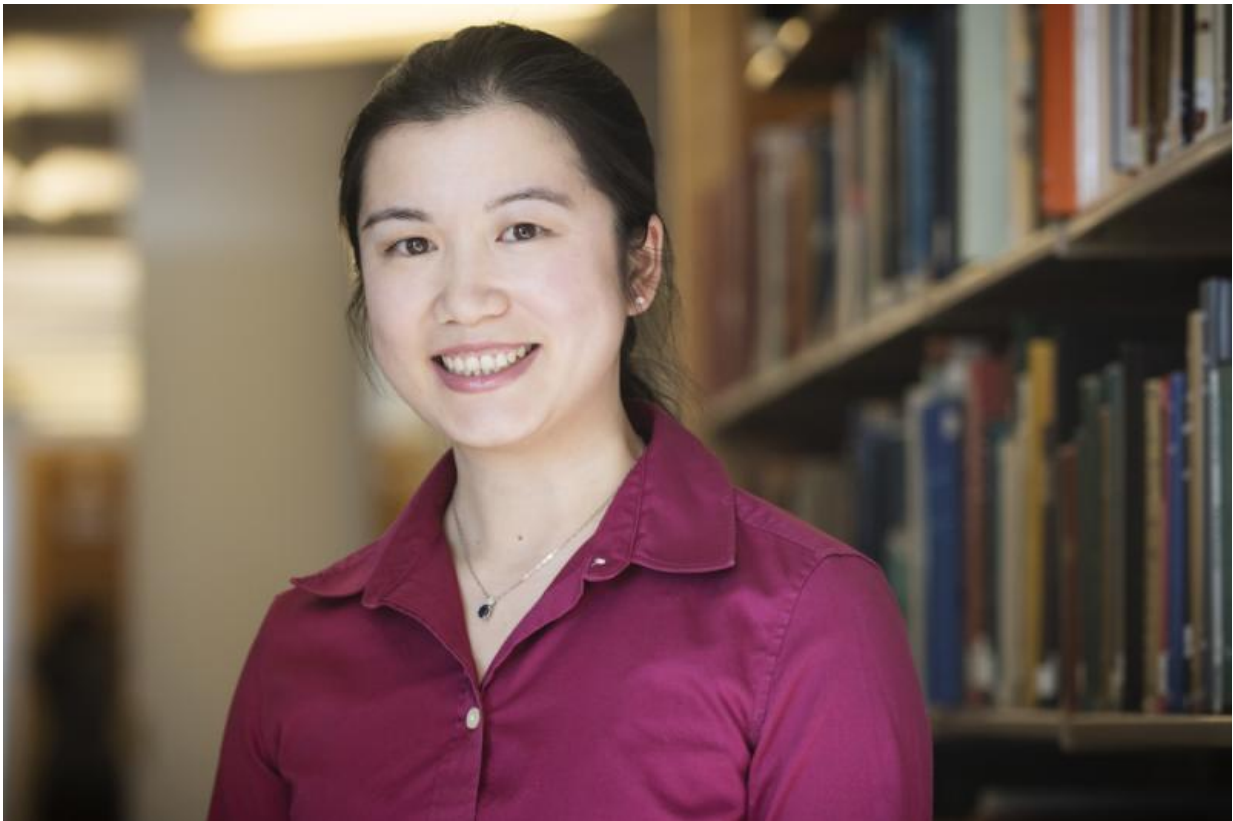


Paper: Homeownership a 'dream deferred' for millennial generation

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Millennials face significant hurdles in their quest for homeownership, said Yilan Xu, a professor of agricultural and consumer economics at Illinois and co-author of a new paper examining homeownership trends among those born between 1980-2000. Credit: L. Brian Stauffer

For previous generations of Americans, homeownership was seen as one

of the final rites of passage into adulthood and financial independence.

Despite the Great Recession and the subsequent housing crash, more than 85 percent of the millennial generation—that is, those born between 1980-2000—still believe that owning a [home](#) makes more financial sense than renting. But according to a new paper co-written by a University of Illinois expert in household and individual financial behaviors, millennials still face significant hurdles in their quest for homeownership.

Although millennials are most associated with their embrace of the sharing economy and a preference for splurging on the latest electronic gizmo rather than on big-ticket items, the general public has the wrong perception about their attitude toward owning property, said Yilan Xu ("E-Lan SHE"), a professor of agricultural and consumer economics at Illinois.

"The perception is that millennials are the generation that would rather have the latest smartphone than a new car, so it stands to reason: Why would they want to own a home?" Xu said. "It doesn't seem like they would want to. But it turns out that millennials still do eventually want to own a home. They just face significant obstacles in doing so."

In the paper, Xu and her co-authors examined the factors that affect housing demand of the millennial generation. They draw three conclusions:

- Mortgage accessibility is a key constraint to homeownership for millennials.
- The burden of [student loan](#) debt among millennials impedes their transition from renters to homeowners.
- Millennials are taking a longer time to settle down, so family events related to home purchases—such as marriage and having

children—are being pushed back.

"All of those factors indicate that the American dream of homeownership is not dead—it's just deferred," Xu said.

As a result of the Great Recession, millennials who were underemployed may not have enough money for the initial down payment necessary for a mortgage. Or they may have a low credit rating, which often translates into a higher interest rate on a home loan or completely disqualifies them as a borrower, Xu said.

"Economic downturns are a great time to buy real estate, but millennials did not have the chance to take advantage of that opportunity," she said. "They were trapped in a cycle of student loan debt payments and underemployment. So they were and continue to be at a disadvantage in that regard."

With millennials getting married and having children later in life, there's also no incentive for them to move from a bachelor pad to the suburbs.

"Millennials consider their homebuying decisions along with their family decisions," Xu said. "We don't have real good data on millennials, but the trend is that millennials are getting married and having children later in life; therefore, there's no real urgency for them to own a home."

But the biggest factor impeding their transition to homeownership is student loan debt, Xu said.

"Student loans are the biggest problem for this generation, potentially disqualifying millennials for mortgage loans due to low credit scores and high debt ratios," Xu said. "It is estimated that millennial student-loan debtors have to spend about half of their monthly income to make debt payments, but if they wish to finance a home while they are paying the

student loan debt, the high debt-to-income ratio effectively disqualifies them for almost all mortgage loans. Even among those millennials who are doing well financially, just a general aversion to debt is also discouraging them from taking out a mortgage."

The silver lining: Student-loan holders are more likely to simply delay buying a home rather than giving up on homeownership altogether.

"Student loans are a factor, but it only has a temporary effect," Xu said. "They're probably just going to postpone homeownership rather than rent for the rest of their lives. So it's a dream deferred further into the future. But what's not clear is just how much further millennials will postpone homeownership."

It's a finding that should give policymakers pause, since homeownership is associated with a number of good outcomes, Xu said.

"Prior research indicates that homeownership carries numerous benefits," she said. "The children of homeowners typically perform better in school than those of renters, for example, and homeownership reduces the risk of divorce among couples. So there are a lot of benefits. It's definitely a policy target that should be promoted, which is why policymakers should worry."

Xu noted that homeownership has been promoted in the past through the commercial credit expansion through the government-sponsored lenders Fannie Mae and Freddie Mac.

"There's also the Community Reinvestment Act, which ensures that there's credit available for underserved communities. All those efforts dramatically increased homeownership in the late 1990s and early 2000s," Xu said.

Then, of course, the housing market crashed in September 2008.

"If we think about what happened during the credit expansion, many people who were not really ready for homeownership were lured into homeownership, and that's certainly not what we want to see again," Xu said. "Ultimately, I do see some upside in millennials delaying homeownership. The more stringent credit conditions will select the more financially prepared millennials for homeownership. As a result, [millennials](#)' homeownership will be more sustainable, and their financial stability and wealth accumulation may be enhanced. If that's the case, then maybe a little delay in buying their first home isn't too bad if they're a more responsible homeowner."

The paper was published in the *Family and Consumer Sciences Research Journal* and was selected as 2015's best paper in housing economics.

More information: Yilan Xu et al. Homeownership Among Millennials: The Deferred American Dream?, *Family and Consumer Sciences Research Journal* (2015). [DOI: 10.1111/fcsr.12136](https://doi.org/10.1111/fcsr.12136)

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