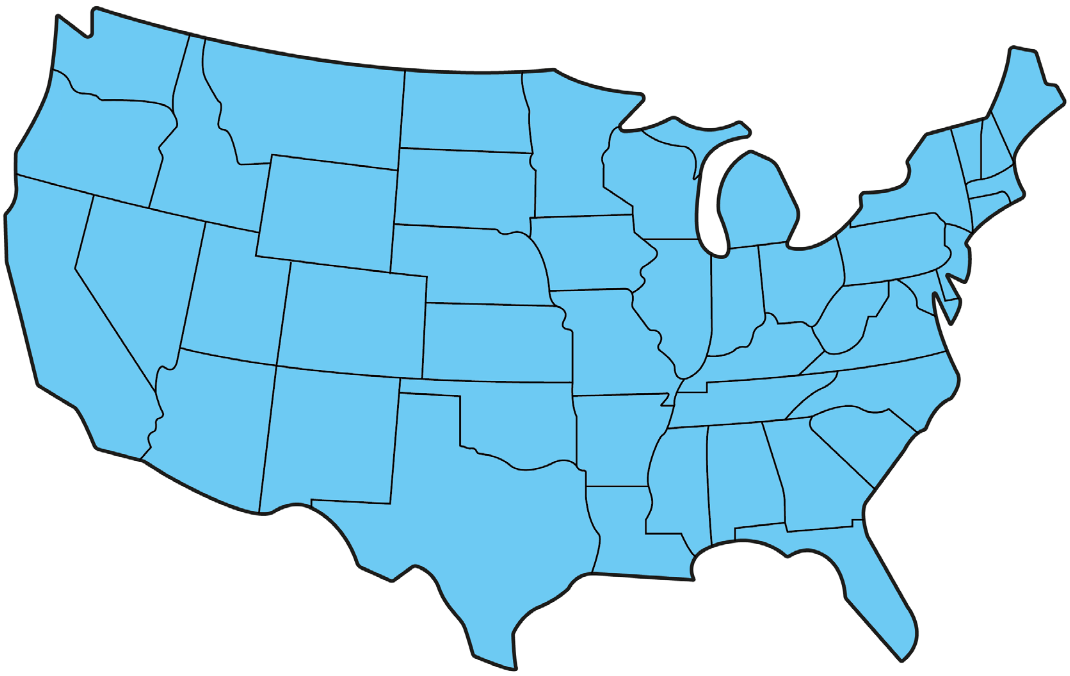
# Legal & General U.S. Housing Study

2021 U.S. Millennials and Home Ownership - A Distant Dream for Most: Part 3



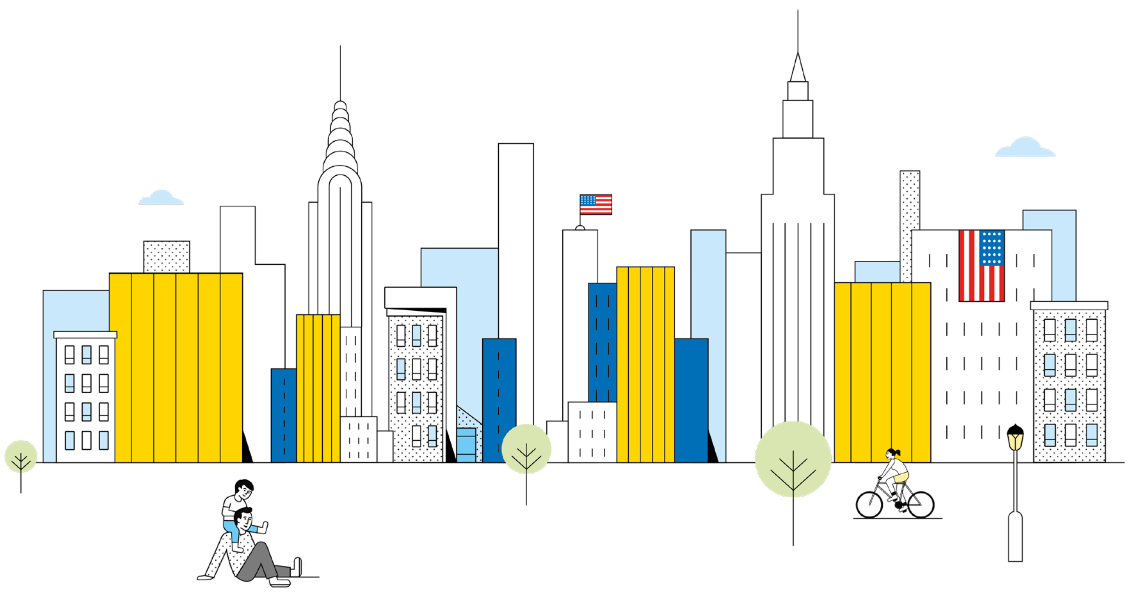
# Wage Stagnation Has Flipped the Housing Equation for Millennials

- **36 percent of all millennials find home ownership hard to afford where they currently live**
- **An additional 20 percent find home ownership in their area extremely hard to afford**
- **52 percent aren't saving for a down payment, and of these, many cite underpaying jobs or joblessness as the reason**
- **Survey subjects repeatedly cite wage stagnation and a lack of jobs paying a "living wage"**

We've been studying the housing situation for Americans in the 25- to 40-year-old age range; in Parts 1 and 2 of our multi-part report, Millennials and Home Ownership, A Distant Dream for Most, we pointed out that this generation has had multiple obstacles to getting on the home ownership ladder, including lack of affordability in big urban and suburban areas, the divergence in geographic preferences taken by the three different millennial age cohorts, and the effect of the pandemic on their homeownership plans. In these next sections of our study, we're going to pull back the lens on our survey findings to look at some of the larger macroeconomic issues that have been informing the experience and attitudes of millennial-aged Americans in their quest to purchase affordable homes. Here in Part 3 we will delve into how their income, and in particular the long-standing issue of wage stagnation, has contributed to the reality of housing affordability for millennials.

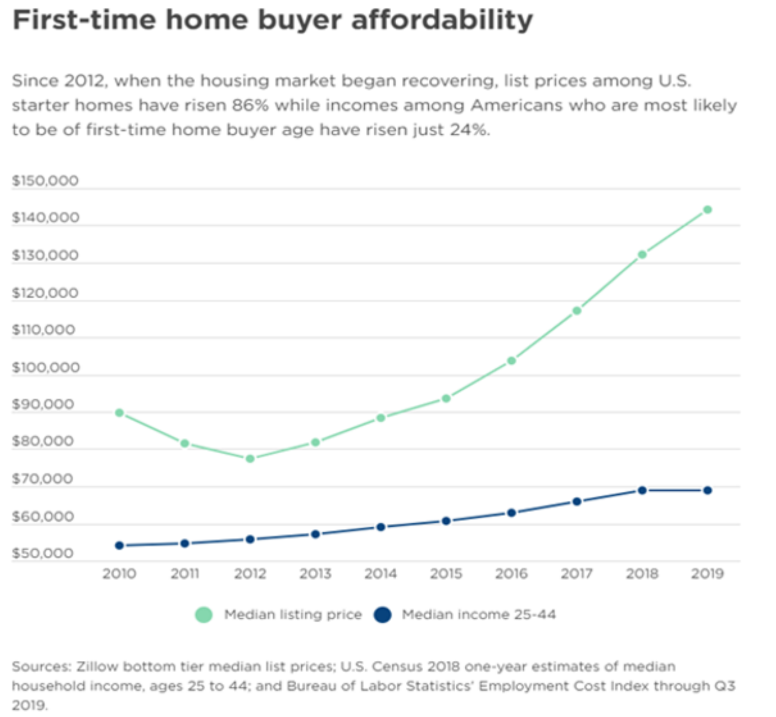
One important qualification to make from the outset is that our research surveyed only millennials who were not yet homeowners. That could mean that the population we looked at is not as affluent as their homeowning generational cohort, and our data doesn't necessarily mirror the income and employment statistics of the overall U.S. millennial population. That said, according to a 2021 study, only 43 percent of millennials were homeowners, the lowest home ownership rate of any generation and well below the overall average of 65 percent. So the millennials we spoke with still represent a significant majority.

Wage stagnation in the U.S. has been a persistent reality for more than four decades, and wages have not kept up with the cost of living. According to Economic Policy Institute stats from 2019, the federal minimum wage was worth 17 percent less than it was 10 years prior, and 31 percent less than in 1968. If the minimum wage had kept pace with productivity since 1968, minimum wage would be $24 now. And interestingly enough, Bank of America announced in May 2021 that by 2025, its minimum wage would be up to $25. While that is heading in the right direction, it's still doubtful that it would constitute a broad enough change to bring younger workers in line with the galloping cost of housing. The latest data shows that wages are rising even amid weak hiring: the August 2021 jobs report data showed hourly earnings up 0.6 percent month over month, and up 4.3 percent year over year, with August's CPI (Consumer Price Index) coming in at 5.3 percent. In real terms, wages aren't keeping up with everyday costs, and as we'll soon see, rising home prices are by far outstripping wage increases.



### The Runaway Cost of Housing

Let's look at the upward trend in U.S. housing prices. A recent report from S&P CoreLogic Case-Shiller found that U.S. home prices surged 19.7 percent year-over-year in July, marking the biggest leap in over 30 years, and following an 18.7 percent increase in June. At the same time, the National Association of Realtors reported that first time buyers accounted for only 29 percent of existing home sales in August, below the 32 percent 5-year average and the lowest share since January 2019. Below is a chart showing just how deep the affordable housing divide has become. Since 2012, incomes among millennials have risen 24 percent, while house prices rocketed off at 86 percent, and are still rising. Up, up, and away.




As one of our survey respondents commented:

> "It's tough given the cost of living increases compared to the wage increases. I personally cannot save very much money because about 60 to 70 percent of my income goes toward rent and other bills."

By rights, this number should be inverted: any basic personal finance course will advise you to spend no more than 30 percent of your income on housing and basic living expenses. In our survey, 66 percent of full-time workers, and overall 80 percent of our respondents reported earnings of under $60,000. With millennials making, on average, $47,034 per year as of March 2020, this would mean a combined mortgage, insurance and property tax payment of no more than $1,175. In today's housing market—and this would be on the assumption that the home buyer had a 20 percent down payment saved—the average millennial in the $47,000 range might be able to qualify for a house priced around $220,000. The average price of a home purchased by a first-time home buyer was $215,000 in 2019, up significantly (5.25 percent) from $203,700 in 2018. With the pandemic causing vast exurban migration, this figure has risen even more sharply in the past two years, to a typical home price of $287,148 as of May 2021—up a record 13.2 percent from the year before. Competition for homes even in smaller towns like Bethlehem, PA have created a surge in prices.

And we need to bear in mind that this is across all generations, and probably doesn't include the desirable big cities we've seen especially younger millennials hankering after. No matter how you look at it, here is a major shortfall. As one millennial in our study put it:

> "It is almost impossible for millennials like me to make enough income to qualify for loans, plus save up for a down payment."

How will this affect generational wealth? Home ownership is normally passed on from parents to children, and is considered a primary source of wealth generation. With the current trend that more and more people are unable to afford homes, how will this affect the wealth gap for future generations? Many millennials we talked to are waiting for family inheritance to become homeowners; quite a few still live with their parents. Some of the verbatim comments we heard on this subject include:

> "My Mom bought a house in Albany in 2006 for $60,000, today a house in that same neighborhood is worth over $250,000. The barrier to entry has grown out of reach, especially for single worker families."
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> "I am living in a second home my mother bought that I rent, and will be passed down to me."
>
> "Still comfortable living with parents."
>
> "Still living at home with parents and will get established when I can."
>
> "I'm moving into my Grandma's house (she passed away)."

The median age of the first-time buyer has increased 14 percent since 1981 to 33, but the median age among all home buyers went up from just over 30 to 55. While the most likely explanation is that older buyers are investing in real estate as a retirement strategy, a 2015 report describes first-time buyers as "older, more often single." The same report shows that in the early 1970s, the median income for first time buyers was $52,831; the median home price was $87, 371. Ten years later, in the early 1980s, income had dropped to $51,178 while the average home cost $102,367. By the early 2000's income had only risen to $58,738, while the median home price was $144,796. One millennial from our study described how this trend affects their attitude:

> "A large portion of my generation doesn't see planning for the long term with their finances as something urgent or as a priority, so they put it off and procrastinate saving for later in life as much as possible. Because of this, the average age that my generation is at when they make their first home purchase is much later than it was for earlier generations."

### Back to wages

One of the main reasons we're hearing that millennials are not becoming homebuyers is because of wage stagnation:

> "Stagnating wage growth and larger student loan debt have made home ownership out of reach for many people in my generation, particularly those living in HCOL [high cost of living] areas. I would love to own a home, but I don't realistically see how that would be possible where my husband and I currently live—and we work in tech and make decent salaries!"

When it comes to wages, this millennial survey respondent was the exception, not the rule. Wage stagnation has been prevalent since the 1970s, due in part to global outsourcing and loss of manufacturing jobs, and to automation; looking at this Pew study, this has meant that there are fewer employers, removing millennial workers' option of going to a higher-paying competitor. A 2019 Kellogg study concurs, pointing out that "growth in 'real wages' (that is, the value of the dollars paid to employees after being adjusted for inflation) has slowed compared to overall economic productivity," and also places blame on employers who take advantage of local labor market concentration. There is a deep underemployment problem, too. Our study showed only 48 percent of the mid-age millennials (30 to 35 years old) we surveyed working full time; 13 percent of this cohort reported in as unemployed, with another 7 percent temporarily unemployed between jobs.

Among recent millennial graduates, only half of those we surveyed managed to find a role matching their skills and education immediately upon graduation. One in five (19 percent) managed to work their way up to a graduate level role, and 28 percent were still looking.

The overall employment figure, encompassing those working full and part-time across all millennial age groups, is still 63 percent, with 51 percent working full time. No wonder, then, that 50 percent have less than $2,000 in savings; half of those (25 percent) have less than $100 stashed away. And the picture becomes still clearer when you consider that more than one third (34 percent) of Junior Millennials we studied and a quarter (26 percent) of Mature Millennials earn under $20,000, which is likely to be a combined effect of both underemployment and underpay.

Nearly half of fully employed Mid Age and Mature Millennials—employees approaching their prime earning years—make less than $50,000 a year. A quarter of Junior Millennials (25 to 29 years old) doing full-time work earn less than $30,000 a year. Only 30 percent of Junior Millennials earn over $50,000, and $100,000 is a great rarity—only one in 20 Junior Millennials and one in 10 Mature Millennials in the population we surveyed reported having this income level. And in all likelihood, they were able to do this because they were located in a big city where the higher-paying jobs tend to exist. However, looking at the overall picture, it would be hard to make the argument that millennials, at least those responding to our survey, are making a living wage—which, as of 2020, was calculated at $68,808 a year. Across our three sub-groups, those who could possibly afford to buy a house—we're conservatively estimating that at salaries of $50,000 or above—is only 47 percent.

And what benefits are these low salaries providing for millennials? In some cases, there may be a 401K-type retirement plan through their work, but millennials are known for job-hopping, and 401(k)s only become a viable savings vehicle if you hold the same job for 10 or more years. And in our research, 28 percent of degree-holding millennials we polled said that they are still looking for job that matches their education.

Many millennials have opted instead to become part of the gig economy: a 2020 Statista survey put the number at 44 percent. Entrepreneurialism and the start-up culture have taken off; the tech environment has created a compelling alternative to traditional employment. However, freelance and gig-economy work do not usually come with health insurance, putting these workers at further financial risk should they develop any medical issues. The cost of health insurance keeps going up, too—at a pace that wages definitely can't match. In 2009, the average individual premium cost $161 a month; in 2021 that figure has risen to an average of $495.

Minimum wage has not adjusted for inflation; and this fact becomes starker when viewed in different geographies' cost of living. A $20 per hour minimum wage will look and feel very different in New York, NY than it would in Rochester, NY. Companies are beginning to respond: as of September 2021, Walmart is paying its workers $1 more. Target is contributing to its employees' educations; but for many if not most millennials, this is coming too late. There is general consensus that wages have too long been stagnant—and now that we have inflation creeping up, reportedly persistently, for the first time in four decades, wage stagnation has an even more retrograde effect on younger generations' ability to grow wealth—beginning with getting onto the housing ladder.

We'll end this report with a final look at our millennials' responses to the question, If you want to move, what would be your main consideration? Among the top five answers—affordability, commercial life, job opportunities, being closer to family, and better social services—the overwhelming 'winners' were affordability and job opportunities. For Junior Millennials (25-29), 29 percent would move for work; however, they are also strongly influenced by affordability—a quarter of them would move to a more affordable area. For those over 30, these priorities flip—for 29 percent, affordability becomes the main reason for moving. Affordability is also the top reason to move for couples (31 percent), parents (31 percent), those already saving for down payment (31 percent), and females (29 percent). Among those living in large metropolitan areas, job opportunities are a big driver at 25 percent, but affordability is a slightly stronger reason to move, at 30 percent.

Affordability and jobs—stagnant wages and the skyrocketing cost of housing—low income hindering the ability to "get established"—these are some of the puzzle pieces in the cluster of challenges faced by this generation. In our next segment of reporting on our Millennials and Housing study, we'll look at a related theme: the intergenerational "housing wars" that some millennials say are freezing their generation out of the affordable home market.

## Survey Methodology

To understand millennials' attitudes to home ownership, drivers and barriers to ownership in particular the impact of Covid and student debt, we ran a survey of 875 Millennials based in the U.S. who don't own a property. The online survey was carried out in March/April 2021.

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