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Millennials Seen Surging as Homeowners in U.S.: Mortgages

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Dustin Taylor, who's burdened with $50,000 of student debt after getting his master's degree in government at Johns Hopkins University, is waiting tables at a comedy club to pay the rent.

Taylor said his desire to get a mortgage to buy a home within five years is no joke.

"Home ownership is out of reach for me," said Taylor, 33, who's been looking for a job in Washington since he graduated in December. "Renting is fine for now, but I want to own a home for all of the cliched reasons."

Young Americans like Taylor who can't afford a mortgage are holding back the housing recovery, with combined new and existing home sales this year set to drop for the first time since 2010, according to a June forecast by the Mortgage Bankers Association. Last year, about 22 percent of 30-year-olds who had student debt also had home loans, down from almost 34 percent in 2008, according to the Federal Reserve Bank of New York.

The financial struggles of the millennial generation -- about 85 million people born from the early 1980s through 2000 - - won't be long-term. In the next two to five years, these Americans will gain greater access to housing, lifted by higher levels of education and a stronger labor market, according to interviews with about a dozen economists and housing analysts.

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"Given the Great Recession and the slow recovery, millennials have faced very difficult economic circumstances," said Richard Fry, a senior economist at the Pew Research Center in Washington. "But they have a very significant tailwind. They are more educated than any generation before them. All of those college degrees will sooner or later pay dividends and they will buy homes."

Protracted Recession

This group suffered the most during the 18-month recession starting in December 2007, said Harry Holzer, professor of public policy at Georgetown University in Washington. They were often the most recently hired, which made them more likely to be fired as companies cut back spending.

“This recession was unusual in that it was severe and protracted,” said Holzer, who served as chief economist for the Labor Department. He said the previous slump in 2001 wasn’t as deep and graduates who entered the job market then were mostly able to find employment by 2004.

Homeownership Reconsidered

In 2012, 63 percent of 18- to 31-year-olds had jobs compared with 70 percent in 2007, according to Pew data. The unemployment rate for people from 25 to 34 was 6.7 percent in May compared with the national rate of 6.3 percent, according to Labor Department figures.

Wages Suffer

Wages have suffered as well. The average annual earnings, adjusted for inflation, of Americans from 18 to 34 who worked full-time fell by about 5 percent from 2007 to 2012, according to the Washington-based Progressive Policy Institute. The general population saw an increase of 2 percent during that time.

Young Americans saddled with record levels of student debt are less likely to take out a mortgage if they are making loan payments, according to research by the New York Fed. Almost 45 percent of 25-year-olds had student debt at the end of 2013, up from 25 percent in 2003. The average loan balance for that group was $20,926.

After reaching 50.1 percent in 2005, the homeownership rate for people in their 20s and 30s fell to 42.2 percent in 2013, the lowest in 19 years of Census Bureau figures analyzed by William Emmons and Bryan Noeth of the Federal Reserve Bank of St. Louis.

First-time Buyers

Jeffrey Gundlach of DoubleLine Capital LP, which runs a fund that invests in mortgage-backed securities, said in May that the homeownership rate among young people will stay low permanently. The DoubleLine chief executive officer said that the high unemployment among 18- to 34-year-olds and the scarring from the housing collapse has shifted their attitude about homeownership. Real estate billionaire Sam Zell said in April that the rate will continue to fall as Americans postpone getting married and having children.

First-time buyers are crucial for the housing market because they trigger a chain of sales, allowing homeowners to trade up. In May, about 27 percent of total existing-home sales involved first-time buyers compared with an average of 35 percent since October 2008, according to the National Association of Realtors.

“We do need that first-time buyer to come back,” and they will, said Celia Chen, a housing economist at Moody’s Analytics Inc. “What informs their caution right now is job prospects.”

Labor Market

Millennials with a degree do have one advantage -- an improving labor market will reward more job seekers with a college education. In 2012 a record 33 percent of Americans from 25 to 29 had completed at least a bachelor’s degree, compared with 17 percent in 1971. And at least 63 percent had attended some college, another high, according to Fry of Pew Research.

Employers plan to hire 8.6 percent more class of 2014 graduates than they tapped from the previous year, and more than half are interested in graduates with degrees in accounting, engineering, computer sciences and business, according to the National Association of Colleges and Employers.

Employment in occupations requiring a bachelor’s degree will expand 12.1 percent by 2022 from 2012, according to Labor Department projections. Work demanding a master’s degree will climb by 18.4 percent over the period, while for holders of a high school diploma or equivalent, jobs will grow by 7.9 percent.

Bargain Dinners

Lawrence Yun, chief economist at NAR, said it will take about two years for the homeownership rate of millennials to rise. Georgetown’s Holzer said more time may be needed for their prospects to improve.

“It isn’t outrageous to think we will be back to a tighter labor market by the end of the decade” and college graduates will generally do better since they are valued more in the labor market compared to non-graduates, said Holzer.

Taylor, the Johns Hopkins graduate, said he’s applied for about 30 jobs and is optimistic he’ll find one in politics or government because of his experience on campaigns and master’s degree. He and his wife are controlling their expenses by only eating out once-a-week at friends’ restaurants, where they get a bargain, and plan to stay in their $1,500-a-month studio apartment after he gets a job even though space is tight.

Young Americans from 25 to 32 with at least a bachelor’s degree and working full-time earn a median annual income of $45,500, based on 2012 dollars. That’s about $17,500 more than the income for those with only a high school diploma, the widest gap ever, according to the Pew Research Center.

Flexible Lending

Kenia Williams, a 30-year-old insurance claims assistant, wanted to buy an apartment after the rent on her one-bedroom unit in Brooklyn rose $50-a-month to $1,125. After being priced out of two-family homes in the East New York neighborhood of Brooklyn, she's now focused on a three-bedroom condominium listed for $299,000. Williams's employer is helping her pay for an undergraduate degree in accounting at Brooklyn College.

"Fingers crossed when I get my degree, they'll give me a raise," said Williams. "That will help me build more money for a down payment, so then I'll sell my condo and buy that two-family home."

Banks will become more flexible on lending requirements as they look to recoup fee revenue from the drop in refinancing, which will help younger buyers, said Mark Calabria, a former Senate Banking Committee aide who directs financial regulation studies at the Cato Institute.

Wells Fargo

Last month, the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, the government-backed mortgage companies, unveiled plans to spur lending by reducing the risk to banks of having to buy back loans that default.

"With clarity of the underwriting rules, I think you'll see expansion of the credit box happen, and at Wells Fargo we've moved in this direction over the last few months," Mike Heid, president of Wells Fargo & Co.'s mortgage unit, said last week at a panel in Washington on helping first-time homebuyers.

Wells Fargo, the largest U.S. home lender, in April cut its minimum credit score for borrowers of Fannie Mae and Freddie Mac-backed loans to 620 from 660.

Some millennials who can qualify for mortgages are waiting a few years before buying a home until they get married or because they don't want to be tied down.

Matthew Tracey, 29, who graduated without any student debt from the University of Chicago Booth School of Business in June, deliberated over whether to buy or rent in New York. He is moving to Manhattan in August to work for money manager Pacific Investment Management Co.

Seeking Flexibility

Tracey calculated that the most he could pay for an apartment was $600,000, which would likely mean a studio. He crunched numbers using a spreadsheet with variables such as the assumed loan rate, closing costs, brokers fees and appreciation of the studio.

He figured it would take about five years of living there to break even, which is too long of a commitment.

“The lack of flexibility buying would bring is a key point,” said Tracey, who is going to search for a one-bedroom rental on the far West side of Manhattan within walking distance of Pimco’s New York office.

For more than 50 years, housing has been the largest single asset for people and millennials still want to purchase homes to build wealth, especially to avoid an inflated rental market, said Jim Carr, a senior fellow at the Center for American Progress, and a housing finance, banking and urban policy consultant.

Select Cities

Ninety percent of renters under the age of 39 said in the fourth quarter that they want to buy a home eventually, according to a national housing survey that Fannie Mae published last month. A study by BMO Harris Bank this month found that 74 percent of millennials plan to own in the next five years.

“We’re not going to be returning to what we had in the 1990s,” with young people moving to sprawling homes in idyllic suburbs, said Michelle Meyer, an economist at Bank of America Corp. “There’s going to be demand for housing stock, just a different type of housing stock,” such as multi-family homes closer to urban centers, she said.

Cities in Texas and North Carolina, where the cost of living is cheaper and jobs are more plentiful, may see homeownership rates for millennials rise faster, said Diana Carew, an economist at the Progressive Policy Institute.

“I’m a fan of homeownership and economically it still makes sense,” said Tracey, the Booth graduate. “Even my friends from business school who have to deal with student loans are still confident about their earnings potential and plan on buying.”