



With the nation hammered by a fierce housing downturn and a severe recession, household growth slowed in the second half of the 2000s—led primarily by a retreat in immigration. But even if immigration falls far short of its 2000–5 pace in the coming decade, household growth should match the 12.5 million in 1995–2005. Moreover, immigrants and their native-born children have swelled the ranks of the baby-bust and echo-boom generations so that each now rivals the baby-boom generation in size.

SLOWDOWN IN HOUSEHOLD GROWTH

Household growth from 2005 to 2009 fell well below what would be expected in less challenging economic times, slowing from about 1.2–1.4 million annually in the first half of the decade to less than 1.0 million per year. The main explanation appears to be a marked drop in immigration, though doubling up among economically stressed families has also played a part.

Immigration, especially of undocumented entrants, slowed sharply in response to broad job losses. The Office of Immigration Statistics at the Department of Homeland Security estimates that the number of unauthorized immigrants living in the United States declined by 1.0 million between January 2007 and 2009, compared with a net gain of 1.3 million from 2005 to 2007.

Household headship rates for all age groups have also fallen since 2005, especially among those under age 35, although the timing of declines reported by some federal sources predates the recession. The future direction of headship rates is uncertain. On the one hand, rates may continue to slide over the next year or two if the impacts of job losses and home foreclosures hit with a lag. On the other, the recent softness in rents and sharp drop in home prices may lead more employed workers to form households, offsetting the departure of the unemployed from the housing market. In addition, doubling up is usually a temporary solution. On balance, then, it would likely take a second economic dip or a long, drawn-out recovery to keep headship rates—and therefore the pace of household growth—from meeting expectations over the coming decade.

But the hole left by the loss of over 8 million jobs could cut the flow of immigrants into the US. If immigration slows to about half the pace in the Census Bureau's current projections, and if headship rates by age and race/ethnicity hold at their 2008 levels, household growth in 2010–20 will come in at about 12.5 million. If immigration reaches the Census Bureau's estimate, however, household growth could climb closer to 14.8 million over the next 10 years.

REDUCED MOBILITY

The housing bust and economic recession not only took a bite out of household growth but also led to lower mobility. The number and share of householders who reported having changed primary residences within the previous year declined in 2005–8 even after controlling for age (which strongly influences mobility). Overall mobility rates fell by about 12.6 percent over that period before stabilizing in 2009. The steepest declines were among homeowners, likely because the housing crash left so many underwater (or nearly so) on their mortgages. This makes it difficult for households to move. The overwhelming majority of stressed homeowners will therefore remain in place rather than suffer a loss.

Mobility rates among older owners posted the sharpest drop (**Figure 13**). Many seniors who planned to retire and move to different homes deferred that decision after the financial crisis depressed their home equity and reduced their retirement accounts. Unless housing and financial markets rebound sharply in the near future, some owners may never be able to retire elsewhere. Still, fewer seniors than younger owners had their home equity completely wiped out because most had owned their homes for several years and had paid down significant amounts of debt. Thus, many older owners still stand to gain if they sell their homes.

Meanwhile, house price declines in traditional retirement destinations such as Arizona, Nevada, and Florida now make these

markets look relatively affordable again. But most Sunbelt retirement communities will be slow to recover not only because of the drop in domestic migration, but also because so much of the recent boom in these locations was construction-driven and reliant on strong job growth. This is also the case in several previously fast-growing communities in the Rocky Mountain West, where many aging baby boomers had either moved or purchased second homes in anticipation of retirement.

A LOST DECADE FOR HOUSEHOLD INCOME

For the first time since at least 1970, median household incomes for all age groups in each income quartile are likely to end the decade lower than they began. At last measure in March 2009, no group was spared from income declines. Households under age 25 in the lowest income quartile were hardest hit, with median incomes down more than 16 percent between 2000 and 2008 in inflation-adjusted terms (**Table W-4**). Middle-aged households in the lower half of the income distribution saw declines in the 7–12 percent range—significantly greater than the losses among those in the upper half of the distribution. For the oldest and youngest age groups, however, income losses among even the top quartile exceeded 6 percent. These dismal figures predate the heavy employment losses in 2009.

This income trend stands in sharp contrast to the upward momentum gained over the previous 30 years. Making up for these losses may take time. Housing demand must therefore build upon a lower real income base than a decade ago. Falling home prices, lower interest rates, and slower increases in rents may, however, blunt some of the impact of income losses over the next year or two. But if interest rates move up and housing prices come off their floors, incomes will have to rise proportionately to enable households to maintain recent levels of housing consumption without increasing their cost burdens. If their incomes do not bounce back quickly, Americans will have to choose whether to cut back on the size and features of their homes or allocate larger shares of their incomes to housing.

HOUSEHOLD WEALTH REVERSALS

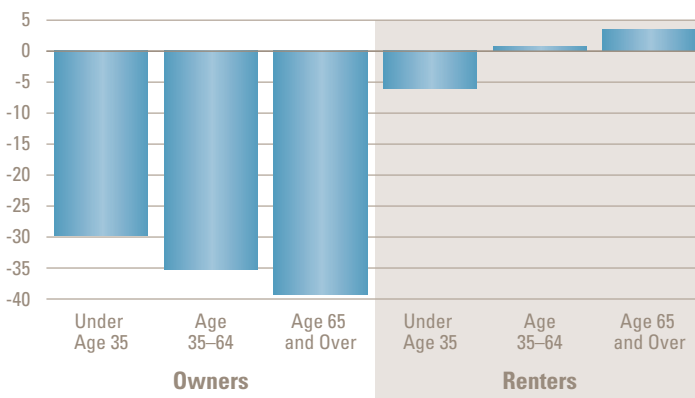
Household wealth went through a sharp boom-and-bust cycle over the last decade. After sliding from \$55 trillion in 1999 to \$49 trillion in 2002 in the wake of the dot-com bubble, real aggregate household wealth soared to nearly \$69 trillion in 2006. Then in 2008, household wealth plummeted to \$51 trillion—a drop of more than \$17 trillion in just two years. Although recovering to \$54 trillion in 2009, household wealth ended the decade showing little gain. On a per household basis, real household wealth actually fell from \$526,000 in 1999 to \$486,600 in 2009.

Meanwhile, household mortgage debt exploded from less than \$6 trillion to more than \$10 trillion in inflation-adjusted

FIGURE 13

The Housing Crash Reduced Mobility Rates, Especially for Older Homeowners

Change in Householder Mobility Rate, 2005–9 (Percent)



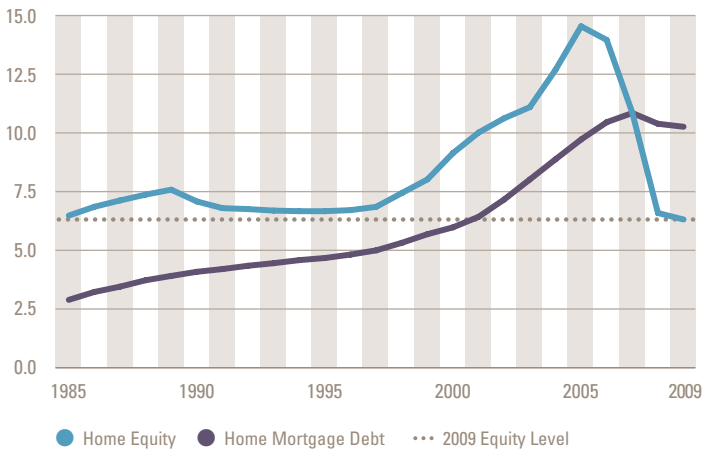
Note: Mobility rate is defined as the share of householders who reported having moved in the previous 12 months.

Source: JCHS tabulations of US Census Bureau, 2005 and 2009 Current Population Surveys.

FIGURE 14

Real Home Equity Has Returned to Its 1985 Level And Stands Below Mortgage Debt for the First Time on Record

Trillions of 2009 Dollars



Note: Values are adjusted for inflation by the CPI-U for All Items.
Source: Federal Reserve Board, Flow of Funds.

dollars. The aggregate value of homes owned by households, in contrast, increased \$2.9 trillion from the end of 1999 to the end of 2009 as additions to the housing stock offset relatively modest losses in home values when totaled over the full 10-year period. The combination drove home equity down from its \$14.5 trillion peak in 2005 to \$6.3 trillion in 2009, wiping out more than half of all housing wealth.

The drop in home equity is startling when placed in historical context (**Figure 14**). Aggregate real home equity has not been this low since 1985 when there were far fewer homeowners than today. In addition, the amount of home equity and the amount of mortgage debt outstanding essentially flipped in just one decade. As a result, mortgage debt climbed from 65 percent of home equity in 2000 to 163 percent in 2009.

Until the recent freefall, US household wealth had shown strong long-term growth. Indeed, each generation made substantial progress in both 1989–98 and 1998–2007. This is especially true for those aged 44–70 in 2007. Although households quickly regained wealth after the dot-com bust in the 1990s, the damage is likely to last longer this time around because home prices do not usually recover as quickly as stock prices. Still, the rapid increase in household wealth of \$3 trillion in 2009 alone is a reminder that fortunes can shift sharply.

GROWING DIVERSITY OF DEMAND

Regardless of what happens in the future, immigration since 1980 has already reshaped the nation's demographic profile, particularly in terms of racial and ethnic diversity. Immigrants and their children have so amplified the baby-bust generation (born in 1966–85) that it nearly outnumbers the baby-boom generation, which peaked in size at 83 million around 2000.

The baby-bust generation is also more diverse than the baby-boom generation. The percentage of people between the ages of 25 and 44 in the US who are black, Asian, or Hispanic stood at 37 percent in 2009. The echo-boom generation (born 1986–2005) is already 42 percent minority. As the echo boomers age into their late 20 and 30s, new immigrants will add to their numbers and shift the composition of this generation even closer to majority-minority.

Several large metropolitan areas have already reached that mark, particularly among the echo-boom generation (**Figure 15**). On a state level in 2008, the minority share among echo boomers exceeded 50 percent in Hawaii, New Mexico, California, Texas, Arizona, and Nevada, as well as in Washington, DC. The minority population in the 5–24 age group in two other large states—Florida and New York—was also fast approaching majority (**Table W-3**).

Throughout this housing cycle, the numbers of immigrant and minority households have continued to grow at a faster pace than those of native-born white households, accounting for 74 percent of net household growth between 2003 and 2009. As their numbers have climbed, their presence in homebuying, remodeling, and rental markets has also increased. As a result, the future expansion of housing investment and the growth in the broader economy will depend on reducing the significant income and wealth disparities between whites and minorities. For example, the median income of households headed by 35–44 year-old minorities in 2008 was \$45,000—less than two-thirds of the \$72,900 for same-age whites. What is worse, the median wealth of these minority households in 2007 was just \$29,600, or about one-quarter of white household wealth of \$109,000.

Narrowing these disparities will depend on the ability of the nation to improve the educational achievement of minorities, and of the economy to create better paying jobs that rely on skilled workers. As it is, however, younger native-born minorities are much less likely to have received higher education than native-born whites. Among native-born householders aged 25–34, for example, just 23 percent of minorities have college degrees, compared with 40 percent of their white counterparts.

RESIDENTIAL DEVELOPMENT AND THE ENVIRONMENT

With so much attention now focused on reducing US carbon emissions and energy consumption, a growing chorus is calling for more compact forms of residential development to reduce vehicle miles traveled (VMT). Proponents argue that appropriately planned higher-density development would allow for growth as well as for preservation of more open space, better transit options, less auto dependency, and more efficient use of public infrastructure.

In most communities, however, achieving compact development would require changes to local zoning laws, which today often discourage higher densities along with mixed commercial and residential land uses. While many localities have deliberately taken steps to allow for areas of concentrated development, others still resist higher residential densities because of voter concerns about congestion, environmental degradation, and fiscal impacts.

Studies by the Urban Land Institute and the National Research Council have estimated the potential reductions in VMT from actively pursuing more compact development. These analyses make different assumptions about the residential densities that could be achieved politically, the amount of new housing stock necessary to meet demand, and the savings in travel associated with different density thresholds. They conclude that compact development would, at best, reduce VMT and related carbon emissions

relative to a 2000 baseline between 11 percent (NRC) and 18 percent (ULI) by 2050.

More compact development patterns would, however, help to make public transportation more economical. So far, expansion of the nation's public transit system—primarily through investment in light and heavy rail—has been modest compared with expansion of the highway system, both in funding and in track miles versus road miles. Partly as a result, public transit use is low.

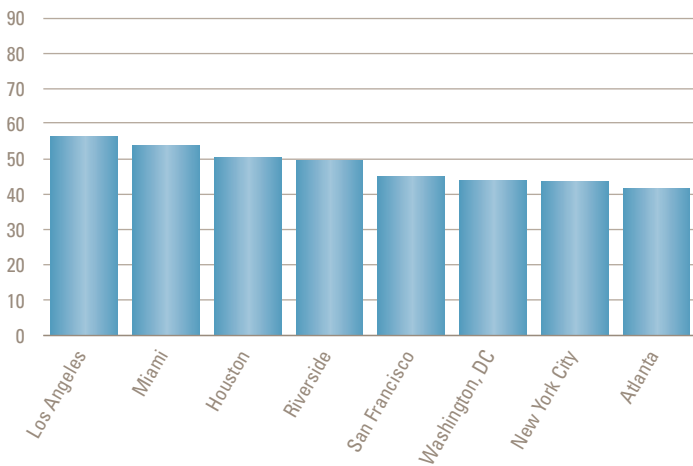
The tide has started to turn, however. According to the National Transit Database, after declining from 2003 to 2005, real annual capital expenditures on public transit—which have been only about a quarter of those on highways—began to creep up in 2006 and reached \$16.1 billion in 2008. The share of riders using public transit for commuting, which fell from 12.1 percent in 1960 to 6.4 percent in 1980 and bottomed out at 4.7 percent in 2004, recovered modestly to 5.2 percent in 2007. Commuting is the single most reported reason for public transit use (46 percent), distantly followed by social use (30 percent) and shopping (10 percent).

While having public transit in the area increases the share of commuters that use it, access does not necessarily mean high ridership. In fact, less than 25 percent of households with at least one commuter report using public transport regularly,

FIGURE 15

Minorities Already Make Up the Majority of Households in Several Large Metros ...

Minority Share of Households, 2008 (Percent)



Note: Minorities include all households except non-Hispanic whites.
Source: US Census Bureau, 2008 American Community Survey.

... And Still Larger Shares of the Echo-Boom Population

Minority Share of 5–24 Year-Olds (Percent)

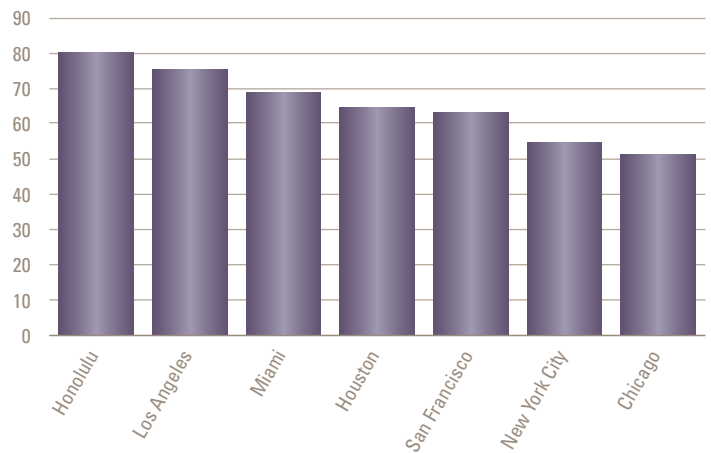
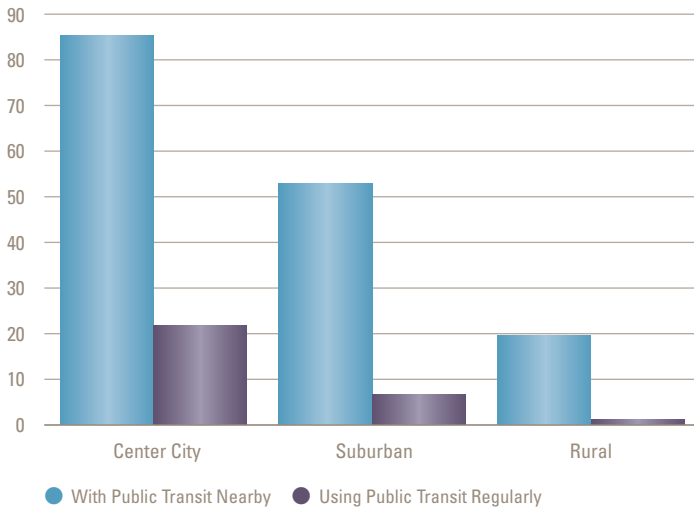


FIGURE 16

Despite Greater Access in Center Cities, Only About One-Fifth of Urban Commuters Use Public Transit

Share of Commuter Households (Percent)



Note: Data include only households with at least one commuter.

Source: JCHS tabulations of the US Census Bureau, 2007 American Housing Survey.

even in center cities where transit is most widely available (Figure 16). Thus, it will likely take a combination of expanded access and ridership incentives to get commuters out of their cars and onto public transportation.

THE OUTLOOK

The aging of the echo-boom generation into young adulthood, augmented by immigration, will increasingly drive household growth over the next 15 years. The sheer size of the echo-boom generation will produce record numbers of households headed by young adults (Figure 17). At 80.8 million strong, this generation is even larger than the baby-boom generation is now.

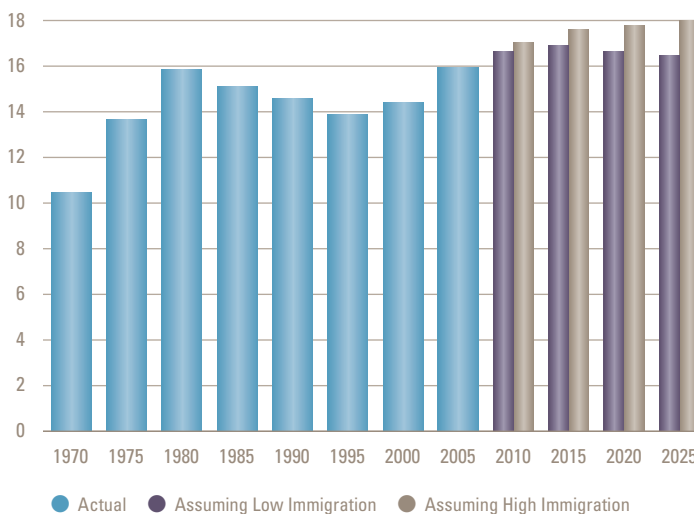
Under the Census Bureau's current estimate about immigration, the number of echo boomers will swell to 92.9 million by 2025. Even with immigration at half that pace, their numbers will grow to 86.5 million. This highly diverse generation will give demand for apartments and smaller starter homes a lift over the next 15 years.

The large share of second-generation Americans (children born in the US to immigrant parents) among the echo boomers—more than twice the share in the baby-bust generation and more than three times that in the baby-boom generation—will be important in shaping the characteristics of future households. This is good news in that US-born children of immigrants have incomes and education levels more like those of other native-born Americans than of their parents. In fact, among householders aged 25–64, second-generation Americans typically have higher household incomes than both foreign-born and other native-born households of all races and ethnicities.

FIGURE 17

Even If Immigration Is Low, the Number of Young Householders Will Set Records by 2025

Number of Householders Under Age 30 (Millions)



Notes: High immigration projection assumes immigration rises from 1.1 million in 2005 to 1.5 million in 2020, as estimated by the Census Bureau's 2008 population projections. Low immigration projection assumes immigration is half the Census Bureau's projected totals.

Sources: US Census Bureau, Current Population Survey, JCHS 2009 household projections.

Meanwhile, the baby boomers will boost demand for senior housing. The units built over the next 10–20 years that intentionally cater to older Americans will be the housing available for generations to come, given that growth of the over-65 population will slow dramatically as the now similarly sized baby-bust generation moves into retirement. So far, however, federal support for senior housing is limited to minimal new construction of subsidized units. Moreover, the current funding system encourages expensive trips to skilled nursing facilities to the detriment of lower-cost, less institutional assisted living options and programs that allow elders to remain in their homes. Senior housing issues will therefore gain much greater urgency over the coming decade.