



Millennials and Housing

Homeownership Demographic Research

2021



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Introduction

Millennials, the generation born between Gen Xers and Gen Zers, began attracting the attention of market researchers at the start of the last decade as they gradually became the largest consumer group with ever-increasing buying power. Millennials adapted more quickly to new technology than older adults and were the first to prefer consuming content online. They also disrupted consumer behavior patterns by forming their own brand of life-stage priorities.

This generation will continue to shape our economy for decades to come. They now make up the largest share of new homebuying population and, as such, a critical borrower segment whose demands the housing industry must understand.

This research, which serves as a playbook for the housing industry, and beyond, captures

the demographic, social and economic characteristics of millennials versus those of prior generations.

It also focuses on generational characteristics and how companies can build strategies that tap into these insights.

This playbook leverages an array of sources, including data derived from the Annual Social and Economic Supplement (ASEC), 2019 Home Mortgage Disclosure Act (HMDA) reporting, Freddie Mac loan-level acquisition data, the Current Population Survey (CPS) and the American Community Survey (ACS).

Please note, this playbook was created prior to the COVID-19 pandemic and therefore does not reflect its impact. For this reason, we will update this playbook as necessary to integrate the latest data and incorporate the effects of the pandemic on millennials and the housing market.

Silent 1928-1945	Baby Boomer 1946-1964	Gen X 1965-1980	Millennial 1981-1996	Gen Z 1997-2012
Ages 74-91				
	Ages 55-73			
		Ages 39-54		
			Ages 23-38	
				Ages 7-22

Ages as of 2019. Source: Pew Research



Key Findings

Millennials—born between 1981 and 1996—are arguably the most influential generation the nation has seen since the baby boomers. Their sheer size casts a shadow over their predecessors, Gen X, and they have overtaken the baby boomers to become the largest population cohort in 2019. Millennials have upended consumer expectations, shifted the timing of various life stages, represent the most racially and ethnically diverse adult age group, and earn more than prior generations.

All these factors prompted Freddie Mac to perform in-depth research in order to deconstruct this demographic segment. Our research confirms that millennials are a major force in the homebuying and mortgage business for years to come. This has led us to these key observations that will likely impact and shape U.S. homeownership:

- Millennials' homeownership rates have accelerated over the past five years, but still lag behind those of older generations.
- A significant share of millennials have yet to mature into homeownership, as many of them either haven't reached the life stages that typically prompt a desire to own a home, find it unaffordable, or are unaware of options that could help them reach the "American Dream."
- Given the higher millennial minority share, this generation is at risk of never reaching the same homeownership levels as older generations because of the historical divergence in homeownership rates between different races/ethnicities.
- Millennial homebuyers represented nearly half of the Freddie Mac purchase loans in 2019.



Household Formation and Homeownership

HOUSEHOLD COUNT

Housing market activity is greatly driven by household formation. The 2019 U.S. Census population survey found that 46% of millennials were heads of households. Their share of total households nationwide has grown increasingly since 2010, as these twenty- and thirty-somethings are aging and progressing into life stages. Despite the growth, this age group is still trailing compared to where both Gen Xers (49%) and baby boomers (48%) were when they were in the same age range, which is a result of millennials moving into adulthood life-stages at a slower pace. Nevertheless, the share of millennials becoming heads of households is expected to keep rising, as a higher share of this generation approaches age milestones (i.e., the age of 40).

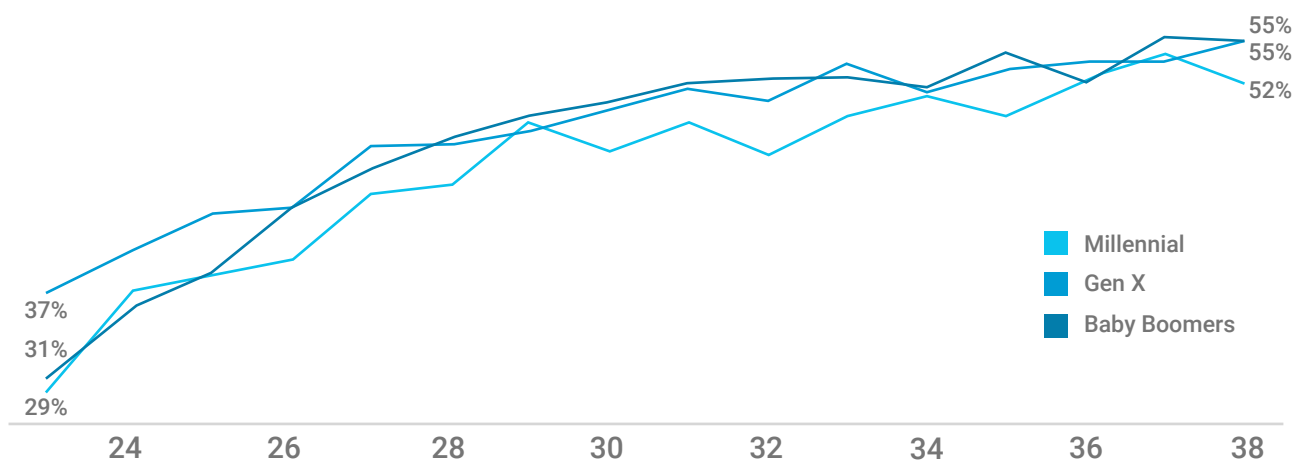
Percentage of Population that is Head of Household (Ages 23-38)



Source: 2019 U.S. Census-Current Population Survey (CPS).

Despite this generation's slight lag in household formation, an annual trend of households by generation suggests that millennials will become more aligned with Gen Xers and baby boomers as they move into their mid-30s. Their household formation rate could even overtake those of the prior generations, given their diversity, higher education levels, and more households headed by single women earning more equitable pay.

Percentage of Population that is Head of Household (Age Trend 23-38)



Source: 2019 U.S. Census-Current Population Survey (CPS)





Millennial Homeownership Rate: 43%

National Homeownership Rate: 65%

HOMEOWNERSHIP RATE

As today's millennials are mostly renters, their homeownership rate of 43% is understandably well below the national average of 65%, as of 2019. Delayed marriage, financial challenges of racial and ethnic minorities, less financial security and higher debt all contribute to lower homeownership rates for millennials. Rising home prices and a record low inventory of affordable housing for sale have also impeded homeownership. On the other hand, as more millennials reach age 40, their household formation rate will accelerate due to higher marriage rates and more stable incomes. As household formation rates increase, the generation's homeownership level should ramp up within the next decade.

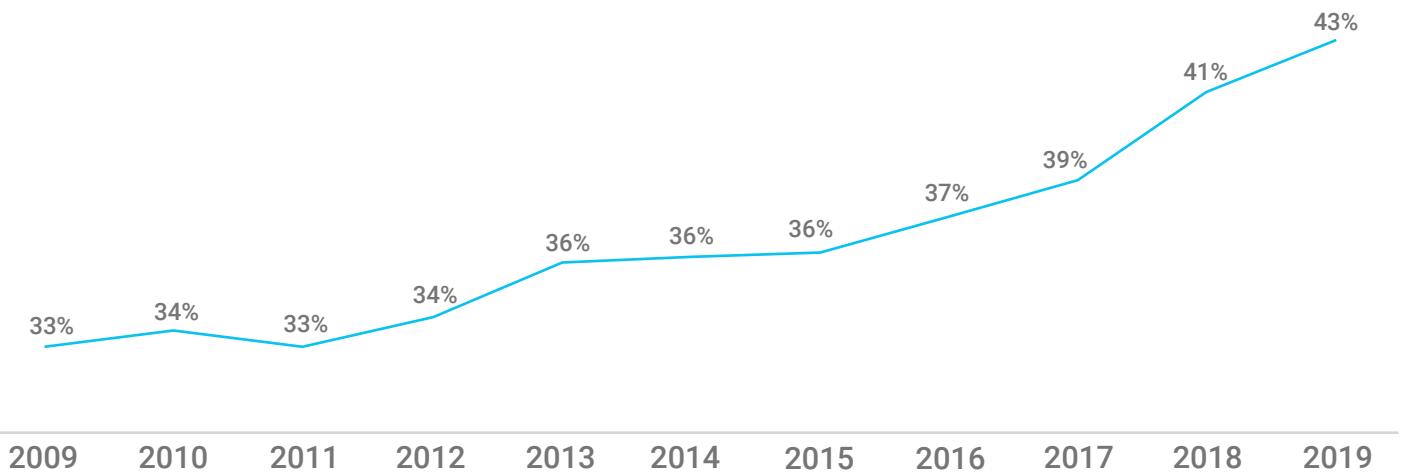
Homeownership Rate (Ages 23-38)



Source: 2019 U.S. Census-Current Population Survey (CPS)

Historical trends show that millennial homeownership has increased 10 percentage points since 2012, as the older portion of the generation mature into homeownership. With the younger portion now coming of age, homebuying demand is expected to rise significantly, which may create additional ripple effects for all consumers in this already undersupplied market.

Millennial Homeownership Rate Trend



Source: 2019 U.S. Census-Current Population Survey (CPS)

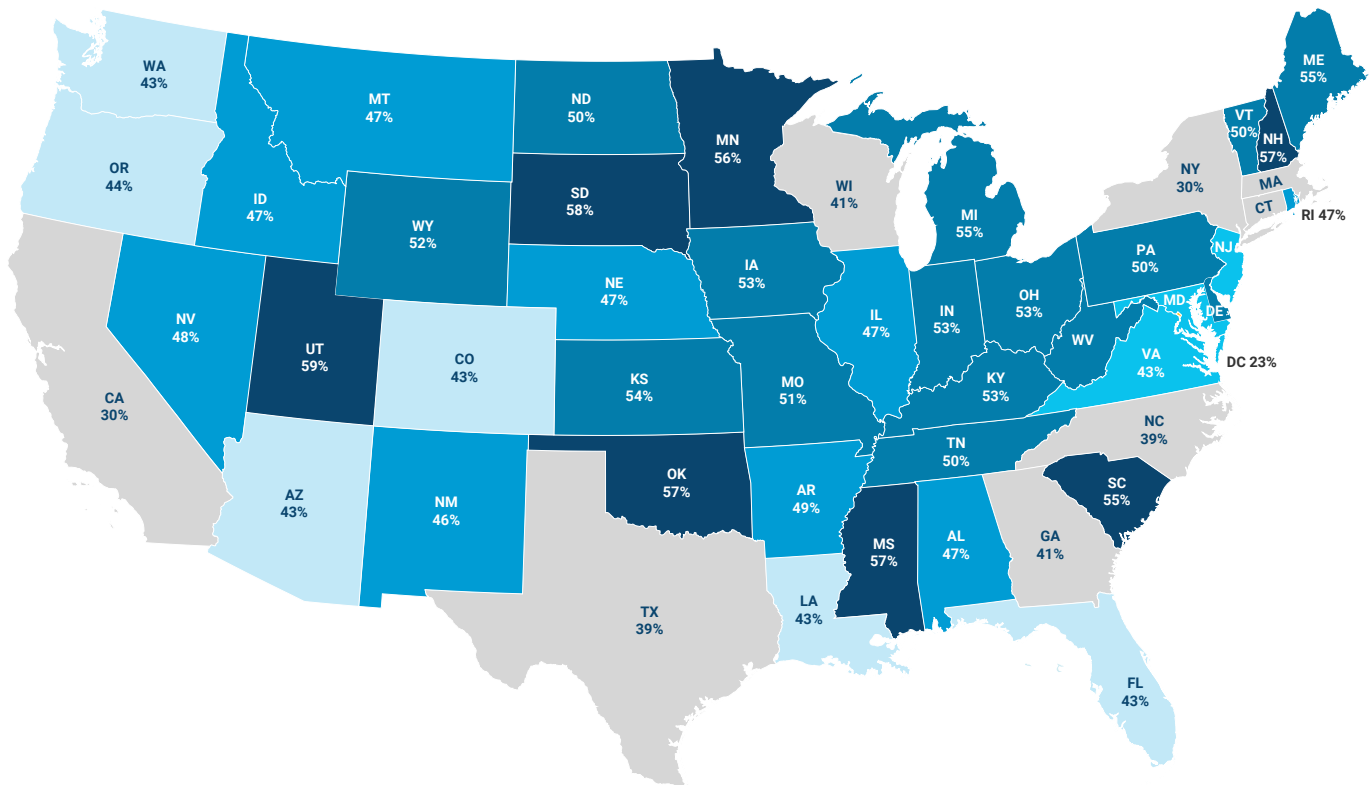


HOMEOWNERSHIP: GEOGRAPHIC PRESENCE

The number of millennial homeowners hit 43% in 2019, but their growing share of the market varies substantially by geography. At the regional level, this generation's homeownership is highest in more affordable states where home prices are below the national average. However, in states like California and New York that have high-cost metro areas, millennials have the lowest homeownership rate at 30%.



Millennial Homeownership Rate by State



Source: 2019 U.S. Census-Current Population Survey (CPS)





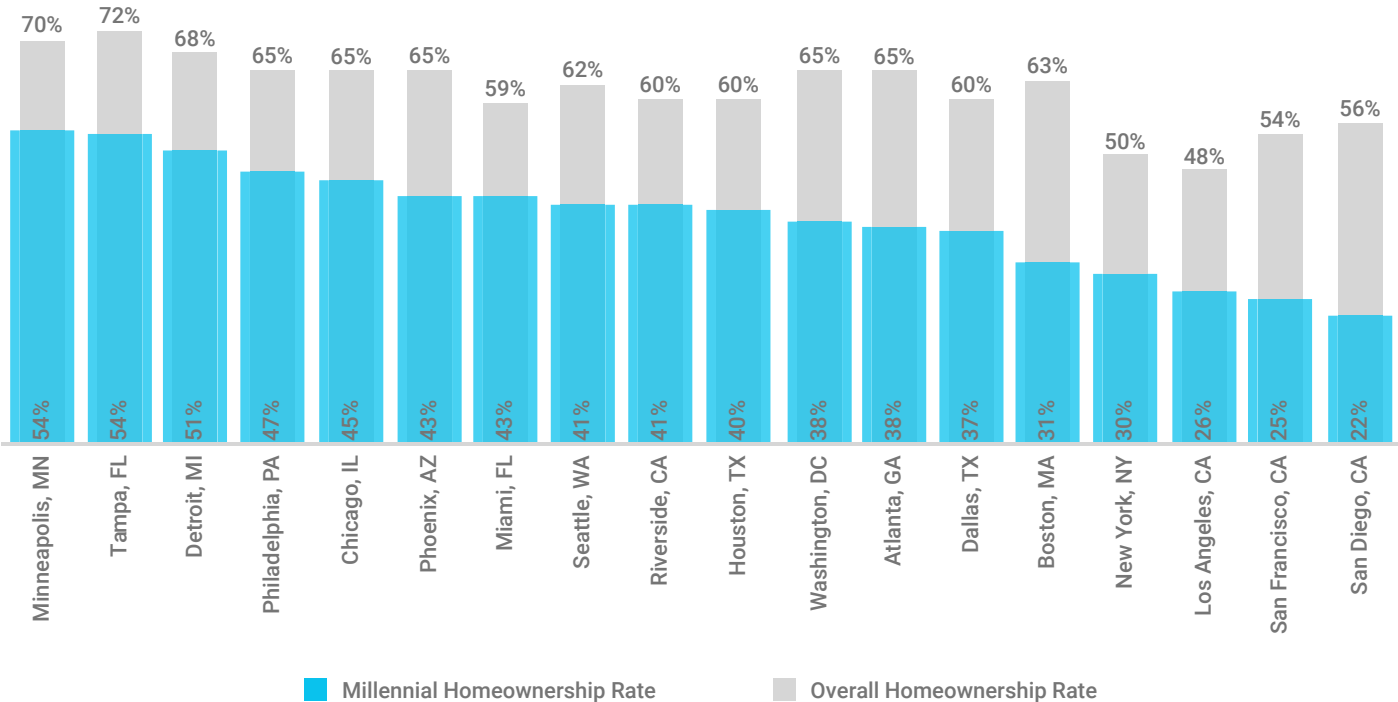
The millennial homeownership gap is most acute in high-cost metros.

HOMEOWNERSHIP GAP

The average millennial homeownership rate was 43% in 2019, which was 22 percentage points below the overall national rate. The gap among some of the top 20 metropolitan statistical areas (MSAs) is even wider.

The gap is most acute in high-cost metros, where well-paying jobs are plentiful amid record-low homes available at affordable prices. San Diego, San Francisco, D.C. and Boston top the list.

Millennial versus Overall Homeownership Rate



Source: 2019 U.S. Census-Current Population Survey (CPS)



MILLENNIAL RACE, ETHNICITY AND HOMEOWNERSHIP

Our analysis of U.S. Census data reveals that the millennial generation’s Hispanic/Latino and African American/black homeownership rates (35% and 21% respectively) are substantially below those of the non-Hispanic Whites’ rate of 53%.

Considering the historical variation in homeownership rates by race and ethnicity combined with the higher share of Hispanic/Latino and African American/black populations within the millennial cohort, the result could be a lower overall millennial homeownership rate achieved for this generation.

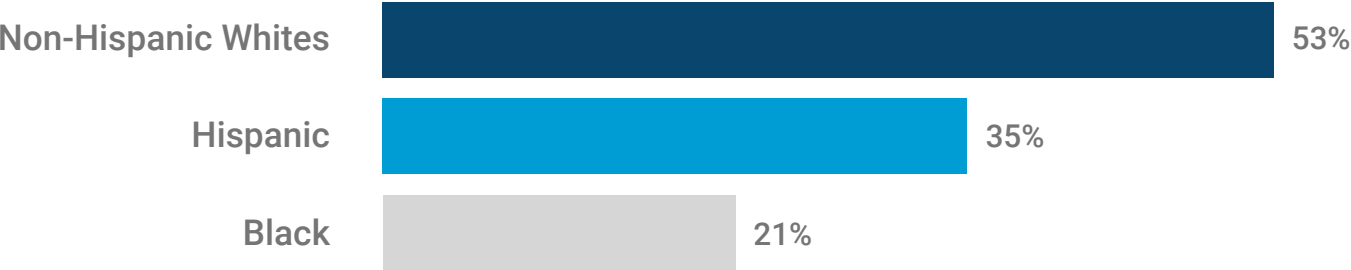
Like most older Americans, millennials see homeownership as their primary financial goal, with the top motivators being wealth creation and a stable place to live and create family memories. But

their path to homeownership today is littered with obstacles.

How can we best help bridge this gap between millennials and older generations? It’s one of the key issues industry participants and experts are trying to solve.

While there is no optimal homeownership rate, we expect an influx of homebuyers in this generation as they get older, advance in their careers, reach certain age milestones, and pay off student debt. But there are fundamental concerns about what is preventing this generation from entering the ranks of homebuyers. The “Path to Homeownership” section below takes a closer look at what’s holding America’s largest generation back.

Millennial Homeownership (%)



Source: 2019 U.S. Census-Current Population Survey (CPS)



Path to Homeownership

A 2019 study by [Apartment List](#) found that nearly 90% of millennials want to own a home, which underscores how important it is for everyone in the housing industry to help make homeownership possible for them.

Homebuying is the largest investment decision most people make, and a successful path to the “American Dream” requires consumers to prove responsible money management and sound financial decision making in order to show lenders they’re good credit risks.

In this next section, we review the major steps a potential millennial homebuyer needs to take to break into the market. We also outline some of the key impediments and potential solutions.



**Homebuyer
Education**



**Down
Payment**



**Pre-Qualified/
Pre-Approved**



**Shopping and
Buying a Home**





Only 16% of millennials could be considered financially literate

FINANCIAL LITERACY

The millennial generation’s educational success and record of higher average earning compared to previous generations at their age are impressive. But the learning curve tied to successfully purchasing an affordable home is steep and typically not included in high school and college curricula.

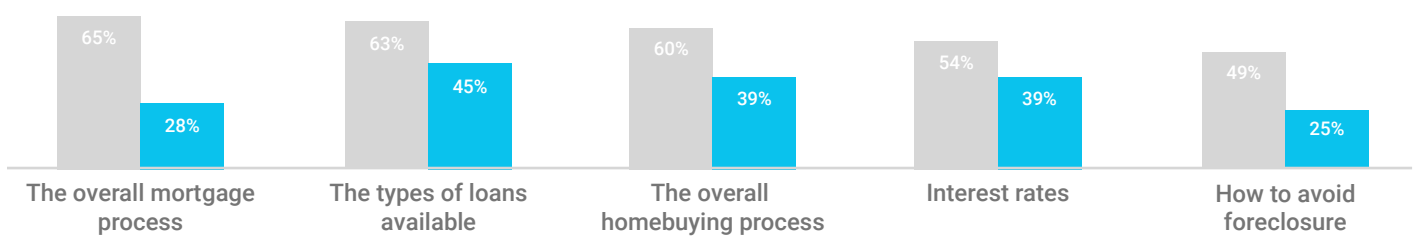
A successful outcome depends partly on understanding the homebuying process, along with having a reasonable level of financial literacy.

Despite millennials having more college and graduate degrees than older adults, only 16% of them could be considered financially literate, according to a 2018 study by the [TIAA Institute](#), compared to 34% of adults assessed at the same age range in 2009. Moreover, only 19% of millennials that assess their own financial knowledge as “high”

or “very high” qualified as financially literate. The same report also found that fintech usage (mobile apps), when coupled with financial illiteracy, creates a greater tendency for poor money management, suggesting that usage of fintech tools is not a substitute for financial education.

Millennials today have more choices, more tools, more debt and more serious consequences from the financial decisions they make. While we look for ways to expand homeownership opportunities to a larger share of millennials, improvement in home borrower education is imperative. Most millennials ages 24-29 are not confident in their knowledge of various aspects of the homebuying process, according to a [Freddie Mac survey](#).

**How confident do you feel in your knowledge of the following?
% Not at all confident/Not very confident**



Source: Freddie Mac

■ Gen Z
Ages 18-23; n=823

■ Millennial
Ages 24-29; n=297 renters



Lacking the preparation and the necessary money management skills for maintaining homeownership can lead to negative results, including mortgage foreclosures, lower credit rating and potential tax consequences. Lenders and other housing professionals can help advance financial education opportunities for potential homeowners with a [comprehensive financial education curriculum](#) available through Freddie Mac and other resources.

DOWN PAYMENTS

According to Freddie Mac, many prospective homebuyers find [saving for a down payment to be the biggest challenge](#) they have to overcome. Although a 20% down payment on a home is a longstanding benchmark, many millennials have a skewed notion of the minimum down payment requirements to buy a home.

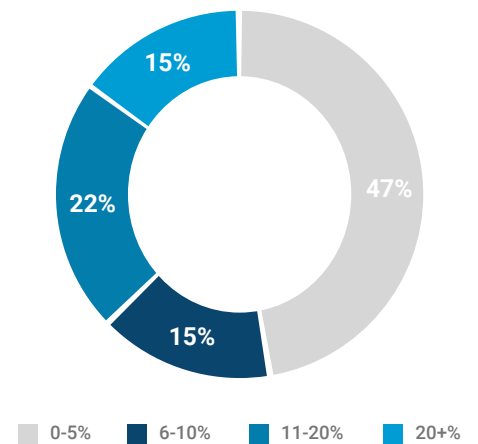
Nearly 42% of millennials in 2019 were under the assumption that they are required to put a 20% down payment on a home or they were unsure of how much is required, according to our [survey](#).

In reality, the median down payment as of 2019 was 12% [for all home buyers](#), 6% for first-time home buyers (FTHBs) and 16% for repeat buyers. According to American Housing Survey, in 2019, 47% of millennial FTHBs put down between zero and 5% on a home, while 15% put down between 6% and 10%.

Despite the misconceptions about the amount required for a down payment, today's [millennials are leveraging multiple avenues to fund down payments](#), including savings, funds from family, as well as moving in with family to build up their savings.

A 2019 survey by [Apartment List](#) found that nearly half of millennial renters who say they want to buy a home actually have no savings set aside for a down payment. But there are other ways to raise down payment cash aside from savings, including nonprofits or agency assistance, gifts, inheritance, etc. When it comes to housing assistance, there are over 2,500 nationwide programs that provide grants and loans to make homeownership more attainable.

2019 FTHB Millennial Down Payment % Distribution

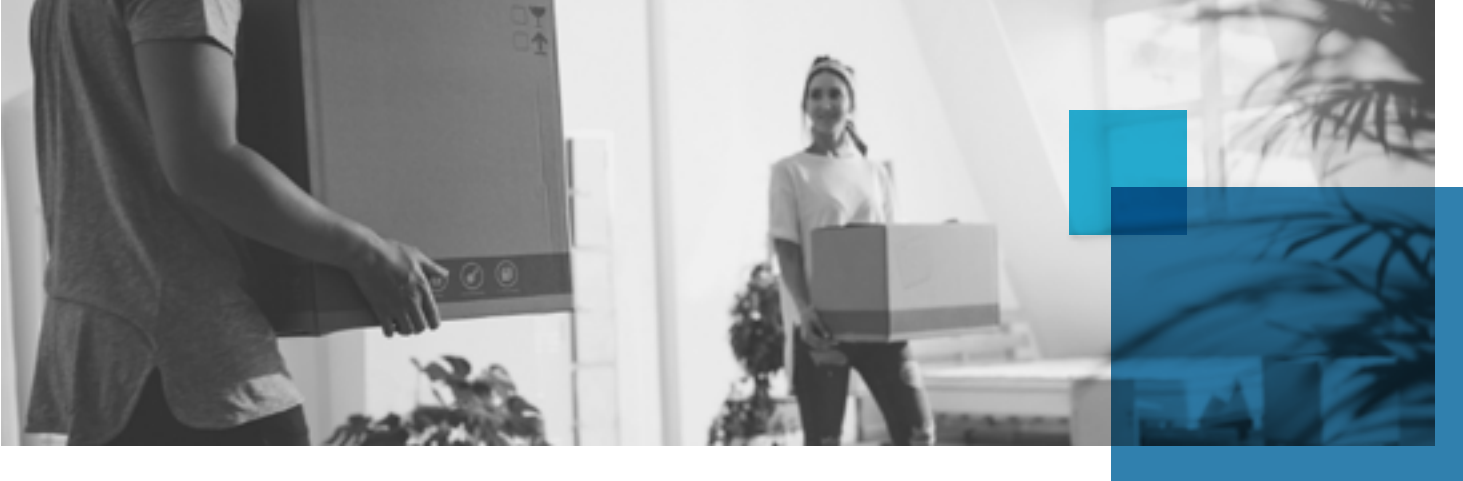


Source: American Housing Survey (AHS) 2019

[Down payment assistance programs](#) are a great option for millennials struggling to come up with down payment cash. Agency programs that allow for a qualified mortgage with as low as [3% down](#) combined with homebuyer assistance programs can be a winning combination for many millennials aspiring to become homeowners.

While a down payment is usually their biggest concern, many potential borrowers forget about other associated costs. Closing costs can add up to 2-5% of the purchase price. It's imperative that millennial homebuyers are aware of these costs as they [save for homeownership](#).





MILLENNIALS AND LOAN PRE-QUALIFICATION

Not all prospective homebuyers fully understand the mortgage process or how much money they'd be qualified to borrow. In fact, Freddie Mac's research found that only 9% of renters looking to purchase a home in the next two years start the homebuying process by getting pre-qualified, and only 12% take steps to get pre-approved. Getting pre-qualified is one of the most important steps borrowers can take to find out how much home they can afford.

As a general rule, consumers should spend no more than [28% of their pre-tax income](#) on a mortgage payment. It's also important for a millennial consumer to understand the role credit, mortgage rates, and home-related costs play in determining what they can afford.

From an affordability perspective, the cost barrier to enter the housing market is higher for millennials today than it was for prior generations. Millennials are discouraged by this, which is understandable, given home prices have grown [four times faster](#) than household income, making the [transition from renting to owning](#) even more difficult for so many of the young adults in their 20s and 30s.

As noted above, in addition to income and expenses, a person's credit score determines their eligibility for a mortgage. This is yet another deterrent to millennials buying homes because credit remains tight by historical standards.

An analysis of the 2019 Home Mortgage Disclosure Act data (HMDA) revealed that nearly 60% of all the millennial mortgage application denials were driven by high debt-to-income ratios and low FICO scores. Student debt is certainly driving the millennial debt upward. However, the student debt barrier can often be overcome with appropriate guidance and education, including credit improvement/boost programs.

Only 9% of renters looking to purchase a home in the next two years start the homebuying process by getting pre-qualified.





SHOPPING FOR A HOME

The Digital Experience

While millennials are putting their own distinctive stamp on shopping for a home, they still want to be able to call on an expert with questions. Essentially, they're looking for a hybrid experience — one that combines the convenience and depth of information found on the internet with an expert to answer questions and give guidance.

- The 2020 National Association of REALTORS® (NAR) [Homebuyer & Seller Generational Trends report](#) shows that 93% of older millennials used the internet to search for homes (versus all buyers at 84%), and 78% of older millennials found their home through a mobile app.
- [Freddie Mac research](#) shows that 56% of millennials prefer an in-person homebuying experience, significantly less than Gen Xers (69%) and baby boomers (70%).

Family Support

Millennials are relying more on their families for financial support than was the case with prior generations.

- According to a [Pew Research Center report](#), millennials live with their parents longer than both baby boomers and Generation X did before they formed their own households.
- [Freddie Mac's own research](#) revealed that the share of young adult borrowers with a parent co-borrower has increased since the 1990s.
- A [survey from loanDepot](#) said 77% of millennial and Gen Z respondents are looking to their parents to be co-signers on their first mortgages or to help with down payment and closing costs.
- According to [Deloitte's Infocus study](#), millennials believe relying on family or friends as part of their financial decision making is substantially easier than depending on other sources.



HOUSING SUPPLY

[NAR's Homebuyer and Seller Generational Trends in 2020](#) discusses how today's affordable housing supply shortage is hurting millennials more than previous generations in several ways:

Difficulty finding a home: For 63% of younger millennials and 60% of older millennials, the most difficult step in the homebuying process was finding the right property, notably higher than the 55% for the overall population.

Because of the housing supply shortage, specifically for the starter homes which cater more toward first-time homebuyers (who in large numbers are millennials), the market is becoming more competitive. As a result, it takes longer for buyers to find the right home, which many millennials find frustrating and discouraging.

Buying older properties: The median age of homes purchased by younger millennials was 41 years, and 34 years for older millennials, while the median age of homes purchased by older buyers ranged from 19 to 31 years. In most cases, buying an older home comes with the added cost of renovation. [Freddie Mac's CHOICERenovation®](#) mortgage allows borrowers looking for convenience and cost savings

to finance their home purchase and renovation costs in a single-closing transaction.

Choosing suburbs: 53% of older millennials chose to purchase in the suburbs versus 50% for the overall population. As the supply of affordable housing dries up in urban sectors, more millennial homebuyers are migrating to the suburbs where housing is less expensive.

But long commutes can drive up homeowner costs, as noted in the latest [Freddie Mac's eBook: Key Opportunities for Building the Future of Home](#).

Given the recent developments of employers becoming more accepting telework options, the commuting costs may become less of a deterrent when consumers are looking to move to the suburbs.

“Housing availability is limited, and new construction slowed in recent years. In fact, the supply of unsold homes is at the lowest level in four decades.”

Sam Khater, Vice President and Chief Economist
Freddie Mac

[Tracking the Economy in Real-Time](#), 2020



Mortgage Activity

PURCHASE MORTGAGES

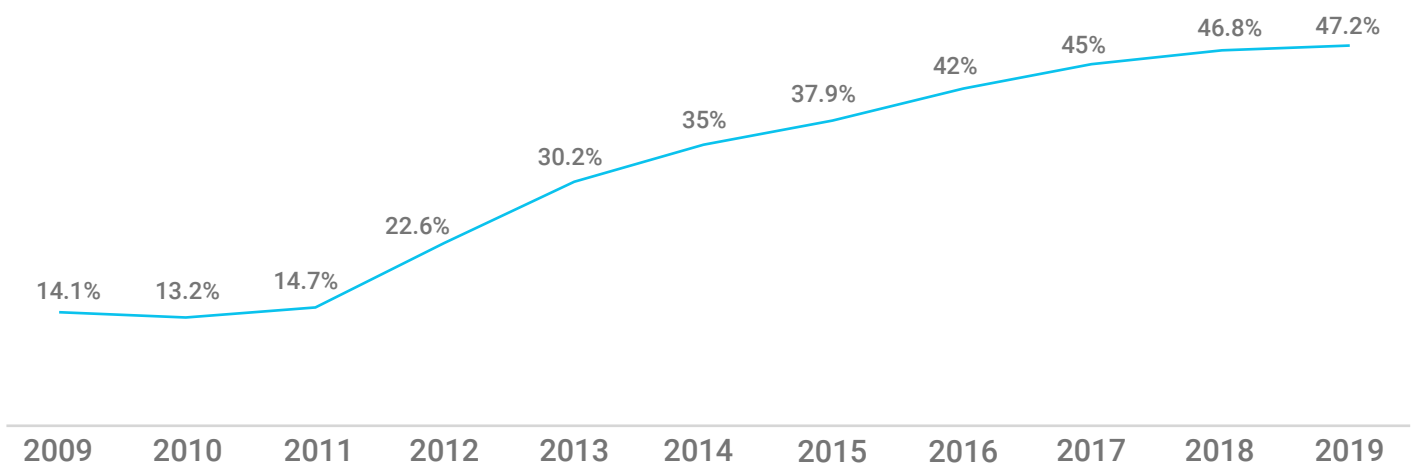
Millennial impact on the housing market continues to grow since they first made up the largest share of homebuyers in 2013, according to 2019 [NAR's Home Buyers and Sellers Generational Trends report](#). The report also found that 97% of buyers aged 38 and younger financed their homes, compared to 88% of all buyers.

As this massive age demographic transitions into life stages, it's driving a surge in overall homebuying demand. Millennials' share of primary home purchase loans has been gradually increasing over the past decade. In 2019, they accounted for nearly half of purchase mortgages (47%) bought by Freddie Mac and based on our analysis of 2019 HMDA data, similar shares were delivered to Fannie Mae.

And according to Home Mortgage Disclosure Act (HMDA) data, young adults are leaning more on government sponsored mortgages with wider credit boxes and lower down payment requirements and less on conventional loans. For instance, in 2019, 66% of mortgages issued to millennials were conventional loans as opposed to 71% of conventional loans issued to other age groups.

Millennials first made up the largest share of homebuyers in 2013.

Percent of Purchase Mortgages Issued to Millennial Buyers Acquired by Freddie Mac



Source: Freddie Mac Acquisition Data



FIRST-TIME HOMEBUYER SNAPSHOT

Freddie Mac's 2019 acquisition data showed that millennials comprise an increasingly larger share of first-time homebuyers (FTHBs) at 63%. The housing industry is certainly feeling the impact of millennials stepping into the space, which is why it's increasingly important to understand the characteristics of this consumer segment.

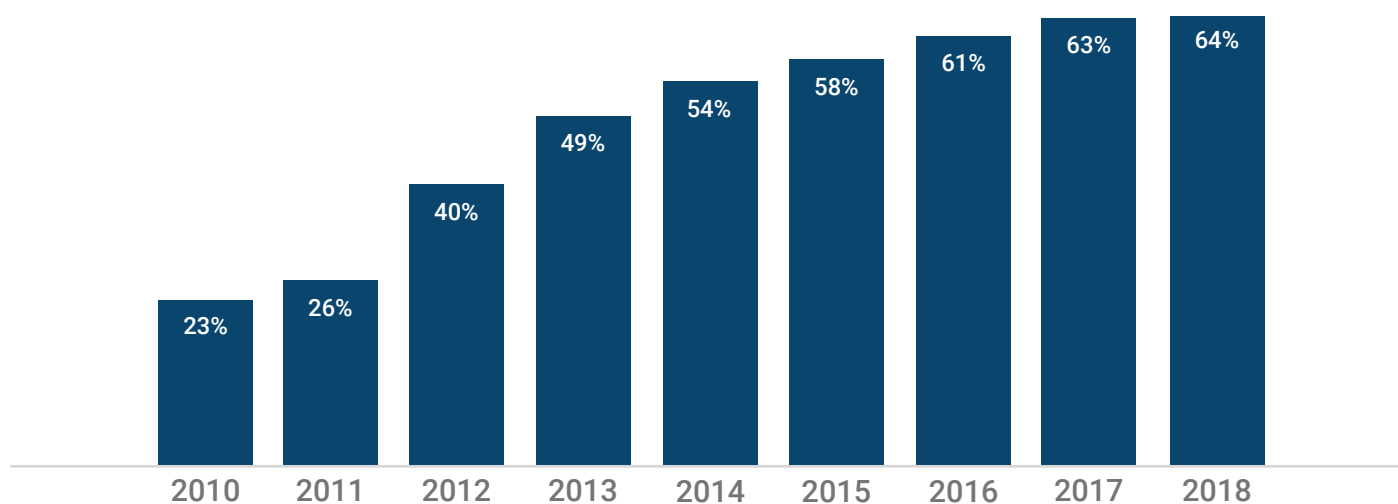
According to Freddie Mac data, the median age of a FTHB is 33 years old, and they earn \$89,000 in median income. Based on [NAR analysis](#) of millennial FTHBs, over half of them are married, dual-income couples followed by unmarried couples, single females and single males.

As more qualified millennial FTHBs enter the market – earning higher incomes than the generation before them – lenders would be well-advised to help them overcome misconceptions, expand their financial literacy and understand their options.

Our hypothesis is the share of millennial FTHBs will increase even more as a result of the COVID-19 pandemic, as many renters who've been postponing homeownership seek the security and stability of homeownership.

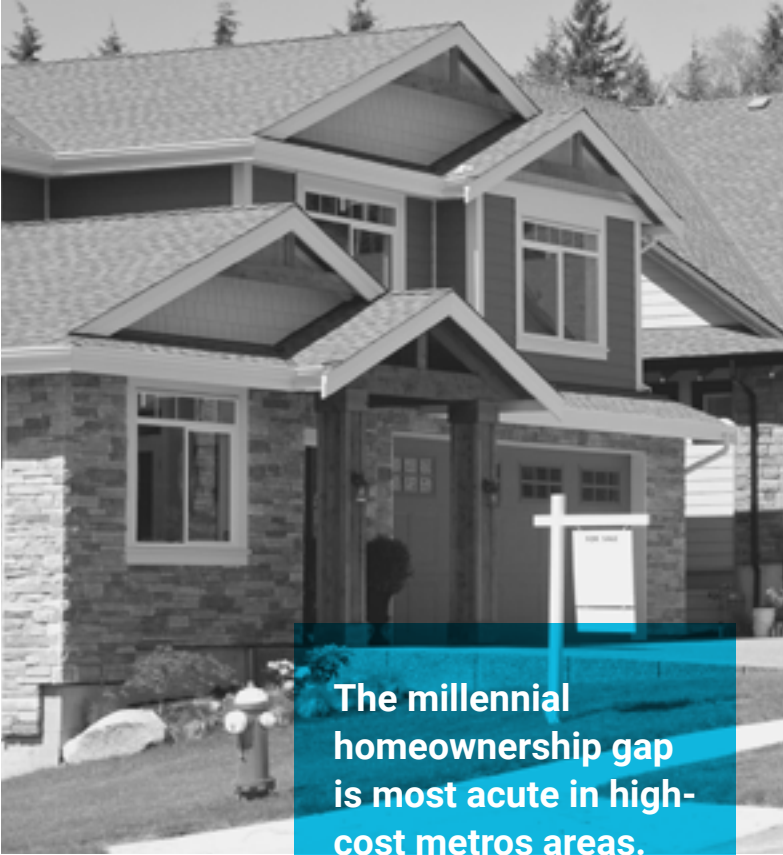


Millennial Share of First-Time Homebuyers



Source: Freddie Mac Acquisition Data





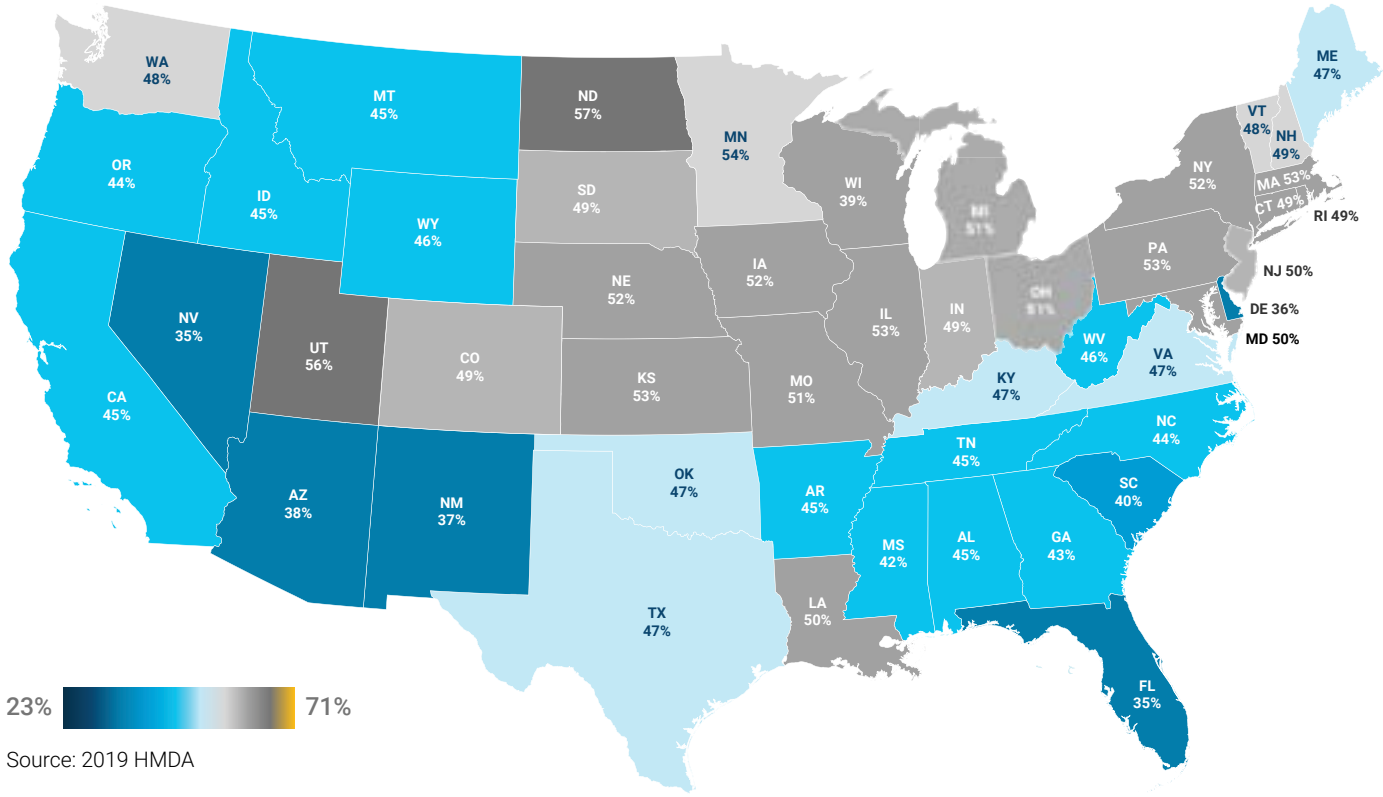
The millennial homeownership gap is most acute in high-cost metros areas.

MILLENNIAL MORTGAGES BY REGION AND STATE

While this blockbuster generation accounted for 47% of all mortgages bought nationwide by Freddie Mac in 2019, the concentration of loans purchased varied by region and state. Most millennial mortgages were purchased in states with more affordably priced home prices as compared to a national average.

While the states with the highest share of mortgages issued to millennial buyers were North Dakota, Utah, Minnesota, Illinois, as well as Pennsylvania, the largest count of mortgages came from Texas, California and Florida.

Share of Mortgages Issued to Millennial Buyers by State



23% 71%

Source: 2019 HMDA



MILLENNIALS AND HOME VALUES

The study findings revealed the two largest generations are now competing for similarly valued properties. Freddie Mac data show that in 2019, millennials for the first time surpassed baby boomers in terms of median purchase price of homes (\$283,000 versus \$280,000). There are several hypotheses that might explain the recent trend:

- A higher share of millennials tend to reside in more expensive, urban areas.
- Limited starter-home inventory could be causing millennials to rent longer so that when they buy their first home, they skip starter homes and buy larger, more expensive first homes than prior generations.
- Baby boomers are downsizing and buying less expensive and smaller homes.

While all generations continue to purchase increasingly more expensive homes, the steepest

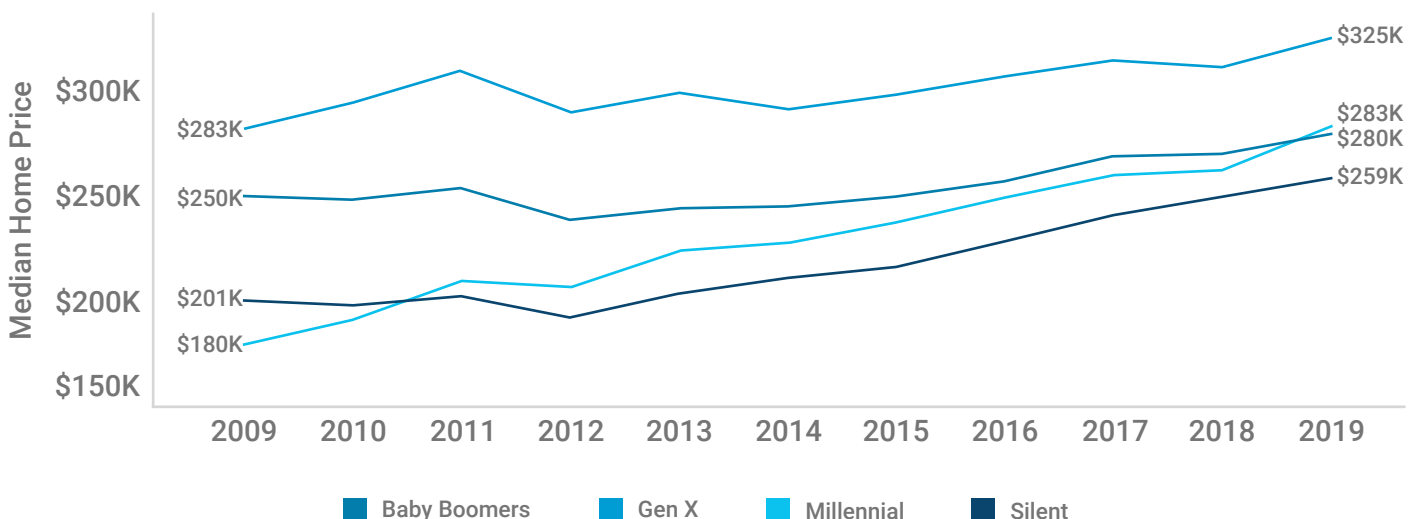
climb of the median purchase price occurred with the millennial generation.

The median price of a primary home purchased by millennials rose by 8% over the past year to a high of \$283,000, whereas the rest of the generational groups' median purchase price grew only by 4%.

Although the gaps between prices of homes bought by millennials and older generations have narrowed, the average loan amount borrowed by millennials outpaced the amounts borrowed by Gen Xers and baby boomers.

Lower down payments made by first-time millennial homebuyers explain this divergence. According to Freddie Mac data, the down payment baby boomers paid in 2019 was nearly double than of millennials (29% versus 16%). As a result of increasing home prices and lower down payments, millennials will accumulate higher mortgage debt than any other generation before them.

Median Home Purchase Price



Source: Freddie Mac Acquisition Data



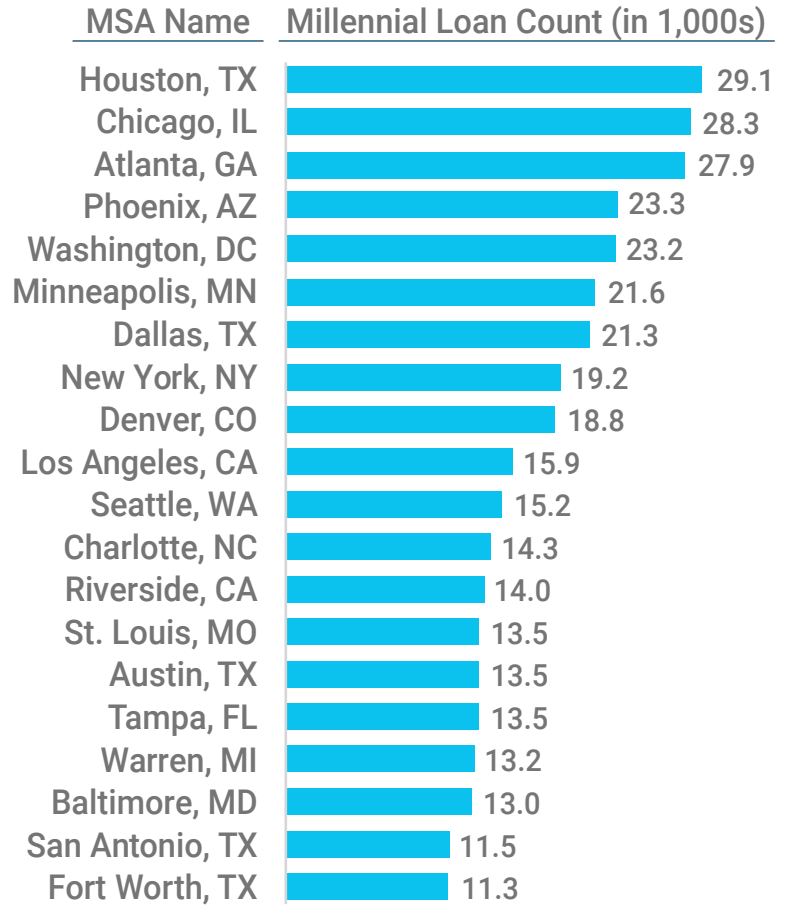
SIZING THE MARKET OPPORTUNITY

The most active millennial homebuying markets in 2019 were Houston, Chicago, Atlanta, Phoenix and Washington, D.C. Texas was by far the leader with five metropolitan areas making it to the Top 20 MSA list.

Out of the top 20 MSA markets, millennial homeowners gained share in 18 of them from a year ago.



Top 20 Millennial MSAs (Count of mortgages issued to millennials)



Source: HMDA 2019



METHODOLOGY

Data Sources and Methods

This playbook leverages data from several sources: The Current Population Survey (CPS), The American Community Survey (ACS), Home Mortgage Disclosure Act (HMDA) data reporting, and Freddie Mac Acquisitions data. CPS is a monthly survey of about 60,000 U.S. households conducted by the United States Census Bureau. ACS is an annual survey by the U.S. Census Bureau sent to approximately 3.5 million addresses. HMDA is a federal law that requires certain financial institutions to provide mortgage data to the public, and it covers approximately 85-90% of the mortgage market. Freddie Mac loan-level acquisition data includes all mortgages securitized by the entity. Additionally, this playbook examines data from the New York Federal Reserve bank, American Housing Survey, Freddie Mac and third-party surveys.

Data Advantages and Limitations

While both U.S. Census Bureau surveys produce socioeconomic and demographic estimates for the U.S., there are key differences between them. The ACS sample consists of around 3.5 million housing units but is only updated annually. The CPS sample size is about 60,000 housing units but is updated monthly. Therefore, the ACS has a larger sample size, but the CPS is timelier. Most of this playbook uses CPS data to provide timely demographic and housing characteristic estimates.

Due to certain data inconsistencies, this playbook mainly focuses on three generations: millennials, baby boomers and Gen Xers, and excludes the Silent generation.

We found the Census Bureau and other federal agencies often publish data in 10-year age brackets and as a result many studies approximate millennials in the static age bracket of 25-34. One of the main data limitations to this study is the 10-year bracket we leveraged in our analysis of student debt share or market mortgage originations does not encompass all millennials (23-38 in 2019), and therefore direct comparisons to other publications are not always possible.



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