



DEMOGRAPHIC DRIVERS



As the US population becomes both older and more diverse in the coming decades, the demand for alternative types of housing will increase. Although the baby boomers will continue to drive much of this shift, the millennial generation will play an increasingly large role in the rental and first-time buyer markets. In fact, household growth—the key driver of housing demand—among this younger generation finally appears to be picking up. Many of these new households, however, face stagnant incomes and high student debt that limit their opportunities to make the transition from renting to owning.

LONG-TERM TRENDS

Two long-term demographic trends have wide-ranging implications for housing demand: the overall aging of the US population and growth in the minority share of households. The median age of the population already stands at 37.8 years and is projected to reach 41.0 years in 2035 as the baby-boom generation (born 1946–64) replaces the much smaller silent generation in the older age groups (**Figure 16**). Over the next two decades, the number of adults aged 70 and over will thus increase by 91 percent.

The existing housing stock is unprepared to meet the needs of a large and growing senior population. Many older adults live alone, have at least one type of disability, and have limited resources to pay for suitable housing. As a result, the demand for units that are affordable, accessible, and provide social connection as well as supportive services will grow increasingly acute over the next two decades.

At the other end of the age spectrum, the large millennial generation (born 1985–2004) will have its own impact on housing markets. At more than 86 million, the number of people in this age group—already exceeding that of the baby boomers at similar ages—will increase over the next 20 years as immigration (typically of young adults) continues to pick up. Although they are only now beginning to live on their own, millennials will likely form even more households than the gen-Xers and even the baby boomers (**Figure 17**).

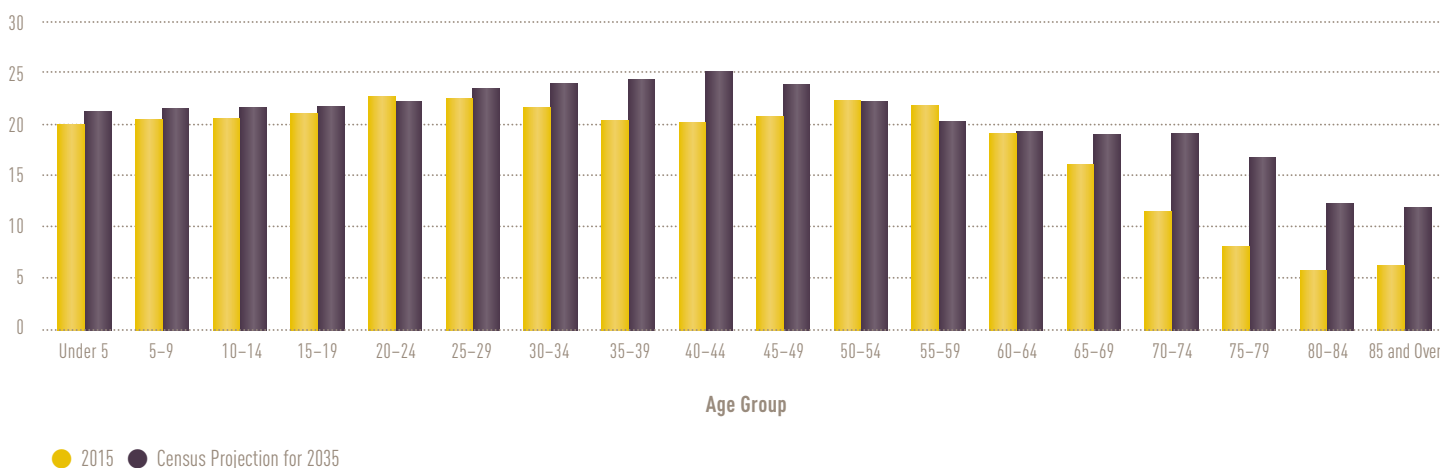
Since renting is usually the first step in independent living, the millennials have already contributed to the robust growth in renter households over the past few years. Indeed, with their lower homeownership rates and slower transitions to marriage and childrearing, members of this generation will continue to have a profound impact on rental demand. But like generations before them, the millennials are likely to participate more fully in the first-time buyer and trade-up markets as they move into their 30s and 40s. Over the next two decades, the aging of the millennials will increase the population in the key 30–49 year-old age group by 17 percent.

Millennials are also driving the increase in racial and ethnic diversity. The minority share of this generation is already

FIGURE 16

The US Population Will Continue to Shift into Older Age Groups Over the Next Two Decades

Population (Millions)



Source: JCHS tabulations of US Census Bureau, Population Projections.

at 45 percent, significantly higher than the 40 percent share among gen-Xers and 28 percent share among baby boomers. Hispanics alone make up 22 percent of the millennial generation, compared with 19 percent of gen-X and 10 percent of the baby boom. Hispanic millennials also outnumber Hispanic baby boomers by more than two to one. And given that most of the households lost to death and other life events in the decades ahead are white, minorities are expected to drive 76 percent of net household growth over the next 10 years and fully 85 percent over the next 20.

The growing diversity of US households highlights the need for alternative types of housing that address a broad range of cultural preferences. For example, minority households are more likely to be multigenerational, suggesting increased demand for larger homes that accommodate these family groupings. In addition, if minorities continue to have lower incomes and wealth than white households, their growing presence in the market will increase the need for more affordable housing options as well as for mortgage products suited to their financial circumstances.

UPTURN IN IMMIGRATION

Much of the growing diversity of the US population reflects the wave of immigration that began in the 1970s and continues to this day. The foreign born represent a significant source of housing demand, accounting for about 40 percent of household growth in the second half of the 1990s and nearly a third of household growth in the 2000s.

Following a severe slowdown after the Great Recession, net international immigration revived from just 704,000 in 2011 to 996,000 in 2014. With this rebound, Asians now make up the largest share of immigrants while Hispanics—particularly from Mexico—continue to lose share. Although still below the 1.2 million annual average in 2000–07, the pace of immigration is projected to pick up in the decades ahead and add significantly to the growth in housing demand (**Figure 18**).

SIGNS OF STRONGER HOUSEHOLD GROWTH

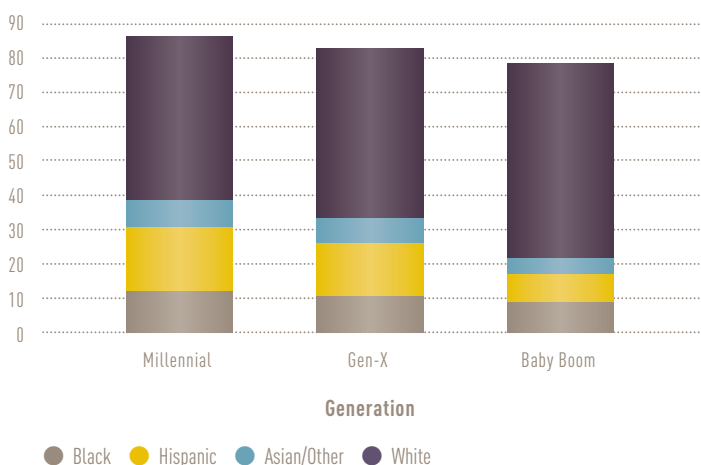
While the three major Census Bureau surveys disagree on the exact number, household growth has held in the 600,000–800,000 range since 2008—far below the 1.2–1.4 million annual average of previous decades. Measures of household growth continued to show only modest increases for much of 2014. As the year came to a close, however, the Housing Vacancy Survey reported a marked pickup that brought the pace of growth closer to its long-run potential. While the magnitude of the sudden increase is suspect, other data—such as the increase in rental unit absorptions over the past year—also suggest that household growth is beginning to revive.

Among the demographic trends that should help to sustain stronger growth in households is the aging of the millennials into young adulthood, the phase when individuals are most likely to move out of their parents' homes into their own. Indeed, with the millennial population maturing and displacing the smaller gen-X population, the number of adults in the 20–29 year-old age group rose by 4.7 million between 2003

FIGURE 17

The Large, Diverse Millennial Generation Is Only Now Beginning to Form Households

Population in 2013 (Millions)



Note: White, black, and Asian/other households are non-Hispanic. Hispanic households may be of any race.
Sources: JCHS tabulations of US Census Bureau, 2013 American Community Survey.

Households in 2013 (Millions)

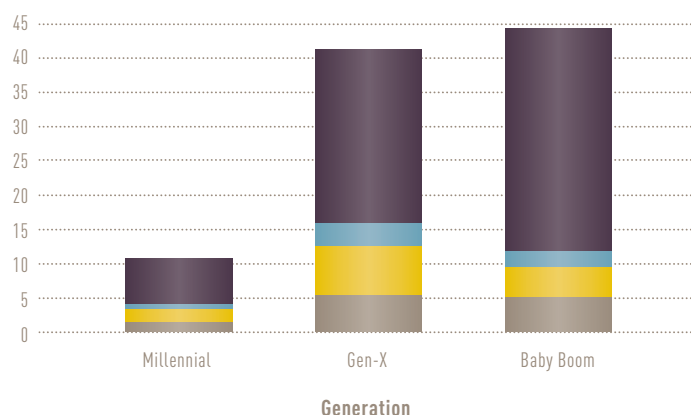
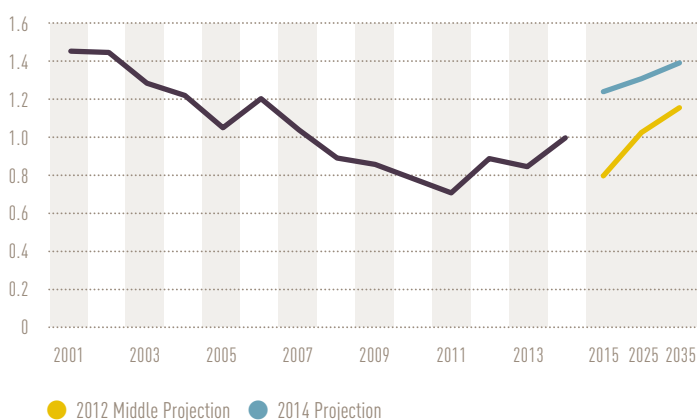


FIGURE 18

Growth in the Foreign-Born Population Is Approaching the Latest Census Bureau Projections

Annual Net International Immigration (Millions)



Source: JCHS tabulations of US Census Bureau, Population Projections.

and 2013. Assuming these young adults had formed independent households at the same rate as their predecessors in 2003, this increase would imply the addition of 1.8 million households. Instead, the housing crash and Great Recession reduced household growth among this age group to just 550,000—fully 1.2 million fewer than population growth alone would suggest.

But with the economy recovering and the labor market making steady gains, employment of younger adults is on the rise. In the first quarter of 2015, the unemployment rate for adults in their late 20s and early 30s was a full percentage point lower than a year earlier, and the number of employed adults in this age group was 1 million higher. This is good news for housing demand, given that employed younger adults are 50 percent more likely than unemployed younger adults to head independent households.

Income, of course, is also a critical factor. More than half of adults aged 25–34 taking home at least \$45,000 a year head their own households, compared with just over a third of those earning less than \$15,000. The pickup in wage growth among younger adults from 0.2 percent in 2013 to 2.4 percent in 2014 should thus continue to lift household formation rates among this key age group.

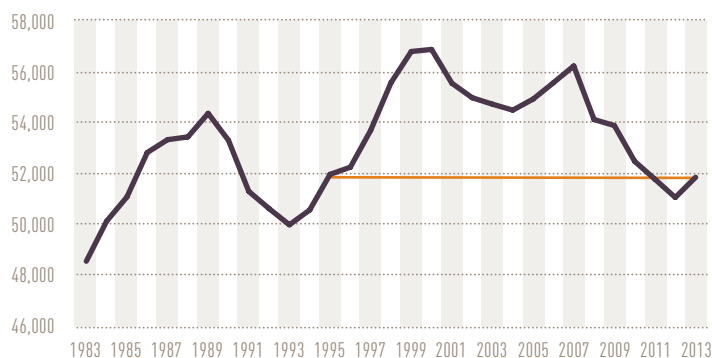
HOUSEHOLD INCOME INCHING UP

Six years after the recession's official end, households are just starting to see modest income growth. The latest estimates indi-

FIGURE 19

Median Household Income Has Receded to 1995 Levels in Real Terms

2013 Dollars



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

cate that real median household income rose 2 percent between 2012 and 2013, to \$51,900. More recently, average hourly earnings and the employment cost index both edged up in the first quarter of 2015. While many workers are still under-employed or have left the labor force, the drop in unemployment to less than 6 percent could help to put upward pressure on wages.

Full recovery in incomes, however, remains a long way off. At last measure in 2013, the real median household income was 8 percent below the 2007 peak and equivalent to inflation-adjusted levels in 1995 (**Figure 19**). And given that recent income growth has not been shared equally, the setbacks for some age groups have been larger than for others. For example, real incomes for households aged 25–34 are back to mid-1990s levels, while those for households aged 35–44 are at mid-1980s levels. Worse still, real incomes for households aged 45–54 are at their lowest level since the late 1960s.

And although households aged 55–64 did not experience the largest declines, they are the only age group that did not see income growth in 2013. Instead, their median income fell 3 percent last year to stand 7 percent below the 2003 level. Weak income growth among this age group is particularly concerning because these adults are at the stage in life when they should be saving for retirement.

Median incomes for each major racial/ethnic group have also fallen significantly. Although recovering the most (1 percent) in 2010–13, incomes of black households were still nearly 8 percent below their level in 2003. Incomes for Asian and other minority households were down just 1 percent over

this period, leaving their incomes 6 percent below a decade earlier. In contrast, the incomes for whites (up less than 1 percent) and Hispanics (down 1 percent) both stand 4 percent below decade-earlier levels. Overall, the median household income of minorities in 2013 was \$17,600 (30 percent) below that of whites.

The depressed incomes of households in general and of racial/ethnic minorities in particular reflect a shift in the income distribution. Even after accounting for inflation, the number of households earning under \$25,000 rose 18 percent over the decade while the number earning \$75,000 or more was up only 4 percent.

Part of the increase in the number of lower-income households reflects the 14 percent rise in the number of people living alone between 2004 and 2014. Last year, single persons accounted for just 6 percent of households in the top income decile, but fully 58 percent of those in the bottom decile. In contrast, nearly three-quarters of households in the top income decile included two or more earners. Of these top-income households, over 80 percent were married couples.

The trend toward longer work lives should help to lift incomes. More and more older adults are working past the traditional retirement age. As a result, the real median income of households aged 65 and over jumped 18 percent between 2004 and 2013, largely due to increased labor force participation. Some 18 percent of older households were headed by a working adult in 2014, an increase of 5 percentage points since the 1990s.

HOUSING EQUITY AND HOUSEHOLD WEALTH

With house prices on the upswing, home equity is again contributing to household net wealth. According to Federal Reserve Board flow of funds data and taking inflation into account, aggregate home equity was up 8 percent in 2014 and a whopping 60 percent since 2010. By comparison, household net wealth rose 3 percent in 2014 and 22 percent since 2010.

Like income growth, the increases in net wealth have not been equally shared. The Survey of Consumer Finances reports that median household wealth actually fell 1 percent from 2010 to 2013, suggesting that growth was concentrated among households at the top of the distribution. At just \$81,400, median net household wealth is down 40 percent from the 2007 peak in real terms and at its lowest level in more than two decades.

This decline is largely due to the housing market crash. Median home equity in 2013 was 32 percent below the 2007 peak and back to levels in the late 1990s. Hispanics were hit hardest with a 48 percent drop in housing wealth in 2007–13—significantly worse than the 28–30 percent decline among black and white owners. As a result, the real median housing wealth of Hispanic homeowners in 2013 stood 5 percent below the level in 1992.

This drop clearly demonstrates how outsized dependence on home equity as a financial cushion can leave owners—particularly low-income and minority owners—vulnerable to falling prices. Indeed, home equity contributes a disproportionate share (81 percent) of net wealth among the typical owner in the lowest income quartile, compared with just under a quarter (24 percent) among those in the highest income quartile. Housing wealth also represents a much larger share of the net worth of the typical black or Hispanic homeowner (58 percent) than of the typical white homeowner (37 percent).

Even so, home equity remains a key source of household wealth, accounting for \$80,000 of the \$195,500 median net wealth of homeowners in 2013. By comparison, the median net wealth of renters was just \$5,400. The difference in net wealth between owners and renters is particularly stark among low-income and minority households (**Figure 20**).

DECLINING MORTGAGE DEBT

Homeowners continued to pare down their mortgage debt in 2014. The Federal Reserve Board's flow of funds data show that real aggregate mortgage debt totaled about \$9.4 trillion last year, a 2 percent decline from 2013 and a 13 percent drop from 2010. While reflecting in part the ongoing decline in homeownership, the outstanding mortgage balance of the typical owner also fell in 2013, down to \$115,000, or 4 percent below the recent peak.

Older homeowners are one group for which high mortgage debt is still a concern because they are entering their retirement years with declining incomes. More than a third (38 percent) of owners aged 65 and over had mortgages in 2013, up from a little over a quarter in 2001. Moreover, the median amount of debt they carried doubled over this period in real terms. At the same time, the real median equity of older owners in 2013 was down to \$125,000—lower than in any year since 1998. Having less equity and large mortgage payments late in life is a troubling prospect for households on fixed incomes.

STUDENT DEBT ON THE RISE

Even as households shed mortgage debt, consumer debt balances continued to climb last year. According to the Federal Reserve Bank of New York, non-housing debt climbed 6 percent to \$3.0 trillion in 2014—a 12 percent increase from 2004 in real terms.

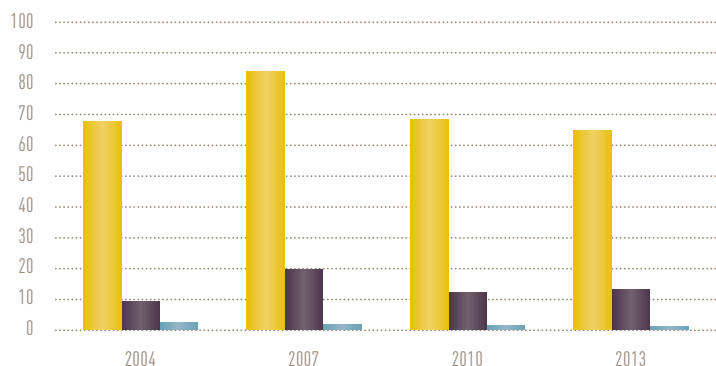
Student loans account for virtually all of this growth. Fully 20 percent of all US households carried student loan debt in 2013, more than double the 9 percent share in 1989. Most of the growth, however, was among younger adults. In 2001, 22 percent of households aged 20–39 carried an outstanding student loan balance. In 2013, that share was 39 percent (**Figure 21**). While nearly two-thirds (64 percent) of younger adults with student loan debt owed less than \$25,000 in 2013, a fifth (19 percent) had balances of at least \$50,000—more than three times the share in 2001.

FIGURE 20

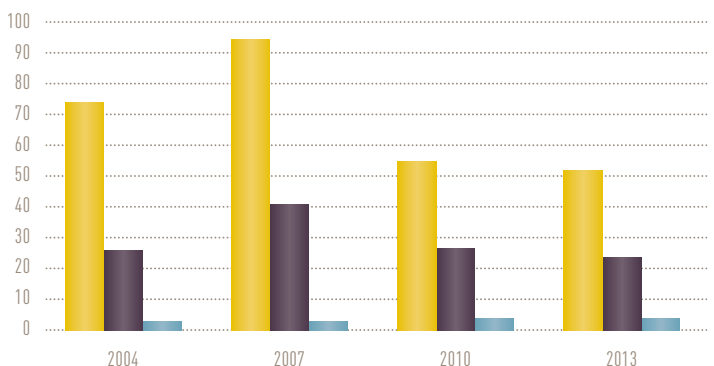
Despite the Downturn, Housing Remains the Primary Form of Wealth for Low-Income and Minority Households

Median Net Wealth (Thousands of 2013 dollars)

Low-Income Households



Minority Households

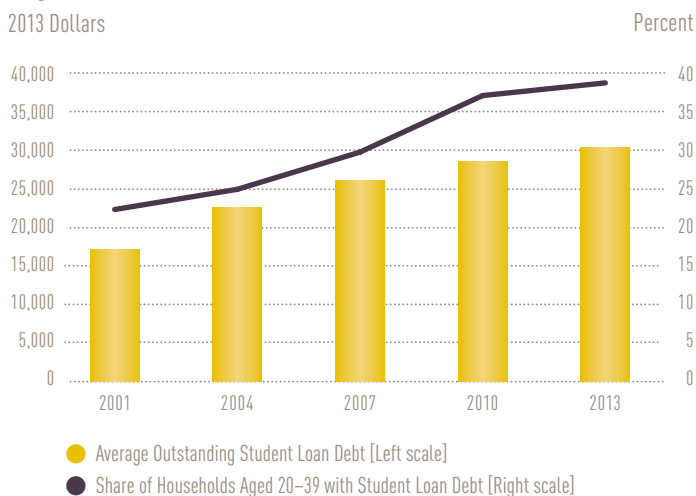


● Homeowner Housing Wealth ● Homeowner Non-Housing Wealth ● Renter Total Wealth

Notes: Non-housing wealth includes cash savings, savings in retirement accounts, and stocks and bonds. Low-income households are in the bottom income quartile based on equal fourths of all households. Values are adjusted for inflation using the CPI-U for All Items. Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.

FIGURE 21

Growing Shares of Young Households Are Carrying Higher Levels of Student Loan Debt



Notes: Student debt is reported for the entire household. Average outstanding student loan balances exclude households without debt.
 Source: JCHS tabulations of Federal Reserve Board, Surveys of Consumer Finances.

Student loan payments often take a significant bite out of household finances. In 2013, 8 percent of all households repaying their student loans had high debt burdens (payments exceeding 14 percent of monthly income). The share of renters aged 20-39 with these debt burdens was especially high at 19 percent. Given that renters already have very modest cash reserves, the growth in student debt burdens further undermines their ability to build savings for emergencies, retirement, or downpayments on homes.

Another concern is the substantial growth in the number of young households with student debt but lacking a degree. Over half of households in their 20s and 30s with student loan debt in 2013 did not have four-year college degrees, and fully 15 percent were in the highly burdened category. Moreover, households are more likely to carry student loan debt later in life. Between 2001 and 2013, the share of households in their 40s still saddled with student loans increased from 11 percent to 23 percent, while the share in their 50s increased from 4 to 9 percent.

THE OUTLOOK

Even if the low household formation rates of 2011-13 persist, changes in the size and age distribution of the adult population imply growth of about 1.2 million households per year in 2015-25. Over this period, the median millennial will move from the 20-24 year-old age group (where just one in every four persons has formed an independent household) to the 30-34 year-old age group (where half of the population lives independently). By 2035, given headship rates similar to those of previous generations, the millennials are expected to form more than 30 million new households. In the near term, though, high student loan debt loads and weak income growth will constrain the ability of these younger households to afford housing, whether they choose to rent or buy.

Meanwhile, the aging baby boomers will lift the number of older households aged 65 and over 42 percent by 2025, and double the number aged 80 and over by 2035. This unprecedented growth in the number of senior households will test the ability of the nation's housing stock to address the spiraling need for affordable, accessible, and supportive units. For those seniors that choose to age in place, rising debt and wealth constraints may leave many retired homeowners struggling to meet their mortgage payments.