

ISSUES

SHIMBERG CENTER FOR AFFORDABLE HOUSING

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Social Benefits and Costs of Homeownership

The Research Institute for Housing America is a Washington-based independent research organization founded in 1998 by the Mortgage Bankers Association of America. The Institute is dedicated to objective, credible research on how to increase housing opportunity – particularly for underserved populations and communities. In addition to conferences and other programs, the Institute disseminates practical information through its publications.

The first publication in its Working Paper Series was published in May 2000 under the title, The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research. The paper was authored by William H. Rohe, Shannon VanZandt, and George McCarthy of the Center for Urban and Regional Studies at the University of North Carolina. Presented below, with the permission of the Institute, is a summary of that first Working Paper plus a complete reproduction of its Conclusions section.

Interested readers are encouraged to contact the Institute for a free copy.

The Introduction to the report points out that the federal commitment to and subsidy of homeownership has often been justified by claims that homeownership has a variety of benefits both to individuals and to society as a whole. These benefits appear in the National Homeownership Strategy in two passages:

- Homeownership is a commitment to strengthening families and good citizenship. Homeownership enables people to have greater control and exercise more responsibility over their living environment.
- Homeownership is a commitment to community. Homeownership helps stabilize neighborhoods and strengthen

communities. It creates important local and individual incentives for maintaining and improving private property and public spaces.

The authors, however, seek to understand what evidence exists for these claims. Are the claims based on “conventional wisdom” or on sound empirical research? What about the costs of homeownership? Is there a downside to homeownership that is ignored in the rush to support homeownership?

This report is the first of two Institute for Housing America reports that examines the benefits and costs of homeownership. The social impacts are addressed in this report while the subsequent report will address economic impacts.

Report Organization

The report begins with an investigation of the different attributes of homeowners and renters in order to establish a baseline for comparing the social impacts of ownership between the two groups. The authors summarize the attributes of homeownership that are thought to result in various social outcomes.

Social impacts are divided into those that impact individuals and those that impact society. Within the individual impacts, the authors discuss satisfaction, psychological health, and physical health. The discussion of societal impacts focuses on neighborhood stability, social involvement, and socially desirable behaviors.

The following sections are excerpts from the Conclusion of the report.

Summary of Major Findings

Evidence exists for a variety of positive social impacts to both individuals and to society stemming from homeownership. This evidence, however, is stronger for certain social impacts and weaker for others. Considerable evidence suggests, for example, that homeowners are more likely to be satisfied with their homes and neighborhoods, more likely to participate in voluntary and political activities and more likely to stay in their homes longer periods of time. There is still some doubt, however, whether these relationships are causal, since most of the studies do not adequately account for the self-selection of households to owner and renter occupancy. It may be, for example, that people who plan on staying in an area longer buy homes rather than that homeownership causes people to stay longer. More will be said about this below.

Evidence on the impact of homeownership on other social variables is sparser and, in some instances, less consistent. Some evidence suggests that homeownership leads to increased self-esteem except for those buying in neighborhoods with dilapidated housing, social problems, and poor reputations. The limited amount of evidence on the relationship between homeownership and life satisfaction tends to support a positive relationship. Similarly, the limited amount of research on homeownership and health points to a positive association as long as the homeowners are current on their mortgage payments. The mechanism through which homeownership affects health, however, has not been clearly identified. Finally, the research on the impact of homeownership on both perceived control and socially desirable behaviors is simply too sparse to draw even tentative conclusions at this time.

The research on potential negative social impacts of homeownership is sparse. There is one British study that suggests that those who are behind on their mortgage payments suffer negative health consequences (Nettleton and Burrows 1998). There is also some evidence that homeowners are less likely to move from high-poverty areas, although the consequences of this are not clear. We were unable to find any research on such potentially important topics as the impacts of mortgage payment delinquency or default on self-esteem, sense of control, life satisfaction, and other social variables.



Policy Implications

Public policy that encourages homeownership has often been justified by claims that it has a variety of benefits both to individuals and to society. Our review of the research literature suggests that there is considerable, although not irrefutable, evidence for several of those claims. The weight of the research evidence is that homeownership is associated with neighborhood stability and participation in voluntary and political activities. Given these benefits, there is justification for public policies that encourage and support homeownership. Whether the costs of these policies are reasonable given the anticipated benefits is a separate question that is beyond the scope of this report. The research on the impact of homeownership also suggests that these benefits may not accrue to all homeowners. Those who buy homes in less desirable neighborhoods or in housing markets that experience depreciation may not realize the economic or the social benefits of homeownership. Moreover, some homeowners may desire to move, but find themselves stuck in homes that they cannot sell. In still other instances, homeowners may have difficulty keeping up with their mortgage payments, and this may lead to economic and possibly health problems due to difficulty meeting mortgage payments or, in the worst cases, mortgage default.

The possibility of these negative impacts suggests that those involved in promoting homeownership should be careful not to oversell homeownership, particularly among those who are less likely to be successful homeowners. Recent public policy has been focused on making homeownership available

to lower-income families. Although this is clearly an important and worthy goal, not everyone is capable of becoming a successful homeowner. As Rohe and Stewart (1996) note: “Encouraging families with highly variable or even flat income trajectories to purchase dwelling units is counterproductive: They are unlikely to be able to afford them over the long run. Encouraging low-income families to purchase units that they will not be able to maintain at a reasonable standard is also harmful [to the larger community]” (p. 73). Homeownership counseling may help lower-income home buyers be successful homeowners, but at this point there is very little research evidence on this topic. Thus, caution needs to be exercised in encouraging homeownership among those with a relatively low probability of success. We do a great disservice if we encourage persons to buy homes that they will end up losing.

Similarly, caution should be exercised in encouraging households to purchase homes in areas that do not have a reasonable probability of stable or increasing property values and healthy social conditions. Many neighborhood revitalization programs adopt homeownership as the central element of their revitalization strategy. They focus their efforts on increasing the homeownership rate in the target area. This is fine as long as other investments in infrastructure and services result in a neighborhood that is a desirable place to live. Otherwise, the homebuyers may not realize either the economic or social benefits of ownership. If people buy in areas characterized by depreciating property values and serious social problems, the American Dream could turn into the American Nightmare.

Additional Information

Inquisitive readers are encouraged to request a free copy of the complete report and to request that they be placed on the mailing list for future publications.

Mailed requests may be sent to:

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Publications may also be ordered on the Institute's web site:

www.housingamerica.org

or by telephone at: **(202) 557-2876**.

References

Two references are cited in the Conclusion section of the report:

Nettleton, S., and R. Burrows. "Mortgage Debt, Insecure Home Ownership and Health: An Exploratory Analysis," *Sociology of Health and Illness*, 20, No. 5 (1998): 731-753.

Rohe, W.M. and L. S. Stewart. "Home Ownership and Neighborhood Stability," *Housing Policy Debate*, 7, No. 1 (1996): 37-81.

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