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Homeownership: One Size Fits All Solution?

For decades, homeownership has been characterized as a black and white, "one-size-fits-all" solution. Regardless of a household's economic circumstance, policymakers championed homeownership as an important means of building wealth and the only way up the socio-economic ladder (Shlay 2006). While there is some truth in this statement, the literature is much more nuanced.

From an economic standpoint, scholars generally agree that homeownership is the most prominent means of building wealth in the US; the accumulation of housing wealth is greater than non-housing wealth (e.g., stocks, savings) for the majority of households (Boehm and Schlottmann 2008). As an asset class, housing is unique—a household benefits from its economic value (i.e. a financial investment) and its use value (i.e. a physical home) (Levitin and Wachter 2013). This feature makes homeownership particularly attractive and potentially more accessible as an investment for households with limited disposable incomes.

A variety of studies explore the wealth gap between homeowners and renters, finding substantial differences (Herbert and Belsky 2006; Shlay 2006; Reid 2004; Denton 2001). Kennickell et al. (1999) found 55% of a household's total net worth was tied to their primary residence, netting homeowners a median worth of $132,000; by comparison, renters claimed $45,000. The Joint Center for Housing Studies (2013) reported a greater gap: the median net worth of homeowners was $173,010 in 2010, substantially exceeding renters at $5,100. Grinstein-Weiss et al. (2013) studied wealth building for a subset of low-income households, finding that homeowners possessed a total net worth $10,500 greater than renters between 2005 and 2008.

The economic benefit of homeownership, however, is not simple. Low-income households are often exposed to substantially greater risk and are less likely to reap the rewards of homeownership relative to their higher income counterparts. For instance, low-income homeownership is described as "forced savings," directing resources that previously went towards rent into an equity repository (Davis 2010b; Shlay 2006). While direct investment in equity may be positive, the literature suggests low-income homebuyers generally realize less appreciation than higher income households, dedicate a greater percentage of their income towards mortgage payments (and away from potential investment vehicles, such as 401Ks or mutual funds), and are more likely to depend on high-risk financing, which increases their exposure to foreclosure (Jacobus and Davis 2010; Jacobus 2007; Herbert and Belsky 2006).

The timing and location of homeownership also pose a substantial risk for low-income households (Davis 2010b; Herbert and Belsky 2006; Shlay 2006). Low-income homeowners are more likely to purchase lower quality units in less desirable neighborhoods, exposing their investment to neighborhood instability, limited appreciation (or depreciation), and increased maintenance costs. Limited resources may constraint a low-income household's ability to capitalize on the resale of their investment. Without the means to sustain homeownership until the market is right (i.e., a "seller's" market), many low-income homeowners dispense of their properties at a loss or a minimal gain that cannot cover the transaction costs (Herbert and Belsky 2006; Belsky and Duda 2002). Under these conditions, the adage of homeownership as a secure investment is, in reality, much less certain.

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The recent housing crisis has caused many scholars, policymakers, and consumers to question the tenets of homeownership and, more specifically, its soundness for low-income households (Stein 2010). Others view the crisis as an impetus for change and opportunity to reconsider the mechanics of affordable housing (Belsky 2013; Davis 2010b). Many scholars in the latter group conclude that homeownership can offer meaningful benefits, particularly to low-income households traditionally excluded from conventional markets and other forms of wealth accumulation (Jacobus and Abromowitz 2010; Jacobus and Davis 2010; Temkin, Theodos, and Price 2010; Jacobus 2007). From this perspective, the question is not about the merits of ownership at large. Instead, it is about pursuing *sustainable* homeownership, which supports wealth-building opportunities at an affordable price and devoid of excessive—or, in the case of predatory loans, exotic—risks that favor the investor over the consumer.

Shared Equity Homeownership: A Better Model?

Shared equity homeownership offers a viable alternative to the traditional own or rent choice. Prime examples of sustainable homeownership, shared equity models provide the stability and wealth building benefits of ownership, while preserving affordable housing on behalf of the community (Koschinsky 1998). The models are rooted in the early 20th century ideology of Henry George (1879) and John Stuart Mill (1900). The term, however, emerged only recently, solidifying general principles into a flexible framework.

Conceptually, shared equity homeownership separates the “bundle of rights” typically associated with property ownership and reassigns them to different parties. The reallocation of rights seeks to move beyond the traditional landlord-tenant relationship and neutralize real estate’s inherent price speculation. Shared equity models subdivide property ownership into a “use” right, where the homeowner retains ownership of physical improvements on a property (e.g., the house), and a “land” right, where a non-profit organization retains ownership of the underlying land (Davis 2010b; Davis 2006). Classic examples of shared equity models include CLTs, LECs, and price-restricted houses or condominiums with permanent affordability covenants (Davis 2010a).

At its core, all shared equity models are characterized by two principles (Temkin, Theodos, and Price 2010; Davis 2006). First, *permanent affordability* ensures homes remain affordable in perpetuity through subsidy retention techniques, such as resale formulas that limit the appreciation a homeowner may claim on his/her investment. Second, *long-term stewardship* focuses on the preservation of an affordable resource, by a non-profit and for the community, through active stewardship of the land itself.

These two hallmarks distinguish shared equity properties from other common forms of ownership with communal elements. For instance, in a condominium project, each household retains full ownership of its dwelling unit and joint ownership of common areas; in principle, the condominium could also be a shared equity project, but not without permanent affordability controls that restrict the unit’s resale value. In contrast, some neighborhoods have homeowner associations (HOAs)—non-profits responsible for the maintenance of common areas and overall neighborhood conditions. While individual households are required to make financial

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