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Economic Shifts and the Changing Homeownership Trajectory

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Abstract

From 1980 to 1988, homeownership rates declined substantially for the first time in the postwar era. They stabilized and began to creep upward during the 1988–94 period. After presenting a long-term perspective, this article describes and examines two of the underlying forces of this upswing—demographic aging and improved levels of affordability—as well as the impact of immigration and minority lags. Fundamental economic factors are then surveyed: national and regional housing price shifts, housing production cycles, measures of housing affordability, and employment. Several key economic parameters of the post-recession housing market are presented as a guide to the short-term future.

Post-1988 homeownership rates initially rose because of an aging demography. But gradually, the new affordability became part of the dynamic. The new affordability was driven by the decade-long slowdown and weakening of housing prices, lower post-recession interest rates, and accelerated job creation following the period of "jobless" economic growth.

Keywords: Affordability; Homeownership; Demographics

Introduction

During the 1980s, America experienced a declining rate of homeownership for the first time since the Great Depression.[1] This decline was disturbing for a number of reasons. Homeownership has long been considered the centerpiece of the American dream, a notion confirmed by Fannie Mae–commissioned surveys conducted by Hart-Teeter Research (Fannie Mae 1992). It has also been regarded as a measure of the American standard of living—a barometer of economic and residential well-being (Myers et al. 1992). Homeownership has been described as binding together a diverse America (Sternlieb and Hughes 1982). Thus, declines in homeownership rates

[1] This pattern is well documented in the literature on homeownership trends. For example, see Hughes (1991), Myers et al. (1992), Wachter and Megbolugbe (1992), and Joint Center for Housing Studies of Harvard University (1994).

suggested that housing was becoming less affordable, living standards were stagnating or falling, and the American dream was fading.[2]

Homeownership is considered important for other reasons as well (Eggers and Burke 1995; Myers et al. 1992). For households, it can promote savings and serve as an investment vehicle; provide a psychological sense of stability, well-being, satisfaction, and achievement; and yield a higher quality residential environment.[3] For municipalities, homeownership is seen as an important building block for neighborhood stability and community commitment. For the broader economy, it is viewed as a growth locomotive, stimulating construction and the production of housing-related goods and services. Given all of these perceived benefits, the decreases in homeownership rates brought about increased attention on homeownership as a policy goal and renewed interest in increasing the national homeownership rate (Eggers and Burke 1995).

The pattern of declining homeownership rates slowed by the end of the 1980s. The homeownership trajectory began to shift upward slightly and then plateau, powered by a conjunction of economic shifts and demographic dynamics. The homeownership sag of the 1980s was most visible in the young adult population—particularly the last cohorts of the baby boom generation—with affordability contributing to the economic problems. The resulting ownership "shortfall" became a unique reservoir of housing demand, which asserted itself in the post-recession period of the 1990s.[4]

A "new affordability" helped unleash this demand backlog as the post-recession era unfolded in 1991. The first dimension of this affordability was a decade-long weakening of home prices. Prices actually retreated in the once price-frenzied markets of the 1980s (e.g., New England, the Middle Atlantic states, and Southern California). The second dimension was the sustained decline of interest rates to single digits from 1982 to 1987 and the unprecedented decline from 1991 to 1993 that brought them to

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[2] For an analysis of the shifts in affordability from 1974 to 1989, see Gyourko and Linneman (1993).

[3] But as Eggers and Burke (1995) point out, there are challenges to the assumption that the financial benefits of homeownership accrue to all households in all situations.

[4] Also problematic in the 1980s was the economic weakness of nontraditional households, which were the fastest growing demographic segment in the United States.

levels not seen since the early 1970s. The merging of more realistic pricing and low mortgage rates yielded the highest affordability levels in a generation. The third dimension, job growth, finally gained momentum following the first full year of national economic recovery (post–March 1992), enhancing consumer confidence and ability to move in the housing market. Some of the key 1980s' impediments to homeownership disappeared, although a fourth dimension—a lack of accumulated resources to cover down payment requirements—was only partially mitigated by improved affordability and job growth. Consequently, many new homeowners in the 1990s were drawn from the shortfall ranks of the 1980s.

This article describes each of the above shifts that have contributed to the halt in the decline in homeownership rates in America. The purpose is to detail the economic and demographic changes corresponding to the homeownership rate shift and to suggest some of the possible linkages. The historical sweep of homeownership rates is presented first, followed by a more detailed evaluation of rates by demographic subsectors (household age, household configuration, and race and Hispanic origin). The impact of demographic aging on braking the homeownership rate decline is then considered. Several economic factors affecting homeownership are analyzed: national and regional housing price shifts, housing production cycles, changes in affordability, and employment growth patterns. The next section reviews the prospects for increased homeownership over the next several years. The article concludes with a recap of the findings and future prospects.

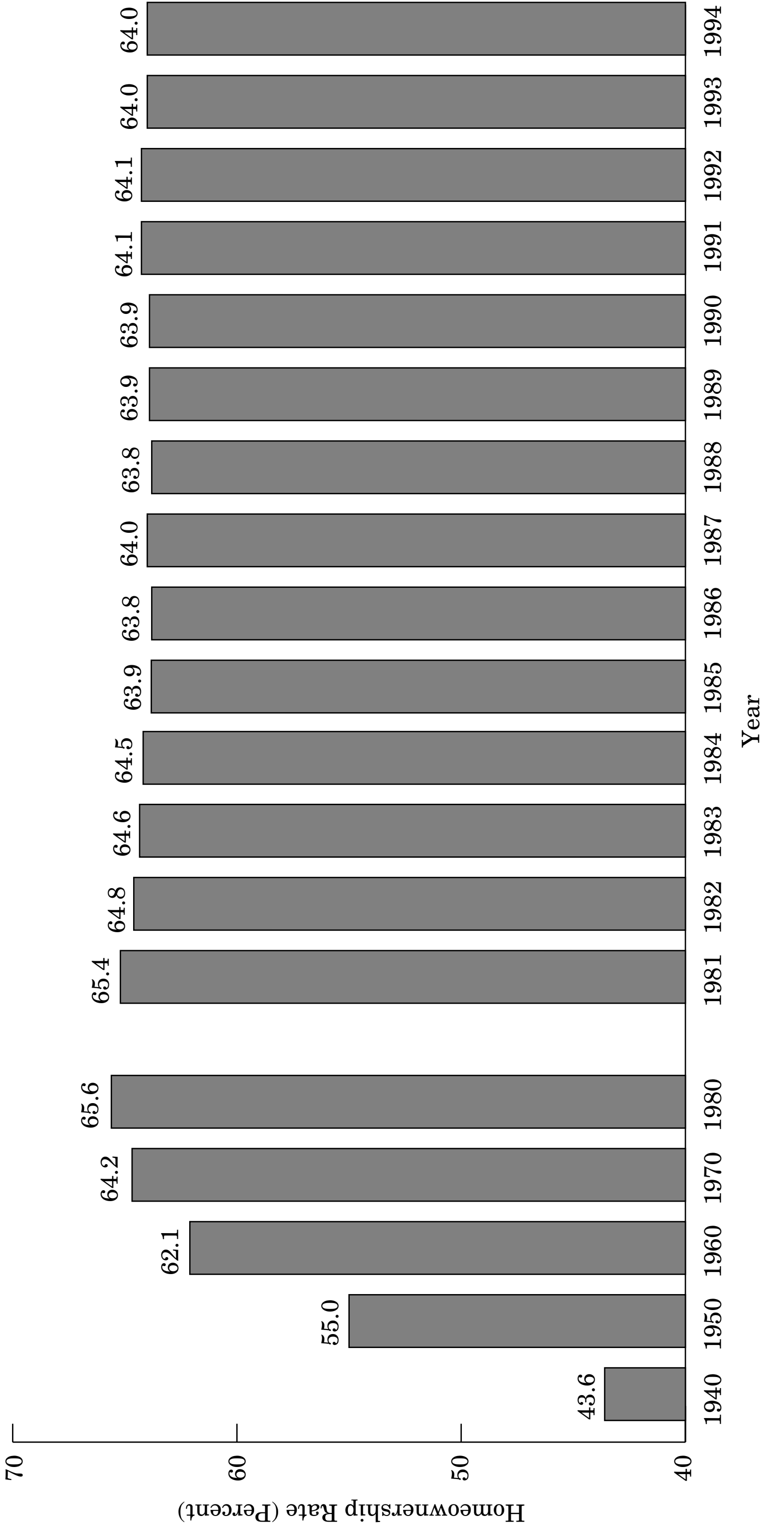
Changing homeownership trajectory

Homeownership rates: The long sweep

Homeownership in the United States may not have been on a wild roller-coaster ride during the 20th century, but neither has it been on a one-way escalator. After increasing rapidly during the 1920s, ownership rates retreated during the Great Depression and World War II. They then soared for three and a half decades before suffering a reversal during the 1980s. Rates changed course again as the 1980s came to a close and the 1990s commenced.

The specific ownership-rate trends of the past half century are presented in figure 1. The ownership rate in 1940 (43.6 percent) indicates that America was still substantially a nation of renters

Figure 1. **Long-Term Trend in Homeownership Rates, 1940 to 1994**



Source: U.S. Bureau of the Census (1975, 1995c).
Note: 1994 homeownership rates are not completely comparable with earlier data. See footnote 6 in the text.

on the eve of World War II. But in the postwar era, the majority of Americans were becoming homeowners. Homeownership quickly accelerated past the halfway mark (55.0 percent) by 1950, propelled by the increased sophistication of mortgage instruments and a protected housing finance industry of specialized lending institutions for shelter predicated on long-term fixed low-interest rate mortgages (Sternlieb and Hughes 1983). This element, in concert with rising incomes, permitted the vast upgrading of America's housing inventory. This process was initially assisted by the savings accumulated during war-induced prosperity.[5] The following three decades saw a sustained rise in homeownership—albeit at a steadily decreasing rate—finally peaking in 1980 (65.6 percent).

After this peak, a major shift occurred, with homeownership rates yielding some of their long-term gains. With one exception, each year between 1980 and 1988 witnessed a retreat in the ownership rate, with the trough eventually reached in 1988 (63.8 percent). Thereafter, the trend again reversed, with a plateau evident in 1993 and 1994, when the rate stabilized at 64.0 percent.[6] Although not a return to the peak level of 1980, the 1993–94 rate represents a modest recapture (0.2 percentage points) of the overall losses incurred during the 1980–88 period (1.8 percentage points).[7]

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[5] The personal savings rate in 1944 (personal saving as a percent of personal disposable income) reached 25.1 percent. By 1970, it had fallen to 8 percent (Sternlieb and Hughes 1982).

[6] The homeownership rates for 1994 are not completely comparable with earlier data because of two changes in the Current Population Survey (CPS) that took effect in the first quarter of 1994 (U.S. Bureau of the Census 1995c). (The CPS is the source of most of the homeownership rate data in this article.) A new weighting procedure, based on the 1990 decennial census, tends to reduce the reported homeownership rate. The effect of the second change, the implementation of the Computer Assisted Survey Information Collection, is uncertain.

[7] The postwar (1945–80) homeownership surge to some degree reflected—or at least coincided with—a disciplined high rate of personal saving in the United States, which provided a pool of low-cost capital for a sheltered housing finance system. It also provided the individual source for down payments. And for most of this period, median family incomes in America soared. Between 1950 and 1973, real median family incomes doubled, with little growth between 1973 and 1980 (Hughes 1991).

Personal savings rates began to falter in the 1970s but experienced much more significant erosion in the 1980s, when real median family incomes stagnated, with savings reaching a nadir in 1989. (The personal savings rate stood at 7.9 percent in 1980; it dropped to 6.4 percent in 1985 and to 4.0 percent in 1989. The rate increased to 5.3 percent by 1992 but fell back to 4.0 percent in 1993.) A high-savings generation aged (the baby boom procreators); in its

Impact of age, race, and aging

The new trajectory of homeownership should be interpreted with caution, and euphoria over its stabilization and improvement must be restrained. On the surface, the current pattern suggests that the economics of homeownership have improved. But the overall ownership rate, as detailed in table 1, is a simple summary measure that masks underlying trends. The overall rate reflects the specific ownership rates of demographically defined subsectors whose relative significance (or weight) changes over time. Homeownership varies widely by age and household type, as well as by other demographic variables such as race.[8] Thus, shifts in the age structure of the population, the mix of household types, or racial composition will cause changes in the overall rate of homeownership even if the economics of ownership remain constant.

Age. The age dimension for the major household configurations is detailed in tables 1 and 2. Table 1 provides ownership rates by household type and age for 1982 (base year), 1988 (trough), and 1994 (current).[9] Table 2 then details the rate changes for the 1982–88 (decline) and 1988–94 (recovery) periods. It is not surprising that during the decline period, each of the age sectors under 65 (for total households) experienced rate decreases, with the largest losses evident in the brackets under 40 years old.

What is surprising, however, is the preponderance of negatives (decreases) in the demographically defined cells of table 2 during the recovery period. For example, the overall homeownership rate increased by 0.2 percentage points between 1988 and 1994, but increases were registered by only two age sectors—60 to 64 (0.3 percentage points) and 65 and over (1.8 percentage points). Younger households, however, still suffered fairly large declines in ownership rates, with the rate for the 30–34 age sector falling by 2.6 percentage points. As will be discussed later, this discrepancy suggests that the increase in the overall rate of ownership

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stead was the emergence of a much larger low-savings generation (the baby boom itself). An emerging consumption ethic may have overwhelmed America's saving discipline. While the causal connections are complex, the retreat in homeownership rates in the 1980s was certainly accompanied by a similar retreat in personal savings rates. A lack of resources for down payments emerged as a significant ownership inhibitor (Martinson 1993).

[8] See Hughes (1991) for a full presentation of demographic variations in homeownership rates.

[9] The year 1982 is the first year for published data on demographically segmented homeownership rates.

Table 1. **U.S. Homeownership Rates by Household Type and Age, 1982, 1988, and 1994 (Percent)**

Age of Householder	Total Households			Family Households									One-Person Households					
				Married Couple			Male Householder			Female Householder			Male Householder			Female Householder		
	1982	1988	1994	1982	1988	1994	1982	1988	1994	1982	1988	1994	1982	1988	1994	1982	1988	1994
Under 25	19.3	15.8	14.9	32.6	29.1	27.1	21.6	17.6	21.6	8.9	8.4	8.6	13.9	13.6	12.7	7.5	9.5	6.2
25 to 29	38.6	35.9	34.1	53.9	52.4	49.9	34.7	32.3	31.6	17.3	14.4	14.6	23.7	23.0	23.0	14.3	15.9	17.2
30 to 34	57.1	53.2	50.6	71.9	69.0	66.6	50.9	43.4	44.2	31.3	28.3	23.3	31.7	31.1	32.9	24.7	26.3	29.0
35 to 39	67.6	63.6	61.2	80.4	77.8	76.5	61.2	55.6	46.9	43.5	39.6	36.1	37.6	37.4	37.0	35.6	36.2	40.6
40 to 44	73.0	70.7	68.2	83.9	83.5	81.8	63.6	64.7	57.5	54.2	50.6	49.0	37.7	41.2	42.4	38.9	40.3	43.3
45 to 49	76.0	74.4	73.8	86.6	86.2	85.9	69.6	66.2	61.3	57.2	55.1	58.4	38.3	43.3	46.9	45.5	47.8	52.9
50 to 54	78.8	77.1	76.8	88.2	87.5	87.6	74.9	67.6	70.3	66.7	60.8	61.9	40.7	45.6	50.4	51.7	56.2	57.2
55 to 59	80.0	79.3	78.4	89.6	89.5	89.2	74.3	76.6	66.9	66.4	67.1	66.9	47.3	47.1	50.7	60.5	61.1	61.7
60 to 64	80.1	79.8	80.1	89.4	90.0	90.0	81.5	77.3	72.8	71.5	71.1	73.2	50.9	52.1	55.7	63.8	63.7	65.0
65 & over	74.4	75.6	77.4	86.6	88.8	90.4	75.3	80.0	83.5	75.1	78.3	79.9	58.6	60.1	63.7	62.2	62.0	64.6
Total	64.8	63.8	64.0	78.5	78.9	78.8	59.3	56.1	52.8	47.1	45.3	44.2	38.6	39.9	43.1	51.2	51.8	54.5

Source: U.S. Bureau of the Census (1995c).
Note: 1994 homeownership rates are not completely comparable with earlier data. See footnote 6 in the text.

Table 2. **Percentage Point Change in Homeownership Rates by Household Type and Age, 1982 to 1988 and 1988 to 1994**

			Family Households						One-Person Households			
	Total Households		Married Couple		Male Householder		Female Householder		Male Householder		Female Householder	
Age of Householder	1982–88	1988–94	1982–88	1988–94	1982–88	1988–94	1982–88	1988–94	1982–88	1988–94	1982–88	1988–94
Under 25	–3.5	–0.9	–3.5	–2.0	–4.0	4.0	–0.5	0.2	–0.3	–0.9	2.0	–3.3
25 to 29	–2.7	–1.8	–1.5	–2.5	–2.4	–0.7	–2.9	0.2	–0.7	0.0	1.6	1.3
30 to 34	–3.9	–2.6	–2.9	–2.4	–7.5	0.8	–3.0	–5.0	–0.6	1.8	1.6	2.7
35 to 39	–4.0	–2.4	–2.6	–1.3	–5.6	–8.7	–3.9	–3.5	–0.2	–0.4	0.6	4.4
40 to 44	–2.3	–2.5	–0.4	–1.7	1.1	–7.2	–3.6	–1.6	3.5	1.2	1.4	3.0
45 to 49	–1.6	–0.6	–0.4	–0.3	–3.4	–4.9	–2.1	3.3	5.0	3.6	2.3	5.1
50 to 54	–1.7	–0.3	–0.7	0.1	–7.3	2.7	–5.9	1.1	4.9	4.8	4.5	1.0
55 to 59	–0.7	–0.9	–0.1	–0.3	2.3	–9.7	0.7	–0.2	–0.2	3.6	0.6	0.6
60 to 64	–0.3	0.3	0.6	0.0	–4.2	–4.5	–0.4	2.1	1.2	3.6	–0.1	1.3
65 & over	1.2	1.8	2.2	1.6	4.7	3.5	3.2	1.6	1.5	3.6	–0.2	2.6
Total	–1.0	0.2	0.4	–0.1	–3.2	–3.3	–1.8	–1.1	1.3	3.2	0.6	2.7

Source: U.S. Bureau of the Census (1995c).
Note: Figures computed from table 1.

was due to demographic shifts: a maturing population increased the proportion of households in the older (higher ownership) age brackets.

Race. The ethnic and racial composition of America's population also affects overall homeownership rates. As shown in table 3, the homeownership rates for black and Hispanic families started lower, and fell considerably more, than those of their white counterparts between 1982 and 1988.[10] The pattern is a bit more complex during the 1988–93 recovery, but, overall, minority gains lagged behind those of whites. However, black married couples did make noticeable progress.

Nonetheless, there is still a wide gulf between white and minority homeownership rates. And because minorities are generally

Table 3. **Family Homeownership Rates by Race and Hispanic Origin, 1982, 1988, and 1993 (Percent)**

		Total	Married Couple	Male Householder	Female Householder
White	1982	77.4	80.9	67.0	56.4
	1988	75.4	79.8	60.8	51.3
	1993	75.6	80.7	56.6	50.8
Black	1982	52.3	64.4	52.7	35.9
	1988	47.5	61.6	47.0	30.6
	1993	47.0	63.8	48.5	29.7
Hispanic	1982	50.2	56.7	45.1	30.0
	1988	43.7	51.7	32.4	23.3
	1993	43.8	52.5	25.8	23.7
Percentage point change: 1982 to 1988					
White		–2.1	–1.1	–6.2	–5.1
Black		–4.9	–2.8	–5.7	–5.3
Hispanic		–6.4	–5.0	–12.7	–6.7
Percentage point change: 1988 to 1993					
White		0.3	0.9	–4.2	–0.5
Black		–0.4	2.2	1.4	–0.9
Hispanic		0.1	0.8	–6.6	0.4

Source: U.S. Bureau of the Census (1982, 1988, 1993a).
Note: Numbers may not add to totals due to rounding.

[10] The homeownership rates in table 3 differ somewhat from those of the preceding and following tables. They are based on the March data of the monthly Current Population Survey (CPS). The March survey is known as the Annual Demographic File. The homeownership rates in the other tables, drawn from the Housing Vacancy Survey, are also based on the CPS but are averaged over the full year.

gaining a larger share of the population in every age sector, this is a force for deflating rates. However, the increasing proportion of minorities in America is not yet as influential on homeownership as an aging population is.

Aging. Demographic aging is confirmed by recent age structure shifts in the U.S. population. As shown in figure 2, between 1988 and 1994, the 18–24 and 25–29 age sectors shrank drastically (by 5.5 percent and 9.2 percent, respectively). This baby-bust phenomenon in turn caused a decline in these sectors' relative shares of the total population (from 15.1 to 13.4 percent and from 12.0 to 10.2 percent, respectively) (U.S. Bureau of the Census 1993b, 1993c).[11] Thus, those age groups with the lowest incidence of homeownership now contribute proportionally less to the overall ownership rate.

In contrast, the critical mass of the nation's adult population began to shift from the under-30 age sector to the middle-aged brackets during the six-year period. This predominantly baby-boom event is revealed by the rate of change data (figure 2). The highest population growth rates between 1988 and 1994 were in the 45–49 age sector (24.4 percent), the 40–44 age sector (20.0 percent), and the 50–54 age sector (17.1 percent). The 40–44 age sector had the largest absolute population increase (more than 3.2 million persons). The baby-boom trek to full middle age thus continued to dominate the nation's age structure changes.

Not surprisingly, shifting the analysis from population to households reveals the same basic pattern. As shown in table 4, the number of households with householders under 35 years of age declined by 831,000, while those between 35 and 54 years of age increased by nearly 6.2 million. Clearly, the "middle-aging" of housing demand was the dominant household event of this six-year period.

These population and household transitions correspond to the largest age-related jump in the ownership rate (table 1). For example, in 1994, the rate for the 25–29 age bracket stood at 34.1 percent. But the rate was 50.6 percent for the 30–34 age bracket, 61.2 percent for the 35–39 age bracket, 68.2 percent for

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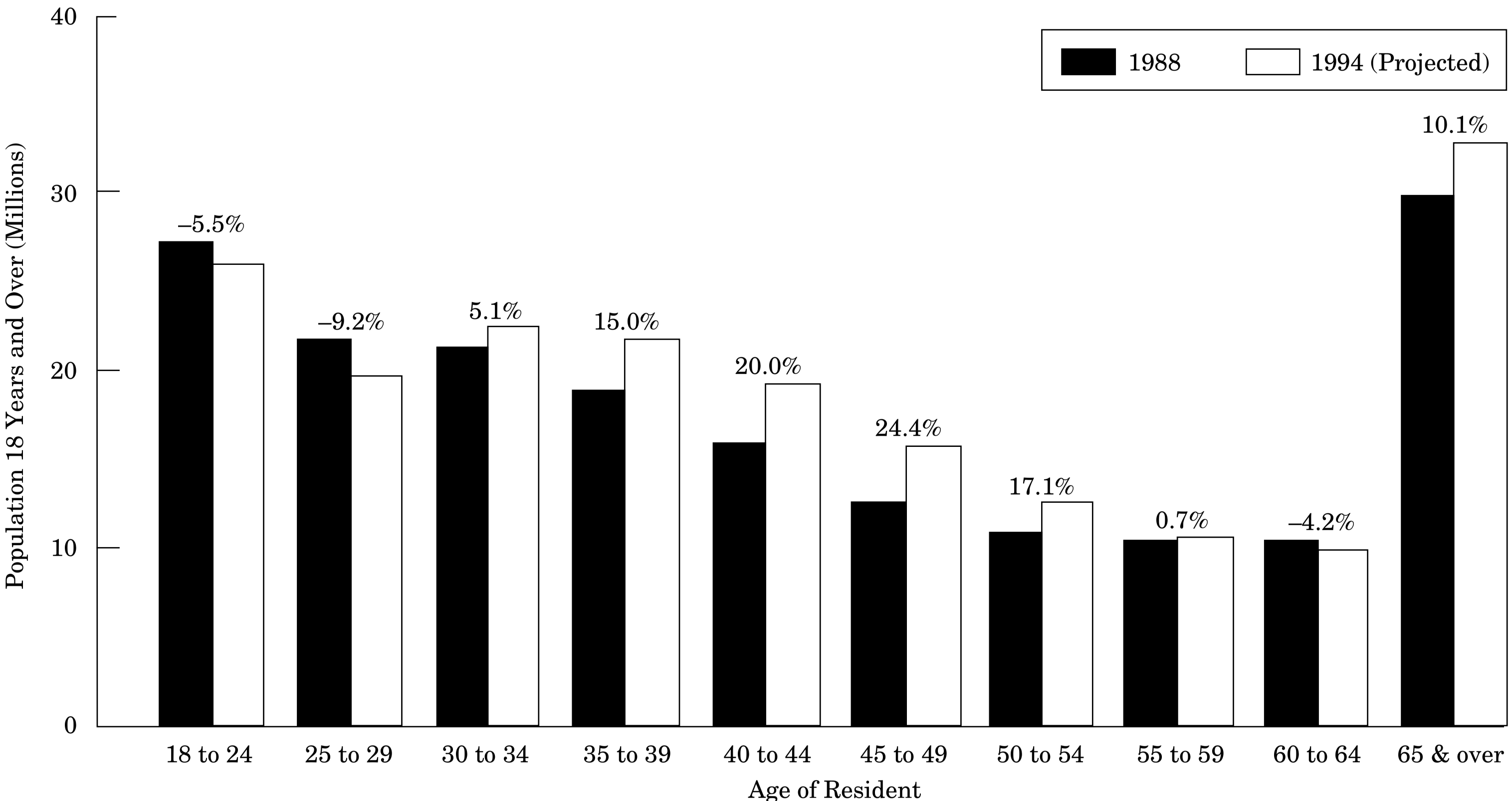
[11] The baby bust is generally considered to be those born between 1965 and 1976. This generation followed the baby boom, those born between 1946 and 1964. Births in the United States peaked in 1957 (4.31 million) and were above 4.2 million each year between 1956 and 1961. They reached a trough (below 3.2 million) in the 1973–76 period. The latter defines the heart of the future demographic shortfall for the housing market (Hughes 1991).

Figure 2. **Resident Population 18 Years and Over, 1988 and 1994**



Source: U.S. Bureau of the Census (1993b, 1993c).
Note: Numbers shown above bars indicate percentage change in group size.

Table 4. **Householders 15 Years Old and Over, 1988 and 1994**

Age of Householder	Total Households (Thousands)		Change: 1988–94		Percent Distribution	
	1988	1994	Number	Percent	1988	1994
15 to 24	5,228	5,263	35	0.7	5.7	5.4
25 to 34	20,583	19,717	–866	–4.2	22.6	20.3
35 to 44	19,323	22,293	2,970	15.4	21.2	23.0
45 to 54	13,630	16,837	3,207	23.5	15.0	17.3
55 to 64	12,846	12,188	–658	–5.1	14.1	12.6
65 & over	19,456	20,806	1,350	6.9	21.4	21.4
Total	91,066	97,107	6,041	6.6	100.0	100.0

Source: U.S. Bureau of the Census (1989, 1995a).
Note: Numbers may not add to totals due to rounding.

the 40–44 age bracket, and 73.8 percent for the 45–49 age bracket. Thus, the maturing of the younger baby boomers has been a potent force in halting the post-1980 homeownership attrition. Reinforcing this tendency has been additional growth between 1988 and 1994 of the more mature middle-aged sectors. In fact, the largest absolute population gains were experienced by the 40–44 and the 45–49 age brackets that in 1994 sheltered the oldest baby boomers (figure 2) and have the highest rates of ownership.

Dynamics of change: Age-specific rate shifts

The aging of America's population has been a major factor in the increase in the overall rate of ownership, but it has certainly not been the only factor. Using the full six-year homeownership "recovery" period obscures some subtle complexities. To uncover these, table 5 presents 1988 to 1994 year by year. Although most ownership rates were lower in 1994 than they were in 1988, all but three age sectors reversed their pattern of sharp decline sometime during the period (they did not necessarily stay on an upward path, however). The shaded cells in table 5 represent the ownership rate low points for each age bracket. The trend reversal happened earlier for most older age groups (45 years and over) and later for the younger groups.

The preceding analyses show that the overall rate of homeownership in the United States, after eroding through the 1980s, reversed the trend in 1988. The reversal was initially driven by demographic aging. As households matured from younger age brackets (lower ownership rates) to less youthful age brackets

Table 5. **Homeownership Rates by Age of Householder, 1988 to 1994 (Percent)**

Age of Householder	1988	1989	1990	1991	1992	1993	1994
Under 25	15.8	16.6	15.7	15.3	14.9	14.8	14.9
25 to 29	35.9	35.3	35.2	33.8	33.6	33.6	34.1
30 to 34	53.2	53.2	51.8	51.2	50.5	50.8	50.6*
35 to 39	63.6	63.4	63.0	62.2	61.4	61.8	61.2*
40 to 44	70.7	70.2	69.8	69.5	69.1	68.6	68.2
45 to 49	74.4	74.1	73.9	73.7	74.2	73.7*	73.8
50 to 54	77.1	77.2	76.8	76.1	76.2	77.2	76.8*
55 to 59	79.3	79.1	78.8	79.5	79.3	78.9	78.4
60 to 64	79.8	80.1	79.8	80.5	81.2	80.9*	80.1*
65 to 69	80.0	80.0	80.0	81.4	80.8*	80.7*	80.6*
70 to 74	77.7	77.8	78.4	78.8	79.0	79.9	80.1
75 & over	70.8	71.2	72.3	73.1	73.3	73.4	73.5
Total	63.8	63.9	63.9	64.1	64.1	64.0	64.0

Source: U.S. Bureau of the Census (1995c).
Note: Shaded figures indicate lowest homeownership rate in the 1988–94 period. 1994 homeownership rates are not completely comparable with earlier data. See footnote 6 in the text.
*Indicates all times when the rate declined again after starting upward.

(higher homeownership rates), declines in individual age-specific homeownership rates slowed. But by 1992, the aging factor was supplemented by plateaus in a majority of age-specific ownership rates (table 5), keeping the homeownership rate near 64.0 percent.

Economic factors influencing homeownership, 1980 to 1994

Housing price shifts

Ownership rate variations are closely linked to housing affordability, which in turn is tied to housing prices and, obviously, occupancy costs (discussed below). The fluctuations in national housing price in the past 25 years were initiated by a decade of surging rates of growth (the 1970s), followed by a period of relatively moderate increases (1980 to 1988), and concluding with a further price deceleration (1988 to 1994). The huge run-up in prices during the 1970s, a period of high inflation and surging household formations, was probably a major contributor to the decline in ownership during the 1980s. This run-up forcefully contributed to an increase in entry-level costs for aspiring homeowners, particularly young ones, as the 1970s

came to a close. In turn, the moderate price increases of the 1980s, culminating in a further slowdown after 1988, set the stage for subsequent ownership gains by *not* increasing entry-level costs.

The changing price of homes can be observed from a number of perspectives and data series. The following analyses will focus on new single-family homes sold, existing single-family homes sold, and regional variations in house prices.

New single-family homes. Table 6 provides baseline median sales price data for new single-family homes. The median sales price increased at an average annual rate of 10.7 percent from 1970 to 1980. The average rate of annual increase fell to 7.2 percent between 1980 and 1988 and to 2.4 percent between 1988 and 1994. Prices escalated vigorously in the 1970s (176.1 percent), nearly tripling over the entire decade. As shown in table 7, this rate of increase was far in excess of that of the consumer price index (CPI) (112.4 percent). The housing price bubble did not burst in the 1980–88 period, but prices increased by only 74.1 percent, compared with an increase in consumer prices of 43.6 percent. Finally, between 1988 and 1994, the bubble was punctured as prices grew by only 15.6 percent over seven years, while the CPI grew nearly twice as fast (25.3 percent).[12]

The scale of deceleration in price appreciation was probably greater than the data in table 6 suggest, since the quality of housing increased steadily after 1980 (as well as in the 1970s). The price index in table 8 measures changes over time from a base year of 1987 (1987 index = 100.0) in the sales price of new single-family houses that have important physical characteristics in common (U.S. Bureau of the Census 1995b).[13] The price index for 1987-quality houses grew from 74.6 in 1980 to 103.6 in

[12] The price slowdown may be partly attributed to shifting demand-supply relationships, with housing production escalating past household growth in the 1980s. Household growth reached a record pace in the 1970s as most of the baby boomers moved through the household formation stage of the life cycle, placing furious pressure on the housing market. Between April 1970 and April 1980, the total number of households in the United States increased by 16.9 million while the number of housing starts (1970 through 1979) totaled 17.7 million, a difference of approximately 800,000. Household growth then slowed dramatically. In the 1980s, the number of households increased by 11.6 million (April 1980 to April 1990) while the number of housing starts totaled 14.9 million (1980 through 1989, inclusive), a difference of approximately 3.3 million, suggesting a significant housing-development overhang (U.S. Bureau of the Census 1995d).

[13] Note that the price index uses average home prices while the immediately preceding analyses used median home prices.

Table 6. **Median Sales Price of New Single-Family Homes by Region, 1970 to 1994**

Year	Total	Northeast	Midwest	South	West
Median sales price ($)					
1970	23,400	30,300	24,400	20,300	24,000
1980	64,600	69,500	63,400	59,600	72,300
1988	112,500	149,000	101,600	92,000	126,500
1994	130,000	169,000	132,900	116,900	144,000
Percent change					
1970–80	176.1	129.4	159.8	193.6	201.3
1980–88	74.1	114.4	60.3	54.4	75.0
1988–94	15.6	13.4	30.8	27.1	13.8
Average annual percent change					
1970–80	10.7	8.7	10.0	11.4	11.7
1980–88	7.2	10.0	6.1	5.6	7.2
1988–94	2.4	2.1	4.6	4.1	2.2

Source: U.S. Bureau of the Census. Yearly. *Characteristics of New Housing*. Current Construction Reports, Series C25. Washington, DC: U.S. Department of Commerce.

Table 7. **Consumer Price Index, 1970 to 1994**

		Change from Previous Value (%)	
Year	Value	Total	Average Annual
1970	38.8	—	—
1980	82.4	112.4	7.8
1988	118.3	43.6	4.6
1994	148.2	25.3	3.8

Source: U.S. Bureau of Labor Statistics, *Monthly Labor Review*.
Note: The 1982–84 price index equals 100 and reflects buying patterns of all urban consumers.

Table 8. **Price Index of Houses Sold in the United States, 1980 to 1994**

		Average Sales Price	
Year	Price Index*	1987-Quality Houses (Estimated from Price Index)	All Houses
1980	74.6	$ 94,900	$ 76,400
1987	100.0	127,200	127,200
1988	103.6	131,800	138,300
1994	120.2	152,900	154,500
Percent change			
1980–88	38.9	38.9	81.0
1988–94	16.0	16.0	11.7

Source: U.S. Bureau of the Census. Yearly. *Characteristics of New Housing*. Current Construction Reports, Series C25. Washington, DC: U.S. Department of Commerce.
*New, single-family houses, including value of lot. The price indexes have been structured so that each index equals 100.0 in 1987.

1988, a 38.9 percent rate of increase. This is far less than the 81.0 percent increase in the prices of all houses sold, suggesting that a significant proportion of the price increment of homes sold could be attributed to the shift toward larger houses and houses with more amenities. Between 1988 and 1994, even though prices of housing units overall grew more slowly than pieces of the constant 1987-quality house, the absolute price of housing sold in 1994 ($154,500) was still higher than that of the constant-quality house ($152,900).

Existing single-family homes. Sales of existing homes exhibit the same broad pattern of price shift as new homes—a massive ratcheting up of prices during the 1970s followed by more muted increases after 1980 (table 9). The average annual rate of increase in the median sales price of existing single-family homes for the same three periods analyzed above was 10.5 percent (1970–80), 4.6 percent (1980–88), and 3.5 percent (1988–94). The major variation was the more abrupt deceleration in the average annual price increase during the 1980–88 period for existing single-family homes—4.6 percent (table 9) versus 7.2 percent for new single-family homes (table 6).

Thus, the existing home inventory became even more economically friendly—compared with the inventory of new homes—during the 1980s. In 1980, the median price of existing homes ($62,200) was virtually identical to that of new homes ($64,600). But by 1988, the median existing home price ($89,300) was 79.4 percent of the new home price ($112,500). As noted above, much of this difference was probably due to an increase in the size and amenity level of new homes.

Regional variations. The national rates of increase obscure the actual experience in many areas of the country. Certain "hot" markets in the 1980s, largely driven by the bicoastal economic surge, experienced extraordinary increases in ownership rates.[14] As shown in table 6, during the 1980–88 period, the average annual growth rate in the median sales price of new single-family homes in the Northeast (10.0 percent) was more than one-third larger than that of the United States overall (7.2 percent). For the entire period, prices increased by 114.4 percent in the Northeast compared with 74.1 percent for the nation. This pattern of regional differentiation was even more accentuated for

[14] The income surges in these areas were key to their housing price frenzies. For example, New England's per capita income was 103 percent of the nation's in 1978; by 1988, it was 121 percent. For the same years, Connecticut's per capita income went from 117 to 136 percent and Massachusetts's went from 104 to 124 percent (Hughes and Seneca 1993).

Table 9. **Median Sales Price of Existing Single-Family Homes by Region, 1970 to 1994**

Year	Total	Northeast	Midwest	South	West
Median sales price ($)					
1970	23,000	25,200	20,100	22,200	24,300
1980	62,200	60,800	51,900	58,300	89,300
1988	89,300	143,000	68,400	82,200	124,900
1994	109,800	139,100	87,900	96,000	146,700
Percent change					
1970–80	170.4	141.3	158.2	162.6	267.5
1980–88	43.6	135.2	31.8	41.0	39.9
1988–94	23.0	–2.7	28.5	16.8	17.5
Average annual percent change					
1970–80	10.5	9.2	10.0	10.1	13.9
1980–88	4.6	11.3	3.5	4.4	4.3
1988–94	3.5	–0.5	4.3	2.6	2.7

Source: National Association of Realtors, *Real Estate Outlook,* various issues.

the sales prices of existing single-family homes (table 9). The Northeast's annual rate of increase (11.3 percent) was more than double that of the nation (4.6 percent) between 1980 and 1988. Existing home prices increased by 135.2 percent in the Northeast during the eight-year period compared with only 43.6 percent nationally.

A similar but more muted pattern was evident in the West for both new and existing homes. The average annual increases in median sales prices of new homes in the 1980–88 period were slightly higher than those of the nation as a whole and second only to those in the Northeast. In 1980, the West had been comfortably perched at the top of the home-price ladder. Still, the Northeast's surge was so strong that its home prices had eclipsed those of the West by 1988.

The reversal of fortune after 1988 for both of these regions provided a correction to the price-increase excesses of earlier years. The Northeast experienced a decline in existing single-family home prices between 1988 and 1994 (table 9) while rates of increase in new single-family home prices in the West and Northeast were below the national average (table 6).

This correction happened earlier in the Northeast than in the West, which is dominated by California. Median sales prices for existing single-family homes for selected bicoastal metropolitan areas are presented in table 10. The shaded cells indicate the year when prices peaked for each area. Generally,

Table 10. **Median Sales Price of Existing Single-Family Homes by Selected Metropolitan Areas, 1982 to 1994 (in Thousands of Dollars)**

									% Change: 1982 to Peak		% Change: Peak to 1994	
Metropolitan Area	1982	1988	1989	1990	1991	1992	1993	1994	Metro Area	U.S.	Metro Area	U.S.
United States	67.8	89.3	93.1	95.5	100.3	103.7	106.8	109.8	—	61.9	—	—
Northeast												
Boston, MA	80.2	181.2	181.9	174.2	170.1	171.1	173.2	179.3	126.8	37.3	–1.4	17.9
Hartford, CT	82.9	167.6	165.9	157.3	148.2	141.1	135.3	133.4	102.2	31.7	–20.4	23.0
New Haven/Meriden, CT	NA	169.4	163.4	153.3	153.2	145.8	142.5	139.6	NA	31.7	–17.6	23.0
New York/N. New Jersey/ Long Island, NY/NJ/CT	77.1	183.8	183.2	174.9	173.5	172.7	173.2	173.2	138.4	31.7	–5.8	23.0
Philadelphia, PA/NJ	58.1	102.4	103.9	108.7	118.4	117.0	118.0	119.5	103.8	47.9	0.9	9.5
Providence, RI	49.7	130.6	130.2	127.9	124.3	118.5	116.3	116.4	162.8	31.7	–10.9	23.0
West												
Orange County (Anaheim/ Santa Ana MSA), CA	131.5	203.9	241.7	242.4	239.7	234.8	220.7	211.0	84.3	40.9	–13.0	15.0
Los Angeles Area, CA	119.6	178.9	214.8	212.8	218.9	210.8	195.4	189.1	83.0	47.9	–13.6	9.5
Riverside/ San Bernardino, CA	78.8	106.7	124.1	132.1	137.6	136.2	134.4	129.1	74.6	47.9	–6.2	9.5
Sacramento, CA	76.4	94.6	111.7	136.7	137.7	134.0	129.2	124.5	80.2	47.9	–9.6	9.5
San Diego, CA	98.9	153.4	181.9	183.2	187.5	183.1	176.9	176.0	89.6	47.9	–6.1	9.5
San Francisco Bay Area, CA	128.0	212.9	260.6	259.3	258.5	259.3	254.4	255.6	103.6	37.3	–1.9	17.9

Source: National Association of Realtors, *Real Estate Outlook* and *Homesales Yearbook,* various issues.
Note: Shaded areas indicate peaks in sales prices. U.S. changes from 1982 to peak and from peak to 1994 are computed separately for each metropolitan peak.
NA = not available.

1988 was the most prominent peak year in the Northeast, while 1991 was the most common peak year in the West. The rates of increase in the metropolitan areas of the Northeast exceeded 100 percent between 1982 and the year of their price peak. These percentage increases generally tripled those of the nation for the equivalent time periods. For example, the median sales price in Providence between 1982 and 1988 increased by 162.8 percent; for the same period, the U.S. sales price increased by 31.7 percent. In contrast, California's metropolitan areas, starting from a generally higher base in 1982, typically had 1982-to-peak growth rates between *only* 80 percent and 100 percent, compared to national equivalents of under 50 percent for the identical period.

By definition, peaks must have a downside. Half of the northeastern metropolitan areas presented in table 10 had double-digit price declines between their peak price and their 1994 price. Most of the other northeastern observations, and two-thirds of those of the West, had single-digit losses, most above 5 percent. In contrast, prices for the nation as a whole increased every year during the six-year period.

These relative shifts strongly reflect the bicoastal economy of 1980s America. The real declines in housing prices experienced in many noncoastal regions set the stage for subsequent housing affordability gains as the new economy of the post-recession 1990s unfolded. Moreover, those regions whose prices escalated dramatically were not put at a permanent competitive disadvantage, since the late 1980s real estate "crash" brought a quick erosion in their lofty value structures. The afterboom phase of the recent shelter cycle was clearly severe.

Housing production and boom-bust cycles

The post-1980 housing era—an era of maturing housing demand—had three distinct phases that were particularly pronounced in the bicoastal arena: boom, afterboom (bust), and post-bust recovery. The data on regional metropolitan price surges and retreats of the 1980s and 1990s serve to define the boom and afterboom (table 10). These phases are also evidenced nationally in housing production. The boom was defined by six straight years (1983 to 1988) when single-family unit starts exceeded 1 million units annually—the longest sustained single-family production run of the postwar era (U.S. Bureau of the Census 1995d). The afterboom was then reflected by the production data of 1991, when the housing industry tumbled into a virtual economic abyss.

Total housing starts barely reached 1 million units in the recession-impacted year of 1991, the worst shelter production record since World War II. (Among the major regions, only the Midwest, with a resurging industrial base bulwarked by manufacturing exports, was spared the full impact.) Finally, the post-bust first saw single-family unit starts surge past 1 million units in 1992 and 1993. In 1994, nearly 1.2 million single-family starts were tallied, more than in any single production year in the 1980s. Total starts in post-bust remained modest because of a depressed multifamily rental housing sector. Thus, single-family unit production was the locomotive of the post-recession housing recovery—multifamily rental units were the caboose.

Housing affordability

The post-recession housing era has been driven by new levels of affordability as revealed by the affordability index of the National Association of Realtors, which brings together housing prices, mortgage interest rates, and median family income. The index is the ratio of actual median family income to the income needed to qualify for a mortgage on a median-priced existing single-family home at the current effective mortgage rate. Trends in house prices, affordability, and mortgage interest rates for 1972 and 1982 through 1995 are summarized in figure 3.

In 1972, the affordability index stood at 154.8—the median family income in the United States was 154.8 percent of the qualifying income required to purchase the median-priced existing single-family home. Ten years later, in 1982, the index had plummeted to 59.5, the consequence of a near tripling of prices ($26,700 to $67,800) and a doubling of mortgage rates (7.50 percent to 15.38 percent). This resulted in monthly principal and interest payments nearly five times as high while median family incomes merely doubled.[15] Thus, the aftereffects of the high rates of price increase during the 1970s took their toll on the affordability thresholds of the early 1980s, particularly when they intersected with the unprecedented interest rate spike.

The affordability index's low point was 1982, and it did not pierce 100 until 1986. This slow incline was the consequence of sustained declines in interest rates (from 15.38 percent in 1982

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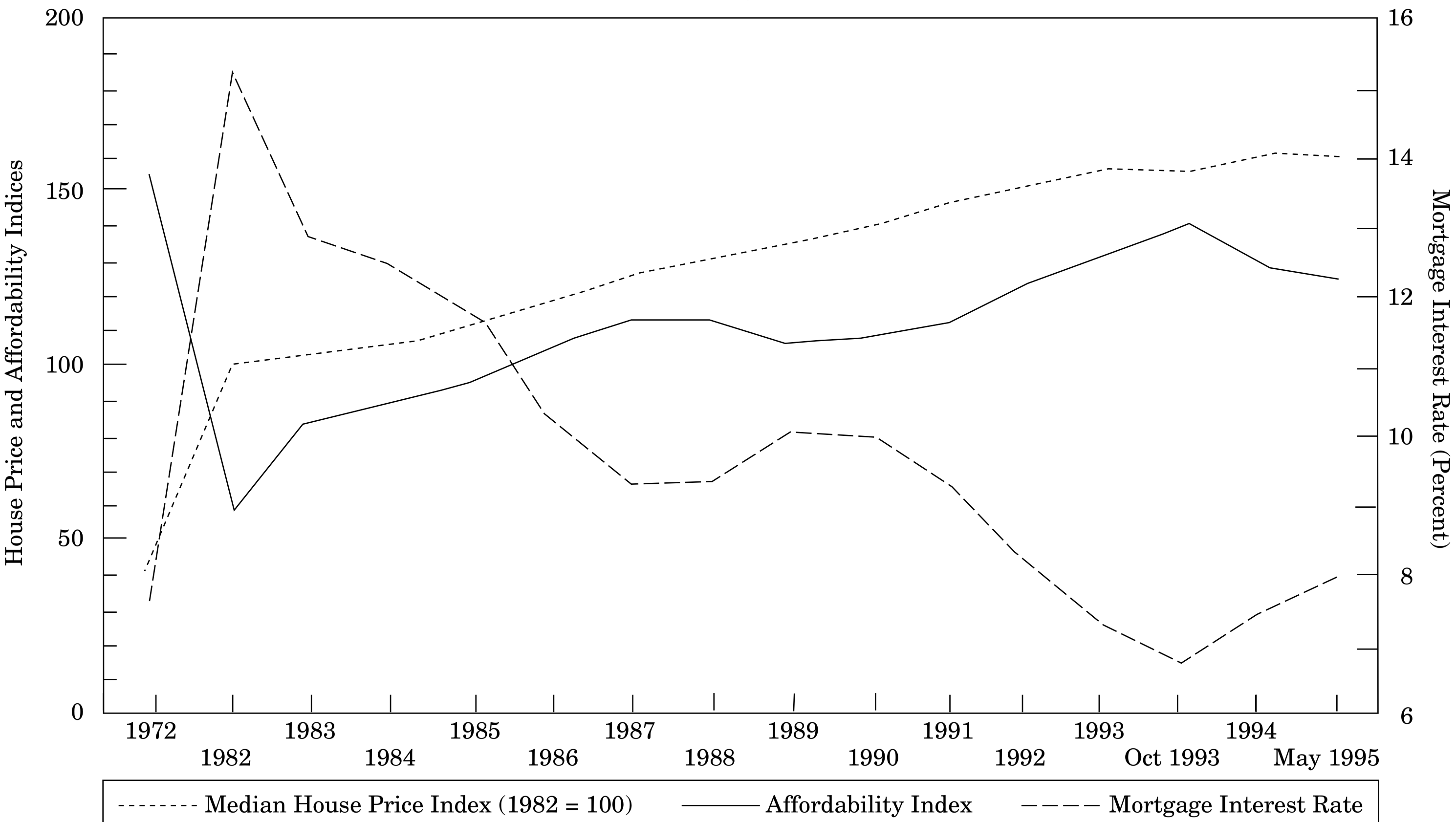
[15] National Association of Realtors, Economics and Research Division, *Existing Home Sales*, various issues.

Figure 3. **Housing Affordability: Selected Years, 1972 to 1995**



Source: National Association of Realtors, Economics and Research Division, *Existing Home Sales*, various issues.
Note: Affordability index equals 100 when median family income equals qualifying income. Mortgage interest rate is the effective rate on loans closed on existing homes as determined by the Federal Home Loan Bank Board.

to 10.25 percent in 1986) in the face of only modest price increases. The following year, 1987, mortgage rates fell below 10 percent and fluctuated around that level through 1991. With continued moderate increases in home prices, and relatively stable interest rates, the affordability index hovered in the vicinity of 110 through 1991, constrained somewhat at the end of this period by the income slowdown precipitated by the July 1990–March 1991 recession. Affordability took a big jump in 1992 and 1993 when, in the context of modest price increases, interest rates fell to levels not seen in more than 20 years. For six straight months (September 1993 through February 1994), mortgage rates remained below 7 percent—a potent housing market elixir. Peak affordability of the current cycle was attained in October 1993 when it reached 142.3, subsequently retreating in 1994 and early 1995 because of gently rising interest rates. Still, affordability remains much closer to the highs of the past two decades than to the lows.

Employment dimension

The shifting course of the national economy—and job creation—has also influenced the homeownership equation. The national recession, which finally put the boom years of the 1980s to rest, began in July 1990 and ended in March 1991, eight months later. In September 1995, the national economy entered the 54th month of recovery and expansion, the average length of postwar expansions. But the post-recession era has not been temporally uniform nor geographically symmetrical. Geographically, it is quite different from its immediate business-cycle predecessor—the November 1982–July 1990 expansion—the longest peacetime expansion in the nation's history.

Bicoastal economic ebullience marked the boom years of the 1980s, with fears about the "hollowing out" of middle America, a phenomenon that was reflected by home-price and house-value trends shown earlier (Sternlieb and Hughes 1988). But as the boom tapered off and the nation slipped into recession, bicoastal economic malaise prevailed. The downturn largely affected the nation's seaboards, and the areas hardest hit were those that had been caught up in the real estate frenzy of the past decade and the concomitant surge in service-producing employment.

The post-recession economic landscape also has had very different regional contours that were most apparent during the first year of recovery. The harsh aftereffects of the 1980s boom years along the nation's seaboards seemingly refused to succumb to

national economic expansion, yielding a stubborn and persistent bicoastal lag. Between March 1991 and March 1992, employment in the United States increased by only 53,000 jobs, which translates into a 0 percent growth rate (table 11). (The phenomenon gave rise to the phrase "jobless economic growth.") But the nationwide average masked significant regional variation. Modest but real employment growth in the Midwest (197,800 jobs or 0.7 percent) and South (290,000 jobs or 0.8 percent) was obscured by post-recession employment declines in the Northeast region (–441,400 jobs or –1.9 percent) and the Pacific division (–109,000 jobs or –0.7 percent). Thus, the Midwest and South served as centers of national economic recovery, while the Northeast and Pacific states remained in the recessionary trough.

Jobless economic growth became a historical footnote during the subsequent 34-month period. As shown in table 11, between March 1992 and January 1995, the U.S. economy added nearly 7.1 million jobs (6.5 percent growth). The Northeast began to participate in the employment recovery, adding 651,300 jobs (2.9 percent), but it was the South (9.0 percent) and Midwest (7.4 percent) that still drove the expansion. At the same time, the West showed economic segmentation. While the Mountain states had the highest growth rate of any division (14.9 percent), the Pacific division was America's laggard (1.3 percent), with California's performance an economic drag.

Thus, after nearly four years of national recovery and expansion, America's economic lag still had a marked bicoastal cast. The Middle Atlantic and New England states are struggling to catch up to the national pacesetters, while the Pacific division, because of California's problems, barely reversed economic course.

Nonetheless, the job growth acceleration after March 1992 brought most regional laggards into the economic fold and brought even more robust job growth to the regional leaders. The resulting improvement in labor markets meshed with the regional price/value changes to reinforce the potential for homeownership. Vigorous job growth in the South, the Midwest, and the Mountain division probably provided the economic opportunity for households to take advantage of long-term price lags. In the Northeast, as job-losing state economies were replaced by job-creating state economies, households were able to take advantage of afterboom price corrections and interest rates.[16]

[16] The states of the Northeast were buffeted by their job peaks of the 1980s and their recessionary lows. For example, Massachusetts lost 11.4 percent of its job base (January 1989 to August 1992), Connecticut lost 9.7 percent (February 1989 to December 1992), New Jersey lost 7.1 percent (March 1989

Table 11. **Total Employment Change by Region and Division: March 1991 to January 1995 (in Thousands)**

Region	March 1991	March 1992	January 1995	Change: 1991–92		Change: 1992–95	
				Number	Percent	Number	Percent
Northeast region	22,671.1	22,229.7	22,881.0	–441.4	–1.9	651.3	2.9
New England division	6,092.7	5,983.9	6,244.0	–108.8	–1.8	260.1	4.3
Middle Atlantic division	16,578.4	16,245.8	16,637.0	–332.6	–2.0	391.2	2.4
Midwest region	26,797.7	26,995.5	29,001.2	197.8	0.7	2,005.7	7.4
East north central division	18,735.4	18,820.4	20,163.3	85.0	0.5	1,342.9	7.1
West north central division	8,062.3	8,175.1	8,837.9	112.8	1.4	662.8	8.1
South region	36,536.5	36,826.5	40,125.6	290.0	0.8	3,299.1	9.0
South Atlantic division	19,420.0	19,468.0	21,207.5	48.0	0.2	1,739.5	8.9
East south central division	6,209.0	6,354.0	6,899.1	145.0	2.3	545.1	8.6
West south central division	10,907.5	11,004.5	12,019.0	97.0	0.9	1,014.5	9.2
West region	22,465.7	22,472.3	23,586.8	6.6	0.0	1,114.5	5.0
Mountain division	5,876.8	5,992.4	6,887.8	115.6	2.0	895.4	14.9
Pacific division	16,588.9	16,479.9	16,699.0	–109.0	–0.7	219.1	1.3
Total	108,471.0	108,524.0	115,594.6	53.0	0.0	7,070.6	6.5

Sources: Data for 1991–92: Hughes and Seneca (1994a). Data for 1992–95: U.S. Bureau of Labor Statistics, *Monthly Labor Review*.

Cyclical recovery and enhanced affordability have significantly enlarged the pool of market-competitive aspiring homeowners, helping to surmount some of the well-recognized demographic problems of the current decade's housing market.

However, broad economic cycles are rarely marked by smooth, even gradients—and this rule applies to the post-recession upswing as well. The peak year of the cycle was 1994; net job growth took a near vertical leap during the year.[17] The result was the third highest job growth year in history. Housing markets reflected this labor market strength. In 1994, sales of existing single-family homes nearly tied the historical record, and new single-family starts surged. But then job growth decelerated in the first half of 1995, the consequence of seven short-term interest rate increases, engineered by the Federal Reserve to forestall inflation by slowing the economy without putting it into recession. One casualty of this action was housing affordability, which fell as interest rates rose throughout 1994 and May 1995 (figure 3). Weaker labor markets led to weaker housing markets in the first half of 1995. However, this does not threaten to derail the homeownership gains of the 1990s; the basic affordability gains remain in place. Decreases in interest rates in late 1995 brought rates near their 1993–94 lows, improving the affordability picture.

Post-bust housing market

To summarize, in 1992, a vigorous housing market finally started to emerge, the consequence of melding most of the preceding forces and dynamics into four factors. First, mortgage interest rates below 7.0 percent, which were once unthinkable, became not only thinkable, but available. Their magic hit full force during late 1993. Although rates escalated in 1994 and 1995, they are again fairly close to their 20-year lows. Other dimensions of the mortgage market also played a role in making mortgages more accessible, as well as contributing to the decline in interest rates.

Low interest rates contributed to a second factor—the new affordability. As declining interest rates intersected with real (and in some cases nominal) home-price deflation, the cost of

to May 1992), and New York lost 7.0 percent (June 1989 to November 1992). See Hughes and Seneca (1994a, 1994b).

[17] U.S. Bureau of Labor Statistics, *Employment and Earnings*, various issues.

homeownership in many instances became economically competitive with renting.

Third, the new affordability brought into the market a large number of first-time buyers who had been shut out during the frenzy years of the 1980s. During the 1980s, many younger baby boomers had not been able to buy homes because of high prices and mortgage costs. They have since entered the market. The filtering-up process is again working—at least in the short term—rejuvenating the trade-up market.

Finally, the economic hemorrhage in lagging regions abated, leading to improved labor market conditions. Household finances rebounded as vigorous job growth ensued and low interest rates mitigated consumer debt burdens.

This new shelter affordability should persist even as the national recovery continues to mature. The following parameters should also serve to define the broader housing market for the balance of the century.

Suburban trade-up homeownership

An aging demography portends family-raising suburban shelter. A middle-aged, child-rearing baby boom signals trade-up single-family dwellings as the long-term housing market target of the decade. This aging process by itself should ensure that homeownership rates will set new records before the end of the decade. As the 1990s come to a close, however, increasing numbers of leading-edge baby boomers will become empty nesters, implying post-family-raising suburban shelter. But this does not imply a return to rental status, only new physical configurations.

Filtering-up process

As noted earlier, the backlog of entry-level homeownership demand by the youngest baby boomers rejuvenated homeownership and the trade-up market in the early 1990s. In essence, the filtering-up process was jump-started. Housing market mobility benefited from the decline in the homeownership rates during the 1980s. So far, this pent-up demand has surmounted baby-bust demographics, but the reservoir is not inexhaustible.

Therefore, the filtering-up process may still slow. The well-learned lesson of the afterboom years was that move-ups can

only occur when buyers are found for the "old" house. Once the backlog of young baby boomers—who are still aspiring homeowners—is exhausted, baby-bust demographics will impede the trade-up process later in the decade, producing market softness (Mankiw and Weil 1989).

Immigration

Immigration, however, will buffer some of the negative demographic effects.[18] Immigration levels in 1990 enlarged the pool of potential homeowners for the balance of the century. The 1965 Immigration Act set a quota of 290,000 persons per year, along with certain exemptions. By 1985, the worldwide quota was reduced to 270,000. But the 1990 Immigration Act capped total immigration at 700,000 each year for 1992 through 1994 and 675,000 afterwards, not counting a variety of exemptions. Projections for the balance of the 1990s, including exemptions, range between 875,000 and 950,000 persons per year (Emrath 1994; Fix and Passel 1991). However, the impacts of this increase vary substantially by region.

Thus, the 1990 Immigration Act set in motion a considerable increase in the current and future demand for housing in the United States, in turn guaranteeing increased demand for homeownership in absolute terms. However, the varied economic capacities of immigrants may work to inhibit the scale of increase in the nation's ownership rate. Although there have been impressive improvements of the ownership rates of the immigrants of the past generation, with rates increasing rapidly according to length of stay, the rates for ownership of the newcomers for the early 1990s will not approach national averages until well into the first decade of the next century (Emrath 1994).

Minority homeownership

Lagging minority homeownership will be a persistent problem in the absence of direct public policy actions. The gulf between white and minority rates has failed to narrow during the 1980s and 1990s. While this failure may be partially due to immigration bolstering the ranks of minorities, other questions remain. Certainly the overall incidence of homeownership in America

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[18] Immigration's impact on homeownership is evaluated in Joint Center for Housing Studies (1994).

will not reach its full potential without an upgrade of minority homeownership. However, research is needed to evaluate the downside of a public policy commitment to minority homeownership programs (e.g., fostering household investment in geographic areas with little chance of house value appreciation).

Changing housing rationales

American homeowners benefited for four decades as a virtually recession-proof shelter bull market prevailed throughout much of the nation. It created a multitude of true believers in residential real estate, but shelter confidence was severely shaken during the afterboom, particularly in the bicoastal arena. The bursting of the housing-price bubble produced a more sober financial outlook. Despite a post-bust recovery, housing rationales have been altered.

America's economy will vary in its future growth performance. It will be difficult to consistently replicate the exceptional growth experience of 1994, particularly because corporate rationalization and downsizing are probably not over. This trend is certainly a concern to areas considered corporate headquarters country—the epicenters of the nation's service economy that defined the frenzied housing markets of the 1980s.

Thus, there appears to be a much more conservative outlook on homeownership's financial and investment potential. Housing is no longer considered an infallible savings machine (Hughes and Zimmerman 1993). It is still seen as a sound long-term investment, but it may not pay for college educations or represent a magic retirement nest egg. Low inflation has not only yielded low interest rates, it has also placed limits on home price appreciation. Inflation is not available as a "take-out mechanism"—it will not bail households out of bad shelter decisions, such as buying into a geographic area with limited real price appreciation potential. Exit strategies are now weighed more heavily when "entrance" decisions are made. "Will I be able to sell the house?" is more important now than ever. The lack of demographic support for easy mobility is now well recognized; it is difficult to casually trade up or to trade sideways.

During the boom years of the 1980s, forecasts for 1990s housing generally heralded the coming dominance of upscale trade-up markets. But casual economic assumptions were rendered impotent by the afterboom, corporate restructuring, and the shift in housing rationales. The result is far less "up" in upscale and far

less "up" in trade-up. Leading-edge "up-market" sectors are bound by significant price constraints, which produce more consumer and producer discipline, thereby keeping price structures in line—enhancing affordability, particularly for entry-level homeownership.

Future affordability

The interest rate lows of the fourth quarter of 1993 quickly became an artifact, but affordability levels have not collapsed nor are they likely to do so in the near future. The higher interest rate thresholds of mid-1994 through mid-1995 may have inhibited the pace of housing price increases, and the decline in interest rates during 1995 and early 1996 bodes well for affordability in the near term.[19] Moreover, low general inflation should persist, further minimizing housing price pressures. Similarly, the long-term slowdown in household growth will not exert its full effect on homeownership demand until the trough of the baby bust reaches its prime home-buying years. Thus, demand-side pressures will remain close to their post–World War II lows. All of these tendencies imply a continuation of high (but less-than-peak) levels of affordability. If job growth rebounds from its early 1995 slowdown, the economics will be in place for homeownership gains to continue beyond those generated simply by demographic aging.[20]

The gains would be even more substantial if savings rates improved, which would lead to a buildup of household net worth and would exert a downward push on interest rates. Despite compelling reasons for the savings rate to increase during the balance of the century, it probably will not. The post-recession return to high levels of personal consumption and increasing consumer debt suggests that habits built over the past three decades are not easily abrogated. Thus, it is difficult to see first-time aspiring homeowners being any more successful in accumulating down payments than their recent predecessors. Moreover, while direct research is lacking, parental assistance in securing down payments seems to be more tenuous than before. In the

[19] At the time of this writing (February 1996), mortgage interest rates are again approaching the record lows of 1993 and 1994.

[20] Preliminary evidence indicates that the homeownership rate rose in 1995. The U.S. Department of Housing and Urban Development released statistics that showed homeownership rates increasing from 64.2 percent in the fourth quarter of 1994 to 65.1 percent in the fourth quarter of 1995 (Associated Press 1996).

1970s, generous down payment support from parents was dubbed "GI" (good in-laws) financing (Sternlieb and Hughes 1980). Generally, the first-time home buyers of the 1990s and beyond are the children of a generation with a lower savings rate. Their parents' pocketbooks and home equity positions may have already been stressed by the escalating costs of higher education. Again, these pocketbooks and home equity levels could reflect—now and for the balance of the century—the decline in savings rates and deceleration of housing value increases over the past two decades. Worried about their own level of retirement resources and depleted home equity reserves, parents may have to be more penurious about down payment assistance. Constraints such as this could continue to hinder the full realization of the nation's homeownership potential.

Conclusion

This article has described the basic shifts in homeownership overall and by age group from 1982 to 1994. The period started with an unprecedented decline in homeownership rates. This decline reached its trough in 1988, followed by slight increases and then general stabilization after 1990. The basic maturation of the American population into higher ownership age groups slowed the decline in rates and eventually underpinned their reversal. Also instrumental in the transition from decline to stabilization were the increasing levels of homeownership affordability in the post-recession 1990s, although further empirical research is required to determine just how effective this factor was relative to demographic aging. This new afford-ability was tied to weakening of home prices and substantially lower interest rate thresholds, as well as a strengthening national economic recovery in 1993 and 1994.

The overall homeownership rate plateau in 1993 and 1994 failed to match the peak rate of 1980. Despite the affordability gains of the 1990s, the 1994 homeownership rates of all age groups below 60 remain far below their peaks of the previous decade, with the widest gaps among younger age groups. Given the sheer breadth of these gaps, they are not likely to be eliminated in the foreseeable future. The scale of the improvement in general affordability to date has been so substantial that future gains will probably be much smaller. Future research should conduct a comprehensive review and analysis of the reasons for these gaps as a basis for potential policy prescriptions.

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