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Sustainability: A Family Wealth and Homeownership Perspective

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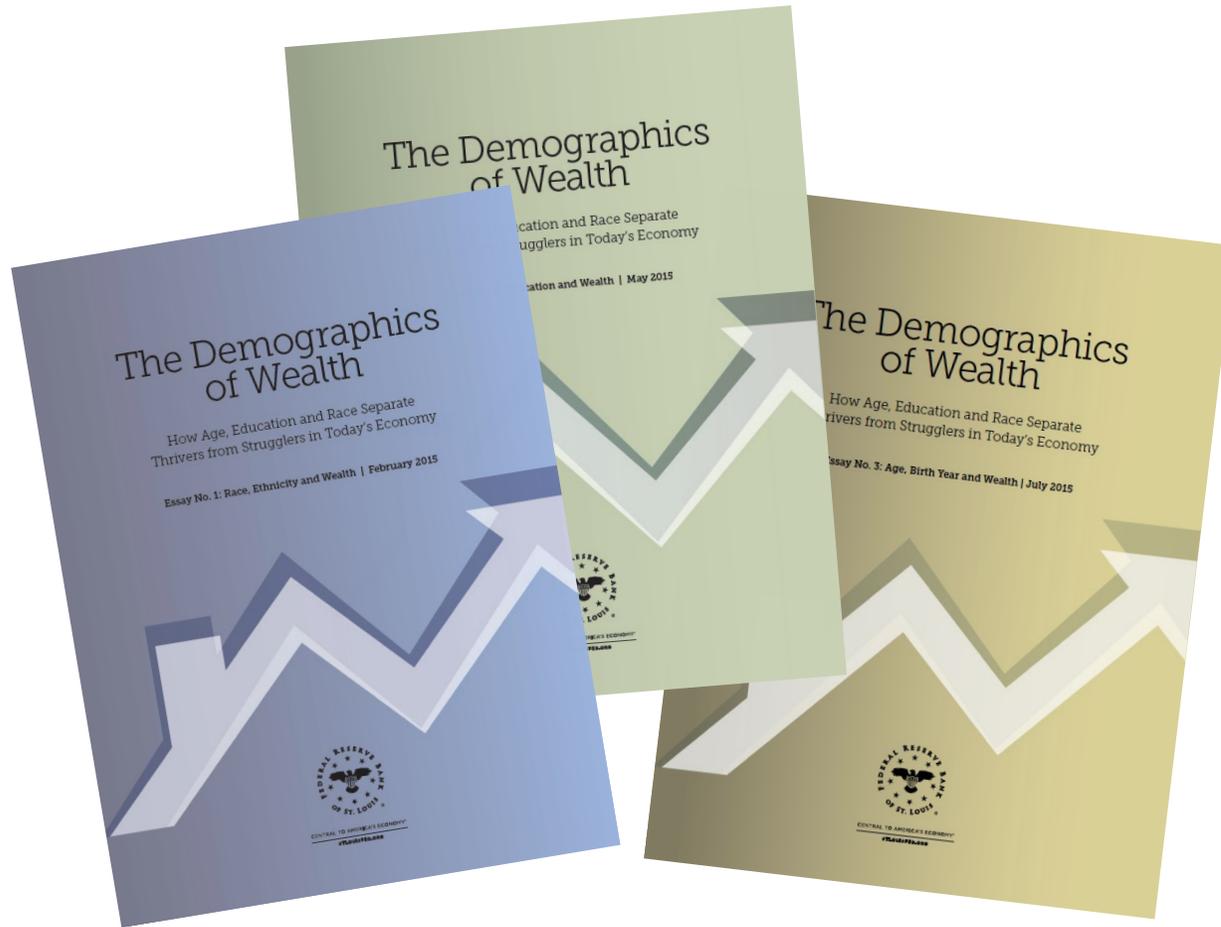
**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

Our Perspective on Sustainability: Your Wealth or Balance Sheet



Whose Balance Sheets are Sustainable? Thrivers v. Strugglers

(Emmons, Kent, and Ricketts, 2018; available at stlouisfed.org/hfs)



<https://www.youtube.com/watch?v=a4OACXFEBLA>





Homeownership and Building Wealth: Be Careful!

- Homeownership may be positively associated or correlated with family wealth, but that's *not* the same as saying that homeownership *causes* wealth creation.
- It's hard to isolate the pure effect of homeownership on wealth creation, since many other factors—such as your age, race, education, income, and your parents—influence who is a homeowner in the first place.
- There *are*, however, things you *can* do to increase the likelihood that homeownership leads to building wealth.
- Exercise caution when promoting homeownership as a tool for wealth accumulation: Since 1950, all other forms of wealth combined earned a slightly higher compounded rate of return (2.4 percent, compared to 2.2 percent for homeownership) with about half of the risk of homeownership. (Emmons, 2019)

Generational Wealth Gap Narrows Among Homeowners; Older Homeowners Had Significant Gains Since 1989

(Emmons, Kent, and Ricketts, 2018; available at stlouisfed.org/hfs)



	Young (18-39)	Middle-Age (40-61)	Older (62+)
Percentage that own home, 2016	39%	68%	81%
Median net worth, all families, 2016	\$17,000	\$131,000 8X	\$236,000 14X
Median net worth of homeowners, 2016	\$85,000	\$255,000 3X	\$318,000 4X
Net worth gain/loss since 1989 among homeowners	- 17% (\$103,000 to \$85,000)	+15% (\$222,000 to \$255,000)	+47% (\$215,000 to \$318,000)

Educational Wealth Gap Narrows Among Homeowners; Homeowners with College Degrees or More Gained Significant Wealth Since 1989

(Emmons, Kent, and Ricketts, 2018; available at stlouisfed.org/hfs)



	High School	4-Year Degree	Post-Graduate
Percentage that own home, 2016	63%	72%	78%
Median net worth, all families, 2016	\$77,000	\$229,000 3X	\$443,000 6X
Median net worth among homeowners, 2016	\$169,000	\$392,000 2X	\$669,000 4X
Net worth gain/loss since 1989 among homeowners	+7% (\$158,000 to \$169,000)	+34% (\$293,000 to \$392,000)	+57% (\$425,000 to \$669,000)



White / Non-White Wealth Gap Narrows Among Homeowners; Homeowners of All Races Have Increased Their Wealth Since 1989

(Emmons, Kent, and Ricketts, 2018; available at stlouisfed.org/hfs)

	White	Black	Hispanic, Any Race
Percentage that own home, 2016	72%	44%	45%
Median net worth, all families, 2016	\$163,000	\$16,000 10X	\$22,000 7X
Median net worth among homeowners, 2016	\$272,000	\$104,000 3X	\$108,000 2X
Net worth gain since 1989 among homeowners	+30% (\$209,000 to \$272,000)	+27% (\$82,000 to \$104,000)	+61% (\$67,000 to \$108,000)



Five Expert Observations About Homeownership

(“Tipping Points” Research Symposium, 2018; available at stlouisfed.org/hfs)

1. An unwavering belief in homeownership and rising prices.
2. Homeownership’s prominent role on family balance sheets.
3. Homeownership’s outsized risks to families and the economy.
4. Homeownership’s uneven costs, risks and benefits.
5. The role that sheer luck (in the form of timing) has played in understanding who has built, maintained or lost wealth from homeownership.

Homeownership and Public Policy

Key Questions

Biases

- Tax preference for homeownership over renting.
- Subsidy preference for homeownership over liquid/restricted savings and other forms of building wealth.
- Debt over equity financing.

- Proper role for government?
- Alternatives to homeownership for building wealth?
- Alternatives to homeownership for shelter / more affordable housing?
- How to balance risks and rewards of homeownership?
- Is homeownership primarily a consumption item or an investment?



Towards *Sustainable* Homeownership

(See 2018 “Tipping Points” proceedings esp. McCargo, Emmons et al., and Belsky)

- ✓ Buy at the right moment in life – more of a “capstone” event than a starting point.
- ✓ Make sure your balance sheet is sufficiently “diversified,” including and especially manageable levels of debts and high levels of liquid/emergency savings.
- ✓ Buy the right amount of home with a mortgage that will help build equity.