

# Fannie Mae Own-Rent Analysis

Theme 2: Housing Choices Throughout the Lifecycle  
and the Impact of Changing Demographics



*Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics*

## Overview of Fannie Mae Own-Rent Analysis

### Objective

- Fannie Mae conducted a research project to better understand the factors influencing consumers' decisions to buy or to rent their homes and to compare current actions and financial considerations with historic behaviors and economic factors/conditions

### Methodology

- As part of the work, Penn Schoen Berland, in partnership with Oliver Wyman, conducted telephone interviews with 2,041 general respondents plus 1,566 additional respondents from geographic areas of interest
  - To inform the survey design, focus groups were held in Washington, D.C. and Phoenix, AZ during July and August 2010
  - Telephone interviews were carried out during August and September 2010
- In addition to the survey, research was conducted in order to evaluate the survey findings comparatively with historical market experience

### Results

- The research results are being disclosed in a series of summary themed reports
- This is the second themed report: *Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics*

*Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics***Sustainable housing options are needed to respond to demographic trends as well as a more conservative housing finance environment**

- The first Fannie Mae Own-Rent Analysis theme covered how homeownership aspirations remain strong, but demographic trends indicate the possibility of future changes in the homeownership rate and housing stock
- Individuals' housing choices evolve over their lifetimes as they go through various stages of their lifecycles; more broadly, changes in demographic and lifestyle trends have implications for the housing market
  - Married couples are more likely to own than other households, but traditional married couples represent a shrinking portion of the population
  - Having children increases the propensity to own when controlling for income since people with children tend to value homeownership most, but many families with children (particularly single mothers) are renting due to financial constraints, and the percentage of households with children are declining overall
  - Homeownership rates increase with age, and the U.S. population is experiencing an aging trend fueled by the baby boomers
- Demographic trends have combined to cause a decline in average household size
- The housing crisis increased the need for affordable housing choices, including sustainable homeownership, and may have made consumers approach owning with a greater sense of caution and thoughtfulness
- The average square footage of new construction has begun to shrink recently, perhaps as a result of these trends

*Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics*

**Individual life events and large-scale demographic trends impact housing choices and the housing market overall**

**Individual events that trigger homeownership**
**Getting married**

Ownership rates for married couples are at least 60% higher than for other families and non-family households

**Having children**

76% of respondents believe providing a good place for children is a major reason to own

**Aging**

Someone age 65-74 is 3.5X more likely to own than someone under 25

**Demographic trends**
**Fewer married couples**

Married couples represent 50% of households in 2009 vs. 56% in 1990

**Fewer families with children**

45% of families have children under 18 in 2009 vs. 49% in 1990

**Aging population**

38% of households headed by someone 55+ in 2009 vs. 35% in 1990

**Impact on housing market**
**Shrinking households**

Average household of 2.6 members in 2009 vs. 2.7 in 1990 and 3.3 in 1960

**Crisis Impact**

- Need for affordable housing
- Increased caution with financial decisions

**Housing Market**

- **Smaller size of new housing units**
  - 6% decline in median sq ft of new homes from peak of the bubble in 2006 to Q2 2010
- **Increased willingness to rent**
  - Between January 2010 and the third quarter, the percentage of renters who plan to own if they move declined from 44% to 40%

**Sources:**

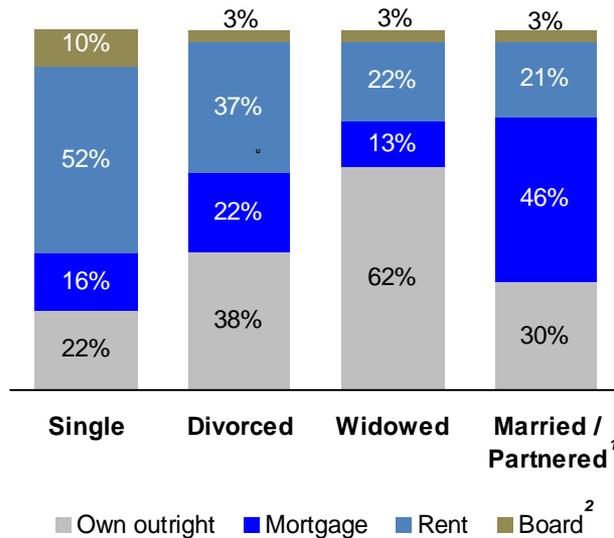
1. U.S. Census Bureau, Current Population Survey
2. Fannie Mae 2010 Own-Rent Survey
3. American Housing Survey
4. Fannie Mae 2010 third quarter National Housing Survey

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

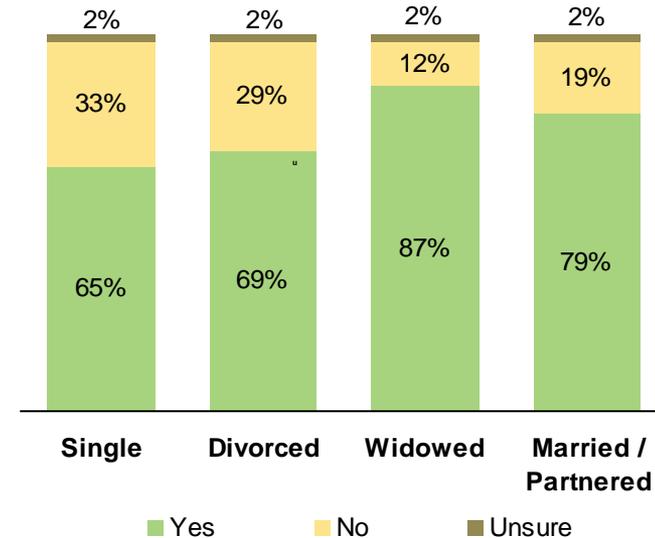
**Single respondents are least likely to own and report the lowest level of satisfaction with their housing choices**

- Marriage
- Children
- Aging
- Households
- Mkt

### What is your current housing situation?



### Is this what you want to be doing with regard to your housing situation?



- After controlling for age, income, wealth, and a number of other factors, regression analysis indicates that married couples are 2.5 times more likely to own than other respondents<sup>3</sup>
- Widowed respondents report the highest level of satisfaction with their housing and have the highest rate of outright ownership
- Divorced respondents have higher outright rate of ownership than married/partnered respondents but also higher rate of renting, perhaps as a consequence of asset division during divorce

Source: Fannie Mae 2010 Own-Rent Survey

1. The Fannie Mae Own-Rent survey groups married and partnered couples unlike the U.S. Census which treats married couples as a distinct group.

2. Boarders are people who live with someone else and do not pay rent.

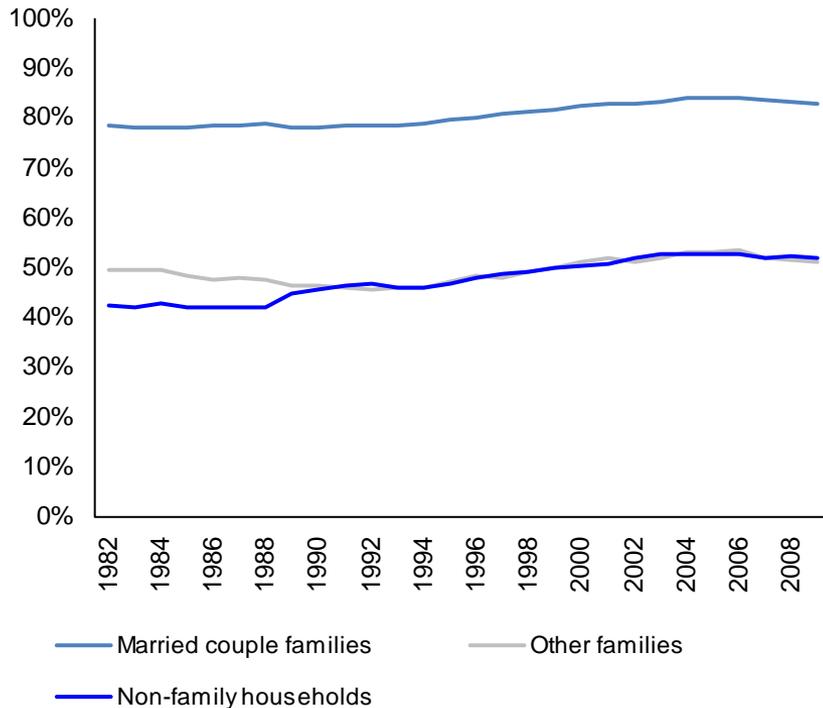
3. Regression analysis will be detailed in a separate release. The approach involved accurately estimating the impact of age, income, and other factors on the probability of homeownership through a logistic regression, where the properly specified coefficients could be interpreted as the marginal impact on the odds of homeownership.

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

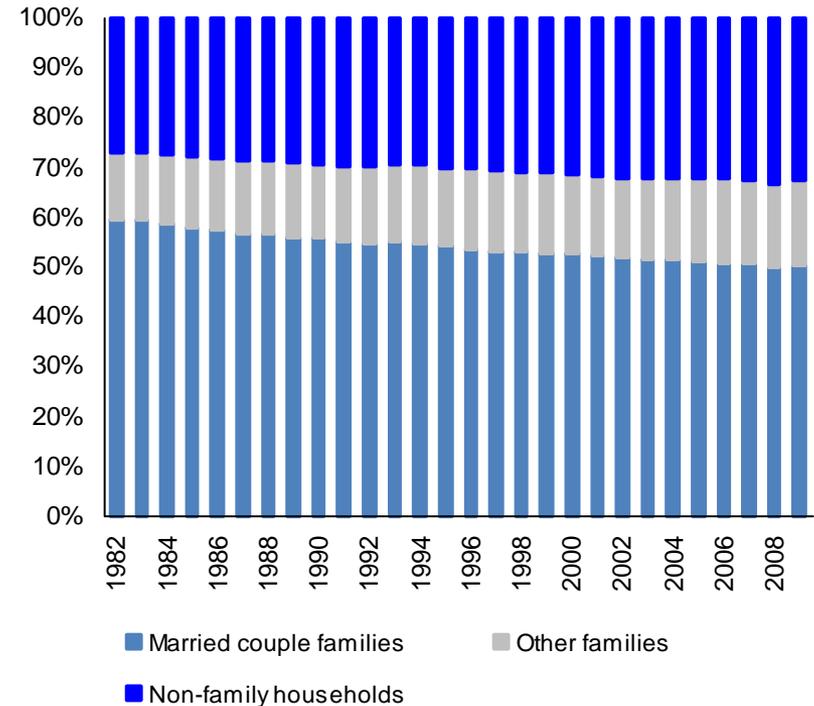
**Married couples are most likely to own their homes, but they comprise a shrinking fraction of households**

- Marriage
- Children
- Aging
- Households
- Mkt

### Ownership rates by household type



### Distribution of household types



Sources: U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplements, and Housing Vacancies and Homeownership Rates

- Census Definitions: A family consists of a householder and one or more other people related by birth, marriage, or adoption. Married Couples are considered separately from all "Other Family" households. "Non-Family" households include a householder living alone or with nonrelatives only.
- The Census excludes same-sex couples from the "Married Couple" category. They are counted in the "Other Families" category if they have family members (such as children) living with them; otherwise they are considered in the "Non-Family" household category.

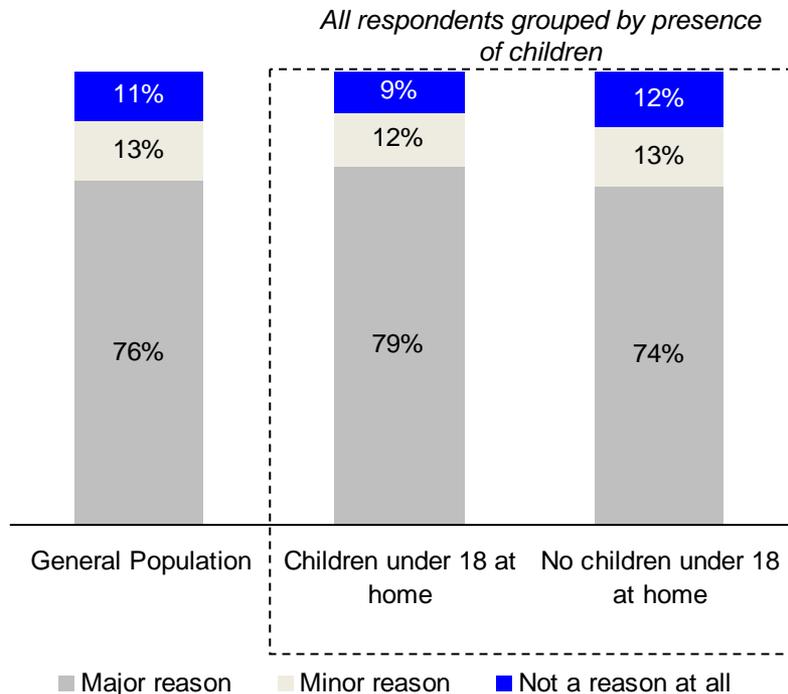
## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

**Having children is cited as a major reason to buy a home by approximately three-quarters of households with and without children**

Marriage	Households
Children	
Aging	
Mkt	

### Survey findings

**Owning a home means having a good place to raise children and provide them with a good education. Is this a reason, a minor reason, or not a reason at all to buy a home?\***



### Focus group sentiments

- “The birth of my first child [triggered homeownership].”

– Male, Phoenix, age 66+
- “[The typical owner is] married...most likely has a child.”

– Female, Phoenix, age 30-55
- “I think it's important to leave children something. If you leave them a house and they decide to sell it, that's cash that they can use to do whatever they want with. I just feel that it's a parent's responsibility to leave something to your children.”

– Female, DC, age 66+
- “You have more freedom to do what you and your family want to do in a home when you don't have to worry about the kids wrecking something and the landlord's going to come down on you.”

– Male, Phoenix, age 66+

Source: Fannie Mae 2010 Own-Rent Survey

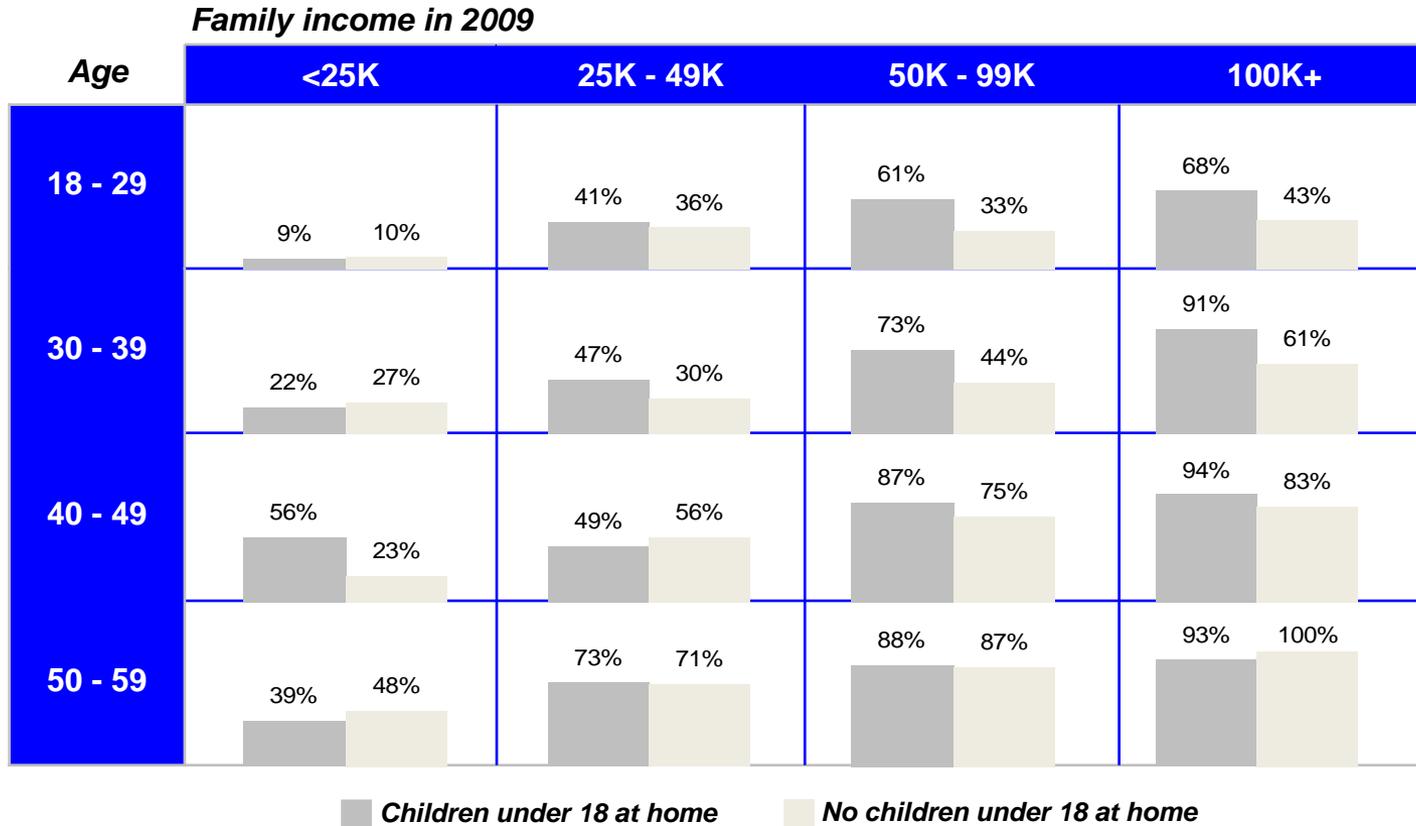
\*Note that on each question, respondents had the option to answer "don't know" (volunteered), which is why, in some cases, the total % may not equal 100%. Focus group findings come from pre-survey focus groups in Washington, DC and Phoenix, AZ during July and August 2010

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

**Respondents with children generally have higher homeownership rates than those without children after controlling for age and income**

Marriage  
**Children**  
Aging  
Households  
Mkt

**Table contains homeownership rates for respondents with and without children**



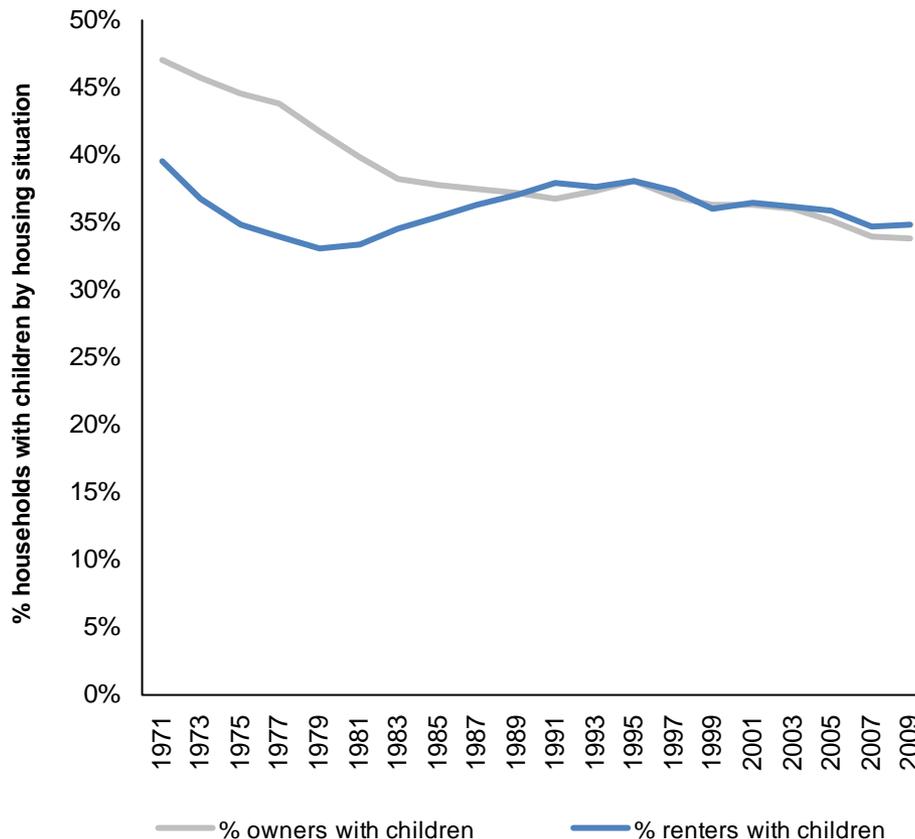
- The table contains survey results since they permit segmentation of homeownership rates by age, income, and presence of children, which was not feasible with publicly available data

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

### The percentage of households with children is shrinking particularly among owners

Marriage	Households
<b>Children</b>	
Aging	
Mkt	

**Percentage of households with children under 18 at home**



- The percentage of families with children under 18 at home reached an all-time low of 45% in 2009
- Currently, renters are more likely than owners to have children under 18 at home
  - Prior to 1990, owners were always more likely than renters to have children under 18 at home
  - Aging population means more owners are empty nesters whose children have left home
- Younger households which are more likely to have children may not have been able to afford to own during the housing bubble due to financial constraints
- In the survey, 58% of single mothers rent versus 32% overall for households with children under 18
- Single mothers are becoming a more common family type, representing 24% of all families with children under 18 in 2009
  - 20% of families with children under 18 in 1990
  - 8% of families with children under 18 in 1960

Source: Chart data from American Housing Survey; data from '85, '87, '89 are unavailable so the values have been interpolated from the 1983 and 1991 data. Family data from U.S. Census.

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

**Younger respondents tend to value the aspects of homeownership related to space and family while older respondents value independence and security**

Marriage	Households
Children	
Aging	
Mkt	

**Assuming the financial impact of renting or owning a particular home were about the same, are you better off renting or owning to...?**

% respondents selecting "better off owning"	Under 30	Over 60
Have a good place for your family	83%	81%
Have better, higher quality living space	82%	76%
Have more living space	80%	77%
Have a sense of security	79%	85%
Be able to live the life you want	72%	78%
Live in the neighborhood or location you want	59%	74%
Have more money to spend and invest as you wish	56%	62%
Have the flexibility you want	55%	69%

- Older respondents tend to select owning as preferable to renting in slightly more cases than younger respondents
  - Ownership characteristics related to independence, security, and self-determination resonate more strongly with respondents 60+
  - Younger respondents identify with owning to have good space, particularly for family
- The point-in-time nature of the survey makes it difficult to observe whether different attitudes will endure across the generations or if views of the younger generations will converge to views held by the older generation at present
  - Will people currently under 30 continue to have less consensus on factors that make owning preferable?
  - Do people currently over 60 have the same preferences for owning versus renting that their parents had?

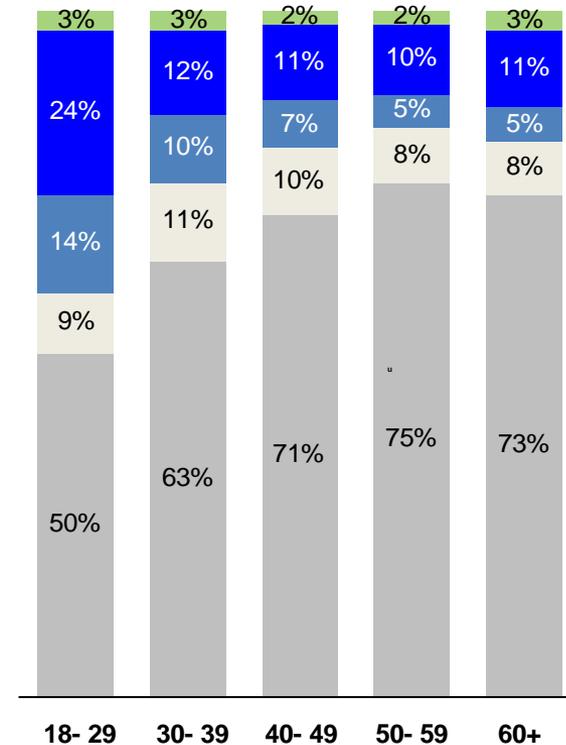
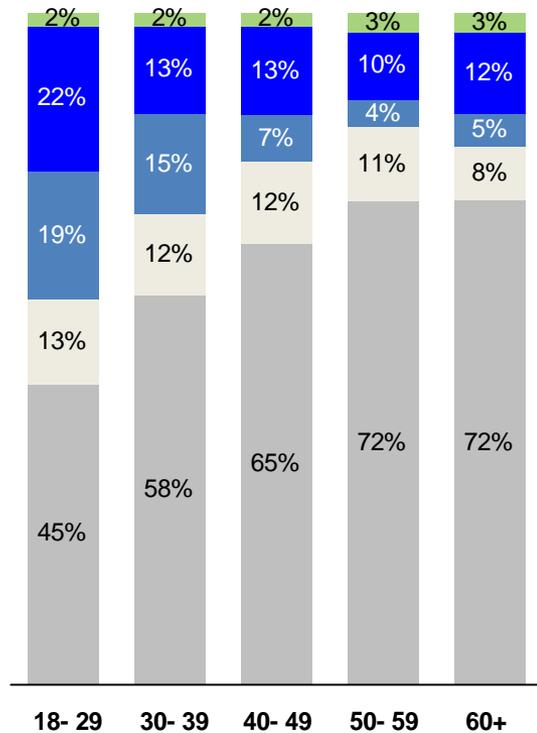
## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

**Older households are more likely to believe that they are better off owning than renting for both financial and lifestyle reasons**

- Marriage
- Children
- Aging
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- Mkt

**Given your current household finances, do you think you would be better off renting your home or would you be better off owning your home?**

**Given your current lifestyle and family situation, do you think you would be better off renting your home or would you be better off owning your home?**



- Much better off owning
- Somewhat better off owning
- Much better off renting
- Don't know

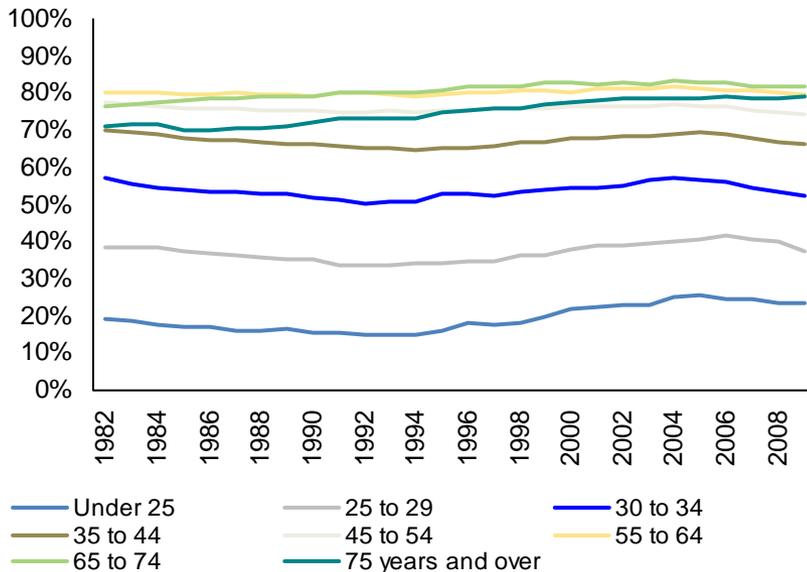
Source: Fannie Mae 2010 Own-Rent Survey

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

### Homeownership in younger age groups has declined the most during the housing crisis

- Marriage
- Children
- Aging
- Mkt

#### Ownership rates by age group



#### Impact of the crisis

Age	# Households (2009)	Peak rate (2000-9)	2009 rate	Percent decline
Under 25	6.4 million	25.7%	23.3%	-10%
25 to 29	9.5	41.8%	37.7%	-11%
30 to 34	9.8	57.4%	52.5%	-9%
35 to 44	22.2	69.3%	66.1%	-5%
45 to 54	24.6	77.2%	74.4%	-4%
55 to 64	19.9	81.7%	79.5%	-3%
65 to 74	12.8	83.3%	82.0%	-2%
75+	12.0	79.1%	78.9%	0%

- Ownership rates rise with age until the 75+ group
- However, the homeownership rate within 75+ age group has increased over the past 20 years as elderly households have the financial means and the health to remain in their homes longer
- When controlling for income and wealth with a regression approach on the Fannie Mae Own-Rent survey dataset, ownership increases for each age bracket<sup>1</sup>
- For younger age groups, the impact of the housing crisis on the homeownership rate has been particularly steep
- Households under 30 are more likely to be transitioning into homeownership, and therefore their housing situations are most affected by the recession

Graph and table source: American Housing Survey, U.S. Census Bureau

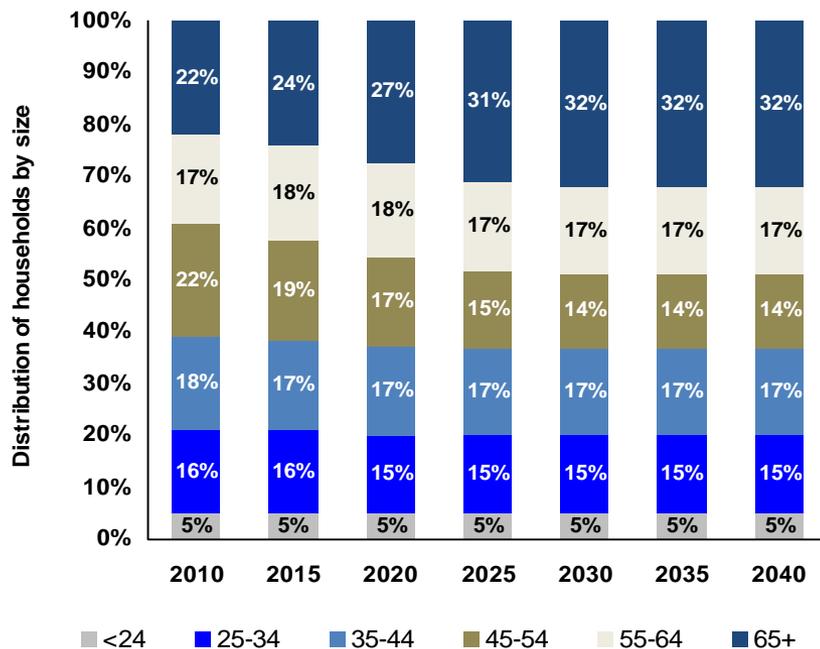
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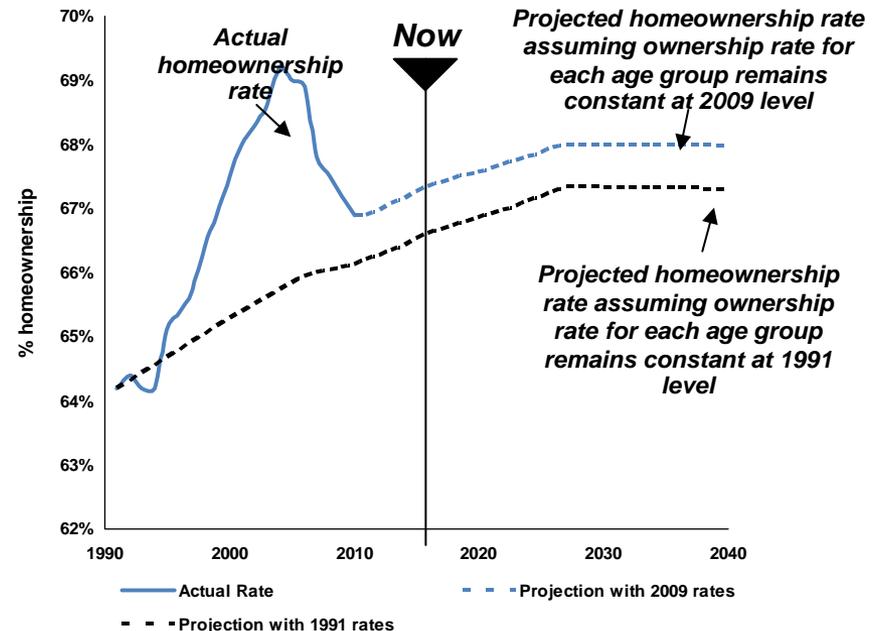
**Based solely on age projections, homeownership would rise for 15-20 years until the baby boomers begin to transition out of ownership**

- Marriage
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- Mkt

### Household age distribution projection



### Homeownership rate projections based on age



- If homeownership rates by head-of-household age group were to freeze at current levels, overall homeownership rates would increase over the next 15-20 years
  - U.S. population will become more concentrated in age buckets with high homeownership rates
  - In late 2020s, homeownership rate plateaus as baby boomers reach 75+ and begin to exit homeownership
- Current homeownership rate remains higher than what was projected based on 1991 rates by age group, but going forward, homeownership may continue to decline to 1991 rates (or below)

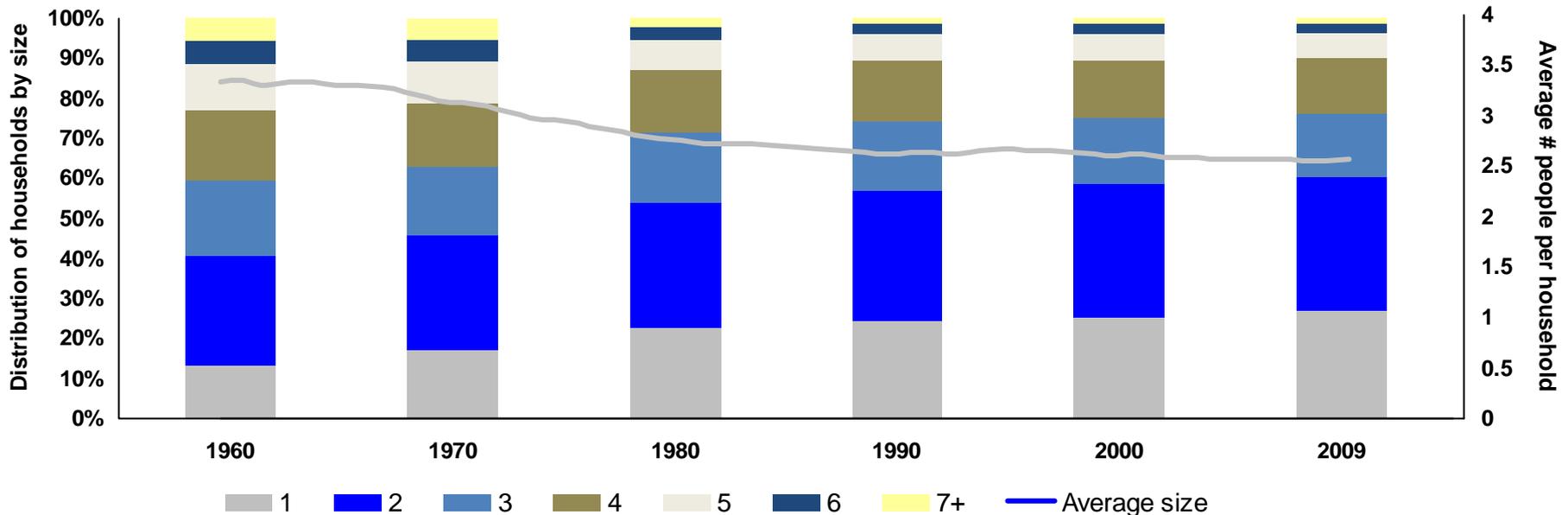
Source: Homeownership: U.S. Census; Demographic projections: IHS Global Insight

## Theme 2: Housing Choices Throughout the Lifecycle and the Impact of Changing Demographics

**As a result of demographic trends, the average number of people living in a household has been decreasing since the 1960s**

- Marriage
- Children
- Aging
- Households
- Mkt

**Distribution of households by size and average household size**



- Demographic trends underling the decrease in household size include a smaller percentage of married couple households and fewer households with children
- The demographic trends have implications for the homeownership rate and for the types of housing people may choose going forward
- At present, tension exists between the long-term trend of shrinking households and the impact of the recession, which may have created larger households due to:
  - Household formation delayed for young adults who may live with family or roommates for more extended periods of time
  - Household aggregation among families who move in with friends or relatives when facing financial distress

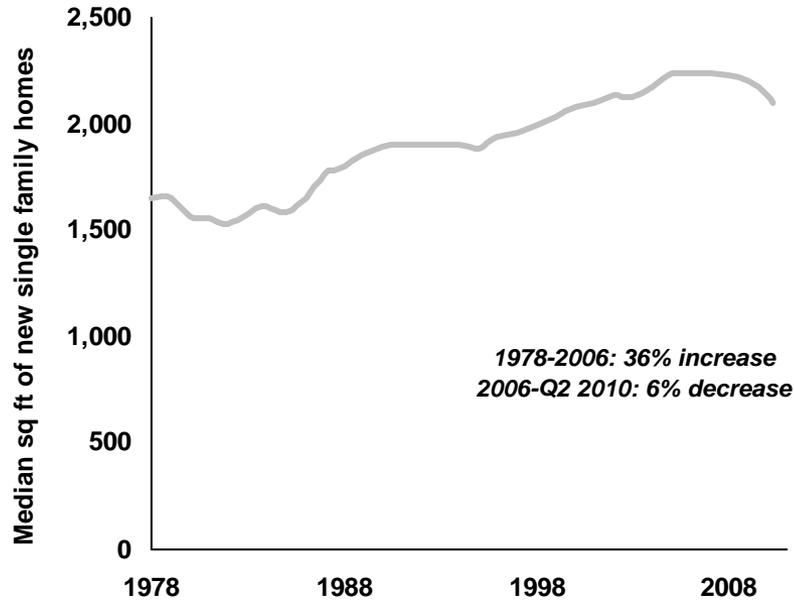
Source: U.S. Census Bureau, Current Population Survey

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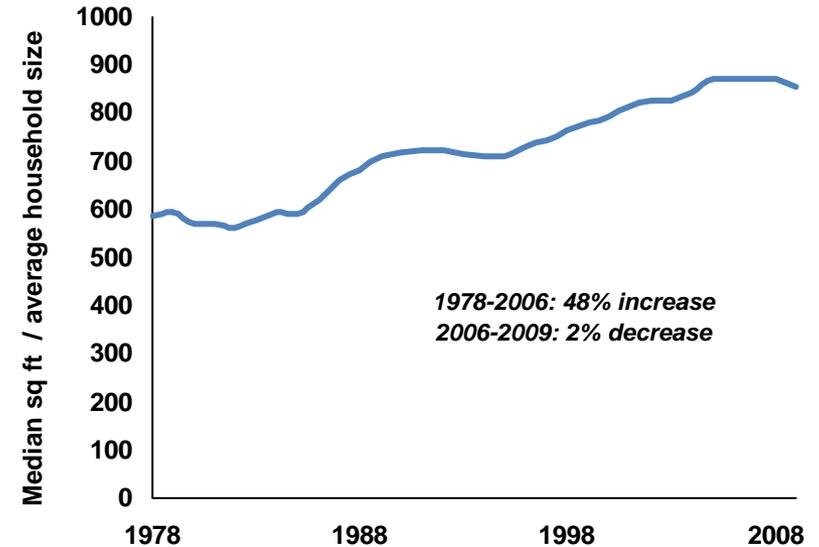
Recently, the size of new homes has begun to decrease, reversing a long-standing trend of more space per person

- Marriage
- Children
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- Mkt

### Median size of new home



### Average sq ft per person in household



*“Part of the current home size decline may again be a temporary recession-related phenomenon, but part can also be attributed to trends in factors like the desire to keep energy costs down, amounts of equity in existing homes available to roll into a new one, tightening credit standards, less emphasis on the pure investment motive for buying a home, and an increased share of homes sold to first-time buyers. Not all of these trends are likely to reverse themselves immediately at the end of a recession.”*

– Paul Emrath, National Association of Homebuilders

Sources: U.S. Census Bureau: Manufacturing, Mining, and Construction Statistics, Single-family housing completions. Household size from the U.S. Census Bureau Current Population Survey.

Emrath, Paul. “Characteristics of single-family homes started in 2009,” National Association of Homebuilders. October 7, 2010.