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# Land and the City

Edited by George W. McCarthy, Gregory K. Ingram, and Samuel A. Moody



## Land Policy Series

*Education, Land, and Location* (2014)

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## PREFACE

The majority of the world's population now lives in urban areas and depends on urban systems for housing and social and economic goods and services. This number will only increase as cities blossom and expand to accommodate new residents, particularly in developing nations. What remains unchanged, however, is the key role of cities as engines of economic growth, social activity, and cultural exchange. In an effort to support the success and sustainability of cities, this volume explores how policies regarding land use and taxation affect issues as diverse as the sustainability of local government revenues, the impacts of the foreclosure crisis, and urban resilience to climate change.

This collection, based on the Lincoln Institute of Land Policy's 2014 annual land policy conference, addresses the policies that underlie the organization, financing, and development of the world's cities. It is the final volume in the Institute's land policy conference series. Over the years, these meetings have addressed land policy as it relates to a range of topics, including local education, property rights, municipal revenues, climate change, and infrastructure.

We thank Armando Carbonell, Martim Smolka, and Joan Youngman for their advice on the selection of topics and on program design. The conference was organized by our exceptional event team, comprising Brooke Burgess, Sharon Novick, and Melissa Abraham. Our special thanks go to Emily McKeigue for her exemplary management of the production of this volume, to Peter Blaiwas for the cover design, to Nancy Benjamin for maintaining the publication schedule, and to Barbara Jatkola for her tireless and reliable copyediting.

George W. McCarthy  
Gregory K. Ingram  
Samuel A. Moody

## 2

# *Demographic Change and Future Urban Development*

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Dowell Myers and Hyojung Lee

**T**he future course of population change, housing, and urban development has rarely, if ever, been so uncertain. The United States is still seeking a new normal after the deepest recession with the longest-lasting effects since the Great Depression. What makes this all so confusing is that short-term adjustments are overlaid on longer-acting trends, and the interplay between the two is uncertain, especially as the long-anticipated recovery continues to be delayed. Are the recession-derived behaviors the new normal? Will everything revert to long-term trends by the end of this decade? Or is a new mind-set being incubated that will remake the long term even after full recovery?

In the absence of hard data about the future, science is extremely limited in what it can explain. In the vacuum, many interpretations are being offered, some focusing on the near term and others extrapolating to the decades ahead. An irony of the dialogue is that, with some regularity, the most vocal urban observers interpret the postrecession behavior as evidence in support of exactly the same policy changes they advocated before the recession. Clearly, the longer-term trends are of crucial importance, with the recession effects either simply a diversion or an underscore. Sorting out these effects is difficult, but this chapter seeks to shed light on the matter.

The chapter is divided into two parts—a broad overview and then a discussion of three key topics. The overview addresses various trends and their interactions, as well as the dilemmas presented by attempting to predict the always uncertain future, especially in light of the massive disruptions caused by the Great Recession and its many ensuing behavioral adjustments. Short-term

effects resulting from the recession have combined with other, longer-running or preordained trends, such as age structure shifts, making predictions of the future of urban development even more confusing.

Following this substantial overview, three key topics receive particular attention. First are the fundamental demographic changes reshaping society and the urban development required to accommodate the growing U.S. population. Special attention is given to two groups that are the primary drivers of urban change: young adults under age 35, including the millennial generation, and seniors over age 65. The young represent a source of potential new households and home buyers, and they also carry new generational preferences. In contrast, the seniors hold established, long-settled positions that will be surrendered to the younger generation over the next two decades. They also possess a storehouse of owner-occupied housing awaiting resale.

The second topic for close inspection is the recent shift in locational growth within the nation's metropolitan areas. How intrametropolitan patterns will change in the coming decades is unknown, but close examination of the changes over the past two decades in the top 50 metropolitan areas can provide insight into how locational preferences may be shifting, particularly for young adults under age 35 who are college educated. This chapter presents evidence that can be used to scrutinize the inward and outward shifts of these different groups within the large metropolitan regions that are home to more than half of the U.S. population.

Finally, the chapter presents a reasoned projection of the future trends in home ownership, the fundamental tenure division (owners and renters) within the stock of households that underlies other patterns of urban development. The method used to examine this topic is a proposed generational momentum model that exploits the temporal regularities of cohort accumulation of home ownership over time. We have constructed alternative scenarios based on recent and past precedents that we think might better inform policy choices. This outlook underscores a powerful generational momentum already in progress, with a well-advantaged older generation passing into retirement that is increasingly separated from a lagging younger generation that is struggling to achieve first-time home ownership. The success of the millennials in particular is a vital component of the housing market, and policy makers would be well served to pay much greater attention to this group.

## *Overview of Issues* ---

### QUESTIONS ABOUT CHANGES IN DEMOGRAPHICS

In answering questions about a new urban America, some of the most reliable—albeit still uncertain—evidence to explore is the United States' changing demographics. A complicating factor is that so many changes are taking place at once.

The “next America,” as many have called it,<sup>1</sup> will be more racially and ethnically diverse, containing more immigrants and their children, and it will face profound changes in age structure and lifestyle. The baby boomers will be entering their retirement years, leading to a new experience of massive graying in America. Meanwhile, population growth in the prime middle-age years will all but cease, and working-age population growth will depend wholly on the diverse younger generation, much of it derived from immigrants (Myers, Levy, and Pitkin 2013). Demographic projections by age and race, as uncertain as they can be, are among the best data that inform the future.

At the same time, family lifestyles are also changing. Children are becoming less numerous because fertility continues to run below replacement levels, even though the deficits are not as deep in the United States as in Europe and Asia. Fewer children per woman is part of the new family lifestyle. Women’s participation in the labor force is approaching men’s, while their education levels have surged ahead of men’s. The newfound acceptance of same-sex marriage marks a broader trend toward normalizing the diversity of alternative family lifestyles. The great majority of people will live in housing units in urban settlements, and their diverse lifestyles will surely impact locational preferences and future urban growth patterns. The United States last encountered such large demographic changes in the 1970s, when the baby boomers were coming of age, causing the American planner and economist William Alonso late in his career to focus on “the population factor” (Alonso 1980). Changing demographics involve so many factors of potential interest that they can be bewildering in variety. The foundational themes that are best documented and have the broadest consequences are addressed later in this chapter.

### SURPRISING NEW TRENDS IN LOCATIONAL PREFERENCES

The strongest potential indication of changing urban preferences follows from the latest trends reported each year by the U.S. Census Bureau as estimates of net changes in population. The trends that have followed in the wake of the Great Recession reveal some startling shifts. Between 2010 and 2013, big cities saw their populations grow for the first time in decades (Roberts 2014b), and large metropolitan areas began to grow faster than smaller ones (Florida 2014). The *New York Times* even reported a surprising racial shift in New York, with the white, non-Hispanic population growing in number, contrary to past assumptions of the continued decline that began in the 1960s (Roberts 2014a). All these

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1. See *The Next America* by Paul Taylor of the Pew Research Center (Taylor 2014); the Next America, a continuing project on Next America directed by Ronald Brownstein at the *National Journal* ([www.nationaljournal.com/next-america](http://www.nationaljournal.com/next-america)); and *America’s Tomorrow*, a newsletter produced by PolicyLink ([www.policylink.org/focus-areas/equitable-economy/americas-tomorrow-newsletters](http://www.policylink.org/focus-areas/equitable-economy/americas-tomorrow-newsletters)).

trends would be truly remarkable if they were to persist for the next decade or more.

The new popularity of cities has generated major competition between old and new groups for the same housing in older city neighborhoods. These neighborhoods have enjoyed resurgent growth, and no matter the public benefits of bringing the middle class back into the core of the city (Birch 2012), this is often accompanied by rampant gentrification, which has been spawned by college-educated families outbidding working-class families for property, thus squeezing the latter into the outer suburbs, where housing is now cheaper. The process has led to an “inversion” that is said to be turning cities inside out (Ehrenhalt 2013).

How well do these postrecession trends foretell the future? The flood of young people moving into cities might be due to new preferences, or it might just be a quirk of demographics and temporality, not an indication of future trends. Demographers have been cautious about inferring new preferences from current data. Many have observed that the recession and its aftermath have slowed the normal life-cycle progress of young adults, delaying marriage and childbearing. As a result, the out-movement of people ready to take advantage of better housing opportunities may have only been delayed, with the recession bottling them up in urban districts on a temporary basis (Johnson, Winkler, and Rogers 2013). Consistent with the delay thesis, employment progress also has been stalled, and with economic prospects so uncertain, young adults have remained in their parents’ homes or in shared starter apartments longer than expected.

Meanwhile, the inflow of young people has been escalating. The number graduating from college and launching into adulthood has continued apace, but the millennial generation is also larger than its predecessor, the number of births per year having risen steadily from 3.14 million in 1975 to 3.61 million in 1980 and 4.16 million in 1990, before falling off to 3.90 million in 1995 (Martin et al. 2013). This indicates that the number of native-born adults arriving at age 25 will grow until 2015, after which the wave will advance to age 35, cresting in 2025. (The added effects of immigrants are considered later in this chapter.)

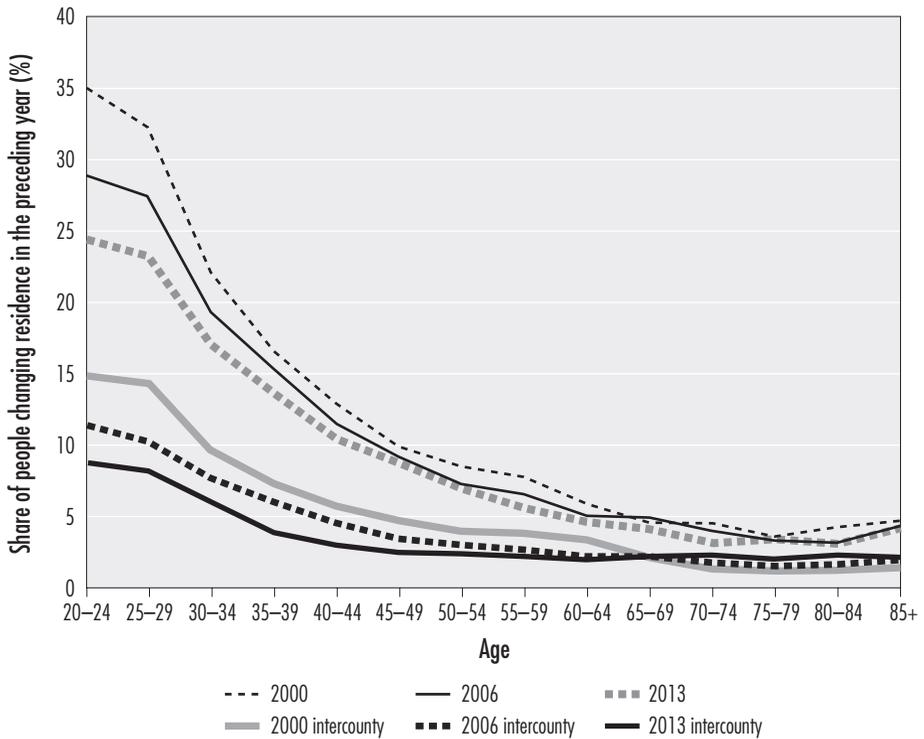
The demographic explanation for recent urban resurgence is, therefore, simply that the larger size of the millennial generation would, under any circumstances, be expected to raise the population in urban districts serving twenty-somethings. However, the impact of this growing inflow has been compounded by the slowing outflow resulting from the recession. These factors have in good part led to strong city growth and increasing vitality of many urban neighborhoods. The question is whether the millennials will remain in those places when they are five to ten years older, or whether a pent-up wave of out-movers is waiting to be unleashed on new housing destinations.

These dramatic short-range adjustments are appearing in the context of a long-standing trend toward a slower pace of geographic relocation. Prior to the mid-1980s, about 20 percent of the U.S. population moved to a new residence in a given year. Ever since then, the annual rate of geographic mobility has fallen steadily, reaching 13.7 percent in 2006 and 11.7 percent in 2013. In fact, mobil-

ity is much more common among young people than old, and so the overall aging of the population has contributed to the general slowdown. An additional reduction in mobility has been observed within each age group, however. More of the slowdown appears to have occurred in long-distance mobility (intercounty), which is often job or lifestyle motivated, although the slowdown also has included local mobility.

Figure 2.1 provides a detailed picture of the slowing relocation by age and distance. Even though relocation remains far more frequent among the young, the reduction in geographic mobility from 2000 to 2013 appears to have been greatest among young people. Further, the slowdown before the recession, from 2000 to 2006, appears to have been just as great as after it. The reduction in geographic relocation is a long-standing trend that has eluded clear explanation (Frey 2009; Molloy, Smith, and Wozniak 2011), and now it has been complicated by its interaction with the Great Recession and its aftermath.

**Figure 2.1**  
**Geographic Mobility by Age Group, 2000, 2006, and 2013**



Urban commentators have ascribed many meanings to the changes in geographic relocation, even if social scientists have no clear explanations for the slowdown. A popular thesis is that whatever is growing must be preferred, even if the new trend suggests a wildly different preference than before. Though tempting, it may be premature to claim a bold new future based on this moment of temporary adjustment. A more cautious interpretation would be the aforementioned demographic thesis that population movements have simply been delayed, bottling people up in old locations that they will vacate as soon as full recovery is achieved. Nonetheless, even under the demographic thesis, it would be foolish to assume that urban behavior will completely return to what it was before the recession and that nothing has changed from the seven-year experience of deep recession and delayed recovery. The future likely will comprise some mix of long-term trends and recent changes.

#### UNCERTAIN TRENDS IN HOME OWNERSHIP FOLLOWING THE GREAT RECESSION

Among the most significant trends shaping the course of future urban development is home ownership. The reputed “American dream,” which entails the desire for home ownership, has fueled suburbanization and expansion of the metropolitan fringe ever since Brooklyn became the first suburb in the United States (Jackson 1987). The devastating housing market crash following 2007—the first nationwide downturn in house values since the Great Depression—potentially marked the end of post–World War II urban expansion. Certainly, geographic mobility has slowed dramatically, and it seems that a turning point might have been reached.

The housing market crash had traumatic effects on millions of Americans, both participants and observers. Fully 4.4 million homeowners lost their homes through foreclosure between 2007 and 2013 (CoreLogic 2013; Immergluck 2011). A far greater number suffered a loss of home equity that threatened their personal well-being. As of May 2014, 12.7 percent of homes were valued lower than their mortgage balances (making them “underwater”), and another 20.6 percent were “under-equited,” meaning their owners were effectively locked in place because their slim home equity was insufficient to cover the transaction costs of selling their current home and buying a different one (CoreLogic 2014). Upwardly mobile minorities and young adults suffered the greatest losses, driving them back to the bottom (Kochhar, Fry, and Taylor 2011) and casting doubt, for the present at least, on home ownership’s future role as an escalator into the middle class.

The group with the greatest potential to remake urban America is the rising millennial generation. Not only are they the most numerous group since the baby boomers, but they are also at the life stage where generations are most open to social change (Ryder 1965). Young people are the ones most likely to choose urban, rather than suburban, locations, and they may be incubating new values regarding home ownership and sustainable urban lifestyles. The financial crisis

that began in 2007 has dominated all of their adult years, and the longer a full recovery from the recession is delayed, the more the lifestyles they have adopted could become entrenched as the new normal. In fact, blog writers and national commentators have advised millennials that based on the recent traumas, home ownership might be an unwise venture, that renting is surely a safer course for life. Even though the public continues to express resilient support for home ownership, as reflected in the periodic surveys by Fannie Mae,<sup>2</sup> opinion leaders from the millennial generation remain suspicious and urge caution (Rampell 2014).

The plunging rate of home ownership has become the subject of contentious assessment. On one hand, this decline and the growing number of renters have been taken as clear evidence that home ownership has lost its value and ceased its role as the centerpiece of urban settlement. Between 1970 and 2000, the home ownership rate remained fairly steady at around 64 percent of households, but after 1995 it surged upward, peaking in 2004 at 69.2 percent. Since 2008, the home ownership rate has fallen steadily, by about half a percentage point per year, reaching 63.9 percent in the final quarter of 2014, thus erasing all the gains since 1995.<sup>3</sup> The question remains how much further will the home ownership rate fall.

On the other hand, a prevalent optimistic assumption among housing experts is that the decline is due to be stemmed, largely because the home ownership rate has returned to its long-term normal level of about 64 percent (Gabriel and Rosenthal 2015; McCue 2014). This view is supported by quantitative projections that hold constant current conditions. But those projections assume there will be no long-term effects of the housing bubble and crash, or that the struggling younger generation can be as successful as the younger baby boomers. A worrisome generational momentum has been set in motion, however, with younger adults falling well behind their predecessors.

The risk is that experts have an overly optimistic view of the health of the housing market. As discussed later in this chapter, a more realistic view of the future is required so that policy makers will understand the need to support the struggling generations, whose participation is needed to bolster the weakened housing market. Optimism about the future of that market may be justified only if corrective measures are taken to help first-time buyers.

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2. Among young renters, according to the 2014 Fannie Mae National Housing Survey, fully 76 percent think that owning a home makes more financial sense than renting, 49 percent say they will buy the next time they move, and 90 percent say they will buy at some point (Fannie Mae 2014).

3. These trends are derived from the U.S. Census Bureau's Housing Vacancy Survey (HVS) (U.S. Census Bureau 2014). The rates derived from the traditional decennial census and the annual American Community Survey launched in 2005 run around two percentage points lower.

## CHALLENGES IN PROJECTING FUTURE OUTCOMES IN URBAN DEVELOPMENT

As much as the Great Recession might have disrupted lives and led to a potential “great reset” of urban behavior (Florida 2011), analysts should be cautious about overextending the present recession effects into the future. The surest statement about the recession and its aftermath is that these events have disrupted normal behavior patterns and slowed typical movements or transitions. We suggest that an additional meaning of *reset* following a recession is simply the effect of the synchronization of behavior changes of many actors. All have been disrupted simultaneously and may respond to the same cues about resuming their desired behavior. With synchronization, that resumption could have a powerful impact, as occurred immediately after World War II.

Implications for future development are summarized best through projections that balance many contributing factors. The usefulness of all projections, however, is not their spot predictions, but how well they inform decision making. Projections reveal the implied outcomes of their supporting trends and assumptions. A well-chosen set of assumptions can help define the envelope of possible outcomes, giving a balanced picture of the context that supports judgments of alternative outcomes. When conditions are especially uncertain, planners in business and public agencies have learned to construct different scenarios based on alternative sets of supporting conditions, including alternative policy arrangements and different market conditions (Myers and Kitsuse 2000; Schwartz 1997).

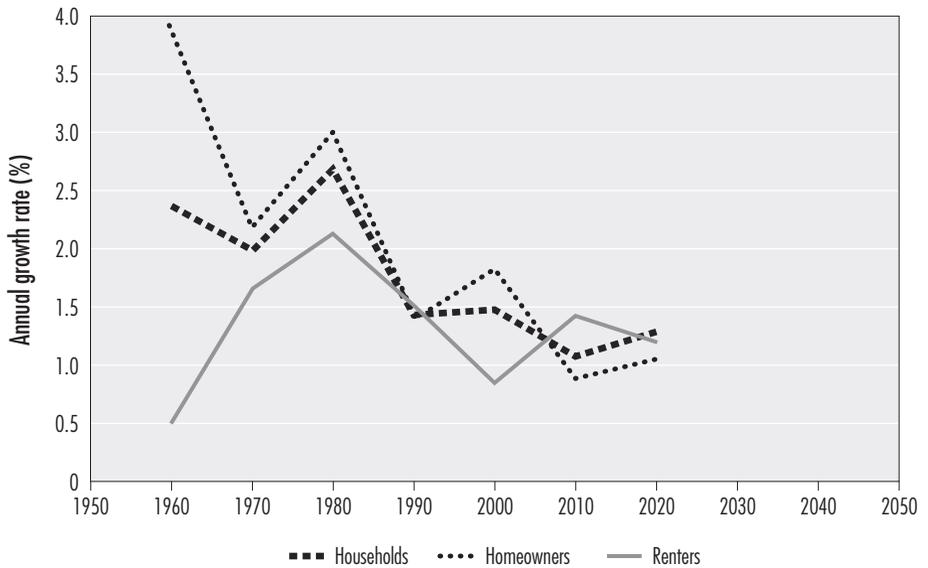
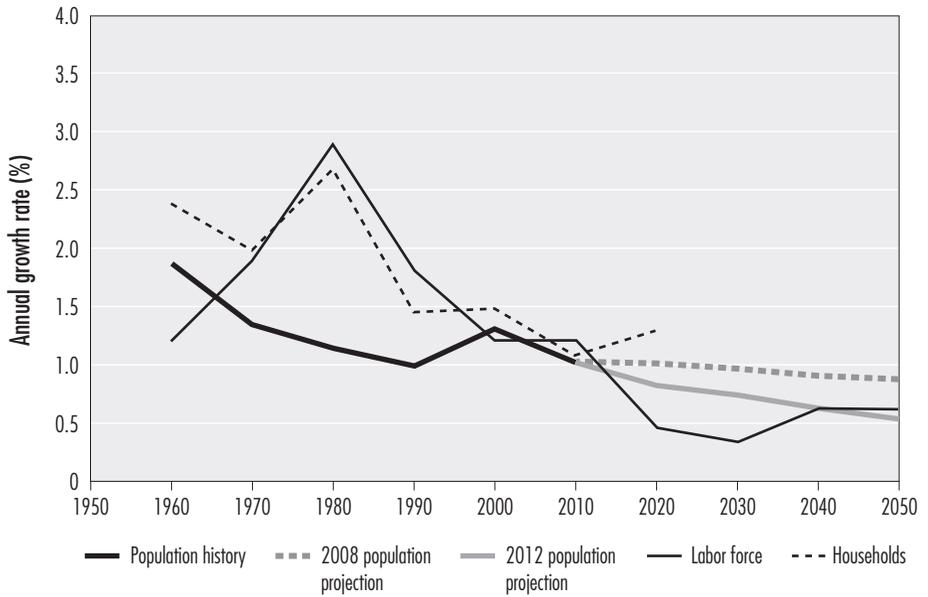
**Limited Data** Unfortunately, in making these assessments, planners have access to little future-based data. The only long-term projections that are generally considered reliable are population projections prepared by the U.S. Census Bureau or labor force projections prepared by the Bureau of Labor Statistics, both pertaining only to the nation as a whole. There are few projections for housing and virtually none for urban growth and development.<sup>4</sup> However, it is possible to construct custom projections that are rooted in the limited data available.

Long-term trends of past and future growth are summarized in figure 2.2, showing the steep slowdown that has been under way in the United States since 1980 and even earlier. The slowing rate of population growth and changing age structure have had serious consequences for the labor force, which surged to a peak when the baby boomers flooded the job market in the 1970s but has progressively tailed off since then. In fact, Thomas Piketty (2014) has described the long-term slowdown in population growth as one of the key drivers of slower economic growth across the developed world (leading to greater weight being placed on capital than on labor). This weakening of the demographic

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4. Only two detailed housing projections have been produced since the Great Recession (McCue 2014; Myers and Pitkin 2013). No postrecession quantitative projections of urban growth are known to exist at present.

**Figure 2.2**  
Annual Growth Rates for Population, Labor Force, and Housing, 1950–2050



Note: Annualized growth rates are computed for the decade ending in the date shown.

underpinning in the United States is hampering recovery from the recent recession and led the Council of Economic Advisers (2014) to issue a report that thoroughly dissects the long-term labor force trend, whose decline is compounded by more factors than aging alone. Nonetheless, a Bureau of Labor Statistics study concluded that the faltering labor force growth is currently the major constraint on reviving economic growth (Woodward 2013). Others might fault cutbacks in consumer spending or the sluggish revival of home construction, but those two factors also are undergirded by slowing population growth, especially in ages 25–44. Housing growth is so important to future urban development that it is included in figure 2.2 as well.

Underscoring present uncertainties, this figure displays two population growth projections by the U.S. Census Bureau, with the 2012 estimates considerably lower than those prepared four years earlier, largely due to substantial downward revision in the outlook for immigration. Labor force growth is the weakest of the 2020 projections because of large losses resulting from retiring baby boomers, while household growth is the strongest, because baby boomers are holding on to their households, while millennials are expected to rapidly form households after previous delays.

Regardless of these long-term trends, a plethora of data are reported in annual or quarterly updates that record short-term changes. It is perhaps not surprising, given the lack of research attention to longer-term outlooks, that news about short-term trends has dominated public discussion about the recovery. The essential challenge for thinking about the future is how to balance both recent and long-term trends.

**Criteria for Forming Longer-Term Outlooks** As attractive as the most recent trends are as a guide to tomorrow, their short duration makes them less reliable in predicting the future than more deep-seated long-running trends or patterns of behavior. Projections that are grounded in these long-running trends may have greater inherent plausibility than other projections based only on current surveys or current preferences of analysts.

As a guide to thinking about the potential building blocks for constructing an outlook on the future of urban development, consider the distinctions among different trend indicators presented in figure 2.3.

Among the more-certain indicators are the predictable changes in population composition due to aging and other factors. Less certain is immigration, whose volume of new arrivals is subject to policy control and has exhibited great volatility over the past 20 years. Nonetheless, these factors affect the population that is eligible to shape urban development patterns.

Rates of behavior can be applied to each segment of the population. These data are more certain if they have remained consistent over the past two decades. Only a few factors have been relatively invariant over time, as shown in figure 2.3. Other factors are also relatively more predictable because they have been chang-

**Figure 2.3**  
**Relative Certainty of Trends as Indicators of Future Outcomes**

More Certain	Less Certain
<p><b>Predictable changes in population composition</b>                      Aging baby boomers with large numbers                      Coming of age of the numerous millennials                      Decreasing predominance of white population</p>	<p><b>Unpredictable changes in population composition</b>                      Boom, bust, and recovery of immigration</p>
<p><b>Behaviors invariant across decades</b>                      Household formation between ages 40 and 55                      Upward mobility of settled immigrants                      Upward mobility of native-born population (save 2005–2012)</p>	<p><b>Abrupt behavior changes associated with Great Recession</b>  <i>Accelerating of past trends</i>                      Applied to most of the above  <i>Decelerating or reversing past trends</i>                      A clear break with past upward mobility into home ownership                      Revived growth of older cities and central neighborhoods</p>
<p><b>Behaviors trending in one direction since 1990 or earlier</b>                      Delayed retirement cumulating since 1985                      Declining geographic mobility at all ages since 1985                      Decreasing housing affordability since 1975                      Falling home ownership rates at ages 20–34 since 1980                      Falling population of large older cities (save 2010–2013)</p>	<p><b>Continuation of accelerated changes from Great Recession</b>                      Uncertain, but likely some carry over to future lifestyles</p> <p><b>Attitudinal changes among consumers and experts</b>                      Promotion of resource-conserving lifestyles                      Promotion of walkable lifestyles in compact neighborhoods                      Supportive of many changes observed above, but uncertain if this differs from values prevalent in 2000</p>

ing in a consistent manner since 2000 or earlier, predating both the bubble and the post-bubble crash. Some changes attributed to the Great Recession, though measured from 2006 to 2012, are actually continuations of long-standing trends. Numerous examples of consistent trends are given in figure 2.3. The slowdown in geographic mobility is a prime example.

In contrast to these invariant or longer-running trends, the short-term disruptions of the Great Recession may or may not have lasting effects. In general, as indicated in figure 2.3, it appears that the recession effects may have accentuated trends already under way prior to the recession. For example, geographic mobility slowed even more than before, retirement delays became more pronounced, and household formation and home ownership both fell among young adults more quickly than previously. Only a couple of trends reversed course during the recession. Cohorts’ upward mobility into home ownership was greatly reduced

among the young and turned negative for middle-aged households. Population declines in large older cities also appear to have reversed course, with population rising from 2010 to 2013.

The lasting effects of recession-induced adjustments are uncertain, although it seems probable that the longer the millennial generation, still in its formative years, languishes in this state, the greater the likelihood is that these young cohorts will acquire lasting characteristics that will persist even after full economic recovery. Nonetheless, we concur with the recent outlook on the millennials expressed by Jason Furman, the chairman of the president's Council of Economic Advisers, which places much greater weight on the persistence of long-standing secular trends than on short-term adjustments (Furman 2014).

### *The Demographic Foundations of Urban America* —————

Demographic change proceeds very gradually, one year at a time, and so it often escapes notice. Periodically, a key benchmark may be passed or a reassessment may be conducted after a census. But for the most part, the gradual change is so slow and steady as to not be worthy of reflection. Over a decade or two, however, the change can seem dramatic, even reversing what analysts took for normal before.

Five key factors are most significant in the changing demographics that shape urban America today: (1) the shifting size of age groups; (2) the rise and fall of immigration; (3) the role of 25-year-olds in urban turning points; (4) growing racial and ethnic diversity; and (5) the soaring senior ratio.

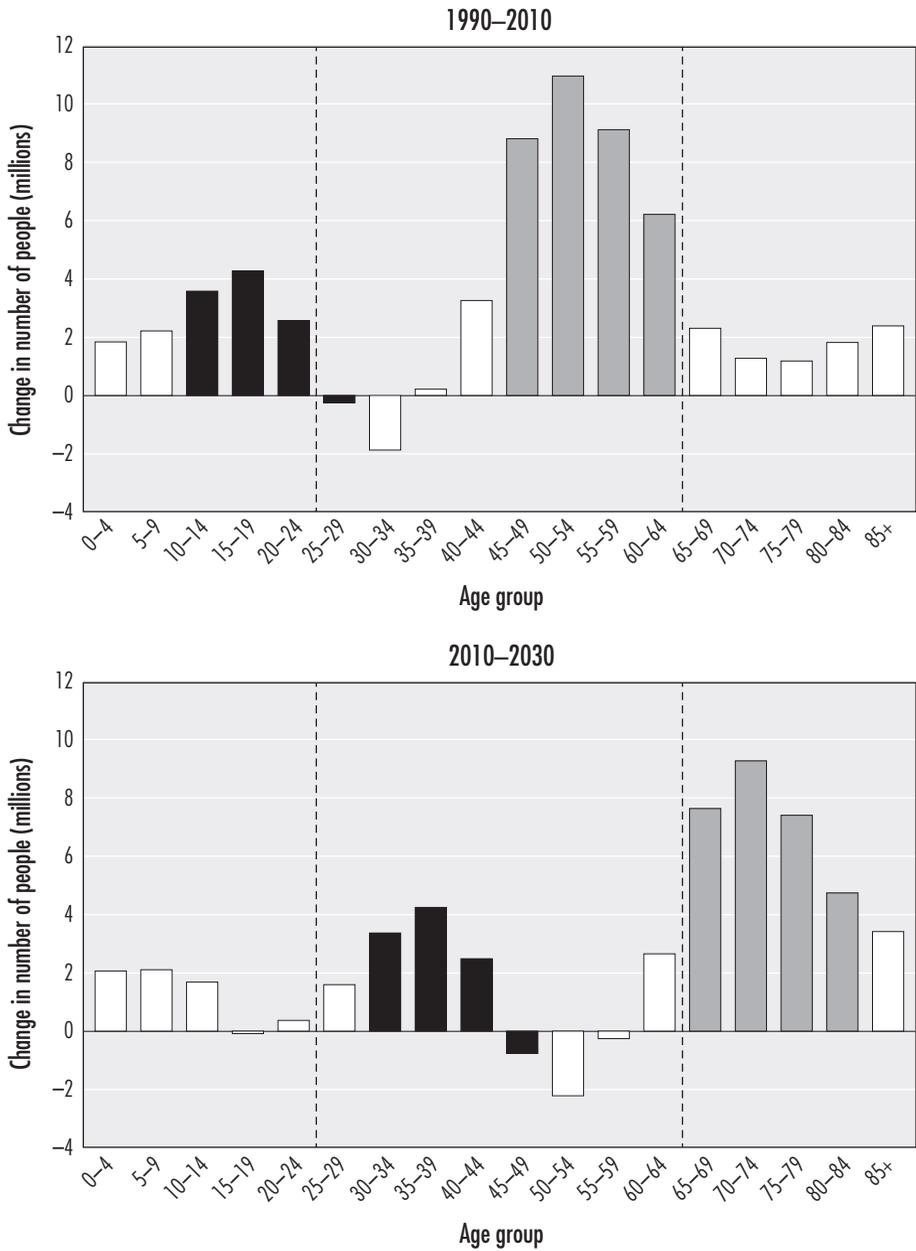
#### THE SHIFTING SIZE OF AGE GROUPS

Consider the changes by age group over the next 20 years compared with those of the past 20 years (figure 2.4). The growth or decline of age groups is important because people of different ages make very different contributions to and demands on society (Lee, Donehower, and Miller 2011). The age range from 25 to 34 is most critical for new family formation, new workforce members, and new housing demand, while that from 65 to 74 has opposite effects, such as increasing retirements and, later, household dissolutions. Figure 2.4 shows that young adults were declining in number from 1990 to 2010. Growth was concentrated in the middle ages, where people earn their maximum incomes and often buy the largest houses, with ample driveway space for teenagers. In contrast, from 2010 to 2030 growth will be resurgent among young adults, the numbers in middle age will be stagnant, and the biggest surge will be in those age 65 and up.

Growth patterns could not be more different in the two eras. Businesses and institutions that were attuned to surging demand among middle-aged population in the 1990s will face slackening demand in the 2010s. Similarly, urban areas that were moribund for lack of young people in the earlier era are now expected to experience an exciting regeneration when the larger-sized millennial generation enters.

**Figure 2.4**

Growth or Loss in Age Groups, 1990–2010 and 2010–2030 (in millions)



These changes will be so dramatic because of the size differences between the baby boom generation (born from 1946 to 1964) and the cohorts that both preceded it and immediately followed it (the “baby bust” generation, also known as Generation X). The millennials (also termed Generation Y, born from 1980 to 2000, roughly) are an echo of the baby boomers because they are mostly the children of boomers. Even though this group is numerically somewhat larger than the baby boomers, the millennials do not stand out in size as much from the preceding and following cohorts as did the boomers. Nonetheless, their entry into adulthood has injected fresh vitality where previously there was only decline.

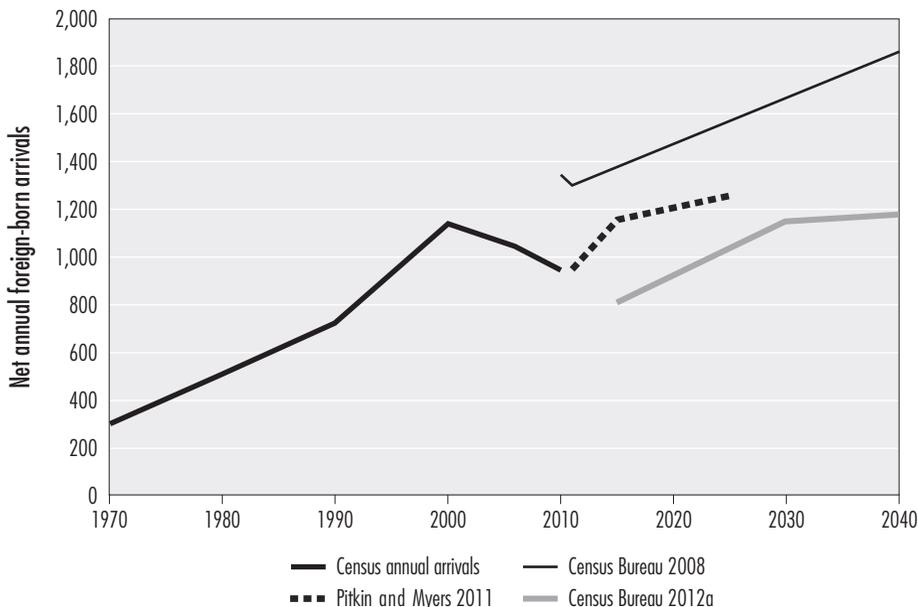
Two major age changes over time deserve the closest attention, one being the impacts of growing numbers of adults in their 20s, and the other being the unprecedented rise in a senior population. Before examining those changes, the important role of immigration should be considered.

### THE RISE AND FALL OF IMMIGRATION

In contrast to the stability of age changes, among the most volatile demographic changes is immigration, mainly because it is subject to uncertain policy changes, but also because immigration tends to respond to growth in labor demand, which varies over the economic business cycle. A sizable amount of immigration each year is not authorized by official policy and is undocumented, making its analysis even more elusive. Nonetheless, the decennial census and other periodic surveys by the U.S. Census Bureau attempt to sample all the foreign-born people living in the United States, regardless of visa status. Figure 2.5 reports estimated annual arrivals based on responses to census takers’ question of when each immigrant came to the United States to stay. The figure also compares three alternative projections of new arrivals after 2010, all of which assume a rising trend.

The rise of immigration after 1970 was dramatic, with annual flows in the 1990s expanding by 258 percent compared with those observed immediately before the 1970 census. The upsurge in new arrivals peaked around 2000 and began a moderate decline thereafter. After the collapse of construction employment in 2007 and the ensuing rising unemployment, immigrant arrivals dropped even further. Three projections of immigrant arrivals are compared in figure 2.5. In 2008, the Census Bureau released population projections that appear to have assumed the number of annual arrivals would extend the trend observed from 1970 to 2000 (U.S. Census Bureau 2008). In 2011, Pitkin and Myers (2011) issued new projections that included input on future immigration flows from a Delphi-like panel of experts. These new estimates were lower than the lowest alternative presented by the Census Bureau in a 2009 supplement (U.S. Census Bureau 2009). In 2012, the Census Bureau issued new projections based on new immigration assumptions, which were much lower than their earlier projections (U.S. Census Bureau 2012a). The highest alternative was now lower than the projection by Pitkin and Myers (2011). Nonetheless, the revised projections anticipated a resumption of increasing levels of new arrivals each year, as shown in figure 2.5.

**Figure 2.5**  
**Estimated Annual Immigrant Arrivals in the United States, 1980–2040 (in thousands)**



Note: Census annual immigrant arrivals (legal and illegal combined) are calculated as the average of the five-year interval prior to the survey year; Census Bureau future immigrants expected in the 2008 and 2012 vintage projections are from the middle series; Pitkin and Myers future immigrants are derived from an opinion survey of experts' expectations for 2015 and 2025.

The volatile history of immigration and its uncertain outlook has direct impacts on housing and cities. Harvard University's Joint Center for Housing Studies (2012) has estimated that immigration in the 1990s and early 2000s accounted for one-third of the net household formations in the nation. Because new immigrants have a household formation rate of roughly 40 percent, a downturn of half a million arrivals per year would equate to a loss of 200,000 new household formations per year. The effect on home ownership would also be substantial, even if it was delayed a decade or two after immigrant arrival. The immigrant share of new homeowners has increased steadily over recent decades, rising from 10 percent of homeowner growth in the 1980s to 20 percent in the 1990s and 38 percent in the 2000s, and it is projected to remain at roughly that share (36 percent) in the 2010s (Myers and Liu 2005; Myers and Pitkin 2013).

Immigrant growth in housing demand has plugged important gaps in the housing market, first adding renters in the 1990s, when native-born growth in rental demand was depressed for age structure reasons, and then adding homeowners in the 2000s, when native-born growth in owner demand also was

depressed (Myers and Pitkin 2013). Without the infusion of immigrant demand, the nation's housing market history, and the economic health of immigrant gateway urban areas, would have been much worse. With fewer immigrant arrivals in the current forecasts, a weakened housing market will need to rely even more heavily on native-born Americans, especially young adults, to stimulate a revival.

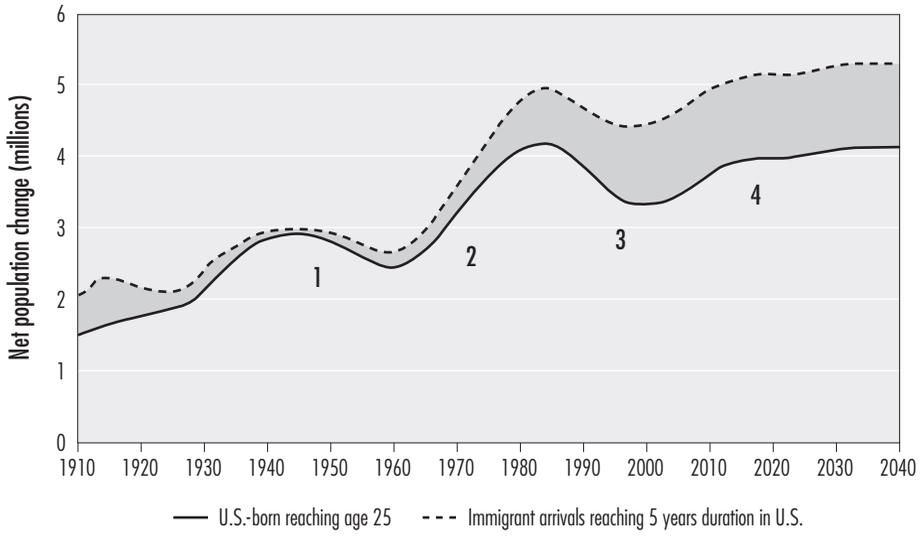
#### THE ROLE OF 25-YEAR-OLDS IN URBAN TURNING POINTS

The importance of young adults cannot be overstated in regard to the housing market. Even if the bulk of U.S. households are over age 45, the market requires an infusion of new demand to offset the inevitable losses at older ages (Masnick 2014). The demographic view of housing and cities stresses the entry of young adults in their twenties, whose household formation and upward strivings create a strong platform of demand to fill housing vacancies and support new construction. In times when the number of young entrants is subdued, markets soften and lose the growth needed to support investment in both the existing stock of housing and new construction.

Myers and Pitkin (2009) reached this conclusion in their study of demographic forces and turning points in U.S. cities. They identified several turning points beginning in the early postwar period: (1) the spreading gray areas of bleak, run-down conditions in northeastern cities and the rise of housing abandonment; (2) the resurgence of cities in the 1970s with the massive entry of baby boomers, which spawned the first gentrification and launched the housing affordability crisis; (3) the collapse of apartment construction in the 1990s and the hollowing out of cities, while urban sprawl swept the outer suburbs; and (4) the beginning of urban revival after 2000, when apartment construction resumed and a new back-to-the-city movement was first detected. Many different explanations have been posited for these changes, including Federal Housing Administration (FHA) policies, the growth of suburban freeways, federal tax law changes in 1986, crime, and urban politics. All of these factors certainly played a role. But underneath the turning points lay a single demographic shift: either a decline or a strong upward rebound in the number of people turning 25. Added to these native-born Americans was the number of recently arrived immigrants. As figure 2.6 shows, the trend in this summary demographic indicator of new entry-level demand has varied dramatically from decade to decade, and its ups and downs have marked dramatic shifts in demand that have spurred important turning points.

Given this perspective, the recent revival of apartment construction and inner-city living could have been predicted long before the Great Recession. How long it will continue after recovery from the recession is not certain, but the downturn in immigration and the consequent reduction in annual household formations will weigh heavily in this trend when the last of the millennial generation passes age 25.

**Figure 2.6**  
 Four Turning Points Marked by the Rise and Fall in the Number of Adults Turning 25 and Recent Immigration  
 (in millions), 1910–2040

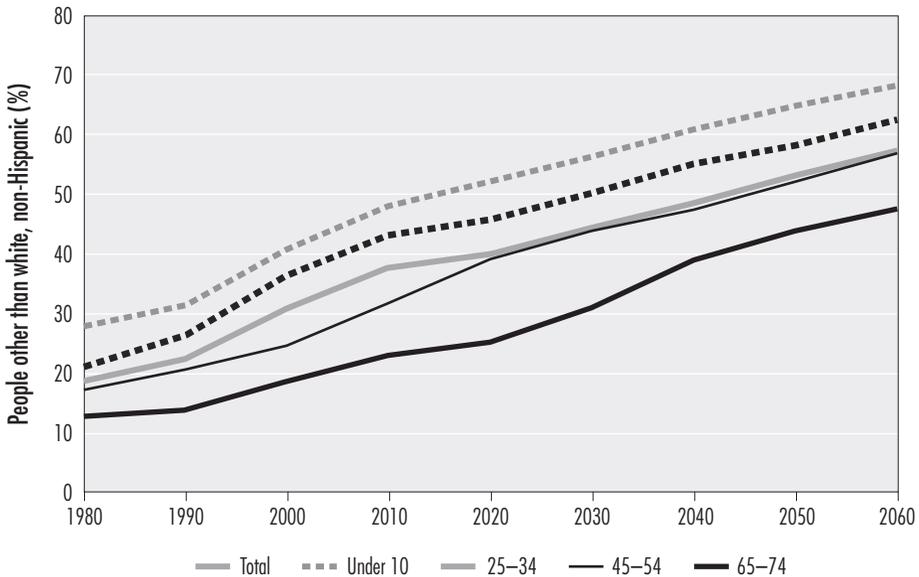


**GROWING RACIAL AND ETHNIC DIVERSITY**

This aspect of demographic change has commanded a large amount of attention. The rise of immigration has stimulated a racial and ethnic transition in the United States that is making the population increasingly diverse. Birthrates have been low for decades, and thus immigration has a larger proportional impact on the country’s overall racial and ethnic makeup. In addition, the Hispanic population has a higher birthrate than other population groups—not the large difference sometimes imagined, or that may have existed in the past, but on the order of half an additional child per woman, resulting in a total fertility rate of 2.4 children per woman, compared with 1.8 for whites, 2.0 for blacks, and 1.7 for Asians (Mather 2012). Overall, the nation’s fertility rate is only 1.9, which is substantially lower than the replacement level of 2.1.

As a result of these dynamics, diversity is growing rapidly among children and young adults. Over time, this diversity will spread to older adults, as illustrated in figure 2.7, which shows how much more diverse children under age 10 are (and will continue to be) than the rest of the population. For our purposes, more relevant is the growing diversity of young adults, who represent new entrants into housing markets and new workers and taxpayers living in cities. In 1990, 26.3 percent of 25- to 34-year-olds belonged to racial or ethnic minorities

**Figure 2.7**  
 Rising Racial and Ethnic Diversity by Age Group, 1980–2060



other than white, non-Hispanic. By 2010, that share had risen to 42.2 percent, and it is anticipated to reach 45.7 percent by 2020. By 2030, the share of minorities, comprising all people of color, will grow to be the majority (50.2 percent) of 25- to 34-year-olds. At that time, 56.2 percent of children under age 10 will be people of color, as will 30.8 percent of young seniors (ages 65–74).

#### THE SOARING SENIOR RATIO

As significant as the growing diversity of the American population may be, the dramatic age shifts in the population will have much greater economic and fiscal consequences. When all of the baby boomers have advanced past age 65, which will be largely accomplished by 2030, the nation will experience an unprecedented top-heavy age structure. This is a challenge confronting countries across the developed world, especially those in Europe and East Asia. The demographic problem that poses is that nations will face the prospect of having a large older population, which was a product of a high fertility rate in the past, followed by a relatively smaller working-age population, which was born when the fertility rate was much lower. The economic problem is that older residents will be entitled to old-age supports that must be paid for by an undersized working-age population. This imbalance will extend to the housing market as well (Myers and Ryu 2008). Older residents will still sell their homes to younger residents, but the ratio of

older sellers to younger buyers will not be as favorable for sellers as it once was. The political challenge for policy making is that this top-heaviness has never occurred before and is creeping up on policy makers slowly, so it is difficult to focus attention and gain consensus about how to plan for this situation in advance.

Consider the rapidity of the change. The senior ratio of the population age 65 and older per 100 working-age residents has remained virtually constant since 1970 at roughly 24 per 100. Anything that stays this constant for 40 years becomes invisible and taken for granted. Suddenly, however, since 2010 (24.6 per 100) the ratio has begun to rise sharply, and by 2030 it is projected to reach 41.7 per 100, an approximately 70 percent increase in the senior ratio.<sup>5</sup> Everything that was previously in balance between older and working-age residents is now about to be thrown out of balance. The issue most germane to the present study is the coming shortfall of adequate numbers of home buyers to absorb the senior sell-off expected after 2020 (Myers and Ryu 2008; Nelson 2012; Pendall et al. 2012).

An interesting feature of the rising senior ratio is how widely it is spread across the United States (figure 2.8).<sup>6</sup> Among the policy solutions proposed by Myers and Ryu (2008), the most constructive is to cultivate the economic capacity of the diverse younger generation so that each young adult will be more productive and will be better able to support the heavier senior load. In practical terms, that implies much greater equality of access to higher education, development of job opportunities, and help for young people to become home buyers. As figure 2.8 makes clear, this would have to be a nationwide agenda, because the senior ratio is rising dramatically in all the states.

### *Population Shifts Within Metropolitan Areas* ---

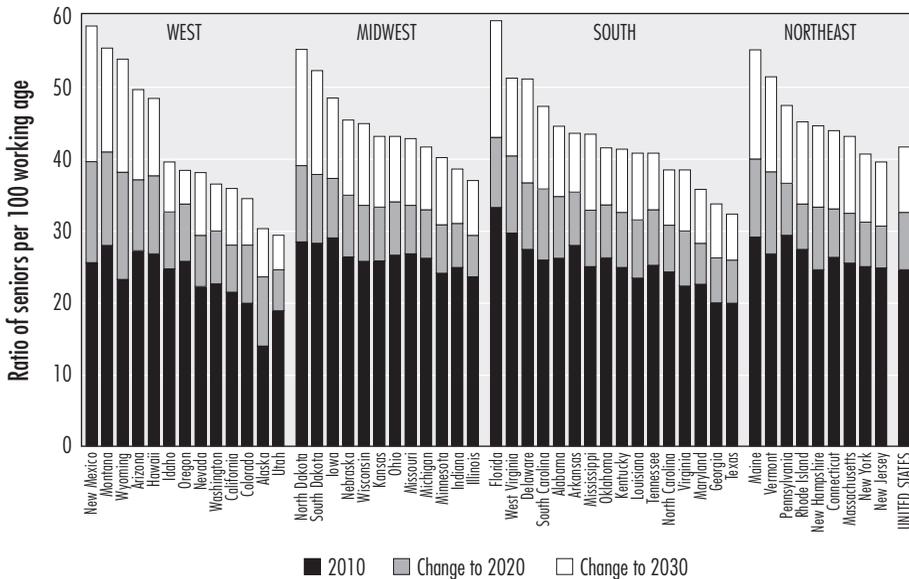
The preceding discussion deals with demographic changes largely at the national level. Certainly, some of these changes appear to be taking place nationwide and can be expected to occur in all urban areas. But a number of questions have emerged in debates over the changing nature of cities themselves. Are people today more likely to choose to live in large metropolitan areas than they were a decade or two ago? Are more people, particularly young adults, choosing to live downtown in large metropolitan areas? Are people “abandoning” the sub-

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5. Historical data are from the traditional decennial census, and projections post-2010 are from the U.S. Census Bureau (2012a). Working age is defined for this purpose as ages 25–64. Young people ages 16–24 may be able to work, but in the modern economy they are more often in school or training as interns and apprentices. The traditional alternative to what we term the *senior ratio* is the *old-age dependency ratio*, a term that does not resonate well with older voters who live independently, even if they enjoy taxpayer assistance.

6. We constructed the data based on the most recent series of population projections by age prepared for the 50 states by the U.S. Census Bureau (2005b), adjusting for changes recorded in the 2010 census.

**Figure 2.8**  
Senior Ratio Increase by State, 2010–2030



Note: Senior ratio is defined as population 65 and older per 100 working-age population (25 to 64). Each bar represents the senior ratio recorded in a given state in 2010, followed by the increment of increase projected between 2010 and 2020 and between 2020 and 2030. In the United States, as an example, the ratio was 24.6 seniors in 2010 per 100 working-age population. The ratio is projected to rise to 31.9 in 2020 and 41.1 in 2030.

urbs for more-urban living? Is this back-to-the-city movement common in most large metropolitan areas? Or is it more common, say, in the Northeast than in the South and West? And what of seniors—how are their locational preferences changing in ways that are similar to or different from those of young adults?<sup>7</sup>

These are questions we have sought to answer by undertaking a carefully structured examination of distributional shifts in the U.S. population either into or out of the centers of the 50 metropolitan areas with a population of one million or more. We believe that these areas represent well the nature of all large metros in the United States, as fully 70.9 percent of U.S. residents live within 75 miles of their centers. It bears mentioning that the outer rings of the metros often take in satellite cities whose concentration of employment and housing results in large spikes in population. Interspersed are fairly rural exurban dis-

7. Space limitations prevent us from exploring other important questions, including the growing presence of immigrants, diversity and segregation, and matters of poverty and wealth.

tracts, which are folded into the same or adjoining distance bands, thus creating volatility in the outer rings. That is of little practical interest to us, however, and instead we focus on an inner core of less than 5 or 10 miles and suburban bands of 15–40 miles.

### ANALYSIS OF INTERNAL POPULATION CHANGES

A central premise of the back-to-the-city thesis is that young people in particular are flocking to close-in neighborhoods in central cities and forsaking the outer locations where they once were prominent (Florida 2013, 2014; Frey 2014). There are many well-known neighborhoods where this has occurred and many cities where there is evidence of growing numbers of young people downtown (Birch 2012; Deferios 2014; Piepenburg 2014). At the same time, young adults might be responsible for growth in many parts of the same city, and it is possible that only a select number of metropolitan areas are engaged in substantial growth downtown.

We selected for analysis all 50 metropolitan regions in the United States with a population of at least one million (figure 2.9). Using geographic information system (GIS) techniques, census tracts are classified by distance from the center of a metro, specified here as the location of the city hall in the primary city in the metro.<sup>8</sup> We next created distance bands by aggregating all the census tracts into successive 2.5-mile rings out to 10 miles, and into 5-mile rings out to a maximum of 75 miles. In cases where the outer orbit of one metro infringed on that of another, we assigned tracts to the metro whose city hall was closest. This method provides a means of standard comparison that is not possible when using central cities and suburbs, because of their changing boundaries over time and uneven sizes that make different central cities smaller or larger proportions of their respective metropolitan area.

### POPULATION TRENDS IN CITY CENTERS

To address whether population growth is shifting toward the inner city, we compared growth from 2000 to 2010 with that from 1990 to 2000. The results for population growth in all large metros combined are shown in figure 2.10. The top panel presents growth trends for total population, the middle panel for adults ages 20–34 (the millennials), and the bottom panel for seniors age 65 and older.

In the case of total population, very little growth was registered at the center of the nation's large cities in either decade. On average, the fastest rates of growth occurred between 15 and 30 miles from the city center, clearly suburban locations. The results were very different for young adults, however. In the 1990s,

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8. We are indebted to the Census Bureau's special report "Patterns of Metropolitan and Micro-politan Population Change: 2000 to 2010" (U.S. Census Bureau 2012b) for the method used in this chapter. The primary city in the metro and its location are based on the Census Bureau's data, available at [www.census.gov/population/metro/data/pop\\_data.html](http://www.census.gov/population/metro/data/pop_data.html).

**Figure 2.9**  
**Top 50 Metropolitan Statistical Areas**



**Northeast** □

- New York—Northern New Jersey—Long Island, NY-NJ-PA Metro Area
- Philadelphia—Camden—Wilmington, PA-NJ-DE-MD Metro Area
- Boston—Cambridge—Quincy, MA-NH Metro Area
- Pittsburgh, PA Metro Area
- Providence—New Bedford—Fall River, RI-MA Metro Area
- Hartford—West Hartford—East Hartford, CT Metro Area
- Buffalo—Niagara Falls, NY Metro Area
- Rochester, NY Metro Area

**Midwest** ■

- Chicago—Joliet—Naperville, IL-IN-WI Metro Area
- Detroit—Warren—Livonia, MI Metro Area
- Minneapolis—St. Paul—Bloomington, MN-WI Metro Area
- St. Louis, MO-IL Metro Area
- Cincinnati—Middletown, OH-KY-IN Metro Area
- Cleveland—Elyria—Mentor, OH Metro Area
- Kansas City, MO-KS Metro Area
- Columbus, OH Metro Area
- Indianapolis—Carmel, IN Metro Area
- Milwaukee—Waukesha—West Allis, WI Metro Area

**South** ■

- Dallas—Fort Worth—Arlington, TX Metro Area
- Houston—Sugar Land—Baytown, TX Metro Area
- Washington—Arlington—Alexandria, DC-VA-MD-WV Metro Area
- Miami—Fort Lauderdale—Pompano Beach, FL Metro Area
- Atlanta—Sandy Springs—Marietta, GA Metro Area
- Tampa—St. Petersburg—Clearwater, FL Metro Area

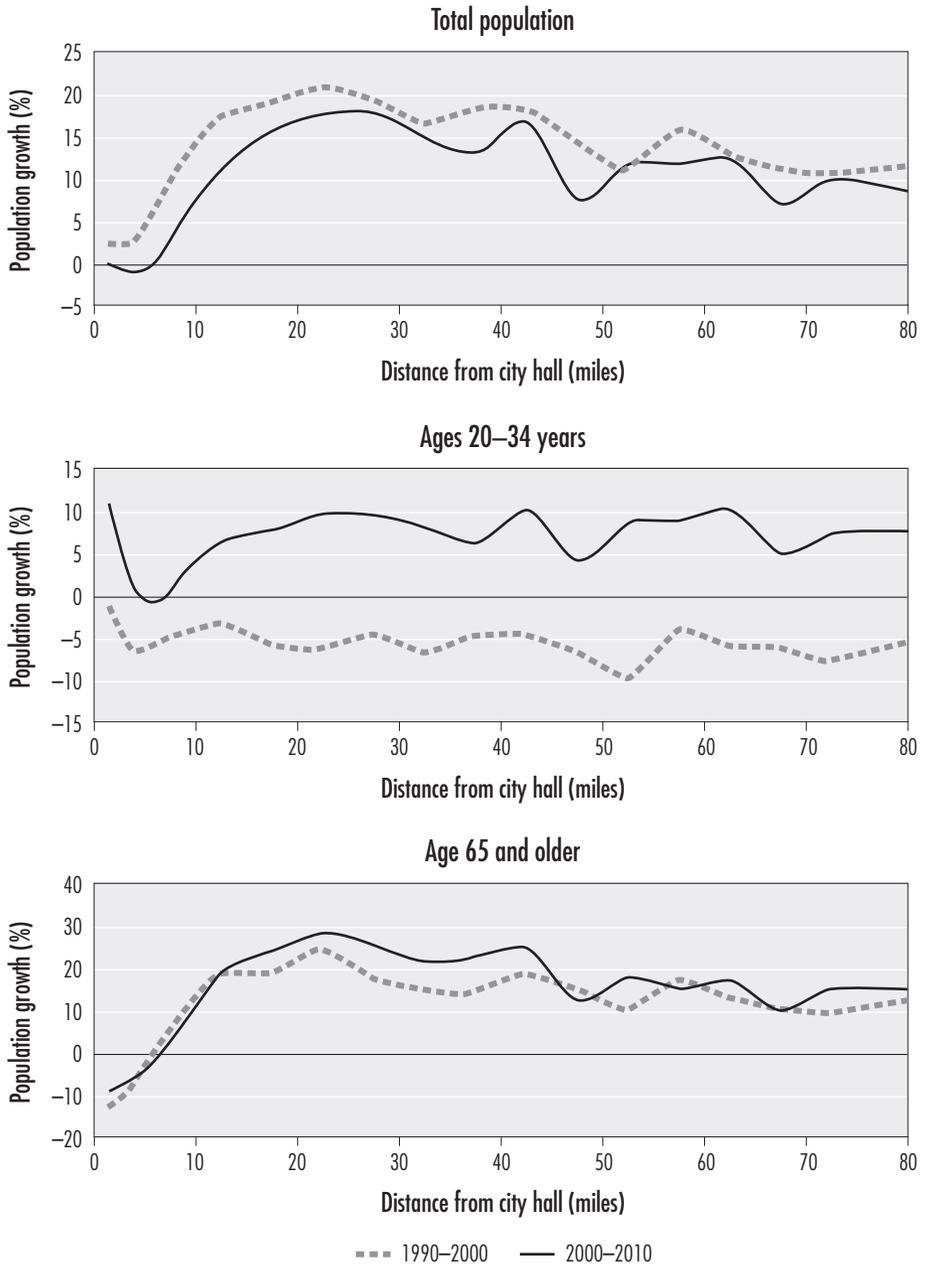
- Baltimore—Towson, MD Metro Area
- San Antonio—New Braunfels, TX Metro Area
- Orlando—Kissimmee—Sanford, FL Metro Area
- Charlotte—Gastonia—Rock Hill, NC-SC Metro Area
- Austin—Round Rock—San Marcos, TX Metro Area
- Virginia Beach—Norfolk—Newport News, VA-NC Metro Area
- Nashville—Davidson—Murfreesboro—Franklin, TN Metro Area
- Jacksonville, FL Metro Area
- Memphis, TN-MS-AR Metro Area
- Louisville/Jefferson County, KY-IN Metro Area
- Richmond, VA Metro Area
- Oklahoma City, OK Metro Area
- New Orleans—Metairie—Kenner, LA Metro Area
- Raleigh—Cary, NC Metro Area
- Birmingham—Hoover, AL Metro Area

**West** ■

- Los Angeles—Long Beach—Santa Ana, CA Metro Area
- San Francisco—Oakland—Fremont, CA Metro Area
- Phoenix—Mesa—Glendale, AZ Metro Area
- Seattle—Tacoma—Bellevue, WA Metro Area
- San Diego—Carlsbad—San Marcos, CA Metro Area
- Denver—Aurora—Broomfield, CO Metro Area
- Portland—Vancouver—Hillsboro, OR-WA Metro Area
- Sacramento—Arden—Arcade—Roseville, CA Metro Area
- Las Vegas—Paradise, NV Metro Area
- San Jose—Sunnyvale—Santa Clara, CA Metro Area
- Salt Lake City, UT Metro Area

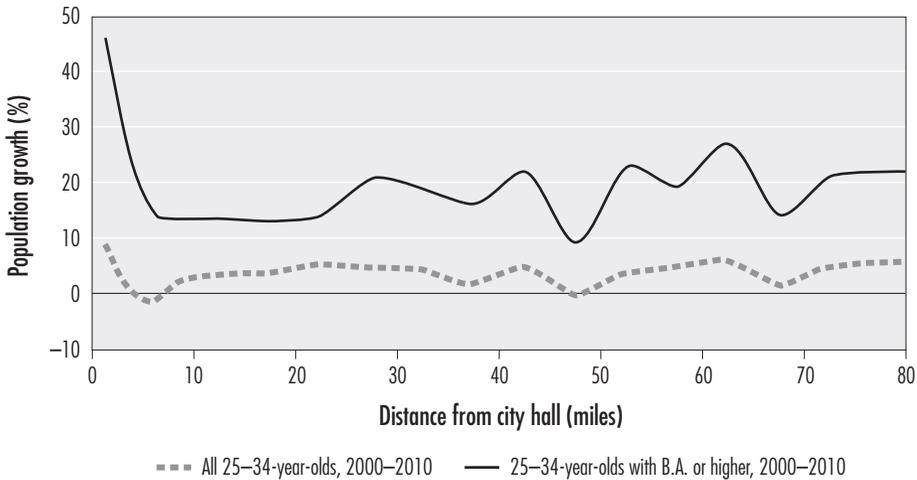
Note: The 50 Metropolitan Statistical Areas are selected to include those with the largest populations in 2010.  
 Source: Base map is © Environmental Scientific Research Institute, © ESRI, with metropolitan area overlay by the authors.

**Figure 2.10**  
 Population Growth in the Top 50 Metros by Distance from City Hall, 1990–2000 and 2000–2010



**Figure 2.11**

Population Growth in the Top 50 Metros for College-Educated Compared to All Young Adults by Distance from City Hall, 2000–2010



growth in this age group was negative at every distance, averaging around –5 percent, as the last of the baby boomers exited and the baby busters entered the young adult age group. Conversely, in the 2000s growth among young adults was resurgent nationwide as the millennials entered young adulthood and showed up at virtually every distance from the city center. The innermost band registered 10 percent growth in young people; the one “dead zone,” where zero growth was observed, was between 5 and 10 miles from the center. In contrast, growth among seniors was negative in both decades in a zone of less than 7.5 miles from the center. Strong growth of more than 20 percent was registered in a broad belt measuring 10–40 miles out. These results are mainly consistent with those from county-based data analyses (Kotkin 2014; U.S. Census Bureau 2005a).

Reports of gentrification often mention college education as a key indicator (McKinnish, Walsh, and White 2010). We repeated the analysis of 2000–2010 for young adults ages 25–34 with a bachelor’s degree or higher (figure 2.11). Shown for comparison is the growth for all young people in that age group regardless of education. The difference amounts to about 5 percent in all bands at any distance from the city center. The one exception is a small uptick of 10 percent among all young people in the immediate center, in contrast to 47 percent among young people with a B.A.—more than four times greater. Growth for those with a B.A. was 15–20 percent at most distances—three times greater than

for all young people. When compared for metro areas located in the four regions of the United States (data not shown), very similar growth in the city center was found in the Northeast, Midwest, and South. Growth for college-educated young people was weakest by far in the West and strongest in the Northeast.

#### NET SHIFTS FROM SUBURBS TO CITY CENTERS?

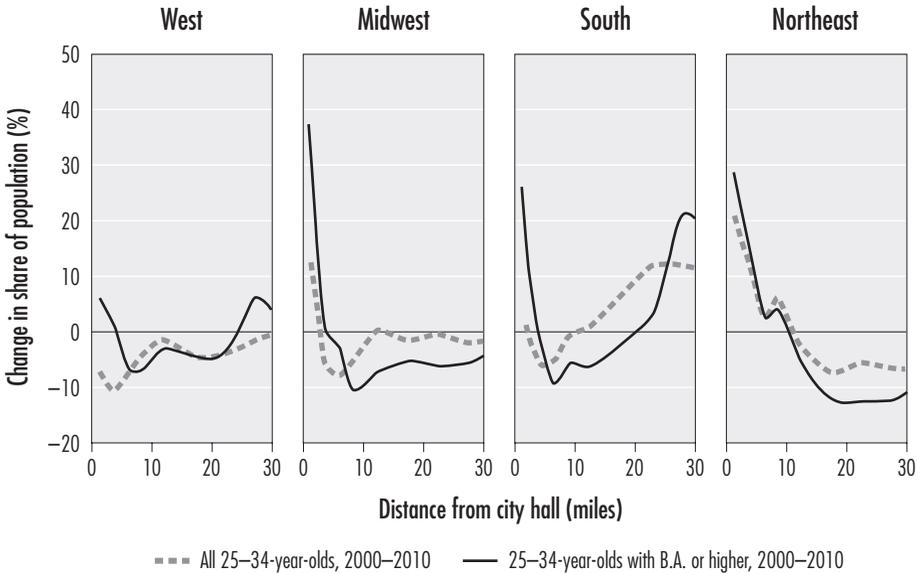
The preceding figures are informative, but the findings do not fully address the narrative of population shift back to the city. Our analysis above does not measure the net shift between locations. In some cases, there has been growth in all zones, and in others there has been loss in all zones. To find out whether the inner city is gaining at the expense of the suburbs, we calculated changes in each distance band's *share* of a given population group in the region. If one band is capturing a larger share, others must capture a smaller share. This analysis provides a picture of shifting relative preferences for inner or outer locations.

In general, the changes in the shares of total population, young adults, and seniors closely resemble those reported in the previous section. However, when we examined the growth in the locational shares of college-educated young people during the 2000s, we found a much stronger shift toward the city center in the nation as a whole. The shares increased by 23 percent in the innermost band and decreased by 5 percent at a distance of 7 to 25 miles. These locational shifts were far more pronounced among college-educated young people than among the total population ages 25–34.

Distinctly different patterns of population shifts occurred among the college educated in different census regions (figure 2.12). All regions except the West showed evidence of locational shifts downtown. In the Northeast, the shift was strongest within 10 miles of the city center, and it was accompanied by decreased shares (by roughly 10 percent) of those residing 12–50 miles from the center. In the midwestern metros, the downtown shift was confined to the innermost band, and the decrease in shares through the suburban zone was only half as great. In the southern metros, the average pattern was even more distinctive: an increase in shares of college-educated young people in the innermost band, a decrease from 7 to 15 miles out, and then a large (20 percent) increase from 25 to 35 miles. These outer zones are likely an indication of satellite cities or edge city concentrations of shopping, entertainment, and office buildings, which attract the college educated (Lang 2003). Less pronounced concentrations of growing shares like this are observable in figure 2.12 at 30–40 miles in the West and at 40–50 miles in the Northeast and Midwest.

Overall, this analysis of shifting population shares found partial evidence of a return to the city center in large metro areas. The most dramatic changes were not for total population but for young adults, and those changes were concentrated in the inner 5 miles of the metro. At the same time, those changes, strongest in the Northeast and Midwest, were driven particularly by the young college-educated population.

**Figure 2.12**  
 Change in Share of College-Educated Young Adults by Distance from City Hall, Top 50 Metros  
 by Census Region, 2000–2010



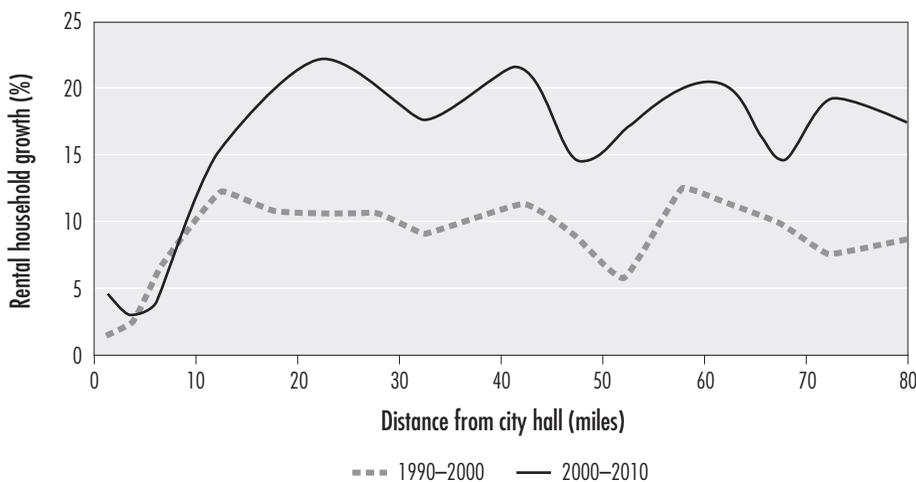
Note: The change in share of population refers to the proportional change of the share of metropolitan population that is within a given distance band.

## GROWTH IN HOUSING OR JUST PEOPLE TRADING HOUSING UNITS?

Do these locational shifts reflect occupancy change within the existing housing stock—a changing of the guard from one group to the next—or are they associated with the growth of new housing units downtown or in the suburbs? This section tracks the changing growth patterns of rental and owner-occupied housing.

**Location of Resurgent Rental Housing** As discussed earlier, one of the turning points spurred by demographic change was the post-2000 revival of growth among young adults and the consequent new demand for increased rental housing. One question that can be answered through our distance-band analysis is whether this resurgence led to new construction of rental housing primarily only in inner cities or throughout the suburbs as well (figure 2.13). In large metros nationwide, there has been a broadly distributed revival of rental housing, which has nearly doubled in most distance bands from around 10 percent growth during the 1990s to 15–20 percent growth in the 2000s. Downtown construction may be highly visible, but rental growth in the innermost band (less than 2.5 miles)

**Figure 2.13**  
**Growth in Rental Households in the Top 50 Metros by Distance from City Hall, 1990–2000 and 2000–2010**

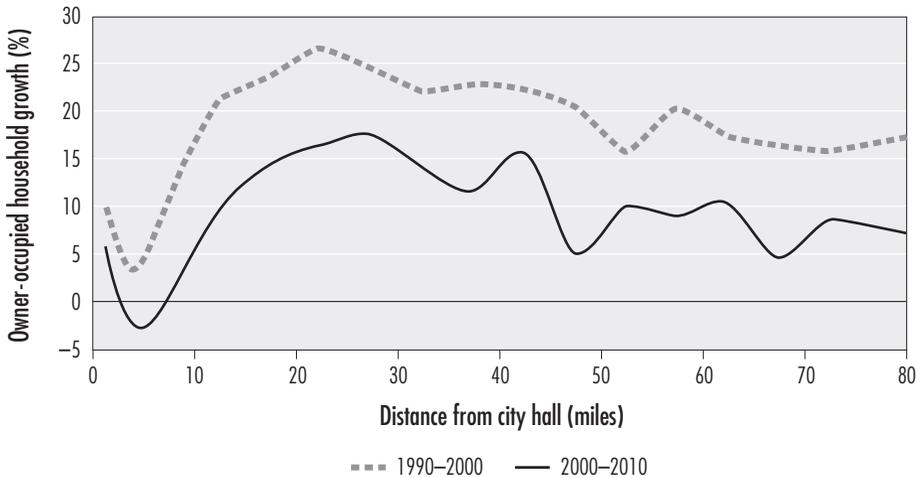


rose only from 1.6 percent to 4.7 percent, while in the next bands there was no change in growth until passing more than 10 miles from the city center, where large increases began to occur. This might imply that the growth in the young adult population, especially those who are well educated, has not caused substantial construction of rental apartments.

Sizable differences in rental growth occurred in the four census regions (data not shown). The Northeast experienced 6.6 percent growth downtown, which was greater than the growth in all but two other bands located within 40 miles of the city center. In contrast, the 2.7 percent growth downtown in the Midwest was surpassed by the growth at all distances of more than 7 miles from the city center. In the South, the meager 1.6 percent rental growth downtown was overshadowed by 25 percent or greater growth in bands between 15 and 40 miles from the city center. And in the West, the 7.1 percent rental growth downtown was overshadowed by 20 percent or higher growth in bands extending more than 10 miles from the center. In summary, except in metros in the Northeast, the resurgence of rental housing has been much more substantial in the suburbs than in the inner city.

**Location of Owner-Occupied Housing** Perhaps new construction downtown has been for sale and not for rent. Could all those college-educated young people be living in new condos? According to our analysis, the growth of owner-occupied housing nationwide was much reduced in the 2000s from what it was in the 1990s, with a similar decline in every distance band throughout the metros

**Figure 2.14**  
**Growth in Owner-Occupied Households in the Top 50 Metros by Distance from City Hall, 1990–2000 and 2000–2010**



(figure 2.14). Moreover, the growth in owner-occupied housing basically occurred in the same bands as that in rental housing and was highest for bands from 15 to 30 miles from the city center. Much slower growth occurred downtown in the 2000s (5.8 percent), and that growth was even slower than in the 1990s.

Again, there were regional differences (data not shown). In the Northeast, a much higher rate of homeowner growth was recorded downtown in the 2000s (7.0 percent) than in the 1990s, and a higher rate was found downtown than in any band closer than 35 miles from the city center. In the Midwest, growth of owner-occupied housing downtown was 11.6 percent in the 2000s, less than in the 1990s, but it matched the growth in any suburban band less than 40 miles from the center. In the South, homeowner growth downtown was minuscule (1.3 percent), while in suburban bands 15 to 30 miles from the center, it approached 30 percent. And in the West, a growth rate of 7.7 percent downtown was surpassed by the 15 percent growth rate common in bands more than 10 miles from the center.

The overall conclusion from this housing analysis is that the growth in rental and owner-occupied housing was consistent with population movements downtown, but this growth was generally much less than would seem adequate to accom-

moderate the population shifts. Given that overall population growth downtown was slight and only young adults seem to be flocking there, the likely scenario is that the young are replacing other residents who are moving out of the city center. This youthful replacement is readily accommodated by rental housing that turns over every two or three years on average. Even among homeowners, 30 percent or more of older homeowners surrender their occupancy within 10 years, a turnover rate that is slightly greater in the innermost bands than in the rest of the metro (data not shown).

#### **SUMMARY OF LOCATIONAL PREFERENCES: BACK TO THE CITY?**

The many findings produced in this intrametropolitan analysis are consistent with a weak trend of population movement back into the city. The strongest growth overall is in a broad suburban band located 20 to 30 miles from the city center, sometimes farther. There is clear evidence, however, of a revival concentrated within 5 miles of city hall. College-educated young adults are burgeoning in number and shifting toward downtown locations, but there is little else to support a claim of a back-to-the-city trend, as growth of rental and owner-occupied housing has not shifted substantially inward. Instead, well-educated young people are largely replacing older residents, as well as more-moderate-income residents, in existing housing units. These occupancy changes might be locally intense when they are focused on particular areas of gentrification.

#### ***Projecting the Future Trend of Home Ownership*** —————

Trends in renting and owning loom large in thinking about people's residential choices in cities. One of the major impacts of the Great Recession has been the disruption of housing markets, resulting in the loss of billions of dollars in family wealth and traumatizing the younger generation with fears about the dangers of home ownership. Even though the risk of such a downturn occurring nationwide is very low—the last one having taken place during the Great Depression—the recent recession is fresh in people's minds, and so the probability that another will occur feels high. Meanwhile, cities have been the beneficiaries of rising populations, as outflows have slowed while inflows have continued. Legions of young millennials have continued to enter adulthood and set up urban households in shared rental housing.

Plans for the future metropolis depend in good measure on expectations about future trends in renting and owning. Will millennials continue to reside in rental housing as they grow older, carrying this urban lifestyle with them into middle age, or will they revert to the housing choices of their predecessors, seeking out single-family housing for purchase wherever it is affordable, where amenities are attractive, and/or where schools are good?

The public still widely prefers home ownership, even after severe losses in the financial crisis and resulting skepticism by some millennial thought leaders

(Rampell 2014). Owning your own home has long-standing favored treatment in the tax code and is generally seen as both a merit good and civically desirable (DiPasquale and Glaeser 1999; Green and White 1997; Rohe, Van Zandt, and McCarthy 2002). In addition, housing is a major sector of the economy, with home buying and new construction major contributors, for both the employment these activities support and the investment they spur. Construction typically expands early in the recovery phase after a recession and helps boost the recovery, with construction of each single-family home (typically owned) contributing two and a half times more to GDP than each apartment unit (Furman 2014). In addition, home ownership is the major means of building wealth for citizens outside the top 20 percent of the income distribution. All in all, although home ownership is not for everyone and not preferable at all stages of life, it has great value for society as a whole. It also deserves note that a steady supply of younger home buyers is vital to the 54.3 million homeowners who are aging baby boomers or an older generation, without which older homeowners cannot liquidate their retirement assets.

For decades beginning in 1960, home ownership remained steady, with about 62–64 percent of households in owner-occupied homes. Between 1995 and 2000, however, the rate rose two percentage points, followed by further gains that peaked at 69.2 percent in 2004, during the housing bubble. It has since declined each year, reaching 63.9 percent by the end of 2014. A widespread topic of speculation is how low the rate of home ownership will go. The sharp swing from housing bubble to housing collapse (in 2007), followed by an unexpectedly slow recovery, makes it very difficult for professional forecasters to predict future trends with any certainty. Only a few detailed housing projections have been publicly issued since the end of the recession and the release of the 2010 census. Neither the Joint Center for Housing Studies' report in the spring of 2014 (McCue 2014) nor a study by Myers and Pitkin (2013) for the Research Institute for Housing America, a research affiliate of the Mortgage Bankers Association, was effective in addressing the recovery from the deep housing slowdown. Both studies projected out a decade or two and predicted a continuation of past trends, absent much effect of the recession. This disregard for recession effects is due to both the absence of data and limitations of methodology.

The question is, what will be the new normal for home ownership? Will it entail a steady decline, and if so, how low can the rate of ownership go? What is the prospect for resuming a steady level of home ownership, much as before? There is no single answer to these questions, because there are many uncertainties, not the least of which are policy changes being debated in Washington. Our approach to addressing these questions has been to construct alternative projections that reflect a range of recent and past experiences. In this we have been guided by the demographic perspective that treats home ownership as part of a housing career cumulating over time. Generational momentum embeds past advantages and disadvantages in a path dependence that can be usefully exploited for constructing projections.

### UNDUE OPTIMISM ABOUT FUTURE HOME OWNERSHIP?

The current consensus among housing experts is an optimistic assessment of the market that appears to be based largely on the fact that the home ownership rate has fallen to the long-run average prevailing before 1995. Yet there is no guarantee that the rate will not continue to fall. Even though we also are inclined toward this optimistic view, it is apparent that it could be subverted by strong countervailing forces. Only if policy makers recognize the risks inherent in these forces and take action to mitigate their impact will the more favorable outcome be realized.

Four powerful forces could undermine the optimistic outlook on home ownership and deserve consideration: (1) sustained generational damage due to setbacks resulting from the Great Recession; (2) changed social values, priorities, and lifestyles; (3) demographic changes; and (4) policy changes that aggravate rather than mitigate weaknesses in the housing market.

First, the tremendous economic and social disruptions borne by young adults as a result of the recession and the slow recovery present the likelihood of sustained setback to their employment and housing careers (Kahn 2010). These early handicaps could transform into lingering generational damage that persists over time, leaving young adults' chances of attaining home ownership permanently reduced. Already they have fallen behind the career trajectories of preceding generations, making it unlikely that they will ever catch up (Emmons and Noeth 2014; Settersten and Ray 2010).

Second, these material disadvantages could lead to profound psychic adjustments. Young adults may be so disillusioned about the merits or safety of home ownership that their tastes and aspirations will permanently shift. (The actual survey evidence on lost preferences is more encouraging, as addressed later in this chapter.) The combined effect of weakened economic capacity and diminished desire could undermine the growing base of housing demand, which in the long run rests on the strength of incoming cohorts of new households and first-time buyers.

Third, demographic change with respect to ethnic diversity and aging could depress home ownership. Even though the millennial generation is larger than its immediate predecessors, a greater share of young people are members of minority groups, who on average have lower home ownership attainment due to fewer family resources and lower education and income levels. Under the best economic conditions, growing diversity by itself might be expected to lead to slightly lower home ownership rates. Now the diversity effect is being amplified because Hispanics and African Americans sustained greater loss of both income and wealth during the recession than did white, non-Hispanics.<sup>9</sup> Meanwhile, ag-

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9. Between 2000 and 2012, among households ages 25–34, whites suffered a decline in real median household income of 7.0 percent, while Hispanics' income dropped 13.4 percent and African Americans' income decreased 19.9 percent (based on our tabulations from the 2000

ing baby boomers hold a very large share of all owner-occupied housing in the nation. Together with slightly older cohorts, they have the highest home ownership rates, which help to support a high national average. However, they are due to sell off many of their substantial assets in the next two decades. This sell-off will be much larger than usual because the baby boomers are so numerous and are placing the principal reliance for absorption on a more diverse younger generation (Myers and Ryu 2008). These two demographic changes—aging baby boomers and growing diversity—will create extremely different challenges from those of the past status quo.

Finally, recent policy changes by oversight institutions seeking to protect home ownership by making access more restrictive could upset the optimistic outlook. Young consumers are trapped in a “credit box” from which only the most elite are able to escape (Parrott and Zandi 2013). The paradox is that while incomes, wealth, and credit scores have all fallen among the younger and middle generations, the unhelpful countertrend has been to raise mortgage qualifying criteria ever higher, making home ownership even less accessible. Whether regulators and industry leaders have overly restricted access to mortgages could be debated. However, examination of the Mortgage Credit Availability Index created by the Mortgage Bankers Association shows that credit access has been reduced to less than one-third of what it was in 2000 or 2002, two well-functioning years before the bubble.<sup>10</sup> Research by economist Neil Bhutta estimates that “higher credit score thresholds used by lenders in the aftermath of the Great Recession can explain about 40 percent of the drop in first-time home buying in recent years relative to the early 2000s” (cited in Furman 2014, 10). The policy paradox is that the finance industry has been restricting access to home ownership out of fear resulting from the housing bubble while ignoring that legions of new housing consumers must be enabled if the housing sector is to be brought back to its normal functioning in the economy (Irwin 2014; Parrott and Zandi 2013).

These four factors generate such uncertainty about the outlook for home ownership that it may be unwise to simply assume that any “normal” rate of home ownership will prevail. Should credit restraints continue as they were in mid-2014, future home ownership trajectories would more closely resemble those of

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census and the 2012 American Community Survey). Loss of wealth (net worth in 2010 dollars, defined as assets minus liabilities) was three times as severe in 2010 than in 2001, declining 36.4 percent among whites, 39.2 percent among Hispanics, and 67.6 percent among African Americans (based on our tabulations from the 2001 and 2010 Survey of Consumer Finances, or SCF). Asians were the only group that did not suffer a decline in income, but no data are reported on their wealth in the SCF.

10. The Mortgage Credit Availability Index stood at 135 in mid-2014, compared with an average of 500 in 2000–2002. It reached nearly 800 at the height of the bubble, when all manner of no-documentation and easy-qualification loans were offered. Data were kindly supplied by Michael Fratantoni, chief economist at the Mortgage Bankers Association.

the past few years, but a lessening of restraints would move the rate back to the more typical pattern prevailing before the bubble. At the same time, there is little uncertainty about the growing diversity, except regarding whether greater equity will be obtained for segments of the population that have been historically disadvantaged. The persistence of a high preference for home ownership may still be in doubt, however, and this is the subject of the next section.

#### THE SURVEY EVIDENCE ON PREFERENCE FOR HOME OWNERSHIP

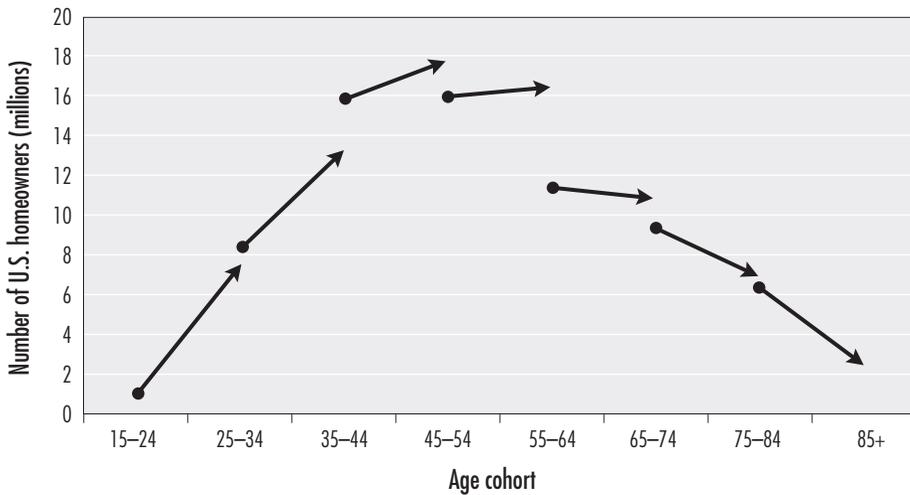
Recent survey evidence suggests that millennials' desire for home ownership has not disappeared but may merely have been shelved during the years of a sluggish economy. The large National Housing Survey carried out by Fannie Mae reveals broad support for home ownership among young renters (defined as household heads under age 40). In the third-quarter survey of 2013, 76 percent of young renters said that owning is financially better than renting, 90 percent said that they are likely to buy at some point in their lives, and 49 percent said that they are likely to buy the next time they move (Fannie Mae 2014).

As for the assumption that the young have been traumatized about home buying by watching what has happened to others, analysis of Fannie Mae survey data from an earlier year by Drew and Herbert (2012) found little statistical support for that belief. Neither exposure to house price declines nor witnessing the financial fallout of others has had much lasting effect on individuals' own preferences for home ownership. Overall, these opinion data suggest that the desire for home ownership is alive and well.

When survey respondents were asked how optimistic or pessimistic they were about the housing market and whether in general they felt this was a good time to buy a home, 66 percent of young renters said that it was either a "very good" or a "somewhat good" time to buy. Over half (53 percent) said that they thought prices were going up, and only 7 percent expected them to go down (Fannie Mae 2014, slides 34 and 35).

Nonetheless, other survey evidence, produced for the MacArthur Foundation, showed that 70 percent of the public believes that "we are still in the midst of the housing crisis or that the worst is yet to come" (Hart Research Associates 2014, slide 25). In the current climate, renting has become more appealing and buying less appealing, and a majority, including 62 percent of young adults ages 18–34, think that "families are less likely to build equity through homeownership today than they were two to three decades ago" (Hart Research Associates 2014, slide 31). The survey also found that 85 percent of non-homeowners ages 18–34 still aspire to be homeowners, and 52 percent of the young feel that home ownership is an excellent long-term investment. In addition, the MacArthur survey found widespread concerns about affordability among renters and owners, and respondents said that they want the government to give more attention to the problems of renters. Finally, fully 66 percent of the young said that they believe renters can be just as successful as owners in their ability to achieve the American dream. Yet the aspiration for home ownership remains strong.

**Figure 2.15**  
Cohort Trajectories of U.S. Homeowners by Age, 2000 and 2010 (in millions)



Note: Each cohort is observed first in 2000 and then in 2010.

### COHORT PROGRESS INTO HOME OWNERSHIP

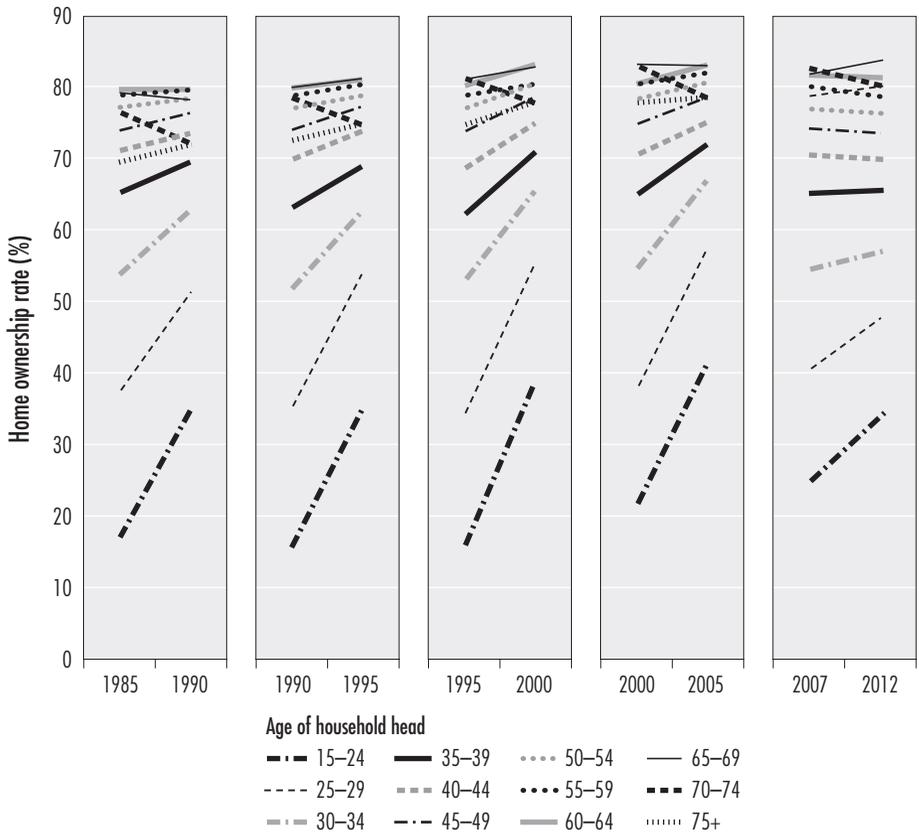
Aspiration for home ownership does not imply that households expect to achieve it immediately. In fact, acquisition of home ownership on average has a distinct life-cycle pattern, rapidly increasing through age 35 and then more moderately to age 55. From age 55 to 74, slight increases may still continue in some states or metropolitan areas, while home ownership begins to decline after age 65 in most others.<sup>11</sup> After age 75, the number of homeowners begins to contract sharply because of retirement relocation, health needs, and ultimately death. These dynamics are clearly shown in figure 2.15.<sup>12</sup> The two large cohorts at their peak of home ownership are baby boomers. After 2020, they can be expected to fully enter the stage of net housing sellers,<sup>13</sup> a reversal from earlier decades, when these large co-

11. Myers and Ryu (2008) identified a few states (Arizona, Florida, Nevada, and South Carolina, all retirement states) where the number of homeowners at ages 65–69 was still growing, but in most of the country, especially the Midwest and Northeast, substantial outflows were in progress by that age. Bear in mind that at older ages, home ownership rates (based on the surviving population) remain high, but the absolute numbers are falling.

12. On the very considerable differences between age cross-sectional and cohort longitudinal analysis, see Pitkin and Myers (1994) and Myers (1999). For a telling cohort view on mortgage debt, see Masnick, Di, and Belsky (2006).

13. Net sellers are homeowners who sell their principal residence and do not purchase a replacement.

**Figure 2.16**  
 Five-Year Cohort Progress into Home Ownership by Age at Beginning, 1985–2012

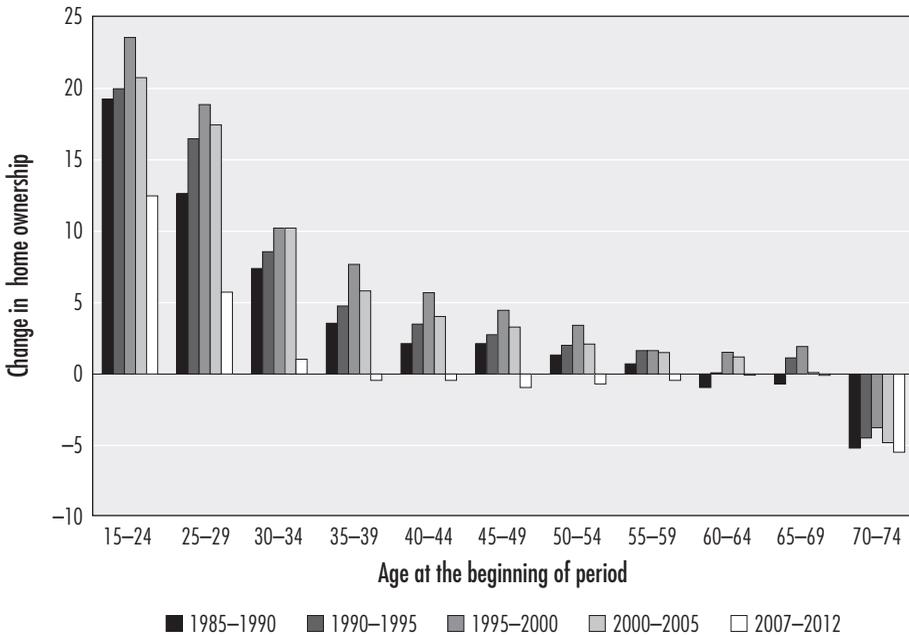


Note: The age of householder is the head's age at the beginning of each 5-year period.

horts' acquisitions propelled the housing market forward. The greatest question today is whether the large millennial generation (under age 35) can grow into the role of propelling the housing market.

A closer look at the changes in the cohorts' home ownership rates is necessary. Over the past 20 years, even during the housing bubble, the attainment of home ownership advanced at a remarkably consistent pace, most sharply among young adults and more moderately among middle-aged cohorts. This phenomenon can be seen in figure 2.16, with the slopes in each five-year period indicating the gain in home ownership rates as each cohort grew five years older. Young adults rapidly rose into the ranks of homeowners, and middle-agers continued

**Figure 2.17**  
**Comparison of Cohorts' Incremental Progress into Home Ownership, 1985–2012**



to increase their holdings as well. It is remarkable how similar the rate of advancement each five years was, with the exception of the most recent period. For example, in 1995, 34 percent of households headed by a person age 25–29 were homeowners, and by 2000, after the cohort had advanced another five years in age, that proportion had climbed to 54 percent, a gain of 20 percentage points. In contrast, the five-year period beginning in 2007 was much more grim. Young people still scrambled upward, but at less than half the rate as before, and middle-agers actually fell from home ownership. The total number of homeowners declined, and the overall home ownership rate fell as well.

Despite the apparent similarities among cohorts before the Great Recession, closer examination reveals distinct differences in other periods as well. The failure to progress during the Great Recession and its aftermath is best seen by contrasting the net increments in home ownership rates achieved by cohorts passing through particular age ranges (figure 2.17). Certainly, diminished and even negative progress into home ownership accrued in the most recent period. Yet the gains were not constant for cohorts in the preceding five-year periods. Cohorts' movement into home ownership expanded at an increasing rate, accelerating from 1985–1990 to 1995–2000, when the fastest gains were made, before slow-

ing in 2000–2005 and finally collapsing at the end of the decade. (The figure omits the disruption between 2005 and 2007.)

### INSIGHTS FROM A GENERATIONAL MOMENTUM MODEL OF HOME OWNERSHIP TRENDS

It is helpful to think of the overall home ownership rate not as an abstract number, but as an average summation across all cohorts of the progress each has attained at a given moment in time. Especially useful in making projections is estimating the future status of each cohort relative to its own historical trajectory by adding the “normal” or expected increments in home ownership accrued at each advancing age, as observed for preceding cohorts. These increments vary across decades subject to market forces and the constraints reviewed earlier in this chapter. While older cohorts are relatively immune to current conditions, continuing to own homes acquired in prior decades, younger cohorts are more susceptible to current incentives.

Cohort trajectories possess powerful inertia that sustains those who are already advantaged and impedes those who are struggling for entry-level gains. Even with rapid improvement in the economic climate for home buying, including the much-needed increase in access to mortgage credit (Parrott and Zandi 2013), it is uncertain how rapidly the younger cohorts will begin to catch up or if they can ever close the gaps that have been opened. By 2010, the home ownership rates of cohorts arriving at ages 25–54 were tracking 5 percent lower than their predecessors at those ages in 1990. To fully restore the former rate of home ownership, entering cohorts would need to reestablish the former upward trajectories that prevailed before 2000, plus make up an additional amount resulting from any accumulated prior deficit. This will not be easily attainable within a decade’s time. Accumulated deficits in home ownership could be long-lasting and even grow larger, especially among the millennials, who have sustained such economic damage from the recession and its aftermath.<sup>14</sup>

Meanwhile, the advantaged older generation retains its very high home ownership levels. Cohorts currently age 55 and older still carry a lot of weight in the overall home ownership rate (accounting for 40.4 percent of all households and 48.0 percent of homeowners in 2010), but their influence will diminish over time, both as they age out of the system and as growing numbers of young cohorts enter at the bottom. The overall home ownership rate will inexorably decline from the decreasing weight of these high-owner cohorts. The longer the younger generation lags behind, and the greater share of the adult population they grow

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14. High unemployment rates, delayed employment progress, and depressed future earnings have been particular consequences of past recessions for recent graduates and are especially likely in the aftermath of the Great Recession (Kahn 2010). According to Jason Furman, chairman of the president’s Council of Economic Advisers, these factors, together with high student loan debt, are reasons for anticipating a slower recovery by millennials in the housing market (Furman 2014).

to be, the greater will be the downward pull on the national home ownership rate. Powerful insights are yielded from the “generational momentum” model of home ownership that is proposed here.

#### SCENARIO PROJECTIONS OF THE HOME OWNERSHIP RATE

There is no way to predict how this will all play out, but it is instructive to prepare scenarios based on recent and past historical precedent. One strategy is to define alternative paths for the national home ownership rate, none of which is claimed to be the best prediction of what is likely to unfold, but all of which are instructive about the possibilities they describe. Each scenario is essentially a calculation of the net results of generational momentum under assumptions of a recovery that will return to earlier regimes of home buying. Examining the different scenarios and their outcomes could help inform debates over the future of home ownership. Rather than simply assume that home ownership will hold steady at around 64 percent as before, let’s look at the evidence based on the momentum already present in the population of households.

*Defining the Scenarios* The four scenarios proposed here range from most pessimistic to most optimistic, with two middle scenarios that are more probable. They are based on previously observed rates of cohort progress into home ownership and are mixes of the experiences in different decades. (The scenarios are linked only to eras and not to any underlying mechanisms, such as differences in credit availability.) When the housing market “returns to normal,” presumably it will return to something resembling the cohort progress into home ownership that has been observed in previous periods. It is the hypothetical construction of “normal” that defines the alternative scenarios.

Scenario 1 assumes the same rate of cohort progress toward home ownership in the future as existed from 2006 to 2012. Each cohort will retrace the same pathway of failure, locked perpetually in the Great Recession. This alternative is for reference only and is not a likely outcome.

Scenario 2 imagines a weak recovery that is very possible. In the immediate period from 2012 to 2018, cohort progress will revive halfway from the recession pattern to the average of the prerecession era, 1982–2006. Thereafter, the cohorts’ progress is assumed to advance three-quarters of the way to the prerecession average. This assumes that cohorts never return fully to their prior rates of incremental growth in home ownership.

Scenario 3 is also possible, but it imagines a stronger rebound that will, after 2018, achieve the full average of prerecession progress into home ownership. This assumes full recovery to traditional rates of cohort incremental growth in home ownership.

Scenario 4 is an unlikely path that imagines complete and full rebound to the prerecession average that would have started in 2012. Three years into the period, we know this is no longer possible, but this alternative can provide a reference of maximum optimism.

Note that all four scenarios concentrate on restoring the rate of home buying, not on erasing past deficits that may have accumulated prior to 2012. For that catch-up to occur, cohorts would need to acquire homes at a pace even faster than the prerecession average. Such an aggressive assumption does not seem supportable at this time.

There is also the question of how to handle new cohorts yet to emerge into adulthood. Because there is no history on these cohorts, we have held their starting positions equal to those of young cohorts observed in 2012. It is possible that incoming cohorts untouched by the Great Recession might enter with a stronger appetite for home ownership. Yet it is equally possible that new entrants could follow the long-run trend toward lower home ownership rates at very young ages. On balance, it is wisest to hold them constant with the most recent cohort at entry.

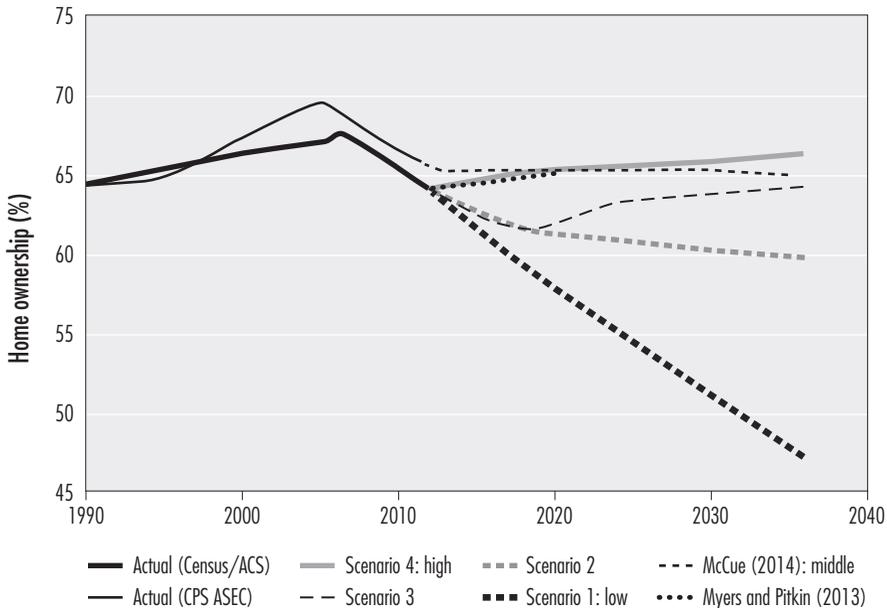
In arranging the data to execute these scenarios, we had to contend with a host of inconsistencies among data sets, as well as sampling errors. We desired a large sample for estimating detailed cohorts before and after the recession, which was obtained by linking the decennial census of 2000 and the 2006 and 2012 American Community Survey (ACS). The historical rates of cohort progress were derived from the Current Population Survey Annual Social and Economic Supplement (CPS ASEC).<sup>15</sup> To take advantage of the timing of the census and the onset of the ACS, as well as the timing relative to the housing financial crisis, we elected to analyze two 6-year periods, 2000–2006 and 2006–2012. We continued this six-year sequence both before and after the core analysis period. To correspond to the periods, we grouped households into six-year age groups as well.

*Comparing the Scenario Projections* In figure 2.18, the projected home ownership rate under each scenario is displayed to 2036 and compared with home ownership rates since 1980 to gain perspective. Also shown are the two other existing projections of home ownership, Myers and Pitkin (2013) and McCue (2014). The latter projections are calibrated to a CPS data series that runs higher in terms of home ownership, but it is useful for comparison because of its trend, which is very slightly downward through 2035. The Myers-Pitkin venture looked only one decade ahead, census to census, and was intended to inform state-level

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15. The CPS ASEC data were also used in 2000, in combination with earlier years in that data series, in order to derive internally consistent rates of change. For the post-2000 period, the ACS appears well calibrated to the 2000 census. Public Use Microdata Sample (PUMS) files were used in all these data sets, allowing for the definition of six-year age cohorts in order to match the timing of the 2000–2006 housing expansion, followed by the 2006–2012 recession and recovery. The Housing Vacancy Survey (HVS) does not provide a PUMS file and also relies on a much smaller sample size than the ACS. The CPS ASEC and ACS both contain a population universe instead of the household universe of the HVS, which allows the home ownership rates per household to be adjusted for changes in headship rates per capita, as discussed in Yu and Myers (2010) and Haurin and Rosenthal (2007).

**Figure 2.18**  
Home Ownership Rates Resulting from the Scenarios, 1980–2036



analysis, not provide a detailed national projection. This projection appears optimistic and shows home ownership moving upward by nearly a full point.

Scenario 1 represents a doomsday vision: the home ownership rate is 55.0 percent in 2024 and falls further to 47.1 percent by 2036. This repeats the losses of the Great Recession for each successive cohort and perpetuates the decline in home ownership. The previously established high home ownership rates of older cohorts keep this projection from dropping even more sharply.

Scenario 2 shows home ownership starting to pull out of the decline, staying just above 60 percent by 2024, but then falling further by 2036.

Scenario 3 is more optimistic that cohort gains in home ownership can return to the prerecession average and actually manage to regain lost ground by 2024. Eventually, by 2036, the home ownership rate rises back to 64.0 percent, just above where it started in 2012. The gains in this scenario accrue because the prerecession average rate of cohort progress is higher than the rates in the bubble and recession periods of the 2000s.

The final scenario is the most bullish, never declining and instead reaching 65.4 percent in 2024 and 66.1 percent in 2036. This is the trajectory that might have obtained if not for the long-delayed recovery period after the recession.

These scenarios reveal the momentum contained in the demographic structure of home ownership. The Great Recession was a one-time event whose impacts are still reverberating. All of the cohorts sustained losses that have been carried forward, and to the degree that cohort progress is not operating at normal strength, the cohorts continue to lag further behind, pulling down the overall home ownership rate of the nation. As time passes, new cohorts will enter this market with slow advancement into home ownership and gradually fill the population structure with cohorts characterized by depressed home ownership gains. Meanwhile, the high-home-ownership cohorts of earlier years will age out of the market and sell in an increasingly weak marketplace with fewer entry-level and move-up home buyers, the latter of which will be needed to buy higher-priced homes from the baby boomers. The stronger the home ownership of the younger generation, the better off seniors will be at the time of sale.

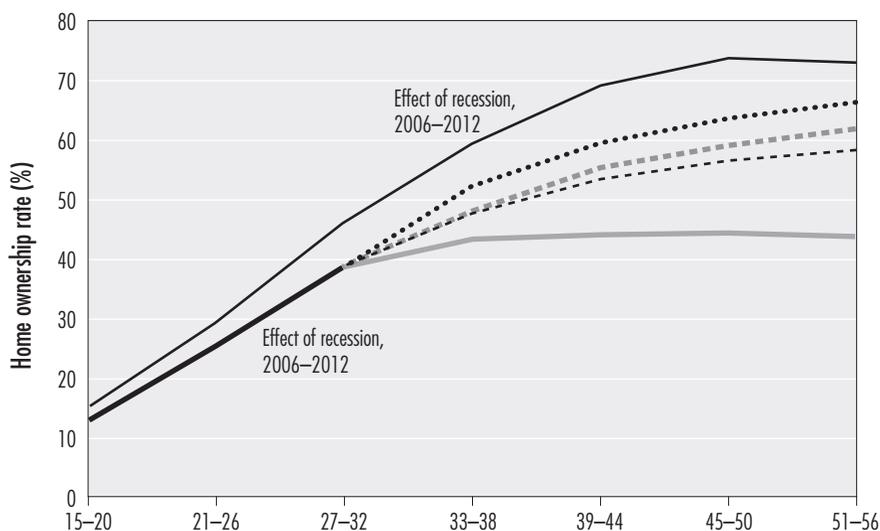
*Comparing the Millennials and the Baby Boomers* It may be useful to compare two cohorts, one born from 1956 to 1961, representing the younger portion of the baby boomers, and the other born from 1980 to 1985, representing the older portion of the millennials. Born 24 years apart, these two cohorts occupy very different phases of history. The older cohort had reached ages 51–56 by 2012 and achieved most of its lifetime housing gains during the booms of the late 1980s, 1990s, and early 2000s, all before the onset of the Great Recession. In contrast, members of the younger cohort were only ages 27–32 in 2012. Their future home ownership rate is shown under the four scenarios in figure 2.19.

The home ownership rate of the boomer cohort normally would have continued to rise slowly through at least age 65, but it was slightly dampened between 2006 and 2012 while boomers were still in their 50s. Nonetheless, their rate was still a very high 73.0 percent. In contrast, the millennial cohort's home ownership rate in 2012 was well below the boomer cohort's when the latter was the same age, having been stunted in the normally expected rise during this key age range for home acquisition. Projected increases from this point forward vary by scenario, with home ownership rates ranging between 43.2 and 52.4 percent in 2018. At the prime age range for home ownership attainment of 33–38, the boomer cohort by comparison had attained a home ownership rate of 59.2 percent.

The millennial cohort is blocked from moving to the high end of this projection range by the set of constraining forces discussed earlier in this chapter. The principal area of policy leverage would be relaxing the current restrictive access to mortgage credit. Under scenarios 3 and 4, a revival of the overall national home ownership rate would be expected, but this would require actively involving a much larger share of millennials than is currently the case.

What the alternative scenarios imply for urban growth and development remains to be determined. However, it appears that the revitalization of cities should continue to strengthen for at least the remainder of the present decade, and it seems that the growth of suburban home ownership, and of home building, is likely to remain subdued.

**Figure 2.19**  
Lifetime Trajectory of Home Ownership Rates of Baby Boomers (Actual) and Millennials (Projected)



**Year at each age**

Boomers	1976	1982	1988	1994	2000	2006	2012
Millennials	2000	2006	2012	2018	2024	2030	2036

— Boomers, 15–20 in 1976      ••• Scenario 4      - - - Scenario 2  
 — Millennials, 15–20 in 2000      - - - Scenario 3      — Scenario 1

## Conclusions

This chapter offers a broad tour of demographic trends and their implications for urban growth and development. The unique episode of the Great Recession induced abrupt short-term shifts in behavior that are continuing, further delaying recovery. Those recession-derived short-term changes are overlaid on, and sometimes reinforce, secular long-term trends. Yet it remains difficult to say whether the newest short-term changes are the beginning of a new long-run future, the so-called new normal.

Due to the lack of longer-term information, the deluge of annual data on population shifts and housing market trends has been the only basis for forming an outlook on the future. This chapter seeks to correct that bias toward the short term, even while accepting that there may be a long-term break with past behavior. Among the guideposts that is most reliable and of deepest significance is the

aging of the population, including not just the aging of baby boomers, who will remake Americans' notions of old age and retirement, but also the aging of millennials, who are beginning to arrive at the critical life stage for family formation, career building in chosen occupations, and entry into home ownership.

The use of projections here is less to make a point prediction than to provide a frame of reference for judging how much the "normal" behaviors that prevailed in the past may differ in the future. The chapter highlights some stark differences between one decade (the 1990s) and the next (the 2000s and the 2010s). Threaded across the decades are the careers of individuals and the generational momentum of cohorts. When connected to history in this way, projections provide a long-term temporal framework that is useful in helping to evaluate current policy choices.

The millennial generation is now receiving widespread attention because new generations are often the drivers of social change. Equally important is that the millennials are a larger cohort than the undersized cohorts they are succeeding, even larger than the baby boom generation itself, and so by sheer numbers alone they bring added vitality to urban areas. But there is great doubt surrounding the millennials, because they came of age in the aftermath of the Great Recession and have thus endured greater economic challenges, and also because of their racial and ethnic diversity. The importance of the millennials has been highlighted in every phase of this study.

In the end, the millennials' lifestyles and economic well-being are still in a formative stage. The end results are still unknown, but what is certain is that if things do not go well for the millennials, things will not go well for seniors either. Nothing points up this dependency as much as the housing market, where massive numbers of baby boomers will be looking to sell their homes to the millennials. The United States needs the millennials to succeed—to get a good education and good jobs, to become strong taxpayers in order to support the rising senior population, and to buy baby boomers' houses at a good price. Already the millennials have done much to revitalize inner cities, but can they help the rest of the country, too?

Alonso's "population factor" has returned to prominence in the analysis of housing, urban structure, and future development patterns. Perhaps the newfound interest in it is due to the rapid demographic changes under way, or it might be attributed to the great economic and political uncertainties, which make demographics seem a more secure base. Certainly, after the severe financial crisis, there seems to be merit in returning to the timeless estimation of housing demand by keeping close track of the people needed to fill the houses.

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