

# Demographic Trends, Homeownership and Fair Growth

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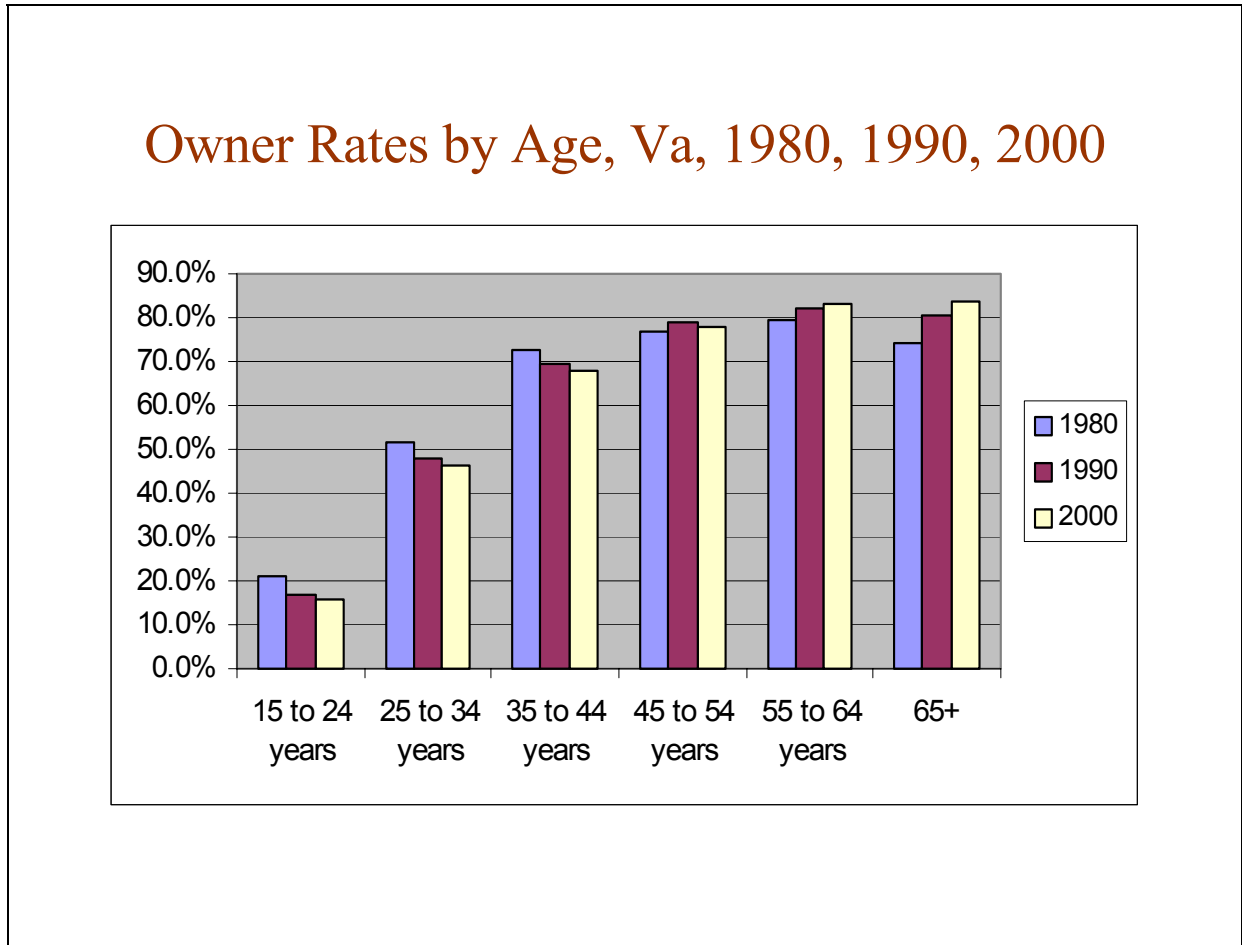
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## Homeownership in Virginia, 1990, 2000

- Ownership rate increased 1.8% points
- Approximate 320,000 more owners during '90s
- Projected increase of 245,000 owners during current decade
- Aging of population drove ownership increases in the 1990s rather than increased opportunity
- Cohorts under age 55 had declining ownership rates
- Continued shift away from married-couple families
- Ownership rate might decline during this decade unless greater opportunities are created for first-time buyers, minorities and women

*Homeownership is heavily influenced by age, income and household type, among other factors (savings, mobility, etc.). Although the number of owners in Virginia will continue to increase due to population growth, the ownership rate has mainly been increasing due to the aging of the population rather than an increase in age-adjusted market share.*

*An older population generates a higher ownership rate simple because the ownership rate is highest for mature adults. Although a higher overall ownership rate is good news, it masks a troubling pattern of declining ownership rates in Virginia for householders under the age of 55. This, in effect, is a “ticking time-bomb” that might soon cause the overall ownership rate to decline unless greater ownership opportunities are created. Consequently, it is helpful to review trends for specific demographic groups.*



*Age-specific homeownership rates obviously peak over the life cycle when, for most of us, we have reached our greatest earnings and assets potential—between the ages of 55 and 64. Homeownership continues at high levels into the post-retirement years but does decline with advanced age.*

*At the early years of household formation, ownership rates are very low. For obvious reasons, renting is more desirable given the person's age, income, mobility, life style and family status. Even as people age and gain more income, renting will be preferred to owning for some due to life style.*

*We can think of different demographic categories of homeowners as the state's homeownership "portfolio". If more of this portfolio is aged 55 years old and over, the state's homeownership rate will be higher. This is exactly what has happened in Virginia. Not only has the portfolio expanded in the age category with the highest yield of homeowners, the yield has increased over the past twenty years as older, pre-WWII generations are replaced by the generations who benefited most from the post-war economic boom. But for all age groups below age 55, this pattern changes! Ownership yields (i.e. the ownership rate) for those under 45 years have been declining for two decades and declined for the first time for those aged 45-54.*

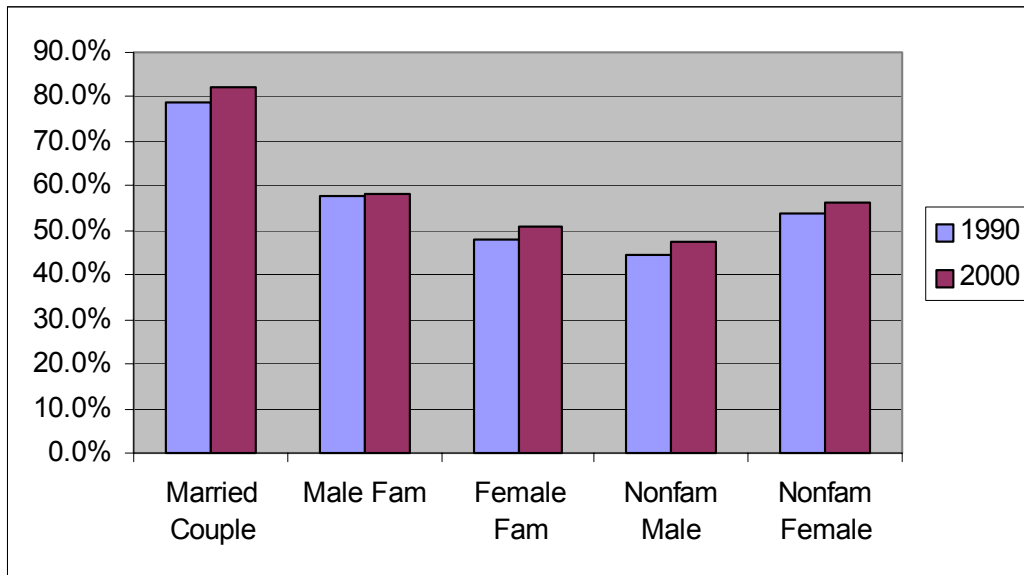
## 1990-2000 Changes in Ownership Rates by Area

	Fairfax County	Virginia Beach	Prince William County	Henrico County	Chesterfield County	Norfolk	Chesap eake
15 to 24	-0.67	-0.83	-1.79	4.58	-0.19	-0.53	-6.76
25 to 34	-7.54	-3.77	-6.11	-0.25	-2.90	-2.16	-0.23
35 to 44	-3.49	-0.34	-3.15	-1.05	-1.88	-2.13	0.09
45 to 54	-0.87	-3.30	-1.49	3.69	0.96	-0.01	1.34
55 to 64	-0.56	-2.25	0.44	-1.48	-0.36	-4.18	-3.02
65 to 74	0.34	5.04	4.58	1.58	0.55	1.76	0.10
75+	10.4	7.92	-15.22	1.55	2.57	6.98	2.00
	Richmond	Arlington County	Newport News	DC--MD-- VA MSA (pt.)	Norfolk--VB-- NN MSA	Richmond MSA	
15 to 24	-1.75	0.18	-0.80	-0.18	-1.72	-0.11	
25 to 34	2.75	-4.62	-4.20	-3.75	-0.39	0.71	
35 to 44	-2.09	-5.19	1.98	-0.65	0.86	-0.86	
45 to 54	1.83	-0.42	-4.74	0.05	-2.05	1.47	
55 to 64	-2.12	8.64	-2.56	2.31	0.15	0.94	
65 to 74	1.76	-3.20	3.32	2.56	4.43	3.56	
75+	8.77	5.63	11.18	7.92	6.16	4.49	

*This troubling decline in ownership for all but mature adults has affected the largest housing markets in the state (although not uniformly for all age groups). In some areas, even the ownership rate for 55 to 64 year olds has declined since 1990.*

*Some declines in ownership rates reflect changes in life style and family status. Households with children, particularly husband-wife families, have the highest preference for owning their own homes. Other households tend to be more mobile and, for some, see greater advantages to renting. Of course, incomes and affordability play the largest role in determining housing tenure.*

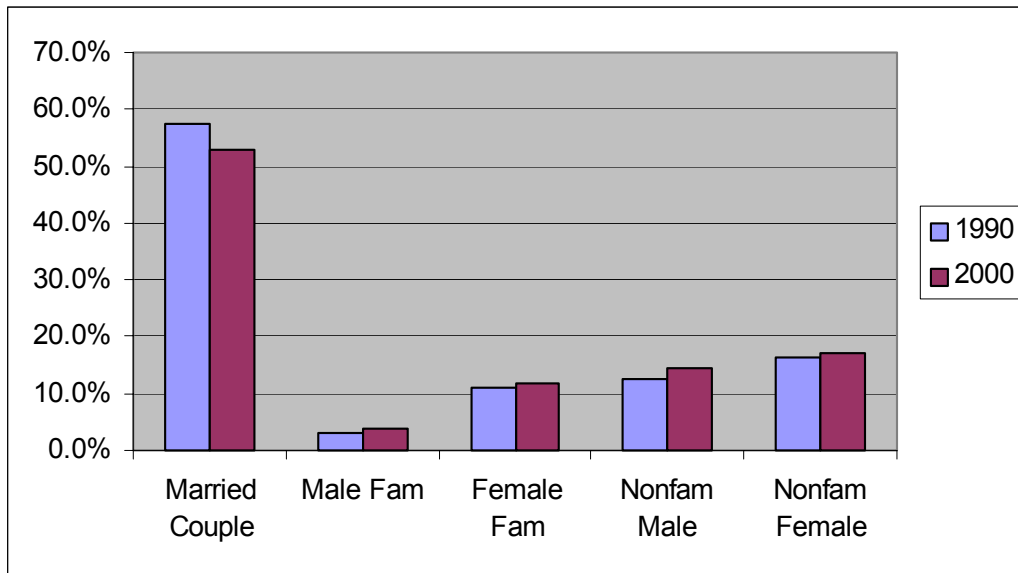
## Owner Rates by Household Type, Va, 1990, 2000



*This chart demonstrates two important patterns. First, married-couple families have the highest ownership rates by far. Second, ownership rates increased from 1990 to 2000 for all household types, including female headed families (“Female Fam” in the chart) and non-families (“nonfam”). The latter include single persons, unrelated roommates, and unmarried couples without children.*

*The chart also demonstrates the “household portfolio” problem. How can there be a “ticking timebomb” if ownership rates are increasing for each type of household? There are two reasons. One relates to age and we’ve already seen that younger cohorts have not had the same homeownership trajectory as the cohorts who entered the housing market from 1945 to 1975.*

## Household Type Distribution, Va, 1990, 2000



*The other reason is that our “portfolio” of households has been declining in married couples (with the highest ownership yields) and increasing in single-parent families and in non-families (with the lowest ownership yields). Unless we create greater ownership opportunities by making ownership more affordable and attractive to single-parent families and to non-families, the overall ownership rate will level off and then start to decline.*

## Shift in Owner Rates by Race, 1990-2000, Va

White	3.1%
Black	1.9%
AsianPac	-2.7%
Other+	13.8%
Hispanic	3.4%

*We also need to increase ownership opportunities for blacks and other minorities. Ownership rates for minorities are substantially lower than for whites. And in contrast to a national pattern where the ownership gap between minorities and whites narrowed during the 1990s, the gap in Virginia increased.*

## Reasons for Disparities in Owner Rates

- Income
- Age
- Household Type
- Wealth--Whites own homes at a higher rate than minorities in wealth-constrained households
- Recent Immigration—5-year lag to parity
- Education
- Childhood experience
- Discrimination
- Location
- Lifestyle

*There are several reasons for the differences in ownership rates between groups. The most obvious are income, age, household type and wealth. But even when we statistically control for these differences, we still find gaps between the ownership rates for whites and minorities. Although recent immigrants start with lower ownership rates, they close that gap rather quickly. Even education and childhood experience (fewer and fewer of our children grow up in a house their families own) play a role.*

*Discrimination and location are also important. All the available evidence points to continued problems in achieving equal access to housing opportunities. Plus there are increased problems with the availability and affordability of housing in many of our larger housing markets.*

## Affordability in VAR Markets

- Nationally, 18.6% of the median family income was required to purchase the average house sold in 2002
  - Down from 20.3% in 2001 and 19.0% in 2000.
- In Virginia, only 18.0% of MFI is required to purchase the average price house in 2002
  - Down from 21.8% cost burden in 2000

*Recent trends in ownership affordability have been quite positive for Virginia. On average, the average Virginia family could purchase the average price house sold in 2002 with only 18.0% of their income used for principal and interest. This was 60 basis points below the US average. Between 2000 and 2002, the percentage of income required to buy the average house declined 380 basis points. During this period homes sold in Virginia went from being less affordable than the US average to being more affordable.*

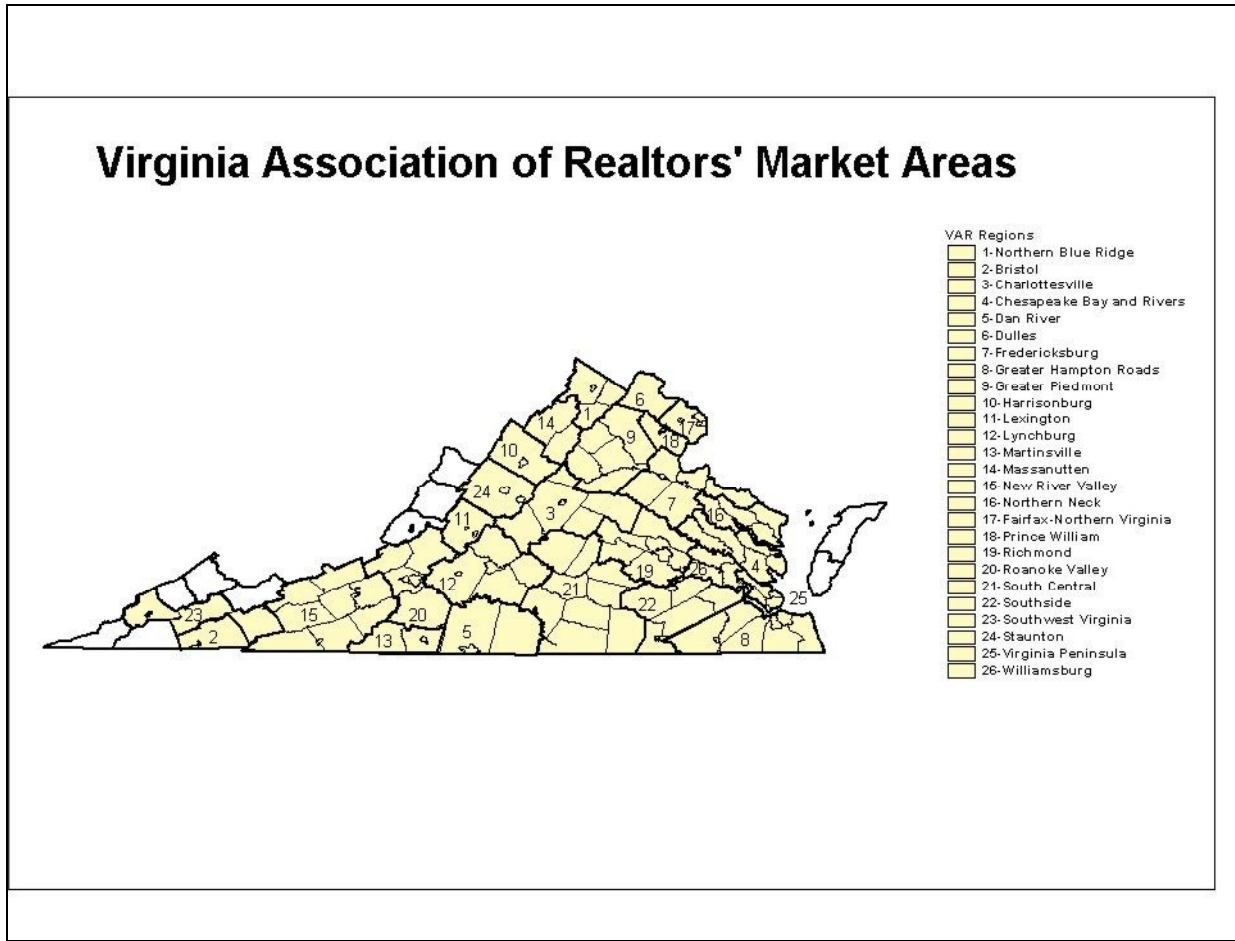
## Lower Prices and Higher Incomes

- State average sales price, \$188,750 in 2002, 13% below the national average
- Median incomes are 9% higher in Virginia
- Only Greater Piedmont and Lexington had cost burdens above 25%
- High cost burdens are associated with high prices in northern Virginia
- High cost burdens are associated with low incomes in some areas of the state

*The affordability of houses being sold in Virginia benefits from sales prices being significantly lower than the national average and incomes being significantly higher.*

*Sales in only two areas of state required more than 25% of the median family income: Greater Piedmont and Lexington. Since this calculation only includes P&I and not other annual housing costs (e.g. insurance, taxes, utilities, maintenance), 25% of income is probably an upper-threshold for affordability.*

*Two different patterns emerge across Virginia: housing affordability is primarily a problem of high prices in northern Virginia but is a problem of low incomes in many other areas of the state.*



*The market areas covered are those used by local Realtor™ associations, which provide the data on sales prices. These areas are outlined in this map.*

*For each area we calculated two rates: the percent of median income of local residents required to purchase the average price house in the area and the percent of median income for the average Virginian required to purchase the average price house in the area. In addition, for two large metropolitan areas (northern Virginia and Tidewater), we calculated the percent of median income for the average family in the metropolitan area required to purchase the average price house in the designated market area.*

## Cost Burden Rank within Va Using Local Income

Rank	2002
US	18.6%
Virginia	18.0%
Lexington	25.8%
Greater Piedmont	25.1%
Williamsburg, metro income	24.7%
Fairfax, metro income	23.8%
Chesapeake Bay and Rivers	23.1%
Fairfax-local	22.4%
Dulles, metro income	22.2%
Williamsburg-local	20.7%
Dulles Area-local	20.4%
Massanutten	20.0%
New River Valley	19.6%
Northern Blue Ridge	19.5%
Northern Neck	18.4%

Staunton	17.8%
Roanoke Valley	17.8%
Fredericksburg	17.7%
Harrisonburg	17.7%
Virginia Peninsula	17.6%
VA Peninsula, metro income	16.9%
Prince William	16.5%
Lynchburg	16.2%
Prince William, metro income	15.7%
South Central	15.5%
Richmond	15.0%
Dan River Region	14.4%
Fredericksburg, metro income	14.3%
N. Blue Ridge, metro income	13.3%
Martinsville	12.8%
Southside	10.4%

For residents of the designated market area, over 20% of income is required to buy the average house sold in Lexington, Chesapeake Bay and Rivers, Fairfax, Williamsburg and Massanutten. This is also the case for the average metro resident for Williamsburg, Fairfax and Dulles. In each of these areas, prices are somewhat less affordable to the average metro resident than to the resident of the local market area.

The most affordable areas of the state for their own residents are Southside, Martinsville, Dan River, and Richmond.

Northern Blue Ridge and Fredericksburg are more affordable within their metropolitan markets than they are for their own residents.

## Cost Burden Rank within Va using State Income

Fairfax-Northern Virginia	35.1%
Dulles Area	32.7%
Greater Piedmont	27.9%
Williamsburg	24.8%
Prince William	23.1%
Chesapeake Bay and Rivers	21.6%
Fredericksburg	21.1%
Lexington	20.0%
Northern Blue Ridge	19.6%
Richmond	18.6%
Virginia Peninsula	17.0%
Roanoke Valley	16.8%
Northern Neck	15.8%
New River Valley	15.6%
Harrisonburg	15.2%
Massanutten	15.0%
Staunton	14.8%
Lynchburg	14.4%
Southside	12.3%
South Central	11.5%
Dan River Region	11.1%
Martinsville	9.4%

*The affordability patterns in the northern section of the state point to ongoing and increasing pressures for sprawl. Housing markets at the metropolitan fringe are very affordable compared to closer-in alternatives, pushing homebuyers farther and farther out. The terrible irony is that the search for affordable housing on the metropolitan fringe and beyond can also lead to increased prices for land and housing in those areas, making those areas less and less affordable to their existing residents. The newcomers get a bargain that the existing residents cannot afford.*

## Affordability an Increased Concern for Northern Virginia

- Fairfax, Dulles, Greater Piedmont, Williamsburg and Prince William least affordable areas to the average Virginia family
- Housing prices increased by double-digit rates in several market areas of northern Virginia, outpacing incomes
- Prices range from Fairfax's high (\$318,223) to Martinsville's low (\$83,908)
- Average prices for 2002 exceeded \$200,000 in five areas of the state--Fairfax, Dulles, Greater Piedmont, Williamsburg, and Prince William

*Several areas would clearly present affordability problems to the average family in the state, if they were to move there, particularly Fairfax-Northern Virginia, Dulles, Greater Piedmont, Williamsburg and Prince William.*

*Average prices for 2002 exceeded \$200,000 in five areas of the state (Fairfax, Dulles, Greater Piedmont, Williamsburg, and Prince William), including a chart topping \$318,223 for Fairfax. Average prices ranged from Fairfax's high to a low of \$83,908 in Martinsville.*

*Housing prices are increasing twice as fast as local incomes in northern Virginia and three to four times faster than incomes in most other areas of the state, making the area less affordable to its existing residents and much less affordable to others elsewhere in the state.*

## Housing Production and Increased Demand

- Household Increase
  - 428,757 1980-1990
  - 407,343 1990-2000
  - HH increase declined 5%
- Housing Production
  - 538,467 units 1980-89
  - 447,082 units 1990-00
  - Housing production declined 17%

*Another troublesome housing trend in Virginia (as well as elsewhere) has been the decline in housing production relative to increases in households. Since the number of households reflects the number of housing units needed (plus an adjustment for vacancies), the increase in households has traditionally been used as a measure of increased housing demand.*

*From 1980 to 1990, the number of households in Virginia increased by 428,757. During the same period, there were 538,467 new units produced (i.e. given building permits). There was less growth in demand during the 1990s, when the rate of growth slowed -5%, but housing production dropped off substantially more, by -17%.*

## Ratio of Permits to Household Increase

- 1980s
  - 1.256 permits/each new household, 1980-1990
  - 0.927 SF permits/hh, 1980s
  - 0.329 MF permits/hh
- 1990s
  - 1.098 permits/each new household, 1990-00
  - 0.892 SF permits/hh, 1990s
  - 0.206 MF permits/hh
  - SF ratio declined 4%
  - MF ratio declined 37%

*During the 1980s, there were 1.256 units produced for each additional household. The “excess” reflects replacement demand and upgrading. This declined to 1.098 units for each additional household in the 1990s. The decline, however, was almost entirely in multi-family production, where the ratio of new units to new households decreased –37%.*

*The 1986 Tax Act significantly reduced the investment advantages of rental housing, but the decline in multi-family production relative to household increase seems to be more dramatic and persistent than the likely impact of the changes in the tax code. We cannot be certain about the causes of the decline in multi-family production without further research, but increased restrictions by local government could be a factor. Local government land use controls and a widespread belief that multi-family housing generates a negative “fiscal impact” could be restricting production below adequate levels for growth. If so, the impact would clearly be felt in increased rents and housing prices, as demand could only be met with a more intense use of the existing housing supply. This is raised as a question that needs to be addressed more thoroughly rather than a conclusion, which cannot be reached from these simple ratios.*

## Fair Growth

- Fair growth connotes a response to market demand that allows the location of residential growth to reflect consumer demand
- For years, fair growth was the assumed standard of land use planning. It is heavily reliant on projections of residential demand and converts those projections to the amount of land required to accommodate that growth.

*The challenge of planning for growth, however, is increasingly complex. Smart growth has become the “hot” slogan, but it might not be smart as far as housing is concerned unless certain conditions are met. My colleagues and I suggest that these conditions include “fair growth”. Fair growth is really what planning was traditionally about. We projected expected growth in various land use categories and developed plans to adequately accommodate that growth in an orderly pattern. Those were the days when housing and jobs were considered together. Now we’re increasingly concerned that local government wants to plan for the jobs but not the housing.*

## Fair Growth and Affordable Housing

- No public policy or planning approach can negate market pressures for increased land prices
- But at the same time, planning should not create housing scarcities that require substantial commuting times
- Adequate supply must be planned and zoned to meet demand
- Requires approaches that address the entire metropolitan market

*There are several approaches we can take to fair growth, but all of them share the following. Regional housing demand must be projected and local plans must be adequate for accommodating growth. Without a regional emphasis, local plans are unlikely to sum up to the required housing. Expansion of employment must be met with expansion of housing.*

*This is not the time or place to go into the details of how fair growth can be achieved. We need to first establish it as our goal.*

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