The Future Course of U.S. Homeownership Rates

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The U.S. homeownership rate fell from 69.2 percent in the second quarter of 2004 to 63.4 percent in the second quarter of 2015, reversing the rise from 63.8 percent in the second quarter of 1994 (U.S. Department of Commerce, 2015). The question for this article is whether the rate will plunge another 20 percentage points, or by nearly one-third, by 2050. The largest previous recorded U.S. decline was a bit less than one-tenth during the Great Depression (from 1930 to 1940).

Cross-sectionally, the homeownership rate varies substantially among developed countries (2013 data), ranging from 83.5 percent in Norway to 77.7 percent in Spain, 64.6 percent in the United Kingdom, and 53.3 percent in Germany. Similar substantial variation among U.S. states (2015 data) ranges from 74.9 percent in Michigan to 51.2 percent in New York. Thus, a lower rate is not infeasible, but a 20-point fall is implausible.

During the period from 2015 to 2050, the main drivers of the U.S. homeownership rate will include changes in the age distribution of the population, age-specific cohorts' ownership rates, and the tenure decisions of future new households. Changes in the supply of mortgage funds, public policies related to homeownership, rents, and household formation are also likely to have an effect. I argue that a 20-point decline would require a combination of plunging housing rents, surging user costs of ownership, and adverse demographic changes. None of these changes appears likely.

Some of these factors can be forecast with substantial accuracy. The U.S. population is aging and will continue to do so. Assuming lifetimes are not substantially extended, the Census Bureau projects the U.S. population will grow from 321 to 398 million in 2050. Compared with now, the cohort of adults who are younger than age 64 will fall 8.2 percentage points, while that for seniors will rise by that amount, including a 3.4-percentage-point rise in the 85-and-older population. Homeownership rates rise with age. These two facts yield a predicted increase in U.S. homeownership of about 2 percentage points, assuming the 85-and-older cohort retains a high ownership rate. If not, then the changing age distribution will raise the ownership rate by about 1 percentage point.

Age-specific homeownership rates are listed for three time periods in exhibit 1. Data columns one and two are the peak rate and year, columns three and four are the rates in the fourth quarter of 2012, and columns five and six are the rates in the second quarter of 2015. A boom in homeownership corresponded to the boom in house prices. After the peak, age-adjusted rates fell rapidly through 2012 and rates continued to decline through 2015.

Exhibit 1

Age-Specific Homeownership Rates

Age	Peak Rate	Peak Year-Quarter	2012-4 Rate	Change	2015-2 Rate	Change
Younger than 25	27.0	2005-3	21.9	− 5.1	22.7	0.8
25–29	42.8	2006-3	34.9	− 6.9	31.3	− 3.3
30–34	58.0	2004-4	48.6	− 9.4	45.2	− 3.4
35–44	70.1	2005-1	60.4	− 9.7	58.0	− 2.4
45–54	77.4	2004-4	72.1	− 5.3	69.9	− 2.2
55–64	82.4	2004-2	77.6	− 4.8	75.4	− 2.2
65 and older	81.8	2004-3	80.7	− 1.1	78.5	− 2.2

Source: U.S. Bureau of the Census (2015a)

The total reductions by age group are 10.2, 12.8, and 12.1 percentage points for the cohorts ages 25 through 29, 30 through 34, and 35 through 44, respectively, followed by 7.5 and 7.0 percent for the middle-aged cohort and by 3.3 percentage points for the senior cohort. These large decreases in homeownership of households age 44 and younger have recently reduced the U.S. rate, and they will reduce the future rate if the cohort rates remain below the typical age-homeownership profile. I estimate the result will be a further reduction in the U.S. ownership rate by 4.1 percentage points. The total effect of these two demographic factors will yield a reduction in the aggregate ownership rate of about 2 to 3 percentage points.

Why has the homeownership rate recently declined and will it continue to fall? Consider six causal factors. (1) The underlying preference for homeownership or privacy could have decreased—but no evidence supports this hypothesis. (2) The risk premium associated with house price volatility has increased, raising user costs; however, the premium should fall in the future as house prices stabilize. (3) Although mortgage lending practices tightened following the Great Recession, they changed little after 2012. Households take time to adjust to requirements for higher credit quality and larger down payments, but a decade should be sufficient for this adjustment to occur. (4) An increase in households' expected mobility raises the transaction cost component of user costs, but recent changes indicate mobility has fallen in both the general and the young adult populations (U.S. Bureau of the Census, 2015b). (5) Rents have risen recently, but this rise should increase homeownership rates. (6) Perhaps the most important factor causing the recent decline in age-specific homeownership rates is the hangover of negative credit events, such as foreclosures, short sales, and bankruptcies. The impact on credit scores of these derogatory credit effects, however, is unlikely to last beyond 2020. Consideration of these six factors suggests that age-specific homeownership rates will stabilize no later than 2025, then will rebound, but not to the previous, boom-inspired peaks. Thus, while falling age-specific ownership rates may lower the aggregate rate for a few more years, over the long term I expect increases in their levels to positively affect the U.S. homeownership rate by 2050.

Another important question is—What homeownership rate will young households attain in the future? A worst case scenario is that they achieve the same low rate of ownership as the current youth cohort, implying only about 25 percent will own a home. A factor depressing the likelihood of homeownership among current and future young adults is college debt. Recent data indicate the total outstanding student debt is $1.2 trillion, held by 40 million individuals, averaging $30,000. Thus,

instead of beginning adulthood with near-zero wealth, many youths have large debt, lowering their credit scores and requiring repayment, thus lowering their ability to accumulate a downpayment. The total impact of continuation of a low age-specific ownership rate among youth on the U.S. rate by 2050 would be a reduction of 7 percentage points. Combined with the most negative demographic scenario, the total reduction in the U.S. rate by 2050 would be about 10 percentage points.

There are multiple caveats to the previous analysis. It assumes that household formation rates remain relatively constant and that net immigration and public policies affecting homeownership remain stable. Household formation is difficult to predict because it is a function of the timing of home leaving (and return rates) by youth, and the rates of divorce, remarriage, partnering, living in groups, and seniors' tenure decisions. The rate of net immigration, especially of low-income households, influences the ownership rate. Painter, Gabriel, and Myers (2001) showed that most immigrants assimilate slowly, tending to lower the homeownership rate. Current public policies favor homeownership, but these policies could change.

In summary, the aging of the population will slowly increase the U.S. homeownership rate. This increase will be more than countered by the aging of young cohorts that have relatively low ownership rates. The reduction in age-specific ownership rates will attenuate, however, when derogatory credit events are deleted from credit histories as time passes. Thus, I expect the current level of homeownership to fall by 1 to 3 percentage points by 2020, then stabilize, and then slowly rise. If age-specific rates were to rise to their previous peaks, the aggregate rate would rise to about 70.5 percent in 2050 because of the effect of the aging of the population. Age-specific rates should remain below their previous boom-period peaks, however, yielding an ownership rate in the 66 to 68 percent range.

Acknowledgments

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