3 Demographic Drivers

It is still uncertain how far, and for how long, the housing crisis will drive down household growth. Regardless, given the solid underpinnings of long-term demand—including the recent strength of immigration and the aging of the echo-boom generation into young adulthood—household growth will pick up again once the economy recovers. But if the nation suffers a prolonged economic downturn that results in lower immigration and more doubling up, household growth in 2010–2020 may fall short of the 14.4 million level currently projected.

Household Growth Trends

After averaging 1.15 million per year in 1995–2000, household growth notched up to 1.37 million annually in 2000–2006. While some of this increase may be due to the unusually favorable homebuying conditions in the first half of the decade, much of it was expected as the echo boomers began to form independent households and immigration continued to climb.

When housing markets turned down in 2006 and then plummeted in 2007, the most consistent measure of households registered a slowdown in net growth **(Table W-4).** Estimates of last year's falloff, however, were especially sharp and contain some anomalies that make their reliability questionable. In particular, net household growth fell nearly in half last year as the number of owner households swung from a gain of 800,000 in 2005–2006 to a loss of 200,000 in 2006–2007. If the dramatic plunge in 2007 were driven by the subprime mortgage crisis and rising foreclosures, the biggest decline in homeowners would likely be among minority households, who have a disproportionately large share of such loans. Instead, white households accounted for all of the reported decrease in homeowners while the number of minority owners increased by more than 250,000. And despite the large drop in homeowners, growth in the number of renters only rose from around 500,000 in 2005–2006 to 950,000 in 2006–2007. Moreover, though domestic in-migration increased in the South, the reported pace of household growth in the region—among both owners and renters—was down significantly last year. While this may indicate a sudden drop in immigration, it may also be the byproduct of a change in estimation methods in 2007 rather than a real decline.

Looking ahead, household growth should return to the path set by the changing age composition of the population, the strength of ongoing immigration, and social trends such as divorce and remarriage rates that influence the size of households. Indeed, if immigration remains near its current pace of 1.2 million per year, the combination of several years of high immigration, high divorce and low remarriage rates, and the aging of the echo boomers should push household growth to average more than 1.4 million per year in 2010–2020 **(Table W-11).** Even if immigration were to drop by about 30 percent, household growth should still exceed its 1995–2000 average annual level **(Figure 12).**

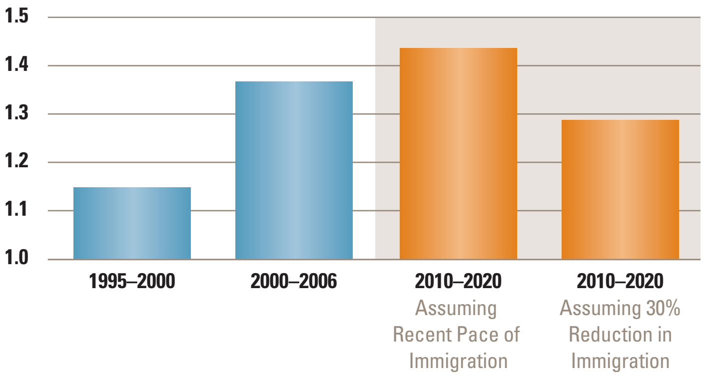
The Rise of Nontraditional Households

Married couples are a shrinking share of American households. Several trends have contributed to this shift, including higher labor-force participation rates for women, delayed marriage, high divorce rates, low remarriage rates, and greater acceptance of unmarried partners living together. The resulting growth in unmarried-partner, single-parent, and single-person households has increased the share of adults in all age groups heading independent households.

Figure 12

Even If Immigration Falls by About a Third, Household Growth Should Still Handily Top Late-1990s Levels

Average Annual Household Growth (Millions)



Notes: To adjust for rebenchmarking, household growth in 2002–2003 is assumed to be the same as the average annual growth in 2000–2006. The recent pace of immigration has been 1.2 million per year and a 30% reduction would be consistent with the Census Bureau's current population projections.

Sources: US Census Bureau, Housing Vacancy Survey; 2006 JCHS household projections.

Two trends in particular have lifted the number of nontraditional households **(Figure 13).** First, fewer marriages survive. Less than half of women married between 1975 and 1979 were still married 25 years later, compared with nearly 70 percent of those who married between 1955 and 1959. Indeed, more than half of all first marriages today are likely to end in divorce. And second, remarriage rates have reached historic lows.

In addition, more people defer their first marriage. For example, only 14 percent of women born between 1980 and 1984 had married by the age of 20, compared with fully 52 percent of women born between 1935 and 1939. The never-married share has also climbed sharply among women aged 35 to 44 (up from 5.3 percent in 1980 to 13.1 percent in 2000) and aged 45 to 54 (up from 4.1 percent to 7.4 percent).

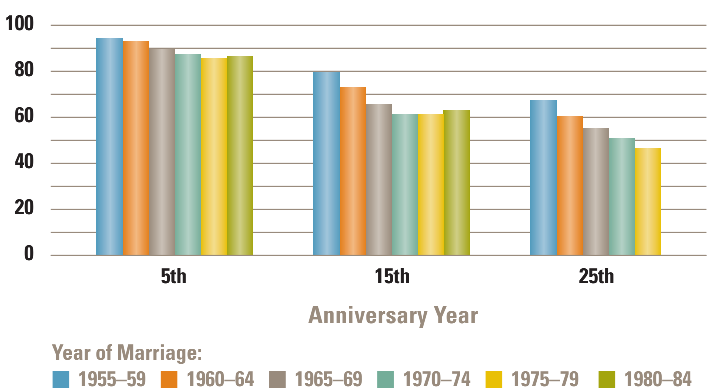
Another noteworthy change is that a larger share of each succeeding generation is choosing to live with a partner without marrying. This is true for households with and without children. According to new Joint Center household projections, unmarried partners will head 5.6 million households in 2020, up from 5.2 million in 2005. Of these households, 36 percent will include children under the age of 18.

As a result, more and more children are living outside of married-couple households. In 2007, fully 29 percent of heads of households with children were unmarried. Within this group, about 18 percent lived with partners and another 21 percent lived with other non-partner adults. Between 2010 and 2020, the number of unmarried householders with children is projected to increase from 11.0 million to 11.8 million.

Figure 13

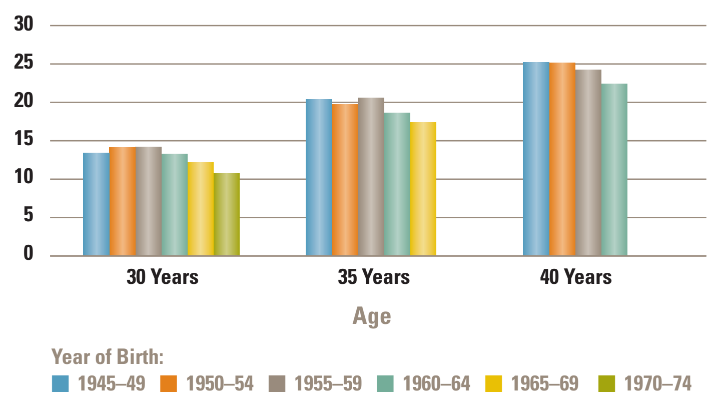
Married Couples Are on the Decline as More Women Divorce …

Share of Married Women Reaching Anniversaries (Percent)



… and Fewer Women Remarry

Share of Married Women Who Have Married at Least Twice (Percent)



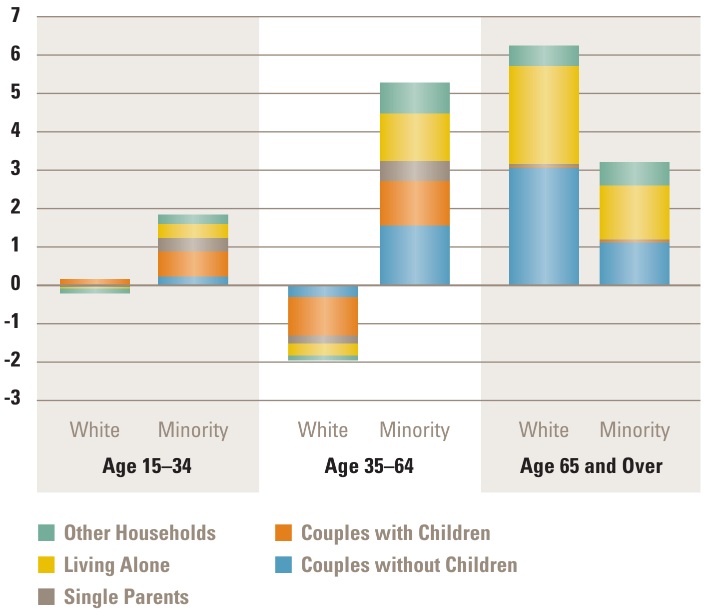
Note: Shares are of women who reported ever having been married, regardless of whether they were married at the time of the survey.

Source: US Census Bureau, 2004 Survey of Income and Program Participation.

Figure 14

Minorities Will Lead Growth Across All Household Types and Age Groups Except Seniors

Projected Household Growth 2010–2020 (Millions)



Notes: Whites are non-Hispanic, and minorities are all householders other than non-Hispanic whites. Couples include married and unmarried partners.

Source: Revised JCHS household projections using partner household model.

Although households with one parent but other adults present are often included in the broad single-parent category, they have different characteristics. In particular, they have higher household incomes **(Table W-5).** Among 35 to 44 year-olds, the median income of single-parent households that include an unmarried partner ($48,452) or other adults ($39,000) was significantly higher than of single parents alone ($28,928). In addition, single parents with partners had higher homeownership rates at younger ages (39 percent among 25 to 34 year-olds) than single parents with a non-partner adult present (36 percent) or single parents alone (24 percent). By middle age, however, homeownership rates for all three types of single-parent households tend to converge because older single parents are more likely to be divorced and to have kept their family homes.

In total, persons living alone are expected to account for 36 percent of household growth between 2010 and 2020. Although increasing numbers of people living alone will boost the demand for smaller units, the lift is likely to be modest given the nation's strong appetite for large homes. In addition, three-quarters of the more than 5.3 million projected increase in single-person households will be among individuals aged 65 and older—a group that has shown a marked preference for remaining in their homes as they age. Seniors are more likely to remodel their current homes to improve accessibility, safety, and convenience than to move to new, smaller units. The aging baby boomers, however, are already showing a propensity to buy second homes and will therefore continue to add to demand in this way.

Minority Household Gains

Thanks to higher rates of immigration and natural increase (excess of births over deaths), minorities contributed over 60 percent of household growth in 2000–2006. Minorities now account for 29 percent of all households, up from 17 percent in 1980 and 25 percent in 2000. If immigration continues at its current pace, the minority share is likely to reach about 35 percent by 2020, with Hispanic households leading the gain.

Minorities are younger on average than whites. As a result, minority household growth among 35 to 64 year-olds should remain strong in 2010–2020. In contrast, the number of white middle-aged households will start to decline after 2010 as the baby boomers begin to turn 65. The number and share of white households under age 35 will also fall after 2015 as the children of the baby-bust generation begin to reach household-forming ages.

White household growth in the next decade will be almost entirely among older couples without minor children and among older singles (usually widowed or divorced). Minority household growth will occur across a broader spectrum of household types **(Figure 14).** With their higher birth rates and lower average ages, minorities will continue to post a net increase in married-couple households with minor children. Even so, nontraditional households are gaining ground among minorities as well, with the shares headed by single parents or including multiple unmarried adults expected to increase. This reflects both changing social patterns and the tendency for immigrants to share housing to shoulder high cost burdens. Single-person households will be the fastest-growing segment among minorities. Indeed, the number of minorities living alone is projected to increase across all age groups, even outpacing the strong growth among white single-person households.

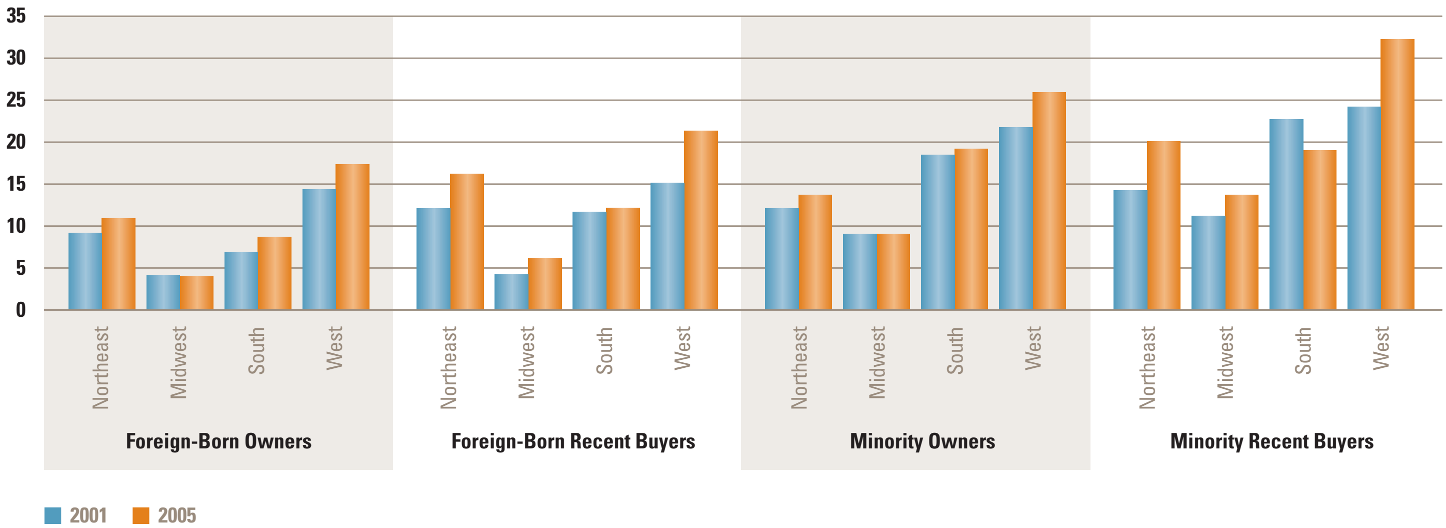
As the numbers and shares of minorities and immigrants grow, the demand for affordable housing will increase. This is not to say, however, that these groups are not contributing to the demand for higher-cost housing. Indeed, despite having lower average incomes and wealth, minority and foreign-born households constitute a significant and growing fraction of homeowners with high incomes—particularly in the West **(Figure 15).**

It should be noted that age distribution and family composition across minority groups differ in important ways. For example, the age distribution of black households is more like that of white households than of other minorities. Blacks also have a higher share of young single-parent, non-partner households than other minority groups. For their part, Hispanics typically have more children than Asians and blacks. Such demographic differences are obviously important in the housing markets where particular minority groups are overrepresented.

Figure 15

Foreign-Born and Minority Households Represent a Significant and Growing Share of High-Income Homeowners and Buyers

Share of High-Income Households (Percent)



Notes: High-income households are in the top fourth of all households nationally sorted by pre-tax income. Recent buyers purchased a home within the previous two years. Minorities are all householders other than non-Hispanic whites.
Source: JCHS tabulations of the 2001 and 2005 American Housing Surveys, using JCHS-adjusted weights for 2005.

Sources and Patterns of Population Growth

The movement of households to and within the United States profoundly shapes local housing demand. While rates of natural increase matter over the long term, foreign immigration and net domestic migration are more important in the short run because they directly add or subtract adults from the market. Domestic migration is even larger than international migration. But with the movement of international migrants already living in the United States counted as domestic migration, looking only at new arrivals understates the impact of immigration on a given area.

The South and West were the only regions to gain population through domestic in-migraton between 2000 and 2007. During this period, most net domestic migrants (more than 3.2 million) settled in the South while only 391,000 moved to the West. But population shifts within the Western region were significant, with California losing over 1.2 million domestic migrants while Arizona gained 655,000, Nevada 365,000, Washington 155,000, Oregon 136,000, and Colorado 133,000.

International migration affects all regions of the country, but primarily the South and West. At the state level, the foreign born contribute to growth by either replacing population lost to net domestic out-migration or by adding to domestic in-migration **(Table W-6).** Indeed, the arrival of 1.8 million immigrants to California more than made up for the net loss of domestic out-migrants in 2000–2007. In Florida and Arizona, where net domestic migration was strong, international migrants lifted population growth even more. And in Texas, the state with the highest total population growth over the period, 843,000 international migrants added to the net gain of 582,000 domestic migrants.

More and more, international migrants are settling in locations where the foreign-born share of the population is relatively low **(Figure 16)**. In many cases, these are the outer suburbs of metropolitan areas that have traditionally served as immigrant gateways. But smaller cities and towns as well as rural counties are also becoming locations of choice. In many of these areas, domestic out-migration of young adults and the consequent decline in natural increase have left communities to depend upon foreign immigrants to fill jobs, buy houses, and keep up school enrollments.

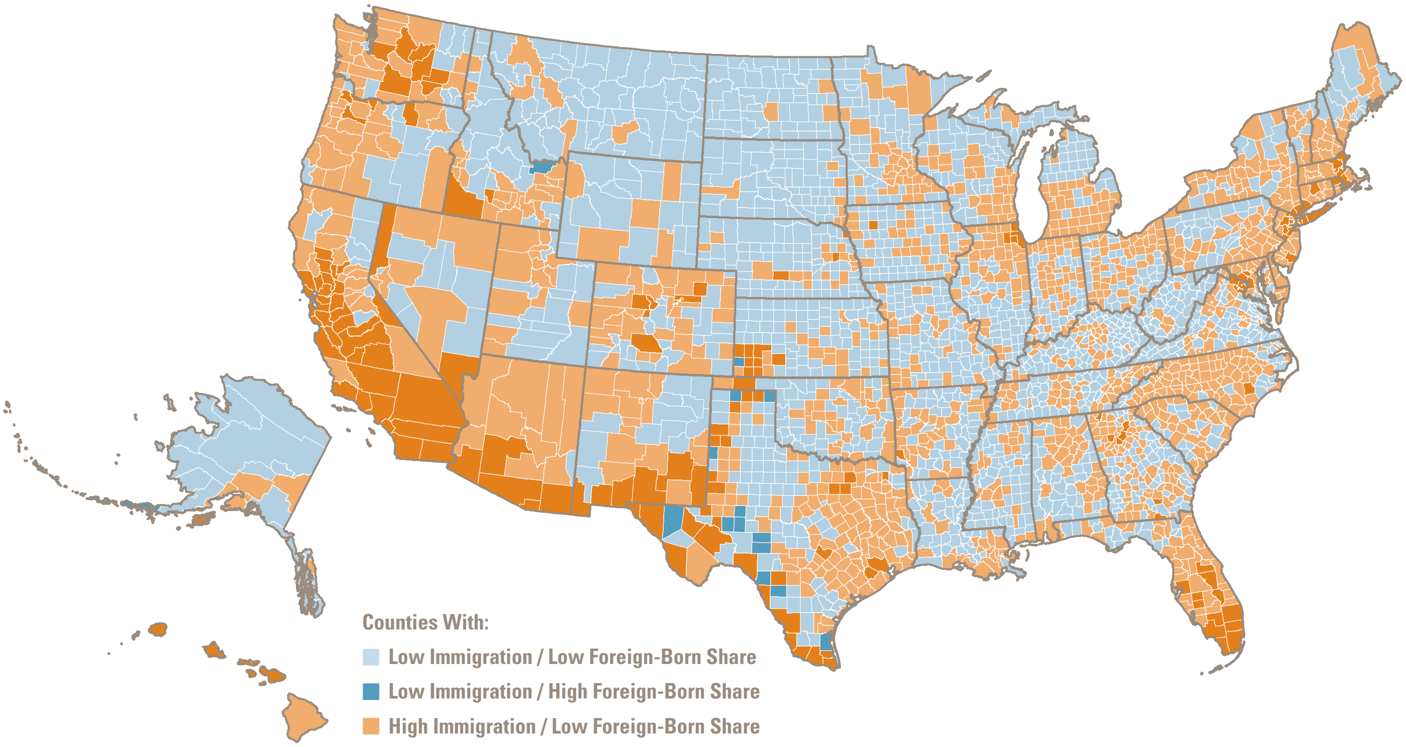
With their economically competitive environments and desirable climates, the same locations in the South and West that have attracted both international and domestic migrants in recent years are expected to continue to do so. Foreign-born migrants are, however, increasingly likely to spread into more housing markets around the country where young domestic out-migrants have left a vacuum.

Recent Income and Wealth Trends

With the economy slumping, real incomes are again at risk of falling. After declines earlier in the decade, real median income

Figure 16

International Migrants Are Settling in a Mix of Urban and Outlying Areas



Counties With:

- Low Immigration / Low Foreign-Born Share
- Low Immigration / High Foreign-Born Share
- High Immigration / Low Foreign-Born Share
- High Immigration / High Foreign-Born Share

Notes: High (low) immigration is defined as 100 or more (99 or less) net international migrants added to the county in 2000–2007. High foreign-born share is above 11.1%, the national share in 2000.

Sources: JCHS tabulations of 2000 Decennial Census and 2000–2007 Census Bureau Population Estimates.

growth revived in 2005 and 2006, although only households in the top income quintile saw a net increase since 2000. Making matters worse, higher education no longer guarantees steady economic progress. Among whites and minorities in most age groups, households with at least college degrees have seen their real incomes drop since 2000 **(Figure 17).**

Over the longer term, however, education still remains the key to higher earnings. For example, the median earnings of college-educated male workers aged 35 to 54 rose from $71,700 in 1986 to $75,000 in 2006 in constant 2006 dollars, while those for same-age males who only completed high-school fell from $48,000 to $39,000. This earnings gap between workers with high school and college educations also exists between females as well as across racial and ethnic groups **(Table W-7).**

The widening disparity in returns to education plays a large part in the growth of income inequality. Households in the top income decile increased their share of aggregate household income from 32 percent in 1996 to 34 percent in 2006. In addition, their share of aggregate household net wealth rose from 52 percent in 1995 to 57 percent in 2004, with growth in home equity accounting for much of the increase.

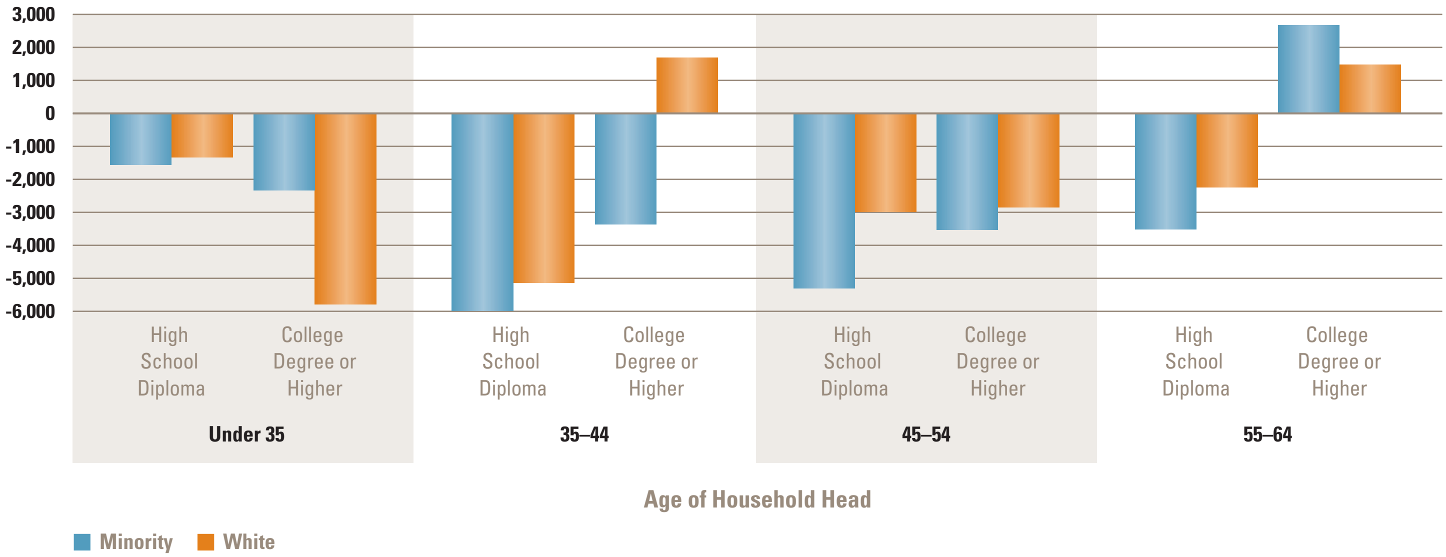
But many other households also benefited from soaring home prices during this period. Among homeowners that bought units between 1999 and 2005, fully 85 percent saw an increase in wealth, and the median net wealth for these new homeowners rocketed from just $11,100 to $88,000 in real terms. Among households that already owned homes, 75 percent also saw an increase in their wealth, and the median net wealth of these long-time owners nearly doubled from about $152,400 to $289,000. In stark contrast, only 50 percent of renters saw any uptick in wealth. Among those that did see gains, the increase in median net wealth was only from $350 to $9,000.

Nevertheless, the growth in homeownership and the escalation in house values did nothing to narrow the wealth gap between whites and minorities. Median wealth among minorities more than doubled from $14,000 in 1999 to $37,000 in 2005 in inflation-adjusted dollars. At the same time, though, median wealth among whites increased more in dollar terms, up 50 percent from $105,000 to

Figure 17

Even Many College-Educated Households Have Seen Income Losses Since 2000

Change in Median Household Income 2000–2006 (2006 dollars)



Notes: Whites are non-Hispanic, and minorities are all householders other than non-Hispanic whites. Dollar values are adjusted for inflation by the CPI-U for All Items.
Source: JCHS tabulations of March 2001 and 2007 Current Population Surveys.

$158,000. As a result, the disparity in median wealth between whites and minorities widened from $91,000 to $121,000.

Unfortunately, the recent collapse of home prices has erased some of the gains in household wealth. In previous cycles, sales prices have taken many years to return to their nominal peaks, so owners must have staying power to make up for their lost equity. For those who lose their homes to foreclosure, however, there will be no chance to participate in the rebound when it comes. Given that minorities likely account for a disproportionate share of homeowners in foreclosure proceedings, the shakeout in the housing market is apt to widen the wealth gap even further.

The Outlook

Once housing markets stabilize, household growth should return to levels consistent with long-term demographic trends. As the number of minority and foreign-born households grows, the housing industry will increasingly serve groups with lower homeownership rates, incomes, and wealth than native-born whites. Ethnic identification of some minorities and cultural preferences of recent immigrants will also challenge housing suppliers to tailor their marketing to a diverse population.

With unmarried-partner households increasing in number and share, the industry may also want to look past marital status to the housing preferences of this growing customer segment. Furthermore, the likely increase in the number of adult children living at home and of adults other than spouses or partners living together may create niche marketing opportunities for both the construction and remodeling industries.

While rising incomes and wealth have so far placed each generation on a path to higher housing consumption, the weak income performance earlier in this decade and the recent jump in energy costs have raised concerns that this upward trend may not continue. Adding to this risk is the very real prospect that some of the recent gains in household wealth—which came largely from rising homeownership rates and home price inflation—will erode. Housing demand will, however, pick up once the economy begins to recover, home prices reach bottom, and homeownership again becomes an attractive way to build wealth.