The Great Recession and Confidence in Homeownership

Confidence in homeownership shifts for those who personally experienced real estate loss during the Great Recession. Older Americans are confident in the value of homeownership. Younger Americans are less confident.

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Whether you still are confident of the desirability of homeownership after the Great Recession may depend on your age and your closeness to those who experienced foreclosure. Such is the conclusion of a recent Boston Fed study.[1]

Past studies have demonstrated that macroeconomic events can affect investment decisions, attitudes toward government redistribution, and confidence in public institutions. Other studies have found the effect strongest for people between the ages of 18 and 25.[2] Given the Boston Fed's ongoing interest in the Great Recession and consumer attitudes, we decided to investigate whether the recent recession, the worst U.S. economic crisis since the Great Depression, negatively impacted attitudes toward homeownership.

The Survey

To investigate, we added questions to a University of Michigan survey of consumers during July and August 2011. We asked respondents about their attitudes toward homeownership, their geographical location, and about their personal experience with the recent recession. To capture attitudes toward homeownership, we asked whether and how strongly respondents believe that owning a home is better financially than renting a home. To get the geographical location, we asked respondents for their current and 2008 ZIP codes. And to measure their level of personal experience with the crisis, we asked whether they or someone close to them experienced a foreclosure or large financial loss in the real estate market during the recession.

We found that the majority of respondents believe either that "owning a home is without a doubt better financially than renting a home" or that "owning a home is probably better financially." Only about 20 percent of our sample report that owning and renting are about the same, or that renting is better financially. Nevertheless, the two main responses—owning is *without a doubt* better financially than renting and owning is *probably* better financially—are different on an important dimension. They reflect a marked difference in *confidence* that homeownership is better financially than renting.

Specifically, we took current and 2008 ZIP codes and matched survey responses of confidence in homeownership with the actual real estate market conditions at the respondents' location.[3] We then asked ourselves, "Can differences in actual changes in real estate prices across different geographical locations explain systematic differences in attitudes towards homeownership?" We controlled for personal experience with the crisis and allowed the decline in real estate prices to have a different effect for those with and without personal experience.

We found that those who lived in places that were hit the hardest by the crash in the real estate market—as compared with those who resided in areas that were affected least—are significantly more likely to be confident about owning a home if they are older (more than 58 years old in our sample) but significantly less likely to be confident about owning a home if they are younger. The results control for demographics, current absolute house-price levels, and other factors but are concentrated in the approximately one-third of our sample who report that either they or someone close to them actually lost a large amount of money in real estate during the crisis and thus had firsthand or secondhand experience of the housing crash.[4]

This result supports the view that the Great Recession had an effect on confidence in homeownership. Importantly, the data suggest that the confidence in homeownership of younger Americans who had personal experience in the real estate crash has declined.

One might argue that the differing levels of housing-price declines in different locales reflect fundamentally different communities and that homeownership attitudes may capture differences in community characteristics and not price movements.

We cannot completely rule that possibility out, yet comparing observable characteristics such as average age, wealth, risk attitude, and homeownership rates of different communities with and without large drops in housing prices suggests that there are no systematic differences across communities with different real estate experiences. Moreover, the striking difference in the effect of the crisis on different age groups cannot be easily explained by such an argument. Given the fact that we do not see differences across communities and that different age groups within similarly affected locations responded so differently, we are comfortable about concluding that the variation in attitudes toward homeownership is indeed related to the crash itself.

Age and Experience

The different effect of the crisis across different age groups is striking. One possibility, consistent with previous research indicating that the formative years are important in shaping one's model of the world, is that younger respondents' attitudes toward homeownership are less ingrained. They might therefore have viewed the sharp drop in home prices as evidence that homes had become a more risky investment.

One also might argue that older individuals have already formed their models of the world. For us, this implies that the older respondents are seeing a change in house price as a temporary aberration, actually making the current downturn a good time to purchase. Another possible explanation for the difference across age groups is that many older respondents purchased their homes long before the crisis and their house value is greater than when they purchased it. Having investment withstand the worst economic crisis since the Great Depression can make one more confident in the value of that investment.

Another important implication of our study is that direct personal experience with a financial shock plays a central role in determining whether individual attitudes change. Even an extremely negative experience such as the Great Recession was not enough to shift the attitudes of those who lived through the crisis but did not have strong firsthand or secondhand experience of the adverse effects.

Given that the Great Recession was an extreme situation, our analysis may point to a more general rule: information alone may not be sufficient to change attitudes; actual experience may be necessary. Such a rule is consistent with research in psychology showing that firsthand experience of an adverse event is more likely to lead to changes in behavior than simply being aware that the event occurred.[5]

In summary, our main findings are that younger Americans are less confident in the value of homeownership following personal experience of real estate loss during the Great Recession, but older Americans are more confident.

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Endnotes

1 Anat Bracha and Julian C. Jamison, "Shifting Confidence in Homeownership: The Great Recession" (Federal Reserve Bank of Boston public policy discussion paper 12-4, 2012), http://www.bostonfed.org/economic/ppdp/2012/ppdp1204.htm.

2 Ulrike Malmendier and Stefan Nagel, "Depression Babies: Do Macroeconomic Experiences Affect Risk Taking?" *Quarterly Journal of Economics* 126, no.1 (2011): 373–416; Paola Giuliano and Antonio Spilimbergo, "Growing Up in a Recession: Beliefs and the Macroeconomy" (discussion paper no. 4365, Institute for the Study of Labor, Bonn, Germany, 2009).

3 Collecting both current and 2008 ZIP codes enabled us to distinguish the effect of more-recent real estate market conditions from the effect of the conditions at the peak of the financial crisis.

4 One-third of the entire sample had personal experience (or were close to someone who did). Looking only at that third of the sample, living in an area hit harder by the crash is associated with *higher* confidence for respondents over 58. For respondents 58 and under, living in area hit harder by the crash is associated with *lower* confidence.

5 Neil Weinstein, "Effects of Personal Experience on Self-Protective Behavior," *Psychological Bulletin* 105, no. 1 (1989): 31-50.