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Baby Boomers Reshaping The Housing Market

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Analysts who have studied population trends predict that by the end of the century, when the 78 million people born between 1945 and 1962 will have passed age 35, the market for small rental apartments and pint-sized condominiums will shrink dramatically. Since the mid-1970's such units have been built specifically for the baby boomers by the thousands.

The most sought-after houses of the 1990's will be larger, more expensive single-family residences or three-bedroom city apartments that fit the life styles and incomes of the one in three Americans counted as baby boomers as they reach their prime housing consumption years.

What this means, analysts say, is that the mad rush for entry-level housing in most areas - but probably not New York City - will ease, resulting in an inflated inventory of this form of housing and, believe it or not, falling prices for these small units because the swollen supply will exceed the number of young people who will want to buy or rent them.

The developers who supplied this baby-boom market for most of the last decade will have to switch tactics if they are to survive. Builders of rental housing are expected to look for other markets entirely. In the for-sale market, developers are likely to build bigger, more substantial houses and apartments, a shift that already has become obvious in some suburban regions and in parts of New York City.

But overall, New York City's housing picture will continue to be out of sync with national trends for a number of reasons, according to some housing specialists. For one, construction has lagged so far behind demand over the last decade that there remains a burdensome shortage of nearly all types of housing. In addition, the influx of immigrants to the city (estimated to be more than 100,000 people a year) will tend

to offset the powerful demographic shifts and keep the pressure on the city's housing stock.

"I don't foresee any great relief," said Louis Winnick, an urban affairs specialist, referring to the housing crisis in New York City. "New York's stock of housing will continue to be under tremendous stress."

Outside the city, the maturing baby boomers will again make themselves felt with mighty clarity after 1990. James W. Hughes, chairman of the Department of Urban Planning and Policy Development at Rutgers University, said that by the year 2000, when the oldest baby boomers are 54 and the youngest 36, "The broad maturing middle-aged population is going to do to the upper end of the housing market what they did to the school systems in the 1960s - push it to the limits."

In "The Dynamics of America's Housing," published last fall, Mr. Hughes and his co-author, George Sternlieb, founder of the Center for Urban Policy Research at Rutgers, outline the case for a housing future that will be drastically altered by the maturation of a population in which the median age already is over 30.

"The future of housing demand will be quite different from the two eras following World War II," they write, referring to the postwar birth explosion and the crunch those children caused when they first entered the housing market late in the 60's. The next era, they predict, will be characterized by "slower household growth mirrored by a decline in the absolute level of housing starts."

This could present a grim outlook for some: "The first-time home buyer and the builder of rental units may well have to worry about replacement buyers/tenantry as the century draws to a close," the book warns.

Not all planners agree with this analysis, especially as it applies to specific regions rather than the country as a whole. But at the heart of the forecasts lies a set of figures simply reflecting how people grow older.

Between 1970 and 1980, the fastest growing portion of the population was the age group between 25 and 34, which increased by almost 50 percent over the decade and caused an immense surge in housing demand. Between 1984 and 1990, however, it will be the 34- to 44-year-old age group that will grow fastest. Many of these people already own homes; some will remain where they are, others will try to move up to a bigger or better house. Between 1990 and 1995, the 45- to 54-year-old age group will undergo the greatest expansion, but their housing needs will be limited, their market specialized.

This, in essence, reflects the demographic bulge of the postwar baby boomers as they pass through time. But the bulge by itself does not fully explain why builders are paying so much attention to census figures. Multitudes are entering middle age, but the generation following them into adulthood is substantially smaller, a phenomenon sometimes referred to as the birth dearth.

FROM 1984 to 1990, the 18- to 24-year-old age group - just entering the housing market - will shrink by

12 percent. And between 1990 and 1995, as they move into the 25- to 34-year-old bracket, the group will decrease by almost 7 percent.

Simply put, there will be substantially fewer young people around a decade from now to fill all the apartments and town houses now occupied by that age group. Beyond that, there is another trend that planners and builders are taking seriously. The way people live - alone, as traditional families with both parents and children together, unmarried single living together, divorced partners - determines household formation and that, in turn, sets the limits for housing demand.

In some ways, shifts in household size can play a more important role in determining housing demand than changes in the population as a whole. In "The Dynamics of America's Housing," the authors found that while the population in New York City decreased by 10 percent between 1970 and 1980, the number of households declined by only 2 percent, keeping demand high even though it theoretically should have eased because there were fewer people in the city. In New Jersey, the population increased by 194,000, but the number of households rose by 330,000 - almost two additional households added for every additional person.

The average size of households across the country has been shrinking steadily since 1940 - from 3.67 that year to 2.69 in 1985. This spreads out the population into a greater number of houses.

"If the size of households had remained constant from 1950 to 1981," the authors write, referring to the situation nationwide, "we would have required 20 percent fewer housing units." In real numbers, that would have come to 16 million fewer units across the country than were needed to shelter all the new households.

The big question for housing producers is this: What will be the rate of household formation in the 90's? Here is the Hughes-Sternlieb answer: "The 1970's may have been the era of singles and mingles; the 1990's represent a return to a much more conventional pattern, with the vast historical middle (at least within the mythology of the American family!) reasserting itself. It is a picture of perhaps more modest housing production in number of units, but at higher levels of amenity - and cost."

The Joint Center for Urban Studies at Harvard University projects that household formation across the country will continue dropping through the end of the century, with a particularly dramatic change in the Northeast. Over the first half of this decade, the number of households there headed by a person 30 to 44 years of age increased by 19.8 percent, the second highest rate in the country after the West. From 1985 on, the rate of increase in the Northeast drops until, in the last five years of the century, the number of these households is expected to slip 6.7 percent, the sharpest decline in the country.

Households in which the head of household is 30 to 44 years of age are important because they represent the heart of the house-buying market. According to the National Association of Home Builders, a trade organization, the typical house buyer in the third quarter of 1987 was 39.5 years old and had owned at least one house - probably smaller and less expensive than the one being purchased. The household most

often consisted of husband, wife and one child. In more than half the cases, both parents worked, and the median family income was \$44,823.

Some builders have already restructured their businesses to supply this market. Toll Brothers of Horsham, Pa., about 20 miles north of Philadelphia, expects to build about 1,200 homes this year, most of them specifically designed for the trade-up market.

Bruce E. Toll, its president, said a member of his marketing staff keeps track of demographic changes. "She's not an expert at demographics," Mr. Toll said, "but she doesn't have to be. You just gather the information and it's obvious what's happening."

HE said his company has projects under way in Pennsylvania, New Jersey, Delaware, Maryland and Massachusetts. In most cases, the developments feature large, single-family houses. In Washington Township in Warren County, in northwestern New Jersey, Toll Brothers is working on one of its typical developments - Fairway Estates, consisting of 158 single-family houses, each with four bedrooms and more than 2,500 square feet of space. They are selling for \$230,000 to \$250,000.

Real estate marketing specialists, always on the lookout for the latest trends, say that the maturing baby boomers' housing tastes have grown more conservative as they themselves have grown older. The generation that once championed communes and tents now longs for formal dining rooms and foyers.

"Everything is much more family-oriented," said Steven G. Rockmore, president of Gilbert Charles Beylen, a Manhattan real estate marketing firm.

Mr. Rockmore said that in apartment buildings designed only five years ago, such as the Kingsley on First Avenue at 70th Street, the apartments were small but were laid out in such a way as to create the illusion of space. "You would walk in and the first thing you did was look straight out across the apartment and see the view," he said.

Now, he says, some new apartments are being designed with much more space but they have entranceways that are separate and enclosed from the rest of the apartment, in keeping with the wishes of the more mature buyer. "We include a space for them to meet someone before going in," he said. "There's a reserve to it. They don't want to make a big splash right away."

One such project is 222 Riverside Drive, at 94th Street. The building, now under construction, will contain 104 apartments. Fifteen rear units, facing away from the river, will be studios or one-bedrooms. All the others will have two, three or four bedrooms, some with as many as three-and-a-half baths and featuring eat-in kitchens, formal dining rooms and entrance foyers.

Prices have not been set in that Riverside Drive building, but it is certain that all those amenities will drive up the already high price of these big apartments and their single-family equivalents in the suburbs. This is a harbinger of coming decades. "Demographically focused crystal balls," says "The

Dynamics of America's Housing," "perceive an evolving environment of affluence. This period will be led by a maturing baby-boom generation, more fertile with income than offspring, edging marketing strategies further upscale."

But there could be an interesting side-effect, too. The demand for new houses is expected to moderate substantially after 1990 and continue at reduced levels through the year 2000.

Mr. Hughes said in an interview that he believes this will present "a window of opportunity" during which the surplus housing will cause prices to fall, as has happened in Texas and other oil states over the last few years. This could help people priced out of the housing market through the 1980's to finally purchase housing or move into a more suitable rental apartment.

One other segment of the housing market expected to feel the impact of these rapidly changing demographics is the second-home field. The National Association of Home Builders found that since ownership of second homes is concentrated among middle-aged, married-couple households, "that pattern implies strong demand for second homes and increased second home construction in coming years as the baby boomers reach middle age."

Thus far in the 80's, second home construction has averaged 65,000 to 100,000 units a year. The homebuilders' association predicts that with tax reform leaving mortgage interest as one of the few tax deductions, 100,000 to 125,000 new second homes will be built annually for the next several years.

Like all other tries at telling the future, housing projections are subject to a great deal of interpretation. On second homes, for instance, Dwight M. Jaffe and Kenneth T. Rosen, real estate consultants for Salomon Brothers Inc., think that the Tax Reform Act of 1986 will reduce the demand for vacation homes, not increase it.

Such property used to provide owners with generous tax-shelter investments in which losses often exceeded income. The new tax code limits deductions on second homes that are rented as investment properties to the total rental income only.

Uncertainty also hangs over the fate of inner cities, which regained much lost ground between 1975 and 1985. One line of thinking goes that most of the gentrification movement, which saw home buyers fixing up old buildings in city neighborhoods, was driven by the huge number of young people in the demographic bulge.

While these people were either single, living together or married without children, the cities, with their problems, seemed tolerable places and the pioneering life of going into marginal neighborhoods a reasonable alternative to living in the suburbs.

But once they start to have children (as many are now doing), they may no longer be willing or able to live in cramped apartments and will retreat to the suburbs. The generation replacing them will be smaller

in number. These people could end up with their pick of residences, but there may not be enough of them to sustain or expand the urban revival on which cities have come to rely.

The counter-argument is that the baby boomers will age and eventually become empty-nesters - their children grown and eventually gone from the suburban family nest. When that happens, these people, on their own once again, will flock to city apartments they had once forfeited.

CITY housing officials believe that New York's market is far more complex than any other and that many of the factors, such as the influx of young people who want to work here, tend to counteract other demographic trends.

Even so, officials say the changing numbers have had an apparent effect on New York housing. "We're getting a sense that the housing market has turned around a lot between 1984 and 1987 and that perhaps there is not as much pressure on demand side as projected," said Phillip Weitzman, an assistant commissioner for policy analysis and research at the city's Department of Housing Preservation and Development.

Mr. Weitzman said that much of what happens over the next 15 years will depend on the health of New York's economy: in good times, people come here for jobs and can afford to set up their own residences. In bad economic times, they continue to live with their parents or they stay away because the jobs are not available.

"Those are the things I think are key," Mr. Weitzman said. "But clearly the demography will be a factor in terms of total demand."

All this, as certain as the experts make it sound, could change. For now, baby boomers continue to be very much in the market and many builders have not shifted their product lines yet. A recent lottery held by the K. Hovnanian Company of Red Bank, N.J., drew 35,000 applicants who wanted the chance to buy a town house or two-bedroom condominium for less than \$160,000.

Frank E. Linde, president of Property Resources Corporation, a New York development concern, said his organization is still building one- and two-bedroom apartments because "there still is going to be enough household formation to fuel additional need for housing."

At age 34, Mr. Linde is part of the demographic bulge, a typical baby boomer. The father of two, with a third on the way, he bought a house - his first - in Westchester County five years ago and has no immediate plans to move. His company's latest project is The Regatta, at Battery Park City, where most of the 182 condominium apartments will have one or two bedrooms.

"A lot of people who buy our apartments are first-time buyers or empty nesters," Mr. Linde said. "Those in between, we really haven't addressed yet." TRACKING THE POSTWAR GENERATION TO THE YEAR 2000 POPULATION BY AGE: 1985-2000 (in thousands) Baby-Boom Generation

	1985	1990	1995	2000	% Change*
All Ages	238,631	249,657	259,559	267,955	12.3
Under 15	51,861	54,582	56,724	55,903	7.8
15-24	39,717	35,548	34,110	36,088	-9.1
25-24	41,788	43,529	40,520	36,415	-12.9
35-44	32,004	37,847	41,997	43,743	36.7
45-54	22,464	25,402	31,397	37,119	65.2
55-64	22,188	21,051	20,923	23,767	7.1
65 and older	28,609	31,697	33,888	34,921	22.1

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