MEMORANDUM

To: Members of the Committee on Financial Services

From: Committee Staff

Date: March 15, 2024

Subject: Housing and Insurance Subcommittee Hearing entitled, "The Characteristics and Challenges of Today's Homebuyers"

On Wednesday, March 20, 2024, at 2:00 p.m., in Room 2128 of the Rayburn House Office Building, the Subcommittee on Housing and Insurance will hold a hearing entitled, "The Characteristics and Challenges of Today's Homebuyers." Testifying at the hearing will be:

- **Dr. Michael Fratantoni**, Chief Economist, Senior Vice President, Research and Industry Technology, Mortgage Bankers Association (MBA)
- **Dr. Jessica Lautz**, Deputy Chief Economist and Vice President of Research, National Association of Realtors (NAR)
- **Ms. Nikitra Bailey**, Executive Vice President, National Fair Housing Alliance
- *Additional witnesses to be added*

Summary

This hearing will continue the Committee's work on the housing affordability and availability challenges facing American families. It is designed to review the changing conditions of the U.S. single-family housing market, both in terms of borrower characteristics and behavior as well as recent trends in the financial details of those transactions. Achieving a better understanding of the current profile of the market can assist policymakers in responding to shifts in single-family housing purchaser demand and evaluating options to better balance demand with available resources.

Background and Changing Conditions

The housing market has undergone a seismic shift since March 2022, when the Federal Reserve began raising its interest rate benchmark to combat the effects of aggressive inflation. Today, the 30-year fixed rate mortgage rate is near 7 percent for most borrowers.[1] This is a far cry from the previous two decades of the Federal Reserve's accommodative interest rate environment that helped fuel the housing bubble that led to the Global Financial Crisis of 2008. During that crisis and subsequent recovery, as well as the global health and economic crisis caused by the COVID-

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[1] Rachel Witkowski, "Mortgage Rates Today: March 11, 2024-Rates Move Down," Forbes, March 11, 2024, available at: https://www.forbes.com/advisor/mortgages/mortgage-rates-03-11-24/.

19 pandemic, mortgage interest rates remained historically low. In 2000, mortgage interest rates fell below 8 percent. Later, in 2011, rates fell below 5 precent where they steadily remained before falling below 3 percent for much of 2020.[2]

This prolonged period of low interest rates enabled millions of homebuyers to enter the market and spurred multiple rounds of refinances for borrowers as rates consistently dropped. However, the picture is very different today driven primarily by higher rates and elevated home prices. As a result, there are fewer and more selective borrowers in the purchase market executing fewer transactions as they react to the conditions of what many believe to be the new normal in housing. Inventory shortages persist across the country: over two million fewer existing homes have been sold this year on an annualized basis compared to their peak in 2021.[3] Tighter supply has kept prices high, as today's household grapples with a median home price that is about six-times the median household annual income. Further, since housing is the single-biggest slice of the family budget, accounting for over 33 percent, high housing costs are a significant driver of inflation.[4]

Today's Market: Transactions and Purchasers

There are two basic measures of single-family housing market activity, homes purchased by new owners and existing mortgages being refinanced by the same owner. For new home purchase transactions, there were 661,000 homes sold in January 2021 according to the U.S. Census Bureau, compared to a peak of approximately one million homes sold in a single month in mid-2020.[5] The median sales price of a new home today is about $420,700, notably higher than the median price of about $328,000 in 2020.[6] On the refinance side, Freddie Mac reported that refinancing activity in 2023 was "the lowest in almost 30 years."[7] That report goes on to theorize that the "decline in refinance activity is a direct result of higher mortgage interest rates [because] most homeowners locked-in low rates relative to current market rates."

First-time homebuyers made up a robust share of about one-third of sales in 2023, an increase from 26 percent in 2022 and on-par with historic norms.[8] Other demographic changes include an

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[2] Federal Reserve of St. Louis FRED, "30-Year Fixed Rate Mortgage Average in the United States," available at: https://fred.stlouisfed.org/series/MORTGAGE30US#0.

[3] National Association of Realtors, "Summary of January 2024 Existing Home Sales Statistics," January 2024, available at: https://cdn.nar.realtor//sites/default/files/documents/ehs-01-2024-summary-2024-02-22.pdf.

[4] U.S. Bureau of Labor Statistics, "Consumer Expenditures--2022 - 2022 A01 Results," September 8, 2023, available at: www.bls.gov/news.release/cesan.nr0.htm.

[5] U.S. Census Bureau, "Monthly New Residential Sales, January 2024," March 12, 2024, available at: https://www.census.gov/construction/nrs/pdf/newressales.pdf.

[6] Federal Reserve of St. Louis FRED, "Median Sales Price for New Houses Sold in the United States," February 26, 2024, available at: http://fred.stlouisfed.org/series/MSPNHSUS.

[7] Freddie Mac, "Economic, Housing and Mortgage Market Outlook – August 2023," August 17, 2023, available at: https://www.freddiemac.com/research/forecast/20230817-economic-housing-and-mortgage-market-outlook-august-2023.

[8] National Association of Realtors, "Highlights from the Profile of Home Buyers and Sellers," October 31, 2016, available at: www.nar.realtor/research-and-statistics/research-reports/highlights-from-the-profile-of-home-buyers-and-sellers#homebuyers.

increase in the age of both first-time and repeat buyers, and an uptick in the share of diverse, non-white buyers, according to the National Association of Realtors.[9]

Unsurprisingly, today's homebuyers tend to have higher incomes. The median income of a typical homebuyer rose to $107,000 last year, up from $88,000 in 2022, illustrating how middle-class Americans are increasingly priced-out of homeownership.[10] Down payments grew slightly compared to two years ago, but the share of all-cash transactions increased markedly to 20 percent last year from 13 percent in 2021.[11] Twenty-three percent of first-time homebuyers received gifts or loans from relatives or friends for a down payment.[12]

Institutional Investment and Single-Family Rental

The role of institutional investors in the housing market, and especially in single-family rentals (SFR), has been of interest to the public and policy makers in recent years. In addition to individuals purchasing homes for their own residences, a portion of the purchase market is comprised of housing investors. In 2023, transactions by housing investors represented about 30 percent of the purchase market.[13] However, this segment can be broken down into small, medium, and large housing institutional investor segments. The segment of small "mom-and-pop" owners makes up 80 percent of all investor-owned homes nationwide.[14] These "mom-and-pop" investors, combined with medium-sized investors who own fewer than 100 properties, account for the vast majority of all investor transactions. Meanwhile, even at its peak in 2021, the large institutional investor buyer segment represented less than 2.5 percent of the total market.[15]

Investor-led transactions have attracted some attention in recent years as investors of all sizes sometimes purchase single-family homes for the purpose of converting them into SFR properties. According to data from the Harvard Joint Center for Housing, there were 14.3 million single-

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[9] V. L. Hendrickson, "The Average U.S. Home Buyer Now Needs a Six-Figure Income," Mansion Global, November 13, 2023, available at: https://www.mansionglobal.com/articles/the-average-u-s-home-buyer-now-needs-a-six-figure-income-3c9022ec.

[10] *Ibid.*

[11] National Association of Realtors, "Highlights from the Profile of Home Buyers and Sellers," October 31, 2016, available at: https://www.nar.realtor/sites/default/files/documents/2021-highlights-from-the-profile-of-home-buyers-and-sellers-11-11-2021.pdf.

[12] Dylan Croll, "Here's the Right Way to Lend or Gift Money to Help Your Loved One Buy a Home," Yahoo! Finance, March 12, 2024, available at: http://www.finance.yahoo.com/news/heres-the-right-way-to-lend-or-gift-money-to-help-your-loved-one-buy-a-home-123853175.html.

[13] Logan Mohtashami, "No, Wall Street Investors Haven't Bought 44% of Homes This Year," Housing Wire, December 11, 2023, available at: https://www.housingwire.com/articles/no-wall-street-investors-havent-bought-44-of-homes-this-year/.

[14] Department of Housing and Urban Development, "Institutional Investors: A Local Perspective," Winter 2023, available at: https://www.huduser.gov/portal/periodicals/em/winter23/highlight2.html.

[15] Logan Mohtashami, "No, Wall Street Investors Haven't Bought 44% of Homes This Year," Housing Wire, December 11, 2023, available at: https://www.housingwire.com/articles/no-wall-street-investors-havent-bought-44-of-homes-this-year/.

family renter households by 2021, comprising about 33 percent of all renters.[16] However, Brookings Institution research has found that large institutional investors are estimated to own approximately 3 percent of the single-family rental stock.[17] Proponents of SFRs cite how these properties have facilitated access to suburban neighborhoods for renters and a better quality of life for many families that otherwise might not be able to afford the property. On the other hand, some critics believe that converting purchase properties into SFRs reduces homeownership opportunities for potential entry-level borrowers.

A similar and related trend in the market is the growing share of the national housing stock classified as build-for-rent (BFR). These BFR properties, which hit record highs during the pandemic, are new single-family homes built to be used exclusively as rental properties. The U.S. Census Bureau estimates that 81,000 single-family home starts were rental homes in 2022, representing 8 percent of all single-family starts, an all-time high. This trend has been driven by several market shifts, including growing consumer preference for single-family homes, increased mobility with remote-work, and a increase in capital investment in the housing sector in recent years.

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[16] Alexander Hermann, "8 Facts about Investor Activity in the Single-Family Rental Market," Joint Center for Housing Studies, July 18, 2023 available at: https://www.jchs.harvard.edu/blog/8-facts-about-investor-activity-single-family-rental-market.

[17] Ingrid Gould Ellen and Laurie Goodman, "Single-Family Rentals: Trends and Policy Recommendations," November 2023, available at: https://www.brookings.edu/wp-content/uploads/2023/11/20231102_THP_SingleFamilyRentals_Proposal.pdf.

Legislative Proposals

- **H.R. 7480, *the Disabled Veterans Housing Support Act*** (Rep. De La Cruz)

This bill would amend the income calculation used to determine eligible "persons of low and moderate income" under HUD's Community Development Block Grant (CDBG) program to exclude any service-connected disability compensation received by a disabled veteran from the Department of Veterans Affairs.

- *Discussion Draft* **H.R. ____, *the Housing Unhoused Disabled Veterans Act*** (Rep. Sherman)

This bill would amend the income calculation used to determine eligible households and programs under the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program to exclude any "qualified military benefit" (as defined by section 134(b)(1) of the Internal Revenue Code) received by a veteran from the Department of Veterans Affairs. The bill would also require HUD to exclude such qualified military benefits from the income calculation used for any future rental assistance program it creates to provide housing assistance to military veterans.

- **H.R. 5837, *the Protecting America's Property Rights Act*** (Rep. Garbarino)

This bill would amend the charters of Fannie Mae and Freddie Mac to require that any loan purchased by either enterprise include title insurance coverage. It would also prohibit either enterprise from implementing any new program, activity, product, or type of risk without the prior approval of both the Federal Housing Finance Agency (FHFA) and the Treasury Department. Additionally, the bill would require the FHFA Director to testify on a semi-annual basis before the House Financial Services and the Senate Banking, Housing, and Urban Affairs Committees regarding any approved new program, activity, product, or type of risk.