Homeownership Rate Continues to Drop, But Housing Affordability Improves Substantially

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- **The homeownership rate fell for a fifth consecutive year in 2012.**
- **Homeownership rates dropped for every age group except those 75 and older. Young households experienced the largest declines.**
- **Single-family detached homes continue to capture an outsized share of new rental demand.**
- **Last year marked substantial, across-the-board improvements in housing affordability. The overall rate of housing affordability problems dropped to pre-recession levels. Renters, mortgagors, free-and-clear homeowners, and households of all ages experienced improved affordability.**

Introduction

Each year, the Census Bureau's American Community Survey (ACS) provides a unique opportunity to study the nation's housing conditions. This edition of *Housing Insights* analyzes recently published 2012 ACS data on homeownership and housing affordability. Similar to last year's findings[1], the homeownership rate continued to decline in 2012, with young households bearing the brunt of the setback in homeownership attainment. Households aged 25-34 experienced a two-point homeownership rate drop last year and have suffered a decline in excess of 8 percentage points since 2007. On the rental front, single-family detached homes continue to absorb an outsized share of new rental demand arising from the retrenchment in homeownership and now account for nearly 29 percent of the renter-occupied stock.

In a significant departure from recent trends, the 2012 ACS revealed substantial, across-the-board improvements in housing affordability. Between 2011 and 2012, the proportion of households spending at least 30 percent of gross income for housing decreased by nearly 2 percentage points and now is lower than at the outset of the Great Recession. Furthermore, affordability improved for renters, mortgagors, free-and-clear homeowners, and for households of all ages. The improvement for renters is particularly notable, as it broke a string of four consecutive years of deteriorating rental affordability.

Despite Housing Market Recovery, Decline in Homeownership Rate Continues

According to multiple indicators, 2012 was a year of housing market recovery, with gains in housing construction, home sales, home prices, and mortgage originations. The homeownership rate did not follow suit, however. Between 2011 and 2012, the homeownership rate fell by 0.7 percentage points, the fifth consecutive annual decline.[2] The 2012 homeownership rate of 63.9 percent was 3.3 percentage points lower than in 2007 at the outset of the

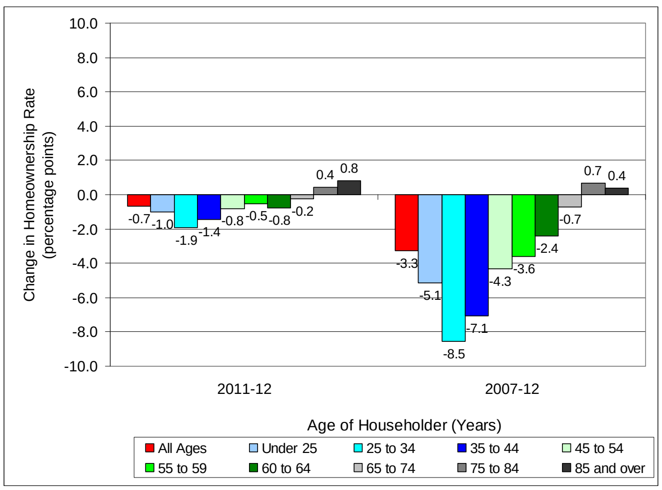
[1] This article is an update of an edition of *Housing Insights* published last year following release of the 2011 ACS data. See Patrick Simmons, "Rental Resurgence Marked by Single-Family Expansion and Diverging Affordability Trends for Owners and Renters," Fannie Mae *Housing Insights* (2, 5), November 2012. <http://www.fanniemae.com/resources/file/research/datanotes/pdf/housing-insight-1112.pdf>

[2] Unless otherwise noted, all differences or changes noted in the text are statistically significant at the 90 percent confidence level.

Great Recession and was the lowest rate recorded by the ACS since the survey was fully implemented in 2005.[3] The 2012 ACS homeownership rate was also lower than that recorded in any decennial census since 1970.[4]

All households except those aged 75 and older experienced falling homeownership rates between 2011 and 2012 (see Exhibit 1). Declines were particularly large among young households. The homeownership rate for households aged 25 to 34 fell by 1.9 percentage points, followed by a drop of 1.4 points among those aged 35 to 44. Since 2007, the homeownership rate of 25-to-34-year-olds has plummeted by 8.5 percentage points and that of 35-to-44-year-olds has slumped by 7.1 points.

Exhibit 1. Young households continue to experience brunt of homeownership declines.

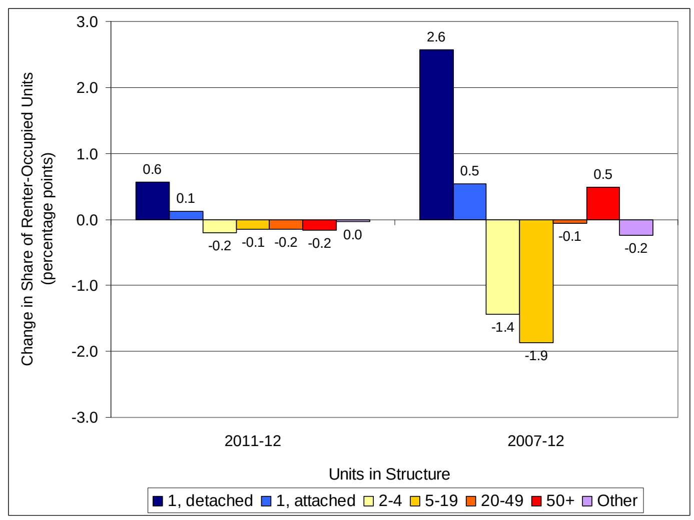


Source: U.S. Census Bureau, American Community Survey.

Single-Family Rentals Are on the Rise

The falling homeownership rate, when combined with continued modest household growth, has generated substantial new rental demand, and the latest ACS data show that single-family detached homes continue to pace the rental market expansion. In 2012, single-family detached units accounted for 28.5 percent of the renter-occupied housing stock, a larger share than any other housing type. The single-family-detached share of rental housing grew 2.6 percentage points between 2007 and 2012 (see Exhibit 2). During the same period, single-family attached units and rentals in buildings with 50 or more units also captured rental market share, but each experienced a gain of just one-half a percentage point.

Exhibit 2. Detached single-family homes continue to be a big winner in rental expansion.



Source: U.S. Census Bureau, American Community Survey.

Much of the new demand for single-family rentals has been met within the existing stock, as units switched from owner to renter occupancy.[5] But part of the demand also has been met through a shift in the composition of new construction. Although single-family homebuilding activity remains subdued, the proportion of new single-family units slated for

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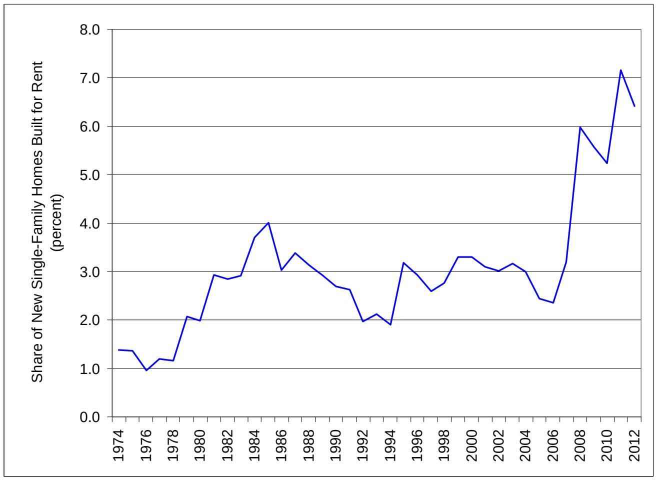
[3] Several Census Bureau surveys provide homeownership rate estimates. Although these surveys portray broadly similar trends, they differ in detail. A substantial advantage of using the ACS is that its huge sample size affords more precise estimates of homeownership rates for sub-national geographies and demographic subgroups than do other surveys. Although ACS data are available beginning in 2005, this article uses 2007 as the base for most historical comparisons because it was the last year prior to the onset of the Great Recession. None of the trends described here would be altered substantially by using 2005 as the base year.

[4] The Census Bureau indicates that comparisons of housing tenure data between the 2012 ACS and the 2000 and 2010 Censuses are valid. (See U.S. Census Bureau, "Comparing 2012 American Community Survey Data,"http://www.census.gov/acs/www/guidance_for_data_users/comparing_2012/). The Census Bureau does not provide specific guidance on comparing 2012 ACS data with prior decennial censuses. However, multiple Census Bureau publications compare homeownership rate data from the 2000 and 2010 Censuses with data from prior decennial censuses. Homeownership rates recorded in the last five decennial censuses are as follows: 2010: 65.1 percent; 2000: 66.2 percent; 1990: 64.2 percent; 1980: 64.4 percent; 1970: 62.9 percent.

[5] Almost one-quarter of the single-family detached rental stock in 2009 had been owner-occupied two years earlier. See Joint Center for Housing Studies of Harvard University, 2011, *America's Rental Housing: Meeting Challenges, Building on Opportunities*. Cambridge, MA: President and Fellows of Harvard College.

the rental market has reached new highs in recent years (see Exhibit 3).[6]

Exhibit 3. Demand for single-family rentals induces a shift in composition of construction.



Source: U.S. Census Bureau, Survey of Construction.

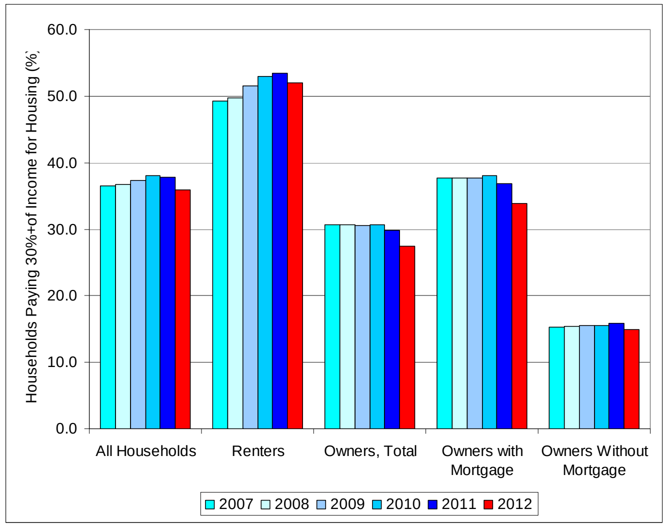
Affordability Improves Across the Board

One common method for analyzing housing affordability compares a household's monthly housing costs, including utilities, to its pre-tax income to determine if the ratio surpasses a maximum affordable level. For most federal programs, this maximum level stands currently at 30 percent. Households with cost-to-income ratios that exceed this cutoff are defined to have an affordability problem, or "housing cost burden."

The new ACS data indicate that the proportion of households with housing cost burdens declined by nearly 2 percentage points last year, falling to just under 36 percent. The decline was large enough to bring the overall rate of housing affordability problems down to pre-recession levels.

Previous analyses showed that renter affordability problems rose in recent years, while the proportion of homeowners with housing cost burdens remained relatively flat or dropped modestly.[7] In contrast, the 2012 ACS data reveal substantial improvements in housing affordability across housing tenures. As shown in Exhibit 4, renters, mortgagors, and free-and-clear homeowners all experienced declines in housing cost burdens between 2011 and 2012.

Exhibit 4. Affordability improves for both owners and renters.



Source: U.S. Census Bureau, American Community Survey.

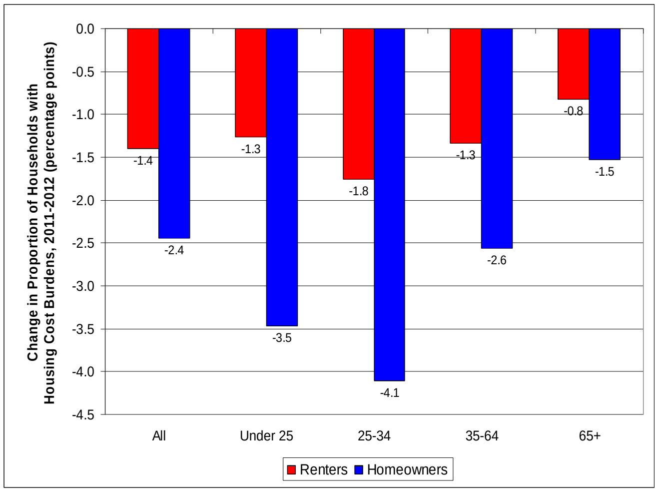
An uptick in renter incomes was largely responsible for driving the first improvement in rental affordability in five years. Following a gain of less than 1 percent in the prior year, the median renter income increased by 3.1 percent in 2012, also marking the first time in five years that gains in renter incomes outpaced increases in rents.

Although affordability improved for renters last year, the greatest affordability gains came among mortgagors, who saw a one-year drop of 2.9 percentage points in their rate of housing cost burdens. At 33.9 percent, the proportion of mortgagors with housing cost burdens is now at the lowest level since full implementation of the ACS in 2005.

Between 2011 and 2012, affordability not only improved across housing tenures, but it also strengthened for all age groups (see Exhibit 5). Young homeowners experienced particularly large declines in cost burdens: Owners under age 25 saw a 3.5 percentage point decline in the rate of cost burdens and those aged 25 to 34 experienced a 4.1 point drop. Since 2007, the rate of cost burdens among homeowners under age 25 has fallen from 44.8 percent to 37.0 percent and that among 25-to-34-year-olds has plummeted from 37.4 percent to 27.5 percent.

[6] Exhibit 3 shows single-family detached and attached units combined.
[7] See Patrick Simmons, "Income Declines Drive Increase in Renter Cost Burdens," Fannie Mae *Data Note* (2, 2), May 2012, and Patrick Simmons, "Rental Resurgence Marked by Single-Family Expansion and Diverging Affordability Trends for Owners and Renters," Fannie Mae *Housing Insights* (2, 5), November 2012. The former article discusses characteristics and limitations of the affordability measure used here.

Exhibit 5. Affordability has improved across age groups, and particularly for young homeowners.



Sources: U.S. Census Bureau, American Community Survey.

Discussion and Implications

The findings related to homeownership rates and single-family rentals are important because they reveal the durability of the demand shift from owning to renting that emerged from the housing crisis and Great Recession, even as affordability improved for owner-occupants. Prior to the downturn, the homeownership rate increased for a decade and young households participated in homeownership gains. Conversely, rental housing demand was stagnant. Changes in the demand landscape have induced a number of supply responses from the housing industry, including a rebound in multifamily housing construction, a shift in the composition of new single-family construction toward rentals, and an increase in capital for acquiring existing single-family homes and converting them to rentals.

Although the findings related to housing affordability do not reflect the recent run-up in interest rates, they are nonetheless encouraging. Rental affordability pressures, which had been mounting for years, finally appear to be easing. As rental cost burdens moderate, renters will feel less of a squeeze on expenditures for other goods and services and might also be in better position to save for homeownership, which continues to be the preferred housing option for the majority of renters.[8]

[8] According to Fannie Mae's National Housing Survey, 51 percent of all renters and 57 percent of renters aged 18 to 34 think owning makes more sense than renting from both a financial and lifestyle perspective. See Sarah Shahdad, "Renters: Satisfied but Reaching for Homeownership," *FM Commentary*, June 6, 2013.

The decline in affordability problems among owner-occupants likely reflects a combination of factors, including exits from homeownership by households who had high and unsustainable housing cost burdens, mortgage rates that hovered near all-time lows for several years, and implementation of tighter mortgage underwriting standards after the housing bust.[9] Tightening of mortgage qualification criteria soon after the onset of the housing downturn probably contributed to the particularly large declines in homeownership rates among young households, but may have also helped to create a cohort of young homeowners who have housing costs that are much better aligned with incomes.

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[9] Some of these factors might help to explain why homeownership rates continue to decline in the face of improving homeownership affordability. For example, foreclosures put downward pressure on the homeownership rate, given that many owner-occupants who lose their homes due to default end up renting. (Raven Molloy and Hui Shan, "The Post-Foreclosure Experience of U.S. Households," Finance and Economics Discussion Series (2011-32), Federal Reserve Board, May 2011.) If foreclosed households had higher-than-average housing cost burdens while they were homeowners, their exit from homeownership would simultaneously reduce the rate of affordability problems observed among the remaining population of owner occupants. Tighter mortgage underwriting might have a similar effect by reducing transitions from renting to owning (putting downward pressure on the homeownership rate), while also reducing the incidence of housing cost burdens among new mortgagors.