ECONOMIC BENEFITS OF INCREASING MINORITY HOMEOWNERSHIP

I. Introduction

Over the last century, the federal government has played a central role in developing institutions and infrastructure that have promoted economic stabilization and growth and carried a much broader spectrum of the nation's citizens into homeownership and increasing wealth. The 30-year, self-amortizing mortgage coupled with the primary market credit enhancement of mortgage insurance connected average Americans with few assets to low down payment financing from lenders. And lender credit enhancements in the secondary market made it possible for lenders to secure continual access to lower-cost, loanable funds from investors in the national capital markets. (See Appendix A for highlights.) With these innovations and related variations, credit-worthy households with little or no wealth across the nation have been able to qualify for relatively low-cost mortgage financing and the general rate of homeownership has risen from approximately 44 percent in 1940 to its current level of 67.6 percent.

Housing had one of its best years in history this past year with Americans buying a record six million new and existing homes. The boost from housing is credited with overcoming double digit declines in some key industries so that the economy overall actually rose slightly. Without the boost from housing, the recent recession would have started earlier, lasted longer, and been more severe.

However, while far more American households now share in the benefits of homeownership, minority households continue to share at substantially lower rates. The homeownership rate among white households is about 74.2 percent compared to 48.5 percent for minority households. Hence, a sizable "homeownership gap" persists for minority households despite some recent narrowing. Reducing this gap by expanding homeownership opportunities for minorities is a fundamental aim of the President's housing policy. President Bush is committed to ensuring that opportunities and benefits of homeownership are available for all American families.

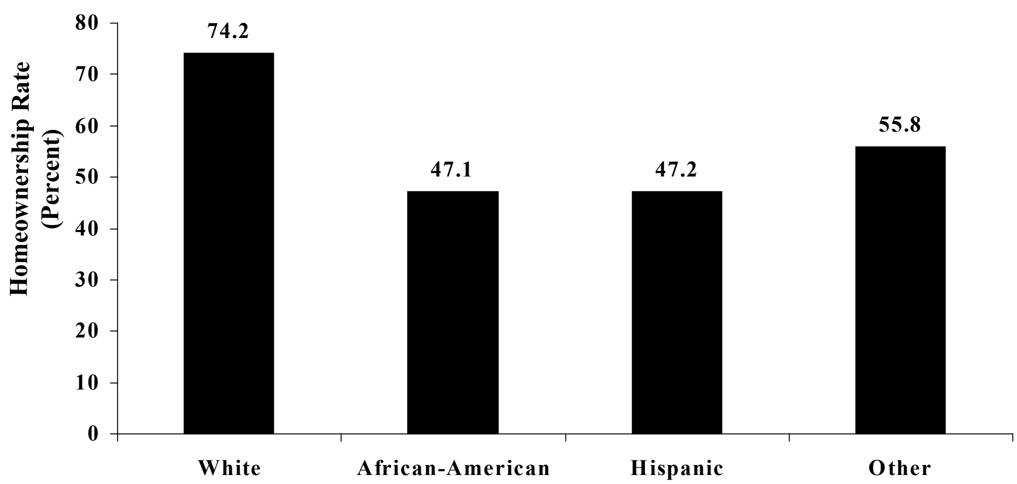
In June 2002, President Bush announced a new goal to help close the homeownership gap by increasing minority homeownership by 5.5 million by the end of the decade. The analysis contained in this paper outlines the substantial benefits to the housing sector, along with related industries, that will result from this initiative.

This paper provides a brief discussion of the homeownership gap and the reasons for it. It then presents an analysis of the economic impact and benefits that may be expected from the President's policy. Finally, it concludes with a discussion of other private and public benefits that can be expected from the initiative.

II. Homeownership Gap

As shown in Figure 1, U.S. Census Bureau statistics for the second quarter of 2002 indicate that the homeownership rate for white American households was 74.2 percent. By contrast, the homeownership rates for minority households were 47.1 percent for African Americans, 47.2 percent for Hispanic Americans, and 55.8 percent for Asian Americans and other races, respectively. Thus, it follows that the measured gap between the homeownership rates of white and African-American or Hispanic households measures approximately 27 percentage points. The gap for Asian Americans and others measures approximately 18 percentage points.

Figure 1
Rate of Homeownership by Race
2nd Quarter, 2002



There are multiple factors or barriers that have differentially affected minority households and contributed to the homeownership gaps. These include:

- lack of capital for a down payment and closing costs;
- lack of access to credit and/or poor credit history;
- lack of understanding and information about the home buying process;
- language difficulties and cultural differences leading to misperceptions of the mortgage finance system;
- regulatory burdens imposed on the production of housing that drive up costs; and continued housing discrimination.

In recent years government and industry have worked together and had some success in their effort to reduce the barriers and narrow the gap. Annual homeownership rates for minorities increased between 1994 and 2001. The annual homeownership rate for all minorities was 43.2

percent in 1994 but increased to 49.0 percent in 2001. The number of minority homeowners increased substantially during that period, from 9.5 million to 13.3 million. However, the reduction in the homeownership gap was somewhat smaller than the increase in the minority rates of homeownership because the homeownership rate for non-minority households increased as well.

Adding 5.5 million minority homeowners over the next decade will help to close the homeownership gap and as well as bring substantial economic and other benefits to the new homeowners.

III. Economic Benefits of Homeownership

Potential Economic Benefit to Housing Sector of 5.5 million new minority homebuyers within the decade totals $256 billion.

Becoming a homeowner not only serves as a source of stability for families and communities but as a foundation for economic stability within housing and related industries. This section of the report identifies the economic benefits, to the housing sector, of helping minority families buy homes and presents the estimated dollar impact. These economic benefits include the following**:**

- Jobs created in the residential construction and remodeling industry that would be associated with the purchase of newly constructed homes.

- Benefits for businesses that sell home improvement and other housing related goods and services due to increases in household spending – first-time homebuyers consume more home- and housing-related goods and services than other households.

- Benefits for buyers from building home equity - buyers stand to benefit by building equity through house price appreciation and paying off their mortgage principal.

Importance of Housing Industry to Economy

The production, transfer, and maintenance of housing are significant factors in the nation's economy. In the Gross Domestic Product (GDP) accounts, the housing sector is directly associated with residential fixed investment and housing services. Residential fixed investment includes the value of new residential construction, improvements and additions to existing units, brokers' commissions on the sale of existing properties, and net purchases of used structures from government agencies. In 2001, new residential construction totaled $262.8 billion, consisting of $232.1 billion in single-family structures and $30.7 billion in multifamily structures. An additional $8.8 billion in manufactured homes was produced. Improvements totaled $104.6 billion, and brokers' fees $60.0 billion. Total residential fixed investment was $433.9 billion, excluding college dormitory housing. Housing services include rent payments and implicit rent for homeowners and totaled $1.01 trillion in 2001. The combined total for housing's direct impact on GDP was $1.45 trillion, or 14 percent of GDP.

The importance of the housing industry is also evident by its weight in the market basket of goods and services for the Consumer Price Index. Shelter, consisting of rent, owners' equivalent rent, and insurance, represents just under 30 percent of the typical consumer's expenditures. Fuel and other utilities add another 4.9 percent, and household furnishings and operation amount to 4.8 percent of the market basket. In total, housing comprises 40 percent of the typical market basket for urban consumers, as measured by the Consumer Expenditure Survey of the Bureau of Labor Statistics (BLS). [1]

Increasing Minority Homeownership Spurs Job Growth in Housing Sector[2]

Minority households who become homeowners will stimulate new home construction and related employment in several ways. First, 825,000 of the 5.5 million minority households who will become homeowners over the decade will likely purchase a new single-family home. Second, an additional one million new single-family homes will likely be purchased by sellers of existing homes to new minority homebuyers. Finally, 110,000 manufactured homes will likely be assembled for direct purchase by new minority homebuyers, for a grand total of 1.936 million additional new single-family housing units attributable to the minority homebuyer initiative. (See Table 1 for impact estimates.)

Table 1.

Projected New Construction by Type of Minority's Home Purchased

Type of Home Purchased	Share	# New Housing Units Required
New Single Family Homes	15%	825,000
Existing Single Family Homes	70%	1,001,000
New Multifamily Homes	Less than 1%	Negligible
Existing Multifamily Homes	6%	Negligible
New Manufactured Housing	2%	110,000
Existing Manufactured Housing	7%	Negligible

However, the overall effect on construction must take into account the fact that there will be an offsetting reduction in the number of rental households and thus a reduced need for construction of rental housing. The offset is not one-to-one because an increase in the homeownership rate leads to an increase in household formations. Considering both new household formations induced by the increase in minority ownership, and the fact that the some rental housing will be removed from the supply, the shift from rental to owner housing by minorities will reduce the need for rental housing construction by 198,000 units over the decade.

The net increase in housing construction stimulated by minority purchases over the decade will generate 4.09 million full time job equivalents in construction and construction-related industries, many of which will be at high pay levels. This increase in jobs represents over $150 billion in new wages. (See Table 2.) About 40 percent of these jobs are on-site construction work; another 27 percent involve employment in transportation, trade, and other locally based services. Additional employment is created through the increase in demand for household goods and services.

Table 2.

Break Down of Jobs and Wages Generated by Change in Residential Construction

	Full-time Jobs	Wages ($ Billions)
All Industries	4,089,460	150.0
Construction	1,888,980	67.0
On-site	1,604,360	57.0
Off-site	284,620	10.0
Other Industries	2,200,490	82.0
Manufacturing	991,400	42.0
Trade, transportation, and services	1,123,360	38.0
Mining and Other	85,720	2.0

Benefits to Businesses that Sell Home Improvement and Other Housing Related Goods

Homeownership does not end simply with the purchase of a home. The transition to homeownership is also associated with the purchase of new appliances and furnishings. Often new homeowners make significant alterations and repairs to their homes, in the process purchasing construction materials and employing remodeling contractors.

Using the Consumer Expenditure Survey to isolate specific impacts shows that households who buy a home spend more in the first year of occupancy than owners or renters who do not move.[3] Expenditures for decorating, landscaping, and other furnishings are higher than for similarly situated households who have not moved. Average homebuyers of all races who move into a new home spend an additional $4,912 in the first year and those who move into an existing home spend $3,706. Increasing minority homeownership by 5.5 million would increase spending on home improvement, appliances and furnishings by almost $36 billion, $17 billion for remodeling, repairs and alterations, and $19 billion for appliances and furnishings, when both direct and indirect effects are considered.

One of the largest categories of this new spending by homebuyers is furnishings. The projected increase in furniture spending associated with increasing minority homeownership by 5.5 million households exceeds $12 billion. Increased spending on home furnishings should add a considerable economic boost to sections of the country that are heavily dependent upon furniture production. A breakdown of the aggregate increase in expenditures on furnishings for selected categories is presented in Table 3.

Table 3.

Spending on Selected Furnishings and Appliances
($ Thousands)

	Total*
Refrigerators	375,880
Clothes Washers and Dryers	94,380
Lawn Mowing Equipment	466,190
Color TVs	785,100
Sofas	3,020,690
Other Living Room Furniture	1,622,870
Modular Wall Units	686,770
Dining Room or Kitchen Furniture	2,423,090
Mattresses and Springs	576,460
Other Bedroom Furniture	1,064,670
Curtain and Drapes	984,130
Venetian Blinds/Shades	1,455,090
Installed Replacement Carpeting	655,640

Source: NAHB calculations using data from the Consumer Expenditures Survey, U.S. Bureau of Labor Statistics.

* Aggregate of increased spending by new minority home buyers and trade-up sellers.

In addition, there are a number of expenses for professional services provided when buying and financing a home, including those of real estate agents, mortgage originators, appraisers, surveyors, credit bureaus, attorneys, and others. Total mortgage origination and real estate settlement expenditures stimulated by the additional home sales are estimated to be $70. (The real estate agent fee for new home sales is included in the construction impact above.)

Benefits for Communities from Home Construction and Sales

Increased home sales and new construction offers direct benefits to state and local governments. The new construction needed for 5.5 million more minority homebuyers over the decade will generate $80 billion in first-year tax revenues, including federal, state and local income taxes, transfer taxes, and fees paid for building permits, approvals, and impact fees. (See Table 4 for aggregate impacts.) Furthermore, although not included in the dollar estimate of first-year tax impacts, it should be recognized that residential property taxes, which are certainly an important ongoing component of local revenues, will rise to reflect the increased value from the resulting property improvements.

Table 4.

Break Down of First-Year Taxes Generated by Full Change in Residential Construction

	Taxes ($ Billions)
Total	80.0
Federal Taxes	55.0
Personal Income Tax	14.0
Corporate and Business Income Taxes	18.0
Social Security Taxes	23.0
State and Local Taxes & Fees	14.0
General Sales Taxes	7.0
Personal Income Tax	3.0
Corporate and Business Income Taxes	4.0
Local Taxes & Fees*	11.0
Property Transfer Taxes	1.0
Building Permits, Approval and Impact Fees	10.0

*Excludes Annual Property Tax Revenues

The Value of the Home Equity Accrued by New Buyers

Housing is the primary store of personal wealth for American families. Home equity represents the single largest asset held by most Americans. Among owners with household incomes below $20,000, home equity accounts about 72 percent of household wealth. For those with incomes between $20,000 and $50,000, home equity constitutes 55 percent of their total wealth.[4] Over time, purchasing a home has proven to be an effective wealth building strategy for millions of Americans. For instance, the median wealth of a low-income homeowner under age 65 is 12 times that of a similar renter. By paying a portion of mortgage principal each month, homeowners accumulate home equity so long as property values do not decline. Most low-income households spend a third or more of their income on rent, none of which adds to their savings. By shifting spending to a home, homebuyers take on the risk of loss from a decline in house prices and substantially higher costs of moving to another residential location. However, they also begin to save, simply because part of their payment toward their housing now pays down principal over time and accrues as home equity. Moreover, because homebuying is a highly leveraged investment, potential increases in the values of homes can bring rich returns on the money invested in a home in the form of a downpayment. For example, if a family purchases a home for $100,000 with a $5,000 down payment and the home price appreciates by 3 percent per year, the home will be worth $115,927 after 5 years. And because the homeowner will have paid his loan down to $90,074 over the same period, his equity will have grown by $20,853 for a 417 percent increase or 33 percent annual return on his initial $5,000 invested.

Gains to homeownership also benefit a larger share of the population, since homeownership is more widespread and evenly distributed than stock ownership. The Federal Reserve's Survey of Consumer Finances (1998) shows that home equity (the value of the home net of mortgages) was the largest component of total wealth for most households. The wealthiest 20 percent of households held slightly over 40 percent of all home equity wealth, while the same top 20 percent held close to 80 percent of stock market wealth.[5] When housing prices rise, the benefits flow to all income levels. In fact, evidence has shown that in a strong economy with rising incomes, lower-priced homes appreciate more than higher-priced homes.[6] Homeowner's equity has risen by an estimated $1.5 trillion since 2000.[7]

IV. Other Private and Public Benefits of Homeownership

In addition to creating jobs in the housing sector, homeownership enhances the lives of individual households and increases the social capital of communities.

The view that homeownership provides public or social benefits to communities in addition to individual homeowners is quite pervasive and has long been thought to include improved outcomes for children, increased civic involvement, better maintenance of homes and greater neighborhood stability, a better sense of well-being, increased savings and wealth, and many other beneficial outcomes. Until recently, these social benefits to homeownership were simply taken as given because there was no empirical evidence either supporting or discrediting these long-held claims. Of late, a large number of academic studies conducted by demographers, sociologists, psychologists, and economists have been published that have consistently corroborated the view that the benefits of homeownership extend to the greater community. These studies and findings are reported below. Taken together, the weight of the evidence, the breadth of the disciplines, the variety of data sets, and the many time periods studied strongly suggest that intuition was right and that the benefits of homeownership do indeed extend beyond individual homeowners to society at large.

Homeownership is associated with higher levels of housing maintenance and property price appreciation. Property values not only measure the utility and condition of a structure for residential purposes, but also the value of the location in terms of community and neighborhood. Studies have found homeowners spend both more in dollar terms and personal labor on maintaining their residences than do landlords of comparable rental properties.[8] Moreover, areas with higher rates of homeownership also witness greater rates of property value appreciation.[9]

Homeownership is associated with positive impacts on children. Several researchers have reached the conclusion that, holding all else equal, homeownership has a positive impact on children within the household. These correlations include an improved cognitive stimulation and emotional environment, an increased educational attainment for children (i.e., higher math and reading scores), fewer behavior problems, a lower teen-age pregnancy rate for daughters living in an owned home, and a higher lifetime annual income for children raised in an owned home.[10]

Homeowners are more involved in their communities. Although the level and benefits of community involvement are hard to measure, several researchers have found, using a wide variety of measures, that owners tend to be more involved in their communities and local governments than renters. For instance, owners participate in a greater number of non-professional organizations, have higher church attendance, and higher voter participation rates.[11] While it is hard to put a dollar value on something like church attendance, it is clear that these factors generally make a neighborhood a more pleasant place to live. In addition to higher civic participation, owners also tend to remain in their homes longer, adding stability and familiarity to the neighborhood.[12]

Homeowners are more satisfied with their homes and neighborhoods. The American Housing Survey (AHS) collects information on current resident's satisfaction with their home and neighborhood. According to an analysis conducted using the 1999 AHS, owners on average rated their satisfaction with their home at 8.0 (on a scale of 1 to 10), compared to 7.2 for renters. Among single-family home residents, owners rated their neighborhoods at 7.9, while renters rated their neighborhoods at 7.3.

Homeowner equity can provide an important link to entrepreneurship. Home equity serves as one method of enabling potential new business owners to gain access to the credit markets. Home equity tends to be one of the largest sources of collateral for bank loans to start new businesses.[13] Homeowners are almost three times as likely to hold direct ownership in business ventures than renters. The 1998 Survey of Consumer Finances reports that 14.5 percent of owners held some form of nonstock business equity, compared to only 5.4 percent of renters. Morevoer, a typical owner also held almost two-and-a-half times the dollar value of business equity as a typical renter. The median nonstock business equity holding for owners was $75,000 in 1998, compared to $31,000 for renters.

A Brief History of Federal Activities to Promote Homeownership

From the Homestead Act of 1862 through the adoption of the mortgage interest deduction and the creation of the Federal Home Loan Banks, the Federal Housing Administration and a series of institutions supporting a secondary mortgage market, the Federal government has played a critical role in expanding homeownership opportunities for Americans. The following are some key events in this long and successful history:

1932 *Establishment of the Federal Home Loan Bank System*. The Federal Home Loan Bank System was created to ensure a stable flow of capital to private sector lenders who made mortgage loans available to home purchasers.

1934 *Establishment of the Federal Housing Administration (FHA).* FHA provides mortgage insurance to private lenders who provide low down payment long-term mortgages to homebuyers. FHA insurance played an important role in popularizing the 30-year fully-amortizing mortgage that is so common in today's U.S. mortgage market. Today, FHA and Ginnie Mae (Government National Mortgage Association)--which helps insure liquidity by guaranteeing pools of FHA and other government-supported mortgages--continue their traditional role in helping many families obtain mortgage financing, particularly first-time, low-income, and minority home buyers.

1938 *Creation of a Secondary Mortgage Market.* The federal role in ensuring a steady stream of capital to the homebuying market continued with the creation of a secondary mortgage market, first with the creation of Fannie Mae (Federal National Mortgage Association--1938) and later with the creation of its sister organization Freddie Mac (Federal Home Loan Mortgage Corporation--1970).

1944 *G.I. Bill*. The G.I. Bill provided returning servicemen and their families with assistance in buying homes. The Department of Veterans Affairs continues to play a key role in making the dream of homeownership a reality for the nation's veterans. The post-WW II era also saw the creation of homeownership programs within the Department of Agriculture that help ensure the flow of mortgage credit to hard to serve rural areas.

1946 *Farmers Home Administration.* The FmHA, later renamed the Rural Housing Service (RHS), makes and guaranties loans and provides grants for construction and repair of homes in non-metropolitan and rural areas. It also assists rural self-help housing groups.

1949 *Housing Act of 1949*. This act declared a national goal of "a decent home and a suitable living environment for every American family."

1968 *Fair Housing Act*. Federal policies to expand of homeownership opportunities for all Americans continued with the passage of the Fair Housing Act in 1968, which banned discrimination based on race, color, religion or national origin (later amended to include sex, disability or familial status).

1977 *The Community Reinvestment Act (CRA)*. CRA sought to prevent redlining and to encourage banks and thrifts to invest in all segments of the communities they served, including low- and moderate-income neighborhoods and the passage of federal laws regulating homebuying and settlement transactions.

1990 *The National Affordable Housing Act of 1990* established the HOME program to provide states and localities with federal funds for the construction and rehabilitation of affordable housing and instituted reforms of the FHA Single Family Mortgage Insurance program that returned FHA to an actuarially sound position. Since that time, FHA has insured over 12,000,000 home loans.

[1] See D'Allessandris, David, "The Importance of Real Estate to the Economy," *Real Estate Outlook*, National Association of REALTORS®, June 1998.

[2] Estimates in this section were produced by the National Association of Homebuilders (NAHB) in "Economic Impact of Adding 5.5 Million Minority Home Owners," September 20, 2002.

[3] P. Emrath, "What Else Home Buyers Buy," *Housing Economics*, April 2000.

[4] Retsinas, N. P., and E. S. Belsky, *Low-Income Homeownership: Examining the Unexamined Goal*, Washington, D.C.: Brookings Institution Press, 2002, p. 201.

[5] National Association of Realtors, "Economic Impacts of the Housing Sector," Research Division, July 2002.

[6] L.B. Smith and M.H.C. Ho, "The Relative Price Differential Between Higher and Lower Priced Homes," *Journal of Housing Economics*, 5(1996)#1, cited in Todd G. Buchholz, *Safe At Home: The New Role of Housing in the U.S. Economy*, Homeownership Alliance, 2002.

[7] Leigh Marjamaa, "Home Equity: The Cornerstone of Wealth," *Community Banker*, September 2002.

[8] Rohe, W., and L. Stewart, "Homeownership and Neighborhood Stability," *Housing Policy Debate*, 7 (1996) #1: 37-82. Galster, G., "Empirical Evidence on Cross-Tenure Differences in Home Maintenance and Conditions," *Land Economics*, 59(1983) #1:107-113.

[9] Rohe, W., and L. Stewart, "Homeownership and Neighborhood Stability," *Housing Policy Debate*, 7(1996) #1:37-82.

[10] See Haurin, D. R., T. Parcel, and R. J. Haurin, R. J., "The Impact of Home Ownership on Child Outcomes," Unpublished manuscript, 2000; Green, R., and M. White, "Measuring the Benefits of Homeowning: Effects on Children," *Journal of Urban Economics*, 41(1997)#3:441-461; Kane, T. "College Entry by Blacks since 1970: The Role of College Costs, Family Background, and the Returns to Education," *Journal of Political Economy*, 102(1994)#5: 879-911; and Boehm, T., and A. Schlottmann, "Does Homeownership by Parents Have an Economic Impact on their Children?" Unpublished manuscript, 1998.

[11] DiPasquale, D., and E. Glaeser, "Incentives and Social Capital: Are Homeowners Better Citizens?" *Journal of Urban Economics,* 45(1999) #45:354-384; also see Rossi, P., and E. Webb. "The Social Benefits of Homeownership: Empirical Evidence from National Surveys," *Housing Policy Debate,* 7(1996) #1:1-36.

[12] Rohe, W., and L. Stewart, "Homeownership and Neighborhood Stability," *Housing Policy Debate*, 7(1996)#1:37-82.

[13] Over 740,000 businesses in 1992 reported a mortgage or home equity loan as a source of start-up capital for their business, helping to create millions of new jobs. See US Bureau of the Census, *Characteristics of Business Owners, 1992*. Economic Census CBO92-1. US GPO, Washington, DC. September 1997.