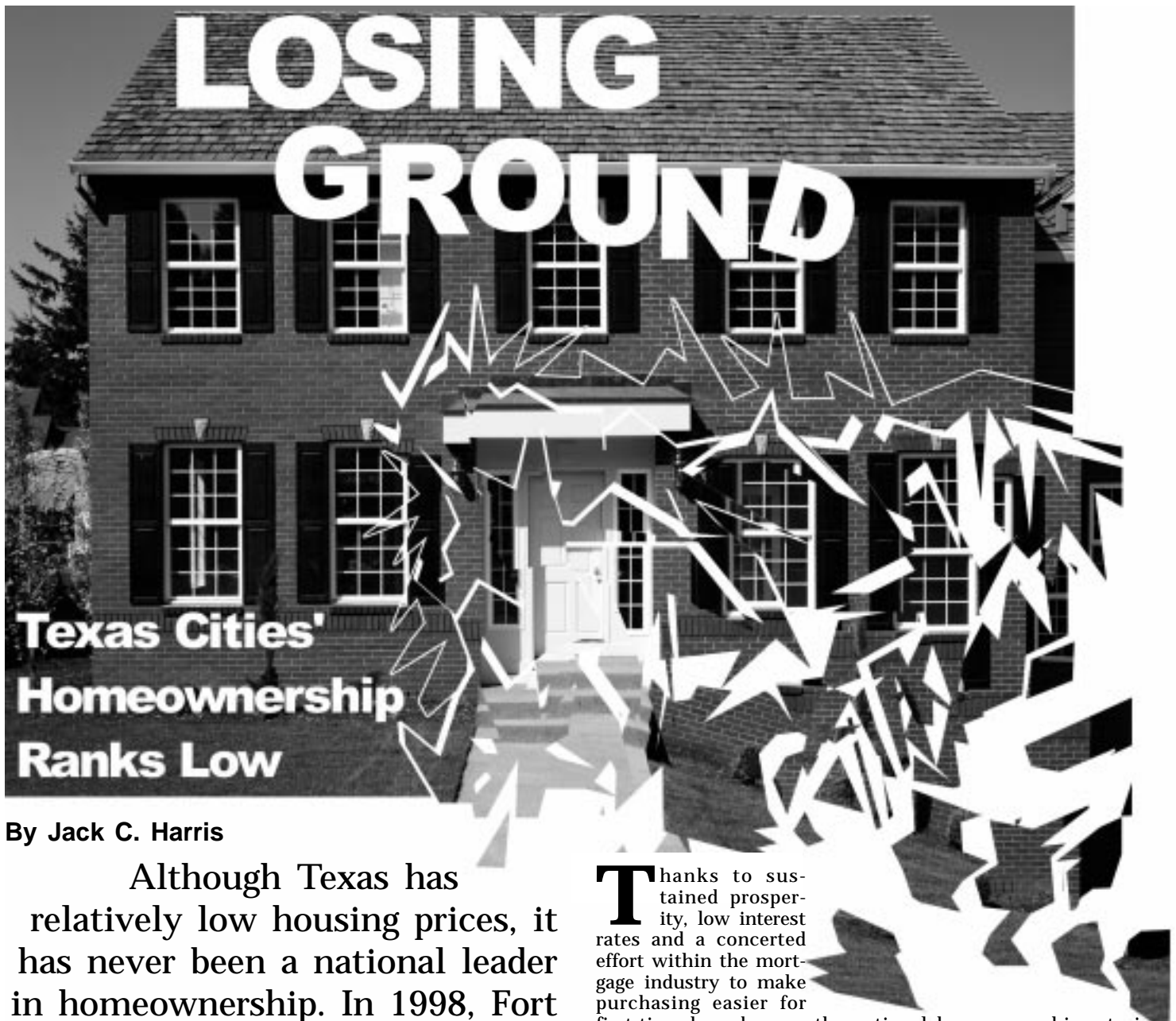


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Texas Cities' Homeownership Ranks Low

By Jack C. Harris

Although Texas has relatively low housing prices, it has never been a national leader in homeownership. In 1998, Fort Worth ranked 36th in homeownership among the nation's 42 largest metropolitan areas, according to the U.S. Census Bureau. Other Texas cities were not much higher: Dallas—33rd, Houston—31st and San Antonio—28th. However, as recently as 1980, Fort Worth ranked 11th, and San Antonio was 15th.

Thanks to sustained prosperity, low interest rates and a concerted effort within the mortgage industry to make purchasing easier for first-time homebuyers, the national homeownership rate is rising again after slumping in the 1980s. In 1998, 66.3 percent of the nation's households owned their homes, compared to 65.6 percent in 1980 (with a low point of 63.8 percent in 1986). For large Texas cities, however, only Houston has improved on its 1980 rate.

While Texas home sales have been reaching record levels, the buoyant market is not pushing up homeownership rates as much as in most other cities nationwide. Analysis suggests that Texas cities were badly disadvantaged by the market disruptions in the 1980s and have not recovered lost ground.

National Homeownership Rank

MSA	1980 Rate	1980 Rank	1998 Rate	1998 Rank
Dallas	59.3	28	58.9	33
Fort Worth	65.9	11	58.3	36
Houston	58.8	29	59.6	31
San Antonio	64.0	15	62.2	28

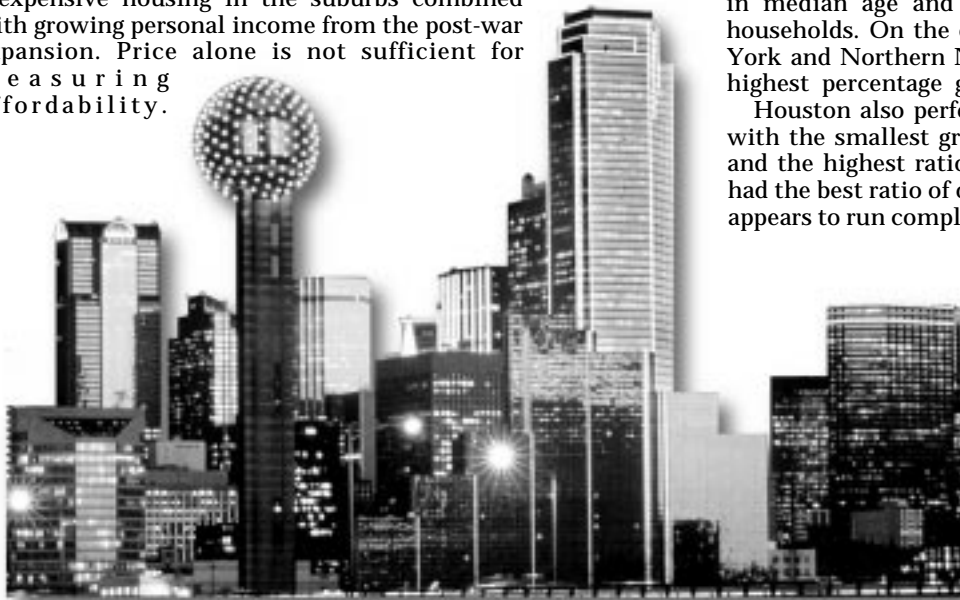
Source: U.S. Census Bureau

Why Homeownership Rates Change

Several factors can affect the percentage of households that own their home. A shift in the homeownership rate may merely be a sign that the population composition is changing.

The reason such change affects homeownership is that **demographic characteristics influence the probability that a household will own a home.** For example, younger households are less likely to own a home than are older households for a variety of reasons, including lower levels of income and a higher tendency to move. Married couple households tend to own homes at higher rates than single people or single-parent households. In addition, ethnic minorities have ownership rates lower than the broad population, for a number of reasons, including lower incomes. If the make-up of the area changes, the overall homeownership rate could change accordingly.

Homeownership change also could be affected by **housing affordability.** One of the reasons that homeownership grew so rapidly in the 1950s was the development of inexpensive housing in the suburbs combined with growing personal income from the post-war expansion. Price alone is not sufficient for measuring affordability.



Trends suggest that the primary reason for Dallas' and Fort Worth's homeownership decline is an increasingly diverse and young population.

For example, homeowner costs (including maintenance and acquisition costs) can be compared to comparable costs for renting a home or costs related to household income.

Another aspect of local economies that could influence residents' decisions to become homeowners is **economic stability, or even prosperity, that may be required** to persuade people to invest in the community by buying a home. If the local job market is volatile, residents may be reluctant to make a large financial commitment if they feel they face uncertain employment prospects.

Rapid positive growth could depress the homeownership rate to some extent because of the large number of incoming, mobile households attracted to the area. A period of falling property values could be unsettling to homebuyers, even though affordability is improved. Most homebuyers like to think of their purchase as a sound investment.

To get an idea of what may have contributed to Texas' laggard homeownership performance, data were gathered on these underlying factors. The most recent data are from the American Housing Survey (AHS) which covers selected cities approximately every five years. For this analysis, each Texas city was compared to other cities covered by the AHS for the same year.

Houston's Turbulent Decade

Detailed analysis of Houston is handicapped by the lack of Census Bureau data beyond 1991 when AHS last reported on the area. Nevertheless, the 1980-91 period was characterized by falling national homeownership rates and the restructuring of Houston's economy. The homeownership rate in Houston's metropolitan area fell from 58.8 percent in 1980 to 53.6 in 1991. This was, by far, the worst performance among all metro areas covered by the AHS in 1991.

Much of the ownership decline could be associated with demographic change. Houston had the largest increase in minority population, the lowest increase in median age and the largest decline in married-couple households. On the opposite end of the scale were the New York and Northern New Jersey areas, which also posted the highest percentage gains in homeownership.

Houston also performed poorly on affordability measures, with the smallest growth rate in median household income and the highest ratio of homeowner-to-renter cost. While it had the best ratio of ownership costs to income, that measure appears to run completely counter to homeownership change.

Houston also had the most volatile economy (measured by the standard deviation of annual employment growth rate), the slowest growth in median home prices (based on the National Association of Realtors' data) and the fastest growing employment base. In short, Houston's homeownership rate suffered in the 1980s for demographic and economic reasons.

Houston's homeownership rate has risen significantly since 1991. It is unknown whether the indicators mentioned above improved, although it is clear that the economy stabilized greatly and home prices have risen in the 1990s.

DFW's Growing Diversity

Dallas and Fort Worth, in separate reports, were last updated by the AHS in 1994. Four other cities also were covered that year. The two Texas cities and Phoenix had a lower homeownership rate in 1994 than in 1980.

Those three metros also had the highest increase in minority population and the lowest increase in median age, while Fort Worth and Phoenix had the largest decline in married-couple households. These trends suggest that the primary reason for Dallas and Fort Worth's homeownership decline was an increasingly diverse and young population.

There is little indication of affordability as a factor. Dallas and Fort Worth, with relatively high growth in median income had the lowest ratios of ownership-to-rental costs and ownership cost to income. While price appreciation was slower in these cities, their economies were not particularly volatile.

Legacy of the 1980s

San Antonio is the most recent Texas city to be updated by the AHS. This allows the longest period of analysis (1980-95) and the largest group of comparable metropolitan areas. Within the group of cities updated in the 1995 AHS, San Antonio is the laggard in homeownership, with Indianapolis the only other metro with a declining homeownership rate.

Change in Selected Demographic Indicators, 1980-95

MSA	Home-ownership (percent)	Black or Hispanic (percent)	Married Couples (percent)	Median Age (percent)
San Antonio	-2.5	+3.2	-9.1	+17.6
Columbus, Ohio	+2.8	-0.5	-3.8	+15.4
Denver	+2.3	+2.4	-4.9	+14.3
Indianapolis	-1.5	-1.0	-9.7	+14.7
Kansas City	+0.8	-0.4	-4.9	+14.8
Miami	+7.6	+20.2	-6.5	+12.0
New Orleans	+7.9	+3.7	-8.1	+17.8
Pittsburgh	+3.1	-1.0	-7.9	+16.5
Portland, Oregon	+1.9	+1.2	-3.1	+13.8

Source: 1980 Census of Population and Housing; 1995 American Housing Survey

San Antonio and Indianapolis are two metropolitan areas with declining homeownership rates.

Unlike the cases of Houston, Dallas and Fort Worth, there are no apparent patterns in this group of cities data. San Antonio had a relatively high growth rate in minority population and a decline in married couple households but dramatically increased in median age. The income growth was not particularly low, and San Antonio had one of the better ratios for ownership costs to income and ownership-to-rental costs. While growing home prices were relatively slow and employment was fast growing, the employment base was the most stable of the lot.

After sliding in the 1980s, Dallas, Houston and San Antonio improved their homeownership ranking from 1990.

National Ownership Rate Rising

By Jennifer S. Evans

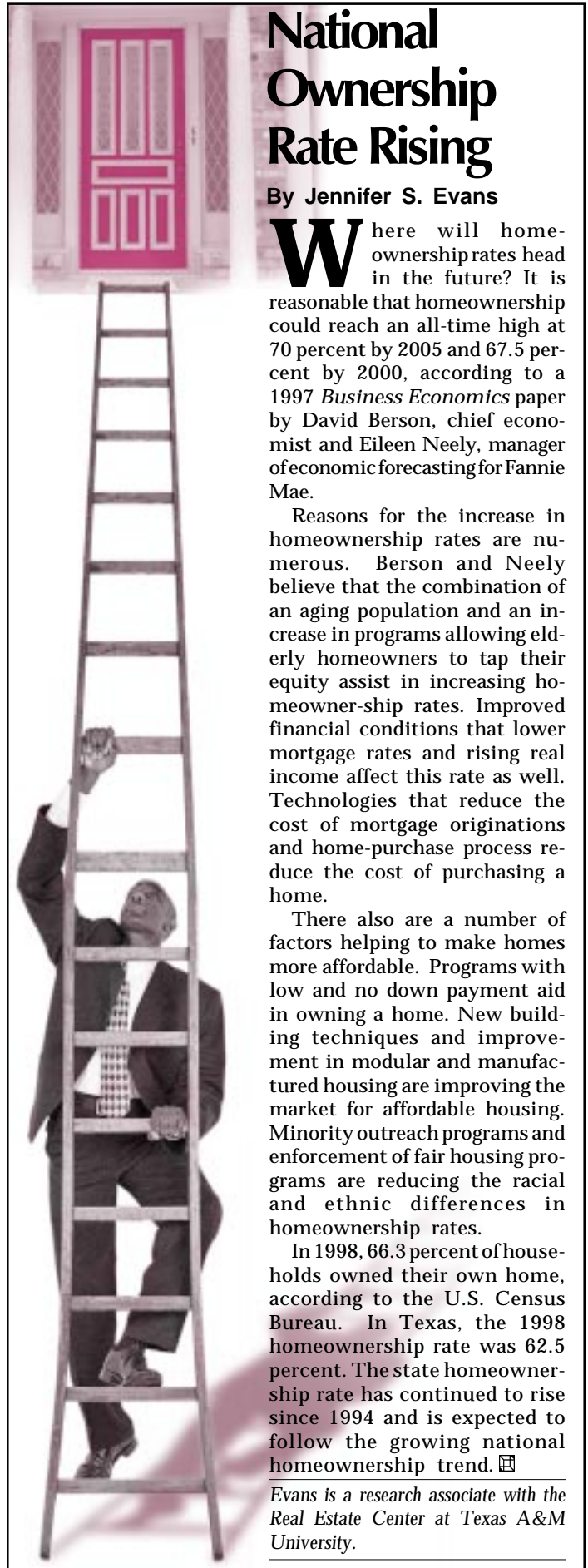
Where will homeownership rates head in the future? It is reasonable that homeownership could reach an all-time high at 70 percent by 2005 and 67.5 percent by 2000, according to a 1997 *Business Economics* paper by David Berson, chief economist and Eileen Neely, manager of economic forecasting for Fannie Mae.

Reasons for the increase in homeownership rates are numerous. Berson and Neely believe that the combination of an aging population and an increase in programs allowing elderly homeowners to tap their equity assist in increasing homeownership rates. Improved financial conditions that lower mortgage rates and rising real income affect this rate as well. Technologies that reduce the cost of mortgage originations and home-purchase process reduce the cost of purchasing a home.

There also are a number of factors helping to make homes more affordable. Programs with low and no down payment aid in owning a home. New building techniques and improvement in modular and manufactured housing are improving the market for affordable housing. Minority outreach programs and enforcement of fair housing programs are reducing the racial and ethnic differences in homeownership rates.

In 1998, 66.3 percent of households owned their own home, according to the U.S. Census Bureau. In Texas, the 1998 homeownership rate was 62.5 percent. The state homeownership rate has continued to rise since 1994 and is expected to follow the growing national homeownership trend. □

Evans is a research associate with the Real Estate Center at Texas A&M University.



Average Annual Growth in Employment (percent)

Metro Area	1980-89	1990-98
Dallas	3.3	2.9
Fort Worth	3.6	2.3
Houston	1.5	2.4
San Antonio	3.0	3.1

Source: Bureau of Labor Statistics

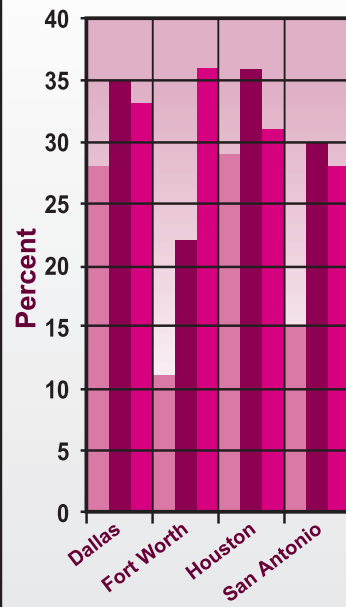
Fort Worth is the exception to this pattern. Fort Worth began the period with the highest ownership rate (65.9 percent) among the Texas cities and the mildest slide in the 1980s (61.4 percent in 1990) but has continued to slip in the 1990s (58.3 percent in 1998). A possible explanation for this persistent decline is relatively slower economic growth in Fort Worth during the decade.

In conclusion, Texas' largest cities have recorded a decline in homeownership rates largely because of changing demographics. The number of minorities living in these cities increased between 1980 and 1998. These cities also have a lower median age and fewer married couples. Demographic changes undoubtedly have inhibited the cities' abilities to recover from the economic troubles of the 1980s.

The good news is that low interest rates, a robust economy and a more competitive mortgage market, increase home-ownership rates among younger families and Hispanic households. Nationwide, households with heads less than age 35 increased in home-ownership by 2 percentage points from 1994 to 1998 while Hispanic and black households improved by 3.5 and 3.3 percentage points, respectively, over the same period. The large pool of non-owners presents potential to keep housing markets in Texas' cities busy for years to come. □

Dr. Harris is a research economist with the Real Estate Center at Texas A&M University.

Homeownership Rate National Rankings



Source: U.S. Census Bureau

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Lack of Down Payment Stymies Young Buyers

By Mark G. Dotzour

National homeownership rates are on the rise. For the first half of this decade, however, the homeownership rate was stuck at 64 percent. Beginning with the first quarter of 1995, the rate increased steadily to record high levels at the end of 1998 (Graph 1).

There are several reasons why the rate is increasing nationwide. First, the older Americans get, the more likely they are

percent in 1974 to 82.1 percent in 1998, according to the U.S. Census Bureau.

This homeownership trend is reversed in younger households. The ownership rate for this segment of the population declined substantially from 1979 to 1993. In 1974, approximately 43 percent of families age 25-29 owned their own homes. By 1992, the number had dropped to 33.6 percent. Similar trends are shown for households aged 30-34 and 35-39.

Ownership rates have increased in the past five years for all three of the young family age groups. However, the 1998 rate remains substantially lower than 1974 for all three age categories.

A recent survey by the National Association of Home Builders (NAHB) may reveal why the homeownership rate has declined. The survey identifies the top problems facing first-time homebuyers. The major barrier to entry for first-timers is the lack of down payment funds. Discussions with homebuilders in the entry-level price ranges also indicate that, in some markets, nearly half of all potential first-time buyers have a bad credit history.

Fannie Mae is addressing the issue of down payment for homebuyers with programs such as the Flex97 program

that allows new buyers to purchase a home with a 97 percent loan and a 3 percent down payment. Contrary to previous requirements, the down payment may be gifted from family members or others or may come from a collateral loan against tangible borrower assets.

Whatever the difficulties affecting younger households, the fact is that fewer young families own a home than they did 25 years ago. This creates a significant marketing opportunity for the real estate industry. Marketing, promotion and education about home costs, benefits and financing for young families should become a priority for real estate professionals who want to capture this segment of the market.

Dr. Dotzour is chief economist with the Real Estate Center at Texas A&M University.

Barriers to Ownership	Percent
• No down payment	75
• High prices	71
• Qualifying income	45
• High closing costs	35
• Interest rates	15

Source: NAHB January, 1999 Survey

to own a home. For example, of families age 25-29, only 36.2 percent own their home (Graph 1). The rate of ownership steadily increases as families get older, exceeding 80 percent for families more than 55 years old. Furthermore, the rate of ownership by older families has increased in the past 25 years (Graph 2). The most marked change is in families age 60-64, which increased from 75.2

