

# **Joint Center for Housing Studies**

## **Harvard University**

### **Understanding the Minority Contribution to U.S. Owner Household Growth**

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# **Understanding the Minority Contribution to U.S. Owner Household Growth**

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## **Abstract**

The high contribution of minorities to net owner household growth in recent years is due to fundamental differences in the age structures of white vs. minority households. Among non-Hispanic whites, new owner household formation by young adults is largely offset by owner household dissolutions among older cohorts. Minority owner household formation, particularly for Asians and Hispanics, takes place with relatively little net owner household loss by older cohorts. There are simply many more young adults in such minority groups to form new owner households, and fewer older owner households to dissolve. In the decades ahead, losses of owner households will increase, with the aging of the baby boom affecting non-Hispanic whites more than minorities. Other underlying demographic differences that affect the changing age distribution, particularly differences in fertility and immigration, will likely serve to strengthen the minority share of overall owner household growth in the future. In addition, any convergence in ownership rates between whites and minorities will raise the minority share of total owner households even more.

# Understanding the Minority Contribution to U.S. Owner Household Growth

by

George S. Masnick

## Introduction

Between 1994 and 1997, the net addition of upwards of 4 million homeowner households (see Exhibit 1) contributed to both a boom in the construction of new housing, and to an exceptionally strong resale market for existing housing.<sup>1</sup> Whether this pace of growth in homeowners is accurately measured, and has indeed set a new 3-year record for owner household growth, is somewhat clouded by still unanswered questions about methodological changes in the way homeowner household growth is estimated by the U.S. Census Bureau (Masnick, et.al. 1998).<sup>2</sup> But records aside, all indicators are that a bouyant economy, sustained low interest rates, and innovations in mortgage lending have created a rich climate for homeowner growth of significant proportions for several years running (Joint Center for Housing Studies 1998).

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<sup>1</sup>The preferred data source for measuring trends in homeownership is the compilation of the monthly Current Population Survey released quarterly by the U.S. Census Bureau with the Housing Vacancy Survey. In this series, monthly CPS data are averaged over 3 and 12 months to yield quarterly and annual homeownership estimates, respectively. The annual data in particular have the advantage of averaging 12 monthly data sets which, individually, are subject to higher sampling variability.

<sup>2</sup> Beginning in January 1994, and continuing through 1996, fundamental changes were made to the Current Population Survey that have an unknown effect on the estimation of households by tenure. These changes include shifting from 1980 to 1990 census weights, re-weighting the sample for census undercount estimation for the first time, shifting to computer assisted questionnaire design and phone interviews (resulting in higher number of incomplete interviews), substituting a 1990 census sampling frame for a 1980 census sampling frame (resulting in the dropping of primary sampling units mostly in the Northeast and Midwest and adding primary sampling units mostly in the South and West), and in 1996 reducing the size of the CPS sample in a cost-saving move by eliminating primary sampling units in a non-random fashion (non-random in an attempt to preserve the ability to tabulate state-level data reliably). A case can be made that many of these changes would favor the identification of owner over renter households in the CPS, and thus raise the estimation of owner household growth.

One thing that stands out about the strong owner household growth since 1994 is the large contribution of minority household formation to both total and owner household growth. Although accounting for less than 16 percent of the entire homeowner population in 1995, minorities were responsible for 42 percent of the total owner growth, and 68 percent of total household growth between 1994 and 1997.

It is therefore tempting to link minority owner growth with recent economic trends and innovative mortgage lending initiatives that have targeted minorities. Such an interpretation might explain why minorities have not been left out of the present bullish housing market, but as an explanation of minority ascendancy in market share, it tells only part of the story, and perhaps not the most important part. Favorable housing market conditions in recent years appear to have made homeownership easier for all groups, including non-Hispanic whites (Carliner 1998). Rather, it is basic demographics that largely determine the disparity in owner and renter household growth between whites and minorities. These demographic differences include the age structure of the different population groups, high levels of immigration of Asians and Hispanics beginning in the early 1980s and continuing today, basic long-term differences in white and minority homeownership rates, and enduring differentials in headship rates and family structures.

Such an interpretation is supported by the fact that the 1994-97 differentials in total and owner household growth of whites vs. minorities are not all that different from longer term differentials as measured between 1985 and 1995. Over this 10-year period, the share of total and owner household growth attributed to minorities was very close to that measured between 1994 and 1997, suggesting the importance of longer term structural factors as opposed to shorter term economic or recent policy related influences (see Exhibit 2).

When the minority population is broken down further into non-Hispanic blacks, non-Hispanic others (mostly Asians) and Hispanics, the broad pattern of higher contribution to total and owner household growth relative to the base stock of households in the general population is maintained for each minority group. Non-Hispanic others (Asians) and Hispanics continue to make especially strong contributions to household growth relative to their base in the total household stock (Exhibits 3a-3d).

Taking the 1994-1997 data at face value, not all minority groups have improved their market share of both total and owner growth during the current housing boom. Black and Asian shares of owner household growth did appear to strengthen in 1994-1997, but both white and Hispanic growth appeared to have become slightly weaker. However, changes in CPS methodology could account for some of this difference, and it would be premature to conclude anything about small differential trends in owner and renter household growth since 1994.

### **Cohort Differences**

The key to understanding the differential racial/ethnic contributions to household growth is in understanding how the different age cohorts in each racial group are contributing to this growth. Over the life course, as a cohort ages into its 20s, it begins to form independent households, typically renter households at first. As the cohort moves further along in the life course, it begins to form owner households. The peak ages for owner household formation are the thirties and forties. By the time a cohort reaches age 50, little net additional owner household formation typically takes place. By the time the cohort reaches its late 50s and 60s, net household accumulation turns negative. Household

dissolution, due to death and due to transitions from owner to renter and from head to non-head increasingly characterizes the older age groups. After age 70, net cohort losses of owner households become substantial. The total net change in the number of owner households across all age-cohorts between two points in time is therefore the sum of these net gains and net losses for individual cohorts across the entire age spectrum.

The way in which this scenario of cohort growth and decline in owner household numbers plays itself out differs for whites and minorities in several important respects. First, minorities have tended to move more slowly during their 20s and 30s into both household formation and homeownership than have whites. Economic realities and cultural traditions both work to delay the formation of independent households by minorities, especially those with a large share of recent immigrants in its young adult population base (Glick, et. al. 1997). Housing discrimination, both real and perceived, undoubtedly also has an influence in slowing minority housing progress (Ratner 1996).

Secondly, while net owner household formation begins to decrease for whites between age 55 and 64, it continues to grow for minorities. Whites lose owner households on net after age 55 because, having formed owner households earlier in life, they suffer numerically significant owner losses because of transitions from own to rent that sometimes happen when “downsizing” during the retirement years, or because of the disappearance of households altogether as sickness and death begin to take their toll.

The effects of delayed immigrant entry into the housing market, and the greater time it takes minorities, on average, to overcome economic and housing market obstacles in attaining homeownership help explain this pattern of sustained minority owner growth in late mid-life. Dissolutions of owner households do occur for minorities as well as whites after age 55, but

the delayed additions between the ages of 55 and 65 more than offset the dissolutions for minorities.

Thirdly (and perhaps most important), is the much larger share of owner households in the older age groups for whites. Minorities, and in particular Asians and Hispanics, have fewer owner households headed by persons age 65+. Whereas fully 27 percent of white owner household heads were over the age of 65 in 1995, only 15 percent of Hispanic and 11 percent of non-Hispanic other (mostly Asian) owner households were headed by persons age 65 and older. Blacks are intermediate, with 22 percent elderly owner heads. This third difference is significant when accounting for overall net owner household growth between the groups. Whites both add new owner households in large numbers in the younger age groups, and lose owner households in large numbers in the older age groups. This combination of trends diminishes overall owner household growth relative to the stock of total households for whites. Minorities do not suffer the large numerical losses that offset the gains registered in the younger ages, even though those gains might be proportionally less than white gains in younger ages because of lower minority headship and ownership rates (see below).

These three broad differences between whites and minorities in cohort owner household growth between 1985 and 1995 can be visualized in Exhibits 4a-4d. The arrows represent the size and direction of change in the number of total owner households a cohort contributed between 1985 and 1995. The vertical distance between the head and tail of the arrow represents the magnitude of the change, and the vertical direction the arrow points (up or down) represents whether the cohort gained or lost owner households on net over that time period (note that the white and minority scales are different). The age axis represents the age of the cohort in 1995.

Reading each chart from left to right, the first arrow represents the cohort that aged into the 25-34 age group in 1995, its members were therefore born between 1960 and 1969. These are the youngest, or tail end, of the baby boom generation.<sup>3</sup> The next two arrows represent the ownership progress of cohorts who were born between 1950 and 1959, and between 1940 and 1949, the middle and older baby boomers. Each successive cohort (arrow) moving left represents the ownership gains or losses of persons born in decades previous. The rightmost arrow represents all persons born before 1910.

Most white homeownership is attained as the cohort moves into the 25-34 age group, whereas minorities make the greatest gains while moving into the 35-44 age group. By the time whites have moved into the 45-54 age group they have almost stopped adding owner households on net, while minorities still made strong gains in homeownership at these ages.

These differences hold up between whites and minorities as the cohorts moved into age 55-64; and, even the transitions into age 65-74 are similar (4<sup>th</sup> and 5<sup>th</sup> arrows from the left).

Asians (the majority of non-Hispanic others) and Hispanics have relatively few owner households in 1985 headed by persons over the age of 65, so losses that are part of the life cycle among the elderly do not have much effect on the total owner growth numbers. This is

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<sup>3</sup> We divide the baby boom generation into three segments: youngest, middle, and oldest – born 1960-69, 1950-59, and 1940-49, respectively. Some analysts refine the baby-boom generation to those born 1945-64, but this definition is unduly limiting. Both fertility rates and the number of births turned sharply upward after 1940, and the number of births 1965-69 exceeded the number born 1945-49. In addition, it was not until after 1970 that the fertility rate fell below 1940 levels, with annual births falling below 3.5 million each year between 1972 and 1979.



not true among whites and blacks where owner households are more numerous among the elderly, and life-cycle losses count more heavily against the gains registered by the younger cohorts.

With few exceptions, each successively younger cohort has established a trajectory that results in more owner households on net upon reaching a particular age than attained by the cohorts that preceded it in the age structure. The exceptions are the Great Depression cohort of non-Hispanic whites (age 55-64 in 1995 and therefore born between 1930 and 1940), and the youngest of the baby boom cohorts of both whites and blacks (born between 1960 and 1970). In both of these cases fewer persons were born into the cohorts than into the cohorts that immediately preceded them. These differences suggest that the sheer numbers of persons in each cohort, in addition to their rates of household formation and homeownership, help explain cohort differences in the number of owner households. Non-Hispanic others and Hispanics show no sign of either the 1930s or 1960s cohort deficits in owner household numbers seen among the white cohorts, since most in these two groups were born abroad and immigrated to the United States after 1970.

The youngest of the baby boom cohorts of white and black owners is slightly smaller than the middle baby boom cohorts, so they will likely not improve upon the number of owner households achieved by the larger cohort that immediately preceded them in the age structure. Only if they ultimately have higher headship and homeownership rates than the middle baby boomers will this become possible. The 25-34 year old non-Hispanic other and Hispanic owners are, however, more numerous than the cohorts of owners that preceded them in the age structure, and serve to compensate for the white and black deficits in this age group. Overall, because of Asian and Hispanic population growth, the combined cohort age

25-34 in 1995 should meet or exceed the total number of owner households created by the middle baby boom cohort.

The same information represented in Exhibits 4a-4d is re-plotted in Exhibits 5a-5d., with information on the cohort trends in renter household growth added . Here, cohort owner and renter growth or decline between 1985 and 1995 for the four racial/Hispanic origin groups is represented as a bar graph. The length of the bars exactly represents the amount of vertical rise or fall in the arrows in Exhibits 4a-4d (not the length of the arrows themselves).

The large increase in owner households as whites move into the 25-34 age group, and smaller gains in the 35-44 age group when compared to minorities, is clearly seen in Exhibits 5a-5d. However, renter household growth in both of these age transitions is definitely more significant for minorities than for whites. By forming proportionally more renter households in the two youngest age groups, minorities have established a reservoir for potential owner household growth when passing into the 35-44 age group, when minority owner to renter household transitions are common.

Also clearly shown in Exhibits 5a-5d are the low levels of loss of minority owner households in the older age groups in comparison to whites. (Notice that the 75-84 and 85+ age categories in the previous Exhibits have been combined to a 75+ category). The high white losses among the elderly sharply reduced the total net gain in owner households during 1985-95. For minorities, the total growth in owner households was far less affected by owner losses among the elderly, especially for Asians and Hispanics.

### **Population Age Distribution, Household Headship and Homeownership Rates**

The numbers of owner households by age and race/Hispanic origin recorded in Exhibits 4a-4d were determined by the product of three factors: 1) the number of people in each age group for each race/Hispanic origin category (age distribution); 2) the rate at which people in each age group form households (headship rate), and; 3) the fraction of households that are owner households (ownership rate). Whites have a large number of elderly owner households because there are proportionally more elderly whites than elderly minorities, and both headship and ownership rates for whites are higher than for minorities. Asians have relatively few elderly owner households because the already small elderly Asian cohorts in the U.S. have especially low headship and ownership rates. Hispanics have the youngest age structure, and while headship rates among the older cohorts are higher than for Asians, ownership rates at age 45 and older are the lowest of any racial/Hispanic origin group.

The age distribution of a population is determined by historical levels and trends in fertility, mortality and immigration. Headship and ownership rates are, in part, determined by broad economic and social forces, but long term differentials in these two rates are also determined by immigration and family structure. The four racial/Hispanic origin groups we have analyzed are distinctive on all of these variables.

### ***Population Age Structure***

Whites have a greater proportion of owner households in the older age groups partly because the white population age structure is older (Exhibit 6a). Whites have a higher proportion of their population over the age of 55 because historical immigration patterns in the first half of the 20<sup>th</sup> century favored those of European origin. In addition, lower white fertility rates, especially since 1970, has resulted in a smaller portion of the white population

being under 25 compared to higher fertility blacks and Hispanics. Today, about 30 percent of all women in their childbearing ages (15-49) are minority, compared to only 18 percent of all women over the age of 50. Because minorities have higher fertility rates than non-Hispanic whites, almost 40 percent of all births today are in one of the three minority categories. Both the higher proportion of childbearing age population, and still higher proportion child population for the three minority groups, can be clearly seen in Exhibit 6a.

Recent immigration has favored minorities, especially Hispanics and Asians. Because the immigrants are primarily in their 20s (Exhibit 6b), they and their children, including those born in the U.S., tally most of their numbers in the young adult age groups. Asians have the highest number of recent immigrants in the middle and older ages. White immigration during the late 1980s (primarily from formerly communist block countries), while less than Asian or Hispanic, also causes a spike in the young adult age groups among immigrants. It is interesting to note that the Census Bureau estimates negative immigration for the oldest whites, presumably reflecting a desire on the part of some to be buried in the “old country.” Non-Hispanic black immigration has been relatively low in recent decades and is less concentrated in the young adult ages.

### ***Headship and Ownership Rates***

Household headship rates for non-Hispanic whites are higher than rates for Hispanics and Asians in all age groups, but the differences are especially large in the older ages (Exhibit 6c). Older Hispanics and Asians are far less likely than whites to live independently when they are over the age of 65. How much of this difference is due to higher shares Asian and Hispanic elderly being recent immigrants, who are therefore more likely to live with relatives,

and how much is due to enduring cultural differences in living arrangements of the elderly, is an important question for future research.

Blacks have a distinctive profile of headship with age. After being intermediate between the headship of whites and Asians through their early 30s, black headship climbs above that of whites by age 40, and accelerates well above white levels throughout the 50s and 60s. This pattern of higher black headship is due to fewer married couples present in the black population. With a greater proportion of black adults not currently married, more live independently.

Such independent living of older blacks is far less likely to be in owner-occupied households. Ownership rates for blacks are far below those for whites in all age groups (Exhibit 6d). Since married couples are far more likely to live in owner-occupied households than are unmarried heads, part of the black/white differential in the formation of owner households in the middle and older age groups is due to differences in marital status of these groups. Further research is necessary to better understand why some older unmarried heads are able to attain ownership while others are not.

Hispanic ownership rates are fairly close to black rates across all age groups, but here the explanation of low ownership also involves the higher share of Hispanics that are recent immigrants. Asian ownership is intermediate between white and black, except for the oldest Asian households, which are the most likely to be renters. While Asians also have a high proportion of young adults who are recent immigrants, they also show larger increases in cohort homeownership rates than either blacks or Hispanics (McArdle 1996, Myers and Lee 1997)

## **Conclusions**

We have shown that the high contribution of minority owner households to overall owner household growth in recent years is rooted in basic demographic differences between whites and minorities. These differences are likely to persist, and indeed become magnified in the short run, as the cohort losses among white elderly homeowners increase with the aging of the baby boom. Eventually, Asian and Hispanic households will begin to experience cohort losses when the population now in the 30s and 40s reach old age. When this time arrives (2025 and beyond), cohort losses among Asians and Hispanics might even be proportionally greater than white losses because of the greater propensity of Asian and Hispanic elderly to live with their children or other relatives.

Specific future improvements or declines in minority shares of owner household growth depend on their future trends in population share and on trends in headship and ownership rates. Population share depends on future trends in immigration and on differentials in fertility, which may change from their recent levels. According to the latest Census Bureau population projections, the share of total annual population growth that is minority increases from about 70 percent in the late 1990s to above 80 percent by 2020, to minorities accounting for 100 percent between 2030 and 2040 (Day 1996). The Hispanic share of population growth increases from 37 percent in the late 1990s to 67 percent by 2050, while the Asian share increases from 15 to 19 percent over the same period. The black share of population growth holds steady at about 15 percent, but since the white share is projected to decline, the share of blacks in the total population will increase.

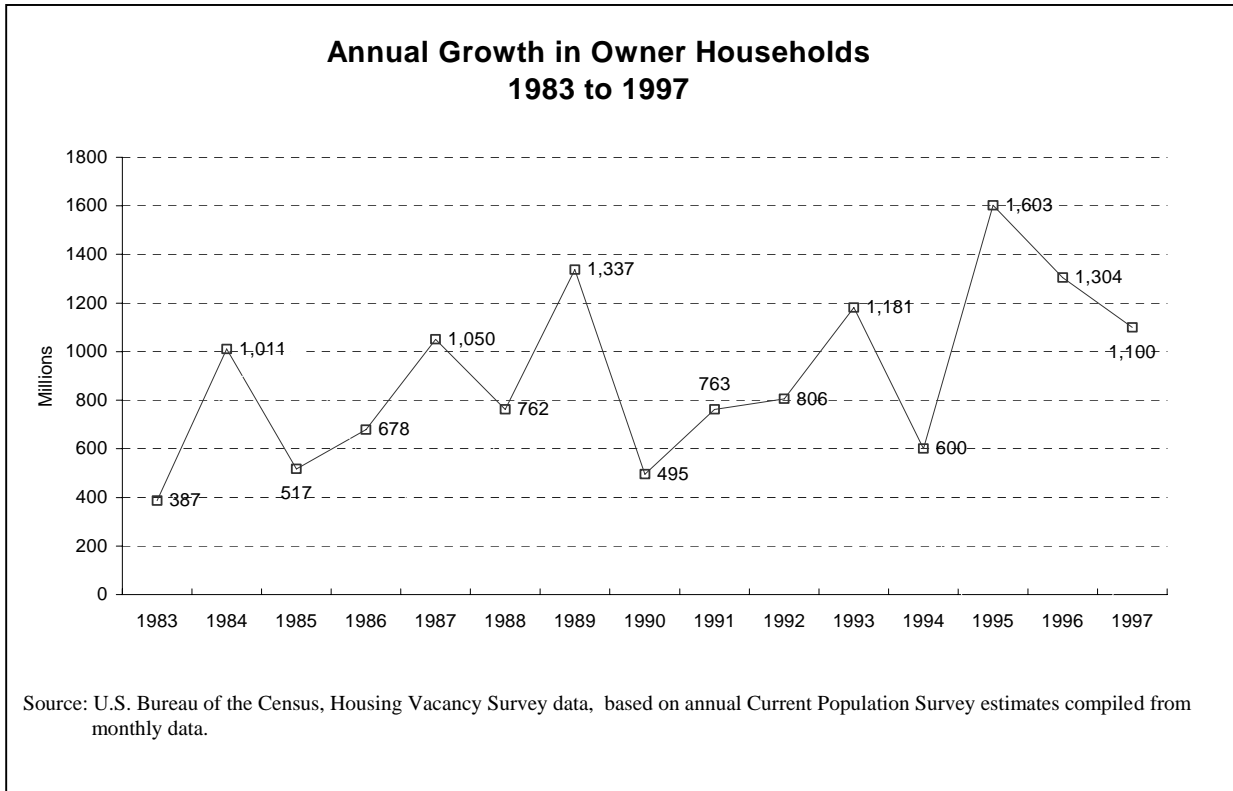
Headship and ownership rates are more difficult to forecast for minority groups. Asian ownership rates have risen sharply in recent years, and may begin to approach, or even exceed, the levels of whites for some Asian groups in the not too distant future. In the short run, then, the importance of Asians in contributing to net gains in owner households in future years will continue to be recognized.

On the other hand, ownership rates of blacks and Hispanics lag far behind those for whites. Although the black population share is not increasing significantly among young adults as is the Hispanic share, the potential for both black and Hispanic ownership rate increases is very large given the large share of renter households in the younger age groups. Public policy initiatives to boost homeownership among these groups could have a significant impact in the short term on future minority owner household growth.<sup>3</sup> In the long term however, trends in such factors as level of education, family structure, and geographic mobility, all of which have a profound influence on earnings, will decide the future trends in black and Hispanic homeownership.

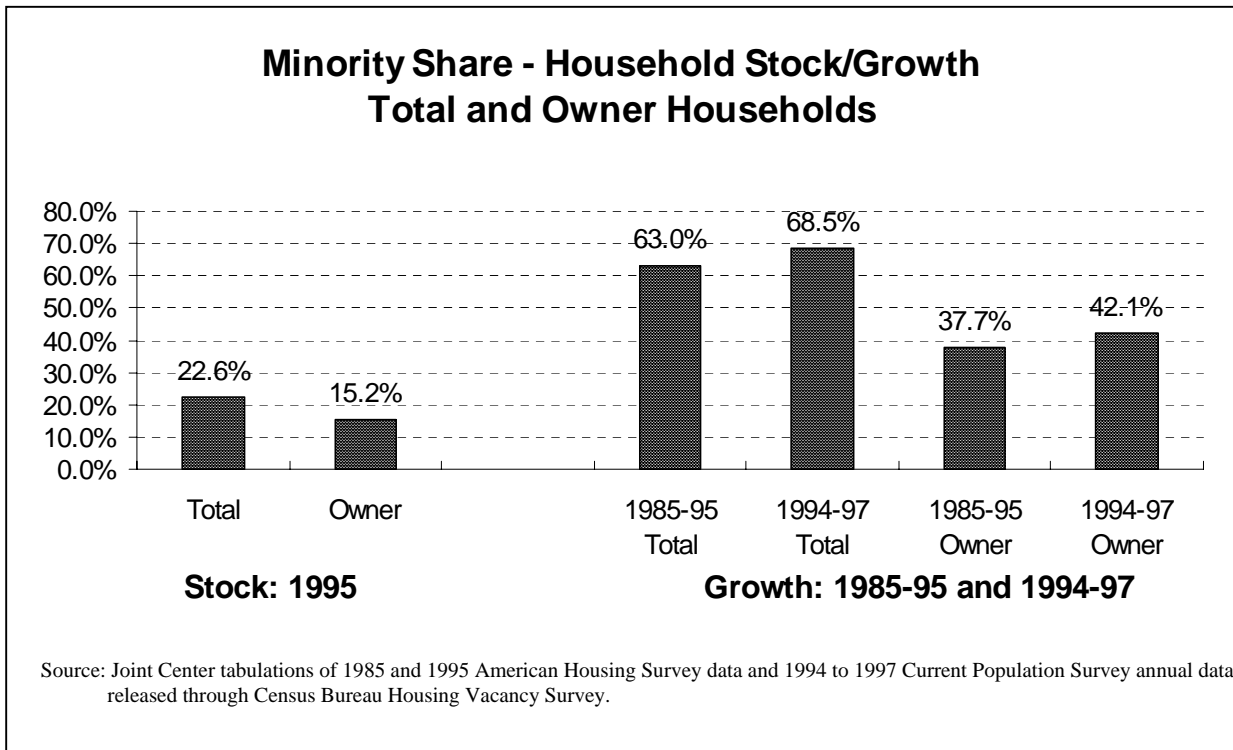
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<sup>3</sup> The Clinton Administration's initiative to raise the homeownership rate to 67.5 percent by the year 2000 began in the summer of 1994. The strategy consists of four elements: 1) make homeownership more affordable; 2) eliminate barriers to homeownership; 3) enable families to manage the responsibilities and rewards of homeownership, and; 4) make it easier to buy a home.

### Exhibit 1

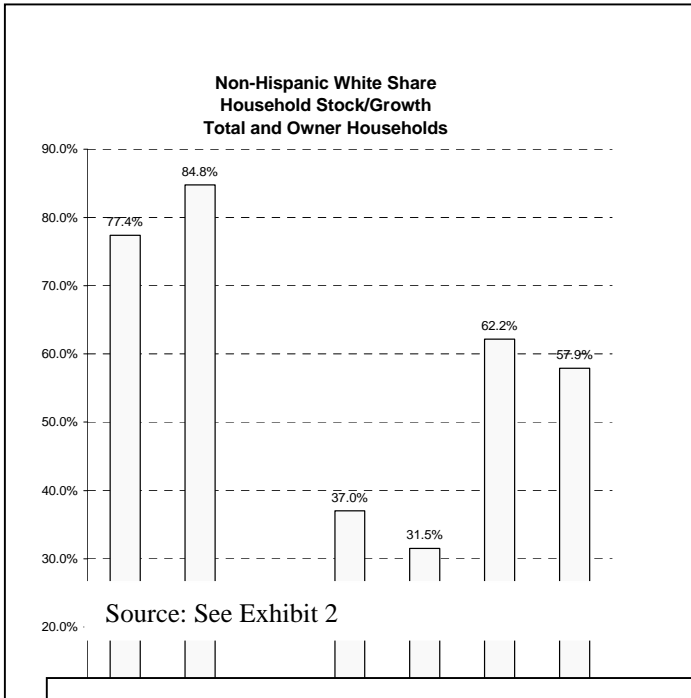


### Exhibit 2

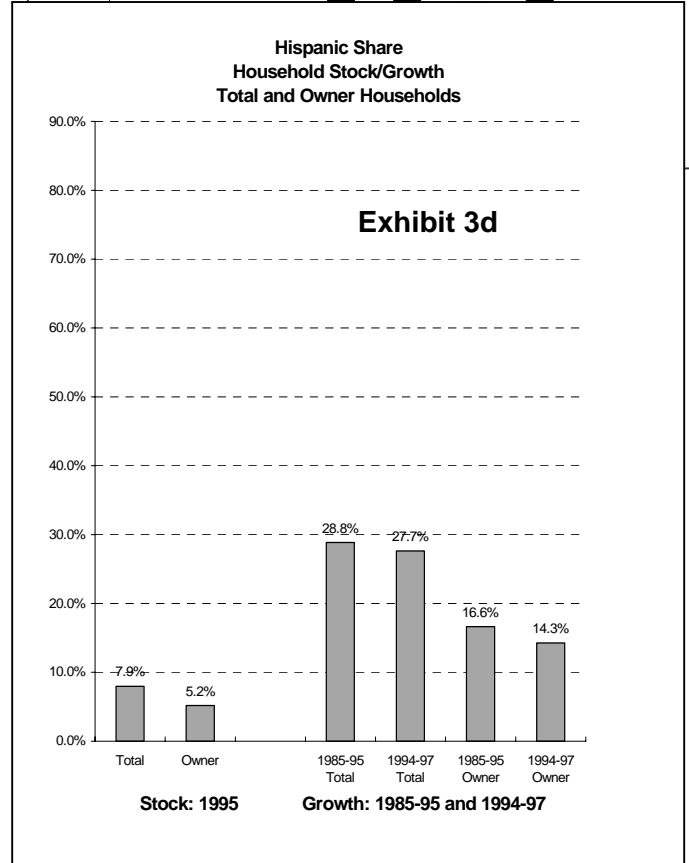
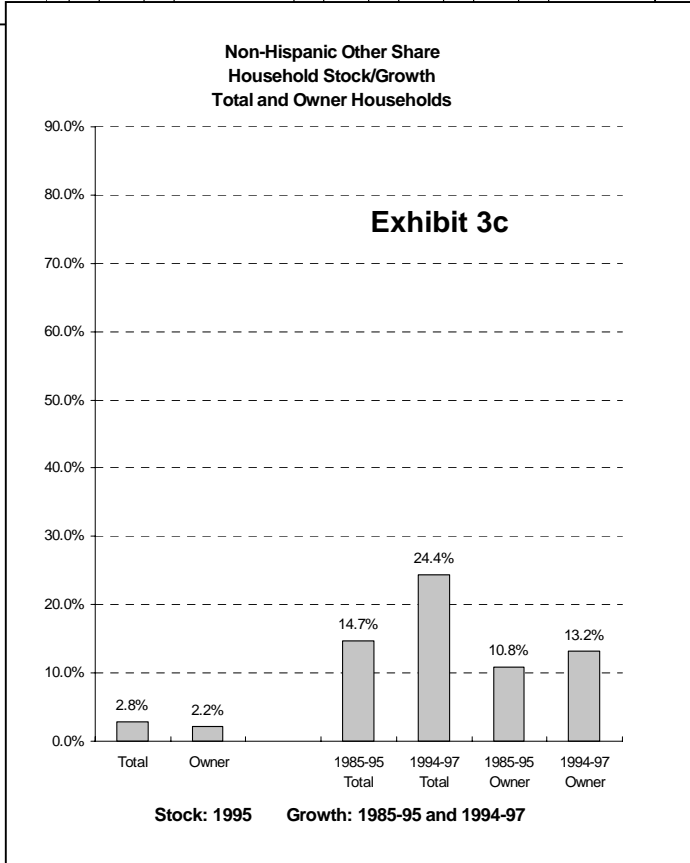
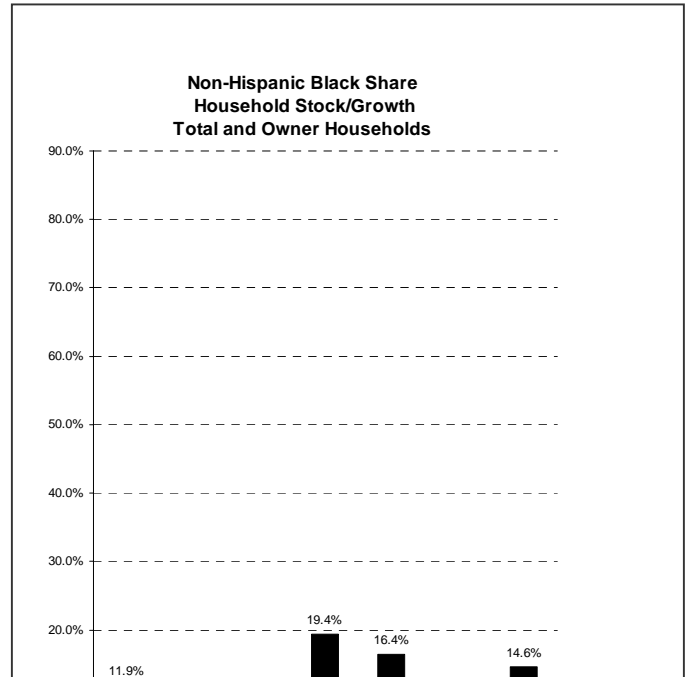




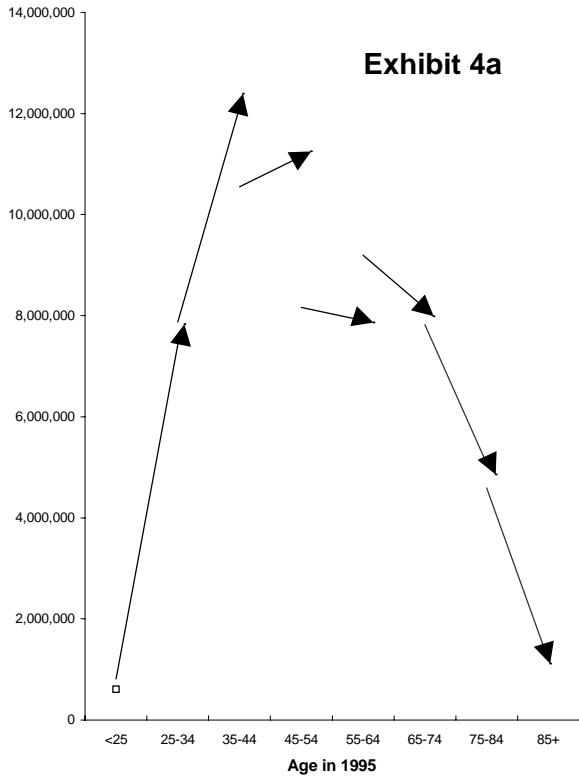
**Exhibit 3a**



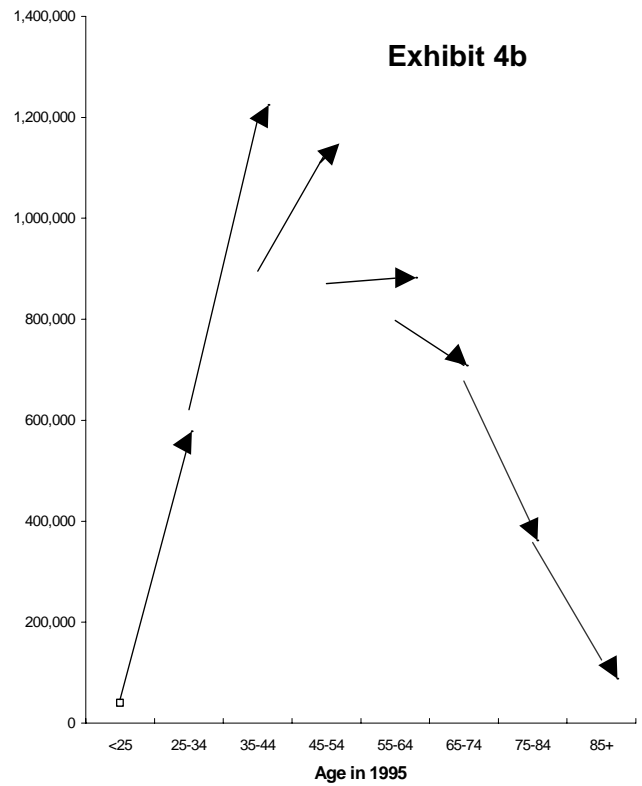
**Exhibit 3b**



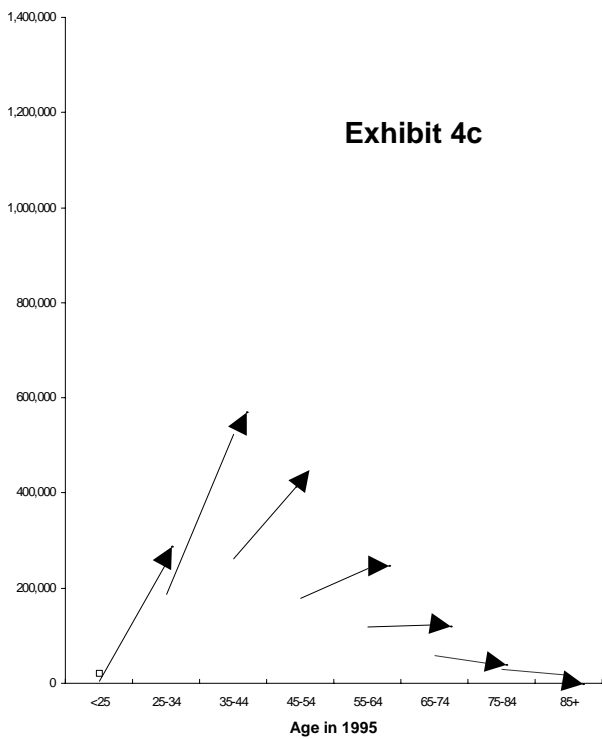
**Cohort Trajectories: 1985 to 1995**  
**Number of Owner Households**  
**Non-Hispanic Whites**



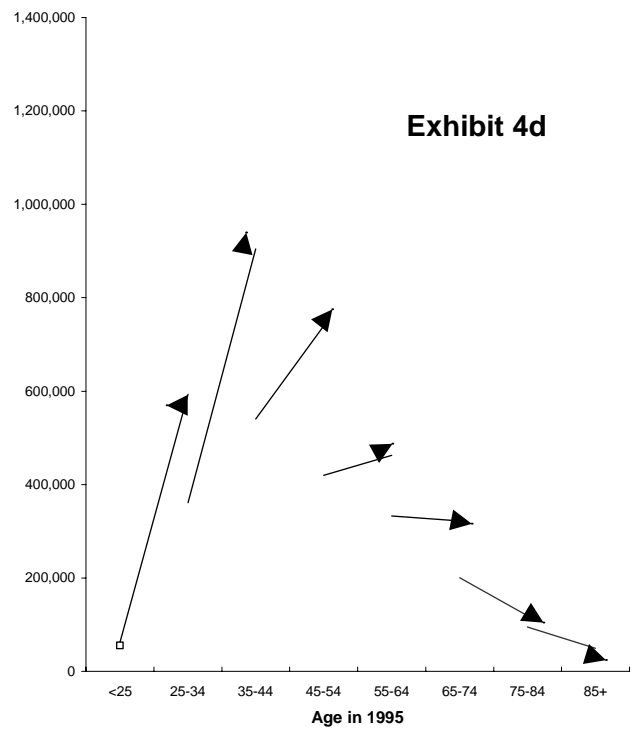
**Cohort Trajectories: 1985 to 1995**  
**Number of Owner Households**  
**Non-Hispanic Blacks**



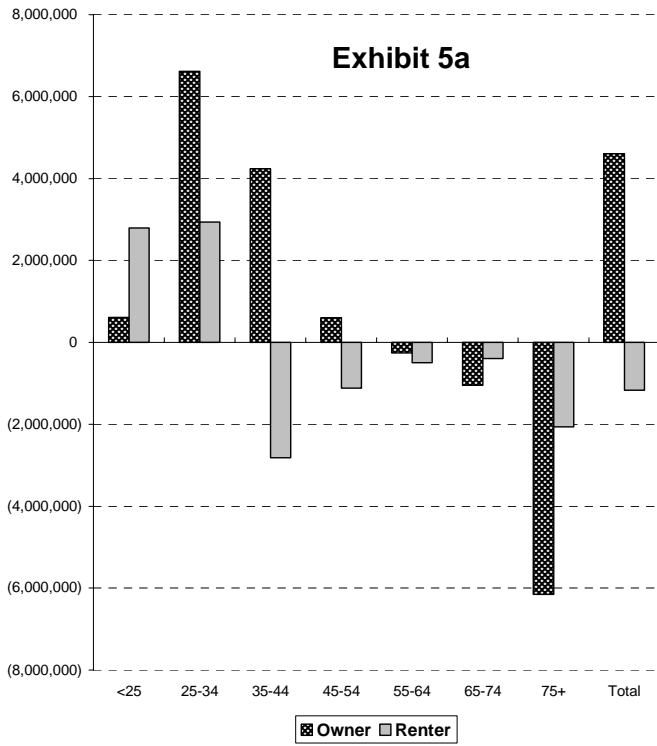
**Cohort Trajectories: 1985 to 1995**  
**Number of Owner Households**  
**Non-Hispanic Others**



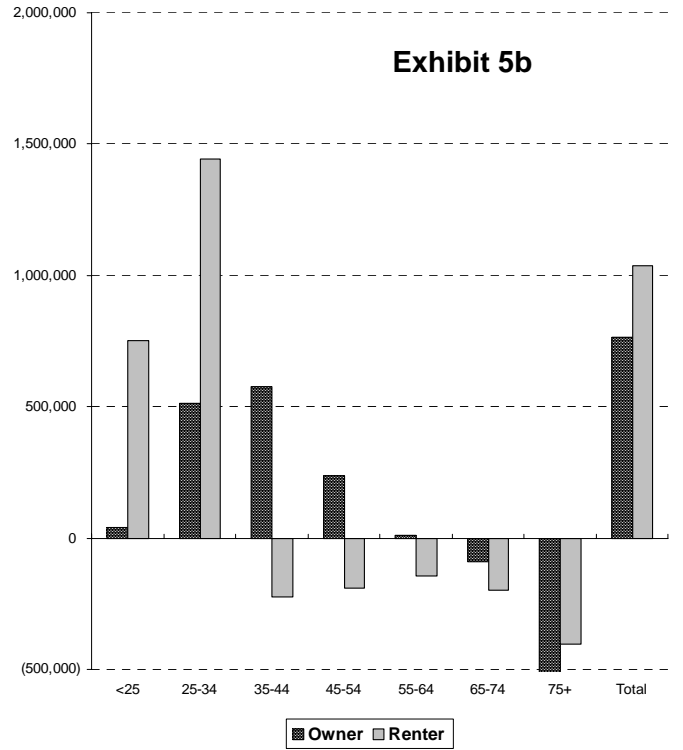
**Cohort Trajectories: 1985 to 1995**  
**Number of Owner Households**  
**Hispanics**



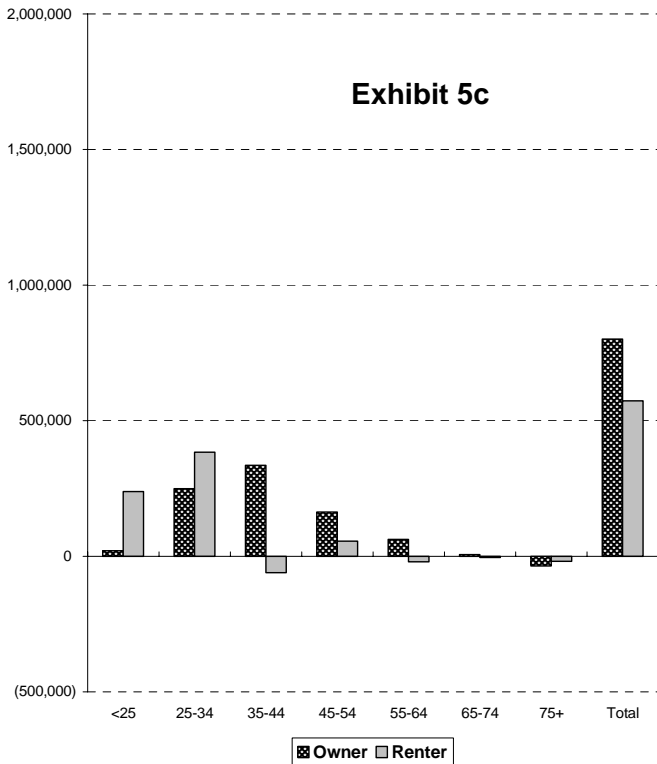
**Cohort Household Growth: 1985-1995  
Owner vs. Renter  
NonHispanic White Households**



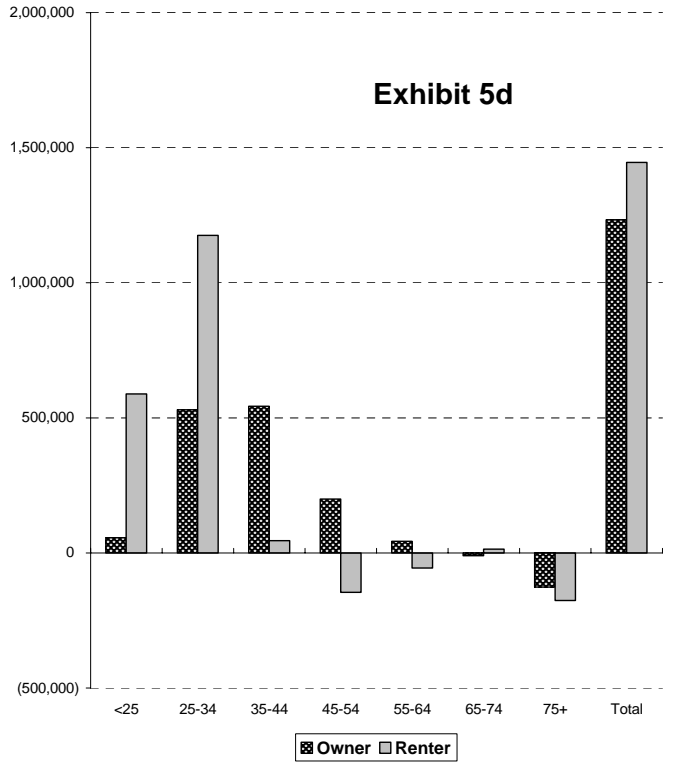
**Cohort Household Growth: 1985-1995  
Owner vs. Renter  
Non-Hispanic Black Households**



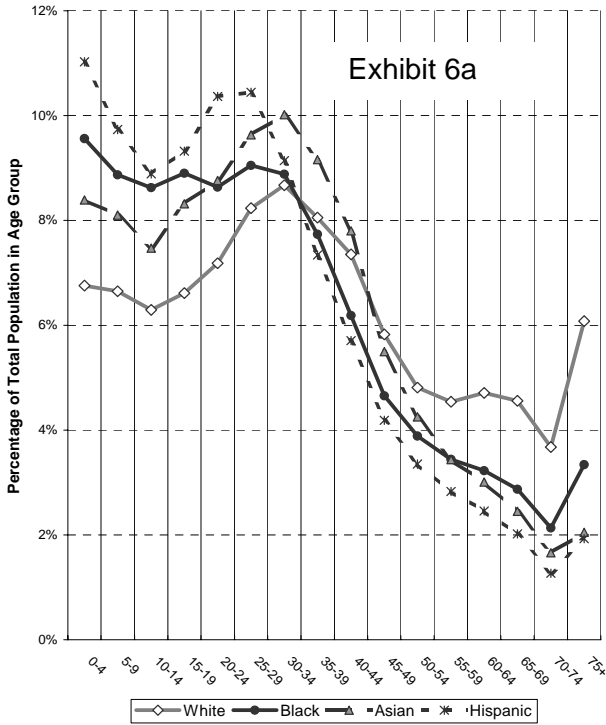
**Cohort Household Growth: 1985-1995  
Owner vs. Renter  
Other (Mostly Asian) Households**



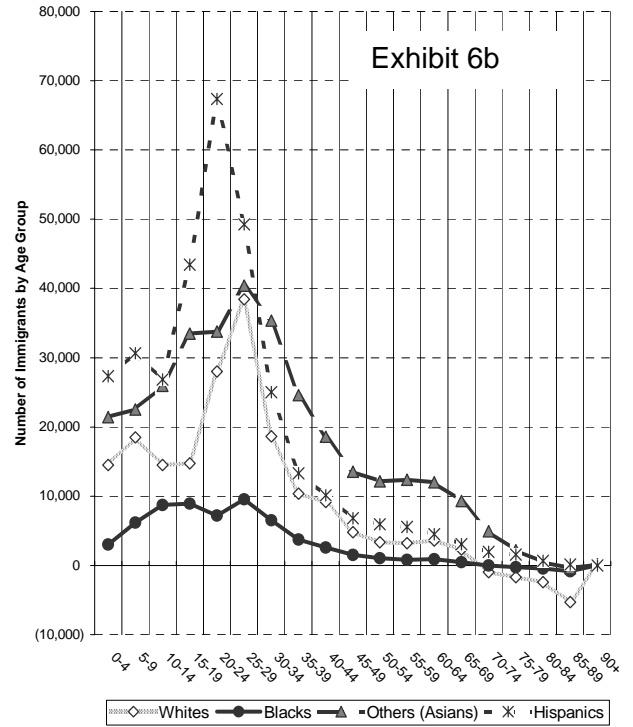
**Cohort Household Growth: 1985-1995  
Owner vs. Renter  
Hispanic Households**



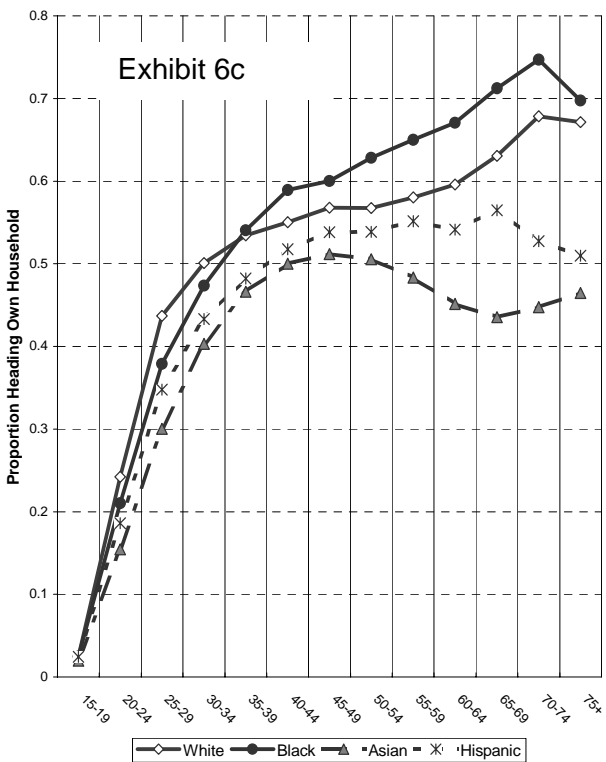
**Population Age Structure  
by Race/Hispanic Origin  
1990 Census Data**



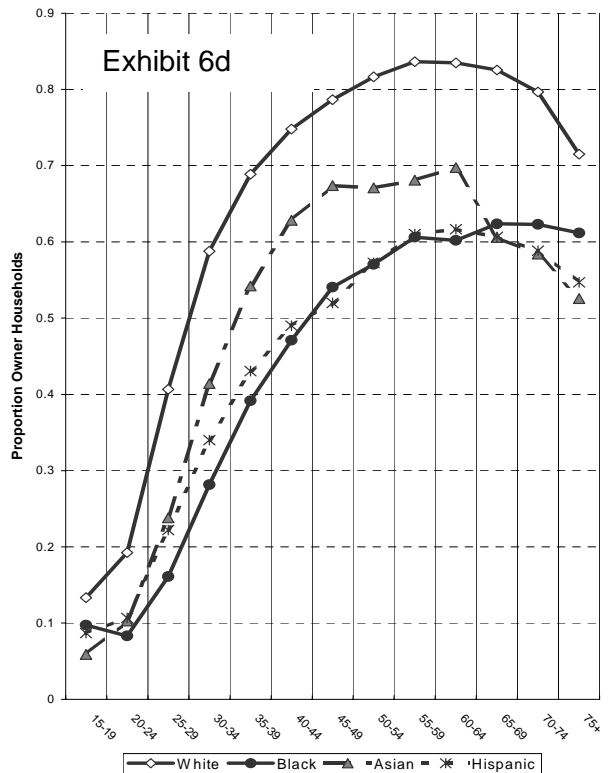
**Annual Number Immigrants by Age & Race  
Census Bureau Estimates circa 1990  
N=880,000**



**Household Headship Rates by Age  
and Race/Hispanic Origin  
1990 Census Data**



**Household Ownership Rates by Age  
and Race/Hispanic Origin  
1990 Census Data**



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