Peak Millennials and the Rental Crisis

Dowell Myers
USC Price
Sol Price School of Public Policy

The Questions

New urban preferences of Millennials or just a temporary presence?

But why would it end??

And why the rental crisis?

How can planners prepare for the future?
Basic Facts on the Millennial Generation

Born 1980 to 1999 (but many alternatives)

83 million is larger than the Baby Boomers

This is a generation, not an age group, but analysts currently focus on ages 20 to 34

Millennials are found everywhere, but their residence downtown and in close-in areas gets the greatest attention

Dowell Myers, USC Price

On
Urban Preferences
For me, car is king. Nothing will replace my car as my main mode of transportation” – who disagrees?

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Liberals</th>
<th>Conservatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under age 40</td>
<td>26%</td>
<td>4%</td>
</tr>
<tr>
<td>Over age 50</td>
<td>18%</td>
<td>4%</td>
</tr>
</tbody>
</table>

(NAR 2013:49)

When deciding where to live, “What’s important to me is living in a place at the center of it all.” – who agrees?

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Liberals</th>
<th>Conservatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under age 40</td>
<td>23%</td>
<td>4%</td>
</tr>
<tr>
<td>Over age 50</td>
<td>7%</td>
<td>4%</td>
</tr>
</tbody>
</table>

(NAR 2013:48)

From the National Assoc. of Realtors

Political Polarization of Preferred Community Types

<table>
<thead>
<tr>
<th>Location</th>
<th>Liberals</th>
<th>Conservatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>46%</td>
<td>4%</td>
</tr>
<tr>
<td>Suburbs</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Small town/rural</td>
<td>33%</td>
<td>76%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Pew Research Center (2014: 45)

Dowell Myers, USC Price
New Urban Preferences
The younger generation has stronger preferences for urban living, but will it last when they grow older?
Yes there is some survey evidence....

But mainly we see “preference” based on urban presence and how their numbers are growing.

How strong was the contextual effect of the Great Recession?
Supposed preferences might be driven by limited opportunities, but those are now improving....

Dowell Myers, USC Price

On Urban Presence
Population growth by distance from city hall
1990-2000 and 2000-10, Ages 20 to 34, top 100 MSAs

Myers and Lee 2016

Population growth by distance from city hall
1990-2000 and 2000-10, Ages 20 to 34, top 100 MSAs

Myers and Lee 2016
The Theory

Cohort Flow in the City

How Does the Number of Millennials Grow in Cities?
Life Course Perspective

Millennials are a set of cohorts born earlier and now flowing into adulthood.

Society is age-graded with expected roles at each age and slots to be filled, including:
- age appropriate housing units
- entry level jobs, etc.

These slots are turned over every year or two to newcomers who are aging into position and replacing the preceding cohorts when they move on to the next life stage.

Inflow = Number of Eligible Candidates X Preference X Ability

Outflow = Number of Eligible Candidates X Preference X Ability

“Ability” represents the access to resources and opportunities.

“Preference” is desire, not just revealed location.

All of these components are changing, but preferences are least understood and so are not a solid basis for judging future outcomes.
Three Reinforcing Cycles that Generate Millennial Impacts

Rise and fall of births 25 years earlier

Rise and fall of employment growth, 1990 to (projected) 2022

Progress through the housing lifecycle is blocked but then resumed (we expect)

The Birth Cycle
Peak Millennial Births
Annual Births in the U.S., 1960 to 2013

Source: National Vital Statistics Reports, Vol. 64, No. 1, Table 1, January 15, 2015
Dowell Myers, USC Price

Competition Faced by 25 Year-olds

• Fighting for housing and entry-level jobs

• Focused on their peers age 25 and four years older, i.e. all of the 25-to-29 age group

Dowell Myers, USC Price
The Employment or Business Cycle

Demographic Congestion and Job Growth
Comparison of 5-Year % Job Growth and 5-Year Cumulative Change in Demographic Pressure

Dowell Myers, USC Price
The Housing Life-Cycle

Housing Life Cycle Progression

Percent of People Who Are Living in Each Housing Circumstance

Data for US — ACS 2014

Dowell Myers, USC Price
How Does Housing Opportunity Grow?

- New construction of housing units
- Vacancies from more turnover of existing units

Dowell Myers, USC Price

Housing Unit Construction in the U.S., Total and Multifamily, 1970–2014 (1000s)

Source: U.S. Census Bureau, Survey of Construction.
Note: The recession-and-recovery period (2008-2012) is highlighted red.

Dowell Myers, USC Price
What Happens in a Housing Shortage?

- Would-be home buyers become renters
- Millennials keep arriving and Existing Renters get sandwiched between them and the diverted homeowners
- Developers slowly try to build new supply
- Desperate home seekers scavenge and over pay, double up, or disappear

Cascade of Diverted & Growing Households in Los Angeles County

Changes 2006 to 2014, Actual Population, but Assuming 2000 Patterns of Housing Occupancy

- Would-be homeowners were diverted into rentals
- Joining the expected growth of renters from Millennials & others
- Creating Total POTENTIAL growth in renters

314,000

212,000

526,000

How well was this rental demand met by new supply?

Analysis by JungHo Park
Based on Myers, Painter, Lee and Park (2016)
When Growing Rental Demand Meets Limited Housing Supply

Changes 2006 to 2014 in LA County

<table>
<thead>
<tr>
<th>Total POTENTIAL growth in renters</th>
<th>526,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTUAL Increase in renter-occupied units</td>
<td>177,000</td>
</tr>
<tr>
<td>LEAVES displaced renters</td>
<td>353,000</td>
</tr>
</tbody>
</table>

To be housed in

<table>
<thead>
<tr>
<th>New Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of Multifamily</td>
</tr>
<tr>
<td>81,931 units permitted</td>
</tr>
<tr>
<td>Conversion of Single-Family to Rental</td>
</tr>
<tr>
<td>30,000 units approximately</td>
</tr>
<tr>
<td>Conversion to Additional Units</td>
</tr>
<tr>
<td>Not known how many units</td>
</tr>
</tbody>
</table>

Analysis by JungHo Park

Net Result for Millennials

- Slowed down, backed up into parents’ homes, and bottled up in singles areas
- But Millennials over age 25 or 30 are breaking out and looking for better housing where they can find it
- That includes gentrifying housing close to singles districts

Dowell Myers, USC Price
Conclusion

Is this a New Era for Millennials?

Freed from Housing Gridlock

The 3 cycles once were harmonized to maximize urban residence (from 2005 to 2015). But the 3 cycles now are pulling together in the opposite direction (from 2015 to 2025).

The larger Millennial cohorts would have created a more competitive environment for entry-level jobs even in a strong economy, but in the Great Recession the opportunities were doubly limited. Now the opportunities are finally beginning to grow.

And housing opportunities are also beginning to resume, so the Millennials are free to finally move where they like.
Articles Referenced in the Presentation


The future remains to be determined......

Thank you

Dowell Myers
USC Price
Sol Price School of Public Policy

USC PopDynamics