Is Homeownership Still the American Dream?

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Federal Reserve Bank of St. Louis
November 15, 2016
Program

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
Overview

- 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.
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.
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.

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.

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.

Homeownership Rate Surged after WW II

Homeownership Rates

- Missouri
- United States

Source: Census Bureau
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

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
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

U.S. Homeownership Rate: Actual and Projected

Percent

Sources: Census Bureau and Urban Institute
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
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.
America is changing.
Ideas about housing and homeownership must change, too.
Homeownership Rates by Birth-Year Cohort

The Life Cycle of Homeownership Rates by Birth Cohort:
All Races and Ethnicities

Homeownership rate in %; actual through 2010, projected for 2020 and 2030

Age of household head; Sources: Census Bureau and Urban Institute
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Baby Boomers on Lower Track than Elders

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Gen X Harmed Most by Housing Crash

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Millennials Trail Boomers by 10-15 %-Points

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Minority Homeownership Is Increasing

![Graph showing the share of homeowners by race or ethnicity from 1990 to 2030. The graph indicates an increase in minority homeownership over time. The sources for the data are the Census Bureau and Urban Institute.]

Percent

<table>
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<th>Year</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
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<td>86</td>
<td>7</td>
<td>4</td>
<td>2</td>
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<td>82</td>
<td>6</td>
<td>8</td>
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<td>2010</td>
<td>78</td>
<td>8</td>
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<tr>
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<tr>
<td>2030</td>
<td>71</td>
<td>8</td>
<td>13</td>
<td>8</td>
</tr>
</tbody>
</table>

Sources: Census Bureau and Urban Institute
But Minority Homeownership Rates Are Still Low

Homeownership Rates and Projections by Race or Ethnicity

- White
- Black
- Hispanic
- Other

Sources: Census Bureau and Urban Institute
Whites More Likely to Own Than Asian/Other

The Life Cycle of Homeownership Rates by Birth Cohort: 
White vs. Other

Homeownership rate in %; actual through 2010, projected for 2020 and 2030

Age of household head; Sources: Census Bureau and Urban Institute
Hispanic Homeownership 10-20% Lower

The Life Cycle of Homeownership Rates by Birth Cohort: White vs. Hispanic

Homeownership rate in %; actual through 2010, projected for 2020 and 2030

Age of household head; Sources: Census Bureau and Urban Institute
Black Boomers and Younger Hurt by Crash

The Life Cycle of Homeownership Rates by Birth Cohort: White vs. Black

Homeownership rate in %; actual through 2010, projected for 2020 and 2030

Age of household head; Sources: Census Bureau and Urban Institute
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.
Discussion and Questions
Thank you for attending.