Habitat for Humanity®

Homeownership Builds Wealth

A study of Habitat for Humanity homeowners in Ohio

Introduction

Homeownership can be a catalyst to wealth building, especially among households with low incomes who hold most of their wealth in their homes. Homeownership creates wealth in two ways:

1. Appreciation in the home's value.
2. Equity accumulated as homeowners pay down their mortgages (also known as "forced savings").

Home value appreciation helps homeowners build wealth by enabling them to realize greater proceeds if they sell the home or borrow against the additional equity. Housing stability is particularly important for wealth accumulation, and the length of homeownership is significantly and positively associated with household net wealth.[1] In addition, owning a home promotes intergenerational homeownership and wealth building. See the full evidence brief on how homeownership contributes to wealth building **here**.

Barriers to wealth building through homeownership

Gender, racial and ethnic gaps persist in wealth building in the U.S., including wealth built through homeownership. Because of market forces and negotiating power, single men earn 7.9% more annually on their housing investment than single women. Single women typically pay 1-2% more for homes, on average, and then sell for 2-3% less than single men, leading to an approximate loss of $1,800 (in 2022 dollars) annually for single women compared with single men.[2]

Black and Hispanic/Latino households accumulate less wealth and equity in their homes, on average, than white households. Barriers contributing to this include:

- Having higher mortgage rates.
- Purchasing lower-valued and slowly appreciating homes.
- Having higher property taxes.[3]

Based on these factors, Black and Hispanic/Latino households are also less likely to sustain homeownership over time. One analysis of households between 1976 and 1993 found that less than half of homeowners of color with low incomes remained homeowners within four years of purchasing their homes, compared with 60% of white homeowners with low incomes, 65% of white households with middle incomes, and 85% of white households with high incomes.[4]

How Habitat helps households with lower incomes

In the U.S., Habitat for Humanity focuses its services on homebuyers and homeowners who earn between 30% and 80% of the area median income, or AMI. The U.S. Department of Housing and Urban Development calculates AMI for each geographic area annually based on the midpoint of a region's (e.g., metropolitan area and non-metropolitan counties) family income distribution with adjustments based on family size. For a family of four living in the Cincinnati, Ohio, area, for instance, this translates to gross annual incomes ranging from $28,650 to $76,400 in 2022.[5]

Habitat offers financial and educational assistance to homebuyers to ensure that they pay an affordable mortgage and can thus more easily build wealth. This assistance typically includes:

- A primary zero- or low-interest loan equivalent to no more than 30% of the homebuyer's income.
- Repayable or forgivable secondary loans that may be contingent on the homebuyer remaining in the home for a specified period.
- Pre-purchase homeownership classes to prepare buyers for a successful homeownership journey.

The Ohio wealth building study

In 2021, Habitat for Humanity International conducted a pilot study in Ohio to understand the extent to which Habitat helps homeowners build wealth and how wealth building varies by homeowner, affiliate and market characteristics. This study addresses two questions:

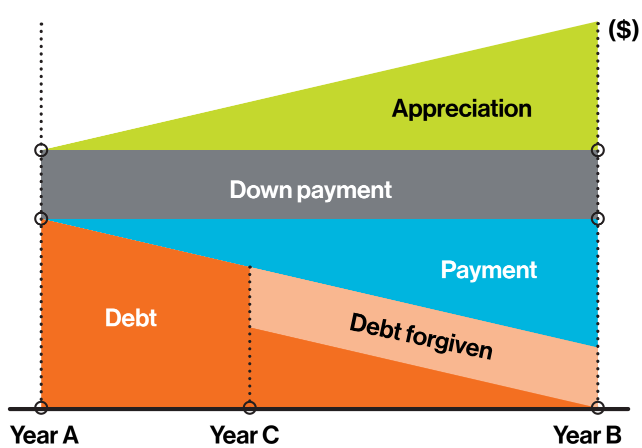
1. **To what extent do Habitat homeowners build wealth?**
2. **To what extent does accumulated wealth vary by homeowner, affiliate and market characteristics?**

Lessons learned from this pilot study are being used to inform a national impact study.

How wealth is calculated

This study defines wealth accumulated as the sum of mortgage payments, home value appreciation and any housing debt forgiven. Figure 1 depicts a typical debt structure from the time of home purchase (Year A) to the time the home is paid off (Year B). The homeowner leverages debt and contributes a down payment to purchase the home at Year A. As the homeowner makes mortgage payments and debt is forgiven, starting in Year C, the homeowner begins to increase the equity in the home. Depending on market trends and the home's location, the home's value rises over time, also known as appreciation. The combination of debt reduction, mortgage payments, amount of the down payment, and home value appreciation constitutes a homeowner's equity or wealth by Year B.

Figure 1: Wealth accumulation model



Housing equity was calculated at 10 and 30 years for this study. The Habitat affiliates included in the study's sample offered zero-interest loans with terms no longer than 30 years. The study calculates housing appreciation from the difference between the purchase price and the current value of the home. The study estimates the current value of the home by inflating the purchase price of the home to 2021 dollars using the Midwest consumer price index and then projecting the purchase price at 10 and 30 years using county-level averages of the Federal Housing Finance Agency House Price Index, or FHFA HPI.[6]

Why Ohio?

Ohio is the seventh most populous state in the U.S., with 11.8 million residents.[7] Approximately 80% of the population resides in urban areas, with the remaining 20% residing in rural areas. According to the U.S. Census Bureau, in 2020, approximately 75.9% of the state's population was white only, 12.3% was Black only, 2.5% was Asian only, and the remaining 4.8% were American Indian/Alaska Native, Native Hawaiian/other Pacific Islander, other, or a combination of different races. Approximately 4% of the state's population were of Hispanic/Latino origin.[8] As of 2020, approximately 66.3% of Ohioans owned their home. The homeownership rate has yet to recover from the effects of the Great Recession, having peaked at 73.3% in 2005.[9] Ohio can be characterized as a unique state where some cities have experienced economic and housing booms while "Rust Belt" cities that historically relied on U.S. steel production and other heavy industries, with Cleveland and Dayton fueling much of the growth.[10] Most recently, Intel announced the building of a chip plant near Columbus, further contributing to the economic development in this area.[11]

Habitat for Humanity in Ohio

- Forty-three Habitat affiliates operate within Ohio, and all offer zero-interest-rate loans to homebuyers with low incomes. Affiliates seek households earning between 30% and 80% of AMI and having front-end and back-end debt-to-income, or DTI, ratios[12] of 30% and 43%, respectively.

- Ohio affiliates vary in staffing capacity. Based on the survey responses from affiliates, almost one-third of affiliates are run entirely by volunteers. The average affiliate, however, is staffed by five full-time employees and 1.4 part-time employees.
- Over 70% of affiliates offer pre- and/or post-purchase support to homebuyers. The most prevalent forms of homebuyer support include financial education, lending practices and homeownership classes.

Study approach

Data sources used to understand homebuyer, affiliate, and market characteristics

In order to understand homebuyer and affiliate characteristics, a combination of data sources were used. **HFHI's Affiliate Statistical Report**, or **ASR**, was used to determine the number of mortgages held by each affiliate and the delinquency rate. Affiliates were asked to review their **Housing Production Report**, or **HPR**, address portfolio to validate their data, correct incomplete addresses, and provide updated homeowner names and demographics. Mortgage data was purchased from **Black Knight Inc.**, an integrated technology, data and analytics firm, and validated by Ohio affiliates. Participating affiliates also completed an **affiliate programs and practices survey** to understand intake, homebuyer support, construction and financing processes. In addition, data from the FHFA HPI and the consumer price index were used to calculate wealth at 10 and 30 years, and data related to poverty rates, changes in population, income and housing occupancy from the American Community Survey, or ACS, were used to understand characteristics of the local housing market.

Sample

The study's sample consists of all homeowners who purchased a home from an Ohio-based Habitat affiliate between 2010 and 2021, and the sample period extends over the same time frame. This means that the longest follow-up period for a homeowner is almost 11 years, and the shortest period is less than a year. Because of the relatively short follow-up period of this study, homeowners are assumed to have remained in their homes throughout the lifetime of the mortgage with no delinquencies or foreclosures.

Of the 43 Habitat affiliates in Ohio, over half (23 affiliates) participated in the pilot study, providing data on 818 (68%) of all Habitat properties sold in Ohio over the sample period. These affiliates are nearly equally divided between rural and urban areas; 48% of the participating affiliates are in rural areas and the remaining 52% are in urban areas. Five affiliates also participated in a focus group to validate assumptions of the analysis, such as length of Habitat homeownership. A full list of affiliate participants and a description of their geographic service areas can be found in Appendix A.

Affiliates were categorized into four clusters based on characteristics that would be associated with homeowners' wealth accumulation. The study includes this grouping in more rigorous statistical analyses to understand the independent relationships across homeowner, affiliate and market characteristics and wealth building.

Cluster A:
Small affiliates located in rural areas and with limited capacity to support homeowners (e.g., decline in number of mortgages held, limited offerings of homeowner education programs).

Cluster B:
Large affiliate located in a rapidly growing urban area and with varying homeowner support (e.g., types of homeowner education offered, capacity to provide in-house financial services). This cluster contains only one affiliate.

Cluster C:
Affiliates located in urban areas and having the capacity to originate large volumes of loans.

Cluster D:
Large affiliate located in a stable housing market in an urban area and having high delinquency rates. This cluster contains only one affiliate.

Findings

Homeowner characteristics and wealth building

Overall, this pilot study found that the average Habitat homeowner in Ohio was estimated to accumulate $45,923 in home equity wealth after 10 years and $106,410 after 30 years. Forced saving comprised the largest share of home equity wealth, and housing appreciation contributed more to wealth accumulation in the short term (35%) than in the long term (16%) (Figure 2).

These findings suggest that housing market volatility is more likely to influence total wealth in the short term, while programs or policies to sustain homeownership are more likely to affect wealth accumulation in the long term, especially in low-growth or stagnant housing markets.

On average, female-headed households gained less wealth over time than non-female-headed households. At 10 years, female-headed households were estimated to gain $45,684 from home equity, compared with $52,425 for non-female-headed households (Figure 3). Female-headed households similarly were estimated to gain less wealth ($105,246) at 30 years compared with non-female-headed households ($118,068). Despite this, when controlling for affiliate and market characteristics, gender was not a significant indicator of wealth accumulation over time.

Racial differences in housing wealth accumulation were investigated, leading to the finding that **racial differences had a significant but small association with housing wealth**. Black-headed households were estimated to accumulate approximately $700 (or 1.5%) less than non-Black-headed households after 10 years of homeownership and $2,800 (or 2.5%) less after 30 years of homeownership. The study further explores this relationship with more rigorous statistical analysis to understand if this finding remains once affiliate and market characteristics are included.

Figure 2: Average home equity accumulation at 10 and 30 years, based on data from 818 homeowners.

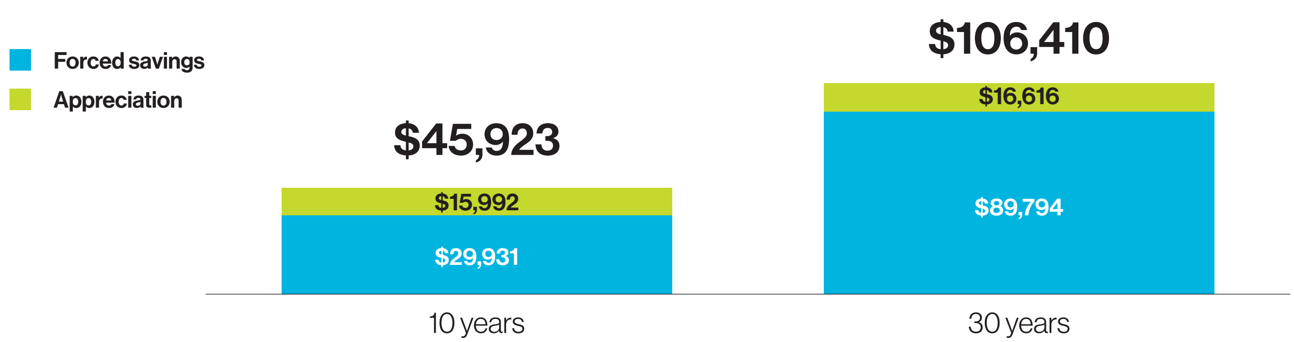


Figure 3: Average home equity accumulation at 10 and 30 years, by gender of title holders.

Affiliate characteristics and wealth building

Wealth accumulation varied by affiliate characteristics. After 10 years, homeowners in Cluster B (large affiliate in a rapidly growing urban area with varying homeowner supports) gained the most wealth on average – almost twice that of the other clusters (Figure 4). Homeowners accumulated similar amounts of wealth across the three remaining clusters of affiliates, ranging from $33,121 in Cluster D (large affiliate in an urban area and with high delinquency rates) to $41,221 in Cluster C (affiliates in urban areas with capacity to originate large volumes of loans). After 30 years of homeownership, homeowners in Cluster B continued to accumulate the most wealth ($153,702) compared with homeowners in other clusters, and the differences in wealth between Cluster D and the other clusters widened.

Homeowner, affiliate and market characteristics and wealth building

This study then examines the relationship between wealth building and homeowner, affiliate and market characteristics. Local market factors such as increases in population, median household income and number of owner-occupied units are associated with greater growth in housing wealth. Increases in the Black population, poverty rate and baseline home values are associated with diminished gains in housing wealth for homeowners. For example, when a county's population increases by 10%, it is expected to result in additional wealth accumulation of approximately $2,000 (4%) after 10 years of homeownership and $6,000 (or 6%) after 30 years of homeownership.

Inclusion of affiliate and market characteristics, however, did not modify the relationship between homeowner demographics and wealth accumulation. Race remains significantly correlated with home equity accumulation, with Black-headed households associated with a negligible decrease in wealth accumulation. Figure 5 shows the comparison between Black-headed households and non-Black-headed households by affiliate cluster at year 30. After 30 years of homeownership, Black-headed households are associated with housing wealth accumulation that is 2.5% ($2,800) less than non-Black-headed households. Small but significant racial disparities in wealth exist across all clusters except Cluster D (urban affiliate with a high mortgage delinquency rate). One point to note is that after 30 years of homeownership, homeowners who purchased homes from the affiliate in Cluster D were associated with less wealth accumulation than those homeowners in Cluster A (smaller rural affiliates). The results were similar at 10 years (results not depicted).

Further research is recommended to understand the factors that contribute to racial disparities in wealth accumulation among Habitat homeowners, especially those served in rural areas. Findings from this pilot study will inform a future study on wealth building across the Habitat network, and the authors hope to disentangle and expound on these results.

Figure 4: **Average home equity accumulation at 10 and 30 years, by affiliate cluster**

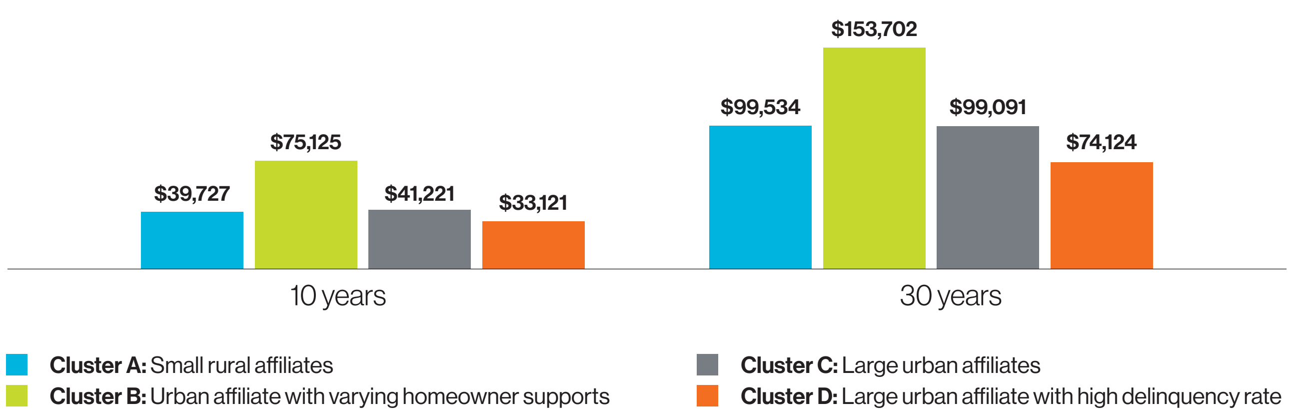
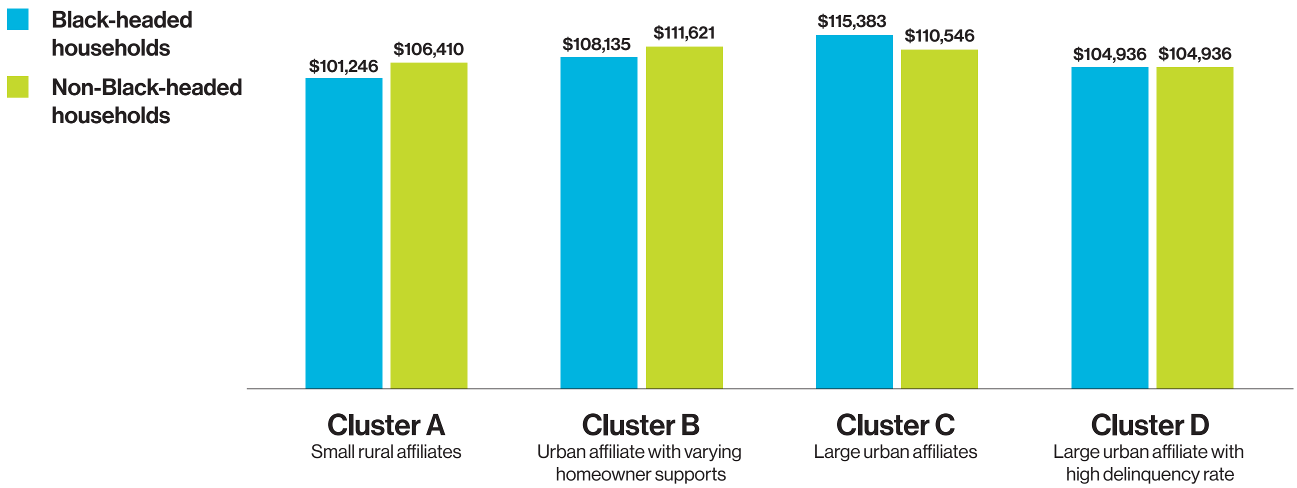


Figure 5: Average home equity accumulation at year 30, by affiliate cluster and race of homeowner.



Conclusion

After exploring some of the known barriers to wealth building associated with race and gender, this study found that affiliate and market characteristics may be more important contributors to wealth accumulation than homeowner demographics. The overall results suggest that homeowners purchasing homes from smaller rural affiliates accumulate less estimated wealth than those homeowners purchasing from more urban affiliates. Homeowners who purchased homes in counties with a strong local economy and housing market, as indicated by increases in population, median household income and the number of owner-occupied units, were associated with larger increases in housing wealth accumulation. Furthermore, homeowners who purchased homes from affiliates in urban areas (clusters B and C) tended to have higher wealth accumulation than those who purchased from affiliates in rural areas (Cluster A). This result stems largely from the lower appreciation rates of homes in rural areas. Black homeowners of these smaller rural affiliates, however, fared worse than non-Black homeowners from the rural affiliates and their more urban counterparts. Moreover, Black-headed households in a rapidly growing urban area also accumulated less wealth than non-Black homeowners. This pilot study is a first step in understanding the extent to which Habitat builds wealth for its homeowners. The next phase of this research is to use the lessons learned from conducting the pilot study to implement a more rigorous national evaluation that will help to unpack wealth building and financial health among Habitat homeowners.

Habitat for Humanity International's U.S. Research and Measurement team thanks Ryan Miller and all the Ohio-based affiliates who graciously provided their data, participated in our focus groups, and answered our myriad questions. Without them, this report and what was learned for a national scale-up of this project would not be possible. We also thank Guardians of Honor (**gohnow.com**) for assisting with the preliminary analysis.

Appendix A: Ohio affiliate participants

Affiliate name	Affiliate geographic service area
Alliance Area	City of Alliance, villages of Beloit and Sebring.
Buckeye Ridge	Marion, Morrow and Wyandot counties
Greater Cincinnati	Butler, Warren, Clermont and Hamilton counties. Also serves counties in Kentucky and Indiana, but they were not included in this study.
Greater Cleveland	Cuyahoga County
Greater Dayton	Clark, Greene and Montgomery counties
Delaware & Union Counties	Delaware and Union counties
East Central Ohio	Carroll, Harrison, Jefferson, Tuscarawas and Stark counties (excluding the City of Alliance)
Findlay/Hancock County	Hancock County
Firelands	Erie and Huron counties and city of Bellevue
Fulton County	Fulton County
Holmes County	Holmes County
Knox County	Knox County

Affiliate name	Affiliate geographic service area
Lake-Geauga	Geauga and Lake counties
Lima Area	The portion of Allen County south of U.S. Highway 30 and west of Napolean Road. Also includes the portion of the city of Delphos within Van Wert County.
Lorain County	Lorain County
Maumee Valley	Lucas County
Medina County	Medina County
MidOhio	Franklin and Licking counties
Putnam County	Putnam County
Sandusky County	Sandusky County
Seneca	ZIP code 44883
Southeast Ohio	Athens, Fairfield, Hocking, Meigs, Morgan, Noble and Perry counties and Muskingum County ZIP codes 43701, 43734, 43771 and 43720
Summit County	Summit County

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12. Front-end DTI ratio is a ratio between a monthly mortgage payment and household's monthly gross income. Back-end DTI ratio is a ratio between all monthly debt payment and household monthly gross income.

A Habitat for Humanity U.S. Research and Measurement Team report

Habitat for Humanity®

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