

CHANGING DEMOGRAPHICS AND HOUSING CHOICES: NATIONAL TRENDS

Demographic trends and the recession and how they affect housing choices

Demographic trends and reactions to the recession are combining to redefine the future of homeownership, renting and the suburbs in America. Trends that were identified in the 2000 and 2010 Censuses, have been magnified by the recession, and are now assured to redefine the housing landscape.

- *Households will be smaller, and more likely to be headed by women;*
- *Baby-boomers will continue to redefine retirement, living longer and demanding a wider range of housing choices than their parents did, including downsizing to walkable urban areas, “lifestyle renting” (explained further below), or aging in place;*
- *Younger baby-boomers in their prime earning years, and years away from retirement, saddled with underwater mortgages and declining home values, are not able to move to where the jobs are;*
- *“Empty nesters,” couples whose children are no longer at home, will continue to grow in number, especially among Asians and Latinos;*
- *Generation Y, the children of the baby boomers, will continue to be drawn to diverse, walkable suburbs and urban areas in large numbers;*
- *Foreign-born residents, legal and illegal, will increase at a faster rate than any other segment of the population, mostly due to their American-born children and grandchildren;*
- *The American-born children of immigrants, (second generation immigrants) will surpass not only their parents in education and income, but also native-born Americans in their age group, and will dominate the housing market with their numbers and their preferences, which generally match those of Generation Y;*
- *Second generation immigrants and Generation Y will create a wave of household formations (when new, independent households are formed) even larger than the wave created by baby-boomers, and*
- *Homeownership levels are now reduced to levels of the 60s, 70s and 80s and will never return to pre-recession levels, but renting is strong and demand for rental housing may outstrip supply as early as 2012.*

The 2000 and 2010 Censuses revealed that the American household is changing, illustrating a striking divergence from the “typical” household defined as two-parents with 2.5 children. Four key trends emerged: the aging of baby boomers, shrinking household sizes, the geographic redistribution of populations between the suburbs and cities, and the growth of minority populations. At the same time, the recession has forced a fundamental shift from the long-held American Dream of homeownership, and younger generations just entering the housing market are more likely to rent longer, and place more emphasis on buying for shelter rather than for investment purposes. These trends, individually and combined, point to the need for a paradigm shift in housing design and community planning.

Smaller families need smaller houses

For decades, the majority of American households consisted of two parents and 2.5 children. Now the majority of households are either married without children, or headed by single persons. Aging baby boomers are adding to this increase, as are marital status trends, such as delayed marriage, higher divorce rates, and lower remarriage rates. The continued growth of unmarried men and women will increase the demand for smaller, more affordable housing options, in both rental and for-sale markets. Housing costs for these households is often more than 50% of monthly income. In addition, the majority of these households are headed by women, and the persistence of the male-female worker earnings gap will exacerbate the financial burden for female-headed households. The traditional family is a shrinking fraction of homebuyers, something the homebuilding industry has been slow to recognize. Only about a third of new households formed consist of a married couple with children. In addition, since the 1950s, even while household sizes have shrunk, the size of the average house has doubled.

The fastest-growing segment in household size recently has been single-person households, most of which are made up of women.

"Housing in America: The Next Decade," Urban Land Institute, 2010

Baby-boomer generation and associated housing trends

For decades, the graph depicting life cycles for American adults assumed a high mortality rate at young age that decreased over time, with relatively few surviving to old age. Advances in medicine and health care have increased adult life expectancies. Low fertility rates and the aging baby-boomer generation is creating a population shift; a significant wave of baby-boomers, individuals currently between 45 and 64, who will account for a quarter of the US population in 2020, and half of the population by 2030. Said another way, there are 78 million baby boomers, the oldest of whom will turn 65 in 2011. From then on, the population of seniors will grow at a faster rate than the total population of the United States. The housing provided for young families with children will not suit these individuals. Many couples whose children have reached the age of 18, called empty nesters, no longer need or want to live in isolated, large, suburban homes. Some of this population is expected to move to communities that fit their lifestyle and life stage, often moving to higher density, urban neighborhoods. A 2009 real estate survey found that 75% of retiring baby-boomers prefer to retire in mixed-age and mixed-income communities in urban settings. Not all will move to the central city, so walkable traditional town centers, or urbanized suburban town centers are likely to see an influx. Many of these baby boomers may defer moving to retirement or life care communities unless they are adapted to meet their preferences. Many baby-boomers are expected to rent multi-dwelling units, contributing to a trend called "lifestyle renting," when people rent by choice and not out of necessity. The change in tax laws that eliminated the capital gains penalty on sale of a primary residence has made renting more attractive to seniors.

Another segment of seniors is expected to push for changes that allow them to “age in place,” or to remain in their large, suburban homes safely and comfortably, with assistance. According to recent surveys, nine out of ten seniors prefer to remain in their homes. Home ownership among this segment of the population is very high, consequently, the baby-boomer tsunami also represents a housing stock maintenance tsunami; as baby-boomers who own homes and wish to remain in them age, their homes age and require increased maintenance. Fixed incomes and increasing medical needs will drive the need for assistance, including assistance with building modifications and medical assistance. Coordinated, comprehensive health and housing services for this population will become more organized, building on current models such as the NORC-SSP, in which Supportive Service Programs (SSPs), are targeted to communities with a large percentage of older persons residing naturally, through evolution rather than design, known as “NORC”s, or Naturally Occurring Retirement Communities. Another option for seniors is new homes specifically designed for their age group, in age-restricted communities that provide different levels of personal assistance.

The recession has revealed two separate cohorts of the baby boomers, the older baby boomers, aged 55 to 64, and the younger group, aged 46 to 54, just entering their prime earning years. The younger group accounts for two-thirds of all baby boomers; only one-third is approaching retirement within this decade. The younger baby boomer group faces distinct challenges, exacerbated by the recession. They have decades before they consider retiring, and their children are likely to be at home, either because they have not left yet, or because they have returned after leaving. Many find their suburban homes “underwater” (when the mortgage has a loan balance exceeding the value of the home), and even those that are not underwater are difficult to sell. For all these reasons, their mobility is hampered, limiting their ability to move to jobs. In addition, these younger boomers purchased their suburban homes from the older baby boomers when they “moved-up,” and now find themselves unable to sell because the move-up market is smaller; there are fewer members of generation X, now in their late 30’s to mid-40’s, to sell to. As younger boomers face flat incomes, lost equity in their homes and a smaller group of move-up buyers, the market for large suburban homes is projected to be weak over the next decade, compounded by oversupply; some reports say that there may be enough large suburban homes to meet market demand for the next decade, despite the growing US population.

Generation Y and associated housing trends

Generation Y, the children of the baby boomers, also known as the echo boomers, the net generation, or millennials, is generally the group of people in their late teens and early 30s, and accounts for about 83 million

The large share of second-generation Americans (children born in the US to immigrant parents) among the echo boomers—more than twice the share in the baby-bust generation and more than three times that in the baby-boom generation—will be important in shaping the characteristics of future households. This is good news in that US-born children of immigrants have incomes and education levels more like those of other native-born Americans than of their parents. In fact, among householders aged 25–64, second-generation Americans typically have higher household incomes than both foreign-born and other native-born households of all races and ethnicities.

“The State of the Nation’s Housing 2010” Joint Center for Housing Studies of Harvard University, 2010

Married couples without children (including empty nesters) will be the fastest-growing household type, followed closely by single-person households. While the number of married couples with children will fall by nearly a million among whites, it will increase by more than a million among Asians and Hispanics.

The State of the Nation’s Housing 2009” Joint Center for Housing Studies of Harvard University, 2009

individuals. As this group has become a dominant force in the economy, numerous reports have tracked their characteristics, revealing a generation that values community, ideas and information, is socially active and keenly aware of climate change and peak oil, and the unprecedented effects these events will have on their generation. According to many reports, they are the greenest generation yet. They value diversity, and don't perceive racial or ethnic differences as barriers, the way the way older generations have; rather, they cluster around educational levels and cultural affinities.

They are economically constrained and will have less money to spend on housing. US Census reports show incomes in this group have fallen 12 percent for men and three percent for women within the last decade. While this group is at the traditional age of highest household formation, or the age when they are most likely to form new, independent households, the rate of US household formation has fallen by more than half in the past two years. In the 1990s, many Generation Y members returned to live with their parents; this has increased due to the recession. Other members of Generation Y share housing costs, or have gone back to school to weather the recession. Some reports have projected that when jobs are available again for this group, they will move into the housing market in force, creating new demand in both rental and for sale housing. According to a 2008 real estate survey, this group wants to live in walkable urban areas, not in the suburbs where they were raised, and they will rent and live in smaller spaces to do so. Generation Y may rent for longer portions of their lives than past generations did, and are disillusioned about homeownership as a way to build wealth, especially since the recession.

Real estate predictions state that in order to attract this generation to buy their first homes, builders will need to offer starter homes that are small, simple, on small lots, well-designed, and built to green energy standards. When they have children, they will look for good public schools. This may mean moving to the suburbs, more likely the older, closer-in and less expensive suburbs or compact town centers, rather than the low-density outer suburbs. Alternatively, they may stay and becoming involved in improving the schools in their urban neighborhoods.

Immigrant populations and associated housing trends

Foreign-born people, both legal and illegal, now account for 40 million residents in the US, and represent 13 percent of the population, and their impact is far greater when their US-born children and grandchildren are included. According to reports, the Latino population, already the nation's largest minority group, is projected to triple in size from its current level by 2050, and, combined with other minorities, will account for over 70 percent of the nation's population growth. This increase is a result of births in the US rather than immigration. Sometime before 2050, non-Latino whites,

The U.S. population is growing at a rate of 2.5 million to 2.8 million people per year. The size of households, however, has been on a long-term decline: it was 4.6 people in 1900, 3.38 in 1950, and 2.6 in 2000. Recently, however, it has begun to increase slowly due largely to immigration.

...lower housing costs often mean higher travel costs and times. On average, low-income households with children that spent less than 30 percent of monthly outlays for housing devoted 4.4 times as much to transportation as those with high housing outlays. Indeed, even those households with affordable housing still had to dedicate over 37 percent of their total outlays to housing and transportation combined.

now a majority population, will become the largest minority, as its numbers increase more slowly than those of other racial and ethnic groups.

The effect of this demographic shift is significant in numbers alone, and when combined with housing preferences and patterns, which are very different from those of non-Hispanic whites, is extremely significant. These immigrants tend to be younger, have larger families and more traditional households. They are more likely to favor large houses because they have larger, multi-generational families living in one house. These households are also more likely to live in poverty, and have lower education levels. Immigrant populations tend to cluster together, and over the last two decades these clusters have moved from the central cities to the suburbs.

Prior to the recession, this group tended to move to the suburbs; now they may want to move to the suburbs, but will find housing too expensive, even after the current drop in prices. Furthermore, the cost of transportation to outer suburbs will wipe out any savings that may be gained in lower house costs. While immigrant populations tend to move to national norms after the first generation, in education, incomes and lifestyles, the recession is likely to slow this transition, delaying growth in immigrants' incomes and wealth.

Post-recession: the future of homeownership, the suburbs and renting

Real estate researchers are emphatic that the age of suburbanization and growing home ownership that characterized US in the postwar decades is over. Demographic trends that were becoming apparent in the two decades before the recession (low immigrant homeownership, Generation Y preferences, and real estate markets favoring urban cores in some cities), combined with specific responses to the recession, have irreversibly altered the dominant pattern of homeownership.

The recession has caused homeownership numbers to decline to the lowest levels in twenty years. Numbers are now in line with homeownership levels of the 60s, 70s and 80s. During the 2000s, homeownership reached an all time high of 69.9 percent (in 2005). There is agreement among researchers that homeownership will probably never return to this level. After the recovery, homeownership may return to pre-1990 levels, to the low 60 percent range. Foreclosures and underwater mortgages (a predictor of imminent foreclosures) will continue to add to the decline in homeownership, and slow appreciation of home value will dampen interest, and add to a widespread pessimism about the value of homeownership. According to the Wall Street Journal in January 2010, 42 percent of people who once purchased a home but don't currently own, don't think they'll ever own again.

More people will stick with renting, either by choice or necessity. A 2010

The percentage of new housing production that is multifamily will increase as production returns because most new households will be members of generation Y and immigrants, both of which will be renting in large numbers. This will be reflected in a decline in the homeownership rate.

...once the economy recovers and household formation resumes, the demand for urban housing will greatly outstrip the supply. This imbalance is likely to continue for the rest of the current decade and beyond. Producing enough urban housing to meet this demand, even in the close-in suburbs, requires infill development, which is time consuming and costly.

survey conducted by the National Apartment Association found that more than 76 percent of people say they would prefer to rent a home than buy one, up from 5 percent in 2009. Reasons cited include having no responsibility for repairs or maintenance, not being affected by unpredictable real estate markets, and not being susceptible to foreclosure.

Construction of rental units is one the strongest real estate markets now, and is predicted to be even stronger in years 2012 through 2014. Much of this rental housing will be in the form of infill. If the economy is recovered by 2014, with unemployment down to 6 or 7 percent, as expected, housing demand, especially rental housing demand, should rebound. However, researchers are concerned that supply will not meet demand in coming years, due to the low rate of multifamily starts now.

Trends all point to a demand for urban housing, in the form of compact infill housing, for rent and for sale, close to affordable transportation. Producing enough urban housing to meet the demand will be a significant challenge for many towns, cities and suburbs. Removing barriers to infill is important now. Otherwise, members of Generation Y and second generation immigrants will be forced to move to outer suburbs, instead of to the urban and walkable suburban town centers that they would choose if the housing there were available and affordable.

With the share of minority renters rising, demand for larger and more child-friendly units is likely to increase. On average, minority renter households include 2.8 persons and white renter households include 2.1. Even controlling for age, minority renter households are larger. For example, among renters aged 35-44, minority households have an average of 3.2 people, compared with just 2.6 for whites. A major difference is in the number of children present.
The State of the Nation's Housing 2009"
Joint Center for Housing Studies of Harvard University, 2009

(Quotes from Housing in America: The Next Decade," Urban Land Institute, 2010, unless otherwise noted)

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