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The Millennials Are Coming, the Millennials Are Coming … Sort Of

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If you have been following the news headlines over the past few months, it would have been difficult to ignore the quantity of coverage devoted to the impact that Millennials may or may not have on the housing market—as well as the contradictory nature of this coverage.

With such headlines including "Why Millennials Are Hurting the Real Estate Recovery" (MarketWatch, May 12) to "Millennial-Driven Housing Boom Could Be On The Way" (Time Magazine, June 28) to "More Millennials Leave Parental Nest, Without Lifting Housing Market" (Trulia, Sept. 16) to "How Millennials Could Be Housing Market Heroes" (USNews.com, Sept. 17), it is difficult to know if this demographic should be courted or condemned.

Complicating matters somewhat is an announcement from Realtor.com that stated half of all Millennials viewed real estate Web sites during August, but tight inventory and lending standards coupled with increasing home prices made it difficult for this demographic to pursue homeownership.

"Millennials were hit the hardest by recession layoffs and job shortages, and many are still facing the financial aftermath of the downturn including reduced wages and depleted savings," said Jonathan Smoke, chief economist for Realtor.com. "Monthly mortgage affordability and 20 percent down payments have become especially difficult as home prices increase."

Realtor.com offered a list of 10 markets that it claimed were ideal for Millennials looking to buy a home, based on housing affordability and increases in inventory. These markets included, in alphabetical order, Akron, Ohio; Buffalo-Niagara Falls, N.Y.; Charleston, W.V., Grand Rapids-Muskegon-Holland, Mich., Harrisburg-Lebanon-Carlisle, Pa.; Indianapolis; Melbourne-Titusville-Palm Bay, Fla.; the Memphis metro market; Peoria-Pekin, Ill.; and Syracuse, N.Y.

"The neighborhoods on our list offer plenty of opportunity for Millennials looking to get into the market in the next few months," Smoke said. "Not only are first timers more likely to be able to afford homes in these areas, less competition in these markets means they are more likely to have their offers accepted."

But that is predicated on the financial health of the Millennial homebuyers. Last week, Irvine, Calif.-based John Burns Real Estate Consulting issued a report stating that the onerous burden of student loan debt among Millennials–now over $1 trillion–will result in the loss of 414,000 home purchasing transactions this year. The company estimated that if the typical price of a house is $200,000, the lost volume would equal $83 billion per year. This research follows the much-discussed study from earlier this year by the Federal Reserve Bank of New York that found college graduating Millennials with student debt are less likely to own a house and a mortgage than those that never attended college.

However, research conducted by The Demand Institute, a New York-based think tank, found a more positive picture. In a survey of 1,000 Millennials, 74 percent of those polled expected to move in the next five years, while 79 percent predicted that their financial situation would improve. But only 48 percent of those surveyed said they would own their residence rather than pay rent.

And, of course, there is the question of jobs–or the lack thereof.

"If you look at the unemployment rate for 20- to 24-year-olds, it is 10 percent," said Amy Crews Cutts, senior vice president and chief economist at Atlanta-based Equifax. "Having an elevated unemployment rate like this compounds this problem."

Andy W. Harris, president and owner of Lake Oswego, Ore.-based Vantage Mortgage Group Inc., pointed out that even if Millennials were eager to pursue homeownership, the loan products that once encouraged first-time homebuyers are now unsatisfactory for this demographic.

"FHA is very restrictive now on mortgage insurance costs," Harris said. "That makes it a lot less affordable than it used to be."

Harris challenged Fannie Mae and Freddie Mac to do more to create products that would aid Millennials. And Bob Dorsa, president of the American Credit Union Mortgage Association (ACUMA), called on credit unions that originate home loans to make a stronger outreach effort to this target audience.

"The issue is, and always has been, that young people need and want information online, but credit unions are something that has Grandma and Grandpa affiliated with them," Dorsa said. "The ball is in our court–we have to do a better job in the online networking community to reach out to the Millennials."

But Scott K. Stucky, chief strategy officer at Idaho Falls, Idaho-based DocuTech, believed that credit unions are not alone in their failure to engage Millennials.

"This generation has seen people lose home and go through foreclosure, and they have a distrust of traditional financial services companies," Stucky said.

Indeed, a survey conducted in May by Accenture found 72 percent of respondents in the 18-to-34 age range said they were likely to do their bank with at least one non-financial services company, such as PayPal, Google or other online financial platform. Stucky also stressed that today's originators are not much help to would-be homebuyers in this demographic because of the restrictive nature of the Qualified Mortgage (QM) rule.

"They simply don't qualify because of their student loan debt and the 43 percent debt-to-ratio income under QM," Stucky continued. "But that doesn't mean they shouldn't qualify."

Rick Sharga, executive vice president of Santa Ana, Calif.-based Auction.com, observed that the industry has not responded to this situation.

"There is not a loan product out there that lends itself to the situation that Millennials find themselves in," Sharga said. "We may see a non-bank lender try to fill that void with a product that does not fit nicely into the QM box. But we won't see that product in any big numbers due to regulatory concerns the absence of secondary market opportunities."

Yet Brandon Kekich, real estate agent with RE/MAX Dream Properties in Northville, Mich., stated that perceptions of struggling Millennials are often incorrect.

"I have this neat mix of Millennials in my market," said Kekich, who serves the Metro Detroit area. "We have people struggle like everyone else, trying to pay off their student loans, and we also have people whose mom and dad can write them a check for a house."

Kekich also observed that some Millennials are very picky in their housing choices. For example, because Millennials usually avoid landline phones in their residences, the absence of strong cell phone service impacts their buying decisions.

"We can walk in somewhere with a bad signal and they will say, 'This isn't going to cut it,'" Kekich said. "They also want to be close to shopping, transportation, coffee shops–they want a reasonable walk from their front door, and they are willing to sacrifice a lot in the size of a home to get those things."

But if the Millennials are not in a mad rush to flood the housing market today, that doesn't mean they won't be a factor in a few years from now.

"In terms of numbers, they are bigger than the Baby Boomers," said Dr. Mark A. Calabria, director of financial regulation studies at the Cato Institute in Washington, D.C. "Number-wise, there is going to be an increased demand for housing."

Yet Dr. Calabria acknowledged that reading Millennials by the numbers alone is a mistake, especially when assuming their belief in contemporary homeownership values.

"It is not clear at this time if this is a generation that buys into the double-digit appreciation/flip it in five years attitude," Dr. Calabria added.