable Housing

Mike Loftin

May 2021

If you are reading this brief, you probably care about the nation's housing affordability crisis and know something —maybe even a great deal—about today's residential real estate market. You probably know that rents have increased dramatically since the Great Recession, outstripping inflation and especially burdening low-income households and people of color; that home prices are soaring; and that 75 percent of renters earning less than $50,000 a year spend more than 30 percent of their income on housing, and, of those, 42 percent spend more than half their income.[1]

There is no shortage of policy proposals to address the housing problem. Some encourage the federal government to invest in building more public housing. Others suggest increasing subsidies to builders of affordable apartments, and still others recommend dramatically increasing the availability of rent vouchers that pay landlords a portion of the rent so that tenants can pay less.

These approaches fail to take advantage of America's biggest source of affordable housing: homeownership.

Contrary to popular belief, owning one's own home is frequently more affordable than renting. It is cheaper to buy a home than it is to rent in two-thirds of American counties.[2] Even now, as America is grappling with systemic racism that impedes economic opportunities for people of color, homeownership is still often more affordable than renting for people of color.

Most Americans—and certainly the majority of those working in residential real estate—cling to the idea that homeownership is reserved for people who achieve some arbitrary level of financial success and that homeownership is not "appropriate" for people who are still on their path to financial security, which may explain why most federal, state, and local efforts to create more affordable housing narrowly focus on the rental market.

We do need affordable rental housing. No one would argue that homeownership is the only solution to the housing crisis. But when it comes to ensuring long-term housing affordability, rental strategies can be short sighted. Many rental programs, such as rent vouchers, require an assistance check to be issued every month to a landlord who is under no obligation to renew a tenant's lease. And there is no guarantee the federal government will continue to provide monthly rent support.

Plus, rent vouchers are expensive. More than $39 billion is paid to landlords every year to subsidize their tenants' rent, well over half the US Department of Housing and Urban Development's entire budget.[3] A new administration can mean cutbacks, leaving renters vulnerable to paying more toward rent or receiving no assistance at all. When it comes to providing housing that is affordable and secure over the long term, rental programs can come up short.

Affordable homeownership, on the other hand, provides the kind of affordability and stability low-income families need; the home gets more affordable over time, and the housing is more stable because there is no landlord to evict you. Increasing access to affordable homeownership can allow us to establish long-term solutions to the nation's affordability crisis.

I know, not only through my experience running a large nonprofit affordable housing organization, but because I have benefited directly from this type of housing. In 1973, my mother, Louise Loftin, was newly divorced with three kids. With a high school education, she scraped by on a low-paying job as a receptionist at an auto-body shop and as a part-time sales clerk in the hosiery department at Sears. Eventually, she became a secretary in the purchasing department at the University of New Mexico. My siblings and I all had after-school jobs. My mom never made a lot of money, but she was able to support herself and her children. In her later years, she became more financially secure and had the means to enjoy her retirement. She had always dreamed of traveling to exotic places such as Hawaii, which she did several times. She could do this because she had a stable job that provided slow but steady income growth. Food stamps and the social security she received after my dad died also helped. But the biggest contributor to my mom's financial security was stable, inexpensive housing. Her house payment was based on the low interest rates and home prices of the 1950s. She had the good fortune to have obtained truly affordable housing—a home that she owned.

When my parents bought their first and only home in 1955, they had to turn to the seller to loan them the down payment, something that was, and still is, illegal. That illegal loan was a critical step in providing a stable financial future for our family, as it gave my parents access to an affordable mortgage.

Not much has changed since my parents bought their home. Today, little help is available to help first-time homebuyers, especially those whose parents and grandparents never bought a home and never accumulated enough wealth to help their own children—a population that is disproportionately people of color. If the nation is committed to helping all Americans enjoy the benefits affordable and stable housing, we need to do more to help low-income families and racial and ethnic minorities to own their own housing. We can accomplish that goal by increasing the availability of affordable homeownership. But to do so, we must first understand why and how homeownership makes housing more affordable.

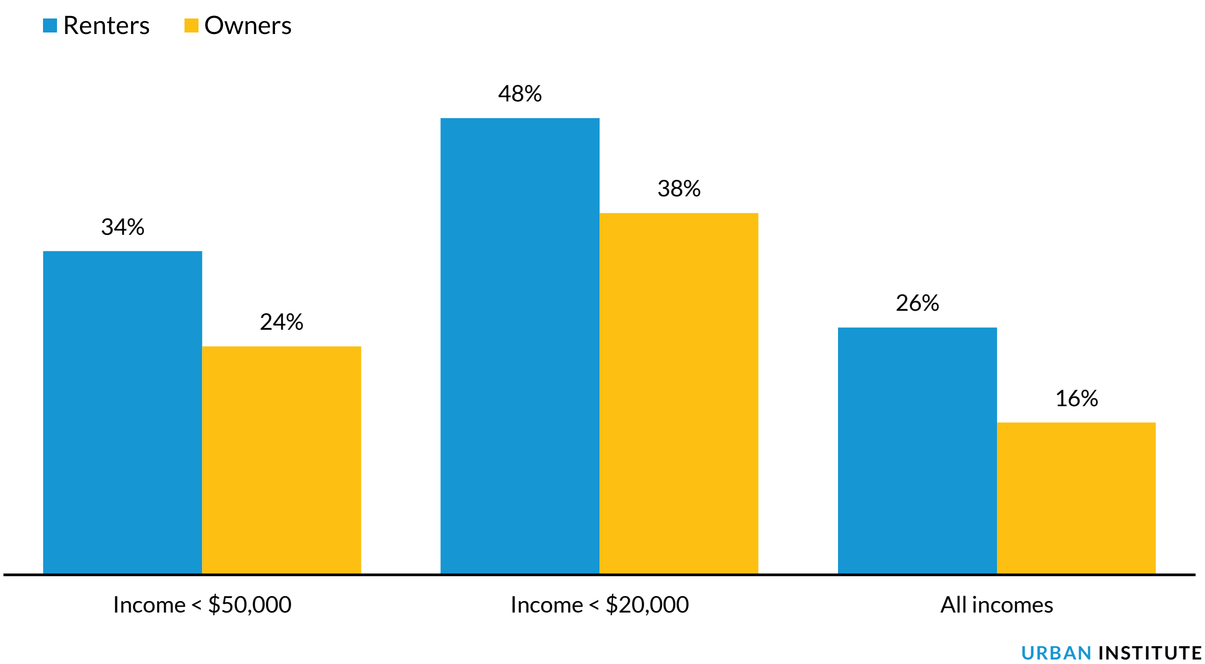
The Costs of Owning versus Renting

When we want to know how affordable housing is, we look at data that tell us the share of income a household pays for housing expenses. We can examine this housing expense ratio by tenure—whether the household rents or owns—and by the household's income range or race or ethnicity. For example, a household with a monthly income of $2,000 that spends $1,000 on housing has a housing expense ratio of 50 percent.

When we look at the median housing expense ratio of all households, the typical homeowner household spends 16 percent of its income on housing while the typical renter household spends 26 percent (figure 1). This is true, you might say, because people who own their own home must make more money than people who rent. But if we control for income, it is still more affordable to own a home than to rent housing, on average. For households with annual incomes less than $50,000, renters spend an average of 34 percent of their income on housing while owners spend only 24 percent, controlling for income. Similarly, for households earning less than $20,000, homeowners spend 38 percent of their income and renters spend 48 percent. Even among very low–income families, homeowners spend 10 percentage points less of their income on housing than renters.[4]

FIGURE 1

Share of Income Spent on Housing, by Income

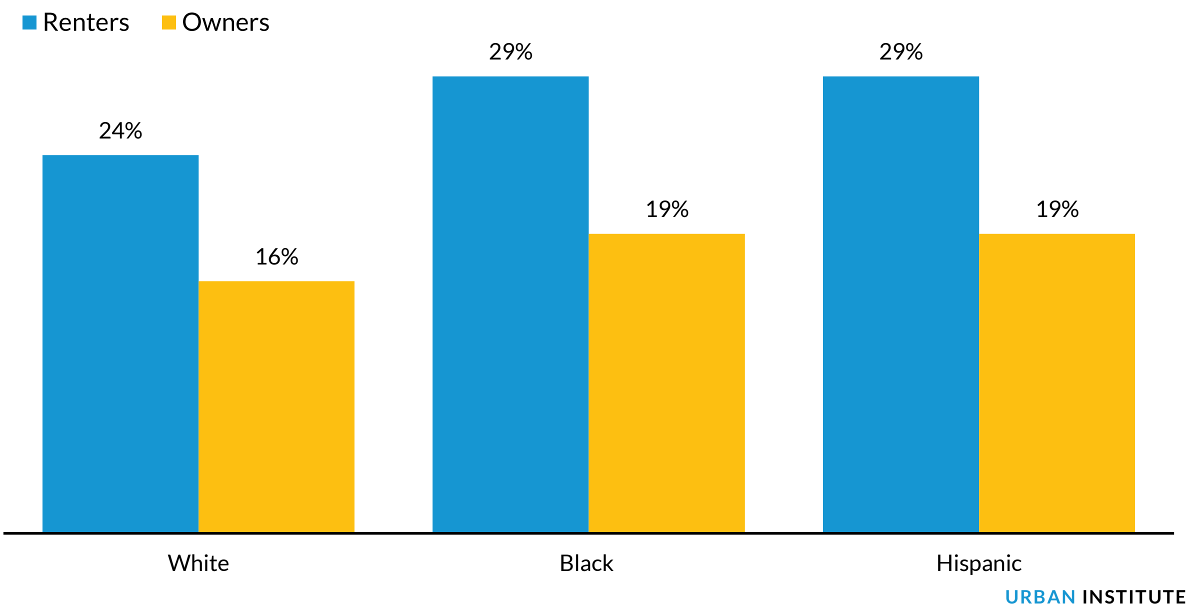


Source: 2019 American Community Survey.
Note: The data are limited to households with annual incomes greater than or equal to annual housing expenses.

The lower cost of owning versus renting also holds true by race or ethnicity. Black and Hispanic homeowners have higher housing expense ratios than white homeowners, but they have lower housing expense ratios than all renters, regardless of race or ethnicity, including those who are white. Specifically, the median housing expense ratio for Black and Hispanic homeowners is 19 percent while the typical white renter household spends 24 percent of its income on housing, an amazing statistic given the systemic racism plaguing the American real estate and capital markets and one that we should weigh more heavily when considering strategies for equitably increasing access to affordable housing.[5]

FIGURE 2

Share of Income Spent on Housing, by Race or Ethnicity



Source: 2019 American Community Survey.
Note: The data are limited to households with annual incomes greater than or equal to annual housing expenses.

Who Is Considered Housing Cost Burdened?

Housing cost burden reflects whether housing costs are or are not burdensome—or overly burdensome—to a household. A household's cost burden depends on its housing expense ratio. People who spend more than 30 percent of their income on housing are cost burdened, and those who spend more than 50 percent are severely cost burdened. The lower your income, the more likely you are to be cost burdened.

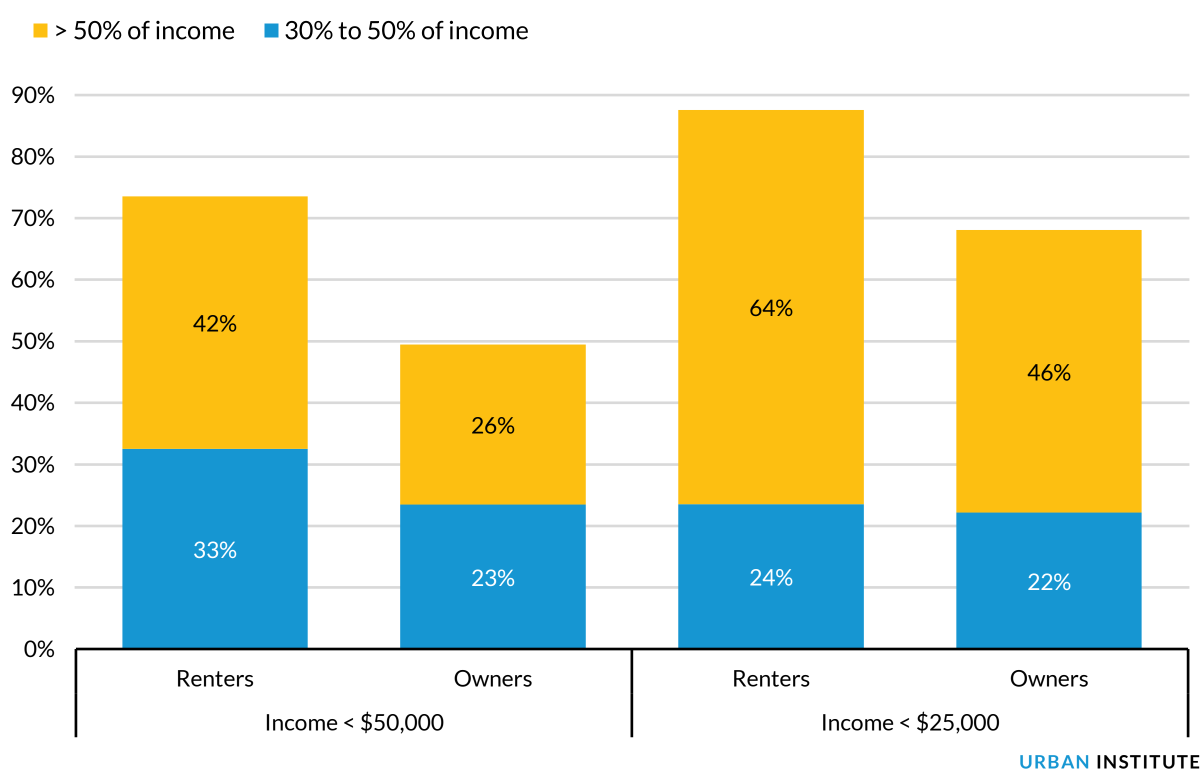
Cost burden helps us understand how much strain housing costs place on a household's overall financial position. Households spending less than 30 percent of their income on rent has an affordable housing cost and is thus not burdened by the expense. In comparison, households spending at least 50 percent of income on housing expenses are severely cost burdened because high housing costs leave little money to cover other basic necessities, such as food, transportation, clothing, and health care, leaving the household in a precarious financial situation and making it harder to achieve economic mobility.

Today, about 47.6 million households have annual incomes below $50,000, which is less than 80 percent of the national median income and is the standard definition of "low income."[6] About half these households are renters and half are homeowners. And when it comes to housing costs among low-income households, the homeowners are better off (figure 3). Of low-income renters, 75 percent are cost burdened, and 42 percent are severely cost burdened. In contrast, only 49 percent of homeowners in this income range spend more than 30 percent of their income on housing expenses, and only 26 percent spend more than 50 percent. The 26 percentage-point difference that separates cost-burdened renters from cost-burdened owners represents more than 6 million households and is a tremendous difference in how much money is available for other basic needs.

Notably, this trend continues the lower you go down the income ladder. The share of very low–income homeowners who are severely cost burdened is 18 percentage points less than the percentage of renters (46 percent versus 64 percent).

FIGURE 3

Share of Low- and Very Low–Income Households Who Are Cost Burdened



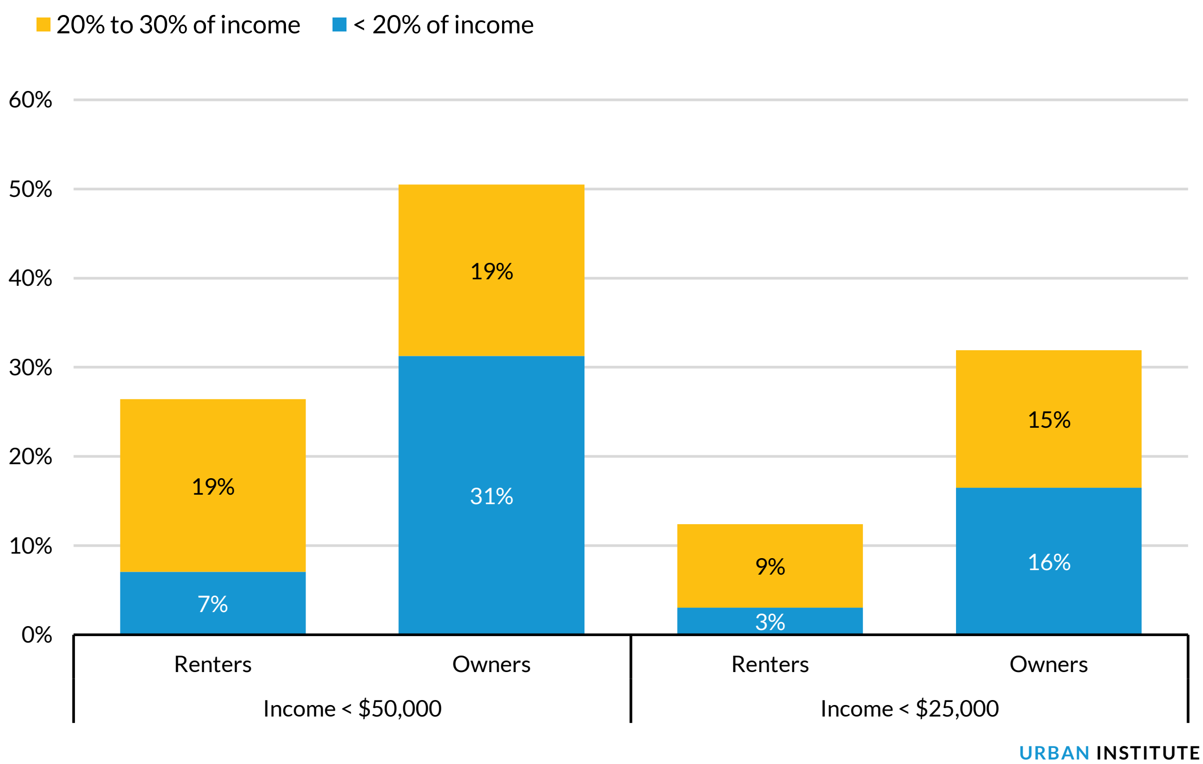
Source: 2019 American Community Survey.

Note: The data are limited to households with annual incomes greater than or equal to annual housing expenses.

But the numbers get interesting when we look more closely at who is not cost burdened (figure 4). More than half of low-income homeowners are not cost burdened, compared with only 26 percent of low-income renters. And 31 percent of low-income homeowners enjoy a housing payment that is less than 20 percent of their income, a financial benefit only 7 percent of renters can claim. This nearly fivefold difference also holds true for very low–income households, with 16 percent of homeowners paying less than 20 percent of their income for housing versus only 3 percent of renters.

FIGURE 4

Share of Low- and Very Low–Income Households with a Low Housing Cost Burden



Source: 2019 American Community Survey.
Note: The data are limited to households with annual incomes greater than or equal to annual housing expenses.

That said, many low-income homeowners are also cost burdened. Forty-nine percent of low-income and 68 percent of very low–income homeowners have a housing expense ratio that qualifies as cost burdened. Homeowners' cost burdens tend to decline over time, both relative to income and in absolute terms, which is rarely true for renters. For homeowners, it gets better. I will explain this dynamic later. But first, let us turn to how buying a home is generally more affordable than renting, even on the date of purchase.

On Day One, Buying a Home Is Often More Affordable Than Renting

Given how much more affordable homeownership is than renting, why do we usually assume renting is cheaper? I think it is because of how homeowners filter their experiences when they move from an apartment to a home they have purchased. Most homeowners' monthly housing expenses increased when they purchased their first home. But the increase is often not caused by the shift from renting to owning. More often, it is caused by moving from a relatively small space—say, an apartment with one bedroom and one bathroom—to a large space, such as a three-bedroom, two-bathroom house with a yard and a garage. If we would have rented this home, rather than purchased it, our housing expense would have increased as well. And in most markets, renting that home would be more expensive than buying it. But because we typically improve our housing when we buy our first home, we do not notice that renting a comparable home might have been more expensive.

Another way to consider housing costs is by the sheer number of dollars that go out the door, first per month and then over the long term. In November 2020, the typical US home value was $263,351, according to the Zillow Home Value Index. Let us assume the homebuyer bought that typical home with a 30-year fixed-rate mortgage, that she did not make a down payment but instead financed the entire mortgage, that she paid the closing costs out of pocket, and that the interest rate is 3.5 percent, all of which are reasonable assumptions given where the market is at the time of publication.

Based on these assumptions, and using taxes and insurance cost estimates from the 2019 American Housing Survey, the buyer's monthly mortgage payment is $1,464.[7] In comparison, during that same time, the typical monthly rent was $1,734, according to the Zillow Observed Rent Index, meaning the renter is paying $270 more per month than the homebuyer.

TABLE 1

Monthly Housing Cost Comparison: Purchase versus Rental

	Purchase	Rental	Purchase cost advantage
Typical home value	$263,352	N/A	N/A
Principal and interest payment	$1,183	N/A	N/A
Property taxes	$198	N/A	N/A
Insurance	$83	N/A	N/A
Total housing payment	$1,464	$1,734	$270

Source: 2019 American Housing Survey.

Note: N/A = not applicable.

Of course, these are national estimates, and housing costs can vary significantly in different markets. Nevertheless, the reduction in monthly payments owners experience versus renters is consistent across most of the country. It is more affordable to purchase a home than to rent a comparable one in 40 states, according to a geographic analysis of 2018 Zillow data.[8]

A common objection to this kind of comparison is the argument that the homeowner is responsible for maintenance and property improvements, but for renters, these costs are borne by their landlord. This is a reasonable concern, and an accurate comparison must address it. According to the American Housing Survey, the typical homeowner spends about $167 per month on maintenance and home improvements. If we add this to our example, the buyer of the $263,351 home would still pay $93 less per month than the renter of comparable housing.

There are other complexities involved in comparing the costs of owning with the costs of renting that merit attention. For example, because renters tend to move more frequently than homeowners, they bear costs that are not accounted for in this analysis, including moving fees, security deposits, and repairs that a neglectful landlord may refuse to cover. Consequently, the real cost of renting is likely higher than Zillow's typical monthly rent.

Additionally, some of the home improvement costs included in the American Housing Survey include improvements that may be optional, as opposed to critical, such as kitchen renovations and room additions. For this reason, the costs of necessary improvements used in this analysis are likely inflated. Moreover, some of these improvements may increase the home's value so that the homeowner realizes a financial gain when they sell the home, an economic benefit of ownership that is potentially financially significant and is not accounted for in this example.

The Costs of Owning versus Renting over Time

The major affordability benefits of homeownership accrue over time.

Rising rents and rising home prices do not affect renters and owners the same way. People commonly renew their lease each year, often accompanied by a rent increase designed to match or exceed inflation. There is no such thing as a 30-year residential lease that locks in a monthly payment. Between 2010 and 2020, rents annually increased an average of 3.19 percent. During the same period, the overall inflation rate was 1.73 percent.[9]

Whereas renters are continuously vulnerable to cost increases, rising home prices do not affect homeowners. Nobody rebuys the same home every year. For the homeowner with a fixed-rate mortgage, monthly payments increase only if property taxes and property insurance costs increase. The principal and interest portion of the payment, the largest portion, is fixed. Meanwhile, the renter's entire payment is subject to inflation.

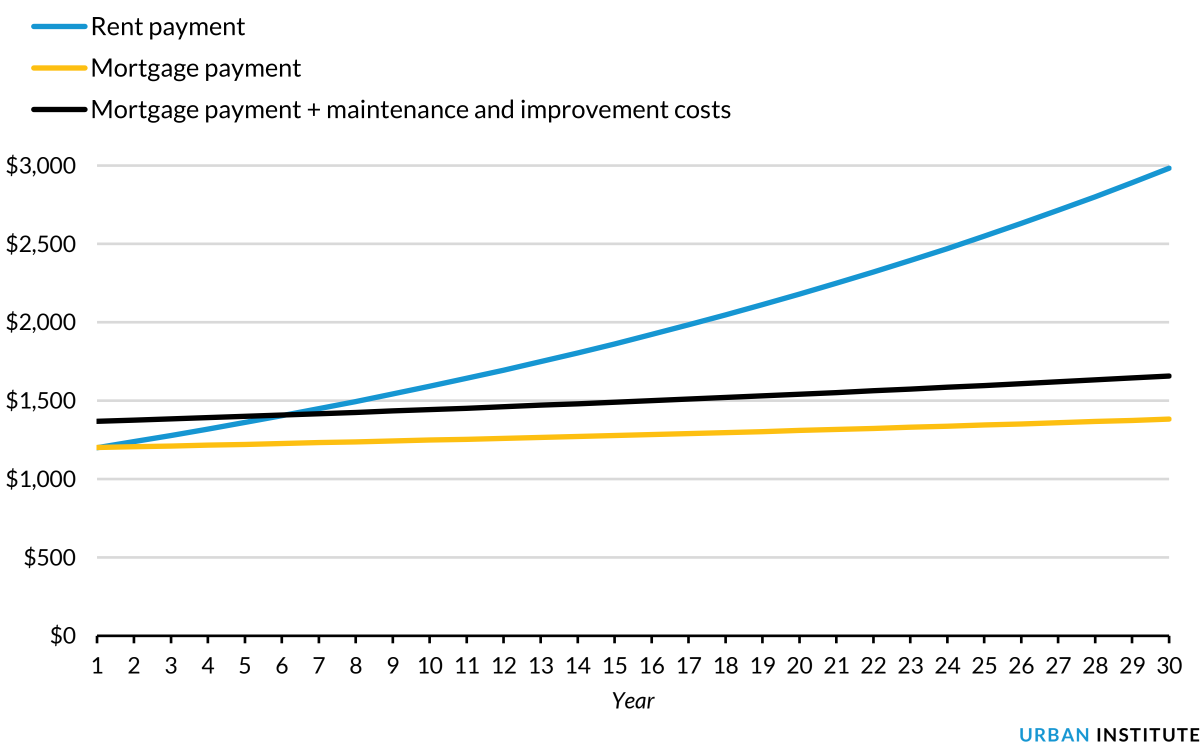
Consequently, over time, the homeowner's and renter's differing trajectories produce starkly different economic outcomes. Homeownership's major affordability benefit is that it stabilizes what is likely the homeowner's biggest monthly expense, assuming a buyer has a fixed-rate mortgage, which most American homeowners do. The only portion of the homeowner's housing expenses that can increase is taxes and insurance. The principal and interest portion stays the same for 30 years.

Assume a low-income household has an annual income of $40,000 and spends $1,200 each month on rent. The family decides that instead of continuing to put that $1,200 toward rent, they will use it to purchase a $205,000 home with the same monthly payment.[10]

Figure 5 shows how a sample monthly rent payment increases over time compared with the monthly mortgage payment, both with and without estimated repair costs.[11] By year 5, the rent payment is $139 more per month than the mortgage payment. By year 10, the rent payment has increased to $1,592 while the mortgage payment has increased to $1,248—a $343 difference. By year 30, the difference between the monthly rent and mortgage payment has increased to $1,600 per month. When home repair costs are accounted for, the homeowner's initial monthly expense is $167 more than rent. But the increased cost of owning disappears in year 7. And by year 10, the homeowner's cost is $149 less than the renter's, a trend that continues from there, with the homeowner's savings increasing annually compared with the renter for the remainder of the mortgage loan.

FIGURE 5

Rent versus Mortgage Payments, with and without Maintenance and Improvement Costs



Sources: 2019 American Housing Survey and Urban Institute calculations.
Note: The mortgage payment includes principal, interest, taxes, and insurance.

As this analysis makes clear, even if the renter's monthly cost was initially lower than that of the homeowner, the renter's savings would be short lived (assuming rental market inflation). Which begs the question of why we believe renting is cheaper than owning? Renting may be cheaper at first, especially if the rental unit is smaller and has fewer amenities than a home. But rents almost always increase disproportionately to the cost of owning, and it will not take long for ownership to be more affordable.

Why the Cost of Owning as a Share of Income Almost Always Declines over Time

The above section compares how homeowners' monthly payments increase at a much slower rate than renters'. But to more fully understand housing affordability, we need to understand how housing expense ratios behave over time. When we compare what happens to the housing expense ratios of owners and renters over time, the benefits of owning become even more pronounced. And we gain new insight into why many fewer low-income homeowners are cost burdened compared with their counterparts who rent.

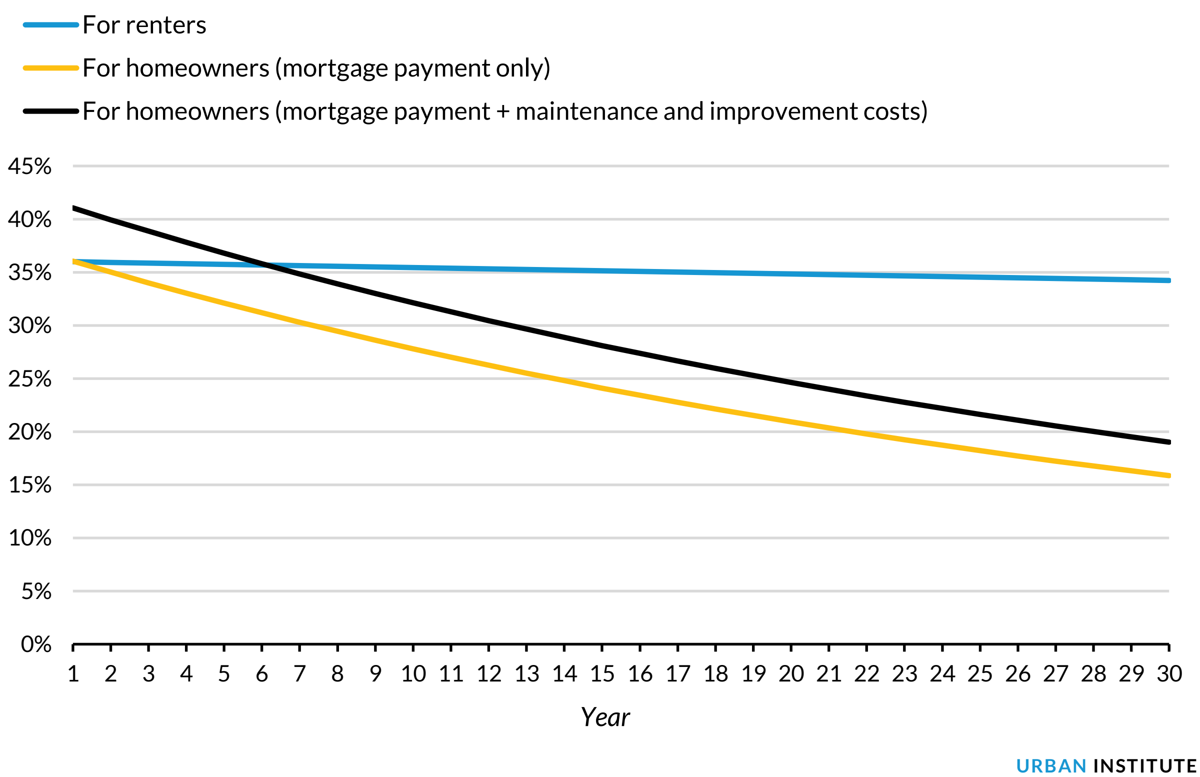
In general, incomes, rents, and other expenses rise over time in some relationship to the overall inflation rate. If a renter's wages and rent increase at the same rate, the share of one's income spent on housing stays the same, as both the numerator and denominator increase in lockstep. But incomes, rents, and other expenses do not typically rise at the same rate. Since 2010, the average annual nominal wage increase was 3.37 percent[12] while rents rose an average of 3.19 percent each year and the overall inflation rate was 1.73 percent.[13] If rents increase faster than wages, the renter's housing expense ratio increases. If wage increases outpace rent inflation, the renter's housing expense ratio decreases.

But if the homeowner's wages increase at the same rate as inflation, her housing expense ratio decreases because only her taxes, insurance, and home repair costs are subject to inflation. The biggest part of her housing expense, the principal and interest, is held constant. Even though both the renter's and the homeowner's costs increase with inflation, the homeowner's costs increase less than the renter's. Annual increases in housing costs will always grow faster for renters than for homeowners.

Figure 6 illustrates this phenomenon using the same example as above: a household with an annual income of $40,000 and a $1,200 monthly housing payment. Both the renter and the homeowner have an initial housing expense ratio of 36 percent. When we account for estimated repair costs, the share of the homeowner's income spent on housing is 41 percent. In this example, rent increases at the rent inflation rate of 3.19 percent, wages increase at 3.37 percent, and everything else (taxes, insurance, and repair costs) increases at the overall inflation rate of 1.73 percent (the average annual rates from 2010 to 2020).

Because wages increase slightly faster than rents, the renter's housing expense ratio declines over time, but it takes 17 years to decline 1 percentage point, from 36 percent to 35 percent. It takes just one year for the homeownership housing expense ratio to drop 1 percentage point, and by year 17, it has declined to less than 23 percent. When estimated repair costs are included, the owner's ratio is slightly lower than the renter's by year 7. By year 17, the homeowner spends only 27 percent of her income on her mortgage payment and repairs, compared with the 35 percent of income the renter pays. By year 30, the renter spends 34 percent of her income on rent, while the homeowner's mortgage payment takes up only 16 percent. With estimated repair costs, the ratio is still only 19 percent, 15 percentage points below the renter's ratio.

FIGURE 6
Housing Expense Ratios



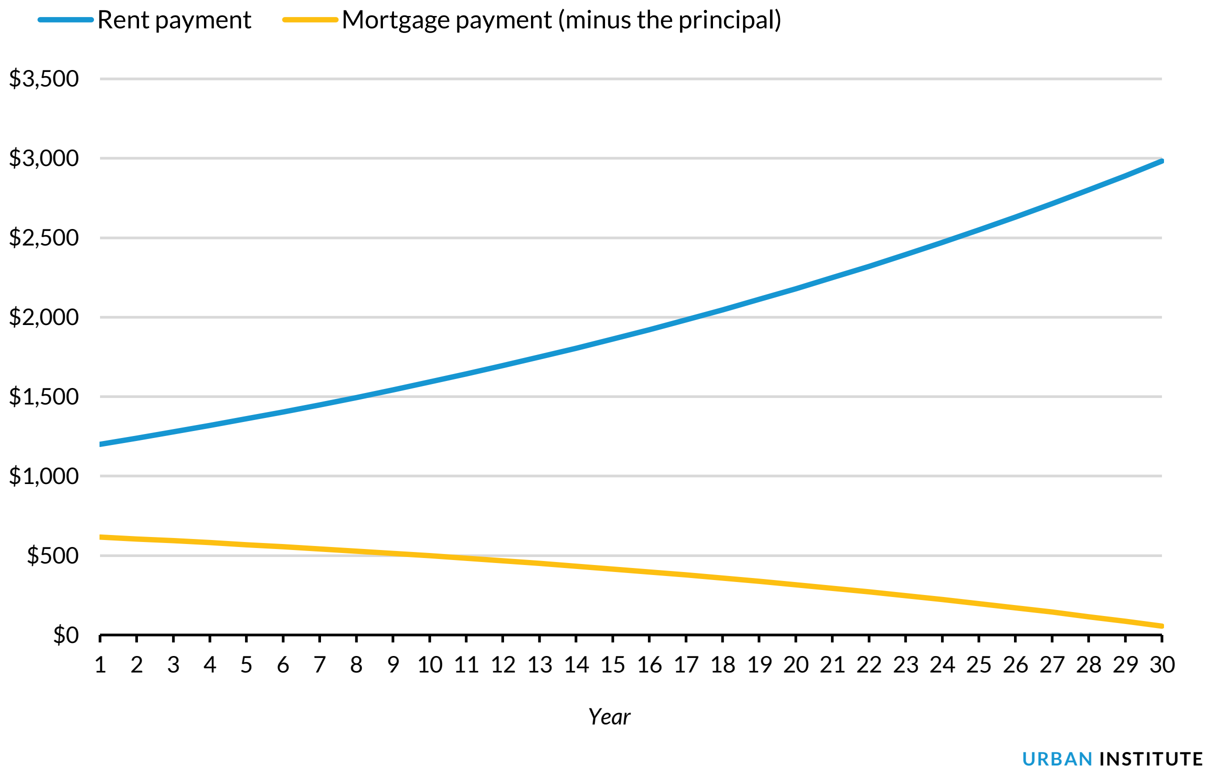
Sources: 2019 American Housing Survey and Urban Institute calculations.
Note: The mortgage payment includes principal, interest, taxes, and insurance.

Homeowners' Housing Expenses Decline over Time in Absolute Terms

Owning a home does not become more affordable only relative to income over time. It also becomes increasingly more affordable in absolute terms. The homeowner's housing expenses decline over time because a portion of the mortgage payment is not an expense. Mortgage payments typically include principal, interest, taxes, and insurance, but only three of these elements are expenses. The principal portion that reduces the loan balance builds the homeowner's equity. In doing so, the principal payments behave like an automatic savings account. The principal payment is not money going out; it is money staying in. As long as the home does not depreciate in value, the homeowner gets to keep the money. And it increases every month. As the homeowner pays down the mortgage balance, the portion of the payment dedicated to interest declines and the portion that goes to principal increases. Unless increases in taxes and insurance rise faster than the decreases in interest expense, the total mortgage payment decreases over time.

FIGURE 7

Absolute Monthly Housing Expenses over Time



Sources: 2019 American Housing Survey and Urban Institute calculations.
Note: The mortgage payment (minus the principal) includes interest, taxes, and insurance.

Put another way, the portion of the money the homebuyer spends on housing—the principal portion—is an investment in real estate. In comparison, cash spent on housing is always an expense for the renter. This is an important and frequently overlooked benefit of homeownership. Ownership capitalizes on the power of buying a home by converting a portion of what would otherwise be 100 percent consumer spending (renting) into a combination of consumer spending and investment. And it does so without additional resources. Buying a home is not a decision between investing in real estate versus investing in stocks, as financial advisers often claim. Instead, the home buying investment simply converts some portion of an existing expense (renting) into an investment in real estate.

The investment value of buying a home is not dependent on the home appreciating in value. Even with 0 percent home appreciation, the automatic savings function of buying remains a big advantage. Assuming the home holds its value and does not depreciate, the buyer of a $205,000 home will have accumulated $21,121 in equity—or "invested" $21,121 in real estate—by year 5. By year 10, that nest egg more than doubles to $46,275. It more than doubles again by year 20 to $111,908 and reaches $205,000 in year 30. That's $205,000 that is otherwise lost to the wind when renting.

But homes usually appreciate in value, an average of nearly 3.9 percent annually over the past 30 years, according to home price data from Black Knight. When accounting for home price appreciation, the homeowner's investment can be significantly more than the value of the monthly principal payments. The same homeowner who accumulated $205,000 in equity from paying down mortgage principal would have $483,000 in total home wealth with a home appreciation rate of just 3 percent, half the historic rate. This helps explain why homeowners have more than 40 times the wealth renters have. And while Black and Hispanic homeowners have less wealth than white homeowners, Black owners have nearly 14 times the wealth of white renters and Hispanic owners have nearly 20 times, making clear the power of ownership to help shrink the racial wealth gap.

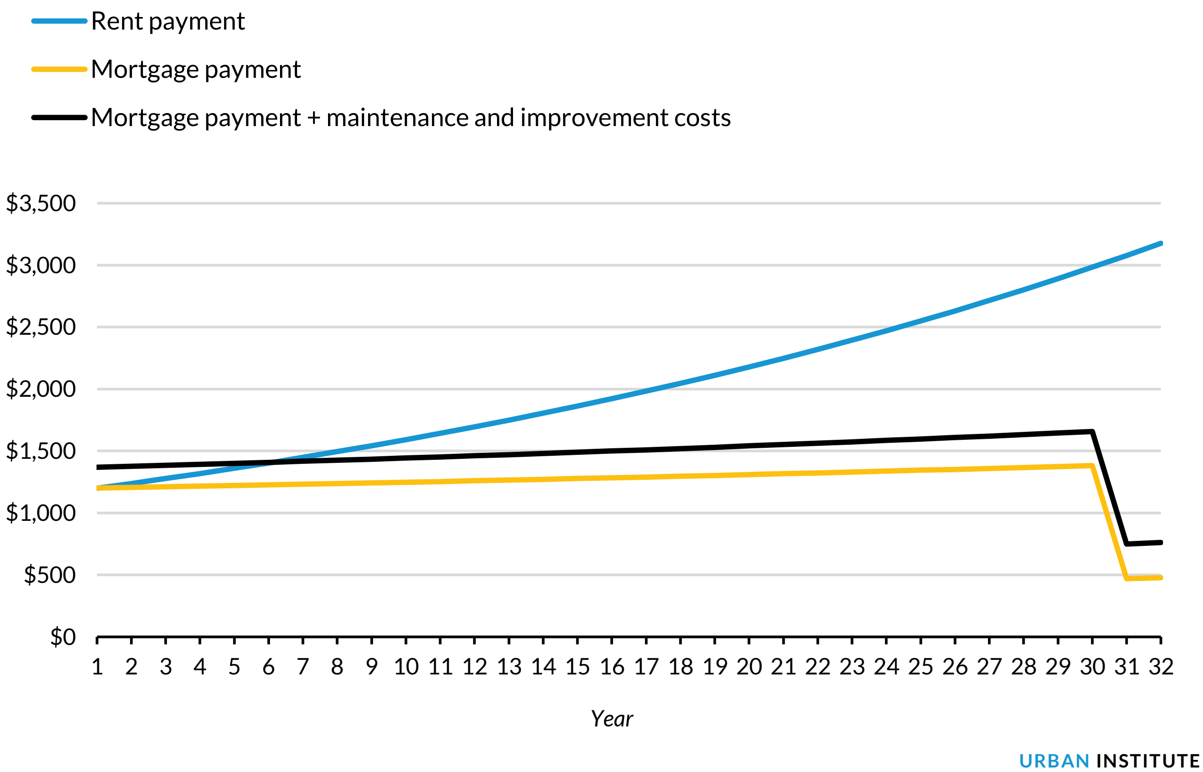
Homeownership's Affordability Big Bang

The final meaningful financial benefit of homeownership is what I call the "affordability Big Bang." After a homeowner household makes its final mortgage payment, its 361st payment drops tremendously because there is no longer a principal or interest portion. Instead, all the remains are the taxes and insurance (and any repair costs). This is homeownership's affordability Big Bang.

Extending figure 7 to include year 31 (figure 8), the Big Bang becomes obvious. That year, the total mortgage payment drops to $470—or $749 including estimated repair costs—or 5 percent of household income, which increases to 8 percent when estimated repair costs are included. Meanwhile the renter's payment for comparable housing has increased to more than $3,000, roughly 34 percent of household income.

FIGURE 8

Homeownership's Affordability "Big Bang"



Sources: 2019 American Housing Survey and Urban Institute calculations.
Note: The mortgage payment includes principal, interest, taxes, and insurance.

It is true that the affordability Big Bang most significantly benefits homeowners who remain in the home for the life of the mortgage. But homeowners who sell or refinance their homes before the mortgage is fully paid off also benefit from an affordability Big Bang. Continuing with the example of a homeowner who bought a $205,000 property, suppose she sold it 10 years after she purchased it. Absent any appreciation, she would still have accumulated $46,275 in equity (her "automatic savings account") from 10 years of principal payments. Assuming the closing costs she had to pay are 8 percent of the sales price, she would net about $30,000. And if the home appreciated at the modest rate of 3 percent annually, she would net more than $87,000.[14] Regardless of the size of the affordability Big Bang, the homeowner receives a lump sum payment that can be used to offset the cost of her next housing choice, whether renting or buying.

Conveniently, the affordability Big Bang often has good timing, as the homeowner experiences declining housing expenses before retirement and its attendant declining income. My mom, now 91, still lives in her first and only home, the home I grew up in in Albuquerque. Although she struggled financially after she divorced and had to support three kids on her own, she was still able to retire at 62, largely because she locked in an affordable house payment early in her life. Over the course of her 30-year mortgage, her house payment increased only slightly, while her income slowly but steadily rose after her divorce in 1973. By the time she was 55, the affordability Big Bang kicked in, and her house payment dropped to just the cost of taxes and insurance. At 55, she began saving in earnest for retirement.

The dramatic reduction of her housing costs and the resulting increase in discretionary income is what allowed my mom to save for retirement and have enough to pay for those trips to Hawaii. I do not want to underappreciate the importance of other aspects of our social safety net. They helped get my mom and our family to get through tough times and they are just as important today. But we should not underestimate the value of owning one's own housing, gaining control over what is usually a person's largest monthly expense, and significantly reducing that expense before retirement.

Conclusion

The most promising long-term solution to our country's affordable housing crisis sits right under our noses. Most Americans live in homes they own. They pay, on average, 16 percent of their income for their home, far less than the 30 percent benchmark generally used to define an affordable housing payment. Yet when we think about affordable housing for families who are struggling, we do not think about how to help them own their homes. We instead think about building new subsidized apartment buildings or providing more rent vouchers. When it comes to affordable housing policy, the bias for rental solutions is so strong that policymakers almost always use "affordable housing" and "rental housing" interchangeably, as if they mean the same thing.

I want to be clear that I am not saying everyone should be a homeowner and that there is no need for rental housing, including subsidized rental housing. We need both, as well as other kinds of housing, which are essential to a healthy spectrum of housing that can serve the needs of all Americans. I am saying that we need to stop assuming that anyone below a certain income who rents is ineligible for ownership. We need to stop assuming that millions of low- and moderate-income workers are not "ready" for homeownership. We need to stop seeing housing as a reward for financial success and instead see it as a critical tool that can facilitate financial success. Affordable homeownership is not the capstone of economic well-being; it is the cornerstone. Once we accept that, we can begin to create the sorts of safe, affordable homeownership opportunities that can foster financial stability and mobility for millions of Americans.

Notes

1 Data from the 2019 American Community Survey.

2 "Owning a Home More Affordable Than Renting in Nearly Two Thirds of U.S. Housing Markets," ATTOM Data Solutions, January 7, 2021, https://www.attomdata.com/news/market-trends/home-sales-prices/attom-data-solutions-2021-rental-affordability-report/.

3 Data from USASpending.gov.

4 Data from the 2019 American Community Survey.

5 Data from the 2019 American Community Survey.

[6] Data from the 2019 American Community Survey.

[7] In this brief, "mortgage payment" refers to the total of principal, interest, taxes, and insurance.

[8] "The Cost of Renting vs. Buying a Home in Every State," HowMuch.net, accessed April 21, 2021, https://howmuch.net/articles/cost-renting-vs-owning-home.

[9] Data from the Bureau of Labor Statistics.

[10] Assumes the buyer finances 100 percent of the purchase price (paying closing costs out of pocket) with a 30-year mortgage at an interest rate of 3.5 percent and with the typical costs of property taxes and insurance according to the American Housing Survey.

[11] Assumes a rent inflation rate of 3.19 percent and an overall inflation rate of 1.73 percent, the average rates between 2010 and 2020.

[12] Data from the Bureau of Labor Statistics.

[13] Data from the Bureau of Labor Statistics.

[14] Assumes a 30-year fixed-rate mortgage with an interest rate of 3.5 percent, an annual appreciatiation rate of 3 percent, and an 8 percent cost of sales when the home is resold.

About the Author

Mike Loftin is CEO of Homewise Inc., an effective nonprofit social enterprise, promoting sustainable homeownership in a way that improves the long-term financial well-being of modest-income families. Loftin led the creation and implementation of Homewise's comprehensive business model that seamlessly integrates all the steps of the home purchase process. Before his work at Homewise, Loftin was a community organizer in Chicago, where he founded the Resurrection Project, a preeminent Chicago community-development organization serving Mexican-American neighborhoods; organized an antidisplacement campaign in Chicago's Uptown neighborhood during his tenure with the affordable housing organization Voice of the People; and led the Metropolitan Tenants Organization in the passage of Chicago's Tenant Bill of Rights. Loftin serves on the board of Excellent Schools New Mexico, served on the board of the University of New Mexico Anderson School of Management Foundation, and was a governor-appointed board member of the New Mexico Mortgage Finance Authority. Loftin holds a bachelor's degree in history from Northwestern University.

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