

Guest Editor's Introduction

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This issue of *Cityscape* is the second of a two-part series that focuses on a selection of recent research on low-income and minority homeownership presented at symposiums that the U.S. Department of Housing and Urban Development, Office of Policy Development and Research, sponsored in 2005 and 2006. The first part of the series appeared in an issue of *Cityscape* (volume 9, number 2) released in the summer of 2007 that focused on identifying and understanding the major causes of the racial and income gaps in homeownership. That research confirmed that downpayment and closing cost constraints continue to be the greatest obstacles to homeownership for many households and that efforts such as the American Dream Downpayment Initiative and more reliable disclosures of loan terms and settlement fees to aid comparison-shopping could help households reduce these hurdles.

This second part of the series looks beyond the initial challenge of becoming a homeowner and examines the homeownership experience of low-income and minority households over time. Although much attention has been devoted to achieving homeownership, far less has been directed to the homeownership experiences of lower income and minority households after they achieve homeownership and whether their experiences differ from those of higher income households. For example, do the benefits of homeownership for low-income households differ from the traditional benefits generally found for homeowners? How do their experiences in terms of housing, family, and financial outcomes compare with those of similarly situated renters? Can lower income households sustain homeownership? Are lower income or minority households more likely to purchase older houses, and does the purchase of older homes lead to higher repair and maintenance costs? Do the houses that low-income or minority households buy appreciate in value at the same rate as houses purchased by higher income households? The articles in this issue address these questions and others.

In This Issue

The articles in this issue of *Cityscape* confirm that low-income and minority households are making good initial choices in the homes they buy and that they are obtaining good-quality housing in decent neighborhoods. Lower income and minority homeowners are as likely as others to gain from home value appreciation and reap the traditional benefits of homeownership; however, a higher proportion of these households face higher payment burdens and are more likely than higher income and nonminority households to return to being renters.

The issue begins with Christopher E. Herbert and Eric S. Belsky's review and synthesis of literature in "The Homeownership Experience of Low-Income and Minority Households: A Review and Synthesis of the Literature," which was redrafted to note recent experience through 2007. Their review reveals that lower income and minority homeowners are as likely as others to benefit from homeownership and just as likely as other owners to see their homes appreciate in value. Moreover, the authors find that there is some evidence that homeowners benefit from improved psychological and physical health and their children exhibit a greater degree of success along various dimensions.

Herbert and Belsky also examine the topic of "Initial Housing Choices Made by Low-Income and Minority Homebuyers," as reflected in tabulations from the American Housing Surveys (AHSs) from 1991 through 2003, with some information on housing costs and mortgage choices updated from the 2005 AHS. They find that the housing lower income homebuyers occupy and the neighborhood conditions they experience are similar to the housing and neighborhoods of the average U.S. household and better than the housing and neighborhoods of lower income renters. The authors also find indications of an increase in the number of buyers exposed to the risk of default, particularly as reflected in a growing share of low-income first-time homebuyers who are devoting more than one-half of their income to housing costs. On a positive note, Herbert and Belsky find that low-income and minority buyers do not appear to face significantly higher interest rates at the time of purchase compared with other buyers.

The third article, "Housing Tenure, Expenditure, and Satisfaction Across Hispanic, African-American, and White Households: Evidence From the American Housing Survey," by Thomas P. Boehm and Alan Schlottman, combines the 1998, 2002, and 2004 metropolitan statistical area samples of the AHS to examine the housing costs and levels of satisfaction with both the dwelling and neighborhood quality experienced by Hispanic, African-American, and White renter, owner, and recent-mover households. The authors find that homeowners clearly view their dwellings and neighborhoods more highly than is true for renters and that low-income households, particularly Hispanics, have the largest differentials between renters' and owners' average rankings of neighborhood and dwelling structural quality. Boehm and Schlottman also find that Hispanic households, particularly those with low incomes, have higher levels of mortgage debt and monthly housing expense than is true of White households, despite having lower house values. They note, however, that the mortgage debt for Hispanic recent movers is much closer to that of their White counterparts, raising the question of whether the differentials in terms and use of mortgage financing—for example, junior mortgages, home equity loans, refinancing loans, less financial expertise in obtaining loans—might explain the wider differentials generally observed.

Boehm and Schlottmann also consider the experience of homeowners living in manufactured housing in the article, "Is Manufactured Owned Housing a Good Alternative for Low-Income Households? Evidence From the American Housing Survey." Using 1993-through-2001 AHS data, they explore the merits of manufactured owned housing in comparison with rental housing and traditional owned housing as a housing option for low-income families. The authors find that, contrary to stereotypical notions, manufactured housing has higher average quality rankings across both the neighborhood and structural dimensions of housing services when compared with rental units (even when controlling for metropolitan and nonmetropolitan location). Moreover, factors that contribute to lower structural quality or lower neighborhood quality and changes in those

quality measures over time are similar between manufactured owned housing and traditional owned housing. In addition, they find that when the land is owned, manufactured housing can yield appreciation similar to that of conventional housing. The authors note significant variation in rates of appreciation across manufactured units, however, which may indicate these homes have greater investment risk than is true of traditional owned housing.

Finally, Boehm and Schlottmann examine the importance of housing and nonhousing sources of wealth accumulation for low-income households in the article, "Wealth Accumulation and Homeownership: Evidence for Low-Income Households." The authors use a geographically detailed version of the Panel Study of Income Dynamics in combination with 1990 and 2000 Census tract data to identify the relative differences in house price appreciation that might be expected to occur in different high-income and low-income neighborhoods in different locations across the country over a 9-year period. They find that, even though homeownership is not a guarantee of successful wealth accumulation, homeownership in general contributes positively to household wealth and may be the only source of wealth for low-income households for which nonhousing wealth accumulation is at best minor. They note, however, that owners often made the transition back to renting and, particularly for low-income minority households, did not regain owner-occupied housing during the period studied.

Conclusion

Home purchases by low-income households increased dramatically over the past two decades because of more flexible underwriting and expanded homeownership programs and as a result of a booming economy and historically low interest rates. The articles in this issue of *Cityscape* confirm that low-income and minority households have been making good initial choices in the homes they buy and that they are obtaining good-quality housing in decent neighborhoods. Lower income and minority homeowners are as likely as other homeowners to gain from house value appreciation and reap the traditional benefits of homeownership. Perhaps not surprisingly, the evidence also confirms that a higher proportion of these households face higher payment burdens, which make them more likely than higher income and nonminority households to return to being renters. This finding underscores how critical the preparation for and timing of home purchase and the choice of mortgage products can be for the long-term success of homeownership, particularly for those with little margin for error. It highlights the importance of homeownership counseling and other programs aimed at helping households make the right choices before they purchase a home and helping them maintain homeownership after they purchase. The finding also underscores the importance and shared responsibility of realistic homebuyers, considerate and scrupulous industry practitioners, and appropriate regulation for successful homeownership. One need only look to the recent upheaval in the housing and financial markets to observe the severe damage that can follow when one or more of these elements are missing.

