RESEARCH INSTITUTE FOR HOUSING AMERICA **SPECIAL REPORT**

THE GREAT RECESSION AND ATTITUDES TOWARD HOME-BUYING

GARY V. ENGELHARDT

RESEARCH INSTITUTE for HOUSING AMERICA

MORTGAGE BANKERS ASSOCIATION®
Investing in communities

December 14, 2011 1:33 PM 11034

RESEARCH INSTITUTE FOR HOUSING AMERICA **SPECIAL REPORT**

THE GREAT RECESSION AND ATTITUDES TOWARD HOME-BUYING

GARY V. ENGELHARDT

Professor

Syracuse University

TABLE OF CONTENTS

Tables

EXECUTIVE SUMMARY

In the last few years, Americans have experienced the most severe housing-market downturn since the Great Depression. The national homeownership rate during this period has declined from a peak of 69 percent in 2004 to 66 percent presently. Unemployment is high, income growth is stagnant and home sales are low. Indeed, in this environment, many have questioned whether the American dream of homeownership has ended.

This report utilizes data from the University of Michigan's Survey of Consumer Attitudes to examine consumer attitudes toward homeownership before, during and after the financial crisis. In particular, it measures the extent to which the recession has changed consumer sentiment toward home buying and selling.

There are a number of principal findings:

- Despite high unemployment, slow economic growth and problems plaguing the economy, almost 80 percent of American households believe that now is a good time to buy a home.
- Positive sentiment is strong particularly among young, educated, white and Hispanic households, and is attributable to low house prices and low mortgage interest rates.
- The pattern of home-buying sentiment during the current recession looks similar to the pattern from past recessions. In fact, current positive home-buying sentiment is around its long-run average level.
- What is different about the current recession is that positive home-selling sentiment is at an historic low. Indeed, the sell-side of the market is dominated by deeply negative sentiment.
- Negative home-selling sentiment is strongly related to difficulty in finding buyers at desired sales prices, as well as the large overhang of mortgages past due or in foreclosure.

- Over the last two decades, the value of mortgage purchase originations has tracked home-selling sentiment more strongly than home-buying sentiment.
- Favorable sentiment and real activity in the housing and mortgage markets will be weighed down significantly until the overhang of troubled mortgages is cleared out.
- Over the next five quarters, positive home-buying sentiment is forecast to remain around current and long-run average levels. In contrast, positive home-selling sentiment is forecast to remain around current and historic-low levels. This suggests that selling sentiment and, hence, market activity, will remain sluggish in the near term.

INTRODUCTION

In the last few years, Americans have experienced the most severe housing-market downturn since the Great Depression. The national homeownership rate during this period has declined from a peak of 69 percent in 2004 to 66 percent presently. Unemployment is high, income growth is stagnant and home sales and prices are low. Indeed, in this environment, many have questioned whether the American dream of homeownership has ended.

This report examines consumer attitudes toward homeownership before, during, and after the financial crisis. In particular, it measures the extent to which the recession has changed consumer sentiment toward home buying and home selling, respectively, and how the current recession is both similar to and different from past recessions in this regard. The analysis draws upon data on consumer sentiment gathered on almost 6,000 households each year by the University of Michigan's Survey of Consumer Attitudes.

There are a number of principal findings. First, despite high unemployment, slow economic growth and problems plaguing the economy, almost 80 percent of American households believe that now is a good time to buy a home. Positive sentiment is strong particularly among young, educated, white and Hispanic households, and is attributable to low house prices and low mortgage interest rates. Second, the pattern of home-buying sentiment during the current recession looks similar to the pattern from past recessions. In fact, current positive home-buying sentiment is around its long-run average level. Overall, the current recession has done remarkably little to dampen Americans' enthusiasm for home buying.

However, what is different about the current recession is that positive home-selling sentiment is at an historic low. Indeed, the sell-side of the market is dominated by deeply negative sentiment. This is strongly related to difficulty in finding buyers at desired sales prices, as well as the large overhang of mortgages past due or in foreclosure. Indeed, over the last two decades, the value of mortgage purchase originations has tracked home-selling sentiment more strongly than home-buying sentiment. This especially has been the case in the current downturn. This suggests that favorable sentiment and real activity in the housing and mortgage market will be weighed down significantly until the overhang of troubled mortgages is cleared out. Although there has been some recent progress on this, there is still a long way to go.

Specifically, over the next five quarters, positive home-buying sentiment is forecast to remain around current and long-run average levels. In contrast, positive home-selling sentiment is forecast to remain around current and historic-low levels. This suggests that selling sentiment and, hence, market activity, will remain sluggish in the near term, consistent with MBA's near-term market forecast.

The report is organized in sections. Section 1 provides a brief overview of the data on consumer sentiment from the Survey of Consumer Attitudes. Section 2 sets the stage with some basic facts about home-buying and Section 3 presents basic facts on home-buying sentiment. The fourth section relates home-buying sentiment to broader housing-market outcomes and fundamentals. Then the analysis turns to home-selling sentiment in Section 5. Section 6 provides implications of the data, and Section 7 is a brief conclusion.

1. A BRIEF OVERVIEW OF SURVEY OF CONSUMER ATTITUDES (SCA) DATA

The SCA has been for decades the primary source of information on consumer expectations and sentiment, and is the basis for the closely followed consumer confidence index. The prevailing view among economists is that consumer sentiment as measured in the survey reflects both current and future expectations of economic activity, and so is a useful metric with which to gauge both the buy- and sell-sides of the housing market.[1]

The survey is administered monthly by the University of Michigan Survey Research Center to about 500 households, for a total of roughly 6,000 households annually. The core questions are devoted to consumer expectations and sentiments. They focus on expectations about family income growth, inflation, business conditions and the national economy, as well as attitudes toward buying household durables, homes and vehicles. Importantly, the SCA is the only publicly available source of household-level information on home-buying sentiment that occurs at a high frequency (monthly) and is available for a long time-series (back to 1978).

In addition to the attitudinal data, the SCA gathers income, demographic and location information. Unfortunately, the monthly sample size of the survey is too small to reliably perform state-level analyses, so no state-level information is released in the public-use version. Instead, information is released for four regions: Northeast (Connecticut, New York, Maine, Pennsylvania, Massachusetts, Rhode Island, New Hampshire, Vermont and New Jersey), Midwest (Illinois, Missouri, Indiana, Nebraska, Iowa, North Dakota, Kansas, Ohio, Michigan, South Dakota, Minnesota and Wisconsin), South (Alabama, Mississippi, Arkansas, North Carolina, Delaware, Oklahoma, District of Columbia, South Carolina, Florida, Tennessee, Georgia, Texas, Kentucky, Virginia, Louisiana, West Virginia and Maryland) and West (Alaska, Nevada, Arizona, New Mexico, California, Oregon, Colorado, Utah, Hawaii, Washington, Idaho, Wyoming and Montana). Because these regions are broadly constructed, and the housing-market impact of the recession has varied substantially across localities within both states and regions, the SCA is not well suited for disaggregated geographic analyses. For this reason, this report will focus on national trends.

There are two samples used in the analysis below. The first consists of household-level data for all households in the SCA from January 2010 through March 2011. This is used to construct a profile of recent home-buying sentiment, documented in Section 3, and the profile of recent home-selling sentiment, documented in Section 5 below. The data from first quarter of 2011 are the latest available publicly released micro-data. The second sample consists of all household-level data for all families in the SCA from January, 1978, through March, 2011. These data yield a long time-series, which is used in Sections 4 and 5 to illustrate the manner in which home-buying sentiment tracks market fundamentals and other features of the aggregate housing and business cycles.

2. BASIC FACTS ON HOMEOWNERS AND RENTERS

This section presents summary statistics on homeownership from the SCA, in order to lay out some basic facts and provide a backdrop for the analysis of home-buying and -selling sentiment below. The sample here consists of all households in the SCA from the first quarter of 2010 through the first quarter of 2011.[2] Figures 1A, 1B and 1C are bar charts that show the homeownership rate by the demographic group listed along the horizontal axis. The total height of each bar represents the percent of households in that category who own their main residence.[3] In Figure 1A, 80.5 percent of all households in the SCA are homeowners. Among white households, almost 85 percent are homeowners. Homeownership is much lower for African-American and Hispanic households. Over 89 percent of married couples are homeowners, whereas the group with the lowest rate of homeownership, 56.9 percent, is comprised of those who never married. Figure 1B shows that the homeownership rate rises steeply with education, peaking at 89 percent for those with education beyond a college degree. Figure 1C shows the homeownership rate across ten-year age groups. The homeownership rate was above 80 percent for those 40 and older, but peaked at 87 percent for those in their seventies.

Figures 2A, 2B and 2C show the distribution of all homeowners by race, marital status, education and age group. In Figure 2A, a total of 86.9 percent of homeowners were white, 5.6 percent were African-American, 4.6 percent were Hispanic and 2.9 percent were those self-reporting other races. In terms of marital status, the largest group was married couples, who comprised 69.2 percent of homeowners. The divorced, (projected to be the fastest-growing group of Americans), and widowed comprised 11.8 and 10.2 percent, respectively. In Figure 2B, those with high-school, some college and college degrees comprised the largest portions of homeowners, 24.1, 28.9 and 27.4 percent, respectively. Just 4.4 percent of homeowners are high school dropouts. Just over 36 percent of the homeowners reside in the South. Not surprisingly, the bulk of homeowners are middle-aged (Figure 2C).

Figure 1A

Home Ownership Rates by Race and Marital Group for 2010–2011

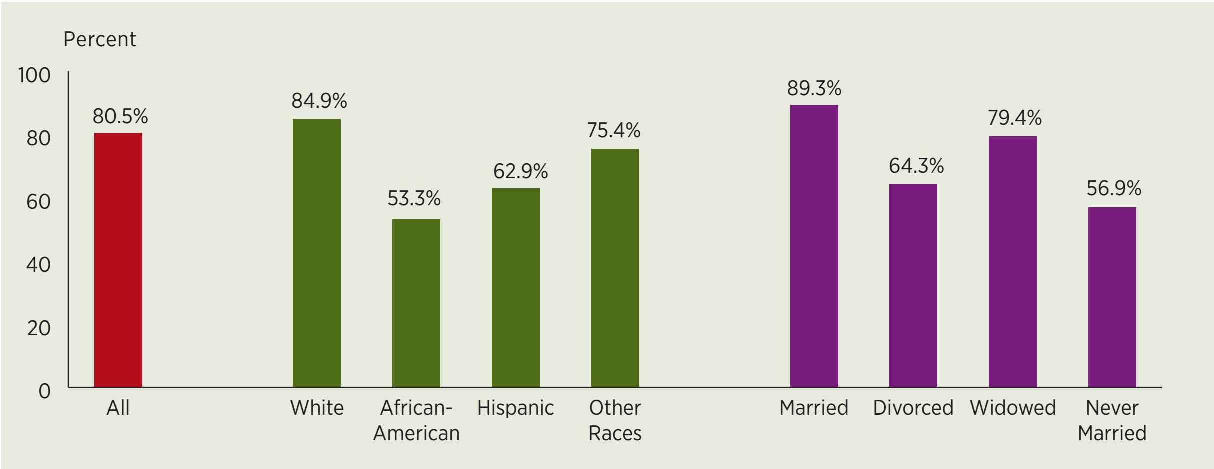


Figure 1B

Home Ownership Rates by Education Group and Region for 2010–2011

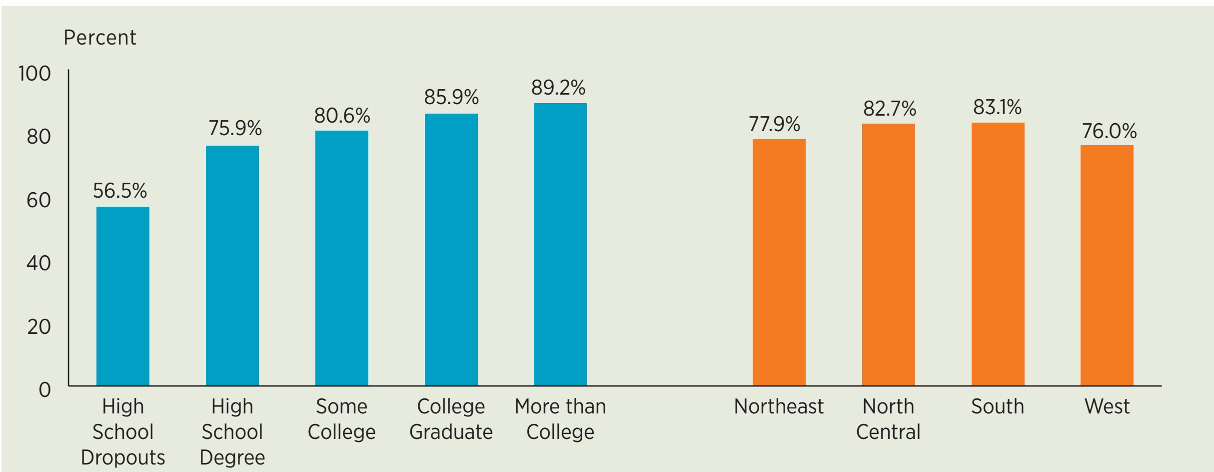


Figure 1C

Home Ownership Rates by Age Group for 2010–2011

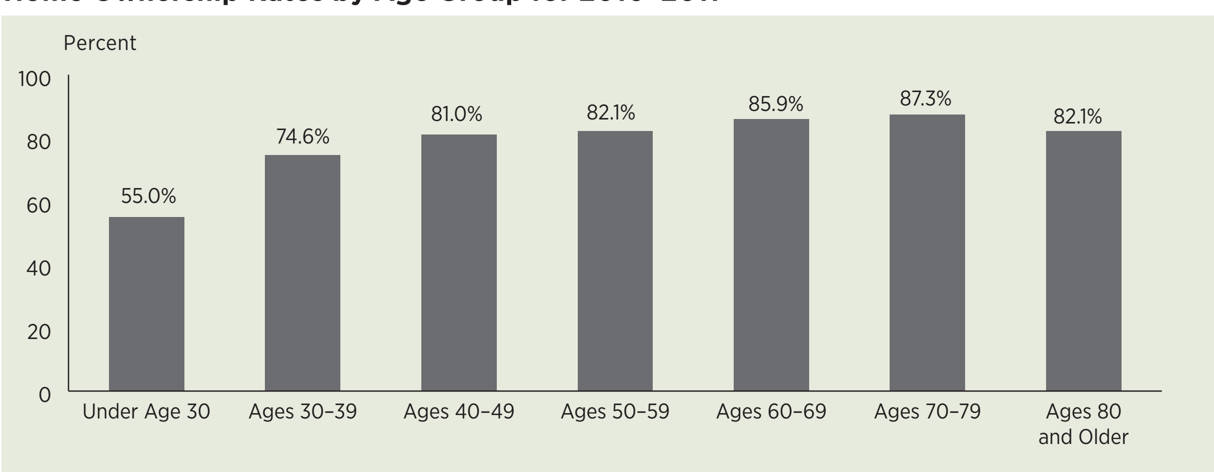


Figure 2A

Distribution of Homeowners by Race and Marital Group for 2010–2011

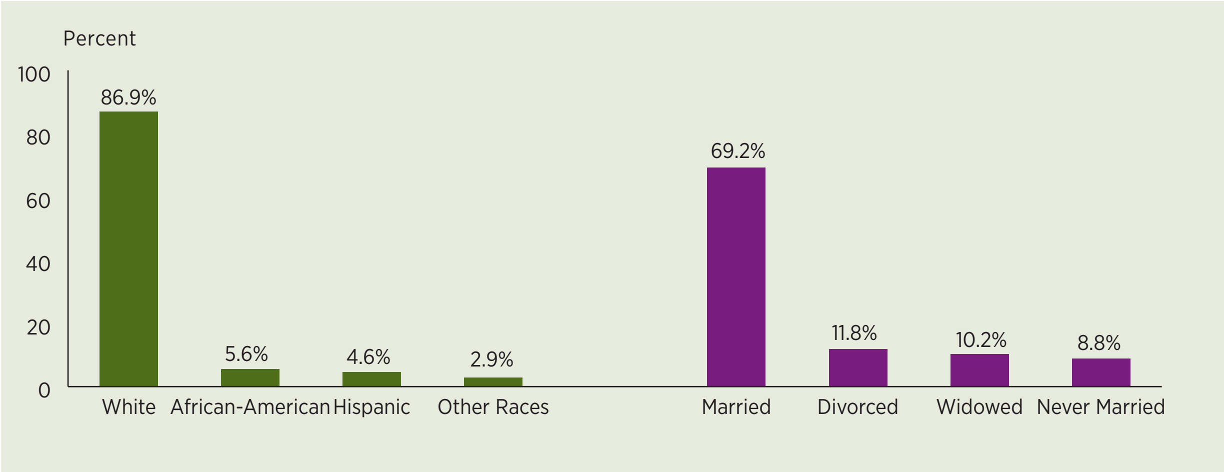


Figure 2B

Distribution of Homeowners by Education Group and Region for 2010–2011

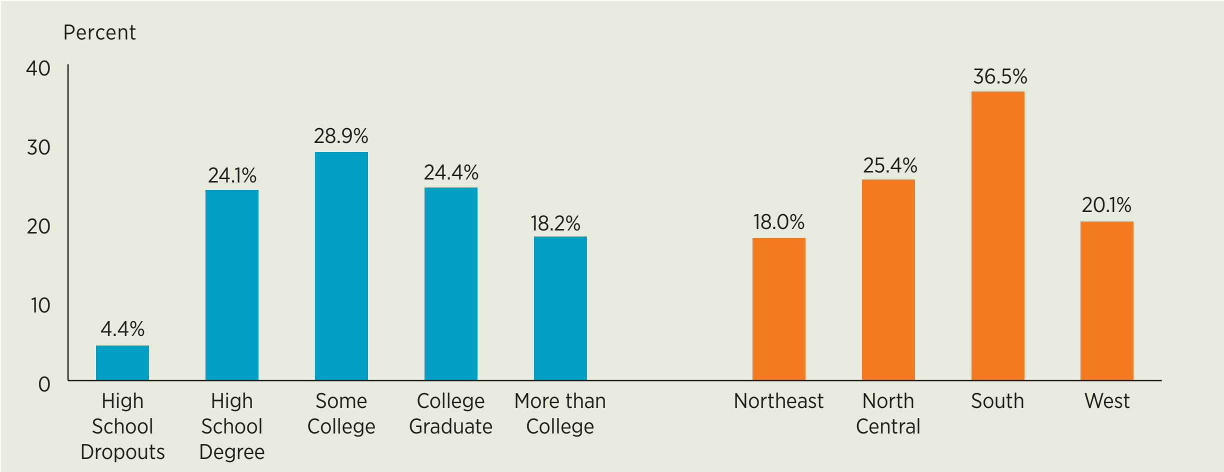


Figure 2C

Distribution of Homeowners by Age Group for 2010–2011

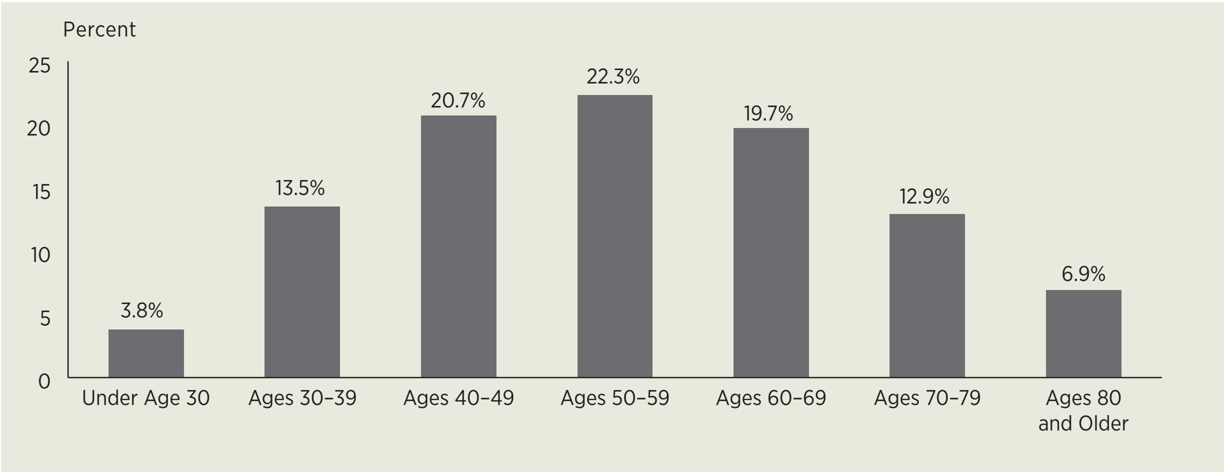


Table 1 presents selected statistics on financial characteristics for homeowners in 2010–2011. Each column in the table represents a housing- or financial-behavior outcome; each row represents the relevant population subgroup. Both the mean and median are reported for three of the outcomes: household income, house value and the value of stock holdings. The mean is useful when using the statistics in the table along with those in the figures to make aggregate estimates for the population or subgroup as a whole. The median is shown in square brackets in the table. It represents the midpoint in the distribution of that outcome, such that half of the homeowners in that row's population subgroup had outcomes above the median level and half had outcomes below the median level. The median is the preferred measure and should be thought of as measuring the outcome for the typical homeowner.[4]

Table 1

Selected Summary Statistics on Financial Characteristics for Homeowners in 2010–2011 by Demographic Characteristics and Region

(All Dollar Figures are Means with Medians in Square Brackets)

Sample Income	(1) Total Household	(2) House Value	(3) Percent Owning Stock	(4) Stock Value
All Homeowners	84,207 [65,000]	259,599 [196,000]	71.4%	258,427 [100,000]
By Race				
White	85,053 [67,500]	262,501 [200,000]	73.8%	260,096 [100,000]
African-American	69,241 [54,000]	175,905 [150,000]	53%	148,738 [50,000]
Hispanic	72,789 [52,000]	217,109 [150,000]	53.7%	313,534 [43,000]
Other Races	108,303 [88,000]	376,238 [280,000]	67.7%	286,736 [120,000]
By Marital Status				
Married	98,227 [80,000]	288,307 [219,000]	76.9%	281,301 [100,000]
Divorced	56,716 [40,000]	180,875 [137,000]	60.3%	168,987 [75,000]
Widowed	37,362 [27,500]	204,880 [149,000]	53.1%	248,806 [100,000]
Never Married	63,674 [50,000]	198,963 [160,000]	64.0%	172,213 [60,000]
By Education				
High School Dropouts	29,805 [22,000]	115,429 [100,000]	24.7%	85,319 [40,000]
High School Degree	53,899 [42,000]	172,810 [139,500]	55.3%	159,521 [55,000]
Some College	67,656 [55,000]	222,538 [170,000]	69.1%	178,629 [75,000]
College Graduates	105,226 [87,500]	329,513 [250,000]	85.7%	292,896 [120,000]
More than College	133,911 [110,000]	366,216 [298,000]	87.9%	395,902 [200,000]

From columns 1 and 2 of Table 1, median household income was $65,000 and median house value was $196,000 for all homeowners. Column 3 of the table shows the fraction of homeowners who own stock, either directly or indirectly through mutual funds and retirement accounts. Just over 71 percent of all homeowners own stock. Column 4 shows the mean and median value of stock holdings for those homeowners who hold stock. The median stock holding is $100,000.

Figures 3A, 3B and 3C show the distribution of all renters in the SCA by race, marital status, education and age groups. Broadly speaking, renters are comprised of two types of households: the pool of potential future homebuyers and low socio-economic status families that will never own. In Figure 3A, a total of 64.2 percent of renters were white, 20.4 percent were African-American, 11.4 percent were Hispanic, and 4.0 percent were those self-reporting other races. The married, divorced and never-married all comprised sizable shares of renter households. In Figure 3B, those with a high school degree are the largest group of renters, followed by those with some college. Again, not surprisingly, the bulk of renters are relatively younger households (Figure 3C).

Table 1 (Continued)

Selected Summary Statistics on Financial Characteristics for Homeowners in 2010–2011 by Demographic Characteristics and Region

(All Dollar Figures are Means with Medians in Square Brackets)

Sample Income	(1) Total Household	(2) House Value	(3) Percent Owning Stock	(4) Stock Value
By Region				
Northeast	96,095 [80,000]	316,269 [250,000]	76.3%	270,949 [100,000]
North Central	79,567 [61,000]	189,701 [150,000]	72.7%	205,868 [100,000]
South	76,177 [60,000]	220,254 [162,500]	66.9%	256,705 [100,000]
West	94,067 [70,000]	367,870 [275,000]	73.4%	315,774 [110,000]
By Age				
Under 30	77,917 [67,000]	187,961 [150,000]	58.7%	60,108 [30,000]
Ages 30–39	95,440 [80,000]	233,796 [190,000]	77.1%	100,041 [60,000]
Ages 40–49	102,760 [80,000]	277,394 [210,000]	79.0%	183,796 [75,000]
Ages 50–59	100,005 [80,000]	274,057 [200,000]	79.1%	309,770 [130,000]
Ages 60–69	73,647 [55,000]	291,670 [200,000]	67.8%	405,104 [200,000]
Ages 70–79	48,423 [40,000]	229,344 [165,000]	59.5%	302,724 [125,000]
Ages 80 and older	43,250 [30,000]	209,664 [160,000]	51.5%	405,042 [100,000]

Note: Author’s calculations from the January, 2010 through March, 2011 waves of the Survey of Consumer Attitudes.

Figure 3A

Distribution of Renters by Race and Marital Group for 2010–2011

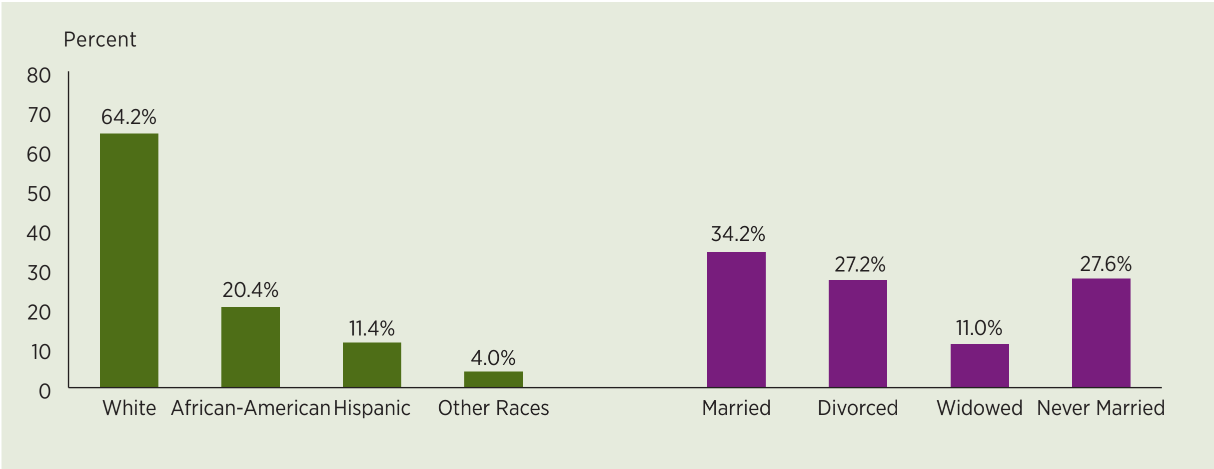


Figure 3B

Distribution of Renters by Education Group and Region for 2010–2011

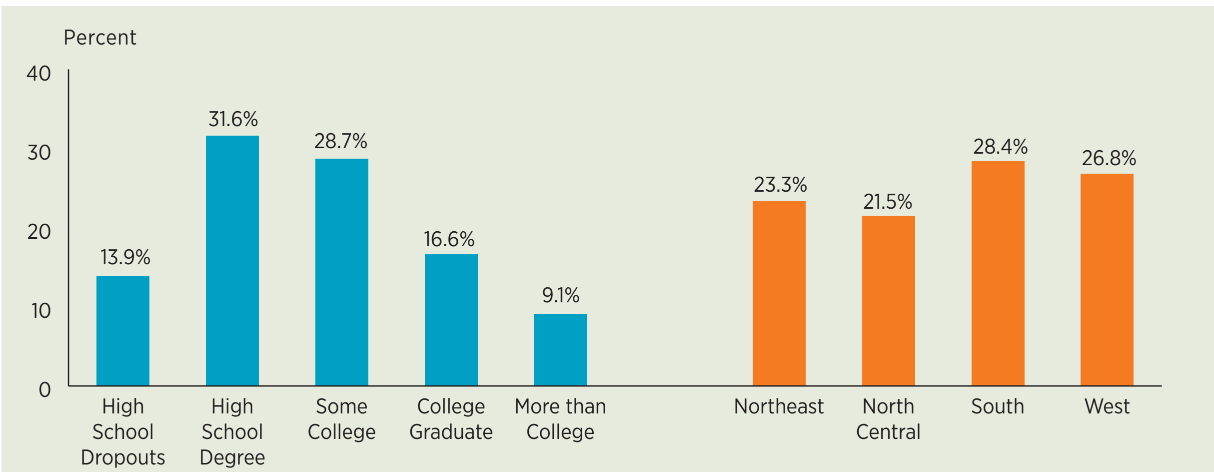


Figure 3C

Distribution of Renters by Age Group for 2010–2011

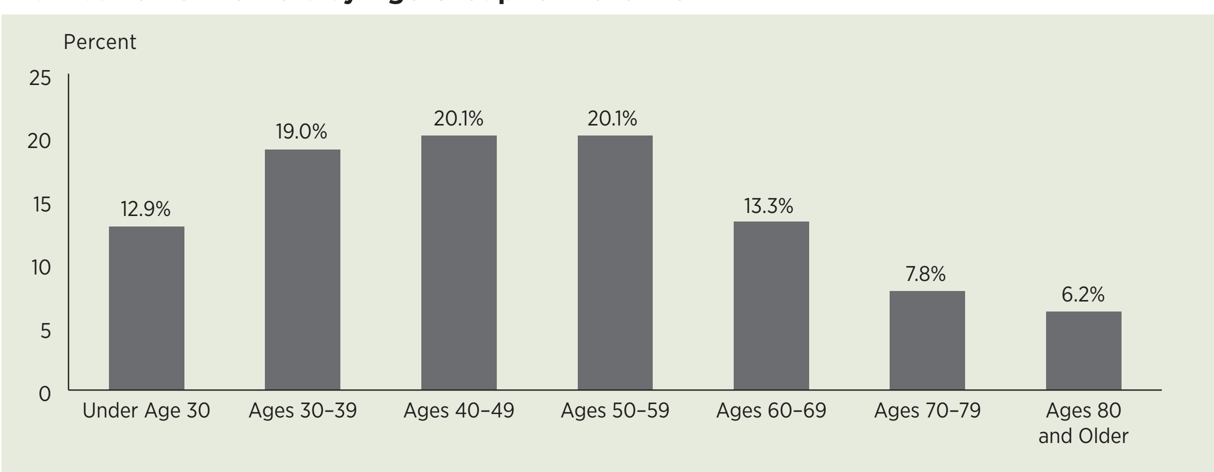


Table 2 repeats the analysis for renters from Table 1. In particular, it presents statistics on three financial characteristics: household income, the percentage of renters owning stock and, conditional on owning stock, the value of those holdings. Median household income was $26,000, substantially lower than that of homeowners. Just under 35 percent of renters owned stock directly or indirectly, and the median value of those holdings was $30,000.

Table 2

Selected Summary Statistics on Financial Characteristics for Renters in 2010–2011 by Demographic Characteristics and Region

(All Dollar Figures are Means with Medians in Square Brackets)

Sample Income	(1) Total Household	(2) Percent Owning Stock	(3) Stock Value
All Renters	40,012	34.6%	95,047
	[26,000]		[30,000]
By Race			
White	39,578 [26,000]	41.3%	104,290 [30,000]
African-American	31,555 [25,000]	20.8%	67,570 [30,000]
Hispanic	30,594 [22,000]	19.9%	50,989 [50,000]
Other Races	105,852 [70,000]	43.5%	100,115 [52,000]
By Marital Status			
Married	54,928 [40,000]	42.6%	95,033 [30,000]
Divorced	28,926 [19,000]	29.0%	90,641 [25,000]
Widowed	23,236 [16,000]	28.0%	107,419 [50,000]
Never Married	38,475 [25,000]	32.7%	96,750 [30,000]
By Education			
High School Dropouts	18,800 [14,000]	8.4%	23,841 [25,000]
High School Degree	27,524 [20,000]	22.6%	63,585 [30,000]
Some College	39,489 [30,000]	35.5%	62,736 [20,000]
College Graduates	58,182 [44,000]	55.8%	123,991 [35,000]
More than College	80,533 [60,000]	74.5%	139,238 [45,000]

Table 2 (Continued)

Selected Summary Statistics on Financial Characteristics for Renters in 2010–2011 by Demographic Characteristics and Region

(All Dollar Figures are Means with Medians in Square Brackets)

Sample Income	(1) Total Household	(2) Percent Owning Stock	(3) Stock Value
By Region			
Northeast	42,334 [27,500]	38.5%	98,712 [40,000]
North Central	31,183 [21,000]	32.1%	63,553 [22,500]
South	37,062 [25,000]	33.6%	77,105 [25,000]
West	49,000 [28,000]	34.9%	133,616 [30,000]
By Age			
Under 30	44,156 [27,500]	23.4%	17,722 [7,000]
Ages 30–39	50,193 [35,000]	46.7%	67,325 [23,000]
Ages 40–49	44,244 [30,000]	37.8%	89,372 [25,000]
Ages 50–59	32,530 [22,000]	31.7%	86,519 [36,000]
Ages 60–69	41,717 [24,000]	32.4%	176,929 [70,000]
Ages 70–79	22,597 [16,800]	33.5%	87,897 [50,000]
Ages 80 and older	26,177 [17,500]	26.8%	226,721 [100,000]

Note: Author's calculations from the January, 2010 through March, 2011 waves of the Survey of Consumer Attitudes.

3. BASIC FACTS ON RECENT HOME-BUYING SENTIMENT

This section presents summary statistics on home-buying sentiment from the SCA. Positive home-buying sentiment is measured as the percent of households who agree that now is a good time to buy a home. Here, "recent" refers to the first quarter of 2011 and all of 2010, although the results do not differ if the focus is just the first quarter of 2011. Homeowners and renters are analyzed separately.

Figures 4A, 4B and 4C are bar charts that show the percent of homeowners with positive home-buying sentiment by demographic group listed along the horizontal axis. The total height of each bar represents the percent of homeowners in that category who reported in the SCA that now is a good time to buy. In Figure 4A, 80.1 percent of homeowners think now is a good time to buy a home. Positive sentiment is particularly high among white and Hispanic households, and is strong across all marital statuses. In Figure 4B, positive sentiment rises with education. Almost seven out of every eight households with a college degree or above believe now is a good time to buy. In addition, positive sentiment is fairly evenly distributed across regions at around 80 percent, including in the South and West, where some local housing markets have performed very poorly. Positive sentiment is particularly high among relatively younger households (Figure 4C). Over 80 percent of homeowners under age 50 think now is a good time to buy.

Figures 5A, 5B and 5C turn to renters. Again, these households are composed of potential future home-buyers, as well as relatively low socio-economic households that will never own homes. Therefore, in general, the *levels* of positive sentiment would be expected to be lower for this group than for all homeowners. This is bourne out in Figure 5A, which shows that only 63 percent of renters (compared to 80 percent of owners) believe it is a good time to buy a house. However, many of the basic patterns within owner segments are found within renter segments. For example, positive sentiment is highest among younger, white and married households, and rises with education. Also, positive sentiment is relatively even across regions, with renters in the South and West having the strongest sentiment that now is a good time to buy.

Figure 4A

Homeowners with Positive Home-Buying Sentiment by Race and Marital Group for 2010–2011

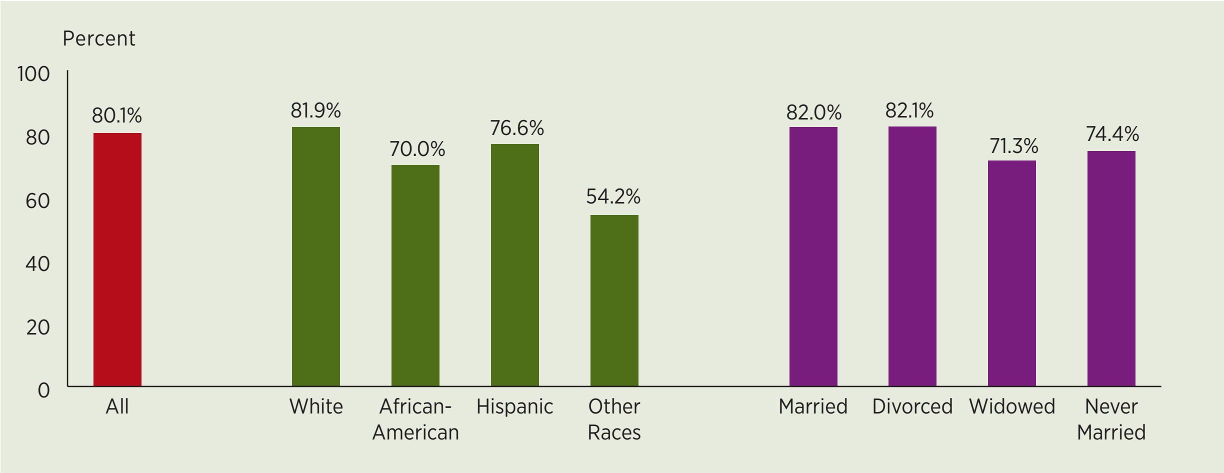


Figure 4B

Homeowners with Positive Home-Buying Sentiment by Education Group and Region for 2010–2011

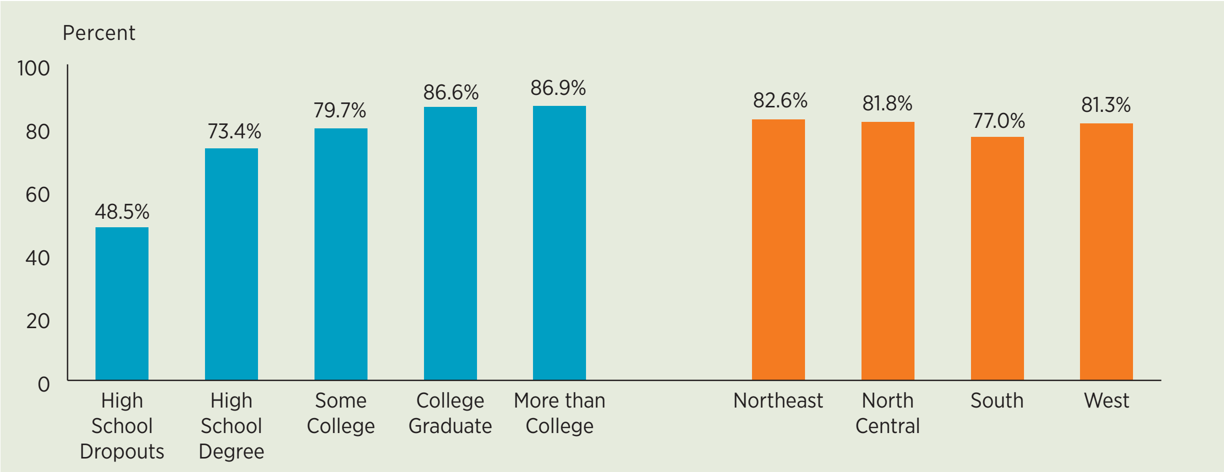


Figure 4C

Homeowners with Positive Home-Buying Sentiment by Age Group for 2010–2011

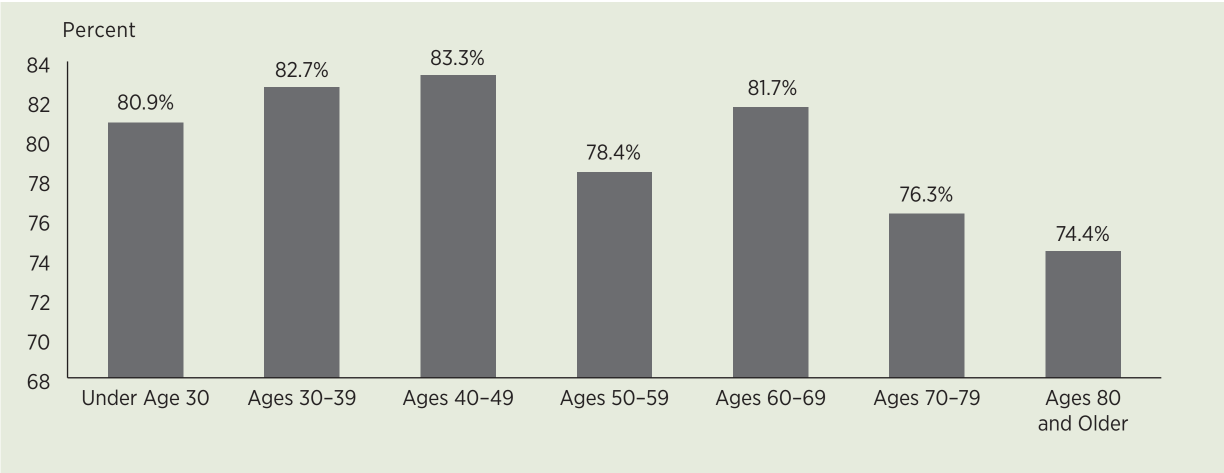


Figure 5A

Renters with Positive Home-Buying Sentiment by Race and Marital Group for 2010–2011

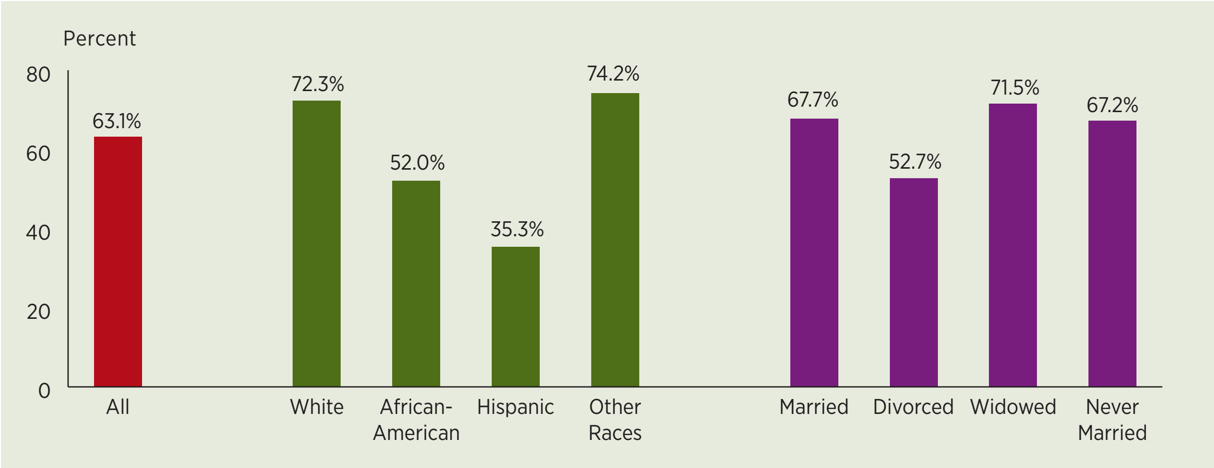


Figure 5B

Renters with Positive Home-Buying Sentiment by Education Group and Region for 2010–2011

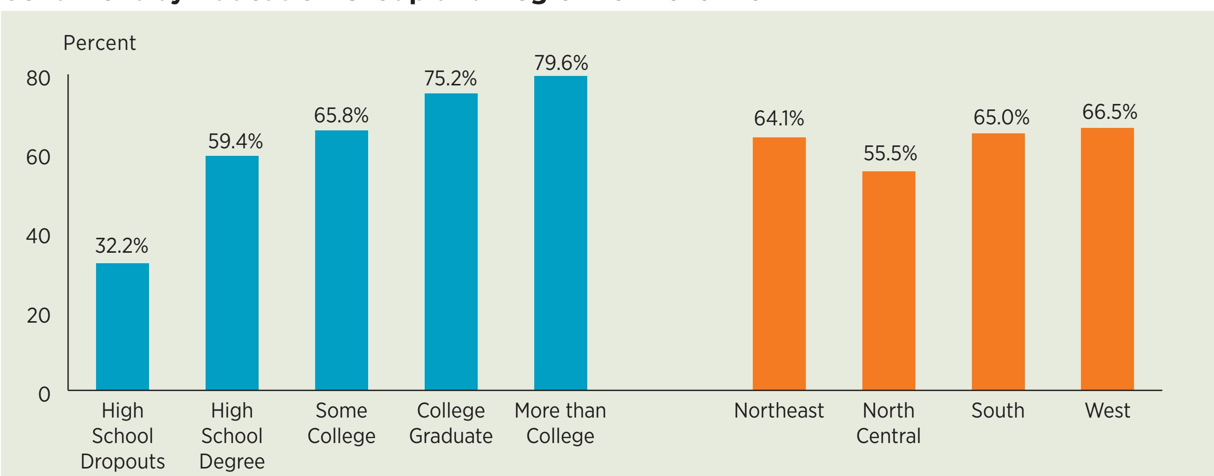


Figure 5C

Renters with Positive Home-Buying Sentiment by Age Group for 2010–2011

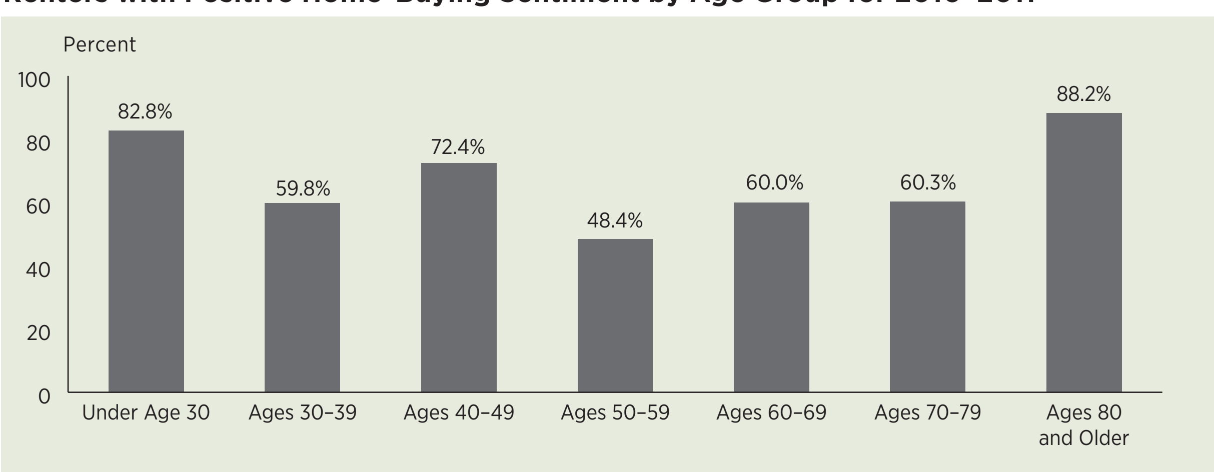


Figure 6

Home-Buying Sentiment for Owners and Renters Since 1992

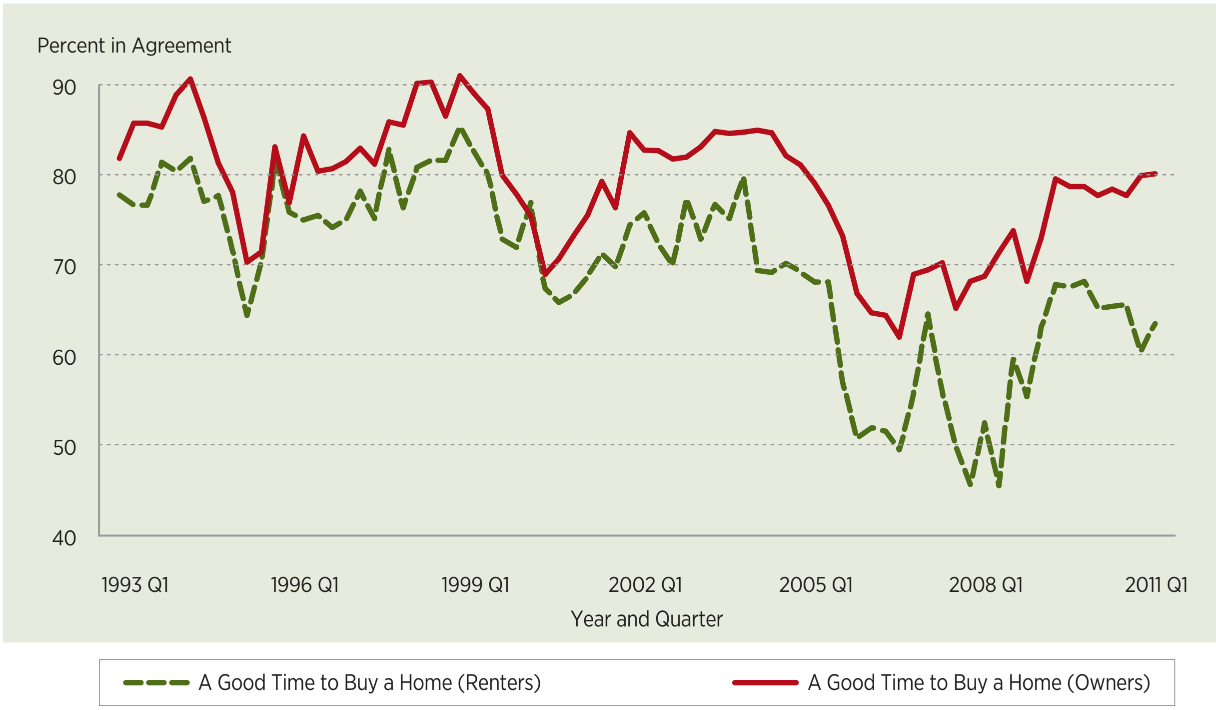


Figure 6 gives further confirmation that the home-buying sentiments of homeowners and renters move together. It plots the seasonally adjusted percentage of each group with positive sentiment at a quarterly frequency from the fourth quarter of 1992 through the first quarter of 2011.[5] Homeowner sentiment is represented by the solid line; renter sentiment is represented by the dashed line. The two series have tracked each other very well over the last two decades. For homeowners, sentiment in 2011 is at a level similar to the average over the last twenty years. For renters, sentiment is somewhat lower now than the past average.

Table 3 shows summary statistics on the underlying primary reason reported in the SCA for positive and negative home-buying sentiment for the first quarter of 2011 and all of 2010. In column 1, 29.6 percent cited low mortgage rates as the primary reason for their positive outlook. An additional 64.5 percent cited either low house prices or expected future increases in prices for the reason that now was a good time to buy. Negative home-buying sentiment is measured as the percent of households who agree that now is a bad time to buy a home. Among homeowners with negative sentiment, in column 2, 41.1 percent felt now was a bad time to buy due to lack of affordability, and 13.8 percent cited either high prices or expected future declines in prices. Credit-market constraints did not seem to play a primary role. Only 7.5 percent cited tight credit as the primary driver of negative sentiment. The statistics in columns 3 and 4 for renters mirror the results for homeowners.

Table 3

Reasons for Positive and Negative Home-Buying Sentiment Among Homeowners and Renters

Reason	(1) Homeowners with Positive Sentiment	(2) Homeowners with Negative Sentiment	(3) Renters with Positive Sentiment	(4) Renters with Negative Sentiment
Low Mortgage Rates	29.6%	0	21.2%	0
High Mortgage Rates	0	6.5%	0	7.4%
Low Prices or Prices Expected to Rise	64.5%	3.3%	69.7%	1.1%
High Prices or Prices Expected to Fall	0	13.8%	0	14.6%
Tight Credit	0	7.5%	0	5.5%
Lack of Affordability	0	41.1%	0	47.9%
Other	5.9%	27.8%	9.1%	23.1%

Note: Author's calculations from the January, 2010, through March, 2011, waves of the Survey of Consumer Attitudes.

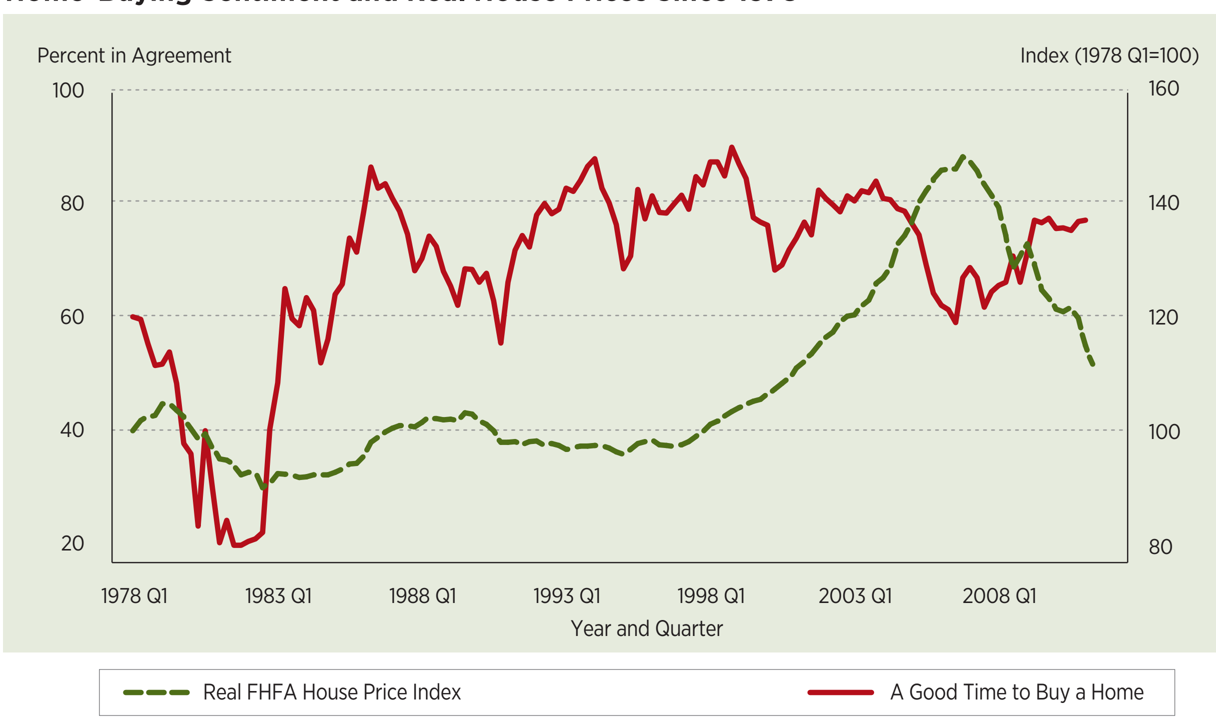
4. HOME-BUYING SENTIMENT AND HOUSING-MARKET BEHAVIOR

The next set of figures examines the relationship between home-buying sentiment and housing-market behavior. Specifically, it plots positive sentiment versus a set of housing-market outcomes and fundamentals at the national level and quarterly frequency to help better interpret the time-series movement in home-buying sentiment in Figure 6. The series in these figures starts in 1978 and hence, encompasses the business and real estate cycles of the past thirty years, including the 1981 recession, which in some respects was similar to the current downturn. Because sentiment for owners and renters track each other closely, for the purposes of illustration, these figures show sentiment for all households combined (i.e., regardless of housing tenure status).

Figures 7 and 8 begin with the primary housing-market outcomes: sales and prices. In particular, Figure 7 plots home-buying sentiment versus sales of existing single-family homes (in millions, seasonally adjusted at an annual rate). The two series are scaled so that they both fit on the same graph: the level of home-buying sentiment is read from the left-hand vertical axis; sales are read from the right-hand vertical axis. The two series track each other pro-cyclically, with sales and sentiment mostly in lock step. Viewed over a longer horizon, back to 1978, current levels of sentiment are close to the average since the 1981 recession, around 80 percent. Figure 8 plots home-buying sentiment versus real house prices. The latter is measured in index form as the Federal Housing Finance Agency (FHFA) all-transactions house-price index deflated by the all-items Consumer Price Index (CPI). The index, measured on the right-hand vertical axis, is anchored to equal 100 in the first quarter of 1978. So, by this index, prices fell nationally by 10 percent in the 1981 recession, relative to 1978. By the market peak in the fourth quarter of 2006, they were, in real terms, 47 percent higher than in 1978. Since the peak, they have fallen by 35 percent. In general, changes in sentiment lead price changes: sentiment starts to decline before prices decline and rises before prices rise. In relative terms, high prices choke off buyer sentiment. Sentiment is high when prices are low.

Figure 7
Home-Buying Sentiment and Home Sales Since 1978

Figure 8
Home-Buying Sentiment and Real House Prices Since 1978



Figures 9–11 examine three other market outcomes: rental vacancy rates and one-unit and multi-unit housing starts, respectively. The data on starts are seasonally adjusted and expressed at an annual rate in thousands of units. Home-buying sentiment and rental vacancy rates track each other pro-cyclically (Figure 9). This is consistent with the sales data. As sentiment is high, families buy homes and leave

rental accommodations. Except for the period of the financial crisis and current recession, home-buying sentiment and one-unit housing starts also track each other closely pro-cyclically (Figure 10). Finally, since the late 1980s, home-buying sentiment and multi-family housing starts have tracked each other counter-cyclically, as expected.

Figure 9
Home-Buying Sentiment and Rental Vacancy Rates Since 1978

Figure 10
Home-Buying Sentiment and One-Unit Starts Since 1978

Figure 11

Home-Buying Sentiment and Multi-Unit Starts Since 1978

Figures 12 and 13 examine the relationship between home-buying sentiment and two important housing demand-side fundamentals, mortgage interest rates and unemployment, respectively. The mortgage interest rate in Figure 12 is the annual nominal yield on a 30-year fixed-rate mortgage. Not surprisingly, there is a strong inverse contemporaneous correlation between mortgage rates and home-buying sentiment. In Figure 13, though, there is a tendency for declines in home-buying sentiment to lead increases in unemployment.

In summary, home-buying sentiment as measured in the SCA tracks the main housing-market outcomes, prices and volumes, as well as the other major market fundamentals. Currently, home buying sentiment is close to its long-run average, and the pattern of sentiment during the recession looks similar to past recessions. So, how does this square with the anemic state of the housing market? The answer is on the sell-side.

Figure 12

Home-Buying Sentiment and Mortgage Rates Since 1978

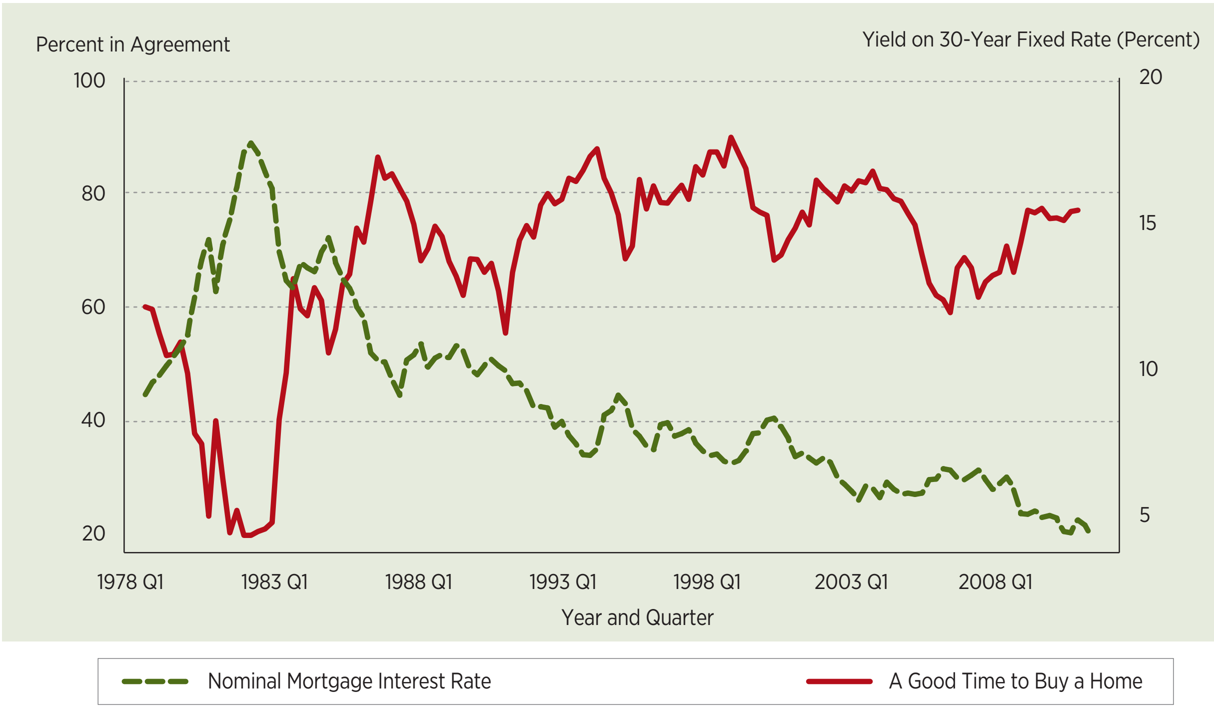


Figure 13

Home-Buying Sentiment and Unemployment Since 1978

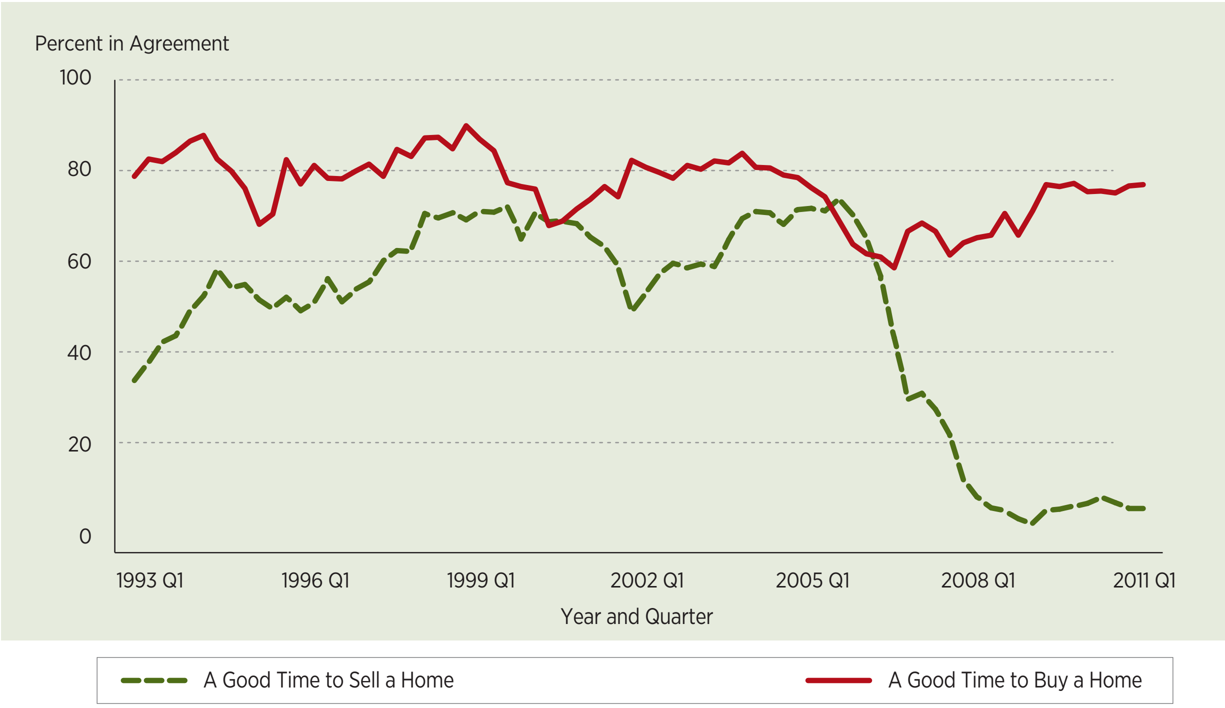
5. HOME-SELLING SENTIMENT

Figure 14 plots together positive home-buying (for owners and renters) and home-selling (owners) sentiments at the quarterly frequency from the fourth quarter 1992 through the first quarter of 2011. Positive home-selling sentiment is measured as the percent of homeowners — the potential pool of home sellers — who agree that now is a good time to sell a home. What distinguishes the current recession is the dramatic decline in home-selling sentiment. From 1992 through 2005, positive home-selling sentiment fluctuated between 40 and 60 percent. Since 2005, sentiment has dropped precipitously, to around 7 percent currently, even while home-buying sentiment remains high.

Figures 15A, 15B and 15C confirm that this current lack of positive sentiment cuts across almost all demographic categories and regions. In particular, these are bar charts that show the percent of

Figure 14

Home-Buying and Selling Sentiment Since 1992



homeowners with positive home-selling sentiment by the group listed along the horizontal axis. The total height of each bar represents the percent of homeowners in that category who reported in the SCA that now is a good time to sell a home. In Figure 15A, overall in 2010–2011, only 7.6 percent of homeowners think now is a good time to sell. In relative terms, positive sentiment is slightly higher among non-whites, the widowed, the never-married (Figure 15A), high school dropouts and homeowners in the South (Figure 15B) and the young (Figure 15C). But even for these groups sentiment is very low.

Table 4 shows summary statistics on the underlying primary reason reported for positive and negative home-selling sentiment, respectively. Negative home-selling sentiment is measured as the percent of homeowners who agree that now is a bad time to sell a home. Overwhelmingly, homeowners with negative sentiment (column 2) are those who feel it is difficult to find a buyer (62.2 percent). Although the SCA does not provide enough detail to examine this more finely, this may refer to difficulty in finding a buyer at their target or reservation house price, a problem driven by the fact that house prices have fallen 35 percent nationally since the market peak. This also is not inconsistent with the large number of households who are underwater. The other major contributor to negative sentiment is lack of affordability (18.4 percent). Among the roughly 7 percent of homeowners with positive sentiment, well-articulated economic factors play a relatively small role: 22.8 percent of these households cite low mortgage rates, but 57 percent cite "other" reasons. As with home-buying sentiment, tight credit does not seem to play an important role in determining the current level of home-selling sentiment.

Figures 16 and 17 relate home-selling sentiment to sales and prices. In particular, Figure 16 plots home-selling sentiment versus sales of existing single-family homes. Again, the two series are scaled so that they both fit on the same graph: the level of home-selling sentiment is read from the left-hand vertical axis; sales are read from the right-hand vertical axis. The two series track each other pro-cyclically, with sales and sentiment mostly in lock-step. Since 2009, sentiment has remained relatively flat. The

Table 4

Reasons for Positive and Negative Home-Selling Sentiment Among Homeowners

Reason	(1) Homeowners with Positive Sentiment	(2) Homeowners with Negative Sentiment
Low Mortgage Rates	22.8%	0.6%
High Mortgage Rates	0	0.2%
Low Prices or Expected to Rise	2.0%	4.7%
High Prices or Expected to Fall	15.5%	7.4%
Easy Credit	1.0%	0
Tight Credit	1.2%	1.9%
Lack of Affordability	0	18.4%
Difficult to Find Buyers	0.5%	62.2%
Other	57.0%	4.6%

Note: Author's calculations from the January, 2010, through March, 2011, waves of the Survey of Consumer Attitudes.

Figure 15A

Homeowners with Positive Home-Selling Sentiment by Race and Marital Group for 2010–2011

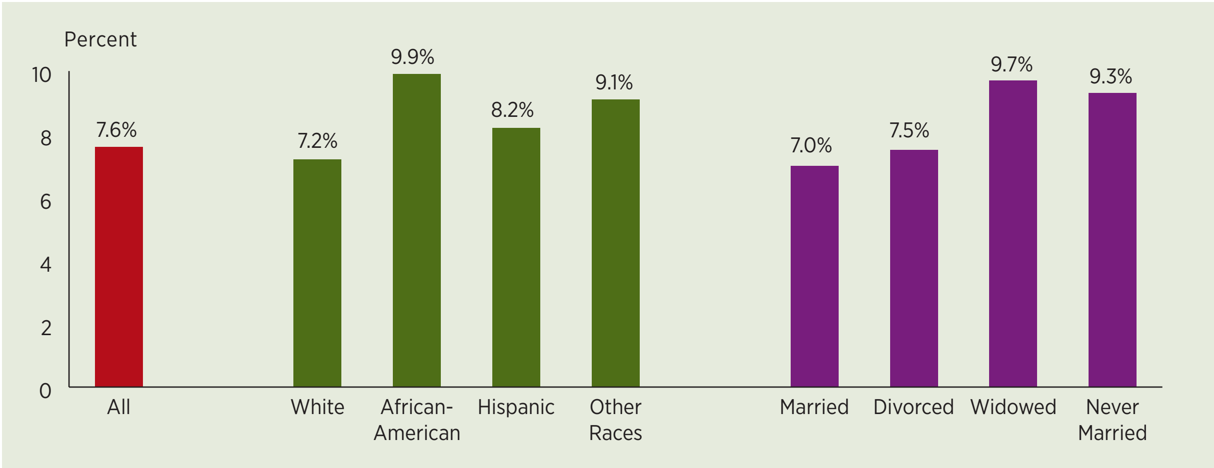


Figure 15B

Homeowners with Positive Home-Selling Sentiment by Education Group and Region for 2010–2011

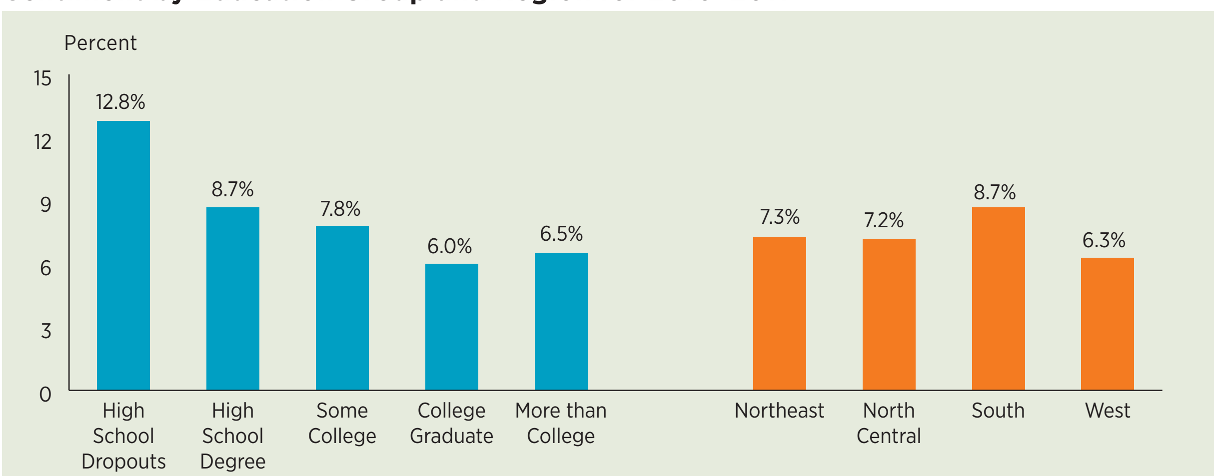


Figure 15C

Homeowners with Positive Home-Selling Sentiment by Age Group for 2010–2011

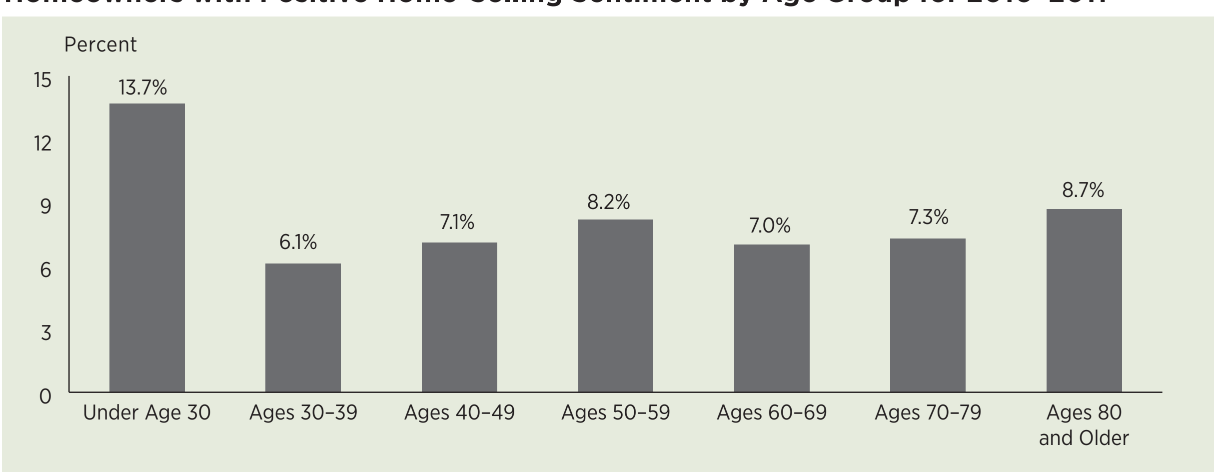


Figure 16

Home-Selling Sentiment and Home Sales Since 1992

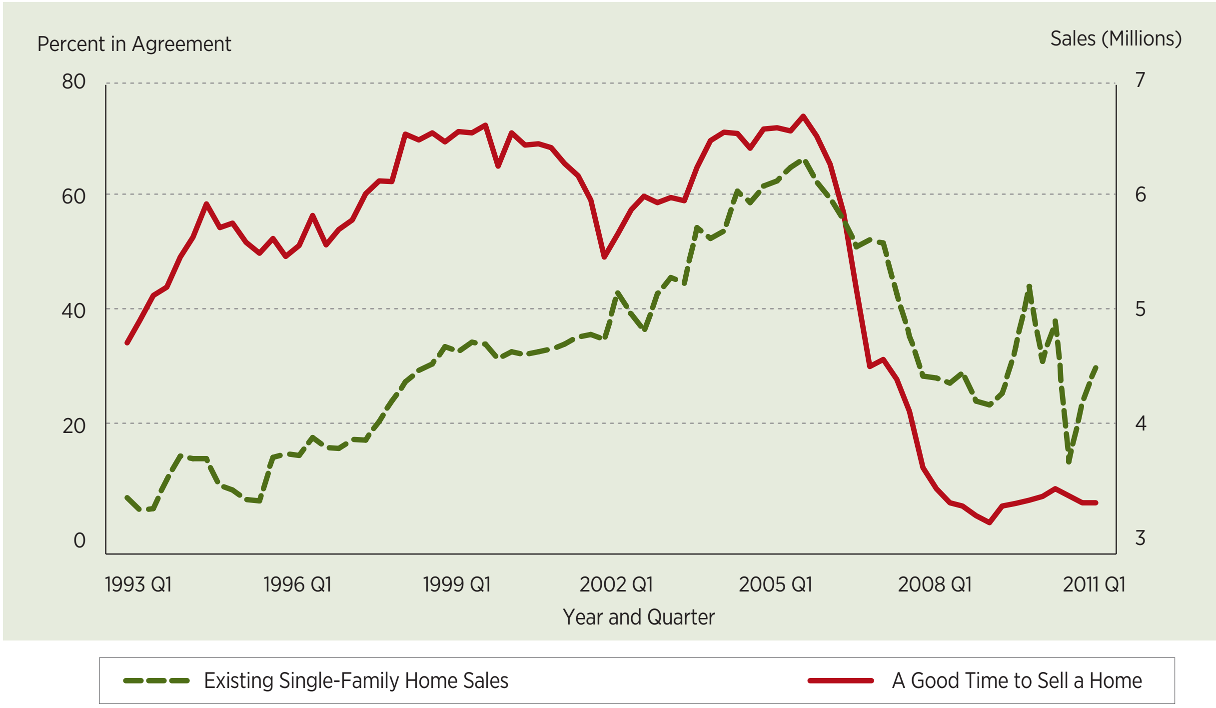
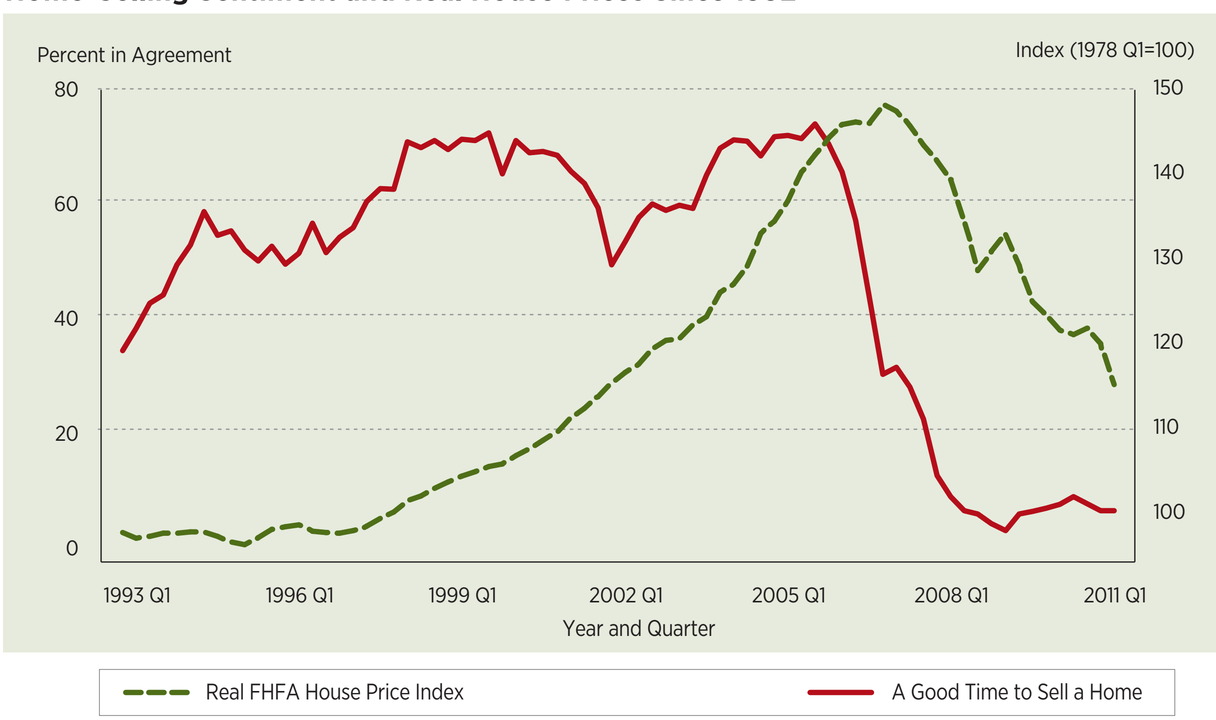


Figure 17

Home-Selling Sentiment and Real House Prices Since 1992



spikes in sales in this period were due to the adoption and extension of the first-time homebuyer credit. Figure 17 plots home-selling sentiment versus real house prices. Positive sentiment for home-selling peaked and declined well before the decline in prices.

Figure 18
Home-Selling Sentiment and Foreclosures Since 1992

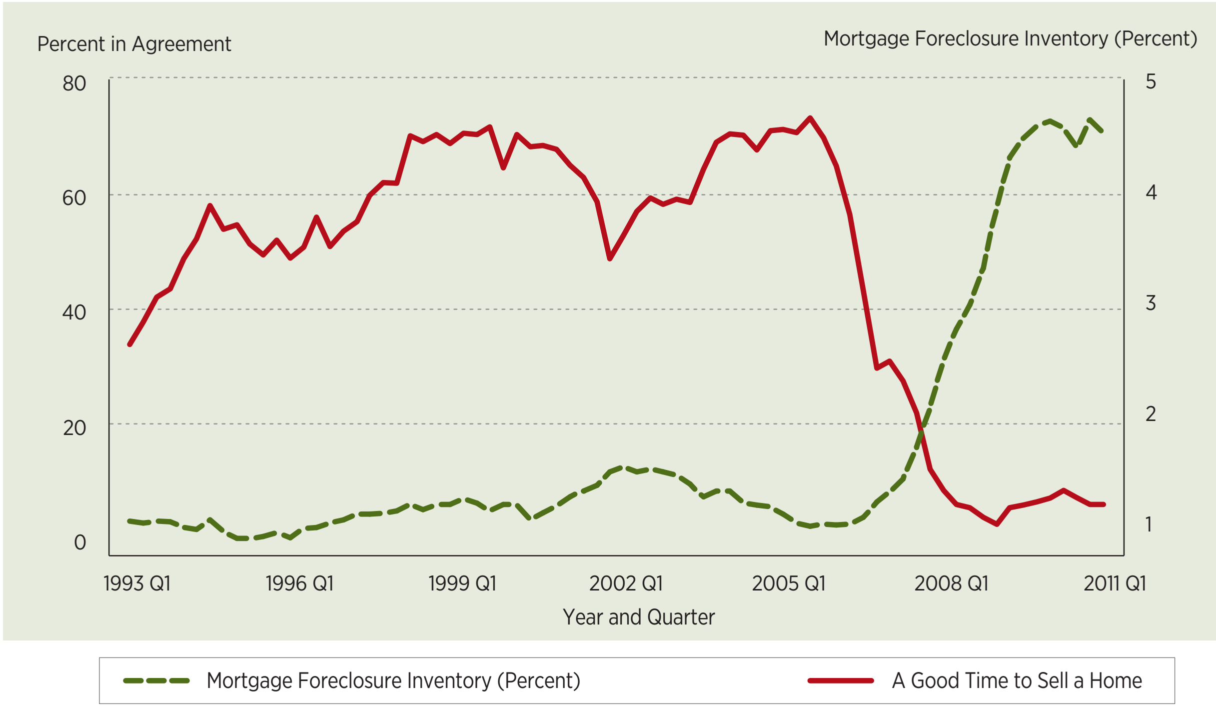
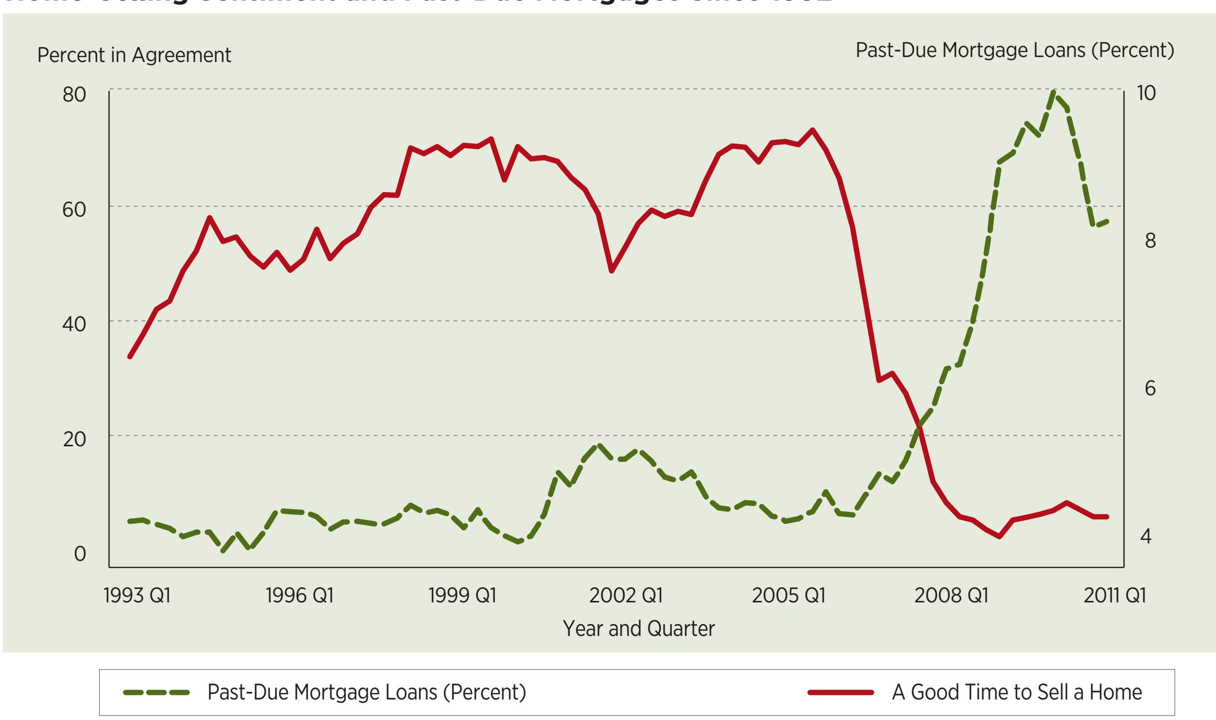


Figure 19
Home-Selling Sentiment and Past-Due Mortgages Since 1992



As is well known, the supply side of the housing market has been weighed down by the substantial overhang of properties with mortgages in foreclosure or in past-due status. Figures 18 and 19 show that these mortgage-related problems are reflected in home-selling sentiment. For example, Figure 18 examines the relationship between positive home-selling sentiment and the inventory of foreclosures.

This inventory is measured as a percent of all outstanding mortgages. The figure shows a strong inverse correlation: positive home-selling sentiment fell when foreclosures rose in 2001–2002, and since 2007, and vice versa. A similar pattern is shown in Figure 19, which relates positive home-selling sentiment to the inventory of past-due mortgages.

6. IMPLICATIONS

The analysis indicates that the pattern of home-buying sentiment during the current recession looks very similar to that of past recessions, and is close to its long-run level. In contrast, positive home-selling sentiment is at an historic low. This low sentiment on the sell-side is strongly related to difficulty in finding buyers at desired sales prices. In economic terms, as market values have fallen, potential sellers have not adjusted their reservation prices downward fast enough to bring buyer and seller sentiment in line with one another.

There are a number of possible explanations for this. First, reservation prices may be anchored to key past market values, such as the purchase price of the property, the market value at the time of most recent refinance or second mortgage or what a comparable property sold for in the recent past (especially around the market peak). In this case, homeowners may be averse to selling the property for a "loss," where the loss is determined relative to the anchor price.[6] If owners update these anchor prices infrequently, then a wide gap in buyer and seller sentiment would emerge in the face of sharp, prolonged declines in market values, such as those seen in the last few years.

Second, underwater homeowners cannot adjust their reservation prices downward much below that of the outstanding mortgage amount, as they would need to bring cash to the table to pay off the mortgage plus transactions costs. If reservation prices are tethered to mortgages in this manner, then a wide gap in buyer and seller sentiment would emerge with a major market decline. This certainly is not inconsistent with the strong relationship documented above between seller sentiment and the large overhang of troubled mortgages. Currently, about 20 percent of all homeowners with mortgages nationally are underwater. In some particularly hard-hit markets, as many as half of all homeowners with mortgages are underwater. Those are the same places with the highest incidence of past due mortgages and foreclosures.

Third, with large declines in market values, sellers now hold a highly leveraged option that pays off with any future increase in prices. This means there may be increased value in waiting, either to initially list, or to keep, the property on the market. This may help to hold reservation prices high enough to drive a substantial wedge between buyer and seller sentiment. A poor job market with limited job mobility — a key driver of housing-market transactions — may exacerbate this.[7]

In practice, it is difficult to disentangle which of these mechanisms is most important, as each matches the key metrics seen in today's market: low transactions volume, stagnant sales prices and relatively low listings. However, for the most part, each has similar implications for market dynamics when economic conditions improve. Specifically, as buyer and seller sentiment come more in line, there will be more transactions. However, prices will not rise as fast as volume for two reasons. First, time on the market for existing listings will fall. Second, any upward price pressure will bring forth new listings, as observed prices will begin to cross the reservation prices of sellers who have kept homes off the market. Overall, there is little reason to believe there will be substantive increases in home prices in the near term, at least until reservation and observed prices become better aligned.

7. CONCLUSION

Despite high unemployment and slow economic growth, the bulk of American households believe that now is a good time to buy a home. Positive sentiment is strong particularly among young, educated, white and Hispanic households, and is attributable to low house prices and low mortgage interest rates. In fact, the pattern of home-buying sentiment during the current recession looks very similar to that of past recessions.

What is different about the current recession is that positive home-selling sentiment is at an historic low. Indeed, the sell-side of the market is dominated by negative sentiment. This is strongly related to difficulty in finding buyers at desired sales prices, as well as the large overhang of mortgages past due or in foreclosure.

What does the near-term hold? Figure 20 shows the relationship between the real value (i.e., adjusted for inflation) of one- to four-family mortgage-purchase originations to both home-buying and home-selling sentiment, respectively. The measures of sentiment are read from the left-hand vertical axis; the value of originations is read from the right-hand vertical axis. Over the last two decades, purchase originations have tracked home-selling sentiment more strongly than home-buying sentiment. This is especially the case in the current downturn. This suggests that favorable sentiment and real activity in the market will be weighed down significantly until the overhang of troubled mortgages is cleared out. Although there has been some recent progress on this, there is still a long way to go.

This conclusion is supported by the short-run forecasts of home-buying and home-selling sentiments, respectively, shown for the next five quarters in Figure 21. These are dynamic forecasts from the estimates of a vector auto-regression (VAR) of positive home-buying and home-selling sentiments, the foreclosure inventory, sales and house price appreciation, along with macroeconomic fundamentals: the 30-year mortgage rate, the 10-year yield on Treasuries, the federal funds rate, the unemployment rate, the inflation rate and the real GDP growth rate. The parameters of the VAR were estimated using quarterly data from the fourth quarter of 1992 through the first quarter of 2011. Then the estimates were used in combination with the Mortgage Bankers Association's (MBA) quarterly forecasts of the macroeconomic fundamentals to forecast sentiment and other housing-market outcomes (Mortgage

Figure 20

Sentiment and Real Mortgage Originations Since 1992

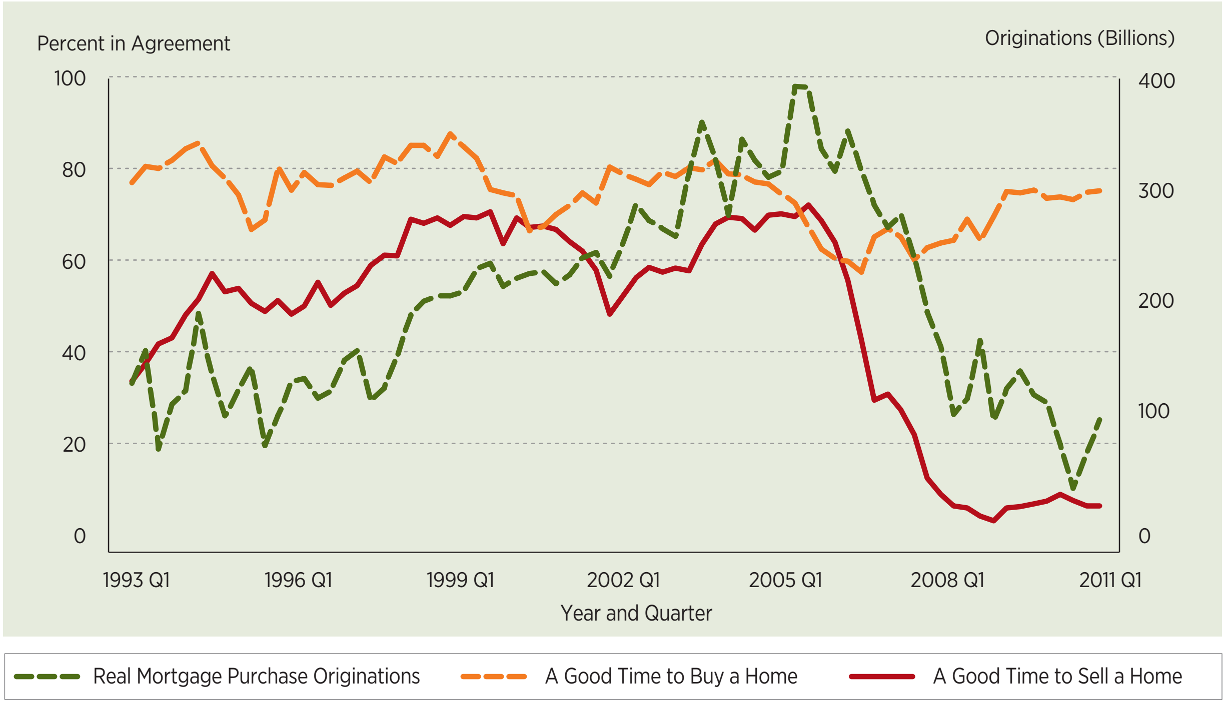
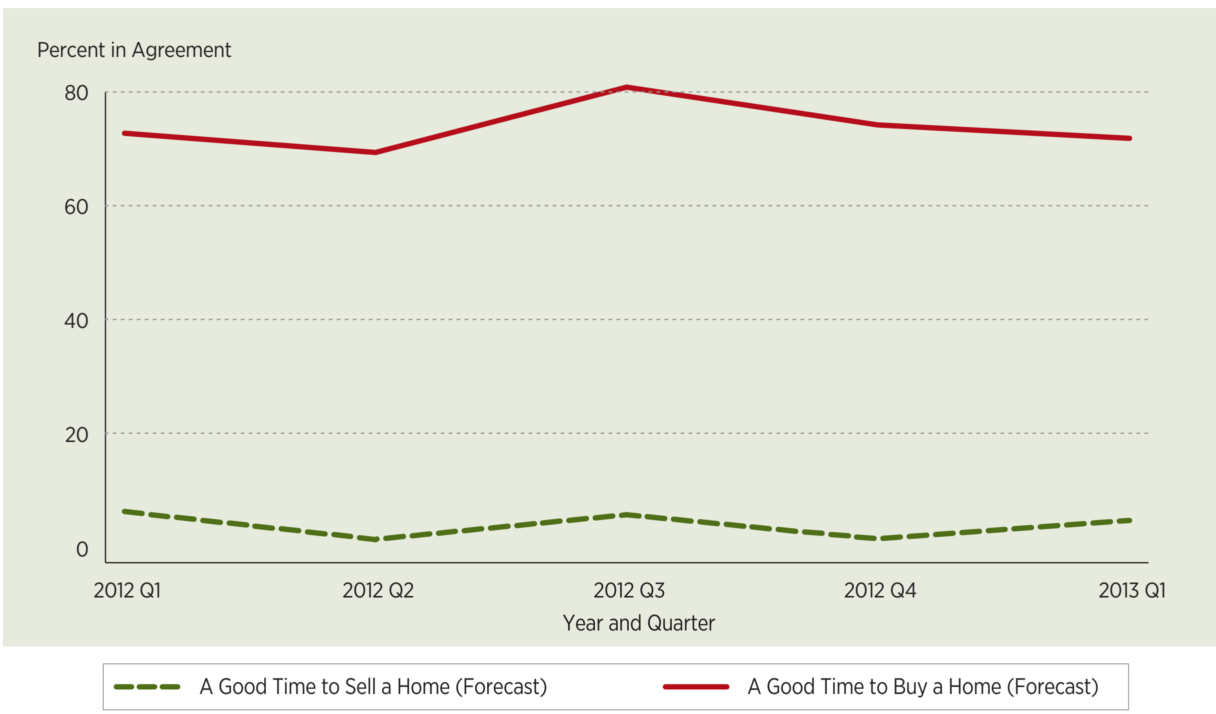


Figure 21

Short-Run Forecasts of Home-Buying and Selling Sentiment



Bankers Association, 2011a). In the figure, positive home-buying sentiment is forecast to remain around current levels (70–80 percent) over the next five quarters. Unfortunately, positive home-selling sentiment is forecast to remain around current levels (5–10 percent) as well. This suggests that selling sentiment and hence, market activity, will remain sluggish in the near term, consistent with MBA's near-term market forecast (Mortgage Bankers Association, 2011b).

END NOTES

1. See, for example, Ludvigson (2004), as well as Barsky and Sims (2009), Carroll, Fuhrer, and Wilcox (1994), Howrey (2001), Kwan and Cotsomitis (2004), and Wilcox (2007).

2. The facts do not change when the sample is limited to just the first quarter of 2011. However, using data just from that quarter results, in some cases, in small sample sizes.

3. These numbers in the figures are weighted using the SCA population weights.

4. For example, in the first row, the population group is all homeowners. The median income (shown in column 1) was $65,000. Therefore, half of homeowners in the SCA had incomes greater than $65,000, and half had incomes less than $65,000. Because the income distribution is skewed to the right, in that there is a small part of the population that has a disproportionately large amount of overall income, the mean income ($84,207) exceeds the median income ($65,000).

5. The SCA is administered at the monthly frequency. To yield larger samples for analysis, these monthly data were aggregated to the quarterly frequency for the figures shown. The SCA did not begin to release homeownership status in the public-use micro-data until the end of 1992.

6. This is frequently referred to as nominal loss aversion in the housing literature (Genesove and Mayer, 2001; Engelhardt, 2003).

7. See, for example, Genesove and Mayer (1997) and Glower, Haurin, and Hendershott (1998).

REFERENCES

Barsky, Robert B., and Eric R. Sims (2009). “Information, Animal Spirits, and the Meaning of Innovations in Consumer Confidence,” NBER Working Paper No. 15049.

Carroll, Christopher D., Jeffrey C. Fuhrer, and David W. Wilcox (1994). “Does Consumer Sentiment Forecast Household Spending? If So, Why?” *American Economic Review* 84(5), 1397–1408.

Howrey, E. Philip (2001). “The Predictive Power of the Index of Consumer Sentiment,” Brookings Papers on Economic Activity 1, 175–216.

Kwan, Andy C.C., and John A. Cotsomitis (2004). “Can Consumer Attitudes Forecast Household Spending in the United States? Further Evidence from the Michigan Survey of Consumers,” *Southern Economic Journal* 71(1), 136–144.

Ludvigson, Sydney C. (2004). “Consumer Confidence and Consumer Spending,” *Journal of Economic Perspectives* 18(3), 29–50.

Mortgage Bankers Association (2011a). “MBA Economic Forecast, October 11, 2011.”

Mortgage Bankers Association (2011b). “MBA Mortgage Finance Forecast, October 11, 2011.”

Wilcox, James A. (2007). “Forecasting Components of Consumption with Components of Consumer Sentiment,” *Business Economics* (October), 22–32.

AUTHOR BIOGRAPHY

Gary V. Engelhardt earned a B.A. in economics from Carleton College and a Ph.D. in economics from the Massachusetts Institute of Technology. Currently, he is the Melvin A. Eggers Faculty Scholar and Professor of Economics in the Department of Economics, Senior Research Associate in the Center for Policy Research and Faculty Associate in the Gerontology Center of the Maxwell School of Citizenship and Public Affairs at Syracuse University, where he teaches graduate and undergraduate courses in public economics and applied econometrics. He also is a TIAA-CREF Institute Fellow, Employee Benefit Research Institute (EBRI) Fellow, a member of the National Academy of Social Insurance and a Research Associate of the Center for Retirement Research at Boston College.

Dr. Engelhardt's specialties are in the economics of aging, household saving, pensions, Social Security, taxation and housing markets. He serves on the editorial board of the *Journal of Pension Economics and Finance*. His current research focuses on four areas: the impact of pensions and Social Security on the retirement saving and income security of older Americans, sponsored by the Social Security Administration, TIAA-CREF, and the National Institute on Aging; the impact of Medicare Part D prescription drug benefits on insurance coverage, medical expenditures, drug utilization and health outcomes, sponsored by the Social Security Administration; the impact of public and private long-term care insurance on the housing behavior of the elderly, sponsored by the National Institute on Aging; and the economic evaluation of housing and saving policies targeted to low-income households, including homeownership incentives and asset-building policies such as Individual Development Accounts and children's savings accounts.

His work and commentary have been featured nationally in *The Wall Street Journal*, *New York Times*, *Washington Post*, *Boston Globe*, *Christian Science Monitor*, *Philadelphia Inquirer*, *Chicago Tribune*, *Los Angeles Times*, *San Francisco Chronicle*, *St. Paul Pioneer Press*, *Baltimore Sun*, *Arizona Republic*, *Greensboro News-Record*, *Hartford Courant*, *Orlando Sentinel*, *Fort Lauderdale Sun-Sentinel*, *Portland Oregonian*, *Reuters*, on National Public Radio's *Morning Edition*, American Public Media's *Marketplace*, on Time Warner Cable's *Capital Tonight* and in many industry publications and online, including *Dow Jones*, *Entrepreneur*, *American Banker*, *Plan Sponsor*, *MarketWatch*, *Investors' Business Daily* and *Morningstar*, among others. He has given Congressional testimony on the housing crisis and the potential impact of tax incentives to stimulate housing-market activity.

MORTGAGE
BANKERS
ASSOCIATION®
Investing in communities

1717 Rhode Island Ave., NW, Suite 400
Washington, DC 20036
www.mortgagebankers.org