

## What We Don't Know About Home Ownership

Many of us have bought into the notion that home ownership is a primary indicator of financial security. For those of us in the Affordable Housing industry, the idea of home ownership as upward mobility is more than merely a viewpoint; it is a way of life. Our days (and nights) are consumed with regulations designed to help our residents "get on their feet". Most often "getting on their feet" means escaping a rent assisted situation and entering into home ownership. We have all shared our housing communities' success stories at industry conferences and have basked in the belief that we are assisting our residents achieve the American Dream of home ownership. Some of us keep statistics on how many families purchase homes during our tenure and find solace in the thought that we are making a difference. But what if the difference we are making is not a positive one? What if in our zeal to develop financially independent homeowners we are setting our residents up for failure?

Recently, industry experts have questioned whether home ownership is as secure of an investment as years past. The resemblance of the stock market bubble of the nineties has lead industry insiders to question if a housing bubble is possible and/or inevitable. Historically, increases in housing costs have been in line with the rate of inflation. However, according to the Center For Economic and Policy Research (CEPR), "nationwide, the rise in home prices has exceeded the overall rate of inflation by more than 30 percentage points since 1995". As a result, economists are speculating that a housing bubble exists with severe implications once it bursts.

The threat of negative equity in our homes would concern us all. Although some of us may be able to weather the proverbial storm, the idea of taking a loss on what was once considered a safe investment (if there is such a thing) is disheartening. However, our residents purchasing homes at inflated prices to later learn that their house is not worth what they paid for it has disastrous financial consequences. Families that qualify for rental assistance programs typically do not have the cash flow necessary to sink thousands back into a house to make up for negative equity once personal circumstances dictate that they sell. A scenario such as this would cause the best success story to end tragically.

Moreover, the record low interest rates and the affordable fixed-rate mortgages have caused Americas to take on more debt than they can afford.

As a result, experts predict a significant increase in foreclosures. This would especially hold true if the economy remains in a recession and more Americans lose their jobs. National trends seem to support this premise. According to Greekshares.com the following facts support the idea that Americans are entering into riskier home loans:

- First time homebuyers made an average down payment of 3% in 1999, down from 10% a decade earlier
- As a percentage of disposable personal income, mortgage payments have reached the highest level since the Federal Reserve began following the data (a 45% increase since 1980)
- The percentage of people choosing adjustable rate mortgages (which increase the size of the mortgage payments as interest rates rise) has virtually doubled in the past year to 30%.

According to these statistics, Americans are buying more house than they can afford without saving prior to the purchase. They are also entering into loan agreements that would increase their payments as interest rates rise. This approach to home ownership would prove risky for the most financially stable families, but for low-moderate income families this approach could force them back into poverty.

Although most economists agree that a housing bubble is likely, there are some that believe that real estate prices are unlikely to crash. These individuals argue that although real estate is a commodity and has the potential to increase and decrease in value, it is unlikely to happen for the following reasons:

- As the population increases, the need for housing increases.
- Census Bureau figures indicated that between 1990 and 2000, household size fell to 2.59 people per property from 2.63 in 1990. This would suggest that more units are required. In fact, during this period the United States added 13.6 million new housing units.
- Due to the fact that real estate is valued on a cash basis and inflation reduces the overall purchase power of the dollar, the cost of housing (like everything else) is subject to increase.

Probably the most compelling argument came from Alan Greenspan, Federal Reserve Board Chairman, who argues that comparing the stock price bubble to the housing market is imperfect. This is largely due to the fact that sales in the real estate market incur substantial transaction costs and requires a significant amount of stress on the seller (i.e. physically moving). According to Mr. Greenspan this fact "is an obvious impediment to stimulating a bubble through speculative trading in homes". In fact, the stock market experiences

more than 100 percent turnover annually, while the turnover of home ownership is less than 10 percent annually.

Regardless of your views on this issue, those of us in the affordable housing industry can no longer afford to assume that home ownership equates to financial security. If we are to truly assist our residents in become financially stable, we must consider the inherent risks of purchasing a home. That is not to say that we should discourage our residents from pursuing the American Dream. We should, however, arm them with information so that they can make informed decisions.

#### Related Links

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<http://nashville.bizjournals.com/nashville/stories/2003/04/28/focus2.html>

[http://www.cepr.net/homeownership\\_in\\_a\\_bubble.htm](http://www.cepr.net/homeownership_in_a_bubble.htm)

<http://www.realytime.com/rtcpages/20020423.htm>

<http://www.dallasnews.com/business/scottburns/columns/2001/10812.su.htm>