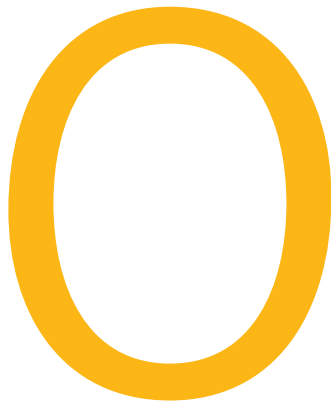


The Demographics of Demand

— by LAURIE GOODMAN —



ver the next 15 years, whether the economy grows slowly or more quickly, the homeownership rate will continue to decline in the United States and the demand for rental housing will dramatically increase in many communities. ¶ African-American households

A deep dive into housing trends over the next 15 years reveals a lot for policymakers to ponder. One thing is certain, apartment construction needs to ramp up.

will fall further behind whites and other minorities in attaining homeownership, while seniors and millennials will join all age groups and racial and ethnic groups in competing for increasingly expensive rental housing. ¶ Why is this happening, what does it mean for different generations and ethnic groups, and what can policymakers do now to ease any negative impact that the new dominance of rental demand might have?

A timely study offers competing scenarios and in-depth projections
 In June, researchers at two Urban Institute policy centers—the Metropolitan Housing and Communities Policy Center and the Housing Finance Policy Center, which I direct—completed a major analysis of the likely pace of household formation and homeownership attainment over the next 15 years.

These findings come at a critical time. Despite the unfinished work of government-sponsored enterprise (GSE) reform and compelling evidence of serious gaps in our mortgage market, Washington, D.C., seems gripped with a severe case of housing policy fatigue.

At the same time, our study indicates that a significant shift is underway in the housing choices of Americans: The dominance of rental demand will be the new normal for at least the next 15 years—a phenomenon that is not, as conventional wisdom might have it, a temporary impact of the foreclosure crisis. It is instead a demographic trend that has been building for decades and for which we appear to be woefully underprepared.

Our projections are based on an in-depth analysis of the most recent observed trends in household formation and homeownership by race and age, which also take competing economic scenarios into account. We used the 2010 decennial census as a baseline and then created a 2013 update of those numbers using the U.S. Census Bureau’s 2013 *American Community Survey*. We then developed two economic scenarios: fast household formation and homeownership attainment (similar to the rates before the housing boom); and slow household formation and homeownership attainment (similar to the rates during the housing crash).

The fast scenario would require strong economic recovery and very favorable conditions for young adults to form households and become homeowners. The slow scenario assumes continued economic turbulence and difficulty for young adults

in forming their own households and attaining homeownership. This is what we found.

Two big changes

A rental surge is coming. The majority (59 percent) of the 22 million new households that will form between 2010 and 2030 will rent, while just 41 percent will buy their homes. This change will create a surge in rental demand from now until 2030.

Our analysis projects that from 2010 to 2030, the growth in rental households will exceed that of homeowners by 4 million, with an increase of 13 million rental households and 9 million homeowner households (see Figure 1). That’s five renters for every three homeowners.

Over the previous 20 years, the increase in homeowners was almost twice that of renters, even with the housing crash—8.8 million new rental households and 16.1 million new homeowner households from 1990 to 2010.

To keep up with the anticipated new rental demand, we’ll need more than 700,000 new rental units every year between 2010 and 2020, with nearly 600,000 per year needed from 2020 to 2030.

Are we close to this pace today? No. We need to double the typical recent annual production of multifamily units in the United States to keep up with this demand.

The homeownership rate will decrease for all age groups, except those older than 75. The second major and related finding in our study is that, not surprisingly, the spike in rental demand will continue to pull homeownership rates down. The homeownership rate in 2010 was 65.1 percent (see Figure 2). Most recently, the Commerce Department estimated that the homeownership rate stood at 63.5 percent at the end of June 2015.

If the economy sees modest growth in the coming years, we expect the rate to drop to 62.7 percent in 2020 and to 61.3 percent in 2030. With robust growth, we predict that the homeownership rate will be down to just over 62 percent by 2030; with slow growth, it will be just over 60 percent.

Total owners will still outnumber total renters throughout the 20-year period, but the homeownership rate will decrease for all but the oldest age group.

Why is this happening?

A perfect storm of factors is driving the large growth in

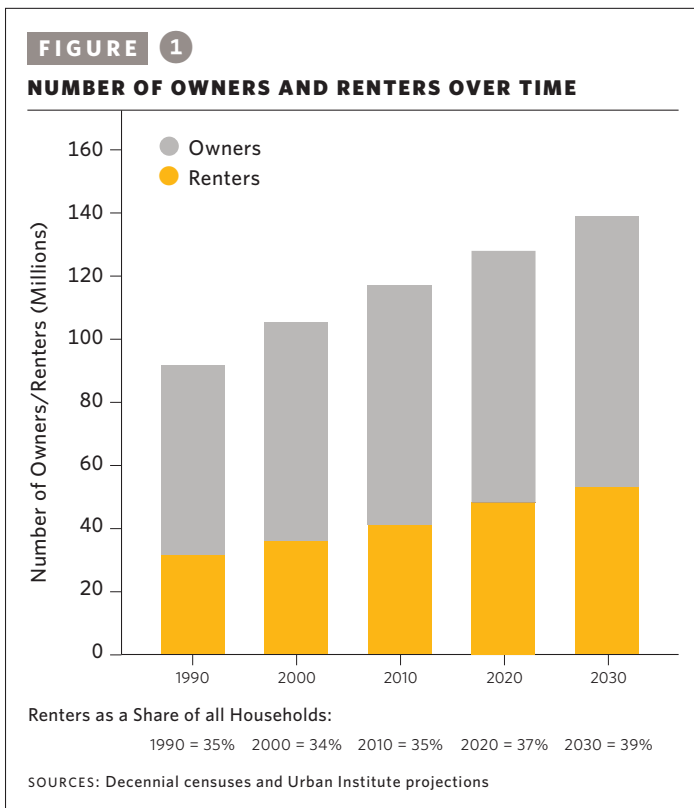


FIGURE 2
HOMEOWNERSHIP RATES BY AGE

Age	1990	2000	2010	2020	2030
15-24	16.9	17.9	16.1	13.5	13.4
25-34	46.4	45.6	42.0	37.5	37.8
35-44	67.4	66.2	62.3	58.0	55.2
45-54	76.3	74.9	71.5	66.6	64.6
55-64	80.6	79.8	77.3	73.3	69.6
65-74	79.5	81.3	80.2	77.2	73.9
75-84	72.5	77.3	77.9	77.5	74.4
85+	63.9	66.1	66.2	69.8	68.5
Total	65.3	66.2	65.1	62.7	61.3

SOURCES: Decennial censuses and Urban Institute projections

renters and decrease in homeownership rates.

Millennials launch later. Millennials, the largest generation alive today, currently in their mid- to late 20s, are finally moving out of their parents' homes and forming their own independent households, albeit at an older age than those in Generation X, who were slower than the baby boomers. And, like generations before them, they will rent before they buy. Once they enter their late 30s and 40s, they will begin to buy—which will help the homeownership rate recover, but this small recovery is masked by other factors. Note that if you become a homeowner later, you will be a homeowner for less of your life, on average.

Greater diversity means more renters. Our population is becoming increasingly ethnically diverse, a trend that will almost certainly intensify. We estimate household formation will be 77 percent non-white from 2010–2020 and 88 percent non-white from 2020–2030. And because African Americans and Hispanics typically have higher rental rates than whites, this is another contributing factor.

Behavior has changed. People of almost all age groups are changing their behavior and choosing renting over owning in higher numbers, as homeownership is no longer universally regarded as a store of value. You see this most dramatically with people in their mid-20s to 30s, the age when home buying traditionally begins. In the 1990s, 46 percent of this age cohort owned homes. By 2030, only 38 percent will own homes. But even for older age groups, there is a decrease in homeownership. For the 45-to-54-year-old group, there has been a drop from 76 percent in 1990 to a forecasted 65 percent by 2030.

The recession still lingers. We're still recovering slowly from the recession, in which 7.5 million homes were lost to foreclosure. Many of these borrowers have not re-entered the market. Stagnant incomes and student loan debt, both partly hangovers from the recession, make saving for a down payment difficult.

Credit is tight. While access to mortgage credit has shown signs of easing recently, it still remains overly tight, making it difficult for many to qualify for a home loan. We estimate that lenders could double the default risk they are willing to take and still be well within the cautious risk levels of 2001–2003.

Will this impact everyone in the same way?

Given the reliability of these predictions and the significant change it represents, it's important to understand how this increased rental demand might impact different specific groups. Based on our research, seniors and African Americans will be notably impacted by this change.

African Americans will fall further behind all racial groups in homeownership. For at least the next 15 years, whether the economy grows slowly or quickly, the homeownership rate for African Americans will decrease while the rate for Hispanics will increase marginally (see Figure 3).

More than 50 percent of the 9 million new owners between 2010 and 2030 will be Hispanic, nearly one-third will be other races or ethnicities, 11 percent will be African American and only 7 percent will be white.

By 2030, the homeownership rate for white Americans will be 70 percent—a modest drop from 72 percent in 2000—but the number for African Americans will be 40 percent, which is a large drop from 46 percent in 2000. The rate for Hispanics will move in the opposite direction, increasing from 46 percent in 2000 to 48 percent in 2030.

Why will Hispanics and African Americans diverge?

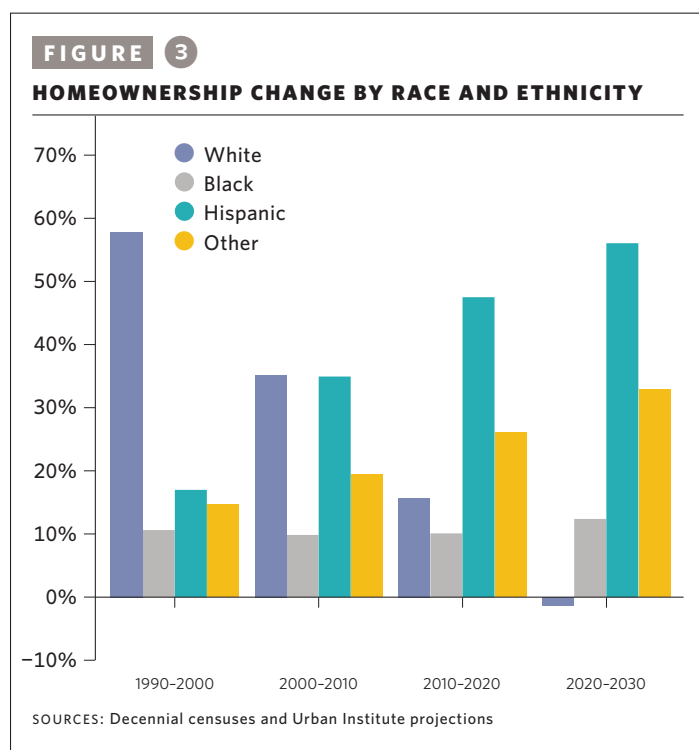
It's partly due to the relative youth of the Hispanic population, which means that more of them are moving into the age range where they form families and buy homes. But it's also because African Americans were hit much harder in the financial crisis than any other racial or ethnic group, and their homeownership rate declined far more than their white and Hispanic counterparts. Put simply, African Americans are starting out behind and, absent policy changes, will fall further behind over the next 15 years.

The aging population

The number of senior renter households will double (see Figure 4). The number of households headed by someone over the age of 65 will increase from 25.8 million in 2010 to 35.4 million in 2020 and 45.7 million in 2030. The largest contributor to this is the aging of the very large baby boom generation, replacing the much smaller group of Depression babies. The older boomers—those born between 1946 and 1955—become senior citizens in the decade between 2010 and 2020, and the younger boomers become senior citizens in the decade between 2020 and 2030.

A larger share of this older group is white than in the younger groups. By 2030, 56 percent of the householders younger than 65 will be white compared with 74 percent of the householders older than 65.

The rental rates will be going up and the homeownership rates will be going down in this group as well, with the exception of the 85-and-older group, so they'll be in real competition with younger families for rental housing over the next 15 years. The homeownership rate of 65-to-74-year-olds will go from 80.2 percent in 2010 to 73.9 percent by 2030; their older friends and siblings (age 75–84) will go from 77.9 percent



to 74.4 percent. The number of senior renters will increase from 5.8 million in 2010 to 12.2 million in 2030.

What should policymakers focus on?

An increase in renters is not, in and of itself, a crisis; nor is a reduction in the homeownership rate. There is not an ideal homeownership rate for the United States as a whole or for any particular generation of Americans.

There is, however, no question that homeownership is a strong wealth-building tool that offers distinct advantages over renting, including a more stable platform for employment, creditworthiness and wealth accumulation.

Ideally, renting and owning are both supported in a way that allow individuals to move between the two types of tenure as their life goals and stages change. Reasonable rents allow young people to move out on their own and accumulate savings for a down payment; reasonable access to credit allows young families to obtain a mortgage and buy a starter home; reasonable home prices and rents allow older couples to sell their homes to growing families and return to a rental lifestyle. It's easy to see how a disruption in a single piece of this rental/owning cycle—such as high rents that prevent young people from saving for a down payment—can throw the entire system out of whack.

Government policies, therefore, should support keeping renting and homeownership positively intertwined and reasonably available to all Americans when their life circumstances make these tenures suitable.

Given this overarching goal and the changes we predict, we recommend that policymakers focus on the following issues in the housing market.

Increasing rental housing. The rapid growth of the rental population will create significant demand for new rental housing

construction. The rental demand will shift owner-occupied dwellings to rental units, a change already in motion—35 percent of renters were in single-family homes in 2012 (the latest data available), up from 31 percent in 2005.

But shifting houses into rental units alone will not meet the growing demand; more construction is necessary. The last major burst of rental housing construction was in the early 1980s, when federal tax law encouraged the construction of hundreds of thousands of apartments (see Figure 5). Since then, rental construction has been slower and steadier. And the only affordable new construction has been a result of the Low Income Housing Tax Credit, which produces around 100,000 new apartments annually.

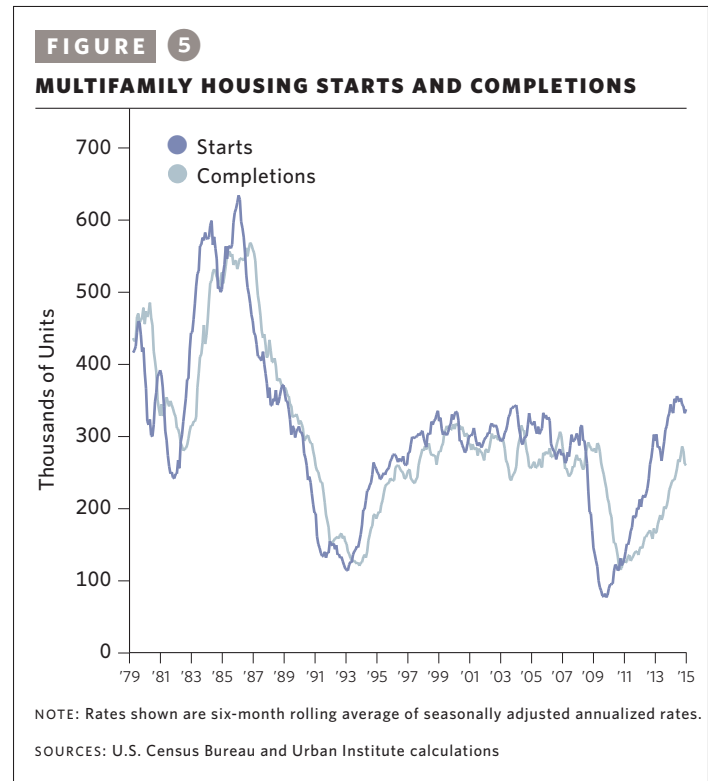
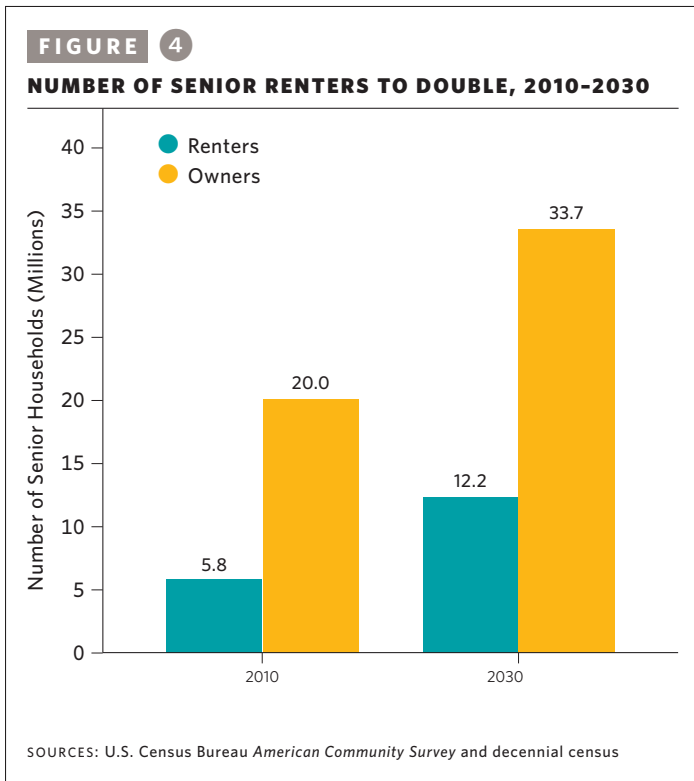
Policymakers must ignite a vigorous examination of the types of these and other incentives that will best encourage building of more rental housing suitable for all age groups.

Expanding access to credit. The increasingly minority and disproportionately Hispanic composition of new homeowners highlights the need to widen the credit box by incenting lenders to ease their credit requirements, as well as to develop credit standards that adequately reflect the financial capability of this group. For example, many Hispanic families have more than two incomes—a reality generally not accounted for in traditional mortgage underwriting.

How will we know when we've expanded access enough?

As mentioned earlier, we estimate that lenders could double the default risk they are willing to take and still be well within the cautious risk levels of 2001–2003. The Housing Finance Policy Center keeps a close eye on the default risk taken by the market through its Housing Availability Credit Index (HCAI), released quarterly. (You can find the latest HCAI at www.urban.org/policy-centers/housing-finance-policy-center.)

Supporting senior renters. We must prepare to address a large



increase in cost-burdened households. Seniors' incomes drop after they retire, but their housing costs often don't go down by much. This increased cost burden forces them to draw down on savings and forego other expenditures. Already in 2011, 2.6 million senior homeowners (13 percent) and 1.7 million senior renters (30 percent) paid more than half of their income for rent. If a proportionate number of senior households pay half their income on housing in 2030, these numbers will rise to 4.4 million homeowners and 3.7 million renters.

While homeowners may be able to cover these costs by drawing upon home equity (reverse mortgages, home-equity lines of credit), the burden may be tougher to bear for renters—especially given increasing rental demand from other cohorts, causing rents to increase.

We also need to encourage and support home modifications that make homes safer, healthier and more efficient for seniors. Adaptations to reduce the numbers of debilitating trip-and-fall injuries, increase indoor air quality, and make homes more comfortable and energy-efficient promise to improve seniors' quality of life, maintain the value of their homes and potentially save taxpayers' contribution to Medicare and Medicaid. The investment in older homes also will increase their resale value in a rapidly aging society.

Finally, we need to encourage and support changes in the community. In many communities, zoning laws should be changed to allow for house sharing and construction of accessory apartments. The drop in the proportion of senior homeowners will intensify the challenges of providing a safety net for an increasing share of the population. And senior homeowners need community supports to live a fulfilling life in their own homes without feeling lonely or trapped when family and friends are far away.

Finding additional ways to support homeownership for African-American families. The erosion of African-American homeownership needs to be addressed by more than just mortgage policy. African Americans face unique challenges in education, employment and criminal justice, all of which hinder their ability to achieve economic security and accrue assets. We need to address the income and wealth gap, and reduce the burden of high rents that undermine financial stability and hinder savings.

Preparing for 2030

Knowing that we will see a dramatic surge in the demand for rental housing between now and 2030 presents an enormous opportunity. Our research allows policymakers to track the behavior of millennials, aging boomers and those in between, and develop intentional practices and a policy environment that ensures the current system is prepared to meet these changes.

By expanding access to credit, reigniting a debate and programs to support rental housing construction, focusing on the needs of senior renters and addressing underlying income and wealth challenges for African Americans, we'll have a healthier housing market for renters and owners by 2030. **MB**

Laurie Goodman is director of the Housing Finance Policy Center at the Urban Institute in Washington, D.C. She can be reached at lgoodman@urban.org. Note: To sign up for the Housing Finance Policy Center's bimonthly newsletter, email spardo@urban.org.

**VIEW-ONLY REPRINT WITH PERMISSION FROM THE
MORTGAGE BANKERS ASSOCIATION (MBA)**