ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

In December 2020, content from *Real Estate Research* became part of *Policy Hub*. Future articles will be released in *Policy Hub: Macroblog*.

Disclaimer

Email Me

Subscribe by E-mail

Subscribe by RSS

Other Fed Websites

Comment Standards:
Comments are moderated and will not appear until the moderator has approved them.

Please submit appropriate comments. Inappropriate comments include content that is abusive, harassing, or threatening; obscene, vulgar, or profane; an attack of a personal nature; or overtly political.

In addition, no off-topic remarks or spam is permitted.

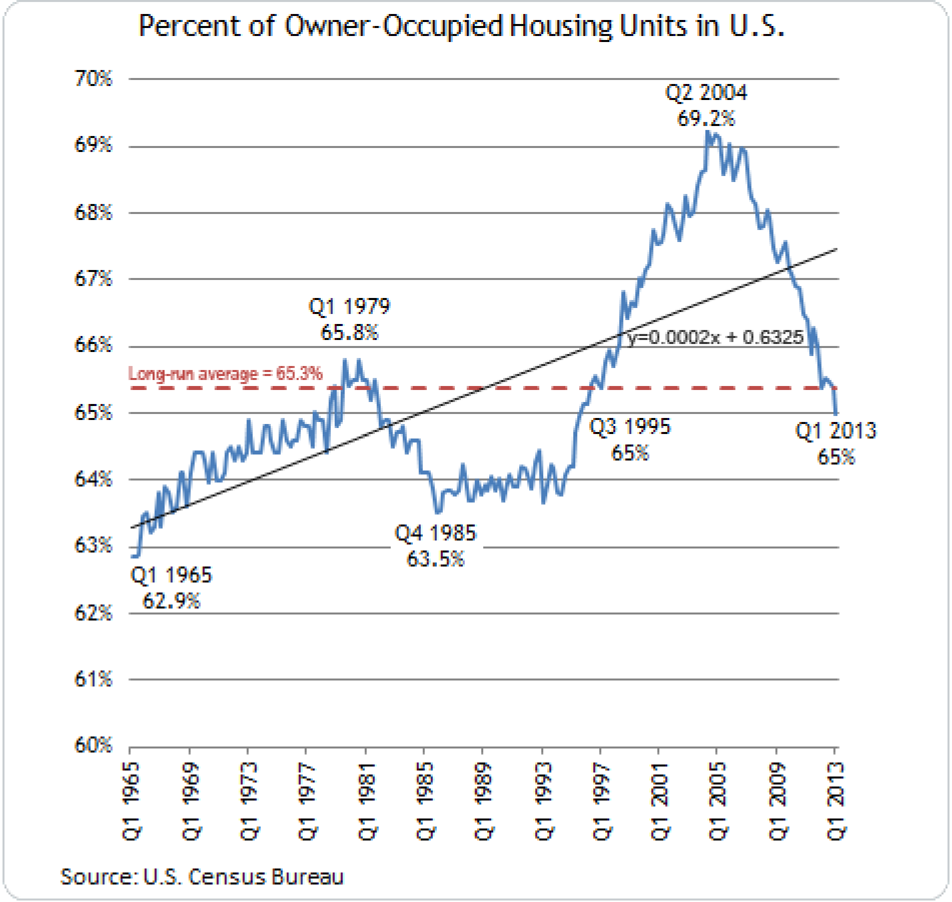
June 26, 2013

Is the Desire to Become a Homeowner a Thing of the Past?

Now that the worst of the housing downturn appears to be in our rearview mirror, many conversations about housing have shifted their focus from how to stave off further deterioration to figuring out where things currently stand and what the future trajectory will look like. At their core, these conversations seek to determine whether dynamics in the housing market have fundamentally changed since the recent recession or whether they have been only temporarily stymied and will eventually return to their previous trend.

It is with this shift in focus in mind that we consider the recent trend in the homeownership rate. It's no secret that the homeownership rate fell 4.25 percent from its peak of 69.25 percent in the second quarter of 2004 to 64.99 percent in the first quarter of 2013 (see chart 1).

Chart 1



Source: U.S. Census Bureau

This decline invites a few questions, such as: Should we accept the long-run average from 1965 to 2013 of 65.3 percent as the new normal? Should we expect some type of bounce back to the long-run trend in the homeownership rate's growth (that is, 0.24 percent per year)? Or should we expect the homeownership rate to continue falling as credit conditions remain tight and preferences for homeownership versus renting potentially shifted in a permanent way?

Eric Belsky, managing director of Harvard University's Joint Center for Housing Studies, explores dynamics that influence the homeownership rate in a recent working paper. To learn from his insights, the Atlanta Fed recently invited Belsky to discuss his paper with staff and leaders from the business, civic, and not-for-profit communities. (You can see his presentation on the Atlanta Fed website.)

In his opening remarks, Belsky—who is up to date on the latest literature and survey evidence on homeownership as well as an active contributor to national housing policy discussions—said that the homeownership "dream" is still alive. The will to become a homeowner is clearly still present, he said, regardless of age or income. Evidence for this can be found in numerous surveys, including surveys conducted by Fannie Mae, Pew Charitable Trusts, the *New York Times*/CBS News Poll, the National Association of Home Builders, JP Morgan Chase, Gallup, and the American Enterprise Institute. To be fair, some groups, such as the MacArthur Foundation, do find survey evidence against this claim.

REAL ESTATE RESEARCH SEARCH

Search

RECENT POSTS

Assessing the Size and Spread of Vulnerable Renter Households in the Southeast

What's Being Done to Help Renters during the Pandemic?

An Update on Forbearance Trends

Examining the Effects of COVID-19 on the Southeast Housing Market

Southeast Housing Market and COVID-19

Update on Lot Availability and Construction Lending

Tax Reform's Effect on Low-Income Housing

Housing Headwinds

Where Is the Housing Sector Headed?

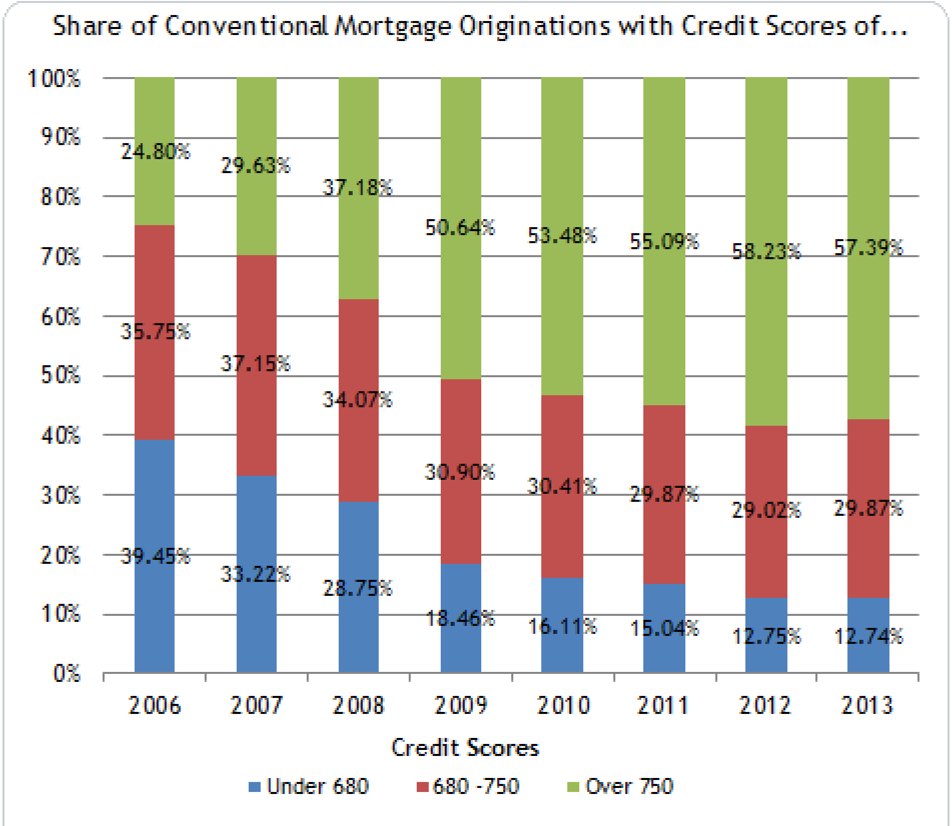
Did Harvey Influence the Housing Market?

CATEGORIES

Affordable housing goals
Credit conditions
Expansion of mortgage credit
Federal Housing Authority
Financial crisis
Foreclosure contagion
Foreclosure laws
Governmentsponsored enterprises
GSE
Homebuyer tax credit
Homeownership
House price indexes
Household formations
Housing boom
Housing crisis
Housing demand
Housing prices
Income segregation
Individual Development Account
Loan modifications
Monetary policy
Mortgage crisis
Mortgage default
Mortgage interest tax deduction
Mortgage supply
Multifamily housing
Negative equity
Positive demand shock
Positive externalities
Rental homes
Securitization
Subprime MBS
Subprime mortgages
Supply elasticity
Uncategorized
Upward mobility
Urban growth

However, the way to becoming a homeowner, Belsky pointed out, has been impeded by credit and other market conditions. Trends in FICO scores offer one source of evidence that credit conditions continue to be restrictive. In his slides, Belsky included a couple of charts that depict the credit risk profile of loans owned by Fannie/Freddie and loans insured by the Federal Housing Administration (see slides 13 and 14). Since neither chart includes the most recent data, they show how this picture has evolved in recent years. To bring the picture up to date, we created a similar chart with data from Lender Processing Services through 2013 showing trends in FICO scores for conventional (that is, conforming) mortgage originations. Our chart, like those in Belsky's slide deck, shows that there has clearly been a shift over the last few years in originations to borrowers with higher credit scores and lower risk profiles (see chart 2).

Chart 2



Source: LPS (Lender Processing Services) Applied Analytics

The Federal Reserve Board Senior Loan Officer Opinion Survey (SLOOS) offers yet another source of evidence that credit conditions are still restrictive. In the April 2013 release of the survey, 89.1 percent of all respondents indicated that banks' credit standards for approving applications for residential mortgages have remained basically unchanged.

In a May speech to the Housing Policy Executive Council, Fed Governor Elizabeth Duke picked up on this point and expanded on it by highlighting responses to some of the special questions posed to bankers.

> The April SLOOS offers some clues about why mortgage credit is so tight for borrowers with lower credit scores. Banks participating in the survey identified a familiar assortment of factors as damping their willingness to extend any type of loan to these borrowers.... Respondents appeared to put particular weight on GSE putbacks, the economic outlook, and the risk-adjusted opportunity cost.... Over time, some of these factors should exert less of a drag on mortgage credit availability.

Perhaps more importantly, Governor Duke later stated that:

> Although I expect housing demand to expand along with the economic recovery, if credit is hard to get, much of that demand may be channeled into rental, rather than owner-occupied, housing.

While the idea of homeownership may continue to be appealing, the bounce back in the homeownership rate appears to be a ways off. Based on the ramping up of operations, both multi-family developers and single-family rental investors and operators seem to think this bodes well for them. Meanwhile, single-family builders have also ramped up production from historically low levels to help meet the demand that exists from home buyers. While all sources of housing production may fare well in the short term, longer-term implications for housing demand and the housing stock have yet to become clear.

We invite you to watch a video of the talk that Professor Belsky gave on May 21 and to contribute to the conversation by posting your comments below.

Jessica Dill, senior economic research analyst in the Atlanta Fed's research department

June 26, 2013 in Credit conditions, Homeownership | Permalink