

Low-income Homeownership: American Dream or Delusion?

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Summary. This paper is a critical analysis of recent US policy to promote low-income homeownership. It examines the ideology and assumptions buttressing this policy, evidence on the effects of low-income homeownership and the viability of homeownership as a strategy for low-income families. Evidence suggests that the prospect for sustained growth in low-income homeownership may be limited. Research does not provide uniform support for it as a tool for asset accumulation, neighbourhood economic development or other social and political goals. Alleged effects of homeownership may be artefacts of self-selection and the conflation of homeownership with unobserved characteristics coincident with buying homes. What homeownership does and why are not well understood because of difficulties disentangling what homeownership means. The elevation of low-income homeownership to its current status has deflected political attention away from alternative policies for affordable housing.

Introduction

Since the Great Depression, the hallmark of US housing policy, *sine qua non*, has been homeownership (Wright, 1983; Hayden, 1985; Jackson, 1985). Historical accounts of the initial motivations behind the push to create a nation of homeowners cite industrialists' interest in homeownership because they feared communism and labour unrest (Hayden, 1981, p. 283) and the belief that stable housing was intrinsically linked to the maintenance of a loyal citizenry (Wright, 1983). But the federal government's push for homeownership, its subsequent intervention in housing markets and its revolutionising of the housing finance industry occurred in the wake of the failed US economy in the late 1920s (Jackson, 1985). Homeownership

became a tool to stimulate consumption and increase production while improving Americans' housing conditions (Carliner, 1998). While World War II created a temporary hiatus in the homeownership push, when the troops came home, they were welcomed with federally insured long-term amortisation loans—a central ingredient to the success of a homeownership strategy (Wright, 1983).

It is not clear who pegged homeownership as the American Dream. Homeownership policy, however, has not been about imagining the unattainable but about creating the expectation of owning one's own home. Ideologically, homeownership has been portrayed as a political right seemingly more popular than voting (Shlay, 1985, 1986).¹ Indeed, anthropologist Constance Perin argues that

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homeownership is symbolically equivalent to citizenship—a status conveyed to the home-buyer through establishing a debt relationship with a bank (Perin, 1977).

Yet homeownership is also valued as the lynch pin for the maintenance and growth of a huge housing infrastructure that includes developers, the financial services industry, the real estate industry, planners, road builders and the like. Homeownership is politically popular, in part, because it has a myriad of constituencies (Buchholz, 2002).

To be sure, homeownership is criticised for escalating suburbanisation, fostering central-city decay, promoting neighbourhood racial change and segregation, and intensifying environmental damage, pollution and waste (Squires, 1994; Wright, 1983; Hayden, 1985; Jackson, 1985; Bradford, 1979). But even its critics fail to come up with good, feasible alternatives given homeownership's enormous popularity. In 2002, 67.9 per cent per cent of US households owned their own homes (US Census, 2002b).

Within the US, desires for homeownership have been longstanding. The colonising British, notes historian Kenneth Jackson (1985), quickly organised land into parcels for private consumption. This earliest version of the American dream was not about owning a home *per se* but about owning land. Owning land, however, was not a value indigenous to Americans; Native American Indians did not believe that natural resources such as land could be owned (Jackson, 1985). Detached housing development was enabled by appropriated land from the Indians and fuelled by a strong anti-urban bias imported from England.

The post-World-War-II growth in homeownership has largely stemmed from housing finance innovations directed at making the purchase of a home possible through a range of guarantees, instruments and incentives as well as increasing the supply of credit through the secondary mortgage market (Lea, 1996; Monroe, 2001). But the beneficiaries of homeownership have historically been working- and middle-class White households, rather than poor households and

households of colour (Denton, 2001). In recent years, this has changed. Low-income families represent a new target of homeownership policy. Nationwide, low-income homeownership is now a policy goal for government at the local, state and federal levels, is claimed as an accomplishment by both the Clinton and Bush presidencies, and is featured in television and radio advertisements.

This paper provides a critical analysis of the recent policy shift to promote low-income homeownership. It examines the ideology and assumptions buttressing this policy, evaluates evidence on the effects of low-income homeownership and assesses the viability of homeownership as a strategy for low-income families.

This paper has several parts. Parts one and two review the rationale for low-income homeownership and the genesis of low-income homeownership policy. Part three examines trends in low-income homeownership and the potential for growth in this market. The fourth part looks at research on the effects of low-income homeownership. The fifth part examines characteristics of metropolitan housing markets that may prevent low-income families from benefiting from homeownership. The final part presents a set of possible policy alternatives to explore for strengthening homeownership and other housing opportunities for low-income families.

The Rationale for Low-income Homeownership

Within the housing field, there is a longstanding tradition of viewing housing as a source of social problems (Dean, 1949; Hartman, 1975; Wright, 1983). Public interventions in the housing market, including housing codes, zoning, urban renewal and slum clearance, and public housing, were based on a set of beliefs that poor housing caused social, psychological and behavioural problems (Glazer, 1980; Rainwater, 1980; Bellush and Hausknecht, 1967; Gans, 1977; Babcock, 1966). Ideologically, this was rooted, in part,

in an anti-urban bias suggested by leaders of the Chicago School of Urban Sociology who worried about the effects of urban size, density and heterogeneity on the breakdown of social norms and community (Bassett and Short, 1980; Fischer, 1982; Baldassare, 1979; Wirth, 1969). To be sure, urbanisation and massive immigration brought with them unhealthy and unsanitary housing conditions. But the rationale for public intervention in housing was linked to the alleged social conditions and social pathologies associated with bad housing. Critics called these unsubstantiated links between housing and behaviour the ‘myths of housing reform’ (Dean, 1949).

Promoting homeownership, and particularly low-income homeownership, is firmly rooted in this deterministic tradition. Low-income homeownership is expected to bring with it a wide range of social, behavioural, political, economic and neighbourhood changes, many due to behaviours expected with the economic investment that homeownership represents. The goals associated with low-income homeownership are shown in Table 1.

The economic goals associated with low-income homeownership are the most intuitive. As with higher-income households,

proponents view low-income homeownership as an asset-building strategy for owners to build up equity in their homes (Retsinas and Belsky, 2002b). In addition, low-income homeownership is viewed as a substitute investment for other types, including 401Ks, stocks and mutual funds. It is also viewed as a type of forced savings where making a monthly mortgage payment is similar to putting money in a bank, unlike with making a rental payment. With a fixed-rate mortgage, low-income homeownership is expected to keep housing costs more predictable.

Anticipated social changes are those that affect family well-being because homeownership is believed to give people more control over their housing and, therefore, their lives (Rohe *et al.*, 2002b; Rohe and Stegman, 1994a, 1994b). It is also expected to provide families with more opportunities (Rohe *et al.*, 2002a). For adults, expected social changes include greater life satisfaction, increased participation in voluntary civic organisations and improved physical and psychological health (Dietz and Haurin, 2003). Through homeownership, low-income families are expected to become healthier, happier and more involved in community. For children, homeownership is expected to

Table 1. Low-income homeownership rationales/goals

Family economic	Family social	Political	Neighbourhood
Asset-building	>Social stability	<Criminal activity	>Property values
Substitute investment for 401Ks, stocks, trust funds, etc	>Family functioning	>Political (voting) participation	>Care of property
Enforced savings	>Satisfaction	>Commitment to employment	>Stability
Created ‘fixed’ housing costs	>Voluntary/civic participation	>Tax base	<Abandonment
	Children’s outcomes (cognitive and behavioural)	>Population growth	<Graffiti, litter and other signs of decline
	<Juvenile delinquency		
	>School attendance		
	>Physical and mental health		

produce both positive cognitive and behavioural changes resulting in less juvenile delinquency and better school performance (Haurin *et al.*, 2002).

Through a more definitive commitment towards place, low-income homeownership is expected to bring with it changes in political behaviour as well as changes in the local political climate (Gilderbloom and Markham, 1995; Rossi and Weber, 1996; Rohe and Basalo, 1997; Heskin, 1983; Blum and Kingston, 1984; Saunders, 1990). Low-income homeowners are expected to vote more than renters and to be more politically engaged and aware. Low-income homeownership is projected to affect positively the local tax base and to spur local population growth (Rohe *et al.*, 2002a).

At the level of the neighbourhood, low-income homeownership is expected to strengthen local housing markets (Rohe and Stewart, 1996). These homeowners are expected to take better care of their property than renters and therefore create positive neighbourhood spillovers. Presumably, property values will then rise and abandonment and other forms of blight will decrease (Haurin *et al.*, 2003).

The Genesis of Low-income Homeownership Policy

Homeownership and, in particular, suburbanised homeownership, have deep roots in the activities of the federal government (Jackson, 1985). Yet homeownership has become so entangled with American ideas of social status that it is not entirely evident whether federal policy came to reflect prevailing popular culture or whether desires for homeownership became the ideological manifestation of these political forces. Clearly, public policy and housing preferences have been 'in sync', leading to homeownership's enormous popularity in the US.

The roots of low-income homeownership policy lie in the creation of the Federal Home Administration (FHA) in 1934 and the subsequent establishment of Fannie Mae (Jackson, 1985; van Order, 2000). FHA

made homeownership possible for many US households by guaranteeing payment in the event of default. Fannie Mae, Freddie Mac and the evolving Government Sponsored Enterprise (GSE) infrastructure created a secondary market for these loans. These federal interventions in the mortgage market pioneered innovation in mortgage instruments and products, expanded homeownership to the middle class, fuelled suburbanisation and created what economist Michael Lea (1996) calls 'a wonderful life' in mortgage finance where government propelled innovation by sharing risk with the private sector.

But the government also defined risk by developing lending guidelines that made it difficult, if not impossible, to make FHA-insured loans in minority neighbourhoods, racially changing neighbourhoods and older neighbourhoods more generally. By classifying many urban neighbourhoods as poor risks, FHA guidelines effectively redlined cities (Jackson, 1985; Bradford, 1979; Stuart, 2003).

The civil rights movement highlighted FHA's racial and anti-urban bias. Agitation brought about important reforms in the late 1960s. These reforms, largely through the now-infamous 235 programme, increased the availability of FHA finance to minority households. Mortgage brokers heavily marketed FHA loans to inner-city communities using relaxed credit standards for minority homebuyers and massively inflated appraisals (Hays, 1993). Home improvement companies, often in partnership with mortgage companies, bought older homes from the exiting Whites moving to the suburbs and sold them to minorities (a practice known as flipping). Many of these new minority homebuyers could not afford to maintain the homes that they purchased (Bradford, 1979; Squires, 1994). FHA reforms with flawed underwriting, inflated appraisals, scandalous lending practices and massive foreclosures led to wholesale neighbourhood devastation in many city neighbourhoods, particularly in Midwestern and Northeastern cities. The alleged wonderful life in mortgage innovation became a death sentence for many central-city minority neighbourhoods.

With the recognition that lenders were redlining communities, a practice with roots in the neighbourhood underwriting guideline perpetrated by FHA, came the impetus for another innovation in lending—community reinvestment. The logic behind community reinvestment was that mortgage originators, typically savings and loans institutions, had responsibilities to invest in communities that were the source of local deposits (Squires, 1992). Lenders who failed to invest in communities from which they derived deposits were *disinvesting* from communities by taking their deposits and investing them in someone and somewhere else. An important contribution of the community reinvestment movement was the recognition of the role of private investment decisions in promoting urban decay and inequality (Shlay, 1993).

Sophisticated organising led to the establishment of two federal policies in response to disinvestment, the Home Mortgage Disclosure Act of 1975 (HMDA) and the Community Reinvestment Act of 1977 (CRA). HMDA mandated lenders to report the location of their residential lending, permitting people to document where lenders were making loans. CRA made reinvestment a federal requirement for lenders under federal regulatory oversight (Squires, 1992).

The community reinvestment movement, however, did not advocate for low-income homeownership. But this movement, as it changed form in the last part of the late 20th century, was highly influential in the evolution of low-income homeownership as a desired policy goal.

How did this happen? A variety of forces converged, providing the impetus to move on the low-income homeownership frontier. These included the community reinvestment movement, the collapse of the savings and loan industry, a new political administration in Washington and technological changes in underwriting.

The merger mania and financial restructuring of the ‘go-go’ 1980s created opportunities for Community Reinvestment Act (CRA) challenges—a regulatory moment when local community groups and others could protest a

merger or acquisition based on a lender’s lack of compliance with CRA mandates. This led to the negotiation of a host of CRA agreements where lenders committed large amounts of money targeted for urban, minority and low-income lending (National Housing Conference, 2001; Squires, 1992, 2003; Shlay, 1999).

During this same time-period, the collapse of many institutions within the savings and loan industry suggested that prevailing definitions of risk were not firmly grounded in realistic underwriting standards. The understanding that loans to low-income families did not cause savings and loans to fail was accompanied by a growing recognition that low-income loans were profitable and good insurance against loss (Listokin *et al.*, 2002). This perceptual shift fostered a new look at the potential low-income homebuyer.

Lenders were also seeking new markets. Changes in homeownership rates remained flat during the late 1980s and early 1990s, hovering at around 64 per cent (Masnick, 2001). Low-income homebuyers represented a new and untapped market.

Other federal policy initiatives intensified their focus on low-income homeownership. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 established performance standards for Government Sponsored Enterprises (GSEs Fannie Mae and Freddie Mac) to make homeownership available to a wider variety of households (Case *et al.*, 2002; Fishbein, 2003). The Department of Housing and Urban Development then established target goals for the purchase of loans made to low- and moderate-income homebuyers (less than or equal to the MSA median income) in central cities and to specifically targeted lower households.² The GSEs were required to target the ‘underserved’ markets. Both Fannie Mae and Freddie Mac increased activities around innovating loan products that would help them to meet these goals.

President Clinton also made low-income homeownership part of his housing agenda. He established a policy goal of increasing homeownership to 67.5 per cent (Masnick,

2001; Bratt, 2002). As George Masnick notes, the Clinton administration set this goal and achieved it without either new funding initiatives or momentum from earlier trends. The strategy to accomplish the goal depended heavily on boosting homeownership among groups with low homeownership rates and involved vigorously enforcing fair housing and banking laws already on the books. By partnering with over two dozen public and private organisations that serve as national housing advocates, the Clinton administration developed a far-reaching programme to help minorities and others who have been historically underserved by housing markets (Masnick, 2001, pp. 7–8). In other words, low-income homeownership would be facilitated by eliminating the barriers preventing it, many already against the law but never enforced under previous administrations (Bostic and Surette, 2000). Clinton's homeownership agenda was not new policy *per se* although it gave increased emphasis to low-income homebuyers.

Technological changes also converged as financial and political institutions began to focus on low-income homeownership. Both the computerisation of the mortgage-lending industry along with automated underwriting cut the time and therefore the cost in underwriting, making home mortgages more accessible to lower-income borrowers (Lea, 1996).

Trends and Potential in Low-income Homeownership

During the late 1990s, low-income homeownership grew to such an extent that it was labelled a boom (Belsky and Duda, 2002a). From 1993 to 2000, the number of home purchase loans to low-income families grew by 79 per cent (Retsinas and Belsky, 2002a). Home purchases to low-income families and minorities increased more sharply than for other groups (Bostic and Surette, 2000).

The number of low-income minority households increased by more than 800 000, representing 11 per cent of the net increase in homeowners (Belsky and Duda, 2002a). Belsky and Duda (2002a) note that

homeownership rates for low-income and minority households grew more rapidly than for other groups. Therefore, a surge in low-income homeownership, particularly among minority households, constituted a significant proportion of the net growth in homeownership more generally (Retsinas and Belsky, 2002a).

Where have low-income buyers been purchasing homes? Analysis of the spatial patterns associated with these purchases shows that low-income buyers have been moving to neighbourhoods in both suburbs and central cities (Belsky and Duda, 2002a). Some research shows that increases in low-income homeownership have not been accompanied by a reduction in racial and ethnic segregation (Immergluck, 1998). Other research shows that, although Black homeownership increased in neighbourhoods within more racially diverse communities, minority composition in these neighbourhoods was much higher than the national average (Herbert and Kaul, 2005).

What are the prospects for sustaining this growth? This article reports on research that looks at both the demand- and supply-side potential for low-income homeownership.

On the demand side, Eggers and Burke (1996) examined how reducing race- and income-based disparities would affect homeownership rates. Using simulation techniques, they suggested that policy changes to reduce gaps created by race and income could increase low-income and minority homeownership by the year 2000. This research effectively outlined the market's responses to policy changes around fair lending and housing affordability introduced during the Clinton years.

More recent research on the demand side suggests that the market for low-income homeownership has a limit. Looking at mortgage instruments available to serve the low- to moderate-income market, Listokin *et al.* (2002) examined how many renters could qualify for loans given their income and assets. Using simulation techniques, this research estimated the share of the rental population that could potentially reap the benefits of these mortgage products.

They found that homeownership remained unaffordable for about 80 per cent of renters. This represents 21 million renter families that cannot be served by the low-income mortgage market given the most liberal underwriting standards. Underscoring renters' lack of assets the researchers note that

With such a trace level of assets, even a 100 per cent LTV (loan to value) mortgage will not facilitate homeownership because of the resources required to meet substantial closing costs (Listokin *et al.*, 2002, p. 493).

They suggest that additional income and asset supplements are needed to address the renters' financial barriers to homeownership. This includes assistance with housing downpayments (Herbert and Tsen, 2005; Herbert *et al.*, 2005).

Some policy analysts suggest that increasing low-income homeownership solely through credit liberalisation and mortgage lending product innovation may have already reached its limit (Carasso *et al.*, 2005). They speculate that greater emphasis should be placed on low-income homeowners' housing retention and equity accumulation.

Research shows that a large Black–White gap in homeownership remains. This continued gap, argue some researchers, is due not to credit barriers *per se* but to other household characteristics, indicating a limit on how much mortgage finance innovation can increase minority homeownership rates (Gabriel and Rosenthal, 2005). Importantly, some researchers now argue that credit barriers based on discrimination or lack of information may no longer explain gaps in homeownership rates, by income, race and ethnicity (Herbert *et al.*, 2005). Rather, they believe that wealth, income, human capital and employment remain obstacles to homeownership. This does not necessarily absolve discrimination as an explanation in racial and ethnic gaps in homeownership rates. Rather, obstacles to homeownership may be tied more to the legacy of past discrimination that results in racial and ethnic disparities in

education, employment and human capital (Masnick, 2004).

At the same time, there are supply-side constraints on homeownership. Research finds that there is a lack of adequate housing units at affordable prices and that affordable homes are being swallowed up by housing price inflation and vacancies (Collins *et al.*, 2002). Few non-mobile housing units are being added to the affordable housing stock. According to Collins *et al.*

Policymakers need to recognize the failure of filtering as a mechanism to expand the supply of affordable homes (Collins *et al.*, 2002, p. 198).

With the recognition that filtering may not produce affordable homeownership opportunities for low-income families, research is now examining whether manufacturing housing (modular homes built in factories) is a reasonable homeownership option. It suggests that manufactured housing, under the right conditions, would be a beneficial investment (Boehm and Schlottmann, 2004c).

The Effects of Low-income Homeownership

What does social science tell us about the impact of low-income homeownership? The literature focuses on three areas of concern: the social and behavioural effects of homeownership; the economic returns to low-income homeownership; and, the impact of low-income homeownership on children.

Social and Behavioural Effects of Homeownership

Most research on the effects of homeownership, however, is not on low-income homeowners but on middle- and high-income homeowners. The research focus on homeowners at the higher end of the economic spectrum reflects that, by definition, the market for homeownership has been largely the domain of higher-income families (Rohe and Stegman, 1994b).

Research on these largely middle-class homeowners shows positive effects of

homeownership. Homeowners, compared with renters, have longer tenure in their housing and comparably less residential mobility. They are more likely to maintain their property and experience greater property value appreciation (Rohe and Stewart, 1996). Homeowners are also more likely than renters to be satisfied and to participate in political and voluntary activities (Rohe *et al.*, 2002; Blum and Kingston, 1984; DiPasquale and Glaeser, 1999).

Coulson and Fisher (2002) address the relationship between homeownership and mobility directly by examining the impact of homeownership on labour market outcomes. Theorising that homeowners would be constrained in their search for employment because of the costs of relocation, they examined employment differences in renters and owners. If homeowners are constrained, they would be more likely to be unemployed, have longer spells of unemployment and have lower wages than renters. To the contrary, they found just the opposite—that owners experienced less and shorter unemployment and received higher wages compared with renters.

Rossi and Weber (1996) address the effects of homeownership on social characteristics. They examined a wide range of characteristics including household composition, well-being, sociability, marriage and the family, confidence in major American institutions, attitudes towards neighbourhoods, levels of political engagement and views on various public issues. Weak although consistent differences were found between renters and homeowners along dimensions of life satisfaction, self-esteem and participation in community organisations. Yet for the bulk of their analyses, they found no consistent differences between renters and owners and conclude that “tenure status is not a line of ideological cleavage in American society” (Rossi and Weber, 1996, p. 29).

These effects of homeownership, however, may be confounded by the simultaneous effects of income, education, length of residence and family life cycle (Rossi and Weber, 1996; Rohe and Stegman, 1994b; Blum and Kingston, 1984; DiPasquale and Glaeser,

1999). This is because homeownership may coincide with, or be a product of, being at the stage in the family life cycle when owning one’s home is feasible and/or desirable.

Homeowners may become homeowners because they are ready, willing and able to stay in one housing situation for a considerable amount of time. Therefore, these effects of homeownership may be an artifact of a homeowners’ self-selection process into this form of housing tenure ((Rohe *et al.*, 2002). Blum and Kingston note in an early study of homeownership that they

prefer to see homeownership as part of cluster of reinforcing statuses and outlooks that both sustains and creates social attachment (Blum and Kinston, 1984, p. 176).

In addition, Rossi and Weber (1996) found that, even when accounting for age and income, there were many family and economic differences between renters and owners. Correlates of homeownership are not necessarily caused by homeownership (DiPasquale and Glaeser, 1999).

Certain behavioural and social characteristics that appear due to homeownership may actually be due to unobserved individual or household characteristics (Dietz and Haurin, 2003). Dietz and Haurin (2003) discuss household planning activities or labour force behaviour associated with the goal of homeownership as being an antecedent, not a consequence of homeownership.

In addition, it may not be appropriate to generalise findings about middle-income households to behaviours of low-income households. As noted by Rohe and Stegman (1994b, p. 155), “Social class, ecological conditions, or other factors may result in a very different pattern of involvement among lower-income homeowners”. The effects of homeownership may not be uniform across classes. A report from the National Housing Conference states that

whether the assumed social benefits of homeownership are really caused by homeownership or rather are so strongly associated with the types of families that

become homeowners, that one cannot truly tease them apart. And this is for all homeowners; arguably, many of the potential benefits of homeownership ought to be lower for very low-income families than for higher-income families (National Housing Conference, 2004, p. 4).

An important study that focused directly on the effects of homeownership on low-income families incorporated a quasi-experimental design to compare social, attitudinal and behavioural changes for a sample of recent low-income homebuyers with a sample of low-income Section 8 renters (Rohe and Stegman, 1994a, 1994b, 1996). They interviewed households at three points in time separated by 18-month intervals. Using multivariate techniques that controlled for family, economic, social and housing characteristics, they examined the effects of homeownership on changes in self-esteem and perceived control, life satisfaction, neighbouring, extent of organisational involvement and the intensity of organisational involvement. They found limited although positive effects of homeownership. Compared with low-income renters, homeowners were more likely to increase their involvement in neighbourhood organisations but not in other types of organisations. Homeowners became more satisfied with their lives compared with renters (Rohe and Stegman, 1996). This may potentially indicate the positive influence of homeownership, but also the problems occurring with living in neighbourhoods of low-income, rental housing.

The Economic Returns to Low-income Homeownership

Homeownership is expected to bring economic benefits to low-income families. But, as noted by Nicolas Retsinas and Eric Belsky (2002a), there is not clear evidence that homeownership delivers economic gains to low-income households. The question is whether homeownership is a good asset-building strategy for low-income families compared with renting. And the answer is, we do not know.

It is difficult to generalise about homeownership as an investment because the rate of return depends both on the timing and place of purchase (Belsky and Duda, 2002b). The amount of time the property is held and the size of transactions costs are also crucial variables. Whether homeownership brings economic gains to households depends on the timing and location of purchases.

Moreover, the pay-off from homeownership may not result from the sale of one's first home but from re-entering the market and purchasing another house for a significant amount of time (Belsky and Duda, 2002b). As a good investment strategy that pays dividends to homeowners, homeownership may require a long-term, sustained investment in multiple houses. While the potential risk for low-income homeowners rests on timing as to when they enter or exit the housing market, it also rests on whether they can afford to continue to stay in the market for a considerable amount of time. According to Belsky and Duda

for those who are unable to buy again or whose timing once again triggers a loss, homeownership can turn out to be less than its idealized billing (Belsky and Duda, 2002b, p. 219).

When one enters the market is critical (Case and Marynchenko, 2002). Entering the market at the end of a cycle of appreciation may result in buying high, but selling low—obviously not a good situation for any income homebuyer. For low-income homebuyers with fewer assets, the incurred loss may be much more deeply felt than by households with more resources to fall back on.

How long someone owns the house and stays in the market is also a crucial variable. Belsky and Duda (2002b) found that many low-income homeowners sell their homes for less than what they paid for them without experiencing appreciation levels large enough to cover the associated transaction costs.

Once becoming homeowners, low-income households do not stay homeowners like their higher-income counterparts (Boehm and Schlottmann, 2004a). One study found

that low-income homebuyers returned to renting at extremely high rates, suggesting that these households need more support after they purchase their homes (Reid, 2004). Incorporating a longitudinal design that followed household housing decisions over time, Boehm and Scholottnann (2004a) found that low-income homeowners, particularly minority ones, were more likely to revert back to renting without ever purchasing a home again. They suggest that for low-income and minority families, homeownership “may be less beneficial than it otherwise might be” (Boehm and Scholottnann, 2004a, p. 129).

Although many low-income and minority homebuyers transition back from owning to renting, Boehm and Scholottnann (2004b) also find that those who remained homeowners accumulated wealth that their rental counterparts did not. Moreover, the wealth accumulated from homeownership represented the sole net worth of these households who otherwise would be bereft of assets. These low-income and minority homeowners who managed to buck the trend to transition back to renting experienced significant wealth benefits from homeownership.

The strength of the regional economy and low housing market conditions are additional critical variables affecting the profitability of low-income homeownership (Case and Marynchenko, 2002). It may be good to buy in the lower-priced market in Philadelphia in the late 1980s, but not in Los Angeles in the mid 1990s. Where, when and how long represent the big ‘ifs’ associated with whether low-income homeowners will come out ahead of renting.

In addition, a question is whether homeownership is a good investment compared with others. Goetzmann and Spiegel (2002) argue that homeownership may be a relatively poor asset to invest the bulk of a household’s net worth because of its low performance compared with other investments. Of course, the concept of an investment portfolio may seem a bit unrealistic in the context of discussing the financial well-being of low-income households. Given, however, the precarious

financial situation of many low-income households and the significance of financial loss for them, the opportunity costs of their capital should be scrutinised like those of households with more economic resources. Examined along these lines, the conclusions reached by economists Goetzman and Spiegel in their analysis of housing’s economic performance are severe.

Overinvestment in housing by families with modest savings means underinvestment in financial assets that will grow and provide income for retirement. In fact, *encouraging homeownership among low-income families will only increase the wealth gap in the United States* (Goetzman and Spiegel, 2002, p. 272; emphasis added).

The problem of overrelying on housing as an investment compared with others is compounded by tax issues as well. Mortgage interest deductions are worth more to higher-income people than to low-income households (Collins *et al.*, 1999; Carasso *et al.*, 2005). The economic benefits from mortgage interest deductions to higher-income households mean that lower-income families may be better off renting from higher-income landlords.

The continued high level of racial segregation in most US cities also means that returns to investments may be affected by what has long been regarded as a dual housing market (Denton, 2001). Neighbourhoods of Black homeowners, on average, have been found to be better than those housing Black renters. But the differences between neighbourhoods of White owners and White renters were much larger. Therefore, benefits accrued to White low-income homebuyers may be greater than those accrued to Black low-income homebuyers. Both place, race and neighbourhood are vital parts of the equation when assessing economic benefits to low-income homeownership.

Is homeownership a quality economic investment for low-income families? The answer is complex. The diverse nature of housing markets, the leveraged nature of home purchases, the costs of entering and

leaving the homeownership market, the rate of return from housing compared with other investments and differential effects of tax policy on higher- versus lower-income families present questions as to whether low-income homeownership is a uniformly positive economic investment strategy.

The Effects of Low-income Homeownership on Children

A significant body of research demonstrates positive benefits of homeownership for children. Children in families of homeowners are more likely to have fewer emotional and behavioural problems (Boyle, 2002), graduate from and perform better in school, have fewer teenage pregnancies (Green and White, 1997) and acquire more education and income (Boehm and Schlottmann, 1999). Moreover, homeowners' children are more likely to become homeowners as adults, therefore continuing this cycle of increased benefits accrued to children who live in homes their parents own (Boehm and Schlottmann, 1999). Boehm and Schlottmann (2002) show that homeowners' children accumulate more wealth because they are more likely to own their homes and acquire greater educational credentials. Regarding children, Green and White (1997) find that homeownership benefits lower-income families more than higher-income families.

Homeownership also has been found to influence the cognitive and behavioural outcomes of young children (Haurin *et al.*, 2002). Children living with homeownership parents tested higher on maths and reading tests. The home environments of homeowners were rated higher in terms of providing cognitive stimulation and emotional support for children.

Finding that homeownership influences child outcomes leads to more questions. How does homeownership affect children? Developmental psychologist Michael Boyle suggests that becoming a homeowner may be as much a process as an outcome with the implication that going through this process may select families more likely to raise children with lower risks of emotional or

behavioural problems (Boyle, 2002). Economists Boehm and Schlottmann ask "which components of owned housing make the biggest difference for children?" (Boehm and Schlottman, 2002, p. 231). Are homeownership parents more vigilant in watching out for their children because they have an investment in the neighbourhood or do better child outcomes reflect the personal traits of homebuying parents (Green and White, 1997)? Are the skills sets associated with becoming and remaining homeowners similar to those associated with being good parents (Dietz and Haurin, 2003)? Does the effect of homeownership operate through neighbourhoods, the physical characteristics of housing or what? In other words, are outcomes the direct effects of homeownership or indirect effects that are mediated through other variables?³ What are the unobserved variables that might explain why homeownership has positive effects on children?

In a major effort to control for some of the previously unobserved variables that may mediate the effects of homeownership, preliminary research has replicated and extended some of the prior research on homeownership and children (Barker and Miller, 2005). It looked at a range of child outcomes including high school drop-out rates, cognitive ability, behavioural problems and ratings of the home environment. Added control variables included residential mobility, wealth, housing type and automobile ownership; the researchers also incorporated some additional methodological techniques. The inclusion of these different measures and methods substantially reduced or eliminated previously found effects of homeownership, indicating the importance of mediating and unobserved factors that operate coincident with homeownership.

Focusing specifically on low-income homeowners, one study separated the effects of neighbourhood from homeownership *per se* and examined the net effects of tenure and neighbourhood conditions on adult outcomes for children who lived with homeownership low-income parents (Harkness and Newman, 2002). They found that homeownership

influenced positive outcomes later in life including less idleness, higher wages and lower levels of welfare receipt.

Neighborhood conditions affected the magnitude of this effect. Problematic neighbourhood conditions like high rates of poverty and residential instability reduced the effects of homeownership and, in some situations, bad neighbourhoods could produce worse outcomes for children with homeownership families. Better neighbourhood conditions increased the positive effects of homeownership. The impact of renting was less affected by neighbourhood conditions. Therefore, this research suggests that homeownership produces positive outcomes but produces the largest effects in combination with being in better neighbourhoods.

Expanding the analysis to compare the effects of homeownership on children living in high- and low-income families, Harkness and Newman (2003) found that homeownership benefits lower-income children more than higher-income children. For higher-income children, positive outcomes were influenced by parent characteristics such as education and income, not homeownership. For lower-income children, homeownership brought with it benefits over and above family characteristics. The difference in homeownership effects for high- versus low-income homeowners stemmed from *a priori* differences between high- and low-income homebuyers. For higher-income homeowners, the alleged effects of homeownership operated through, and are attributed to, parent characteristics.

But it is also not clear how homeownership affects the children within lower-income homeownership families. Harkness and Newman (2003) ask whether the positive effects of homeownership are outcomes of the owned status of housing and its function as an asset or because they increase the residential stability of households?

Research finds consistently positive effects of homeownership on children that operate through adulthood, particularly for low-income children. How homeownership works to deliver these benefits (for example,

through family characteristics or residential stability), however, remains undetermined. As noted by Boehm and Schlottmann

If effective housing policies are to be developed, which are also cost-efficient to implement, the intricacies of the process by which children raised in owner-occupied housing benefit from their environment must be better understood (Boehm and Schlottmann, 2002, p. 424).

Metropolitan Housing Markets and Low-income Homeownership

Within the housing literature, housing is conceptualised as a multidimensional phenomenon that comprises a bundle of characteristics (Shlay, 1995). The housing bundle includes features of the housing unit, neighbourhood composition (family, racial and ethnic and economic), neighbourhood conditions, location, housing type, housing quality and access to schools, services and employment. Housing tenure (renting or owning) is one feature of the overall housing bundle.

But tenure is highly correlated with other housing bundle characteristics (Shlay, 1985, 1986). Owner-occupancy often coincides with better neighbourhood conditions and locations. Are the desired outcomes or alleged effects of homeownership due to ownership *per se* (direct effects of homeownership) or do they stem from other aspects of housing such as location or access to amenities?

A major question is what is being delivered through homeownership? There are no 'pure' tenure effects because of the high correspondence between tenure and other characteristics. In addition, the concept of ownership *per se* is messy in that few households, particularly low-income ones, own their units outright. Ownership is mediated by financial institutions that underwrite the purchase of the home.

Two major housing market characteristics are central variables to homeownership's ability to deliver for low-income families. These include residential location (a home's

relationship with space) and financial intermediaries (a household's relationship with sources of housing finance). These two factors can either undermine or support a household's opportunities for success in the low-income housing market.

Location and Low-income Homeownership

Low-income homeownership is billed as a mechanism for helping neighbourhoods. But what are the risks to low-income families, compared with higher-income families, when buying into this market? Low-income housing is typically more available in neighbourhoods with poor-quality housing (Listokin and Wyly, 2000; Shlay, 1993) although many low-income homebuyers are buying homes outside low-income neighbourhoods (Belsky and Duda, 2002a). Low-income homebuyers face greater risks in terms of costly home repairs, lower rates of appreciation and lower-quality neighbourhood amenities (Retsinas, 1999; Louie *et al.*, 1998). Therefore, low-income homeownership as a policy goal may move already-at-risk households to take on even more risk under conditions of great uncertainty. It is unclear whether policy directed at helping low-income families should encourage people with the least amount of assets to take on more risk.

Low-income homeownership is also promoted as a tool for central-city revitalisation. Like low-income neighbourhoods, central cities, however, may not be good locations for investment, particularly for low-income families. Central cities typically have poorer quality schools and services than suburban locations. Therefore, buying homes in central-city neighbourhoods may not be the best mechanism for providing low-income families with greater access to economic opportunities and upward social mobility (Rohe *et al.*, 2002a). A study of first-time, low-income homebuyers within two heavily subsidised Nehemiah complexes indicated that, although families gained better housing conditions, their new neighbourhoods had poorer schools and higher crime rates than

their previous ones (Cummings *et al.*, 2002). It may not be good policy to encourage low-income families to invest in communities with the least resources.

The Financial Services Industry and Low-income Homeownership

The community reinvestment movement combined with heightened enforcement of the Fair Housing Act has helped to eliminate some credit barriers for prospective low-income homeowners (Squires, 2003) although several significant ones remain (Rosenthal, 2002; Brakova *et al.*, 2003). Low-income homebuyers' recognition by the financial services industry, however, as a potential market for lending has been accompanied by the growth of a new segment of the industry—the subprime lending market. The growth of the subprime lending market represents a major shift in the housing finance industry in the US.

Subprime loans carry higher interest rates and fees to cover the additional risk incurred from making loans to borrowers with problematic credit ratings (Squires, 2004). During the 1990s, the number of subprime loans made in the US grew by 900 per cent (Hurd and Kest, 2003).

A subset of loans made within the subprime lending industry is termed predatory lending (Renuart, 2004). Predatory loans contain excessive terms including points and fees, poor underwriting, high and extended prepayment penalties, flipping and repeated financing, inflated house appraisals and other illegal and deceptive practices (Hurd and Kest, 2003). These loans are considered predatory because lenders use deception, unfairly making these high-priced loans to vulnerable populations (White, 2004). In particular, predatory loans, and subprime loans more generally, are marketed to elderly, low-income and minority families (Stein, 2001). Subprime loans have been disproportionately concentrated in minority communities (Immergluck and Smith, 2004; Calem *et al.*, 2004).

Predatory lending is a process that strips equity from people's homes. While

conventional mortgage instruments are used by households to build equity in their property, predatory lending takes equity out of property in the form of excessive fees to lenders—estimated to have reached \$2.1 billion annually (Stein, 2001; Renuart, 2004). The estimated total cost of subprime lending is \$9.1 billion annually. This does not include the costs of excessive foreclosures (Stein, 2001). Research shows that subprime lending increases the number of foreclosures in communities (Immergluck and Smith, 2004).

Subprime lending in its predatory form has devastating consequences for households and communities, particularly minority, low-income and elderly ones (White, 2004). By increasing the number of low-income and minority homebuyers, policy is increasing the number of households at risk of being preyed upon by predatory lenders. That is, policy designed to promote savings and asset accumulation by low-income families may be serving up potential customers for the subprime lending industry. A reasonable question is whether low-income homeownership places low-income homebuyers at risk of having would-be equity in their homes stripped away by predatory lenders.

Housing Policy Alternatives for Low-income Families

Low-income homeownership has been elevated to flagship housing policy status with the goal of providing a myriad of benefits that include asset accumulation, social and behavioural changes for adults and children, increased political involvement, less criminal and deviant behaviour, and neighbourhood improvements that contribute to urban revitalisation. Low-income homeownership is portrayed as a policy that will help to solve complex social and political problems associated with being low-income and as a launch-pad for family socioeconomic mobility.

Yet meeting these goals for low-income families is confounded by many factors including the financial constraints on low-income families that preclude homeownership as

an option, low-income families' rapid movement from owning back to renting, risks of overrelying on housing as an investment, negative externalities associated with the location of homes affordable to low-income households and opportunistic and exploitative behaviour by financial intermediaries. Low-income homeownership's ability to deliver is limited precisely by the financially perilous situation of low-income families. With homeownership, potential low-income homebuyers are more at risk because they are low-income.

To address fully the housing needs of low-income families and to provide policy that will enhance their opportunities in way that will permit social and economic advancement, policy needs to account for the multifaceted nature of the housing bundle. Policy should not solely work at getting families into a homeownership situation without ensuring that it is a viable investment and is in a quality location. Housing policy should not increase risks for families already at risk of a host of problems. It should work at eliminating them or at least minimising their probability of occurring.

With these conditions in mind, this paper offers three general policy directions for low-income housing policy as related to housing tenure: improve access to quality homeownership opportunities through providing households with increased financial supports and incorporating a place-based strategy; increase supports for rental housing; and, initiate support for housing that incorporates alternative tenure forms to conventional renting or owning.

Improve Access to Quality Homeownership Opportunities

Solely facilitating low-income families' access to homeownership without altering other aspects of the housing market is unlikely to provide many of the economic, political and social benefits suggested by proponents of low-income homeownership. A successful homeownership strategy will require a more comprehensive approach that works simultaneously at improving local social and

physical infrastructure including schools and neighbourhood conditions, protecting families against the exploitation of predatory lenders and breaking down barriers to the inclusion of low-income housing within suburban communities. Delivering on low-income homeownership means delivering on the full set of life-sustaining housing bundle characteristics.

Increasing access to quality homeownership opportunities may mean enlarging direct public subsidy of low-income households (Hockett *et al.*, 2005). Deeper public subsidies of low-income homeownership may mitigate against some of the potential risks of investment in the low-income housing market while increasing opportunities to families who, without subsidy, would not be able to participate (Herbert *et al.*, 2005; Carasso *et al.*, 2005).

Increase Supports for Rental Housing

Tenure relationships exist within the social and political context that defines them. Federal policy supports homeownership and this is part of the reason why homeownership is a desirable housing tenure situation. Policy, in part, makes homeownership a preferred housing option.

The opposite exists for renting. Fewer policies support the production of rental housing or the inclusion of rental units within local communities. To be sure, the Low Income Tax Income Housing Tax Credit (LIHTC) programme and Section 8 subsidies make renting more affordable. But Section 8 funds continue to be cut while complex syndication deals required by the LIHTC do not meet massive unmet needs for affordable units (Orlebeke, 2000) and are inefficient tools for producing low-income housing (Stegman, 1990).

The incentives that exist to encourage landlords to invest in and improve rental housing pale when compared with the array of institutions and supports underlying homeownership. There are no special pools of capital for rental housing. There are few, if any, programmes designed to help renters save for

their security deposits or become better consumers except in the context of encouraging them to escape from renting (Sherraden, 1991; Shapiro and Wolff, 2001). Zoning laws often explicitly exclude rental housing from suburbs or relegate it to undesirable locations (Shlay, 1993; Pendall, 2000; Fischel, 2004). While policy helps to make homeownership a positive housing situation, policy helps to make renting a negative housing situation.

Since most low-income families cannot qualify for homeownership without deep subsidies, an important area of exploration is determining how policy can support rental housing as a viable housing option for low-income families. Housing policy has, in part, produced a rental housing market in which the available housing is often undesirable. But rental housing in the abstract is not negative *a priori* but reflects how rental units are packaged as housing bundles.

If housing policy can render rental housing an unattractive housing option, it can also be used to make this type of housing option more desirable. This includes modifying financial incentives for investment and maintenance, enhancing alternative opportunities for household tax benefits and savings, revitalising communities in which rental housing is located, altering the size and physical layout of units, providing tenants with more control over their housing situations and breaking down land use barriers to including rental housing within more well-off communities. We also need to determine how housing subsidies can be delivered to low-income families in a manner that neither stigmatises them nor isolates them within undesirable communities.

Providing attractive and affordable rental housing has been accomplished in small but significant ways within the non-profit sector and community development corporations (Dreier and Hulchanski, 1993; Keyes *et al.*, 1996). Some advocate for supporting the growth of this organisational infrastructure around affordable housing through public-private partnerships and housing trust funds (Walker, 1993; Brooks, 1996; Davis, 1994).

Initiate Support for Alternative Tenure Forms

Conceptually, alternative tenure forms do not treat tenure as encapsulating discrete categories (owning or renting) but as a variable that can indicate different forms and degrees of ownership and control (Geisler and Daneker, 2000). Alternative tenure forms tend to socialise ownership so that it is shared among a community. Within typical conventional housing situations, a family unit either owns the property or someone who does not live there owns it. Alternative tenure forms involve ownership among groups of households or residential users. These alternative forms include limited equity co-operatives and land trusts (Miceli *et al.*, 1994; White and Saegert, 1996).

The focus of limited equity co-operatives and land trusts is on collective asset accumulation and social equity. Individual households acquire many of the rights associated with ownership including tax benefits and secure housing. With housing collectively owned, risk is shared and the economic exposure of individual households is held to a minimum.

Low-income Homeownership: Reasonable Expectations

Low-income homeownership has been promoted with the expectation that it will engender significant changes for families, neighbourhoods and local housing markets. Yet we lack definitive evidence to substantiate these claims.

It is unclear how many low-income families will be able to become homeowners. Much of the recent increase in low-income and minority homeownership has been the result of increased enforcement within the regulatory environment (for example, CRA, Fair Housing Act) as well as lower interest rates, indicating pent-up demand for homeownership within low-income and minority families. But whether this demand can be sustained is questionable. On the demand side, the vast majority of renters cannot be served by the most lenient available underwriting standards because of economic problems. On the supply side, the affordable housing stock for the

low-income homeownership market is not readily available.

Research examining the economic returns from low-income homeownership suggests that a myriad of factors interfere with low-income households' ability to reap material gains from homeownership. Timing, location, finance terms, length of ownership and other factors wreak havoc with whether low-income families will come out ahead or not after becoming homebuyers. Of course, homeownership may have positive outcomes for families even if it is not always a money-making venture. But advocating homeownership for families who already have fewer economic resources seems problematic, particularly if homebuyer families' economic circumstances deteriorate more than they would have if they had been renting. This is a crucial area for continued research.

Limited evidence exists on whether low-income homeowners experience social and behavioural changes as a result of their changed housing circumstances. In part, our dearth of knowledge about how homeownership benefits low-income families is for methodological reasons; most research that looks at the effects of homeownership cannot disentangle the impact of family life cycle and class from homeownership on outcomes. It is unclear if homeownership is a cause or consequence of these families' life cycle or economic circumstances.

A growing body of research shows that homeownership has positive educational, social and psychological outcomes for children. Importantly, some studies show higher benefits for lower-income children than for higher-income children. Yet these studies also question how homeownership becomes manifested as a critical variable in children's lives. It is unclear what features of the housing bundle produce positive and therefore also, negative consequence for children. There are many observed variables that may more clearly produce the outcomes attributed to homeownership. Clearly, this is an area where substantially more work is needed.

What homeownership does and why is not well understood because it is difficult to

disentangle what homeownership means. Given the multidimensional nature of the housing bundle and the inherent inevitability of predictable housing bundle packaging (by race, class, location, housing type, etc.), what constitutes the homeownership 'treatment' is not clear. Is homeownership secure housing, more space, greater psychological well-being, better neighbourhoods, better communities, the ability to be stable residentially, the accumulation of economic assets or what? Delineating the critical variables associated with homeownership that produce particular outcomes is another crucial area for research.

But determining how homeownership works on family well-being is also important for developing alternative housing policies that support low-income families. Are there features of homeownership that provide positive benefits that could be configured within a redefined tenure arrangement that approximates renting or some other alternative tenure form to owning? That is, are there features of homeownership that could become a reconstituted tenure form that would eliminate some of the problematic aspects of either renting or owning—for example, by limiting family economic exposure and vulnerability? Can we configure the bundle of housing characteristics with known beneficial consequences for low-income families as a policy tool for supporting these families?

The elevation of low-income homeownership to its current status has deflected political attention away from other policies for affordable housing. As noted over 30 years ago by planner Peter Marcuse

the stance that public policy should take towards homeownership for low-income families lies in the possibilities of institutional changes in existing tenure arrangements, and in the social or political, not the financial characteristics of homeownership (Marcuse, 1972, p. 143).

While low-income homeownership has been the predominant focus of housing policy for low-income families, policies supporting public housing, housing vouchers and

low-income housing tax credits have been cut, battered and denigrated. By holding centre stage in the low-income housing policy debate, low-income homeownership has crowded out ideas about affordable housing policy alternatives ranging from subsidies to co-operatives.

Many of the policy goals surrounding low-income homeownership are framed by ideological statements about homeownership as the American Dream. But what if these dreams are delusions? Should housing policy be the stuff of dreams or hard-nosed analysis of what works for families, communities and local economies?

Notes

1. In the 2000 presidential election, the voting turnout rate represented 60 per cent of registered and unregistered voters (US Census, 2002a). In 2000, the homeownership rate was 67.4 per cent (US Census, 2002b).
2. Special targeted households were those either making less than 60 per cent of the area median income or less than 80 per cent of the area median income and located within low-income neighbourhoods (Case *et al.*, 2002).
3. Haurin *et al.* (2002) report that they controlled for community factors in their analyses of the effects of homeownership on child outcomes. The control variables that they use (income, race, ethnicity, unemployment, poverty, crime and education), however, are aggregated at the county level—a level too large to be a meaningful control for community characteristics. They also report that these variables were too highly correlated to determine separate effects of each variable, not surprising given their level of aggregation. Therefore, their analysis cannot address the issue of the effects of homeownership net of neighbourhood or community factors.

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