

Chicago Title Provides Early Peek at Who's Buying Homes

Chicago Title and Trust Co.'s annual effort to capture homebuyer trends—as summarized in *Who's Buying Homes in America*—bears up under scrutiny, despite the absence of some telling detail. More importantly, the research offers an early snapshot of last year's homebuyers.

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interpretation of the tabulated results and evaluation of statistically significant differences. Regardless, the findings serve as a helpful barometer of homebuying activity.

First-Timers Grow in Number, Shrink in Share

Last year was a banner year for home sales. About 5.4 million newly built or previously owned homes and condominiums changed hands in 1996, more than during any other year on record. Spurred by some of the cheapest mortgage funds of the past quarter century and the fifth straight year of economic growth, families bought homes in record numbers. But who were those buyers?

They were primarily married, two-income families who were not new to homeownership and had done a fair amount of house shopping, viewing an average of 15 homes before making a choice. All this according to Chicago Title's 21st annual survey of recent home buyers. The survey, a phone poll of about 2,700 households who bought homes in 18 metropolitan statistical areas (MSAs) during the first 10 months of 1996, is perhaps the earliest peek into the demographic characteristics of these pace-setting buyers.

"A" for Effort, "B" for Detail

Strengths of *Who's Buying Homes* include its timeliness, detailed statistics on 18 metro areas and a 21-year historical base for use in making long-term comparisons. Regrettably, the small number of MSAs considered can make extrapolating trends to a national level a bit dicey. Further, the report excludes the types of details on sample size, survey techniques and questionnaire content that facilitate

Over the years, the survey has recorded the ebb and flow of first-time buyers, who peaked as a share of all surveyed buyers during 1994. Last year, the first-timer share fell for the second successive year, down 3 percent from the previous year and off 5 percent from its 1994 zenith. Despite a receding share, the number of first-time buyers increased because of the record level of sales transactions.

Freddie Mac's purchase activity corroborates some of these trends. Similar to the survey's findings, the first-time-buyer share of Freddie Mac's **purchase-money**¹ fundings slipped about 3 percent between 1994 and 1996 in these MSAs. Nationally, Freddie Mac's figures show, the decline was about 1.5 percent, even though the number of first-time buyers financed by Freddie Mac proved to be larger in 1996. There are, however, some significant differences in types of home purchases found in the two data sources: the survey includes Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) loans and "all cash" transactions whereas Freddie Mac's activity is essentially limited to **conventional conforming** mortgages. Nonetheless, the decline observed in the survey's 18 MSAs appears to hold true for the United States as a whole.

The decline in first-time-buyer share is not attributable to a decline in the number of first-time buyers, but to a large increase in the number of

¹See glossary on page 23 for definitions of words highlighted throughout the article.

repeat buyers. Why did so many homeowners choose to trade houses in 1996? The survey does not ask why the buyer chose to act in the current year, which would make for a useful addition. *Who's Buying Homes in America* reasonably conjectures that the rise in repeat buyers is related to improved job prospects for middle-income homeowners, who were hard hit by service-sector and white-collar-employment layoffs during the 1990-1991 recession. The uncertainty over long-term job prospects made it easy to defer trade-up buying during this period. The survey also credits part of the upsurge in repeat buying to an increase in home values. With healthier house-price growth replacing the sluggish to nonexistent appreciation rates of the early 1990s, the incentive now is much stronger for owners to purchase more expensive homes.

Intriguingly, the survey finds that the first-time-buyer share is generally larger in high-cost markets, not, as intuition might suggest, in more affordable housing locales. The highest shares were reported in San Francisco, New York and Los Angeles, while the lowest were in Phoenix, Denver and Minneapolis-St. Paul. The reliability of this relationship is reflected in the strong sample **correlation coefficient** of 0.5 between first-time-buyer share and house price across the 18 MSAs. In other words, this statistical measure does indeed validate the observation that the higher the first-time share, the higher the home prices for that area.

Home Values Up, but Not Everywhere

In the early 1990s, national house values barely kept pace with inflation. Chicago Trust's survey points to a major turnaround, as do several other measures of appreciation. Across the 18 MSAs, the survey found increases in home prices (4.2 percent for average prices, 3.7 percent for median) that exceed the 3.0-percent growth rate in the Consumer Price Index (CPI) between 1995 and 1996. Freddie Mac's house-price-growth index (see

EXHIBIT 1: Household-Income Distribution Among Homebuyers in 18 MSAs

Household Income	HMDA	<i>Who's Buying Homes in America?</i>	
	<u>1995</u>	<u>1995</u>	<u>1996</u>
Less than \$30,000	14.8%	14.9%	12.0%
\$30,000-\$40,000	15.9	16.3	15.4
\$41,000-\$50,000	16.3	14.6	15.4
\$51,000-\$60,000	13.8	12.6	12.5
More than \$60,000	39.2	41.6	44.7

Note: HMDA data reflect owner-occupied, home-purchase originations.
Source: Federal Financial Institutions Examination Council, Chicago Title & Trust Co.

SMM's House-Price Report, pp. 6-7, for a more detailed look at recent price fluctuations at the national, regional and state levels) likewise shows a 3.8-percent appreciation rate for these same MSAs between the two years. Despite the overall resurgence in appreciation, the survey found that home values remained soft in Southern California and in the New York-to-Washington corridor.

Minority-Borrower Share Drops

Borrower data on income, race and gender for small geographic areas has become widely available since the public release of data under the Home Mortgage Disclosure Act (HMDA). Although this has led to a better understanding of credit demand and supply at the neighborhood and lender levels, the HMDA data suffer from a variety of drawbacks. These include a long delay in the release of the data (1996 data, for example, will not become available until the third quarter of 1997) and the lack of additional borrower or loan descriptors. Chicago Title's survey has collected data on household income for years, but it didn't include questions about race/ethnicity and gender until the 1996 questionnaire. Its earlier release date may well presage trends that the 1996 HMDA data will bear out when it becomes available later this year.

Exhibit 1 illustrates the direct comparison that is possible of 1995 household income for the 18 MSAs between the HMDA and Chicago Title

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survey numbers. Both data sets show quite similar distributions of household income, suggesting that the 1996 Chicago Title findings may indeed provide early insight into what the 1996 HMDA data will reveal. Compared with 1995 data, the Chicago Title results for 1996 point to a smaller percentage of households with income below \$30,000 and a higher percentage above \$60,000. Some of this shift may reflect an increase in transactions in high-income areas, such as San Francisco and Washington, D.C., as well as the return of repeat buyers. Unfortunately, the survey report does not provide the distributions at the individual MSA level nor does it indicate the relative weight of each MSA over time. Moreover, extrapolating results to reflect the nation overall could prove iffy given that the survey's 18 MSAs accounted for only 32 percent of all metropolitan loans reported under HMDA. The MSAs left out generally fall to the lower side of the income range, according to the HMDA data.

The survey identified about 18 percent of all buyers in 1996 as members of minority groups. This is sharply lower than the 27 percent reported in these 18 MSAs under HMDA in 1995. This finding suggests that a lower minority share may

well appear in the HMDA data for 1996, especially in light of how well various figures reported in the survey appear to align with other benchmarks. The Chicago Title survey provides one possible explanation for the apparent drop in minority homebuyers when it documents the rise in repeat purchasers, who tend to be white.—**Frank Nothhaft, deputy chief economist**

Glossary

Conventional Conforming. A mortgage that is not insured or guaranteed by the government and does not exceed the current loan limit (now \$214,600 for most one-family homes) for purchase by Freddie Mac.

Correlation Coefficient. A statistical measure of the interdependence of two random variables that ranges in value from -1 to +1. A correlation coefficient of 0 means there is no relationship between the variables, a coefficient of +1 suggests a very direct positive relationship, and -1 indicates a direct negative relationship.

Purchase Money. Mortgages obtained to purchase a home rather than to refinance an existing mortgage.

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