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An Update on Homeownership Rates in the U.S.

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Introduction

The homeownership rate is one of the more widely followed indicators of US economic and housing market health. And yet, the aggregate rate well-disguises a number of on-going trends that are relevant for policy-makers, advocates and housing industry participants alike. Two of the main demographic trends in the US — the aging of the population and its increasing racial and ethnic diversity — tend to push and pull the homeownership rate in opposite directions.

The propensity to become a homeowner increases with age, while minority homeownership rates remain stubbornly below that of White households in the US. Beyond the changing composition of households and their observable attributes, however, it is also the case that other factors — both structural and behavioral — are resulting in lower homeownership rates at all ages, for all races and ethnicities, as compared to twenty years ago.

In this paper, we take a quick look at these trends and also briefly re-examine the minority homeownership gap in order to better understand changes that the overall homeownership rate is masking. Amazingly, the gap between White and minority homeownership rates has barely budged over the last 20 years — minorities have had an average homeownership rate 24–26 percentage points below that of Whites. Given the reality of changing US demographics, it is important to re-examine the explanations for this gap.

Trends and Analysis

To look at how homeownership has changed over time, we look back to 1997 when the unemployment rate was similar to 2016 (4.8 percent) and still declining. In doing so, we jump over two prior periods with similar rates of unemployment but different contexts — 2006 was a period with much greater credit availability and in 2001 unemployment was rising, not falling.[1]

FIGURE 1. UNEMPLOYMENT AND THE HOMEOWNERSHIP RATE
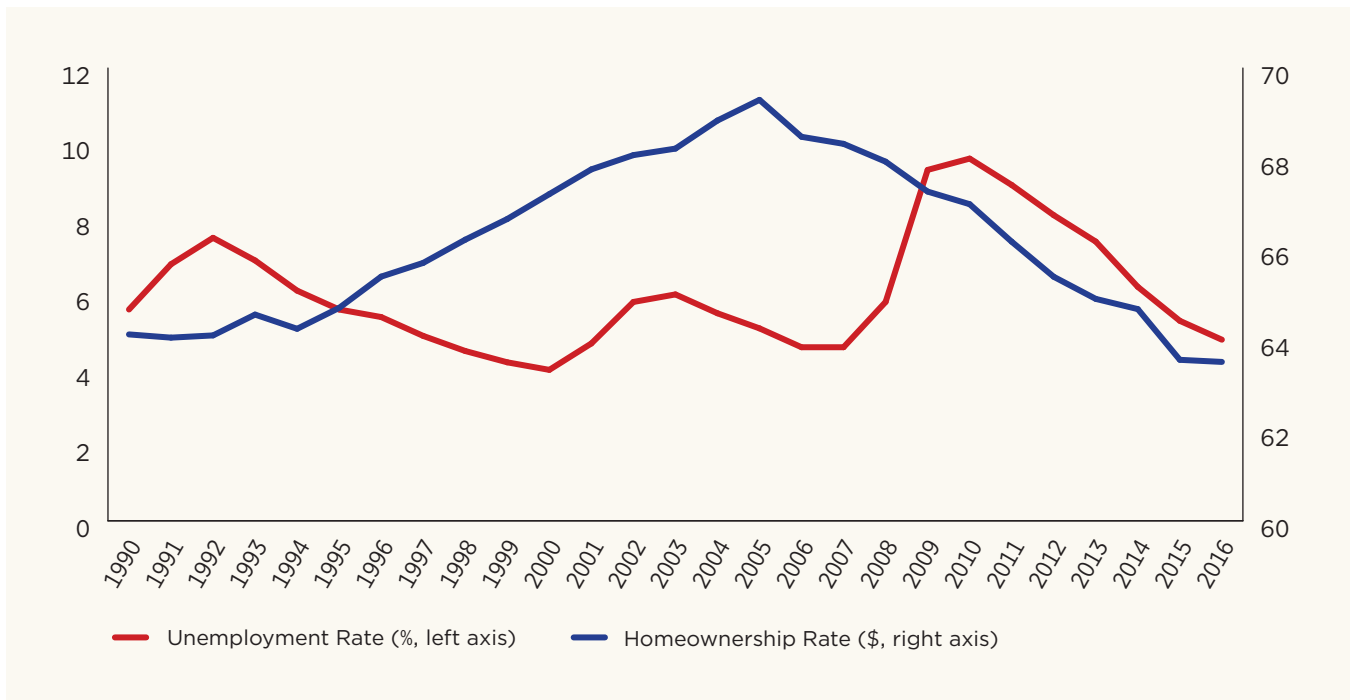
Source: BLS and CPS.

In 1997, the US homeownership rate was 65.7 percent, it peaked at 69 percent in 2005 and then fell to 63.5 percent by 2016 (Figure 1). Using IPUMS CPS data from this period, the White homeownership rate was fairly similar in 1997 and 2016, whereas the Hispanic homeownership rates increased slightly and the Black homeownership rate fell by more than 3.5 percentage points by 2016 (Figure 2). So what caused the decline in the overall rate of homeownership in 2016 if all but the Black homeownership rate were at or above the rate observed in 1997?

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1   1997 was also similar in terms of the unemployment gap which is the difference between the actual unemployment rate and the estimated long run unemployment rate.

One contributor is the changing composition of US households by race and ethnicity, as shown in Figure 3. The share of White households fell from 76 percent in 1997 to about 67 percent by 2016. Because the minority homeownership rate is substant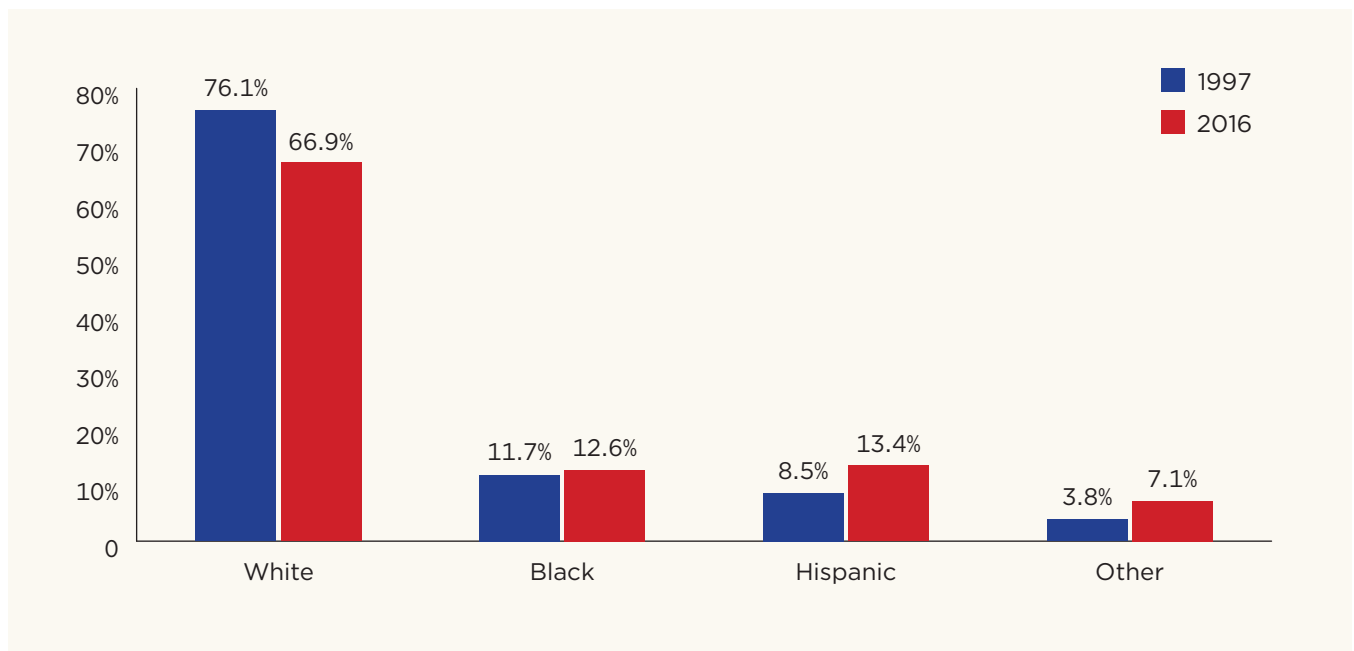ially below that of Whites, the change in composition of households accounts for most of the fall in the overall homeownership rate when we simply look at each group's share of households and its homeownership rate in 2016.

FIGURE 2. HOMEOWNERSHIP RATES, BY RACE/ETHNICITY
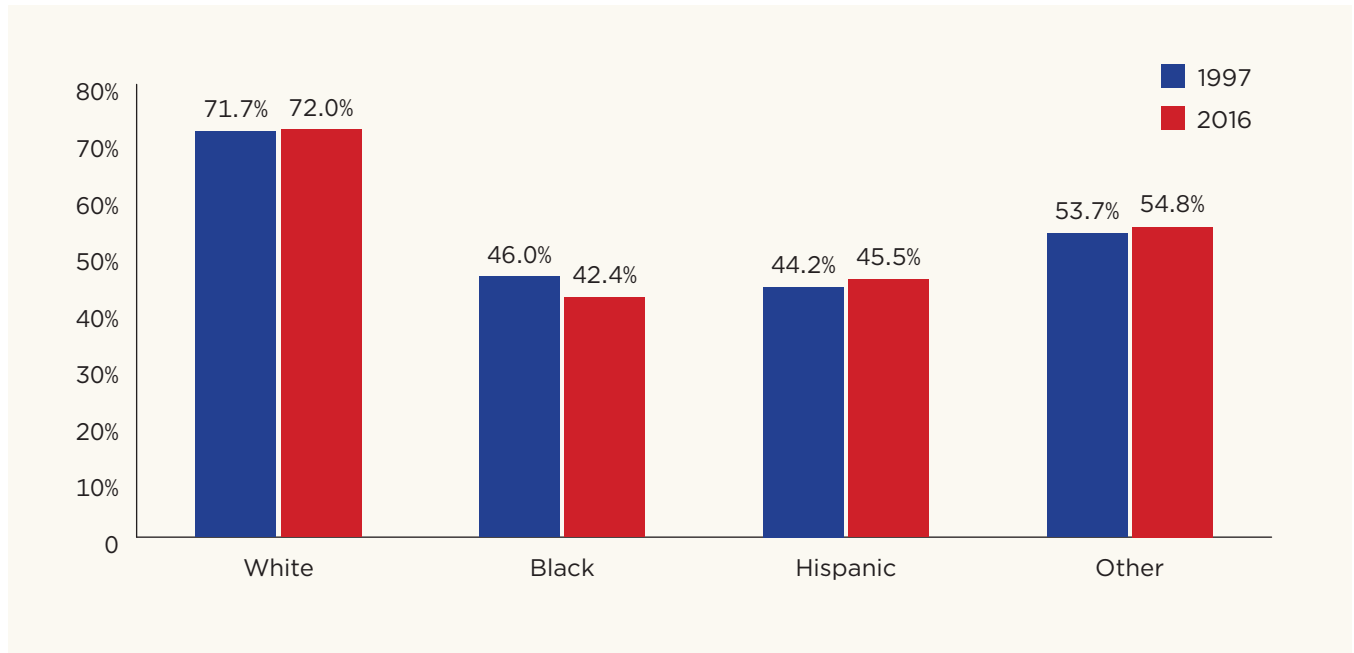
Source: CPS.

FIGURE 3. PERCENT OF US HOUSEHOLDS, BY RACE/ETHNICITY

Source: CPS.

The stability in each group's homeownership rate over time is deceiving, however. Summary statistics (presented in the table in Appendix) based on the Current Population Survey show that White and minority households were on average older, with more real income and more education in 2016 compared to 1997 and therefore were more likely to be homeowners in 2016. At the same time, households in each group were less likely to be married or to have children in 2016 which might signal a lower propensity to own. Many have also surmised that attitudes towards homeownership and mortgage financing were impacted by the housing crisis.

In order to better understand all the moving parts of the homeownership picture for each group, we conduct analysis that controls for a variety of factors that might explain changes in each group's homeownership rate over time. In particular, we control for age, household income, sex, marital status, number of children, military service, foreign born, naturalized, second generation, education, rural locations and census region in predicting homeownership. To the extent that changes in these household attributes do not explain the differences in prevailing homeownership rate between two points in time, then other market, behavioral or omitted (from the model) factors must explain the gap between predicted and observed changes.

We predict the rate of homeownership for Whites, Blacks, Hispanics and all other households based on their 2016 attributes using a model that explains the rate of home-ownership for each group in 1997.[2] In essence, we ask how 2016 households would have fared with respect to homeownership attainment back in 1997. Any differences between the predicted rates that would have prevailed in 1997 and the rates we observe in 2016 must be due to other factors besides the household attributes accounted for. Examples of "other" factors include changes in the supply and price or rent of housing, credit availability, attitudes about homeownership or the prevalence of discrimination. We do not have detailed geographic controls, only regional controls. We also only imperfectly capture attributes of households. For example, we do not account for house-hold or parental wealth or whether an individual's parents were homeowners. All of these represent limitations to the analysis and will collectively comprise a residual influence on the homeownership rate that we will label as "other factors" in the results below.

As discussed previously, the net change in homeowner-ship rates between 1997 and 2016 was relatively small for Whites and Hispanics and larger for Blacks (shown in blue in Figure 4.) The change in each group's homeownership due solely to changes in household attributes between 1997

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2   Asian households are included in the "other" race/ethnicity category for our purposes because the CPS data exhibits changes in sampling for this group between 1997 and 2016 which makes comparison difficult.

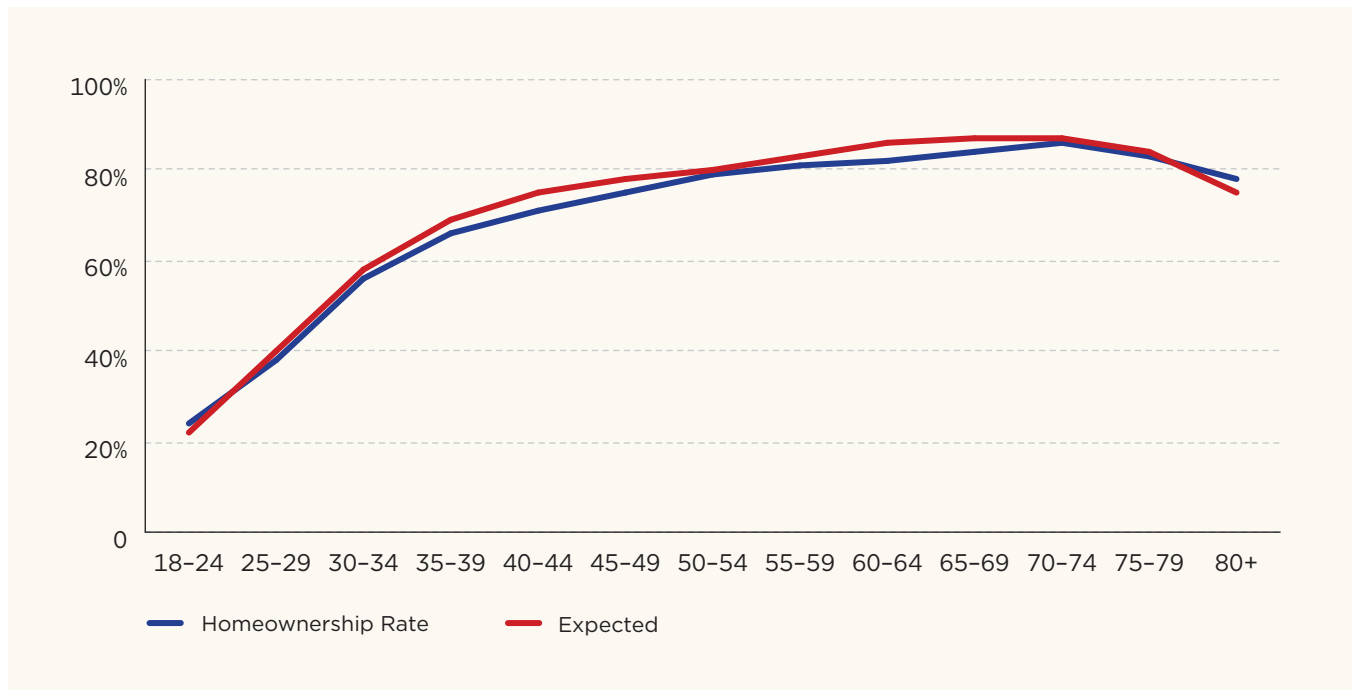FIGURE 4. DECOMPOSITION OF CHANGE IN HOMEOWNERSHIP RATES, 1997–2016
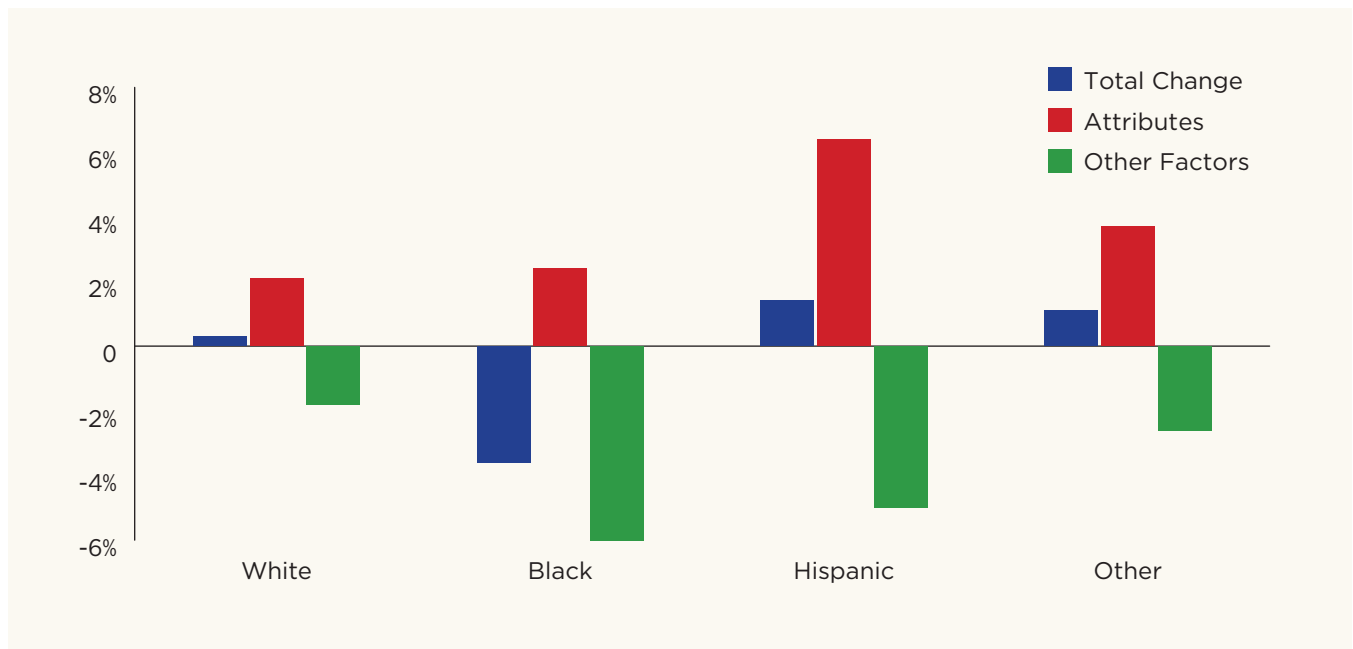
Source: CPS, MBA.

and 2016 within each group is shown in red. As seen in the chart, the net effect of older, more educated households with more income should have had a positive effect on each group's rate of homeownership (each red bar shows a positive expected effect). The difference between the predicted rate based on household attributes and the actual rate is shown in green and is attributed to other factors not captured by the model. The other factors had a significant negative impact on each groups' homeownership rate, partially offsetting the positive changes in household attributes for Whites and Hispanics, and more than offsetting household attributes in the case of Black households.

Despite the perception that declines in homeownership attainment are concentrated among young people, the analysis also suggests that homeownership is lower at most ages, for each group. In Figures 5–7, we plot the predicted and actual homeownership rate for each group by age. The conclusion from this exercise is that there is a systematic change in the propensity to own a home between 1997 and 2016, and that change does not appear to vary a lot with age. The systematic decline in the likelihood of becoming a homeowner for Black and Hispanic households, however, appears larger than for White households over this period.

FIGURE 5. WHITE HOMEOWNERSHIP RATES, BY AGE, 2016

Source: CPS.

FIGURE 6. BLACK HOMEOWNERSHIP RATES, BY AGE, 2016
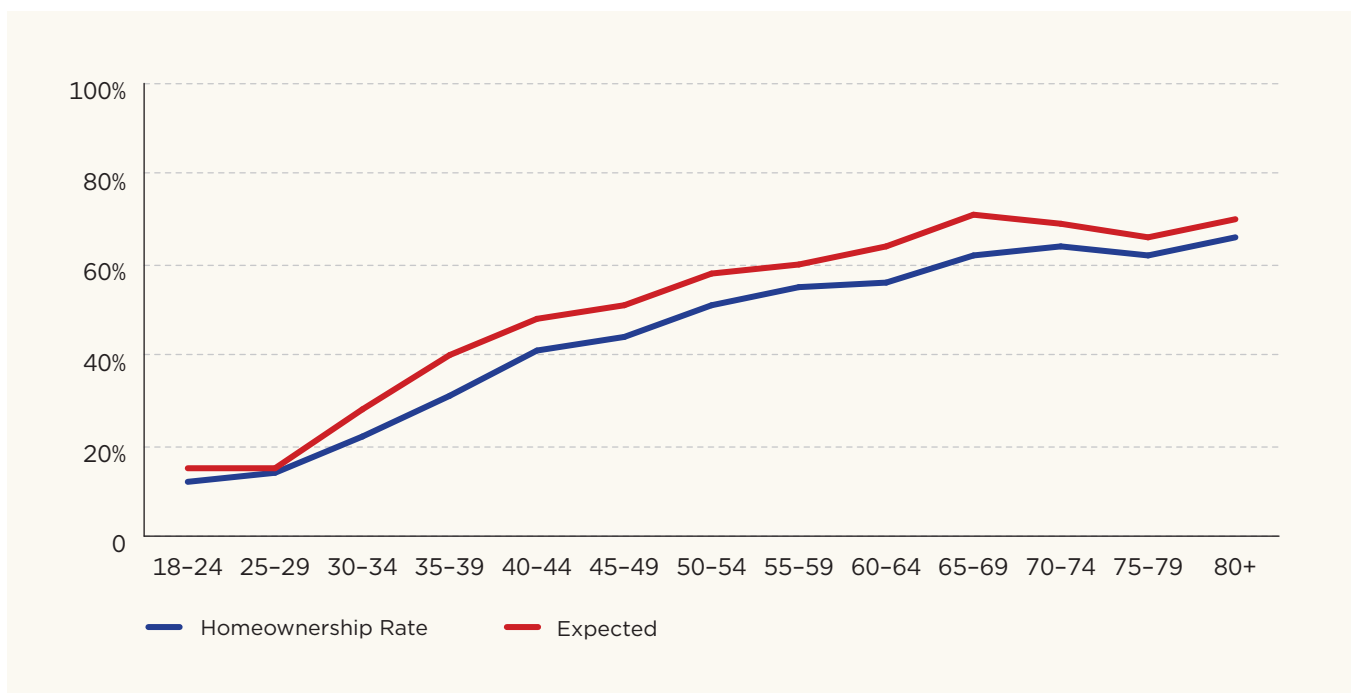
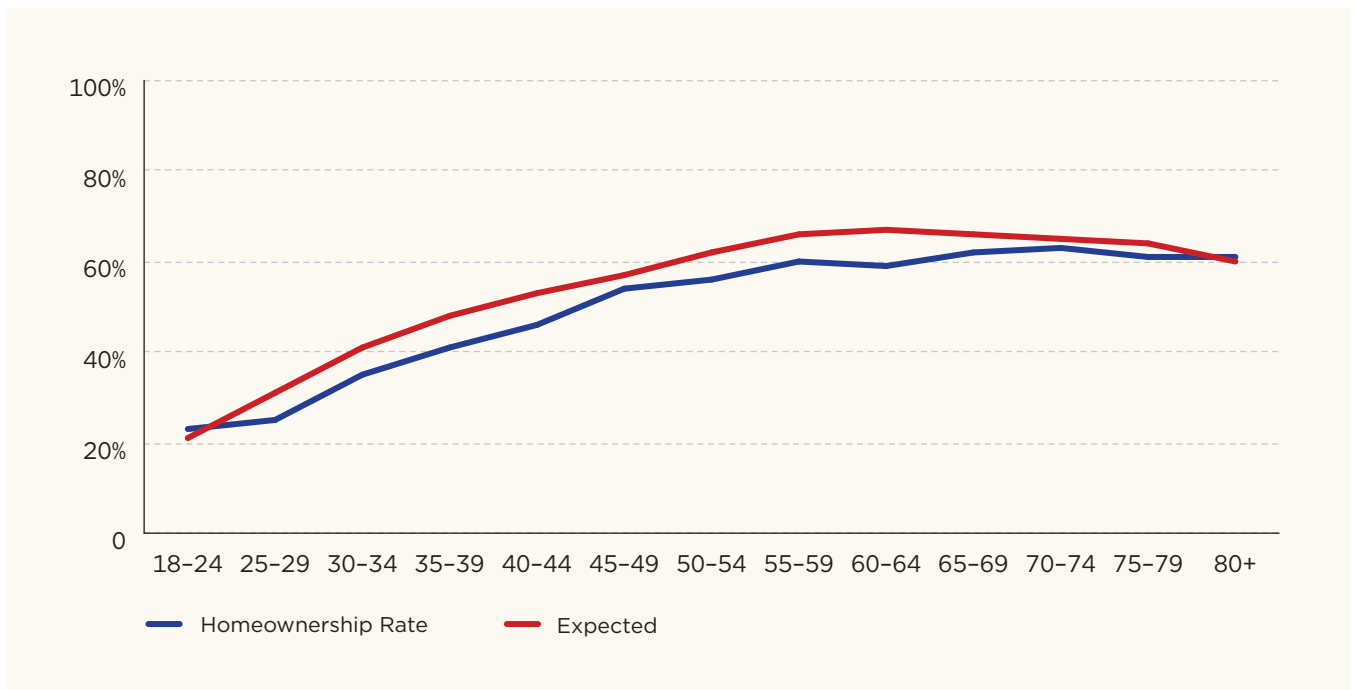**Source:** CPS.

FIGURE 7. HISPANIC HOMEOWNERSHIP RATES, BY AGE, 2016

Source: CPS.

Decomposition of the White-Minority Homeownership Gap

The previous analysis focused on how changing household attributes within a particular group over time influenced the group's homeownership rate. In this section we ask how much of the White-minority homeownership gap is due to differences in household attributes between White and minority households. For example, Black and Hispanic households are younger, with lower incomes and less education than White households on average. These factors would tend to push the homeownership rate downward for these groups compared to Whites. At the same time, if minority groups have less access to homeownership or different tastes for it, then the homeownership rates might differ even if the households were otherwise similar.

As before, we cannot control for household wealth as well as other details, like whether one's parents were homeowners, that prior studies and different data sets may identify as important. The purpose of our exercise is to simply see how far we can go in explaining the homeownership gap using household attributes observed in the CPS.
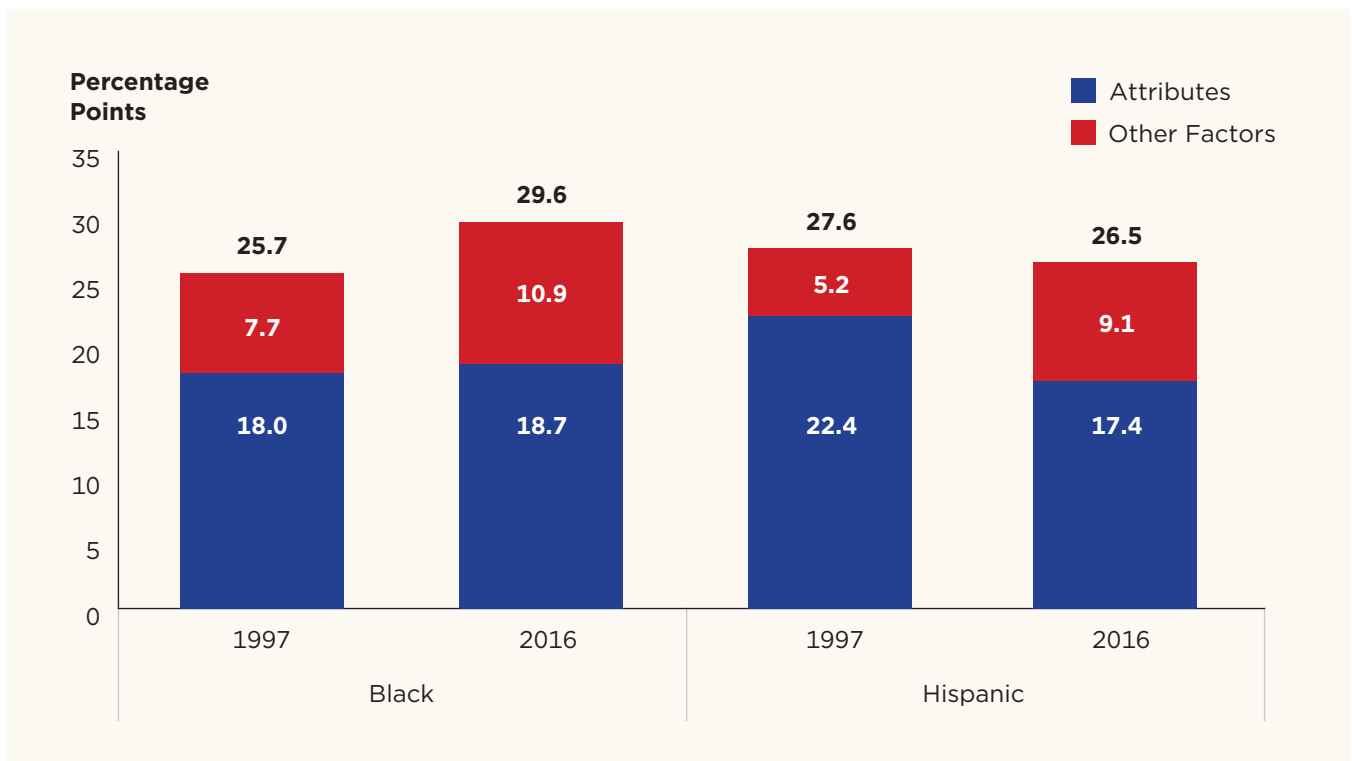
Comparing the homeownership gap in 1997 to that observed in 2016, we find that while the homeownership gap has shrunk slightly for Hispanic households, it has widened for Blacks over the last 20 years. Figure 8 shows the contribution of differences in household attributes between Blacks and Whites and between Hispanics and Whites respectively towards explaining the gap in each year in red. Household attributes explain a bit more of the homeownership gap between White and Hispanic households than between Whites and Blacks. The chart shows that if Hispanic households attained homeownership at the same rate as Whites with similar attributes in 2016, then about 17 percentage points of the 26 percentage point gap can be explained. However, based on this simple model, 9 percentage points of the gap are left unexplained by the model for Whites either because Hispanics behave differently than Whites and/or because we are omitting factors that would help to explain those differences.

For Black households, differences in attributes compared to Whites explain about 19 percentage points of the 30 percentage point gap in homeownership rates. Eleven percent remains unexplained by our modeling exercise.

Our results are quite consistent with prior studies that, over a surprising span of time, find that about 60 percent of the White-minority gap can be explained by observable differences in households.

FIGURE 8. HOMEOWNERSHIP GAP, BY PERCENTAGE POINTS

Percentage Points

Legend:
- Attributes (blue)
- Other Factors (red)

Black

1997: 25.7 total (18.0 Attributes, 7.7 Other Factors)
2016: 29.6 total (18.7 Attributes, 10.9 Other Factors)

Hispanic

1997: 27.6 total (22.4 Attributes, 5.2 Other Factors)
2016: 26.5 total (17.4 Attributes, 9.1 Other Factors)

Source: CPS, MBA.

What explains the residual difference? Figure 9 illustrates that White households achieve homeownership earlier in life on average than minority households which provides one insight into the overall White-minority homeownership gap. Recent work by Bond and Eriksen (2017) suggests that parental home equity and other sources of parental wealth help young adults reach and sustain homeownership. Because White parents are more likely to have significant housing wealth, this goes some way in explaining the early start with homeownership for White young adults.

FIGURE 9. HOMEOWNERSHIP RATES, BY AGE, 2016
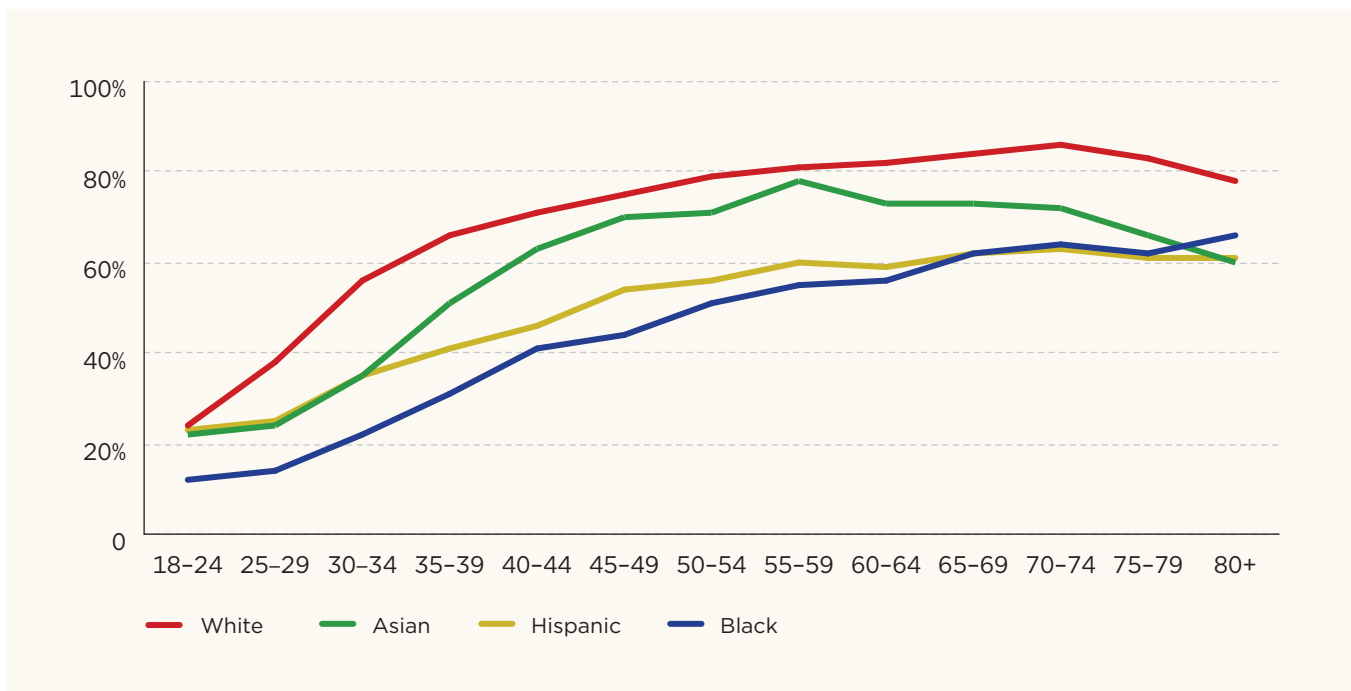
Source: CPS, MBA.

On the other hand, our analysis shows that households of all ages and race/ethnicities are less likely to be home-owners now than twenty years ago. A decrease in credit availability may be one contributing factor and may also be consistent with the larger decline in homeownership rates at each age for minorities. In particular, Bhutta and Ringo (2016) show that a greater share of minorities households fall below recent credit score thresholds compared to Whites, such that the contraction of credit during the eco-nomic and housing recovery disproportionately impacted minorities, at least relative to ten years prior. To project that line of reasoning back a little farther in time, we find that in 1999, the average weighted FICO score among Freddie Mac fixed rate mortgages was 712 and by 2016 it had risen to 740. This suggests that the credit box, at least for conforming loans, was probably tighter in 2016 compared to the late 1990s.

Looking Forward

As of 2016, homeownership rates remain below expectations overall, for Whites and minorities, and among most age groups based on historic data. The systematic downshift in homeownership is not explained by changes in household attributes. In contrast, the aging of the population, among other factors, is exerting upward pressure on overall homeownership rates.

The systematic nature of the shortfall in homeownership by age suggests there may be structural issues in the economy, financial markets, or the urban environment influencing the choices that Americans make. For example, credit conditions first loosened and then tightened over the past 20 years and have likely affected households in all age groups. In addition, as cities grow in size, land in the interior becomes relatively more desirable and therefore more expensive. If house prices grow faster than incomes due to on-going urbanization, then housing may become systematically more expensive over time, discouraging homeownership. Denser cities also mean more multifamily construction, and multifamily buildings are more likely to be renter-occupied.

Over the last twenty years, the Black-White homeownership rate gap has increased, while the Hispanic gap has decreased slightly. Given the persistence of the gap for both groups, however, the changing composition of the US towards greater racial and ethnic diversity will continue to exert downward pressure on the overall US homeownership rate.

Nearly two-thirds of the White-minority homeownership gap can be explained by differences in observable household attributes. Therefore, it remains the case that differences in demographics and socio-economic status matter a lot for explaining the homeownership gap. This suggests that housing policy itself may not be the primary means by which the gap can be reduced.

At the same time, the homeownership gap is in part self-perpetuating since homeowning families are more likely to help their children obtain their first home with financial assistance or other guidance and experience. In other words, if over time homeownership for one generation increases wealth accumulation which in turn increases homeownership in the next generation, then some of the unexplained portion of the gap is about housing and should be amenable to housing policy. The trick, of course, is to find ways to encourage sustainable homeownership on the margins.

Our analysis is not exhaustive. Other factors besides household and family attributes surely impact the homeownership gap which continues to persist despite decades of attention, research and oversight.

Appendix

TABLE A-1. HOUSEHOLD SAMPLE MEANS BY YEAR*

SAMPLE MEANS	BLACK		HISPANIC		WHITE		OTHER GROUPS	
	1997	**2016**	**1997**	**2016**	**1997**	**2016**	**1997**	**2016**
Age	44.85	48.61	42.16	44.61	49.04	52.91	43.02	46.34
Real Income (2009 $, Thousands)	33.21	39.62	34.97	46.95	51.69	62.61	53.82	68.70
Homeownership Rate	46%	42%	44%	46%	72%	72%	54%	55%
Female	64%	61%	57%	55%	55%	54%	54%	56%
Married	33%	29%	57%	51%	57%	52%	60%	58%
Armed Forces	1%	0%	0%	0%	0%	0%	1%	0%
Veteran	10%	8%	6%	4%	16%	10%	6%	5%
Foreign Born	6%	11%	49%	50%	4%	5%	62%	56%
Foreign Born Citizen	3%	7%	14%	20%	2%	3%	30%	33%
Second Generation	1%	1%	11%	14%	4%	2%	6%	9%
No High school	25%	13%	45%	30%	14%	6%	15%	8%
High School Degree	35%	33%	26%	30%	34%	28%	25%	19%
Some College	26%	32%	19%	24%	26%	29%	21%	24%
College Degree	9%	14%	7%	11%	17%	23%	24%	28%
Post-4 year Degree	4%	8%	3%	6%	9%	14%	14%	21%
No Kids	47%	59%	39%	44%	59%	66%	48%	55%
1 Kid	24%	19%	21%	20%	18%	16%	21%	19%
2 or More Kids	30%	22%	40%	36%	23%	18%	31%	26%
Lives in MSA	86.5%	91%	90%	94%	78%	82%	89%	91%
Share of Total HH (%)	11.7%	12.6%	8.5%	13.4%	76.1%	66.9%	3.8%	7.1%

* Household sample from CPS constructed based on methodology in Fisher and Woodwell (2015), and averages may differ from Census statistics since averages are not based solely on heads of households.