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Young Adults Leaving the Nest: The Role of Housing and Transportation Costs

Aaron Yelowitz

Young adults consider many factors in deciding to leave their parents' home. They may choose to remain because they're needed at home. They may not have yet landed a job. Or they might not be able to afford living on their own. As more young adults choose to live at home, many have been asking why? What is it about this era that differs from past eras, when more youth left home in their early 20s, never to return? One factor that is frequently raised is the cost of housing.

In his chapter in *The Price of Independence*, Aaron Yelowitz, investigates the degree to which changes in the costs of housing and transportation between 1980 and 2000 correlate with young people (aged 18 to 34) moving out of their parents' homes and into their own houses and apartments.¹ He finds, perhaps surprisingly, that increases in housing and transportation costs play only a small role in decisions to leave home.

Staying Longer in the Nest

Using Public Use Microdata Samples from U.S. Census for each decade, Yelowitz finds that, on average, about one-half of young adults live on their own, but the numbers living independently declined 9% between 1980 and 2000. Looking more closely at the change during each decade shows that living arrangements were very similar between 1970 and 1980, and between 1990 and 2000. It appears that most of the increase in young people living at home occurred between 1980 and 1990.

Yelowitz also finds a steady rise—from 7% to 15% between 1970 and 2000—of young adults in “other” living arrangements. Other living arrangements include situations that are neither clearly dependent nor independent. For example, an unmarried woman living with her boyfriend in his parent's home is independent from her own parents but not what one would commonly consider “independent.” Although still a small fraction of the living arrangements among young adults, it could become significant if the trend continues.

Individual characteristics show that African-Americans, married individuals, the college educated, native and foreign-born U.S. citizens (versus non-naturalized residents), and high wage earners are more likely to live independently. In contrast, men, Hispanics, students, and individuals who have lived in the same state for five years are more likely to live with their parents.²

¹Sheldon Danziger and Cecilia Rouse, eds., *The Price of Independence: The Economics of Early Adulthood*, New York: Russell Sage Foundation (under review). Danziger and Rouse are Network members. For additional Network books on the transition to adulthood, see www.transad.pop.upenn.edu.

² Only one-third of young people in the 2000 Census had lived in the same state five years earlier.

Housing Costs Decline, Transportation Costs Rise

To investigate the role of housing costs in leaving the parental home, Yelowitz used the House Price Index (HPI), available quarterly from the Office of Federal Housing Enterprise Oversight, and the National Association of Realtor's quarterly report on Metropolitan Area Existing Home Prices.³

Between 1970 and 2000, the median home price was \$157,320. The price rose in real terms between 1980 and 1990, declined somewhat between 1990 and 1997, and began to climb again in the late 1990s and early 2000s.⁴ Interest rates and the ability to deduct interest from taxes could both play a role in determining how easy it is for a young person to move into independent housing. Including these factors, and a control of housing quality, he found that the monthly housing payment fell dramatically and consistently over the time period, from \$1,476 to \$1,092 (26%). This fall in payments – while at first counterintuitive – is due to two factors. First, interest rates fell dramatically between 1980 and 2000. Second, during the 20-year period, housing prices did not rise that significantly after adjusting for inflation.

To control for conditions in the rental market, Yelowitz used data from the Housing and Urban Development Department's Fair Market Rent series for two-bedroom apartments. Including this factor took into account the possibility that rent may trend differently from housing costs. The results show that monthly rental payments rose slightly, from \$726 to \$741.

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Finally, Yelowitz factored in transportation costs derived from commute times reported in the 1980 to 2000 censuses. Although transportation costs are often thought of in terms of expenditures on vehicles, insurance, maintenance, and fuel, longer commute times are likely to correspond to increased vehicle use, and hence higher costs. Moreover, the opportunity cost of one's time during a commute can be significant. Between 1980 and 2000, he finds, commuting increased from 23 to 27 minutes.

An Economic Decision to Stay Home?

Yelowitz finds that for every \$10,000 increase in home values, the percentage of young adults living independently declined by less than 1% (0.6%). In addition, for every \$100 increase in monthly housing payment, the percentage living independently declined 0.6%. Higher rents had almost no impact. Although housing costs matter, they explain only about 1% of the approximately 9% decline in independent living between 1980 and 2000.⁵ A portion

³ The HPI is calculated from the change, when they are sold or refinanced, in the price of single family homes from their previous assessments. Given that the HPI only measures movement in house prices, not the actual home prices, another measure was needed for dollar value.

⁴ Note that these are nationwide trends in median house prices. In some metropolitan areas--San Francisco or Boston, for example--housing prices have increased tremendously while in others they have remained relatively flat.

⁵ It should be noted, however, that there are a few geographic areas where the trend does not apply. For example, some areas (San Francisco and Boston, for example) persistently have a high cost of living but also have high-paying jobs for young adults so the housing is affordable. In these cases, good job opportunities facilitate independent living arrangements even when housing costs increase.

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of the remaining decline can be attributed to the cost of transportation, given that the likelihood of living at home increased by 1% for every 2 additional commuting minutes.

Overall, housing and transportation costs are not a major factor in decisions to leave home among 18-34 year olds. Together, however, housing and transportation costs account for only 15% of the increase in young adults living at home. It will be interesting to re-visit these trends when 2010 data are available because the recent housing boom could result in dramatically larger increases in the number of young people staying at home. Of particular interest will be regions such as California and Florida, where housing prices have increased dramatically.

Based on Aaron Yelowitz, "Young Adults Leaving the Nest: The Role of Cost-of-Living," in The Price of Independence: The Economics of Early Adulthood, edited by Sheldon Danziger and Cecilia Rouse (New York: Russell Sage Foundation, under review).

Aaron Yelowitz is currently an Associate Professor in the Department of Economics at University of Kentucky. He is also a joint faculty member in the Martin School of Public Policy and Administration at University of Kentucky, and a Research Associate at the National Bureau of Economic Research.

The Research Network on Transitions to Adulthood and Public Policy examines the changing nature of early adulthood, and the policies, programs, and institutions that support young people as they move into adulthood. Significant cultural, economic, and demographic changes have occurred in the span of a few generations, and these changes are challenging youth's psychological and social development. Some are adapting well, but many others are floundering as they prepare to leave home, finish school, find jobs, and start families. The network is both documenting these cultural and social shifts, and exploring how families, government, and social institutions are shaping the course of young adults' development. The Network is funded by the MacArthur Foundation and chaired by University of Pennsylvania sociologist Frank Furstenberg.

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