

---

## Part-2 of: Might the Impact of the Age Demographics of the Baby Boomers be impacting the Economy Sooner and more significantly than most expected?

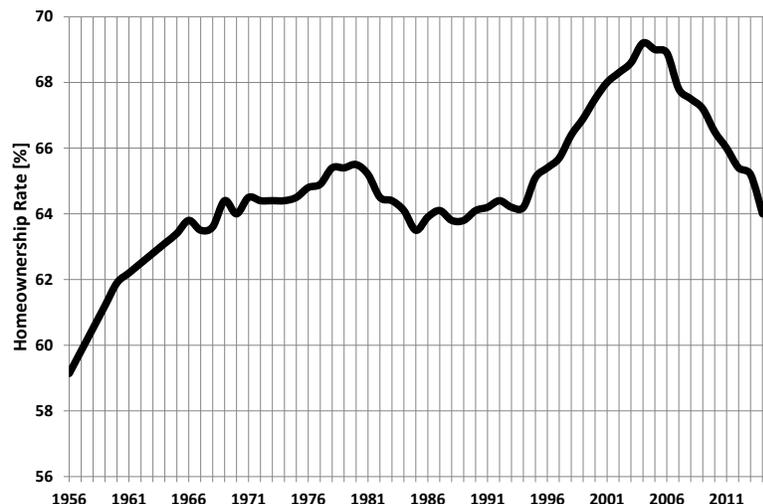
About 2-3 weeks ago I sent out a thought provoker on how demographics may be driving the reduction in homeownership. And as I warned at the beginning of it, it would ask more questions than provide answers. It has taken a lot of on-line searching and gathering of data in pieces and then piecing it together, but now I have something enlightening on the question of whether the decline in homeownership is temporary, or a long-run trend with a lot of inertia, that will continue for decades to come.

The answer is, the setup for what is unfolding now has been building for at least 3 decades Thus, what began showing in the decline in the total homeownership rate will continue at least 2-3 more decades, even if policy changes, and buy versus rent preferences, were to change tomorrow among the youngest potential home buying age groups.

Note: My objective here is to prove that it is happening and that there isn't anything we can do to change it any sooner than 2-3 decades from now. I frankly don't even care what caused it since we can't change it. I will leave the study of that to the scholars and think tanks. And if you are interested you can be buried in studies by Googling terms like trend from homeownership to rental, etc.

Now I'll walk you through the proof step by step.

### Homeownership Rate - Total U.S.

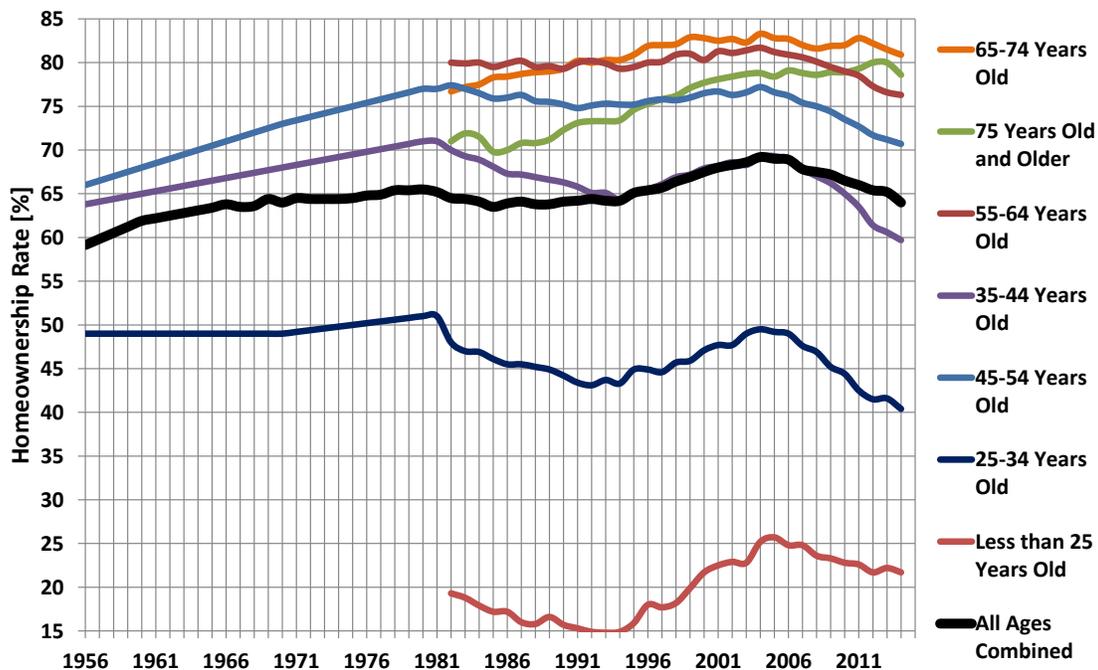


The total homeownership rate in the U.S. has been declining since the peak of the housing boom in 2007. Most, including me, assumed that the decline is a function of the severity of the most recent recession. As well as foreclosures forcing those who had sub-prime loans back out of the market. But as I showed in Part-1, the portion of that

peak that can be attributed to sub-prime is barely the width of the black line above. And all the youngest potential buyers that are still living with their parents and/or renting when they would rather buy, would only bring that down by another increment the width of that black line. So something else had to be at play. Over time I concluded it was probably demographics. In particular, age demographics. But in the process of digging for data I also ran across a massive number of studies trying to determine how much of it is related to shifts in the cultural mix of the country, affordability, lack of wage growth, etc. And they play a role too.

First let's look at the traditional way that the homeownership rate is plotted by 10 year, half generation, groupings.

## Homeownership Rate by Age of Head of Household

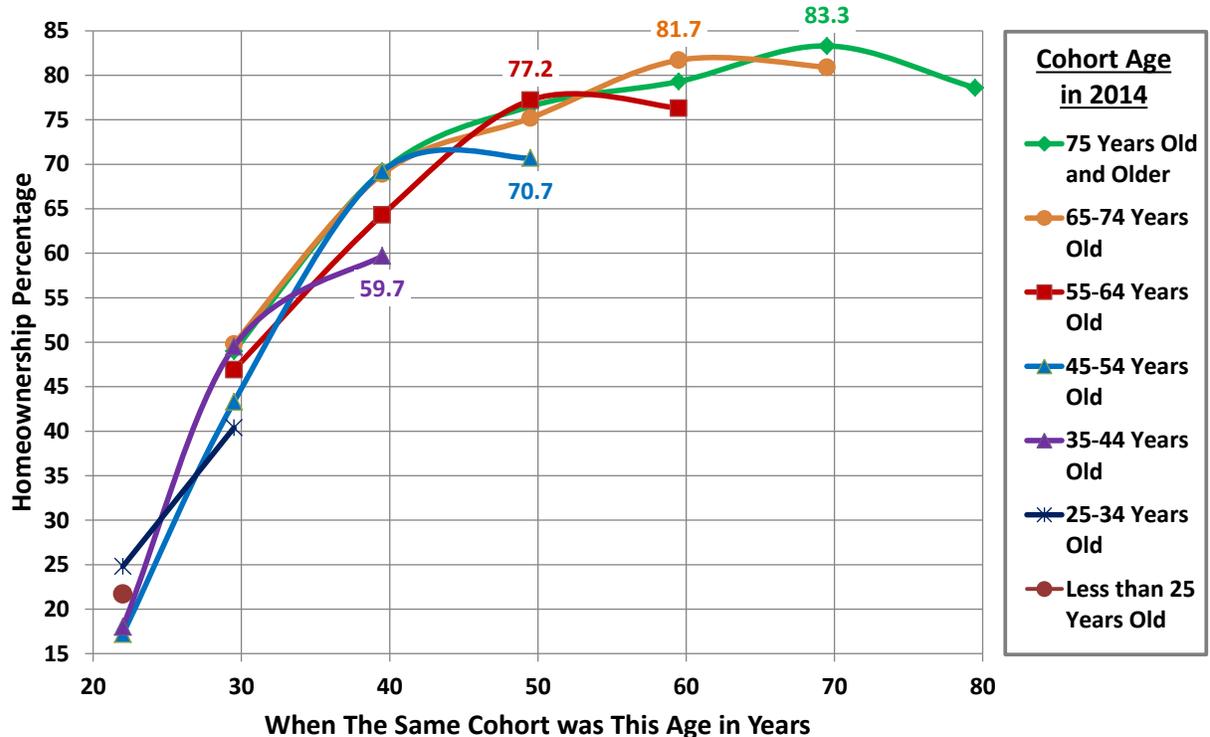


Looking at this shows that most age groups have had declining homeownership rates since the peak of the last economic cycle/housing boom. It makes it too easy to conclude that it is a temporary phenomenon triggered mostly by the meltdown.

But the bigger issue if we want to understand generational behavior as it relates to preferences to own versus rent, is that the people in a given line changes every year as each person ages. In fact 10 years later, no one that was in a group such as the purple line for 35-44 year olds is still in the purple line. They are all now in the medium blue line for the next older half generation. And the people now in the purple line were in the dark blue line ten years ago.

If you are trying to market to a particular age group, the prior graph is helpful. But if you are trying to figure out if home buying preferences are a function of which half generation a person is a member of it is useless. Fortunately with the right skills, the same data can be converted to what we need. Although, I have never seen it presented this way.

## Home Ownership Rate For Same Cohorts Over Their Lifetimes by Age Range in 2014



This graph depicts what the homeownership path has been for people in the same half-generation group over their adult lifetimes. So for example, people that are over 75 years old today [the green line] were at 50% homeownership by the time they were 30 years old, 69% at age 40, 77% at age 50, 79% at age 60, peaked at 83.3% at age 70 and have declined to 78% as of 2014. Some key points to highlight include:

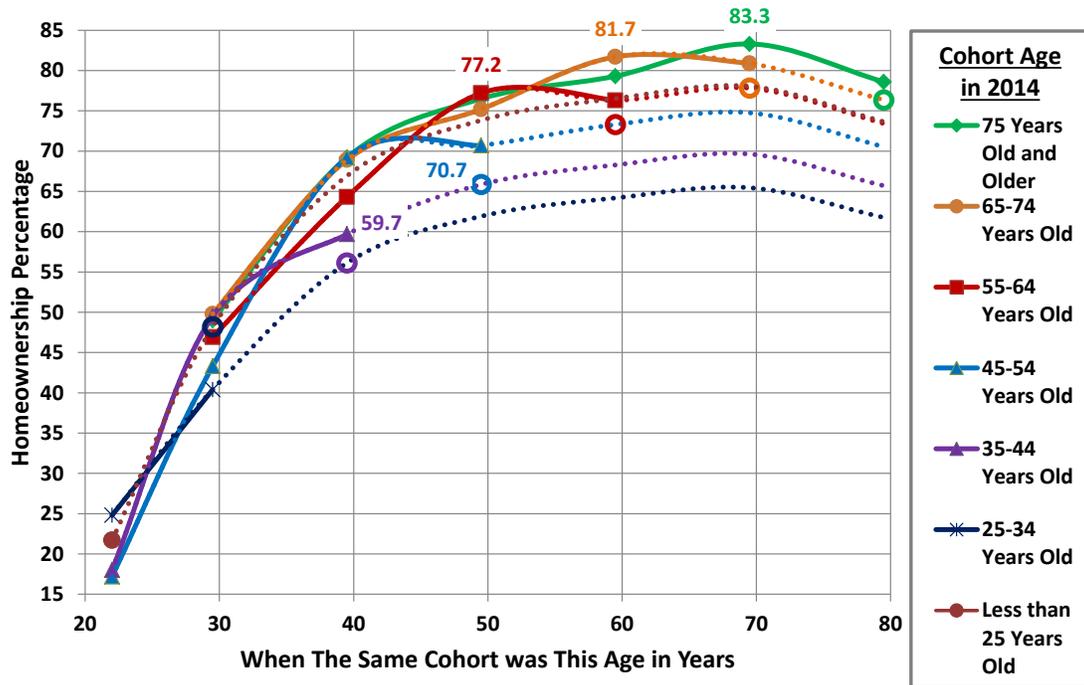
- First, this is the percent of total households that occupy dwellings owned by the occupants. The balance rent their dwelling.
- Now let's dispense with the oft voiced view that the only reason for the deviation from prior trends in the last 10 years is the financial meltdown. There are been at least 8 recessions during the tenure of the homeownership of the oldest two groups. And at least 6 recessions in the ownership period of the 3<sup>rd</sup> and 4<sup>th</sup> oldest groups. And one of those, the 1980/82 'double dip', was very significant. Nearly as much so as the most recent recession. Yet, none of their trajectories were meaningfully or permanently altered as a result. I would challenge anyone to even be able to spot the past recessions in this graph.

- Within a small range, all of the half generation groups have followed the same trend through their 30s. And the three oldest half generations followed it into their 50s.
- There is a lot less variance in the path at the beginning [ages 20-35] than there is in the height and timing of their peaks.
  - Every successive younger generation has peaked at a younger age, at a lower level of homeownership, than the prior half generation.
  - It is too soon to know if the 35-44 year old [purple] group will or will not resume its climb, versus flatten out at a significantly lower level than any of the prior four, half-generations,
  - But by age 54-64 [red], the odds of lifetime to-date renters suddenly moving in great numbers into purchasing their first homes would seem improbable. Currently, they are 6-8 points lower than the two half-generations older than them.
- There is a lot of angst these days that the youngest two groups today [pinkish/reddish dot and dark blue line with crosses] aren't buying homes at the rate of the past half generations
  - But actually, two of the older groups were at lower homeownership levels in their early 20's, 45-54 year olds [purple] and 35-44 year olds [medium blue]. In both cases they had caught up with the even older generations by the time they were 30-40 years old.
  - That said, as of now, 24-34 year olds are 3-9 points below the level of the four, half-generations before them.

So what might each of these groups look like through the rest of each of their lifetimes? We'll do two scenarios for each to attempt a high and a low path for each.

- High – assume that each will follow the average change rate of those that have already come before them for each period.
- Low – flat line from where they are today all the way to the end.

### High Projected - Home Ownership Rate For Same Cohorts Over Their Lifetimes by Age Range in 2014



The dotted lines depict the projected homeownerships rates for each half-generation age group as they progress through their lifetimes, based on the ‘high’ scenario definition at the bottom of the prior page.

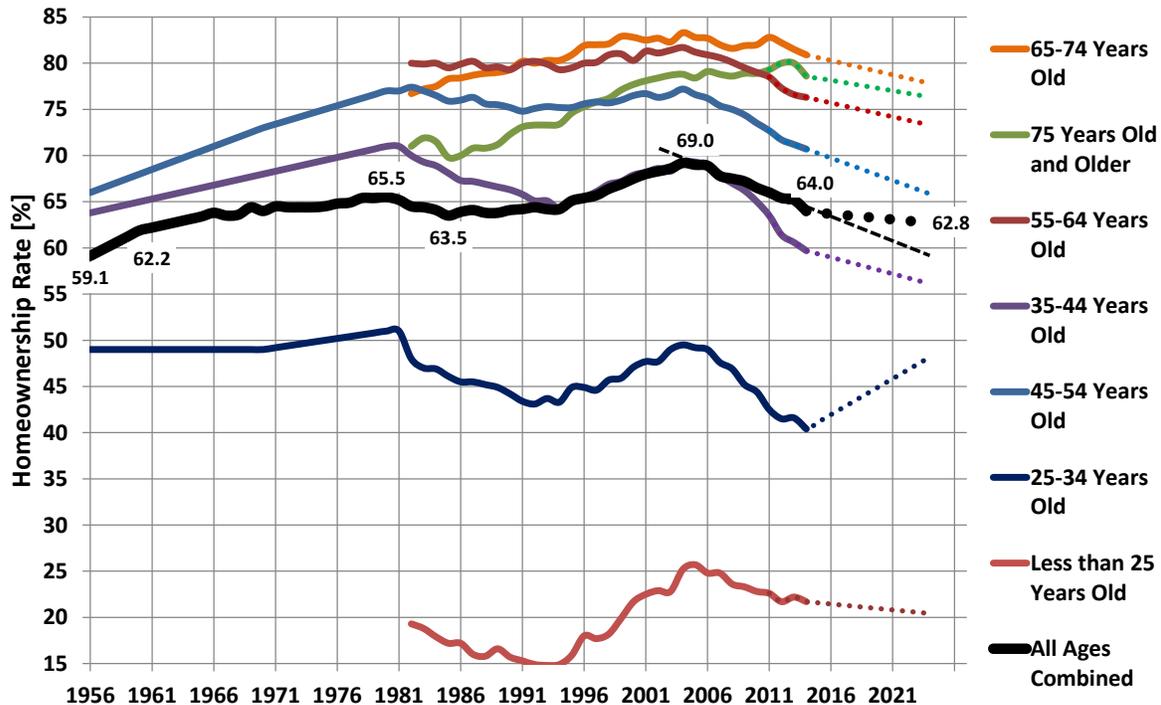
Although, in my view, this is the optimistic scenario for homeownership over each group’s lifetime, every later half-generation peaks at 2 to 5 percentage points lower than the half generation before it. The risk is more that it will be lower than this than better.

That said, the less years of behavior we have on a half-generation, because they are still early in their own versus rent lives, the more error there is sure to be the further into the future one projects their estimated homeownership rates. But, all I am trying to determine is where each group, and the combined total, may be in 10-years. Therefore, the risk, particularly when combined back together for the combined number, is relatively low. On the next page that result will be shown in the traditional format. On this graph above, the levels in 10-years from now are the circular symbols matching the color on the next page.

The one exception to how well this projection technique worked is for those under 25 today, and thus 25-34 in 10-years [reddish pink]. That line ended up being very high. But in the total ownership percentage, it is only one of 7 groups [Leaving it as the technique projects, rather than excluding it, is once again supportive of my assertion

that this estimate in total for 10-years in the future is on the high end of the range as you will see immediately below.

## High Projected - Homeownership Rate by Age of Head of Household



First the End Game. The bold black dots show the combined total homeownership projection for the year 2024. It suggests that in the high scenario, the homeownership rate still declines an additional 1.2 points from 64.0% to 62.8%.

The good news is that is less than a third of how far it would decline if it continued to follow the trend of the past 10 years of 2004-2014 [the black dashed line].

The bad news is that while it is difficult to see why the homeownership rates for the half generations that will be 35 years old and older are likely to not decline as projected, it is far more questionable that the next 10-years will see 25-34 year olds take off like a rocket per the dark blue line. If 25-34 year olds simply were flat at 40% for the next 10 years, the combined black bold dots would decline at twice the rate that is shown, placing it increasingly close to the dashed black line of the trend of the past 10-years.

Low Scenario – Given how low, the High Scenario is, I will not bother to run the low scenario. Since, running, showing, and discussing the High Scenario has already busted the delusion that the overall trend rate will reverse direction in the next few decades.

**Summary and Conclusions:**

- The decline in the total homeownership rate beginning ten years ago, has been building for decades. That becomes clearly evident once one converts the traditional tracking graph to look at what the same individuals, in the same group, have done over their lifetimes. If we had done this ten years ago, we'd have predicted this outcome, and quite likely some scholars somewhere probably did so in obscurity. Particularly given the distraction of the housing boom in the 2000s until the meltdown.
- The decline in total homeownership over the last decade is far more driven by the decline in ownership of the five, half-generations that were over 35 years old in 2014, than the constantly credited/blamed millennials.
  - It is true that those who were 25-34 years old in 2014 have a homeownership rate that is 3 to 8 percentage points below those half-generations that have come before them. But the rates for those who were under 25 years old in 2014 fall roughly in the middle of the historical range for the older half-generations that preceded them.
  - Thus, 4 older half-generations, that are each lower than the one before them, and one younger half-generation at about the average historical rate, completely swamp out any impact of the 25-34 year old group, that is lower than it has been historically, in the combined average.
- Just as we could have predicted the decline of the past decade from data already available ten years ago, it is almost a 'no-brainer' to project that ten years forward now. And when one does so, there is no doubt that it will continue to decline at somewhere between half the rate of the past decade, and possibly as rapidly as in the past decade.
- And although the further into the future one predicts, the more potential for error there is, the vast preponderance of the forces already in play in the mid-age half-generations in terms of homeownership rates, is very likely to result in continued overall declines in homeownership for another decade or two beyond 2024.