

# Could the Long Decline in Young-Adult Homeownership Be Nearing an End?

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**“After years of steep declines, the number of 25- to 34-year-old homeowners fell only modestly in 2013 and stabilized in 2014. Strong population growth could soon generate increases in the number of young homeowners, even without much improvement in homeownership rate trends.”**

## Introduction

Driven by demographic and social shifts including changes in the age distribution of the population, longer educational careers, delayed marriage and childbearing, and rising minority population shares, the number of young homeowners has been in decline for decades, with the exception of a growth spurt during the housing boom. The housing bust and the economic turmoil of the Great Recession initiated renewed declines in young homeowners during the second half of the last decade, with the Census Bureau’s American Community Survey (ACS) indicating that the number of owner-occupants between the ages of 25 and 34 plummeted by an annual average of more than 300,000 between 2007 and 2012, despite strong population gains among young adults during this period.<sup>1</sup>

Declines have moderated recently, however, as the number of young homeowners fell by fewer than 100,000 in 2013 and was essentially

flat in 2014. Improvement came as the population of 25- to 34-year-olds continued to grow at a healthy clip, while the decline in the young-adult homeownership rate moderated. Given that the young-adult population is expected to continue expanding rapidly during the second half of the decade, it would take only modest further improvements in homeownership rate trends for the number of young homeowners to return to growth. In fact, even if the young-adult homeownership rate simply stabilizes at the current level, projected population growth would generate increases in the number of 25- to 34-year-old homeowners during the second half of the decade that exceed gains registered during the housing boom period of 2000 to 2005.

Resumed growth in the number of young homeowners could have several housing market implications. For example, gains in young owner-occupants could lead to increased demand for starter homes. Growth in young owners also could increase demand for services and technologies that are designed to serve youthful home buyers as they search for housing and mortgages.

## Young-Adult Homeownership Is Still Declining, But at a Moderating Pace

Young-adult homeownership took a major hit during the housing bust. According to the ACS, the homeownership rate of 25- to 34-year-olds has fallen by nearly 10 percentage points since the overall homeownership rate peaked in 2006.<sup>2</sup> The decline was greater than for any other age group.

The falling homeownership rate was accompanied by large decreases in the number of young homeowners. According to all three principal federal household surveys that track owner-occupancy on an annual basis, the decline in the number of young-adult owner-occupant households exceeded 300,000 annually during the worst

<sup>1</sup> In this *Housing Insights*, “young adults” is used to indicate those aged 25 to 34.

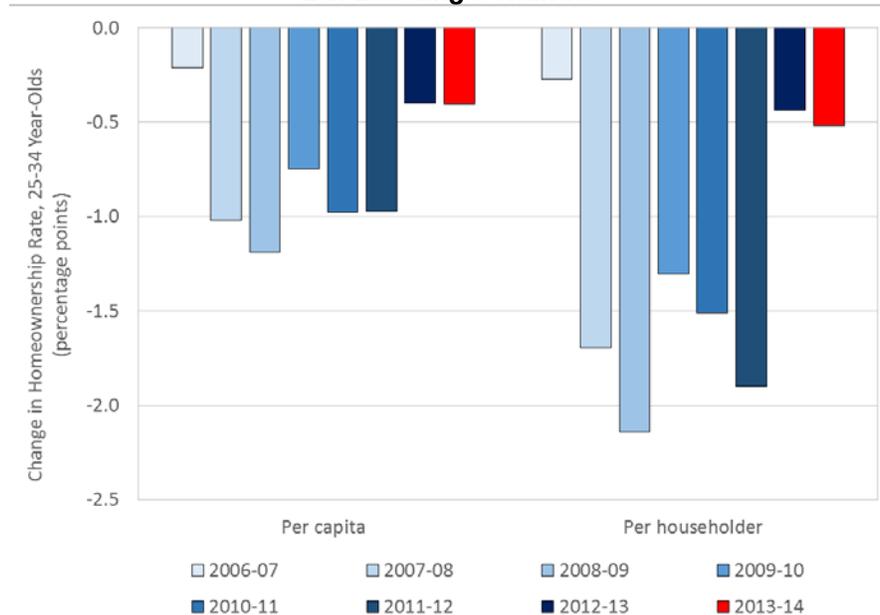
<sup>2</sup> Unless otherwise noted, all historical differences or changes noted in the text are statistically significant at the 90 percent confidence level.

years of the bust.<sup>3</sup> The number of young homeowners dropped despite the fact that the 25- to 34-year-old population has increased every year since 2005, with growth exceeding half a million in several years.

During the last two years, the slide in young-adult homeownership moderated. In both 2013 and 2014, the homeownership rate of 25- to 34-year-olds fell by roughly one-half of a percentage point when measured on a per householder basis, compared with declines exceeding a full point in each of the preceding five years (see Exhibit 1, right panel). Homeownership rate declines also moderated substantially when measured on a per capita basis (left panel of Exhibit 1).<sup>4</sup>

Moderating declines in the homeownership rate have translated into much smaller decreases in the number of young owner-occupants. According to the ACS, the number of homeowners aged 25-34 fell by more than 250,000 in each year between 2007 and 2012, but has declined by less than 100,000 annually since then.<sup>5</sup> In fact, the decline between 2013 and 2014 was statistically insignificant, the first indication of stability in the number of young homeowners since the onset of the Great Recession.

**Exhibit 1. The Young-Adult Homeownership Rate Is No Longer Hemorrhaging, But Bleeding Continues**



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates

## Even Modest Improvements in Homeownership Rate Trends Would Generate Growth in the Number of Young Homeowners

Strong population growth among young adults is likely to continue in the near term, with the Census Bureau projecting that the population aged 25-34 will increase by an average of nearly 500,000 per year in the second

<sup>3</sup> In addition to the ACS, the Census Bureau's Housing Vacancy Survey and Current Population Survey – Annual Social and Economic Supplement provide annual data on homeownership. The Census Bureau's American Housing Survey is conducted biennially.

<sup>4</sup> The homeownership rate is measured in two ways. The per capita rate is the number of owner-occupant householders aged 25-34 divided by the total population of that age. (A householder is typically the person, or one of the persons, in whose name the housing unit is owned, being bought, or rented). The per-householder rate retains the same numerator, but uses the total number of householders aged 25-34 as the denominator.

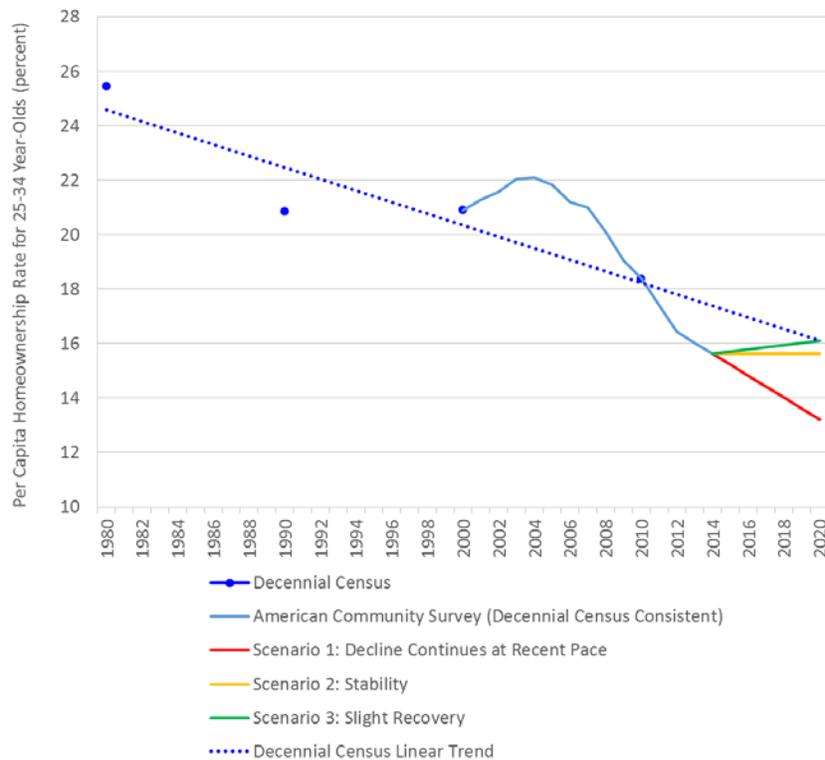
<sup>5</sup> The ACS is more suited for measuring changes in proportions than in counts, partly because the Census Bureau does not revise previously released ACS data when it updates and revises the independent housing unit estimates that are used as control totals for ACS estimates. To help address this issue, historical estimates of the number of young owner-occupants from the ACS were re-estimated by applying per-capita and per-housing-unit rates of owner-occupancy among 25-34 year olds as observed in the ACS to current time-series estimates of the 25-34 year-old population and of the total housing stock. Although re-estimation led to some significant differences in annual change estimates, the general trends described in this *Housing Insights* held.

half of the decade.<sup>6</sup> Given these strong underlying demographics, it won't take much additional improvement in homeownership rate trends to create gains in the number of young owner-occupants.

To illustrate how even small improvements in homeownership rate trends could translate into renewed growth in young owner-occupants, this edition of *Housing Insights* develops several projections based on the Census Bureau's population data and alternative future paths for per capita homeownership rates of 25- to 34-year-olds. Forecasting future homeownership rate change is uncertain, and thus the projections presented here simply assume three paths in which rates: 1) continue to decline at the pace observed between 2012 and 2014; 2) remain constant at 2014 levels; or 3) recover slightly, returning by decade's end to the trend-line established by the last four decennial censuses (see Exhibit 2).

In the first scenario (red line of Exhibit 2), the per capita homeownership rate for 25- to 34-year-olds would fall by an additional 2.4 percentage points between 2014 and 2020, leaving the rate 9 points below the recent peak in 2004 and at roughly half the 1980 Census level.<sup>7</sup> Under the third scenario (green line of Exhibit 2), the per capita rate would increase by only one-half of a percentage point between 2014 and 2020, returning the rate to the long-term trend line established by the 1980-2010 Censuses, but still leaving the rate fully 6 percentage points below the recent high-water mark registered in 2004 and nearly 10 points below that measured in the 1980 Census.

**Exhibit 2. Three Assumed Future Homeownership Rate Paths for Young Adults**



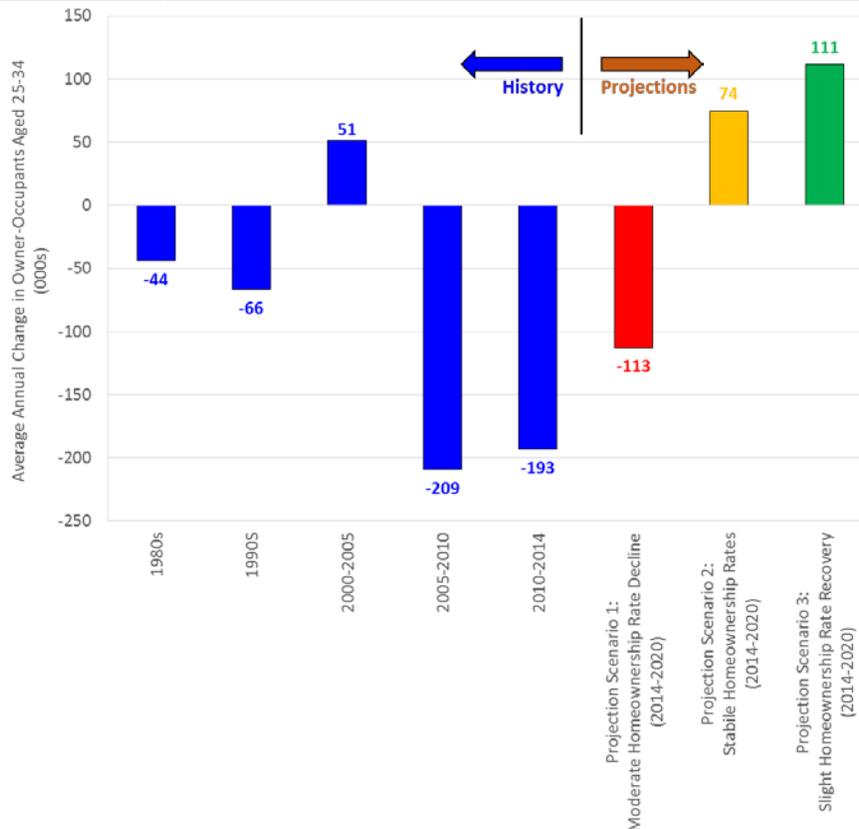
Source: U.S. Census Bureau: Decennial Census, American Community Survey 1-Year Estimates, and Population Estimates

<sup>6</sup> U.S. Census Bureau, *2012 National Population Projections*, Table 1: Projected Population by Single Year of Age, Sex, Race, and Hispanic Origin for the United States: 2012 to 2060 (Middle Series). This *Housing Insights* uses the Census Bureau's 2012 vintage population projections, which are more conservative with respect to projected immigration, and thus projected population growth among 25-34 year olds, than are the Census Bureau's 2014 vintage projections.

<sup>7</sup> The ACS data shown in Exhibit 2 have been adjusted to make them consistent with the decennial census. For 2000 to 2010, the adjustment involved multiplying each ACS annual change estimate by the ratio of the full-decade decennial census change to the full-decade ACS change, and using the resulting annual increments to generate a time series connecting the decennial census data points. For 2010 to 2014, per capita homeownership rates were obtained by starting from the 2010 Census estimate and adding annual changes observed in the ACS to create postcensal estimates. Between 2000 and 2005, the ACS covered only the household population. Thus, to make per capita homeownership rate estimates for this period consistent with data from later years, the 2000-2005 ACS estimates of the number of owner-occupants aged 25-34 were divided by intercensal resident population estimates from the Census Bureau's Population Estimates Program.

Applying the three homeownership rate paths to the Census Bureau’s population projections yields several alternative scenarios for future growth in the number of young owner-occupants (Exhibit 3). Should homeownership rates continue to fall at the current pace (Scenario 1), the number of young owner-occupants would fall by an average of 113,000 annually between 2014 and 2020, a somewhat faster pace of decline than observed in the past two years. Should rates merely stabilize (Scenario 2), strong population growth would generate an increase of about 74,000 young homeowners per year, a slightly faster pace of increase than registered during the housing boom period of 2000 to 2005. And if rates were to recover just slightly (Scenario 3), young homeowners would increase by approximately 111,000 per year, a pace of growth twice that observed during the boom. These last two scenarios demonstrate how even small improvements in homeownership rate trajectories could generate gains in young owner-occupants in coming years.

**Exhibit 3. Even Modest Improvements in Rate Trends Would Generate Increases in Young Owners**



Source: U.S. Census Bureau: Decennial Census, American Community Survey 1-Year Estimates, Population Estimates, and Population Projections; Fannie Mae Economic & Strategic Research Group projections

## The Prospects for a Turnaround in Young Homeownership

Which of these projection scenarios is most likely to occur? It’s difficult to predict, but given steady labor market improvements, nascent income growth, and persistently strong aspirations for homeownership among young adults, stability or modest improvement in homeownership rates is certainly plausible.<sup>8</sup> Recent efforts to

<sup>8</sup> According to data from the U.S. Bureau of Labor Statistics’ household employment survey, the unemployment rate of 25-34 year-olds is now just half a percentage point above its level at the onset of the Great Recession. The employment-to-population ratio for this age group, though having recouped only about half the ground lost during the Recession, has been improving steadily since 2011. The U.S. Census Bureau’s Current Population Survey – Annual Social and Economic Supplement indicates that the real median household income for households headed by a 25-34 year old increased in both 2013 and 2014, although the annual changes were not statistically significant. Finally, Fannie Mae’s National Housing Survey (NHS) indicates that the majority of renters aged 25-34 think that owning makes more sense than renting from a financial and lifestyle perspective and plan to own a home sometime in the future. For a fuller account of the NHS results, see Sarah Shahdad, “Millennials Look to Income Improvements as Key to Unlocking Homeownership,” Fannie Mae *FM Commentary*, August 21, 2015.



expand mortgage credit for first-time home buyers also could help nudge the young-adult homeownership rate in a positive direction.<sup>9</sup>

Resumed growth in the number of young homeowners would stand out from the experience of recent decades, in which declines have been the norm. A return to modest growth in young homeowners could have several implications for the housing industry, including creating the need to adjust the size, type, and geographic location of new housing construction; to expand education and counseling efforts targeted at inexperienced homeowners; and to step up efforts to provide services and technologies suitable for youthful home buyers.

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<sup>9</sup> The Federal Housing Administration's decision to lower annual mortgage insurance premiums and Fannie Mae's and Freddie Mac's expansion of low-down-payment loan offerings are just a few recent examples of government and industry efforts intended to expand credit availability, particularly for first-time home buyers.