

Millennials Will Drive Home Prices Up for Years to Come

By

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Illustration by Rose Wong

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Housing is hot, but who's driving the frenzy? Millennials. Yes, despite more than a decade of depressing anecdotes about parental-basement living and too many roommates, this group now leads the U.S. housing boom. This is no flash in the pan: Millennials will probably stoke housing demand for years.

What is driving the millennial housing boom? Shrinking debt, expanding wealth, growing families, and low interest rates.

Millennials are working and reducing debt. Born from 1980 to 1995, millennials range from 26 to 41 years old, and represent [22% of the U.S. population](#), or 72.8 million people. They also account for a sizable portion of the workforce, at [36%](#). They are accumulating savings to pay down student loans and other obligations, a pivotal hurdle to homeownership. The [Education Data Initiative](#) estimates that while the youngest millennials have \$22,953, on average, in student-loan debt, those in their early 30s have only \$874, and those in their early 40s have largely paid off their debt.

Student-loan forgiveness and stimulus checks also helped cut debt and provide money for down payments. From November 2020 to April 2021, 3,458 applicants received loan discharges from the [Public Service Loan Forgiveness](#) program. The total forgiven was \$583 million. In addition, 95,000 applications were approved under the [borrower-defense program](#), over its length, with close to \$600 million discharged.

And people 25 to 39 years old received more than \$380 million in [federal stimulus](#), starting in March 2020. This group used 49% of the money for goods and services, 33% for paying down debt, and 18% for savings and investments, probably including homes.

Millennials have wealth. The median net worth of people 34 to 44, which includes the oldest millennials, was [\\$91,300](#) in 2019, compared with [\\$64,600](#) in 2016, when many members of Generation X were the same age. Amid the pandemic, any millennials who owned financial assets, received stimulus checks, or both, have probably experienced further increases in net worth since 2019. Many in this group recently discovered investing. A 2021 survey by [Charles Schwab](#) revealed that the median age of people who began investing during the pandemic was 35, compared with 48 for those who began doing so prepandemic. Millennials make up 51% of new pandemic-era investors. This cohort is forming households, marrying, and having children, all of which requires space. The number of households headed by [adults 30-to-44](#) years old jumped by 1.3 million during the pandemic. Married couples 31 to 40 were [more likely](#) than any other age group to purchase homes, according to a 2021 study from the National Association of Realtors. Also, the largest group of unmarried couples who purchased homes were adults aged 22 to 30. The same survey revealed that millennials 31-to-40 years old were the most likely (61%) to have at least one child under 18 at home. Low interest rates are also facilitating millennials' demand for homes. The share of millennials purchasing homes was on the rise over the 2015 to 2019 period. The pandemic only supercharged this trend. [Homeownership surged](#) for those under 44 years of age in 2020, as Federal Reserve rate cuts pushed [mortgage rates](#) to historic lows. In fact, millennials accounted for the [largest share](#) of home buyers (37%) over the past year.

What will keep this trend going? Rising incomes, remote work, and a robust economy.

Millennials are approaching peak earning years—ages 45 to 54—a critical time for financing a home. The median annual income for this group was [\\$77,800](#) in 2019. The oldest millennials are not quite there yet, but even for the group of Americans ages 34 to 44, median annual income was already [\\$74,300](#) in 2019, suggesting that millennials have the earning power necessary for homeownership. Over the next couple of decades, a quarter of the U.S. population is going to reach peak earning years, fueling continued housing demand—especially for inexpensive starter homes, which nationally had a beginning price of [\\$304,200](#) in the second quarter of 2021.

Normalization of remote work should continue to drive millennial demand. An April 2021 YPulse study revealed that 55% of millennials want to work from home post pandemic. Also, the same National Association of Realtors study revealed that millennials were the most likely to say that the reason for owning a home was to have a space of their own or for a larger abode—62% of 22-to-30-year-olds and 54% of 31-to-40-year-olds. As work from home is probably here to stay, millennial housing demand has room to run.

Of course, some millennials still face home-buying challenges. Most notably, elevated student loan debt remains a burden for many, especially those of color. and high home prices are locking some potential buyers out of the market.

Still, the demand from this important consumer group is likely to persist for several years. This is given the [likely continuation](#) of relatively low interest rates, a [solid economic backdrop](#) that supports employment, and the evergreen hope of achieving the American Dream, with homeownership being a central part of it. This knowledge should be good news for the economy, and for businesses that can help cater to the unique needs of these young homeowners.