



## DEMOGRAPHIC DRIVERS

Household growth, the primary driver of housing demand, is recovering. Incomes, immigration, and domestic migration are on the rise, and the millennial generation is poised to form millions of new households over the next decade. While the baby boomers will be less active in the homebuying market as they approach retirement age, they will give a boost to improvement spending as they invest in projects that allow them to remain in their homes. With the population aging and minorities driving most of the growth in households, the demand for housing will become increasingly diverse.

### UPTURN IN HOUSEHOLD GROWTH

After years of weakness, growth in the number of US households has begun to strengthen. According to the Housing Vacancy Survey, household growth averaged just 625,000 annually in 2007–2013. The pace of growth has now picked up, rising from 653,000 in 2013 to 1.0 million in 2014 and then to 1.3 million in 2015—marking the largest single-year increase in a decade. Although monthly counts from this survey show household growth moderating in early 2016, persistently tight housing markets amid rising construction volumes suggest that household formations are still on the increase.

Other major surveys also point to an uptick (**Figure 13**). The American Community Survey put household growth at 968,000 at last measure in 2014, up from 652,000 on average in 2007–2013. The Current Population Survey, a much more volatile measure, indicates that household growth averaged 1.1 million over the past two years, up modestly from the 867,000 average annual increases in 2007–2013 but far higher than the 380,000 average annual increases posted in 2009 and 2010.

### MILLENNIALS COMING OFF THE SIDELINES

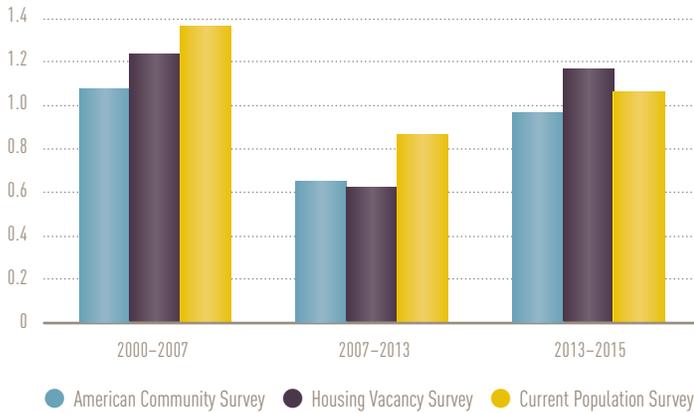
The recent slowdown in household growth was remarkable given that it corresponded with the coming of age of the millennials (born 1985–2004), the largest generation in history. Over the past 10 years, the number of adults under age 30 increased by roughly 5 million but the number of households in that age group rose by just 200,000. Indeed, if young adults headed households at the same rates that they did in 2005, there would be 1.7 million more households in this age group today.

Over the next decade, however, the aging of the millennial generation will be a boon to household growth (**Figure 14**). Household headship rates rise from about 25 percent for adults in their early 20s to about 50 percent for those in their 30s. As they move further into these age groups, millennials are expected to form well over 2 million new households each year on average, raising their numbers from 16 million in 2015 to a projected 40 million in 2025.

FIGURE 13

### Major Census Surveys Confirm the Pickup in Household Growth

Average Annual Household Growth (Millions)

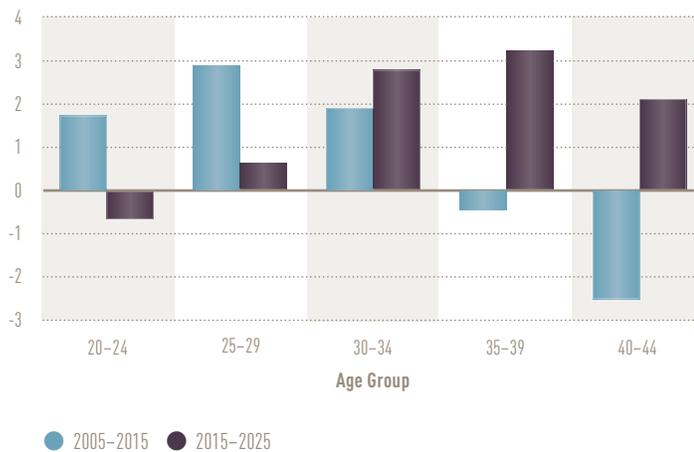


Note: American Community Survey data are only available through 2014.  
Source: JCHS tabulations of US Census Bureau survey data.

FIGURE 14

### Over the Next Ten Years, the Aging of the Millennial Generation Will Boost the Population in Their 30s

Population Growth (Millions)



Source: JCHS tabulations of US Census Bureau, United States Population Estimates and 2014 Population Projections.

The recent upturn in household growth does not reflect any rebound in headship rates among young adults. Indeed, rates of living with roommates remain slightly elevated, and the share of young adults living with their parents continues to rise. The American Community Survey indicates that the share of 25–34 year-olds living in their parents’ homes rose from 17 percent in 2008 to about 22 percent in 2014, and more recent Current Population Survey data show further increases in 2015.

Adults living with parents are mainly in their 20s, with the shares declining sharply from 50 percent among adults aged 20–24, to 27 percent among those aged 25–29, to 15 percent among those aged 30–34. According to the Fannie Mae National Housing Survey, the major reasons for living with parents differ somewhat across these age groups, but commonly involve minimizing housing expenses. For example, adults in their early 20s are more likely to be unemployed and live with their parents because they are still enrolled in school. In contrast, adults in their mid-20s to early 30s are more likely to be out of school and employed, but still living with parents for the cheap housing and to build their savings while working.

High housing costs are clearly a barrier to living independently for many younger adults. In the 100 largest metros, household headship rates for 25–29 year-olds are significantly lower in areas where housing is least affordable (as measured by renter cost-burden rates). Indeed, headship rates among this age group in the 25 least affordable metros are a full 10 percentage points lower than those in the 25 most affordable metros. Least-affordable metros include high-cost areas such as New York and Los Angeles, but also Philadelphia, Fresno, and Lakeland, where rents are more moderate but still high relative to incomes.

#### GROWING INCOMES BUT GROWING INEQUALITY

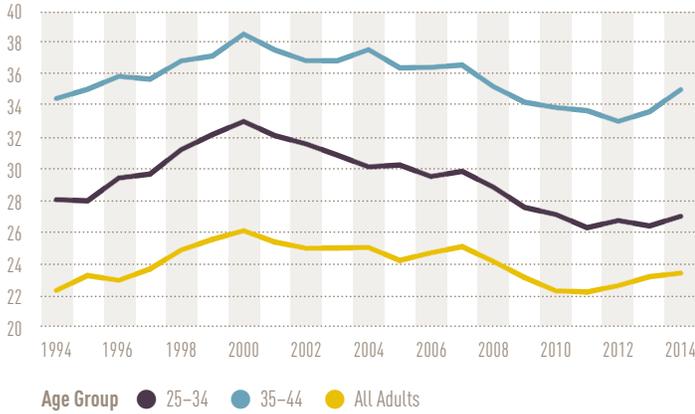
Low incomes also prevent young adults from living on their own, so the recent pickup in income growth is good news for housing demand. With employment rising for the 67th consecutive month in April 2016, job growth has slowly translated into measurable income gains. Real median income for all workers age 15 and over edged up 1.0 percent in 2014, the third year of increases. Young adults made even more progress, with a 2.3 percent increase for workers aged 25–34 and 4.1 percent for workers aged 35–44 (Figure 15). While back above recent lows, the real median personal incomes for these age groups are still 9–18 percent below previous peaks.

Household headship rates among 25–34 year-olds rise sharply with income, starting from 40 percent for those earning less than \$25,000, to 50 percent for those earning \$25,000–49,999, to 58 percent for those earning \$50,000 or more. This strong link suggests that much of the recent decline in household formations among young adults is income-related. A JCHS analysis of Current Population Survey data confirms this fact, finding that if the income distribution among 25–34 year-olds had remained

FIGURE 15

### After Years of Decline, Real Incomes for Young Adults Are Finally on the Rise

Median Income Per Capita (Thousands of 2014 dollars)

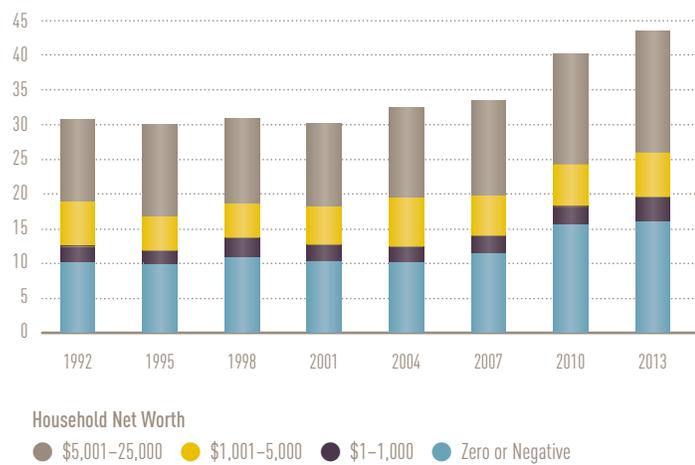


Note: Data are for adults age 15 and over.  
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

FIGURE 16

### Millions of Households Have Little or No Wealth

Households (Millions)



Note: Dollar values are adjusted to 2013 dollars using the CPI-U for All Items.  
Source: JCHS tabulations of US Federal Reserve Board of Governors, Surveys of Consumer Finances.

constant in 2005–2015, their headship rates would have dropped only half as much. Further income gains among young adults should therefore help to reverse some of the decline in their headship rates.

Meanwhile, the real median income of US households inched up 1.2 percent in 2014, the second consecutive year of growth. At \$53,700, however, real median income was still 6 percent below the 2007 peak and lower than any pre-recession level dating back to 1996. Moreover, income disparities have increased sharply over the past few decades, with the average real income of households in the bottom decile down 18 percent in 1980–2014 (from \$7,700 to \$6,300) and that of households in the top decile up 66 percent (from \$154,000 to \$256,000). Average real incomes for the middle two deciles grew a modest 6 percent over this period. As a result, the average top-decile household now makes 40 times the income of the average household in the bottom decile and 4.7 times that of the average household in the middle deciles.

Reflecting the uneven growth in incomes, households earning under \$25,000 per year were the fastest-growing segment in 2005–2015. Indeed, their numbers rose by 21 percent over the decade. As a result, this low-income group accounted for 44 percent of the nation’s net growth in households.

#### DISPARITIES IN HOUSEHOLD WEALTH

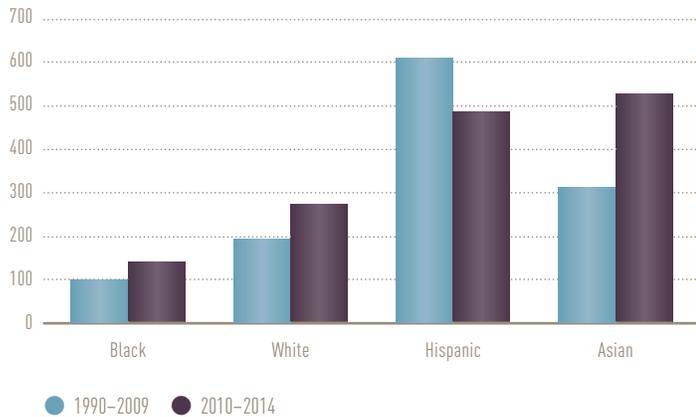
Along with income, wealth is increasingly concentrated in the hands of the few and the numbers of households with little or no assets continue to increase. The Survey of Consumer Finances indicates that the share of wealth held by households in the top income decile jumped from 53 percent in 1992 to 62 percent in 2013. Meanwhile, the share of wealth held by households in the bottom half of the income distribution declined from 15 percent to 10 percent. As a result, the number of households with less than \$25,000 in real net wealth rose from about 30 million to more than 43 million over this period, including nearly 20 million with wealth of \$1,000 or less (Figure 16).

Over three-quarters of the households with less than \$25,000 in wealth are renters, underscoring the close link between wealth and homeownership. At last measure in 2013, the typical homeowner had \$195,500 in net household wealth while the typical renter had just \$5,400. Households with traditionally low homeownership rates—minority and low-income households—are therefore at a significant disadvantage. Indeed, the substantial white-minority homeownership gap has left the median net household wealth of blacks (\$11,000) and Hispanics (\$13,700) at roughly one-tenth that of whites (\$134,200). And for those able to make the transition to homeownership, home equity makes up a disproportionately large share of net wealth. In 2013, home equity accounted for more than 80 percent of the net wealth of low-income homeowners and well over 50 percent of the net wealth of minority homeowners.

FIGURE 17

## Asians Are Leading the Current Wave of Immigration

Average Annual Immigration (Thousands)



Note: Whites, blacks, and Asians are non-Hispanic. Hispanics may be of any race.  
Source: JCHS tabulations of US Census Bureau, 2014 American Community Survey 1-Year Estimates.

But for many young adults, low wealth remains an obstacle to homebuying. In 2013, renters aged 25–34 had median net wealth of \$4,850 and cash savings of \$1,030, well below the downpayment needed for today’s median-priced home. Renters aged 35–44 were not much better off, with median net wealth of \$7,900 and cash savings of \$510. Given the large discrepancy in wealth between owners and renters, the inability to access homeownership may further divide the haves and the have-nots.

### REBOUND IN IMMIGRATION

Immigration, another major driver of household growth and housing demand, is starting to pick up steam. From a low of 704,000 in 2011, net international immigration climbed to an estimated 1.15 million last year. This latest influx has changed the mix of new residents, with today’s immigrants more likely to be Asian than Hispanic (**Figure 17**). This shift largely reflects a falloff in immigration from Mexico as well as an increase in outmigration from the US to Mexico. The Pew Research Center reports that the number of Mexican immigrants fell from 2.9 million in 1995–2000 to 870,000 in 2009–2014, while emigration of US residents to Mexico increased from 670,000 to 1.0 million, resulting in a net population loss of 140,000.

The changing mix of immigrants has direct implications for housing demand. Asian immigrants generally have higher incomes, higher homeownership rates, and higher levels of educational attainment than Hispanic immigrants. In 2014, foreign-born Asian households aged 25–44 had a median income of \$82,000, or more than twice the \$38,000 median

income of similarly aged, foreign-born Hispanic households. In addition, the homeownership rate for foreign-born Asians was 57 percent, 15 percentage points higher than for foreign-born Hispanics. Asian immigrants also had slightly fewer children and were more likely to settle in the Northeast and Midwest than Hispanic immigrants.

Immigrants have been an important source of household growth for decades. According to the Current Population Survey, the foreign-born contributed just over a third of the increase in households in 1994–2015, or about 450,000 households per year. Indeed, just when the large baby-boom generation was moving out of the prime household formation years, immigrants bolstered the ranks of the smaller generation-X population (born 1965–1984), changing the composition of that generation and stabilizing housing demand. The foreign-born thus accounted for nearly a fifth of household heads aged 30–49 in 2015.

Given the strong inflows of Hispanic immigrants in the late 1990s and early 2000s, the minority share of the gen-X population now stands at 41 percent. By comparison, the minority share of millennials is slightly higher at 45 percent, while that of the baby boomers is just 29 percent. Going forward, as the millennials replace the gen-Xers among households in their 30s and 40s, immigrants will fuel additional need for housing, adding to the strong demand expected from what is already the largest, most diverse generation in history.

### RESIDENTIAL MOBILITY TRENDS

Residential mobility rates, or the share of the population that changes homes in a given year, have trended downward since the mid-1990s. Mobility rates are highest for adults under age 25 (39 percent) and decline steadily across age groups, falling to just 3 percent for households age 75 and over. The aging of the baby-boom generation and increases in longevity have thus reduced the overall mobility rate by raising the share of the population that is least mobile.

But mobility rates for all age groups have also slipped in recent years. In fact, the largest declines have been among households under age 25, with rates now 15 percentage points below those in 2000. By comparison, rates are down 5 percentage points for 25–34 year-olds, 3 percentage points for 35–44 year-olds, and 2 percentage points for 45–54 year-olds. Several factors have contributed to this trend, including lower household formation rates among young adults and lower homebuying activity among older adults.

Less frequent moves among renters are also a key factor. When the housing downturn began in 2005, the sharpest drop in mobility rates was among homeowners kept in their current homes by the collapse of house prices and limited access to credit. Homeowner mobility rates fell from 6.3 percent to 4.1

percent over the ensuing five years before stabilizing. At the same time, renter mobility rates slipped by 1.4 percentage points in 2005–2010, but then dropped 3.8 percentage points in 2010–2015. Contributing to this slowdown were historically low household formation rates (implying fewer moves per capita into rentals) and longer stays in current units (reflecting in part fewer transitions into homeownership).

Still, domestic migration (state-to-state moves within the country) increased in 2015, restoring the long-term flow of population into the South and West (Figure 18). After falling 48 percent in 2007–2013, net population growth in the South rebounded to a post-recession high of 444,240 last year, led by the Sunbelt states of Florida, North Carolina, and Texas. Meanwhile, net population losses in the Northeast and Midwest—led by Illinois and New York—increased to their pre-recession levels.

One of the most noteworthy changes in mobility patterns after the Great Recession was slower population growth in suburban areas and faster population growth in urban areas. Weaker migration to the Sunbelt was one factor, given that metros in that region are much less compact than in the North. The sharp falloff in single-family construction also contributed since much of that type of housing is developed in suburban and exurban locations. As domestic migration resumes and single-family construction picks up, however, suburban growth rates are likely to rebound. In fact, a 2015 analysis by the Brookings Institution indicates that the turnaround has already begun, with population growth in suburban counties exceeding that in urban core counties for the first time since 2009.

But there is no question that the recent strength of urban population growth is driven in part by growing demand for city living. However, the 2015 Demand Institute Consumer Housing Survey indicates that the majority of US households prefer to eventually settle in suburban or exurban communities. Among households expecting to move in the next five years, 69 percent intended to live outside of city centers. This share rises to 78 percent of those planning to move into homes they own. Even among respondents under age 35, fully 63 percent of future movers intended to live outside of a city center, including 71 percent of those planning to own.

### THE OUTLOOK

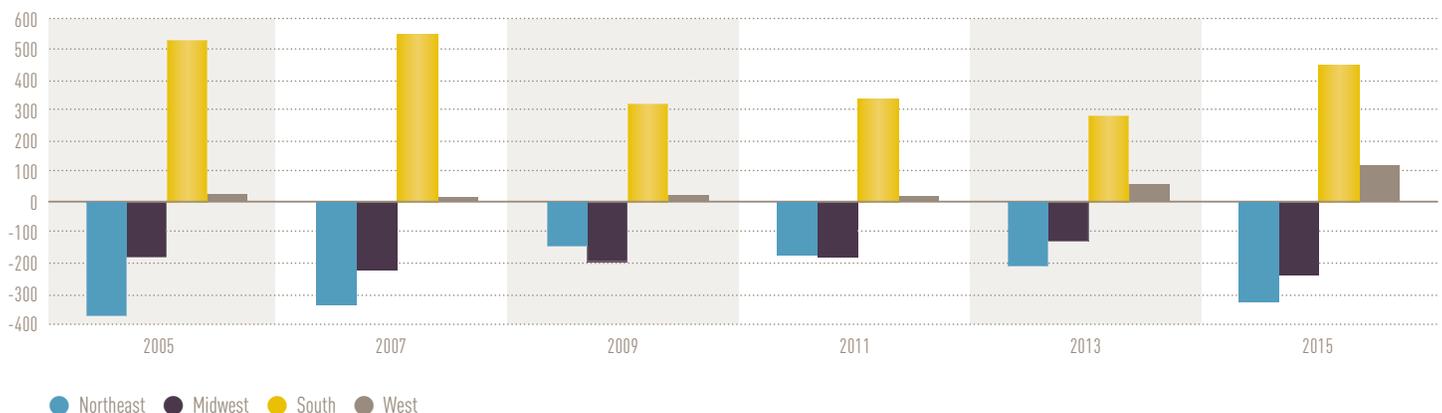
Growth in the adult population will support significant household growth over the next decade and beyond. According to preliminary JCHS projections, demographic forces alone will drive the addition of more than 13 million households in 2015–2025. Much of this growth will occur among the retirement-aged population, with the number of households age 70 and over projected to soar by over 8 million, or more than 40 percent. These increases will lift the share of older households from 16 percent in 2015 to about 21 percent in 2025.

The aging of the population will have profound impacts on housing demand. First, the growing share of older households means further declines in residential mobility and housing turnover, potentially putting the already tight market for existing homes under additional pressure. Second, as they age in place in greater numbers, older households will not only contribute a larger

FIGURE 18

### Domestic Migration Is Returning to Historical Patterns of Growth and Loss

Net Domestic Migration (Thousands)



Source: JCHS tabulations of US Census Bureau, United States Population Estimates.

share of remodeling spending, but will also increase demand for different types of projects, such as accessibility improvements. Third, the older households that do move will likely seek units that are smaller and less costly to maintain—the same types of housing young adults want to rent or buy as their first homes. And finally, the number of older single persons living alone will climb, implying a significant increase in the need for in-home healthcare and supportive services.

Meanwhile, the millennials will have a growing presence in housing markets as the younger members of this large generation enter adulthood and older members move into the prime first-time homebuying years. While their aspirations for housing do not differ significantly from those of previous generations, millennials have come of age in an era of lower incomes, higher rents, and more cautious attitudes towards credit and homeownership, conditions that are likely to affect their consumption of housing for years to come.

The racial and ethnic diversity of this huge generation will drive up the number and share of minority households. Indeed, minorities are expected to account for roughly 75 percent of household growth over the next 10 years. The growing minority share in housing markets is likely to boost demand for units that accommodate multigenerational households, given that young minority adults are more likely than young white adults to live with their parents and older minority adults are much more likely than older white adults to live with their children. More importantly, however, rapid growth in minority households brings new urgency to the need to reduce white-minority gaps in household income, wealth, and homeownership. Failure to make progress in this realm could have increasingly large impacts on the shape of future housing demand.