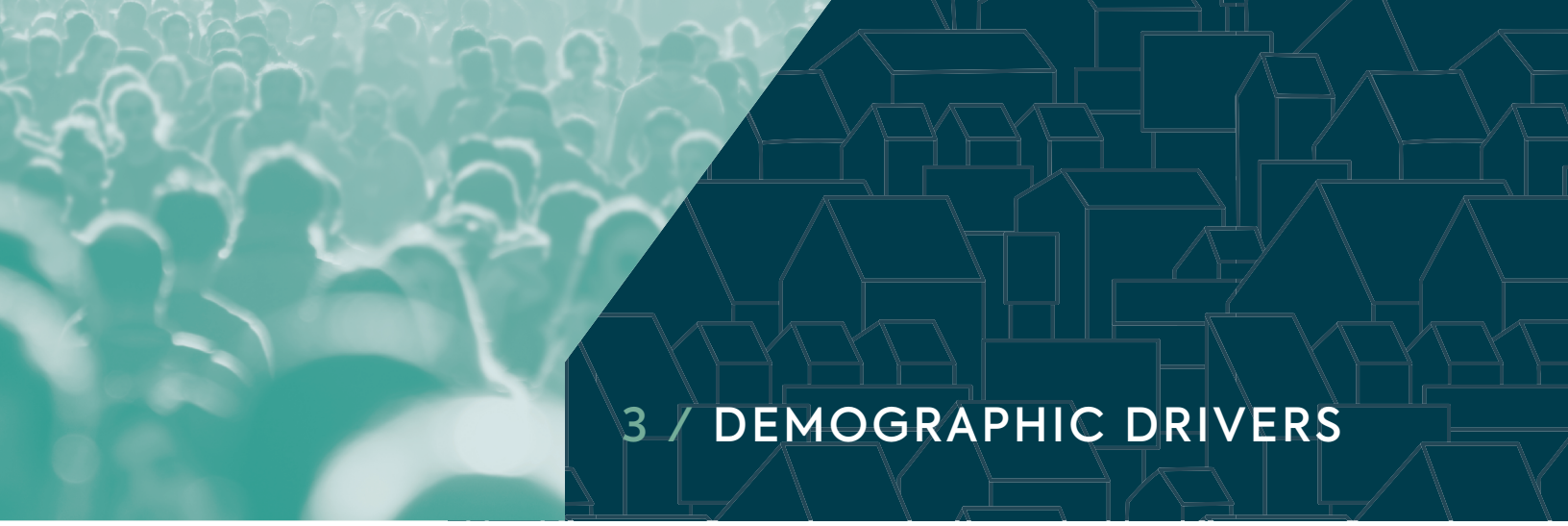


# 3 / DEMOGRAPHIC DRIVERS

Supported by rising incomes, household growth is now back to levels more in keeping with adult population growth. Even so, high housing costs have prevented many young adults from living on their own, especially in expensive metros. Growing income inequality is another serious drag on household formations. Over the next decade, the fastest-growing household types will be younger families and older empty-nesters—households with very different housing needs. The growing share of foreign-born households will also add to the increasing diversity of demand.

## PICKUP IN HOUSEHOLD GROWTH

All three Census Bureau surveys that provide household growth estimates point to an upturn. The Housing Vacancy Survey (HVS) puts the increase in the number of households in 2017–2018 at 1.5 million, while the Current Population Survey reports similarly strong growth of 1.4 million. Meanwhile, the American Community Survey shows a solid 1.2 million increase in 2017.

Given the volatility of annual data, averaging household growth over three years provides a more reliable picture of trends. Based on HVS estimates, the number of net new households slightly exceeds 1.2 million annually—in line with JCHS projections for 2018–2028 **(Figure 12).** While lower than the 1.4–1.5 million in 2005 and 2006, the current pace of household growth is comparable to annual averages in the 1990s and early 2000s.

With the aging of the US population, the number and share of older households have already set new records. The number of households headed by adults age 65 and over grew by more than 800,000 per year on average in 2012–2017. The 70–74 year-old age group led this growth with a 25 percent increase, while the number of households headed by 65–69 year olds rose by 20 percent. By comparison, the total number of households grew just 4 percent over this five-year period. As a result, more than a quarter of all US households were headed by adults age 65 and over in 2017.

In addition to being older on average, US households are becoming much more racially and ethnically diverse. The younger adults who are now forming households are much more likely to be minorities than their predecessors. In 2018, fully 46 percent of the 18–34 year-old population was Hispanic or nonwhite, compared with 37 percent of 35–64 year olds and just 24 percent of adults age 65 and over. Indeed, given strong growth among younger minority households and increasing losses among older, native-born white households, the minority share of US households is projected to rise from 34 percent in 2018 to 37 percent in 2028 and to 41 percent in 2038.

## THE ROLE OF MILLENNIALS

Millennials, the largest generation in history, are moving steadily into their mid-20s and early 30s—the age groups most likely to

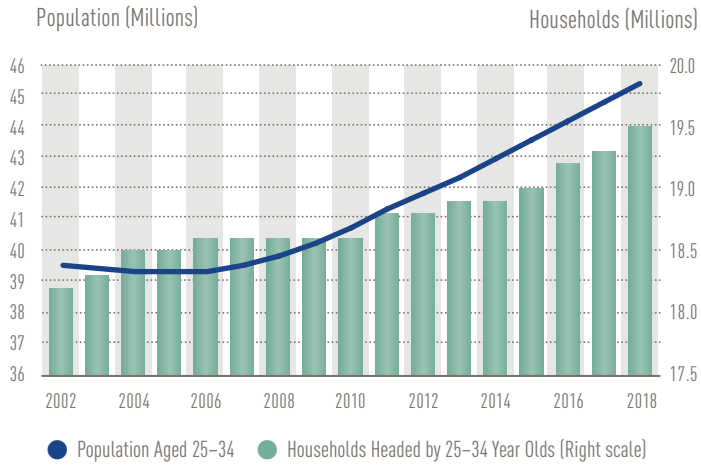
FIGURE 12

## Household Growth Has Stabilized at Early 2000s Levels


Note: Household growth estimates are three-year trailing averages.
Sources: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys; JCHS 2018 Household Projections.

FIGURE 13

## The Number of Young-Adult Households Is Finally Increasing in Line with Population Growth




Note: Population and household estimates are three-year trailing averages.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys and National Population Estimates.

form new households. Household growth among these young adults has recently begun to increase in line with population growth, with annual gains of nearly 200,000 on average since 2015 **(Figure 13).** Measured as a three-year moving average, the US population aged 25–34 grew by 14.7 percent in 2002–2018 to a record high of 45.3 million, while households headed by someone in this age group increased by just 1.3 million (7.1 percent) over this period—about half the number that population growth alone would imply.

The recent pickup in young-adult household growth reflects a firming of, but not a rebound in, the household headship rates of 25–34 year olds (the ratio of households to people), which have trended down since the mid-2000s. Census data indicate that their headship rates dipped again in 2018, down 0.1 percentage point to 43.1 percent. The Current Population Survey reports similarly low rates for both the 25–29 and 30–34 year-old age groups. And by the latest American Community Survey count, headship rates for 25–34 year olds hit a record low of 40.2 percent in 2017.

Part of the explanation for this decline is that more young adults still live at home. In absolute terms, 10.2 million adults aged 25–34 lived with their parents or grandparents in 2017, or more than twice the 4.8 million in 2000. The share living in their parents' or grandparents' homes also hit a new high of 22.8 percent in 2017, nearly double the 12.1 percent in 2000.

Their record-low headship rates put millennials on a much lower trajectory for forming independent households than previous generations. The question remains whether they will continue along this lower path as they age. If history is any guide, though, headship rates of generations that have been slow to form households eventually catch up to those of their predecessors by age 40. What is different today, however, is that housing in many areas has become so expensive.

### THE HOUSING AFFORDABILITY BARRIER

Although down across the country, household formation rates for young adults have fallen the most in the nation's highest-cost markets. Between 2006 and 2017, headship rates for 25–29 year olds—the age group hardest hit by the Great Recession—dropped 9.1 percentage points in the 25 largest metros with the highest rents, but just 4.9

percentage points in the 25 largest metros with the lowest rents. By comparison, the average decline in headship rates for this age group was 6.4 percentage points across all 100 largest metros and 5.6 percentage points across all other metros. Even in non-metro areas, the drop in headship rates was still substantial at 4.1 percentage points.

The average household headship rate for the 25–29 year-old population ranges widely from just 31 percent in the 25 highest-rent metros up to 41 percent in the 25 lowest-rent metros **(Figure 14).** Headship rates for younger adults living in smaller metros (40 percent) and non-metro areas (39 percent) are comparable to those in lowest-cost large metros.

The differences in headship rates across high- and low-cost metros are smaller among older age groups, suggesting that affordability challenges may delay but not ultimately deter household formations among today's younger adults. Still, headship rates for all age groups are lower in high-cost metros than in less expensive markets. Indeed, doubling up in nontraditional households—such as multigenerational households or unrelated adults sharing space—is more common in expensive housing markets regardless of race, ethnicity, or nativity.

For example, 22 percent of native-born whites aged 25–34 living in high-cost metros reside with parents or grandparents, compared with 18 percent in low-cost metros. Individuals aged 35–44 of all races and ethnicities, whether native- or foreign-born, are also between 1 and 4 percentage points more likely to live with an unrelated adult if they reside in a high-cost metro. Shares of households with multiple workers, particularly lower-wage earners, are also higher in expensive metros. High housing costs thus have an impact not only on household growth rates but also on the types of housing that are in demand.

### INEQUALITY RISING ALONG WITH INCOMES

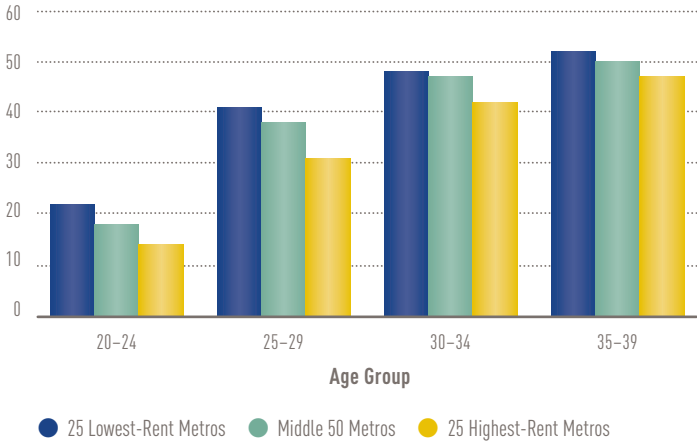
The Current Population Survey reports that median per capita income, measured as a three-year rolling average, rose 2.9 percent in real terms in 2016–2017. This marked the fifth consecutive year of growth. While all age groups posted gains during that period, the largest increases were for 25–34 year olds (up 11.3 percent) and 35–44 year olds (up 11.1 percent) **(Figure 15).**

As a result, incomes for younger households were close to or above previous highs in 2017. For example, the real median income for households headed by 25–34 year olds, at $60,800, stood just 2.5 percent below the peak in 2001, while the median for 35–44 year olds, at $75,800, was 1.1 percent above the previous peak. Although up by some 12.2 percent since 2012, to $78,400, the real median income of households aged 45–54 was still 5.0 percent below the peak in 2000. The real median income for households aged 55–64, at $66,500, is back within 1 percent of the previous peak. Meanwhile, incomes of older households remained on a steady upward trajectory. In fact, rising labor force participation rates boosted the median incomes of households age 65 and over to all-time highs.

FIGURE 14

**High Rents Delay the Ability of Younger Adults to Form Independent Households**

Average Household Headship Rates (Percent)

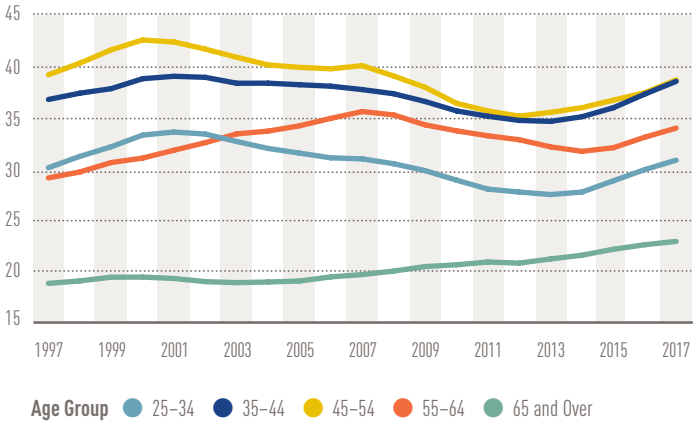



Note: Household headship rates are for the 100 largest metro areas by population in 2017, ranked by median rents.
Source: JCHS tabulations of US Census Bureau, 2017 American Community Survey 1-Year Estimates and Missouri Census Data Center data.

FIGURE 15

**Income Growth Among Younger Adults Has Been Particularly Strong**

Median Real Per Capita Income (Thousands of 2017 dollars)




Note: Incomes are based on three-year trailing averages, adjusted to 2017 dollars using the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys via IPUMS CPS.

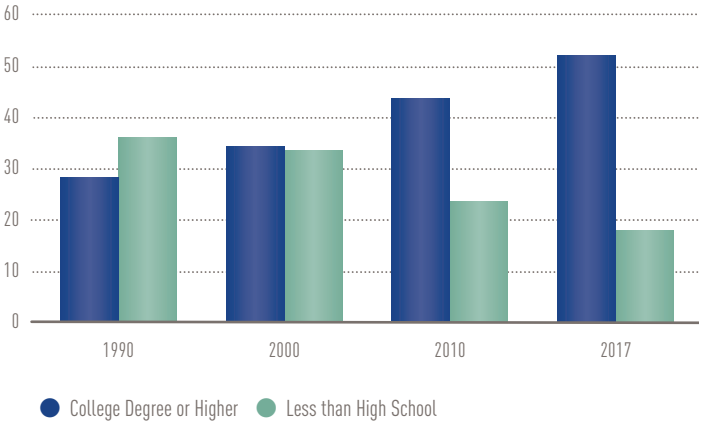
Measured on a three-year trailing basis, the real median household income increased 3.0 percent in 2016–2017 to a new high of $59,700. Broad-based gains since 2013 raised the number of households earning over $100,000 by 6.3 million and reduced the number earning under $25,000 by 1.7 million. The US median household income thus grew 9.8 percent in 2013–2017 while average household income rose 10.3 percent in real terms.

In sharp contrast, the average incomes of households in the bottom quartile have improved relatively little during the recent recovery—up just 8.0 percent in real terms from the 2014 low, compared with 12.1 percent among households in the top income quartile. Given this disparity in growth and the fact that bottom-quartile incomes fell more than top-quartile incomes during the downturn, the gap between high- and low-income households continued to widen.

FIGURE 16

## Recent Immigrants Today Are Better Educated than Their Predecessors...

Share of Recent Immigrants by Educational Attainment (Percent)

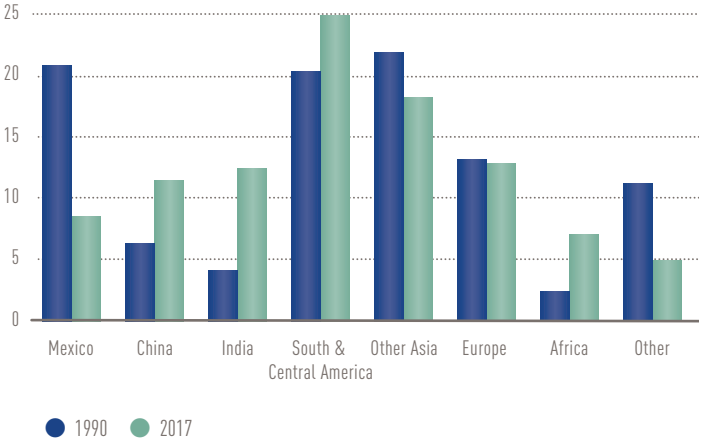



Notes: Recent immigrants in 1990 and 2000 entered the US within the previous five years. Recent immigrants in 2010 and 2017 arrived within the previous year. Data include only foreign-born adults age 25 and over.
Source: JCHS tabulations of US Census Bureau, Decennial Censuses and American Community Survey 1-Year Estimates via IPUMS USA.

FIGURE 17

## ...and Originated from a Different Mix of Countries

Share of Recent Immigrants by Birthplace (Percent)




Notes: Recent immigrants in 1990 and 2000 entered the US within the previous five years. Recent immigrants in 2010 and 2017 arrived within the previous year. Data include recent immigrants of all ages. South & Central American numbers include Cuban and Caribbean immigrants. Other birthplaces include Australia, New Zealand, Canada, Atlantic and Pacific Island countries, Puerto Rico, and other US territories.
Source: JCHS tabulations of US Census Bureau, Decennial Censuses and American Community Survey 1-Year Estimates via IPUMS USA.

Adjusting for inflation, the average income in the top quartile rose 38.5 percent between 1987 and 2017, while the average income in the bottom quartile increased just 2.3 percent. Over the three decades, the average top-quartile income therefore increased from 9.2 times the average bottom-quartile income to 12.4 times.

### THE INCREASING CONCENTRATION OF POVERTY

Income inequality across neighborhoods is also increasing. Although down slightly in 2016–2017, the US population living below the official poverty line jumped by more than 35 percent between 2000 and 2017, to 44.8 million. The share of the population living in poverty also rose from 12 percent to 14 percent over this period.

At the same time, the number of poor people living in high-poverty census tracts (with poverty rates of 20 percent or more) increased by 8.3 million in 2000–2017, to 22.7 million. As a result, the share of the nation's poor living in high-poverty neighborhoods climbed from 43 percent to 51 percent. In addition, the number of high-poverty census tracts rose by 46 percent over this period, to 19,600—more than a quarter of all tracts in the country.

While the largest shares of both poor people and high-poverty tracts are in the highest-density neighborhoods of metro areas, the fastest growth in poverty is now occurring at the metropolitan fringe. Indeed, in the lowest-density third of all neighborhoods, both the number of high-poverty census tracts and the number of poor people living in high-poverty tracts doubled between 2000 and 2017.

The geographic concentration of poverty differs sharply by race and ethnicity. Fully 70 percent of poor blacks and 63 percent of poor Hispanics live in high-poverty neighborhoods, compared with just 35 percent of poor whites and 40 percent of poor Asians. But the overrepresentation of various racial/ethnic groups in high-poverty tracts is not confined to the poor. Some 48 percent of all blacks and 41 percent of all Hispanics live in high-poverty neighborhoods, compared with just 16 percent of all whites and 21 percent of all Asians.

### THE CRITICAL CONTRIBUTION OF IMMIGRATION

The latest Census Bureau estimates show that net international immigration increased 2.7 percent in 2018, to 980,000—just shy of the 1.0 million average annual rate projected for the next 10 years. Although slightly below levels in 2015 and 2016, net annual inflows nevertheless remain well above the 2011 low of 790,000.

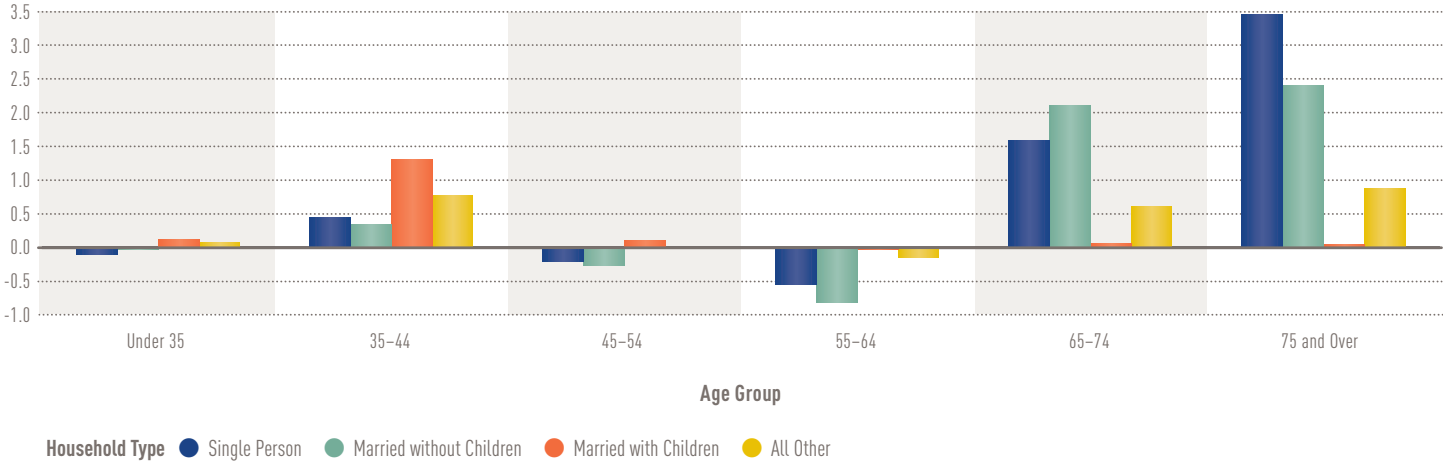
Immigrants are a major source of household growth and therefore of housing demand. Despite making up only 13.7 percent of the population in 2017, foreign-born households were responsible for 37 percent of household growth from 1990 to 2017. The immigrant share of homeowners increased from 7 percent to 12 percent over this period, while the immigrant share of renters increased from 12 percent to 20 percent.

The mix of immigrants continues to evolve. Recent arrivals are more likely to have advanced education, with the share over age

FIGURE 18

## Over the Next Decade, the Fastest-Growing Household Types Will Be Younger Families with Children and Older Single Persons and Empty-Nesters

Projected Change in Households, 2018–2028 (Millions)




Note: Children are under age 18.
Source: JCHS 2018 Household Projections.

25 with college degrees nearly doubling from 28 percent in 1990 to 52 percent in 2017 **(Figure 16).** At the same time, the share with less than a high school education fell from 36 percent to just 18 percent. The main countries of origin have also shifted, with fewer new immigrants arriving from Mexico and more from China, India, South and Central America, and Africa **(Figure 17).**

As the native-born population ages over the coming decades, the number of deaths will rise faster than births and increasingly cut into adult population growth. Immigrants will therefore propel a larger and larger share of both population and household growth in the years ahead. Even assuming that immigration is unchanged, the foreign born are projected to account for a majority of household growth in 2018–2028 and a majority of population growth by 2030.

### THE ADDED IMPACT OF DOMESTIC MIGRATION ON GROWTH

According to the American Community Survey, 7.5 million people made interstate moves in 2017, slightly higher than the 7.2 million annual average from 2010–2017. The number of households making those interstate moves totaled 2.5 million, also slightly above recent annual averages.

Like international immigration, domestic migration can contribute significantly to household growth in certain markets. Indeed, on average, interstate migrants accounted for at least half of household growth in six of the nation's ten highest-growth states in 2010–2017, with shares reaching as high as 63 percent in Colorado and 82 percent in Arizona.

Even in states with net domestic out-migration, the numbers of households moving in were still significant. For example, even though about 30,000 more households moved out of California each year in 2010–2017 than moved in, in-migration still averaged 165,000 households annually. This made California third only to Florida and Texas in terms of gross household moves into the state. In contrast, while 85,000 households moved to New York each year on average during this period, 148,000 households moved out, generating a large net domestic out-migration from the state.

Even so, both California and New York still gained households overall in 2010–2017 thanks to strong inflows of international migrants and household formations among their large resident populations. In fact, California had the third-highest level of household growth in the nation, with an average increase of 85,500 households per year during this period. Of that total, 62,900 resulted from household formations by current residents outnumbering losses of households through dissolutions. Given the aging of the population and the increasing losses of older households, California and other states will therefore have to rely more on domestic and international migrants to generate household growth in the decades ahead.

### ONGOING SLOWDOWN IN RESIDENTIAL MOBILITY

Although the interstate migration rate was stable, within-state or local moves continued their long-term decline in 2017, reducing the US residential mobility rate by 0.2 percentage point, to 14.3 percent. With this latest drop, the national mobility rate now stands a full 2.5 percentage points below the level in 2006 when recordkeeping began.

Roughly 80 percent of all moves in a given year are in-state. According to the American Community Survey, the local mobility rate slipped from 11.5 percent in 2016 to 11.3 percent in 2017 because of fewer in-state moves by renters, who make up the majority of domestic migrants. The population living in rental housing that reported a local move within the previous year fell slightly from 24.8 percent in 2016 to 24.1 percent in 2017. Meanwhile, the domestic mobility rates of people living in owner-occupied housing increased modestly from 7.8 percent to 8.0 percent over the year.

Population aging explains some of the slowdown in domestic migration over the last 20 years, given that older adults are more likely to own homes and less likely to move. However, domestic mobility rates have dropped across all age groups, and particularly among young adults and renters. Moreover, despite relatively low mobility rates, older adults now account for a growing number of domestic migrants. Because of the strong growth in the population age 65 and over, the number of older-adult movers increased from 1.5 million in 1998 to 1.8 million in 2018, raising their share of all movers age 18 and over from 4.9 percent to 7.4 percent over the decade.

## THE OUTLOOK

The latest JCHS projections, incorporating Census Bureau data through 2018, put average annual household growth in 2018–2028 at 1.2 million households, in line with recent averages. The aging of the population will lift the number of households age 65 and over by 11.1 million, which in turn will increase the number of households consisting of either single persons or married couples without children by 8.4 million over the decade **(Figure 18).** Some 2.9 million millennial households will move into the 35–44 year-old age group, contributing to the 1.6 million increase in the number of married couples with children and driving up demand for family housing. Factoring in replacement and second-home demand plus a minimum vacancy rate, these household growth projections imply baseline demand for new housing of 15.1 million units in 2018–2028.

In 2028–2038, however, current JCHS projections indicate that household growth will decline to 9.6 million, or less than 1.0 million per year. Nevertheless, new household formations among younger adults will remain strong, given that the generations following the millennials are nearly as large. This will help to offset growing losses of baby-boomer households over the decade.

The expected slowdown in natural increase (births over deaths) among the native-born population will make immigration an even more critical factor in future housing demand. But unlike natural increase, which tracks the aging of the current population, immigration flows are difficult to predict. Indeed, the Census Bureau's latest population projections cut net annual immigration by roughly 20 percent from previously projected levels, equivalent to 27 million fewer immigrants over the next ten years. Such large increases or decreases in immigration could dramatically alter the outlook for the quantity and diversity of housing demand in the United States.