Over the longer term, the aging of the echo boomers into adulthood and the baby boomers into their retirement years will largely shape housing demand. The baby boomers will drive significant changes in the age distribution of households over the coming decade, lifting the number of households aged 65–74 by 6.5 million and those aged 55–64 by 3.7 million. The impact of the echo baby boomers on household growth is less certain because they are entering the housing market during a period of high unemployment. The weak economy could thus suppress both the share of younger adults that form independent households and the net immigration that ordinarily augments their ranks.

LACKLUSTER HOUSEHOLD GROWTH
The 2010 Decennial Census reveals that household growth averaged only 1.12 million per year during the 2000s—a full 17 percent lower than in the 1990s. After a strong start, household growth dropped sharply by the end of the decade. According to the major federal surveys, the pace of household growth averaged well below 1.0 million annually in 2007–10, with estimated declines from the previous seven-year period ranging from 500,000 to 700,000 per year (Figure 11).

Immigration played a key role in this slowdown. For the first time in decades, growth in the foreign-born population slowed in the 2000s, and growth in the number of foreign-born households appeared to stall in the wake of the recession (Figure 12). After increasing by roughly 400,000 in 2004–7, the total number of foreign-born households was flat thereafter—contributing substantially to weaker overall household growth. Since legal immigration volumes have changed little, this reversal appears to reflect a net loss of undocumented immigrants. Indeed, while the number of households headed by foreign-born citizens increased almost continuously by about 200,000 per year from 2004 to 2010, the number of households headed by foreign-born non-citizens declined by about the same amount from 2007 to 2010.

Lower household formation rates among young adults are another contributing factor. Although the share of young adults that delayed living on their own was growing even before the
housing bust, this trend intensified in the second half of the 2000s. Since 2007, headship rates (the share heading independent households) among adults aged 20–24 dropped by 2.6 percentage points, while those among adults aged 25–29 fell by 2.8 percentage points.

Many of these young adults are living with their parents. After declining slightly from the mid-1990s to the early 2000s, the share of young adults in their 20s living in parental homes began to rise by mid-decade. In 2010, the shares had reached 44.7 percent for 20–24 year-olds and 18.0 percent of 25–29 year-olds. With some 42.6 million adults aged 20–29 in 2010, the increase in these shares since 2005 amounts to an additional 1.6 million young adults living at home.

While the recession is not entirely responsible for the decline in headship rates, high unemployment rates have clearly kept some younger households from living on their own. Without jobs, young adults are less likely to live independently (Figure 13). In fact, household headship rates among 20–24 year-olds employed year-round are more than 5 percentage points higher than for those who have been unemployed for at least six months. Among 25–29 year-olds, this difference increases to 10.5 percentage points.

The fact that the increase in seemingly temporary living situations—young adults living with parents and families doubling up with other households—accelerated after the housing bubble burst and the Great Recession began suggests the presence of at least some pent-up housing demand. But how much and how soon this demand will be released remains uncertain. When employment growth picks up and more young adults have jobs, headship rates should recover enough to lift household growth above trend for a period of time. Although somewhat volatile over the past three decades, household formation rates among young adults have converged as each cohort ages.

But many social, demographic, and economic factors are at play and it is possible that headship rates among young adults will not rebound much from recent levels. Even in the absence of recent economic woes, long-term trends toward delayed marriage and childbearing, the growing minority share of the population, the increased importance of higher education for advancement in the job market, and the rising cost of going away to college have all helped to lift the numbers of young adults living with their parents or doubling up with others.

THE BABY BOOMERS AND HOUSING DEMAND

With household growth among young adults slowing, the aging of the baby boomers will dominate changes in the age distribution of households. While shrinking in size as mortality rates rise, the baby-boom generation far outnumbers its immediate elders and will therefore add dramatically to the senior population (Figure 14). The number of households with heads between the ages of 55 and 74 is set to increase by 10.2 million from 2010 to 2020. This projection is much more certain than that for younger households because it is less subject to unknowns about trends in immigration and headship rates.

The baby boomers have dominated housing market trends at each stage of their lives—first as children in the households that were part of the great wave of suburbanization, then as young adults entering the housing market for the first time, and most recently as middle-aged households trading up to bigger and better homes.
and helping to fuel the homeownership boom of the 1990s and 2000s. As they approach retirement age, the baby boomers will once again heavily influence overall housing demand.

Most will choose to stay in their current homes or “age in place,” which may involve remodeling to make their living spaces more senior-friendly. Another group will downsize to smaller homes and/or move to single-level or elevator-accessed units. This housing tends to be higher density and, for older movers, is more likely to be rental. And finally, some baby boomers will move to senior or age-restricted housing, including housing designed to accommodate, or provide services to address, age-related infirmities.

Over the coming decade, however, it is members of the pre-boomer generation that will primarily drive demand for assisted living facilities. With longevity increasing, the number of households over the age of 75 is expected to rise by more than 2.0 million by 2020. The baby boomers will, however, be involved in making the decisions—and often helping to pay—for their parents to move to such facilities. The aging baby boomers may also start to look for communities that have assisted living facilities either included or located nearby, in anticipation of their own needs later in life.

The share of individuals that move falls steadily from young adulthood on, with no break in this pattern around retirement age. When they do relocate at these stages of life, many owners downsize to smaller units. At last measure in 2007, one-third of 55–64 year-old homeowners had moved within the previous 10 years. Some 45 percent of these households had chosen housing with fewer rooms, compared with 35 percent of movers aged 45–54. While just one-quarter of homeowners aged 65–74 relocated during this period, members of this age group were even more likely to downsize, with 58 percent living in smaller units after their move.

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The leading edge from the baby-boom generation is now in the 55–64 age group and will head into the 65–74 age group over
the next decade. As a result, demand for smaller homes should increase steadily as the baby boomers age. Since young first-time homebuyers also tend to purchase homes that are smaller and less expensive than average, the echo boomers will add to the demand for more modest housing as they replace the smaller baby-bust generation in the under-35 age range.

GEOGRAPHIC POPULATION SHIFTS

Early results from the 2010 Decennial Census show that the US population continues to shift to the South and West. Growth in these two regions was approximately 14 percent over the past decade, far exceeding the 3–4 percent pace in the Northeast and Midwest. All five fastest-growing states—Nevada, Arizona, Utah, Idaho, and Texas—are located in the South or West, each registering population gains of more than 20 percent in 2000–10.

The US population is also shifting toward metropolitan areas, although growth remains concentrated in the lowest-density counties of these areas (Figure 15). While major cities such as New York, Chicago, Los Angeles, and Houston have seen considerably slower population gains over the past decade, their suburbs continue to attract growing numbers of residents. Indeed, growth rates in high-density metropolitan area counties were less than a third of those in medium- and low-density counties. Moreover, only 12.7 percent of decade-long population growth occurred in high-density areas.

The baby boomers may reinforce these trends. When older households make longer-distance moves, they tend to relocate to areas with warmer climates and lower housing costs. Over the past decade, the leading edge of the baby-boom generation has shown no inclination to move back to cities. In fact, the share living in cities has decreased, representing a net loss of 343,000 households, while the share living in rural areas outside metro areas has increased. Furthermore, with the majority of baby boomers living in suburbs and aging in place, the number of seniors living in suburban areas will grow by millions over the next two decades. The pressure to add more services and amenities geared toward the elderly in these areas will no doubt increase.

It must be said, however, that the baby boomers have seldom behaved like their predecessors at comparable ages. There are reasons to believe that they will make somewhat different housing choices and perhaps on a different timetable. First, more baby boomers are expected to work at least part-time well past the typical retirement age, at least in part because their retirement savings and home equity eroded so greatly in the wake of the Great Recession. In addition, many baby-boomer households have two earners, which may mean that more couples will retire in stages. And finally, both the baby boomers and their children are more likely to have had families later in life than previous generations. As a result, they are more apt to become grandparents later in life, which may increase their tendency to age in place rather than move away from their families.

INCOME AND WEALTH TRENDS

Income and wealth influence household formation decisions, the quality and size of homes demanded, and the share of income allocated to housing. In sharp contrast to the 1990s, real household incomes in the 2000s fell for all age groups under 55. The decade-long stagnation of household incomes and erosion of wealth—and especially housing wealth—have contributed to a steep rise in the share of households spending more than half their incomes on housing.

After the 2001 recession, employment regained little ground before the Great Recession struck in 2007. Even when measured from peak to peak during the last economic cycle, real incomes fell for the bottom 70 percent of households. This trend significantly lowered the income trajectory of the younger baby boomers compared with those of their older counterparts and the pre-boomers. Indeed, the younger baby boomers have ended their peak earning years of 45–54 with lower household incomes than those of the older baby boomers (Figure 16). The largest income declines have been among low-income households, minorities, and the foreign-born. As a result, the income gap between whites and minorities, as well as between native- and foreign-born households, expanded from 2000 to 2009.

The Great Recession has also decimated household net wealth. Real median household net wealth fell by more than 23 percent in 2007–9, from $125,400 to $96,000. In aggregate,
real net household wealth plunged some $12.4 trillion from 2006 to 2010, returning to its 2003 level. The prolonged weakness in home values continues to be a drag on household wealth, with the decline in home equity accounting for 61 percent of the drop. After hitting a low of $50.1 trillion in the first quarter of 2009, household net wealth recovered to $56.6 trillion in the fourth quarter of 2010, led by a $6.9 trillion jump in the value of stock wealth. The total value of real estate owned by households declined slightly during this time.

The collapse in home prices has not affected all homeowners equally. Minority homeowners, in particular, were poorly positioned to absorb such a significant drop. Among homeowners with mortgages in 2007, the median mortgage debt among minorities—who are younger on average and more likely to have bought near the market peak—was 13.5 percent higher than among their white counterparts, while their median home equity was 26.8 percent lower (Table W-2). From 2007 to 2009, the median value of homes owned by minorities fell 20 percent in real terms, compared with 13 percent for whites. As a result, minority homeowners are much more likely to be underwater on their mortgages than white homeowners.

THE OUTLOOK
Lingering economic uncertainty makes it difficult to predict the pace of household growth. Nonetheless, the aging of the echo boomers should boost the number of households in their late 20s and early 30s by replacing the smaller baby-bust generation currently in that age group. But employment growth will be a critical factor in how quickly echo boomers form independent households. A lackluster economy could keep headship rates lower than those of the baby-bust generation at the same ages, muting household growth among this large generation. Over the next decade, it is much more certain that the baby boomers will boost the number of senior households to unprecedented heights.

Immigration will be a major factor in future household growth. If the foreign-born population (which tends to include large shares of young adults) increases at pre-recession rates, it will augment the size of the echo-boom generation and lift the pace of household growth. If the economic recovery is slow and protracted, however, immigration may be relatively low for several years. The JCHS low-series household growth projection of 11.8 million in 2010–20 accounts for this uncertainty by assuming that immigration in the next decade is only half that in the Census Bureau’s baseline projection.

Trends in headship rates among young adults, however, pose an even greater risk that household growth will fall short of projections. If household headship rates by age and race/ethnicity fall below their averages in 2007–9, household growth in 2010–20 could be even slower than in the 2000s.

The prospects for household wealth and income growth are also uncertain. For homeowners, a stronger recovery in household net wealth will depend largely on a rebound in house values, which were still falling in most areas in the first quarter of 2011. For incomes, sustained job growth will be key to a strong and sustainable recovery. Labor markets in fact showed signs of revival in early 2011, with private-sector job growth exceeding 200,000 for the third consecutive month in April. This is the first three-month increase of this magnitude since May 2004. Nonetheless, income growth is expected to remain a challenge—particularly for young adults—as the economy struggles to add back the millions of jobs lost during the recession while also keeping pace with labor force growth.