RECENT AMERICA – Weiss

**HOMEOWNERSHIP**

The [rate of homeownership has declined](http://www.wsj.com/articles/new-housing-crisis-looms-as-fewer-renters-can-afford-to-own-1433698639) to where it was in 1965, 62.9 percent.

Homeownership has been seen a vital part of the American Dream. But the rise in homeownership since the mid-1990s fed the housing bubble that almost burst the world economy. Is the decline in homeownership a reason for concern?

Directions: Read the following opinions on homeownership and the American Dream and write TWO Socratic responses and come to class with ONE question per article to ask the class as well as FIVE additional questions that you would like to know more information about.

Respond to the readings utilizing two of the following prompts:

* The big idea seems to be…
* I think it means….
* Another point of view is…
* I disagree that…
* I agree that…
* I have a question about…
* I’m not sure what it means when the author says…
* The ideas presented in the reading are similar to…
* Does this idea seem reasonable / justifiable? Why or why not?
* How could you look at the ideas presented in a different way?
* What obstacles might exist?
* What else might I need to know to better understand the ideas presented?

**Source Evaluation:**

We are constantly surrounded by [information](http://www.wikihow.com/Find-Information-Online), and it is not always easy to know which sources to trust. Being able to evaluate the credibility of information is an important skill used in school, work, and day-to-day life. With so much advertising, controversy, and blogging going on, how do you sift through the chaff and cut to the chase?

Directions: Answer the following questions as it relates to the authors of each opinion:

* What is the author's background? (e.g., experience, credentials, and occupation, and has he or she published anything else on the topic?). Is the other’s background uncredited, educated on topic, expert in field?
* Objectivity: Is the other biased, if so why? Is the other balanced, neutral? Why?
* Is the author’s institutional affiliation listed? If so, what is it and does that institution have neutral or any bias? Does the author cite his or her sources?

**#1. Homeownership Drop Is Bad News, but Not for the Reason You Think**

[*Dean Baker*](http://www.cepr.net/index.php/biographies/dean-baker/)*is an economist and the co-director of the*[*Center for Economic and Policy Research*](http://www.cepr.net/)*.*

The homeownership rate [fell again](http://www.census.gov/housing/hvs/files/currenthvspress.pdf) in the second quarter of 2016, hitting [the lowest rate](http://www.census.gov/housing/hvs/data/histtab14.xlsx) in more than 50 years, more than 6 full percentage points below the peak bubble years. This is both good news and bad news.

It is good news because homeownership is not always good for everyone at all points in their lives. The building, banking and real estate industry have worked hard to make renting seem un-American. While homeownership can be a useful way for families to accumulate wealth, it's not generally advisable for people not in a stable employment and family situation.

The transaction costs associated with buying and selling a home are [roughly 10 percent](http://www.moolanomy.com/6279/the-cost-of-buying-and-selling-a-home/) of the sales price, which comes to almost[$25,000 for a typical home](http://www.realtor.org/sites/default/files/reports/2016/embargoes/ehs-7-21/ehs-06-2016-overview-2016-07-21.pdf). This is a lot of money to throw away for someone who has to move after a year or two because of losing a job or a family break-up. Of course the lost money to the homeowner is income for bankers and realtors.

The other reason it might be a good thing to see a declining homeownership rate is that it seems some markets are again rising into bubble territory. The bottom third by sales price of homes in Miami saw a 55.6 percent price increase over the last three years. By contrast, rents have risen just 10.4 percent. In Chicago the price of the bottom third of homes increased by 40.7 percent in the last three years, while rents rose by 6.9 percent.

There are several other cities in which prices in the less expensive segment of the market are rising precipitously. It would be a good thing if moderate income families didn’t buy into bubble inflated markets yet again.

The bad side is: The main reason people are not buying homes does not have to do with them having better insight into the nature of the housing market. According to the [Census Bureau](http://www2.census.gov/programs-surveys/demo/tables/p60/252/table5.pdf), earnings for the median male worker still have not recovered to their pre-recession level, while earnings for women are just trivially higher more than seven years later. Furthermore, the [employment rate](http://www.bls.gov/data/) for prime age workers (ages 25 to 54) is still down by almost three percentage points from the pre-recession level.

If families were deciding that it was better to put their money elsewhere rather than buy a home we would be seeing more rapid growth in their holdings of other financial assets. We in fact see the opposite. The Federal Reserve Board’s 2013[Survey of Consumer Finance](http://cepr.net/documents/wealth-scf-2014-10.pdf), the most recent one available, shows that assets outside of housing are down sharply from pre-recession levels for all age brackets. Clearly people are not opting to put their money elsewhere; they just don’t have the money.

This is clearly a bad story. It’s made worse by the fact that the [biggest drops](http://www.census.gov/housing/hvs/data/histtab16.xlsx) in homeownership are for African-Americans, who are again being hardest hit by a weak economy. It will be good if families can make informed decisions between renting and owning, but it will be even better when more of them actually have this choice.

**#2. A Persistent Housing Crisis Stifles the American Dream and Economy**

[*Elyse Cherry*](http://www.bostoncommunitycapital.org/about-us/bcc-staff)*is the chief executive of Boston Community Capital, a community development finance organization with more than $1 billion invested to build healthy communities.*

Plummeting homeownership rates are a worrisome sign that the American Dream remains a fantasy for millions. But they are also worrisome for another reason: they show that the housing crisis continues to afflict millions of families facing foreclosure or saddled with unaffordable, bubble-sized mortgages.

That’s a problem, because for generations of Americans, homeownership has been a gateway to the middle class and a [primary source](http://www.dsnews.com/news/10-28-2015/homeownership-is-the-key-to-wealth-building-middle-class) of wealth creation. What’s more, it is not just families who benefit when they own their homes: their neighborhoods and the entire [economy](http://www.usnews.com/opinion/blogs/economic-intelligence/2013/10/29/protecting-the-future-of-american-homeownership-is-vital) do, too.

The housing market has broadly recovered from the 2008 crisis, but many Americans remain left behind. As of June, [one million](http://www.realtytrac.com/statsandtrends) homeowners were facing foreclosure. Almost [7 million more](http://www.realtytrac.com/news/foreclosure-trends/q1-2016-u-s-home-equity-and-underwater-report/) were underwater, owing more on their mortgages than their homes are worth. For them, there has been no housing recovery. These working- and middle-class homeowners have seen their incomes [stagnate](http://www.pewresearch.org/fact-tank/2014/10/09/for-most-workers-real-wages-have-barely-budged-for-decades/) — along with [the value](http://www.economist.com/blogs/graphicdetail/2015/11/daily-chart-0) of many of their homes. What’s worse, they’re still on the hook for mortgages that are based on bubble-era valuations.

When these beleaguered homeowners see no path to financial wellbeing, they have no incentive to maintain their homes — meaning they lose even more value. And the exorbitant monthly payments they face mean that they can’t sell their house if they get sick or lose their job. They are stuck with the burdens of homeownership and none of the benefits.

A process called principal reduction — decreasing the amount owed on a loan — is the most effective tool for alleviating this crisis. Fortunately, the federal government is acknowledging that fact. In April, the Federal Housing Finance Agency [announced](http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-PRM-Program-and-Further-Enhancements-to-NPL-Sales-Reqts.aspx) it would expand access to principal reduction to some borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac, the government-backed mortgage-finance entities. But FHFA expects that [only](http://www.fhfa.gov/Media/Blog/Pages/FHFA-Launches-Map-of-Potentially-Eligible-Borrowers-for-Principal-Reduction-Modification.aspx) about 30,000 borrowers across the country are eligible to participate. That’s not nearly enough.

We need to use all the tools we have to help more Americans build wealth. That means expanding access to principal reduction for all underwater homeowners. The government’s [own research](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44114_WorkingPaper-OptionsPrincipalForgivenesl.pdf) says it works. And we know from experience: utilizing principal reduction, Boston Community Capital has kept more than 700 families facing foreclosure in their homes through our [Stabilizing Urban Neighborhoods program](http://www.bostoncommunitycapital.org/foreclosure-relief). Those families are homeowners who get the benefits, not just the burdens.

Increasing the number of homeowners in America will [strengthen our communities and our economy](http://www.usnews.com/opinion/blogs/economic-intelligence/2013/10/29/protecting-the-future-of-american-homeownership-is-vital). We have to attack the problem with solutions that work. That’s why principal reduction needs to be our go-to fix, not an afterthought.

**#3. Decline in Homeownership Could Worsen the Racial Wealth Gap**

[*William E. Spriggs*](http://coas.howard.edu/economics/faculty/williamspriggs/)*is a professor of economics at Howard University and the chief economist of the A.F.L.-C.I.O.*

The current lower homeownership rate is related to two factors — one is a [lower rate of family formation](http://www.pewsocialtrends.org/2016/05/24/for-first-time-in-modern-era-living-with-parents-edges-out-other-living-arrangements-for-18-to-34-year-olds/) among [young people](http://www.brookings.edu/research/reports/2016/05/03-dividing-line-between-haves-have-nots-home-ownership-education-not-student-debt-dynarski) and the other is a [tightening of credit that is more stringent](http://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index) than pre-bubble rates. The former point means there may yet [be a catch-up](http://www.epi.org/blog/strong-job-growth-in-june-inspires-optimism-after-recent-weaker-reports/)if the employment market continues to recover at its current pace. The latter is an issue because a rising share of new family formation comes from Latinos and blacks, and if this is a signal of heightened discrimination after the subprime crisis it may mean homeownership could face continued problems.

Homeownership matters because new home purchases help drive jobs in construction and the complimentary demand for durable goods (air conditioning/heating units, appliances, etc.) that are a normal engine of economic business cycles and growth. Further, new housing demand provides broad liquidity to homeowners, giving a market to older homeowners who downsize at retirement. So, delayed home purchasing affects the flexibility of older Americans to downsize and access their housing wealth. And, a vital housing market is key for local government finance. Because of the home mortgage deduction, growing gaps in wealth, race or educational attainment in homeownership will exacerbate the way in which our tax system expands inequality.

Since housing is a leveraged asset, homeownership is an important part of household wealth portfolios. Promoting homeownership will remain our nation's primary tool for addressing wealth inequality. If the decline in ownership [from the more stringent credit requirements](http://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-july-2016/view/full_report) continues to [hurt the recovery of Latino and black homeownership](http://www.remortgage2000.com/housing-downturn-hurting-african-americansseverely/), it means that the substantial racial wealth gap will grow. This has important impacts, since by 2040 the majority of households will be of color. Lower household wealth reduces the resiliency of the household sector to withstand labor market and economic shocks, like the recession of 2001 and of course events like the Great Recession of 2008. [Household wealth is important for predicting college completion](http://www.theatlantic.com/education/archive/2016/04/the-growing-wealth-gap-in-who-earns-college-degrees/479688/), and gaps in racial household wealth will make it hard to close the college completion gap between Latino, black and white households. And that becomes nationally important when the majority of college age students are of color as will be the case starting in 2020.

**#4. A Decline in Homeownership Is Not Necessarily Bad for Lower-Income People**

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The steady post-recession decline in homeownership rates is troubling for the overall economy and for renters who would like to buy homes. But lower overall rates are not necessarily bad for all households.

Despite Donald Trump’s [dystopian](http://www.nytimes.com/2016/07/24/opinion/sunday/donald-trumps-disturbia.html?_r=0) views, good things are happening in the U.S. economy. [Unemployment rates](http://data.bls.gov/timeseries/LNS14000000) are low, household spending is [robust](http://www.nytimes.com/2016/07/30/business/economy/us-economy-gdp-q2.html?emc=edit_th_20160730&nl=todaysheadlines&nlid=28708558), the economy continues to grow (although [slowly](http://www.cnbc.com/2016/07/29/gdp-us-economic-growth-is-close-to-zero.html)), and the number of [foreclosures](http://www.corelogic.com/about-us/news/corelogic-reports-38,000-completed-foreclosures-in-may-2016.aspx) continues to decline. The housing market continues to recover as home and land prices [are rising](http://www.census.gov/housing/hvs/files/currenthvspress.pdf).

While higher real estate sale prices are good for existing owners, renters – *especially*if they are middle-income – have been priced out of many U.S. housing markets. Even the chief economist for the National Association of Realtors recently [acknowledged](https://www.washingtonpost.com/realestate/all-the-reasons-its-so-much-harder-to-buy-a-home-than-it-was-for-your-parents/2016/07/27/3d010358-42be-11e6-bc99-7d269f8719b1_story.html) the risks the country faces if Americans cannot afford to buy homes.

Household income remains [stagnant](http://www.epi.org/publication/charting-wage-stagnation/) for all but the richest households, and the overall personal savings rate has now started to decline. Renters, especially young adults, are not [buying homes](http://www.wsj.com/articles/housing-bust-lingers-for-generation-x-1460142759) because they have not saved enough money for a down payment and do not have enough disposable income to make monthly mortgage payments.

Declining homeownership rates do not bode well for housing markets or the U.S. economy. But, renting is not necessarily bad for lower- and middle-income families. These families have always had lower homeownership rates than rich families and have never really received the same economic benefits from homeownership that rich families have.

For example, households who earn less than $50,000 almost [always](http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000542-options-to-reform-the-deduction-for-home-mortgage-interest.pdf) take the standard deduction while two-thirds of taxpayers who earn more than $125,000 annually are [itemizers](http://www.taxpolicycenter.org/UploadedPDF/1001486-Who-Itemizes-Deductions.pdf) who benefit from the mortgage interest deduction. In addition, home values in rich neighborhoods appreciate faster than homes in lower- and middle-income neighborhoods and schools in rich neighborhoods are almost always [higher quality](https://www.washingtonpost.com/realestate/school-quality-has-a-mighty-influence-on-neighborhood-choice-home-values/2015/09/03/826c289a-46ad-11e5-8ab4-c73967a143d3_story.html) than schools in other neighborhoods.

The slight dip in the homeownership rate is not particularly alarming, particularly for lower- to middle-income families. But, housing unaffordability – the reason for the continual decline – is a problem both for renters who want to buy and for those looking to rent an affordable home in a neighborhood with good schools.

**#5. There’s Little Public Benefit in Homeownership**

[*Edward Glaeser*](http://www.economics.harvard.edu/faculty/glaeser)*is the Glimp professor of economics at Harvard University.*

It is a terrible mistake to artificially boost the homeownership rate by subsidizing borrowing. Before 2007, America chased the chimera of an “ownership society” and ended up creating a “foreclosure society” instead.

Homeownership is a good option for people who want to live in a single-family house for the next seven years or more. Homeowners can customize their property. They are hedged against rising costs of housing. Ownership creates incentives to maintain a home. Understandably, 84.4 percent of occupied single family detached dwellings are owner-occupied.

For Americans who don't plan on settling in any one neighborhood, or who like dense apartment buildings, renting is more attractive. Renting saves the fixed costs of realtor’s fees, and limits exposure to housing price swing. In apartment buildings, renting avoids condominium fees and coop boards. Consequently, 87 percent of occupied units in multifamily buildings are rented.

There is little public benefit in pushing people to own rather than rent homes, just as there is little public benefit is squelching the market for leased cars. Homeowners are somewhat [better citizens](http://www.sciencedirect.com/science/article/pii/S0094119098920988), but we shouldn’t screw up the[$28 trillion](http://www.zillow.com/research/total-housing-value-2015-11535/) housing market in the hopes of mildly increasing engagement in local politics. Moreover, when homeowners get involved in politics, they often try to stop new development which makes housing [less affordable](http://www.nber.org/chapters/c11534) for everyone else.

Homeowners who pay off their mortgages or who are lucky enough to experience rising housing prices do become wealthier. But making it easier to borrow reduces the need to save for a down-payment, and owners can also be hit by falling prices.

Subsidizing homeownership has bad side effects. Owners are less mobile, which makes it [harder for them to move](http://www.nber.org/papers/w19079) from high unemployment places to high wage places.

Since big apartment buildings are overwhelmingly rented, inducing homeownership pushes people away from urban centers. The American Dream can be realized in a rented urban apartment just as easily as behind a suburban white picket fence. There is no reason to stack the deck against America’s cities, which are [more economically productive](https://www.aeaweb.org/articles?id=10.1257/jel.47.4.983) and require [less household energy use](http://www.sciencedirect.com/science/article/pii/S0094-1190(09)00102-8).

We shouldn’t worry about less homeownership, but we should worry about high housing costs in America’s most productive places. But the right response to high housing costs is to permit more building, not to subsidize homeownership. Homeownership subsidies just push prices up further. America should never again use public policy to prod people to over borrow in the vain pursuit of high homeownership rates.

RA – Weiss

Part 1: How the suburbs changed America.

* What did returning veterans want for their families?
* What social values facilitated suburban development after World War II?

Part 2:

* How does the central city population change from 1950 to 1970?
* How does the suburban (outside central city) population change? You might want to ask students to construct a bar graph of the percentage of central city and suburban population.

[Source: *Statistical Abstract of the United States*](http://www2.census.gov/prod2/statcomp/documents/1973-02.pdf). Washington, DC: Department of Commerce, 1973, p. 17,

* Now look at the White and African-American populations; how do those two populations differ in rates of growth in the center city and the suburban areas during those two decades?

Part 3:

In your groups, go to the [Automobile in American Life and Society](http://www.autolife.umd.umich.edu/) website. Examine one of the sections of the exhibit—environment, race, or gender, reading the particular sections listed below.

* Environment: Martin Melosi, [The Automobile Shapes the City: Suburban Communities](http://www.autolife.umd.umich.edu/Environment/E_Casestudy/E_casestudy12.htm)
* Race: Thomas Sugrue, [Building the Motor Metropolis: Automobiles, Highways, and Sprawl](http://www.autolife.umd.umich.edu/Race/R_Overview/R_Overview3.htm)
* Gender: Margaret Walsh, [Gender and Automobility: Consumerism and the Great Economic Boom](http://www.autolife.umd.umich.edu/Gender/Walsh/G_Overview3.htm) (skip first two paragraphs)

TASK: As you read your section, and carefully examine the accompanying images (larger versions with captions appear when you click on the image), you should consider the following questions in your group:

* What is the effect of the automobile on the city? On the suburb?
* What is the role of government (local, state, and federal) in developing suburban communities?
* In old and new communities (center city and suburb), how did family life change?
* What was liberating about the new suburban region?
* What sorts of problems were created and for whom?

TASK: Each group chose one image from your section and write a short paragraph explaining what this image reveals about the auto, city and suburb in postwar life.

Each group will present their image and paragraph to the entire class. As a class, we will try to answer the following questions throughout all groups.

* What was the role of space, race, and gender in changing urban and suburban life?
* How did the relationship between the city and suburb change in the 1950s and 1960s? Why?
* Who benefited? Who lost?