4 / HOMEOWNERSHIP

The number of US homeowners increased again in 2018, lifting the national homeownership rate for the second consecutive year. With demand picking up, real home prices are approaching pre-crisis levels, helping to build substantial equity for current owners but also eroding affordability for first-time homebuyers. Indeed, affordability is an increasingly serious challenge for would-be homeowners in several high-priced metros.

UPTICK IN THE HOMEOWNERSHIP RATE

The US homeownership rate edged up again last year. After falling 5.6 percentage points between 2004 and 2016, the national rate increased 0.5 percentage point in 2017–2018, to 64.4 percent—roughly on par with the average rate in 1985–1995 before the latest housing boom and bust. After a robust fourth-quarter increase, however, the homeownership rate dipped slightly in early 2019 but still remained above the year-earlier level.

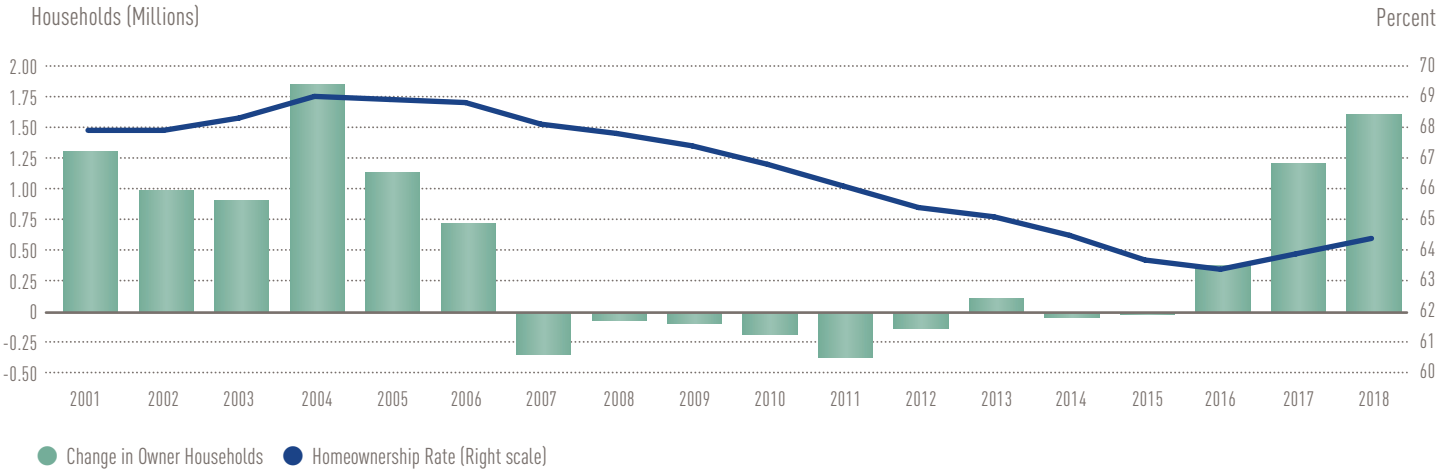
The rebound in homeownership reflects a substantial pickup in homeowner household growth and a slowdown in renter household growth. According to the Housing Vacancy Survey, the number of homeowner households was up by 1.6 million in 2017–2018 to a total of 78.2 million, while the number of renters fell by 110,000 to 43.2 million. This shift is a clear departure from the trend in 2007–2016, when renter household growth averaged 890,000 per year and homeowner household growth was negative **(Figure 19).**

The recent increases in homeownership rates are entirely among households under the age of 65. Between 2016 and 2018, the homeownership rate rose 1.7 percentage points among households under age 35, 1.5 percentage points among households aged 35–44, 0.8 percentage point among households aged 45–54, and 0.4 percentage point among households aged 55–64. Despite these gains, however, homeownership rates for all of these age groups are still below their levels 30 years ago. Indeed, the homeownership rate is down 3.0 percentage points for the under-35 age group, 6.8 points for 35–44 year-olds, 5.5 points for 45–54 year olds, and 4.2 points for 55–64 year-olds. In contrast, and despite a modest 0.3 percentage point decline in 2016–2018, the homeownership rate for households age 65 and over was 2.9 percentage points higher in 2018 than in 1988.

The recent upturn in homeownership rates occurred across all racial and ethnic groups. The rate for Asian/other households increased the most, up 2.6 percentage points in 2016–2018. The rates for both white and Hispanic households were up 1.1 percentage points, while the black homeownership rate rose just 0.7 percentage point. These increases narrowed the homeownership gap between white and Asian/other households, but left the

FIGURE 19

Homeownership Has Gained Some Upward Momentum



Note: Change in owner households is the year-over-year change in the number of homeowner households.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

white-Hispanic gap unchanged. The white-black homeownership gap, however, widened over the past two years.

Over the longer term, Asian and other minorities have made the most progress in narrowing the homeownership gap with whites. Between 1988 and 2018, the white homeownership rate increased 3.9 percentage points to 73.0 percent while the Asian/other homeownership rate increased 7.3 points to 57.0 percent, reducing the disparity from 19.4 percentage points to 16.0 points. Meanwhile, the Hispanic homeownership rate rose 6.5 percentage points to 47.1 percent, reducing the gap with whites from 28.6 percentage points to 26.0 points. In contrast, the black homeownership rate was unchanged over the past decade at 42.9 percent, widening the homeownership gap some 3.9 percentage points to 30.1 points.

FIRST-TIME BUYER CHARACTERISTICS

The pickup in homeownership has direct implications for the housing stock, which must accommodate the diverse housing needs of first-time homebuyers as well as repeat buyers. Indeed, the 3.1 million first-time buyers who purchased homes in 2016 and early 2017 vary widely in age, household composition, and other characteristics that imply different needs and preferences for housing.

Compared with all homeowners, first-time buyers are younger, more diverse, and more likely to have children **(Figure 20).** More than half (54 percent) of first-time buyers in 2017 were under age 35. While 65 percent of first-time buyers were white, 9 percent were black, 15 percent were Hispanic, and 11 percent were Asian/other. In addition, 26 percent were married with children present and 10 percent were single parents, while 23 percent were married without children present and 22 percent were single. Just under a fifth of first-time buyers in 2017 did not previously head a household.

When compared with repeat buyers, first-time buyers are more apt to choose smaller and less expensive homes. For example, 43 percent of first-time buyers in 2017 purchased homes with less than 1,500 square feet of living space, compared with 27 percent of repeat buyers. Just 6 percent of first-time buyers bought homes with 3,000 or more square feet, while 21 percent of repeat buyers chose homes of this size. Similarly, 58 percent of first-time buyers paid less than $200,000 for their homes and only 12 percent paid $400,000 or more. The comparable shares for repeat buyers are 37 percent and 24 percent, respectively.

More than three-quarters (77 percent) of first-time homebuyers in 2017 purchased detached single-family homes, slightly below the 81 percent share of repeat buyers. The share of first-time homebuyers that purchased attached single-family homes or units in multifamily structures (14 percent) was almost the same share of repeat buyers (13 percent). Just 9 percent of first-time buyers opted for mobile homes, manufactured units, or some other type of structure, compared with 6 percent of repeat homebuyers.

PRICE PRESSURES ON POTENTIAL BUYERS

According to the FHFA Purchase-Only House Price Index, nominal home prices climbed 5.7 percent last year on average, or 3.9 percent in real terms. With this increase, real home prices were up 41 percent from 2011 to 2018 and stood within 2 percent of the 2006 peak. The median price for homes in the lowest tier continued to rise more rapidly than those for higher-cost units last year.

The National Association of Realtors reports that the real median sales price of an existing home hit $259,300 in 2018, up from $177,400 in 2011. Adding to affordability pressures, the average rate on a 30-year fixed-rate mortgage also rose 55 basis points last year, to 4.54 percent—higher than any annual reading since 2010.

Largely because of this interest rate hike, real homeowner costs for the monthly mortgage payment, taxes, and insurance on a median-priced home jumped 8 percent from 2017 to 2018, to $1,775—a 47 percent increase from 2011. But because interest rates are lower than in prior decades, total homeowner costs in 2018 were down 17 percent from 2006 and 3 percent from 1990 **(Figure 21).** Although the average mortgage interest rate declined again in early 2019, future increases could add noticeably to homeowner costs. For example, a 1 percentage point rise in the interest rate for a loan on the median-priced home in 2018 would raise the monthly payment by 9 percent or $153.

Rising home prices not only determine the size of a mortgage but also the amount of savings required for a downpayment. To put down 20 percent on a median-priced home last year, a potential buyer would have to have saved almost $52,000. Even buyers qualifying for a 3.5 percent downpayment on an FHA mortgage would need more than $9,000 plus closing costs. Not surprisingly, more than 60 percent of home mortgages issued in the second half of 2018 involved downpayments of less than 20 percent, and more than 40 percent entailed downpayments of less than 10 percent.

Modest downpayment assistance programs can help many would-be owners buy homes, particularly in lower-cost markets. A recent JCHS analysis of the 2014 Survey of Income and Program Participation found that some 85 percent of renters and other potential homebuyers lacked the savings for a 3.5 percent downpayment on a median-priced home in their areas. In addition, 80 percent did not have sufficient income to meet a 31 percent payment-to-income ratio. However, downpayment assistance of just $3,500 would more than double the share of potential homebuyers with enough savings and income to buy homes from 7 percent to 17 percent.

AFFORDABILITY ACROSS GEOGRAPHIES

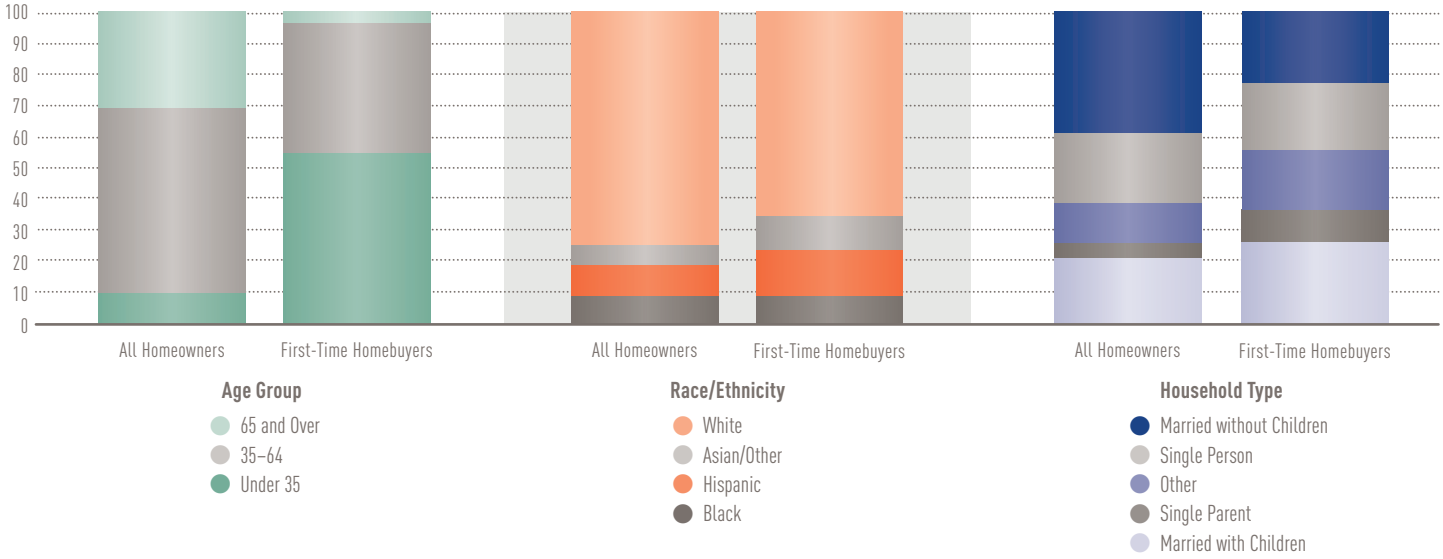
Housing affordability varies greatly across metropolitan regions. Nationally, a median-income household could afford the monthly payment for 63 percent of homes sold in 2017. And in 265 of the 300 metros with available data, a median-income household could afford the monthly payment for more than half of all recently sold homes **(Figure 22).** In those areas, that household would be able to search many neighborhoods for a suitably sized home, although it could face affordability constraints in some locations.

But in some high-cost areas, affordability challenges are acute. In nine metros, all of which are in California—Los Angeles, Oxnard, Salinas, San Diego, San Francisco, San Jose, San Luis Obispo, Santa Cruz, and Santa Rosa—a household with the median income could

FIGURE 20

First-Time Homebuyers Are Younger and More Diverse than Current Homeowners

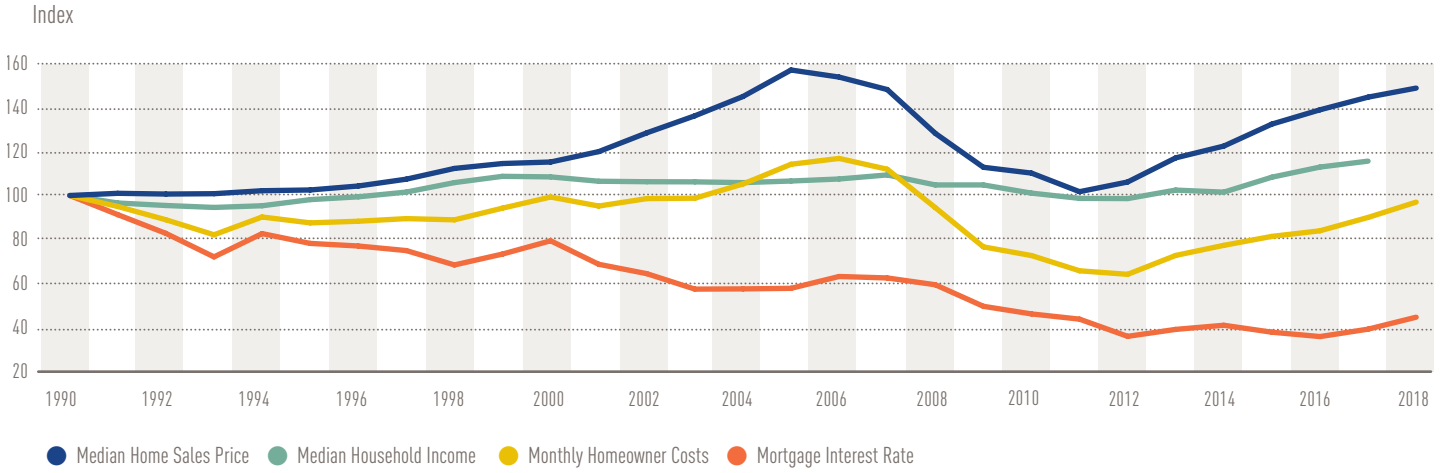
Share of Homeowners (Percent)



Notes: First-time homebuyers purchased homes in 2016 and early 2017 and did not previously own homes. Black, Asian/other, and white households are non-Hispanic. Other household types include all other family and non-family households.
Source: US Department of Housing and Urban Development (HUD), 2017 American Housing Survey.

FIGURE 21

With Low Interest Rates Offsetting the Rise in Home Prices, Real Homeowner Costs Are Still Lower than in 1990



Notes: House prices, household income, and monthly homeowner costs are adjusted to 2018 dollars using the CPI-U for All Items Less Shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home, condo, or co-op, with property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%.

Sources: JCHS tabulations of NAR, Existing Home Sales; US Census Bureau, Current Population Surveys; Moody's Analytics Forecasts; Freddie Mac, Primary Mortgage Market Surveys (PMMS) data.

afford less than a quarter of homes sold in 2017. In another 26 metros—including Boston, Denver, New York, Portland, and Seattle—a median-income household could afford the monthly payments on only a quarter to a half of recently sold homes. In these areas, potential buyers would have to choose from only a limited set of neighborhoods or from units smaller than they might prefer for their families.

Rising home prices are increasing the number of areas facing severe affordability challenges. In 39 of the 100 metros tracked by FHFA, real home prices at the end of 2018 exceeded their peaks at the height of the housing boom. Indeed, real home prices in nine of these metros were more than 20 percent above their 2006 levels, with especially rapid price growth from 2006 to 2018 in Austin (55 percent), Denver (54 percent), San Francisco (53 percent), and Dallas (42 percent). Conversely, real home prices in six metros—Bakersfield, Bridgeport, Camden, Cape Coral, Elgin, and New Haven—remained more than 25 percent below their 2006 peaks last year.

MIXED SIGNALS ON CREDIT CONDITIONS

The credit environment for potential homebuyers in 2018 was mixed, with borrower credit scores and loan-to-value ratios indicating stable and tight conditions, but debt-to-income ratios pointing to some easing. According to the Federal Reserve Bank of New York, the median credit score for new mortgage originations was 758 in the fourth quarter of 2018, within the 750–765 range where it has held since 2014, although well above the 720 median at the end of 2005 and 715 at the end of 2000. The bottom decile credit score hovered between 640 and 660 throughout 2014–2018, still significantly higher than the 597 level at the end of 2005 and 574 at the end of 2000. The median loan-to-value ratio for purchase originations has also been largely stable in the post-crisis period, remaining near 95 percent at the end of 2018.

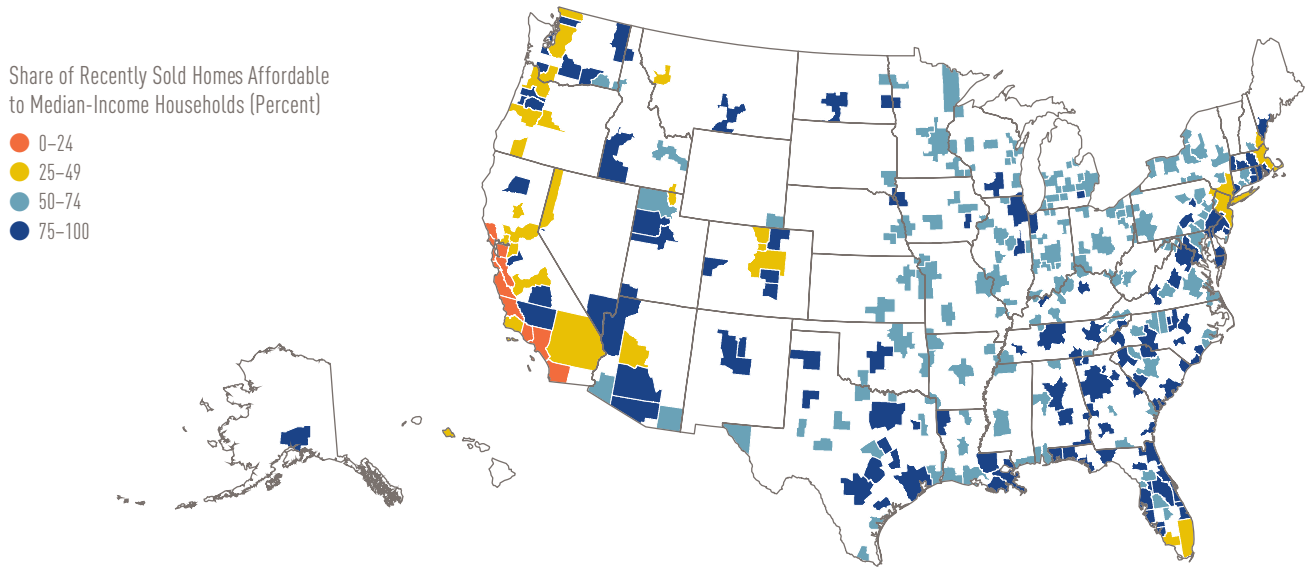
At the same time, however, the share of mortgage originations with total debt-to-income (DTI) ratios above 43 percent has increased sharply. According to a recent Urban Institute report, the share of Fannie Mae purchase loan originations with these high ratios more than doubled from 13 percent to 29 percent in 2013–2016. Similarly, the share of Freddie Mac originations with high DTI ratios rose from 14 percent to 25 percent, the share of FHA loans from 42 percent to 55 percent, and the share of VA loans from 33 percent to 46 percent. Both the Urban Institute and Mortgage Bankers Association indexes of mortgage credit availability reflect these increases, indicating that credit conditions eased somewhat over this period.

The growing share of loans with high debt-to-income ratios is also important because of the upcoming expiration of the "GSE patch." Under Dodd-Frank, the Consumer Financial Protection Bureau's qualified mortgage rule established 43 percent as the maximum debt-to-income ratio for new originations for the government sponsored enterprises (GSEs), but created an exemption through 2021 (or the end of conservatorship, whichever happens first) for loans eligible for purchase by Fannie Mae and Freddie Mac. Given the significant shares of GSE loans that currently exceed the DTI limit, expiration of this exemption could result in a substantial shift in lending volumes from the GSEs to FHA, which does not have the 43 percent DTI cap.

Meanwhile, the number of home purchase originations increased each year from 2011 to 2017, rising from 2.1 million to 3.7 million. In contrast, the number of refinances varied widely over this period in response to fluctuations in mortgage interest rates **(Figure 23).** The GSE share of home purchase originations rose from 50 percent in 2011 to 64 percent in 2017, while the FHA share fell from 35 percent to 23 percent. The VA share moved up from 9 percent in 2011 to 10 percent in 2017.

FIGURE 22

Affordability of Homeownership for Potential Buyers Varies Widely Across the Country



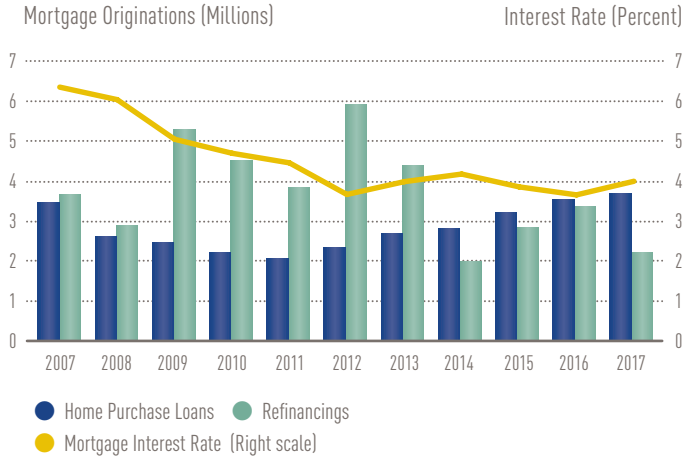
Notes: Median incomes are estimated at the core-based statistical area (CBSA) level. Only CBSAs with at least 30 home sales in 2017 are shown. Recently sold homes are defined as homes whose owners moved within the 12 months prior to the survey date. Monthly payments assume a downpayment of 3.5%, property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%. Affordable payments are defined as requiring less than 31% of monthly household income.
Sources: JCHS tabulations of US Census Bureau, 2017 American Community Survey 1-Year Estimates; Freddie Mac, PMMS data.

Qualifying for one of these mortgage products, however, remains an obstacle for many potential homebuyers. According to the Survey of Consumer Expectations, 67 percent of renters in 2018 would prefer or strongly prefer to own homes, compared with 19 percent who would prefer or strongly prefer to rent. But 68 percent of renters also thought that it would be somewhat or very difficult to obtain a mortgage last year, while just 17 percent thought it would be somewhat or very easy.

For those who do qualify for mortgages, navigating the home purchase process can also be a challenge. The National Survey of Mortgage Originations found that while 77 percent of buyers that purchased homes in 2016 were very satisfied with their mortgage lenders, 28 percent were only somewhat or not at all satisfied that they received the lowest interest rate they could qualify for, and 45 percent were only somewhat or not at all satisfied that they paid the lowest possible closing costs. Moreover, significant numbers of respondents reported issues with the closing process. Fully 15 percent said that they faced an "unpleasant surprise" such as having the closing rescheduled, needing more cash than expected, having mortgage terms change, or being asked to sign blank documents.

FIGURE 23

Home Purchase Loans Have Increased Incrementally, While Refinancings Have Varied with Interest Rates



Note: Mortgage originations are for first-lien loans for home purchase or refinancing of one- to four-family, owner-occupied properties.
Sources: JCHS tabulations of Home Mortgage Disclosure Act (HMDA) data; Freddie Mac, PMMS data.

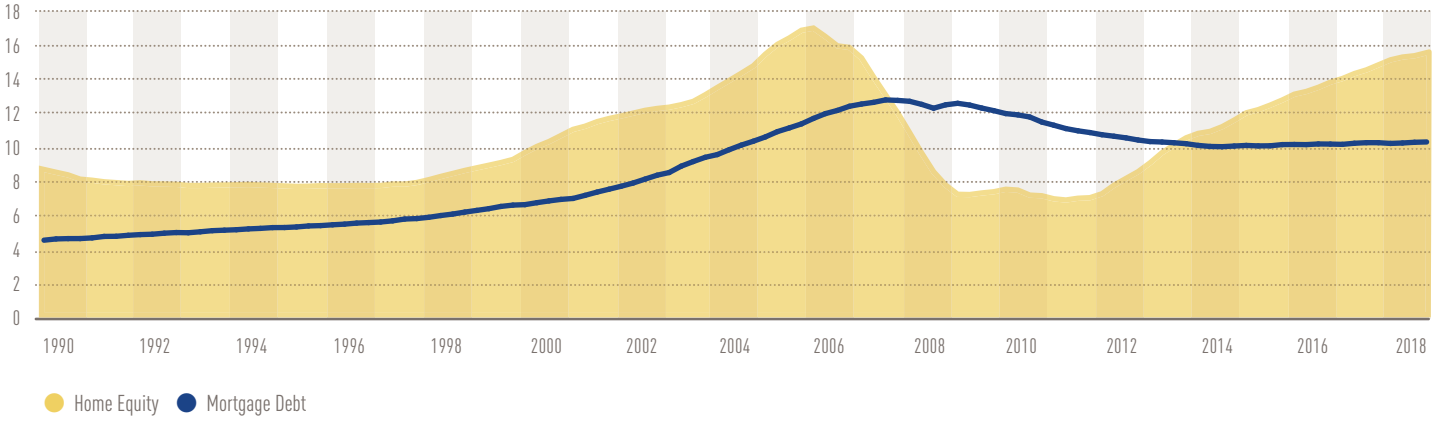
STRONG GROWTH IN HOME EQUITY BUT NOT EXTRACTIONS

Fueled by rapidly rising home prices and modest increases in mortgage debt, the aggregate value of home equity more than doubled between 2011 and 2018. According to the Federal Reserve's Flow

FIGURE 24

Home Equity Is Nearing Its Pre-Crisis Peak, Driven by Rising Home Prices

Trillions of 2018 Dollars



Note: Homeowner equity and mortgage debt are adjusted to 2018 dollars using the CPI-U for All Items.
Source: JCHS tabulations of Federal Reserve Board, Financial Accounts of the United States via FRED.

of Funds data, the total value of home equity held by households jumped from $7.0 trillion to $15.5 trillion over this period after adjusting for inflation. With this increase, home equity levels are approaching the pre-crisis peak of $17.0 trillion while aggregate mortgage debt remains closer to the post-crisis low **(Figure 24).**

As measured by the Survey of Consumer Finances, the median amount of homeowner equity fell in real terms from $121,600 in 2007 to $83,000 in 2010 before recovering to $100,000 in 2016. In that year, homeowner equity ranged from $43,000 or less in the bottom quartile to $212,000 or more in the top quartile. Some 86 percent of homeowners had equity of at least 20 percent of home value, and 61 percent had equity of at least 50 percent. CoreLogic reports that only 4 percent of mortgaged properties (2.2 million) had negative equity at the end of 2018, down from 23 percent (11.1 million) at the end of 2011.

Significant growth in home equity raises the potential for many owners to cash out some of their housing wealth. However, a 2018 report from the Federal Reserve Bank of New York concludes that there is no evidence so far of a substantial increase in risky equity extraction practices. Although the aggregate volume of cash-out refinances and home equity loans and lines of credit has risen slightly in recent years, withdrawals remain near their 2000 level and well below the peak during the housing boom. In addition, recent equity extractions have been concentrated among older borrowers and those with the strongest credit.

Results from the National Survey of Mortgage Originations indicate that homeowners that did tap their home equity in 2016 used the funds to pay down higher-cost debt (49 percent of extractions) or cover home repairs and improvements (40 percent). Smaller shares of respondents reported using all or part of the extracted equity for savings or business investment (23 percent), auto or other major purchases (11 percent), or college expenses (8 percent).

THE OUTLOOK

Although homeownership demand increased in 2018, the latest estimates show a reversal in the first quarter of 2019, underscoring the uncertain trajectory of the homeownership rate. In the near term, the strength of homebuying will likely depend on home prices and the direction of changes in employment, incomes, and interest rates. Over the longer term, though, homeownership trends will be shaped by a larger set of factors related to affordability, household demographics, tax law and the mortgage finance system, and the supply of homes for sale.

JCHS projections suggest that, at current homeownership rates, population growth alone will add about 8.0 million households to the ranks of homeowners in 2018–2028. Over the decade, the aging of the baby-boom generation is expected to boost the number of homeowners age 65 and over by some 8.4 million, lifting their share of all homeowners to 38.1 percent. Meanwhile, members of the millennial generation will drive up the number of homeowner households aged 30–49 by just under 1.9 million, to 30.2 percent. In contrast, the aging of generation-X will reduce the number of homeowners aged 50–64 by 2.1 million, to a share of 27.1 percent. These broad demographic shifts will bring substantial changes in the housing needs and preferences of homeowners that could, in turn, alter the configuration of the owner-occupied stock.