

# ***Homeownership Among Senior Citizens in the District of Columbia: 2002 to 2019***

*Senior Homeownership Declines in City Despite Overall Growth in Homeownership*

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## Senior Homeowners: A Waning Segment of the City's Housing Market

In many regards, the District of Columbia economy has fared well over the past 20 years. It has grown in both income and jobs, renter- and owner-occupied housing, and in the number of young and older residents. Consequently, the District now has a housing affordability crisis that is contributing to many residents leaving the city.<sup>1</sup> Still, we maintain the goals of attracting new residents and retaining existing ones of all socio-economic backgrounds even as we grapple with daunting affordable housing challenges. Thus, it is important not to overlook a small but important segment of our housing market: senior homeowners.

Since 2002, the city lost 23 percent of its senior homeowners, while other homeowners (less than 65 years of age) increased by 37 percent. The vast majority (75.5 percent) of the reduction in senior homeowners occurred in Wards 1, 4, 5 and 6, even as the majority (78.5 percent) of the increase of younger-aged homeowners occurred in these same four wards. All of the major causes of the net decrease in senior homeownership are not yet clear, but it appears that the Senior Credit by itself (equal to half of the annual real property tax bill of senior homeowners) has not provided an incentive to forestall the reduction in new senior homeowners in recent years.<sup>2</sup>

## Homeownership & Homesteads in the District of Columbia

Compared to rental housing, homeownership is thought to provide an increased sense of stability and financial security. For many, homeownership is an investment that boosts household wealth through equity and appreciation over time, especially if the homeowners eventually sell the property, realizing the gain.

Since 1978, the District of Columbia government has helped lower the cost of homeownership via its Homestead Property Tax Deduction. This annual deduction is given to eligible residential owner-occupied properties that are the principal residences of their owners/applicants (referred to as homesteads). The deduction reduces a home's annual assessed value (by \$76,350 in 2021) and makes respective properties eligible for capped annual growth in the taxable value to 10 percent (5 percent for residents 65 years of age or older or disabled). Seniors and disabled also can claim the Senior Credit, which lowers the final annual real property tax bill of these senior homesteads by 50 percent. In addition to being a homestead owner who is a senior or disabled, the credit also requires everyone living in a respective property to have a combined federal adjusted gross income of \$135,750 or less in 2021.

Figure 1 shows an example of the layering of real property tax relief for a hypothetical senior citizen homeowner in 2021. The figure assumes a senior citizen purchased a home in the city in 2020 for

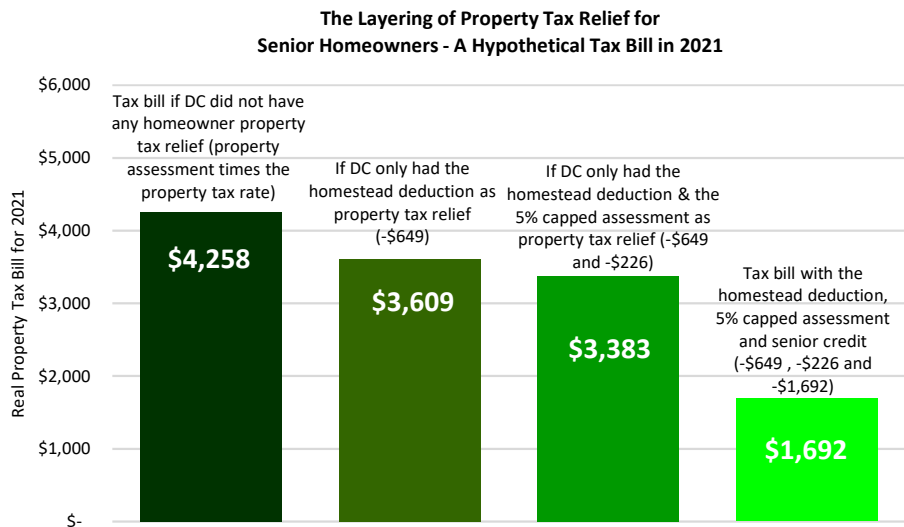
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<sup>1</sup> Cole-Smith, Bethel and Muhammad, Daniel. The Impact of an Increasing Housing Supply on Housing Prices. <https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Housing%20Supply%20Bethel%20Cole%20Smith%20April%202020.pdf>

<sup>2</sup> District of Columbia Office of Tax and Revenue – Property Tax Relief for Homeowners. <https://otr.cfo.dc.gov/page/homesteadsenior-citizen-deduction>  
<https://otr.cfo.dc.gov/page/other-credits-and-deduction>

\$400,000 and the property assessment value increased by 25 percent in 2021. In sum, the example illustrates how the senior homesteader pays just 40 percent of the \$4,250 tax liability, a reduction of \$2,530.<sup>3</sup>

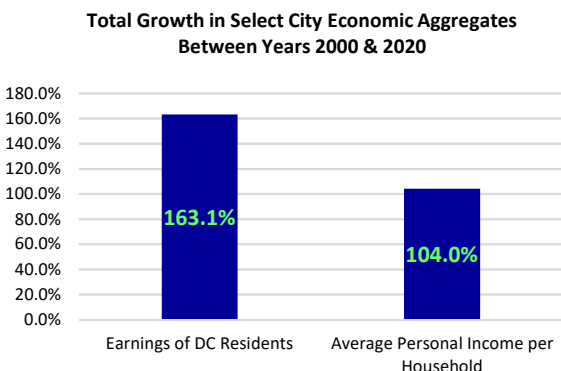
Figure 1



## An Overview of the City's Growth Since 2000

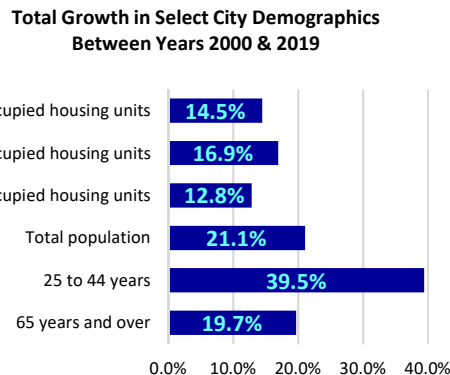
The District of Columbia has experienced impressive growth in its economy and demographics over the past two decades. Figure 2 shows that the total earnings of all District residents and the average income per household more than doubled in 2020 compared to 2000. And even though there has been a notable boom in construction in multifamily housing since 2009, there also are 36,048 (16.9 percent) more owner-occupied housing units (Figure 3). Furthermore, there has not only been a 39.5 percent increase in the number of residents age 25 to 44-years old, but also a 19.7 percent increase in residents 65 years of age or older.

Figure 2



Source: Office of the Chief Financial Officer/ Office of Revenue Analysis

Figure 3



Source: U.S. Census Bureau/American Community Survey

## Homesteads in the District of Columbia by the Numbers

<sup>3</sup> See Appendix for a detailed calculation of the property tax liability for each scenario in Figure 1.

According to District property tax records, there were 84,095 homesteads in 2002 and 101,092 in 2019 (Figure 4), a 20 percent increase. Over this time period, non-senior homesteads increased by 22,319 (37.0 percent), while the number of senior homesteads decreased by 5,322 (22.5 percent) (Figure 5). As a result, the share of senior homesteads decreased from 28.2 percent in 2002 to 18.2 percent in 2019.

Figure 4

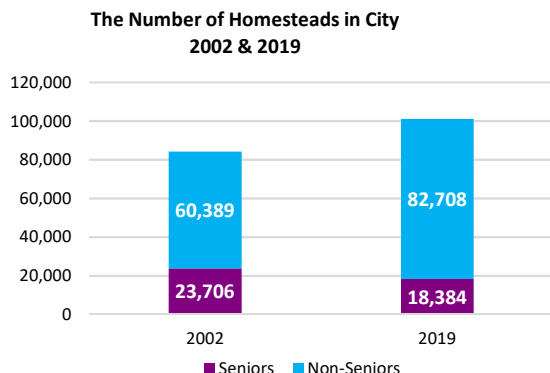
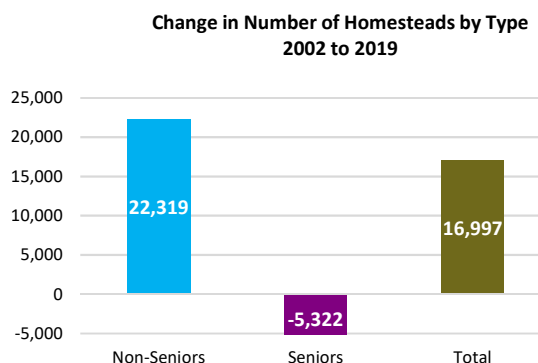


Figure 5



The assessed market value of all homesteads practically quadrupled from \$17.6 billion in 2002 to \$69.4 billion in 2019 (Figure 6). And, notwithstanding having 5,322 fewer senior homesteads in 2019, the assessed market value of all properties claiming senior homesteads more than doubled as of 2019 (Figure 7).

Figure 6

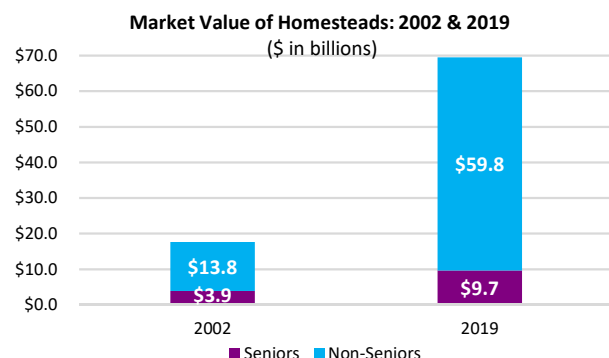
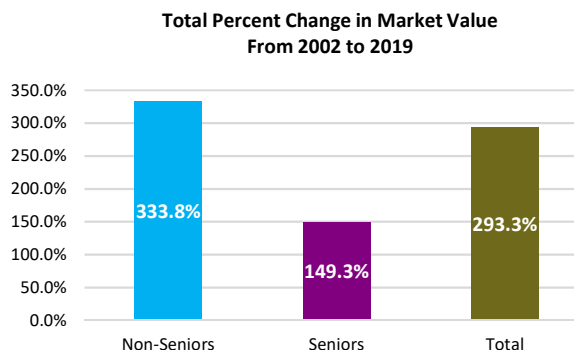


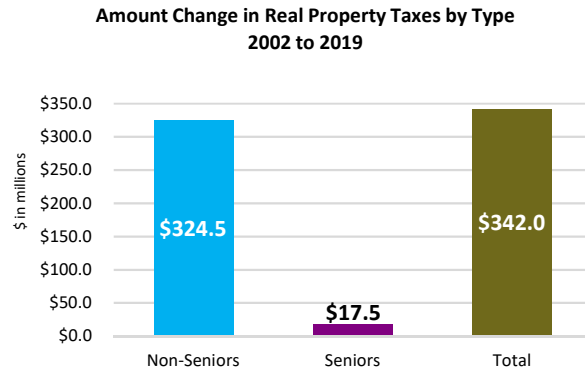
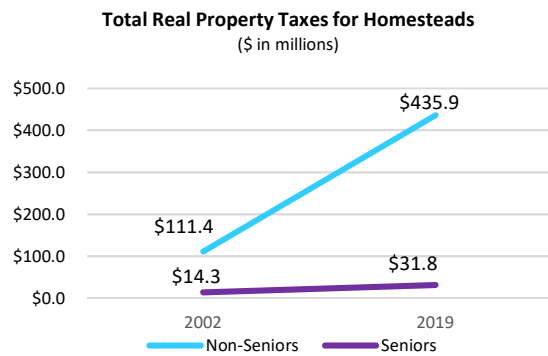
Figure 7



Of the \$125.7 million in real property taxes collected from homesteads in 2002, senior homesteads only accounted for 11.4 percent of the total (Figure 8). And despite collecting \$17.5 million more in real property taxes from senior homesteads in 2019, the \$31.8 million collected was only 6.8 percent of the \$467.7 million collected from all homesteads in 2019 (Figure 9), due to the falling number of senior homesteads largely offsetting the growth in tax revenue from their properties.

Figure 8

Figure 9



## Analysis by Wards

In 2002 the mean home assessment value for all non-senior homesteads was \$246,595 and more than tripled (grew by 221.8 percent) to \$803,153 in 2019. At the same time, the mean home assessment value for all senior homesteads also more than tripled (grew by 223.0 percent) from \$164,437 to \$531,089. However, the mean home assessment value for all non-senior homesteads in the city in 2019 was 51.2 percent higher than the mean home assessment value for all senior homesteads in the city in that same year.

Figures 10 and 11 shows considerable variance in the mean assessment values across the wards with the highest value homesteads tending to be in Wards 2 and 3 and the lowest value homes tending to be in Wards 7 and 8 (Figures 10 and 11).

Figure 10

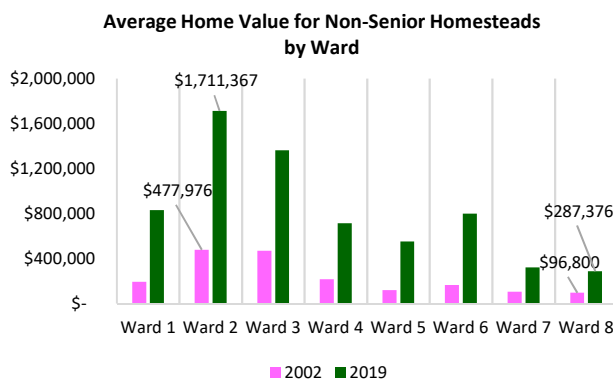
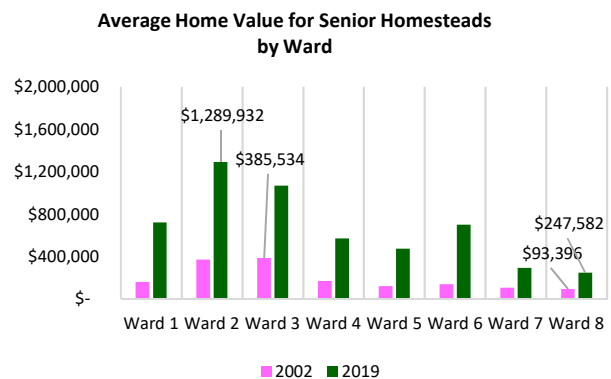


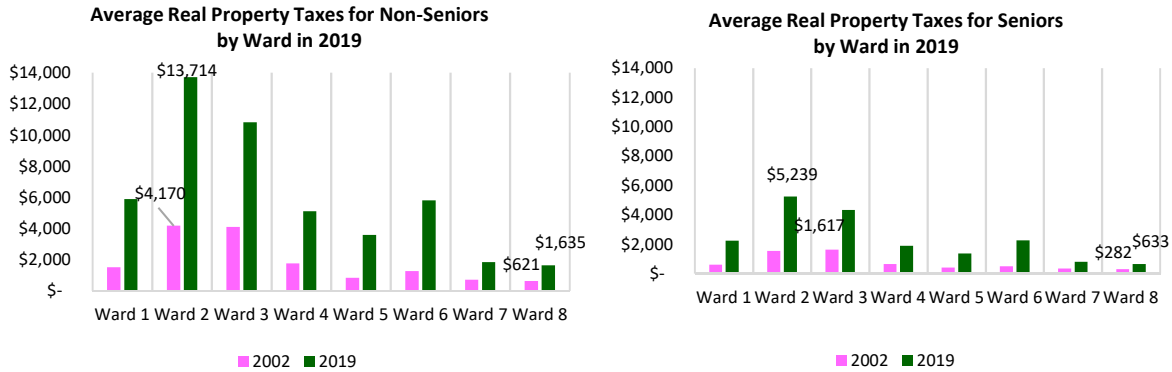
Figure 11



And as expected, the above patterns in homestead values are also reflected in real property tax bills of homesteads. While the average homestead real property tax bill for all non-seniors in the city was \$5,888 in 2019, the average tax bill was \$13,714 in Ward 2 but only \$1,635 in Ward 8 (Figure 12). Similarly, the average real property tax bill for all senior homesteads in the city was \$4,948 in 2019, but the average tax bill was \$5,239 in Ward 2 and only \$633 in Ward 8 (Figure 13).

Figure 12

Figure 13



The above figures indicate that between years 2002 and 2019, all homesteads in the city appreciated in value at an average of 7.1 percent per year, while their real property tax bills tended to grow only about 6.4 percent per year (Figure 14). (The Washington area’s Consumer Price Index only grew at an average rate of 2.1 percent per year doing the same period.)

Figure 14

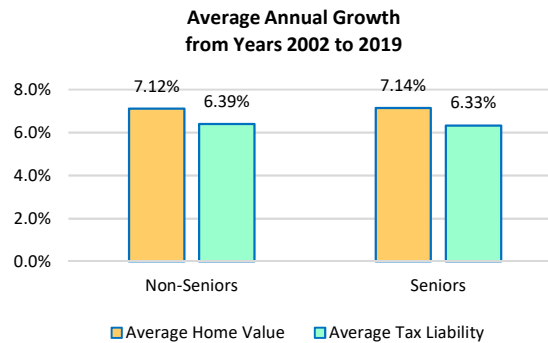
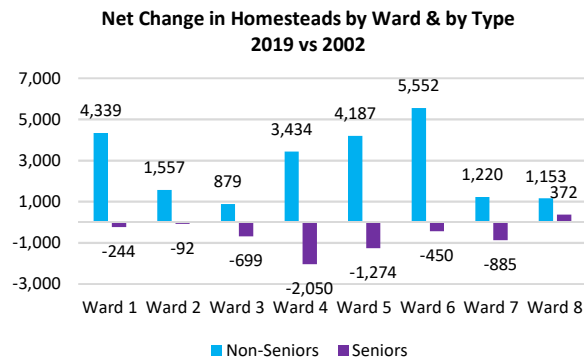


Figure 15 shows that there were more non-senior homesteads in every ward in 2019 than in 2002, but less senior homesteads in all wards except Ward 8. Over the study period, Wards 1, 4, 5 and 6 accounted for 78.5 percent of the net increase in total non-senior homesteads in the city, while the same wards accounted for 75.5 percent of the net decrease in senior homesteads.

Figure 15

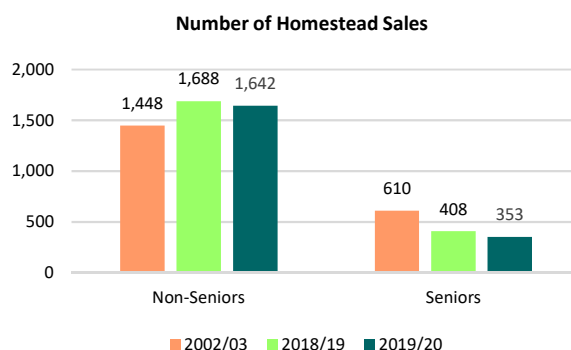


Despite the preferential property tax treatment whereby the Senior Credit halves the annual real property tax bill of senior homeowners, the number of senior homesteads still decreased by 22.5 percent even as non-senior homesteads increased by 37.0 percent. We are not clear on the major causes of the net decrease in registered senior homeownership in a city where both the number of senior residents and total homeownership is increasing. However, two possible reasons may be 1) newly eligible senior homeowners not being aware of the senior homestead program (or maybe even the homestead program); and 2) a growing number of senior residents who would prefer homeownership in the city are simply unable to afford it compared to past years. Nevertheless, it is quite clear that new homeowners younger than 65 years of age seem to be well aware of the homestead program.

## Homestead Property Sales

Figure 16 shows that there were 1,448 homesteads in the city that were classified as non-senior in 2002 but subsequently sold in 2003, while 1,642 homesteads were also classified as non-senior in 2019 but subsequently sold in 2020. This suggests a slight upward trend in non-senior homesteaders putting their homes up for sale (i.e. a higher turnover rate). But because 2020 was the year the coronavirus global pandemic and the consequent recession began to ominously affect the country, it may be that the number of 2020 home sales in the District of Columbia were significantly impacted by the major global events of the year. For this reason, we also looked at homesteads that were also classified as non-senior in 2018 that sold in 2019. Since we find a similar number of sales of formerly non-homestead properties in 2019 and 2020 and both higher than the comparable 2003 sales, it appears that overall there indeed has been a slight upward trend in non-senior homesteaders putting their homes up for sale (i.e. a higher turnover rate).

Figure 16



On the contrary, there were 610 homesteads in the city that were classified as senior in 2002 that subsequently sold in 2003, and 353 homesteads that were also classified as senior in 2019 and subsequently sold in 2020. Considering that the number of senior homesteads sold in 2019 and 2020 are both appreciably lower than in 2003, this suggests a downward overall trend in senior homesteaders putting their homes up for sale. However, this slower turnover rate of senior homesteads may be mitigating the net loss in senior homesteads over the years.

For many, owner-occupied homeownership is a major investment that tends to boost household wealth through equity and appreciation over time, especially when homeowners eventually cash out by selling the property. With the number of senior homesteads declining and senior homesteads tending to have

lower home values, it is insightful to see how senior homestead properties perform in the marketplace when put up for sale. To address this issue, we use a simple statistic called an assessment sales ratio. An assessment sales ratio (ASR) is a statistic used in the real estate industry that measures the difference between an actual sale price and the property's estimated assessment value. The ASR is the assessment value of the property divided by its sales price. An ASR greater than 1.0 indicates that the assessment value is higher than the sale price. An ASR less than 1.0 indicates that the assessment value is lower than the sale price, and an ASR of 1.0 indicates that the sale price is equal to the assessment value.

Figure 17 shows that homesteads that were classified as non-senior in 2019 but subsequently sold in 2020 had an ASR of 86.1, and those classified as seniors had an ASR of 81.0. This means that on average the home assessment value of homesteads sold tended to be around 81 to 86 percent of the actual sale price. And furthermore, the homesteader would have paid real property taxes on a value lower than the market value if not sold in 2020. Figure 18 shows that homesteaders tended to gain approximately \$138,000 in cash equity from their 2020 sale.

Figure 17

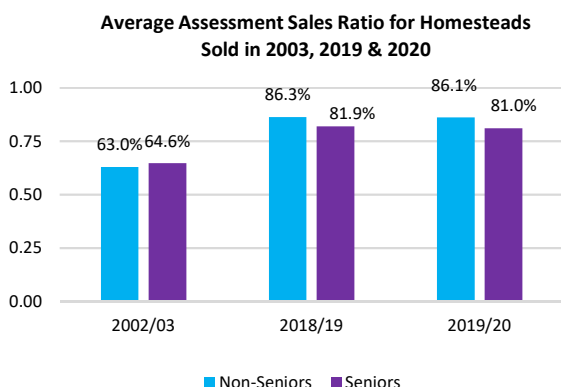
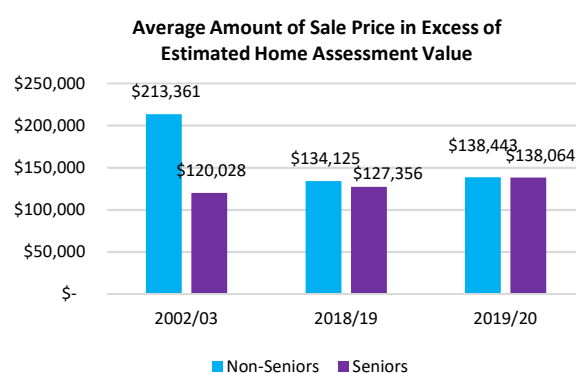


Figure 18



### Location and Past City Tenure of Homesteaders that Sold their Homes in 2020

A review of the 2020 homestead sales data reveal, as expected, that senior homesteaders tended to have a much longer tenure in their homes compared to non-senior homesteaders. Figure 19 shows that 51.3 percent of the senior owners of homesteads sold in 2020 originally purchased their homes prior to 2000, while 69.4 percent of non-senior homesteaders purchased their homes after the 2009 recession. This means that most senior homesteaders that sold their homes in 2020 tended to live in their homes at least 20 years, whereas most non-senior homesteaders tended to live in their homes less than 10 years. Figure 20 shows that most of the senior homesteaders that purchased their homes prior to 2000 and sold their homes in 2020 (54.3 percent) were from Wards 4 and 5. And, most of the non-senior homesteaders that purchased their homes after 2014 and sold their homes in 2020 (50.3 percent) were from Wards 3 and 4.



Figure 19

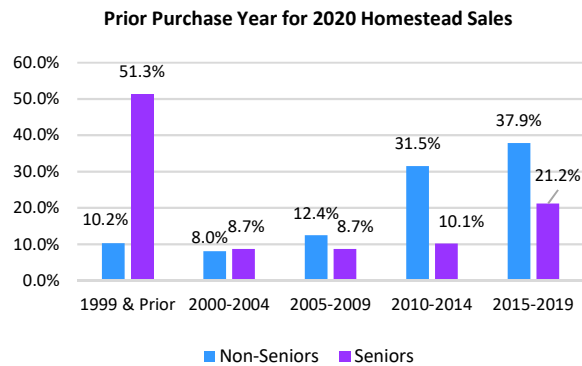
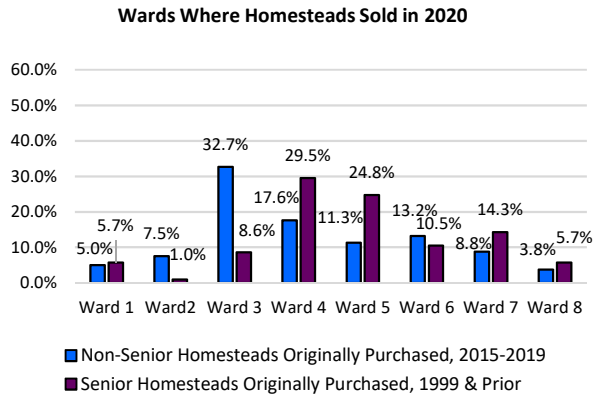


Figure 20



## Conclusion

According to the U.S. Census Bureau, homeownership in the District of Columbia grew 14.5 percent between years 2000 and 2019. But despite both the city's growing economy and population (including residents 65 years and older), homeownership among the city's senior citizens (as defined by city property tax records) decreased. And while the senior real property tax credit effectively reduces the annual real property tax bills of all senior homesteaders by 50 percent (with some senior tax bills as low as \$633 in 2019), it does not appear that the credit by itself has incentivized a considerable amount of new registered seniors homeowners from across the city to join the program. However, by dramatically reducing the property tax bills of senior homesteaders across the District, it is possible the senior credit kept the decline in senior homeownership during this time of significant real estate growth from being even greater than it was.

## **What's this data?**

This analysis is based on District of Columbia real property annual tax data for years 2002 to 2020. Demographic data is from the U.S. Census Bureau, and citywide economic data for the city is from the Office of the Chief Financial Officer/Office of Revenue Analysis.

There are a host of property types that are granted homestead status such as single-family structures, condos, co-ops, small apartment buildings (less than 6 units) as well as nontraditional and mixed used property types (i.e. small residential properties with significant commercial uses). In order to make more homogenized comparisons of value over time, across wards and across owner types, we limit our analyses on value (beginning with Figure 10) only to homestead properties that are single-family and wholly residential structures that are either attached, detached, or semi-detached.

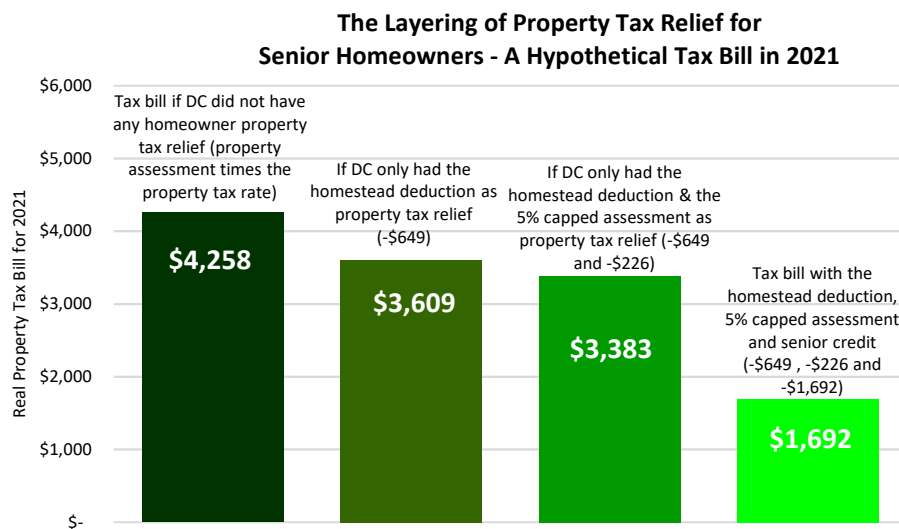
Beginning with Figure 17 homestead sale analyses are limited to market sales and exclude buyers or sellers that are financial institutions, organizations, corporate entities, and non-arm's length market participants.

## Appendix

### Methodologies for 2021 Real Property Tax Liabilities in Figure 1

The figure below shows an example of the layering of real property tax relief for a hypothetical senior citizen homeowner in 2021. The figure assumes a senior citizen purchased a home in the city in 2019 for \$414,000 and the property assessment value increased by 10 percent both in 2020 and 2021. The property assessment for this hypothetical property in 2021 is \$500,940. There are four scenarios presented illustrating the final annual real property tax liability under differing assumptions concerning the city's real property tax policies affecting senior homeowners. But for all scenarios, the tax rate is the current law statutory rate of \$0.85 per \$100 of assessed value (i.e. \$0.0085). In sum, the example illustrates that the respective hypothetical senior homesteader would receive in 2021 a total of \$2,566 (= \$4,258 - \$1,692) in property tax relief and would only be liable for \$1,692 (40 percent) of the full real property tax liability.

Figure 1



#### Scenario 1

- This scenario assumes the city does not have any homeowner property tax relief policies. So, with the 2021 property assessment value being \$500,940, **the real property tax liability would be \$4,258** ( $= \$500,940 * \$0.0085$ ).

#### Scenario 2

- This scenario assumes the city has the homestead deduction as the only homeowner real property tax relief policy. The 2021 property assessment of \$500,950 minus the city's 2021 homestead deduction of \$76,350 makes the taxable assessment value (TAV) for this property \$424,590 ( $= \$500,940 - \$76,350$ ). When the TAV is multiplied by the tax rate of \$0.0085, **the resultant 2021 tax liability for the property in this scenario is = \$3,609.00**.

### Scenario 3

- This scenario assumes the city has only the homestead deduction and the 5 percent capped assessment growth for senior owners as real property tax relief policies. The 2020 property assessment of \$455,400 minus the city's 2020 homestead deduction of \$75,700 produces an initial TAV of \$379,700. We then subtract \$650 from the initial TAV and then add 5 percent.

The 2021 homestead deduction of \$76,350 minus the 2020 homestead deduction of \$75,700 equals \$650.00, which is the incremental increase in the 2021 homestead deduction from the previous year that must be accounted for in the 2021 property tax calculation. The 5 percent represents the 2020 taxable assessment of \$379,700 only being allowed to grow 5 percent in 2021 even though the market value increased 10 percent in 2021. Thus, with an initial TAV of \$379,700 minus the increase in the 2021 homestead deduction plus 5 percent. The final TAV for this property is \$398,003 ( $=[\$379,700 - \$650] * 1.05$ ). **When we multiply \$398,003 by the tax rate of \$0.0085, we get a 2021 property tax liability for this scenario of \$3,383.00.**

### Scenario 4

- This scenario reflects the total package of senior homeowner real property tax relief policies currently in effect in the District of Columbia in 2021. The scenario is the same as Scenario 3 but with the addition of the senior credit. That is, the initial tax liability for this hypothetical example is \$3,383 (Scenario 3), before we reduce the liability by the 50 percent senior credit. **This makes the final 2021 liability for this hypothetical property \$1,692.00 ( $=\$3,383 * 0.50$ ).**