CALIFORNIA ASSOCIATION OF REALTORS®

Market Snapshot

Housing Affordability Challenges for the Younger Generation and First-Time Buyers

Housing affordability differs between age groups, as their financial characteristics vary. Potential homebuyers aged 30 and under are the ones who face the biggest challenge in the current housing affordability crisis. Based on results from the C.A.R. 2014 Annual Housing Market Survey, this group of young consumers not only has a lower household income than other age groups, but they also put a smaller downpayment when buying a property. As such, they are the group that is the least qualified to buy a median –priced home. Many of them also tend to purchase their home in the lower-priced segment, which is also the market with the tightest housing supply and the most competitive. Not surprisingly, this is also the age group with the most first-time buyers.

First-time homebuyers are among the hardest hit by rising home prices and rising interest rates. In 2014, the share of California first-time homebuyers was 30.5 percent, a decline by more than 20 percentage points from the 50.8 percent peak of first-time homebuyer market share in 1995.

Financial Characteristics: First –Time Buyers vs. Repeat Buyers

	First-time Buyers	Repeat Buyers	All Buyers
Median Household Income	$80,000	$120,000	$100,000
Median Monthly Mortgage Payment	$1,477	$1,868	$1,800
Median Downpayment (in $$)	$32,500	$100,000	$70,000
Median Downpayment (in % to Price)	10%	20%	19.70%

While it inched up slightly from 28.1 percent in 2013, it remained below the long run average of 38 percent and was the second lowest in the last seven years. The low level of first-time homebuyer is a concern because it signals a constrained flow of new households into the housing market. Without a steady stream of new households into homeownership, the trade-up market cannot be replenished properly in the long run. This occurred in the late 1980s, when low affordability curbed first-time homeownership, which in the early 1990s exacerbated the decline of the trade-up market in California.

While home prices have increased at a double-digit rate in the last two years, prospective first-time buyers did not have the advantage of accumulated home equity. Many younger households have not yet accumulated enough savings for the substantial downpayments and they have not reached their full earnings potential. They tend to face, therefore, both downpayment and income constraints.

C.A.R.'s 2014 Annual Housing Market Survey shows that first-time homebuyers have lower annual median incomes -- $80,000 versus $120,000, when compared to repeat buyers. They also make significantly smaller median downpayments than repeat buyers do -- $32,500 against $100,000. The median loan-to-value (LTV) ratio faced by first-time homebuyers is higher at 90 percent, as compared to the 79 percent loan-to-value ratio faced by repeat buyers. The higher LTV ratio could also place first-timers in a higher risk category, which is typically discounted with a higher mortgage rate. Factoring in the higher loan-to-value ratio, many first-time homebuyers have to shoulder a large monthly financial burden.

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