

# The Coming Exodus of Older Homeowners

## Introduction

The Baby Boom generation, which comprises those born between 1946 and 1964, has an enormous housing market footprint. Baby Boomers inhabit 32 million owner-occupied homes, accounting for two out of five homeowners in the United States. Generations born before the Boomers own another 14 million homes. Collectively, the vast inventory of homes possessed by older Americans is worth an estimated \$13.5 trillion, equivalent in value to nearly three-quarters of the nation's annual economic output.<sup>1</sup>

Departures of these older adults from the homeownership market (leaving for rentals, senior care facilities, or by reason of death) will accelerate as the large Baby Boom generation continues to age. With the oldest Boomers now advancing into their 70s, the beginning of a mass exodus looms on the horizon, spurring fears of a bursting "generational housing bubble" in which homeownership demand from younger generations is insufficient to fill the void left by multitudes of departing older owners.<sup>2</sup> A fumbled intergenerational handoff would reverberate through the housing market and economy, and thus developing analytical techniques for monitoring and predicting changes in homeownership among older adults has never been more important from a business or public policy perspective.

Fortunately, a technique that tracks changes in the number of homeowners in a birth cohort as it ages offers substantial promise for monitoring current, and predicting future, trends in homeownership departures among older adults. First used by Dowell Myers<sup>3</sup> to monitor changes in cohorts of California homeowners between 1980 and 2010, the technique is adopted here to track changes in the number of Baby Boomer homeowners at the national level during the last few years. We also use the technique to analyze declines in earlier generations of homeowners as they advanced into their elderly years across the last several decades.

We find that Baby Boomers have not yet begun to depart homeownership in substantial numbers. Importantly, the historical analysis also reveals steady increases across generations and decades in homeownership retention rates (the ratio of the number of homeowners in a birth cohort at the end of a period to the number of owners in the same cohort at the beginning of the period) for the oldest owners as they age. Retention rate trends for older adults have been steady regardless of the economic and housing market climate, thus providing a solid analytical footing for projecting future exits of older homeowners. The projections indicate that the number of older adults exiting homeownership will accelerate during the next two decades as the bulky Boomer generation advances into elderly age groups where homeownership attrition rises sharply. The number of older owner-occupants who exit homeownership between 2026 and 2036 is projected to total between 13.1 million and 14.6 million, an increase of at least 42 percent over the number of older homeowners who exited during the last ten years. The coming acceleration of older adults departing homeownership adds urgency to industry and public policy efforts to facilitate a smooth handoff of housing assets from older to younger generations.

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<sup>1</sup> Estimates of the number and value of owner-occupied homes are from the U.S. Census Bureau's 2016 American Community Survey 1-year public use microdata sample. The estimate of U.S. economic output (gross domestic product) is from the U.S. Bureau of Economic Analysis' National Income and Product Accounts.

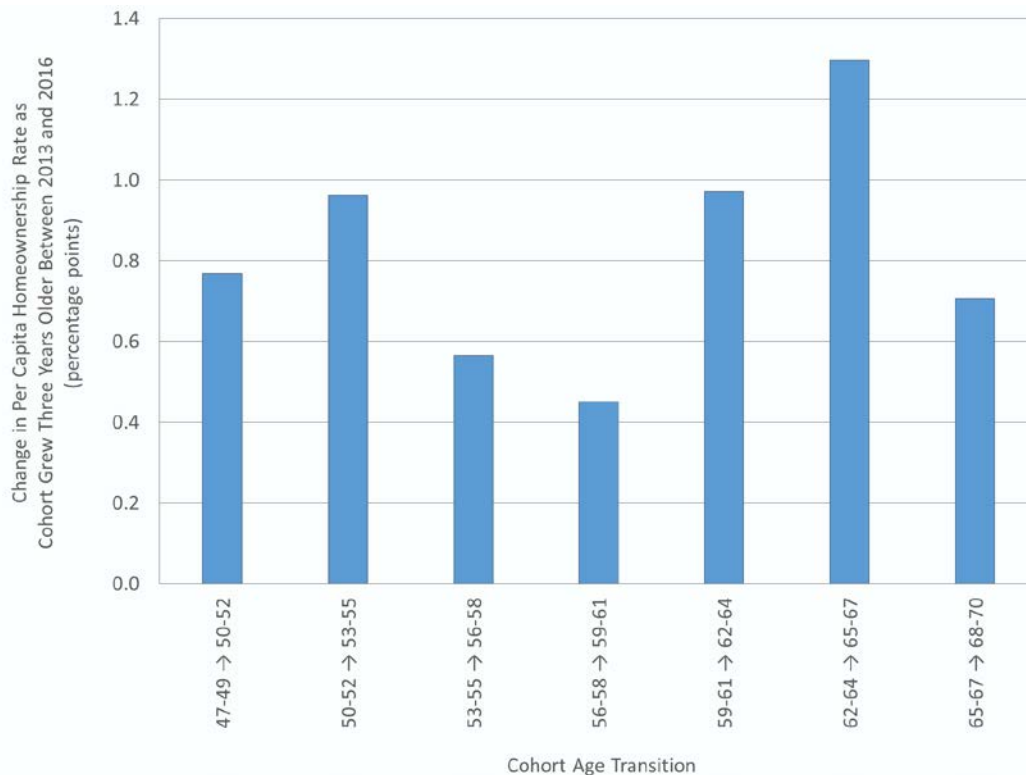
<sup>2</sup> For additional discussion of the potential for a generational housing bubble, see Dowell Myers and SungHo Ryu, "Aging Baby Boomers and the Generational Housing Bubble," *Journal of the American Planning Association* (74, 1), Winter 2008.

<sup>3</sup> Dowell Myers, *Attrition of Homeownership in California in the 2000s: Now Seeking Generational Replacements*, University of Southern California, Sol Price School of Public Policy, July 2011.

## No Signs Yet of Declining Baby Boomer Homeownership

Contrary to media accounts of Baby Boomers departing homeownership in droves in favor of multifamily rentals,<sup>4</sup> the Census Bureau’s American Community Survey (ACS) reveals that Boomer homeownership rates have edged up in the last few years, even among the oldest members of the generation. Exhibit 1 divides the Boomer generation into three-year-wide birth cohorts, and then tracks the per capita homeownership rates for these cohorts as they grew three years older between 2013 and 2016.<sup>5</sup> Homeownership rates increased for each cohort during the period, indicating no diminishment in the intensity of Boomer homeownership demand.<sup>6</sup>

**Exhibit 1. Baby Boomer Homeownership Rates Are Still on the Rise**



Source: U.S. Census Bureau, American Community Survey 1-year estimates.

Even with rising homeownership rates, the total *number* of Boomer homeowners could be falling because of attrition in the total size of the Boomer generation, particularly as mortality takes a toll on its oldest members. But when we examine Boomer homeowner counts, we see scant evidence of decline. Between 2013 and 2016, the total number of owner-occupant households headed by a Baby Boomer fell by less than 200,000, a decline of only 0.5 percent. Even among the oldest Boomers who aged from 65-67 in 2013 to 68-70 in 2016, the count of owner-occupant householders fell by only about 120,000, a drop of less than 3 percent.

<sup>4</sup> For example, see Tim Blackwell, “Downsizing Baby Boomers Means Big Boom for Multifamily,” *Property Management Insider*, February 6, 2014; and KC Sanjay, “Empty-Nesters Flock to Apartment Living,” *Multifamily Executive*, November 19, 2014.

<sup>5</sup> The use of 3-year-wide birth cohorts necessitates extending the Baby Boom generation slightly to include those aged 50-51 in 2016.

<sup>6</sup> We replicated Exhibit 1 using per householder, rather than per capita, homeownership rates and found increases for all Boomer cohorts, although the relative magnitudes of increases across cohort age transitions differed from those shown in Exhibit 1.

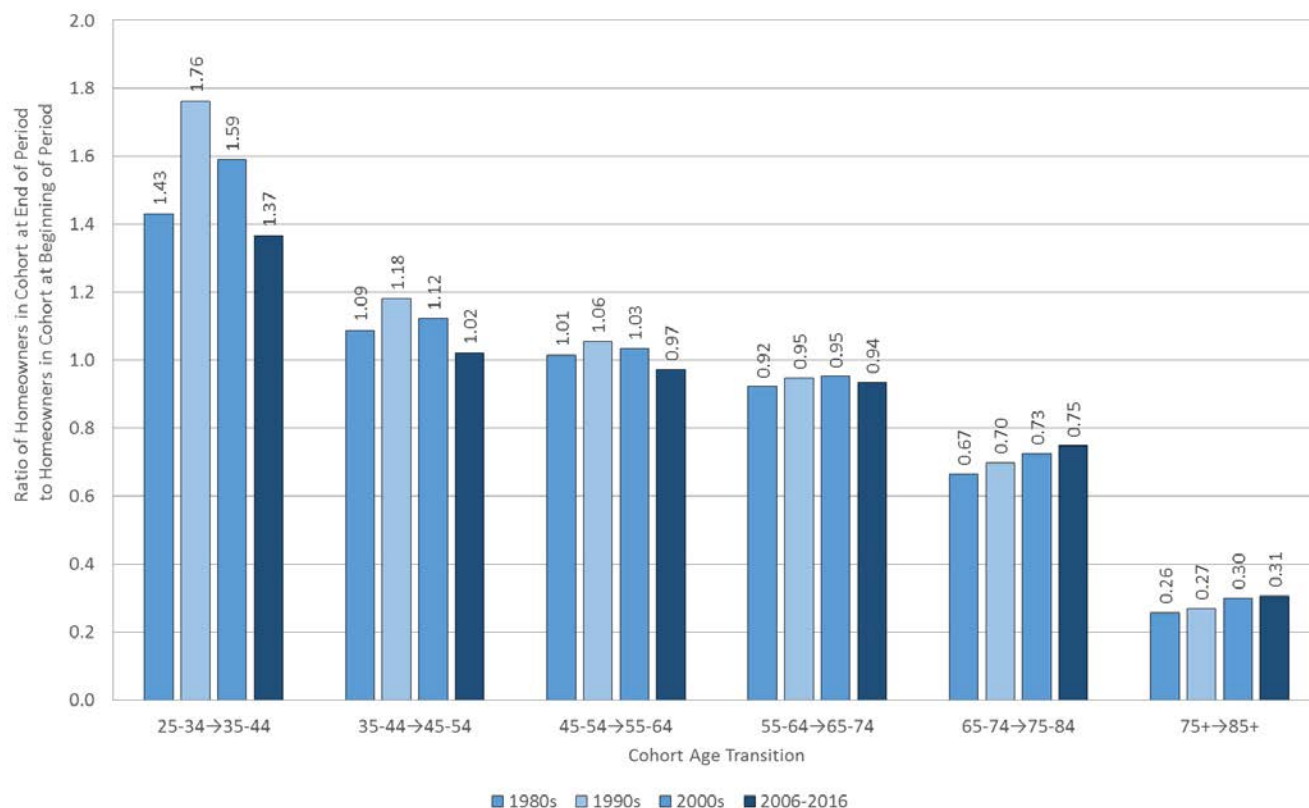
## **Steady Trends in Retention Rates among Older Homeowners Provides a Foundation for Prediction**

Although Baby Boomer homeownership has been stable so far, the ranks of Boomer owner-occupants will eventually contract as they voluntarily transition to other living arrangements or are forced to exit homeownership because of frailty or death, thereby triggering a rise in the number of older adults exiting homeownership. But how can we predict the beginning of this exodus and the pace at which it will unfold over coming decades?

The answer is found in cohort analysis, and more specifically in the examination of retention rates for past cohorts of homeowners as they advanced through their elderly years over the last few decades. The cohort homeownership retention rate is the ratio of the number of homeowners in a birth cohort at the end of a period to the number of owners in the same cohort at the beginning of the period. A retention rate greater than 1.0 indicates that the number of homeowners in a cohort increased as it aged; a value less than 1.0 indicates that the number of homeowners declined with aging.

Exhibit 2 shows cohort homeownership retention rates for 10-year-wide birth cohorts as they aged through various 10-year periods since 1980. Two features of Exhibit 2 stand out. First, looking from left to right on the chart, we see that the number of homeowners in a cohort increases (retention rates are greater than 1.0) until cohorts reach their mid-50s. Even as cohorts age into their late 60s and early 70s, relatively few homeowners are lost (retention rates ranging from 0.92 to 0.95 during the 55-64 to 65-74 age transition). However, as cohorts age into their 70s and 80s (the two clusters of bars to the right of Exhibit 2), we see that retention rates decline sharply. For cohorts aging from 65-74 to 75-84, only between two-thirds and three-quarters of homeowners are retained over the course of a decade, and for cohorts aging from 75+ to 85+, merely three-in-ten homeowners remain after ten years.

**Exhibit 2. For Homeowners Aging Into Their 70s and 80s, Retention Rates Have Been Rising Steadily**



Source: U.S. Census Bureau, Decennial Census and American Community Survey 1-year estimates.

We also note from Exhibit 2 that cohort homeownership retention rates were either quite stable or rose steadily across recent decades for the oldest age transitions. Whereas retention rates for cohorts aging from 25-34 years old to 35-44 years old jumped during the 1990s and then dropped precipitously following the housing bust, rates for cohorts aging from 55-64 to 65-74 ranged only from 0.92 to 0.95 (a spread of just 3 percent) across recent decades. Retention rates for cohorts passing through the oldest age groups have increased steadily in recent decades regardless of the economic and housing climate, from 0.67 to 0.75 for those aging between 65-74 and 75-84, and from 0.26 to 0.31 for those aging to 85 and older.

### **Ageing Baby Boomers Will Trigger a Growing Exodus of Older Homeowners**

The stability of trends in cohort homeownership retention rates among older adults provides a stable foundation for predicting exits of older homeowners in coming decades.<sup>7</sup> We use the 10-year cohort homeownership retention rates since 1980 observed in Exhibit 2 to create two projection scenarios for the number of older adults exiting homeownership over the next two decades. In the first scenario, we assume that retention rates for homeowners aging into the 75-84 and 85+ categories will continue to rise gradually at the same average pace as observed between 1980 and 2010. In the second projection scenario, we average retention rates across all four historical decades for homeowners aging into the 75-84 and 85+ categories and hold these average rates constant during our two-decade projection period. Because retention rates for those aging between 55-64 and 65-74 have been relatively constant across the decades, we use average historical retention rates for this age transition in

<sup>7</sup> Cohort homeownership retention rates offer another benefit for projections. Unlike the most common demographic projection techniques, by which projected rates of housing consumption by age are applied to population projections by age, an approach based on homeownership retention rates does not require separate population projections.

both projection scenarios. We apply the resulting schedules of homeowner retention rates for each scenario to the distribution of homeowners by age in 2016 to produce two alternate projections of the number of older adults exiting homeownership over the next two decades.<sup>8</sup>

Regardless of scenario, the projections indicate substantial increases in the number of older adults exiting homeownership over the next two decades (see Exhibit 3). Between 2006 and 2016, the cohorts that had reached age 65 or older by the latter year lost 9.2 million homeowners. Between 2016 and 2026, losses for the cohorts passing into the same age range are projected to increase to 10.5 million to 11.9 million, depending on whether the projections are based on trended or average homeownership retention rates. Looking further out to 2026-2036, the cohorts aging into the 65+ age range are projected to shrink by between 13.1 million and 14.6 million homeowners, a loss at least 42 percent greater than registered during the most recent decade.

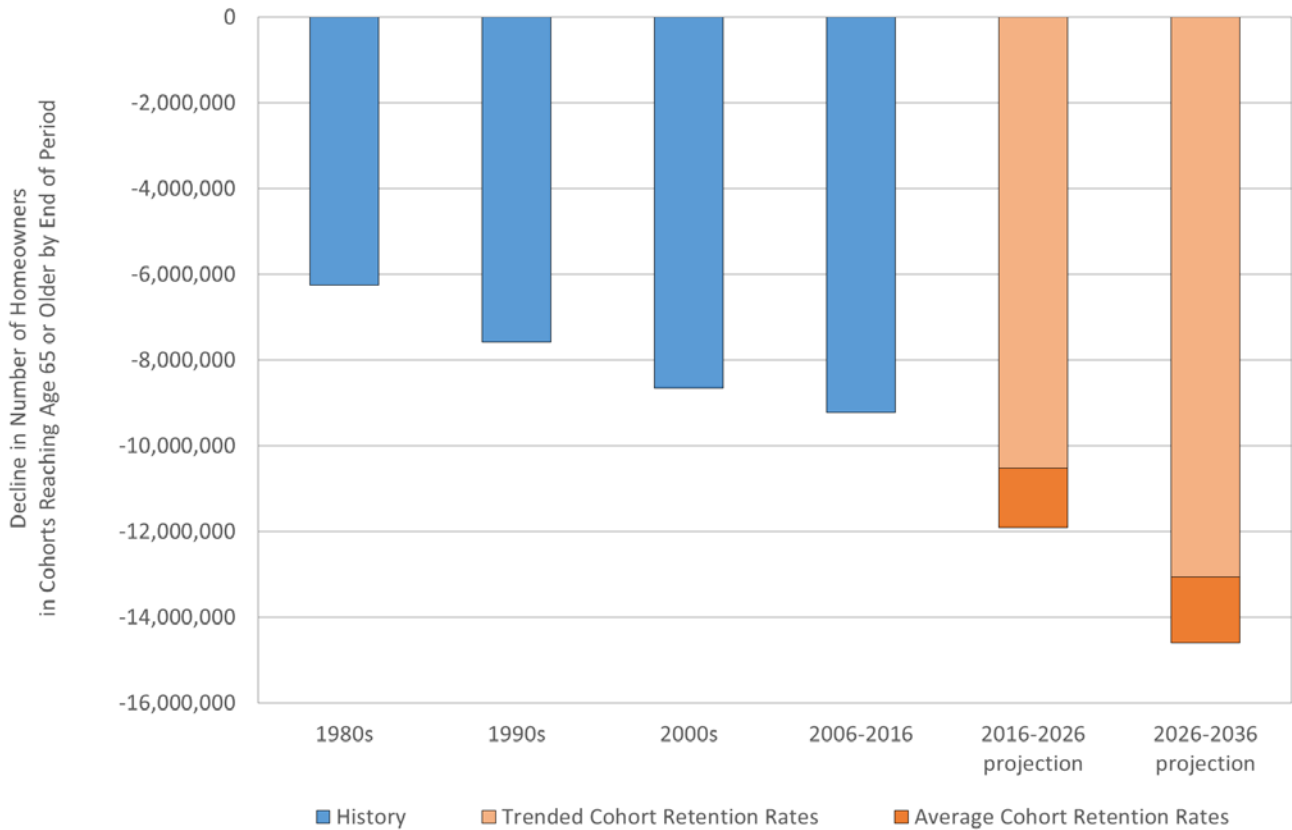
To provide additional context for interpreting the projected increase in older homeowner exits, we calculate proportional loss rates, defined as the number of older adults exiting homeownership during a decade divided by the total count of homeowners at the beginning of the decade. For example, the 9.2 million older homeowners who exited between 2006 and 2016 represented 12.3 percent of the 75.1 million total owner-occupants as of 2006. For all four of our historical ten-year periods, these loss rates ranged narrowly from 12.1 percent during the 1980s to 12.9 percent during the 1990s. Between 2016 and 2026, the older homeowner loss rate is projected to increase to between 14.0 percent and 15.9 percent, depending on the projection scenario.<sup>9</sup>

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<sup>8</sup> We use 2016 as the base year for our projections because that is the most recent year of data available in the ACS.

<sup>9</sup> Because cohort homeownership retention rates for young and middle-age adults have been highly unstable in recent decades, we only projected counts of older homeowners and did not attempt to project owner-occupants across the entire age spectrum. As a result, we do not have a projected base of total owner-occupants in 2026 from which to calculate an older homeowner loss rate during the 2026-2036 projection period.

**Exhibit 3. Exits of Elderly Homeowners Projected to Increase Sharply Over the Next Two Decades**



Source: U.S. Census Bureau, Decennial Census and American Community Survey 1-year estimates; authors' projections.

Given that homeownership retention rates for older adults have been either relatively stable or gradually rising, why do losses of older homeowners increase by so much in our projections? The reason is that the number of older homeowners “at risk” of attrition due to advancing age will increase sharply as the large Baby Boom generation moves full-force into the 65-and-older age group where homeowner retention rates drop substantially. In 2006, when the oldest Baby Boomers were only age 60, the 65-74 year-old age group contained 9.3 million homeowners. By 2016, when the oldest Boomers had reached age 70, the number of homeowners aged 65-74 had swollen to 13.6 million, thereby putting many more older homeowners at risk of exiting homeownership over the next ten years. By 2026, when the youngest Boomers will be age 62 and the oldest age 80, the number of owner-occupants aged 65-74 is projected to jump again to about 16.4 million, putting an even greater number of older owners on the precipice of aging-related homeownership attrition.

### **The Paradox of a Growing Exodus of Older Homeowners amidst Rising Counts of Older Homeowners**

Our projections, which predict sharp increases in the pace of older homeowner exits over the next twenty years, might seem paradoxical given that projections produced by others forecast a surge in the count of elderly homeowners during the same period.<sup>10</sup> Indeed, our projections also show rapidly rising counts of homeowners aged 65 or older over the next two decades.

<sup>10</sup> For example, in Lynn M. Fisher and Jamie Woodwell, *Housing Demand: Demographics and the Numbers Behind the Coming Multi-Million Increase in Households* (Mortgage Bankers Association, July 2015), the authors project that the number of homeowners aged 60 or older will grow by between 9.6 million and 9.9 million from 2014 to 2024. In the base scenario of its most recent household projections, the Joint Center for Housing Studies of Harvard University projects that the number of homeowners aged 65 or older will increase by 8.6 million

The reason for the apparent paradox is that increases in the number of homeowners in an age category, such as those aged 65 or older, does not indicate real growth in homeownership demand.<sup>11</sup> Rather, this “age-group” approach counts as growth people who continue to occupy the same homes that they owned at age 55, but who have simply aged into the 65 and older age group. If this aging process results in more homeowners occupying the older age group than previously, the change is recorded as growth. In contrast, a “cohort” approach, which tracks the number of homeowners in the *same* birth cohort as it grows older, measures actual net changes in demand. The practical difference is that simple increases in an age group do not require any actual purchases, if people already owned homes. In contrast, increases in the same cohort as it grows older means additional home buying activity must occur.

We use our 2016-2026 projections to illustrate the difference between the age-group and cohort views of change (Exhibit 4). We see from the top panel of Exhibit 4 that the number of homeowners in the 65-74 age category is projected to increase by 2.8 million between 2016 and 2026. However, this change does not reflect an actual increase in home buying activity among older adults. Rather, it reflects the fact that the large Baby Boom generation continued to replace the smaller predecessor generation in the 65-74 age category between 2016 and 2026. In the former year, the oldest Boomers were age 70, so the Boomer generation did not yet fully occupy the 65-74 age category. By the latter year, however, Boomers will fully populate the 65-74 age group, swelling its ranks.

#### Exhibit 4. Reconciling Age-Group Growth with Cohort Decline

Age-Group View of Change			
(millions of homeowners; change measured across color-coded rows)			
Age	2016	2026	Change
55-64	17.5	15.9	-1.6
65-74	13.6	16.4	2.8

Cohort View of Change			
(millions of homeowners; change measured down color-coded diagonal)			
Age	2016	2026	Change
55-64	17.5	15.9	.....
65-74	13.6	16.4	.....
			-1.1

Source: U.S. Census Bureau, American Community Survey 1-year estimates; authors’ projections based on trended cohort homeownership retention rates.

Turning to the cohort perspective, we track the Baby Boomer cohort that occupied the 55-64 year-old age group in 2016 and follow it as it ages into the 65-74 year-old age group in 2026 (green cells in the bottom panel of Exhibit 4). We see that the cohort is projected to *lose* 1.1 million homeowners during this ten-year period. This change represents real projected attrition in demand – actual exits from owner-occupancy – among members of this birth cohort as they grow ten years older.

between 2015 and 2025 and by another 5.9 million between 2025 and 2035. (See Jonathan Spader, Daniel McCue, and Christopher Herbert, “Homeowner Households and the U.S. Homeownership Rate: Tenure Projections for 2015-2035,” *Joint Center for Housing Studies of Harvard University Working Paper*, December 2016.)

<sup>11</sup> The analysis in this paragraph and in Exhibit 4 is adapted from Myers (2011), *op. cit.*, p. 7.

The age-group view projects an illusion of homeownership demand growth that is created as the large Baby Boom generation replaces its much smaller predecessor generations in the elderly age categories. A clear view of real homeownership demand change is provided only by the cohort perspective, which indicates that the ranks of Boomer homeowners will contract at an accelerating pace as the generation continues to age.

## Discussion and Implications

Baby Boomers will not necessarily follow the same path of aging-related homeownership attrition as their predecessors. However, steady trends in cohort homeownership retention rates for older adults across recent decades and economic cycles provide a reasonably stable footing for predicting when Boomers will begin to release their vast holdings of owner-occupied homes.

This *Housing Insights* uses past trends in cohort homeownership retention rates to develop projections of homeownership exits by older adults over the next twenty years. These projections indicate that the Baby Boom generation's massive size, when combined with its aging into the stage of the life cycle when homeownership attrition rises sharply, is likely to cause a jump in the number of older adults departing homeownership. The coming wave of aging-related homeownership departures is projected to be substantially larger than anything experienced to date.

What should the housing industry and public policy makers do to prepare for the coming wave of Baby Boomer homeownership departures? First, it's worth noting that not all homes vacated by Boomers in coming years will hit the sales market, as some will be bequeathed to heirs who opt to retain ownership. Second, an increasing supply of homes vacated by Boomers that do end up on the market might be a positive, at least in the near-term. The supply of existing homes for sale has been declining for several years and homeowner vacancy rates have reached the lowest level in decades.<sup>12</sup> More listings flowing into the sales market from the Boomers' extensive reservoir of owner-occupied homes would help to alleviate the housing-supply crunch.

Despite the potential to help ease near-term supply woes, the exit of Boomer homeowners will occur on such a massive scale that it could alter the long-term demand-supply balance in ways that are negative for the home sales market and home prices. Thus, business and policy interventions designed to facilitate an orderly handoff of Boomer housing assets to the younger generations are worth considering.<sup>13</sup>

Given that most Baby Boomers express a preference for aging in place,<sup>14</sup> one option for facilitating an orderly handoff is to provide home improvement financing options that help them adapt their current homes to the demands of aging, thereby extending the timeline over which they depart homeownership. Public policies might also facilitate the development of community-based services to support successful aging in place. Furthermore, continuing technological advances in areas such as self-driving vehicles and robotic home care aides could eventually play a role in helping aging Boomers stay in their homes longer, thereby slowing future homeownership attrition for older adults.

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<sup>12</sup> For a discussion of the severely constrained supply of homes for sale, see Fannie Mae Economic & Strategic Research, "Growth Downshift Should Be Temporary," *Economic Developments*, March 2018. According to the Census Bureau's Housing Vacancy Survey, the homeowner vacancy rate in the fourth quarter of 2017 was 1.6 percent, tied for the lowest fourth-quarter reading since 1993.

<sup>13</sup> For a more complete discussion of the public policy implications of the coming Baby Boomer housing selloff, particularly in the realm of local planning policy, see Myers and Ryu, *op. cit.*, pp. 27-29.

<sup>14</sup> A 2010 survey by AARP found that 84 percent of 45-to-64 year old respondents (a group that roughly corresponds to Baby Boomers, as defined here) strongly or somewhat agreed with the statement: "What I'd really like to do is stay in my current residence for as long as possible." Seventy percent of Boomer respondents strongly agreed with the statement. (Teresa A. Keenan, *Home and Community Preferences of the 45+ Population*, AARP, November 2010.) When asked when they expected to move next, 61 percent of homeowners aged 55 to 74 in Fannie Mae's second quarter 2016 National Housing Survey replied, "Never."



Cultivating sustainable homeownership demand among younger generations will also play a role in fostering a smooth intergenerational handoff. For example, in the last several years mortgages with lower down-payment requirements and more flexible debt-to-income ratios have been introduced that should help to promote first-time home purchases by Millennials, thereby launching them on homeownership careers that will enable them to grow equity and that might eventually put them in position to purchase homes vacated by Boomers. Outside of the housing sector, efforts to promote higher education and develop job skills might also bolster young-adult demand, although mounting student loan debt may threaten to reduce mortgage payment capacity.

Immigration policy will likely also play a role in determining the adequacy of replacement demand for exiting Boomers. Between 2014 and 2016, foreign-born households accounted for 41 percent of the net increase in homeowners in the United States, with 20 percent of the total gain attributable to foreign-born persons who entered the United States in 2010 or later.<sup>15</sup> Although many factors need to be weighed in immigration policy discussions, one consideration might be the role that immigrants could play in filling the homeownership demand void left as Boomers exit the housing market in increasing numbers in coming decades. With lower numbers of immigrants possible in the future, even greater emphasis might need to be placed on the cultivation of today's young people as future home buyers.

### **Dowell Myers**

#### **University of Southern California**

Dowell Myers is Professor of Policy, Planning, and Demography in the Sol Price School of Public Policy at the University of Southern California, where he specializes in housing demography, immigration, children, and aging trends in urban areas.

### **Patrick Simmons**

#### **Fannie Mae**

Patrick Simmons is a Director of Strategic Planning in Fannie Mae's Economic & Strategic Research Group, where he focuses on demographic trends and their implications for the housing and mortgage markets.

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<sup>15</sup> Authors' calculations based on U.S. Census Bureau's 2014 and 2016 American Community Survey 1-year public use microdata samples.

