The views expressed here are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

We thank Rebecca Landau and Kyle Smith for their research assistance.
Overview

• How has homeownership evolved over last 25 years?
• Why did homeownership fall so much after 2004?
• What are the potential future paths for homeownership?
• What will determine which path is taken?
Preamble: homeownership basics

• Homeownership rate is share of households who own the unit they inhabit
  – “Household” is a group of people living at the same address

• Why do we care about homeownership?
  – Owner’s equity is an important form of wealth
    • Over $15 trillion and the most important asset for many households
  – Potential benefits to society
Boom & Bust
Homeownership experienced an unprecedented cycle

Homeownership Rate (percent of households)

Source: Census
The homeownership boom and bust

• What drove the 1995-2016 surge and collapse in homeownership?
  – Consequential: estimated 10.7 million fewer homeowners in 2016
10.7 million fewer owner households

Source: Census, authors’ calculations
The homeownership boom and bust

• What drove the 1995-2016 surge and collapse in homeownership?
  – Consequential: 10.7 million fewer homeowners by 2016

• Trends in homeownership driven by entry and exit
  – **Entry**: forming new owner household; from previously renting or from previously no household.
    • Key factor: Formation of owner-occupancy households/first-time buyers
  – **Exit**: transition to renting or to “doubling up” (reducing number of households)
    • Key factor: Foreclosure
Entry to homeownership strong 2000-03, fell steadily after 2004

Source: New York Fed Consumer Credit Panel/Equifax
Exit: 10.5 million exited homeownership by foreclosure between 2006 and 2013

Source: New York Fed Consumer Credit Panel/Equifax
The homeownership boom and bust

• Large inflow, 2000-2004
  – High inflow of first time buyers (Lee & Tracy 4/8/19)

• Large outflow 2006-2016
  – Many owners defaulted (Haughwout, Peach and Tracy 2/16/17)

• Next: Which households were affected?
  – Important in understanding equity consequences of decline
  – Important for assessing outlook through 2030
Homeownership increases with age, but recent cohorts lag

Source: Survey of Consumer Finances
Homeownership fell most for the young

Source: Survey of Consumer Finances
Outlook
The homeownership outlook

• Changes in homeownership over next decade will be determined by entry and exit

• **Exits:** Foreclosure rate very low, likely to stay low
  – Homeowner equity, key determinant of default, at all-time high
  – Outstanding mortgage debt skewed to older, higher credit score borrowers much less likely to default
  – Even in stress events foreclosure rate expected to remain below 6%
    • See Fuster et al., 2018, updated.
  – Currently observed homeownership is very sustainable
The homeownership outlook

- **Entry:** Depends on demography, economic conditions
  - What demand factors does history suggest will change over time?
    - Age structure
    - Preferences for homeownership
    - Ability to pay/borrow
  - Renters/young people are key
Aging population will push up homeownership

• As population ages homeownership, rate rises
  – Aging effect was overwhelmed 2006-2016 by exits via foreclosure

• Where will homeownership end up?
  – 2004 – high homeownership rate for each age (esp. young)
  – 2018 – low homeownership rate for each age (esp. young)
  – In between the 2004 and 2018 scenarios

• Answer is consequential for rate and number of homeowners
Projecting homeownership – 2004 vs 2018 rates

Percent of households

11 million new owner households
1.1 pp increase in homeownership rate

Source: Census, authors’ calculations
Projecting homeownership – 2004 vs 2018 rates

Source: Census, authors’ calculations
Projecting homeownership – 2004 vs 2018 rates

Percent of households

Source: Census, authors’ calculations
High or low ownership scenario?

• Factors increasing homeownership
  – Renters prefer owning
  – Owning a good investment

• Impediments to homeownership
  – Tight credit
  – Student debt
  – Renters not optimistic that they will own
Large majority of renters prefer owning

Preferences for owning versus renting (renters only)

- 47% strongly prefer owning
- 24% prefer owning
- 12% indifferent
- 9% prefer renting
- 7% strongly prefer renting

Source: Survey of Consumer Expectations
More than half still assess financing hard to get

Ease of obtaining financing (renters only)

- very easy: 10%
- somewhat easy: 11%
- neither: 21%
- somewhat difficult: 32%
- very difficult: 26%

Source: Survey of Consumer Expectations
Data confirm this impression

Credit Score at Origination: Mortgages

Score
800
750
700
650
600
550
03:Q1 05:Q1 07:Q1 09:Q1 11:Q1 13:Q1 15:Q1 17:Q1 19:Q1

Source: New York Fed Consumer Credit Panel/Equifax
* Credit Score is Equifax Riskscore 3.0; mortgages include first-liens only.
Student debt a known impediment to homeownership transitions

• Historically indicated high education and good prospects
• Now can be an impediment
• Analysis of rise in state public college tuition and fees shows:
  – No effect on college going
  – Sharp rise in student debt – explains up to 35% of decline in 28-30yrs old homeownership rate from 2007 to 2015 (Brown et al, 2018)
• Prevalence, not just delinquency
Many renters see ownership as unlikely. . .

Share expecting no chance of ownership

Source: Survey of Consumer Expectations
Many renters see ownership as unlikely. . .

Share expecting low or no chance of ownership

Source: Survey of Consumer Expectations
. . . even those who prefer owning

Share who prefer ownership but expect low or no chance of owning

Source: Survey of Consumer Expectations
Projecting homeownership – 2004 vs 2018 rates

Percent of households

Source: Census, authors’ calculations
What to watch for

• Changes in attitudes toward homeownership (SCE)
• Loosening credit (CCP)
• Changes in student debt prevalence and delinquency (CCP)
• Changes in economic outlook (SCE)
Key takeaways

• Homeownership seems to be bouncing back after a long and unprecedented period of decline

• Declining rates of first-time homeownership and high foreclosures drove the declining homeownership rate from 2006-2016

• Outlook for homeownership depends on demand and supply factors
  – Demand factors broadly supportive of continued rebound through 2030
  – Tight credit may constrain how high homeownership will go
    • But also increases sustainability