Homeowner Households and the U.S. Homeownership Rate: Tenure Projections for 2015-2035

JCHS

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Abstract

Following the rise and fall in the homeownership rate over the past two decades, considerable uncertainty exists about the future trajectory of the homeownership rate. This paper presents the Joint Center for Housing Studies' homeownership projections for 2015-2035, which build on the household projections in *Updated Household Projections, 2015-2035: Methodology and Results* by McCue and Herbert (2016).

The initial sections of the paper review the range of factors that contribute to homeownership rate outcomes and discuss alternative methodologies for constructing tenure projections.

The paper then presents JCHS's tenure projections for 2015-2035, which include three scenarios that define a range of homeownership rate outcomes. The base scenario, which holds homeownership rates constant at their 2015 levels, shows that projected changes in the demographic composition of U.S. households by age, race/ethnicity, and family type will largely offset one another, affecting the homeownership rate only minimally through 2035. Under this scenario, projected household growth will add 8.9 million homeowner households and 4.7 million renter households by 2025, and 15.7 million homeowner households and 9.4 million renter households by 2035. Alternatively, the low and high scenarios produce a range for the national homeownership rate of 60.7 percent to 64.8 percent by 2035, resulting in different levels of growth in homeowner and renter households.

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December 2016

Introduction

This paper presents the Joint Center for Housing Studies' tenure projections for 2015-2035, which build on the projections in Updated Household Projections, 2015-2035: Methodology and Results by McCue and Herbert (2016). In previous projection cycles, JCHS has included tenure projections as an extension of the household estimates, using current homeownership rates by age and race/ethnicity to approximate the growth in homeowner and renter households that is implied by growth in the number of U.S. households. In response to the homeownership rate's continued decline—and the discussion it has generated—this paper provides a more detailed consideration of the homeownership projections, including three scenarios that describe a range of possible homeownership outcomes for 2015-2035.

Following this introduction, the initial section of the paper presents a brief review of the factors that have influenced the homeownership rate's trajectory. The second section then provides an overview of the methods used to project future homeownership outcomes, discussing the accuracy and limitations of projections based on demographic data. The third section presents JCHS's homeownership projections for 2015-2035, defining the three projection scenarios and discussing the results. The fourth section concludes with a brief summary.

Determinants of the Homeownership Rate's Past and Future Trajectories

The decade-long decline in the homeownership rate is unprecedented in American history. Prior to 2005, the largest decline occurred between the 1930 and 1940 Censuses, when the homeownership rate fell 4.2 percentage points, albeit from a much lower base, as the nation experienced the Great Depression. During the post-war period, a combination of a robust economy, the expansion of mortgage lending through the Veteran's Administration and the Federal Housing Administration, and an opening

up of suburban markets through massive investment in new highways all led to robust increases in homeownership that continued for nearly four decades.

During the 65-year period from 1940 to 2005, the only other notable decline occurred between 1980 and 1986, concurrent with the double dip recession of the early 1980s. According to Fannie Mae's Primary Mortgage Market Survey, interest rates for a 30-year fixed-rate mortgage exceeded 10 percent for the majority of this period and rose as high as 18 percent in 1981, sharply limiting the ability of would-be homebuyers to afford the mortgage payments associated with a new home purchase. In this environment, the homeownership rate slowly declined by 1.8 percentage points to 64 percent in 1985, where it remained for nearly a decade before beginning to ascend once again in the second half of the 1990s.

This historical experience highlights the unusual nature of the swing in the homeownership rate since 1995. After ticking upwards in 1995, the homeownership rate reached a new all-time high in 1997, and the gains continued through the homeownership rate's peak of 69 percent in 2004. It then declined slightly in 2005 and 2006 before plunging from 2007 to 2015, reaching 63.7 percent in 2015 according to the U.S. Census Bureau's Housing Vacancy Survey.

Figure 1. U.S. Homeownership Rate, 1900-Present
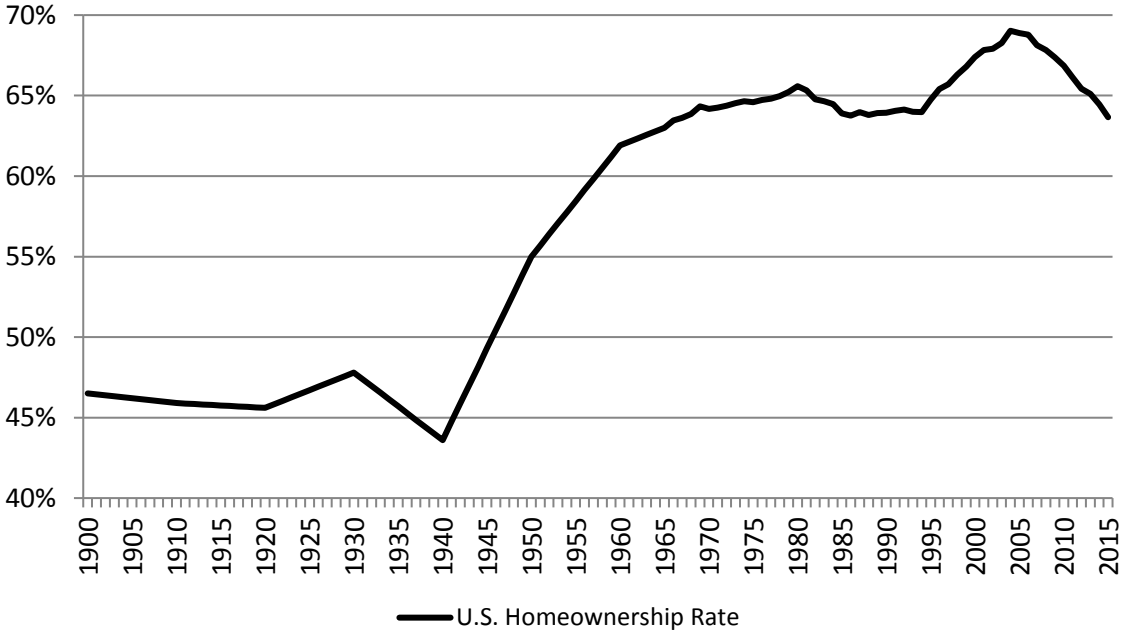
Source: U.S. Decennial Census, 1900-1960; Housing Vacancy Survey 1965-2015

The uniqueness of the foreclosure crisis and the accompanying decline in the homeownership rate have contributed to substantial uncertainty about the future of homeownership in the United States. Without relevant historical experience for comparison, analysts must instead grapple with the

complex array of factors that contribute to households' homeownership decisions. These factors include a large number of variables that relate to both households' demand for housing as a place to live and their demand for the investment attributes of homeownership (Henderson and Ioannides 1983).

A household's consumption demand for housing as a place to live is a function of all factors related to the household's preferences for the quantity, quality, and location of a housing unit, as well as any preferences for homeownership itself such as the ability to modify a unit through renovations and the right to occupy the home for as long as desired. Conversely, preferences for renting frequently reflect households' desire to avoid the time and costs associated with maintenance of the unit and to reduce the transaction costs associated with moving. Such factors are closely related to households' progression through the life cycle, with households adjusting their consumption demand as they grow older, get married, have children, and otherwise see their needs change. Households' consumption demand is also subject to changes in households' budget constraints, making demand sensitive to broader economic changes in employment, incomes, or expected lifetime earnings.

Additionally, households' investment demand is influenced by the relative cost of homeownership versus renting, factoring in the financial returns from owning. Such calculations depend on mortgage interest rates, home price appreciation, property taxes, maintenance costs, transaction costs associated with buying and selling a home, the opportunity costs of not investing in other assets, and the income tax treatment of these different streams. In practice, the relative cost of owning versus renting is highly sensitive to the rate of home price appreciation, allowing household expectations and psychology about the future course of home values to also influence home purchase decisions (Shiller 2005). Household expectations about future rent increases can also influence homeownership decisions to the extent that households are risk averse and use homeownership as a hedge against rising rents (Sinai and Souleles 2005).

Finally, since most households lack sufficient wealth to buy homes outright, the effective demand for homeownership is also affected by the availability of mortgage financing needed to purchase a home and by the supply of homes for sale that are within the purchasing power of would-be homeowners.

While the above discussion is a very brief overview of the determinants of homeownership, it nonetheless highlights the complexity of factors that can influence the homeownership rate. In recent years, stagnant incomes, rising student loan debt, and delayed marriage and child-bearing could all have limited consumption demand for homeownership. The sharp fall in home values and enormous wave of foreclosures might also have affected the investment demand for owning, with tightening credit

standards and the tight supply of available homes presenting fewer opportunities to buy for those who would otherwise prefer to own.

Spader and Herbert (2016) provide a more complete discussion of the determinants of homeownership and the sources of the homeownership rate's rise and fall. Specifically, the paper presents shift-share analyses that examine the extent to which recent changes in the homeownership rate can be explained by the demographic factors that are the basis for homeownership projections. The associated projections hold constant the homeownership rates in a specified year for multiple age, race/ethnicity, and family type categories, isolating the extent to which changes in the actual homeownership rate can be explained by changes in the composition of U.S. households by age, race/ethnicity, and family type—the demographic factors that are the basis for homeownership projections.

The results suggest that any trends in these demographic factors over the past two decades largely offset one another, explaining very little of the homeownership rate's rise and fall. Holding homeownership rates constant, changes in the distribution of U.S. households by age, race/ethnicity, and family type predict a slow decline of 1-2 percentage points in the homeownership rate between 1995 and 2015. Instead, the rise and fall in the homeownership rate reflects changes in economic, mortgage, and housing market conditions that altered the likelihood that demographically-similar households owned homes in 1995, 2005, and 2015. In the late 1990s, broad-based growth in employment and incomes helps to explain some of the initial rise in the homeownership rate. The homeownership rate's continued rise in the early 2000s, as well as its subsequent fall, are more closely tied to the expansion and contraction in mortgage availability, the impacts of foreclosures and the Great Recession, and the concurrent swings in consumers' expectations for home prices (Gabriel and Rosenthal 2005, 2015).

The upshot for homeownership projections is that the future homeownership rate is determined by the complex interplay of multiple factors, many which cannot be forecasted with precision. As a result, projections based on demographic estimates of household growth offer useful estimates, but should allow for some uncertainty about the homeownership rate's future trajectory.

Methods for Constructing Homeownership Projections

Recent projections illustrate the extent of uncertainty about the future homeownership rate. For example, the Mortgage Bankers' Association projections anticipate that the homeownership rate will recover to between 64.8 and 66.5 percent by 2020 based on expectations for continued recovery in

the broader economy (Fisher and Woodwell 2015). By contrast, the Urban Institute's projections include a slow scenario in which the homeownership rate declines to 60.3 percent by 2030 and a fast scenario that sees a decline to 62.2 percent (Goodman, Pendall, and Zhu 2015). Additionally, the differences between these projections are mirrored in other sources, which show a similarly broad range of outcomes (Acolin, Goodman, and Wachter 2016; Haurin 2016; Myers 2016a, 2016b; Nelson 2016).

The variation in these homeownership projections is consistent with the discussion in the previous section, showing clear differences in analysts' expectations about future economic, mortgage, and housing market conditions. Such conditions cannot be projected precisely or easily factored into homeownership projections. As a result, the variation across recent projections also reflects differences in the methodologies used to construct homeownership projections from demographic data. The remainder of this section focuses on these projection methods, discussing the key assumptions and limitations of each approach.

First, one common approach to constructing homeownership projections is to apply "constant homeownership rates," using current or historical homeownership rates across multiple age and race/ethnicity categories as the basis for projections. The critical assumption underlying this approach is that homeownership rates will remain approximately constant over time for each of the defined categories. Put another way, this approach assumes that there is some "normal" homeownership rate for each group that homeownership rates will fluctuate around over the long term. Given this assumption, the choice of how to define the homeownership rates for each group is central to constructing and interpreting projections using the constant homeownership rates approach.

Figure 2 presents the age curves for homeownership rates in 1985, 1995, 2005, and 2015, describing the extent of variation in age-specific homeownership rates over time. Between 1985 and 1995, the homeownership rates of young and middle-aged households decreased slightly while the homeownership rates of households aged 65 and over rose substantially. The housing boom from 1995 to 2005 then pushed homeownership rates upward among all groups, and the subsequent housing bust from 2005 to 2015 witnessed homeownership rates falling severely among all but the oldest age groups, with particularly steep declines in young and middle-aged groups.

As these historical patterns make clear, the use of constant homeownership rates is an approximation and not a precise estimate of future homeownership. Instead, analysts' must choose which time period to use as the basis for projections. Given the variation in the age curves displayed in Figure 2—including the period from 1985 to 1995 when the overall homeownership rate was stable— there is no obvious choice for a "normal" age curve. Additionally, any choice will constitute an expected

long-term equilibrium for homeownership rates, with the potential for substantial variation in individual years due to cyclical economic factors.

Reflecting these assumptions, analysts frequently apply either current homeownership rates or the homeownership rates from some historical period thought to approximate a long-term equilibrium. For example, the Mortgage Banker's Association's low estimate of 64.8 percent reflects the use of constant 2014 homeownership rates, and their high estimate of 66.5 percent reflects constant homeownership rates defined by the long-term average for each category between 1983 and 2014 (Fisher and Woodwell 2015).

Figure 2. Homeownership Rates by Age Group, 1985-2015
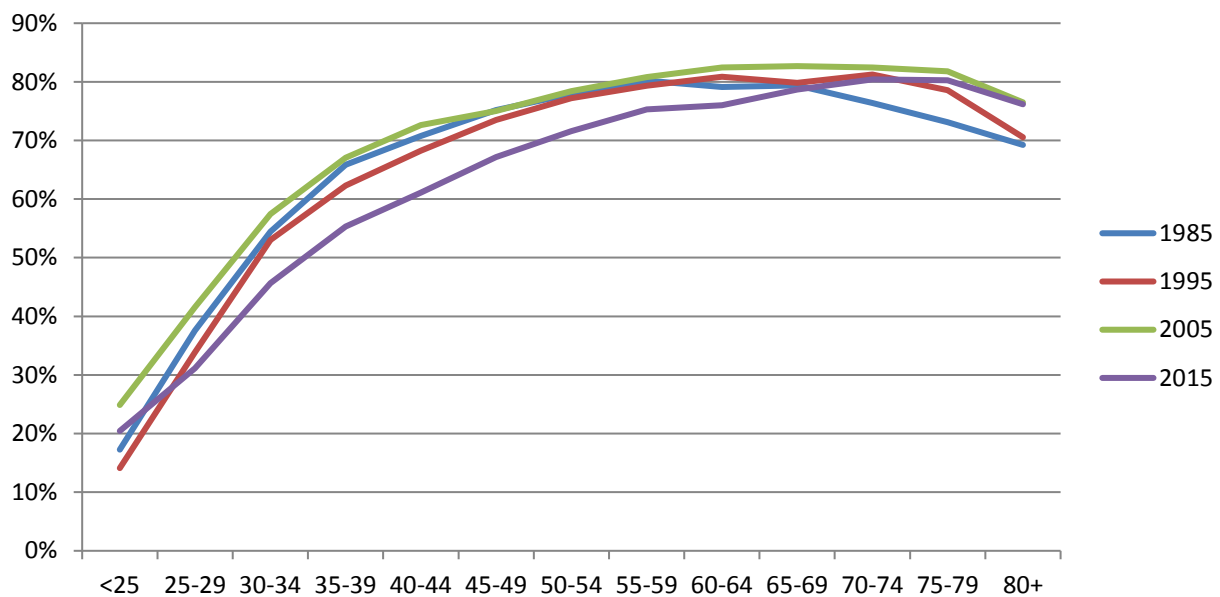
Source: JCHS tabulations of CPS ASEC data

One alternative to the constant homeownership rates approach is to rely on "cohort trends" in homeownership rates observed by following specific birth cohorts as they age. This approach acknowledges the potential for cohorts to carry with them over time the inertia established in achieving certain levels of homeownership. For example, the foreclosure crisis and Great Recession may place many cohorts on lower trajectories than the homeownership attainment of previous cohorts. Among middle-aged cohorts, the lasting impacts of foreclosure may reduce homeownership attainment to the extent that some households who experienced foreclosure do not re-enter homeownership. Conversely, older age cohorts were not hit as hard by the foreclosure crisis and many households now have zero or low mortgage balances, so these cohorts are likely to carry their high levels of homeownership into the future. Among younger cohorts, slowed labor market earnings and employment in their twenties might

carry lasting implications for future earnings trajectories, reducing the likelihood and speed of homeownership entry.

As these examples suggest, whether and how long economic shocks will affect cohorts' homeownership attainment are central questions under this approach. In particular, projections based on cohort trends are sensitive to the assumptions used to define the trajectories of young cohorts, who have limited observed history and whose homeownership attainment could shift considerably in response to a period of robust economic growth or a recession. More generally, an important limitation of the cohort trends approach is that projections are highly sensitive to the choice of starting and ending points for defining trends, making this approach more volatile than the use of constant homeownership rates.

Panel A of Figure 3 displays the cohort trajectories from 1985 to 2015 for 5-year birth cohorts, plotting the homeownership attainment of each cohort as it ages. These cohort trajectories have the same basic shape as the age curves shown in Figure 2, with homeownership attainment rising with age and peaking above 80 percent around age 65. However, these cohort trajectories also show substantial variation across cohorts at each age milestone. For example, the cohort born from 1971-1975 reached a homeownership rate of 57 percent in 2005 when it was aged 30-34—the highest homeownership rate observed among 30-34 year-olds. Over the next ten years, the cohort's homeownership rate rose only 7 percentage points to 64 percent in 2015, the lowest homeownership rate observed among 40-44 year-olds.

These cohort trajectories illustrate the relationship between cohort trends and the age curves in Figure 2. During periods when the cohort trends did not change much across cohorts, the age curve remained relatively stable. In contrast, the age curve shifts noticeably upward and downward during periods when the cohort trends deviate more sharply as cohorts experience particularly favorable or unfavorable periods for homeownership. As this relationship implies, projections based on cohort trends will therefore cause the age curve to continue to shift in its current direction until the defined cohort trends produce a stable age curve. This outcome may improve the accuracy of projections to the extent that the cohort trends reflect long-term shifts, but may also reduce the accuracy of long-term projections to the extent that the cohort trends reflect only temporary shifts that will not persist over time.

For this reason, analysts sometimes choose longer-term periods to define the cohort trends used to produce homeownership rate projections, seeking to capture long-term shifts in homeownership attainment among different subgroups. For example, the Urban Institute's slow scenario applies cohort trends observed over the 10 years between 2000 and 2010, and its fast scenario uses a weighted average of the trends from this period and the cohort trends observed between 1990 and 2000 (Goodman, Pendall, and Zhu 2015).
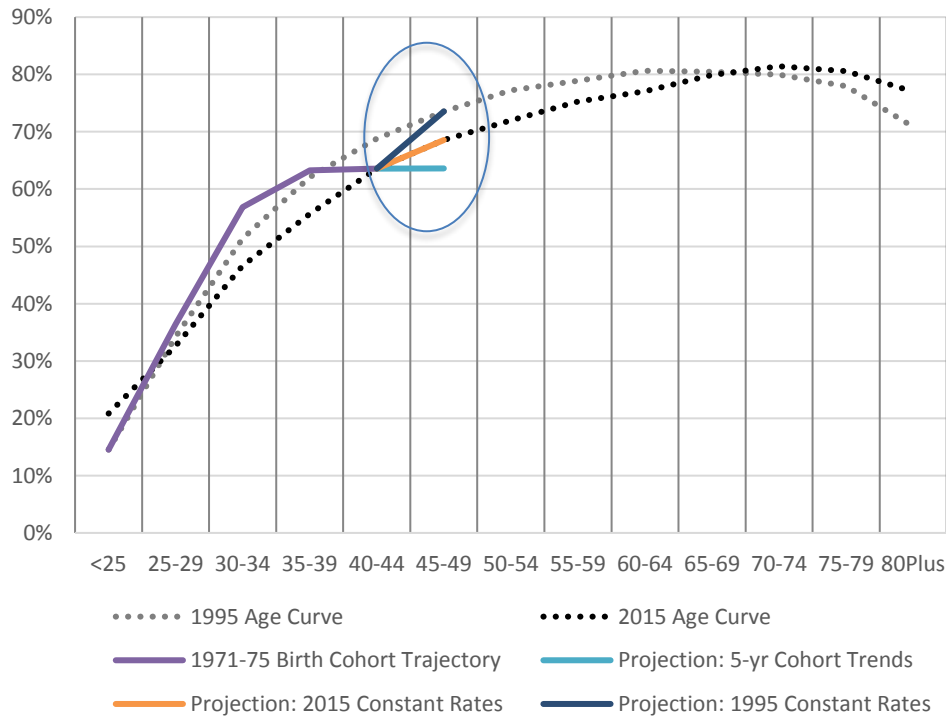
Figure 3. Comparison of Cohort Trends and Age Curves

Panel A. Cohort Trajectories from 1985-2015 for 5-Year Birth Cohorts
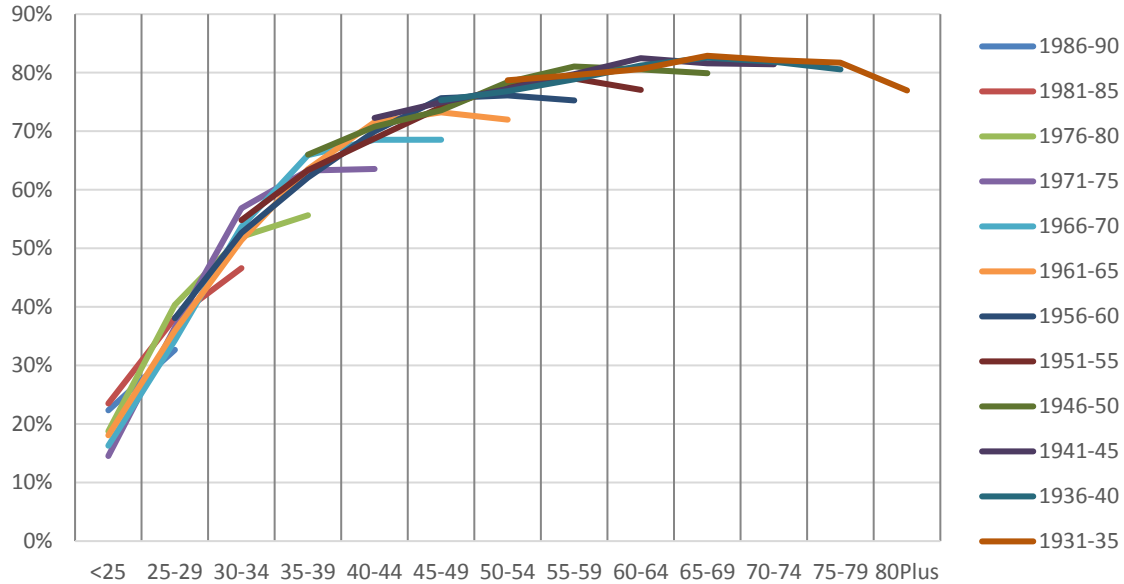
Source: JCHS tabulations of CPS ASEC data

Panel B. Example of 2020 Projections for the 1971-1975 Birth Cohort Using Constant Rates vs. 5-Year Cohort Trend

Source: JCHS tabulations of CPS ASEC data and JCHS tenure projections

To further illustrate the differences between methods, Panel B of Figure 3 displays the cohort trajectory for the 1971-1975 birth cohort, who were aged 40-44 in 2015. It then also displays three different projections for the homeownership rate of this birth cohort in 2020 when they will be aged 45-49. These alternative projections highlight the differences between the constant homeownership rates approach and the cohort trends approach discussed above. Lastly, the dotted lines in Panel B display the 2015 and 1995 age curves from Figure 2 as reference points for considering the differences between projections.

First, the projection based on 5-year cohort trends displays the projected 2020 homeownership rate if the 5-year cohort trends observed from 2010-2015 are replicated for 2015-2020. The 5-year cohort trends projection starts in 2015 at the 1971-75 birth cohort's observed homeownership rate of 64 percent. The projected 2020 homeownership rate under this approach is also 64 percent, because the birth cohort ahead of them saw their homeownership rate increase by just .03% between 2010-2015.

This level would be a new low for the 45-49 year-old age group, falling 5 percentage points below the 2015 level for 45-49 year-olds. As this example shows, the new low is reached both because the 1971-75 birth cohort starts the period with a lower homeownership than the previous cohort and because it's projected trend fails to keep pace with the 2015 age curve. By extending the 2010-2015 trend, this outcome likely would likely require that nearly no improvement occurs in foreclosure rates, mortgage credit conditions, or the broader economy and/or the experience of the housing bust permanently reduced the desire to own a home among some portion of this cohort.

Alternatively, the Constant 2015 line shows that the 1971-75 birth cohort would be projected to reach a homeownership rate of 69 percent under projections that hold constant homeownership rates at their 2015 levels. While this projection implies an increase of 5 percentage points above the cohort trend, it also produces a 2020 age curve that would remain at the historically-low 2015 levels. Lastly, the Constant 1995 line—which applies constant homeownership rates based on 1995 levels—ticks upward to reach 74 percent in 2020. While such an uptick is unlikely by 2020, it may be more plausible over longer-term periods. The rest of the 1995 age curve line therefore provides a reference point for the increases that would be necessary for the 1971-75 cohort to match the pre-housing boom age curve in later years. Returning to similar levels of homeownership attainment would likely involve a return to pre-boom economic and mortgage credit conditions, the dissipation of any impacts of the foreclosure crisis and Great Recession, and little to no lasting change in households' attitudes toward homeownership compared to previous generations.

As these examples illustrate, each of the methods for homeownership rate projections for particular age groups has advantages and disadvantages, so the choice of method depends on analysts' expectations for future economic, mortgage, and housing market conditions. To the extent that future homeownership rates are expected to stabilize or return to some long-term "normal", constant homeownership rates based on a historical age curve may be preferred. Conversely, if lasting effects of the recent downturn are expected to produce similar trends moving forward, the use of cohort trends may be preferred.

Tenure Projections, 2015-2035

The tenure projections in this paper build on the household projections in McCue and Herbert (2016), which project the number of U.S. households through 2035 using data from the Census Bureau's Population Estimates Program and the Current Population Survey's Annual Social and Economic Supplement (CPS/ASEC). The resulting projections produce household counts by age, race/ethnicity, and family type.

For the tenure projections, we calculate homeownership rates for each age, race/ethnicity, and family type category using the CPS/ASEC data.[1] Age is defined in 13 5-year age bands bounded by an under 25 age group and an 80 and over group.[2] Race/ethnicity is defined in four categories: non-Hispanic white, Hispanic, non-Hispanic black, and non-Hispanic Asian, multiracial, or other race. Family type is defined in five categories: married with children, married without children, unmarried with children, single person, and other family types.[3] The full interaction of age, race/ethnicity, and family type therefore creates a grid with 260 cells. To improve the precision of the CPS/ASEC homeownership rates for each cell, we calculate the homeownership rates in each year using 3-year trailing averages.[4] To define the starting point 2015 homeownership rates, we then also apply a constant adjustment factor that centers the 2015 estimate on the 2015 homeownership rate of 63.5 percent, adjusting for the small differences between the 3-year trailing average and the 2015 rate and between the CPS/ASEC household counts and the household counts produced by McCue and Herbert (2016).

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[1] The CPS/ASEC data is collected from the Integrated Public Use Microdata Series (Flood et.al. 2015).

[2] We combine the 15-19 age group with the 20-24 age group for the homeownership rate projections due to thin samples of homeowners in these age groups.

[3] Households in which the head lives with an unmarried partner are categorized as unmarried with children or other family type, depending on whether children are present in the household.

[4] Three-year trailing averages are used to be consistent with the approach in McCue and Herbert (2016). The projected homeownership rates are substantively similar if three-year centered averages are used instead, falling within 0.3 percentage points of the reported rates for all scenarios and years.

The tenure projections use these inputs to estimate the number of homeowner and renter households and the associated homeownership rates in 2020, 2025, 2030, and 2035. Separate tenure projections are calculated for three scenarios that capture a broad range of potential homeownership outcomes:

- **Scenario 1 ("Base Scenario")** – Constant homeownership rates. The base scenario applies the 2015 homeownership rates by age, race/ethnicity, and family type to the projected household counts for each year. This scenario therefore describes the likely outcomes if homeownership rates stabilize near their current levels. By holding homeownership rates constant, this scenario also reveals the implications of changes in the distribution of U.S. households by age, race/ethnicity, and family type for the future homeownership rate.

- **Scenario 2 ("Low Scenario")** – Continued decline through 2020 followed by constant homeownership rates. The starting point for the low scenario is the set of 2015 homeownership rates for each age, race/ethnicity, and family type category. The low scenario then projects the 2020 rates for each category by applying the 5-year cohort trends observed from 2010-2015. The 2020 homeownership rates for each age, race/ethnicity, and family type category are then held constant to project the homeownership rates for 2025, 2030, and 2035. This scenario describes the likely homeownership outcomes if the homeownership rate's ongoing decline continues for several more years before stabilizing.

- **Scenario 3 ("High Scenario")** – Homeownership rates return to pre-boom levels. The third scenario applies constant homeownership rates determined by the maximum of the 1995 and the 2015 rate for each age, race/ethnicity, and family type category. This scenario uses the 1995 homeownership rates to define the pre-boom levels that might reflect a longer-term equilibrium. It then adjusts the rates upward to the 2015 rates for older households and other groups for whom longer-term upward trends have kept the 2015 rates above their 1995 levels. The resulting homeownership rates therefore define a high scenario in which homeownership rates increase to levels slightly above than their 1995 levels, but well below their mid-2000s peaks. While such homeownership rate increases may be more plausible over longer-term periods than in the next few years, the high scenario applies these rates to all time periods, providing estimates of homeowner growth if the rates are realized within each time horizon.

Figure 4 displays the projected homeownership rates (Panel A) and growth in the number of homeowner and renter households (Panels B and C) implied by each scenario. To supplement this figure,

Appendix Table A.1 reports the projected number of households, homeownership rate, homeowner and renter households, and homeowner and renter growth for each scenario and year.

The base scenario shows that changes in the distribution of households by age, race/ethnicity, and family type will not substantially alter the homeownership rate between 2015 and 2035. The projected homeownership rate increases slightly from 63.5 percent in 2015 to 63.7 percent in 2025 before falling to 63.3 percent in 2035. Because the base scenario holds the rates for each age, race/ethnicity, and family type category constant at their 2015 levels, the changes (or lack thereof) reflect the cumulative effect of trends in the profile of U.S. households, such as population aging, increased racial and ethnic diversity, and delayed marriage and childbirth. The upshot is that these trends largely offset one another, affecting the overall homeownership rate only minimally. Instead, increases in the number of homeowner and renter households are driven by household growth, producing 8.9 million additional homeowner households and 4.7 million additional renter households by 2025, and 15.7 million additional homeowner households and 9.4 million additional renter households by 2035.

While the base scenario's projections halt the decade-long decline in the homeownership rate, the projected homeownership rates remain below the levels observed from 1985-2015. In an earlier section, Figure 3 illustrated that the stabilization of homeownership rates at their 2015 levels implies an uptick in the trajectories of many cohorts from their 2010-2015 trends, with the assumed upticks not fully catching up to pre-boom levels of homeownership attainment. This partial recovery reflects the possibility that slowing foreclosures and a strengthening economy will ease the downward pressure on the homeownership rate in coming years, while also allowing for the foreclosure crisis and Great Recession to carry some lasting impacts. The relative importance of these offsetting pressures will only be known with time, so the base scenario's projections should be interpreted as a reference point for homeownership outcomes if the overall rate stabilizes around its 2015 level.

The low scenario describes the consequences of continued declines through 2020 before the homeownership rate stabilizes. Under this scenario, the projected homeownership rate falls from 63.5 percent in 2015 to 60.7 percent in 2020 before leveling off at 60.8 percent in 2025 and 60.6 percent in 2035. The homeowner growth figures show that the continuation of the 2010-2015 cohort trend implies minimal growth in the number of homeowner households, adding just 755,471 additional homeowner households through 2020. In subsequent years, the eventual stabilization of the homeownership rate at 2020 levels allows household growth to add 4.9 million homeowner households through 2025 and 11.6 million homeowner households through 2035. This sluggish growth in homeowner households is

accompanied by faster increases in the number of renter households, with 8.7 million additional renter households by 2025 and 13.5 million additional renter households by 2035.

The projected declines in the homeownership rate through 2020 reflects the replication of recent cohort trends from the starting point of cohorts' already-low 2015 homeownership rates. The projected 2020 rates therefore assume a continuation of the foreclosure-related homeownership exits, tight credit conditions, weak incomes, altered preferences for owning, and other factors that likely contributed to the homeownership rate's recent declines. Additionally, they assume the absence of any catch-up growth due to pent up demand among households unable to buy a home in recent years or to homeownership reentries among households who experienced a foreclosure. The low scenario therefore defines a trajectory that reflects the continuation of recent declines for several more years before the homeownership rate stabilizes.

In contrast, the high scenario projections describe homeownership outcomes under assumptions that project a reversal of recent declines that returns homeownership rates to levels slightly above the pre-boom period. The projected homeownership rates for the high scenario increase from 63.5 percent in 2015 to 64.9 percent in 2020, before leveling off at 65.0 percent in 2025 and 64.7 percent in 2035. This higher homeownership rate trajectory implies the addition of 10.6 million homeowner households and 2.9 million renter households by 2025, and 17.7 million homeowner households and 7.4 million renter households by 2035.

The higher homeownership rates produced by this scenario reflect the combination of 1995 homeownership rates with an adjustment for longer-term upward trends in the homeownership attainment of certain groups, particularly older households. While there is no clear "normal" equilibrium for the homeownership rate, this scenario adopts the 1995 rates as the most recent year that precedes the housing boom and bust. Additionally, it assumes that any groups with higher levels of homeownership attainment in 2015 compared to 1995 will sustain the higher 2015 levels into the future. This assumption implies an uptick in cohort trends that fully catches up to the level defined by the maximum of the 1995 or 2015 rate. This result may be particularly tenuous for middle-aged households, who experienced the most severe effects of foreclosures and may not reach the homeownership rates of prior cohorts. To the extent that the foreclosure crisis and Great Recession carry have had significant impacts for some cohorts, this scenario therefore assumes that such effects will be offset by broader changes in the economy, credit conditions, or housing markets over time.

Figure 4. Projected Homeownership Rates and Homeowner Growth by Scenario and Year

Panel A. Projected Homeownership Rates
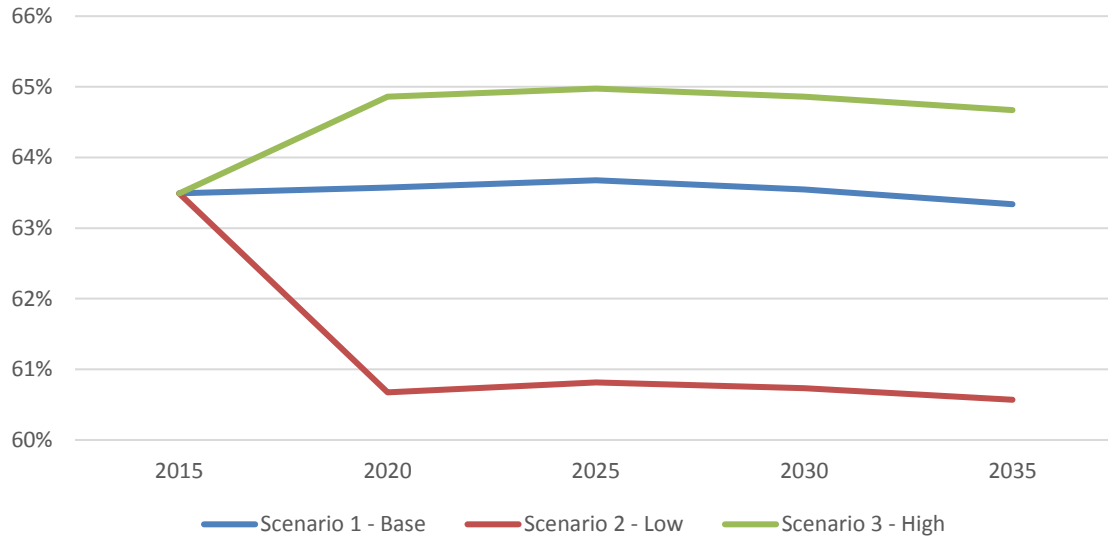
Panel B. Projected Growth in Homeowner Households from 2015 (millions)
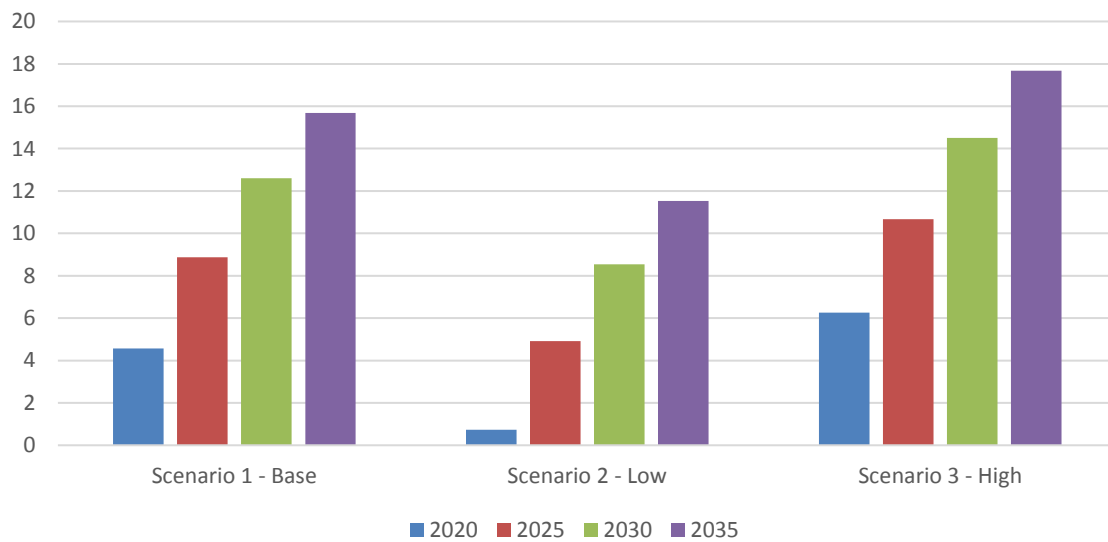
Panel C. Projected Growth in Renter Households from 2015 (millions)
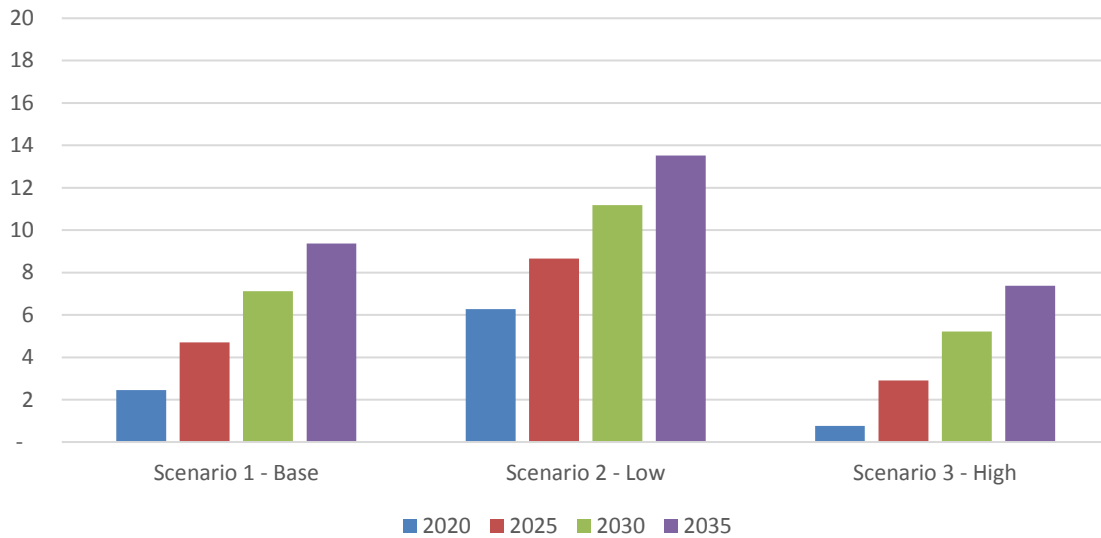
Source: JCHS tenure projections
Note: See also Appendix Table A.1

Because the homeownership rate's recent rise and fall reflects influences beyond changes in the demographic profile of U.S. households, none of these scenarios is likely to precisely capture the complex interplay of factors that will determine the homeownership rate in future years. Instead, each scenario provides a reference point for understanding the size of changes to the homeownership rate and number of homeowners that are likely to result from each set of assumptions. Together, the scenarios also provide a useful range against which to compare the homeownership rate's trajectory in future years.

Comparison of the scenarios also provides useful insight into the distributional implications of alternative homeownership rate outcomes by age, race/ethnicity, and family type. The remainder of this section highlights and discusses several of the trends implied by the projection scenarios. Appendix Tables A.2 and A.3 additionally provide the projected number and growth in homeowner households for 2025 and 2035, respectively, by age, race/ethnicity, and family type. Appendix Tables A.4 and A.5 present similar information on the projected number and growth in renter households.

A first insight from these totals is that growth in the number of homeowner households is concentrated among households aged 65 and over. For example, Panel A of Figure 5 displays growth in the number of homeowner households through 2025 by age group under each scenario, showing dramatic growth among older age groups. This pattern reflects the aging of the population as the Baby Boom generation follows a comparatively smaller generation. Because most baby boomers already own homes, it also does not necessarily imply growth in new homeownership entries. Instead, Panel A also

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displays a measure of new homeowners—defined as the change in the number of homeowners from 2015 to 2025 following birth cohorts as they age. This measure shows that growth in new homeowners is largest among younger cohorts, reflecting higher rates of homeownership entry among younger households. Because these young cohorts follow more comparably-sized cohorts, the new homeowners do not produce substantial *growth* in the number of homeowner households in each age group.

Panel B of Figure 5 displays growth in the number of renter households through 2025 by age group under each scenario, as well as a measure of new renters—defined as the change in the number of renters from 2015 to 2025 following birth cohorts as they age. The highest levels of renter growth appear among households aged 60 and over and among households aged 30-44, reflecting the aging of the baby boom and millennial generations into these age groups by 2025. In contrast, the measure of new renters highlights the concentration of new renterships among households below age 30.

An important additional finding from Figure 5 is that the differences between scenarios are largest among households between ages 30 and 59 for both measures. This outcome is mirrored in the projected age curves for each scenario in 2025, shown in Panel C. These age curves show the largest differences in middle-aged groups, an outcome that reflects the disproportionate effects of the foreclosure crisis and Great Recession on the homeownership rates of households in these age groups.

Panel C also displays the 1995 age curve for comparison, showing that all three scenarios imply lower levels of age-specific homeownership attainment than the 1995 age curve. Because the high scenario is constructed using the higher of the 1995 vs. 2015 homeownership rates by age, race/ethnicity, and family type, the difference in the age-specific homeownership rates in Panel C reflects changes in the distribution of households by race/ethnicity and family type within each age group. In the overall homeownership rate, these age-specific reductions are offset by the aging of the population, which increases the share of households in the older age groups where homeownership rates are high.

Figure 5. Projected Homeownership Outcomes by Age in 2025

Panel A. Projected Homeowner Growth and New Homeownerships by Age, 2015-2025
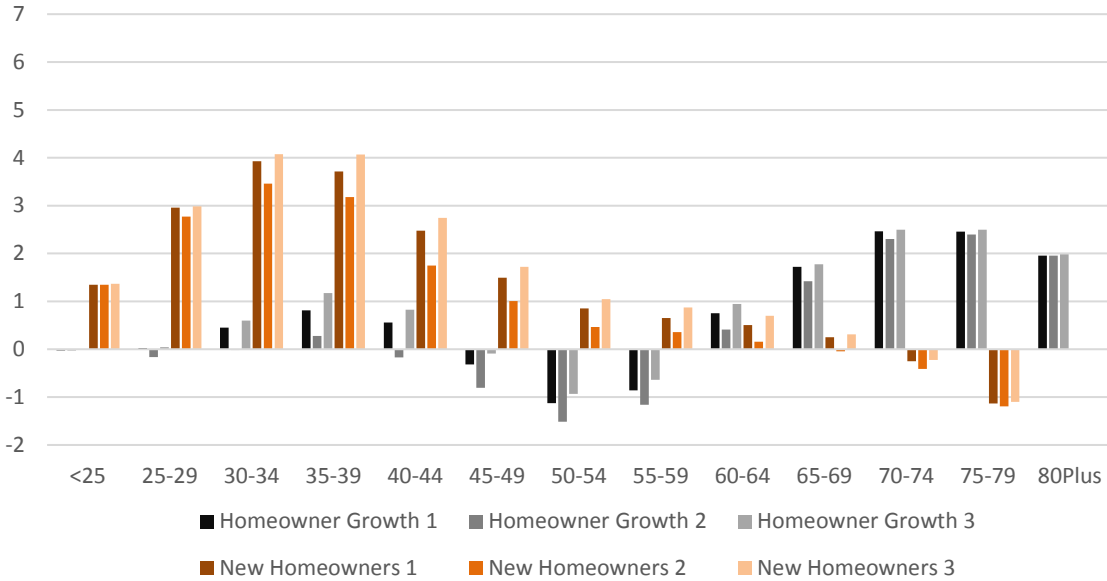
Source: JCHS tenure projections
Note: See also Appendix Table A.2

Panel B. Projected Homeowner Growth and New Homeownerships by Age, 2015-2025
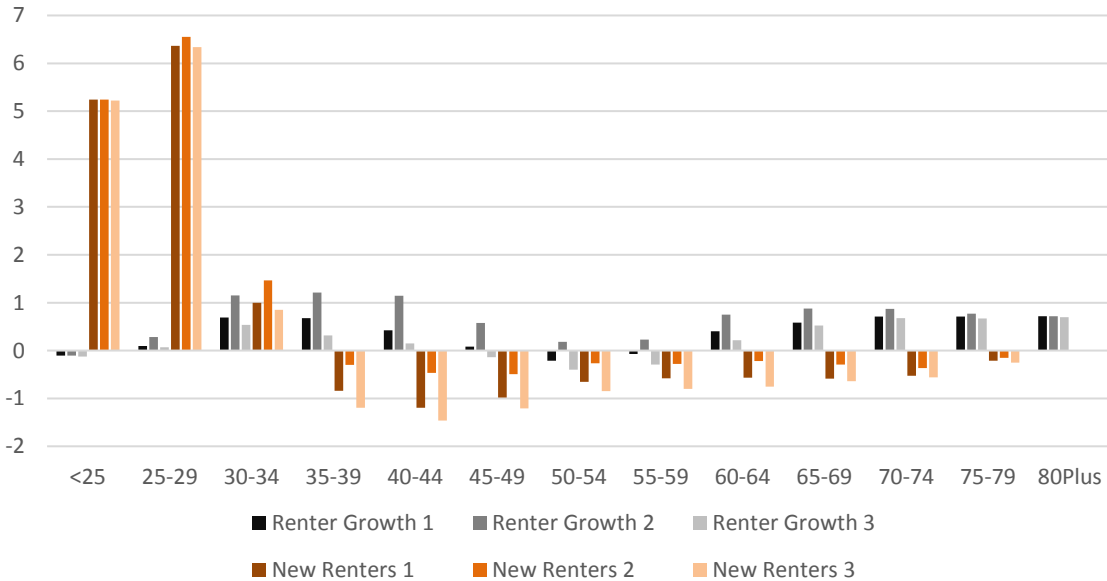
Source: JCHS tenure projections
Note: See also Appendix Table A.2

Panel C. Projected Homeownership Rates by Age Group and Scenario in 2025
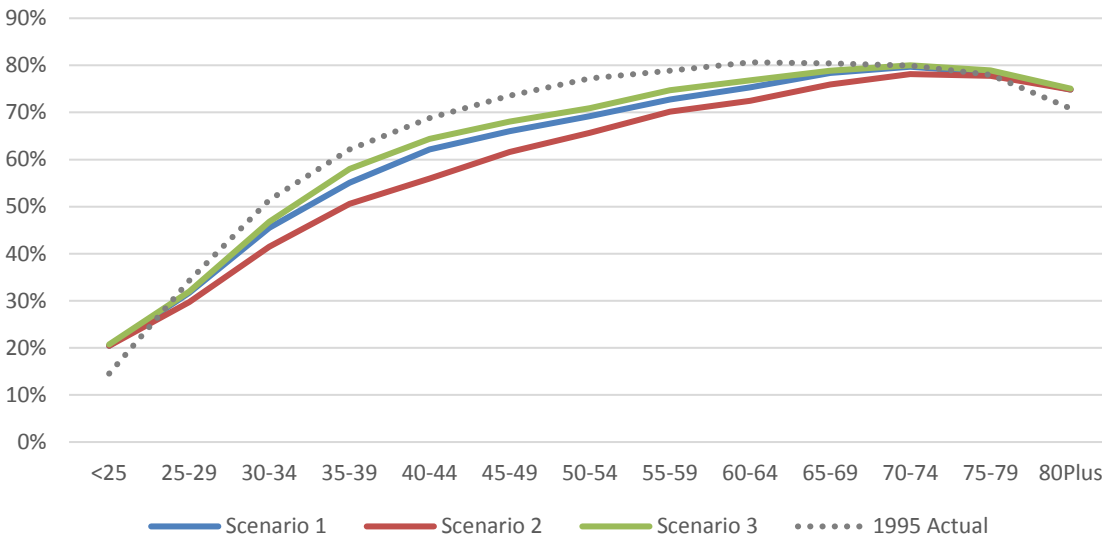
Source: JCHS tenure projections and tabulations of CPS ASEC data

Appendix Tables A.6 and A.7 display the projected share of homeowner and renter households, respectively, by race/ethnicity in 2015, 2025 and 2035. Among both homeowner and renter households, these figures illustrate the increasing diversity of U.S. households in coming years. Under the base scenario, the projected share of white homeowner households decreases from 76.6 percent in 2015 to 72.9 percent in 2025 and 68.8 percent in 2035. This decline is offset by increases in the Hispanic, Asian/Other, and black shares of homeowner households. The Hispanic share increases from 9.2 percent in 2015 to 11.1 percent in 2025 and 13.3 percent in 2035, and the share of homeowner households who are Asian, multiracial, or identify with some other race or ethnicity increases from 5.8 percent in 2015 to 7.2 percent in 2025 and 8.5 percent in 2035. In each case, the gains are slightly larger under the high scenario and slightly lower under the low scenario.

The differences between scenarios are larger for the black share of homeowner households. In particular, the low scenario projects that the black share of homeowner households will remain flat at 8.4 percent between 2015 and 2025, before increasing to 9.0 percent by 2035. The initial lack of growth between 2015 and 2025 appears because the low scenario's initial period of continued homeownership rate declines disproportionately affects black households, offsetting increases in the black share of the broader population. The potential growth from increasing diversity in the broader population is instead reflected by the base scenario's projection that that the black share of homeowner households will increase from 8.4 percent in 2015 to 8.8 percent in 2025 and 9.0 percent in 2035.

The projected shares of renter households similarly illustrate the increasing diversity of U.S. households. Under the base scenario, the projected share of white renter households decreases from 52.1 percent in 2015 to 47.9 percent in 2025 and 43.8 percent in 2035. In contrast to the pattern among homeowner households, the black share of renter households also decreases under the base scenario from 19.6 percent in 2015 to 19.5 percent in 2025 and 19.3 percent in 2035. These declines are offset by increases in the Hispanic share of renter households from 20.0 percent in 2015 to 22.4 percent in 2025 and 25.2 percent in 2035, and by increases in the share of Asian/other households from 8.3 percent in 2015 to 10.3 percent in 2025 and 11.7 percent in 2035.

Surprisingly, the aging of the baby boom generation and increasing diversity of homeowner households do not produce substantial changes in the share of homeowner and renter households by family type. The projected distributions in Appendix Tables A.6 and A.7 show slight decreases in the share of married homeowner households with children, slight increases in the share of single person homeowner households, and no clear trends in the other categories. Moreover, the observed changes are quite small compared to the trends by race and ethnicity. While the longer-term trends toward delayed marriage and childbirth should not be ignored, these results suggest that they will not reshape the profile of homeowner and renter households in coming years. Instead, such factors are likely to be most influential in analyses that focus specifically on subpopulations of younger households.

Summary and Conclusions

The continued decline in the homeownership rate has generated substantial discussion over the future of homeownership in the United States. In particular, because demographic trends can explain only a small portion of the recent changes, considerable uncertainty exists about the future trajectory of the homeownership rate. Given this outlook, this paper presents a detailed discussion of projection methods and the JCHS tenure projections for 2015-2035, which include three scenarios that describe a range of possible outcomes. The base scenario, which holds homeownership rates constant at their 2015 levels, shows that projected changes in the demographic composition of U.S. households by age, race/ethnicity, and family type will largely offset one another, affecting the homeownership rate only minimally through 2035. Instead, if homeownership rates stabilize at their current levels, projected household growth will add 8.9 million homeowner households and 4.7 million renter households by 2025, and 15.7 million homeowner households and 9.4 million renter households by 2035.

To supplement this base scenario, the low and high scenarios describe the implications of alternative homeownership rate trajectories. The low scenario describes homeownership outcomes if

the homeownership rate's current decline continues through 2020 before stabilizing, decreasing to 60.7 percent in 2020 before leveling off at 60.8 percent in 2025 and 60.6 percent in 2035. In contrast, the high scenario describes homeownership outcomes if the homeownership rate increases to levels that approximate pre-housing boom homeownership rates—65.0 percent in 2025 and 64.7 percent in 2035. While it is possible that future homeownership rates might extend outside this range, these projections offer useful reference points for understanding the implications of alternative homeownership rates for growth in the number of homeowner and renter households and for the projected distribution of homeowner and renter households by age, race/ethnicity, and family type.

In coming years, the homeownership rate's actual trajectory will depend on how quickly the foreclosure backlog clears, how many foreclosed households reenter homeownership, and whether young households' slowed rates of homeownership entry persist in future years. Additionally, any major changes in the broader economy, housing finance system, or households' attitudes toward homeownership may also influence future homeownership rates to the extent that they alter households' demand or access to homeownership. JCHS will therefore be tracking these outcomes closely as additional data provides updated information about the homeownership rate's trajectory in coming years.

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APPENDIX TABLES

A.1. Projected Homeownership Rates and Homeowner/Renter Households by Scenario and Year

	Actual	Projected			
	2015	2020	2025	2030	2035
Total Households	124,866,458	131,882,624	138,443,767	144,594,687	149,920,633
Base Scenario					
Homeownership Rate	63.5%	63.6%	63.7%	63.5%	63.3%
Total Homeowners	79,278,638	83,842,989	88,156,431	91,883,067	94,956,008
Homeowner Growth 2015-	-	4,564,351	8,877,793	12,604,429	15,677,369
Total Renters	45,587,820	48,039,635	50,287,336	52,711,620	54,964,625
Renter Growth 2015-	-	2,451,815	4,699,516	7,123,800	9,376,805
Low Scenario					
Homeownership Rate	63.5%	60.7%	60.8%	60.7%	60.6%
Total Homeowners	79,278,638	80,015,994	84,196,539	87,819,729	90,805,814
Homeowner Growth 2015-	-	737,355	4,917,901	8,541,091	11,527,176
Total Renters	45,587,820	51,866,631	54,247,228	56,774,958	59,114,819
Renter Growth 2015-	-	6,278,811	8,659,408	11,187,138	13,526,999
High Scenario					
Homeownership Rate	63.5%	64.9%	65.0%	64.9%	64.7%
Total Homeowners	79,278,638	85,537,999	89,953,547	93,783,665	96,955,339
Homeowner Growth 2015-	-	6,259,361	10,674,908	14,505,026	17,676,701
Total Renters	45,587,820	46,344,625	48,490,220	50,811,022	52,965,294
Renter Growth 2015-	-	756,805	2,902,400	5,223,202	7,377,474

Source: JCHS tabulations of CPS ASEC data and JCHS tenure projections

A.2. Projected Number of Homeowner Households in 2025 by Age, Race/Ethnicity, and Family Type

	2025			Change 2015-2025		
	Low	Base	High	Low	Base	High
<25	1,346,120	1,346,120	1,365,211	-22,970	-22,970	-3,879
25-29	2,770,307	2,956,769	2,983,196	-166,012	20,449	46,876
30-34	4,831,933	5,295,222	5,446,967	-14,147	449,142	600,887
35-39	6,112,970	6,649,912	7,006,572	277,779	814,721	1,171,381
40-44	6,593,866	7,322,199	7,593,473	-171,224	557,109	828,382
45-49	6,841,023	7,330,908	7,555,198	-805,206	-315,322	-91,031
50-54	7,228,028	7,620,615	7,809,004	-1,515,573	-1,122,987	-934,598
55-59	8,000,717	8,300,737	8,521,705	-1,158,251	-858,231	-637,263
60-64	8,903,636	9,249,524	9,439,977	407,998	753,886	944,339
65-69	9,115,738	9,411,792	9,469,757	1,423,593	1,719,648	1,777,612
70-74	8,081,932	8,243,659	8,275,021	2,303,792	2,465,519	2,496,881
75-79	6,499,120	6,557,825	6,595,378	2,399,811	2,458,516	2,496,070
80Plus	7,871,149	7,871,149	7,892,088	1,958,312	1,958,312	1,979,250
White	61,929,183	64,252,916	64,907,145	1,185,901	3,509,634	4,163,863
Black	7,023,729	7,742,841	8,275,189	397,845	1,116,957	1,649,305
Hispanic	9,213,425	9,785,788	10,136,238	1,891,282	2,463,645	2,814,095
Asian/Other	6,030,202	6,374,886	6,634,975	1,442,872	1,787,557	2,047,646
Married with Children	16,992,223	18,326,106	18,921,851	-639,929	693,954	1,289,700
Married without Children	34,080,199	35,103,993	35,594,097	3,106,388	4,130,181	4,620,285
Unmarried with Children	3,588,685	3,882,499	4,089,625	-173,081	120,733	327,859
Single Person	20,046,901	20,926,282	21,157,792	2,381,248	3,260,628	3,492,139
Other Family Type	9,488,531	9,917,552	10,190,181	243,275	672,296	944,925
Total	84,196,539	88,156,431	89,953,547	4,917,901	8,877,793	10,674,908

Source: JCHS tenure projections

A.3. Projected Number of Homeowner Households in 2035 by Age, Race/Ethnicity, and Family Type

	2035			Change 2015-2035		
	Low	Base	High	Low	Base	High
<25	1,348,079	1,348,079	1,367,004	-21,011	-21,011	-2,086
25-29	2,710,494	2,889,577	2,918,891	-225,826	-46,743	-17,429
30-34	4,616,704	5,057,231	5,204,407	-229,376	211,151	358,327
35-39	6,134,259	6,680,673	7,049,812	299,068	845,482	1,214,621
40-44	7,251,819	8,063,307	8,380,603	486,728	1,298,217	1,615,512
45-49	7,833,745	8,405,963	8,673,544	187,516	759,733	1,027,314
50-54	7,901,742	8,332,255	8,539,521	-841,860	-411,346	-204,080
55-59	7,762,012	8,038,801	8,298,391	-1,396,956	-1,120,168	-860,577
60-64	7,773,571	8,112,166	8,309,109	-722,067	-383,472	-186,529
65-69	8,334,391	8,625,538	8,682,099	642,247	933,394	989,955
70-74	8,926,955	9,096,776	9,136,140	3,148,815	3,318,635	3,358,000
75-79	8,150,512	8,244,112	8,297,878	4,051,204	4,144,803	4,198,570
80Plus	12,061,530	12,061,530	12,097,939	6,148,693	6,148,693	6,185,102
White	63,087,432	65,317,644	65,959,517	2,344,150	4,574,362	5,216,234
Black	8,128,582	8,898,968	9,497,739	1,502,698	2,273,084	2,871,855
Hispanic	11,936,876	12,660,001	13,094,614	4,614,733	5,337,859	5,772,471
Asian/Other	7,652,924	8,079,393	8,403,469	3,065,594	3,492,064	3,816,140
Married with Children	17,801,857	19,210,921	19,847,454	169,705	1,578,769	2,215,302
Married without Children	35,814,189	36,851,419	37,413,169	4,840,378	5,877,607	6,439,357
Unmarried with Children	3,861,264	4,182,100	4,409,325	99,498	420,334	647,559
Single Person	22,753,303	23,656,335	23,915,923	5,087,650	5,990,682	6,250,270
Other Family Type	10,575,200	11,055,232	11,369,469	1,329,944	1,809,977	2,124,213
Total	90,805,814	94,956,008	96,955,339	11,527,176	15,677,369	17,676,701

Source: JCHS tenure projections

A.4. Projected Number of Renter Households in 2025 by Age, Race/Ethnicity, and Family Type

	2025			Change 2015-2025		
	Low	Base	High	Low	Base	High
<25	5,241,125	5,241,125	5,222,034	-105,316	-105,316	-124,406
25-29	6,551,451	6,364,990	6,338,563	283,267	96,806	70,378
30-34	6,810,254	6,346,965	6,195,220	1,150,603	687,313	535,569
35-39	5,967,120	5,430,178	5,073,518	1,211,852	674,910	318,250
40-44	5,194,773	4,466,440	4,195,166	1,147,759	419,426	148,153
45-49	4,260,922	3,771,037	3,546,747	574,130	84,245	-140,045
50-54	3,783,176	3,390,590	3,202,201	182,282	-210,304	-398,693
55-59	3,405,973	3,105,953	2,884,985	225,863	-74,156	-295,124
60-64	3,380,430	3,034,542	2,844,089	751,255	405,366	214,913
65-69	2,890,649	2,594,594	2,536,629	878,063	582,009	524,044
70-74	2,260,970	2,099,243	2,067,881	871,842	710,114	678,752
75-79	1,858,785	1,800,080	1,762,526	769,318	710,612	673,059
80Plus	2,641,600	2,641,600	2,620,661	718,490	718,490	697,551
White	26,406,275	24,082,541	23,428,312	2,662,268	338,534	-315,695
Black	10,506,680	9,787,568	9,255,220	1,567,308	848,197	315,849
Hispanic	11,819,937	11,247,574	10,897,124	2,696,572	2,124,210	1,773,760
Asian/Other	5,514,337	5,169,652	4,909,564	1,733,259	1,388,575	1,128,486
Married with Children	9,301,667	7,967,785	7,372,039	2,367,825	1,033,943	438,197
Married without Children	8,858,519	7,834,725	7,344,622	1,990,437	966,643	476,539
Unmarried with Children	7,559,807	7,265,992	7,058,867	622,275	328,460	121,334
Single Person	18,818,989	17,939,608	17,708,097	2,900,188	2,020,807	1,789,296
Other Family Type	9,708,246	9,279,225	9,006,596	778,684	349,663	77,034
Total	54,247,228	50,287,336	48,490,220	8,659,408	4,699,516	2,902,400

Source: JCHS tenure projections

A.5. Projected Number of Renter Households in 2035 by Age, Race/Ethnicity, and Family Type

	2035			Change 2015-2035		
	Low	Base	High	Low	Base	High
<25	5,273,648	5,273,648	5,254,723	-72,792	-72,792	-91,717
25-29	6,676,903	6,497,821	6,468,506	408,719	229,637	200,322
30-34	6,714,043	6,273,516	6,126,339	1,054,391	613,865	466,688
35-39	6,245,219	5,698,804	5,329,666	1,489,951	943,537	574,398
40-44	5,996,763	5,185,274	4,867,979	1,949,749	1,138,260	820,965
45-49	5,019,511	4,447,294	4,179,713	1,332,719	760,502	492,921
50-54	4,265,593	3,835,080	3,627,814	664,699	234,185	26,919
55-59	3,530,778	3,253,989	2,994,399	350,668	73,880	-185,711
60-64	3,274,947	2,936,353	2,739,410	645,772	307,177	110,234
65-69	2,869,381	2,578,234	2,521,673	856,796	565,649	509,088
70-74	2,659,565	2,489,745	2,450,380	1,270,436	1,100,616	1,061,252
75-79	2,461,351	2,367,751	2,313,985	1,371,883	1,278,284	1,224,517
80Plus	4,127,117	4,127,117	4,090,707	2,204,007	2,204,007	2,167,597
White	26,311,088	24,080,876	23,439,003	2,567,081	336,869	-305,003
Black	11,397,953	10,627,567	10,028,797	2,458,582	1,688,196	1,089,425
Hispanic	14,572,872	13,849,746	13,415,133	5,449,508	4,726,382	4,291,769
Asian/Other	6,832,906	6,406,436	6,082,360	3,051,828	2,625,359	2,301,282
Married with Children	9,892,368	8,483,304	7,846,771	2,958,526	1,549,462	912,929
Married without Children	9,687,454	8,650,224	8,088,474	2,819,371	1,782,142	1,220,392
Unmarried with Children	8,020,269	7,699,433	7,472,209	1,082,737	761,901	534,677
Single Person	20,879,815	19,976,783	19,717,195	4,961,013	4,057,981	3,798,394
Other Family Type	10,634,913	10,154,881	9,840,644	1,705,351	1,225,319	911,082
Total	59,114,819	54,964,625	52,965,294	13,526,999	9,376,805	7,377,474

Source: JCHS tenure projections

A.6. Projected Share of Homeowner Households by Age, Race/Ethnicity, and Family Type

	2015	2025			2035		
	Actual	Low	Base	High	Low	Base	High
<25	1.7%	1.6%	1.5%	1.5%	1.5%	1.4%	1.4%
25-29	3.7%	3.3%	3.4%	3.3%	3.0%	3.0%	3.0%
30-34	6.1%	5.7%	6.0%	6.1%	5.1%	5.3%	5.4%
35-39	7.4%	7.3%	7.5%	7.8%	6.8%	7.0%	7.3%
40-44	8.5%	7.8%	8.3%	8.4%	8.0%	8.5%	8.6%
45-49	9.6%	8.1%	8.3%	8.4%	8.6%	8.9%	8.9%
50-54	11.0%	8.6%	8.6%	8.7%	8.7%	8.8%	8.8%
55-59	11.6%	9.5%	9.4%	9.5%	8.5%	8.5%	8.6%
60-64	10.7%	10.6%	10.5%	10.5%	8.6%	8.5%	8.6%
65-69	9.7%	10.8%	10.7%	10.5%	9.2%	9.1%	9.0%
70-74	7.3%	9.6%	9.4%	9.2%	9.8%	9.6%	9.4%
75-79	5.2%	7.7%	7.4%	7.3%	9.0%	8.7%	8.6%
80Plus	7.5%	9.3%	8.9%	8.8%	13.3%	12.7%	12.5%
White	76.6%	73.6%	72.9%	72.2%	69.5%	68.8%	68.0%
Black	8.4%	8.3%	8.8%	9.2%	9.0%	9.4%	9.8%
Hispanic	9.2%	10.9%	11.1%	11.3%	13.1%	13.3%	13.5%
Asian/Other	5.8%	7.2%	7.2%	7.4%	8.4%	8.5%	8.7%
Married with Children	22.2%	20.2%	20.8%	21.0%	19.6%	20.2%	20.5%
Married without Children	39.1%	40.5%	39.8%	39.6%	39.4%	38.8%	38.6%
Unmarried with Children	4.7%	4.3%	4.4%	4.5%	4.3%	4.4%	4.5%
Single Person	22.3%	23.8%	23.7%	23.5%	25.1%	24.9%	24.7%
Other Family Type	11.7%	11.3%	11.2%	11.3%	11.6%	11.6%	11.7%

Source: JCHS tenure projections

A.7. Projected Share of Renter Households by Age, Race/Ethnicity, and Family Type

	2015	2025			2035		
	Actual	Low	Base	High	Low	Base	High
<25	11.7%	9.7%	10.4%	10.8%	8.9%	9.6%	9.9%
25-29	13.7%	12.1%	12.7%	13.1%	11.3%	11.8%	12.2%
30-34	12.4%	12.6%	12.6%	12.8%	11.4%	11.4%	11.6%
35-39	10.4%	11.0%	10.8%	10.5%	10.6%	10.4%	10.1%
40-44	8.9%	9.6%	8.9%	8.7%	10.1%	9.4%	9.2%
45-49	8.1%	7.9%	7.5%	7.3%	8.5%	8.1%	7.9%
50-54	7.9%	7.0%	6.7%	6.6%	7.2%	7.0%	6.8%
55-59	7.0%	6.3%	6.2%	5.9%	6.0%	5.9%	5.7%
60-64	5.8%	6.2%	6.0%	5.9%	5.5%	5.3%	5.2%
65-69	4.4%	5.3%	5.2%	5.2%	4.9%	4.7%	4.8%
70-74	3.0%	4.2%	4.2%	4.3%	4.5%	4.5%	4.6%
75-79	2.4%	3.4%	3.6%	3.6%	4.2%	4.3%	4.4%
80Plus	4.2%	4.9%	5.3%	5.4%	7.0%	7.5%	7.7%
White	52.1%	48.7%	47.9%	48.3%	44.5%	43.8%	44.3%
Black	19.6%	19.4%	19.5%	19.1%	19.3%	19.3%	18.9%
Hispanic	20.0%	21.8%	22.4%	22.5%	24.7%	25.2%	25.3%
Asian/Other	8.3%	10.2%	10.3%	10.1%	11.6%	11.7%	11.5%
Married with Children	15.2%	17.1%	15.8%	15.2%	16.7%	15.4%	14.8%
Married without Children	15.1%	16.3%	15.6%	15.1%	16.4%	15.7%	15.3%
Unmarried with Children	15.2%	13.9%	14.4%	14.6%	13.6%	14.0%	14.1%
Single Person	34.9%	34.7%	35.7%	36.5%	35.3%	36.3%	37.2%
Other Family Type	19.6%	17.9%	18.5%	18.6%	18.0%	18.5%	18.6%

Source: JCHS tenure projections