

Two Generations, One Housing Preference

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KBRA headquarters in Midtown Manhattan; the rating agency cites affordability concerns among the reasons that Millennials favor renting over owning.

NEW YORK CITY—They may be generations removed from one another, yet in one important respect Millennials and Baby Boomers have reached the same conclusion, albeit for different reasons. That conclusion is that renting is the preferred alternative.

Citing data from the US Census Bureau, Kroll Bond Rating Agency notes that the number of Millennials (75.4 million) surpassed Boomers (74.9 million) in 2015. “As the largest generation, millennials will be a major force in future housing demand,” according to KBRA’s new report, *Generational Gap Does Not Divide Living Preferences*. “Lifestyle choices among both groups, however, will ultimately determine living accommodations, with multifamily most likely to be the prime beneficiary.”

At the Millennial end of the age spectrum, commitment to marriage and starting a family is occurring later than in previous generations. Just 27% of Millennials are currently married, compared with 48% of baby boomers that were married at the same age based on Census Bureau data, KBRA states.

In theory, that translates into the typical Millennial being in a better position to make a down payment on a single-family home. In practice, though, Millennials in the market for a house may encounter obstacles, including more stringent lending requirements. “According to Experian, Millennials have the lowest average credit score of all the generational cohorts,” the KBRA report states. That’s on top of a tighter market for mortgages in the wake of the housing crisis.

Along with credit, affordability is emerging as the number one concern among homebuyers. For Millennials, KBRA says, affordability fears are even more acute, as 32.5% see it as their top concern. KBRA’s report cites the National

Association of Realtors' Housing Affordability Index as an indicator: with a value of 100 as the base median income required to qualify for a mortgage, the index has declined from 214.5 four years ago to 162.0 this past January.

A recent Pew Research Center study pointed to one byproduct of this decline in single-family home affordability: the percentage of Americans moving over a one-year period fell to an all-time low of 11.2% in 2016. "Recently released Census Bureau data show that a primary reason is that Millennials are moving significantly less than earlier generations of young adults," according to the study.

Last year, only 20% of 25- to 35-year-olds reported having lived at a different address one year earlier. "One-year migration rates were much higher for older generations when they were the same age," the study says.

KBRA's report notes that while the Great Recession was likely a major contributor to the drop in home ownership rates, demographic trends will influence housing trends for the foreseeable future. "The home ownership rate is expected to continue to decline not only because Millennials are putting off their home purchases, but also because Baby Boomers do not want to be tied down to larger, underutilized suburban homes as they age," according to KBRA's report. "As a result, they are downsizing to smaller rental quarters."

In keeping with this long-term demographic trend, Steadfast REIT Investments' Steadfast Apartment REIT III, which launched in 2015, bases its acquisition strategy on what it calls "GenerationALL renters." It focuses on "the specific groups of Americans with the highest propensity to rent," namely, Millennials, families with children and Boomers, and on the types of properties that appeal to each.