

Introduction

- ▶ **Question:** Why has home ownership become less attainable for younger cohorts (25–34) and to what extent are older-cohort incomes (45–54) crowding out younger buyers?
- ▶ **Motivation:** For generations, home ownership has been viewed as an attainable pathway to financial stability. For young Americans today, that pathway has been slipping further out of reach. Home ownership among adults under 35 has fallen, first-time buyers are entering the market later, and high prices are making it increasingly difficult for younger cohorts to afford homes. This project tests whether higher older-cohort income is associated with lower homeownership among ages 25–34.

Theoretical Framework

- ▶ The model uses a simple supply–demand framework where total housing demand comes from different age groups. Buyers are split into younger households (25–34), middle group (35–44) and older households (45–54). Younger households typically have lower incomes and stricter borrowing limits, so they can only compete at lower price levels. Older households usually have higher incomes and more accumulated wealth, letting them keep buying even when prices rise. As prices move above what younger buyers can afford, younger demand is pushed out while older demand stays strong so market prices end up being shaped more by older buyers' purchasing power than by younger buyers. This empirical model implies that, holding young income and market conditions constant, higher older-cohort income should be associated with lower young home ownership because greater older purchasing power can bid up prices and reduce affordability for younger buyers.

Methodology

- ▶ **Empirical model:**

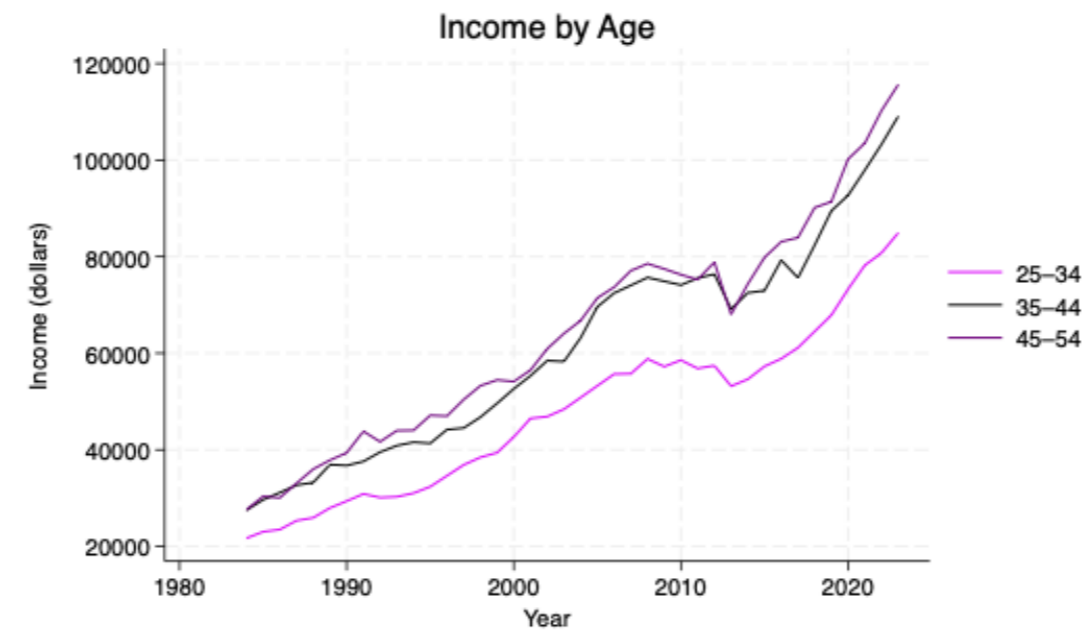
$$\text{Homeownership}_{g,t} = \beta_0 + \beta_1 \text{MortgageRate}_t + \beta_2 \text{OwnIncome}_{g,t} + \beta_3 \text{OlderIncome}_t + \beta_4 \text{Unemployment}_t + \beta_5 \text{Education}_{g,t} + \beta_6 t + \varepsilon_t$$
 where $g \in \{25-34, 35-44\}$.
- ▶ **Specifications:** Four specifications are estimated. The **main specifications** include both older-cohort income and the cohort's own income; the **omit-own-income specifications** exclude the cohort's own income to assess whether the older-income coefficient reflects a distinct older-income effect or is capturing omitted affordability factors when own income is excluded.
- ▶ **Purpose of specifications:** The main specifications estimate the association between older-cohort income and homeownership holding own-cohort income and market conditions fixed. The omit-own-income specifications assess whether the older-income coefficient is sensitive to excluding own-cohort income (i.e., whether it is capturing omitted affordability/time-trend factors).

References

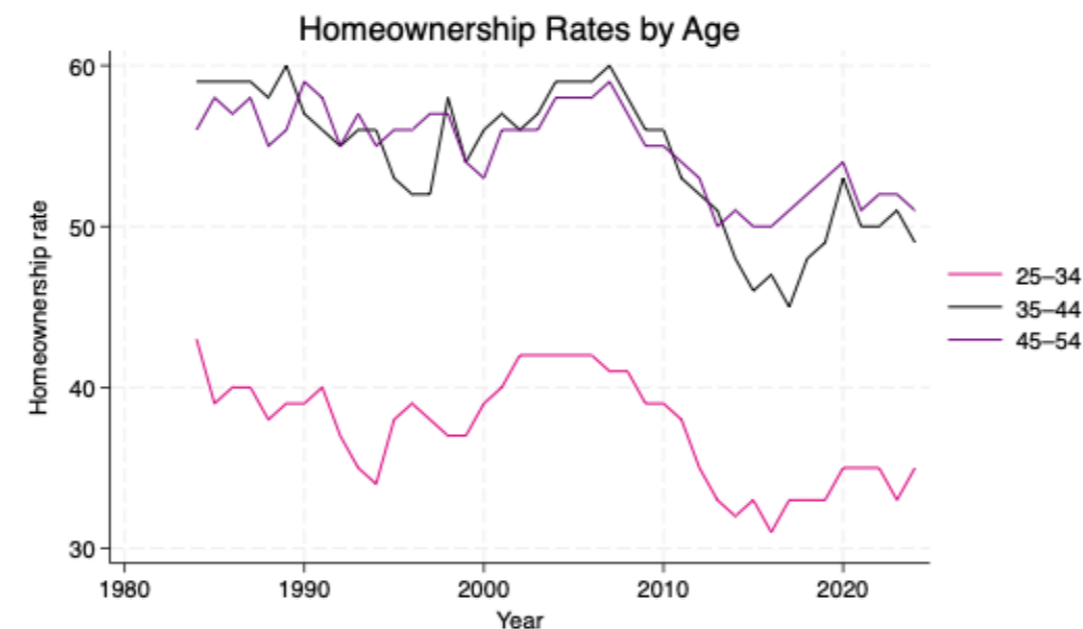
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 - ▶ U.S. Census Bureau. Consumer Expenditure Surveys (CE): After-tax income by age. Series: CXUINCAFTTXLB0403M; CXUINCAFTTXLB0404M; CXUINCAFTTXLB0405M.
 - ▶ Bureau of Labor Statistics. CPI-U (All Urban Consumers) and mortgage rate. Series: CPIAUCSL; MORTGAGE30US.
 - ▶ U.S. Census Bureau. Educational attainment (percent with college) by age. Series: CXU980310LB0403M; CXU980310LB0404M; CXU980310LB0405M.
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Trends

Income by age: incomes have risen but higher for ages 45–54.



Homeownership by age: rates remain lower for the 25–34 age group relative to older cohorts.



Variable Definitions

Symbol	Definition
Homeown _{25–34}	Homeownership rate with mortgage (%), ages 25–34
Homeown _{35–44}	Homeownership rate with mortgage (%), ages 35–44
OlderInc	Real (log) after-tax income, ages 45–54
OwnInc _{25–34}	Real (log) after-tax income, ages 25–34
OwnInc _{35–44}	Real (log) after-tax income, ages 35–44
MortgageRate	30-year fixed mortgage interest rate (%)
Unemp _{25–54}	Unemployment rate (%), ages 25–54
College _{25–34}	College attainment (%), ages 25–34
College _{35–44}	College attainment (%), ages 35–44
t	Linear time trend (detrrending)

Regression Results

	(1) Main spec (25–34)	(2) Main spec (35–44)	(3) Omit own inc (25–34)	(4) Omit own inc (35–44)
OlderInc	–6.372 (6.654)	3.544 (9.897)	33.045*** (7.322)	37.940*** (10.935)
OwnInc _{25–34}	42.282*** (5.644)			
OwnInc _{35–44}		42.097*** (5.785)		
MortgageRate	–0.092 (0.184)	0.330* (0.192)	0.036 (0.322)	0.641*** (0.228)
Unemp _{25–54}	0.204 (0.130)	0.284 (0.173)	0.343 (0.219)	0.671*** (0.212)
College _g	0.103 (0.134)	–0.222 (0.134)	0.368* (0.217)	–0.189 (0.272)
t	–0.481*** (0.110)	–0.379*** (0.098)	–0.613*** (0.184)	–0.278 (0.180)
Constant	–319.457*** (48.506)	–399.289*** (69.163)	–317.956*** (77.154)	–329.785*** (114.254)
N	40	40	40	40

Notes: Newey–West HAC standard errors in parentheses (max lag = 2).

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Results

- ▶ Model 1 (Main spec, 25–34): Older-cohort income is not statistically significant once young income is included; mortgage rates, unemployment, and college attainment are also not significant. A 10% increase in young income is associated with about a +4.2 percentage point increase in young homeownership. The time trend is negative and statistically significant implying a persistent decline over time.
- ▶ Model 2 (Main spec, 35–44): Older-cohort income is not statistically significant once own income is included. A 10% increase in middle income is associated with about a +4.2 percentage point increase in homeownership. The time trend remains negative and statistically significant.
- ▶ Model 3 (Omit own income, 25–34): Dropping young income makes older-cohort income positive and highly significant; a 10% increase in older income is associated with about a +3.3 percentage point increase in young homeownership. This suggests older income may be capturing omitted affordability/purchasing-power trends when own income is excluded. The time trend stays negative and statistically significant.
- ▶ Model 4 (Omit own income, 35–44): Dropping middle income makes older-cohort income positive and highly significant; a 10% increase in older income is associated with about a +3.8 percentage point increase in homeownership. Mortgage rates and unemployment also become statistically significant.

Conclusion

- ▶ The results imply that declining homeownership for ages 25–34 is driven primarily by the cohort's own purchasing power, and a persistent negative time trend. Older-cohort income does not show a robust independent association with young homeownership once own-cohort income is included, likely because older and young incomes are highly correlated over time (multicollinearity), leaving limited independent variation to identify a separate older-income effect. Overall, the widening generational gap appears to reflect constraints faced by younger households rather than a stable direct impact of older-cohort income.