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Research BRIEF

Housing Choices in Aging Households: The Influence of Life Cycle, Demographics, and Family

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The aging of Baby Boomers is producing a wide range of consequences across many economic sectors. Lasting attention has been paid to the implications of this generation's maturation on the federal budget, but there has been considerably less focus on possible impacts on housing markets (Myers and Ryu, 2008). Conventional wisdom suggests that seniors remain in their own homes until they pass away – perhaps supported by high elderly homeownership rates (more than 70 percent in the past four decades for households more than 75 years old). In most cases seniors do remain in their homes, but recent research by Painter and Lee (2009) shows considerable mobility between housing tenure types for people over 50 years old. More than 25 percent of the sample in our study changed tenure status at least once after age 50 (see Table 1). Almost 15 percent switched from home ownership to renting, while 3.5 percent started off owning but went through multiple housing transitions. Those renting when they entered the sample but who later became homeowners make up 8 percent of the group. The remainder of the sample comprises those who always owned (53 percent) or always rented (21 percent).

The reasons that households leave homeownership typically fall into two categories (Jones, 1997). First, the life cycle hypothesis (Yaari, 1965) predicts that people desire to consume a portion if not all of their accumulated wealth over a lifetime. Although a few studies support this hypothesis as part of the explanation for downsizing or becoming a renter (Jones, 1997), many studies have found that households don't necessarily consider a home as retirement wealth and are unlikely to liquidate their homes (e.g. Hurd, 1990). Instead, they may view housing wealth as a source of precautionary savings (Sheiner and Weil, 1993; Davidoff, 2008: Walker, 2004) or bequeathable wealth. In either case, these households would not be likely to consume out of housing wealth during retirement years, or would consume out of financial wealth first.

A second set of explanations focuses on factors that can change a household's taste for owner occupied housing (Venti and Wise, 1990). Feinstein and McFadden (1989) note that many households leave homeownership even when they are not liquidity constrained nor have a desire to spend down their wealth. Three non-economic factors help explain why households exit homeownership, as highlighted by several studies (McCarthy and Simpson, 1991; Filius, 1993; Vanderhart, 1994; Dieleman et al., 1995; Goetgeluk, 1997; Feijten 2005). First, the dissolution of a family union such as divorce or the loss of a spouse may change the type of demand for housing services, including housing size and/or quality, and in turn, lead a household to transition from homeownership. Second, due to changes in health status or aging family members, a household may wish to reduce the physical responsibility of homeownership such as maintenance, and choose to rent. Finally, some older people exiting homeownership may move to a new area – in some cases to be near children – and may decide to rent.

Neglected in past studies of tenure transitions among older households are controls for the circumstances of children. Presumably, if one's children are financially better off, households may be more likely to consume their housing wealth due to a smaller bequest motive, and sell their home. In addition, we hypothesized that a household is more likely to remain as a homeowner when geographically close to children. This is partially implied by the emerging literature on intergenerational co-residence (Choi, 1996; Crimmins and Ingegneri, 1990; Himes, Hogan, and Eggebeen, 1996; Schmertmann et al. 2000), research that provides evidence of sharing of non-financial resources between elderly parents and adult children. For example, a child's decision to stay or move close to parents may be closely related to the health care needs of their parents. A child who lives close to parents also could help with home maintenance. Thus, the presence of a nearby child may allow parents to remain in their present home they own. In a similar way, elderly parents may decide to stay in their present home if they are already close to their children, or they move closer to help with housework or childcare. In both cases, the housing decision can be linked to the geographic proximity of their children.

The study (Painter and Lee, 2009) built upon past literature on elderly housing transitions by first estimating a discrete hazard model to estimate the likelihood that a homeowner will switch to renting. We also were able to include a fuller set of control variables than past studies by using data from the Panel Study of Income Dynamics 1968-2005 (PSID). In addition to controlling for household demographic transitions, we included important controls for wealth of older households and information about children. In this way, we were able to test whether living close to children would influence the desire of an older parent to move, as well as whether the financial status of children would affect older parents' homeownership status. Finally, we examined factors that might lead to an older household downsizing or reducing housing equity to better understand what influences the decision to consume housing wealth.

Table 1. Tenure Transitions after Age 50	Column1	Column2
Tenure Transitions	Number of Families	Percentage
Always Own	2,688	52.74%
Always Rent	1,079	21.17%
Own to Rent (Single Change)	756	14.83%
Rent to Own (Single Change)	251	4.92%
Own to Multiple Changes	171	3.35%
Rent to Multiple Changes	152	2.98%
Total	5,097	100.00%

Note: For simplification, the "Rent" category includes all non-own tenure statuses, including rent, neither rent nor own, and living with their children or relatives.

Results

In the interest of gathering insight into the potential economic impact of aging Baby Boomers and their housing choices, our research into the housing mobility of people over age of 50 showed that most remain in their homes throughout the rest of their lives. However, 25 percent do change their living situation after age 50. The study also found:

- ❖ The age of a household head does not directly predict becoming a renter. Rather, coping with a lower health status or being a single head of household are important predictors of housing tenure transitions.
- ❖ As expected, households with higher incomes and higher housing and financial wealth also are less likely to leave their homes. Perhaps these households are under less financial stress or view housing as a luxury good and seek to keep their homes. In addition, an additional dollar of home equity is more important than an additional dollar of financial wealth to households in our sample. This may be due to the fact that they would be able to finance consumption activity out of home equity instead of reaching the point of needing to sell the home (Canner et al, 2002; Bostic et al, 2009).
- ❖ Recent demographic changes such as the loss of a spouse or the onset of a disability do not immediately lead a household to switch to renting, but such stressful life transitions do increase the probability of downsizing.
- ❖ Living next to one's children lowers the probability of becoming a renter or downsizing. Households with wealthier children are more likely to downsize, which suggests these households may be less worried about bequests.

- Being retired has no impact on becoming a renter. However, retirement does affect the consumption of housing wealth. First, the analysis suggests that retirees are more likely to downsize even after controlling for other factors. Second, households are more likely to extract home equity in the year of retirement, but less likely to extract equity after they are retired. Presumably, rules concerning the documentation of income influence the extraction of home equity.

Table 2. Details of the Own to Rent Transition	Column1
Where Families Went	**Number of Families**
Apartment	162
Non-Apartment	816
Health Care Institution	31
Retirement Housing	133
Children's Home	61
Another Person's Home	11
Total	1,214

Note: Health case institution includes hospitals. Non-apartment arrangements refer to all housing types except for multi-family housing (e.g. single family housing, duplex, etc.).

Discussion

Understanding the housing choices of older households is growing in economic importance as more Baby Boomers enter retirement. To this end, our analysis employed a rich longitudinal data set to provide insight into the reasons that older households leave homeownership to become renters. The results of this analysis provide mixed evidence for the predictions of the life cycle hypothesis. Age itself does not affect the probability of becoming a renter, suggesting that households do not spend wealth with the goal of having no wealth upon retirement. As for the role of wealth in moving from a home, we found that households with fewer resources were more likely to become renters but not more likely to purchase a smaller home.

This analysis was the first to consider the role of an older household's children – their geographic proximity and financial well-being – in an older person's decision on homeownership. Presumably, these factors are important as they can influence a household's tastes for homeownership as well as their interest in accumulating bequeathable wealth. The results suggest that having children in the same state can help an older household avoid a tenure transition. Presumably, a child can help a parent remain in their home if they live nearby, or in other situations older households might choose to sell their homes in order to move closer to children. On the other hand, this may signal that with fewer connections to grown children, a household would be more likely to spend down wealth rather than save it as a bequest. There also is somewhat weak evidence showing households are more likely to become renters if their children enjoy higher levels of wealth, suggesting less of a need to leave a bequest.

This analysis uncovered some evidence albeit limited as to where households go after selling a home, as shown in Table 2, depicting the types of follow-up housing. It should be noted, however, that data on moving to a health care institution are available only from 1984 and that retirement housing data exist only from 1990. As a result, it is indeterminable whether households moved to these housing types in earlier years. The dominant housing type post-homeownership is the category labeled non-apartment. This type of housing is not entirely single family housing, but that is what it appears to most closely resemble, as well as being most similar to living arrangements previous to the tenure transition. Finally, only 5 percent of households move in with their children. Future research and attention should focus on determining where households are moving. By obtaining better data, researchers and industry experts will be another step closer to pinpointing just what product type Baby Boomer households will demand as they age. In the meantime, our analysis proves a significant starting point by showcasing the housing choices and possible reasons for moving of people over age 50 in the United States.

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