



OWNERSHIP AND OPPORTUNITY

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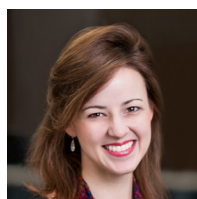
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Acknowledgments and Bios

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Introduction

Charles Blain

The middle-class way of living is under constant threat as housing costs increase, eating away larger shares of the average American's income.

Homeownership, which has been a critical source of advancement for middle-class, immigrant, and ethnic minority families and an asset that people can pass down from one generation to the next, is under threat. For many families, this means that instead of building wealth, they are seeing opportunity erode before their eyes.

As housing costs are the biggest driver of variation in living costs across metropolitan areas, the relentless housing cost increases of the last two decades have undermined standards of living for many Americans in the nation's most expensive cities. If home prices continue to outpace household incomes for ordinary Americans in coming years, the American Dream will move ever further out of reach for millions of families. This is especially the case for Millennials and Gen Zers for whom high and rising housing costs are the single largest obstacle to accumulating wealth and achieving a financially sustainable life.

The COVID-19 crisis presents America with enormous challenges, but also new opportunities to move forward in rethinking policy on the future of housing and work to improve affordability and advance opportunity – particularly for our most disadvantaged communities.

A fresh policy agenda can breathe new life into the American Dream and protect middle-class standards of living. This agenda should prioritize new housing supply at all price points, particularly in growing, high-opportunity places. Cities should relax urban containment policies that have had the clear effect of making urban real estate scarce and expensive. State governments should reform tax codes that make it more cost effective to leave land stagnant than to build upon it.

If we want to protect the ability to climb the socioeconomic ladder from one generation to the next, we must face the crisis of unaffordable housing and declining homeownership. We must protect the biggest opportunity for advancement and scale back the rules and regulations that continue to snatch this opportunity away from millions of Americans.

When Opportunity Stalls

Homeownership, Intergenerational Wealth Accumulation, and Clearing a Clog in the American Dream

J.H. Cullum Clark and Anne Snyder

Talk to Americans in their younger twenties today, and you'll find a disturbingly common shrug towards the future. Years of wear and tear from the pressures of social media, proliferating distrust in institutions,¹ immense student debt, and a general sense of loneliness – now intensified by the COVID-19 pandemic – come to a head in this now-popular declaration: "I don't want to bring kids into this world."²

One cause of growing hopelessness is the sense that economic mobility has slowed. Only about one in three parents anticipate the next generation being better off than their own, a far cry from American optimism of yore. Ninety percent of Americans born in 1940 ended up earning more than their parents, but only 50% to 60% percent of those born in 1980 have ended up with higher income than their parents.³

“

Achieving the American Dream for the next generation increasingly feels like entitlement for the privileged, rather than a reasonable aspiration for most people. And one major factor squeezing young Americans' fortunes? The upward spiral in housing costs.

”

Falling home ownership among Millennials – and why it matters

Nothing shows this stress more than the tremendous decline in homeownership rates among millennials. As Table 1 illustrates, homeownership rates for Millennials are approximately 24% below the levels attained by the previous three generations in their 20s and 30s.

Table 1. The only generation with a lower young-adult homeownership rate than millennials was the Greatest Generation

| | | 2017 | 2010 | 2000 | 1990 | 1980 | 1970 | 1960 | 1950* | 1940 |
|-------------|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Millennials | Age Ranges | 30-36 | 20-29 | | | | | | | |
| | White advantage** | 2.57 | 2.74 | | | | | | | |
| | Black homeownership rate | 22.4 | 11.9 | | | | | | | |
| | White homeownership rate | 57.7 | 32.7 | | | | | | | |
| | Overall homeownership rate | 47.5 | 27.1 | | | | | | | |
| Gen X | Age Ranges | 40-46 | 30-39 | 20-29 | | | | | | |
| | White advantage** | 1.84 | 2.04 | 2.08 | | | | | | |
| | Black homeownership rate | 39.1 | 31.1 | 16.5 | | | | | | |
| | White homeownership rate | 71.7 | 63.4 | 34.4 | | | | | | |
| | Overall homeownership rate | 62.1 | 53.5 | 29.2 | | | | | | |
| Boomers | Age Ranges | 60-66 | 50-59 | 40-49 | 30-39 | 20-29 | | | | |
| | White advantage** | 1.49 | 1.50 | 1.53 | 1.90 | 2.04 | | | | |
| | Black homeownership rate | 55.1 | 53.6 | 50.5 | 33.7 | 19.3 | | | | |
| | White homeownership rate | 82.2 | 80.5 | 77.4 | 63.8 | 39.4 | | | | |
| | Overall homeownership rate | 76.8 | 75.0 | 71.1 | 57.7 | 35.7 | | | | |
| Silent | Age Ranges | 80-86 | 70-79 | 60-69 | 50-59 | 40-49 | 30-39 | 20-29 | | |
| | White advantage** | 1.16 | 1.29 | 1.33 | 1.41 | 1.48 | 1.87 | 2.54 | | |
| | Black homeownership rate | 68.9 | 65.5 | 63.4 | 58.8 | 54.4 | 36.1 | 14.4 | | |
| | White homeownership rate | 79.6 | 84.4 | 84.6 | 82.6 | 80.4 | 67.4 | 36.5 | | |
| | Overall homeownership rate | 77.3 | 80.8 | 80.5 | 78.2 | 75.7 | 62.4 | 33.8 | | |
| Greatest | Age Ranges | - | 90-99 | 80-89 | 70-79 | 60-69 | 50-59 | 40-49 | 30-39 | 20-29 |
| | White advantage** | - | 0.96 | 1.15 | 1.25 | 1.34 | 1.47 | 1.78 | - | 2.40 |
| | Black homeownership rate | - | 65.1 | 64.0 | 62.4 | 59.0 | 51.5 | 39.8 | - | 7.3 |
| | White homeownership rate | - | 62.4 | 73.4 | 77.7 | 79.2 | 75.7 | 70.9 | - | 17.4 |
| | Overall homeownership rate | - | 62.3 | 72.1 | 75.7 | 76.5 | 72.9 | 67.4 | - | 16.4 |

Source: U.S. Census microdata 1940-2017

*Homeownership data for the 1950 Census unavailable.

** White advantage refers to the White homeownership rate / Black homeownership rate.

***Cases for the Greatest Generation, as defined by our age cohorts, not available in the 2017 ACS microdata (i.e., no cases fell in the age range of 100-109 years old).

Since the mid-20th century, homeownership has been a linchpin of advancement from one generation to the next. Like the yeoman farmstead in America's past, homeownership has provided American families with a sense of stability and rootedness that makes an enormous difference to the prospects for their kids.

Decades of evidence show that a moderate degree of asset ownership – whether it's a home, a savings account, or a small business – provides an irreplaceable rung on the ladder to a stable place in the middle class. Households accumulate assets to prepare for lumpy expenses like college tuition and medical bills. Studies show that even a small stock of savings makes a big difference to the well-being of lower-income families experiencing a financial setback, a critical concern anytime but especially today.⁴

Homeownership in particular provides a critical hedge against rising housing costs. Having such a hedge has turned out to be pivotal to American households over the last two decades. Median rents nationwide have surged 32% in constant dollars since 2001, and far more in most fast-growing largebig metro areas. Median real wages, meanwhile, have grown much more slowly. Consequently, homeowners are in a much better position to manage their housing costs today than renters of similar income levels. No surprise then that roughly half of all current renters would like to own instead.⁵

In the long run – and this point is critical to America’s racial equity challenges – homeownership promotes household wealth-building. In theory, a family could always rent a home and redirect the money they would have invested in a down payment to stocks and bonds. In practice, careful studies in the United States and elsewhere have shown that homeowners accumulate greater net wealth over time – even greater non-housing wealth – than otherwise similar renters.⁶

One key reason: required payments on a mortgage effectively force homeowners to build equity in their home over time, overcoming some of the behavioral challenges in the way of wealth accumulation. Another: while typical appreciation in house values, is relatively low after taxes and maintenance, homeowners generally borrow most of the cost of purchasing a home, which they can’t do with liquid assets. Net returns on a homeowner’s 20% down payment are at least equivalent to returns on a portfolio of stocks and bonds, on average.⁷

Growing evidence suggests something still more powerful at work, namely, mindset and behavior change. Studies from various countries suggest that lower-income families who become homeowners are more likely to make long-term investments than otherwise comparable families, in their property but also in stocks and businesses.⁸ Accumulated savings and equity in homes are also the most important funding sources for startup companies.⁹

What’s more, these economic benefits translate directly to better upward mobility for the next generation. The children of homeowner families are likely to achieve more years of education, experience fewer behavioral problems at school, and avoid teen pregnancy, compared to otherwise similar kids from renter households.¹⁰ Lower-income Black children who change schools less often because of family moves perform better academically than kids suffering greater housing instability.¹¹ And a University of Pittsburgh study demonstrates that even a small degree of family asset ownership makes a big difference in whether a young person attends college.¹² Habitat for Humanity has compiled a comprehensive, multi-decade set of studies confirming that families who own their own home have better health and educational outcomes and are more likely to vote and volunteer in school and community events.¹³

When a family owns their home, benefits also spill over to the wider community. A variety of studies show that neighborhoods with relatively high homeownership rates experience higher civic engagement, less resident turnover, greater property appreciation, and less high-displacement gentrification.¹⁴

Historians have established that many of the “slums” that authorities in New York, Chicago, and elsewhere razed in the 1940s and 1950s to make way for public housing projects – neighborhoods characterized by poverty but also high ownership rates – were actually dynamic, cohesive Black communities that promoted upward mobility for the people who grew up there. The rental projects that replaced them, in stark contrast, were cauldrons of social decay.¹⁵

Some critics dismiss policies to promote homeownership as outdated, but the main arguments they advance don’t stand up to scrutiny. One argument, popular after the 2008 financial crisis, is that ownership makes it harder for a family to move for career reasons, particularly if their home has declined in value. But recent research shows that families who were “underwater” on their mortgage after the crisis were just as likely to move for work opportunities as renters.¹⁶

An even weaker argument, in vogue among some progressive housing advocates, is that policies supporting homeownership work to sustain old patterns of racial housing segregation. It’s true that residential zoning rules in the early- to mid-20th century often had the explicit intention of reinforcing segregation. But times have utterly changed in more recent decades. Homeownership has become the most important path to financial stability for the growing Black and Hispanic middle classes – one reason why Black and Hispanic leaders in most cities overwhelmingly support ownership-friendly policies. Today, dysfunction in the rental market is a far more powerful obstacle preventing Black and Hispanic families from accessing high-opportunity areas than any policy promoting ownership.

A 2020 cover story in the *Economist* magazine criticizing what it calls an “infatuation” with homeownership in America and other Western countries makes a more interesting – and revealing – argument. According to the *Economist*’s authors, widespread homeownership encourages people to adopt “not-in-my-back-yard” (“NIMBY”) attitudes, leading to policies that block new housing supply and drive up housing prices. The dubious implicit premise is that policy-makers should make it more difficult for families to benefit from homeownership so that they’ll change their voting behavior.

But renters can be NIMBYs too, as anyone familiar with New York City or San Francisco can attest. And the cities with the lowest ownership rates, mostly in the Northeast and on the West Coast, also have America’s most restrictive land-use policies, lowest rates of new housing development, and most out-of-control prices – contrary to what the *Economist*’s argument would predict.

To be sure, homeownership isn’t for everyone. Gen Zers just out of school or professionals who expect to move frequently for work are probably better off renting for a while. But the evidence is clear: young adults who hope to own their own home are expressing an altogether rational aspiration. To improve upward mobility for them and the generations beyond them, government should ease their path to homeownership rather than trying to stand in the way.

What Millennials are up against

A 2018 study by the Federal Reserve Bank of St. Louis showed that the median household net worth of Americans born in the 1980s – that is, older Millennials – was fully 36% below the level one would have predicted based on the experience of earlier generations.¹⁷ Millennial homeownership rates have fallen ever further behind the levels reached by Baby Boomers and Generation Xers at the same age.¹⁸

A Deloitte study projects that Millennials will hold only 16% of the nation's wealth in 2030, even though by then they will be the largest adult generation by far. Gen Xers, the preceding generation, will hold 31%, while Boomers, entering their eighties and nineties, will still control 45% of the nation's wealth.¹⁹ The St. Louis Fed's study concludes that Millennials are in danger of becoming a "lost generation" in terms of wealth accumulation.²⁰

Weak balance sheets are producing profound social consequences for Millennials. Since 2000 the number of Americans aged 18 to 34 living with their parents has ballooned from 17 million to over 22 million.²¹ Millennials have had much lower marriage rates than any prior generation had at the same age. Many say they haven't had children yet because they can't afford them.²²

Some Baby Boomers tend to bemoan Millennials' "failure to launch," as if it's an issue of character or will. The media like to peddle stereotypes of Millennials as job-hoppers who spend their money on indulgences like avocado toast and show no interest in settling down. What's driving Millennials' behavior, however, is not cultural preferences but economics.

Contrary to the stereotypes, Millennials switch jobs less than prior generations at the same age, spend less on luxuries, and express nearly identical long-term goals as previous generations.²³ Some 89% of today's young people want to own a home. According to a recent National Homebuilders Association report, more than two in three Millennials, including most of those living in cities, would prefer a house in the suburbs.²⁴ A Fannie Mae survey of people under 40 found that the vast majority thought owning made more financial sense than renting, citing the benefits of having a hedge against rent increases, opportunities for price appreciation, and control over their living environment.²⁵

The main obstacle to homeownership for most Millennials is that they can't afford it. Between 2012 and 2019 the percentage of homes priced under \$250,000 – critical for new homeowners – fell by half.²⁶ Meanwhile, the number of households with student debt has more than doubled since the start of the century, based on data from Pew Research. Student debt, which is now by far the largest category of consumer debt aside from residential mortgages, now stands at almost \$1.6 trillion, slowing the transition to homeownership for millions of young families.²⁷ According to a 2020 survey, 72% of Millennials with student debt see themselves paying off their debt only after 10 years, or else "never."²⁸ Fewer than 5% of Millennials who don't yet own a home believe they'll be able to buy within the next year.²⁹

Before the COVID crisis, the average Millennial was actually doing reasonably well in terms of earnings – in line with what one would expect based on the experience of past generations and

the long-term growth of the economy, according to the St. Louis Fed.³⁰ But month-to-month uncertainty around income, partly a result of the rise of gig work, has helped fuel a pervasive sense of financial insecurity among Millennials.

Another immediate problem for Millennials is the growing share of their paycheck going to necessities, from student debt payments and rent to utilities, transportation, and mobile phone bills. Incomes aren't keeping up, particularly in big cities with soaring rental rates. Consequently, most Millennials have little to no savings. Fifty-two percent of them don't have a retirement account. And studies show that 60% to 70% of Millennials report they are living paycheck to paycheck.³¹

Another factor is that in addition, Millennials will be the first generation to face the full impact of automation and artificial intelligence. New workplace technologies are likely to strike particularly hard at young blue-collar and clerical workers in struggling areas of the country.

Today's young people, moreover, are experiencing a story of radically diverging destinies. On measures of economic prospects, health, and life expectancy, Millennials with a college degree or more are doing better than comparable college-educated young adults in the past. But their peers with a high school diploma or less are doing worse than their historical counterparts. More than one third of Millennials fall into this latter group, while fewer than 40% have completed a bachelor's degree.

Educational attainment for Millennials is as closely linked to parental attainment as it has been in many decades. Children born to parents who did not complete secondary school have only a 15% chance of making it to college, compared to a 63% chance for children whose parents earned a college degree.

It is no surprise that young adults report higher levels of anxiety than older generations, and that Americans in the post-Millennial generation, or Generation Z, are the most likely to embrace socialistic views.³² Battered now by pestilence and its aftermath, young Americans could well become what **one conservative writer**, Madeleine Kearns, referred to as a "resentful generation" that could prove a shock to the system for both parties.

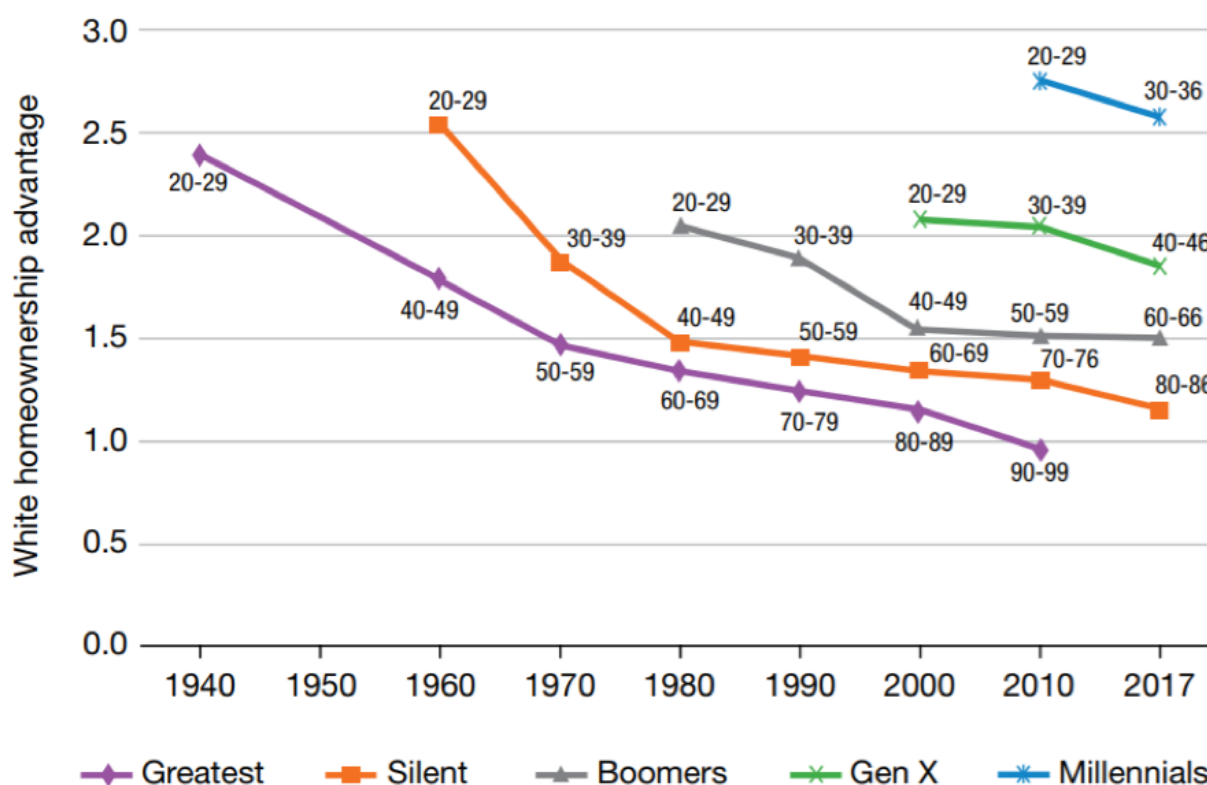
Widening racial divides

Remarkably, the gap in homeownership rates between Black and White Millennials is even wider than for previous generations. Figure 2 shows the White ownership rate advantage relative to Black people over time for each of the last five generations. While the White advantage within each generation has declined over the last several decades, the Black-White gap has been larger for Millennials in both their 20s and 30s than it was for any of the earlier generations at the same age.

The Black-White ownership gap grew sharply in the years after the housing crash of 2007-09. Between 2008 and 2017____, the homeownership rate for Black Millennials in their 20s declined from 16.5 to 11.9 percent, while the comparable rate for White Millennials fell only from 34.4 to

32.7 percent. Between 1999 and 2015, white young adults ages 18 to 34 had the highest homeownership rate of any racial or ethnic group, at 42 percent, while only 18 percent of black young adults were homeowners.³³

Figure 1. The Black-White disparity in homeownership among young adults is at an all-time high



More generally, falling Black home ownership since 2004 has been the chief reason why median household net wealth for Black families has declined to just one-tenth the median net wealth of White families – the widest disparity in at least 40 years.³⁴ As Black Millennials have barely begun to buy homes or accumulate wealth, this gap is likely to grow in coming decades.

Takeaways from a traumatic year

COVID-19 has taken a smaller lethal toll on Millennials than on older generations, but the economic fallout from the pandemic has hit Millennials especially hard. In a new report, Data for Progress found that a staggering 52% of people under the age of 45 have lost a job, been put on leave, or had their hours reduced due to the pandemic, compared with 26% of people over the age of 45.

Younger people, particularly Black and Hispanic Americans, disproportionately work in face-to-face service industries like retail, restaurants, and hotels, which have borne the brunt of COVID-related job losses.³⁵ For millions of young people, the issue today is paying the rent. Saving to buy a home is further out than ever.³⁶

New studies suggest that the pandemic may impact the Millennial generation in lasting ways, not only in terms of economic well-being but in areas like mental and physical health, leading to shortened lifespans. Even before the pandemic, approximately 70% of Millennials reported suffering from loneliness. In 2020, these numbers will likely grow considerably worse.³⁷

Another lasting effect of the COVID crisis is likely to be a tremendous increase in the share of people, including Millennials, working from home some or all the time. Stanford economist Nicholas Bloom suggests that this share is likely to increase from 5% five percent before the pandemic to something closer to 20% even after the pestilence has receded. A University of Chicago study suggests this could grow to as much as one third of the workforce, a finding corroborated by a recent Federal Reserve Bank of Atlanta report. Most people now working from home – some 60% according to Gallup – express a preference to – some sixty percent according to Gallup – to continue doing so for the foreseeable future.

The rapid rise of telecommuting will serve to de-densify the office environment and shift work to homes and the periphery of metropolitan areas, something already reflected in lower prices for prime urban real estate and in increasingly empty New York towers and failed new projects in San Francisco and downtown Los Angeles.

The changing nature of work – accelerated by the pandemic – likely will intensify the demand for suburban living. The real estate firm Redfin has found up to half of all new pandemic telecommuters want to continue to work from home and predicts a steady movement of skilled workers out of dense core cities, particularly New York and San Francisco, and into smaller cities and outer suburbs.

In this new climate, Millennials and other Americans are increasingly looking to “escape” to the relative safety of suburban areas, which had already been growing far faster than core cities.³⁸ Since 2010, a net 1.8 million people have moved away from the urban core counties of major metropolitan areas, mainly to lower-density counties where single-family houses are the norm.³⁹

Research by the American Enterprise Institute confirms that less dense areas have grown much faster than denser ones since the pandemic began. A recent Harris poll found upwards to two in five urban residents now are considering a move to a less crowded places. The latest consumer survey from the National Association of Realtors found that households are “looking for larger homes, bigger yards, access to the outdoors and more separation from neighbors.”

This trend holds true for Millennials as well. Even before COVID-19’s appearance, some four-fifths of adults under 35 preferred the idea of a single-family detached house.⁴⁰

What’s driving housing prices up and homeownership down

Just prior to the COVID-19 crisis, home prices were hitting record highs in many urban markets. One of the surprises of the crisis has been that price increases have continued despite the recession, particularly in prosperous, lower-density locations.

High housing prices in America's cities pose a particularly stark dilemma for young people with low or moderate income and little accumulated savings. They have been forced to live far from high-opportunity job markets or else opt for a high-opportunity location and accept that housing costs will take an ever-larger bite out of their paycheck.

Many young Americans feel they have little alternative to the first choice. For many, this means staying put in smaller cities and towns in economically troubled, left-behind areas of the country, with relatively poor education and career prospects. It can also mean living in remote, impoverished corners of big metro areas, isolated from job centers in the city center or booming suburbs.

The aggregate effect is to create an ever-deepening pattern of economic segregation across the American landscape. Harvard economist Raj Chetty and others have shown that growing segregation into have- and have-not areas is taking a severe toll on upward mobility for America's young people.

The other choice – living in or near high-opportunity areas – increasingly means devoting as much as half of one's income to housing. Federal data collectors have long classified families as "housing cost-burdened" if they spend more than 30% of income on housing costs. Today, more than a third of young adult renters in most big metros spend 50% or more on rent. For them, saving money or investing in enrichment activities for their children is more or less impossible.

Prices in elite markets have been boosted by relentless speculation, driven partly by cash buyers from abroad and by large corporations snapping up single-family houses and converting them to rentals.⁴¹ This is particularly evident in markets such as Southern California, a center for inbound speculative real estate investment. By the end of the last decade, for example, house prices in Southern California were rising at a rate five times that of wages.⁴² The Brady Bunch house in Studio City – considered a typical 2,500 square foot home when the show was on in early 1970s – hit the market in 2018 with a price tag approaching \$2 million.⁴³

Skyrocketing home prices are the result of a massive policy failures at all levels of government. Before the 21st century, local housing markets tended to respond to fast population growth in cities with a rapid surge in supply, so home prices mostly remained closely well-tethered to local household income levels. Well-functioning housing markets produced a wide range of product types, including attainable starter homes, with the fastest growth often on what was then the urban periphery.

But over the last two decades, new supply growth has become unhinged from demand growth. This breakdown reflects increasingly strict land-use rules, highly prescriptive building codes, opaque and uncertain permitting processes, urban growth boundaries that prevent development in suburban cities, excessive complexity in federal rules on affordable housing, falling public funding, and more.⁴⁴

Higher homeownership rates are more achievable than many think

It's become fashionable in policy circles to insist that the financial crisis of 2007-2009 discredited homeownership as a policy aim. According to critics, America tried promoting home ownership among young adults, minority families, and other disadvantaged populations in the Clinton and Bush years, and the policy failed.⁴⁵ These arguments represent a shortsighted misreading of the record.

The Clinton and Bush administrations implemented a series of policies touching on home ownership that have stood the test of time. In 1997, Congress broadened the scope of the Community Reinvestment Act to end the shameful practice of “red-lining” and promote bank lending for homes and businesses in historically Black and Hispanic neighborhoods. In 2004, the Bush Administration launched a series of policy initiatives aimed at increasing ownership of homes as well as small businesses and retirement accounts among marginalized populations, under the heading of advancing an “Ownership Society.” These policies addressed longstanding disparities in asset ownership and were long overdue.

From 2004 to 2007, however, events in the mortgage finance sector demonstrated almost perfectly how not to advance homeownership rates. The government-backed mortgage finance giants Fannie Mae and Freddie Mac led the way in enabling dubious mortgage origination firms like Countrywide and New Century to push out new home loans to “subprime” borrowers well beyond what these home buyers could afford. When the federal regulator of Fannie and Freddie belatedly reined them in, private sector investment banks stepped in, creating a \$2 trillion edifice of complex financial securities on the shaky foundation of new subprime mortgages. Virtually all the securities that sparked the 2007-2009 financial crisis came into being over just three years – undermining the argument that decades-old policies to promote homeownership somehow caused the crisis.

During these years, the foundation became increasingly unstable as mortgage originators created ever more questionable loans. Industry veterans noticed the sudden prevalence of “no-doc loans” and “liar loans” – mortgages in which borrowers submitted no documentation of their income or were encouraged to lie about it. Borrowers increasingly had no “skin in the game,” as mortgage originators abandoned the 20% down payments that had been standard for decades.

The vast Wall Street securitization machine, meanwhile, cranked out mortgage-backed securities almost certain to collapse. The central problem at the heart of this system: the firms that supposedly vouched for the creditworthiness of borrowers had no incentive to do good credit analysis and strong incentives to originate as much volume as possible. After all, they simply sold their new mortgages on to Wall Street banks. Wall Street in turn packaged them into securities for sale to institutional investors whom one banker referred to as “muppets.”⁴⁶

This system had predictable and disastrous consequences. As Michael Lewis’s bestseller *The Big Short* brilliantly depicts, it touched off a speculative frenzy in houses and condos, generating a classic financial bubble.⁴⁷

The run-up in housing prices produced results exactly opposite of what federal housing policy intended to accomplish. It caused homeownership rates to start declining in 2005 as prices moved out of reach for millions of families. And after the bubble burst, distress in the financial system plus strict guidance from bank regulators forced banks to over-react with unusually tight lending standards, helping drive down homeownership rates over much of the following decade.

Among those who lost the most from the housing bubble and subsequent crash were Black, Hispanic, and Millennial families. Many bought homes at elevated prices, defaulted or sold out during the crisis, and then failed to participate in the powerful home price recovery that began in 2012. While the national homeownership rate declined from 69.2% to 63.7% between 2004 and 2016, it declined considerably more among these vulnerable groups. Most younger Millennials never had a chance to become homeowners, since house prices rapidly returned to unaffordable levels in most cities after 2012.

As for the great financial crisis of 2008, the main cause of the crash was pervasive uncertainty about the exposures of individual financial institutions to toxic securities after the bubble burst, sparking a run on the banking system and a severe credit crunch. Imprudent risk-taking by a handful of large financial institutions caused the crisis, not rising homeownership rates.

Far from showing the impossibility of raising homeownership rates from current levels, recent history confirms that this goal is more attainable than most people think. For one thing, the overall U.S. ownership rate reached 66%, higher than today, as early as the late 1970s. Ownership rates among the 25-34 and 35-44 year old cohorts were more than 10 percentage points higher than they are today.

These high levels of homeownership were reached without Fannie Mae-Freddie Mac lending initiatives, liar loans, or labyrinthine securitization schemes on Wall Street. The main financial vehicle that made it possible was the plain-vanilla 30-year fixed-interest rate mortgage. And the key fact underlying rising ownership rates was that home prices were extraordinarily affordable in the 1960s and 1970s, largely the product of a sustained building boom. New housing starts averaged well over 1.3 million per year in those decades, well above the 2010s rate of just under a million, even though America's population was a third smaller in the 1970s.⁴⁸

Ownership rates fell back in the early 1980s due to high interest rates. But from 1985 to 2004, they steadily rose, with notable gains among minority communities. There's no reason to doubt they would have grown well past 70% if it hadn't been for the mortgage finance debacle, the subsequent policy response, and a host of new challenges facing young adults over the last two decades.

The experience of other countries demonstrates that U.S. homeownership rates could be far higher than today's level of 65.3%. According to a 2018 study, 27 of 33 European countries have a higher ownership rate than the United States. Norway, Sweden, Finland, and the Netherlands — social democratic economies known for generous welfare states and high upward mobility — all have ownership rates well above America's level. The main European nations with lower

ownership rates than the United States are Germany, Austria, and Switzerland, which operate exceptionally generous systems to subsidize renters. For the 44 countries in the study, the average homeownership rate as of 2018 was 73.9%.⁴⁹

The under-performance of the United States in homeownership is especially notable in view of America's comparatively modest public pension system, which gives American families more incentive than their European peers to accumulate assets during their working years. Most young Americans have both the desire and incentive to become homeowners, with some 80% seeing homeownership as part of the American dream.⁵⁰ What holds them back is a set of pervasive policy failures at all levels of government, especially in many of America's large, wealthy metro areas. These failures are fixable.

Paths to better affordability, higher homeownership, and restored upward mobility

A policy agenda for improving paths to homeownership and the middle-class American Dream for young adults should reflect three straightforward principles: make homes more affordable, update the mortgage finance system to reflect modern realities, and improve opportunities for young Americans to raise their income, save, and accumulate assets.

First, America needs a complete rethinking of housing policy, with the aim of making homes abundant and affordable rather than scarce and expensive. Today, federal housing policy – working mostly through the tax code – encourages large mortgages and subsidizes demand, but it doesn't promote housing supply.

State policy generally creates disincentives to develop housing by lightly taxing inert land but aggressively taxing improvements. In some states like California, state building codes dramatically raise the price of constructing new houses, erecting steep barriers to new supply.

Local land-use and housing policies vary enormously around the United States. But in a number of large metro areas, particularly on the West Coast and in the Northeast, local policy is actively hostile to both new housing supply and homeownership. Consequently, these metros have far higher costs of living than less supply-constrained metros in places like Texas and the Southeast, as URI's annual cost of living analysis shows.⁵¹

These policies have profound consequences. Numerous studies have shown that cities and metros with comparatively permissive housing and land-use rules have more new housing development, lower home prices and rents, higher homeownership rates, and less displacement of longtime residents than more restrictive localities.⁵² The least expensive cities also score relatively high on measures of upward mobility for younger people, even though they typically offer lower high income levels for older professionals than the wealthiest cities on the coasts.

A sound policy agenda, then, starts with promoting growth in housing supply, especially in relatively high-opportunity metro areas. Places with the best outlook for housing supply expansion

are ones that have grown fast over the past several decades – above all, growth-friendly suburbs and exurbs in booming metros like Houston, Dallas-Fort Worth, San Antonio, Atlanta, Nashville, Charlotte, Raleigh, and Tampa. Suburban cities in all these metros – particularly in the wake with the pandemic and recent disorders – are attracting not only younger families but also employers of all kinds.⁵³ Policymakers shouldn't do anything that slows the growth of housing supply in these high-growth locations.

Within large cities as well as urbanizing suburbs, policy makers should ease the path to greater housing development. Permit delays are a clear obstacle, particularly in such coastal cities as New York, Oakland and San Francisco, where even a simple approval can take a year.⁵⁴

Policies to encourage supply growth include making city-owned land available for development, streamlining permitting processes, reducing parking requirements for multifamily developments, loosening excessive building code regulations, and modernizing codes to allow more use of modern, cost-saving building technologies, and repurposing under-used retail and office areas. Scott Crowe, chief investment strategist with Center Square Investment Management, estimates that 44% of current mall retail space will be either shuttered or repurposed over the next five to seven years.⁵⁵

Cities like Portland that have implemented urban “growth boundaries” should relax these policies to promote new housing development. Cities can also contribute to housing affordability by stepping up tax incentives to preserve and rehabilitate the existing supply of homes for low-to-moderate income families.

Greater housing supply won't solve America's affordability problem overnight. But over time, it will alleviate the market pressures that are increasingly pushing homeownership out of reach for younger families.

Second, America needs a more flexible, inclusive system of mortgage finance. The traditional 30-year fixed-rate mortgage with 20% down payment was relatively successful at taking the U.S. homeownership rate to 66%, but it succeeded within the specific context of the 1960s and 1970s. Housing supply was growing fast, and homes were cheap relative to income for most households. The typical buyer stayed at a single employer for many years and earned a steady, predictable income. Higher education and healthcare expenses were modest, allowing young adults to achieve higher savings rates for down payments. The downside of the system was that it didn't address the needs of lower-income families, especially Black and Hispanic Americans inexcusably excluded from desirable neighborhoods.

Today, the realities have entirely changed, but the nation's system of mortgage finance hasn't kept up. Housing prices in certain key markets, notably California, are extraordinarily expensive by historical standards relative to incomes, which means a 20% down payment is a considerably larger burden on young families. Labor markets are far more fluid, and young adults experience much more volatility in their year-to-year earnings. Student debt, health insurance, and of course

rent make it much harder to save. And today's America fortunately won't tolerate a housing finance system that explicitly excludes Black and Hispanic families.

The mortgage finance sector developed a work-around for these challenges in the early 2000s – making unaffordable large loans with no down payment and transferring the risk to securities markets. But as that experience proved, sustainable homeownership can't rest on a foundation of mortgages that home owners cannot afford.

What's needed is a more flexible system that sensibly limits the size of mortgages based on a family's income, reduces their down payment in some cases, adapts to fluctuations in income, and avoids the bad incentives that sunk the system in 2007 and 2008.

Defenders of the current system might argue that income-based size limits on mortgages would push ownership out of reach for more young families, but the truth is that housing prices are as high as they are partly because of the availability of large mortgages as well as today's tax benefits for highly indebted borrowers. Mortgage limits would bring down prices in the starter home segment of the market.

There are many ideas for mortgage products that hold down the down payment – the largest obstacle to home ownership for many young adults – while avoiding destructive incentives. Banks have experimented with shared-upside mortgages in which the bank requires a relatively low down payment but retains part of the profits if the homeowner sells for a gain. Community land trusts reduce down payments by keeping legal title to the land under homes, while typically giving residents a formulaic profit on selling their home that grows larger the longer they stay.

Lenders should experiment with loans allowing monthly payments to fluctuate with owners' income, in exchange for upside participation for the lender. Banks should also roll out more mortgage products allowing borrowers to consolidate outstanding student debt into new mortgage loans.

The key gatekeepers that will set the pace for these innovations are Fannie Mae, Freddie Mac, and their regulator, since Fannie and Freddie dominate mortgage finance to an even greater degree than before 2008. The mortgage giants have made progress in recent years in broadening the range of newly originated mortgages they're able to buy, but America needs a dramatic expansion of these experiments.

Third, it's past time for a fresh policy agenda to increase opportunity for young Americans, including opportunities to earn more, save, and achieve the benefits of homeownership. High schools should incorporate more "early college" and career-relevant content. Universities should learn from this year's vast remote learning experiment and figure out how to deliver higher education more cheaply. The federal government, which now controls the student lending system, should overhaul college finance to better align loans with the economic value of education programs and move closer to income-based payment plans.

Policy makers should focus on reviving free markets and competition across industries, clearing out unnecessary occupational licensing rules and reinvigorating antitrust policy to reduce the market power of large employers. They should rethink other barriers to upward mobility for younger adults, such as criminal records for drug offenses.

Government at all levels should examine regulatory barriers that have caused the number of startup businesses to decline this century, and flatten them. Congress should focus on creating universal savings plans that make it easier to build savings for down payments and retirement, and are more easily portable when a person changes jobs. Washington should also consider some version of “baby bonds” – a modest-sized federally funded endowment made available to each young American adult to use for financing education, starting a business, or making a down payment on a home.

More generally, America needs to make a huge shift from a policy orientation that protects the interests of older, incumbent players of all kinds to one that opens up opportunities for the next generation.

Embracing the opportunities created by a year of change

This year, 2020, will remain in our memories as one that accelerated many trends. Some of them are unwelcome, such as the mass destruction of small business and increased pessimism about America’s direction. According to Pew Research, most Americans believed our country was in decline even before the COVID-19 crisis, with a shrinking middle class, increased indebtedness, and growing polarization. “Dark days ahead”, suggests The Week. “This is what the end of history looks like.”

But this crisis also provides a potential opportunity to reverse what many Americans have seen as inexorable pressure on middle class aspirations.⁵⁶ In its awfulness, this pandemic could provide the impetus to carve out new avenues of opportunity for young Americans, both new ways of working and more affordable ways of living.

The pandemic has made us more aware of the virtues of dispersion, as Americans begin to rediscover their amazing and varied country, and we learn once again the critical importance of family and community. Despite the drastic recession that grew from the pandemic, developers have seen a growing demand for new homes, largely in the suburbs.⁵⁷ These trends need to be embraced, not resisted.

Most profoundly, the pandemic is hastening a shift in how we work. For millions of Americans, the new focus of work will be the home, as Alvin Toffler predicted decades ago.

The United States needs housing policies that will allow communities to remain whole and allow for greater dispersion to smaller cities and suburbs, where the middle class dream is most likely to be attainable for most people. Our core cities still can have a bright future, but one less dominant.

Ultimately the current crisis, both social and economic, should be seen as a kind of alarm bell, signaling our need to return to the values of our aspirational culture. America, in its essence, is built on aspiration and a kind of reckless ambition. The eighteenth century French traveler J. Hector St. John de Crèvecoeur described the American of his time as a “new man”: innovative, independent, less bound by tradition and ancient prejudice.⁵⁸ No other large country in history has been able to incorporate so many diverse peoples around a basic ideal, despite the many barriers America has erected through racial oppression and other injustices.

It is on the local level, where we know our neighbors and share a community with them, that a bright future can be restored for Millennials and later generations. A new survey from AEI shows 73 percent are satisfied with the way things are going in their communities, compared to 43 percent who feel the same about the country. Most Americans think their communities are good places to live and, many believe they and their neighbors can work together to make a difference in their communities.

Americans have been in crisis mode before – during the Civil War, the Depression, the Second World War, and the Cold War. Each time America responded by expanding opportunity, albeit imperfectly, through the Homestead Act, the New Deal mortgage reforms, the GI Bill, and the attempts, far from perfect, to open up housing opportunities to long distressed minority populations. But it is by promoting growth at the family and home level that generations have found their greatest inspiration and sense of a better future. We sit atop one of those great opportunities today.

A Personal Story of Homeownership, Segregation, and the Black Middle Class

Pete Saunders

My family's path to the middle class, starting in Detroit, is like that of so many other African-American families. My father was an autoworker's son who became the first in the family to graduate from college. He became a corporate middle manager who eventually left business to enter the ministry. He would eventually spend more than 40 years as a pastor. My mother met my father while in college, graduated as well, and worked in various capacities, extending from work with the City of Detroit in the Model Cities program to becoming an administrative assistant in the theater department of a nearby university. Together they bought their first home in Detroit in a modest but transitioning neighborhood on Detroit's Northwest Side for \$17,500 in 1968, raising three children there over the next 13 years.⁵⁹

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That home purchase solidified our family's move into the middle class.

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African-Americans have long utilized homeownership as a path to the middle class, just like other racial and ethnic groups before them. Many Black Americans view homeownership, along with education and access to well-paying jobs, as essential to middle class formation.

But homeownership is eluding more and more African-Americans, and as a result so is their hold on the middle class. A recent report by the global management consulting firm McKinsey & Co. found that there is a wide and persistent wealth gap between White and Black families in the United States, with White families having ten times more wealth – a family's liquid and illiquid assets net of debts – than Black families in 2017.⁶⁰ For African-Americans, access to homeownership and differences in housing appreciation once homes are purchased are two of the most significant contributors to the gap.

If you think, however, that the gap impacts African-Americans but not the American economy, think again. From the McKinsey report:

“Other than its obvious negative impact on human development for Black individuals and communities, the racial wealth gap also constrains the U.S. economy as a whole. It is estimated that its dampening effect on consumption and investment will cost the U.S. economy between \$1 trillion and \$1.5 trillion between 2019 and 2028—4 to 6 % of the projected GDP in 2028.”

According to U.S. Census data, the nation's homeownership rate reached its peak at 69% in 2004. African-American homeownership reached its peak at the same time, topping out at nearly half of all African-American households. But the Great Recession exacted a tremendous toll on African-American homeowners. Nationally the homeownership rate fell to 63% by 2015, but has edged upward to its present 65% since then.⁶¹ But the dubious subprime loans that fueled much of the drive to the peak led to a collapse in equity when the foreclosure crisis hit, and middle class African-American neighborhoods were hit hardest. The African-American homeownership rate steadily fell to 42% by 2017, experiencing very little of the rebound other groups have seen.

In many metropolitan areas across the country, the lack of affordability is hampering homeownership, and thus middle-class development. In other metros, it's the low values in areas where African-Americans have traditionally bought that stymies the buildup of home equity.

Urbanist author and researcher Alan Mallach recently documented and quantified the impact of the latter problem by examining African-American middle-class neighborhoods in the city of St. Louis, providing a keen sense of the impact at the neighborhood level. In one of the 18 census tracts he identified as comprising St. Louis' Black middle-class neighborhoods, he calculated that the loss of homeownership equity between 2008 and 2016 amounted to \$35 million. Extrapolating to include all Black middle class neighborhoods in St. Louis, he estimated that the total loss was about \$300 million over the same period.⁶²

At the neighborhood level in St. Louis, prices are not rebounding in Black middle class neighborhoods, according to Mallach. Why? African-American buyers are increasingly choosing to purchase homes in suburban areas or racially-mixed city neighborhoods – consciously trying to improve the odds that their property will appreciate. When those homebuyers begin looking in other areas, this creates a downward spiral effect in many areas that Black middle-class families are leaving behind. If a house sells at all, it is likely to sell to an investor, not a homebuyer, further depressing prices of other homes in the neighborhood. Some houses, usually the ones that need the most work, don't sell at all, and often end up being abandoned by their owners.

But while African-American homebuyers are seeking ways to maximize housing appreciation in suburbia, in the same way that generations of suburban buyers did before them, new trends are becoming clear. African-American suburbanization is rising. At the same time, suburban poverty is increasing, while affluence in America's core cities is growing.

This is putting many African-American households in conflict with broader trends and impacting not only future homeownership but access to future economic opportunity. The nature of opportunity may be changing.

For further evidence, consider South Cook County, just south of Chicago.

The 36 suburban municipalities in South Cook County cover an area of about 150 square miles and have just under 500,000 residents, making them collectively similar in population and geographic size to the city of Atlanta. While individually small in scale (the largest, Calumet City, has about 37,000 residents) the entire area became a major affordable bedroom community

destination following World War II. Thousands of postwar homes were constructed throughout the area, led by the planned community of Park Forest, about 30 miles due south of Chicago. Along the way, the region also became a manufacturing center as space-constrained manufacturing plants in Chicago sought expansive locations in the Southland. Jobs and housing opportunities were plentiful.

Few African-Americans lived in South Cook prior to 1970, but those who did were concentrated in a handful of segregated communities. In 1970, South Cook's African-American population stood at 10.7% of all residents, with nearly all living in the four segregated communities of Dixmoor, Ford Heights, Phoenix, and Robbins. Beginning in the 1980s, however, the number of African-Americans in the Southland grew rapidly. In 1990, South Cook's African-American population share jumped to 30.4%; it was 44.6% in 2000 and 54.2% in 2010.⁶³ African-American South Siders were seeking the same affordable suburban housing options and job opportunities as those who preceded them.

Homeownership in South Cook increased wealth and prosperity for many African-Americans, but not all. Why? The area's manufacturing job base evaporated throughout much of the 1980s and 1990s, as businesses departed for the Sun Belt or overseas. That, in turn, impacted incomes, and ultimately home values. Between 1980 and 2017, median household income in South Cook fell by 26 % in constant 2017 dollars – in a metro area where overall median income over the same period went up by 12%. Between 2000 and 2017, median home values in South Cook rose from \$152,000 to \$172,000 in 2009, before falling to \$116,000 in 2017.⁶⁴

In many respects this is a familiar story to African-Americans with middle-class desires and aspirations – the foundation for middle class status in a given community begins to crumble once a critical mass of us move in. In South Cook County much of this was triggered by the demographic transition that began in the 1980s, as the re-segregation of the Southland depressed housing demand and reduced values and equity. It also happened in many South and West Side neighborhoods in the decades following World War II.

How does this situation improve for African-Americans, and the communities they've chosen? It's hard to say. The manufacturing jobs that vaulted many into the middle class are largely gone, replaced by low-wage service jobs in retail, food service, logistics and other areas. Perhaps service job wages need a serious re-evaluation, with the aim of making them into jobs that can make a middle-class lifestyle attainable.

But if homeownership and middle-class development are a priority, it must occur where opportunity is growing – in our nation's core cities. The nature of opportunity is changing.

Let's come back to my parents' pleasant old house in Detroit. Again, they bought it for \$17,500 in 1968. They later sold it for \$36,000 in 1981, and it is estimated to be worth \$72,100 today.⁶⁵ It is a wonderful home – a three-bedroom, one-bath Colonial built in 1950 – and it's as affordable as they come. However, it's appreciated at a rate less than the rate of inflation for fifty years. That's right – Consumer Price Index measures suggest that a home purchased in 1968 for \$17,500

would've reached \$43,000 by 1981, by virtue of inflation alone. And that same home would be worth \$107,000 today.⁶⁶ A far cry from the \$36,000 sale price in 1981 and \$72,100 estimate today, and even further from the real estate windfalls witnessed in other places for decades.

The growth of suburbia made many urban communities disposable as value was extracted. As the nature of opportunity changes, we may risk repeating the same pattern with today's suburbs. If we want to strengthen our middle class, perhaps we should work to spread opportunity more broadly.

One Latina's Story

Karla Lopez del Rio

Homeownership has been at the center of my family's ascent into the middle class. Three generations of women in my family understand the transcendent value of owning a home for both ourselves and our families. We have patiently built on each other's successes to create a small patrimony for our descendants. Owning a home provided my grandmother with financial stability in her golden years, my mother with an affordable place to live, and me with the hope that one day it will provide new opportunities for my daughter, Azul.

This is not to suggest there hasn't been progress. Our family moved to the U.S. in the mid-1990s. By 2001 my mother, working as real estate agent, became affluent enough to buy a house in the exurbs of Southern California, where she raised my younger siblings and still resides.

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My grandmother's dream of buying a home in the United States went unfulfilled due to low wages, no credit, and little savings for a down payment.

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For millions of Latinos, the dream of homeownership is still elusive. In the late 1970s, my mother married and relocated to Mexico, where my two brothers, my sister, and I were born. When she left the United States, Hispanics comprised about 6.5% of the country's population, or 14 million people, and had a median household income of \$36,751 (2015 dollars). Homeownership rates for Latinos then stood at 44.2%.⁶⁷ By comparison, White household median income was \$51,180⁶⁸, with homeownership rates of 67.8%.⁶⁹

This is not to suggest there hasn't been progress. Our family moved to the U.S. in the mid-1990s. By 2001 my mother, working as real estate agent, became affluent enough to buy a house in the exurbs of Southern California, where she raised my younger siblings and still resides.

We were not alone. In 2007, right before the housing crisis, the Latino homeownership rate peaked at 49.7%, just shy of breaking through the 50% threshold.⁷⁰ But toxic mortgage loans disproportionately bedeviled Hispanics, as well as African-Americans, turning the American Dream into a nightmare for millions of Hispanics who lost their homes to foreclosures.⁷¹ Wealth, defined as a household's total assets minus debt, is deeply tied to homeownership for Hispanics. In 2007, primary residences made up 52% of Hispanics' wealth in the form of home equity, compared to 28% of white household wealth.⁷² A Pew Research Center report found that Hispanics lost 66% of

their median household wealth as a result of the housing crisis, the largest fall among all racial and ethnic groups.⁷³

As a result, the wealth gap is wider than ever before.⁷⁴ Latino wealth grew only by \$2,200, from \$4,100 in 1983 to \$6,300 in 2016, adjusting for inflation. In that same period, white median household wealth grew \$35,200 from \$105,300 in 1983 to \$140,500 in 2016.⁷⁵ In view of this gap, homeownership as a vehicle of upward mobility is more important to Hispanics now than ever before.

But the dream is also riddled with new obstacles and challenges.

One issue, particularly in states like California, is the price of housing. Homes nationally are 39% more expensive than they were 40 years ago in inflation-adjusted terms, and they've appreciated even more in the Golden State, home to what is by far the nation's largest Latino community.⁷⁶ With high debts, high rents, and low incidence of receiving an inheritance, many Hispanic families find the dream of homeownership futile today.⁷⁷ Latinos' median household income today is \$51,450, compared to \$63,179 for whites and \$87,194 for Asians.⁷⁸ Credit for significant investments such as homes or small businesses is difficult to obtain. In 2015, 19.2% of Hispanic applicants were denied mortgages, compared to 11% of White and Asian applicants. 40% of denials were based on high debt-to-income ratios and poor credit history.⁷⁹

Rising home prices also require increasingly large down payments, often out of reach for Hispanic families who, after paying rent and living expenses, have limited disposable income. As of 2017, nearly six out of 10 Latinos paid more than 30% of their income on rent.⁸⁰ Some estimate that it would take the average Hispanic family 15.7 years for Hispanics to save for a 20% down payment.

Latinos also have less ability to borrow from "the bank of Mom and Dad." Only 5% of Hispanic families receive any inheritance, compared to 26% for non-Hispanic whites.⁸¹ Yet Latinos are showing their "ganas" – roughly translated as the desire to move forward despite adversity – even in difficult times. Over the past decade Latinos have accounted for nearly 63% of the growth in the U.S. homeowner population. These impressive gains include new and boomerang homebuyers coming back after a foreclosure.⁸² My own dream of homeownership was part of this rebound. In 2017, I bought my home in an affordable inland Southern California community just as my mother did almost 20 years before me. Experts project that by 2030, Hispanics will comprise 56% of all new homebuyers in the country.⁸³

Certain indicators provide insight into this expected trend. High participation rates in the labor force are helping move the needle for Latino purchasing power. Latinos accounted for 82% of the growth in U.S. labor-force participation between 2010 and 2017. GDP among U.S. Latinos increased to \$2.3 trillion in 2017, up from \$1.7 trillion in 2010.⁸⁴ That represents an economy larger than the Mexican economy and even edging towards the GDPs of countries like Italy and Brazil.⁸⁵

And Latinos are expanding their reach upwards in the labor pool by increasing their education and entering professional careers. Graduating from college is strongly correlated with

homeownership. A study by First American Title found that between 1997 and 2017, the gap between the homeownership rate among Americans with a college degree and that of Americans without a high school diploma grew from 11.3 to 20.5 percentage points.⁸⁶ Hispanics' college enrollment has more than doubled, growing from 6% in 1996 to 16% in 2016.⁸⁷

Nonetheless, new challenges lay ahead, particularly for Latino Millennials forming families and entering home buying ages. Currently, Hispanics account for 18% of the U.S. population, or 58.9 million people, and are projected to double in size to comprise almost a third of the U.S. population by 2060.⁸⁸ Latinos are young, with Latino Millennials representing almost half the Latino population at about 24 million, or a fifth of the entire U.S. Millennial generation. Many are motivated to buy homes, both for their immediate families but also for growing numbers of aging relatives. In fact, 73% of Hispanic Millennials serve as caregivers to relatives in some way, providing more than 20 hours per week in care. Roughly 75% do this while holding a full-time job.⁸⁹

Homeownership will determine much about the Latino future, and that of the country. Owning a home not only provides a sense of financial security for us, it creates a natural stake in America. It embodies our determination to move forward, the sacrifices we are willing to make, and the aspirations we have for our future generations. To us, that is the power of home.

Urban Containment Policies, Housing Affordability, And Preserving The Middle-Class Standard Of Living

Wendell Cox

One of the great advances of the past two centuries has been the drastic reduction in poverty and the rise of a large middle class in high-income nations.⁹⁰ At the heart of this trend in the United States is a 42% increase in U.S. home ownership from 1940 to 1960, as households increasingly located in the suburbs, where land and houses were less expensive, and which had good access to jobs, shopping, recreation, and other destinations.⁹¹

Threats to the Middle-Class

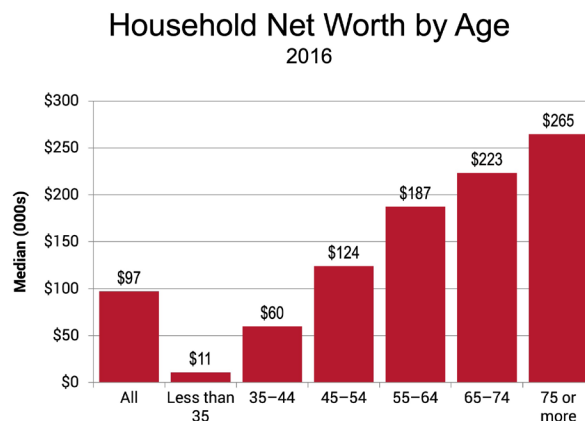
In more recent years, however, new threats to the middle-class standard of living have arisen.

In a report entitled *Under Pressure: The Middle-Class Squeeze*, the Organization for Economic Co-operation and Development (OECD) found that “the middle class has shrunk in most OECD countries as it has become more difficult for younger generations to make it to the middle class...”⁹²

The middle class used to be an aspiration. For many generations it meant the assurance of living in a comfortable house and affording a rewarding lifestyle, thanks to a stable job with career opportunities. However, there are now signs that this bedrock of our democracies and economic growth is not as stable as in the past.⁹³

According to the report, the costs of living have risen well ahead of incomes, and “housing has been the main driver of rising middle-class expenditure,” with the costs of owned housing rising faster than rental costs.

A Federal Reserve Bank of St. Louis report explained how the creation of wealth is being stifled at the time of life it normally is strongest (Figure 1)



Source: Federal Reserve Survey of Consumer Finances

Figure 1

Young families typically have very little wealth. In fact, if someone starts out adult life with student loans or other debt, net worth even could be negative. Near the end of the life cycle, families in their early 70s typically have accumulated a significant amount of wealth before spending down some of it in retirement.⁹⁴

Housing Affordability and the Standard of Living

In recent decades, huge cost-of-living differences have developed among major metropolitan areas of the United States. These differences are largely driven by housing costs. More than 85% of the higher cost of living in the most expensive metropolitan areas is due to higher housing costs (Figure 2).⁹⁵

Measuring Housing Affordability: Housing affordability is the relationship between incomes and housing costs. Housing affordability cannot be measured without comparison to incomes. Owned housing affordability is typically evaluated using price-to-income ratios such as the median multiple – that is, the ratio of median home price to median household income (Figure 3).⁹⁶

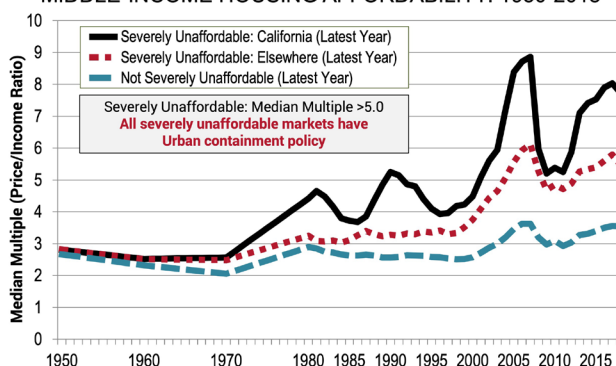
Historical Context: Housing affordability has deteriorated over the past half century in the United States. However, this deterioration has been concentrated principally in just a few major metropolitan areas.⁹⁷

Until about 1970, housing affordability across U.S. metropolitan areas was similar, with few cases of median multiples over 3.0. Each of the six major metropolitan areas of California have become severely unaffordable, some nearly reaching a median multiple of 9.0. In addition, Portland, Seattle, Denver, Miami, New York and Boston have become severely unaffordable, with median multiples exceeding 5.0 (Figure 4).

| <i>Demographia International Housing Affordability Survey</i> Housing Affordability Ratings | |
|--|------------------------|
| Housing Affordability Rating | Median Multiple |
| Affordable | 3.0 & Under |
| Moderately Unaffordable | 3.1 to 4.0 |
| Seriously Unaffordable | 4.1 to 5.0 |
| Severely Unaffordable | 5.1 & Over |
| Overall homeownership rate | - |
| Median Multiple: median house price divided by median household income | |

Figure 2

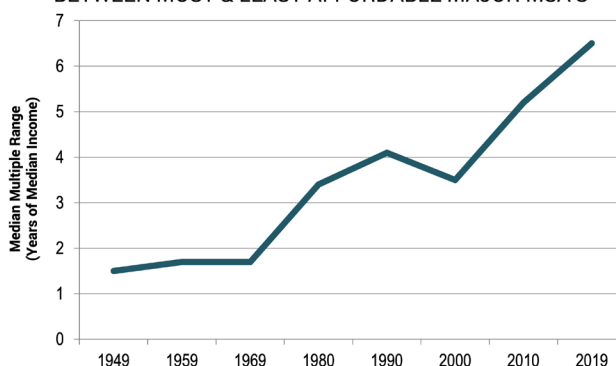
Major Metropolitan Areas by Affordability MIDDLE-INCOME HOUSING AFFORDABILITY: 1950-2018



Derived from Census Bureau, Harvard University and Demographia.

Figure 3

Median Multiple Range: 1949-2019 (US) BETWEEN MOST & LEAST AFFORDABLE MAJOR MSA'S



Derived from Census Bureau, Harvard University.

Figure 4

In 1969, the maximum difference in median multiples among the 53 metropolitan areas that have population over one million today was 1.7 – the equivalent of 1.7 years of household income. By 2019, the range between the least and most affordable major metropolitan areas had expanded to 6.5 (Figure 5). This gap stands at nearly four times that of 1970 and represents more than six years in annual household income.

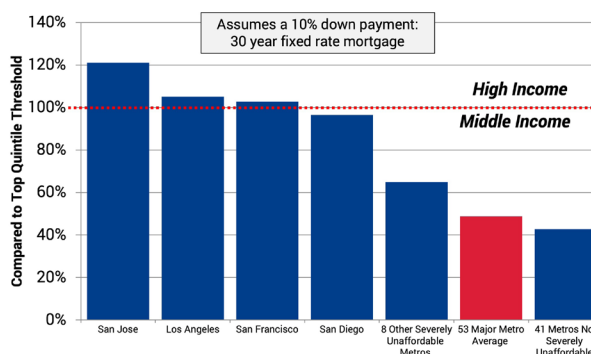
Top-quintile incomes are required to qualify for a mortgage on the median-priced house in the San Jose, Los Angeles, and San Francisco metropolitan areas,⁹⁸ and nearly that income level is required in San Diego. The other eight severely unaffordable metropolitan areas require incomes well above average. Even so, median-level incomes are sufficient to qualify for mortgages for the median-priced house in most major metropolitan areas (Figure 6).

As housing affordability deteriorates, fewer households can afford middle-class housing and those who can have less discretionary income left over, meaning they have a lower standard of living. There have been huge homeownership losses since 2000, particularly among younger households (Figure 7).

Urban Containment Policy

The largest housing affordability differences between major metropolitan areas developed as significant restrictions on urban fringe housing development were applied. These measures are called “urban containment” and include “growth management” and “compact city” policies. A principal purpose of urban containment is to curb the physical expansion of urban areas – that is, conversion of rural land to urban land, or what some refer to as “urban sprawl.”

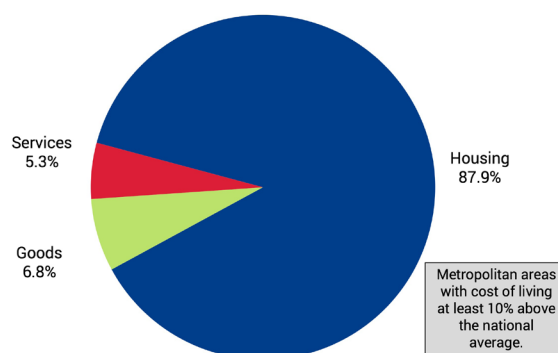
Qualifying Incomes for Mortgage: 2018 COMPARED TO TOP INCOME QUINTILE: MEDIAN HOUSE



Derived from National Association of Realtors and ACS 2018

Figure 5

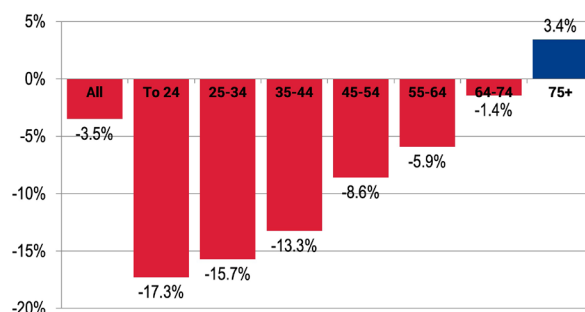
Housing Share of Excess Costs of Living MOST EXPENSIVE UNITED STATES MARKETS: 2018



Source: URI Standard of Living Index

Figure 6

Home Ownership by Householder Age TREND 2000-2017



Source: American Community Survey, 2017, Census 2000

Figure 7

Planners contrast urban containment with “traditional approaches to land use regulation” in that the former includes policies that are explicitly designed to “limit the development of land outside a defined urban area...”⁹⁹ The principal strategy of urban containment is urban growth boundaries (UGBs) that encircle urban areas, though there are others.¹⁰⁰ These make it all but impossible to profitably build tracts of housing affordable to the middle class. “Urban development is steered to the area inside the line and discouraged (if not prevented) outside it.”¹⁰¹

Planners had expected that densification inside the UGBs would lower land prices and that housing affordability would be preserved by lower land costs per housing unit.¹⁰² The densification did not occur, and, with continuing demand and a scarcity of developable land, costs ballooned, and housing affordability deteriorated.

Urban Containment and Urban Land Markets

Harvard University’s William Alonso showed that the value of land tends to rise from the low rural values outside the built-up urban area to the center.¹⁰³ Normally, without a UGB, land values rise gradually from the lowest to the highest values. However, this changes materially under urban containment. Land values increase abruptly at the urban growth boundary. This increases the value of land within the UGB, from the urban fringe to the most favorably situated land in the urban core (Figure 8).

The abrupt increase in land values at the UGB has been documented in economic research. For example:

- Former Chairman of the Board of the Reserve Bank of New Zealand Arthur Grimes and Yun Liang of Motu Economic and Public Policy Research¹⁰⁴ found that comparable parcels were from 8 to 13 times as expensive within Auckland’s urban growth boundary, compared to parcels just outside it.
- Mariano Kulish, Anthony Richards, and Christian Gillitzer of the Reserve Bank of Australia show that when farmland is included “or is considered for inclusion” within the Melbourne’s urban growth boundary, its value increases between 12 and 20 times.¹⁰⁵
- Gerald Mildner of Portland State University identified a land value gap across the urban growth boundary in Portland of nearly 10 times.¹⁰⁶

Similarly, Edward Glaeser of Harvard University and Joseph Gyourko of the University of Pennsylvania found land costs in the San Francisco metropolitan area, which has urban containment, to be 10 times normal market expectations.¹⁰⁷ However, underlying land costs have risen

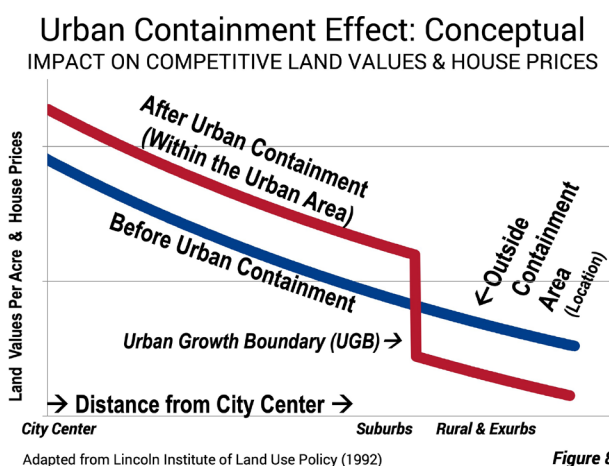
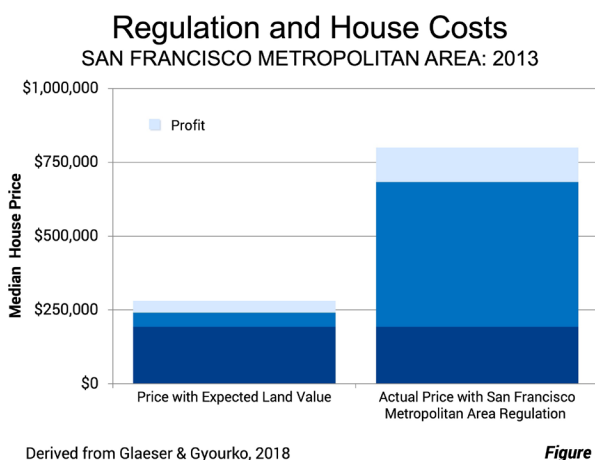


Figure 8

little – San Francisco metropolitan area agricultural land values have declined more than 20% relative to the nation since 1969.¹⁰⁸

The other factors of housing production, labor and materials were found to be little different than expected, though the higher land costs make considerably higher profits necessary to earn commercial returns (Figure 9). A 2,000 square foot detached house in the San Francisco metropolitan area costs only 31% more to build than in the Columbus, Ohio metropolitan area, which has typical housing affordability, not counting land acquisition costs.¹⁰⁹ Moreover, when adjusted for incomes, San Francisco construction costs are less than in Columbus.



The Significance of Urban Containment: While it is generally agreed that stringent land use regulation leads to higher house prices, urban containment's impact may well dwarf that of other regulations, with demonstrated impacts of 10 times or more on land costs. Further, its impact is likely far greater than that of conventional zoning. William Fischel noted the difference between ordinary zoning and growth control (urban containment): "Allowable growth is held below the rate that was permitted under the previous zoning laws and below the rate that the community's vacant land inventory can sustain."¹¹⁰ Conventional zoning typically operates at the municipal (city or town) level rather than at the metropolitan level, and as a result is generally not associated with large differences in housing affordability among metropolitan areas.

Urban Containment and the Principle of Competitive Land Supply

Urban containment violates the "principle of competitive land supply," which according to Brookings Institution economist Anthony Downs requires that the land available for each type of housing be "a multiple of the amount likely to be absorbed during that period" in order to significantly increase the final price of the house.¹¹¹ This effect has often occurred in metropolitan areas with urban containment. Indeed, all of the severely unaffordable major metropolitan areas in the United States have urban containment.¹¹²

Consequences

Severely unaffordable housing can lead to the following consequences.

Lower Standard of Living: Diminished housing affordability lowers the standard of living because housing costs largely drive the cost of living.

Greater Poverty: Higher housing costs increase poverty. This is illustrated by California, which despite its wealth, has the highest housing cost-adjusted poverty rate of any state.¹¹³

Greater Inequality: Rising inequality is exacerbated by the higher housing costs in urban containment markets. Matthew Rognlie, now at Northwestern University, found that virtually all of the rising inequality identified by French economist Thomas Piketty has been in the increase in housing values.¹¹⁴

More Households Unable to Afford Market Rate Housing: The higher land costs in urban containment markets make subsidized affordable housing more expensive to develop. This only adds to the pervasive shortages that have plagued affordable housing for decades.¹¹⁵

More Homelessness: From an analysis of research by some of the most prominent urban economists,¹¹⁶ the White House Council of Economic Advisors cited “overly restrictive zoning and growth management controls” as one of three principal drivers of homelessness. The report highlighted 11 “supply constrained” metropolitan areas¹¹⁷ for their intensity of homelessness. Nine of the eleven are severely unaffordable (and have urban containment), and the other two also have urban containment (Washington and Baltimore).¹¹⁸

Reduced National Economic Growth: Academic researchers have estimated that restrictive land use regulations have reduced U.S. gross domestic product by as much as 12%.¹¹⁹ Kyle Herkenhoff of the University of Minnesota, Lee Ohanian of UCLA, and Edward Prescott of Arizona State University found that U.S. labor productivity would be 12.4% higher and consumption would be 11.9% higher if all U.S. states moved halfway from their current land-use regulation levels to the current Texas level.¹²⁰

An Urgent Need for Change: Restoring Basic Priorities

Urban planning can trace its roots to 19th century Britain. It has long had the laudable intention of improving living standards, especially for the poor. But urban planning has strayed from that purpose to a preoccupation with urban design and “place-making.”

The principal problem has been ignoring economics. This was already evident 70 years ago, when planning historian William Ashworth characterized urban planners as having displayed “great capacity for ignoring a multitude of economic facts.”¹²¹ More recently, former World Bank Principal Planner Alain Bertaud wrote that: “...the unfamiliarity with basic urban economic concepts by those in charge of managing cities is one of the major problems of our time.”

Paul Cheshire, Max Nathan and Henry G. Overman, at the London School of Economics note that “...the ultimate objective of urban policy is to improve outcomes for people rather than places; for individuals and families rather than buildings.”¹²²

In a comprehensive 1970s review of British planning, Peter Hall and his colleagues concluded that “perhaps the biggest single failure” of urban containment has been its failure to prevent losses in housing affordability.¹²³

Bertaud calls for a return to basics, suggesting that the purpose of urban planning is to “maintain mobility and housing affordability.” Metropolitan areas must aim to be functional labor markets, in which economic performance is better if people can afford to live there and get to work, shopping and other activities relatively quickly.”¹²⁴ This requires evaluation of results, and not assuming that intentions lead to the desired results.

Risks to Middle-Class Affluence

Severely unaffordable housing could spread to other major metropolitan areas and similarly retard the standard of living. The most at-risk metropolitan areas are likely those that temporarily reached severe unaffordability during housing bubble, as well as others that already have significant elements of urban containment, but have not yet become severely unaffordable (Figure 10).

Major Metropolitan Areas at Greatest Risk of Becoming Severely Unaffordable

| REACHED SEVERLY UNAFFORDABLE STATUS DURING HOUSING BUBBLE | SIGNIFICANT URBAN CONTAINMENT MEASURES PRESENT |
|---|--|
| <ul style="list-style-type: none"> • LAS VEGAS, NV • ORLANDO, FL • PHOENIX, AZ • PROVIDENCE, RI-MA • TAMPA-ST. PETERSBURG, FL • TUCSON, AZ • WASHINGTON, DC-VA-MD-WV | <ul style="list-style-type: none"> • BALTIMORE, MD • MINNEAPOLIS-ST. PAUL, MN-WI |

Figure 10

Even more metropolitan areas could also be threatened, because of the planning profession’s preference for urban containment. The United States could become like the United Kingdom, Australia and New Zealand, where virtually all major metropolitan areas have urban containment, many with severely unaffordable housing. This includes even depressed metropolitan areas in the north of England and all of Australia’s major metropolitan areas, from the most affluent (Sydney) to the least (Adelaide).¹²⁵

Solutions: Putting People First

Middle-class standards of living are likely to decline if urban containment spreads to other areas or is not reformed where it exists. The following corrective actions are recommended:

Urban Containment Should be Avoided: Every effort should be made to prevent imposition of urban containment policy so that the standard of living can be preserved.

Urban Containment Should be Relaxed: Urban containment should be relaxed to stop further deterioration of housing affordability. This would require allowing sufficient development on the urban fringe to permit small lot, detached housing tracts to be built on the urban fringe. One alternative would be to establish “housing opportunity areas,” as have been proposed in California, which would be largely exempt from urban containment regulation.¹²⁶

Monitor and respond to housing affordability trends. All metropolitan areas should monitor housing affordability on an annual basis (using price to income ratios) and land prices for new residential development on the urban fringe. If housing affordability deteriorates, or if urban fringe

land prices are too high to build housing affordable to median income households, regulations should be relaxed.

A prerequisite to maintaining the standard of living and reducing poverty is that disproportionate increases in the housing costs relative to incomes are prevented. The title of a Paul Cheshire paper may characterize the reality, that urban containment is “irreconcilable” with housing affordability.¹²⁷

Legendary urban critic Jane Jacobs made a fundamental observation: “If planning helps people, they ought to be better off as a result, not worse off.”¹²⁸ Right now, urban containment is making people worse off in the severely unaffordable markets. ☒

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Section One: When Opportunity Stalls

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Section Three: One Latina's Story

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