



Deconstructing a Generation: Millennials

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.

While millennials are the most educated adult generation, they are less financially literate than older generations. As millennials are often called digital natives, they leverage fintech tools more than older working-age adults. Studies find that fintech tool usage is not a substitute for financial education and is often tied to poor money management. This, in part, explains the lower levels of millennial financial literacy.

- While student debt is still a deterrent for many millennials looking to become homeowners, the economic benefit of attaining a degree outweighs the cost of student debt.
- Millennial homebuyers represented nearly half of the Freddie Mac purchase loans in 2019.
- Millennials are more likely to live in urban centers than older generations, with the highest millennial homebuying activity observed in Houston, Chicago and Atlanta.

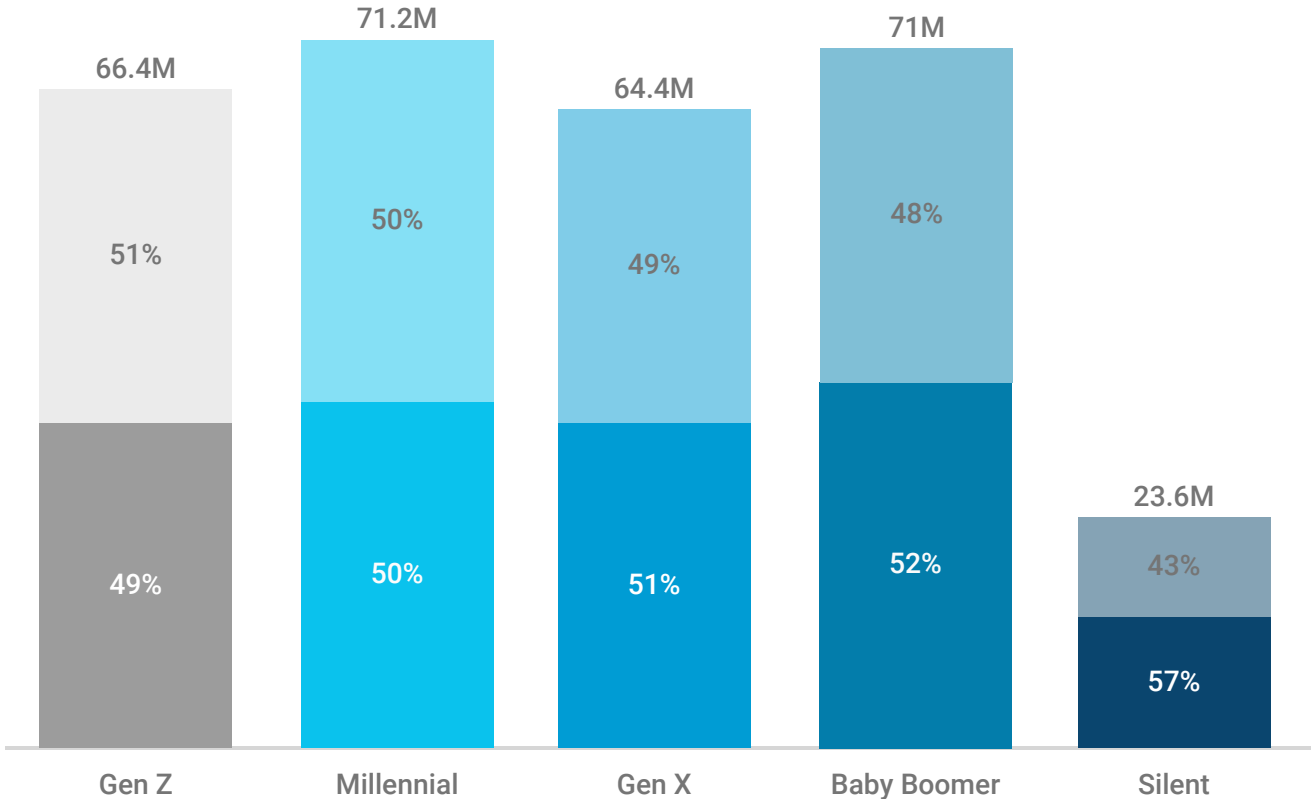
Population and Demographics

Millennial Population Overview

Nearly 22% of Americans fall into the millennial generation, based on Freddie Mac’s analysis of the 2019 U.S. Census Current Population Survey data.

At 71.2 million, millennials surpassed baby boomers as the largest adult demographic in 2019, with many of them entering their peak homebuying years.


2019 U.S. Population Generation Distribution





Darker bar color = Female
Lighter bar color = Male

Source: 2019 U.S. Census Current Population Survey (CPS). 2019 U.S. total population stood at 329 million, not all generation groups are represented in this chart.

Key Population Statistics

- 

22% of Americans are millennials.
- 

In 2019, millennials accounted for 71.2 million Americans.
- 

Millennials passed baby boomers as the largest adult demographic.



Percentage of Millennials by State

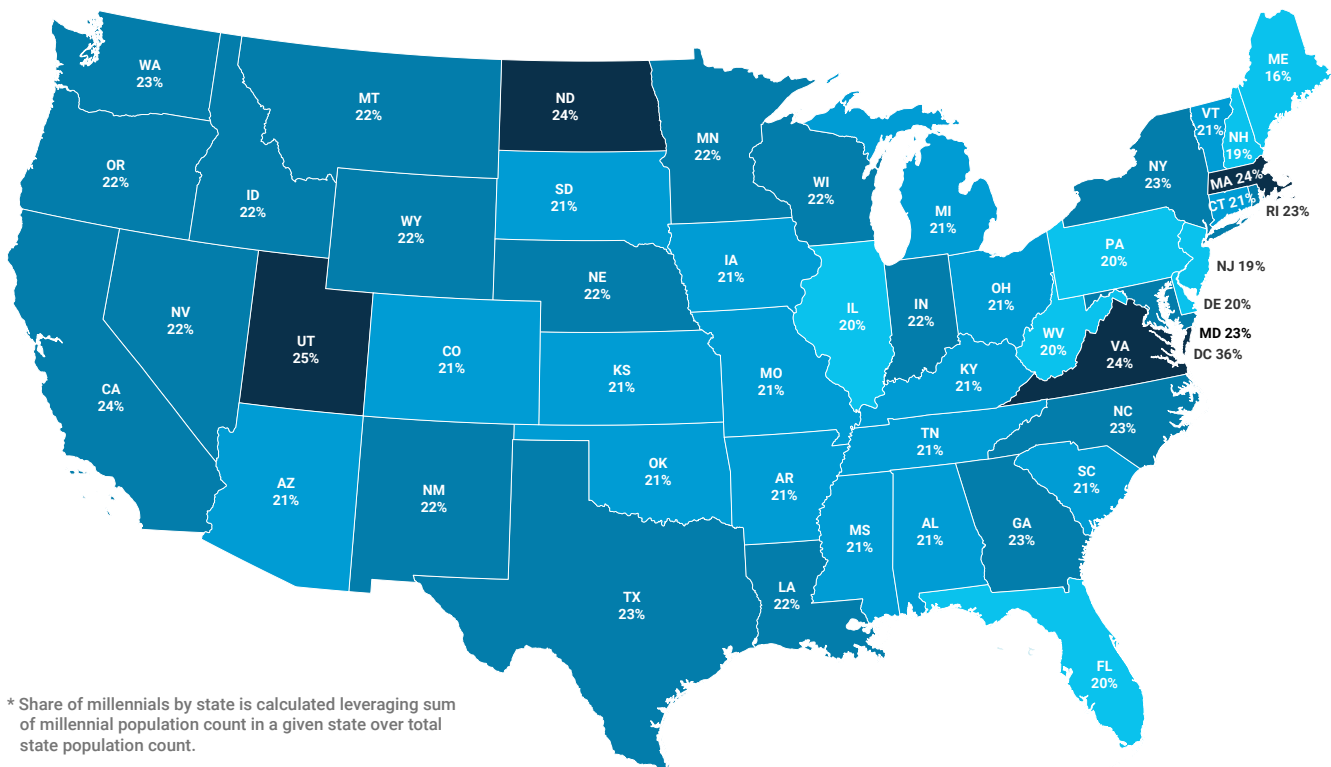
While millennials comprise 22% of the overall U.S. population, certain regions exhibit higher shares of millennials by state.

A variety of reasons might explain this trend, including job opportunities and lifestyle choices. Millennials might be drawn to the less populated Rocky Mountain states in search of more affordable housing. Utah, Nevada, Wyoming and Idaho stand out as such examples, as does Texas, which has [attracted a larger tech company presence](#) in the last couple of years.

The top states with the highest share of millennials include the District of Columbia and Utah, followed by North Dakota, Massachusetts, Virginia and California. With 36% share of millennial residents, Washington D.C. holds the top spot for attracting educated young adults with a wide array of employment opportunities, including government, technology and biotech sectors.

Washington D.C. holds the top spot for attracting educated young adults with a wide array of employment opportunities.

Percentage of Millennials by State*



* Share of millennials by state is calculated leveraging sum of millennial population count in a given state over total state population count.

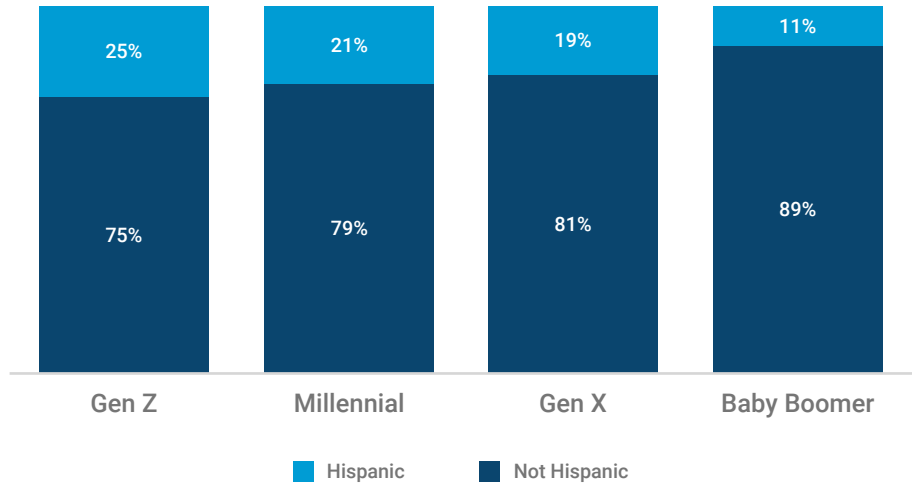
Source: 2019 U.S. Census-Current Population Survey (CPS).



Millennial Race and Ethnicity

Millennials make up the most racially and ethnically diverse adult generation in U.S. history, comprising 45% of minorities in 2019. The share of Hispanic millennials (21%) is almost double the share of Hispanic baby boomers (11%). Millennials also hold the highest share of the Asian population at 8%. There is a view that diversity is the most defining characteristic of this generation and that it could impact housing trends.

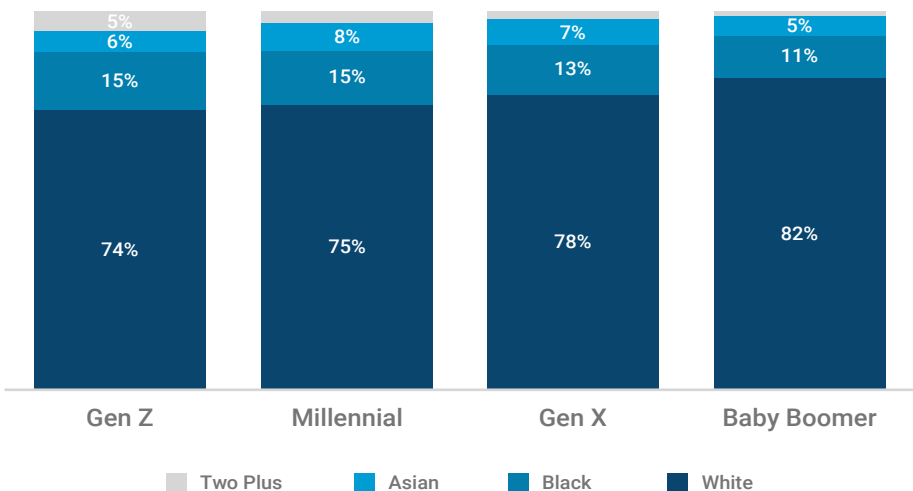
Ethnicity



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

According to a [Pew Research](#) analysis of ACS Census data, both Hispanic (27%) and Asian (29%) populations are nearly twice as likely to live in multi-generational households than whites (16%). If this trend holds, and with the increased formation of new millennial households in the next decade, the share of multi-generational households nationwide would continue to increase.

Race



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

The share of Hispanic millennials is almost double the share of Hispanic baby boomers.



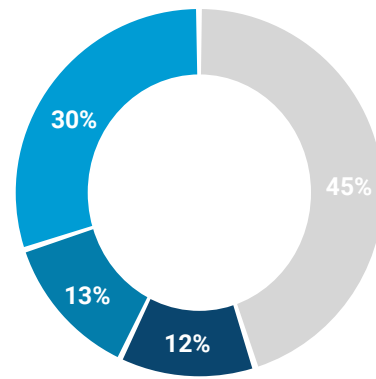
DEMOGRAPHICS: HOUSEHOLD BREAKOUT AND AGE DISTRIBUTION

According to the 2019 population survey, 56.4% of millennials are single, of which nearly 80% have no children. This indicates that a substantial share of the generation is yet to edge into the life stages that drive homeownership, such as marriage and having children.

The large share of single millennials can, in part, be explained by the fact that there are more younger millennials, ages 23 to 30, than there are older millennials, ages 31 to 38. Younger millennials, on average, are more likely to be single.

The breakout of millennials by age group shows that 62% of millennials in their mid-to-late 30s are married. If the trend persists, the next decade will see a significant increase in the share of married millennials.

Millennial Household Breakout

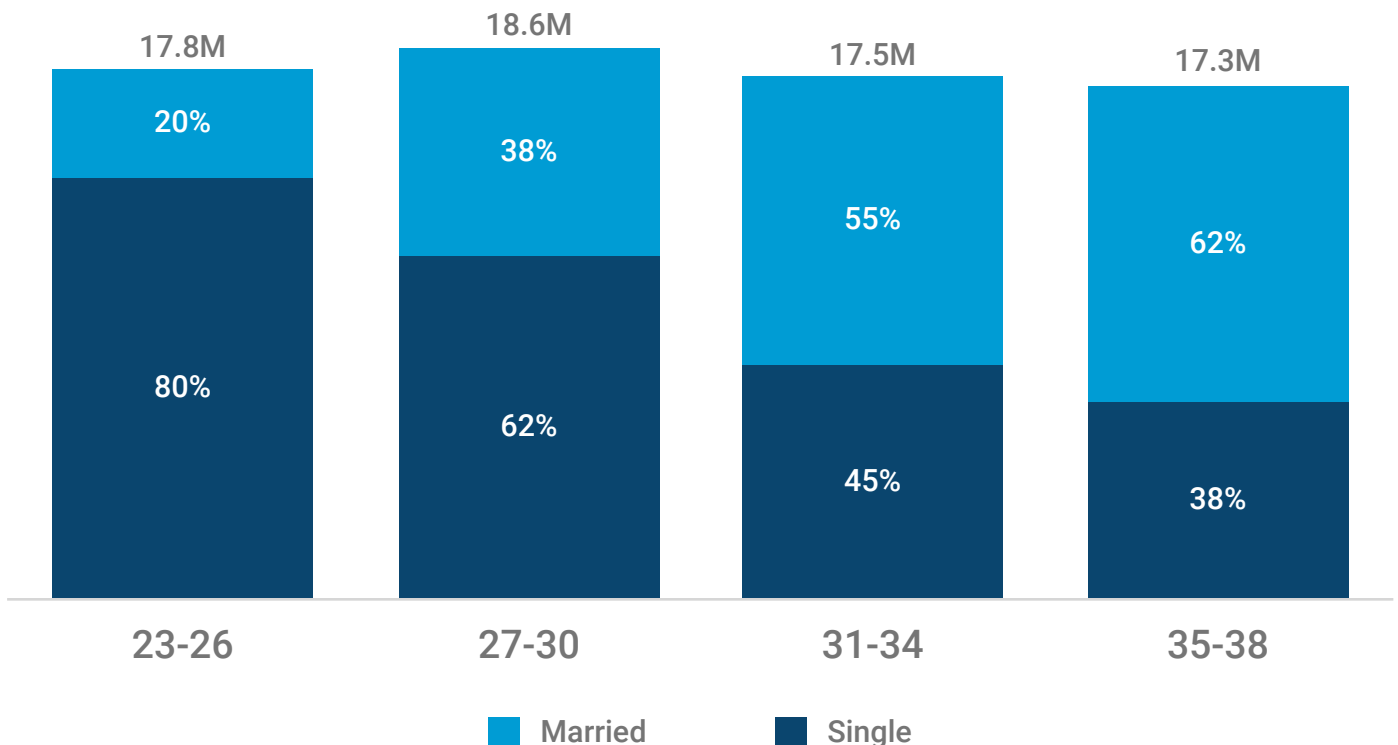


- Single/Divorced No Children
- Single/Divorced with Children
- Married No Children
- Married with Children

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

A substantial share of the generation is yet to edge into the life stages that drive homeownership.

Millennial Age Distribution



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



DEMOGRAPHICS: MARITAL STATUS

Forty-four percent of millennials gave their status as “married” in 2019. In order to understand whether millennials are making life stage decisions – such as getting married – differently than prior generations, we compared each generation’s marriage rate at the same age range of 23 through 38. At a marriage rate of 44%, millennials are trailing behind both Gen Xers (53%) and baby boomers (61%).

Percentage of Population Married (Ages 23-38)

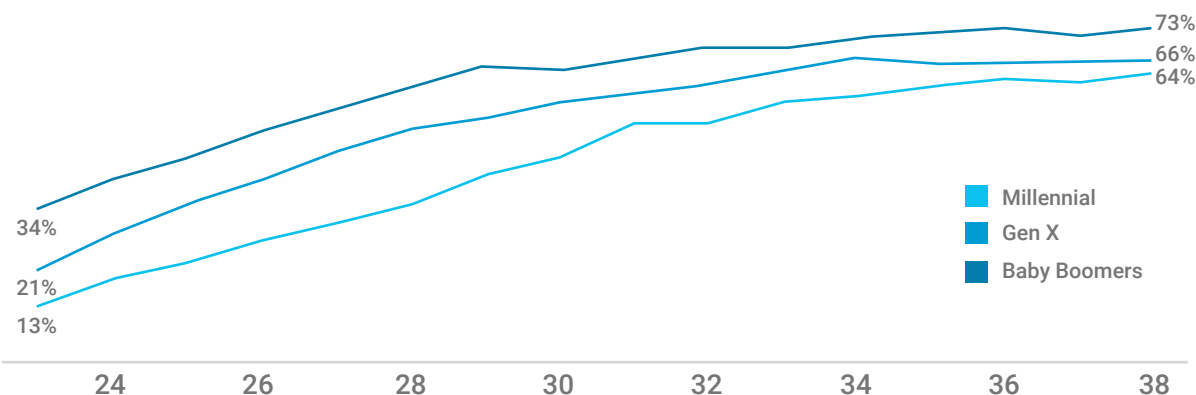


Source: 2019 U.S. Census-Current Population Survey (CPS)

This difference across generations shows these young adults are staying single longer, which is tied to various socio-economic factors such as career paths, living arrangements, education goals and financial stability. Given that Gen-Xers stayed single longer than baby boomers, it can be conjectured that millennials are simply following the overall pattern of social change in society. Although these twenty- and thirty-something adults are single in greater numbers, forecasted marriage rates in the coming years indicates that by the time they reach age 35, 64% of millennials will be married, which is only two percentage points below Gen Xers at the same age. Overall, the gap in marriage rates across generations significantly narrows and flattens for adults over the age of 35.

Our analysis shows that delaying marriage or remaining single past the prime marriage age bracket has depressed the generation’s homeownership rate. Married millennials made up a higher share of homeowners (51% absent of children and 65% with children vs. 28% and 29% for singles with and without children). With more millennials pushing age milestones, we anticipate the marriage rate to increase, and, as a result, the industry will observe a higher millennial homeownership rate.

Percentage of Married Population Age Trend (23-38)



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



DEMOGRAPHICS: CHILDREN

Another life stage event that often leads to household creation and homeownership is having children. The share of millennials with children at 42% trails both Gen Xers (52%) and baby boomers (55%) when they were 23 to 38 years old. This is another indication that millennials have postponed starting families – generally the next major life stage event after marriage.

The share of millennials with children:

42%

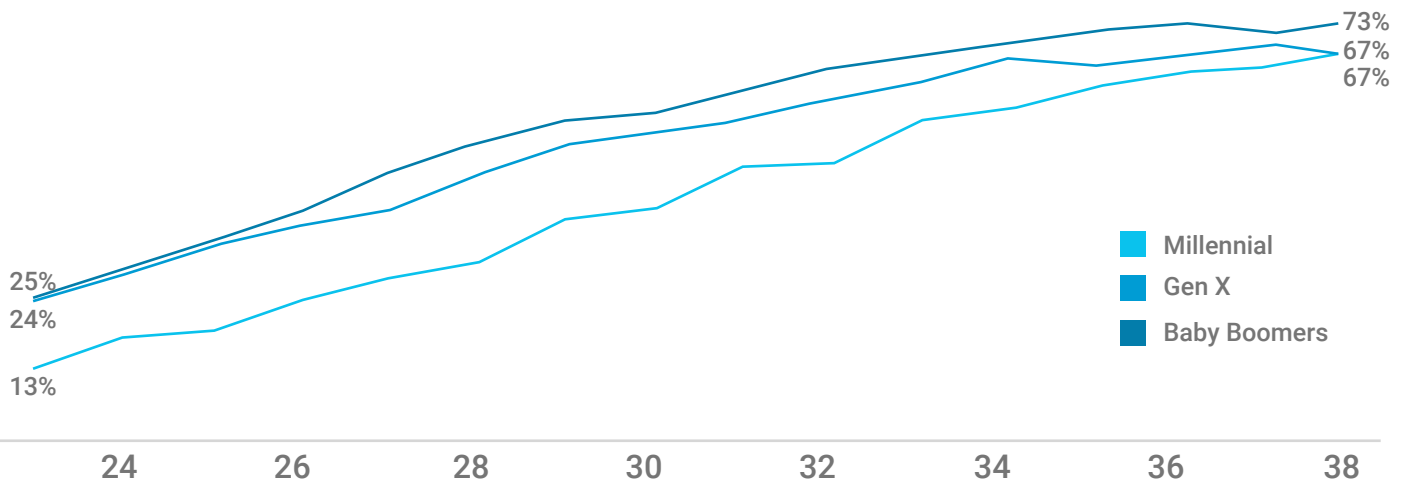
Percentage of Population with Children (Ages 23-38)



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

The annual trend of generational groups during the 23-38 age bracket shows that millennials lag about five years behind Gen Xers and baby boomers on having children. This generational gap narrows the older they become. As millennials reach their late 30s, the ratio of people with children inches closer to that of prior generations.

Our analysis found that having children prompted married millennial couples into homebuying, but the homeownership rate for single-parent households with children was below that of single millennials with no children. Freddie Mac's prior research suggests that aside from other financial challenges faced by single parents, including single income constraint, [childcare costs can be yet another deterrent to homeownership](#).



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

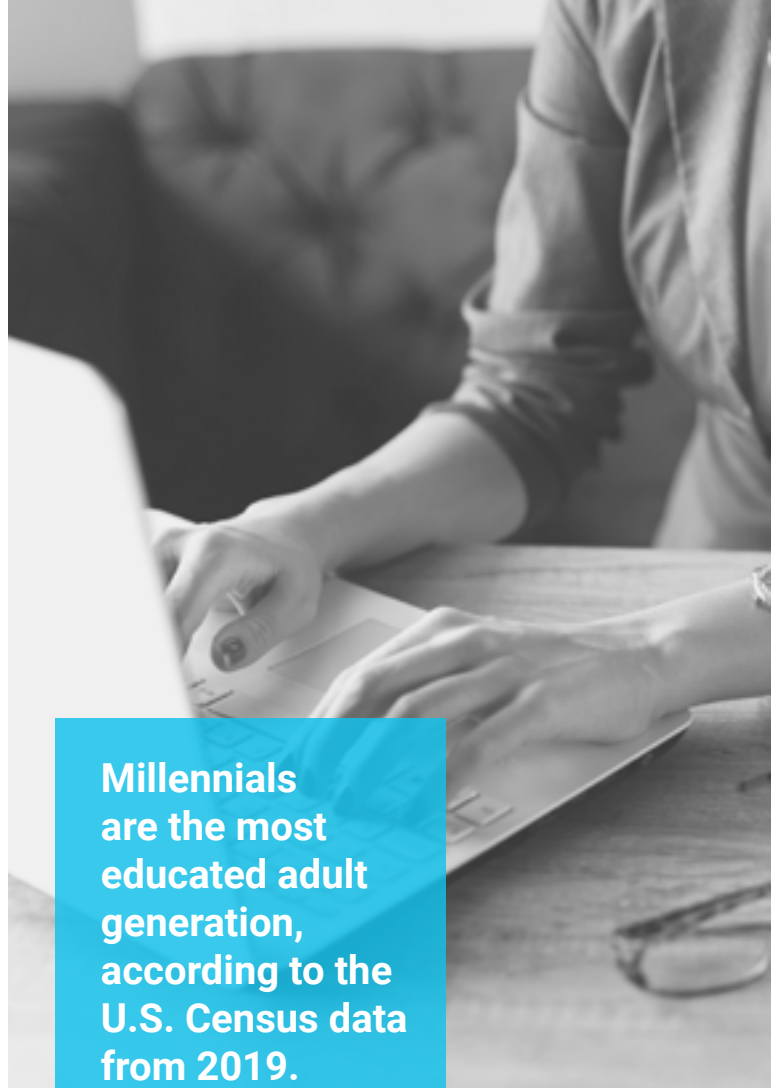


Education, Employment and Income

EDUCATION

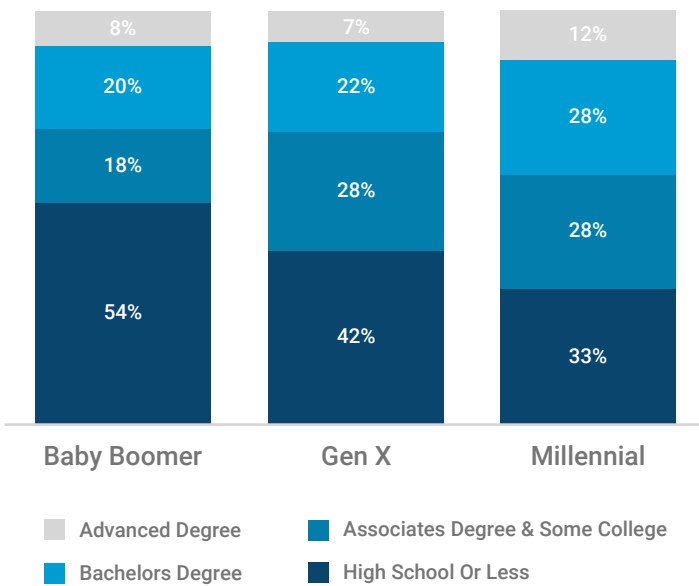
Millennials are the most educated adult generation, according to the U.S. Census data from 2019. Forty percent of them hold a bachelor’s degree or higher, compared with just 29% of Gen Xers and 28% of baby boomers when they were the same age.

The more than 10 percentage point jump in higher education for millennials can, in part, be explained by the timing of the Great Recession in 2007.



Millennials are the most educated adult generation, according to the U.S. Census data from 2019.

Educational Attainment (Ages 23-38)



Older millennials came of age when the recession began in 2007. As unemployment surged, many of them struggled to find jobs and decided to attend college, or they continued past undergraduate to pursue an advanced degree.

This increase in post-secondary schooling is certainly shaping the generation’s consumer behavior and life choices. As discussed further, the investment in higher education put these young adults on a higher-earnings trajectory as they mature into their careers. This, in turn, may lead to greater access to homeownership.

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



EDUCATION AND GEOGRAPHY

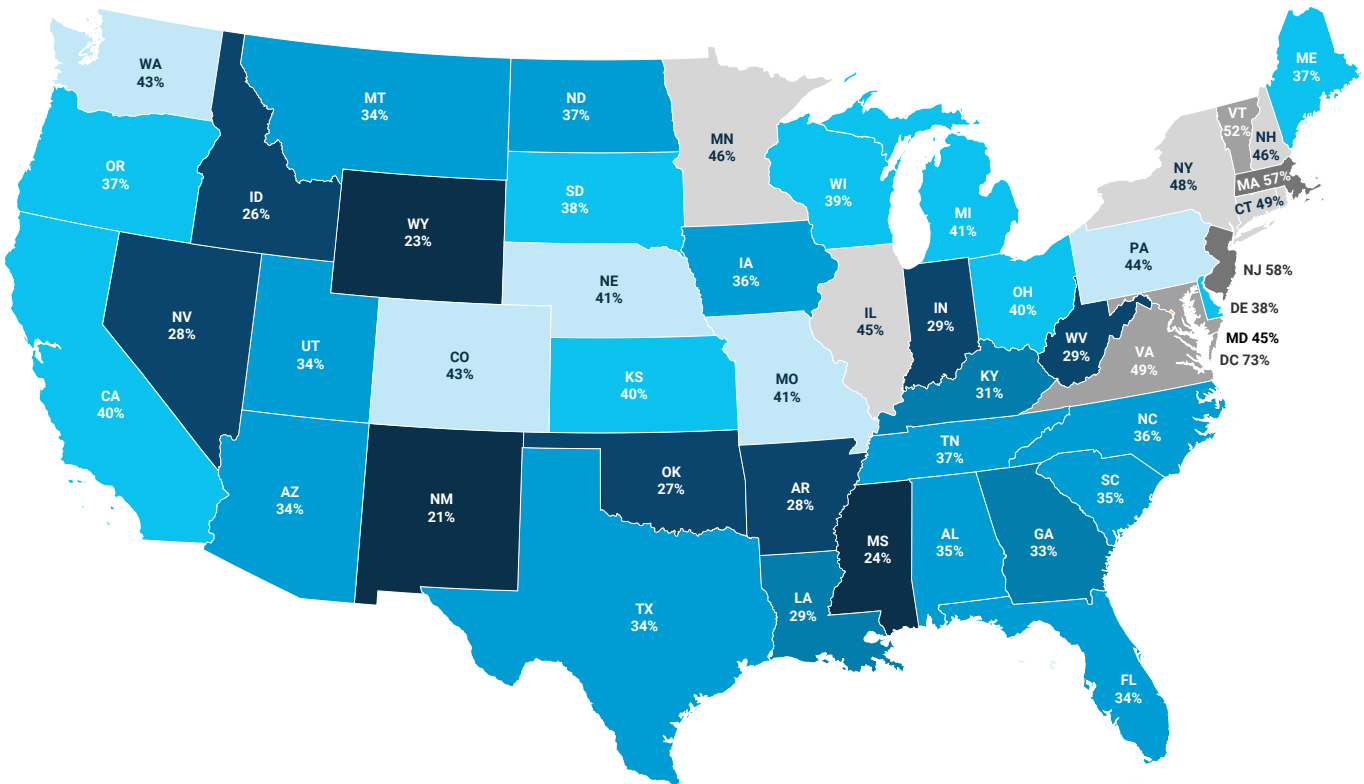
While 40% of millennials have at least a bachelor's degree, their numbers vary by region. The breakout by state and metro area indicates that a higher proportion of millennials with bachelor's or advanced degrees tend to reside in the Northeast or Mid-Atlantic regions.

The region with the highest number of college-educated millennials is the Washington D.C. metro area, with 73% having a bachelor's or graduate school degree. In part, the geographical patterns are driven by the types of jobs in an area and whether the area is an education hub. In the case of the Washington D.C. metro area, biotech, technology

firms and the federal government are dominant employers, and they mostly require workers with college or advanced degrees.

Moving north, we found that New York and New Jersey attracted a lot of professional talent due to their preponderance of large pharmaceuticals and life sciences, financial services and technology sectors. Massachusetts (specifically the Boston metro area) includes major industries such as finance, high-tech research and development, tourism and medicine, in addition to being a major college and graduate school hub.

Educational Attainment by State



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



STUDENT DEBT

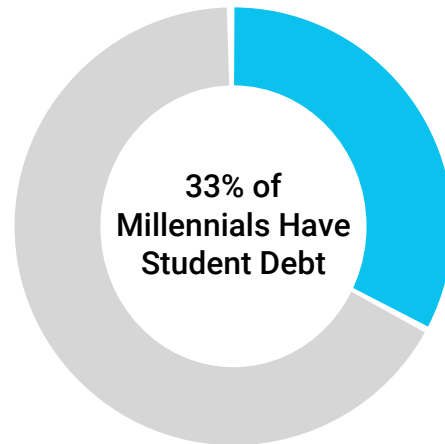
The rise in student debt compared to other debt (credit card/car debt) held by consumers has been a hot topic in the media and election campaigns, with much debate over proposals of debt forgiveness. The debt levels for the young adult population is tied to rising tuition costs and a greater percentage of them having attended college.

As of mid-2019, there were 15.1 million millennials between the ages of 25 to 34 with student debt, which amounts to roughly one-third of the millennial population within that age group.¹

The total dollar value of outstanding student loan debt associated with millennials between ages 25-34 equated to \$497.6 billion, which is about 34% of all student debt in the U.S.

This breaks down to some \$33,000 for each borrower. This amount aligns with the overall average student loan debt of \$33,000 (median \$17,000) cited in the [Federal Reserve](#) publication sourcing the U.S. Department of Education. According to the report, the average student loan payment stands at \$393 per month, while the median student loan payment is \$222. Another study by [JP Morgan Chase](#) found that the typical family's median student loan payment is 5.5% of take-home income.

The studies noted above suggest that student debt, on average, though burdensome, is manageable



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

when it comes to payment amounts, especially for college graduates with a completed degree. According to research conducted by the [Federal Reserve Bank of Minneapolis](#), students who earn a degree or certificate have a better chance of landing a well-paying job after graduation, which, in turn, increases the odds they will repay their college loans.

In the U.S., 63% of graduates of four-year institutions repay their loans within three years, according to College Scorecard data compiled by the Department of Education. That percentage was much lower for borrowers who attended college but didn't earn a degree (42%).

\$497.6 billion

The total dollar value of outstanding student loan debt associated with millennials between ages 25-34.

¹ [Federal Student Aid.gov data on student debt captures age of the consumers in decade segments only, a snapshot view of the \[Federal Student Loan Portfolio by Borrower Age\]\(#\).](#)

- [Forbes Student Loan Debt Statistics In 2020](#)
- [New America Millennials and Student Loans: Rising Debts and Disparities](#)
- [U.S. Census-Current Population Survey \(CPS\) 2019](#)

Generally, people with graduate or professional degrees carry much higher loan balances, but they also tend to earn more. In 2018, the average yearly income for millennials with graduate and professional degrees was \$60,000 and \$71,000 respectively, versus \$50,000 for those with bachelor's degrees. As millennials age, the income gap between education levels widens, supporting the notion that higher education leads to higher earnings.

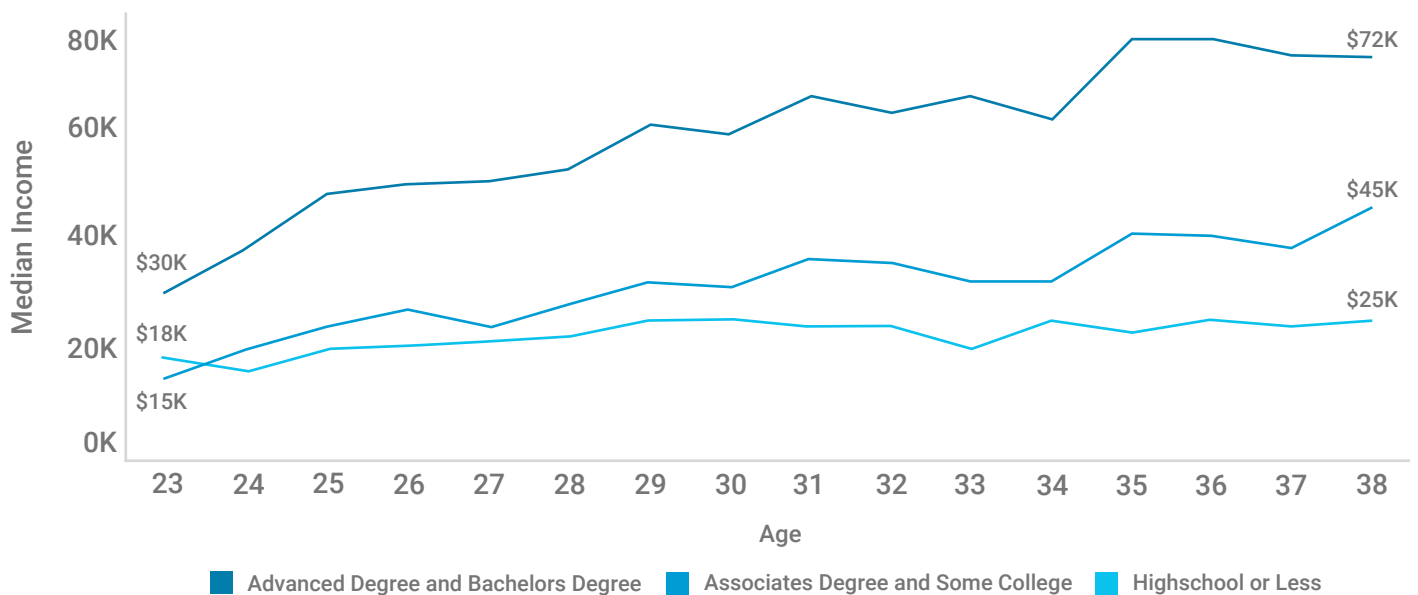
Often, student debt is seen as a deterrent to homeownership for millennials. [Urban Institute research](#) found that a one percent increase in education

loan debt decreases the likelihood of owning a home by 0.15 percentage points. For example, if a person's household student debt increases 100%, from \$50,000 to \$100,000 with all other factors constant, the likelihood of owning a home will decrease 15 percentage points.

It's important to realize that, given the lack of an alternative to student loans, many young Americans would not have been able to receive higher education to reach their career goals and higher earnings without taking out a student loan. Student debt might delay homeownership but is unlikely to derail it.

If a person's household student debt increases 100%, the likelihood of owning a home will decrease 15 percentage points.

Millennials' Median Income Across Educational Levels



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



MEDIAN HOUSEHOLD INCOME

As we examined the country’s biggest adult generation across various socio-economic factors, we looked at its household income levels compared to those of Gen Xers and baby boomers.

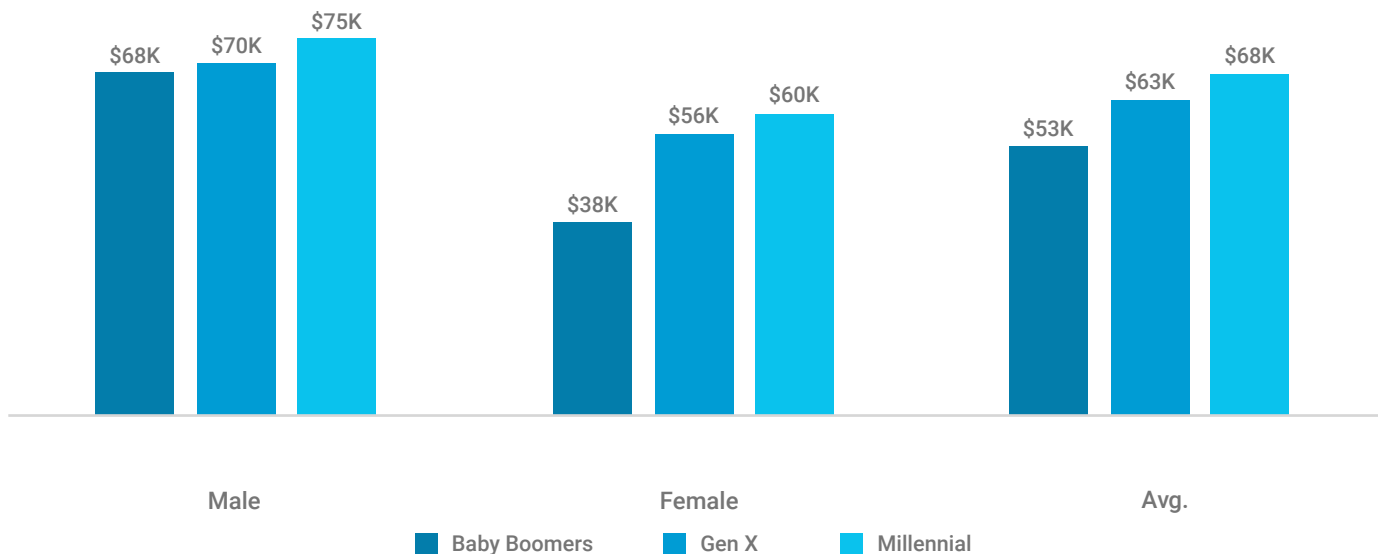
According to a 2019 CPS survey, millennials’ median income surpassed those of prior generations when measured at the same age as today’s millennials.² Millennials’ average median income last year reached \$68,000, which is higher than both Gen Xers (\$63,000) and baby boomers (\$53,000).

Research shows that the single most important determinant of a person’s income is that person’s level of education. It’s no surprise that as the most educated generation in history, millennials would

be earning more than previous generations when measured at the same age.

Another important factor driving increased income is that millennial women are working more hours and earning pay more equitable to men than women in prior generations.³ Female income nearly doubled from baby boomers to millennials, going from \$34,000 to \$60,000 for the same age group. However, men’s income only increased 24%, from \$60,000 to \$75,000. Although women are earning more than prior generations, the pay gap still exists between men and women working in the same field. For example, a male millennial financial manager earned an average of \$118,000 compared to his female counterpart who earned \$89,000.

Median Income when Aged 23-38 (Adjusted for 2018 Dollars)



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

² Household income is adjusted for 2018 dollars.

³ Young adult households are earning more than most older Americans did at the same age. [Pew Research, 2018](#).

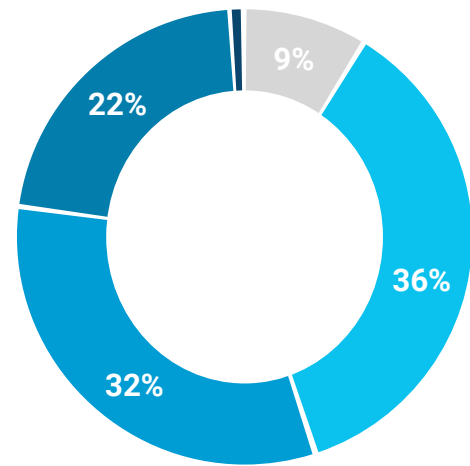


LABOR FORCE

More than one in three working Americans in 2019 were millennials (36%), making them the largest generation in the U.S. labor force, according to U.S. Census Bureau data. Fifty-nine million were working or looking for work in 2019, surpassing the 53 million Gen Xers and 36 million baby boomers during this same time period.

A large share of the millennial generation is still in the relatively early stages of their careers, which means their impact on the workforce and the economy will be formidable in future years. This is especially true because of their higher-education credentials.

Labor Force Participation Rate



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

Top Employment Sectors



Construction



Restaurant



Education



Healthcare

Interestingly, when it came to the top four employment sectors, our research revealed that for workers ages 23-38, they have remained the same since 1970. These sectors include construction, the restaurant industry, education and healthcare. However, the number five spot changed from grocery stores for baby boomers to colleges and universities staff for Gen Xers, and to technology for millennials. This transition certainly makes sense, as millennials are known as digital natives.



SELF-EMPLOYMENT AND THE GIG ECONOMY

Six percent of millennials were self-employed in 2019, according to Census bureau data. Their share, although slightly below other generations when they were ages 23-38, did not vary significantly in comparison to Gen Xers at 7.0% or baby boomers at 6.4%.

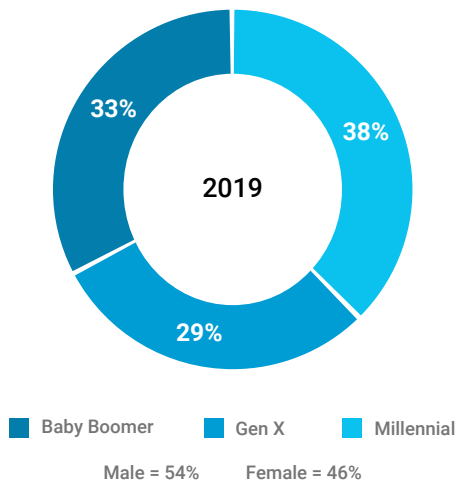
Since 2010, there has been a steady rise in the “gig economy,” or the non-salaried labor force. We define this sector as being made up of people who earn primary or supplemental income from freelance and other independent work arrangements. The total number of such independent workers in the nation varies, but the most quoted one is a [McKinsey Global Institute](#) estimate of 68 million people, reflecting a significant double-digit percentage of the civilian labor force of 160 million people. This represents a notable increase from 2011 reports of only [16 million people](#) identifying as independent workers.

Demographic trends suggest that sharing-economy platforms will

accelerate the pace of change in the way people work. The “[State of Independence](#)” 2019 report by MBO Partners indicates that millennials make up 38% the gig economy workers, compared to 29% of Gen Xers and a third of baby boomers. Unquestionably, recent COVID-19 developments have put a damper on certain big gig economy sectors, such as independent drivers, as well as many other service-related segments. However, as the economy starts to recover, the continued growth of the gig economy is inevitable.

Industry experts predict multiple scenarios for the workforce of the future, including one that isn't dominated by full-time, salaried employees. Instead, the workforce will be one made up primarily of people earning a living from various income as independent contractors. The big question is how housing industry participants will prepare for this increasingly likely scenario.

Gig Economy Workers by Generation



Source: MBO Partners.

MBO defines millennials as ages 19-39.

Demographic trends suggest that sharing-economy platforms will accelerate the pace of change in the way people work.

MIGRATION: STATISTICS AND NEW PATTERNS

In 2019, about four in ten people in the U.S. who migrated from one state to another were millennials. According to U.S. Census data, nearly 60% of them moved due to job-related reasons, and the second biggest reason was to establish a household, usually in more affordable locations. These figures are not much different from Gen Xers. Overall, millennials (40%) surpassed Gen Xers (38%), but lagged behind baby boomers (44%) in terms of interstate migration.

Interstate migration in the United States has declined noticeably in the past several decades. Part of this trend can be explained by the fact that people aren't anchored by their jobs to a specific region as much as they once were, given advancement in technology, demands for talent resulting in companies being more open to remote employees, and opening of regional offices across the country. Additionally, regions are less specialized. "Rust Belt" regions are diversifying and becoming finance and IT hubs as well.

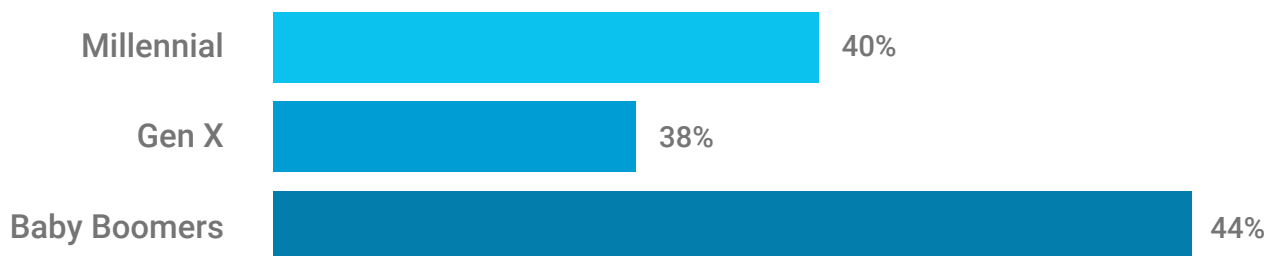
With a wider range of industry sectors and employment available locally, there is less incentive for people to relocate.



Employers continue to look to move toward more affordable inland markets to save costs, driving many workers to follow the job opportunities. This shift could potentially increase job-related migration across states.

Furthermore, many mortgage industry participants and experts wonder if we might see a spike in migration as a result of the COVID-19 pandemic, in particular increased outmigration from more expensive, mega-metro areas to less urbanized regions. Recent developments suggest that remote work circumstances spawned by pandemic-related lockdowns might have intensified the migration to more affordable areas. According to a recent Redfin survey, 25% of newly-designated remote workers expect to continue working remotely once shutdowns end, and over half of respondents would move to more affordable areas if they could work remotely.

Interstate Migration Across Generational Groups (Ages 23-38)



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



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).

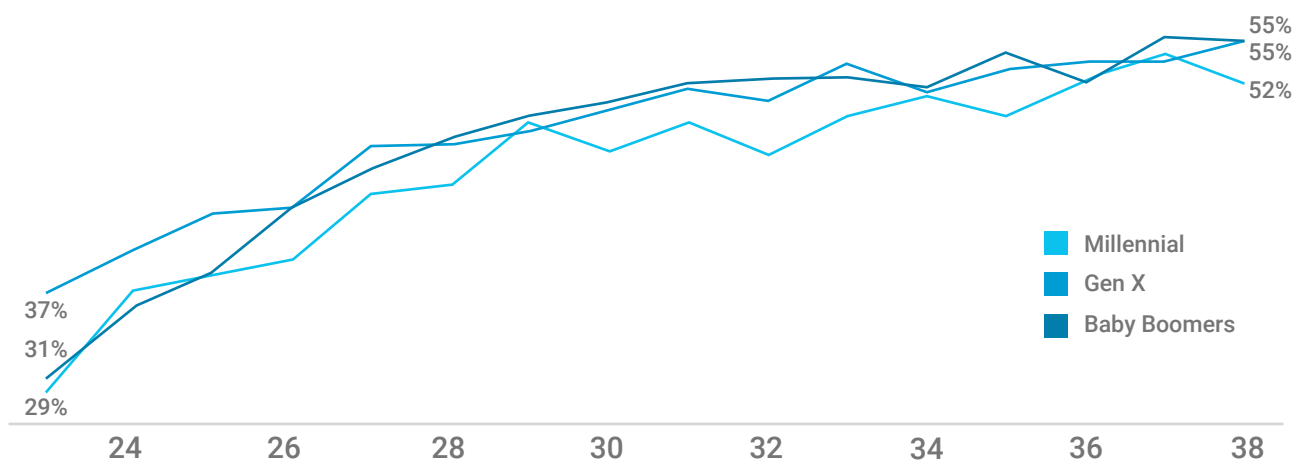
Percentage of Population that is Head of Household (Ages 23-38)



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.

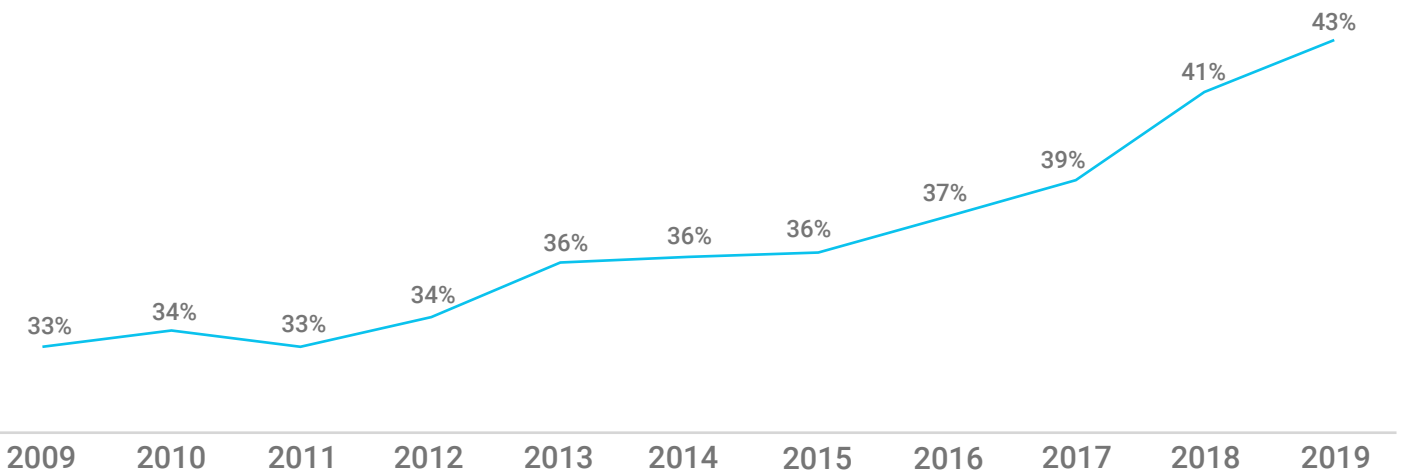
Homeownership Rate (Ages 23-38)



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)

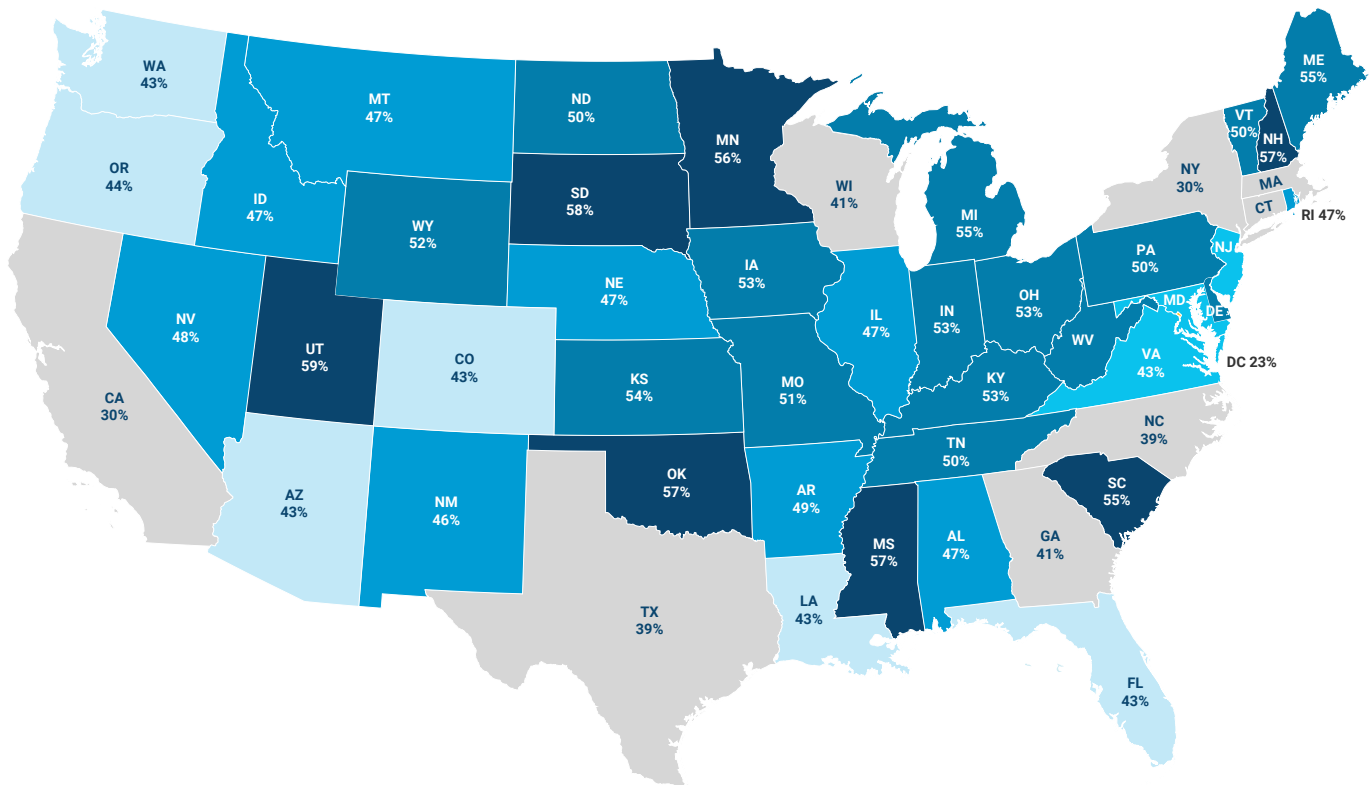


HOMEOWNERSHIP: GEOGRAPHIC PRESENCE

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)





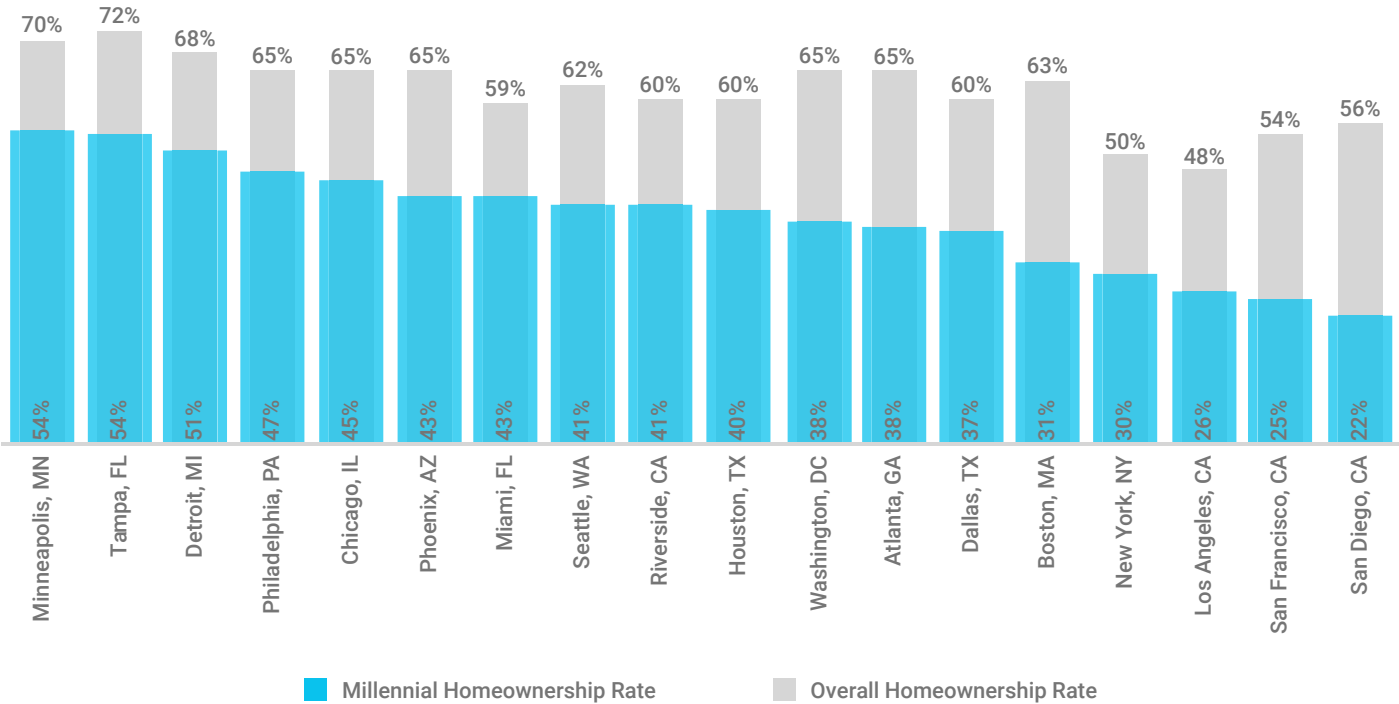
The millennial homeownership gap is most acute in high-cost metros.

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.

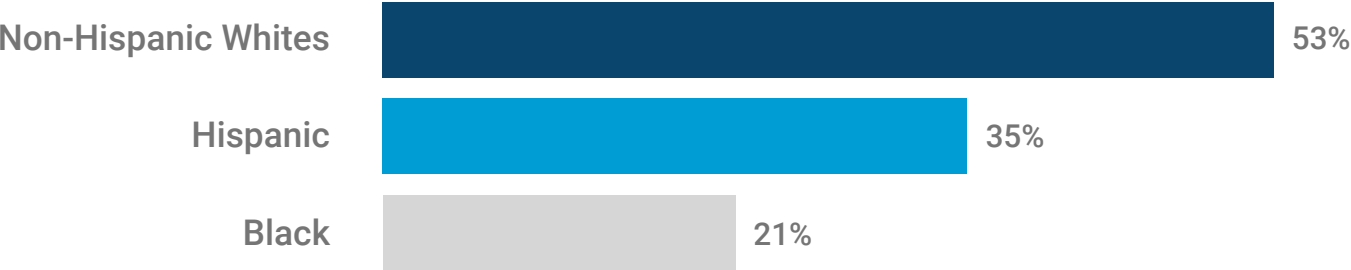
Like most older Americans, millennials see homeownership as their primary financial goal, with the top motivators being wealth creation and a stable place to live and create family memories. But

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.

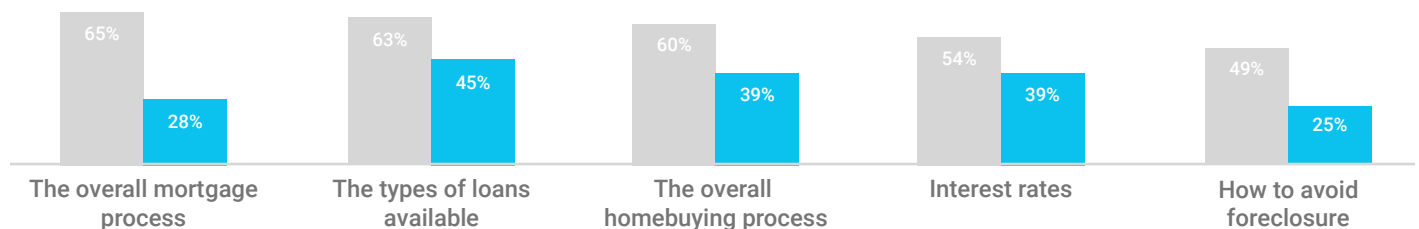
A successful outcome depends partly on understanding the homebuying process, along with having a reasonable level of financial literacy.

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.

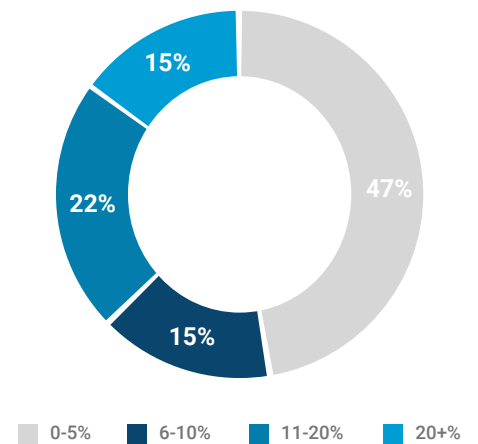
Nearly 42% of millennials in 2019 were under the assumption that they are required to put a 20% down payment on a home or they were unsure of how much is required, according to our [survey](#).

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



Market Segmentation



CONSUMER SEGMENTATION

So far, this playbook has focused on millennials as a homogenous group. But as with any generational group, a span of 15 years of age means you'll encounter differences in consumer needs and priorities as people grow older, their opinions shift, and they experience new life-stage events. Further consumer segmentation helps to address the diverse needs of individual clusters of millennial customers and may improve audience targeting for lending institutions.

Consumer segmentation in financial services, including the mortgage industry, means building different messaging around client demographic characteristics, such as age, race/ethnicity, income and education levels. Adding psychographics into the mix may help to further diversify consumers based on their activities, interests and opinions.

To see how this can be valuable, consider the fact that two individuals who are similar in age and income don't necessarily share similar values, habits and interests.

These differences explain the layers that drive consumption needs as well as the disparate choices made by this generation. For instance, a [Harris Poll survey](#) found that getting a dog drove the decision to buy a home with a third of respondents interviewed. Another survey done by [Realtor.com](#) reported that some 80% of pet-owning homebuyers who closed on a property said they would pass up an otherwise perfect home if it didn't meet the needs of their pets.

For customer-focused lending institutions, building a successful strategy that attracts millennial customers requires peeling back the layers of demographic and psychographic insights and creating buyer personas that can then be leveraged in marketing and advertising plans within their target markets.

Lending institutions and real estate professionals' marketing efforts will be far more effective and customer-centered with a strong consumer segmentation strategy in place.

Millennial Consumer Segments / Buyer Personas



Mature Affluent Family
with Kids (30+)



Mature Non-Affluent
Socialite Singles (30+)



Newly Independent
Young Singles (24-30)



Young
Family (24-30)

Based on Freddie Mac consumer personas research



Mortgage Activity

PURCHASE MORTGAGES

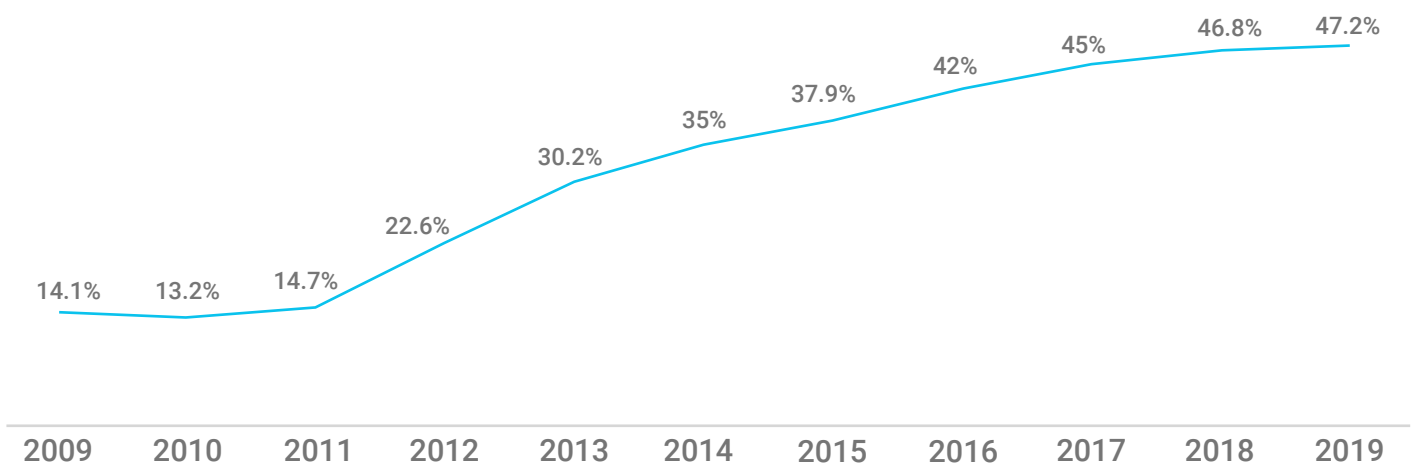
Millennial impact on the housing market continues to grow since they first made up the largest share of homebuyers in 2013, according to 2019 [NAR's Home Buyers and Sellers Generational Trends report](#). The report also found that 97% of buyers aged 38 and younger financed their homes, compared to 88%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

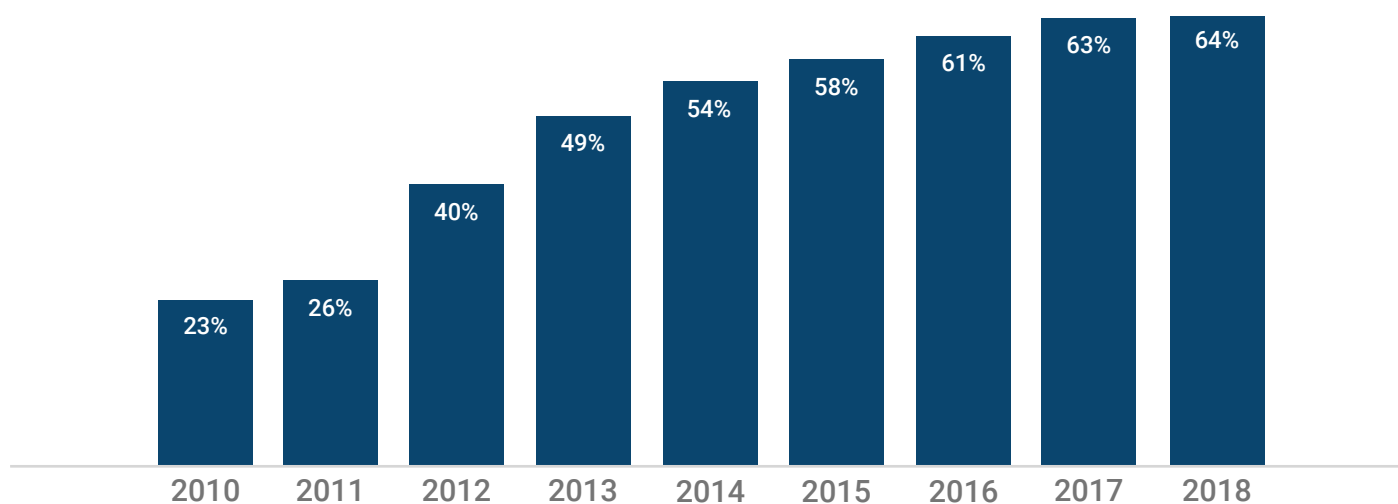
According to Freddie Mac data, the median age of a FTHB is 33 years old, and they earn \$89,000 in median income. Based on [NAR analysis](#) of millennial FTHBs, over half of them are married, dual-income couples followed by unmarried couples, single females and single males.

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.

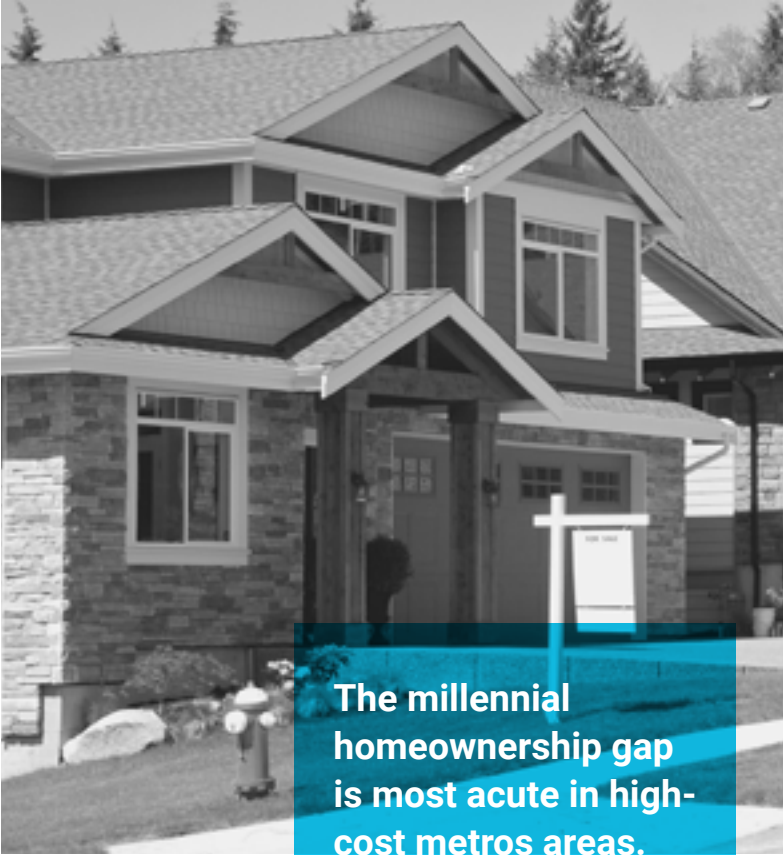


Millennial Share of First-Time Homebuyers



Source: Freddie Mac Acquisition Data





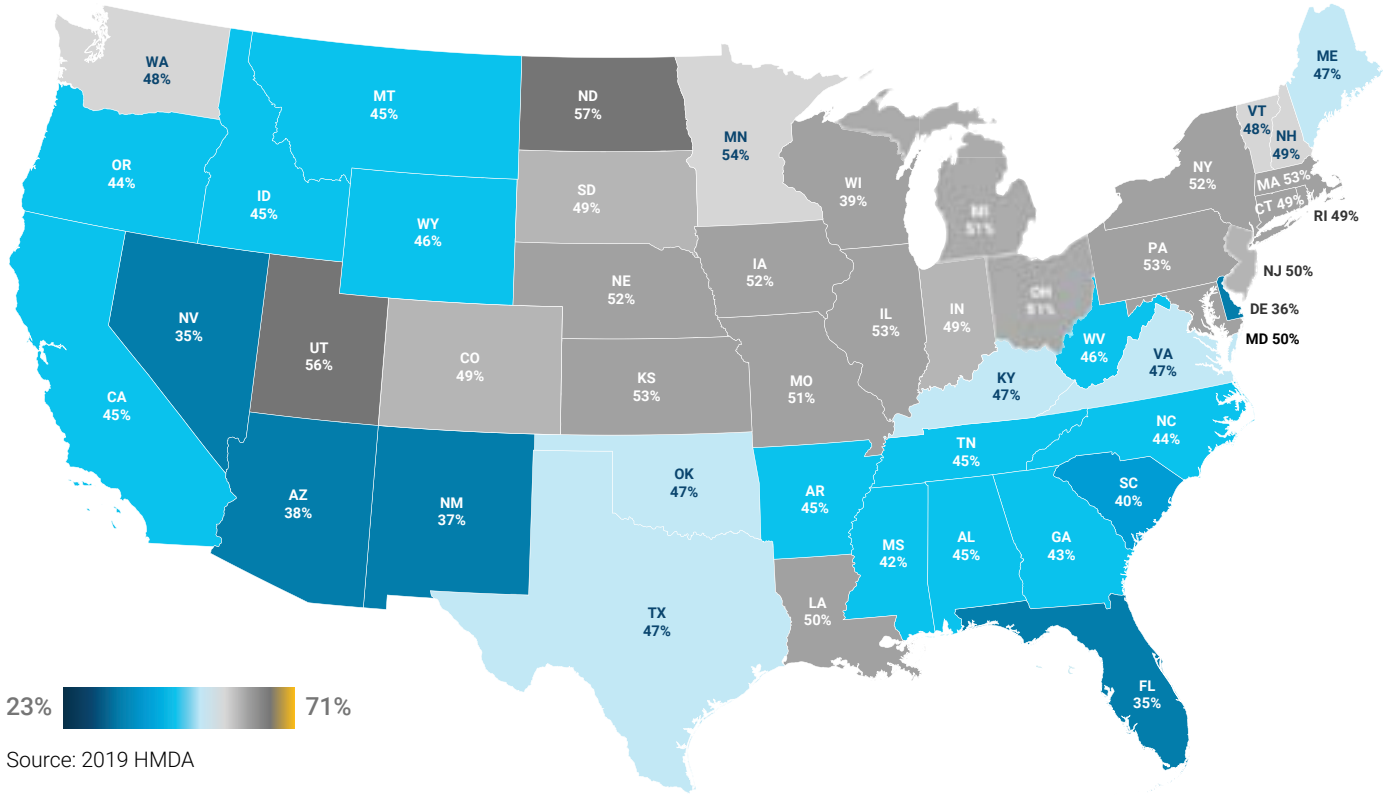
The millennial homeownership gap is most acute in high-cost metros areas.

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

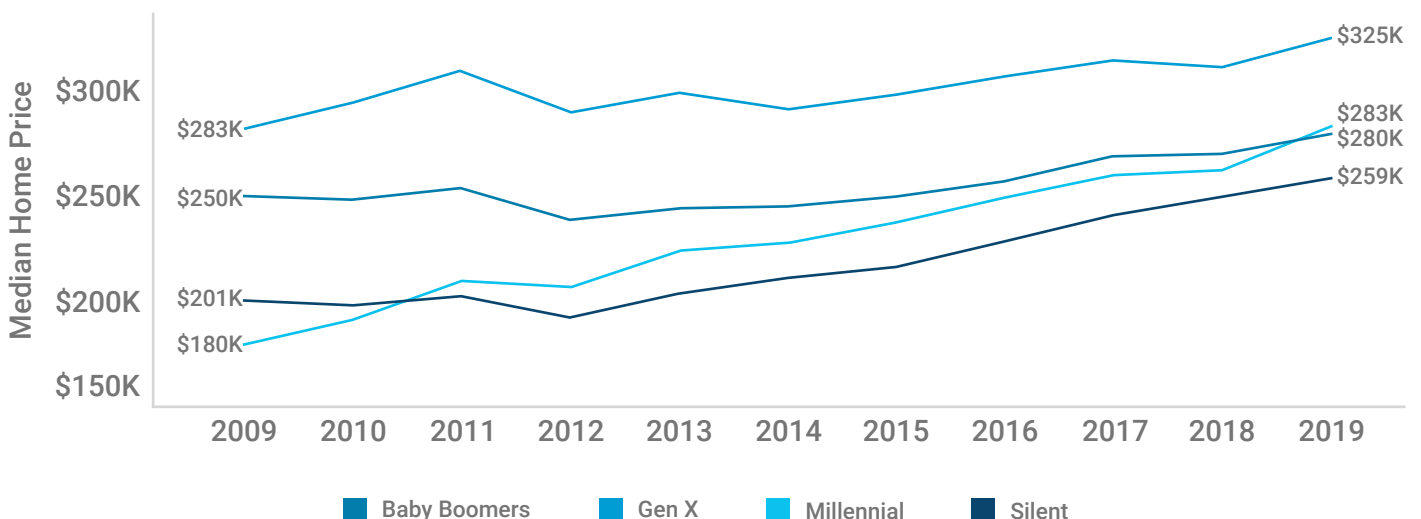
climb of the median purchase price occurred with the millennial generation.

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



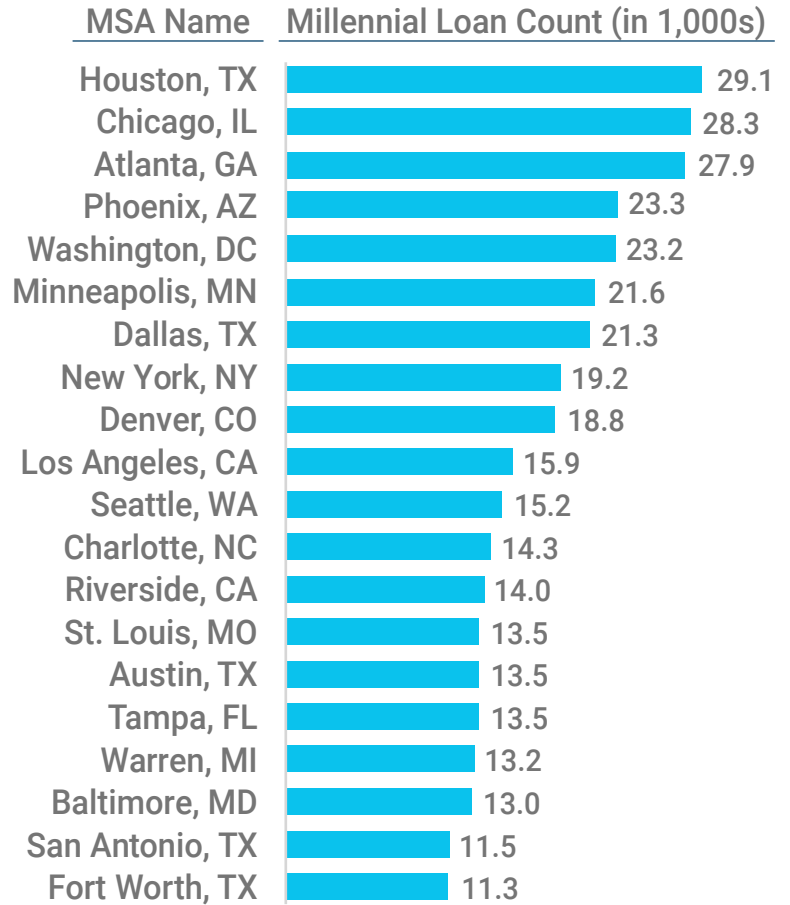
SIZING THE MARKET OPPORTUNITY

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



Takeaways and Solutions

The research tells us that the millennial generation is not homogenous and falls into many distinct population subsegments experiencing different life stages.

While the oldest millennials are now approaching 40 – raising families, buying homes, and establishing their careers – the younger millennials are just starting down that path. Despite being a diverse, tech-savvy, better-educated, higher-earning generation, it's struggling to reach the “American Dream” more than any prior generation. There are formidable issues depressing millennial homeownership rates.

1. CHANGING DEMOGRAPHICS DRIVING A GAP IN HOMEOWNERSHIP

Along with the higher population numbers, this generation brings a higher-than-ever degree of racial and ethnic diversity. The higher share of minorities within this demographic is likely to lead to a reduced homeownership rate for this group. How can we as an industry help to bridge the homeownership gap?

Here's how Freddie Mac is solving for the problem:

- Freddie Mac is establishing new programs to specifically address African American housing, financial capabilities and mortgage solutions for communities of color. We are prioritizing innovations that support our Equity in Housing mission and continue to search for opportunities to ensure that the industry's underwriting and valuation approaches are equitable.
- Freddie Mac offers resources in [additional languages](#) to bridge the homeownership gap for all groups.
- Freddie Mac is developing plans to further expand partnerships with organizations that lead the way to bring greater equality in housing.

Potential industry options to explore include the following:

- Increase outreach programs.
- Provide more targeted financial education programs.
- Increase awareness and better customize down payment assistance programs.
- Design new products with different repayment options.

2. WEAKER FINANCIAL LITERACY

Lower financial literacy is more common with millennials, even though more online resources are available. This raises the question of why these educational offerings haven't improved millennials' financial literacy. Creating partnerships across the housing industry's ecosystem to strengthen the financial literacy of these young adults is imperative. Poor money management skills can lead to excessive risk-taking, which weakens credit and savings just as this age group should be stepping into homeownership.

Here's how Freddie Mac is solving for the problem:

- Freddie Mac [CreditSmart®](#) suite of financial and homeownership education offers a variety of resources in English and Spanish to educate homeowners and help housing professionals guide consumers.
- Freddie Mac is partnering across the housing ecosystem to help connect borrowers with valuable resources like our [Borrower Help Center](#) network and [Housing Counselor Resource Center](#).

Potential industry options to explore include the following:

- Create effective financial education apps aimed at tech-savvy millennials. Greater investment in education is necessary.
- Future potential homebuyers might benefit from increased outreach of housing professionals through class offerings in high schools, colleges and places of work.
- Lenders and real estate agents should be connecting borrowers with housing counselors who can provide guidance and serve as trusted advisors.

3. THE GIG ECONOMY IS HERE TO STAY

Millennials embrace the gig economy and, as a result, are shifting the dynamics of the labor market. In response to this shift, industry and policy changes are necessary to simplify and streamline access to the credit/mortgage origination process for non-payroll workers.

Here's how Freddie Mac is solving for the problem:

- [Loan Product Advisor® Asset and Income Modeler \(AIM\)](#) for self-employed helps to reduce underwriting times.
- We're actively pursuing projects that will expand policies to include gig income to be treated as regular income, to expand credit to gig economy workers.

Potential industry options to explore include the following:

- Expanded view of acceptable income streams.
- Creation of new innovative products serving this portion of population.



4. DOWN PAYMENT SAVINGS

Nearly half of millennial renters who say they want to buy a home have no savings set aside. While alternative down payment options exist, the fact remains that the share of millennials with savings accounts is alarmingly low. Even with the current economic downturn, the housing industry needs to find ways to encourage saving and make sure millennials understand all the down payment options available to them.

Here's how Freddie Mac is solving for the problem:

→ The Freddie Mac [Home Possible mortgage](#) and the Freddie Mac [HomeOne](#)SM offer low down payment programs.

Potential industry options to explore include the following:

- There are a wide range of areas to explore, from digital wallet tools and down payment savings accounts with special interest rates, to matching deposits up to a certain amount.
- Lenders need to better educate potential borrowers on ways to raise down payment funds aside from savings.

5. AFFORDABLE HOUSING SHORTAGES HIT MILLENNIALS THE HARDEST

The [shortage of affordable housing](#) has hurt millennials more than any other segment of homebuyers. Freddie Mac estimates there are more than 400,000 “missing” households headed by 25- to 34-year-olds (households that would have formed except for higher housing costs). A limited supply of land, a shortage of skilled labor and increasing material costs are all contributing to higher prices and rents. Freddie Mac estimates that [to meet housing demand](#), the U.S. housing market needs to supply more than 1.6 million units per year. Pivoting to more affordable construction to ease the supply problem is the best way for America's biggest generation to enter the market at prices they can afford.

Here's how Freddie Mac is solving for the problem:

→ Freddie Mac offers loan options that promote renovations and energy efficiency improvements like [GreenCHOICE](#)[®] and [CHOICEHome](#)[®] mortgages and [CHOICERenovation](#)[®] financing for fixing older homes and potentially widening the availability of affordable homes.

→ Freddie Mac offers [manufactured housing choices](#).

Potential industry options to explore include the following:

- To bridge the gap between the current housing supply and expected millennial demand, housing construction will need to accelerate and offer more affordable options.
- Local governments should consider relaxing excessive regulations and restrictive zoning policies.



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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