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## Trends in Home Ownership

The housing market appears to be cooling down after a long and prosperous run. Home prices may be retreating a bit in some of the hottest markets, but no one expects a widespread decline in home prices. One reason for this is the recent rise in home ownership rates.

In 2001, there were 119.1 million housing units in the United States; 12.9 million units were vacant or seasonal, while 106.2 million were occupied as primary residences. Of those, 72 million were owner-occupied. The home ownership rate is defined as the number of units that are owner-occupied divided by the number of units occupied as primary residences. For 30 years, from 1965 to 1995, the average home ownership rate in the United States varied narrowly around 64 percent. Despite a wide variety of policies by government at all levels to stimulate home-ownership, the rate seemed stuck permanently near that level. In 1995, however, the trend turned upward and now exceeds 68 percent. What explains the rise over the past decade?

The demographics of home ownership may provide clues to understanding the rising trend in home ownership. The table shows that the average home ownership rate rose a mere 0.2 percent during the decade beginning in 1985. But this relatively flat trend masked considerable divergence among age groups. The home ownership rate for people aged 65 years and older rose by 3.4 percentage points, while the rates for all other age groups fell. The younger the group, the greater the decline.

Since 1995, home ownership among the oldest group has continued to rise at the same rate as before. But the home ownership rates for all the younger groups stopped falling and began to rise. The turnaround was greatest for the two youngest groups. Understanding these trends requires an understanding of how the costs and benefits of home-ownership have changed.

Interest payments are an important part of the cost of home ownership, and mortgage interest rates have generally fallen since the early 1980s. This decline in interest rates, however, has been offset by a rise in housing prices so that the median mortgage payment as a percent of median income, though it has declined, has not declined smoothly over the past two decades. This index of housing cost fell quite dramatically, from 28.7 percent in January 1985 to 19.4 percent in December 1994. The index fluctuated between 17 percent and 20 percent after 1995 and now stands around 21 percent.

A series of financial innovations has also contributed to the rise in younger home owners by allowing them to buy homes with little or no down payment. Examples include government programs by both the Clinton and Bush administrations to assist first-time buyers and the use of mortgage insurance and combination loans to reduce down payment requirements. A recent study finds that these innovations affecting the size of the down payment are the most important factor explaining the rise in home ownership, especially for young and first-time buyers.<sup>1</sup>

—William T. Gavin

<sup>1</sup> See Matthew S. Chambers, Carlos Garriga, and Dan Schlagenhauf, "Accounting for Changes in the Home Ownership Rate," Working Paper, Florida State University, 2005.

### Home Ownership

Age group	Rate in 1985	Percentage-point change in home ownership rate		Rate in 2004
		1985-1994	1995-2004	
Less than 35 years	39.9	-6.7	9.2	42.3
35 to 44 years	68.1	-5.4	5.4	68.8
45 to 54 years	75.9	-0.9	2.4	77.0
55 to 64 years	79.5	-0.3	2.7	81.7
65 years and over	74.8	3.4	3.3	80.7
U.S. total	63.9	0.2	5.9	68.6

Views expressed do not necessarily reflect official positions of the Federal Reserve System.