

Understanding the Next Generation of Homebuyers



The ABCs of Gen Y and Z | Part One of Three

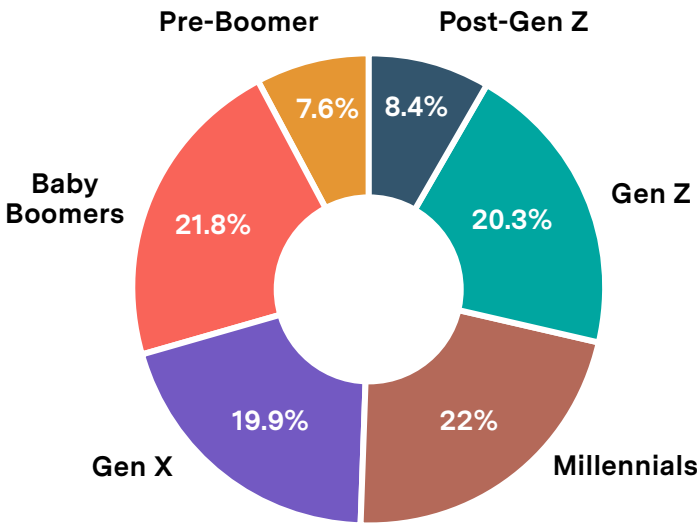
Introduction

A New Home Buyer Demographic Is Emerging. The homebuyer market is always changing but will see some dramatic shifts in the next few years as Younger Gen Y Millennials and members of Generation Z become an increasing share of the home-buying public. These younger generations make up more than 20% of today’s population and are poised to overtake older cohorts in number of homes purchased.¹

In June 2021 surveys, 21 percent of Generation Z adults said they were planning to buy a home in the next 12 months, 43% said they expect to buy a house within five years and 45% said they are already saving for one.^{2,3} Younger Gen Y Millennials, those born from 1990 to 1998, are already making their mark on the housing industry. This cohort bought 14% of homes sold from mid-2019 to mid-2020, a year-over-year increase of 27% and the most substantial gain of any generational cohort.⁴

Understanding the characteristics, behaviors, and buying trends of Gen Z and Younger Gen Y Millennials can help loan originators make informed decisions about how to reach and work with the next generations of home buyers. In part one of our three-part series, *Understanding the Next Generation of Homebuyers | The ABCs of Gen Y and Z*, we look at the demographics and sociographics that distinguish younger members of Generation Y and define rising members of Generation Z.

Figure 1 | US Population by Generation

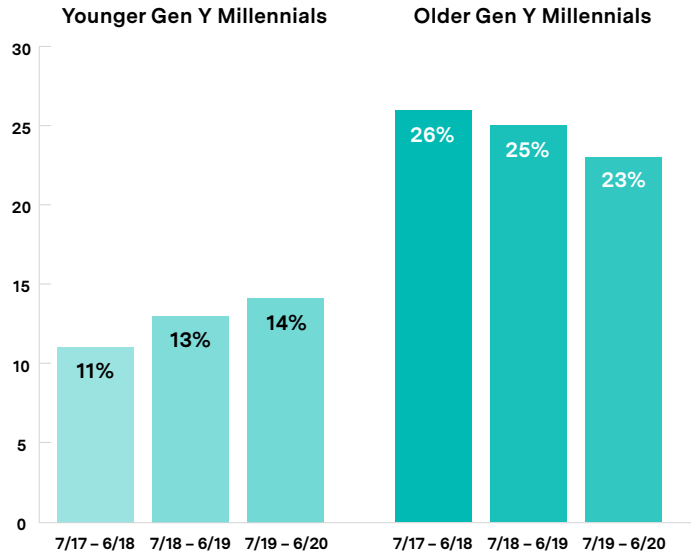


Adult Gen Z (18+) and Younger Gen Y Millennials are an emerging homebuying demographic.

NOTE: There will be some variance within the generational definitions throughout the document since each reference source chose different date ranges.

SOURCE: Brookings Lab⁵

Figure 2 | Share of Home Buyers 2017 – 2020



Younger Gen Y and Gen Z homebuying is trending up while activity among Older Gen Y Millennials begins to decrease.

SOURCE: National Association of REALTORS⁵

Demographic and Sociographic Differences

The Gen Y Divide. Perhaps no other demographic has been analyzed and reported on more than the Millennial Generation, those late bloomers who eschew traditional career paths, prefer experiences to “things,” and delay the milestones that impact household formation (moving out, getting married, and having children). Less has been reported on the generational divide between younger and older members of this cohort.

Sociologists (and marketers) now recognize that there are differences worth noting when working with younger versus older members of the Millennial Generation.

Millennials are the single largest living generation within the U.S. population. Their ranks bridge an 18-year span between the oldest (now 42) and the youngest (now 24). Beginning with its 2019 Home Buyers and Sellers Generational Report, the National Association of REALTORS began tracking the homebuying habits of the Millennial generation in two separate groups: Younger Gen Y Millennials (born 1990 through 1998) and Older Gen Y Millennials (born in the years 1980 through 1989).

By the Numbers | Gen Y Millennials

- There are about 40 million Younger Gen Y Millennials (compared to 45 million Older Gen Y).⁷
- In 2022, the youngest Younger Gen Y Millennials will turn 24 and the oldest will turn 32.

How are Younger Millennials Different?

Younger Millennials are said to be more risk-averse compared to their older, experience-seeking counterparts. Experts say this is largely due to their age during two defining events: 9-11 and the Great Recession.

- Younger Millennials were too young to remember 9-11, a formative event that encouraged older Millennials to pursue their dreams instead of their careers.
- But Younger Millennials are old enough to remember how their Gen-X parents, older Millennials and others were affected by the economic downturn from the subprime mortgage crisis. This left a lasting impression on their outlooks and approaches to financial matters.

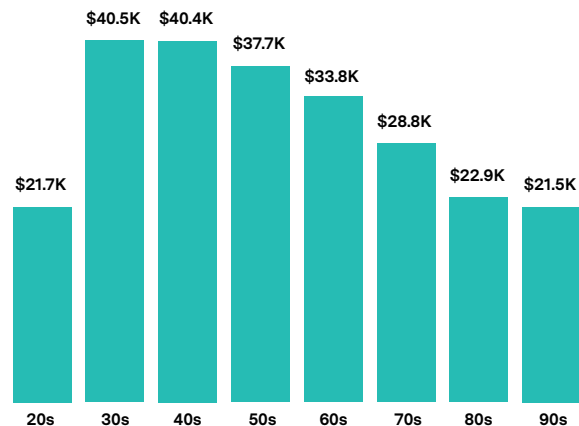
Today, Younger Gen Y Millennials are said to be attracted to industries with steady work. They're less likely to job-hop and are more likely to say that they are willing to work overtime than older Millennials.⁸

What else do we know about this cohort?

- Millennials in their 20s appear to be less burdened by student debt than Millennials in their 30s and 40s. Twenty somethings owe \$21,700 on average. Thirty somethings owe almost twice as much (\$40,500)⁹
- Young Millennial families have been more successful at building wealth compared to older Millennials at the same age.¹⁰
- Among non-homeowners, younger Millennials have better credit than older Millennials: Freddie Mac reports that 43% of younger Millennials who don't have a mortgage could qualify for one. This compares to only 31% of older Millennials.¹¹
- Younger Millennials are just beginning to flex their homebuying power.

Key Takeaway: Originators who lump younger Gen Y in with their older counterparts may be underestimating this cohort's motivation and ability to buy.

Figure 3 | Average Student Loan Debt by Age Group



Perhaps due to greater risk aversion, younger generational cohorts carry lower student debt.

SOURCE: Education Data Initiative¹²

Introducing Gen Z. Brookings Research defines Generation Z as those born in the years 1997 through 2012. In 2022, the oldest members of Gen Z will turn 25 and the youngest will turn 10. This generation is the most diverse of all cohorts and on track to becoming the best educated.

By the Numbers | Generation Z

- Approximately 34.5 million members of Generation Z are aged 18 and over.¹⁹
- Just over 7 million members of Generation Z are employed full time and they generate almost \$229 billion in annual total income.¹⁴
- Members of Gen Z attending college are choosing majors that will yield practical, generously paying jobs.¹⁵
- By 2023, Gen Z will comprise 30% of the U.S. labor force.¹⁶

When it comes to finances, members of Gen Z are said to be motivated savers and careful spenders. Despite the Pandemic, 70% of the Generation Z members surveyed in 2021 added to their savings, 29% mapped out financial goals, 26% contributed to a retirement account, and 26% invested in the market.¹⁷ When they are considering a purchase, 96% of Generation Z said they read reviews or recommendations for products before buying.¹⁸ Many said they prioritize minimizing student debt or avoiding it altogether.¹⁹

What else do we know about this cohort?

- Nearly half of Gen Z members fall into the category of “minority.” 52% of Gen Z is white, 25% is Hispanic, 14% is Black and 4% is Asian.²⁰
- Members of Gen Z are more likely to be first generation American: 22% of Gen Zers have at least one immigrant parent compared with 15% of all Millennials.²¹
- Compared to older generations, more members of Gen Z have at least one college-educated parent, they are less likely to drop out of high school, and more likely to earn a four-year degree.²²
- Advances in education are particularly notable for Hispanic and Black members of Gen Z. In 2017, 76% of Hispanic 18- to 20-year-olds had finished high school compared to only 60% in 2002. Among blacks, 77% aged 18 to 20 had finished high school compared with 71% in 2002.²³
- Among all new homeowners in 2021, Latinos were twice as likely to have purchased a home at a young age: 34% were aged 18 to 24 compared to only 17% of the general population.²⁴

Key Takeaway: Marketing to minorities will become even more important in the coming years as an increasingly educated cohort of Gen Z shifts the racial and ethnic balance of the homebuying public.

Defining Gen Y and Z

Definitions for Generations Y and Z are fluid. For example, Pew Research ends Gen Y at 1996 and begins Gen Z at 1997. The National Association of REALTORS ends Gen Y at 1998 and begins Gen Z at 1999. For the purposes of this white paper, unless otherwise noted:

- Gen Z is defined as those born in the years 1997 through 2012. In 2022, the oldest members of Gen Z will turn 25.
- Younger Gen Y Millennials are defined as those born in the years 1990 through 1998. In 2022, the youngest members of this cohort will turn 24 and the oldest will turn 32.
- Older Gen Y Millennials are defined as those born in the years 1980 through 1989. In 2022, the youngest members of this cohort will turn 33 and the oldest will turn 42.

Zillennials: The Tweener Generation

Loan officers and mortgage brokers who are active on social media may want to work the term Zillennial into their next post. A popular term on Tik Tok, Facebook and Twitter, Zillennials are the self-proclaimed “tweener” generation. They overlap the waning years of the Millennial generation and the beginning years of Generation Z. Zillennials share traits with both age groups. Like Younger Gen Y Millennials, they experienced the transition from flip phone to smart phone, the switch from DVDs to streaming, and the impact of the 2008 recession. And like Gen Z, Zillennials are very connected to their smart phones and reliant on Wi-Fi. Zillennials tend to distinguish themselves from Gen Z and older Millennials by virtue of their pop culture references. They are proud of their in-between status as evidenced by websites such as bornzillennial.com.²⁵

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