Homeownership: Should Advisors Ignore the Elephant in the Room?

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Abstract

There appears to be an advisor blind spot to the presence of a very large asset found in most households: The Home. Add to this the finding that households in the United States have a widespread problem of retirement inadequacy (Board of Governors of the Federal Reserve System, 2019), and that owning a home increases the probability of retirement success (Herring, 2019). Beyond retirement, planning advice around housing is needed throughout the life cycle. A literature review shows that portfolios should be adjusted depending on the percent mortgage of a home (Gatzlaff, 2005), as well as homeowners adjusting spending downward or increasing savings with a lowering of their home's value (Hurst and Stafford, 2002). Uses of home equity, though largely used toward a new home, are sometimes used for other less desirable purposes (Greenspan, 2008). Qualitatively, lifestyle choices are for the client to decide, but it is up to the financial planner to show tradeoffs in priorities for a client to reach their most favored goals while considering behavioral biases; and these decisions throughout life should include the home, which is often a client's most valuable asset and not well understood. Housing is even classified as a risky asset by Blanchett (2017). Just as a financial analyst can recommend a favorable stock that may not fit in a client's overall financial picture as seen by a financial planner, a bank's debt-to-income calculation of how large a payment or mortgage a client can afford along with any risk factors, should be based on their current and expected future cash flows and liquidity needs. A home should be covered through many aspects of financial planning, such as educating clients on mortgage options (e.g., fees, interest rates, lines of credit, refinancing, reverse mortgage), as well as recommending a real estate debt level treated as a bond allocation for a portfolio (Gatzlaff, 2005). It is prudent knowing the real estate market well enough to be able to judge optimal times for additional investment or selling and providing advice on tax and estate transfer strategies of a home. After the literature review, the aforementioned retirement readiness data formula used shows a 20% increase with home ownership versus having no home. Finally, a Homeownership Survey of Financial Advisors (Homeownership Survey) was initiated to answer the following main questions (along with demographic data):

- Do financial planners get client housing questions and what questions are most asked?
- Do advisors receive adequate education on housing?
- Would advisors seek housing education?
- Do they feel they have the tools they need for housing analysis?

The Homeownership Survey (71.84% CFP® certificants) noted that, overwhelmingly, advisors report getting housing questions, with the most asked client housing questions concerning affordability, buying/selling, and tax considerations. Data derived from the survey shows a diversity of responses on whether advisors would seek housing education or think it should be a part of the CFP® education material. Those respondents who get more housing questions are somewhat more likely to seek education on this topic, though advisors with fewer years in the industry and those with inadequate tools to answer housing questions show a higher need for housing education. Therefore, there is some expressed need for housing education to be included in the CFP® education material or provided elsewhere that should be further explored. In particular, these results need further study into the reasons for not desiring education, which could include price, timing, company support, and other factors. Some data could be refined by a larger study, such as Race, which is a compressed variable in the Homeownership Survey. Also, qualitatively, it should be seen whether financial planner confidence in answering housing questions is gained through years in the industry. This article confirms the importance of the home and, with the Homeownership Survey, the stated presence of many client housing questions reported by advisors. While the use of reverse mortgages and home equity later in life is more recently at

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the forefront of financial planning, there should also be lifestyle discussions initiated by a financial planner when a client is buying a home, and throughout home ownership.

Introduction

Though the largest asset of most clients is the home, there appears to be a gap in housing education for financial advisors, who need to advise clients on mortgage options (e.g., fees, interest rates, lines of credit, refinancing, reverse mortgage), recommending a real estate debt level (along with non-mortgage debt) while working and while retired. It is also prudent for a financial planner to know the real estate market enough to be able to judge optimal times for additional investment or selling and providing advice on tax and estate transfer strategies of a home. The Homeownership Survey of Financial Advisors (Homeownership Survey) was conducted to find financial advisors' thoughts on housing advice for their clients, including if advisors get housing questions, if housing education is needed, and if there are sufficient tools for housing calculations.

Literature Review

Blanchett does declare that housing is often the largest asset, as well as a topic needing to be better understood by clients, even classifying it as a risky asset (2017). This is why home insurance is required when getting a mortgage, but there are also the risks of devaluation, marketability, flood, fire, contamination, and other negative possibilities. Intuitively it seems, homeowners also show evidence of home equity used as a financial buffer stated by Hurst and Stafford (2002), as well as from earlier studies including Engelhardt (1996). These studies show that consumers change behavior (increased savings or curtailing consumption) based only on a housing downturn, though the opposite is not found on home appreciation (2002). Another aspect is the use of home equity as a financial decision involving the home, noted by Greenspan et al, that while most home equity funds are used to purchase another home or refinance, the next largest use of assets pulled out from a current home are for paying down non-mortgage debt and some portion is used for home improvements (2008). Also, a study by Chetty et al, imagines the home as a portfolio asset and shows that spending less on home improvements increases liquid wealth, though not in a one-to-one manner (2017). This study is useful for advisors, who could educate clients on the efficacy of considering less spent on home wealth, especially at a time when liquidity is needed. Finally, an article by Gatzlaff (2005), also showing a house as a part of a portfolio, states that a mortgage is akin to a bond and should then be a part of a bond allocation with specific calculation based on the ratio of house/financial assets. If the home represents approximately 50% of net assets, a standard 60/40 stock-to-bond portfolio remains appropriate. With high leverage, that is mortgage debt exceeding 50% of the home's value or perhaps a few or many homes, the advisor should treat that debt as a bond, increase bond allocations only by 75 cents and stocks by 25 cents for every dollar of debt above that 50% threshold to rebalance the integrated risk. What is considered low leverage is debt less than 50% of the home value, in which case bond allocations should be decreased by 75 cents for every dollar under the threshold. If clients own their house, Gatzlaff recommends an integrated allocation of 60% stocks, 10% bonds, and 30% home equity (2005).

Financial advisor acknowledgement that housing is important to clients on many levels and likely part of the behavioral aspects of clients should be at the forefront of advising.

Methods

Retirement Readiness

Using data from the 2004 to 2019 consumer finance data, Herring's dissertation on retirement readiness shows a powerful tool that was used to highlight the factors of Race, Gender, Generation, and Housing affecting sufficient retirement (2019). In the study, whether a retiree meets an acceptable 73% of pre-retirement income during retirement or they do not, is used as the predictor of retirement success (2019). This formula was then used in this study to focus on how homeownership alone affects retirement readiness.

Homeownership Survey of Financial Advisors

After the literature review and using Herring's formula, a survey was created, the Homeownership Survey of Financial Advisors. This survey garnered 264 currently practicing advisors and 74 who are not currently advising and were not used in this research. The resulting makeup of advisors is 71.84% CFP® certificants and 26.16% practicing advisors not holding CFP® certification. The survey has five basic housing questions and then demographic information on the respondents.

Survey housing questions:

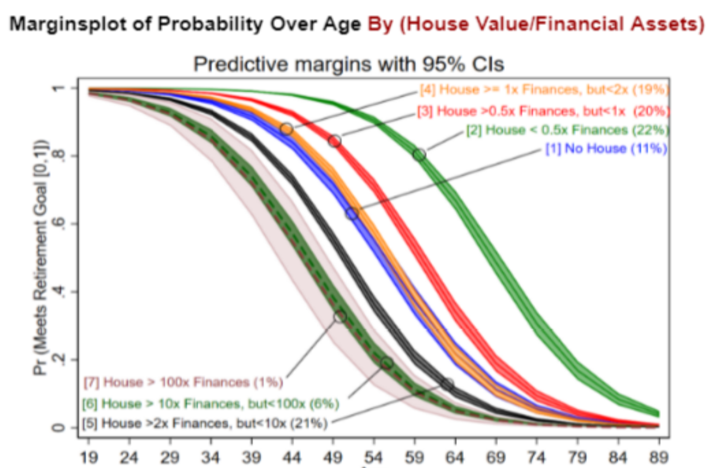
1. How often do your clients bring up questions about housing and/or primary residence?
2. What kind of questions do they ask about housing and/or primary residence most often?
3. Do you agree that CFP® certification adequately prepares advisors to advise clients on navigating financial decisions directly impacted by housing and/or primary residence decisions?
4. Do you agree that your day-to-day tools, such as software and team discussions, adequately equip you to advise clients on navigating financial decisions impacted by housing and/or primary residence decisions?
5. How likely are you to pursue an education program to help you navigate financial decisions directly impacted by housing and/or primary residence decisions?

Results and Discussion

Retirement Readiness Results

Table 1

Marginsplot by House Value



(Herring, 2019)

Retirement Readiness Discussion

Looking at the marginsplot probability of retirement success based on Herring's formula and applied in this study for the housing factor (2019), being a homeowner with healthy finances (noted as [2] House <0.5x Finances) shows a 20% greater chance than not having a house, [1] No House. This underscores the need for housing advice, though other questions are whether advisors are prepared to answer those questions throughout life, have a need for housing education, or feel they have adequate tools.

Homeownership Survey Results

Table 2

Summary Statistics A

	No CFP (28.16%)	CFP (71.84%)	Total	Chi²
Q1 CFP prepares you for housing				
Strongly disagree	4	4	8	
Disagree	2	15	17	
Neither agree nor disagree	**20**	28	48	
Agree	23	61	84	
Strongly agree	9	40	49	
Total	**58**	**148**	**206**	**10.82***
Q2 Pursue housing education				
Very unlikely	8	19	27	
Unlikely	17	32	49	
Neither likely nor unlikely	**7**	49	56	
Likely	22	40	62	
Very likely	4	8	12	
Total	**58**	**148**	**206**	**9.66***
How often clients bring up housing questions				
Never	0	0	0	
Rarely	9	10	19	
Sometimes	24	64	88	
Usually	20	53	73	
Always	5	21	26	
Total	**58**	**148**	**206**	**4.54**

* p < 0.05, ** p < 0.01, *** p < .0001

	No CFP (28.16%)	CFP (71.84%)	Total	Chi²
Tool adequacy to equip for housing questions				
Strongly disagree	2	3	5	
Disagree	4	21	25	
Neither agree nor disagree	11	19	30	
Agree	27	61	88	
Strongly agree	14	44	58	
Total	**58**	**148**	**206**	**3.99**
Current Industry				
Financial planning	37	117	154	
Investment planning	13	25	38	
Banking	1	3	4	
Others	**4**	1	5	
Total	**55**	**146**	**201**	**8.740***
Years in Financial Services				
Less than 1 year	0	1	1	
1 to 4 years	0	11	11	
5 to 9 years	3	39	42	
10 to 14 years	**11**	33	44	
15 to 19 years	16	24	40	
20 or more years	**28**	40	68	
Total	**58**	**148**	**206**	**22.56*****
Race				
White / Caucasian	46	114	160	
Asian / Pacific Islander	1	4	5	
Black or African American	0	5	5	
Hispanic	7	8	15	
Multiple ethnicity / Other	0	5	5	
Prefer not to respond	4	12	16	

* p < 0.05, ** p < 0.01, *** p < .0001

Table 3

Regression Analysis

Ordered Logit Regression	Q1 CFP prepares for housing decisions Agreeability Scale (1 – 5) Coeff (Robust SE)	Q2 Pursue housing education program Likelihood Scale (1-5) Coeff (Robust SE)
How often clients bring up housing questions	**0.693** **	**0.438** *
	(0.200)	(0.190)
Tool adequately equip for housing questions	**1.673** **	**-0.428** **
	(0.230)	(0.150)
Do you hold the CFP® certification?	**2.027** **	
	(0.690)	
Years held the CFP® certification	**-0.375** *	
	(0.180)	
Current Industry		**0.320** *
		(0.140)
Years in Financial Services		**-1.446** *
		(0.160)
Race (Ref: Whites)		**0.463** ***
		(0.386)
Number of observations	189	189
Wald chi2(15)	86.59	45.06
Prob > chi2	0.0000	0.0001
Pseudo R2	0.23	0.07
Log pseudolikelihood =	-199.5	-260.9

Homeownership Survey Discussion

Looking at Table 2, it shows 33% of current advisors choosing "Agree" that CFP® certification prepares them adequately for housing advice. However, a significant portion, 19%, remain neutral, and 10% choose "Disagree" or "Strongly disagree." These expresses concern that CFP® certification education is not adequate. Interestingly, financial advisors with 1 to 5 years in the role often selected "Neither agree nor disagree" on the question of education material meeting their needs, and those even newer to the role (less than 1 year to 3 years) showed more interest in housing being a bigger part of CFP® education, with some reporting they lack enough knowledge to assess this adequacy. This feedback could prompt a review or enhancement of the CFP® curriculum to cover housing-related financial decisions in greater depth, addressing the need for more specialized knowledge or initiate a non-CFP® educational housing program.

A majority, 58%, of current advisors chose “Agree or “Strongly agree” that their current tools are sufficient for housing-related financial advice. However, 13% expressed varying levels of disagreement with this question, indicating potential needs for better financial advising tools to provide data and choices for clients. Developing or recommending tools with specific housing analytics or enhancing team training sessions on housing decisions may address these perceived inadequacies.

The last question on the Homeownership Survey mirrored somewhat the data for adequate CFP® certification education. It showed a need for housing-related resources, newer advisors may benefit from additional guidance on answering client housing-specific inquiries. Overall, 37% of financial advisors say they would seek housing education, with 27% staying neutral, and 37% stating unlikely or very unlikely. This could prompt initiatives to clarify housing-focused content in the CFP® curriculum, especially for those in early career stages.

The regression analysis of Table 3 covers the following two questions to more fully explain them:

Q1: Do you agree that CFP® certification adequately prepares advisors to advise clients on navigating financial decisions directly impacted by housing and/or primary residence decisions?

Q2: How likely are you to pursue an education program to help you navigate financial decisions directly impacted by housing and/or primary residence decisions?

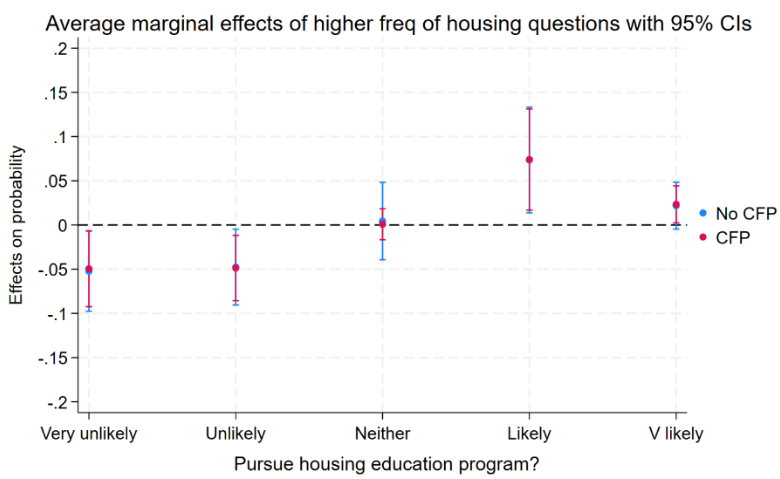
First, CFP® certificants appear more confident than non-CFP® respondents that the CFP® prepares advisors for housing-related decisions. In Table 3, CFP® holders are much more concentrated in "agree" and "strongly agree" on Q1, and the chi-square is significant, with 10.82, with $p < .05$. In the ordered logit regression, shown next, holding the CFP® is also strongly and positively associated with higher agreement on Q1 (coef. 2.027, $p < .01$).

People who encounter housing questions more often have an increased likelihood to both believe preparation matters and to want further education. That variable is positive and significant in both models: 0.693 for Q1 and 0.438 for Q2.

This is probably the most intuitive finding in the whole set. The more often clients raise housing issues, the larger the gap becomes. Another interesting result is this: feeling adequately equipped with tools reduces interest in pursuing an education program. The "tool adequately equip planners" variable is strongly positive for Q1 (1.673) but negative for Q2 (-0.428). That makes practical sense, as the tool can be used in lieu of education. If advisors think their current tools already equip them well, they are more likely to say the profession is prepared, and less likely to seek additional training themselves. In plain English: confidence suppresses demand for more housing education.

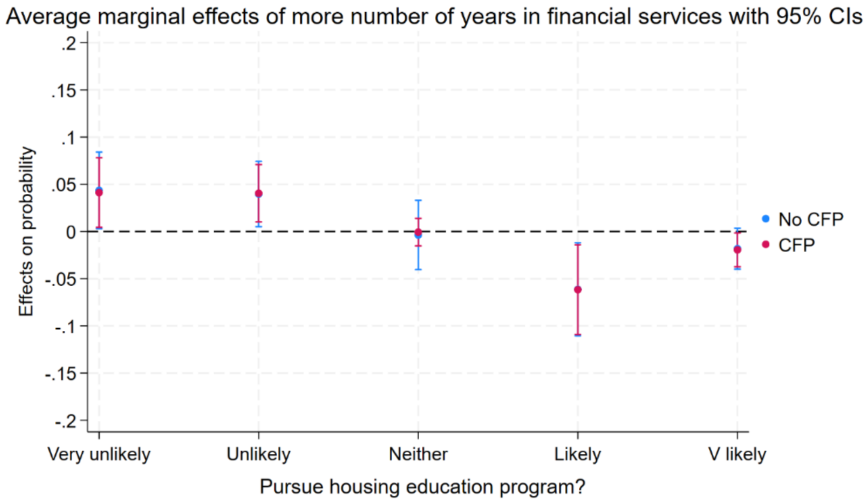
Planners who receive a high volume of housing questions are more likely to pursue housing education, regardless of their Certified Financial Planner® (CFP®) status. The analysis suggests a potential target market for a housing education program for planners with fewer years in the industry who frequently encounter housing questions.

Chart 1



In short, exposure to housing questions raises perceived need; existing confidence lowers appetite for additional education, with CFP® holders feeling more prepared overall.

Chart 2



A higher number of years in the financial industry correlates with a lower likelihood of pursuing formal housing education. The inference is that planners with more experience may feel less need for formal training. This suggests, subjectively, that they have learned how to handle housing issues through experience and life. Alternatively, older planners might simply be overconfident about their real estate knowledge, thus not feeling the need for further education.

With more experience in the industry, respondents are less likely to pursue housing education. So, again, it is likely that advisors with fewer years in the industry would be the market for housing education.

Caveats/Future Study. There is some skepticism deserved due to some coefficients in the Q2 model being counterintuitive enough that they should not be overstated without checking coding and reference categories. For example, “Years in Financial Services” is negative and significant, suggesting more experienced people are less likely to pursue housing education, which is plausible, but should be included specifically in another study. The “Race” coefficient is hard to interpret from the table because it collapses to a single line despite Race being a multi-category variable, and the coefficient/SE presentation is odd. There is the same problem with “Current Industry.” This suggests the table is simplified in a way that hides reference groups and category-specific estimates. So those results should be treated carefully and proposed for future study.

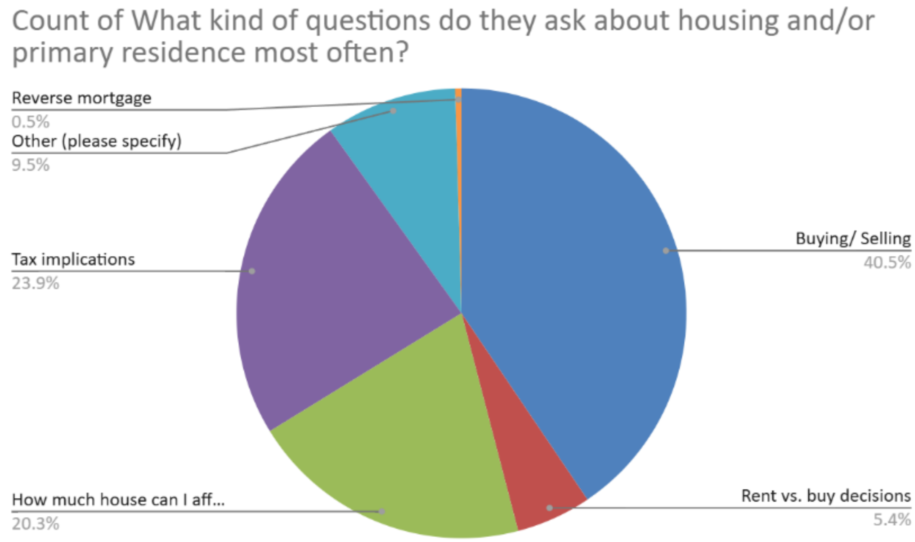
Another item that needs further study is that the Q2 model is much weaker than the Q1 model. Its pseudo R^2 is only 0.07, versus 0.23 for Q1. That means the variables do a much better job explaining the belief that CFP® prepares advisors than they do explaining interest in enrolling in education. An advisor’s decision to pursue a program is probably driven by other things not captured here, like price, time, CE credit value, employer support, and perceived relevance to their client base.

Also, the “years held the CFP®” coefficient is negative for Q1. That could mean newer CFP® professionals are more enthusiastic about the value of housing education, while longer-tenured CFPs® may be more critical or realistic about their limits. That is believable. But it could also reflect cohort effects or coding choices.

Housing Questions Results

Well over half of current financial advisors, 66%, report that housing questions arise either "Sometimes" or "Usually," highlighting a consistent demand for housing-related advice. Drilling down to which questions are most asked are reflected in Chart 3.

Chart 3



Housing Questions Discussion

The most common client questions noted by current financial advisors include 34% about Buying/Selling, 20% for Tax implications, and 17% concerning Affordability. This suggests an opportunity to bolster housing-related financial training or resources, especially around the topics of buying and selling throughout the life cycle, which should also include information on housing affordability/priorities and tax impacts.

Conclusions/Relevance

The home is found to be very important to most clients, on several fronts discussed here and homeownership accounts for a 20% bump in retirement readiness success. According to the Homeownership Survey of Financial Advisors, a majority of advisors face housing questions from clients throughout life and that group more often sees the need for housing education, while CFP® holders and those equipped with planning tools feel more prepared for housing questions and less interested in housing education. A market opportunity to initiate housing education is likely strongest among planners with fewer years in the industry who frequently encounter housing questions and those who are not fully supported by existing tools. Future study would be able to clarify the need for housing education based on other factors.

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