



Federal Housing Finance Agency

“Why Do Young Adults Co-Reside with Their Parents” A Discussion

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Question of interest:

- ❖ What factors explain the 9% increase in young adult co-residency between 2000 and 2021?

Main Contribution to the literature:

- ❖ Does, and if so by how much, housing affordability explain patterns of co-residency?

Methodology:

- ❖ Logit Model of co-residence
- ❖ Blinder-Oaxaca procedure
 - ❖ Decomposes share differences to endowment and coefficient effects
- ❖ Heckman Selection
 - ❖ Endogenizes the marriage-childbearing decision to reduce estimation bias

Main Findings:

- ❖ Find that a quarter of the 9% increase in co-residency can be explained by housing affordability.
- ❖ Find heterogenous effects between white and minority subpopulation
 - Rise in co-residency is disproportionately accounted for by housing affordability and unemployment in the minority sub-population
- ❖ Find heterogenous effects within the minority groups
 - Rise in co-residency is disproportionately accounted for by rent-affordability for Hispanic subpopulations
 - Rise in co-residency is disproportionately accounted for by price-affordability for black subpopulations

How could migration choices affect the presented results?

Estimated model compares the macro conditions of



Estimated housing affects:

If young people are co-residing with parents in metros with higher affordability because they cannot afford their preferred metro with lower affordability, this could cause a reduction in the housing affordability effect

Employment Effects:

If parents are not distributed across the metros in the same way as young adults not co-residing, there might be an endogeneity in the unemployment rate where unemployed young people are moving home and increasing the unemployment rate. This could cause an increase in the estimated unemployment effect

Issue:

- ❖ What if housing affordability and other endowments influences marital-childbearing decisions?

Solution:

Heckman Selection model

- Estimate the probability of marriage-childbearing using the endowment variables
- Derive the inverse Mills ratio for each individual
- Re-estimate the co-residence equation excluding the marriage-childbearing variable but including the inverse Mills ratio

Outcome of endogenizing the marriage-childbearing choice:

	Endowment Contribution Exogenous- Model	Endowment Contribution Endogenous-Model
Unemployment	2%	0.9%
Housing Affordability	0.9%	2.2%

Ignores the possibility that individuals wanting children are moving to areas with higher affordability, possibly falsely increasing the housing affordability estimate. However still a useful upper bound on the estimate.

This paper helps us understand how aspects of economic health are related to patterns of co-residency. The next important step is to better understand how co-residency impacts the financial health of the individuals.

- ❖ Distinguishing between temporary and permanent (multi-generational households) co-residency
 - The interpretation of these two types of co-residency is different
 - Changes in these two-types of co-residency could look different across minority sub-populations

- ❖ Are young adults using co-residency productively?
 - Better post-unemployment outcomes?
 - Has this been affected by an increase in telework?
 - Higher savings?
 - Attaining more education?

My attention was caught by the significantly different marginal effect of price-income for the black subpopulation.

Based on your work with this data do you think this is indicative of a preference difference between renting/owning for young black individuals? Or more of a data effect (i.e. young black individuals live in areas with different price-income trends)

Table 6. Marginal Effects of Selected Endowments on Co-residence Probabilities of Young Adults (18-29) and Selected Endowment Contribution to Increased Co-residence by Group, 2000 – 2021 (Endogenous Marriage-Childbearing Status)

	Marginal Effects of Endowments on Co-residence Probability (Pooled Model: 2000 & 2021)							
	Rent-Income Model				Price-Income Model			
	White	Black	Hispanic	Asian	White	Black	Hispanic	Asian
Housing Affordability	.00656*** (0.002)	.0115*** (0.004)	.0162*** (0.002)	.0091 (0.006)	.0165*** (0.004)	.0473*** (0.010)	.0158*** (0.005)	.00897 (0.010)
Unemployed	.0604*** (0.014)	.0158 (0.024)	.0248 (0.018)	.0696* (0.042)	.0604*** (0.014)	.0159 (0.024)	.0243 (0.018)	.0714* (0.042)
Not In Labor Force	-.00508 (0.009)	-.057*** (0.019)	-.0306** (0.014)	-.0687*** (0.026)	-.00536 (0.009)	-.056*** (0.019)	-.0314** (0.014)	-.0684*** (0.026)
Unemployment Rate (%)	-.000953 (0.003)	.0144* (0.007)	-.00136 (0.005)	.0144 (0.010)	.0017 (0.003)	.0142* (0.007)	.00695 (0.005)	.0193* (0.010)