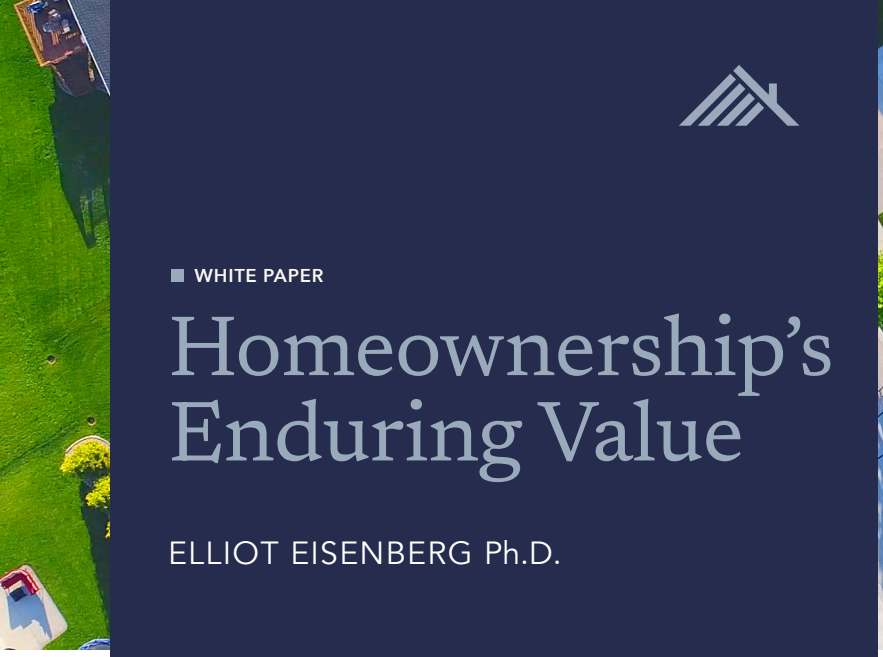

WHITE PAPER

Homeownership's Enduring Value

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EXECUTIVE SUMMARY

Homeownership creates a multitude of benefits at the individual and community levels. Housing plays a crucial role in the economy and in society, functioning as a vital ecosystem of community stability.

I. Homeownership Creates Financial Security: Homeownership brings financial stability and serves as a safeguard against inflation, as mortgage payments typically remain stable, whereas rents often increase alongside inflation.

II. Homeownership Builds Personal and Generational Wealth: Research has shown that homeownership is the leading source of wealth creation in America and continues to improve the economic prosperity of Americans.

- Between 2019 and 2022, the median net housing wealth in the U.S. increased 44%.
- Aggregate homeowner equity increased 37% over the last four years.

III. Homeownership Leads to Better Health and Educational Outcomes: Beyond the financial benefits of homeownership, studies have shown that homeownership leads to improved health and educational outcomes.

- Homeowners generally had a lower prevalence of chronic health conditions, especially among those aged 45 to 64 years.
- Children of low-income homeowners are 11% more likely to graduate from high school and are 4.5% more likely to complete post-secondary education than children whose families rent.

IV. Homeownership Builds Communities: The development of new housing drives economic growth for local communities, both during development and beyond. Housing and related services account for roughly 16% of the nation's GDP.

V. Homeownership and the American Identity: Compared to renters, homeowners are more likely to be politically active and participate in elections more frequently. Additionally, homeownership remains popular with Americans, with 78% of Americans saying homeownership is "very important."

HOMEOWNERSHIP'S ENDURING VALUE

31.4%
Household Wealth Attributable to Home Equity

+37%
Four-Year Increase in Home Equity

+11%
Low-Income Homeowner vs. Renter High School Graduation Rate

15.9%
Housing's Share of GDP

+25%
Voter Engagement

78%
Say Homeownership Is Very Important

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UNDERSTANDING THE BROAD VALUE OF HOMEOWNERSHIP

Homeownership creates a multitude of benefits at the individual and community levels. Housing plays a crucial role in the economy and in society, functioning as a vital ecosystem of community stability. While access to affordable and safe housing benefits all, there are many well-documented financial and societal benefits specific to homeownership.

Homeownership is a key driver of wealth accumulation, particularly for lower- and middle-income individuals. It acts as a forced-saving mechanism through mortgage payments, leading to increased net worth over time, thus providing a safety net for financial crises and significant expenses like car purchases, education, or medical bills. Furthermore, the obligation of mortgage payments encourages consistent employment and financial responsibility.

Socially, homeownership fosters a sense of place, purpose, and community involvement. Homeowners are more likely to care about their neighborhood, participate in community activities, and build social capital through relationships with neighbors. This can lead to mutual support, such as parents looking out for each other's children, thus creating a stronger community. For many, the act of buying a home is a rite of passage, similar to marriage, and one that facilitates other life goals, such as having children.

I. HOMEOWNERSHIP CREATES FINANCIAL SECURITY

Financial security impacts nearly every aspect of an individual's and society's well-being. For the individual, financial security can lead to reduced stress and improved physical and mental health. Interpersonal relationships can be stronger, family stress can be reduced, and there are increased opportunities for education and career growth. In general, financial security can improve quality of life, help individuals and families be more resilient during crises, and be less dependent on others for financial assistance and support. In the American culture, one of the most powerful ways to build financial security is via home-ownership, symbolized by the concept of the American Dream, a critical component of which revolves around homeownership

Homeownership is a safeguard against inflation: An article from the *Journal of Economic Perspectives* found that home-ownership brings financial stability by serving as a safeguard against inflation, as mortgage payments typically remain largely stable, whereas rents often increase alongside inflation. Research shows that owning a home is more financially ad-vantageous than renting, regardless of whether a homebuyer itemizes deductions[1].

Homeownership is a forced savings plan: Each mortgage payment includes principal, which gradually increases the homeowner's equity in the property. This equity represents savings that grow over time. As incomes in a neighborhood rise, so too does the value of homes in that area. Simultaneously, mortgage payments become a smaller percentage of a homeowner's income over time due to inflation and rising wages, making housing increasingly affordable compared to renting.

> "The returns on homeownership are not just financial, of course. Homeownership provides a stable place to live and an inflation hedge because mortgage costs are generally fixed while rents tend to rise with inflation."
>
> - LAURIE S. GOODMAN AND CHRISTOPHER MAYER IN "HOMEOWNERSHIP AND THE AMERICAN DREAM" JOURNAL OF ECONOMIC PERSPECTIVES (VOLUME 32, ISSUE 1)

Homeownership is a buffer against uncertainty: This growing wealth provides a financial buffer against life's uncertainties. Homeowners can leverage their equity through mechanisms such as home equity lines of credit to help children or themselves afford college, manage medical emergencies, and cover unexpected healthcare costs, and, very importantly, overcome a job loss and provide a financial cushion during periods of unemployment. Thus, homeownership offers resilience against negative financial shocks, similar to how wealth strengthens a country's ability to recover from disasters, be they natural or financial. Homeownership can also lead to improved credit scores, potentially lowering the cost of home and car insurance, and for of borrowing for various needs.

1. Goodman and Mayer, "Homeownership and the American Dream" Journal of Economic Perspectives (Volume 32, Issue 1)

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II. HOMEOWNERSHIP BUILDS PERSONAL AND GENERATIONAL WEALTH

Home prices tend to appreciate over the long run, building wealth for homeowners as the value of the underlying asset increases. While rare events like the 2008/2009 housing financial crisis can cause temporary declines, the general trend of home prices is upward. This wealth accumulation is particularly significant for middle-class and upper-middle-class households, often constituting a large portion of their overall net worth.

In its October 2023 *Survey of Consumer Finances*, the Federal Reserve Board reported that median net housing wealth, as measured by the home's value minus any debts secured by the home (including mortgages, home equity loans, and home equity lines of credit), increased 44% between 2019 and 2022, from about $139,100 to $201,000, the largest growth rate in the history of the survey.

Harvard's *2024 State of the Nation's Housing* report found that aggregate homeowner equity increased 37% over the last four years, after adjusting for inflation, from $23.2 trillion in 19Q4 to $31.8 trillion in 23Q4.

The 2022 Census Bureau's *Wealth of Households* report showed that 31.4% of household wealth was in home equity, comparable to the amount in retirement assets.

Over the past 33 years, the median wealth gap between homeowners and renters has increased by 70%, and in 2022, the median wealth gap between homeowners and renters reached almost $390,000 while the average wealth gap reached over $1,370,000.

A homebuyer in 2002 would have earned a higher rate of return on home equity than on bonds regardless of the holding period, and a higher return than on the S&P 500 with a three-year-holding period or more, once taxes on the alternative investment are considered. (Goodman and Mayer)

Further, buying a home provides a unique opportunity to leverage a relatively small down payment – 10-20% and in the case of an FHA loan, much less – and borrow the rest. This amplifies returns; a 3% increase in a highly leveraged home's value yields a much higher percentage return on the homeowner's invested capital. Rarely does a small investor have an opportunity to leverage funds as easily as when purchasing a home.

There are also tax advantages in homeownership. Government tax policies have historically favored homeownership through deductions for mortgage interest and property taxes. Though the impact has been reduced by higher standard deductions in recent years, it may once again be treated more favorably under tax legislation working its way through Congress. Importantly, capital gains from the sale of a primary residence receive favorable tax treatment.

Other forms of wealth like savings and annuities may be depleted over time due to expenses such as long-term medical care. Government programs and regulations often protect a primary residence, further safeguarding this wealth for future generations. In some states, laws may even offer protection against certain types of liens, preserving the home as an inheritable asset. Owning a home also provides stability and security for surviving spouses. Unlike renters who might face financial hardship due to the loss of income and increased housing costs after a partner's death, homeowners have a stable place to live and potential options like renting out part of the house to generate income.

Furthermore, by retirement time, many homeowners have paid off all or a significant portion of their mortgage, leaving them with a valuable asset. This wealth can supplement retirement income and be passed on to the next generation. Even for "house-rich, income-poor" retirees, the equity in their home can provide options, such as borrowing against it to cover property taxes, or using a reverse mortgage to pay for living expenses and medical care.

Finally, the wealth accumulated through homeownership can be leveraged to provide opportunities for the next generation while the homeowner is still alive. Home equity can be used to fund educational expenses like tutoring, summer programs, or college, giving children or grandchildren a competitive advantage.

III. HOMEOWNERSHIP LEADS TO BETTER HEALTH AND EDUCATIONAL OUTCOMES

Homeownership leads to better health and educational outcomes through a variety of mechanisms. First, owning a home leads to more stable living arrangements, reducing the frequency of moves. Frequent moves are disruptive for children, leading to changes in schools, loss of social networks, and increased stress, all of which negatively impact academic performance. Stable housing allows children to stay in the

same school for longer periods, fostering stronger relationships with teachers and peers, and providing a consistent learning environment.

Second, homeownership provides a sense of security, predictability, and control over one's living environment. This can reduce stress and anxiety for both parents and children, positively impacting mental and physical health, which in turn supports better concentration and learning.

Homeowners generally have better quality housing with fewer health hazards like mold, pests, and poor air quality which are more common in poorly maintained rental properties. They have a greater incentive and ability to maintain and improve their living conditions. Stable and better-quality housing reduces exposure to environmental toxins like lead, air pollution and allergens, which can negatively affect children's cognitive development and physical health, leading to fewer missed school days and better academic performance. Parents are less likely to miss work or face medical bills.

Lower and more predictable housing costs associated with homeownership (compared to fluctuating rents) can free up financial resources for families to invest in healthier food, healthcare, and educational materials for their families.

Finally, but very importantly, homeowners tend to be more involved in their communities and local activities. This can lead to stronger social networks, safer neighborhoods, access to quality food and retail offerings, and better-resourced schools, all of which contribute to positive health and educational outcomes for residents.

In a 2024 study, the Centers for Disease Control (CDC) reported that homeowners generally had a lower prevalence of chronic health conditions, especially among those aged 45 to 64 years. After adjusting for age, sex, and race/ethnicity, the odds of having chronic health conditions among renters were higher than those of homeowners.

Habitat for Humanity found that children of low-income homeowners are 11% more likely to graduate from high school and are 4.5% more likely to complete post-secondary education than children whose families rent.

IV. HOMEOWNERSHIP BUILDS COMMUNITIES

Development of new housing leads to direct investment in local communities. To demonstrate the importance of new home construction on the local economy, the National Association of Home Builders (NAHB) has a model that can help to measure the benefits of home construction. The 2015 Local Economic Impact of Home Building study showed that every 100 homes built in the average U.S. city generates $28.7 million in local income, $3.6 million in taxes and fees to local governments, and 394 full-time equivalent jobs during the 12-month construction phase which includes the associated ripple phase, which is induced as those who develop the land and build the house and those who sell goods and services to the developer and builder spend the money they earn in the local economy.

Importantly, there is also an ongoing impact phase that occurs as a result of these 100 households moving into new homes. That phase is perpetual (while the homes are occupied), and economic activity during this phase generates $4.1 million in local incomeper year, $1 million per year in taxes and other revenue for local governments, and 69 permanent full-time equivalent jobs.

New houses, of course, require public investment in the form of new schools, fire stations, and police stations, as well as the hiring of additional firefighters, police officers, and teachers so that existing services to existing homes are not degraded. The one-time public capital costs associated with 100 new homes are $2.36 million, and the annual salaries for educators, judges, teachers, and other public service employees are $664,000 per year.

Thus, new homes more than pay their way. New homes are generally significantly more expensive than most existing homes, and new-home buyers typically have higher household incomes than most existing homeowners. The model shows that over a period of 15 years, the revenues net of costs to local governments in the average U.S. city from 100 new construction homes are $5.9 million.

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V. HOMEOWNERSHIP AND THE AMERICAN IDENTITY

In its 2016 study of the *Social Benefits of Homeownership and Stable Housing*, the National Association of Realtors reported that compared to renters, homeowners are more likely to be politically active and participate in elections more frequently (77% vs. 52% voted in local elections).

According to a recent polling, homeownership remains anchored to the American Dream, even for those who say homeownership is not part of their life goals:

- 78% of Americans say homeownership is extremely important or very important, up 6% from 2021[2]
- 84% of Americans say homeownership is a part of their dream while 94% of Americans say homeownership is part of the American dream (+10% more than say it is a part of their dream [3]
- 63% of prospective millennial and Gen Z homebuyers surveyed indicated they are interested, eager and ready to become homeowners [4]

CONCLUSION

In summary, homeownership creates a multitude of demonstrable benefits. By increasing financial stability and security, individuals to build equity over time, crucial during economic downturns, as homeowners with equity can weather financial storms better than others. Homeownership also plays a significant role in community resilience and economic growth by fostering a sense of investment and responsibility among residents. When individuals own homes, they are more likely to engage with their community, leading to increased civic involvement and participation in local governance.

The home construction industry also serves as a significant economic driver for the state, supporting thousands of employers, employees, contractors, consultants, suppliers, and vendors. The resulting new homes contribute sales and property tax dollars, which support schools, infrastructure, and public services.

[2] U.S. Mortgage Insurers: 2021 and 2024 National Homeownership Market Survey.
[3] Lending Tree: "94% of Americans Say Owning a Home Is Part of the American Dream, but 51% Who Don't Own Fear They Never Will."
[4] RE/MAX: "New Survey Finds Nearly Two-Thirds of Gen Z and Millennials Are Ready to Become Homeowners."

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