

Skinner: Housing and saving in the US

- ◆ Owner-occupied housing (% net wealth):
 - 1955-1970...21% => 1970-9...30%
- ◆ Life-cycle housing decisions
- ◆ Housing demand by the elderly
- ◆ House price appreciation and savings of current and potential home owners
- ◆ Housing and uncertainty

Preview

- ◆ Life-cycle models predict that unexpected greater wealth should only affect current consumption
- ◆ However, different impact on owners and renters.
- ◆ 1969-1986...low loan-to-value, low leverage=>
- ◆ Greater risk from volatile house prices?

Housing prices and housing real capital gains

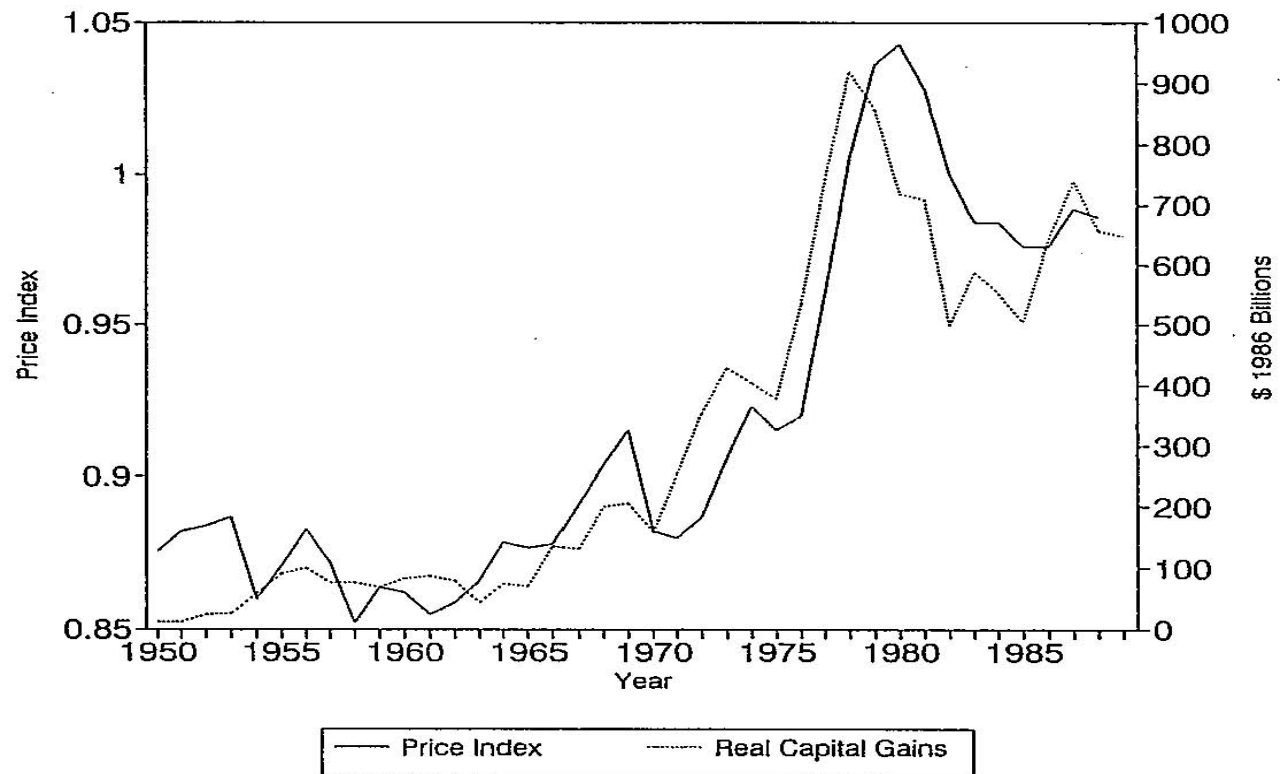
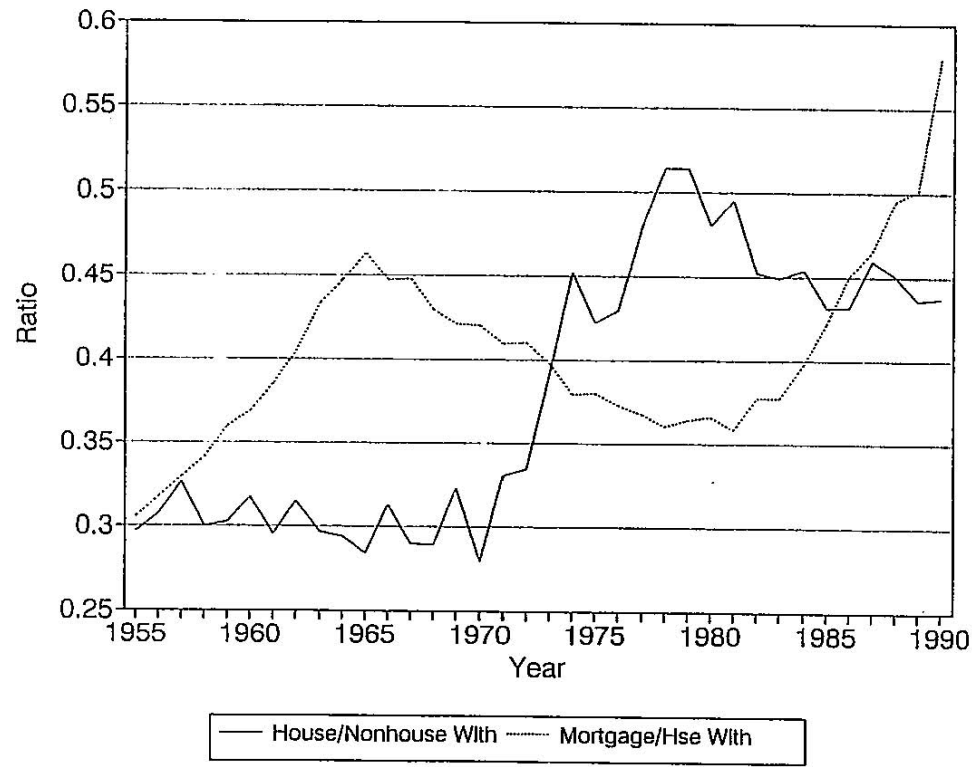


Fig. 8.1 Housing prices and housing real capital gains, 1950–89
Sources: McFadden 1992; Federal Reserve System, various years.

Aggregate wealth portfolio



Housing equity and tenure

Age	Homeowner (%)	Equity/ Net Worth	Median Equity/ Net Worth
Under 31	40.4	.480	.597
31–40	57.5	.443	.604
41–50	70.5	.354	.563
51–60	78.3	.287	.613
61–70	70.9	.239	.545
Over 71	65.0	.264	.611

Source: Survey of Consumer Finances, 1986.

Housing equity and income by age

Age	Housing Equity, 1986	Change in Equity, 1969–86 (%)	Family Income, 1986	Change in Income, 1969–86 (%)
Under 31	27,494	50.13	32,241	1.84
31–40	40,396	32.89	38,709	2.92
41–50	69,411	75.08	50,035	24.22
51–60	74,560	42.15	40,714	15.59
61–70	76,397	67.68	31,020	61.38
Over 71	60,490	64.78	25,206	44.17

Source: Survey of Consumer Finances 1969, 1986.

Housing in a life-cycle model

- ◆ A down-payment constraint: defer home ownership, starter houses
- ◆ Housing cons.=housing investment: difficult to diversify household portfolio
- ◆ High initial real mortgage payments during an inflationary period because of high nominal fixed interest rates (tilt effect)

Implications of higher house prices in the 1970s

- ◆ Greater downpayment
- ◆ Deferring a house purchase => larger non-housing investment, greater savings
- ◆ Impact of inflation is ambiguous. Greater fraction of current income as downpayment but tax advantage of home ownership since the nominal appreciation of owner-occupied housing is untaxed.

House price appreciation and saving

- ◆ Current homeowners: increase consumption by 3-6% i.e. lower savings, home equity loans freed capital gains
- ◆ Potential home owners (renters): increase savings to purchase a house later

Housing and uncertainty

- ◆ Volatility of house prices: around 18% annually
- ◆ Leverage (mortgage principal/house price): under 31 69%, 31-40...53%, 41-50...31%, 51+...0
- ◆ Mortgage payments/income: under 31 12%, 31-40...11%, 41-50...7%, 51+...0
- ◆ Modest impact