



Zevin Asset Management

INVESTMENT UPDATE

Millennials' Angst

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The recent trend in U.S. residential housing conditions is downright discouraging for those trying to buy a new home, and even worse for those looking to buy their first home. Ongoing supply shortages in the housing market have pushed the median price for an existing single-family home 50% higher than pre-pandemic levels. Meanwhile, the Federal Reserve has been lifting interest rates for 18 months in its effort to cool inflation, which has resulted in a 23-year high in mortgage rates. Rising house prices coupled with rising mortgage rates mean **housing affordability** has become very unaffordable.

One particular segment of the housing market experiencing especially difficult times is first-time home buyers, who tend to be millennials. According to the real estate services company Redfin, the inventory of starter homes for sale has fallen almost 50% over the last decade (**Chart 1**). Naturally, the flip side to dwindling supply is higher prices as potential buyers have fewer homes to choose from, creating fierce competition with multiple offers, waived conditions, and frequent bidding wars. Part of the reason for the shortage of starter homes is that baby boomers and other older generations are simply not relocating due to prohibitive lending rates. But before you say, "OK, boomer," there are other reasons as well, for instance institutional investors who've been snatching up residential real estate since the early 2010s to rent back to individuals at inflated rates. Lack of construction is another issue; in 1970, starter homes made up 35% of new homes built, but that number has dwindled to under 10% today.

Low housing inventories are a perfect example of a societal problem leading to economic problems. Lack of housing supply delays house purchases and household formation which can have long-term demographic repercussions. Home ownership is also the single most important aspect of intergenerational wealth creation for most Americans, so a lack of supply creates an obstacle for millennials to start building wealth. In the shorter term, delaying home purchasing impacts the real estate industry as well as secondary and tertiary spending associated with home ownership. Meanwhile, millennials unable to find, buy and move into their starter homes keep rents higher than would otherwise be the case (**Chart 2**). This in turn reduces their discretionary spending power and hinders their ability to save for a future downpayment, further delaying homeownership and creating a feedback loop dynamic, where would-be first-time buyers continue renting at higher rents and delaying all the spending associated with a new home. In short, delaying home ownership impacts society and depresses economic activity in the short, medium, and long term.

There is no single solution to this complex problem. A combination of programs, including public-private partnerships will certainly be required. Builders need to be incentivized to increase construction activity in the form of subsidies and tax incentives. Streamlining zoning requirements would surely help. Conversion of unwanted commercial space into residential would alleviate both the housing shortfall and the glut of vacant commercial space. Whatever incentives are eventually implemented, housing starts need to increase by 50% from current levels to eliminate the shortfall in 2-3 years according to Realtor.com. In the meantime, millennials and other younger generations are forced to delay starting households, delay all the spending that goes with home ownership, delay wealth creation, and continue (rightfully so) to envy boomers and other older generations for their better fortunes.

Chart 1

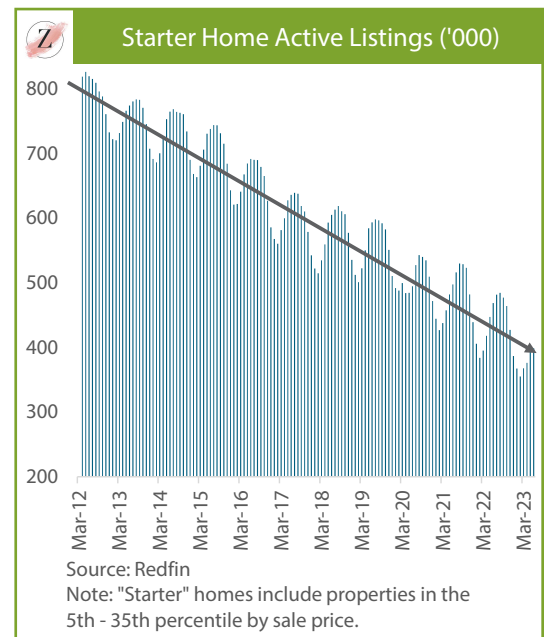
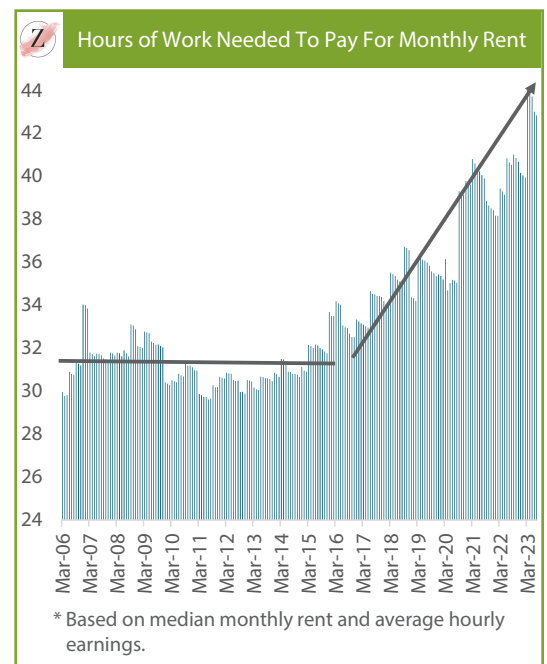


Chart 2



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