AFTER THE FACT >

After the Fact | Housing in America: Where Is Home?

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TRANSCRIPT

Richard Fry, senior researcher, demographics and social trends, Pew Research Center: It's not a matter of the fact that we've got gangbuster demand—it's too little supply in terms of single-family homes. It hasn't kept up.

Dan LeDuc, host "After the Fact" podcast: Welcome to "After the Fact." For The Pew Charitable Trusts, I'm Dan LeDuc. With this episode, we begin a new season on an important subject—housing in America.

A roof over your head is a basic necessity, and where it is matters too. A good location can mean being closer to work, schools, and amenities. And owning a home has long been part of the American Dream. But wow, it's getting expensive.

Here are a couple of data points: Between 2019 and 2022, the median price of a house jumped 25%. And over the past seven years, rents are up 30%. Is it any wonder that Pew Research Center now reports that 6 in 10 Americans say they're concerned about the cost of housing?

The Center's Richard Fry is here to tell us more.

Dan LeDuc: Richard Fry, you are an economist by training, and you have this wonderful bird's-eye perspective of this nation—from economic data to public survey data—to try to learn about Americans. The American Dream, it often involves home ownership. It involves that sense that one generation can do better, keep up with the previous generations. Are we talking about something that's affecting the American Dream?

Richard Fry: In December 2022, we asked adults about the American Dream. Eighty-six percent said that homeownership was important to their view of the American Dream. Let's compare it to 79% of adults [who] said having a successful career was important to their view of the American Dream. So, homeownership topped.

Dan LeDuc: Topped that. Wow.

Richard Fry: There's evidence the homeownership is still highly aspired to.

Dan LeDuc: Can you help us understand what's happening in housing today? Can people afford to purchase homes? Is there enough supply available?

Richard Fry: In October 2021, 49% of adults said that the availability of affordable housing was a major problem in their community. That was up from about 39% in 2018. Twenty-two percent of adults said that crime was a major problem.

In spring 2023, we asked adults, “Would you prefer a community in which you have large houses spaced far apart, but shopping and restaurants and schools are several miles away? Or, would you prefer a community that's a bit denser, smaller houses, closer together, but your schools and your shopping and your restaurants are within walking distance?” Fifty-seven percent of adults said that they would prefer the low-density option—that is, big houses further apart—and that was up from about 53% before the pandemic.

Dan LeDuc: Do the preferences for different kinds of housing affect the demand?

Richard Fry: The pandemic does seem to have had an impact on the, you know, the kind of housing in the communities that the nation's adults want to live in. As an economist, I think about the demand for housing and the supply of housing.

When we came out of the Great Recession in 2010, we didn't get a vigorous recovery. One of the basic reasons for that is that the housing market was not very vigorous during the 2010s in terms of household formation. At least historically speaking, housing demand has been weak until very recently. And our supply has not kept up. That is the problem. It's too little supply in many communities.

From 2010 to 2020, the number of the nation's households went up by 9%. That is the lowest growth that we've had in any decade going back to 1790. In the 2010s, we added 10 million households to the nation's housing stock. In the 1970s, we added almost 18 million households. And so, this is where I say when we look at the problems, at least historically, we don't have excess demand.

Dan LeDuc: We’re hearing about how difficult it is to purchase a home, especially for younger individuals and families. Is it, in fact, harder today to buy a home than [it has been for] previous generations?

Richard Fry: At the Pew Research Center, we've had a long-standing interest in the challenges facing young adults. “Is it harder to be a young adult today than it used to be?” And in October 2021, about 70% of the nation's adults said it's harder for young adults today to buy a home than it was for their parents’ generation. So, there's at least a perception that [it] is more difficult than it was for their parents.

Dan LeDuc: I get that because we talk a lot about it. I've read a lot of the great work out of the Pew Research Center on what's happening to that generation. This is also a generation contending with student debt, higher costs of living.

Richard Fry: And that has a way to not only affect, sort of, their homeownership decisions, but you see it in their living arrangements. You see it in the family formation and finding a partner. It's significantly different than it was say for 20-year-olds in the 1970s and 1980s. And the numbers show that.

Dan LeDuc: What's some of the data that can help illustrate that? Are younger generations like Millennials and Gen Z moving out of their parents' houses later?

Richard Fry: One of the easiest ones, which has gotten a lot of attention is: What share of 18- to 34-year-olds live in their parents' home? And as of 2022, about 32% of the nation's 18- to 34-year-olds are living with mom and or dad. Back in 1960, it was 21%. So, it went from basically about 1 in 5, 60 years ago, to now it's about 1 in 3. I consider that a significant change. And so yeah, we got more young adults living with their parents, and a flip side of that is if you're living with mom and dad, you're not married.

Dan LeDuc: Right at the point. Boy, we talk about cascading effects here, man, there's a lot going on.

Richard Fry: Yeah, it's not necessarily causal, but it is what it is. What we see is if we look at the nation's young adults and what share of them are married or what share of them are parents, it's significantly lower than what it was, say, back in the '70s and '80s.

And so, when the young adults are living with their parents, they're not setting up their own households. If we're not sort of forming a lot of households, builders are not building a lot of single-family homes.

Actually, it's more than that. When you set up a household, you don't only sort of need the house, you also need the appliances and the gizmos that go with it. Oh, you need maybe a cable subscription to go with the house. There's a lot of spending that goes into setting up a new household: furniture, appliances, cleaning products.

If you ask me as an economist, "Why wasn't economic growth very vigorous during the 2010s?" It wasn't particularly vigorous because one important sector, housing and construction, was relatively weak.

[Short music transition]

Dan LeDuc: According to the U.S. Census, in 2022, homeownership rates were around 66% in the United States. But the rates were significantly lower than the average for those under the age of 35—around 40%. And for people over the age of 50, about three-quarters of those folks own their homes. Has that gap become more pronounced in recent years?

Richard Fry: In terms of the homeownership rate. We're not very far off the long-run 30-year average. Now remember, back in 2004, 2005, when we had the housing boom, the homeownership rate got up to as high as 69%. And then we had the crash and it's taken kind of a long time, but we're basically now at the long-run average. About roughly around 2 out of 3 households own their homes.

Dan LeDuc: In short, homeownership rates for younger adults now are currently as high as they were almost twenty years ago.

Richard Fry: So this is where I mentioned earlier, there's this perception that young adults have it much more difficult than their parents' generation, but if you actually look at the homeownership rate now, given what's recently happened, their homeownership rate isn't any lower than it was back in 1995.

All housing markets are local. There's a lot of variation depending on what metropolitan area we're talking about. Okay. And these figures I'm going to cite, everything is already in 2022 dollars.

In 1989, the typical existing single-family home was priced at about $211,000 in today's dollars. By 2019, the typical single-family home nationally was about $319,000. As of 2022, the median single family home costs $393,000. Just going from 2019 to 2022, the median single-family home has gone up 25 percent in the space of four years. All housing markets are local, but as a national statement, home prices really have gone up significantly.

Dan LeDuc: That seems to be what, the sort of, the crux of what people are worrying about, right? What do we know about the costs that renters are facing?

Richard Fry: Many renters do aspire to homeownership, and it doesn't matter whether they're going to put 3% down or 20% down. When you have a house that's going up in price, the absolute amount that you need to put down is going to go up. One of the challenges facing the nation's renters is the down payments that they need to bring to the table have gone up.

There are 44 million households who are renters, and recently the rental market has cooled off a bit, and there's sort of two reasons. First of all, we had a number—particularly of young rental households—they transitioned from renters to homeowners. Homeownership rates are going up, and so the demand for rentals actually cooled off a bit.

And we do have a relatively healthy supply of multifamily construction. More supply lowers rents. But now here's the challenge: When you look at the new multifamily construction, they tend to have a lot of amenities. In other words, the new stuff that's being added tends to be at the high end of the rental market, appealing to renters who are more affluent.

But if you look at the supply of rentals available to lower-income renter households, they are challenged. And the challenge has gotten worse. Just to put some numbers on it, for a lower-income household, they can afford rents for under $600. And if we look at the nation's rental units, how many of them have rents under 600 bucks a month?

Back in 2011, 27% of the nation's rental units had a rent that lower-income households could afford. That has fallen. And now it's only 17%. So, particularly for low-income rentals, there's not a lot of availability that they can afford.

Dan LeDuc: The rule of thumb I've been reading is, if someone has to pay more than a third of their monthly income on rent, their housing burden—and we see lots of statistics where, in different markets, it's that and even higher, 40, 50 percent for some people having to spend that much of their income to be able to pay their monthly rent. Have you been able to track that over time at all to see if that sort of housing burden has been growing?

Richard Fry: I would generally say that the number of burdened renter households, the absolute number in millions, it has clearly gone up over the last few years and over the course of the pandemic.

Dan LeDuc: Do you see stuff that's working right? Or signs that you—despite the problems, there are some bright spots where things are better for some people?

Richard Fry: Yes, I do. There are some places where the housing market is working well for Americans. The good thing is that if you're a homeowner and you take out a mortgage, a mortgage forces the household to save. This concept [is]called "home equity," the value of your asset minus what you owe. When they make their mortgage payment, a part of it each month goes to paying principal. Over time you pay the principal, and so you owe less on the home. And so, you get some home equity.

According to the latest Federal Reserve figures in 2022, the median homeowner had $122,000 in home equity. I think many households would like a bigger nest egg. But for some American households, when they get to sort of their 60s, that is the only wealth, so to speak, that they will have. It's all in their home.

In fact, for a significant share of American households, all their wealth is sitting in their home in the form of home equity. It's not ideal. If you have an emergency, it's not easy to tap. For some American households, that's the only way that they build wealth. And again, at $122,000, it's not a trivial amount that the typical homeowner has gotten into.

We have a share of American households that really has trouble saving. They have trouble building their nest egg. And that's for a couple of reasons. They may not have access to retirement accounts through their employer as a wealth-building saving mechanism.

The other thing is that even if they do have access to retirement accounts, still for some households they spend every cent that they make per month. And so, if your spending is equal to your income, that doesn't leave any room for savings.

Dan LeDuc: Of course, there are disparities. And those who don't own their homes will never have the opportunity to build wealth in that way.

Richard Fry: But I'm going to contrast the situation with where we were 15 years ago. Fifteen years ago, for a significant number of U.S. homeowners, a house, their home, was a major source of financial distress.

What we had in 2004, 2005, 2006, is when people bought a house, they often put little down. And so, they had very little home equity. And then 2006 came around and, nationally and in many markets, they were really surprised because the value of their asset, the value of their home, fell. And so, we had 2008, 2009, we had many distressed homeowners who had owed more on the home than what it was worth. We had a lot of foreclosures.

Today, the foreclosure rate is much, much reduced. Home equity actually for many homeowners is quite appreciable. And so, the level of homeownership as a source of financial distress isn't very severe anymore.

We're always very skeptical talking about what the future will hold. Population growth in the 2020s is projected to be pretty weak. Could be as weak as the 1930s. So, housing demand will remain historically relatively weak.

That's good for sort of keeping prices suppressed. But again, in many metropolitan areas, we need more supply. There are zoning issues—what kind of housing can be built. It will be dealt with through a political process. There is a recognition across party lines that the nation needs more houses and households, and that's good.

Dan LeDuc: One bright spot in an overall discussion of a very perplexing problem. [00:18:00] Richard, thanks so much for this fascinating discussion.

Dan New: We hope you'll join us next time when we hear from two experts working to improve pathways to homeownership.

Tara Roche: People continue to aspire to homeownership. But today's policies just haven't kept up with that demand.

Dan LeDuc: If you're listening to our show on your favorite streaming app, take a moment and make sure you're subscribed. That way, you can receive notifications when we release new episodes. Thanks for listening. I'm Dan LeDuc, and this is "After the Fact" from The Pew Charitable Trusts.