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To: Governor's Council on Tax Reform
Date: November 14, 2019
Subject: Comments on Kansas Itemized Deductions

On behalf of the Kansas Association of REALTORS® (KAR), thank you for the opportunity to appear before you today to express our support and rationale for legislation which would allow Kansas income tax filers the ability to take state level itemized deductions regardless of whether they itemize on their federal returns. Through the comments expressed herein, we hope to provide additional legal and public policy context to the discussion on this issue.

KAR represents over 10,000 members involved in residential, commercial and agricultural real estate and has advocated on behalf of the state's property owners for over 95 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life and providing affordable housing opportunities while protecting the rights of private property owners.

Private ownership of real property is the foundation of our nation's free enterprise system. Homeownership is the cornerstone of the American Dream and deserves a preferred place in our system of values as it contributes to community responsibility; business, civic, and economic stability; family security; and quality of life. Every family deserves a decent home and a suitable living environment and our members are committed to helping every single citizen, who so desires, to realize the American Dream of homeownership.

REALTORS® strongly support policies that prioritize private property ownership. As such, private property ownership, specifically homeownership, deserves a preferred place in public policy, including our Kansas tax policy.

<u>Summary of the Current Law and Issue</u>

On December 22, 2017, President Trump Signed the "Tax Cuts and Jobs Act". The provision affecting Kansas homeowners and their ability to deduct mortgage interest and property taxes from their Kansas income tax, was the federal provision doubling the standard deduction.

Current Kansas law provides that, "[i]f federal taxable income of an individual is determined by itemizing deductions from such individual's federal adjusted gross income, such individual may elect to deduct the Kansas itemized deduction in lieu of the Kansas standard deduction."[1]

In other words, Kansas income tax filers may only itemize deductions on state income tax filings if they itemize on their federal return. Due to the doubling of the federal standard deduction, very few Kansas taxpayers will benefit from the itemized deductions historically provided in Kansas tax law (charitable, mortgage interest, property taxes and medical expenses).

[1] Kan. Stat. Ann. §79-32,120(a)(1)(Supp. 2018).

To avoid a continued unintended state income tax increase on Kansans that historically took the Kansas itemized deductions, the Kansas Legislature needs to provide that starting in tax year 2019 and thereafter, an individual may itemize deductions on Kansas tax filings regardless of whether or not an individual's federal return allows itemized deductions.

This may be accomplished by adding to K.S.A. 79-32,120(a)(1) the following language:

> *For tax year 2019, and all tax years thereafter, an individual may elect to deduct the Kansas itemized deduction in lieu of the Kansas standard deduction regardless of whether or not such individual's federal taxable income is determined by itemizing deductions from such individual's federal adjusted gross income.*

Federal Tax Reform of 2017 – Unintended Kansas Income Tax Increase on Middle Class Homeowners

According to the National Association of REALTORS® (NAR), by doubling the standard deduction, Congress has greatly reduced the value of the mortgage interest and property tax deductions as tax incentives for homeownership. Congressional estimates indicate that only 5-8% of federal filers will now be eligible to claim these deductions by itemizing, meaning there will be no tax differential between renting and owning for more than 90% of taxpayers.

Based upon IRS data from 2017, nearly 250,000 Kansans took the mortgage interest deduction (MID) and over 300,000 claimed the property tax deduction (PTD).[2] Of filers that took the federal MID, PTD, and charitable deductions in tax year 2016, about half had adjusted gross incomes of less than $100,000.

The following tables show the breakdown, by adjusted gross income, of Kansas taxpayers that took the federal itemized deductions in 2017 for mortgage interest and property taxes.

Share of Taxpayers who used the mortgage interest deduction by AGI category (Kansas)

$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
1.0%	2.9%	10.3%	15.6%	16.2%	39.8%	12.0%	1.7%	0.6%

Share of Taxpayers who used the property tax (real estate) deduction by AGI category (Kansas)

$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
1.5%	4.2%	11.2%	15.5%	15.6%	37.1%	12.3%	2.0%	0.8%

Drawing on inference, we assume taxpayers with AGI below $200,000 will no longer qualify for current state itemization because they fall short in federal itemized deductions. Regardless of whether they are in a position to itemize federally, it remains important that middle class Kansas homeowners continue to be able to claim these deductions.

[2] https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

Kansas Legislative History

The policy to allow itemized deductions for Kansas income taxes has been before the Kansas Legislature repeatedly in recent years.

In 2012, as part of the early tax packages recommended by the Brownback administration, the Kansas itemized deductions were targeted for full repeal. Kansas REALTORS® strongly objected and the Legislature responded by preserving these tax benefits for Kansas homeowners.

During the 2013 legislative session, the Kansas Legislature enacted HB 2059, which made number of significant changes to Kansas itemized deductions. Of these changes were systematic reductions, or "haircuts", to these historic deductions. Under 2013 HB 2059, mortgage interest (MID) and property tax (PTD) deductibility were as follows:

- 100% in tax year 2012
- 70% in tax year 2013
- 65% in tax year 2014
- 60% in tax year 2015
- 55% in tax year 2016
- 50% in tax year 2017 and thereafter.

The intent was that as individual income tax rates stepped down, the MID and PTD would as well. KAR's position was that this phase-out was a preferable alternative to immediate loss of these important deductions.

Tax legislation passed in 2015 accelerated, but froze the deductibility at 50% starting in tax year 2015, where both deductions stood for tax years 2017 and 2018.

During the 2017 legislative session, the Legislature engaged in extensive tax reform debate. During the discussions, KAR sought restoration of the PTD and MID. This was based upon KAR's growing concern that many of the tax proposals circulating at the time repealed the Brownback tax cuts, but failed to restore, even partially, either of these critical deductions. The Legislature responded in passing legislation that put both deductions, along with the medical deduction, on a path to full restoration by 2020.

Since 2012, the Kansas Legislature has passed a series of alterations to Kansas tax policy followed by a repeal of many of those measures in 2017. Throughout the turmoil, Kansas lawmakers have preserved the ability of Kansans to claim the mortgage interest and property tax deductions on state income tax returns. This legislative history shows a clear legislative intent over the years that the Kansas itemized deductions be preserved and maximized for Kansas income tax filers.

However, federal tax reform passed in December of 2017, less than a month prior to the start of the 2018 legislative session, and threw the Kansas itemized deductions into jeopardy again. 2018 HB 2228 was intended as the state's response to federal tax reform but turned into an omnibus tax bill. Regardless, 2018 HB 2228 included the needed provision on itemized deductions. This legislation passed the Senate, but failed to pass the House during the 2018 session. [3]

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[3] The Senate considered the legislation divided into six parts, with each considered separately. The part regarding itemized deductions passed on a vote of 38-0. HB 2228 passed as a whole on a vote of 24-16 on April 7th, 2018. Kansas Sen. J., 61st Day, Reg. Sess. 2056 (2018). During the 2018 Veto Session a Conference Committee Report on HB 2228 passed 21-19 in the Senate, but failed 59-59 in the House.

During the 2019 legislative session, the itemized deduction provision was included in two pieces of legislation that passed the Legislature. 2019 SB 22 passed the 76-43 in the House and 24-16 in the Senate. Governor Kelly later vetoed SB 22. During the 2019 Veto Session, a Conference Committee Report on HB 2033 included the itemized deduction language (without retroactivity) and passed the Senate 27-13 and the House 83-41. Governor Kelly vetoed the CCR on HB 2033 and the motion to override the veto failed in the House 78-39 (needed 84) on sine die.

Aside from the Kansas Senate considering the itemized deductions provision by itself in 2018 during debate of 2018 HB 2228 on a divided question vote, neither body has taken up a bill that only deals with the itemized deductions.

Kansas Voters Support Proposals to Protect the Itemized Deductions

In addition to the strong legislative history that supports these itemized deductions, Kansans strongly support the deductions. A poll of registered voters in Kansas conducted by American Strategies, Inc. for KAR prior to the 2019 legislative session is evidence of public support.[4]

This poll showed that most Kansans believe that the state home mortgage interest deduction is a factor in the decision to buy a home and that severely weakening the deduction would have an adverse effect on both the state housing market and overall Kansas economy. Furthermore, voters strongly support the mortgage interest deduction and agree that the "tax windfall" from federal tax reform should be returned to taxpayers.

Major findings from the survey include:

- 70% of Kansas voters say the mortgage interest deduction is a factor in encouraging homeownership.
- Nearly two-thirds see elimination of the state mortgage deduction as a negative for both the housing market (63%) and the overall Kansas economy (64%).
- Overwhelming support (72%) for a proposal to change the Kansas tax law so that families and individual who take the new federal standard deduction can itemize on their state income taxes.

This support was strong across party lines with 73% of Democrats and 74% of Republicans supporting the proposal to change Kansas tax law to allow Kansas families the ability to continue to take the state itemized deductions regardless of whether they take the federal standard deduction.

Return on Investment

Strong homeownership provides returns to the state and local communities through economic and social benefits.

[4] American Strategies designed and administered this telephone survey conducted by professional interviewers. The survey reached 600 adults, age 18 or older, who indicated they were registered to vote in Kansas and voted in the November 2018 midterm election. The data were weighted by gender, age, party registration, and region by congressional district to ensure an accurate reflection of the population. The survey was conducted from December 6 to 8, 2018. The overall margin of error is +/- 4.0%.

In 2018, the real estate industry accounted for more than $26 billion, or 15.6% of the gross state product, for the Kansas economy.[5] However, every home sale in Kansas is significant for the economy. Each home sale generates income from the transaction in the form of construction cost, brokerage fees, inspection cost, mortgage lending, and insurance. This income is re-circulated into the economy, amplifying its impact. Furthermore, a home sale spurs household expenditures for furniture and remodeling activities. Lastly, existing home sales induce home construction. It has been estimated that for every six existing homes that are sold, one new home is constructed. NAR estimates, that for the sale of a median priced home in Kansas, there is $64,893 of economic impact (attached).[6]

In 2016, NAR published a paper that reviewed the existing academic research on the social benefits of homeownership (attached).[7] In addition to the economic benefits, "homeownership brings substantial social benefits for families, communities, and the country as a whole."[8] This paper demonstrated that stable housing through homeownership fostered positive outcomes for educational achievement; civic participation; health benefits; reduced crime; less reliance on public assistance; and property maintenance and improvement.[9]

Given the economic and social benefits of homeownership to Kansas, the Legislature should support policies that encourage and sustain strong homeownership. Tax benefits specifically for homeownership should be prioritized.

Conclusion

Economic growth depends on a stable investment environment with a consistent tax code. These deductions recognize the critical importance of the housing industry to the Kansas economy while making homeownership more affordable. The State of Kansas should be encouraging homeownership, rather than making homeownership harder.

Not passing this needed legislation has resulted in a significant number of Kansans losing these tax benefits while invalidating years of legislative intent. Policymakers should pass legislation that would preserve the itemized deductions for as many state tax filers as possible.

Thank you for the opportunity to appear and provide comments on the Kansas itemized deductions.

Respectfully submitted,

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[5] Copyright © 2019 "Economic Impact of a Home Sale in Kansas." *NATIONAL ASSOCIATION OF REALTORS®.* All rights reserved. Reprinted with permission. November 7, 2019, https://www.nar.realtor/reports/state-by-state-economic-impact-of-real-estate-activity.

[6] *Id.*

[7] Yun, L., & Evangelou, N. (2016). Social Benefits of Homeownership and Stable Housing. National Association of REALTORS®. https://www.nar.realtor/research-and-statistics/research-reports/social-benefits-of-homeownership-and-stable-housing.

[8] *Id*. at 1.

[9] *Id.*

THE ECONOMIC IMPACT
OF A TYPICAL HOME SALE

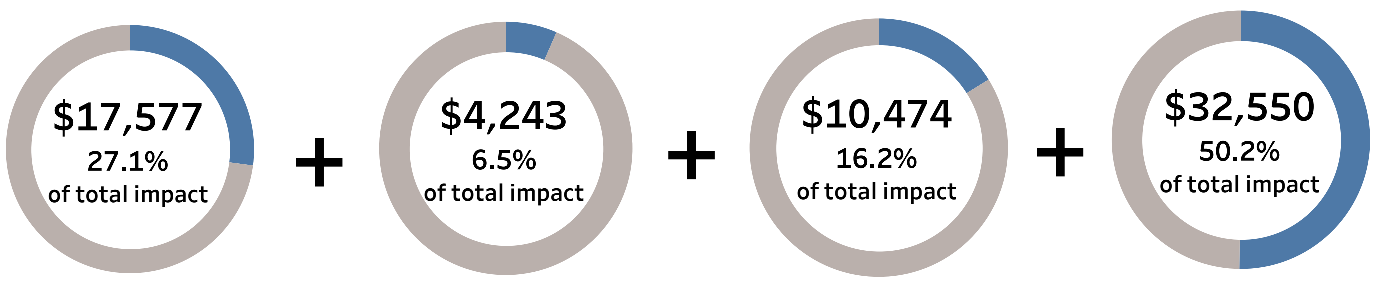
in Kansas

The real estate industry accounted for **$26.1** billion or **15.6%** of the gross state product in 2018.

TOTAL ECONOMIC IMPACT

$64,843

Income generated from real estate industries + **Expenditures related to home purchase** + **Multiplier of housing related expenditures** + **New home construction**



Real Estate Industries: We assume that commissions, fees and moving expenses, or income to real estate industries, associated directly with the purchase are about 9% of the median home price.
Expenditures related to home purchase: Furniture and remodeling expenses are about $4,243 based on the NAHB figure.
http://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=257993&channelID=311&_ga=2.174727074.1093549992.1499375907-912917446.1499375907
Multiplier effect: The multiplier effect accounts for the fact that income earned in other sectors of the economy as a result of a home sale is then re-circulated into the economy.
New construction: Additional home sales induce added home production. Typically, one new home is constructed for every six existing home sales. Thus, for every existing homes sale, 1/6 of a new home's value is added to the economy.

Sources: BEA, U.S. Census, NAHB, Macroeconomic Advisors, NAR

NATIONAL ASSOCIATION of REALTORS®

SOCIAL BENEFITS OF HOMEOWNERSHIP AND STABLE HOUSING

Research Division

Lawrence Yun, Ph.D. and Nadia Evangelou

December 2016

REALTOR® UNIVERSITY

INTRODUCTION

Research has consistently shown the importance of the housing sector on the economy and the long-term social and financial benefits to individual homeowners. The economic benefits of the housing market and homeownership are immense and well-documented. The housing sector directly accounted for approximately 15.6 percent of total economic activity in 2015. Household real estate holdings totaled $22.5 trillion in the last quarter of 2015. After subtracting mortgage liabilities, net real estate household equity totaled $13.0 trillion.

In addition to tangible financial benefits, homeownership brings substantial social benefits for families, communities, and the country as a whole. Because of these societal benefits, policy makers have promoted homeownership through a number of channels. Homeownership has been an essential element of the American Dream for decades and continues to be so even today.

The purpose of this paper is to review existing academic literature that documents the social benefits of homeownership. Furthermore, this paper examines not only the ownership of homes, but also the impact of stable housing (as opposed to transitory housing and homelessness) on social outcomes, looking specifically at the following outcome measures:

- Educational achievement;
- Civic participation;
- Health benefits;
- Crime;
- Public assistance; and
- Property maintenance and improvement.

In general, research supports the view that homeownership brings substantial social benefits. Because of these extensive social benefits - what economists call positive externalities - policies that support sustainable homeownership are well-justified[1].

Suggested Citation: Yun, L., & Evangelou, N. (2016). Social Benefits of Homeownership and Stable Housing. National Association of Realtors.

[1] There is a strong correlation between homeownership with income, education, age, marital status, and several other factors. Therefore, a strong correlation between homeownership and social outcome variables may simply be superfluous in that the correlation is simply capturing the impact of higher income, education, and the like. To isolate the impact solely attributable to homeownership and/or stable housing, it is important to control for factors that are generally present with homeownership (like higher income and older age). Carefully executed research, as documented below, takes these and many other factors into account to isolate the impact of homeownership on social outcomes.

TRENDS IN HOMEOWNERSHIP

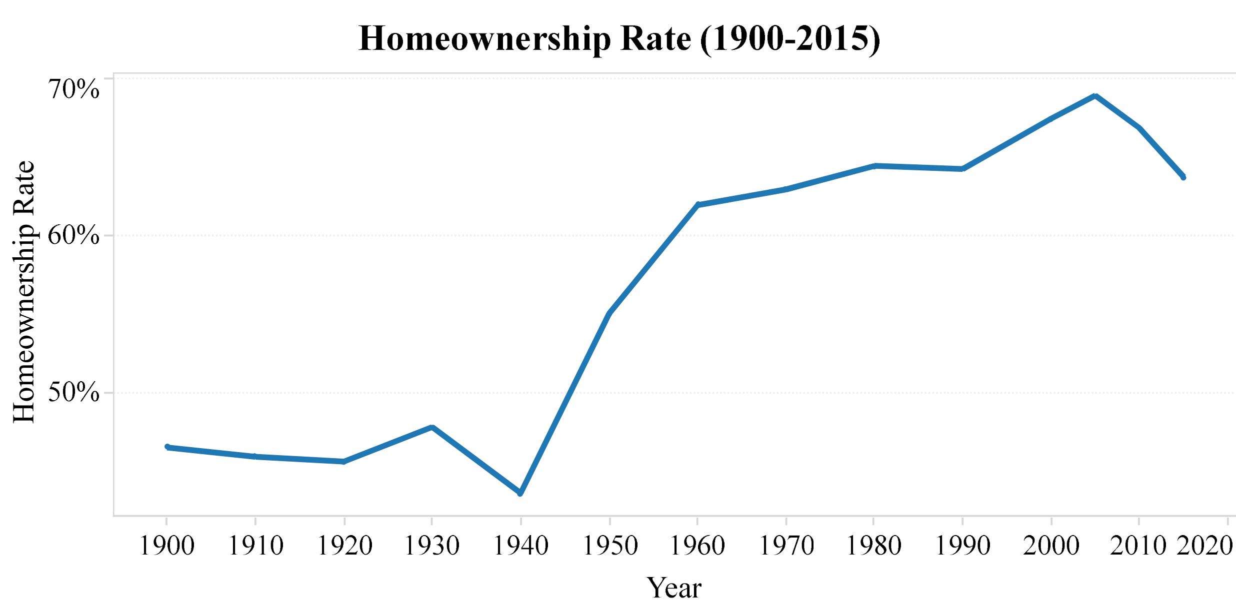
The prevalence of homeownership is not universal. Across different demographic groups and even within different regions of the country, the homeownership rate varies widely. Many of these gaps are long standing. Therefore, the social benefits of homeownership differ widely from community to community.

Less than half of Americans owned their homes at the beginning of the 20th century (see Exhibit 1). Homeownership remained fairly stable until the onset of the Great Depression, during which many homeowners lost their homes. In the subsequent two decades following creation of FHA low down payment home loans and the GI Bill for veterans returning from World War Two the homeownership rate rose dramatically with the rate easily topping 60 percent by 1960. Modest gains were made during the 1960s, 1970s and 1980s.

However, during the early 1990s, the homeownership rate once again trended upward as mortgage rates steadily declined and the economy expanded at rates not experienced in many years. By 2004, 69 percent of Americans owned their homes – a record high. In part due to the housing crisis and Great Recession and in part due to population growth among minority groups that have historically had lower homeownership rates, the homeownership rate declined to 63.7 percent as of the end of 2015.

Based on the HOME Survey[2], 86 percent of current renters want to own a home in the future, and for young renters, age 34 and younger, this share was 96 percent. Thus, the desire for homeownership remains strong.

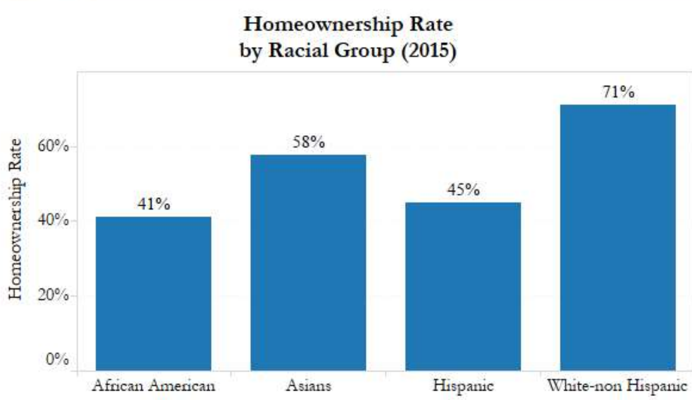
Exhibit 1



[2] Homeownership Opportunities and Market Experience (HOME) Survey, 2016 Q4, National Association of Realtors®

Minorities have made marked progress in homeownership in recent years (see Exhibit 2). But even with these gains, the homeownership rate among minorities still lags significantly behind that of whites. In 2015, fewer than half of African-American and Hispanic households owned their homes. In contrast, 71 percent of non-Hispanic whites were homeowners.

Exhibit 2



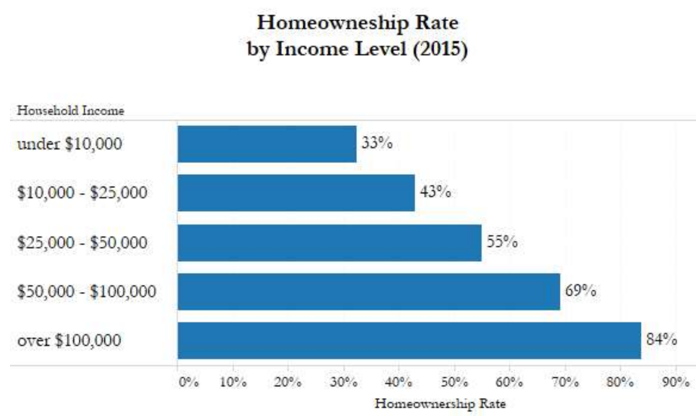
Source: American Community Survey (2015)

A large part of the gap in homeownership among minorities can be attributed to differences in economic circumstances and the age composition of minority populations. Income and wealth holdings among minorities are typically lower than that of whites. Furthermore, there is a disproportionately higher share of younger households – who are less likely to be homeowners – among minorities. Finally, a large number of minorities, particularly Asians and Hispanics, live in less affordable urban centers on both the East and West coasts. Even after adjusting for financial and demographic factors, minorities would have a lower homeownership rate than whites.

Recent research suggests that targeting discrimination in housing and mortgage markets or targeting renters' lack of information about the home buying process would contribute to a narrowing of racial gaps in homeownership. Also important are efforts to reduce differences in household circumstances by race and ethnicity—including wealth, income, and marital status—that account for a large majority of observed differences in homeownership rates (Haurin et al., 2007).

One of the primary drivers of homeownership is income. As Exhibit 3 shows, the homeownership rate is less than 35 percent for households in the lowest income bracket while it approaches 90 percent for those in the top income bracket. Higher income clearly widens the choice of available homes for purchase and increases the likelihood that a household will qualify for a mortgage. While homeownership is not limited to those with higher incomes, households with lower incomes face barriers such as too few homes in lower price ranges in locations near their place of employment.

Exhibit 3



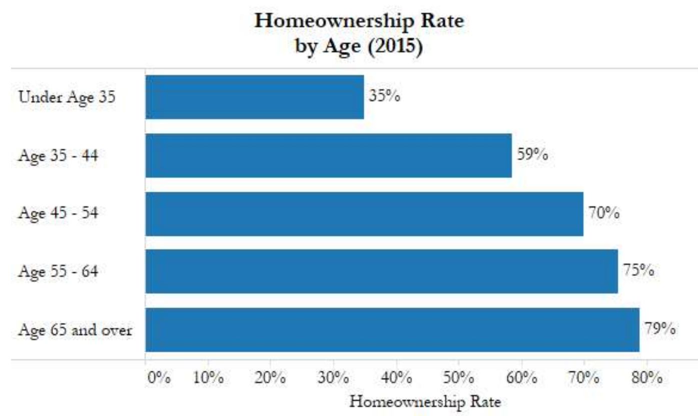
Source: American Community Survey (2015)

A home purchase entails substantial transaction costs, as measured both in financial resources and search time; therefore, it is rational for people who are expecting to move frequently to forego homeownership. Younger households are more mobile because they are more likely to be single and more likely to change employers. As a result, mobility rates decline as age rises. According to the U.S. Census Bureau, about one-quarter of those aged 20 to 29 years moved during 2014-2015 while only 5 percent of those aged 55 and over moved during the same year[3]. Another way to think about mobility rates is to translate them into an estimate of tenure. If the mobility rates for 2014-2015 were consistent for the whole population, those in the 20 to 29 age-group would move once every four years whereas those aged 55 and over would move only once every 20 years. Higher mobility rates among young people contribute to lower homeownership rates for this group. In addition, due to the large upfront cost associated with purchasing a first

[3] The Current Population Survey, Geographical Mobility 2014 to 2015, Table 1.

home, households need time to accumulate necessary savings. Therefore, as Exhibit 4 depicts, it is not surprising to see that homeownership rates rise with the age of households.

Exhibit 4



Source: U.S. Census Bureau, Housing Vacancies and Home Ownership (2015)

HOMEOWNERSHIP AND STABLE HOUSING

Homeownership and stable housing go hand in hand. Homeowners move far less frequently than renters, and hence are embedded into the same neighborhood and community for a longer period. While five percent of owner-occupied residents moved from 2014 to 2015, nearly 25 percent of renters changed residential location[4]. The key reason for the higher "mover rate" among renters is the fact that renters are younger – that is, changing and searching for ideal jobs, not yet married, and hence, literally, less committed. The mover rate or percentage of people changing residence, among 20-to-24 year-olds was 23 percent, and for 25-to-29 year-olds it was 24 percent, as shown in Exhibit 5. The mover rate then declines rapidly from 17 percent for those in their early 30s to 4 percent for those 65 years or older.

As to why people move, the predominant reason given by Current Population Survey respondents in 2015 was housing-related. Almost 60 percent said they moved to a better home, a better neighborhood, or into cheaper housing. The second most popular reason cited was family-related at 31 percent. Work-related reasons (new job, lost job, easier commute, retired, etc.) were reported by 21 percent of respondents. Very few indicated change of climate and health reasons for moving.

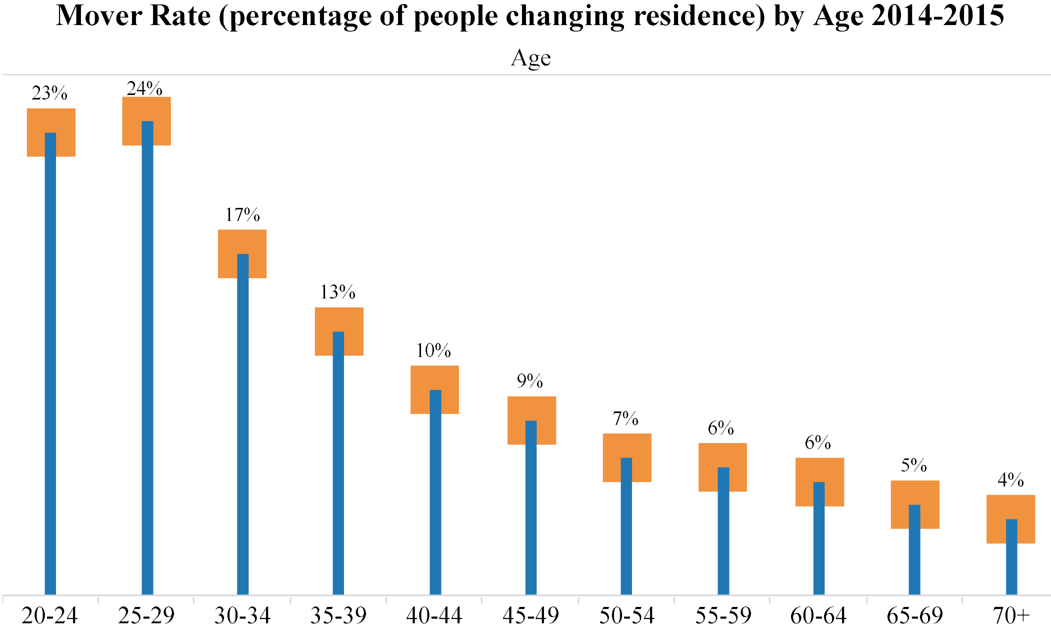
Poverty status and marital status also have strong relationships with mobility. The mover rate among those living below the poverty level was almost twice as high as those living above the poverty line. By contrast, the mover rate for married-couple family households was approximately half the rate compared with households living in other arrangements.

To determine the impact of homeownership on mobility, it is necessary to employ a mathematical regression model to isolate the impact of individual variables. Just because renters are five times more likely than homeowners to move, does not mean that the renters are moving because of their tenure status. High renter mobility could be a result of renters being young and not married. The Census report, after employing such a technique, found that homeownership does have a statistically significant impact of lowering the mover rate.[5] That is, among people of the same age, same income, and same marital status, a person was significantly more likely to change residence in a given year if he or she was a renter rather than a homeowner. Homeowners bring stability to neighborhoods.

[4] The Current Population Survey, Geographical Mobility 2014 to 2015, Table 1.

[5] Geographical Mobility 2008 to 2009, Census Report

Exhibit 5



Source: U.S. Census Bureau, Current Population Survey, 2015

Based on prior research, homeownership provides social benefits. Many sociology studies have found that residential stability strengthens social ties with neighbors (Warner, B.; P. Roundtree, 1997). Other research has focused on how mobility diminishes the depth of social ties because there is less time to build long-term relationships. Sampson et al. (1997) argue that social cohesion and strong ties are paths through which resources for social control are made.

As we shall see, the purported benefits of homeownership may partly arise not directly from ownership, but from greater housing stability and social ties associated with less frequent movements among homeowners. Lindblad et al. (2013) say that the impact of homeownership operates through collective efficacy, which is measured by specifying a new role for sense of community as social cohesion. In sociology, collective efficacy refers to the idea that a community can influence the behavior of members of the community to promote a safe and orderly environment. Therefore, policies to boost homeownership can raise positive social outcomes, but only to the extent that homeownership brings housing stability.

However, in recent years many have questioned the role of homeownership due to the housing downturn and foreclosure crisis. Thus, a related question is: do the social benefits of homeownership from the past still apply? Did the recent decline in home prices and increase of mortgage delinquency affect the social benefits of homeownership? With respect to the new conditions of the real estate market, the current report provides an updated review of the literature of the social benefits of homeownership. Let's take a better look at the social benefits of homeownership after the recent housing crisis.

HOMEOWNERSHIP AND EDUCATIONAL ACHIEVEMENT

In this section several prior studies on the relationship between homeownership and measures of educational achievement are discussed. Consistent findings show that homeownership does make a significant positive impact on educational achievement. Less clear, however, is whether homeownership in itself, stable housing (i.e., less frequent residential change), or favorable neighborhood characteristics are the main underlying factors contributing to better educational outcomes.

Green and White (1997) found that homeowners have a significant effect on their children's success. The decision to stay in school by teenage students is higher for those raised by home-owning parents compared to those in renter households. Furthermore, daughters of homeowners have a much lower incidence of teenage pregnancy. The authors point to certain behavioral characteristics required of homeowners that get passed on to their children. First, a home purchase naturally involves one of the largest financial commitments most households will undertake. Homeowners, therefore, tend to minimize bad behavior by their children and those of their neighbors that can negatively impact the value of homes in their neighborhood. Second, homeowners are required to take on a greater responsibility such as home maintenance and acquiring the financial skills to handle mortgage payments. These life management skills may get transferred to their children. However, the causal link between homeownership and improved schooling performance is not completely clear. It could very well be that homeownership brings residential stability, and it is the stability that raises educational attainment. Such an interpretation would be consistent with a study by Harkness and Newman (2003) who found that, though homeownership raises educational outcomes for children, neighborhood stability further enhanced the positive outcome. In addition, a study by Hanushek et al. (1999) showed that changing schools negatively impacts children's educational outcomes particularly for minorities and low income families. Aaronson (2000) found that parental homeownership in low-income neighborhoods has a positive impact on high school graduation. But he cautioned that some of the positive effects may arise due to the greater neighborhood stability (less residential movement) and not necessarily to homeownership alone.

In another study by Harkness and Newman (2003), the authors examined whether children from lower-income and higher-income families benefit equally from homeownership and found that for children growing up in families with incomes less than 150 percent of the federal poverty line, homeownership raises educational attainment, earnings, and welfare independence in young adulthood. These positive results do not extend to the long-term outcomes of children in families with incomes more than 150 percent of the poverty line, however. These findings suggest that homeownership effects are not only attributable to unobserved characteristics of homeowners, but also indicate causal effects.

In another study, Haurin et al. (2001), a higher overall quality of life among homeowners is believed to contribute to the well-being of both homeowners and their children in a number of ways. For example, young children of homeowners tend to have higher levels of achievement in math and reading and fewer behavioral problems (which often carry over into reduced deviant behavior in later years). Better social outcomes arise as parents provide a more supportive environment for their children. These factors, as well as many others, help explain increased educational attainment and higher lifetime annual incomes of homeowners' children. Research has also confirmed that access to economic and educational opportunities are more prevalent in neighborhoods with high rates of homeownership and community involvement (Ellen and Turner, 1997). Boehm and Schlottmann (1999) show that the average child of homeowners is significantly more likely to achieve a higher level of education and, thereby, a higher level of earnings. The authors further find the housing tenure of parents plays a primary role in determining whether or not the child becomes a homeowner.

A study examining whether homeownership has positive effects on the academic achievement of children finds significant effects of home environment, neighborhood quality, and residential stability on the reading and math performance of children between the ages of three and twelve (Mohanty and Raut, 2009). Because it appears that educational outcomes were strongly influenced by homeownership and residential stability, the authors suggest that government policies that promote homeownership or residential stability should be considered as part of any strategy to improve education.

Green et al. (2012) show that the act of saving has some association with child outcomes and specifically the degree to which children of homeowners drop out of high school by age 17. Using panel data, they conclude that the children of homeowners with down payments are generally less likely to drop out of school than those of renters. However, those parents who buy homes without making a down payment have children who behave like children of renters, and thus those children are more likely to drop out than homeowners with down payments.

HOMEOWNERSHIP AND PARENTING

Though the homeownership effect on success of children has been debated in academic literature, a recent study by Weiss et al. (2010) approached this question from a different perspective. Instead of trying to account for unobserved characteristics of homeowners, they examined whether there is a relationship between homeownership and engaged parenting behaviors in the home, school, and wider community for low to moderate income households. Researchers focused on four variables: parental school involvement, frequency of reading to child, child's participation in organized activities, and child's screen time (television viewing and playing videogames). Altogether, these measures reveal parenting behaviors broadly believed to be associated with positive child outcomes. The authors propose that homeownership provides for engaged parenting practices in two ways: economic and psycho-social. The economic impact of homeownership refers to the positive impact of nurturing neighborhoods. While both homeowners and renters may aspire to be engaged parents, homeowners likely live in neighborhoods with more opportunities for school involvement or participation in neighborhood activities. The psycho-social component refers to the idea that being a homeowner may limit the severity of economic hardships and the degree to which financial hardships result in psycho-social stress and disengaged parenting. This idea works through two channels. First, low- to moderate-income households that are able to buy a home have already found ways to manage their limited finances in order to become eligible for a mortgage. If such effective strategies are sustained, it could help reduce economic pressure. Second, they have greater access to formal credit to sustain the household during times of economic hardship, putting less strain on familial relationships and parenting. Homeowners in this study have higher adjusted net worth and liquid assets than renters. The authors, therefore, assume that homeownership promotes parental engagement by giving parents more options for managing financial hardships and reducing the severity of financial hardships when they do occur, thereby reducing stress and disengagement from children. It is important to emphasize, especially considering the housing crisis, that all of the homeowners studied received prime fixed-rate 30-year mortgages with a 38% debt-to-income criteria. Therefore, these homeowners have not experienced the financial shocks of interest rate adjustments or the stress of excessively high interest rates associated with many sub-prime mortgages. The results of the study suggest that children of selected homeowners are more likely to participate in organized activities and have less screen time when compared with renters. However, homeowners were found less likely to read to their children than renters. There was no effect of homeownership on parental school involvement. On the whole, their findings suggest that homeownership and financial stability may create opportunities for parents to engage in some positive parenting behavior. As noted, the group of homeowners surveyed in this study was less likely than renters to report financial hardships. The authors suspected that these financial stressors may reduce the ability of renters to afford organized activities for their child. Screen time, on the other hand, is relatively inexpensive for most families.

HOMEOWNERSHIP AND CIVIC PARTICIPATION

Homeowners have a much greater financial stake in their neighborhoods than renters. With the median national home price in 2015 at $223,900, even a 5 percent decline in home values will translate into a loss of more than $11,195 for a typical homeowner. Because owners tend to remain in their homes longer, they add a degree of stability to their neighborhood. Based on two studies by Rossi et al. (1996) and Rohe et al. (1996), homeowners also reap the financial gains of any appreciation in the value of their home, so they also tend to spend more time and money maintaining their residence, which also contributes to the overall quality of the surrounding community. Renters, with less wealth tied to a specific locality, have less incentive to protect the value of their property via the political process. The right to pass property to an heir or to another person also provides motivation to homeowners to properly maintain the property.

The extent of community involvement and the benefits that accrue to society are hard to measure, but several researchers have found that homeowners tend to be more involved in their communities than renters. For example, homeowners were found to be more politically active than renters (Cox, 1982). Homeowners participate in elections much more frequently than renters. A study by Glaeser and DiPasquale (1998) found that 77 percent of homeowners said they had at some point voted in local elections compared with 52 percent of renters. The study also found a greater awareness of the political process among homeowners. About 38 percent of homeowners knew the name of their local school board representative, compared with only 20 percent of renters. The authors also found a higher incidence of membership in voluntary organizations and church attendance among homeowners.

Lindblad and Quercia (2015) found that the association of homeownership with civic engagement is driven by the amount of time lived in the home and the sense of control that ownership imbues. Findings suggest that "the association of the homeownership with nonfinancial benefits changes with the structure of the dwelling". While detached dwellings seem to discourage social involvement, "detached housing is associated with a decrease in the effect of homeownership on health and civic engagement". Thus, analysis suggests that the impact of homeownership on civic participation may be magnified in attached structures such as condominiums and townhomes.

There also is some evidence that homeownership programs may result in increased property values near subsidized or locally assisted homeownership sites and can, under the right circumstances, draw other non-housing investment to the community (Ellen et al., 2001).

Two other recent studies examined civic engagement and social capital of homeowners. Rotolo et al. (2010) looking at civic engagement investigated whether people volunteer more if they have a stake in the community such as owning a home. The authors argued that homeowners have a stake in the community given that a home is a unique investment where the asset is tied to a fixed geographical location and consequently the value of the property is determined by the condition of the neighborhood in which it is located and the social institutions that serve its residents. The study found that simply owning a home increases the number of hours volunteered, but low-value homeowners do not volunteer any more or less than high-value homeowners. Thus, while homeownership increases the number of hours volunteered, home value itself has no impact on volunteering. Another important finding suggests that homeownership yields a positive influence on volunteering regardless of how long the homeowner has lived in the neighborhood. This result challenges previous studies which implied length of tenure was critical. The second study focusing on social capital discusses the importance of social networks and given the greater social network of homeowners, homeowners' resultant access to social capital (Manturuk et al., 2010). Social capital refers to social resources a person can access through contacts with others in his or her social networks. To differentiate between an individual's overall social capital and the social capital connected with his or her neighborhood, authors asked whether any of the people a respondent knows who could provide a given resource reside in his or her neighborhood. If homeownership creates social capital, homeowners are expected to have more overall social capital resources and also more resources within their neighborhoods. If homeownership only influences the geographical distribution of social capital, homeowners are expected to know more people in their neighborhoods but not more people overall. In other words, if homeownership produces beneficial social impacts associated with social capital, homeowner will have more social contacts inside and outside his neighborhood than renters. But if homeownership only fosters relationships within a neighborhood and there is not a greater social benefit to it, homeowners will only know more people in the neighborhood but not also outside of it. The results indicate that homeownership does create social capital and provide residents with a platform from which to connect and interact with neighbors. Neighborhood tenure duration has no impact on social capital acquired via social ties with neighbors. But, neighborhood group membership does, as does having a child in the home.

The study also discusses several interesting phenomena about homeownership and the power of attachment arising from homeownership. Homeowners in many ways identify with their neighborhood, whether through interaction with neighbors, membership in neighborhood groups or by selection of social ties with other homeowners. As the authors argue, homeowners are more likely to seek out opportunities to interact with their neighbors because they feel a sense of attachment to others who live near them, particularly in urban communities. Owning a home means owning part of a neighborhood, and a homeowner's feelings of commitment to the home can arouse feelings of commitment to the neighborhood, which, in turn, can produce interactions with neighbors. Overall, attachment to the neighborhood is stronger for homeowners and long-term renters than for more transient residents. Woldoff (2002) found that the strongest predictor of attachment is not a place characteristic, but rather whether the person is a homeowner.

Another interesting point the authors made is that individuals select the people with whom they form social relationships within a social space that facilitates routine interaction with others. The most common place to form social relationships is the workplace. Like a workplace, homeownership serves to facilitate interactions within a neighborhood and open opportunities for the acquisition of social capital. However, based on Van Der Gaag and Snijders (2005), people also consider the potential long-terms costs and benefits, thus homeowners may see ties to other homeowners as more valuable because of a higher potential for longer-lasting relationships. As the authors further argue, both homeowners and renters are less likely to look for social ties with renters because renters are perceived as temporary residents.

Homeownership implies permanence, while renting implies mobility (Coffe, 2009). In fact, in a previous study, Coffe and Geys (2006) have found mobility does impact the creation of social capital. Communities with higher in-migration and out-migration were shown to have lower levels of social capital.

After the sharp decline of home prices, McCabe (2013) reevaluated the social role of homeownership by theorizing about the mechanisms through which homeownership increases civic engagement and decomposing the effect to account for both residential stability and locally dependent financial investments. In doing so, the study provided new empirical evidence about the role of homeownership as a catalyst for community participation. In particular, it identified two pathways–residential stability and financial investments in local communities–to explain higher rates of participation in local elections, neighborhood groups and civic associations among homeowners. The author concluded that residential stability increases the likelihood of electoral participation but is unrelated to participation in membership groups. By stabilizing households within communities, homeownership can help individuals overcome institutional barriers or develop social networks that lead them to participate in the formal political process. Interestingly, even after accounting for their increased stability, the author reported that homeowners remain more likely to participate in local elections, civic groups and neighborhood organizations than renters.

HOMEOWNERSHIP AND HEALTH BENEFITS

Research shows that homeownership has an impact on both physical and psychological health. Many studies have examined the impact of housing quality and crowding on physical health. According to Krieger and Higgins (2002), there is a strong positive relationship between living in poor housing and a range of health problems, including respiratory conditions such as asthma, exposure to toxic substances, injuries and mental health. Homes of owners are generally in better condition than those of renters (Galster, 1987). Rohe and Stewart (1996) found that homeowners, unlike renters and landlords, have both an economic and use interest in their properties. This combination seems to provide powerful incentives for owner-occupants to maintain their properties at a higher standard.

Focusing on middle-aged and older Americans, Hamoudi and Dowd (2013) examined the impact of the recent downturn on physical health outcomes for this group (born between 1924 and 1960). Findings reveal that increases in housing wealth were associated with better health outcomes for homeowners. Homeowners who lived in communities where prices increased rapidly had lower waist circumference and higher levels of self-reported and measured function, compared with those who lived in communities in the same metropolitan area where prices were more sluggish.

With respect to the impact of homeownership on psychological health, Rohe and Stegman (1994) found that low-income people who recently became homeowners reported higher life satisfaction, higher self-esteem, and higher perceived control over their lives. But the authors advised caution with respect to the interpretation of the causation since residential stability was not controlled for. Similarly, Rossi and Weber (1996) concluded that homeowners report higher self-esteem and happiness than renters. For example, homeowners are more likely to believe that they can do things as well as anyone else, and they report higher self-ratings on their physical health even after controlling for age and socioeconomic factors. In addition to being more satisfied with their own personal situation than renters, homeowners also enjoy better physical and psychological health (Rohe et al., 2001). Another study showed that renters who become homeowners not only experience a significant increase in housing satisfaction, but also obtain a higher satisfaction even in the same home in which they resided as renters (Diaz-Serrano, 2009).

More recently, research examining the association of self-rated health with socioeconomic position has shown that social mobility variables, such as the family financial situation and housing tenure during childhood and adulthood, impacted one's self-rated health. In particular, the socioeconomic disadvantage indicated by not being able to save any money or not owning or purchasing a home, is negatively associated with excellent or very good self-rated health (Chittleborough et al., 2009). A similar examination, but looking at self-reported financial well-being, also showed that financial well-being depends on homeownership, the number of children, health insurance, age, and income (Penn, 2009).

Finnigan (2014) found that homeowners have a significant health advantage over renters, on average. Based on his analysis, homeowners are 2.5 percent more likely to have good health. The homeowner advantage is even larger, 3.1 percent, when adjusting for an array of demographic, socioeconomic, and housing–related characteristics. This research also points out that the relationship between homeownership and health benefits has large racial and ethnic disparities. White homeowners have an almost four percent higher probability of good health than comparable White renters. However, the impact of homeownership on the health condition of Black homeowners, while positive, is smaller than among Whites. Additionally, there is little evidence that Latino and Asian homeowners experience a significant advantage. Thus, findings reveal that homeownership's significance as a health resource is stratified by race and ethnicity.

Because previous research demonstrated that homeownership's effects on health outcomes derived from the overall wealth-boosting effect of homeownership, researchers are now examining the effects of homeownership during the crisis, when many home owners experienced a loss in wealth as a result of ownership. Recent post-crisis studies tried to analyze the impact of the financial crisis on the relationship between homeownership and mental health. Some of those studies showed positive psychological health effects from homeownership while other studies turned their attention to examining the negative impacts of homeownership on mental health.

Manturuk (2012) studied the relationship between homeownership, sense of control and mental health. Based on the findings, the increased sense of control that comes from homeownership entirely explains the decrease in mental health difficulties. In light of the recent housing downturn and rising mortgage delinquencies, the author also examined if the effects of homeownership on health vary based on mortgage delinquency. He found that homeowners who experienced a mortgage delinquency had a lower sense of control than homeowners who had never been delinquent, while homeowners with a minor delinquency had a higher sense of control then renters. Thus, the sense of control is partially mediated by housing experiences. The current study not only demonstrates that homeownership reduces the risk of mental health difficulties but also shows that the sense of control is the causal mechanism of this impact. Moreover, in a separate study, Manturuk et al. (2012) studied how homeowners and renters were impacted by the financial crisis in 2009. Their findings indicate that while both renters and owners experienced similar levels of financial hardship, the homeowners were less psychologically stressed overall and reported feeling more satisfied with their financial situation.

In contrast, other studies have linked mortgage foreclosure and mortgage delinquency with psychological stress. Menzel et al. (2011) studied the association of changes in foreclosure rates and medical diagnoses using hospital discharge data. Examining the period between 2005–2008, the authors studied whether changes in foreclosure rates were related to stress-related diagnostic measures at the zip code level. Currie and Tekin (2015) also linked foreclosure rates to measures of stress-related health using data on all foreclosures and all hospital and emergency room visits from four states that were among the hardest hit by the foreclosure crisis. Both studies found a positive association between foreclosure rates and health issues. However, their findings are based on aggregate data. This means that individual foreclosed homeowners cannot be associated with stress disorders. In other words, aggregate data cannot determine whether there is causality between home foreclosure and psychological stress or whether other factors present and unaccounted for were causing both the spike in foreclosures and the spike in stress disorders. After reviewing a fairly extensive list of literature on foreclosure and health, Tsai (2015) concludes that, to date, there has been no systematic assessment of the effects of foreclosure on health and mental health.

Finally, Lindblad and Quercia (2015) present models that estimate the direct, indirect and total effects of homeownership on health. Given that financial benefits explain the positive homeownership effect on health, their findings suggest that there is no association of homeownership with health outcomes when homeowners report low or negative home equity. Therefore, it seems that the indirect effect of homeownership through the sense of control depends on home equity. As home equity depends largely on house prices, these findings support the notion that neighborhood house price declines, which can be exacerbated by foreclosure sales, can negatively influence health.

Thus, early studies of homeownership and health outcomes found that homeowners and children of homeowners are generally happier and healthier than non-owners, even after controlling for factors such as income and education levels that are also associated with positive health outcomes and positively correlated with homeownership. More recent studies have found that the wealth building effect of homeownership and the sense of control it provides to homeowners in a stable housing market affect homeowners' mental and physical health in a positive way. However, the literature is mixed in times of housing market instability. While some studies showed that homeowners fared better than renters during the recent housing crisis, other studies suggest that areas of high housing distress also had high rates of mental health and stress-related diagnoses. More research is needed on the relationship of health outcomes and homeownership.

HOMEOWNERSHIP AND CRIME

Homeowners have a lot more to lose financially than do renters. Property crimes directly result in financial losses to the victim. Furthermore, violent non-property crimes can impact the property values of the whole neighborhood. Therefore, homeowners have more incentive to deter crime by forming and implementing voluntary crime prevention programs.

Research on crime and homeownership shows that homeowners are far less likely to become crime victims. A study of both property and violent crime in New York City suburbs found that homeowners encountered significantly lower crime rates even after controlling for other socioeconomic variables (Alba et al., 1984). Glaeser and Sacerdote (1999) also found a lower incidence of crime victims among homeowners.

From sociological literature on social disorganization, research by Miles-Doan (1998) showed residential mobility as a contributing factor for the higher violence rate by spouses and intimates. In a similar vein, a study by Kubin (2003) found that residential mobility is significantly and positively related to homicides.

The results are congruent with sociologists' theories of social disorganization, or a breakdown in social bonds, family and neighborhood association (Shaw and McKay, 1942). A high level of social disorganization is said to exist where there is a high level of deviance in social norms and a lack of community to realize common values. Crime, suicide, juvenile delinquency, teen pregnancy and drug usage are all the consequences of social disorganization. The generally accepted causes of social disorganization include poverty, low educational attainment, family disruption, and racial segregation in urban life. In addition, frequent residential mobility is also considered one of the key causes of social disorganization.

For example, one of the first college textbooks on the subject, appropriately titled Social Disorganization, mentions crime, unemployment, divorce, venereal disease, illiteracy, undernourishment, and *mobility* and *transiency* as indications of a disorganized society (Elliot and Merrill, 1941). In another study Bursik (1999) showed the link between mobility and crime.

A stable neighborhood, independent of ownership structure, is also likely to reduce crime. It is easier to recognize a perpetrator of crime in a stable neighborhood with extensive social ties. Therefore, the empirical studies showing a lower crime rate among homeowners and people living in a stable housing environment are consistent with theories on social disorganization.

A more recent study by Lindblad et al. (2013) examined the link between homeownership, collective efficacy—or the ability of a community to influence members' behavior to bring about social order—and subjective neighborhood crime and disorder taking into account the housing downturn and foreclosure crisis. Even though the role of homeownership was criticized, the authors concluded that both homeownership and collective efficacy lead to less neighborhood crime. Focusing on lower income households, the findings suggested that there is something about owning a home which produces socially desirable outcomes for lower income households and then reduces perceptions of neighborhood crime and disorder.

However, with respect to the housing crisis and the increased foreclosure rates, several studies re-addressed the relationship between homeownership and crime examining the effects of foreclosures on neighborhood crime. Goodstein and Lee (2010) analyzed national county-level panel data for the period 2002-2007. They found that counties with a one percentage point increase in foreclosure rates are expected to have a 10 percent higher annual burglary rate in the following year, all else equal. Unfortunately, the large geographic scope of their data is considered to be a limitation of this study since the causal processes may vary within a county.

Focusing on the direct impact of vacancy on crime, Ellen et al. (2013) evaluated the impact of foreclosures on crime rates in New York. Using Real Estate Owned (REO) status as a proxy for vacant, they indicated that additional foreclosure leads to an increase in violent crimes on a given blockface of between 1.4 percent and 2.6 percent. Cui and Walsh (2015) also found that while foreclosure alone has no effect on crime, violent rates occurring within 250 feet of foreclosed homes increased by roughly 19 percent once a foreclosed home becomes vacant compared to crimes in less proximate areas (between 250 and 353 feet away). The results show that this effect is estimated to increase with length of vacancy.

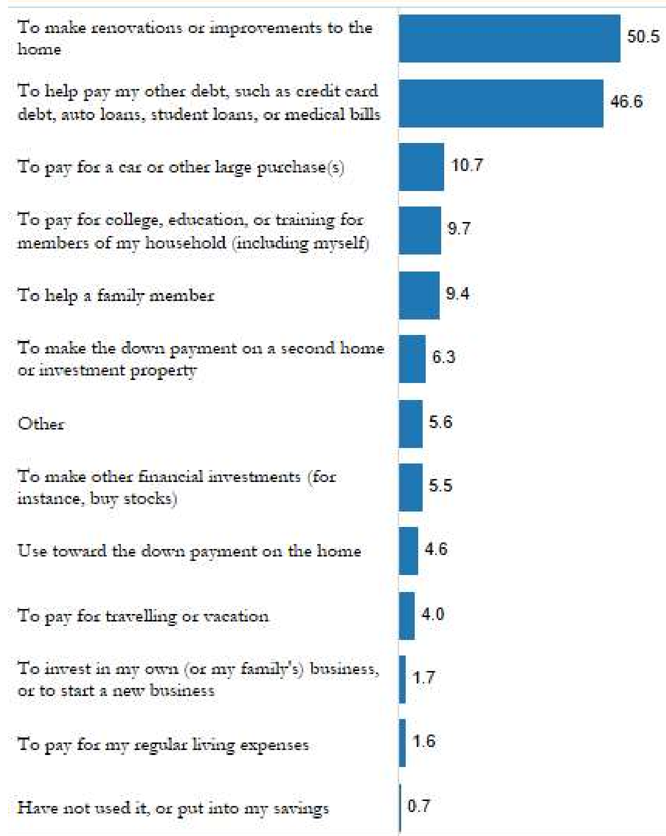
HOMEOWNERSHIP AND PUBLIC ASSISTANCE

We found earlier that housing stability lowers teenage pregnancy. There is vast literature on the link between teen pregnancy and the likelihood of receiving public assistance (Sawhill, 1998). Therefore, to the extent that homeownership and stable housing reduce teen pregnancy, one can expect a reduction in the incidence of public assistance among those living in a stable neighborhood.

Furthermore, Page-Adams and Vosler (1997) found that homeowners are better able to adjust after being laid off from a job due to their access to home equity credit lines, and hence, lessening their need for public assistance.

Based on the NY Federal Reserve Survey[6], 47 percent of homeowners indicated that they used their home equity credit lines to help pay their other debts, such as credit card debt, auto loans, student loans, or medical bills. It seems that homeowners have the advantage of using their home equity lines, and thus, diminishing their need for public assistance.

Exhibit 6



Source: Survey of Consumer Expectations, Housing Survey 2016, Federal Reserve Bank of New York.

[6] Survey of Consumer Expectations, Housing Survey 2016, Federal Reserve Bank of New York.

HOMEOWNERSHIP AND PROPERTY MAINTENANCE AND IMPROVEMENT

Another key benefit received by homeowners is the structural quality of their housing (Dietz and Haurin, 2003). However, a well-maintained home not only generates benefits through consumption and safety, but research has shown that high quality structures also raise mental health (Evans et al., 2003).

It is often suggested that owner-occupied housing is better maintained than renter-occupied. In a study by Henderson and Ioannides, the authors argue that landlords cannot distinguish between households that will maintain a rental unit from those that will cause damage. Consequently, landlords charge rents based on the expected level of care that will be taken by renters and households that plan to take care of their dwelling are motivated to become homeowners (Henderson and Ioannides, 1983). Further, homeowners have a financial interest in ensuring that their unit is well-maintained and repaired while mobile households may ignore damage (Galster, 1983). In contrast, Ozanne and Struyk (1976) find that including information about the neighborhood and housing structure in estimating statistical relationships causes the owner-occupancy effect to disappear.

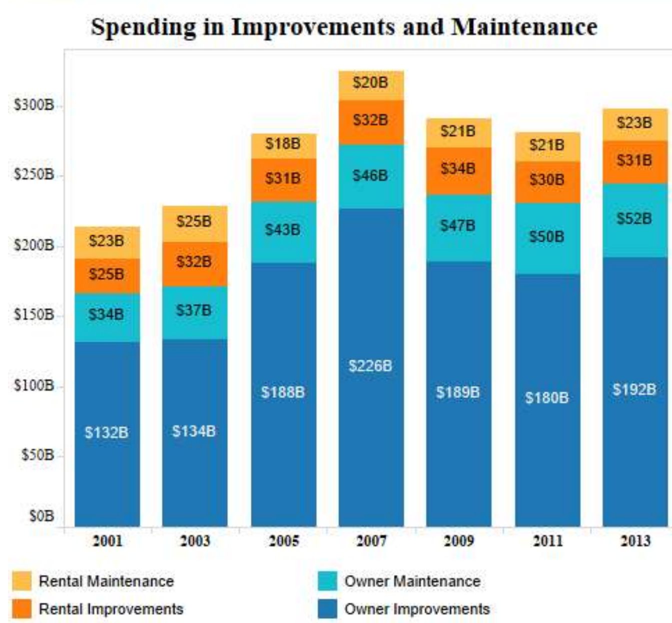
Another early study finds that owner-occupant landlords are more likely to rehabilitate housing dwellings than other rental housing landlords because owners most directly experience the improvements, as opposed to current and future renters or tenants (Mayer, 1981).

Heywood (1997) also finds that income impacts the level of maintenance, with low-income owner-occupants maintaining their homes less than high-income owner-occupants.

When looking at the different effect renters have on maintenance, research compared differences in price appreciation using the repeat sales technique and found some evidence that renter-occupied housing appreciates less than owner-occupied housing (Gatzlaff et al., 1998). Finally, a study by Ioannides (2002) looking at how much neighbors affect each other provides evidence that the maintenance behavior of individual homeowners is influenced by those of their neighbors.

Based on a report by the Joint Center for Housing Studies (2015)[7], homeowners spent five times more than the amount that renters spent on improvements and maintenance in 2013 (Exhibit 7). Also, homeowner improvement spending accounted for just under 65 percent of the $300 billion remodeling market. While homeowner improvement spending is still below the 70 percent peak in 2007, there was an increase in spending since 2011. At this level of spending, the home improvement market appears to be returning to its long-term trend. While home prices and equity gains[8] are rising after the recent housing downturn, homeowners spend more in improving their houses. Thus, the positive impact of homeownership on housing quality is expected to be expanded.

Exhibit 7



Source: Joint Center for Housing Studies, H. U. (2015). Improving America's Housing—Emerging Trends in the Remodeling Market.

[7] Joint Center for Housing Studies, H. U. (2015). Improving America's Housing-Emerging Trends in the Remodeling Market.

[8] Equity gain reflects price appreciation only

CONCLUSION

Owning a home embodies the promise of individual autonomy and is the aspiration of most American households. Homeownership allows households to accumulate wealth and social status, and is the basis for a number of positive social, economic, family and civic outcomes. 63.7 percent of all U.S. households who own their home currently are enjoying these benefits.

The positive social benefits from homeownership and stable housing are compelling. As this paper has shown, there is evidence from numerous studies that attest to the benefits accruing to many segments of society. Even after considering the effect of the recent housing downturn, many studies found that homeownership still provides a variety of social benefits. Homeownership boosts the educational performance of children, induces higher participation in civic and volunteering activity, improves health care outcomes, lowers crime rates and lessens welfare dependency.

Owning a home is different from renting. With the home purchase comes the pride of ownership and the sense of belonging in a community where one has a financial stake in the neighborhood. Perhaps homeowners are "happier" just from having achieved the so-called "American Dream"–a sense of accomplishment, a milestone. Also, ownership entails greater individual responsibility. As discussed above, homeownership requires a large (if not the largest) financial outlay of a person's life and often requires the responsibility of a mortgage spanning 30 years. Therefore, it is a long-term commitment, which may alter human psyche and behavior.

Given such an opportunity, public policy makers would be wise to consider the immense social benefits of homeownership for families, local communities and the nation.

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