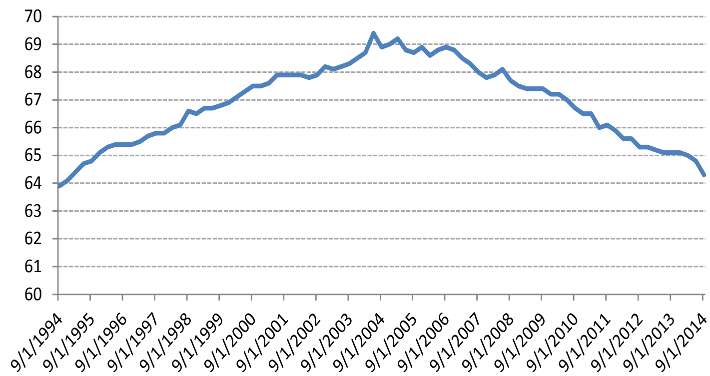
Trends in Homeownership Rates

December 12, 2014

Introduction

The national Homeownership trends are often quoted in the general media as a concern for long-term health of the U.S. Housing Market. In fact, most often cited measure, the Homeownership rate[1] (Figure 1), has shown a steady decline since the housing collapse of 2007/08 and is argued by many to decrease even further. This national metric does not truly reflect the varying degree of improvement or strength in the housing sector in different areas of the country and within different demographics, and could result in erroneous conclusions. This is especially true when referencing new Non-Agency ("Jumbo") origination sub-sector of the housing market. In order to illustrate our point, we examined homeownership rates across multiple business cycles, different income levels, as well as demographics.

Figure 1: National Homeownership Rates %



Source: U.S. Census, FBC

[1]Homeownership Rate is calculated as Owner-occupied homes divided by the number of households.

Historical Homeownership Rates

We segregated the last 20 years into 3 distinct time periods:

- 1994 exemplifies a normal housing market
- 2004 illustrates conditions during the housing bubble
- 2014 represents the current period characterized by tight lending standards

Based on the Census data (Figure 2), the current Homeownership rate is marginally higher relative to the rate observed during the normal housing period in the 1990s. The rate has been declining from the very high and unsustainable level that occurred during the time of extremely loose credit underwriting characterized by risk layering and exotic product availability. This drop is also associated with a decreasing share of first-time homebuyers facing extremely tight credit standards. Historically, first-time buyers comprised approximately 40% of the market, much higher than the currently observed 29% (Figure 3).

Figure 2: Homeownership Rates %

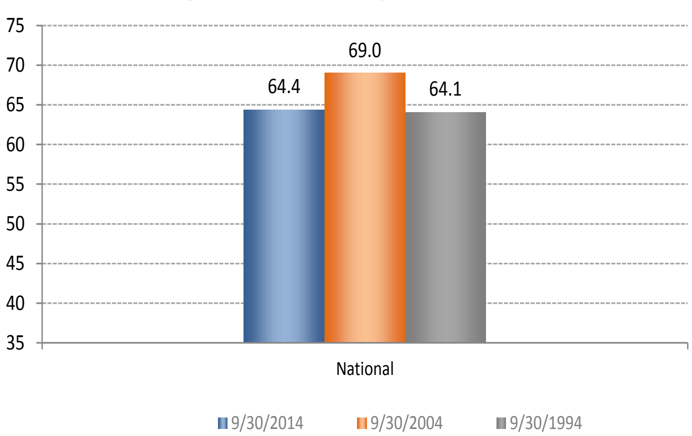
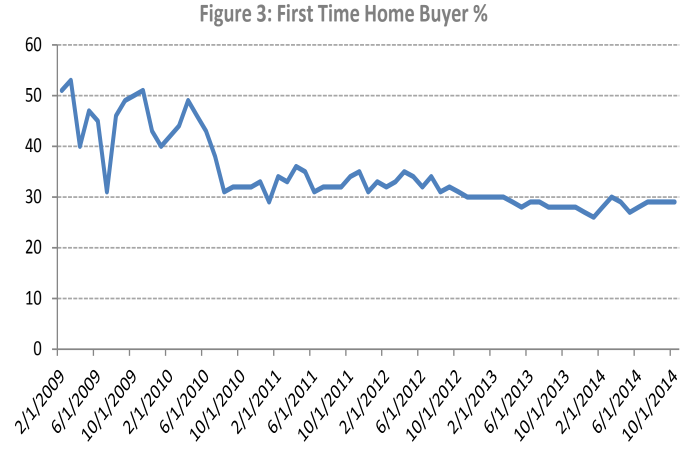


Figure 3: First Time Home Buyer %



Source: U.S. Census, FBC, NAR

Homeownership Rates and Income

Unsurprisingly, homeownership rates for higher income families have consistently been higher relative to the national average. Census data indicates that families with income exceeding the national median enjoy much higher homeownership rates (Figure 4).

Similarly, approximately 88% of households with an annual income at or above $120K own their homes (Figure 5), well above the national rate of 64.4%.

Homeownership Rates and Age

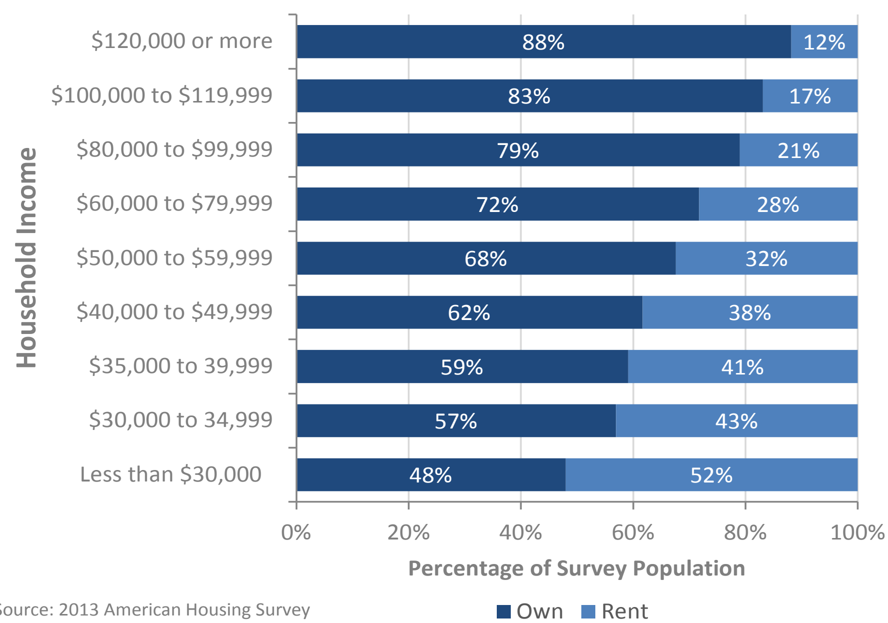
Additionally, homeownership rates for older age groups are much higher relative to their younger counterparts indicating a strong desire for stability and pointing to the fact that owning a home remains the preferred housing option (Figure 6). Despite the recent recession, those 65 and over are actually experiencing higher homeownership rates relative to the normal housing time period. Longer lifespan and the aging population is creating a growing housing demand for those in the older age brackets.

Economic and social factors are responsible for declines in homeownership rates among the younger age groups. Student debt, high unemployment and underemployment rates are partly to blame. Also, many in this age group are delaying marriage and parenthood - life triggers traditionally linked to homeownership.

Figure 4. Homeownership Rates % by Family Income

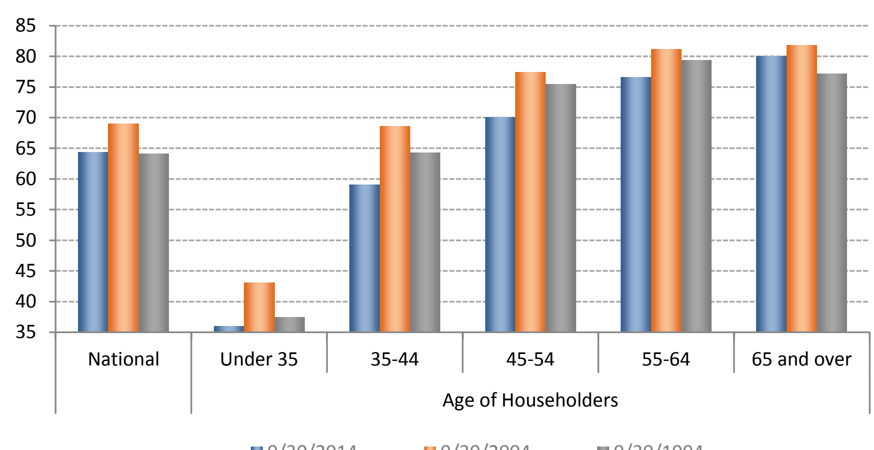
Source: U.S. Census, FBC

Figure 5 : Own vs. Rent % by Income



Source: 2013 American Housing Survey

Figure 6. Homeownership Rates % by Age of Householder



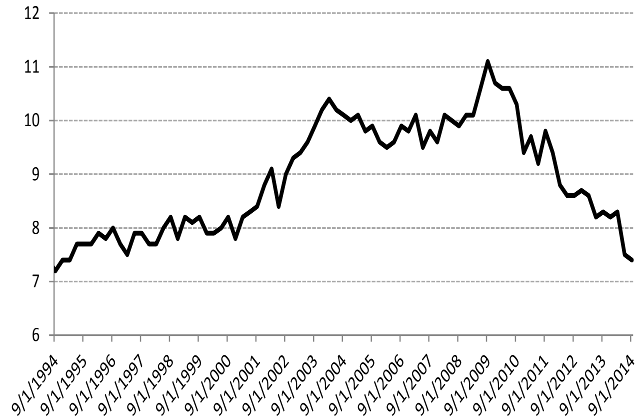
Source: U.S. Census, FBC

Conclusion

Demographic trends are shifting homeownership rates to older age grups, but the benefits of owning a home remain the same. Financial and non-financial considerations that include higher levels of satisfaction, sense of accomplishment, better environment for child development or the source of wealth accumulation continue to be very appealing and will promote homeownership in the years ahead. Furthermore, rising rents and diminished rental supply (Figure 7) may provide additional motivation to buy.

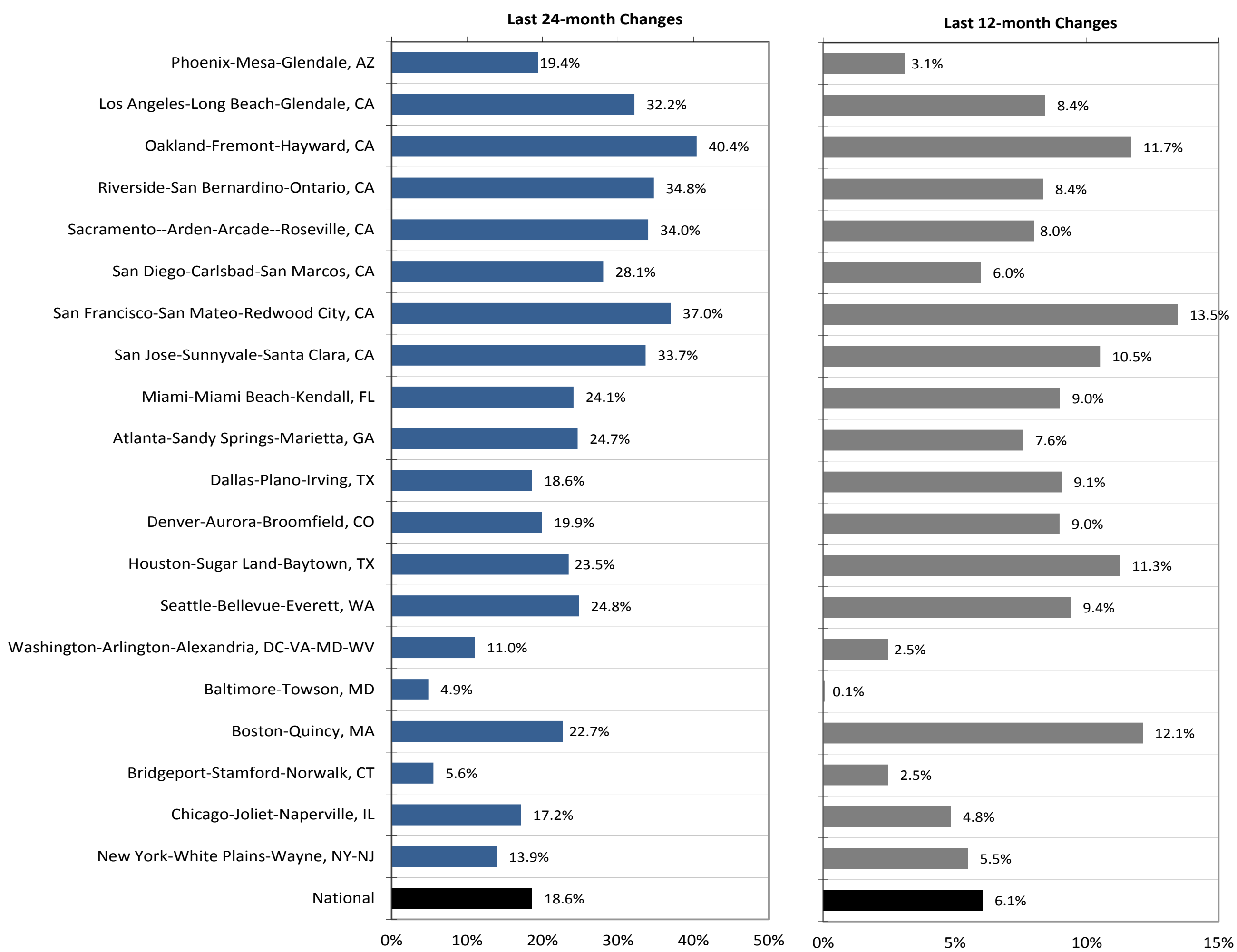
In regards to the Jumbo Prime market, for example, high homeownership rates will continued to be supported by strong and steady level of home price appreciation since the peak in home prices observed in 2006. Figure 8 represents recent home price performance observed in the 20 CBSAs that comprise over 70% of newly originated Non-Agency loans. Price growth in CBSAs of affluent communities, has averaged 22.5% over the past 24 months (vs. 18.6% on the national level) and 7.2% in the last year (vs. 6.1% nationally). These areas tend to be more desirable and attractive to prospective homeowners because of their stability, better employment opportunities, as well as close proximity to good schools or family-oriented amenities.

Figure 7: National Rental Vacancy Rates %



Source: U.S. Census, FBC

Figure 8: Home Price Trends - Top 20 CBSAs (as of October 2014)



Source: CoreLogic

The underlying loan data is provided by CoreLogic (subscription-based data repository) for a specific subset of loans. Our access to CoreLogic data includes approximately 95% of all U.S. Option ARM, Subprime, and Alt-A securitized product. Unless specified, Prime, Jumbo, or Agency Backed loans are not includes in the graphs and charts.

Algorithms and analysis to access the information and any interpretation are proprietary to Falcon Bridge Capital, LLC.

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