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Should Las Vegas Bet on Homeownership? Trends in Housing Affordability and Homeownership

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From 2006 to 2009, house prices in Las Vegas fell by more than 50 percent from their peak, compared to a 14 percent drop in overall U.S. prices. While prices have mostly recovered as of 2017, there is lasting damage to individual households.

Should Las Vegas Bet on Homeownership?

Trends in housing affordability and homeownership

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Abstract

In many parts of the U.S., rents and housing prices are rising faster than household incomes. Low-income families have always been stretched to pay for housing without sacrificing other necessities. In recent years, housing costs have become a larger source of financial stress for middle-income families. While homeownership has been the primary channel for wealth building in the U.S., two recent trends raise questions about whether this is a viable strategy. First, many homeowners suffered severe financial losses due to housing price declines during the Great Recession (2007-2009). Second, homeownership rates for Black and Latino families lag those of white and Asian families – a challenge as the nation's population becomes increasingly diverse. The Las Vegas metropolitan area is at the forefront of both of these trends. In this paper, I explore recent trends in housing affordability and homeownership in Las Vegas and discuss implications for financial security and wealth-building.

Introduction

Over the past decade, housing costs across the U.S. have risen faster than incomes. Housing affordability has long been a problem for low-income families, and is increasingly challenging for middle-income families (Joint Center for Housing Studies 2019). Having access to stable, decent housing – without having to sacrifice other necessities – is essential to individual and community well-being (Edin and Shaffer 2016, Gabriel and Painter 2017, Larrimore and Schuetz 2017). Where people live impacts their access to jobs, schools, parks, and services. Neighborhoods, cities, and regional economies suffer when their residents lack stable housing.

Homeownership remains an important wealth-building strategy for middle-income families in the U.S. The federal government directly subsidizes homeownership through the mortgage interest deduction, and indirectly through its regulation and backing of the mortgage market (Gale 2017, Jaffee and Quigley 2013). Relative to other developed countries, the U.S. provides less guaranteed retirement security; and middle-income workers increasingly rely on defined-contribution plans, which are risker than the defined-benefit programs of previous decades (Poterba et al 2007). This shift makes housing equity an increasingly important part of overall financial security, raising the question: is homeownership a safe bet?

Homeownership does provide greater stability and predictability of housing costs than renting (Lerman and Braga 2018), but owning a home is not a guaranteed means for building wealth. In the current market cycle of rapidly rising housing values, it may appear that home prices will always outpace inflation. However, only a decade ago, the U.S. experienced the worst housing price declines, combined with high foreclosure rates, since the Great Depression. Moreover, homeownership has never been equally accessible to all U.S. households: federal policies such as redlining limited Black families' ability to obtain mortgages (Ross and Yinger 2002, Rothstein 2017). As housing prices rise, the amount of savings needed for a down payment increasingly becomes a barrier to entry, especially for younger families and those living in high-cost markets. Homeownership is not a feasible option for many households.

In this paper, I address two questions: What are recent trends in housing affordability and homeownership in the Las Vegas metropolitan area? What do these trends imply for financial security and wealth-building among middle-income households?

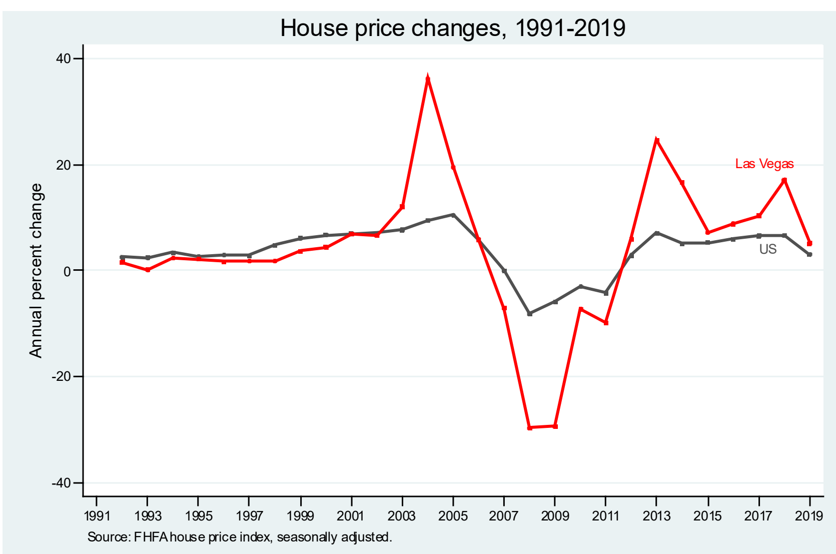
The next section of this paper provides an overview of housing affordability and homeownership for Las Vegas over the past 20 years, placing the metro area in context to U.S. trends. After that, we dive deeper into household-level analysis within Las Vegas, analyzing housing stress for households at different income levels, focusing especially on middle-income households. The analysis explores racial gaps in homeownership within income groups, and offers some comparisons of Las Vegas to other large metros in the western U.S. Finally, the paper concludes with a discussion of policy challenges.

Las Vegas Still Bears Scars from the Foreclosure Crisis

Housing prices in Las Vegas have been much more volatile than the U.S. average over the past 20 years. During the housing boom of 2000 to 2006, prices in Las Vegas increased around 13 percent annually, with particularly sharp jumps just prior to the crash (Figure 1). Housing prices for the U.S. overall increased around 8 percent annually during this time period. From 2006 to 2009, house prices in Las Vegas fell by more than 50 percent from their peak, compared to a 14 percent drop in overall U.S. prices. While prices have mostly recovered as of 2017, there is lasting damage to individual households. Even homeowners who did not lose their homes to foreclosure have lost wealth: many homes that were purchased close to the market peak still have lower values today than at the time of purchase.

The precipitous decline in prices reflects the fact that Las Vegas experienced some of the highest foreclosure rates during the Great Recession. In 2009, about 12 percent of homes in the Las Vegas metro had received a foreclosure filing, five times the national average (Wargo 2010). Mortgage distress was especially concentrated among Black and Latino homeowners, many of whom purchased homes near the market peak (Bocian et al 2010, Mayock and Malacrida 2018). Exposure to subprime and other risky mortgage products was also higher among non-white borrowers, even conditional on income and credit score (Collins et al 2013).

Figure 1
Las Vegas Housing Prices Are More Volatile Than U.S.



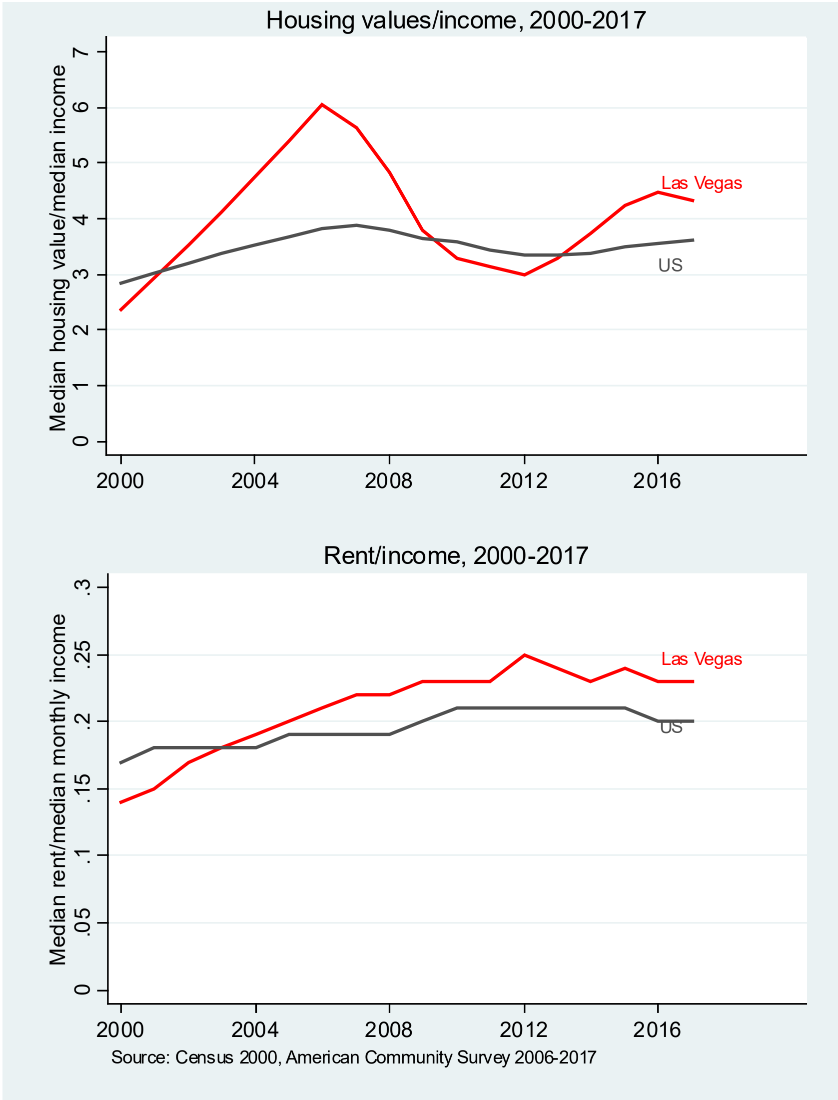
Housing prices are only half the equation of housing affordability: for individual households, the more important metric is the relationship of housing prices to incomes. In general, housing price-to-income ratios between 3 and 4 are considered affordable, meaning that new buyers could purchase a home while spending around one-third of their monthly income on mortgage payments, property taxes, and insurance (Murray and Schuetz 2018).

Figure 2 shows changes over time in the ratio of median housing values to median household incomes in the Las Vegas metro. Price-income ratios below two are often an indication of distressed markets with declining property values, while ratios above five are highly unaffordable. In the early 2000s, Las Vegas was a relatively affordable housing market, with price-income ratios rising from around 2 in 2000 to nearly 6 at the peak in 2006. The Great Recession brought home prices back into the affordable range, but since 2015 ratios are back above 4, a sign of greater affordability pressures.

Affordability in the rental housing market in Las Vegas is a somewhat different story. The bottom panel of Figure 2 shows median rent divided by the median household's monthly income. The U.S. Department of Housing and Urban Development (HUD) defines households that are spending more than 30 percent of monthly income on rent as "cost burdened," while households spending more than 50 percent are severely cost burdened. Throughout this period, rents in Las Vegas have been quite affordable to the median household, with rent-income ratios under 30 percent. (As the next section will show, renter cost burdens for individual households vary quite a bit across the income distribution).

But the time trends are notable: while rent-income ratios rose during the housing boom of the early 2000s, they barely dipped during the Great Recession, despite steep housing value declines. These trends are, in fact, related. Homeowners who lost their houses to foreclosure still needed a place to live, so there was a large entry of renter households competing with existing renters for homes (Mallach 2014). Even as housing prices in Las Vegas have recovered, rent-income ratios remain near their highest values.

Figure 2
Housing Costs Are Increasing Faster Than Incomes

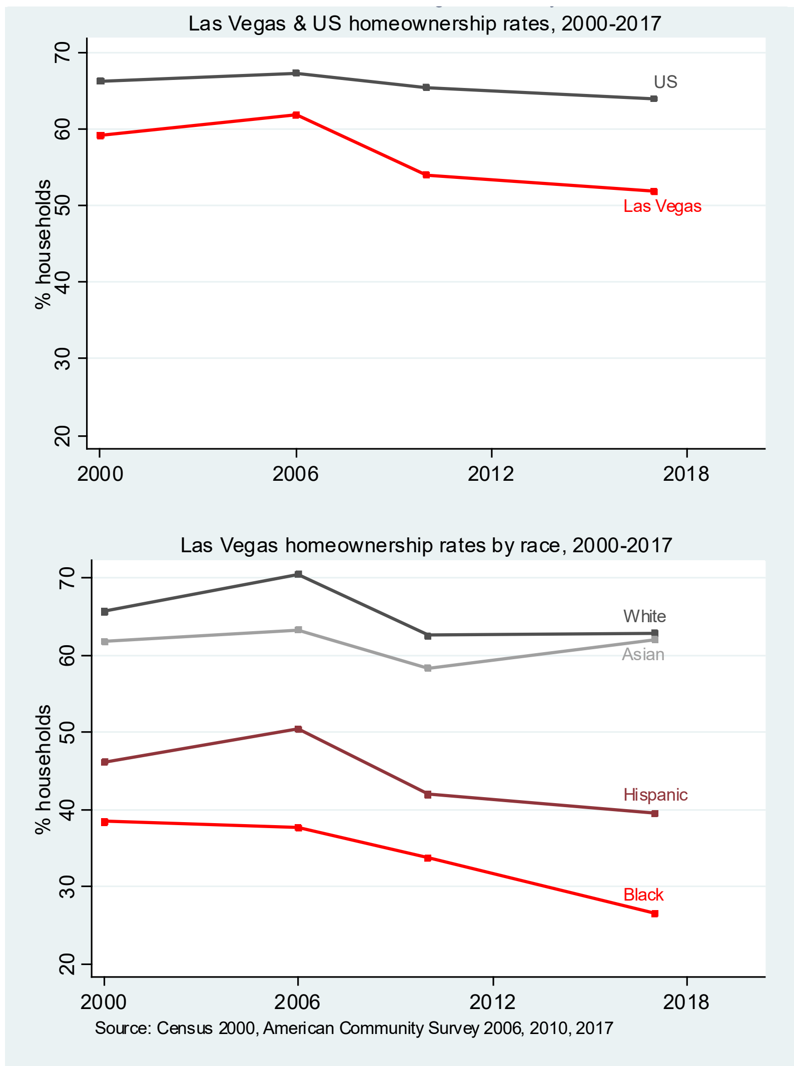


The different trends in prices and rents, relative to incomes, have contributed to an overall decline in the homeownership rate in Las Vegas (top panel of Figure 3). Mirroring national trends, homeownership rose from 2000 to 2006 in Las Vegas, reaching a peak of about 62 percent in 2006, five percentage points below the national average. Since then, the homeownership rate has continued to decline, and in 2017 was nearly seven percentage points below its level in 2000. By contrast, the U.S. homeownership rate declined much more gradually during this time.

Underlying the overall decline in homeownership for Las Vegas are divergent trends by race. White and Asian homeownership rates have been consistently about 20 percentage points higher than Latino households and nearly 30 percentage points higher than Black households. Homeownership rates among whites and Asians rose slightly from 2000 to 2010 and are nearly back to their 2000 levels. Homeownership among Latinos peaked slightly above 50 percent in 2006, then fell to just under 40 percent in 2017. Black homeownership rates have declined even more sharply, from 38 percent in 2006 to 27 percent in 2017. Because Latinos are the fastest growing population group in Las Vegas, the decline in Latino homeownership figures significantly in the metro area's overall rate.

As we explore in the next section, these substantial gaps in homeownership by race shrink only slightly when comparing households of similar income.

Figure 3
Homeownership Rates Are Declining, Especially For Blacks & Latinos

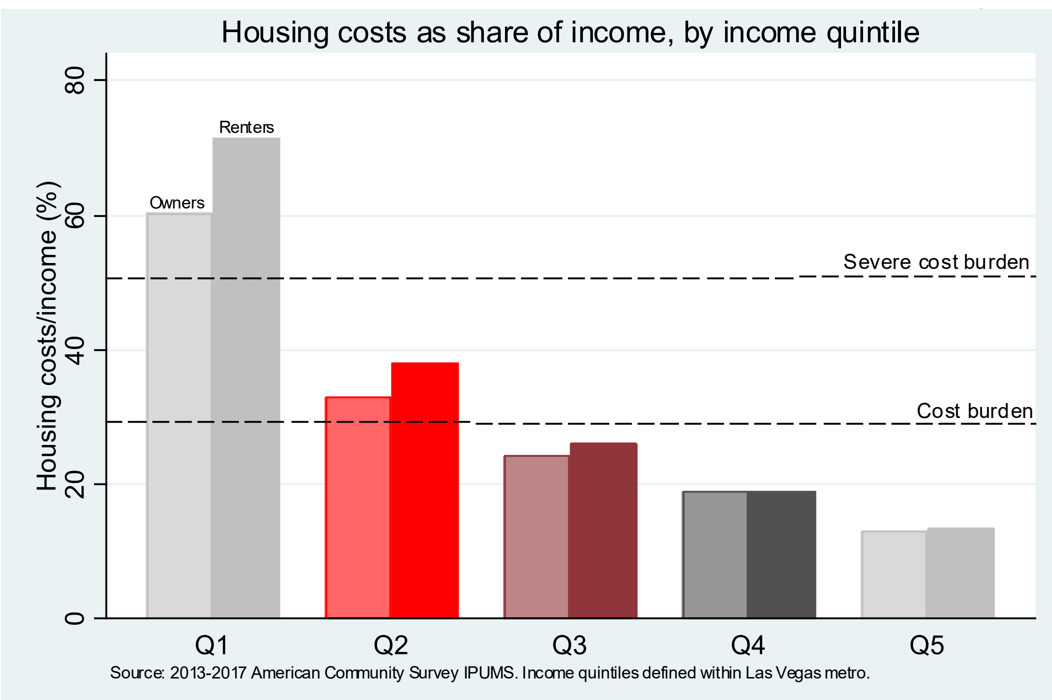


Low and Moderate Income Households Stretch to Afford Housing

The previous section painted a broad picture of the housing situation in Las Vegas. Using household-level microdata, we can focus on the housing stresses experienced by different types of households. Two key metrics of well-being are the share of income spent on housing costs and homeownership rates.

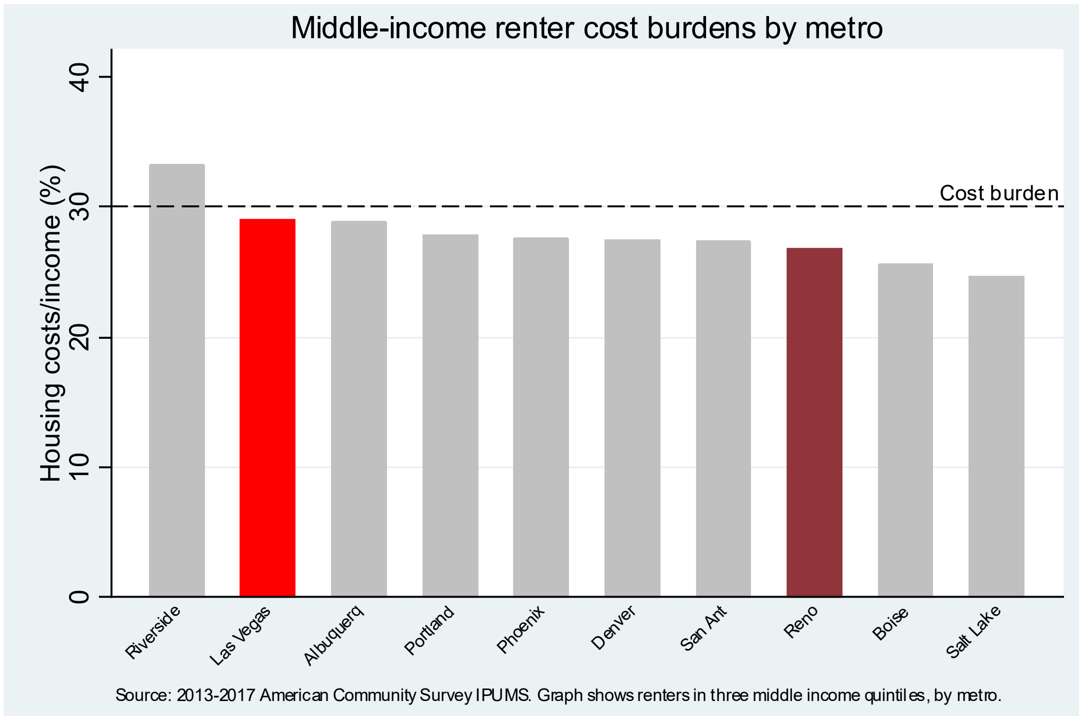
Las Vegas households in the bottom two income quintiles are stretching to pay the rent or mortgage (Figure 4). Both renters and homeowners in the poorest quintile spend more than 60 percent of their income on housing costs, well over HUD's benchmark for being considered severely cost burdened. Moderate income households, those in the second quintile, spend just over 30 percent of their income on housing. Housing accounts for a smaller share of income for middle, upper-middle, and affluent households, both renters and homeowners. These patterns are very similar to those observed nationally (Schuetz 2019).

Figure 4
Lower-Income Households Spend More on Housing



For middle-income renters, Las Vegas is one of the more expensive metro areas in the western U.S. Figure 5 shows the share of income spent on housing costs for renters in the three middle-income quintiles (combined) across 10 metro areas. These metros were selected as a comparison group because they are also located in the west or southwest.

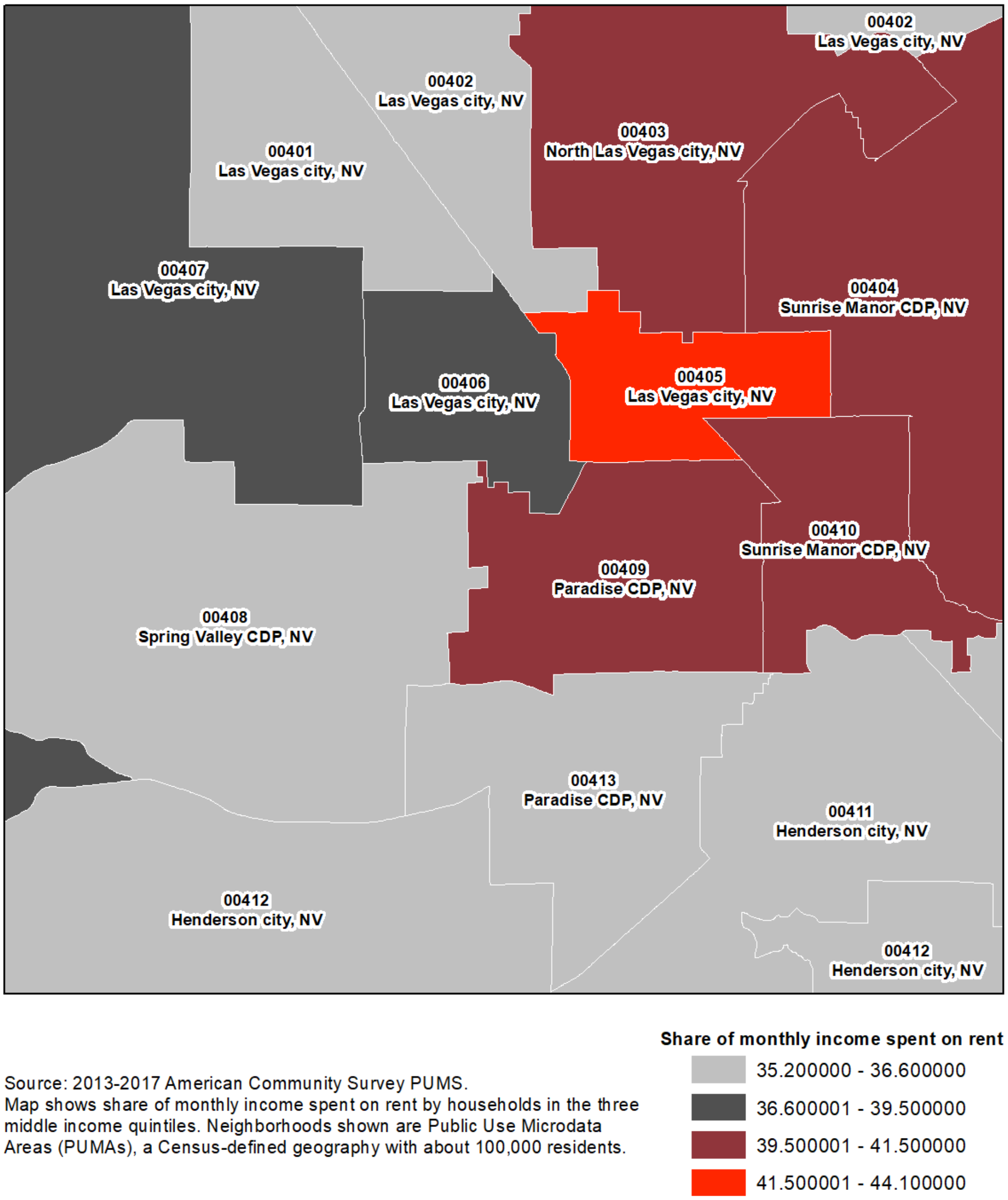
Figure 5
Las Vegas Renters Have Relatively High Cost Burdens



Renters in Riverside, CA spend the highest income share on housing, followed by Las Vegas. Middle income renters in Reno are less stretched in paying for housing.

Mapping renter cost burdens within the Las Vegas metropolitan area shows some geographic patterns (Figure 6). Middle-income renters living just east of downtown Las Vegas have the highest average cost burdens, spending 44 percent on their income on housing. In general, renters living on the eastern side of the metro spend more of their income on housing; although these neighborhoods have some of the lowest rents in absolute terms, they also have higher concentrations of moderate-income renters.

Figure 6
Renters on the Eastern Side of Las Vegas Face Higher Rent Burdens; Share of monthly income spent on rent, by neighborhood



Source: 2013-2017 American Community Survey PUMS.
Map shows share of monthly income spent on rent by households in the three middle income quintiles. Neighborhoods shown are Public Use Microdata Areas (PUMAs), a Census-defined geography with about 100,000 residents.

Homeownership Rates in Las Vegas Lag U.S. – Especially For Blacks and Latinos

As is the case with housing affordability, homeownership rates are strongly correlated with income: about 35 percent of households in the lowest income quintile own their homes, compared with more than 70 percent of the top quintile (Figure 7). The correlation between income and homeownership in Las Vegas is comparable to that in the U.S. overall (Schuetz 2019).

However, homeownership among middle-income households in Las Vegas lag other western metro areas (Figure 8). Among the three middle-income quintiles, about 55 percent Las Vegas households own their homes, the lowest among the sample metros. Middle-income homeownership in Reno is also relatively low. Several of the sample metros have higher absolute housing costs than Las Vegas (Denver, Portland, and Riverside, for instance), and metros such as Phoenix had similarly high rates of foreclosures during the Great Recession. Exploring why middle-income homeownership in Las Vegas is lower than its counterparts is an interesting area for future research.

Figure 7
Higher-Income Las Vegans More Likely To Own Homes

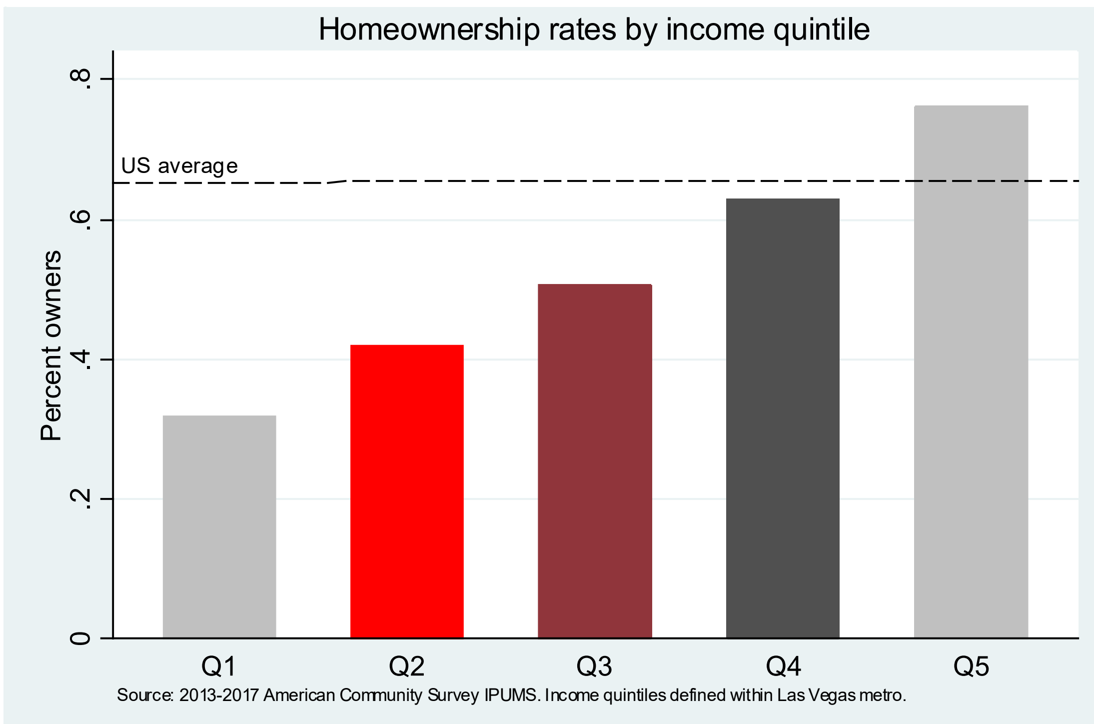
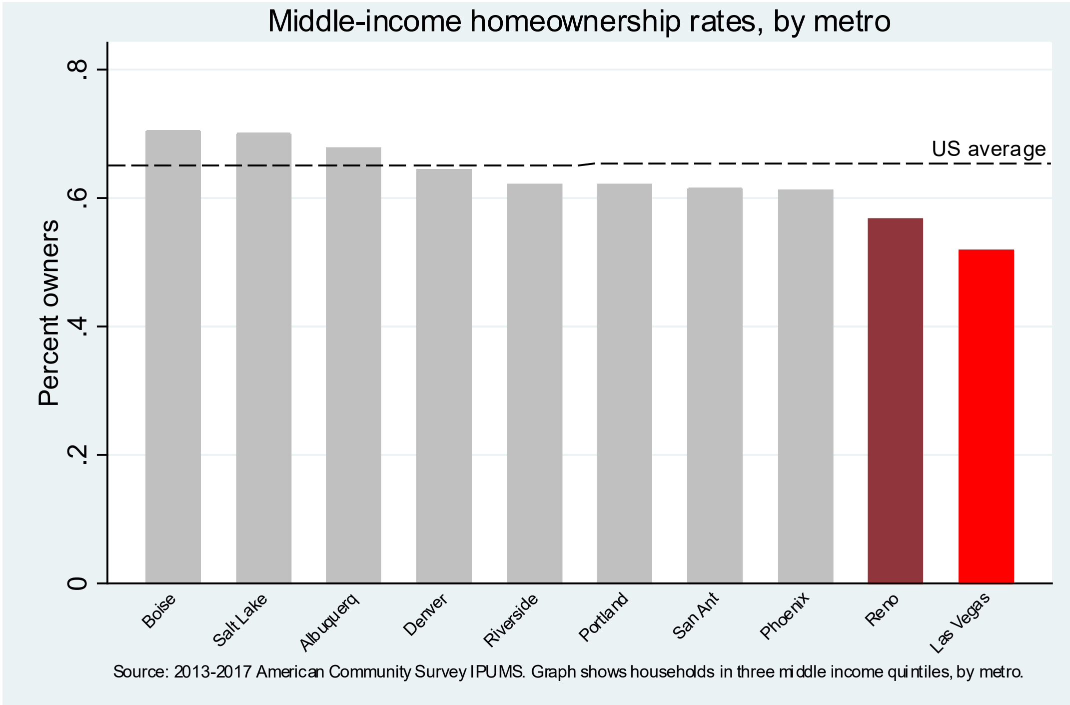


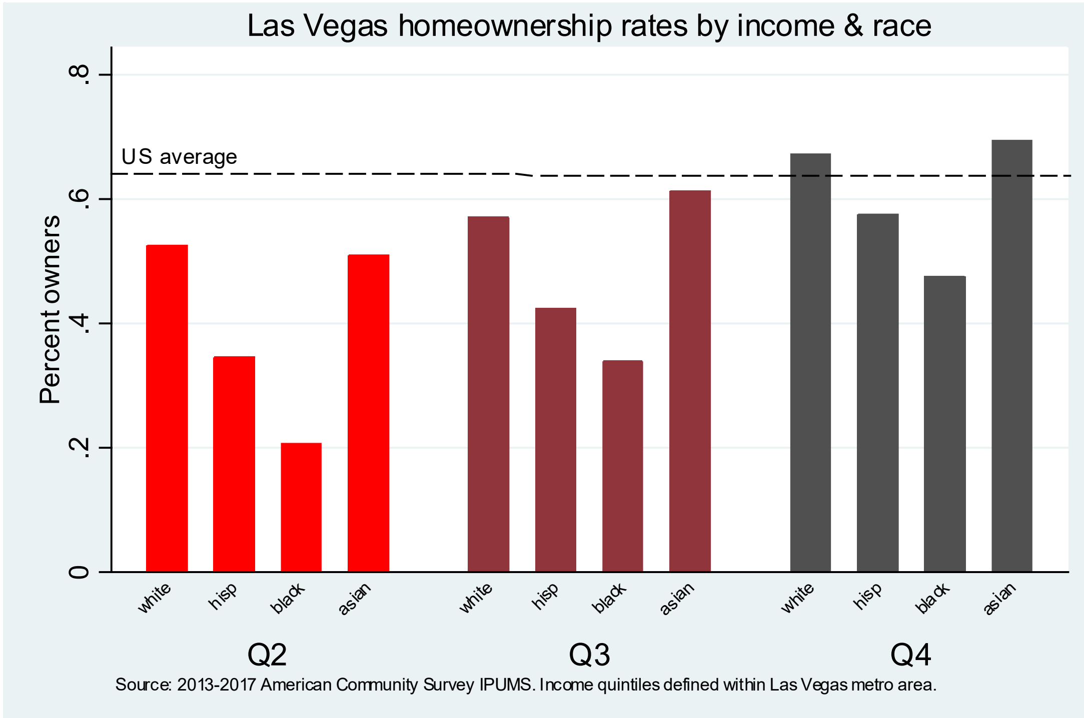
Figure 8
Homeownership Lags in Las Vegas and Reno



The precipitous decline in prices reflects the fact that Las Vegas experienced some of the highest foreclosure rates during the Great Recession. In 2009, about 12 percent of homes in the Las Vegas metro had received a foreclosure filing, five times the national average (Wargo 2010). Mortgage distress was especially concentrated among Black and Latino homeowners, many of whom purchased homes near the market peak (Bocian et al 2010, Mayock and Malacrida 2018). Exposure to subprime and other risky mortgage products was also higher among non-white borrowers, even conditional on income and credit score (Collins et al 2013).

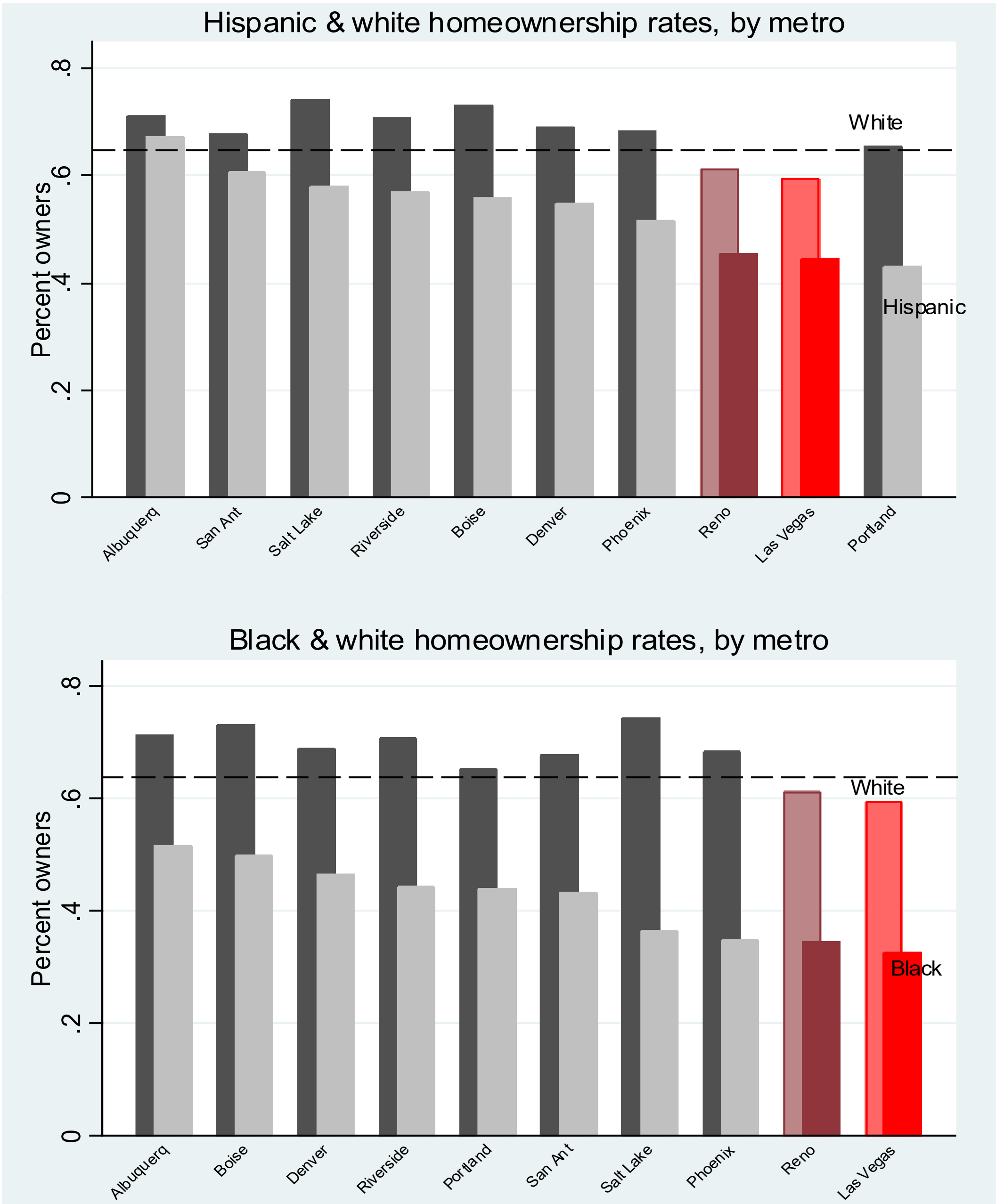
Figure 3 shows that the time trends of homeownership for Las Vegas households varies by race, with homeownership among white and Asian households mostly back to pre-recession levels, while Black and Latino homeownership rates continue to decline. Nor are the racial gaps in homeownership entirely explained by differences in income (Figure 9). Among moderate income households, only 20 percent of Black families and 35 percent of Latino families own their homes, compared to just over half of white and Asian families. The gaps are somewhat smaller for middle- and upper-middle-income families.

Figure 9
Homeownership Rates Lag For Blacks and Latinos



Las Vegas is not alone in having racial gaps in homeownership among middle-income households. In all the sample metros, middle-class Black and Latino families are less likely to own their homes than white and Asian families, although the size of the gap varies widely across metros (Figure 10).

Figure 10
Hispanic and Black Homeownership Gaps Vary By Metro



Source: 2013-2017 American Community Survey IPUMS. Households in three middle-income quintiles.

Discussion and Policy Implications

The Las Vegas housing market has more volatile prices than the U.S. overall, a pattern that is similar to other western metros. Housing cost burdens among middle-income households in Las Vegas are somewhat higher than other metros, and homeownership rates are lower. Among middle-income households, there are large differences in homeownership rates between Blacks and Latinos compared to whites and Asians.

These two features of the Las Vegas housing market – high price volatility and low homeownership rates – raise questions about whether homeownership should be the primary wealth-building strategy in the city. The Great Recession serves as a reminder that home values are not guaranteed to increase – housing is at least as risky an asset class as the stock market. Many Las Vegans lost their entire savings – not to mention their place of residence - in the foreclosure crisis. Although home prices have recovered since, at some point another recession will occur. Maintaining a home also requires continual investments of time and money, and may limit the household's ability to relocate in search of better work opportunities.

Two avenues for policy change could improve the housing well-being of Las Vegas households. The first is to increase the stability and quality of renting. Homeowners with fixed rate mortgages are able to lock in consistent monthly housing costs over long periods of time, while renters typically cannot predict their rent beyond a one-year lease. Las Vegas policymakers could promote the use of multi-year leases, which are already widely used in commercial real estate and for residential properties in some countries (Ambrose and Kim 2003, Manley 1988). Such leases could set out pre-determined annual rent increases or could tie rent changes to some external cost index, similar to the mechanism for adjustable rate mortgages (Consumer Financial Protection Bureau 2019). Local governments and housing advocates can pursue other types of tenant protections, like consistently enforcing housing quality standards and providing mediation for landlord-tenant disputes. Las Vegas' rental market has a substantial share of single-family homes; in some markets, leases for single-family rentals have not provided clear guidance on whether landlords or tenants are responsible for maintenance (Semuels 2019).

Second, both renters and owners would benefit from alternate channels of savings and wealth-building (Schuetz 2019). About 40 percent of adults would need to borrow or sell off assets to cover an unexpected $400 expense (Federal Reserve Board 2019). Renters are vulnerable to housing instability if they face reduction in working hours, while homeowners may have difficulty covering urgent maintenance problems. All households can be encouraged to set aside savings through vehicles such as individual development accounts (Beverly and Sherraden 2001, Boshara 2003). While tax incentives for IDAs depend on federal policy choices, state governments could offer smaller-scale programs. When possible, these programs should be designed with nudges to imitate the "forced savings" mechanism of homeownership. Large employers – both private and public sector - could offer low-cost financial planning assistance to their workers as part of standard benefits.

Asset-building outside of homeownership is especially important for population groups that become homeowners at lower rates, tend to enter homeownership later in the market cycle, and may face other barriers to purchasing homes. In Las Vegas, this is particularly notable given the large gap in homeownership rates between whites and Asians on the one hand, and Blacks and Latinos on the other. Nationally we know some of the contributing factors: decades of racially discriminatory housing policies have created wealth gaps that hinder saving for down payments. Systematic targeting of subprime mortgages and predatory auto loans to Black and Latino communities also contribute to lower credit scores. Better enforcement of consumer financial protections by federal and state governments would help. Latinos represent about one-third of the metro's population, Blacks are nearly 14 percent, and both groups are growing faster than non-Hispanic whites. Financial security is not just a problem for households, it has serious implications for the region's overall economic health.

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Before joining Brookings, Jenny served as a principal economist in the Division of Consumer and Community Affairs at the Board of Governors of the Federal Reserve System. She was also an assistant professor at the University of Southern California and a post-doctoral fellow at New York University's Furman Center for Real Estate and Urban Policy. Jenny is a non-resident senior fellow at GWU's Center for Washington Area Studies and teaches in Georgetown's urban planning program.

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