

Inside Rising Home Ownership

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From 1994 to 1997, the percentage of U.S. households owning their homes increased from 64.0 percent to 65.7 percent.¹ During this three-year period, the total number of households grew by 3.5 million (Table 1). If the home ownership rate had remained at the 1994 average, that would have translated into an additional 2.2 million home owning households and 1.3 million additional renters, but because of the increase in the home ownership rate, the total number of home owners grew by 4.0 million, while the number of renter households fell by 0.5 million.

Despite the drop in the number of renter households, as well as the completion of about 640,000 new multifamily rental units, the multifamily rental vacancy rate did not rise during the period. The reported rental vacancy rate for structures with five or more units fell from 9.8 percent in 1994 to a 12-year low of 9.1 percent in 1997. For single-family homes, however, there was an increase in

the rental vacancy rate. Rental vacancy rates can fall despite a decline in the number of renters, because housing units as well as households can change tenure.

There has been a thrust of public policy toward encouragement of home ownership, with an announced goal of raising the national home ownership rate to 67.5 percent by the year 2000. The emphasis of that effort has been on raising home ownership among minorities, low-income households, and other segments of the population that have had low home ownership rates.² An examination of the available data indicates, however, that the increase in home ownership has been very broad based.

Home ownership rates for African American households have increased slightly more than those for other population segments, but virtually all types of households had increased home ownership rates. Indeed, nearly all ethnic groups and household types had increases in home ownership rates that exceeded the 1.7 percentage point rise in the overall rate—a situation that was possible

because percentage growth in the number of households was greater among segments with below-average ownership rates, such as African American and Hispanic households and nonfamily households, than among non-Hispanic white households or married-couple households.

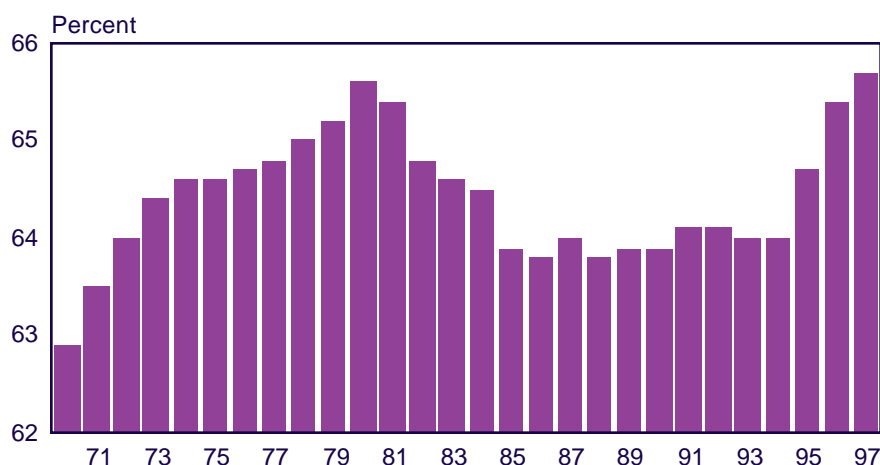
Age Groups

While the increases in home ownership within ethnic groups or types of households tended to exceed 1.7 percentage points, the increases for households in different age groups were generally less than 1.7 percentage points. This was necessarily the case, since the average age of the adult population rose, producing relatively larger increases in the numbers of middle-aged households, who typically have high ownership rates. If home ownership rates for every age group had grown by 1.7 percent, then the overall average would have grown by more than 1.7 percent.

For there to have been any home ownership rate increase at all in the 35-to-44 age bracket required a substantial surge in ownership among the later baby boomers. People born in the late 1950s and early 1960s initially became home owners at much lower rates than the first wave of boomers, and in order to catch up to earlier cohorts,³ an unusually large share needed to become first-time owners in their late 30s (Table 2).

In 1987, among households headed by people born between 1953 and 1957, then 30-to-34 years old, the home ownership rate was 53.5 percent. Five years later in 1992, at ages 35-to-39, the rate for that group was 61.4 percent, an increase of 7.9 percentage points. An increase of that

Figure 1 Home Ownership Rate



Source: U.S. Bureau of the Census, Series H-111.

Table 1 Home Ownership by Household Characteristics

	Home Ownership Rate			Millions of Households		
	1994	1997	Change	1994	1997	% Chg
All Households	64.0%	65.7%	1.7%	98.69	102.20	3.6%
Racial/Ethnic Groups						
White non-Hispanic	70.0%	72.0%	2.0%	76.59	77.70	1.4%
Black non-Hispanic	42.5%	45.4%	2.9%	11.57	12.15	5.0%
Other non-Hispanic	50.8%	53.3%	2.5%	2.87	3.73	29.9%
Hispanic	41.2%	43.3%	2.1%	7.66	8.63	12.6%
Household Types						
Married couple family	78.8%	80.8%	2.0%	53.08	53.93	1.6%
Other male-headed family	52.8%	54.0%	1.2%	3.36	3.96	17.8%
Other female-headed family	44.2%	46.1%	1.9%	12.24	12.54	2.5%
Male single person	43.1%	45.2%	2.1%	10.28	11.00	7.0%
Female single person	54.5%	56.7%	2.2%	14.48	15.08	4.1%
Other male-headed nonfamily	33.6%	35.9%	2.3%	3.28	3.49	6.5%
Other female-headed nonfamily	34.3%	39.5%	5.2%	1.97	2.20	11.4%
Age of Household Head						
Younger than 35 years	37.3%	38.7%	1.4%	25.32	24.89	-1.7%
35 to 44 years	64.5%	66.1%	1.6%	22.84	24.04	5.2%
45 to 54 years	75.2%	75.8%	0.6%	17.25	19.18	11.2%
55 to 64 years	79.3%	80.1%	0.8%	12.26	12.68	3.4%
65 years and older	77.4%	79.1%	1.7%	21.03	21.41	1.8%
Region						
Northeast	61.5%	62.4%	0.9%	19.73	19.87	0.7%
Midwest	67.7%	70.5%	2.8%	23.61	24.08	2.0%
South	65.6%	68.0%	2.4%	34.53	36.32	5.2%
West	59.4%	59.6%	0.2%	20.82	21.93	5.3%

Note: Based on annual averages of monthly data.
Source: U.S. Bureau of the Census, unpublished data from Current Population Survey.

magnitude between ages 30-to-34 and ages 35-to-39 was typical of earlier cohorts as well. For the cohort born during 1958 to 1962, the home ownership rate at ages 30-to-34, in 1992, was only 50.5 percent, but five years later in 1997, at ages 35-to-39, the home ownership rate for this cohort was 62.6 percent, a 12.1 percentage point increase. Similarly, in moving from the ages 35-to-39 in 1992 to ages 40-to-44 in 1997, home ownership among people born during 1953 to 1957 rose by 8.3 percentage points, a substantially larger increase than occurred among earlier baby boomers (born during 1946 to 1952) or among people born during the 1930s and early 1940s as they passed the 40-year-old threshold.

Regions

While increases in home ownership were broadly distributed

among racial and ethnic groups, household types, and age groups, there were distinct regional differences. The relatively low home ownership rates in the Northeast and West were virtually unchanged, while already-high rates in the Midwest and South became even higher.

The regions in which the largest home ownership rate increases occurred were also those where house prices rose to the greatest extent. Similarly, in the 1980s, the only region to experience an increase in its home ownership rate was the Northeast, and that was also the only region where large increases in real house prices occurred. This does not mean that higher house prices cause increased home ownership, but it shows that the relationship between house prices and home

ownership is complex. Although high house prices are a barrier to ownership, rising prices may create expectations of further price increases, so that home ownership will appear to be more attractive as an investment. Also, increases in both home ownership and house prices reflect growth in regional employment and income.

Structure Types

The increase in home ownership and the decline in the number of renter households failed to create a glut in the rental market, at least for multifamily units, perhaps because a substantial number of housing units that had been occupied by renters or offered for rent became owner occupied, in addition to the large share of newly built units that became owner occupied.

Timely data on owner and renter occupancy by structure type are limited. The latest data available from the biennial American Housing Survey (AHS) are for 1995. Most of the AHS data are collected near the end of the year. Between late-1993 and late-1995, according to the AHS, the overall home ownership rate increased only slightly, from 64.7 percent to 65.0 percent.⁴ The share of occupied conventional single-family units that were owner occupied increased from 82.9 percent to 83.2

Table 2 Cohort Home Ownership Progression

	Ownership at Age			
	25-29	30-34	35-39	40-44
Born				
1948-52		57.1	64.1	69.1
1953-57	38.6	53.5	61.4	69.7
1958-62	36.4	50.5	62.6	
1962-67	33.6	52.6		
1968-72	35.0			

Source: Unpublished Census Bureau data from Current Population Survey and Housing Vacancy Survey (annual averages).

percent, and the home owner share of occupied multifamily units grew from 13.9 percent to 14.0 percent (with a rise from 10.9 percent to 11.2 percent in structures of five or more units offset by a decline in two-to-four-unit structures). For mobile homes, the owner-occupied share was reported to have dropped from 79.3 percent in 1993 to 78.5 percent in 1995.

Data on tenure by structure type are also collected in the March supplement to the Current Population Survey (CPS). This little-used measure is not as reliable as the AHS, and even the CPS-based Housing Vacancy Survey does not use the CPS data on structure type for occupied units to calculate vacancy rates, relying instead on an extrapolation from the most recent AHS. For vacant units, and for the overall home ownership rate among occupied

units, CPS data are used for the quarterly vacancy report.

NAHB tabulations of the March CPS data for 1994 through 1997 indicate that there was a small increase in the owner-occupied share among all structure types. As the Table 3 shows, there is a large and variable number of units for which no structure type was reported, and this represents one of the problems in interpreting the CPS results. In addition, the CPS data are out of line with AHS data on the number of units of each type. The AHS data are probably more consistent with the official definitions of single-family and multifamily structures.

Changes in rates of owner-occupancy for particular types of housing units reflect the addition of newly built units, demolition of some older units, and movement between occupancy and vacancy,

as well as changes of existing units between owner and rental occupancy. Because the AHS is a longitudinal survey (the same units are surveyed every two years) it should be possible to measure changes from rental to owner occupancy, and vice versa, although increases or reductions in the size of the survey, nonresponses, and changes in the weights assigned to individual cases can distort the results. From 1993 to 1995, there was a fair amount of movement in both directions between owner and renter occupancy, with net movement of conventional single-family units and of mobile homes in the direction of rental occupancy, but the net movement of multifamily units was toward owner occupancy. The net movement to rental occupancy for single-family units was smaller than in earlier periods, however, and in earlier periods there were net movements of multifamily units to rental occupancy.

That there was a net shift of existing conventional single-family units from owner to rental occupancy is not surprising. Newly built single-family units are rarely placed in the rental market. According to the 1995 AHS, only 5.6 percent of all conventional single-family units, including vacant units, built in the preceding four years were rented. For recently built single-family detached units, the rented share was only 3.4 percent (Table 4). As single-family units age, more are used as rentals.

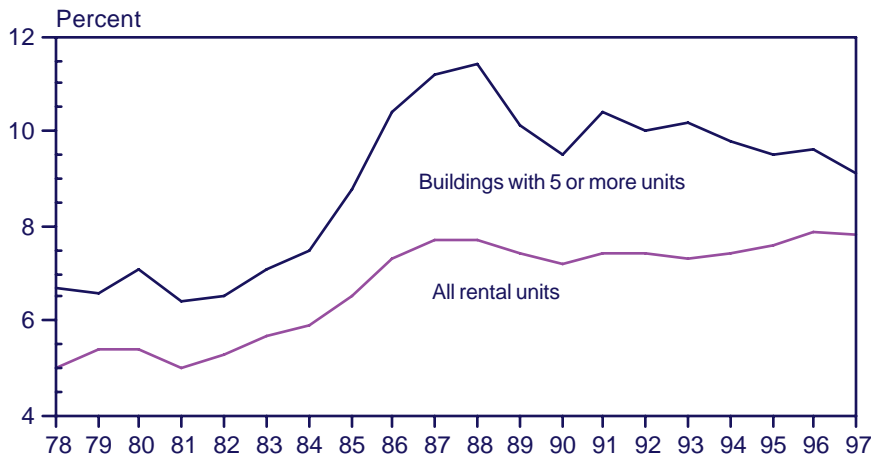
Most new multifamily units go directly into the rental market, but among older units the rented share is even higher. The share of new multifamily units explicitly built for rent, rather than as condos, was higher than usual during the 1994 to 1997 period, making the decline in the

Table 3 Number of Occupied Units by Structure Type and Tenure

	AHS 95	CPS 94	CPS 95	CPS 96	CPS 97
Single Family Units					
Own	55,194	47,989	47,555	48,950	50,526
Rent	11,178	9,348	9,129	9,230	9,275
ALL	66,372	57,336	56,683	58,179	59,800
Structures with 2-4 Units					
Own	1,734	2,827	2,560	2,829	2,867
Rent	7,565	10,970	10,396	10,720	10,601
ALL	9,299	13,797	12,956	13,548	13,468
Structures with 5 or More Units					
Own	1,780	1,188	1,231	1,269	1,276
Rent	14,080	9,678	9,161	8,970	9,523
ALL	15,860	10,866	10,392	10,239	10,799
Mobile Homes					
Own	4,837	4,456	4,446	4,513	4,649
Rent	1,328	1,281	1,311	1,229	1,273
ALL	6,164	5,737	5,757	5,742	5,922
Structure Type Not Reported					
Own	-	5,919	8,253	7,585	7,038
Rent	-	3,484	4,962	4,338	3,996
ALL	-	9,402	13,215	11,924	11,034
All Occupied Units					
Own	63,544	62,379	64,045	65,146	66,356
Rent	34,149	34,760	34,958	34,486	34,667
ALL	97,694	97,139	99,003	99,633	101,023

Source: U.S. Bureau of the Census, 1995 American Housing Survey and March supplements to Current Population Survey.

Figure 2 Rental Vacancy Rates



Source: U.S. Bureau of the Census, Series H-111

multifamily rental vacancy rate even more remarkable. Although there has not been a readily-apparent increase in condominium conversions of existing multifamily properties, it is possible that such conversions have quietly occurred and/or that a larger share of condos are becoming owner occupied.

The aging of the population would seem favor a rise in the home ownership rate, since a larger share of older households than of younger households normally own their homes. But households from the late-Boomer and Generation X

cohorts made a slow start toward home ownership, and have had to catch up to earlier cohorts in order to maintain ownership rates within age groups. Other demographic changes, such as increases in the share of households consisting of minorities, single parents, single persons, and unmarried couples, represent challenges to efforts to raise home ownership further.

¹Data on the number of households and the home ownership rate are collected as part of the monthly Current Population Survey, the same survey used to measure the unemployment rate and housing vacancies.

²U. S. Department of Housing and Urban Development, *The National Homeownership Strategy: Partners in the American Dream* (May 1995).

³In demographic-speak, a cohort is a group of people born at the same time.

⁴The CPS data show an increase from 64.2 percent to 65.1 percent from the fourth quarter of 1993 to the fourth quarter of 1995.

Conclusions

To the extent that the increase in home ownership has been the result of government policies, it is primarily due to policies that have helped reduce the deficit, inflation, and interest rates, and stimulated growth in employment and income. Regulations, moral suasion, and direct assistance programs aimed at extending home ownership to segments of the population with low ownership rates have not closed the gap between housing “haves” and “have-nots” to any obvious extent. Instead, it has been a situation in which a rising tide has tended to lift many boats. Public policy initiatives and an increased appetite for higher-risk loans on the part of private lenders may ultimately have an effect, but so far the evidence is elusive.

Table 4 Utilization of New and Old Housing Units

	Total Units	Occupied Units		
		Owner	Renter	
All Housing Units	109,456	97,695	63,544	34,151
Single-family	72,382	66,371	55,193	11,178
Detached	66,169	60,826	52,257	8,569
Attached	6,213	5,545	2,936	2,609
Multifamily	29,427	25,159	3,514	21,645
2-4 units	10,700	9,299	1,734	7,565
5 or more	18,727	15,860	1,780	14,080
5-9	5,594	4,803	520	4,283
10-19	5,092	4,342	368	3,974
20-49	3,901	3,245	342	2,903
50+	4,140	3,470	550	2,920
Mobile homes	7,647	6,165	4,837	1,328
Built in Prior 4 Years	5,831	5,329	4,439	890
Single-family	4,059	3,739	3,512	227
Detached	3,597	3,339	3,216	123
Attached	462	400	296	104
Multifamily	799	672	128	544
2-4 units	161	140	33	107
5 or more	638	532	95	437
5-9	179	138	46	92
10-19	252	218	32	186
20-49	127	109	11	98
50+	80	67	6	61
Mobile homes	973	918	799	119

Source: 1995 American Housing Survey.