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## Demographic Drivers



Since the Great Recession, fewer young adults are forming new households and fewer immigrants are coming to the United States. As a result, the pace of household growth is unusually slow. Once the recovery gains further momentum, demographic forces should lift the rate of household growth—and, in turn, the demand for housing. Over the longer term, the large echo-boom generation will drive much of this demand, increasing the diversity of the nation’s households.

### **SLOWDOWN IN HOUSEHOLD GROWTH**

While specific estimates vary, the main government surveys all agree that household growth, the primary driver of housing demand, has slowed dramatically since the recession. These sources indicate that just 600,000–800,000 net new households were formed each year between 2007 and 2011, the lowest levels since the 1940s. If annual growth had instead remained in the 1.2–1.3 million range averaged over the four previous years, there would have been at least 1.8 million—and possibly up to 2.8 million—additional US households in 2011.

The pace of household growth is set by headship trends (the rates at which people form independent households) and adult population growth (increases in the number of people at the ages most likely to form new households). The Great Recession and ensuing uncertainty in the economy not only lowered headship rates, especially among younger adults, but also led to slower population growth by inducing a drop in immigration.

The Current Population Survey provides the most conservative estimate of the slowdown in household growth, but also offers additional insight about the relative importance of its two key drivers (**Figure 13**). According to this source, the native-born population accounted for about 61 percent of the fall-off, reducing household growth by a total of 1.1 million in 2007–11 relative to the previous four years. Lower headship rates were responsible for virtually all of the slowdown in household formations for this group, with shifts of the population into older age groups providing only a modest offset.

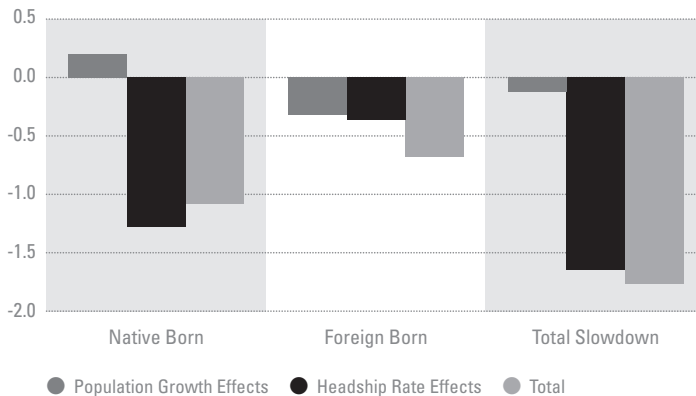
The largest declines in headship rates were among under-25 and 25–34 year-olds, with both age groups contributing about equally to the slowdown. A major factor is that many more members of these two groups lived with their parents rather than on their own. The shares of both age groups living with parents climbed 2.7 percentage points between 2006 and 2010, increasing their combined numbers to one in three. These increases lifted the total number of 18–34 year-olds living with parents by 1.95 million over the period, with fully 1.1 million of these individuals in their mid-20s to mid-30s.

Meanwhile, the foreign-born population accounted for the remaining 39 percent of the decline in household growth in

FIGURE 13

### Lower Headship Rates among Young Native-Born Adults Have Driven the Slowdown in Household Growth

Contribution to Slower Household Growth in 2007–11 (Millions of households)



Notes: Change in household growth is measured relative to 2003–7. To reduce volatility, calculations are based on three-year rolling averages.

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

2007–11, or the equivalent of about 700,000 potential households. Lower headship rates were responsible for slightly more than half of this decline, with the remainder reflecting slower population growth. In addition, all of the drop in household growth among the foreign born was among non-citizens. While the recession undoubtedly played a key role, the recent wave of emigrations and deportations also served to thin the ranks of foreign-born non-citizens living in the United States. Indeed, removals of undocumented immigrants rose by more than 50 percent in 2005–10, while the number apprehended trying to enter the country illegally fell by almost as much.

Assuming that much of the drop in household growth is a response to economic conditions, there may be significant pent-up demand in the housing market. While the drop in net immigration may never be made up for in the future, household formations among younger age groups are likely to recover as the economy picks up. Moreover, headship rates tend to rise sharply among adults in their 20s and early 30s, then increase more gradually through middle age when they converge across generations. The steady march of the large echo-boom population into older adulthood therefore means that millions of new households will form in the coming years even if age-specific headship rates do not rebound and immigration remains subdued.

#### COMPOSITION OF HOUSEHOLD GROWTH

Minorities continue to be the driving force behind household growth, accounting for about three-quarters of the increase

in 2003–7 and two-thirds in 2007–11. Nevertheless, minority household growth slowed 42 percent in 2007–11 from the previous four-year period, while white household growth declined just 16 percent.

The rate of household growth among Hispanics, the largest source of new minority households, was down 52 percent. This decline reduced the Hispanic share of total household growth from well over a third in 2003–7 to just over a quarter in 2007–11. Weaker immigration is clearly the reason. After contributing more than half of total Hispanic household growth in 2003–7, foreign-born householders were responsible for only a quarter in 2007–11. As a group, Hispanic immigrants accounted for 21 percent of total household growth before the recession, but just 7 percent afterward.

Given that the echo boomers are the most diverse generation yet, they and future immigrants will ensure that minorities account for a substantial majority of household growth over the coming decades. Indeed, the Joint Center estimates that seven out of ten net new households in 2010–20 will be minority even if immigration fails to bounce back to pre-recession levels.

#### METROPOLITAN SPRAWL

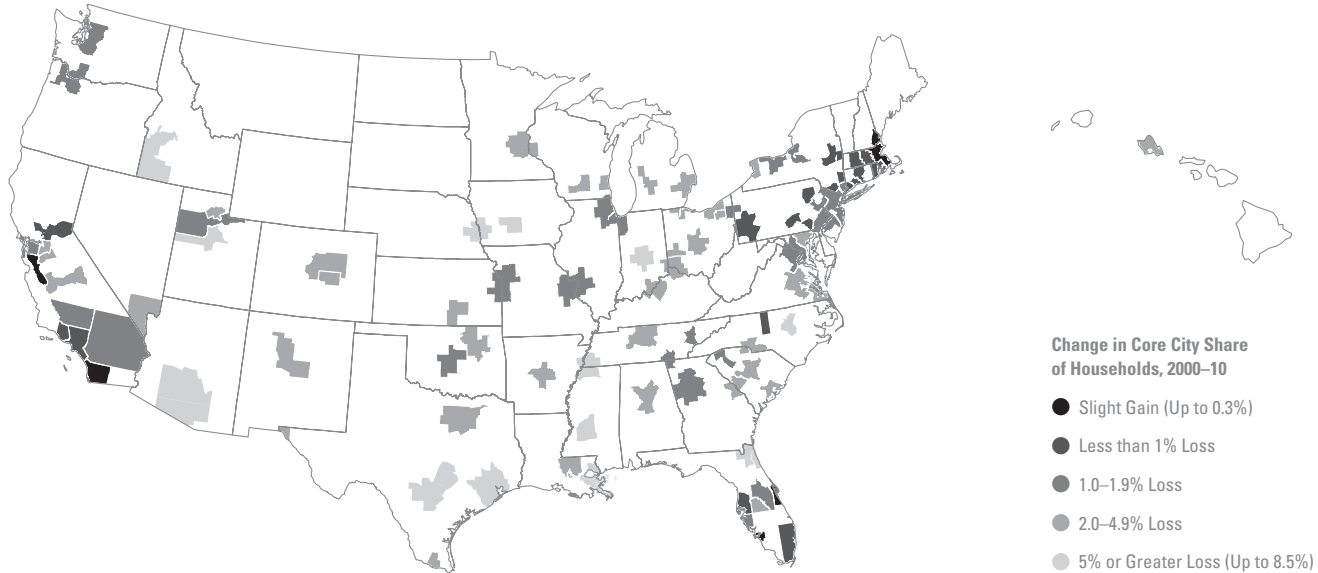
As measured by the Decennial Census, household growth in the 2000s remained largely focused in the suburbs and exurbs of large metropolitan areas. Only 21 percent of household growth was in the city cores of the nation’s 100 largest metros, compared with about 38 percent in suburbs and 41 percent in exurbs. The rate of household growth in the exurbs was 28 percent—more than double the rate in the suburbs and more than quadruple that in city cores. As a result, exurban areas gained share of metro area households over the decade.

Meanwhile, the number of households living in core areas fell in 28 of the largest 100 metro areas and was essentially flat in nine others. At the same time, however, about a third of large metros saw a back-to-the-city movement with double-digit growth in the number of households living in core areas. Despite these solid gains, only five metros—Boston, San Diego, San Jose, Cape Coral, and Palm Bay—posted increases in the share of households living in core cities relative to their suburbs and exurbs (Figure 14).

Minorities are increasingly part of the shift toward suburban and exurban living. In 2010, 47 percent of minority households lived outside of core cities, up from 41 percent just 10 years earlier. As a result, outlying communities became more diverse over the decade, with the minority share of suburban households rising from 23 percent to 30 percent, and of exurban households from 14 percent to 19 percent. The minority share of households living in the urban core also climbed from 45 percent to 50 percent, indicating that racial and ethnic diversity increased throughout America’s metros in the 2000s.

FIGURE 14

## With Few Exceptions, Outlying Areas Were Still Growing More Quickly than Core Cities in the 2000s



Notes: Data include the 100 largest metro areas, ranked by population in 2010. Cores are cities with populations over 100,000. Suburbs are all urbanized areas outside of cores. Exurbs are the remainder of the metro area. Census data do not include post-enumeration adjustments. Source: JCHS tabulations of US Census Bureau, Decennial Census.

Demand for second homes also helped to fuel growth in outlying areas. In 2000–10, the number of homes in the exurbs of the 100 largest metros for seasonal, recreational, or occasional use jumped 37 percent while that of primary residences increased just 26 percent. Second-home production in the exurbs was especially strong in Phoenix (up 61 percent) and Las Vegas (up 124 percent). In other large metros such as San Jose, construction of second homes in the exurbs increased while that of primary residences declined.

The most recent Census Bureau county population estimates indicate that growth of exurban areas largely stalled by 2011 in response to the collapse of the homebuilding industry. But given that much of the undeveloped land in metropolitan areas is located in these outlying communities, there is every reason to believe that the exurbs will once again capture a disproportionate share of growth once residential construction activity revives.

### INCOME AND WEALTH TRENDS

Real net household wealth plummeted \$14.3 trillion from 2006 to 2011, dragged down by a 57-percent drop (\$8.2 trillion) in housing wealth. At the same time, mortgage debt remained close to its peak, reducing home equity from 130 percent of

aggregate mortgage debt to just 62 percent. Home equity now accounts for the smallest share of household net wealth since recordkeeping began in 1945.

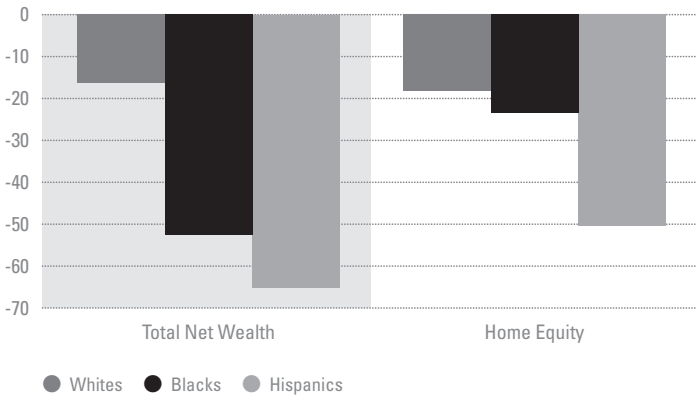
The plunge in housing values was particularly hard on low-income and minority households, both because prices in the low-end market fell the most and because home equity accounted for a particularly large share of minority household wealth when the housing bust began. In 2007, 43 percent of low-income households owned homes but just 17 percent owned stocks. Home equity made up 73 percent of net wealth for these owners on average, compared with just 41 percent for households in the top income quartile.

Hispanic homeowners suffered the largest losses, with median net wealth down 66 percent and median home equity down 51 percent in 2005–9 (Figure 15). This dramatic decline reflects both the large share of net worth that Hispanics derived from home equity in 2005 (65 percent) and the concentration of Hispanic households in states where the housing market bust was severest. As a recent Pew Center study shows, the shares of Hispanic homeowners in four of the five states with the sharpest price declines exceed the national average (Michigan is the exception). For example, the Hispanic share is 21.8 percent in California and 17.6 percent in Arizona, compared with 8.1 percent nationally. And even within these five

FIGURE 15

### Home Equity Losses Took a Large Toll on Hispanic Household Wealth

Percent Change in Median Household Wealth, 2005–9



Source: Pew Research Center, *Twenty to One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics*, July 2011.

period, the median wealth of whites jumped from seven times the median wealth of Hispanics to 18 times.

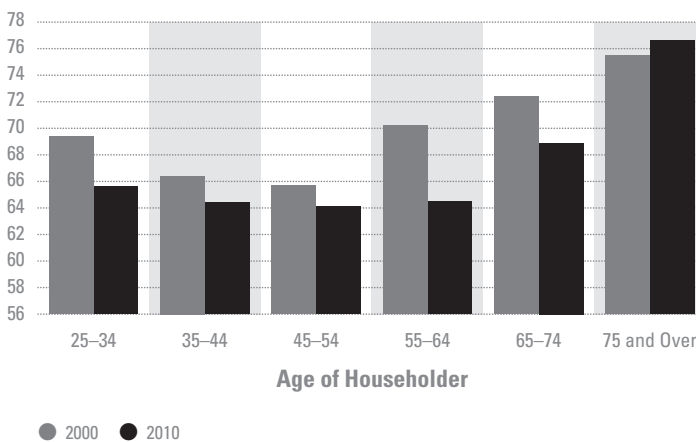
The long-term decline in incomes also added to the financial pressures on households. Real median household income dropped from \$53,200 in 2000 to \$49,400 in 2010, some \$1,700 below the previous cyclical trough in 2004. Declines among householders aged 35–44 and 45–54 were particularly sharp, more than erasing all of the gains since 1990 for these age groups.

The white–minority income gap also expanded during the 2000s for all but the oldest age group (Figure 16). The disparity among younger age groups is especially troubling because it represents a loss of the ground gained during the 1990s. The real median income of minority households aged 25–34 was down 14 percent over the decade, compared with just 9 percent among their white counterparts. As a result, the median income for minorities in this age group fell from 69.4 percent of that for same-age whites in 2000 to 65.6 percent in 2010. Only minority households over age 75 saw stronger income gains than same-age whites, closing about 1.1 percentage points of a nearly 25-point gap.

FIGURE 16

### White–Minority Income Gaps Have Increased for All but the Oldest Age Group

Minority Median Income as a Percent of White Median Income



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

### CHANGES IN HOUSEHOLD MOBILITY

Cyclical factors and overall economic uncertainty have limited the ability of many to buy and sell homes, or otherwise move or form independent households. While a stronger recovery and a reduction in negative equity mortgages would help to stem further declines, demographic forces will keep the pressure on household mobility rates over the next two decades.

The aging of the baby-boom generation is a key factor, lifting the share of older households to a record high. Mobility rates drop sharply with age, and adults over age 65 are almost eight times less likely to move in a given year than those in their 20s. Moreover, the vast majority of baby boomers live in owner-occupied homes, and owners are far less likely to move than renters. What is more, the recession dampened the already low mobility rates of older homeowners: just 1.9 percent of owner-occupants aged 65–74 in 2011 had changed residences within the previous year, down from about 3.3 percent in 2007. Mobility rates for homeowners aged 75 and over also fell somewhat over the decade, from 1.9 percent to 1.6 percent. Even if mobility rates among older homeowners return to previous levels, though, the vast majority of baby boomers will likely age in place.

states, Hispanics and blacks lost significantly more equity (72 percent) than white homeowners (52 percent).

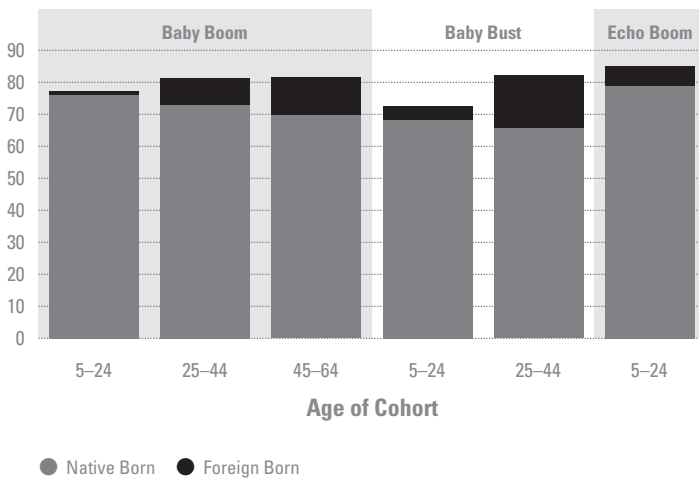
As a result, the wealth gap between whites and minorities continued to widen. In 2005, the median wealth of white households was 11 times that of black households. At last measure in 2009, the differential had increased to 20 times. Over the same

Older households are most likely to dissolve because of death or infirmity, which means that their homes are added to the available housing stock. Given that they currently occupy more than 46 million homes, the baby boomers will therefore have a major impact on housing markets when they die or are unable to live on their own. But over the last decade, the majority of household dissolutions were among seniors that were already over age 75 in 2000. With the oldest baby boomers just 55–64 in 2010 and most only 45–54, the majority of this generation

FIGURE 17

### Even Without Strong Immigration, Echo Boomers Already Outnumber Previous Generations at Similar Ages

Number of Persons (Millions)



Notes: Members of the baby-boom generation were 45–64 in 2010, 25–44 in 1990, and 5–24 in 1970. Members of the baby-bust were 25–44 in 2010 and 5–24 in 1990. Members of the echo-boom generation were 5–24 in 2010. Source: JCHS tabulations of US Census Bureau, Decennial Censuses.

will continue to live independently for at least another 20 years. Furthermore, as medical innovation extends lifespans, household loss rates due to death or infirmity may fall and delay the dissolution of most baby-boomer households beyond 2030.

#### THE OUTLOOK

Two main demographic drivers of household growth—headship rates and immigration—remain depressed. But the third driver, a growing and aging adult population, continues to play a positive role in housing markets.

In the short term, it is uncertain when household formation rates among young adults will rebound and if immigration will return to pre-recession levels. Other potential sources of pent-up housing demand—such as families that have lost their homes to foreclosure and are temporarily doubling up

with others—are also difficult to estimate. Nevertheless, the amount of pent-up demand could be significant. For example, if today’s young adults had formed households at the same rate as before the recession, there would now be an additional 1.3 million US households.

Over the longer term, trends in population growth and immigration should balance out any short-run fluctuations in household headship rates. At 84.7 million strong in 2010, the echo-boom generation is already larger than the baby-boom generation at similar ages and is likely to grow even larger as new immigrants arrive (Figure 17). The oldest of the echo boomers, who turned 25 in 2010, are only now beginning to form their own households. This large cohort will be the primary driver of new household formations over the next two decades. Meanwhile, the baby boomers will continue to push up the number of senior households for years to come as they replace the much smaller pre-boom generation in the older age groups. While the boomers will eventually release a large number of housing units onto the market, this process will not be a significant issue for another 20 years.

Immigration remains a wildcard. Future inflows of foreign-born households depend on economic conditions and unmet demand for labor, as well as potential reform of immigration laws. Demographic and economic conditions abroad also play a role, given that lower birth rates and improved job opportunities keep more would-be immigrants in their home countries. More certain is the impact of the native-born children of immigrants who are already in the country. In 2010, 18.3 percent of Americans under the age of 25 were born to immigrant parents, up from only 5.7 percent in 1970. Indeed, US-born children of immigrants have already added significantly to the size of the echo-boom generation.

Even under a low-immigration scenario (half the level in the Census Bureau’s mid-series population projection), the Joint Center expects the echo boomers to number 85.1 million by 2020. This compares with 90.4 million in the Census Bureau projection. The baseline for household growth in 2010–20 therefore ranges from 11.8 million to 13.8 million even without accounting for any pent-up demand. After averaging less than two-thirds of that pace on an annual basis since 2007, household growth will ultimately have to increase substantially just to return to this long-run trend.