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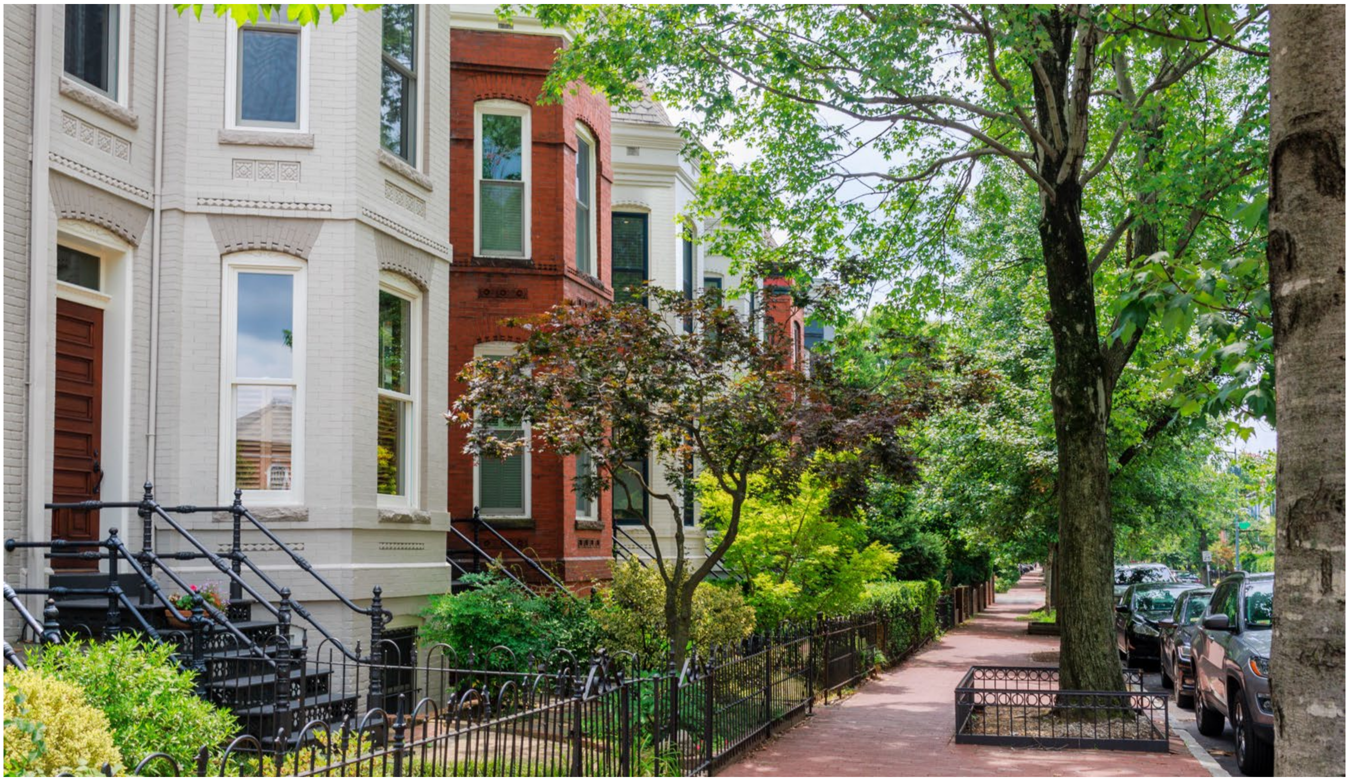

CONFERENCE SUMMARY:

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Workshop on Changing Demographics and Housing Demand

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On October 24 and 25, 2024, the Federal Reserve Bank of Philadelphia's Consumer Finance Institute (CFI) and Fannie Mae's Economic and Strategic Research Group (ESR) cohosted a hybrid conference on the topic of changing U.S. population demographics and their influence on housing demand and housing finance. The event took place at Fannie Mae headquarters in Washington, D.C., and opened with an insightful panel discussion on housing and population forecasts and the potential policy implications, followed by presentations of 22 original research papers, many of which are available as links contained within the agenda that can be found on the event website. These papers were chosen based on evaluations from a seven-member program committee of experts, who reviewed a large number of submissions received through an open call for papers.[1] The event also featured a fireside chat that brought in mortgage industry perspectives related to the conference theme.

Opening Remarks

Priscilla Almodovar, president and chief executive officer of Fannie Mae, delivered the opening remarks. She explained the importance of in-house and external mortgage research in helping Fannie Mae design products and carry out its business. She specifically highlighted key markets, closing costs, and risk management as topics in which data-driven research has been particularly influential on Fannie Mae's work. She emphasized the importance of convenings such as this one in connecting stakeholders with cutting-edge research.

Opening Panel: Policy Perspectives

Neil Bhutta of the Philadelphia Fed's CFI moderated the opening session of the event, a panel conversation titled Policy Perspectives, which was crafted to provide key data points about demographic change in the United States and the implications for housing markets and policy, setting the stage for the subsequent conference presentations and discussions.

Daniel McCue of the Joint Center for Housing Studies of Harvard University and Will McClain of Fannie Mae's Economic and Strategic Research Group presented their organizations' respective household formation and homeownership projections, which indicate slowing growth in the number of households but which are sensitive to assumptions about future immigration. McCue emphasized that slowing household growth means fewer new housing units will need to be added each year, but there will be a greater need for renovation and rehabilitation to make the housing stock more accessible to households as they age. McClain discussed the trend of older Americans aging in place, and he also shared projections of increased Hispanic homeownership. This segued into a presentation by Jung Hyun Choi of the Urban Institute, who discussed the barriers Hispanic households have to entering homeownership, namely higher housing costs, less funds available for down payments, lower wages, and lower credit scores.

Tara Roche of the Pew Charitable Trusts concluded the panel by broadening the homeownership finance discussion beyond mortgage finance. She discussed how small mortgages (those under $150,000) are less profitable for lenders, and as a result, many do not originate them. Many buyers of

[1] We thank our program committee, Arthur Acolin, Sewin Chan, Michael Eriksen, Maeve Maloney, Stephanie Moulton, Kristin Perkins, and Carolina Reid.

lower-priced homes who cannot pay with cash rely on alternative financing, one example being land contracts, which are disproportionately used by Hispanic households and which are challenging to study owing to geographic differences in contract recording requirements.

Housing over the Life Cycle

Mike Eriksen of Purdue University chaired the second session of the day, which focused on housing choices consumers make at different life stages. Each of the four papers spoke to how concentration of homeownership among older populations impacts supply for younger households.

Gary Engelhardt of Syracuse University laid the groundwork for the discussion with a presentation of his report, “Who Will Buy the Baby Boomers’ Homes When They Leave Them?” using Health and Retirement Study data. Engelhardt argued that the United States is unlikely to experience a massive increase in homes on the market from a “silver tsunami” of retirees exiting their homes, which some believe would help address the persistent housing shortage. Erica Moszkowski of the Federal Reserve Board of Governors connected this to housing markets in the presentation of her paper, “Age Structure and Housing Affordability,” which shows that older homeowners aging in place in large family homes translates to restricted housing supply for younger, larger households. Pedro Gete of IE University reframed the value of housing beyond just a place to live when presenting his paper, “Portfolio Choice with Housing as an Investment,” which compares the U.S. housing market with large European economies, providing interesting insights on property values and ownership concentration among different age groups. Josh Coven of New York University closed out the session by presenting his paper, “Property Taxes and Housing Allocation Under Financial Constraints,” which explores how property taxes impact life cycle housing decisions. The results show that low-property-tax areas have greater degrees of housing mismatch, in which older, smaller households own a disproportionate share of the housing stock, and this has implications for the locational patterns of households.

Household Formation and Homeownership Entry

Maeve Maloney of Fannie Mae chaired the next session of the day, which dug deeper on questions of household formation and entry into homeownership, including the role of intergenerational wealth and access to financing.

Joe LaBriola of University of Michigan began the session by sharing his paper, “Housing Affordability, Familial Assistance, and the Transition to Homeownership,” which uses Panel Study of Income Dynamics (PSID) data to examine parental wealth and homeownership transitions and finds that familial assistance to first-time homeowners is correlated with larger down payments and is more common where housing is less affordable. In addition to direct financial support, familial assistance can come in the form of home-sharing, a topic explored by Susan Wachter of the University of Pennsylvania in the next presentation. Wachter’s paper, “Housing Affordability: Marriage-Childbearing and Co-Residence Outcomes for Young Adults,” which also leverages PSID data, explores patterns and drivers of co-residence between parents and their adult children.

The remaining two papers of the panel focused on the role of financing in household formation. In her presentation of “More Credit, More Babies? Bank Credit Expansion, House Prices, and Fertility,” Xi

Yang of the University of North Texas investigates whether there are causal effects of bank credit expansions on fertility, noting potential effects on job opportunities, housing costs, and incomes that all affect household decision-making. Eirik Brandsaas of the Federal Reserve Board of Governors closed out the session with an international perspective on homeownership entry in his presentation of “Partial Homeownership: A Quantitative Analysis.” His analysis shows that for-profit partial ownership structures in Norway have helped increase homeownership among young households facing affordability pressures, with young households taking on more — but safer — debt in aggregate.

Aging

Our last session of the first day brought together many of the themes from the earlier panels, with a focus on population aging, chaired by Chris Mayer of Columbia University and Longbridge Financial. The session focused on some of the most salient housing related issues faced by older households — increasing care needs, rising housing cost burdens, and decisions related to housing, household composition, and proximity to children. The session began with a paper presented by Peyton Whitney of the Joint Center for Housing Studies, “Older Adults Struggle to Meet the Dual Burden of Housing and Care,” which highlights the challenges older adults face to meet growing cost burdens, specifically related to medical, housing, and other living expenses. Whitney concluded with policy recommendations to better connect these three important challenges.

The next three papers all explored outcomes related to intergenerational housing decisions. Specifically, Lucas Taulbee of the University of Kentucky in his presentation, “Housing Cost Burdens and Shared Households Among Older Adults,” explored financial spending and costs burdens among different types of shared households, distinguishing between “hosts” and their “guests.” Next, Sewin Chan from New York University presented “Older Households Are Moving Closer to Their Adult Children: Implications for Urban Planning and Housing Policy,” which explored the relationship between older adult moves and proximity to adult children and grandchildren. They show that when older adults move, typically there are more children and grandchildren nearby, and often those with care needs are receiving help from children after a move. Finally, Kimberly Luchtenberg from American University presented “Can Homeownership Help Low-Income Senior Households Preserve Wealth?” exploring the benefits provided by the HUD Housing Choice Voucher homeownership program on wealth building and preservation, particularly among older adults and those with children and grandchildren in the household.

Mobility

The second day of the conference focused on special topics within our broader workshop theme. The day began with a session on mobility issues, chaired by Will Doerner of the Federal Housing Finance Agency. This session focused on understanding how demographic change interacts with recent trends in migration patterns and neighborhood change.

Riordan Frost from the Joint Center for Housing Studies laid the groundwork for discussion with his presentation, “Moving Less but Still Reshaping Communities: The Complexities of Pandemic-Era Household Mobility,” highlighting the overall reductions in mobility, trending downward since 1980, driven mostly by a drop in local moves. Some trends have continued post-pandemic — such as the

Sun Belt states remaining popular and smaller metropolitan areas and suburbs gaining movers — but less dense and rural areas have also become destinations, which is an emerging pattern.

Following up on this presentation, Ingrid Gould Ellen of New York University presented her work, “The Ins and Outs of Climate-Based Migration: Neighborhood Racial Change After Hurricane Sandy and Hurricane Harvey.” She showed how neighborhood compositional changes after a natural disaster are nuanced and vary based on the extent of storm damage, the amount of out-migration, and local housing supply or access to lower-cost housing. This paper was followed by “The Impacts of Asian Immigrants on School Performance and Local Housing Markets in the U.S.,” presented by Eunjee Kwon of the University of Cincinnati. This paper explored the nuanced effects immigration may have on local housing markets and amenities. Finally, Luis Lopez of the University of Illinois Chicago presented his work exploring how removing a multiple listing service (MLS) “neighborhood” field affects local markets through real estate agent activity, appraiser selections of comparable properties, and home purchase choices. His paper finds meaningful differences in net migration in “treated” neighborhoods compared with others, concluding that removing these labels influences how market participants perceive these neighborhoods.

Low-Income Homeownership

While housing affordability challenges were a key theme throughout our sessions, our next panel, chaired by Olivia Howell from the Pew Charitable Trusts, focused directly on the market for low-income homeowners. This session focused on three unique perspectives within this theme. The first paper, “Homeownership on the Rebound: Decomposing the Rise of Low-Income Homeownership,” presented by Erik Hembre of the Federal Reserve Bank of Minneapolis, focused on understanding why homeownership rose primarily among lower-income households after 2015. He finds that demographic factors (especially age and marital status) explain a large part of the increase during this period, which was relatively affordable as mortgage credit availability improved.

Next, Sonia Gilbukh from Baruch College, CUNY, presented her work, “How the Source of Financing Discrimination Affects Housing Opportunities for FHA Buyers,” which looked at how MLS postings that exclude Federal Housing Administration (FHA) financing affect a variety of outcomes related to the home purchase process. The paper shows that a significant share of MLS listings specify that FHA financing will not be accepted, which has a greater impact on Black and Hispanic homebuyers because of their relatively higher reliance on FHA funding. Properties without these FHA restrictions transact at higher prices but have lower sale probabilities and are more likely to experience closing delays. The last presentation was focused on better understanding condominium living. In her work, “Perils and Promise of Living Together: Condominiums in the Urban Landscape,” Leah Brooks of George Washington University showed that condominiums may be an important point for homeownership entry, particularly for lower-income households, but there are many unknowns about the market, including whether the economies of scale outweigh collective action failures.

Fireside Chat

Pat Flood, president of Supreme Lending Southeast, joined us for a fireside chat facilitated by Terry Theologides, executive vice president and chief administrative officer of Fannie Mae. They discussed topics such as mortgage interest rate lock-in effects (in which households with lower mortgage note rates are less likely to purchase homes or refinance mortgages today), as well as the influence of interest rate volatility and rising homeowner insurance costs on the mortgage market.

The majority of the discussion focused on industry responses to demographic changes in the population and providing affordable access to sustainable home purchase financing. Flood discussed his firm's interactions with clients, and he stressed the importance of financial literacy and planning for prospective homebuyers to be successful in the homebuying process and as homeowners in the years to come. He explained that many people, especially first-time homebuyers, don't anticipate the full costs of ownership, including insurance, maintenance, and other expenses that may arise. He also highlighted the digital tools his firm offers, which provide closing cost credits to borrowers who complete educational courses on credit, the homebuying process, and budgeting for sustainable homeownership. He explained that most Americans know their credit scores but cannot explain how the scoring works. By informing potential borrowers what they can do to improve their credit, borrowers can come back six months or a year later with higher credit scores, which can significantly reduce the cost of borrowing.

Flood then turned to the changing ways in which clients earn income, with W-2 employees becoming less common with the rise of gig work and with many homebuyers having secondary incomes to document and more frequent job changes. Theologides noted the industry has had to adapt to these changes in borrowers' income sources, giving the example of how Fannie Mae developed a tool that helps streamline the intake of self-employment income.

Housing Supply

Arthur Acolin of the University of Washington chaired our last session, which featured three research papers focused on housing supply, beginning with "The Geographic Mismatch Between Housing Construction and Shortages," presented by Zhong Yi Tong of the Office of the Comptroller of the Currency. Tong showed how post-pandemic migration shifts and regional construction patterns, with an eye on the role of single-family versus multifamily housing.

Dayin Zhang of University of Wisconsin–Madison presented an important new paper that tied together the question of housing supply and construction with the immigration topics discussed in the first session of the conference. In "How Do Labor Shortages Affect Residential Construction and Housing Affordability?" Zhang explained that while immigration can cause some temporary increase in housing demand (and thus higher prices), the effect is more than outweighed by an increase in housing supply from boosted construction labor, making immigrants a net benefit to housing affordability.

Josh Coven of New York University delivered our final presentation, "The Impact of Institutional Investors on Homeownership and Neighborhood Access." He discussed the rise of large corporate investors in single-family housing since 2012 and how their business models allow them to scale efficiently, taking on many homes, often in very spatially concentrated regions of the United States, such as the Atlanta area. Coven showed that entry of these investors into a market lowers rents through increasing the supply of rental homes, via conversions of owner-occupied housing and, to a lesser extent, new construction. Because of these firms' market power, however, the decline in rents is not as large as it would be in a more competitive landscape.

Closing Remarks

Bob Hunt, senior vice president and associate director of CFI, delivered the closing remarks for the conference. After thanking the many staff at Fannie Mae and Philadelphia Fed whose efforts made the conference possible, he synthesized several of the messages that recurred in presentations over the course of the two-day event:

- Housing is unaffordable for many, and it is increasingly held by older households and investors. Mortality and tenure change among older households and slowing growth in household formation (thanks to lower birth rates and delayed family formation) may reduce housing market pressures over the next decade or two, but a lot depends on factors like whether people age in place, whether the number of intergenerational households increases, and how many new immigrants enter the United States. The role of immigration, for example, is nuanced, as it can increase both housing demand and supply.

- In part because of limited supply and older households maintaining possession of larger homes, we have seen less mobility — particularly local mobility in the form of buying starter homes and then upgrading to more expensive properties. Mortgage lock-in effects have exacerbated this trend recently. That said, research featured in this event documented notable increases in mobility during the pandemic and in the wake of natural disasters.

- Presenters explored a number of equity topics over the two days of sessions, such as challenges Hispanic households experience accessing credit. Presenters discussed how addressing biases against certain types of financing, and in how certain neighborhoods' housing is priced and marketed, could result in fairer and more efficient market outcomes.

- We learned about challenges and opportunities posed by different forms of ownership (e.g., shared ownership models for home purchases and collective action problems in condos), transparency and enforcement of land contracts, and efficient access to equitable financing for manufactured homes. Ultimately, we also need to reflect on whether we are building the types of homes people want in the places where they are needed most and whether homes are affordable.

Hunt explained that this conference was intentionally called a "workshop" because it was intended to serve as a foundation for additional conversations between researchers, industry stakeholders, and policymakers on the emerging challenges and opportunities demographic change presents for ensuring an adequate supply of quality housing that is affordable and meets the needs of U.S. households.

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