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There's no place like home: Racial disparities in household formation in the 2000s[☆]

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ABSTRACT

This paper uses the Panel Study of Income Dynamics to explore the decisions of black and white young adults to remain in their parents' home or to form their own household during the tumultuous 2001–2013 period. We use MSA fixed effects to capture geographic heterogeneity and develop exogenous measures of housing and labor market contexts using Census and ACS PUMS data. We then run a Oaxaca-Blinder style decomposition analysis to explain the race gap in household formation over this 13-year period, and conduct several robustness checks. We find strong support for the influence of economic context, with strikingly different results by race. Blacks were most sensitive to rents, which increased more dramatically for black young adults over most of the 2001–2013 period compared with whites' rents. The results also suggest that blacks were operating in strongly segmented housing markets throughout this period. In contrast, whites were most sensitive to employment rates, which decreased for white young adults over this period from 75 percent in 2001 to 70 percent in 2013. Despite their unrestricted access to the entire labor market, falling employment proved a significant deterrent to new household formation for white young adults.

During the tumultuous 2000 decade, young adults were exposed to major changes in structural conditions occurring in rapid succession. The bursting of the tech bubble in 1999–2000 was followed by a mild recession in 2001 and 2002, then by a housing boom from 2003 through early 2007, and then by an economic recession including the bursting of the housing bubble starting in late 2007 with repercussions continuing beyond the decade. This period of strikingly different housing and labor market contexts provides a unique opportunity to study young adults' decisions to remain in their parents' home or form their own households. Three to four decades ago, young adults moved relatively easily into housing and labor markets. With less certain employment opportunities in changing labor markets, housing costs rising faster than incomes, and the turbulence of the recent housing boom and bust, the path to young adulthood, and particularly to independent household formation, is more strained than in the past (Mulder and Clark, 2000). This has been especially the case for blacks who have been less likely than whites to follow the “standardized path” toward adulthood during the latter part of the 20th century (Fussell and Furstenberg, 2005, p. 50). Black young adults live with their parents more often than whites (Settersten and Ray, 2010). The volatile macroeconomic environment at the start of the 21st century may have

amplified these race differences.

In this paper, we use the Panel Study of Income Dynamics (PSID) to examine how the economically volatile 2001–2013 period, which included the housing boom and the Great Recession (GR), influenced the decision by young adults to stay or leave their parents' home. Building on past studies (e.g., Haurin et al., 1993; Hughes 2003; Lee and Painter, 2013), we account for two plausible influences on this decision: the structural context of housing and labor market conditions, and parental resources. The analysis considers whites and blacks separately because of the substantial racial disparity in young adult living arrangements, structural conditions and family characteristics. This research extends the current literature in at least three ways. Previous work that includes the 2000 decade focuses on the GR (e.g., Lee and Painter, 2013).¹ We include the 2001–2013 period, which encompasses the mild 2001 recession, the 2005 housing boom, the 2009 GR, and the after-match of the GR through 2013, in light of compelling evidence of different effects of sharp economic fluctuations on blacks compared with whites (e.g., Newman and Holupka, 2016). Therefore, we test for possible differential effects of the period on black and white young adult household formation. Second, in addition to time fixed effects, we use metropolitan statistical area (MSA) fixed effects models to control for wide

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¹ Lee and Painter focus on the effects of recessions in several decades on young adults leaving home.

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variations in economic conditions in housing and labor markets during this period (Chernick et al., 2016). Past research either does not use fixed effects or relies on state fixed effects. Third, we use the 2000 Census and the 2005, 2009 and 2013 ACS PUMS to create exogenous measures of the housing and labor market climate faced by young adults during this 13-year period. We view this analysis as largely exploratory and descriptive, providing a foundation for future research that tests causal pathways.

We find strong support for the influence of economic context, with strikingly different results by race. Blacks were most sensitive to rents, which increased more dramatically for black young adults over most of the 2001–2013 period compared with whites' rents. The results also suggest that blacks were operating in strongly segmented housing markets throughout this period. In contrast, whites were most sensitive to employment rates, which decreased for white young adults over this period from 75 percent in 2001 to 70 percent in 2013. Despite their unrestricted access to the entire labor market, falling employment proved a significant deterrent to new household formation for whites.

In the next section, we set the context for this analysis by presenting recent trends on young adults living with parents, their educational attainment, earnings, housing choices and housing cost burden. The third section reviews the literature and is followed by the hypotheses guiding the analysis. Next, we describe the research approach including data, sample, and methods. We then review the results and robustness checks. We discuss the results and their interpretation in the final section.

1. Setting the context²

1.1. Living with parents

An increase in the share of young adults living with their parents has received considerable media attention since at least the 2000s. According to Current Population Survey (CPS) data, more than half of 18–24 year olds began the decade living at home. This fraction then fell to about 50 percent in 2005 at the height of the housing boom, returned to roughly 52 percent in 2008 during the GR, and continued to increase to 55 percent through 2015, the last year for which CPS data were available at this writing. The pattern for 25–34 year olds is somewhat different. Nearly 11 percent lived with parents in 2000, and this fraction remained largely stable through the housing boom. This percentage rose to about 13 percent in the GR in 2008 and has continued a modest but steady increase to 15 percent in 2015.³ These patterns may reflect the increase in school enrollment and the decrease in employment rates and earnings among young adults. The trends in living arrangements do not vary dramatically by race except for the long-standing pattern that blacks at all ages are more likely to live with parents than whites (Qian, 2012; Settersten and Ray 2010). In 2016, 37 percent of blacks 18–34 lived with their parents compared with 30 percent of whites in this age group (U.S. Bureau of the Census, 2017, p. 7).

1.2. Household formation and housing choice

Although young adults 18–34 comprise a relatively small share of heads of households, Dunne (2012) estimates that they account for nearly three-fourths of the overall shortfall in household formation since the GR. As indicated by the trend in living with parents by age noted above, 18–24 year olds had the largest shortfall in household formation. Dunne's analysis indicates that nearly 2 million more

households headed by an 18–34 year old were projected to be formed between 2007 and 2011 than were actually created. Although a change of roughly 3 percentage points may sound modest (Danziger and Rouse, 2007), it translates into millions of 18–34 year olds who did not establish their own households.

The specific nature of the GR also had implications for housing choice among young adults leaving their parents' home. Before the GR, about one-third of 18–34 year olds headed their own households, and roughly 40 percent of this group was homeowners. With the bursting of the housing bubble and onset of the financial crisis, lending standards were tightened, and access to mortgage credit was reduced. Presumably as a result, a sizable share of young adults leaving home opted to be renters instead of homeowners, producing a decline of nearly 5 percentage points in this subgroup's homeownership rate from pre-GR through 2010–2012 (Dunne, 2012).

1.3. Educational attainment

All else equal, an economic boom should lower the likelihood of college attendance if it improves job prospects enough so that the opportunity cost of attending college is less than the benefits of entering the labor force (Card and Lemieux, 1997). Conversely, an economic recession should increase the appeal of attending college.

CPS data do not support a decline in educational attainment during the boom. But they do confirm an increase in college attendance during the GR for particular subgroups of young adults (not shown). Among whites 18–24 years old, there was an increase in completing some years of college beginning in 2008 and continuing beyond the end of the decade (i.e., 42 percent in 2008 grew to 45.2 percent in 2013). This uptick in college attendance is also evident among blacks in the 25–29 year old age group beginning in 2009, a year later than whites, and continuing beyond the decade (i.e., 36.1 percent in 2009 grew to 41.6 percent in 2013). The increase in attending college but not in receiving a college degree during the GR is consistent with the argument by Charles et al. (2015) that the economic climate is most likely to affect young adults "on the margin" of obtaining a 2-year degree.⁴

1.4. Earnings and employment

As with educational attainment, support for the opportunity cost hypothesis among young adults differs by subgroup. CPS data reveal a decline in average real earnings among blacks, but not among whites, during the GR. For blacks, this pattern holds for both full-time and part-time workers, and for both 18–24 year olds and 25–34 year olds.⁵ These earnings reductions were exacerbated by declining employment rates for full-time workers that also began in the GR and continued at least through 2011.⁶ Full-time employment rates fell for both blacks and whites and for both younger and older young adults. By 2015, the latest data available, rates were climbing back up but were still several percentage points below their peak in 2006 and 2007. Throughout this time period, average earnings and rates of full-time employment were always lower for blacks than whites.

1.5. Housing market conditions

Fig. 1 demonstrates that the housing market for owners and renters was not particularly hospitable in the 2000s. As is well known, 2005

² Estimates and analysis discussed in this section are included in a technical appendix to this paper available from the authors.

³ Authors' calculations using data obtained from <http://www.census.gov/data/tables/time-series/demo/families/adults.html> infoplease.com/ipa/A0193723.html. Young adults in school are included in estimates of those living with parents.

⁴ Charles et al. (2015) found a decline in attending some college during the housing boom in a sample of housing markets that were heavily affected by the boom.

⁵ For example, among full-time workers 18–24 years old, blacks' earnings fell by about \$2,000 between 2008 and 2009 (from \$22,801 to \$20,802, respectively). For whites in the same age and full-time group, earnings held steady at about \$24,000.

⁶ For example, among full-time workers 18–24 years old, the employment rate fell from 34.4 percent to 28.4 percent between 2008 and 2009 among blacks, and from 41.3 percent to 35.7 percent for whites.

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