

Baby Boomer Downsizing Revisited: Boomers Are Not Leaving Their Single-Family Homes for Apartments

August 19, 2015

Fannie Mae Housing Insights, Volume 5, Issue 2

“Baby Boomers’ tendency to occupy single-family detached homes remained stable through 2013. As suggested by the lack of downsizing activity, Boomers have not been a major force behind the surge in apartment demand.”

Introduction

A previous edition of *Fannie Mae Housing Insights* contested the popular notion that Baby Boomers, members of the massive generation born between 1946 and 1965, have begun downsizing from their single-family homes.¹ The research showed that the likelihood of Baby Boomers occupying single-family homes has changed little in recent years, despite the fact that Boomers are experiencing major life changes that might be expected to cause a downshift in their housing consumption.

The prior research extended only through 2012, and left several questions unanswered. For example, did continued housing market recovery through 2013 lead to a decrease in Boomer single-family housing consumption? Are Boomers sticking with single-family homes, but switching to smaller houses of this type? And finally, are downsizing Boomers helping to drive the resurgence in apartment demand?

This edition of *Housing Insights* answers these questions by showing that through 2013, when the housing recovery was two years old,² Baby Boomers showed no significant reduction in the rate at which they occupied single-family detached homes.³ Furthermore, although the average number of rooms⁴ in single-family homes occupied by Baby Boomers decreased between 2008 and 2011, Boomer home size has increased since then, suggesting that Boomers are not trading down to smaller single-family houses, either. As suggested by the lack of downsizing activity, Boomers have not been a major driver of apartment demand growth. In fact, the number of Boomer apartment dwellers has not budged in recent years, whereas the number of Millennials in multifamily rental units has grown by nearly half a million annually.

The accumulating evidence that Baby Boomers are not downsizing has important implications for the housing market. Boomers have an enormous residential footprint, occupying two out of every five housing units and accounting for half of the nation's housing wealth.⁵ Thus, any significant changes in their housing consumption

¹ Patrick Simmons, “Are Aging Baby Boomers Abandoning the Single-Family Nest?” *Fannie Mae Housing Insights* (4, 3), June 12, 2014.

² Unlike economic cycles, housing cycles are not consistently defined. For the purposes of this article, 2011 is designated as the bottom of the housing downturn based on home sales metrics. According to the Federal Housing Finance Agency's Purchase-Only Home Price Index, the sales price of single-family homes declined by 4.1 percent between 2010 and 2011, and then increased by 3.2 percent in 2012. Furthermore, according to the National Association of REALTORS®, sales of existing single-family homes increased by a modest 2.1 percent between 2010 and 2011, before jumping 9.0 percent between 2011 and 2012. These indicators are used to assess progress of the housing recovery based on the assumption that improvements in the sales market might make it easier for Boomers to sell their single-family homes and downsize.

³ This analysis focuses on single-family detached homes, which are one-unit housing structures detached from any other house; that is, they have open space on all four sides. Such structures are considered detached even if they have an adjoining shed or garage. Mobile homes to which one or more permanent rooms have been added or built also are included in the single-family detached category. In some instances, this edition of *Housing Insights* will refer to single-family detached homes simply as “single-family homes.”

⁴ Rooms include living rooms, dining rooms, kitchens, bedrooms, finished recreation rooms, enclosed porches suitable for year-round use, and lodger's rooms. Excluded are strip or pullman kitchens, bathrooms, open porches, balconies, halls or foyers, half-rooms, utility rooms, unfinished attics or basements, or other unfinished space used for storage.

⁵ According to the Census Bureau's American Community Survey, Baby Boomers occupied 45.1 million housing units in 2013, or 39 percent of the total occupied stock. According to the Federal Reserve Board's Survey of Consumer Finances, Boomers had principal residence home equity of \$6.3 trillion in 2013, or 50 percent of all primary residence equity.

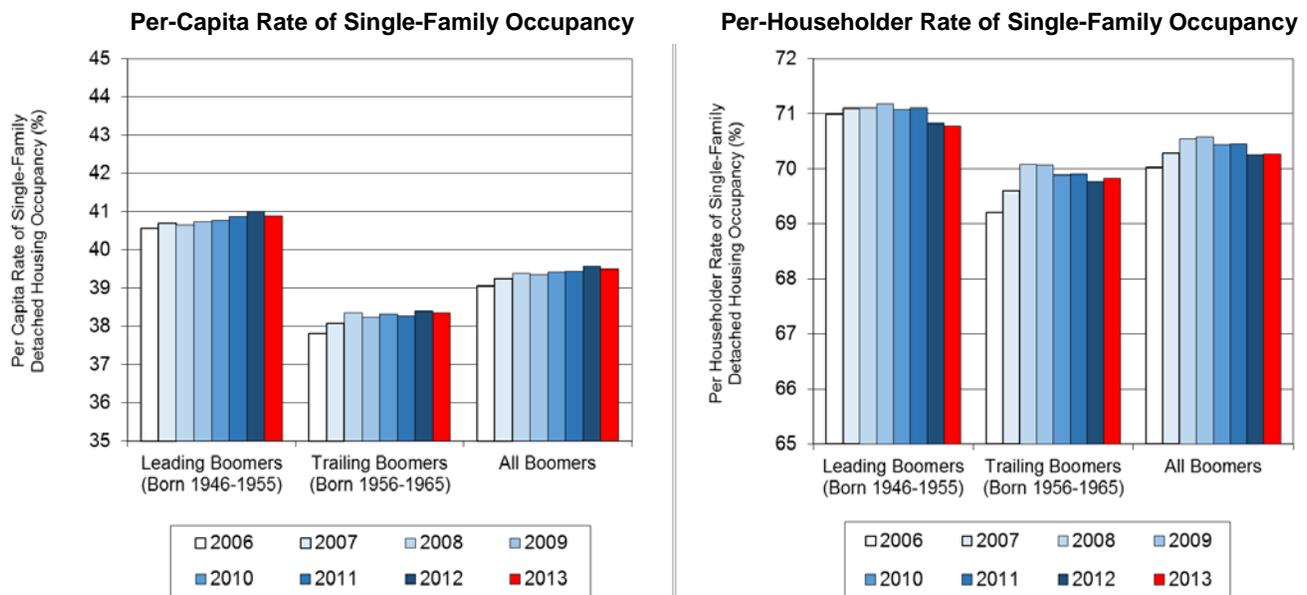
could have major ramifications for the housing market. For example, moves by large numbers of Boomers from single-family homes to apartments could put downward pressure on single-family home prices, shift the composition of new housing construction further toward multifamily structures, and change the types of apartments being built. Although Boomers' consumption of single-family homes will decline eventually, and thus should be watched closely, available data do not yet provide an indication of substantially changed behavior for this market-moving cohort.

Continued Housing Market Healing Has Not Ushered a Boom in Boomer Downsizing

Prior research on the single-family occupancy rate of Baby Boomers⁶ covered the period through 2012, when the housing recovery was barely a year old. Extending the analysis through 2013, a year marked by solid gains in both home prices and sales,⁷ reveals no decline in the Boomer single-family occupancy rate (see Exhibit 1). For all Boomers, the rate was greater in 2013 than in 2006 when measured on a per-capita basis (left panel of Exhibit 1), and was unchanged when measured on a per-householder basis (right panel of Exhibit 1).⁸ Both measures were unchanged between 2012 and 2013.

Single-family occupancy has been stable even among older Boomers (those born between 1946 and 1955), who are overwhelmingly empty-nesters and who have begun to leave the labor force in substantial numbers,⁹ life changes that might be associated with downsizing. For older Boomers, both per-capita and per-householder single-family occupancy rates were statistically no different in 2013 than they were one and seven years earlier.

Exhibit 1. Despite Continued Housing Market Healing, Boomers Are Not Reducing Their Single-Family Occupancy Rate



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

⁶ The single-family occupancy rate is measured in two ways. The per capita rate is the number of Boomer householders residing in single-family detached homes divided by the total Boomer population. (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 Boomer householders as the denominator. The single-family occupancy rate should not be confused with the frequently cited homeownership rate, which measures the proportion of householders who own the home that they occupy, regardless of structure type. The homeownership rate for Baby Boomers was slightly more than 74 percent in 2013, compared with an overall homeownership rate of under 64 percent.

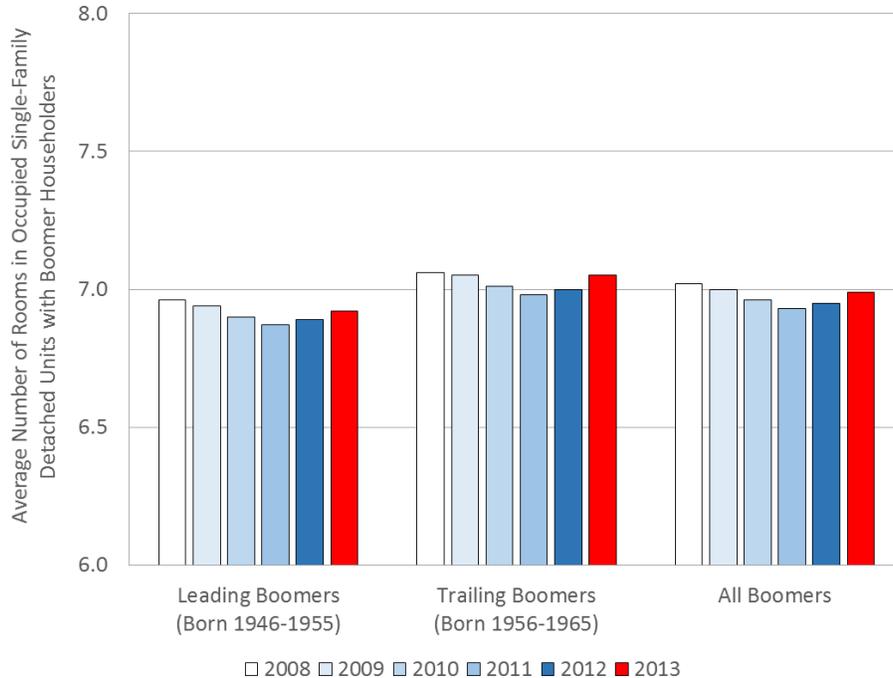
⁷ According to the Federal Housing Finance Agency's Purchase-Only Home Price Index, the sales price of single-family homes increased by 7.5 percent between 2012 and 2013. The National Association of REALTORS® reports that the number of sales of previously owned single-family homes increased by 8.6 percent during the same period.

⁸ Unless otherwise noted, all differences or changes noted in the text are statistically significant at the 90 percent confidence level.

⁹ See Simmons, op. cit., for an analysis of these life events among Boomers.

Although Baby Boomers exhibit stable single-family occupancy rates, they might be trading down by moving to smaller houses *within* the single-family stock. However, data from the American Community Survey (ACS) on the number of rooms in Baby Boomer homes provide no evidence of widespread or sustained trading down within the single-family stock, and in fact point to modest upsizing in recent years.¹⁰ The average number of rooms in single-family homes with Boomer householders declined slightly between 2008 and 2011 (Exhibit 2). But between 2011 and 2013, the average number of rooms per home increased, both for all Boomers and for younger Boomers born between 1956 and 1965.¹¹

Exhibit 2. After Falling Slightly, the Average Number of Rooms in Boomer Single-Family Homes Has Begun to Rebound



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

Boomers Are Not Driving the Resurgence in Apartment Demand

A frequently cited implication of Baby Boomer downsizing is that they are becoming an increasingly important force behind the surge in apartment demand:

“Apartment demand, which some investors thought would abate as the housing market recovered, is doing just the opposite. It is also coming from both ends of the age scale. Millennials, finally finding jobs and moving out of group or family homes, are pushing rental demand; downsizing baby boomers, many of them soured on homeownership by losses from the housing crash, are doing the same.”¹²

“Young adults ages 22 to 30—those “Millennials” who are a target demographic for many of the new apartment properties hitting the market—are likely to be in their first or second post-college home away from their parents. But it’s becoming more and more possible that their next-door neighbors could be their parents ... or at least people their parents’ age. That empty-nesters whose children have grown up and gone to college or work are downsizing by selling their suburban homes and moving into apartments is old news; the magnitude of this trend is what’s surprising developers.”¹³

¹⁰ The ACS does not collect information on square footage of housing units, and thus the number of rooms is used as a proxy for house size. The ACS question on number of rooms changed in 2008, and therefore data are not presented prior to that year.

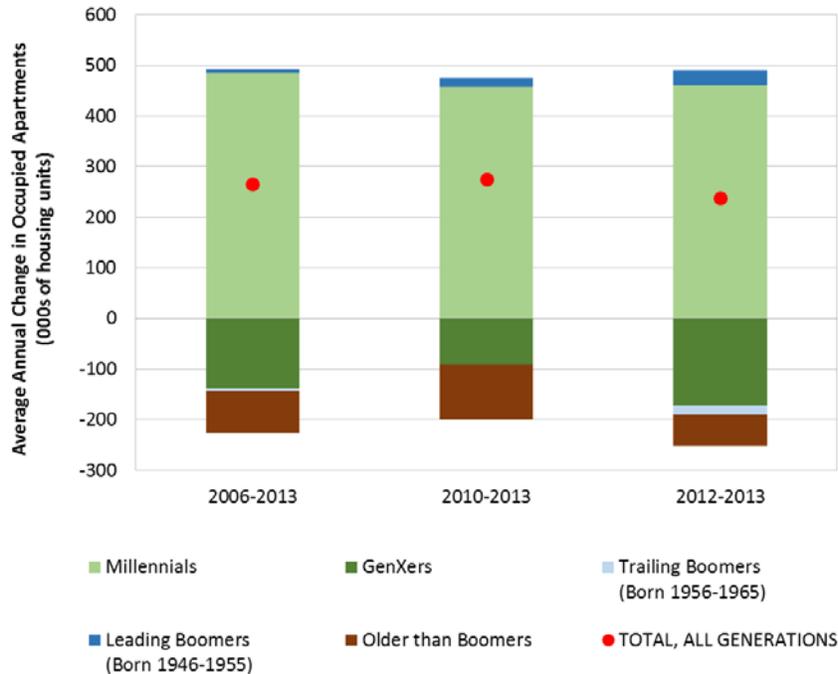
¹¹ The increase between 2011 and 2013 for older Boomers was not statistically significant.

¹² Diana Olick, “Apartment Occupancy at All-Time High: Here’s Why”, *CNBC*, June 18, 2015.

¹³ KC Sanjay, “Empty-Nesters Flock to Apartment Living - Magnitude of Boomers’ rental demand stuns some industry observers,” *Multifamily Executive*, November 19, 2014.

As shown by the analysis in the preceding section, data available through 2013 indicate that Baby Boomers are not downsizing. An examination of apartment¹⁴ occupancy trends reveals that Boomers are not spurring the resurgence in multifamily rental demand, either. It is true that Baby Boomers are significant consumers of multifamily rentals, occupying some 4.6 million apartments in 2013. However, Boomers have accounted for *none* of the recent increase in occupied apartments (Exhibit 3). Between 2010 and 2013, the number of Boomer apartment renters did not change significantly, whereas the number of Millennial¹⁵ apartment dwellers grew by an average of nearly half a million per year.¹⁶

Exhibit 3. Boomers Have Not Contributed to the Net Increase in Apartment Demand



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

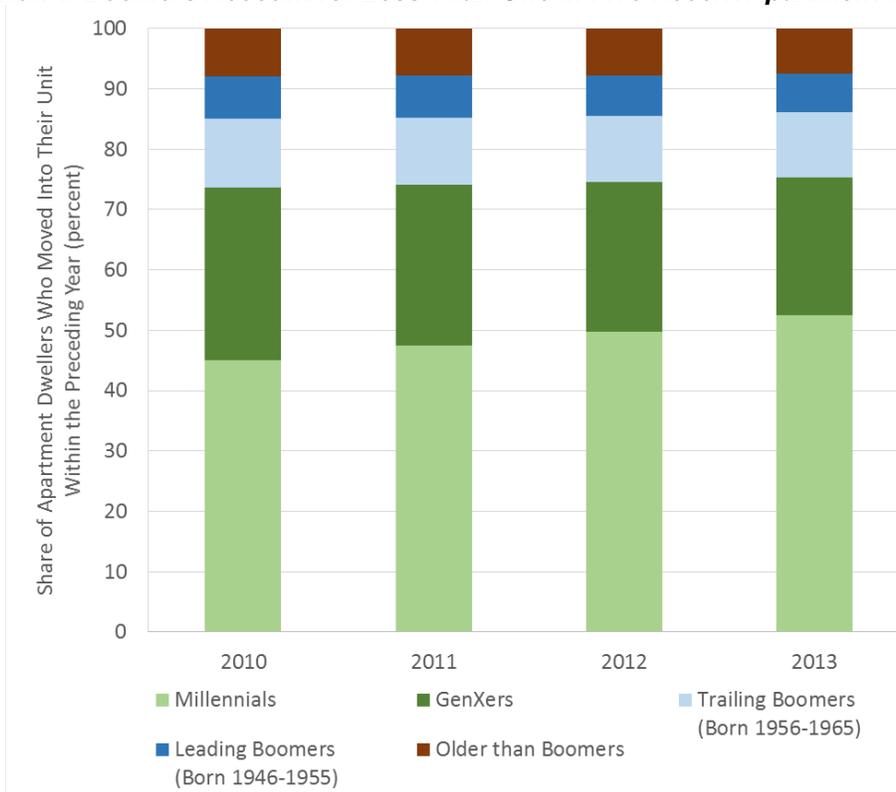
Although the number of Baby Boomer apartment renters has been stagnant, Boomers still may be influencing the multifamily market by moving to different types of apartments. If substantial numbers of Boomer apartment dwellers move to different types of units than they previously occupied, they could induce developers to build new multifamily units in response to the changing nature of their demands. Indeed, data on apartment dwellers who have moved within the past year do show a larger role for Boomers than do the data presented above on growth in total apartment occupants. Even so, Boomers account for less than 20 percent of recent apartment movers, whereas the Millennial share exceeds 50 percent and is still rising (Exhibit 4). The Boomer share of recent apartment movers declined slightly between 2010 and 2013.

¹⁴ For this analysis, apartments are defined as renter-occupied housing units in buildings with five or more units.

¹⁵ Millennials are defined here as those born between 1981 and 2000. This definition corresponds roughly to that used in a recent analysis by the U.S. Census Bureau, in which the Millennial generation was defined as those born between 1982 and 2000. See U.S. Census Bureau, "Millennials Outnumber Baby Boomers and Are Far More Diverse, Census Bureau Reports," *Census Bureau News Release* CB15-113, June 25, 2015.

¹⁶ Despite Millennials' substantial apartment demand, they have a high likelihood of residing in single-family homes. (See Patrick Simmons, "Rent or Own, Young Adults Still Prefer Single-Family Homes" *Fannie Mae Housing Insights* (5, 1), July 1, 2015). The Millennial generation is creating considerable demand in both the multifamily and single-family markets because it is very large and is at a point in the life cycle when housing consumption accelerates rapidly.

Exhibit 4. Boomers Account for Less Than One in Five Recent Apartment Movers



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

Given the above results, why does the perception of Boomer downsizing into apartments persist? One possibility is that Boomer downsizing is such a new phenomenon that the ACS data, which are available only through 2013, do not pick up more recent changes in Boomer housing consumption. Furthermore, the Boomer generation is so large that slight behavioral shifts that do not yet register as statistically significant changes in the ACS national data could be creating visible impacts in certain market segments in select geographic areas.

Another possibility is that a shift in the composition of apartment demand toward older adults is creating a misperception that Boomers are downsizing and increasing their apartment consumption. Boomers' share of recent movers into apartments fell significantly between 2010 and 2013, from 18 percent to 17 percent. However, the share of recent apartment movers who are aged 55 and older increased during the same period, from 15 percent to 17 percent. So, as Boomers age into the 55+ category and gradually replace the much smaller generation that preceded them, they are shifting the age composition of demand toward older adults, even if they are not consuming more apartments. The misperception of growing apartment demand from the Boomer *generation* might arise from the real shift in the composition of demand toward older *age groups*.¹⁷

When Boomers Eventually Downsize, They Will Move Markets

The 32 million single-family detached homes inhabited by Baby Boomers account for more than one quarter of the nation's entire occupied housing inventory. Owner-occupied single-family homes with a Boomer householder have an estimated aggregate market value of almost \$8 trillion, or 42 percent of the value of the entire owner-occupied stock.¹⁸

¹⁷ A generation is defined as a group of individuals born during the same period. With the passage of time, a generation advances through the age groups.

¹⁸ Data in this paragraph are from the Census Bureau's 2013 American Community Survey Public Use Microdata Sample.



Boomers will not inhabit this vast inventory of single-family homes forever. When large numbers of Boomers eventually begin to vacate their single-family homes, their actions will reverberate through the housing market and will likely lead to a substantial increase in the demand for other shelter types, including apartments. Although substantial downsizing activity among Boomers is not evident yet, their housing behaviors merit continued close study to help inform responses in the housing and mortgage finance industries.

Patrick Simmons
Director, Strategic Planning
Economic & Strategic Research Group

The author thanks Orawin Velz, Kim Betancourt, and Mark Palim for valuable comments in the creation of this edition of *Housing Insights*. Of course, all errors and omissions remain the responsibility of the author.

Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Economic & Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.
