

HAS THE HOMEOWNERSHIP RATE BEEN INFLATED? THE EFFECT OF FALLING HOUSEHOLD FORMATION

Between 1990 and 2000, the rate of homeownership in the U.S. rose from 64.2 percent to a record high of 66.2 percent (Simmons 2001). The rising homeownership rate is particularly striking, given that during that decade the country saw substantial growth in its immigrant population, which generally tends to have lower homeownership rates than U.S.-born residents.

To some, this rising rate signals both better access to homeownership and great progress along the path toward an “ownership” society wherein more people take responsibility and assume risk. There is an alternative, and less optimistic, view, however. Research findings show that a number of demographic groups saw a decline in household formation in the 1990s, most likely among renters, and this development, rather than a significant improvement in homeownership opportunity, could account for the increase in homeownership rates.

This Research Brief explores these questions about U.S. homeownership rates for the period 1990-2000. We find that, had household formation remained the same throughout the decade, the aggregate homeownership rate would have been 65.8 percent, 0.4 percentage points lower than the actual rate in 2000. This implies that approximately one-fifth of the gain in homeownership rates over the period may be due to a reduced number of primarily renter households. This impact is likely greater among the elderly and minorities.

The following sections examine the structure of the homeownership rate and identify causes of renter distress as well as the groups most vulnerable to it. We then simulate would-be homeownership rates in hypothetical scenarios and conclude with a discussion.

THE HOMEOWNERSHIP RATE AND THE HEADSHIP RATE

The homeownership rate can change not only when there is a change in the number of owner-occupied households, but also when there is a change in the number renter households (Masnick, McArdle, and Belsky 1999). Specifically, the homeownership rate equals the number of owner-occupied households divided by the sum of owner and renter-occupied households, and it is summarized in the following equation:

$$\text{Homeownership_Rate} = \frac{\text{Owner_HHs}}{\text{Owner_HHs} + \text{Renter_HHs}}$$

Thus, the removal of renters from the denominator (or a slower renter growth than owner growth) will cause the homeownership rate to rise even if those renters do not transfer to homeownership in the numerator. In this case, a rise in the homeownership rate is no longer so much a sign that more people are achieving the “American dream” of owning their own homes, but rather that those who rent are suffering distress and forced out of the housing market.

This possibility becomes clearer when considering the “headship rate,” which is defined as the percent of a given population group that is the head of a separate living unit. The lower the rate, the less often people form independent households. In theory, both a decline in the supply of housing and a rise in the demand for housing increase the cost of household formation (Skaburskis 1994). Homeownership attainment is a quasi-accumulative process, owners seldom change their tenure status back to renters (Pitkin 1990). Therefore, a decrease in headship rates typically comes from would-be and/or forgone renter households who are deducted from the denominator of the homeownership rate, thereby increasing the overall homeownership rate.

POSSIBLE SOURCES OF RENTER DISTRESS DURING THE 1990S

Three factors likely boosted demand for housing during the period. First is the sustained economic expansion, especially during the latter half of the decade, when productivity growth surged, economic activity flourished, and income growth was widespread. Second is the adjustment of capital gains taxes in 1997, which fueled the recent boom in housing prices of many markets. Third is a rapid increase in immigrant population, which increased the demand for housing, particularly in gateway metropolitan areas.

On the supply side, many jurisdictions, especially in high growth areas, adopted local growth control policy to regulate land use, which in turn constrains land supply for the construction of multifamily housing (Pendall 1995; Levine 1999).

These demand and supply developments would explain findings that urban minorities and new immigrants have experienced escalating affordability problems (Simmons 2004), as well as findings of growing overcrowding, a trend that has persisted since the 1980s (Simmons 2002).

AT-RISK GROUPS FOR RENTER DISTRESS

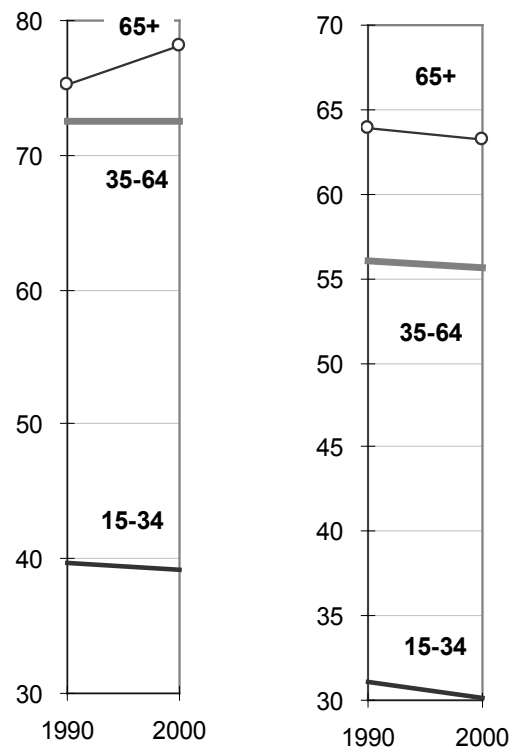
THE ELDERLY

Breaking population growth down by age groups shows that, between 1970 and 2000, the fastest growing segment consisted of individuals aged 65 and older. Those who are renters in this group are particularly vulnerable to pressure in the housing market both because they are likely to have retired, leaving them with lower incomes, and because they face stiffer competition for limited numbers of affordable rental units.

Figure 1 suggests that this group experienced a steady increase in homeownership rates from 1990 to 2000. At the same time, there was a decline in headship rates across all age groups in the 1990s. In other words, within each age group, there are fewer households formed per population from 1990 to 2000.

If we consider numerical changes in population and households, renter distress is more evident. From 1990 to 2000, the group aged 65 and above had a 10.9 percent increase in households, which is 1.1 percentage points lower than the group's population growth. Evidently, the number of renter households in this age group declined by 2.2 percent, or 109,024 households, which stands in stark contrast to the 15.2 percent, or 2.3 million, increase in owner households. This suggests

FIGURE 1. HOMEOWNERSHIP RATES AND HOUSEHOLD



that many would-be renters were deterred from entering the housing market, and, therefore, that renter distress helped increase the homeownership rates of this group in the 1990s. Those aged 35-64 apparently had a similar experience, albeit in a smaller scale.

DECLINING HOUSEHOLD FORMATION AMONG LATINOS

We further disaggregate changes in household formation and homeownership rate in the 1990s by racial/ethnic groups and detailed age groups. Figure 2 shows that all age groups of Latinos had large declines in household formation. Accompanying the decline are large increases in homeownership rates. As a result of declining housing formation, many would-be Latino renters failed to form their households, thereby artificially increasing the Latino homeownership rate.

LOW RENTER HOUSEHOLD FORMATION OF ASIANS

So far, we have examined changes in homeownership rates and headship rates over time. Now we turn to a cross-sectional analysis and examine homeownership rates and headship rates by the same racial/ethnic and age groups in 2000, where Figure 3 indicates huge differences.

It is well known that whites have the highest homeownership rates, followed by Asians (Painter et al. 2001 and Painter et al 2003), while Latinos and blacks have the lowest homeownership rates. This would suggest that Asians and whites have a similar level of access to the homeownership.

However, the headship rates reported in Figure 3 suggest a different conclusion. Asians have the lowest headship rates in almost all age groups, while whites have very high headship

rates. Furthermore, even when Asians form independent households, they are least likely to form renter households. In addition, the percent of Asians who are owner householders is much lower than that of whites. Thus, the high homeownership rate for Asians is likely an artifact of "renter squeeze" and not a sign that Asians fare well in terms of housing prosperity. In other words, Asians have a much lower probability to own homes than whites if we measure the accessibility of homeownership as a percent of population instead of as a percent of households. .

SIMULATIONS

We ran simulations to see what would have happened had headship rates remained the same between 1990 and 2000. As discussed, homeowners rarely drop out of the housing market or change tenure status, since they are largely insulated from housing market fluctuations. We therefore hold the number of homeowners constant in the simulations. In the hypothetical scenario, the overall homeownership would have only been 65.8 percent instead of the actual rate of 66.2 percent. The differences are larger in those at-risk groups. The elderly would only have had 77.3 percent homeownership, 0.8 percentage point lower than their actual rate. Latinos would have had only a 44.8 percent rate instead of 46.3 percent.

Had Asians had the same headship rates as whites in 2000, their homeownership rate would have only been 43.4 percent, 10 percentage points lower than the actual rate. In sum, household formation plays an important role in homeownership attainment. Renter distress seems to have artificially increased homeownership rates in selected groups.

RESULTS AND CONCLUSIONS

This Brief shows that that rising rate of homeownership during the 1990s is not unequivocally good news. Part of that rising was due to declining household formation, most likely

through the elimination of renters from the housing market or the exclusion of would-be renters from joining the housing market. Low household formation also elevated homeownership rates of certain groups. While it is unclear how much low rates of household formation were due to preference or market pressure, it is likely that escalating problems with affordability have put a disproportionate pressure on renters in recent years.

From a policy point of view, therefore, a comprehensive homeownership strategy should look not only at homeownership rates, but also at trends in household formation. As this report indicates, there is tentative evidence linking rising homeownership rates to increasing renter distress. We look forward to further research that examines the relationship more fully and develops more direct measures of renter dropouts that can help correct measures of U.S. homeownership rates.

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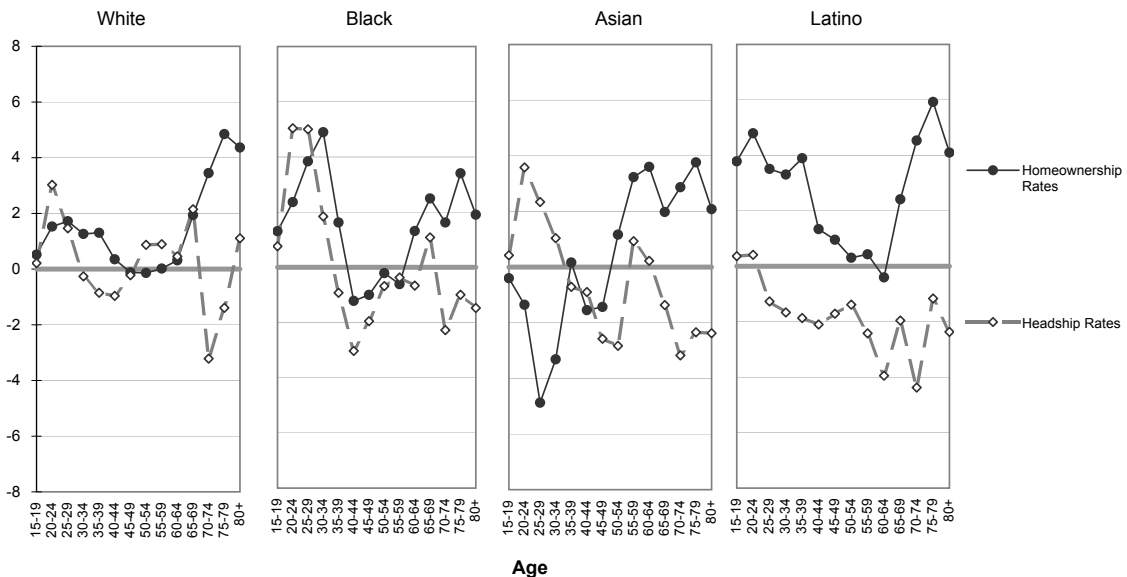
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FIGURE 2. CHANGES IN HOMEOWNERSHIP RATES AND HEADSHIP RATES BY AGE AND RACIAL/ETHNIC GROUPS



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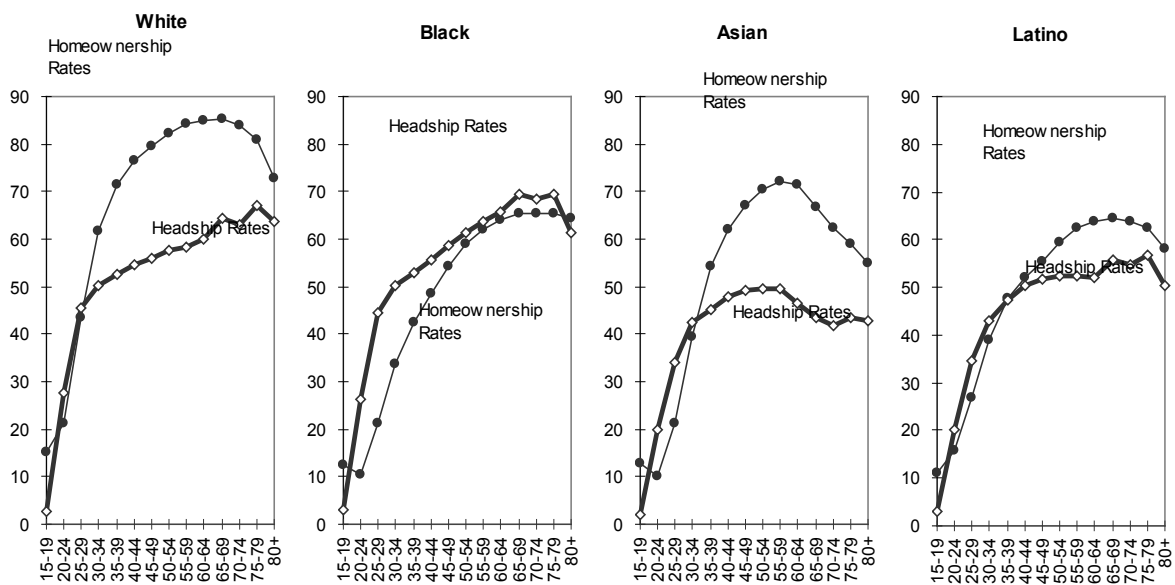
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FIGURE 3. HOMEOWNERSHIP RATES AND HEADSHIP RATES AND BY RACIAL/ETHNIC AND AGE



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