Further rise expected in US home ownership

After faltering in the past five years, the owner-occupation rate is rising once again, as James Christian explains

FOR many years, the United States has considered itself to be a "nation of home owners". From the country's earlier days national policy has sought, with varying degrees of generosity, to facilitate the achievement of owner-occupancy for most, if not all, US households.

Until the 1980s, the statistical record attested eloquently to the success of this policy and to the desire of individual families to become home owners. Indeed, from the end of World War II until 1981 the percentage of US households who owned their own homes rose steadily, pausing only twice and never declining. (*See graph 1.*)

However, in 1981 the home ownership rate started to go into a decline that carried it back to the levels of the late 1960s. Not until 1986 did the rate appear to reach bottom and rise slightly.

Economic conditions account in large measure for the reversal of such a long-standing upward trend in owner-occupancy. Unemployment rates soared to modern records in the early 1980s as the US experienced its worst recession since the 1930s. And, fuelled by the nation's highest rate of inflation, mortgage interest rates rose to historical highs and remained in double digits until 1986.

Steadily declining mortgage interest rates, a much slower rate of increase of home prices than had been produced by the inflationary 1970s, and an economic expansion now approaching record length should, however, have combined to generate a quicker recovery of the

home ownership rate.

That this recovery has been delayed and that it is not yet well established invite the consideration of additional, largely non-economic factors.

In reality and in aspiration, home ownership is essentially a phenomenon of the family. A variety of demographic and cultural changes have combined to alter this profile of US society. In 1950, only 9.1% of all US households were single-person households. By 1986, that proportion had risen to 23.9%. As a result of improving medical technology and health insurance programmes, many of these single-person households are elderly, but the trend has risen much more rapidly among the young.

One-person households aged 25 to 44 — the prime home-buying age group — increased from 2.2% of all households in 1960 to 7.3% in 1985. One-person households aged 45 to 64 remained relatively constant, rising only from 5.0% in 1960 to 5.8% in 1985. Elderly (65 years of age and over) one-person households rose from 5.4% to 9.5% of all households.

Greater access to higher education, the desire of women to pursue careers outside the traditional context of the family, and more liberal community attitudes toward cohabitation and divorce have created opportunities for young people to realise many of the benefits of marriage without the responsibility of family. Even married couples display a growing reluctance to undertake the responsibility and financial burdens of raising children. Average household size in the US has fallen from 3.37 persons in 1950 to 2.69 persons in 1985.

These phenomena by no means typify society, but they dull the cutting edge of the demand for home ownership and contribute to a slower rate of recovery of the home ownership rate than would otherwise be expected.

Life styles are, of course, dependent to some extent on economics. The personal saving rate offers a good reflection of this interdependency, one that has special relevance for home ownership in the present context.

Downpayments required to qualify for a home loan have risen in the US in recent years. Concurrently, median household incomes have risen somewhat more slowly than median home prices. Consequently, young households are facing higher initial cash requirements to become home owners.

In 1984, for example, a downpayment of approximately 23% of the home price was required, on average, to secure a mortgage loan. At an existing median home price of $72,683 in that year, a buyer needed cash amounting to $16,741 — no small sum for a young, first-time home buyer. But in 1986, with average downpayments up to about 26% and the median home price up to just over $80,000, cash requirements jumped to $20,744, an increase of 24% in just two years.

However, personal saving rates in the US have been falling over this period — from 6.3% of disposable personal income in 1984 to only 3·8% in 1986, the lowest rate since 1947.

A variety of factors explain this general decline in the personal saving rate, and among them are the changes in life style among young households discussed in part earlier. As priorities have shifted away from family formation and family-oriented objectives toward independent careers and current consumption, the priority accorded to saving for the downpayment on a home has also shifted.

To some extent, high home prices and high downpayment requirements may have become so daunting that they have encouraged this change in priorities.

Thus, a vicious circle develops: young households who could afford to make monthly mortgage payments are so overwhelmed by the extent of the sacrifice they must make to accumulate a downpayment that they save even less than they would otherwise.

What lies just ahead, however, promises a slow reversal of the trends discussed above. The post-war "baby boom" in the US is maturing and with that, one can expect to see a return to more traditional values. Signs of these changes are already evident.

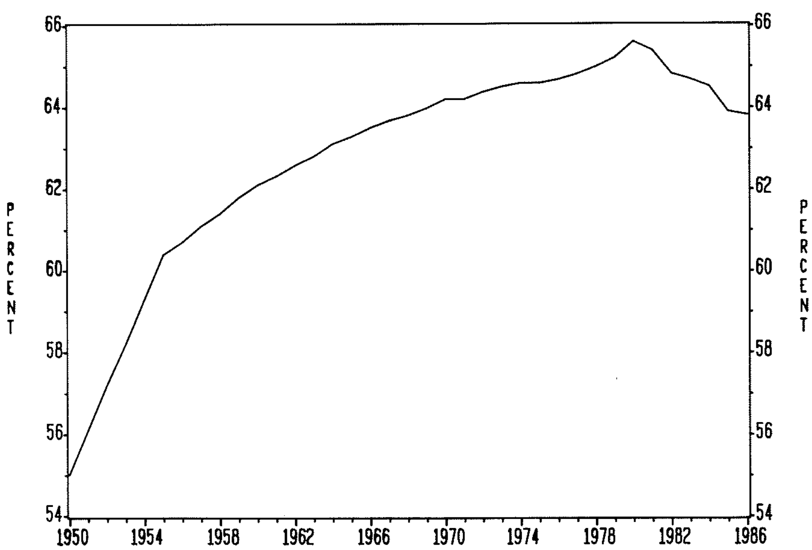
Birth rates are rising as the "baby boom" generation begins to make now-or-never decisions about having children. And many of those who have already chosen to form a family are opting to return to the kind of suburban, single-family detached homes in which they themselves were raised to bring up their own children.

For these young families, home ownership is a natural corollary to family formation and they can be expected to make the necessary sacrifices to achieve that objective.

The re-establishment of these fundamental bases for home ownership will develop slowly, even in a favourable economic climate. How that climate will be maintained will depend significantly on US economic policy and on the nation's fortunes in the world market. But if this can be accomplished, a steady rise in the home ownership rate in the United States can be expected over the balance of the 1980s and through the 1990s. ■

Home Ownership Rates, by Age of Head of Household

	1981 %	1982 %	1983 %	1984 %	1985 %	1986 %
Under 25	20.7	19.3	18.8	17.9	17.2	17.2
25-29	41.7	38.6	38.3	38.6	37.7	36.7
30-34	59.3	57.1	55.4	54.8	54.0	53.6
35-39	68.9	67.6	66.5	66.1	65.4	64.8
40-44	73.7	73.0	72.8	72.3	71.4	70.5
45-49	76.2	76.0	75.2	74.6	74.3	74.1
50-54	78.3	78.8	78.8	78.4	77.5	78.1
55-59	80.0	80.0	80.1	80.1	79.2	80.0
60-64	80.0	80.1	79.7	79.9	79.9	79.8
65-69	77.6	78.0	78.7	79.3	79.5	79.4
70-74	75.4	75.2	75.3	75.5	76.8	77.2
75 and over	69.8	71.0	71.9	71.5	69.8	70.0



Graph 1. US home ownership rate, 1950 to 1986. Source: US Bureau of the Census.

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