THE DREAM IS STILL ALIVE

Federal Reserve Bank of Atlanta

Eric Belsky
May 2013
Future of Homeownership in the US

- View of home as safe investment took biggest hit, especially among renters
- Overwhelming share of people expect to buy a home at some point in the future
- Housing and credit market conditions have an unambiguous impact on the propensity to own
- With rents and home prices back on the rise in many markets, homeownership may well stage a rebound
- But credit constraints may block the path and exacerbate pernicious wealth disparities
Opinions on “Good Time to Buy” Took a Surprisingly Small Recent Dip Despite Cycling with Market Conditions

Source: Thomson Reuters & University of Michigan, Survey of Consumers.
Perceptions of Housing as a Safe Investment, At Least Among Renters, Took a Big Hit

Sources: Fannie Mae, National Housing Survey, 2003 & Q1 2012.
Majority of All Age Groups Think Owning Makes More Financial Sense Than Renting

Source: Fannie Mae, National Housing Survey Q1 2012.
Overwhelmingly, People Expect to Buy in the Future All

Lifestyle Issues Top List of Reasons for Buying a Home

- Provides good place to raise children
- Provides a safe place to live
- Can have more space for family
- Have control over living space
- Renting is bad investment
- Can have a nicer home
- Provides good financial opportunity
- Can build up wealth
- Provides a retirement investment
- Can live in a convenient location
- Can live in community with same values
- Provides tax benefits
- Can borrow against equity
- Provides a symbol of success
- Encourages better/more engaged citizenship

Note: Orange bars are considered lifestyle reasons while purple bars are considered financial reasons for buying a home. Source: Drew and Herbert, 2012.
Changes in Age-Specific Ownership Rates Drove Boom and Bust in National Homeownership

Change in Homeownership Rate (Percentage Point)

<table>
<thead>
<tr>
<th>Aging of Population</th>
<th>Age-Based Homeownership Rate Changes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Housing and Credit Market Conditions Have Powerful Impact on Tenure Choice

• Gabriel and Rosenthal (2011) found that if coefficients on key proxies for tightness in underwriting from 2005 were applied to 2000, national homeownership rate in 2000 would have been 6.2 percentage points higher

• Rosenthal (2002) found that, all else equal, if all borrowing constraints (including on past credit problems) in 1998 had been lifted the homeownership rate would have been 4 percentage points higher
Loan Officers Report Tighter Credit Standards

Net Share of Senior Loan Officers Reporting Tighter Mortgage Underwriting Standards (Percent)

Note: Data series for all mortgages was replaced by individual series for prime and subprime loans in 2007.
Source: JCHS tabulations of the Federal Reserve Board, Senior Loan Officers Survey.
Financing Constraints Weigh Heavily on Perceptions, Likely Keeping Some Out of Market

Stated Reasons for Staying Out of the Housing Market (Percent of Respondents)

- I May Not Qualify for a Mortgage: 14 Owners, 38 Renters
- I Cannot Afford the Downpayment: 18 Owners, 55 Renters

And Those with the Lowest Incomes Most Keenly Feel the Challenges in Getting Mortgages

Fannie and Freddie Have Shifted Dramatically Toward Lower-Risk Loans

Notes: High (low) risk loans are to borrowers with credits scores under 690 (above 750) and have loan-to-value ratios above 85% (below 75%).

FHA Credit Scores Distributions Have Shifted Towards Higher Scores

Note: FHA data exclude records with no credit score information.
Source: US Department of Housing and Urban Development.
Minority Homeownership Gaps are Wide

Homeownership Rate Gap relative to Non-Hispanic Whites (Percentage Point)

- Black: 30
- Hispanic: 25
- Other: 15
- Two or more races: 15

Note: Black, multi-race, and other householders are non-Hispanic. Hispanics may be of any race.
Minorities Will Drive Household Growth

Sources: JCHS 2010 Household Growth Projections and US Census Bureau, 2011 ACS
Renters Have Minimal Savings and Wealth

Cash Savings (Thousands of dollars)

- 25th Percentile
- Median
- 75th Percentile

Total Net Wealth (Thousands of dollars)

- 25th Percentile
- Median
- 75th Percentile

Notes: Data for Renters only. Cash savings includes checking, saving, CD and money market accounts. Source: JCHS tabulations of 2010 Survey of Consumer Finances.
What Happens to FHA is Especially Important to The Fledgling Recovery

Share of Home Purchase Loans with Federal Backing (Percent)

Notes: Federally backed loans include FHA/VA and USDA Rural Housing loans. Low income is defined as less than 80 percent of area median income (AMI), moderate income is between 80 and 120 percent of AMI, and high income is above 120 percent of AMI. White householders are non-Hispanic; Hispanics may be of any race; Black households may also be Hispanic.

Why Homeownership Likely Will Persist

• People aspire towards it and intend to buy
• Most think it makes more financial sense than renting
• People associate homeownership with better communities and places to live
• People have many other nonfinancial reasons to own
• Owning a home is the only significant leveraged investment most households can make
Why Homeownership Likely Will Persist

- People that consume housing have to own or rent and owning allows them to pay down principal rather than landlords’ and provide landlord with a risk-adjusted rate of return
- Homeownership can be an important form of forced savings
- Homeownership has substantial benefits, and the MID and RED are not larges of them
- During periods of home price and rent appreciation, homeownership can provide a hedge against inflation
- Over long periods housing costs and prices tend to rise at about the rate of inflation
Over Long-Run, House Prices Tend to Rise With Average Household Incomes and Rents Rise But Lag Them

Multiples of 1975 Value

Note: All values are in nominal dollars.
In the Long Term, State House Prices Follow Per Capita Incomes

R-Squared (Regressing HPI to Per Capita Income, 1975-2011)

Sources: JCHS tabulations of FHFA HPI and US Bureau of Labor Statistics data, via Moody’s economy.com
Homeownership Has Mattered Profoundly to Wealth Accumulation Even After Crude Control for Income

Note: All values are in 2010 dollars, for the middle income quintile.
Source: Joint Center tabulations of Board of Governors of the Federal Reserve System, Survey of Consumer Finances.
Still, Timing of Purchases Matters

Median sales price (Thousands of dollars); Price index

Notes: All values are seasonally adjusted and in nominal dollars.

Sources: National Association of Realtors, Median Sales Price Existing Single-Family Homes; S&P/Case-Shiller Single-Family Home Price Index; and FHFA Purchase-Only Home Price Index.
And, Stating the Now Obvious, Owning Carries Risk as Well as Potential Reward

Note: Dollar values are adjusted for inflation by the CPI-U for All Items.

Sources: Federal Reserve Board, Flow of Funds, Balance sheet tables.
Homeownership Is at Its Most Affordable Since At Least 1971

NAR Affordability Index

Notes: According to the NAR (http://www.realtor.org/topics/housing-affordability-index/methodology) a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. Their calculations assume a 20 percent down payment and a qualifying ratio of 25 percent.

Source: NAR Composite Affordability Index.
Nationally, Price to Income Ratios Remain Below Trend

NAR Median Price to:
Median Household Income

NAR Median Price to:
Average Household Income

Sources: National Association of Realtors (NAR) Median Sales Price Existing Single Family Homes (SA); US Census Bureau, Current Population Surveys
And Mortgage Payments Have Become More Affordable Relative to Rents

Real Monthly Housing Costs (2012:4 dollars)

Notes: Monthly mortgage payments are based on the median existing home price from the National Association of Realtors® and assumes a 20 percent downpayment and a 30-year fixed-rate mortgage at the average rate for the quarter reported by Freddie Mac. The monthly gross rent is the median gross rent from the 2011 American Community Survey indexed to the Consumer Price Index for Rent of Primary Residence. Both series are adjusted for inflation to 2012:4 dollars using the CPI-U for All Items.