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Millennials in the Economy VIII: Home Sweet Rental?

One of the missing pieces of the housing recovery has been a lack of first time homebuyers. Once income and credit improve, will Millennials step up, or will student debt and preferences keep them out of the market?

New Living Arrangements

The widely documented employment, income and debt struggles of Millennials has generated concerns over the ability—and willingness—of this generation to contribute to the housing market’s recovery. Homeownership among adults under the age of 35 has sunk to 36.8 percent from a peak of 43.1 percent in 2004, with a historically low share of home sales going to first time buyers. Many of the hurdles that have kept Millennials from homeownership and in rentals, including weak income growth that has hindered saving and uncertainty over job prospects, have also kept them living at home with parents (top chart).

Different and Yet the Same

Millennials’ retreat from the housing market comes, of course, as mortgage credit has been inordinately tight. But after having come of age in the financial crisis and housing bust, will Millennials be willing to get into the market once credit and income conditions improve?

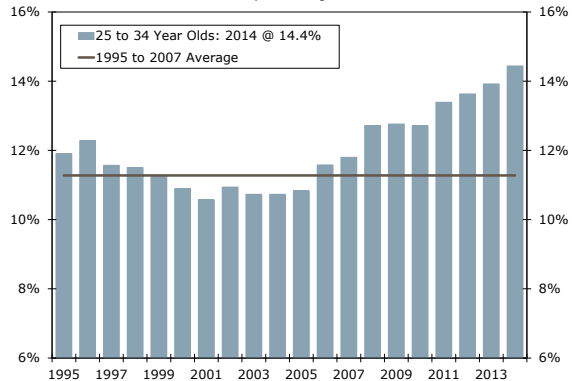
Millennials have been touted as a highly mobile generation, and in a 2013 survey by Fannie Mae, 19 percent of renters age 18-39 noted the primary reason for renting was flexibility (middle chart). Another 23 percent of young renters reported affordability as the number one reason, an increase from 2012 following a rapid rebound in home prices. Yet the most common reason for renting was that respondents were not financially ready for homeownership (26 percent), with another 8 percent noting they cannot obtain a mortgage.

As has been frequently noted, one hallmark of this generation is the pervasiveness of student debt. Research has found that student loan debt has contributed to the rise in young adults living with parents and weighed on the homeownership rates of student loan borrowers.^{1,2}

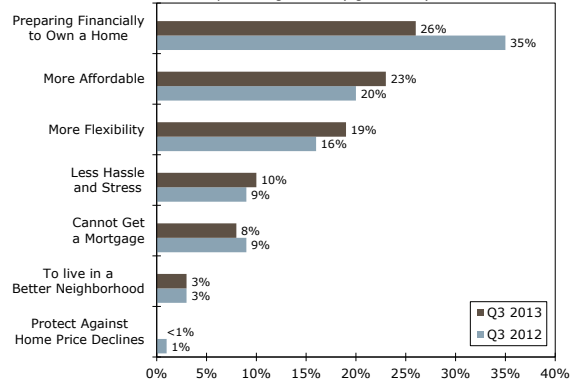
However, student loan debt looks more prone to delay, not derail, homeownership for most Millennials. According to a Wells Fargo survey on Millennials published last June, if not paying off debt, Millennials’ biggest financial priority is purchasing a home. In addition, although student loan borrowers tend to have lower rates of homeownership than similarly educated households without a history of student debt, those homeownership rates nearly converge by the ages of 35-39.³

Moreover, young people are also pushing back the age at which they first marry or have children (bottom chart). These major life events are likely to accompany a willingness to settle down in a particular locale and commit to a longer-term housing arrangement. The vast majority (90 percent) of young renters still intends to buy a home at some point in the future, suggesting the dream of homeownership is still very much alive. For most Millennials, it is just likely to come true later in life.

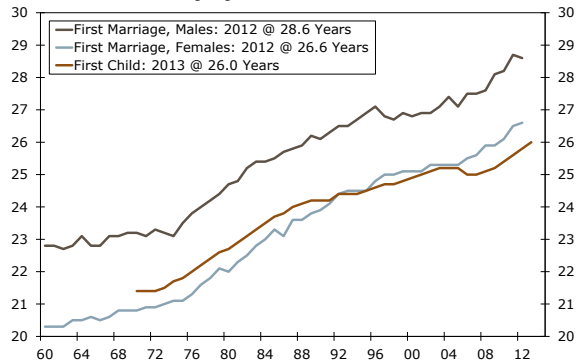
Young Adults Living in Parent's Household
 Percent of Total Population Aged 25 to 34 Years



What is Your Primary Reason for Renting?
 FNMA Survey of Young Renters (Ages 18-39)



Average Age of Major Life Events
 Average Age of Mother at First Childbirth



Source: U.S. Department of Commerce, Fannie Mae, and Wells Fargo Securities, LLC

¹ Bleemer, Zachary, Meta Brown, Donghoon Lee and Wilbert van der Klaauw. (2014). “Debt, Jobs or Housing: What’s Keeping Millennials at Home?” Federal Reserve Bank of New York Staff Reports No. 700.

² Cooper, Daniel and J. Christina Wang. (2014). “Student Loan Debt and Economic Outcomes.” Federal Reserve Bank of Boston Current Policy Perspectives No. 14-7.

³ Ibid.

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