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Missing Young Adult Households

Special Study for HousingEconomics.com

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Traditionally, young adults ages 25 to 34 make up around half of all first-time homebuyers. A recent trend of an increasing number of young adults in this age group choosing to stay with their parents or parents-in-law has profound implications for household formation, housing demand and the housing market. As of 2014, more than 20 percent of young adults ages 25 to 34, or 8.8 million, live in homes of their parents or parents-in-law. This represents a sharp increase since 2000 when less than 12 percent, or 4.6 million, lived with parents.

The growing tendency of 25-34 year olds to stay with parents undoubtedly contributed to the declining headship rates for this age group that dropped from almost 46 percent in 1990 and 2000 to 41 percent in 2014. This translates into 2 million households lead by 25-34 year-olds that are missing from the current housing market but could have been active players if the headship rates remained at the 2000 level. Those who are able to strike out on their own are less likely to become homeowners. The article shows that the growing tendencies of 25-34 year olds to marry and have children later in life coincide with the rising share living with parents and declining homeownership rates. It also highlights the importance of economic factors. The analysis shows that 25-34 year olds were most severely affected by stagnating incomes. This age group showed virtually no income growth since 2006 while the median income for older groups grew almost 11 percent. The income gap also widened between homeowners ages 25-34 and those who stay with parents, suggesting that income requirements for leaving parental home, and especially owning a home, increased over the years.

The Number and Share of Young Adults Living with Parents Continue to Rise

NAHB analysis of the decennial census data show that around 12.2 percent of young adults age 25 to 34 lived with their parent or parents-in-law in 1990¹. At that point, the numerous youngest baby boomers comprised the 25-34 age group and those living with parents accounted for close to 5.3 million. As of

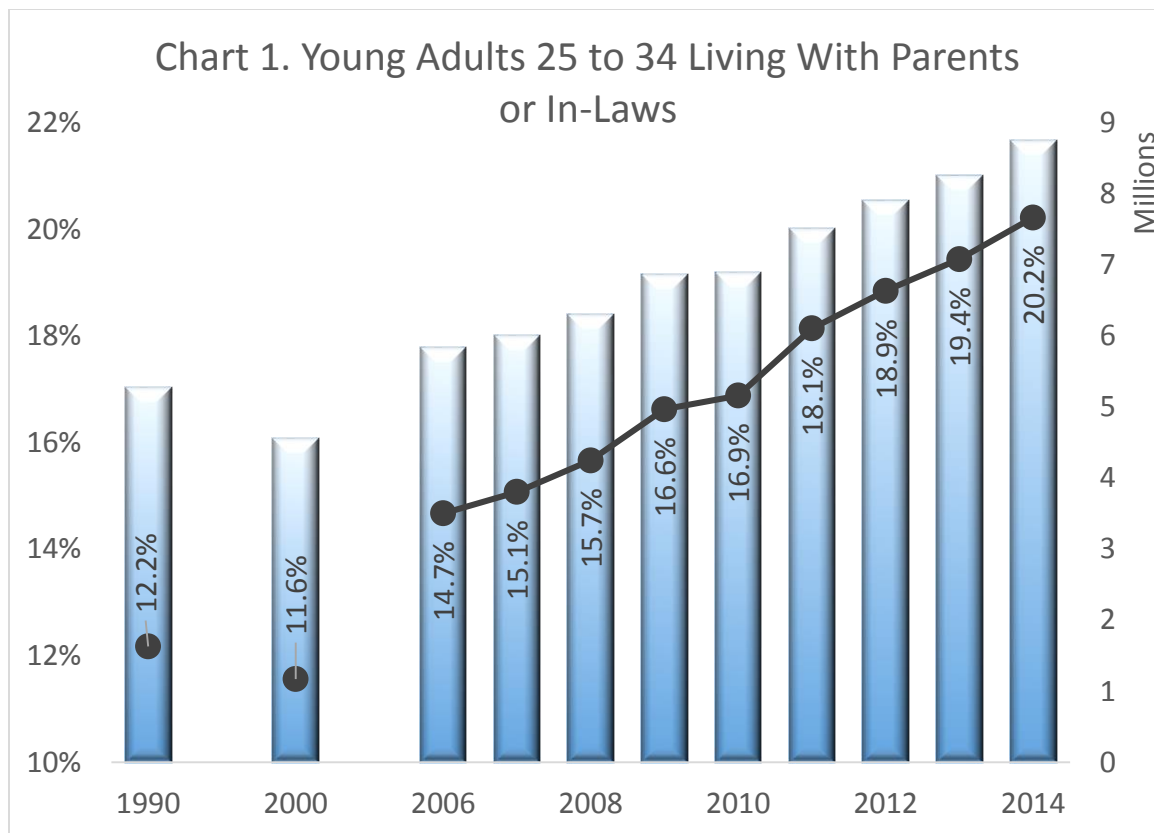
¹ A young adult is considered to be living with parents if she or he is a child, stepchild, or in-law child of a household head and lives in the same housing unit. If a young adult is a household head and has a parent or parent-in-law living in her/his household, this young adult is not counted as living with parents. College students living in dormitories and other young adults residing in group quarters are not counted as living with parents, but rather living independently.

2000, the share remained relatively stable dipping just a bit to 11.6 percent. However, since the 25 to 34 group was much smaller by 2000 when the baby boomers aged into the older age bracket, the number of young adults living with parents or in-laws was down to 4.6 million (see chart 1).

According to the American Community Survey (ACS), the annual survey that has replaced the decennial census long form, the clear and rising trend emerged during the housing boom years. By 2006 close to 15 percent of young adults ages 25 to 34 lived with their parents or in-laws. They accounted for almost 6 million young adults. The trend continued its steady climb through the housing bust, a period of declining home prices, economic downturn and showed no sign of reversing even as an economic recovery took place. By 2014, more than 20 percent of young adults ages 25 to 34, or 8.8 million, lived in homes of their parents or parents-in-law.

The steady increase in the absolute number of young adults living with parents is even more remarkable, considering that the population in the 25-34 age bracket shrank since 1990 when the youngest baby boomers filled it. It was only by 2014 that this age group grew back to the same numbers as when the youngest boomers passed through it but the number of young adults living with parents had remained consistently higher, rising from 5.3 million in 1990 to 8.8 million in 2014².

² The estimates from 2006-2014 are based on the American Community Survey (ACS) Public Use Microdata Sample (PUMS). The estimates from the Current Population Survey (CPS) show a similar trend but the estimated share of young adults living with parents is lower. The author prefers the ACS based estimates for several reasons. First, the ACS has a much larger sample and is based on the decennial census long form that it has replaced. Consequently, it produces estimates that align better with the decennial census. Secondly, the young population in noninstitutionalized group quarters (mostly students living in dormitories) is clearly identified in the ACS and counted separately while the CPS counts them as living with parents. Lastly, the ACS identifies young adults living with in-laws, while the CPS does not have a separate in-law category in classifying a household structure. Consequently, any in-law children are most likely captured in the “other” category and omitted from the living with parents group in the CPS.



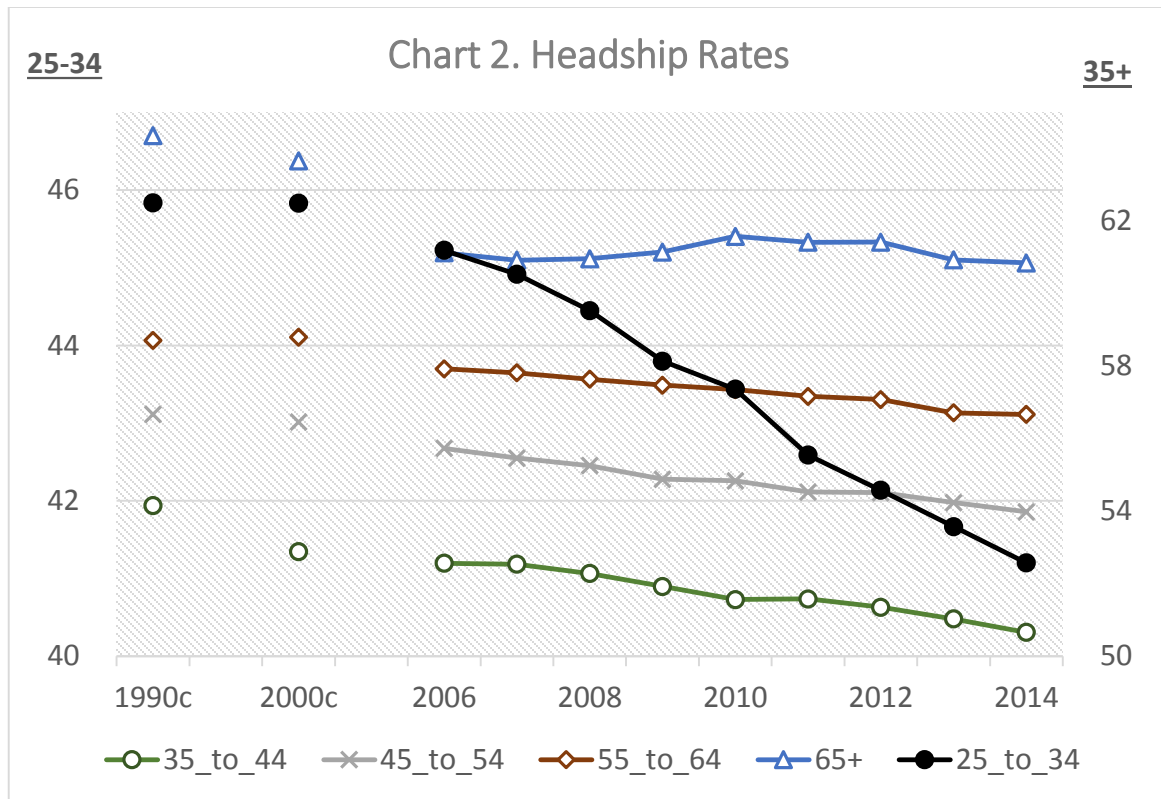
Source: 1990, 2000 Decennial Census PUMS, 2006-2014 ACS PUMS, NAHB estimates

Declining Headship Rates and Missing Households

The fact that the rising share of young adults postpones their decision to move out of parents' homes has profound effects on household formation and housing demand. It undeniably contributed to the declining headship rates (the share of people who are household heads) of this age group.

As chart 2 shows, headship rates for young adults ages 24-35 remained relatively stable from 1990 to 2000, with close to 46 percent of young adults leading their own households. Even by 2006, the headship rate for this age group stayed in the same range with just a small drop that could be attributed to a switch in the data sources from the decennial census to ACS. The clear and consistent downward trend in headship rates became apparent during the housing bust and continued ever since. By 2014, the headship rates for young adults dropped to 41 percent. This translates into 2 million households lead by 25-34 year-olds that are currently missing from the housing market but could have been active players if the headship rates remained at the 2000 level.

For comparison, chart 2 displays headship rates for older age groups. The decrease in headship rates is a universal phenomenon with all age groups registering declines since 2000. However, the deterioration in headship rates is most pronounced for the youngest 25-34 age group and they remain accountable for the largest number of households that had never formed.

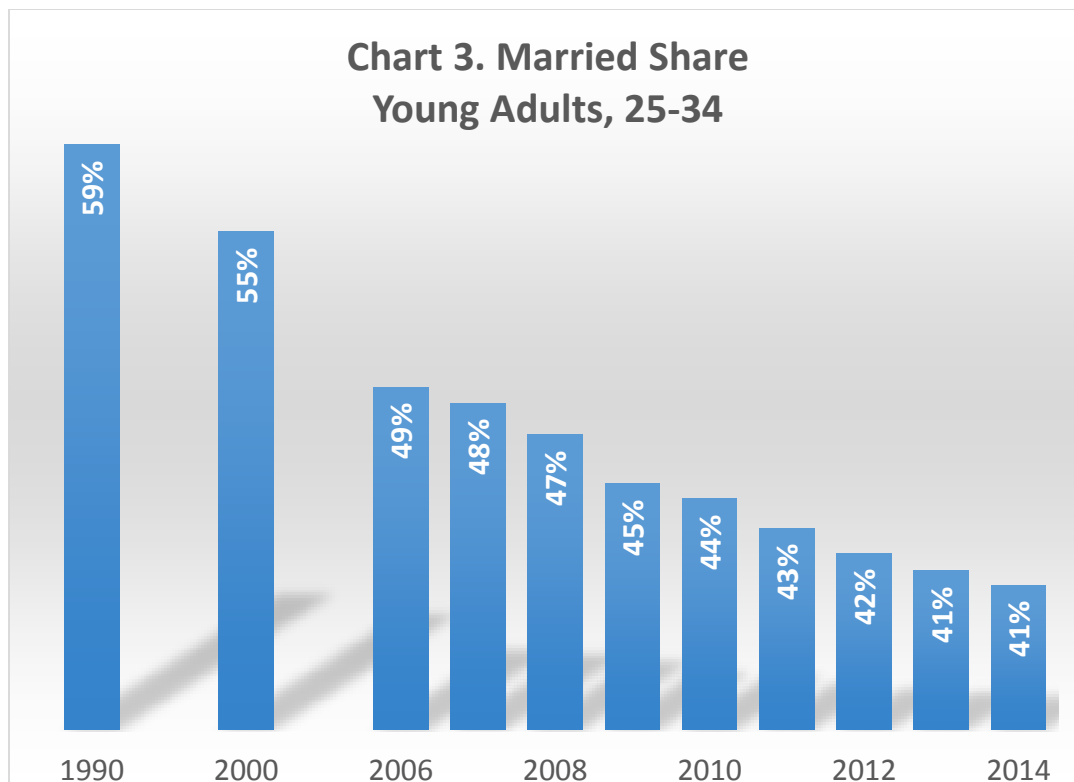


Source: 1990, 2000 Census PUMS, 2006-2014 ACS PUMS, NAHB Estimates

Changing Demographics

The decision of adults to establish their own households rather than live with parents or in-laws depends on many factors, including income, family status, tastes and preferences for independent living and other socio-economic and cultural characteristics. Changing demographics provide some explanation of why young adults tend to stay with their parents or in-laws longer and in higher numbers than before.

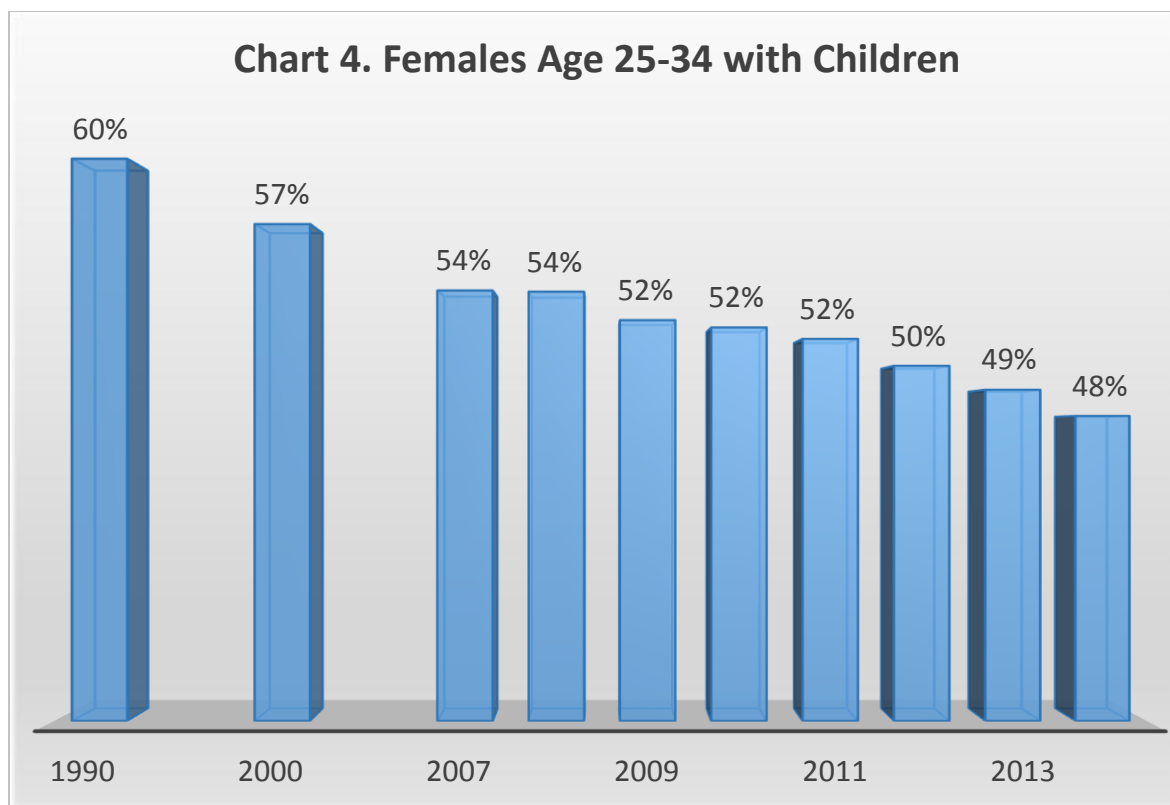
Traditionally, getting married is a life cycle stage when young adults are highly motivated to leave parental homes. The data reveals a steady trend of declining marriage rates for this age group (see chart 3). In 1990, close to 59 percent of young adults age 25-34 were married, that share declined to 55 percent by 2000. The trend never reversed and by 2014, the share of married 25-34 year-olds dipped below 41 percent.



Source: 2000 Census PUMS, 2006-2014 ACS PUMS, NAHB Estimates

Similarly, having children and starting a family provides strong incentives for independent living and having your own home. However, the data show that fewer and fewer females have children before they turn 35.

In 1990 and 2000, the clear majority of 25-34 year-old females had their own children. The share of 25-34 year-old females with children was close to 60 percent in 1990 and dropped just a bit, to 57 percent by 2000. However, by 2014 the majority became the minority, and only 48 percent of females in this age group have their own children (see chart 4).



Source: 1990, 2000 Census PUMS, 2006-2014 ACS PUMS, NAHB Estimates

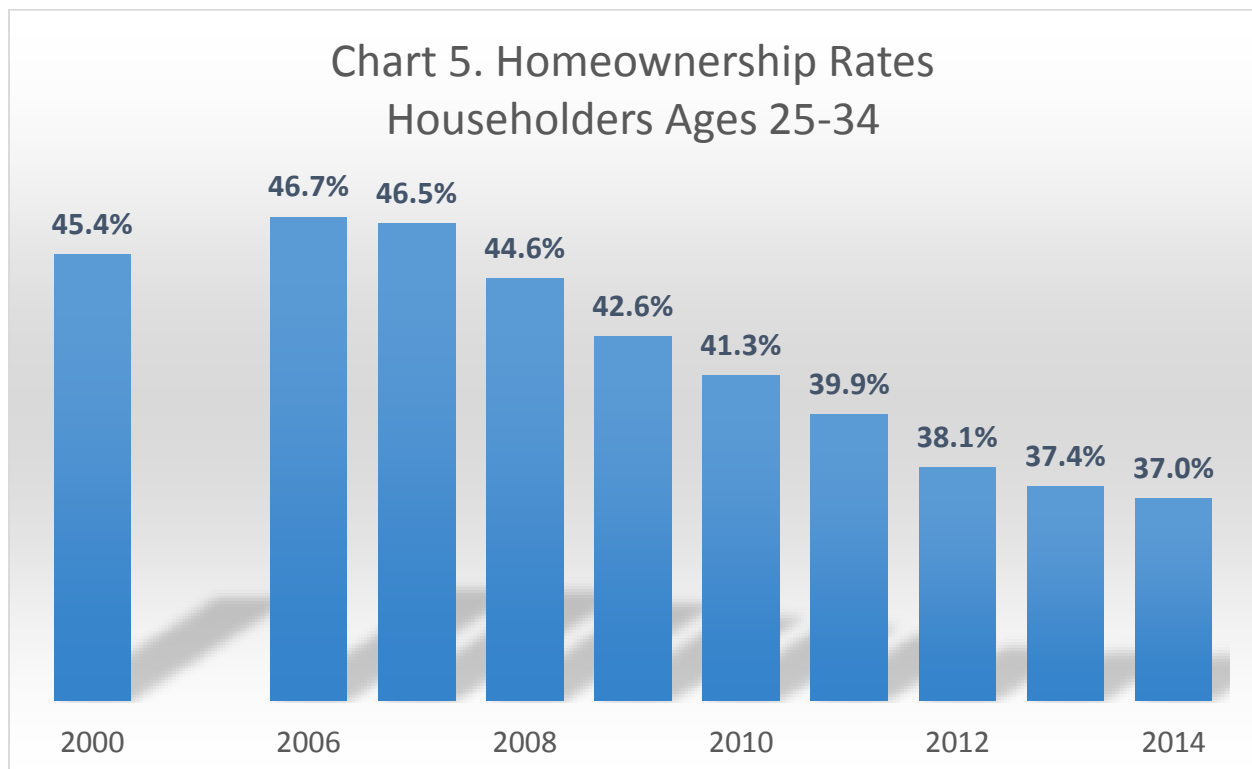
Since college students are more likely to live with parents, increased college enrollment is often mentioned as another factor contributing to the rising numbers of young adults living with parents. The data suggest that school attendance plays a more important role in the decision of younger college-age adults to stay with parents. While the majority of 18-24 year olds are in school, less than 13 percent of 25-34 year olds are enrolled in college or other school, as of 2014. The comparable shares in 1990 and 2000 were just slightly below, close to 12 percent. The share rose from 12 percent in 2007 to 14 percent in 2011 but came back down to under 13 percent by 2014. These short-term fluctuations suggest that college attendance among 24-35 year olds is cyclical rising during the periods of high unemployment and declining as the economy improves but contributing little to the long-run trend of rising shares of young adults living with parents.

A more diverse ethnic profile of young adults in the United States is also often cited as a factor contributing to the declining headship rates and diminishing preferences of young adults to run their own households. Hispanics, in particular, have larger households and form them later in life.

The data indeed show that the share of Hispanics among young adults age 25-34 is higher now than it was 14 years ago, 20.3 percent in 2014 versus 16.3 percent in 2000. However, it fluctuated around 20 percent, with no clear trend, since at least 2006. Therefore, it would be hard to attribute the recent steady gains in the share of young adults living with parents and headship rate declines since 2006 to a changing ethnic make-up of 25-34 year olds.

Immigrants, especially newly arriving to the United States, are also known to have lower headship rates than the native-born Americans³. However, the 2006-2014 ACS data show the share of immigrants among young adults age 25-34 in the US actually declined from more than 20 percent in 2006 to under 18 percent in 2014. Therefore, the recent declines in headship rates and stronger preferences of young adults to live with parents cannot be explained by changes in the cultural and ethnic mix of young adults.

Looking at young adults ages 25-34 who were able to strike out on their own and form their own households, the data reveal a shift in decisions towards renting and away from homeownership (see chart 5). In 2000, 45.4 households lead by young adults ages 25-34 were able to own their home. Homeownership rates rose even higher and came close to 47 percent at the peak of the housing boom in 2006 and 2007. The housing bust and economic recession that followed reversed the trend dragging homeownership rates down. The share of homeowners dropped to 44.6 percent in 2007 and kept declining ever since. By 2014, only 37 percent of households lead by 25-34 year olds lived in a home they owned.



Source: 2000 Census PUMS, 2006-2014 ACS PUMS, NAHB Estimates

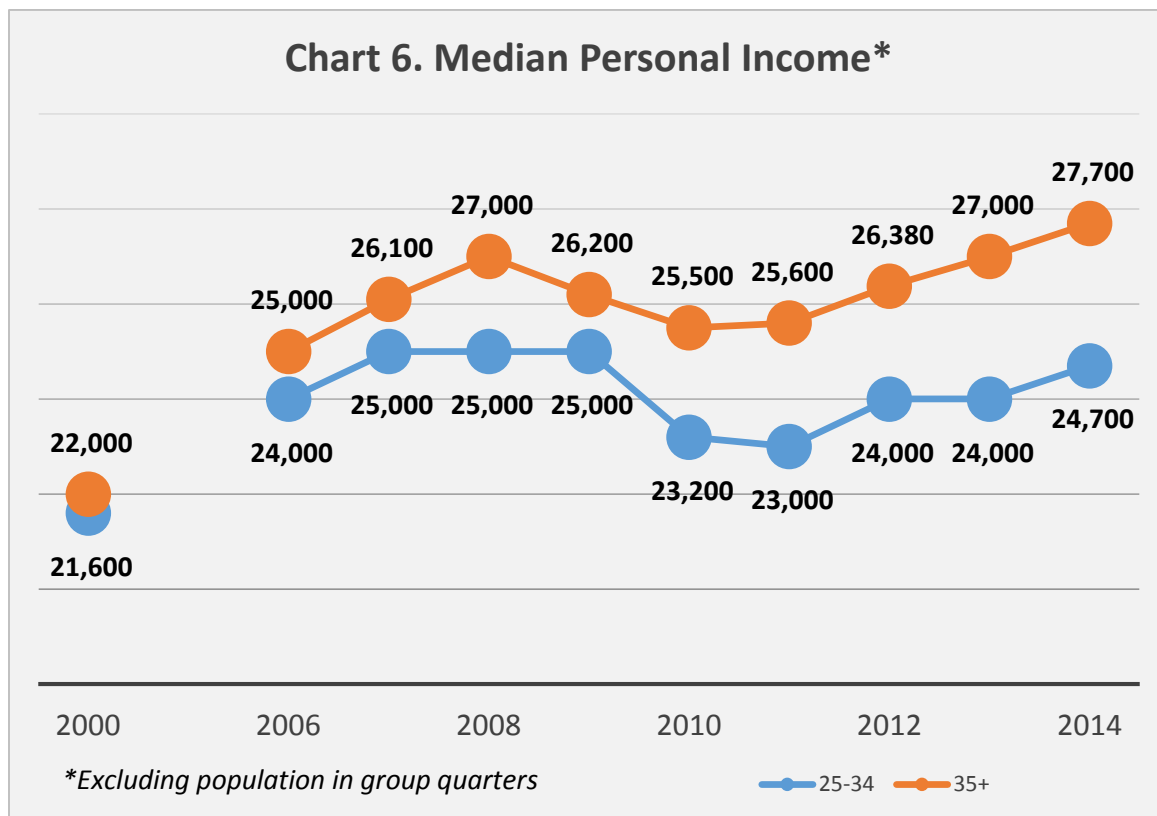
Unwilling or Unable to Leave Parental Homes?

The latest study in NAHB's long history of tracking the evolution of home buyer preferences that was released at the 2016 International Builders Show, ***Housing Preferences of the Boomer***

³ See N. Siniavskaia, ["Immigrants and Housing Demand"](#), *Housing Economics Online*, August 2012

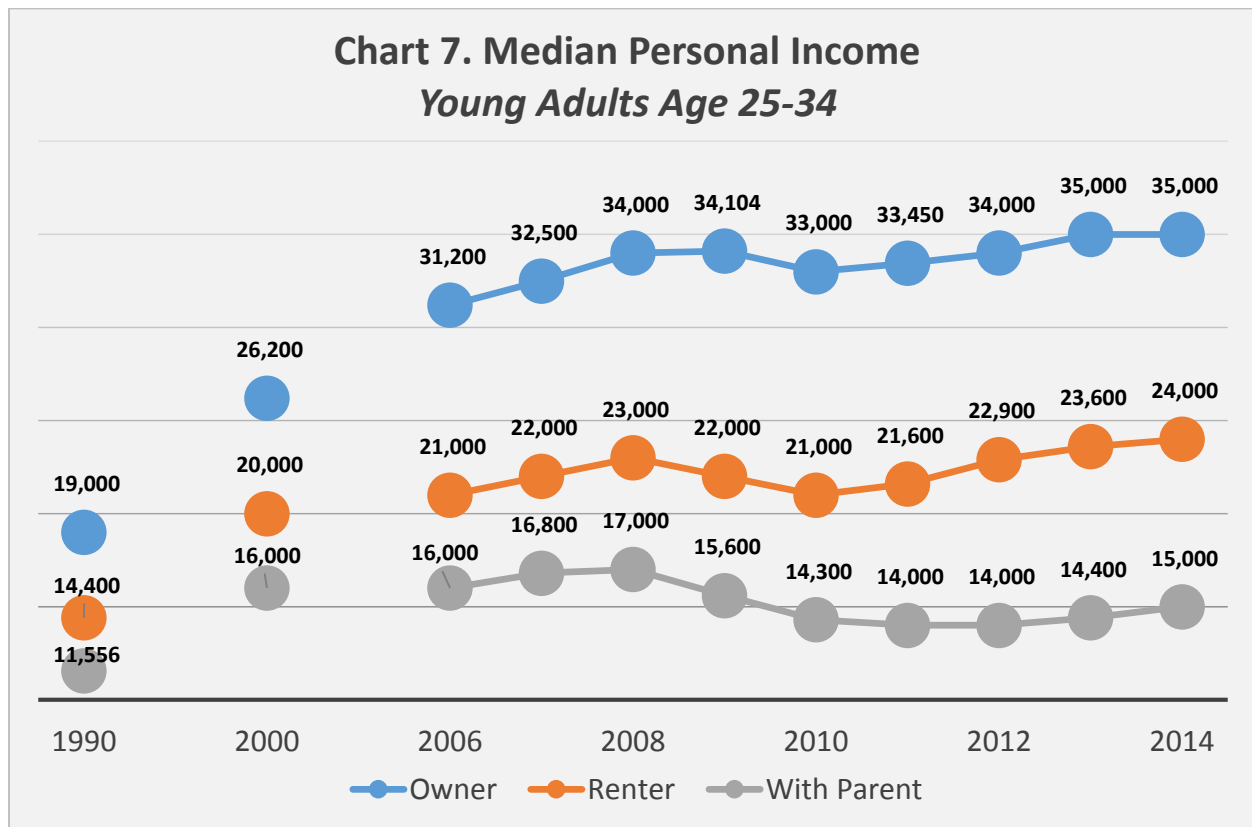
Generation: How They Compare to Other Home Buyers, shows that three out of four adults age 35 or younger plan to buy a home within the next three years. This suggests that the desire to live independently and own a home is still strong among young adults and the economic factors are likely to be a strong contributing factor to delaying independent living and running a household.

Comparing how the median personal income across different age groups changed since 2000 reveals that young adults ages 25-34 are among the most severely affected by stagnating incomes that were characteristic of the US economy in recent years. The median personal income of young adults ages 25-34 showed little growth, even in nominal terms, since 2006, fluctuating around \$24,000 for almost a decade. Meanwhile, the median income of adults age 35 and older increased almost 11 percent since 2006. Consequently, the median personal income of older adults is now 12 percent higher than that of adults ages 25-34, while the income gap between these age groups was almost non-existent in 2000. The 1990 decennial census also registers no significant income gap between adults age 25-34 and the older group. In fact, the median income of younger adults was slightly higher than of those ages 35 and older in 1990.



The lack of income growth for the younger adults undoubtedly undermined their economic ability for independent living. Another way to see the importance of economic factors driving a decision for independent living is to compare personal incomes of young adults who live with their parents or in-laws and those who were able to strike out on their own.

As Chart 7 shows, there was always an income gap between young adults living with parents and those moving out and running their own households. Not surprisingly, young adults who own a home are the top earners in their age group. They also registered significant gains in personal income (though not adjusted for inflation), with the median income rising from \$26,200 in 2000, to \$31,200 in 2006 and further to \$35,000 by 2014.



Meanwhile, the young adults living with parents earn significantly less than their peers do, partially because they are twice as likely to be unemployed⁴. More importantly, this group registered no growth in personal income since 2000. Even worse, their median personal income is now lower than it was 14 years ago, \$15,000 in 2014 compared to \$16,000 in 2000.

The result is a significantly wider income gap between those who are able to leave parental homes and those who stay with parents. Homeowners age 25-34 earned 1.6 times what those living with parents made in 1990. The ratio stayed the same in 2000. However, it increased to 2 in 2006 and by 2014 the ratio was 2.3. Similarly, the income ratio of young renters and those living with parents stayed the same in 1990 and 2000, around 1.25. However, by 2016, renters ages 25-34 were making 1.6 times more than those living with parents.

The analysis suggests that the income requirements for independent living, and especially for owning a home, increased over the years, leaving many young adults with stagnating incomes behind, at homes of their parents.

⁴ See N. Siniavskaia "[Young Adults Living with Parents](#)", *Housing Economics Online*, February 2014