

Homeownership and Economic Mobility

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Reinventing Our Communities

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US policy promotes homeownership

- U.S. housing policy tilts playing field in favor of homeownership through several mechanisms.
 - Federal tax policy
 - Local land use policy
 - Absence of financial safety net
- Rationale for these policies: homeownership is good for families and communities.
 - What are the pros and cons of homeownership?
 - For whom, at what points in our lives?

Pros and cons of homeownership

- Potential advantages:
 - Paying down mortgage “forces” owners to save.
 - If property values rise faster than inflation, owners build wealth.
 - Ownership provides stability and predictability of housing expenditures and living situation.
 - Homeownership has some spillover community benefits.
- Potential disadvantages:
 - Buying and selling real estate is expensive and stressful.
 - Owning a home may make it harder to relocate for career opportunities, especially during recession.
 - Home maintenance is expensive and time-consuming.
 - Compared to mutual funds or bonds, investing in local real estate exposes owners to concentrated financial risk.

Homeownership produces uneven gains

- Whether homeownership helps families build wealth depends on when & where they purchase.
 - Homeowners who bought during peak of housing bubble (2005-2007) suffered greatest losses.
 - Many older industrial cities, small towns across US heartland have seen flat or declining housing values over long periods of time.
 - Lower-income & minority families are more likely to purchase homes in neighborhoods that don't see large property value increases.

Balanced housing policy goals

- Each individual or family should be able to choose the tenure that fits their financial situation, living preferences, and life cycle stage.
 - Young people are waiting longer to form households, start families, and buy homes.
 - People move, reorganize families throughout their lives.
 - Some older adults want to reduce maintenance obligations, free up resources.
- More balanced policies should:
 - Encourage diverse housing supply in high opportunity neighborhoods;
 - Incentivize savings and wealth-building through diversified portfolio of assets that can be easily traded or sold;
 - Not financially penalize or reward tenure choice.

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