6 Trends

Poised to Reshape Homeownership Demand

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First American

6 Trends

Poised to Reshape Homeownership Demand

Homeownership continues to be the foundation of the pursuit of the American Dream. It is a critical driver of economic mobility, delivering financial and social advantages to families and entire communities. In this era of economic, technological and societal change, understanding the state of homeownership today and what trends will influence homeownership in the future can help inform the discussions necessary to preserve homeownership opportunities for the next generation.

There are many characteristics that influence the likelihood someone is a homeowner. When analyzing the homeownership rate, it's important to understand how these characteristics affect the decision to rent or purchase a home. By doing so, we discover six key trends that will transform homeownership demand in the future, and our understanding of homeownership's role in achieving the American Dream.

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Homeownership: More Than a Symbol

Homeownership is not just a symbol of the American Dream, but rather a real and impactful part of the economy.

As U.S. homeownership rates hit half-century lows, many are afraid that this dream is fading. However, the dream of homeownership is far from dead. Nearly 77 percent of people who responded to a recent Chase survey[1] agreed that homeownership was a part of achieving the American Dream. After owning a home, half of respondents selected going to college, getting married and having children as other elements that are vital to the fulfillment of that dream. Another survey[2] confirms this sentiment as it found that 94 percent of Millennials between the ages of 20-29 are planning to buy a home.

While it may not be a surprise that homeownership remains a priority, it may come as a surprise that Millennials have not been discouraged from this goal. Millennials are often referred to as a "renter generation," because they have prioritized their education and tend to concentrate in metropolitan areas. They have, for now, chosen to share cramped apartment space with roommates over the making the commitment to buy a home. But the American Dream is not the mere act of owning a home, but rather an ethos or set of ideals that allows citizens the opportunity to pursue prosperity and upward mobility through hard work. In this context, homeownership is not just about shelter, but a primary vehicle for wealth creation for middle-class Americans.

As U.S. homeownership rates hit half-century lows, many are afraid that this dream is fading. However, the dream of homeownership is far from dead.

The concept that owning a home is a financially savvy move is not new. Our parents knew it, and their parents before them knew it. But this idea is especially relevant for the bottom 40 percent of households, based on the income distribution in the U.S. In fact, of those in this cohort who are homeowners, three-fourths of their wealth comes from their home. According to the 2007 Survey of Consumer Finances, 46 percent of aggregate household wealth is residential wealth. Even during the recovery from the Great Recession, the net worth of homeowners over time outpaced that of renters, who tend to accumulate very little wealth.

"Homeownership is the first rung on the ladder of wealth creation in our nation."

U.S. Rep. Loretta Sanchez

As you might expect, homeowners are wealthier. In dollar terms, a typical homeowner's net worth was $195,400, while that of a renter was $5,400. The median wealth-to-earnings ratio for homeowners is almost four, but a meager 0.21 for renters. Finally, homeowners hold a staggering 97.5 percent of aggregate household wealth in the United States.

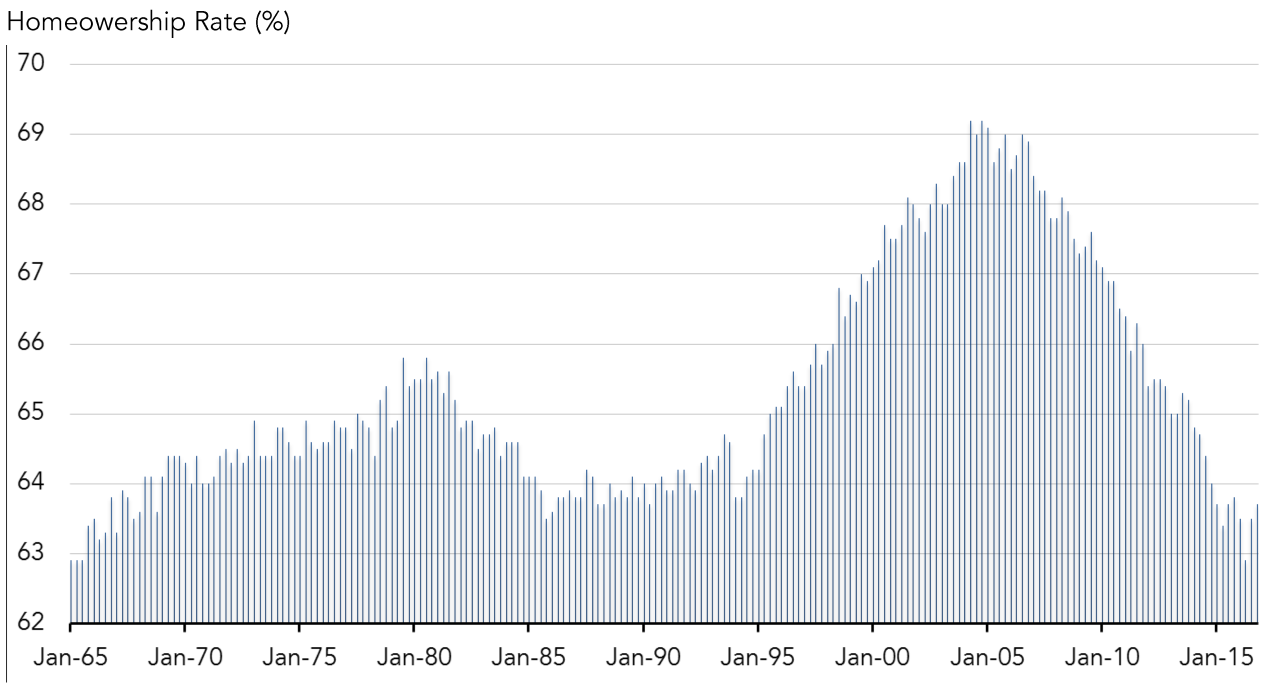
Promoting homeownership is also a political priority. "Homeownership is the first rung on the ladder of wealth creation in our nation," said Representative Loretta Sanchez (D-Ca) speaking about the importance of furthering first-time home buyer demand because of homeownership's proven ability to facilitate wealth creation at First American's State of Homeownership leadership event in 2015.

Beware the Typical Homeownership Rate Study

There are many characteristics that influence the likelihood someone will become a homeowner.

When analyzing the homeownership rate, it's important to understand why these characteristics matter to the decision to rent versus own. Figure 1 below shows the change in homeownership rates over the past 50 years. However, it does not show the demographic, lifestyle and economic shifts that have influenced the changes in homeownership.

Figure 1. Is Something Restricting the American Dream?



Source: U.S. Census Bureau, Q4 2016

Homeownership rate studies often fall victim to the common "correlation is causation" myth. The homeownership rate today only measures the percentage of homes that are owned by their occupants.

It can be misleading to infer a direct causal relationship on any one of these factors without considering the others. To overcome this dilemma, economists use a multi-dimensional analysis of relationships "ceteris paribus" – or all other things being equal or held constant.

Researchers frequently subdivide this number by numerous characteristics, such as age or income. Often, the homeownership gaps among these subdivided groups are taken to mean that one characteristic makes someone more or less likely to be a homeowner.

Unfortunately, this correlation is based on a simplistic view of homeownership. It only looks at one isolated characteristic of the potential homeowner at a time. By doing so, it overlooks a combination of economic and demographic factors often correlated with one another that influence the likelihood someone is a homeowner, including economic conditions, ethnicity, age, marital status, the number of children in the household, educational attainment, employment status and income level.

For example, educational attainment is typically strongly correlated with income – more education often leads to more income. Higher income means an increased likelihood of owning a home. Similarly, a secure job with a steady income usually indicates a greater ability to save for a down payment and a greater likelihood of access to credit. In addition, people tend to settle down in a home once they are married and decide to have children. On average, this happens to most in their late 20s or early 30s although Millennials are pushing this age threshold increasingly higher. Other factors, including gender, whether one lives in an urban or rural area, and where in the U.S. one resides, are also relevant.

In summary, it can be misleading to infer a direct causal relationship on any one of these factors without considering the others. To overcome this dilemma, economists use a multi-dimensional analysis of relationships "ceteris paribus" – or all other things being equal or held constant. Using this approach, our analysis of homeownership identified six trends that will have a dramatic impact on homeownership demand in the years ahead.

Trend #1: The Most Educated Generation in the U.S.

Millennials are going to be the most educated generation[3] in the U.S. Generally speaking, they have widely delayed family formation in lieu of the pursuit of higher degrees.

A Millennial with a college degree earns approximately $17,500 a year more than a Millennial with only a high school diploma.

Despite the popular narrative surrounding Millennials as "over-educated and under-employed," a Millennial with a college degree earns approximately $17,500 a year more than a Millennial with only a high school diploma. As our Homeownership Progress Index (HPRI) shows, states and markets with growing educational attainment rates often experience significant improvements in homeownership.

The importance of education to homeownership has only increased over time. Our HPRI[4] shows the importance of education in relation to homeownership has almost doubled in less than 10 years. In 1997, the difference in homeownership between those with a high school degree and those with a college degree was 10 percent. In 2016, the difference increased to 21 percent. The good news is educational attainment is growing. So, it is reasonable to expect homeownership rates to grow as well. As more people achieve greater levels of education, they are able to generate higher income and then use that higher income to buy homes.

Get the Degree, Get the House

Our model shows that, all other factors being equal, the likelihood of homeownership increases by 3 percent for those that earn a bachelor's degree over those with just a high school degree. The likelihood of homeownership jumps another 3 percent for those that earn a graduate degree.

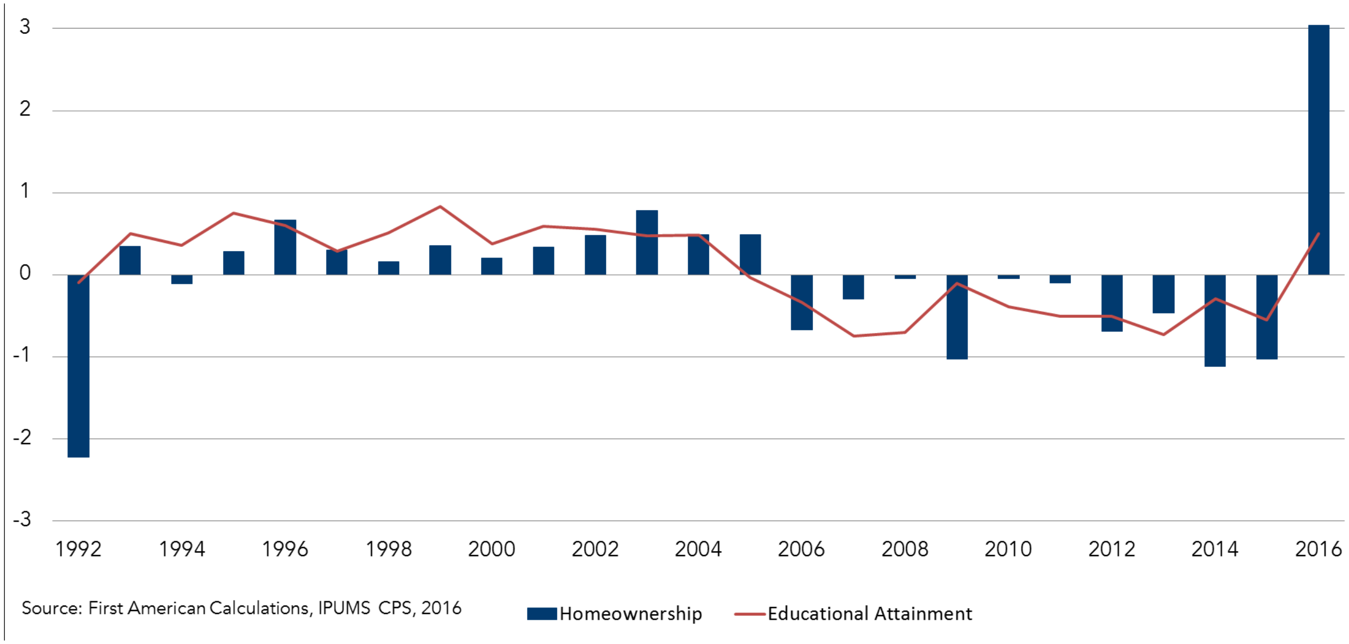
The good news for housing is educational attainment is increasing. Since 1991, the share of households in which at least one person has a bachelor's degree has increased 24 percent, and is expected to increase further as Millennials continue to graduate from college and enter the workforce with improved prospects for higher-paying jobs.

Figure 2 below shows the change in homeownership rates caused, all else held constant, by the change in the rate of bachelor's degree attainment. Between 1992 and 2005, the increasing share of individuals earning bachelor's degrees corresponded with a 2.7 percent increase in homeownership. Between 2005 and 2015, partially in response to the Great Recession and slow economic recovery, Millennials have been staying in school. Consequently, the educational attainment rate, which measures the completion of degrees, declined. All else held constant, this caused modest year-over-year declines in the homeownership rate.

In 2016, a jump in the educational attainment rate drove a 3 percent year-over-year gain in homeownership.

Figure 2. Education Pays Off

Year-Over-Year Change (% Homeownership Rate, % Share of Bachelor's Degree)



Source: First American Calculations, IPUMS CPS, 2016

The good news is, according to the PEW Research Center[5], 63 percent of Millennials value a college education or plan to get one. Of that number, 19 percent have already graduated from college and the remaining 44 percent plan to graduate from college. Approximately 27 percent of Millennial women and 21 percent of Millennial men have college degrees. This is in stark contrast to only 20 percent of Generation X women and 18 percent of Generation X men. The comparison to Baby Boomers is even more dramatic – only 14 percent of women and 17 percent of men have degrees.

Trend #2: Homes and Marriage Go Together Like a Horse and Carriage

But, even if you get that education, what is it that drives a decision to become a homeowner?

Most would say that they plan to buy a home when they "settle down," but what does that mean for a Millennial nowadays? This is a serious question because marriage and homeownership, perhaps the two most enduring institutions of our society, have shaped the economic fortunes of many Americans. Over the past half century, there has been an overall decline in the rate of marriage. According to government data[6], the share of married households has fallen from a high of 72 percent in 1960 to approximately 50 percent today.

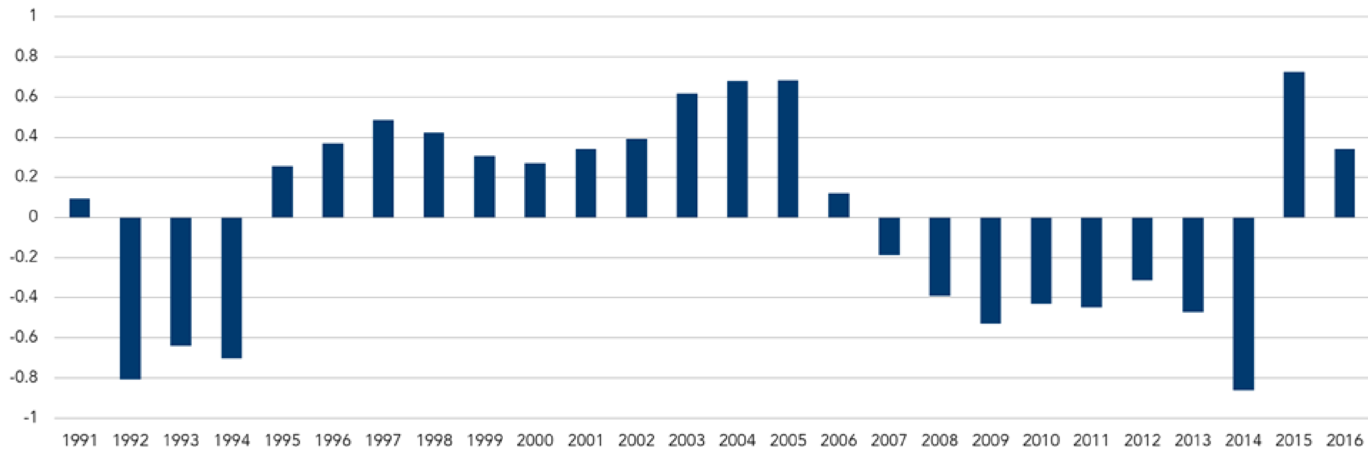
Have Americans lost that loving feeling? Many reasons are cited for the decline in the rate of marriage, including the increase in the participation of women in the labor force and the increased level of educational attainment. Most recently, Millennials are largely prioritizing higher educational attainment over marriage. The share of young adults (aged 24 to 34) that are married has dropped from 70 percent in 1995 to 54 percent in 2014. In a recent Washington Post[7] article, Millennials were quoted as saying they view marriage as a financial commitment and that they wouldn't feel comfortable entering this stage of their lives while carrying student loan debt and before securing steady employment. Instead, Millennials often opt for cohabitation with their partners in a rental unit.

According to analysis in our Homeownership Progress Index (HPRI)[8], the homeownership rate is 30 percent higher among married couples than other households. If married households are more likely to be homeowners, and marital rates are falling, how much of the decline in homeownership is due to the changing attitudes toward marriage?

Figure 3 shows the correlation between the change in the homeownership rate and the change in the rate of marriage, when all other lifestyle and demographic factors are held equal[1]. Because the marriage rate was increasing between 1995 and 2005 as Generation X got hitched, marriage was a net contributor to the growing overall homeownership rate, but from 2005 to 2014 the declining marriage rate alone has reduced the homeownership rate by 3.5 percentage points. This trend turned around in 2015, with marriage being a contributor to homeownership in 2015 and 2016.

Figure 3. Overcoming the Marriage Barrier

Year-Over-Year Change in Homeownership Rate (% Married)



Source: First American Calculations, IPUMS CPS, 2016

[1] Our analysis fixes all the other influences on the homeownership rate at their historical mean: Bachelor's degree educated white male head of household making $60k per year at 35 years old.

Trend #3: The Home is a Family Formation Station

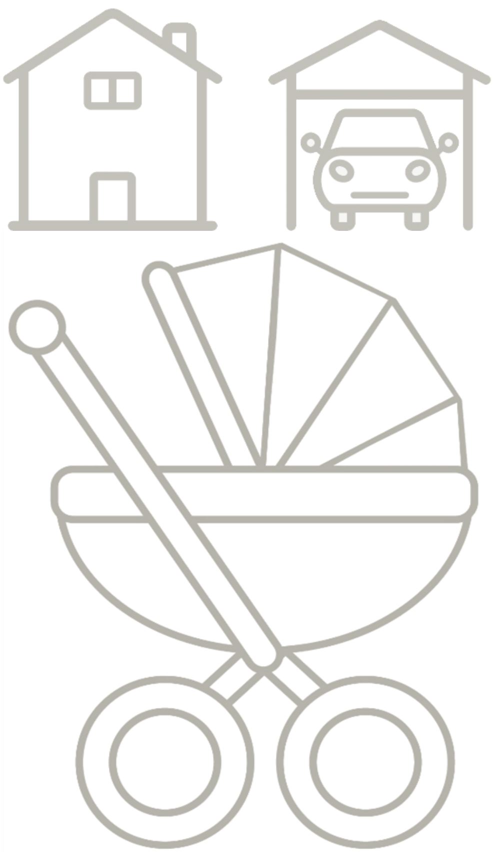
A recent study[9] by the Urban Institute found that between 2007 and 2012 birth rates among women in their twenties declined by more than 15 percent.

The homeownership rate is 1.7 percent higher for households with one or two children compared to households with no children, and it is 5.4 percent higher for households with three or more children.

The drop was, in part, caused by the decline in the rate of marriage. This doesn't necessarily suggest that either the marriage rate or birth rates won't increase as Millennials choose to have children at a later age, but it does delay the decision to buy a home.

In our analysis, we find that just as the decision to marry influences the decision to own, so does the decision to have children. As one might suspect, the more children in a household, the more likely the decision to own versus rent. The homeownership rate is 1.7 percent higher for households with one or two children compared to households with no children, and it is 5.4 percent higher for households with three or more children.

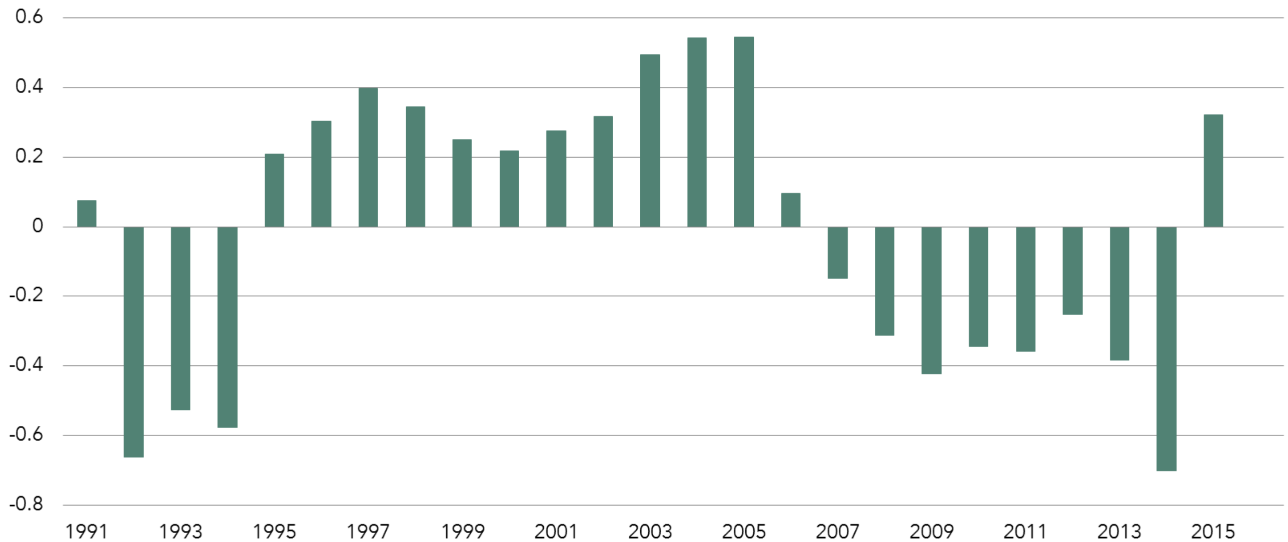
Figure 4 shows, all other factors being equal, the change in the homeownership rate over time when correlated with the change in the number of households with three or more children. Similar to the influence of marriage on homeownership, as the number of households with three or more children increased from 1995 to 2006, the homeownership rate also increased. Since then, the declining number of households with three or more children has driven the homeownership rate down. In fact, from 2006 to 2015 the homeownership rate declined 2.6 percent due to the decline in the number of households with three or more children.



In 2016, the homeownership rate improved slightly as Millennials began to settle down and form families.

Figure 4. More Children, More Homeowners

Year-Over-Year Change in Homeownership Rate (%, 3 or More Children)



Source: First American Calculations, IPUMS CPS, 2016

This doesn't mean the desire for homeownership is gone. In fact, a case could be made that policies that encourage marriage and having children would increase homeownership. Yet, that may not be necessary. As Millennials age, we may see an increase in the share of married households with children, and a corresponding increase in homeownership demand.

Trend #4: Finally, Income Growth

It's not just the decisions to marry or have children that increase the likelihood of being a homeowner.

The good news for the real estate industry is that there are some positive trends in income growth. After a period of stagnant wage growth, median household income in the United States increased from $53,718 in 2014 to $56,516 in 2016.

Economic conditions also play an important role. If the economy is in recession and it's hard to find a job, or one's income is flat or declining, it would make sense that there would be less demand for homeownership. But, could the converse also be true too?

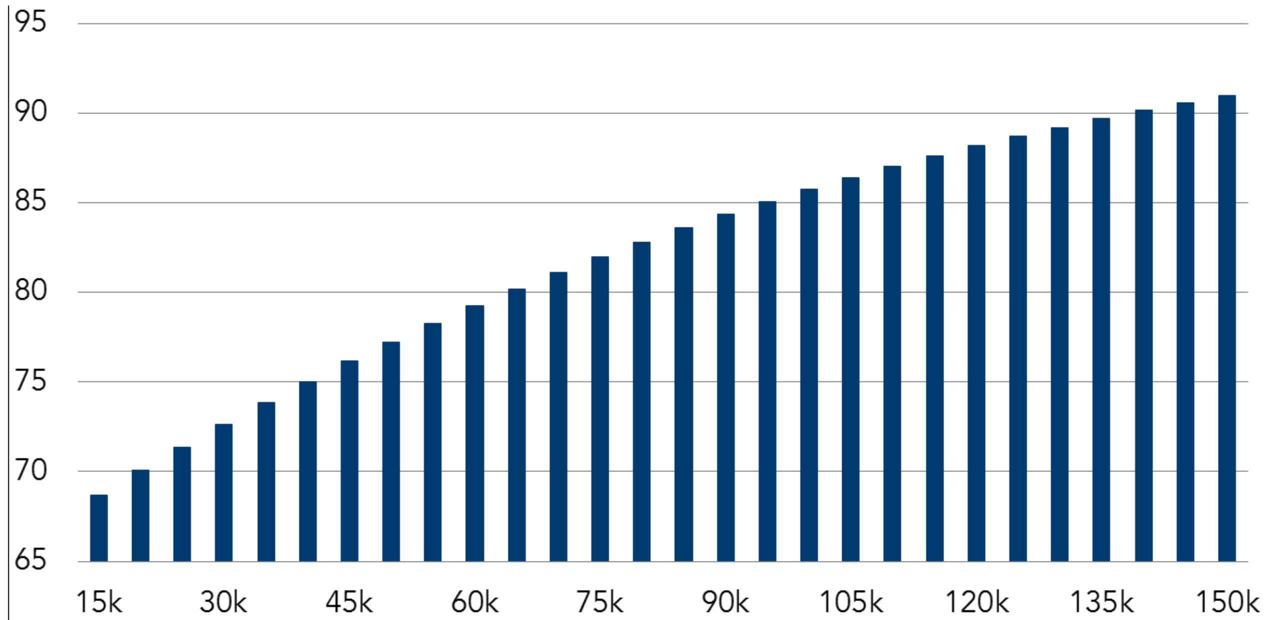
According to our HPRI, households with an average income of $110,000 or more in 2016 had a homeownership rate of approximately 87 percent. At the lowest annual income bracket of $28,000, the homeownership rate is 45 percent. Using the same model used to analyze the impact of marriage and having children on homeownership, Figure 5 below shows the correlation between the homeownership rate and median, inflation-adjusted income, when all other lifestyle and demographic factors are held equal. As one might expect, homeownership increases as household real incomes increase. For a household earning $50,000, an extra $10,000 a year would increase the likelihood of homeownership by 2.1 percent. Going from an income of $50,000 to $100,000 increases the likelihood of homeownership by approximately 10 percent.

The good news for the real estate industry is that there are some positive trends in income growth. After a period of stagnant wage growth, median household income in the United States increased from $53,718 in 2014 to $56,516 in 2016. This upward trend in income translates, all other factors held equal, to an almost 1 percent rise in the likelihood of homeownership.

According to a CBS MoneyWatch article[10], more jobs are being created for 25 to 34-year-olds (potential Millennial home buyers) than any other age cohort, and these jobs are in higher paying fields. While we may not see it in today's homeownership rates, this analysis shows that higher-income households are more likely to be homeowners.

Figure 5. Rising Income to the Rescue

Homeownership Rate by Income (%)



Source: IPUMS CPS, 2016

Trend #5: Is It All About the Economy?

Household income is only one measure of overall economic conditions. Equally important is whether one can get a job, change a job or keep a job.

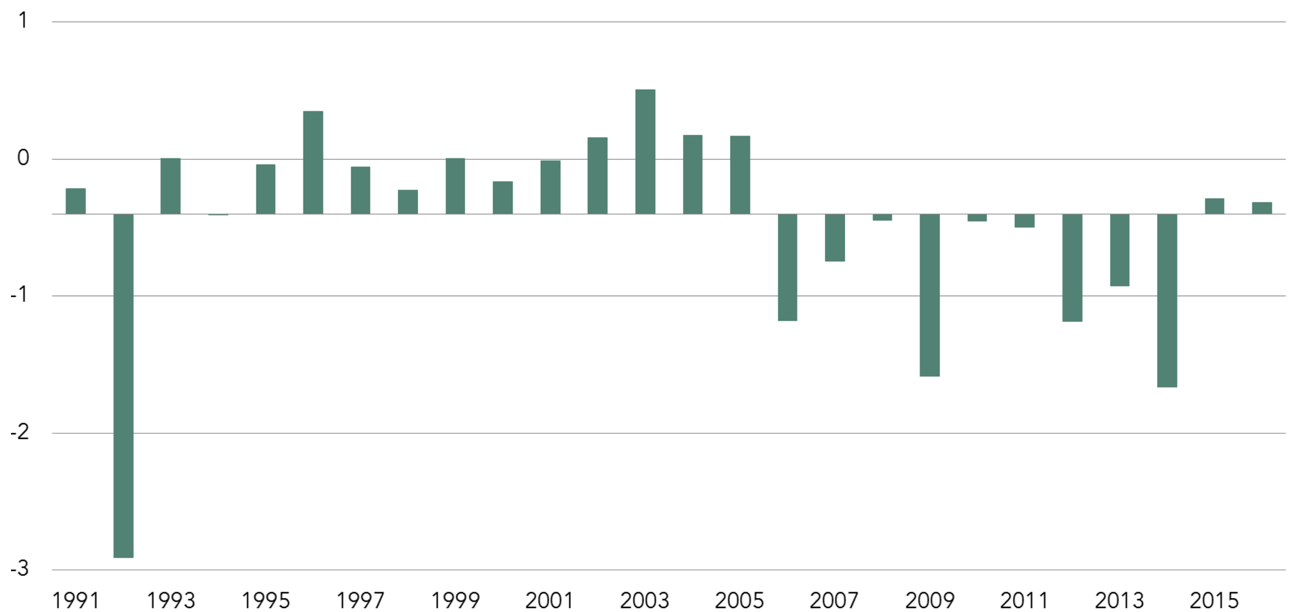
Changes in economic conditions and consumer access to mortgage financing are also important influences on homeownership. Our decision and ability to buy a home is closely tied to all of these economic factors.

Figure 6 shows the change in the homeownership rate, all other factors held constant, due to changing economic conditions over time. Between 1992 and 2005, the strong economy of the 1990s and the housing boom of the early aughts increased homeownership, all else held equal, by 5.6 percent. The recession that followed the housing boom peak forced the homeownership rate to decline 5.1 percentage points. More recently, improving economic conditions have helped fuel resurgence in the homeownership rate.

The recent economic data for 2015 and 2016 suggests further increased homeownership demand.

Figure 6. Yes, It Is All About the Economy, Stupid.

Year-Over-Year Change in Homeownership Rate (%)



Source: First American Calculations, IPUMS CPS, 2016

It's hard to predict future economic conditions. However, this analysis shows that a growing economy and rising income levels each play a role in increasing the likelihood of homeownership. While the decisions by many Millennials to delay marriage and postpone starting a family are currently reducing homeownership demand, there are signs Millennials are increasingly looking to enter the housing market.

Trend #6: Closing the Gaps

Homeownership is a goal shared among all people, regardless of race or ethnicity, and remains[11] the main driver of wealth creation for the majority of households in the United States.

Since greater educational attainment typically leads to greater income, these ethnic differences in educational attainment levels also influence income disparities across ethnicities.

Not surprisingly, ethnicity and homeownership rates are a frequent topic of research and often that research identifies homeownership gaps among ethnicities. In 2015, I released a report entitled "The State of Homeownership – Homeownership, Economic Mobility and the Challenges Facing the Nation's Latino and African American Communities[12]," which showed that there are clear and consistent differences between the homeownership rates of different ethnicities, even when age is held constant. Other reports by the National Association of Hispanic Real Estate Professionals[13] (NAHREP), the National Association of Real Estate Brokers[14] (NAREB), and the Asian Real Estate Association of America[15] (AREAA) also show the existence of homeownership gaps.

Since homeownership is one of the key components of achieving the American Dream, understanding the observable differences in homeownership rates by ethnicity may help identify ways to advance the prospects for homeownership across all ethnicities.

Differences in homeownership rates can be attributed to many household characteristics, making it difficult to make broad conclusions. For example, a lower homeownership rate in a particular ethnic group may be the result of economic, demographic and educational factors that are causally related to homeownership, but only correlated with ethnicity.

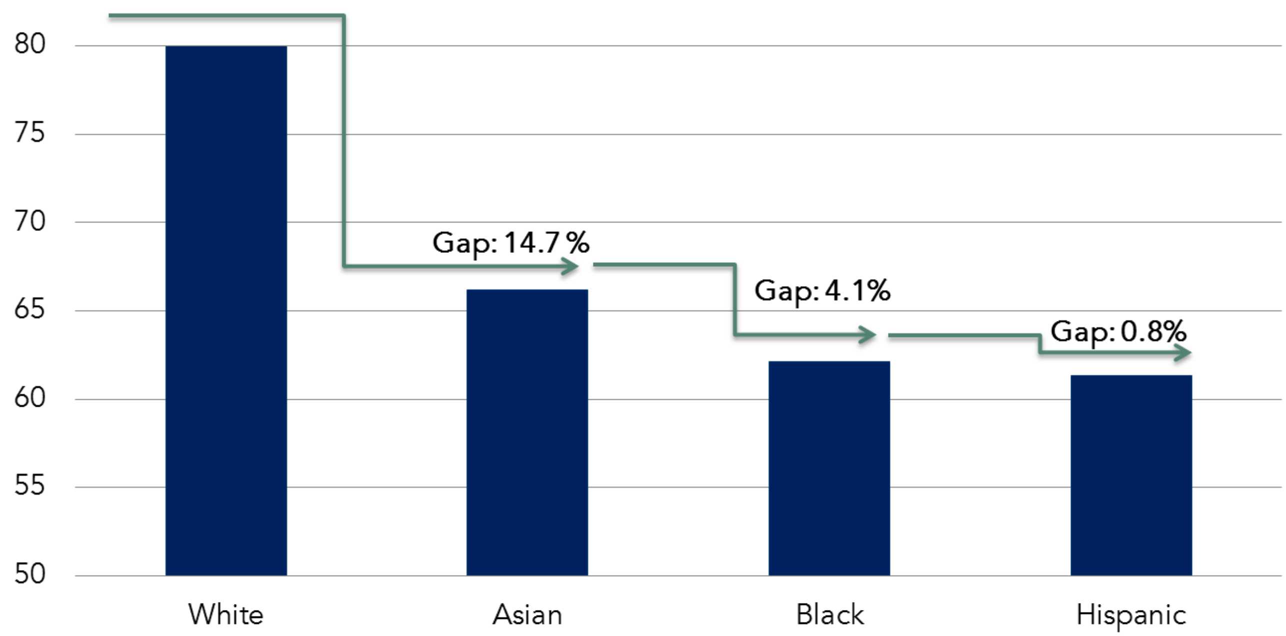
A 2015 Census[16] study showed that 15 percent of Hispanics had a bachelor's degree compared to 22 percent of African-Americans – a difference of 7 percentage points. The education gap between Whites and African-Americans remained stable, between 11 and 14 percentage points from 1988 to 2015. Since greater educational attainment typically leads to greater income, these ethnic differences in educational attainment levels also influence income disparities across ethnicities. So, one reason a homeownership gap between different ethnicities exists is because disparities in educational attainment levels and, subsequently, income levels, also exist. It's important to identify the relationship between ethnicity and homeownership after controlling for the directly attributable economic, demographic and educational relationships that are also correlated with ethnicity.

Using the same model we used to isolate and analyze other household characteristics on homeownership, Figure 7 below shows the gap in homeownership rates by ethnicity, when all other factors are held constant. The result is clear. Ethnic homeownership differences remain, even after controlling for age, marital status, the number of children in the household, education, income and the impact of economic conditions.

In fact, Hispanic households have a 19.6 percent lower homeownership rate compared to White American households. Homeownership among African-American households is 18.8 percent lower than White households and Asian-American households have a 14.7 percent lower homeownership rate than White households when all else is held constant.

Figure 7. Mind the Gap

Homeowership Rates (%), When All Other Factors Are Held Equal



Source: First American Calculations, IPUMS CPS, 2016

All Else Equal, Or Not

How do these homeownership gaps compare to the more often cited differences that don't remove the influence of other characteristics related to homeownership?

Even after accounting for all of the other important factors influencing homeownership rates, substantial unexplained gaps in homeownership rates between ethnicities remain.

According to the latest NAHREP report[17], the homeownership difference between Hispanic and White households is 25.9 percent. A report from NAREB[18] identified a 27.3 percent difference in homeownership rates between African-American and White households. And, according to the most recent AREAA report, the homeownership gap between Whites and Asian-Americans is 17 percent.

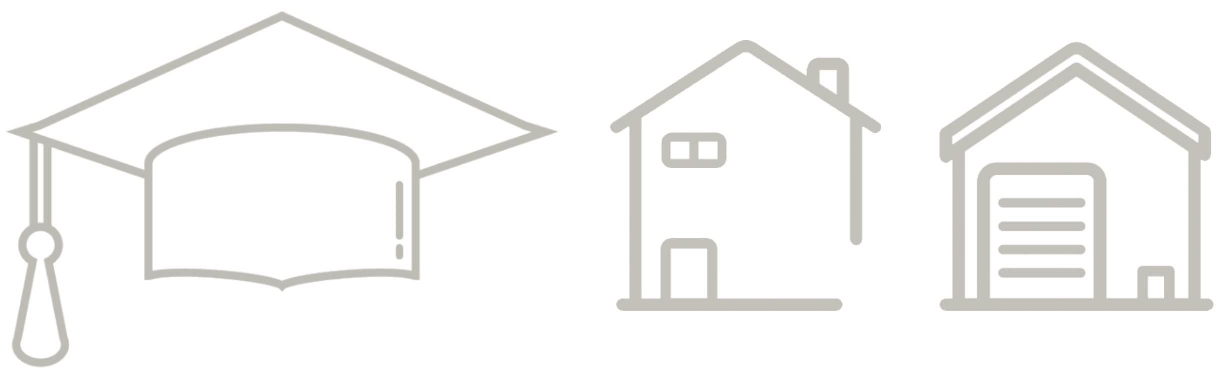
Controlling for other homeownership-related characteristics reduces the homeownership gap for all ethnicities, but it does not remove the gaps all together. Even after accounting for all of the other important factors influencing homeownership rates, substantial unexplained gaps in homeownership rates between ethnicities remain.

The real challenge is to better understand why this gap persists. After accounting for all the other factors, are the differences in the homeownership rate by ethnicity due to the challenges of raising a down payment, access to credit, or the impact of more or less financial obligations to extended family members? This research can't answer that question, but it does help to inform the policy discussion about where one might look to further understand why homeownership gaps by ethnicity exist.

Education May Close the Gaps in Ethnic Homeownership

The measurable attributes that we know promote homeownership are on the rise across ethnic and racial groups, particularly improvement in educational attainment levels.

Between 1995 and 2015, educational attainment rates among 25 to 29-year-olds increased. The percentage who had received at least a high school diploma or its equivalent increased from 87 to 91 percent, with most of the change occurring between 2005 and 2015. From 1995 to 2015, the percentage of 25- to 29-year-olds who had attained a bachelor's degree or higher increased for Whites (from 29 to 43 percent), African-Americans (from 15 to 22 percent), Hispanics (from 9 to 15 percent), and Asian/Pacific Islanders (from 43 to 63 percent). Education is on the rise, and we can expect that incomes (and subsequently thoughts of buying that first home) are likely to follow.



As these six trends converge and Millennnials gain the income benefits of higher education, get married and build families, the homeownership rate will increase.

The American Dream Deserves Our Attention

For most Americans, a home is more than shelter – it is also their most valuable asset and an important vehicle for wealth creation.

The importance of homeownership as part of the fabric of the American Dream has been recognized by generation after generation. President Franklin Delano Roosevelt believed that "a nation of homeowners is unconquerable." President Ronald Reagan stated "the love of home is one of the finest ideals of our people."

The faces of those striving to achieve the dream of homeownership are changing as America changes demographically in significant ways. Millennials are aging into their desire to become homeowners and are the most ethnically diverse generation the housing market has ever experienced.

Our analysis shows that Millennials are not foregoing the dream of homeownership, just delaying the timing. As these six trends converge and Millennnials gain the income benefits of higher education, get married and build families, the homeownership rate will increase. But, Millennials will also be the most ethnically diverse generation in American history and there are real homeownership gaps among ethnicities that deserve attention, so we can provide all Americans with the opportunity to pursue the dream of homeownership.

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Learn more about economic trends
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