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Dirt Poor Echo Boomers May Find Cheap Cribs In Burbs, Shun Urban Living

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Cheap homes in suburbia attract the young and not so affluent.

With the great recession driving unemployment, foreclosures and vacancy rates to historic highs, the housing market has certainly been on one wild ride the last few years.

Today, we see the confluence of a deep recession driving behavioral change and shifts in the demographic distribution of the population poised to impact the real estate market in unexpected ways. Americans who have

experienced or witnessed the loss of jobs, homes and home values, have grown skeptical about the benefits of home ownership. Not only will the financial impacts of the housing meltdown burden the real estate market for years to come but so too will the emotional impact. More than ever, Americans of all ages are considering their options.

At a time when aging baby boomers might be retiring, they continue working in order to build back up the retirement savings they lost in the economic chaos. This has a trickle-down effect, preventing younger generations from moving up in the workplace or from moving into the workplace to acquire the wealth they would need to drive new demand for homes.

The Joint Center for Housing Studies of Harvard University reports that real median household incomes across all age groups under 55 have not increased since 2000. It's been posited that this will be the first decade in 40 years where real median household incomes will end lower than where they started. This has the biggest implications for the baby bust generation (born 1966-1985) as they approach what should be their prime earning years and for younger baby boomers that will be facing a vacuum of demand from younger generations when they want to retire, sell the family home and down-size. Over-building and spiking foreclosures have already produced an over-supply of large suburban homes for which there is little demand or ability to purchase. Gen X and Y will not do much to help solve this problem.

The Gen Y population, or echo boomers (born 1986-2005), the largest pool of renters, is now in their prime rental years but many have found themselves jobless with no way to pay the rent. Forced to move in with mom, dad or friends, this twenty-something crowd has been hard hit by the recession. Nonetheless, they are poised to redefine the American dream for generations to come. When employment growth returns they will be a key driver of rental demand.

Also at play is the fact that aging boomers will be reluctant to sell their homes for two reasons. One, they may be underwater on their mortgages and waiting for the market to rebound and two, they are healthier than their parents' generation and will likely delay the move to retirement community living. Only time will tell if a market will exist for their homes when they are ready to sell however the income constraints and lifestyle demands of a shifting population may dictate a very different future.

All in all, there are some big changes afoot in the housing market that shifting demographics will continue to amplify. The changing needs of an aging baby boomer population as well as the demands of the burgeoning Echo Boomer generation will require that the real estate market respond in new and different ways.

The next quarter century is likely to bring a new look and feel to housing, much different than the post-war suburban sprawl that America experienced in the 1950s and 1960s. According to a 2009 study by RCLCO, both retiring baby boomers and maturing echo boomers are looking to move away from the suburbs they've spent their lives in. Both groups reported wanting to live in more urban, mixed use, mixed age areas that offer services, community and walk-ability.

Given the lack of wealth that younger generations are anticipated to experience, achieving the dream of urban living may be out of reach for them. While echo boomers also told RCLCO that they are willing to give up size to live where they want, it's possible that living in urban centers may come at too expensive a price tag.

The over-built suburbs and areas hardest hit by home devaluation may be the only places that Gen Y will be able to afford but it's unclear how they may deal with this lifestyle dilemma. What is clear is that the growth of an economically challenged echo boomer generation will make affordable housing even more important.