Gaps in Economic Opportunity

Gaps in Economic Opportunity

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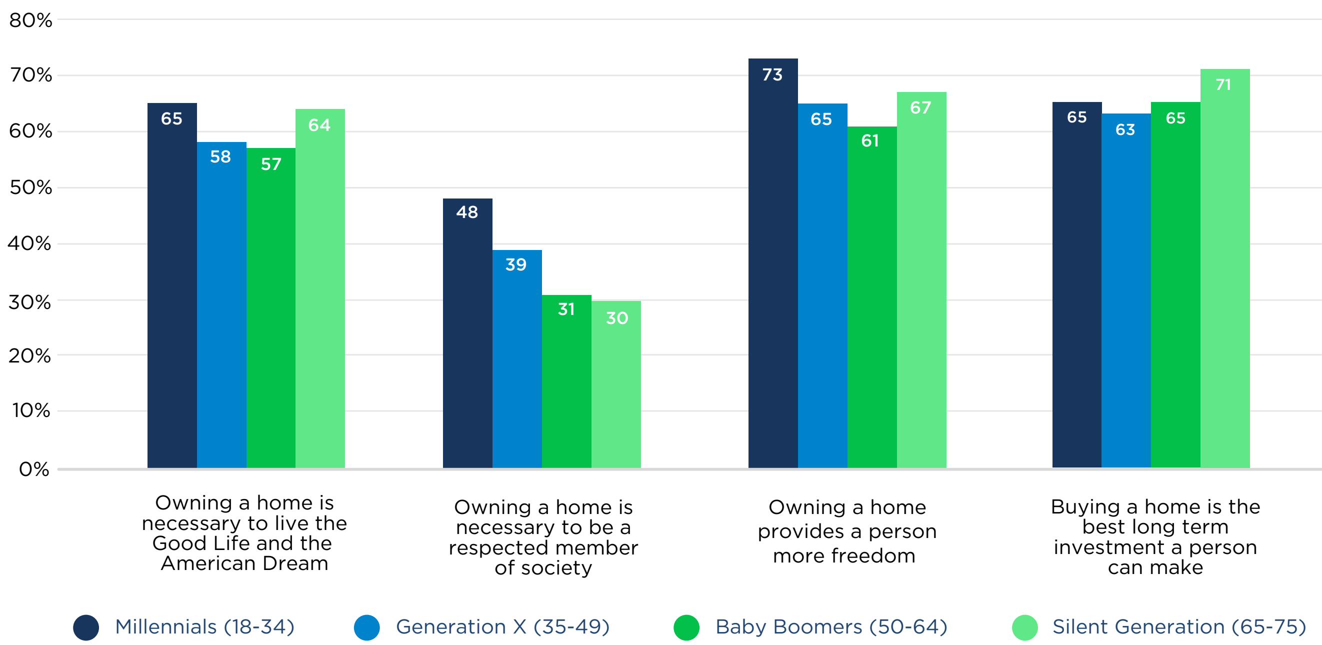
Generational Gaps

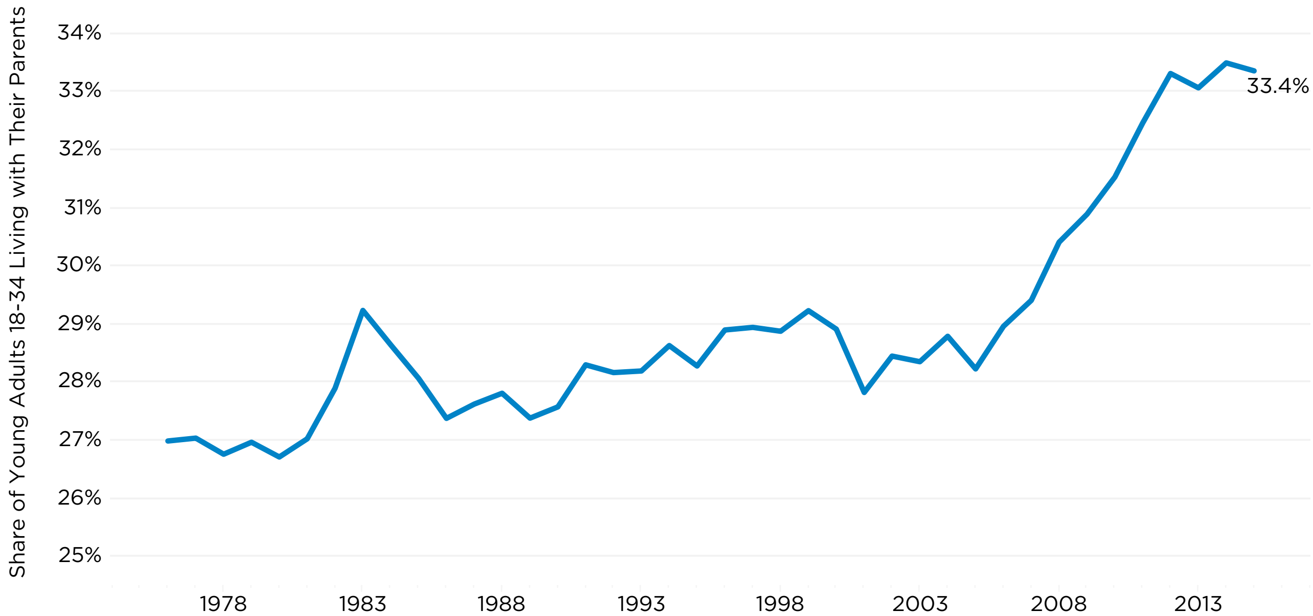
Today's first-time home buyers are significantly different than first-time buyers from earlier generations, likely a result of shifting generational preferences, a changed job market and mounting affordability challenges. Today's first-time buyer is more than three years older and typically rents longer before making the jump into homeownership.

1975-1979	2010-2013
Average age **29 years old**	Average age **32.5 years old**
Household size **2.6 people**	Household size **2 people**
Years renting before buying **4.6 years**	Years renting before buying **6 years**
Home value in today's dollars **$99K**	Home value in today's dollars **$140K**
Income in today's dollars **$55K**	Income in today's dollars **$54K**

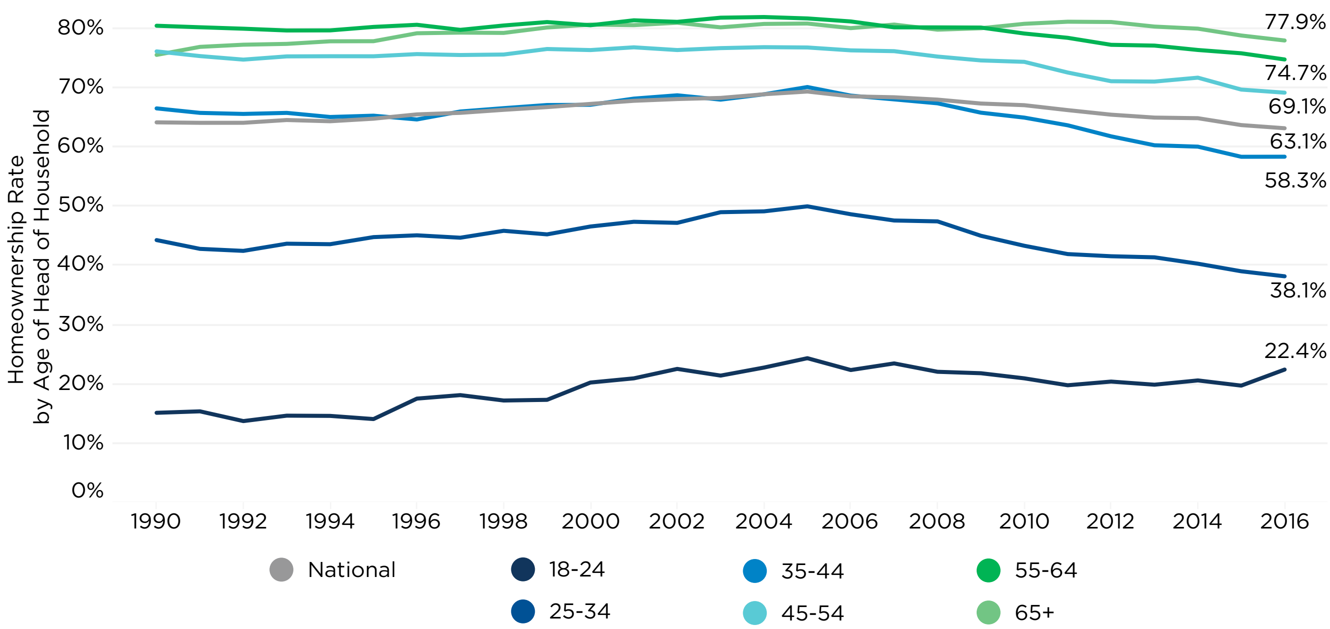
Contrary to popular perception, millennials do have positive views of homeownership, and their opinions tend to align with those of their grandparents' generation.



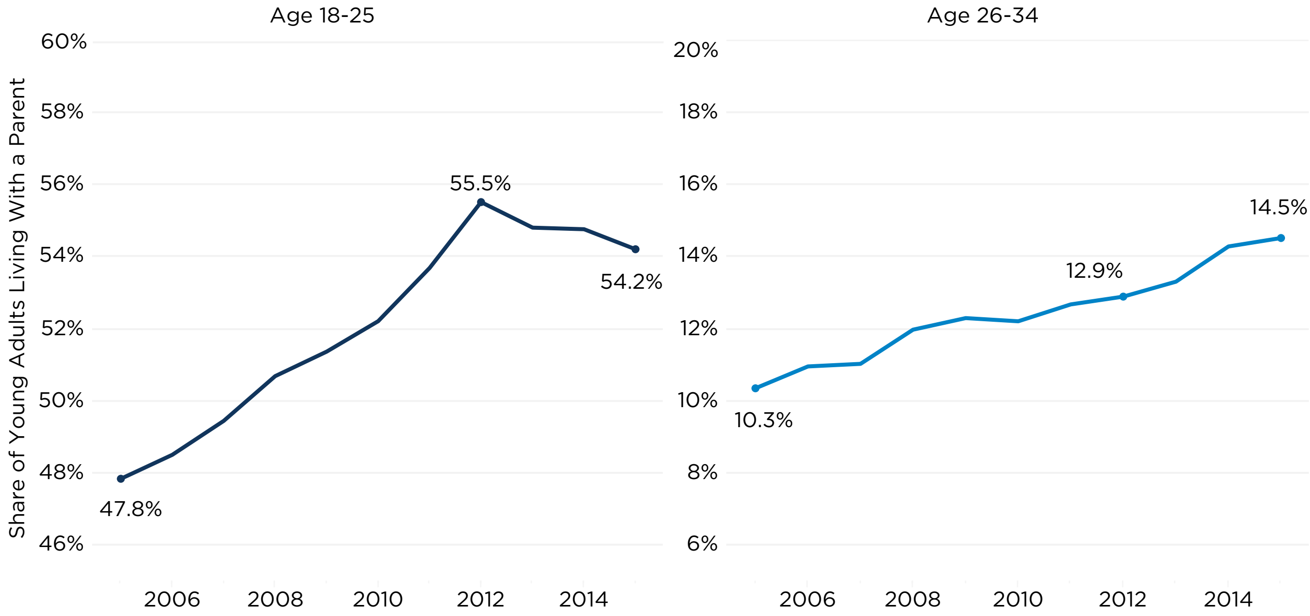
Despite their positive views of homeownership, many millennials are finding it difficult to strike out on their own, a likely reflection of reduced economic opportunities due to the Great Recession. The share of millennials living with their parents increased sharply after 2006.



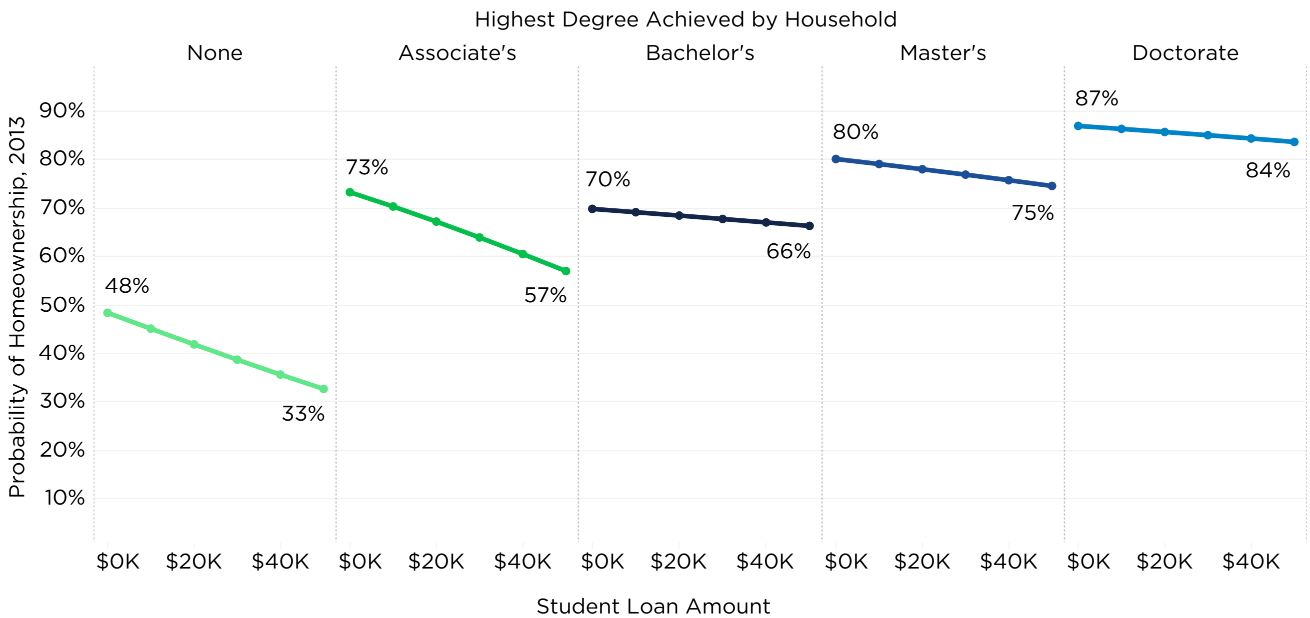
As more millennials moved in with their parents, the homeownership rate for this group fell more sharply than others. Older adults were more likely to have enough accumulated wealth to weather the worst effects of the economic downturn, and their homeownership rates held relatively steady.



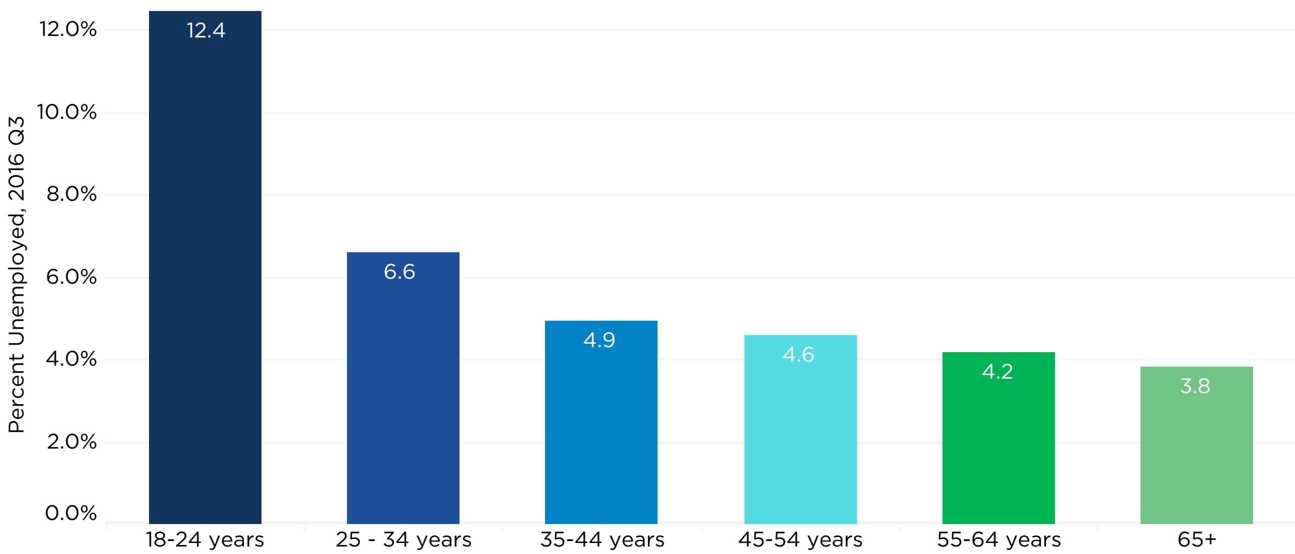
Interestingly, the share of older millennials living with mom and dad is still growing, while the share of younger millennials living at home has begun to decline. This could indicate improved job prospects for younger adults in a largely recovered labor market, while their older peers continue to bear the scars of the reduced employment opportunities they faced during the economic downturn.



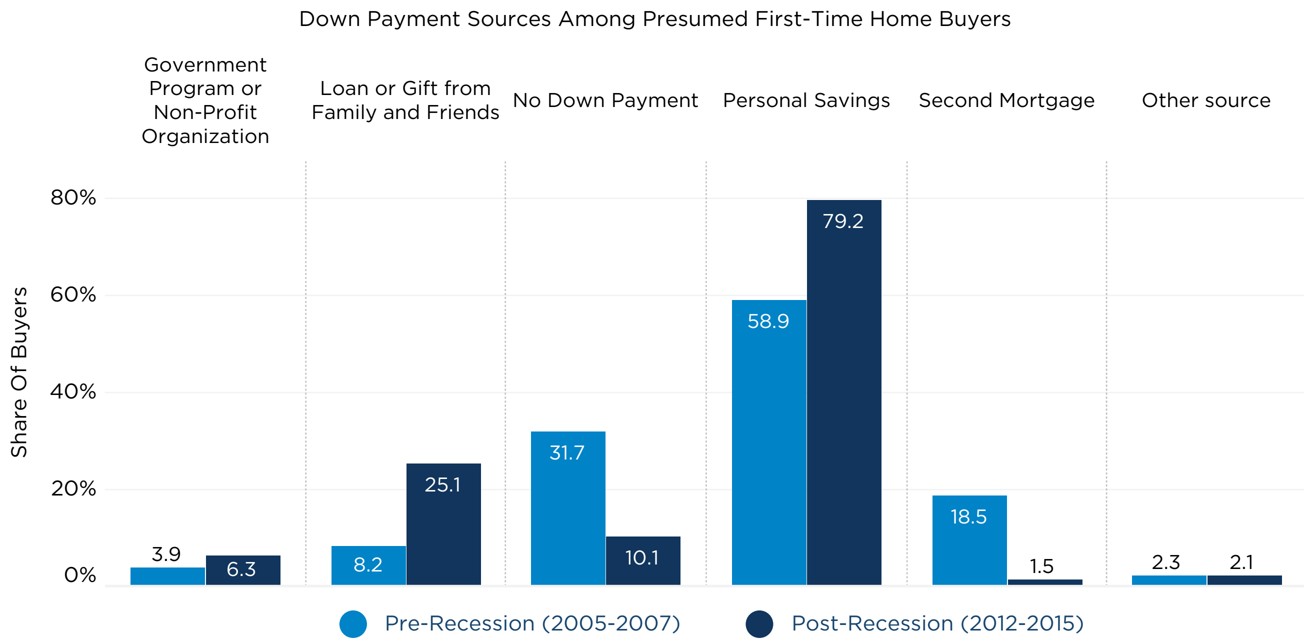
Student debt can be a hurdle to homeownership for young Americans, but the benefits of higher education clearly outweigh the drawbacks. Generally, more education corresponds with better homeownership odds, regardless of debt level.



Nevertheless, paying off that debt can be difficult for millennials struggling to get a good job in the first few years after school. Younger millennials may still be in school, but the unemployment rate among older millennials (age 25-34) remains higher than older age groups.

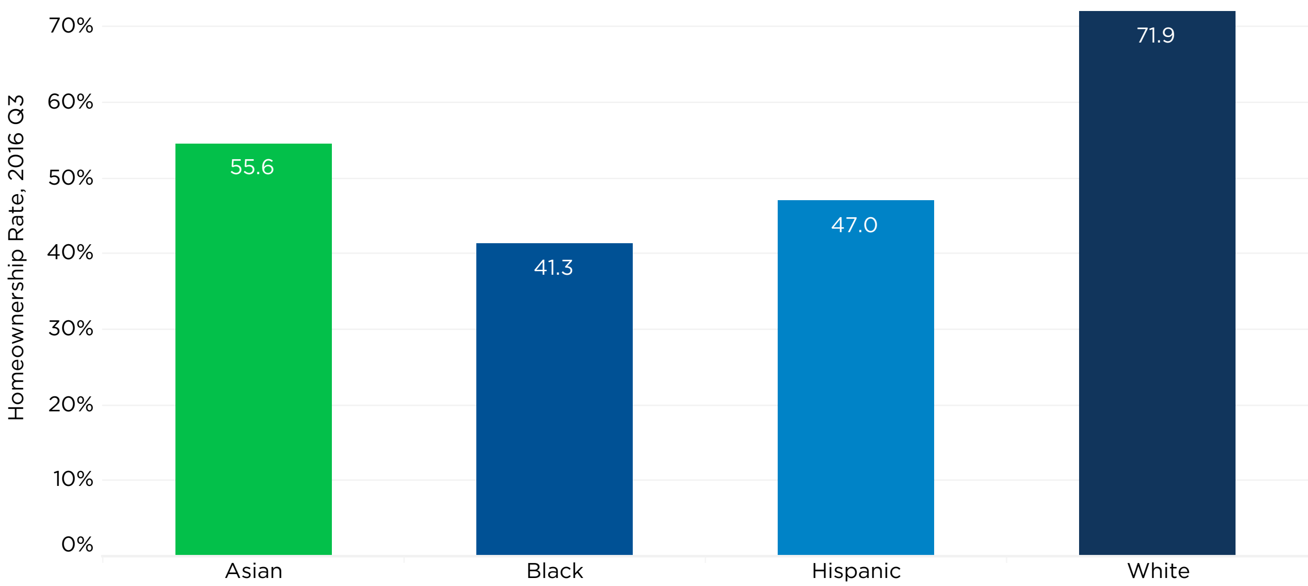


To be able to scrape together a down payment, millennials today are more likely to seek financial assistance from family members or dip into personal savings than they were before the recession.



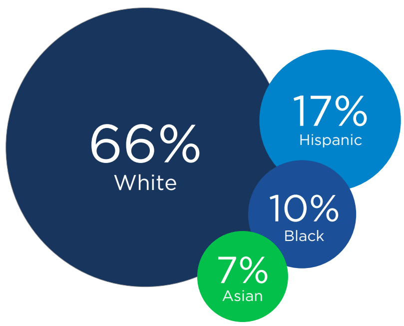
Racial Gaps

Nationwide, the gap in homeownership rates between white and minority Americans is striking.

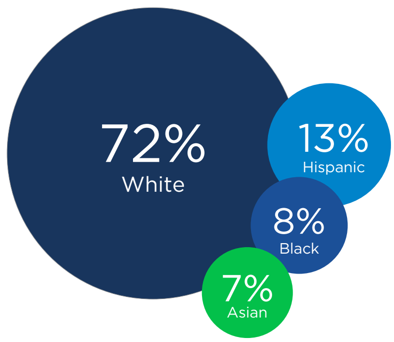


As of 2016, younger homeowners tend to be more diverse than previous generations, suggesting that racial homeownership disparities may narrow over time. Still, despite greater diversity, homeowners remain overwhelmingly white.

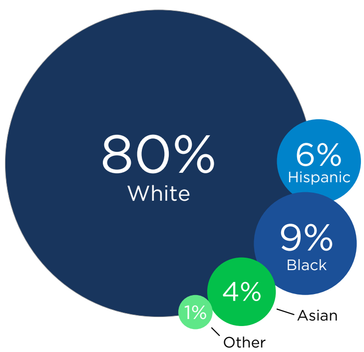
Millennial Homeowners



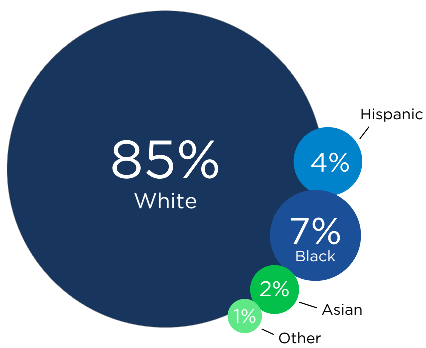
Generation X Homeowners



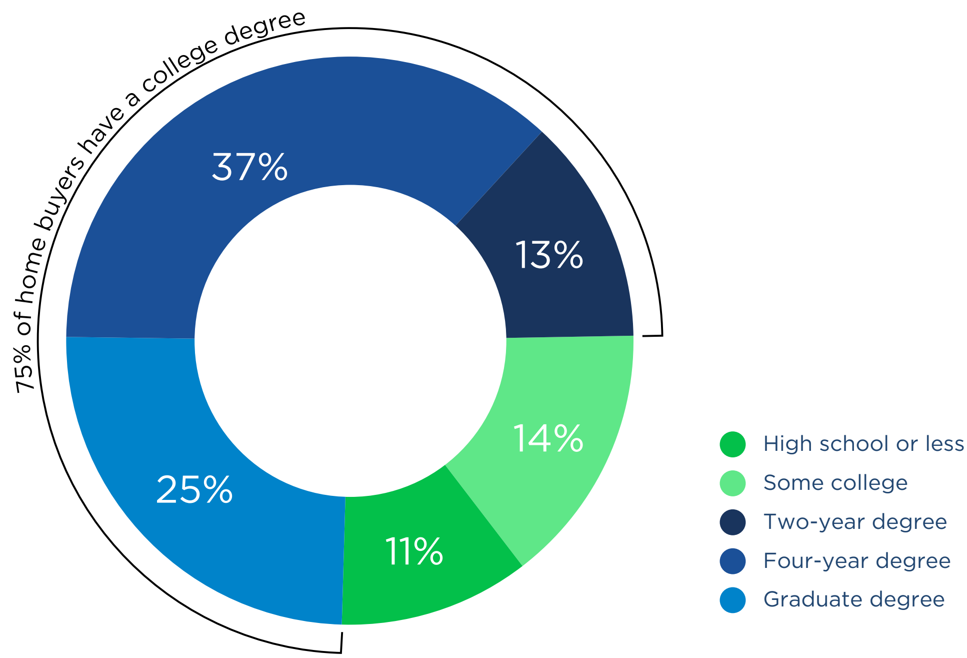
Baby Boomer Homeowners



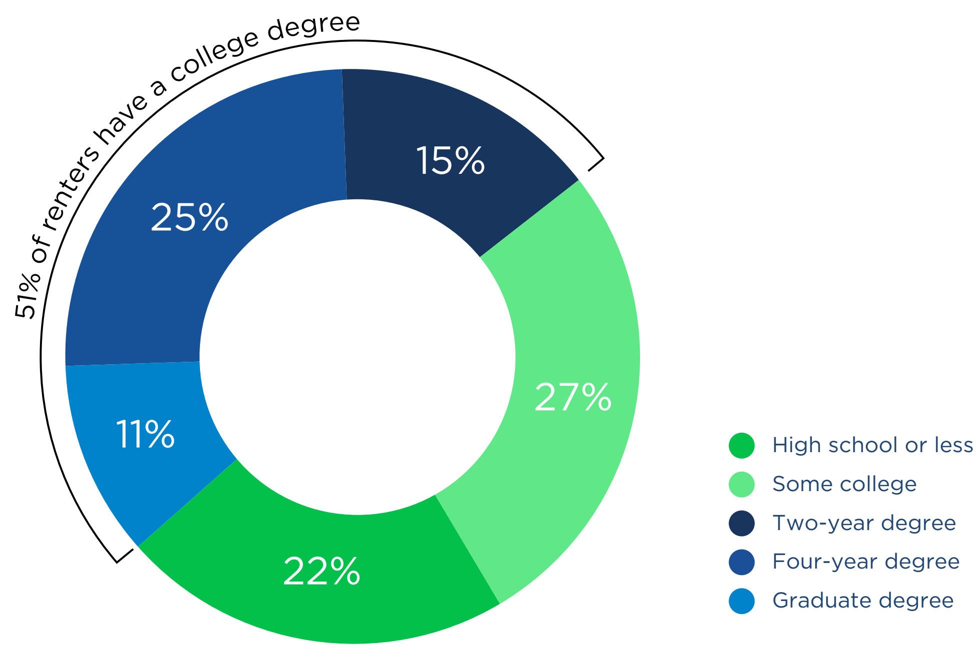
Silent Generation Homeowners



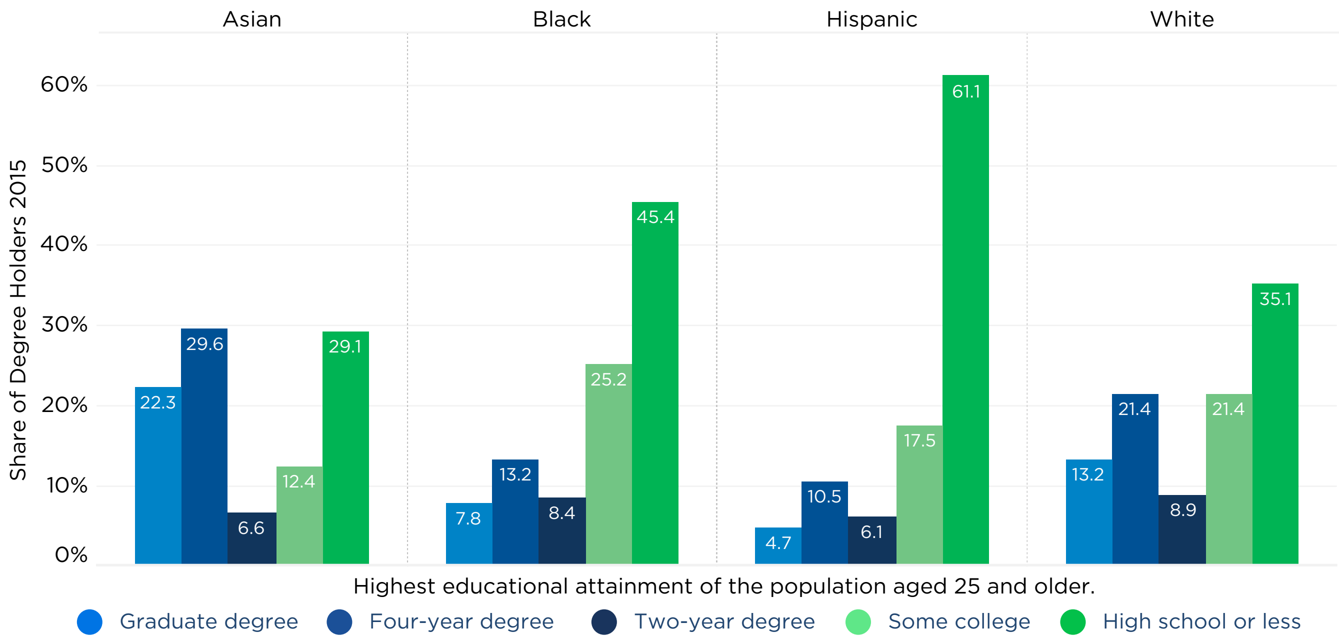
Having a college degree is strongly correlated with higher incomes and increased rates of homeownership. In 2016, the median income for home buyers was $87,500, and three in four had a college degree.



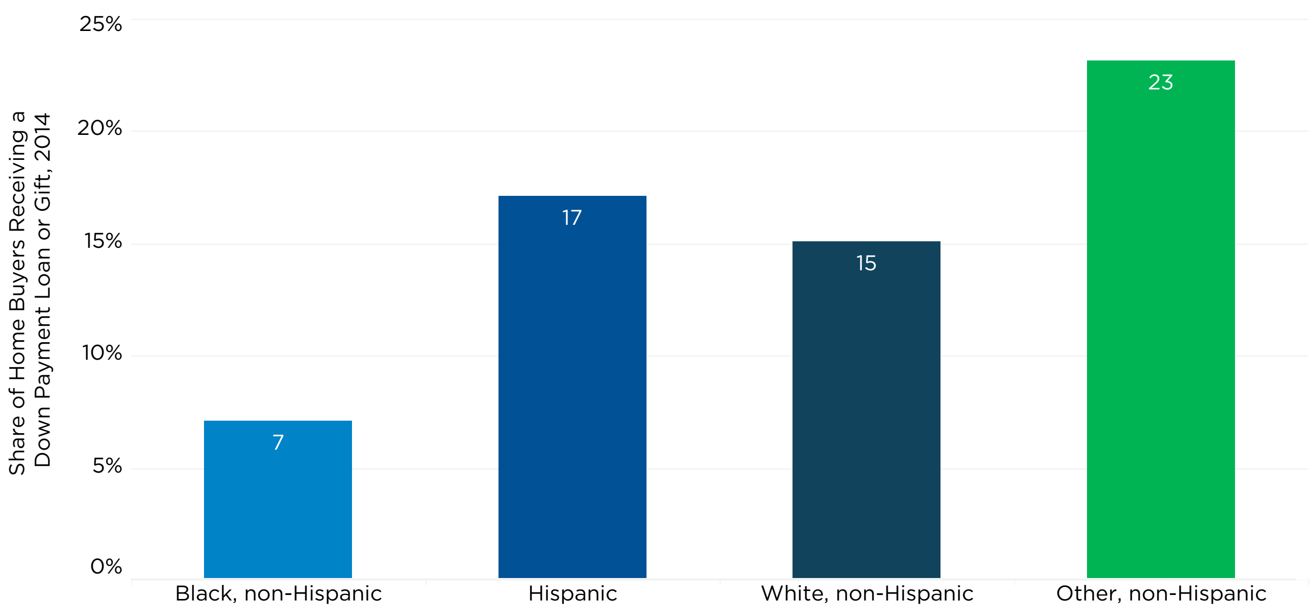
In comparison, the median renter income in 2016 was just $37,500, and only half had a college degree.



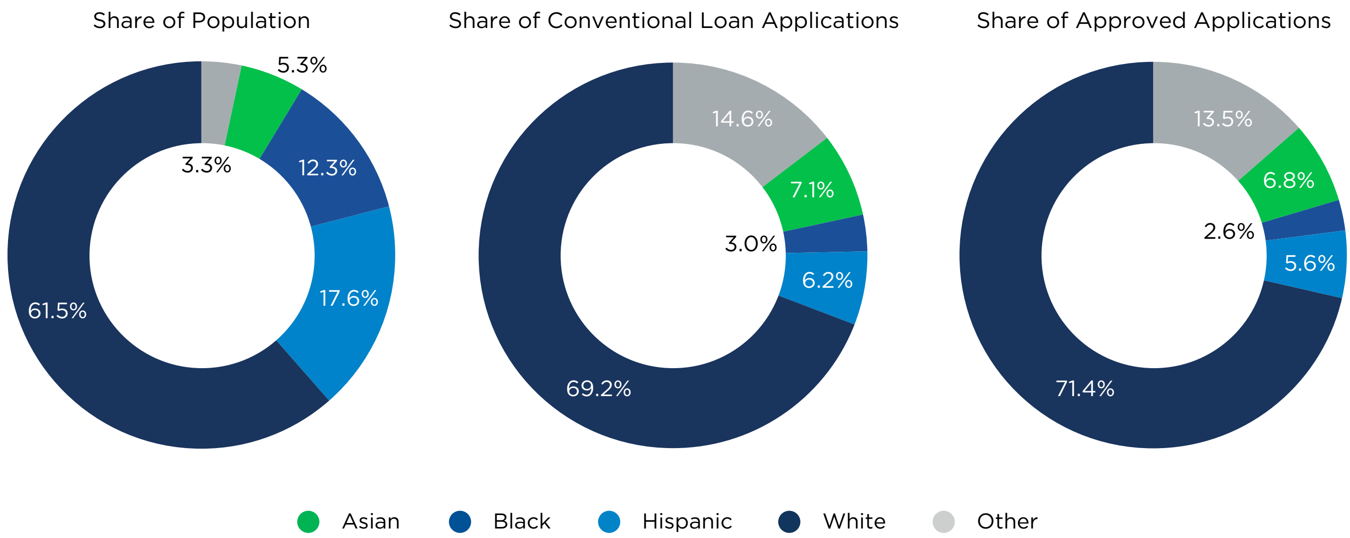
Black and Hispanic Americans are less likely to earn college degrees, which places them at a disadvantage in attaining homeownership.



And black home buyers, in particular, may not have access to the same kind of social and family network that could help them achieve homeownership.

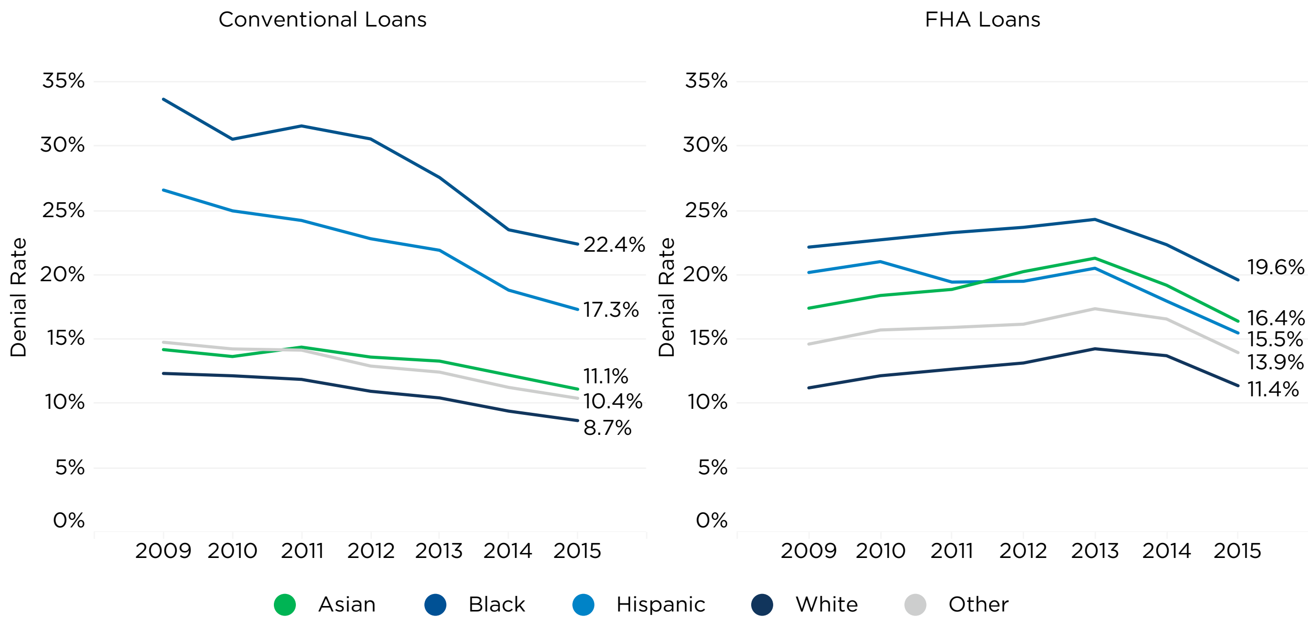


Minority groups also face challenges when applying for conventional mortgages. Although black and Hispanic Americans make up 12.3% and 17.6% of the U.S. population, respectively, they represent only 2.6% and 5.6% of approved loan applications.

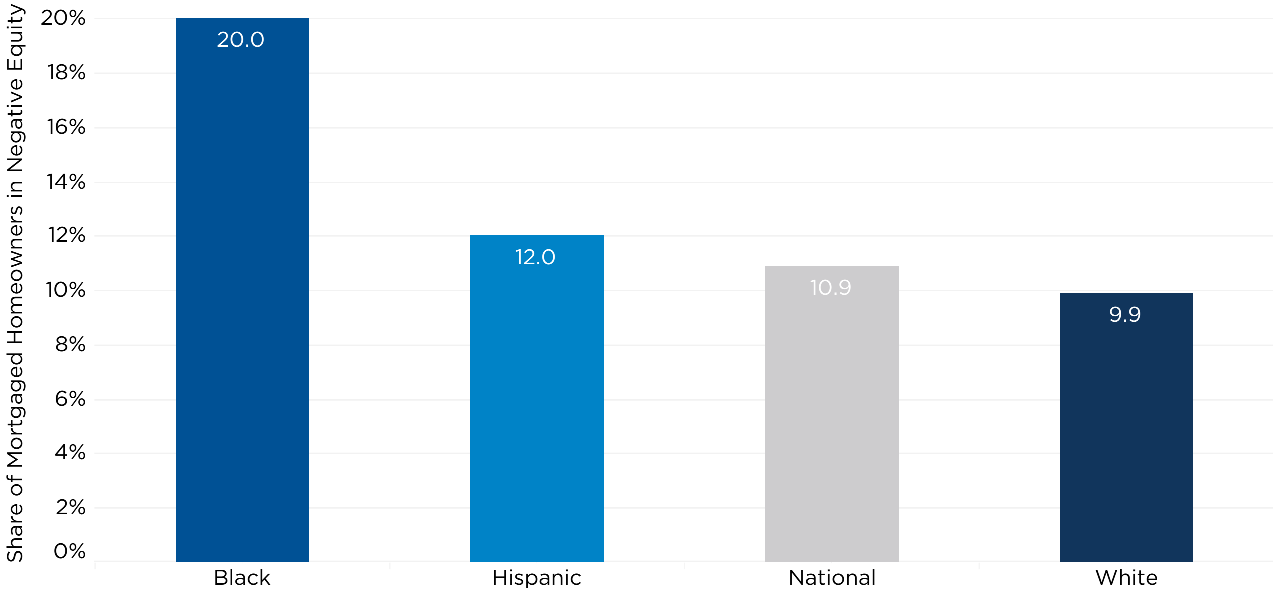


ACS, 2015

Moreover, although mortgage application denial rates have fallen across the board in recent years, conventional applications from blacks and Hispanics are denied at more than twice the rate of those submitted by white applicants. A similar trend holds for FHA loans.

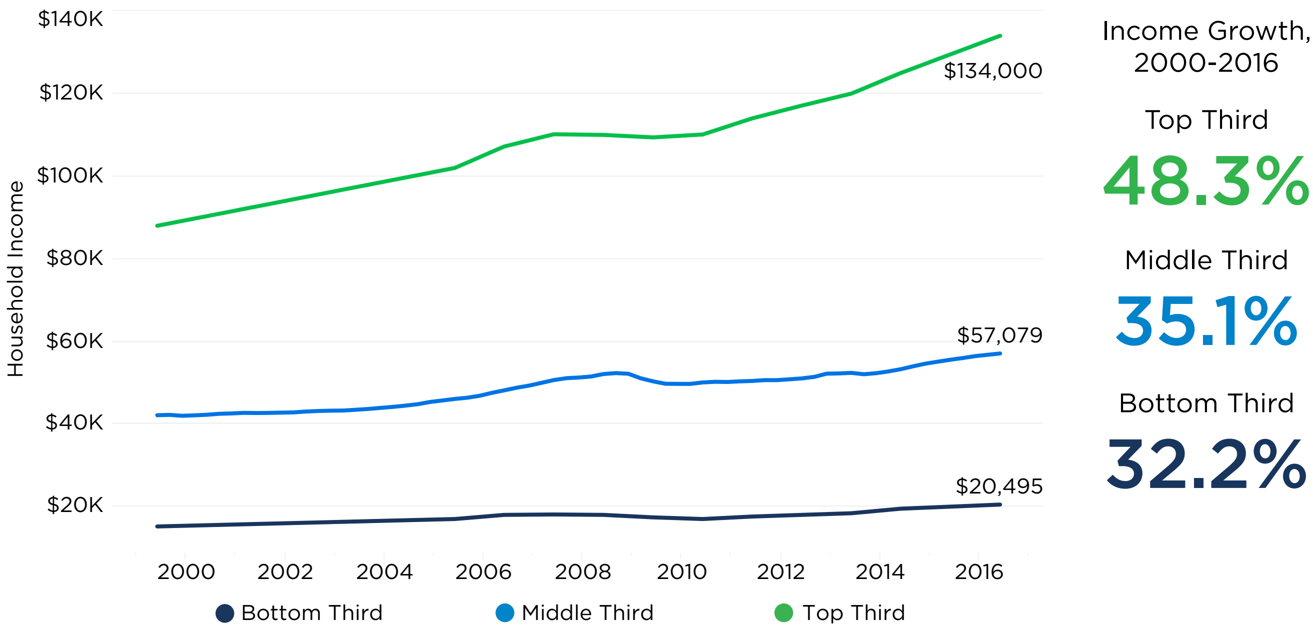


Separately, minority homeowners were harder hit by negative equity during the Great Recession. Currently, black homeowners are more than twice as likely as white homeowners to be in negative equity, which increases their odds of falling into foreclosure.

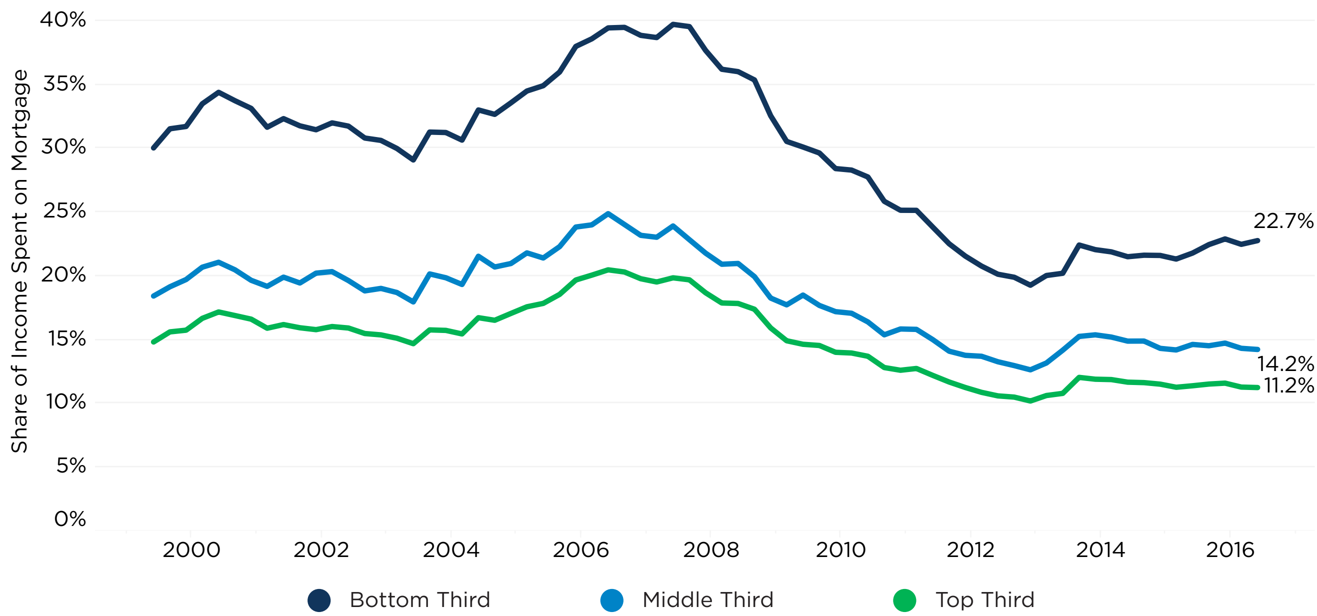


Socio-Economic Gaps

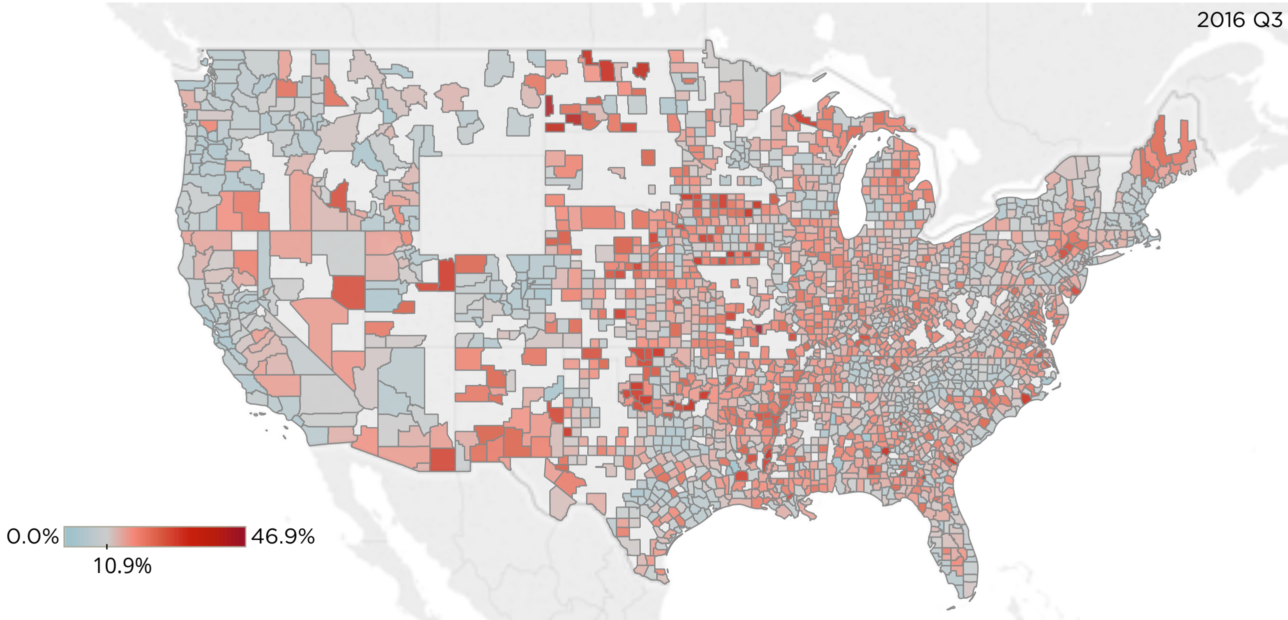
For the nation's lowest earners, income growth has been especially weak over the past decade and a half. Since 2000, low-income Americans have seen their wages grow 32.2 percent, compared to 48.3 percent for higher-income workers.



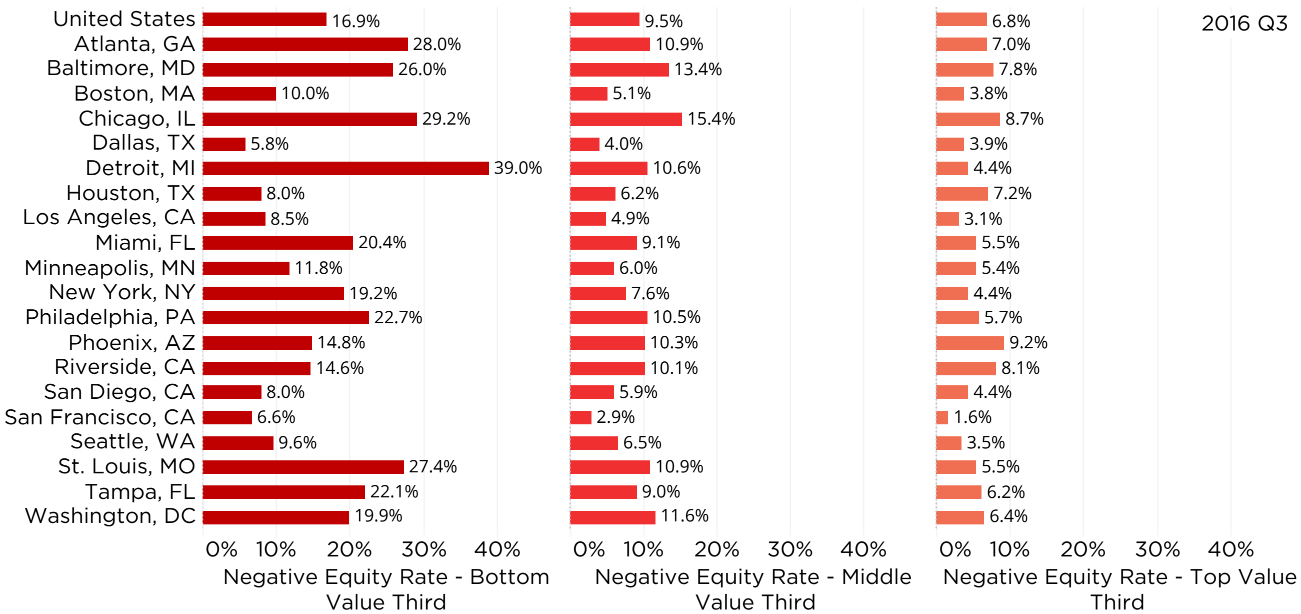
This slow income growth, combined with rapid home value appreciation, means homes are quickly becoming more unaffordable for low-income Americans, even with today's very low mortgage interest rates.



Negative equity has been falling consistently for several years, but throughout the U.S., particularly in the Rust Belt and Southeast, which were hit harder by the recession and have been slower to recover, negative equity remains a problem for many.



Additionally, negative equity is far more prevalent among bottom-third, more entry-level homes. These homes are more likely to fall into foreclosure, and as a result, their owners lose out on the opportunity to build wealth as home prices recover.



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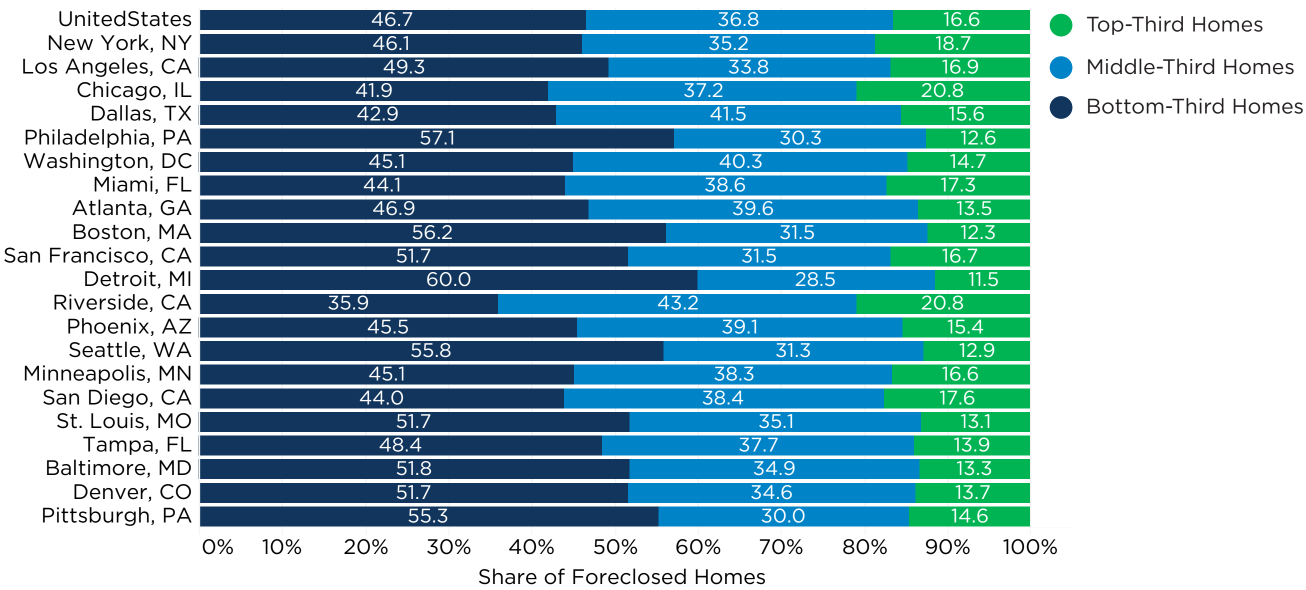
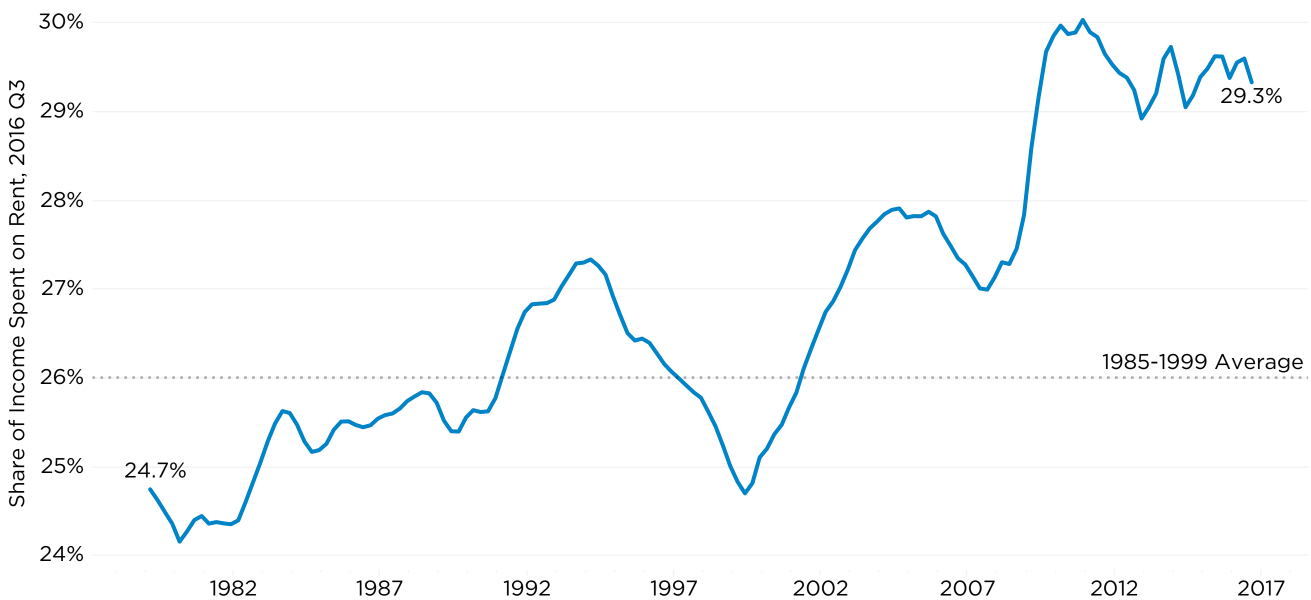
Not coincidentally, owners of less expensive homes were hit hardest by the foreclosure crisis. Nationwide, entry-level homes made up almost half of all homes foreclosed upon between early 2007 and mid-2016, compared to just 16 percent of top-third homes.



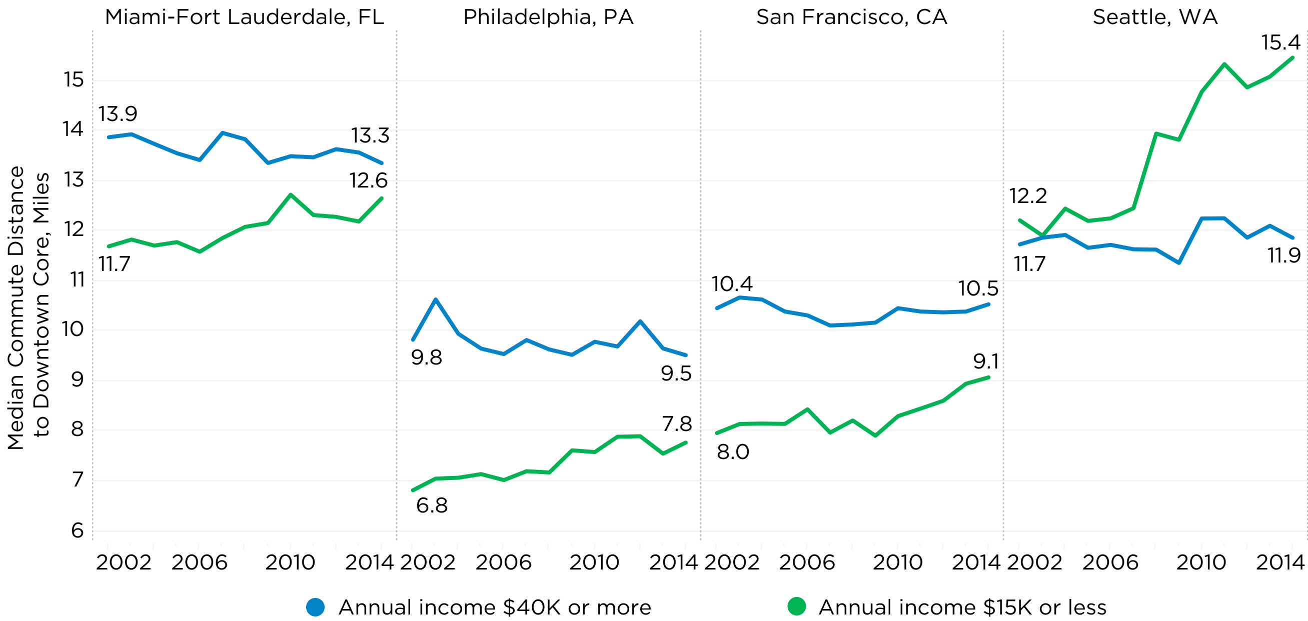
Housing affordability is not just a problem for homeowners, rising rents pose a big challenge, especially for low-income tenants. Nationwide, a renter making the U.S. median income and looking to rent the median home should currently expect to spend 29 percent of their income on rent, compared to 26 percent historically. For low-income renters in many pricey, coastal cities including Boston, San Francisco and Miami, the share of income needed to afford rent climbs to 80 percent or more – making it essentially impossible for low-income workers to afford rent on their own.



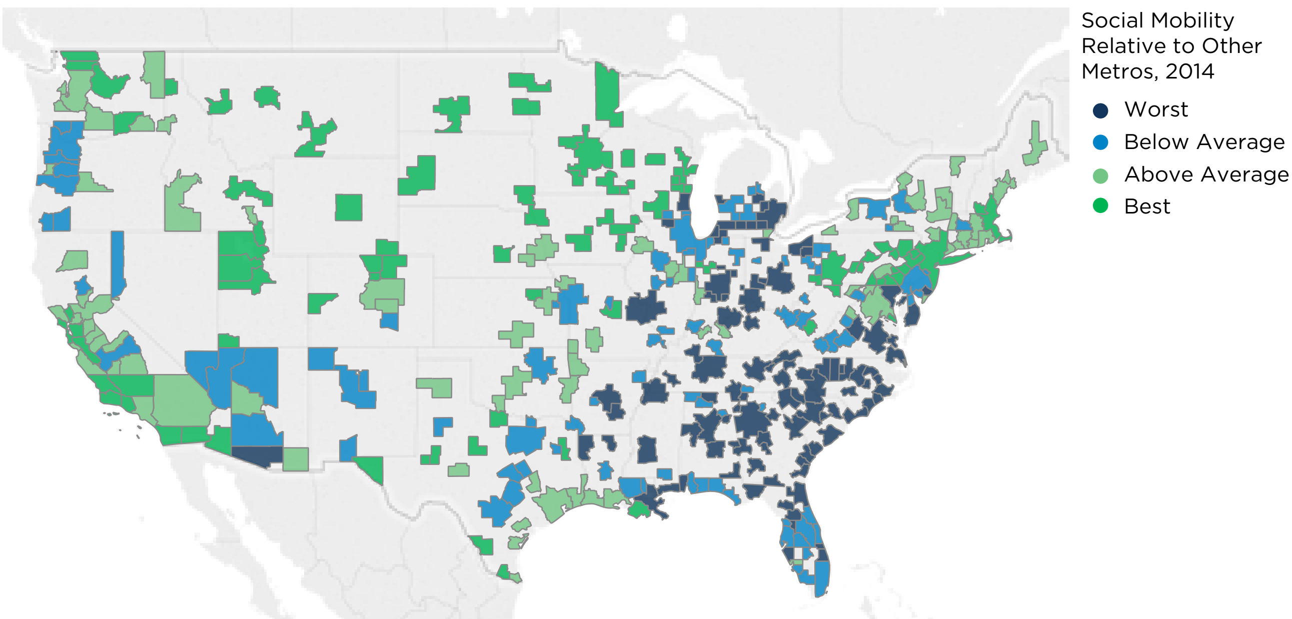
Even a $15 minimum wage – more than twice the current federal minimum – is not enough for a single earner to reasonably afford the median rent in any large U.S. market (2016 Q2).

Region	Median Rent	Annual Salary Needed to Afford Median Rent Without Exceeding 30% of Income	Actual Annual Median Household Income	Minimum Hourly Wage Necessary to afford rent without exceeding 30% threshold
United States	$1,408	$56,320	$56,499	$28
New York, NY	$2,415	$96,600	$69,667	$48
Los Angeles, CA	$2,576	$103,040	$64,707	$52
Chicago, IL	$1,648	$65,920	$64,160	$33
Dallas, TX	$1,541	$61,640	$61,813	$31
Philadelphia, PA	$1,581	$63,240	$64,842	$32
Houston, TX	$1,583	$63,320	$62,203	$32
Washington, DC	$2,123	$84,920	$95,502	$42
Miami, FL	$1,886	$75,440	$50,918	$38
Atlanta, GA	$1,309	$52,360	$58,988	$26
Boston, MA	$2,303	$92,120	$79,597	$46
San Francisco, CA	$3,393	$135,720	$88,438	$68
Detroit, MI	$1,180	$47,200	$55,983	$24
Riverside, CA	$1,737	$69,480	$57,610	$35
Phoenix, AZ	$1,296	$51,840	$55,980	$26
Seattle, WA	$2,034	$81,360	$75,293	$41
Minneapolis, MN	$1,541	$61,640	$71,592	$31
San Diego, CA	$2,417	$96,680	$70,248	$48
St. Louis, MO	$1,141	$45,640	$58,684	$23
Tampa, FL	$1,330	$53,200	$48,723	$27
Baltimore, MD	$1,737	$69,480	$74,496	$35

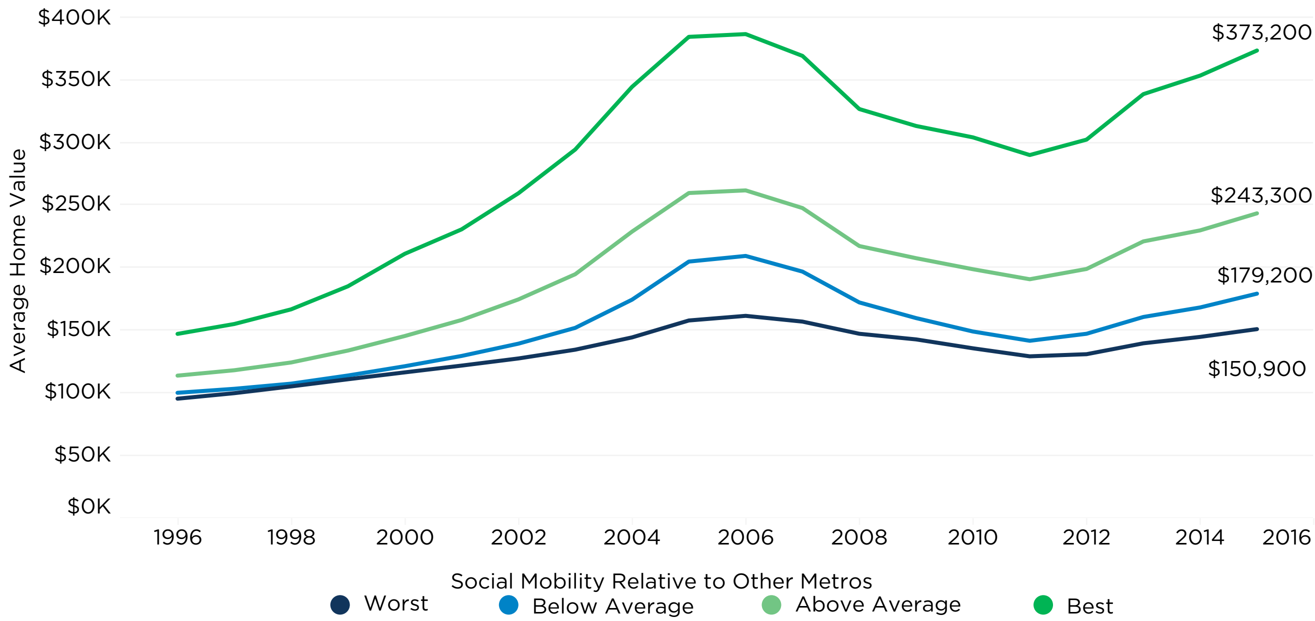
Lower-income workers with jobs in major downtown cores have steadily moved farther away from their work, due in part, most likely, to growing affordability challenges. In Seattle, for example, the median commute for downtown workers earning $15K or less increased from 12.2 miles to 15.4 miles between 2002 and 2014.



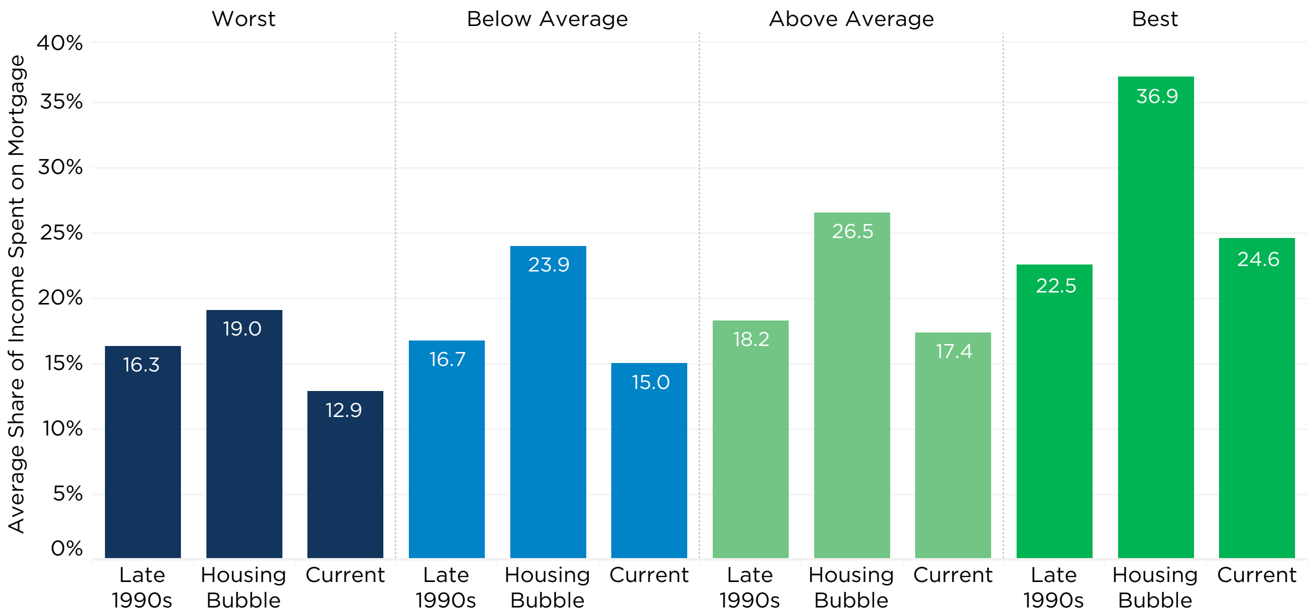
Upward mobility - the potential for an individual to improve their social and economic status - is critical in determining a child's chances of climbing the economic ladder. Depending on where they are raised, children born into low-income families face very different prospects for upward social mobility.



Increasingly, the areas offering the best opportunities for upward social mobility also tend to have more expensive homes...



... and the least affordable mortgages.



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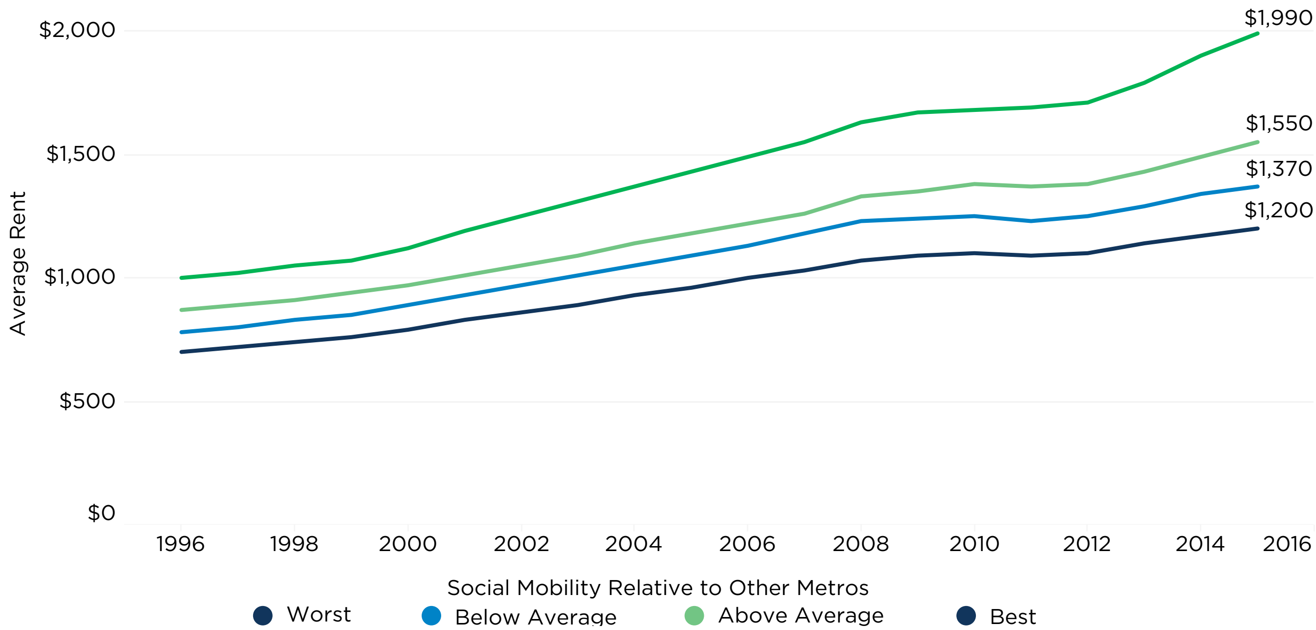
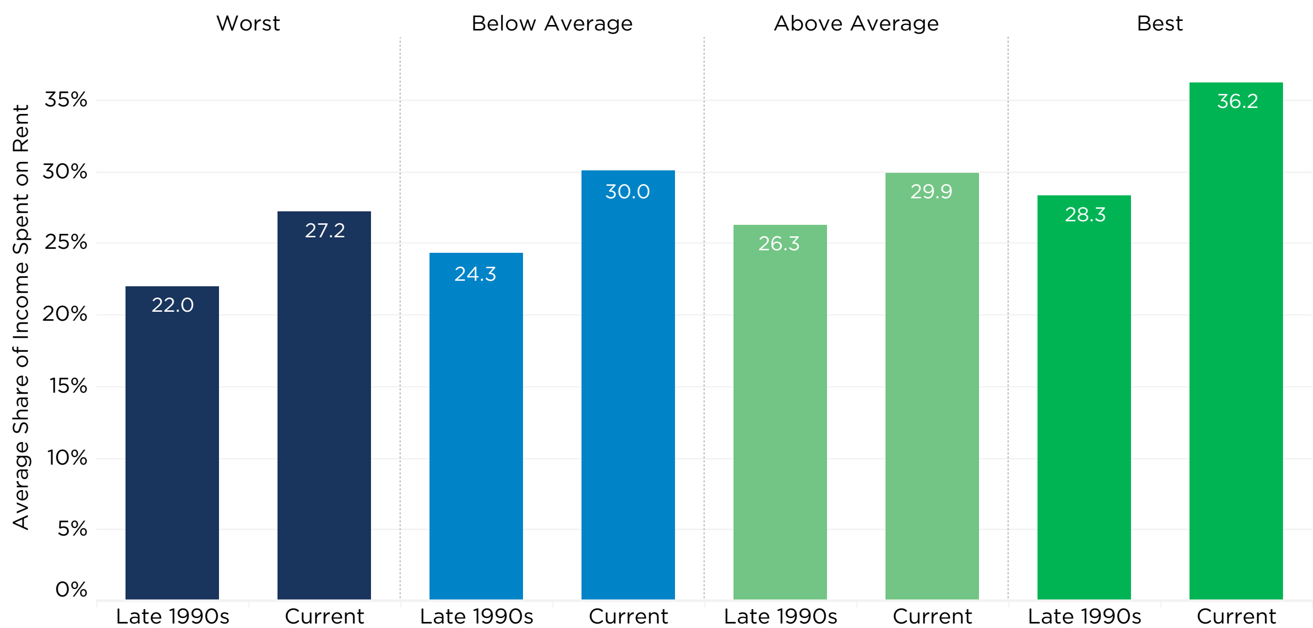
Similarly, the cost to rent is higher in areas offering the best opportunities for upward social mobility for low-income children....



...and renting is even less affordable than owning a home.



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