

The State of Homeownership

Chris Herbert

2024 Vermont Statewide Housing Conference

November 14, 2024

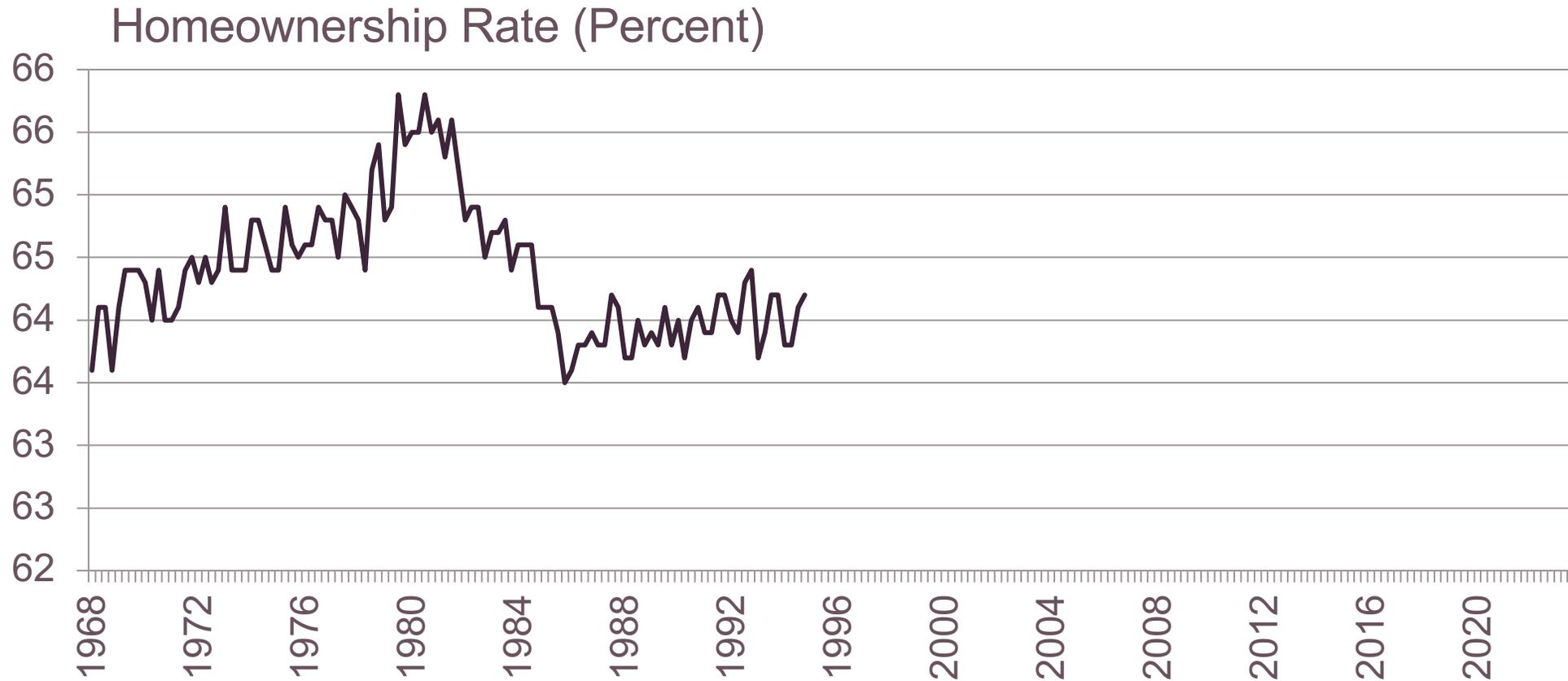
Overview of Today's Talk



- 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

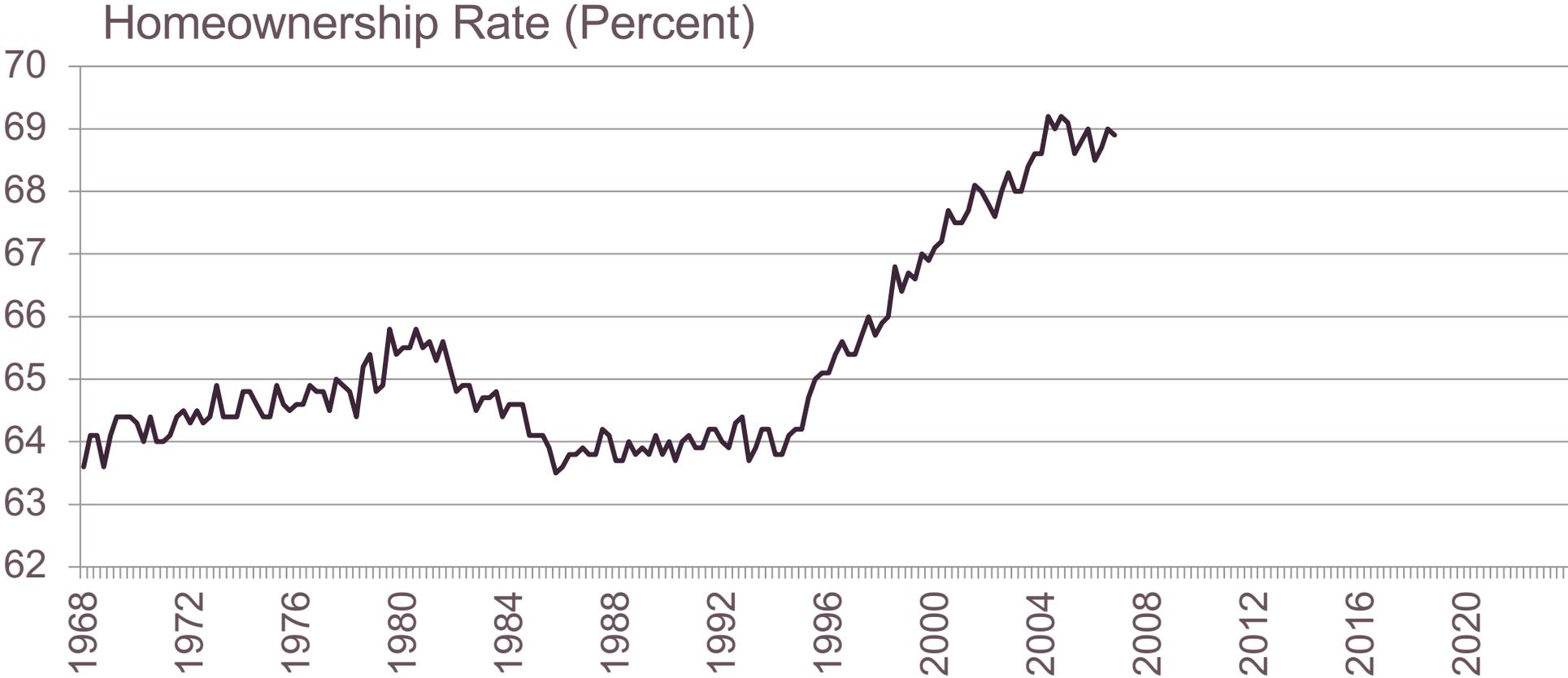
The Ups and Downs of Homeownership Over Time

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



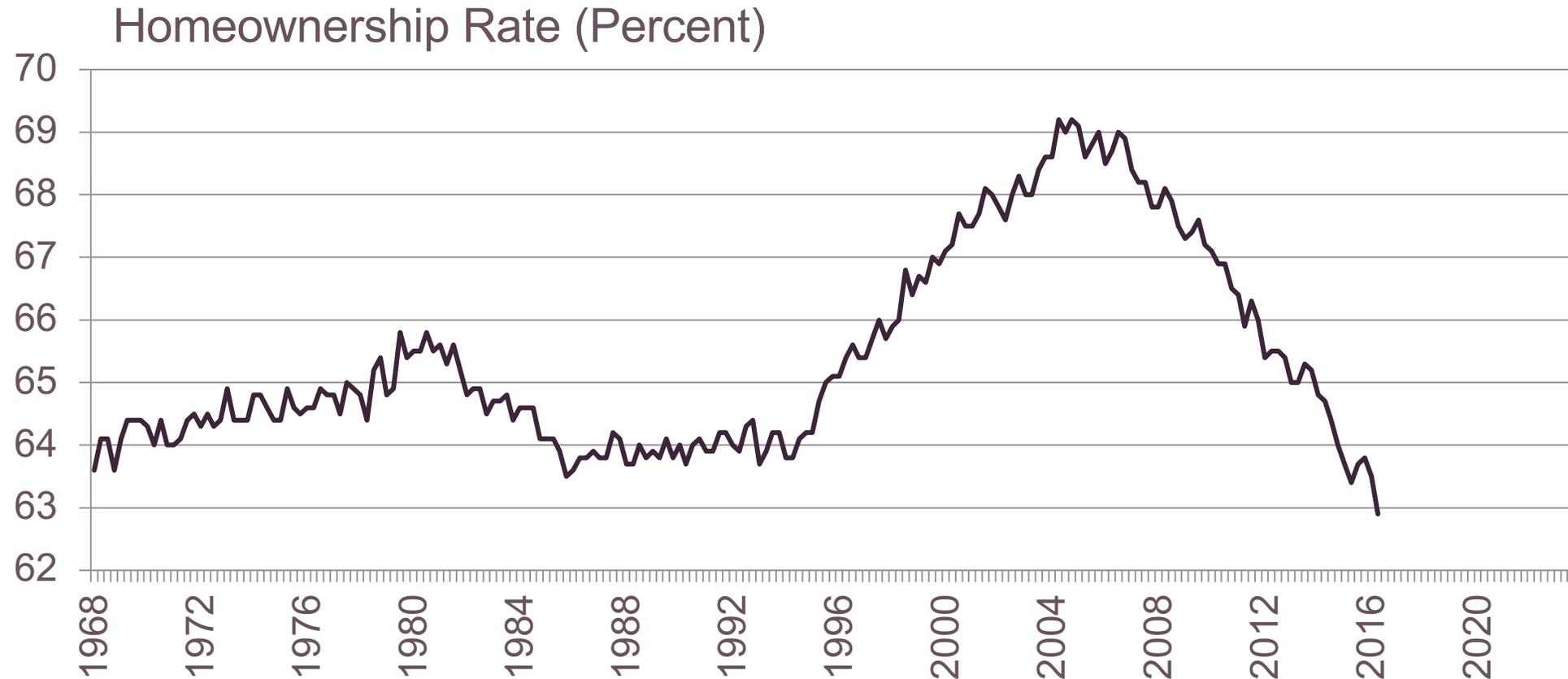
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

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



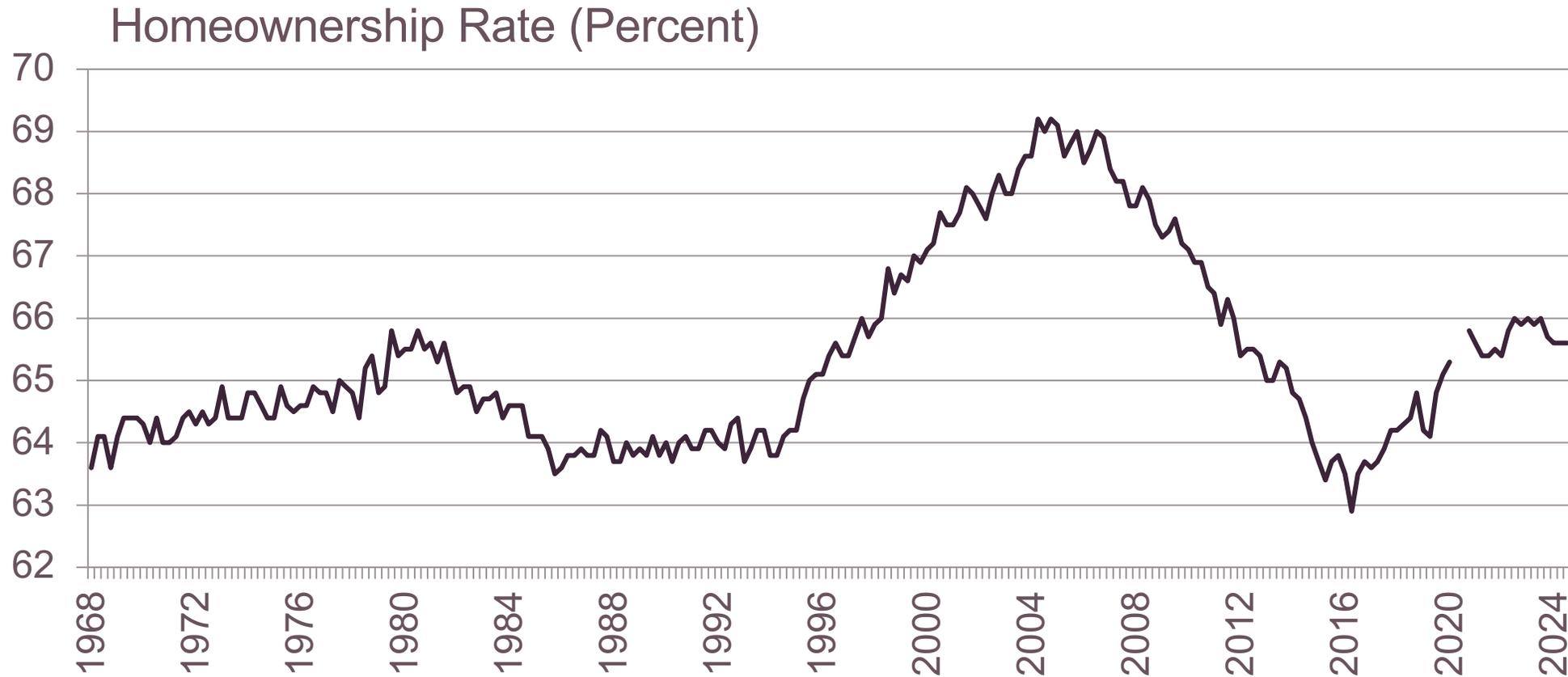
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

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.

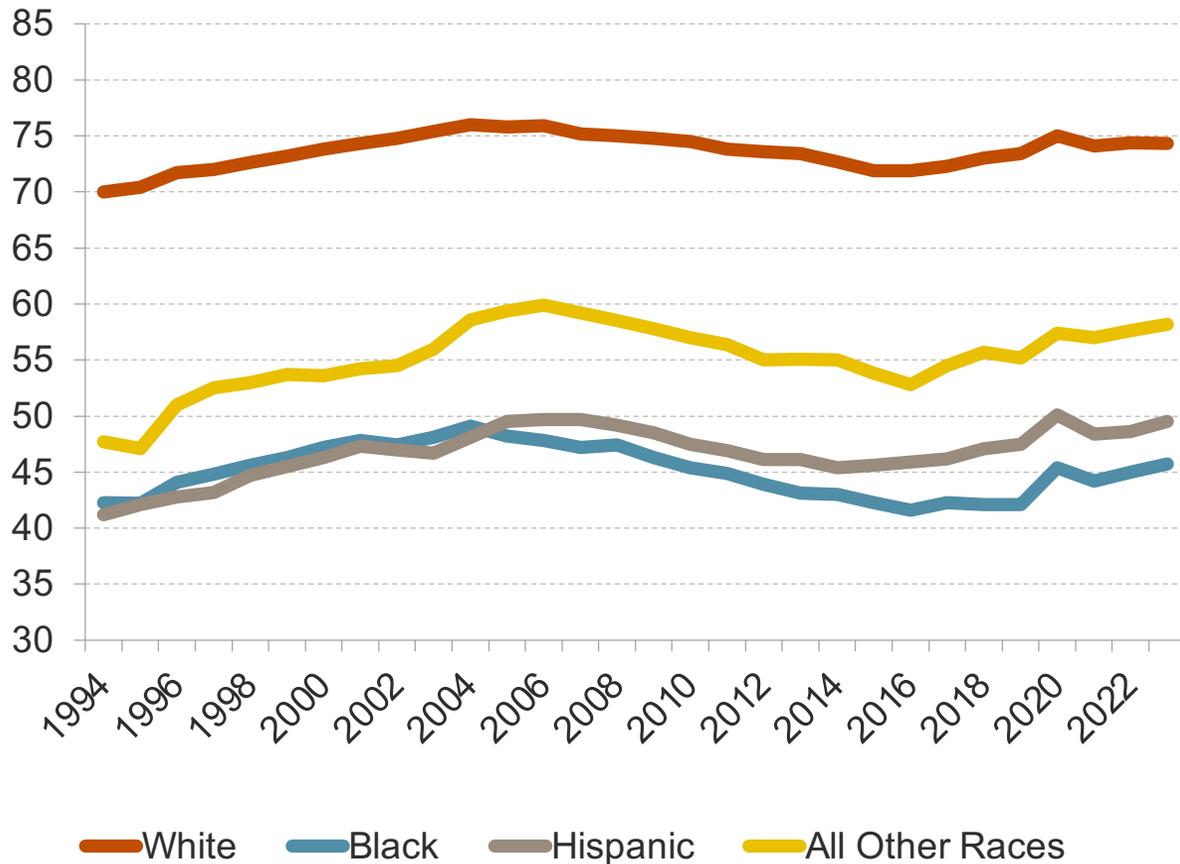
The Rebound in Homeownership Since 2016 Has Been Impressive and Demonstrates its Enduring Appeal



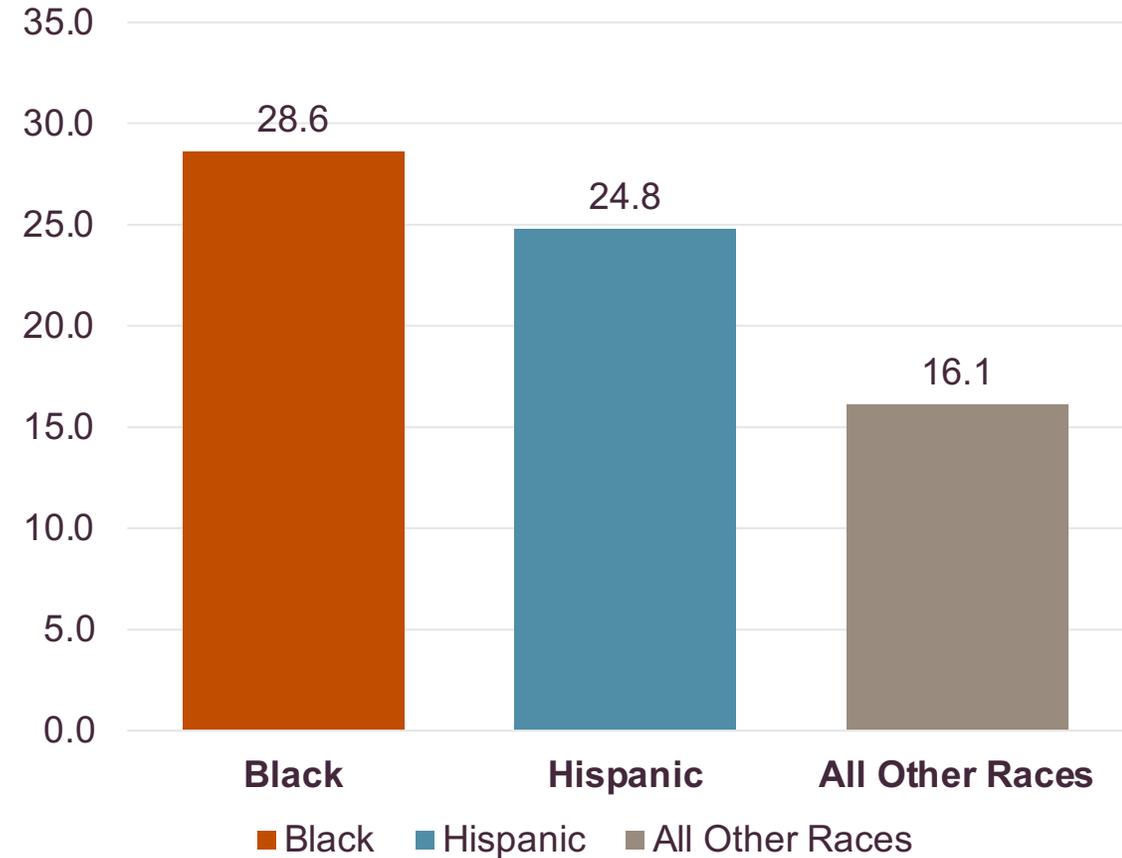
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

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

Homeownership Rate by Age (Percent)



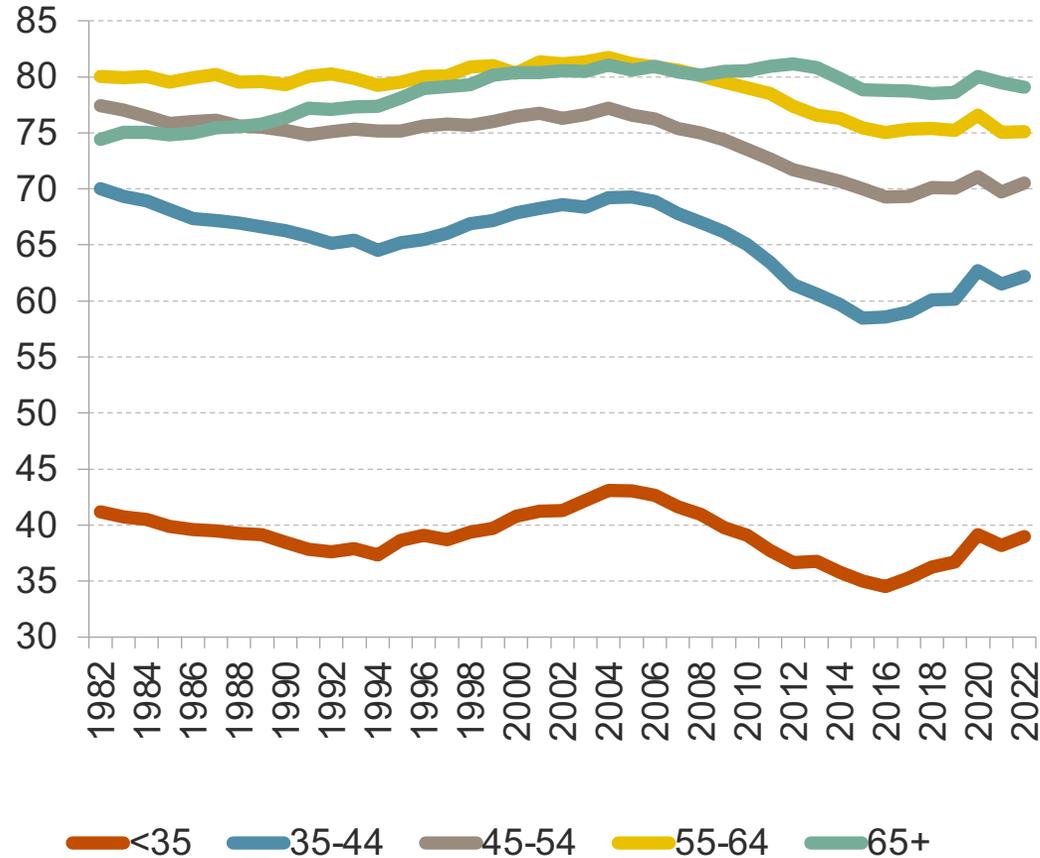
Shortfall in Homeownership in 2023 Relative to White Rate (ppt)



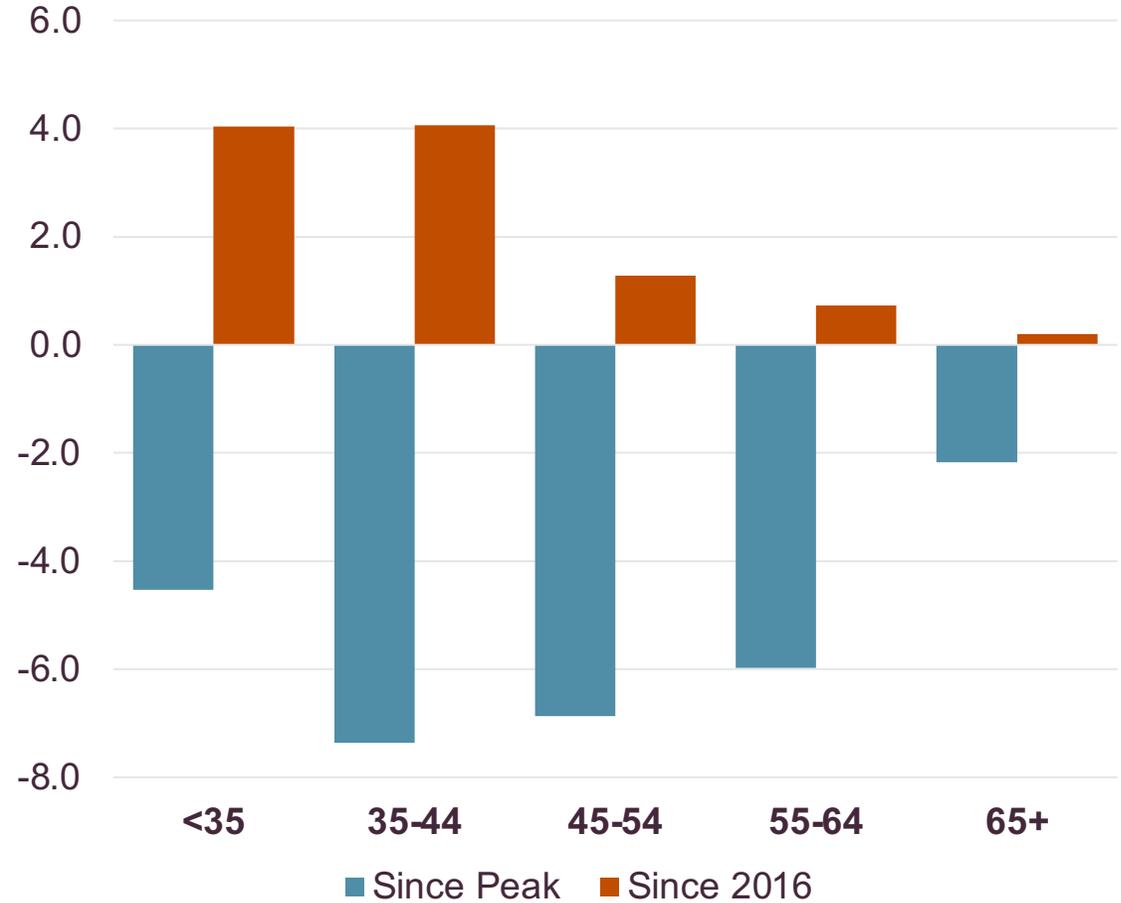
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Homeownership Has Rebounded the Most for Youngest and Oldest Adults—But Remain Well Off Previous Peak Rates

Homeownership Rate by Age (Percent)



Change in Homeownership Rates To 2023

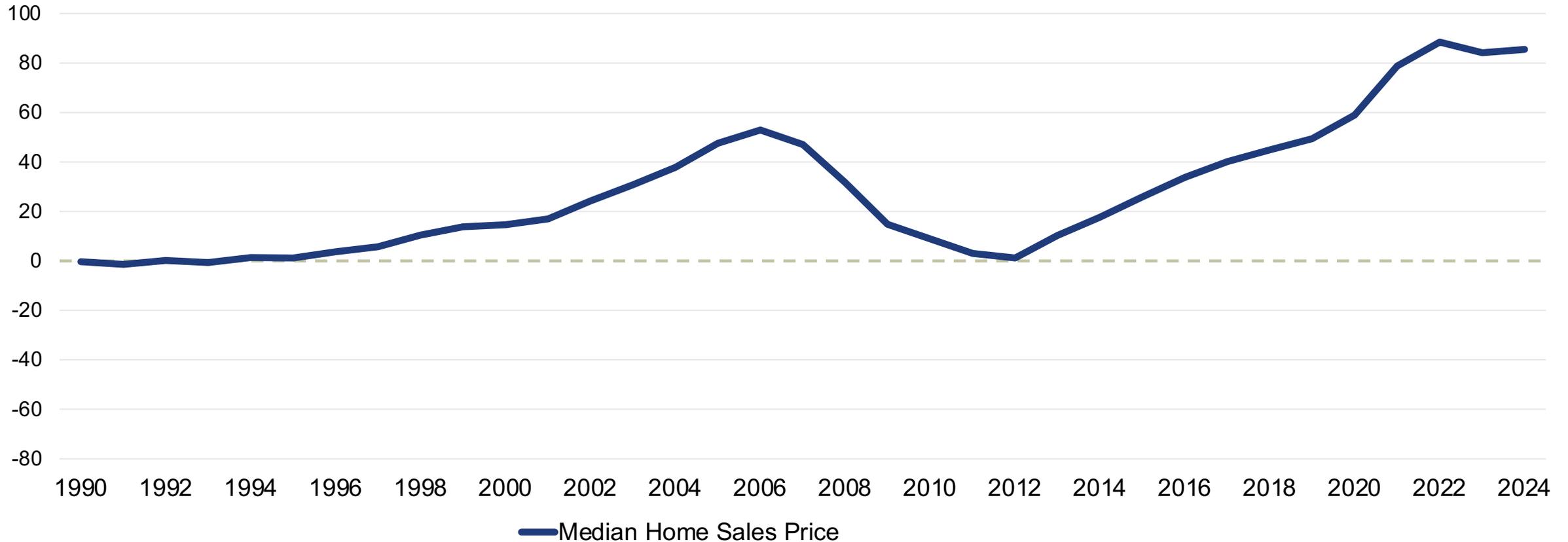


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

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)

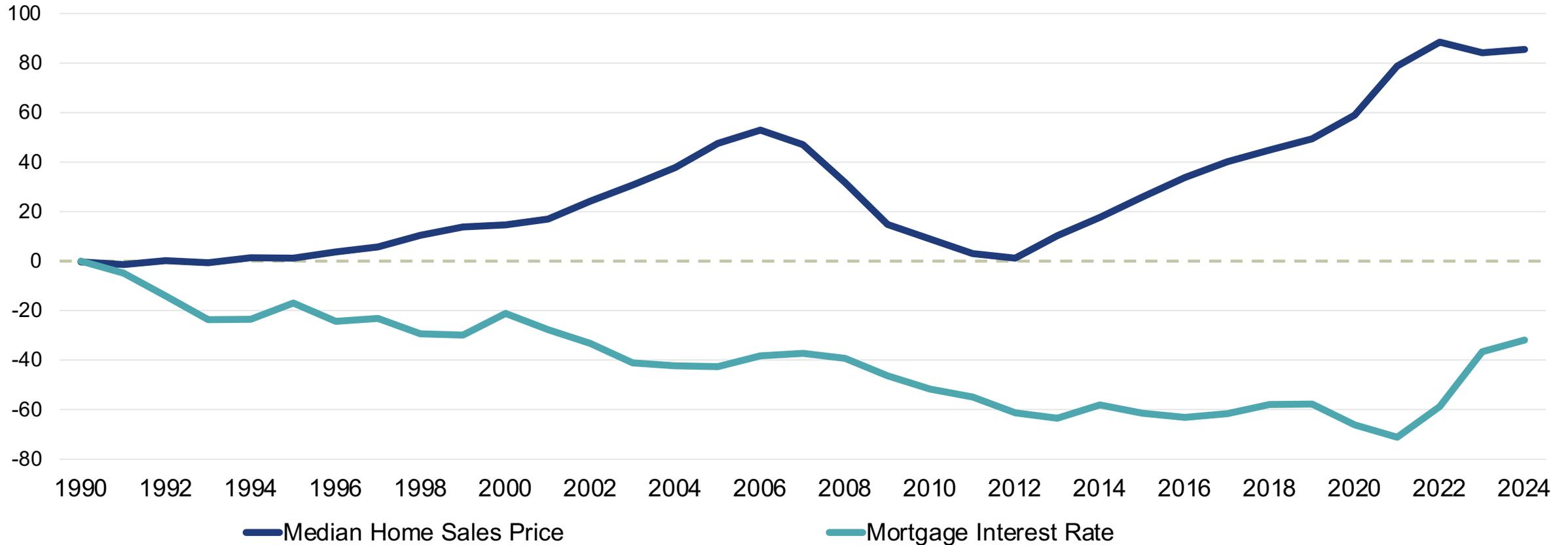


Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%, 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 HaD Been on a Downward Trend Since the 1980s

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

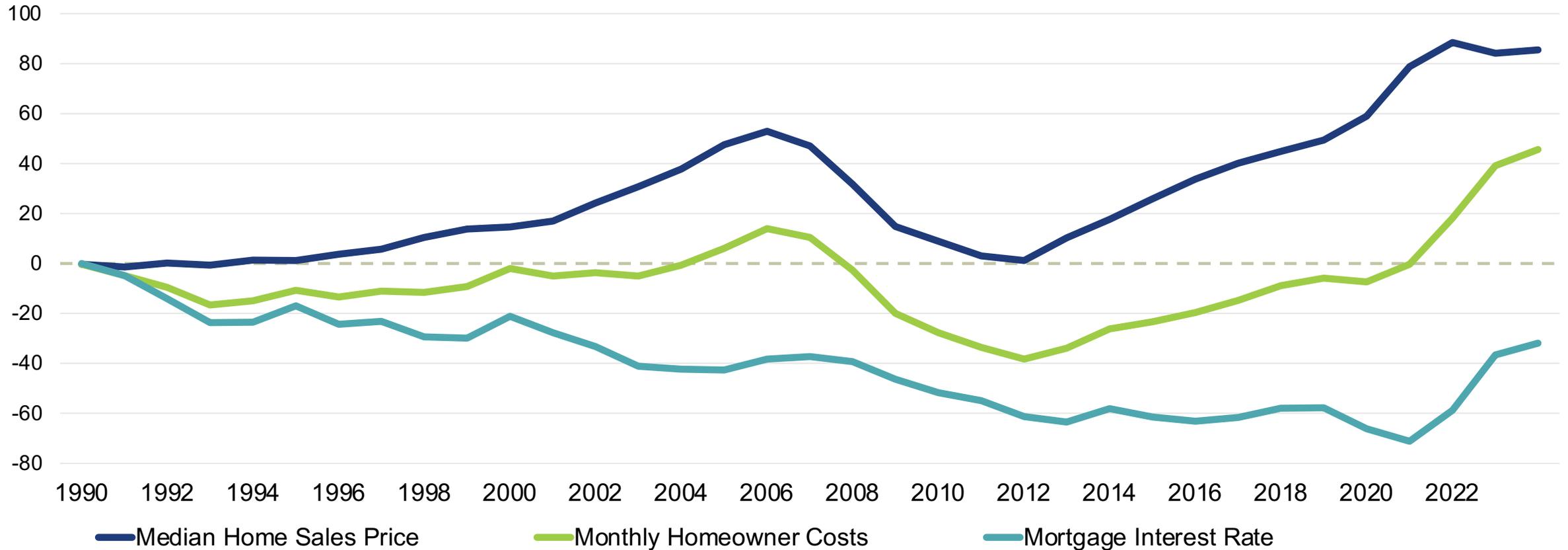


Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%,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

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

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

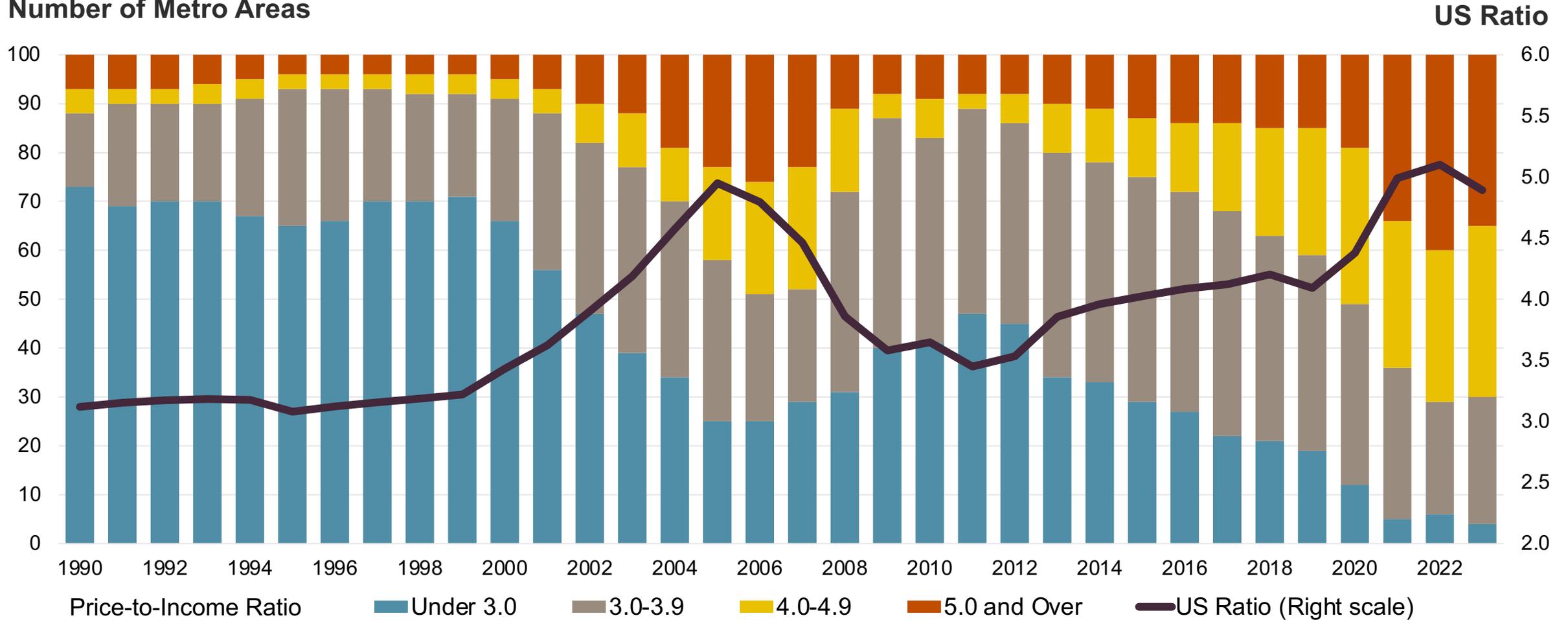


Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%,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

Home Prices Are at Record Levels Relative to Incomes Making Saving for a Downpayment Increasingly Out of Reach

Number of Metro Areas



Notes: Price-to-income ratios are for the 100 largest metro areas by population. Income data for 2023 are based on Moody's Analytics forecasts.
 Source: JCHS tabulations of NAR, Metropolitan Median Area Prices; Moody's Analytics estimates.

The Income and Savings Needed to Qualify for a Home Have Increased Sharply—and Falling Interest Rates Offer Little Relief in the Face of Continued Rising Prices

| | 2021:Q1 | 2022:Q1 | 2023:Q1 | 2024:Q1 | 2024: Sept |
|---|---------|---------|---------|---------|------------|
| Median US Home Price (Dollars) | 318,200 | 372,000 | 371,000 | 389,200 | 409,000 |
| Interest Rate (Percent) | 2.88 | 3.82 | 6.37 | 6.75 | 6.18 |
| Downpayment and Closing Costs | 20,683 | 24,180 | 24,115 | 25,298 | 26,585 |
| Total Monthly Owner Costs | 1,813 | 2,307 | 2,861 | 3,094 | 3,104 |
| Annual Income Needed @ maximum 31% debt to income | 70,165 | 89,295 | 110,739 | 119,777 | 120,168 |

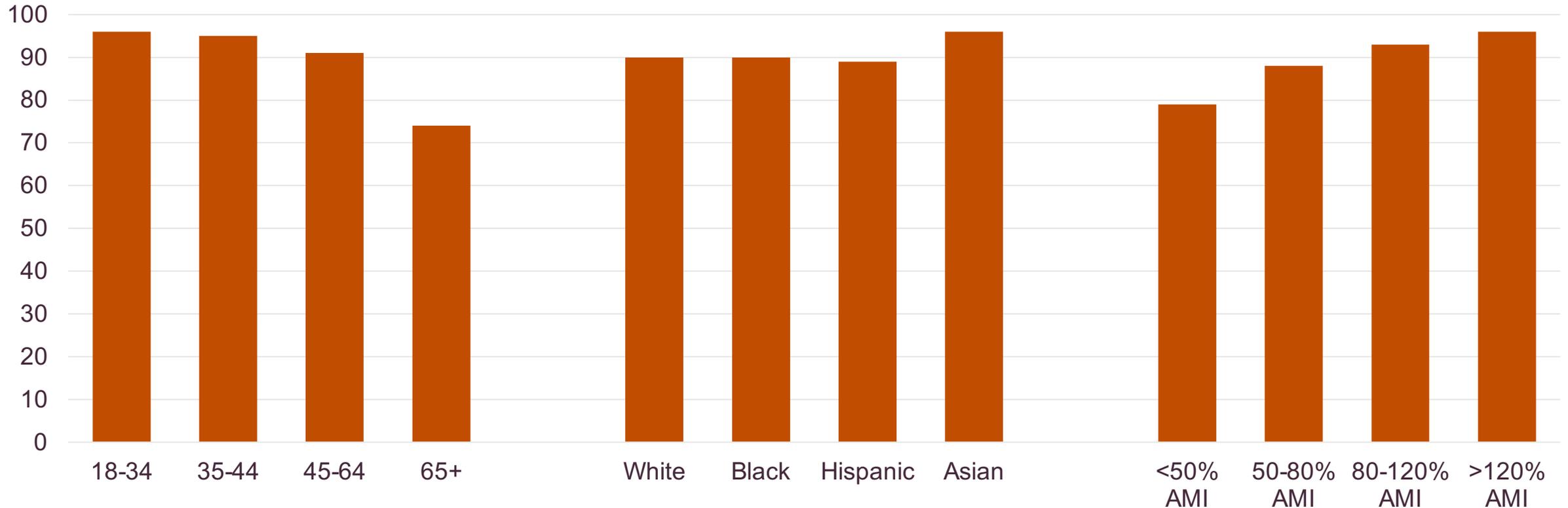
Note: Estimates assume a 3.5% downpayment on a 30-year fixed-rate loan with zero points, 0.85% mortgage insurance, 0.35% property insurance, 1.15% property taxes, 3% closing costs, and a maximum 31% debt-to-income ratio.

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

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>

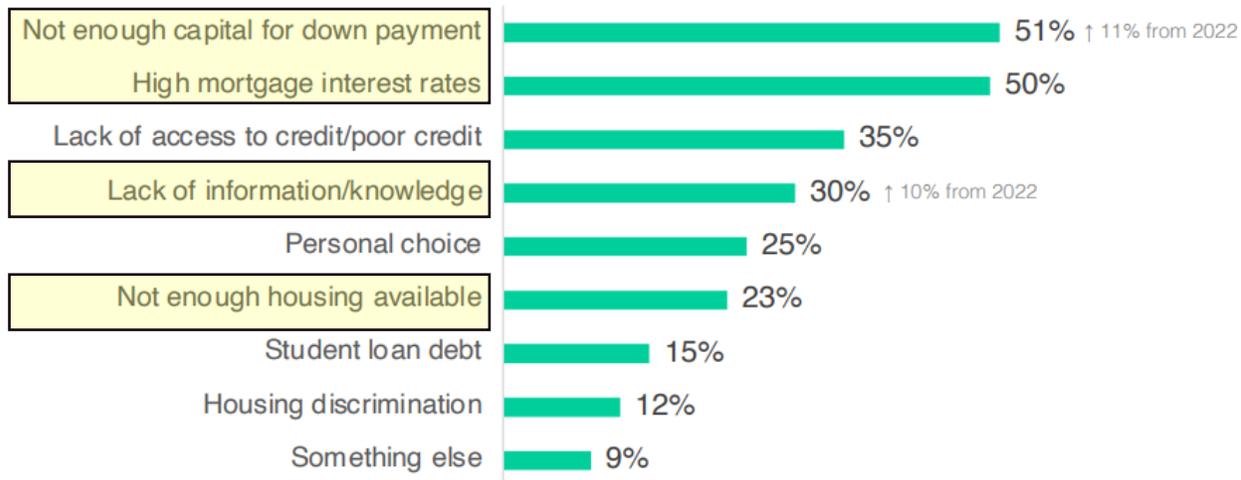
Financial Barriers are Most Common, But a Lack of Knowledge and Supply Are Near the Top of the List

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

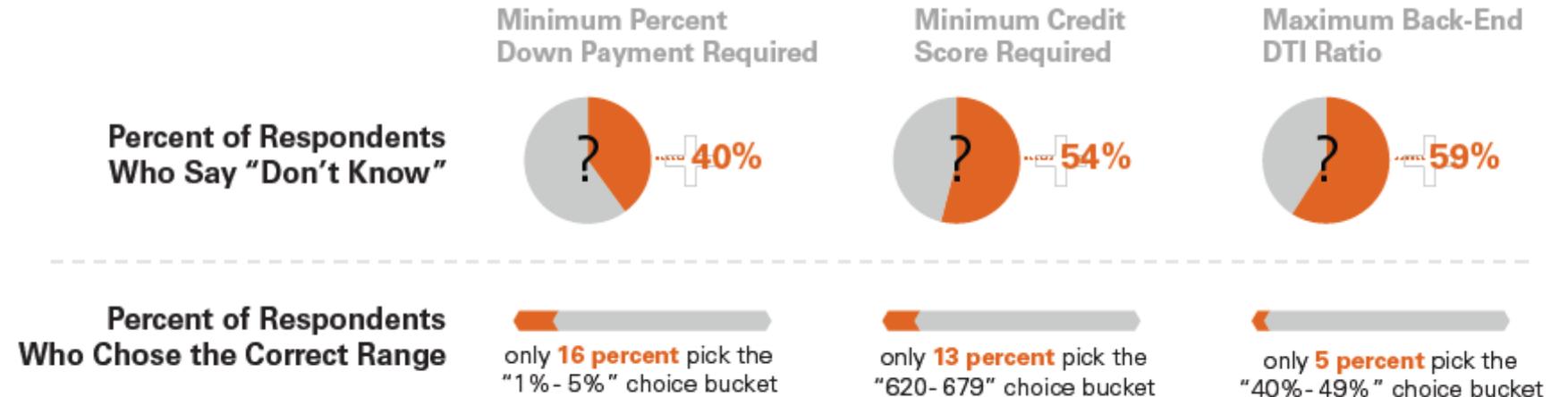
What Consumers (Don't) Know About Mortgage Qualification Criteria



About One Half

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

Mortgage Qualification Criteria:



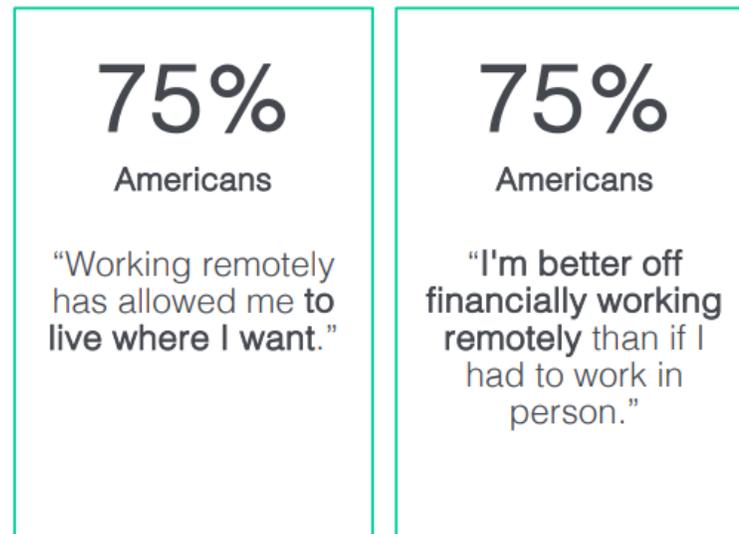
Source: Fannie Mae National Housing Survey, 2015. "What do consumers know about the mortgage qualification criteria." Available at: <https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/research/housingsurvey/pdf/consumer-study-121015.pdf>

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

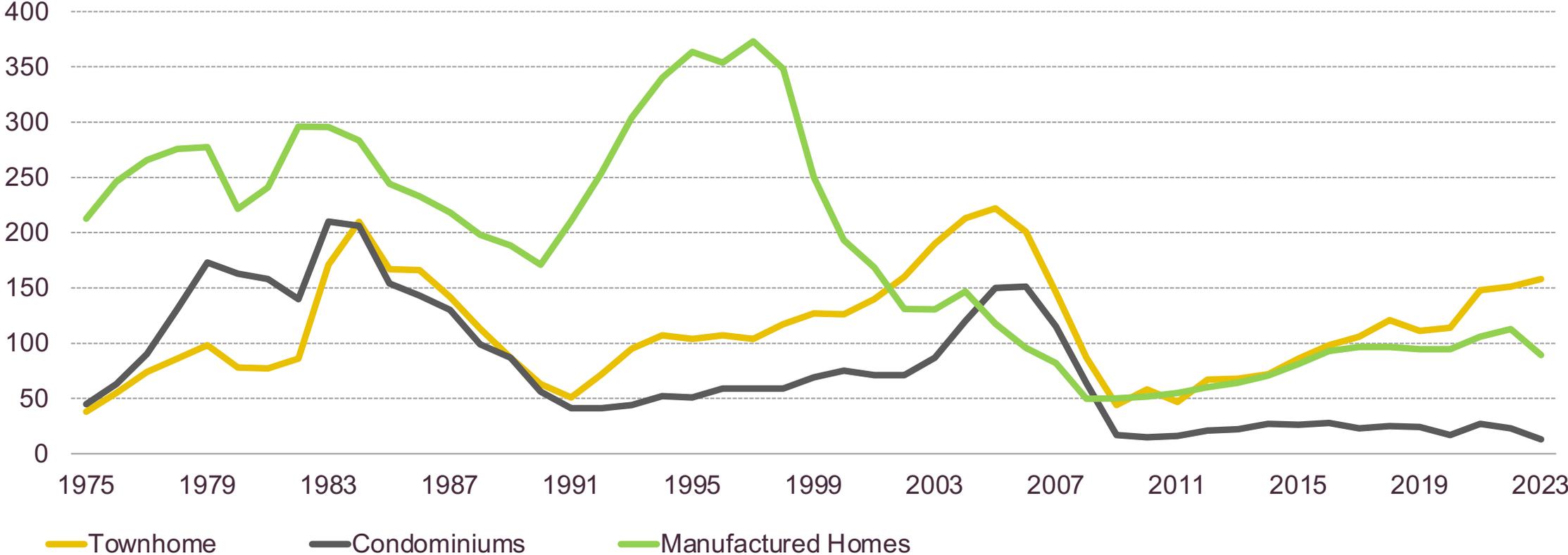


Source: The Status of Real Estate in 2024, The Harris Poll Thought Leadership Practice, available at: <https://theharrispoll.com/wp-content/uploads/2024/03/State-of-Real-Estate-2024-March-2024.pdf>

So What Can Be Done to Expand Homeownership Opportunities?

The Shortfall in New Housing Supply Has Been Most Notable Among Smaller, More Affordable Housing Types

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.

Unlocking the Constrained Housing Supply

Growing momentum for reforms at state and local level

- Eliminating single-family-only zoning
- Allowing for residential uses in commercial areas
- Legalizing low-cost options like ADUs and manufactured homes
- Removing mandated parking minimums
- Streamlining review and approval processes
- Modifying building codes that may limit mid-scale housing
- Repurposing underutilized land

Growing list of states that pre-empt local zoning

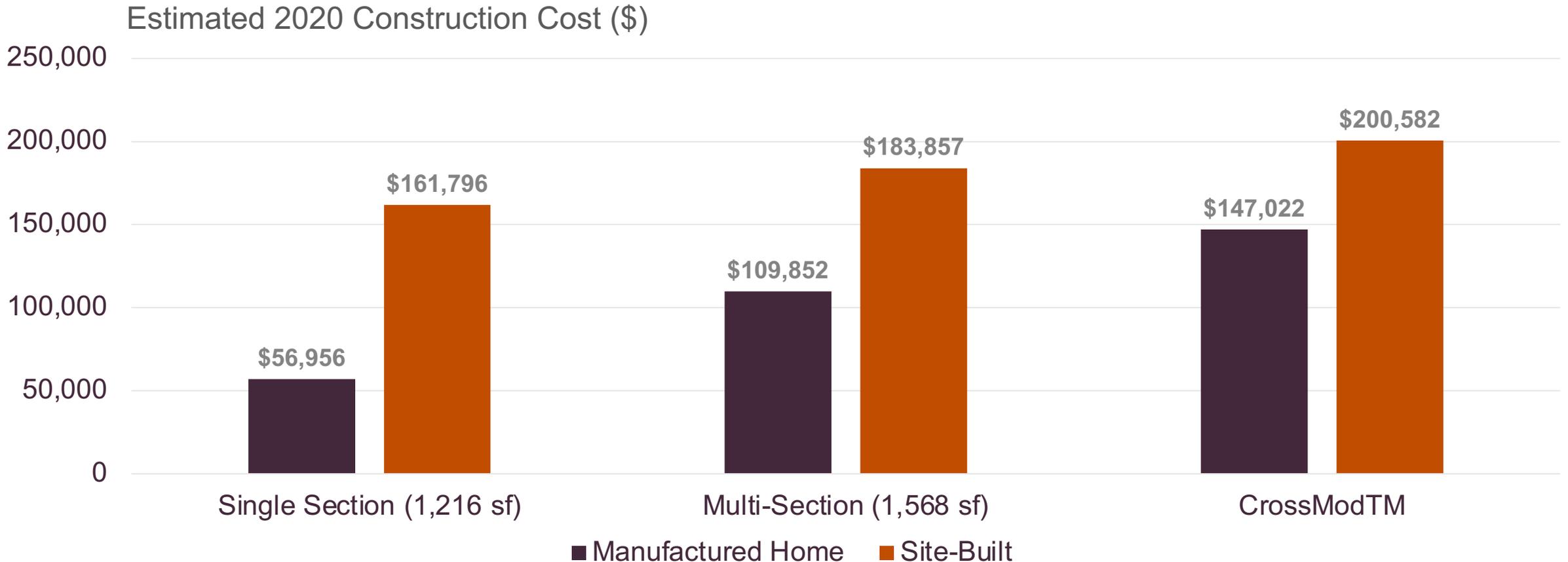
- Montana, Vermont, Washington, California, Maine, Oregon, Massachusetts.

Some federal-level actions to remove constraints

- HUD PRO Housing Grant program to support efforts by local governments to address constraints to housing development
- \$35 billion in financing through DOT for transit-oriented residential development



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

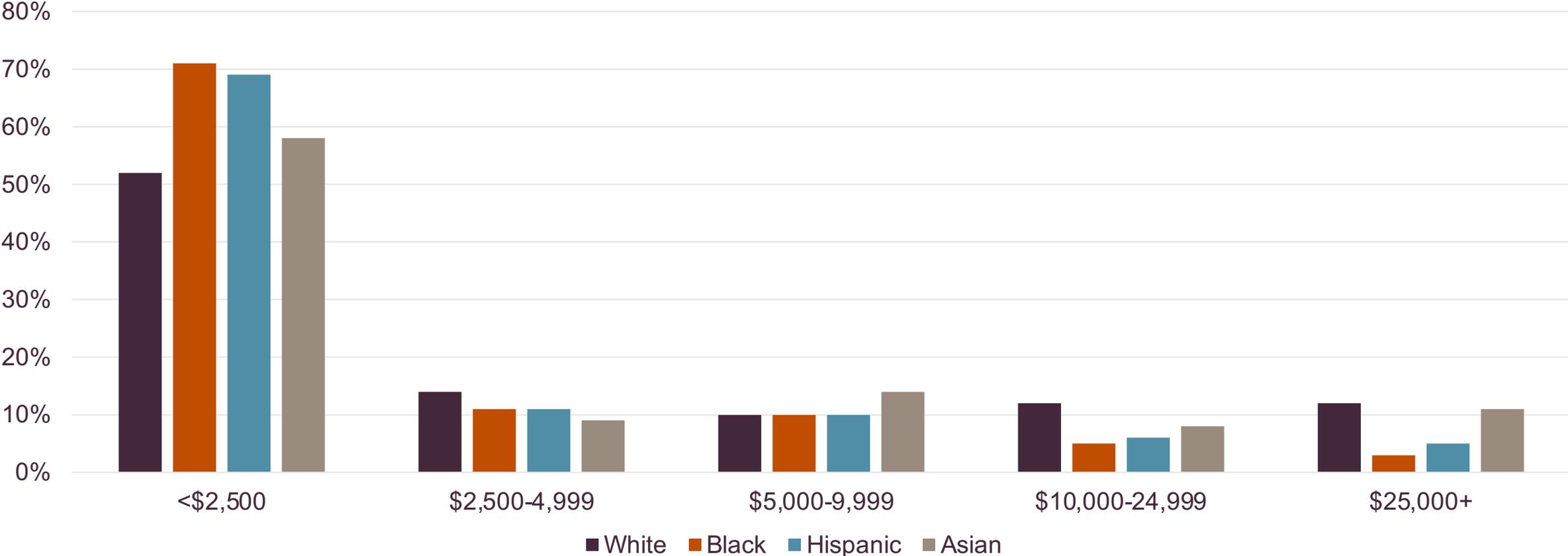
CrossMod™

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



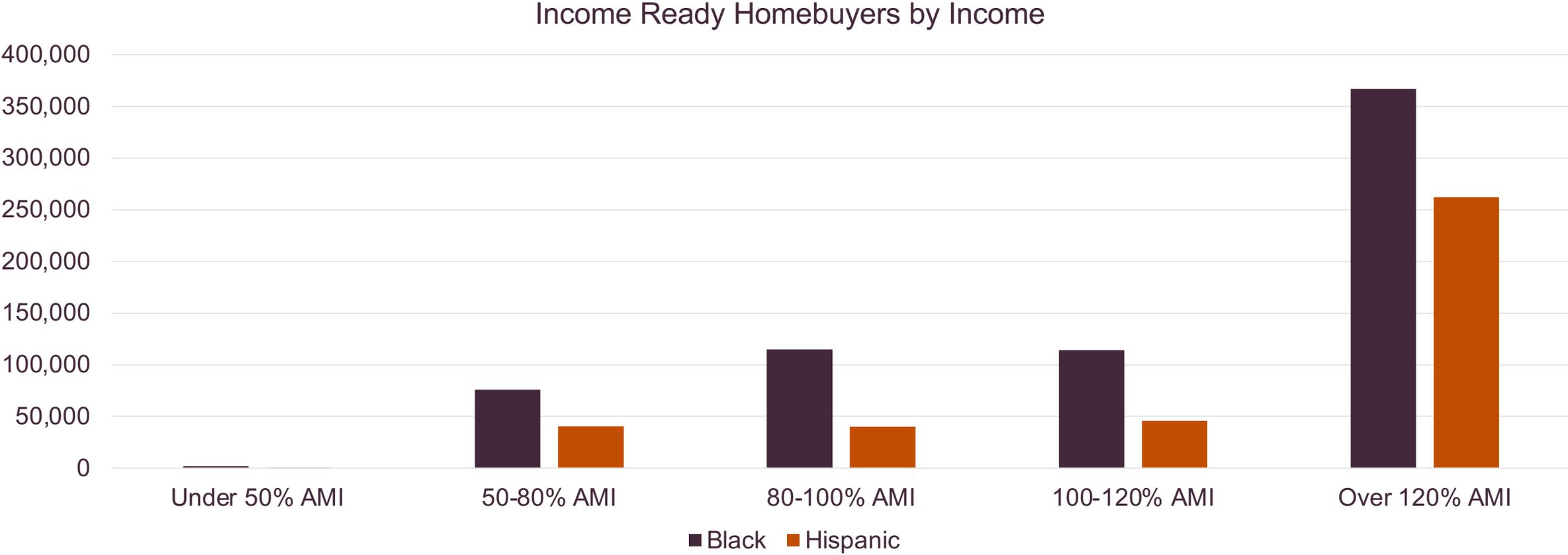
A Lack of Liquid Savings Among Most Renters Points to Downpayment Assistance as a Key Support

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).

Given That Rates are Likely to Stay Higher for Longer, Interest Rate Buydowns are a Tool That Should be Dusted Off

June 24, 2024

FHLBank Boston Promotes Affordable Homeownership Through Permanent Rate Buydown Program

Federal Home Loan Bank of Boston (FHLBank Boston) is pleased to announce the launch of the Permanent Rate Buydown product, which is designed to make homeownership more attainable for lower-income households earning up to 80% of area median income.

FHLBank Boston's Permanent Rate Buydown Product

By using the Permanent Rate Buydown product, New England banks and credit unions that are members of FHLBank Boston can **reduce the mortgage interest rates paid by income-eligible borrowers by up to 2%**. The product is available through FHLBank Boston's Mortgage Partnership Finance® (MPF®) Program, which purchases residential mortgages from FHLBank Boston member financial institutions.

"High housing costs coupled with sharply higher interest rates have made it increasingly difficult for lower-income borrowers to afford a home in many New England communities. The new Permanent Rate Buydown product joins the other programs the Bank offers that make homeownership attainable and more affordable for eligible borrowers. These programs are closely aligned with FHLBank Boston's overall mission of supporting affordable housing opportunities throughout New England," said FHLBank Boston President and Chief Executive Officer Timothy J. Barrett.

"Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

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



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

Thanks!

Visit jchs.harvard.edu for Reports, Data and Charts

