



The Many Benefits



of Home Ownership



NeighborWorks[®]
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Surveys show more than three-quarters of Americans prefer to own their home rather than rent. Most renters report that they rent because of circumstances rather than choice.¹ Through the NeighborWorks® network, families of modest means are able to achieve what has been labeled the “American Dream” – to buy a home of their own.

People’s personal preference for home ownership is backed by solid logic. Research confirms that home ownership provides benefits for families, communities and the economy. Owner-occupied homes furnish a place to raise children and a base from which to establish social networks. Homeowners have incentives to take care of their property, to improve their neighborhood and to participate in the democratic system.

For many families, buying a home is their largest investment and greatest source of savings for education and retirement. And as families buy and build homes, economic benefits – such as jobs and income – are generated for the broader community.

NeighborWorks® America’s Campaign for Home Ownership has helped more than 60,000 of America’s low- and moderate-income families in the last decade to achieve the “many benefits of home ownership.” This national effort spurred more than a \$5 billion investment in the nation’s housing stock. (For more information on the NeighborWorks® network and the NeighborWorks® America, see page 6.)

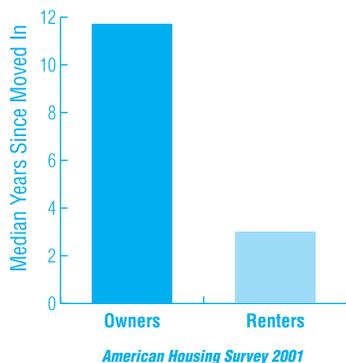
Home ownership has been proven to be beneficial to families, communities and the nation’s economy. Here’s why:



Homeowners Provide Continuity and Stability

Homeowners are a stabilizing force in communities. According to recent U.S. Census data, home-owners typically live in a community over three times longer than renters.² Renters with low-incomes are particularly mobile: More than a third of low-income renters move yearly, while less than eight percent of low-income homeowners do.³

Homeowners Stay Longer:
Years Since Low-Income Family Moved In



When neighbors stay in one place longer, they have more time to get to know one another and to establish social, political, religious and other networks. Parents can secure the dependable, consistent environment so necessary for their children's development. This level of continuity and stability is one of the most important benefits of home ownership to both families and communities.

Ownership Builds Confidence

Home ownership also greatly influences families' social and psychological lives.⁴ In our society, buying a home is a symbol of success – a sign of having “made it” into mainstream American life.

This sense is reinforced quickly by the actual security and independence ownership represents. While rents usually increase each year, fixed-rate mortgage payments are constant and predictable. Families also have a defined physical space for which they are responsible and that they can control. While some renters fear being evicted by capricious landlords or speculative real estate developers, owners rarely have such anxieties.

Successfully navigating the homebuying process can be a confidence-building experience in itself. First-time homebuyers interviewed by NeighborWorks® organizations report they are “working harder” and more willing to try for job promotions than when they were renters.⁵

National surveys show owners are more likely than comparable renters to respond that they feel confident and happy (see chart above).⁶ Moreover,

Owners Are Happier and More Satisfied Than Renters

Well-Being Measures:	Owners Are:
Self-Satisfaction.....	Significantly higher
Can Do Things As Well As Anyone	Significantly higher
Sure Life Will Work Out	Significantly higher
Happiness Scale.....	Significantly higher
Depression Scale	Significantly lower

Rossi and Weber (1996) National Survey of Families and Households
Controlling for age and socio-economic factors

studies tracking low-income families over time find most families feel better about themselves after purchasing homes. These buyers are also more satisfied with their lives than their former neighbors who did not buy a house, even years after their purchase.⁷

One reason owners may be happier is that they believe they have moved to a better environment than when they were renting. According to a Census report, owners are 15 percent more satisfied with their home and 20 percent happier with their neighborhood than renters living in similar housing units.⁸

Homeowners Create Positive Environments for Raising Families

Since owners tend to stay in a community and owner-families typically are happier and more confident than similar renters, it follows that owner-occupied homes provide stable places for family activities. Research shows that homeowners are also more inclined to behave in ways that produce positive environments for children.⁹

For example, surveys show home owners are ten percent more likely to attend church than renters, which could be interpreted as bringing a sense of spirituality and morality to their families.¹⁰ Homeowners are also 26 percent more likely than renters to belong to parent-teacher organizations, block clubs and other nonprofit organizations, showing these parents' commitment to their children.¹¹ Owners even read newspapers 1.3 times more often than renters, which may be associated with being a well-informed member of the community.¹² One study found owners are less likely to have alcohol- and substance-abuse problems than renters, which certainly contributes to a healthier atmosphere for children.¹³ Overall, these and other factors unite through homeownership to support a favorable home environment.

The effects of home ownership on children are measurable. Census data show children of homeowners are five percent more likely to be in school after age 17 than are children of similar renter families, even after controlling for age, income and length of stay in the community.¹⁴ Young children of home owners achieve math scores up to nine

What About Renting?

Both renting and home ownership are crucial for American families. In fact, renting provides the important first stage of our of housing life cycle. When we are young, mobile and childless, renting is often the best way to live. Also, when we face transitions in our health and lifestyle, having affordable rental housing options is critical. But for many families with stable jobs and a desire to stay in a community, owning a home can be a favorable option.



Demographic Differences

On average, renters are younger, are less likely to be married, earn less and have less education than owners. It is important to adjust for these factors – to compare renters and owners who share similar characteristics. Many studies attempting to do so find that, all else being equal, the social and economic benefits suggested in this article are in fact associated with the choice to own versus rent, as opposed to other factors.

percent higher and reading scores up to seven percent higher than children of similar renter families.¹⁵ The effect on educational attainment is particularly pronounced for the children of minority homeowners.¹⁶

The effects of homeownership on children are not limited to educational outcomes. One study found that daughters of homeowners are almost 20 percent less likely to become teenage mothers than are the daughters of similar renters. In addition, the sons and daughters of homeowners are less likely to become involved in the juvenile-justice system than those of renters.¹⁷ A recent study also found that children of lower-income homeowners were nine percent less likely to receive welfare benefits between the ages of 24 and 28, compared with children raised in comparable lower-income renter house-holds. This effect occurred even in very low-income neighborhoods.¹⁸

Recent research demonstrates that the benefits of home ownership can span generations.¹⁹ Using data which tracks families over several decades, researchers from the University of Tennessee found that a parent's decision to buy a home has other significant, long-term impacts on children, even controlling for other factors such as income, race, wealth, education, geographic location and age. The study found children of homeowners are 59 percent more likely to own a home within ten years after moving from their parents' household than similar children of renters. Children of homeowners were also found to be 25 percent more likely to graduate from high school than similar children of renters and 116 percent more likely to graduate from college. Due to higher rates of education and home ownership, the children of homeowners are likely to accumulate over \$18,000 more wealth in the ten years after leaving their parents' household than children of similar non-owners.²⁰

interior, exterior or structural problems than the homes of comparable renters.²²

Homeowners also tend to engage in activities that beautify their properties. One indication of such behavior is gardening. Survey data reveal that if an owner and a renter both live in single-family houses with a yard, the owner is 12 percent more likely to maintain a garden outside his or her home than the renter.²³

Activities that improve individual homes, like a new roof or flower garden, spill over into the rest of the neighborhood. Since owners take better care of their property, neighborhoods with high homeownership rates look more attractive and appealing than areas with few homeowners.²⁴

As homes in a neighborhood switch from rental units to owner-occupied housing, the market value of nearby properties often increases.²⁵ American Housing Survey data reveal that a ten percent increase in local home-ownership rates led to a 1.5 percent to 2.6 percent increase in local home prices.²⁶ Research in New York City has found that the development of even low-cost, affordable homes can support higher home values in the overall neighborhood, compared to the wider community.²⁷ A University of North Carolina study of NeighborWorks® organizations found that neighborhood-focused home ownership programs result in more home loans being originated and increases in property values.²⁸

Home ownership not only supports rising property values in communities; it also helps dampen rising neighborhood poverty and unemployment rates. Even controlling for lower incomes among renters, poverty and unemployment rates have been found to increase more and more rapidly once a neighborhood drops below a threshold home-ownership rate of about 14 percent. This suggests that there are increasingly negative neighborhood effects when home ownership opportunities are in decline. By incrementally expanding home-ownership options in at-risk communities, it is possible poverty and unemployment can be stabilized.²⁹

The relationship between ownership rates and neighborhood conditions is likely due to the behavior of home owners. Studies show homeowners are seven percent more likely to report that they have worked to solve local problems than similar renters.³⁰ Owners are also more likely to volunteer and attend public meetings.³¹ In many communities, it is the political strength of homeowners that supports efforts to improve schools and provide higher-quali-

Home Ownership Improves Neighborhoods

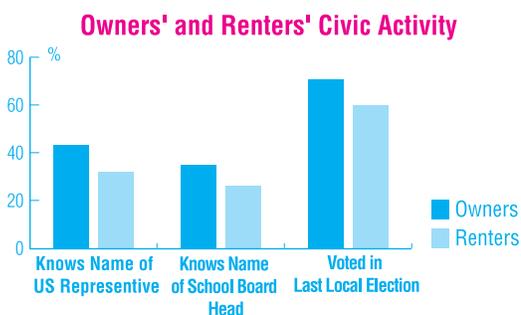
Homeowners have a financial stake in their home and neighborhood. Studies find homeowners are 28 percent more likely to repair or improve their homes than renters.²¹ Owner-occupied homes are far less likely to have



ty public services. By helping raise home-ownership rates in low- and moderate-income communities, the NeighborWorks® network has established an important component of neighborhood revitalization.

Owners Are More Involved in Civic Affairs

Clearly, homeowners have an additional stake in their community that makes them more concerned about the quality of their school district and their city or town. As a result, owners are more likely to participate in the democratic system. Perhaps because homeowners live in their communities longer and are more confident and concerned about the quality of their communities, owning a home may be strongly correlated with involvement in politics and civic life.³²



Source: Glaeser and Shapiro National Bureau of Economic Research 2002.

Homebuyers are ten percent more likely to know who represents them in Congress, nine percent more likely to know who leads their schoolboard, and 11 percent more likely to vote in local elections, even holding socio-economic factors constant.³³ Owners are also more willing to contribute to political campaigns and to lobby public officials than similar renters.³⁴ Similar surveys in Germany show similar results.³⁵

Home Ownership Builds Wealth

Housing is a significant source of personal wealth for families in the United States. In 1998 (when the stock market was at all-time highs), half of the nation's homeowners had at least half their net worth in home equity.³⁶ Total home equity in the nation was estimated to be over \$6.7 trillion in 2001.³⁷

Home equity is an asset that households can tap into to start small businesses, finance college education or invest in other activities. Many low- and moderate-income owners report that a primary reason they wanted to buy a home is to accumulate wealth that can be used to finance their children's education or serve as a bequest to their

offspring.³⁸ As these households build financial assets, they also gain an orientation toward the future and build a financial cushion from which they are more able to take on risk.³⁹

Owning a home is of particular importance in building economic assets for low- and moderate-income families. The median net wealth of a lower-income homeowner is over 13 times that of a similar renter. Moreover, 69 percent of the total net worth of these homeowners comes from home equity.⁴⁰ Low-income buyers typically do not hold stocks, bonds, 401k plans, IRAs, or trust funds, and often do not have pensions.⁴¹

This home-equity wealth is particularly important in retirement. Owning a home provides older households with a place to live without rising costs of rent. When their home is paid off, their net housing expenses are greatly reduced, stretching their retirement income. If not for owning a home, many elderly households would be more financially constrained.

In many cases, low- and moderate-income families find it difficult to save or invest any of their after-tax income. Yet one-third or more of a typical renter's total income flows to landlords in the form of rent. Even if they pay more to buy a house than to pay their former rent, homeowners participate in what could be viewed as a forced savings plan by paying down mortgage principal with each monthly payment. In fact, the typical family helped by the NeighborWorks® network to buy a home will accumulate more than \$43,000 in home equity during one decade of home ownership. From 2003 to 2007 the NeighborWorks® Campaign for Home Ownership expects to support at least \$2.2 billion in home equity wealth.⁴² That is wealth that otherwise might not have been created – wealth that may become the basis for first-generation college graduates and small business owners.

Homes Are a Good Investment

Of course, homes are more than just places to live; they can be a good investment. One reason for this is that homes usually are purchased with a loan and a small down payment – what financiers might call a highly-leveraged investment. Homebuyers use other people's money to buy the house but get to keep any increase in value for themselves. As a result, the buyer's return on investment is enhanced.

For example, suppose a family purchases a home for \$60,000 with a \$2,000 down payment. If after one year the home appreciates just one percent in value, it is then worth \$60,600 – a gain of \$600. But the buyer keeps all of that

Median Net Wealth of Low-income Households



Source: Joint Center for Housing Studies of Harvard University, 2002





gain. Therefore, the buyer's original investment of \$2,000 is translated into \$2,600 – a 30 percent return. To the extent that the investor has paid off some of the initial mortgage principal, the amount of home equity can grow even further. Of course, house prices are not guaranteed to rise, and buyers must pay fees that reduce gains from selling a house. Given a long-enough time frame, however, home ownership pays off for many families.⁴³

According to one analysis, if two families have \$16,800 to invest, and one buys a house while the other continues to rent and invests that \$16,800 in the stock market, the net return of the owner is more than double the net return of the renter.⁴⁴

Comparing Buying a Home To Investing in the Stock Market (12 month periods, 1980-2002)



Source: Standard & Poor's 500 Composite Index; Office of Federal Housing Enterprise Oversight

Affordable homes may be particularly good investments. One study of four metropolitan areas shows that owners of low-cost homes are more likely to sell at a profit during market upswings, and less likely to suffer losses when selling during market downturns, than owners of mid- and higher-cost units.⁴⁵

Another advantage of investing in a home is the current tax treatment of home ownership. If the homeowner's income and expenses justify bypassing the standard deduction, mortgage interest and real-estate taxes are deductible from income taxes. Also, most of any increase in price is exempt from capital-gains taxes. The tax code makes housing a particularly attractive way to build wealth, even compared to retirement accounts and other savings plans.⁴⁶

Over the long-run, homes of all prices have proven to be fairly safe investments.⁴⁷ In general, investing in a home acts as a hedge against inflation and fluctuations in stock or bond markets.⁴⁸ Overall, house prices are less volatile – their ups and downs are less extreme – than stocks. Even in the worst 12-month period since 1980, national median house prices increased one-fifth of one percent (see chart). Meanwhile, the stock market's worst 12-month period since 1980 resulted in a 28

percent loss. Of course, on a regional basis, home prices can be more volatile, but even areas which have experienced severe house price declines tend to rebound over a period of years.

National home prices increased 4.7 percent annually between 1980 and 2002, lower than the 10.1 percent annual increase in the Standard and Poor's stock market index (S&P 500) during that same time, but greater than the average annual inflation rate of 3.6 percent. While home prices did not increase as much as the stock market, home prices have continued to grow in recent years, at a rate of 7.1 percent annually between 1998 and 2002, compared to a 2.3 percent annual decline for the S&P 500 over that same period.⁴⁹

Helping Families Buy Homes Benefits the Economy

Owner-occupied housing has a strong impact on the national economy. More than 32 percent of all consumer spending is used for housing and home-related goods.⁵⁰ When families first move into a home, they generally spend several thousand dollars on home goods, hardware, furniture and appliances. Moreover, every year after buying a home, these homeowners will spend more than comparable renters on home supplies, repairs and improvements. The move-in spending of the 50,000 first-time homebuyers who will be assisted by the NeighborWorks® Campaign for Home Ownership will support more than \$166 million in demand for home-related goods and services.⁵¹

Each time a home is sold, real estate agents, title companies and local governments receive fees. The 50,000 homebuyers that the Campaign for Home Ownership will support will pay an estimated \$260 million in real estate agent fees, \$22 million in transfer fees for government agencies, and \$43 million for title companies and others involved in the settlement process.⁵²

Almost all of these 50,000 first-time homebuyers will use conventional mortgages to partially finance their purchase. The financial institutions making these loans receive revenues from interest and fees of more than \$2.7 billion through loans facilitated by NeighborWorks® organizations.⁵³ Finally, NeighborWorks® organizations also help families to build or substantially rehabilitate homes. This provides additional business for building contractors and suppliers. These firms then require additional employees, goods and services from the general economy. Each \$1 million of residential construction activity typically supports 15 community jobs. If the average Campaign home involves \$10,000 worth of construction activity (the average between newly constructed homes and renovated existing homes), then 50,000 homes would generate \$500 million in construction spending. This spending translates into \$336



Economic Benefits of 50,000 Buyers in Campaign For Home Ownership 2003-2007

Home Equity	\$ 2.2 billion
Business Revenue for Housing-Related Goods and Services.....	\$ 166 million
Lender Revenues	\$ 2.7 billion
Real Estate Agent Fees	\$258 million
Government Transfer Fees, Title Fees, and other Settlement Fees	\$ 65 million
Local Income and Government Revenue from Construction Spending	\$ 375 million

million in local income and \$39 million in local government revenue, supporting almost 7,400 jobs in various industries in the local economies of NeighborWorks® organizations.⁵⁴

In all, the Campaign for Home Ownership could support \$5.8 billion in local economic benefits, not to mention numerous neighborhood, political and social benefits of helping those families that have traditionally been excluded from the homebuying market to buy their first home.⁵⁵

Full-Cycle Lending® Increases and Preserves Home-Buying Benefits

The Full-Cycle Lending® program offered by NeighborWorks® organizations includes standardized pre- and post-purchase training and counseling, guiding families through the process of purchasing and maintaining their home and mortgage. The typical homebuyer receives eight hours of homebuyer education in a group setting, as well as two hours of one-to-one counseling, in addition to financial or other forms of support. By helping households get into homes they can afford, and afford to keep, this education and counseling stabilizes families and neighborhoods and reduces default risks for lenders. In fact, a recent study by Freddie Mac shows face-to-face home-ownership education and counseling significantly reduces the chance that a borrower will become delinquent on their mortgage, compared to similar borrowers who did not receive counseling.⁵⁶

Changing the Face of Home Ownership

NeighborWorks® America's more than 25 years of experience shows that home ownership is possible for families of modest means when the right components are in place:

- assistance by a qualified, local, nonprofit organization that can guide purchasers through the homebuying process;
- partnerships with the private, public and resident sectors all working toward the common goal of community renewal through home ownership and other strategies;

- pre- and post-purchase client counseling;
- flexible loan products; and
- access to secondary mortgage market resources so that loan funds can be replenished.

These components comprise NeighborWorks® Full-Cycle Lending®, a system in place since 1993, that enables lenders, government agencies and nonprofit NeighborWorks® organizations to work together to benefit all partners.

Home ownership is a proven strategy for strengthening communities and families. Capitalizing on this strategy is the goal of the Neighborhood Reinvestment and the NeighborWorks® System as it continues “changing the face of homeownership.” Recent results from the Campaign for Home Ownership demonstrate:

- 67 percent of all assisted homeowners are low-income households;
- 51 percent are minorities;
- 68 percent are single-headed households
- 43 percent are female-headed households.

NeighborWorks® America and the NeighborWorks® Network

NeighborWorks® America provides financial support, technical assistance and training for communities across the nation, including the NeighborWorks® network – a nationwide network of more than 240 community development organizations working in more than 4,400 urban, suburban and rural communities across America. These organizations engage in revitalization strategies that strengthen communities and transform lives. In the last five years alone, NeighborWorks® organizations have generated more than \$10 billion in reinvestment and helped more than 780,000 families of modest means purchase or improve their homes or secure safe, decent rental or mutual housing.

Further information on NeighborWorks® America and the NeighborWorks® network is available at www.nw.org.

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