



a place to call home

It is the best of times and the worst of times when it comes to home ownership. Home ownership rates are at an all-time high: two-thirds of all Americans own their homes. At the same time, housing prices have climbed so steeply in recent years that owning a home is out of reach for many Americans, particularly young adults, racial minorities, and low- and moderate-income workers. What explains this paradox? Wealthy bidders are driving up housing prices, while middle-class home owners—spurred on by low interest rates—are taking on unprecedented levels of debt, and the working class is simply priced out of the competition.

The median price of a single-family home (adjusted for inflation) more than doubled between 1950 and 2000. The average new home in 2004 sold for \$274,500, while older homes and condominiums sold for slightly less (\$236,600 and \$239,400, respectively). According to the Center for Housing Policy, these prices make home ownership virtually impossible for low- and moderate-income workers such as nurses, teachers, and firefighters, whose annual incomes range from \$35,000 to \$50,000. A buyer would need to earn roughly \$71,000 per year to purchase a median-priced home. Using a similar formula, the U.S. Department of Housing and Urban Development (HUD) estimates that only 37 percent of U.S. households today could afford to buy a median-priced new home.

Home ownership is a particularly elusive goal for African Americans, Latinos, and Asians. In 2004, 74 percent of whites—but just 47 percent of blacks and Hispanics, and 53 percent of Asians—owned their homes. Ownership patterns closely mirror earnings; those with lower earnings and fewer assets are less equipped to scrape together a down payment, secure a loan, and make monthly mortgage (and property tax) payments.

After a steady climb in home ownership rates among all ethnic groups during the mid-20th century, progress has stalled. Overall home ownership rates

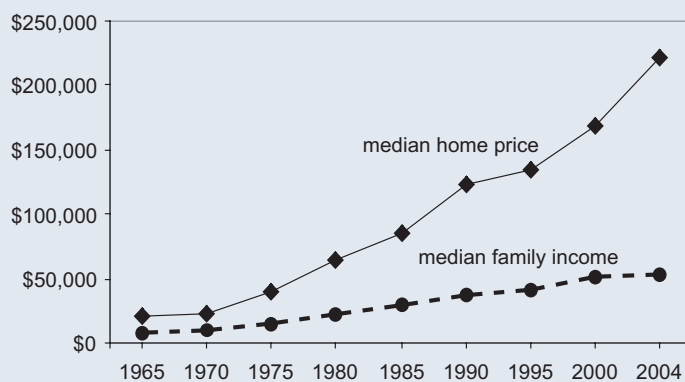
climbed from 44 percent in 1940, to 55 percent in 1950, to 62 percent in 1960. This mid-century boom was due largely to a robust postwar economy, rising household earnings, government-backed mortgages, tax laws that favored home owners, and an expanded interstate highway system that fostered the development of a large housing stock in new suburbs.

Since the late 1960s, however, home ownership rates have remained virtually flat—wavering between 64 and 68 percent. This plateau is generally attributed to the inflation of the 1970s and 1980s (particularly the rise in interest rates), and the widening gap between the haves and have nots. Between the mid 1970s and early 2000s, the median U.S. household income rose just 15 percent, while the incomes of the top 20 percent of families rose by more than 50 percent. Yet over the past two decades, interest rates have dropped substantially, giving would-be owners an incentive to own rather than rent. The result? The wealthiest families have driven the frenzied bidding war for housing in desirable markets, while middle- and working-class families are accumulating unprecedented levels of debt, spending a growing share of their income on housing, or being priced out of the bidding war.

The glimmer of good news is that low- and middle-income Americans are able to purchase homes today in several “affordable” cities and towns, mostly in the Midwest. The Center for Housing Policy defines an “affordable” area as a place where the median family income is sufficient to purchase a median-

priced home. This news is small comfort for those living in the least affordable real estate markets—particularly California and the northeast corridor stretching between Boston and Philadelphia. Anxious would-be-owners and economists alike are waiting for the price bubble to burst, but there is little indication that the “burst” will happen soon, at least in hot geographic markets.

home prices have risen more sharply than family incomes



Sources: National Association of Home Builders; U.S. Census Bureau