Starting to Launch: Millennials Are Leaving Mom and Dad’s Basement

Executive Summary

- Recent news stories reported that the proportion of young adults living at home has reached a multi-decade high. These accounts are based on a traditional analytical approach that compares the same age group containing different people at different points in time.

- However, in our latest edition of Housing Insights we present an alternative perspective using “cohort analysis.” Here, we monitor the change in the proportion of young adults residing with parents for the same group of young people as they grow older and pass from one age group to the next.

- Cohort analysis reveals that the pace at which young adults are departing their parents’ homes actually has accelerated substantially.
  - For young adults aging through their mid- to late-twenties or early-thirties, the reduction in the share living with parents was significantly greater between 2013 and 2015, a period of economic recovery, than it was between 2010 and 2012, when the economy and housing market were still reeling in the aftermath of the Great Recession.
  - For example, among those young adults who aged from 24-25 in 2013 to 26-27 in 2015, the proportion residing with parents fell by 7.6 percentage points, whereas the cohort that passed through the same age range between 2010 and 2012 experienced a decline of only 5.4 percentage points.

- Stronger income growth and an accelerated rate of marriage are likely the two primary reasons why Millennials are starting to leave their parents’ homes at a faster pace.
  - For cohorts aging through their twenties or early-thirties, inflation-adjusted income growth was at least 23 percent greater between 2013 and 2015 than between 2010 and 2012 and at least 81 percent greater than between 2008 and 2010, at the lowest point of the economic downturn.
  - Millennials aging through their late-twenties and early-thirties between 2013 and 2015 also experienced a significantly faster pace of marriage than did their predecessors who passed through the same age ranges during the recession and early recovery.

- Millennials’ accelerated rate of departure from their parents’ homes bodes well for housing demand. Cohort analysis shows that the increased pace of leaving home has been accompanied by accelerated young-adult household formation.

Late last year, an analysis of Census Bureau data conducted by Trulia revealed that the proportion of adults aged 18-34 living with their parents or other relatives was at a 75-year high.¹ This research prompted a number of news stories lamenting the inability of Millennials to cut the residential umbilical cord.²

Cohort analysis provides a new perspective on Millennials’ “failure to launch”

The recent research depicting Millennials’ stubbornly high rates of living with parents uses a traditional approach to measuring change that, while valid and informative, is not particularly well-suited for identifying shifts in behavior in response to changing economic conditions. Typically, changes in living arrangements are measured for fixed age groups

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² The following quote from Kirkham (ibid) is illustrative: “Despite a rebounding economy and recent job growth, the share of those between the ages of 18 and 34 doubling up with parents or other family members has been rising since 2005.....The trend runs counter to that of previous economic cycles, when after a recession-related spike, the number of younger Americans living with relatives declined as the economy improved.” Other news coverage of the trend includes Jeremy Quittner, “Here’s Why More Millennials Are Living With Mom and Dad,” Fortune, December 21, 2016, and Lydia O’Neal, “Why Millennials Still Struggle to Move Out,” International Business Times, December 21, 2016.
containing different individuals at different points in time. This traditional “age group” approach might compare, for example, the percentage of 30-year-olds living with their parents today with the proportion of a different group of 30-year-olds living with their parents one year ago (see left panel of Exhibit 1).

This edition of Housing Insights uses a different approach, called a “cohort analysis,” that tracks changes in living arrangements for roughly the same group of young adults as they grow older and pass from one age group to the next.³ For example, cohort analysis might measure the proportion of 31-year-olds who are living with their parents today and compare it with the rate for the same group of individuals one year earlier, when they were aged 30, to determine how much the share of those living at home has changed (see right panel of Exhibit 1). Cohort analysis can help detect if young adults have started to move out of their parents’ homes at a faster pace as the economy has recovered.

Exhibit 1. Two different perspectives on change

<table>
<thead>
<tr>
<th>Traditional age group approach compares:</th>
<th>Cohort approach tracks:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Different cohorts</td>
<td>• Same cohort</td>
</tr>
<tr>
<td>• At same age</td>
<td>• At different ages</td>
</tr>
<tr>
<td>• At different points in time</td>
<td>• Across intervals of time</td>
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Traditional analysis suggests young adults are stuck at home, but the cohort perspective tells a more encouraging story of accelerated departures

Consistent with recent media accounts, the traditional age-group approach, when applied to the Census Bureau’s American Community Survey data, shows no improvement in the proportion of young adults living with their parents. Despite a stronger economy and labor market, the proportion of young adults living at home in 2015 was significantly greater than it was in 2013 for all young-adult age categories, except those aged 20-21 (see Exhibit 2).⁴

³ Because of international migration and deaths, cohorts are not the exact same group of individuals from one period to the next.
⁴ The 0.2 percentage point increase in the proportion of 20-21 year-olds living with their parents between 2013 and 2015 was not significantly different from zero at the 10 percent confidence level.
Cohort analysis tells a more positive story. Exhibit 3 below shows the change in the proportion of young-adult cohorts living at home as they aged. Because the probability of living at home declines as young people grow older, all values in the chart are negative. The more negative the value, the more rapidly a cohort departed the parental home as it aged.
Exhibit 3 shows that the pace at which young adults left home quickened between 2013 and 2015 for all cohort age transitions, with particularly large accelerations for cohorts aging through their mid- to late twenties. For example, among those young adults who aged from 24-25 in 2013 to 26-27 in 2015, the proportion residing with parents fell by 7.6 percentage points (see red arrow in Exhibit 3). This drop was more than two percentage points larger than the decline experienced by the cohort that passed through the same age range between 2010 and 2012. The decline in the proportion of young adults residing with their parents between 2013 and 2015 was also about 2 percentage points greater than between 2010 and 2012 for the 22-23→24-25 and 26-27→28-29 age transitions, and about a percentage point greater for cohorts passing through their early thirties.

Faster income growth provides the wherewithal to leave home; getting married provides motivation

Young adults are more likely to live apart from their parents if their incomes are higher or if they are married. Hence, one likely explanation for recently accelerated departures from the parental home is that young adults’ financial circumstances improved as the economic recovery progressed. A cohort analysis of income trends supports this hypothesis, showing that gains in inflation-adjusted per capita incomes between 2013 and 2015 were significantly larger than during the recession and early recovery periods (see Exhibit 4). Depending on the age transition, cohort increases in real incomes between 2013 and 2015 were at least 81 percent greater than between 2008 and 2010 and were at least 23 percent greater than between 2010 and 2012.

5 For those aging from 20-21 to 22-23, the rate of decline in living with parents was not significantly different at the 10 percent confidence level for the 2013-2015 and 2010-2012 periods.

6 More rapid immigration between 2013 and 2015 might have inflated the apparent pace of departures from the parental home. According to the Census Bureau’s Population Estimates Program, net international migration increased from an average of 0.877 million per year between 2010 and 2012 to an annual average of 1.007 million between 2013 and 2015. Because immigrants tend to arrive in the United States during early adulthood and because young adult immigrants have a lower likelihood of living with parents than do their native-born counterparts, the increased pace of immigration might be expected to boost the pace at which young adult cohorts appeared to be leaving home between 2013 and 2015. However, a separate analysis that includes only the native-born population revealed patterns of cohort acceleration in parental departures that were very similar to those shown in Exhibit 3. As with the cohort analysis based on the entire population, the analysis based on the native-born population showed that the decline in the proportion residing with parents between 2013 and 2015 was significantly greater than the decline between 2010 and 2012 for all but the 20-21 to 22-23 age transition.

7 Daniel McCue and Christopher Herbert, Updated Household Projections, 2015-2035: Methodology and Results, Joint Center for Housing Studies of Harvard University, Working Paper, December 2016.
Whereas stronger income gains helped provide the means for young adults to leave their parents’ homes, a desire to marry might have provided some of the motivation for departing. As was the case with data on living with parents, age group data on the proportion of young adults who are married shows virtually no improvement in recent years, despite the economic recovery. However, cohort analysis provides a more encouraging perspective, revealing that young adults accelerated the pace at which they married between 2013 and 2015 (Exhibit 5). For example, the proportion married increased by 5.4 percentage points for the cohort that aged from 30-31 to 32-33 between 2013 and 2015 (bar to the far right of Exhibit 5). This increment was more than two percentage points greater than the increase experienced by the cohort that passed through the same age range between 2010 and 2012.

Leaving mom and dad’s basement is good for housing demand

Millennials who are living with their parents aren’t forming new households and, therefore, aren’t generating new housing demand. And while not every departure from the parental home creates a new household,\(^8\) many young adults who leave the nest will establish their own residences. The correlation between the pace of parental departures and the rate at which young adults form new households is suggested by examining cohort increments in headship rates.\(^9\) Between 2013 and 2015, when Millennials’ departures from their parents’ homes accelerated, headship rates also increased more rapidly, particularly for young adults aging through their mid- to late twenties (see Exhibit 6).\(^{10}\)

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\(^8\) For example, after leaving home some young adults will move in with friends who are already renting a house or apartment.

\(^9\) The headship rate, a commonly used metric of household formation, is the proportion of the population in a given age group that is a householder (i.e., the person, or one of the persons, in whose name a housing unit is owned, being bought, or rented).

\(^{10}\) Compared with the headship rate increase between 2010 and 2012, the increment recorded between 2013 and 2015 was significantly greater at the 10 percent confidence level for the 22-23→24-25, 24-25→26-27, and 26-27→28-29 age transitions.
As Millennials leave home at a faster pace and begin to form independent households, the resulting increase in housing demand is likely to affect several segments of the housing market. Because the first step in independent living for many young adults is a rental unit, accelerated move-outs should support demand in both the multifamily and single-family rental markets. In addition, other recent research using cohort analysis shows that Millennials in their late twenties and early thirties have accelerated the pace at which they are becoming homeowners. Therefore, some of the Millennials who are moving out of their parents’ homes into rentals today will end up in the starter home market in coming years.

Regardless of the housing market segment affected, Millennials at long last appear to be launching more rapidly from their parents’ homes and releasing some of their pent-up housing demand.

Patrick Simmons
Economic & Strategic Research Group

Patrick Simmons is a Director of Strategic Planning in Fannie Mae’s Economic & Strategic Research Group, where he focuses on demographic trends and their implications for the housing and mortgage markets. The author thanks Doug Duncan, Orawin Velz, and Mark Palim for valuable comments in the creation of this edition of Housing Insights. Of course, all errors and omissions remain the responsibility of the author.

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11 About half of renter householders aged 25-34 live in single-family (i.e., one-to-four units in structure) units and slightly more than four in ten live in multifamily (five-or-more units in structure) apartments. See Patrick Simmons, “Rent or Own, Young Adults Still Prefer Single-Family Homes”, Fannie Mae Housing Insights, July 1, 2015. http://www.fanniemae.com/resources/file/research/datanotes/pdf/housing-insights-070115.pdf