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Demographic Drivers

Household growth has yet to rebound fully as the weak economic recovery continues to prevent many young adults from living independently. As the economy strengthens, though, millions of millennials will enter the housing market and drive up demand for rental and owner-occupied homes. Most of these new households will be minorities. Meanwhile, with the aging of the baby boomers, the number of older households is set to soar.

SLUGGISH HOUSEHOLD GROWTH

Weak labor markets, declining incomes, and high rents continue to dampen household growth. The pace of household formations has languished in the 600,000–800,000 range for several years—far below the annual averages posted in recent decades (**Figure 12**). Much of this slowdown reflects the drop in household formation rates among younger adults in the wake of the housing bust and Great Recession. Even as the economy continued to recover in 2013, the share of adults in their 20s heading their own households remained 2.6 percentage points below rates 10 years earlier. This implies that there are 1.1 million fewer heads of households in this key age group.

These potential households may represent pent-up demand that will be released when the economy improves further and household formation rates return to pre-boom levels. The argument that demand among this age group could give a strong boost to the housing market is compelling, given that the leading edge of the large millennial generation (born 1985–2004) has moved into the age groups where household formation rates normally peak. By comparison, when the leading edge of the baby boomers (born 1946–64) was of similar age in the 1970s, household growth averaged 1.7 million per year for the entire decade.

The difficult labor market and associated drop in incomes among younger adults explains much of the slowdown in household growth among this group. Higher personal income is strongly associated with a greater propensity to head an independent household. For example, headship rates for 20–29 year olds in 2013 ranged from 23.1 percent for those with incomes below \$10,000 to 53.8 percent for those with incomes of \$50,000 or more.

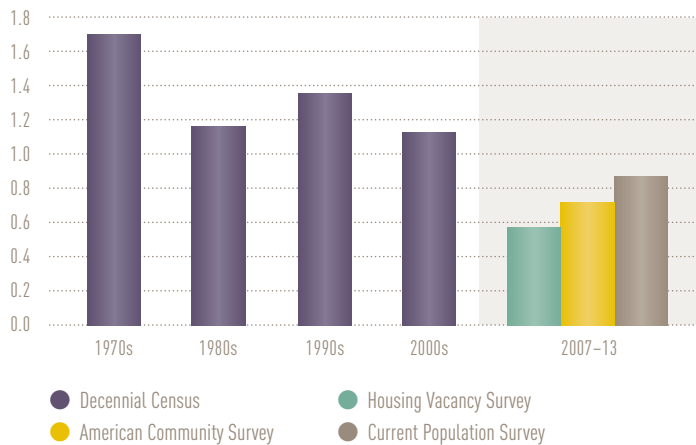
And while headship rates across income groups have been relatively constant over the past 10 years, growth in each group has not. Indeed, millions of young adults joined the ranks of the lower-income population in 2003–13 (**Figure 13**). This shift toward low incomes (and therefore low headship rates) accounts for more than half of the drop in household formations among 20–29 year olds over that period. If the economy strengthens enough to boost the incomes of this age group, their overall household formation rate will likely increase.

With their limited resources, many younger adults continue to live with their parents. In 2013, half of those aged 20–24, a fifth of those aged 25–29, and almost a tenth of those aged 30–34 lived at home. This adds up to 15.3 million adults in their 20s and 3.1 million adults in their 30s. The tendency for younger adults to remain at home has in fact increased

FIGURE 12

Despite Their Differences, All Major Surveys Point to a Dramatic Slowdown in Household Growth

Average Annual Household Growth (Millions)

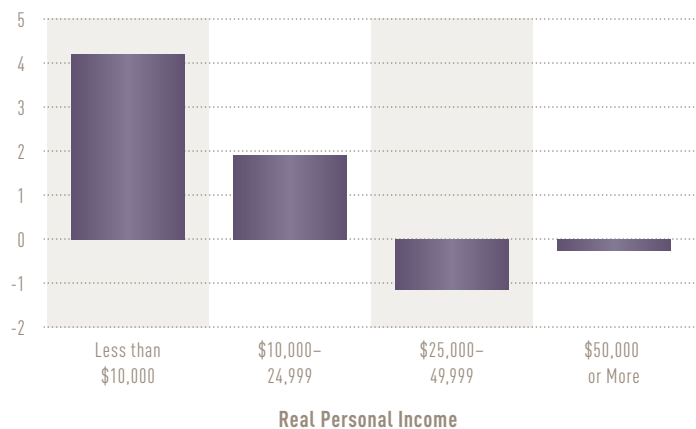


Note: American Community Survey data are only available through 2012.
Source: JCHS tabulations of US Census Bureau data.

FIGURE 13

Young Adults Are Increasingly Likely to Have Low Incomes

Change in 20–29 Year-Old Population, 2003–13 (Millions)



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

over the past decade. Some 2.5 million more adults in their 20s and 500,000 more adults in their 30s lived with their parents in 2013 than if household formation rates for these age groups in 2003 had prevailed.

Despite their lower headship rates, millennials still formed millions of independent households over the past five years. And because this generation is so large, the total number of households headed by 20-somethings in 2013 is actually higher than a decade earlier. Indeed, the population aged 20–24 rose by 2.3 million between 2003 and 2013, muting the effect of a 3.5 percentage point drop in household formation rates for this age group. Meanwhile, the population aged 25–29 increased by 2.4 million, offsetting a 1.8 percentage point decline in headship rates.

Given that headship rates rise sharply with age for adults in their 20s and early 30s, the number of millennials that form independent households should increase significantly, however belatedly, in the coming years. But stronger income and employment growth is necessary to drive much of this change. Moreover, millennials are on a lower trajectory of housing independence than earlier generations, and given the current pace of economic growth, it is difficult to predict how quickly these younger adults will finally be able to live on their own.

IMMIGRATION TRENDS

Although their inflows have slowed and their household formation rates have declined, immigrants still account for a substantial share of household growth in the United States. Indeed, immigration has been a major source of population growth in recent decades, contributing about 26 percent of total increases in the 1990s and 35 percent in the 2000s. This influx of foreign-born adults served to expand the ranks of the gen-X/baby-bust generation (born 1965–84), thereby limiting the otherwise sharp fall-off in housing demand that would have occurred in the wake of the baby-boom generation.

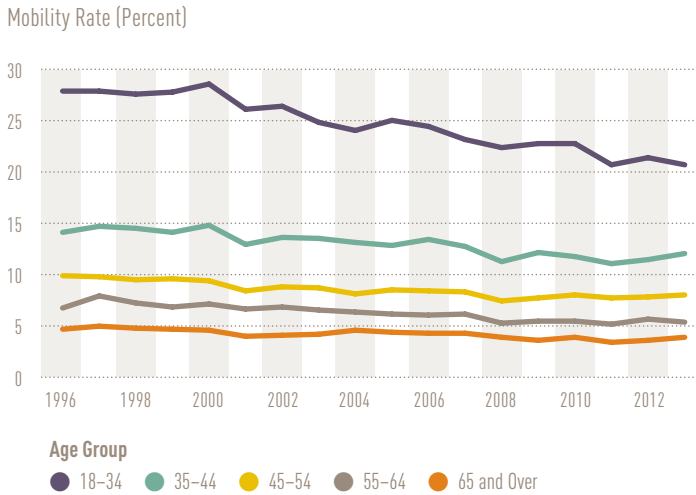
During the Great Recession, however, growth in the foreign-born population weakened as net immigration declined. Household formation rates among the foreign born also fell, brought down by the same difficult economic and housing market conditions that reduced headship rates among the native born. According to the major Census Bureau surveys, the decline was considerable. For example, the Current Population Survey indicates that the number of foreign-born households actually fell in 2009 and 2010. Since then, however, the foreign-born share of US household growth has rebounded to nearly 40 percent, helping to buoy housing demand in a period of low overall growth.

LOWER RESIDENTIAL MOBILITY

Along with household formation rates and immigration, domestic mobility rates play an important role in housing markets because residential moves spur investments in improvements and furnishings, generate income for real estate agents and

FIGURE 14

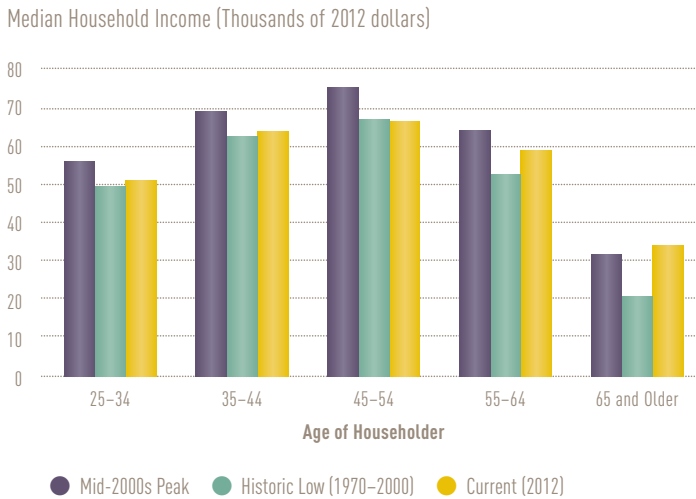
Residential Mobility Rates Were on the Decline Even Before the Recession, Especially Among Young Adults



Note: Mobility rates are the share of each age group reporting a change in residence within the previous 12 months. Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

FIGURE 15

The Real Incomes of Today's Young and Middle-Aged Households Remain at or Near Record Lows



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

lenders, and expand the housing options for other potential movers. But domestic mobility has been on a downtrend since the 1990s (Figure 14). The share of adults aged 18 and over that moved within the preceding year fell from 16 percent in 1996 to just over 11 percent in 2013, reducing the number of recent movers from 42.5 million to 35.9 million. This decline reflects

the transition of the baby boomers into older groups (that are less likely to move), as well as lower mobility rates among young adults (who make up the largest share of movers). Contrary to common perceptions, millennials (like gen-Xers) are shaping up to be less footloose than earlier generations.

In addition to these longer-term trends, the housing market crisis also sparked a noticeable drop in mobility rates among homeowners. Plunging house prices, rising numbers of underwater mortgages, weak labor markets, and limited access to credit prevented many owners from selling or trading up. As a result, more people live in their homes for longer periods of time. According to the American Community Survey, the share of owners who had lived in their current homes less than five years dropped from nearly a third (30 percent) in 2007 to just one in five (21 percent) in 2012, while the share living in their homes for 10 years or more increased from 49 percent to 57 percent. Remarkably, this shift occurred even as millions of owners were forced to move when they lost their homes to foreclosure.

Changes in renter mobility rates are more modest: in 2007–13, a slightly smaller share of renter households had lived in their units less than two years and a slightly larger share had lived in their units between two and four years. The share of longer-term renters (five or more years) was unchanged.

The slowdown in residential mobility has meant that population gains and losses across metropolitan areas have diminished. In the midst of the housing boom in 2005, domestic migration accounted for 30 percent of population growth in the 20 fastest-growing metro areas. In 2013, that share was just 11 percent, with natural increase and immigration accounting for fully 89 percent of growth.

While reducing inflows into some metros, lower mobility has also stemmed outflows from metros that had been losing population. For example, the top five metros with positive net domestic migration in 2005 (Atlanta, Orlando, Phoenix, Riverside, and Tampa) added 320,000 people. In 2013, the top five gainers (Austin, Dallas, Denver, Houston, and Phoenix) added only 170,000. Similarly, the population in the five metros with the largest net domestic outflows in 2005 (Boston, Chicago, Los Angeles, New York, and San Francisco) fell by 640,000, while the top five in 2013 (Chicago, Detroit, Los Angeles, New York, and Philadelphia) lost only a fraction of that number, or 240,000.

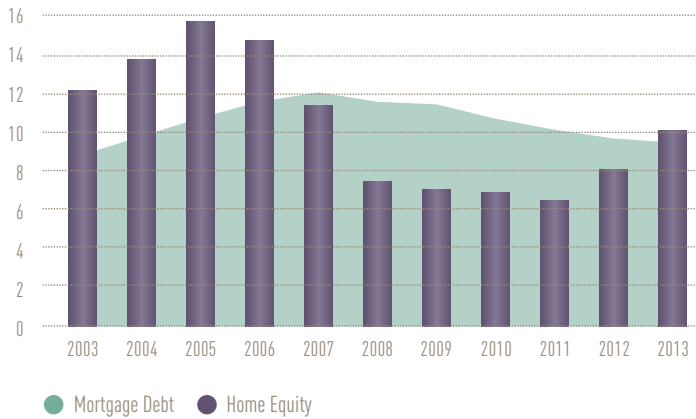
INCOME STRESSES ACROSS GENERATIONS

Median household income fell another 1.4 percent in real terms in 2012, hitting its lowest level in nearly two decades. Hard hit by the Great Recession, median incomes of today's younger and middle-aged adults are at their lowest levels in records dating back to 1970 (Figure 15). The steepest declines have been among younger adults. The median income for households aged 25–34 fell an astounding 11 percent from 2002 to 2012, leaving their real incomes below those of same-aged households in 1972.

FIGURE 16a

While Mortgage Debt Has Fallen Below Home Equity for the First Time Since 2006...

Trillions of 2013 Dollars

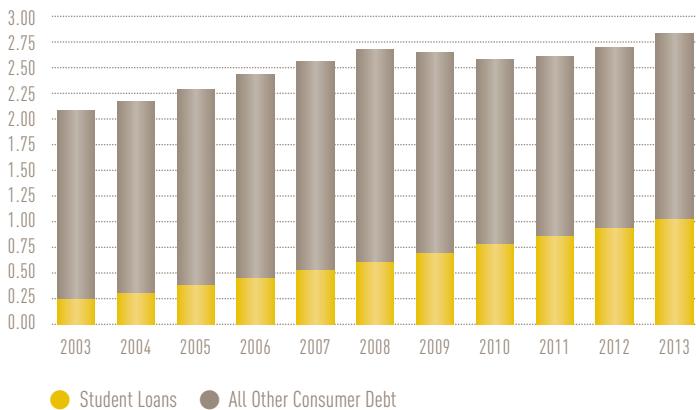


Note: Dollar values are adjusted for inflation using the CPI-U for All Items.
Source: Board of Governors of the Federal Reserve System, Flow of Funds, Fourth Quarter 2013.

FIGURE 16b

... Student Loans Have Driven Up Consumer Debt Burdens

Non-Housing Debt Balances (Trillions)



Notes: All other consumer debt includes credit card debt, auto loans, retail loans, and personal loans. Annual balances are averages of quarterly data.
Source: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, February 2014.

Meanwhile, the unemployment rate for this age group jumped from 4.7 percent in 2006 and 2007 to 10.1 percent in 2010, holding at a still-high 7.4 percent in 2013. Factoring in a slight decline in labor force participation, the share of the 25–34 year-old population with jobs last year was at early-1980s levels.

Minority households in this age group are at a notable disadvantage. In 2012, the median income of a minority household aged 25–34 was \$20,000 below that of same-age white households. Indeed, one reason that the incomes of young households in general are declining is that the minority share of the population is growing and the white-minority income gap is widening.

At the other end of the age spectrum, households in their pre-retirement years also face financial challenges. The real median income for households aged 50–64 in 2012 fell to \$60,300, back to mid-1990s levels. Incomes of renters in this age group have declined especially sharply, dropping 12 percent from 2002 to 2012 and now back to 1980s levels. By comparison, the median income of 50–64 year-old homeowners fell just 5 percent over that period.

Many households in their 50s looking to retire in the coming decade are particularly under pressure. Real median annual incomes have fallen by \$9,100 among 50–54 year olds and by \$5,700 among 55–59 year olds since 2002. Given that they are in the peak earning years when retirement savings spike, these households may find it difficult to ensure their financial security as they age.

RISING CONSUMER DEBT

Households continued to reduce their housing debt in 2013, cutting real mortgage debt 2 percent over the year. At the same time, higher house prices lifted real home equity by 24 percent, to \$10 trillion, finally pushing aggregate home equity back up above aggregate mortgage debt (Figure 16). But consumer debt was also on the rise, up 14 percent from the end of 2010 to the end of 2013 to account for more than a quarter (26 percent) of aggregate household debt. This is the highest share since early 2004, raising concerns that the combination of falling incomes and rising consumer debt may be contributing to the weakness of housing demand.

Education loans have fueled the surge in consumer debt, jumping 50 percent from the end of 2009 through the end of 2013 and more than quadrupling over the past decade to \$1.1 trillion. According to the Federal Reserve Bank of New York (FRBNY), student loan balances reported on credit reports increased by \$114 billion in 2013 alone. They also accounted for 63 percent of the growth in total debt over the past year and for nearly the entire increase in non-housing consumer debt since 2003.

Soaring student loan debt among younger adults may play a role in their lagging household formation and homeownership rates. At last measure in 2010, 39 percent of households aged 25–34 had student loans, up from 26 percent in 2001 and more than double the share in 1989. Young renters, who typically have lower incomes, allocate a larger share of their monthly income to student loan payments, according to the Survey of Consumer Finances. The median renter under age 30 in 2010 devoted 6 percent of monthly income to student loan payments, while those aged 30–39 paid a little less than 4 percent. This

may affect their ability to pay for housing and build savings, particularly for downpayments on purchases.

Default rates on student loans are rising at an alarming pace. FRBNY reports that the share of student loan balances that are 90 or more days delinquent nearly doubled from just 6.2 percent at the end of 2003 to 11.5 percent at the end of 2013. And since this measure counts the sizable shares of loans that are in deferral or forbearance periods as being current, it understates the delinquency rate among loans that are now in the repayment period. Among these borrowers, just over 30 percent were 90 or more days delinquent on their loans in 2012. Failure to repay student loans may damage the credit standing of younger adults in a way that limits their ability to obtain home loans in the future.

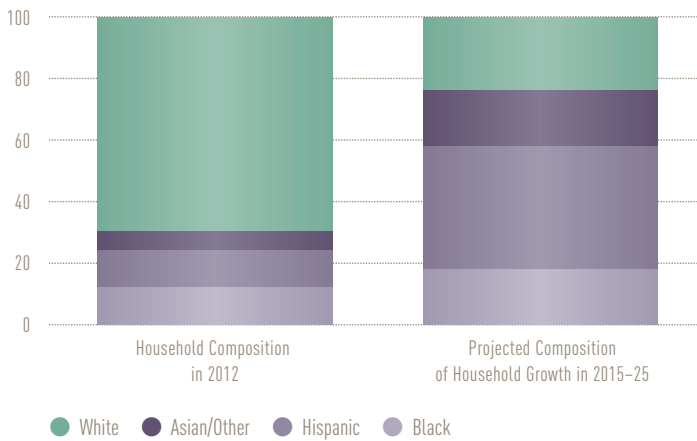
DEMOGRAPHIC CHANGES AND HOUSING DEMAND

According to the Joint Center's 2013 projections, demographic forces alone will drive household growth of 11.6–13.2 million in 2015–25. Underlying these projections are two trends that, in combination, will shift the age composition of US households and therefore the determinants of housing demand. Most immediately, the aging of the baby boomers will boost the number of older households. From 2015 to 2025, the number of households aged 70 and older will increase by approximately 8.3 million and account for more than two-thirds of household growth. The number of householders aged 60–69 is also projected to rise by 3.5 million, adding to the overall aging of the population.

FIGURE 17

Minorities Will Account for Three-Quarters of Household Growth Over the Coming Decade

Share of Households (Percent)



Notes: White, black, and Asian/other households are non-Hispanic. Hispanic households may be of any race.
Sources: JCHS tabulations of US Census Bureau, 2012 American Community Survey; JCHS 2013 middle-series household projections.

The graying of America has important implications for housing demand. A 2012 survey by the Demand Institute confirms that 78 percent of all householders aged 65 and older intend to remain in their homes as they age. Over time, many homes will therefore need significant retrofitting to accommodate their owners' diminishing physical mobility. There will also be growing need for neighborhood services for the rising number of older adults living at home but can no longer drive to appointments, shopping, and other destinations. And when the oldest baby boomers reach age 85 in 2031, they will increasingly seek alternative situations that offer in-house services, such as group quarters, assisted living, and nursing homes.

Meanwhile, the aging of the millennial generation over the coming decade will lift the number of households in their 30s by 2.4–3.0 million, depending on immigration trends. But these numbers vastly understate the impact of this group on housing demand since they will account for most newly formed households in the coming decade. Indeed, the millennials will make up fully 24 million new households between 2015 and 2025, thus driving up demand for rentals and starter homes.

Another distinction of the millennials is that members are much more diverse than previous generations. For example, 45 percent are minorities, compared with 41 percent of Gen Xers and 28 percent of baby boomers. On the strength of their numbers alone, millennials will increase the racial and ethnic diversity of US households, while large losses of older, mostly white households will magnify their impact. By 2025, dissolutions of baby-boomer households aged 50–69 in 2015 will reach 3.0 million while those of the previous generation will reach 10.0 million. As a result, minorities will drive 76 percent of net household growth in the 10 years ahead (Figure 17).

THE OUTLOOK

While economic trends could push household growth higher or lower, it is absolutely certain that the number of households over age 65 will soar. Most of these older households will opt to stay in their current homes, increasing demand for investments designed to support aging in place. As they move into their late 70s and beyond, however, the baby boomers will bolster demand for new types of housing that can meet the physical and social needs of later life.

The millennials will offset the aging of the population to some degree, pushing up the number of households under age 40. Even so, this increase will be somewhat muted because, although the millennials are the largest generation in history, they do not significantly outnumber the generation that precedes them. In fact, with immigrants filling in their ranks, the so-called baby-bust generation is now larger than the baby boom. Still, the millennials will form tens of millions of new households over the coming decade, and their preferences and opportunities will reshape housing demand.