

# The Benefits of Homeownership

*Prepared by the National Association of Home Builders  
Housing Policy Department*

## The Benefits of Homeownership to Individuals and Households

Homeownership offers a wide range of benefits to individuals and households.<sup>1</sup> These include increased wealth accumulation, improved labor market outcomes, better mental and physical health, increased financial and physical health for seniors, reduced rates of divorce, and improved school performance and development of children. These beneficial financial and social outcomes are due to the stability offered by homeownership, as well as the incentives created by the process and responsibilities of becoming and remaining a homeowner.

Homeownership differs from renting with respect to two fundamental characteristics. Homeownership confers upon an individual or household a set of property rights for a dwelling. A homeowner thus possesses a financial stake, and a corresponding responsibility, in the status of the dwelling and its surroundings. Distinguishing homeownership from other forms of investment, this financial claim is defined by its fixed geographic location. Hence, a component of the financial responsibility associated with homeownership is a concern for a home's neighborhood. Moreover, for many homebuyers, the purchase of a home requires mortgage financing. Thus, unlike renters, homeowners with outstanding debt possess a long-term financial obligation that itself alters social and economic behaviors.

An important motivating factor in the pursuit of homeownership is the investment opportunity it offers for many families. Equity in a home constitutes a substantial proportion of a typical American family's wealth. Recent research indicates that equity in owner-occupied housing equals 44% of the net worth of white households and 61% for both African American and Hispanic households.<sup>2</sup> The return on after-tax equity for housing is attractive relative to other investments. Burbidge (2000) indicates the capital gain for housing for relatively low-wealth households, who muster a small downpayment, is higher as measured as return to equity invested.<sup>3</sup> Furthermore, investment in housing serves to diversify a household's total investment portfolio.<sup>4</sup> Homeownership also shields households from the risk of large increases in rental prices.<sup>5</sup>

Preparing for and obtaining homeownership also offers significant advantages for the savings behavior of households. In general, economic theory suggests that young households are poor savers. However, the act of buying a home encourages a young household to save to pay for a downpayment on a home and other relocation costs.<sup>6</sup> Haurin *et al.* (1996) indicate that households preparing to purchase a home increase their labor supply, thereby increasing household income.<sup>7</sup>

In addition to increasing labor force participation, homeownership appears to have other positive effects on job market outcomes. Studies of homeowning households reveal a higher level of job market participation by women, including mothers.<sup>8</sup> Coulson and Fisher (2002) indicate that homeowners are less likely to become

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<sup>1</sup> R.D. Dietz and D.R. Haurin, The social and private micro-level consequences of homeownership, *Journal of Urban Economics* 54 (2003) 401-50.

<sup>2</sup> G. W. McCarthy, S. Van Zandt, W. M. Rohe, The economic benefit and costs of homeownership: a critical assessment of the literature, Research Institute for Housing America, Working Paper No. 01-02 (2001).

<sup>3</sup> A. Burbidge, Capital gains, homeownership and economic inequality, *Housing Studies* 15 (2000) 259-280.

<sup>4</sup> R. G. Ibbotson, L. B. Siegel, Real estate returns: A comparison with other investments, *AREUEA Journal* 12 (1984) 219-242.

<sup>5</sup> P. F. Colwell, Risk reduction through homeownership, *Illinois Real Estate Letter*, Winter, 1992. T. M. Sinai, N. Souleles, Owner occupied housing as insurance against rent risk, Wharton School, University of Pennsylvania, Working Paper (2003).

<sup>6</sup> J. K. Brueckner, The downpayment constraint and housing tenure choice: A simplified exposition, *Regional Science and Urban Economics* 16 (1986) 519-525.

<sup>7</sup> D. R. Haurin, P. H. Hendershott, S. M. Wachter, Wealth accumulation and housing choices of young households: An exploratory investigation, *Journal of Housing Research* 7 (1996) 33-57.

<sup>8</sup> H. Yoshikawa, F. Ohtake, An analysis of female labor supply, housing demand and the saving rate in Japan, *European Economic Review* 33 (1989) 997-1023.

J. M. Joesch, Children and the timing of women's paid work after childbirth: A further specification of the relationship, *Journal of Marriage and the Family* 56 (1994) 429-440.

unemployed.<sup>9</sup> Goss and Philips (1997) note that homeownership reduces the duration of unemployment because of the need to pay a mortgage and the available resources offered by housing equity to conduct an efficient job search.<sup>10</sup> Improved job market success also furthers a virtuous cycle with respect to household wealth accumulation.

Research in the social sciences and medical field has often noted the benefits offered by homeownership with respect to the mental and physical health of household members. Numerous studies find that homeowners have better health and greater life expectancy than renters.<sup>11</sup> Homeowners tend to better maintain their dwellings, and this effect may be responsible for the observed benefit on physical health.<sup>12</sup> As noted earlier, homeowners are more likely to reside in an area over a longer period of time, thereby increasing the knowledge of health services, particularly in neighborhoods of homeowners, in which case health services provision is found to be more effective.<sup>13</sup> Homeowners are also more likely to have greater resources, in terms of housing equity, to draw upon in times of medical need.<sup>14</sup>

Rossi and Weber (1996) report that homeownership has a positive effect on emotional and mental health. For example, the experience of owning a home has an effect on the perception that an individual possesses about self, home, and community. Consequently, purchasing a home produces for the homeowner higher levels of confidence and self-esteem.<sup>15</sup> Confirming this finding, other studies have found that homeowners report higher levels of life satisfaction.<sup>16</sup>

Homeownership provides significant advantages for seniors. As noted earlier, a significant proportion of a household's wealth is in the form of equity of owner-occupied housing. This wealth provides significant advantages in retirement. Mayer and Simons (1994) indicate that equity in the home and the use of a reverse mortgage could increase liquidity for senior households by as much as 200%.<sup>17</sup> Green and Ondrich (1990) note that homeownership seniors are less likely to require long-term care in a nursing home, and if needed, are more likely to exit such facilities.<sup>18</sup>

Homeownership improves the strength of families by reducing the probability of divorce.<sup>19</sup> Bracher *et al.* (1993) attribute this positive effect to the financial and residential stability offered by homeownership.<sup>20</sup> This effect may also be related to the increased life satisfaction reported by homeowners, as noted earlier.

Among the social benefits of homeownership, the impact on a household's children is potentially the most far reaching. The set of impacts favorably affected by homeownership includes health, school performance, graduation rates, probability of teen pregnancy and other behavior measures.<sup>21</sup> In addition to a reduced

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N. M. Fortin, Allocation inflexibilities, female labor supply, and housing assets accumulation: Are women working to pay the mortgage, *Journal of Labor Economics* 13 (1995) 524-557.

<sup>9</sup> N. E. Coulson, N. M. Fisher, Tenure choice and labor market outcomes, *Housing Studies* 17 (2002) 35-49.

<sup>10</sup> E. P. Goss, J. M. Phillips, The impact of homeownership on the duration of unemployment, *Review of Regional Studies* 27 (1997) 9-27.

<sup>11</sup> S. Macintyre, A. Ellaway, G. Der, F. Graeme, K. Hunt, Do housing tenure and car access predict health because they are simply markers of income or self-esteem? A Scottish study, *Journal of Epidemiology and Community Health* 52 (1998) 657-664.

<sup>12</sup> S. A. Robert, J. S. House, SES differentials in health by age and alternative indicators of SES, *Journal of Aging and Health* 8 (1996) 359-388.

<sup>13</sup> M. Shaw, D. Dorling, N. Brimblecombe, Life chances in Britain by housing wealth and for the homeless and vulnerably housed, *Environment and Planning A* 31 (1999) 2239-2248.

<sup>14</sup> D. Baker, H. Taylor, Inequality in health and health service use for mothers of young children in south west England, *Journal of Epidemiology and Community Health* 51 (1997) 74-79.

<sup>15</sup> Rasmussen *et al.* [206]

<sup>16</sup> P. H. Rossi, E. W. Weber, The social benefits of homeownership: Empirical evidence from national surveys, *Housing Policy Debate* 7 (1996) 1-35.

<sup>17</sup> S. Lane, J. Kinsey, Housing tenure status and housing satisfaction, *Journal of Consumer Affairs* 14 (1980) 341-65.

<sup>18</sup> W. M. Rohe, M. A. Stegman, The impacts of homeownership on the self esteem, perceived control and life satisfaction of low-income people, *Journal of the American Planning Association* 60 (1994) 173-184.

<sup>19</sup> C. J. Mayer, K. V. Simons, Reverse mortgages and the liquidity of housing wealth, *AREUEA Journal* 22 (1994) 235-55.

<sup>20</sup> V. L. Greene, J. I. Ondrich, Risk factors for nursing home admissions and exits: A discrete time-hazard function approach, *Journals of Gerontology* 45 (1990) S250-S258.

<sup>21</sup> F. Finnas, Economic determinants of divorce in Finland, *Ekonomiska Samfundets Tidskrift* 53 (2000) 121-132.

<sup>22</sup> M. Bracher, G. Santow, S.P. Morgan, J. Trussell, Marriage dissolution in Australia – models and explanations, *Population Studies* 47 (1993) 403-425.

<sup>23</sup> T. P. Boehm, A. M. Schlottman, Does homeownership by parents have an economic impact on their children? *Journal of Housing Economics* 8 (1999) 217-232.

probability of divorce, social scientists have suggested several reasons why homeownership status for a household improves this set of outcomes for children. First, becoming a homeowner requires skills and characteristics that are useful for parenting.<sup>22</sup> Other skills, such as financial sophistication and job market success, become observed behavior and are passed to children. Homeowners tend to reside in a location for a longer period of time, and this stability helps parents monitor and mentor children. Finally, as stakeholders in the community, homeowners are concerned with their property values, and this incentive leads homeowners to be concerned with the activities of their own children, their peers, and those institutions responsible for children's development and growth.<sup>23</sup>

### **Social Benefits to the Community**

Because homeowners have a significant stake in their neighborhoods, they tend to behave in ways that generate social benefits for the communities they live in. The social science research literature detailing the impacts of homeownership includes studies from the social sciences, medicine, psychology, and other fields. Overall, economists, sociologists and other social scientists have found significant, positive homeownership-related impacts on a large set of outcomes associated with households and communities.<sup>24</sup>

Their stakeholder status encourages homeowners to take an active role in bettering their environment. Research in the social science indicates that homeowners are more likely to maintain and improve their homes and be involved in local social and political organizations and activities. As a result, communities with large numbers of homeowners possess increased public amenities, reduced crime and greater environmental awareness.

It has long been argued that owner-occupiers of housing maintain their dwellings better than renters.<sup>25</sup> Henderson and Ioannides (1983) cite the rental externality as being responsible for this effect.<sup>26</sup> Owners have a vested stake in both the living environment of their property, as well as the potential resale value. Renters in general do not share the resale concern. Consequently, homeowners are more likely to maintain and improve the structure of their home and the landscaping and other associated characteristics of the lot itself.<sup>27</sup> As a result, neighborhoods of homeowners tend to be better maintained, leading to more attractive and safer properties.

To the benefit of their neighborhoods, homeownership households are more socially involved in community affairs than their renting counterparts. This is due to both the fact that homeowners expect to remain in the community for a longer period of time and that homeowners have an ownership stake in the neighborhood. DiPasquale and Glaeser (1999) find that homeownership has a positive impact on the provision of a variety of types of social capital including membership in non-professional organizations, knowledge of local officials, voting in local elections, involvement with community problems, church attendance and home security.<sup>28</sup>

Other studies have confirmed this positive impact of homeownership on social outcomes and political involvement. One consistent finding concerning homeownership is that homeowners tend to vote more than

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C. Jencks, S. E. Mayer, The social consequences of growing up in a poor neighborhood, in: L. E. Lynn Jr. and M. G. H. McGeary (Eds.), *Inner City Poverty in the United States*, National Academy Press, Washington, DC, 1990, pp. 111-186.

I. G. Ellen, M. A. Turner, Does neighborhood matter? Assessing recent evidence, *Housing Policy Debate* 8 (1997) 833-866.

J. Essen, K. Fogelman, J. Head, Childhood housing experiences and school attainment, *Child Care, Health, and Development* 41 (1978) 41-58.

<sup>22</sup> R. K. Green, M. J. White, Measuring the benefits of homeownership: Effects on children, *Journal of Urban Economics* 41 (1997) 441-461.

<sup>23</sup> D. R. Haurin, T. L. Parcel, R. J. Haurin, The impact of homeownership on child outcomes, in: N. Retsinas and E. S. Belsky (Eds.), *Low-Income Homeownership: Examining the Unexamined Goal* Brookings Institution Press, Washington, DC, 2002, pp. 427-446.

D. R. Haurin, T. L. Parcel, R. J. Haurin, Does homeownership affect child outcomes? *Real Estate Economics* 30 (2002) 635-666.

<sup>24</sup> Two recent, comprehensive literature reviews detailing the impacts of homeownership are:

W. M. Rohe, G. McCarthy, S. Van Zandt, *The social benefits and costs of homeownership: A critical assessment of the research*, Research Institute for Housing America, Working Paper No. 00-01 (2000).

R. Dietz and D. Haurin, The social and private micro-level consequences of homeownership, *Journal of Urban Economics* 54 (2003) 401-50.

<sup>25</sup> N. S. Mayer, Rehabilitation decisions in rental housing: An empirical analysis, *Journal of Urban Economics* 10 (1981) 76-94.

<sup>26</sup> J. V. Henderson, Y. M. Ioannides, A model of housing tenure choice, *American Economic Review* 73 (1983) 98-113.

<sup>27</sup> S. J. South, G. D. Spitze, Housework in marital and nonmarital households, *American Sociological Review* 59 (1994) 327-347.

<sup>28</sup> D. DiPasquale, E. L. Glaeser, Incentives and social capital: are homeowners better citizens? *Journal of Urban Economics* 45 (1999) 354-384.

renters. Drier (1994) finds that the homeowner voter participation rate is 69%, while corresponding rate for renters is 44%.<sup>29</sup> Blum and Kingston (1984) report that homeowners are more likely to participate in voluntary organizations and interact in informal social networks.<sup>30</sup> In later work, Kingston and his coauthors find that homeowners are more likely to vote in presidential elections.<sup>31</sup>

Homeowners are more involved in community activism and local affairs than renting households.<sup>32</sup> Furthermore, homeowners are also more likely to voice dissatisfaction to local government and political agencies. Perkins *et al.* (1996) demonstrate that homeowners are more likely to be involved in grassroots community organizations.<sup>33</sup> Homeowners are likely to be sensitive to local activities that generate negative externalities or spillover costs. Indeed, these households are more likely to participate in political activity to prevent the location of such nuisance activities in their communities. Consistent with this result, Mansfield *et al.* (2001) find that homeownership leads to increased land use controls to prevent negative externalities.<sup>34</sup>

Concern with community quality is clearly linked to environmental awareness. Few studies of the impact of homeownership on this issue exist, although given both the reduced mobility and financial stake that homeowners possess, it is reasonable to expect that homeowners have a greater interest in the environmental quality of their residential neighborhoods. For example, Mainieri *et al.* (1997) report that homeowners are more likely than their renting neighbors to recycle. Moreover, the authors also argue that homeowners are more likely to be knowledgeable about local environmental concerns.

Social involvement or the production of social capital involves a wide set of activities including religious attendance, informal social networks and local volunteer organizations. These institutions perform many social roles that government cannot or is not willing to perform. Homeowners constitute the primary source of support for such organizations. They are more likely to belong to a church or community organization.<sup>35</sup> Homeowners are more likely to be involved in community or neighborhood block associations, often known as homeowners associations. In a sociological study, Fischer (1982) finds that homeowners are friendlier and more socially communicative with their neighbors than renters, and thus more likely to participate in collective causes.<sup>36</sup> In a similar vein, Glaeser and Sacerdote (2000) find that residents of smaller dwellings are more socially and politically involved in their communities than inhabitants of large residential complexes.<sup>37</sup> Although not an impact of homeownership *per se*, the authors note a high correlation between single-family dwellings and homeownership.

Another social impact of homeownership is the likelihood of suffering from crime. A review of the research concerning the determinants crime reveals that homeownership status for a household or individual reduces their likelihood of suffering a loss from criminal activity. For example, Alba *et al.* (1994) examine the incidence of property and violent crime in the suburbs of the metropolitan area of New York City.<sup>38</sup> Among their findings, the authors report that homeownership status significantly reduces a household's incidence of crime. Indeed, homeownership proves to be the second most powerful variable, income being the first, for explaining the incidence of crime. In another study, Glaeser and Sacerdote (1999) examine city crime rates using FBI data.<sup>39</sup> Their analysis indicates that homeowners have significantly less risk of being subject to a violent assault.

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<sup>29</sup> P. Drier, Start your engines: the housing movement and the motor voter law, *Shelterforce* 17 (1994) 10-11.

<sup>30</sup> T. C. Blum, P. W. Kingston, Homeownership and social attachment, *Sociological Perspectives* 27 (1984) 159-180.

<sup>31</sup> P. W. Kingston, J. Fries, Having a stake in the system: The sociopolitical ramifications of business and homeownership, *Social Science Quarterly* 75 (1994) 679-686.

P. W. Kingston, J. Thompson, D. Eichar, The politics of homeownership, *American Politics Quarterly* 12 (1984) 131-150.

<sup>32</sup> K. R. Cox, Housing tenure and neighborhood activism, *Urban Affairs Quarterly* 8 (1982) 107-29.

<sup>33</sup> D. D. Perkins, B. B. Brown, R. B. Taylor, The ecology of empowerment: Predicting participation in community organizations, *Journal of Social Issues* 52 (1996) 85-110.

<sup>34</sup> C. Mansfield, G. L. Van Houtven, J. Huber, The efficiency of political mechanisms for siting nuisance facilities: Are opponents more likely to participate than supporters? *Journal of Real Estate Finance and Economics* 22 (2001) 141-161.

<sup>35</sup> Homenuck, H.P.M., A Study of High Rise: Effects, Preferences, and Perceptions, Institute of Environmental Research, Inc., (1973).

<sup>36</sup> C. S. Fischer, *To Dwell among Friends: Personal Networks among Town and City*, University of Chicago Press, Chicago, 1982.

<sup>37</sup> E. L. Glaeser, B. I. Sacerdote, The social consequences of housing, *Journal of Housing Economics* 9 (2000) 1-23.

<sup>38</sup> R. D. Alba, J. R. Logan, P. E. Bellair, Living with crime: The implications of racial/ethnic differences in suburban location, *Social Forces* 73 (1994) 395-434.

<sup>39</sup> E. L. Glaeser, B. I. Sacerdote, Why is there more crime in cities? *Journal of Political Economy* 107 (1999) S225-S258.

Homeownership also has positive impacts on communities in distress. South and Crowder (1997) report that homeowners are significantly less likely to relocate away from a distressed neighborhood.<sup>40</sup> Given the benefits to a community produced by stakeholding homeowners, this reduction in mobility improves the prospects for the community's ultimate recovery and growth.

Many of the impacts associated with homeownership implicitly describe social positive externalities or spillover benefits for the neighborhood of the homeowner. Homeownership is thus an important factor in the research concerning neighborhood effects.<sup>41</sup> It well established that an important determinant of a home's value, and thus a homeowner's wealth, is the desirability of the home's neighborhood. Interdependencies such as these are known as neighborhood effects. However, the term neighborhood effects also incorporates peer effects. In many social settings, the neighborhood effects research indicates that individuals' behavior is in part determined by their peers. Hence, if homeownership produces positive consequences for a surrounding neighborhood, then a community's homeownership rate is an important factor in determining social outcomes in the neighborhood.<sup>42</sup> A subtle but important point derives from these studies; namely, that the neighborhood homeownership rate is capable of producing distinct impacts separate from the mere aggregation of individual homeowner impacts. To the benefit of the community, this conclusion is consistent with social multipliers or the non-linearity of neighborhood effects associated with homeownership.

For example, homeowners are more likely to be involved in formal and informal community organizations. This membership is a form of social capital, which is an input for the community organizations that supply local public goods. The higher the proportion of homeowners in a community, the more successful these organizations are. Hence the community or neighborhood homeownership rate should also be an important determinant in social outcomes and consequently be reflected in community housing prices. Coulson *et al.* (2002) provide an initial confirmation of the manifestations of this process.<sup>43</sup> They find that robust estimation yields a positive impact on house prices for the ownership rate of a neighborhood. This finding suggests that in addition to the household impacts of homeownership, there is a distinct impact due to the community rate of homeownership.

With respect to homeownership and social outcomes, the existence of neighborhood effects has policy implications. If homeownership generates neighborhood effects, then optimal clustering or dispersion of owning households in residential neighborhoods may increase social welfare. It is too early in the research process to specify what these optimal conditions are, but it is clear that policies that promote homeownership in general will produce positive social externalities to the benefit of the surrounding neighborhood and community.

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<sup>40</sup> S. J. South, K. D. Crowder, Escaping distressed neighborhoods: Individual, community, and metropolitan influences, *American Journal of Sociology* 102 (1997) 1040-1084.

<sup>41</sup> D. R. Haurin, R. D. Dietz, B. A. Weinberg, The impact of neighborhood homeownership rates: A review of the theoretical and empirical literature, *Journal of Housing Research* 13 (2002) 119-151.

<sup>42</sup> This is known as a contextual neighborhood effect. R. D. Dietz, The estimation of neighborhood effects in the social sciences: An interdisciplinary approach, *Social Science Research* 31 (2002) 539-575.

<sup>43</sup> N. E. Coulson, N. M. Fisher, Tenure choice and labor market outcomes, *Housing Studies* 17 (2002) 35-49.