

## Second Homes: Recovery Post Financial Crisis

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“Although the second home mortgage market experienced a severe decline during the housing downturn, Americans still aspire to buy second homes and have contributed to the growth of the market consistently since its bottom in 2009.”

### Introduction

The bulk of mortgage origination volume historically comes from traditional purchase and refinance mortgages provided to borrowers who intend to occupy the home as a primary residence. A smaller yet significant portion of the mortgage market consists of second homes – homes that are neither the borrower’s primary residence nor an investment property.

Second home mortgage origination volume has averaged 4.76 percent of the total purchase mortgage market since 1998 and has grown in recent years<sup>1</sup>. The GSEs have long been large players in this market, acquiring on average roughly 64 percent of all second home purchase mortgage originations by volume since 1998<sup>2</sup>. This edition of *Housing Insights* highlights the demographic characteristics of the typical second home buyer, the recent trend of the second home mortgage market, and its outlook for the near and longer term.

### The Typical Second Home Buyer

The National Association of REALTORS® surveys second home buyers each year<sup>3</sup>. A typical second home buyer is 47 years old, comes from a two-earner household, and finances the purchase of the home 61 percent of the time<sup>4</sup>.

**Exhibit A: Second Home Buyer Characteristics**

<b>2009 - 2013 Purchase Year Averages</b>	<b>Second Homes</b>		<b>Primary Homes</b>	
Median Age	47		38	
Median Household Income	\$ 90,660		\$ 74,580	
<b>Percent of Purchase Price Financed</b>	<b>Second Homes</b>		<b>Primary Homes</b>	
Less Than 80%	70%		44%	
80% or Greater	30%		60%	

Exhibit A displays some general demographic characteristics of second home buyers versus those of primary residence home buyers (see more details in the Appendix). As shown in the table above, second home buyers tend to be older, have higher incomes, and put larger down payments on their second homes than primary residence buyers. At the time of purchase, 70 percent of second home mortgages had loan-to-value ratios below 80 percent, on average, compared with 44 percent for primary residence mortgages.

<sup>1</sup> Between 2009 and 2012, the unpaid principal balance on mortgages secured by second homes increased by 38 percent (CoreLogic TrueStandings Servicing Database).

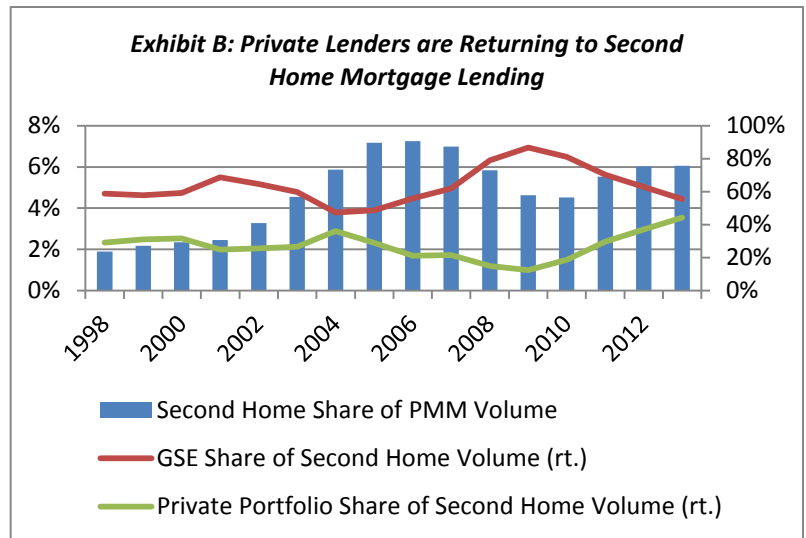
<sup>2</sup> CoreLogic TrueStandings Servicing Database

<sup>3</sup> National Association of REALTORS, <http://www.realtor.org/prodser.nsf/products/E186-55-13?OpenDocument>

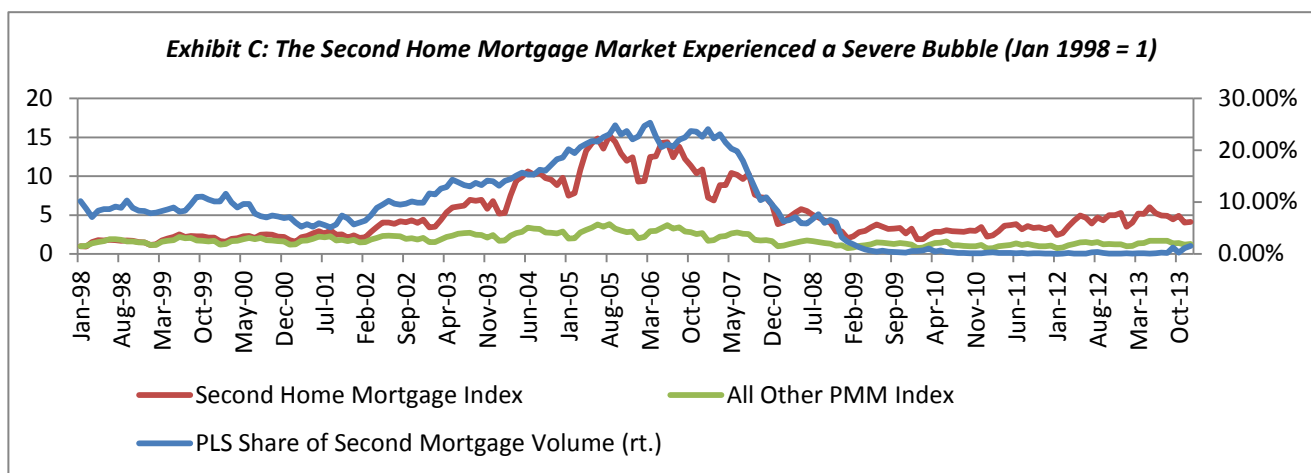
<sup>4</sup> Results were obtained by averaging data from the National Association of REALTORS surveys from 2009 through 2013.

## History of the Second Home Mortgage Market

Movement in the second home share of purchase-money mortgage origination volume (PMM) has largely paralleled the boom-bust cycle of the real estate market (Exhibit B). The share more than tripled between the late 1990s and the cycle peak in 2006, and then declined through 2009. In every year since 2009, however, second home mortgages as a percentage of all purchase mortgages has increased. Exhibit B shows that, between 2009 and 2013, the GSEs' share of second home mortgage volume decreased while the share of whole loans held on the portfolios of banks and other institutions increased, suggesting that private lenders are increasingly more willing to lend to second home borrowers<sup>5</sup>. Together, the GSEs and bank portfolios made up just under 100 percent of the second home mortgage market in 2013<sup>6</sup>, well above the trough of their combined share of 77 percent observed in 2006. One of the major reasons for this increase in market share is the exit of private label security (PLS) competitors from the mortgage market following the housing market bubble collapse.



The second home mortgage market grew significantly during the housing boom, but its growth largely reversed following the housing bust. Exhibit C shows that the volume of second home mortgages originated peaked at more than 15 times its 1998 volumes during the bubble while the volume of all other purchase mortgages peaked at just under 4 times its 1998 volumes<sup>7</sup>. Overlaying these series, measured on the right axis of the chart below, is the PLS share of second home mortgages. As one can see, second home mortgage volume in 2013 was more than 4 times the 1998 volume, but the PLS share, which was as high as 17 percent at the height of the housing boom, has not rebounded since the crash.



The geographic distribution of second home purchases helps explain the sharp decline in the second home market during the housing bust. Since January 1998, 34 percent of all second home mortgages have been

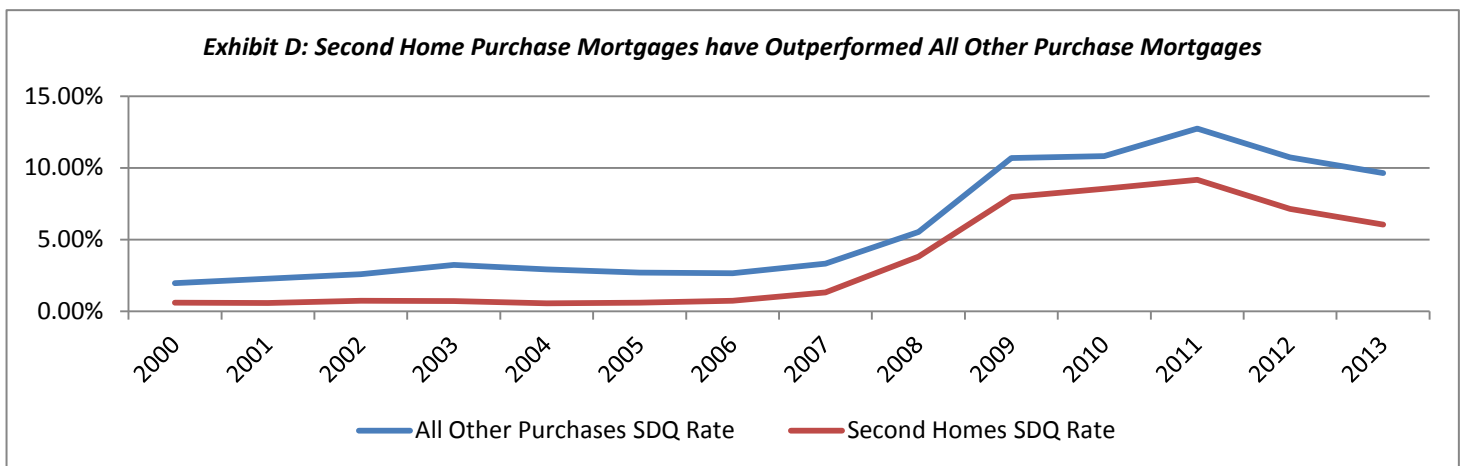
<sup>5</sup> CoreLogic TrueStandings Database

<sup>6</sup> VA mortgage programs require the borrower to occupy the property as a primary residence. FHA mortgage programs have exceptions that allow for second home mortgages.

<sup>7</sup> CoreLogic TrueStandings Database, Fannie Mae Economic and Strategic Research

originated on properties located in Florida, California, and Arizona<sup>8</sup>. Between 2006 and 2012, these states experienced home price declines of 44 percent, 40 percent, and 46 percent, respectively<sup>9</sup>. The only state that experienced a larger decline in home prices was Nevada, which accounted for only 2.5 percent of all second home mortgage originations by count over the same time period. Although these states experienced the worst of home price volatility, they have not lost their popularity among second home buyers. These three states still compose the top three second home buyer destinations and accounted for 34 percent of all second home mortgages originated in 2013.

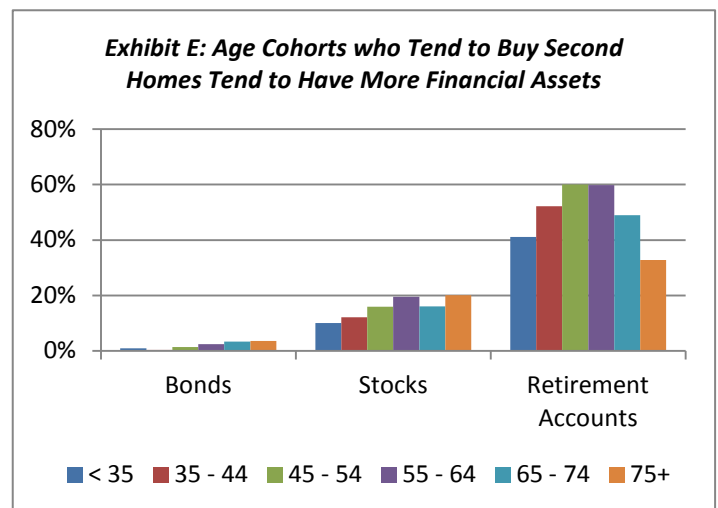
Second home purchase mortgages have performed differently from all other purchase mortgages despite experiencing a similar bubble<sup>10</sup>. Exhibit D compares the seriously delinquent rate<sup>11</sup> of second home purchase mortgages with that of all other purchase mortgages. While both series trended upward in the years immediately after the bubble, the second home purchase series has historically outperformed the all other purchases series, indicating that second home borrowers have been better able to meet their mortgage obligations.



### Outlook for the Second Home Market

Many second home buyers are affluent enough to buy their homes in cash. According to the National Association of REALTORS, between 2009 and 2013, an average of 38 percent of all second home buyers did not finance their acquisition with a mortgage. The remaining 62 percent<sup>12</sup> of buyers who rely on mortgage financing must have adequate income to cover the extra monthly liability for their second home mortgage payments.

The economic recovery has been uneven for Americans, as housing wealth appreciation has lagged that of financial wealth<sup>13</sup>. The recovery in financial



<sup>8</sup> Of the total 5,124,368 estimated second home mortgages, 588,970 were in California, compared with 872,605 in Florida, and 297,850 in Arizona (CoreLogic, Federal Reserve Board, and FDIC).

<sup>9</sup> The changes in home prices are based on the FHFA Home Price Index during the period between Q1 2006 and Q4 2013.

<sup>10</sup> CoreLogic TrueStandings Database

<sup>11</sup> Seriously delinquent rate is the percentage of outstanding mortgages 90 or more days delinquent.

<sup>12</sup> One percent of buyers surveyed in the REALTORS' survey said they did not know whether they used a mortgage.

<sup>13</sup> See, Brian Hughes-Cromwick, "An Uneven Recovery in Household Wealth," *Fannie Mae Housing Insights*, December 9, 2013 (<http://fanniemae.com/resources/file/research/datanotes/pdf/housing-insights-120913.pdf>).

markets has allowed many second home buyers, who are typically older and more likely to own financial assets, to sell some of their assets to buy second homes or use dividend payments from these assets to cover second home mortgage expenses. Exhibit E shows the percentage of households holding different major types of financial assets by age<sup>14</sup>. As shown in the exhibit, older age cohorts, who are more likely to buy second homes, tend to own more financial assets.

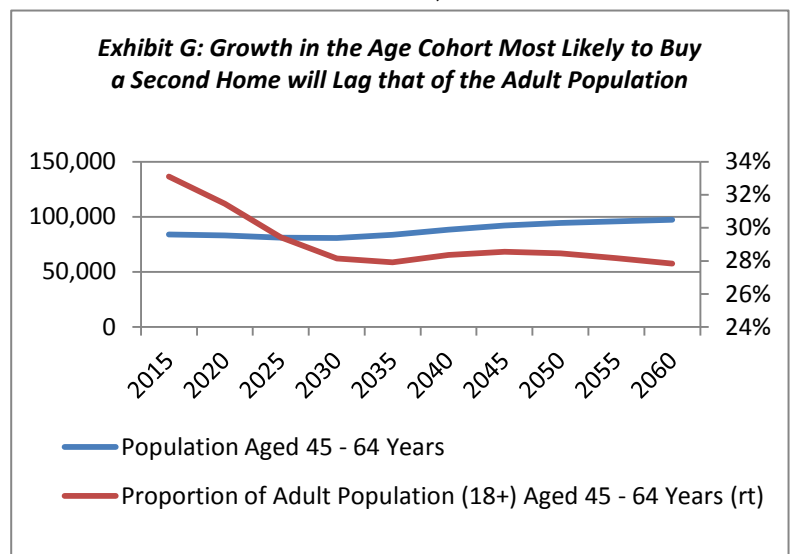
Another factor contributing to the near-term outlook for second home sales is the home price recovery rate in the aforementioned three most popular second home destination states: Arizona, California, and Florida. Exhibit F compares the FHFA home price indices for these three states and the national average. California and Arizona have kept up with the nationwide recovery, gaining back roughly a third of their home price peak to trough falls, but Florida lags substantially, regaining just 18 percent of its peak home price since bottoming out.

<b>Exhibit F: Florida Lags Other States and the U.S., but Prices are Still Low</b>				
Region	Peak FHFA HPI	Trough FHFA HPI	Q4-2013 FHFA HPI	Recovery Rate <sup>15</sup>
US	378.05	309.36	331.12	32%
AZ	426.45	231.15	293.69	32%
CA	642.42	385.36	469.14	33%
FL	479.96	268.72	306.76	18%

Given the relatively gradual recovery in Florida and the fact that it accounts for the largest share of second home mortgage originations at 17 percent since 1998, second home buyers have an opportunity to buy in Florida at a bargain price. Furthermore, because prices of financial assets have recovered more quickly than home prices, second home buyers have a near-term opportunity to deploy some of their financial wealth to acquire homes at comparative bargain prices.

The fact that older Americans are more likely to own financial assets and thus are better positioned to buy second homes is a positive factor for second home sales in the near-term. However, an additional factor worth examining in order to understand long-term prospects for the second home market is the aging of the American population.


Exhibit G shows the Census Bureau's projected adult population and the projected share of the adult population consisting of people between 45 and 64 years of age – the age group most likely to buy second homes<sup>16</sup>. The population of the age group most likely to buy second homes will grow at a slower rate than that of the total adult population between 2015 and 2060. This shows that while demand for second homes will continue to grow, it will likely occupy a smaller portion of the total purchase market. However, assuming that Americans continue to follow similar investment patterns as they age and that



<sup>14</sup> Federal Reserve Board, Survey of Consumer Finances, 2010.

<sup>15</sup> The recovery rate is calculated as: (Q4 2013 HPI – Trough HPI) / (Peak HPI – Trough HPI).

<sup>16</sup> According to the National Association of REALTORS surveys, an average of 55 percent of second home buyers from 2009 to 2013 were aged 45 or older.



aspirations of second home ownership do not wane, second homes should still occupy a significant place in the residential real estate market.

## Conclusion

Although the second home mortgage market experienced a severe decline during the housing downturn, Americans still aspire to buy second homes and have contributed to the growth of the market consistently since its bottom in 2009. The GSEs acquired roughly 60 percent of second home mortgage origination volume in 2013 and, barring rapid resurgence in PLS lending, should continue to be major players in the second home mortgage market. As the population continues to age, we expect people to continue to use their savings to buy second homes, thereby contributing to a segment of the mortgage market that will continue to grow in the years to come.

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## Appendix A Selected 2014 REALTORS Survey Findings<sup>17</sup>

<i>Appendix A: Buyer and Property Characteristics, National Association of REALTORS 2014 Survey</i>				
<b>Buyer Age</b>	<b>Primary Homes</b>		<b>Second Homes</b>	
Under 45	61%		55%	
45 to 54	12%		16%	
55 or older	28%		30%	
Median	40		43	
<b>Household Income (2013)</b>	<b>Primary Homes</b>		<b>Second Homes</b>	
Less than \$45,000	18%		8%	
\$45,000 to \$75,000	27%		23%	
\$75,000 to \$100,000	20%		18%	
More than \$100,000	35%		50%	
Median	\$	81,400	\$	92,100
<b>Number of Household Income Earners</b>	<b>Primary Homes</b>		<b>Second Homes</b>	
None	6%		4%	
One	37%		29%	
Two	54%		61%	
Three or more	3%		6%	
<b>Region of Home Purchase</b>	<b>Primary Homes</b>		<b>Second Homes</b>	
Northeast	13%		18%	
Midwest	22%		14%	
South	41%		41%	
West	24%		28%	
Outside U.S.	N/A		N/A	
<b>Mortgage Financing</b>	<b>Primary Homes</b>		<b>Second Homes</b>	
Used a mortgage	75%		62%	
Did not use a mortgage	25%		38%	
<b>Type of Property</b>	<b>Primary Homes</b>		<b>Second Homes</b>	
Detached Single-family	81%		66%	
Townhouse or row house	7%		9%	
Condo/Duplex in building with 2-4 units	5%		12%	
Condo/Duplex in building with 5+ units	5%		11%	
Other	2%		2%	

<sup>17</sup> Numbers may not sum to 100 percent due to rounding

## Appendix B

### Second Home Buyer Characteristics<sup>18</sup>

### REALTORS 2010 - 2014 Surveys<sup>19</sup>

<b>Appendix B: Second Home Buyer and Property Characteristics, National Association of REALTORS 2010 – 2014 Surveys</b>						
<b>Purchase Year</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Average</b>
<b>Buyer Age</b>						
Under 45	55%	46%	38%	40%	47%	45%
45 to 54	16%	23%	22%	27%	26%	23%
55 or older	30%	31%	39%	33%	28%	32%
Median	43	47	50	49	46	47
<b>Household Income</b>						
Less than \$45,000	5%	8%	10%	12%	16%	10%
\$45,000 to \$75,000	10%	23%	24%	20%	26%	21%
\$75,000 to \$100,000	24%	18%	22%	19%	19%	20%
More than \$100,000	61%	50%	44%	50%	39%	49%
Median	\$ 85,600	\$ 92,100	\$ 88,600	\$ 99,500	\$ 87,500	\$ 90,660
<b>Number of Household Income Earners</b>						
None	4%	10%	9%	8%	4%	7%
One	29%	35%	31%	31%	35%	32%
Two	61%	48%	54%	53%	51%	53%
Three or more	6%	8%	6%	8%	10%	8%
<b>Region of Home Purchase</b>						
Northeast	18%	17%	15%	19%	12%	16%
Midwest	14%	12%	12%	15%	17%	14%
South	41%	45%	42%	36%	50%	43%
West	28%	25%	30%	27%	21%	26%
Outside U.S. <sup>20</sup>	N/A	N/A	1%	3%	N/A	1%
<b>Mortgage Financing</b>						
Used a mortgage	62%	53%	58%	63%	70%	61%
Did not use a mortgage	38%	46%	42%	36%	29%	38%
Does not know	0%	1%	0%	1%	1%	1%
<b>Type of Property</b>						
Detached Single-family	66%	60%	67%	70%	71%	67%
Townhouse or row house	9%	10%	5%	4%	10%	8%
Condo/Duplex in building with 2-4 units	12%	12%	12%	13%	11%	12%
Condo/Duplex in building with 5+ units	11%	12%	13%	8%	5%	10%
Other	2%	7%	3%	5%	3%	4%

<sup>18</sup> REALTORS Vacation and Investment Home Buyers Survey, 2010 - 2014

<sup>19</sup> Numbers may not sum to 100 due to rounding

<sup>20</sup> Data were unavailable for 2013, 2013, and 2009