

# The Impact of Demographics and Millennials on Commercial Real Estate

**Commercial Real Estate Strategies Conference**

**Mark J. Eppli**  
**Bell Chair in Real Estate**  
**Marquette University**

**September 10, 2015**

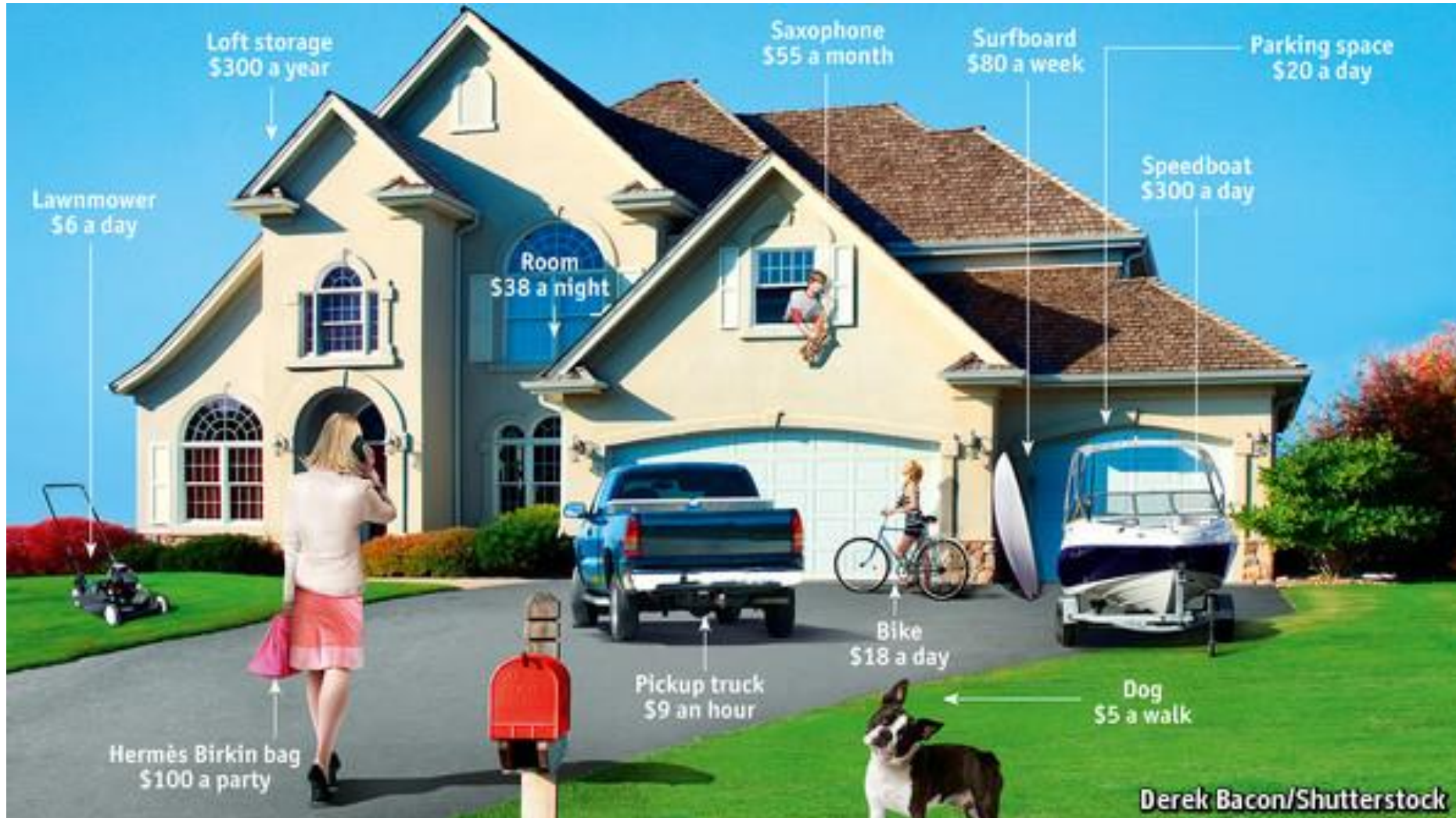
# Presentation Outline

- I. Forecast update – 2014 Takeaways
- II. Who we are?
  - Demographics
- III. What and “How” are Millennials doing?
  - Millennial facts, figures and perceptions
- IV. How do we pay for where we live?
  - Financial Environment
- V. Demographics, Millennial perceptions/realities, and post Great Recession financial conservatism’s impact on homeownership
  - Takeaways

. . . . the takeaways [in 2014] being . . . .

- ***Significant shift away from Class A in primary markets***
- ***Investors are turning to new markets in search of yield***
- ***Multifamily continues to shine***

# The “renter society” or “sharing economy” or “collaborative consumption” or “Netflix Economy”

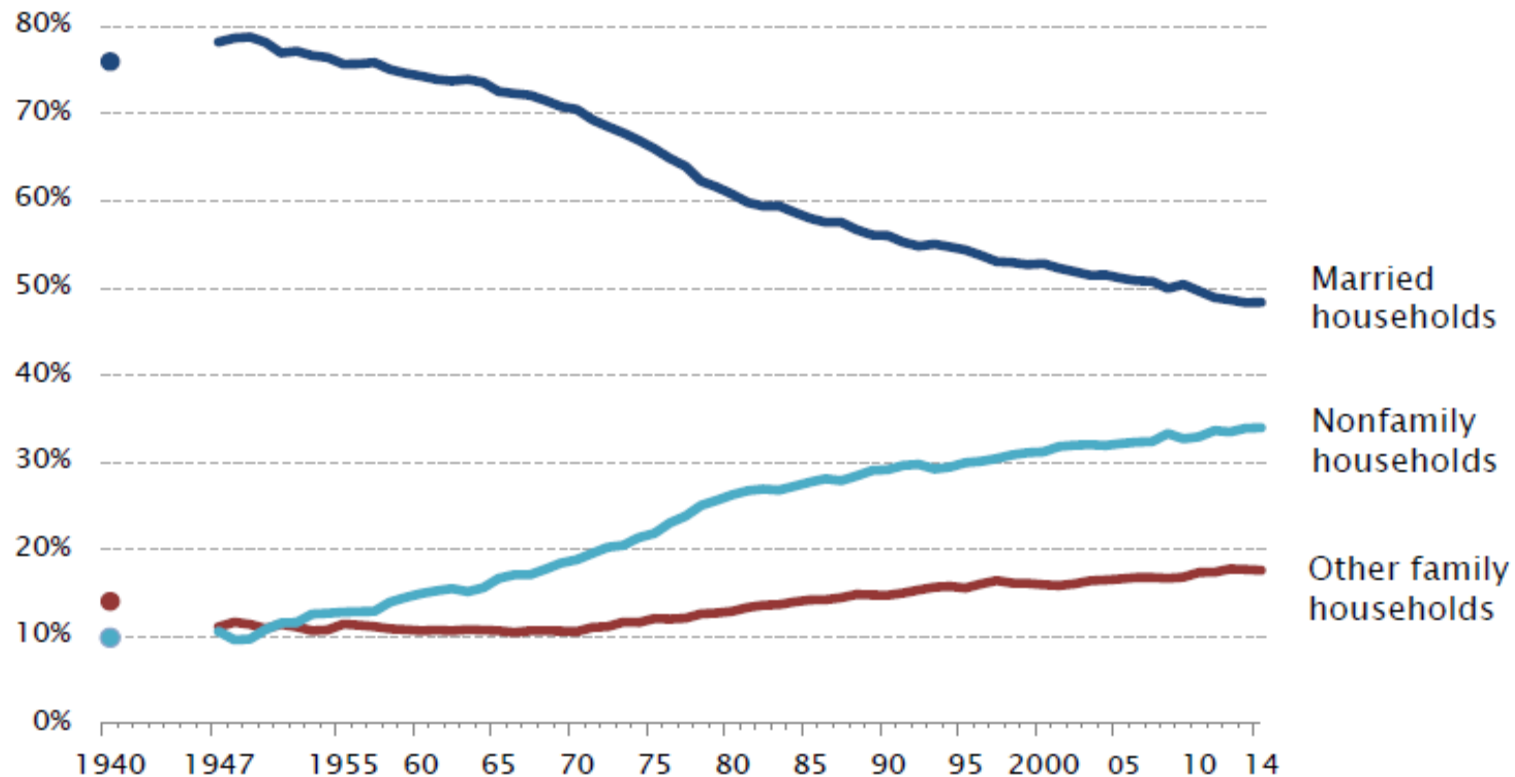


Source: *Economist*, March 9, 2013

# Demographics

Who are we? We are less frequently married and we are often without children.

## Trends in the prevalence of households, 1940 to present



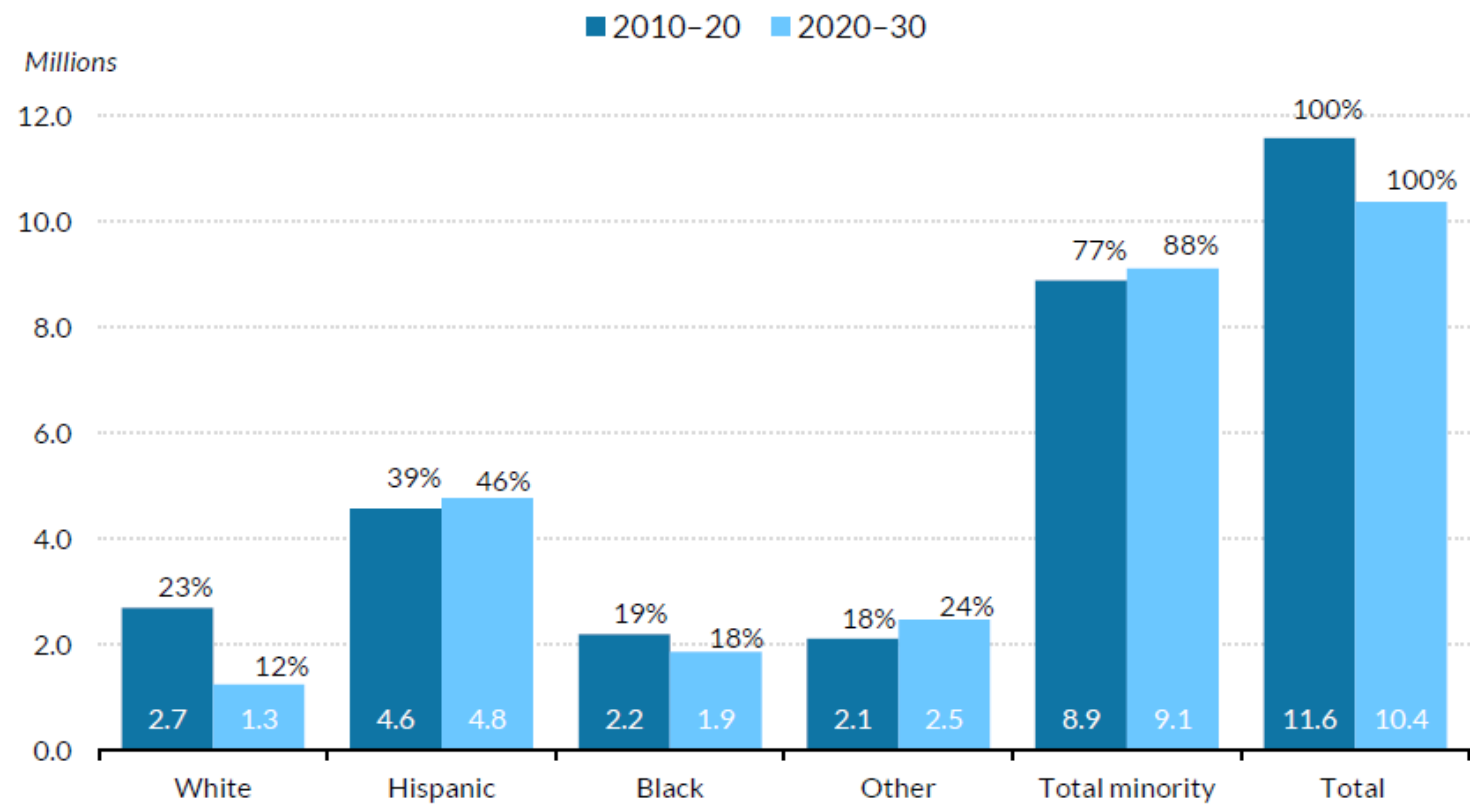
Source: U.S. Census Bureau, Decennial Census, 1960, and Current Population Survey, Annual Social and Economic Supplements, 1968 to 2014.

Source: U.S. Census and Marquette University.



Who are we? We are becoming overwhelmingly minority, the current white, non-Hispanic birth rate is 1.8 per woman.

### Change in household formation 2010-2030 (in millions)

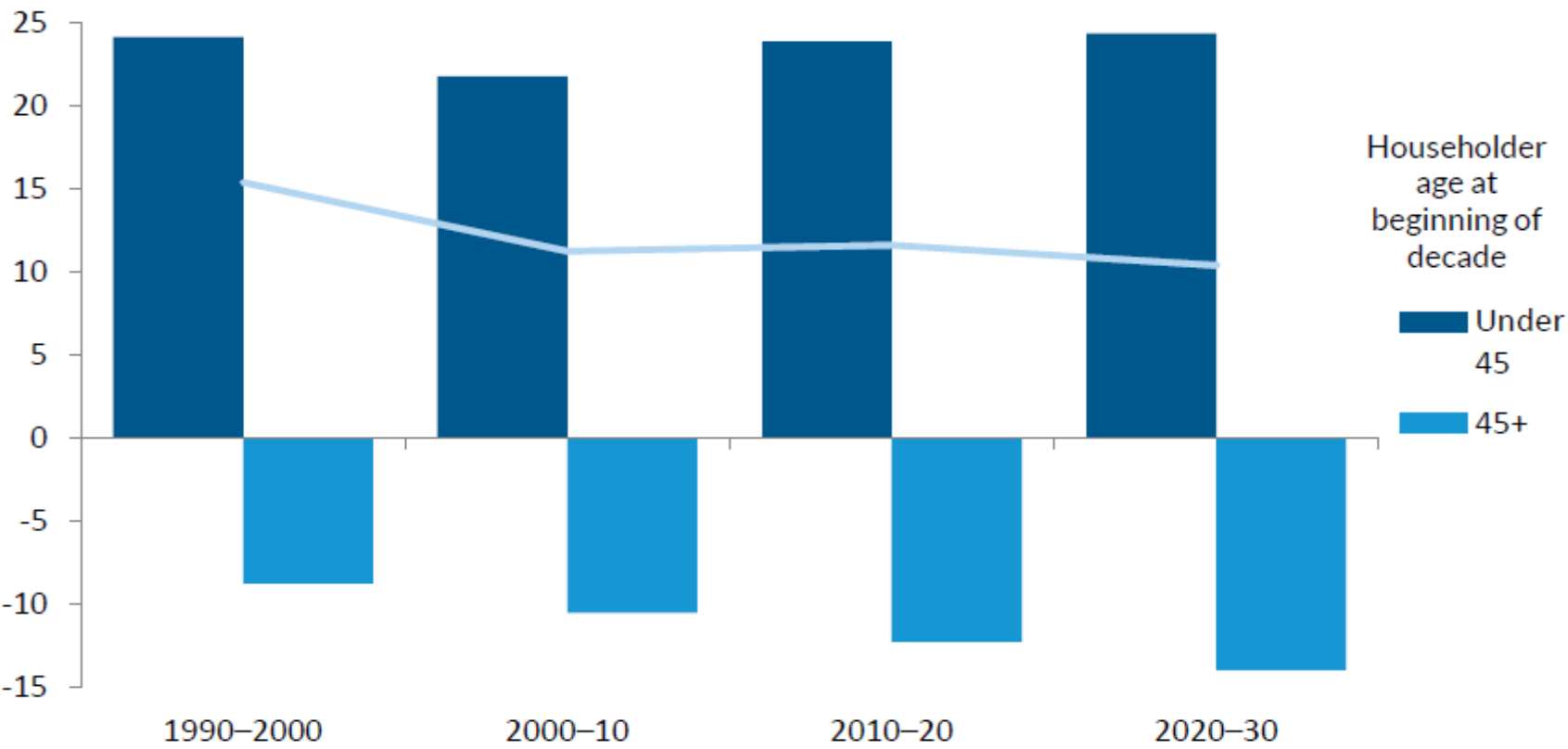


Source: "Headship and Homeownership: What does the Future Hold?"  
Goodman et al., June 2015, Urban Institute.

Who are we? In number our households are becoming younger.

### Change in Households over the decade (in millions)

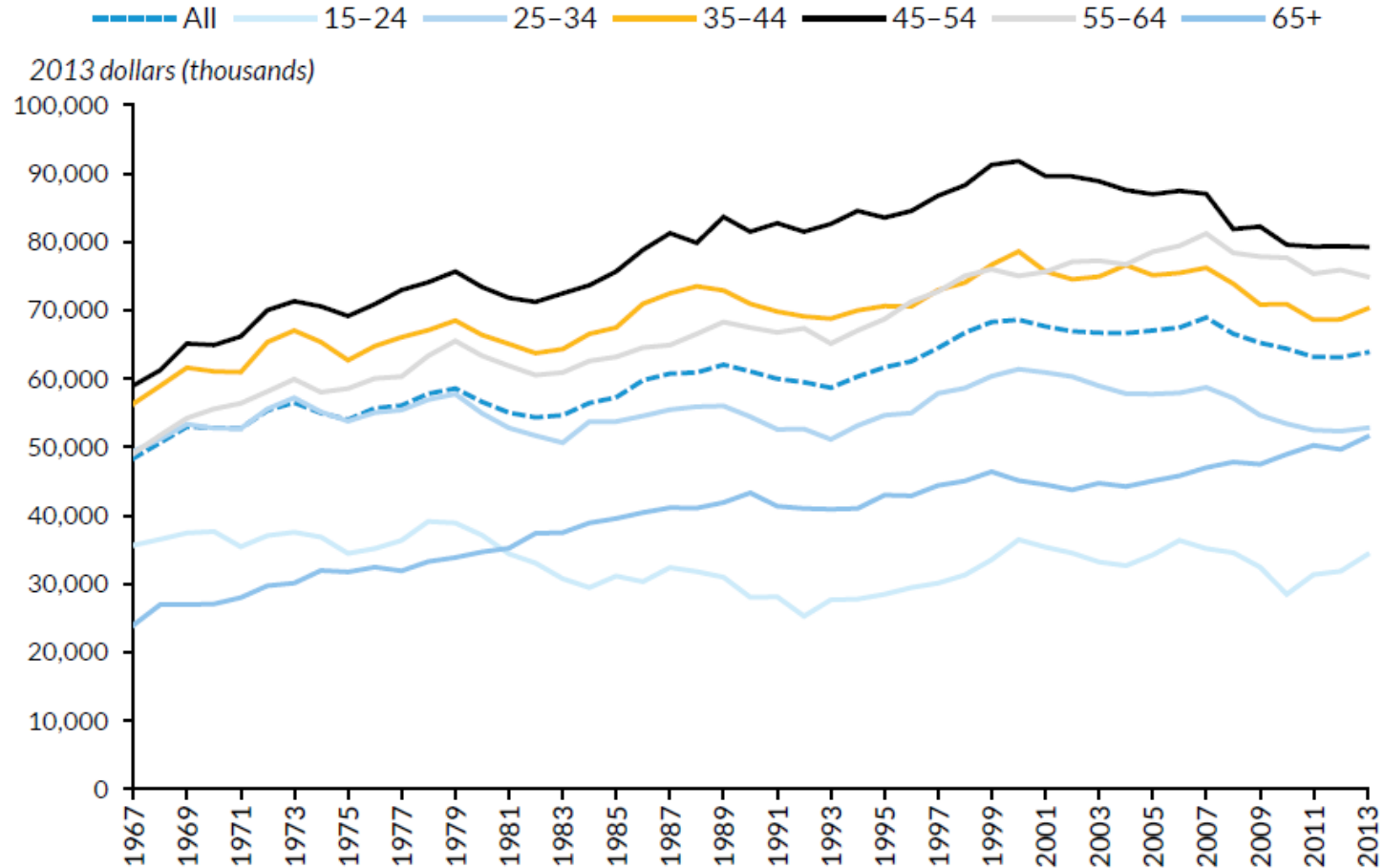
Change in households over decade (millions)



Source: "Headship and Homeownership: What does the Future Hold?"  
Goodman et al., June 2015, Urban Institute.



# Who are we? We are workers with wages barely keeping pace with inflation.



Source: "Headship and Homeownership: What does the Future Hold?"  
Goodman, Pendall, and Zhu, June 2015, Urban Institute.

# Who are we?

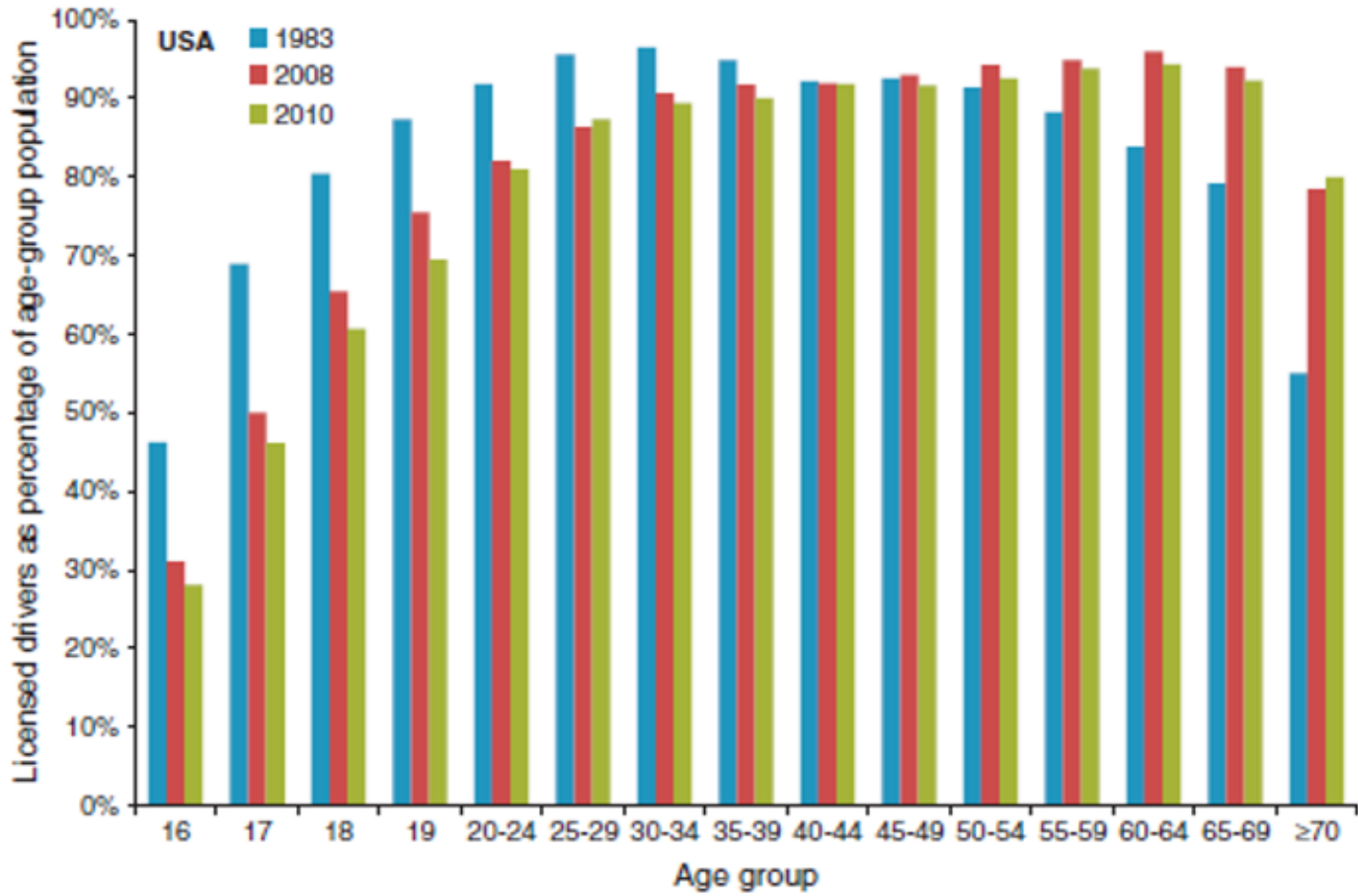
## We are a nation of households . . . .

- A. 20% of us are married with children in the household
- B. Our growth is overwhelmingly minority
- C. We are replacing older households with younger ones
- D. We make no more money than the previous generation

These trends all skew multifamily (as opposed to homeownership).

# Millennials: Facts, Figures, and Perceptions born 1980-2000 (currently 15-35 years old)

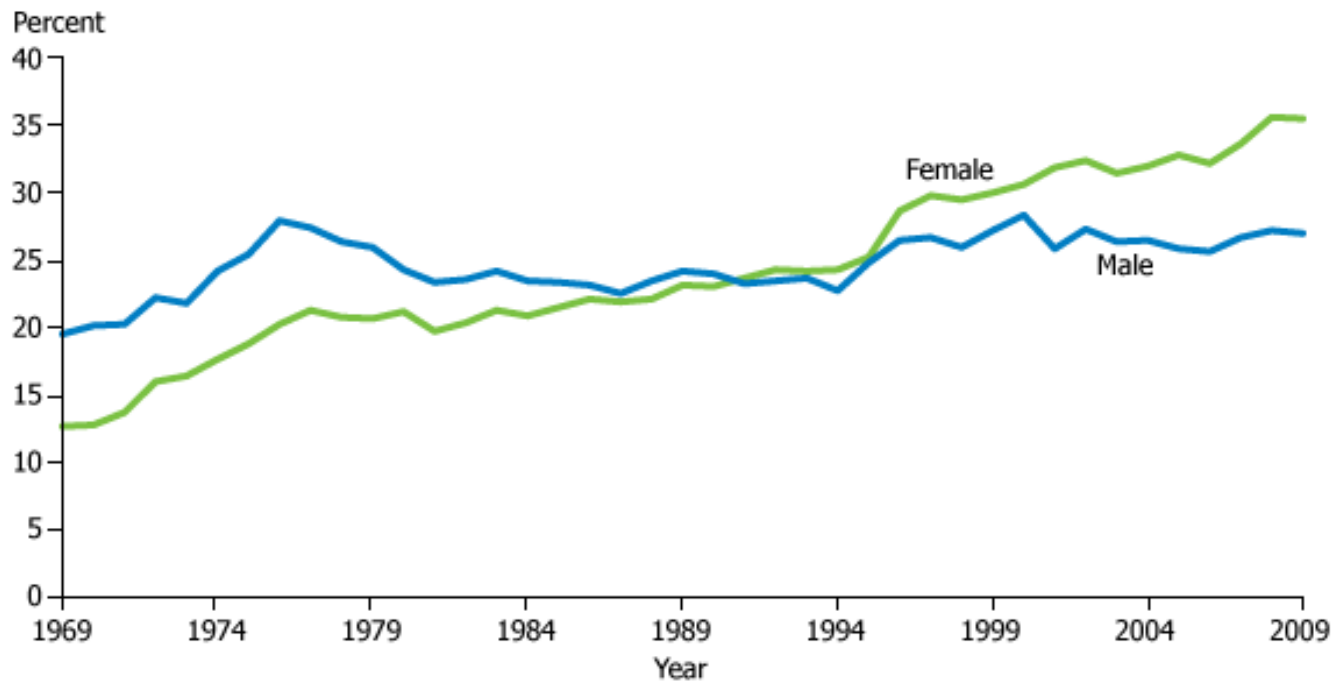
# Millennials: How old were you when you first got your drivers license?



Source: The Atlantic, Jordan Weissmann, July 20, 2012.

Millennials: More women than men are getting college degrees, 25% more in 2009

### Percent of U.S. Adults Ages 25-29 With a Bachelor's Degree or Higher, 1969-2009

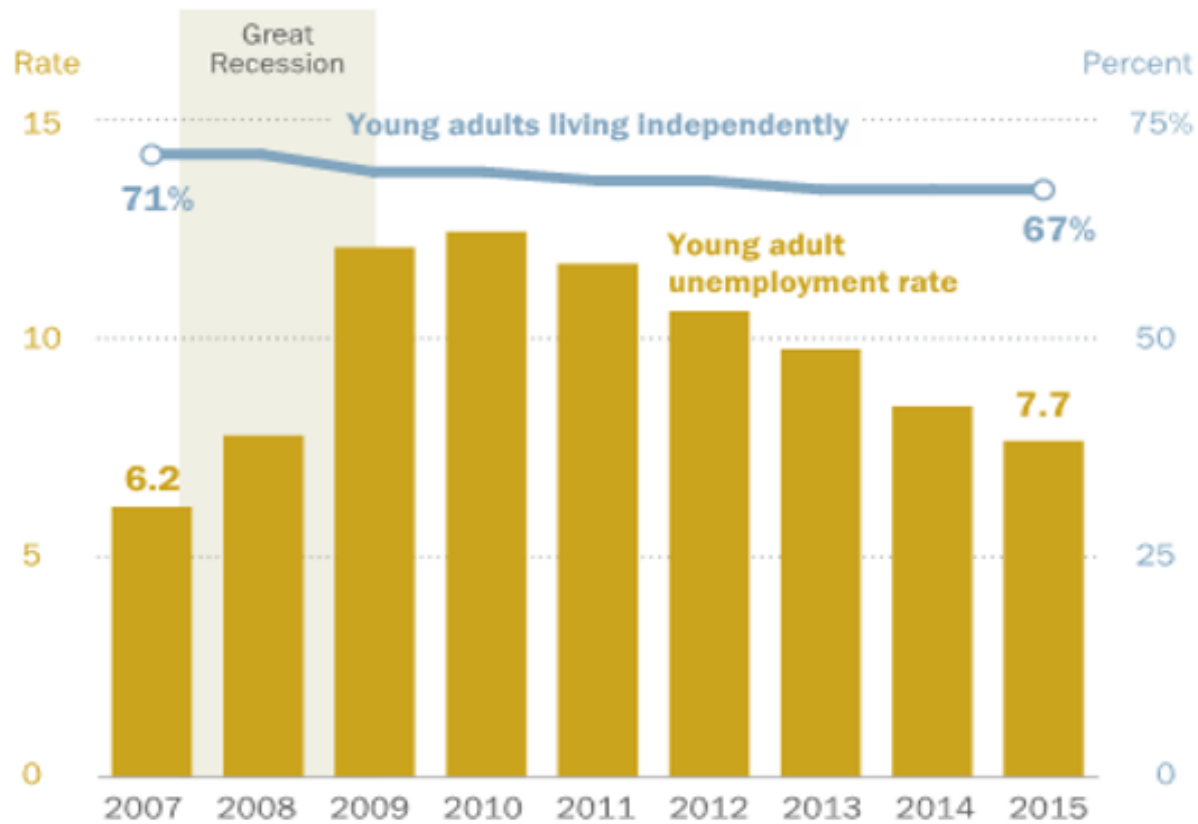


Source: PBR and the Census.



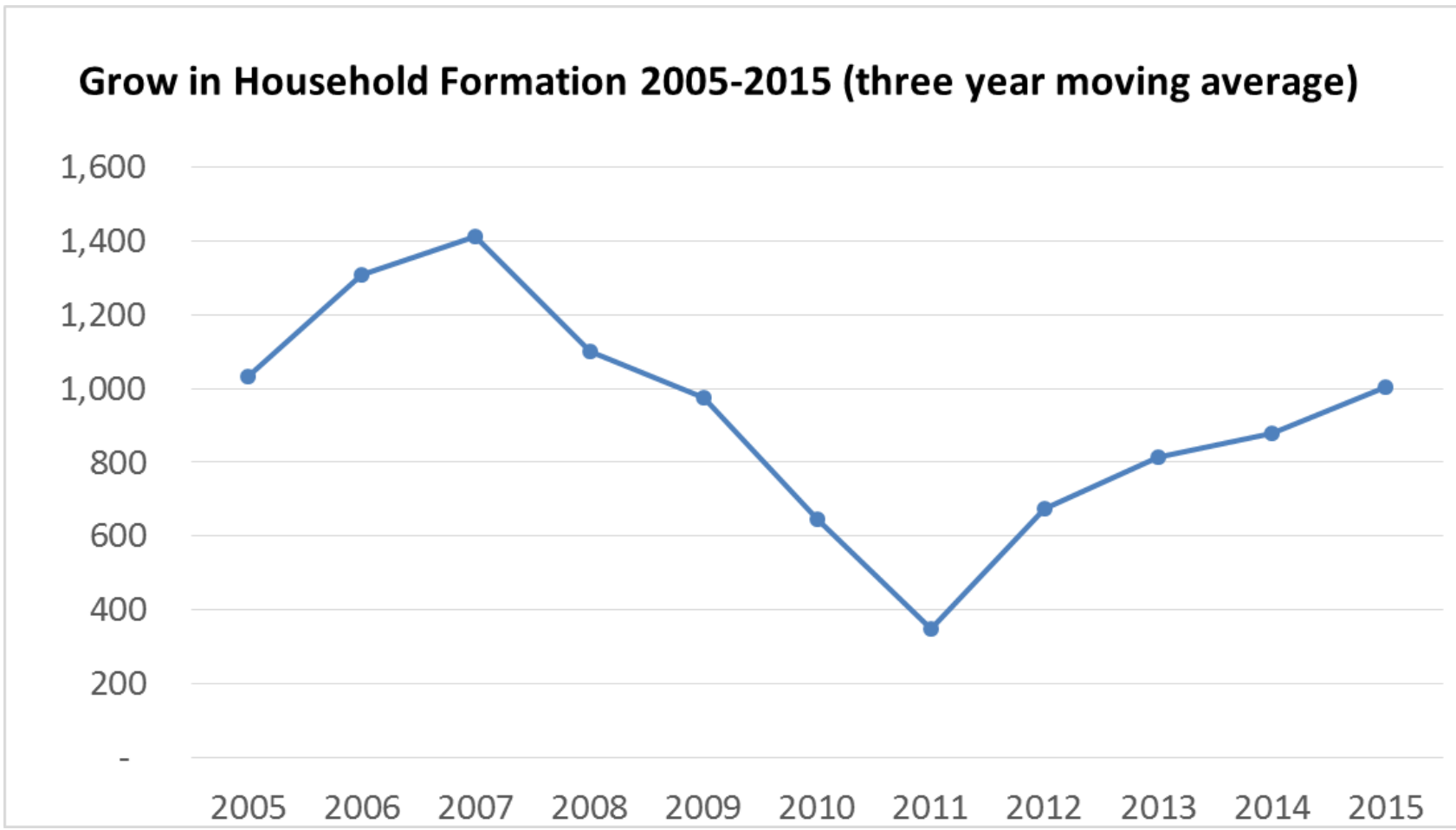
# Millennials: Continue to boomerang.

## Labor Market Has Improved for Young Adults, Yet Living Independently of Family Has Declined



Source: "The Kids Aren't Alright: More Millennials Living with Their Parents," The Fiscal Times, Michael Rainey, July 29, 2015..

Millennials: As Millennials boomerang we are slow to form new households (there is a pent up growth of 1.7 million households)

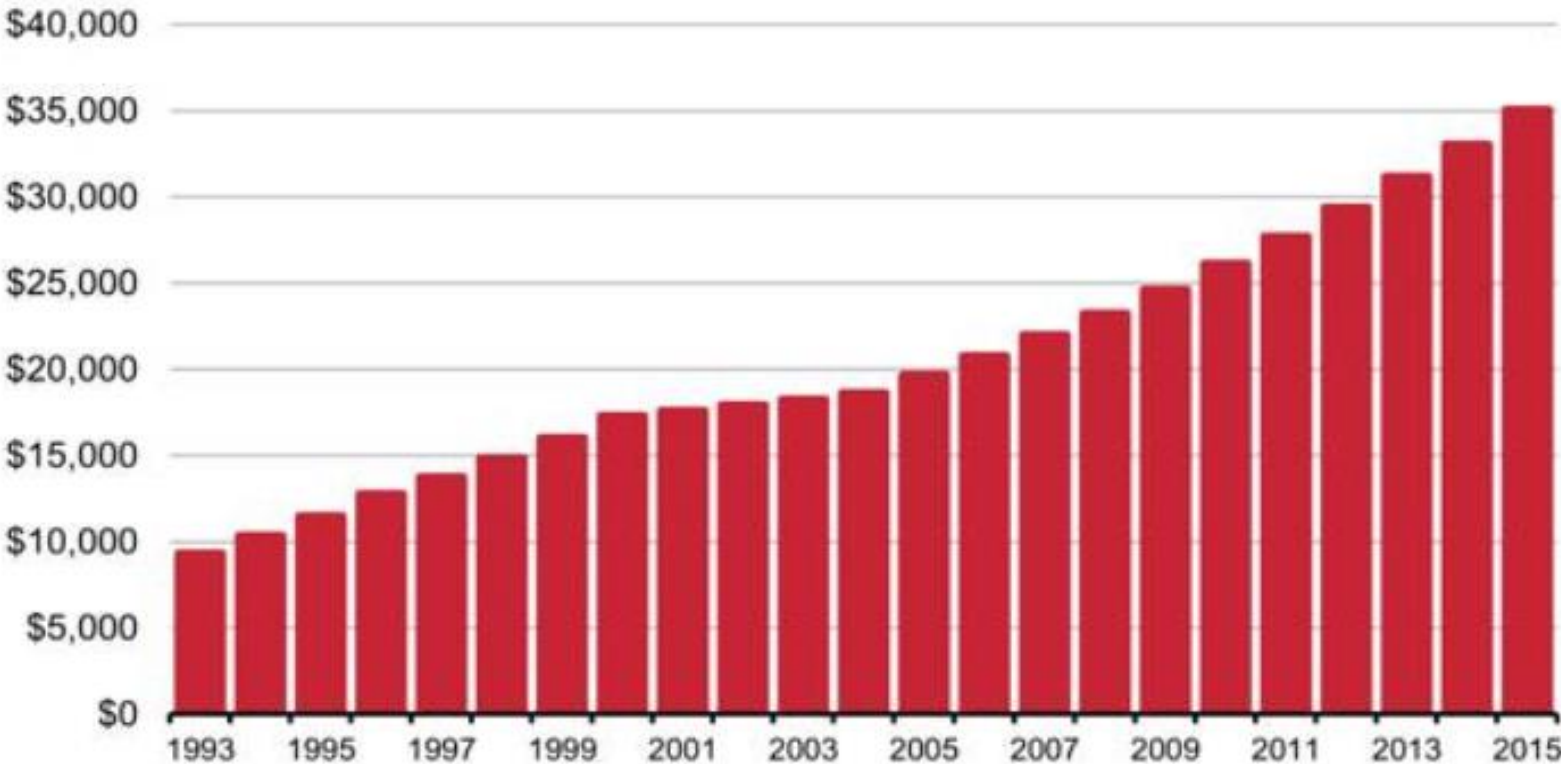


Source: Census, American Communities Survey and Marquette University.

Millennials: 71% of college graduates borrow, 40% of that debt is held by Masters Degree holders

### Head of the Class

Average debt per borrower in each year's graduating class

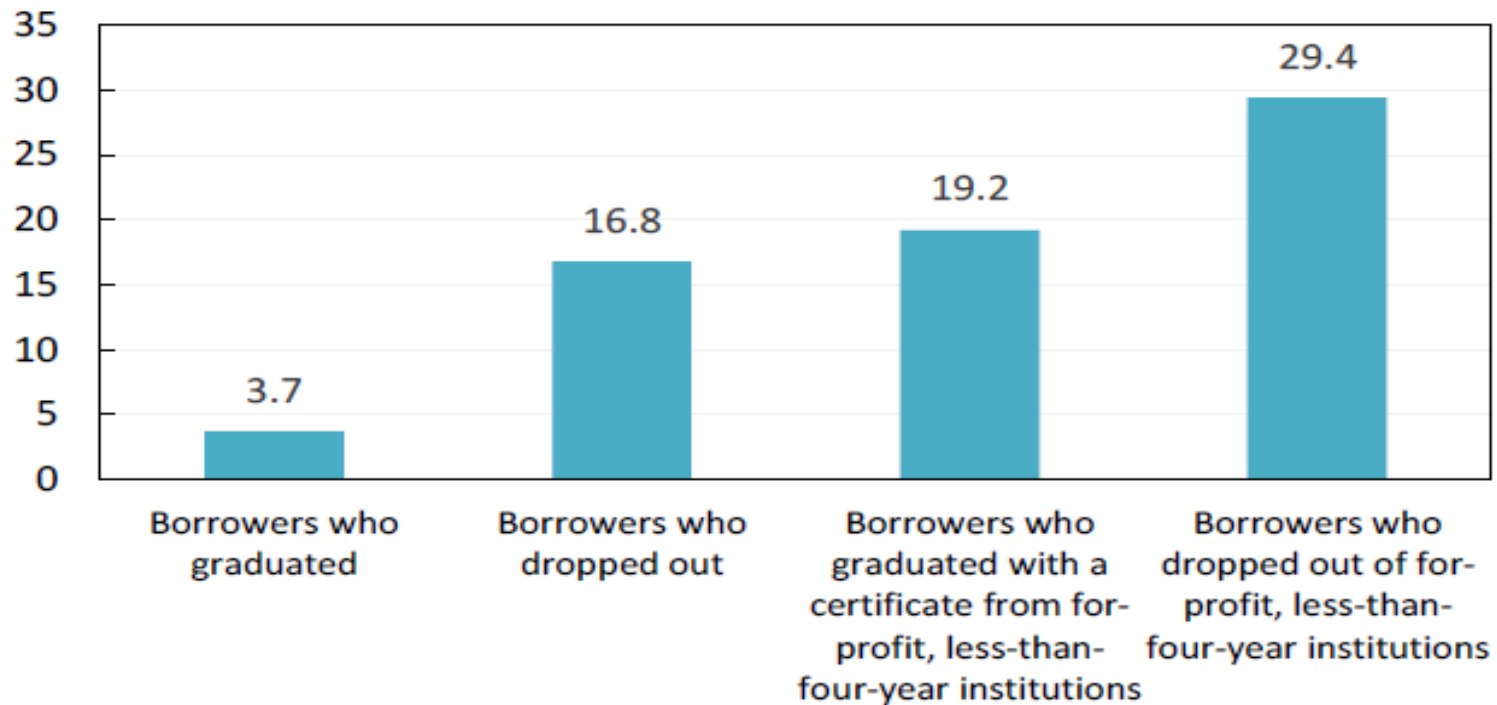


Source: WSJ, WSJonline.com, May 8, 2015.



Millennials: Only 59% of bachelor degree seekers graduate, 32% of bachelor degree seekers graduate from for-profit schools

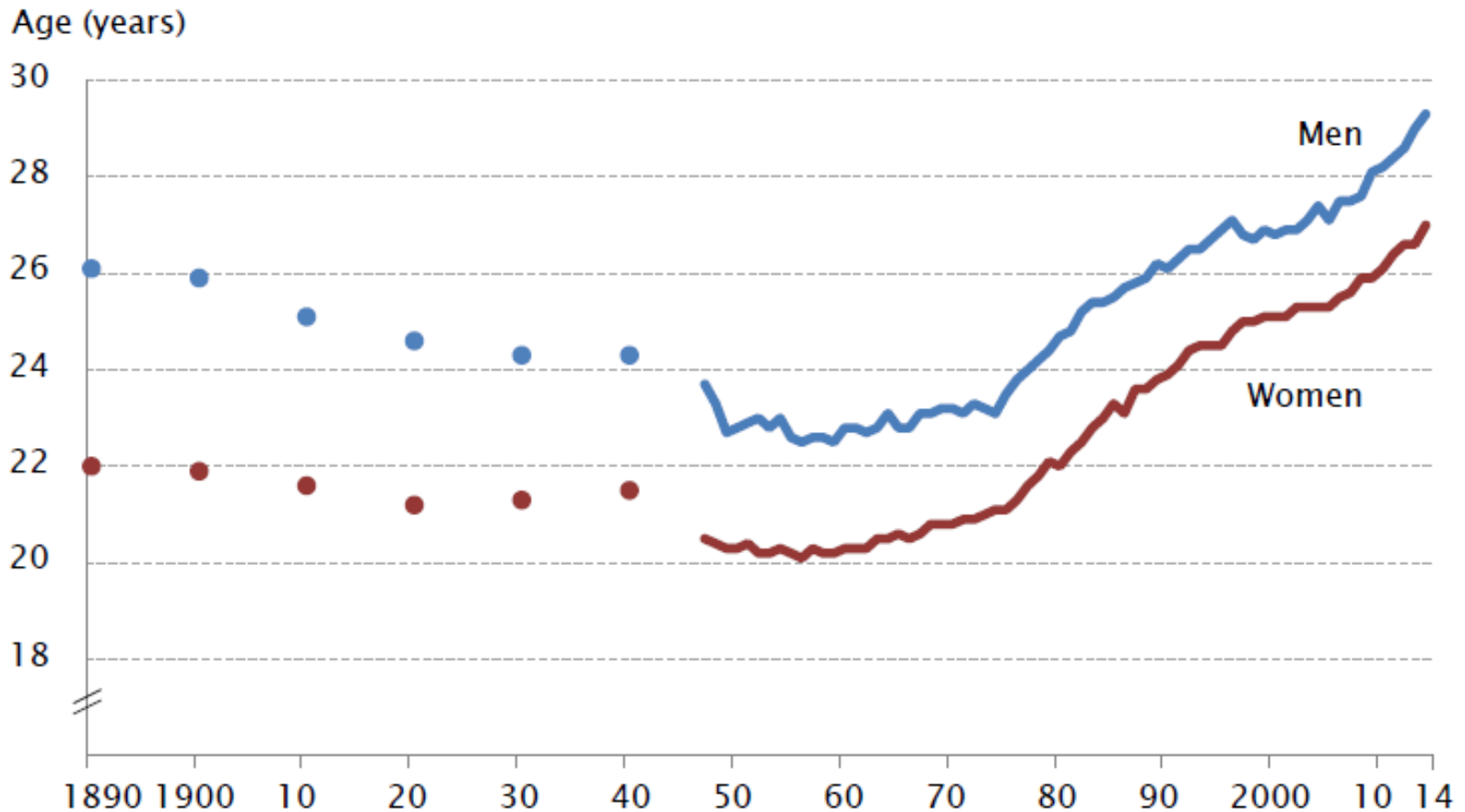
### Percentage of Borrowers who Defaulted on Loans up to Six Years after Enrollment



Source: “15 Economic Facts about Millennials,”  
The Council of Economic Advisors, Oct. 2014.

# Millennials: Marry much later in life.

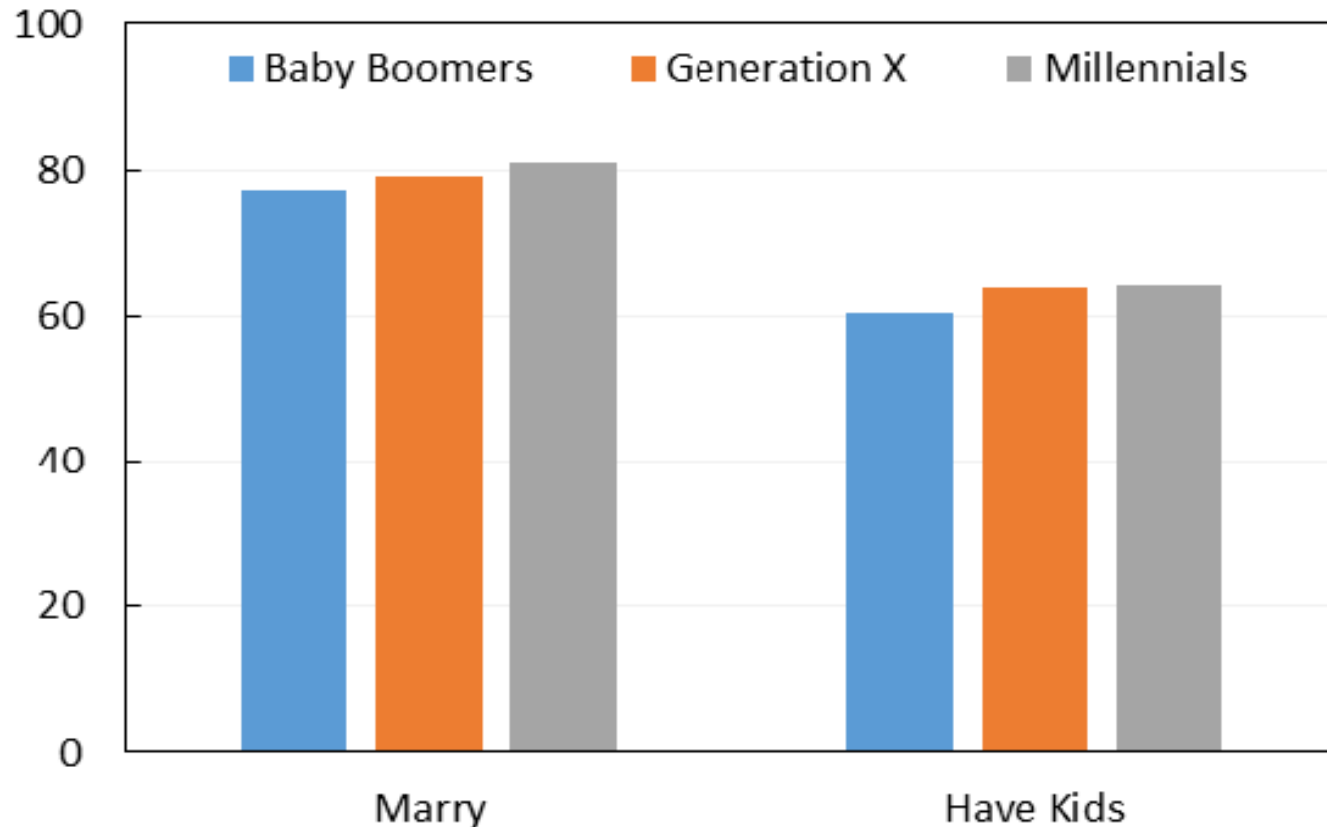
## Median age at first marriage: 1890 to present



Source: U.S. Census.

# Millennials: Plan to marry and have kids.

## Percent of Young Adults Expecting to Marry, Have Kids



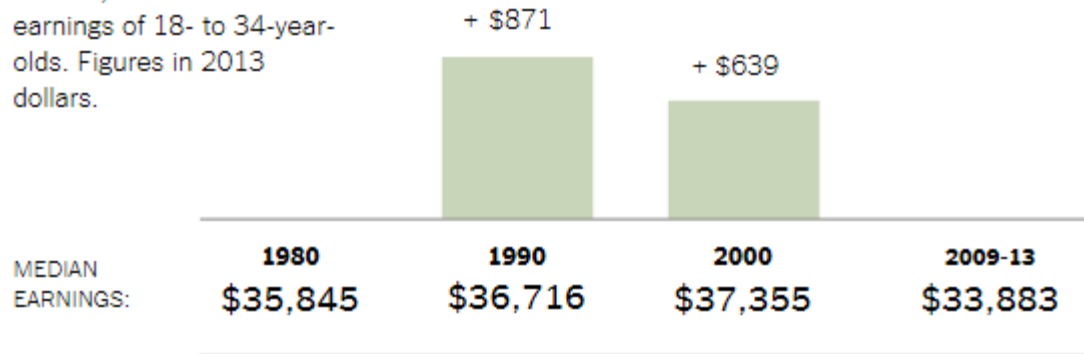
Source: Monitoring the Future, 1976-2011; CEA calculations.

Source: "15 Economic Facts about Millennials,"  
The Council of Economic Advisors, Oct. 2014.

Millennials: Are better educated and getting paid less for it.

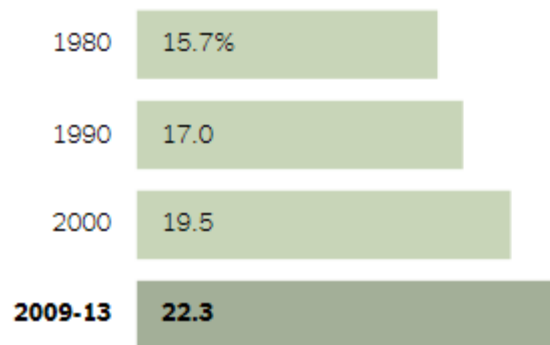
**A BIG PAY CUT ...**

Change, from previous decade, in median earnings of 18- to 34-year-olds. Figures in 2013 dollars.



**... FOR THE BEST-EDUCATED GENERATION**

Percent with bachelor's degree or higher among 18- to 34-year-olds.

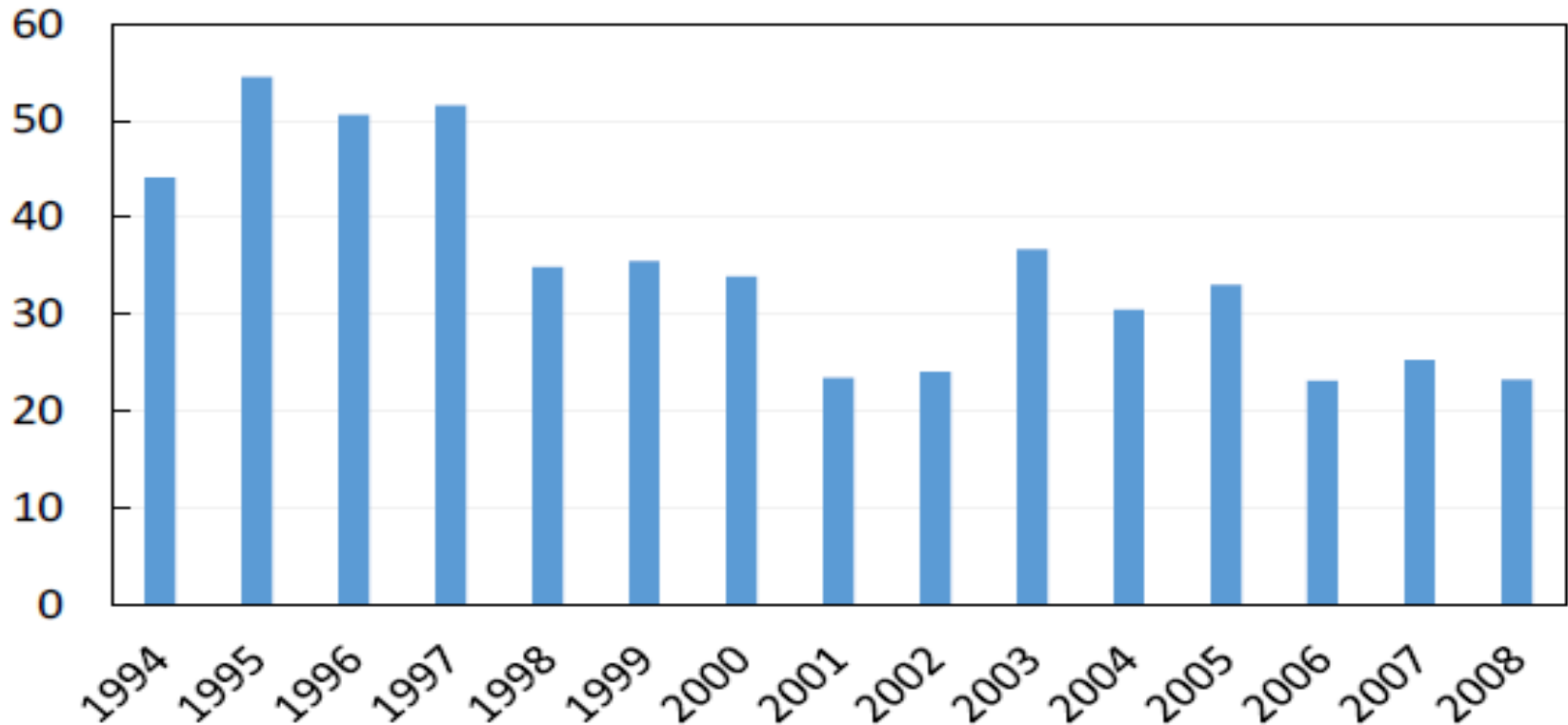


Source: NYT, August 2, 2015, p. 3.

# Millennials: Career wage growth has weakened

## Wage Growth between the ages 23 and 28 for College Educated Workers

Percent



Source: Current Population Survey, 1994-2008; CEA calculations.

Note: Cohorts are grouped by the year in which individuals turned 23.

Source: "15 Economic Facts about Millennials,"  
The Council of Economic Advisors, Oct. 2014.



# Millennials: Some facts

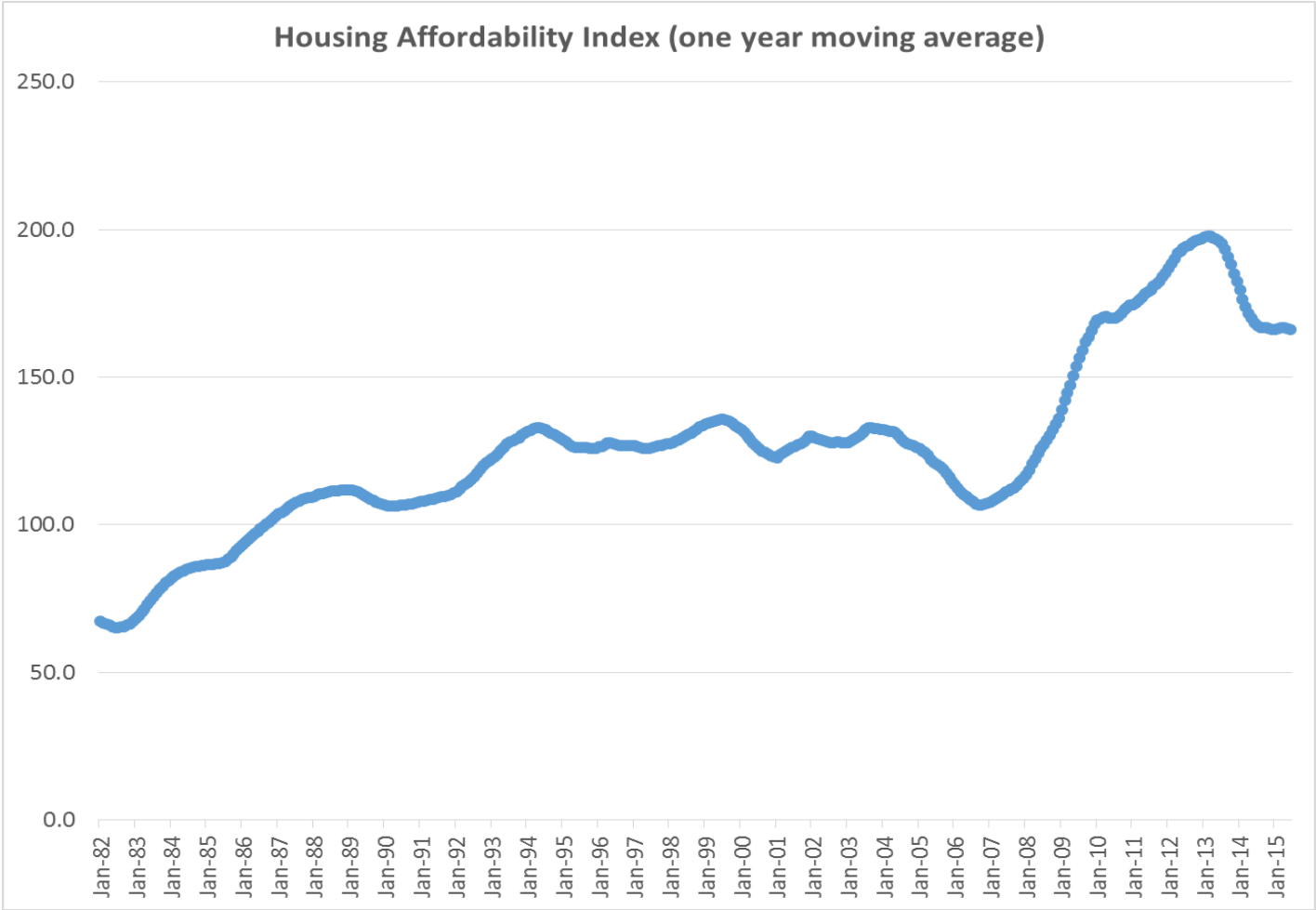
## Millennials . . . .

- A. Are not as interested in driving
- B. Boomerang
- C. Women Millennials are winning the brain game
- D. Have student loans but generally pay them back
- E. Marry later, but plan to marry and have kids
- F. Are more degreed but making less
- G. Have lower income growth prospects

Millennial households will rent longer than past generations

# Real Estate Finance, and Credit Availability

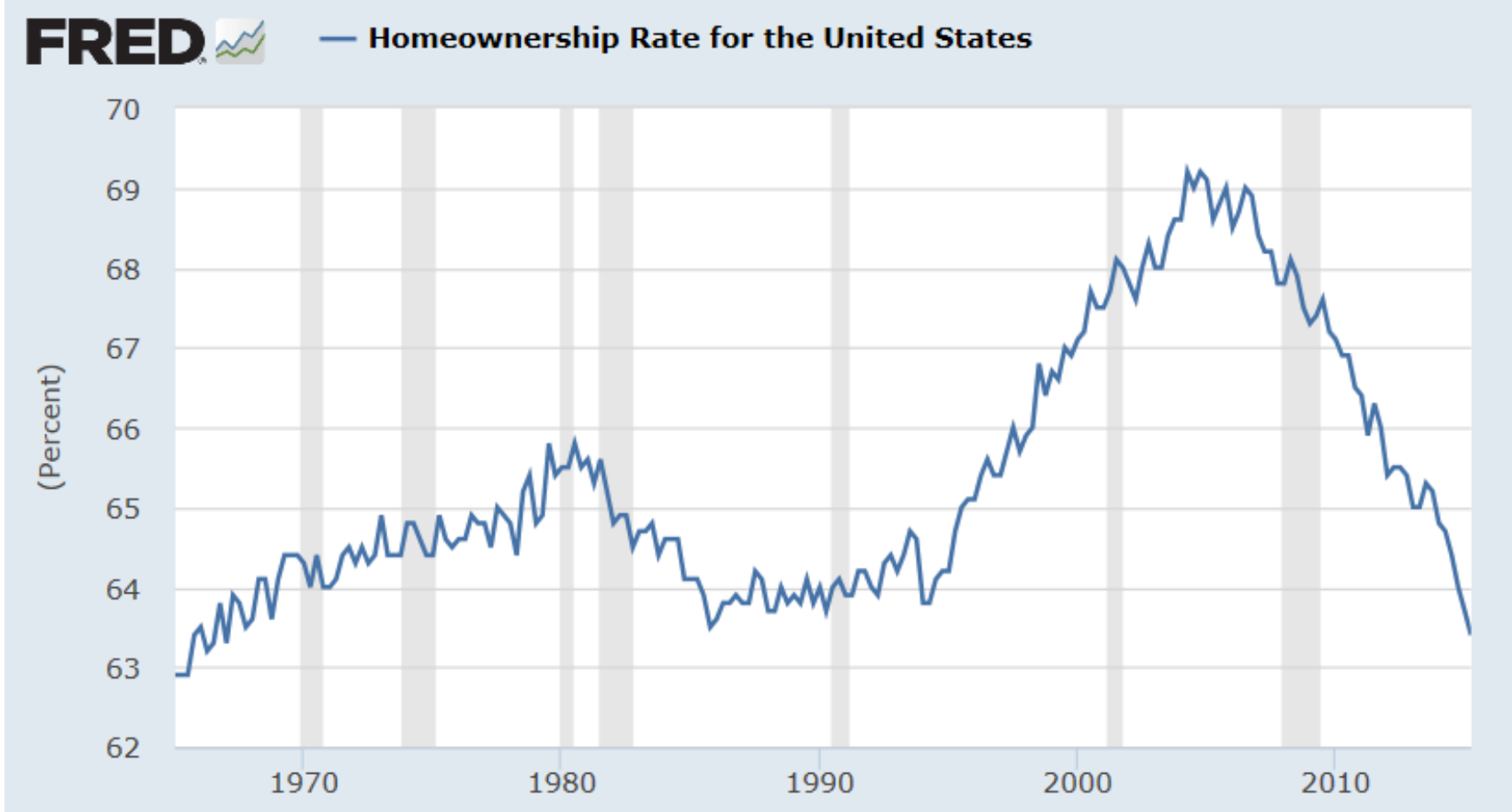
# Finance: Homeownership remains very affordable



Source: Federal Reserve Economic Data, NAR, and Marquette University.



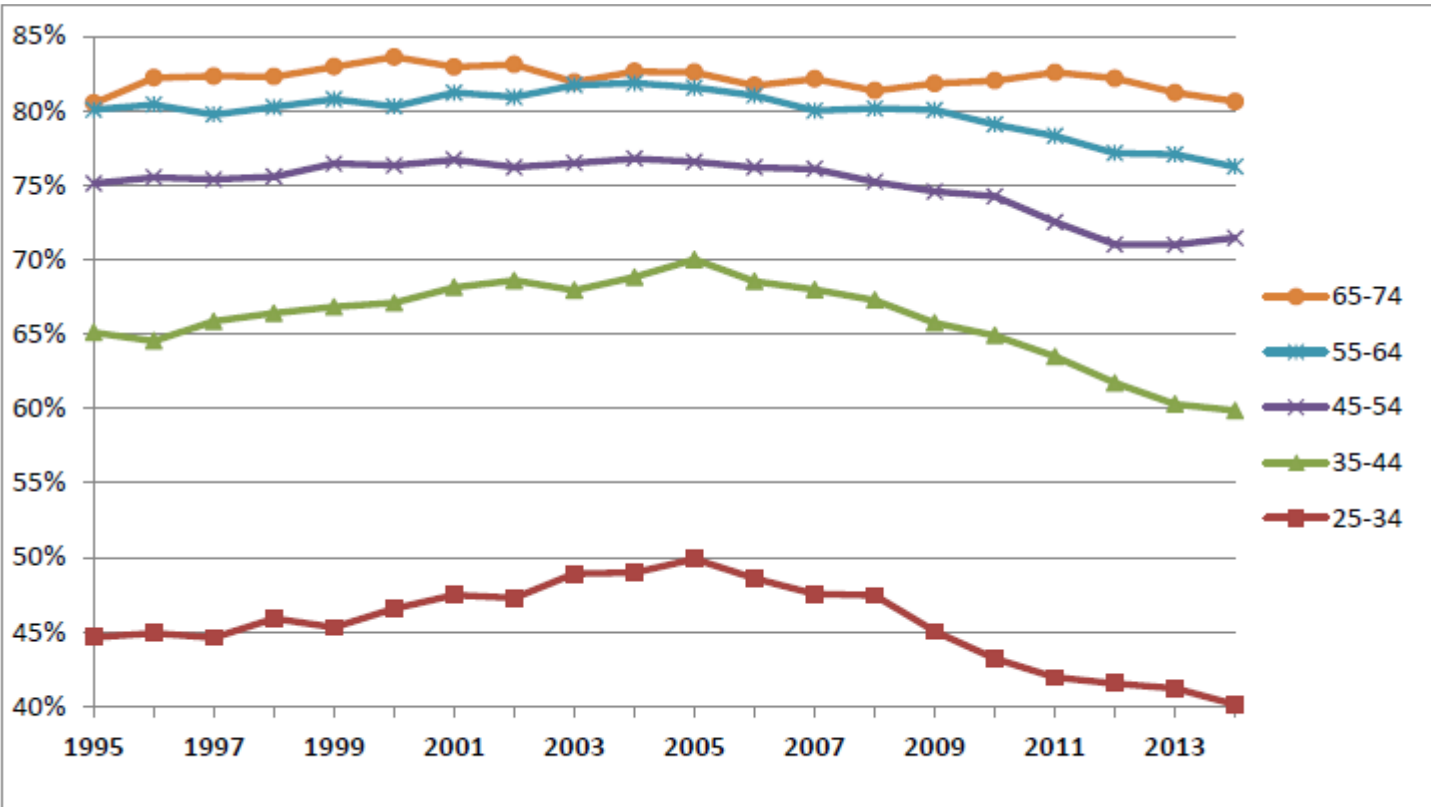
# Finance: Homeownership rates are at 48 year lows and dropping



Source: Federal Reserve Economic Data.

Finance: The share of first-time home buyers (33%) is the lowest in 28 years

### Homeownership Rates by Age, 1995-2014

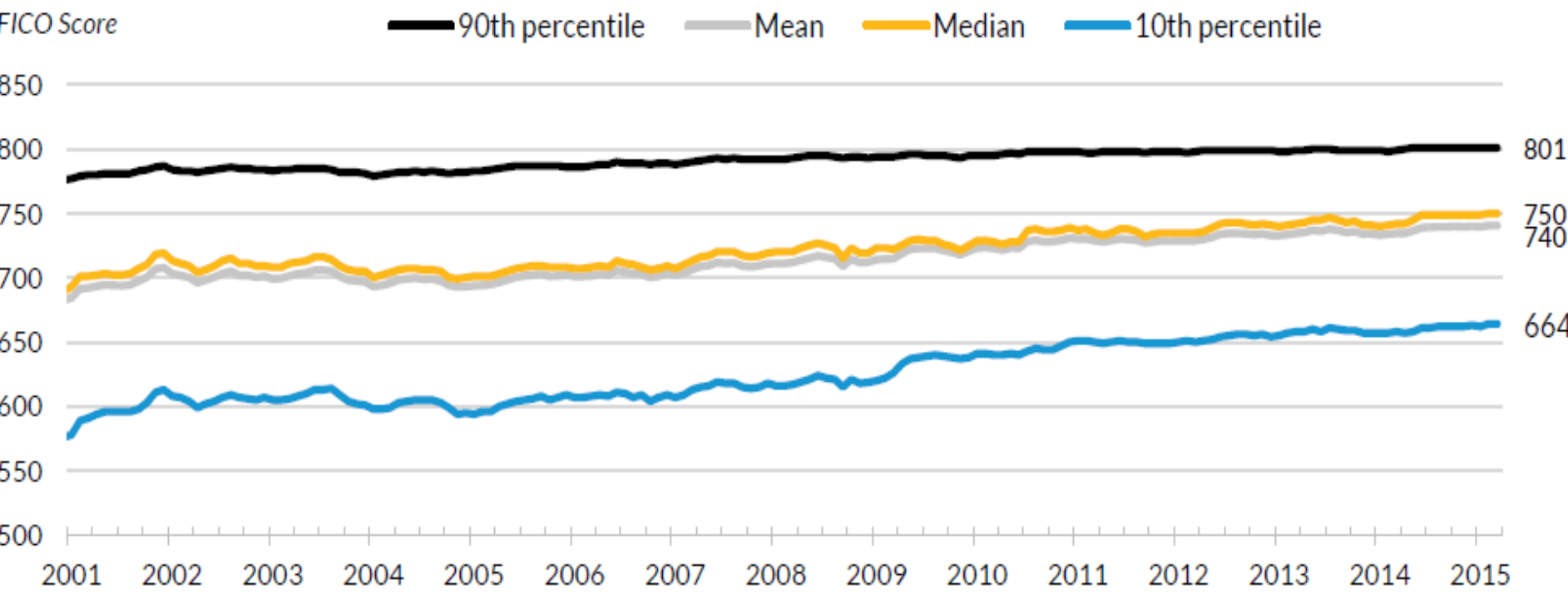


Source: Tabulations of the 1995-2014 Current Population Survey.

Source: Joint Center for Housing Studies, Harvard, Rachel Borgardus Drew, February 2015.

# Finance: FICO scores increased during and since the Great Recession

## Borrower FICO Score at Origination



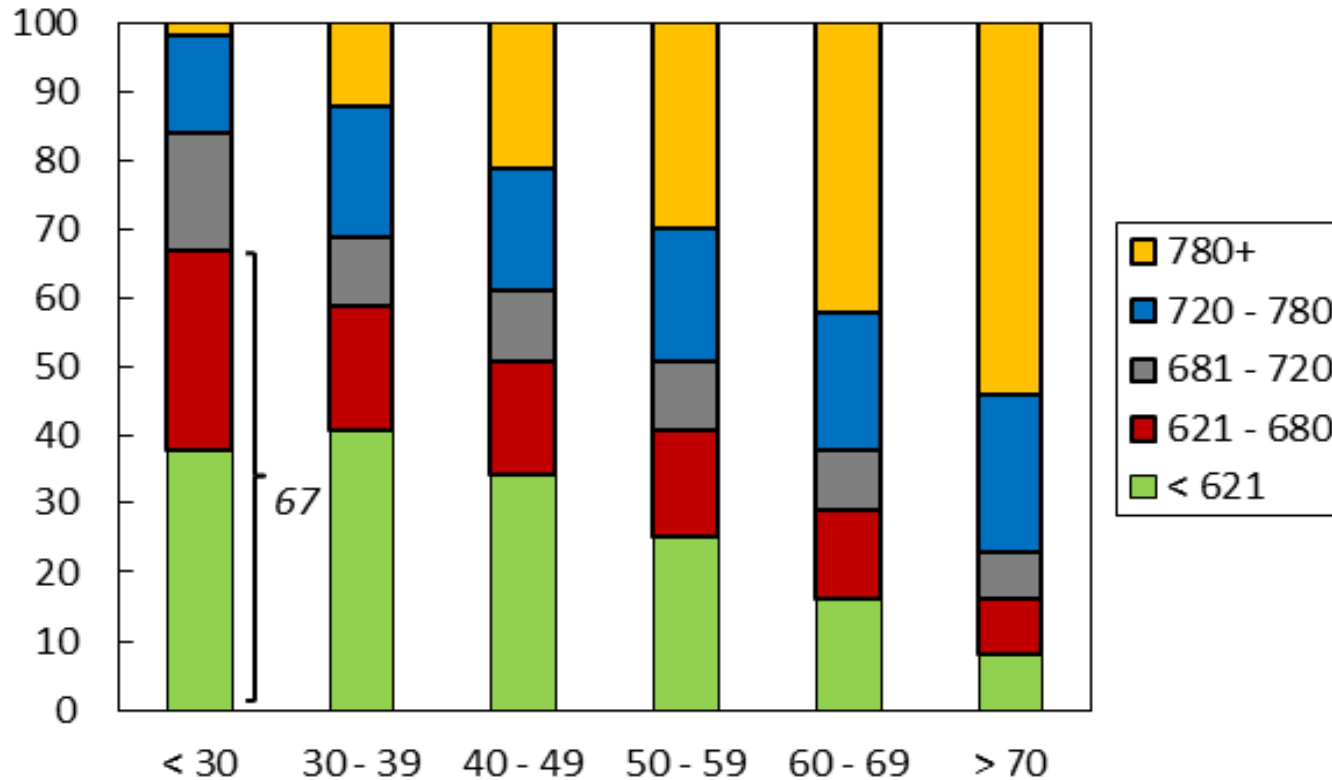
Sources: CoreLogic Servicing and Urban Institute.  
Note: Purchase-only loans.

March 2015

Source: *Housing Finance at a Glance: June 2015*,  
Urban Institute, Goodman et al.

# Finance: Young adults have weak credit scores

## FICO Score Distribution by Age Group in 2013

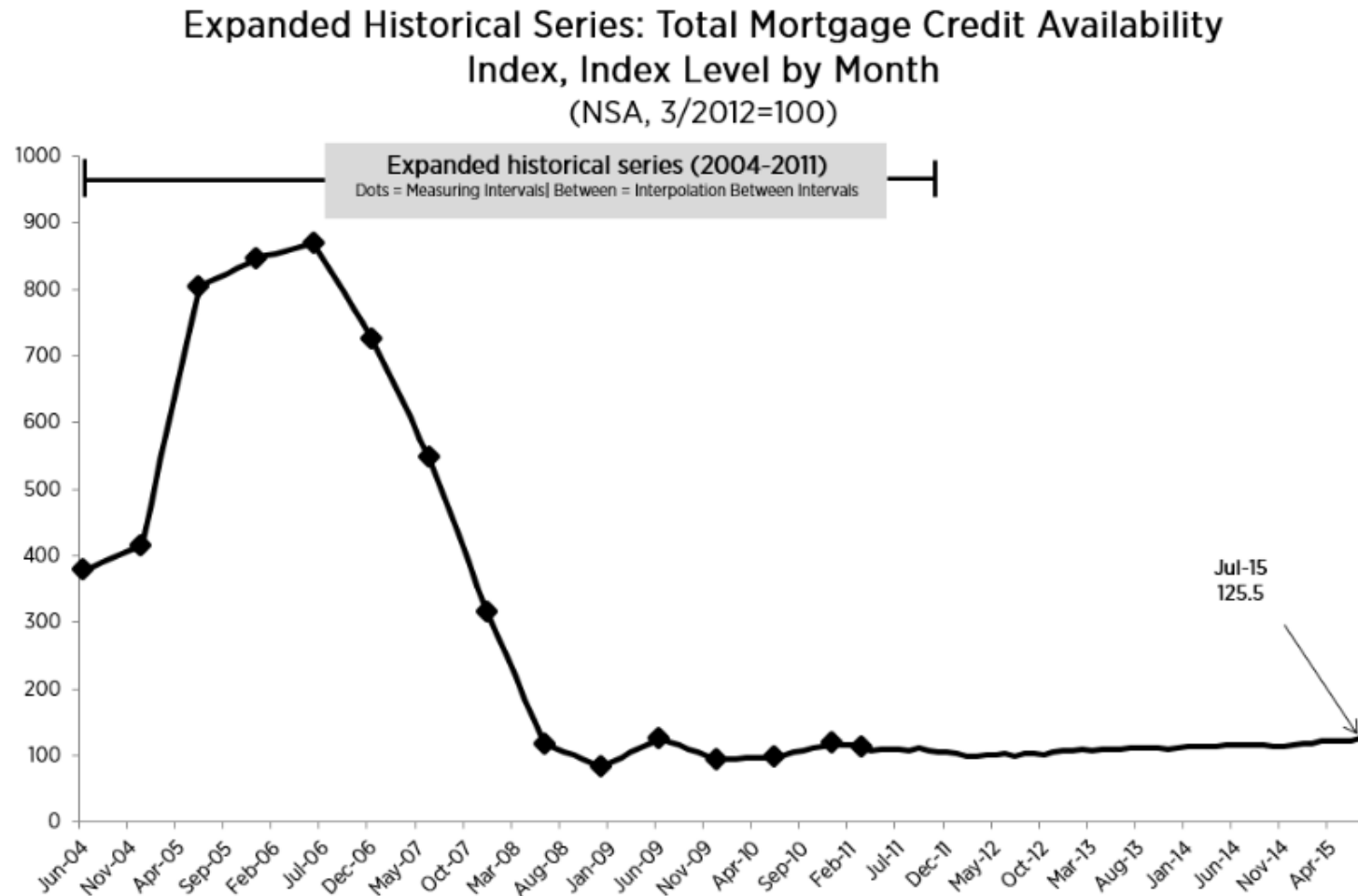


Source: Federal Reserve Bank of New York.

Source: "15 Economic Facts about Millennials,"  
The Council of Economic Advisors, Oct. 2014.



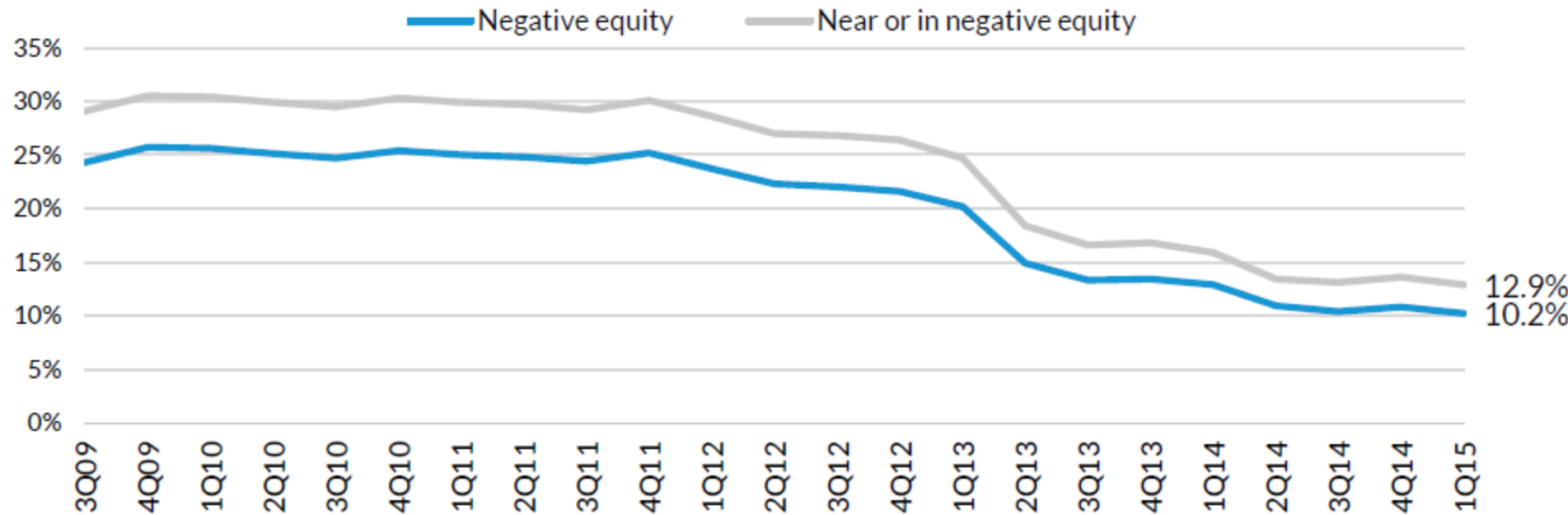
# Finance: More broadly credit availability has not eased



Source: *Mortgage Bankers Association*, Mortgage Credit Availability Index through July 15, 2015.

Finance: Both the memory and reality of negative equity haunts prospective homeowners

## Single-Family Houses with Negative Equity



Sources: CoreLogic and Urban Institute.

Note: CoreLogic negative equity rate is the percent of all residential properties with a mortgage in negative equity.

Loans with negative equity refer to loans above 100 percent LTV

Source: *Housing Finance at a Glance: June 2015*,  
Urban Institute, Goodman et al.



**MARQUETTE**  
UNIVERSITY

College of Business Administration  
Center for Real Estate

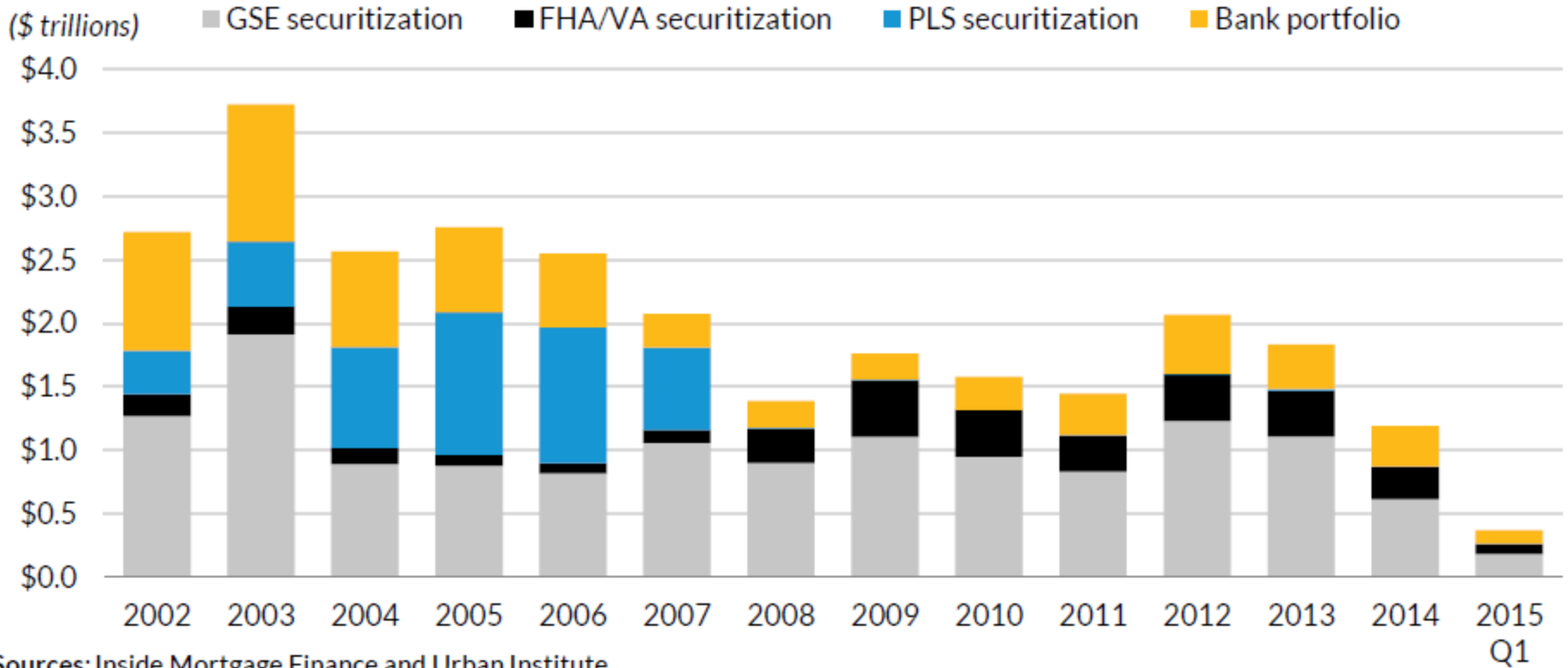
Finance: Negative equity and huge legal penalties and new regulations have curbed lender enthusiasm



Source: Economist, August 8, 2015, p. 13.

# Finance: Single-family mortgage origination has not picked up with employment gains

## First Lien Mortgage Origination Volume



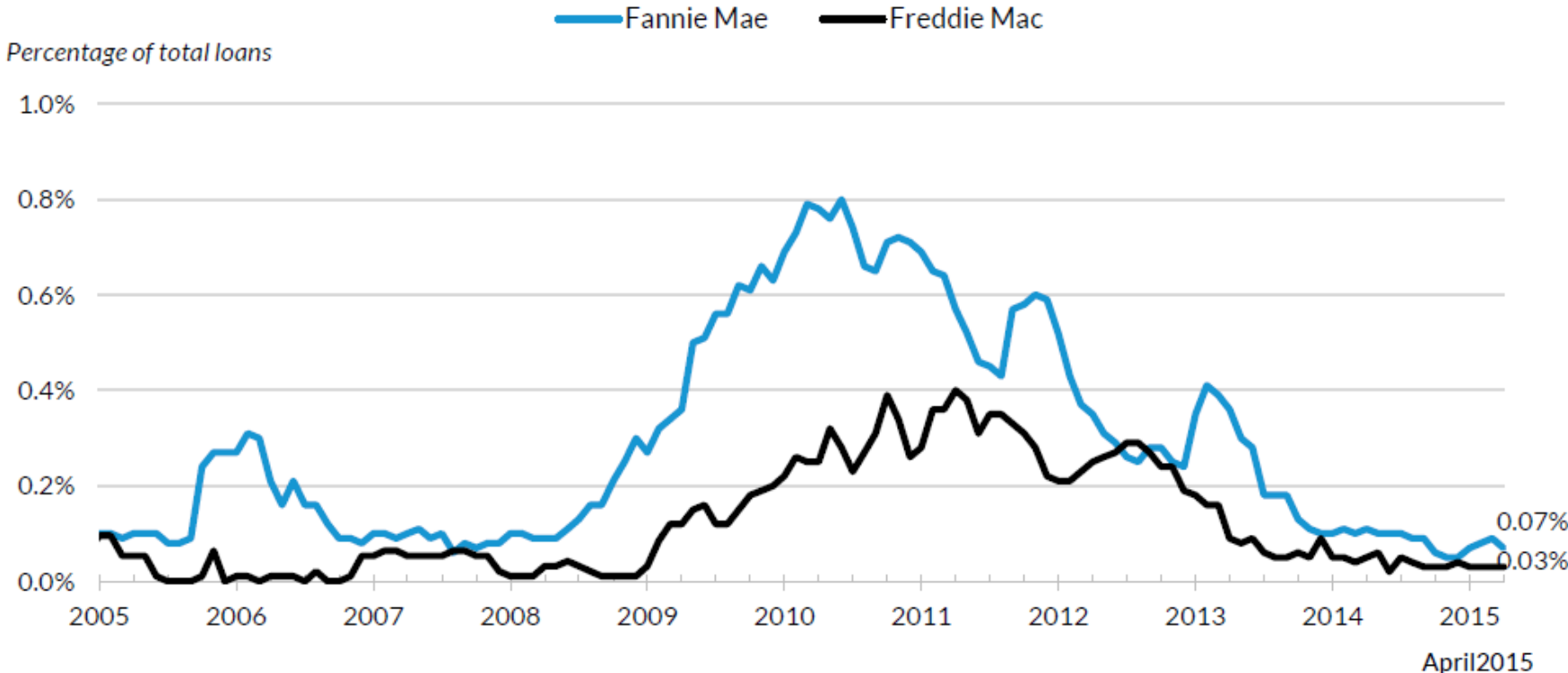
Source: Housing Finance at a Glance: June 2015, Goodman, Urban Institute.





# Finance: Mortgage delinquency problems are behind most lenders and the GSEs

## Serious Delinquency Rates–Multifamily GSE Loans



Sources: Fannie Mae, Freddie Mac and Urban Institute.

Note: Multifamily serious delinquency rate is the unpaid balance of loans 60 days or more past due, divided by the total unpaid balance.

Source: *Housing Finance at a Glance: June 2015*, Urban Institute, Goodman et al.

# Real Estate Finance, and Credit Availability

## Finance . . . .

- A. Homeownership is very affordable
- B. Homeownership rates continue to fall
- C. Credit scores and credit availability are tight
- D. Negative equity remains resident for borrowers and lenders
- E. Default rates are low

Haunting memories of the financial crisis keeps young adults and lenders from entering, in earnest, the housing market

So what does it all mean?

Fannie Mae research completed by Patrick Simmons provides some insight:

Compared homeownership rates after controlling for . . . .

- Age: 30-32 aged householder
  - Income: top quartile, >\$95,245
  - Race: non-Hispanic white only
  - Marriage: all married couples
  - Kids: all had at least one child
- 
- He found . . . .

Source: Patrick Simmons, Fannie Mae, Housing Insights, Vol. 4, No. 4., p. 3.

# Fannie Mae research completed by Patrick Simmons provides some insight:

. . . . homeownership rates in 2012 were:

- 8.6% lower than the top of the homeownership market in 2006
- 6.0% lower than in a normative homeownership market in 2000

In short, he found that in the most affordable homeownership market in recent history (2012), more households rented by sizable margins than in earlier years.

Source: Patrick Simmons, Fannie Mae, Housing Insights, Vol. 4, No. 4., p. 3.

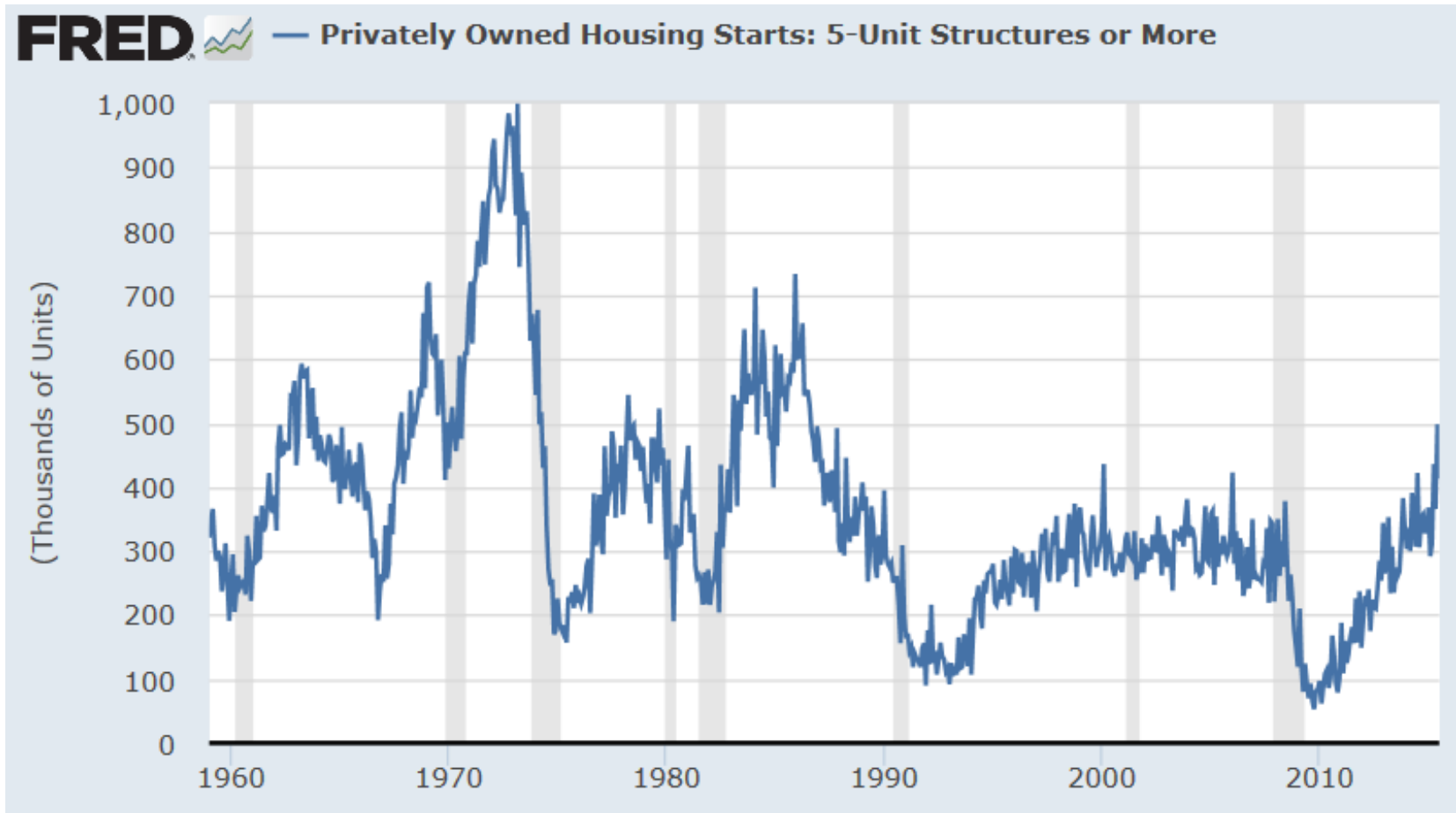
Results of the detailed Census analysis by Goodman and others reveals 544,000 to 722,000 new renter households per year will be created for the next 15 years

	Observed (o) or Projected (p)			Change	
	2010o	2020p	2030p	2020s	2030s
<b>Slow scenario</b>					
Households	116,716	127,350	136,411	10,634	9,061
Homeownership rate	65.1%	62.3%	60.3%	-2.8%	-2.0%
Homeowners	75,986	79,390	82,263	3,404	2,873
Renters	40,730	47,960	54,148	7,229	6,188
<b>Fast scenario</b>					
Households	116,716	129,258	140,936	12,542	11,678
Homeownership rate	65.1%	63.0%	62.2%	-2.1%	-0.8%
Homeowners	75,986	81,403	87,640	5,417	6,237
Renters	40,730	47,855	53,296	7,125	5,441

Sources: Decennial Census 2010 (o) and Urban Institute projections (p).

Source: “*Headship and Homeownership: What does the Future Hold?*”  
Goodman, Pendall, and Zhu, June 2015, Urban Institute.

Since 1960 an average of 360,000 rental housing units were started, since 1990 that number is 252,000

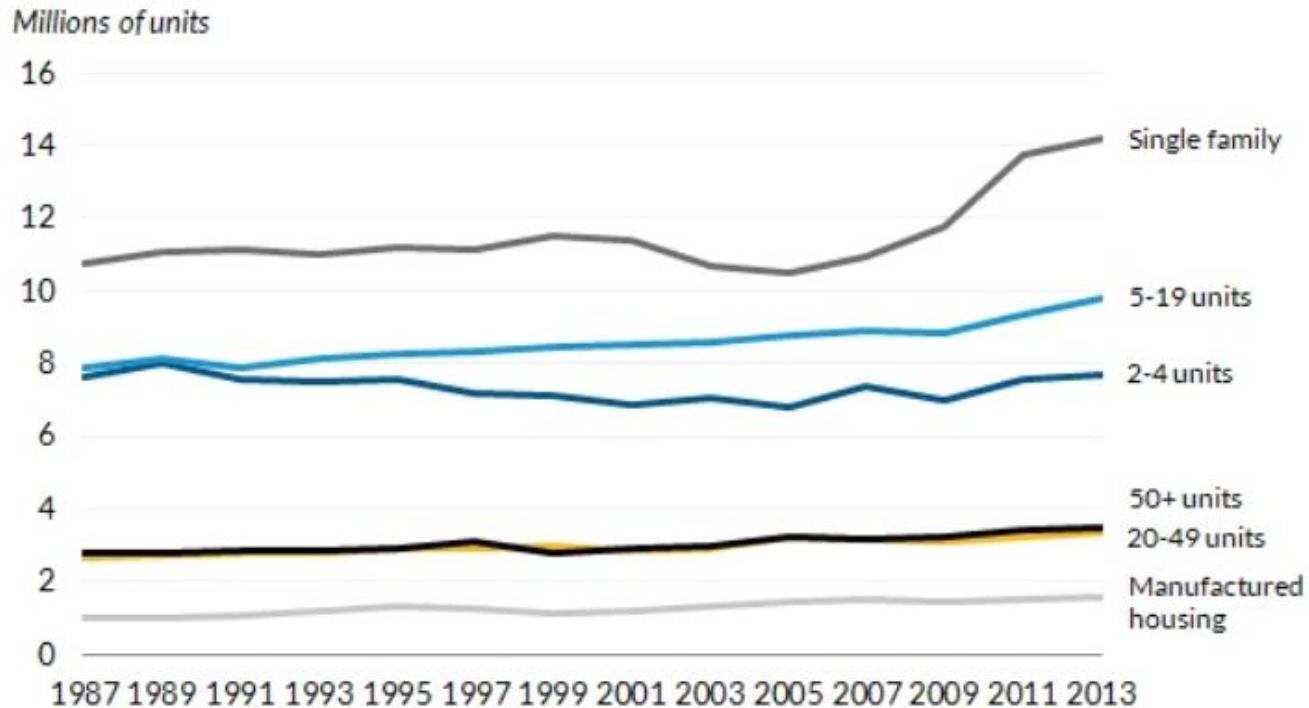


Source: Federal Reserve Economic Data.



The conversion of single-family owner-occupied homes into rentals, created over three million rental units in the 2006-2012 period addressing market demand.

### Single family units have outpaced other rental structures since the housing bust



Sources: American Housing Survey and Urban Institute.

URBAN INSTITUTE

Source: Urban Institute, Three Charts that Explain the Renters Next Door, Taz George, February 26, 2015.



# Takeaways:

- Demographic impacts of:
  - Changing household makeup (20% are married with children)
  - Minority household growth (80+% off household growth minority)
  - Size of the Millennial cohort (about 4,000,000 people per year)
- And the Millennial behaviors/preference of:
  - Later marriage (6-7 year later than 50 years ago)
  - More degrees but making less and smaller wage growth
- And the changes in housing finance of:
  - Tighter underwriting (increased FICO scores)
  - Perceptions and realities of negative housing equity
- **Will create demand for multifamily housing of 500,000-600,000 units per year for the foreseeable future.**

**For an update on this research and new insights next year  
Please save the date for the:**

**2016 Commercial Real Estate Strategies Conference  
Thursday, September 8<sup>th</sup>, 2016**