The Private and Social Benefits of Homeownership

Habitat for Humanity University Lecture Series

Dr. Donald R. Haurin, Professor of Economics, Finance and Public Policy, Ohio State University

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HFHU Lecture Series

Biography of Dr. Donald Haurin, Ph.D.

Donald Haurin received his B.S. from the Massachusetts Institute of Technology in 1971 and his Ph.D. from the University of Chicago in 1978. He is currently professor of Economics, Finance and Public Policy at Ohio State University where he also serves as Associate Dean in the College of Social and Behavioral Sciences.

Dr. Haurin has served as editor of the Journal of the American Real Estate and Urban Economics Association from 1987 through 1991. He is currently on the editorial boards of Real Estate Economics, Journal of Housing Economics, Journal of Real Estate Research and the Journal of Urban Economics. Other current and past appointments include being named a Fellow at the Homer Hoyt Institute for Advanced Studies and a Visiting Fellow at the Australian National University.

Dr. Haurin's research interests focus on issues in housing and real estate economics, urban economics, public finance and economic demography. These interests include the study of the benefits of homeownership, housing demand, real estate price indices, household formation, migration and other demographic topics. His current research on racial and ethnic gaps in homeownership rates is funded by the Department of Housing and Urban Development. He has published over 45 articles in peer-reviewed journals including: Real Estate Economics, Quarterly Journal of Economics, Review of Economics and Statistics, Journal of Urban Economics, Journal of Housing Economics, Journal of Real Estate Finance and Economics, Journal of Housing Research, Property Tax Journal, Journal of Regional Science, Economic Development Quarterly, Regional Science and Urban Economics, Housing Finance Review, Public Choice, Social Science Quarterly, Population Economics, Journal of Applied Education and Social Science Research.

Summary of Lecture

The Private and Social Benefits of Homeownership

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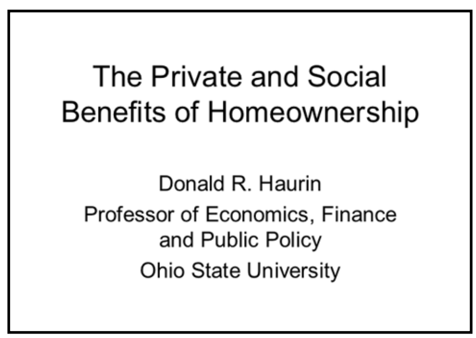
Politicians often claim that homeownership has benefits for the resident household, the neighborhood, the community and the nation. Increasing the homeownership rate has been a goal of recent federal administrations in the United States. Governmental intervention in the housing market has been substantial, and has included tax subsidies for homeownership, lowered payment requirements and encouragement and support of nonprofit organizations.

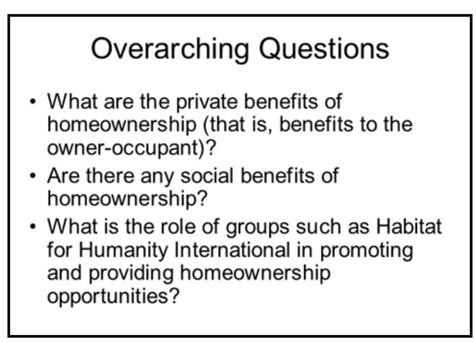
None of us associated with Habitat for Humanity would disagree with those who believe that homeownership has widespread benefits. As you know, the challenge is proving it.

In his lecture, Dr. Haurin highlights research focused on analyzing the benefits of homeownership. This area of research includes new studies that measure the short-term and long-term benefits for children of homeowners. Encouragingly, the research indicates that the positive effects on children are sizable.

The Private and Social Benefits of Homeownership



I have to start off with a brief story. I was at a housing conference in South Dakota a few weeks ago that was between their snowstorms on the days that it was 70 degrees; it was beautiful out there. The first speaker that came on to the event—this was the South Dakota Housing Authority—was an economist. He came on and he had his PowerPoint clicker in his hand. Then he set it down and said, “I think I’ll just do a presentation and not have PowerPoint. But I am an economist...” and he sort of just stopped there and he said, “I’ll just talk to you.” Then the second person came on and he said, “I’m going to do a PowerPoint presentation, but I am not an economist because we all know that an economist and PowerPoint presentations are deadly together.” I was the third person and I am an economist and I have a PowerPoint presentation. So hopefully your expectations have been lowered sufficiently so that things will come off reasonably well.



The discussion today is about the private and social benefits of homeownership. Some overarching questions that I am going to deal with. [Slide 2, Overarching Questions] I am going to look at the private benefits of homeownership for the owner-occupant. I am going to talk about research on whether there have been any social benefits of homeownership, and I am going to talk about the role of groups such as Habitat for Humanity in promoting homeownership opportunities.

I am going to start with some quotes and I have to read these:

This comes from October of this year [2003] from President Bush: “If you own your own home, you have a vital stake in the future of the country.” From June this year, also President Bush: “Homeownership is more than just a symbol of the American dream, it is an important part of our way of life. Core American values of individuality, thrift, responsibility and self-reliance are embodied in homeownership. I am committed to helping families know the security and sense of pride that comes with owning a home.” From June, also President Bush: “Across our nation, every citizen regardless of race, creed, power or place of birth should have the opportunity to become a homeowner. Homeownership represents a pathway to pride and prosperity for many families, encourages values of responsibility and sacrifice, creates stability for neighborhoods and communities and generates economic growth that helps strengthen the entire nation.” And I am not sure exactly when this was said, but it was reported in December of this year from Millard Fuller: “Everybody who lives there should have at a minimum a simple, decent place to live so that every child will be able to fulfill his or her highest potential.”

There are some very strong claims in these statements. Homeownership is vital, there is self-reliance, there is security, there is pride that comes in ownership, there is prosperity for the family, there is stability of neighborhoods, economic growth, there are benefits for children. These are very strong claims and these claims have been heard for many decades. My question as an academic is: What is the evidence? Is there any evidence on the consequences of homeownership?

Now another related story is if you look at the academic community—and I am in here in part representing that. This community has studied homeownership intensively since the 1950s, but throughout that time period until basically the mid-1990s, it was always on what are the determinants of families becoming homeowners. Income, wealth...there were very, very good studies of that. In our language it was called the “tenure choice decision.” We wanted to know who would become homeowners, who would become renters—what were the determinants. Some of this is very important in terms of public policy.

Wealth was studied quite intensively and as you would expect, lack of wealth is a barrier to becoming a homeowner. Throughout the ’90s, that research built and built and built. I think there is a direct link between programs at HUD, Fannie Mae, Freddie Mac in terms of lowering the down payment that is required to get people into homeownership and this research.

On the other hand, people have acknowledged the amount of governmental support for homeownership in the country is in the many, many tens of billions of dollars. It far exceeds, at the federal level, expenditures on education. Especially when you consider that part of the expenditures are foregone tax revenues through the mortgage deduction. Why are we spending all of this money? What are the consequences of homeownership? We know who becomes homeowners. We know a lot about why they become homeowners, but what are the consequences? Research was basically absent on this very important question until around the mid-1990s. Then it started to snowball and it continues to snowball as to what are the effects of homeownership on individuals. It is not just economists, but people that are interested in housing and real estate, some coming from the finance sector. Sociologists, psychologists and others are all becoming more and more interested in this question, which is a very important question. I think one of the benefits of the research that I will be talking about today is that groups such as Habitat can actually—from this research—infer what some of the outcomes are. And not on just an individual case basis, not just from anecdotes, but actually research-oriented studies that have been done on a random sample of the population and they come up with numbers, averages.

Private Benefits of Homeownership [Slide 3]
What’s the link between homeownership and household behavior? I am an economist, I obviously believe in economic incentives. If you are a homeowner, you have an investment incentive. This has been recognized for a long time. Renters do not have this incentive. It is basically because you can benefit from the capital gains and losses. That is what an economist would say, and it makes a lot of sense. It should lead to a lot of

behaviors—that is, we would predict or hypothesize that certain behaviors will follow from this particular incentive. One is that homeowners will maintain and invest in their property more so than renters. Another one is that homeowners will invest more in their neighborhood. Why? From an economist's viewpoint they can at least get the capital gains of these investments because they will accrue into house value.

> **The Private Benefits of Homeownership**
>
> - The link between homeownership and household behavior is based on the hypothesis that owners have an "investment incentive" that renters do not. This incentive is due to the capital gains or losses that can accrue to homeowners. The consequences are:
>   - Owners will maintain and invest in their property
>   - Owners will invest more in their neighborhoods

Homeowner Incentives [Slide 4]
The "may" is very important in this discussion. There are a lot of claims out there. Some of the claims were listed in those quotes that I gave, but there are others. Owners investing their time and/or money in their properties might result in a better physical home environment compared to renting. There could be wealth accumulation—home equity would be growing. We are going to be looking at each of these claims in some more detail as we go along through the talk. There could be external gains from nearby households, that is, the spillover effect. We are not actually talking about the homeowner investing in their community in this case. But the fact that you have an owned dwelling that is well-maintained could benefit nearby households.

> **Homeowner Incentives**
>
> - Owners investing (time and/or money) in their properties MAY result in:
>   - Better physical home environments
>   - The accumulation of wealth through growth in home equity
>   - "External" gains for nearby households—a spillover effect of improving a property

Homeowner Incentives [Slide 5]
Continuing the idea of the consequences of homeowner investing, again we are talking about "may," these are really claims. If they are investing in the neighborhood, it might result in increased safety—neighborhood watch programs, for example. Better schools, parent-teacher associations will come about if you have a child that is in a school. Renter or homeowner, the parents may be interested in that, but if you are geographically stable and your child is in a particular school, you might be, as a homeowner, willing to invest in building additional structures on the playground because you know that your child is going to be in that school for awhile. Better schools also could result from being more willing to pass a tax levy because you know that you're going to get the benefit of that tax levy for your school.

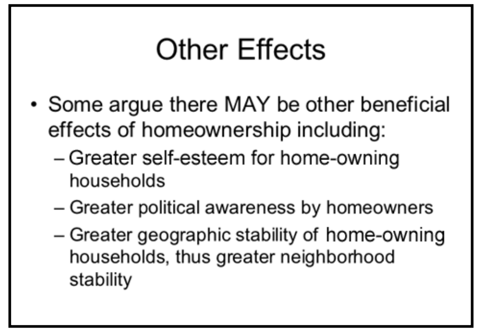
> **Homeowner Incentives**
>
> - Owners investing (time and/or money) in their neighborhoods MAY result in:
>   - Increased safety
>   - Better schools
>   - Better provision of local public services
>   - Increased house prices in the locality
>   - Increased attention to local environmental concerns

Homeownership might result in better provision of local public services. The idea here is more involvement in terms of local politics, local government, asking for services to be delivered to your area that you live in. It could result in increased house prices in the locality.

I come from an area that is not totally a university town—it is a suburb of Columbus—but probably a third of the population has some affiliation with the university. It is extraordinarily oriented toward educating young people. It has the best school system probably in all of Ohio. People are very, very willing to pass taxes and see the resulting gains in property values in their community. So there is a direct effect—a direct linkage—in terms of property values resulting from these homeowner incentives.

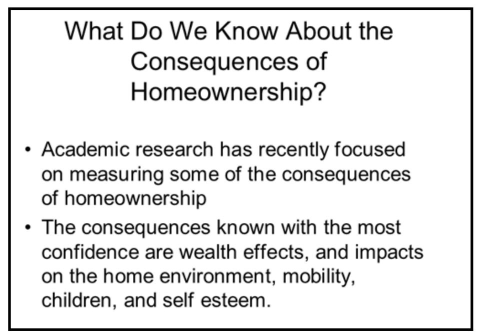
Increased attention to local environmental concerns, this is really very much an emerging research topic. I will talk about a few things that have been done on that. What are the differences between homeowners and renters in terms of concern about the environment?

Other Effects [Slide 6]
There are other claims that are different than resulting from this investment incentive. One is often heard at the anecdotal level: that there’s greater self-esteem for home-owning households. That is, if you are a homeowner, somehow it’s the pride of ownership that gives greater self-esteem. But self-esteem is an academic concept; it is measurable by various scales. Is there evidence to support that claim? Greater political awareness—I touched on that a moment ago. Some people claim that home-owners are better citizens. Can you actually measure that? Greater geographic stability of home-owning households, thus greater neighborhood stability. So there are two parts to that. One is that the homeowners themselves are more geographically stable and the other one is that if you have a group of homeowners, that community would be more stable. And both of those could have consequences.



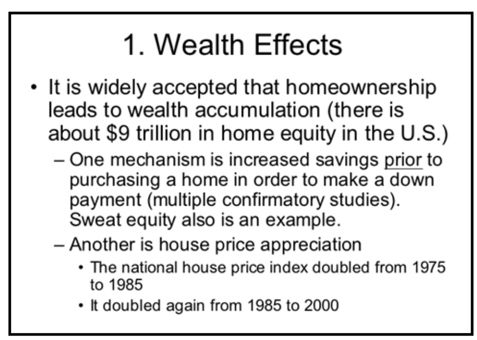
In a sense I feel that I am preaching to the choir because many of you probably say “sure...of course...yes.” But my role here as an academic is to show you where academics have said, “Yes, we’ve got data that actually support that. It is now a well-received result” and where is it that research is continuing, where is research just emerging.

What Do We Know About the Consequences of Homeownership [Slide 7] As I mentioned before, we have been focusing more recently—surprisingly recently—on the consequences of home-ownership. Thankfully, a number of federal agencies are interest-ed in this that can provide funding, because often these are reasonably expensive studies to gather the data.



What about the consequences? The ones that are known with the most confidence are wealth effects, the impact on the home environment, the mobility effects—that is, geographic stability—the effects on children and the effects on self-esteem.

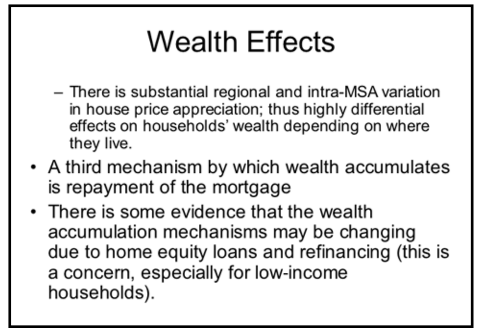
I am going to run through those. First, the Wealth Effects. [Slide 8] There is a lot of wealth in home equity; $9 trillion is a current estimate in the U.S. How does this wealth accumulate? Well, it’s pretty obvious. One thing that is a little bit less obvious is, in most cases, the wealth accumulation actually starts before you are a homeowner because you need to save for a down pay-ment. People start their savings then, and there is confirmation of this in multiple studies. Some of them were done in the U.S., one was done in Japan and one was done in Canada. So as a human behavior, this seems to be well-known that people are willing to save to achieve the benefits of homeownership.



There is one exception. It was actually a Japanese example where they were studying Tokyo. The price of dwelling space is so expensive there that they sell land basically by the square inch rather than by acres and so on. And what they found was that if you make housing prices extraordinarily high, young individuals will look at those prices and conclude they will never be a homeowner. And they will then stop saving. They actually call this the consumption of despair. They are out buying durable goods, plasma TVs or whatever, instead of saving for homeownership. So there is a particular concern in very high-priced areas, which would mean that overcoming the down payment constraint in very high-priced housing areas is particularly important and certainly a place in which Habitat can play a role.

Sweat equity is another example of savings; that is, you are devoting effort just the same as accumulating money. Another of the wealth effects, where wealth is coming from, is house appreciation. Just a couple of numbers: In the U.S. the national house price index doubled between 1975 and 1985 and doubled again between 1985 and 2000. Doubling twice means that it has gone up by a factor of four on average in the U.S. There are coastal effects and the Midwest is lower than the coast, but on average these are the results. That is a significant amount. If you own a home, you're getting the wealth benefits of this increase in home equity. So that is certainly important.

What about the wealth effects on individuals? [Slide 9]
There is substantial regional—and within a MSA—variation in house price appreciation. We studied that and we know that. Studies that look at only one area come up with a particular result, but you can't generalize that. It is also highly differential depending upon whether the household was initially low-income or high-income. In general we cannot say that low-priced homes or high-priced homes appreciate at a faster rate. It depends upon the particular area. So if we went around the room, people could probably tell me anecdotes about 30 different metropolitan areas. Some of you might say one, some would say something else. In general there is no conclusion that says by race, ethnicity or income houses appreciate at different rates. They may, but more study is needed. A good national study is needed, but from the local studies that I can put together in aggregate, there is not really a conclusion there.

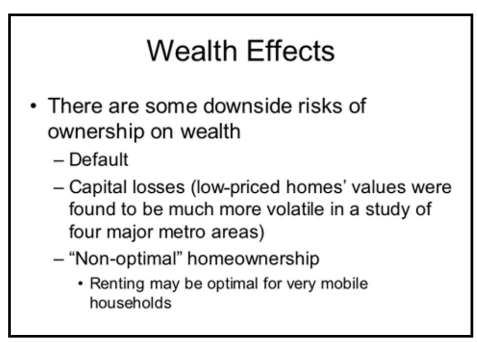


That is helpful to know because if you are specializing in looking at housing that is lower-valued housing for low-income households this says that the appreciation rate as far as we know is the same as it would be for everyone else. That means there will be wealth gains in equity effect.

The third mechanism, of course, is repaying the mortgage. There is a little caveat with that third one which is the fourth point there, which is that we now have home equity loans and we have people doing a lot of refinancing and when they are doing a lot of refinancing they are taking the capital out of the house. This is new. This was not done in the U.S. Previously we had accumulation of home equity pretty much straight line. People repaid their mortgage; they owned their home free and clear. That was it.

Now we have 65-year-old households that are going out, sometimes refinancing their homes, sometimes buying new homes that are often larger than the homes that they had that they raised their children in and getting a huge amount of debt. So I am not so certain that the wealth accumulation model that we had in the past is going to be a great predictor of the future. If this becomes something that is society-wide that is; a tendency for people to take their money out of their home during their lifetime so as your house appreciates in value you keep refinancing and pulling the money out of it that would be a concern first for everybody, but secondly for places such as Habitat for the families that are participating in it. What do they do, not after they just move into the homeownership, but what do they do five and ten years down the road? Do they keep their investment in the home and let their wealth accumulate or are they pulling their money out right away?

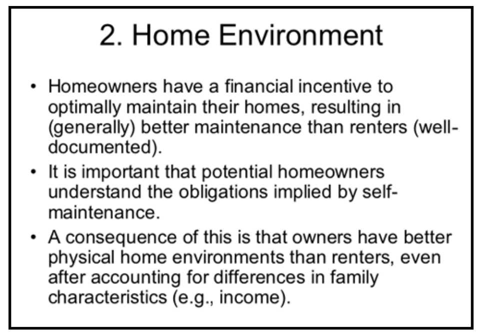
Well, as an academic, I've got to talk about the downside as well as the upside to give a balanced review [Slide 10]. There is always default risk; those do have long-term consequences, of course. There is a possibility of capital losses; that is, the house value could go down. There was a good study that was done only on four metro areas, but they were major metro areas and a very interesting conclusion came out of that, which was that they found that low-priced homes' values were more volatile than



other houses. Now that suggests that there may be some risk that is involved for low-income households and low-income households would be least able to bear that risk. That is a very interesting finding. It needs to be duplicated—the study needs to be duplicated—on more than these four areas. Is Chicago typical of the nation? We need to do other areas to find out whether or not Chicago, and I think it was Atlanta, Boston and maybe Los Angeles—to find out if those results generalize. But if they do, that is of concern. Perhaps for Habitat's application, you might be very concerned about where within the metropolitan area you actually were doing the home construction to try to minimize future risk.

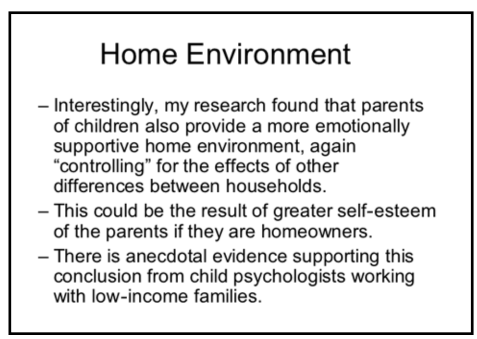
Non-optimal homeownership. There are some people who are very mobile, often the young. If you are very mobile, it does not make sense to be a homeowner. We recognize that, so there are some people that you really do not want to push into homeownership. You just need to identify those individuals because if you get them into homeownership in one way or another, they could end up being worse off.

What is the effect of homeownership on the home environment?
[Slide 11, Home Environment (2)]
This is something that has been studied by sociologists, psychologists, economists. This actually was part of my research that was conducted in the past few years where we looked—I'll give a few more details in a minute—at a national sample. One of the things we looked at was the effect of homeownership on the home environment. It is believed, and there are multiple studies that show, that homeowners maintain their homes better than renters. The investment incentive makes it clear why. If you are a renter, why do a lot of investment in something where you won't be getting the returns? It of course happens, and there are reasons for it to happen. Even with landlords. There are models of how landlords should behave. They show and the data confirms that landlords will maintain their homes—maintain the dwelling—less well than an owner.



The second point: It is important that potential owners understand the obligation implied by self-maintenance. That is quite important for Habitat. Otherwise there could be capital losses. A consequence is that homeowners have better physical home environments than renters. This is true even after accounting for other differences between owners and renters.

How much and what else is accounted for? [Slide 12]
In my study we accounted for the effects of over 20 other family characteristics. So we are not saying the homeowners have better home environments than renters. We are saying take two identical families, make one a homeowner and have the other one be a renter, in that case there is still an attributable effect that is noticeable and significant of homeownership on the home environment. So we account for differences in income, in wealth, family structure and so on, and there is still an effect. We found that it was about 25 percent better.



You say, "That is a number; how can you quantify home environment?" Well, actually, there was a quantification. Psychologists have worked for a long time on quantifying the quality of the home environment. There are a variety of measures, some are physical attributes: lighting, safety, presence of lead-based paint. Some are educational aspects: Do they have books, magazines and so on in accessible places? With that scale, we can say at least that the scale improved, the measure in the scale improved by 25 percent for homeowners. So this is the result of the investment incentive for homeowners. I mention some of the attributes there.

Another aspect of my research study found—and this was something of a surprise—we had not only a measure of this physical home environment, but also the level of emotional support in the home environment. Again, there was a scale that measured that. We found—again, controlling for these other effects—that there was a positive effect on the emotional support in the home environment of homeowners compared to renters. It wasn't quite as great as the 25 percent, about half of that, but it was still an identifiable effect of homeownership. This was somewhat unexpected by me, perhaps a sociologist would have said, "Sure, that should be a result of increased self-esteem." But it really doesn't flow from the investment incentive that I was looking at.

I mentioned the self-esteem. Anecdotal evidence supporting its conclusions comes from child psychologists where they were talking about the level of emotional support that children get in owned homes vs. rental homes, rental units. They also agreed that the emotional support was higher in an owned home because some of their studies could be before and after, which are the best type of studies. That is, they track a family while they were looking at a child's psychological issues before homeownership and afterwards and they would notice measurable differences in the child's behaviors, child's outcomes in school and so on.

Homeownership and Mobility [Slide 14]
This is the third link that has been well-established. It is known with certainty that homeowners have higher transaction costs when moving. This tends to keep them put. That is, renters can pick up and leave. Your lease ends, off you go. Not so easy for homeowners. This leads to homeowners being more geographically stable than renters. Lots of studies document this. There are some consequences of that, and we are going to be talking about the consequences of geographic stability.

3. Homeownership and Mobility

- Homeowners have greater transaction costs of moving than do renters. A 2002 study concluded that these costs equal the sum of 3% of house value and 4% of household income.
- The well-documented result is that homeowners are less likely to relocate than are renters.

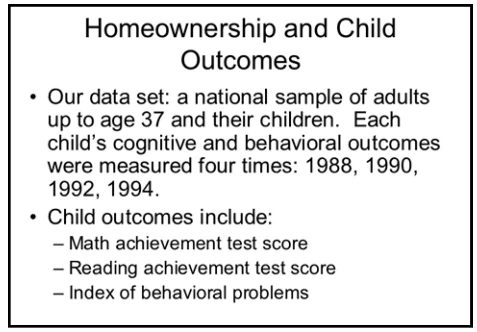
The relationship between homeownership and child outcomes [Slide 15] I think this is perhaps one of the most exciting outcomes of the research. What we did was try to link homeownership to child cognitive and behavioral outcomes; I have to put some meaning to both cognitive outcomes and behavioral outcomes, and I will do that. What is the mechanism by which this could occur? One is the better physical home environment. That is, if homeownership leads to better physical home environment, then better physical home environment could lead to better outcomes in school. That is the hypothesis that we are going to test. A more emotionally supportive home environment could lead to better child behavior, that is the mechanism.

4. Homeownership and Child Outcomes

- My recent research has linked homeownership to children's cognitive and behavioral outcomes.
- Causal mechanisms:
  - Better physical home environment (including lead-based paint abatement)
  - More emotionally supportive home environment
  - Greater geographic stability (children don't change schools)
  - Greater connection to neighborhood networks

Greater geographic stability that we talked about; that is well-documented. Well if you are geographically stable, a number of things are going to occur. First of all, if your child's of school age, he or she is going to remain in the same school. That is incredibly important. There have been other studies that show renters that are changing dwellings every three months or so also are changing their child's school. Often the child will be missing some school as well, but they are changing school. Just talk to school principals, talk to teachers about children that come in, they barely have enough time to establish a friends network, they are just catching up with their schoolwork and then they move again. They go into a new school and new environment; then it starts all over again. They can lose entire grades of education in doing that. Geographic stability that is the result of homeownership is one of the mechanisms that we thought would show positive outcomes of homeownership on children. The geographic stability also leads to greater connection to neighborhood networks. That is, you have more friends, your children have more friends. They are stable friends and there is this sort of parental oversight that develops to oversee other people's children and report back on them and so on. A stronger network could result.

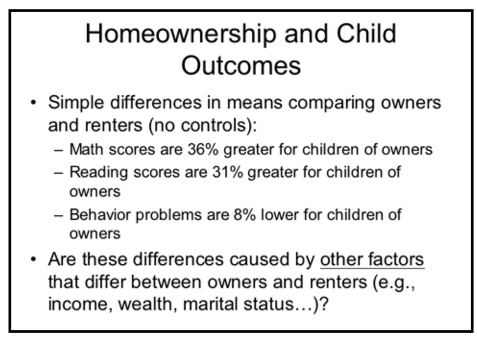
What about our data set? [Slide 16]



We happen to have a really great data set. It was not collected specifically for us. It actually started in 1979, funded by the Department of Labor because they were interested in some training programs. They decided to follow 10,000 individuals longitudinally; that is, they were going to follow them over time. They started off by picking people that were ages 14 to 21. That survey continues today. There is going to be a 2002 release, the data is out there, with the 2004 survey planned. The retention rate of the survey is terrific; they still have 8,000 of the 10,000 individuals in there. As you would expect, about half are men and half are women, and around 1988 the NICHD [National Institute of Child and Human Development] realized that these people were now old enough to be having their own children. They said, we know everything in the world about their parents, so let's find out something about the children. They could do some of the best studies that have ever been done on linking parental behaviors, parental outcomes and so on to what happens to the children.

They've got these two data sets and they're matched together; that's what we used. We measured each child's outcomes four different times. That is one of the advantages of the data set; you don't just have one shot to deal with the children so that you might end up with an aberrant outcome. We get to continuously measure this, and as you would expect, some of these children were changing from being renters to homeowners. We had data for when they were doing the transition between renting and home-owning so that we could get before and after. We had a good sample of homeowners and we had a good sample of renters, so we could measure child outcomes in both of those cases.

What are our child outcomes? [Slide 17]

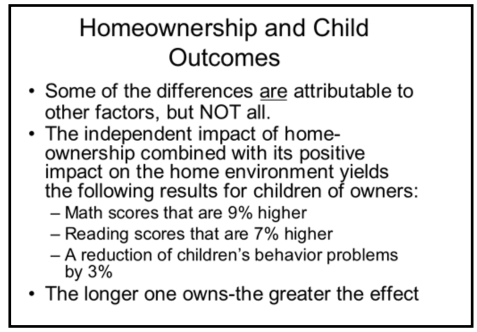


The interview of the children included two basic tests that are long-standing, standardized tests that have been used by psychologists. One tested math ability, the other one tested reading achievement. There are lots of details. These scales have been validated in many studies, so it is not unique to here. They used a standard, off-the-shelf type of thing. There are some benefits of those; they are well-accepted.

They also established an index of behavioral problems. Our children started off being at least five years old, but they were five to eight years old in the 1988 survey; we were following them over time. The types of behaviors that we were looking at are not engaging in crime—five-year-olds generally are not doing that—it was more like acting out. The scale came about from the interviewer's observations and filling out a check list, from questions to the mother and questions about the child's behavior in school. They developed a behavioral problems index. Those are the measures that we looked at.

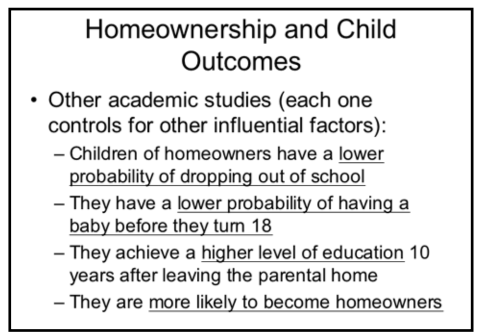
As you would expect, homeowners have higher income, higher wealth; their children do better. That should not be a surprise to anyone here. Well, what are those differences? The math scores of the children of homeowners were 36 percent higher, the reading scores were 31 percent higher, and behavior problems 8 percent lower than children of renters. This is not controlling for any of the differences in income, wealth, marital status and so on. So they are the way that you would expect. The question is: Are these differences due to other factors or are they due to homeownership? That is the key question for looking at the consequences of homeownership.

What we found was that while some—actually more than a majority—of the differences were due to other factors, there was still an amount that was due solely to homeownership and homeownership's effect on the home environment and that effect on children. [Slide 18] Specifically, when we looked at those things, we found that the math scores of homeowners' children, compared to children of renters, holding all of the other family attributes the same, were 9 percent higher, reading scores were 7 percent higher and child behavioral problems were reduced by 3 percent. A 9 percent and a 7 percent higher score is large; that is very large. Not only were these, in a sense, statistically significant, but they were important. To raise a child's scores on these tests by those amounts—nearly 10 percent—you can imagine spending a huge amount of resources in the educational system to try to get that outcome. Here we are finding that homeownership has that same effect.



The other thing we found—I sort of hate to bury this down at the bottom—is it isn't just that you become a homeowner and things happen the next day. That's unrealistic; that's not the mechanism. Rather, the longer that the family is a homeowner, the greater the effect. These numbers are just the averages for the average duration of homeownership in the sample. It does make sense—and we will talk about this in the policy part—to think about when a family becomes a homeowner. If they become a first-time homeowner when they are 50 years old, that's good, but we missed the benefits here.

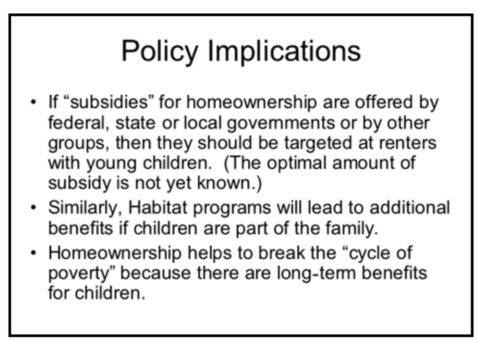
There are other academic studies. [Slide 19] These are not ones that I've done, but they have come out in the last couple of years in the literature. One says that the children of homeowners have a lower probability of dropping out of school. Another one shows that the children of homeowners have a lower probability of having a child themselves before they turn 18. The children of homeowners have a higher level of education that they attain—this could be finishing high school, college—ten years after leaving the parental home, so that is a long-term effect. Very interestingly, the children of homeowners are more likely to become homeowners themselves. I think this is a very important finding.



All of these studies control for other influential factors. So what we are identifying here are additional effects of homeownership per se, just homeownership effect, controlling for income, wealth and so on. The last one, I think, is a very important result if you start thinking about very long-term things and cycles. We are going to return to that in a second.

Policy Implications [Slide 20]

We do have many, many subsidies for homeownership—federal, state and local government. In a sense one could consider everything a subsidy for homeownership that is done by Habitat. Who should they be targeted at? Well, I would argue that if you are going to be selecting among families, you should want to give special consideration for families that have relatively young children because the children will be exposed to homeownership for a longer time period, and they will get these benefits for a longer time period. This is basically what the second point says with regard to Habitat. The third point is about homeownership breaking the cycle of poverty. We have all heard about cycle of poverty. We basically know that nothing has been done in the last



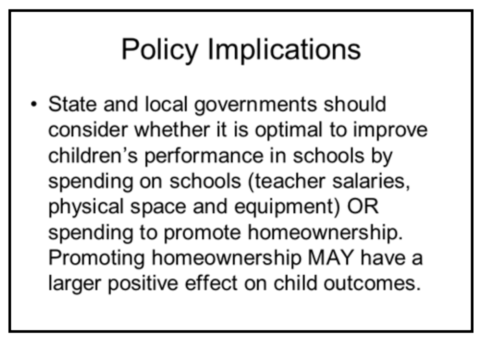
30 or 40 years that is effective. Many, many things have been tried; it's still there. Education seems to be the one thing that people focus on. If you educate a group, they can actually break the cycle of poverty.

We've got a different solution here. If homeownership creates homeownership for the children—and I think there are some really interesting reasons why you can speculate that that's true—then all of those wealth gains and the educational gains are going to result in breaking the cycle of poverty. We have a much different solution here than other people have thought of.

How does this cycle work? How do children of homeowners become homeowners themselves? It could be because they have higher educational outcomes, their behavioral problems are less so they do better in the world. I think there is another interesting aspect, which is information transmittal. I've read some studies that were done by anthropologists, that actually were commissioned to be done by HUD, of families that were homeowners and renters and going through the transition. They were low-income families in different parts of the U.S. What they found that was very important was transmission of family information.

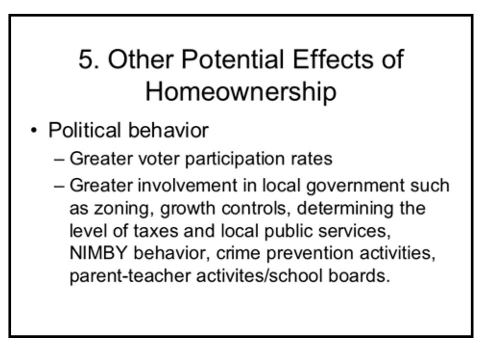
If you are a homeowner, you know about mortgage markets, you know about the importance of credit, you know about real estate agents, brokers. You know why they are going to be asking all kinds of questions and you cooperate. If, on the other hand, your parents nor any of your relatives were homeowners, you don't know any of that. You don't know about banking practices. You don't know about good credit. So there is an intergenerational transmission of information. This is one of the emerging research topics. It really hasn't been studied, but it is extremely plausible. Anecdotally, a lot of people would agree that there's something very important going on. This would be one way one could get the children into a home-owning family. You are creating that information for them. They don't have to be counseled later on in life; they've got parents that have gone through it.

State and local government should consider whether it is optimal to improve the children's performance by spending more on schools or promoting homeownership. [Slide 21] An interesting trade-off; this is the one that gets me in trouble with educators. Governments have limited budgets. This question really hasn't been raised and put in these terms. Sure, spending more on schools has a positive effect. There have been a lot of studies by economists that say that it is pretty marginal. You can just dump money on schools and there isn't a lot of measurable effect. We've got a measurable effect here. There is also a difference in cost. If you can get a person into homeownership with perhaps a subsidy of $5,000, that is a one-time subsidy. They're homeowners, you don't subsidize thereafter, but the benefits flow thereafter. For education, you've got K through 12 and you're going to have to be spending $2,000 per year to get those same type of effects. Nobody has actually quantified the exact difference here, but it is an interesting question and it's something that research should be done about.



Other Potential Effects of Homeownership [Slide 22]
I am going to leave children now and start jumping over to a very brief summary, a whirlwind summary of some of the other effects that homeownership has been found to have in research.

Political behavior. Homeowners do have greater participation rates in voting. In that sense, they are better citizens. These are all "maybes" in the next categories: the greater involvement in local government such as zoning, growth control, determining the local level of taxes and local public services. There are suggestive studies that support those ideas, but we don't have a conclusive result yet.



One aspect of homeownership that is not desirable is not-in-my-backyard behavior—NIMBY behavior. By creating homeowners you may be creating that as well. That needs to be recognized. But on the positive side, there are neighborhood watches in terms of crime prevention, parent-teacher activities, participation in school boards and so on. So we've got some that are clearly occurring and others that speculatively are occurring in terms of benefits of homeownership.

Self-esteem. [Slide 23] There has been an excellent study of the effect of homeownership on self-esteem. The author of the study's name is William Rohe. He is a sociologist and what he did was look at individuals while they were renting and during the transition to homeownership. There was a program in his area that led to that transition. He could look at their self-esteem before, right after and actually he followed these individuals three years after that. He found that there was a dramatic increase in self-esteem when an individual became a homeowner and it was maintained. The maintenance of that self-esteem was extremely important. This is clearly one of the routes by which homeownership can positively impact the children of owners.

6. Other Effects of Homeownership

- Improved self-esteem
  - An excellent study measured self-esteem over time as households moved from renting to owning. Self-esteem rose substantially when a household became a homeowner and it remained high during the three-year period following first homeownership.
  - This is one of the routes by which ownership can positively impact children of owners.

There is another aspect that I don't have up here in the slide. There have been psychological studies done of stress, and it turns out there are different stress issues between single-family dwellings and multi-family dwellings. There are higher levels of stress in multi-family dwellings. They increase basically with the dwelling density and dwelling size. So, if possible, the construction of single-family dwellings is an advantage, because it lowers stress. That stress has negative effects on children as well. It is an aside, but there are again suggestive hints that that is true for housing—single-family dwellings vs. multi-family.

This is very much an emerging topic: There is a researcher at Ohio State, actually in the department of geography, and interestingly, he got involved in a neighbor dispute. That is, he had a neighbor who decided to stop cutting her lawn and let it turn back into natural prairie. The other neighbors said, that's weeds. He actually was quite supportive of this, he is an environmental geographer and said sure, that's terrific and so on, but they got involved through local government, court cases and so on. They would come in and mow her lawn at nighttime.

He became interested in the topic. For people who have households, that is, homeowners, what is their effect on the local environment? [Slide 24] The first finding he had was rather surprising to him. He actually measured, at least in the Columbus area, and found that suburban homeowners use a lot of chemicals. It is absolutely huge. I don't think we are different than the rest of the world, we do have a lawn care chemical company nearby, but the rates are probably the same as they are every place else. It's those things that you hear about; people want to have nice lawns. A couple of years ago, there were these studies of golf courses, and actually at least in Columbus, there was a lot of play about all of the use of chemicals on golf courses. Forget golf courses; look at residential lawns, there is a lot more use.

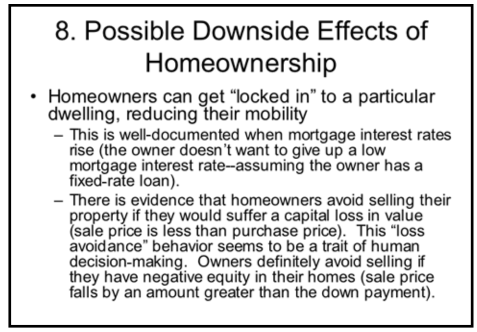
7. Other Effects of Homeownership

- There may be environmental effects
  - Homeowners use more chemicals on lawns per square foot than any other type of landowner!
  - Homeowners are involved in recycling programs more so than renters.
  - The jury is out on the net effect of ownership on the environment.

He went out and said, "Well, is that good or bad?" and that is the part of the study that is currently going on. He receives funding from the National Science Foundation and the question is: What happens to these chemicals? He's interested in what happens to the watershed. It is claimed that the chemicals dissipate very quickly. Even if they do, he's interested in whether or not there is exposure of children and pets to the chemicals and what does that cause. So there are some really interesting questions there. This is obviously the down side.

On the positive side, there is research that shows that homeowners are more involved in recycling programs than renters, again controlling for other differences between the households. That is, they are more environmentally concerned. What is the net effect? The jury is out.

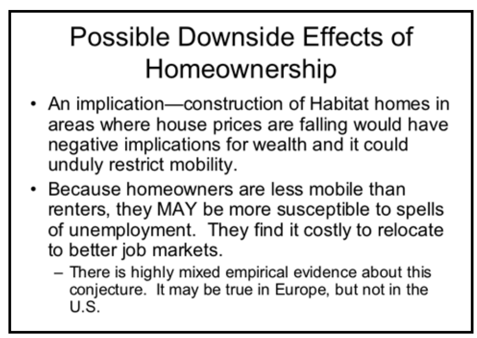
Downside Effects of Homeownership [Slide 25]
There are a number of lock-in effects. Homeowners get locked in. We talked about the lack of mobility. There was a series of studies that were done in England where an economist claimed that homeownership caused unemployment. How is this possible? Actually, using English and some European data, he came up with supportive evidence. The mechanism is that if you're a homeowner you are less mobile, you are less likely to move within the labor market and solve your own unemployment problem by going someplace else.



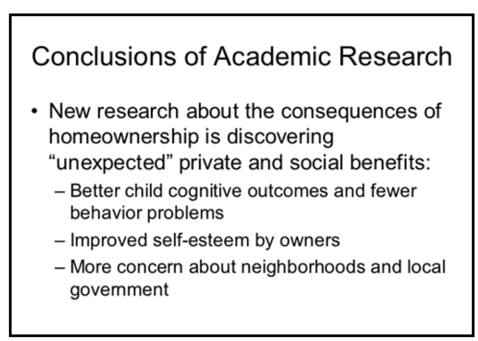
The story has some plausibility. So it has been studied in the U.S., again very recent research with mixed results. They can't exactly duplicate what was going on in Europe and the European housing market is different from the U.S. housing market. It is much tighter, we are a much more mobile population than they are. So the jury's out on that. But there are different ways to be locked in to homeownership.

We all now enjoy—those of us that are homeowners—very low interest rates. Most of us have fixed interest rates. You can imagine interest rates going up to 13 or 14 percent. Are you likely to move and give up your low fixed-rate mortgage now? Well, maybe, but less so. That is one of the lock-in effects. There is some research that is recent on loss avoidance behavior. If you bought a house for $100,000, the market falls, your house is worth $90,000, would you be willing to sell it and move? It turns out to be human nature to try to avoid doing that and stay put.

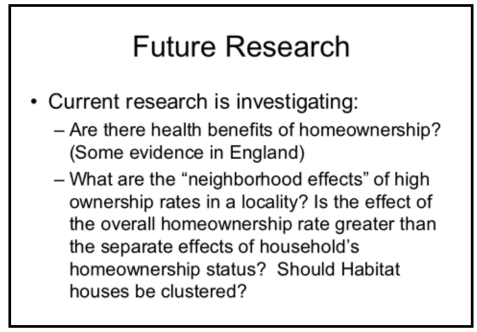
An implication: I think Habitat should be careful about house prices where it is building homes. [Slide 26] If there are falling house prices, there could be some negative consequences. Not only in the direct loss of wealth, but consequences for potential mobility. So there is something to look at. In many of these things you are probably already doing that, but it would be interesting to make sure that you have reaffirmation of that.



Conclusions of the Academic Research [Slide 27]
To summarize: We know there are better child cognitive outcomes and fewer behavioral problems. This is one of the unexpected results of homeownership. Improved self-esteem by homeowners. More concern about neighborhoods and local government.



[Slide 28, Future Research] Current Research.

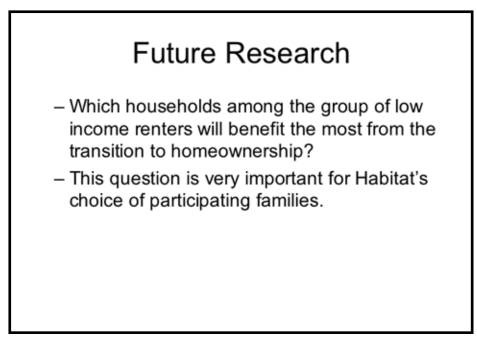


Interestingly, at lunch I heard an anecdote that confirms the first one: Are there health benefits of homeownership? This has not been studied in the U.S. at all. However, there are a number of studies that were done in England and they seem to be totally convinced that homeownership causes better health. They've measured health in a large variety of ways, but the research just has not gotten across the Atlantic. It is something that I've been interested in. I am conducting a study with a graduate student on it now to find out if there are health benefits of homeownership, again controlling for everything else.

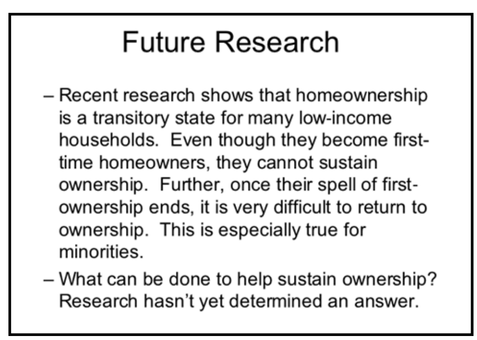
What are the neighborhood effects of homeownership? This is a very interesting question. If Habitat in a community was going to build ten homes annually, should they be dispersed geographically or should they be somewhat clustered? This is a reasonable question to ask. I am not sure what each of your answers to that question would be, but from a research perspective, the question is: Are there benefits of clustered homeownership? There are some interesting results that are out there in the literature.

Nehemiah projects have been studied and they found that if you look outside of the Nehemiah project there are actually increases in land values of the adjoining property. This clustered area of homeownership generates spillover benefits; that's very important.

Let me say one other thing about the idea of clustering. The Columbus affiliate did an interesting thing. They got access to a parcel of land on which they could build multiple houses. They basically had the funds to do six houses, plus or minus one, but they had more property than that. What they did was form a partnership with a developer and basically Habitat built its homes, but they were dispersed within this area. They already owned the property, but because of the positive reputation of Habitat and the Habitat homes, it had this positive spillover effect; property values increased. Private developers then purchased that at a higher price. That money then returned to the local affiliate to help pay for the original investment and the other properties were built by the private sector, but in housing levels that were consistent with the Habitat houses. They were just marketed by private developers, who said, "Hey, I can sell these things and still make a profit." That spillover effect actually has profit and loss implications. That is something that will be very important to measure to find out whether it occurs. If it does occur, then it's suggesting that clustering may be a sensible thing to do. Certainly Habitat affiliates do both clustered things and dispersed things, but this is one way to gain some research perspective on the best solution here.

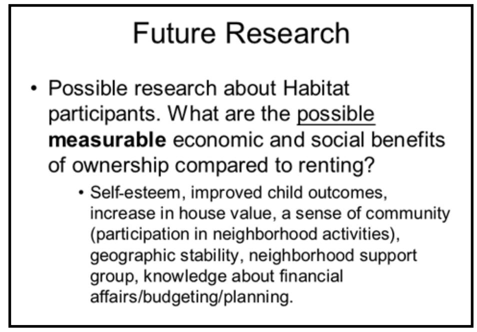


[Slide 29, Future Research]
And finally, which households among the group of low-income renters would benefit the most from transition to homeownership? That is very important for Habitat's choice of families. That's an interesting question. So, if we look at Habitat families and their experiences, which ones have benefited the most? You may say that they all have benefited, but it would still be interesting to quantify which ones have benefited most. This suggests more future research on Habitat families themselves, which would be an interesting area for the research and academic community to go.

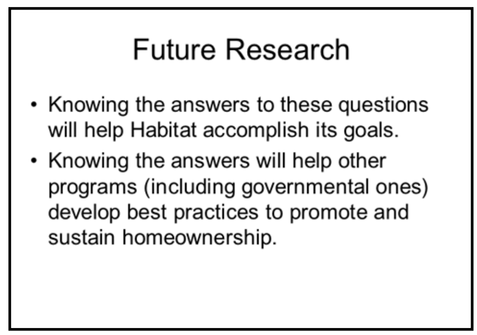


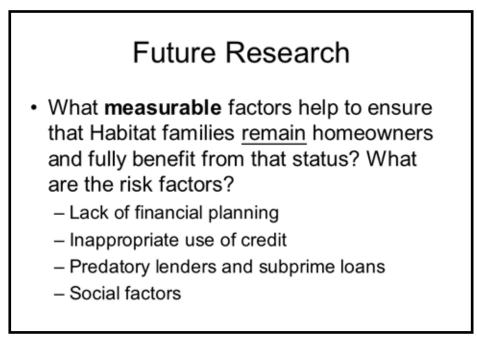
Duration: another interesting research topic. [Slide 30, Future Research] Again, at lunchtime I heard that duration of ownership by

Habitat families is long. It turns out in the U.S. the duration of ownership by low-income families is incredibly short. This is not something that is well-known. There is a cliché that is out there that says once you are a homeowner you are always a homeowner. I've done some research in the last year that shows that is not true, especially for low-income households. There's a second consequence: if a low-income household gets into its first house and leaves it, then it is very, very unlikely to become a homeowner the second time, in contrast to middle- and high-income families that are in and out of homeownership a lot. Now, there could be a divorce, there could be a job relocation, they might be building a house; those households are jumping in and out of homeownership frequently and if you leave first-time homeownership, you very likely end up in second-time homeownership. That is not true especially for minorities and low-income households. If it is true that Habitat families have especially long durations of homeownership, that is a huge benefit that Habitat can talk about as a result of its program. Some research really needs to be done to document that.



A few minutes ago we talked about looking at some of the possible measurable economic and social benefits of Habitat participants and you can just go through the list of the topics we talked about.[Slide 31, Future Research] Another important thing is I know that Habitat does post-ownership counseling. Research lags in that area. There is a belief that it is important. Actually, you may be able to teach the rest of the world about the best type of post-ownership counseling that will help people sustain a spell of ownership. Right now the government is sort of floundering about, especially Fannie Mae and Freddie Mac, in terms of developing counseling programs. Some of these are actually just phone counseling programs and they were evaluated and they weren't found to be effective. What really needs to be done? [Slide 32, Future Research] Perhaps research could be done on Habitat to find the diversity of contacts once homeownership is established; and which ones work. [Slide 33, Future Research] It would not just be Habitat that would benefit, but it would be all of those that are interested in increasing homeownership rates. Knowing these will help accomplish your goals.





Thank you. Thank you for the opportunity to present my research.

We have a microphone and you all hopefully have a few thousand questions.

Questions from the Audience

Question: Is there a study going on right now in the United States to compare what's happening on our coasts with what's happened in Japan where it's going to a buying by the inch?

Answer: We do know the importance of housing prices in terms of imposing a barrier to homeownership. There are noticeable differences in homeownership rates that result because of that. There are other consequences that result: Children leave home later in the expensive areas; they stay with mom and dad noticeably longer. They return, they tend to live in groups rather than singly. So, those things are reasonably well-known. Clearly there is a coastal effect because of the high prices. But it really is the high-price effect because you can go anywhere in the world to find this high-price effect. And there are studies that have been done on Japan and Europe that show that. So, particular attention to overcoming the barriers to homeownership in high-price areas is a worthwhile goal.

Question: Listening to your early part, you were talking about how lower-income housing is more volatile to values and prices. I was equating that to the fact that a lot of our lower-income (homeowners) get caught in a new poverty environment in which the housing is no longer as desirable in a neighborhood. Then you were saying about the future research and you were using Columbus as an example of the clustering of homes. I wonder if those two tie in together. Do we have to be sensitive in clustering homes so that we won't fall into that risk?

Answer: As I mentioned, there is no common denominator in terms of knowing which houses are going to rise at a faster rate in terms of prices. But there are local effects. So if you look at Milwaukee or you look at Atlanta, there could be long-standing effects where prices of houses in a particular area lag the market. So, one thing I would suggest would be—and this is what an affiliate would likely do—local market research. If they look at an area and it's had lagging prices for decades and decades and decades, that's certainly information that you would want to take into account. The volatility issue is more difficult because even getting volatility measured means that you had house prices for a long time period. You can't just look at average house price, you actually have to look at the prices of individual houses. Just collecting that data is a huge task, which is why we have in all of housing research one study that only does four cities. But it's suggestive of the idea that there may be pockets that actually are more subject to recession, perhaps local economic downturns, perhaps there's something in the locality itself that explains it. But that's going to be a harder thing for a place like Habitat to try to take into account in its decision-making.

Question: Do you think though that research could capture it, which would allow us to do some preventative things? Do you think we would be able to design and build and such?

Answer: That's the goal and if it is true that clustered housing has these positive spillovers, you can actually create your own small economic market for housing. That is, you can go into an area, some areas around here that are abandoned and so on, if there is a way to actually acquire land at a donation or at a very reasonable price and do something that is clustered. And the idea that Columbus had of mixing clustered with private development I found very appealing and still there are further positive benefits so that land values nearby rise if you happen to own those lands as well or have access to those lands. You can use that cycle that is occurring to actually help fund yourself. You could, if you wanted to, make up stories about how you can make things happen more or less for free.

There is an area in Columbus that was done totally by the private market. They took a run-down area that was developed in the 1880s by German immigrants and they built brick houses that were narrow and long, very unique style. It's called German Village and one person went in there—this was an area that has 2,000 houses—and he redeveloped, on his own, six houses. People said "Wow! This looks terrific. I'd like to do that, too, but I really don't think I should. Look at all the other houses that are run-down. If I actually did something nice, then something might come in that would find this area attractive selling trinkets to tourists and ruin the house values."

So what this person did was form an association and they basically got control of improvements. They didn't make anybody improve their property, they just said that if you're going to improve your property, you have to follow certain guidelines. That's all it took. The private market did the rest. House values skyrocketed in that area. So you can imagine a more modest version of that for any developer to move in and see the opportunity. While what you would like to do is, of course, to have this geared toward the particular families that Habitat serves. The question is: Is there a way to do this that is actually beneficial, to help finance itself.

Question: Beyond families with young children that you talked about, does the existing research allow you to go further in profiling the family that would most benefit from homeownership in terms of whether you have a rural, urban, or suburban family? Would it be a family with how many children, would there be a faith commitment in the family that benefited the most? What would be the ages of parents at the time of homeownership? Can you go further in profiling the family that would benefit the most?

Answer: Nope. Those are great questions and we would like to know a lot of attributes that would make a family or lead to a family benefiting at a higher rate. But research is very thin and we just can't yet go farther. That's why I suggested that perhaps we should come to Habitat, existing Habitat families. It would be very beneficial to find those that were quite successful, those that were less successful and so on. That might help, but there is not really the research that would help answer your questions.

Question: You mention that a possible downside of homeownership was that we could be increasing the chance of nimbyism because homeowners would feel more invested in the neighborhood. But, we will worry about that when the time comes I suppose. But, I wonder is there research in existence now that gives either a credence to the nimbyism concerns of residents or some way dispels their fears as a bit irrational?

Answer: There is a prior question, which is, does nimbyism really exist? Everybody would say sure and they could come up with anecdotal stories. It's only been very recently that researchers have turned to try to come up with some way of measuring and quantifying nimbyism. If you try to think about it, if it was successful, it would stop something from happening. Well, how do we measure that? A lot of things don't happen. So research is really in its infancy in terms of being able to document what nimbyism is, define it and so on. There is some research that is out there. The claim that homeowners will engage in more nimby-type behavior seems extraordinarily plausible, but there is only one study that's got some evidence that supports that. So often you'll find, unfortunately, academic studies are lagging what is going on societally by a fair amount. But partly the excuse is that we do need to be able to measure things that have data. And actually figuring out what the data is that we need and then being able to quantify is often not an easy task and sometimes is an expensive task. We need to convince others that this is a particularly interesting question.

Is it documented? It is well-documented in the housing literature that there can be spillover price effects. So, if you have a nuclear power plant, there will be price effects in nearby areas. I mentioned that the Nehemiah project had positive price effects in the area. So, you can measure price effects of parks, state parks. I have had students that have looked at lakes that are publicly supported, dredged and so on. You can measure the price effects of all of those types of things.

One area that is not yet well done is separating short-term effects from long-term effects. There've been lots of claims about, for example, group homes, halfway houses in terms of the negative price effects. Then they will look during the period of hysteria, and they find that a few of the houses have sold for lower prices. Fine, nobody's surprised at that, but what happens a year later, what happens two years later and so on. Do these effects disappear? It is quite likely that they do, but having data to actually support that claim—those studies have not yet been done.

Question: You talk about how maybe spending more money on making people homeowners might alleviate—or would raise test scores for children. Do you really think we can get rid of rental housing? If we mandated that every person got to own the home they were currently in today, would that really take care of it? Or is the fact of people becoming homeowners, the process or commitment by which people become homeowners sort of a creaming effect?

Answer: The research that we have so far was done on a random sample of households and there was no particular set of subsidies that led individuals that became homeowners to become homeowners. We also did some statistical adjustments for potential differences in the incentive structure that the people who became homeowners did vs. the renters. So we're confident that we don't have a creaming effect; that is, we looked only at some individuals that would benefit. We think that these benefits are the ones that happen on average and would happen for society. Since we actually had not a relative scale, but an actual quantitative scale for our achievement measures, what our study says is that everyone would rise by 7 percent or 9 percent compared to where they were.

If you wanted to measure things relatively, not everybody can relatively go up. But these are actual measures of knowledge, achievement tests that the children have and reading abilities. So it is quite possible to believe that you could engage in a particular activity that would just lead a whole group of people to read better and that is what we are claiming.

The exact processes by which homeownership leads to that—if you remember what I had were some descriptions of plausible hypotheses of the mechanism. Actually getting there and saying, "How is it that this child's math and reading scores increased afterwards?" I don't know that a social scientist will ever be able to do that. Perhaps we could have some psychologists doing case studies. Those come pretty close to the anecdotes that all of us know. Going beyond just saying it is plausible that homeownership causes these effects in these investment incentives, increases in self-esteem and so on and those lead to the child outcomes is probably as far as social scientists will go.

One thing that we of course look for is replication of our studies. That's going to require another equally good data set and such a data set really doesn't exist. But I do have confidence in our study because of these other supportive studies by other researchers. They weren't measuring exactly the effects on children, but they were measuring the effects on later adolescents and children once they aged—effects that initially started when they were children.

Question: You mentioned about health, the relationship between homeownership and health and that there was only one study that you know about. Was that study drawn on prevention of disease or was it done more on healthier child or living environment? Let me just point out that we've done recently a study, which will be coming out from a grant that we have with USAID, and it does show the relationship between better health and poverty, those who have homes come out much healthier in terms of less diseases than otherwise.

Answer: Right. Send me the study. The studies that I referred to are very similar to that and they are predominantly on English data and they have looked at all different types of health—usage of doctors, knowledge of health and so on. So there does seem to be that relationship. The problems with the studies that were done in England and throughout Great Britain are that they don't do as good a job controlling for other factors as we were able to do in our study. You mentioned health of children. As far as I know, there are no studies of the impact of homeownership on the health of children. That is something that we may be able to get at least a crude measure of. A measure of the health of parents, the homeowners themselves or the renters themselves, is very good. We have an entire survey that looks at health consequences. But for the children, we have very crude measures of their health. One could suspect that, especially if one went back to when lead-based paint was around. It is clear that lead-based paint was abated better in the homeowner-owned homes than in rental units and the relationship between lead and child cognition and behavior problems is very well-established. But now that lead is reduced greatly, that might be less of a cause. Although, I did read one study that was measuring lead residuals in the ground, not necessarily in the home, but just in the play area. And there was a big difference between rental and owned units. And so there may still be residuals out there from the automobile lead emissions from decades ago.

Question: There is a growing population of people in our country, young people that are of the age where they are raising very young children who have acquired an almost insurmountable amount of debt and they can't even begin to think about buying a home. Student loans, credit cards, car payments, that sort of thing, living far beyond their means. What are the solutions for those families in terms of homeownership? Are they ever going to be able to qualify to own a home even with the high level of education, that sort of thing, they still can't get over that hump? What sort of policies are we looking at in the future to deal with that, what are going to be the effects on the children?

Answer: That's an excellent question. This is another one of those very current, emerging things that are being recognized. At our university, we are trying to actually take it head-on. We are not dealing with the homeownership, we are dealing with the credit. We've incorporated in our first-year experiences a series of lectures about debt management, credit cards, the importance of credit histories and so on. For the students, this is of course a university setting. But it came to our attention as to what students were doing relatively recently—I think it is a relatively recent phenomenon. These things usually just sort of accumulate up and then somebody notices what's going on.

The first solution is to try to stop it from happening so that people recognize the importance of their credit histories and how that has just spread throughout society in terms of affecting things that you would not expect it to affect. Some of these have actually resulted in court cases. What can be done if somebody already has that? Certainly counseling programs that are occurring that explain to people the importance of credit histories for the attainment of homeownership are extremely important. You have to get the households in there, they have to want to become a homeowner, and they have to be willing to engage in a set of solutions to overcome that.

One thing that I think you are pointing to is that those programs that exist are generally targeted towards low-income households and this problem may not be a low-income household problem. It is a young person problem. If that's true, we're missing something. There has been an increasing amount of recognition, I think, of the importance of credit history; that's likely to spread. A prediction from an economist—you can figure what that's worth. It's likely to spread in terms of the level of information that may even go down to the high school level talking about the importance of credit management for the next 30 years of your life. I think the solution to that is to take it on in the beginning.

It's clear that a group of companies has incentives to push the use of credit for early ages. If we take that head-on, then we will hopefully not have to worry about the solution for homeownership. Perhaps one reason that it has not been noticed is while that's occurring, the variety of agencies—Fannie Mae, Freddie Mac, HUD—have also relaxed down payment constraints. In the old days, you needed 20 percent down payment. Now, you need much, much less and so even if you were willing to expend a lot of your resources and not build up credit debt, it's been offset by this falling barrier. But the barrier is about as low as it is going to go. I don't think we're going to get into situations where, in general, HUD is giving away many tens of thousands of dollars to individuals to become homeowners. That's been proposed, but I don't think that's going to happen. We may be at one of those turning points where public recognition is going to start being greater if the behavior of the individuals, the young people that you are talking about, continues, especially if it accelerates. We have people who are putting the entire college education on their credit cards. Not a good idea.

Question: I am struck with the fact that once a homeowner, not always a homeowner and that in fact in low-poverty housing, it is hard to get people back in homes when they lose them. And your slides show leasing, predatory lending, that type of thing, debt collection can drive people out of homes. Have there been any studies to see why some families in low-income housing escape those problems? We know what we need to do as far as education, but why do some of those people get caught in that and why are some people able to maintain homeownership?

Answer: Excellent question. I cannot give you a specific answer. First, the identification of what happens on average was very recently researched. In fact, it was done within the last year. We now have a grant to take a look at more detail as to how exactly does that happen. How important is the role of marital stability? How important is the role of job stability? Can we actually pin down particular causes that have the consequence of terminating first-time homeownership? That would get it down much more so to the individual level.

At the moment, my answers would all be generalities. What was basically done was to identify that there is an issue here. HUD will be especially interested because of the goal of increasing the homeownership rate. And there are two ways of increasing the homeownership rate in the U.S. One is to make more people first-time homeowners. I think there is a common belief that that is the solution out there. You can interpret a lot of current policy as doing that, because they believe that once you are a homeowner, you are going to stay a homeowner. So if you can get more people into homeownership earlier, that is really going to boost the national homeownership rate.

But if it is true that there is dropping out of homeownership—returning to renting—then a second alternative policy would be to say let's just keep people that get into first-time homeownership now as a homeowner. What our research showed was that is a very important thing to look at and is a contender. So, as a policy analyst, I might say, wait a second, let's consider how much money we want to be putting into new programs to promote first-time homeownership. We need also to look at those people that are first-time homeowners. Are they staying put? And perhaps for those that—for a variety of reasons they are not responsible for—can't maintain it, can they get back into second-time homeownership? Are the programs available for them to jump back in? This is all contingent on the goal being to increase the national homeownership rate and that is a goal that may or may not be consistent with Habitat's goals.

Question: I want to get back to the children. I serve on our local school board and we are facing things like unfunded government mandates like "no child left behind." Then you had that scary slide up there that showed that maybe we should put more money into helping people to own homes because it helps achievement, possibly in school. What I'm wondering is, if there's a way that there might be a movement toward the two walking hand-in-hand, maybe having a Department of Education and Housing or something like that because it's almost part of that whole cycle of poverty as well.

Answer: All right. I'll take a step back and then address the question. There's a sociologist named James Coleman that did the studies in the 1960s and found that home environment was incredibly important to a child's education. Interestingly, people didn't latch on to that and say from a public policy perspective, how can we improve the home environment? I presume the reason is that it is the home environment, and you figure that the government can't get into a home and do something in the home environment. There were general issues about marital stability and so on that would likely improve the home environment. But you couldn't do anything specifically. So, that's where that stopped and we said, what's the alternative?

The only alternative in that case would be to improve the educational infrastructure—teacher quality, more expenditures, better teacher-to-pupil ratios and so on. What we're saying is that maybe there is an alternative, and I am at least putting it out there. It could be that if we actually have the educational gains that would come about from homeownership, if that could be done in a reasonably cost-efficient way, that now you have schools working with a set of children that have higher levels when they come into kindergarten, when they come into first grade, because they've had better parental investment in the children. That could make the job of the public education system easier in a sense. It wouldn't necessarily reduce their need for funds because you can have whatever batches of children that you have and still want to invest a lot in them and there's still some marginal gain. But it could be one way to justify and ask, which would you rather work with, a set of children in kindergarten and first grade that are coming in that are coming from a set of parents that are really invested in them or not? Educators would certainly say that would be terrific but we have no way of controlling that. And they don't, but perhaps through homeownership there's a way to have at least some impact on that question. So, I agree with you that these things may not be head-to-head, but it sure is fun as a researcher to get people thinking about the investments and if we do have a limited investment budget, then some hard choices may have to be made. And since Habitat clearly is invested in one activity, it may be that you need to mention that this has this particular effect and you're not out trying to take away dollars from educators, rather you would be looking for marginal investment in programs that are supportive of homeownership.

Background Information:

An interview with Dr. Haurin

Question: How did you become interested in studying housing issues?

Answer: Actually, when I came out of graduate school from the University of Chicago, my primary area of interest was urban economics. One of the core parts of understanding urban economics is understanding homeownership patterns—who is it that rents, who is it that owns—and where is it occurring within cities. A major part of city finances depends on homeownership, a major part of the entire spatial pattern of cities. Over time I became more and more interested in the housing questions themselves: which people become homeowners, why there are racial differences in homeownership, why there are ethnic differences, a little bit of study of other countries and their homeownership patterns combines with some studies of the quantities of housing, and that's led me into more and more detailed studies about what are the consequences of homeownership. Most of my studies in the first 20 years were really studies about who it is and why it is that individuals become homeowners. So I have been turning my research more toward the consequences of homeownership recently.

Question: How did you become involved with Habitat for Humanity?

Answer: The research that I was doing was using a data set that came out of a much different national sample that really had nothing to do with Habitat per se. Following that, though, the results were of great interest to people that participate in Habitat. There was a press release that was done on my research and a published paper that was done. I started getting e-mails from various people with the Habitat affiliates, and they were asking for the paper or asking more detailed questions about the nature of the research and the outcomes that I found. After a while, I became interested in why it was that Habitat affiliates were interested in what I was doing and so I started engaging in conversations with the individuals and asked them enough questions that eventually they referred me to other individuals that are actually located here at Habitat International. That led to my invitation down here to do a presentation.

Question: Tell us about the research you're planning with Ted Swisher, vice president for U.S. area, Habitat for Humanity International?

Answer: I'll give you two answers to the question. One is, in general, the research is looking at what happens to the children of households that become homeowners compared to if they were being a renter. There's a transition that could occur. You take a household that's a renter, move it into homeownership—is there anything that happens to the children in terms of their outcomes, for example their cognition or their behaviors that you can actually attribute to that act of becoming a homeowner? That's a very important question, not only for Habitat, but for all of the U.S. because for public policy reasons we are investing a lot through various programs—some charitable programs, some governmental programs—in having more and more people become homeowners. Is that worthwhile? So my interest is particularly in what was happening to the children.

With Habitat, there's a question of what happens to the partners, Habitat partners and their particular families, their particular situation. Can we identify effects that are happening to the children of Habitat partners? That's a very interesting research question. It would be very important for Habitat to know this. Hopefully, we could fine-tune some aspects, because Habitat has made a number of choices in how it will organize its programs and pick its partners. Can this research lead to any fine-tuning of those choices?

Question: What research findings have surprised you?

Answer: Well, the entire set of outcomes related to homeownership were surprising because we thought they would be explained by other factors, other differences between families. Differences in income, differences in wealth, differences in marital status. But even when in this data set we had very good measures of all these other variables, we found there was still an additional effect of homeownership. It was surprising to us. One of our tasks is to convince the research community that this is an effect that is attributable to homeownership. But, we are convinced and we think we have very good data because we are measuring people over time, not just at one point in time. We have done a good job at accounting for, controlling for other factors as well.

Question: What do the research findings say about Habitat for Humanity's current and future work?

Answer: Certainly Habitat, in terms of encouraging homeownership, is on the right track. Our research suggests there will be long-term benefits of that. One of the long-term benefits that we've noted—and this came out of another study—is that if parents are homeowners, children tend to be homeowners later in their own lives. By Habitat moving parents into homeownership, we expect that the children 20 years from now (we don't have the data on our data set, but other people have studied this) are also more likely to be homeowners and create benefits for their children. Everybody's heard of the cycle of poverty; we think there could be a cycle of homeownership that would have these positive benefits. There are other benefits of homeownership besides those for the children of the homeowner. This would be a positive cumulative effect.

Is there anything that Habitat needs to do more so? One of the things we don't know yet very well is whether or not Habitat homes should be clustered or dispersed. If you're building a number of homes in a particular city or an urban or metropolitan area, should you try to put them together in a reasonably close group or spread them out? Research could actually answer that question but we haven't yet got far enough along to answer it. There's some related research that suggests that there might be some benefits of that. But that's one question I think Habitat will be interested in knowing that in those areas where it builds multiple homes per year.

I'm going to be very interested in talking to Habitat affiliates and the people here at Habitat International about the education programs. One of the concerns that we have with homeownership outside of Habitat is once a person becomes a homeowner, especially if they are low income, can they sustain homeownership? We've found in very recent studies, that there is a significant problem in sustaining homeownership. There are many government programs right now that are getting people into first-time homeownership, but the individuals in the programs don't stay as homeowners. Once they return to being renters, it's very unlikely according to our data that they return to a second-time homeownership spell. So that's a big concern.

I understand that Habitat knows about, works on, continued education programs and that's one thing I'm going to be interested in learning about. Perhaps additional fine-tuning of that program could help Habitat partners.

Question: How is Habitat for Humanity helping increase awareness of the benefits of homeownership?

Answer: One of the important things I think is the positive reputation that Habitat has, so that when a Habitat house is going into a community, people think of positive spillover benefits rather than neutral or negative spillover. I've had some experience with one affiliate—in Columbus, Ohio—where they actually used this idea of a positive spillover to partner with the private sector. It was to the benefit of both Habitat and the partners as well as the private sector. They actually thought together of how to put a clustered housing development that was a private developer/Habitat mix of households. I think in that way, first the benefits of Habitat were realized by Habitat itself and secondly, the integration within the community of Habitat houses mixed in with private developed houses worked so that you had an instant neighborhood that worked well. I think that is a model that needs to be explored to see if it could work in other places. It's probably limited to reasonably large urban areas, but even so a lot of Habitat activity occurs there.

Question: Why should everyone be concerned about the problem of affordable housing?

Answer: I don't have a lot of expertise in being able to give you a detailed answer to that question, but I think that as individuals become homeowners, no matter what was the origin of that homeownership, whether it's through a Habitat house or through other ways, that homeownership itself is going to lead to both integration in the community and a positive reputation. Homeownership leads to a number of activities. It leads to local political activity, it leads to interest in school districts. It could lead to being involved in various networks within the community, perhaps a neighborhood watch. These types of rather normal human behaviors, once you become a homeowner, are going to lead to the positive types of benefits. It wouldn't matter if the origin of the homeownership of a particular household was through Habitat or through anybody. It's just going to happen. What has to happen is more and more Habitat houses will go out there, people will act as you would expect them to act and people will lose their nimby (not in my back yard) behavior, because they'll say, "This is going to be a person that's interested in the community, interested in maintaining the neighborhood, interested in maintaining their house just as any homeowner would."

Question: Is there one main point you would like to leave us with?

Answer: Keep it up! The work is important to the individual participants. We can document that. We hope to be able to document over very long periods of an individual's family, but now we've got documentation that goes for at least a decade.

Other important things...Perhaps thinking about fine-tuning the educational experience of the households to make sure that it's not only before a partner moves into a house, but continued afterwards. There are institutions out there that I'm concerned about—predatory lending for example. I'm not yet sure how that affects Habitat families, but it certainly is a concern in society in general. Continued education is going to be extremely important.

Secondly, looking at the programs and knowing whether if you have children in a family, what the ages of the children are, how a Habitat house might affect them because that could perhaps tilt slightly the people that you have participating in the program in ways that would have these additional benefits for the children.

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