Research Brief

HOMEOWNERSHIP IN SANTA CLARA COUNTY

In the Context of Longer-Term Housing Trends, Wealth, and Economic Mobility

October 2021

JOINT VENTURE SILICON VALLEY
INSTITUTE for REGIONAL STUDIES

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This research brief examines homeownership in Santa Clara County, including data and analysis in the context of longer-term housing trends, the wealth gap, and economic mobility. The work was commissioned by the Santa Clara County Association of REALTORS in partnership with the Silicon Valley Association of REALTORS, with the intention of informing their work, and serving as a resource to Silicon Valley leaders and community members interested in the interconnections between homeownership and other indicators of regional health.

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Introduction

Homeownership has long been established as a fundamental means of wealth-building and for providing financial stability, particularly as homeowners approach retirement. In regions like Silicon Valley—where the cost of living is extraordinarily high and income inequality is stark—housing affordability and availability are key factors in determining the extent of the wealth gap.

While the long-term benefits of homeownership are numerous, the choice of whether or not to purchase a home is more complex. Many factors weigh into decision-making, including job- and financial-security, savings, availability of inventory on the market, access to credit, and affordability among others things. This report is intended to examine the characteristics of renters versus homeowners, the ability to build wealth and financial security through homeownership, and to shed light on some significant barriers to purchasing a home in Santa Clara County.

Background

Whether or not a person owns their home is a significant factor in their long-term financial security, housing stability, ability to retire, and even their health—including susceptibility to mental health impacts of unaffordable housing[1] and self-perceived physical health.[2] Many of these factors are rooted in the monetary aspects of homeownership, which affect a person's ability to afford their other basic needs and those of their family, save money for vacations, college, or in a rainy-day fund for unexpected bills or job losses, and accumulate assets.

However, many variables factor into a person's ability to purchase a home. High housing prices and subsequently high down payments are among the major impediments to homeownership across the country. Those impediments have become increasingly prominent over time with median home sale prices on the rise (driven by a combination of increased demand and limited inventory, as well as a growing share of higher-end homes on the market). In 1989, the median first-time homebuyer put 10% down, whereas that percentage had diminished to 6% by 2019.[3] Over that same period, first-time homebuyers have become more dependent upon relatives and/or friends to help with their down payment (up from 27% to 32%), and a much larger share require this type of assistance compared with repeat buyers (32%, compared to 8% of repeat-buyers in 2019).[4]

An estimated 77% of all U.S. household net worth in 2017 was home equity—a share that is highest among those who are least likely to own their own homes such as Black and Hispanic householders (96% and 93%, respectively), and lowest among White

1. Mason, Kate E., Emma Baker, Tony Blakely, and Rebecca J. Bentley. "Housing affordability and mental health: Does the relationship differ for renters and home purchasers?" *Social Science & Medicine.* October 2013, Vol. 94, p91-97.
2. Pollack, Craig Evan, Beth Ann Griffin, and Julia Lynch, "Housing Affordability and Health Among Homeowners and Renters." *American Journal of Preventive Medicine* (Volume 39, Issue 6). December 2010, Pages 515-521.
3. National Association of Realtors, "2020 Downpayment Expectations & Hurdles to Homeownership." April 2020.
4. Ibid.

non-Hispanic householders (64%).[5] It is through the intrinsic savings mechanism of homeownership, coupled with home value appreciation, that owning property becomes a powerful means by which people can build wealth over time.[6] Increased intergenerational wealth is also a benefit to homeowners' children, along with positive educational outcomes[7] and subsequent increases in future employment earnings.[8] Given the significant variations in homeownership rates among racial and ethnic groups,[9] these long-term effects of increased homeownership rates are closely tied to the linkage with building racial and economic equity within a community over multiple generations.[10]

The existing wealth gap is compounded by these intergenerational linkages – meaning that the inability to produce wealth can affect not only a person's family but can be a predictor of their grandchildren's wealth as well (long-lasting intergenerational effects). It has been estimated that a ten percentile difference in a person's wealth can lead to a four percentile advantage later in life for their children and more than a two percentile advantage for their grandchildren; both the extent of wealth and intergenerational wealth transmission are weaker for African American families.[11] The declining share of children who earn as much or more than their parents is closely tied to the relatively slow rise in U.S. homeownership rates since 1990 compared to other developed countries.[12]

Despite the known benefits of homeownership, many people live their entire lives without ever owning property, resulting in long-term financial ramifications. Renter tax credits and other forms of assistance, such as housing choice vouchers,[13] provide some support, but in places like Silicon Valley many renters struggle to meet their own basic needs—with 45% burdened by housing costs[14] and an additional 14% unable to afford other basic needs without assistance[15]— yet earn too much money to be eligible for such credits.[16]

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5. Share calculated from Median Value of Assets for Households, by Type of Asset Owned and Selected Characteristics. U.S. Census Bureau, Survey of Income and Program Participation, Survey Year 2018.
6. Allison Wainer & Jeffrey Zabel, "Homeownership and wealth accumulation for low-income households." *Journal of Housing Economics* 47 (2020).
7. Richard K. Green & Michelle J. White, "Measuring the Benefits of Homeowning: Effects on Children." *Journal of Urban Economics* (41, 441-461), 1997.
8. Thomas P. Boehm & Alan M. Schlottmann, "Does Home Ownership by Parents Have an Economic Impact on Their Children?" *Journal of Housing Economics* (8, 217-232), 1999.
9. Laurie S. Goodman and Christopher Mayer, "Homeownership and the American Dream." *Journal of Economic Perspectives* (Volume 32, Number 1). Winter 2018, Pages 31–58.
10. CA FWD, "Building Racial and Economic Equity Through Home Ownership," April 2021.
11. Pfeffer, Fabian T., and Alexandra Achen Killewald. 2018. "Generations of Advantage. Multigenerational Correlations in Family Wealth." *Social Forces*, 96(4): 1411-1442.
12. Goodman, Laurie S. & Christopher Mayer, "Homeownership and the American dream." *Journal of Economic Perspectives* (Volume 32, Number 1, Pages 31–58), 2018.
13. Also known as Section 8 (U.S. Department of Housing and Urban Development).
14. Housing costs are greater than 30% of gross income, based on U.S. Department of Housing and Urban Development definition of a moderate to severe financial burdens (2021 Silicon Valley Index, Joint Venture Silicon Valley).
15. 2018 Self-Sufficiency Standard for California Counties, University of Washington School of Social Work.
16. California State Assembly, Committee on Revenue and Taxation. California State Legislature Reference Books.

In the Context of Silicon Valley's Income and Wealth Divide

Silicon Valley is an extremely wealthy region, and housing is a major component of that wealth. Santa Clara County real property values for single-family properties totaled $338 billion in FY 2020-21,[17] approximately $182 billion (54%) of which is accounted for by properties with mortgages (with $106 billion in loans).[18] These Figures result in a net household real estate equity of approximately $232 billion, where residents also hold an estimated $453 billion in investable assets.[19] Combined, this total ($685 billion) is more than the GDP of Sweden and 155 other countries around the world.[20]

Silicon Valley's income inequality has grown twice as quickly as that of the state or nation over the past decade, and the wealth divide is even more stark.[21] In Santa Clara County, more than 123,000 (approximately 19% of all) households have no savings whatsoever, or are in debt; another nearly 16,000 (approximately 2% of all) households are living paycheck-to-paycheck. Meanwhile, the wealthiest 24% of households (each with more than half a million dollars in investable assets) hold more than 90% of the wealth. People whose household income is more than $100,000 annually are nearly twice as likely to own a home than lower-earning households, who often struggle to save for a down payment.

The following sections explore homeownership in Santa Clara County amid uneven access among racial and ethnic groups, and subsequent long-term outcomes such as accrual of wealth and benefits in retirement, frequency of moves, and other comparisons to renting.

17. Includes detached and small, 2-4 unit attached single-family residences, condos, and miscellaneous residential (from the Santa Clara County Assessor, 2020-2021 Annual Report).

18. Based on Federal Financial Institutions Examination Council (FFIEC) Home Mortgage Disclosure Act Data, 2020 data collection as of April 27, 2020.

19. *2020 Silicon Valley Index*

20. World Bank, 2020 GDP All Countries & Economies. World Bank national accounts data, and OECD National Accounts data files.

21. 2021 Silicon Valley Index. Joint Venture Silicon Valley (www.jointventure.org).

Analysis

Snapshot of Trends in Homeownership

Santa Clara County

Homeownership Rate[22]

32% Adults Overall

Adults Ages 35-44: **32%**
Asian: **34%**
White: **28%**
Hispanic or Latino: **13%**
Black or African American: **12%**

(U.S. CENSUS BUREAU, 2015-2019 AMERICAN COMMUNITY SURVEY PUMS; FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL 2020 HOME MORTGAGE DISCLOSURE ACT DATA)

Median Home Sale Price

Single Family: **$1,600,000**
Condos/Co-ops: **$880,000**
Mobile Homes: **$243,000**

(MLSLISTINGS, INC.)

Affordability

Share of First-Time Homebuyers Who Can Afford A Median Priced Home

21%

Black: **11%**
Latinx: **11%**
Asian: **37%**
Bay Area: **19%**

California (Single-Family Homes): **23%**

United States: **50%**

(CALIFORNIA ASSOCIATION OF REALTORS, Q2 2021; 2020 BY RACE AND ETHNICITY)

Average Age of Homeowner

50 Overall

With a Mortgage: **48**
Owned Free & Clear: **57**

Compared to 2005

Overall: **48**
Mortgage: **35**
Free & Clear: **55**

(U.S. CENSUS BUREAU, 2015-2019 AMERICAN COMMUNITY SURVEY PUMS WITH PERSON WEIGHTS; 2005 1-YEAR PUMS)

Average Homeowner Household Size

3.0 people

Compared to Santa Clara County *Renter* Households: **2.9**

(U.S. CENSUS BUREAU, 2015-2019 AMERICAN COMMUNITY SURVEY PUMS)

Average Turnover Rate

Share of Residents Who Move Each Year

2% per year

Owned with a Mortgage: **2.0%**
Owned Free & Clear: **1.1%**
Rent: **9.5%**

(ISSI ROMEM, METROSIGHT 2021. HOPE TOOL, VERSION 1.0)

22. In contrast to homeownership rates from the U.S. Census Bureau housing tenure estimates (which include those living in owned homes, regardless of whether or not they are the homeowner), these homeownership rates are estimated using the number of adults living in owned homes free and clear (from the Census data) and the number of adults with mortgages from the Home Mortgage Disclosure Act Data. See annotation with Figure 1 for details.

Homeownership Rates

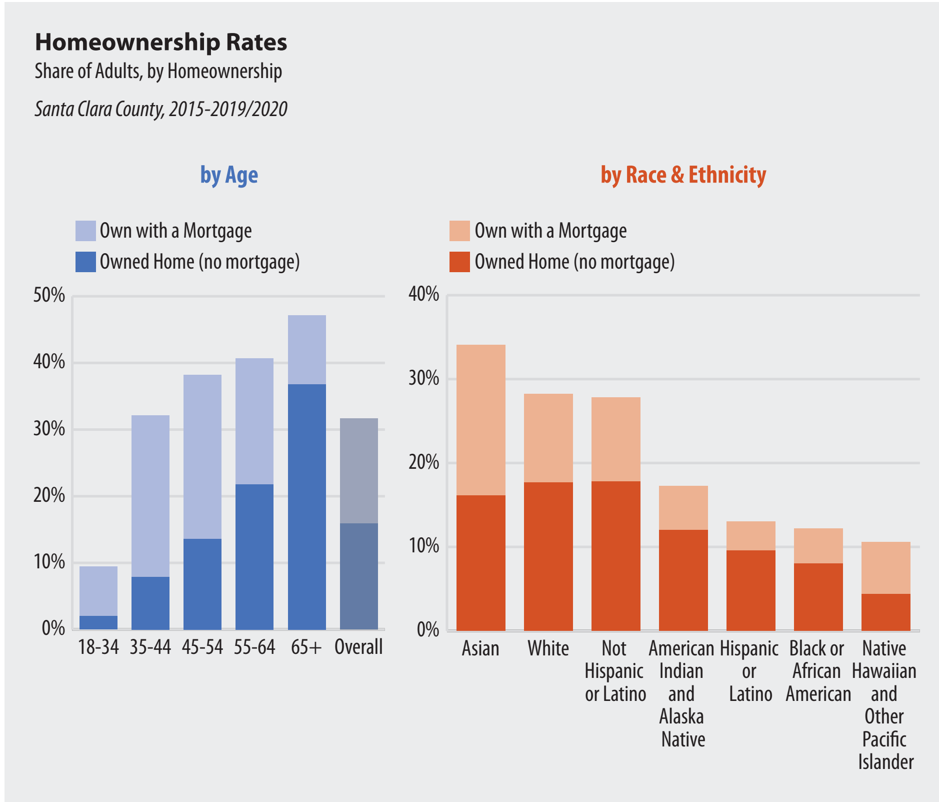
Homeownership rates in Santa Clara County vary by race, ethnicity, and age, with the highest rates among White and Asian residents and those over age 65.

In Santa Clara County, 57% of adults live in owned-homes,[23] but only 32% are homeowners themselves (whether alone or with a co-owner). Furthermore, that share varies significantly among householders by race and ethnicity. While 34% of Asian adults own their home, only 13% of Hispanic or Latino adults are homeowners; Black or African American adults have a homeownership rate of 12%, while Native Hawaiian and Other Pacific Islanders have the lowest rate at less than 11%.

The county's highest homeownership rates are among older residents (ages 65+) at 47%, with nearly eight out of 10 owning their home free and clear. In comparison, less than one-third (32%) of Santa Clara County 35- to 44-year-olds own their own home, and only a small share (9%) of young adults ages 18-34 own a home.

23. U.S. Census Bureau,2015-2019 American Community Survey. The term "homeownership rate" is often used to mean different things based upon the data it utilizes and its intended purpose. On the U.S. Census Bureau's American Community Survey, respondents are asked whether an owner-occupied housing unit is either owned by "you or someone in this household with a mortgage or loan" or "by you or someone in this household free and clear (without a mortgage or loan)." As such, estimates of homeownership rates using census household data actually indicate the share of people who live in owned homes, not those who actually purchased a home themselves.

Figure 1:



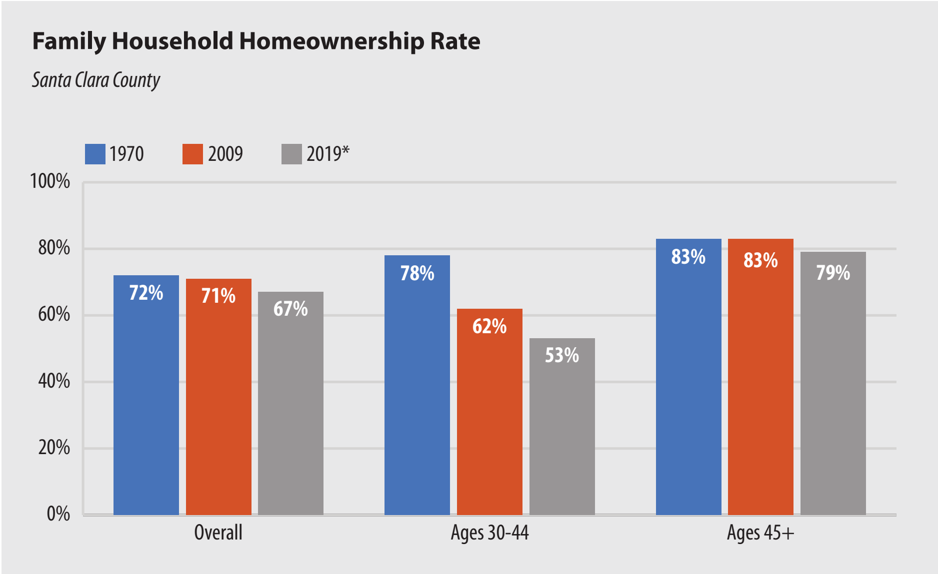
Data Sources: U.S. Census Bureau, 2015-2019 American Community Survey PUMS; Federal Financial Institutions Examination Council

Notes: The number of adults who own a home free and clear (without a mortgage) is from the U.S. Census Bureau, 2015-2019 American Community Survey (ACS) Public Use Microdata (PUMS). The number of adults who own a home with a mortgage is from the Federal Financial Institutions Examination Council (FFIEC) Home Mortgage Disclosure Act Data, 2020 data collection as of April 27, 2020. Homeownership Rates represent the share of adults ages 18+ who own a home (with or without a mortgage) divided by the number of adults ages 18+ for which age and/or race and ethnicity were available in the 5-Year ACS data. Rates of homeownership with a mortgage by race and ethnicity may be slightly underestimated since race and ethnicity are self-reported on mortgage loan applications. Homeownership rates for young adults (ages 18-34) are estimated as the sum of adults ages 18-34 with a mortgage and those living in an owned home minus the estimated share living with a parent who is the homeowner (from the 2021 Silicon Valley Index, Joint Venture Silicon Valley).

Since 1970, homeownership rates among Santa Clara County's young families have declined by twenty-five percentage points.

Over the past half-century, the share of young married-couples who own their own home in Santa Clara County has declined by 25 percentage points (from 78% in 1970, to 53% in 2019). The decline in homeownership rates for young family households has been more dramatic than that of married-couple households overall and that of those headed by older homeowners (ages 45+), both of which decreased by four percentage points over that same period.

Figure 2:



*2015-2019

Data Source: U.S. Census Bureau (2015-2019 American Community Survey PUMS, 2005-2009 American Community Survey PUMS, and 1970 Decennial Census on 2010 Geographies via Social Explorer).

Notes: Includes Married Couple Family households only for consistency with older data.

Market Inventory and Home Loans, by Value

While the majority of Santa Clara County homes listed for sale are in the higher price ranges, lower-priced (below $600,000) condos, townhouses, and mobile homes provide an opportunity for homeowners to maximize square footage.

Of the existing inventory of residential mortgages within the County, homeowners of properties valued below $600,000 had a median income of $109,000 at the time of loan origination.

With median sale prices of $1.3 to $1.6 million since 2018, a large majority of Santa Clara County homes are listed at more than $1 million; but while limited in number, there have been around 2,000 homes listed annually in the lower price ranges (<$600,000). In the first half of 2021 alone, the nearly 1,400 homes listed below $600k represented 11% of the for-sale inventory. Of those homes, more than half were condos/townhouses, 41% were mobile homes, and 2% (22) were single-family homes.

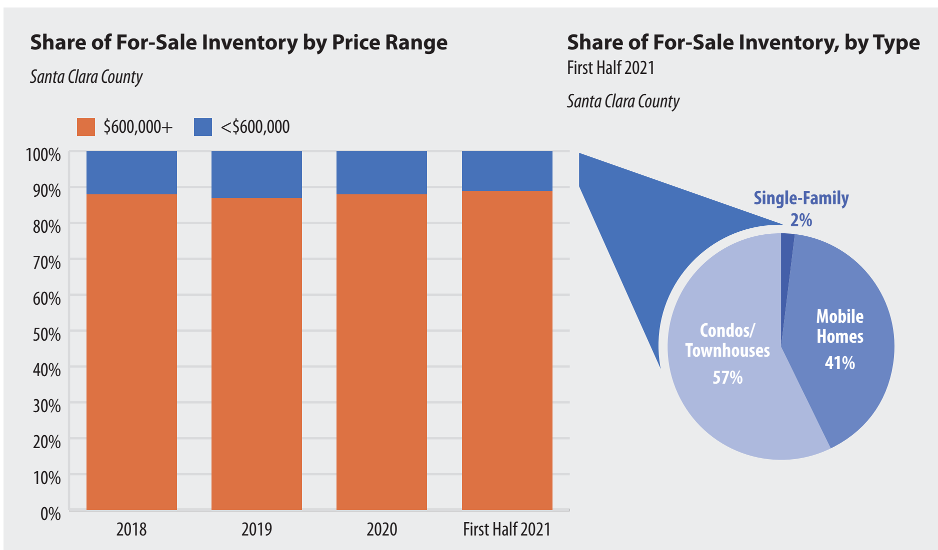
Figure 3:

Average Sale Price per Square Foot for a Median Priced Home, by Type *Santa Clara County, First Half 2021*	
Single Family Homes	$898
Condos/Townhouses	$653
Mobile Homes	$199

Data Source: MLSListings, Inc.

While representing a relatively small share of total homes on the market, the inventory of condos, townhomes, and mobile homes in this lower price range presents an opportunity for residents looking for larger spaces to accommodate their families. For example, Santa Clara County mobile homes sold for an average of $199 per square foot in the first half of 2021, providing nearly five times the amount of space than a median-priced single family home. Additionally, more than half (56%) of the mobile homes listed for sale during that period had three bedrooms, compared to only 41% of comparably-priced single-family homes.

Figure 4:



Data Source: MLSListings, Inc.

The existing inventory of homes with mortgages in Santa Clara County[24] indicates that homes valued at below $600,000 represent 4.2% of loans. Those loan recipients had

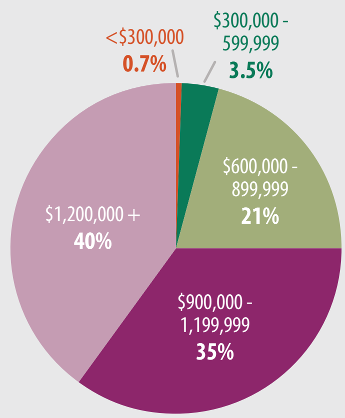
24. Based on 2020 data.

median household incomes of $109,000 at the time of loan origination, compared to $140,000 (for homes $600-899k) and $201,000 (homes >$900k).[25]

Figure 5:

Share of Mortgages by Home Values

Santa Clara County, 2020



Data Sources: Federal Financial Institutions Examination Council (FFIEC) Home Mortgage Disclosure Act Data, 2020

Notes: Analysis excludes mortgages for which property value was unavailable

Barriers and Opportunities

Down payments represent a greater challenge to homeownership in Santa Clara County than monthly mortgage payments or availability of inventory, beyond which residents could experience greater levels of Self Sufficiency and equity among racial and ethnic groups.

Based on analysis from the California Association of Realtors, only 22% of potential first-time homebuyers in Santa Clara County can afford a median-priced home.[26] This calculation is based on the ability of those potential buyers to afford both the down payment as well as ongoing costs, and is highly influenced by the area's high median home prices. This affordability index is also highly variable by race and ethnicity, with a median home affordable to only 11% of potential Black and Latinx first-time homebuyers, but to significantly higher shares of non-Hispanic White and Asian residents (32% and 37%, respectively).[27]

25. Excludes mortgages where income data were unavailable.

26. Q1 2021, with a minimum qualifying income of $273,200 and $1.5 million median home price.

27. 2020 Housing Affordability Index by Race and Ethnicity, Santa Clara County (California Association of Realtors).

The challenge presented by high mortgage down payments relative to income have been shown to disproportionately affect potential homeowners of color. White families are three times more likely to receive a gift of funds or inheritance to support a down payment than Black or African American families, and more than four times more likely than Hispanic families.[28]

Nationally, it has been estimated that the average renter would need to save for 14 years in order to afford a home down payment[29] and only one-third of Millennials believe that they could save up for a down payment within five years.[30] Assuming a median household income in Santa Clara County, even if a renter was able to save 10% of their gross income annually, it would take *65 years* in order to save the down payment for a median priced condo/townhome—not even taking into account that the region's real estate prices rise faster than median incomes. Given the high rates of renters burdened[31] by housing costs (45%) and persistent affordability issues in Santa Clara County, the possibility of saving up for decades for a down payment at a moderate income appears even more unrealistic.

Key Home Loan Assistance Programs

Empower Homebuyers SCC

Housing Trust Silicon Valley

- Down payment assistance for qualified first-time homebuyers
- For homes up to $1,100,000 and loans up to 17% of the purchase price
- Shared-appreciation model repay loan
- Funded through 2016 Measure A Affordable Housing Bond

https://housingtrustsv.org/programs/homebuyer-assistance/empower-homebuyers-scc/

Federal Housing Administration (FHA) Loans

U.S. Dept. of Housing and Urban Development

- Loan guarantees that lower required credit scores and down payments (to as low as 3.5% of the purchase price)
- Homebuyers borrow from FHA-approved lenders and obtain mortgage insurance
- Various program structures / interest rates available

https://www.hud.gov/buying/loans

What happens if we remove the barrier of the down payment?

If monthly payments were the *only* factor in determining affordability, then an average renter in Silicon Valley could afford to purchase a home in the range of $534,000 to $896,000. Similarly, a $300,000 home would be affordable to someone with an annual household income of approximately $53,000 (with monthly payments at 30% of gross income) who[32] would otherwise be unable to meet their own basic needs without

28. Michael Stegman and Mike Loftin, "An Essential Role for Down Payment Assistance in Closing America's Racial Homeownership and Wealth Gaps." Urban Institute, April 2021 (original source Federal Reserve).

29. Ibid (original source, Moody's Analytics).

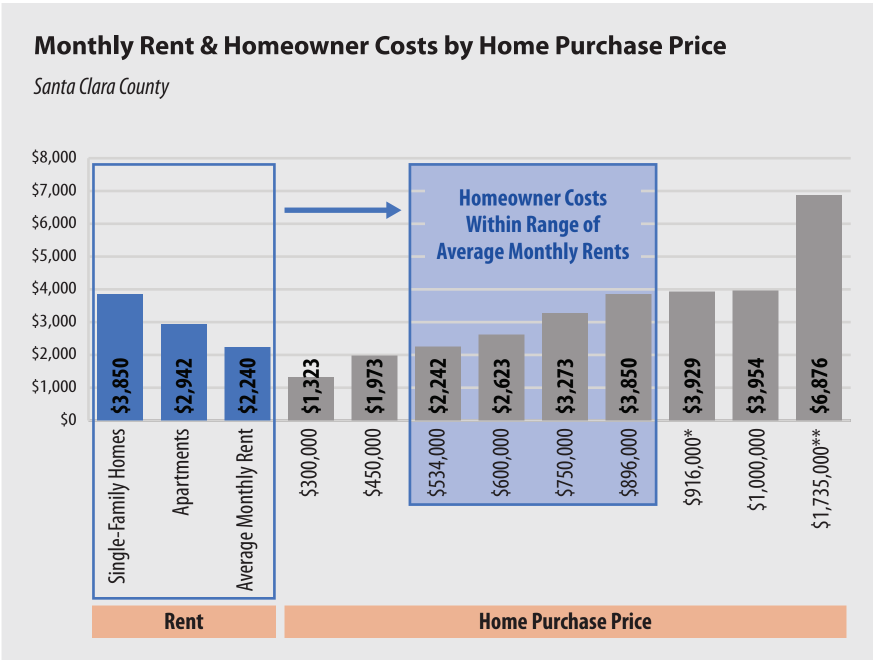
30. Apartmentlist.com (via Statista Research Department, "Millennials who can save enough for a 10% down payment U.S. 2017 by timespan." November 6, 2020). Survey conducted in 2016-2017 including Millennial renters, born between 1982 and 2004.

31. Housing costs are greater than 30% of gross income, based on U.S. Department of Housing and Urban Development definition of a moderate to severe financial burdens (2021 Silicon Valley Index, Joint Venture Silicon Valley).

32. Regardless of household size, including single adults.

assistance[33] as a renter.[34] In this case, a household with inadequate income to meet Self-Sufficiency Standards as a renter would benefit from homeownership, but must first overcome the down payment hurdle; this can be done through assistance from programs such as the Housing Trust Silicon Valley's Empower Homebuyers SCC[35] or Federal Housing Administration (FHA) Loans.[36]

Figure 6:



Ratio of Down Payment to Median Household Income

Santa Clara County, 2021

Home Price	Down Payment/ Median Household Income
$300,000	0.4
$450,000	0.6
$600,000	0.9
$702,610	1.0 (median household income = 20% down payment)
$750,000	1.1
$916,000*	1.3
$1,000,000	1.4
$1,735,000**	2.5

*Median Condo/Townhome Sale Price

**Median Single Family Home Sale Price

Data Sources: Santa Clara County Association of Realtors; Zillow; U.S. Census Bureau, American Community Survey; Altos Research; Federal Housing Administration

Notes: Apartment and Single-Family Home rental rates are from Altos Research and represent a 21-zip code average for Santa Clara County in 2020. Average Monthly Rent is from the U.S. Census Bureau, American Community Survey 1-Year Estimates for 2019. Monthly Homeowner Payments were estimated using the average 30-year fixed (2.61%) and 30-year fixed jumbo (2.85% for loans over the 2021 conforming loan limit from the Federal Housing Administration of $822,375) interest rates from Zillow, as of Aug 4, 2021, assuming a 20% down payment and including estimated insurance and an average estimated local property tax rate of 0.77%. Median Santa Clara County Condo/Townhome and Single-Family Home Sale Prices are from the Santa Clara County Association of Realtors, Monthly Statistics for June 2021. Median Household Income is from the U.S. Census Bureau, American Community Survey 1-Year Estimates for Santa Clara County ($133,076 in 2019), inflated to 2021 dollars using the Bay Area Consumer Price Index 2021 estimate using data through April.

While there are relatively few single-family homes in Santa Clara County for sale below $600,000 (22 in the first half of 2021), there were a much larger number of condos/co-ops (778) and mobile homes (557) listed in that price range.

33. Based on the 2021 Self-Sufficiency Standard for California, Santa Clara County.

34. If renting at fair market rate, as defined by the U.S. Department of Housing and Urban Development (HUD).

35. The Housing Trust Silicon Valley, Empower Homebuyers SCC program; funded by the 2016 Measure A Affordable Housing Bond (https://housingtrustsv.org/programs/homebuyer-assistance/empower-homebuyers-scc/)

36. U.S. Department of Housing and Urban Development (www.hud.gov/buying/loans)

Wealth-Building & Housing Stability

The long-term financial impact of renting vs. buying in Santa Clara County is significant.

For a person of retirement age (65) in 2021, the estimated financial impact of renting since age 18 is a loss of $1.04 million in 2021 inflation-adjusted dollars over 47 years. In contrast, if that person had rented from age 18 through 34 and then purchased a median-priced single-family home at age 35,[37] they could have sold it in 2021 with a net profit of approximately $317,000 (not including fees or other costs – *see methodological note*).

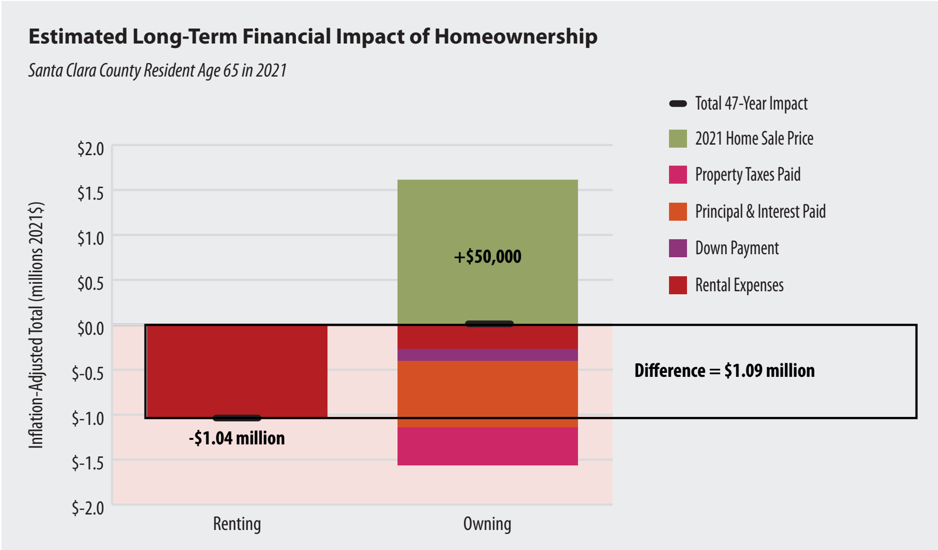
This example—based on local, historical prices (median single-family home prices and median gross rent) and average home mortgage interest rates—illustrates an estimated $1.09 million net financial benefit to purchasing a home at age 35 compared to perpetual renting over the course of one's working-age years.

Even if the 65-year-old homeowner chose not to sell their home in 2021, that homeowner would have the option of continuing to live in their fully-paid-off home for less than a quarter of the cost of renting (around $7,000 annually in property taxes, compared to approximately $30,000 in annual median-priced rent).

While this example is based on specific parameters and median-priced housing, it illustrates the significant long-term financial benefits of homeownership when factors such as mortgage interest tax write-offs are taken into consideration. In a real-world scenario, the parameters would be influenced by such things as quality and size of the residence, age at time of home purchase, and income level over the course of a person's working years.

37. The most common generations of homebuyers in the U.S., based on a 2019-2020 survey, were Older Gen Y/Millennials & Generation X (representing an approximate age range of 31 to 55 in 2020). National Association of REALTORS Research Group, "2021 Home Buyers and Sellers Generational Trends Report." 2021.

Figure 7:



While mortgage payments and rents may be similar on a monthly basis, the long-term financial benefits of purchasing a home add up to a significant amount.

Data Sources: MLSListings Inc. (2021 Median Home Sale Price); California Association of Realtors (1990 Median Home Sale Price); U.S. Census Bureau, Decennial Census (1970-2000) and American Community Survey 1-Year Estimates (2010-2019), via Social Explorer (Median Gross Rent)

Notes: Analysis does not include factors such as quality or size of owned vs. rented housing, long-term home maintenance costs, or realtor fees. Financial impact of renting is based on estimated median gross rent, adjusted to 2021 dollars; financial impact of homeownership based on the purchase of a median-priced single-family home at age 35, plus rental costs from age 18 through 34. 2021 Median Sale Price is for a single family home and based on the first half of the year. Mortgage interest is estimated based on the U.S. average 1990 30-year fixed mortgage interest rate of 10.13% and a 20% down payment. Property taxes are calculated as 1% of the purchase price plus a 2% increase annually. Principal & Interest paid is after estimated mortgage interest tax write-off, using average historical federal income tax rates.

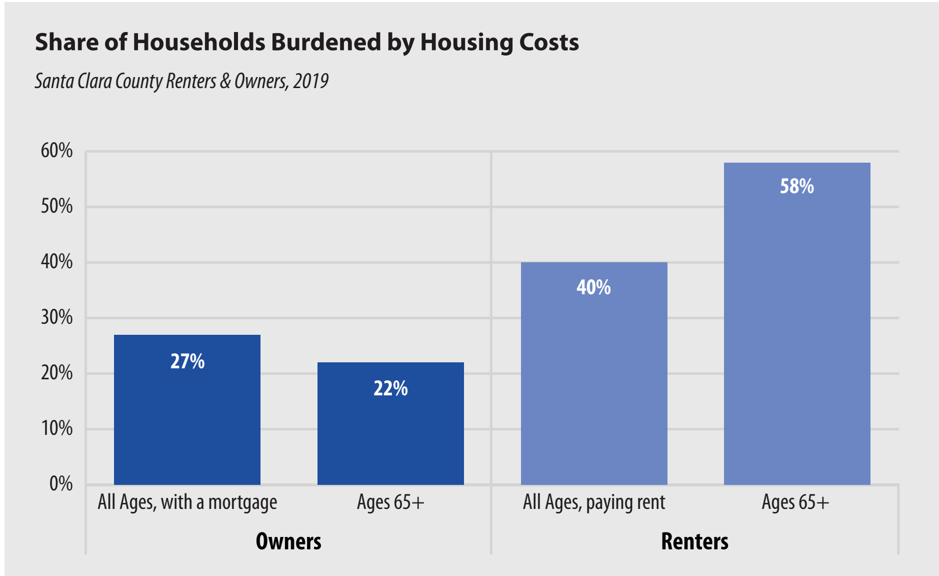
Owning a home not only promotes financial stability and wealth-building, but also buffers against housing burdens in retirement.

In addition to the benefits illustrated in the long-term financial comparison of owning versus renting, a breakdown on housing burden for homeowners and renters ages 65+ illustrates the impact of ownership.

Homeowners of retirement age (65+) have more financial stability, with a smaller share burdened by housing costs (22%, compared to 58% of renters) and lower average loan amounts ($465,000) and loan to value ratios (39) than younger homeowners ($721,000 and average loan to value ratio of 69 for those ages 25-34).[38]

38. Based on Federal Financial Institutions Examination Council (FFIEC) Home Mortgage Disclosure Act Data, 2020 data collection as of April 27, 2020.

Figure 8:



Data Sources: U.S. Census Bureau, American Community Survey PUMS

Notes: Data are from the U.S. Census Bureau, American Community Survey Public Use Microdata (PUMS). Owners include householders of all ages (with a mortgage) and those ages 65+ (with a mortgage, or owned free and clear). Renters include those of all ages (paying rent) and those ages 65+ (regardless of rent payments).

Additional Considerations

Homeownership increases locational stability – reducing the frequency of moves and buffering against uncertainties in monthly housing costs, while the forced-savings mechanism not only increases opportunities for wealth building but also promotes long-term, intergenerational wealth.

The following are some additional considerations regarding homeownership in Santa Clara County.

This list is not intended to be comprehensive of all additional benefits of homeownership

Ability to predict future monthly housing costs.

While homeownership is not without additional, sometimes unexpected expenses (such as maintenance and repairs), the ability of homeowners to lock in fixed mortgage rates provides a mechanism of anticipating monthly housing costs over time. This knowledge offers a level of certainty to homeowners that renters typically lack, considering the difficulties in predicting future rental rates. The possibility of rent increases over time not only provide a level of financial uncertainty, but also represent a significant hurdle to saving up for a down payment. An estimated one out of five adults (and one out of three Millennials) cited rental rate increases as a major factor in not purchasing a home.[39] Nearly three-quarters of Millennials who decided against homeownership cited inability to afford a home as the number one consideration, compared to 34% who preferred the flexibility that renting provides.[40]

Over the past decade, Santa Clara County median rental rates have increased by 69%,[41] outpacing the rise in median household income (+57%)[42] and the regional inflation rate for all goods and services (+30%).[43] Home ownership is a potential means by which to buffer the impact of rising rental rates.

39. National Association of Realtors, "2020 Downpayment Expectations & Hurdles to Homeownership." April 2020. Millennials were in the age range of approximately 23 to 38 at the time of the survey.

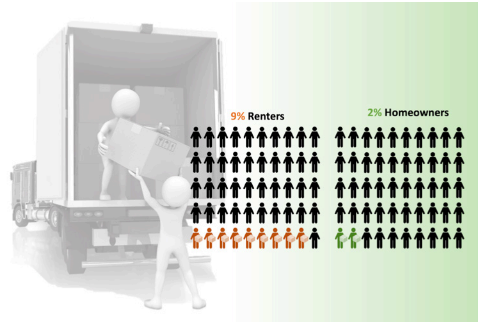
40. Apartmentlist.com (via Statista Research Department, "Reasons for Millennials to choose renting over buying a home U.S. 2020." March 16, 2021). Survey from 2020, includes Millennial renters between the ages of 24 and 39.

41. Based on nominal change from 2010 to 2019 in monthly median gross rent from the U.S. Census Bureau, American Community Survey 1-Year Estimates (via Social Explorer).

42. U.S. Census Bureau, American Community Survey 1-Year Estimates for 2010 and 2019 (nominal).

43. 2010 to 2019 change in the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics.

Moving less frequently.



Santa Clara County renters tend to move more frequently than homeowners. Between 2015 and 2019, less than 2% of homeowners moved, whereas approximately 9% of renters relocated each year.[44] While it is difficult to remove other influencing factors from the decision of renters to move more frequently, a study conducted by the U.S. Census Bureau in 2014 suggests that renters are twice as likely to move in order to decrease their housing costs compared to homeowners.[45]

Opportunities to build intergenerational wealth.

Limited wealth data through multiple generations in the U.S. exists, and relatively few studies have been conducted on wealth through two- (and especially three-generations) of family lineage or following offspring to older ages. However, the studies that have been done have introduced a variety of mechanisms by which wealth is transmitted through generations within families, such as through direct transfers of funds and gifts, and increased educational attainment outcomes (and thus differences in occupations and income, and investment acumen), as well as direct and indirect assistance with homeownership and the shaping of children's financial thought processes.[46]

Parental and grand-parental wealth have been linked to their offspring's ability to purchase homes and thereby build subsequent wealth. One mechanism is through down payment assistance, since down payments are a major hurdle in homeownership attainment. The ability to help children with wedding costs, as well, may be a key mechanism by which marriage is linked to wealth-generation (as found in a national longitudinal study[47]). This is particularly relevant in the context of their children's ability to become homeowners, considering that wedding costs often delay low-income couples from saving for a down payment.[48] Furthermore, parents who are homeowners themselves are more likely to help their children or other family members with a down payment (24%) than non-owners (11%).[49]

44. U.S. Census Bureau, American Community Survey 2015-2019 Estimates (via Issi Romem. HOPE Tool, California: Version 1.0. Walnut Creek, CA: MetroSight, 2021).

45. Ihrke, David. "Reasons for Moving: 2012 to 2013," U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau (June 2014).

46. Pfeffer, F. T., & Killewald, A. (2018). Generations of Advantage. Multigenerational Correlations in Family Wealth. *Social Forces*, *96*(4), 1411–1442.

47. Zagorsky, Jay L. 2005. "Marriage and Divorce's Impact on Wealth." *Journal of Sociology* 41 (4):406–24.

48. Smock, Pamela J., Wendy D. Manning, and Meredith Porter. 2005. "'Everything's There Except Money': How Money Shapes Decisions to Marry Among Cohabitors." *Journal of Marriage and Family* 67 (3):680–96.

49. National Association of Realtors, "2020 Downpayment Expectations & Hurdles to Homeownership." April 2020.

Conclusions

Homeownership represents a significant portion of the overall wealth in Silicon Valley, but the gaping divide between wealthy and non-affluent households is reflected in homeownership rate disparities. These persistent disparities have created a feedback loop by which low rates of homeownership perpetuate wealth inequalities through multiple generations. Implications include inequities in health, access to quality education and career pathways, housing stability, financial security, and retirement outlook among other negative outcomes.

Combined with a wide array of homeownership benefits, the forced savings mechanism of purchasing property combined with historically-significant rates of property value appreciation clearly present an opportunity for the region. However, many barriers must be addressed in order to increase homeownership rates, including availability, affordability, and the difficulties inherent in a competitive market. These barriers are reflected in the declining share of young families who are homeowners in Santa Clara County, and the increasing average age of homeowners (particularly those with a mortgage).

Large down payments relative to income are among the most significant barriers to homeownership in Santa Clara County, and are heavily influenced by rising median home prices. While the for-sale inventory at lower price ranges has represented a relatively small share of listed homes, mobile homes and condos/townhomes are options that – assuming the down payment hurdle is surmountable – may provide monthly payments comparable to renting while providing adequate space for larger families, and opportunities for wealth creation.

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