

The Future of Homeownership

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Looking into the Future

- We will soon be a majority-minority country
- Comprehensive immigration reform will pass at some point
- On-going transformation towards a service economy
- Largest growth in populations among groups traditionally associated with lower incomes and wealth
- Full long term impact of legal and regulatory changes still uncertain: QM, QRM, GSE reform, etc.



Estimating Homeownership Rates

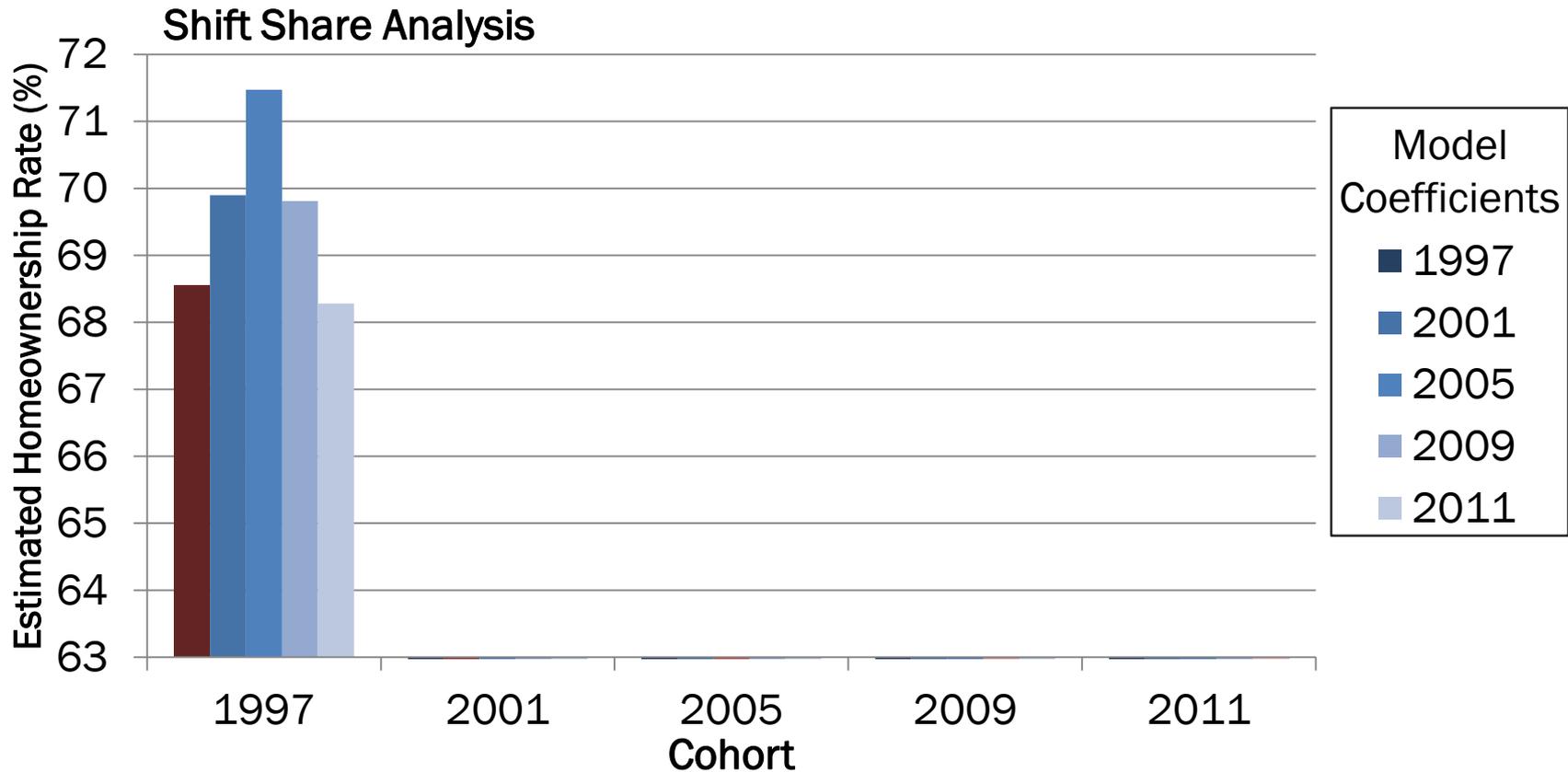
Likelihood of homeownership controlling for demographic characteristics and credit constraint

Methodology builds on Census Bureau's "Who Could Afford to Buy a Home in ...?" report series

- Survey of Income and Program Participation (SIPP) data provides detailed information on household income and assets. Larger sample size than Survey of Consumer Finances
- Credit constraint defined as sufficient qualified income and assets to afford house value in 25th percentile of state of residence given maximum 28% debt-to-income and 95% loan-to-value ratios
- Survey data, including Assets and Liabilities module, used from following years (panel-waves) 1997 (1996-3), 2001 (2001-3), 2005 (2004-6), 2009 (2008-4), 2011 (2008-10)



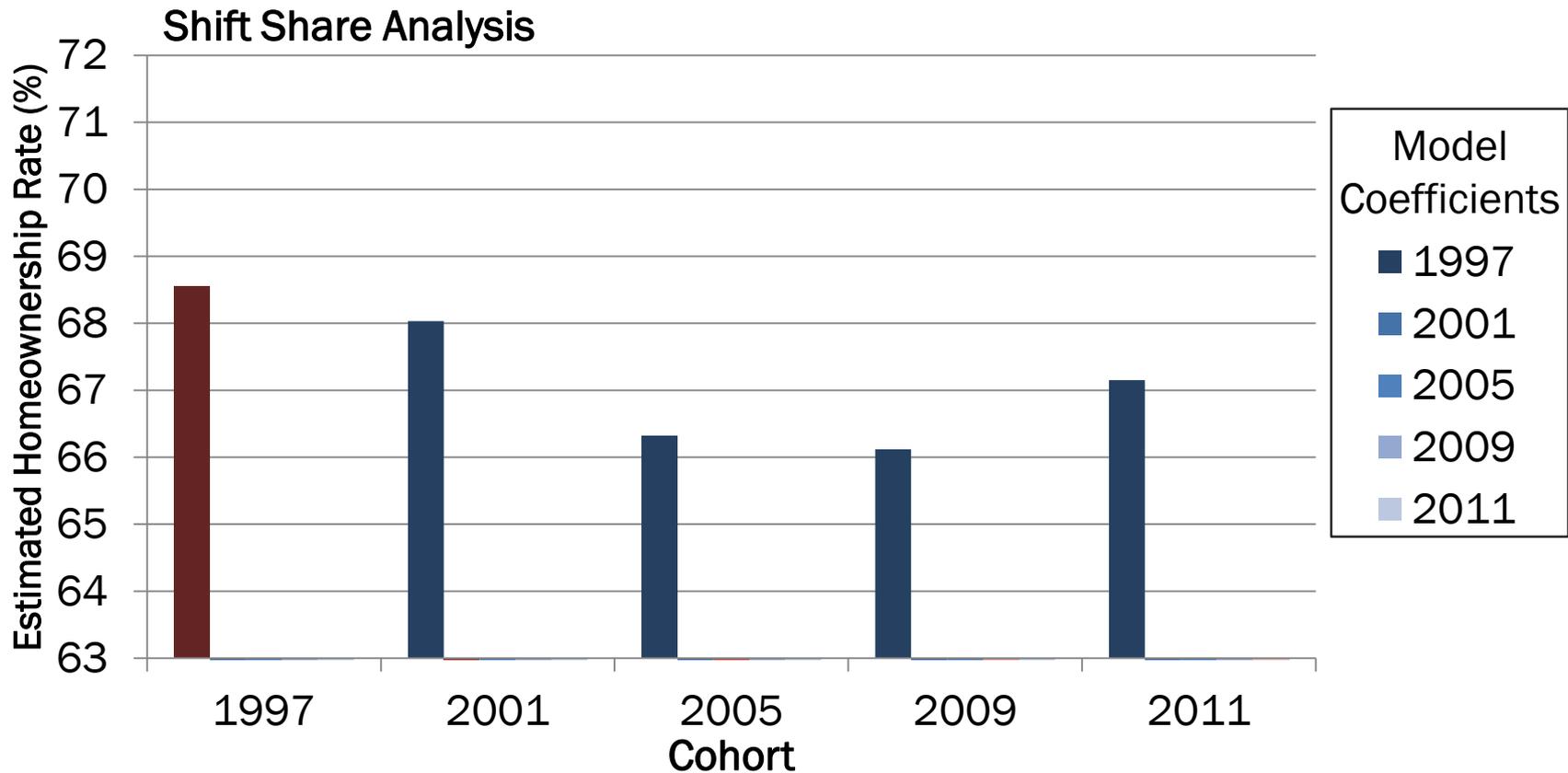
Same Cohort Would Have Had Large Rise and Fall in Homeownership Using Coefficients from Other Model Years



Red bars indicate same year cohort X coefficient combinations.



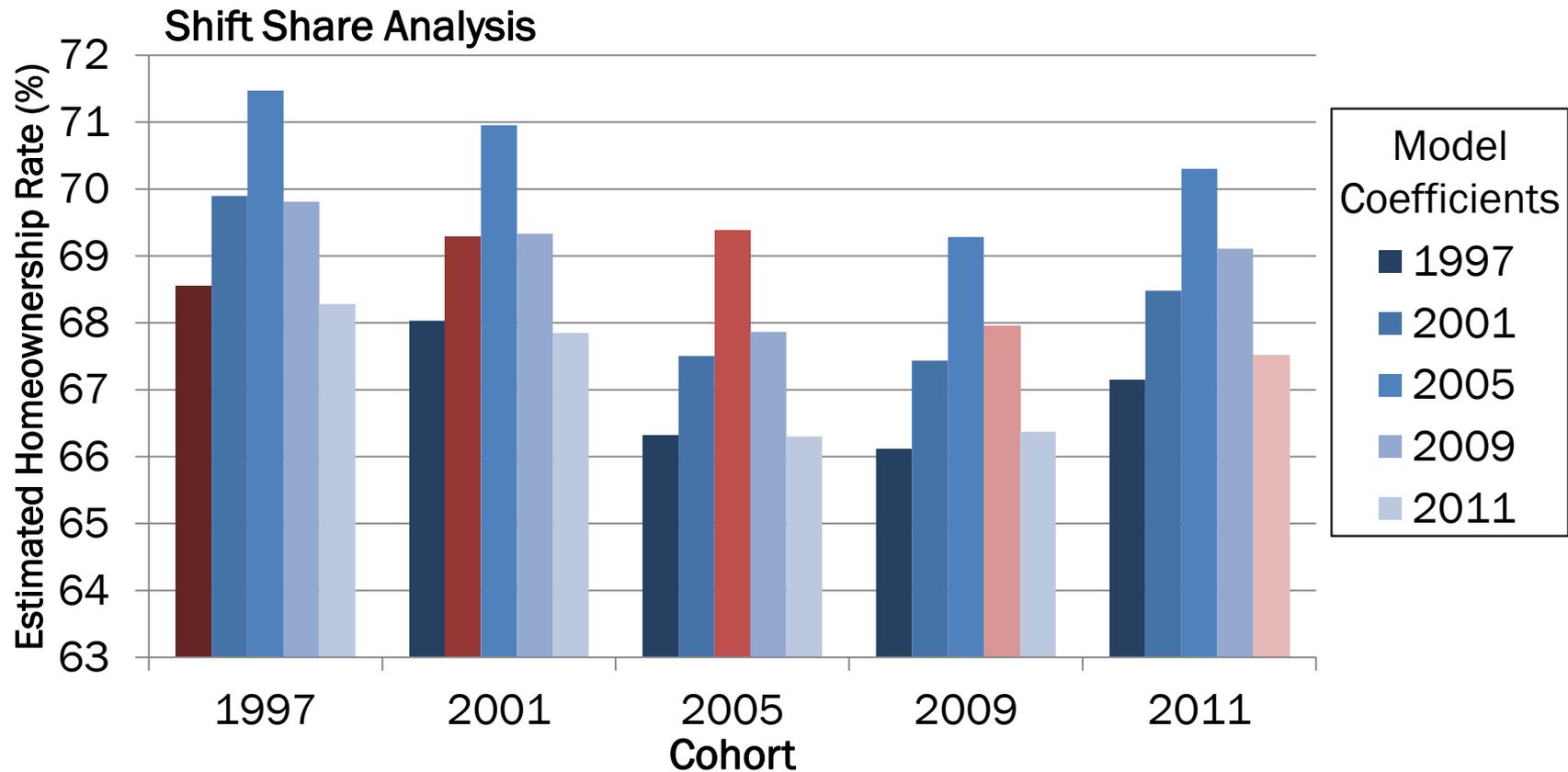
Trend in Cohort Characteristics is the Reverse



Red bars indicate same year cohort X coefficient combinations.



Pattern True for All Cohorts and Coefficients



Red bars indicate same year cohort X coefficient combinations.



Difference in Homeownership Rates

Average Marginal Effects (%)

	1997	2001	2005	2009	2011
Credit Constrained	-34.6	-35.2	-34.7	-31.6	-31.6
Racial Gap					
Black	-9.4	-9.9	-11.2	-11.7	-11.1
Hispanic	-7.6	-9.4	-6.1	-8.9	-8.6
Other	-10.9	-11.7	-7.8	-8.8	-8.3

Effect of credit constraint affected by endogeneity between wealth and homeownership

- House price declines lower net worth, but even negative equity presumes homeownership.
- Sub-samples of recent movers and renters confirms stronger credit constraints in 2011 than 2005 (but still less than 1997)



Projections

Tenure choice model results applied to household projections created by Harvard's Joint Center for Housing Studies

- Non-Hispanic White households projected to account for only 16-20% of total household growth between 2013 and 2035.

Simulate possible number of homeowners and homeownership rate under different underwriting environments (i.e., the years 1997, 2005, and 2011).



Underwriting Matters More Than Immigration

Homeownership in 2035

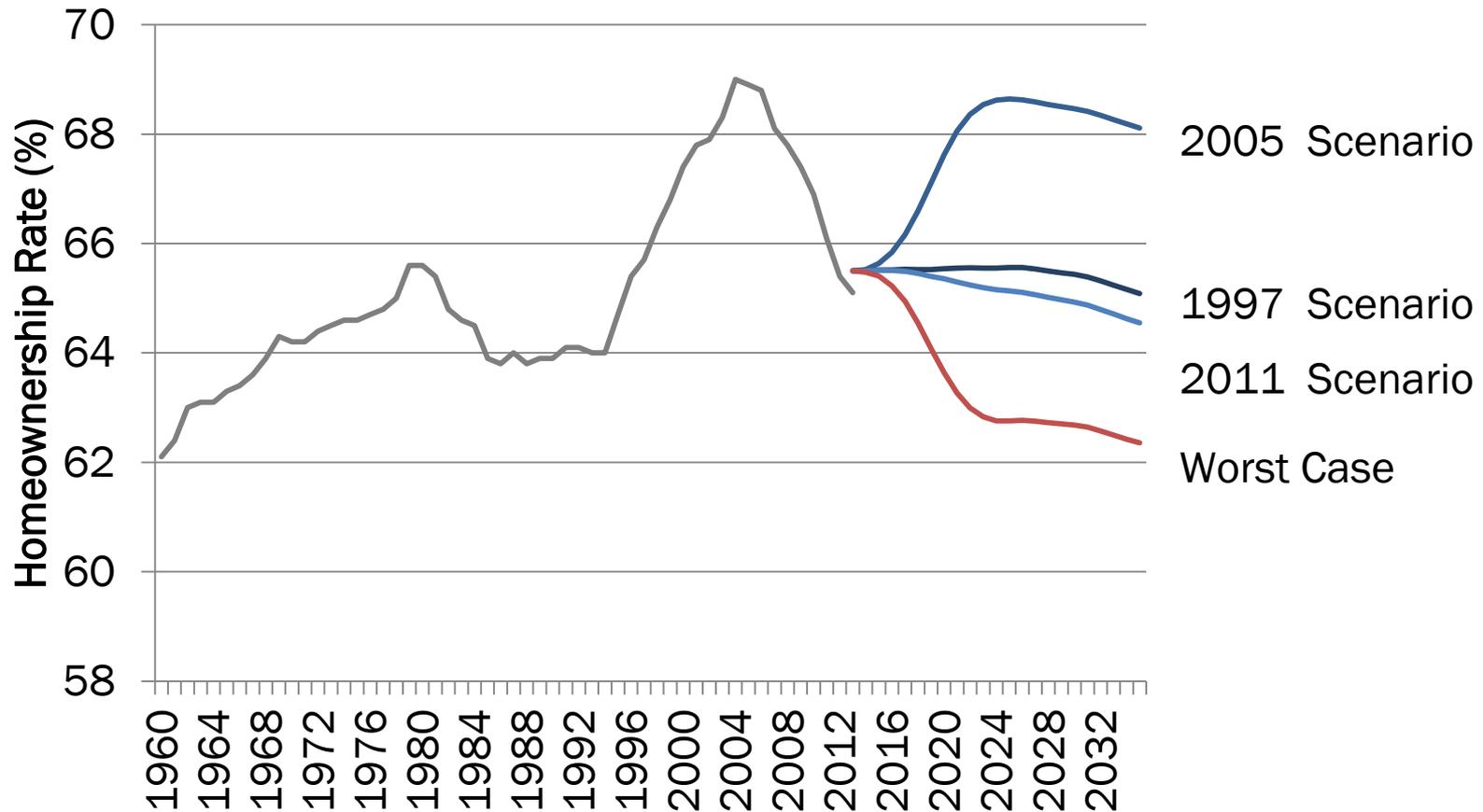
	Immigration Scenario		
	Low	Medium	High
Homeowners (Millions)			
1997 Scenario	95.1	96.3	97.5
2005 Scenario	99.4	100.8	102.2
2011 Scenario	94.3	95.5	96.8
Worst Case	91.2	92.3	93.4
Homeownership Rate (%)			
1997 Scenario	65.4	65.1	64.8
2005 Scenario	68.3	68.1	67.9
2011 Scenario	64.8	64.5	64.3
Worst Case	62.7	62.4	62.1

2014Q1: 74.4 million homeowners (64.8%)

“Worst Case” scenario uses estimated effect of credit constraint from 1997 scenario but replaces 28% DTI and 95% LTV with prevailing market averages of 21% and 79%, respectively.



Future Homeownership Rates



Scenarios phased in between 2013 and 2025.



Half-Full/Half-Empty Glass

- Even under our worst case scenario, we estimate that the the overall homeownership rate will not be less than 62% in 2035 or about 3% points lower than today.
- The “browning” of America will lead to this falling homeownership in the long-term overall without steps to address racial gaps and credit constraints.
- The homeownership rates among households of color is still likely to be lower than for whites households, limiting any wealth building opportunity resulting from the purchase of a home