

The State of Homeownership

Chris Herbert

2024 Homeownership Conference

New Hampshire Housing

March 26, 2024

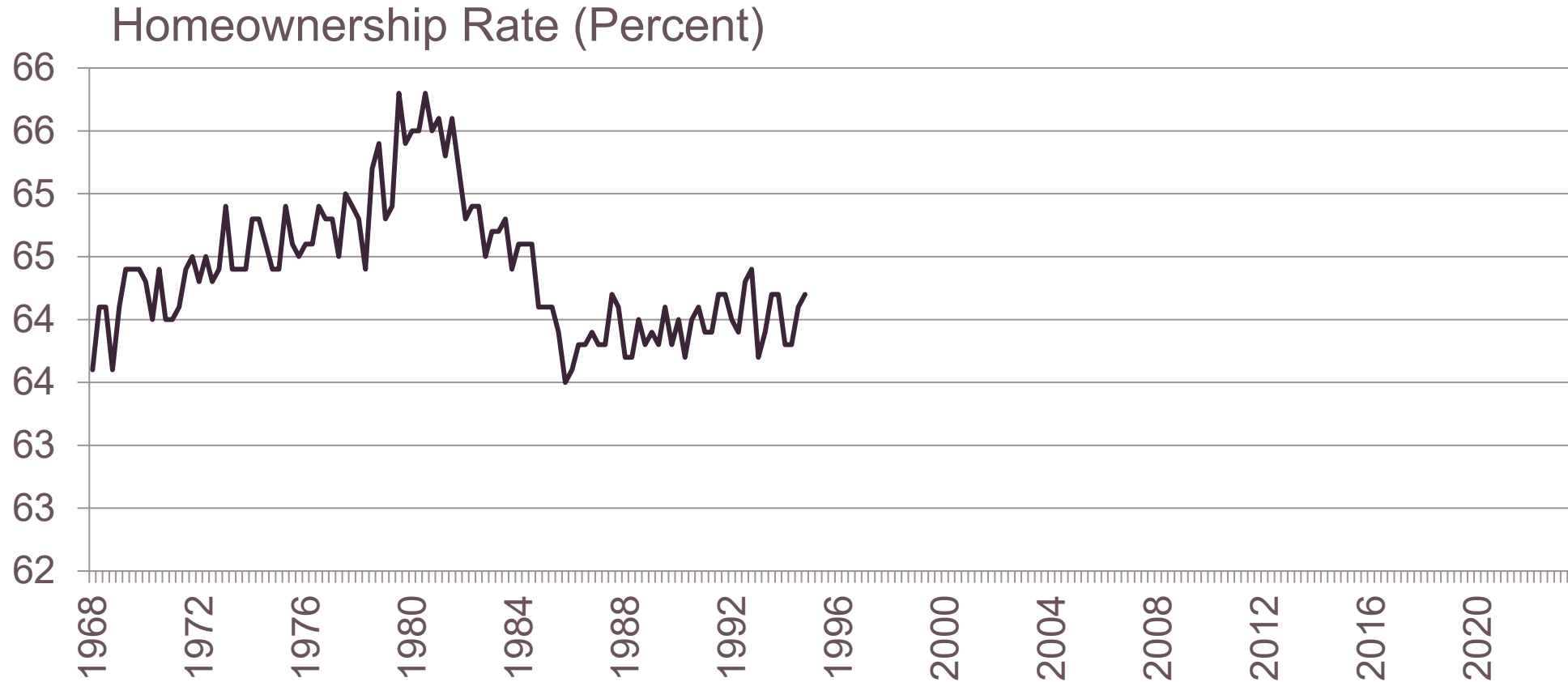
Overview of Today's Talk



- Review longer-run trends in homeownership to put current market in context
- Examine current market conditions that have made homebuying difficult
- Assess recent public opinion polling on attitudes toward homeownership
- Discuss implications for what's needed to expand opportunities to own

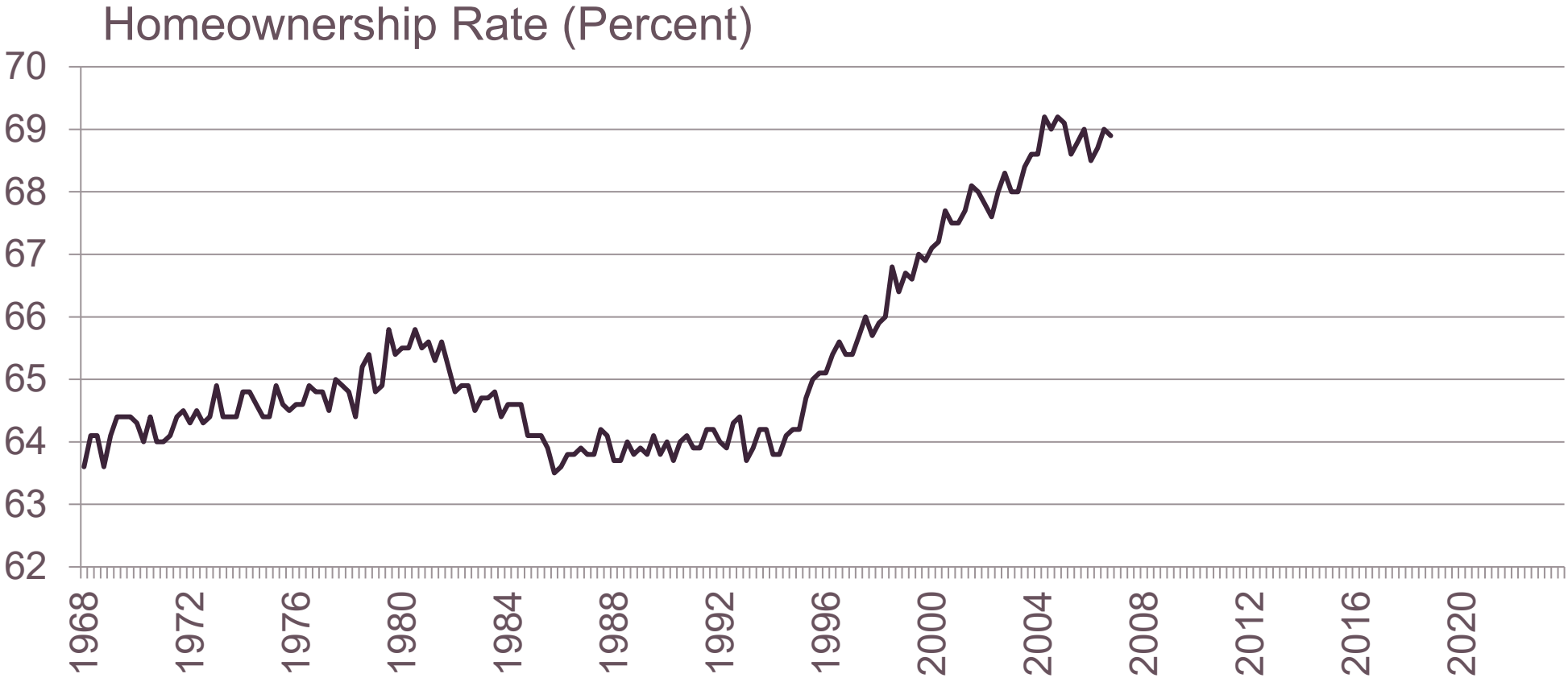
The Ups and Downs of Homeownership Over Time

In the 1980s Very High Interest Rates and High Home Prices Led to the First Downturn in Homeowning Since WWII



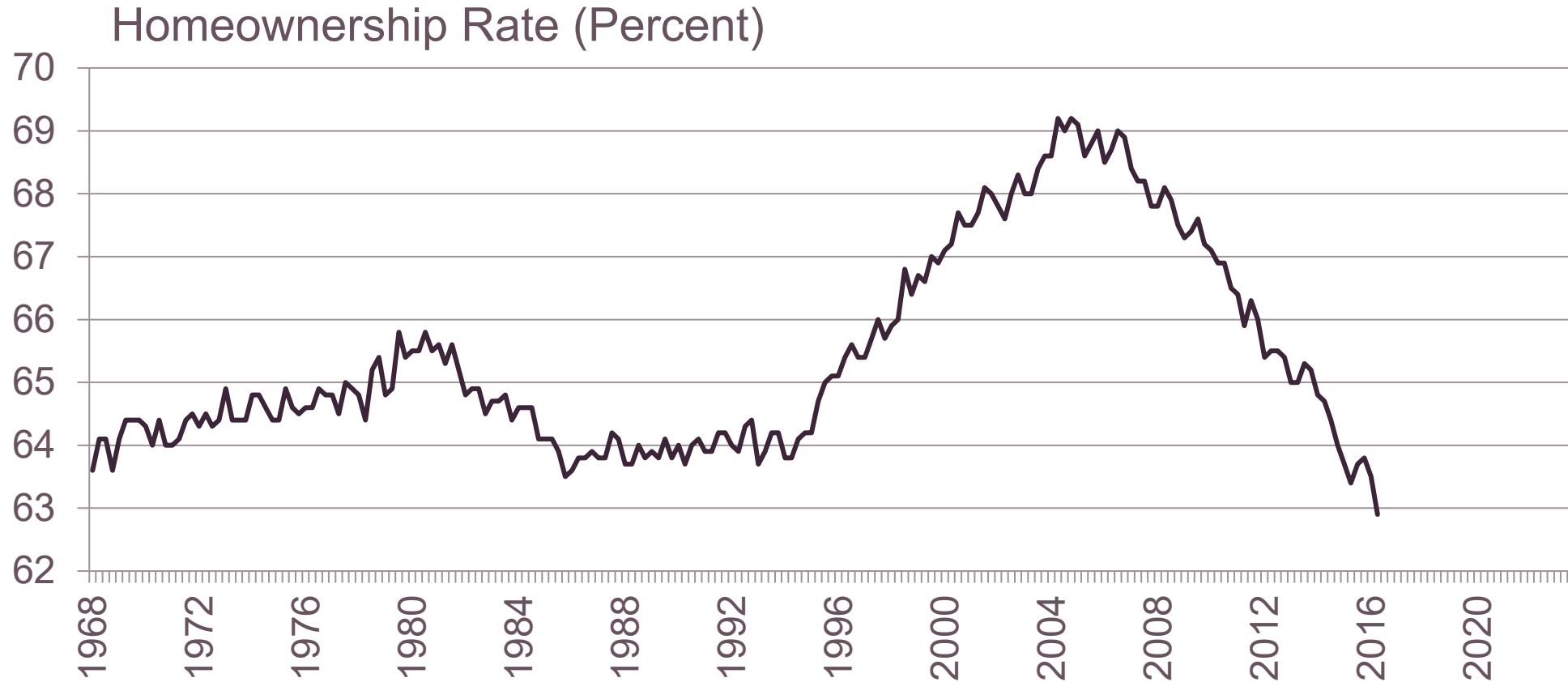
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

A Combination of a Strong Economy, Improving Affordability, Favorable Demographics, and Innovations in Lending (not all for the good) Pushed Homeownership to Record Heights in Early 2000s



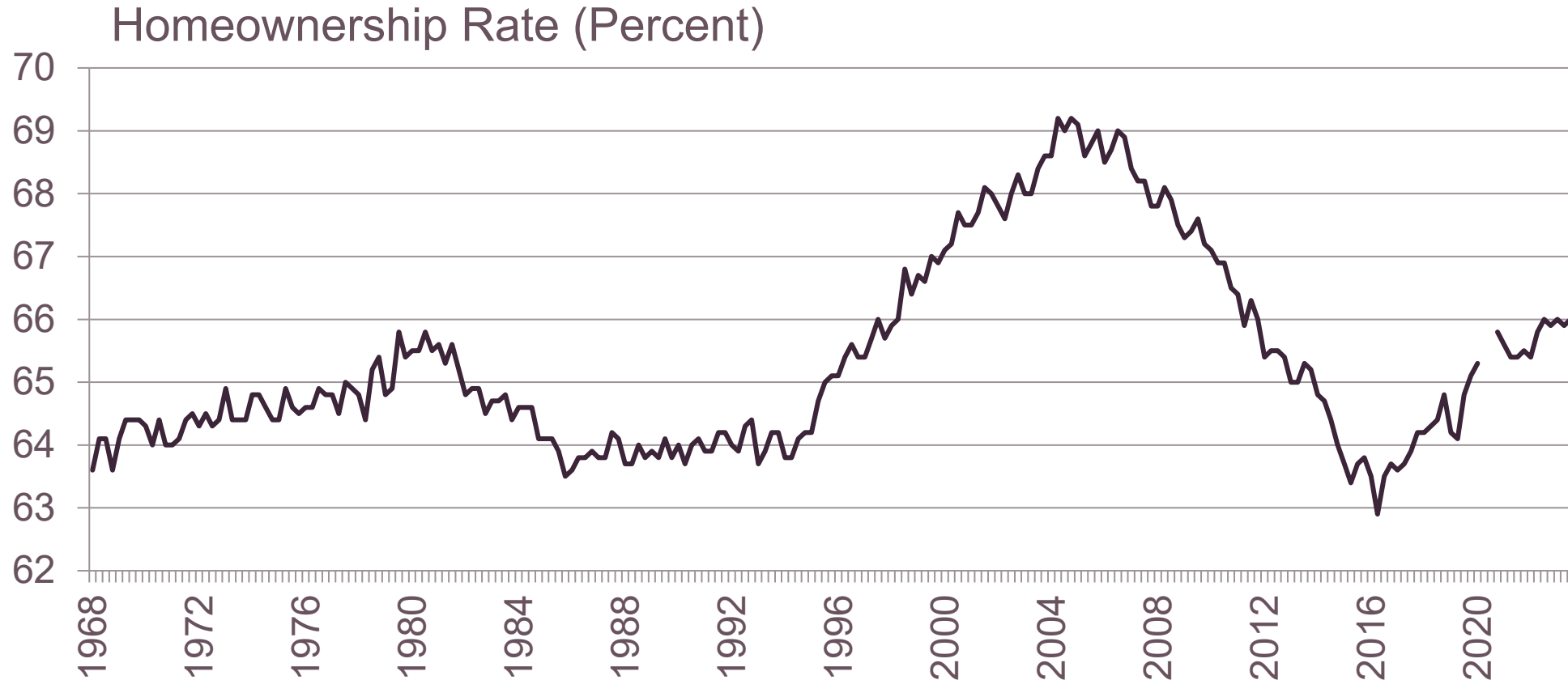
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

The Housing Bust Was as Dramatic as the Rise and Led to Projections of Homeownership Rates Falling Below 60%



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

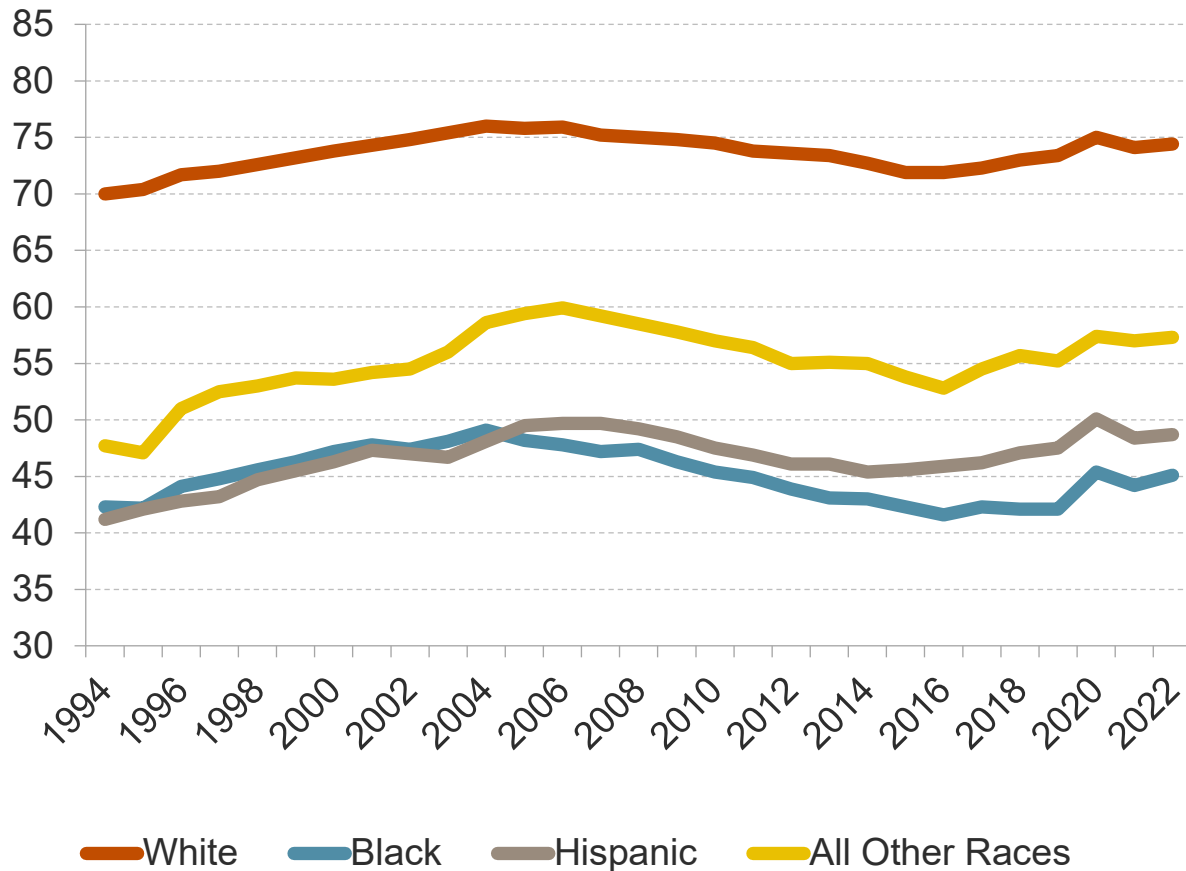
The Rebound in Homeownership Since 2016 Has Been Impressive and Demonstrates its Enduring Appeal



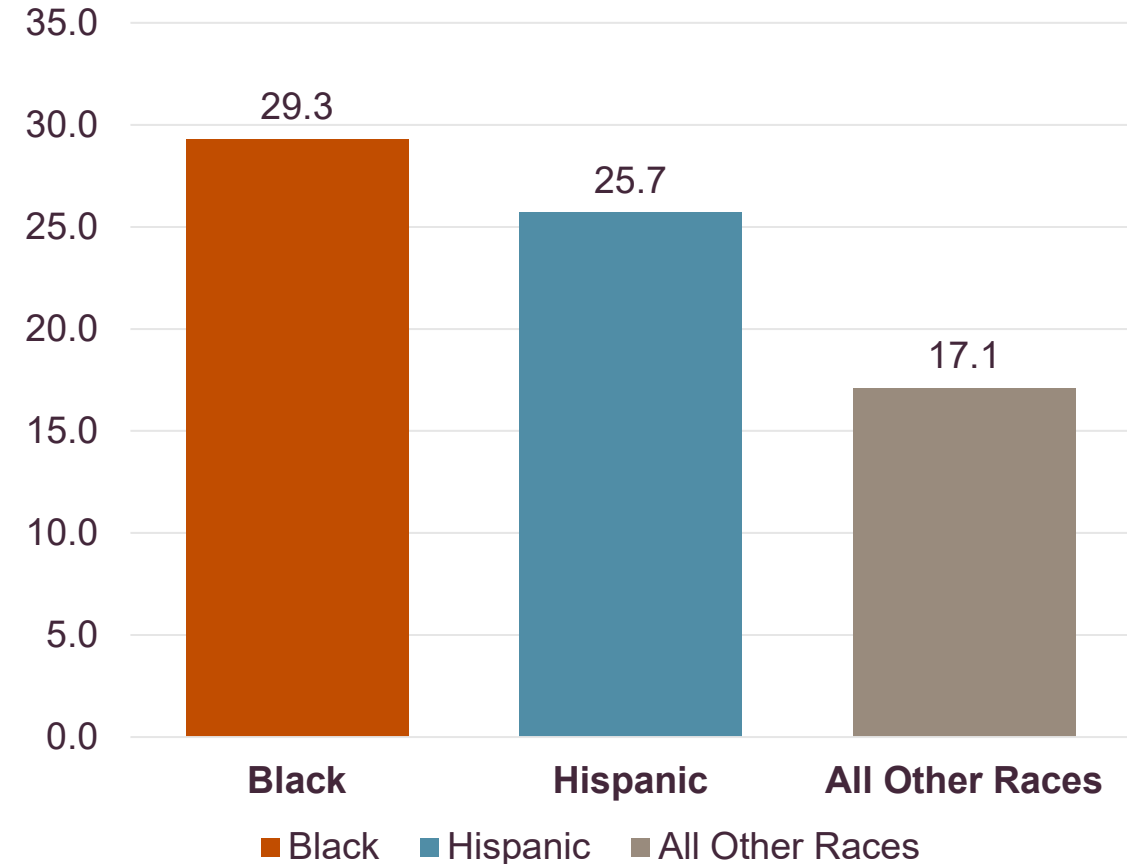
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

While Overall Homeownership Rates Have Varied Sharply, the Shortfall in BIPOC Homeownership Has Remained Stubbornly High

Homeownership Rate by Age (Percent)



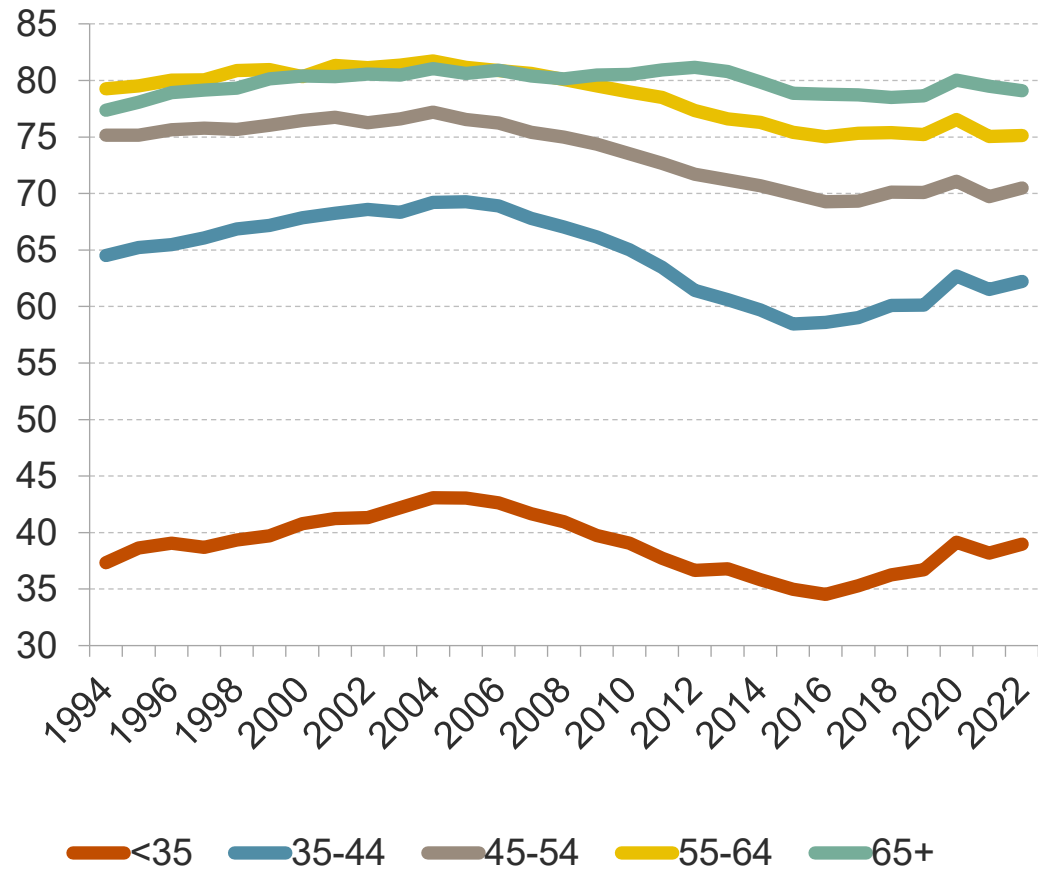
Shortfall in Homeownership in 2019
Relative to White Rate (ppt)



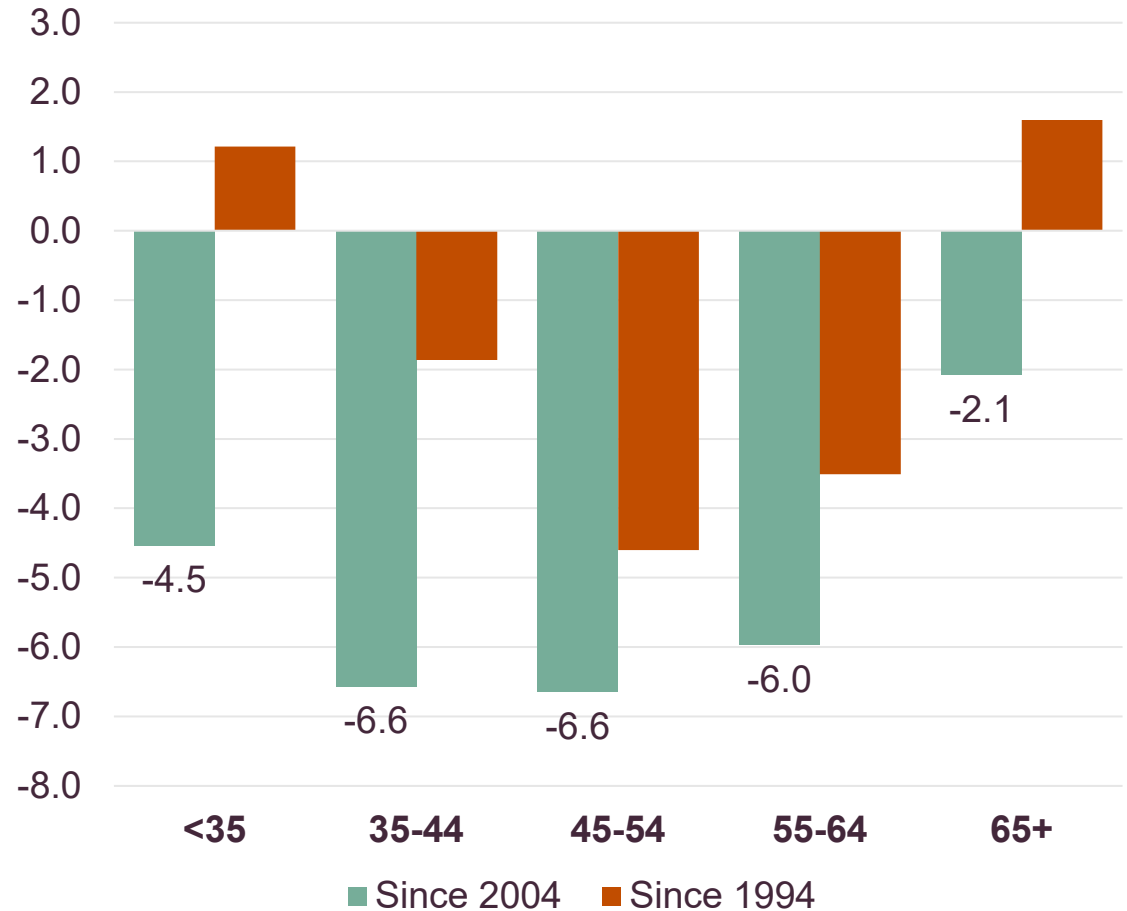
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Homeownership Has Rebounded the Most for Youngest and Oldest Adults

Homeownership Rate by Age (Percent)



Change in Homeownership Rates

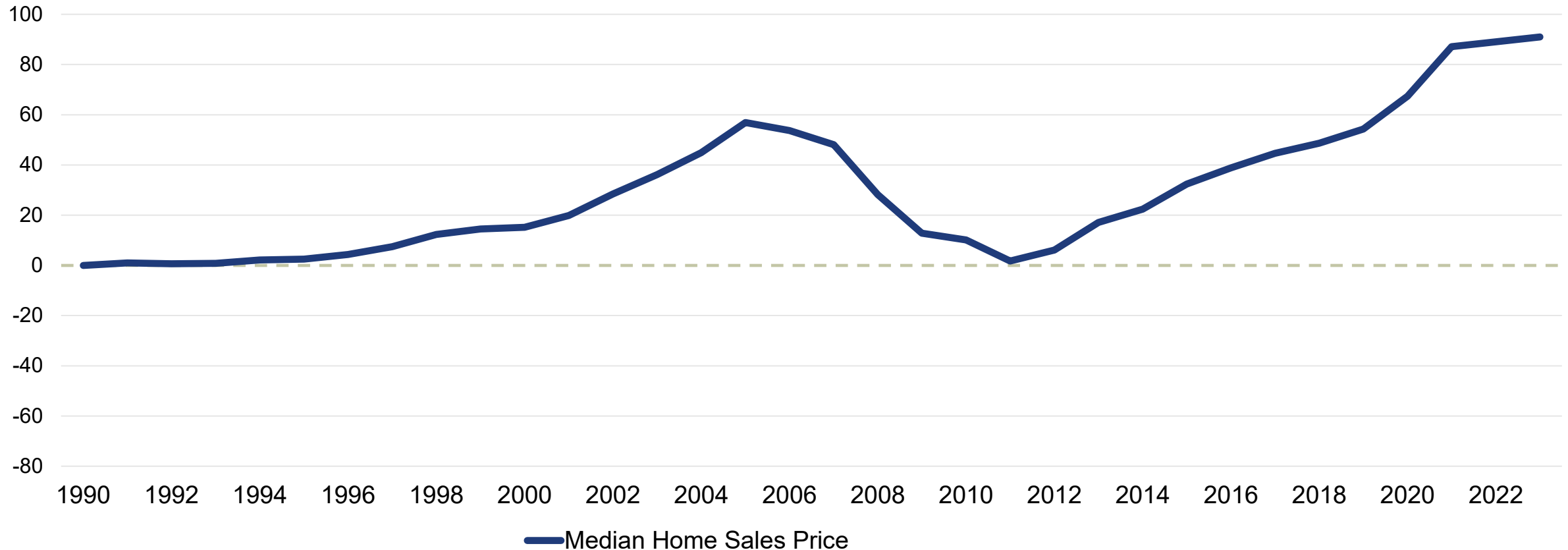


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Today's Market Conditions Have Made Buying a Home Extremely Challenging

The Housing Bust Aside, Home Prices Have Outpaced Inflation for Years

Indexed Percent Change in Real (Inflation-Adjusted) Values Since 1990 (1990=0)

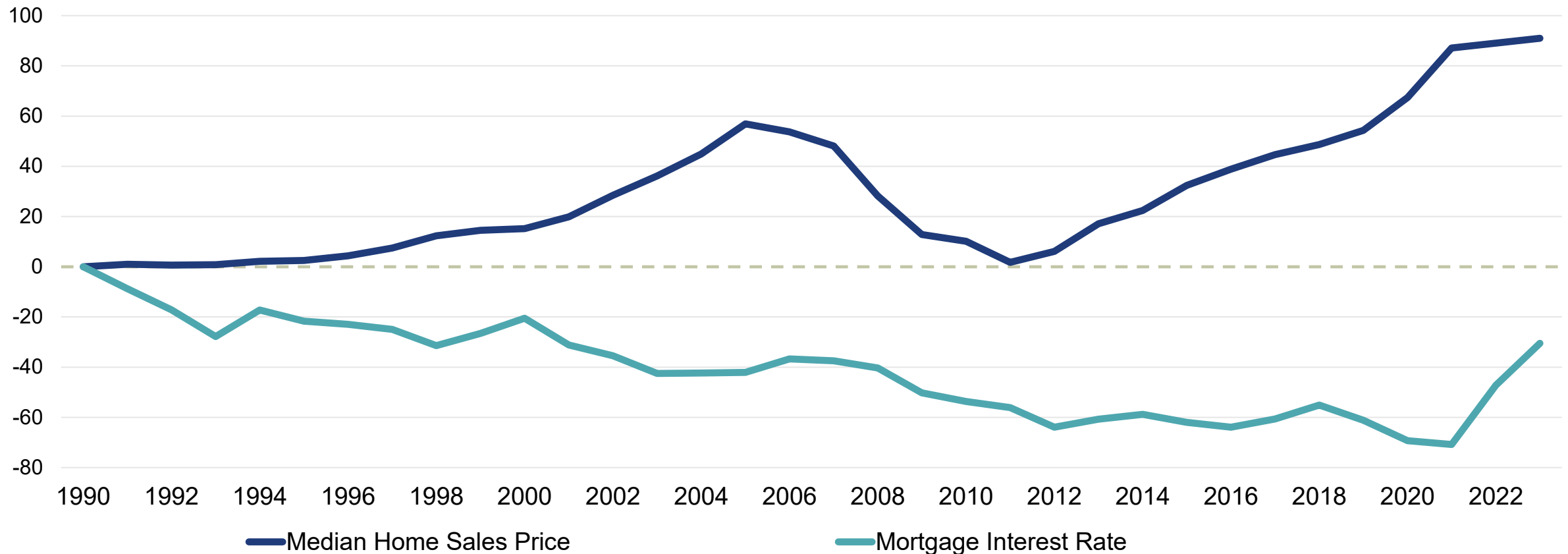


Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%. Last value is Q3 of 2023.

Source: JCHS tabulations of Moody's Analytics estimates; US Census Bureau, Current Population Surveys; and Freddie Mac, Primary Mortgage Market Surveys.

But Interest Rates Have Been on a Downward Trend Since the 1980s

Indexed Percent Change in Real (Inflation-Adjusted) Values Since 1990 (1990=0)

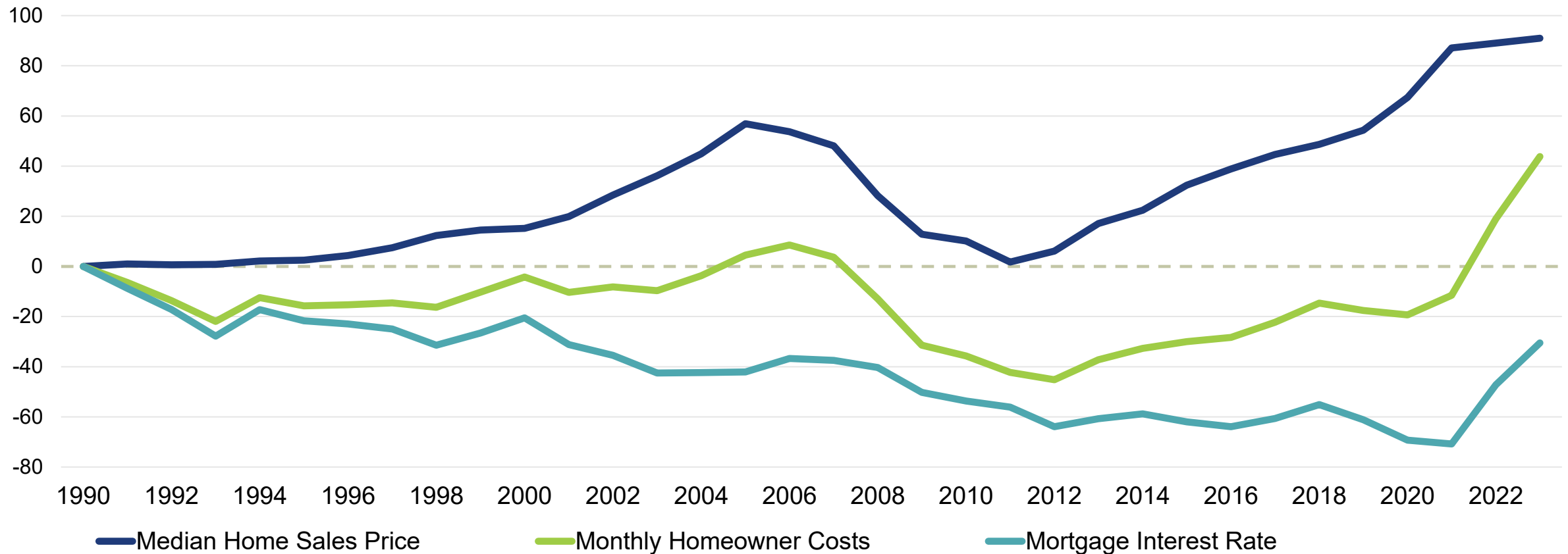


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With the Result that Homebuyer Affordability Has Been Mostly Favorable—Until Recently

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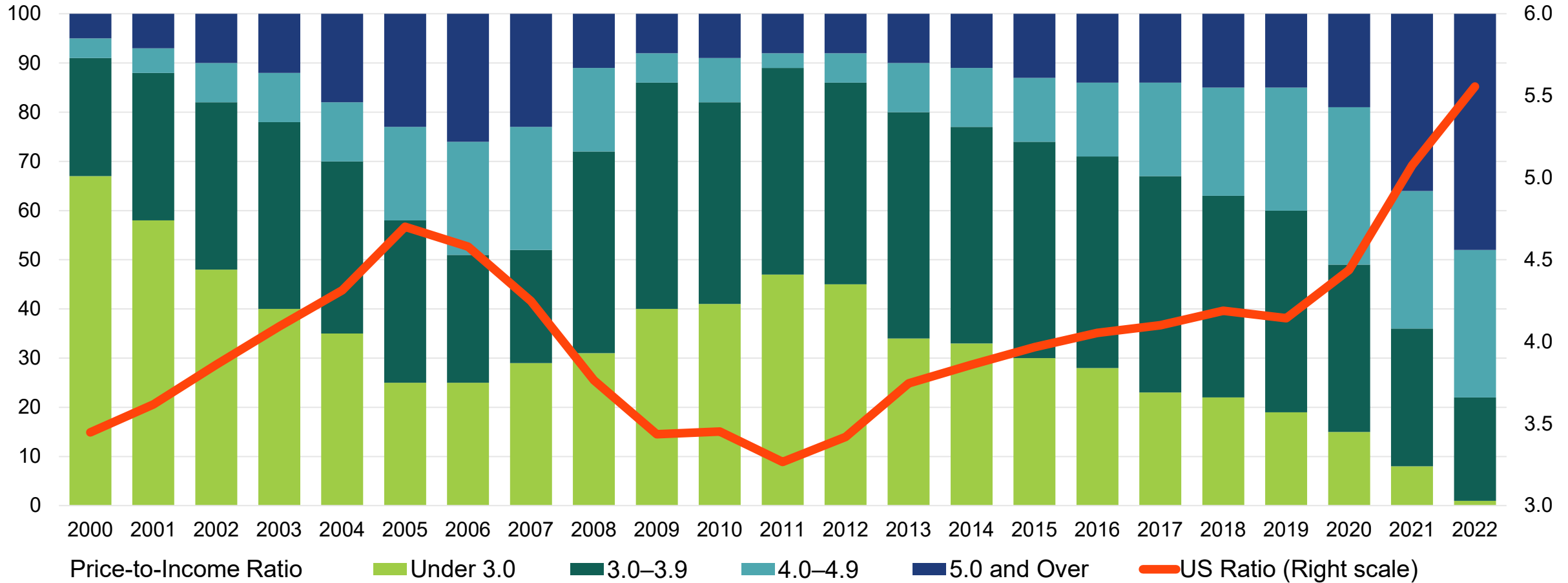
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But Home Prices Relative to Incomes are at Record Highs— Making the Downpayment Constraint All the More Binding

Number of Metro Areas

US Ratio



Notes: Price-to-income ratios are for the 100 largest metro areas by population. Income data for 2022 are based on Moody's Analytics forecasts.
Source: JCHS tabulations of NAR, Metropolitan Median Area Prices; Moody's Analytics estimates.

High Prices and the Recent Interest Rate Spike Have Left Millions of Renters Priced Out of Homeownership

	December 2021	December 2022	December 2023
Median US Home Price	\$358,800	\$366,500	\$382,600
Interest Rate (Percent)	3.10	6.36	6.82
Downpayment and Closing Costs	\$23,322	\$23,823	\$24,869
Total Monthly Owner Costs	\$2,172	\$2,913	\$3,150
Income Needed to Afford Monthly Owner Costs	\$84,073	\$112,744	\$121,952
Renter Households in 2022 with Income Needed	11.2 million (25%)	6.5 million (14.5%)	5.5 million (12%)

Note: Estimates assume a 3.5% downpayment on a 30-year fixed-rate loan with zero points, 0.85% mortgage insurance, 0.35% property insurance, 1.15% property taxes, 3% closing costs, and a maximum 31% debt-to-income ratio.

Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; NAR median sales prices for all existing homes.

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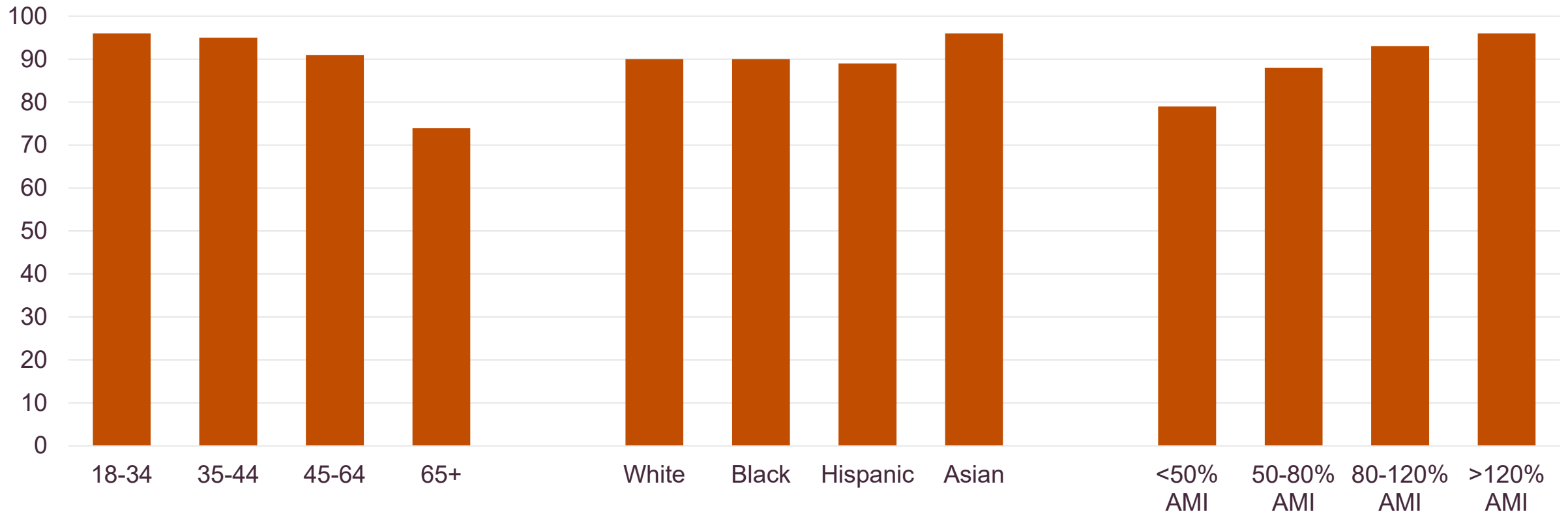
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The Desire to Own a Home Remains Strong But Financial Barriers and Misconceptions are Key Headwinds

Despite the Challenging Market, a Large Majority of all Ages, Races, and Incomes Still Want to Own a Home Someday

Share of Fannie Mae Survey Respondents Intending to Own a Home Someday (Percent)



Source: Fannie Mae National Housing Survey, 2021 (Q4).

A Recent *Harris Poll* Confirms That the Desire to Own Remains Strong But the Barriers are Daunting

REAL ESTATE: THE STATUS OF REAL ESTATE IN 2024

The duality of future home ownership: The crossroads of desire and futility



HOUSE04 How much do you agree or disagree with the following statements? (n=2,047)

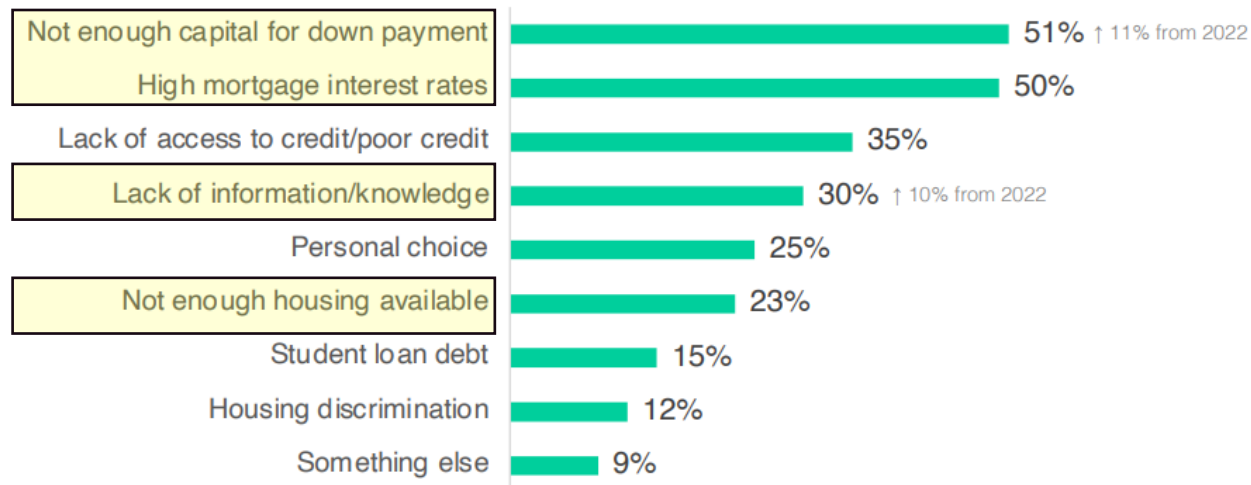
Source: The Status of Real Estate in 2024, The Harris Poll Thought Leadership Practice, available at: <https://theharrispoll.com/wp-content/uploads/2024/03/State-of-Real-Estate-2024-March-2024.pdf>

Financial Barriers are Most Common, But a Lack of Knowledge and Supply Are Near the Top of the List

REAL ESTATE: THE STATUS OF REAL ESTATE IN 2024

Lack of capital and high interest rates are the biggest barriers to home ownership for Americans

Which of the following barriers do you feel prevent you from owning a home?



71%

Americans

"I would need to be gifted or inherit money in order to own a home anytime soon."

75% Gen X

60%

Americans

"I pay more rent than I would a mortgage, yet I still don't qualify to become a homeowner."

71% Gen X

Source: The Status of Real Estate in 2024, The Harris Poll Thought Leadership Practice, available at: <https://theharrispoll.com/wp-content/uploads/2024/03/State-of-Real-Estate-2024-March-2024.pdf>

Fannie Mae Survey Finds High Share of Consumers Don't Understand Mortgage Criteria

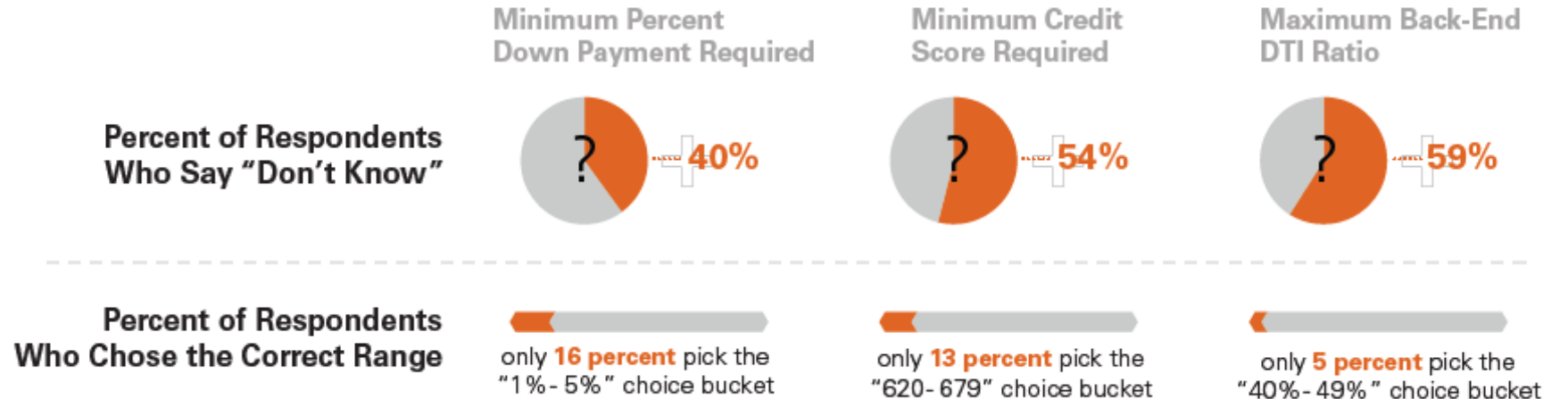
What Consumers (Don't) Know About Mortgage Qualification Criteria



About One Half

of consumers were **unable to provide an answer** when asked about key mortgage qualification criteria.

Mortgage Qualification Criteria:

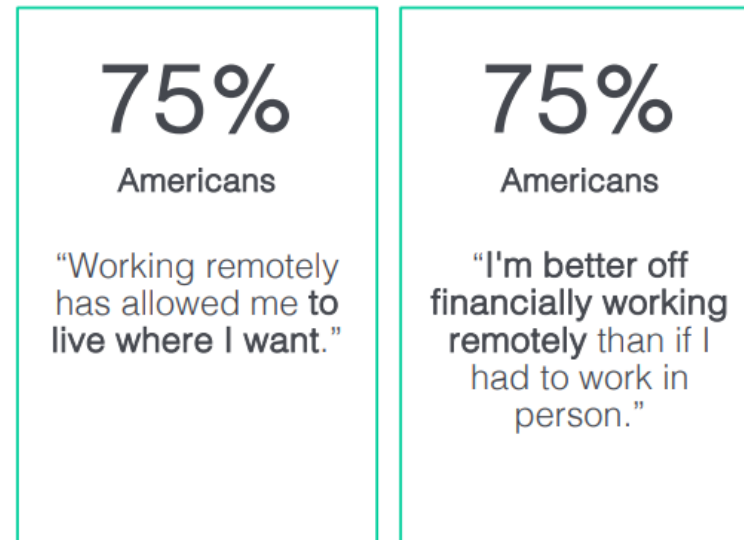


Source: Fannie Mae National Housing Survey, 2015. "What do consumers know about the mortgage qualification criteria." Available at: <https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/research/housingsurvey/pdf/consumer-study-121015.pdf>

But the Rise of Remote Work May Make it Easier to Find a Home to Buy

REAL ESTATE: THE STATUS OF REAL ESTATE IN 2024

Americans are feeling thankful for the remote work benefits, and see it as a chance to live where they want and keep in better finances

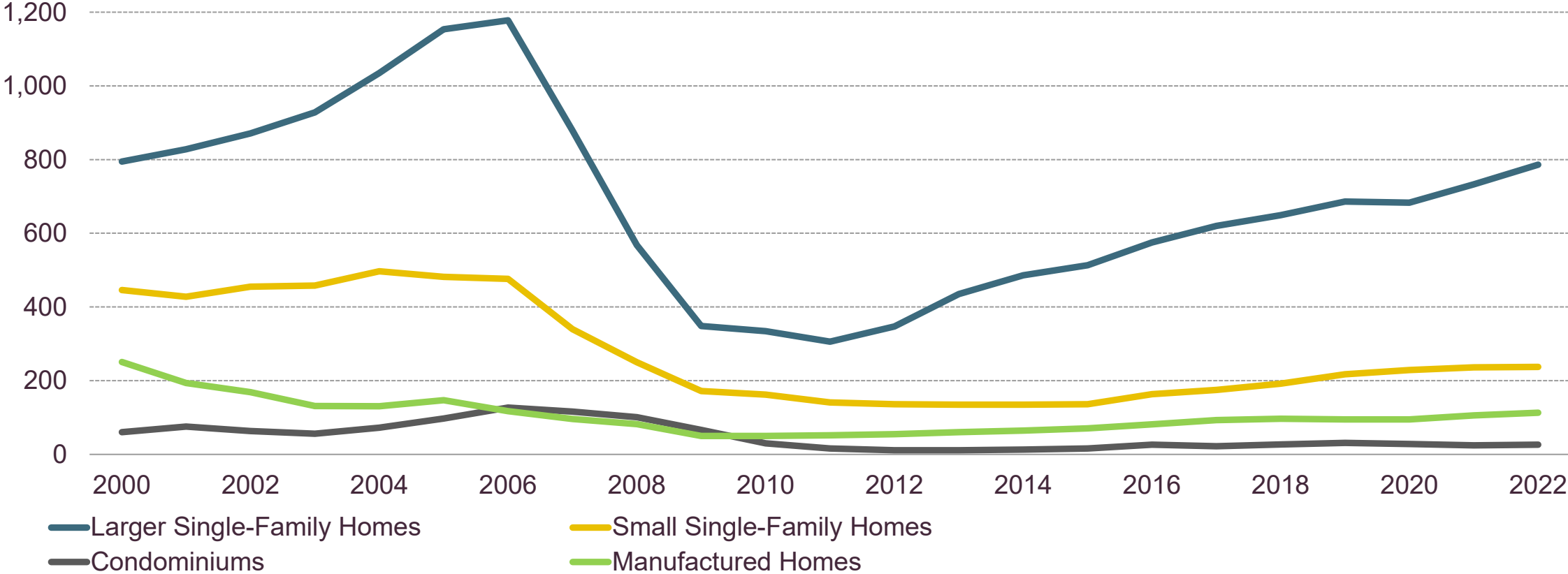


Source: The Status of Real Estate in 2024, The Harris Poll Thought Leadership Practice, available at: <https://theharrispoll.com/wp-content/uploads/2024/03/State-of-Real-Estate-2024-March-2024.pdf>

So What Can Be Done to Expand Homeownership Opportunities?

There's a Clear Need for New Supply of Smaller, More Affordable Homes

Units Added (Thousands)



Notes: Small single-family homes are under 1,800 sq. ft., and larger single-family homes are 1,800 sq. ft. and over. Condominiums are multifamily units built for sale. Manufactured homes are manufactured housing shipments. Single-family completions by home size for 2017 were unavailable at time of publication.
 Source: JCHS tabulations of US Census Bureau, New Residential Construction and Manufactured Housing Surveys.

In Fact, News Reports Highlight Signs of Shift to Very Small Homes

The New York Times Account ▾

The Great Compression

Thanks to soaring housing prices, the era of the 400-square-foot subdivision house is upon us.

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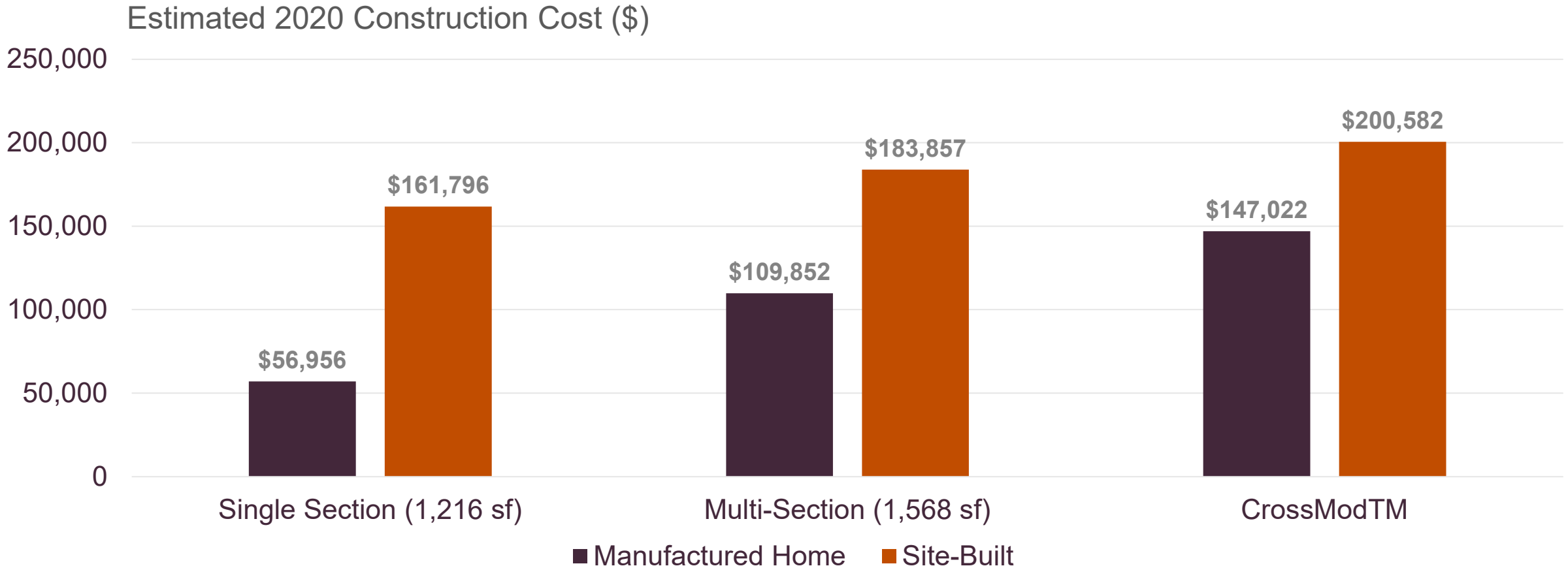
 **By Conor Dougherty**

Published Feb. 17, 2024 Updated Feb. 22, 2024

Robert Lanter lives in a 600-square-foot house that can be



Recent Joint Center Study Finds Manufactured Homes Offer a Substantial Cost Savings Over Comparable Site-Built Homes



Note: Cost estimates derived from industry survey for manufactured homes and from RS Means for site-built homes.

Source: Herbert, Reed and Shen (2023) available at https://www.jchs.harvard.edu/sites/default/files/research/files/harvard_jchs_pew_report_1_updated_0.pdf

The CrossMod™ Typology of Manufactured Housing Gaining Traction with Consumers and Many Jurisdictions

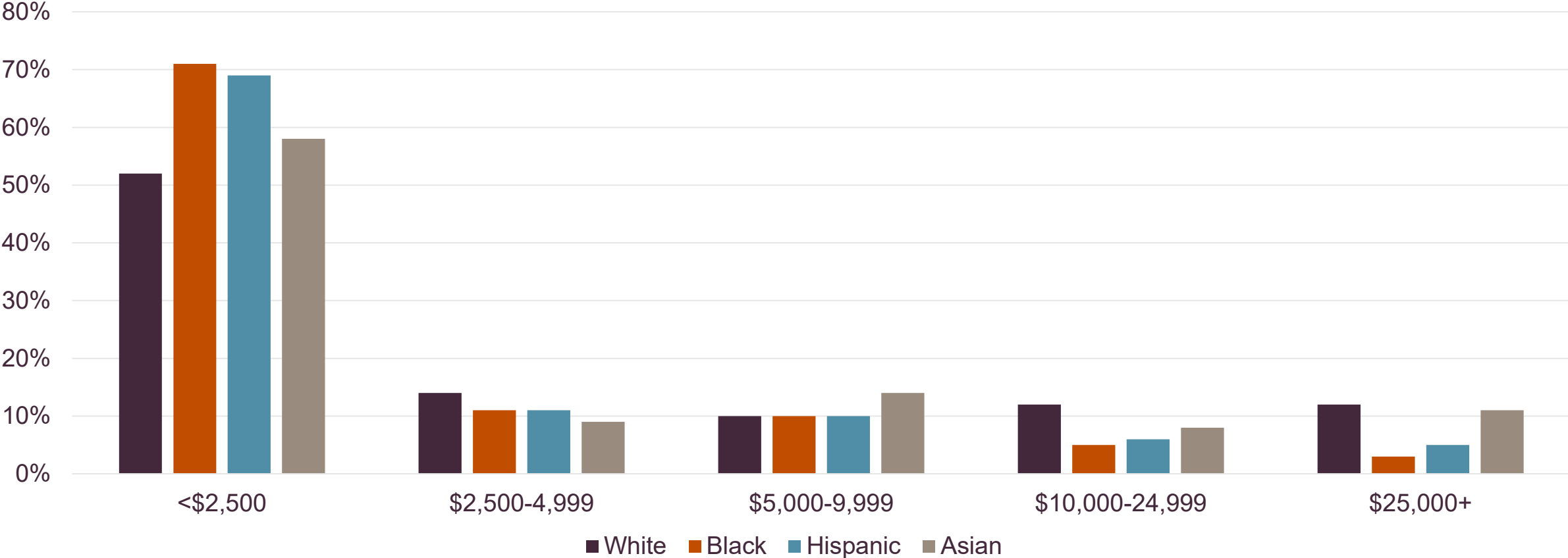
CrossMod™

- 5/12 roof pitch
- Masonry perimeter wall
- Engineered Wood Siding
- 30" maximum height from exterior grade to entry elevation
- 6 inch eaves



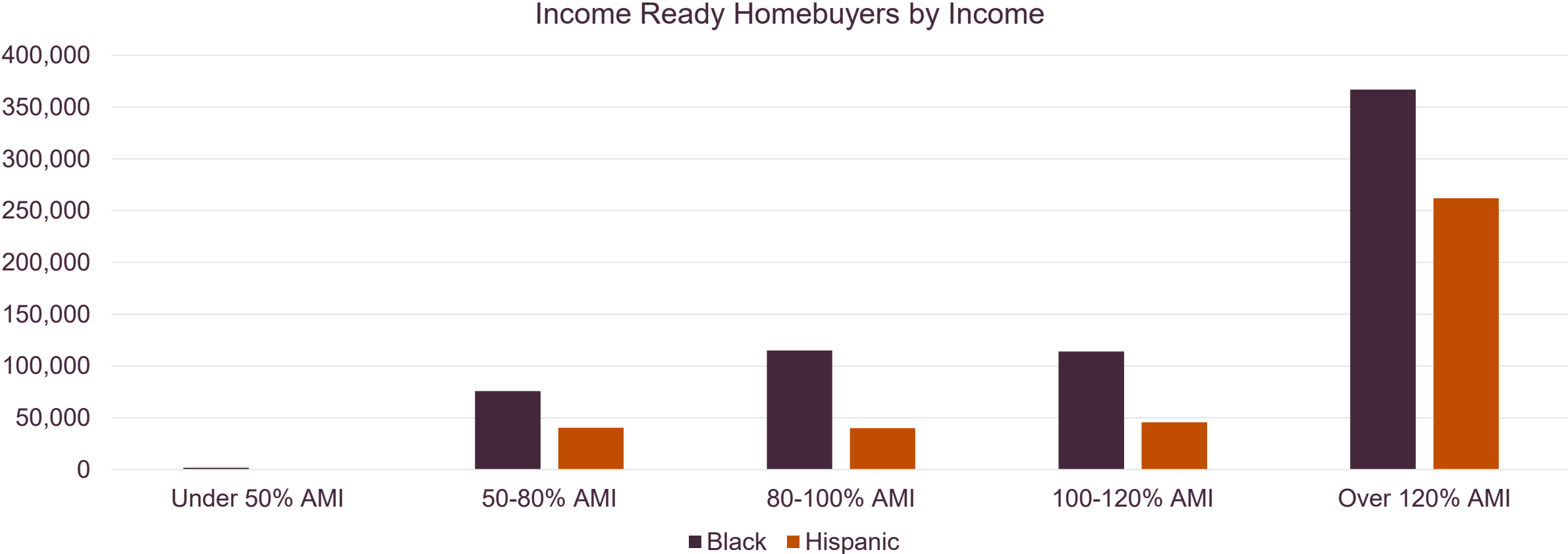
A Lack of Liquid Savings Among Most Renters Points to Downpayment Assistance as a Key Support

Share of Renters by Amount of Liquid Savings



Source: McCue, Hanifa and Herbert (2023); tabulations of the Consumer Finance Survey 2019.

Joint Center Analysis Finds that \$25,000 in Downpayment Assistance Would be Most Effective for Higher Income Renters



Note: "Income Ready Homebuyers" are renters with income sufficient to qualify for a modest-priced home in the state where they live.

Source: McCue, Hanifa and Herbert (2023).

Efforts to Expand Homeownership Need to Start with Education and Outreach But Must Also be Comprehensive and Coordinated—the *MBA Convergence* Model in Columbus, Memphis and Philadelphia is One Good Example



Education & Outreach

Inspire consumers to consider homeownership.



Products & Programs

Facilitate homeownership gains among consumers.



Preservation & Sustainability

Prevent homeownership losses among consumers.



Housing Supply

Facilitate the creation of new single-family and small multi-family homes.



Research & Evaluation

Track and evaluate the overall progress and success of CONVERGENCE

For information see <https://www.ahaco.org/convergence1>

Thanks!

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