How Did the Housing & Labor Market Crises Affect Young Adults’ Living Arrangements?

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The housing and labor market crises of the late 2000s left few families and individuals unscathed. The housing bubble burst in early 2007. As a result of declining housing prices, many recent homebuyers found themselves “underwater” in their mortgages and housing foreclosures rose at unprecedented rates. The national market did not find a bottom until the first quarter of 2012, and only since then have housing prices been rising, to greatly varying degrees across areas. Turning to events in the labor market, the national unemployment rate from 4.7 percent in November 2007 (just prior to the official start of the recession) to a high of 10.1 percent in October 2009 (four months after the official end of the recession). Even more notable was its sheer depth, as measured by the dramatic increase in average and median weeks unemployed, especially as compared to the recession of the early 1980s. Even now, the national unemployment rate remains high, currently at 7.3 percent.

In the wake of these events, evidence points to more “doubling-up” of families in the same household (Mykyta and Macartney, 2011; Elliott, Young, and Dye, 2011) and the return of grown children to their parents’ homes as well as their slower exit (Pew Organization, 2010).\textsuperscript{1} A 2009 \textit{USA Today} article characterized the situation: “Love isn’t all that’s keeping family together today. The bruising housing market is too.” Other reports have pointed to rising rates of cohabitation resulting from the economic crisis in addition to the secular rise that was already underway (Kreider, 2010). While aggregate trends are valuable, less is known about relative

\textsuperscript{1} Even before the crises of the late 2000s, demographers had noted the increasing rate of return (and delayed departure) of young adults from their parents’ homes (Settersten and Ray, 2010). These trends were exacerbated by the depth and length of the recent crises.
impacts on individuals and subgroups. For instance, what was the impact of recent events on those in their early 20s who may not have yet purchased a home as compared to those in their late 20s through 30s who may have already been homeowners? Further, to what extent was it events in the MSA-area labor market or in the MSA-area housing market, or both, that affected individual decisions to double-up, own a home versus rent, or cohabit rather than marry?

Several factors distinguish this work from recent studies including Mykyta (2012), Lee and Painter (2013), and Yelowitz (2007). First, building on our own recently published work (Rogers and Winkler, 2013), we incorporate information on the relative timing of the housing and labor market crises in each MSA into our analysis. In some MSAs, the housing crisis occurred first (as was the case for the nation as a whole) but, as it turns out, in a slight majority of MSAs, the labor market turned down first. The timing of these events at the MSA-level has potentially important implications for individual-level decisions. A housing crisis alone (or one in advance of a labor market crisis) largely affects investment demand, as reflected by a reduction in homeownership (and a shift to renting). However, a labor market crisis alone (or in conjunction with a housing crisis), leads to both a reduction in housing demand and a reduction in consumption demand for housing, as individuals further change their living arrangements and shift from living independently to doubling-up. Thus, information on timing provides important information in understanding and explaining individual-level changes in living arrangements within and across MSAs.

A second distinguishing feature of this study is that we incorporate proprietary data on MSA-level foreclosures. Foreclosure data are valuable because they provide information on acute housing distress, as compared to housing prices, which provide a broader measure of housing market conditions. Foreclosure data are seldom used, however, in part because they are
so expensive. (Molloy and Shan (2011) is one notable exception. Using FRBNY/ Equifax panel data, they followed individuals who experienced a personal foreclosure.) We purchased these data through a license agreement with CoreLogic (a competitor, and arguably superior source of foreclosure data than the perhaps better known source, Realtytrac).

Specifically, in this study we append MSA-level data on housing and labor market conditions for 353 MSAs to individual-level data on doubling-up, homeownership, and cohabitation from the American Community Survey (ACS) for the period 2005 (pre-crisis) through 2011. The focus is young adults, defined as those ages 22-34. This group has been the subject of much recent study given evidence of an increased “failure to launch” (see Setterson & Ray, 2010; Sironi and Furstenberg, 2012). It is also the case that the housing and labor market crises “caught” young adults within this age band in very different situations. During the depths of the crisis, young adults who were not yet homeowners (a larger fraction of those who were younger) may have responded by doubling-up (or continuing to do so), renting, or delaying homeownership until prices substantially declined. On the other hand, those who bought homes at the peak of the bubble (a larger fraction of those who were older at the onset of the crisis) experienced a very different post-crisis reality. Even in 2013, housing prices are only just in the early stages of rebound.

As discussed, the analysis accounts for heterogeneity in the relative timing of the housing and labor market crises by MSA. In addition, we examine the role of specific indicators of housing and labor market conditions: negative equity, local area foreclosures, changes in housing prices, and depth of the employment decline. By exploiting variation in time, place, and individuals, we are able to disentangle secular trends from cyclical patterns, which is especially
important in drawing conclusions about the impact of the recent crisis and making policy recommendations.

References


Kreider, R. (2010, September 15). Increase in opposite-sex cohabiting couples from 2009 to


