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# Back to the Future

## Is What Happened in 2018 What We Should Expect in 2019?

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January, 2019

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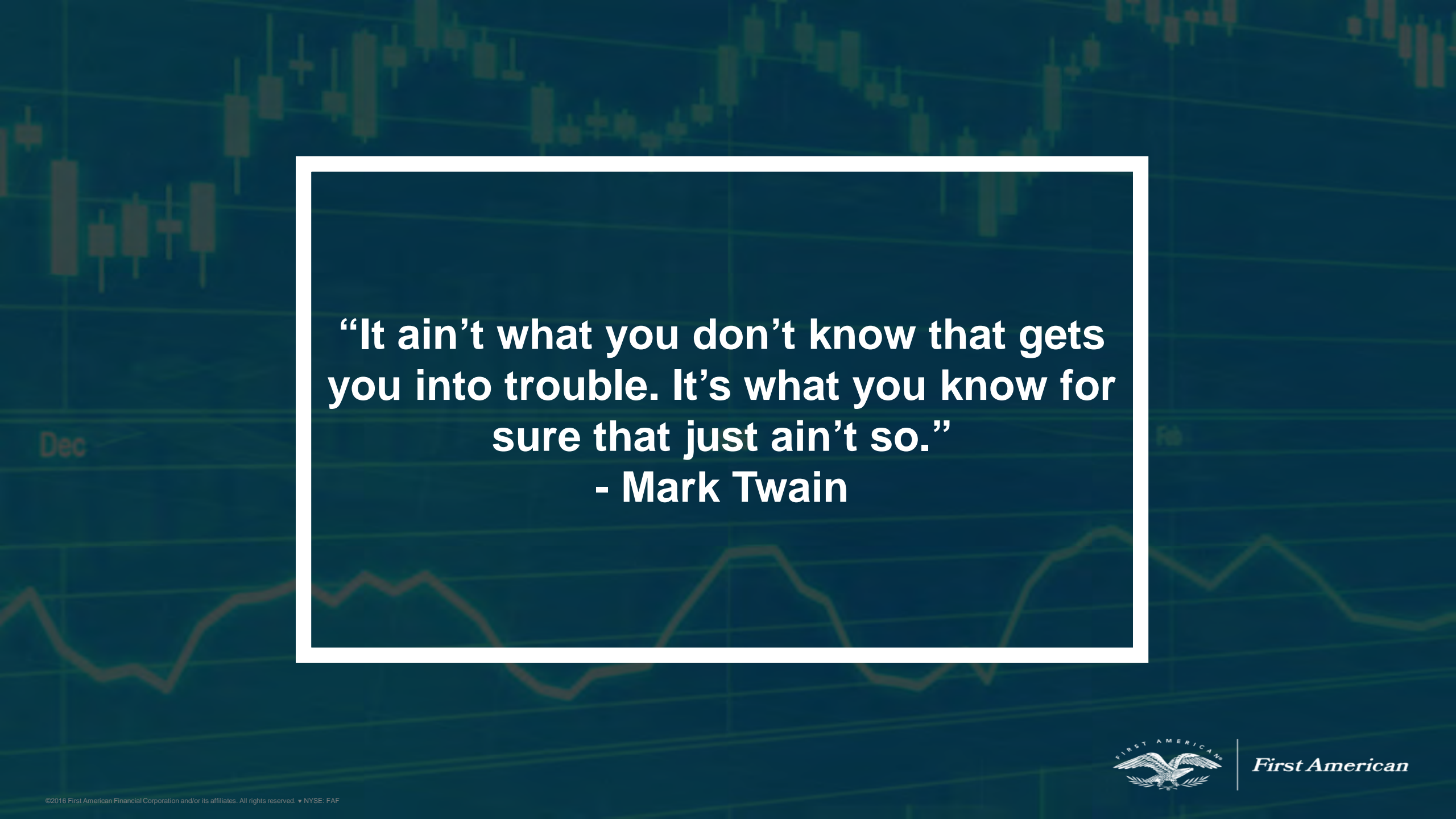


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The background features a dark blue gradient with faint, semi-transparent financial charts. At the top, there is a candlestick chart with green and red bars. At the bottom, there is a line chart with a jagged, fluctuating line. A white rectangular box with a thin border is centered on the page, containing a quote in white text.

**“It ain’t what you don’t know that gets  
you into trouble. It’s what you know for  
sure that just ain’t so.”**

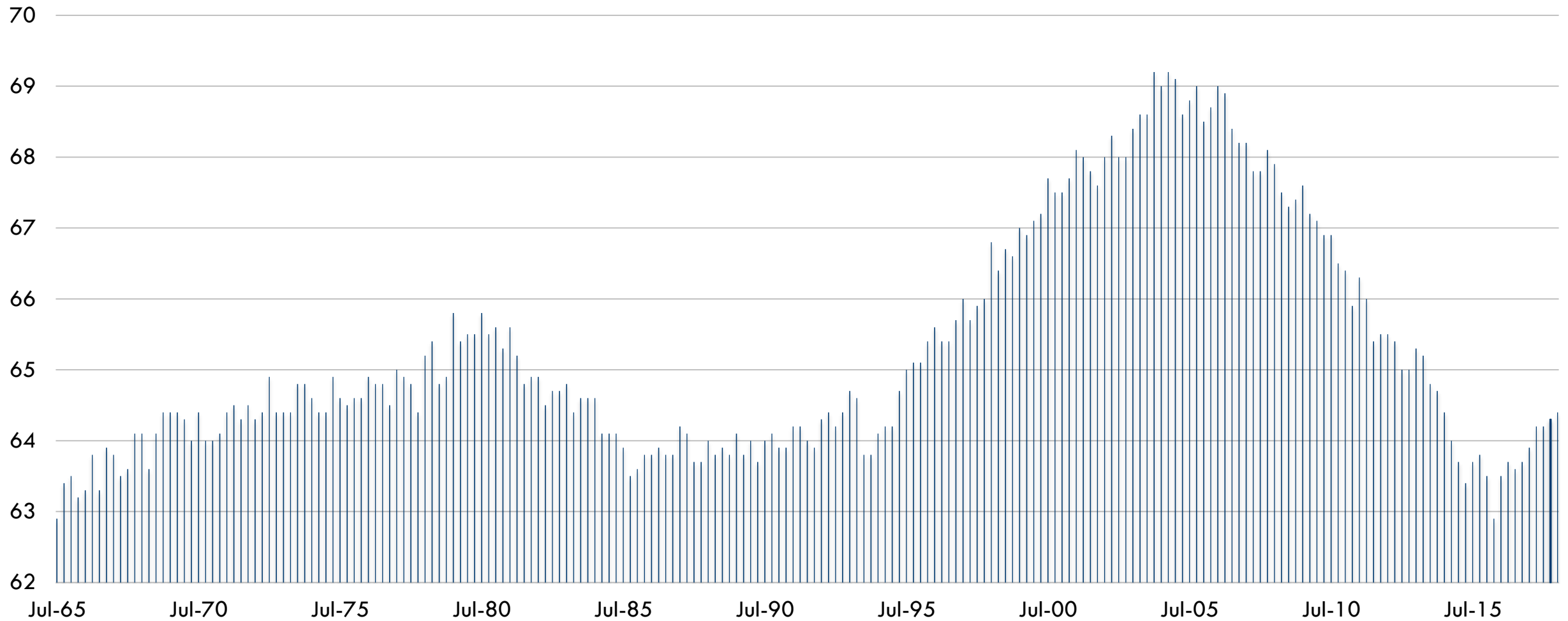
**- Mark Twain**



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# Homeownership Demand Resurgent

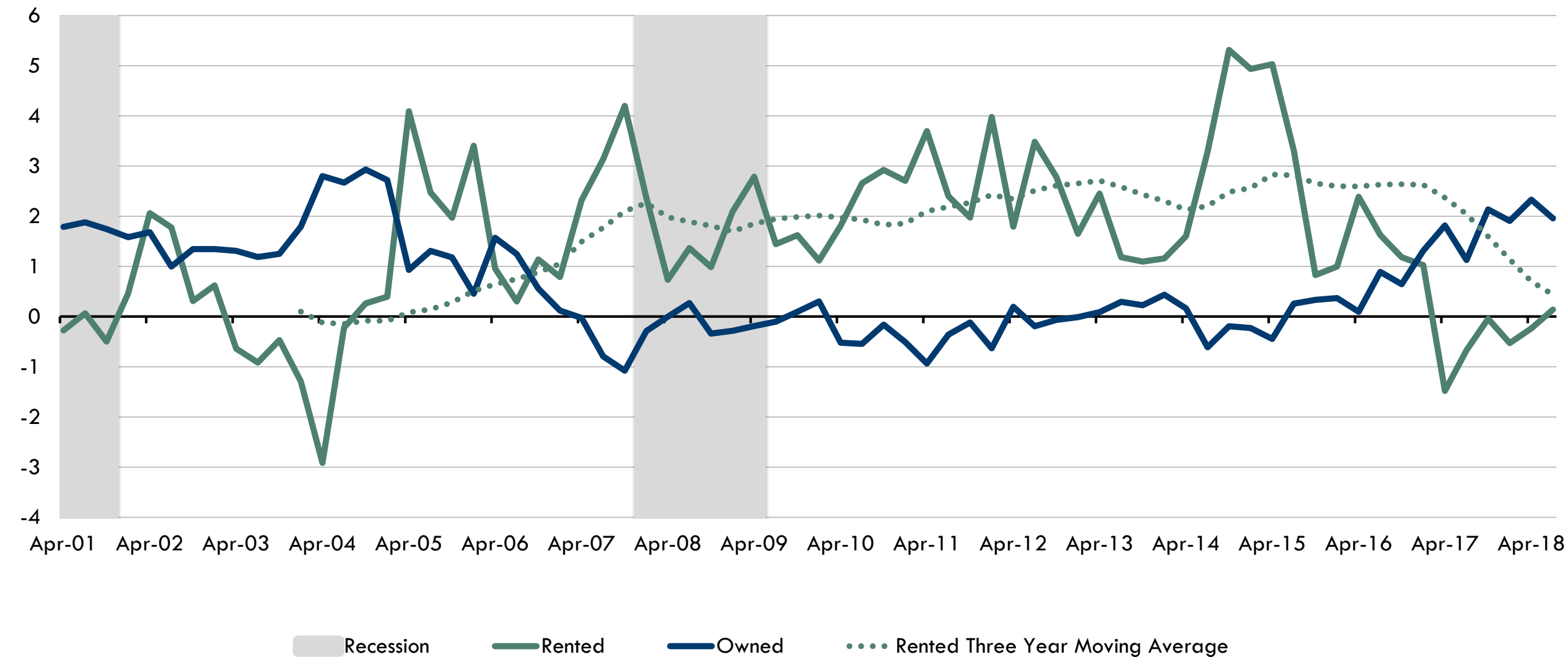
Homeownership Rate (%)



Source: US Census Bureau, Q3 2018

# The Tenure Choice Transition is On Again

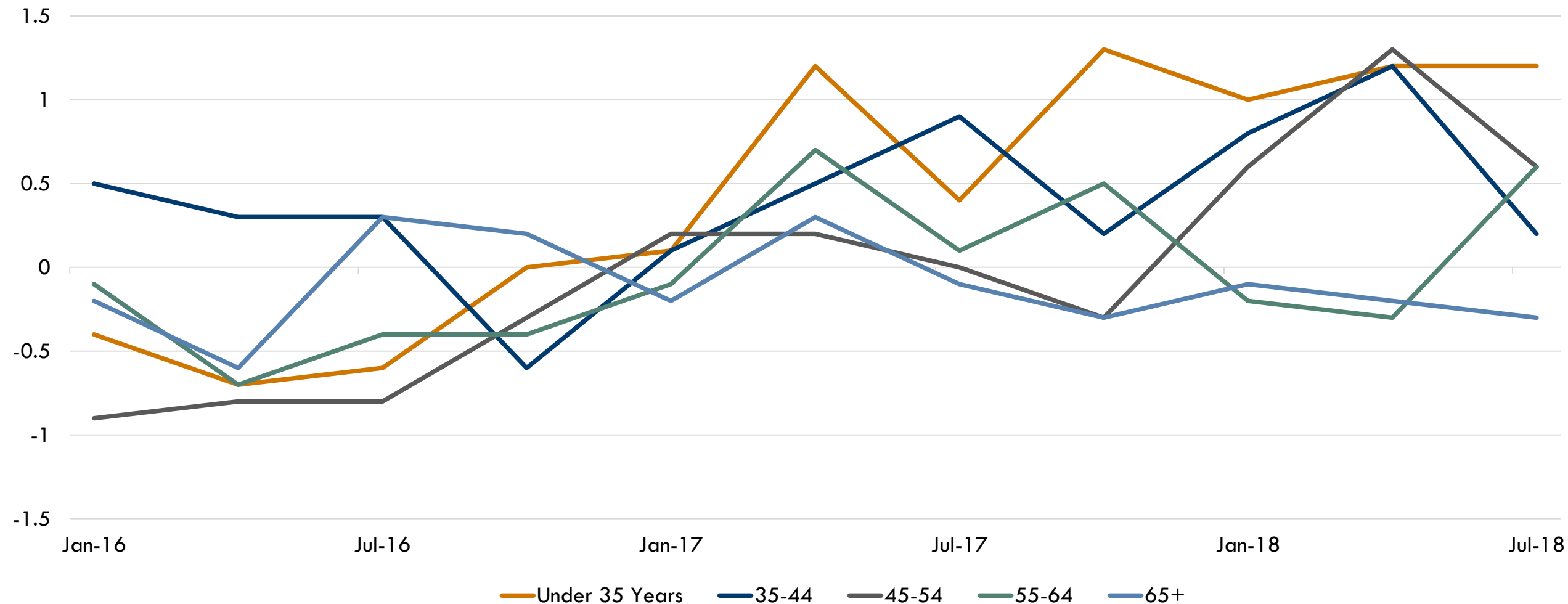
Household Formation by Occupancy Type (Year-Over-Year Inventory Growth, %)



Source: Census Bureau, FRED Q3 2018

# Millennials Drive Homeownership Growth

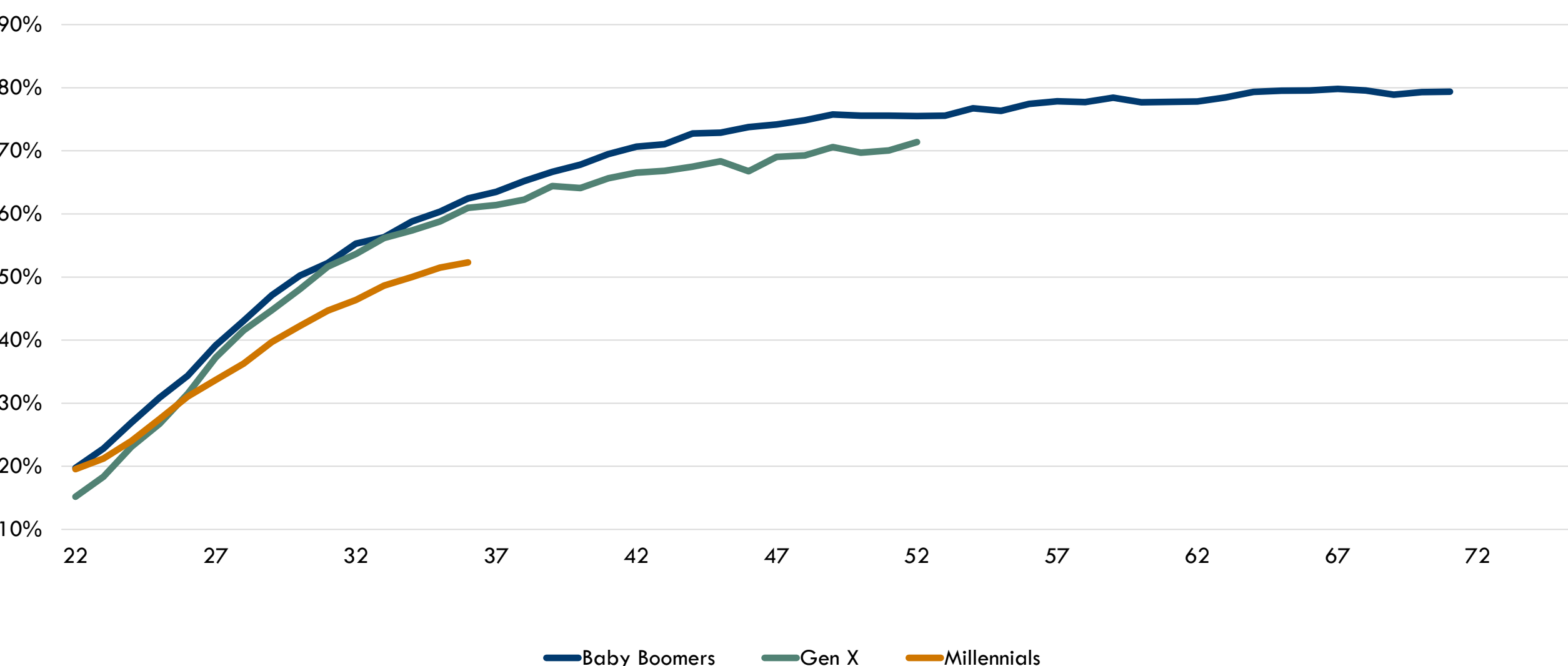
Homeownership Rate Yearly Growth by Age Cohort (%)



Source: Source: US Census Bureau, Q3 2018

# With Age Comes....Homeownership

Homeownership Rate by Generation



Source: IPUMS CPS, First American Calculations, 2017

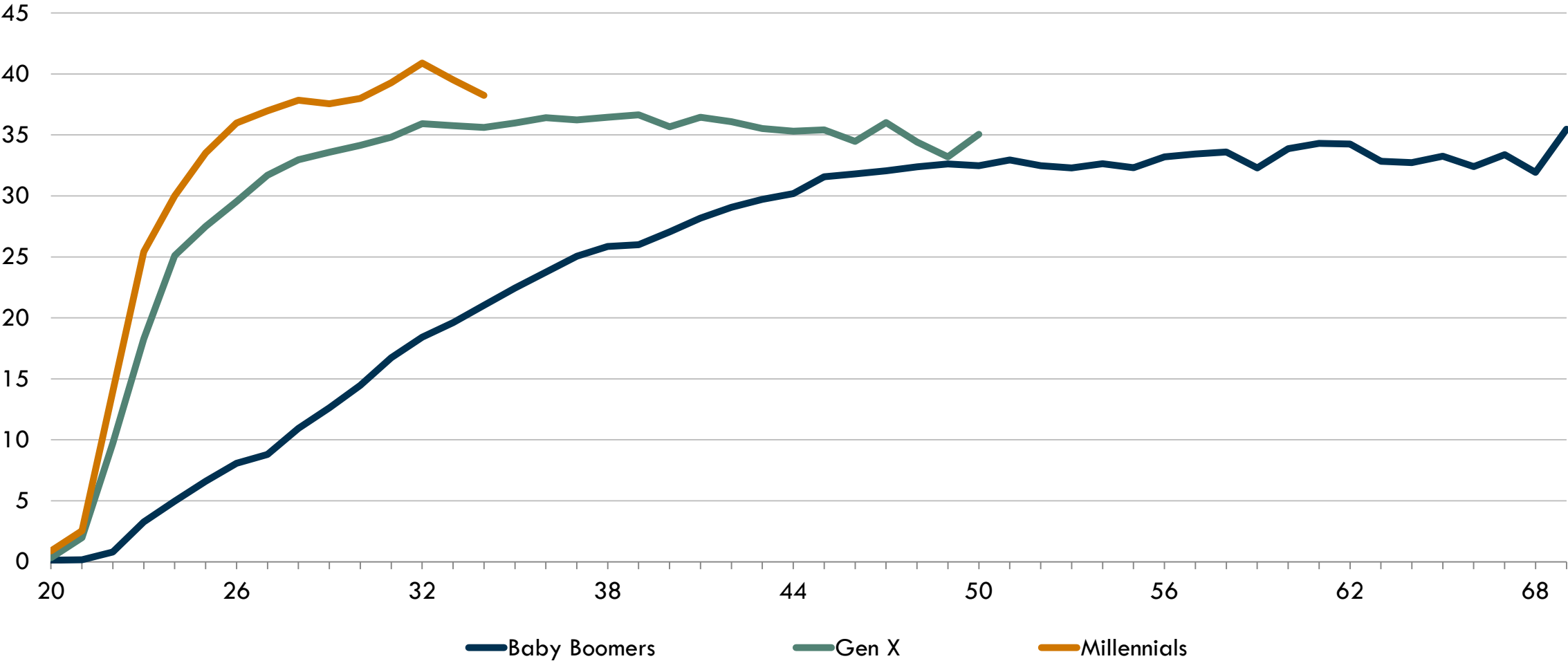
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 Baby Boomers  Gen X  Millennials



# Delaying Homeownership- Education Takes Time

Percent Share of Population with Bachelors Degree or Higher

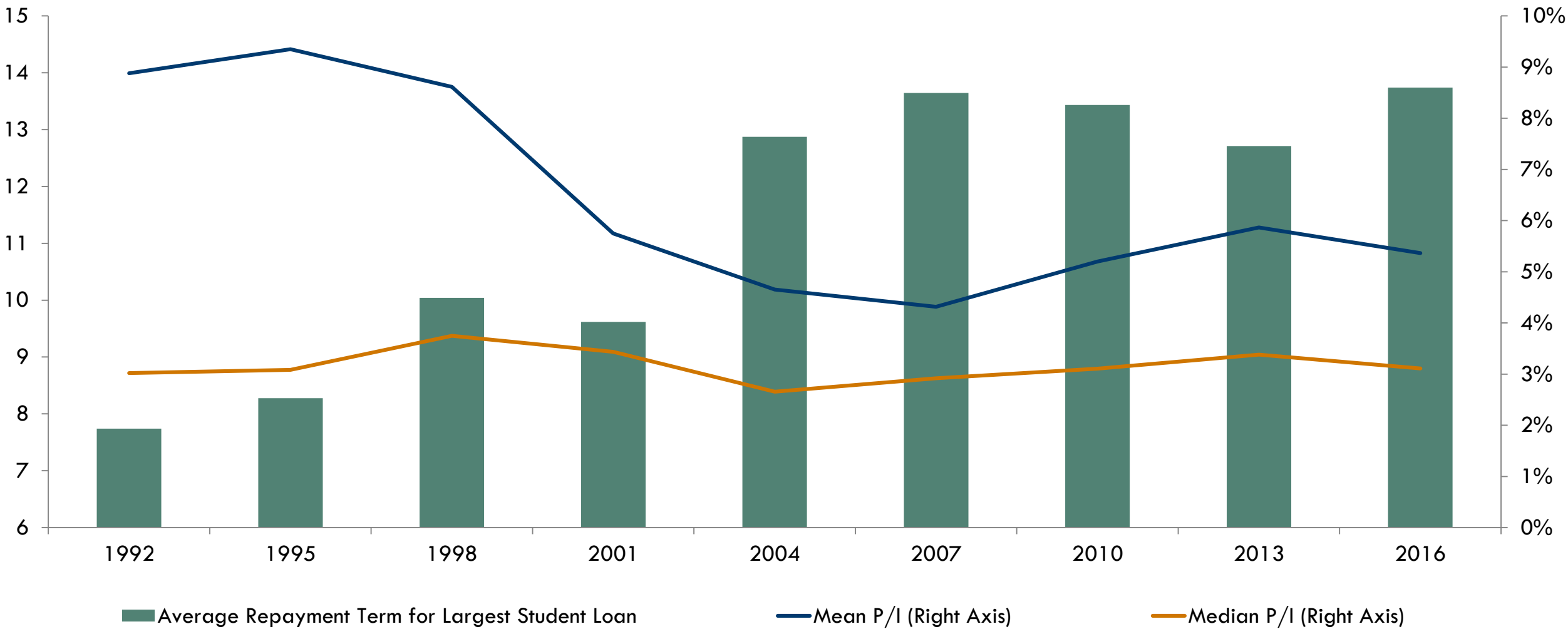


Source: ACS IPUMS, 2017

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# Delaying Homeownership- The Burden of Student Loan Debt

Average Loan Term (Years) and Payment-to-Income Ratio

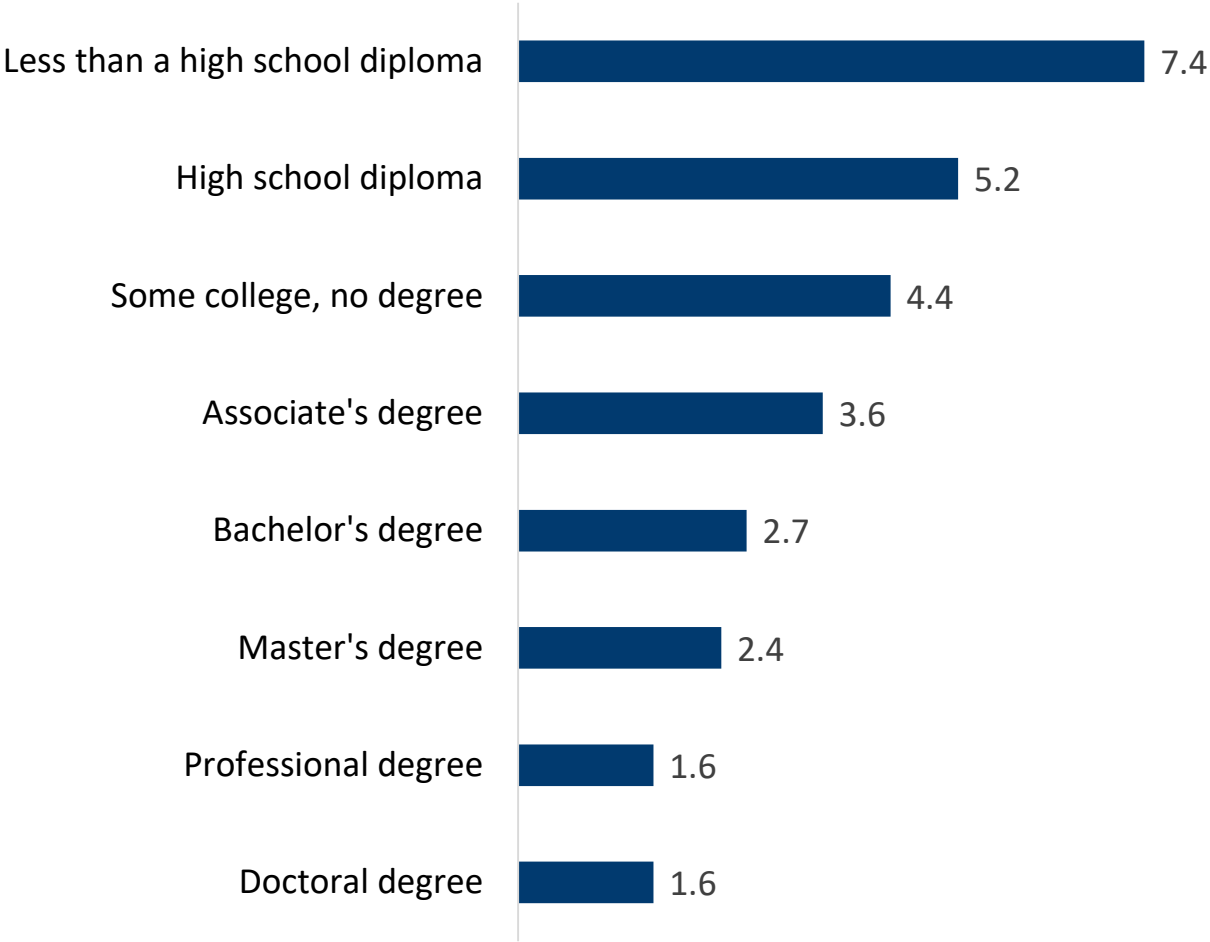


Source: Federal Reserve Board of Governors SCF, 2016

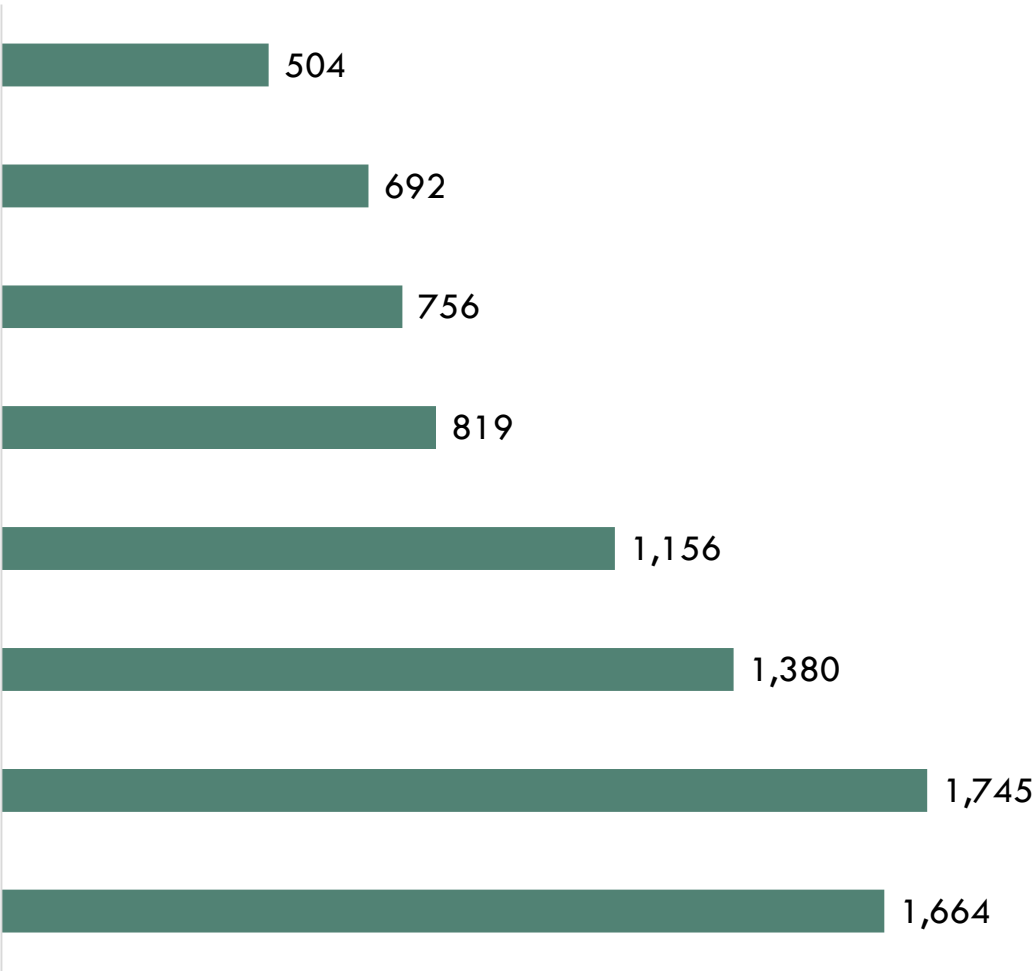


# But is It (Education) Worth it?

Unemployment rate (%)



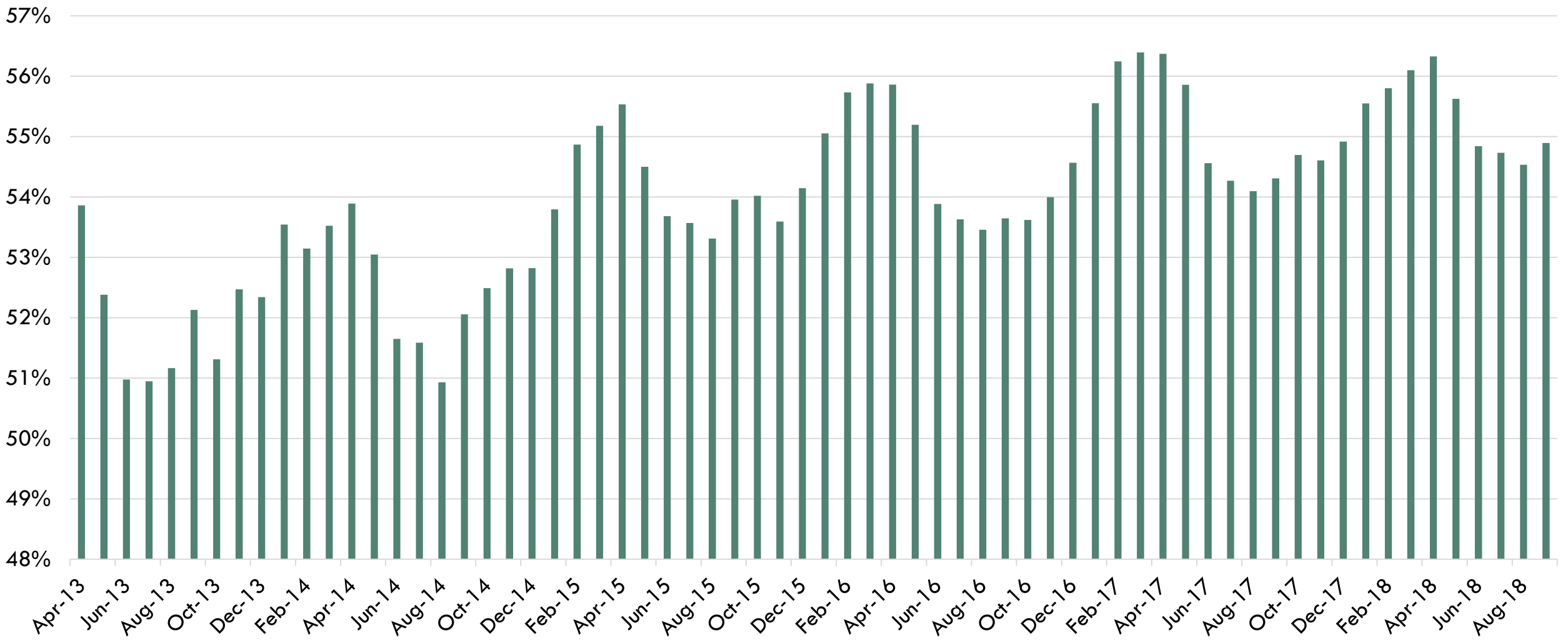
Median usual weekly earnings (\$)



Source: IPUMS CPS, 2017

# Where There's a Will There's A Way

First-Time Homebuyer Market Share (%)



Source: AEI International Center on Housing Risk , Sep. 2018

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## The Existing Owner's Dilemma

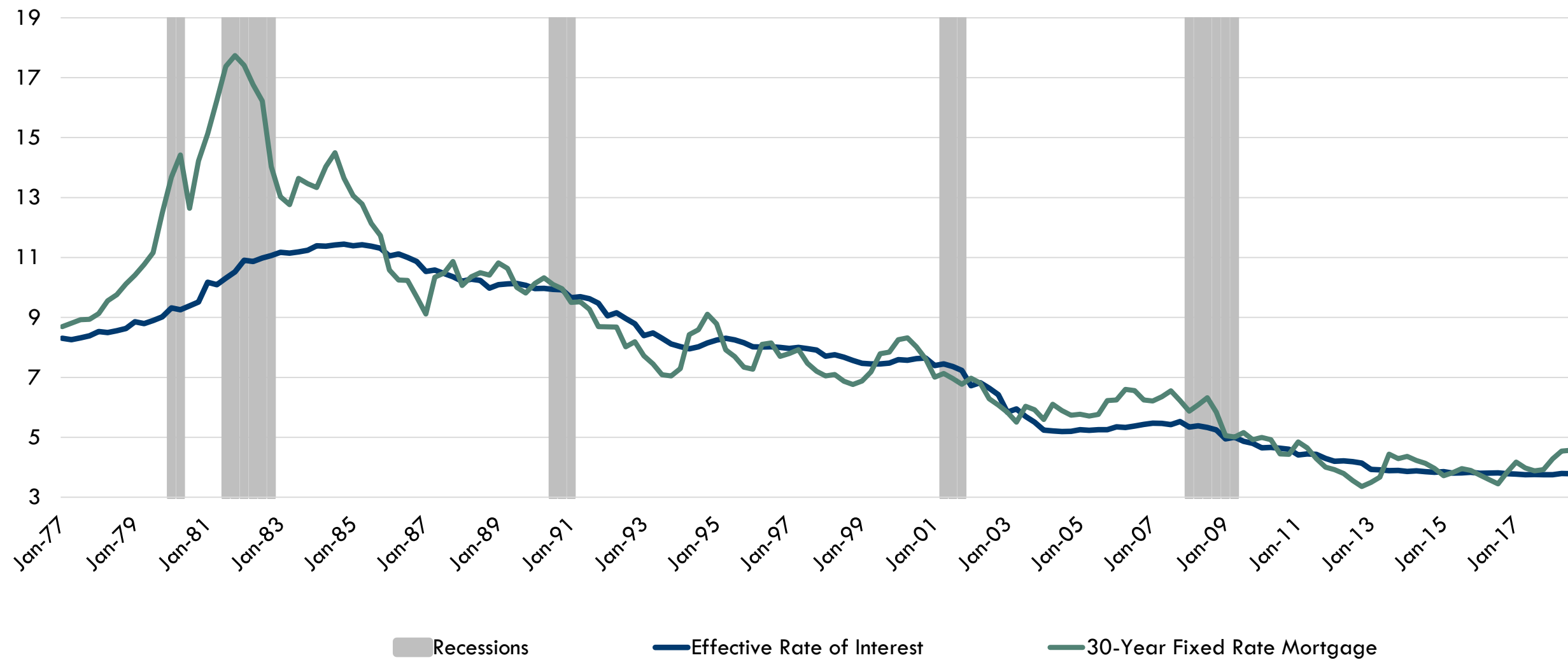
**Why Existing Owners  
Won't Sell And Don't Buy**



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# Never Shall We See Those Rates Again

30-year Fixed Rate (%), Effective Rate of Interest on Mortgage Debt Outstanding Residential Housing (%), NSA

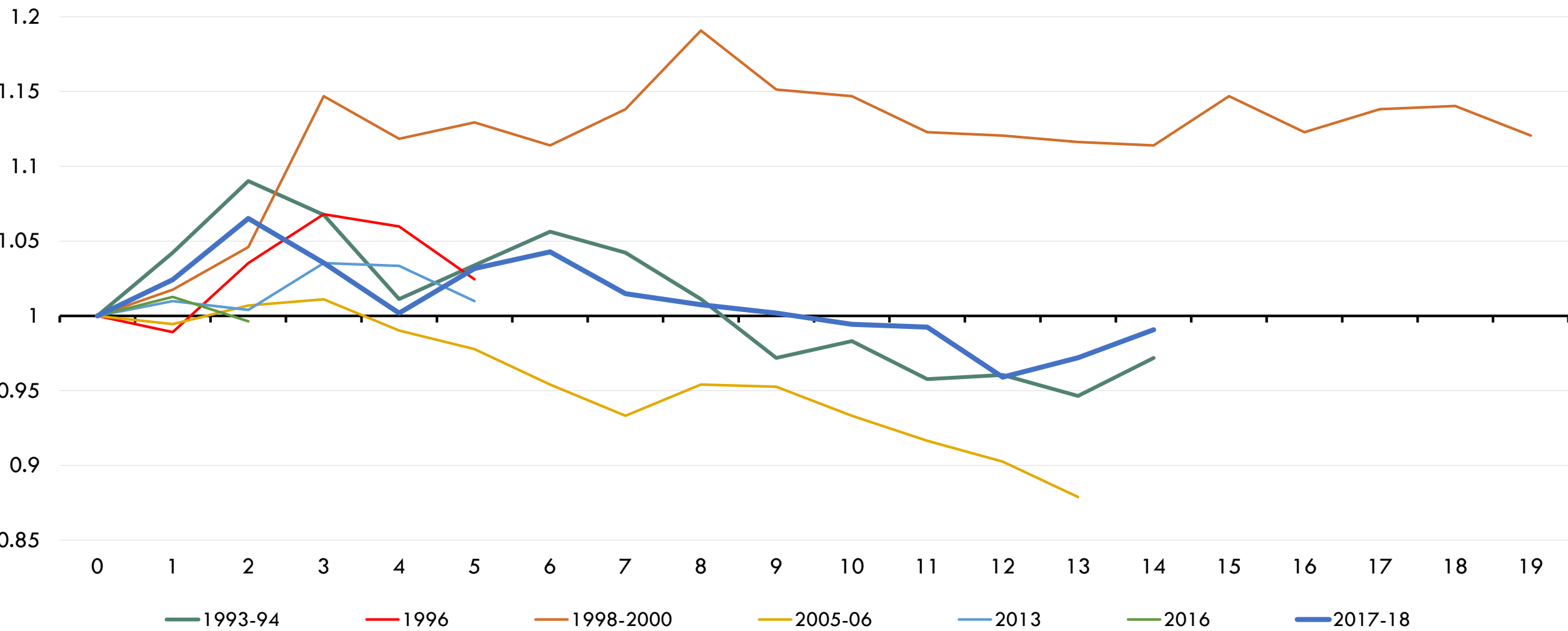


Source: Bureau of Labor Statistics, FRED, Q3 2018

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# Existing-Home Sales When Mortgage Rates Rise

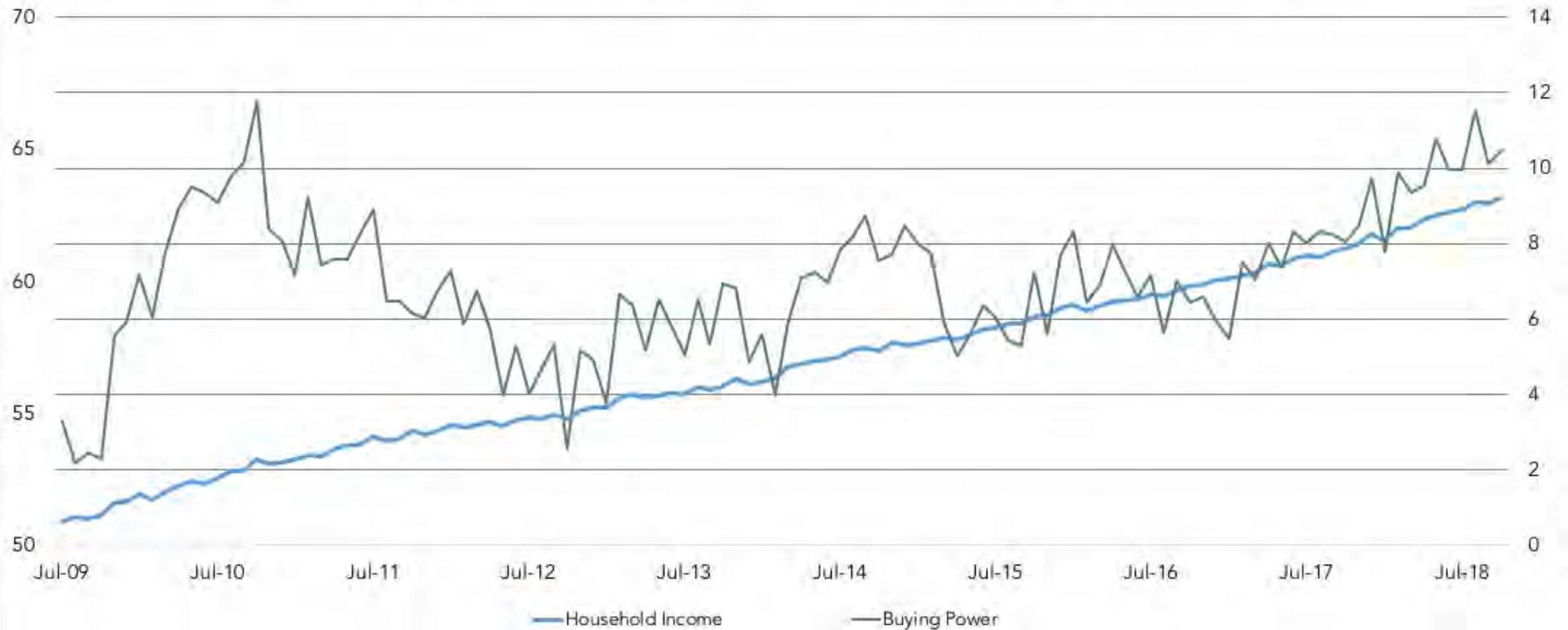
Monthly Change in EHS (%), Index=1 in Beginning Period of Rising Rates



Source: Freddie Mac, NAR, First American Calculations, October 2018

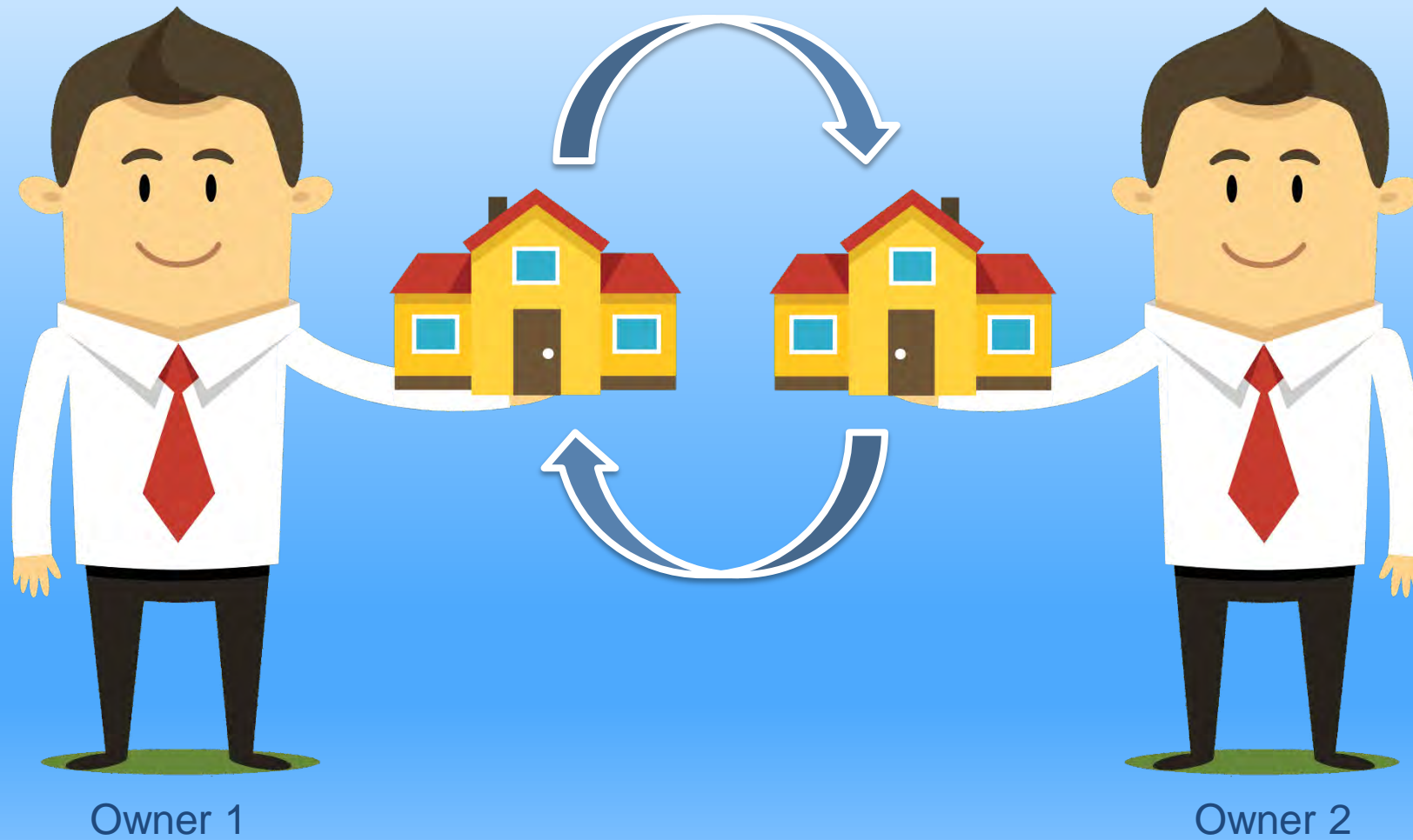
## Labor Market Driven Income Growth Influences House-Buying Power

Estimated Annual Household Income ('000s, Left Axis), Year-Over-Year Income Driven Change in Consumer House-Buying Power ('000s, Right Axis)



Source: Bureau of Labor Statistics, Freddie Mac, First American Calculations, October 2018

## The Homeowners' "Prisoner's Dilemma"



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Owner 1



Owner 2



## The Homeowners' "Prisoner's Dilemma"



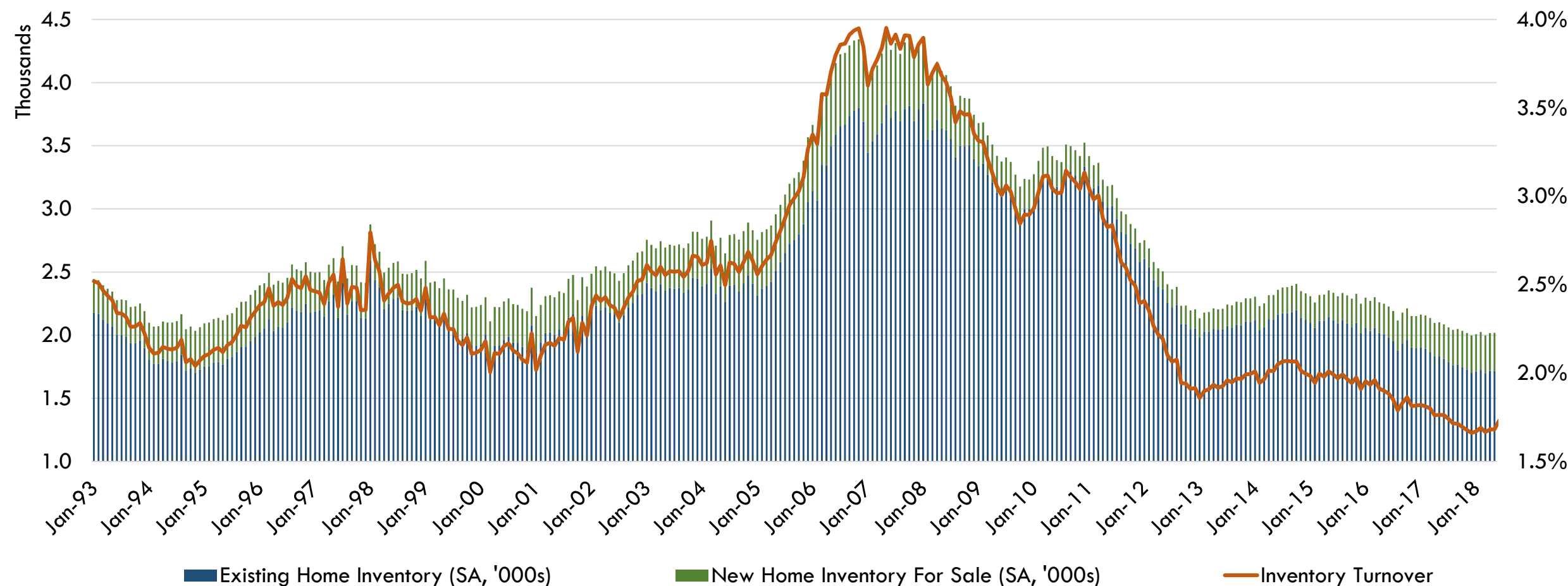
Owner 1



Owner 2

# Supply At Quarter Century Low

New and Existing Inventory for Sale (Millions SA, % of Households)



Source: NAR, Census, FRB St. Louis, First American Calculations, Oct. 2018



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# A Nation of Homebodies

Median Tenure Length (Years), Existing Home Sales (SAAR, Millions)



Source: DataTree by First American, NAR, FRED, Dec. 2018



# Hammers and Homebodies

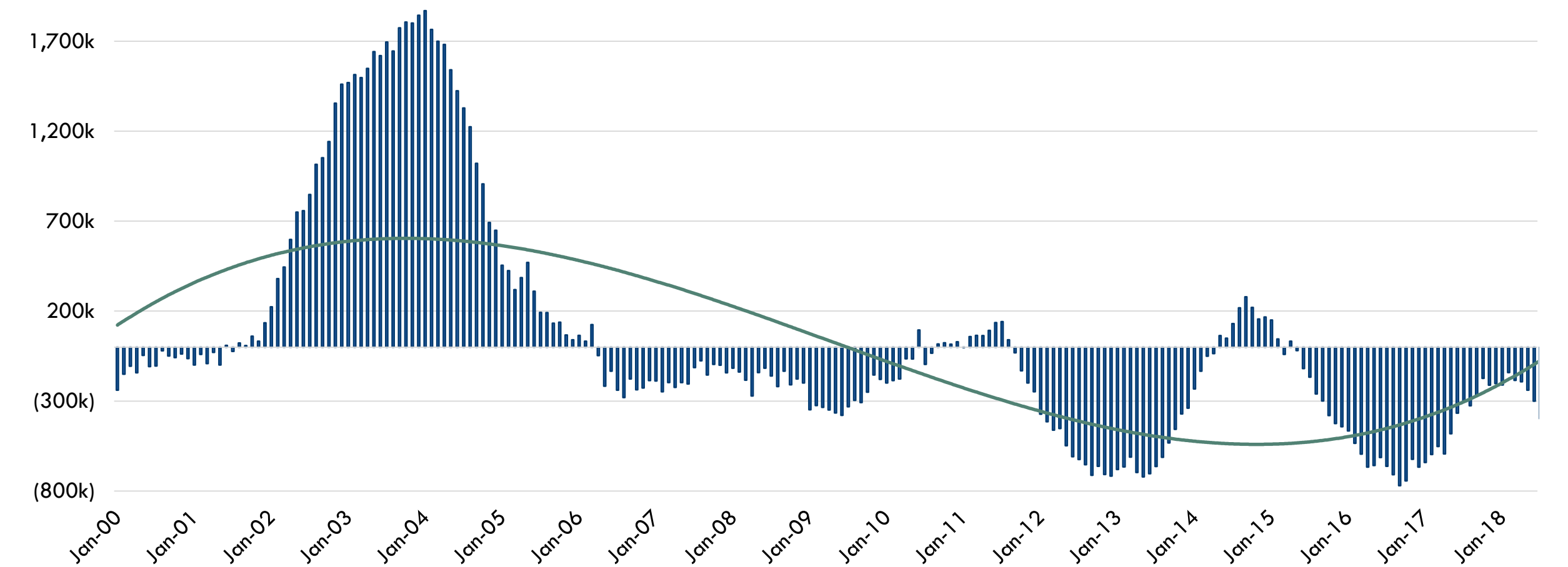
## How to Increase the Inventory of Homes For Sale



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# Building the Housing Debt

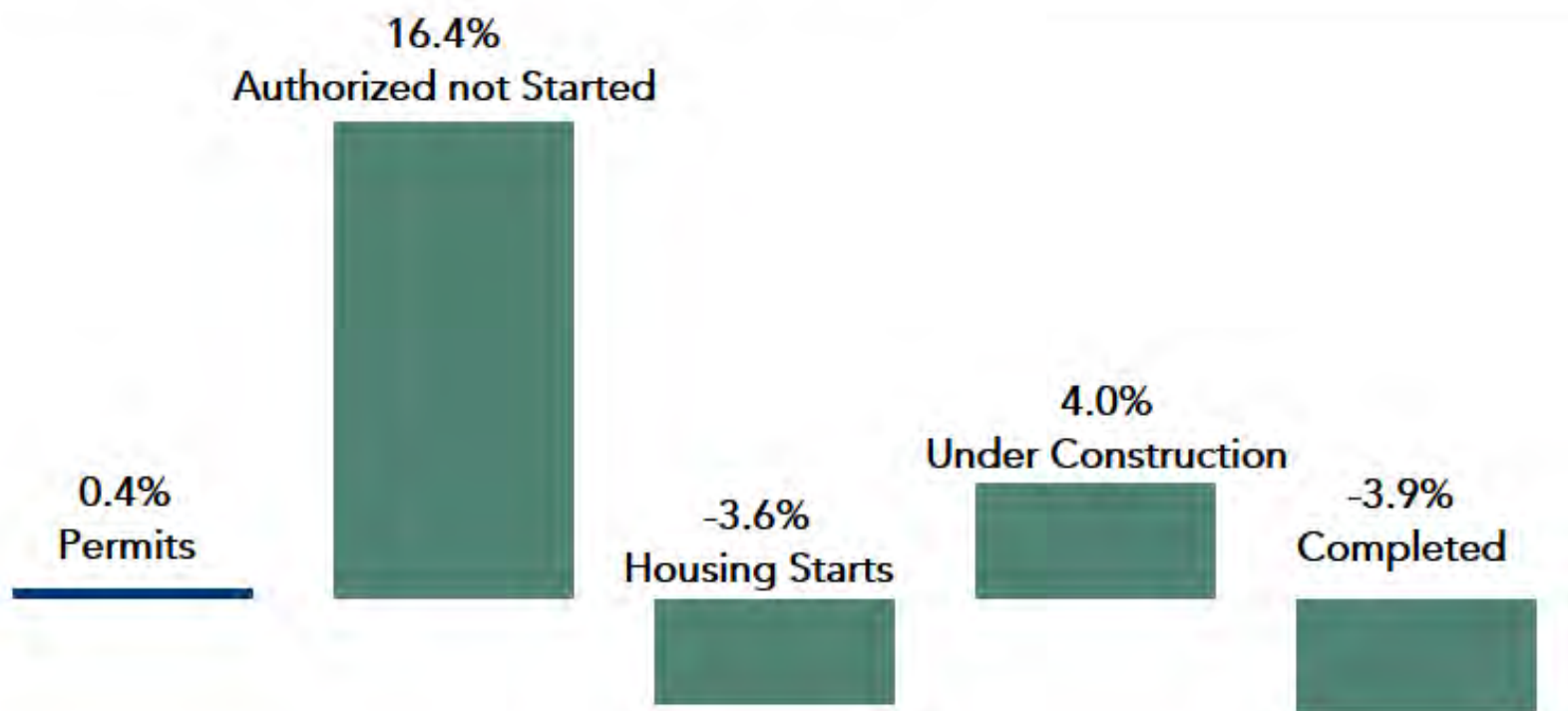
Difference Between New Housing Units Completed (SAAR) and New Household Formation (2-Year Moving Average)



Source: Census Bureau, HUD (obsolescence rate of 0.31% of existing stock), Oct. 2018

## New Residential Construction

Total (Single and Multifamily), Yearly Growth (%)

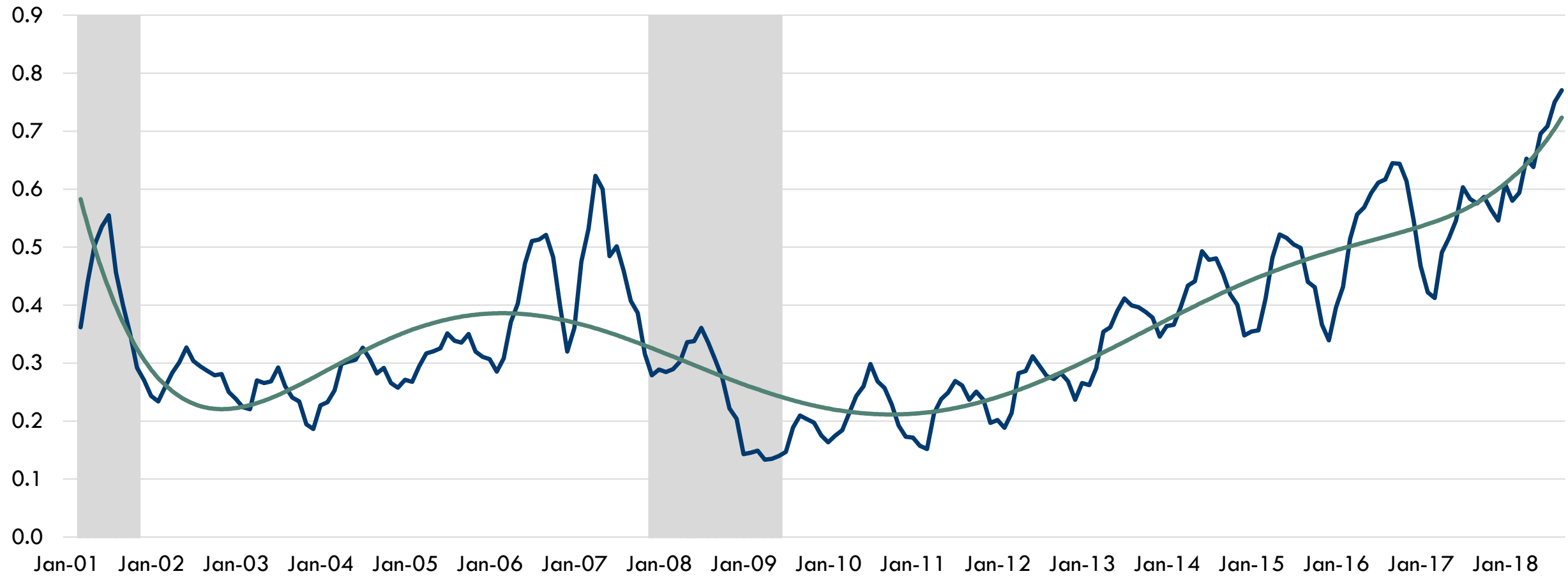


Source: U.S. Census Bureau, Nov. 2018



# A Lack of Labor

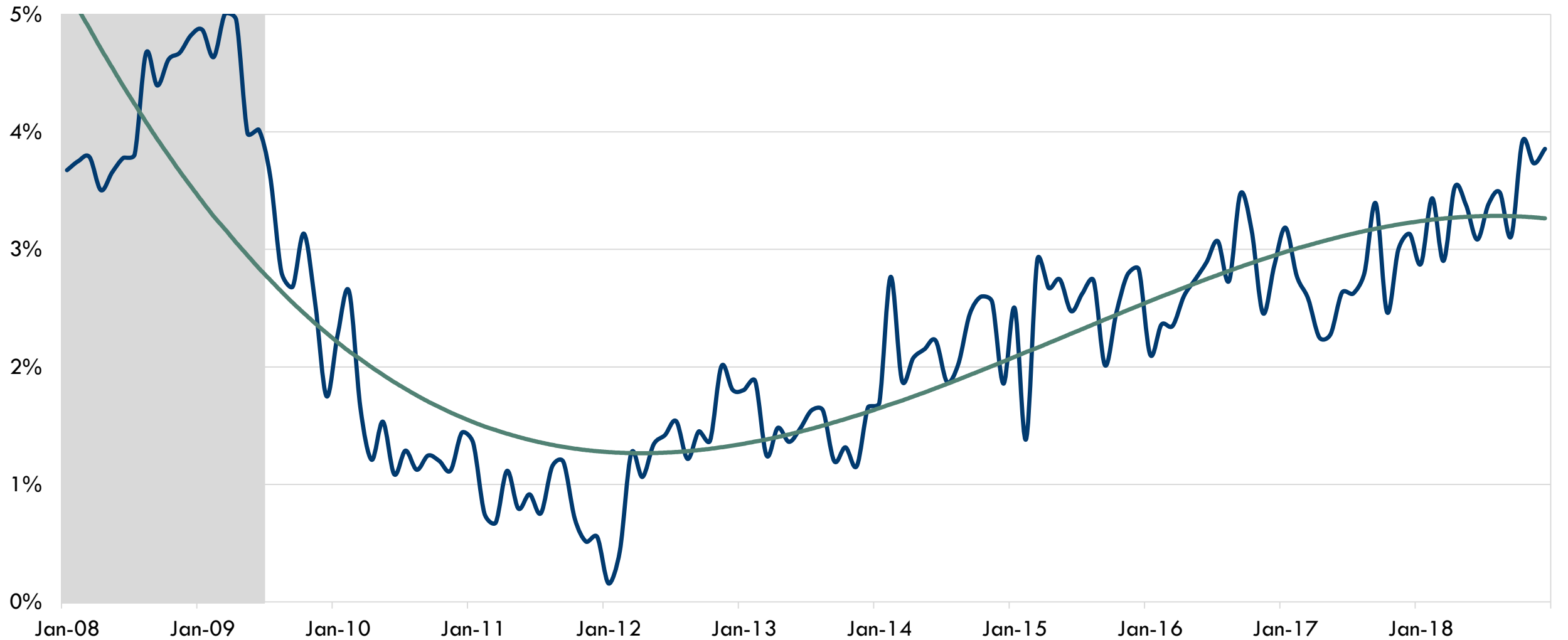
Months Supply- Ratio of Construction Job Openings to Hires (Thousands, SA)



Source: JOLTS BLS, First American Calculations, Nov. 2018

# Best Retention and Attraction Policy? Pay More

Average Hourly Earnings of All Employees, Construction, SA



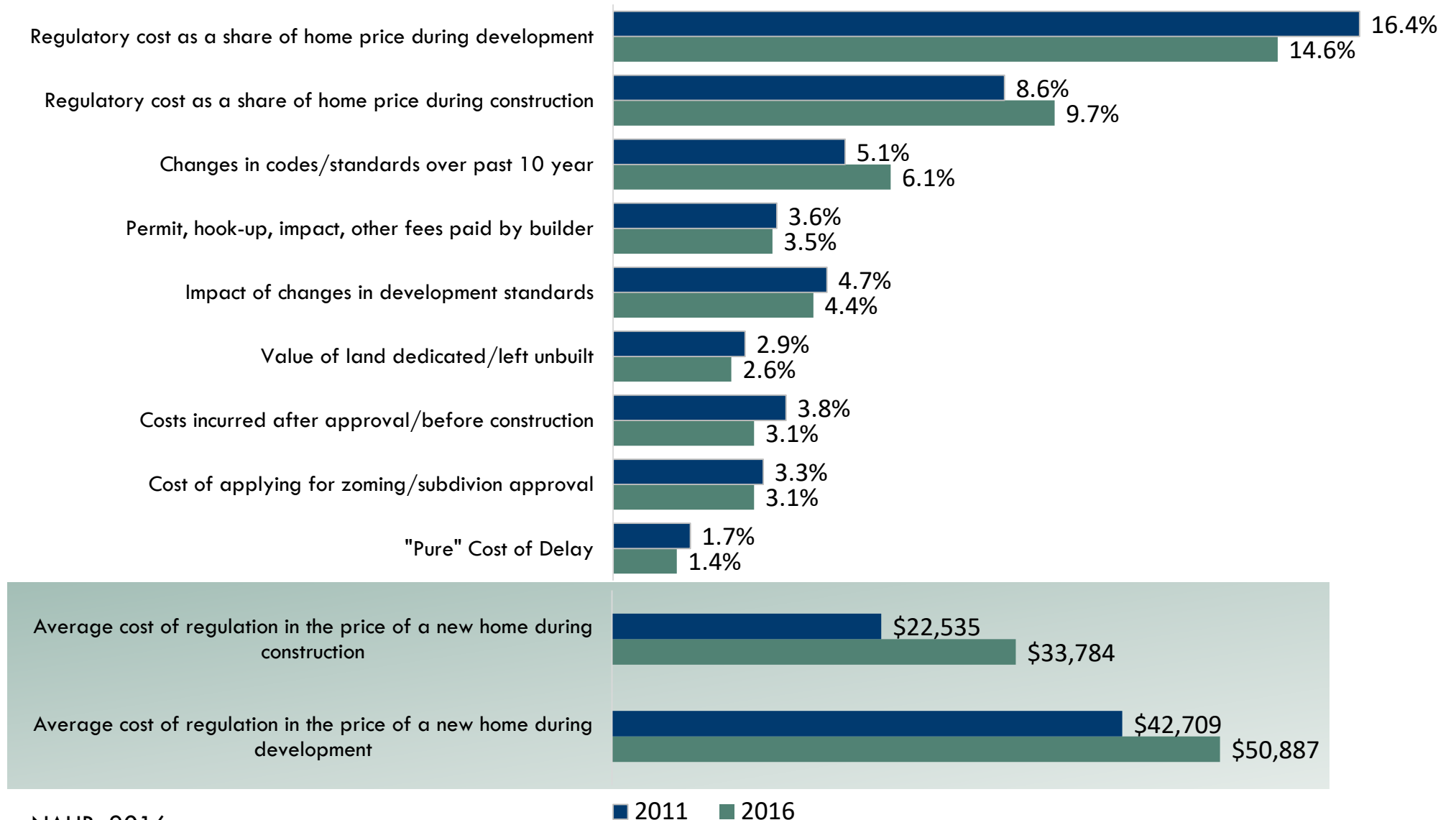
Source: BLS, Dec. 2018

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# The Process Costs More Too

Costs as a Share of Final Price of the Home Sold to the Ultimate Buyer



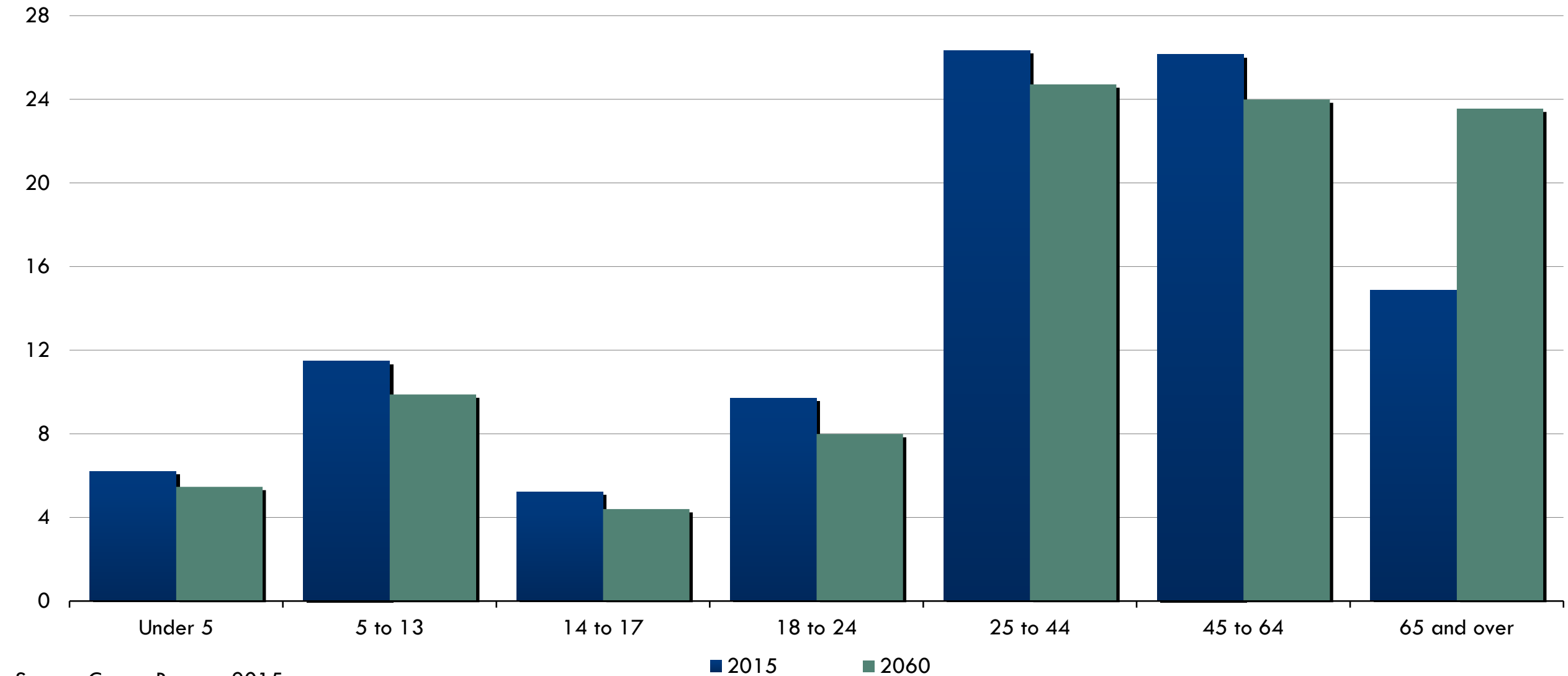
Source: NAHB, 2016

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# The Coming Exodus of Homeowners

Percent Share of Total U.S. Population



Source: Census Bureau, 2015

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# Extraordinary Popular Delusions and Madness of Crowds

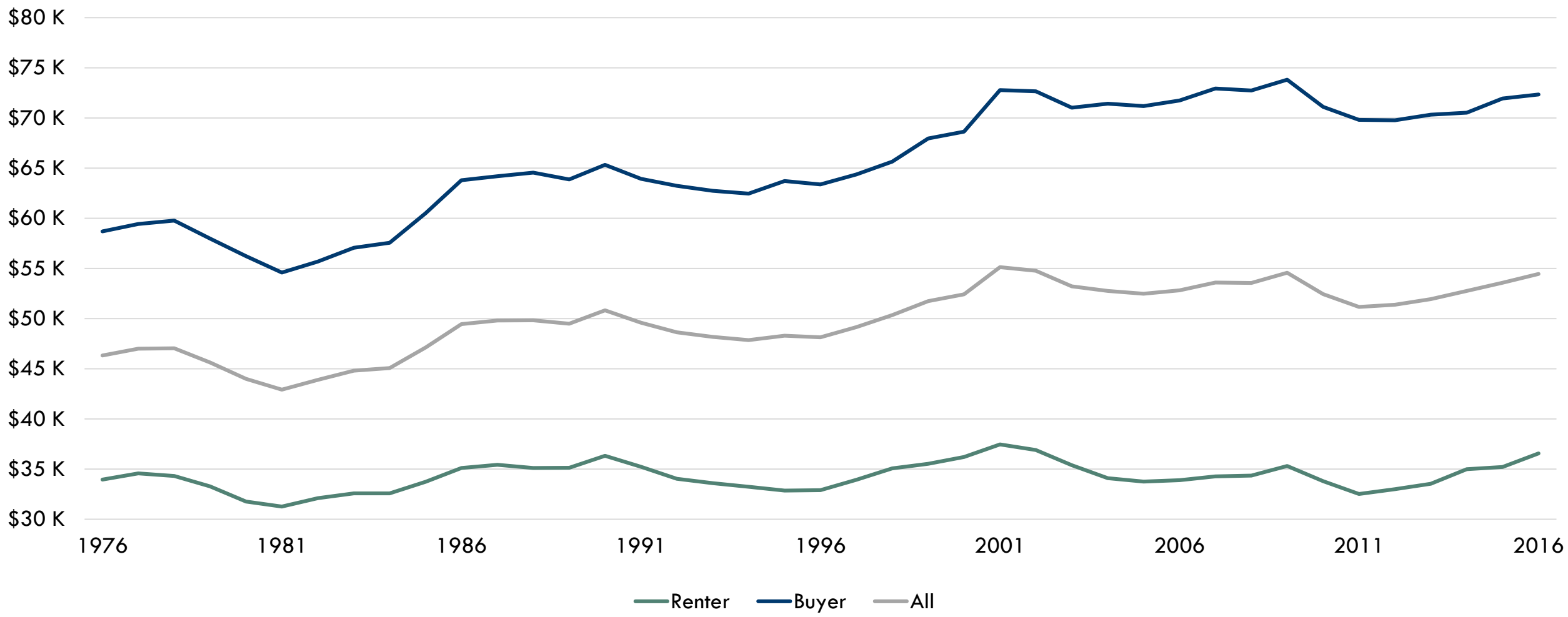
## The Real State of Housing Affordability



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# Mind the (Income) Gap

Median Income, 1976-2016

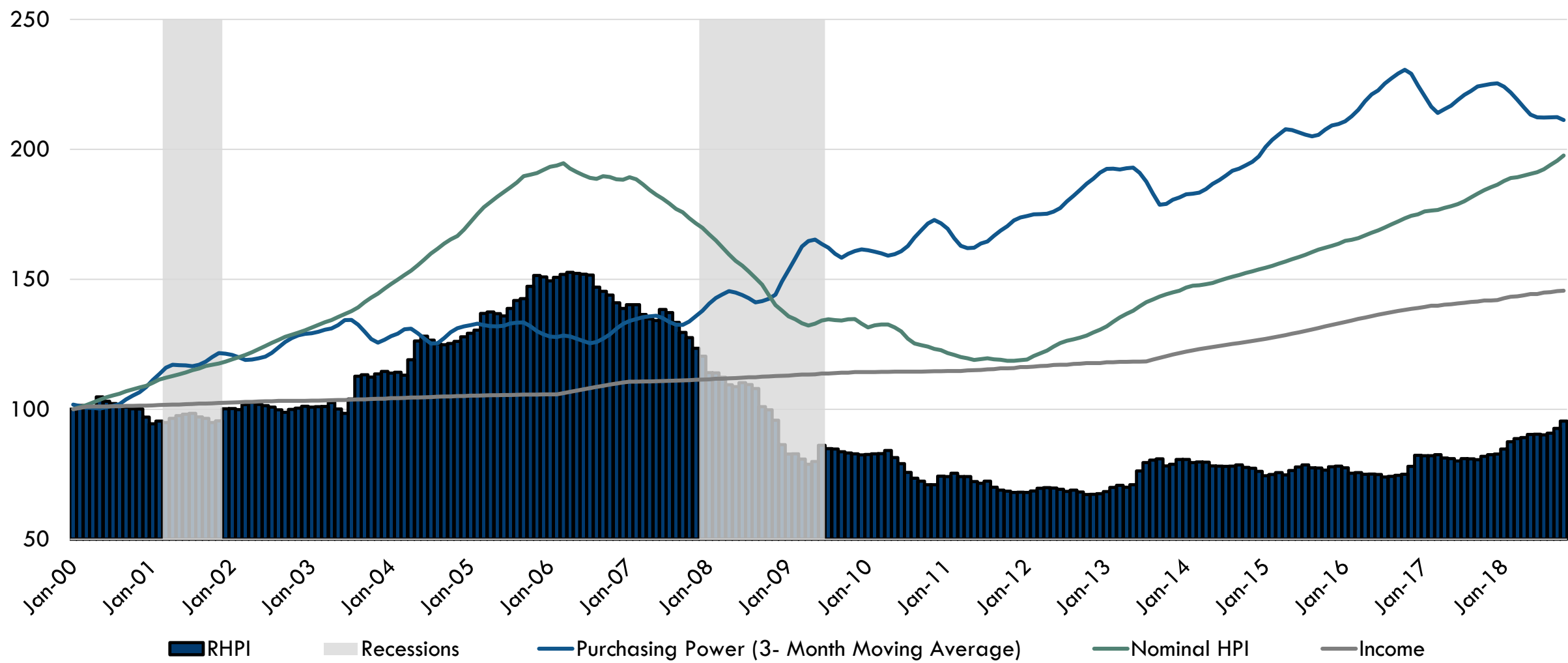


Source: IPUMS, First American Calculations, 2017

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# How Much Home Can A Renter Buy?

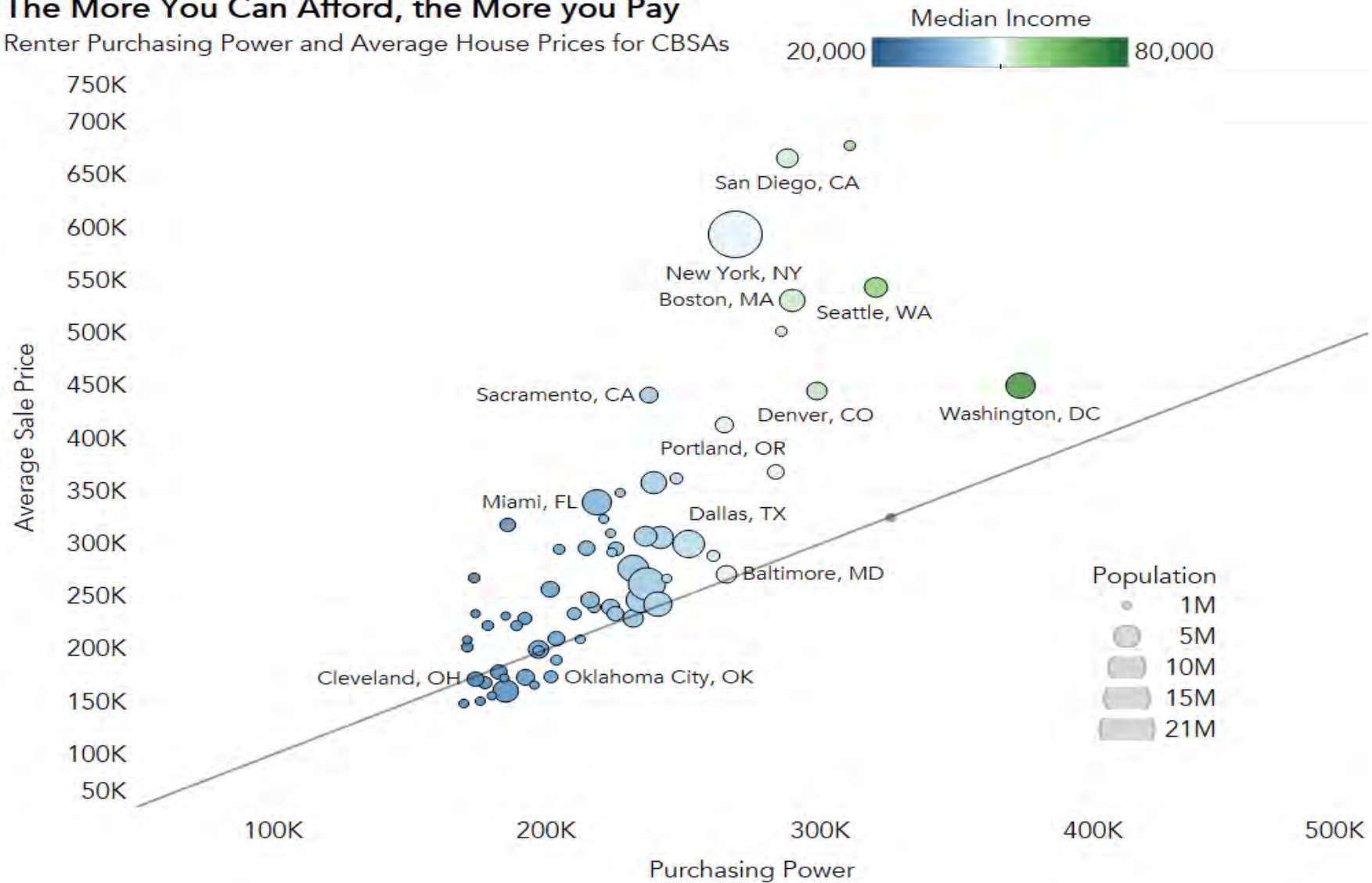
Index= 100, Jan. 2000



Source: First American Calculations, BLS, Census, Oct. 2018

## The More You Can Afford, the More you Pay

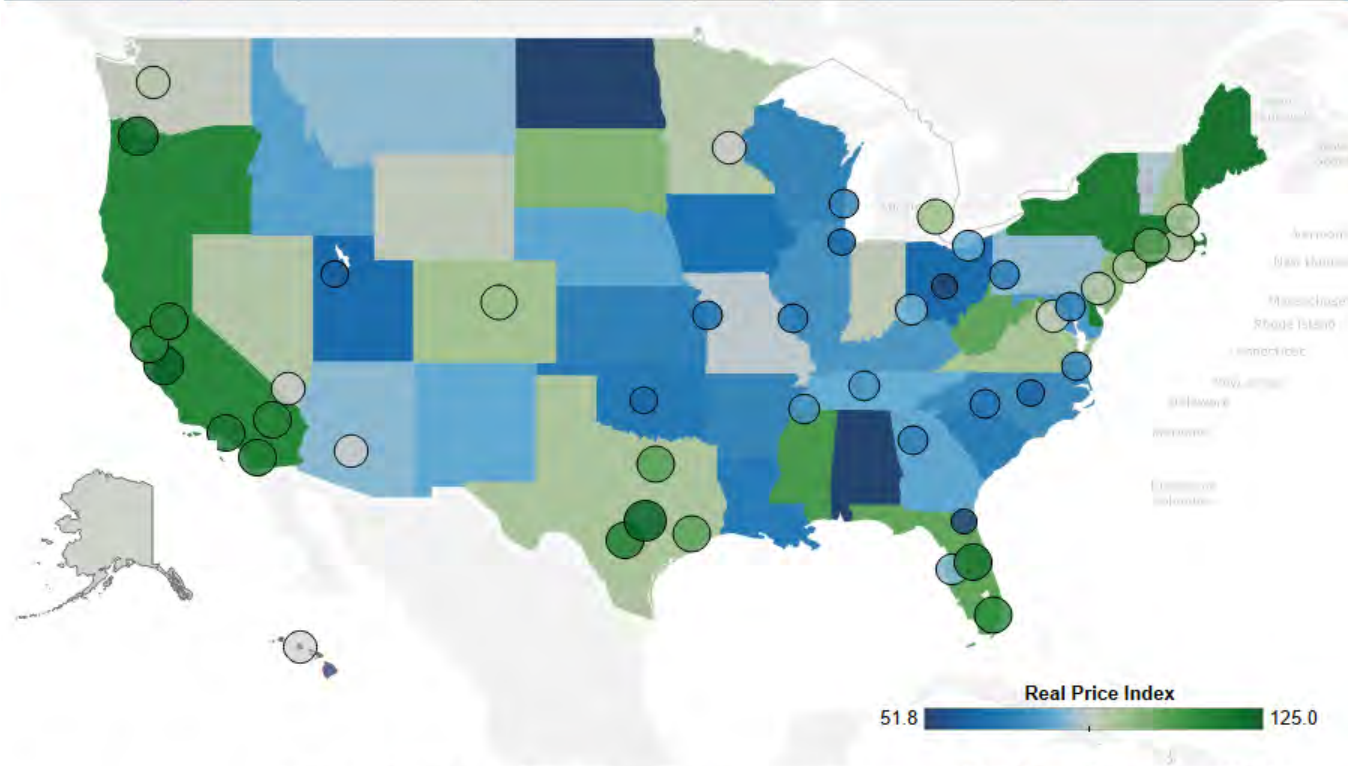
Renter Purchasing Power and Average House Prices for CBSAs



Source: DataTree by First American, IPUMS CPS, BLS, Oct. 2018

## How Much Depends on Where

	Real Price Index	Monthly Change	Quarterly Change	Yearly Change
October 2018	95.46	2.99%	5.84%	16.58%



State	State Index	Monthly Change	Quarterly Change	Yearly Change
NV	91.80	3.21%	5.05%	22%
OH	64.19	3.43%	6.20%	21%
NJ	97.50	4.04%	7.02%	20%
NH	95.03	3.15%	5.13%	19%
AZ	82.79	3.16%	5.01%	19%

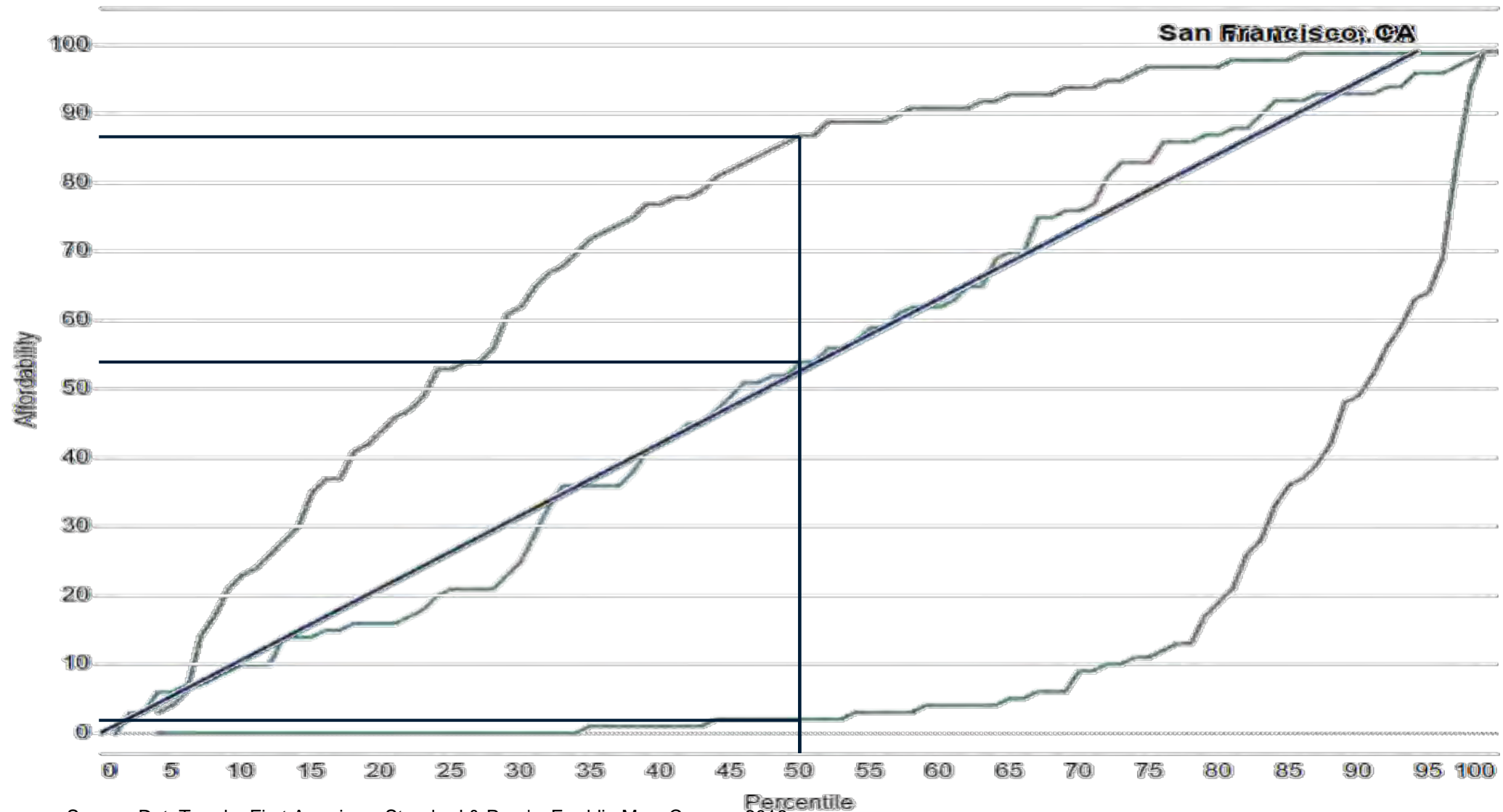
City Name	City Index	Monthly Change	Quarterly Change	Yearly Change
Cleveland, OH	79.3	4.30%	8.64%	28%
San Antonio, TX	115.7	3.59%	9.49%	27%
Las Vegas, NV	87.2	2.12%	4.99%	25%
Cincinnati, OH	80.7	4.23%	8.71%	24%
Salt Lake City, UT	60.6	3.71%	5.92%	20%

Source: FHFA, Freddie Mac, Census, First American Calculations, Oct. 2018



# When It Comes to Affordability, Place Matters

Median Renter: Share of Sold Homes



Source: DataTree by First American, Standard & Poor's, Freddie Mac, Census, 2018

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# 80/20 RULE

→ The **80<sup>th</sup>** percentile renter in San Francisco can only afford **20%** of homes for sale, with a house buying power of **822,000** and an income of **135,419**.

→ This same renter could afford **99%** of homes for sale in Detroit, Cleveland, Oklahoma City, and Kansas City

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