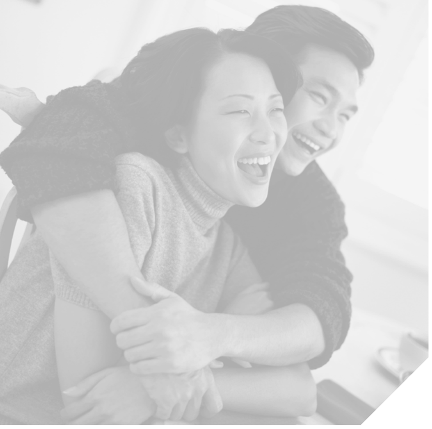
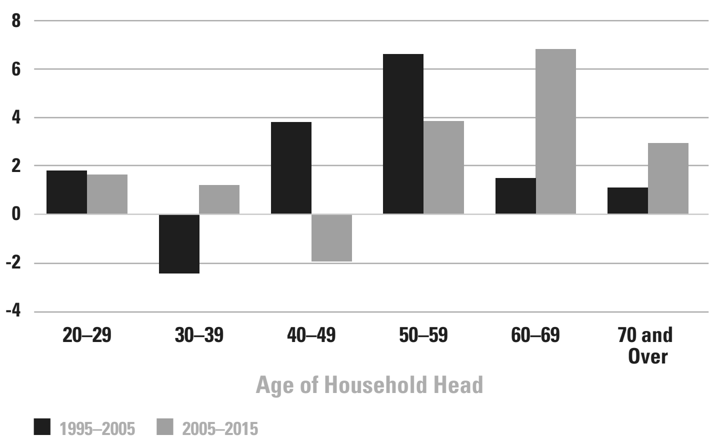


DEMOGRAPHIC DRIVERS

Household growth is picking up pace. With more than a million young foreign-born adults arriving each year, household formations in the next decade will outnumber those in the last decade by a substantial margin. In combination with the aging of the baby boomers and the rising tide of wealth across generations, these demographic drivers should propel housing construction and improvement spending to new heights.

Figure 13 **Over the Coming Decade, the Aging Baby Boomers Will Strengthen the Markets for Seniors Housing and Second Homes**

Household Growth (Millions)



Sources: Census Bureau, Housing Vacancy Survey; Table A-8.

BOOMING HOUSEHOLD GROWTH

Despite a slowdown after the 2001 recession, about 1.37 million net new households have formed each year on average since 2000—over 225,000 more than in the previous five-year period. Much of this growth reflects the influx of immigrants, who continue to add to the ranks of young adults in the prime household-formation ages.

As a result, the Joint Center for Housing Studies recently revised its household projections to correct for the Census Bureau's currently low assumptions about future immigration flows. The new projections assume net immigration will consistently run at 1.2 million annually, rather than at roughly 850,000 as the Census Bureau expects. Under these more realistic assumptions, the Joint Center projections put net household formation at 14.6 million over the next ten years (Table A-8). This not only represents a significant jump from the 12.6 million households added over the past decade, but also a 1.3 million increase over the Joint Center's previous 2005–2015 projections.

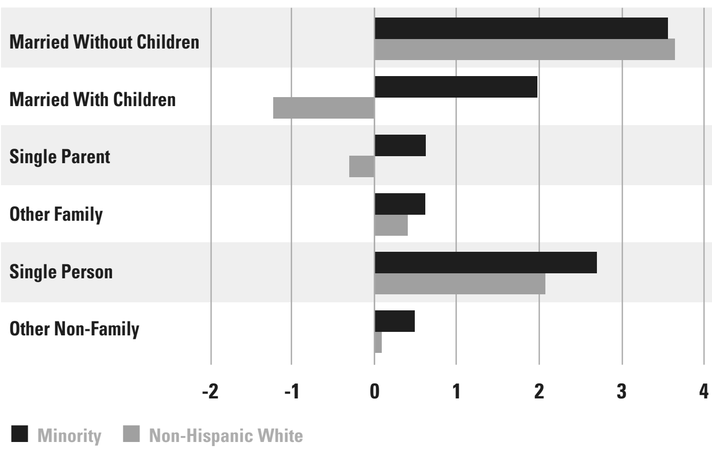
SHIFTING AGE STRUCTURE

As they have since the 1970s, the baby boomers are driving a dramatic shift in the age distribution of households. Over the next ten years, the number of household heads in their 50s will rise by nearly four million while the number in their 60s will increase by seven million (Figure 13). At the same time, households age 70 and over will also grow in number, thanks to longer life expectancy from improved healthcare and nutrition. The growing population of older Americans will intensify demand for second homes, retirement communities for active older adults, and housing that provides personal care and other services for frail seniors.

The baby boomers and older generations will not, however, contribute at all to the net gain in households. To the contrary, at current mortality rates, 14.4 percent of 50 year-old men and 9.2 percent of 50 year-old women will not live to age 65. With most of these losses occurring after age 60, net household growth is expected to slow after 2010 as the leading edge

Figure 14 **Minorities Will Drive the Growth In Most Household Types**

Projected Change in Households, 2005–2015 (Millions)



Note: JCHS projections assume 1.2 million annual average net immigration.
Source: Masnick and Belsky, JCHS Research Note N06-1, March 2006.

of the baby boom reaches age 65—assuming that immigration does not exceed its 1.2 million projected pace.

Young adults will generate all of the expected growth in households. Increasingly, these 20 to 39 year-olds are minorities, immigrants, and the US-born children of immigrants. Indeed, the foreign born alone contributed 37 percent of the net growth in households from 1995 to 2005, bolstering the market for entry-level housing. At last measure in 2002–2003, 17 percent of first-time homebuyers and 15 percent of apartment renters were foreign born. As the share of immigrant households in their 20s and 30s climbs, their presence in these markets will continue to grow. But because many foreign-born households provide financial support for families still living in their native countries, they face special challenges covering the high costs of housing here in the US.

CHANGING HOUSEHOLD COMPOSITION

With the aging of the baby boomers and rapid growth in the number of younger minorities, married couples without children under age 18 will account for nearly half of the net growth in households over the coming decade. The rising number of younger childless couples will strengthen the market for smaller homes and rentals, while older empty-nest households will fuel demand for higher-end, trade-up homes requiring little maintenance.

Nonetheless, several demographic forces will combine to make single persons the fastest-growing household type: the echo baby boomers are entering young adulthood, divorce rates remain high and stable, the median age at first marriage continues to rise, remarriage rates are falling slightly, and the number of elderly widows is growing. But because this growth is from a smaller base, single persons will account for fewer net new households (4.8 million) than childless couples (7.2 million).

Fully three-quarters of the increase in single-person households over the next decade will be among those over age 60. Given that most older adults move only for health reasons, these new single-person households are more likely to boost demand for home improvements than for new homes. Still, the 500,000 net growth in single-person households under age 40 should augment the market for apartments in urban environments, as well as for condominiums and other first-time buyer housing.

Together, all other household types—married couples with children and single-parent and other family types—will increase by only 2.6 million in the next ten years. Despite modest growth in numbers, married couples with children will nevertheless contribute significantly to total consumer spending. For every dollar these households spend, childless couples spend only 83 cents, single parents 53 cents, and single persons 48 cents. Meanwhile, the net growth of about 700,000 single-parent and other non-family households under age 40, who have lower average incomes than their married counterparts, will contribute to demand for more modest homes and rentals.

MINORITY GAINS

Over the past decade, strong growth in the number of minority households has helped to offset declines in the number of white households born during the baby bust (1965 to 1974). In fact, the increase in minorities has prevented the total number of households under the age of 40 from falling outright.

Over the coming ten years, minorities are expected to account for an even larger share of household growth—a record 71 percent, up from 63 percent in 1995–2005. These minority households will fuel a roughly 750,000 net increase in the number of married couples with children, which would otherwise post a decline (Figure 14). Even among married couples without children, minorities will contribute nearly half of the household growth over the next decade.

Given the successive waves of immigration over the past 20 years, and the fact that immigrants tend to be young adults, the minority share of each generation is steadily rising. Minorities make up 30 percent of younger baby boomers (in their 40s in 2005), 38 percent of the baby-bust generation, and about 40 percent of echo-boomers. If current trends persist, minorities will account for about 43 percent of the population in their 20s by 2015, with their share increasing to 45 percent by 2025.

HISPANIC MARKETS

Even though Hispanics still represent less than 11 percent of all households, they accounted for 27 percent of net household growth in 1995–2005. Over the next ten years, growth in the number of Hispanic households could exceed the 4.7 million projected increase among non-Hispanic whites.

Topping the list of states with the largest shares of Hispanic immigrant households are California, Texas, and Florida (Table W-10). In 2000, the foreign-born Hispanic share of households in these states ranged from 9 percent to 14 percent (Figure 15). Hispanics are, however, becoming more geographically dispersed as they increasingly settle in distant metros such as New York, Hartford, Chicago, and Providence, as well as a variety of non-metropolitan areas in the South and West. Indeed, while the total number of Hispanic households increased 58 percent during the 1990s, the number living in non-metro areas rose by some 71 percent.

The US-born children of immigrants are an increasingly important factor in the remarkable growth of the Hispanic population. These children represented 9 percent of the entire population aged 10 to 19 in 2005, and 12 percent of all those under the age of 10. US-born second-generation Hispanics are on track to exceed the incomes and educations of their foreign-born parents. Between 1980 and 2000, the Hispanic share of the lower-middle income quartile increased from 6 percent to 10 percent and of the upper-middle quartile from 5 percent to 8 percent. As a result, US-born Hispanics represent a rapidly growing segment of the middle market for housing.

GENERATIONAL DIFFERENCES

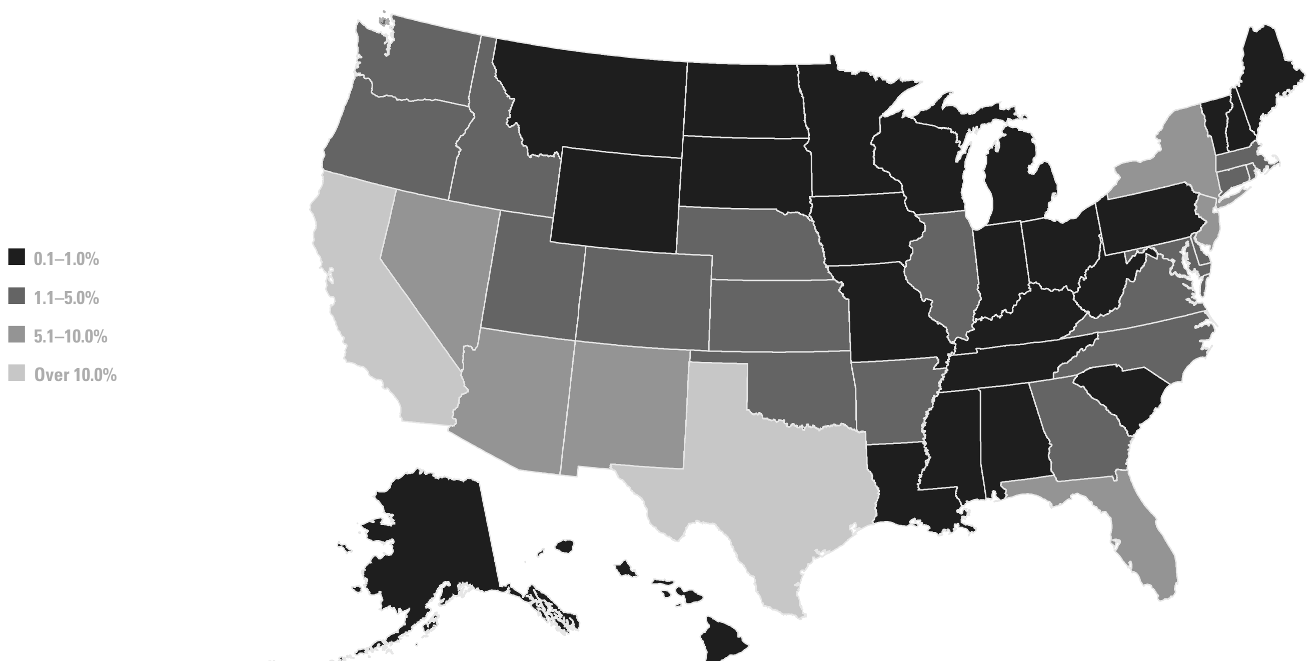
The "average" American household looks very different than it did 40 years ago. With women gaining greater economic independence, divorce more acceptable, and couples delaying marriage, each generation has larger shares of single-person households, non-family households, and dual-earner married couples than the one before at comparable ages.

Meanwhile, gains in productivity and educational achievement, together with the growth in two-earner households, have led to progressively higher household incomes. Indeed, over just the past ten years, increases in the median household income of each age group ranged from about $1,100 to nearly $5,600 after adjusting for inflation (Figure 16).

The biggest increase has been among households with heads aged 60 to 69 in 2005. Many of these households have postponed retirement thanks to improved health and less physically demanding work, while others are benefiting from higher Social Security and pension payments because both spouses had jobs.

Figure 15 **Hispanic Immigrants Account for Large Shares of Households in Several States**

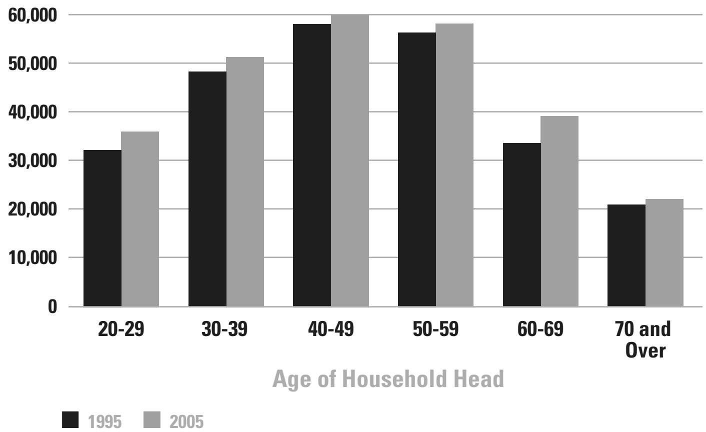
Hispanic Immigrant Share of Households, 2000



Note: Hispanics may be of any race.
Source: Table W-10.

Figure 16 Each Generation Is Setting New Records for Income…

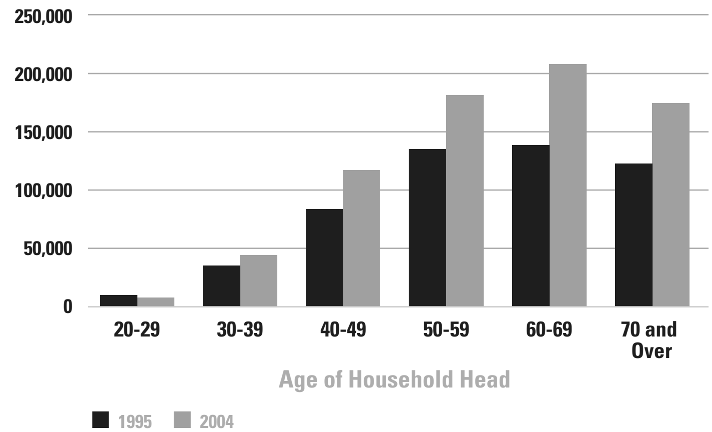
Median Household Income (2005 dollars)



Note: All dollar values are adjusted for inflation using the CPI-UX for All Items.
Source: JCHS tabulations of the 1995 and 2005 Current Population Surveys.

…And Especially for Wealth

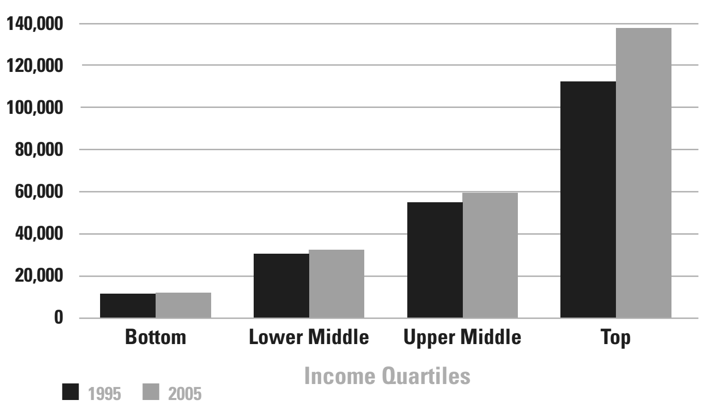
Median Net Wealth (2004 dollars)



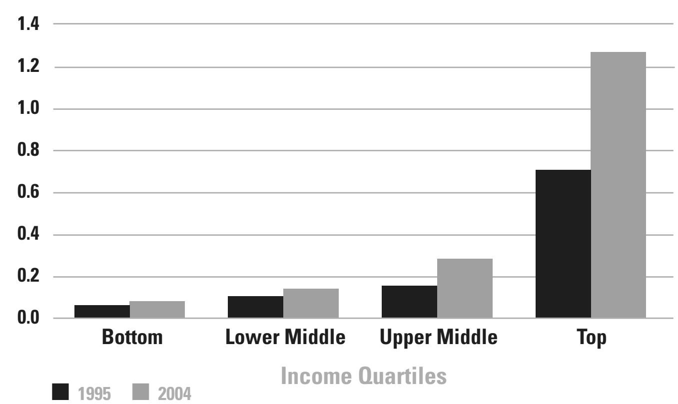
Note: All dollar values are adjusted using Survey of Consumer Finances methods.
Source: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

Figure 17 …But Household Incomes and Wealth Are Growing Strongly Only at the Top

Average Income (2005 dollars)



Average Net Wealth (Millions of 2004 dollars)



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Income values are adjusted for inflation using the CPI-UX for All Items. Wealth values are adjusted for inflation using Survey of Consumer Finances methods.
Source: JCHS tabulations of the 1995 and 2005 Current Population Surveys, and the 1995 and 2004 Surveys of Consumer Finances.

With higher incomes than previous generations at the same age, these seniors have contributed to the demand for more expensive primary homes as well as second homes.

Younger generations have also seen healthy income gains. For two decades now, households in their 40s and 50s have fared better than their predecessors. Since households in these age groups have the highest discretionary purchasing power, their rising income helps to explain the sustained increase in both homeownership rates and housing demand.

Increases among the baby-bust generation, now in their 30s, are more impressive than they seem, with both white and minority incomes up by about $6,000. But because minorities have lower incomes on average and they represent a growing share of this age group, the overall gain appears relatively modest.

Today's households are also wealthier than previous generations at comparable ages. Financial market innovations and rising real incomes have made stock and mutual fund ownership much more common today than ten years ago. Soaring home prices have also added to household wealth. Moreover, today's households have inherited substantial wealth, with the aggregate value of legacies received between 2000 and 2004 estimated at $1.4 trillion.

Together with historically low interest rates, all of these changes have made American households more willing to take on more mortgage debt and carry it later in life. Each successive generation now has more mortgage debt than the previous one at the same age. This willingness has allowed households to spend more on remodeling and/or buy more expensive homes, which in turn has prolonged the current housing boom.

EXPANDING HIGH-END DEMAND

Despite across-the-board gains, households at the top of the distribution have seen by far the most income growth (Figure 17). Today, some 11 million US households have exceptionally high incomes. According to the Survey of Consumer Finances, households in the top tenth of the distribution have incomes that start at about $129,000 and go up from there. In 2004, the median net wealth of this group was a whopping $910,000 and their average net wealth was nearly $2.5 million.

Unsurprisingly, a large fraction of these households own more than one home, and many have rental property from which they derive substantial income. The aggregate equity in their primary residences amounted to $4.5 trillion in 2004 (Figure 18). Depending on the Survey of Consumer Finances definitions used, between 1.7 million and 2.9 million highest-income households own vacation homes, with 1.2 million reporting non-primary single-family or condo units that do not generate rental income. About 200,000 own at least two vacation homes. The top income decile of households also spends the most on remodeling, investing in home improvements valued at $43 billion in 2003.

In the next tier are roughly 11 million households that have incomes starting at $89,000 and median wealth of $297,000. This group spent a total of $27 billion on remodeling in 2003. As a result, the top fifth of households in the income distribution now accounts for 51 percent of all remodeling expenditures, 69 percent of vacation home owners, and 99 percent of those with at least two homes for seasonal or recreational use.

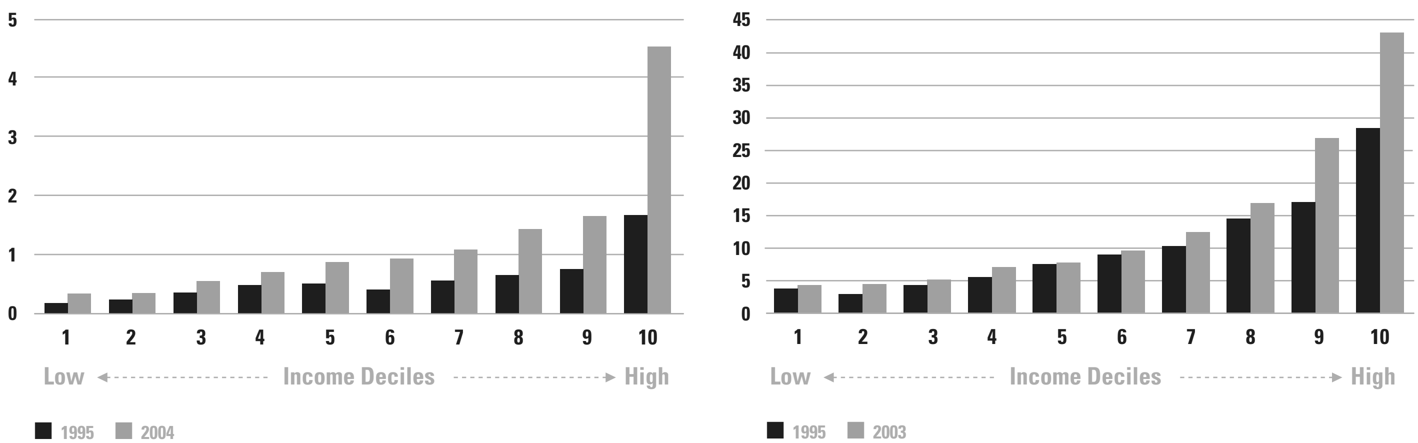
THE OUTLOOK

Demographic trends over the next ten years are highly favorable for home builders, real estate brokers, and the mortgage finance industry alike. Strong household growth, together with rising income and wealth, will likely translate into increased demand for housing across all age groups, a stronger appetite for mortgage debt, and healthy spending on home improvements.

But low- and middle-income households are increasingly giving up share of the expanding national pie to the richest households. As a result of this growing disparity, housing investment will likely be greatest among households in the top tenth of the income and wealth distribution. To expand their overall markets, suppliers of housing and mortgage credit must therefore find new ways to keep housing affordable to families with more moderate means.

Figure 18 **Highest-Income Households Have Increased Their Housing Investment Most…** / **…And Have Driven the Growth in Remodeling Expenditures**

Aggregate Home Equity (Trillions of 2004 dollars) / Aggregate Remodeling Spending (Billions of 2003 dollars)



Notes: Income deciles are equal tenths of all households sorted by pre-tax income. All dollar values are adjusted for inflation using Survey of Consumer Finances methods.
Sources: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

Notes: Income deciles are equal tenths of all households sorted by pre-tax income. All dollar values are adjusted for inflation using the CPI-UX for All Items.
Sources: JCHS tabulations of the 1995 and 2003 American Housing Surveys.