The Housing Pulse Survey: 9-years in Retrospect

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Analysis by NAR Research Department

The Housing Pulse Survey; 9-years in Retrospect

EXECUTIVE SUMMARY:

Consumer attitudes about homeownership and market conditions varied dramatically with the housing boom and bust. The Housing Pulse survey provided a valuable tool for analyzing these changes from 2003 through 2011. Here are some of the highlights:

- Consumer concern about affordability eased steadily after the housing peak due to the sharp decline in home prices and sustained environment of historically low mortgage rates.

- The economic recession weighed on respondents as concern about job layoffs, unemployment, furloughs, and reduced incomes surged after 2008.

- Consumer attitudes about housing as an investment were tarnished by the housing correction, but by 2011 a solid majority of 73% still agreed to some degree that housing was a good financial decision.

- Despite the economic and housing market turmoil, consumer confidence in home purchases grew in resilience. When asked whether now was a good time to buy, the share of positive responses from survey participants increased after 2007 before plateauing at a high level.

- When asked to what degree downpayments and closing costs were holding them back from a home purchase, respondents indicated a higher level of concern in recent years. Had it not been for the expansion of the low-downpayment lending programs at the FHA, USDA and VA, distress would likely have been much higher.

- Tight lending standards, a reflection of forced repurchases by the GSEs as well as regulatory uncertainty, have weighed on consumers and anxiety about attaining mortgage approval has grown steadily since 2003 affecting nearly 3 quarters of all respondents by 2011.

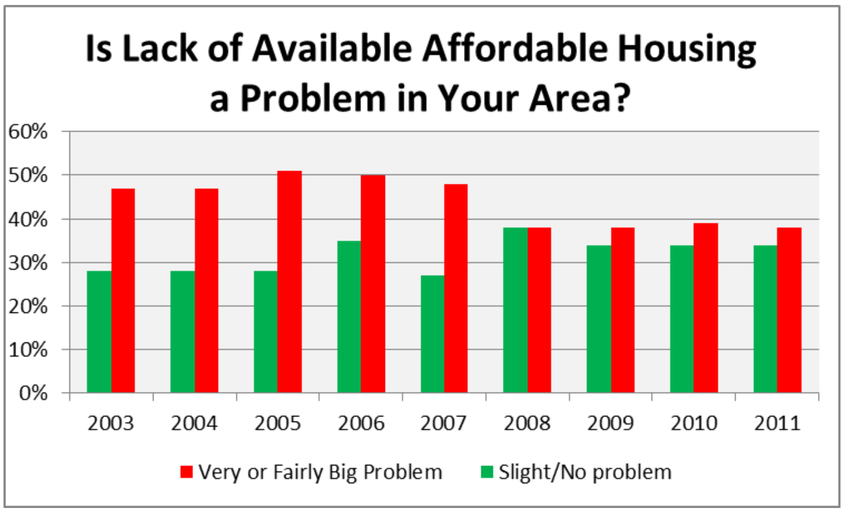
- Following the market decline and expansion of inventory in 2007, respondents indicated an improvement in ability to find a home that would meet their needs. However, new inventory has been slow to come to the market in recent years due to weak pricing and nearly 12 million underwater owners. Furthermore, by 2010 stimulus-driven buying left the remaining inventory picked-over and consumers less confident in their ability to find a home to meet their needs.

- The housing and economic downturn treated renters and owners differently. Owner respondents indicated a steady decline in interest to move through 2011 reflecting widespread loss of equity for trade-up, while renters’ interest in moving rose sharply after 2009 as lower mortgage rates and home prices boosted affordability.

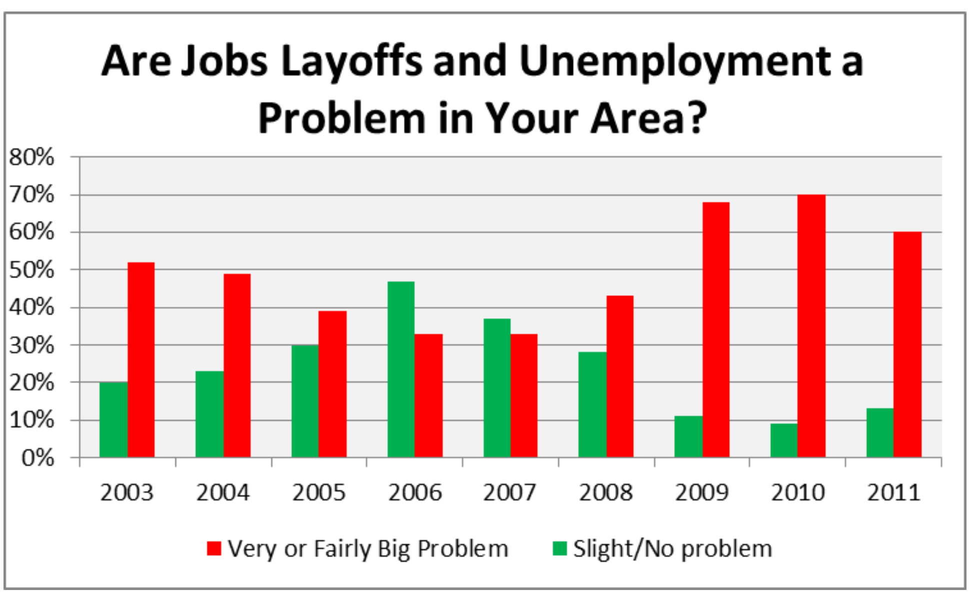
NAR has produced the Housing Pulse survey from 2003 through 2011.[i] The survey was uniquely positioned to measure changes in consumers' views towards home buying and home ownership during a period of dramatic change. The housing market reached a peak of sales in 2005 and prices in 2006 before the median home price fell nearly 30%. Since then, the market has gone through pains dealing with a backlog of foreclosed and distressed homes as well as changes to the structure of the mortgage finance system. With the housing market now inching upward from its bottom it is time to take stock of trends in the survey over the last nine years.

HOUSING AFFORDABILITY:

Concern about housing affordability rose in lock step with prices which accelerated though 2005. Respondents' worry peaked in 2005 at 51% indicating that it was a very big or fairly big problem.

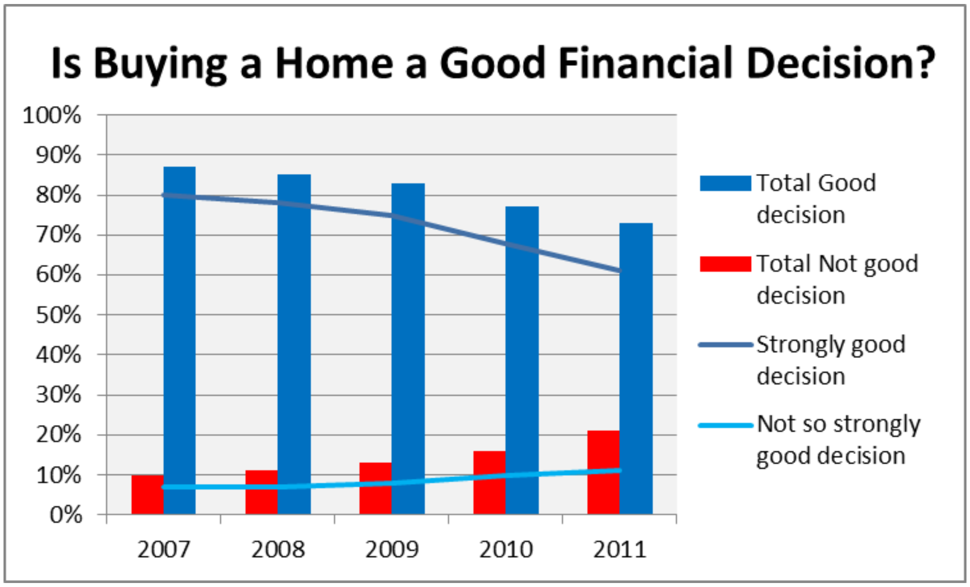


Survey respondents indicated that housing affordability declined sharply as a concern after 2007 reaching 38% by 2011. The sharp decline in both home prices and mortgage rates from 2007 to 2011 did much to ameliorate concerns about affordability. NAR's housing affordability index, which looks at the median priced home relative to the median income and average rate for a 30-year fixed rate mortgage, rose 60% over this time frame.



While affordability proved a boon to consumers during the housing recession, job layoffs and rising unemployment pushed to the forefront of their concerns. The share of respondents that indicated an elevated level of concern, signifying it was either a very or fairly big problem, jumped from 33% in 2007 to 43% in 2008 and peaked at 60% in 2010. Over that time frame the unemployment rate rose from 4.6% to 9.6%, while layoffs surged and incomes stagnated or declined. These concerns materialized in the form of lower consumer confidence and a decline in household formation, both of which weighed on home sales.

CONSUMER CONFIDENCE:

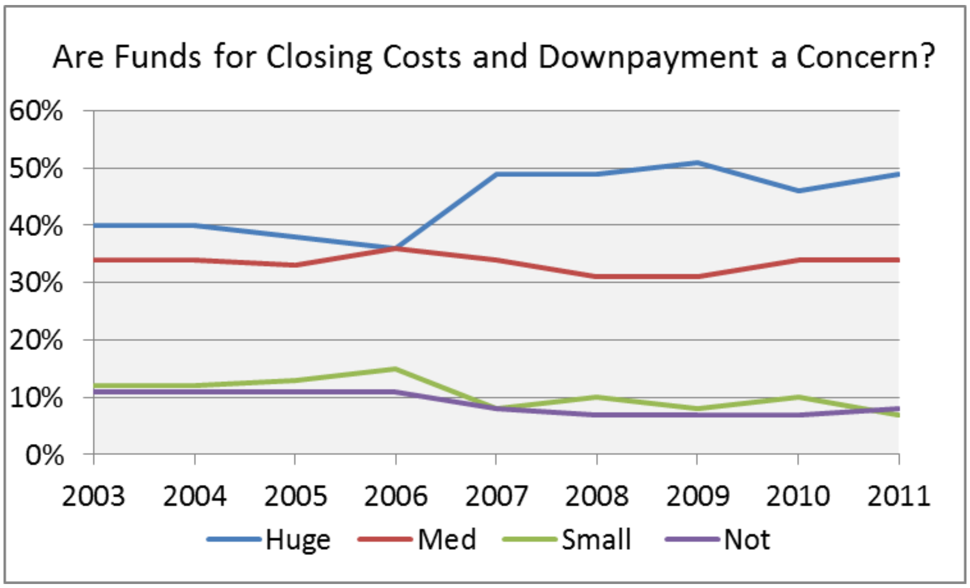


Not surprisingly, the sharp decline in home prices and turmoil in the housing markets had an impact on consumers' perception of housing as a sound investment. From 2007 to 2011, there was a steady decline in the share of positive responses by survey participants, from 80% to 73%, when asked, "do you believe buying a home is a good financial decision, or not?" While the total share of positive responses declined, the share that was "not so strongly" positive grew. This trend might indicate some resiliency in the face of declining prices; perhaps a re-pinning of the perception of housing as a long-term investment versus a short-term one.

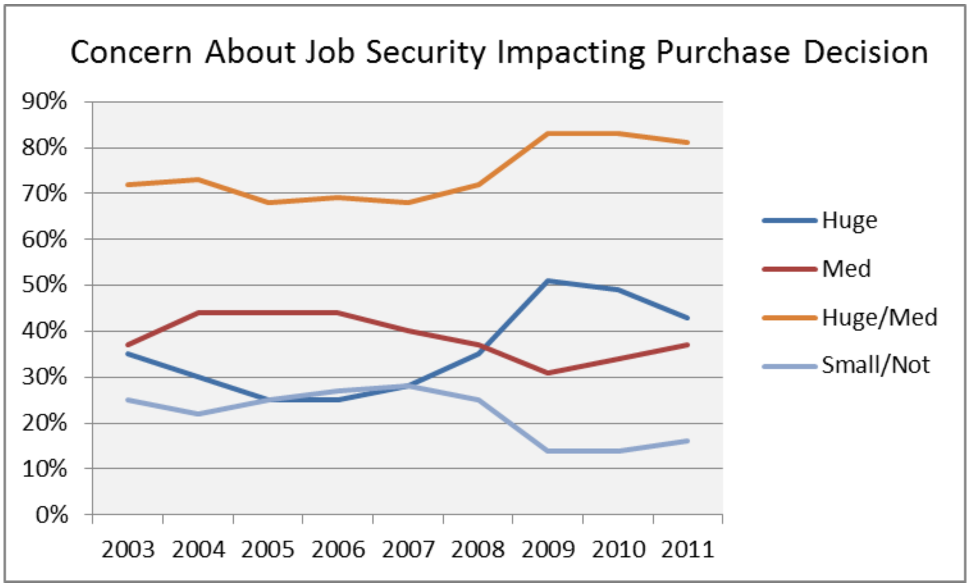
Despite the decline in perception of housing as a strong financial investment and the weak economy, respondents increasingly agreed that it was “a good time to buy” with 46% agreeing with that statement in 2007 and 57% by 2011. This trend was likely a result of the sharp drop in prices and increased affordability. In short, if you could afford to buy, it was a good time to do so.

DOWNPAYMENT AND CLOSING COSTS:

As low mortgage rates and home prices fell, many would-be homebuyers sat on the fence. One section of the Housing Pulse survey was devoted to this topic of factors inhibiting home purchases. Respondents were provided a list of potential obstacles to a purchase and then asked to rank them by degree of severity; small, medium, large or “huge” problem. Topics ranged from financial to personal preferences

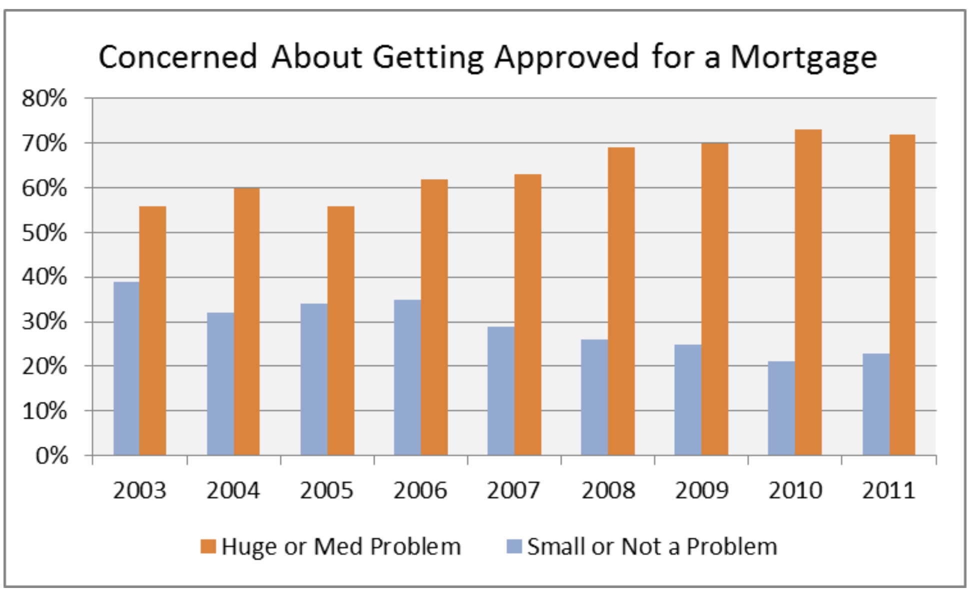


Foreclosures were relatively unheard of prior to 2005, but surged to the forefront soon after. As a result, banks pulled back on lending standards. The average FICO score at the GSEs rose from 711 in 2001 to over 765 by 2011. Lenders also raised downpayment requirements, which surged to more than 20% outside of the FHA along with new restrictions on the amount of help sellers could provide for closing costs. Nearly half of all respondents expressed concern about having enough funds for closing costs in every survey conducted from 2007 to 2011. Likewise, the share of respondents that indicated downpayment as a small or not-a-problem declined over this period. Had it not been for the FHA option, the share of respondents indicating downpayment as an issue would have been much higher.



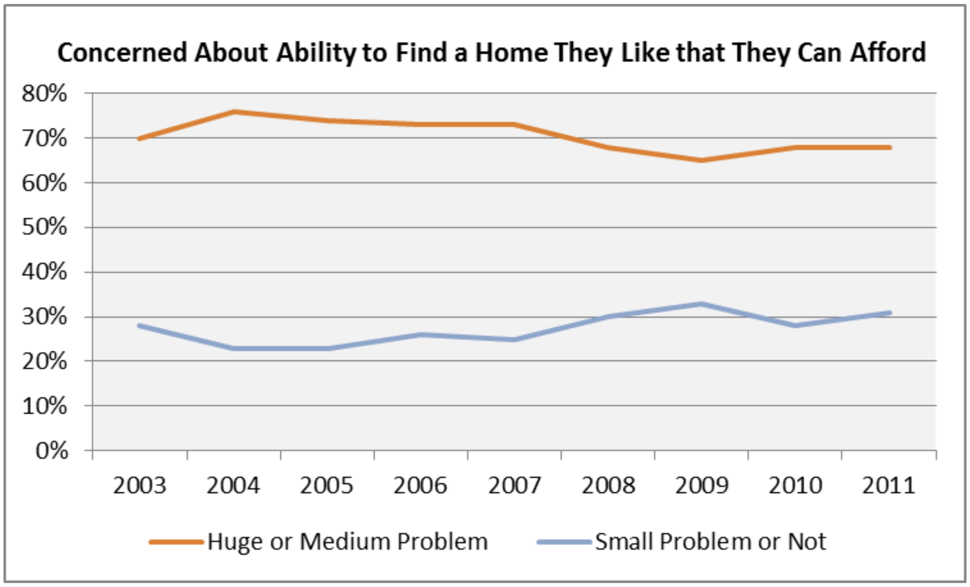
MORTGAGE QUALIFICATION:

Having a large enough downpayment was only part of the battle for consumers. By the tail end of the subprime meltdown, the decline in construction and financial activity as well as problems in the banking sector spread housing's issues to the general economy. Layoffs surged as a result, while incomes flat lined and some workers even took pay cuts to hold onto jobs. Respondents' view of job security changed dramatically following the housing bust as the share of respondents who saw it as a small or medium problem fell sharply, while those who saw it as a huge problem jumped to 83% by 2009. This pattern crested in 2010 and began to subside in 2011 as layoffs fell to normal levels and the unemployment rate eased nationally.



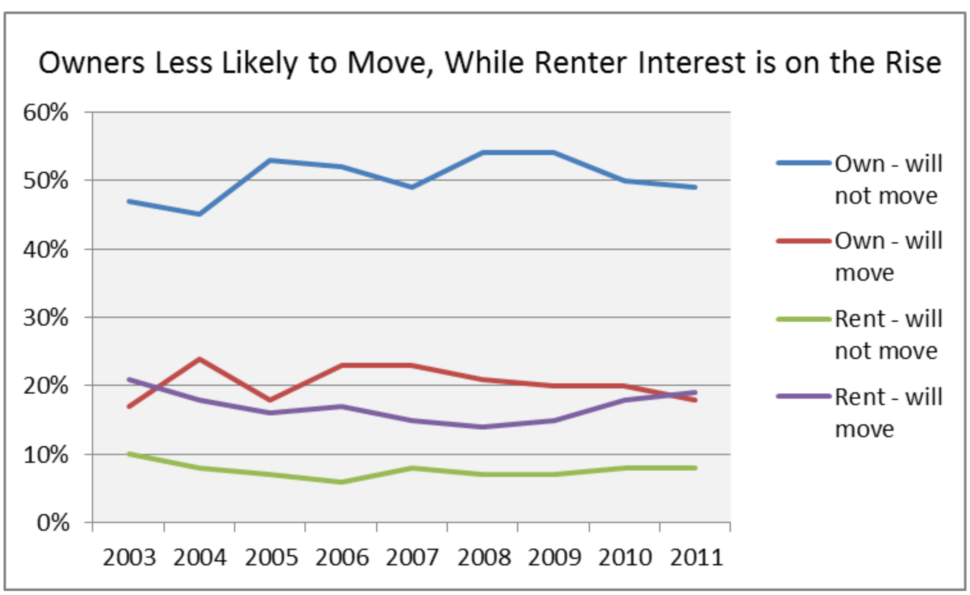
The tough economic times tarnished many households' credit histories, while depleting funds for downpayments and closing. Combined with a weak employment environment and an increase in lending standards by banks, consumers' positive view of their ability to get approved for a mortgage fell sharply after 2006 reaching a peak at 73% in 2010. While credit standards remained tight in 2010, job security improved in 2011 and the unemployment rate fell. Consequently, the share of consumers who felt that they would have a huge or medium problem getting approved for a mortgage eased slightly in 2011 to 71%, but remains well above the 2003 level of 56%.

AVAILABLE INVENTORY:



The decline in prices and mortgages rates helped to elevate affordability, but it did not guarantee that consumers would find the right home for their needs. The decline in market activity caused builders to pull back and weak prices kept traditional sellers on the fence, while nearly a quarter of all mortgaged home owners were underwater precluding them from selling without incurring a loss. As a result, the quality and diversity of the inventory declined over time. Respondents' concern about being able to find a home they liked and could afford dipped just after the market decline as the power dynamic swung from sellers to buyers. But by 2010 with a strong Federal stimulus, the inventory on hand was often picked-over and did not meet the needs of prospective buyers. The result of these trends was to create an environment ideal for buying, but with limited options. Respondents were more optimistic on this front than during the height of the housing boom, though.

OWNERS VS RENTERS:



The experiences of owners and renters varied dramatically through the housing boom and bust. The share of owners who indicated that they would not move surged as the market hit its sales peak in 2005 and then again in 2008 and 2009 as the recession and job cutting peaked. The share of owners who indicated that they *would* move has fallen steadily since 2005, likely a result of the sharp price declines which have made it difficult for home owners to build equity for trade-up purchases. What's more, the sharp price declines have pushed many owners underwater forestalling a trade-up purchase many years into the future. Renters, however, have warmed up steadily to the idea of a move in their future. While there was little change in interest during the period of job turmoil, renter interest in moving swung upward in 2010 around the time of the Federal tax credit and continued to rise through 2011, likely buoyed upward by an average 30-year fixed rate mortgages at or below 4.0 percent and steadily rising rents.

CONCLUSIONS:

While the view of a home purchase as a wise financial investment has diminished, it still remains strong. What's more, renters' interest in moving has increased with economic prospects. However, tight lending conditions along with large downpayment requirements and high FICO standards have made it difficult for many, while the sharp price declines have put a crimp on home owners' interest and ability to move. For those with good credit and plenty of cash, the post boom market was a great time to make an affordable purchase, but even those buyers found that the supply available did not always meet their needs. Tight conditions have weighed on consumers in recent years, but there was a modest thaw by 2011. Consumer confidence improved sharply in the fall of 2011 and both home sales and prices jumped in the spring of 2012. Though respondents in 2012 would likely indicate a more positive sentiment toward employment prospects and housing as an investment, access to credit remains limited and mortgage approval is a high hurdle for many would-be buyers.

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[i]The 2003 – 2008 Housing Pulse Surveys were conducted for NAR's Housing Opportunity Program by Public Opinion Strategies. The 2009 – 2011 Housing Pulse Surveys were conducted for NAR by American Strategies and Myers Research & Strategic Services.