After the Fact | Housing in America: Pathways to Homeownership

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TRANSCRIPT

Alex Horowitz, project director, housing policy initiative, The Pew Charitable Trusts: We need more homes, and the most demand is out there for homes that are in locations near jobs, near commerce, and we're not building enough of those.

Dan LeDuc, host, The Pew Charitable Trusts: Welcome to "After the Fact." For The Pew Charitable Trusts, I'm Dan LeDuc. The path to homeownership is a challenging one for many Americans. Alex Horowitz, who you just heard, leads Pew's housing policy initiative alongside Tara Roche. They're working to bring policymakers and others together to ensure that there are more homes for the people who need them and to improve the financing available for those homes.

Dan LeDuc: It's a big job. According to Pew Research Center, 70% of Americans think young adults today have a harder time than their parents' generation when it comes to buying a home. Alex and Tara are here to tell us why that is and how we can change it.

Alex Horowitz: Americans are struggling to afford housing because housing costs are rising to the highest levels we've ever seen. That means housing, which was already the biggest line item in a family's budget, is taking up more and more of each paycheck. And that does a lot of damage, because it means people don't have enough to spend on other goods.

Housing impacts every aspect of families' lives. And the downside of housing costs rising to the highest level that they've ever been is that people are living further than they have before from the places they need to go, and homelessness is rising to the highest level we've ever seen.

Dan LeDuc: Tara, even with the challenges in purchasing a home today, do Americans still aspire to that part of the American dream?

Tara Roche, project director, housing policy initiative, The Pew Charitable Trusts: Yeah, absolutely. You know, people continue to aspire to homeownership, but today's policies just haven't kept up with that demand, especially for people looking for starter or low-cost homes.

It’s really difficult to find safe, affordable financing to do that. So, it shuts a lot of those people out of homeownership and kind of keeps them away from achieving the things they want to, which is a safe roof over their head in a community they love, near friends, family, jobs, a good school.

And so, we’re looking at a lot of the challenges people face when trying to purchase those homes and inform policymakers so they can, you know, improve these laws to help people achieve their goals.

Dan LeDuc: Challenges facing individuals who want to purchase a home is one part of the story. Over the past seven years, the average rent has risen by 30% across the U.S., a rate that well outpaces inflation.

Alex Horowitz: Half of all renters are considered rent burdened. Historically, the averages tend to be in the low 20s as the share of their income on rent. Now, the median is at 30%. With rents reaching an all-time high, that makes it hard to save for a down payment, because such a large portion of a family’s paycheck is going to cover housing costs. But because people also have to live further out, then that’s pushing up transportation costs too. We see the rise of super commuters who are driving long distances because they can’t afford to live near jobs since there aren’t homes getting built there.

Dan LeDuc: Well, both of you are studying this issue really closely. Tara, your work focuses a lot on financing: people getting access to mortgages to buy a home. Tell us more about that and what you’re seeing.

Tara Roche: On mortgages, for example, they’ve become increasingly expensive for lenders to make, and harder for borrowers to find over the last decade. So, if someone’s looking to purchase a low-cost home today, it’s really hard to get mortgage financing, and instead a lot of people turn to alternative arrangements.

And so those are non-mortgages, land contracts, rent-to-own agreements. They don’t have the same protections as mortgages. Sometimes they’re riskier, for sure. People run into all kinds of problems with them.

Sometimes the responsibilities or the ownership of the home is unclear, whether the seller is in charge of taxes or keeping up the house. So, it just makes it very difficult for people to find something safe and affordable.

Dan LeDuc: These are folks who couldn’t qualify for a mortgage for some reason, and these are alternatives, and with being an alternative comes risk for these borrowers.

Tara Roche: And sometimes it's not about a borrower's credit history. For example, about a quarter of home sales that are under $150,000 have a mortgage, so a lot of those homes aren't being bought with a mortgage, compared to about 71% of homes that are over $150,000. And, you know, a lot of the reason for this is habitability issues. Again, the expense of originating a mortgage is just very hard for lenders to do profitably. So, it just makes it hard to find those loans.

Dan LeDuc: So, you're really talking about some economic issues but also maybe, for lack of a better word, some fairness issues, right? In terms of access to jobs, access to commerce, access to education.

Tara Roche: Absolutely. It means people are traveling farther to get to their jobs, to get to their schools. This has impacts on health care, on the environment. I mean, housing is everything. You know, it's the root of everything. And so, you can imagine the harder we make it for people to get that, the more impacts it has on other areas of their lives and, you know, at a community level and so on.

We're not building low-cost or starter homes. Most of the homes that are low-cost age into that because, over time, they become a little more dilapidated, and maybe if they aren't kept up, the prices aren't rising as quickly.

So, you know, that can make it difficult again to get safe, affordable financing on those homes, meaning some people are just using riskier things, and then it starts to affect intergenerational wealth and their financial stability.

Dan LeDuc: One way to address the lack of available affordable homes is to make it easier to build housing. That can involve changes to zoning policies to allow for more homes that are less expensive. Alex told us more about the history of restrictive zoning policies and how Pew is working to change that.

Alex Horowitz: Originally, many jurisdictions adopted restrictive zoning in order to segregate their communities by race. And restrictive zoning laws are still having that effect today, where apartments are banned, where lower-cost homes like town houses and duplexes are banned, we see a lot of exclusion.

The lack of housing in high-demand areas, near jobs, near strong schools, means that opportunity gets closed off. Starter homes are not getting built very often because of restrictive zoning that starter homes don't make sense anymore. If you have to buy half an acre of land in order to build a home, it's going to be expensive. If you're allowed to build a home on a small lot, then town homes become viable.

And we see that communities that have legalized housing like that are having much better outcomes on affordability.

Dan LeDuc: Can you talk more about what's happening in cities that have these restrictive policies?

Alex Horowitz: Cities and towns that have restrictive zoning make it hard to build apartments. They have high requirements for parking, and that drives up the cost of housing and makes it hard to build town houses, duplexes, and more affordable types of housing. In places like New York City, San Francisco, Boston, they consistently add less than 1% a year to their housing stock. And the predictable result is high rents, homeownership getting pushed further out of reach, and high levels of homelessness.

Dan LeDuc: I just was thinking, as you were listing off these cities, you're listing the most expensive places in America to live.

Alex Horowitz: That's right. The places that add lots of housing are more affordable. The places that are not adding much housing, even though there's a lot of demand to live there, are consistently expensive, and that means it's hard for employers to hire workers. It's hard for people to move to opportunity.

The lack of housing is affecting people up and down the income spectrum, where middle-class families used to buy a home in their early years, and now the typical age at which someone becomes a homeowner just keeps going up because the shortage is so severe.

When we think about housing affordability, a lot of times the focus is on those earning less than 60% or 80% of the area median. When we see new housing come online, it's often expensive, but when there's enough of it and high-income families, high-income residents move into the new housing, there's less competition for every other home.

Dan LeDuc: So the effect is?

Alex Horowitz: We see immediate benefits for people who have low incomes and who have moderate incomes, even if they don't move into the new homes that get built. The high-income residents who otherwise compete with moderate-income and low-income residents for their homes are suddenly taken out of the equation because there is this new housing coming online.

And that means that affordability improvements start right away. And we can see it clearly in the data. As new apartments get permitted, rent growth slows, even if the new apartments are expensive.

Dan LeDuc: Tara, some people look to alternative financing to purchase homes. What are some of the issues with those types of loans?

Tara Roche: So, 36 million Americans have used something other than a mortgage to pay for their home.

Dan LeDuc: Wow, that many. That's a lot, that's a big number.

Tara Roche: Huge number. This blew us away when we saw the results of our survey. At the time, I think we'd estimated maybe 12 to 15 million people have used these arrangements, so we were very surprised to see that result.

So, anyone who's ever financed a home purchase, 1 in 5 are using a risky arrangement to do that. So again, land contracts, rent-to-own or lease-purchase arrangements, which are increasingly common ways to purchase homes, personal property loans. If someone wants to buy a low-cost manufactured home, most states don't have laws on these arrangements. It's a pretty weak patchwork. And so, there's no uniformity with the kinds of contracts. And they're often not clear about who has to pay taxes on the property. We've talked to dozens of homeowners, legal aid experts, academics. They can work well for some people, and the harms when they do materialize can be dire for people's housing stability and, you know, for their life.

Dan LeDuc: What are some of the basic differences to help people really understand the risk that 36 million people may be facing?

Tara Roche: When people use an alternative arrangement, there's not usually a third party involved. So, you and I would work out that agreement between us. Typically, say in a land contract, for example, I would pay you regular monthly installments for maybe 15 years. During that time, though, you still have the deed to the house. So, even though this is meant to be an alternative pathway to homeownership, it's really unclear who owns the home. So, are you responsible for taxes, or am I? Who's responsible for repairs? If I miss a payment, am I allowed to make up that payment, or do you evict me immediately? And so, these are some of the consequences that can come when contracts are unclear about what responsibilities exist. And without laws that dictate, you know, what those arrangements should look like and shore up those protections, it just leaves a lot of people in precarious situations.

Land contracts were born out of redlining practices about a century ago. But they persist today, and they are more common in Black and Hispanic communities. And these are also places where small mortgages don't exist. These communities are historically underserved by safer, more traditional credit. And so, good policy should ensure that there's more credit available, more small-mortgage credit available, and better protections for these arrangements so that those communities have safer access to credit.

Dan LeDuc: If I'm selling you a house under a land contract, it's not like a mortgage where the deed goes to the bank with a lien on it, and everybody knows, well, it's my house except for the bank can take it if I don't make my loans. I would keep the deed to this house. You would be paying me for it, and I don't have to give you that deed until you've made that 15th year of payment. But for 10 years, you could be paying me, and then something could go haywire, and all the money you paid me is sort of unclear what it really does anymore. And I still have the deed to the house.

This is complicated and scary when people are talking about probably their single biggest purchase or investment in their family budget.

Tara Roche: That's exactly right. What happens to all those payments? It's as if you were a renter and not building any equity. And that's one of the, you know, upsides of owning a home, is that you can tap into that equity if you need it. You know, you build it over time. It's generating wealth. But if I've missed a payment in, say, year 10, it's often really unclear what happens to all of that equity I've built. You could take the deed, sell the house, and now it's all your equity, and I don't see a penny out of that. I might even owe money when I walk away from this arrangement.

Dan LeDuc: There's risks with alternative financing, but this is a path for some people to own a home. Have you heard some of the stories working out?

Tara Roche: There is one story that I think of a lot, and it was from a woman who was looking to move to a home with her children, and she had to leave her previous house within 30 days. She is a former service member, so she is eligible for VA benefits, and she wasn't able to close on the loan in time. And so, she had to use an alternative financing arrangement instead of getting that well-protected federal loan that was available to her as a former service person.

And so, it's situations like that where there's clearly a failure of policy. She could have been in a much safer type of credit. And instead, she had to use a risky land contract.

Dan LeDuc: Tara has also conducted research on manufactured homes, which can increase access to lower-cost housing. While they're cost effective, there are challenges as well.

Tara Roche: Manufactured homes have actually been around for a long time. People usually refer to them as mobile homes, but there are pretty strong federal guidelines that make sure the manufactured homes of today are high quality. They often look indistinguishable from site-built homes. Manufactured homes are a great low-cost option. About 10% of the current housing stock today is manufactured housing.

But the financing challenges undermine the opportunities here. So, today, if you wanted to purchase a manufactured home and site it on a plot of land, if you don't own the land underneath, you can't get a mortgage on that home. And as we talked about before, mortgages are the gold standard. Everyone should have a mortgage when they're purchasing a home, because it brings so many protections and cost savings.

But if someone doesn't own the land, they have to look at other options. One of those is a personal property loan. And these actually have fairly good protections. They're not as well-protected as a mortgage, but they are akin to mortgages. There's so little data on those, we actually don't know what those experiences look like.

You know, at a high level, the problem here is that the financing in the manufactured housing market is not functioning well for people right now. It holds back the supply of bringing those homes to market.

Dan LeDuc: We look at places that are trying to do something about this. I mean, this is a problem. Policymakers are not blind to it. There are places that are trying to address this.

Alex Horowitz: Yeah, absolutely. States are recognizing they need to get involved because the housing problems in their states are so severe. Localities have restricted where low-cost housing can be built or whether it can be built at all in their communities, and that's doing a lot of damage to states' economic prospects. And it's causing homelessness, it's causing displacement, it's causing sprawl.

We increasingly see states getting involved and passing laws to ensure that more housing is allowed. The most consequential bills that have passed states to allow more housing have had bipartisan support. The bill sponsors are as likely to be Democrats as they are Republicans. Allowing more housing is broadly popular. Our survey data shows that consistently, and there's not much variation by political party or by region.

When we look at cities that have had success here, Minneapolis has been out front in making changes to allow more homes in the city, and it's worked. Affordability has improved. They've held rents flat for seven years. That has not happened elsewhere in the U.S. in growing cities. Homelessness has dropped in the Minneapolis area, even while it's risen in the rest of Minnesota.

Places in New York—the slowest rent growth has come in the suburbs of New York City, in New Rochelle, New York, and White Plains, New York. Those two places have added 11% to their housing stock over the most recent five-year period. The places with the fastest rent growth in New York are those that have added less than 1% to their housing stock over their most recent five-year period. So, we see that it's working in localities that are allowing more housing, especially apartments near commerce and transit.

Tara Roche: We want to support people's goals of ownership, whatever that looks like. The homes are there, the people are ready, but the financing is not.

And this is an opportunity to inform that discussion. We want policymakers to help further those goals by increasing small-mortgage credit and improving protections on alternative financing. Because this is how people, you know, achieve their goals and take on the largest purchase that most people are ever going to make. And that has a lot of implications for your family today and for many generations.

Dan LeDuc: We'll be exploring where the American dream of homeownership is within sight, thanks to some innovative policies and passionate folks in government and in the community working together. We hope you'll join us.

And for more information about the guests and content covered in this episode, visit www.pewtrusts.org/afterthefact. And please take a moment to subscribe to our show wherever you listen to your podcasts.

Thanks for listening. For The Pew Charitable Trusts, I'm Dan LeDuc, and this is "After the Fact."