



How does homeownership contribute to wealth building?

Low-income households and households of color have limited access to homeownership because of barriers such as limited supply of affordable housing, restricted access to credit, and systemic inequities. For those low-income households and households of color, homeownership can be a catalyst to wealth building. Home equity accounts for over half their net wealth, but these gains from homeownership vary by income, gender and race/ethnicity.

This evidence brief:

- Summarizes research on the key factors to wealth building through homeownership for low-income households, households headed by single women, and Black and Hispanic/Latinx households.
- Shares how Habitat for Humanity of Gaston County contributes to these factors to encourage wealth building.

Financial benefits of homeownership for low-income households

Overall, homeownership promotes wealth building by acting as a forced savings mechanism and through home value appreciation. Homeowners make monthly payments that increase their equity in their homes by paying down the principal balance of their mortgage. Home value appreciation also helps homeowners build wealth by enabling them to realize greater proceeds if they sell the home or borrow against the additional equity. In addition, owning a home promotes intergenerational homeownership and wealth building. Children of homeowners transition to homeownership earlier – lengthening the period over which they can accumulate wealth – and have homeownership rates 25 percentage points higher than the rate of children of renters.^{1,2}

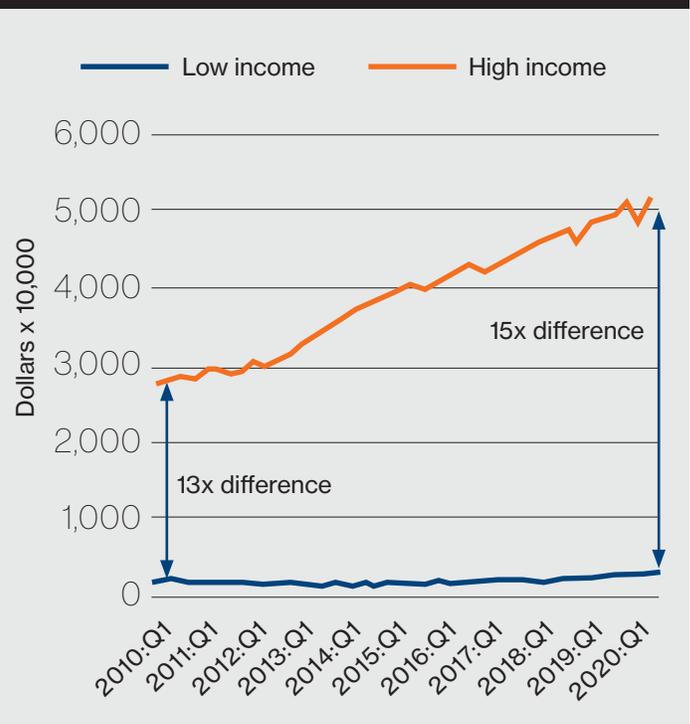
For every dollar in net wealth accumulated by a high-income household, a low-income household amasses 7 cents. This wealth gap has significantly widened over the past decade (Figure 1).³ Homeownership is a substantial contributor to the wealth of low-income households, since they hold the majority of their wealth in their homes. But do low-income households achieve greater financial returns through homeownership than through renting? Low-income homeowners with sustained ownership and affordable loans have higher wealth accumulation – both housing and non-housing wealth – than comparable renters.⁴ Furthermore, low-income homeowners earned higher financial returns than high-income homeowners when the annual costs and benefits of homeownership, which include imputed rents (the rental value that the homeowner would get from renting their home at the market rate), are estimated.⁵ The ratio of imputed rents to home values declines with income level and drives this result. The rate of return, however, hinges on the value of imputed rent and the homeowners' ability to build home equity.

Key factors to build home equity

Providing affordable financing and refinancing loans at lower interest rates help low-income households to build equity in their homes.

- Low interest rates reduce the cost of financing and enable homebuyers to contribute more of their monthly mortgage payments to principal – and equity-building – than to interest payments.
- Increasing the initial mortgage interest rate by 1 percentage point increases the probability of exiting homeownership by 16%.⁶
- Low-income households are more vulnerable to predatory lending that lowers home equity through fees, poor underwriting and high penalties. Interest rates for subprime loans can be more than 4 percentage points higher than traditional loans.⁷
- Low-income households are less likely to refinance their existing mortgage to take advantage of lower interest rates. Failing to refinance reduced their aggregate wealth by \$22 billion.⁸

FIGURE 1: DISTRIBUTION OF HOUSEHOLD WEALTH FOR LOW- AND HIGH-INCOME HOUSEHOLDS



Sustaining homeownership allows homebuyers to recoup the transaction costs associated with the purchase of a home and to weather home value fluctuations.

- Transaction costs to buy and sell a home can average 8% to 10% of the value of a home.⁹ Homeowners can offset the transaction costs by remaining in their homes long enough for home values to appreciate to cover those costs.
- Living in the home for a longer duration also allows homeowners to weather short-term fluctuations in home values and realize positive financial returns.¹⁰
- Low-income households tend to pay a higher share of their monthly income for housing than do higher-income households, and they have less savings to cushion unexpected financial events such as a job loss or health bills. For low-income homeowners, a loss in income increases the probability that they will transition to renting by 74%.¹¹ Within five years of buying their first home, over half of low-income homeowners return to renting, compared with 25%-30% of high-income buyers.^{6,12}

Appreciating home values increases the equity in the home, especially at the time of resale, but the rate of appreciation depends on the timing and location of the home purchase.

- There is mixed evidence regarding whether lower-priced homes, the type of homes typically purchased by low-income homebuyers, have lower rates of appreciation than higher-priced homes. The level of appreciation depends on the specific period and market.⁹
- Low-income households that purchase during periods of high home appreciation are more likely to realize wealth accumulation than renters, but the reverse holds true during periods of lower appreciation.¹³



How Habitat contributes

- Habitat for Humanity of Gaston County helps homeowners build equity by keeping the cost of homeownership affordable for low-income families so that homeowners can begin to accrue equity immediately. Habitat for Humanity of Gaston County is committed to ensuring mortgage payments consume no more than 30% of a homeowner's income and meets this goal by offering financial packages composed of low- or zero-interest loans and forgivable loans.
- Habitat for Humanity of Gaston County builds modest homes and manages the cost of land acquisition, development and construction to keep the overall cost of homes low.
- Habitat for Humanity of Gaston County provides financial education classes and pre- and post-purchase counseling that provide tools and strategies to manage household finances, which can render homeowners better able to continue to meet their mortgage payments and sustain homeownership.
- Habitat for Humanity of Gaston County's repair programs offer homeowners the opportunity to affordably address acute housing problems and improve the quality of their homes. This allows homeowners to maintain their homes at an affordable cost and continue to build equity through homeownership.
- In addition to the direct services that keep homeownership affordable, Habitat for Humanity of Gaston County advocates at all levels of government for policies and programs

that make affordable homeownership more broadly available and support homeowners in building equity through their homes. Our advocacy work focuses on expanding access to safe, low-interest mortgages; tax credits and saving incentive programs to help low-income families build financial reserves; resources such as housing counseling and short-term mortgage assistance to prevent foreclosure; and policies aimed at reducing regulatory barriers to building affordable homes in appreciating markets.





Financial benefits of homeownership for women

In the past decades, homeownership by single women – regardless of race and ethnicity – has outpaced that of single men. In 2020, single women accounted for 19% of first-time homebuyers, compared with 11% of single men.¹⁴ Single men annually earn returns on their housing investment that are 7.9 percentage points higher – after accounting for financing costs – than the returns earned by single women. This is mostly due to market timing and negotiating ability; single women pay approximately 1%-2% more for comparable properties than single men, and then sell these homes for 2%-3% less. For an average home worth \$200,000 held for five years, a 2% difference in purchase and sale price translates to single women losing approximately \$1,600 per year relative to single men.¹⁵

How Habitat contributes

- Habitat for Humanity of Gaston County homes are priced at fair market value, which is the price of the home if it were sold under prevailing market conditions, and are not subject to the negotiating ability of the homebuyer or any implicit bias or prejudice.
- Mortgage payments for Habitat for Humanity of Gaston County homes are kept at 30% of the homeowner's monthly income, independent of home value or financing terms. This model ensures that Habitat homes are affordable regardless of gender and protects women from paying higher costs for their homes.
- Consequently, Habitat for Humanity of Gaston County homeowners, most of whom are female, do not start their homeownership journey at a deficit and instead are able to begin accruing equity immediately upon purchasing their home.

everyone
needs a place to call home



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