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2008

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### Recommended Citation

Henry, Robert M. and Goodspeed, Charles H., "Owning your own home: reality or myth" (2008). *The University Dialogue*. 39.  
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# Owning Your Own Home: Reality or Myth

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## Introduction

- Banks may lose \$325 billion over mortgages
- Housing Meltdown—home ownership drops from peak
- First-time home buyers struggle to find down-payment money
- California prices could plunge 35%, costing \$2.6 trillion in lost wealth

With the above headlines in the news every day, one begins to wonder whether the ability to obtain the American Dream—the power to own a home—is real or a myth. The term, The American Dream, was first used by James Truslow Adams in his 1931 *The Epic of America*. He states:

The American Dream is “*that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.*”<sup>1</sup>

Owning a home, while not explicitly part of the original statement, has always been considered to be part of The American Dream. Researchers have attributed many positive values to homeownership:

- Homeownership may have positive effects on family life. Owning a home contributes to household stability, social involvement, environmental awareness, local political participation and activism, good health, low crime, and beneficial neighborhood characteristics.
- Homeowners are better citizens, are healthier both physically and mentally, and have children who achieve more and are better behaved than those of renters.<sup>2</sup>
- Homeownership in almost any neighborhood is found to benefit children. Children of most low-income renters would be better served by programs

that help their families become homeowners in their current neighborhoods instead of helping them move to better neighborhoods while remaining renters.<sup>2</sup>

- Homeownership leads to capital accumulation, promotes responsibility and improves one’s self-esteem, and increases neighborhood stability.<sup>3</sup>
- Homeownership is a sign of maturity and success.

Based on the statements listed above it would be hard to argue with the concept that homeownership is an appropriate desire for everyone. Here is some data about homeownership rates in the US:

- The national high point of a 69.0% homeownership rate in 2004 has been decreasing since and is at 67.8% for the first quarter of 2008. [8]
- The Midwest has the highest homeownership rate (73.8% in 2004) and has been decreasing since (now at 72%). [8]
- The highest homeownership rates occur in the suburbs and non-metropolitan areas. [8]
- Homeownership rates in the US are similar to the rates in other parts of the world (based on 2002 figures) - UK, 69% - Israel, 71% - Canada, 67% - Germany, 43% - Spain, 82%. [9]

Looking at the data provided above one might say that the Dream is within reach of every American. At least 2/3 of Americans own their own home. This rate is on par, if not better than, most of the industrialized nations of the world.

So what are the housing challenges facing people in the United States today? Is the opportunity to own one’s home available to all economic and ethnic groups? Is it becoming easier or harder for one to own their home? This paper will discuss a couple of the challenges associated with homeownership that face people in the New England region and in the United States.

### Challenge 1—Affordability

Does everyone in the United States have the same opportunity or ability (meaning income and / or savings) to own a home? Some published data would indicate that they do not. The homeownership rates published in 2007 show that ability to own a home varied substantially for different ethnic groups; 75.2% for white (non-Hispanic), 49.7% for Hispanic/Latino and 47.2% for Blacks.<sup>8</sup> In addition here are some other factors that can have a significant impact on the homeownership rate.

- Between the years 2000 to 2006 the median housing price in the United States increased 54.8% and in New Hampshire it increased approximately 90%. During the same period of time the median household income in the United States increased only 15.4% and in New Hampshire is increased only 20.7%.
- The cost of fuel oil has risen from approximately \$1.00 in 2002 to over \$4.50 in 2008. That is an increase of 450% in just 6 years. Using the median household income (gross income before taxes) in New Hampshire and if one used 1000 gallons, the cost of fuel oil would have been 1.7% of the median state income for the 2002-03 heating season and is estimated to be approximately 7.5% for the 2008-09 heating season.<sup>6</sup>
- There are several other costs associated with homeownership which have increased significantly in the last decade; property tax, insurance, water tax, etc.<sup>4</sup> According to the US Census Bureau, the typical monthly costs of owning a home in Portsmouth, NH increased 45% between 2000 and 2006. During the same period of time the median household income only increased by approximately 22%. For the State as a whole the typical monthly costs increased 39% while the median household income increased only 4%. Using the numbers for the State the reported typical monthly costs now represent approximately 34% of the reported median household income. This is above the recommended limit of 30%.
- Due to the significant recent decline in the housing market more people are able to afford a home, but only if they have enough savings and a strong credit rating.

### Challenge 2—Financial downside to homeownership

As with any financial investment, there are always risks. Nothing is a sure thing, even though for

years most people would say that owning a home is as close as it gets. Here are several drawbacks to homeownership, especially for low-income families.<sup>2</sup>

- Homeownership is not an automatic hedge against rising housing costs or inflation.
  - In today's real estate market most areas are experiencing significant de-valuation of the housing stock. The current market value of a home purchased since 2004 is likely less than the purchase price of the home.
  - If one purchases an older home, one can experience major unexpected costs due to the age and condition of the home.
- Low-income families can run into a range of pitfalls when they buy homes:
  - Often the house a low-income family can afford is in poor condition, with high maintenance costs.
  - The neighborhoods they can afford to buy in are often economically distressed meaning that the resale value of the house could easily be less than the purchase price.
  - The financing they can get often carries high interest rates, high fees, risky gimmicks (balloon mortgages, for example) and shady lending practices. The concept of sub-prime loans was to enable more people to purchase a home by providing them with mortgages that had low monthly payments for the first couple of years. This approach would only work if during the first couple of years:
    - The household income increased to a level that would support the long-term monthly mortgage payments once the sub-prime rate period is over (usually 2 years),
    - Mortgage interests rates dropped significantly so that families could refinance their home at a long-term rate they could afford, and
    - The value of their home increased and the housing market was strong so that families could sell their home if they were not able to afford the long-term mortgage rate.

Unfortunately in the last two years the housing bubble has burst and the US economy has slowed down. This has forced a significant number of people holding sub-prime loans had to default on their home mortgages.

### Challenge 3—I do not want to be a homeowner

What about people who do not want to be homeowners? Should they be penalized for not wanting to reach for the “American Dream”? Who might these people be?

- **Elderly:** As one gets older, the physical demands of homeownership can become overwhelming. The responsibility of having to mow one’s lawn or shovel snow in the winter or just maintain the house is more than many elderly people wish to accept. While some elderly may stay in their houses by hiring help, hiring someone to do household chores is expensive and may not be feasible for many elderly homeowners on fixed incomes. Also, it is not that easy to find a neighborhood child that is willing to perform these chores for an affordable rate.
- **People with careers that keep them on the go:** Many careers require people to move around the country (and even the world) and owning a home can become a financial burden. The costs associated with having to buy and sell a home can quickly eliminate any profit realized by the increase in the market value if you keep your home for less than 2 years. In today’s market, even 2 years is not long enough to recover the costs.

### Challenges—Cost to Tax Payers

- The United States government spends approximately \$100 billion a year on tax breaks and program subsidies that encourage homeownership.
- It costs money (meaning tax dollars) to provide subsidy programs to assist low-income families in obtaining their own home.

#### All of these factors prompt one to ask:

- How much are we willing to spend to subsidize low income housing?
- Is it really an obligation of the state and federal governments to address this issue?

### Final Statement

The idea behind this paper was to present information and facts related to a several key challenges related to the idea of homeownership in the United State. It is not the intent of the paper for the authors to provide solutions, but more to stimulate a conversation about to these challenges. None of these challenges have a single solution. Any approach will typically be influenced by

the age, economic position, race, gender, employment status and living location of the developer. We live in a global economy and so one never knows when some global event will significantly change all the parameters and rules.

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