An Urban Institute Project Exploring Upward Mobility

Opportunity and Ownership Facts

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Federal Housing Subsidies: To Rent or To Own?

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Housing plays a vital role in the lives and finances of families. In 2005, housing consumed roughly one-third of household expenditures[1] and was the primary asset in the portfolios of most middle-income households.

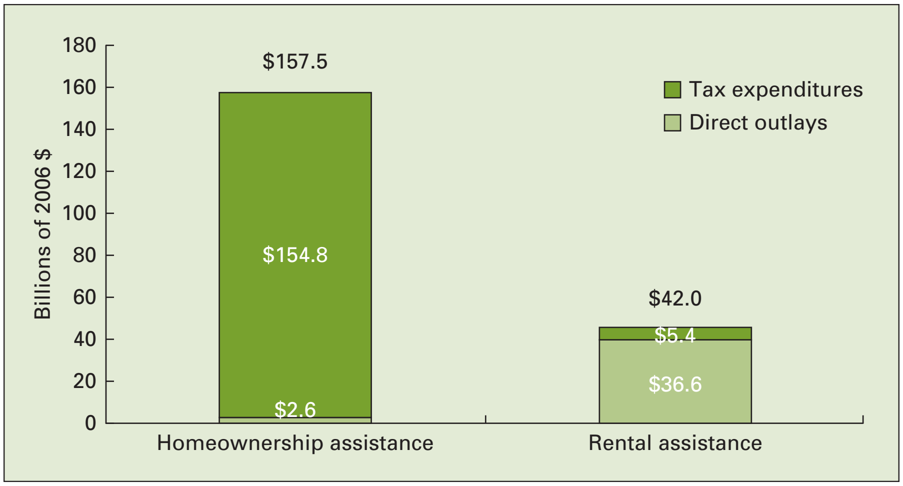
A family's housing can take one of two forms: renting or homeownership. Although both provide shelter, they differ significantly in their implications for asset accumulation. Recurring rent payments constitute consumption—payments are exchanged for immediate and set periods of occupation. On the other hand, most mortgage payments include payments toward the principal, or estimated value, of a house. At the same time, the real value of the debt falls with inflation while housing values more typically rise over time, at least with inflation. Hence, owning often helps build up net worth.

Many studies have noted the wide variety of benefits that homeownership (as well as other assets) can generate. While the positive effect of homeownership on children's behavior serves as one example, the most basic benefit that homeownership can provide lies in financial stability, as owners with built-up equity values can both use and fall back on these assets in good times and bad.

The federal government spent approximately $199.5 billion on housing programs and tax expenditures in 2006. The breakdown of spending—$157.5 billion on homeownership (e.g., the Government National Mortgage Association) compared to $42.0 billion on rental programs (e.g., Tenant-Based Rental Assistance)—reveals that the federal government places a priority on homeownership as opposed to rental housing (figure 1).

Direct outlays made up 87.1 percent of rental-assistance spending in 2006, while tax breaks provided over 98 percent of homeownership subsidies. Although both tax subsidies and direct-outlay programs attempt to reduce the cost of housing, the tax subsidies generally do not benefit low-income families. The Deductibility of Mortgage Interest on Owner-Occupied Housing was the largest homeownership tax subsidy in 2006, constituting 44.1 percent of such tax spending and 43.4 percent of total homeownership assistance. The top income quintile (or richest 20 percent of the population) claimed the vast majority of benefits at 81.5 percent—more than four times the share of the lower four quintiles combined.

FIGURE 1. Federal Housing Programs, 2006 (billions of dollars)



Source: Authors' estimates, The Urban Institute (2007). Based on data from the *Budget of the United States Government, FY 2008* and supporting documents.

Note: Numbers may not sum due to rounding.

Note

1. U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures in 2005*, February 2007.

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