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United States Housing Policy and Social Inequality: Homeownership, Renting, and the Necessity of Change

Cullen Dilldine
cdilldi1@uwyo.edu

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University of Wyoming: Honors Program
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Introduction

Federal housing policy represents a significant fixture in the lives of millions of Americans. Housing policy has the effect of determining which kind of structures are built, who gets access to those structures, and what methods of living are preferred. Homeownership has long been the preferred and promoted living arrangement for all ages, family arrangements, races, and economic status. This is evident in the funding for housing policy. Homeownership, roughly, on average receives about 84% of the funding for housing policy.[1] Proponents argue that homeownership will provide stability, make low-income people more invested in politics and local communities, accumulate wealth, and in general help them advance in social and economic standing. It is worth questioning, however, if promoting homeownership for low-income individuals and families helps break down social inequality or creates and sustains it and whether or not they may be a more effective mechanism at doing so.

Social inequality in housing is worth exploring for several reasons. Housing can represent social status on a multitude of levels. If a family has a big, flat screen television, nice leather couches, and solid wood end tables, it would be safe to suggest that family occupies a higher socioeconomic status. If a family has a small, space-eating television, stained couches, and plastic or run down end tables it could be inferred that family occupies a lower socioeconomic status. Also where you live can show socioeconomic status. Living in a rundown, inner city neighborhood suggests poverty, while living in a gated community with green grass, a white picket fence, and neighborhood watch signs, would suggest a high socioeconomic status neighborhood. Plus, where you live can determine the opportunities presented to adults, families, and children. It can determine the quality of school, social network available, and possible employment. So not only does housing have social implications, it can also having economic

[1] Geoff Anderson, Christopher Coes, Alex Dodds, Catherine Harnett, Tom Madrecki, and Illana

ramifications as well. If housing is such a cornerstone of social, cultural and economic being, it is important to understand how policy functions, who it serves, and what it means for society as a whole.

The central goal of this paper is to explore how promoting low-income homeownership can create and sustain social inequality. I will explore how many of the building blocks necessary for successful homeownership are often inaccessible to low-income individuals and assume a more privileged subject. I will explore whether or not it was be beneficial for housing policy to be reoriented towards renting. This reorientation is necessary for a few reasons. First, shifting towards renting is important because of the current crisis of cost and affordable supply in renting. These crises necessitate government intervention. Second, homeownership is ill suited to create success for low-income individuals and families. These factors include the total economic power to not only buy a home but also sustain that ownership long term. Third, it is important to establish why rental assistance could be a more effective alternative. Rental assistance could resolve a lot of the follies of homeownership while creating growth for low-income individuals and families. If all three of these points can be established, the necessity of change can be understood.

The Crises in Renting

One of the most compelling arguments for the federal government to reorient its policy from homeownership towards renting is the crisis in the rental market. Starting before the bubble, the housing market has been experiencing tumultuous challenges that create the necessity for intervention. If the point of federal policy is to intervene and correct markets for the benefit of needy populations, it must first be established that there is a need for intervention and then that vulnerable populations would benefit. Cost is an important factor to understand because it helps determine who is able to afford to live in this market and whether or not intervention is truly necessary. Third, beyond cost issues and the market, is there enough supply to match what the market may present. Fourth, current policy must be explored and determined to be effective or ineffective. Lastly, even if there are rental crises, it is important to understand whether or not the crisis will continue without intervention. Once all these questions have been answered, the necessity of intervention can be understood, in addition to what sort of intervention is necessary.

There is a clear affordability crisis in the rental market. To best understand the current crises in the rental market, one must understand the housing crises that coincided with the economic downturn of 2008. The direct causes of the downturn are variable and arguable, but the housing market played a central role. The housing bubble caused by subprime mortgages triggered a cascade of foreclosures. The unfavorable economic conditions became reflective of a changing economic terrain; one that suggests renting may become a more long-term option for large swaths of the population. This is most evident in the cost crises in the rental market.

One of the ways this was most evident is when analysts have noted the rising amount of populations that qualify for federal renting assistance, "Rental subsidies are generally targeted at households with very low incomes... Between the onset of the Great Recession in 2007 and the latest count in 2011, the number of such renters soared by 3.3 million while the number able to obtain housing assistance expanded by just 225,000."[2] That may seem bad, but it is worse than that. There were over 3 million and 75 thousand people that needed rental assistance, but were unable to receive that assistance. This increase is reflected by a measure taken by the Joint Center for Housing Studies at Harvard University, "As a result, the share of income-eligible

[2] "AMERICA'S RENTAL HOUSING EVOLVING MARKETS AND NEEDS," *Joint Center for Housing Studies of Harvard University,* December 9, 2015: (7), http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf

households receiving assistance shrank from an already modest 27.4 percent to 23.8 percent."[3] There is a rising demand overall and a decreasing capacity to get help. Even more concerning than that is the increasing rate of people paying more than 50% of their income on renting, "Meanwhile, the number of unassisted very low-income renters with worst case needs (paying more than half of income for housing or living in severely inadequate homes) jumped by 2.6 million to 8.5 million."[4] The fact that people pay more than 50 percent of their income on rent is concerning, even more so is the fact that those populations are increasing at such an alarming rate. Paying over 50 percent of a person's income severely hinges that person's economic capacity. Paying so much for rent means that person or family cannot spend that money on other things such as food, clothes, health care, and transportation, among other utilities and commodities. This data about affordability shows a clear failure of the market to accommodate for the most vulnerable and an even more prominent failure of government policy to correct this.

Although there are many causes to the affordability crisis, one of the more prevalent causes is the diverging relationship between income and rental rates. Exploring this relationship is important. Increasing income and decreasing rental costs would be indicative of prosperous economic times. Increasing income and increasing rent would suggest everything is keeping par with one another. Decreasing income and increasing rent would represent challenging economic times for millions of Americans. The Joint Center on Housing Studies at Harvard University described this relationship by saying:

> Affordability thus waxed and waned over the two decades as incomes and rents drifted apart and converged again…. rents climbed 6 percent in real terms between 2000 and 2012. Meanwhile, real median renter incomes fell over much

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[3] Ibid.
[4] Ibid.

> of this period, ending 13 percent lower in 2012 than in 2000. As a result, the gap between rental costs and renter incomes in 2012 was wider than in any year except 2010.[5]

If rental prices rise faster and higher than income, people will become more and more burdened over time.. This will mean more people will be spending more money on rent while they are making less overall, presenting unique economic challenges. There will be less money for necessities across the board, which presents an untenable relationship for a lot of Americans.

Rental inflation and wage stagnation is also not a problem that is expected to resolve itself either, "Stagnant wages, high rental prices, and decreased employment opportunities during (and following) the recession may continue to play out over the next decade."[6] If the current pattern persists, it was found that the amount of people spending 50% or more of their income of rent will continue to increase sharply, "with rent prices increasing more quickly than incomes, each 0.25 percentage point increase in rent will mean an additional 400,000 Americans who are spending half of their pay on housing."[7] An increase of 400,000 Americans may seem insignificant, but that is only calculating a .25 percentage increase. For every fractional increase of rent, a significantly higher number of people will be burdened by rent prices. If the projections are conservative, the number of people burdened by renting will only continue to increase. Thus, not only will there be an increase population wise, the higher there will be an increasingly heavy burden building on those who are already struggling. These statistics represent a severe and strong necessity for the intervention of federal policy because without it the problem will get progressively worse.

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[5] "AMERICA'S RENTAL HOUSING EVOLVING MARKETS AND NEEDS," 14.
[6] Gillian White, "A Bleak Future for Renters," *The Atlantic,* September 21, 2015. http://www.theatlantic.com/business/archive/2015/09/a-bleak-future-for-renters/406453/
[7] Ibid.

To further communicate the affordability crises, it is important to understand whom, specifically, these burdens are falling on. Projections have shown a clear and consistent pattern across low-income quartiles with relative levels of being cost burdened with and severities as you move up the chain.[8] It may be easy to assume that the cost burdened experience of low-income renters may have something to do with low-income folks having fewer jobs, working less hours, or any other number of narratives that surround people who live in low-income housing or receive rental assistance. This is not the case. In fact, there has been a dramatic increase in the percentage of the population that is cost burdened while working full time, "The cost-burdened share of fully employed renters jumped from just 28 percent in 2001, to 34 percent in 2007, and to 38 percent in 2011."[9] Over 10 years, there has been a 10 percent increase of cost burdened renters that are fully employed, working full time. This shows that the cost burdens are not the product of people lacking employment; rather a larger structural cause is more likely. Plus, if the percentage is this high for people who are working, imagine how much more difficult it would be for people who cannot sustain full time, consistent work. These people are far more burdened economically and have far fewer resources to persist through challenging times. Additionally, some analysts have theorized that as cost burdens spread up the income chain, creating economic pressures for most income quartiles, "The concentration of household growth among low-income renters, together with the creep of burdens up the income scale, thus propelled the spread of housing affordability challenges."[10] If cost burdened renting is a phenomenon that spills up to impact everyone, there is a compelling case for greater attention to the problem from everybody. All this data about affordability challenges make a compelling case for intervention. The most vulnerable populations are being uniquely challenged. What is more

[8] "AMERICA'S RENTAL HOUSING EVOLVING MARKETS AND NEEDS," 29.
[9] "AMERICA'S RENTAL HOUSING EVOLVING MARKETS AND NEEDS ," 30.
[10] Ibid., 8.

than that is that it is spilling over to all income quartiles. Thus, intervention has not only compelling ground, but also a pressing demand for the majority of Americans.

The affordability crisis is made worse by the fact there is an insufficient supply of affordable renting structures. A massive increase of renting with proper supply would present far fewer policy challenges, but increases in renting paired with decreases in ownership creates a unique policy challenge moving forward into the next couple of decades. It is important, though, to understand the nature of the supply crisis. It is true that weak homeownership markets do have the tendency to increase the overall supply of rentals, these rentals are typically much more expensive to rent. Plus, with decreases in homeownership there is also an increase in renting overall. Thus, most of these new renters take a decent chunk of the new stock. This creates a situation where the most vulnerable struggle to find adequate supply. Thus, it may not be that demand is overall stripping supply, but rather demand is outstripping supply affordable housing. One study found that, in terms of affordable supply, there were nearly 3.9 million more people in search of affordable units than the market was able to provide:

> At last measure, 11.2 million extremely low-income households competed for 7.3 million units affordable to them – a 3.9 million unit shortfall. And with 7.7 million unassisted very low-income renters with worst case housing needs…only just over a quarter (26 percent) of eligible very low-income households received rental assistance.[11]

A 3.9 million unit short fall represents a catastrophic policy failure. This means that 3.9 million people either experienced housing insecurity or were forced to live far beyond their means. Plus,

[11] Allison Charette, Chris Herbert, Andrew Jakabovics, Ellen Marya, and Daniel McCue, "Projecting Trends in Severely Cost-Burdened Renters: 2015–2025," *Joint Center for Housing Studies of Harvard University,* 2014: 5, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/projecting_trends_in_severely_cost-burdened_renters_final.pdf

none of the projections the study completed projected that the problem would stagnate any time soon.[12]

Another particularly challenging part of the supply crises is that the units available to low-income people were often far from suitable. There have always been challenges getting sufficient construction for larger rental spaces or even multi-families units that provide a sufficient mix of space and cost control for families. One report cites that most of these small, multifamily units are in need of substantial repair, "small multifamily rental stock was built at least 30 years ago, when construction techniques and capital markets were less sophisticated and households were less affluent. Much of this inventory is now in need of substantial repair."[13] What makes this even worse is the fact that there is a severe lack of affordable housing for low-income people in areas where jobs are most available, "While employment growth is fastest in the low-density counties on the fringes of America's metros, affordable housing – and affordable rental housing in particular – remains disproportionately located in inner-city and older suburban neighborhoods."[14] A mismatch of supply and jobs create pressures on low-income populations. Distance impacts a person's ability to sustain employment. If people are lucky enough to secure employment in a booming area, they are forced to utilize unreliable private transportation or insufficient public transportation. Thus, intervention may be justified to help facilitate more favorable economic mobility for low-income workers.

Lastly, policies prevent the growth of affordable renting structures. Katz and Turner, within their report, cite that there are strict land-use regulations for rental properties that prevent development of low-income or affordable buildings, "Local zoning laws, land use controls, and

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[12] Ibid.
[13] Joint Center for Housing Studies, 2008: 14.
[14] Bruce Katz and Margery Turner, "Rethinking U.S. Rental Housing Policy." *Joint Center for Housing Studies at Harvard University*, March 2007: 1, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/rr07-10_turner_katz.pdf

other regulatory barriers limit total housing production, raise the costs of new units, and often prevent the production of low-cost units."[15] As Katz and Turner point out, these regulations make housing production, in general, for more difficult. But it is worth noting that if people are able to make it pass the zoning laws, land use controls, and other regulatory barriers these units will typically be built for higher-income folks. Katz and Turner continue, "Because of these supply constraints, most of the unsubsidized rental housing being produced in the United States today is high-cost luxury rentals; the median rent for newly constructed units is 37 percent higher than the median rent for existing units."[16] Plus, zoning laws and land use regulations are typically much stricter about development in faster developing areas, where as mentioned earlier, job growth is the most fruitful. Thus, this creates a perfect storm of policy exclusion. On multiple levels, renters are systemically excluded from new opportunities or from even the possibility of new opportunities arising in areas that could be more conducive to life success. In addition to that, most affordable renting units for lower income renters are largely made possible through government policy. Thus, government policy is not sufficient to incentivize a sufficient supply of rental units for lower-income individuals. This raises the urgency in the necessity of government intervention into the housing market.

So if the units that are available to rent are either in need of significant repair and/or separated from most of the job growth, status quo housing policy is not setting up low-income folks for the most success life possible. Thus, there is a need for intervention. Working towards creating a policy where affordable housing is more widely dispersed through cities would allow for addition job growth for low-income individuals, which would provide them with addition

[15] Katz and Turner, 3.
[16] Ibid.

stability and an increased capacity to find suitable renting because they have more long term employment opportunities.

Homeownership and Social Inequality

One of the more commonly cited arguments for encouraging homeownership for low-income to buy homes is that homeownership is an effective mechanism for wealth accumulation. Proponents argue that homeownership is a substantial investment that can gain value over time and give families more economic power because they have an investment to leverage for more purchases while also forcing them to save money. Altogether, proponents argue that it provides stability, makes people more invested in their communities, and benefits individuals financially and the country economically. However, it is important to explore whether or not these assumptions are correct in context of low-income individuals and families. Are these assumptions equally true when factors like economic and social status are controlled for? Is homeownership really that much more advantageous than renting? Enough to justify the massive discrepancy in funding it currently receives? All of these questions are important to evaluate because they will be informed to whether or not a policy shift should occur.

To start, it is important to understand that buying a home for lower to medium income people is a risky investment. According to Christopher Herbert, Daniel McCue, and Rocio Sanchez-Moyano, these investments are significant, undiversified investments, "Homeowners make a significant investment in a specific location and cannot diversify the risk of home price declines by spreading this investment across assets or across markets."[17] Having a significant, undiversified investments make these investments more vulnerable to shocks to the market. This

[17] Christopher E. Herbert, Daniel T. McCue, and Rocio Sanchez-Moyano, "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?)," *Jointer Center for Housing Studies of Harvard University,* September 2013: 6, https://dash.harvard.edu/bitstream/handle/1/8052149/Glaeser-RethinkingFederal.pdf

would be particularly true for lower to medium income folks and families. For most people, owning a home is the most significant investment they will make is buying a home. And more specifically, for lower income and middle-income folks, these investments are some of the only forms of external capital and savings they will accumulate. Thus, these people do not have the ability to diversify their investments to make themselves less prone to shocks and depreciation. The people that will be able to diversify their assets are those in higher income quartiles, raising the question as to whether this investment makes sense for low-income folks. Herbert et al. further contextualize this risk to low-income people when they said, "With so much wealth tied up in one asset, homeowners are particularly vulnerable to changes in home values. The use of debt financing for a large share of the purchase further magnifies these risks, with even small drops in prices wiping out substantial shares of homeowner equity."[18] This helps illustrate the danger of investing too much into a single asset. When the market down turns, it risks a substantial wipe out of all prior investment.

One justification for homeownership that could help lessen the risk attached to homeownership would be that the housing market is relatively stable. This, however, is not true either in the short term or the long term. A primary example of this phenomenon was the 2008 housing market crash, "To begin with, house prices can be volatile. That was certainly the case in the wake of the housing bust, as nominal prices fell nationally by some 25 percent or more… with the hardest hit markets experiencing declines of more than 40 percent."[19] It may be easy to get caught up in the housing market collapse and assume that is representative of the sample, but housing volatility is a phenomenon that has been seen in regional housing markets for decades, "there are other examples of fairly significant price declines over the last few decades, including

[18] Ibid.
[19] Ibid., 5.

declines of between 10 and 20 percent in some Oil Patch states in the 1980s and in New England, California and Hawaii in the early 1990s."[20] This quote not only further illustrates that housing volatility exits, it helps suggest some of the reasons why the volatility exists. Oil patch states largely build through economies through heavy investments in markets that have historically fluctuated; it seems to suggest that economic markets can influence housing markets. Larger economic markets, especially employment and investment markets, are particularly vulnerable to shocks and changes. Even if the assumptions is made that there are markets with relative more stable market prices and changes, there are still complications with markets and investment returns, "There are also a number of markets where house prices trends have historically been more stable, but in these areas long-run real price increases have either not kept pace with inflation or have been modest."[21] Thus, almost across the board, markets experience some vulnerability, instability, and are not investments without significant risk.

To further elucidate this point, some analysts have described the housing market to be naturally cyclical, "Specifically, there have been analyses about whether or not housing markets remain stable over time, "the cyclical nature of the housing market could easily cause homeowners to lose money by buying and/or selling at the wrong time." Zhu Xiao Di, researcher at the Harvard Joint Center for Housing Center, explains how the segregated nature of homeownership can amplify the risks of a cyclical market, "Segregated local housing markets may force some buyers to purchase their homes in undesirable neighborhoods that enjoy less real estate appreciation than other areas; and, in fact, houses there may not appreciate at all but

[20] Ibid.
[21] Ibid.

actually lose value."[22] This means that low-income people are put in a more difficult situation when markets swing, because their homes are most likely in areas that are most likely to shoulder the worst impacts of market swings. This cyclical nature may not seem all that important because as this quote makes clear, it has most impact when a person is going to sell their home. However, the cyclical nature of the housing market can impact the overall value of the investment. If a person is forced to move away from their home, they will be forced to split the difference between the value of the mortgage and what it is actually worth. Plus, the cyclical nature of the housing market makes timing for buying and selling important. If a person buys while prices are low, they are likely to make money on the investment. If a person sells when the prices are above the actual value of the property, they are making a risky investment that leaves them far more vulnerable when the market comes back down.

The cyclical nature of the housing market also helps explain how homeownership sustains inequality. Knowing when to invest and when to leave the market takes economic and financial knowledge. This knowledge may be located within the buyer, which definitely assumes a higher-income buyer. It would be considered rare for a low-income buyer to possess an education that would suggest they have the skills to read the market. This knowledge may be external to the buyer in the form of an adviser or real estate agent. This, again, assumes a higher income buyer. People with money are able to afford a financial adviser or good real estate agent that can give quality advice. Thus, encouraging homeownership for low-income people leaves them vulnerable to exploitation because of their lack of market knowledge that can help minimize the risk of the investment overall.

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[22] Zhu Xiao Di, "The Role of Housing as a Component of Household Wealth," *Joint Center for Housing Studies Harvard University,* July 2001: 28, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/di_01-6.pdf

An additional factor that deals with social inequality and the location of low-income homeownership are the ramifications of buying property in low-income neighborhoods. An important one being that property value in any given area goes pretty far in helping determine the funding for the public school system around those neighborhoods. If those neighborhoods, high-density, tightly concentrated levels of poverty, do not carry a lot of property value, their ability to generate for their schools flounders and struggles to produce effective educational institutions. The Lincoln Institute on Land Policy describes to the extent in which schools rely upon property taxes, "Property taxation and school funding are closely linked in the United States, with nearly half of all property tax revenue used for public elementary and secondary education."[23] Other analysts have further reported that these high poverty areas receive far less funding and generate far less revenue, thus creating another educational disadvantage to high poverty concentration areas, "state and local revenues are systematically lower in higher-poverty districts—that is, states with "regressive" school funding distributions."[24] These analysts further this by saying income in poorer areas is lower, thus all round tax efforts will impact schools, "To the extent that taxable wealth—for example, property or income—is lower in high-poverty districts, poor districts will tend to raise fewer education dollars than wealthier ones for any given level of tax effort."[25]

More generally, there is a lot of research that suggest growing up in economically areas can ensure poverty becomes an intergenerational experience. Margery Turner, senior vice

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[23] Daphne Kenyon, "The Property Tax-School Funding Dilemma (Policy Focus Report)," *Lincoln Institute of Land Policy,* December 2007, http://www.lincolninst.edu/pubs/1308_The-Property-Tax-School-Funding-Dilemma

[24] Bruce Baker and Sean Corcoran, "The Stealth Inequality of School Funding," *Center for American Progress,* September 19, 2012, https://www.americanprogress.org/issues/education/report/2012/09/19/38189/the-stealth-inequities-of-school-funding/

[25] Ibid.

president for program planning and management at the Urban Institute, finds that children that grow up in high-poverty neighborhoods are significantly impacted by these conditions:

> Where we live, and especially where our kids grow up, matters. The evidence is indisputable that living in severely distressed, high-poverty neighborhoods seriously undermines children's well-being and long-term life chances.
> And recent research finds that the damage stretches across generations. For example, children whose parents grew up in high-poverty neighborhoods score dramatically worse on reading and problem-solving tests than those whose parents grew up in non-poor neighborhoods, other things being equal.[26]

If growing up in high-poverty areas can create intergenerational poverty, there is significant need for intervention. Housing policy, as configured, only serves to sustain these inequalities by locking children into endless cycles of poverty, failure, and inhospitable environments. The economic segregation of the status quo means that policy serves as nothing more a tool to exacerbate inequality, not resolve it.

One of the most salient considerations to determine the success of homeownership is how long a person is able to own their home. For homeownership to be conducive to wealth accumulation, short-term homeownership is not a conducive mechanism. The most popular home mortgage is 30 years long. This means that a person will be making payments on their home for 360 months, thus it would make little sense for a person to expect returns on a 30 year investment in the short term. Plus, it is well established that the housing market if volatile and can fall suspect to boom and bust cycles, long-ownership becomes all the more crucial, "Housing booms aside, many of the financial benefits are slow to accumulate, including the slow buildup

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[26] Margery Turner, "Practical steps to improve the life chances of poor children," *Urban Institute*, October 15, 2014, http://www.urban.org/urban-wire/practical-steps-improve-life-chances-poor-children

of forced savings, the compounding of values at low appreciation rates, and the decline in monthly housing costs in real terms over time."[27] Other studies have taken a much more specific approach to identifying how much time ownership must occur sustain the most advantageous benefits of housing. One study found that it takes anywhere from 6-10 years for homeownership, "The analysis by both Mills and Capone solved for the holding period that was needed for owning to yield a higher return than renting on the assumption that longer holding periods would always favor homeownership. In his base case scenario Mills found a holding period of slightly longer than 7 years was needed for owning to be preferred."[28] Thus, it can be understood that it most likely will take around 84 months of consistent, uninterrupted payments for the full benefit of homeownership to be fully realized. An important question that comes from this is whether or not low-income people are well equipped to sustain homeownership and whether or not this ends up happening in practice.

To start, it is useful to investigate how successful how low-income homeownership programs are and whether or not low-income people are able to keep their homes low enough for the holding period to be triggered. One study looked at data sets referencing a 30-year reference points and found that low-income and minority are most to lose their homes within a 5-year period. Specifically, from 1979 through 2000, "only 57 percent of low-income buyers were found to still own their first home five years later, compared to 70 percent of high-income owners (with income categories defined by income quartiles at age 25)"[29] This data should definitely be concerning. The fact that low-income and minority homeowners experience since

[27] Christopher E. Herbert, Daniel T. McCue, and Rocio Sanchez-Moyano, "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?)," Jointer Center for Housing Studies of Harvard University, September 2013: 8, https://dash.harvard.edu/bitstream/handle/1/8052149/Glaeser-RethinkingFederal.pdf
[28] Ibid., 17.
[29] Ibid., 8.

rates akin to flipping a coin should incentivize policy makers to further investigate the effectiveness of homeownership as a mechanism for growth. Now that it is well established that low-income homeownership is often unsuccessful, it is worthwhile to understand how social inequality makes this so.

To start, sustaining homeownership over periods of time assumes a lot of employment stability. As mentioned previously, making 84 months of making consistent payments, having forced savings, experiencing appreciation, all assumes that a person earns enough in the month to make the payment, but more than that they make enough to start the experience of forced savings. The problem with this is that low-income people have a much harder time sustaining employment over time. Heather Hill and Marci Ybarra, assistant professors at the School of Social Service Administration at the University of Chicago, explain that changes in the economy over the last several decades have made low-income labor variable and hard to sustain, "Many workers experience unpredictable, variable, and nonstandard hours; temporary or contingent employment; and involuntary part-time positions."[30] Unpredictable, variable, nonstandard hours, and temporary employment create situations that lack routine and predictability, which leaves low-income workers unsure when they will be working, how they will deal with other challenges with an ever-changing schedule, or whether or not they will even have a job period. Job instability can complicate the ability for these workers to make month-to-month rent payments, nonetheless mortgage payments that are much higher stakes. Even missing one month can have a domino effect. It is important to ask with the risk involved and lack of stable employment, whether or not the risk is justifiable for low-income renters.

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[30] Heather Hill and Marci Ybarra, "Less-educated workers' unstable employment: Can the safety net help?" *Institute for Research on Poverty Fast Focus*, no. 19 (2014): 1.

Another critical factor towards maintaining homeownership over time is the ability to weather high-cost, home and non-home related emergencies. Homes are physical structures that will degrade over time, naturally, and are vulnerable to inclement weather, natural disasters, inferior material usage, among other factors. Something as simple as a windstorm breaking out may threaten the structural integrity of a home. Additionally, there are a lot of expensive appliances in homes that that are crucial for day-to-day lives. For example, having some sort of heating and cooling system is critical to maintaining suitable internal conditions for a home. There are also appliances that make sure families are able to feed themselves (and feed themselves well) like a refrigerator, freezer, stove, oven, and microwave. All are appliances with variable cost and ease of replacement. Other appliances of importance include washers and dryers, hot water heaters, among others. All are appliances that could cost quite a bit of money to replacement, thus creating challenges if any of them end up going out.

An additional uniqueness factor for these challenges is that they typically do not come with a lot of advance warnings. Some appliances may decrease in effectiveness, but some may suddenly stop working. The immediacy of failures may disrupt any potential planning for replacement not to mention that a lot of low-income folks do not maintain a high level of savings in the first place. In some cases, these unexpected expenditures may put into question a family's ability to keep their home, "in some cases a system will fail with little warning and produce an unexpected cost that the owner cannot afford, creating a financial strain that in the most extreme cases can jeopardize the ability to maintain ownership."[31] The financial strain discussed is caused by not having a sufficient ability to create savings for these emergency situations. Again, this highlights inequality. Emergency savings has become increasingly more difficult to accumulate for low-income Americans.

[31] Herbert et al., 7.

Building savings is something that is difficult for most Americans. A recent survey released by the Federal Reserve found that 47% of Americans said they would not be able to afford an emergency of $400 or more without selling current possession to cover the cost.[32] This observation is made even more troubling by the fact very few homeownership emergencies cost 400 dollars. Most can run a person several thousand dollars with no advance warning at all. And as mentioned above, these expenses can be so large that they can jeopardize a low-income person or family from maintaining homeownership. Even more troubling than that is a different study that found that one event can cause life-long poverty for a large number of Americans, "If one of these households experiences a sudden loss of income… it will fall below the poverty line within three months."[33] Both of these statistics are undeniably troubling. They are made more so by the fact these assumptions assume that these folks are not already in poverty conditions. Families that already in lowered economic conditions, it can be inferred, would have an even diminished ability to do so. These findings paired with the fact that the cost of maintaining homes are so high suggest that homeownership is much more difficult for the more vulnerable populations. These challenges create unique burdens that are felt disproportionately on lower classes.

Another relevant factor when thinking about the costs of maintaining a home is that these costs do not occur in a vacuum. This is to say that unexpected housing costs may not be the only unexpected costs that occur. Unexpected medical costs, stints of unemployment, or family emergencies all represent potential costs that could trigger significant economic burdens Made worse is the fact that homeownership policies typically do little to help people sustain homeownership over time. Most policies initiatives aimed at increasing homeownership in

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[32] Neal Gabler, "The Secret Shame of Middle-Class Americans," *The Atlantic,* May 2016, http://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/

[33] Alexander Eichler, "Working Poor: Almost Half Of U.S. Households Live One Crisis From The Bread Line," *The Huffington Post (Huff Business),* January 31, 2012, http://www.huffingtonpost.com/2012/01/31/working-poor-liquid-asset-poverty_n_1243152.html

lower-income populations only help facilitate access to loans and mortgages and do very little to help cover these unexpected costs. This is not to say that getting a loan or mortgage is not an important factor for homeownership, access to these increasingly benefit higher-income people than they do low-income Americans. What is concerning about the goal of focusing on mortgages and loans is the fact that most times, as evident by the crisis in 2008, is that these policies tend to create predatory lending. Homeownership policy did help low-income and minority people get loans, the problem was that these loans typically were high risk, convoluted contracts, "The dream of homeownership came to an abrupt end for many mortgagees, particularly among low-income and minority ethnic groups who had disproportionately acquired high-risk, adjustable loans."[34] This represents social inequality for several reasons. First, these vulnerable populations were offered to people that had so few economic resources that failure would be catastrophic. Second, these loans carry risks that are not controlled by the behavior of the low-income recipients, rather by dips in the financial market. Dips in the financial markets are a common occurrence, specifically more likely in the housing market, as described above. Third, these complex loans require sophisticated financial knowledge that are not accessible to low-income folks. Additionally, loan income folks are far less likely to have access to financial advice and advisors. Thus, homeownership policy capitalizes on and sustains social inequality.

If homeownership failure is likely, it is important to understand the consequences of failing. Foreclosure is an impactful event that carries heavy and drastic consequences. They have the individual impact of a family losing their home. Being forcibly removed from their home can cause extreme stress. Losing a home may also cause the instability that may affect employment, health, and the opportunities of not only the owners but also the children they support. It also

[34] Ariane Prohaska, "Losing a Home to Mortgage Foreclosure: Temporary Setback or Chronic Stressor?" *Social Justice* 40, no. 3 (2014): 65.

hinders credit, which can significantly hinders a person or families ability to not only buy in the future but rent as well. This could mean that these individuals and families experience homelessness or some level of increased housing instability. These impacts can be measured through macro measures. For example, foreclosures are linked to income inequality, "To illustrate, the top 1% increased their income by 275% between 1979 and 2007 compared to a 65% increase for others in the top 20% and just 18% increase for those in the bottom 20%."[35] Another good measurement includes poverty concentration, "Extreme concentrated poverty also rose by one-third during the 2000s."[36] Overall, foreclosure can destroy a person's ability to find a home in the future, cause them to lose their job, and can force incomes to drop and for poverty to concentrate. This paired with the fact homeownership carries excessive risk creates a perfect storm to create and exacerbate social inequality.

The second most commonly cited reason to encourage homeownership is that it provides stability. People who own their home, typically, do not have to worry about moving either. They are tied to one location. This stability and commitment to one location is presumed to be neutral and applicable across society. However, for economic reasons, this geographic stability may hurt low-income people. One study found that over the last several decades, rates of job growth have been trending towards areas where affordable renting does not exist, "employment growth has become increasingly dispersed, and while exclusionary zoning laws have limited the development of rental housing in many suburban communities."[37] With job growth being

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[35] Antwan Jones, Gregory Squires, and Cynthia Ronzio, "Foreclosure is not an Equality Opportunity Stressor: How inequality Fuels the Adverse Health Implications of the Nation's Financial Crisis," *Journal of Urban Affairs* 37, no. 5 (2015): 506.
[36] Ibid.
[37] Anne Shlay, "Low-income Homeownership: American Dream or Delusion?," Urban Studies 43, no. 3 (2006): 523.

dispersed in areas where there is no affordable housing means that low-income folks are distributed away from opportunities, which ensures they are stuck in more impoverished areas.

Homeownership and the role of social inequality can be seen clearly when the policy mechanisms are analyzed. As mentioned in the introduction, there is a stark funding inequality between homeownership and renting. After analyzing both direct and indirect funding and cost, homeownership receives about 84% of the total funds direct towards housing.[38] This, alone, is descriptive of social inequality. Rental assistance policy is aimed at assisting low-income individuals and families. Rental assistance has eligibility requirements for income levels, which means the policies are specifically targeted. Homeownership policy, however, have no eligibility requirement. With there being eligibility requirement, this means that anyone, low-income or not, can utilize the mechanisms offered to make homeownership more accessible. Several research institutes, including Smart Growth and the Center for Budget and Policy Priorities, note that the main beneficiaries of homeownership policy are people who could likely afford to buy a home with little assistance. Smart Growth found the income group that benefits the most from these policies to be those who make over $200,000 a year, "households making over $200,000 a year receive far more housing support from the federal government than any other income group."[39] The Center for Budget and Policy Priorities reached a similar conclusion when they found, "over half of all federal housing spending and tax expenditures benefited households making over $100,000 in 2010."[40] To understand why this occurs, it is important to look at one of the larger mechanisms in housing policy and its effectiveness distributed by income.

One of the primary mechanisms included in homeownership policy are mortgage interest deductions. Mortgage interest deductions are argued to be a way of accumulating wealth because

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[38] Anderson et al.
[39] Ibid.
[40] Ibid.

one of the larger assets families acquire are exempt from taxation. Thus creating more money they get to stash away. One study published in 2008 found that people who earn more than $250,000 per year save far more than income classes far lower on the scale, "the home mortgage interest deduction typically saves $523 per year in taxes for home owning families earning between $40,000 and $75,000. The average annual tax savings for families earning more than $250,000 dollars is $5,459."[41] The fact that people higher in the income chain are more likely to save more from tax deductions also goes a decent way to explain why the wealth accumulation arguments made by proponents often miss the mark when it comes to low-income families. Tax savings of $5, 459 per year over time definitely will sustain wealth, however, $523 per year will help but is an amount that is vulnerable to being diminished by a large house, health, or transportation related emergencies. It is important to note as well that the statistics used in this study assume a family with wages that are likely above the poverty line and more competitive than some of the target populations that homeownership policies are meant to target. This leads to the logical inference that the taxation would likely be less powerful the lower you go down the income chain. Again, fully illustrate the advantage given to those already near the top.

Thus, many of the benefits that are designed into homeownership policy typically are utilized by people who, more likely than not, do not need the benefits to afford a home. The point of policy should be to help those who need help, not pad the pockets of those who could likely get by on their own. In specific context of housing, policy should be designed to help those who may not be able to afford a home, not make it marginally easier for those who can. This paired with the fact that low-income housing policy typically takes the form of assistance into the loan or mortgage market, thus meaning the rest of the benefits are largely inaccessible.

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[41] Edward Glaeser, "Rethinking the Federal Bias Toward Homeownership," Cityscape: A Journal of Policy Development and Research 13, no. 2 (2011): 9.

Renting as a Mechanism of Change

As referenced earlier, one of the most often occurring arguments for promoting homeownership over renting is wealth accumulation. Most researchers and policy makers report that homeownership generates more wealth over time with consistency. They argue this because they believe it creates forced savings, gives people a massive asset to leverage for larger purchases, and it could provide the buyer with stability to sustain employment over the long term. If all these arguments were to be true equally across the population, it would be perfectly justifiable to encourage homeownership for all populations. However, in the previous section it was well established that homeownership may not accumulate as much wealth as expected and even if it does, it takes a holding period of anywhere from six to 10 years to start seeing positive wealth accumulation. Thus, if renting can provide wealth accumulation in the short term, a reorientation of policy may not only be necessary, but worthwhile.

Belskey, Retsinas, and Duda produced one of the more recent and comprehensive analyses. They looked at renting versus ownership in different markets, in terms of depreciation, and market volatility. The analysis was conducted over 18 years, from 1983-2001, and broke the time periods into three, five, and seven year holding periods. The study aimed to determine whether the duration of time had any effect on the preference between homeownership to renting. The results Belskey, Retsinas, and Duda found supported, generally, that homeownership may be preferable to renting overall, but the margin is significantly closer than policy makers understand and is contingent on time and market changes. They found that in a three year holding period, the comparison was a near 50/50 split where homeownership held a 53% preferability advantage over renting in most locations and markets.[42] The longer the holding periods, the more preferable homeownership was. However, the percentage advantage for

[42] Herbert et al., 17.

homeownership was never more than around 68%.[43] Another study conducted by Rappaport yielded similar results. His analysis period was from 1970-1999 and was split into 10 year holding periods. His results were similar to Belskey, Retsinas, and Duda, "owning a home unambiguously built more wealth in about half of the possible 10-year periods, renting was clearly better in another quarter and likely, but not unambiguously, preferred in the remaining periods."[44] Thus, homeownership's advantage was ambiguous at best, but just false at worst.

These results should be read through the lens of the massive given to homeowners. Homeownership policy receives massive policy preference in terms of federal funding. In 2008, housing policy received 213 billion dollars of funding from the federal government. However, one study calculated how much of funding was split between homeownership and rental policies. This study found a disproportionate benefit given towards homeownership, "Roughly 75% of these expenditures went to support homeownership. They include cash outlays, which appear as line items in the federal budget, and tax expenditures (reductions in tax revenues resulting from tax credits or tax deductions), which do not."[45] What is made even worse about the funding preference is that rental assistance has income eligibility qualifications. In most areas, the qualification income level is around or below 50% of the median income in the area. Homeownership, on the other hand, does not have any eligibility requirements. This means rental assistance only occurs with specific qualifications, while homeownership is available to anyone. The funding imbalance alone illuminates the bias towards homeownership. Disproportionate funding means that homeownership policy has more infrastructure and resources to ensure effective execution, while renting assistance is forced to do with less.

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[43] Ibid.
[44] Ibid.
[45] John D. Landis and Kirk McClure, "Rethinking Federal Housing Policy," Journal of American Planning Association 76, no. 3 (2010): 323.

Another reason why the lack of significant percentage advantage for homeownership lends itself towards renting being a better option is that neither of the studies mentioned above were put in the specific context of low-income renters and homeowners. This lack of context sheds light on the nature of the advantage. Preferences towards homeownership have a significant risk of being the byproduct of the homeownership rates being saturated by high-income people. The lack of contextualize should highlight the fact that renting is becoming a far preferable option to homeownership overall, despite contextual and funding disadvantages.

There is one longitudinal study, Beracha and Johnson in 2012, compared homeownership to renting from the time period of 1978-2009 and found that, when controlling for investment strategy and employment, renting can provide a significant advantage over homeownership. Specifically they found, "They find that between 65 and 75 percent of cases renting offered greater opportunities for accruing wealth than owning."[46] This provides interesting context because when the study controlled for investment, they found that renting is generally preferable. Low-income people are significantly less likely to even have any sort of investment opportunity, meaning the general preference for renting can be deduced to be much larger for low-income renters.

Another reason why research may create biases toward homeownership is that most studies that look at wealth accumulation may not account for the differences between homeowners and renters, to start with. Most measures do not account for the changing conditions that affect wealth accumulation and how wealth accumulation occurs for different segments of the population, "The tabulations of changes in wealth provide some indication of how different tenure histories contributed… but since a variety of factors contribute to these changes and may also be correlated with homeownership, the tabulations do not isolate the association of

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[46] Herbert et al., 17.

homeownership and wealth."[47] Thus, accumulating wealth from homeownership can be attributed to any number of factors. For example, high-income people (who are more likely to be homeowners) are significantly more likely to have assets to invest, retirement to fall back on, and generally more money that can definitely enhance any of the wealth accumulation factors that are most positively associated with homeownership. Plus, statistically speaking, people in higher income brackets are have completed more education than those in lower brackets. Having higher educational attainment has, historically, been linked to having a higher income, in addition to other internal benefits.[48] Thus, the economic advantages of renting may not be exclusively located within calculations of wealth accumulation.

Next, most homeowners have more savings and assets when they enter homeownership than most low-income people have when they enter into their rental agreement. One great way to contextualize this is through the growing income inequality between homeowners and renters. According to the American Housing Survey, the last 30 years have witnessed a growing divide between homeowners and renters, "median renter income declined by 6 percent in real terms to $26,000 from 1995 to 2005, while median owner income increased by 8 percent to $55,000."[49] Renter income has been decreasing while the homeownership median income has been increasing. If this is indicative of the overall economic situation of these people, homeowners are already far ahead in terms of month-to-month income, which can be a building block for wealth and savings. In addition to overall income, there are far more homeowners in the top income quartile than there are renters, "At the other end of the distribution, only 9 percent

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[47] Herbert et al., 44.
[48] Bureau of Labor Statistics, "Employment Projections," *United States Department of Labor, Bureau of Labor Statistics,* March 15, 2016, http://www.bls.gov/emp/ep_chart_001.htm
[49] "AMERICA'S RENTAL HOUSING THE KEY TO A BALANCED NATIONAL POLICY," Joint Center for Housing Studies of Harvard University, April 30, 2008, (8) http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/rh08_americas_rental_housing.pdf

of renters were in the highest income quartile (over $76,000), compared with 33 percent of owners."[50] With higher income quartiles comes better financial resources and benefits from their employer. This could mean services like investments, additional asset accumulation, and other financial tools that give homeownership a significant advantage over renting from the get go. Thus, when analyzing homeownership versus renting in one of the more significant advantage categories, it must be taken into account that people who own homes may be better off to begin with, skewing any analysis.

One economic advantage that can be attributed to renting is the fact renting provides far more flexibility in terms of relocation. As discussed in the previous section, the economy has shifted towards an economic mismatch that isolates low-income job seekers from the majority of the economic growth. Buying homes away from these locations mean that these people are prevented from relocating. Renting, on the other hand, is far easier. Leaving a property under contract, in most states, merely requires forfeiting the security deposit towards the property. To be clear, losing the security deposit, several hundred dollars, is a significant cost to low-income families, however the costs are significantly lower. "In this environment, renting offers a flexible housing choice that enables households to adapt to changing financial circumstances—including the need to relocate quickly, whether to find a more affordable home or to take a job elsewhere."[51] Thus, renting provides a low cost alternative that can ensure people can move when they need to. Plus, if they find better renting and housing opportunities, they need the flexibility to move into the best situation possible. In general, the flexibility could provide employment and cost advantages that simply cannot be accessed by homeownership.

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[50] Ibid.
[51] "AMERICA'S RENTAL HOUSING EVOLVING MARKETS AND NEEDS," 9.

Additionally, the lower cost of renting, in general, makes renting a preferable option when compared to home ownership. As was mentioned in the previous section, homeownership requires a significant amount of risk. Failure in homeownership could mean long term consequence in credit and the ability to rent again in the future. Failure in renting could have impact on a renter's ability to access opportunities, but it has a significantly smaller negative impact than failing in homeownership does. Selling your home and moving on after buying a home requires a lot more resources. It requires finding a company to list it, get it spiffy to sell, and eventual sell the home. Not to mention dealing with the bank where you got your loan and covering any cost differences, "owners must cover the gap between the sales proceeds and the mortgage debt, or walk away from their loans and face the consequences of impaired credit for years to come. For most households, renting is less of a financial stretch than buying a home."[52] Selling a home can take months at a time. Renting, on the other hand, requires notifying the landlord and absorbing any sunk cost.

Plus, renting does not provide the same sort of challenges in terms of maintaining the structure. There are some costs that are uncontrollable, however. Health emergencies and losing your job, for example, are examples of emergencies that are hard control. Housing related expenses are easier to control. Renting provides fewer costs to maintain, which can save low-income people the hassle and expense of maintenance, "Owning a home, however, requires money, time, and skill to manage its upkeep. Renting transfers responsibility for maintenance to a landlord, reducing risk and worry for those who are either ill-suited to such tasks."[53] Thus, renting again saves low-income people one of the larger burdens associated homeownership.

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[52] Ibid.
[53] Ibid.

The last argument that favors a reorientation of housing policy would be the fact that cost-burdened renters are forced to make difficult decisions that affects not only their day-to-day decisions, but also their long term well-being. Several surveys of renters have found that high renting prices, particularly for low-income individuals and families, are forced to make challenging decisions. The most challenging decisions low-income people make include expenditures on transportation and food, "Cuts in spending to accommodate their higher housing costs fall most heavily on the two largest items in their household budgets—food and transportation."[54] The fact that low-income people are forced to make decisions about transportation and food raise serious concerns. First, transportation has direct ties to employment. Lacking access to transportation, or reliable transportation, can impact employment. If one person or a partner in a family is unable to rely upon their transportation to get to work, it can affect their ability to sustain their job over the long term. This means that while cost burdened, they may struggle to rely their employment, which makes their housing arrangement work in the first place. Skimping on food has its own unique consequences, often causing both low-income adults and low-income children to go without the food necessary for a sufficient and healthy diet. After food and transportation, the next necessities people forego to pay for unaffordable housing is retirement and healthcare, "Also like the lowest-expenditure renters who are cost burdened, this group cuts back on retirement savings… and health care."[55] Paying less towards retirement and healthcare can have significant economic impacts in the future. Putting off saving for retirement can mean working far into life although it may be unpleasant or unhealthy to. Paying less towards healthcare means these people are more susceptible to medical emergencies that wipe out more savings or they pass on insurance, which

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[54] Joint Center for Housing Studies 2008, 31.
[55] Ibid., 32.

again, increases medical costs. These cutbacks, when combined, can have dire economic consequences. Creating more affordable housing can help remedy these problems by easing the tension that forces these individuals and family members to make tough economic decisions because of month-to-month costs.

Conclusion

Houses may material and structural, but what it represents loaded with emotional, individual, and social meaning. While encouraging homeownership may have benign or even admirable intentions, it is about whether the ends justify the means. Admirable intentions mean nothing if execution nets worse living situations for those they aim to help. Federal housing policy favors homeownership. Both in terms of policy structure and funding, homeownership is privileged over any other form of housing. This has had the cumulative affect of neglecting rental assistance policy. Neglecting rental assistance policy and pushing homeownership has helped create and sustain inequality. Thus, the status quo represents a call for the necessity of change. No longer can low-income families afford a fifty-fifty gamble with such a risky investment like homeownership. What form this change should materialize to be is up for debate. Policy makers must reorient their focus away from encouraging homeownership at all costs and instead work towards building a model of housing security centered on rental assistance.

Neglecting rental assistance policy and pushing homeownership has helped create and sustain inequality. Housing policy currently leaves low-income in a vulnerable situations where if something breaks or goes wrong in their homes, they could lose their home and have their credit ruined. They can lose their house and even end up homeless. Living in housing insecurity, in unsuitable houses and neighborhoods, or having your home foreclosed on all have profound effects on social inequality. Living in poor neighborhoods can have the effect of placing children in poor schools where graduating high school will be a challenge, isolating individuals and families from economic opportunities, and exposing individuals and families to crime and social unrest. Instead of helping accumulate wealth and make people's lives better, it far too often had the effect of making their lives harder or worse. Homeownership policy, on average, helps those who are already privileged and get by in society. Housing policy widens the gap between the privileged and the poor, thus creating and sustaining social inequality.

Reorienting housing policy toward rental assistance could take the form increasing funding towards current programs, improving current programs, or creating new ones altogether. Increasing funding towards rental policy could help expand the capacity of current programs like housing vouchers or the low-income housing tax credit (LIHTC). As was discussed in previous sections, there has been an increasingly expanding segment of the population that could qualify for assistance that did not receive any. Increasing funding could help further meet the demand that is being outstripped by current capacity. The new funding could also be allocated towards help construct more properties in more economically diverse areas. A lot of the units low-income people are forced to live in are unsuitable and economically isolated; investment could change this. Another mechanism of change would be to alter the eligibility requirements for rental assistance. Changing the eligibility requirements to target people who earn in the bottom 55-60% of the median area income could help include more people into the program. Some new programs for rental assistance could include giving tax credits and subsidies to landlords that rent out a certain percentage of their properties to low-income people. Also giving tax breaks or subsidies to construction companies and investors that want to build could help create more suitable properties.

Ultimately, homeownership may be a superior option for millions of Americans. However, what the federal policy advertises and encourages for low-income Americans matters. Encouraging homeownership to populations that have, historically, had low success rates with homeownership makes little sense. Homeownership may be more directly economically beneficial option for most Americans and for the government, but analyzing what it means for the most vulnerable is important exposed flaws within the system. Federal housing policy may communicate a strong preference toward homeownership, but it is time to reorient the policy focus away from homeownership and toward renting.

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