

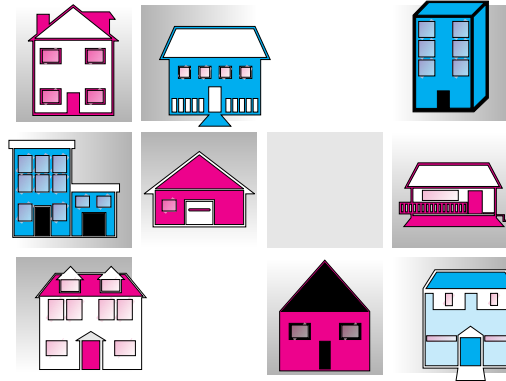
Summing Up a Lifetime

Nearly 90 Percent of Americans Will Achieve Homeownership

by James A. Berkovec and Peter M. Zorn

BY THE MOST WIDELY used gauge of homeownership, 65.4 percent of U.S. families owned their homes in 1996. While significant in its own right, this statistical snapshot does not reveal what proportion of Americans will become homeowners during their lifetimes. By another yardstick, homeownership is far more pervasive: the vast majority of individuals, an estimated 90 percent, will succeed in owning a home at some point in their lives.

The notion that a U.S. resident stands a 90-percent chance of owning a home between the ages of 20 and 70 may seem improbable. What often is overlooked, however, is the high rate of homeownership among individuals in the later stages of the life cycle. For example, 80 percent of people



aged 58 own their homes. Another 1 percent of 58-year-olds are currently renting but owned their immediate past residence. As the data will show, it is fair to project that another 4 percent will purchase a home before they turn 70. Another 5 percent are renters who owned a home two or more residences ago. All of these “phases” of homeownership sum to 90 percent.¹

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Homeowner Dropouts Count Too

Many explanations could account for those renters who have opted out of a previous homeownership mode. Some may have returned to renting in their 50s for lifestyle reasons. Others may have found homeownership financially overwhelming. Still others could be moving among several rental units as they search for a new residence to purchase or as they await transfer to a more permanent location.

Precisely what motivates the people who chose to rent after owning a home cannot be ascertained from the American Housing Survey (AHS) data analyzed here. Yet, even ignoring ex-owners all together results in an estimated lifetime ownership

¹These calculations overstate the homeownership rates by a small amount for all individuals because the American Housing Survey, conducted every two years, excludes, among others, those living in institutions, homeless people and some fraction of the military.

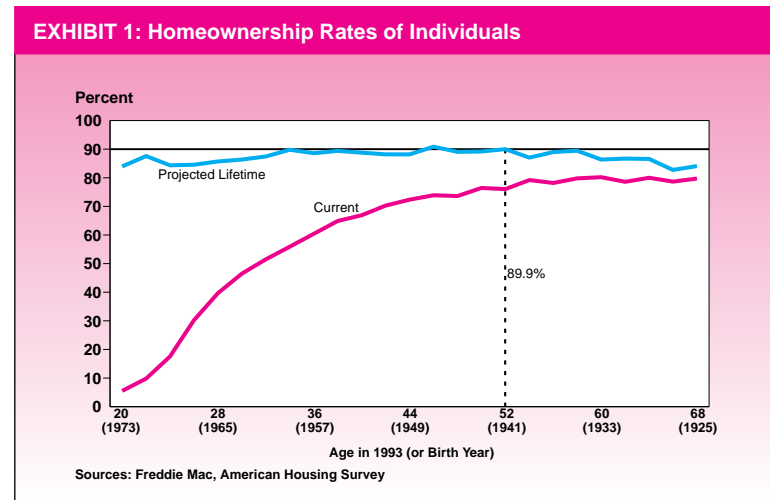
James A. Berkovec is a principal economist and Peter M. Zorn is director of policy analysis in Freddie Mac’s housing economics department.

rate of at least 85 percent for 59-year-olds.

Bodies Matter More Than Houses

The homeownership rates presented here differ from traditional measures of homeownership in two respects. First, they measure the percentage of individuals who own a home at any time during their lives, not at just a single point in time. This better captures the breadth of individuals who ever obtain the benefits of homeownership. *Exhibit 1* illustrates the difference between a traditional snapshot measuring homeownership rates for individuals (current rate) and a lifetime measure (projected lifetime rate) when examined by age-specific population cohorts as of 1993. For example, about 77 percent of the individuals aged 52 in 1993 were current homeowners but nearly 90 percent will eventually become homeowners over their lifetimes, defined here as by age 70.

Second, these homeownership rates are for individuals rather than households. When examining behavior over a lifetime, individuals are a more appropriate unit of observation for measuring homeownership because household formation and dissolution factors, such as marriage and divorce, are more accurately captured at the individual than at the household level. More specifically, counting



by individuals who are 20 years of age or older influences homeownership rates in two ways, which offset each other:

- The traditional snapshot rate increases by about 5 percentage points because couples who own a home jointly are counted as two owners instead of one. That pushes the 64-percent household rate in 1993 to a 69-percent individual rate, based on the AHS data.
- However, the 69-percent calculation overstates the individual homeownership rate by excluding “non-household heads,” such as adult children living with parents or parents living with adult children. Once these individuals—who are neither owners nor renters and who constitute about 14 percent of the AHS adult population—are included in the denominator, the average

homeownership rate for individuals drops by about 10 percentage points to 59 percent. (A household-based tally simply ignores non-household heads.)

On balance, then, looking at individuals decreases the homeownership rate in 1993 by about 5 percentage points—only 59 percent of individuals owned homes at this stage in their lives.

Peering into the Future

None of the primary sources of housing data directly track whether individuals have ever owned homes over their lifetimes. Yet, it is possible to derive a reasonable estimate of lifetime homeownership rates from the AHS using information on the current and previous tenancy status of individuals.

One strategy for computing lifelong rates utilizes information from the AHS detailing how many people who have recently

EXHIBIT 2: Ever-Ownership Rates

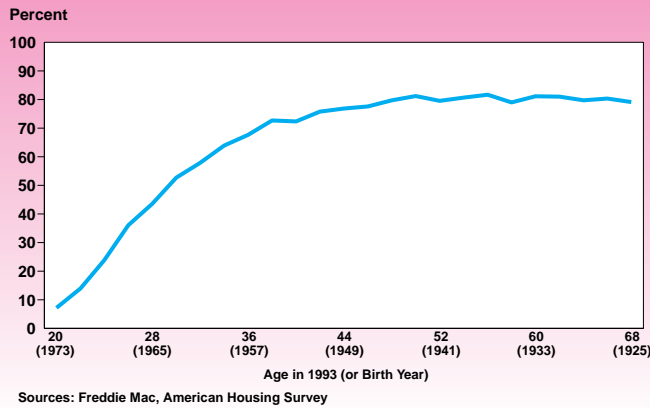
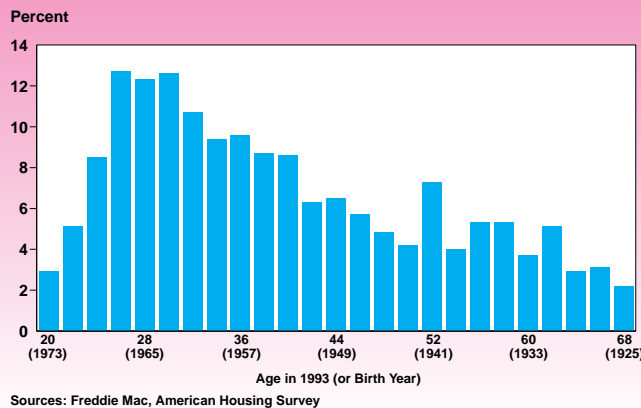


EXHIBIT 3: Transition Rates to First-Time Homeownership



²This estimate is based on a measure developed by Daniel N. Chambers and Douglas B. Diamond, Jr., “Who Never Becomes a Homeowner?” *Housing Finance Review*, 1988.

moved into rental homes owned the residences they had just left. With this information, it is possible to estimate the number of individuals who have ever owned a home by summing the number of current owners and the number of renters who owned their immediate past residences.² Combining these two figures leads to an individual ownership rate that increases

until about age 60, when it levels off at around 80 percent. *Exhibit 2* depicts this “ever-owner” rate by age group for the AHS sample in 1993. However, this simple measure understates ever-owner rates because it does not count renters who owned a home two or more residences ago.

It’s Never Too Late to Own

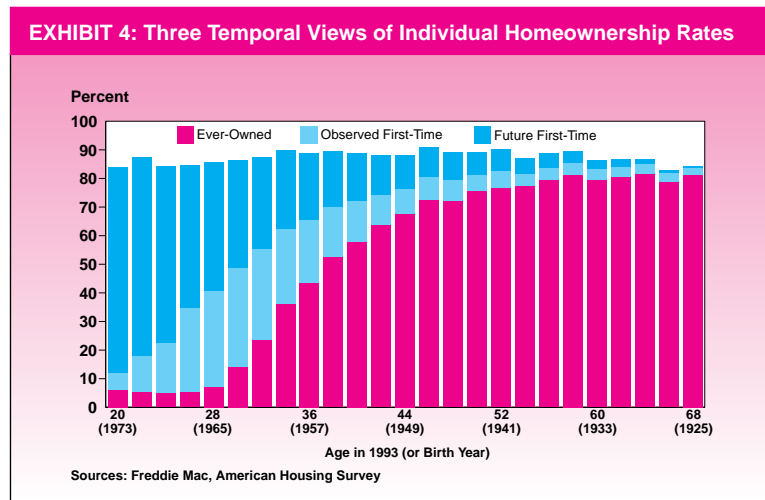
Factoring in the results of another AHS element helps minimize this underestimate. The survey asks all homeowners recent movers about the number of homes they have previously owned, thereby enabling the identification of first-time buyers and the accurate calculation of transition rates into first-time homeownership. The probability of becoming a first-time homeowner in the preceding two years, based on 1993 transition rate calculations, peaks at about age 28, with more than 12 percent of adults buying a first residence (*Exhibit 3*). Yet just as importantly from a life span standpoint, the probability of becoming a first-time owner remains substantial for older individuals, with about 3 percent of non-homeowners buying a first house at age 65.

This information becomes useful in developing a more comprehensive ever-ownership measure for 1993. This is done by updating the ever-ownership rate in 1985 (the earliest year for which it is possible to link the biannual waves of the AHS) with

first-time homeownership transition rates from 1985 through 1993. These estimates (the combination of the bottom two segments of each bar in *Exhibit 4*) peaked at 85.6 percent in 1993 for 58-year-olds. In that same year, the estimated ever-owner rates for all individuals over age 46 approached or exceeded 80 percent.

Converting an ever-ownership rate to a lifetime rate requires projecting additions to the ever-homeowning ranks after the most recently available year for AHS data. This is accomplished by assuming that the transition rates to first-time homeownership in future years for any given age cohort are the same as those for older age groups in 1993. Thus, for example, the lifetime homeownership rate for 52-year-olds in 1993 is 89.9 percent. The 89.9 percent homeownership rate for those born in 1941 consists of three components:

- The 76.9-percent base ever-ownership rate for 44-year-olds in 1985.
- The 5.7 percentage points added from the first-time ownership transition rates of this cohort observed between 1985 and 1993.
- The 7.3 percentage points added by the estimate of their future homeownership transitions after 1993 using the first-time homeownership transitions of 52- to 70-year-olds observed in 1993.



Consequently, the top edge of the Exhibit 4 bar chart is the same as the line depicting the projected lifetime homeownership rate in Exhibit 1. In other words, for the bulk of the age distribution—ages 34 to 58 in 1993—lifetime homeownership rate projections consistently cluster near 90 percent.

Recognizing the Realities

Overall, lifetime homeownership rates of 90 percent appear quite reasonable. Even if this methodology is eventually proven to overstate the case, lifetime homeownership rates surely are at least 85 percent. But determining whether an individual enjoys an 85-percent or a 90-percent probability of ever achieving homeownership is obviously less important than realizing that the vast majority of Americans own homes at some point. This finding raises an issue of timing with respect to

national housing policy: Is it more appropriate for the country to focus on increasing the homeownership rate at any stage or to encourage homebuying at earlier ages?

Additional research in progress at Freddie Mac is looking at the next round of questions prompted by realistic expectations for high lifetime rates of homeownership, including: Who does not become a homeowner? Why not? Should they? and What are the benefits of encouraging homeownership at earlier points in the life cycle? **SMM**