SURVEY OF CONSUMER EXPECTATIONS

Housing Survey—2015

http://www.newyorkfed.org/microeconomics/sce/

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Households Remain Broadly Optimistic about Housing Market; Most Renters Want to Own

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Overview

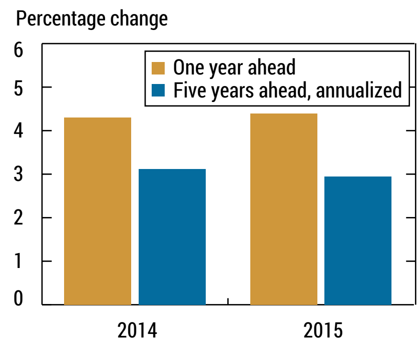
The *SCE Housing Survey – 2015* indicates that attitudes toward housing as a financial investment remain decidedly positive. U.S. households, on average, expect home price growth to continue at a 4.4 percent pace over the next year, comparable to the average year-ahead expectation reported in last year's survey. Survey respondents expect mortgage rates to increase in coming years, but at a moderate pace. Among homeowners, the expressed likelihood of investing in improvements to the home has declined somewhat relative to last year. Most renters report that they would rather own than rent if they had the necessary financial resources; as in last year's survey, a majority of them believe that it would be difficult to obtain a mortgage, although responses suggest a slight easing in perceived credit access.

Home Price Expectations

Survey respondents were asked for the current value of a typical home in their zip code, and what they expected the value of that home to be in one year and in five years (Chart 1). On average, respondents expected home prices to increase by 4.4 percent over the next twelve months—a rate 0.1 percentage point higher than the average rate in the 2014 survey and remarkably close to the mean forecast of 4.37 percent in a January 2015 survey of housing market experts conducted by **Pulsenomics**. The median expectation in the 2015 survey of 3.0 percent, however, was lower than the 2014 median of 3.3 percent. With regard to longer-term expectations, the average (median) expected annualized change in home prices over the next five years was 2.9 percent (2.4 percent). These figures were slightly lower than the corresponding figures in the 2014 survey, where the mean (median) expected annualized change in home prices over the longer horizon was 3.1 percent (2.6 percent). Thus, overall, respondents expected home price growth to continue, but at a slower pace at a horizon beyond one year.

Chart 1

AVERAGE HOME PRICE CHANGE EXPECTATIONS



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents in 2014 was 1,209; in 2015, 602. Half the respondents in this year's survey saw the question in a format that was not directly comparable to last year's format. See page 16 in the **chart packet** for question wording.

The survey reveals notable differences in home price expectations by respondents' home ownership status. The average home price growth expectations of current renters were about a percentage point higher than those of owners at both horizons. For example, the average year-ahead expectation for renters was 5.2 percent, significantly higher than the average of 4.1 percent for owners. This finding is not unique to the 2015 survey: a similar gap was evident in home price expectations in the 2014 survey. Since the 2014 survey, owners' average expectations about home price changes over the one-year horizon have exhibited little change. However, for renters, the mean (median) short-term home price expectations declined from 5.4 percent (3.7 percent) to 5.2 percent (3.1 percent).

Respondents were also allowed to express uncertainty about changes in future home prices. Specifically, respondents were asked to assess the likelihood (on a 0 to 100 scale) that, over the next year, the price of a typical home in their zip code would decrease by more than 5 percent, decrease by between 0 and 5 percent, increase by between 0 and 10 percent, or increase by more than 10 percent. Responses to these four possible outcomes were required to sum to 100. Table 1 shows the mean (median) probabilities assigned to these events. The most likely outcome for the average respondent was an increase in home prices of between 0 and 10 percent. However, the average respondent saw a sizable likelihood that home prices would stay unchanged or decline over the next twelve months: the average (median) likelihood assigned to home prices staying unchanged or declining was nearly 40 percent (30 percent). The perceived likelihood of a severe decline of more than 5 percent, however, was much lower (11 percent mean, 5 percent median).

Is Housing a Good Investment?

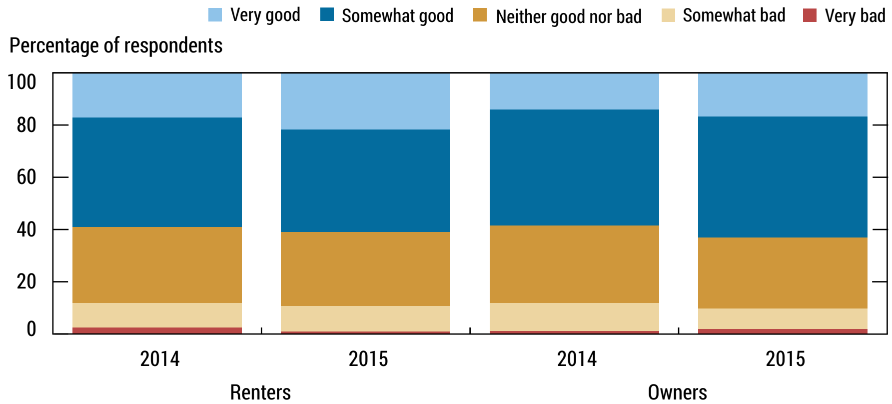
One of the goals of our survey is to document how attitudes toward housing as an investment evolve over time. Respondents were asked to assess how good an investment buying property in their zip code would be today (relative to other possible financial investments), on a qualitative scale from "very good" to "very bad." Chart 2 shows the distribution of responses for renters and owners separately, for both the 2014 and 2015 surveys.

Results for the 2015 survey show that more than 60 percent of both renters and owners think that buying property in their zip code is a (very or somewhat) good investment, while only about 10 percent think it is a bad investment.

A comparison of the 2015 and 2014 responses reveals little difference in how renters have answered this question over time. However, owners seem to have become more bullish since last year's survey. The proportion of owners who think that housing is a good investment increased from 58.5 percent in the 2014 survey to 63.2 percent, while the proportion thinking that housing is a bad investment declined from 11.9 percent to 9.8 percent (the distributions are in fact statistically different: p-value = 0.053 using a Chi-square test).

Chart 2

IS HOUSING A GOOD OR BAD INVESTMENT?



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents who were renters was 345 in 2014, 344 in 2015. The number of respondents who were owners was 868 in 2014, 861 in 2015. See page 23 in the chart packet for question wording.

Table 1

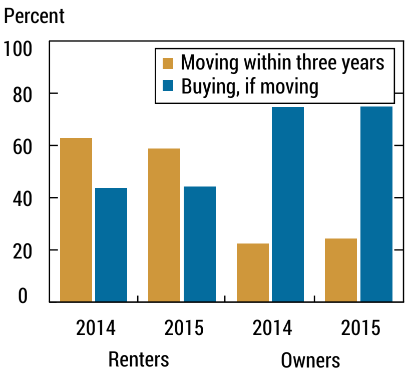
UNCERTAINTY IN YEAR-AHEAD HOME PRICE EXPECTATIONS

	Perceived Probability of Specified Price Change	
	Mean	Median
Decrease by more than 5 percent	10.9	5.0
Decrease by 0 to 5 percent	28.7	25.0
Increase by 0 to 10 percent	48.0	50.0
Increase by more than 10 percent	12.4	10.0

Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents was 603. See page 19 in the chart packet for question wording.

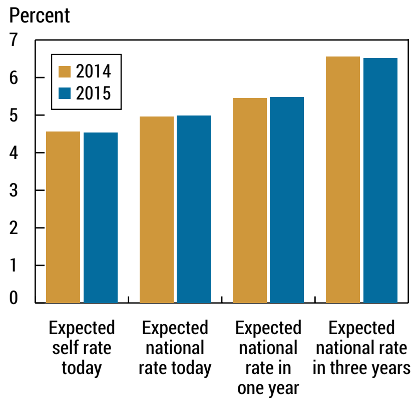
Chart 3
AVERAGE PROBABILITY OF MOVING AND BUYING



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents who were renters was 339 in 2014, 340 in 2015. The number of respondents who were owners was 864 in 2014, 858 in 2015. See pages 26 and 29 in the **chart packet** for question wording.

Chart 4
AVERAGE MORTGAGE RATE EXPECTATIONS



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents in 2014 was 1,209; in 2015, 1,203. See pages 33 and 34 in the **chart packet** for question wording.

Plans regarding Moving and Buying

Respondents were asked about the likelihood (on a 0 to 100 scale) of moving over the next three years, and of buying a home (as opposed to renting) if they were to move. Chart 3 shows the average responses to these questions for renters and owners, separately, for the two surveys.

In 2015, the average renter in our sample assigned a 58.8 percent chance to moving over the next three years, compared with a significantly lower percent chance of 24.3 for the average owner. The corresponding averages in the 2014 survey were 62.9 percent for renters and 22.4 percent for owners. Thus, relative to last year, renters' likelihood of moving has decreased somewhat while the opposite has happened for owners; the changes, however, are not statistically significant.

Conditional on moving, the average likelihood of buying (as opposed to renting) their new home was 44.2 percent for renters and 74.9 percent for owners. These average expectations of buying changed little between the two surveys.

Mortgage Rate Expectations

Respondents were asked what mortgage interest rate they thought they would qualify for (the "expected self rate") if they applied for a thirty-year fixed-rate mortgage today. They were also given the opportunity to state that they would not qualify at any mortgage rate, a response chosen by 15 percent of respondents in 2015 (as compared with 17 percent in 2014). Among those that did report a rate, the average in 2015 was 4.5 percent, close to the 2014 average of 4.6 percent (Chart 4); medians in both years were 4 percent. In addition, respondents were asked what they thought the average currently available interest rate on such a mortgage was for all borrowers (the "expected national rate"). As the chart shows, respondents tended to think that the average borrower would need to pay a rate higher than their own; relative to February 2014, the average rate (5.0 percent) was nearly unchanged. That said, the median response fell from 4.5 percent to 4 percent between the two surveys. This decrease was in line with the decrease in the commonly used **Freddie Mac Primary Mortgage Market Survey rate**, which averaged 4.3 percent in February 2014 and 3.7 percent in February 2015.

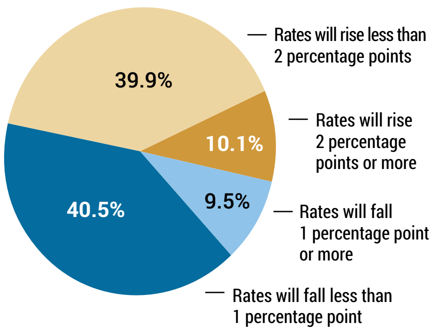
Respondents were next asked where they thought the average rate would be in one year and in three years. On average, respondents in 2015 expected a modest increase of 0.47 percent over one year (median of 0.25 percent), and a somewhat larger increase of 1.56 percent over the next three years (median of 1 percent). These expected increases were similar to the averages reported one year ago.

While respondents, on average, expected rates to increase, they expressed substantial uncertainty about this forecast. Chart 5 shows the average expressed probabilities of mortgage rates changing by different amounts over the next year. On average, respondents thought that rates were about equally likely to fall as to rise. They perceived the probability of a 1 percentage point or larger decrease to be roughly 10 percent, and the probability of rates increasing by 2 percentage points or more to be about 10 percent.

Chart 5

UNCERTAINTY IN YEAR-AHEAD MORTGAGE RATE EXPECTATIONS

Average Perceived Probability of Specified Rate Change

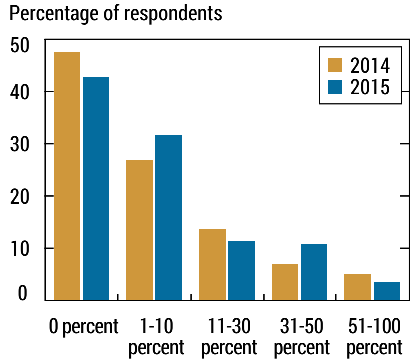


Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents was 1,202. See page 35 in the chart packet for question wording.

Chart 6

PROBABILITY OF MORTGAGE REFINANCING OVER NEXT TWELVE MONTHS



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents in 2014 was 574; in 2015, 553. See page 80 in the chart packet for question wording.

Owners: Plans regarding Home Investments

Owners were asked to assess the likelihood that they would invest in improvements to their home costing more than $5,000 over the next three years, and—if the likelihood exceeded 5 percent—over the next twelve months. Chart 7 shows the average responses for the two surveys. In the 2015 survey, the average percent chance of making investments in the home in the next three years (twelve months) was 42.6 percent (27.3 percent). These figures represent a significant decline from the 2014 survey results: there, the average likelihood for the three (one) year horizon was 49.6 percent (33.5 percent).

Owners: Expectations of Mortgage Refinancing

In another part of the questionnaire, current homeowners with a mortgage were asked how likely they were to refinance their loan over the next twelve months. Most respondents assigned only a low probability to refinancing: almost three-quarters of respondents put the probability at 10 percent or less (Chart 6). Only 14 percent of respondents judged the chance to be higher than 30 percent. Relative to the 2014 responses, responses to the 2015 survey showed some movement in the probabilities assigned, but the overall picture remained similar: in both years, only a few borrowers planned on refinancing.

Borrowers were also asked if they had ever refinanced their mortgage and, if so, when they had last refinanced. Fifty-six percent of respondents said that they had previously refinanced; among those, 46 percent had done so more than three years ago. In this latter group, the stated probability of refinancing was somewhat higher but remained modest (average 14 percent; 17 percent reported that their chance of refinancing was more than 30 percent).

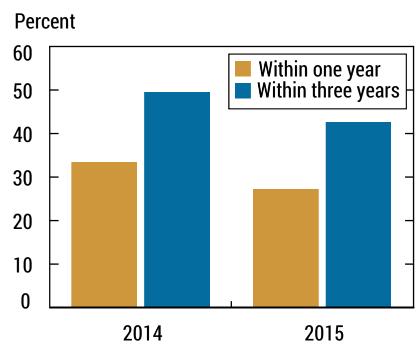
The main reasons cited for not refinancing were that the savings on the monthly payment would not be worth it or that respondents were satisfied with the terms of their current mortgage, that the upfront monetary cost was too large, or that refinancing was too time-consuming or too much of a hassle. Only a relatively small number of current mortgage borrowers refrained from refinancing because they thought they would not get approved (see page 83 in the chart packet).

Renters: Access to Financing and Preference for Owning versus Renting

Current renters were asked whether they thought it would be easy or

Chart 7

AVERAGE PROBABILITY OF INVESTING IN THE HOME



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents in 2014 was 861; in 2015, 857. See page 54 in the chart packet for question wording.

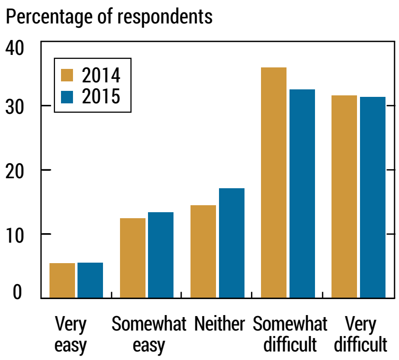
difficult to obtain a home mortgage if they wanted to buy a home today. Sixty-four percent reported that obtaining a mortgage would be somewhat or very difficult (Chart 8). While this is a large fraction, it is slightly smaller than in 2014, when 67.5 percent expressed the same belief. Thus, the response to this question suggests a modest easing in perceived credit access for renters or an improvement in their economic circumstances.

Renters were also asked whether they would prefer to own rather than rent their primary residence, if they had the financial resources to do so. As Table 2 shows, 45.6 percent of renters reported that they would strongly prefer owning. Furthermore, among those, access to financing seemed to be an important hurdle, with more than 70 percent stating that it would be somewhat or very difficult for them to obtain a mortgage. Only about 20 percent of renters indicated an inherent preference for renting over owning.

In addition to eliciting renters' preferences on this issue, the survey asked renters to assess the likelihood that they would at some point in the future own their primary residence. The median response was 60 percent, with almost two of five respondents reporting a probability of 80 percent or higher.

Chart 8

RENTERS' PERCEIVED LEVEL OF DIFFICULTY IN OBTAINING A MORTGAGE



Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents in 2014 was 345; in 2015, 344. See page 97 in the chart packet for question wording.

Table 2

RENTERS' PREFERENCE FOR OWNING VS. RENTING; PERCEIVED ACCESS TO MORTGAGE FINANCING

	Percentage of Sample	
	Responding . . .	Citing Difficulty in Obtaining a Mortgage
Strongly prefer owning	45.6	72.6
Prefer owning	22.7	59.0
Indifferent renting/owning	12.5	51.2
Prefer renting	13.4	56.5
Strongly prefer renting	5.8	60.0

Source: Federal Reserve Bank of New York, SCE Housing Survey.

Notes: The number of respondents was 344. See page 100 in the chart packet for question wording.

About the Survey

This report presents highlights from the Federal Reserve Bank of New York's *SCE Housing Survey – 2015*, which was administered to 1,205 U.S. household heads in February 2015. Like the **2014 survey**—the first in this series—this year's survey collects rich and high-quality information on consumers' experiences and expectations regarding housing. In particular, it gathers data on individuals' perceptions and expectations of growth in home prices, intentions regarding moving or buying a new home, and access to credit. A **chart packet** containing detailed survey findings in graphic form accompanies this report.