



Millennials Pick Up the Pace on Homebuying

Researchers Use Two Approaches to Demonstrate Differing Generational Approaches Toward the Same Goal

By Patrick Simmons

The Millennial generation now encompasses the 25-to-34 age range that, in generations past, has accounted for a large portion of first-time home buyers.

And being 88 million strong, Millennials have the potential to make a huge impact on the housing market.

Despite their impressive numbers, their effect on the market has been muted. A combination of growing student loan debt and the Great Recession undoubtedly slowed young adults' initial ascent into homeownership.

But with the economy in recovery mode for nearly a decade, when are Millennials going to start moving into homes of their own?

Turns out, they might already be headed in that direction.

In a study about Millennials and their increasing homeownership demand published in November 2017, researchers from the University of Southern California and Fannie Mae used two analytical approaches to analyze recent data from the U.S. Census Bureau's American Community Survey (ACS). When they compared the results of the two approaches, they found two very different views on the state of Millennial homeownership.



AGE-GROUP APPROACH

On one hand, when you compare Millennials with 25-to-34-year-olds prior to the Great Recession, data show that today's young people have lower homeownership rates.

Popular perceptions of Millennials and homeownership have been shaped by this more traditional analytical approach that compares like age groups at different points in time, which the study calls the "age-group approach."

Using this approach with the ACS data revealed no rebound in homeownership rates, despite nearly 10 years of economic recovery since the Great Recession. Many economists are concerned by the potential consequences of a generation that can't afford (or simply chooses not) to purchase homes.

First, a lower homeownership rate among Millennials reinforces the belief that homeownership demand will stay low indefinitely. Second, the lack

of interest could suggest that Millennials' homeownership preferences are fundamentally different from those of previous generations, which could mean the housing industry must prepare for a big change.



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COHORT-ANALYSIS METHOD

On the other hand, data revealed that Millennials are now buying at a more rapid pace than a few years ago.

This alternative method of data analysis, called "cohort analysis," allowed the researchers to separate the behaviors of today's young homebuyers from the behaviors of previous generations, focusing instead on incremental changes in the homeownership rate as members of a cohort (i.e., a group of people born during the same period) grow older.

Using this method, researchers found

a sharp increase in the pace of Millennial homeownership attainment.

For example, the cohort moving from the 28-to-29 age group in 2014 into the 30-to-31 age group in 2016 increased its homeownership rate by nearly 6 percentage points, a substantially larger gain than experienced by earlier cohorts traversing the same age range during the recession.

In fact, for every age group older than 25, cohorts' homeownership rate gains between 2014 and 2016 were significantly greater than during the economic recession and housing bust.

Compared with the age-group approach, the cohort approach has a more optimistic outlook for Millennial homeownership demand and casts doubt on the notion that young adults will have an eternally suppressed preference for home buying.

MORE INFORMATION AVAILABLE

Hear more from the authors of the study—Patrick Simmons, Fannie Mae Director of Strategic Planning, and Dowell Myers, Professor of Policy, Planning and Demography at the University of Southern California – in their "Perspectives" blog on the Fannie Mae website.

And stay tuned for additional exploration of the Millennial homeownership rebound, including an investigation on the roles of housing supply and other factors in shaping regional variations in the pace of recovery. ▲

Patrick Simmons is the Director of Strategic Planning for the Economic & Strategic Research Group at Fannie Mae.

To read the authors' blog pertaining to the article above, go to Fannie Mae's website (www.fanniemae.com), select "Research & Insights" after clicking on the menu in the upper right corner of the screen, then click on "Perspectives" and scroll down to "The Awakening of Millennial Homeownership Demand."