Balancing the goals of promoting homeownership and increasing the availability of affordable rental housing

In addition to rental assistance, some cities, towns, and counties offer homeownership programs that make it possible for first-time homebuyers to purchase a home.

Homeownership programs can be structured in many ways. For example, local jurisdictions may provide downpayment or closing cost assistance to defray the upfront costs of purchasing a home or create a community land trust to maintain affordability over the long term. Cities and counties may also offer affordable mortgages that have low interest rates or downpayment requirements, sometimes in conjunction with a non-profit partner. Some local jurisdictions also support the development of low-cost homes intended for sale to first-time buyers.
As described below, owning a home can produce positive outcomes. However, allocating scarce resources to supporting homeownership can also limit cities’ ability to assist extremely low-income individuals and families who have few resources available to cover the cost of housing. This brief presents several factors that may be helpful for local governments to consider as they decide how to allocate available resources between renter and homeownership assistance programs.

1. **Homeownership confers benefits for individuals and families that are not available to renters.**

With access to safe and sustainable mortgages and support from certified housing counselors, homeownership enables households to build wealth in a way that rental housing does not and provides families with a durable asset that can be passed down between generations. Monthly mortgage payments function as a form of “forced savings,” and the resulting home equity can be tapped to cover education or provide a buffer against financial crises that result when families encounter unexpected costs. A fixed-rate mortgage also allows families to freeze a large portion of their housing costs, so that the costs are predictable. Under normal economic conditions families’ earnings increase over time, meaning these fixed costs become progressively more affordable. Provided their monthly costs are affordable, families who own their homes are also less vulnerable than renters to displacement in the face of gentrification. A number of affordable homeownership strategies, such as deed restrictions and community land trusts, help local jurisdictions to ensure that affordable homes continue to be available to lower-income households, notwithstanding increases in home prices, helping to preserve economic diversity over time in gentrifying and resource-rich neighborhoods.

Homeownership may also be the only or best way for households to access low-poverty, amenity-rich neighborhoods that have relatively few rental units. In addition, affordable ownership projects may also be less likely than affordable rental housing to draw community opposition, especially in higher-income neighborhoods. Community opposition may play a role in determining the feasibility of a proposed project, but steps can be taken to mitigate opposition through rigorous outreach and education. Homeownership programs may also help to engender broader political support for housing assistance programs in general.

Research also suggests that homeownership is associated with better social and economic outcomes. For example, some research suggests that children in families who own their homes have greater educational attainment than renters. These impacts are magnified among low-income families, even if they own homes in distressed neighborhoods. There is also evidence that homeownership is associated with better
physical and psychological health. However, it is unclear whether all these benefits are related to homeownership \textit{per se}, or to the greater residential control and stability that many homeowners experience relative to renters.\cite{2}

While the best research controls for observable differences between renters and owners, it is difficult to control for unobservable differences, such as differences in attitudes and motivation. In considering the evidence base regarding the benefit of homeownership, it is important to bear in mind this fundamental research challenge and be appropriately cautious regarding assertions of the benefits of homeownership.

2. \textbf{Homeownership also carries risks that need to be considered and addressed.}

Experiences with homeownership are not uniformly positive. Lower-income households may have difficulty covering maintenance costs, particularly if homes are older, and may need rehab assistance to keep the buildings in safe and habitable condition. Home price declines can leave homeowners owing more than their home is worth. Borrowers with variable-rate mortgages could face increases in monthly payments if mortgage rates rise, leaving some unable to afford their monthly mortgage costs. Job loss and other financial crises may force homeowners to sell their homes at a loss – a particular problem during financial crises when home values decline and remain low for extended periods of time, as occurred during the Great Recession of the mid-2000s. Predatory lending and other unscrupulous practices compound these problems and can render even long-time homeowners vulnerable to foreclosure.

These outcomes can be mitigated and even avoided through the use of sustainable and non-predatory fixed-rate mortgages. Households are also more likely to avoid default when they participate in counseling and homeownership assistance programs well in advance of a home purchase or in the early stages of financial difficulties.\cite{3} Cities, towns, and counties may wish to consider whether they have the capacity to offer these services, or whether they can be provided by a partner organization.

3. \textbf{In a resource-constrained environment, providing homeownership assistance may come at the expense of assisting households with more urgent housing needs.}

Individuals and families who receive rental housing subsidies tend to have lower incomes than those who receive homeownership assistance, particularly in high-cost cities. Without assistance renter households may be forced to make difficult trade-offs to afford their housing, including those that can have serious consequences for mental and physical health. For example, individuals may fail to refill prescriptions for critical
medications or skip meals in an attempt to stretch their budget to cover the cost of rent. Families may choose to live in unsafe neighborhoods with elevated crime rates where rents tend to be lower. Low-income renters may also settle for low-quality housing that compromises their safety and health, such as units with pest infestations, mold problems, or non-functioning heating and cooling systems. In extreme cases, without assistance households may be at risk of homelessness. By prioritizing available resources to increase the availability of high-quality affordable rental housing, cities, towns, and counties can help households with urgent housing needs.

At the same time, the comparatively higher incomes of households pursuing homeownership may mean they require less subsidy than lower-income households, allowing local jurisdictions to serve more households with a fixed budget. Homeownership remains an aspiration that, for many households in high-cost cities, is increasingly difficult to obtain. In some markets, however, middle-income individuals and families pursuing homeownership may only require limited downpayment or closing cost assistance to achieve their housing goals. Depending on how the assistance is structured, cities and counties may thus be able to serve more households through homeownership assistance compared with deep rental subsidies. In addition, targeting scarce subsidy dollars to middle-income households can help to increase the tax base and ensure that teachers, police officers, and other critical workers can afford housing of their choice within the city.

In deciding how to allocate resources among homeownership and rental housing assistance, local jurisdictions may find it useful to look at their latest housing needs assessment or conduct a new one to develop a better sense of where there may be gaps or urgent needs that warrant priority consideration. As part of this analysis, cities, towns, and counties may also wish to examine current renter and homeownership assistance activities, including how resources are currently allocated, how many households are served, and which types of programs have the highest levels of unmet demand.

4. Cities, towns, and counties that choose to provide homeownership assistance can structure that assistance to maximize its long-term value.

Local jurisdictions can choose to support affordable homeownership in a variety of ways that require varying amounts of subsidy:

- Homeownership education classes can be offered through non-profit partners and have low per-household costs (some of which could be borne by federal funds or philanthropic partners). Homeownership education can be offered on its own
and/or as a condition of receiving other forms of assistance.

- Closing cost assistance and low-interest rate loan programs improve access to homeownership to qualified households who might otherwise struggle to get a mortgage. They cost more than homeownership education alone, but less than other alternatives.

- Other types of programs provide larger amounts of assistance to individual households, such as programs that offer sizable levels of downpayment assistance. For these kinds of programs, it’s important to focus on preserving the long-term value of the subsidy so that the substantial benefit made available to one household is not lost when the home is sold to the next family.

Local jurisdictions can create programs in which investments in affordable homeownership are preserved and extended to future buyers while still permitting homebuyers to gain some of the benefits of equity accumulation. For example, shared equity homeownership programs – such as deed restricted homeownership, community land trusts, and limited equity cooperatives – “embed” the subsidy in the home, enabling local jurisdictions to help one generation of homebuyers after another with a single investment. These programs can be helpful in preserving the affordability of housing located in gentrifying and opportunity areas. An alternative approach to preserving the long-term value of public homeownership investments – shared appreciation mortgages, in which the lender provides a lower interest rate in exchange for a share of home price appreciation at re-sale –gives participants greater choice about where to live and may be useful when a community is not as concerned about preserving the affordability of units in a particular neighborhood. Careful monitoring may be required to ensure that resale restrictions are observed and enforced. This is part of an important stewardship function for shared equity homeownership that needs to be resourced.


2. For a nuanced discussion of the relationship between homeownership and physical and mental health, see Rohe, William M. and Mark Lindblad. Reexamining the Social Benefits of Homeownership after the Housing Crisis. August 2013. Joint Center for Housing Studies, Harvard University.

See also:

- Taking a balanced approach to new development: the importance of creating and preserving dedicated affordable homes as well as allowing for new housing for all income levels
- Property acquisition funds
- Use of publicly owned property for affordable housing