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# Homeownership in Crisis: Where are We Now?

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March 2017

Prepared by Rosen Consulting Group for the National Association of REALTORS®

Released by Rosen Consulting Group and the  
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## **About the Study**

*Homeownership in Crisis: Where are we now?* was prepared by Rosen Consulting Group for the National Association of REALTORS® and jointly released by Rosen Consulting Group and the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley Haas School of Business. This report, the first of three papers to be prepared by Rosen Consulting Group in 2017, highlights important demographics and economics trends behind the recent decline in homeownership and provides an assessment of the national housing outlook.

## **About Rosen Consulting Group**

Rosen Consulting Group (RCG) is a leading independent real estate economics consulting firm. Founded in 1990 and with offices in Berkeley and New York, RCG provides strategic consulting and unbiased investment guidance through all market cycles. RCG is a trusted advisor to leading banks, insurance companies, institutional investors, and public and private real estate operators. For more information go to [www.rosenconsulting.com](http://www.rosenconsulting.com).

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# Homeownership in Crisis: Where are We Now?

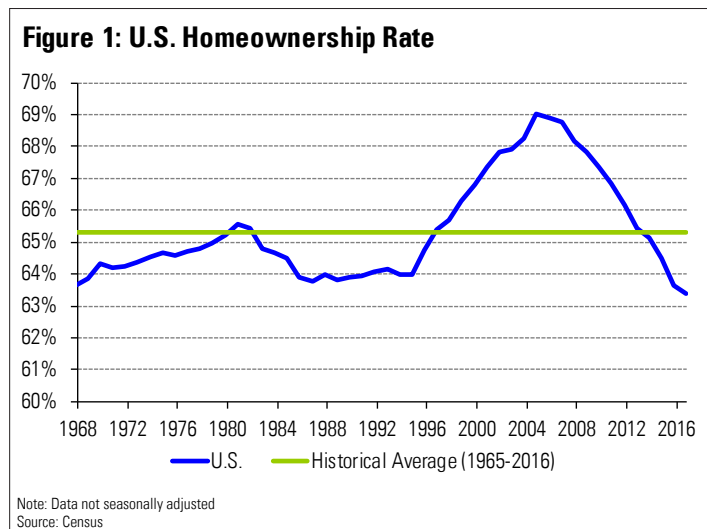
## Introduction

Homeownership rates in the U.S. collapsed during the past decade in the wake of the foreclosure crisis and Great Recession, wiping out the gains achieved during the past three decades, pushing the national homeownership rate to the lowest level in more than 50 years, and undermining progress toward the American Dream for millions of households nationwide. Yet, homeownership remains a critical part of the national economy and ongoing weakness in the single family housing market, represents a substantial hurdle limiting the pace of economic growth. Not only is homeownership beneficial for individual households, as homeowners are able to build equity, grow household wealth and build ties to their neighborhoods, but safe and affordable homeownership is a vital component of strengthening communities and generates considerable positive social and economic externalities.

RCG plans to write a series of reports on the issue of homeownership. This report, the first in the series, is intended to highlight the current state of homeownership, examining the question of “Where are we now?” and providing an overview of the many factors that contributed to the plunge in homeownership rates during the past decade. Subsequent papers will further explore the numerous hurdles currently facing the single family housing market, detailing the challenges for both potential homebuyers and the homebuilding industry, as well as potential policy responses, outlining strategies to increase homeownership in a safe and sound way without repeating the mistakes of the past.

## Overview of National Homeownership Trends

National homeownership rates fluctuated substantially during the past fifty years. From the late-1960s through 1980, homeownership steadily increased, exceeding the long-term average of 65.3% (see Figure 1)<sup>1</sup>. Through the early 1980s, national homeownership declined substantially after the Federal Reserve increased interest rates and mortgage rates rose sharply. The homeownership rate fell below the historical average to a low of



63.8% in 1986. Thereafter, the homeownership rate stabilized near 64% from 1986 through 1994, with little improvement in the share of households owning homes nationwide throughout this period. The following decade, however, resulted in a rapid and persistent increase in the U.S. homeownership rate, bolstered at first by the robust economic expansion, dot-com boom and a policy environment promoting broad access to homeownership. Subsequently, the homeownership rate increased further during the housing boom through the mid-2000s, fueled by an extremely loose credit environment and sustained home price appreciation. Through the 1990s and early 2000s, the national homeownership rate skyrocketed to 69.2%, adding approximately 11.3 million new owner households nationwide from 1994 through 2004. This trend shifted rapidly, however, with the national homeownership rate plummeting during the past decade in the wake of the foreclosure crisis and Great Recession, throughout the early stages of recovery and continuing through the current stage of the economic growth cycle. As of 2016, the national homeownership rate reached an annual average of 63.4%, a slight increase from mid-year, which marked the lowest level in more than 50 years, but still representing a significant decline of 5.6 percentage points compared with the pre-Recession peak.

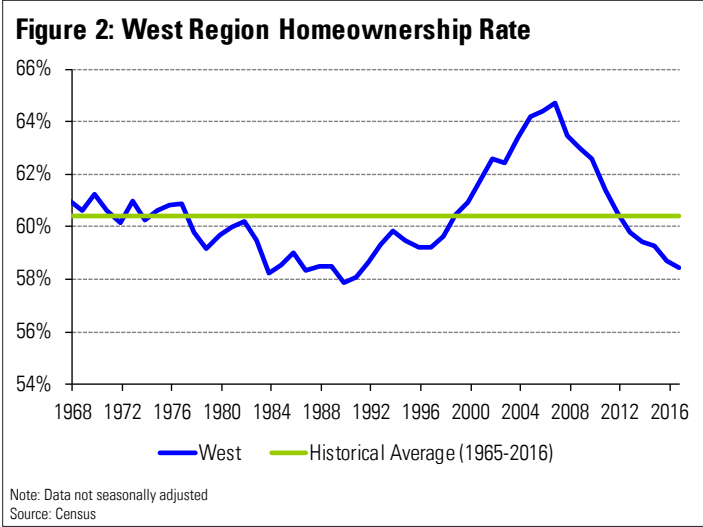
Data published by the U.S. Census Bureau provides greater context into which groups of households were most affected by changes in homeownership during the past half century and, in particular, highlights the rise and fall of homeownership during the housing boom and subsequent crisis in the 2000s. In order to better understand this remarkable change, RCG examined national homeownership data by geography, race and age, highlighting the many ways that the housing boom and subsequent housing crisis influenced the trends in homeownership across various different groups of households.

### ***Geography***

All regions of the country were severely affected by declines in homeownership rates. Households in the Midwest and Northeast regions, where the boom in construction was less pronounced and home price appreciation was generally more moderate through the early and mid-2000s, were the most resilient, leading to smaller declines in homeownership relative to the mid-2000s peak and compared with 1994 when homeownership started to rise. More recently, the homeownership rate in these two regions is either flattening or improving, as market dynamics gradually return to more normalized conditions. Meanwhile, homeownership among households in the West and South regions, where housing bubble conditions and subsequent foreclosures were more heavily concentrated, proved most affected by the housing crisis, with the homeownership rate declining more substantially and showing little to no rebound through 2016.

West Region

Among the four major Census regions, volatility in the homeownership rate was greatest in the West region. From 1994 through 2006, homeownership in the West increased from 59.5% to 64.7%, growing by 5.3 percentage points (see Figure 2).<sup>2</sup> After reaching a peak in 2006, homeownership fell precipitously, dropping by 6.3 percentage points as of 2016. Currently, the West region has the lowest homeownership rate among Census regions at 58.5%, 1.9 percentage points less than the historical average for the region since 1968.



Western region markets with the largest concentration of foreclosures had among the sharpest declines. The annual average homeownership rate in the Las Vegas metropolitan area contracted by 12.1 percentage points from 2004 through 2016, while the homeownership rate in Phoenix fell by 9.9 percentage points compared with the local peak in 2006. In the Inland Empire, the homeownership rate dropped by 12.2 percentage points from a peak of 68.5% in 2005 to a recent low 56.3% in 2013, before rebounding to 63.0% as of 2016.

Rising costs, declining affordability and a significant shortage of new single family supply in coastal markets further exacerbated the decline in homeownership in the West region. Notable declines include in the San Diego and Silicon Valley markets, where the homeownership rate fell by 12.4 percentage points and 9.4 percentage points, compared with pre-Recession peaks in 2004 and 2005, respectively (see Figure 3).

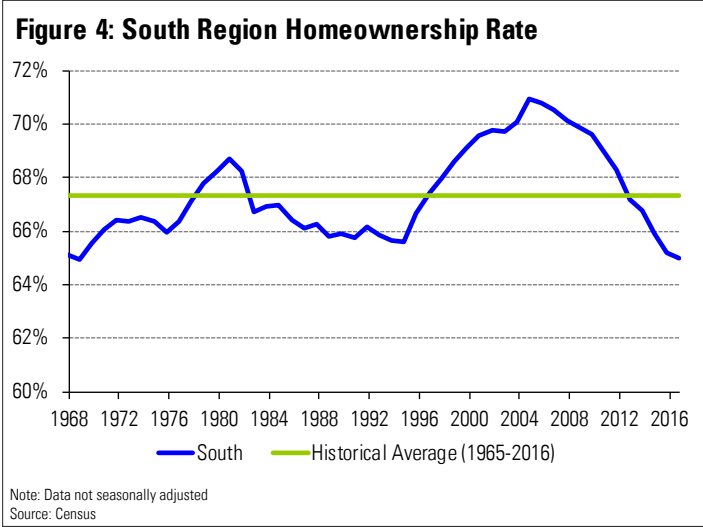
**Figure 3: West Homeownership Rates By MSA**

MSA	Peak	Trough	Current	Peak to Trough	Recovery from Trough
San Diego	65.7%	51.8%	53.3%	-13.9%	1.5%
Inland Empire	68.5%	56.3%	63.0%	-12.2%	6.7%
Las Vegas	63.4%	51.3%	51.3%	-12.1%	0.0%
Phoenix	72.5%	61.0%	62.6%	-11.5%	1.6%
Tucson	67.5%	56.0%	56.0%	-11.5%	0.0%
Denver	70.7%	61.0%	61.7%	-9.7%	0.6%
Silicon Valley	59.4%	50.0%	50.0%	-9.4%	0.0%
Portland	68.3%	58.9%	61.8%	-9.4%	2.9%
Salt Lake City	73.7%	65.5%	69.3%	-8.2%	3.8%
Albuquerque	70.5%	62.8%	66.9%	-7.7%	4.1%
Sacramento	64.2%	57.2%	60.6%	-7.0%	3.4%
San Francisco	59.4%	53.2%	55.8%	-6.2%	2.6%
Fresno	54.7%	49.3%	56.2%	-5.4%	6.9%

Note: Peak from 2004 to 2007; latest data annual average of 2016; ranked by peak to trough; survey margin of error may account for MSA data fluctuations  
Source: Census

South Region

The South region was also hard hit, with homeownership decreasing sharply by 6.0 percentage points from a peak of 70.9% in 2004 to 65.0% as of 2016 (see Figure 4). Through the housing boom, homeownership for the South region increased by 5.3 percentage points from 1994 to 2004. As of 2016, homeownership was 2.3 percentage points less than the long term average for the region and only slightly greater than the historical low in the late 1960s. The current rate is the second lowest among Census regions ranked by homeownership rate, only slightly above the West region.



Homeownership declines were particularly substantial in Florida markets following the sharp rise and fall in prices, the large numbers of underwater properties and the high prevalence of foreclosures. Compared with a peak in 2005, the annual homeownership rate in the Miami-Fort Lauderdale-West Palm Beach metropolitan area fell by 10.8 percentage points through 2016 (see Figure 5). Homeownership rates peaked somewhat later in Orlando, but subsequently dropped by 13.4 percentage points from 2007 through 2016.

Outside of Florida, the homeownership rate declined by 6.9 percentage points in Atlanta and 4.2 percentage points

**Figure 5: South Homeownership Rates By MSA**

MSA	Peak	Trough	Current	Peak to Trough	Recovery from Trough
Norfolk	73.2%	59.4%	59.5%	-13.8%	0.1%
Orlando	71.8%	58.4%	58.5%	-13.4%	0.1%
Columbia	76.3%	63.9%	63.9%	-12.4%	0.0%
Charlotte	70.4%	58.1%	66.2%	-12.3%	8.1%
New Orleans	71.2%	59.4%	59.4%	-11.8%	0.0%
Oklahoma City	72.9%	61.4%	63.1%	-11.5%	1.7%
Richmond	72.7%	61.6%	61.6%	-11.1%	0.0%
Miami-Fort Lauderdale	69.2%	58.5%	58.5%	-10.8%	0.0%
Austin	66.7%	56.4%	56.4%	-10.3%	0.0%
Tampa	72.9%	62.9%	62.9%	-10.0%	0.0%
Jacksonville	70.9%	61.7%	61.7%	-9.2%	0.0%
Nashville	73.0%	63.9%	65.0%	-9.1%	1.1%
Baltimore	72.9%	64.1%	68.5%	-8.8%	4.4%
Memphis	64.8%	56.2%	61.9%	-8.6%	5.7%
Tulsa	71.7%	64.1%	65.4%	-7.6%	1.3%
Birmingham	76.1%	68.7%	68.7%	-7.4%	0.0%
Raleigh	72.8%	65.5%	66.0%	-7.3%	0.5%
Baton Rouge	71.0%	64.0%	64.8%	-7.0%	0.8%
Atlanta	68.4%	61.5%	61.5%	-6.9%	0.0%
San Antonio	68.3%	61.5%	61.5%	-6.8%	0.0%
Washington D.C.	69.7%	63.1%	63.1%	-6.7%	0.0%
Greensboro	68.6%	62.7%	62.9%	-5.9%	0.2%
Houston	64.5%	59.0%	59.0%	-5.5%	0.0%
Dallas	62.3%	57.7%	59.7%	-4.6%	2.0%

Note: Peak from 2004 to 2007; latest data annual average of 2016; ranked by peak to trough; survey margin of error may account for MSA data fluctuations  
Source: Census

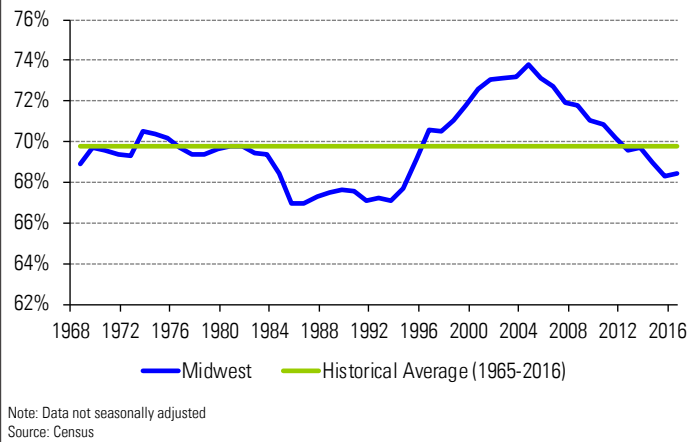
in Charlotte since 2004, while strong economic growth, rising home prices and an influx of young millennial workers contributed to a falling homeownership rate in Austin, down 10.3 percentage points since 2006.

### Midwest Region

The Midwest region followed a similar trend of homeownership rising and falling, however with somewhat less volatility. The homeownership rate

in the Midwest peaked at 73.8% in 2004, growing by 6.7 percentage points since the previous low in 1993 (see Figure 6). Following the mid-2000s, however, the homeownership rate in the Midwest fell rapidly by 5.5 percentage points through 2015. Importantly, the Midwest region is beginning to stabilize, with the regional homeownership rate recovering slightly to 68.4% as of 2016 from 68.3% in 2015.

**Figure 6: Midwest Region Homeownership Rate**



At the market level, from 2004 through 2016, the annual average homeownership in Chicago and Cincinnati decreased by 5.6 percentage points and 6.4 percentage points, respectively (see Figure 7). However, declines were more substantial in select markets including Indianapolis and Cleveland markets, where the homeownership rate fell by 15.1 percentage points and 12.2 percentage points, compared with peaks in 2006 and 2004, respectively.

**Figure 7: Midwest Homeownership Rates By MSA**

MSA	Peak	Trough	Current	Peak to Trough	Recovery from Trough
Indianapolis	79.0%	63.9%	63.9%	-15.1%	0.0%
Akron	79.1%	66.0%	74.7%	-13.1%	8.7%
Cleveland	76.9%	64.2%	64.8%	-12.7%	0.5%
Kansas City	74.2%	62.4%	62.4%	-11.8%	0.0%
Toledo	72.4%	60.7%	62.6%	-11.7%	1.9%
Columbus	69.1%	57.5%	57.5%	-11.7%	0.0%
Milwaukee	67.0%	55.9%	60.4%	-11.1%	4.5%
Cincinnati	71.3%	62.4%	65.0%	-8.9%	2.5%
St. Louis	74.4%	66.4%	66.4%	-8.1%	0.0%
Grand Rapids	78.6%	71.6%	76.2%	-7.0%	4.6%
Minneapolis	74.9%	67.9%	69.2%	-7.0%	1.3%
Chicago	70.1%	64.3%	64.5%	-5.8%	0.2%
Louisville	67.5%	61.7%	67.6%	-5.8%	5.9%
Dayton	66.1%	60.8%	66.0%	-5.3%	5.2%
Detroit	76.1%	71.2%	71.6%	-4.9%	0.4%
Omaha	70.8%	68.7%	69.1%	-2.1%	0.4%

Note: Peak from 2004 to 2007; latest data annual average of 2016; ranked by peak to trough; survey margin of error may account for MSA data fluctuations

Source: Census

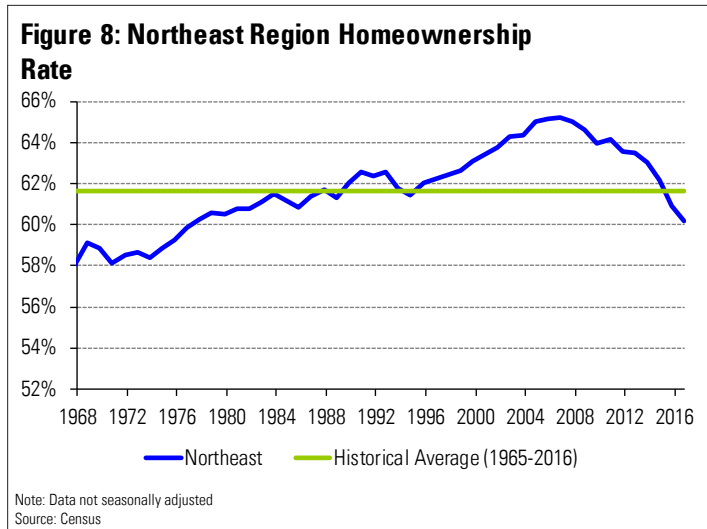


*Northeast Region*

From 1994 to 2006, the homeownership rate for the Northeast steadily increased by 6.1 percentage points to 65.2%. Thereafter, however, the homeownership rate in the Northeast fell to 60.8% in 2016, down by 5.0 percentage points compared with the historical peak in 2006 (see Figure 8). Despite the substantial decline, this represents the least volatile region of the country and the current Northeast homeownership rate is 1.4 percentage points lower than the historical average since 1968.

Among major Northeast markets, the average annual homeownership rate decreased by 4.2 percentage points in the New York metropolitan area since 2005 (see Figure 9). After peaking somewhat later, the homeownership rate in Hartford and Stamford fell by 10.1 percentage points and 4.5 percentage points, respectively since 2006, whereas the homeownership rate in Boston decreased by 5.9 percentage points compared with the peak in 2007.

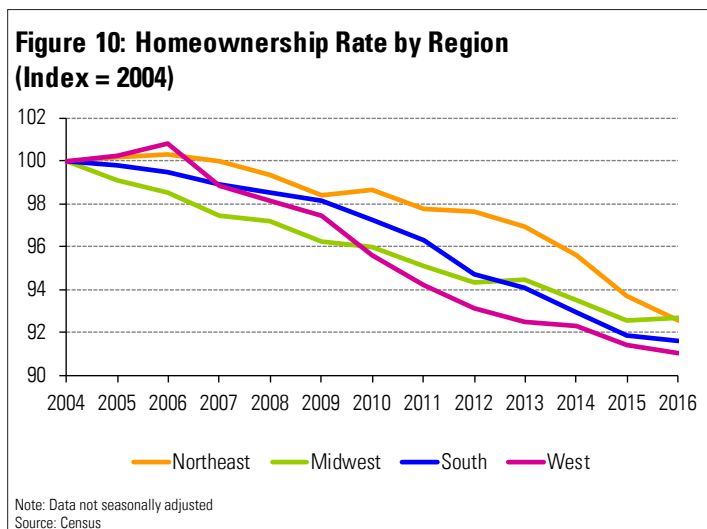
Indexing to 2004 levels, the decrease in homeownership rates in the Northeast and Midwest regions were the smallest declines in proportional terms among Census regions (See Figure 10). This relative stability likely reflects the smaller swings in home



**Figure 9: Northeast Homeownership Rates By MSA**

MSA	Peak	Trough	Current	Peak to Trough	Recovery from Trough
Rochester	74.9%	58.0%	58.0%	-16.9%	0.0%
Hartford	73.8%	63.7%	63.7%	-10.1%	0.0%
Worcester	71.0%	61.9%	65.4%	-9.1%	3.5%
Syracuse	66.0%	57.0%	61.2%	-9.0%	4.1%
Philadelphia	73.5%	64.7%	64.7%	-8.8%	0.0%
Providence	65.5%	57.5%	57.5%	-8.0%	0.0%
Buffalo	68.2%	60.3%	62.7%	-7.9%	2.4%
New Haven	66.9%	59.4%	59.4%	-7.5%	0.0%
Pittsburgh	74.9%	67.9%	72.2%	-7.0%	4.3%
Bethlehem	75.1%	68.2%	69.0%	-6.9%	0.8%
Albany	68.0%	61.4%	61.4%	-6.6%	0.0%
Boston	64.8%	58.9%	58.9%	-5.9%	0.0%
Stamford	70.4%	65.9%	65.9%	-4.5%	0.0%
New York	54.7%	49.9%	50.5%	-4.8%	0.6%

Note: Peak from 2004 to 2007; latest data annual average of 2016; ranked by peak to trough; survey margin of error may account for MSA data fluctuations  
Source: Census



prices in these two regions during housing boom, crisis and recovery.

### International

From an international perspective, as of 2015, the U.S. annual average homeownership rate was 63.7%, on par with United Kingdom (U.K.) and France at 63.5% and 64.1%, respectively, but substantially lower than Norway, Portugal, and Italy,

with homeownership rates of 82.8%, 74.8%, and 72.9%, respectively (see Figure 11).<sup>3</sup> However, compared with 2005, the trend in homeownership differed substantially by country. In the wake of the recession and sluggish recovery, the largest homeownership decline in percentage terms was in the U.K, dropping by 6.5 percentage points from 2005 through 2015. The second largest drop was in the United States, falling by 5.2 percentage points during the same period to 68.9%. The homeownership rate remained essentially unchanged in Portugal, Norway, and Italy. Moreover, in sharp contrast to the U.S. and U.K., from 2005 through 2015, the homeownership rate in the Netherlands and France grew by 3.9 percentage points and 2.3 percentage points, respectively.

**Figure 11: International Homeownership Rates**

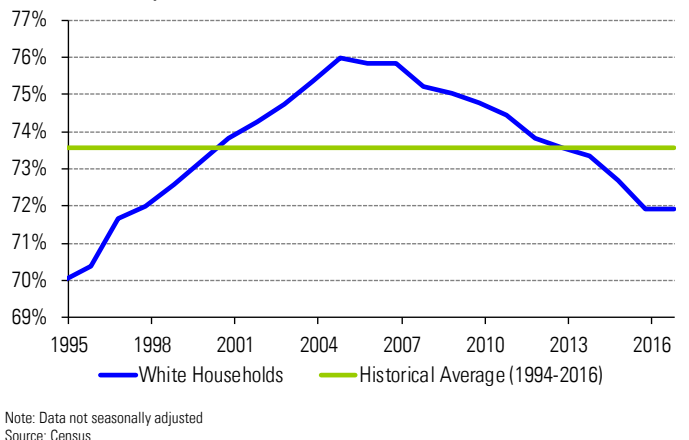
Country	2005	2015	Percent Point Change
Netherlands	63.9%	67.8%	3.9%
France	61.8%	64.1%	2.3%
Sweden	68.1%	70.6%	2.5%
Finland	71.8%	72.7%	0.9%
Portugal	74.4%	74.8%	0.4%
Norway	82.7%	82.8%	0.1%
Italy	73.2%	72.9%	-0.3%
Belgium	72.2%	71.4%	-0.8%
Germany	53.3%	51.9%	-1.4%
Denmark	66.6%	62.7%	-3.9%
<b>United States</b>	<b>68.9%</b>	<b>63.7%</b>	<b>-5.2%</b>
United Kingdom	70.0%	63.5%	-6.5%

Sources: Eurostat, Census

### Race

Data on national homeownership by race provides insight into trends among white, African American and Hispanic households, as well as households of other races, detailing which groups of households were most affected by the recession, foreclosure crisis and continued weakness in the for-sale housing market. With a historical peak of 76% in 2004, white non-Hispanic households reached the highest homeownership rate among these groups, growing by 6.0 percentage points since 1994, according to the Census.<sup>4</sup> Since 2004, however, the homeownership rate for white households decreased by 4.5

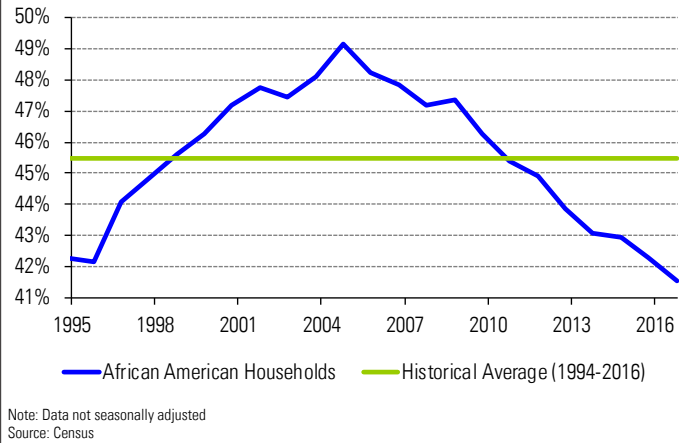
**Figure 12: Homeownership Rate (White Households)**



percentage points to 71.5% in the second quarter of 2016, before improving slightly to 71.9% as of 2016 (see Figure 12).

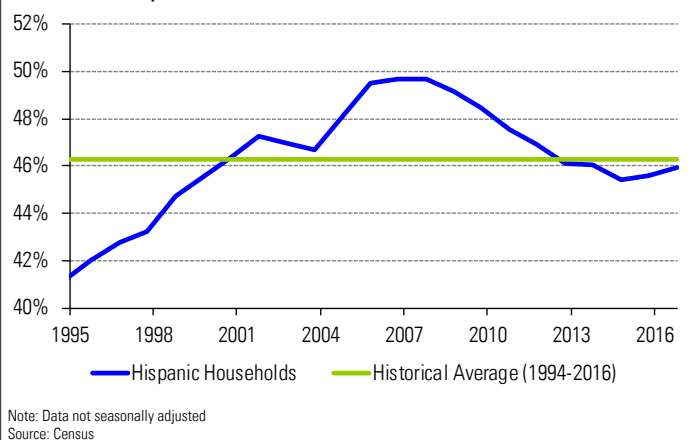
African American households had the lowest peak homeownership rate across racial groups at 49.1% in 2004, despite a significant upward trend in the previous decade, growing by 6.8 percentage points compared with 1994. Thereafter, however, African American households were disproportionately affected by declines in homeownership in recent years. Overall, homeownership among African American households fell the most among racial groups tracked by the Census. As of 2016, the homeownership rate declined to 41.5%, representing a decrease of 7.6 percentage points since 2004, and more than offsetting all of the gains achieved during the 1990s and early 2000s (see Figure 13).

**Figure 13: Homeownership Rate (African American Households)**



Varying from the prior two groups, Hispanic homeownership improved over the two plus decade period, representing the only racial group with a current homeownership above the historical average. Currently, the homeownership rate for Hispanic households is 45.9%, slightly less than the historical average of 46.3% since 1994 (see Figure 14). Since 2004, Hispanic households showed the greatest resilience, with homeownership dropping by only 2.2 percentage points, compared with a decline of 7.6 percentage points for African American households during the same time period. Moreover, even considering the substantial declines following the foreclosure crisis, Hispanic homeownership still increased relative to 1994 by 4.8 percentage points, representing the only group to sustain notable progress toward the American Dream over the past 22 years.

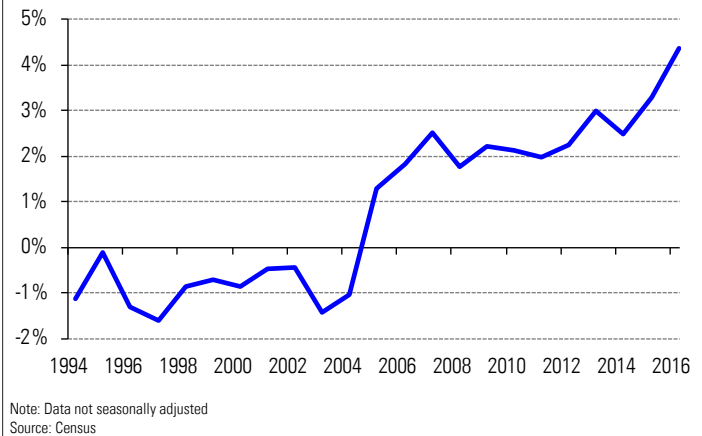
**Figure 14: Homeownership Rate (Hispanic Households)**



This trend is particularly evident when examining the homeownership gap between Hispanic and African American households in recent decades.

Through the late 1990s and early 2000s, there was a very small gap between homeownership rates among these groups of households, with a slightly higher homeownership rate for African American households throughout much of the period. This trend changed, however, starting in 2005, as homeownership among Hispanic households continued to steadily increase from 2005 through 2007, even as homeownership rates among African American households began to fall rapidly. As such, the homeownership rate gap not only reversed direction,

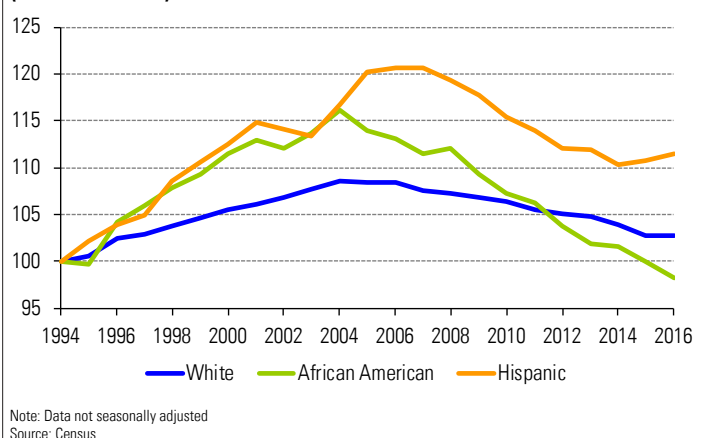
**Figure 15: Hispanic/African American Homeownership Gap**



but also expanded substantially (see Figure 15). As of 2016, the national homeownership rate was 4.4 percentage points greater for Hispanic households than African American households. Moreover, indexing to 1994 levels, it is clear that the long term homeownership rate trend diverged substantially between these two groups of minority households (See Figure 16). Despite the resilience and long-term improvement among Hispanic households, in terms of levels, the current share of households owning homes remains far below that of white households (71.9%), and households in all other races. While the national homeownership rate may indeed fall further because of the growing share of minority households and the low homeownership rate among these groups, homeownership aspirations among minority households are strong and narrowing the gap between minority and white homeownership could help to stabilize and even increase the national homeownership rate in the future.

As of 2016, the homeownership rate for households of other races was 52.8%, a decline of 7.1 percentage points from the historical peak of 59.9% in 2006. Additionally, the homeownership rate for this group grew by a staggering 5.1 percentage points from 47.7% in 1994 and marks the largest percent increase of any Census group through the housing boom years.

**Figure 16: Homeownership by Race (Index = 1994)**



## Age Cohorts

Trends in homeownership through the housing boom and bust period differ substantially by age group, with older households not only having higher levels of homeownership, but also tending to be much more stable in recent years, with smaller declines in homeownership following the mid-2000s peak. Since 1994, the homeownership rate for households aged 70 to 74 years stayed relatively

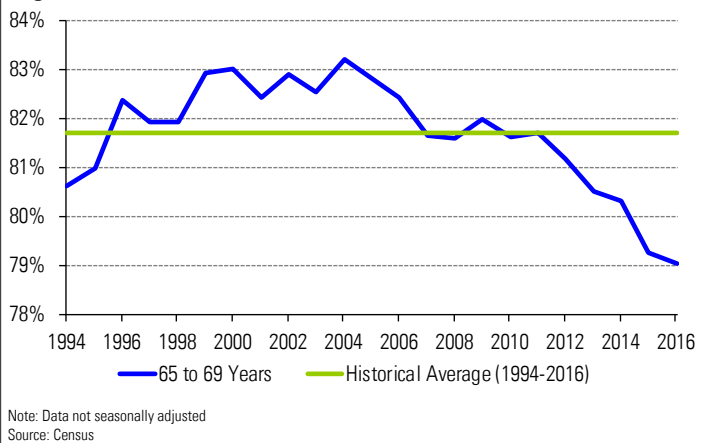
strong, fluctuating somewhat, but sustaining a

modest increase of 1.6 percentage points from 80.1% in 1994 to 81.7% in 2016.<sup>5</sup> For households aged 75 and older, the homeownership rate also increased during this time period, despite the impact of the foreclosure crisis and Great Recession, rising by 3.4 percentage points from 73.6% in 1994 to 77.0% as of 2016. In comparison, trends in homeownership were affected more significantly by the housing boom and collapse for those households in the early years of retirement and among all groups of working-aged households, with the impacts much greater for younger age cohorts.

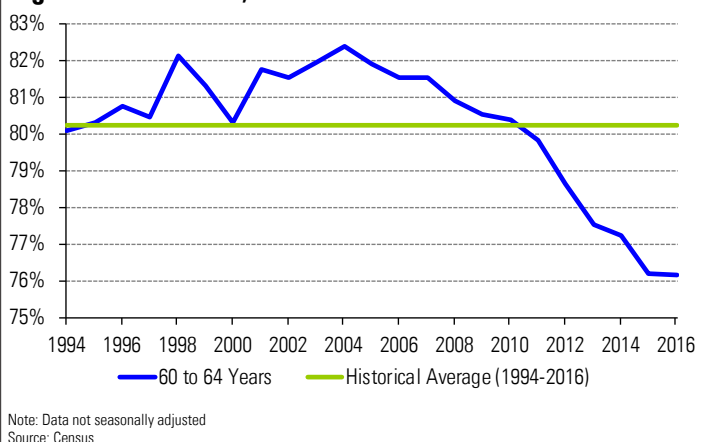
Among households aged 65 to 69 years, the homeownership rate dropped by 4.2 percentage points from a peak of 83.2% in 2004 to 79.0% in 2016 (see Figure 17), whereas homeownership for households aged 60 to 64 years fell somewhat further, down by 6.3 percentage points to 76.2% in 2016 (see Figure 18). Even greater declines extended to households aged 55 to 59 years and 50 to 54 years, dropping by 7.2 and 6.6 percentage points, respectively since 2004.

Examining age cohorts for households younger than 50 years old, younger working-aged households, particularly those in the 25 to 34 year age-range, generally benefitted most in terms of transitioning from renting to owning during the housing bubble, with homeownership rising more dramatically than any other group. Subsequently, however, these same households were among the hardest hit by declines. Households aged 25 to 29 years old had

**Figure 17: Homeownership Rate (Households Aged 65 to 69 Years)**

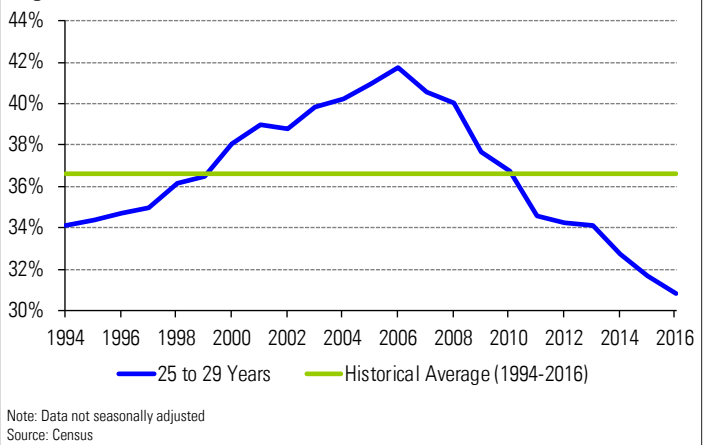


**Figure 18: Homeownership Rate (Households Aged 60 to 64 Years)**

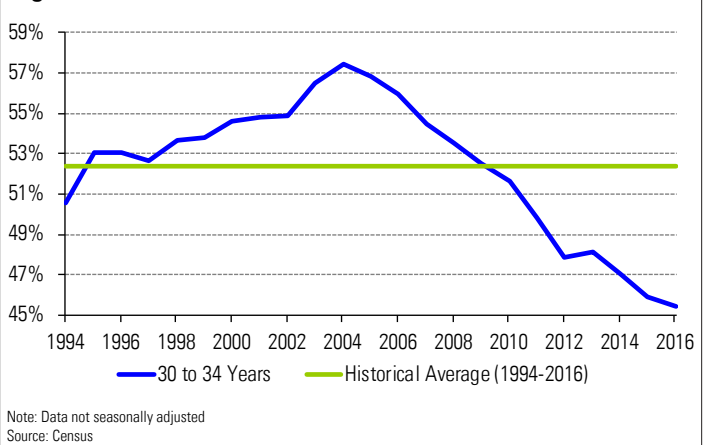


one of the largest increase in homeownership during the housing boom, growing by 7.6 percentage points from 1994 to the recent peak of 41.8% in 2006 (see Figure 19). Thereafter, however, these same households were among the most affected by the collapse, with the homeownership rate for this age cohort dropping by 10.9 percentage points as of 2016 to 30.9%. Similarly, as of 2016, the homeownership rate fell by 12.0 percentage points for households aged 30 to 34 years compared with the peak in 2004 (see Figure 20). Given the differences in homeownership rates in absolute terms across age groups, it is difficult to measure the relative impact based only on percentage point declines. However, indexing homeownership rates for all age groups to 2004 levels, the homeownership rate decline was smallest among households aged more than 70 years (see Figure 21), while the 25 to 29 and 30 to 34 year old age cohorts were most significantly affected by the prolonged decline in homeownership during the past 12 years (see Figure 22).

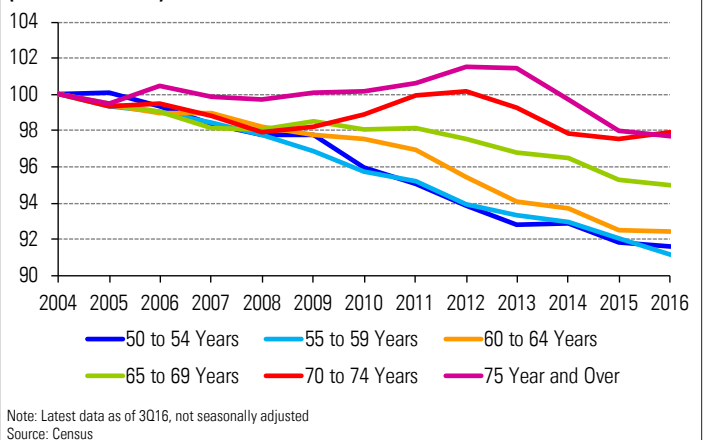
**Figure 19: Homeownership Rate (Households Aged 25 to 29 Years)**



**Figure 20: Homeownership Rate (Households Aged 30 to 34 Years)**



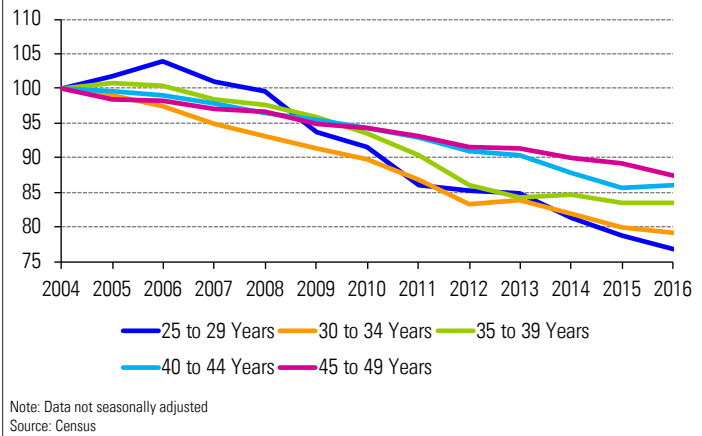
**Figure 21: Homeownership Rate by Age (Index = 2004)**



Although relative declines were somewhat smaller, the homeownership rate also contracted sharply for households aged 35 to 39 years and 40 to 44 years, falling by 10.9 percentage points and 10.0 percentage points to 55.3% and 62.0%, respectively since 2004. During the same period, the homeownership rate decreased by 9.5 percentage

points among households aged 45 to 49 years. Trends differed somewhat, however, among the youngest age cohort tracked by the Census, those households under 25 years old. The homeownership rate for this age cohort fell by 3.9 percentage points from the peak of 25.7% in 2005 to 21.8% in 2015, but subsequently stabilized at 21.9% as of 2016.

**Figure 22: Homeownership Rate by Age (Index = 2004)**

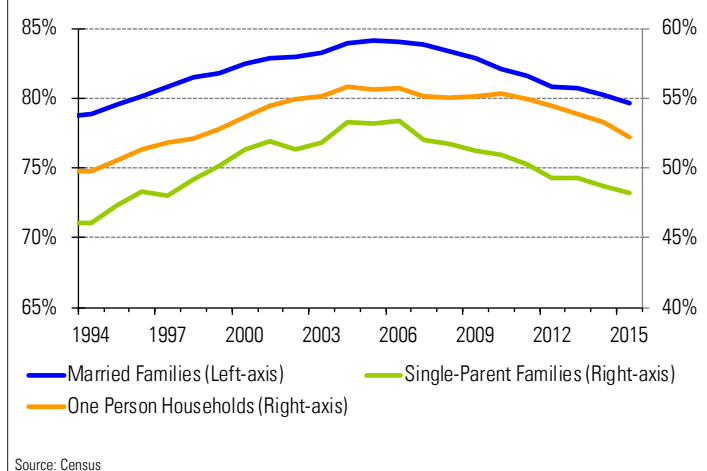


### Household Type

The national homeownership rate trend in recent decades was also influenced by varying declines in homeownership by household type. Although homeownership rates improved for all groups through the 1990s and early 2000s and subsequently declined since the mid-2000s (see Figure 23), the drop in homeownership among single-parent families and one person households, as well as the relatively low homeownership rates for these groups, were particularly important in influencing the national trend.

Among married family households, the homeownership rate increased to a peak of 84.1% in 2005, rising by 5.3 percentage points compared with 1994.<sup>6</sup> Thereafter, the married family homeownership rate remained stable in 2006 and then began falling in 2007, decreasing to a low of 79.6% in 2015, the most recent data available, or a decline of 4.5 percentage points. In comparison, the homeownership rate for single-parent families increased more substantially during the housing boom period, rising by 7.4 percentage points from 1994 through 2006 to a peak of 53.4%. Thereafter, however, the share of homeowners fell more substantially among single-parent households, dropping by 5.2 percentage points from 2006 through 2015, reaching 48.2%. While the homeownership rate as of 2015 remains somewhat higher than the 1994 level of just 46%, this represents a very large gap of more than 31 percentage points compared with married families.

**Figure 23: Homeownership by Household Type**



Among one person households, the homeownership rate grew to a peak of 55.8% in 2004, an increase of 6.0 percentage points from 49.8% as of 1994. Thereafter, the one person homeownership rate fell steadily to 52.2% as of 2015, a decline of 3.6 percentage points. While this represents a smaller drop than for married or single-parent households, the current share of owners represents only slightly more than half of households in this group and represents a gap of 27.4 percentage points compared with the married family homeownership rate.

Among married families, the largest group by household type, homeownership rates fell most significantly among households aged 35 to 44 years, dropping by 10.9 percentage points from a peak of 83.7% in 2005 to 72.8% as of 2015 (see Figure 24). The share of homeowner households decreased by a slightly smaller amount among younger households aged less than 35 years, falling by 8.8 percentage points to 54.5% in 2015, though the changes were essentially the same in proportional terms. In contrast, older, more established married families were more readily able to sustain homeownership. The homeownership rate fell less significantly among married family households aged 45 to 54 years and 55 to 64 years, declining by 5.8 and 3.4 percentage points, respectively, compared with the peak for both groups in 2004. Lastly, the eldest married households, those aged 65 years or more, were least affected by the recession and foreclosure crisis, with the homeownership rate among this group decreasing by just 1.4 percentage points to 91.3% in 2015, compared with the prior peak in 2004.

In contrast, the declines in homeownership among younger households under age 35 years were less significant among both single-parent and one person households, although it is important to note that the share of owners in these two categories is relatively small, with homeownership rates of 30.1% and 24.4%, respectively as of 2015. Among single-parent households, homeownership fell

**Figure 24: Homeownership Rates (Married Families)**

Age	Peak	Current	Percentage Point Change
Less than 35 Years	63.3%	54.5%	-8.8%
35 to 44 Years	83.7%	72.8%	-10.9%
45 to 54 Years	89.6%	83.8%	-5.8%
55 to 64 Years	92.0%	88.6%	-3.4%
65+ Years	92.7%	91.3%	-1.4%

Note: Peak from 2004 to 2007; latest data as of 2015  
Source: Census

**Figure 25: Homeownership Rates (Single-Parent Families)**

Age	Peak	Current	Percentage Point Change
Less than 35 Years	33.2%	30.1%	-3.1%
35 to 44 Years	51.5%	41.0%	-10.6%
45 to 54 Years	65.5%	55.8%	-9.7%
55 to 64 Years	72.1%	65.2%	-6.9%
65+ Years	82.5%	77.1%	-5.4%

Note: Peak from 2004 to 2007; latest data as of 2015  
Source: Census

**Figure 26: Homeownership Rates (One Person Households)**

Age	Peak	Current	Percentage Point Change
Less than 35 Years	29.2%	24.4%	-4.7%
35 to 44 Years	50.3%	40.2%	-10.1%
45 to 54 Years	60.1%	53.2%	-6.9%
55 to 64 Years	67.3%	60.7%	-6.6%
65+ Years	72.6%	69.3%	-3.3%

Note: Peak from 2004 to 2007; latest data as of 2015  
Source: Census



most substantially for households aged 35 to 44 years and 45 to 54 years, decreasing by 10.6 and 9.7 percentage points, respectively, compared with the pre-recession peak (see Figure 25). In comparison, the homeownership rate for one person households declined by 10.1 percentage points for households aged 35 to 44 years and decreased by 6.9 and 6.6 percentage points, respectively for households aged 45 to 54 years and 55 to 64 years (see Figure 26).

### **Understanding the Plunge in U.S. Homeownership**

A variety of factors contributed to the prolonged decline in homeownership. In particular, the drop in homeownership was undoubtedly related to the excessively lax underwriting standards during the mid-2000s, which were compounded by job losses during the Great Recession. To date, the impact of this decline proved far reaching, disrupting community stability with high levels of foreclosures and many of households shifting from owning to renting. Moreover, longer-term damages are still being assessed and remain opaque. While it is beyond the scope of this paper to offer a comprehensive explanation of the underlying causes of the housing crisis, it is imperative to further examine the major factors contributing to the decline in homeownership in order to better understand the impacts and how to address the systemic underlying causes.

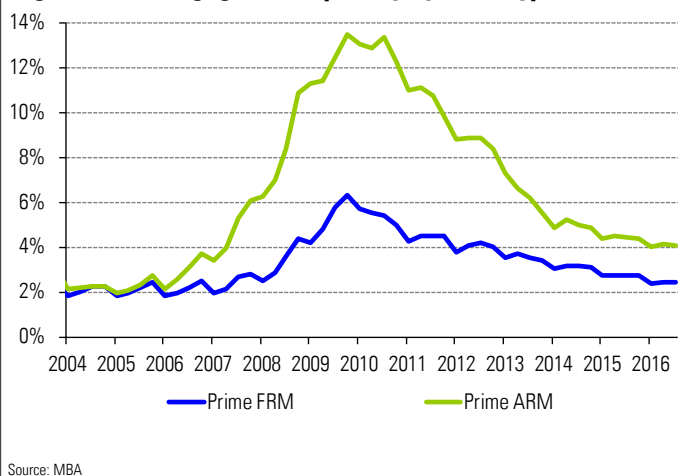
### ***Foreclosure Activity***

It is challenging to estimate the long-term impact that can be contributed to foreclosure activity, but it is certain that the massive number of foreclosures was the key factor in the slump in homeownership. While there are numerous estimates of the magnitude of the foreclosure crisis and the number of homeowners losing homes, the numbers were, undoubtedly very larger.

According to CoreLogic and the Joint Center for Housing Studies (JCHS), more than 9.4 million homes were lost through foreclosure, short sales and deed-in-lieu transactions from 2007 through 2015.<sup>7</sup> Despite a substantial slowdown in completed foreclosures and a large reduction in the delinquencies from the height of the recession, the share of loans that are seriously delinquent, defined as loans that are 90 or more days past due or in foreclosure, is still somewhat elevated. As of the third quarter of 2016, the serious delinquency rate was 2.96%, a decline from 3.57% a year prior, and a marked decrease from the peak in fourth quarter 2009 of 9.67%, according to the Mortgage Bankers Association (MBA).<sup>8</sup> Yet, the current level of delinquency still represents an increase from the lows in the mid-2000s, when the rate hovered around 1% from 2003 through 2005.

A major cause of the foreclosure crisis was the widespread use of risky alternative mortgage products. A substantial portion of the former homeowners who are now perceived as particularly risky after losing a home to foreclosure, may never have gone through a foreclosure if they had taken out a conventional 15 or 30-year fixed rate loan, as opposed to a riskier alternative mortgage product such as interest only mortgages, negative amortizing mortgages and adjustable-rate mortgages (ARMs). During the peak of the housing boom in

**Figure 27: Mortgage Delinquency by Loan Type**

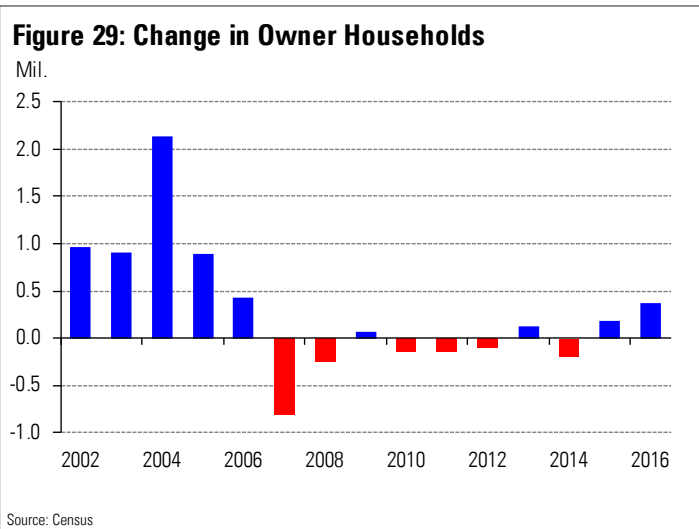
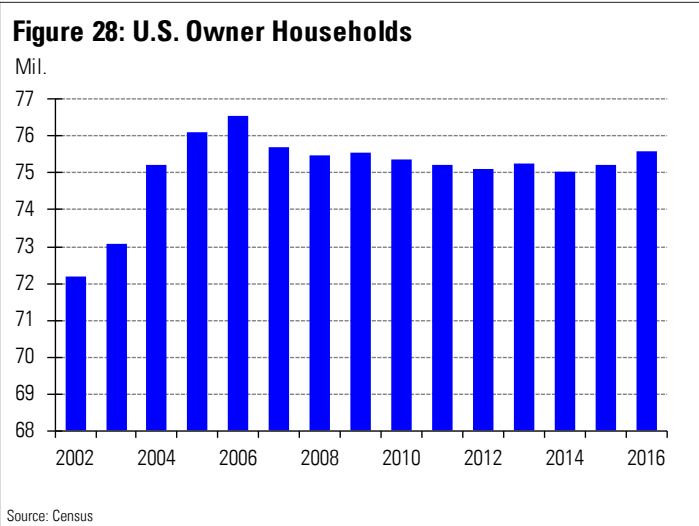


2005, ARMs accounted for 42% of new mortgage origination, according to the Urban Institute.<sup>9</sup> This number fell sharply following the crisis, decreasing to the low-1% range as of 2016 (see Figure 27). In comparison, interest only mortgages accounted for 23% of loan originations and Alt-A loans accounts for 11% of origination from the second half of 2004 through the first half of 2005, according to the Mortgage Bankers Association.<sup>10</sup>

The difference in mortgage loan performance between fixed and adjustable-rate mortgages was dramatic, even among prime borrowers. As the foreclosure crisis hit, the delinquency rate on prime adjustable-rate mortgages hit a high of 13.4% in third quarter of 2010, up from a pre-recession low of 1.9%, according to the MBA.<sup>11</sup> This represents more than twice the rate of delinquencies among prime fixed-rate mortgages, which reached a peak of 6.3% in fourth quarter of 2009, up from a pre-recession low of 1.8%.<sup>12</sup>

The gap in loan performance is even more substantial when segmented by loan origination year. As of the first quarter of 2010, the delinquency rate for loans originated in 2005 was 6.0% among fixed-rate mortgages, compared with 11.5% among adjustable rate mortgages, according to research by the Federal Reserve Bank of San Francisco.<sup>13</sup> This gap was even more dramatic for loans originated in 2006, with the delinquency rate for fixed-rate loans reaching 9.7%, compared with 19.8%, or nearly one out of five adjustable-rate loans. For many borrowers, particularly those purchasing in 2005 and 2006, the difference between remaining a homeowner and facing foreclosure during the crisis and recession was likely the type of loan used to finance the original home purchase.

Since many foreclosed properties were owner-occupied, foreclosure activity forced a large number of households to exit the for-sale housing market throughout the recession and much of the recovery. Excluding second homes and investment properties, JCHS estimates that foreclosures totaled between 4.8 and 5.8 million owner-occupied homes.<sup>14</sup> As of 2016, there were 75.6 million owner households (see Figure 28), a drop of 940,000 households or 1.2% from the pre-recession peak in 2006.<sup>15</sup> Notably, this drop occurred even while the total number of households rose by some 7.5 million, according to the Census.<sup>16</sup> Moreover, many foreclosed homes subsequently shifted to single-family rentals. As of 2015, there were approximately 15.2 million renter-occupied single-family homes nationwide, an increase of nearly 3.8 million since 2005 (see Figure 29).<sup>17</sup>



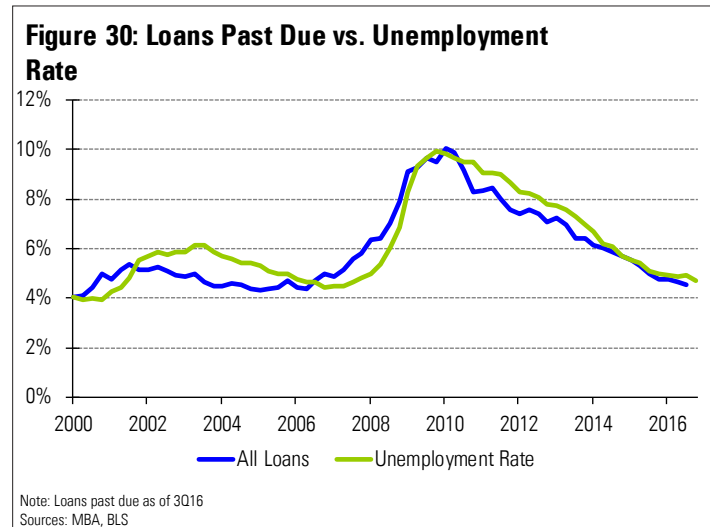
Even for households who can now afford to purchase a home, many remain renters both by choice and by financial necessity. According to a TransUnion Credit Bureau study, as of 2014, only 1.2 million of the households affected by the foreclosure crisis had recovered sufficiently to be financially capable of purchasing a home.<sup>18</sup> Yet, even among these households, only half a million actually held a mortgage, or approximately 7% of the total households that were affected by the foreclosure crisis, according to TransUnion.

After the financial and emotional hardship of the foreclosure process, it is understandable that many of these households would be hesitant to re-enter the for-sale market, even if they can financially afford to do so. Many households lost their savings, good credit ratings and even their employment, because of and during the recession and foreclosure crisis. Unsurprisingly, new entries and re-entries into the for-sale market have been low when compared with historical trends, reflecting a wide variety of factors, including weakness in the economy through the recession and early stages

of the recovery, stagnant incomes, tight mortgage credit conditions and the increasing burden of student debt, all of which further contributed to the sharp reduction in homeownership.

### **Economic Factors**

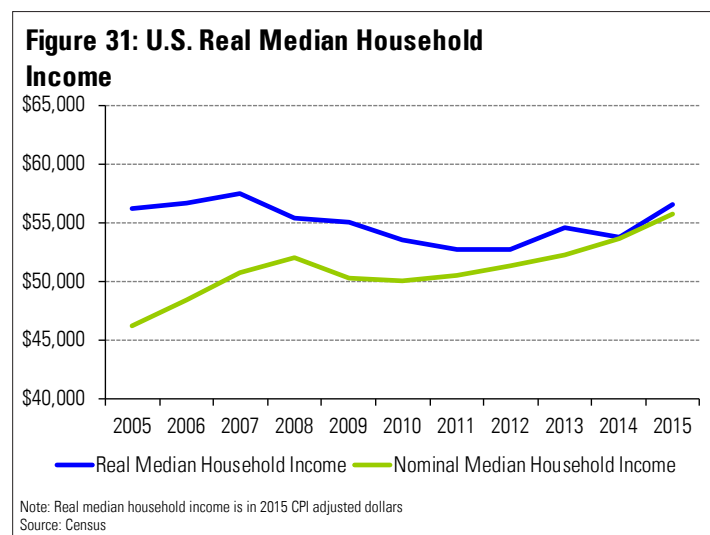
Compounding the impact of poorly structured mortgage products and weak underwriting, broader economic factors resulting from the Great Recession also had significant impacts on homeownership rates in the United States. Just as the housing market crash and rise in delinquencies were major factors contributing to the recession, job losses became a large factor exacerbating foreclosures.



In fact, the unemployment rate and the MBA data on the share of loans past due track very closely over time, with a slight lag. In total, the U.S. economy lost 8.7 million jobs from the peak in January 2008 through the trough in February 2010.<sup>19</sup> Moreover, the unemployment rate doubled from 5.0% in December 2007 to 10.0% in October 2009.<sup>20</sup> Many of these unemployed workers could no longer afford to pay existing mortgages, forcing down homeownership rates as large numbers of former homeowners shifted to the renter market, while many other households were forced to remain renters out of financial necessity.

Following multiple years of persistent job growth the unemployment rate decreased significantly, falling to 4.7% as of December 2016 (see Figure 30). Despite this dramatic improvement to levels consistent with an economy approaching full employment, the homeownership rate remains near a five-decade low, in part because of a decline in real incomes in recent years.

Real median household income fell through the recession and the early years of the recovery (see Figure 31). Moreover, although the median household income increased in 2015 by 5.2% to nearly \$56,500, adjusted for inflation,

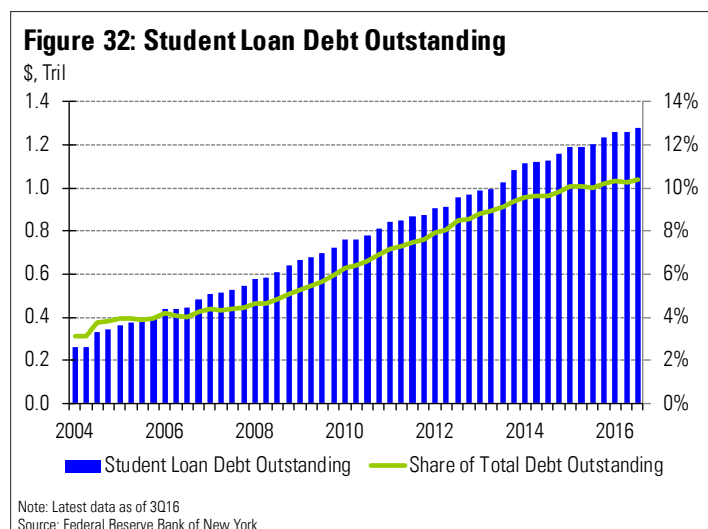


the current median household income remains below the pre-recession high of more than \$57,400 in 2007, according to the Census.<sup>21</sup> Moreover, real incomes among 25-34 year olds dropped by 18% between 2000 and 2014, with a 9% decline in real incomes for 35-44 year olds during this period, according to JCHS.<sup>22</sup> In comparison, during the same period, homeownership rates fell by 4.9 percentage points for households under 35, and 8.2 percentage points for households aged 35-44 years old.<sup>23</sup>

Indeed, these declines in incomes correlate to the type of jobs lost during the recession. According to Bureau of Labor Statistics (BLS) data analyzed in a 2012 National Employment Law Project report, jobs paying between \$14 and \$21 per hour consisted of nearly 60% of the jobs lost during the recession.<sup>24</sup> Yet, these mid-wage jobs have only comprised of about 27% of the jobs created in the following two years after the recession. In contrast, low-wage jobs paying below \$14 supplied around 58% of the jobs regained during the two years following the recession. As real incomes dropped after the recession, even as house prices recovered, and the number of households able to afford purchasing a new home declined. This trend was further exacerbated by a decline in access to safe and affordable credit for many households, which could have provided a critical lifeline in allowing potential homebuyers to purchase homes.

Increasing student loan debt also negatively impacted homeownership, by reducing the ability for potential homeowners to both save for a down payment and to afford monthly mortgage payments. Reflecting a large increase in both the number of borrowers and the average debt load, total student debt nationwide surged to nearly \$1.3 trillion as of the third quarter of 2016, more than four times the total of \$263 billion as of mid-2004, according to the Federal Reserve Bank of New York (see Figure 32).<sup>25</sup> Moreover, the share of adults aged 20 to 39 with student loan debt increased from 22% in 2001 to 39% in 2013, while the average amount borrowers owed went from \$17,000 to \$30,000.<sup>26</sup> According to the Consumer Financial Protection Bureau (CFPB),

nearly one-fifth of indebted young renters have student debt that exceeds 14% of their monthly income, which the CFPB considers highly burdensome.<sup>27</sup> For younger renters who would like to purchase a home, student loan debt (along with other forms) can affect the debt-to-income ratio used to determine mortgage eligibility, making it harder to obtain a loan and ultimately reducing the number of young households able to transition to

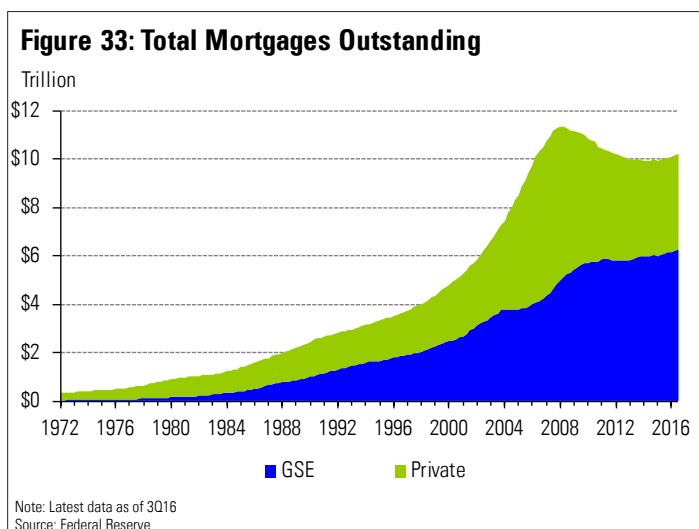


homeownership. In fact, recent research by Mezza et al (2016) concludes that for individual borrowers, a 10% increase in student loan debt leads to a 1 to 2 percentage point decline in homeownership for that borrower.<sup>28</sup>

Compounded by the influence of rising student debt, rapidly increasing housing costs have made it harder for potential homeowners to save for a down payment, or to pay down student debts. Indeed, a Survey of Consumer Finances released in 2014, found that 12% of renter households had no savings, while the other 88% had a median value of \$3,000 in assets, not nearly enough for a down payment in a majority of housing markets.<sup>29</sup> Many renters feel increasingly financially squeezed and vulnerable to rising expenses. According to a September 2016 Freddie Mac survey, 20% of renters feel that they “sometimes don’t have enough money for basics”, nearly double the amount from a year prior, and 27% of renters say that they are ‘never able to make any progress”, up 5% year-over-year.<sup>30</sup> Following multiple years of rising rents and limited income growth, cost-burdened renters, those paying more than 30% of income on housing, are at historic highs. According to a 2016 JCHS study, the number of cost-burdened renter households rose by 3.6 million from 2008 to 2014, with the number of severely rent-burdened, defined as those paying more than 50% of income for housing, increasing to 11.4 million households nationwide.<sup>31</sup> All of these factors have combined together to reduce down payment savings, weaken financial prospects and keep homeownership out of reach for many households.

### ***Mortgage Credit***

Since the financial crisis, the single-family mortgage credit market tightened dramatically, compounding the effects of lower wage growth and unemployment, and leading to a lower than average pace of new entrants into the homeownership market. Private lending declined, and overall credit became largely inaccessible to many potential homebuyers. Following the recession, extensive foreclosures and multiple years of limited new lending, the total volume of mortgages outstanding for one-to-four family structures in the U.S. decreased significantly from a peak of \$11.3 trillion in 2008 to a trough of \$9.8 in 2014, representing a 13% decline.<sup>32</sup> The drop was most significant for private lending outstanding, which decreased from a peak of \$6.5 trillion in 2007 to \$4 trillion as of the third quarter of 2016 (see Figure 33). As a proportion, private-



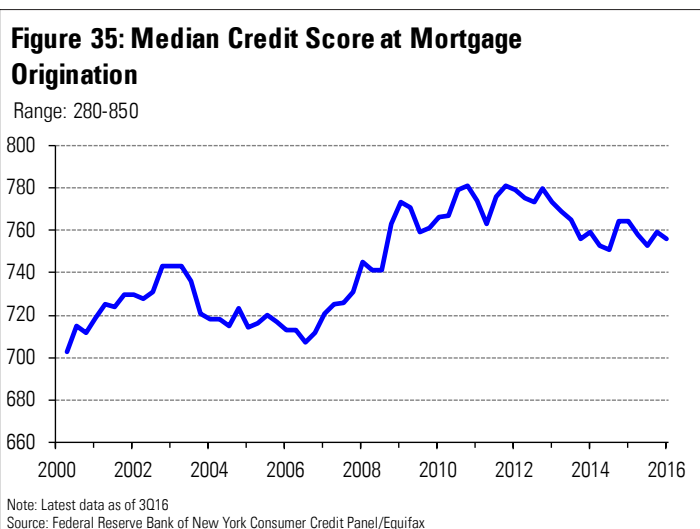
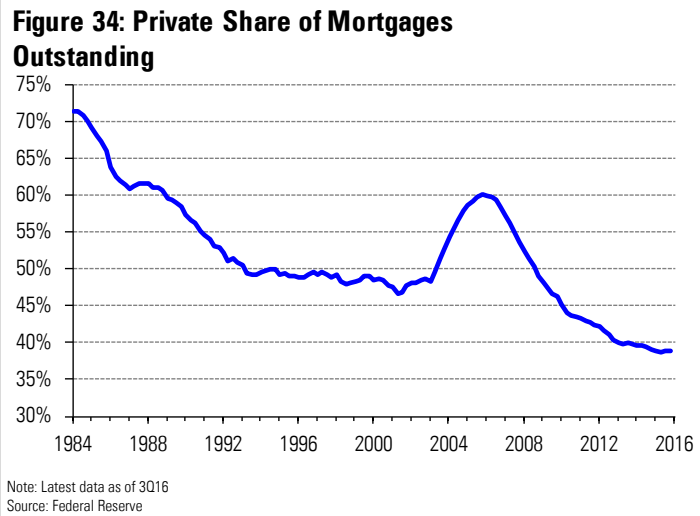
sector outstanding loans dropped to 38.8% of total outstanding mortgages as of the third quarter of 2016, down from 58.5% of in 2007 (see Figure 34).

The decrease in mortgage credit availability made purchasing a home substantially more difficult in recent years, with lending limited to borrowers with the highest credit scores and sufficient equity to make a substantial down payment. According to CoreLogic data, essentially no home purchase

loans have been made to applicants with sub-prime credit scores (below 620) since 2010, and lending to applicants with scores ranging from 620 to 660 retreated sharply since prior to the recession.<sup>33</sup> Loans to homebuyers with credit scores below 700, declined to 27% of first-lien mortgages as of 2014, down from 33% in 2010.<sup>34</sup>

The tightening of credit availability is also evident in the significant increase in both the average Fannie Mae credit score and the overall median credit score at mortgage origination. As of the third quarter of 2016, the average FICO credit score for new loans backed by Fannie Mae was 752 (see Figure 35), and borrowers with a credit score less than 660 accounted for just 4% of new loans.<sup>35</sup> The average credit score is down slightly from the approximately 760 during the tightest period of lending following the Great Recession between 2009 and 2012, but still substantially elevated compared with an average near 720 from 2003 through 2007. Similarly, as of the third quarter of 2016, the median credit score for conventional mortgages was 760, down somewhat from the recent high of approximately 780 from 2009 through 2012, but more than 50 points higher than the trough of 707 in the fourth quarter of 2006, according to the Federal Reserve Bank of New York.

Down payment requirements also increased substantially in the years following the Great Recession, presenting a particularly significant hurdle

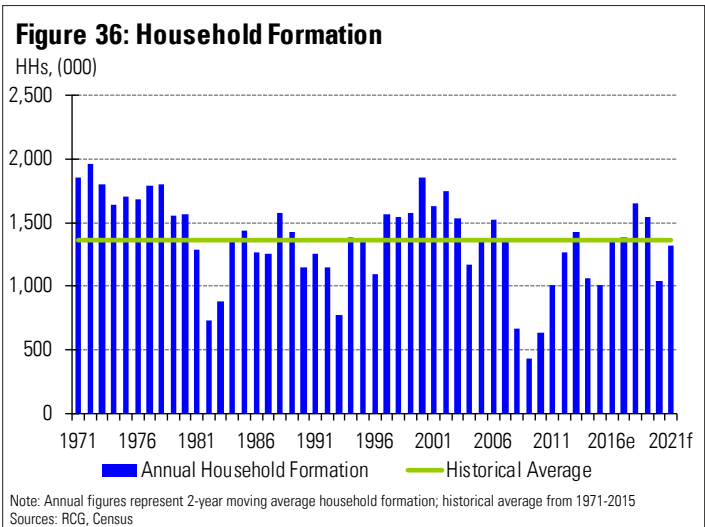


for first-time buyers, as rising rents, student loans and limited income growth made it increasingly difficult for young households to accumulate savings. As of the second quarter of 2016, the average down payment for conventional 30-year fixed rate purchase mortgages was more than 17%, or a total of more than \$49,800, up from approximately \$44,000 a year prior, according to LendingTree.<sup>36</sup> Although lower down payment loans are available through the Federal Housing Administration (FHA) and some lenders are easing down payment requirements, large upfront payments represent a major challenge for first-time buyers.

Another significant barrier to securing a mortgage is the high income requirements instituted in recent years. In 2014, the Consumer Finance Protection Bureau established a 43% debt-to-income requirement. This is a difficult hurdle to clear, particularly for young households early in their careers and those with student debt. As a result of the tightening in credit standards, a large share of previously eligible homeowners were cut out of the housing market as lenders sought to reduce risk. In fact, according to a 2015 paper on the Impact of Tight Credit Standards by the Urban Institute, if credit standards from 2001 – a period of cautious lending prior to the loose credit during the housing boom – had been applied between 2009 and 2013, some 4 million additional home loans would have been completed.<sup>37</sup> Overall, the stringent FICO scores and increasing down payment and debt-to-income requirements, even among those with excellent credit, have locked many potential homeowners out of the for-sale housing market, further exacerbating the decline in the homeownership rate nationwide.

**Demographics**

General trends in demographics also had significant effects on homeownership trends in the United States. Since the late 1960s, an average of nearly 1.4 million new households were formed per year nationwide (see Figure 36).<sup>38</sup> However, during the recession, a growing number of residents doubled up on housing or moved back in with parents, decreasing the pace of household formation and reducing the homeownership rate. Given the large fluctuations in the survey data related to household formation, RCG calculated an adjusted data series in order to more accurately discern the underlying trends in

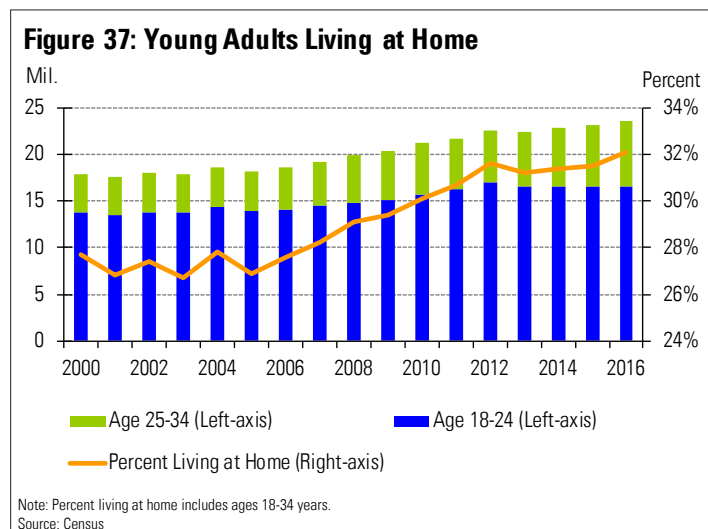




household formation. Based on this smoothed trend, household formation reached a low during the Great Recession, adding fewer than 600,000 households on average annually from 2008 through 2010, severely limiting housing demand. However, following multiple years of job creation through the recovery and growth cycle, household formation is returning to normal, matching the long-term average at an estimated 1.4 million new households in 2016. Despite the recent improvement, an estimated 3.4 million additional households would have formed between 2008 and 2015 if household formation had remained on pace with the long-term average. Although, fewer households would not directly influence the relative balance of homeowners vs. renters, the limited pace of household formation during this period substantially reduced demand for all types of housing and likely translated into many fewer homeowners.

The overall aging of the United States population also had an impact on homeownership rates. During the past ten years, the number of adults over 30 years old increased by 5 million, but the number of households in that age group rose by just 200,000, according to the JCHS.<sup>39</sup> Moreover, according to the Census, 16.0% of 25 to 34 year olds lived in their parent's homes in 2016, versus 11.6% in 2006.<sup>40</sup> In absolute terms, the number of 25 to 34 year olds living at home increased to more than 7 million in 2016, from 4.6 million in 2006, rising by 54% in ten years (see Figure 37). As incomes rise and this age cohort accrues more wealth, these individuals

are likely to increasingly leave home and create new households. However, in the interim, limited household formation in recent years represented a further hurdle delaying the transition to homeownership for young adults. Indeed, if rates of young adults living at home stayed the same from 2006 through 2016, an estimated 1.9 million young adults would be living in approximately 880,000 new households, at least some portion of whom would have purchased their own homes.



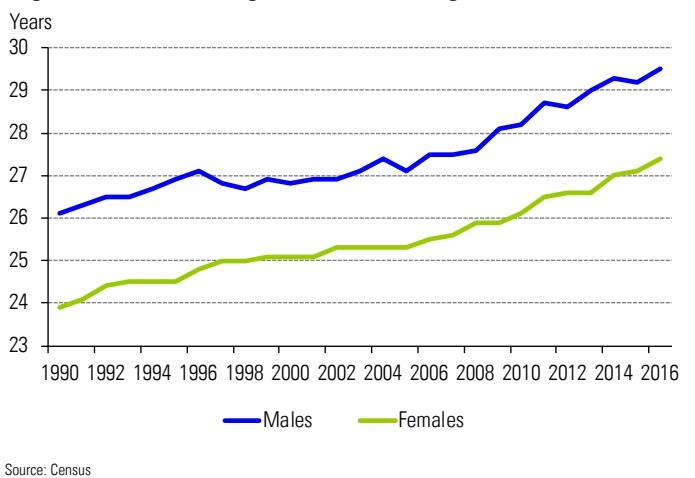
The decline in homeownership, particularly among young adults in the millennial generation, also reflects shifts in lifestyle choices. The ages at which younger adults are first getting married and starting child-bearing have been on the rise for decades, representing long term shifts that are contributing to a delay in household formation and first-time buying. From 1990 through 2016, the median age for marriage rose to 29.5 years from 26.1 years for males and to 27.4

years from 23.9 years for females (see Figure 38).<sup>41</sup>

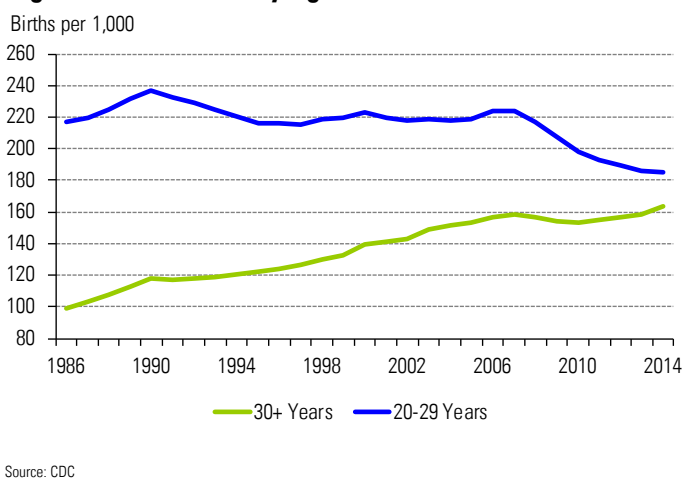
Many households are also waiting longer to have children compared with prior generations, reflecting numerous structural factors. According to the Population Reference Bureau, the delay in age of marriage, the increase in the share of women attending college and preferences for smaller family size are all contributing to delays in childbearing. From 1985 to 2014, the fertility rate for women aged 20 to 29 years fell by 15.7% to 185 births per one thousand women, according to the Census (see Figure 39).<sup>42</sup> In contrast, births per thousand women aged between 30 and 49 increased by 68% to 163 in 2014 from 97 in 1985. In combination, these shifts in behavior are delaying the need for young households to move into larger single-family homes. However, even as these long term trends continue, it is important to note that the effect on homeownership is likely to be temporary, and should begin to dissipate as increasing numbers of young millennials enter their late 20s and early 30s, reaching the life milestones most typically associated with purchasing a home.

In addition to the impact of delayed lifestyle preferences, the national homeownership rate was also influenced by shifting trends in terms of the most common types of household. Compounding to the declines in homeownership since the pre-recession peak, the relatively low homeownership rates among single-parent families and one person households are putting downward pressure on the overall share of homeowners as these types of households continue to increase as a proportion of total households. As previously outlined, the homeownership rates among single-parent and one person households of 48.2% and 52.2%, respectively as of 2015, were well below the homeowner share of near 80% for married households.<sup>43</sup> Consistent with long-term shifts in the mix of households, however, the share of married family

**Figure 38: Median Age at First Marriage**

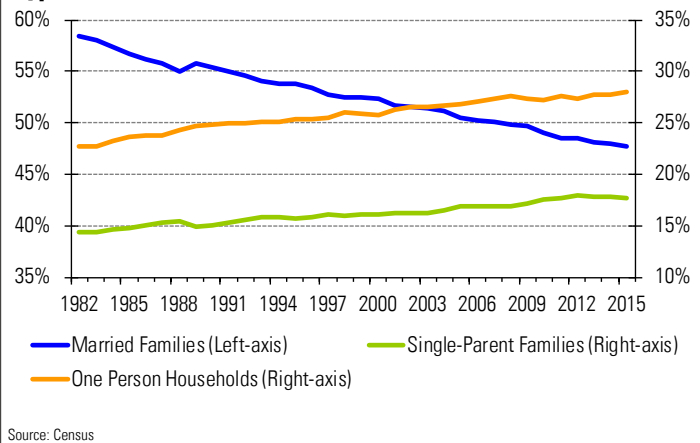


**Figure 39: Birth Rate by Age of Mother**



households in the U.S. decreased substantially in recent decades falling to 47.7% of households in 2015, down from 58.4% in 1982 (see Figure 40). In comparison, during the same time period, the share of single-parent families, grew from 14.3% of households to 17.7%, while the share of one person households increased from 22.7% to 28%. Considering these demographic shifts, increased homeownership among one person and single-parent households will likely prove necessary to stabilize or increase the national homeownership rate.

**Figure 40: Share of Households by Household Type**



Locational preferences also played a role in depressing homeownership rates. Many younger adults want to live in different locations than prior generations, preferring the amenities of urban neighborhoods, where renting is more common and buying is less affordable, instead of suburban locations. A recent analysis by the Brookings Institution, found that between 2009 and 2014, population growth nationwide in urban core counties exceeded that of suburban counties, reversing long-standing trends.<sup>44</sup> Although this shift may reflect some permanent preference for urban amenities, particularly among younger households, a turnaround in these trends may have already begun, as that same study also found that population growth in suburban counties once again outpaced growth in urban core counties in 2015. Indeed, a 2015 Demand Institute Consumer Housing Report found that 75% of respondents under the age of 35 believed that “ownership is an important long-term goal” and 62% of these young adult future movers intended to live outside of a city center, showing a desired future change in locational preferences.<sup>45</sup>

Although the appeal of urban amenities is likely to continue, RCG believes that as more young adults reach life stages when they are ready to purchase, an increasing number will choose to move into suburban neighborhoods in order to purchase a home, particularly affordable neighborhoods with transit accessibility and greater amenities. In addition, for those seeking to maintain an urban lifestyle, condominiums could provide comparable access to urban amenities at more affordable price points. However, national condominium market conditions are currently limited substantially by the lack of new development. Similar to the single-family homebuilding industry discussed below, new condominium

construction continues to lag through the current stage of the growth cycle, with low levels of new development despite the fact that apartment construction returned to and even surpassed the historical average in recent years.

Compounding lifestyle considerations, many younger adults face the accumulated financial hardships of a high rent burden, a large student debt loan burden, limited employment opportunities through the recession, and stagnant wages in the recovery, all of which have contributed to lower homeownership rates. As a 2016 JCHS report stated, “While (millennial) aspirations for housing do not differ significantly from those of previous generations, millennials have come of age in an era of lower incomes, higher rents, and more cautious attitudes towards credit and homeownership, conditions that are likely to affect their consumption of housing for years to come.”<sup>46</sup>

Reduced immigration also contributed to the decline of homeownership rates. According to the Census, foreign-born households contributed to more than a third of the increase of households formed from 1994 to 2015, or about 450,000 households per year.<sup>47</sup> However, as immigration declined during the recession, an estimated 130,000 to 275,000 fewer legal permanent residents came into the United States annually since 2006. If immigration rates from 2006 had continued, RCG estimates that the United States would have added approximately 1.4 million additional legal immigrants from 2007 to 2014, forming nearly 412,000 households. Although not large in absolute terms, it is likely that between 20% and 40% of these immigrant households would have purchased homes.<sup>48</sup> As such, the recent decline in the pace of immigration further negatively impacted homeownership trends in the United States.

### ***Minority Homeownership***

The rising share of minority households and the disproportionate affect that the Great Recession and housing crisis had on these households is a notable trend that contributed to the decline in homeownership rates nationwide. Minority homeownership, especially African American homeownership, declined through the recession and recovery and remains depressed. In particular, minority households experienced more extreme consequences of the foreclosure crisis than white households.

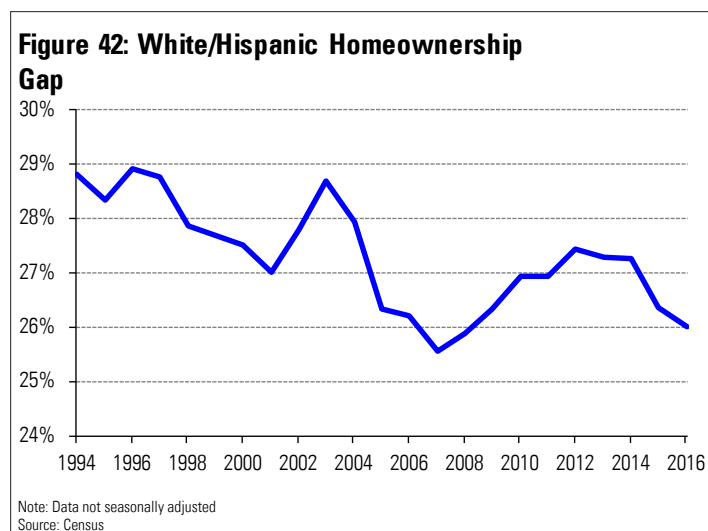
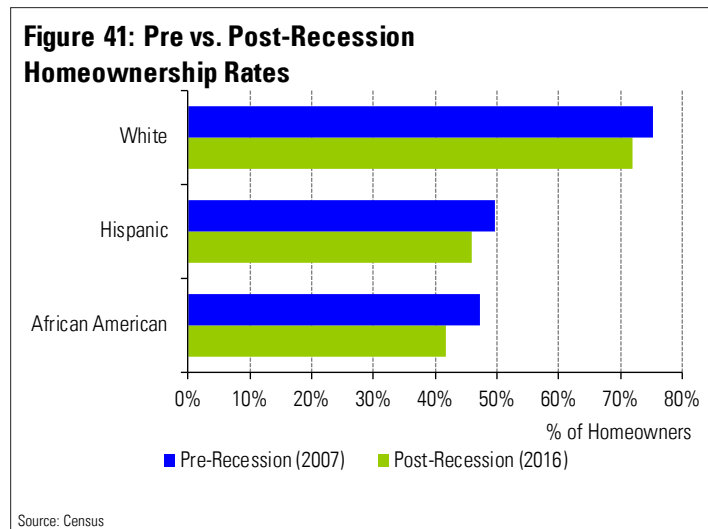
A 2011 Pew Research Study found that the housing crisis was much harder on African American and Hispanic households than on white households. From 2005 to 2009, median wealth fell by 66% among Hispanic households and 53% among African American households, compared with only 16% among white households.<sup>49</sup> Part of this greater effect on minority homeownerships was the practice of “predatory lending”, when lenders targeted non-white consumers to

charge them more than white consumers. According to a 2006 report from the Center for Responsible Lending, 52% of total loans made to African American households, and 40% of total loans made to Hispanic households in 2005, were higher cost or subprime loans.<sup>50</sup> During the same time period, only 19% of total loans made to white households fell into these categories. The study concluded that even after controlling for legitimate risk factors, African American and Hispanic borrowers were still at far greater risk of receiving high cost and subprime loans than their white counterparts. Indeed, subprime mortgages were disproportionately made in minority communities which concentrated effects caused by the foreclosure crisis.

Extending the impact of the crisis, strict lending following the recession, also disproportionately affected minority households. More specifically, lending to African American and Hispanic borrowers decreased by 50% and 38%, respectively relative to 2001, according to the Urban Institute.<sup>51</sup> In comparison, lending decreased by 31% for white borrowers during the same period. As a result, following the foreclosure crisis and multiple years

of tight lending, homeownership fell most sharply among African American households, with a more moderate decline among Hispanic households since prior to the recession (see Figure 41).

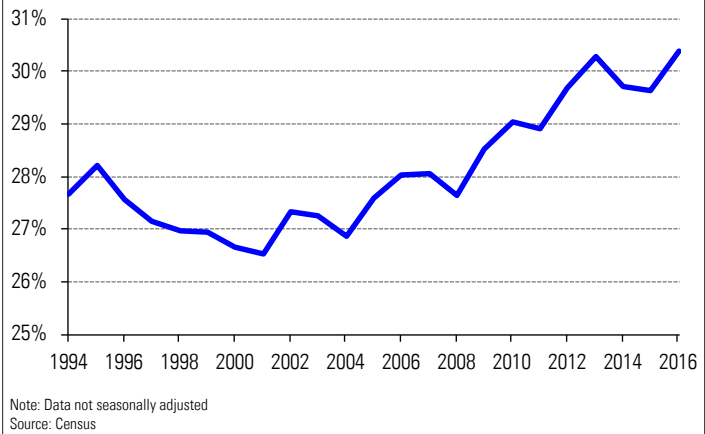
Compounding these recent trends, as previously highlighted, over the long term homeownership rates among minority households were significantly lower than among white households. In fact, as of 2016, the homeownership rate among Hispanic households is 26 percentage points lower than white households (see Figure 42), a wide gap despite recent improvements and the long term increase in Hispanic homeownership since the mid-1990s.<sup>52</sup> The gap between African American



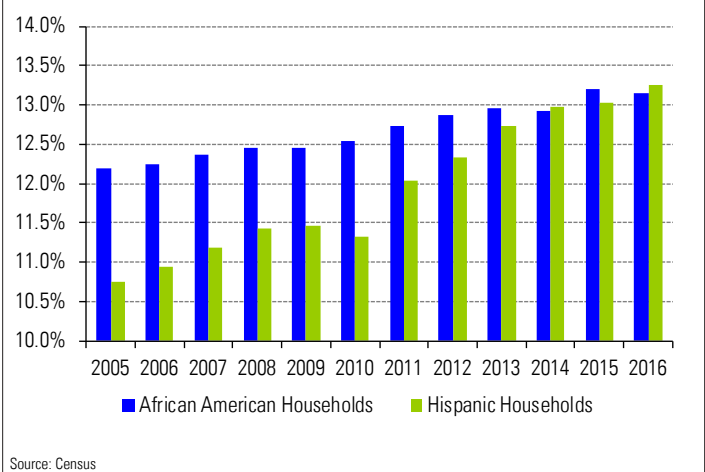
and white households is still greater, at more than 30 percentage points as of 2016 (see Figure 43). Moreover, this gap expanded significantly from less than 27 percentage points in 2004 and continues to widen as of the most recent data.

As both African American and Hispanic households increased as a share of total United States households, the historically lower homeownership rates among these minority households put downward pressure on the national homeownership rate in recent years. In 2016, African American households accounted for 13.1% of all households, versus only 12.2% in 2005 (see Figure 44). Hispanic households increased even more substantially to 13.2% of total households in 2016, up from 10.7% in 2005.<sup>53</sup> In absolute terms, 2.7 million new African American households and 4.5 million Hispanic households were created since 2005, growing by 19.8% and 36.9%, respectively. This is a significant increase, especially when compared with the growth rate for white households of 3.5%, during the same time period.

**Figure 43: White/African American Homeownership Gap**



**Figure 44: Share of Total Households by Race**



### ***First Time Buyers and the Trade-ups Market***

A key component of a normal, well-functioning for-sale housing market is the ease with which first-time buyers can enter the market, and the ability for existing homeowners to trade-up into a second or third home. These two subsets of the market are interlinked, as the easier it is for existing homeowners to purchase a different property and trade up to a larger or higher valued home, the easier it is for first time buyers to find more affordable “starter” homes.

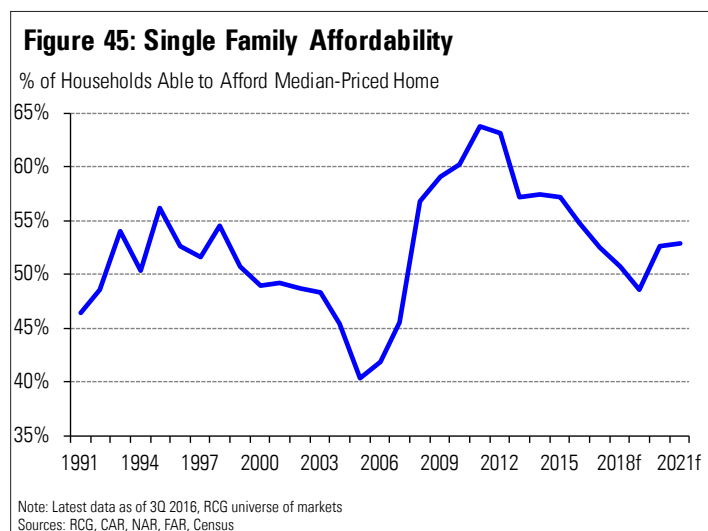
Ease and affordability are key issues in particular for first-time buyers. According to NAR data, the share of sales that were first time purchasers dipped to a 30-year low of 32% in 2015, a slight dip from 33% in 2014, and further down

from the long-term average of 40%.<sup>54</sup> RCG believes that this decline has more to do with financial realities, than lifestyle attitudes or perceptions of risk. As of December 2016, the median sales price for an existing single-family home was \$232,200, an increase of \$9,000, or 4.0%, compared with a year prior.<sup>55</sup> Moreover, in nominal terms, with national median home price appreciation averaged 8.2% per year from 2012 through 2015. In comparison, nominal median household income increased by an average of just 2.5% per year during the same period. Moreover, as previously highlighted, accounting for inflation, the median household income actually fell by nearly 2% in real terms compared with 2007. This stark difference between the stagnation of incomes and the increase in home prices, has adversely affected first-time purchases by making it increasingly difficult for younger households to save for a down payment or afford monthly mortgage payments.

RCG measures housing affordability as the share of households in 75 major markets nationwide who are able to afford the monthly payments on the median-priced home, assuming on a 30-year fixed rate mortgage. Based on this measure, housing affordability was relatively stable historically, with an average of approximately 51% of households able to afford the median priced home from 1992 to 2003. However, as home prices skyrocketed during the housing boom, the affordability rate dropped to 40.3% in 2005, before reversing course and reaching a peak affordability of 63.6% in 2011 as a wave of foreclosures came back on the market. More recently, however, as home prices started to recover, the combination of rising prices, tighter mortgage standards and weak income growth reduced affordability, particularly for low and moderate income households. Indeed, considering price appreciation and current mortgage rates, RCG estimates that as of year-end 2016, only 56% of households in major markets nationwide could afford to purchase the median-priced home (see Figure 45).

Affordability is also affecting the rental market, and delaying many households from entry into for-

sale housing market. According to a September 2016 Freddie Mac Survey, 65% of renters see renting as more affordable than owning, an increase of 3% from the previous year.<sup>56</sup> In fact, of those respondents, the only age cohort where a majority of renters said they plan to buy their next home, were renters between the ages of 35 and 55, reflecting both financial realities and the tendency for many younger adults to delay major life decisions relative to prior generations.



Compounding with the increase in housing prices, rents are also going up. In 2015, the median gross rent nationwide was \$928, compared with \$763 in 2006, a 21% increase during that time period. As rents have increased, the ability for first-time buyers to save for a mortgage further declined.<sup>57</sup>

The fall in home prices during the recession also affected existing homeowners, dramatically reducing mobility, since many existing homeowners were unable to sell homes that were underwater, or unwilling to sell homes for less than what they felt they were worth. Subsequently, even as home prices increased making it possible for an increasing number of homeowners to return to more traditional migration patterns, the disconnect between rising prices and stagnant incomes reduced the ability of many working-age households to afford to trade-up to a new or larger home, or even to sell a home in one location and purchase a new one in another part of the country. As such, residential mobility rates, or the share of population that changed homes in a given year, represent another metric that helps illuminate the ongoing weakness in the for-sale housing market.

Mobility rates are typically highest for adults under the age of 25, and decline steadily across older age groups. However, as of 2015, the residential mobility rate among 25-34 year olds was down by 5% from 2000, with the mobility rate for 35-44 year olds down by 3% during that time period, according to the Census.<sup>58</sup> Further reflecting the ongoing lack of housing mobility, despite multiple years of rising prices, the inventory of homes available for-sale contracted substantially in recent years. As of December 2016, the inventory of homes fell to 3.6 months of supply at the current pace of sales, down from 3.9 months a year prior, and compared with 5.2 and 4.9 months in 2014 and 2013, respectively, according to NAR.<sup>59</sup>

Some of this decline in mobility, and locking up of the market, can also be explained by the overall aging of the population. As people live longer, housing mobility and turnover naturally declines as homeowners stay in their homes for longer, and downsize at later times along their life cycle. These long standing trends continued during the recession, and brought additional pressure to an already tight housing market, as older households stayed in place for longer. As older households eventually begin to downsize, they will most likely look for homes that are smaller, and less costly to maintain – the same types of homes that younger adults would like to purchase as first homes. In general, the aging of the national population aided in freezing the homebuyers market. Combining all of these factors together, homeowner mobility rates fell from 6.3% to 4.1% during the five years after the recession, slowing down the turnover rate, and locking up supply as potential and existing homeowners were looking to make the next step.



## **Economic Impact of Declining Homeownership**

### ***Single-Family Housing Impact on GDP***

The for-sale housing industry is a key component of GDP, and an important driver for the overall economy. Since 1959, total housing-related spending, including both owners and renters, accounted for an annual average of 18.9% of GDP, and an average of 17.8% of GDP since 1985.<sup>60</sup> More recently, following multiple years of contraction in the national homeownership rate and a sharp reduction in capital availability for new home construction, housing-related spending as a share of GDP also decreased significantly, falling to 15.6% of GDP as of 2016. Housing-related expenditure as a share of GDP is divided into two major categories. The first is personal consumption of housing services, which is composed largely of rent and utility payments, both actual and imputed. While actual rent and utilities represent the direct dollar value of payment for these services, such as the monthly rent that an apartment renter pays, imputed rent and utility payments represent the value of the foregone income that homeowners give up by choosing to live in a house instead of renting it out. Effectively, housing services consumption provide a measure of the total payments made by all types of households in a given time period. Housing services consumption was 12.0% of GDP as of the third quarter of 2016, nearly 100 basis points below the 30-year average. The second category of housing-related spending is residential fixed investment, which includes spending associated with new home construction (both single family and multifamily), as well as remodeling and renovations and brokerage fees. Together, housing services and residential fixed investment spending constitute the majority of housing-related expenditures nationwide, and represent a substantial driver of national GDP. In addition, furniture purchases and moving costs, such as renting a moving truck, are also part of the economic contribution, though showing up in the personal consumption expenditure category of GDP.

Additionally, spending on the production and sale of residential housing generates further benefits beyond direct contributions to economic growth. The construction of residential buildings employs construction workers, contractors, and numerous other necessary employees such as architects and producers of raw material. On the financing side, the mortgage underwriters and bankers needed to service loans generate jobs, as does the need for real estate agents, insurance brokers, appraisers, and housing inspectors. Multiplier effects aside, the housing industry sustains and fuels considerable job growth across a broad range of complementary industries.

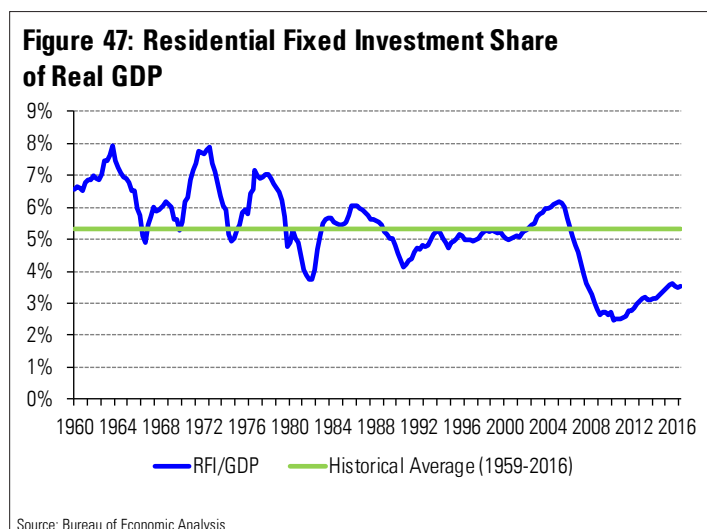
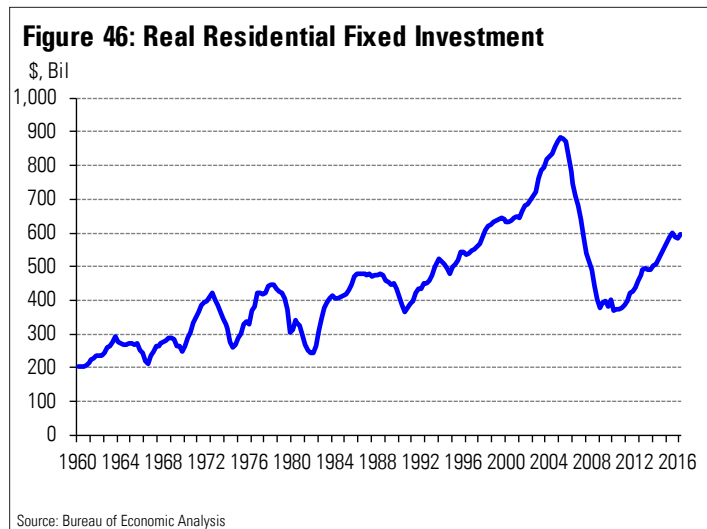
### Residential Fixed Investment

Residential fixed investment (RFI) generally includes spending on newly constructed homes and does not include the purchase of an existing residence. However, as described above, existing home sales contribute to residential fixed investment spending through the ancillary costs associated with residential purchases, such as moving costs, closing costs and home improvements.

While a significant portion of RFI comes from new homebuilding, greater levels of homeownership would directly increase RFI because it is common for homeowners to remodel or make improvements to the home, particularly after initial purchase. These expenditures are all considered part of RFI. Together, the purchase of both new and existing homes generate a significant net positive impact on GDP, through both construction and remodeling costs.

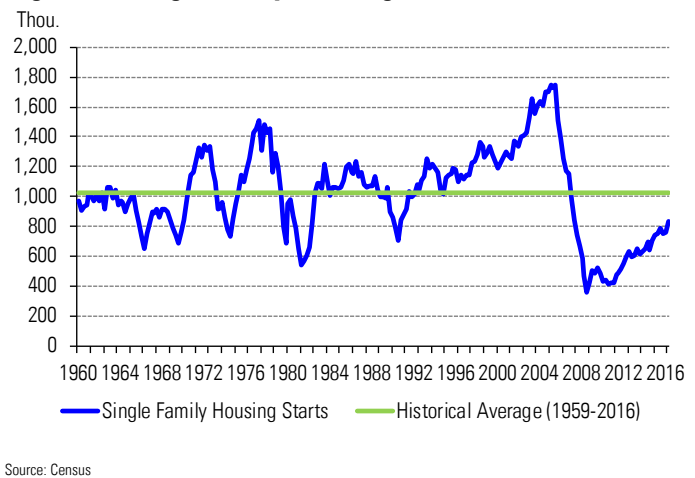
As of 2016, RFI in the United States totaled \$596.8 billion.<sup>61</sup> Although substantial, RFI remains much weaker than pre-recession levels, down by approximately 32% compared with the peak of \$872.6 billion in 2005 in inflation adjusted dollars (see Figure 46). Furthermore, RFI as a percentage share of GDP decreased significantly from historical norms, and remains far below the long-term average. Since 1959, RFI accounted for an average of 5.3% of total GDP. However, as of 2016, RFI represented only 3.6% of total GDP, far lower than the historical average (see Figure 47). This decline is also illustrated by a decrease of put-in-place residential construction, or the total value of construction and labor on residential projects. Adjusted for inflation, residential put-in-place construction decreased to 2.3% of GDP in 2016, far below the long-term average of 4.0% since 1985.

Although RFI includes numerous categories of spending, the significant decrease in new home construction since the Great Recession represents

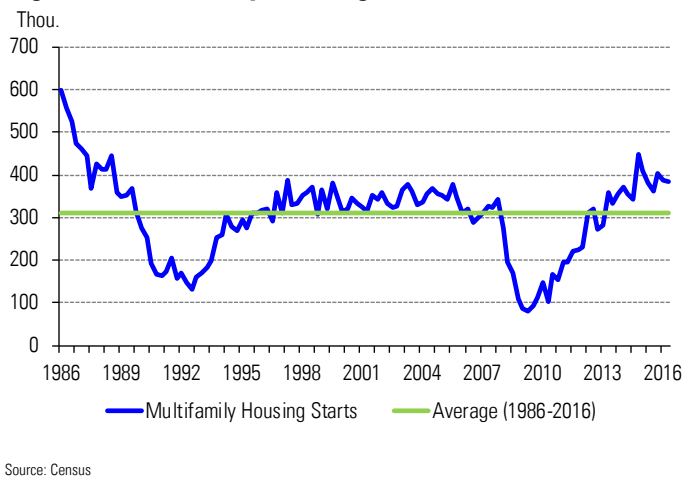


the largest factor limiting the current level of residential fixed investment. As of the pre-recession peak in 2005, there were more than 1.7 million new homes started.<sup>62</sup> Since then, homebuilding dipped substantially to a seasonally adjusted annual rate of 830,000 new housing starts in 2016 (see Figure 48). This is significantly less than the pace of housing starts between 1986 and 2016, when an average of approximately 1 million homes were constructed per year. In comparison, multifamily construction starts through the third quarter of 2016 reached a seasonally adjusted annual rate of 386,000 units, 75,000 units higher than the 30-year annual average of 311,000 units (see Figure 49). With multifamily construction currently elevated and exceeds the 30-year average, much of the gap between historical and current RFI results from decreased single-family construction. This decline, fueled by the rising cost of land, lack of available capital for homebuilders and the broader weakness in the for-sale housing market reflected in the drop in homeownership rates has significantly constrained the pace of national GDP growth.

**Figure 48: Single Family Housing Starts**



**Figure 49: Multifamily Housing Starts**



### *Limiting GDP Growth*

Through the early stages of the recovery period, single-family construction activity slumped, dragging down GDP growth. According to “Housing America’s Future: New Directions for National Policy,” by the Bipartisan Policy Center, from 2008 through the second quarter of 2011, the housing industry made less than half its normal contribution to economic growth.<sup>63</sup> The research further reinforces the fact that the for-sale housing industry is critical to the national economy.

In fact, if the current sluggish pace of homebuilding returned to a more normalized level and the RFI increased from the 2016 share of GDP to the long term average of 5.3% of GDP, RCG estimates that more than \$300 billion dollars would be added to the economy, representing a 1.8% increase in GDP. Even a more modest increase to the 30-year average of 4.6%, 70 basis points lower than the long-term average, would directly add \$176 billion dollars or 1.1% to national economic activity. Considering the modest and choppy growth path throughout the recent economic expansion, with GDP growth averaging 2.1% per year since 2010, a return to more normalized housing construction, supported by increased for-sale housing demand and the accompanying increase in renovation spending, would provide the potential for a substantial boost to the pace of economic growth.

### ***Homeownership and Household Wealth***

Beyond improving the overall economic conditions through positively influencing GDP growth, homeownership is beneficial to both individual households and society as a whole. Although there are many benefits such as promoting stability and community engagement, the benefit that homeownership creates in terms of expanding household wealth is particularly important, providing a potential financial boost for many households, supporting consumer spending in the national economy, and reducing racial and socioeconomic inequality by providing an opportunity for low and middle income households, as well as minority households, to grow household wealth. Considering the tax advantages of owning a home, homeownership provides a unique opportunity for households to grow wealth without the taxes consequences often involved in other types of investment opportunities. Furthermore, rather than renting, by paying down the principal on a mortgage, households can gradually accrue equity and grow net worth directly with money that would have otherwise been spent paying a landlord. Combined with the large wealth gap that exists between households who own a residence and those that do not, increasing homeownership is a valuable and reliable way to promote superior financial stability and improve the lives of many people across income brackets. However, with the sharp decline in the homeownership rate in recent years, millions of households are currently left out of the for-sale housing market.

In fact, differences in homeownership trends are contributing to intensifying wealth inequality. For example, in 1983, the median net worth for households under the age of 35 was approximately \$15,300, compared with a median of \$120,500 for households aged 65 and over, according to the Pew Research Center tabulations of data from the Federal Reserve Survey of Consumer Finances. In part reflecting the much larger decline in homeownership among younger households, adjusted for inflation, the median net worth for households under age 35 declined to \$10,500 in 2013. Moreover, the gap widened dramatically net worth for households aged 65 and over increased to \$210,500 in 2013.<sup>64</sup>

Limited by affordability, as well as access to mortgages given the environment of stringent credit scores, down payment and debt-to-income requirements, a steadily shrinking proportion of households are currently able to own a home. As a result, many of the household and societal benefits of homeownership are being lost, stalling progress toward the American Dream and slowing the pace of national economic growth.

*Accumulated Savings*

As the share of homeowners declines, many households are currently unable to take advantage of the unique opportunity to accumulate savings through the purchase of a house. In practice, homeownership provides households with a way to pay a portion of daily living expenses directly to increasing their long term net worth. When a home is purchased as a primary place of residence, the mortgage payments, which would likely otherwise be spent on paying rent, go to paying off the financing of the home purchase, including both interest and principal payments. As a portion of financing cost payments each month goes towards principal reduction, the purchase of a home acts as a kind of forced savings program, with each monthly principal payment increasing household assets. While principal payments represent a small portion of mortgage payments in the first few years of repayment, the share of mortgage payments that goes towards reducing principal increases substantially over time. Assuming a traditional 30-year mortgage of \$250,000 with a 5% interest rate, after five years a homeowner would have paid off more than 8% of the mortgage and reduced principal by more than \$20,400 (see Figure 50). In ten years, the same homeowner would reduce principal by approximately \$47,000, paying off nearly 19% of the mortgage. By the end of the 20th year, the homeowner would have paid off approximately half of their mortgage and accumulated \$123,500 in savings in the form of home equity, excluding any change in the value of the home. These figures are even more substantial with a larger mortgage. With a \$500,000, mortgage, a homeowner would accrue \$41,000 in five years, \$93,000 in ten years and nearly \$250,000 in 20 years. Assuming a household buys a home in their 30s, this accumulated savings will represent a sizeable nest egg by the time they reach retirement age. With fewer households able to purchase homes, however, the proportion of people able to take advantage of this form of savings is dramatically reduced.

**Figure 50: Accumulated Principal Payments (30-Year Mortgage)**

	<b>\$250,000 Mortgage</b>	<b>\$500,000 Mortgage</b>
Interest Rate	5.0%	5.0%
Principal Paid in 5 Years	\$20,400	\$40,900
Principal Paid in 10 Years	\$46,600	\$93,300
Principal Paid in 20 Years	\$123,500	\$246,900
Source: RCG		

### *Tax Exemptions*

Homeownership also allows households to secure financing and grow wealth without many of the tax burdens that fall on other investment types. Since interest paid on a mortgage loan valued up to \$1 million is tax deductible, taking out a loan for a home is, effectively, a way for households to secure tax deductible financing for the purchase of an asset, a financial benefit not typically available for other types of leveraged investments. Mortgage interest deductions directly reduce household taxable income, potentially accounting to thousands of dollars in tax savings, particularly in the early years of the loan. Moreover, tax savings are ongoing each year, though the dollar value of the tax benefit decreases as the interest share of mortgage payments decreases.

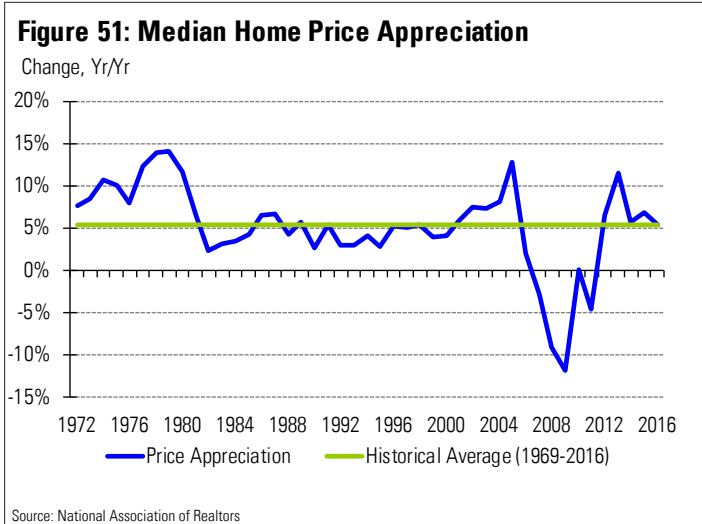
Mortgage interest is not the only income deductible expense. Any property tax paid is also deductible from household income. Additionally, homeowners who live in their house as a primary residence are not subjected to taxes on imputed rent. While a landlord who rents property to a tenant must pay tax on the rental income from that property, if an owner chooses to instead live on the property, effectively, renting the property to themselves, they are not subject to taxes on the imputed rent.

Furthermore, if a home increases in value over time, a large portion of capital appreciation is exempt from capital gains tax upon the eventual sale of the property.<sup>65</sup> As long as a home is the owner's primary residence for at least two out of the five years prior to the date of sale, a capital gains exemption of up to \$250,000 of appreciation can be applied. For a joint tax return with a spouse, the exemption increases to \$500,000. Since these tax benefits do not largely exist among other investment types such as purchasing stocks or bonds, avoiding capital gains tax and reducing taxes through the mortgage interest and property tax deductions make homeownership unique as an opportunity to grow household wealth with minimal tax burdens.

### *Home Price Appreciation*

In addition to providing the ability to grow savings through making principal payments, purchasing a home often increases a homeowner's net worth over time through property price appreciation. However, rising prices are not inevitable, and the Great Recession provides a stark example of the potential for substantial price declines. Following the period of excessively loose credit and bubble conditions, the median single-family existing home price decreased by nearly 26% between 2006 and 2011.<sup>66</sup> While this period represents the only time since the Great Depression that home prices in the

United States declined nationwide, the contraction in prices was extremely detrimental for many households, dramatically reducing net worth and leaving many owners underwater. However, with a firmer foundation for the housing market and a return to sound underwriting standards, home prices should generally increase over time and thereby provide wealth accumulation for homebuyers. Over the long term, the national median existing home price grew by an average of 5.4% annually between 1969 and 2016 (see Figure 51).



Compounding this growth over the 30 years it takes to pay off a traditional mortgage, this represents a significant amount of nominal capital appreciation.

### *The Wealth Effect*

On a household level, the wealth effect occurs when households increase spending habits because of a change in perceived wealth. This effect is strongest among low and moderate income households who are more likely to spend money as their financial well-being improves. More broadly, since the benefits of homeownership have a significant positive impact on household wealth, increasing the share of owner households nationwide should positively influence aggregate consumption spending in the economy because of the perceived increase in net wealth. In a 2013 paper for the National Bureau of Economic Research, Karl Case, John Quigley and Robert Shiller demonstrate that changes in total housing market wealth have a larger effect on consumer spending. For example, a 10% increase in total housing market wealth would increase consumer spending by around 1%.<sup>67</sup> With real aggregate consumption of \$11.6 trillion as of 2016, this would translate to approximately \$116 billion in additional consumer spending, or 0.7% of GDP. As such, RCG believes that increasing homeownership rates could improve overall economic growth, as the number of owner-occupied homes grows and the wealth created from rising home prices and increases in home equity bolsters consumer spending. However, if homeownership rates fail to recover, a large proportion of the population will continue to be locked out of the opportunity to accumulate wealth through home equity, and the economy at large will continue to forego the stimulating economic benefit of an expanding wealth effect on consumer spending.

## *Minority Homeownership Gap*

As previously outlined, homeownership is significantly lower among minority households and, although the aftermath of the Great Recession affected minority groups in different ways, homeownership rates declined universally, with a particularly detrimental impact on homeownership among African American households. In addition to the drop in the share of homeowners, minority homeowners were disproportionately affected by the Great Recession, through both foreclosures and the steep decline in property prices, because housing equity represents a significantly larger portion of household net wealth among minority homeowners than the overall average. In a 2013 JCHS study on homeownership and wealth creation, home equity accounted for 44% of net wealth among African American homeowners and 39% among Hispanic homeowners as of 2010, compared with 22% of the net wealth for homeowners overall.<sup>68</sup>

As mortgage market credit conditions tightened in the wake of the crisis, the sharp increase in mortgage origination standards restricted lending only to households able to meet the most stringent underwriting requirements, making mortgage credit and, ultimately homeownership, inaccessible for many households. These factors disproportionately impacted minority groups, limiting access to lending and sustaining the large gap in homeownership rates.

Given the persistently low rates of homeownership among minority groups, many households are currently unable to access the numerous benefits of purchasing a home. Without policies to improve access to homeownership for minority households, this situation is likely to persist. However, to the extent that the existing homeownership gap can be closed, there is a significant opportunity to increase both household and intergenerational wealth, which could help to reduce long-term economic inequality.

## **Outlook for Homeownership**

Although the national homeownership rate declined to historical lows, there are a variety of factors that RCG believes will encourage rates to stabilize and potentially improve in the near and medium term. Various economic and demographic factors will continue to both push up and pull down the national homeownership rate, but RCG believes that many of the significant trends that contributed to the decline in homeownership in the past decade will stabilize and even reverse in the coming years. After a sustained period of economic expansion, increased job opportunities, and moderate, but accelerating income growth is translating into improvements in household balance sheets. This increased financial security should directly increase the number of households entering the for-sale market. In particular, improved finances should enable more households to be comfortable starting or expanding families, boosting birth rates and spur-



ring increased demand for larger housing units, typically only available in single-family homes. Decreased foreclosure activity, coupled with improving economic conditions and a shift in key demographics should boost the number of first-time buyers and help the entire for-sale housing market to steadily return to more normalized conditions. Moreover, a gradual improvement in mortgage availability is likely to increase access to credit for minority households and help first-time buyers transition from renting to owning. We expect these new buyers to play a major role in stemming the tide of recent homeownership rate declines.

### ***Foreclosure Activity***

Foreclosures are likely to continue to recede in the coming years, which will help stabilize homeownership rates. The inventory of properties in the foreclosure process decreased substantially in recent years, with declines occurring nationwide. Although still somewhat elevated considering the strength of the overall economy, new delinquencies also declined substantially in recent years. As lenders became more risk averse in terms of both the structure of mortgages and the types of borrowers in the aftermath of the foreclosure crisis, only the “safest” households with stable incomes and high credit scores qualified for mortgages in recent years. While strict underwriting standards kept many households from obtaining credit and accessing the for-sale housing market, limited credit should also translate to a further slowdown in foreclosures in the near term. Moreover, future foreclosure activity should remain muted in the medium term, even with weaker economic conditions. Effectively, with foreclosures mostly worked through the system and diminished risks going forward following multiple years of tight underwriting, foreclosure activity should no longer be a significant factor depressing homeownership rates.

### ***Economic Outlook***

RCG expects economic factors to continue to work in favor of increasing homeownership rates in the near term. As previously mentioned, incomes are starting to rise after nearly a decade of stagnation and the unemployment rate is nearing pre-recession levels. In 2016, 2.3 million net new jobs were added after the addition of more than 2.7 million net new jobs in 2015.<sup>69</sup> This represents a growth rate of 1.6% in 2016, down by 40 basis points from the previous year at 2.0% and by 50 basis points since 2014 at 2.1%, which was the fastest pace of job creation since 1999.

RCG expects hiring to continue at a similar pace in 2017 at 1.5% growth. Employment growth is expected to increase slightly to 1.6% in 2018 bolstered somewhat because of anticipated additional federal spending on infrastructure and

defense, as well as lower tax rates and reduced regulation under the new administration, all of which should stimulate the economy at least in the near term. Thereafter, payroll growth is forecasted to decelerate because of increasing inflation and a substantial rise in interest rates, dipping to 1.0% in 2019. In total, RCG expects the U.S. economy to generate 6.0 million net new jobs between 2017 and 2019.

The U.S. unemployment rate decreased dramatically in recent years, after reaching a recessionary peak of 9.9%, with sustained job growth outpacing expansion in the U.S. labor force.<sup>70</sup> The unemployment rate tightened to 4.7% as of December 2016, down by 40 basis points from a year prior. Going forward, sustained payroll growth will continue to put downward pressure on the unemployment rate through the near term, reaching a cyclical low of 4.5% in 2018. Thereafter, the pace of job growth is expected to be slower than growth in the labor force. RCG forecasts that the unemployment rate will increase to 4.8% in 2019. In the near term, increased employment opportunities across all sectors and education levels should boost household formation and spur elevated demand for housing across all segments of the residential market.

In particular, RCG expects solid household formation more consistent with the long-term average in the coming years, helping to bolster single family housing demand. Not only did depressed economic conditions after the recession limit the ability to purchase homes, but fewer total households were formed following the recession relative to historical rates, reducing housing market demand. According to a 2016 MBA report, an estimated six million would-be homeowners shifted to renting or left the housing market since 2006, with five million would-be renters never entering the rental market or forming households in the first-place.<sup>71</sup> A portion of these “lost” households and homeowners are expected to return to the market because of strengthened economic conditions, bolstering homeownership rates at least in the near term.

As economic growth encourages household formation and boosts incomes, households who were financially impacted during the recession are increasingly recovering financially, or will recover in the coming years. By 2019, a total of nearly three million households previously affected by the foreclosure crisis will have sufficiently recovered to be financially able to re-enter the market, according to Trans-Union.<sup>72</sup> Considering all of these economic conditions, RCG believes that for-sale housing demand will increase steadily in the near term, helping to stabilize the homeownership rate in the coming years.

Rising mortgage rates and declining single family affordability may, however, offset some of this increase in housing demand. As the Federal Reserve continues on the path to normalizing interest rates and inflation accelerates in the

coming years, mortgage rates should rise considerably from the historically low levels in recent years. RCG forecasts that the average mortgage rate for 30-year conventional mortgages will rise from the low-4% range to 4.9% by the end of 2017 and 5.6% by the end of 2018. Although these levels are not high by historical standards, the combination of rising home prices and rising mortgage rates, will reduce affordability and, on the margin, prevent some households from purchasing homes.

### ***Demographic Outlook***

Sustained population growth through 2021 and unbundling of households in response to generally positive economic prospects, at least in the near term, is expected to maintain a strong rate of household formation, which will average 1.1% annually between 2017 and 2021. This will translate to the addition of 1.4 million new households per year, consistent with the long-term average and offsetting multiple years of limited household formation during the recession and recovery. In total, RCG forecasts that more than 6.9 million net new households will be added through 2021. Although major shifts in immigration policy could reduce the pace of both population and household growth, under current conditions, new household formation is expected to be strongest in the near term as rising employment opportunities and wage growth encourage unbundling of shared living situations.

Despite the growth in the total number of households, demographic trends are expected to play a mixed role in determining the future trajectory of homeownership. Growth among both baby boomer and millennial generational cohorts is expected to have the most pronounced impact on housing demand. We believe that financial constraints and lifestyle preferences will continue to support an elevated level of rental demand, though the trend should be significantly weaker compared with the last five years, particularly as an increasing number of young households reach the life stages most typically associated with homeownership.

Young adults aged from 20 to 34 years old, accounted for an estimated 67.3 million people in 2016, representing 21% of the total U.S. population in 2016.<sup>73</sup> The population aged 20 to 34 years is expected to increase by 1.9 million people to a total of more than 69 million by 2021. Many young adults have stayed away from creating households due to financial constraints in recent years. As of 2016, there were approximately 23.6 million 18 to 34 year olds living at home with parents, compared with 19.2 million in 2007, an increase of 22.9%. Indeed, if headship rates had remained the same as they were in 2005, there would be 1.7 million more households headed by young adults today, according to JCHS.<sup>74</sup> As

young adults continue to age and enter the workforce, however, household formation within this group should increase steadily.

Although many of these new households created will choose to be renters, not owners, the number of homeowners is expected to rise steadily. Recent data shows that first-time buyers are returning to the homeownership market. According to the NAR 2016 Profile of Home Buyers and Sellers, the annual share of sales to first-time home buyers increased to 35% of all buyers in 2016, after slipping for three straight years.<sup>75</sup> This represented the highest share of first-time home buyers since 2013 and a revival from the near 30-year low of 32% in 2015. If the current trends hold, we can expect a gradual, but sustained resurgence of first-time buyers in the for-sale housing market, with homeownership bolstered, particularly as more millennial households enter their early and mid-thirties and increasingly begin to get married and start families.

The number of residents aged 65 years and over will also grow rapidly over the next decade. In 2016, residents 65 years and over represented an estimated 15.3% of the U.S. population or a total of 49.4 million people. The number of U.S. residents aged 65 years and older is expected to grow by 8.9 million to 58.3 million people by 2021, representing a 2.0% increase in the share of the total U.S. population.<sup>76</sup> While this cohort should also benefit from improved economic conditions, as more seniors retire and transition to fixed incomes, housing affordability will become increasingly important. Considering cost constraints, some older households are likely to choose to downsize by either purchasing a smaller house or condominium, or choosing to cash out on the equity in their existing homes and move into a rental unit. On net, RCG believes that aging of the baby boomer generation will, eventually, translate into increased demand for rental units as well as small for-sale units. However, with baby boomers expected to live longer than prior generations, this trend is likely to occur very gradually with large numbers of homeowners choosing to age in place for years to come, sustaining a relatively high level of homeownership among this cohort.

### ***Mortgage Credit and Tax Reform***

Although RCG does expect homeownership to stabilize at least somewhat in the near term, and bank lending to expand slowly as underwriting standards gradually return to more normalized conditions, the overall trajectory of homeownership will be heavily influenced by credit availability, the broader housing finance system and the future of the existing tax advantages for homeowners.

Currently, mortgages are not readily available to many borrowers, particularly moderate income households, minority households, young families, and those households who lack the funds for large down payments or have short credit histories and less than perfect credit scores. Although lending is gradually easing compared with the tightest period during the recession and early recovery, major changes in mortgage availability will be heavily dependent on the future direction of national housing policy.

Efforts to reduce financial regulation under the new administration could lead to revisions or rollbacks in some of the post-crisis banking requirements instituted as part of the Dodd-Frank legislation. Although this may involve increased risk for consumers and the broader stability of the financial system, well-designed regulatory changes could also have the potential to make borrowing easier for prospective buyers, facilitating the transition from renting to owning for more households. Perhaps even more importantly, the future of the Government Sponsored Enterprises and the residential mortgage-backed security market will be critical to the long term stability, availability and affordability of mortgage credit – all factors that will be key to the future of homeownership.

The possibility of substantial tax reform could also play an important role in determining the trajectory of the national homeownership rate in the coming years. While tax reforms may have broader economic impacts that influence growth and housing affordability, on the margin, reform proposals such as capping the mortgage interest deduction, eliminating property tax deductions and increasing the standard deduction without changing the mortgage interest deduction, could de-incentivize homebuying by reducing the relative tax advantage to owning as compared with renting. Although the details and likelihood of any such reforms remain to be determined, it is important to note that these types of tax changes could materially alter the incentives for homebuying and consequently influence the homeownership rate.

Ultimately, any serious efforts to revive the American Dream as a national priority will require a thorough understanding of these issues and the many other challenges currently facing the single family housing market, including the hurdles for both individual households and the homebuilder industry, topics that RCG will examine in future reports during the coming year.

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