

Rent or Own, Young Adults Still Prefer Single-Family Homes

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Introduction

Previous editions of *Fannie Mae Housing Insights* have documented the distinctive housing consumption patterns of today’s young adults, including their reduced rates of household formation and homeownership¹. Another important dimension of housing consumption is the type of structure occupied². A growing body of research challenges popular perception by showing that today’s young adults, like their predecessors, have a strong preference for single-family homes³. This edition of *Housing Insights* extends the existing research by examining the rates at which young households occupy single-family homes across the rental, owner-occupied, and recent

homebuyer markets and by comparing the structure-type choices of young households today with those of young adults prior to the housing crash⁴.

The analysis reveals that householders aged 25-34 were less likely to occupy a single-family home in 2013 than in 2006, at the peak of the last housing cycle. However, the likelihood that a young household occupies a single-family home today is no different than it was in 2000, prior to the housing boom and bust. Moreover, when structure-type occupancy rates are disaggregated by housing tenure (renting vs. owner occupancy), 25-34 year-old homeowners are found to be more likely to reside in a single-family home today than their predecessors, and young renters today are roughly as likely to occupy a single-family home as the preceding generation. Furthermore, 90 percent of 25-34 year-olds who purchased a home between 2012 and 2013 chose a single-family residence, surpassing the rate at which young adults bought single-family homes at the peak of the housing boom in 2005 and 2006.

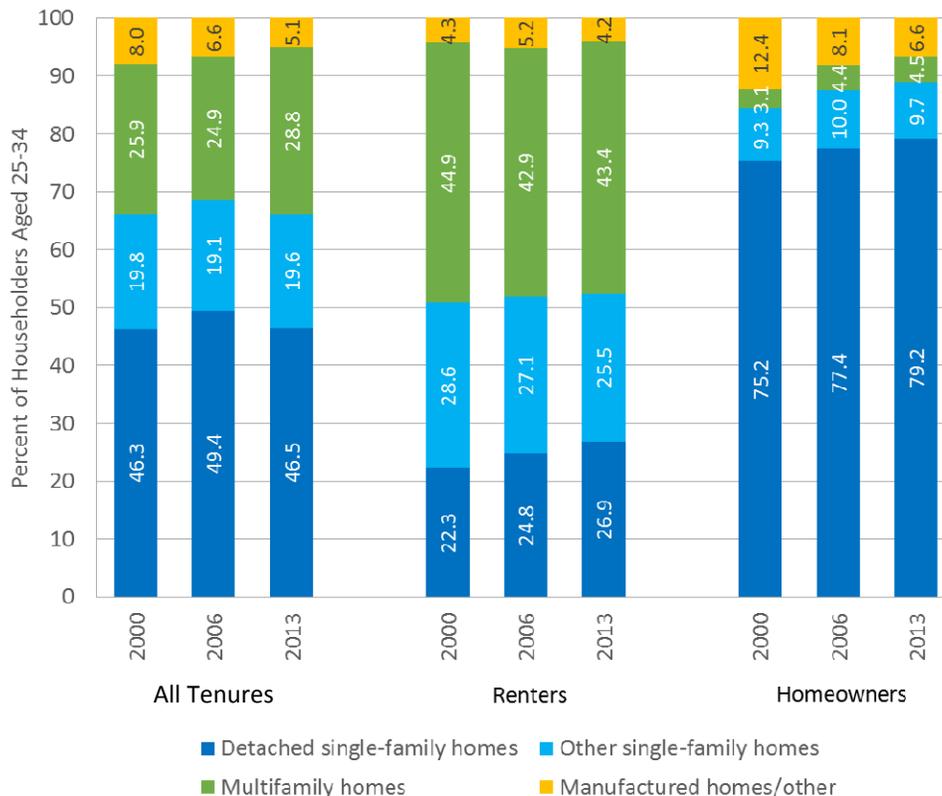
The housing-type choices of today’s young adults are important because the Millennial generation is very large⁵ and because Millennials are coming of age while the residential sector is still recovering from the housing bust. Millennials’ decisions about when to form new households, whether to buy or rent, and what type of housing to occupy will help to determine residential construction levels, home sales volumes, and the distribution of construction and lending activity across the multifamily and single-family markets.

Most Young Adults Choose Single-Family Homes, With Detached Units Growing in Popularity in Both the Rental and Owner-Occupied Markets

Single-family homes account for 90 percent of the nation’s owner-occupied housing stock⁶, and therefore it should come as no surprise that this housing type is chosen by the large majority of young homeowners (see Exhibit 1, third cluster of bars). What might be unexpected, however, is that the share of young homeowners who occupy single-family housing is increasing. The proportion of 25-34 year-old homeowners who resided in a single-family home in 2013 was 1.5 percentage points greater than in 2006 and 4.4 percentage points more than in 2000⁷.

Within the single-family category, detached homes dominate, accounting for nearly 80 percent of all owner-occupied units with young householders. As shown by the dark blue bars of Exhibit 1, detached homes have driven the recent increase in single-family share among young homeowners.

Exhibit 1. Regardless of Housing Tenure, Young Adults Are Likely to Occupy Single-Family Homes



Source: U.S. Census Bureau, 2006 and 2013 American Community Survey 1-Year Estimates and 2000 Census.

While it might not be surprising that most young homeowners choose single-family homes, it is less well recognized that most young *renters* also select this housing type (see the middle cluster of bars in Exhibit 1). In 2013, 52.4 percent of 25-34 year-old renters occupied a single-family home, compared to only 43.4 percent residing in multifamily apartments. The proportion of young renters occupying single-family homes in 2013 was not significantly different than in 2006, but was significantly greater than in 2000. Detached units now account for more than one quarter of all rentals occupied by young adults, an increase of nearly five percentage points since 2000.

Although the shares of young adults living in single-family homes was stable or increasing in both the rental and owner-occupied markets between 2006 and 2013, the proportion of *all* 25-34 year-old households residing in single-family homes actually fell by more than two percentage points during this period (see left cluster of bars in Exhibit 1). This counterintuitive result is explained by the declining homeownership rate of young households and by the fact that structure type is strongly associated with tenure. Between 2006 and 2013, the homeownership rate of 25-34 year-olds fell by nine percentage points, with the number of homeowners in this age category declining by nearly two million and the number of renters of this age increasing by more than one million⁸. Given that a much larger proportion of renters than homeowners reside in multifamily housing, the recent shift toward renting explains the decline in single-family occupancy among all young households. Despite the post-bust decline in the share of 25-34 year-old households residing in single-family homes, the proportion of young adults in this housing type is no different today than it was in 2000.

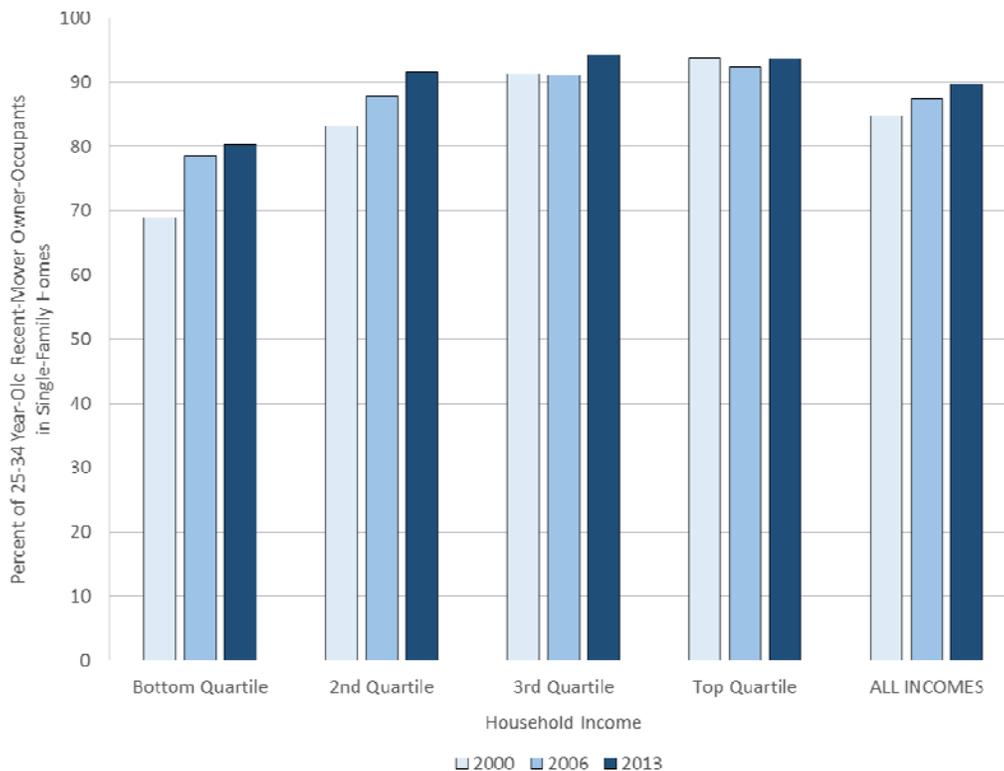
Young Homebuyers Overwhelmingly Choose Single-Family Homes

Millennials have become an increasingly important source of demand in the home sales market. Recent studies indicate not only that Millennials have become the dominant demographic in the sales market⁹, but they also find that the large majority of Millennials are purchasing single-family homes¹⁰.

Data on owner-occupants who have moved into their homes recently demonstrate that young adults strongly prefer single-family homes¹¹. But these data also show that young households are even *more likely* to purchase single-family homes today than prior to the housing bust. The proportion of recent homebuyers aged 25-34 who resided in single-family homes in 2013 was 2.3 percentage points greater than in 2006 and five percentage points greater than in 2000 (see the “ALL INCOMES” cluster of bars at the far right of Exhibit 2).

One possible explanation for the rising popularity of single-family homes after the housing bust is that tightened credit standards might have shifted the distribution of homebuyers toward more affluent households. Given that housing consumption increases with income, it might then follow that single-family homes, which are typically larger than other housing types, would capture an increased share of purchases among all young adults. However, as indicated by Exhibit 2, the proportion of young homebuyers who purchased single-family homes remained stable or increased between 2006 and 2013 *regardless of income*¹². The proportion of recent homebuyers who purchased single-family homes was greater in 2013 than in 2000 for all income groups except the top quartile, for which rates of single-family purchases remained stable.

Exhibit 2. Young Homebuyers Are Increasingly Purchasing Single-Family Homes



Source: U.S. Census Bureau, 2006 and 2013 American Community Survey 1-Year Estimates and 2000 Census.

Quartile cutoffs were calculated using the income distribution of recent-mover owner-occupants aged 25-34 in 2006. Quartile membership in other years was determined by indexing the 2006 quartile cutoffs for inflation using the CPI-U-RS.

Single-Family Demand Is Down, But Not Out

A sharp rebound in multifamily construction, but only modest gains in single-family homebuilding, have characterized the housing market recovery¹³. However, the continued popularity of single-family housing among today's young adults should give pause to those who argue that a fundamental generational shift has occurred in housing-type preferences. Millennials' desire for single-family homes not only remains robust, but should strengthen in coming years as more members of the cohort age into their thirties, prime years for first-time homeownership. Given the massive size of the Millennial generation, this life-cycle progression should support continued recovery in housing construction and bodes well for a stronger rebound in the single-family sector in the second half of the decade¹⁴.

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¹ Patrick Simmons, "Young-Adult Housing Demand Continues to Slide, But Young Homeowners Experience Vastly Improved Affordability," *Fannie Mae Housing Insights* (4, 6), September 30, 2014.

² In U.S. Census Bureau residential construction and household surveys, a housing unit is classified by the number of housing units in the structure. A structure is a separate building that either has open spaces on all sides or is separated from other structures by dividing walls that extend from ground to roof. In this *Housing Insights*, "single-family" is used to describe housing units located in structures with one to four units, whereas "multifamily" is used to describe units in structures with five or more units. The single-family category includes fully detached single-family homes, homes that are attached side-by-side to other units (e.g., row houses or townhomes), and units in small buildings consisting of a total of two to four units (e.g., duplexes or triplexes). Note that the classification scheme used here is based on the number of housing units in the physical structure, and not the number of units in the *legal property*, the latter of which is often the basis for classifying residential mortgage data.

³ See, for example, *Home Buyer and Seller Generational Trends Report 2015*, National Association of REALTORS®, March 2015; M. Leanne Lachman and Deborah L. Brett, *Gen Y and Housing: What They Want and Where They Want It*, Urban Land Institute, 2015; Natalia S. Siniavskaja, "Homes Millennials Buy," *Housing Economics*, National Association of Home Builders, December 2014; Jeremy Burbank and Louise Keely, *Millennials and Their Homes: Still Seeking the American Dream*, Demand Institute, September 16, 2014.

⁴ When discussing results, this *Housing Insights* will use "young households" and "young adults" interchangeably to describe households with a householder aged 25-34. A householder is typically the person, or one of the persons, in whose name the housing unit is owned, being bought, or rented.

⁵ The Millennial generation is defined inconsistently in the literature, with birth years dating back as far as the mid-1970s and extending as recently as the mid-2000s. (George Masnick, "Defining the Generations," *Housing Perspectives*, Joint Center for Housing Studies of Harvard University, November 28, 2012.) For this *Housing Insights*, "Millennials" will be used to refer to those aged 25-34 in 2013, recognizing that this definition does not encompass the entire generation. There were 42.8 million Millennials aged 25-34 in 2013, compared with 37.1 million leading-edge Baby Boomers of the same age in 1980 and 43.2 million trailing-edge Boomers aged 25-34 in 1990. (Sources: U.S. Census Bureau, *1980 Census of Population: General Population Characteristics*, PC80-1-81, May 1983; U.S. Census Bureau, *1990 Census of Population: General Population Characteristics*, 1990 CP-1-1, 1992; and U.S. Census Bureau, Population Division, *Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States: April 1, 2010 to July 1, 2013*).

⁶ U.S. Census Bureau, 2013 American Community Survey 1-year estimates, *Table B25032: Tenure by Units in Structure*.

⁷ Unless otherwise noted, all differences or changes noted in the text are statistically significant at the 90 percent confidence level.

⁸ U.S. Census Bureau, 2006 and 2013 American Community Survey 1-year estimates, Table B25007: Tenure by Age of Householder.

⁹ According to the National Association of REALTORS®' *Home Buyer and Seller Generational Trends Report 2015*, Millennials (defined therein as homebuyers under age 35) accounted for 32 percent of home purchases between July of 2013 and June of 2014, a larger share than any other generation.

¹⁰ For analyses of the types of homes purchased by Millennials, see *Home Buyer and Seller Generational Trends Report 2015*, National Association of REALTORS®, March 2015, and Natalia S. Siniavskaia, "Homes Millennials Buy," *Housing Economics*, National Association of Home Builders, December 2014.

¹¹ For this portion of the analysis, owner-occupant householders who moved into their unit in the year preceding the interview (15 months in the case of the 2000 Census data) are used as proxies for recent homebuyers. Although some of these recent-mover owner-occupants might have owned the home prior to moving into it, and others might not have purchased the home but came into possession by other means such as bequeaths, it is likely that the large majority of young, recent-mover owner-occupants are indeed recent home purchasers. This supposition is supported by comparisons with other surveys that directly measure the types of structures purchased by recent homebuyers. For example, the *Home Buyer and Seller Generational Trends Report 2015* finds that 80 percent of households under age 35 who bought homes between July of 2013 and June of 2014 purchased detached single-family housing units. In comparison, the 2013 American Community Survey (ACS) shows that 79 percent of owner-occupant householders under age 35 who moved into their homes during 2012 and 2013 resided in detached single-family homes. (Note that the ACS is conducted throughout the calendar year. Therefore, respondents to the 2013 survey who indicated that they moved into their unit within the past year could have moved in either 2012 or 2013.)

¹² Although single-family shares increased between 2006 and 2013 for all four income quartiles, only the increases for the second and third quartiles were statistically significant at the 90 percent confidence level. Setting aside the issue of statistical significance, decomposition analysis reveals that all of the 2.3 percentage point increase between 2006 and 2013 in the single-family share of homes purchased by young homebuyers was attributable to increasing shares of single-family purchases within income quartiles, and *none* was associated with shifts in the distribution of young homebuyers across income quartiles.

¹³ Fannie Mae Economic & Strategic Research Group, "2015 Expected Growth Forecast Receives a Downgrade, But Housing Is On A Better Path," *Economic & Housing Outlook*, May 2015, <<http://www.fanniemae.com/portal/research-and-analysis/emma.html>>.

¹⁴ According to the Fannie Mae Economic & Strategic Research Group's May 2015 housing forecast, which extends to 2016, the proportion of housing starts in one-unit structures is anticipated to increase from 64.6 percent in 2014 to 69.9 percent in 2016. See Fannie Mae Economic & Strategic Research Group, "May Housing Forecast" *Economic & Housing Outlook*, May 2015, <<http://www.fanniemae.com/portal/research-and-analysis/emma.html>>.