DEMOGRAPHIC DRIVERS

Household growth, the primary driver of housing demand, has picked up and is likely to remain strong as members of the millennial generation increasingly move into their 20s and early 30s over the coming decade. But immigration, typically a large source of household growth, could be in for a slowdown. Worsening income inequality, along with the increasing concentration of poverty and affluence, are also concerns. Still, the growing diversity and overall aging of the US population ensure that demand for a variety of housing types and locations is set to increase.

REBOUND IN HOUSEHOLD GROWTH

Census Bureau survey results confirm that household growth has steadily climbed from post-recession lows. Depending on the survey, between 960,000 and 1.2 million households were added on net in 2013–2015—a dramatic increase from the 540,000–720,000 averaged in the late 2000s. On a three-year rolling average basis, the Housing Vacancy Survey (the timeliest survey for tracking growth) shows a strong rebound in household growth from under 600,000 per year in 2009–2011 to more than 1.0 million in 2015–2016 **(Figure 13).**

This increase largely reflects the aging of the millennial generation (born 1985–2004) into the phase of life when they are most apt to form their own households. At 87 million strong, millennials are the largest generation in history. In 2010–2015, they lifted the population aged 10–29 by 3.4 million and formed 7.6 million new households, more than offsetting a decline of roughly 4 million among the nation's oldest households over this period.

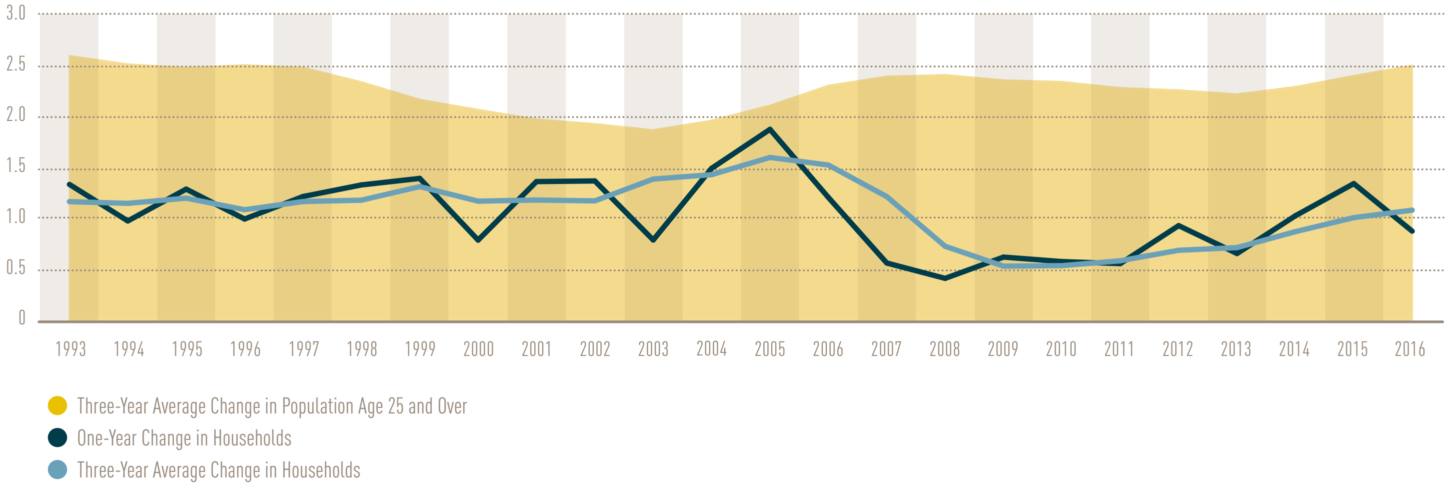
Still, the millennials have so far had only a muted impact on housing demand. Indeed, their household formation rates remain at post-recessionary lows, at least in part because many continue to live with their parents or grandparents. According to the latest American Community Survey, the share of adults aged 18–34 residing in their parents' homes increased again in 2015 to an all-time high of 35.6 percent.

Low incomes are clearly part of the problem. In 2015, the median personal income of 25–29 year olds was $27,100, up 10.6 percent from $24,500 in 2011 (in constant dollars) but still well below the $30,300 posted in 2000. High housing costs in many markets have also prevented many millennials from living independently. Household headship rates for both the 18–24 and 25–34 year-old age groups are especially low in the nation's least affordable markets **(Figure 14).**

FIGURE 13

Steady Increases in the Adult Population Are Helping to Lift Household Growth from Post-Recession Lows

Annual Change (Millions)



Note: Three-year changes are trailing averages, adjusting for the break in the household series in 2003.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey and Population Estimates.

FUTURE IMPACT OF MILLENNIALS

Despite their slow start, the millennials will soon have a significant presence in housing markets. In 2015, members of this generation headed only 16 million of the nation's 124.5 million households. By 2035, however, they are projected to head 49.8 million households and thus reshape housing demand in profound ways.

First of all, millennials not only outnumber members of generation X (born 1965–1984) and the baby-boom generation (born 1946–1964), but they are also much more racially and ethnically diverse. A little more than 45 percent of millennials are minorities, compared with only 41 percent of gen-Xers and 29 percent of baby boomers. Moreover, immigration has yet to have its full impact on the size and racial/ethnic mix of the millennial population. In 2015, only 8.3 million (9.6 percent of) millennials were foreign born. By 2035, however, the Census Bureau projects that the number of foreign-born members of that generation will rise sharply to 20.4 million, more than doubling the share to almost 21 percent. As a result, the minority share of millennials will increase to 49.9 percent by 2035, making this the first generation to be nearly majority-minority.

Millennials will thus continue to fuel the growing diversity of neighborhoods across the country. In 1990, nearly one-half (47 percent) of the nation's census tracts were more than 90 percent white. By 2015, that share was down to one-fifth. Meanwhile, the share of majority-minority census tracts increased from 20 percent (12,100 tracts) to 30 percent (22,100 tracts). Majority-minority neighborhoods already make up as much as 75 percent of census tracts in the San Jose metro area, 71 percent in the Los Angeles metro area, and 49 percent in the New York metro area.

LIVING ARRANGEMENTS FOR AN AGING POPULATION

While the number of younger adults is growing rapidly, the older population is growing even faster. The latest Census Bureau projections put the total population age 65 and over at 79 million in 2035—an increase of more than 31 million from 2015. With more people living well into their 80s and beyond, the Census Bureau also projects that the number of "oldest-old" adults will double over this period from 12 million to 24 million. In all, one in five individuals, as well as one in three households, will be over age 65 in 2035.

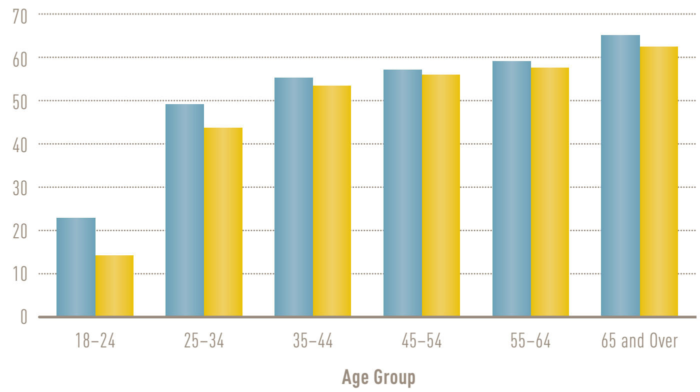
This dramatic shift in the age distribution of the US population will drive up demand for a variety of housing options, including multigenerational living. According to the 2015 American Community Survey, 20 percent of non-institutionalized adults age 65 and over, fully 9.3 million people, live in households with at least two adult generations. The prevalence of multigenerational living rises steadily among individuals over age 70, reaching 27 percent among individuals age 85 and over.

The increasing diversity in the population may also lift demand for multigenerational living. Asians and Hispanics age 65 and

FIGURE 14

High Rents in Many Metros Delay Household Formation Among Younger Adults

Share Heading Independent Households (Percent)

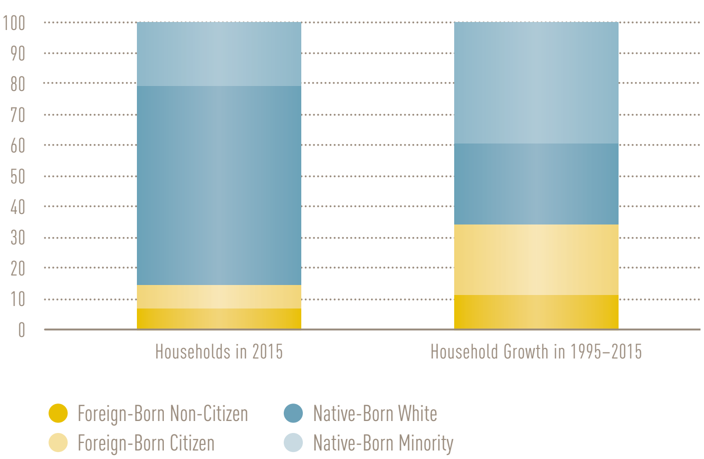


Note: Affordability of metros is determined by the share of renters paying more than 30% of income on housing.
Source: JCHS tabulations of US Census Bureau, 2015 American Community Survey 1-Year Estimates.

FIGURE 15

Immigrants Account for Only a Small Share of Households But a Large Share of Household Growth

Share (Percent)



Source: JCHS tabulations of US Census Bureau, Current Population Survey.

over are the most likely to live in households with adult children, with 42 percent of each group currently living in multigenerational settings, compared with just 31 percent of same-aged blacks and 15 percent of whites. The shares among immigrants are even higher, with just under half of foreign-born Asian, Hispanic, and black adults age 65 and over sharing homes with at least one other adult generation.

The biggest increase in housing demand among older adults, however, will come from the growing number of single-person households. In addition to living longer, adults are increasingly likely to live independently into old age. Indeed, the share of individuals age 75 and over living in nursing care facilities dropped from 10.2 percent in 1990 to 4.9 percent in 2015. As a result, there will be a growing need to improve the accessibility of the housing stock and to deliver in-home supportive services.

THE ROLE OF IMMIGRATION

A rebound in immigration helped to drive the recent pickup in household growth. Despite a modest slowdown from 1.04 million in 2015 to 1.0 million in 2016, net immigration is still well above the 850,000 annual pace averaged in 2009–2011. Increased in-migration from Asia and Africa helped to offset out-migration to Mexico and Latin America, and lifted the foreign-born share of population growth from 37 percent in 2011 to 45 percent in 2016.

Immigrants are an important source of housing demand, accounting for over a third (34 percent) of total household growth from 1995 to 2015 **(Figure 15)**. Indeed, the foreign-born share of households increased from 9.5 percent to 14.7 percent over this period. Immigrants are especially likely to rent their housing, and thus made up an even larger share (about 20 percent) of renter households in 2015. At the same time, however, the foreign-born share of owner households was a healthy 12 percent.

INTERNATIONAL AND DOMESTIC MIGRATION FLOWS

International migration has been a vital source of population growth in several major metros that would otherwise have posted losses. For example, without the influx of nearly 144,000 immigrants over the past year, the population in the New York metro area would have fallen by about 105,000 rather than increase by about 35,500. In contrast, with only 26,000 immigrants to offset a net loss of nearly 90,000 domestic out-migrants, Chicago's population fell by about 19,600 in 2016—the largest drop in any metro area.

In other metros experiencing losses, such as Pittsburgh and Youngstown, international immigration was the only source of population growth amid high rates of domestic out-migration and low rates of natural increase. Immigration was also an important force in certain rural areas where the pace of natural increase was either negative or too slow to offset domestic out-migration. In fact, while the total population of counties outside of metropolitan areas declined by 20,000 last year, the losses would have been three times higher without the inflow of international immigrants.

In some metros, however, population gains from domestic in-migration and natural increase far outpace international immigration. Atlanta, Austin, Dallas, Phoenix, and Tampa are among the several metros benefitting from the resumption of north-to-south population flows in 2014–2016. Much of this movement was from Northern states to Sunbelt states, with net domestic in-migration in Florida and Texas increasing at the expense of increasingly large net outflows from New York and Illinois.

HOUSEHOLD MOBILITY AT HISTORIC LOWS

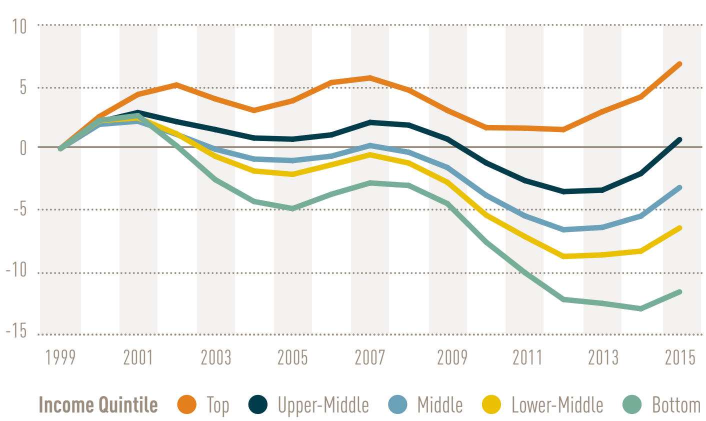
The recent rebound in domestic migration came amid a long-term decline in overall residential mobility. By the Current Population Survey's estimate, the share of people that changed residences within the previous year dipped again in 2016 to just 11 percent—the lowest reading in 40 years.

While population aging is a factor (given that older people are less likely to move), mobility rates for younger age groups have also declined. In fact, the largest drop has been among 25–34 year olds. Their residential mobility rate fell steadily from 27 percent in 1996, to 24 percent in 2006, to just 20 percent in 2016. These declines make today's younger adults the least mobile in history. Meanwhile, rates for all other age groups were also lower last year.

FIGURE 16

Despite the Recent Upturn, the Gap Between High- and Low-Income Households Continues to Widen

Cumulative Change in Real Household Income (Percent)



Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Values are three-year rolling averages.
Source: JCHS tabulations of US Census Bureau, Current Population Survey.

At the household level, mobility rates were down for both renters and owners. On the renter side, the largest declines were among the 25–34 year-old age group (with a drop from 36 percent in 2006 to 29 percent in 2016) and the 35–44 year-old age group (with a drop from 27 percent to 19 percent). But on the owner side, mobility rates fell the most among those age 65 and over. Although the 0.6 percentage point decline for this age group appears modest, its impact was not. While there were 6 million (30 percent) more older homeowners in 2016 than in 2006, there were 30,000 (10 percent) fewer residential moves among this age group in 2016 than in 2006. If their mobility rate had not declined, homeowners age 65 and over would have made 140,000 additional residential moves last year.

The decline in residential mobility rates has played out most noticeably in rental markets. The American Housing Survey reports 5 million (20 percent) fewer moves in 2015 than in 1997. Households under age 35 were the biggest source of the slowdown, with renter-to-renter moves down by 2 million and renter-to-owner moves down by 1 million. Among households aged 35–44, however, the decline in mobility is most evident in the trade-up market, with owner-to-owner moves falling by about 800,000 between 1997 and 2015.

RISING INCOMES BUT RISING INEQUALITY

According to the latest Current Population Survey, real median household income rose 5.2 percent in 2015 and median per capita income increased 4.8 percent. While annual income numbers are known to be volatile, these gains are still substantial. Indeed, median household incomes were up 7.3 percent in inflation-adjusted terms from the 2011 low, while personal incomes were up 9.6 percent from the 2010 low. Importantly, strong growth in per capita incomes was reported among 25–29 year olds, the age group that drives growth in both household formations and first-time homebuying. Their median per capita income rose 10.6 percent between 2011 and 2015—well above the increase for the US population overall.

While the gains are generally good news for housing markets, they have occurred within the context of long-term growth in income inequality. While increasing across the board in 2015, the mean real incomes of households in the bottom quintile stood 12 percent below their 1999 level while those of households in the middle quintile held 3.1 percent below **(Figure 16).** In sharp contrast, the average income of households in the top quintile exceeded the 1999 level by 6.8 percent in real terms.

Unequal rates of household growth have helped to widen the gap between high- and low-income households, as well as to shrink the middle-income segment. The number of households earning less than $15,000 grew by roughly 37 percent between 2000 and 2016, while the number earning $150,000 or more was also up by 37 percent. Meanwhile, the number of households in all middle-income groups increased by just 16 percent. This squeezing out of middle-income households has serious implications for demand and consumption in the economy, and further threatens the financial security of millions of lower-income households.

ECONOMIC SEGREGATION INTENSIFYING

In addition to growing income inequality, neighborhoods are becoming more segregated economically. From 2000 to 2015, the number of people living below the federal poverty line soared from about 33.8 million to 47.7 million. As a result, the number of high-poverty neighborhoods (poverty rate of 20 percent or more) in the nation increased by 59 percent, and the poor population living in these areas increased 76 percent to 25.4 million. More than half (54 percent) of the nation's poor now live in high-poverty neighborhoods, up from 43 percent in 2000.

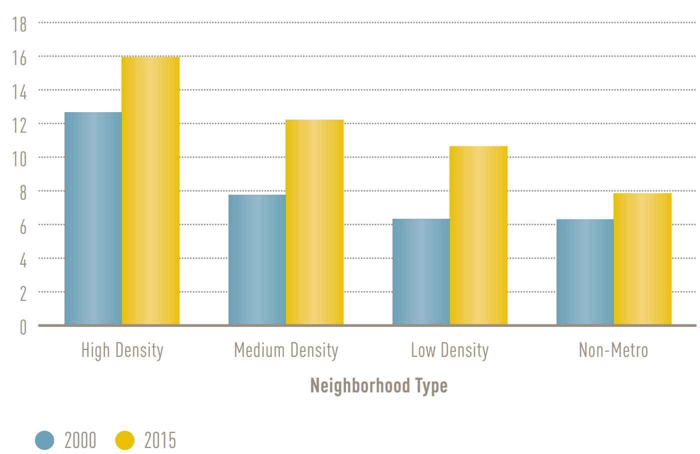
Meanwhile, the number of poor people living in neighborhoods with concentrated poverty (poverty rate of 40 percent or more) doubled from 3.0 million in 2000 to 6.0 million in 2015. The overall share of the population living in concentrated poverty thus increased from 9 percent to 13 percent in 2000–2015, with fully 20 percent of the urban poor living in these conditions.

At the same time, high-income households have become more likely to live in largely high-income neighborhoods. From 1990 to 2015, the share of households earning $150,000 or more living in high-income neighborhoods (where 20 percent or more of households have incomes of at least $150,000) grew from 40 percent to 49 percent.

FIGURE 17

The Number of People Living in Poverty Has Increased Most in Suburban and Exurban Communities

Population in Poverty (Millions)



Notes: Neighborhood types are based on equal thirds of all metro area census tracts ranked by housing density. Data exclude neighborhoods with populations of less than 500 and neighborhoods where more than half of the population is enrolled in college.
Source: JCHS Neighborhood Change Database.

High-income households are also becoming more concentrated in dense urban neighborhoods. In fact, urban population growth in 2010–2015 was fastest in neighborhoods where incomes were in the top decile, suggesting that the popularity of high-end urban living is growing. And in a reversal of long-term trends, the share of 25–34 year olds living in urban neighborhoods increased 0.4 percentage point in 2010–2015, while the share of 35–44 year olds was up by 1.0 percentage point. The shift to urban living is especially evident in Northeast metros, where the share of 35–44 year olds living in high-density areas increased nearly 3 percentage points over this period.

The concentration of poverty has increased in both urban and suburban areas. While fully 34 percent of the nation's poor population still lives in high-density neighborhoods, the largest and fastest increase in poverty has occurred outside of urban core areas **(Figure 17).** Moreover, most of that increase is concentrated in neighborhoods with already-high poverty rates. The poor population in high-poverty, medium-density areas (generally older first-ring suburbs) doubled from 3.1 million in 2000 to 6.4 million in 2015. Growth was even faster in high-poverty areas in the lowest-density communities of metro areas (exurbs), up 163 percent from 1.5 million to 3.9 million over this period. While the poor populations in non-metro areas also increased modestly, poverty rates in these communities jumped from 14.3 percent in 2000 to 17.4 percent in 2015—well above the 14.7 percent rate within metro areas.

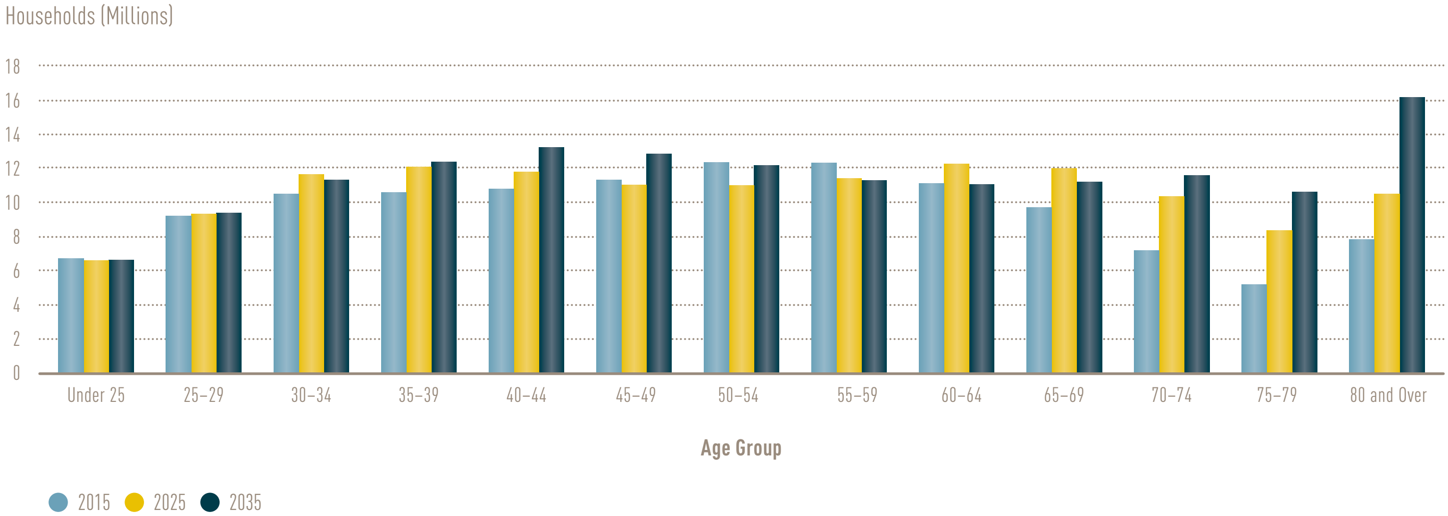
THE OUTLOOK

According to the latest JCHS projections, household growth should average about 1.36 million annually in 2015–2025 and about 1.15 million in 2025–2035. These increases are in line with the pace averaged in the 1990s and early 2000s. Immigration, however, is a wild card in the current political climate. If the number of immigrants is cut as some federal officials have suggested, the slowdown in adult population growth would translate into somewhat lower annual household growth. Still, given that newly arrived immigrants often do not immediately form independent households, the impact of any new immigration controls on household growth may be delayed.

JCHS projections assume that as millennials age into adulthood over the next two decades, they will form households and consume housing at rates similar to those of previous generations. But the millennial generation's positive impact on household growth will be partially offset by their slow start in living independently. In addition, the diversity of this younger generation will lift demand for different housing types in different locations. On net, millennials are projected to form an additional 34 million new households by 2035, lifting the total number to just under 50 million—considerably more than the 43.2 million currently headed by members of generation X.

FIGURE 18

By 2035, Households Age 65 and Over Will Play a Dominant Role in Housing Markets



Source: JCHS 2016 Household Projections.

Meanwhile, baby-boomer households will remain a force in housing markets even as they move into their 70s and 80s. Thanks to advances in health and longevity, the number of households headed by adults age 65 and over will increase 44 percent in 2015–2025 and 90 percent in 2025–2035. As a result, fully 50 million households—one out of every three—will be headed by older adults by 2035, including 16 million households headed by those over age 80 **(Figure 18).**

The magnitude of growth in older households will place new demands on the housing stock. Millions of homeowners will face the challenge of keeping their homes safe and accessible as they age. However, many may not have the resources to retrofit their homes with universal design features such as single-floor living and extra-wide doorways. Moreover, the fact that many older households live in lower-density suburban areas will make it difficult for social service providers and transportation systems to reach this large and geographically dispersed population. The decision of millions of older households to age in place could also limit the supply of suburban homes available for sale to millennial households seeking to trade up.