

Housing market flux can be attributed to population, demographic trends

BY FRANK GOODMAN

The housing market has left many confused. The feelings caused by this confusion seem to have changed from exuberance to fear. The truth is that underneath the hype and hoopla, the housing market is real people buying homes.

Simply, if more homes had been sold than ever before, it was because more real people wanted to buy a home than ever before. There is a historically predictable relationship between the age of the head of a household and the likelihood that household owns a home. The increase in demand was due to the peak population years of the baby boom, America's largest generation, getting to the age historically associated with a big jump in home ownership.

Using the terms "historically normal" and "baby boom" together require some caveats. The baby boom's life experiences differ from the historical norms in three important ways. First, the baby boom has much greater educational attainment, and as a result, higher individual income. Second, the baby boom has chosen to run their households with two income earners, and as a result, has higher household incomes. Third, the baby boom was the first generation with access to modern birth control.

These three changes have allowed the baby boom to do things bigger and later than normal. All of which leads us to the big jump in the demand for housing, about seven years later than people normally purchase a home with an increased emphasis on bigger new homes. The emphasis was on new homes as the supply of existing homes, besides being occupied, didn't have media rooms or nice island kitchens. The improvement in affordability was nice, too.

Knowing how we got here helps in knowing what comes next. In an age-driven secular housing boom, the last buyers to the market are going to include more of the least credit worthy. This is why they are among the last. The exciting part of the baby boom buying first homes is over. The peak population years of baby boomers, a 33% increase in population over the first half of the baby boom, have moved through the age range when, historically, home ownership goes from 65% to 78% of households.

Still ahead of them is the historic peak, where 84% of households own at least one home. We have gone from a 10-year period with a 20% increase in peak population boomer households owning homes to a 25-year period with an 8% increase in peak population boomer households owning homes. Half of this 8% increase comes in the next 10 years. This is the historical normal peak and it is likely that the boomers' peak will be higher than normal.

Generation X, while considerably smaller than the baby boom in population, is buying houses earlier than normal. The millennial kids, the generation after Gen X, outnumber the boomers and are now starting college in record numbers. They represent the next home ownership boom in about 20 years, give or take.

It is unlikely that boom will be as big as this one was. In the meantime, net demand for housing remains positive, so there will still be a need for new homes to be built. The supply of homes will not come to outnumber the households who want to live in them.

The silver lining in the contraction of home construction activity to more historically normal levels is likely to be a slowing of illegal immigration. The recent decline in money being transferred into Mexico and Central America seems indicative of a tightening immigrant labor market.

And yes, there is a historical relationship between second home ownership and age of the head of household. No, we haven't hit the steep part of that curve yet. After all, first comes paying the tuition and gasoline bills for the largest college freshman class ever.

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