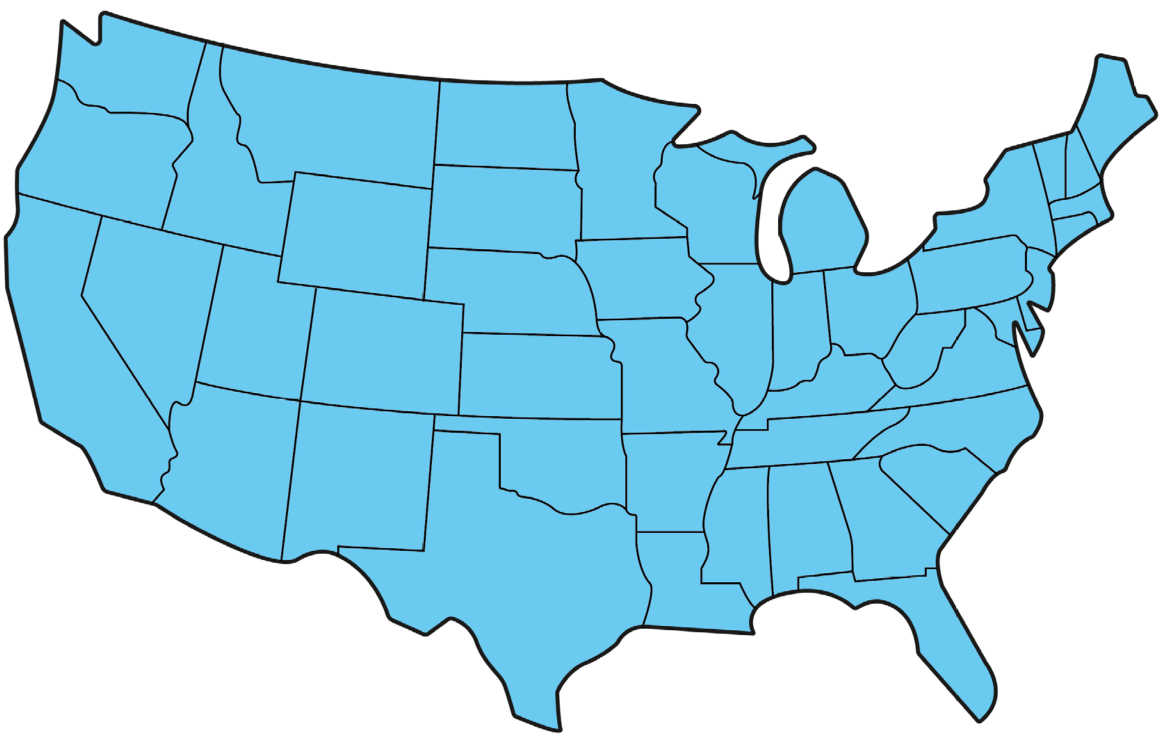
Legal & General U.S. Housing Study

2021 U.S. Millennials and Home Ownership - A Distant Dream for Most: Part 4



Mind the Gap: The Intergenerational Home Ownership Blues

- **48 percent of millennials who do not already own a home are saving for a down payment**
- **55 percent of those who are saving can't buy yet; 23 percent don't want to buy yet; 12 percent don't want to buy at all**
- **22 percent will use a family loan, gift or inheritance to fund their down payment**
- **13 percent of those considering a Covid-driven move wanted to be nearer to family; 8 percent wanted to move away from family**
- **Survey subjects repeatedly blame Boomers and older generations for their difficulties**

In this fourth segment of our study on U.S. Millennials and their difficulties attaining their dream of home ownership, we will delve into the role that family and older generations play in hindering—but in some cases also helping—25 to 40-year-olds in their quest to buy a home. The previous three parts of this study, Millennials and Home Ownership, A Distant Dream for Most, have looked at some of the other obstacles faced by this generation. The first two parts of the report deal with the lack of affordability, real and perceived, in big urban and suburban areas, the different geographic preferences among the three different millennial age cohorts, and the effect of the pandemic on their homeownership plans. Part 3 of the study, Wage Stagnation has Flipped the Housing Equation for Millennials, looks at larger macroeconomic issues informing the experience and attitudes of millennial-aged Americans in their quest to purchase affordable homes, notably the massive divergence between the cost of houses and income growth.

We now proceed with a part of our study that requires both more sensitivity to the financial plight of millennials, and at the same time a deeper inquiry to test the validity of what our survey subjects asserted. To reiterate, our research surveyed only millennials who were not yet homeowners. According to a 2021 study, only 43 percent of U.S. millennials are currently home owners. This is the lowest home ownership rate of any generation and well below the overall average of 65 percent. To put this into perspective, 42 percent of 30-year-old millennials currently own their own homes, as compared with 48 percent of Gen Xers (now 41 to 56) and 51 percent of Baby Boomers (now 57 to 75) who owned homes when they were 30 years old. While we're attempting to find out why through the course of these reports, one theme kept returning through hundreds of our surveyed millennials' comments, that there's a quasi-war going on between U.S. millennials and the generation representing their parents and grandparents. And it's being waged on the housing front.

A Thorny Problem: Everyone Wants Small Houses

Just as the younger generation of home buyers is reaching the point in their lives when they want to buy a starter home, they are entering a market where, simultaneously, Baby Boomers are deciding to downsize, putting a strain on available housing stock. With longer life expectancies and better overall health than any generation in history, Boomers are not quite ready to give up on private home ownership—and with the horror stories about retirement homes and care facilities during the pandemic, this attitude becomes understandable.

According to one study, Baby Boomers have owned the majority of non-commercial real estate since 2001—they own 44 percent of homes, while Gen X owns an additional 31 percent. And because they have time and cash flow that's unavailable to the younger generations, they are able to zero in on small, affordable houses as soon as they come on the market.

As one or our survey respondents put it:

> “Boomers need to stop buying starter homes as their retirement homes. It's driving the cost up to where first-time home buyers can't afford it.”

The way millennials perceive it, the older generations have almost all the spending power and are able to reach into their pockets and pull out over-full-price offers, often in cash. This leaves the younger generation—scrambling to get together a down payment and struggling to establish credit—on the losing end of these deals. They don’t have the ready cash, nor, just as often, the time or ability to jump on properties the minute they come on the market.

Often, many buyers are vying for the same property.
Source: depositphotos.com

As a result, millennials are feeling disillusioned, unfairly treated, and often deeply resentful of the older generations over this. Consider a few of the many comments we heard on this theme:

> “It’s hard to afford the homes in budget because Boomers are also buying them.”

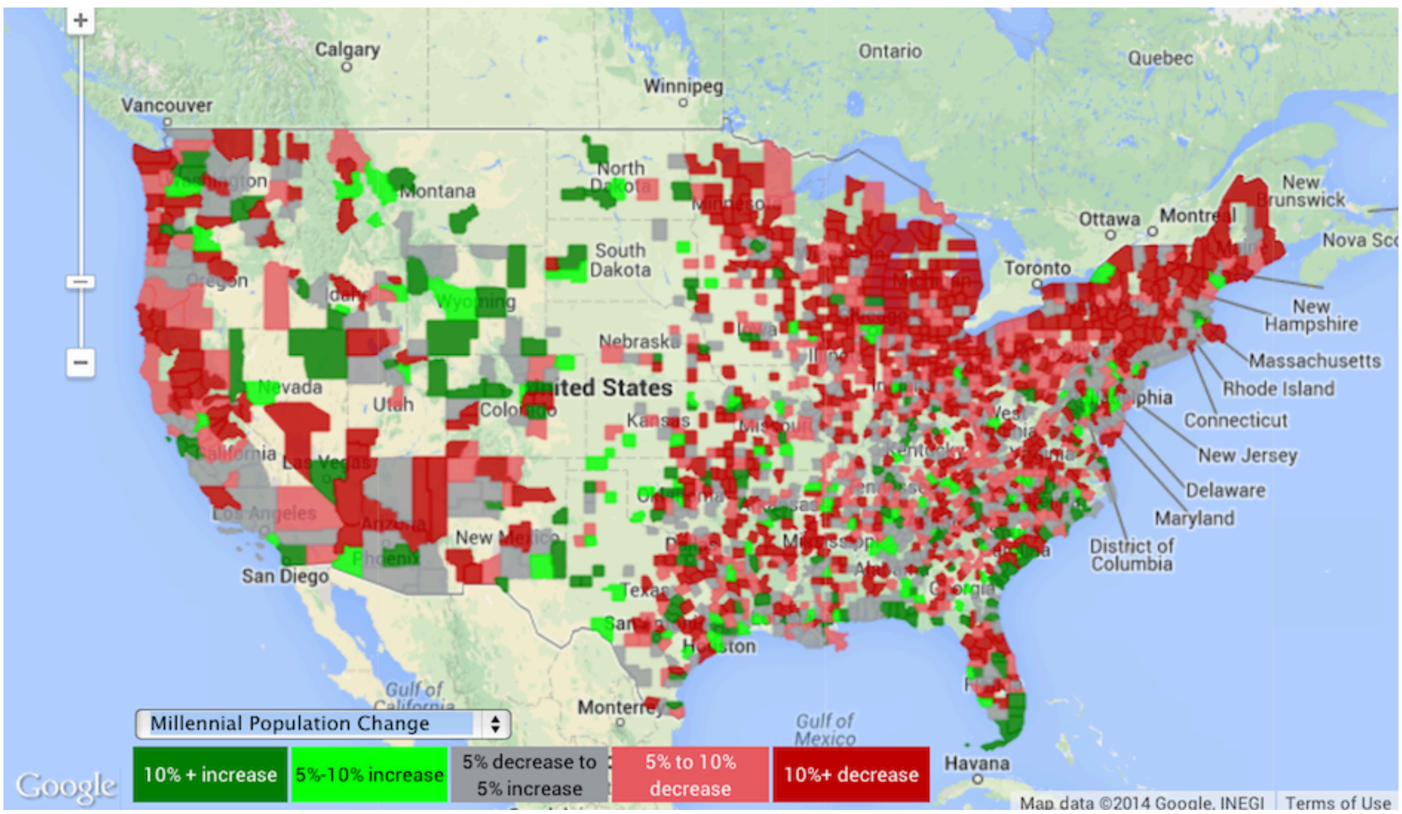
> “Home ownership is increasingly concentrated in the hands of older generations, which have hoarded wealth and restricted my generation’s access to similar economic opportunities.”

"It has been made far too difficult due to the actions of previous generations and the wealthy. Their abuse of the American Dream has made our own pursuit of the American Dream more difficult than ever."

"The American dream never really existed before, but it's dead for millennials. Boomers took advantage of many things then got rid of those programs for us. Prices for everything increased, unions have been dismantled or impossible to start. And wages are stagnant or falling, with increasing inflation and cost of living."

"Thanks Boomers."

"I think it will get a lot better as Boomers start to die off."



Geographic changes in U.S. millennial population.
Source: RealtyTrac, Philadelphia Magazine

This is where the deeper inquiry comes in. While there is truth in these comments and more than a few clues about where things went wrong for them, millennials hold the additional awkwardness that they are often the beneficiaries of the older generation's largesse—according to our research, almost a quarter of them couldn't get together a down payment without borrowing or being gifted family money.

Packed up and ready for the Dream.
Source: depositphotos.com

Long known for its diverse friend groups, the millennial generation is now experiencing significant inequality in wealth between those who are college educated and those who are not; and far worse wealth inequity between white and Black millennials. This inequality is only cemented by the probable demographics of parents and grandparents who are likely to be leaving properties and other wealth-building assets to their millennial-aged offspring. Another obstacle is that, with older generations' longer healthy life expectancies, it's conceivable much of this inherited wealth will come down to generations older than millennials.

Here is a comment on this theme from one millennial survey respondent:

> "The only homeowners from my generation that I personally know all inherited their property or their parents gave them a six-figure down payment. A few actually had parents buy them a home outright. These people all have wealth as a result of the land/property in their family..."

And the older generations are clearly tuned into this plight: in another study we published before the pandemic called The Bank of Mom and Dad, a majority (58 percent) of older respondents said they thought it was harder for younger generations to save to buy a home. And among those, the top reason (71 percent) was that property prices have risen to a point where they are unaffordable. And 35 percent of the younger people we talked to in that survey said that without funds received from parents and grandparents, they would have had to delay their home buying plans by 3 to 5 years.

Then came the pandemic. And with it came additional forces that add to millennials' difficulties, that are a little harder to pin down. Here's one comment that points in this direction:

> "It is harder for my generation to own a home than it was for those who are currently in control of who gets to own a home, and they don't care or refuse to see it..."

So who is in control of who gets to own a home? While they may not balance out perfectly, the role of older generations in both hindering and helping don't paint a complete picture. What other macro trends are we seeing, and what are some of the unseen forces that are keeping younger people from buying more affordable "starter" properties?

Only 43 percent of U.S. millennials have been able to land on this real-life Monopoly board.
Source:depositphotos.com

Are Other Forces Keeping Millennials from the Prize?

The pandemic brought with it the fastest-rising real estate prices in U.S. history—a fact that millennials may not have been able to quantify, but of which they definitely felt the effects. The sharp increase in the median price of houses can certainly be traced back to the age-old economic law of supply and demand. The pandemic created a panic of people seeking to move out of crowded cities, for a variety of reasons; but this urban diaspora came on the tail of a trend of affordable housing scarcity that had building for some years. When a commodity is scarce, the price tends to go up; when several entities are competing for the same item, the one with the most money wins. All of it—the competition and the inflated prices—contributes to the shortage, and economic exclusion.

The problem for millennials trying to buy a home in this under-supplied market is that Baby Boomers aren't their only competition. Boomers are just the tip of the iceberg.

While millennials pin the blame on the older generations, a far less visible factor is the contingent of well financed institutional buyers who have collectively taken a lot of stock off the market. Private Equity investors and iBuyers have, in fact, contributed to the shortage of housing by doing what businesses in free market economies do best: identifying rising assets and acquiring them in bulk.

To give some sense of the scale of institutional heft in the housing market, in 2020 iBuyers (including Zillow Offers, OpenDoor, OfferPad, and others) collectively bought 10,924 homes. Zillow's research holds that, as of the second quarter of 2021, iBuyers held overall market share of 1 percent of all U.S. home purchases; that homeowners used an iBuying service to sell more than 15,000 homes; and that 84 percent of the homes acquired by one of the four largest iBuyers were not listed for sale before they were bought.

Meanwhile, also in 2020, private equity firms accounted for one in every five home sales in the U.S. It's estimated that in some suburban neighborhoods, big private equity companies own 10 to 20 percent of residential property. During the pandemic, inflated housing prices left many smaller landlords looking to sell to PE firms for top dollar, while in the first quarter of 2021, corporate investors bought up 15 percent of all the homes that were for sale in the U.S.

While time will ascertain whether this is an asset bubble, it is starting to look like a replay of 2006-2008, when everyone thought that home prices could only go up in value. This time, however, rather than individual home buyers flipping homes, private equity firms and an online marketplace purportedly catering to individual buyers have been the less visible factor contributing to inventory shortages and a skyrocketing housing market. This certainly doesn't seem fair to struggling first-time buyers; and it softens, albeit doesn't eradicate the notion that there's an intergenerational power play.

The complex picture created by online real estate markets and private equity add nuance to millennials' claims that Boomers are solely to blame for putting home-buying out of their range. Being outbid on houses—whether by the older and wealthier generational cohorts or by corporate real estate and/or investment interests—that they should be able to afford is a game the millennials we talked to have a very limited appetite to play.

Millennials Feel the System is Broken… But There Are Fixes

Who can compete with this cutthroat economic game? Clearly not millennials, with their enormous student loan debt (which we'll look at in the next installment), underemployment, and difficulty saving and qualifying for loans. First-time home buyers—or potential ones, such as those in our research—can't keep pace with stratospheric asking prices, or the cost of renovations needed for the more affordable existing properties.

The U.S. government has noticed and Democratic lawmakers in particular are accusing the PE industry for contributing to the affordable housing shortage in the U.S. Recently, a law was proposed that would require more transparency about these companies' fees and performance. It is not likely to get far.

We believe there are other solutions. As institutional investors ourselves, we note that the demand for housing creates an economic and investment opportunity. But why not meet the demand by creating more opportunity, not less opportunity, for ownership? Increasing the stock of affordable homes, using economic heft to actually create opportunities for home ownership, while getting a return on their investment. That way, all sides of the equation benefit.

A more inclusive form of capitalism, wherein long-term investments are made that result in long-term social gain while still creating high returns for the investor, offers the way. There are several creative approaches to solve this crisis, from availing ourselves of new technologies to build more affordably, for example, in the form of high quality modular homes, to business models based on helping renters become owners, to rehabilitating the housing stock in smaller, more affordable cities and bringing their infrastructure into the 21st Century. Indeed, these are some of the approaches we're taking to try and alleviate the housing shortage. There are many ways to solve this crisis—we call on other companies like ours to follow a similar path forward that still achieves a high return on capital invested. By developing solutions that will yield the broadest benefits for all, we can raise more boats, for millennials and the rest of society.

In the next and final segment of our reporting on Millennials and Home Ownership, we'll take up another theme alluded to above: how crushing student debt and medical expenses have rendered many millennials unable to save for a down payment or qualify for a mortgage.

Survey Methodology

To understand millennials' attitudes to home ownership, drivers and barriers to ownership in particular the impact of Covid and student debt, we ran a survey of 875 Millennials based in the U.S. who don't own a property. The online survey was carried out in March/April 2021.

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