



Freddie Mac March 2018 Insight

March 16, 2018

Why is Adulting Getting Harder? Young Adults and Household Formation

MCLEAN, VA -- (Marketwired) -- 03/16/18 -- - [Freddie Mac](#) (OTCQB: FMCC) released its [March Insight](#), which compares today's young adults to previous generations and considers how various factors influence the rate of household formation. What happens when Millennials, the largest generation since the Baby Boomers, emerge from the cocoon of their parents' houses and begin to make a major impact on the U.S. economy and housing markets?

Insight Highlights

- According to the U.S. Census Bureau, there were nearly 45 million young adults aged 25 to 34 in the United States in 2016, over four million more than those aged 35 to 44. That large population should be fueling the housing market, but the headship rate - the percentage of those heading a household - amongst young adults aged 25 to 34 in 2016 is down 3.6 percentage points since 2000.
-- If these young adults had formed households at the rate of the young adults in 2000, then the U.S. would have had 1.6 million additional households in 2016.
- Our research indicates that the two biggest factors explaining the decline in household formation rates for young adults are housing costs and labor market outcomes.
-- From 2000 to 2016, real median house prices increased by 29 percent, but young adult per capita real incomes only rose one percent.
-- In terms of labor market conditions, the labor force participation rate for young adults has seen a pretty substantial decline in recent years, particularly for men.
- Millennials are slower to reach milestones traditionally associated with adulthood, such as getting married, having children, and forming their own households. Even if later than previous generations, Millennials should soon begin to enter the housing market at a higher rate. We expect that Millennials and the following generation, Generation Z, could add somewhere between 19 and 21 million additional net new households by 2025.

Quote: Attributed to Len Kiefer, Deputy Chief Economist.

"We expect that as life progresses and today's young adults age, they will add around 20 million households to the U.S. economy, driving housing demand over the next decade. But, housing costs are a major factor holding back young adult household formations. Our research results indicate that 28 percent of the decline in young adult household formation is due to housing costs. If housing costs continue to rise, we could see about 600,000 fewer households over the next decade."

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Source: Freddie Mac