4 HOMEOWNERSHIP

Although still on the decline, the national homeownership rate showed signs of stabilizing in 2016. The foreclosure inventory is approaching its pre-crisis volume and home purchase activity is slowly increasing. While high costs pose a challenge in certain markets, homeownership remains affordable in many metro areas of the country. Meanwhile, with conventional mortgage credit still tight, FHA continues to play a central role in serving first-time homebuyers. While the strengthening economy and the aging of the millennial generation may lift demand for homeownership, much uncertainty surrounds future economic, credit, and housing market conditions.

SLOWDOWN IN HOMEOWNERSHIP RATE DECLINE

The national homeownership rate dipped again for the 12th consecutive year, notching down from 63.7 percent in 2015 to 63.4 percent in 2016, according to the Housing Vacancy Survey **(Figure 19).** This was the smallest year-over-year decline since 2006 and may signal that the homeownership rate might be close to bottoming out.

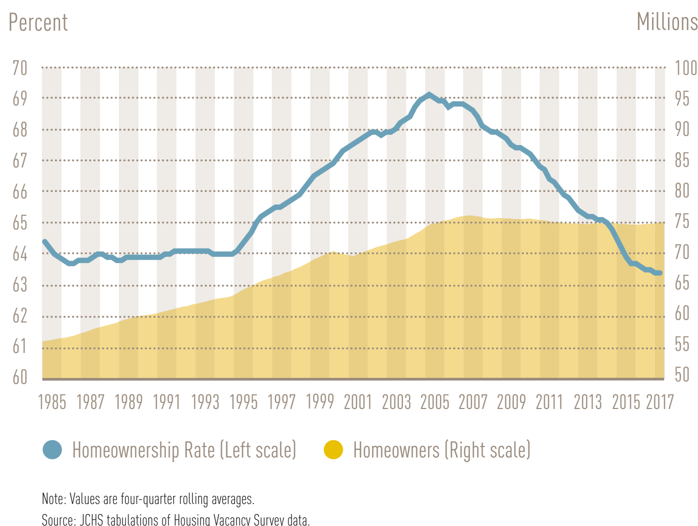
With this latest decline, the homeownership rate stood 5.6 percentage points below the peak in 2004 and 0.6 percentage point below its level in 1994. The long slide in homeownership reflects the lingering effects of the foreclosure crisis and Great Recession, as well as delayed homebuying among younger households. Indeed, the number of homeowner households rose by just 280,000 last year—the largest gain since 2006 but less than half the 600,000 increase in the number of renter households.

Although down across the board from 2004 to 2016, the size and trajectory of homeownership rate declines vary widely by race and ethnicity. The 7.5 percentage point drop among black households (from 49.7 percent to 42.2 percent) was by far the largest. By comparison, the white homeownership rate was down 4.0 percentage points (from 76.0 percent to 71.9 percent) while the Hispanic rate fell only 2.1 percentage points (from 48.1 percent to 46.0 percent). The year-over-year changes in 2015–2016 followed this pattern, with the black homeownership rate off 0.8 percentage point, the white homeownership rate stable, and the Hispanic homeownership rate up 0.4 percentage point.

Homeownership trends also differ meaningfully across metropolitan areas. In the nation's 50 largest metros, shares of homeowners ranged from 47.9 percent in Los Angeles to 69.2 percent in Pittsburgh. According to American Community Survey data, homeownership rates fell in all 50 of these areas between 2006 and 2015, with Las Vegas posting the largest decline (9.0 percentage points) and Buffalo the smallest (1.6 percentage points). More recently, though, rates actually increased between 2013 and 2015 in eight metro areas (Boston, Kansas City, Oklahoma City, Philadelphia, Portland, Sacramento, San Jose, and Seattle) and stabilized in three (Birmingham, Nashville, and Richmond).

FIGURE 19

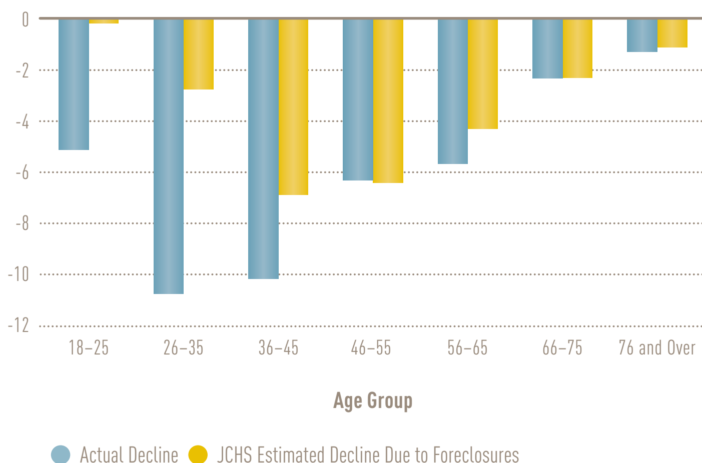
Despite Growth in the Number of Owners, the National Homeownership Rate Fell Again in 2016



Note: Values are four-quarter rolling averages.
Source: JCHS tabulations of Housing Vacancy Survey data.

FIGURE 20

Foreclosures Drove Much of the Homeownership Rate Decline Among Older Households



Notes: JCHS estimate is the ratio of the number of owner-occupied foreclosure completions and the number of households. The owner-occupant share of all housing units in 2015 (60.3 percent) is used to estimate the owner-occupant share of the 9.6 million foreclosure completions between 2005:2 and 2015:1.
Source: JCHS tabulations of US Census Bureau, Current Population Survey; CoreLogic foreclosure data as cited in Spader and Herbert (2016).

Within metropolitan areas, the American Community Survey's five-year estimates indicate that homeownership rates fell more sharply in low-income and minority neighborhoods than in more advantaged neighborhoods. Between the 2010 and 2015 estimates, the homeownership rate dropped 3.4 percentage points in majority-black census tracts and 3.3 percentage points in majority-Hispanic census tracts, compared with 2.5 percentage points in majority-white census tracts.

ROLE OF THE FORECLOSURE CRISIS

The persistent decline in the national homeownership rate has generated widespread discussion about the future of homeowning in the United States. According to a Joint Center analysis, recent changes in the age, race/ethnicity, and family structure of households explain little of the drop in homeownership because they largely offset one another. In particular, while the aging of the US population works to lift homeownership (because older adults have higher ownership rates), the growing diversity of the population exerts downward pressure (to the extent that racial/ethnic disparities in income and wealth continue).

Instead, the long-term falloff in homeownership reflects the combined effects of foreclosures, the Great Recession, and reduced home purchase activity. JCHS estimates suggest that foreclosures likely explain much of the declines among middle-aged and older adults, although far less of the drop among younger age groups **(Figure 20).** The sizable declines in homeownership among younger households are instead the fallout from weak income growth, delayed marriage and childbearing, and other factors that have made this age group slow to buy homes.

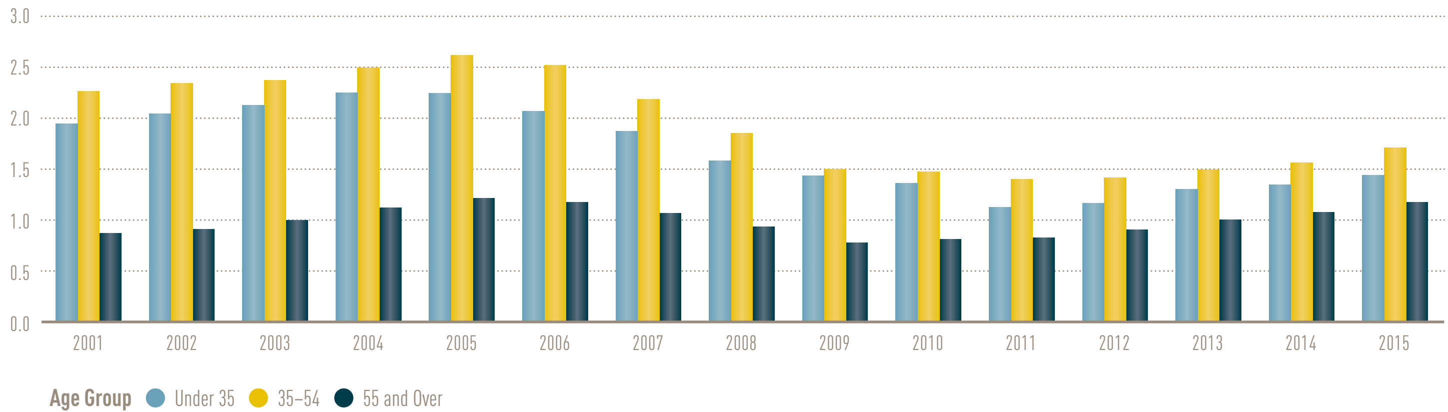
Looking forward, the downward pressure on the homeownership rate from the foreclosure inventory is likely to ease as the backlog continues to clear. The Mortgage Bankers Association's National Delinquency Survey indicates that the foreclosure inventory shrank from 688,000 properties at the end of 2015 to 585,000 properties at the end of 2016—still above the 431,000 annual average in 2000–2005. Much of this inventory is concentrated in a handful of states, with Florida, New Jersey, and New York together accounting for one in three properties in foreclosure at the end of last year.

A large unknown is whether former owners that lost homes to foreclosure will get back into the market. According to a recent Experian analysis of credit records, only 12.6 percent of owners who underwent foreclosure between 2007 and 2015 had bought other homes by the end of 2015. While loan products are available that allow former owners to buy homes before the foreclosure disappears from their credit histories, it is unclear how many will take advantage of this opportunity in the future. Moreover, given that many of those who experienced foreclosure were middle-aged, buying again would likely mean carrying mortgage debt into their retirement years.

FIGURE 21

As the Market Recovers, Older Households Are a Growing Share of Homebuyers

Recent Homebuyers (Millions)



Note: Recent homebuyers moved into their current homes within the previous 12 months.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

THE CHANGING PROFILE OF RECENT HOMEBUYERS

Recent homebuyers—those that moved into their current homes within the previous 12 months—differ from longer-term homeowners in age, household type, and race/ethnicity. In particular, recent buyers tend to be younger, have children, and be of Asian or Hispanic descent.

Demographic shifts have begun to reshape the characteristics of recent homebuyers in critical ways. With the aging of the baby boomers, the number of homeowners aged 55 and over jumped from 28.5 million in 2001 to 39.9 million in 2015, increasing their share from 41 percent to 54 percent. The number of recent homebuyers in this age group increased almost as much, while their share grew even faster—up 10 percentage points to 27 percent. Indeed, the share of recent buyers aged 65–75 nearly doubled to 9 percent over those 14 years, with most of the increase occurring after 2009. This shift reflects both the steady rise in the number of older households overall and the sharp drop-off in the number of younger homebuyers after the recession hit **(Figure 21).**

The annual number of recent buyers under age 35 has recovered somewhat from the worst of the recession, but at 1.4 million in 2015, remained well below pre-boom levels. In combination with the rising numbers of older buyers, declines in homebuying activity among younger households reduced the share of recent buyers under age 35 to 33 percent in 2015, down 5 percentage points from 2001. Delayed marriage and childbearing have likely contributed to this trend by slowing the transition of today's younger adults into the phase of life when they typically buy homes. The overhang of the recession, high student debt levels, limited new construction of starter homes, and the ongoing rise in home prices also present constraints for young would-be buyers. Only time will tell whether the share of younger recent homebuyers will rise over the next decade as members of the millennial generation move into their prime homebuying years and increasingly partner up and have children.

Along with their age profile, the racial/ethnic mix of recent homebuyers also shifted over the last 14 years. In 2015, the number of Asian homebuyers had increased 27 percent from its 2001 level. In contrast, the number of black homebuyers was still 33 percent below its 2001 level in 2015. The number of white homebuyers also remained 17 percent below its 2001 level, while the number of Hispanic recent homebuyers stood 4 percent below. As a result, Asian and Hispanic households accounted for larger shares of recent homebuyers in 2015 than in 2001, while white and black households accounted for smaller shares.

The changing characteristics of homebuyers may bring a shift in demand for certain types of homes. For example, older households are much more likely to buy units in multifamily buildings than younger households. In 2015, 14 percent of homebuyers age 65 or over moved into multifamily units (mostly in large buildings with at least 10 units), compared with 7.5 percent of those under age 65. The multifamily buyer share was highest among the oldest age groups, rising from 7 percent for households in their 30s to 9 percent for households in their 60s, and reaching 25 percent among recent homebuyers age 80 or over.

METRO HOMEBUYING TRENDS

Trends in the 25 largest metros generally mirror national shifts in the age distribution of homebuyers. In almost all of these areas, the share of recent homebuyers age 55 and over rose while that of those under age 35 fell in 2005–2015. The largest swings occurred in Phoenix, where the share of older buyers was up by 15 percentage points (to 39 percent) and the share of younger buyers was down 12 percentage points (to 23 percent). The share of older homebuyers in Tampa, which traditionally has the largest share of older buyers of the 25 largest metros, rose 8 percentage points (to 42 percent) and the share of younger homebuyers dropped by 4 percentage points (to 22 percent).

The magnitude of changes in the racial composition of homebuyers also varied substantially across the largest 25 metros. For example, Chicago, St. Louis, and Tampa experienced only modest shifts in the racial/ethnic mix of homebuyers from 2005 to 2015, while Houston, Los Angeles, and San Francisco saw more substantial changes. At the same time, however, the direction of these changes was consistent with national trends, with the share of black recent homebuyers dropping in 20 of the 25 largest metros. The decline among black homebuyers was especially sharp in Atlanta, where their numbers were down by half and their share shrank from 28 percent to 22 percent of all buyers. Baltimore, Dallas, and Detroit also posted large declines in black recent homebuyers, with a 49 percent average drop in their numbers and a 5 percentage point decline in share.

Meanwhile, the share of Asian recent buyers increased in 21 of the top 25 metros over the decade, and their numbers exceeded their 2005 levels in 10. The largest gains in Asian buyers were in San Francisco (up 14 percentage points to 40 percent) and Los Angeles (up 12 percentage points to 31 percent).

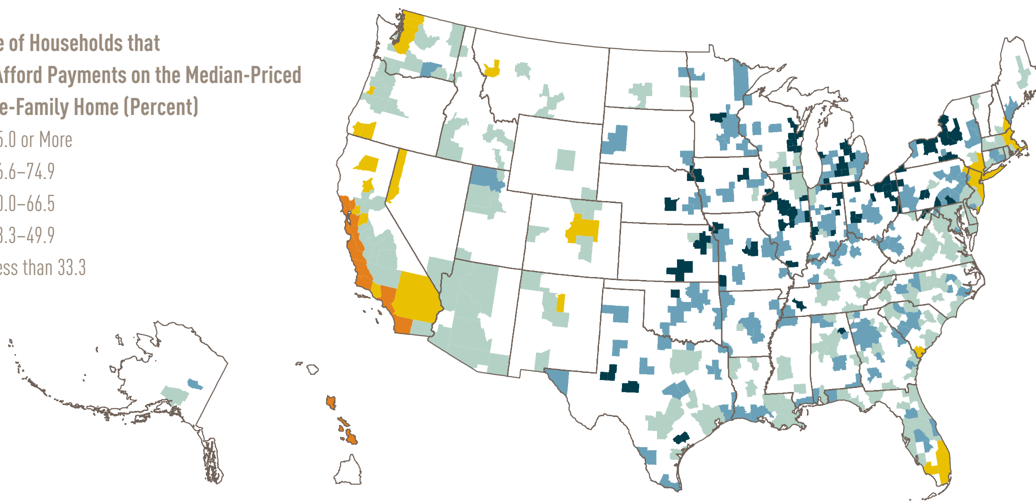
WIDE VARIATION IN AFFORDABILITY

Despite the ongoing rise in prices, low interest rates have helped keep homeownership conditions generally favorable. Indeed, a majority of households (59 percent) living in metro areas across the country could afford the monthly payments on a median-priced home in their market in 2015 **(Figure 22)**. However, the extent of affordability varied widely by tenure. For example, 72 percent of all households in St. Louis had sufficient income to afford the median monthly payment, compared with 64 percent in Philadelphia, 48 percent in Denver, and 25 percent in Los Angeles. However, the shares of renters with sufficient income to afford homes were significantly lower at just 51 percent in St. Louis, 42 percent in Philadelphia, 27 percent in Denver, and 12 percent in Los Angeles.

Another gauge of homeownership affordability is the percentage of income that the median-income household would have

FIGURE 22

Homeownership Is Still Affordable for a Majority of Households in All But the Most Expensive Metros



Notes: Monthly payments assume a 5% downpayment on the median-priced existing home with property taxes of 1.25%, property insurance of 0.25%, and mortgage insurance of 0.5%. Income is median household income. Affordable monthly mortgage payments are up to 36% of monthly income.
Source: JCHS tabulations of NAR, Existing Home Prices, Moody's Analytics Forecasts, and US Census Bureau, 2015 American Community Survey 1-Year Estimates.

to spend on monthly payments for the median-priced home (including principal, interest, property taxes, and insurance). By this measure, a median-income household would spend 18.2 percent of monthly income on home payments in a typical Midwestern metro, compared with 24.2 percent in Southern metros, 26.4 percent in New England metros, and 37.7 percent in Pacific division metros (including Alaska, California, Hawaii, Oregon, and Washington).

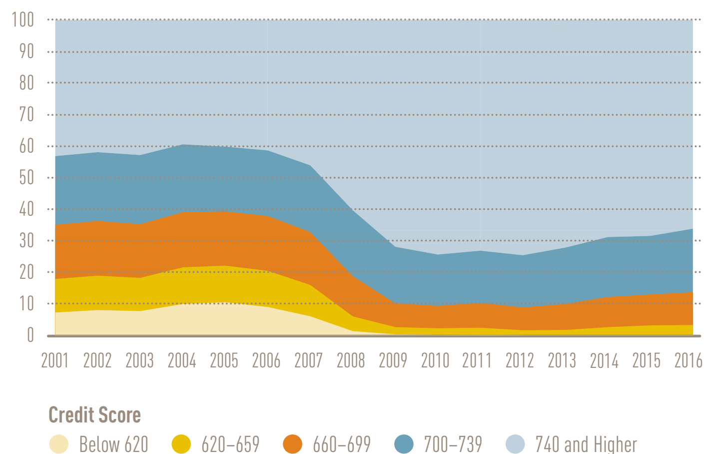
In the nation's 50 largest metros, the typical share of income required for home payments is 26.8 percent—somewhat higher than the 23.4 percent share for all other metros—and ranges from a low of 17.6 percent in Cleveland to a high of 68.6 percent in San Jose. By comparison, typical payments would require 37.0 percent of the median household's monthly income in Boston, 25.6 percent in Houston, and 21.3 percent in Atlanta.

Increasing prices and the prospect of interest rate hikes add considerable uncertainty to the future affordability of homeownership. As of April 2017, the net share of respondents to Fannie Mae's National Housing Survey expecting home prices to rise in the next 12 months had climbed to 45 percent. A one percentage point hike in mortgage interest rates would raise the typical monthly payments on a median-priced home by about $130, reducing the share of households able to afford homeownership in their respective metros from 59.0 percent to 55.7 percent—a decline of 3.3 million households.

FIGURE 23

Tight Lending Standards Limit Mortgage Access for Households with Lower Credit Scores

Share of Home Purchase Mortgage Originations (Percent)



Note: Data include only conventional first-lien purchase mortgage originations.
Source: JCHS tabulations of CoreLogic data.

MORTGAGE CREDIT CONSTRAINTS

The ability of most US households to become homeowners depends on the availability and affordability of financing. In 2015, only 36.7 percent of all homeowners owned their homes outright and, of those owners, most were older adults that had paid off mortgages.

The evidence continues to suggest that mortgage credit has tightened for households unable to meet standard underwriting criteria. The median credit score for owner-occupied home purchase originations increased from about 700 in 2005 to 732 in 2016, reflecting a sharp reduction in lending to households with lower scores. CoreLogic data indicate that just 0.1 percent of conventional first-lien home purchase mortgages last year were to borrowers with credit scores below 620 and 3.3 percent were to borrowers with scores between 620 and 659. The comparable shares in 2001 were 7.3 percent and 10.6 percent **(Figure 23).**

Mortgage credit indexes—which consolidate information about credit scores, downpayments, payment-to-income ratios, and other underwriting criteria and loan terms—confirm that conditions remained tight in 2016. Both the Urban Institute and CoreLogic indexes show that credit tightened dramatically following the foreclosure crisis and has not eased in recent years. While the Mortgage Bankers Association index does indicate a slight loosening from 2013 through 2016, the changes are minimal compared with the tightening that occurred from 2006 to 2009.

Access to small mortgage loans has become a particular challenge in metros with lower-cost homes. According to an Urban Institute analysis, the share of mortgage loans for less than $50,000 declined to 2.3 percent in 2014 after hovering near 3.0–4.0 percent from 2004 to 2011. While fixed origination costs and lower servicing income make these loans less attractive to lenders, the availability of small mortgage loans is critical to communities with large stocks of lower-priced homes. In these areas, limited access to mortgage credit could open the door to greater use of land contracts and other credit options that provide fewer protections for borrowers.

THE SUSTAINING ROLE OF FHA

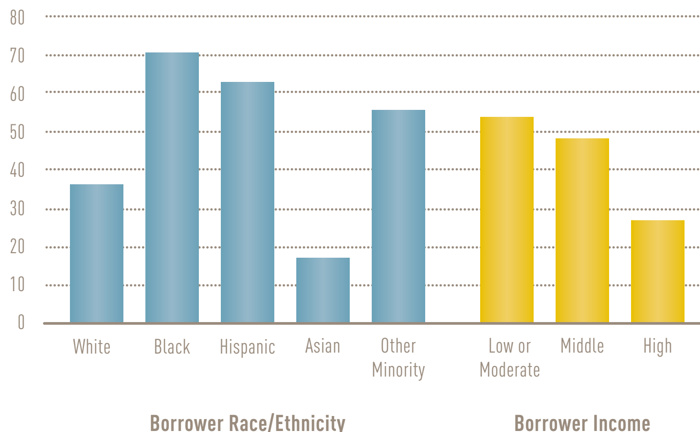
The Federal Housing Administration (FHA) plays a critical countercyclical role in ensuring access to mortgage credit. Between 2005 and 2009, the number of FHA home purchase mortgages increased by more than 350 percent just as the number of conventional home purchase mortgages plummeted. While the number of conventional loans has notched up in recent years, FHA still accounted for 24.8 percent of first-lien home purchase loans in 2015.

FHA's purchase loans primarily serve first-time homebuyers—especially those with limited income and wealth. In 2016, the

FIGURE 24

FHA and VA Loans Play a Critical Role for Low-Income and Minority Homebuyers

FHA/VA Share of Home Purchase Mortgages in 2015 (Percent)



Notes: FHA/VA share includes loans insured by the Farm Service Agency and Rural Housing Service. Data include only first-lien mortgages for one- to four-family, owner-occupied, site-built homes, and exclude loans with joint or missing race data. Low- or moderate-income borrowers have incomes below 80% of area median family income. Middle-income borrowers have incomes of 80–120% of area median family income.
Source: Home Mortgage Disclosure Act data as reported in Bhutta and Ringo (2016).

first-time homebuyer share of FHA mortgages was nearly 82 percent, almost double the government sponsored enterprise (GSE) share of 44 percent. According to an Urban Institute analysis, first-time homebuyers with FHA loans have lower credit scores, higher loan-to-value ratios, and higher payment-to-income ratios than those with GSE-backed loans. The average FHA loan to repeat homebuyers is also smaller than the average GSE loan to both first-time and repeat homebuyers, reflecting FHA's central role in financing the purchase of modestly priced homes.

FHA and other government-insured loans are a vital resource for lower-income and minority homebuyers **(Figure 24).** In 2015, FHA, Veterans Administration (VA), and other nonconventional mortgages accounted for 53.3 percent of home purchase loans originated to low- to moderate-income borrowers, along with 47.6 percent of loans to middle-income borrowers. Minority households also rely disproportionately on government-insured loans, which accounted for 70.2 percent of home purchase mortgages issued to black homebuyers and 62.6 percent to Hispanic homebuyers in 2015. By comparison, the nonconventional loan shares were just 36.0 percent for white homebuyers and 16.6 percent for Asian homebuyers.

The sustained pace of FHA and VA lending has contributed to growth in the outstanding volume of Ginnie Mae mortgage-backed securities, which now surpasses that of Freddie Mac. As of February 2017, Ginnie Mae accounted for 28.2 percent of the $6.1 trillion in agency securities, compared with shares of 27.6 percent for Freddie Mac and 44.2 percent for Fannie Mae.

NEED FOR CONSUMER EDUCATION

Potential homebuyers consistently point to affordability and lending requirements as the primary obstacles to homeownership. According to a 2015 Fannie Mae Survey, 41 percent of all households and 69 percent of renters believed it would be difficult to obtain a mortgage. The primary reasons given are insufficient income, limited or damaged credit histories, amount of existing debt obligations, and inability to afford the downpayment and closing costs.

Lack of education about mortgage options and the home purchase process may prevent some households from even considering a home purchase. More than three-quarters of all consumers and 70 percent of renters planning to buy homes within five years were unaware that the downpayment requirements could be as low as 3 percent. Among renters planning to buy within five years, 38 percent responded "don't know" when asked about the minimum downpayment requirement, while the average response of those that did answer was 13 percent. These survey results underscore the potential for consumer education campaigns and counseling to help connect would-be buyers to suitable mortgage products.

THE OUTLOOK

The future trajectory of the homeownership rate depends primarily on how quickly the foreclosure backlog clears, how many foreclosed households reenter homeownership, and how many millennials ultimately buy homes. Of course, major changes in the broader economy, housing finance system, and housing preferences could also affect the direction of homeownership rates to the extent that they alter access to and demand for homebuying.

Given great uncertainty on multiple fronts, JCHS homeowner projections examine the consequences of several scenarios. In the base projection, the national homeownership rate stabilizes near current levels. Under this assumption, the number of homeowners would grow by 4.6 million between 2015 and 2020. Alternatively, if the homeownership rate resumes the same pace of decline averaged over the past decade, the ranks of homeowners would increase by less than 750,000 households over this period.