

Dramatic Increase in Home Overcrowding Observed Since Onset of Recession

By: Jann Swanson | Thu, Apr 8 2010, 11:46 AM

The recession is manifesting itself in family rooms throughout America as many parents find that their nests not quite as empty as they had planned according to a study released today by the [Research Institute for Housing America](#), a division of the Mortgage Bankers Association.

"[What Happens to Household Formation in a Recession](#)," by Professor Gary Painter of the University of Southern California analyzes the impact of economic and housing conditions on the formation of new households and the subsequent impact on household overcrowding, mobility trends, and vacancies in the rental and single family markets.

Michael Fratantoni, MBA's Vice President of Research and Economics said of the study, "We hear stories about young adults remaining in or returning to the nest after college and of households doubling up. We wanted to go beyond the anecdotes to provide our members with hard numbers on the trends in household formation that will impact demand for both single-family and multifamily properties."

Professor Painter points out that 1.2 million households were lost from 2005 to 2008 even though the population of the study area increased by 3.4 million. "With such a significant drop in households nationwide, it is clear the most recent recession impacted individuals' decisions to move out on their own and caused many Americans to join already formed households." Painter noted that his study was constrained by the lack of data on household formation beyond 2008. Clearly, he said, given the depth of the downturn in 2009, and the ongoing weakness in the job market through the beginning of this year, this study gives no reason to expect that household formation has picked up at all."

In addition to information on the current downturn, the study analyzed 40 years of data, a period which included six recessions, to examine the historical impact of recession and unemployment on the formation of new households.

The study found that during a recession young adults are less likely to form independent households. While the incidence of this phenomenon varies depending on the age of the person and the severity of unemployment, new household formation during the current period fell by up to 4 percent. The recession has also caused a dramatic increase in the rates of overcrowding, defined as having more than one person per room in the household. Professor Painter calculated this increase as nearly five-fold, indicating that many families are now doubling up on living arrangements. The impact on both household formation and overcrowding was more evident among native born Americans than in immigrant households.

While the rate of homeownership nationally has fallen from its peak of over 69 percent to just over 67 percent, the magnitude of change in household status may be even greater when the simultaneous decrease in the formation of renter households, which is even sharper than the drop in homeowner household formation, is taken into account.

Painter found the children of higher income families are more likely to remain at home, affecting the rental market while children from families with higher financial wealth are more likely to form their own new renter households.

His said that his study indicates that household formation will pick up only when the job market stabilizes because young adults need a paycheck but they also need a sense that their employment is sustainable before they strike out on their own. "Given the strong tie between unemployment rates and household formation, household formation will likely return to normal levels by 2012 as unemployment rates decline over the next two years. There is no demographic silver bullet that will solve the supply overhang we are seeing in many housing markets around the country. The housing and mortgage industries will feel the impact of this reduction in the number of households for years to come." He added that, "Typically, many new households are renters, but if young adults postpone moving out, some may have the ability to save for a down payment, causing them to skip the rental stage and move right to homeownership."

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