

Understanding the Next Generation of Homebuyers



The ABCs of Gen Y and Z | Part Two of Three

Introduction

Younger Buyers Are Changing the Landscape of Home Buying. There's a generational shift underway in the U.S. homebuying market. In 2020, Younger Gen Y Millennial homebuying grew faster than Older Generation Y, Gen X, and Baby Boomers. In another first, 2020 homebuyers included members of Generation Z, the nation's newest generational cohort, born between 1997 and 2012.¹

In Part One of our three-part series, *The ABCs of Gen Y and Z*, we provided a demographic and sociographic overview of these emerging homebuyer generations. In Part Two, we delve deeper into the buying profiles of younger buyers and their impact on the homebuying market.

Buyer Profiles | Younger Gen Y Millennials

Like their older counterparts, Younger Gen Y Millennials have delayed milestones leading to household formation, but recent home sale trends indicate that is changing. Younger Gen Y Millennials accounted for 14% of all home sales from July 2019 to June 2020.² This is a 27% increase from June 2017 to July 2018, when this demographic accounted for just 11% of home purchases.³

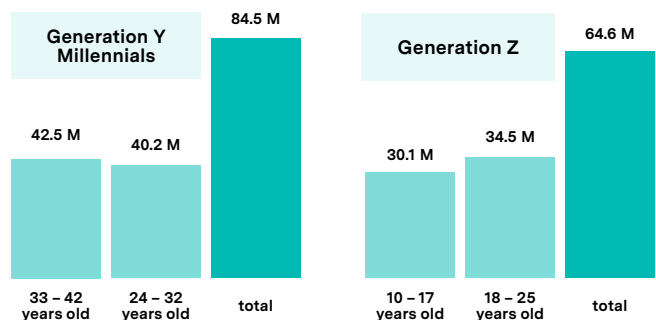
What do we know about Younger Gen Y homebuyers?

Following are results of a survey tracking generational differences among buyers who purchased homes between July 2019 through June 2020:

- The median homebuying age of Younger Gen Y Millennials was 27 years old (versus 35 years of age for Older Gen Y Millennials).
- Just over half (51%) were married (compared to 69% of Older Gen Y buyers), 20% were unmarried couples, 16% were single females and 11% were single males.
- Most Younger Gen Y buyers (73%) had no children (compared to 39% of Older Gen Y Millennials), 15% had one child, 8% had two, and 3% had three or more.
- 84% were White/Caucasian (compared to 80% of Older Gen Y Buyers), 9% were Hispanic/Latino, 6% were Asian/Pacific Islander and 3% were Black/African-American.

- The median amount of student debt was lower for Younger Gen Y Millennials (\$25,000) compared to Older Gen Y Millennials (\$33,000) and the average for all buying cohorts (\$30,000.).
- As expected, the vast majority (87%) were first-time home buyers.⁴

Figure 1 | Gen Y and Z by the Numbers



NOTE: There will be some variance within the generational definitions throughout the document since each reference source chose different date ranges.

What did they buy?

- Young Gen Y Millennials tended to buy older, smaller, less expensive homes than Older Gen Y Millennials
- Just over half of the homes purchased by Younger Gen Y Millennials were built between 1916 and 1984.
- Most had three bedrooms or more, but their median size was only 1,650 square feet compared to 2,000 square feet for Older Gen Y.

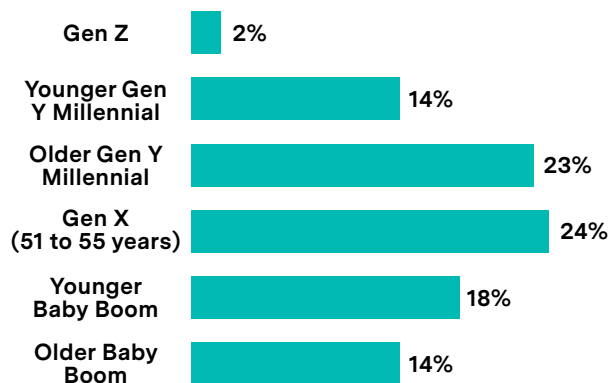
- Convenience to job, overall affordability of home, and convenience to friends and family were ranked high among their criteria for neighborhood choice.
- Younger Gen Y Millennials were also most likely to cite proximity to a veterinarian and outdoor space for a pet as a key consideration.
- 70% purchased homes for under \$300,000 and their median home purchase price was \$229,000.⁵

How did they pay for it?

- Younger Gen Y Millennials made an average down payment of 6% -- the lowest of any age group.
- Only 13% of Younger Gen Y Millennials made a down payment of more than 20%.
- A substantial number (17%) made no down payment, more than any other age group.
- Among those who made a down payment, 84% drew from savings, 28% used a gift or a loan from a relative or a friend, 10% sold stocks or bonds and 10% used proceeds from the sale of a previous residence.
- Only 25% of Younger Gen Y Millennials said that saving for a down payment was the most difficult part of the homebuying process. Finding the right property (58%) ranked higher as did understanding the process and steps (33%).⁶

Key Takeaway: Younger Gen Y buyers struggled more with the homebuying process than they did with making the down payment, suggesting that originators who streamline mortgage search, selection and execution may have an edge.

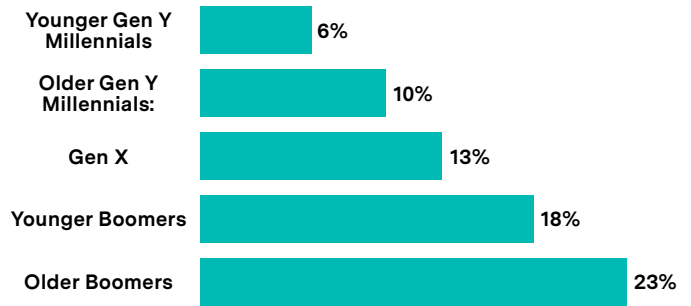
Figure 2 | Homebuyers by Generation July 2019 – June 2020



Gen Z and Younger Gen Y Millennials accounted for 16% of all home purchases from July 2019 – June 2020.

SOURCE: National Association of REALTORS⁷

Figure 3 | Median Down Payment for Homes Purchased July 2019 – June 2020



Younger Gen Y Millennials financed a higher percentage of their home purchase than their older Gen Y cohort, an indication that private mortgage insurance could be a key enabler for this buying demographic.

SOURCE: National Association of REALTORS⁸

Buyer Profile | Gen Z

The oldest members of Generation Z will turn 25 this year. As a percentage of the home-buying public, Gen Z are still in the low single digits; however, their participation in the market is expected to grow substantially as this demographic reaches peak home-buying ages. By some accounts, the market could see some 29 million potential buyers from Gen Z over the next five years.⁹

What do we know about Gen Z?

- Members of Gen Z as young as 18 through 21 are buying homes. In 2019/2020, this age group accounted for 2% of all homes purchased.¹⁰
- In Q2 2019, there were already 319,000 Gen Z with mortgages, a year-over-year increase of 112%.¹¹
- Gen Z are building credit. In 2019, 14 million Gen Z had a credit card or another form of debt, up from 11 million the previous year. Another 13 million are expected to become credit eligible by 2Q 2022.¹³ A recent survey suggests many Gen Z will apply mainly to establish a credit score.¹⁴
- Gen Z are multi-taskers: In a 2018 survey focusing on Gen Z, nearly three quarters of respondents said they have a side job to help pay for their college education and expenses.¹⁵
- Gen Z are frugal: 26% percent of Gen Z college students surveyed in 2018 said they expect to graduate with no debt at all and an additional 26% expect to graduate with less than \$25,000 in debt.¹⁶

- In yet another survey, 87% of Gen Z said they would like to own a home in the future, 68% said they consider homeownership as a way to build personal wealth, and nearly one third of older Gen Z said they had already started saving to buy a home.^{17,18,19}

Key Takeaway: Gen Z are financially aware and expressing interest in homeownership. Originators who engage in financial literacy initiatives have an opportunity to tap into this interest and establish connections with this demographic before their homebuying process even begins.

Post COVID Sentiment

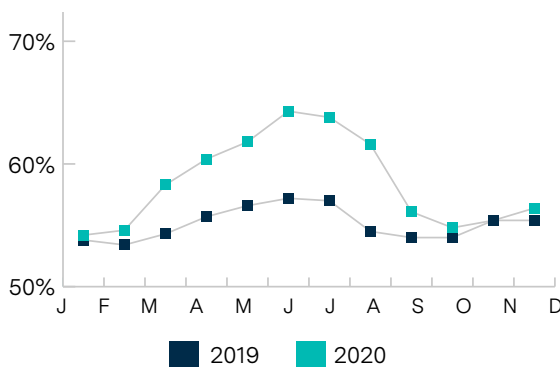
An estimated 450,000 Young Gen Y Millennials moved back in with their parents during the peak of the COVID-19 pandemic.²⁰ By 2021, the vast majority had moved out again. In a survey of those who continued working during this time period, 83% said they were able to save money and 59% said those savings would go toward a down payment on a home.²¹

With the exception of college students, the vast majority of Gen Z who moved back home with parents during the pandemic have also moved out again.²² Despite financial and other pandemic-related challenges, a Gen Z survey of financial attitudes found that 68% of Gen Z remain optimistic about their financial future.²³ Nearly 70% said the pandemic influenced their financial priorities, including a greater focus on saving for future goals (33%) and living a more frugal lifestyle (19%).²⁴ Approximately 20 percent of Gen Z said they have become more eager to buy a home due to the coronavirus pandemic.²⁵

Figure 4 | Young Adults Living with Parents 2019 - 2020

Age 18 – 24: Not in College/University Full Time

Share Living in Parents' Homes (percent)



The wave of young adults moving back in with parents due to COVID-19 is reversing as Younger Gen Y Millennials and Gen Z adults not in college re-establish independent living arrangements.

Key Takeaway: Despite setbacks from COVID-19 and ongoing student debt, homeownership remains a top goal for both Younger Gen Y Millennials and Gen Z adults.

Figure 5 | Most Popular Metros for Gen Z Homebuyers

- Salt Lake City, UT
- Oklahoma City, OK
- Cincinnati, OH
- Indianapolis, IN
- Minneapolis, MN
- Phoenix, AZ
- Louisville, KY
- Kansas City, MO
- Columbus, OH
- St. Louis, MO

SOURCE: Lending Tree²⁷

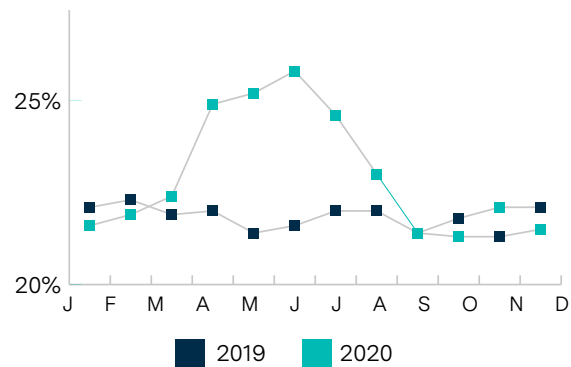
Figure 6 | Most Popular Metros for Millennial Homebuyers

- Denver, CO
- Seattle, WA
- Boston, MA
- Austin, TX
- Pittsburgh, PA
- Salt Lake City, UT
- San Jose, CA
- Milwaukee, WI
- Indianapolis, IN
- Raleigh, NC

SOURCE: Lending Tree²⁸

Age 25 – 29

Share Living in Parents' Homes (percent)



SOURCE: Joint Center for Housing Studies of Harvard University²⁶

Defining Gen Y and Z

Definitions for Generations Y and Z are fluid. For example, Pew Research ends Gen Y at 1996 and begins Gen Z at 1997. The National Association of REALTORS ends Gen Y at 1998 and begins Gen Z at 1999. For purposes of this white paper, unless otherwise noted:

- Gen Z is defined as those born in the years 1997 through 2012. In 2022, the oldest members of Gen Z will turn 25.

Younger Gen Y Millennials are defined as those born in the years 1990 through 1998. In 2022, the youngest members of this cohort will turn 24 and the oldest will turn 32.

- Older Gen Y Millennials are defined as those born in the years 1980 through 1989. In 2022, the youngest members of this cohort will turn 33 and the oldest will turn 42.

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