The Economics of Tenure Choice: 1955-79

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The aggregate homeownership rate in the United States has continued to rise throughout the 1970s despite rising inflation and the rapid growth of young and primary individual households with relatively low homeownership rates. This appears to be a result of a decline in the cost of homeownership relative to renting. The post 1965 decline in the real after-tax interest rate has acted to reduce the costs of both types of housing. However, inflation, and legislation induced increases in taxation of rental housing have largely offset the decline in the net real financing rate. Depreciation is based on historic cost and nominal capital gains are taxed. Moreover, this taxation was increased in 1969 and 1976 with the introduction and expansion of the minimum tax, the increased recapture of accelerated depreciation, and the amortization, rather than expensing, of construction period interest and property taxes. The decline in the cost of owner-occupied housing relative to rental housing is estimated to have sharply increased homeownership. In the absence of this decline 4.5 to 5 million fewer households would have been homeowners at the end of 1978. That is, the homeownership rate would have been 60 percent, rather than 65 percent.

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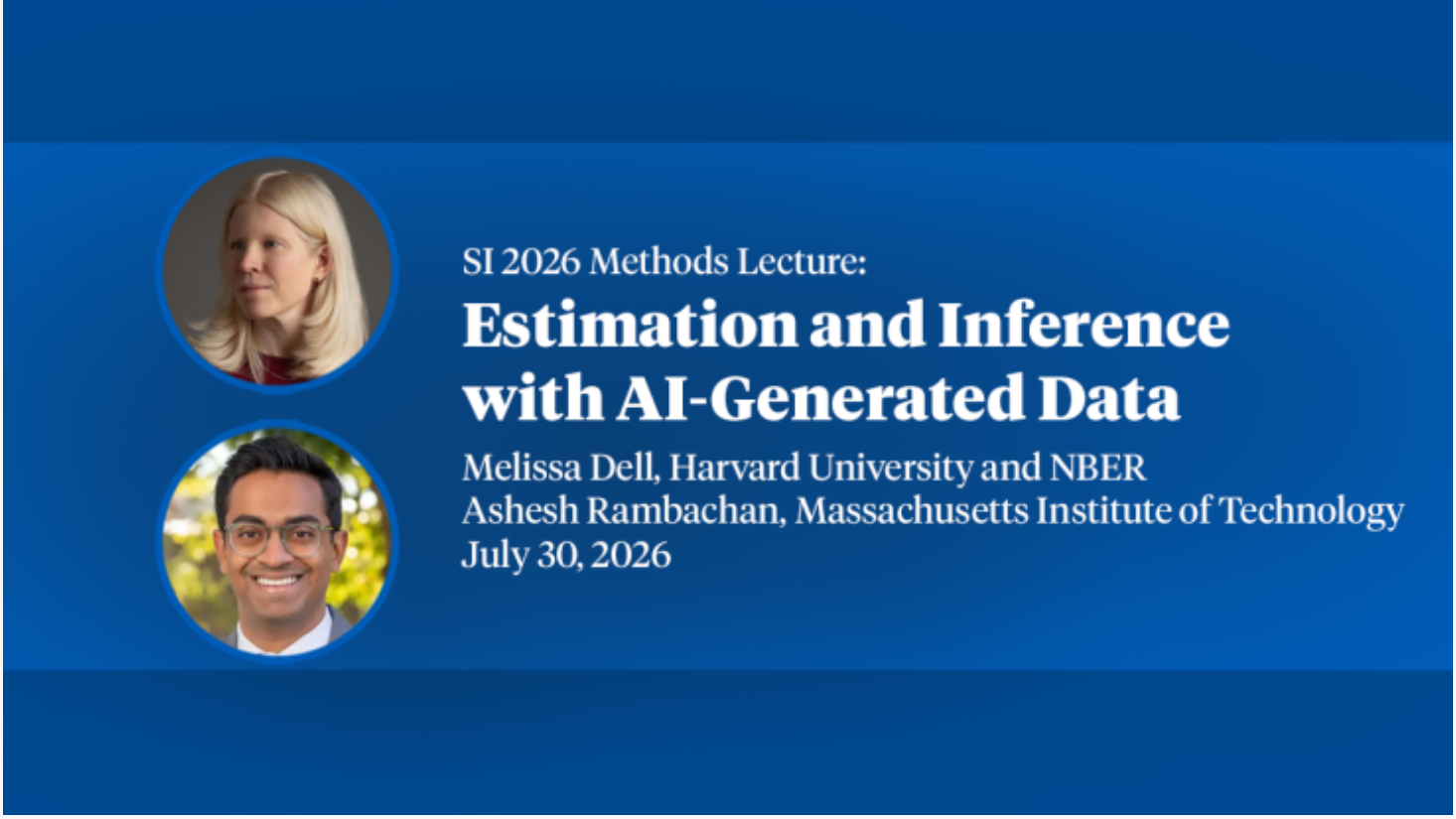


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