Financial FAQs

2014 Household Formation Rebounds

By **Harlan Green** / Special to CASA

BREAKING NEWS. In the latest Homeownership & Vacancy Survey, the Census Bureau estimated that household formation surged to 1.7 million in 2014, from 400,000 the previous year. This means household formation, which is the bottom line demand factor for RE sales, mortgage financing, as well as the insurance and construction industries — really anything related to the housing market — is finally beginning to show growth from the horrible post-Great Recession years.

Projections were for a recovery to 800,000 new households in 2014, but it looks like millennials are beginning to leave home, or even college, and form new households in greater numbers—especially the oldest ages from 30 to 36 years. Most demographers agree millennials were born between 1980 to 1996, which means the oldest are reaching the age when they want to start a family, and that usually means buying a home.

Many in that age bracket have been renting, and we actually saw a 2.1 million surge in rental units in 2014, which has to account for many of the new households, according to the Census Bureau survey.

In fact, over the past year, all the growth in net household formations has been among renters, according to the U.S. Census. For those 35 years old and younger, their home ownership rate has fallen from 44 percent to 36 percent over the past decade, which is why construction of multi-family apartments is at the highest level in a quarter-century this year.

And we know why. They can't afford to buy until they reach an older age—in fact 30 years of age is when they achieve the median income wage of $42,000, according to a new Georgetown University study.

Through analyzing about three decades of census data—from 1980 to 2012—the study found that on average, young workers are now 30 years old when they first earn a median-wage income of about $42,000, a marker of financial independence, up from 26 years old in 1980.

Economists now estimate millennials will spend some $1.6 trillion on home purchases and $600 billion on rent over the next five years, more per person than any other generation, with more of them opting for more affordable rents versus paying the big price tags to buy homes, according to a new report from The Demand Institute, a non-profit think tank operated by The Conference Board and Nielsen. Millennials will form just over eight million new households, albeit most of them rental households, as we said.

But there is some good income news. The 2014 numbers aren't in for a breakdown in median incomes, but the Q4 2014 Federal Reserve Flow of Funds report says the net worth of households and nonprofits rose to $82.9 trillion during the fourth quarter of 2014. The value of directly and indirectly held corporate equities increased $742 billion and the value of real estate rose $356 billion.

This can only boost the millennial generation's financial well-being as well, and so the housing market and its ancillary industries.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.