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The aftermath of the general financial crisis for the ownership society: what happened to low-income homeowners in the US?

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The aftermath of the general financial crisis for the ownership society: what happened to low-income homeowners in the US?[a]

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The last half of the twentieth century was a period of unprecedented growth in homeownership in the United States and Europe. In the UK and the USA, policy and government actions were focused on increasing homeownership as part of a new 'ownership society'. This was especially true in the 1990s and 2000s. Now, in the aftermath of the Global Financial Crisis and the housing market collapse, there is renewed concern with the loss of housing-wealth, affordability and even whether ownership will ever be attainable for low-income and minority populations. This paper examines the rise in home ownership as governments engaged in a policy experiment of greatly expanding ownership. The paper extends the aggregate studies of the housing crisis by examining population cohort behavior during the housing bubble and the individual outcomes as a result of the housing experiment. I use data from the Panel Study of Income Dynamics to evaluate the impacts of the debt burden and negative equity on ownership and conclude that they will have long-term impacts on the ability of low-income and minority households to enter the housing market or even to keep their homes. The policy goal of a broadened ownership society will be difficult to sustain in the light of stagnant incomes and high prices even after the recent decline in house values.

Keywords: homeownership; GFC; low income; minority; cohorts

Introduction

The general financial crisis (GFC) worldwide and the housing crisis in the United States thrust housing into the center of policy issues. In Europe rising house prices, immigrant flows into central city housing in large cities and a changing view of what the welfare society can provide are creating stress in housing markets. In the USA the push for an ownership society – the homeownership experiment – which emphasized low equity entry to ownership, became unsustainable when prices increased rapidly and households used housing equity to compensate for stagnating wages and increased

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costs in health care. In the USA the inability to sustain mortgages by young and poorer households, the resulting foreclosures and disruption in the housing market have furthered inequality and created difficulties of access and affordability. In Europe social housing is taking on the role of low-end housing similar to the role played by US public housing in the 1950s and 1960s. There is growing evidence that low-income households, the unemployed, the elderly and ethnic minorities are more likely to end up as social housing tenants while higher income households are more likely to opt for private rental or owner occupation (Holt-Jensen, 2012; Magnusson Turner & Wessel, 2012).

Several studies have already taken up the issue of how the global financial crisis is being played out in the housing market (Forrest & Yip, 2011; Ronald & Elsinga, 2012). These books and the chapters in them not only document the overall aggregate outcomes of the housing crisis but also ask relevant questions about the role of housing in urban society. The aggregate story is well known but this paper complements those studies by studying what is happening at the individual level, who is most impacted and what is happening to mortgage debt and the ability to sustain homeownership. It is also a direct test of the success of the 'ownership society' experiment. Specifically, I examine how the housing equity gains played out across cohorts and regions? Who gained, and later who lost, and where were the losses the greatest?

Housing ownership in historical perspective

For most of the nineteenth century and well into the twentieth century housing was rented, and ownership made up a small percentage of the housing market (Garb, 2005). Only the relatively affluent owned houses and in the large and growing industrial cities in Europe and the United States the majority of households were renters. Even after the Second World War the ownership rate was still below 50% in the United States. After the war with expanding urban populations (and substantially depleted housing stocks in Europe) governments pursued a policy of active involvement in the housing market. However, while Europe pursued a policy of subsidized social housing provision, albeit differentially across the European nation states, the USA pursued a policy of encouraging individual ownership – two very different paths to providing housing for the growing urban populations. The differences in approach are still in place, though as we will see there are shifts in thinking especially in Europe (Priemus & Boelhouwer, 1997; Van Kempen & Priemus, 2002).

With government involvement or not, ownership increased in both US and European contexts at least in part because house building and ownership housing has a strong economic and institutional component. Homebuilding was, and is, seen as an industry that has a multiplier effect far beyond housing itself.[1] Thus, indirect and direct government involvement in the housing market in the USA and in Europe has been responsible for the dramatic increase in the level of homeownership. While about 50% of households and 60% of families owned their houses after the Second

World War in the USA, now ownership averages about 67% for households and more than 70% for families. This same increase in homeownership is paralleled in many European welfare economies. In the Netherlands, for example, homeownership increased from approximately 28% in 1947 to 54% in 2004 (Helderman, 2007). Dutch policy, as American policy, directly stimulated the ability of families to enter the ownership market even though in the Netherlands there was a strong social rented sector and subsidized housing for low-income households (Van der Schaar, 1987).

European welfare societies have tended to focus on housing access more generally and they have tended to favor a supply side approach to the housing market with major building programs undertaken by such groups as the housing corporations in the Netherlands (Priemus & Dieleman, 1997a, 1997b). However, the European welfare states are far from uniform in their approaches and private ownership is a powerful force in nearly all European contexts. The UK despite having a still substantial social rented sector has increasingly turned to a more market-oriented approach. And, in Germany ownership is still lower than in other European nations and has always come later in the life course (Andrews, Caldera, & Sanchez, 2011). Still, underlying the European approach to the provision of housing is the social welfare argument that the state should promote a defined minimum provision of housing at a defined affordable price and that the state should overcome shortages of affordable housing (Yates, 2012). The path has been quite different in the USA but as Yates notes the implicit US subsidies of homeowner tax concessions, which do not involve any explicit budgetary outlays, are a way of subsidizing or supporting one group versus another (Yates, 2012, p. 399). In the social welfare states the tendency has been to use explicit subsidies and to encourage the availability of social rented housing, while in the liberal economies the tendency has been to favor implicit subsidies more than explicit subsidies.

The European versus the US approach, or the contrast between a socially influenced housing market and an almost totally private market has revolved around the meaning of homeownership. The research and commentary on provision of the renter and ownership housing in the welfare state is extensive and includes broad studies of the welfare society in Britain (Forrest & Murie, 1988) and in Europe (Lundqvist, 1992) among many others.[2] However, as Bengtsson (2001) has pointed out even in the European welfare states the private market was, and still is a major factor in providing housing. Thus, although there is a broad distinction between Europe on the one hand and the USA, Canada and Australia on the other there is considerable variation in the role of the social sector across European contexts (Stephens, Burns, & MacKay, 2003).

The debate about ownership and housing provision is at the heart of the arguments by Kemeny (1992, 2005) that the rise of homeownership was not simply an outcome of consumer preferences and the supply of different housing types, but rather a systematic preference for ownership by governments and against other forms of tenure especially social rented housing. Now there is an argument that countries which encourage homeownership are in fact shifting the burden of welfare and social security funding from the state to individuals (Matznetter & Mundt, 2012). While some of the Scandinavian countries and the Netherlands have maintained a strong social rented sector even the Netherlands is now re-evaluating the role of housing in social policies (Van Kempen & Priemus, 2002), and ownership has increasingly become the tenure of preference.

The creation of ownership societies

The growth of ownership societies is inextricably bound up with changes in national wealth and individual income but especially in the United States. As affluence grew after the Second World War and continued into the 1970s, it underpinned increasing ownership. For two decades after Second World War, in the USA especially, manufacturing created well-paying jobs across the income scale and although jobs were lost in some areas they were created in others (Levy, 1998). The outcome of the growing economy was overall increased income and wealth. The money was spent on mobility and houses. Car ownership increased by 21 million between 1950 and 1960 and in the same period the number of owner occupied homes almost doubled (Levy, 1998). The demand had always been there but incomes had lagged but as the car opened up new areas for construction and mass home construction techniques revolutionized the building industry, the availability of the ownership society became a reality.

The private homeownership society did not arise independently of government actions in the USA. The loans to Veteran after Second World War, mortgage deductions for homeowners and the creation of the large lending agencies of Fannie Mae and Freddie Mac were central elements of the creation of an ownership society. The ownership stimulus fueled the building industry, and the national economy during the 1960s, 1970s and into the 1980s and was key to the creation of a middle class society (Levy, 1998). Much of the ownership boom occurred in the developing suburbs of US metropolitan areas after Second World War. Smart growth (sometimes ‘the compact city’) is now a controversial alternative to the spread out patterns of previous development (Calthorpe, 1993). Still, even if there is an argument for more dense development, the ownership paradigm is still driving housing in the USA and increasingly is a force in Europe as well. Overall, government inputs and individual preferences led to the shift from a renting to an owning society and not just in the United States but in much of Europe as well. To understand the power of the ownership society, I examine the way in which the ownership society has been at the heart of housing policy in the USA and how it led to the ownership experiment.

The ownership experiment

There has always been a focus on homeownership in the USA, but the push to expand ownership had its genesis at least in part in the attempt to redress the fact that low-income households, and especially ethnic and minority households, had been left out of the rapid increase in homeownership in the 1960s and 1970s (Weicher, 2000). The government attempted to address discriminatory practices in the real estate market and required Fannie Mae and Freddie Mac to devote a percentage of their lending toward affordable housing for lower income households. By 2000 the Department of Housing and Urban Development required Fannie Mae to dedicate 50% of its business to low- and moderate-income families. While the Clinton administration had initiated the focus on increasing home ownership, the Republican administration set a goal of increasing minority homeownership (White House, 2002) by at least 6.5 million households by 2010, to fulfill their concept of a society in which:

> . . . if you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in American, and the more people have a vital stake in the future of this country. (George W. Bush, 17 June 2004)

The paradigm of the ownership society was advanced by the libertarian Cato Institute, as part of the 2004 push to reduce taxes. The central theme included a stress on personal responsibility, economic liberty and the owning of property – 'the ownership society'.

> . . . individuals are empowered by freeing them from dependence on government handouts and making them owners instead (David Boaz), 'Ownership Society Defined.' (Cato Institute) http://www.cato.org/special/ownership_society/

The push for a homeownership was based on the idea that homeownership is a stabilizing force in neighborhood growth and change. At least some research (Dawkins, 2006) suggests that ownership creates more stable neighborhoods, greater neighborhood interaction and increased concern with neighborhood behaviors and even reduced crime (Sampson et al., 1997). Underling the overall push to ownership was the idea that to the extent households are socially and economically integrated into local communities over time there will be greater social capital and over time individual and household well-being will increase.

There were changes in policy too, especially the Taxpayer Relief Act of 1997, which can be seen part of the process of making housing affordable, or less benignly, as a means to deregulate the financial services industry.[3] Certainly, the Financial Services Modernization Act of 1999 deregulated banking, insurance and securities and created a financial services industry. In the same year, 1999, Fannie Mae eased credit restrictions to encourage banks to extend home mortgages to individuals whose credit was not good enough qualify for conventional loans (the so called sub-prime mortgages).

At one level the experiment was extremely successful. The outcome was a real increase in ownership rates especially for minority households (Figure 1). Most notable were the relatively large increases for Black and Hispanic families, certainly in part an outcome of the loosened credit and easier terms for home ownership. That

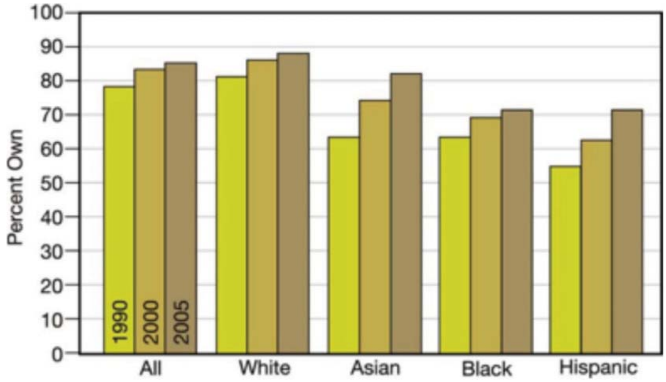

Figure 1. Homeownership in the United States 1990–2005. Source: Data from US Census of Population and American Community Survey.

Asian families increased their rate of ownership from 63% to 82% in a decade and a half and Hispanic households from 54% to 71% is a striking illustration of the power of the ownership paradigm and the willingness of families to take on the cost burdens of realizing the 'American Dream'.

Cohorts and housing values during the ownership experiment

Associated with the increase in homeownership was a rapid escalation in housing prices. The rapid increase in housing prices, the housing bubble, has been well documented at an aggregate level and the causes and consequences have generated a large literature (see Case & Quigley, 2008; Clark, 2011; Shiller, 2005; Wyly, Cooke, Hammel, Holloway, & Hudson, 2001 among many other papers for a discussion). Greater insight into the price escalation is provided when we examine the price increases not on average but across age cohorts. By examining what happened at the individual level and across regions it is possible to provide a more complete picture of just how the price increase played out in the United States. Using the behavioral cohort changes it is possible to focus on the implications of these changes for the sustainability of the ownership society.

Traditionally, as households enter and move through their housing careers, from first small entry level houses to larger and more expensive homes, they generally gain increases in housing value both from trading up and from house price inflation. In general housing price inflation has been modest over much of the twentieth century and the real increases in value were largely a function of trading up over the life course. This process of cohort value changes is portrayed for the USA as a whole in the left diagram of the pair in Figure 2. The plots are of the mean property values by

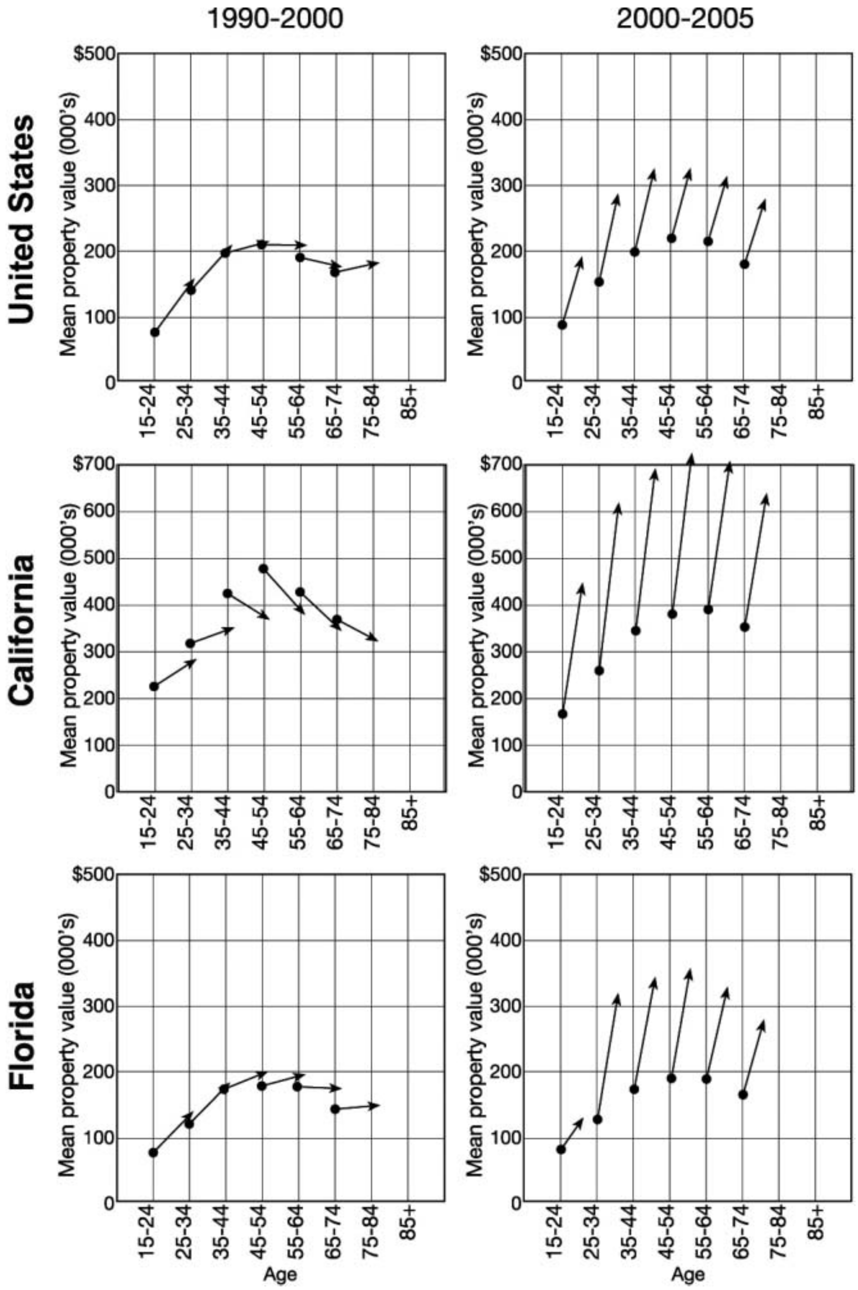

Figure 2. Changing cohort housing values – United States and Coastal examples.

age cohort over the decade 1990–2000. In each case, each arrow shows the change in housing value between 1990 and 2000 for 10-year age cohorts from 15–24 to 85+ years. The path of increasing values with the progression through the housing career reflects a pattern which has been true for the USA for the decades from 1950 to 2000. In the early years of homeownership entry, the entry value, while modest, increases quite quickly as households expand their space and quality of housing. Later in the middle to later years of the life course it levels off and stabilizes.

That process was disrupted during the years of rapid price escalation. The price change by cohort was fundamentally different for the period in the first half decade of 2000 as the push to ownership was picking up speed (Figure 2 (b)). In the period from 2000 to 2005 all age cohorts experienced large dollar increases and quite unprecedented increases in housing values. These gains had behavioral responses which were unsustainable. The average gains for the US housing market as a whole, and specific cohorts within it were large, and averaged over $100,000 in a five-year period. However, these gains were not uniform and an important part of the ownership outcome is in the regional variation and the implications of different patterns to the increase in housing values.

There are three distinct regional patterns – a coastal outcome represented by examples from California and Florida; an interior amenity outcome represented by examples from Colorado and Minnesota; and a Midwest manufacturing belt outcome represented by Indiana and Ohio (Figures 2 and 3). The greatest increases were in the coastal states where either declines or quite modest increases in the 1990s were replaced by large rises in reported property values in the period 2000–2005. To some extent the increases in the coastal states drove the averages for the USA as a whole. In California (note the different scale), cohort increases in a five-year period were sometimes in excess of $300,000 for specific cohorts. In Florida the increase for the very youngest cohort was quite modest but this was followed by larger increases across the other age cohorts. The changes were lower in what I have described as amenity states. However, these states had steady cohort increases in both periods. They were quite large in Colorado and more modest in Minnesota. Many of the cohort increases were in the $75,000–$100,000 range in Minnesota and Colorado. While the increases were only half or less of those of the coastal states the fact that individual cohorts were seeing property gains of $50–$100 thousand dollars in a five-year period clearly had implications for fiscal behavior. It is not hard to imagine the impact of such large gains on potential consumer behavior and helps us understand the near universality of the belief in the necessity of owning to capture the seemingly never ending price increases.

The contrast with the interior states is marked. This is the region of the declining US automobile industry and consumer durables manufacturing in general, a region that went into recession as manufacturing moved off shore and high-tech industry innovation replaced consumer durable manufacturing in new locations. In these interior mid-western states the cohort increases are modest overall and houses still have average values under $200,000. Recall that a $30,000 house in 1970 would be worth

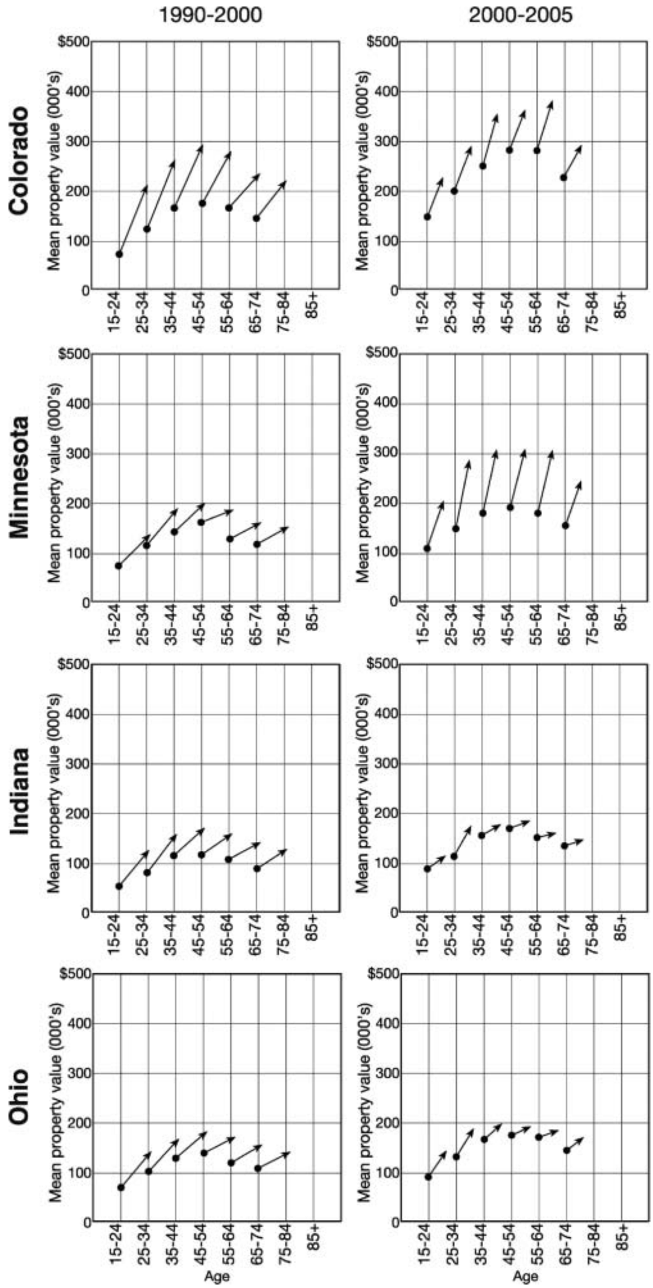

Figure 3. Changing cohort housing values – amenity and manufacturing belt contexts.

in purchasing power about $160,000 in 2005. The increases were on a par with national increases of about 3.5% a year, but even so the specific cohort increases were $20–$50,000 in nominal dollars over a very short period. Thus, while the coastal states and the amenity states were experiencing very large increases across cohorts, the increases in the interior example states were much more modest. The cohort increases drive home just what was happening on an individual basis and across the age groups. Suddenly, the house became a source of funds for a wide variety of projects – from funding a child's college education to replacing stagnating wages.[4] The real median income was about $43,000 in 1990 and increased to about $46,300 by 2005 ('US Census Bureau, report on income, poverty and insurance for 2005'). Given stagnant incomes it is an understandable response to use the new housing wealth equity to substitute for smaller income gains although there were obviously less noble motives as well.

Evaluating the ownership experiment

In the context of the global financial crisis, the empirical section of the paper examines the homeownership experiment and its outcomes and implications for housing, and the larger policy questions about housing and its role in society. How did housing access and affordability change during the homeownership experiment and what were the effects on housing equity and inequality, especially for low-income and minority households?

Access

The earlier discussion showed that ownership rates increased in general and especially for minority households. That result is also apparent in the table of housing market access detailed by income and age (Table 1 and 2). The tables show that between 1999 and 2005 ownership for whites increased to almost 71%. As we know, ownership is income related and those with lower household income have much lower homeownership ratios. And, to the extent that minority households have lower incomes they also have lower ownership ratios. None of this is new but what is important in the table are the changes between 1999 and 2005 and then after 2005. Certainly, for low and middle incomes – incomes between $25,000 and $50,000 – ownership increased substantially for all groups but African-Americans between 1999 and 2005. The increase in ownership by the prime owner entry years, the 35–39 cohort, was true for all but the other (largely Asian) cohorts. It is, however, the changes between 2005 and 2009 as the housing market became stressed that is of greatest concern in this discussion of access and affordability. All income groups and all age groups lost ground in the housing market in this period but as we will see the outcomes were quite different across cohorts.

Table 1. Homeowner ratios by race/ethnicity and by family income categories.

Year	*n*	Race/ethnicity	All	<$25k	$25–$50k	$50–$100k	$100k+
1999	4243	White	69.8	41.0	57.3	76.9	89.0
	2111	Black	43.4	25.1	38.8	64.8	80.7
	324	Hispanic	46.5	32.0	41.7	65.2	84.2
	319	Other	49.5	26.1	36.7	57.0	80.6
2005	4521	White	70.9	38.8	60.4	79.0	91.8
	2634	Black	42.3	22.5	38.6	64.2	83.0
	577	Hispanic	54.1	27.0	50.3	70.6	83.6
	270	Other	55.6	27.9	40.6	64.6	84.8
2009	4745	White	67.2	33.6	52.0	74.8	90.3
	2978	Black	37.4	18.8	34.6	56.6	79.0
	668	Hispanic	51.6	26.7	38.1	68.3	90.7
	299	Other	58.5	24.6	46.4	90.3	91.4

Source: Panel Study of Income Dynamics 1999–2009.

First, I draw attention to the relatively weak outcomes for African-Americans, who had difficulty penetrating ownership even during this experiment of the ownership society, and by contrast to Hispanics who were seemingly very successful in their ability to increase ownership. African-Americans are worse off in ownership rates in 2009 than they were 10 years earlier. Lower income and younger Hispanic households were worse off, lower rates of ownership in 2009 than in 1999. Older and higher income Hispanics were able to maintain their ownership rates. If we examine the lower middle-income Hispanic cohort, those between $25,000 and $50,000 the rates of ownership rose by 9% but by 2009 they were less likely

Table 2. Homeowner ratios by race/ethnicity and age.

Year	*n*	Race/ethnicity	<30 years	30–34 years	35–39 years	40–49 years	50+ years
1999	4243	White	32.8	58.5	70.6	79.1	84.1
	2111	Black	17.1	34.4	38.0	51.8	62.2
	324	Hispanic	21.9	55.4	43.3	61.3	47.4
	319	Other	18.2	46.5	61.5	55.8	62.2
2005	4521	White	37.3	64.9	70.0	79.6	83.3
	2634	Black	14.0	28.0	49.8	49.5	59.9
	577	Hispanic	27.4	47.9	67.1	60.1	65.8
	270	Other	18.9	62.5	54.8	66.1	66.0
2009	4745	White	28.1	60.1	66.5	76.3	82.2
	2978	Black	11.3	24.5	32.2	45.3	57.9
	668	Hispanic	19.0	38.9	61.5	70.4	67.0
	299	Other	21.8	67.9	57.7	71.4	66.1

Source: Panel Study of Income Dynamics 1999–2009.

to be owners than in 2005. One group which did manage to make significant gains were the middle-income 'other' owners, made up mostly of Asian families and the gains were true for both lower middle-income and upper middle-income households.

Thus, the story about access is more complicated than the often aggregated portrayal of an increase in ownership and then a substantial decline in ownership, as the housing market weakened. Low-income and younger African-American households lost ground over the whole, and were less likely to be owners at the end of the tenure than they were at the beginning. Hispanics, low income and younger make gains and then lose ground to positions lower than they were at the beginning of the decade. Higher income and older age Hispanic households make and sustain gains in ownership. Certainly, from this initial analysis it is difficult to make an argument that the experiment worked for low-income and younger minority African-American and Hispanic populations.

Affordability

The story about affordability complements that of the story of access (Table 3). The table reports what is already well known from the discussion of the average impacts of the housing bubble. The median value of houses grew substantially between 1999 and 2005 and then for whites fell back to the 1999 level. This rise and fall was also true for Hispanic and other (Asian) families although the decline was not as large. For African-American households, the value increased across the decade.[5]

Table 3. Median value of house ($000s) and percentage of homeowners paying more than 30% of income in mortgage payments.

Year	*n*	Race/ ethnicity	All (>30%)	<$25k (>30%)	$25–$50k (>30%)	$50–$100k (>30%)	$100k+ (>30%)
1999	4243	White	142 (7.9)	84 (55.1)	97 (19.9)	129 (4.8)	225 (1.9)
	2111	Black	84 (10.1)	45 (41.9)	70 (10.4)	95 (4.5)	148 (0)
	324	Hispanic	108 (32.5)	97 (77.8)	90 (41.2)	116 (11.1)	250 (0)
	319	Other	161 (14.6)	71 (66.7)	97 (31.8)	155 (13.0)	245 (2.0)
2005	4521	White	187 (10.0)	99 (66.4)	132 (23.6)	165 (7.0)	330 (.8)
	2634	Black	104 (15.2)	60 (58.1)	82 (21.3)	111 (7.1)	192 (1.2)
	577	Hispanic	198 (28.2)	101 (75.0)	170 (37.0)	219 (22.8)	319 (4.9)
	270	Other	275 (16.7)	77 (40.0)	137 (35.3)	242 (17.1)	494 (4.3)
2009	4745	White	142 (10.0)	92 (49.4)	123 (27.2)	160 (8.5)	300 (2.3)
	2978	Black	111 (16.6)	60 (57.1)	80 (27.1)	130 (8.0)	200 (1.2)
	668	Hispanic	161 (26.4)	95 (73.7)	110 (40.4)	170 (24.4)	325 (3.2)
	299	Other	223 (19.7)	43 (42.9)	115 (50.0)	200 (18.8)	375 (3.8)

Source: Panel Study of Income Dynamics 1999–2009.

Table 4. Median rent ($) and percentage of renters paying more than 30% of income on rent.

Year	*n*	Race/ ethnicity	All (>30%)	<$25k (>30%)	$25–$50k (>30%)	$50–$100k (>30%)	$100k+ (>30%)
1999	4243	White	579 (18.6)	386 (53.3)	547 (12.0)	708 (2.0)	1030 (0)
	2111	Black	451 (27.1)	340 (51.8)	515 (8.8)	670 (0)	831 (0)
	324	Hispanic	644 (32.5)	499 (64.9)	644 (18.1)	773 (0)	1056 (0)
	319	Other	644 (23.0)	425 (48.8)	644 (21.3)	773 (2.7)	1037 (0)
2005	4521	White	549 (23.9)	412 (55.4)	549 (15.7)	742 (3.3)	1099 (1.2)
	2634	Black	494 (30.5)	398 (54.7)	549 (11.4)	714 (2.4)	769 (0)
	577	Hispanic	604 (32.7)	439 (62.9)	659 (18.4)	824 (2.1)	1648 (14.3)
	270	Other	643 (27.8)	450 (57.6)	604 (15.6)	934 (12.5)	1475 (0)
2009	4745	White	600 (23.6)	440 (61.6)	563 (14.4)	770 (4.0)	1150 (1.8)
	2978	Black	550 (33.2)	425 (61.5)	600 (15.9)	750 (2.8)	950 (2.1)
	668	Hispanic	698 (34.8)	595 (74.0)	700 (23.9)	800 (2.9)	1500 (2.1)
	299	Other	675 (28.6)	460 (58.8)	625 (20.7)	950 (6.9)	1713 (0)

Source: Panel Study of Income Dynamics 1999–2009.

It is, however, the story of affordability which is most critical in these tables. For the lowest income group, those earning under $25,000 a year, the proportion who paid more than 30% of their income for the mortgage was as high as 75%. These numbers increased substantially between 1999 and 2005. For African-Americans they increased by nearly 50% and remained at that level and this was also true for Hispanics. Even the lower middle-class populations earning between $25 and $50,000 were paying between a fifth and a third of their income in mortgage payments.

The story for renters parallels that for owners and we need to recall that for low-income groups large proportions are renters and not owners. Dollar-adjusted rents increased over the decade-long period. And for low-income groups for more than half of the population, the rent was consuming more than 30% of the household income (Table 4).

Debt and equity

To create owners required the new buyers to take on mortgage debt and as the push to become owners intensified, the market was escalating rapidly. This is clearly demonstrated with the mortgage burden (Figure 4). In terms of the mortgage burden measured by the percentage paying more than 50% in mortgage costs, there is a dramatic increase for Asian and Hispanic households but also significant increases for African-American households – just those households at the heart of the ownership experiment. More than 8% of all Hispanic households had mortgage costs which were more than 50% of income, an increase from 5.6% five years earlier. There were broadly similar outcomes for Asian households.

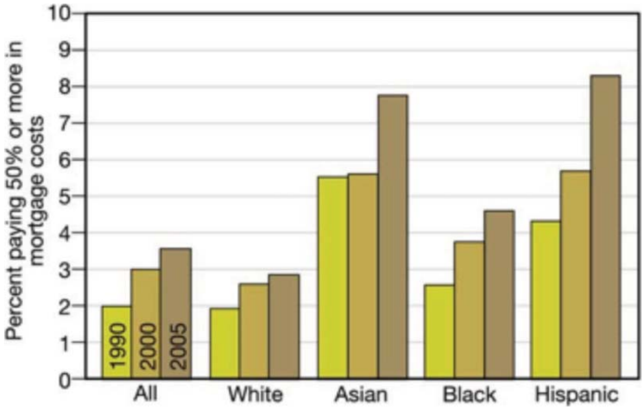

Figure 4. Measuring the mortgage burden. Source: Data from the US Census of Population and American Community Survey.

While the debt burden tells part of the story of the homeownership experiment, there is an equally important story about equity outcomes. Negative equity – the family owes more than the house is worth – was largely unchanged between 1999 and 2005. This is expected as it was a period of rapidly rising prices, and by association, assessed values. Many families had near or above 50% of home equity – they owned nearly half of their house (Table 5). However, by 2009 the proportion of families with negative equity had doubled, tripled or more than quadrupled and correspondingly the proportion with substantial equity had declined too.

Table 5. Percentage of negative equity and percentage of housing equity over 60% by race/ethnicity.

Year	*n*	Race/ethnicity	Negative equity	Equity over 60%
1999	4243	White	2.0	47.5
	2111	Black	5.0	43.8
	324	Hispanic	2.8	26.7
	319	Other	4.6	33.7
2005	4521	White	1.7	52.5
	2634	Black	3.4	40.5
	577	Hispanic	2.4	36.0
	270	Other	.7	45.8
2009	4745	White	6.0	43.3
	2978	Black	8.2	39.9
	668	Hispanic	18.1	31.9
	299	Other	11.7	27.0

Source: Panel Study of Income Dynamics 1999–2009.

Table 6. Percentage of negative housing equity by race/ethnicity and age.

Year	*n*	Race/ethnicity	<30 years	30–34 years	40–50 years
1999	4243	White	2.2	2.3	2.6
	2111	Black	8.2	6.3	4.9
	324	Hispanic	6.5	4.0	0
	319	Other	15.0	0	4.8
2005	4521	White	2.9	2.1	1.5
	2634	Black	10.5	3.8	3.8
	577	Hispanic	3.0	3.6	2.5
	270	Other	0	6.3	0
2009	4745	White	12.5	10.7	6.7
	2978	Black	15.5	14.8	8.3
	668	Hispanic	28.6	17.4	24.0
	299	Other	16.7	21.4	16.7

Source: Panel Study of Income Dynamics 1999–2009.

The outcome with respect to negative equity for families and households in the house buying and building ages – 30–35 years – were equally problematic. While the effects on low-income and younger households are expected, it is the effects on the middle-aged house buyers which have created a problematized housing market. By 2009, 15–20% of minority households had negative equity and even white households with higher incomes had 10% with negative equity (Table 6). After 2005 the normally strong relationship between permanent income and the house value became much weaker.

Many older households rather than downsizing or moving to rental units, in line with past patterns of ownership change during the life course, have maintained ownership, expecting continuing strong equity gains. The implications for the ownership society include – greater difficulty of homeowner entry, greater difficulty (or impossibility) in maintaining ownership in contexts where the family owes more than the house is worth (the 'underwater' households) and a low probability of a return to previous housing values.

Evaluating the experiment for low-income households

There are already a set of studies which suggest that there will be both short- and long-term implications of the housing crisis. Whitehead (2012a) documents the problems created by the housing crisis in Britain especially the fall in overall ownership rates and that younger households are remaining in renter-ship for longer periods. Still, she concludes that there will be a continuing demand for ownership because it is still favored in tax terms and governments can use ownership as a way of limiting their welfare expense. Blatt (2012) too suggests that short-term problems will be overcome

Table 7. Ownership and equity trajectories for low-income families.

			30–35 years <$25k			30–35 years $25–50k		
Year	*n*	Race/ ethnicity	% Own	% 30+ Mortgage	% Negative equity	% Own	% 30+ Mortgage	% Negative equity
1999	140	White	20.0	10.0	0	42.6	29.4	2.1
	166	Black	8.7	10.0	16.7	33.0	14.8	6.5
2005	156	White	21.4	62.5	0	46.0	22.5	8.7
	197	Black	8.0	40.0	16.7	22.0	13.3	19.0
2009	183	White	14.1	25.0	0	36.1	27.5	7.0
	239	Black	6.7	50.0	14.3	17.5	26.7	15.8

Source: Panel Study of Income Dynamics 1999–2009.

in the long run and that ownership will continue to be a driving force in the housing market. However, in the short run he suggests that we will experience an interruption to the American Dream if not its abandonment.

Just as minority and low-income families achieved a foothold on the wealth ladder (via housing), the GFC interrupted the path to ownership (Table 7). The table shows that there are difficult trajectories for younger African-American households who are in the prime homeowner entry ages. Families in the prime home entry ages (30–35 years) and with low incomes (under $25) were very unlikely to be owners and they lost ground. Similarly, low-income white households were unlikely to be owners and lost ground. It is the lower middle-income households ($25–$50) who exhibit the most stressed trajectories. Even during the price rise Black households lost ground – simply they were not able to enter the owner market during the rapid price rise of the first half of the 2000s. In the second half of the decade they lost ground in the ownership race and the proportion paying more than 30% on their mortgage, doubled. Their negative equity remained high (Table 7).

As an earlier table demonstrated, the initial ownership gains for low-income and minority households were significant but it is just those households, which have suffered from the housing bubble and equity extraction. For families who were already marginal homeowners the bubble and equity extraction will likely reverberate for another decade.

Conclusion – ownership as a social policy?

As an experiment, the push for the 'ownership society' was probably a policy that had a very low chance of success and the analysis refocuses attention on the overarching question of whether ownership as a society goal is sustainable and more broadly whether it should be a public policy goal (Davis, 2012). Certainly, the evidence from analyzing the homeownership experiment suggests that we should move with caution on attempts to expand ownership for low-income populations who struggle with meeting the needs for housing in general. The data from the analysis of equity and the amount spent on mortgages in low-income and minority households argue for considerable caution in trying to enlarge the homeowner population. There is no question as we have seen in this paper that the US housing policy has focused on promoting homeownership and neglected other alternatives for providing housing to society more generally. The challenge to a homeownership policy comes from those who question a policy which privileges mortgage interest deductions from income tax which go largely to people who would otherwise have less difficulty buying a home. The cost to US taxpayers of subsidizing mortgages may be as high as 2.5 trillion and Davis (2012) argues that these costs are never factored into conversations about fiscal policy. In addition, Davis (2012) argues that there is little hard evidence to support notions of increased housing security, better quality neighborhoods and greater neighborhood stability where ownership is high.

Unlike those European welfare societies which are experimenting with the balance of private ownership and social supported housing, it is unlikely that the USA will change course in any major way. However, the picture is complicated globally, for despite their welfare emphasis many European nations are already strongly ownership societies and the Netherlands and Germany which have strong social and private rental sectors are experiencing an ongoing shift toward ownership. Ownership will continue to be the major form of tenure fueled by tax policies in the USA and many European nations although there are attempts to cap the interest deductions in some contexts. The issue of course in the context of the favored status of ownership is how to provide for the increasing low-income and ethnic and minority populations which by now are significant proportions of inner-city populations in large US cities. The GFC in the housing market has only exacerbated what were already difficult issues in providing shelter for these households. The data show quite clearly that significant proportions of the low-income and minority populations who entered the market were not able to sustain ownership and lost their houses or have incurred substantial negative equity. At the same time while the tax subsidization of ownership is in place even an annual house appreciation rate of approximately 2% is enough for the median low-income homeowner to find owning no more costly than renting (Riley & Ru, 2011). And, homeownership is still a preferred tenure for low-income households who see it as providing not only stability but also access to good schools and better neighborhoods.

In some sense, housing and housing policy may be at a turning point (Whitehead, 2012b). There is a continuing and significant disjunction between median incomes and median housing prices such that significant numbers of lower income and even middle-income Americans will never be homeowners. The median housing prices are more than five times annual income in many large US metropolitan areas. Anecdotally, those who are becoming homeowners are young homeowners who are entering the housing market with substantial wealth transfers from their parents or grand-parents.

The outcome of this scenario is increasing inequality and division between native and often foreign-born populations. The continuing inflow of both high-income and low-income immigrants is further exacerbating inequality and divisions in the housing market. The new young and poorly educated immigrant population arrived at a time of changing labor market conditions, and has built up only modest equity either in housing or non-housing assets. In contrast, the older native born population, including a proportion of the baby-boomers, has much greater wealth, even with the changes in the housing market and are able to transfer this wealth selectively to their children. A possible outcome of the current uncertain housing market is an unequal housing market in the sense of who gets access to ownership which in turn exacerbates the increasing inequality in society as a whole.

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Notes

1. The Department of Housing and Urban Development in the US suggests that every new home creates 2.1 jobs directly and many more indirectly.
2. Several chapters in Clapham, Clark, and Gibb (2012), especially those by Bengtsson, Matznetter, and Mundt and Leishman and Rowley, examine the role of housing in the welfare state.
3. There are two strongly held positions on the way in which ownership was promoted. On one hand, a benign view of encouraging all segments of society to become owners, on the other hand a set of manipulations by the real estate and financial sectors to package and create mortgages without a concern for the ability of, especially low-income, households to sustain these mortgages (Clark, 2011).
4. Between 1995 and 2000 the increase in housing mortgage debt was stable. However, between 2000 and 2005 the increase was 4 billion. The effect of the expansion of consumer credit was to push the consumer credit outstanding debt from approximately 824 billion in 1990 to 2314 billion in 2005 (Table 1). In the same period, home mortgage debt increased from 2506 billion in 1990 to 8873 billion in 2005.
5. The housing values on which the study is based are self-reported home values and may reflect an unwillingness to revalue the house in the light of the housing collapse.

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