

# Is Homeownership Still the American Dream?

*The views expressed here are those of the speakers and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.*



# Program

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## ***Introduction and Welcome***

**Julie Stackhouse**, executive vice president and managing officer of Supervision, Credit, Community Development and Learning Innovation for the Federal Reserve Bank of St. Louis

## ***Presentation: Is Homeownership Still the American Dream?***

**William R. Emmons**, assistant vice president and economist at the St. Louis Fed; senior economic adviser at the St. Louis Fed's Center for Household Financial Stability

## ***Panel Discussion and Audience Q&A***

Stackhouse will moderate a panel discussion with Emmons and three St. Louis Fed colleagues:

- Daniel Davis, Community Development senior manager;
- Carlos Garriga, assistant vice president in Research
- Don Schlagenhauf, chief economist at the Center for Household Financial Stability

# Is Homeownership Still the American Dream?

**William R. Emmons**

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# Overview

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- ❑ Is homeownership part of the American Dream?
- ❑ The homeownership rate has been declining for a decade. Is the American Dream slipping away?
- ❑ America is changing. Ideas about housing and homeownership must change, too.

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# Is Homeownership Part of the American Dream?

# The American Dream

“Life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.”

- James Truslow Adams, 1931

- ❑ Non-discriminatory access to education, employment, housing, health care, etc.
- ❑ Economic and social mobility.
- ❑ For some, homeownership may signify *achievement* of the American Dream.

# What Americans Say about Homeownership

- ❑ Overwhelming majorities of every major demographic group want to be homeowners at some point.
  - Close to 90 percent of people under 45 have bought or expect to buy a home in the future.

Sources: Eric S. Belsky, “The Dream Lives On: The Future of Homeownership in America,” Harvard Joint Center for Housing Studies working paper, January 2013; and Rachel B. Drew, “Believing in Homeownership: Behavioral Drivers of Tenure Decisions,” Harvard Joint Center for Housing Studies working paper, May 2014.

# What Americans Say About Homeownership

- Overwhelming majorities of every major demographic group want to be homeowners at some point.
  - Aspirations to own a home are *higher* among African-Americans and Latinos than among whites and Asians, despite homeownership rates that are 20 to 30 percentage points lower.

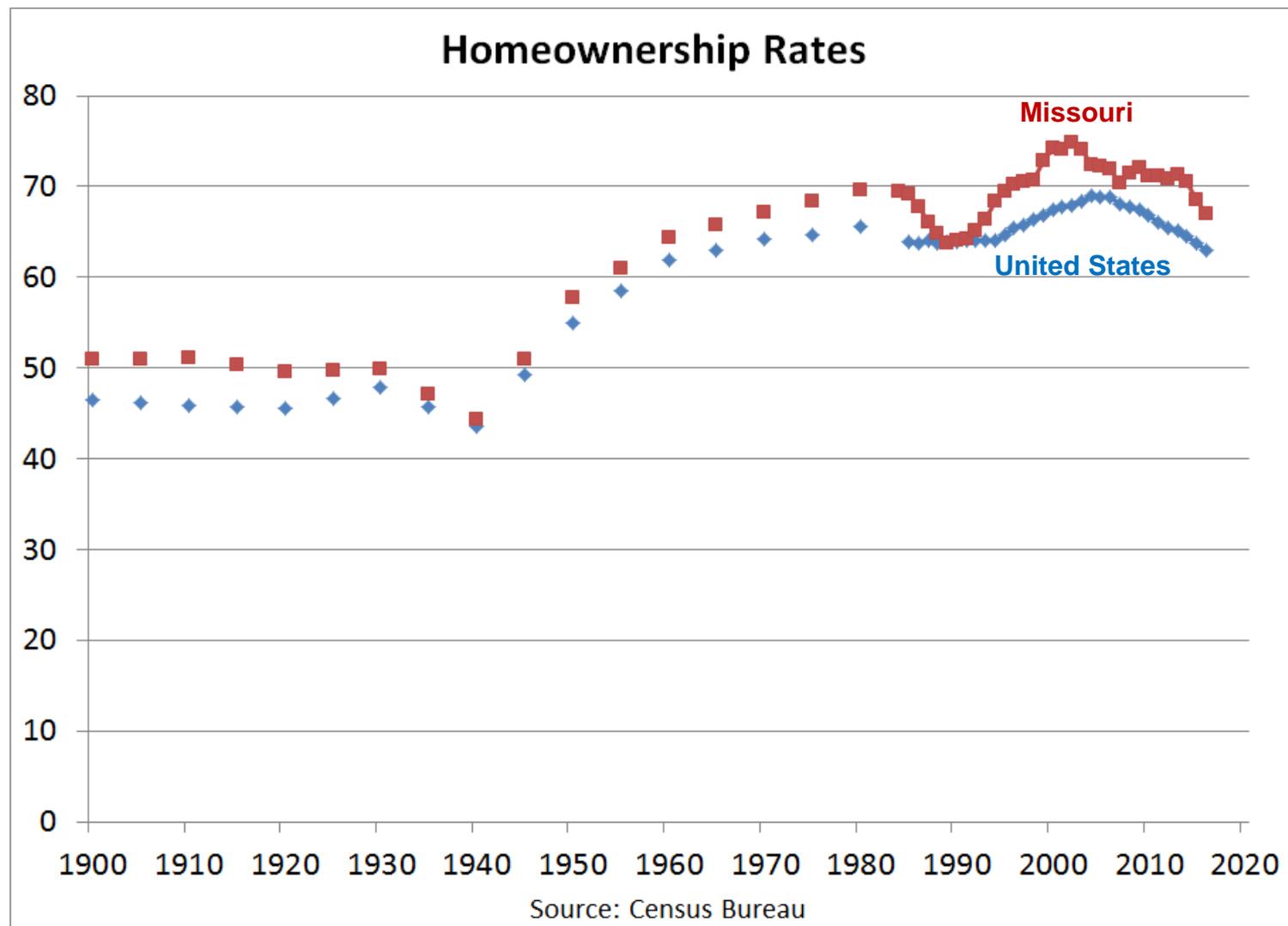
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# Did the Housing Crash Shatter the Dream?

- There is very little association between local housing-market conditions experienced during the recent boom-bust cycle and changes in attitudes toward homeownership.

Sources: Eric S. Belsky, “The Dream Lives On: The Future of Homeownership in America,” Harvard Joint Center for Housing Studies working paper, Jan. 2013; and Rachel B. Drew, “Believing in Homeownership: Behavioral Drivers of Tenure Decisions,” Harvard Joint Center for Housing Studies working paper, May 2014.

# Homeownership Rate Surged after WW II



# Why Did the Homeownership Rate Rise?

## Government housing policies:

- Federal Home Loan Bank Act of 1932 → FHLBanks
- Home Owners' Loan Act of 1933 → Large-scale mortgage modifications and long-term fixed-rate mortgages
- National Housing Act of 1934 → Federal Housing Administration (FHA) insured low-down-payment mortgages
- 1938 Amendment to NHA → Fannie Mae (secondary market)
- Tax provisions (1930s and 1940s) → Implicit and explicit subsidies to homeownership, including deductibility of property taxes and interest
- Servicemen's Readjustment Act of 1944 (GI Bill) → Veterans Administration (VA) insured zero-down-payment mortgages
- Housing and Urban Development (HUD) Act of 1968 → Created Ginnie Mae and privatized Fannie Mae
- Emergency Home Finance Act of 1970 → Freddie Mac and securitization

Sources: Matthew Chambers, Carlos Garriga and Donald E. Schlagenhauf, "The Postwar Conquest of the Home Ownership Dream," St. Louis Fed working paper, April 2016; Federal Housing Finance Agency, "History of the Government-Sponsored Enterprises."

# Why Did the Homeownership Rate Rise?

## □ Demographics

- Baby boom increased demand for more living space
- Government policies encouraged homeownership at younger ages and with lower incomes

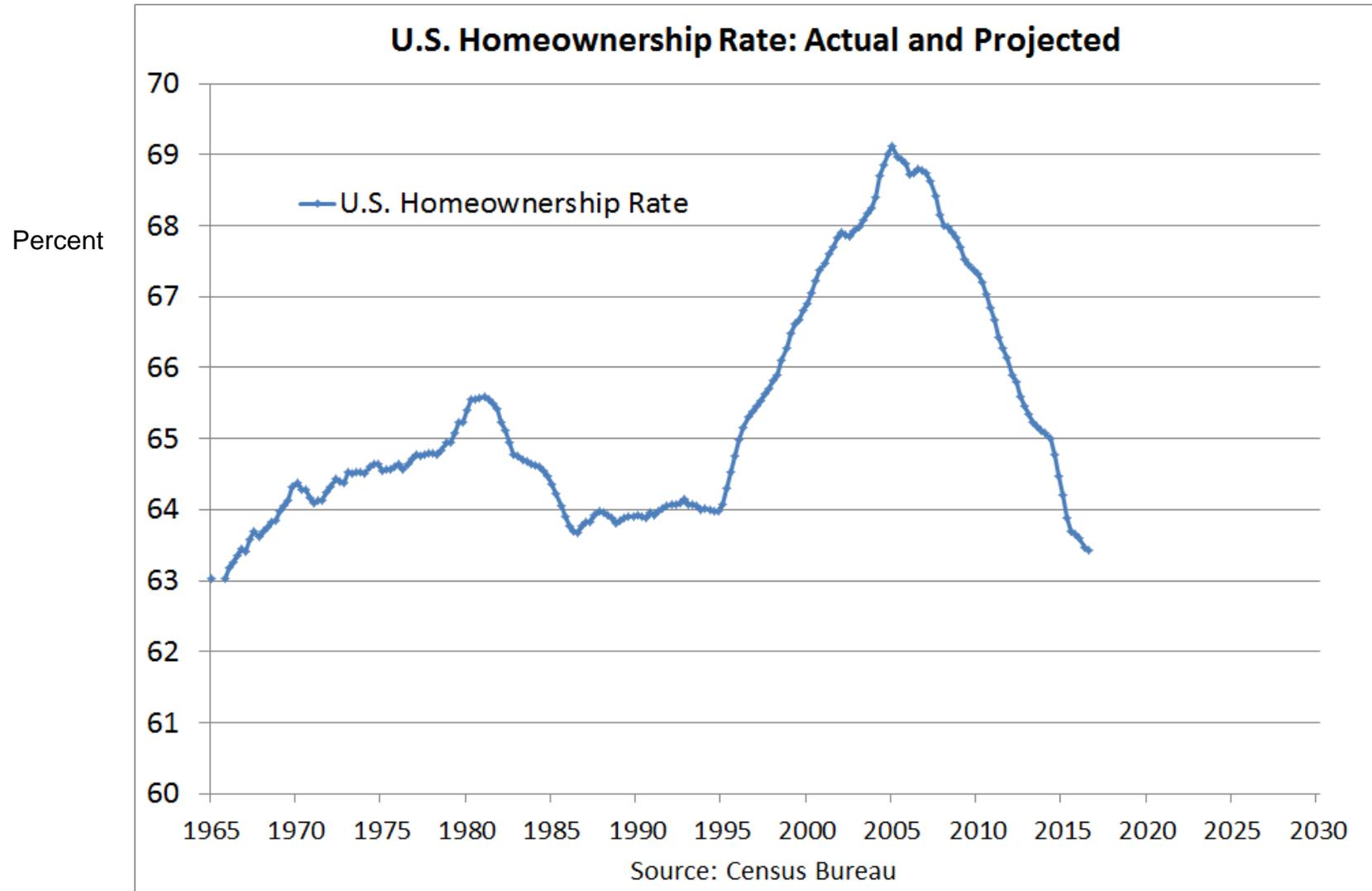
## □ Economic and social developments

- Rapidly rising average incomes after WW II
- Larger government-guaranteed mortgages with longer durations expanded pool of qualified buyers
- Increasing ownership of automobiles and expanding road systems → suburban sprawl
- Social change and conflict → white flight

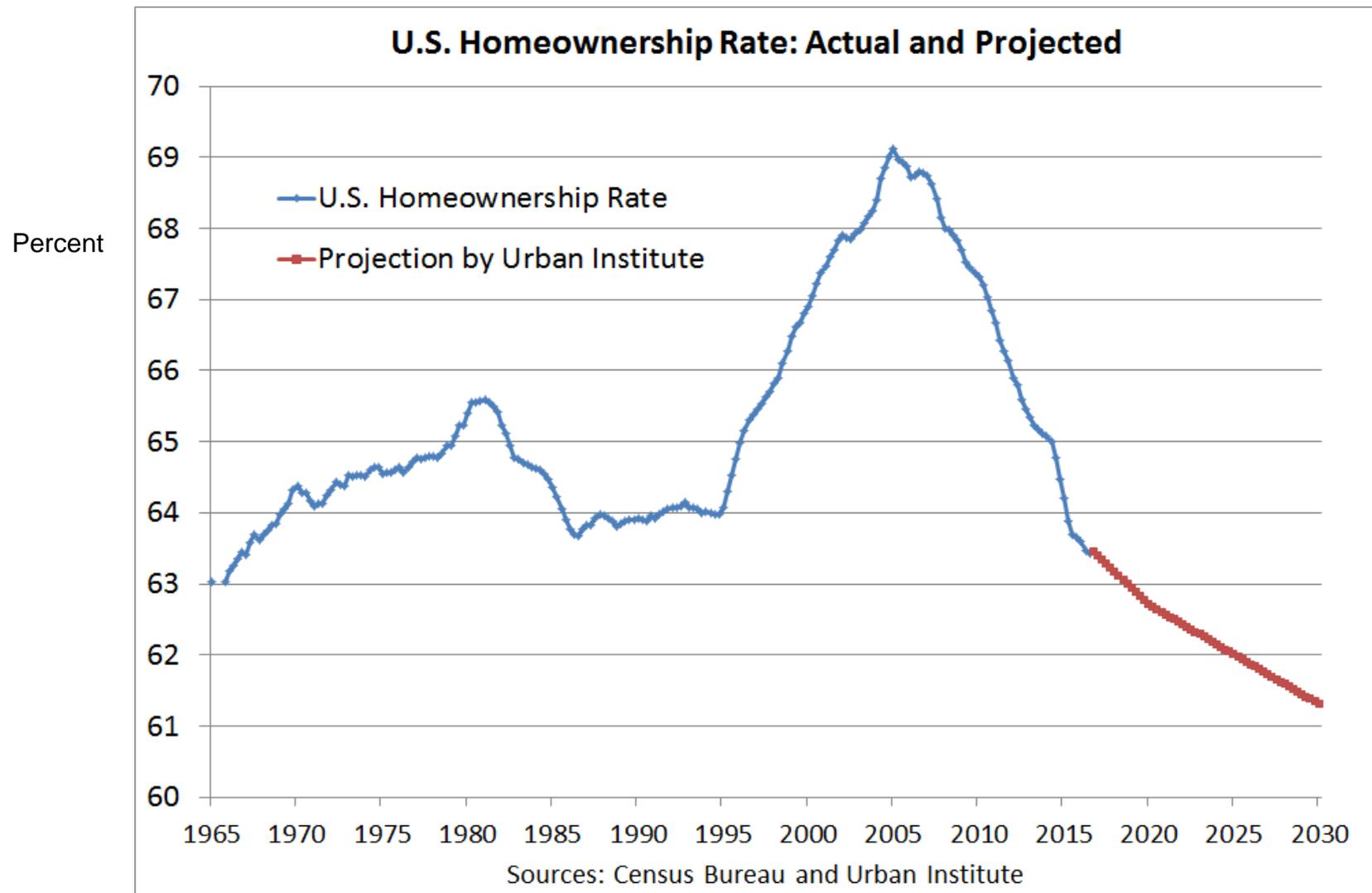
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**The homeownership rate has been  
declining for a decade.  
Is the American Dream slipping away?**

# Homeownership Rate Has Fallen since 2005...



# ... and Likely Will Return to Level of the 1950s



# Forecasting Homeownership Rates

- ❑ Break down the population by age and race/ethnicity
- ❑ Isolate secular trends in headship and homeownership
- ❑ Apply these to Census population forecasts



## Headship and Homeownership

What Does the Future Hold?

Laurie Goodman

Rolf Pendall

Jun Zhu

June 2015



Urban Institute Research Report:  
Laurie Goodman, Rolf Pendall, Jun Zhu (June 8, 2015)

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# Causes of Predicted Homeownership Decline

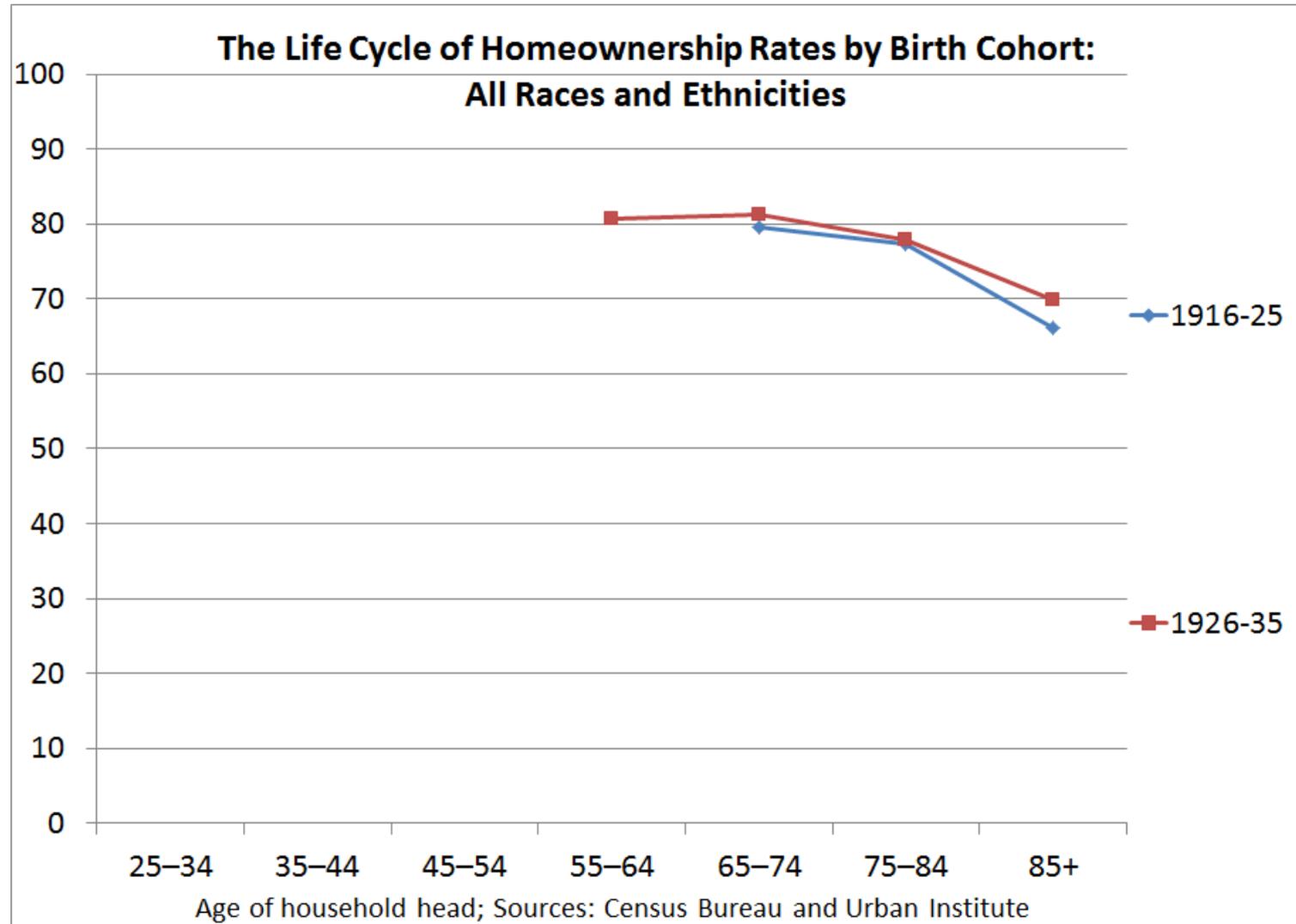
- ❑ The Great Recession and foreclosure crisis.
- ❑ Tougher to get a mortgage now (but probably too easy before the crash).
- ❑ Older, more diverse American population.
- ❑ Stagnation of middle-class incomes.
- ❑ Delayed marriage and childbearing.
- ❑ Student loans.
- ❑ Growing attractiveness of renting for some.

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**America is changing.  
Ideas about housing and  
homeownership must change, too.**

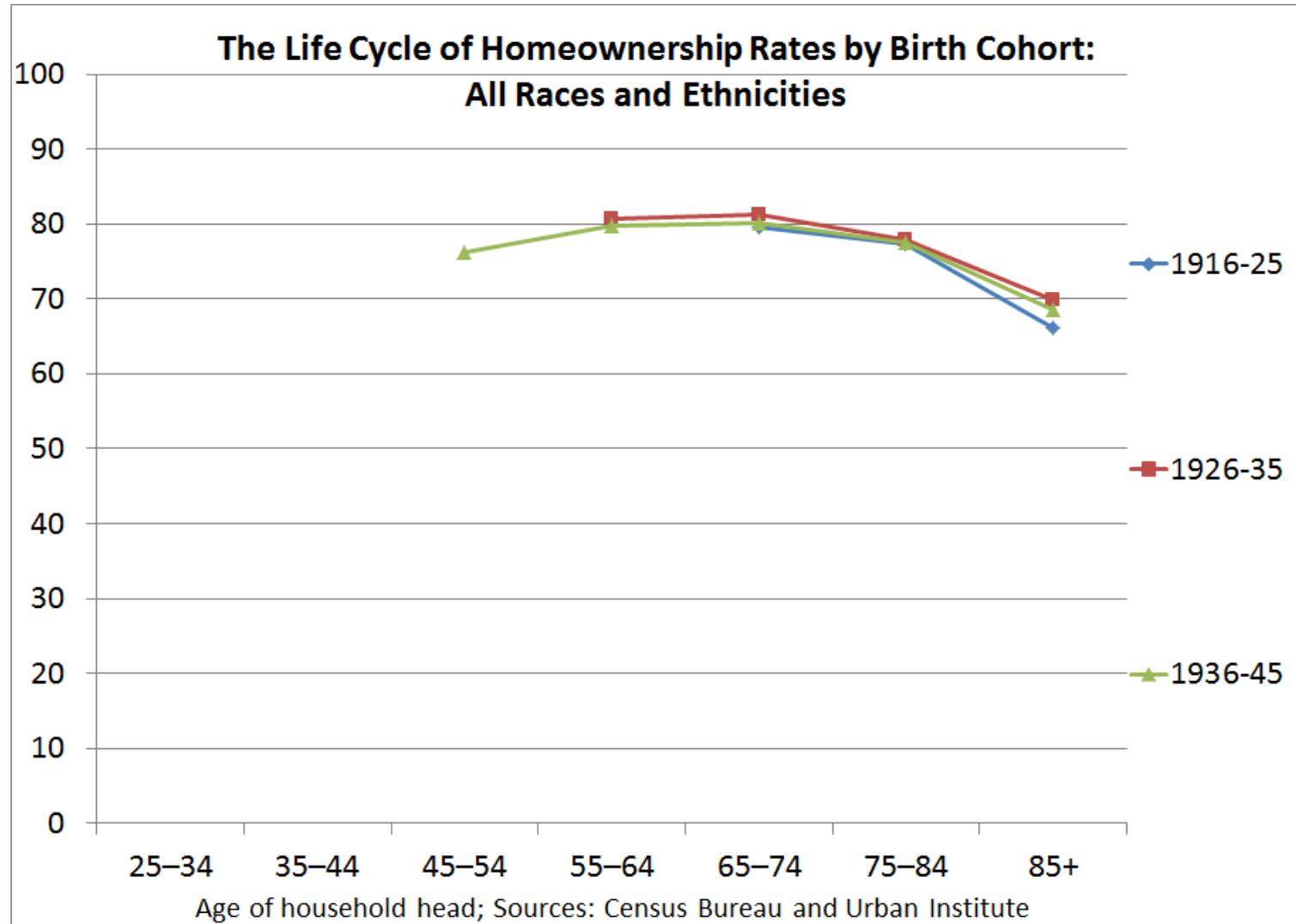
# Homeownership Rates by Birth-Year Cohort

Home-ownership rate in %; actual through 2010, projected for 2020 and 2030



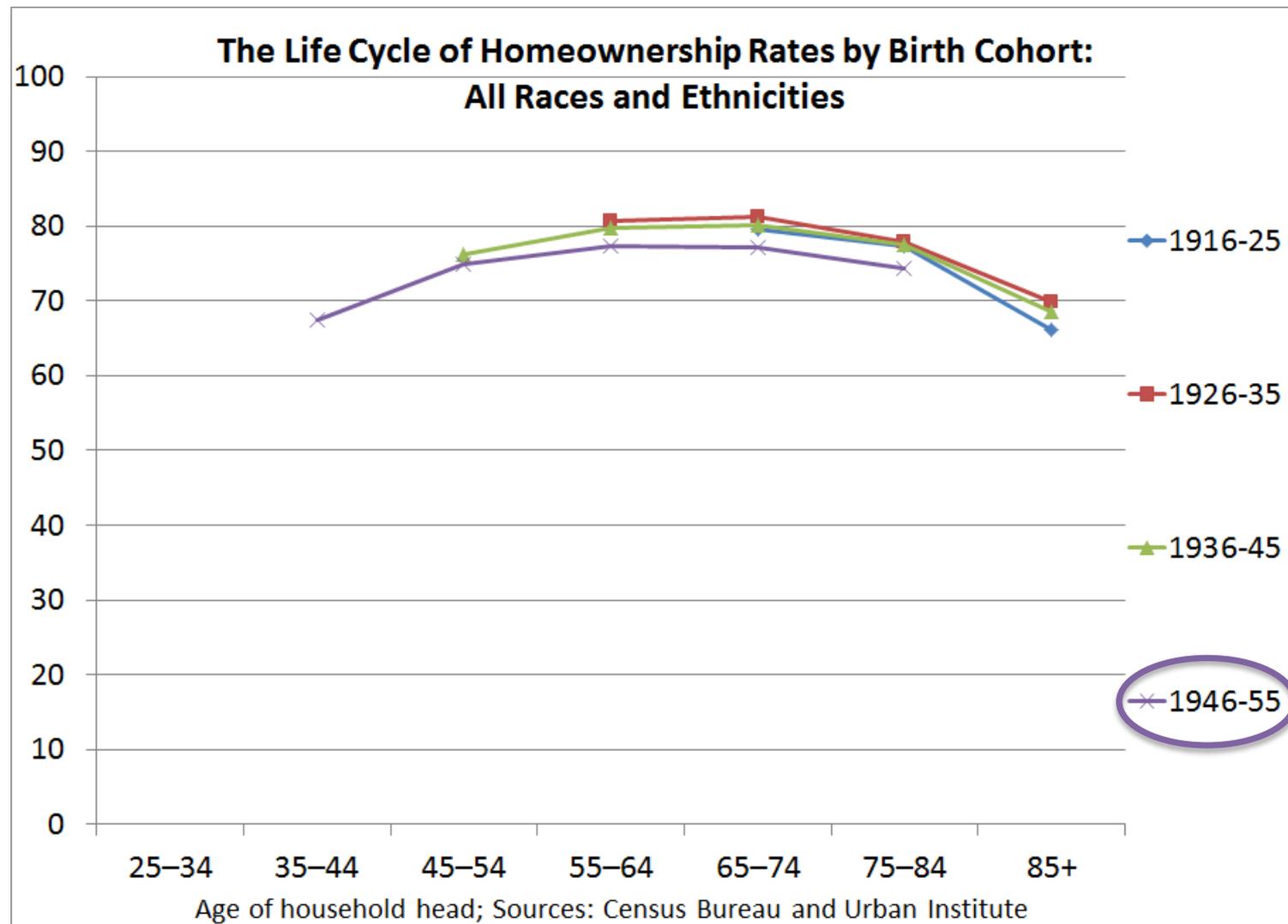
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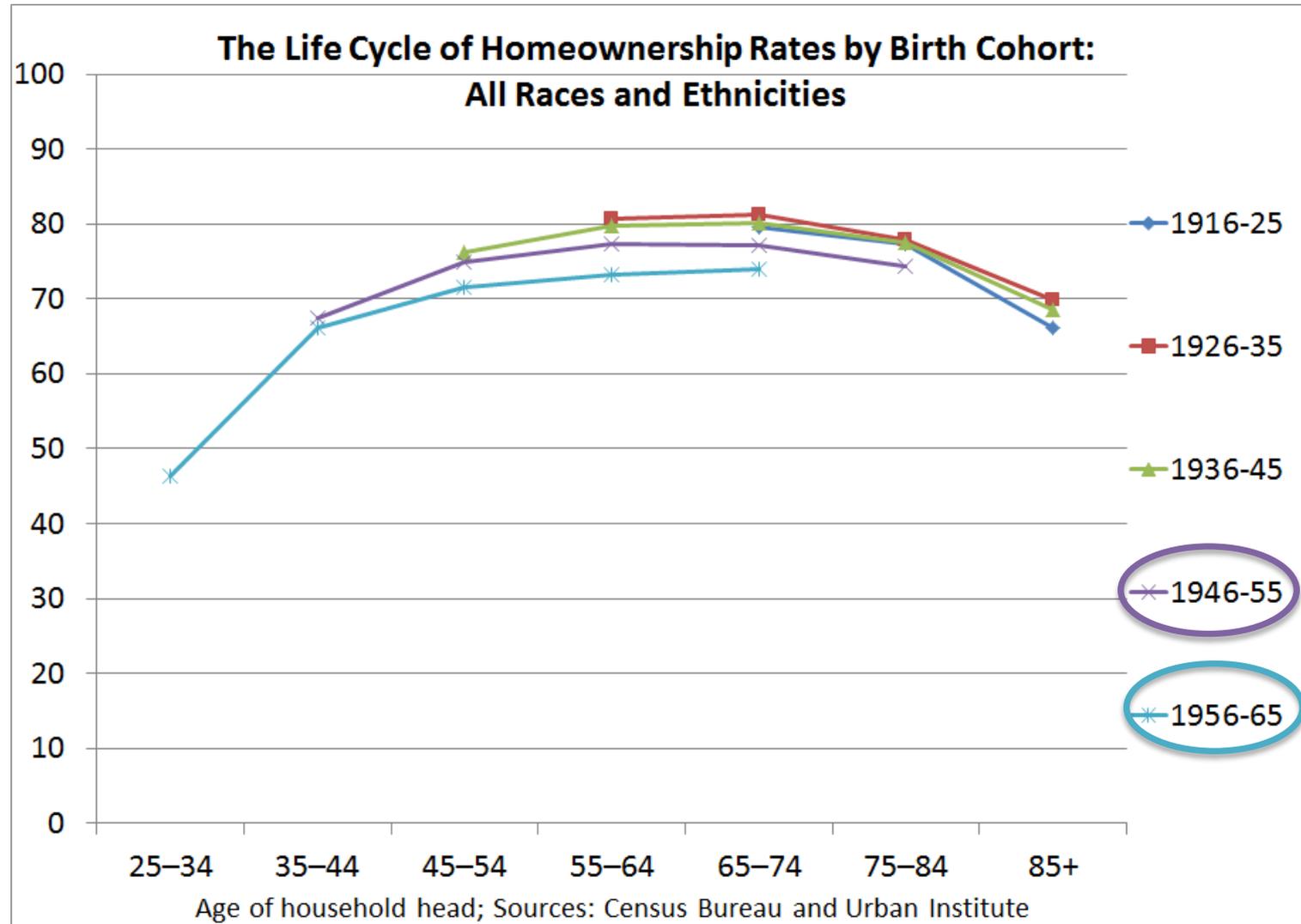
# Baby Boomers on Lower Track than Elders

Home-ownership rate in %; actual through 2010, projected for 2020 and 2030

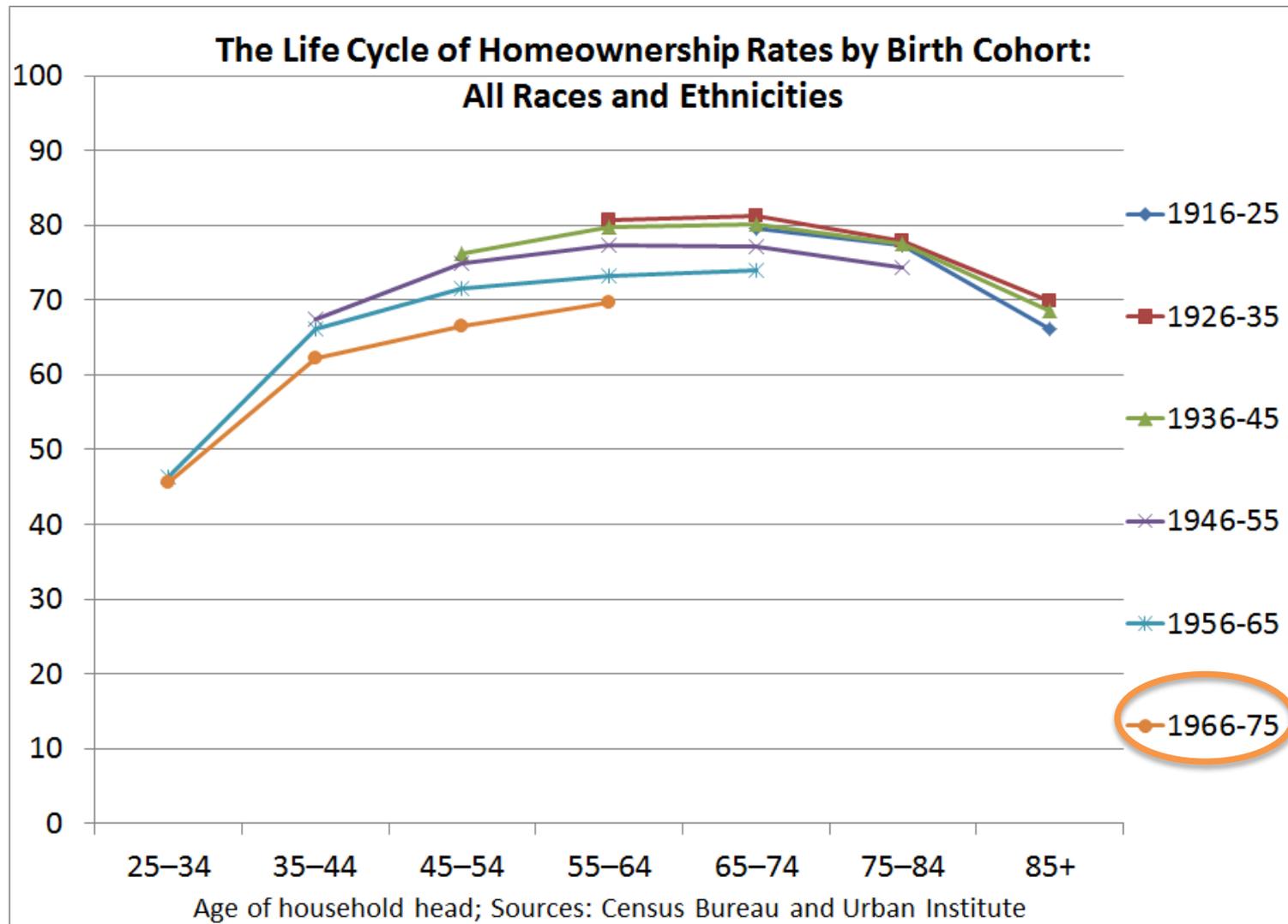


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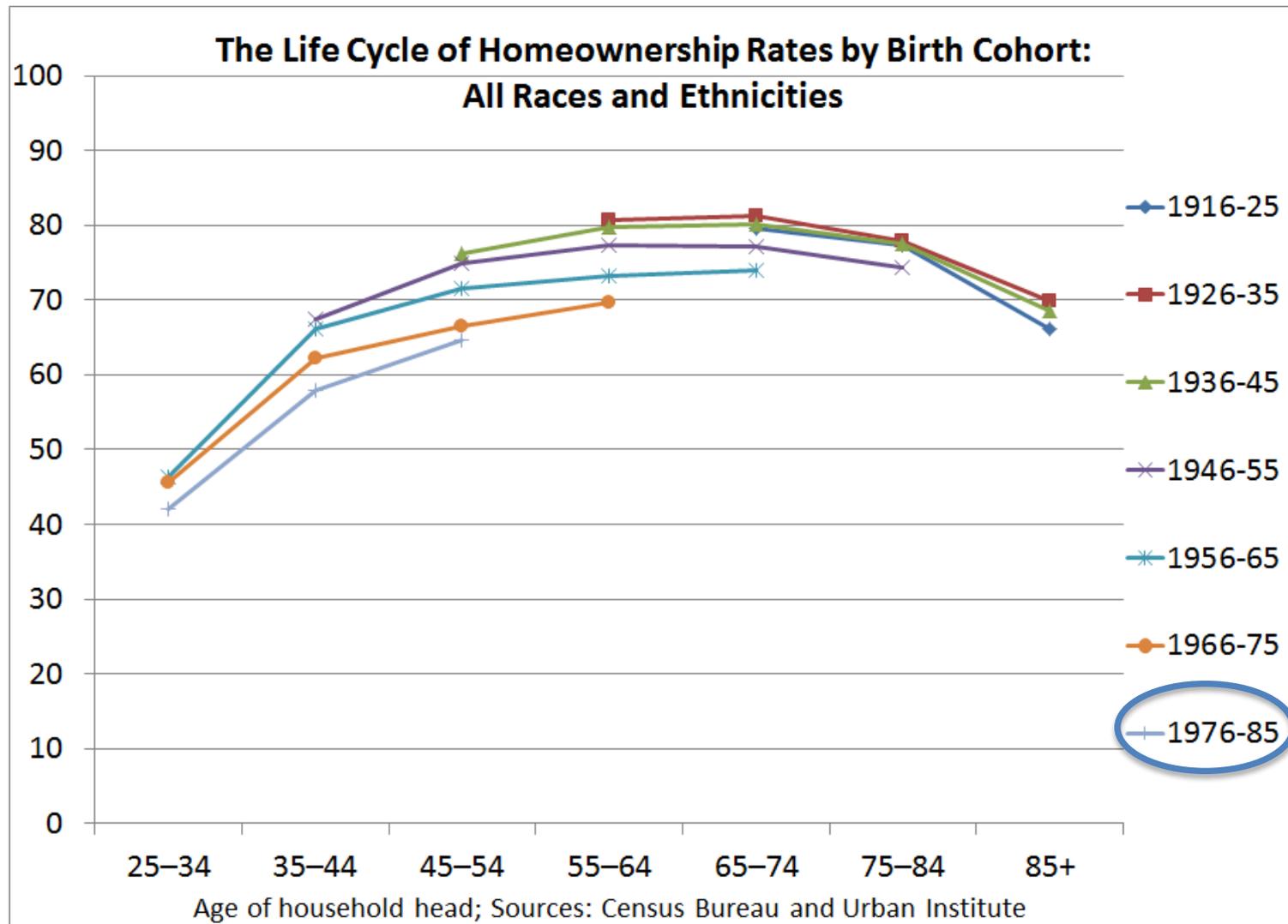


# Gen X Harmed Most by Housing Crash

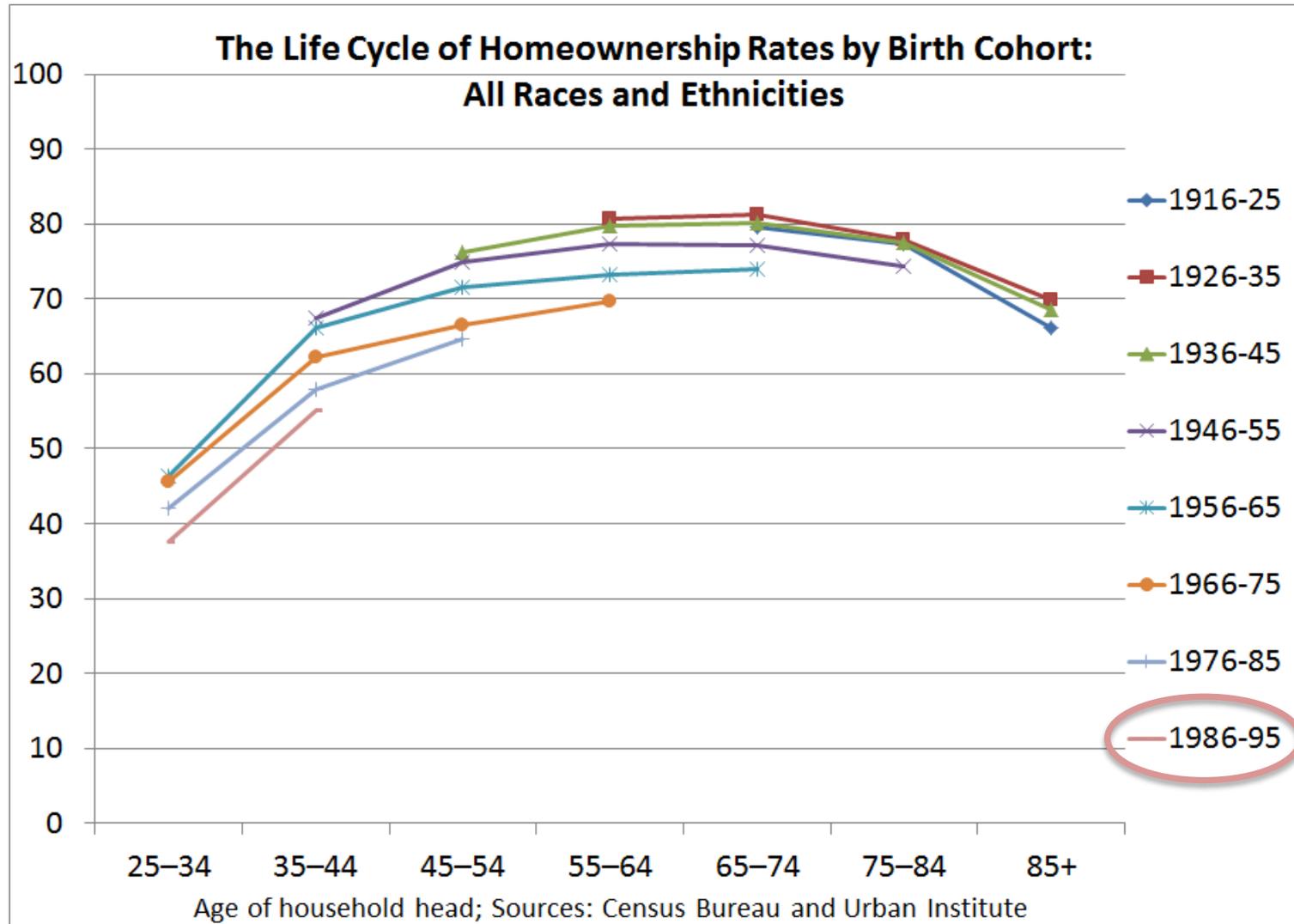


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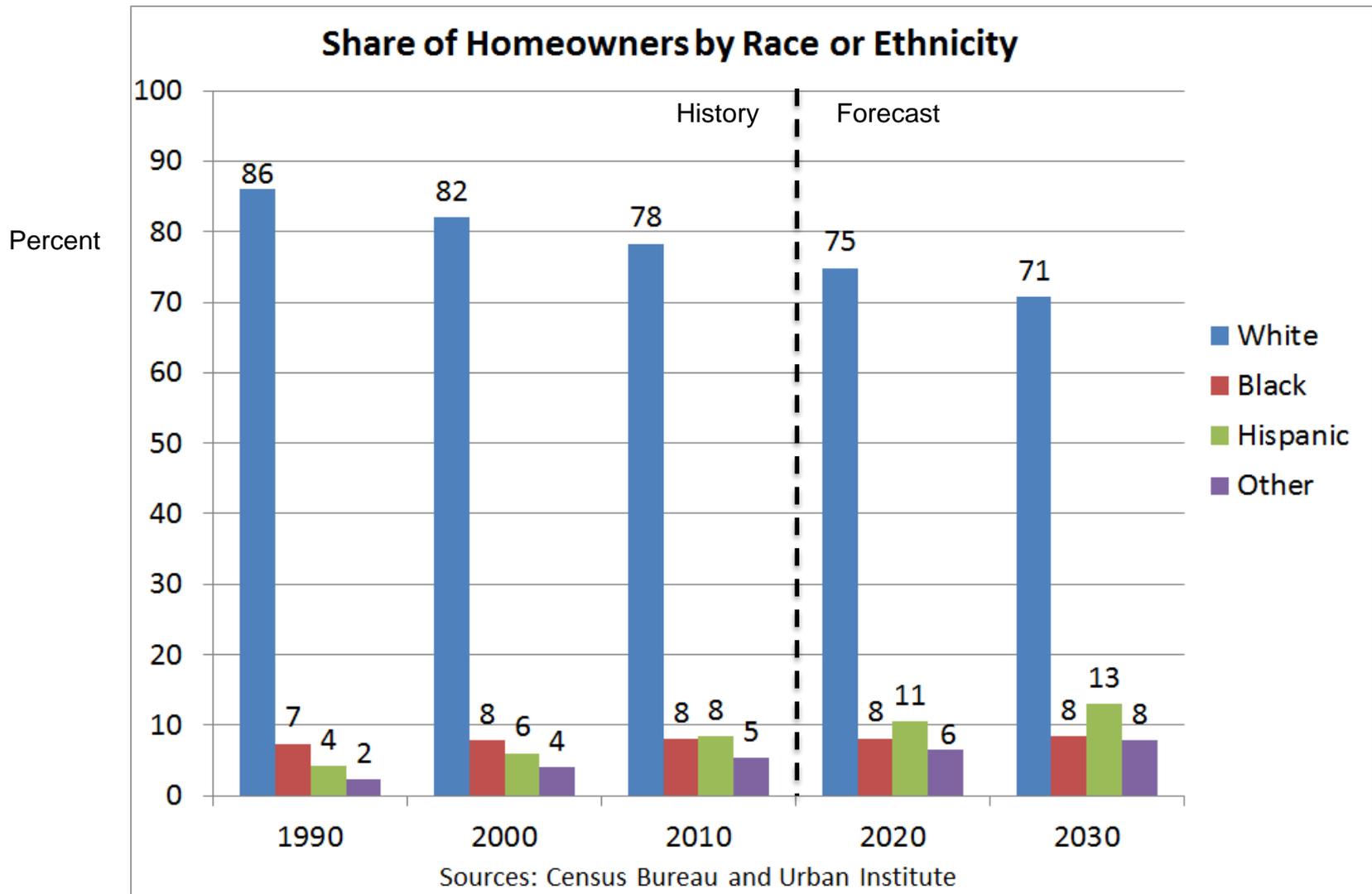
Home-ownership rate in %; actual through 2010, projected for 2020 and 2030



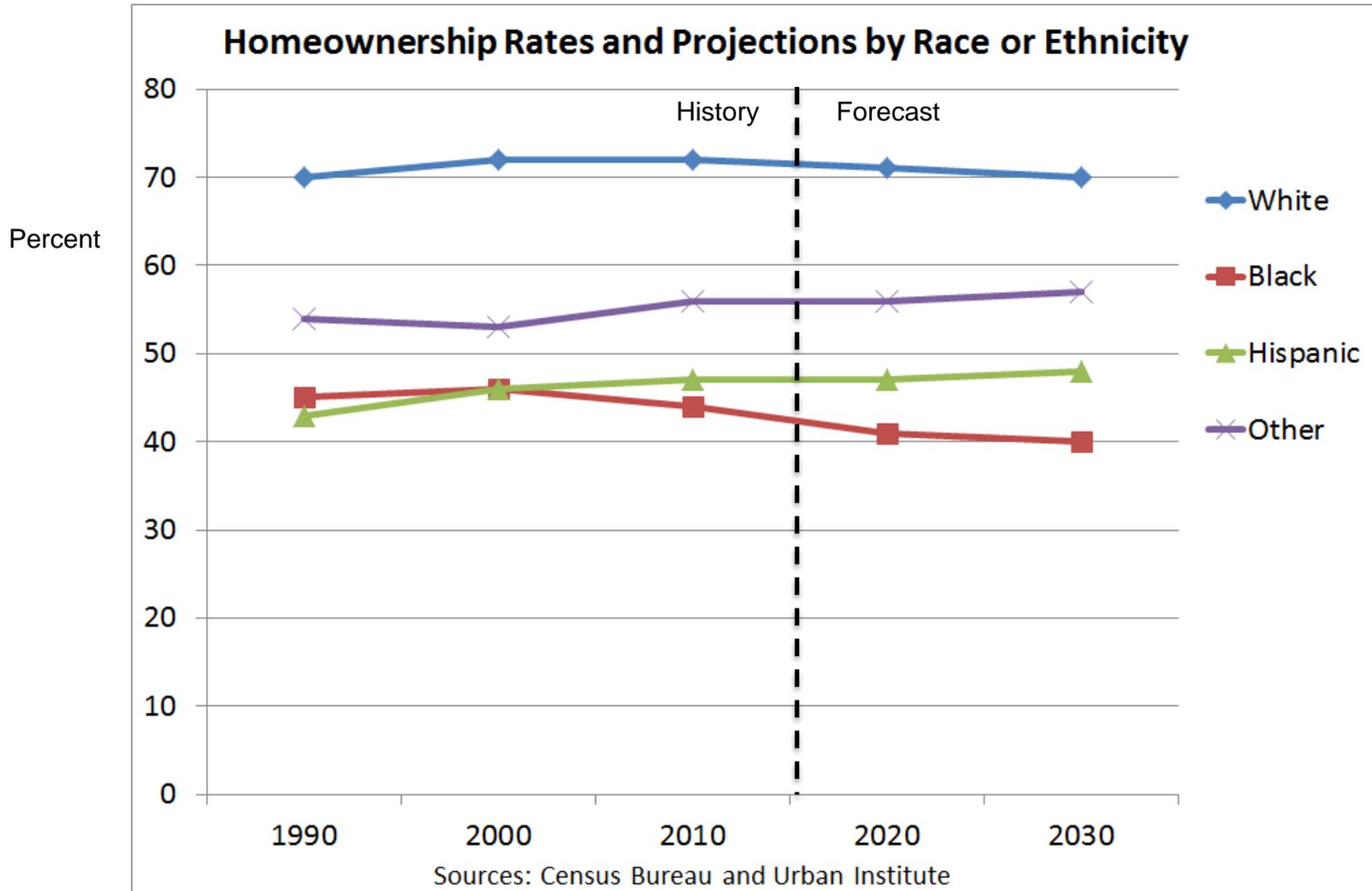
# Millennials Trail Boomers by 10-15 %-Points



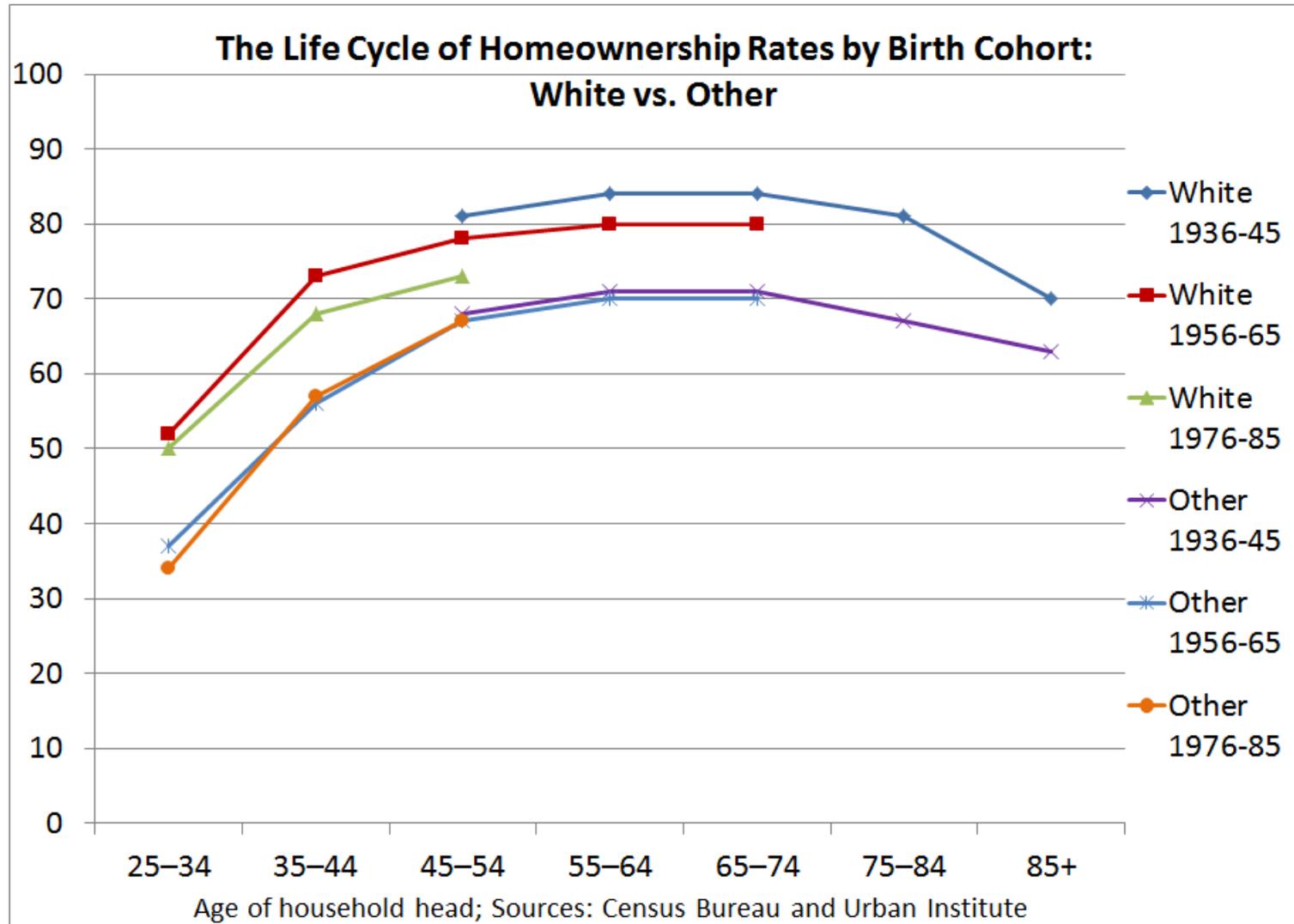
# Minority Homeownership Is Increasing



# But Minority Homeownership Rates Are Still Low

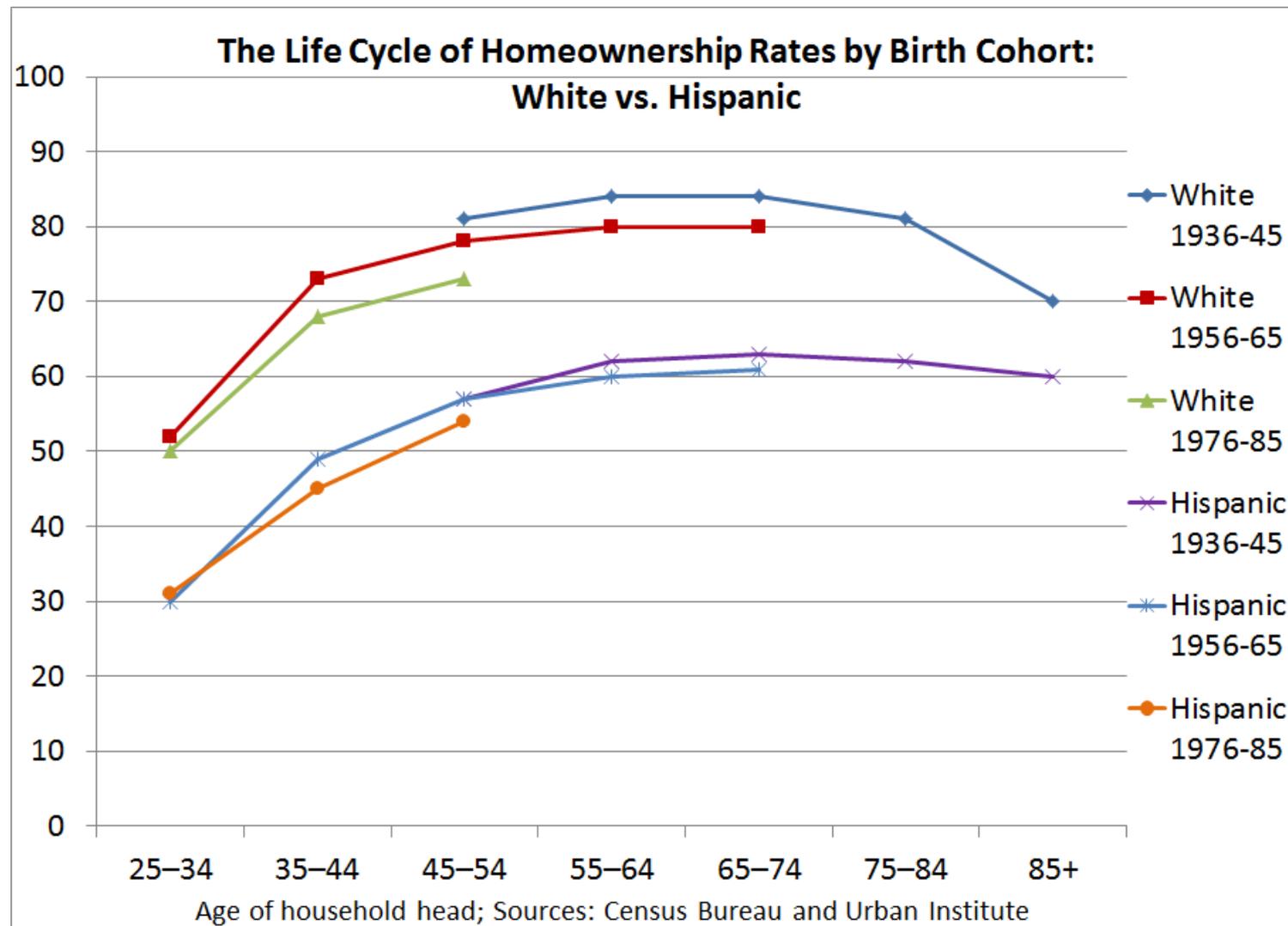


# Whites More Likely to Own Than Asian/Other



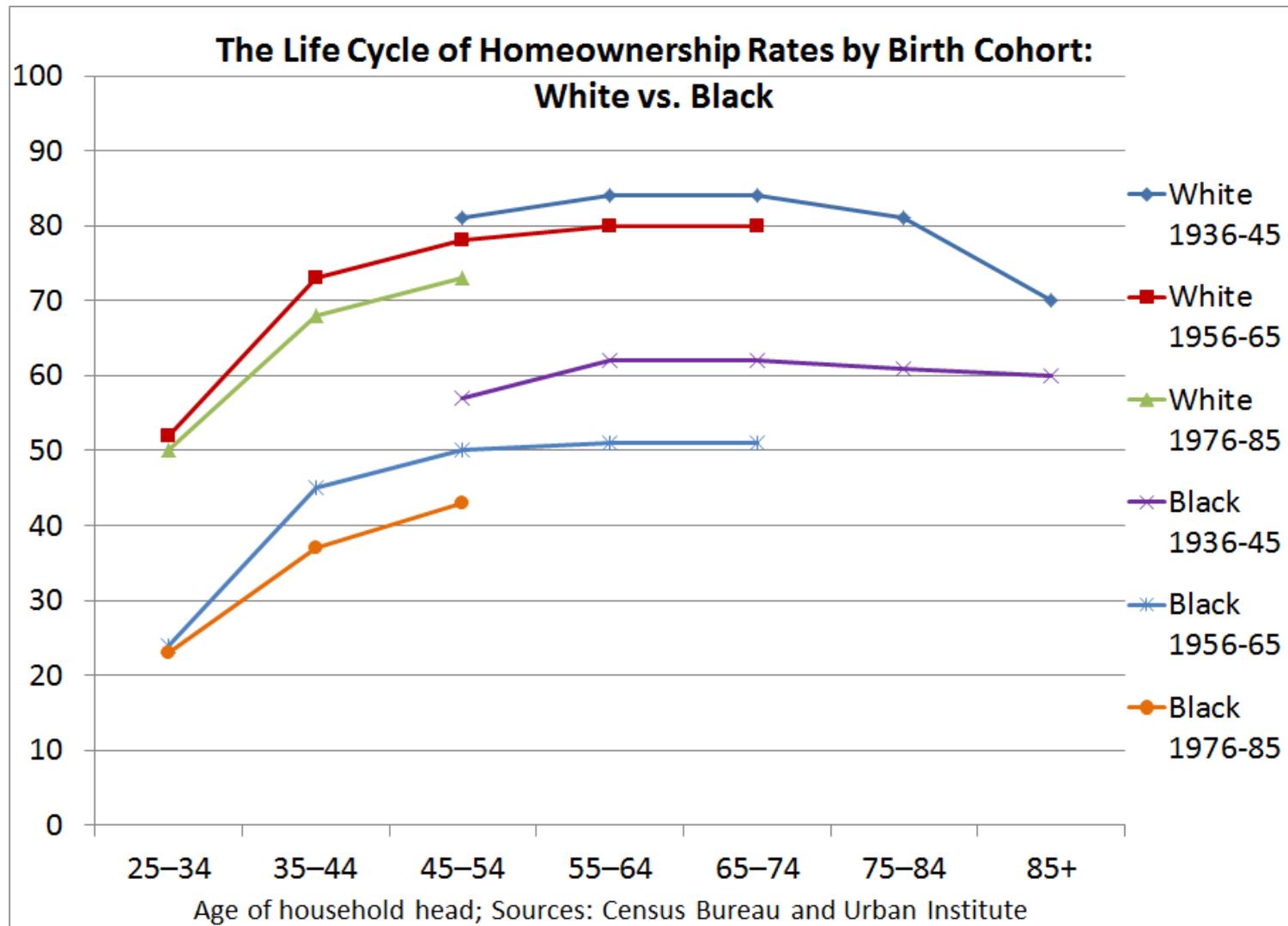
# Hispanic Homeownership 10-20% Lower

Home-ownership rate in %; actual through 2010, projected for 2020 and 2030



# Black Boomers and Younger Hurt by Crash

Home-ownership rate in %; actual through 2010, projected for 2020 and 2030



# Despite Declining Homeownership, It Remains Part of the American Dream

- ❑ Large and lasting effects of the housing crash and Great Recession were felt most by younger and minority families.
- ❑ Yet, the *desire* to be a homeowner remains remarkably strong across all age, education, racial and ethnic groups.
- ❑ To remain a viable option for all groups, homeownership must become more *affordable and sustainable*.

# How Can We Increase Affordability?

- ❑ Most economists agree that tax preferences for shelter (especially homeownership) push up prices: Benefits are “capitalized” into price or rent.
- ❑ Tax benefits of \$150 bn. annually are skewed toward homeowners in high tax brackets via tax deductibility or exclusion.
- ❑ Tax changes likely in 2017—lower rates and higher standard deduction—will reduce tax benefits for homeownership, perhaps slowing or reducing house prices.

# Distortions of Demand *and* Supply

- ❑ Tax benefits are “demand distortions”; there also are “supply distortions” in housing that push up prices/rents.
- ❑ Land-use regulations/restrictive building codes increase construction costs, making housing less plentiful and less affordable.
- ❑ Local governments could reduce these constraints, and housing of all types and tenures would become cheaper.

# How Can We Increase Sustainability?

- ❑ Unsuccessful homeownership experiences stem from shocks (job loss, divorce, sickness) that expose unsustainable financing—i.e., too much debt and too little homeowners' equity (HOE).
- ❑ Reduce the risk of financial distress and losing a home by encouraging or requiring higher HOE and less debt.
- ❑ This would increase the age of first-time homebuyers and *reduce homeownership* but also reduce the risk of foreclosures.

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# Discussion and Questions

# Thank you for attending.



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