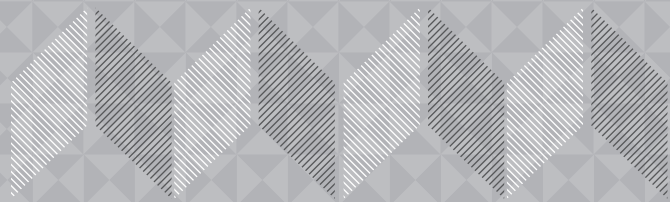




Demographic Drivers



The pace of household growth—a key driver of housing demand—accelerated in 2012, boosted in part by an increase in immigration. At the same time, though, the lingering impacts of the Great Recession continue to limit household mobility and therefore housing turnover. Income growth also remains weak, especially among minorities and the youngest generation of adults. Given the important role that these groups play in housing markets, improvement in their economic progress would provide a strong lift to the recovery.

HOUSEHOLD GROWTH ON THE UPSWING

Household growth emerged as a bright spot for housing in 2012. Indeed, annual household growth approached the 1.0 million mark for the first time since before the Great Recession. According to the Housing Vacancy Survey, the number of households increased by 980,000—up significantly from the 634,000 increase a year earlier. The Current Population Survey reports even stronger growth of more than 1.0 million.

At a basic level, changes in the number of adults and the rates at which adults head independent households determine household growth. On the plus side, the number of adults aged 18 and older rose by 18.1 million from 2005 to 2012 and fully 2.4 million in the past year alone. The echo-boom generation (born after 1985) fueled much of this growth, helping to boost the number of adults in their mid-20s—the group most likely to form new households.

But while the young adult population has been growing, the rate at which members of this age group head their own households has declined. As a result, household growth has not kept pace with population growth (**Figure 12**). Going forward, though, even if today's low household formation rates persist, the aging of the large echo-boom cohort into their 30s will raise household headship rates because of lifecycle effects. Indeed, one out of every two 30–34 year-olds heads an independent household, compared with just one in four 20–24 year-olds. Since household headship rates continue to rise (albeit more slowly) through older adulthood, the rates for the echo boomers will likely increase for years to come.

More immediately, however, household growth remains well below both historic norms and the Joint Center's projection of just under 1.2 million annually. If this projection is to hold, the pace of household growth will have to accelerate considerably to make up for the current slowdown.

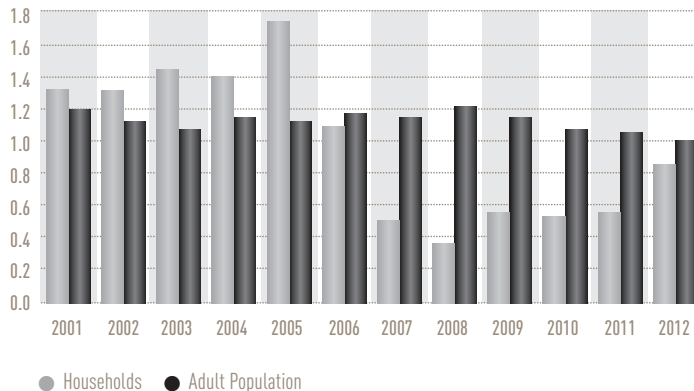
IMMIGRATION'S CONTRIBUTION

The foreign-born population has been a key component of household growth over the last decade, fueling large gains early in the decade but dragging down growth since the recession. According to Current Population Survey estimates,

FIGURE 12

Household Growth has Lagged Adult Population Growth Since the Downturn

Annual Growth Rate (Percent)

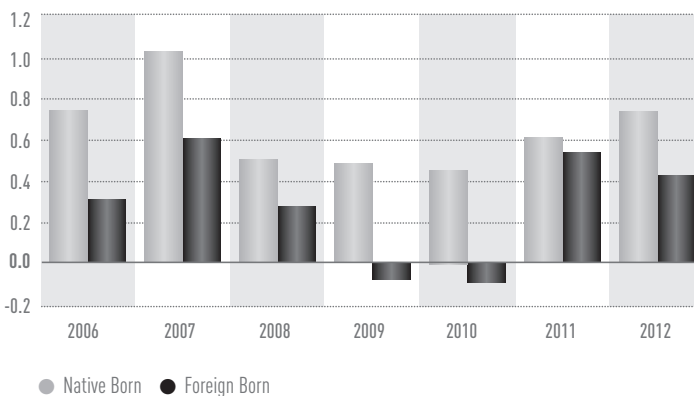


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey and Intercensal Population Estimates.

FIGURE 13

After Recent Declines, the Foreign Born Are Again Contributing to Household Growth

Household Growth (Millions)



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

the number of foreign-born households rose nearly 400,000 annually in 2001–07 and accounted for 30 percent of overall household growth. But beginning in 2008, the influx of immigrants slowed sharply as the Great Recession took hold. High unemployment and tepid wage growth also reduced household formation rates among the foreign-born population already residing in the United States. By 2009 and 2010, the number of foreign-born households showed a net decline and the foreign-born contribution to household growth in 2007–10 fell to just 6.0 percent.

But with the US economy regaining strength, immigration may be poised for a rebound (Figure 13). Census Bureau estimates of net immigration in 2011–12 indicate an increase of 110,000 persons over the previous year, to a total of nearly 900,000. While still below levels that prevailed before the recession, this growth rate is more than 200,000 above the conservative assumptions underlying the Joint Center’s 2010 low-immigration household projections. Slower growth of the foreign-born population, at least at present, does not appear to be a drag on overall household growth.

HOUSEHOLD MOBILITY ON THE DECLINE

The share of households that move in a given year is a fundamental driver of housing market activity, setting the pace of home sales and the turnover of rental housing. In line with long-term trends as well as the short-run impacts of the recession and housing bust, domestic mobility rates hit new lows in 2011. The American Community Survey reports that just 13.0 percent of households moved within the United States during the preceding 12 months, down from 13.2 percent the year before and 13.8 percent in 2007 (prior to the recession).

While mobility rates have fallen for nearly all household types, the decline was particularly steep for homeowners that have mortgages. Mobility rates for this group fell from 7.1 percent in 2007 to only 4.9 percent in 2011. The reasons for this short-term drop are numerous and include the lock-in effect of home price declines, falling incomes, fewer new employment opportunities, and tightened credit standards making it more difficult to qualify for a new mortgage.

Mobility rates are highest among renters and young adults. In 2011, fully 28.8 percent of renter households changed residences, compared with just 4.4 percent of homeowners. Young householders are also more mobile, with rates at 52.7 percent for those under age 25—significantly higher than the 19.7 percent for household heads in the next older age group.

In 2011, more than 4.6 million households headed by adults aged 25–34 changed residence within the previous 12 months. By comparison, just 1.5 million households aged 55–64 moved in that year. The oldest echo boomers are just beginning to swell the ranks of young adult movers. Having more young adults in the population may thus change the composition of housing demand in the coming years, given that younger households are more likely than older households to move into rentals (82 percent vs. 67 percent) and less likely to move into single-family homes (42 percent vs. 50 percent).

HOME EQUITY AND WEALTH DISPARITIES

The rebound in home prices in 2012 was welcome news to homeowners, helping to restore some of their lost housing wealth. The increase in equity was also good news for the economy, because consumer spending tends to rise with gains

in housing wealth. With home equity once again expanding, this trend should thus give further momentum to economic growth.

The recession-induced drop in home values has been especially damaging to minority and low-income households. On average, real home values for Hispanic owners plummeted nearly \$100,000 (35 percent) between 2007 and 2010, while the decline for black owners was nearly \$69,000 (31 percent). By comparison, average values for white homeowners fell just 15 percent over this period. Moreover, white homeowners still had \$166,800 in home equity on average in 2010—about twice the amount that blacks and Hispanics held.

The disproportionate decline in housing wealth among minorities served to widen the wealth gap. By 2010, the median net worth of a white homeowner, at \$214,500, was more than 2.5 times that of a black homeowner and 2.8 times that of an Hispanic homeowner. For owners and renters combined, the median net household wealth of whites was more than 7.9 times that of blacks, 8.2 times that of Hispanics, and 6.5 times that of all minorities combined.

Despite significant losses in recent years, home equity continues to represent a disproportionate share of wealth for both low-income and minority homeowners (Figure 14). In 2010, typical homeowners in the bottom income quartile held 78 percent of their net wealth in home equity, while those in the top income quartile held 26 percent. The differences by race and ethnicity were nearly as large, with home equity accounting for 62 percent of net wealth for the median black owner and 67 percent for the median Hispanic owner, but only 38 percent

for the median white homeowner. The continued importance of housing wealth for minorities and low-income households highlights the fact that these groups have few other meaningful avenues for wealth accumulation.

Indeed, most renters have little wealth of any kind. The real median net worth among renters in 2010 was \$5,100, essentially unchanged from \$5,300 in 2007. Minority renters have particularly low levels of wealth: the median in 2010 was just \$2,100 for black renters and \$4,500 for Hispanic renters, substantially less than the \$6,000 for white renters. Moreover, cash savings account for little of this net worth (less than \$1,000), leaving all of these renters without much cushion against emergencies, let alone funds for a downpayment on a home.

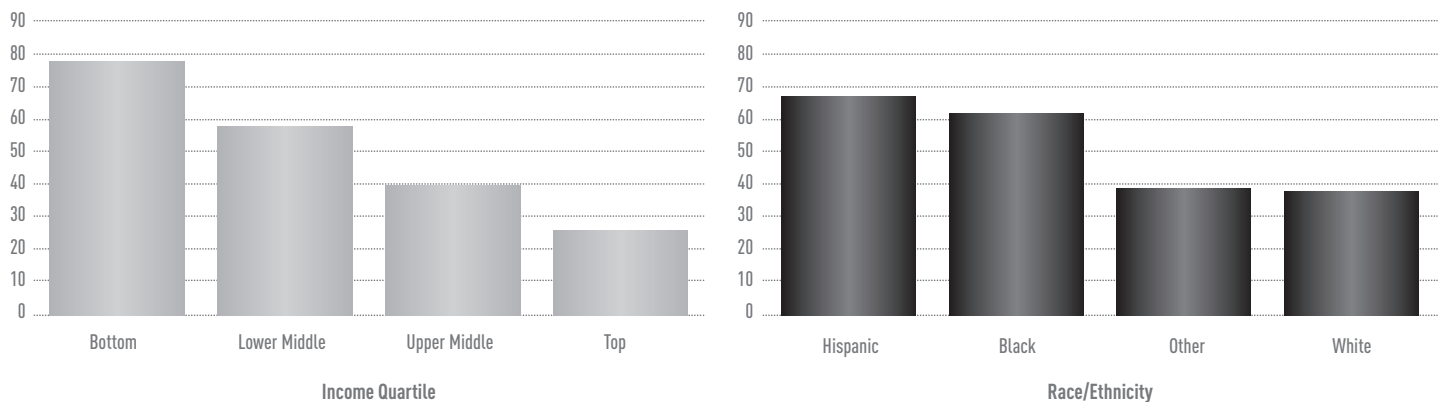
Home equity can accumulate into a substantial nest-egg for retirement, helping to reduce housing costs and providing a resource to meet high medical costs near the end of life. However, older Americans are carrying more mortgage debt later into life, potentially eroding the benefits of long-term ownership. In 1989, the median loan-to-value ratio among owners aged 50–59 was 10 percent; by 2010, it had risen to 38 percent. Over this same period, the share of owners aged 60–69 with mortgage debt rose from 32 percent to 60 percent.

For today’s younger households, student loan debt may make the transition to homeownership more difficult. According to the Federal Reserve Bank of New York, the number of young adults under age 30 with student loan debt outstanding increased by 39 percent between the start of 2005 and the end of 2012, with the average amount rising from \$13,300 to \$21,400. However,

FIGURE 14

Low-Income and Minority Households Rely on Home Equity for a Much Greater Share of Their Wealth

Median Housing Wealth as a Share of Household Net Worth (Percent)



Notes: Data exclude renters and households with zero or negative income. Income quartiles are equal fourths of all households ranked by income. White, black, and other households are non-Hispanic; Hispanic households can be of any race. Source: JCHS tabulations of Federal Reserve Board, 2010 Survey of Consumer Finances.

concerns over rising student loan debt often overlook the fact that the trend also affects older households. The increase was even larger among adults in their 30s, with the number of borrowers up 76 percent and average debt climbing from \$20,000 to \$29,400. Moreover, of the \$600 billion increase in student loans outstanding in 2005–12, fully 38 percent was among households over age 40. Since many of these older households already own homes, the sharp rise in student loan debt could affect their ability to meet their mortgage obligations.

STAGNANT INCOMES

A key factor in the relatively modest housing recovery is the persistent weakness in incomes, which has slowed household growth and limited how much people can pay to rent or buy homes. At last measure in 2011, median household income fell another 1.5 percent in real terms to stand 8.1 percent below the 2007 peak and 6.7 percent below the 2001 level. With the exception of seniors aged 65 and over, median household incomes fell across all age groups in 2010–11, with the sharpest drop among younger households.

The magnitude of the decline also varies by race and ethnicity (Figure 15). While real incomes for all groups fell over the last ten

years, the median for black households was down the most (12 percent)—twice as much as the median for white households. By 2011, the real median income for black households had slipped to \$32,000, its lowest level since 1994.

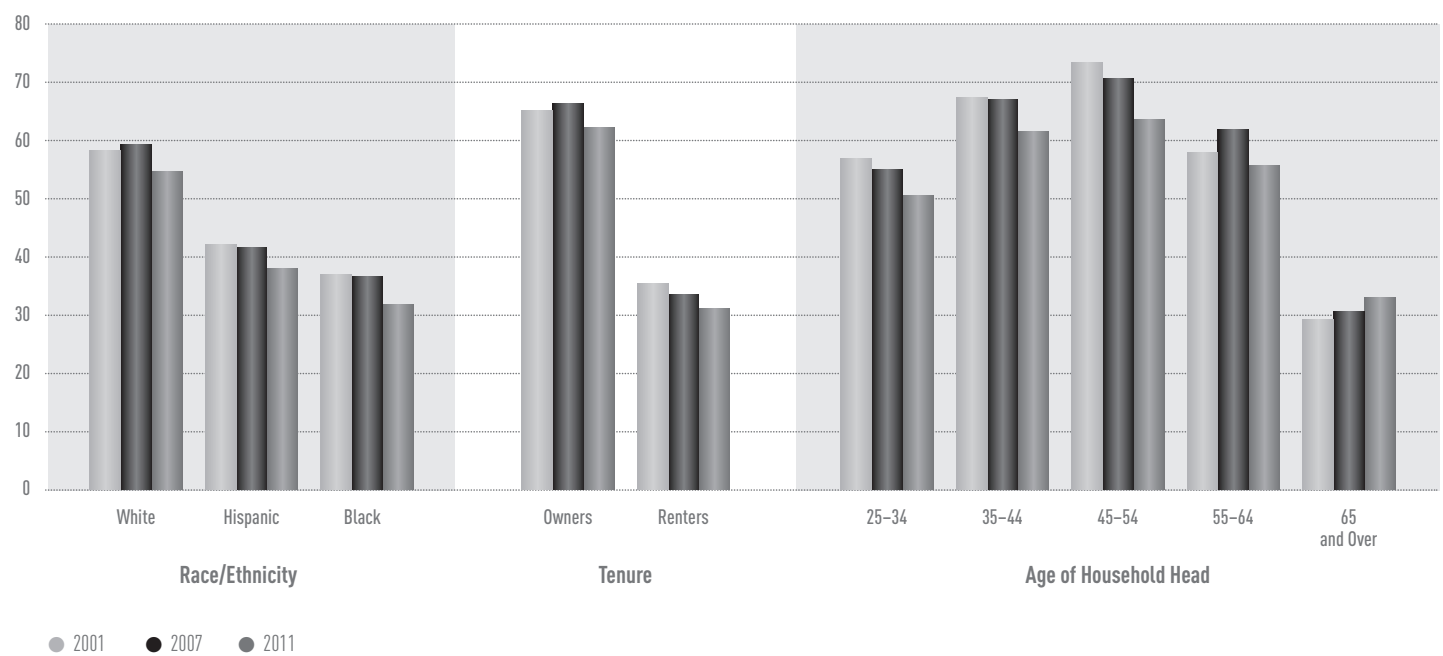
To put these trends in perspective, incomes among households under age 35 are back to 1990s levels. The recession had an even bigger impact on households between the ages of 35 and 54, whose incomes are now lower than those of similarly aged households in 1971. Now in what are typically the peak earning years, 45–54 year-olds have instead seen their real median incomes fall 6.0 percent from what they made ten years earlier (when they were aged 35–44). Over the next ten years, these households will be approaching typical retirement age, but the loss of income at such a critical point in their careers will make it difficult for many to save enough to stop working.

While rents have moved up in recent years, there are limits to how much they can rise without an increase in households' ability to pay. In addition, weak income growth has no doubt had an impact on the recovery in homeownership, limiting the ability of would-be buyers to take advantage of historically low costs of owning. While the economy continues to add jobs

FIGURE 15

Most Types of Households Have Seen Their Real Incomes Decline over the Past Decade

Median Household Income (Thousands of 2011 dollars)



Note: Dollar values are adjusted for inflation by the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

steadily, albeit slowly, the unemployment rate remains well above what is needed to put upward pressure on wages.

HOUSEHOLD GROWTH PROJECTIONS

The growth and aging of the existing US population will drive much of the increase in households over the next decade. Assuming no change in the foreign-born population and a continuation of today's low household formation rates, demographic forces alone imply the addition of about 1.0 million new households per year. Taking into account the boost from a modest increase in immigration, the latest Joint Center projections indicate that household growth should average 1.16 million in the decade leading up to 2020. Preliminary estimates using the Census Bureau's 2012 population projections suggest even stronger growth in net new households of 1.28 million between now and 2020.

With the baby-boom population moving into the 65-and-over age group, the number of senior households will surge in 2013–23 (Figure 16). These older households are projected to increase by fully 9.8 million. While most of this growth simply reflects the aging of existing households and not new household formations, it does herald a significant shift in the nature of demand for housing and home improvements.

The characteristics of the typical US household are also changing. Immigrants (who usually arrive in this country in their 20s and 30s) have helped to increase the diversity of the population since the 1980s. The children of older immigrants are now adding to the echo-boom population (aged 15–24 in 2010), lifting the minority share of this generation to a record 43.4 percent. As a result, the

number of minority households will grow by 8.7 million over the next ten years.

THE OUTLOOK

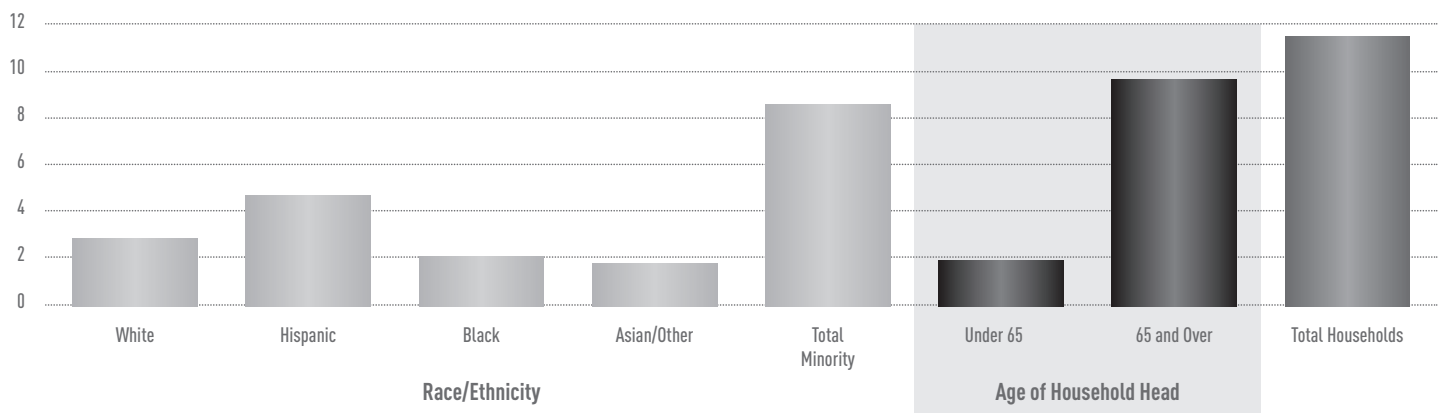
The growing diversity of American households has important implications for housing markets and housing policy alike. Over the next decade, minorities will make up an increasing share of young households and represent an important source of demand for both rental housing and starter homes. While their housing aspirations are similar to those of whites, minorities face greater constraints in pursuing those goals because of their lower incomes and wealth. Pending reforms to the housing finance system include proposals to raise downpayment requirements in a move to reduce mortgage lending risk. In evaluating whether to take this course, policymakers must consider whether further limiting access to mortgage finance for future generations of young households is necessary to achieve the desired reduction in systemic risk.

The aging of the population poses a different policy challenge. Most seniors prefer to age in place. While many of these households are currently well housed, their needs will change over time. Meeting those needs will require modifications to existing homes, the expansion of transportation networks and supportive services, and additions to the housing stock aimed specifically at the senior population. Many older Americans are also heading into their retirement years with little financial cushion and may find it difficult to find suitable housing that fits within their budgets. Expanding the range of housing options available to the country's growing senior population will require concerted efforts from both the public and private sectors.

FIGURE 16

Minorities and Seniors Will Drive Household Growth Over the Next Decade

Projected Household Growth, 2013–23 (Millions)



Notes: White, black, and Asian/other households are non-Hispanic. Hispanics can be of any race. JCHS low-series projections assume immigration is 50% of the levels in the Census Bureau's 2008 middle-series population projections. Source: JCHS 2010 low-series household growth projections.