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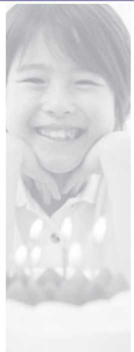


Demographic Drivers

The demographic underpinnings of long-run housing demand remain solid. Net household growth should climb from an average 1.26 million annual pace in 1995–2005 to 1.46 million in 2005–2015. Continued immigration, together with the large number of second-generation Americans and children of the baby boomers coming of age in the next decade, will reinforce demand for rental units and starter homes. For their part, the baby boomers will be especially active in the luxury and second-home markets.

IMMIGRANT POPULATION PATTERNS

With both legal and illegal immigration on the rise, the foreign born are giving an increasingly large boost to population growth. The number of legal immigrants has reached nearly one million per year, while the net growth in illegal immigrants is conservatively estimated between 300,000 and 500,000. Factoring in emigration of US citizens, net immigration has averaged about 1.2 million annually since 2000.

Most states gained foreign-born population between 2000 and 2005, with California alone adding about 750,000 immigrants. Texas and Florida also saw large increases in their foreign-born populations, together with strong inflows of domestic migrants. Indeed, these three states, along with Arizona and Georgia, are the fastest-growing areas of the country. Over these same five years, immigration prevented outright population losses in Illinois, New Jersey, and Indiana, while helping to limit declines in New York, Pennsylvania, Massachusetts, and Michigan.

While still concentrated in a handful of locations, immigrants have begun to disperse geographically. For example, California was home to one-third of the nation's immigrants in 1990 but just over one-quarter in 2005. Still, 62 percent of the foreign born lived in just five states where only 31 percent of the native-born population lived.

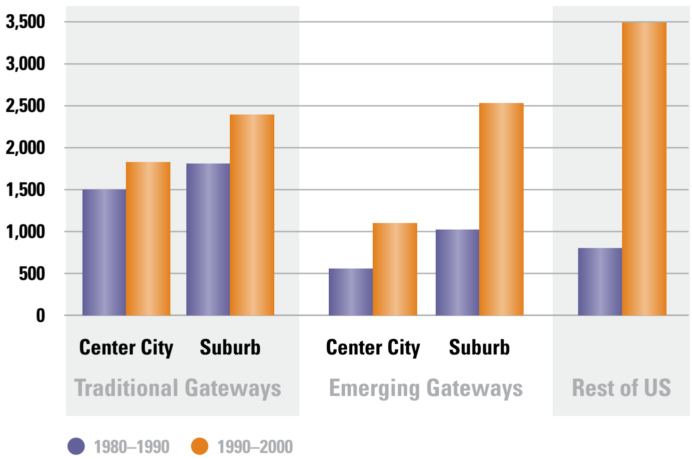
But immigrants are settling in a larger number of areas. In addition to the 11 traditional gateways, another 27 large metros have become favored locations for the foreign born. Indeed, the share of immigrants living in the traditional gateway metros fell from 51 percent to 46 percent between 1990 and 2000, while the share living in the other 27 emerging gateways rose from 20 percent to almost 25 percent. In total, the 38 gateways are home to 70 percent of the foreign born.

Particularly in the 27 emerging gateways, most net growth of the immigrant population has occurred in the suburbs rather than

FIGURE 11

Immigrant Population Growth Has Shifted Away from Traditional Gateways and Toward the Suburbs

Change in Foreign-Born Population (Thousands)



Notes: Traditional gateways are metros with the largest foreign-born populations in 1990. Emerging gateways had populations greater than one million and foreign-born populations greater than 200,000 in 2000, and either foreign-born shares in 2000 or foreign-born growth rates in 1990-2000 greater than the national average, or both. Four metros with foreign-born populations below 200,000 (Austin, Charlotte, Raleigh, and Salt Lake City) are included because of their very high foreign-born growth rates.
Sources: JCHS tabulations of data from Audrey Singer, "The Rise of New Immigrant Gateways," The Brookings Institution, Center on Urban and Metropolitan Policy, 2004; and of the 1990 and 2000 Decennial Census.

the center cities, adding almost five million to the suburban population in the 1990s **(Figure 11).** Nevertheless, some of the most rapid recent growth rates in immigrant populations have occurred outside of metro areas altogether. Between 2000 and 2004, immigrants accounted for 31 percent of net population growth in rural areas, and for even larger shares in the resort communities of the West, major agricultural and manufacturing areas in the South and Midwest, and on the periphery of the traditional gateway metros.

IMMIGRANTS IN HOUSING MARKETS

The foreign born contributed over 40 percent of net household formations between 2000 and 2005, up from less than 30 percent in the 1990s and a little over 15 percent in the 1980s. Immigrants have thus become an increasingly important source of housing demand, and especially in a few key states. In California, New York, New Jersey, and Florida, at least 20 percent of recent homebuyers and 25 percent of renters are foreign born. But even in smaller states without traditional gateway metros such as Connecticut, Maryland, and Rhode Island, immigrants still account for at least 14 percent of recent homebuyers and 15 percent of renters **(Table W-2).** Furthermore, without the influx of the foreign born, 16 large metro regions (including New York, Chicago, Boston, and Minneapolis) would have seen their populations fall in the 1990s.

The foreign born are not only a growing source of demand, but also a critical resource for housing production. In California, Texas, and Arizona, the foreign-born share of the construction labor force exceeds 38 percent. And in states without a large foreign-born presence such as North Carolina and Colorado, immigrants still make up more than 25 percent of construction labor.

Three decades ago, both immigrants and second-generation Americans were concentrated among older age groups. By 2005, however, they made up a growing share of young adults and children **(Figure 12).** Indeed, one out of every five people in the 25–34 age group (peak years for household formation) is now foreign born, and another nine percent are second-generation Americans. Moreover, a quarter of children under the age of 10 have foreign-born parents.

The Department of Homeland Security estimates that 10.5 million illegal immigrants resided in the United States in January 2005. This has given rise to political pressure to do more to curb illegal inflows. But even if the net growth in illegal immigrants were reduced to half of recent levels, US household growth would be at most five percent lower, shaving as many as 750,000 households from net additions in 2005–2015. For their part, newly arrived legal immigrants are expected to contribute about 3.6 million households to total projected growth over the decade.

MINORITY GROWTH

Largely as a result of immigration but also because of higher rates of natural increase, minorities have contributed an expanding share of household growth over the past 30 years. While uneven, the impact of minority growth has been significant throughout the country **(Figure 13).** In the Northeast, nearly all of the net growth in households since 1996 has come from minorities. Even in the Midwest, where the minority share of growth is lowest, they accounted for about half of the net gain in households between 1996 and 2006. Hispanic household growth has been particularly strong, adding about 4 in 10 net new households in the Northeast and the West.

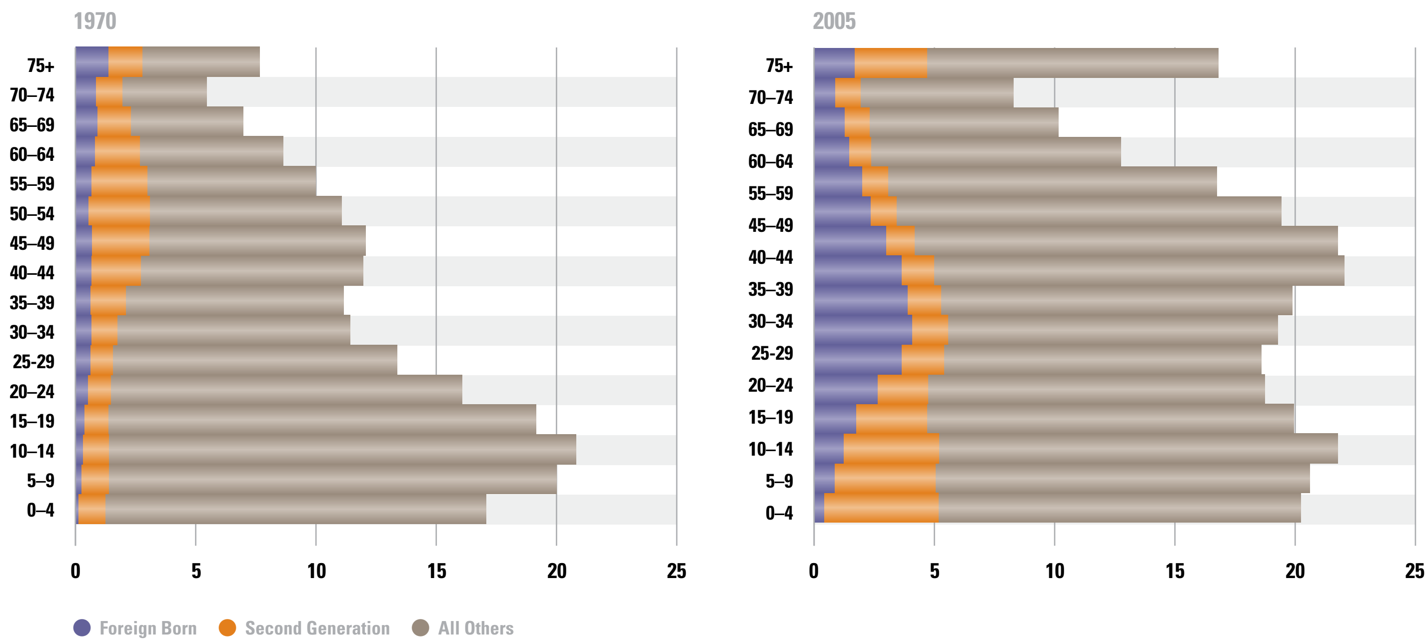
At the metropolitan level, minority population gains have been even more dramatic. In 28 of the nation's 86 largest and growing metro regions, minority population growth from 1990 to 2000 more than offset white losses **(Table W-3).** In Los Angeles, for example, the number of minorities increased by 2.5 million while that of whites declined by nearly 700,000. In another 46 metro regions, minority gains outstripped white gains. While more modest in absolute terms, minority population growth rates in rural areas are also outpacing those of whites. Between 1990 and 2004, minorities accounted for nearly half of overall rural population growth, and the number of Hispanics in these areas nearly doubled.

INTRA-URBAN GROWTH PATTERNS

During the 1990s, some 38 of the nation's 91 largest metro regions saw population growth within two miles of their center cities. Contrary to perceptions that the baby boomers are leading this movement, it is the older members of the baby-bust generation—with large contingents of minority and foreign-born households—that are heading up the urban revival **(Figure 14).** The number of older baby-bust members

FIGURE 12 Immigrants and Their Children Are Adding Dramatically to Housing Demand

Population by Age Group (Millions)



Note: Second generation refers to native-born children of immigrants.
Sources: US Census Bureau, 1970 Census Subject Report 1A, and JCHS tabulations of the 2005 Current Population Survey.

living within two miles of the central business district (CBD) increased in most of these 38 regions, with especially large gains in New York, San Francisco, Seattle, Chicago, Denver, and Portland.

The baby boomers, in contrast, are leading the march to the urban fringe. In all but 11 of the nation's largest metropolitan regions, the number of baby boomers living 10–20 miles from the CBD rose during the 1990s. In all but six, the number living more than 20 miles out also increased. Only one large metro—Sarasota, Florida—saw an increase in the number of baby boomers living within two miles of the central business district.

With few exceptions, the generation preceding the baby boom and living within 10 miles of the CBD also declined. In general, the larger the metro, the larger the losses of this older generation in these locations, both in absolute terms and in population share.

Some metros in the Northeast and Midwest—including Detroit, Chicago, New York, and Washington, DC—registered a nearly 20 percent population loss in the older generation living 10–20 miles out. Similar declines were also recorded in San Jose, Atlanta, Los Angeles, and San Francisco. The drop in older-generation households in these locations may reflect the high demand for close-in housing, which may have encouraged these owners to sell their homes and relocate. Older-generation Americans do, however, have a growing presence 10–20 miles from the CBD in many metros, especially in retirement destinations in the South and West.

WEALTH AND INCOME TRENDS

Despite recent weakness, real median incomes for most Americans were still higher in 2005 than in 1995 thanks to unusually robust growth in the last half of the 1990s **(Figure 15).** While upper-income households saw the largest increases, most households achieved at least modest income gains over the period. Meanwhile, net household wealth nearly doubled between 1995 and 2004, hitting a record $50.1 trillion **(Table A-10).** Fully 89 percent of the $24.3 trillion increase went to households in the top quartile, reducing the share of net household wealth held by the two middle quartiles from 16 percent to 13 percent. Nevertheless, households in the upper-middle quartile did post a solid 73 percent ($2.2 trillion) increase in net wealth while those in the lower-middle quartile saw a 44 percent ($400 billion) gain.

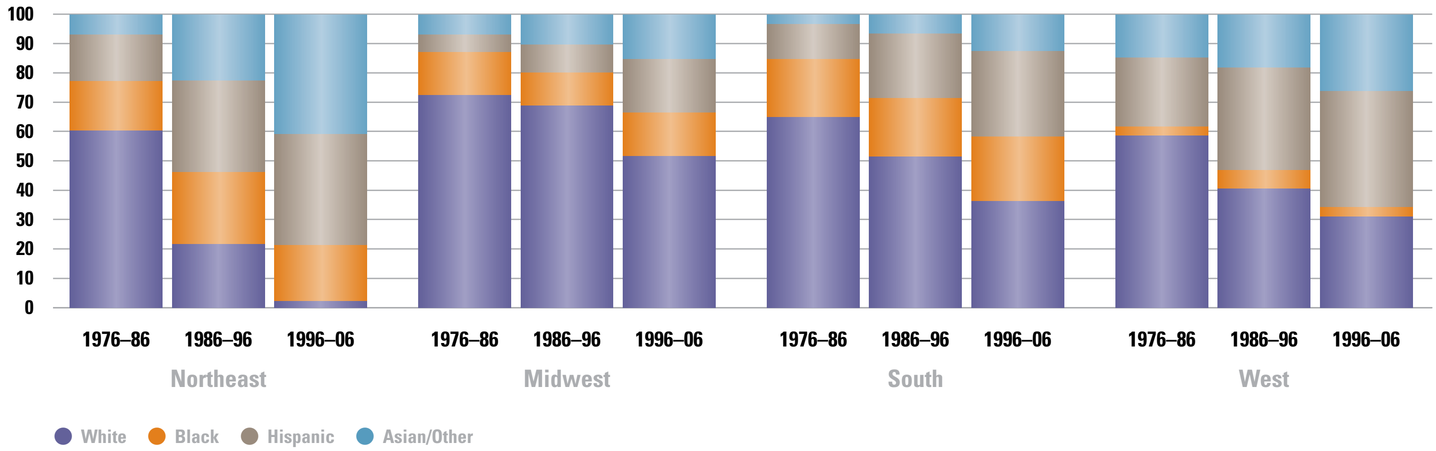
Home equity, of course, played a large part in the run-up in household wealth. Housing contributed $6.6 trillion or 27 percent of the net gain between 1995 and 2004. Aggregate federal statistics suggest that the real value of the housing stock increased by 96 percent and home equity by 78 percent between 1995 and 2006. Indeed, home equity as a share of household wealth rose from 17 percent in 2001 to 20 percent in 2006, despite cash-out refinances of nearly $1.2 trillion.

The massive infusion of wealth, along with its increasingly uneven distribution, has direct implications for housing markets **(Table A-7).** In particular, the surge in wealth means that income is no longer as good a measure of demand or of what potential buyers can afford. A large share of households can thus tap into their own or their parents'

FIGURE 13

Minorities Have Come to Dominate Household Growth

Share of Household Growth (Percent)

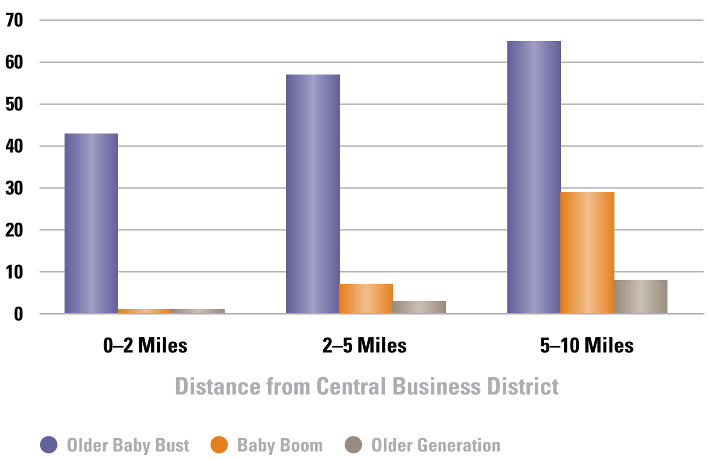


Notes: White, black, and Asian/other are non-Hispanic. Hispanics may be of any race. Asian/other includes Aleuts, Native Americans and Pacific Islanders.
Source: JCHS tabulations of the 1976, 1986, 1996 and 2006 Current Population Surveys.

FIGURE 14

Older Members of the Baby-Bust Generation Are Leading Urban Revitalization

Number of Metro Regions with Generational Growth, 1990–2000



Notes: The leading half of the baby-bust generation was aged 15–24 in 1990 and 25–34 in 2000. The baby-boom generation was aged 25–44 in 1990 and 35–54 in 2000. The older generation was aged 45–64 in 1990 and 55–74 in 2000. The 91 metro regions are the 100 largest metro areas in 2000, with adjacent metros in New York, Los Angeles, and San Francisco aggregated into regions with populations of at least 500,000. Distance is calculated from the CBD of the primary city of each metro region.
Source: JCHS tabulations of 1990 and 2000 Decennial Census tract-level data.

resources to purchase homes. This puts households with lower net wealth—including minorities, renters, and those who buy homes later in life—at a disadvantage in the housing market. In 2004, median net wealth for homeowners was $184,560 compared with only $4,050 for renters and just $2,600 for minority renters. Moreover, the inequality in wealth makes matters worse for the seven percent of households with no or negative net wealth, including many minorities whose parents also have low net wealth. In 2004, only nine percent of minorities reported ever receiving an inheritance, compared with 24 percent of whites, and the average amount that minorities received was only half the amount that whites received.

HOUSEHOLD GROWTH AND HOUSING DEMAND

With their higher rates of immigration and natural increase (and factoring in higher losses of white elderly households), minorities will account for 68 percent of the 14.6 million projected growth in households in 2005–2015 **(Table A-11).** Hispanics alone will contribute a remarkable 35 percent. Within the echo-boom generation (born 1985 to 2004), minorities will be responsible for 40 percent, and Hispanics nearly 20 percent, of household growth through 2015. Hispanics will therefore have a major presence in markets for starter homes, first trade-up homes, and entry-level apartments.

Minorities will also help to offset the 3.4 million drop in the number of white households in their 40s as older members of the baby-bust generation replace the younger baby boomers in this age range. Net growth in the number of minority household heads aged 40–49 should reach 1.4 million, with Hispanics accounting for 1.1 million of the increase **(Figure 16).**

While the baby boomers will not add many households on net over the next decade, the sheer size of this generation ensures its continued influence in the housing market. With their record-breaking income and wealth, the baby boomers will set the pace for second-home demand. Even assuming no change in age-specific ownership rates, the number of households aged 50–69 that owns second homes should increase by more than half a million by 2015. The number of baby boomers with partial ownership stakes in second-home timeshares is also expected to increase by 400,000.

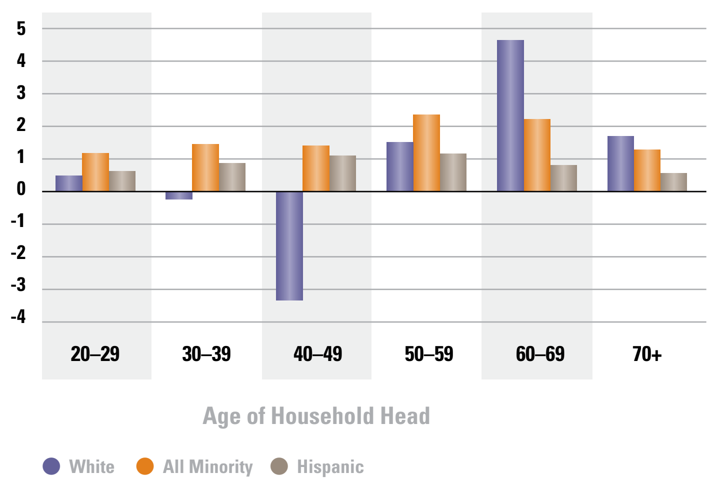
FIGURE 15 **Late 1990s Income Gains Exceeded 2000–2005 Losses for All But the Bottom Tenth of Households**

Percent Change in Real Median Household Income

Notes: Income deciles are equal tenths of households sorted by pre-tax income. Adjusted for inflation by the CPI-UX for All Items.
Source: JCHS tabulations of the 1996, 2001, and 2006 Current Population Surveys.

FIGURE 16 **Minorities Will Contribute Importantly To Household Growth**

Net Change in Households 2005–2015 (Millions)



Note: Minorities are all non-white householders, including Hispanics.
Source: George S. Masnick and Eric S. Belsky, "Addendum to Research Note N06-1: Hispanic Household Projections Including Additional Tenure Projection Detail by Age and Broad Family Type for Non-Hispanic White and Total Minority Households," JCHS Research Note N06-4, 2006.

In addition, fewer baby boomers may downsize than members of older generations at similar ages. A recent National Association of Realtors® survey of baby boomers confirms this trend, with 15 percent of likely movers planning to relocate because they need larger homes and another 13 percent because they can afford to trade up. Only five percent plan to move to smaller homes.

Between 2005 and 2015, the number of pre-baby boom, primarily white households will fall by about 11 million. As a result, the homes they currently occupy—including millions of modest houses built in the inner suburbs during the 1950s, 1960s, and 1970s—will come onto the market. This huge turnover of homes will open new opportunities for younger and more racially and ethnically diverse households to live close to city centers.

Meanwhile, as increasing numbers of white baby boomers begin to retire after 2015, their homes—typically built in the 1980s, 1990s, and 2000s in the outer-ring suburbs—will also start to come onto the market. The baby boomers who choose to remain in their homes will become an increasingly important source of demand for remodeling projects intended to help them age in place.

THE OUTLOOK

The accelerating pace of household growth, together with the large number of households in their peak wealth and income years, bodes well for housing over the coming decade. Given the uneven distribution of income and wealth, construction demand will be weighted toward luxury homes, major remodeling projects, seniors housing, and second homes. Additional demand for rental units and starter homes will come from the echo boomers as they move into the peak household formation years.

At the same time, working families, younger households, and minorities will face new affordability challenges. Some of the need for more modest housing will be met by the existing housing stock as the homes owned by older generations in inner-ring suburbs turn over to younger buyers. But in fast-growth areas, the existing stock will be unable to accommodate the rising number of young households. Unless local governments ease some of the regulatory constraints on development, the home building industry can do little to supply additional affordable units in these areas.