US citizens are far more likely to head their own household* as they age into their 30s...

...and despite some negative forecasts, shifting demographics could help spur demand for new homes.

Median age of first-time US homebuyer


The market may be underestimating the future demand tailwind from younger, first-time homebuyers.

The consensus view is that homebuilding in the United States is, like many industries, coming to the end of a cycle, meaning prices are not likely to increase much further from here and may even decrease. We think this negative outlook is overly reliant on extrapolation of data on prices and volume of houses on sale. It is also due to comparisons with a single precedent: the year 2007, when the global financial crisis began.

This analysis ignores a likely avalanche of incremental housing demand driven by first-time millennial household formation in the next two to three years. We believe more sophisticated negative views, which acknowledge but dismiss this potential positive demand shock, are misguided. We think this housing cycle has much further to go.

Demographics, specifically household formation, drives demand for new homes. The more net new households are formed, the more new homes the country needs, regardless of whether the residents rent or buy. Americans are far more likely to head their own household as they age into their 30s, and there are about to be a lot more 30-somethings in America.

On this basis, we think the market still misunderstands where we are in the housing cycle. We believe that the new home construction market will make much higher highs in volume and dollars before a material downturn, and that the market is underestimating the future demand tailwind from younger, first-time home buyers.

Nicholas G. Cohn, Director, Senior Research Analyst, Mellon
Head a household: The head of a household the person in the house who is responsible for making decisions and earning money.

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