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Housing Morsel

An uneven housing market: older Millennials feeling the hit

04 December 2023

Key takeaways

- The latest Bank of America Homebuyer Insights Report suggests that homeownership is more important for Millennials than for their parents at the same age. The good news is that they have made meaningful progress over the past few years as historically low mortgage rates in 2020-21 improved home affordability.
- However, with mortgage rates now spiking to near 8%, younger people are being disproportionally hurt. Escrow payments out of Bank of America consumer accounts, which we view as a proxy for home buying, show that home purchasing slowed more for Millennials than for older generations.
- What stands out for us is that within the Millennial cohort, older Millennial households appear to be faring worse. In our view, this is because older Millennials (aged 35-45) face a bigger financial burden. For example, this group has the biggest share of outstanding student loans, according to the Department of Education, and is seeing the fastest rise in credit card delinquencies, according to the New York Fed.

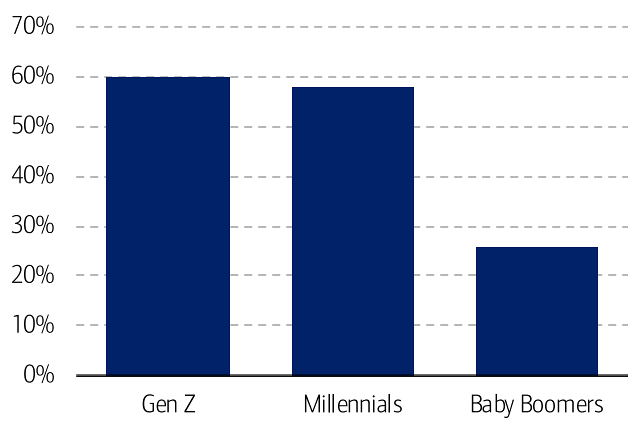
Younger households made progress, but are starting to feel the squeeze

Homeownership represents an important goal for young adults in the US. According to the latest Bank of America Homebuyer Insights Report, 60% of Gen Z and 58% of Millennial survey respondents think homeownership is more important now than during their parent's generation, compared with just 26% of Baby Boomers (Exhibit 1).

The good news is that younger households have made progress towards this goal over the past decade. As Exhibit 2 shows, in 3Q 2023, homeownership rates among those aged below 40 were slightly higher than in 2013, although still lower than in 2003. The shift down since 2003 is in part an aftermath of the 2008 housing crisis while the improvement over the past decade was likely driven by historically low mortgage rates in 2020-21.

Exhibit 1: % of survey respondents choosing homeownership holding a greater level of importance in comparison to homeownership during their parents' generation?

58% of Millennials survey respondents think homeownership is more important than during their parent's generation



Source: Bank of America Homebuyer Insights Report

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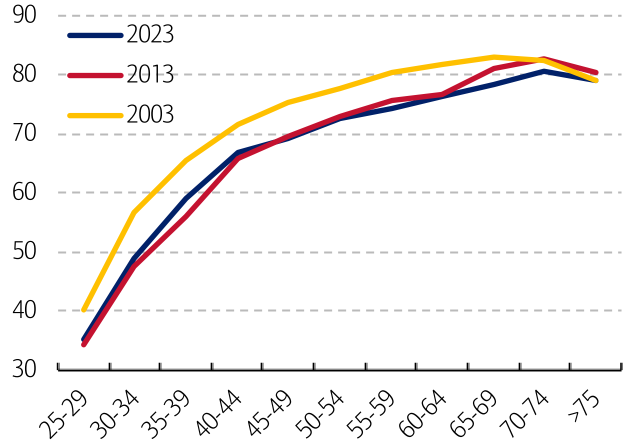
Exhibit 2: Homeownership rates by age group in 2023, 2013 and 2003 (%)

In 3Q 2023 homeownership rates among those aged below 40 were slightly higher than in 2013



Source: Census Bureau. Note: X-axis means age range.

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However, with the rapid interest rate increases by the Federal Reserve since early 2022, the 30-year fixed mortgage rate surged to over 8% in October 2023 from the low of 2.9% in early 2021, plummeting home affordability. This sparked some concerns that young buyers were increasingly being pushed out of the housing market since they are likely to be less financially equipped to absorb the rising cost of borrowing than older generations. Was this in fact the case? We turn to Bank of America internal data for potential insights.

A bigger slowdown for Millennials

One way to gauge housing activity is by looking at escrow payments coming out of Bank of America consumer accounts since home buyers generally put an amount tied to the home value into an escrow account until the contract is closed. After closing, the funds in the escrow account are then applied toward the buyer's down payment or closing costs.

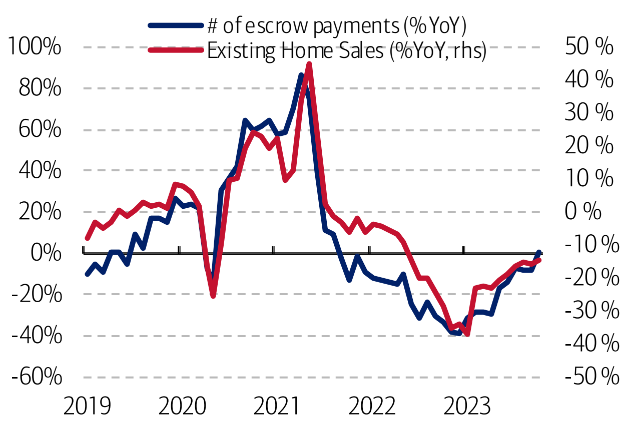
As Exhibit 3 shows, the % year-over-year (YoY) change in total escrow payments, according to Bank of America internal data, tracks the %YoY change in the National Association of Realtors' total existing home sales. These payments include those processed through automated clearing house (ACH), check, BillPay and wires.

We break down the data by generation and make three observations. First, prior to the pandemic, the %YoY growth in the number of households with an escrow payment among both younger and older Millennials was consistently higher than that of Baby Boomers (Exhibit 4). This makes sense given that Millennials were entering prime home-buying age in 2019.

Second, this gap widened rapidly in 2020 and 2021 as record low mortgage rates made home buying more affordable, which allowed an uptick in homeownership, especially among younger generations.

Exhibit 3: Number of escrow payments, according to Bank of America internal data, and existing homes sales, according to the National Association of Realtors (%YoY)

The % YoY change in total escrow payments, according to Bank of America data, tracks the %YoY change total existing home sales



Source: Bank of America internal data, National Association of Realtors through Haver Analytics

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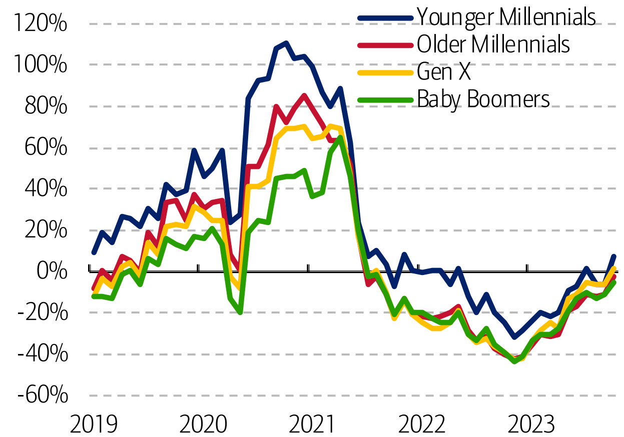
Exhibit 4: Number of households with an escrow payment by generation (monthly, %YoY)

As we entered 2022, the %YoY growth rate of escrow payments among older and younger Millennials converged to that of Gen X and Baby Boomers



Source: Bank of America internal data

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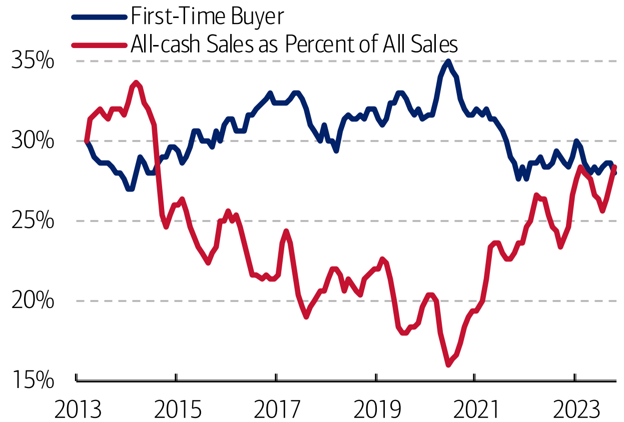
Third, as we entered 2022, and home affordability started to plummet with the rapid increase in interest rates, the %YoY growth rate of escrow payments among Millennials converged to that of Gen X and Baby Boomers, with older Millennials (age 35-45) seeing the biggest pullback. In fact, the number of older Millennial households with an escrow payment in October 2023 was down 2% YoY, in line with that of Baby Boomers and lower than that of Gen X. Meanwhile, escrow payments remained relatively strong for younger Millennials in 2022, but the gap with older generations has also narrowed meaningfully in 2023.

The pullback in Millennial home buying is also shown in the share of first-time home buyers among all buyers, which was just 28% in October 2023, down from the peak of 35% in mid-2020 when mortgage rates were at historic lows (Exhibit 5). On the flip side, the share of all home sales that had no financing (i.e., all-cash sales), which likely skews toward wealthier older generations, surged to 28% in October 2023, up from the low of 16% in 2020.

Exhibit 5: Share of first-time home buyers and all-cash sales (%, 3-month moving average)

The share of first-time home buyers among all buyers was just 28% in October 2023, down from the peak of 35% in mid-2020



Source: National Association of Realtors through Haver Analytics

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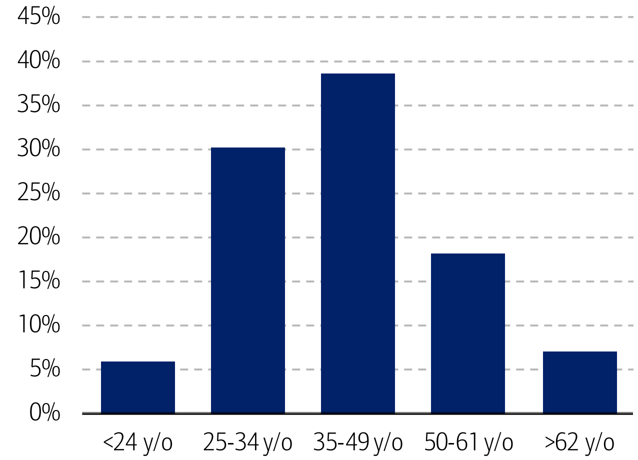
Exhibit 6: Distribution of student loan outstanding by age (%)

Of the 3Q 2023 $1.6 trillion outstanding student loan balance in the US, nearly 40% was held by those aged 35-49



Source: US Department of Education

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Not all Millennials face the same challenges

It comes as no surprise to us that Millennials are being squeezed in the current housing market. They are typically less wealthy than older generations, which means they are more likely to seek financing when buying a home and, therefore, more exposed to rising borrowing costs. According to data from the Federal Reserve, the average Baby Boomer and Gen X household had a net worth of $1.8 million and $1.2 million, respectively, in 2Q 2023, much higher than the median existing home sales price of around $400k in 2023. In contrast, the average Millennial household only has a net worth of around $200k, lower than the median home sales price and just one-ninth of the net worth of the average Baby Boomer household.

What stands out to us is that younger Millennials (age 28-35) are seeing stronger growth in escrow payments than older Millennials (age 35-45). We think a few factors are at play. First, the larger increase in younger Millennials escrow payments likely comes from a low base, since they are just entering home-buying age, whereas their older Millennial peers started the process a few years ago.

Second, older Millennials seem to be facing a bigger debt burden. For example, according to US Department of Education data, of the 3Q 2023 $1.6 trillion outstanding student loan balance in the US, nearly 40% was held by those aged 35-49, which is around the age of older Millennials (Exhibit 6). Similarly, quarterly data from the New York Fed suggests that credit card delinquencies are rising the fastest for those aged 30-39 and are two percentage points higher than in 2019 (Exhibit 7). The caveat is that this age group includes both younger and older Millennials, but we think it speaks to the general trend in the latter.

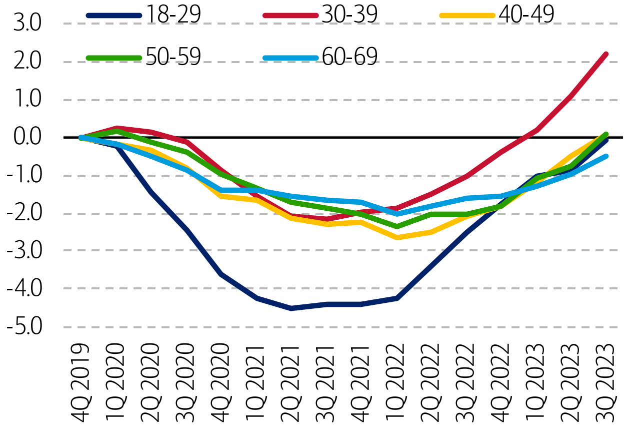
Third, older Millennial households are more likely to have higher expenses, such as childcare spending, than younger Millennials. As we wrote in a previous Consumer Morsel, average childcare payments, based on Bank of America internal data, increased by over 30% since 2019, adding to the list of headwinds facing these households.

Last but not least, the older Millennial cohort is more likely to have been hit harder by the 2008 housing crisis, which potentially set them back financially relative to younger Millennials.

Consequently, given the relatively difficult housing market for Millennial households, many might have to make some sacrifices to increase their chances of purchasing a home. According to the same Bank of America Homebuyer Insights Report, 37% of surveyed Millennials said that they would be willing to give up luxury amenities to improve the chance of purchasing a home. Next on the list was brand new homes (selected by 35% of Millennial respondents) and being near family (32%).

Exhibit 7: Transition into serious delinquency (90 days+) for credit cards by age (percentage point difference from 4Q 2019)

Credit card delinquencies are rising the fastest for those aged 30-39 and are 2 percentage points higher than in 2019



Source: New York Fed

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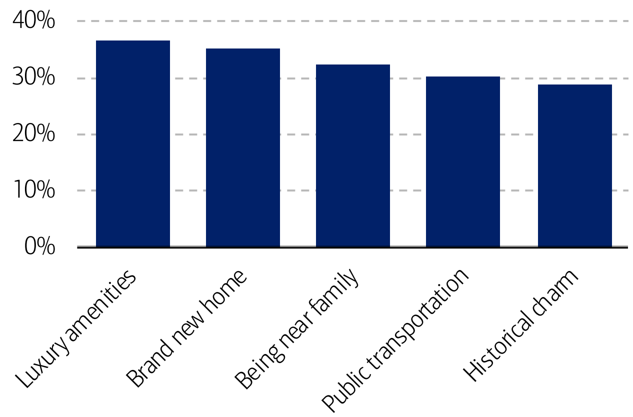
Exhibit 8: When looking for a new home, which of the following might you be willing to give up on if it increased the chances of finding a home to purchase? (% of respondents)

37% of surveyed Millennials said that they would be willing to give up luxury amenities to improve the chance of purchasing a home



Source: Bank of America Homebuyer Insights Report

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Escrow payments include those processed through automated clearing house (ACH), check, BillPay and wires.

For Bank of America's Homebuyer Insights Report, Sparks Research conducted a national online survey on behalf of Bank of America between September 25 and September 28, 2023. A total of 1,000 surveys (500 homeowners / 500 renters) were completed with adults 18 years old or older, who make or share in household financial decisions, and who currently own a home/previously owned a home or plan to own a home in the future. Survey completions were monitored by gender and age or proper balancing.

Generations, if discussed, are defined as follows: 1. Gen Z, born after 1995 2. Younger Millennials: born between 1989-1995 3. Older Millennials: born between 1978-1988 4. Gen Xers: born between 1965-1977 5. Baby Boomer: 1946-1964 6. Traditionalists: pre-1946

Additional information about the methodology used to aggregate the data is available upon request.

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Sources

Bank of America 2023 Homebuyer Insights Report

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Disclosures

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