Homeownership Remains a Key Component of Household Wealth
September Special Study for Housing Economics

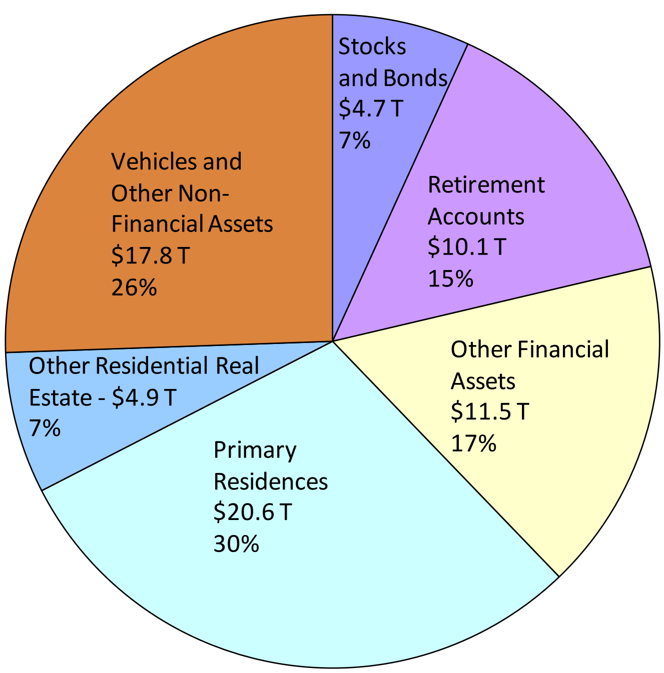
By Michael Neal

Homeownership provides many benefits for U.S. households. In addition to providing a place to sleep or eat, homeownership also offers an opportunity for households to accumulate assets and build wealth.[1] As of 2012, 65%, of U.S. households own their own homes.[2]

Nationally, the primary residence represents the largest asset category on the balance sheets of households. At $20.7 trillion, the primary residence accounted for almost one-third, 30%, of all assets held by households in 2010. The primary residence represented 62% of the median homeowner's total assets and 42% of the median home owner's wealth.[3] The primary residence is also a widely held asset. A greater share of households (67%) owned a primary residence than held a retirement account (50%) or stocks and bonds (16%).

The recent bust in the housing market had a severe impact on household balance sheets[4]. Plummeting house prices contributed to the decline in household assets. During this period, prices of other assets such as equities also dropped leaving the average contribution of the primary residence to a household's total assets relatively unchanged[5]. Since the debt underlying the primary residence did not decline as quickly as house prices, the average household experienced a decline in both total wealth and in housing's contribution to a household's net worth[6]. However, as house prices recover, so should household wealth.

Figure 1. Major Assets on Household Balance Sheets, 2010



Note: Percentages may not sum to 100% due to rounding.
Source: Federal Reserve Board, Survey of Consumer Finances.

The Primary Residence Is Typically a Household's Largest Asset

Homeownership plays an integral role in a household's accumulation of wealth. Nationally, the primary residence represents a significant portion of total assets held by households. As Figure 1 illustrates, the primary residence accounts for 30%, $20.7 trillion, of all assets held by households. At $18 trillion, vehicles and other non-financial assets accounted for 26% of all household asset holdings. Followed by other financial assets (which include such items as checking accounts, savings accounts, certificates of deposit and non-money market mutual funds) at 17%.

Figure 1 includes both owners and renters. If limited to home owners, the share of total assets held is considerably larger. On average, the primary residence accounted for 62% of home owners' total assets. In contrast, financial assets averaged 16%, and non-financial assets excluding the primary residence accounted for an average of 10%.

Part of the reason why the primary residence is an important source of household wealth accumulation is because of its size on the household balance sheet. According to Table 1, the median value of the primary residence across all households was $100,000, the largest asset held by the typical household. In contrast, the median values of financial assets and vehicles were only $17,000 and $12,200 respectively[7].

Another reason why the home is a large part of household balance sheets is because it is a widely held asset. According to Table 1, about two out of every three households, 67%, owned a primary residence in 2010 while just over half of households, 50%, held a retirement account. Meanwhile, 16% of households owned either stocks or bonds. Other financial assets, which are held by over 90 percent of households, include items such as checking accounts, which are often held more to facilitate financial transactions than to build wealth.[8]

Table 1. Household Balance Sheet, 2010

	All Households		
		Median Value For:	
	Share With Asset/Debt	HH With Asset/Debt	All HH
	Percent	$ Thous.	$ Thous.
Total Assets	**98%**	**186.4**	**177.2**
Financial Assets	94	21.5	17.0
Stocks and Bonds	16	25.0	-
Retirement Accounts	50	44.0	0.2
Other Financial Assets	94	6.7	5.5
Non-Financial Assets	91	154.2	135.0
Primary Residence	67	170.0	100.0
Other Residential Real Estate	14	120.0	-
Vehicles	87	15.0	12.2
Other Non-Financial Assets	22	60.0	-
Total Debt	**75%**	**70.6**	**25.3**
Primary Home Mortgage Debt	47	109.0	-
Credit Card and Installment Debt	61	12.0	2.0
Other Real Estate Debt	5	97.0	-
Other Debt	8	5.0	-
Net Worth	**87%**	**114.1**	**77.0**
Primary Residence Equity	61	90.0	25.1
Non-Residence Equity	86	49.2	29.7

Note: Because medians are not additive, traditional accounting relationships will not hold across rows of the table.
Source: Federal Reserve Board, Survey of Consumer Finances

The Impact of the Housing Bust on Household Balance Sheets

Since the majority of households own their primary residence and the primary residence is the largest asset holding of the typical household, then the bursting of the housing bubble had a significant impact on household balance sheets. According to data from the Census Bureau, the homeownership rate peaked at 69% in 2004. Since then, it has fallen. By 2007 the homeownership rate declined by 1 percentage point to 68%. In 2010, the homeownership rate reached 67% and by 2012, 65% of households owned a primary residence, a level not seen since 1996. Despite the 8-year decline in the homeownership rate, nearly two-thirds of all households are still homeowners.

In 2004, the median value of a household's primary residence was $184,100. By 2007, the median value had risen by 14% to $209,500. In 2010, the median house value had declined by 19% to $170,000.

Despite the decline in house values, housing continued to account for over 60 percent of the median homeowner's total assets as the financial crisis adversely affected prices of other assets as well. As Table 2 indicates, the primary residence accounted for 63% of the median homeowner's assets in 2004 and 2007, and 62% in 2010. During the period of house price appreciation between 2004 and 2007, financial assets also appreciated. Over this period, the median value of financial assets held by home owners rose by 10% to $55,700. Between 2007 and 2010, the median value of financial assets held by home owners declined by 23%.

As house prices were rising between 2004 and 2007, housing-related debt was growing as well. However, the dramatic house price decreases that occurred between 2007 and 2010 were not matched by similar declines in housing-related debt. Housing-related debt was $61,000 for the median home owner in 2004. By 2007, the median housing-related debt had risen by 10% to $67,100. Meanwhile, the median house value rose by 14% over this same period. Between 2007 and 2010 when the median house price fell by 19%, while the median amount of housing-related debt declined by only 3% to $65,000. As a result, the median share of housing equity fell from 50% of homeowners' net worth in 2007 to 42% by 2010.

However, the contribution of the primary residence to the average household's balance sheet should improve as house prices recover. Since reaching a low in fourth quarter of 2011, house prices, as measured by the Case/Shiller National House Price Index, have climbed by 12%. Going forward, NAHB expects house prices to rise by 9.5% in 2013 and 4.5% in 2014.

A table with detail showing the balance sheets of homeowners by income bracket for 2010 is available in the "Additional Resources" box that appears at the top on the online version of this article.

Table 2. Household Balance Sheet For Home Owners, 2004-2010

	2004	2007	2010
Balance Sheet Items			
Median Values, 2010 $ Thousands			
Total Assets	333.7	362.2	295.9
Primary Residence	184.1	209.5	170.0
Financial Assets	50.6	55.7	43.0
Retirement Accounts	9.2	13.6	12.0
Non-Financial Assets*	26.5	26.2	25.0
Total Debt	80.5	83.8	82.0
Housing Related Debt	61.0	67.1	65.0
Net Worth	212.5	246.2	173.0
Housing Equity	99.0	110.0	75.0
Financial Ratios			
Median Percentage			
Prim. Residence as Share of Assets	63	63	62
Fin. Assets as Share of Assets	16	17	16
Non-Fin. Assets as Share of Assets*	9	9	10
Prim. Res. Equity as Share of Net Worth	49	50	42
Incidence Rates			
Percent of All Households			
Home Ownership Rate	69	68	67
Retirement Account Ownership Rate	50	53	50

* Non-Financial Assets excludes Primary Residence.
Note: Medians are calculated separately for each balance sheet item and ratio. Because medians are not additive, traditional accounting relationships will not hold across rows of the table.
Source: Federal Reserve Board, Survey of Consumer Finances. U.S. Census Bureau, Housing Vacancy Survey.

Housing Equity Is Important for Low Income, Older Households

Equity in residential property tends to be a particularly important component of wealth for lower income, older households. As Table 3 shows, median net worth for households over the age of 75 with household income below $35,000 was $110,900 in 2010. This is 25 times the net worth for households under age 45 in the same income bracket have. Also for 75+ households with incomes under $35,000, the median share of net worth held as equity in a primary residence is 60 percent. Younger households in the same income bracket tend to have no equity at all in a home (the median residential equity share of total net worth for households with incomes under $35,000 in which the head was younger than 54 was $0). Higher income households over age 75 have higher net worth and more equity in a home in absolute terms, but equity in a primary residence accounts for a smaller share of total net worth.

The median residential equity share of net worth for households age 75 or older with total income between $35,000 and $60,000 was 47% and 36% for older households with income between $60,000 and $100,000. The median residential equity share of net worth for the highest-income, older households was 30%.

Table 3. Share of Net Worth in Residential Equity, 2010					
Income		Under 45	45 to 54	55 to 74	75 or Older
Under $35,000	Median Net Worth	4,300	15,290	44,210	110,900
	Residential Equity Share, Median	0%	0%	34%	60%
$35,000 to $60,000	Median Net Worth	24,100	66,800	180,290	297,210
	Residential Equity Share, Median	0%	42%	46%	47%
$60,000 to $100,000	Median Net Worth	60,190	145,500	261,500	624,500
	Residential Equity Share, Median	19%	41%	39%	36%
$100,000 or More	Median Net Worth	209,900	620,450	1,176,800	2,275,000
	Residential Equity Share, Median	27%	29%	29%	30%
Source: Federal Reserve Board, Survey of Consumer Finances.					

Conclusion

Homeownership is an important component of household balance sheets. This is especially true for low-income, older households, many of whom have little except equity in a primary residence. The primary residence is typically the largest asset held on a homeowner's balance sheet. At the same time, housing is also a broadly held asset, with a greater share of households holding a primary residence as an asset than stock and bonds, or retirement accounts. The housing bust that took place toward the end of the previous decade eroded a portion of household wealth. Despite the impact of the housing contraction and declining house prices on household balance sheets, the primary residence remains a key contributor to asset building and net worth. Moreover, in the years following the onset of the housing bust, asset price declines were not isolated to housing only, but fell across all asset categories. Going forward, household net worth should recover along with house prices. When contemplating changes to tax laws or other policies that may adversely affect house prices, policymakers should bear in mind how important home equity is for many U.S. households, especially older households in lower income brackets.

Additional Resources

Appendix. Median Values for Major Balance Sheet Items and Financial Ratios For Home Owners, 2010					
		Income Brackets			
	All	< 35k	35k-60k	60k-100k	100k+
Balance Sheet Items					
Median Values, $ Thousands					
Total Assets	295.9	144.1	216.1	318.5	894.0
Primary Residence	170.0	100.0	135.0	180.0	350.0
Financial Assets	43.0	5.9	25.1	50.8	296.0
Retirement Accounts	12.0	-	4.3	22.0	152.7
Non-Financial Assets*	25.0	10.2	19.2	29.0	68.7
Total Debt	82.0	11.6	74.0	117.0	187.0
Housing Related Debt	65.0	-	61.0	100.0	145.0
Net Worth	173.0	92.0	126.7	160.3	657.0
Housing Equity	75.0	64.0	55.2	62.5	175.0
Financial Ratios					
Median Percentage					
Prim. Residence as Share of Assets	62	78	68	63	40
Fin. Assets as Share of Assets	16	4	13	18	34
Non-Fin. Assets as Share of Assets	10	9	10	11	11
Prim. Res. Equity as Share of Net Worth	43	71	48	38	24
Prim. Residence as Share of Income	275	447	295	241	202
Prim. Res. Equity as Share of Income	123	305	123	84	93

* Non-Financial Assets excludes Primary Residence.
Note: Medians are calculated separately for each balance sheet item and ratio.
Because medians are not additive, traditional accounting relationships will not hold across rows of the table.
Source: Federal Reserve Board, Survey of Consumer Finances

---

[1] This report follows up on a previous study by NAHB entitled, "Homeownership, Financial Flexibility, and Wealth." Housing Policy, National Association of Home Builders. July 2006.

[2] The homeownership rate data cited in this report comes from the Census Bureau's Housing Vacancy Survey.

[3] Most of the data used in this study originates from the Survey of Consumer Finances (SCF). The SCF is a cross-sectional survey conducted every three years to provide detailed information on the finances of U.S. families. The most recent study was released in the spring of 2012 and includes data up to 2010.

[4] The SCF uses the term "families" which, according to the SCF, is more comparable with the U.S. Census Bureau definition of "households" that with the Census Bureau's use of "families".

[5] According to the SCF, the vast majority of interviews for the 2010 SCF were completed in 2010, but some were completed in early 2011. Thus, the survey data are largely unaffected by changes in economic activity since 2011 – in particular, the rise in the market price of corporate equities and the relative stabilization of house prices.

[6] Bricker, Jesse, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus. "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances." Federal Reserve Bulletin. June 2012, Vol 98, No. 2. P. 23.

[7] Medians are often used when analyzing wealth because they are less sensitive than averages to outliers

[8] Other financial assets include check accounts, certificates of deposit, etc. Other residential real estate includes second homes, time shares, 1-4 family rental properties, and other types of residential properties. Other non-financial assets includes, non-residential property, business equity, and miscellaneous tangible items, for example, artwork, jewelry, precious metals, antiques, collectibles, etc.