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To Buy or Not to Buy? Understanding Tenure Preferences and the Decision-Making Processes of Lower-Income Households

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I'm sitting on the lawn of a modest single-family home in Albuquerque, helping a toddler put together her Mega Bloks as I talk with her mother, a 24-year old Latina who has lived in the United States her entire life. We're taking advantage of an unusually warm February day, and the interview is going better now that we're at her home rather than sitting in the nearby public library. While earlier on in the conversation I felt as if she were giving me carefully considered answers to my questions about her home search process ("We did a budget to see what we could afford"), now she's allowing more emotion to come through in her responses. She points to a row of rooftops just visible over her neighbor's backyard – a recently built subdivision that is filled with two-story houses, their newness standing in stark contrast to the older houses in neighborhood in which we're now sitting. "If we could only afford to live there," she says. "That's what I want for my daughter. A house that shows we're providing for her in the right way. That we've made it. So she's not a second class citizen." She then goes on to explain how she's willing to forgo her careful budget—in addition to increasing the number of hours she works to save a bit more—in order to buy one of those houses.

This one interview encapsulates the challenges of understanding consumer decisions in the homeownership market. It's never simply about an economic utility function. Certainly, buying a home is a financial decision, and every single person I interviewed recognized (and valued) the investment potential of owning a home. The recent housing boom and bust, coupled with the foreclosure crisis, was at the forefront of everyone's mind, and most of the families were watching the real estate reports with keen interest. Were prices going up? Were interest rates going to stay low? Was this the right time to buy? But the interviews also revealed much more complicated motivations for buying a home, and highlighted the extent to which a whole host of other non-quantifiable factors– including optimism, identity, and culture—influence consumer decision-making processes. These non-quantifiable factors are not negligible and they have material effects, not only on the financial well-being and vulnerability of the households themselves, but also on which neighborhoods benefit from owner-occupied investment.

In this paper, I report on the findings from four focus groups and twenty individual interviews designed to examine how households make decisions about buying a home. The focus groups and interviews were conducted in Oakland, California, and Albuquerque, New Mexico, between December 2012 and February 2013. All of the respondents—43 in total—were members of lower-income households (earning less than the median for their respective Metropolitan Statistical Areas), with children, of working age, and who were in the process of buying a house or had bought a home within the last six months. For all of them, this was their first home-buying experience, and all but three were going to be the first generation in their families to own property in the United States. As a result, the data provide rich insights into the processes that influence the homeownership decisions of lower-income, first time homebuyers. This paper summarizes the findings related to four key aspects of the decision-making process: a) what motivates the shift from renting to owning; b) what factors influence neighborhood choice; c) the heuristics borrowers use to make financial decisions about their housing choices; and d) the prevalence of "optimism bias" in household decisions about buying a home, and how that optimism stands in stark contrast to their vulnerability in the labor market.

The paper proceeds as follows. I begin with a brief overview of the literatures that form the background for this study, including studies on tenure choice, residential location, consumer decision-making, and behavioral economics. I then provide background on the qualitative data as well as some brief statistics that highlight the different contexts of the Oakland and Albuquerque housing markets. In the third section, I present the findings from the qualitative data, focusing on the four key findings described above. In the final section, I discuss the potential implications of this study for public policy, and suggest directions for future research.

Literature Review

Interestingly, despite the volumes of literature on homeownership, housing tenure choice, and consumer behavior, it was remarkably difficult to find studies that use in-depth qualitative methods to understand the decision-making processes of first-time homebuyers, and even more difficult to find studies that focus specifically on lower-income households. Instead, I found that I had to turn to many different literatures to stitch together a frame for thinking about what factors influence the decision-making process, and what heuristics or biases might be present in how households filter information and make choices. In this literature review, I briefly review the studies that most inform this research.

First, I draw on the rich literature on tenure choice and residential mobility. Since the early 1980s, there has been increasingly sophisticated quantitative research into the factors that influence a household's decision and ability to buy a house, including the relative cost of owning over renting (e.g. Haurin et al., 1997; Ioannides, 1987; Hendershott and White, 2000; Linneman, 1985); income, wealth, and credit constraints (e.g. Barakova et al., 2003; Brueckner 1986; Bourassa, 1996; Haurin et al., 1997; Painter et al., 2001), and household characteristics, including age and life course stage, education, and race (e.g. Clark and Dieleman 1996, Gyourko and Linneman, 1997; Ioannides, 1987; Long and Caudill, 1992; Painter et al., 2001; Wachter and Megbolugbe, 1992). Related to this research are studies that examine location choice in residential mobility and tenure decisions. While many of these studies focus on job accessibility (Van Ommeren et al., 1997; Waddell, 1993; Horner, 2004), more recent studies have explored the other factors that influence neighborhood preferences, including housing type and open space (Parkes et al., 2002) , personal income and house prices (Cameron and Muellbauer, 1998; So et al., 2001), racial differences (Gottlieb and Lentnek, 2001; Taylor and Ong, 1995; South and Crowder, 1998), and proximity to retail and service facilities (Waddell et al., 1993). Researchers working in these areas are have emphasized the importance of situating the transition to ownership within a life course perspective, recognizing that a family with young children may make different residential housing choices than either young adults without children or the elderly (Cummins and Jackson, 2001; Davis, 1993). Researchers are also increasingly studying how gender roles, intra-household dynamics and negotiations influence decisions about residential mobility, particularly among dual-earner families (Jarvis, 1999; Bruegel, 1996; Cooke, 2001; Bailey et al., 2004).

These studies all point to the contextual nature of the housing tenure decision and the interdependence of decisions around residential mobility, location, and the welfare benefits of multiple people within the household. Nevertheless, the analysis tends to focus on quantifiable attributes that determine housing tenure outcomes, as opposed to revealing the processes and heuristics by which consumers make decisions about their housing choices. In addition, as Munro (1995) notes, they "typically preserve the central neo-classical assumption of a utility maximizing individual." This suggests that there is a value in developing a greater understanding of the heuristics, biases, and other non-economic motives that might drive consumer choice in the housing market. What forms peoples' views of what neighborhoods are initially acceptable or unacceptable? How might those preferences differ between different demographic or socio-economic groups, and how might they change over time? What rules of thumb do households use to determine how much to spend on a house, and are these mutable?

To guide my inquiry in these areas, I reviewed the relevant literature on consumer decision-making and behavioral economics. While the literature on behavioral economics and applications to consumer finance is too vast to review here (see Mullainathan and Thaler, 2001; Thaler and Sunstein, 2008; Tufano 2009 for reviews), this body of work is helpful in that it challenges the notion of 'unbounded' rationality underlying most models on tenure choice and housing outcomes. Cognitive faculties aren't limitless, and consumers often adopt 'heuristics' – or rules of thumb—as a way to sort through the vast amounts of information that can inform their decisions (Kahneman and Tversky, 1974; Shah and Oppenheimer, 2008). Heuristics help consumers reduce the amount of work needed to collect and process the vast amounts of information related to making a decision (such as a home purchase). Cognitive psychologists have identified a wide range of heuristics people use in decision making (often concurrently), including the representative[1] (Goldstein and Gigerenzer, 2002), availability[2] (McKelvie, 2000), and anchoring-and-adjustment heuristics[3] (Epley and Gilovich, 2006).

All of these biases and/or rules of thumb are likely to exist to some degree in the homeownership decision, given the fact that buying a home is likely to be one of the most involved and important decisions a household makes (Gibler and Nelson, 2003). As Campbell (2006) argues, the housing decision is particularly complex from a consumer finance perspective, given the interactions between present and future income, borrowing constraints, and the need to take into account the intricacies of the tax code[4] in financial calculations. However, very little of the recent advances in consumer finance research focus on the homeownership decision per se, although Fannie Mae has begun to undertake more systematic surveys to understand how borrowers make housing decisions. Since this study is more qualitative and exploratory in nature, it cannot measure the prevalence of these biases in the larger population; there is a significant research opportunity to apply new advances in behavioral economic and psychological methods to housing tenure decisions.

The studies I was able to find on consumer behavior in the home purchase decision did, however, provide an important foundation for this research. First, the research helped me to frame the steps in the house search process. For example, Talarchek (1982) and Cahill (1994) both found that movers use a two-stage sequence of information gathering, starting with research and selection of which neighborhood to live in, and then gathering information on individual housing units. Dibb (1994) similarly found that homebuyers use a sequential decision strategy: first they apply a set of "absolute" rules to eliminate properties (e.g. those that don't meet minimum requirements for size or location), and then they use "relative" rules to evaluate properties across a range of secondary criteria. A few studies have found that there may be an inverted U-shape relationship between consumer knowledge and the quantity or quality of the external search for information (Bettman and Park, 1980; Moorthy, Ratchford and Talukdar, 1997). Those who are the least experienced (first-time homebuyers) and those

[1] The representative heuristic suggests that individuals estimate the likelihood of an event by comparing it to an existing "stereotype" in their minds. So, for example, consumers may use this heuristic in evaluating neighborhood conditions: if they believe that a higher proportion of rental units brings house prices down, they may assume that neighborhoods with more rental units are less desirable, even if that neighborhood actually has higher real estate values.

[2] The availability heuristic relies on immediate examples that come to mind in assessing the probability of a situation. Research has shown that people are preoccupied with highly desirable outcomes, such as winning the sweepstakes, or with highly undesirable outcomes, such as an airplane crash. Consequently, availability provides a mechanism by which occurrences of extreme utility (or disutility) may appear more likely than they actually are (Tversky and Daniel Kahneman, 1973).

[3] The anchoring-and-adjustment heuristic describes cases in which one uses a number or a value as a starting point, known as an anchor, and adjusts said information until an acceptable value is reached.

[4] Relevant considerations include the taxation of nominal rather than real interest, the availability of tax-favored retirement accounts, the tax deductibility of mortgage interest, the taxation of capital gains only when these gains are realized through asset sales, and the adjustment of the capital gains tax basis at death.

who are the most experienced (have purchased multiple homes) both search less than those in the middle. Other studies have found that consumers who are more educated usually search more, while inexperienced buyers are more susceptible to external influences such as real estate agents or advertisements and promotions (Bettman and Sujan, 1987). These research findings are salient for understanding the experience of first-time homebuyers, who may search less and be more easily swayed by external factors.

Second, a few studies based on surveys helped me to develop questions related to consumers' expectations of the housing market. During the housing boom in the 1980s, Case and Shiller (1988) conducted a survey to understand how consumers think about trends in housing markets and the sources of information that they use to decide how much to pay for a house. While consumer responses were influenced by whether or not they lived in a "boom" market, they found that many consumers retreated into clichés to explain their decisions and opinions, rather than empirical facts. Case and Shiller also found that the majority of homebuyers did not perceive real estate investments to involve a great deal of risk. In Anaheim, California, for example, a full 63.3 percent of respondents said that their purchase was essentially risk-free. Their study also provides evidence for the social basis of housing decisions, since they found that there was significant discussion among friends and associates about the real estate market.

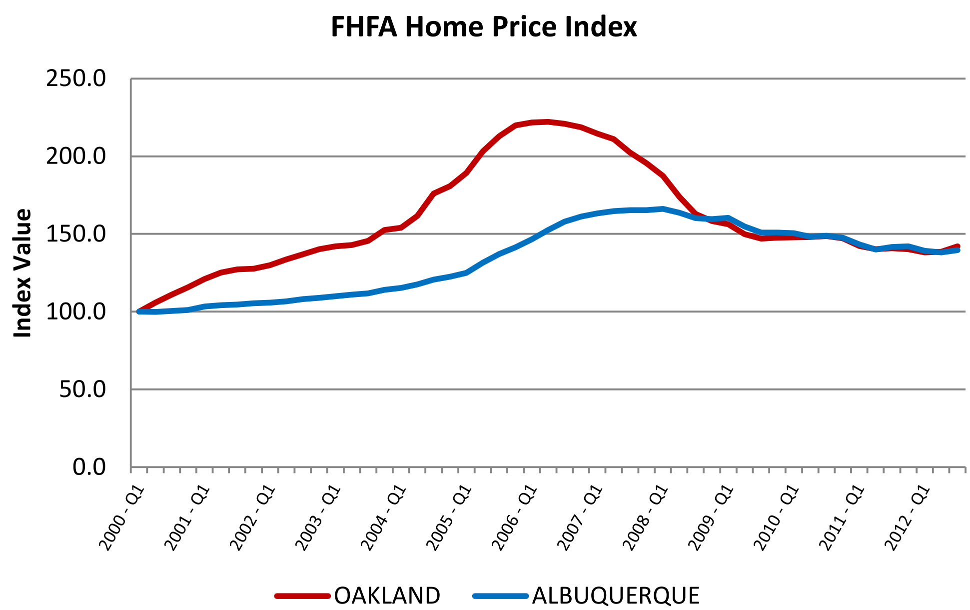
Third, this study draws on a number of studies conducted largely in Europe, Australia, and New Zealand, which use qualitative methods to examine the role of influences, emotions, and social status considerations on the home buying process. Levy, Murphy, and Lee (2008) use in-depth interviews with real estate agents and homebuyers to study how families engage in search practices, interpret information, and internally negotiate decisions. They find that emotions, feelings, and social collectivities have a strong influence on the decision-making process, and that women and men in the household take on different roles in the search process depending on the family structure. However, their research does not focus on lower-income families and the unique constraints they face in making decisions about housing tenure. Gram-Hanssen and Bech-Danielsen (2004) conduct 13 in-depth interviews to illuminate what priorities determine the choice of a house, and what home "signifies" to its residents. The interviews demonstrated how residential neighborhoods are associated with different symbolic values and how these values influence the choice of home. While they do explore class differences, their interviews were limited to middle- and upper-income families in Denmark. This paper hopes to fill a gap in the literature by explicitly focusing on the decision-making processes of lower-income homeowners in the United States.

Data and Methods

To collect data for this study, I conducted focus groups and interviews in two sites: Oakland, California, and Albuquerque, New Mexico. While the majority of data was collected in California, I felt it was important to have a second site as part of the study to see whether California's high house prices influence the nature of lower-income households' decision-making processes. I selected Albuquerque because of its greater housing affordability, and the fact that New Mexico was relatively insulated from the subprime crisis and subsequent foreclosures (especially compared to other southwestern states such as Arizona and Nevada).

To provide context for the interview sites, Figure 1 presents the Federal Housing Finance Agency House Price Index for Oakland and Albuquerque from 2000 to the middle of 2012. While Oakland's house values more than doubled between 2000 and 2006, and then dropped significantly afterwards (eroding all the gains during the bubble), Albuquerque's housing prices have been less volatile. While Albuquerque's prices have also fallen, they remain comparable to levels in 2005. In contrast, Oakland's house prices have dropped to 2002 levels, leaving many recent homebuyers underwater, owing more on their mortgages than their homes are worth. Although not reflected in these data, both Oakland and Albuquerque have seen price upticks in recent months, and particularly in Oakland there is some concern that prices are rising too quickly.[5]

Figure 1: A Comparison of House Prices in Oakland and Albuquerque

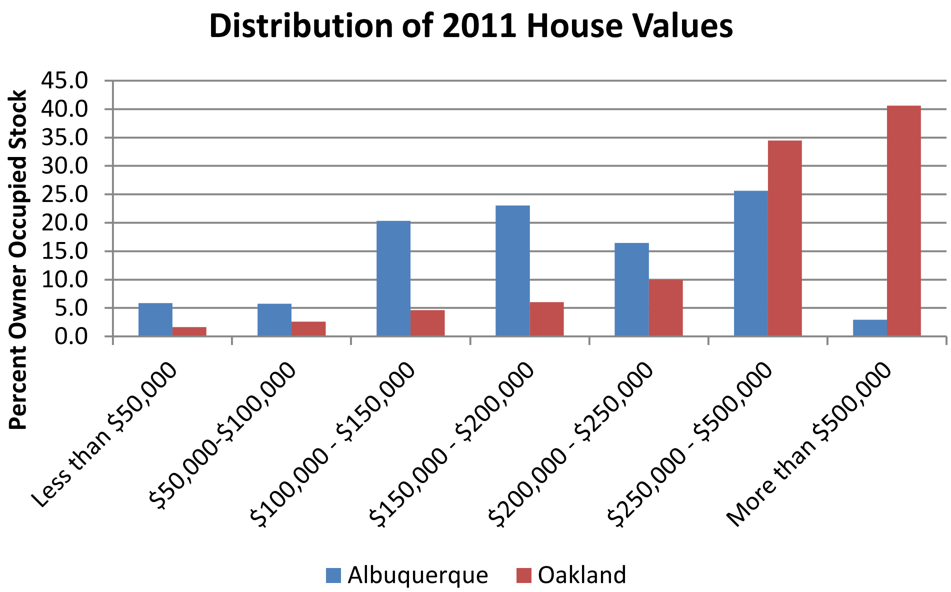


Source: Federal Housing Finance Agency, House Price Index, Purchase-Only, Not-Seasonally Adjusted, through 3rd Quarter 2012.

In addition to being a less volatile real estate market, Albuquerque remains considerably more affordable than Oakland, particularly when compared against household incomes. Figure 2 shows the distribution of owner-occupied home values in Albuquerque. Approximately 55 percent of the homes in Albuquerque are valued at less than $200,000, compared with just 15 percent of the homes in Oakland (ACS 2011). While incomes are somewhat lower on average in Albuquerque, the differences are not as large as the differences in house values. Nearly 50 percent of households in Oakland have incomes of under $50,000, compared to 56 percent of households in Albuquerque (ACS 2011). As a result, a significantly larger share of residents in Albuquerque lives in owner-occupied units, especially among households under 35. Only 18 percent of households with a head younger than 35 in Oakland own their home, compared to 48 percent of households under 35 in Albuquerque.

Figure 2: Distribution of House Values in Oakland and Albuquerque

[5] Affordable housing developers renovating REOs for homeownership in Oakland are seeing considerable demand for units at the lower end of the market. They often get 14-16 bids per property, which suggests that even with the foreclosure crisis, there is insufficient supply of higher-quality, more affordable properties.



Source: American Community Survey, 2011 1-Year Estimates, Table B25075 – Value.

In Oakland, I conducted four focus groups (ranging from five to eight participants in size) and eleven in-depth interviews. In Albuquerque, I conducted nine in-depth interviews, although one of these interviews occurred over the phone. (All of the other interviews were conducted in person.) In total, the perspectives of 43 respondents are included in the data. To be included in the study, respondents needed to be working age adults with children, with a household income of less than $61,000 in Albuquerque and less than $92,300 in Oakland (HUD's area median income for the two respective MSAs). The decision to focus on households with children was explicit. By narrowing the focus groups and interviews on a specific stage of the life course, I hoped to eliminate some of the life course reasons why households shift tenures, and explore the financial aspects for choosing homeownership more explicitly.

Although I initially intended to only conduct focus groups for this study, midway through the data collection process in Oakland, I shifted from a focus group to in-depth interview format. The focus groups were revealing incredible heterogeneity in responses, and I found myself wanting to have more time to follow-up on individual experiences. While focus groups provide a way to build consensus or identify key cleavages in the opinions, attitudes, and experiences of participants (Asbury 1995, Morgan 1997), in this case I felt like there was more to be gained by talking to respondents one-on-one. The interviews also were helpful because in several cases, the respondents offered to show me their current housing situation, and/or showed me around the neighborhoods/properties where they were considering buying a home. This gave me a stronger qualitative understanding of the local real estate market and how supply and cost constraints were shaping household choices.

To recruit respondents, I relied on a modified "snowballing" strategy, identifying lower-income households through personal contacts and asking them to help me recruit potential respondents (e.g. by posting flyers at their congregation, asking friends at their workplace who they knew were looking for a house if they would be interested in talking to me). I also visited community centers, libraries, and open houses (affordable to a lower-income family) and introduced myself and my project to potential respondents, giving them my card, and asking them to follow up with me if they were interested in participating in the project. I also posted advertisements on Craigslist, although I was only able to identify one respondent in this manner. Respondents received a $40 honorarium at the start of the interview or focus group. I did this to ensure that none of the participants felt coerced by the financial incentive to stay for the full time or disclose more information than they felt comfortable. For the focus groups, I provided an additional $50 to the hostess to cover the costs of refreshments.

For participants in the focus groups and in the individual interviews, I used two devices to help elicit information about the respondents and their decision-making processes. First, every respondent in both formats filled out a brief survey about their financial circumstances (e.g. income brackets, job title, current rent, house price search range), their housing preferences (e.g. did they care more about location or housing quality), and the neighborhoods in which they were concentrating their search. Second, in the one-on-one interviews, I worked with respondents to complete a "life event" chart, where they were asked to identify key aspects of their lives over the past five years, and then project what life events they were expecting going forward. The focus groups varied in length from nearly three hours for the first, to approximately 90 minutes for the subsequent three. Interviews were approximately one hour to 90 minutes long. Both were conducted in an informal, free-flowing format, as opposed to following a rigid script.

Table 1 presents a brief overview of the four focus groups that I conducted in Oakland, while Table 2 presents summary statistics for the Oakland and Albuquerque respondents.

Table 1: Focus Group Descriptions
Focus Group 1: First generation East African immigrants; five men. Ages ranged from 32 – 55; ages of children ranged from 2 – 23. Wide range of occupations, including retail, transportation, and health aide work.
Focus Group 2: First generation Latino immigrants; six women. Ages ranged from 30-41. Mostly worked in service occupations (formal and informal). All were married or in long-term partnerships, with partners employed in construction and tech support. Children ranged in age from 6 -15.
Focus Group 3: Three Latina and four Filipino women; with one exception all had been born in the US or had moved here when they were very young. Ages ranged from 28-48. Two were single parents. All of the women worked in various retail positions at a large shopping mall. Children ranged in age from 2-15.
Focus Group 4: Five African American women; ages from 25-40. Two were single parents. Two were also living with elderly relatives. Employed in accounting, secretarial services, or management roles.

Table 2: Descriptive Statistics of Respondents			
	Albuquerque	Oakland	
	Interviews	Interviews	Focus Groups
White Non-Hispanic	1	4	0
Latino	8	3	9
African American	0	4	5
African	0	0	5
Asian	0	0	4
Median Age	28	36	37
Median Income	$46,000	$87,000	$83,500
Actively Looking for a House	6	9	16
Bought within Last Six Months	3	2	7

A few aspects of the sample of respondents are worth noting. First, the sample is racially and ethnically diverse. Overall, it is weighted towards first generation immigrants, especially Latino households, due at least in part to the demographic composition of lower-income households in Oakland and Albuquerque. I see this as one of the strengths of this study; the majority of household and homeownership growth in the United States in coming decades will be among Latino and other immigrant families, and so understanding their decision-making processes seems to be especially important. I also wanted to narrow the research beyond just lower-income households to those who were also in lower-skilled, lower paid labor market positions. In other words, I was interested in households who were less likely to see a significant change between their current and future income.

Second, I explicitly looked for respondents who had not participated in a homeownership counseling program or who were seeking help from housing nonprofits or local affordable homeownership programs. Research has shown that participating in a pre-purchase counseling program changes a respondent's level of knowledge and influences their decision-making processes, and my goal was to better understand the experiences of families who fall outside of these support systems. In my sample, none of my respondents had gone through or were going through official homeownership counseling, although three of the respondents in Oakland and one in Albuquerque had looked into affordable homeownership programs and were considering applying for the subsidy. They knew these programs required financial counseling in order to be eligible.

Despite these efforts to narrow the sample, focus group respondents' answers and experiences were incredibly heterogeneous, and I did not feel like I had reached saturation along any of the themes that I explored in the interviews. In addition, it is important to note that these respondents had all already made the decision to buy a house, so they do not reflect the experiences of others who may have been more influenced by the recent crisis to stay out of the homeownership market. While these focus groups and interviews provide valuable insights, significantly more research is needed to develop a richer understanding of the decision-making processes of lower-income, first-time homebuyers.

Research Findings

In this section, I present the findings from the focus groups and in-depth interviews related to four key aspects of the homeownership decision-making process. First, I examine the reasons and motivations first-time homebuyers give for making the transition from renting to owning. Second, I show how these varying motivations influence neighborhood choice, and present evidence that for resource constrained households, school quality may be a less important driver of neighborhood choice than neighborhood violence. Third, I look at how households make decisions related to how expensive a house they can afford. Finally, I show that among my respondents, 'optimism bias' plays a significant role in determining the shift to homeownership as well as the amount of resources first-time homebuyers set aside for unanticipated risks.

The Decision to Own

One of the strongest findings – in fact the only finding that was universal among every single respondent in both the focus groups and in the individual interviews – was the persistence of the idea that owning a home is part of the "American Dream." Homeownership is not just a housing tenure; for respondents, it was clear that homeownership embodies the ideals of upward mobility and achievement, and that renting is seen as an inferior housing choice. Common statements that captured these ideals included "Why would you rent if you could own?", "I want to move up the housing ladder," "We're really doing well now, it seems like it's time to stop renting and move up into owning our own place." In other words, while the decision to own is in part a financial decision, it also encompasses important cultural and ideological meaning.

I thought that the foreclosure crisis may have weakened this link, especially since there has been increasing coverage in the news about people rejecting the ideology of homeownership. In the focus groups and interviews, I would challenge the clichéd notion of an American Dream. I would prompt with questions such as, "Don't you think that the foreclosure crisis changed that?" or "But you have much more freedom and flexibility with renting, isn't that valuable to you?" Bearing in mind that these respondents had made the decision to buy – creating a likely selection bias – respondents universally pushed back on these prompts, noting that "homeownership is still the best way to build wealth," "I want to live in my own house, it's better to own," and "Do you own? (Yes.) So why don't you rent [if it's so great]?" There was some recognition that they were "lucky" not to have bought during the peak of the housing bubble, but the majority of respondents said that they had always wanted to own, and that this was the first time that they felt like they could manage it financially.

One of the respondents in Oakland, an African American male in his early 30s who works on social justice issues for a small nonprofit, provided a more nuanced assessment of this supposed turn away from homeownership as a preferred tenure. He noted that many of his white friends were choosing to rent "for now", but that this sentiment was less prevalent among his African American friends:

> *The new millennials are supposedly rejecting homeownership. It's critiqued as a capitalist notion – we're supposed to be beyond individual ownership models. Or you hear that homes don't build wealth like they used to. But I think the only people who are rejecting homeownership are those who know that they could be homeowners – their parents were, they're of a class that owns, and they're white. It means something different if you've been on the outside….homeownership matters to us [the African American community] on a whole different level. It's not just about the value of the house, it's about being an owner. Owning land.*

His quote exemplifies the fact that homeownership is much more than an economic decision or the fulfillment of a housing ‘need.’ Homeownership is also a social practice that ‘positions’ people within complex hierarchies of power and meaning (Wiese 2005). Indeed, respondents placed significant weight on “ownership” as signifying a sense of belonging. Among first-generation immigrants, the association of homeownership with citizenship and the “right” to be in this country was dominant. For African Americans, it tended to be expressed more as the ability to achieve something that had been denied their parents or grandparents as a result of discrimination and residential segregation.

> *For me, the key is becoming a homeowner. I don’t care where, I don’t care what the house looks like. But I think of my grandfather and how proud he’d be to see I made it.*

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> *It signifies roots. We’re here to stay, and we have the right to be here.*

∞

> *[After discussing the citizenship ceremony, which I just went through myself last summer] Remember that moment when he said we didn’t have to carry our green card anymore because no one could question our right to be here? That’s what homeownership means to me. I’m a citizen and I own land that I can pass down to my kids, who are citizens.*

While the linkages between homeownership and identity do not often find their way into economic analyses of tenure choice, they have significant material effects and result in often seemingly “irrational” decisions. In my interviews, I found that the aspirational nature of homeownership greatly influenced people’s decision-making about what kind of house they wanted to buy, and what kind of neighborhood in which they wanted to live, and that these aspirations could quickly nullify preconceived notions of how much they could afford or what aspects of the housing bundle they most valued.

Interestingly, while the aspirational nature of homeownership was raised by every single respondent, the aspirations themselves were incredibly heterogeneous. So while everyone wanted to “move up”, what they were moving up “from” and where they wanted to go “to” was different. I identified (at least) five intersecting and overlapping motivations for transitioning from renting to owning. These motivations included:

1. The shift from renting to owning as a signal of achieved economic mobility, and higher quality and larger housing (greater use value).
2. The shift from renting to owning as a signal of belonging, e.g. related to citizenship (for immigrant households) or a right to ownership (African American households).
3. The shift from renting to owning as a shift in the locus of control, and the idea of having more power over one’s own life and housing situation.
4. The shift from renting to owning as an investment and an opportunity to build wealth.
5. The shift from renting to owning as a way of providing for a better life for their children, sometimes related to educational opportunity but also often articulated as an escape from violence and other negative influences.

These articulated motivations for buying a house led to very different homeownership choices for the households I interviewed. Based on my own experiences, both as a child and now as an adult parent, I had assumed that neighborhood – and particularly school quality – would be a primary determinant of the initial decision-making process. As is reflected in previous literature, I thought households would "choose" the best neighborhoods they could afford, and then find the best house within those neighborhood parameters. But through the interviews, I realized that this frame isn't universal. I, and my parents before me, already had achieved many of the aspirational goals that some respondents associated with homeownership: we belonged (while immigrants, we blended in thanks to our whiteness and lack of accent), we already had demonstrated class status (we didn't share rooms, even when renting), we were safe (we didn't rent in neighborhoods where violence was a part of everyday life), and we felt in control of our lives (we weren't at risk of being deported, and we weren't subject to the whims of slum landlords). As a result, the decision to buy a house was primarily about its investment potential, both as a tangible asset and as an investment in human capital through the quality of the schools.

In contrast, neighborhoods and school quality were not the most important decision-making frame for many of these families, and given their income constraints, many were focused on achieving other goals that they associated with homeownership without as much attention to neighborhood quality (with the exception of violence, discussed in more detail below).

For example, the importance of improved housing quality, both in terms of comfort and as an outward symbol of economic mobility, was prevalent across a vast majority of the interviews. Especially in Albuquerque, where it is possible for low- and moderate-income families to buy larger houses, six out of the nine respondents were more focused on how the home would improve their housing quality and how the home itself would reflect their rising social status than they were about neighborhood or school quality. Having more space was critical, especially given the fact that many of these households served as anchors for other family members who were still finding their economic footing. One respondent noted:

> *We really want more than two bedrooms. The houses we're looking at, they have two floors, and three and sometimes even four bedrooms. The kids could have rooms of their own, and my brother wouldn't have to sleep on the couch while he's looking for work.*

Another also noted the desire for additional space to accommodate extended family:

> *Right now seven of us are living in this tiny two bedroom rental. I think we're hoping to be able to afford a four-bedroom house, even if the rooms are small. The kids could have one room, my parents the other.*

For many, moving to a bigger, new house also symbolized a shift in class status, and a move away from "renters" who didn't take care of their properties.

> *I'm tired of living near neighbors with furniture in their front yards and five broken down cars in the driveway. Some of these new developments, they have really clear rules about what you're allowed to do on your property. I like that.*

∞

> *We feel like we're making it, and want to see that in our day-to-day life. Not live like renters, but have some space, a nice home.*

In Oakland, there was less emphasis on house size, with the exception of the focus group that was conducted among East African immigrants. In that focus group, there was a strong consensus that it would be better to move to more distant neighborhoods (for example, in Antioch or Pittsburgh/Bay Point, which are characterized by new suburban tract developments that popped up during the subprime and building boom of the early 2000s) to be able to buy a "new" house with more space. The emphasis on and importance of new construction seemed to be particularly strong in this focus group. For residents who were looking primarily in Oakland neighborhoods, size was often less important than quality improvements (perhaps in part because houses are in general smaller and older in Oakland's lower-income neighborhoods).

> *If I can't get better than this [where I'm renting now], then what's the point? I want something nicer, bigger.*

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> *The house next door, which is just like this one [we're renting], came up for sale, but we weren't interested. Why own something that you can rent?*

Motivations related to ownership also corresponded closely with the theme of control. The idea that as a homeowner they could "do what they want" to the home was prevalent. But I also heard lots of stories about the insecurity of renting for this population, and the frustrations of feeling subject to the whims of the landlord. These ranged from unlawful evictions (usually related to the sale of the building or foreclosure) to unannounced "rehabilitation" projects that required the family to live for months in an apartment or house undergoing construction.

> Focus Group 2:
>
> *A: If we have to move again I'll just scream. It sounds so luxurious, just to be in one place.*
>
> *B: Can you imagine, no one telling you the rent's going up. You can't hang your laundry there. They can't fix the toilet until next week.*
>
> *C: And no one saying that so and so can't stay with you.*

There was also significant dissatisfaction with the quality of rental options, which tied the theme of control closely to the goals of improving one's housing use value. Among the rental properties I visited, approximately half showed signs of deferred maintenance, with peeling paint, stained carpets, and sometimes visible mold.

Not surprisingly, wealth building also emerged as an important motive for choosing homeownership. Perhaps the most common quote in my field notes is "I'm tired of paying rent to someone else." Although I explore the financial aspects of the housing decision in more detail below, the more qualitative aspect of this frame was the idea of an asset to pass on to their children. With only a couple of exceptions, my respondents saw these homes as long-term places to live, not as an investment that they intended to sell in a couple of years. Respondents were thoughtful about the idea that this was the "right" time to buy (especially in Oakland, where newspapers are increasingly touting the return of the real estate market), but unlike interviews I did two years ago about mortgage choices[6], there wasn't

[6] See Carolina Reid, "Sought or Sold? Social Embeddedness and Consumer Decisions in the Mortgage Market, Federal Reserve Bank of San Francisco Community Development Working Paper 2010 - 09 (December 2010).

nearly the same expectation of a large financial windfall associated with buying a house. Some respondents included resale value as one of their top decision-making criteria, but this was only true for a minority among those I interviewed.

Finally, although I tried to limit discussion about homeownership being "for the kids", it was clearly central in everyone's mind, be it in terms of an asset to pass on, a yard to play in, or separate rooms for the boys and girls.

Neighborhood Choice

While I was expecting to find a strong relationship between the desire to own and the social meanings that people attach to homeownership, I was also pretty certain that there would be strong biases informing the choice of neighborhoods. In particular, I was expecting to find that school quality would be a key driver of decisions where to look for housing, and that respondents would actively be seeking to move to higher-income neighborhoods than where they were renting. I also expected to find significant biases in what people thought constituted a "higher-income" neighborhood – be it nicer homes and fewer renters (e.g. a suburban or "white picket fence" vision), the racial/ethnic composition of the neighborhood, and the presence the amenities (e.g. parks, open space, retail options). While I certainly found strongly held beliefs, among this group of respondents, these beliefs did not conform to a homogenous view of what constitutes a good neighborhood or access to opportunity. However, it is important throughout this discussion to bear in mind that respondents were well aware that their income constraints precluded them from looking in the "better" neighborhoods.

First, I found that there was relatively strong attachment to respondents' current neighborhoods, and not as much interest in moving to suburban locales.

> Focus Group 3:
>
> *A: The nicer neighborhoods are out of reach. But if we stay and invest in this community, it becomes ours. I don't want to live in Moraga [a wealthy, predominantly white suburb] anyway.*
>
> *B: I'd like to live in Moraga. [group laughter] But she's right. That's not our community. I'm excited just to own my own home, right here, where I've grown up.*

Although I tried to explore whether or not this was influenced by either fear or perceptions of being an "outsider" in suburban locations, this did not come through very strongly. The desire to stay "in place" was much more frequently articulated as a desire to stay connected to existing community ties and cultural preferences. In Oakland, the other barrier seemed to be the sheer distance between Oakland and more affordable suburban locales—a few respondents noted that they didn't want to go "way out there" to find housing. In Albuquerque, tracts with newer suburban-style homes were often located near lower-income, rental neighborhoods, meaning that households could trade up housing quality without necessarily having to move to an entirely different part of town.

Second, even when I prompted more directly, schools were not nearly as an important locus for decision-making as I expected them to be. In part, this may be due to the fact that in both Albuquerque and Oakland, the neighborhoods with the "best" schools are completely out of reach for these families. In Oakland, for example, the median house value is well over $625,000 in neighborhoods with schools that score above the state benchmark. As a result, the households that put a lot of value on school quality had already (as renters) figured out how to negotiate the school question, for example, by applying for spots in charter schools, entering the public school lottery program to be re-assigned to a non-neighborhood school, or by choosing private schools (especially parochial schools, that have lower tuitions and often offer generous financial aid packages). The interviews also revealed significant contentment with their current neighborhood schools, despite their lower rankings. One respondent in Oakland, whose neighborhood school is closing, was irate at outsiders' perceptions of her son's school quality, and her belief that judgments about quality are closely linked to racial biases.

> *It's not "performing", so Tony Smith [the former Oakland Superintendent] is just going to shut it down. But my son's teachers are good. They care, they're passionate. It's not that the school isn't good. It's that it isn't white. And then they're surprised that we're mad they're closing it.*

Similarly, many of the respondents in Albuquerque were pleased with the education that their children were getting, even though their schools were less highly ranked than some of the other schools in the district. In a couple of interviews, respondents explained that because of income constraints, they weren't going to be able to buy a house and live in a good school district, but the benefits of owning even in a less desirable neighborhood school zone outweighed not owning.[7] Importantly, households did not consider renting in a better neighborhood as one of their possible choices, but again, this may be in part due to the fact that I was interviewing households that had already made the decision to buy.

Third, while schools proved to have a more complex relationship with household's neighborhood choices, the data revealed significant consensus about the importance of buying in a neighborhood with low levels of violence. Many of the respondents were deeply unhappy with the levels of violence in their current neighborhood, and saw homeownership as a way out into a safer place, especially for their children.

But even here there were interesting contradictions in what this meant for households. Three of the respondents in Albuquerque said that they would "never" buy a house in the southwest quadrant of the city. "I wouldn't live in Southwest – that's where all the gang violence is." However, four of the respondents were living in Southwest Albuquerque as renters, and were much more specific about which neighborhoods within the area that they would or would not buy in. "I think it is too dangerous here. It's not a good place to buy. But [the new development] across Coors Road is fine. I like this part of Albuquerque, just not my street." Similarly, in Oakland, respondents varied in terms of which neighborhoods they considered "acceptable" or "too violent", and these impressions differed in some cases quite substantially from either the empirical data on homicides or my impressions of which neighborhoods are safe or unsafe.

> Focus Group 4:
>
> *A: I excluded East Oakland entirely. All the drug and gang violence, and random drive-bys.*
>
> *B: I don't mind it there. Once you're off International it's mostly families like us. I get more nervous around San Pablo. And I don't want my daughter walking by the prostitutes when she goes to the bus.*

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[7] The linkages between housing tenure and school choice in urban neighborhoods—as opposed to research documenting suburban flight—have been largely neglected in the literature. Particularly in neighborhoods that are experiencing rapid neighborhood change – either through disinvestment or gentrification – more research is needed that can explore how housing tenure decisions influence the nature of urban school districts and educational opportunity.

A: But East Oakland is where they have all the sex trafficking. You've got a big old billboard saying 'Don't take our daughters'.

B: Maybe it's out there in East Oakland [as in, people are talking about it]. But it's happening everywhere. I'd rather be somewhere there's action.

C: I tried looking a little further East, you know, almost Hayward. It feels safer. But there's nothing we can afford.

What emerged were very individualized maps of which neighborhoods were considered unsafe, and these maps were different depending on a person's race and ethnicity, their country of origin, and whether or not they had a son or daughter. Nevertheless, the majority of respondents ranked "getting away from violence" as the most important criteria shaping where they were looking for a home, and saw homeownership as an important anchor for safe neighborhoods.

Finally, very few respondents reported looking in neighborhoods that were in significantly different parts of the metropolitan area than they were renting (with the exception of the Ethiopian focus group, where some respondents were looking in distant suburbs).[8] Among other respondents, there was a greater emphasis on staying closer to the neighborhoods in which they were already living, largely due to the cultural amenities and proximity to job networks. In other words, residents in Oakland tended to focus their house search on different neighborhoods within Oakland, and maybe some parts of Hayward (a city just south of Oakland). In Albuquerque, families in the southeast and southwest quadrants weren't looking for homes in northeast or northwest neighborhoods. One area for further exploration is whether this focus on the "familiar" was driven primarily by life course factors; these households already had children, and had figured out how to make life work with children in their current locales (e.g. they had childcare they liked, they had negotiated school choices, they had the grocery stores that they liked nearby). And many of them worked nearby, or relied on the connections they had already established in these neighborhoods to get them contract or other work. It is possible that families buying a home in advance of having children or during a job transition would have very different geographical search patterns.

Heuristics and the Financial Decisions Related to Homeownership

In addition to understanding the tenure decision, a second goal of the research study was to understand how households make the financial decisions related to buying a house. How do households decide how much to spend? What determines their mortgage choices? How did they relate homeownership to future asset building or other household financial circumstances?

Among the forty-three respondents, I would identify 15 as very financially astute, with backgrounds in business or accounting. Several of these respondents currently ran their own small businesses – including a grocery store, a cab company, and a hair salon—and were knowledgeable about the tax system and the ways in which homeownership as an investment is related to the user costs of capital. These respondents, while perhaps also motivated by the emotional factors described previously,

[8] I am curious whether the fact that many of the Ethiopian respondents worked in transportation (e.g. limo and cab drivers) and spent much of their day driving to different parts of the Bay Area expanded their geography in a way that didn't happen for the other respondents in my sample. There could also be differences in the importance and structure of kin relationships – if extended family all move together and this is the key social unit, maybe it is less important to be physically located in an Ethiopian community?

situated their homeownership decision within a much broader rubric of household finances and analytics related to the state of the housing market. They had thought carefully about the financial costs and benefits of various loan terms and features (including weighing the costs and benefits of an FHA loan, which would allow them to reserve more of their savings for other investments as a result of the lower downpayment requirements), the potential returns to homeownership, and the need to consider maintenance and property taxes as part of the overall costs of buying a home.

Among the rest of the respondents, however, there seemed to be many more rules of thumb, misperceptions, and trust in "expert" sources shaping their financial decision-making processes. One theme that resonated among many respondents was the "overwhelming" nature of buying a house, and the need to take "a leap of faith" in making the decision to sign on the dotted line. The transcript from focus group 4 is revealing:

> *B: You know, it's such a big purchase. It's almost too big. At some point you just have to close your eyes and go with your gut.*
>
> *A: Oh my god yes. I think I spent more time shopping for a couch than I did my house.*
>
> *D: Me too! Once you're talking about that many zeros and if you really think about what you're signing and what you don't know. It's too much. I think if I had thought about it anymore I would have gotten cold feet.*

The enormity of the financial decision led many respondents to greatly narrow their focus and exclude a lot of information that should actually influence their financial decisions. First, almost everyone anchored their "maximum house price" decision based on how their housing costs as a homeowner would relate to their current monthly rent payment. There was a strong consensus that if they could purchase a house and "pay the same as I'm now paying in rent," homeownership was the better decision and that they could afford to make the shift.

> *I used some online calculators to figure out how much I could afford. I tried three or four, and kept adjusting the figures so that it worked out so my monthly payment would be the same as my current rent. That gave me a range of around $280,000 to $350,000, depending on the assumptions in the calculator.*
>
> *CKR: Did you look at what the calculators included in the assumptions?*
>
> *A little, but it got confusing between different debt-to-income levels and how much property taxes would be. I figure that I'll be okay as long as I'm in that range.*
>
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>
> *I used some online sites. It was good – it made me realize I need to think about property taxes and my other payments, like my car. But then I noticed that a lot of them are based on different assumptions, so I used several and decided the range I could look in was $185,000 to $265,000. My main goal was to get a house so my monthly payments would be about the same as they are now.*
>
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>
> *When I realized I could buy a place and pay about the same I am paying in rent, that was what triggered it for me.*

This monthly payment figure thus became an important anchor for respondents, and they used this to then subsequently rank and evaluate individual homes. For example, one respondent noted that "If I could get an extra bedroom, I would be willing to pay about $250 more a month." Among families who had been looking for a house for a longer period of time, I also found evidence of "anchoring and adjustment," especially in Oakland where a few respondents had bid on houses but had lost out to other buyers.

> *We started out with a maximum price of $250,000. We figured out that would be around $1,590 in monthly payments, a little less than our current rent of $1,700. But now we've bumped it up to $320,000. Everything under $300,000 we were finding was a foreclosure, and in really bad shape.*
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> *[My husband] wants to keep it under $300,000. But I think we can stretch it a bit further – I'll get a few more clients each month. And I think if we get something a little nicer it will hold its value better.*
>
> ∞
>
> *We started out wanting to pay less. But now we're paying about half our income for the house we bought. It doesn't leave us much, but we got a much nicer house. And we decided it would be better to be happy and save in other areas.*

Although respondents anchored their decision on how much to spend based on their rent, I found little evidence that they compared or made any predictions regarding future changes in rents and home prices when thinking about the decision to buy. When I asked "Do you ever think it might be better to rent than buy?," the first answer was often a variation on "No, unless you plan on moving again in [3-5][9] years." When I prompted further with the question "What if you just looked at it from a financial decision?" the answer was still generally no. Some respondents noted that during a housing market crash, like the one Oakland had just gone through, it would be better to rent until house prices "hit bottom." But no one suggested that if rents were particularly low, if interest rates were high, or if inflation was low, there might be a reason to do more analysis on the financial tradeoffs between renting and owning. Even with further prompting, the links between rental housing market conditions, interest rates, and inflation and the user costs of homeownership did not seem to be a part of respondents' decision-making process. Inflation was particularly problematic as a financial concept – the majority of respondents thought that inflation was universally "bad", regardless of whether they were owners or renters.

In addition, while most of the respondents had thought about property taxes (in part because these are a standard item in the online cost calculators), the mortgage interest tax deduction did not feature prominently in their decision-making, although a few of them said that their mortgage broker or real estate agent had pointed out that in the end they could possibly afford a bit more since "I would get some money back in taxes."[10] In addition, very few of those who were still searching were incorporating homeowner's insurance or earthquake insurance in their calculations of monthly payments. In

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[9] Most respondents had a rule of thumb related to how long you plan to stay in one place before it makes sense to own, and this varied between 3 and 5 years. However, almost all of my respondents saw this home purchase as "permanent," which greatly conflicts with their previous mobility and life experiences. I also didn't find much evidence that these families were seeing these as "starter" homes.

[10] A few of the respondents who ran their own businesses were much more focused on the benefits of the mortgage tax deduction.

Albuquerque, where homeowners' association dues are slightly more common, these were on respondent's minds, since they were often included on the property brochure. Almost nobody had prepared a detailed budget, calculating not only the expenses related to the mortgage, but also other costs such as water and utilities, or potential maintenance issues.

Focus Group 2:

CKR: What about maintenance costs? Are you budgeting for things like a new roof or water heater?

B: Most of the houses we're seeing need a lot of work. But we figure can do that later.

C: We're planning on buying a house and working on it in stages. When we get a little more money, we'll fix up the kitchen or bathroom.

A: Do you know how much a new roof costs? [Lots of discussion, ranging from $5,000 to $25,000.]

A: [Directed at me] Do you think we should be budgeting for that? I'm not sure where that money would come from. How often does a house need a new roof?

In interviewing respondents who had already bought a house, I asked them whether or not their costs after buying a house were lower, higher, or about the same as what they had expected or planned for. Universally, the answer was that the costs were significantly higher.

We totally misjudged the costs. There were all sorts of other expenses that weren't at the forefront of our minds.

∞

The three months after we bought the house, we tripled our credit card debt. We were so focused on affording the house, we didn't think about the moving costs. And things like buying trash cans for the bathroom, or curtains. I think I must have gone to Target every day and walked out with $300 worth of stuff.

While respondents universally underestimated the costs of homeownership, they also seemed to overestimate the financial benefits. Although I think the recent financial crisis muted respondents' expectations about how much wealth they would build, respondents in Oakland in particular were very attuned to the fact that they were buying in a "down" market, and that they expected prices to go up.

It's probably not going to go up as fast as before the crash, but I think it's a good time. Property values here have to go up.

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I don't think we'll get rich quick. But I think the value will go up, yeah.

In Albuquerque, in contrast, there was significantly less focus on property value appreciation, although in general respondents were optimistic that prices were going to go up in the future. However, in both sites, respondents were keenly focused on the equity component of homeownership through forced savings, although that's not how they phrased it. As mentioned above, there was strong agreement that one of the strongest advantages of homeownership was that you were "paying rent to yourself," and that this contributes to financial well-being over time. Critically, many respondents were counting on these assets – captured in their home – for their future financial needs, including financing their retirement or their children's college education. Very few of the respondents reported having significant additional savings other than what they had been putting aside for their down payment, and only six of the respondents in the entire sample had a retirement savings account. Instead, their house was their anticipated savings.

> *We decided that putting all our savings into a down payment was better than just keeping it in an account. It's a better investment, plus we're no longer paying rent.*

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> *We see this house as our retirement fund. We don't have any retirement savings now, but this is a good step.*

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> *We're hoping that we'll build enough equity that this can help us to pay for [our daughter's] college education.*

However, even when they didn't account for appreciation, respondents greatly overestimated how quickly their assets would grow. I found that very few respondents had thought through the implications of mortgage amortization, and how a significantly greater share of their payments were going to interest, especially in the first few years of owning a home. The idea that 'you're paying rent to yourself' kept coming up as a frame for thinking about the financial benefits of homeownership, with much less attention to the interest costs or other expenses related to owning a house. My first inclination of this came during the third focus group interview, when I thought to ask how much equity one recent homebuyer thought she was building.

> Focus Group 3
>
> *C: Well, let's see. I pay about $1,200 a month. So over two years, that means I've built up about $28,000.*
>
> *A: What about interest?*
>
> *C: Oh, yes, but I got a really low interest rate 4.2%, so that's not very much. So maybe I've built up around $24,000.*

While this respondent was unique in the degree to which she misunderstood amortization, I found that the majority of respondents overestimated the amount of equity they would build and underestimated their interest payments by more than 20 percent.

I also found that experts contributed to perceptions that homeownership had more benefits than drawbacks, and that in general, experts pushed borrowers towards making larger home purchases than they might have initially felt comfortable with. The vast majority of my respondents had turned to others to help them gather and sort through the information related to the home-buying process. While in some cases, these were relatives or friends, more than half had hired "expert" help.[11] All of the respondents were working with real estate agents, and nearly half had a mortgage broker whom they trusted to help them with the finances of the purchase. Throughout the interviews and focus groups, respondents would note that "The real estate agent said…" or "Our broker suggested..." These pieces of advice were highly valued and clearly given more weight. In addition, although the sample is small, the analysis suggests that the advice tended toward encouraging the respondents to buy a house ("She said this is a buyer's market", "Our real estate agent pointed out that this is a great time to buy – we may not have the same opportunity later"); expanding the search area and properties that would be considered "acceptable" ("We were only looking in Fruitvale but she suggested we also look in West Oakland because there's more in our price range"); and suggesting that they "stretch" to buy something better because it would hold its value better (including emphasizing the potential financial benefits of homeownership over time – fixed housing payments, the mortgage interest tax deduction, locking in property taxes on a lower value). I did not find evidence that any of the advice was directed at more "conservative" decisions – e.g. buying a smaller house to start, spending less, or taking into account potential future risks.

Optimism Bias and Future Risks

Perhaps the most important bias to come out of my research is that of optimism and an unwillingness to consider the potential downsides of the decision to own. Many, if not most of the respondents have had complicated and tumultuous lives, including forced international relocation due to the Eritrean-Ethiopian war, coming to the United States as undocumented immigrants, personal experiences of violence, layoffs and involuntary job losses, and divorce. During the one-on-one interviews, I had respondents fill out life event charts, noting major changes in either their household or employment circumstances. The amount of volatility and change was remarkable. Out of the 20 interviews, 17 had experienced significant changes in household composition in the last five years, including divorce, the loss of an income earner in the household (e.g. a parent or a sibling moving or passing away), and/or the birth of additional children. Twelve had experienced job losses and unemployment spells of between four and eight months.

What was interesting in looking at these life charts was how many were making the decision to buy during a period of relative prosperity in their lives. New jobs (especially the addition of a second job), a promotion, a consolidation of households that increased the number of earners all seemed to be important "triggers" that led families to decide to buy a house. This decision also prompted greater work effort – again, out of the 20 interviews, 11 respondents took on a second job (and/or their partners took on additional work) in order to save for the down payment and increase the value of the house they could afford.[12] In other words, at the point at which they were deciding to buy a house and how much to spend, they likely had higher incomes than is "typical" for their earning trajectories.

[11] Consistent with other studies, social networks played a strong role in identifying which experts to work with.

[12] This leads to an important caveat about my interview sample. Although I screened potential respondents based on their income, I think many respondents provided me with their "formal" income from their primary job, and did not necessarily include "informal" or additional income. This suggests that most of the families I interviewed likely had more income than the area median.

However, when I prompted about what they anticipated happening over the next few years, all of the answers were positive and forward looking:

> *I think with the experience I'm getting now, I'll be able to start my own business in a couple of years.*
>
> ∞
>
> *We're thinking we'd like to have another kid, especially as [my husband] keeps getting raises and earns more.*
>
> ∞
>
> *Now that the economy is rebounding, it's good for us. There will be more opportunities for union work and overtime.*

Not one respondent talked about the economy going into a second recession, what they would do if they lost their job, the costs (e.g. childcare) associated with having additional children, or the potential that house prices would go down again. Nobody brought up the idea that maybe one of them would get sick, or that there'd be any conflict in their relationships. As mentioned above, very few had savings or other sources of liquid funding in the case of a sudden negative event.

Moreover, it seemed like respondents strongly discounted their own risks for foreclosure or default, despite the recent crisis.

> *Those families bought more than they could afford. We're being more careful.*
>
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>
> *We have some friends who went through foreclosure. But they were pretty irresponsible – they bought a new car at the same time they bought their house…I'm not worried that it will happen to us.*

Indeed, confidence in the future emerged as one of the key reasons these respondents had gone from seeing themselves as renters to potential owners. The interviews thus point to an important consideration as we think about homeownership for lower-income households. Lower-income homeowners are often very resilient and have developed multiple strategies – including high levels of co-habitation and support across family and friend networks—to build economic stability and make buying a house possible. Indeed, many of my respondents – who tended to be more financially stable than those around them—served as important anchors for their extended families and the community at large. However, there is evidence that income volatility is growing, and housing and labor market downturns may have a more pronounced effect on these families' ability to pay their mortgage, especially when they do not have a savings buffer or other sources of support. In the next section, I explore the policy implications resulting from these findings.

Policy Implications

The goal of this research was to provide a qualitative, detailed look at the decision-making processes of lower-income households, with a specific focus on those seeking to buy their first home. The small sample size common to in-depth qualitative research can often make it challenging to know how representative the findings are for the broader population. However, I think the results presented here point at least to some important questions that housing policy-makers should consider.

First, in the context of poor, urban communities, I think the interviews force us to reconsider the links between housing, tenure choice, and the geography of opportunity. For a wide variety of reasons, it really does appear that people are often deeply connected to "place" and the neighborhoods in which they live (Sharkey 2012). A fair number of the families in this study expressed interest in buying homes in what a policy-maker might designate an "undesirable" lower-income community. In some cases, it is because they already have roots in that community; in other cases, it was driven more by cultural familiarity and a feeling of acceptance. Even when given the hypothetical option of living elsewhere (removing the income/price constraint), some respondents said they'd still choose to live in the more ethnically diverse, lower-income parts of the city. This suggests that low-income homeownership programs may in fact be an effective way of promoting community development and neighborhood stabilization, and that there is the opportunity to build on that linkage for the benefit of not only the families who become homeowners, but also neighboring renters. Also, it is important to note that although these families did not necessarily view school quality (in terms of test scores) as a key decision factor, it does not mean they did not care about school or education for their children. Education was critical to most respondents, but it was not as closely associated to the goal of buying a house as I had expected. This too attests to the policy imperative that we cannot just give up on urban schools in poor neighborhoods.

In addition, I believe that the findings attest to the importance of both the prevalence and perceptions of violence in lower-income communities, with implications for household and neighborhood outcomes. Respondents placed significant weight on their concerns about violence in their decision-making processes. This suggests that neighborhoods that struggle with violence and external perceptions of violence are unlikely to improve without significant public investment, and in the wake of the foreclosure crisis, it is these neighborhoods that are likely to see continued destabilization.

Second, the interviews also reveal a deep dissatisfaction with existing rental options – both in terms of size (e.g. not enough nice, larger properties available for rent) and instability of tenure (e.g. irresponsive landlords and/or insecure leases). I was also struck by the finding that respondents wanted to build assets, but that in this current moment, it was less about house price appreciation than it was about not "paying rent" to someone else. This could be interpreted that people like having something akin to a forced savings or asset building mechanism, and that rental programs could be attractive if they provided a similar feature – especially if you could get people to understand that interest is a significant portion of a monthly payment. It was interesting that people thought they were "throwing away" money by paying rent, but didn't see interest payments in the same light. One of the interesting private sector models to come out of the foreclosure crisis is Waypoint, which has deployed more than $250 million in private capital to purchase scattered site, single family REOs (Real Estate Owned) in California, Arizona, Georgia, and Illinois. Waypoint is innovative on a number of levels: they carefully target their REO acquisitions (looking for those properties in neighborhoods with stronger schools and transit access), and they provide two-year leases that encourage residential stability. Perhaps most interestingly, they have developed a rewards program in which tenants who first take a financial education class can earn points for good stewardship of their property (e.g. mowing the lawn). These points can be saved and used to purchase house improvements, applied to the down payment for a purchase of a home, or exchanged for cash when the lease is up. In this way, Waypoint homes mimic many features usually attributed to homeownership, but in the rental market. While research is needed to see if this type of model is effective, I think there is significant promise in developing new rental models that address underlying motivations associated with a dissatisfaction of rental market options and the desire to build some savings, but without the same financial risks that homeownership entails.

That said, this paper also reveals that a huge part of the desire to own a home has little to do with financial considerations, and that the heuristics and biases that are present in the financial decision-making process may not always lead to optimal financial decisions (especially in a volatile labor or real estate market). This suggests that there is still significant room to develop pre-purchase interventions that can serve as a counterweight to these biases. There remains a significant need for pre-purchase counseling programs, and either a creative or regulatory approach to ensuring that these programs can reach a greater percentage of first-time homebuyers. The early evidence from these interviews also suggests that we may need to rethink the role of "experts" and recognize that their incentives (even when well-regulated) don't necessarily lead borrowers to be more cautious or deliberate about their financial decisions. Are there ways to encourage experts – be it real estate agents, brokers, or lenders – to counteract the optimism bias and help families make more informed decisions?

Policy-makers also need to place greater attention on post-purchase interventions and supports. There is increasing evidence that income volatility and risk among lower-income households is growing substantially (Hacker 2008), suggesting that even prudent financial decisions will not protect these families from the vagaries of our current market-based economy. As Mallach (2011) has pointed out, to be a lower-income homeowner is to be at risk. Lower-income homeowners have a smaller financial cushion with which to withstand the impact of negative life events, such as unemployment or serious illness, or to meet unanticipated repair costs, and, by virtue of their limited housing choices, are more likely to buy houses in need of repair. One finding that I think is particularly interesting is the extent to which families are willing and able to save to meet down payment requirements, but then don't necessarily extend this behavior and logic to building additional savings. Rather than requiring larger down payments – which tie up more of a household's savings in an illiquid form, especially in a down market – maybe it would be better to focus on smaller down payments but either require or encourage a secondary savings account that could be easily tapped into in case of a temporary shortfall in income or unexpected expense? Alternatively, is there room for a "Post-Purchase" individual development account that would set money aside for home improvements or shortfalls in mortgage payments?

Finally, on the research side, there is clearly much more that could be done to understand decision-making processes around the choice of tenure and neighborhood, and in particular, better experimental or quantitative studies that could document the prevalence and importance of decision-making biases. Throughout the data collection, I was constantly wondering whether my data are idiosyncratic, and if emerging methods in behavioral economics or consumer decision-making could pinpoint the degree to which these biases are pervasive in a broader population.

However, the results of this study also caution against commissioning a large number of behavioral economic studies that are conducted on college students in a lab. The motivations and decision-making frames of lower-income individuals, as well as those of immigrants and people of color, may be very different from a typical white, middle-class college student who volunteers for a research study. During the interviews, I was constantly faced by the fact that I hold significant biases – about which neighborhoods are "good", about what constitutes "responsible" decision-making – that aren't universal and that are deeply influenced by my own position and experiences. In addition, there were significant differences in responses between the interviews I did in Albuquerque and Oakland, suggesting that context and the extent of supply constraints in the housing market can influence people's thought processes. Critically, we need to see first-time homebuyers as a complex, differentiated group, and recognize that class, race, locational, and cultural differences are powerful forces in shaping people's decisions about their housing tenure, finances, and neighborhood preferences. Developing a better understanding of these differences could help us identify what policies are most needed if our goal is to expand access to sustainable homeownership for lower-income and lower-wealth populations.

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