

Generational Shifts in Age and Predictors of Homeownership

Historical trends in U.S. homeownership

Owning a home is an essential piece of the American Dream. After World War Two, when federal policies created a more favorable environment for obtaining a mortgage, homeownership became a possibility for more and more households. Notably, the rate of ownership increased slowly and steadily from around 63% in 1965 to nearly 66% in 1980. During the recessionary period that followed, however, rates began falling and reached 63.5% in 1986.

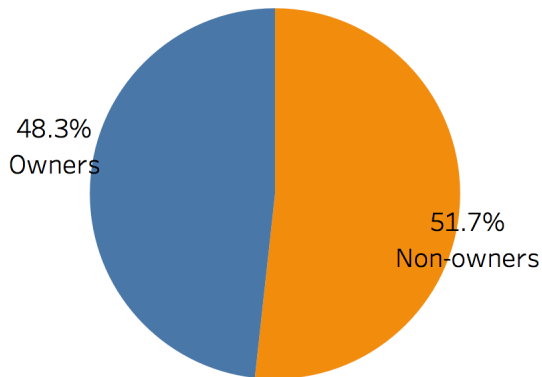
Then, beginning in 1994, homeownership rates began rising rapidly, during an extended and volatile boom-bust cycle for the housing market, finally peaking at an all-time high of 69% by the end of 2004 during the height of the sub-prime lending phenomenon. As sub-prime lending came into question and financial markets began to falter, the homeownership rate then faltered and declined in a series of shocks until it reached a 50-year low in 2016 of 63% (Figure 1).

Historically, rising and falling American real estate cycles are more the rule than the exception. The 2008 financial crisis, however, marked a catastrophic and possible “point of no return” that has since exerted downward pressure on individuals’ ability to pursue and maintain homeownership. Younger people, notably those born after 1980, are buying homes at much lower rates than previous generations did at that same age. Among individuals born between 1980 and 1984, only 35% were homeowners at age 30. In comparison, more than 48% of those born around 1960 were homeowners when they reached the same age (Figure 2), indicating a drop of 13 percentage points between these two generations.

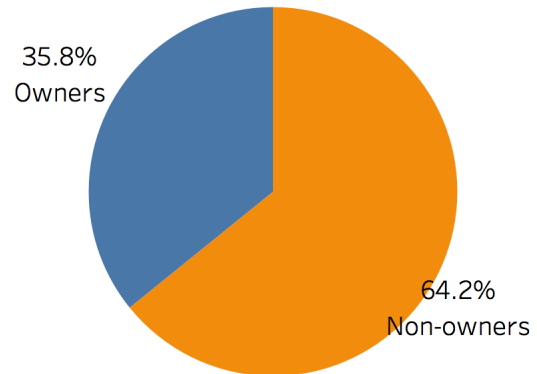


Figure 1: Homeownership rate in the U.S [1]

Older cohort at age 30



Younger cohort at age 30



Comparing the two cohorts, both at the beginning of their 30s, the older cohort had a higher homeownership rate (48%) than the younger cohort (36%).

Figure 2: Homeownership rate at age 30

Overview

Although these generational declines in homeownership are significant and undeniable, what remains unclear is whether these shifts are part of a predictable cycling of economic events that will eventually right themselves, or whether these declines reflect more permanent shifts in American life trajectories. Here, we seek to examine whether age

trajectories of homeownership are reshaped in line with shifts observed in other financially-significant decisions (e.g., acquiring student debt, getting married, etc.) and/or whether rates are likely to bounce back in line with real estate trends of the past.

The research aims of the current study are three-fold:

1. First, we analyze the extent to which home purchase by age 30 differed across two distinct generations: individuals born in the early 1980s (henceforth “Older Millennials”) and those born in the 1960s (henceforth “Younger Boomers”). Importantly, we also examine how these trends vary as a function of socioeconomic-demographic characteristics, including race and ethnicity, education, and income level.
2. Secondly, we explore how age-cohort differences in financial security (i.e., ratio of outstanding loans to actual income) may correspond with generational shifts in homeownership rates.
3. Finally, we examine the strengths of the relationships among significant life milestones with financial implications and the likelihood of owning a home by age 30. These milestones include: marriage, starting a family, retirement planning, and paying off student loans.

To investigate these aims we used two large representative samples: 1) the National Longitudinal Surveys of Youth (NLSY) data which compares two cohorts, born in the 1960s and 1980s, and 2) an original Stanford Center on Longevity survey module via the RAND American Life Panel (henceforth “*SCL Milestone Survey*”). We focus on homeownership at age 30 to control for the possibility that older cohorts may simply have acquired a home later in life.

Key Findings

- Older Millennials are less likely to own a home by age 30 than their Younger Boomer counterparts, regardless of ethnicity, educational attainment, and income level. Moreover, some groups--such as those without a college education--exhibit larger generational gaps than others.
- Between Younger Boomers and Older Millennials at age 30, we observe rising loan-to-income ratios, corresponding with declining homeownership rates.
- Across these two generations, individuals tend to get married prior to buying a home. However, the median age of marriage is significantly later among young cohorts, and in effect appears to delay age of buying a home.
- Marriage, family, retirement planning, and paying off student loans are strong predictors of having a home by age 30. However, whereas marriage is most strongly related to homeownership among older cohorts, the combination of marriage and starting a family appear to precipitate homeownership among younger cohorts. As younger people postpone these events, the prospect of home buying is set to be even further delayed.

The Specifics

The homeownership rate has fallen significantly for the entire American population, but, it is declining most steeply among the young, and likely, first time home buyers. Here, we

seek to better understand just how steep this decline is through a comparative analysis of two distinct age cohorts. We ensure correct comparisons by examining young generations today with historical data of older generations at similar ages in order to exclude the possibility that age cohort differences can be attributed to older generations having more time to acquire a home.

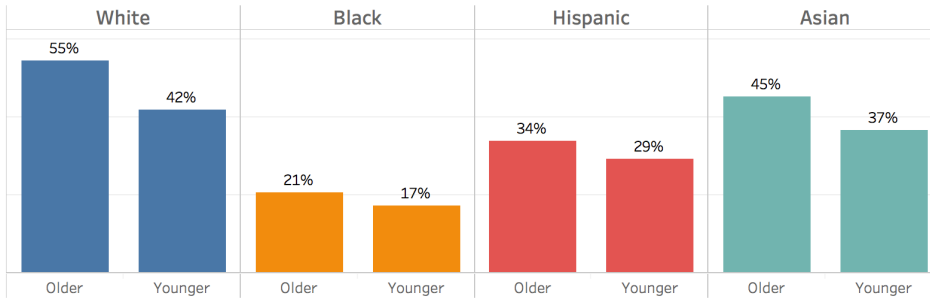
To do so, we employed the National Longitudinal Survey of Youth (NLSY) data, which tracks two distinct age cohorts longitudinally. We compared an older age cohort born between 1957 and 1964 (NLSY79), and a younger age cohort born between 1980 and 1984 (NLSY97). We calculated the percentage of individuals reporting owning their own home at age 30. For homeowners only, we also calculated the loan-to-income ratio, defined as the total home loans divided by income. We used this calculation as an estimate of individuals' financial ability to purchase and own a home.

As expected, compared to the older cohort, we observed a lower homeownership rate at age 30 among the younger cohort (see Figure 1, Figures 3-5, top panels). In direct complement to declining homeownership trends, we also observed a rising loan-to-income ratio (Figures 3-5, bottom panels) among homeowners.

Notably, generation gaps in homeownership not only persist across ethnicity, educational attainment, and income level, but some gaps were even more pronounced among a number of subgroups of the U.S. population (see Figures 3-5, top panels):

- *Ethnicity*: All American ethnic groups experienced drops in homeownership. However, because older generations of non-Hispanic Whites had the highest homeownership rate historically, these individuals experienced the largest drop (-13 percentage points). Younger Black, Hispanic, and Asian individuals also had a lower homeownership rate than their older counterparts, albeit to a lesser degree. Notably, Asian Americans suffered the least decline of any American ethnic group.
- *Education*: Those without any college education experienced a larger drop (-18 percentage points) than any other group, followed by those with a four year degree (-9 percentage points). Although declines are observed regardless of education, having "some college" or a graduate degree appears to offset some decline, perhaps because these educational types offer more specialized training (e.g., vocational/trade; professional degrees). Thus, it appears that the younger cohort is not benefiting from higher levels of education in terms of homeownership by age 30 to the same degree as their older counterparts.
- *Income*: Because those above the median income level in older generations were much more likely to own homes, that income group showed the largest cross-generational drop (third and fourth quartiles: -13 percentage points) compared to those with income below the median. Thus, similar to education, the younger cohort with the highest income has lost the most ground in homeownership.

Homeownership (age 30)



Loan-income ratio (age 30)

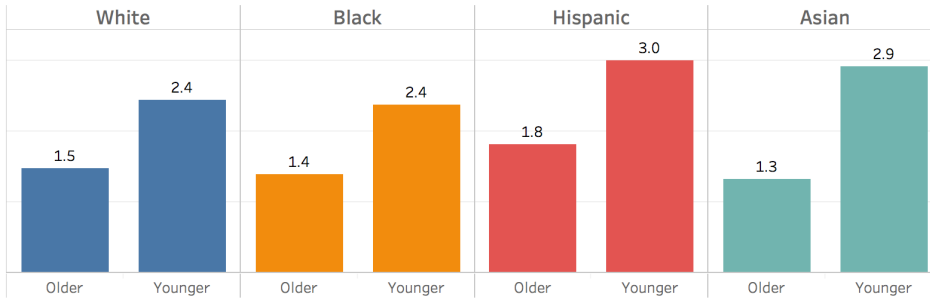
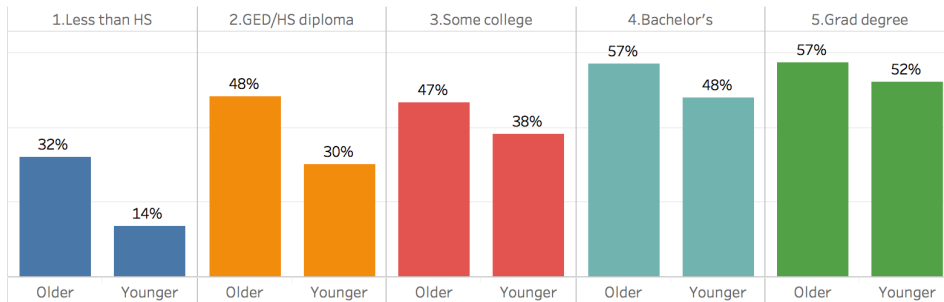


Figure 3: Homeownership and debt burden, by race and ethnicity

Homeownership (age 30)



Loan-income ratio (age 30)

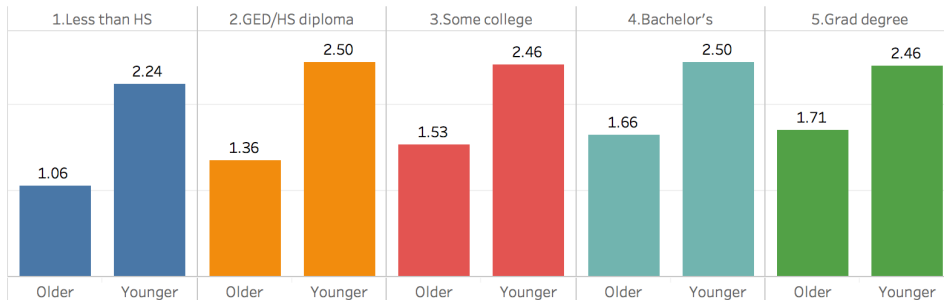
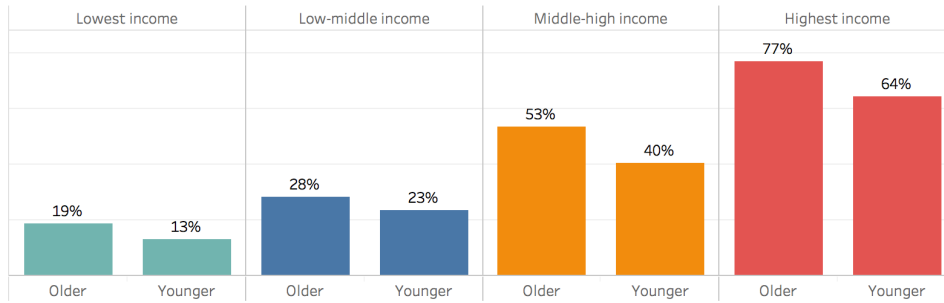


Figure 4: homeownership and debt burden, by education

Homeownership (age 30)



Loan-income ratio (age 30)

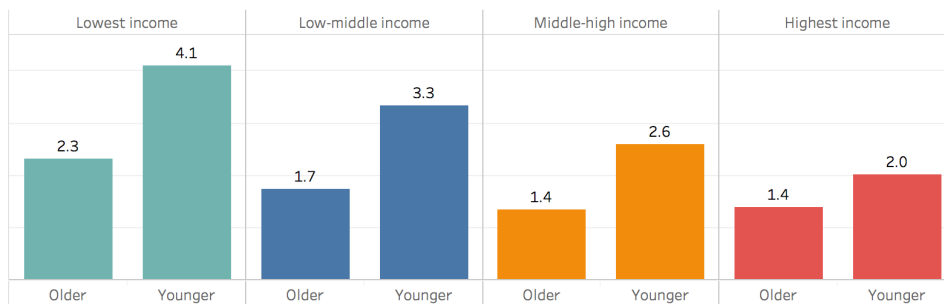


Figure 5: homeownership and debt burden, by income level

When examining debt burden related to homeownership, we found a similar pattern of results across demographic factors (see Figures 3-5, bottom panels). In particular, the greatest increases in the loan-to-income ratio were observed among Hispanic individuals (from 1.8 to 3.0), among those with less education (from 1.06 to 2.24), and among the lowest quartile income group (from 2.3 to 4.1). This is particularly worrisome because the groups seeing their ratio rise the most are also the same ones generally viewed as socioeconomically vulnerable, for whom a hike in their debt burden may have a severe negative impact on not only their ability to own a home, but also their overall standard of living.

Major Contributing Factors Affecting Homeownership in the US

In light of the declines in homeownership rates across generations, and the disparities across population subgroups, we focus next on exploring select reasons for homeownership decline across successive generations. The decision and ability to buy a home is a function of many things, including wealth, income stability, marital status, family composition, indebtedness, participation in retirement plans, and urban sprawl [1, 2, 3, 4, 5, 6, 7]. We focus here on some of these factors. Using the Sightlines framework, we focus on behavioral indicators that have the potential to be changed at multiple levels of intervention, including individuals and institutions. We highlight findings from these analyses below.

Delaying marriage

Americans are not foregoing marriage and children, but merely delaying them. The probability of a woman marrying by the age of 25 had declined from 59% in 1995 to 44% in 2010, but marriage by the age of 40 remained around 85% for both groups [8]. As shown in in Figure 6, the median age of Americans' first marriage (median range = 22-29 years old) has always been below than that of their first homeownership (median range = 28-34 years old). The average gap between the two life events ranges from 6 years for earlier cohorts, to 4 years for recent cohorts (see Figure 7), indicating that marriage continues to be an important life milestone that predates homeownership.

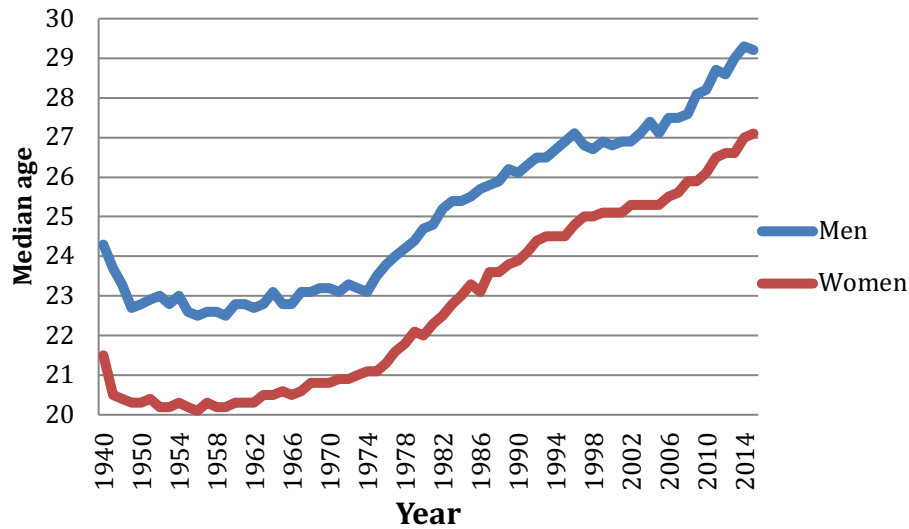


Figure 6: Median age of first marriage in the U.S., 1940-2014

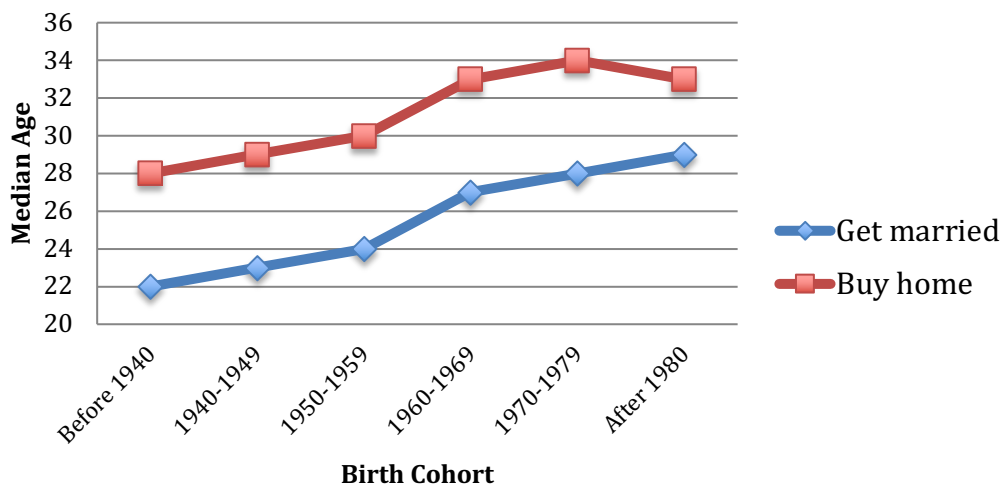


Figure 7: The timing of marriage and homeownership by age cohort

Increasing debt

Figure (8) shows the financial context experienced by many in the NLSY97 cohort when they turned 25 and 30, respectively. The younger cohort were able to grow their non-housing assets between age 25 and 30, including savings and retirement accounts. However, they also accumulated a significant amount of debt, with student loans being the primary source. This resulted in slower growth in personal net worth. The average net worth for a 30-year old in the NLSY97 cohort was less than \$10,000, severely restricting most individuals' ability to afford a down payment on a home in most housing markets in the country.

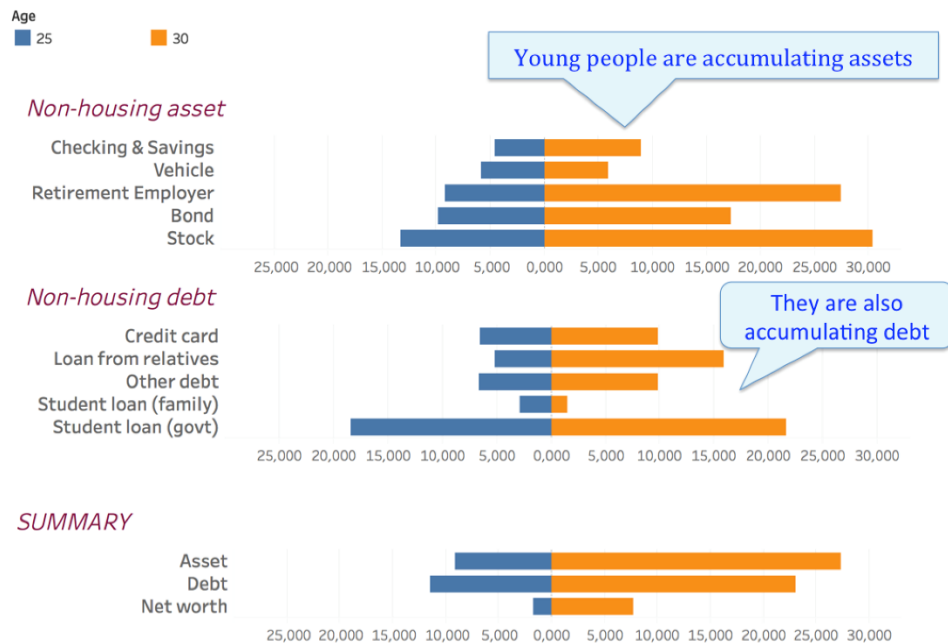


Figure 8: Non-housing asset and debt burden for the young

Figure (9) illustrates how student loans are closely related to homeownership. Student loans are commonly viewed as a double-edge sword. On the one hand, young people are able to receive better education with the help of student loans; on the other, more education does not necessarily translate to more income. The debt burden may restrict the graduates' ability to borrow and mobilize financial resources.

We compare two groups of individuals: non-homeowners at age 25, we distinguish between those who do become homeowners by the age of 30 and those who do not. The data show that both groups had very similar levels of student loans at age 25--\$17,800 . However, the group who became homeowners had only \$19,500 in student loans at age 30, whereas the group who didn't become homeowners had accumulated a lot more, at \$22,200 at age 30. Though this comparison doesn't imply causality, we can still see clearly that high levels of student loans are correlated with reduced likelihood of homeownership.

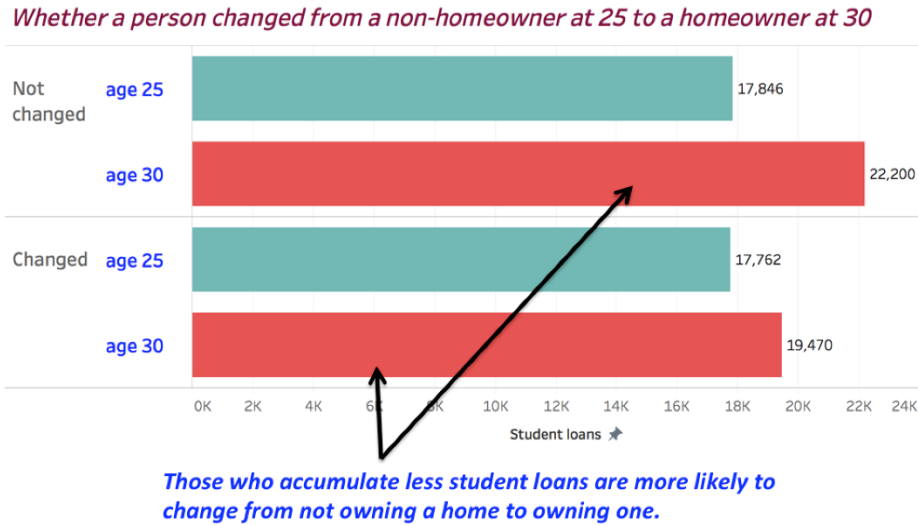


Figure 9: Young adults with higher student loans (\$22,200) were less likely to buy a home at age 30

Comparative analysis of behavioral predictors of homeownership

Having examined correlations between homeownership and major contributing factors, we now turn to estimating the effects of socioeconomic-demographic variables on homeownership, using the SCL Milestone Survey data. This data set is nationally representative, and collects information on demographic and socioeconomic background, as well as the specific ages when people accomplish important life milestones, such as getting married, buying a home, and paying off student loans. Using a multivariate probit regression framework, we examine the marginal effects of each variable.

Life Milestones

As shown in Figure (10), life milestones such as marriage and starting a family are strongly associated with homeownership. The variable *Marry by 30* has a marginal effect of 0.21, which is statistically significant. The variable *Start Family by 30* is statistically insignificant by itself; however, the interaction between marriage and starting a family has a marginal effect of 0.24, which is statistically significant. We can interpret the results as follows. The baseline is individuals not married by age 30, regardless of children. Compared to the baseline, those married by 30 with no children have a higher probability of homeownership by 30 (0.21***), and furthermore, those married by 30 *and* have children by 30 see their probability of owning a home increase by another 0.24.

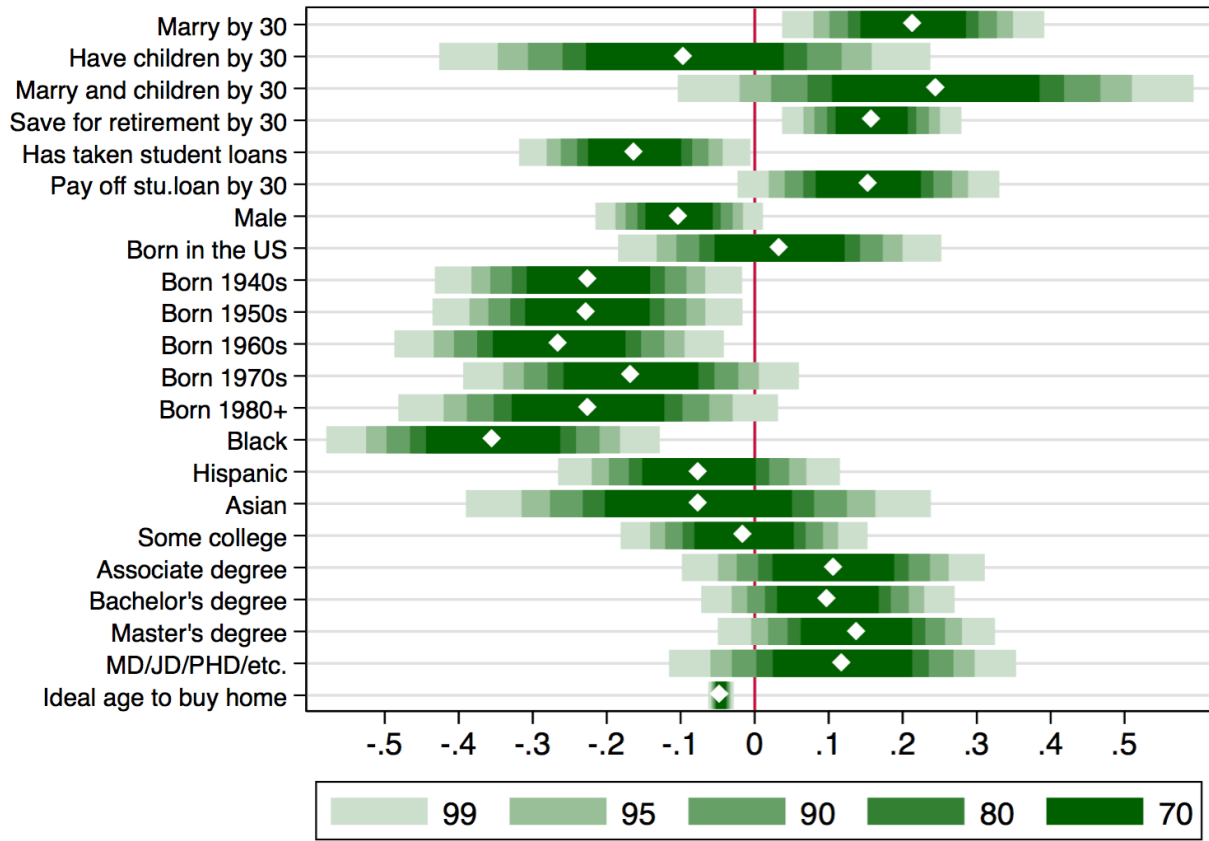


Figure 10: Marginal Effects of life milestones and demographic characteristics on the likelihood of buying home by age 30. Note: Diamonds represent the magnitude of the association between variables listed above and the likelihood of buying home by age 30; Green bars represent confidence intervals ranging from 70 - 99%.

Table 1. Marginal effects of life milestones, financial milestones on likelihood of buying a home by age 30

	ALL	BIRTH COHORTS				
		<1950	1950s	1960s	1970s	1980s
Life milestones						
Marry by 30	0.21***	0.45***	0.33***	0.30**	0.17	-0.14
Have children by 30	-0.09	0.35	0.47**	-0.22	-0.40**	-0.01
Marry and children by 30	0.24*	-0.11	-0.39	0.21	0.54***	0.46**
Financial milestones						
Save for retirement by 30	0.16***	0.08	0.09	0.06	0.19*	0.19*
Has taken student loans	-0.16***	0.07	-0.27***	0.04	-0.11	-0.24*
Pay off student loan by 30	0.15**	0.06	0.08	0.11	0.18	0.16

Note: SCL Milestone Survey data 2017. * for $p < 0.1$, ** for $p < 0.05$, *** for $p < 0.01$. Results for other covariates are omitted here to conserve space, but available in the full paper.

Financial Milestones

In addition to life milestones, financial milestones are also closely associated with the likelihood of buying a home. Specifically, those who started saving for retirement by age 30 were significantly more likely to have bought a home by age 30 than those who had failed to do so. This correlation between retirement preparedness and homeownership is most significant among recent cohorts, i.e., those born after 1970.

In addition to asset accumulation positively predicting homeownership, we found that debt was negatively associated with buying a home by age 30. Compared to those who never took out student loans, those who borrowed showed a reduction in their likelihood of homeownership by 0.16. Although taking out student loans are negatively associated with owning a home, we did find a positive association with paying off student loans by age 30, which offset that overall negative impact. Compared to individuals not paying off student loans by age 30, those who did pay them off saw their probability of homeownership increase by 0.15.

Conclusions

This chapter reviews the historical trend in homeownership in the US, and analyzes gaps in homeownership and mortgage debt burdens between the older cohort (born around 1960) and the younger cohort (born in the early 1980s). We discuss the contributing factors affecting homeownership, including marriage and having children, retirement planning, and student loans. Lastly, we use the Stanford Center on Longevity Milestones Survey data to estimate the respective impacts of those factors on young Americans becoming homeowners.

Key Takeaways:

1. Compared to the older cohort, the younger cohort are less likely to own a home by age 30, and when they do, they face a higher debt burden in financing their homes.
2. Generational gaps in homeownership and mortgage debt can be observed across different sub-populations; however, certain more socioeconomically vulnerable groups exhibit larger gaps. In particular, the least educated and the low-income groups experienced the largest hike in their debt burdens. To prevent disasterous events like the sub-prime mortgage crisis, financial institutions and policy makers need to ensure that the size of home loans is manageable for the borrowers given their income level.
3. Although the ideal ages of marriage and starting family have not changed much over time, young people today are delaying important life milestones such as getting married and having children, which have domino effects on homeownership.

4. All things being equal, life milestones such as getting married by age 30 and having children by 30, and financial milestones, such as saving for retirement by age 30, and repaying student loans by age 30 are all strong predictors of home purchases.

5. Previous research has identified the benefit of homeownership on household wealth accumulations [9,10,11,12]. Not owning a home, young Americans today may forego the opportunity to grow their household wealth, and their inadequate household savings in the future may adversely affect retirement security. Strategies to address raising the homeownership rate among young people remains an important policy issue.

6. Another policy implication is on student loans. Our results identifies the ability to repay student loans as an important predictor for home purchases. However, nearly 40% of borrowers in the 2004 college entry cohort may default on their student loans by 2023, and the debt and default for some subpopulations is at crisis levels [13]. Strong effort is needed from universities, financial institutions, and the government to help students understand the financial constraints imposed by student loans, and make rational decisions on the size of loans justified by their future earnings ability.

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