

Press Briefing
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RESEARCH

The Evolution & Future of Homeownership

OLIVIER ARMANTIER
ANDREW HAUGHWOUT
GIZEM KOSAR

DONGHOON LEE
JOELLE SCALLY
WILBERT VAN DER KLAUW

Overview

- How has homeownership evolved over last 25 years?
- Why did homeownership fall so much after 2004?
- What are the potential future paths for homeownership?
- What will determine which path is taken?

Preamble: homeownership basics

- Homeownership rate is share of households who own the unit they inhabit
 - “Household” is a group of people living at the same address
- Why do we care about homeownership?
 - Owner’s equity is an important form of wealth
 - Over \$15 trillion and the most important asset for many households
 - Potential benefits to society

F E D E R A L
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STONES MARKED PQR TO BE CUT FROM SAME BLOCK TO INSURE COLOR. THEN CUT TO STRUCTURAL JOINT NOT OVER 3/8 WIDE.

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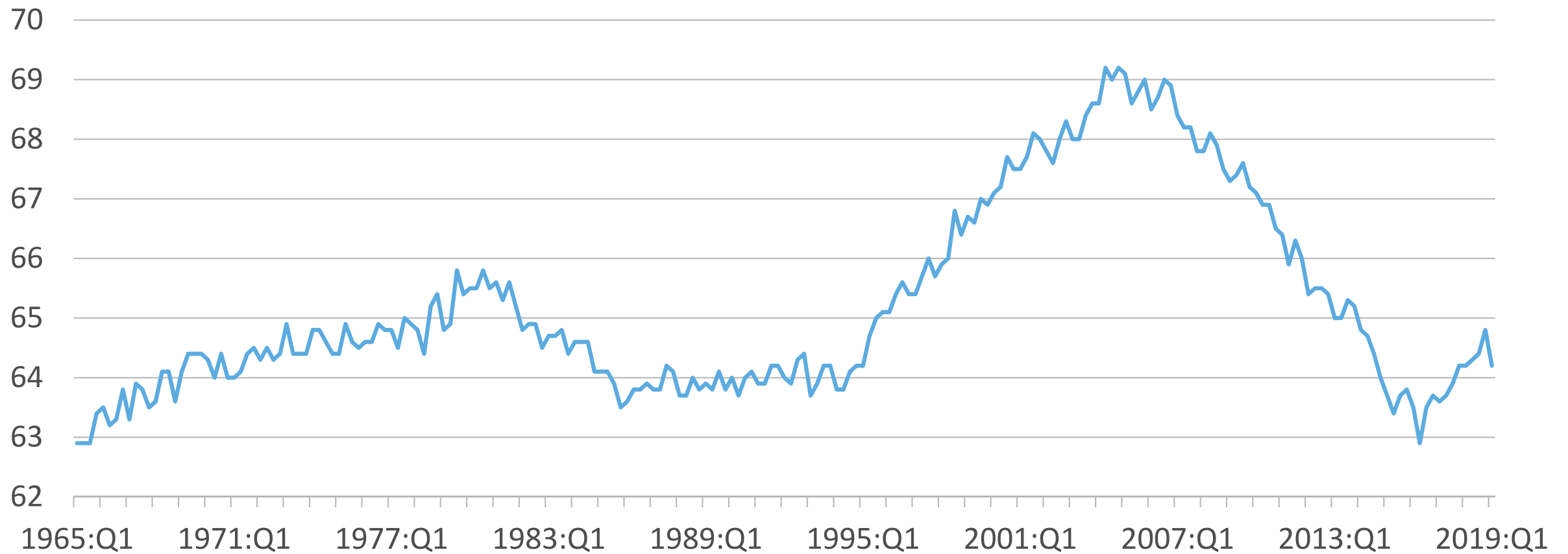
Boom & Bust

PROJECTION OF VOUSOIRS TO CORRESPOND WITH THAT

1st 2nd LEVEL

Homeownership experienced an unprecedented cycle

Homeownership Rate (percent of households)



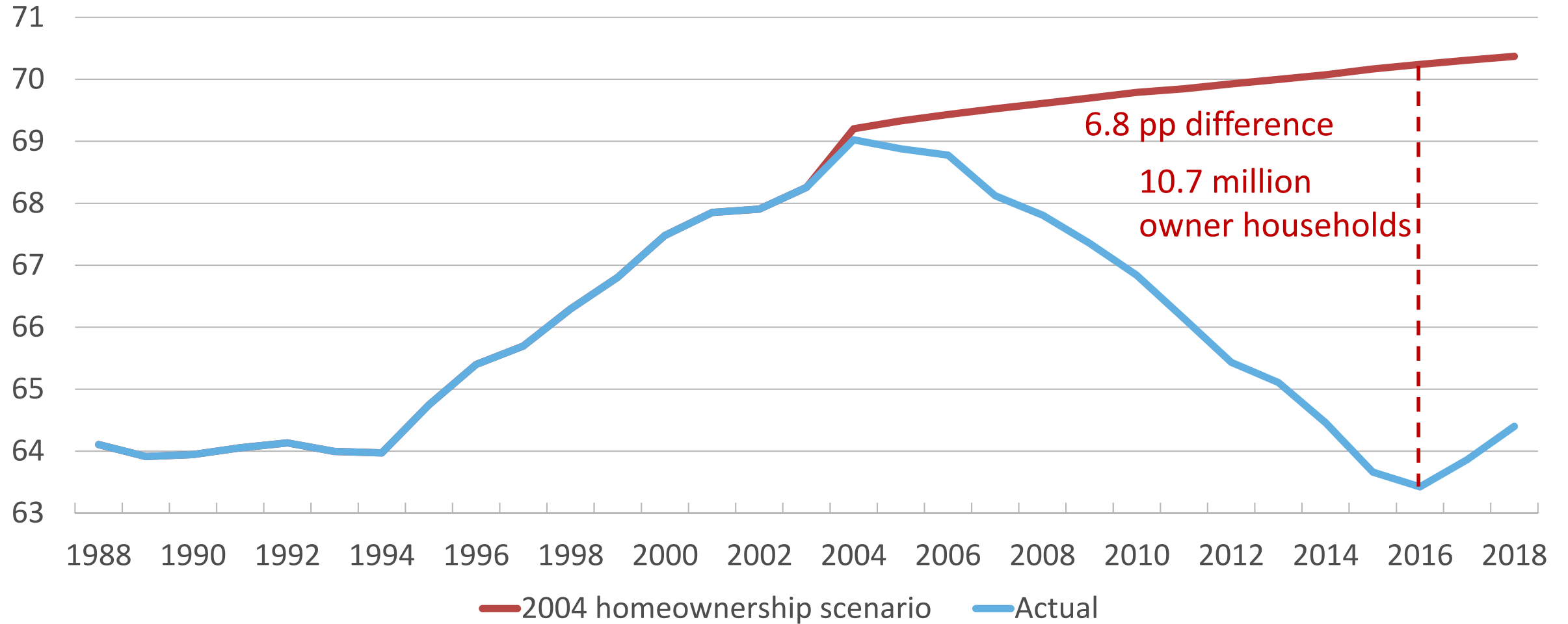
Source: Census

The homeownership boom and bust

- What drove the 1995-2016 surge and collapse in homeownership?
 - Consequential: estimated 10.7 million fewer homeowners in 2016

10.7 million fewer owner households

Percent of households



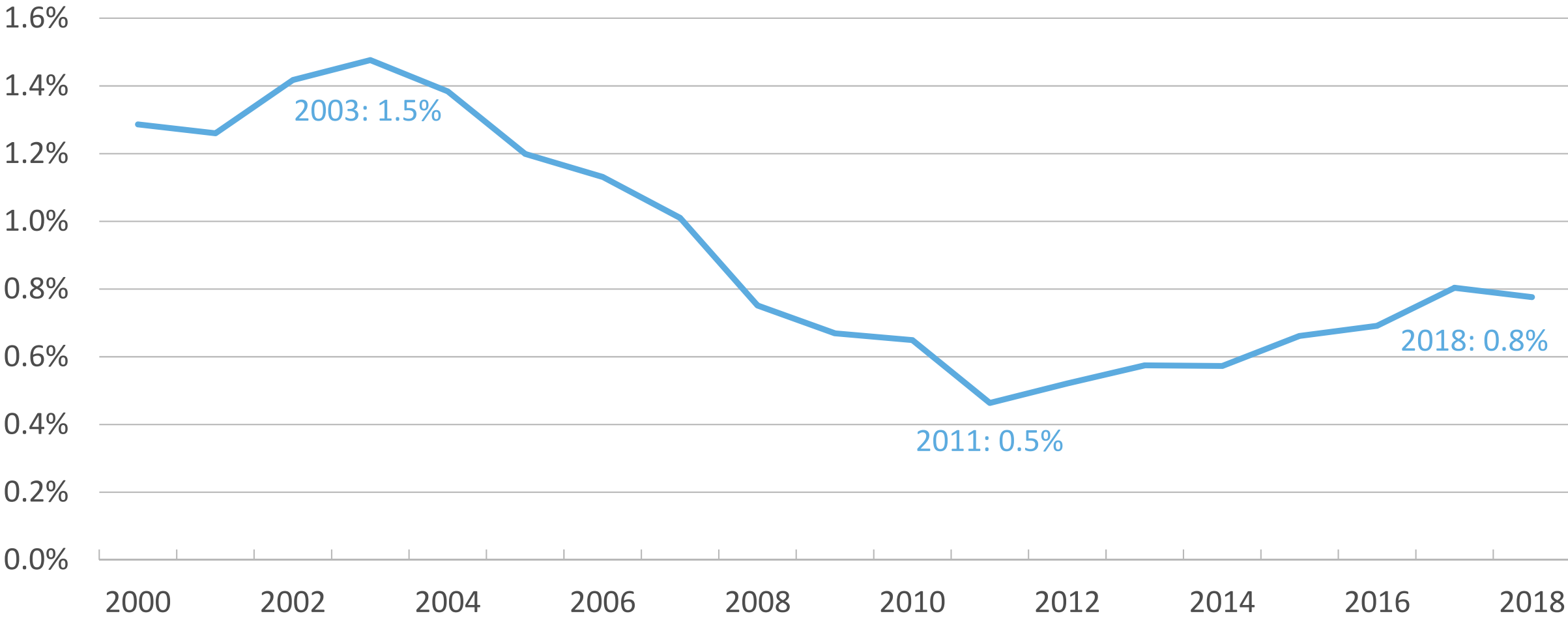
Source: Census, authors' calculations

The homeownership boom and bust

- What drove the 1995-2016 surge and collapse in homeownership?
 - Consequential: 10.7 million fewer homeowners by 2016
- Trends in homeownership driven by entry and exit
 - **Entry:** forming new owner household; from previously renting or from previously no household.
 - Key factor: Formation of owner-occupancy households/first-time buyers
 - **Exit:** transition to renting or to “doubling up” (reducing number of households)
 - Key factor: Foreclosure

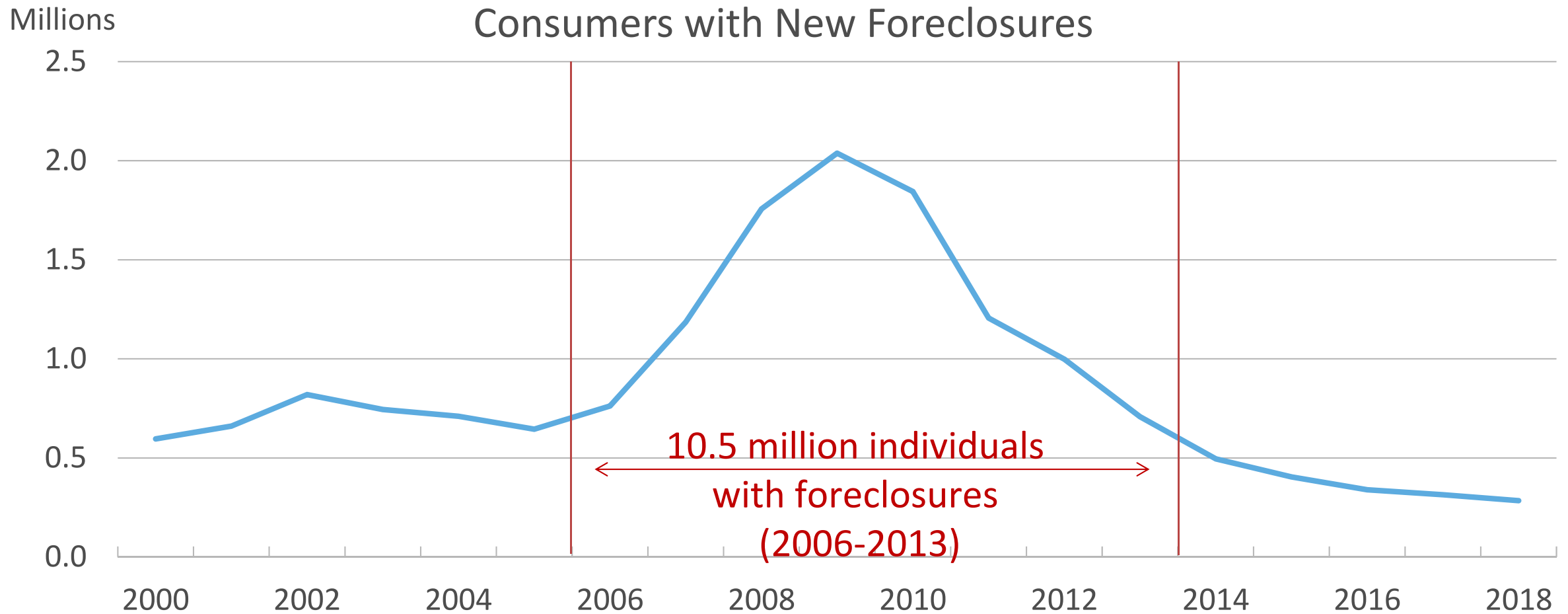
Entry to homeownership strong 2000-03, fell steadily after 2004

Share of population (age 20+) making first time purchase



Source: New York Fed Consumer Credit Panel/Equifax

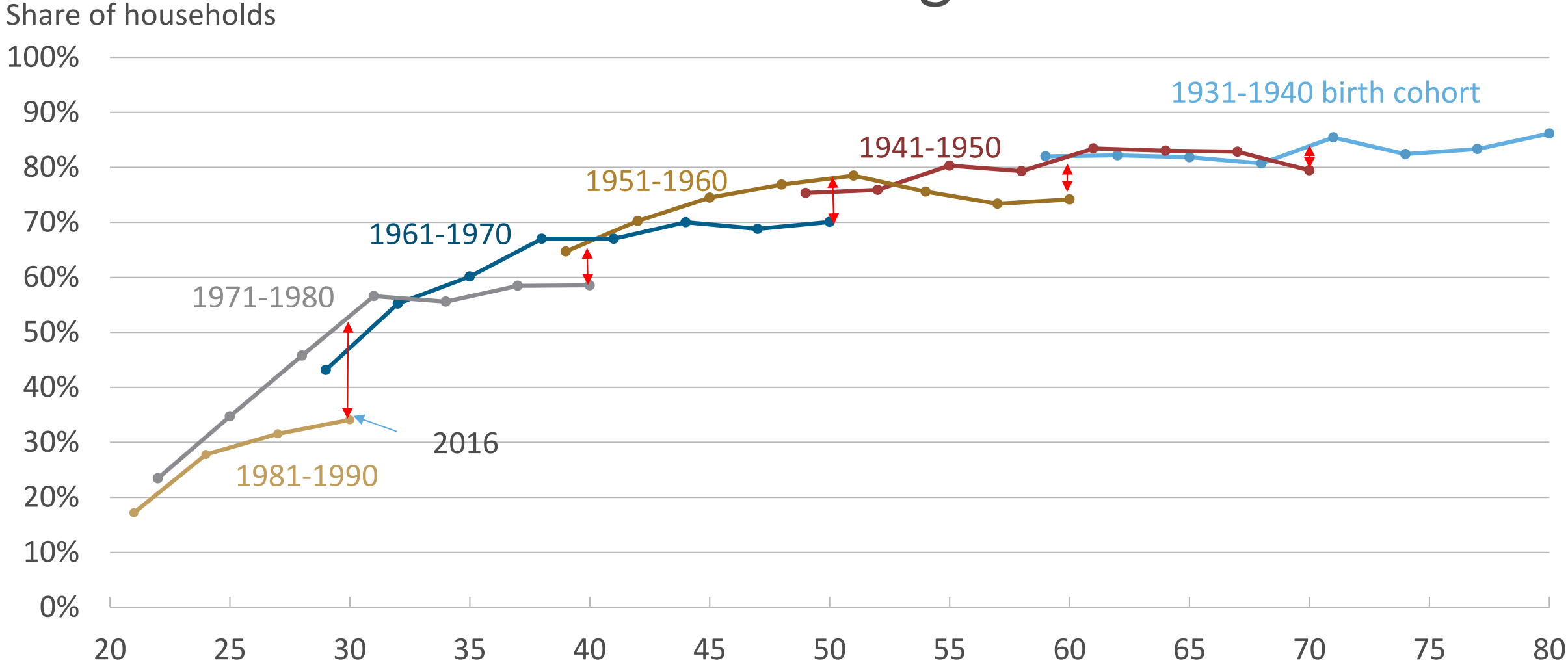
Exit: 10.5 million exited homeownership by foreclosure between 2006 and 2013



The homeownership boom and bust

- Large inflow, 2000-2004
 - High inflow of first time buyers ([Lee & Tracy 4/8/19](#))
- Large outflow 2006-2016
 - Many owners defaulted ([Haughwout, Peach and Tracy 2/16/17](#))
- Next: Which households were affected?
 - Important in understanding equity consequences of decline
 - Important for assessing outlook through 2030

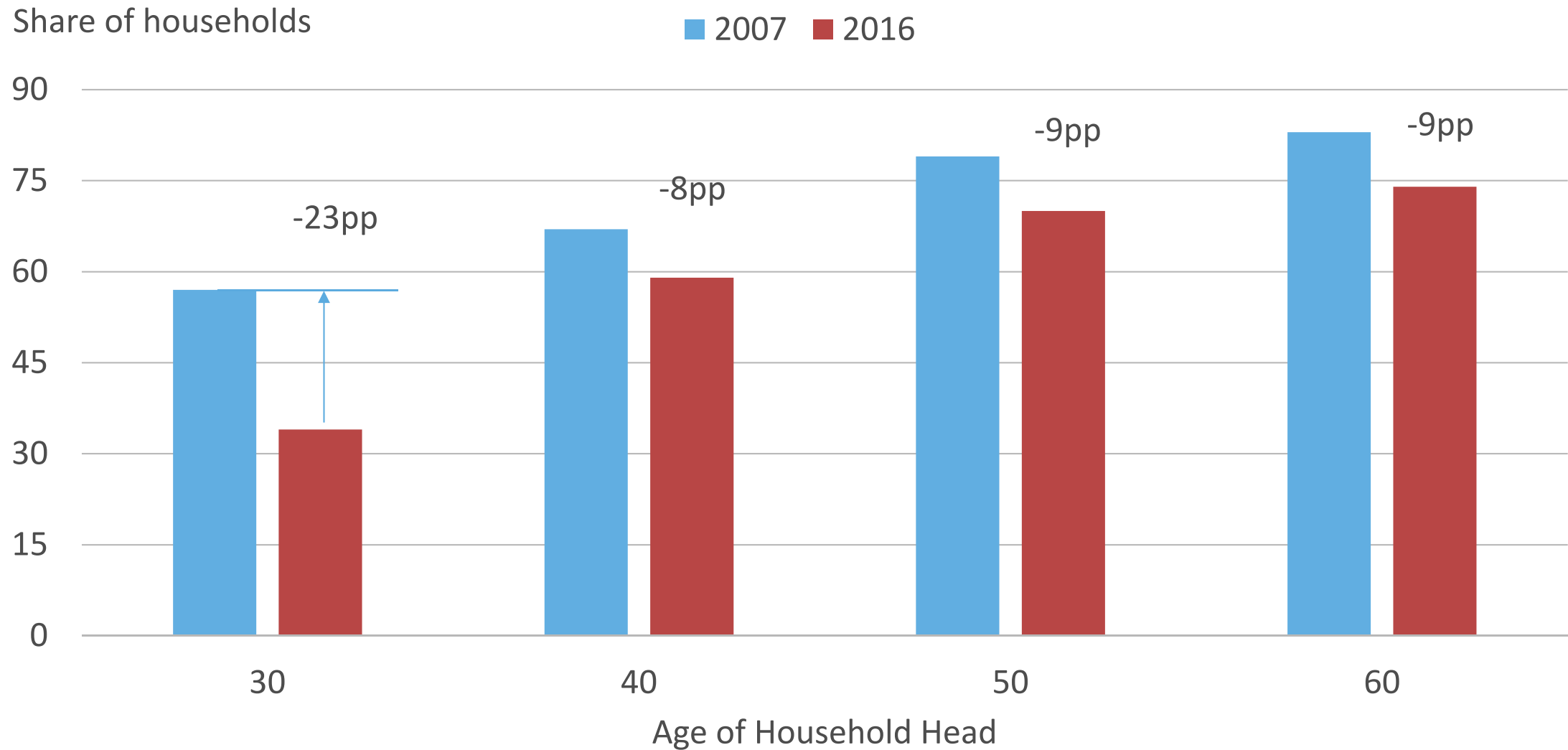
Homeownership increases with age, but recent cohorts lag



Source: Survey of Consumer Finances

Age

Homeownership fell most for the young



Source: Survey of Consumer Finances

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STONES MARKED PQR TO BE CUT FROM SAME BLOCK TO INSURE COLOR. THEN CUT TO STRUCTURAL JOINT NOT OVER 3" WIDE.

PROJECTION OF VOUSOIRS TO CORRESPOND WITH THAT

Outlook

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LEVEL

The homeownership outlook

- Changes in homeownership over next decade will be determined by entry and exit
- **Exits:** Foreclosure rate very low, likely to stay low
 - Homeowner equity, key determinant of default, at all-time high
 - Outstanding mortgage debt skewed to older, higher credit score borrowers much less likely to default
 - Even in stress events foreclosure rate expected to remain below 6%
 - [See Fuster et al., 2018, updated.](#)
 - Currently observed homeownership is very sustainable

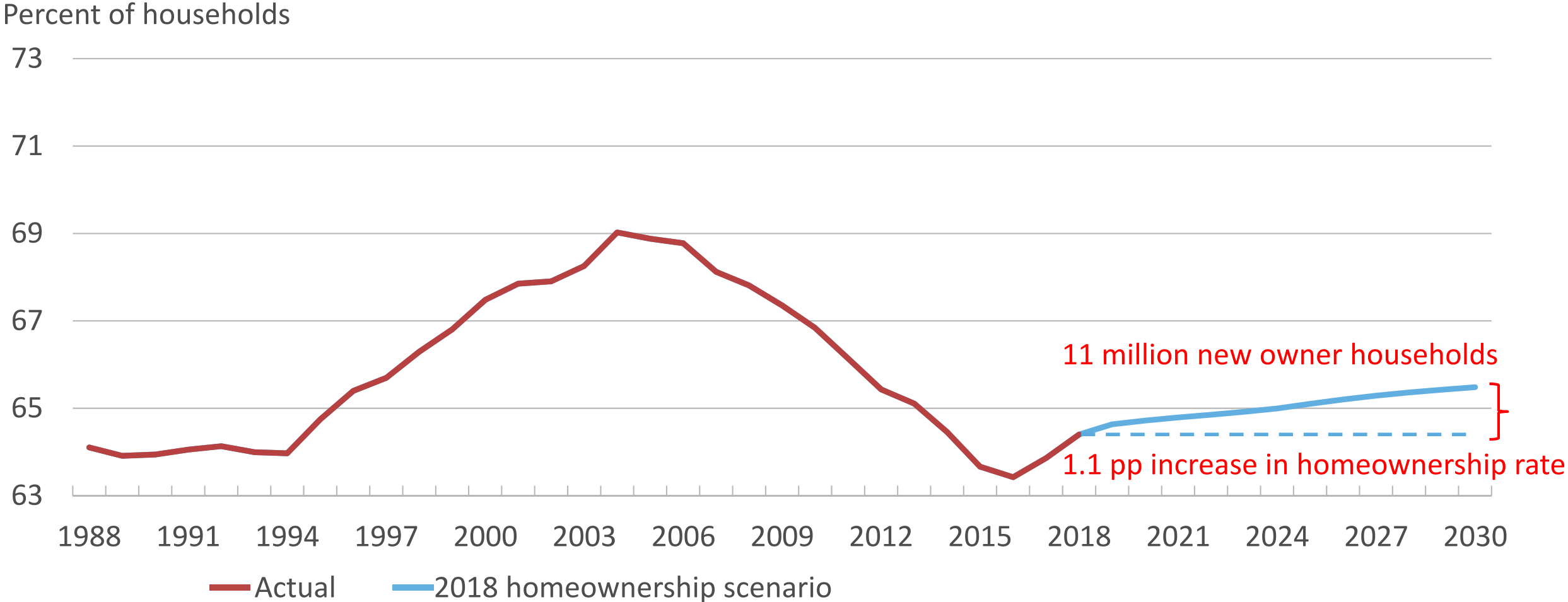
The homeownership outlook

- **Entry:** Depends on demography, economic conditions
 - What demand factors does history suggest will change over time?
 - Age structure
 - Preferences for homeownership
 - Ability to pay/borrow
 - Renters/young people are key

Aging population will push up homeownership

- As population ages homeownership, rate rises
 - Aging effect was overwhelmed 2006-2016 by exits via foreclosure
- Where will homeownership end up?
 - 2004 – high homeownership rate for each age (esp. young)
 - 2018 – low homeownership rate for each age (esp. young)
 - In between the 2004 and 2018 scenarios
- Answer is consequential for rate and number of homeowners

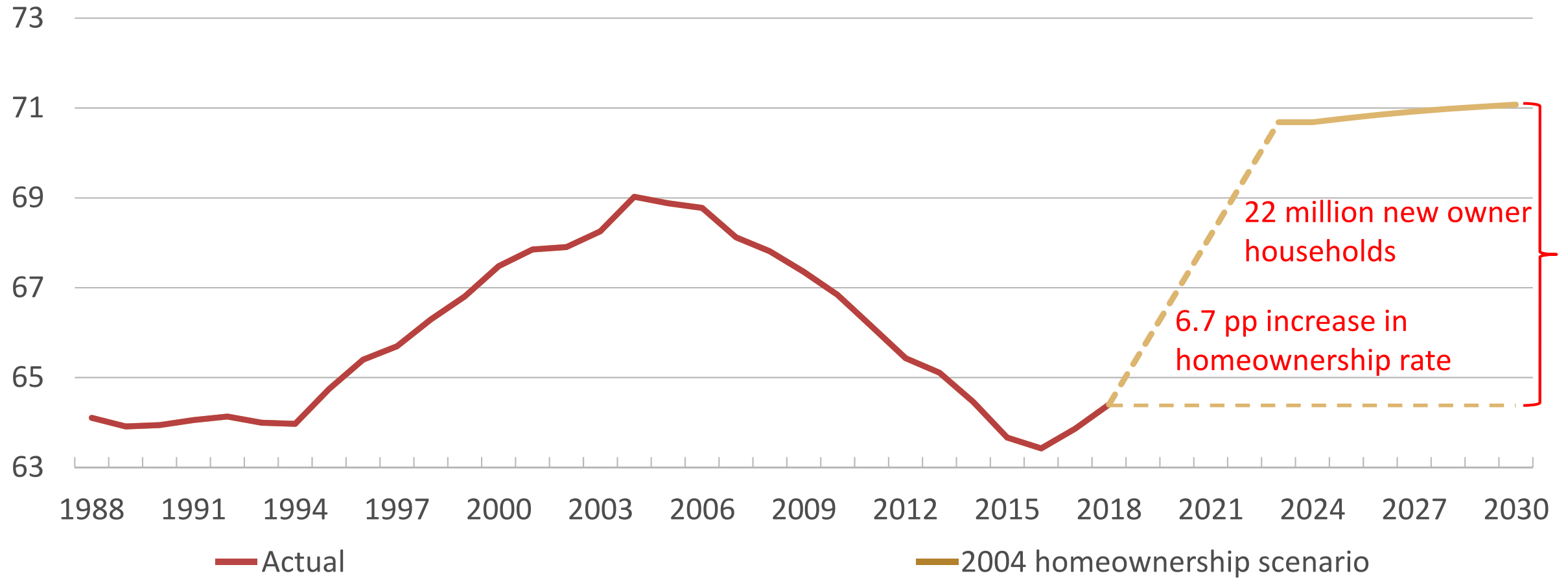
Projecting homeownership – 2004 vs 2018 rates



Source: Census, authors' calculations

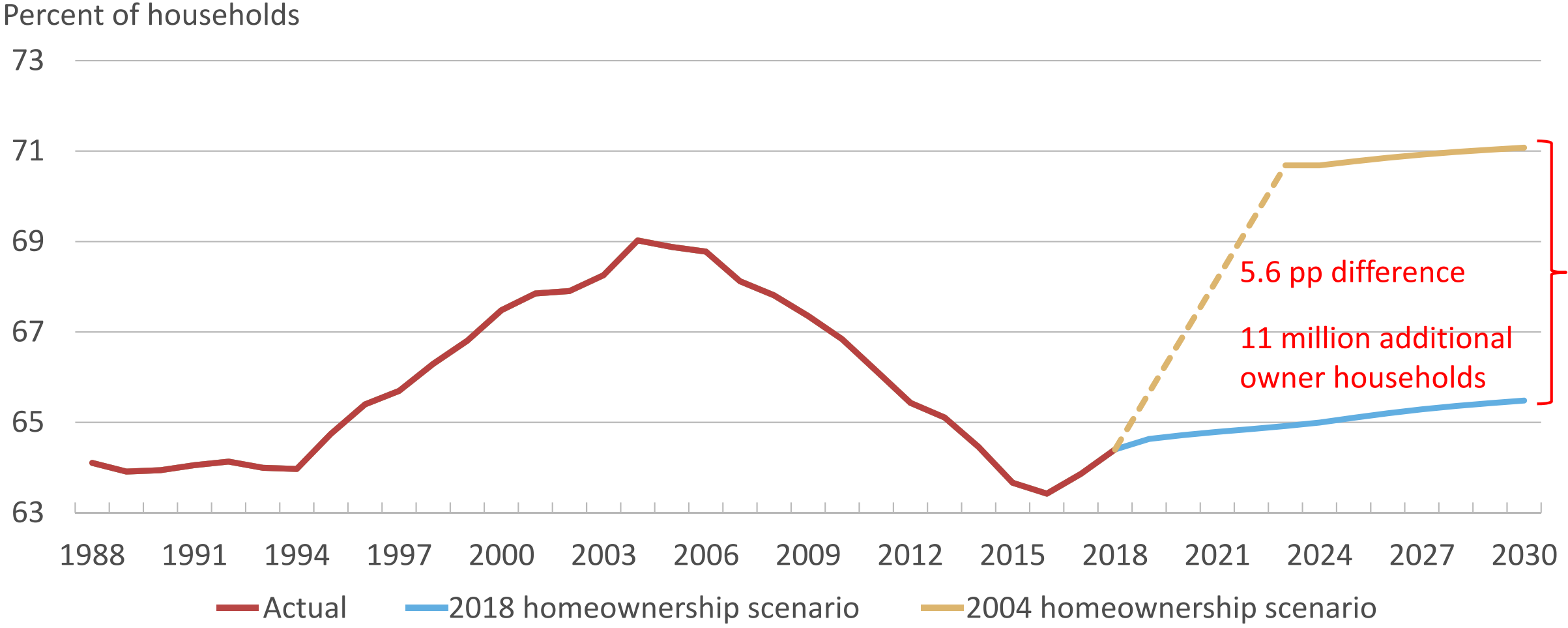
Projecting homeownership – 2004 vs 2018 rates

Percent of households



Source: Census, authors' calculations

Projecting homeownership – 2004 vs 2018 rates



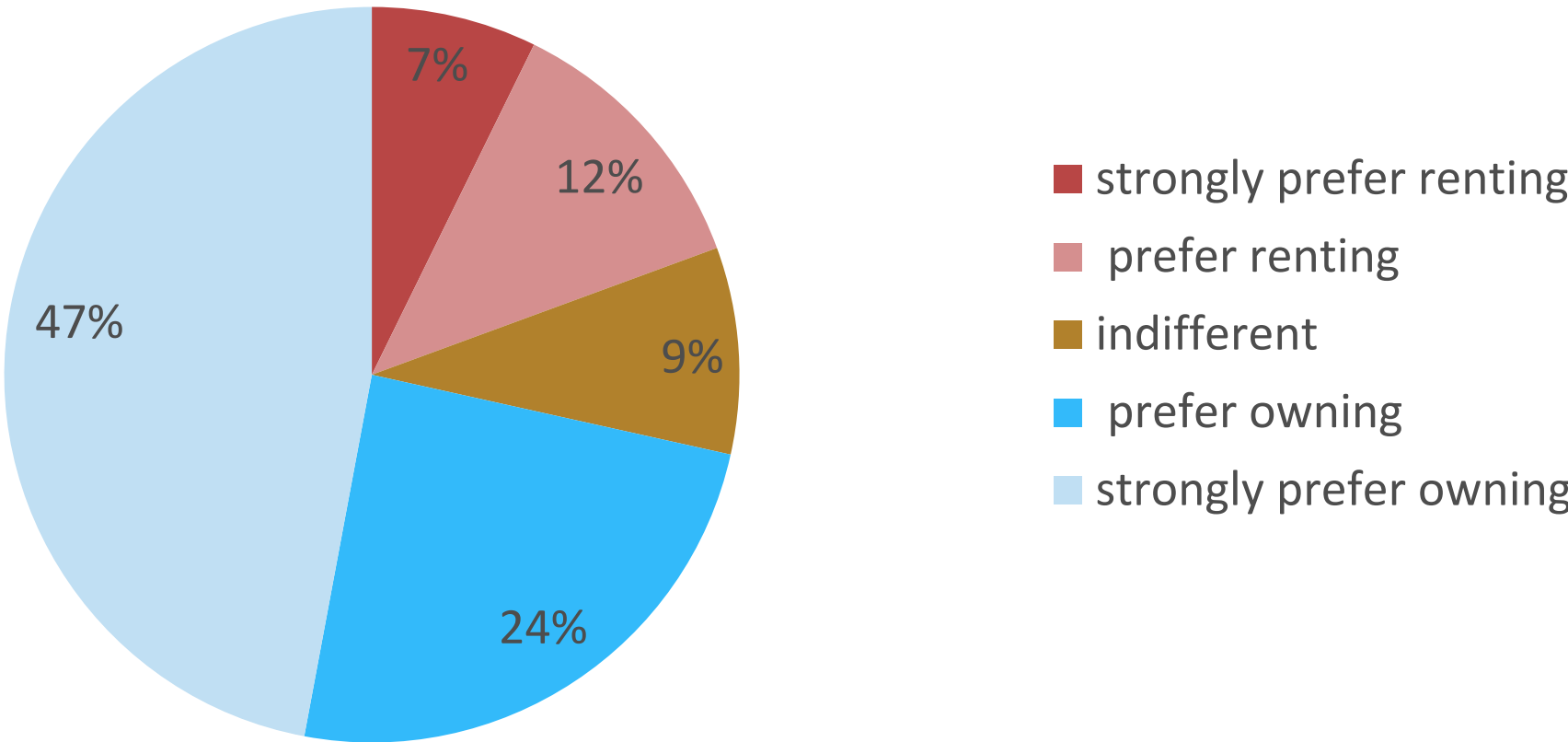
Source: Census, authors' calculations

High or low ownership scenario?

- Factors increasing homeownership
 - Renters prefer owning
 - Owning a good investment
- Impediments to homeownership
 - Tight credit
 - Student debt
 - Renters not optimistic that they will own

Large majority of renters prefer owning

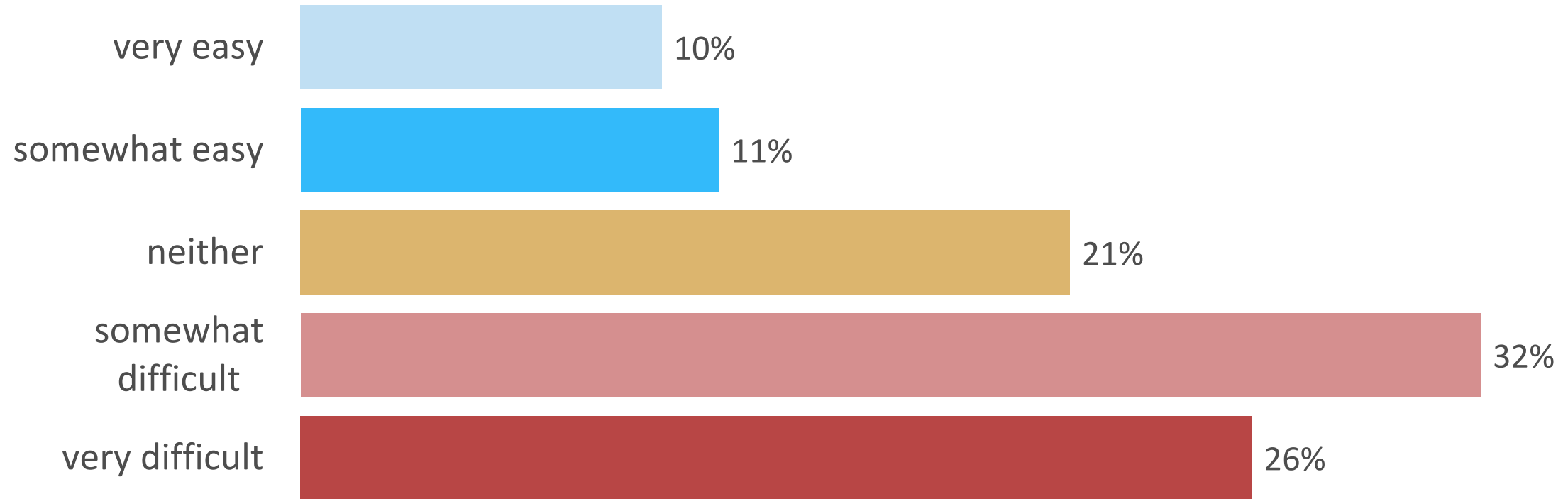
Preferences for owning versus renting (renters only)



Source: Survey of Consumer Expectations

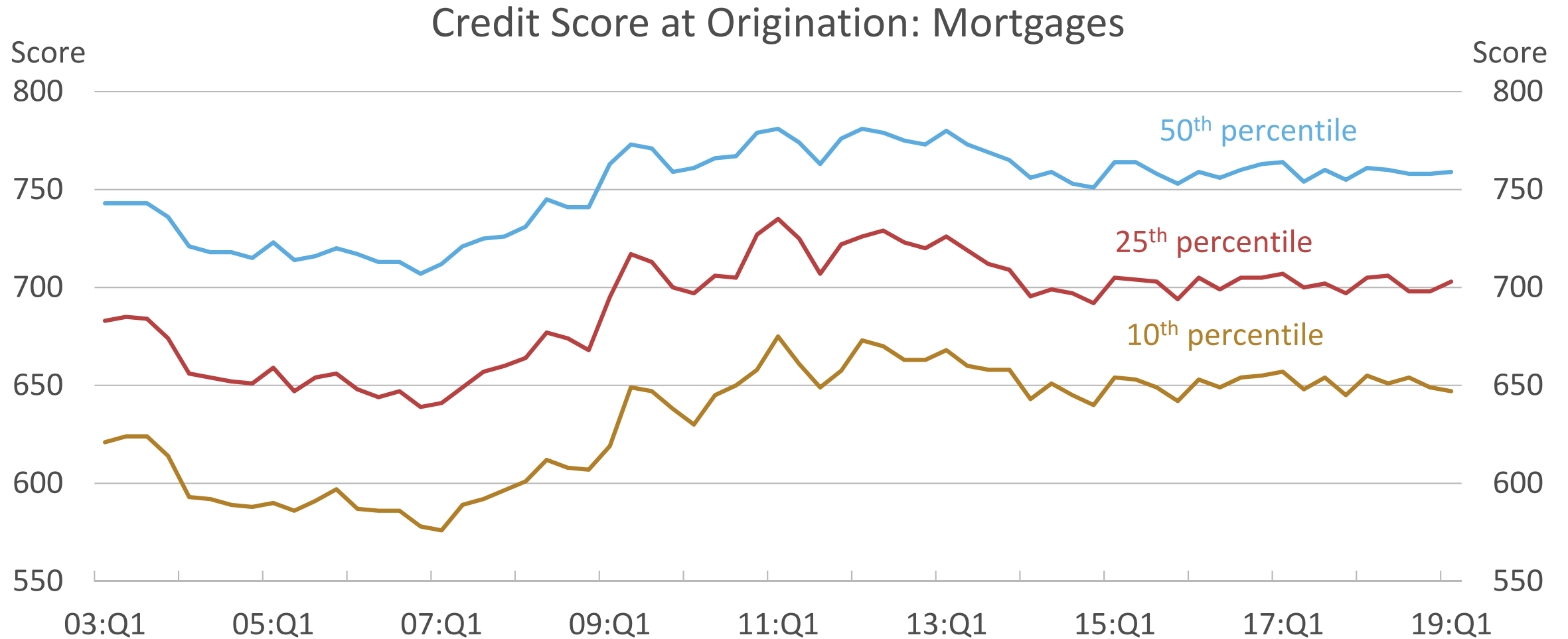
More than half still assess financing hard to get

Ease of obtaining financing (renters only)



Source: Survey of Consumer Expectations

Data confirm this impression



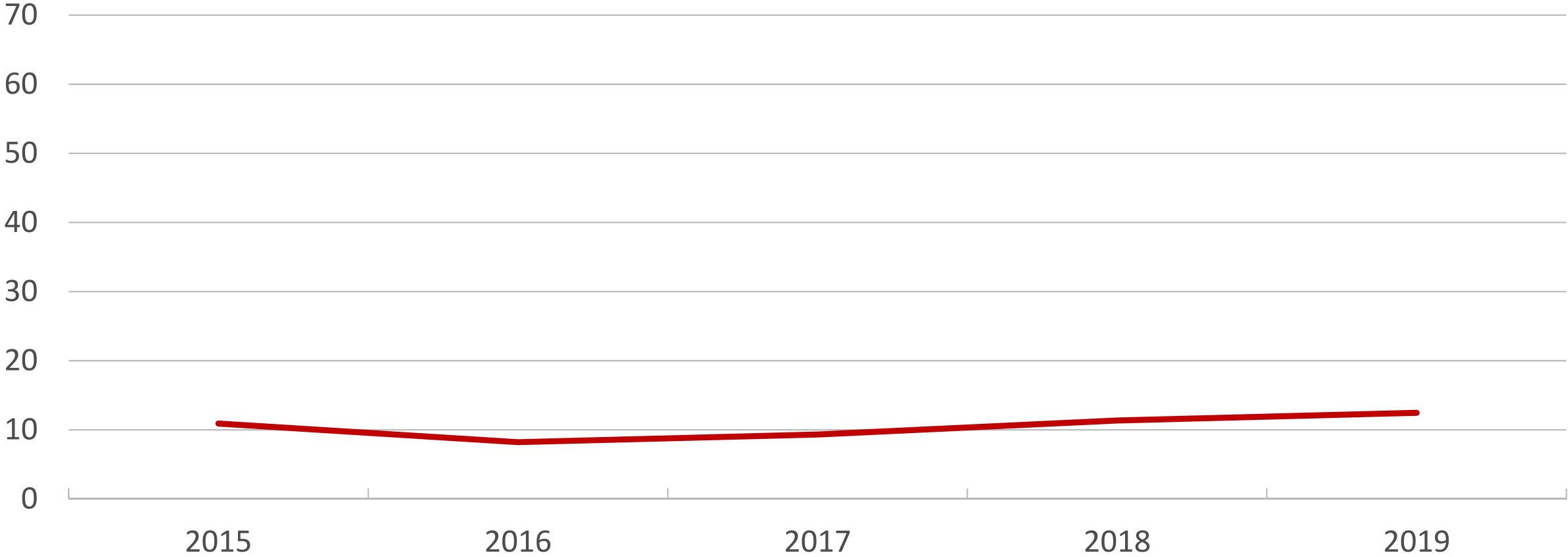
Source: New York Fed Consumer Credit Panel/Equifax
* Credit Score is Equifax Riskscore 3.0; mortgages include first-liens only.

Student debt a known impediment to homeownership transitions

- Historically indicated high education and good prospects
- Now can be an impediment
- Analysis of rise in state public college tuition and fees shows:
 - No effect on college going
 - Sharp rise in student debt – explains up to 35% of decline in 28-30yrs old homeownership rate from 2007 to 2015 ([Brown et al, 2018](#))
- Prevalence, not just delinquency

Many renters see ownership as unlikely. . .

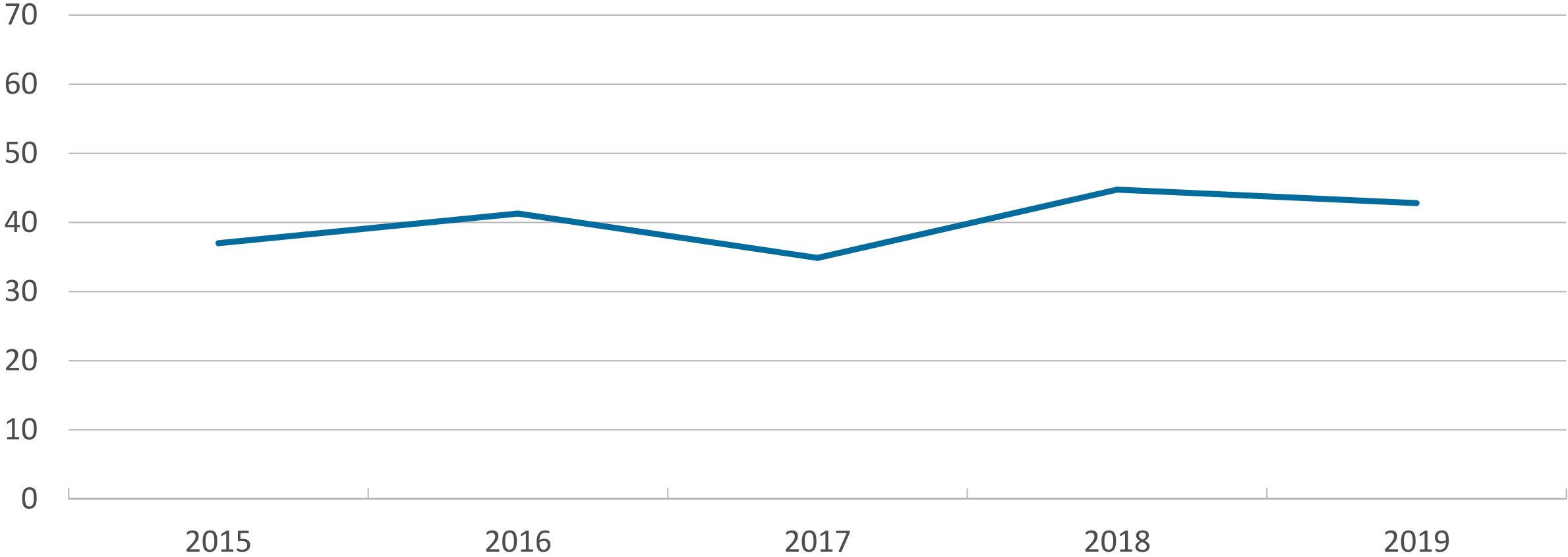
Share expecting no chance of ownership



Source: Survey of Consumer Expectations

Many renters see ownership as unlikely. . .

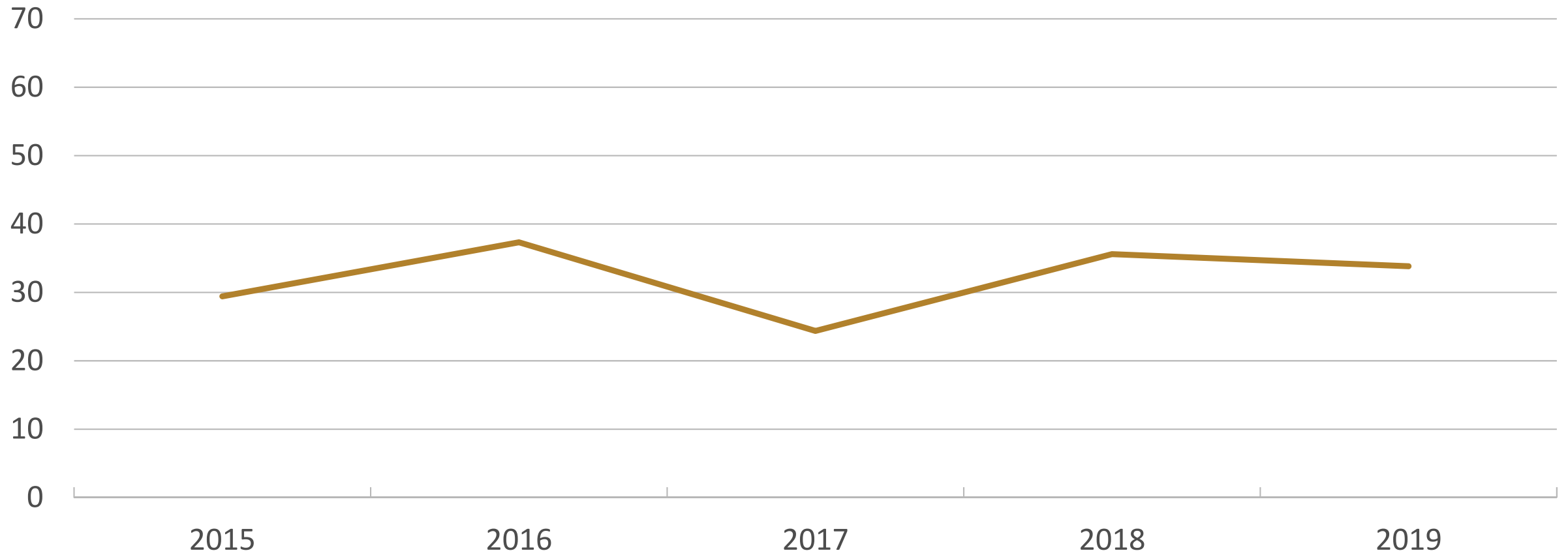
Share expecting low or no chance of ownership



Source: Survey of Consumer Expectations

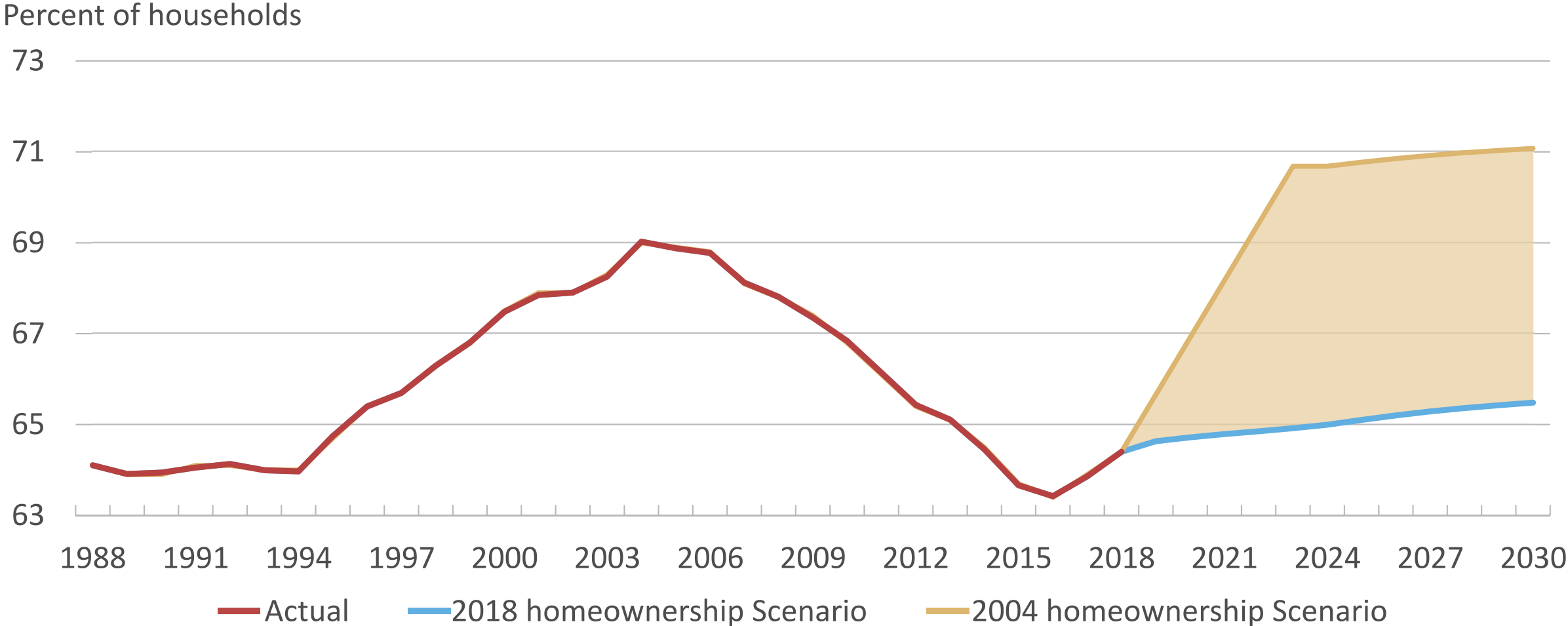
. . . even those who prefer owning

Share who prefer ownership but expect low or no chance of owning



Source: Survey of Consumer Expectations

Projecting homeownership – 2004 vs 2018 rates



Source: Census, authors' calculations

What to watch for

- Changes in attitudes toward homeownership (SCE)
- Loosening credit (CCP)
- Changes in student debt prevalence and delinquency (CCP)
- Changes in economic outlook (SCE)

Key takeaways

- Homeownership seems to be bouncing back after a long and unprecedented period of decline
- Declining rates of first-time homeownership and high foreclosures drove the declining homeownership rate from 2006-2016
- Outlook for homeownership depends on demand and supply factors
 - Demand factors broadly supportive of continued rebound through 2030
 - Tight credit may constrain how high homeownership will go
 - But also increases sustainability