Millennials Would Like to Buy a First Home, but are Waiting Longer to Make the Move

St. Thomas Newsroom - July 29, 2014

With the 13-county Twin Cities real estate market in solid recovery mode, researchers at the Shenehon Center for Real Estate at the University of St. Thomas' of Opus College of Business this month decided to see if those in the Millennial generation are as interested in homeownership as their Baby Boomer parents.

"Have the 25- to 35-year-olds changed their outlook on homeownership? The young people in this category have not necessarily changed their attitude toward owning a home, however they are waiting longer before they buy their first home," said Herb Tousley, director of real estate programs at the university. He noted two reasons that account for this delay:

- One reason young people are waiting to purchase their first home is that they are waiting until they feel secure in their career situation. "Young people are reluctant to commit to purchasing a home if they think there is a chance that they end up in a different job across town or in another city," he said.
- Another is that many young people have student loans. They are waiting longer so they can pay down their student loans in order to qualify for the mortgage they need to purchase the home they want.

Tousley cited a recent Harvard Joint Center for Housing study that compared young renters (those between 25 and 34) in the Twin Cities, Chicago and San Francisco.

He said owning a home in the Twin Cities is still very affordable compared to other cities and there are a relatively high number of 25- to 34-year-olds who could afford to purchase a home.

	Minneapolis / St Paul	Chicago	San Francisco
Share of renters 25 – 34 yrs. that could afford to own*	52%	46.9%	17.1%
Homeownership rate for 25 – 34 yrs.	47%	38.3%	21.5%
Overall homeownership rate	69.1%	65.1%	53.3%
Median income for 25 – 34 yrs.	$42,514	$42,006	$62,908
Median Home Price	$193,825	$189,200	$671,897
Monthly ownership costs*	$1,184	$1,286	$3,728

(This study was conducted in 2013 and is based on the following assumptions: Payment including taxes and insurance is less than 35 percent of income, 5 percent down, 30-year fixed-rate mortgage, 2013 interest rate on a median priced home.)*

Tousley said that since the Twin Cities region has a relatively high percentage of Millennials who can afford to purchase a home, these potential homebuyers eventually will be entering the housing market.

"This is an indication of a positive long-term trend for the Twin Cities housing market as these younger buyers get settled in their careers and start thinking about starting a family," he said. "The 25- to 34-year-olds have not given up on homeownership. The difference is that they are waiting a few years longer than previous generations."

Here's what the researchers found in June's real estate data:

Existing-home sales

The Shenehon Center tracks the median price for three types of sales: nondistressed or traditional-type sales, foreclosures, and short sales (when a home is sold for less than the outstanding mortgage balance).

"The housing market in the Twin Cities continues to try to make up for a slow start during the first half of the year," Tousley said.

Overall, median sale prices were up nearly 5 percent compared to a year ago and the median sale price of a nondistressed sale is approaching pre-crash levels.

"Although a 5 percent increase is less than the double-digit gains seen in the previous two years, it is a much healthier, sustainable rate of growth that will not result in another housing price bubble," Tousley predicted.

Inventory of homes for sale

June saw a significant increase in the inventory of homes available for sale and a large decrease in the percentage of distressed homes that were sold.

"The increase in the number of homes for sale will result in a better balance between buyers and sellers. Buyers will have more choices as the market moves from a seller's market to a normal equilibrium," Tousley said.

The percentage of distressed sales has markedly decreased in the last several months. During the early part of this year the percentage of distressed sales was hovering near 30 percent. Over the last two months the percent of distressed sales has dropped to 12.7 percent, a level not seen since mid-2007.

"More importantly, the number of new foreclosures continues to drop resulting in even fewer distressed sales in the next 12 to18 months," he said.

The UST composite indexes

Each month the Shenehon Center tracks nine housing-market data elements, including the median price for three types of sales, and creates an index for each: nondistressed or traditional-type sales, foreclosures, and short sales.

The composite index for traditional sales continued its upward trend in June and set a new high for the year at 1073. This is a 23-point gain from May. The index is .2 percent higher than June of last year. The composite index for short sales was 910 in June, up 14 points from May. It also is up 5.4 percent compared to one year ago. "Look for the short sale index to play a less significant role in our analysis as the number of short sales drops below 3 percent of the total monthly sales," Tousley said.

The composite index for the foreclosure market moved from 781 in May to 798 in June. The index is 1.6 per cent higher when compared to June 2013. The Shenehon Center's charts and report for June can be found here. Research for the monthly reports is conducted by Tousley and Dr. Thomas Hamilton, associate professor of real estate at the university. The index is available free via email from Tousley at hwtousley1@stthomas.edu.

Additional Readings about Millennial home buyers as provided by Home Destination: Real Estate

Read more about:

How Twin Cities Millennial home buyers Need a Lift in Income;

the Twin Cities Millennial Home Buyer Profile,

and why Millennial Home Buyers Favor Buying a Twin Cities Home.