

## Millennials, Baby Boomers, and Rebounding Multifamily Home Construction

By Jordan Rappaport

*Multifamily home construction has recently rebounded, driven primarily by young adults swinging back toward living in apartments following a swing toward single-family homes during the housing boom. In the longer run, however, baby boomers will primarily drive multifamily construction as they age into their senior years and downsize from single-family homes to apartments.*

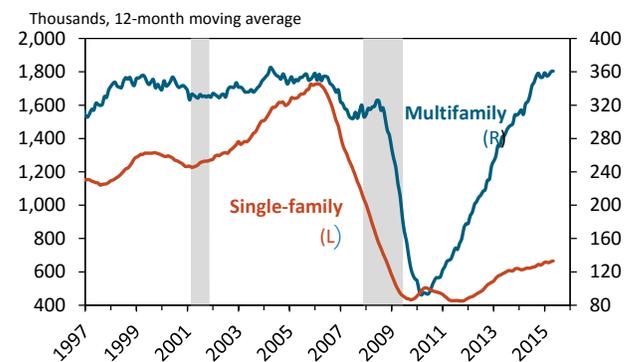
This spring, single-family home starts bounced back strongly from their winter contraction and are likely to grow at a moderate rate for the rest of 2015. Even so, the current rate of single-family starts remains almost two-thirds below its peak prior to the housing crisis and more than one-third below its level during the late 1990s. In sharp contrast, multifamily home starts have rebounded entirely from their trough during the housing crisis (Chart 1).

Millennial young adults (ages 20-34) have primarily driven the recent rebound in multifamily home construction, reversing their earlier swing toward single-family homes during the housing boom. From 2000 to 2007, young adults vacated one-half million multifamily units, thereby depressing multifamily construction. From 2007 to 2013, however, young adults reclaimed one-half million multifamily units, requiring builders to construct new ones. The implied one-million unit swing from moving out of multifamily units to claiming new ones accounts for much of the construction rebound.

Some have interpreted the recent increase in young adults' multifamily occupancy as reflecting millennials' stronger preference for living in apartments relative to Generation X. However, most of the increase simply reflects a return to trend behavior.

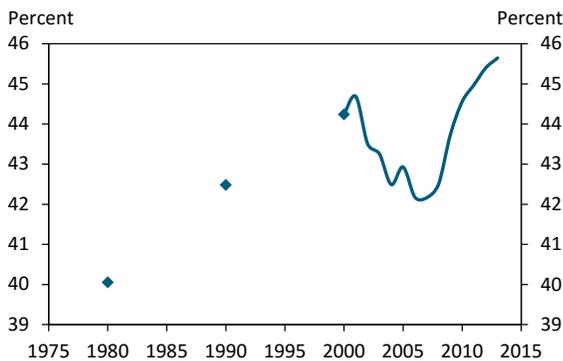
From 1980 to 2000, the share of young adults living in multifamily units steadily increased by almost 5 percentage points (Chart 2). The increase was due largely to young adults delaying having children and getting married during this time. From 2000 to 2007, the share temporarily decreased. Relaxed access to mortgage credit and expected home price increases during the housing boom caused many young adults to purchase single-family homes. Since then, young adults' multifamily share has moved back up toward its long-

**Chart 1: House Starts**



Notes: Starts data through May 2015.  
Sources: Census Bureau, Haver Analytics.

**Chart 2: Share of Young-Adult Households Living in Multifamily Units**



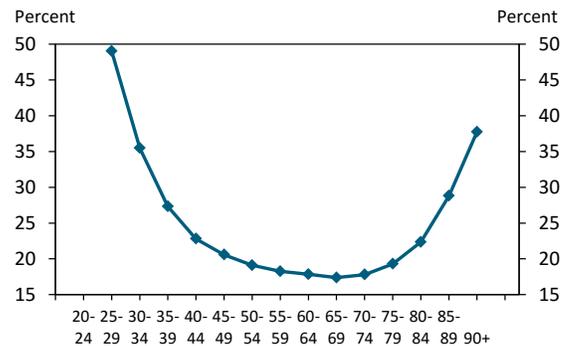
Note: Age based on head of household.  
Sources: Census Bureau, Ruggles, author's calculations.

run trend. The share's upward movement more than accounts for the recent increase in young adults' multifamily occupancy—in fact, the increase would have been even larger had it not been offset by a large increase in the number of young adults living with their parents.

In contrast to young adults, multifamily occupancy among older adults (ages 50 to 69) increased steadily from 2000 to 2013. The number of multifamily units occupied by older adults rose by 1.1 million from 2000 to 2007 and by another 1.3 million from 2007 to 2013. Indeed, older adults accounted for the entire net increase in occupied multifamily units over the combined 2000-13 period. However, the rate of construction needed to meet their increasing demand had to rise only modestly in the 2007-13 period compared with the 2000-07 period, and so older adults did not drive the recent multifamily rebound.

In the long run, seniors (ages 70 and above) will likely supplant young adults as the main driver of growth in multifamily home construction. Seniors are increasingly downsizing from single-family homes to apartments as they grow older. As shown in Chart 3, the share of households living in multifamily units in 2013 began to modestly rise at age 70 and more steeply rise at age 75. The leading edge of the baby boom turns 70 next year, and the Census Bureau projects that the number of Americans ages 70 and older will increase by more than 20 million from 2015 to 2030. As the senior population swells—and more seniors downsize to multifamily units—multifamily home construction will increase strongly for many years.

**Chart 3: Share of Households in Multifamily Units by Age (in 2013)**



Note: Age based on head of household.  
Sources: Census Bureau, Ruggles, author's calculations.

\* Jordan Rappaport is a senior economist at the Federal Reserve Bank of Kansas City. For more, see "Millennials, Baby Boomers, and Rebounding Multifamily Home Construction," Economic Review, forthcoming. The views expressed are those of the authors and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.