

Point of Contention: Declining Homeownership

For this issue's Point of Contention, we asked scholars with substantial knowledge of the topic to argue for or against the following proposition—"By 2050, the U.S. homeownership rate, currently about 64 percent of households, will have fallen by at least 20 percentage points." Please contact alastair.w.mcfarlane@hud.gov to suggest other thought-provoking areas of controversy.

On the Plausibility of a 53-Percent Homeownership Rate by 2050

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America's homeownership rate has been drifting steadily downward since 2004, when it reached its historic peak of more than 69 percent. By 2010, the rate had fallen to 66.9 percent¹ and, by 2015, it fell further to 63.4 percent. According to the Urban Institute (Goodman, Pendall, and Zhu, 2015), Myers and Lee (2016), and the Joint Center for Housing Studies of Harvard University (2015), the homeownership rate will continue to fall during the next several years. But how far will it drop by mid-century? To answer this question, I review several trends that are poised to drive down homeownership rates, extrapolate trends to 2050, and offer implications for planning and policy.

Reasons for Declining Homeownership

I count many reasons for declining homeownership rates. Without being exhaustive, they include more stringent mortgage underwriting requirements than seen in the middle 2000s (Chan, Haughwout, and Tracy, 2015); reduced confidence that homeownership will generate equity sufficient to justify the commitment (Randazzo, 2011);² the desire to be mobile to move to new economic opportunities without having to sell a home first (The Council of Economic Advisors, 2014); stagnating median household income in real dollar terms (Kochhar, Fry, and Rohal, 2015);³ student debt loads that can make it difficult to qualify for a mortgage (Harney, 2015); and an increase in multigenerational households (Fry et al., 2014), which may dampen total new housing demand. In my view, these trends will be difficult to reverse.

¹ These figures are from the U.S. Census Bureau's annual Housing Vacancy Surveys, which report different homeownership rates than the decennial census. In 2010, for instance, the decennial census homeownership rate was 65.1 percent.

² Randazzo challenged conventional wisdom that homeownership will automatically create wealth through equity appreciation over time. My observation is that prospective homeowners are coming to that conclusion on their own.

³ My interpretation of Kochhar, Fry, and Rohal is that, although median household income may be rising, the United States is becoming more bifurcated as fewer people below the median income level qualify to buy homes now than in the past because of their income.

Extrapolations

I extrapolate homeownership trends from 2015 to 2050. Doing so, I divide households into those headed by a White non-Hispanic (hereafter, White) householder and all others whom I call New Majority householders. I use the term “New Majority” recognizing that, soon after 2040, most Americans will belong to minority race/ethnic populations.

To estimate households by race/ethnicity to 2050, I divide Woods & Poole Economics (2015) projections of White persons and all others (comprising the New Majority) by the 2014 average household size for those populations from the 1-year American Community Survey. I thus assume constant household size to 2050; future work can refine this estimate. I also assign all people to households, again something that future work can refine.

I then extrapolate homeownership rates for White and New Majority households. For this extrapolation, I estimate the average annual rate of change in homeownership among White and New Majority households between 2000 and 2014 (the latest year for which data are available). The analysis period thus moderates effects of the ownership bubble of the middle 2000s. Using this constant-change (reduction) in homeownership, I estimate future homeownership for White and New Majority households separately, then combined. Results are reported in exhibit 1.

I estimate that, by 2050, America’s homeownership rate may be 53.5 percent or roughly what Germany’s rate was in 2015.

How do my projections compare with others’? Although no other estimates of homeownership rates extend to 2050, we may be guided by projections of some into the 2030s. Exhibit 2 reports middle projections for 2020 and 2030 by the Urban Institute (Goodman, Pendall, and Zhu, 2015) and “Scenario 2” projections in 5-year increments from 2017 through 2032 by Myers and Lee (2016) interpolated to 2020 and 2030 compared with mine based on exhibit 1. My estimates for 2030 are lower but seem in the range of others’.

Of course, many things can change future homeownership rates. They include, but are not limited to, unforeseen changes in economic conditions, national or global health or environmental catastrophes, wars or other forms of significant social change, changes in policies that alter incentives for homeownership, and changing attitudes of the benefits and burdens of homeownership, among others.

I consider this projection to be preliminary. Future analysis should be conducted to assess the change in homeownership among individual population and household groups based on age, income, education, household type, race, ethnicity, and metropolitan area, among other factors.

Although the projected homeownership rate may seem alarming, it is actually just about what it was in 1950—55 percent—the first full year after implementation of the federal Housing Act of 1949.⁴ Historical and projected homeownership rates are illustrated in exhibit 3.

⁴ Public Law 81-171, Title V.

Exhibit 1

Projected Homeownership Rates by Race/Ethnicity, 2000–2050

Year	Households	Owner Rate	Owners	Renters
White non-Hispanic				
2015	80,488	72.5	58,366	22,122
2020	81,653	71.4	58,288	23,365
2025	82,600	70.3	58,045	24,555
2030	83,217	69.2	57,567	25,650
2035	83,440	68.1	56,822	26,618
2040	83,306	67.0	55,846	27,459
2045	82,921	66.0	54,722	28,199
2050	82,449	65.0	53,563	28,886
New Majority				
2015	45,066	47.1	21,243	23,824
2020	49,635	46.4	23,032	26,603
2025	54,684	45.7	24,979	29,705
2030	60,197	45.0	27,069	33,128
2035	65,917	44.3	29,179	36,738
2040	71,684	43.6	31,237	40,447
2045	77,487	42.9	33,240	44,247
2050	83,330	42.2	35,189	48,141
Total				
2015	125,554	63.4	79,608	45,946
2020	131,288	61.9	81,319	49,968
2025	137,285	60.5	83,024	54,260
2030	143,414	59.0	84,636	58,778
2035	149,357	57.6	86,001	63,356
2040	154,990	56.2	87,084	67,906
2045	160,408	54.8	87,962	72,446
2050	165,779	53.5	88,752	77,027

Note: Figures in thousands.

Source: Arthur C. Nelson

Exhibit 2

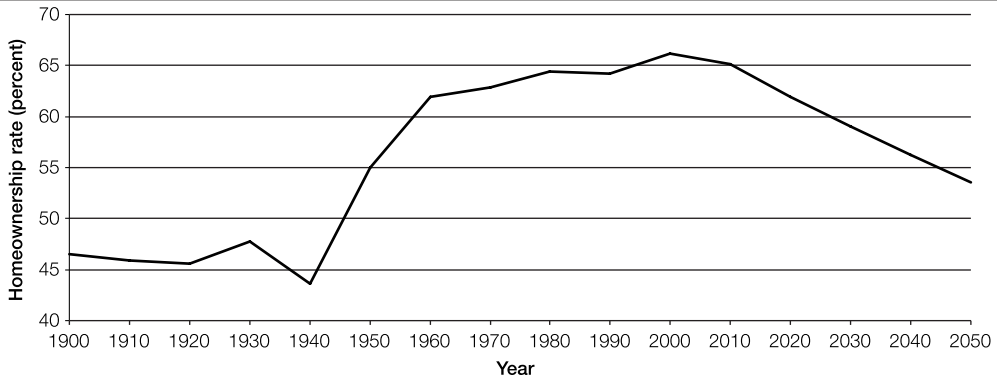
Comparative Homeownership Projections

Year	Urban Institute	Myers and Lee	Nelson
2020	62.7	61.0	61.9
2030	61.3	59.8	59.0

Sources: Goodman, Pendall, and Zhu (2015); Myers and Lee (2016); Arthur C. Nelson

Exhibit 3

Historical and Projected Homeownership Rates, 1900–2050



Sources: U.S. decennial censuses to 2010; Arthur C. Nelson

Implications

The projected reduction in homeownership will certainly change the nature of housing needs. For one thing, there may be fewer White homeowners in 2050 than in 2015; indeed, all net change in housing demand among Whites may be for rental housing. Overall, the increase in rental housing may be equivalent to about 77 percent of the net change in households to 2050 (see exhibit 4). Although there may be more homeowners in 2050 than in 2015, they may account for only about 23 percent of the net change in housing demand.

I suspect that by 2020 we will know much more than we do now about drivers of homeownership change. If the homeownership rate in 2020 roughly matches the projections of the Urban Institute (about 62.7 percent), Myers and Lee (about 61.0 percent), or me (about 61.9 percent), we may need to accept the downward homeownership trend as a long-term given. We will then need to adjust our community plans—and perhaps federal and state housing policies—to recognize this new reality. Maybe we should not wait.

Exhibit 4

Change in Tenure by Race/Ethnicity, 2015–2050

Household	Household Change	Owner Change	Renter Change	Renter Share (%)
White	1,962	(4,803)	6,764	100
New Majority	38,264	13,946	24,317	64
Total	40,225	9,144	31,082	77

Note: Figures in thousands.

Source: Arthur C. Nelson

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