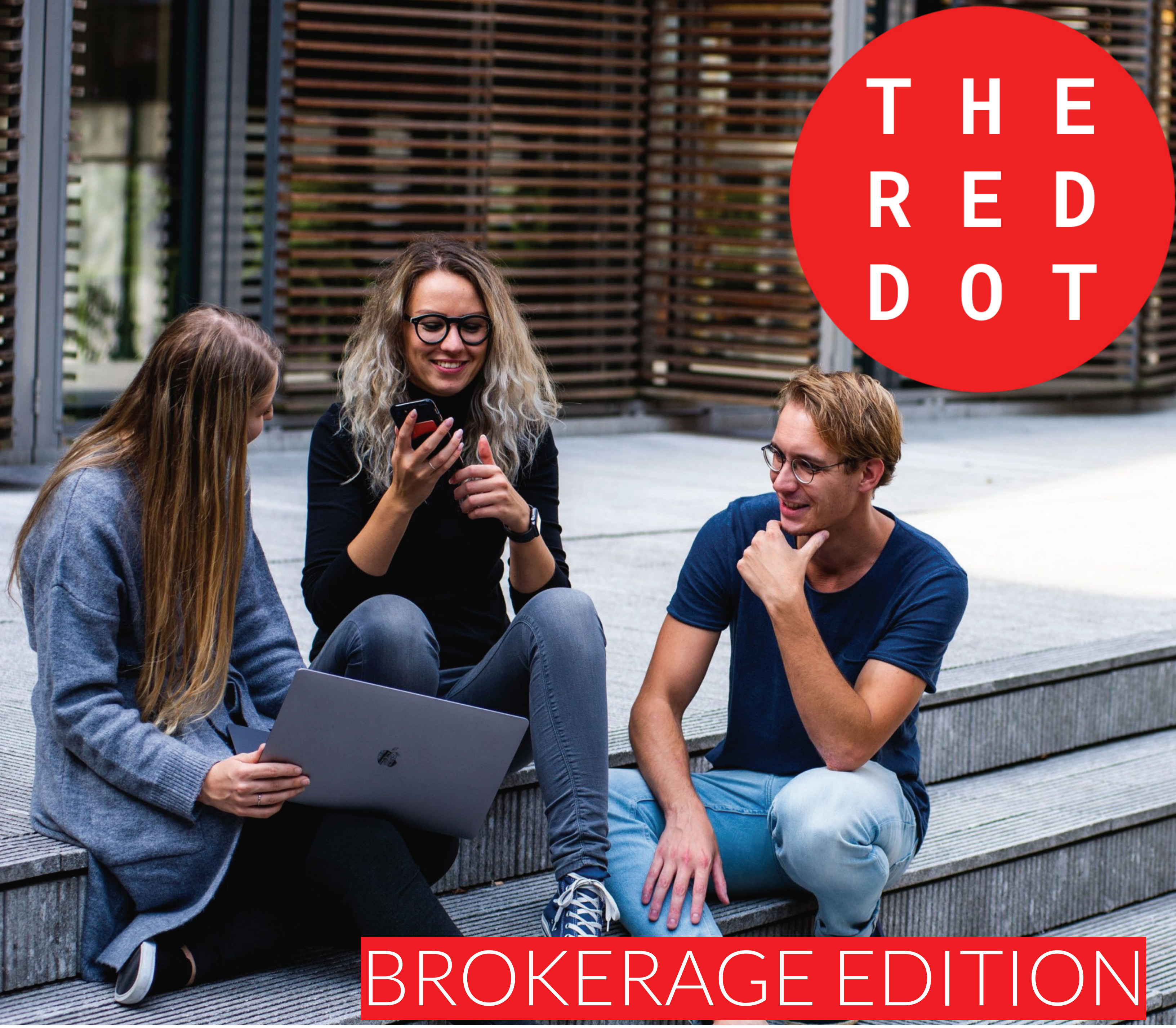

VOL 2, ISSUE 2: FEBRUARY 2019

A House Divided

A Look at the Next Generation of Consumers

Brokerage Edition

Observe. Orient. Decide. Act.

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Observe.

INTRODUCTION

We ended 2018 identifying the rise of institutional real estate as the biggest change of the year. I used Alex Rampell's presentation at the a16z Summit as an organizing tool to go through how different the future of real estate looks.

Underlying that is the idea of changes in consumer expectations: **push button, get magic**. However, what is missing from our analysis so far, including Rampell's presentation, are some other considerations about the changing real estate consumer.

Since the future consumers are, by their very nature, young, I thought it would be interesting to look at millennial consumer behavior and trends. What I found was astonishing, in that the data and the information were not new, not unknown, but I had never looked at the whole sweep of what's going on.

The consumer of the future is divided as we have never seen before*. The growing gap between the Haves and Have-Nots, between the Elites and the non-Elites, between urban and rural is impossible to ignore.*

It turns out that our perception of the Millennials is warped by rose-tinted glasses on the one hand, and a strange mythology about "entitled and lazy kids these days."

Hence, this report.

Let's be clear about one thing: this is a very difficult topic on which a huge variety of opinions exist among many experts, economists, and academics. There have been studies conducted by companies, universities, government institutions, and think tanks. It is frankly impossible to write a report, even a long one like The Red Dot, on all consumer trends everywhere with all of the issues.

What I wanted to do, therefore, was to talk about some issues that are often flying under the radar. Most of them are not positive upbeat assessments of the future. But understanding consumer behavior has to include understanding both the positive and the negative trends affecting them.

Furthermore, many of these topics and issues are social, economic and political in nature or implication or both. They're likely to be controversial in one circle or another, and disagreement and resistance are to be expected. And yet, I find that we cannot have an honest analysis of what the real estate consumer of the future looks like without at least discussing these topics and issues.

What I have attempted to do is to minimize the social, economic, and political aspects of these topics wherever possible and focus on the implications for the real estate industry. I may fail, but it will not be for a lack of trying.

This Red Dot, then, will paint with a broad brush – likely overbroad in most situations. It is up to you to translate these high-level trends and issues to what is going on in your neck of the woods for your companies or organizations.

Robert Hahn
January 2019

Note: I use the capitalized "Millennials" throughout this document. It appears that the younger writers who are Millennials themselves do not care to capitalize the word, so where I am quoting them, other people or publications who use it that way, I have left those as is.

EXECUTIVE SUMMARY: BROKERAGE

Millennials are here and they are the future consumers of housing, which means that they are the future of real estate as a whole. So what's going on with them?

Thesis: The Gap Between Elites and Non-Elites Is Growing

The consumer of the future is divided as we have never seen before. The growing gap between the Haves and Have-Nots, between the Elites and the non-Elites, between urban and rural is impossible to ignore.

We need to reexamine our current approaches to the business in light of the truth about consumers of the future.

The Industry's Take on the Millennial Consumer

Major companies and organizations in real estate conduct research on consumers. NAR has been doing it for years, and more recently, Zillow has been conducting primary research on consumer behavior.

Because on the whole, while sounding notes of caution, the industry's take on Millennials as future homeowners is rather upbeat.

Millennials Are Here

First thing to note is that at long last, Millennials have finally arrived as buyers.

Millennials comprise 42% of the buyer population, according to Zillow, and 34% according to NAR.

They are driving higher homeownership rates.

Optimism is blooming in real estate's take on younger consumers. We'll see this time and again in the industry's look at Millennials.

Millennials Want to be Homeowners

There have been a number of studies that put to rest the misconceptions that Millennials love the flexibility and lack of commitment that come with renting. The breathless predictions of a new lifestyle of the urban young professional who dreams of roaming from place to place following jobs or passions or whatever turn out to be flat out wrong when it comes to what younger people want.

Agents Remain Important

Both Zillow and NAR stress that all consumers, including the tech-savvy Millennials, still need, find value in, and use a real estate agent.

According to Zillow, buyers see agents as strategic partners "who can guide them through the journey or step in at critical junctures to help them land the home they set their sights on."

Technology is important, and becoming even more important to younger consumers, but it has not replaced the real estate agent.

Furthermore, Lindsay Listanski from Climb Real Estate points out that at least one study shows that Millennials rely *more* on real estate agents than do Gen-X and Baby Boomers.

Millennials Are Different, But Not Really

Taken with all of the above, the real estate industry believes that this most important consumer segment is different from previous generations, but not really that different.

They use the web more than older people, prefer mobile and texting, are really into this social media thing, and sure, they like downtown condos more than they do the two-story colonial out in the suburbs, but they still want to buy houses, and when they do, they need the real estate agent more than the old fogies because 20% of them can be "indecisive" and rely on the professional for advice.

The enduring stereotype of the Millennial buyer is a college-educated young urban professional with a cool job at a startup tech company who travels the world, for whom dining and entertainment options are important, who values walkable cities (or something like it in suburban enclaves), goes to Burning Man, is diverse and tolerant, and is addicted to social media.

No wonder there is such cause for optimism!

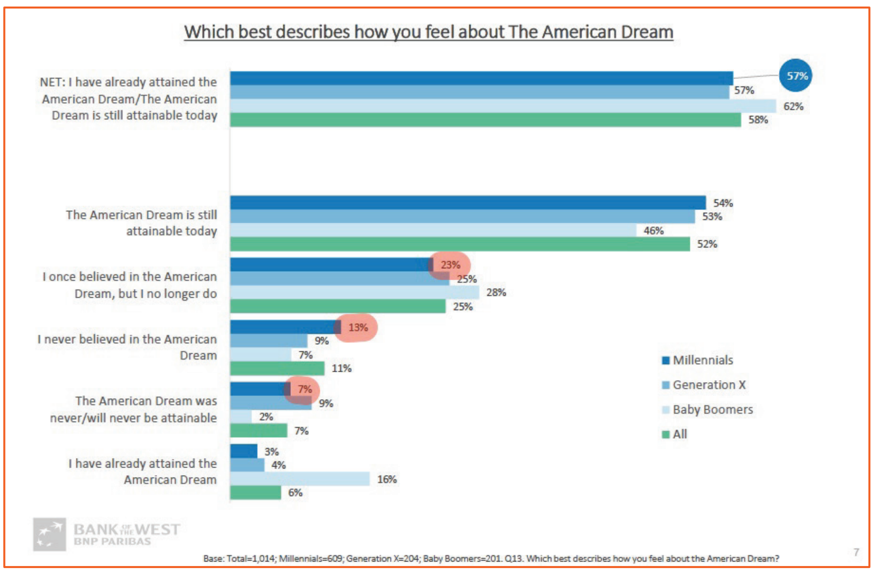
And yet....

Are Millennials Buying Homes?

It turns out that just because the largest segment of homebuyers are Millennials does not mean that millennials are buying homes. It could simply mean that a lot of Americans are not buying homes, but a big chunk of those who do buy them are young, under 37 buyers.

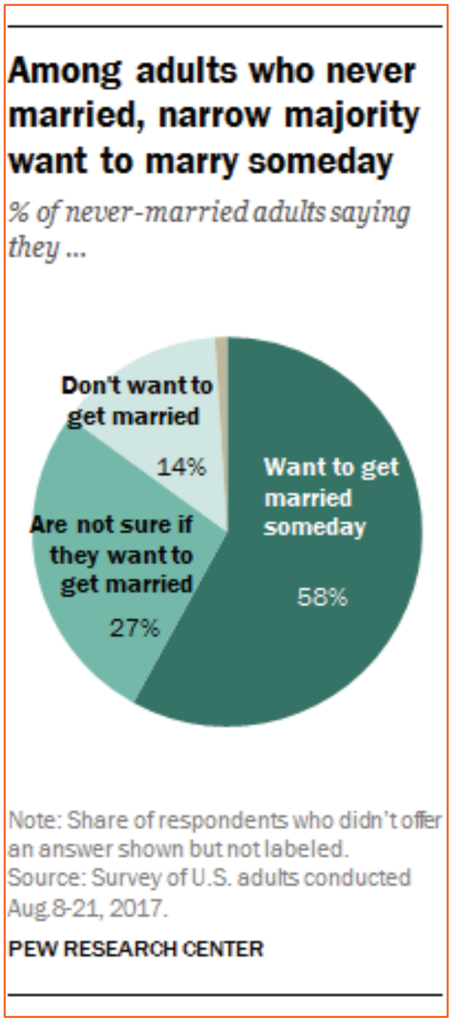
Truth is that Millennial homeownership lags far behind GenX and Boomer homeownership rates at the same age.

And what's potentially worse, much of the younger generation may have *given up on homeownership altogether*.



It turns out, there are things about the younger consumer that often get swept under the rug by the real estate industry. It isn't that we don't know these things; it's that we don't focus on them, because they don't help anybody sell a house.

The Things Under the Rug



The Urban Institute's study is actually a great place to begin looking at the dark side of the younger consumer. As the writer from GenFKD says, they're facing different situations than previous generations.

So what are these real fundamental differences?

Family Formation

GenFKD listed "getting married later" as the first reason why Millennials are not buying. Urban Institute agrees:

> **Delayed marriage had the most significant impact on millennial homeownership.** Being married increased the probability of owning a home 18 percentage points, after accounting for other factors, such as age, income, race and ethnicity, and education.
>
> The marriage rate among young adults dropped from 52 percent in 1990 to 39 percent in 2015. **If the marriage rate in 2015 had been the same as it was in 1990, the millennial homeownership rate would be about 5 percentage points higher.** [Emphasis added]

That homebuying will surge once Millennials start to settle down, has been the hope of economists, REALTORS, and the entire housing industry for a few years now.

But what if they never "settle down"? What if they *never* marry?

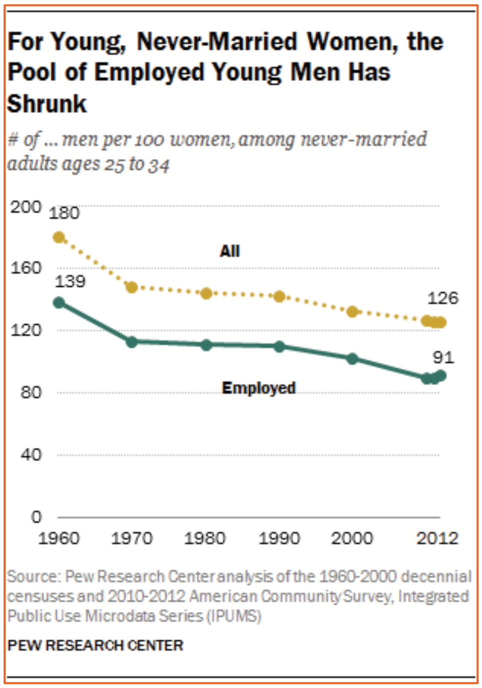
According to Pew Research, among those who never married, 42% say they either don't want to get married or aren't sure if they want to:

> Among adults who have never been married, 58% say they would like to get married someday and 27% are not sure if they want to get married. Still, 14% say they do not want to get married, according to a Pew Research Center survey conducted in August among 4,971 U.S. adults.

The reason is financial insecurity, which is the result of an education gap between those who are married and those who are not.

63% of adults with a high school diploma or less were married in 1990; only 50% of them were in 2015. 67% of adults with some college (e.g., a two-year Associate's Degree) were married in 1990; in 2015, only 55% of them were. But note that those with a bachelor's degree plus saw a decline of merely 4%, from 69% in 1990 to 65% in 2015.

The Gender Dimension



It turns out that the lack of family formation has a gender dimension to it. More men than women are never married.

What explains this gender gap?

The supply of eligible men have dropped for increasingly successful, increasingly well-educated women.

78% of never-married women place a great deal of importance on finding someone who has a steady job, and 71% of *all* adults say it is very important for a man to be able to support a family financially to be a good husband or partner.

But American men have not fared well economically in recent decades. Pew Research says, "changes in the labor market have contributed to a shrinking pool of available employed young men."

Structural Changes in American Economy Hurt Men More

The U.S. economy has been shedding traditionally male jobs in manufacturing and construction, and adding traditionally female service sector jobs.

Changes in the economy means a shift away from blue collar work to white collar careers. And those require education.

Female Hypergamy and the Law of Supply & Demand

Back in 2011, I wrote a post on Notorious ROB called "Millennials and Family Formation" in which I started to worry about family formation rates among the young because of imbalances in college attendance.

- 60% of college students are women
- 60% of adults holding an advanced degree are women
- Women earn more Master's and Ph.D. degrees than men

- Women make up the majority of the workforce today

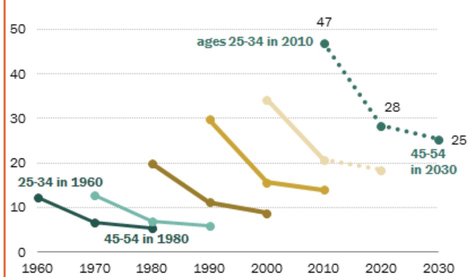
What I pointed out in 2011 was that mathematics does not favor the college-educated woman:

> It is tautological that if 3 of 5 college students are women, then 3 of 5 people who have college degrees in the big metropolitan areas in the country will also be women. Indeed, the dating scene for these highly educated, accomplished women is not exactly full of options even after their bright college years are over.

Social scientists have known for a while that women tend to "marry up": female hypergamy. Evolutionary psychologists and economists have written books and peer-reviewed scholarly articles on the phenomenon.

One-in-Four of Today's Young Adults May Never Marry

% never married, by cohort (at ages 25-34, 35-44, 45-54)



Note: The dotted lines are projected rates based on rates of the previous cohort.

Source: Pew Research Center analysis of the Decennial Census and American Community Surveys (ACS), IPUMS

PEW RESEARCH CENTER

To be sure, it isn't just the evolutionary psychologists who worry about male economic prospects and marriage. Economists do as well.

The finding is that "as men's economic prospects decline, they marry less frequently" because they become less appealing to women.

That is precisely what the evidence suggests is happening with millennials, when education is required for good jobs and success, and more women than men are attending college and getting advanced degrees.

What is astonishing is that Pew Research notes that their projections show that one in four Millennials may never marry.

We have never seen an entire generational cohort where one out of four were never married. Never.

A Different Story for Elite Millennials

However, because marriage is tied to male income, which is tied to male education, it turns out that the highly educated (and presumably highly paid) men do not have this problem.

First, the disparity between men with post-graduate degrees and women with post-graduate degrees can be explained by the simple fact that men do not care about a woman's degrees or earning potential when choosing a mate, but a woman certainly does a man's.

The second is a phenomenon that Charles Murray first wrote about in his book *Coming Apart: The State of White America, 1960-2010*.

The highly educated and wealthier Elite Millennials live in high-income "super Zip Codes", socialize with each other and *marry one another*. Oftentimes, the Elite Millennials are children of Elite parents who lived in those same SuperZips and gave them the encouragement and opportunity to pursue post-graduate degrees.

So simple proximity explains why so many more women, percentage-wise, with post-graduate degrees are married today than in 1960. They live in and near each other, have friends who are similar, socialize with each other, and ultimately marry each other.

Parents (and REALTORS) who simply assume that their children will one day find someone special and settle down and buy that single family house with a white picket fence are ignoring the mathematics of hypergamy and the gendered economic situation of Millennials (and Gen-Z, who is coming up fast behind them).

If their children are among the ranks of the Elite, that optimism is justified. If they are not… it's a far more dicey proposition.

The situation is made even worse by economic headwinds faced by both men and women.

Economic Headwinds

It is a law of nature that desire is not the same as ability. Survey after survey of Millennials show that they have the *desire* for homeownership… one day, someday… but that is a far cry from having the ability to become homeowners.

Student Loans

The Millennials are the most educated generation ever, with 29% of men and 36% of women completing at least a bachelor's degree.

But while education is wonderful, there is a dark side: student loan debt.

According to an Urban Institute study, "a 1 percent increase in education loan debt decreases the likelihood of owning a home by 0.15 percentage points. In other words, if a person's household student debt increases 100 percent from $50,000 to $100,000, with all other things held the same, the likelihood of owning a home will decrease 15 percentage points."

The net impact is that college graduates are more likely to be or to become homeowners, but fewer of them will do so because of the student loan burden.

Borrowing enormous sums of money to invest in one's education, which will result in better paying jobs, is a wise decision overall. Men and women have been doing this for decades. So what's new and different?

First, there is a lot more student debt: $1.5 trillion in total student loan debt outstanding, which is $620 billion more than total U.S. credit card debt.

Second, the amount of student debt per individual borrower is more, because of rising costs of education (**rising 2-1/2 times more than inflation, 8 times more than income**).

But most importantly, the employment environment even for college graduates is worse on two fronts: job security and underemployment.

It turns out that the myth of the lazy, entitled Millennial worker is just that: a myth. The truth is closer to a paranoid, insecure Millennial worker.

Lack of Job Security

It remains true that a college degree is key to better jobs and higher incomes. However, what has not remained true is that getting a college degree translates to more secure jobs. That's a function of changes in the overall economy.

Even those younger workers who have found a good job because of their education cannot be sure that they'll have that good job the day after tomorrow. It turns out that the myth of the lazy, entitled Millennial worker is just that: a myth. The truth is closer to a paranoid, insecure Millennial worker.

Millennials are not naturally more entrepreneurial than previous generations, and do not adore the "gig economy," contrary to popular myths. They just want a stable job they can count on, but they can't get it.

It goes without saying that committing oneself to a 30-year mortgage for hundreds of thousands of dollars is going to be tough if you're constantly worried about losing your job.

And that's for the lucky few who have good jobs, because the other problem of the younger generation is underemployment.

Underemployment

It seems that the explosion in college degrees has led to a supply-and-demand problem. The supply of highly educated workers is increasing, while the demand for such people has either remained the same or (more likely) decreased thanks to globalization, communication technology, and automation.

And the tsk-tsking that the problem is people getting expensive but worthless college degrees in liberal arts instead of in highly employable STEM (Science, Technology, Engineering, and Math) degrees turns out to be not-quite-so-true.

First, there may not be a STEM shortage at all.

Second, many of those studying for STEM degrees in American universities are not Americans at all.

Third, outsourcing is real and it is impacting STEM jobs in America.

Your daughter majored in computer programming because you told her that she could get a good stable job in computers, and what was she going to do with a degree in Literature anyhow? Well she might find that there's a young man in Slovenia who can do exactly what she can, but at a third of the cost. Now what?

The inevitable result is a growing gap between productivity and employment, which translates directly into a growing gap between the rich and the poor, between the haves and the have-nots.

Coming Displacement: Robots Take Over

To make things even worse, the future of employment looks bleak even for college graduates who did all the right things that their parents and teachers and counselors told them to do.

Robotics (or advanced mechanization) has already impacted manufacturing jobs as thousands of assembly line workers were replaced by sophisticated machines. But with the rise of AI, robots are coming for white collar jobs as well.

Erik Brynjolfsson, an economist at MIT and co-author of the book The Second Machine Age, noted that thanks to TurboTax and other software, [17% of tax preparers no longer have jobs](). Those jobs have simply disappeared.

The inevitable result is a growing gap between productivity and employment, which translates directly into a growing gap between the rich and the poor, between the haves and the have-nots.

FIGURE 9.1 Real GDP vs. Median Income per Capita

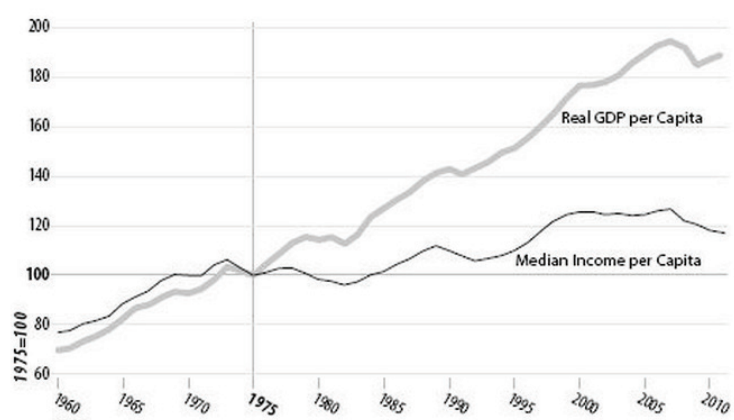


Image - Erik Brynjolfsson/Andrew McAfee - The Second Machine Age

ege-educated computer programmers, if they are not at the very top of their professions working on the most complicated, most sophisticated problems.

The Elites and the Non-Elites

Once you take all of these factors into account, the picture that emerges is remarkably similar to wider issues in American society today: the growing gap between the Elites and the Non-Elites.

And homeownership is increasingly the exclusive province of the Elites.

"Not only are we screwed, but we have to listen to lectures about our laziness and our participation trophies from the people who screwed us."

Perhaps the best articulation of this growing gap comes from a Millennial writer, Michael Hobbes, writing in Huffington Posts's Highline. The article is entitled, "FML" which stands for "Fuck My Life" and is well-worth experiencing in full, as it combines 8-bit graphics, very cool web graphics techniques, and compelling prose. The subtitle to the article is: "Why Millennials are facing the scariest financial future of any generation since the Great Depression."

He writes:

> Contrary to the cliché, the vast majority of millennials did not go to college, do not work as baristas and cannot lean on their parents for help. **Every stereotype of our generation applies only to the tiniest, richest, whitest sliver of young people**. And the circumstances we live in are more dire than most people realize. [Emphasis added]

Our optimistic view of Millennials is actually the view of the "tiniest, richest, whitest sliver of young people."

Preferences of the Elite

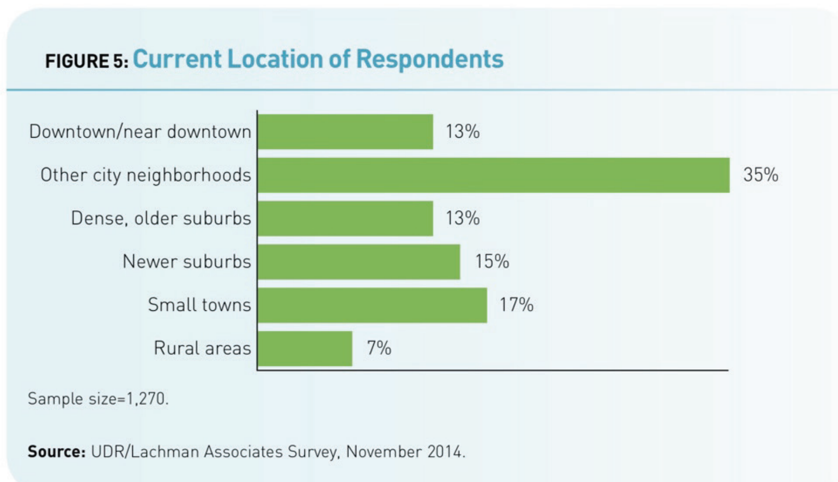
The real estate industry's perception of consumer preference is actually a perception of Elite consumer preference.

For example, the idea that younger buyers want to live in urban environments with walkable neighborhoods is not wrong, because they do. But that's an Elite preference which Gen X and even Boomers have as well.

Listanski said above that Millennials are the most urbanized cohort in history. But that turns out not to be the case… except for the Elites.

Their life is a far cry from the lives profiled in FML, and only 13% of Millennials live that life.

The Urban Institute released a study called Gen Y and Housing: What They Want and Where They Want It in 2010, and then updated it in 2015. One of their key findings is that only 13% of Millennials actually live downtown or near downtown. The majority of Millennials actually live in suburbs, small towns, and rural areas: 52% vs. 48% urban dwellers.



It also means that much of the other lifestyle preferences we think Millennials want and need are actually the lifestyle preferences of the Elites.

The downtowners are clearly atypical, because they are the Elites. They are the college-educated young urban professionals with good jobs and bright prospects. They have the income to enjoy eating out frequently, shopping, and being trendsetters. Their life is a far cry from the lives profiled in *FML*, and only 13% of Millennials live that life.

And yet, we know that the real estate industry continues to emphasize those preferences in its marketing to and characterization of Millennials.

Even something as basic as a young family with two little kids and a family dog is something that huge segments of the Millennials have not and may never achieve.

Yet, the message that the industry continually sends to Millennials is one that would be off-putting to anyone not among the Elite. It's almost like taunting them with something they could never have.

Something Strange Is Going On in Housing

It turns out that the simplistic view of the consumers of the future, centered around the largest group of consumers in U.S. today, is a constrained view of the top 10-20% of those consumers: the Elite Millennial.

The real story is far more complicated.

And we see signs of that complication already in odd places.

Renter Nation on the Rise

As homeownership becomes more and more the province of the Elites, renting may become a larger *permanent* part of the housing story. Forget the American Dream and say hello to Renter Nation.

A 2017 Freddie Mac study on renters found that:

- Renting is increasingly becoming a good choice for now. Whether they can afford to buy a home or not, the number of renters reporting renting is a good choice for them increased over the past year.
- Similarly, more renters say they have no interest in owning. The expectation to purchase a home is lower than it's ever been (41%).

Almost a quarter of all Millennials in the survey either feel like they will never be able to afford to buy a home or have no interest in owning a home at all.

Many in and outside the industry have interpreted this lack of interest in homeownership as the lifestyle choice of a globalized urban Elite who don't want to be tied down. The truth is far more shaded.

Housing is unaffordable because of politics. From FML:

> We're still living with that legacy [of residential zoning]. Across huge swaths of American cities, it's pretty much illegal to build affordable housing.
>
> And this problem is only getting worse.
>
> That's because all the urgency to build comes from people who need somewhere to live. But all the political power is held by people who already own homes.

The problem, according to the author, is so much worse in cities where environmental regulations and historical preservation rules have been "weaponized" by the older residents who already own *their* homes.

The cruel irony is that these cities are precisely the ones where entry level jobs for Millennials are, especially the college graduates who want a real career:

The jump from renting to dream house is not something to be celebrated. It is something to be watched carefully....

No More Starter Homes?

In 2018, CNBC ran a story titled, "From their parents' basements to dream homes: Millennials are skipping starter houses." In it, we find this:

> Millennials put off buying their first home as they struggled with the aftereffects of the Great Recession. Now that they're snapping up houses in greater numbers, many older millennials are making up for lost time: They're bypassing the traditional gateway to home ownership — the starter, or entry-level, home — and buying larger, more expensive houses where they're likely to raise families and maybe even grow old.
>
> "They rented for longer," says Diane Swonk, chief economist at Grant Thornton. "Now they're going to where they want to stay," possibly for decades.

Given what we have covered, does that seem likely? Does it seem likely that an underemployed college graduate living in his parents' basement while working as a barista at Starbucks saved up enough money to buy his dream house at 33 because his job status and income grew?

The more likely scenario is that these 30% of Millennial buyers come from the Elite, and the reason why they bought at all is that they finally got married (remember, median age for marriage in 2016 was 27.4 for women and 29.5 for men) after tiring of the single life as an investment banker in the big city.

Starter homes and "affordable" new homes are being purchased, instead, by large corporate landlords who are so voracious in their appetite that some of them are building new single family residences specifically to be used as rental stock.

The jump from renting to dream house is not something to be celebrated. It is something to be watched carefully, because it is a sign of the growing gap between the Elites and everybody else.

Intergenerational Purchasing

In 2014, Boston Globe ran a story titled, "Without parents' help, many could not buy their first home." In the midst of the recovery in the housing market, here's what the Boston Globe wrote:

> Last year, 27 percent of those purchasing a home for the first time received a cash gift from relatives or friends to come up with a down payment, according to data from the National Association of Realtors. That was up from 24 percent in 2012 and matched the highest share since the group began keeping records in 2009.
>
> Those numbers will probably keep growing this year as younger Americans remain constrained by student debt, a job market that's tough to break into, and stricter mortgage-lending rules that require more cash up front. At the same time, rising stock and property values give many baby boomer parents the ability to assist children who want to lock in mortgage rates that are near record lows.

Things haven't really changed.

One of the effects of this increased assistance from parents and grandparents, of course, is that the Elite continue to become more Elite.

So Elites who come from wealthier families get wealthier still, even compared to fellow Elites whose parents are unable to gift them tens of thousands of dollars for a down payment.

As one REALTOR I spoke with for this report put it, "If the parents are giving them the down payment, can we really say that those Millennials are home buyers at all? Isn't it really their parents who are the home buyers?"

Eat, Pray, Buy a House

And then we have this story from U.S. News: The Rise of the Single Female Homeowner, with the subtitle, "Many women aren't waiting for a man or a marriage before they buy a home nowadays."

The real story here may not be that these women chose to be homeowners before marriage, but that they have given up on marriage, period.

Although there is a gender pay gap between men and women, it turns out that young single women without children actually make more than young single men without children.

The typical coverage of the new single female homeowner phenomenon paints it as a story of female empowerment. It is that, in part. But the truth may be that these educated, accomplished, high-income single women just can't find a man they want to marry because the mathematics of marriage are not in their favor. The real story here may not be that these women chose to be homeowners before marriage, but that they have *given up on marriage*, period.

Condos, Not Big Family Houses

Something that is not often discussed when talking about the single female home buyer is the kind of home she buys.

Single women may be buying new homes, but they're smaller, cheaper condos rather than 4-BR houses meant for a family of four out in the suburbs. Who will be buying those larger family homes, which form a giant chunk of the housing stock in the suburbs, twenty years out?

Not the families which are not forming, and not the single woman, and likely not the single man with his single man lifestyle.

Consequences for Real Estate

The problems confronting the younger generation of Americans have far, wide and deep implications for the economy, society, and politics of the United States.

But we focus on the real estate industry. So what are the implications for real estate?

The Elites Will Have Options

The Elite Millennials, those who have the education to get the high paying jobs in desirable urban locations and have the lifestyle the media likes to describe, will have more and more options.

And they're a minority of the future consumer. Only 13% live in urban downtowns with the dining, entertainment, and cultural options. Less than half live in cities, despite being the "most urbanized generation ever."

So what of the majority of the consumers of the future?

"But now, the rules have changed and we're left playing a game that is impossible to win."

The Non-Elites Are Caught in a Downward Spiral

The majority of Millennials (and therefore the majority of the consumers of the future) are caught in a downward spiral of economic headwinds and social dysfunction. For every hotshot 24 year old data scientist at Google, there are literally thousands of young people whose lives look nothing like success.

Lack of education, and in some cases the lack of an Elite education (advanced degrees, Ivy League schools, etc.), leads to unemployment or underemployment.

But the student loans racked up to get an education puts even more of a financial burden on them. They're forced to rent, and often in high-rent cities where the jobs are located.

Because of their poor economic prospects, they do not get married, which then reduces both their desire to become homeowners and their ability to do so.

All of those problems get so much worse for those Millennials who never went to college. The structural changes to the economy means that the value of physical labor has fallen dramatically, and automation is starting to do the same for low-level service jobs.

The Gap Will Grow

The most disheartening data on Millennials is that as wide as the gap between the Elites and the Non-Elites are today, it is likely to grow wider as time goes on.

Millennials are both very rich and very poor:

> But while the Fed found that individual incomes were falling for millennials, it did find that family incomes for married couples (household incomes) grew, similar to Pew's analysis. **Individuals are earning less, but households are earning more.** [Emphasis added]

The male household heads in the Pew Research study are in a family of three: a married couple with a child.

There is a quite a bit of social science research that shows that married men earn more than single men, single women and married women.

Most young men *change their priorities* once they get married, and especially once they have a child. They step up to those additional responsibilities that they themselves feel and society places on them.

The Washington Post wrote about this phenomenon in 2015:

> Marriage has a transformative effect on adult behavior, emotional health, and financial well-being—*particularly for men*. (Parenthood is more transformative for women.)
>
> Men who get married work harder and more strategically, and earn more money than their single peers from similar backgrounds.

One report found that married men work about 400 hours more pear year than single men with similar backgrounds.

And of course, as we saw above, married people buy houses which builds up wealth, instead of building up their landlord's wealth.

The gap between the Elites and Non-Elites will continue to grow, absent major social and economic changes that will affect far more than just housing.

Fewer, Richer, More Demanding Consumers

One consequence of the growing gap between the Elites and Non-Elites is that future consumers in real estate are likely to be richer and more demanding… but there will be fewer of them.

It's because only the Elites can buy, and they have ever more increasing options.

How much value would they place on avoiding a poor experience, like the current home sale transaction experience?

While it remains true that all consumers across the economic spectrum have been conditioned to push a button and expect magic, the Elite consumer is almost ideally suited to an iBuyer or iSeller service.

The Elite Millennials do place greater value on experience over more stuff. How much value would they place on avoiding a poor experience, like the current home sale transaction experience?

With more and more options than ever, and the income and wealth gaps widening, we can expect that Millennials and future consumers will be more demanding and less tolerant of bad experiences than ever. And there will be fewer of them overall, which means more agents chasing after a smaller and shrinking pool of potential clients.

Experience, engagement and convenience: these become the hallmarks of marketing to Millennials. Since homeownership will be the province of the Elite Millennials, the bar to clear for all three will be higher still, which poses a major challenge to the real estate industry.

Final Note: The Political Dimension

We can't leave a report on future consumers without at least touching on the political dimension.

Everyone assumes that young people are left-of-center politically. Supporters think millennials are idealistic, community-centered, who have strong values and want a higher purpose in everything from their jobs to what kind of coffee they drink. Detractors think millennials are just freeloading socialists who want the government to provide free stuff.

The truth may be far more complicated than that.

Elite Millennials very well may be exactly the idealistic, heal-the-world type of people who seek meaning and purpose in everything in their lives. But they are the few, because that's the nature of being Elite in the first place.

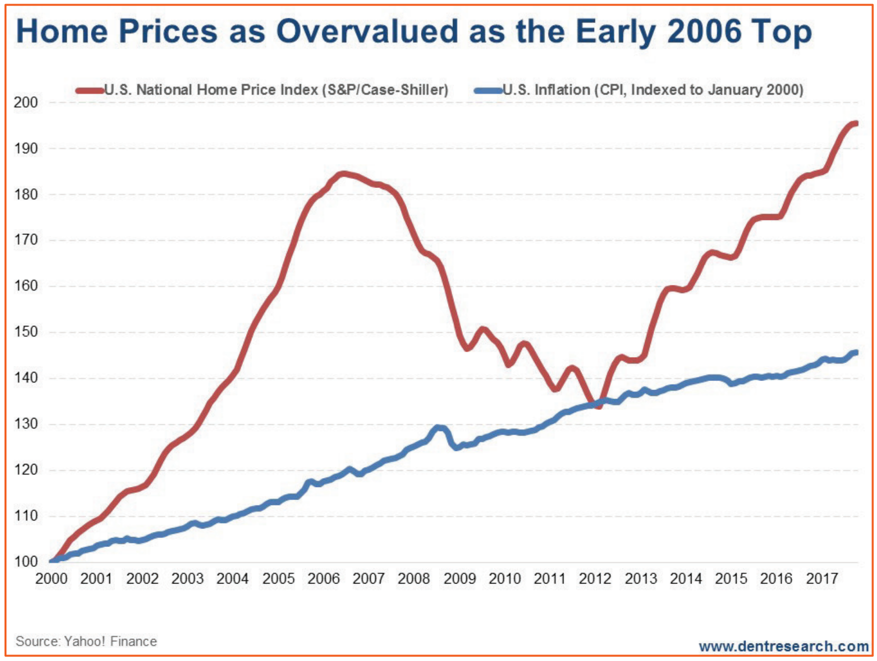
The Non-Elites are filled with *insecurity and rage*. If you read through the FML article, you know that virtually every paragraph is filled with contempt and rage for the world these non-Elites find themselves in, which they did not create.

From a real estate perspective, if homeownership is increasingly for the Elites, then real estate is on the side of the Elites.

When REALTOR Associations oppose things like rent control (for all kinds of good economic reasons), the political perception from the non-Elites will naturally be that the real estate industry is of the rich and for the rich. They have trouble making rent payments on their jobs at Quizno's; are they really going to listen to a defense of private property rights from a bunch of luxury-car driving REALTORS?

And as the writer of FML says, "The crisis of our generation cannot be separated from the crisis of affordable housing."

This tension is a central and fundamental conflict in the world of organized real estate. Because you cannot have both the homeowners and the future home buyers be winners. You cannot have home prices continue to rise well past inflation and wage growth, and also have homeownership within reach for the growing numbers of Non-Elites.



Note that 2012, the depth of the housing collapse, was the last time that home price index was at or below inflation. NAR has done a great deal of work, with a great deal of success, in lobbying for greater access to mortgages for buyers, but easier loans do not drop the price of homes.

To be fair, REALTORS have also argued for removing barriers to new construction, from irrational zoning codes to NIMBYism. A great many real estate professionals and organizations are concerned about and working on affordable housing. But real estate as an industry has never resolved the conflict at the heart of the problem: **in order to make housing more affordable, home values have to drop and drop quite a lot.**

An industry that is seen as the handmaiden of the Elites, because it behaves and acts and communicates as if it is the handmaiden of the Elites, will find itself in a precarious position if the insecurity and the rage of the Non-Elites find expression in our politics.

Recommendations: Brokerage

Please read the full Recommendations section for more detail.

- **Experience, Engagement and Convenience**
- **Get Local Information**
- **Think About Job Security for Millennial Agents and Staff**
- **More Attention to Rentals**
- **Single Women Buyers Are Here to Stay**
- **You Still Need Technology**

Orient.

MAIN SECTION

Perhaps no generational cohort in American history has been as examined, as anticipated, or as misunderstood as Millennials. As the largest age-related cohort since the Baby Boomers, one that came of age in the full maturity of the Information Age, and one that came into adulthood post-9/11 and the Great Recession, hundreds of books and articles have been written about them.

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Because everyone understands that Millennials are literally the future of the country.

The entire business world in the United States has been thinking about, planning for, and obsessing over the rise of Millennials as consumers for the past couple of decades. For years now, we have been listening to pundits and experts talk about how the young people are so different from those who came before. They were "digital natives" who were born with an iPhone in their hands, and so on. "They never knew a world without Google!" and "Social media is all-important."

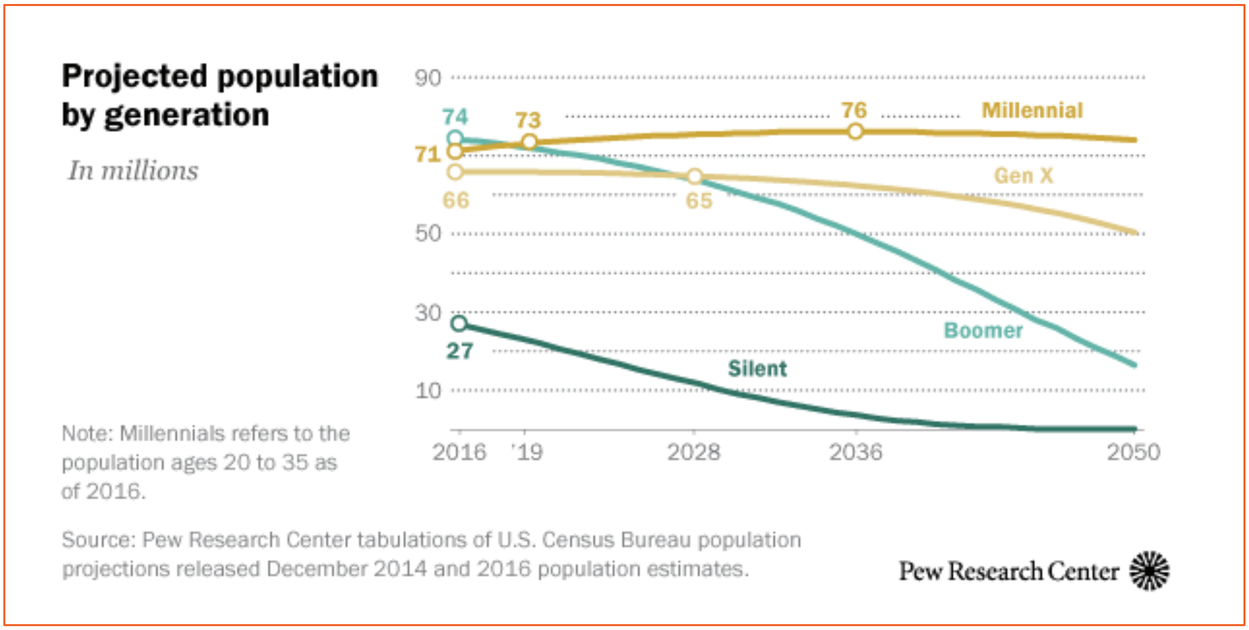
The more fanciful prognosticators began talking about the end of the ownership society as consumers began doing things like not buying CDs in favor of streaming music, or abandoning DVD players once Netflix became widely available.

Whether right or wrong, fanciful or otherwise, the entire business world has been thinking about Millennials for years.

The real estate industry is no different.

I distinctly remember going to a strategy session while at Cendant (now Realogy) in 2006 to hear an expert talking about the coming rise of Millennials and the decline of The Greatest Generation. That means the oldest Millennials were 24 years old.[1] They were not yet real estate consumers in any significant way.

But we were talking about them and planning for them anyway.



We all knew that Millennials were the largest group of consumers after Boomers and they were coming of age at some point. According to Pew Research, Millennials will overtake Boomers as America's largest generation this year, in 2019:

> Millennials are on the cusp of surpassing Baby Boomers as the nation's largest living adult generation, according to population projections from the U.S. Census Bureau. As of July 1, 2016 (the latest date for which population estimates are available), Millennials, whom we define as ages 20 to 35 in 2016, numbered 71 million, and Boomers (ages 52 to 70) numbered 74 million. **Millennials are expected to overtake Boomers in population in 2019 as their numbers swell to 73 million and Boomers decline to 72 million**. Generation X (ages 36 to 51 in 2016) is projected to pass the Boomers in population by 2028.

[1] For our purposes, we will use the United States Census Bureau definition: Millennials are those born between 1982 and 2000.

what happened to gen x 🕵
https://t.co/GrpilVAHJy

In many important ways, GenX (of which I am a proud part) resembles Millennials. Although the media and pundits like to portray Millennials as the first "digital natives" who are comfortable with technology, fact is that most of the GenX grew up with Atari and video games, and all of us remember the personal computer revolution and the mobile revolution and the Internet because we were young enough to have come of age in the digital age.

Most of the technology-oriented traits of Millennials are shared by GenX. We are just as addicted to our phones as they are, and some would argue that some social media platforms (Facebook in particular) is no longer the playground of the young, but of the middle-aged.

Nonetheless, the future belongs to Millennials and those younger – the so-called Generation Z – simply because they will be alive and be growing up into adulthood, while the older people will not be. And they have the numbers that we Gen-X do not have.

Plus, we Gen-X are simply the Forgotten Generation, an afterthought caught between the two demographic bulges of Baby Boomers and Millennials. And we're just fine with it.

So, Millennials are here and they are the future consumers of housing, which means that they are the future of real estate as a whole. So what's going on with them?

Thesis: The Gap Between Elites and Non-Elites Is Growing

The consumer of the future is divided as we have never seen before. The growing gap between the Haves and Have-Nots, between the Elites and the non-Elites, between urban and rural is impossible to ignore.

What emerges once you pull together all the various trends, studies, evidence, and stories about Millennials is that they exemplify the stresses of modern life and divisions in society and the growing gap between the rich and the poor. The middle is quickly disappearing, either moving up into the Elite ranks, or dropping down into the struggling masses.

The implications of this divide are *profound*. Since housing is a pillar of not just the economy, but a bedrock of the social fabric, it is affected by and in turn affects the consumers of the future.

For real estate, it is critically important in the years ahead to be clear-eyed about the consumers of the future. To date, I fear that our industry has tended to be somewhat overly optimistic, trying to cover up the worst of the problems, and generally looking through rose-tinted glasses.

We need to reexamine our current approaches to the business in light of the truth about consumers of the future.

The Industry's Take on the Millennial Consumer

Major companies and organizations in real estate conduct research on consumers. NAR has been doing it for years, and more recently, Zillow has been conducting primary research on consumer behavior. Most of the analysis here relies on their research, which can be found here:

- Zillow Group Consumer Housing Trends Report 2018 (https://www.zillow.com/report/2018/)
- NAR Highlights from the 2018 Profile of Home Buyers and Sellers (https://www.nar.realtor/sites/default/files/documents/2018%20HBS%20Highlights.pdf)
- NAR 2018 Home Buyers and Sellers Generational Trends (https://www.nar.realtor/sites/default/files/documents/2018-home-buyers-and-sellers-generational-trends-03-14-2018.pdf)

I also include reports and studies from banks, mortgage companies, title companies and those related to housing in some way as part of the industry for the purpose of this report.

Because on the whole, while sounding notes of caution, the industry's take on Millennials as future homeowners is rather upbeat.

Millennials Are Here

First thing to note is that at long last, Millennials have finally arrived as buyers.

Zillow says:

> Millennials between the ages of 24 and 38 comprise the largest single group of home buyers, and 46 percent of all buyers are diving in for the first time.

Millennials comprise 42% of the buyer population, according to Zillow.

NAR's percentages are lower at 34%, but "buyers 37 years and younger continue to be the largest generational group of buyers with a median age of 31."[2] Perhaps the additional year that Zillow considers as a Millennial accounts for the 8% difference, but either way, the younger buyer is now the largest group of buyers.

Optimism is blooming in real estate's take on younger consumers. We'll see this time and again in the industry's look at Millennials.

For this report, I reached out to Lindsay Listanski, who is not only the Head of Marketing for Realogy's new "urban youth" brand, Climb, but is also a Millennial herself. Her professional and personal insights have proven helpful for this report.

Listanski points out that Trulia's latest research shows that it is Millennials who are driving higher homeownership rates:

> What's even more positive news for the housing market is that much of the increase in the homeownership rate over the past year has come from 18- to 44-year olds. Increases in homeownership amongst these two cohorts are a sign that the scars of the Great Recession are finally starting to heal, and provide a source of optimism that the owner-occupied

[2] One reason for the difference may be that Zillow considers 38 year olds to be Millennials, while NAR's cutoff is 37.

> segment of the housing market will continue to grow throughout the remainder of this economic cycle.

Optimism is blooming in real estate's take on younger consumers. We'll see this time and again in the industry's look at Millennials.

Millennials Want to be Homeowners

There have been a number of studies that put to rest the misconceptions that Millennials love the flexibility and lack of commitment that come with renting. The breathless predictions of a new lifestyle of the urban young professional who dreams of roaming from place to place following jobs or passions or whatever turn out to be flat out wrong when it comes to what younger people want.

For example, here's a CNBC story citing Bank of America's 2018 Homebuyer Insights Report:

> A full 72 percent of millennials list owning a home as a top priority, according to Bank of America's 2018 Homebuyer Insights Report, which surveyed 2,000 adults who currently own a home or plan to in the future. By contrast, 50 percent list getting married and 44 percent say having children.

Buying a home takes priority over getting married and having children? That seems… a bit odd.

Kathy Cummings, senior vice president of homeownership solutions and affordable housing programs at Bank of America, tells CNBC that the reason is that owning a home makes young people these days feel mature, like a real adult:

> Many millennials want to buy because the idea makes them feel "mature, more responsible," Cummings says, and "more like an adult. I think that those are all driving factors for wanting to be a homeowner."

We'll come back to this reasoning, but for now, brokers, agents, mortgage bankers and title reps everywhere can breathe a sigh of relief. Those darned young people do want to buy houses after all! They haven't abandoned the American Dream of owning your very own home!

Agents Remain Important

Both Zillow and NAR stress that all consumers, including the tech-savvy Millennials, still need, find value in, and use a real estate agent.

Zillow says that despite having "ideas of home are sometimes significantly different than those of their elders," and a different way of looking for a home that is "influenced by technology and a Google culture," the young Millennial buyers need and want assistance from real estate agents:

> These young adults, who are driving the housing market, are patient, willing to compromise and eager for assistance from experts they trust. With so many inexperienced buyers, it's understandable why about **three-quarters are looking for agents who can guide them through the entire process**, even when they begin the search for a home by themselves – as 91 percent of them do – or when they say they prefer to take the lead themselves, as 58 percent do. [Emphasis added]

According to Zillow, buyers see agents as strategic partners "who can guide them through the journey or step in at critical junctures to help them land the home they set their sights on."

With 74% of buyers working with real estate agents, Zillow writes:

> The overwhelming majority of buyers recognize the value of agents and see them as an essential part of the complex buying process. Overall, most services performed by agents are highly valued by buyers who worked with an agent to purchase a new home in the past year.

NAR is similarly complimentary of the real estate agent:

- Seventy-eight percent of recent buyers found their real estate agent to be a very useful information source. Online websites were seen as the most useful information source at 88 percent.

And:

- Eighty-seven percent of buyers recently purchased their home through a real estate agent or broker, and six percent purchased directly from a builder or builder's agent.

- Ninety percent of buyers would use their agent again or recommend their agent to others.

Technology is important, and becoming even more important to younger consumers, but it has not replaced the real estate agent. Zillow says:

> Most buyers use online tools as a complement to their partnership with an agent. **In fact, buyers who use online resources to find a home are significantly more likely to use an agent (80 percent versus 52 percent who do not use online resources).**
>
> ....
>
> Millennials are most likely to use online resources (88 percent, compared with 79 percent for Gen Xers, 70 percent for Boomers and 51 percent for Silent Gen buyers).
>
> But the majority of buyers work with an agent (74 percent), a trend that is relatively consistent across generations when finding a home. [Emphasis added]

Furthermore, Listanski from Climb points out that at least one study shows that Millennials rely *more* on real estate agents than do Gen-X and Baby Boomers:

> A **new study** from Owners.com revealed some surprising insights into just who's using real estate agents – and who's not. According to the study, Millennials are more likely than any other generation of buyers to rely on their agent, particularly for property recommendations.
>
> "Nearly one in five Millennials stated they can be indecisive at times and, therefore, rely on their agent to tell them what they should be considering and touring," Owners.com reported.
>
> Just 9 percent of Gen X buyers said the same, while only 5 percent of Baby Boomers did.

More optimism, at least from companies and people who make their living from real estate agents… which is all of the industry.

Millennials Are Different, But Not Really

Taken with all of the above, the real estate industry believes that this most important consumer segment is different from previous generations, but not really that different.

They use the web more than older people, prefer mobile and texting, are really into this social media thing, and sure, they like downtown condos more than they do the two-story colonial out in the suburbs, but they still want to buy houses, and when they do, they need the real estate agent more than the old fogies because 20% of them can be "indecisive" and rely on the professional for advice.

The enduring stereotype of the Millennial buyer is a college-educated young urban professional with a cool job at a startup tech company who travels the world, for whom dining and entertainment options are important, who values walkable cities (or something like it in suburban enclaves), goes to Burning Man, is diverse and tolerant, and is addicted to social media.

For example, Listanski said:

> A few years ago, I heard someone say millennials prefer subways to driveways and it stuck with me. We are city dwellers and FT.com reports millennials are the "most urbanised cohort of young adults ever."

So the stories about insanely high rents and crazy home prices have a lot to do with the cost of housing in such urban areas. With the median home prices in some of the most highly sought after cities hitting bubblicious territory, Listanski isn't far off the mark. Consider these numbers (all data from Zillow):

- Seattle: $725,700
- San Francisco: $1,374,800
- New York: $681,500
- Los Angeles: $687,200

Even secondary cities, which have experienced massive growth because the coastal metropolises have become so expensive, are getting up there. Denver's median home price is $424,700; Austin's is $363,400 (but up *9.8%* over the past year).

Because of their urbanized lifestyle, Millennials are willing to buy smaller houses and give up features in order to have location, location, location.

Trulia's most recent Consumer Home Buying Survey shows that Millennials are more willing than GenX or Boomers to forego home features for location:

> Perhaps due to tight budgets and fewer inventory, millennials are more willing than any other generation to consider trade-offs in their home and neighborhood. With 84% of millennials willing to give up a home feature to live in their ideal neighborhood and 89% willing to give up a neighborhood feature for their ideal home, older generations are less likely to be willing to compromise.

But, with those compromises, the largest cohort of consumers is moving into buying homes, becoming homeowners, and using real estate agents to do so.

No wonder there is such cause for optimism!

And yet....

Are Millennials Buying Homes?

Despite the industry studies showing such positive signs, we often get stories like this one from Vox, written by a Millennial, talking about that Bank of America report cited above, which showed that 72% of millennials put buying a home above marriage and children. The author writes:

> I spend more time than I would like to admit looking at real estate listings online. I recently found a nice townhouse in my neighborhood that costs 25 times my annual salary, which is honestly a better deal than most other places in the surrounding area. **The moral of the story is that I'm convinced I'll never be able to afford a home, at least not anywhere I'd like to live**. [Emphasis added]

Are millennials really buying homes? Or are just *some* millennials buying homes?

It turns out that just because the largest segment of homebuyers are Millennials does not mean that millennials are buying homes. It could simply mean that a lot of Americans are not buying homes, but a big chunk of those who do buy them are young, under 37 buyers.

Even the studies and surveys cited above do touch on the issue.

Trulia, for example, in its Consumer Home Buying Survey notes:

> Of the 86% of millennials planning to purchase a home, 35% plan to purchase in the next year. However, rising home prices and shrinking inventory has created an environment where compromises are needed to be made. **As the largest prospective home buying generation, almost all (98%) of millennials planning to buy in the next year have encountered obstacles that are keeping them from buying at this time**.[Emphasis added]

The Bank of America 2018 Homebuyer Insights Report cited above turns out to be a survey of "2,000 adults who currently own a home or plan to in the future." That's a rather selective group of people today, isn't it?

It turns out that just because the largest segment of homebuyers are Millennials does not mean that millennials are buying homes.

Truth is that Millennial homeownership lags far behind GenX and Boomer homeownership rates at the same age. From the Urban Institute's latest study:

> Our new, extensive *Millennial Homeownership* report finds that the homeownership rate of millennials between the ages of 25 and 34 was 37 percent in 2015, approximately 8 percentage points lower than the homeownership rate of Gen Xers and baby boomers at the same age.

Homeownership among Baby Boomers, Gen Xers, and Millennials in 2015

Generation	Years born	Age	Population	Current homeownership (%)	Homeownership at age 25–34 (%)
Millennials	1981–97	18–34	75,170,263	32.2%	37.0%
Gen Xers	1965–80	35–50	66,441,487	60.4%	45.4%
Baby boomers	1946–64	51–69	74,649,971	75.0%	45.0%

Sources: 1990 and 2000 Decennial Censuses and the 2015 American Community Survey.

And what's potentially worse, much of the younger generation may have *given up on homeownership altogether*.

This HousingWire article cites a Bank of the West's annual study and says:

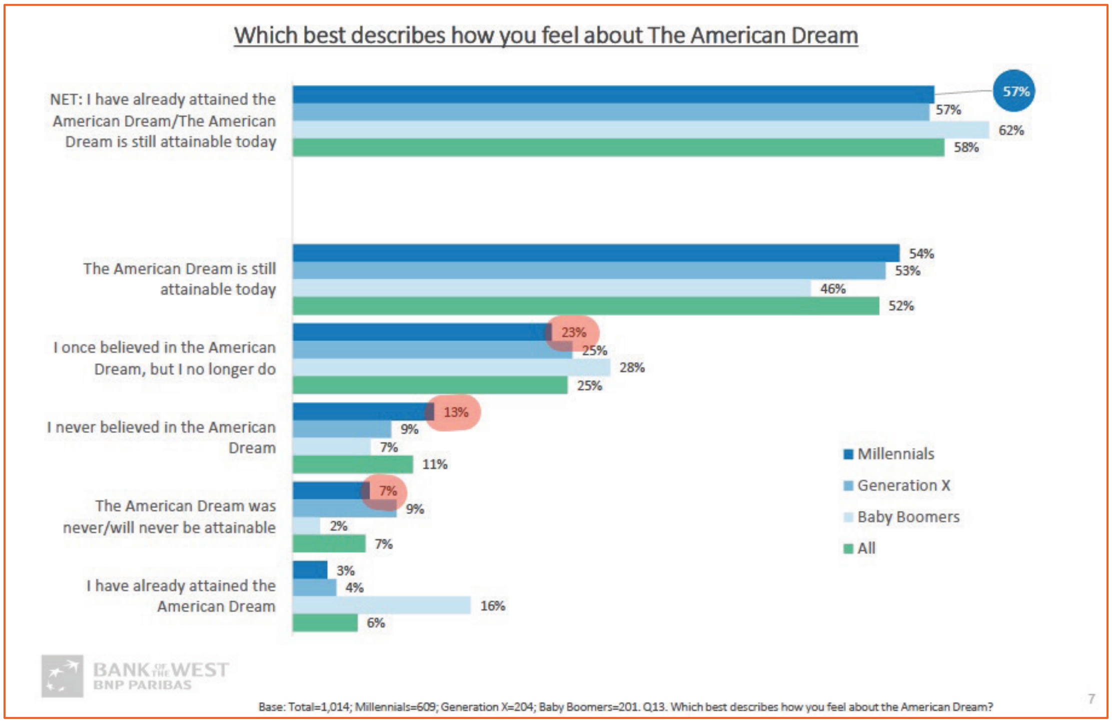
> People talk about how the American Dream of one day owning a house is still something that Millennials want and are actively pursuing, and that still appears to be true, **but for many Millennials that dream is dying, dead or undesirable**.
>
> The recipe for the Millennial American Dream goes something like this: owning a home, being debt-free, retiring comfortably, pursuing passion. But, according to **Bank of the West**'s annual Millennial Study, **only 54% of Millennials believe that the American Dream is attainable, and nearly a quarter of Millennials say they've given up on their dreams of homeownership.**
>
> With prices on the rise, homeownership has become increasingly difficult for Millennials. **The majority of Millennials are still renting or staying with friends or family, and only 42% own a home.** According to the report, 46% of Millennials rent, 42% Millennials own, 11% stay with parents or family and just 1% stays with friends. [Emphasis added]

Finally, you have an opinion from millennials themselves, in this case from GenFKD, a project of YoungAmerica.org:

> Believe it or not, millennials actually want to buy homes. In fact, 80 percent of millennials do. But why is young homeownership down? Homeownership for people between the age of 25 to 34 has gone down from 45.4 percent to 37 percent. So why is homeownership down if interest is high?

It turns out, there are things about the younger consumer that often get swept under the rug by the real estate industry. It isn't that we don't know these things; it's that we don't focus on them, because they don't help anybody sell a house.

And yet, if consumer behavior is going to change the industry, and it will, then perhaps it's worth taking a look at these fundamental drivers of consumer behavior. I would argue that these factors are far more important to the industry than how much Millennials and Gen-Z love their iPhone X.



The Things Under the Rug

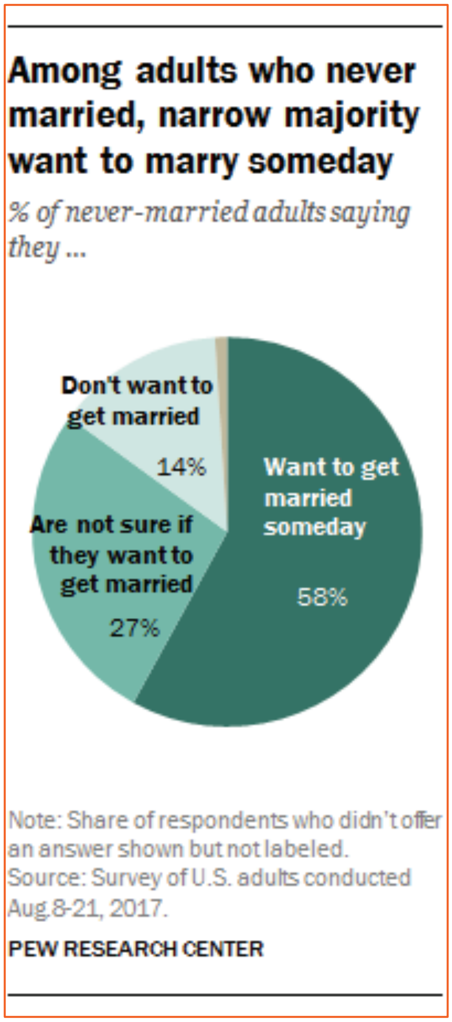
The Urban Institute's study is actually a great place to begin looking at the dark side of the younger consumer. As the writer from GenFKD says, they're facing different situations than previous generations.

So what are these real fundamental differences?

Family Formation

GenFKD listed "getting married later" as the first reason why Millennials are not buying. Urban Institute agrees:

> **Delayed marriage had the most significant impact on millennial homeownership.** Being married increased the



> probability of owning a home 18 percentage points, after accounting for other factors, such as age, income, race and ethnicity, and education.
>
> The marriage rate among young adults dropped from 52 percent in 1990 to 39 percent in 2015. **If the marriage rate in 2015 had been the same as it was in 1990, the millennial homeownership rate would be about 5 percentage points higher.** [Emphasis added]

Listanski, a Millennial homeowner, actually did admit that she is an outlier on two fronts:

> I got married, bought my house and had my son all before 30.... **I am an outlier for my generation. I also had the huge advantage of my parents paying for my education... again outlier**.
>
> Millennials tend to delay domestic milestones, and this had had a pretty significant impact on home buying. NAR reports adults are 18% more likely to own a home if they are married (maybe real estate pros should look at matchmaking as a side hustle). And we all know that having a baby is a major lifestyle trigger for buying a home. **As millennials start to settle down home buying will surge**. [Emphasis added]

That last sentence, that homebuying will surge once Millennials start to settle down, has been the hope of economists, REALTORS, and the entire housing industry for a few years now.

But what if they never "settle down"? What if they *never* marry?

From Pew Research:

> The decline in the share of married adults can be explained in part by the fact that Americans are marrying later in life these days. In 2016, the median age for a first marriage was 27.4 for women and 29.5 for men – roughly seven years more than the median ages in 1960 (20.3 for women and 22.8 for men).
>
> But delayed marriage may not explain all of the drop-off. **The share of Americans who have *never* married has been rising steadily in recent decades**. [Emphasis added]

And among those who never married, 42% say they either don't want to get married or aren't sure if they want to:

> Among adults who have never been married, 58% say they would like to get married someday and 27% are not sure if they want to get married. Still, 14% say they do not want to get married, according to a Pew Research Center survey conducted in August among 4,971 U.S. adults.

Why might that be?

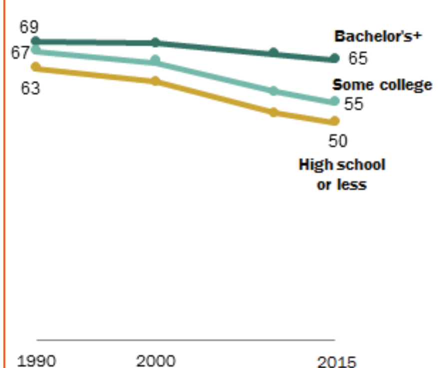
Pew Research says it's financial insecurity:

> For young adults who have never been married, not being financially stable and not being ready to settle down loom large as reasons why they are not married. Roughly half of never-married adults ages 18 to 29 (51%) say not being financially stable is a major reason they are not married, compared with 27% of those ages 30 to 49 and 29% of those 50 and older.

Why so much financial insecurity?

The education gap in marriage continues to grow

% of U.S. adults ages 25 and older who are married, by education



Note: "Some college" includes those with an associate degree and those who attended college but did not obtain a degree. Adults who are separated are not classified as married.
Source: Pew Research Center analysis of 1990-2000 decennial censuses and the 2010 and 2015 American Community Surveys (IPUMS).
PEW RESEARCH CENTER

One explanation comes from another major finding of the Pew Research study, about the education gap in marital status:

> In 2015, among adults ages 25 and older, 65% with a four-year college degree were married, compared with 55% of those with some college education and 50% among those with no education beyond high school. **Twenty-five years earlier, the marriage rate was above 60% for each of these groups.** [Emphasis added]

To be clear about this, 63% of adults with a high school diploma or less were married in 1990; only 50% of them were in 2015. 67% of adults with some college (e.g., a two-year Associate's Degree) were married in 1990; in 2015, only 55% of them were. But note that those with a bachelor's degree plus saw a decline of merely 4%, from 69% in 1990 to 65% in 2015.

The Gender Dimension

It turns out that the lack of family formation has a gender dimension to it. More men than women are never married. Once again, Pew Research:

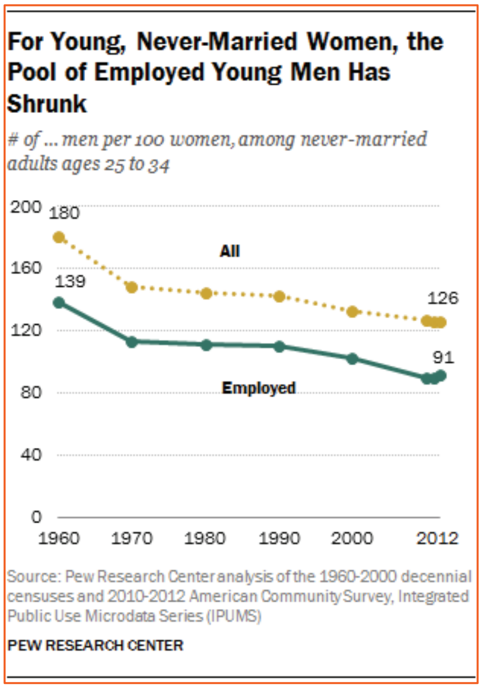
> Men are more likely than women to have never been married (23% vs. 17% in 2012). And this gender gap has widened since

> 1960, when 10% of men ages 25 and older and 8% of women of the same age had never married.

What explains this gender gap?

[Pew Research](#):

> But the survey also finds that, among the never married, men and women are looking for distinctly different qualities in a potential mate. **Never-married women place a great deal of importance on finding someone who has a steady job—fully 78% say this would be very important to them in choosing a spouse or partner.** For never-married men, someone who shares their ideas about raising children is more important in choosing a spouse than someone who has a steady job. [Emphasis added]



Even in the 21st century, with all of the social changes and advances brought on by women in the workforce, some attitudes remain ingrained in Americans, male and female:

> **Roughly seven-in-ten adults (71%) say it is very important for a man to be able to support a family financially to be a good husband or partner**. By comparison, 32% say it's very important for a woman to do the same to be a good wife or partner, according to a new Pew Research Center survey. [Emphasis added]

And American men have not fared well with that all-important "able to support a family financially" requirement to be a good husband or partner over the last few decades. Once again, [Pew Research](#):

> As the share of never-married adults has climbed, the economic circumstances faced by both men and women have changed considerably. **Labor force participation among men—particularly young men—has fallen significantly over the past several decades**. In 1960, 93% of men ages 25 to 34 were in the labor force; by 2012 that share had fallen to 82%. And among young men who are employed, wages have fallen over the past few decades. **For men ages 25 to 34, median hourly wages have declined 20% since 1980 (after adjusting for inflation). Over the same period, the wage gap between men and women has narrowed.** In 2012, among workers ages 25 to 34, women's hourly earnings were 93% those of men. In 1980, the ratio was less than 70%.

That report goes on to say that "changes in the labor market have contributed to a shrinking pool of available employed young men."

> **Among never-married adults ages 25 to 34, the number of employed men per 100 women dropped from 139 in 1960 to 91 in 2012, despite the fact that men in this age group outnumber young women in absolute numbers**. In other words, if all never-married young women in 2012 wanted to find a young employed man who had also never been married, 9% of them would fail, simply because there are not enough men in the target group. Five decades ago, never-married young women had a much larger pool of potential spouses from which to choose. [Emphasis added]

139 per 100 in 1960 was a surplus of 39 men. 91 per 100 is a shortage of 9 men. And that's using just the "employed vs. unemployed" distinction.

What does that look like if we go beyond simply "job or no job" to "what kind of job?"

Structural Changes in American Economy Hurt Men More

There are dozens of scholarly articles and reports on the topic, and hundreds of magazine and news articles about the phenomenon, but fact is that the U.S. economy has been shedding traditionally male jobs in manufacturing and construction, and adding traditionally female service sector jobs.

An article in Money in 2016 cited a report from the White House Council of Economic Advisors:

> The CEA report finds that participation in the labor force among "prime-aged" men—males between 25 and 54 years old—peaked at 98% in 1954 and began to slide sharply in 1965 to a nadir of 87.9% in October 2013 after years of recession following the financial crisis, before stabilizing at 88% today.
>
> The report identifies a few key causes for the decline. First of all, the demand for less skilled labor in the U.S. has fallen sharply since the 1950s. In other words, there are fewer jobs for more unskilled workers.

Although the trend in lower demand for less skilled labor has been going on since the 50s, the Great Recession hit men so hard that some have called it a "mancession". A 2010 story in Huffington Post talked about the issue:

> More than 8.2 million jobs have been lost since the recession officially began in December 2007. Male-dominated industries like construction and manufacturing have been hit particularly hard, leading some to dub this a 'mancession'. It's precisely those jobs that will take so long to recover, economists argue, because those skill-specific jobs are no longer available.
>
> "In simple terms, the skills people have don't match the jobs available," Dennis P. Lockhart, president and CEO of the Federal Reserve Bank of Atlanta, said in a recent speech. "Coming out of this recession there may be a more or less permanent change in the composition of jobs."

Note that the CEA report above says that male participation in the labor force stabilized at 88%, after a low of 87.9% in 2013. That 0.1% gain is a gain, I suppose, but... it isn't much of one.

What I pointed out in 2011 was that mathematics does not favor the college-educated woman.

Nonetheless, the lack of demand for traditionally male jobs is due to changes in the economy away from blue collar work to white collar careers. And those require education.

Since Millennials came of age during and after the Great Recession, they have come into adulthood in a dramatically changed economy where education is all important for employment.

Female Hypergamy and the Law of Supply & Demand

Back in 2011, I wrote a post on Notorious ROB called "Millennials and Family Formation" in which I started to worry about family formation rates among the young. I wrote:

> Travis [Robertson] is well-aware of the facts of the incredible gender imbalance within the Millennials. Numerous people,

> myself included, have commented on some of these never-before-seen numbers:
>
> - 60% of college students are women
> - 60% of adults holding an advanced degree are women
> - Women earn more Master's and Ph.D. degrees than men
> - Women make up the majority of the workforce today

That was in 2011, citing data from 2009 and earlier. It's ten years later, and according to projections from the National Center for Education Statistics, things have only gotten worse: women have gone from 56.8% of Bachelor's degrees in 2009 to 58.0% in 2019 (projected).

What I pointed out in 2011 was that mathematics does not favor the college-educated woman:

> It is tautological that if 3 of 5 college students are women, then 3 of 5 people who have college degrees in the big metropolitan areas in the country will also be women. Indeed, the dating scene for these highly educated, accomplished women is not exactly full of options even after their bright college years are over.
>
> From Slate:
>
> > But just as critical is the fact that a significant number of young men are faring rather badly in life, and are thus skewing the dating pool. It's not that the overall gender ratio in this country is out of whack; **it's that there's a growing imbalance between the number of successful young women and successful young men**. As a result, in many of the places where young people typically meet—on college campuses, in religious congregations, in cities that draw large numbers of twentysomethings—women outnumber men by significant margins. (**In one Manhattan ZIP code, for example, women account for 63 percent of 22-year-olds**.) [Emphasis mine.]
>
> Why does this matter for family formation?

The answer is female hypergamy: the desire to marry up, with roots in evolutionary psychology.

Let me pause and caveat that evolutionary psychology is a relatively new and relatively contentious field of social sciences. But it seems contentious for political, rather than scholarly, reasons. Not being an academic in the field, I will simply suggest that there are multiple peer-reviewed papers and books on the subject from reputable scholars from reputable institutions who have written on the subject.

To pick one such scholar, Dr. David Buss of the University of Texas at Austin is one of the foremost authorities on human mating patterns. He is the author of *The Evolution Of Desire: Strategies Of Human Mating*, the *Handbook of Evolutionary Psychology*, and numerous other books and articles. If anyone is an expert, he is.

In an article titled "Do Women Have Evolved Mate Preferences for Men with Resources?", a response to a critique by another social scientist, Dr. Buss writes:

> [The scientific method] has now produced overwhelming evidence, using diverse techniques, dozens of diverse cultures, and dozens of investigators working in dozens of locations around the world, that human females in fact do have preferences for males who possess resources and attributes known to be linked with resource acquisition (e.g., Betzig 1987; Buss 1987, 1989; Sadalla et al. 1987; Symons 1979; Townsend 1989; and references therein). No published study of humans on this topic that I am aware of has ever failed to find the predicted sex differences in human mate preferences.

Dr. Buss compiled the findings of 50 social scientists working with 10,047 people in 33 countries to reach his conclusions.

Individual exceptions exist, of course, and successful women do marry men who make less than they do, who are not as highly educated. But as the Pew Research data above shows, 71% of American adults say that a man should be able to support a family, and 78% of never-married women place a great deal of importance on finding a man with a steady job.

Changes in the economy, away from blue collar manufacturing and construction jobs towards white collar creative and service jobs mean that education is closely linked to higher income. The imbalance in education naturally means an imbalance in income between young single men and young single women. Evolutionary psychology would predict fewer marriages, as young women do not wish to "marry down" with a young man with less education, less income, and less ability to generate an income.

To be sure, it isn't just the evolutionary psychologists who worry about male economic prospects and marriage. Economists do as well.

This 2017 article in The Atlantic discussed one such study by economists at MIT, UC San Diego, and University of Zurich:

> A new study by the economists David Autor of MIT, Gordon Hanson of the University of California at San Diego, and David Dorn of the University of Zurich, provides evidence that their economic struggles are directly responsible for many of their personal ones. The study finds that, as men's economic prospects decline, they marry less frequently. Once, men had good earnings, especially when compared with women. But now these men don't earn much more than women do, and so fewer people are getting married, and more children are being born out of wedlock. Children are much more likely to grow up in poverty in households headed by single mothers.

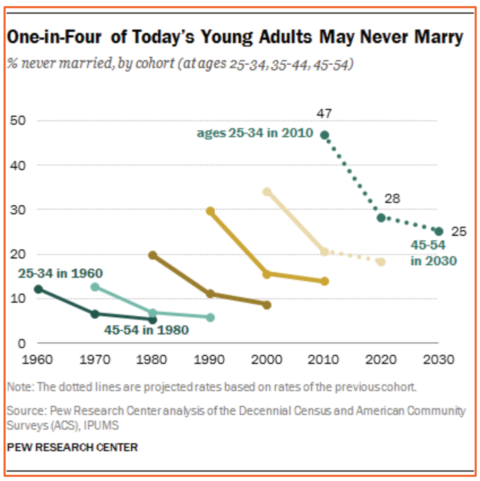
The study looked at areas which suffered manufacturing job losses due to "trade shocks" and found the impact is exactly as the evolutionary psychologists have said would be.

> They found that manufacturing declines significantly affected the supply of what they termed "marriageable" men—men who are not drinking or using drugs excessively and who have a job. In areas impacted by a trade shock, the numbers of marriageable men relative to women declined, because men had migrated elsewhere, joined the military, or fallen out of the labor force. Fewer men were working in manufacturing, which tended to mean their wages were lower than they had been when manufacturing had more of a presence in their area. And their wages were not significantly higher than women's wages, which they had been during the heyday of manufacturing. (Fewer women worked in manufacturing in the first place, so they were less affected by the shocks.)
>
> This made the men less appealing to the women, the authors suggest—so there were fewer marriages. They find that trade shocks reduced the share of young women who were married, and reduced the number of births per woman.

That is precisely what the evidence suggests is happening with millennials.

As Pew Research puts it:

> The changing gender patterns in the link between education and marital status have contributed to an educational mismatch between never-married men and women. **Today, never-married women ages 25 and older are more educated overall than never-married men: one-third of these women have either a bachelor's or advanced degree, compared with one-quarter of never-married men ages 25 and older**. In 1960, never-married men and women were much more similar in terms of their educational attainment. [Emphasis added]



What is astonishing is that Pew Research notes that their projections show that one in four Millennials may never marry:

> Today's young adults are slow to tie the knot, and a rising share may end up not getting married at all. According to Pew Research projections based on census data, **when today's young adults reach their mid-40s to mid-50s, a record high share (25%) is likely to have never been married**. [Emphasis added]

We have never seen an entire generational cohort where one out of four were never married. Never.

As the various academic reports and social science research fret, we have never seen the impact on American society from such widespread lack of marriage. The impact on children alone, nevermind the social fabric, is huge. The Atlantic article above notes:

> The paper's findings are worrisome for some places that have seen men's jobs displaced by trade and automation. A trade shock in which one sector saw major job losses increased the share of children living in poverty by 13 percent. It also increased the share of children living in single-parent-headed or grandparent-headed households.

A Different Story for Elite Millennials

However, because marriage is tied to male income, which is tied to male education, it turns out that the highly educated (and presumably highly paid) men do not have this problem.

According to Pew Research, 13% of men with post-graduate degrees in 1960 were never married; in 2012, 14% of such men were never married. In other words, lawyers, doctors, men with master's degrees or Ph.D.'s are still getting married at the same rate that their fathers did. Using Pew Research's projections, only about 5-6% of them will have never married by the time they're in their mid-40s.

Meanwhile, highly educated women have experienced the opposite. Far more of them are married today than they were in 1960: only 18% of women with post-graduate degrees were never married in 2012, compared to 31% in 1960. On the other hand, the percentage of women with bachelor's degrees, some college, and high school or less who are never married has risen to match the post-graduate women. In 2012, whatever a woman's education level, she was *equally* likely to be never married.

What is going on? Two things explain this phenomenon.

One is female hypergamy and the law of supply and demand.

Pew Research says:

> **Among never-married young adults with post-graduate degrees, women outnumber men by a large margin.** There are 77 never-married men ages 25 to 34 with post-graduate degrees for every 100 women with similar educational credentials. Among never-married young adults with a bachelor's degree, the male-to-female ratio is 102 men for every 100 women.

The disparity between men with post-graduate degrees and women with post-graduate degrees can be explained by the simple fact that men do not care about a woman's degrees or earning potential when choosing a mate, but a woman certainly does a man's.

The "employed vs. unemployed" does not go far enough. The reality is that a female lawyer is not marrying a janitor, even if he is employed and drug free. A male lawyer, however, does marry a waitress if she's beautiful and kind.

To use a less dramatic example, a female doctor might not find a man with just a Bachelor's degree who makes less than her acceptable as an eligible mate, while a male doctor doesn't think much of such things. So she's looking for men with advanced degrees, while he's willing to marry women without them. That explains why never married men with a bachelor's degree *outnumber* women with a bachelor's degree, even though more women earn bachelor's degrees (and advanced degrees) than do men.

The data backs that up. Recall that Pew Research surveys show that 71% of adults say that it is very important for a man to be able to support a family financially, while only 32% say the same for a woman. And while 78% of women say that a steady job is imperative for their spouse, only 46% of the men say that.

The second is a phenomenon that Charles Murray first wrote about in his book *Coming Apart: The State of White America, 1960-2010*. This LA Times book review provides a good summary. The key paragraph:

> Murray describes a new, highly educated upper class of the most successful 5% of professionals and managers who direct the nation's major institutions. Most reside in high-income, socially homogeneous "super ZIP Codes" near urban power centers. Exclusivity is self-reinforcing: Elites socialize primarily with and marry one another ("homogamy"), ensuring their children's future dominance based on genetic intelligence, other inherited talents and a high-achievement culture nourished by access to elite educational institutions.

The highly educated and wealthier Elite Millennials live in these high-income "super Zip Codes", socialize with each other and *marry one another*. Oftentimes, the Elite Millennials are children of Elite parents who lived in those same SuperZips and gave them the encouragement and opportunity to pursue post-graduate degrees.

So simple proximity explains why so many more women, percentage-wise, with post-graduate degrees are married today than in 1960. They live in and near each other, have friends who are similar, socialize with each other, and ultimately marry each other.

Parents (and REALTORS) who simply assume that their children will one day find someone special and settle down and buy that single family house with a white picket fence are ignoring the mathematics of hypergamy and the gendered economic situation of Millennials (and Gen-Z, who is coming up fast behind them).

If their children are among the ranks of the Elite, that optimism is justified. If they are not… it's a far more dicey proposition.

The situation is made even worse by economic headwinds faced by both men and women.

Economic Headwinds

It is a law of nature that desire is not the same as ability. Survey after survey of Millennials show that they have the *desire* for homeownership… one day, someday… but that is a far cry from having the ability to become homeowners.

I touched on this in the quotes from various studies, including the article from the Millennial website, GenFKD. Let's dive into some of these in a bit more detail.

Student Loans

The Millennials are the most educated generation ever. Despite the growing gap between men and women in terms of college and advanced degrees, fact is that more of both are getting them than ever. They are the most educated generation ever, with 29% of men and 36% of women completing at least a bachelor's degree, according to Pew Research.

But while education is wonderful, there is a dark side: student loan debt.

The cost of education is rising 2-1/2 times more than inflation, 8 times more than income.

Yahoo Finance wrote about a new study by Apartment List in 2018, saying:

> For many millennials, the idea of homeownership is still a big picture dream, with a new study saying 89 percent plan to

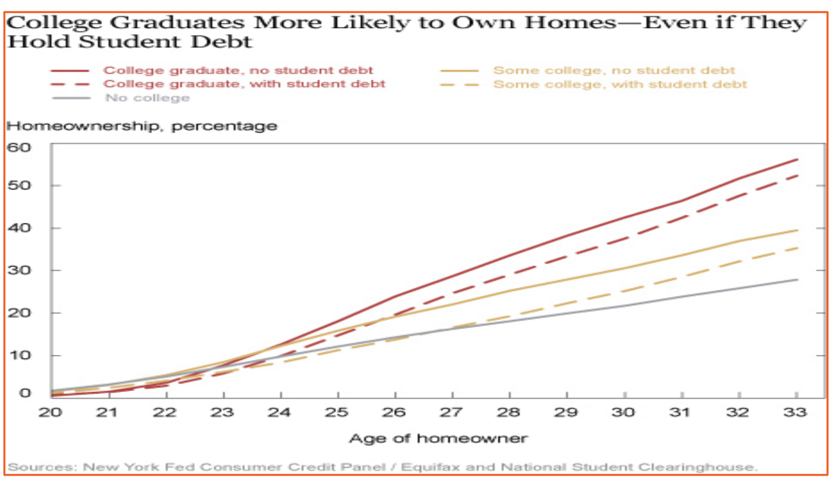
> purchase a home in the future — but simply can't because of student debt.
>
> According to a recent study released by Apartment List , 6,400 millennial renters nationwide were surveyed in regards to their plan for owning a home. Despite the majority of young people wanting to migrate away from renting, 48 percent have nothing saved for a down payment.
>
> One of the leading reasons, according to Apartment List, is because of the staggering amount of student loan debt many millennials carry.

But of course, without a college degree, one cannot get a job that pays well enough to dream of homeownership. So only 6% of those without a college degree say they can save enough for a down payment in the next five years.

The Urban Institute study quote above puts a number to the student loan problem for homeownership:

> **Levels of education debt are higher.** Our study found that a 1 percent increase in education loan debt decreases the likelihood of owning a home by 0.15 percentage points. In other words, if a person's household student debt increases 100 percent from $50,000 to $100,000, with all other things held the same, the likelihood of owning a home will decrease 15 percentage points.

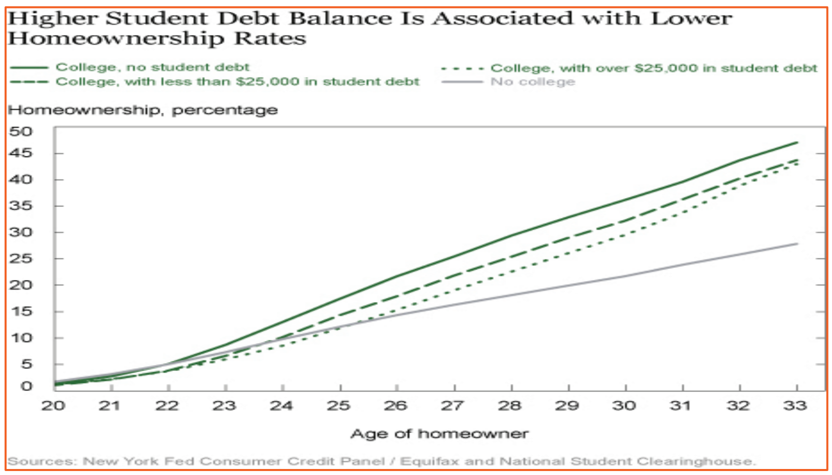
The net impact is that college graduates are more likely to be or to become homeowners, but fewer of them will do so because of the student loan burden. That's the conclusion of [The Federal Bank of New York's 2017 study on student debt and housing]:



Note that Listanski above says she is an outlier, because her parents paid for college. She graduated college with no student loan debt. The chart above shows that the majority of those younger people become homeowners by 30-31.

But of course, without a college degree, one cannot get a job that pays well enough to dream of homeownership. So only 6% of those without a college degree say they can save enough for a down payment in the next five years.

However, that same study shows that student loans do put downward pressure on the ability of even college graduates to become homeowners.



That tracks with NAR's study of home buyers and sellers in 2018:

> Twenty-six percent of all buyers reported having student loan debt with a median amount of $25,000. For buyers 37 years and younger, 46 percent have student debt with a median amount of $27,000 compared to just four percent for buyers 63 to 71 years. Buyers 72 years and older had the lowest median amount of debt at $15,000, while buyers aged 38 to 52 had the highest amount of debt at $28,000

Borrowing enormous sums of money to invest in one's education, which will result in better paying jobs, is a wise decision overall. Men and women have been doing this for decades. So what's new and different?

First, there is a lot more student debt: $1.5 trillion in total student loan debt outstanding, which is $620 billion more than total U.S. credit card debt.

Second, the amount of student debt per individual borrower is more, because of rising costs of education (**rising 2-1/2 times more than inflation, 8 times more than income**).

But most importantly, the employment environment even for college graduates is worse on two fronts: job security and underemployment.

It turns out that the myth of the lazy, entitled Millennial worker is just that: a myth. The truth is closer to a paranoid, insecure Millennial worker.

Lack of Job Security

It remains true that a college degree is key to better jobs and higher incomes. However, what has not remained true is that getting a college degree translates to more secure jobs. That's a function of changes in the overall economy.

From the Huffington Post, a story titled, "Millennial Employees Aren't the Problem. The Transformed Workplace Is," we get this:

> Children born in 1980 – a few years before the official beginning of millennials, but indicative of their coming challenges – face a coin-toss chance of doing better than their parents. That's a reduction from 90 percent to 50 percent in a short span of economic history. This dramatic fall in what economists call "absolute income mobility" provides the cold reality that Michael Hobbes evocatively describes in his HuffPost Highline story "FML":
>
>> *From job security to the social safety net, all the structures that insulate us from ruin are eroding. And the opportunities leading to a middle-class life… are being lifted out of our reach. Add it all up and it's no surprise that we're the first generation in modern history to end up poorer than our parents.*
>
> One source of the above transformation that has buffeted millennials is a fundamental restructuring of the workplace during that same period, a shift that has only accelerated since the Great Recession. It's what I've called "the fissured

> workplace." **The modern workplace in many industries is no longer a traditional brick-and-mortar company owned and operated by a single employer. Instead, different job functions are accounted for by layers of temp workers, contractors and subcontractors. As a result, the employment relationship has "fissured" apart**. [Emphasis added]

Even those younger workers who have found a good job because of their education cannot be sure that they'll have that good job the day after tomorrow. It turns out that the myth of the lazy, entitled Millennial worker is just that: a myth. The truth is closer to a paranoid, insecure Millennial worker.

Inc.com ran a story talking about the issue in a story titled, "What do Millennials Want From a Job? Just This" and wrote:

> A new survey by the Manpower Group shows that besides the obvious of money, millennials are desperate for one thing: job security.
>
> 87 percent insisted that this was the thing they most craved from a job.

The Inc.com article goes on to explain that Millennials are not naturally more entrepreneurial than previous generations, and do not adore the "gig economy," contrary to popular myths. They just want a stable job they can count on:

> Some might have imagined that millennials are really looking for softer values as flexibility or purposefulness.
>
> Instead, after job security came "Holidays/Time Off" and "Great People."
>
> Yes, millennials want a good quality of life. Who can blame them? They've seen previous generations work themselves into paralysis.
>
> But they understand they won't be able to achieve that quality of life without stable employment.
>
> The problem, of course, is that they can trust very few employers to offer that stable employment.

It goes without saying that committing oneself to a 30-year mortgage for hundreds of thousands of dollars is going to be tough if you're constantly worried about losing your job.

And that's for the lucky few who have good jobs, because the other problem of the younger generation is underemployment.

Underemployment

Forbes ran a story in 2017 with the title, "The Underemployment Phenomenon No One Is Talking About." In it, the author, a Millennial herself with degrees from Temple and Kansas State, writes:

> The elephant in the nation is underemployment. Simply put, someone who is underemployed is involuntarily working part time or is overqualified for their current position. According to underemployment researcher Douglas Maynard of SUNY New Paltz, this can include workers who possess more formal education, higher-level skills, and more extensive work experience than the job requires, workers who are involuntarily employed in a field different than their formal education, workers who are involuntarily employed in a temporary, part-time, or intermittent employment, and workers who earn 20% or less than their previous jobs.
>
> So yes, that college grad you know who had to move back in with their parents because he or she couldn't pay their bills? Underemployed. That barista at Starbucks with a master's degree? Underemployed. The 28 year-old working retail while trying to find a job in his or her field? Underemployed. Your friend constantly trying to sell you health shakes and exercise programs and leggings and fancy lip gloss on Facebook because they got laid off and make less money than they used to? Underemployed.

It seems that the explosion in college degrees we looked at above, because parents have been telling their children for decades that they needed to go to college to have a shot at a good white-collar job, has led to a supply-and-demand problem. The supply of highly educated workers is increasing, while the demand for such people has either remained the same or (more likely) decreased thanks to globalization, communication technology, and automation.

And the tsk-tsking that the problem is people getting expensive but worthless college degrees in liberal arts instead of in highly employable STEM (Science, Technology, Engineering, and Math) degrees turns out to be not-quite-so-true.

First, there may not be a STEM shortage at all. The Economic Policy Institute published a study in 2013 looking at foreign guestworkers in IT and concluded:

> Our examination of the IT labor market, guestworker flows, and the STEM education pipeline finds consistent and clear trends suggesting that *the United States has more than a sufficient supply of workers available to work in STEM occupations:*
>
> - The flow of U.S. students (citizens and permanent residents) into STEM fields has been strong over the past decade, and the number of U.S. graduates with STEM majors appears to be responsive to changes in employment levels and wages.
> - For every two students that U.S. colleges graduate with STEM degrees, only one is hired into a STEM job.
> - In computer and information science and in engineering, U.S. colleges graduate 50 percent more students than are hired into those fields each year; of the computer science graduates not entering the IT workforce, 32 percent say it is because IT jobs are unavailable, and 53 percent say they found better job opportunities outside of IT occupations. These responses suggest that the supply of graduates is substantially larger than the demand for them in industry.

Second, many of those studying for STEM degrees in American universities are not Americans at all. From a 2018 article in Forbes by Arthur Herman, a Senior Fellow at the Hudson Institute and Director of the Quantum Alliance Initiative, we get this:

> Meanwhile, it's true that STEM grads are increasing as a percentage of American university and college grads. But a dwindling number of those students are Americans themselves. Even though the number of foreign students matriculating at American universities dipped slightly in the fall of 2017 by seven percent, the proportion of foreign students studying STEM subjects in the U.S. has doubled in the last thirty years. The Kauffman Foundation estimates that given current trends international students will make up full half of all STEM Ph.D's by 2020. Indeed, without

> international students, graduate programs in STEM subjects in many schools couldn't survive.
>
> How bad is the shortage of American students? According to the non-partisan National Foundation for American Policy, in 2017 foreign nationals accounted for 81% of electrical engineering majors and grad students in this country. Foreign students make up three quarters of the majors and grad students in industrial engineering; 62% in mechanical engineering; 55%, or more than half, of those studying materials and metallurgic engineering.

Third, outsourcing is real and it is impacting STEM jobs in America. From a 2017 study from the Bureau of Labor Statistics called "STEM Occupations: Past, Present, and Future" we get this:

> Some of the fastest growing STEM occupations are in computer systems design and related services. The rapid growth projected for these occupations is due in large part to the projected growth for the industry of 23 percent. **Computer programmers are projected to decline in this industry from 2014 to 2024 due to the ongoing trend of outsourcing the work to firms located overseas to cut costs.** [Emphasis added]

Your daughter majored in computer programming because you told her that she could get a good stable job in computers, and what was she going to do with a degree in Literature anyhow? Well she might find that there's a young man in Slovenia who can do exactly what she can, but at a third of the cost. Now what?

The inevitable result is a growing gap between productivity and employment, which translates directly into a growing gap between the rich and the poor, between the haves and the have-nots.

Coming Displacement: Robots Take Over

To make things even worse, the future of employment looks bleak even for college graduates who did all the right things that their parents and teachers and counselors told them to do: study hard, go to college even if you rack up mountains of debt, and get a useful degree like accounting so that you can get a good stable job.

Robotics (or advanced mechanization) has already impacted manufacturing jobs as thousands of assembly line workers were replaced by sophisticated machines. But with the rise of AI, robots are coming for white collar jobs as well.

From an article in Tech Republic, "Why AI could destroy more jobs than it creates, and how to save them":

> "These middle-skilled structured tasks, routine information processing tasks will continue to be under a lot of pressure: bookkeepers, travel agents, legal aids — maybe not lawyers or attorneys but the first level associates. I already talked to one big law firm and they said they're not hiring as many of those sorts of people because a machine can scan through hundreds of thousands or millions of documents and find the relevant information for a case or a trial much more quickly and accurately than a human can," said Brynjolfsson.

And:

> "According to our estimate, 47 percent of total US employment is in the high risk category, meaning that associated occupations are potentially automatable over some unspecified number of years, perhaps a decade or two," [Carl Benedikt Frey and Michael A. Osborne from Oxford Martin School & Faculty of Philosophy in the UK] predict in the report The Future of Employment.
>
> During the coming decades they forecast two "waves of computerisation" during which different categories of jobs will be washed away, with no field of employment left untouched.

Erik Brynjolfsson, an economist at MIT and co-author of the book The Second Machine Age, noted that thanks to TurboTax and other software, 17% of tax preparers no longer have jobs. Those jobs have simply disappeared. He's quoted in the linked to article:

> When the car was introduced, people who made horse shoes and buggy whips, a lot of them lost their jobs. **But what's happening now seems to be affecting a lot more occupations and jobs, and a lot more skill categories than in the past. And it's a little harder to see what the new ones are going to be**. I hope we'll be able to develop them, but they're not as visible right now as we'd like … Data suggests that in the past 10 to 15 years (jobs) have been

> automated faster than we're seeing the creation of them. [Emphasis added]

The inevitable result is a growing gap between productivity and employment, which translates directly into a growing gap between the rich and the poor, between the haves and the have-nots.

FIGURE 9.1 Real GDP vs. Median Income per Capita

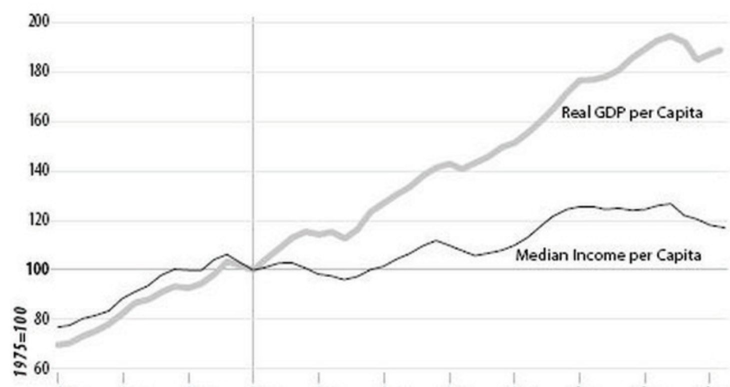


Image - Erik Brynjolfsson/Andrew McAfee - The Second Machine Age

It's just that the have-nots of the future include the ranks of college-educated computer programmers, if they are not at the very top of their professions working on the most complicated, most sophisticated problems.

The Elites and the Non-Elites

Once you take all of these factors into account, the picture that emerges is remarkably similar to wider issues in American society today: the growing gap between the Elites and the Non-Elites.

And homeownership is increasingly the exclusive province of the Elites.

> *"Not only are we screwed, but we have to listen to lectures about our laziness and our participation trophies* from the people who screwed us."

The Boomers and older Gen-X have already reached their milestones and goals. If they're homeowners, they stand to reap the benefits of homeownership, including asset appreciation. But for the newest cohort of consumers, there is a stark and growing gap between the Elites and everybody else.

Perhaps the best articulation of this growing gap comes from a Millennial writer, Michael Hobbes, writing in Huffington Posts's Highline. The article is entitled, "FML" which stands for "Fuck My Life" and is well-worth experiencing in full, as it combines 8-bit graphics, very cool web graphics techniques, and compelling prose. The subtitle to the article is: "Why Millennials are facing the scariest financial future of any generation since the Great Depression."

Here are the key grafs:

> We've all heard the statistics. More millennials live with their parents than with roommates. We are delaying partner-marrying and house-buying and kid-having for longer than any previous generation. And, according to The Olds, our problems are all our fault: We got the wrong degree. We spend money we don't have on things we don't need. We still haven't learned to code. We killed cereal and department stores and golf and napkins and lunch. Mention "millennial" to anyone over 40 and the word "entitlement" will come back at you within seconds, our own intergenerational game of Marco Polo.
>
> This is what it feels like to be young now. Not only are we screwed, but we have to listen to lectures about our laziness and our participation trophies *from the people who screwed us.*
>
> But generalizations about millennials, like those about any other arbitrarily defined group of 75 million people, fall apart under the slightest scrutiny. Contrary to the cliché, the vast majority of millennials did not go to college, do not work as baristas and cannot lean on their parents for help. **Every stereotype of our generation applies only to the tiniest, richest, whitest sliver of young people**. And the circumstances we live in are more dire than most people realize. [Emphasis added]

The highlighted sentence might be the most important takeaway from this long report, from a real estate industry point of view.

Our optimistic view of Millennials is actually the view of the "tiniest, richest, whitest sliver of young people."

For example, we have this statistic from NAR's homebuyer study:

> The median household income of home buyers for 2016 rose again this year to $88,800 from $88,500 in last year's report. Home buyers between the age of 38 and 52 reported the highest household income among generations at $104,700, down from $106,600 in the previous year. Buyers between 53 and 62 had the second highest income at $94,000 (up from $93,800), **followed by 37 and younger at $88,200 (up from $82,000)**, 63 to 71 at $80,700 (up from $76,800), and 72 to 92 at $69,400 (up from $66,600).

The median household income for 25-34 year old head of household in the United States (2015 data) was $57,366. For 35-44 year old households, it was $71,417.

Even on a rough math basis, what stares out at you from these numbers is the fact that homebuyers are among the Elite. That colors the industry's perception of Millennials, of consumer behavior, and of consumer preference.

Preferences of the Elite

The real estate industry's perception of consumer preference is actually a perception of Elite consumer preference.

For example, the idea that younger buyers want to live in urban environments with walkable neighborhoods is not wrong, because they do. But that's an Elite preference which Gen X and even Boomers have as well.

Listanski said above that Millennials are the most urbanized cohort in history. But that turns out not to be the case… except for the Elites.

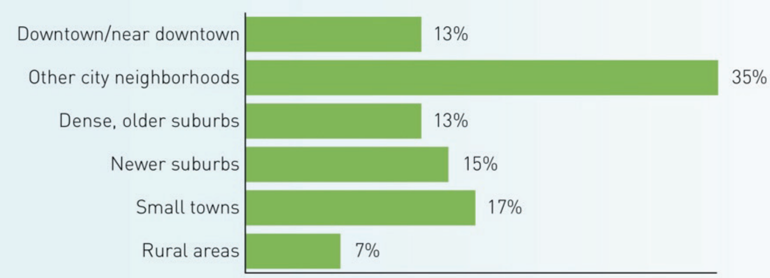
Their life is a far cry from the lives profiled in FML, and only 13% of Millennials live that life.

The Urban Institute released a study called Gen Y and Housing: What They Want and Where They Want It in 2010, and then updated it in 2015. One of their key findings is that only 13% of Millennials actually live downtown or near downtown, despite 37% of them describing themselves as "city people." An additional 35% live in "other city neighborhoods" which could mean a lot of different things depending on the city.

For New York, it might mean one of the outer boroughs, such as Queens or the Bronx. For Houston, it might mean "inside the Beltway, but outside the 610" which is still the City of Houston, but it's nowhere near the "city life" that most imagine.

Nonetheless, even taken together, the Urban Institute study shows that the majority of Millennials actually live in suburbs, small towns, and rural areas: 52% vs. 48% urban dwellers.

FIGURE 5: Current Location of Respondents



Sample size=1,270.

Source: UDR/Lachman Associates Survey, November 2014.

It also means that much of the other lifestyle preferences we think Millennials want and need are actually the lifestyle preferences of the Elites. Urban Institute:

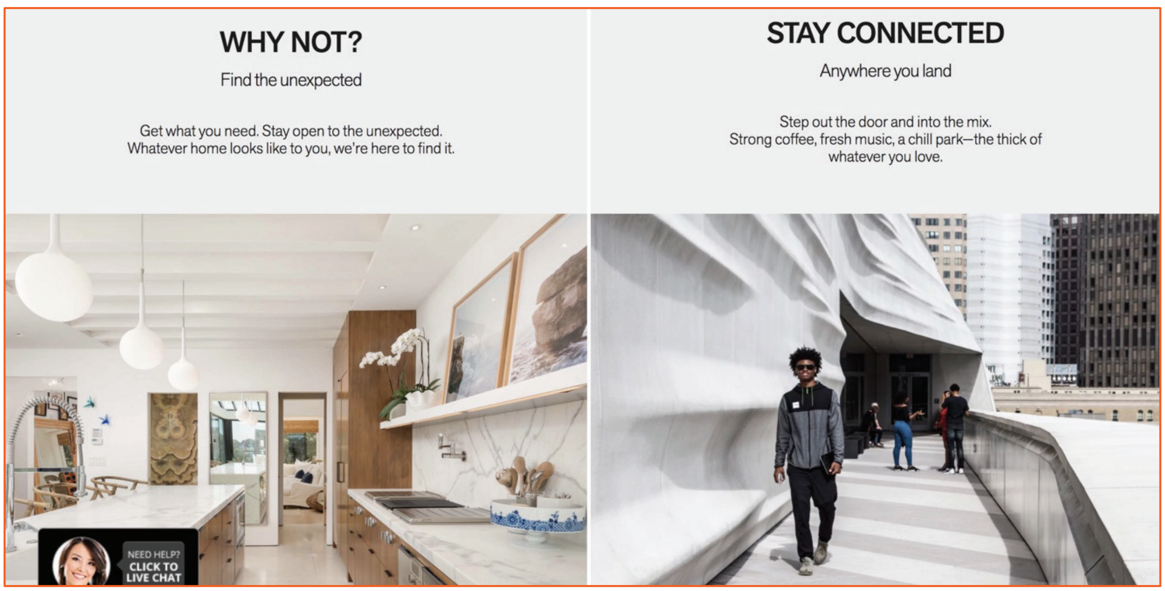
> Both the 2010 housing survey and ULI's 2013 examination of Gen Y's retail preferences,6 as mentioned, found the same relatively small proportion of "downtowners." We believe that a **significant share of those respondents reside in about ten downtowns with large residential populations, retail amenities, cultural attractions, and educational institutions**: Boston, New York, Philadelphia, and Washington, D.C., in the Northeast and Mid-Atlantic; Chicago and perhaps Minneapolis in the Midwest; and Denver, Portland, San Francisco, and Seattle in the West. **The ULI retail survey discovered that "downtowners" eat out frequently, love to shop, and consider themselves trendsetters. They are the Millennials**

> **whom journalists enjoy profiling as typical of their generation; however, when you look at where Gen Yers actually live, the downtowners are clearly atypical**. [Emphasis added]

The downtowners are clearly atypical, because they are the Elites. They are the college-educated young urban professionals with good jobs and bright prospects. They have the income to enjoy eating out frequently, shopping, and being trendsetters. Their life is a far cry from the lives profiled in *FML*, and only 13% of Millennials live that life.

And yet, we know that the real estate industry continues to emphasize those preferences in its marketing to and characterization of Millennials.

For example, here's an image from the homepage of ClimbRE, Realogy's new Millennial-oriented (or as they put it, "youthful urban") brand.



It is possible that the young people in the photo on the right could afford the multimillion dollar condo on the left. But it is unlikely, because only 13% of Millennials are "downtowners" who "step out the door and into the mix."

Even something as basic as a young family with two little kids and a family dog is something that huge segments of the Millennials have not and may never achieve. Yet, real estate marketing is filled with photos of handsome dads and beautiful moms watching their adorable children play in the backyard from inside a gourmet kitchen of a house that would cost millions in many of our major metropolitan urban areas.

The message that the industry continually sends to Millennials is one that would be off-putting to anyone not among the Elite. It's almost like taunting them with something they could never have.

Something Strange Is Going On in Housing

It turns out that the simplistic view of the consumers of the future, centered around the largest group of consumers in U.S. today, is a constrained view of the top 10-20% of those consumers: the Elite Millennial.

The real story is far more complicated.

And we see signs of that complication already in odd places.

Renter Nation on the Rise

As homeownership becomes more and more the province of the Elites, renting may become a larger *permanent* part of the housing story. Forget the American Dream and say hello to Renter Nation.

Recently, the Wall Street Journal ran a curious article about corporate landlords building new houses for their rental stock (subscription required):

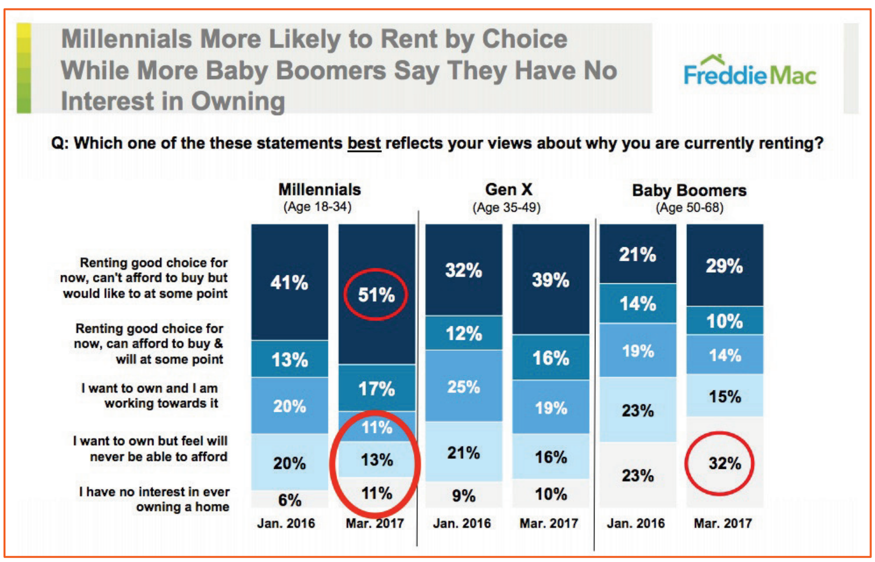
> A shortage of houses in the entry-level price range where first-time buyers and big rental-home companies both shop is prompting some institutional landlords to start building new ones themselves.
>
> These companies are racing to meet demand for rental homes from a wave of young families too saddled with student debt to buy, as well as from investors wagering that the suburban renter class that swelled after last decade's housing crash is here to stay.

While real estate industry pundits keep predicting "pent-up buyer demand" from the Millennials who will finally come of age, get married, settle down, and buy houses, they're not actually acting on those predictions. These corporate landlords, on the other hand, are betting real money on the proposition that they won't due to all of the factors we discussed above.

The Washington Post ran a story in 2018 titled, "Forget owning, renting is becoming the end game for many millennials and baby boomers" in which it cited a 2017 Freddie Mac study on renters. Among the findings of that Freddie Mac study are:

- Renting is increasingly becoming a good choice for now. Whether they can afford to buy a home or not, the number of renters reporting renting is a good choice for them increased over the past year.
- Similarly, more renters say they have no interest in owning. The expectation to purchase a home is lower than it's ever been (41%), and more Baby Boomers now say they have no interest in owning.

And then there was this slide about Millennials and renting:



It isn't clear just how to interpret the changes, but almost a quarter of all Millennials in this survey either feel like they will never be able to afford to buy a home or have no interest in owning a home at all.

Furthermore, the same study shows that 46% of renters (or nearly one out of two) either don't know when they'll move or will never move. Those are people who have embraced the rental as a permanent home, not a temporary stopping point before saving up money for a down payment on a house.

"But in the 40 years leading up to the recession, rents increased at more than twice the rate of incomes. Between 2001 and 2014, the number of "severely burdened" renters—households spending over half their incomes on rent—grew by more than 50 percent."

Many in and outside the industry have interpreted this lack of interest in homeownership as the lifestyle choice of a globalized urban Elite who don't want to be tied down. The truth is far more shaded.

FML, the Huffington Post article cited above, gives at least a peek into what homeownership looks like from the non-Elite perspective:

> Despite the acres of news pages dedicated to the narrative that millennials refuse to grow up, there are *twice as many* young people like Tyrone—living on their own and earning less than $30,000 per year—as there are millennials living with their parents. The crisis of our generation cannot be separated from the crisis of affordable housing.
>
> More people are renting homes than at any time since the late 1960s. But in the 40 years leading up to the recession, rents increased at more than twice the rate of incomes. Between 2001 and 2014, the number of "severely burdened" renters—households spending over half their incomes on rent—grew by more than 50 percent. Rather unsurprisingly, as housing prices have exploded, the number of 30- to 34-year-olds who own homes has plummeted.

The reason for this crisis in affordable housing? According to the author of FML, it can be explained in one word: **zoning**.

> At first, zoning was pretty modest. The point was to stop someone from buying your neighbor's house and turning it into an oil refinery.
>
> But eventually people realized they could use zoning for other purposes.

> In the late 1960s, it finally became illegal to deny housing to minorities. So cities instituted weirdly specific rules that drove up the price of new houses and excluded poor people—who were, disproportionately, minorities.
>
> Houses had to have massive backyards. They couldn't be split into separate apartments. Basically, cities mandated McMansions.
>
> We're still living with that legacy. Across huge swaths of American cities, it's pretty much illegal to build affordable housing.
>
> And this problem is only getting worse.
>
> That's because all the urgency to build comes from people who need somewhere to live. But all the political power is held by people who already own homes.

The problem, according to the author, is so much worse in cities where environmental regulations and historical preservation rules have been "weaponized" by the older residents who already own *their* homes.

The cruel irony is that these cities are precisely the ones where entry level jobs for Millennials are, especially the college graduates who want a real career:

> This leaves young people, especially those without a college degree, with an impossible choice. They can move to a city where there are good jobs but insane rents. Or they can move somewhere with low rents but few jobs that pay above the minimum wage.

No wonder the article is titled, "FML."

The jump from renting to dream house is not something to be celebrated. It is something to be watched carefully….

No More Starter Homes?

In 2018, CNBC ran a story titled, "From their parents' basements to dream homes: Millennials are skipping starter houses." In it, we find this:

> Millennials put off buying their first home as they struggled with the aftereffects of the Great Recession. Now that they're snapping up houses in greater numbers, many older millennials are making up for lost time: They're bypassing the traditional gateway to home ownership — the starter, or entry-level, home — and buying larger, more expensive houses where they're likely to raise families and maybe even grow old.
>
> "They rented for longer," says Diane Swonk, chief economist at Grant Thornton. "Now they're going to where they want to stay," possibly for decades.

That story quotes a NAR statistic that 30% of Millennials bought homes for $300,000 and above, up 14% from 2013. And the story says:

> Homeowners typically stay in starter houses for about five years before trading up, NAR's Yun says. But by waiting to buy until their job status and income grew, Millennials have been able to land their dream houses at an earlier age, he says.

Given what we have covered, does that seem likely? Does it seem likely that an underemployed college graduate living in his parents' basement while working as a barista at Starbucks saved up enough money to buy his dream house at 33 because his job status and income grew?

The more likely scenario is that these 30% of Millennial buyers come from the Elite, and the reason why they bought at all is that they finally got married (remember, median age for marriage in 2016 was 27.4 for women and 29.5 for men) after tiring of the single life as an investment banker in the big city.

Starter homes and "affordable" new homes are being purchased, instead, by large corporate landlords who are so voracious in their appetite that some of them are building new single family residences specifically to be used as rental stock.

The jump from renting to dream house is not something to be celebrated. It is something to be watched carefully, because it is a sign of the growing gap between the Elites and everybody else.

To ask just one question, who will buy the 3BR/2BA modest starter homes in ten years when its current owners have outgrown them?

The Elites will continue to get richer, more urban, more refined in their tastes and more luxurious in their lifestyles. Will the 33-year old AI programmer and his 31-year old attorney wife really want to bother with a starter home when they can afford their dream home in a walkable neighborhood with large lots and tree-lined streets?

And if they don't buy the starter homes, then how will the current owners ever afford to move up to *their* dream homes?

Intergenerational Purchasing

In 2014, Boston Globe ran a story titled, "Without parents' help, many could not buy their first home." In the midst of the recovery in the housing market, here's what the Boston Globe wrote:

The Bank of Mom and Dad is playing a growing role as lender of last resort for a housing recovery struggling to provide more traction for the US economy.

> Last year, 27 percent of those purchasing a home for the first time received a cash gift from relatives or friends to come up with a down payment, according to data from the National Association of Realtors. That was up from 24 percent in 2012 and matched the highest share since the group began keeping records in 2009.
>
> Those numbers will probably keep growing this year as younger Americans remain constrained by student debt, a job market that's tough to break into, and stricter mortgage-lending rules that require more cash up front. At the same time, rising stock and property values give many baby boomer parents the ability to assist children who want to lock in mortgage rates that are near record lows.
>
> "Without them, the [housing] recovery's not sustainable," said Anika Khan, a senior economist at Wells Fargo Securities in Charlotte, N.C. Anything that gets more money into first-time buyers' hands "just moves the housing recovery along," she said.

Things haven't really changed. According to a January 4, 2019 story in the Wall Street Journal:

> Rising home prices are sending first-time buyers to their parents for help with mortgage down payments.

> More than 26% of mortgage borrowers who used Federal Housing Administration-insured loans got assistance from a relative to make the down payment in the 12 months through September, up from about 22% in 2011, according to data released late last year as part of the agency's annual report.

Even in Metro Detroit, one of the more affordable markets in the country, with a median home price of [$159,400](#) (well below the national median price of $223,900), we find this November 2017 story from the Detroit Free Press:

> Based on anecdotal reports from agents, Schneider estimated that nearly 10% of home sales use some kind of family financing or gifts and that could grow if the housing market stays hot. That percentage, she said, is far more prevalent than what she would have estimated when she started in the industry nearly 30 years ago.
>
> An analysis of mortgages serviced by Shore United Bank in Troy, suggests the percentage of home sales using gifts might be even higher. **It found that 42% of young homeowners used money that was given to them toward down payments and closing costs**. [Emphasis added]

One of the effects of this increased assistance from parents and grandparents, of course, is that the Elite continue to become more Elite.

North of the border, in the insanity that is the Vancouver housing market, we have this story from the Vancouver Sun:

> The latest survey to take a gauge comes from the B.C. Notaries Association. In 2018, almost 60 per cent of notaries surveyed said they saw a decrease in first-time buyers. Of the ones who were buying, 83 per cent of notaries said their first-time buyer clients were getting help from parents, with only eight per cent buying on their own.
>
> Some 42 per cent of these notaries said their first-time buyer clients were getting less than 25 per cent of their down payment from their parents while 42 per cent were getting between 25 and 50 per cent and 16 per cent were getting more than half of their down payment.
>
> It's a marked change from what a similar survey in 2015 showed, with only 57 per cent of notaries saying their first-

> time buyer clients were getting help and 52 per cent of these saying that parents typically provided less than 25 per cent of the down payment.

What really stood out in the Detroit Free Press story was the tale of one such buyer: a single woman named Amanda Hauer. She ticks almost all of the boxes of the Elite Millennial we discussed above. According to the story, Ms. Hauer has a master's degree in engineering (a STEM discipline!) and landed an engineering job at Ford. Her parents "helped her with college costs" so her total education loan debt was $32,000. Her budget was $150,000 – an amount that residents in more popular cities like New York, San Francisco, Austin, Denver and Nashville would find laughable.

Even an Elite like Ms. Hauer needed help from her grandparents to buy her $150,000 house.

One of the effects of this increased assistance from parents and grandparents, of course, is that the Elite continue to become more Elite. If Ms. Hauer did not have grandparents with the ability to help finance her purchase, she is still a renter.

So Elites who come from wealthier families get wealthier still, even compared to fellow Elites whose parents are unable to gift them tens of thousands of dollars for a down payment.

As one REALTOR I spoke with for this report put it, "If the parents are giving them the down payment, can we really say that those Millennials are home buyers at all? Isn't it really their parents who are the home buyers?"

Eat, Pray, Buy a House

And then we have this story from U.S. News: The Rise of the Single Female Homeowner, with the subtitle, "Many women aren't waiting for a man or a marriage before they buy a home nowadays."

> Eighteen percent of homebuyers in 2017 were single women, according to the National Association of Realtors. Meanwhile, only 7 percent of single men bought a home last year. **The association notes the percentage of homebuyers who are single women has risen for the last three years and is up from 11 percent in 1981**.

> As for why women are buying homes in greater numbers, professionals in the real estate and finance industries point to delayed marriages, higher incomes and personal satisfaction as main catalysts. [Emphasis added]

The real story here may not be that these women chose to be homeowners before marriage, but that they have given up on marriage, period.

Given what we have looked at above about the growing educational gaps between men and women, is that at all surprising? Although there is a gender pay gap between men and women, it turns out that young single women without children actually make more than young single men without children:

> According to Warren Farrell, author of "Why Men Earn More: The Startling Truth Behind the Pay Gap – and What Women Can Do About It," gender isn't to blame. Work and life decisions are wedging the gap.
>
> "Research shows that work/life decisions lead to men earning more and women working less and leading happier and healthier lives," Farrell says. "When you look at men and women who have never been married and have no kids, women make 117 percent of what men make, even when you control for education, hours worked and years in the workplace," he says.

So at least for young single childless millennials, the exact demographic who has trouble finding an eligible mate (as per Pew Research above), there is an income gap to go along with the education gap.

The typical coverage of the new single female homeowner phenomenon paints it as a story of female empowerment. It is that, in part. But the truth may be that these educated, accomplished, high-income single women just can't find a man they want to marry because the mathematics of marriage are not in their favor. The real story here may not be that these women chose to be homeowners before marriage, but that they have *given up on marriage*, period.

We covered the marriage and family formation issues and how gendered that issue is in some detail above. Given the supply and demand problems of 77 men with advanced degrees for every 100 women with the same, it is a perfectly rational response to decide not to wait for marriage and children to buy one's home.

Based on what the data to date shows, it's safe to assume that single women will be an important segment of homebuyers going forward. That 18% figure reached in 2017 will not be the high water mark, given the disparities between young single men and women in education, and therefore income.

After all, it isn't as if Generation Z men are going to college in droves; they're suffering from the same problems of millennials.

Condos, Not Big Family Houses

Something that is not often discussed when talking about the single female home buyer is the kind of home she buys.

The U.S. News story touches on the topic:

> While both men and women may be looking for similar things in terms of space, value and location, single females may place a greater emphasis on safety and the surrounding community. For instance, Banosian remembers one single female client who didn't want to be on the ground floor of a building because of safety concerns.
>
> "They also want a solid promise of security in their new spaces," says Carly Frieling, a financial advisor with Northwestern Mutual. She notes women often show a preference for condominiums rather than single-family homes. Condos are not only lower maintenance, but they are found in community settings, which single homeowners might find appealing for safety reasons.

Bankrate.com did note that single women buy smaller and cheaper homes:

> Another reason females are buying homes at higher rates than their male counterparts is their willingness to buy entry-level and starter homes, according to NAR. The median home price for single men was $215,000 in 2018, compared with $189,000 for single females, according to NAR.
>
> Reed purchased a smaller home to set herself up better financially. She recommends other prospective homebuyers

take a hard look at their budget and make sure they aren't over extending-themselves.

In other words, single women may be buying new homes, but they're smaller, cheaper condos rather than 4-BR houses meant for a family of four out in the suburbs. Who will be buying those larger family homes, which form a giant chunk of the housing stock in the suburbs, twenty years out?

Not the families which are not forming, and not the single woman, and likely not the single man with his single man lifestyle.

Consequences for Real Estate

The problems confronting the younger generation of Americans have far, wide and deep implications for the economy, society, and politics of the United States.

But we focus on the real estate industry. So what are the implications for real estate?

The Elites Will Have Options

The Elite Millennials, those who have the education to get the high paying jobs in desirable urban locations and have the lifestyle the media likes to describe, will have more and more options.

As we have discussed already, most of the industry's observations about Millennials are really about Elite Millennials.

They do prefer cities or at least urbanized walkable downtowns with plenty of shopping, dining, and entertainment options. They are the most educated generation ever, most diverse, and value community, passion, and social proof. All of that is true of Elites.

Even in family formation, the "they'll grow up and settle down" assumption/hope does apply to Elite Millennials. Because the family formation turns out to be a problem of men who lag behind women in education and in income, it turns out that Elite men *do* get married: only 14% of men with post-graduate degrees remained never married in 2012. Using Pew Research's projections, only about 5-6% of them will have never married by the time they're in their mid-40s.

Supply and demand would explain that option for Elite Millennial men. Pew Research:

> **Among never-married young adults with post-graduate degrees, women outnumber men by a large margin.** There are 77 never-married men ages 25 to 34 with post-graduate degrees for every 100 women with similar educational credentials. Among never-married young adults with a bachelor's degree, the male-to-female ratio is 102 men for every 100 women.

As all of the statistics show, and as the Urban Institute has noted, marriage leads to becoming homeowners.

Many of the Elites are Elites precisely because they come from Elite families, who value education, stressed it on their children, and were wealthy enough to (a) help pay for their college education, reducing the student debt burden, and (b) help pay for their home purchases.

And they're a minority of the future consumer. Only 13% live in urban downtowns with the dining, entertainment, and cultural options. Less than half live in cities, despite being the "most urbanized generation ever."

So what of the majority of the consumers of the future?

"But now, the rules have changed and we're left playing a game that is impossible to win."

The Non-Elites Are Caught in a Downward Spiral

The majority of Millennials (and therefore the majority of the consumers of the future) are caught in a downward spiral of economic headwinds and social dysfunction. For every hotshot 24 year old data scientist at Google, there are literally thousands of young people whose lives look nothing like success.

Lack of education, and in some cases the lack of an Elite education (advanced degrees, Ivy League schools, etc.), leads to unemployment or underemployment. Try getting a job at Facebook or Goldman

Sachs with a B average from a state school. But the student loans racked up to get that education puts even more of a financial burden on them. They're forced to rent, and often in high-rent cities where the jobs are located.

Because of their poor economic prospects, they do not get married, which then reduces both their desire to become homeowners and their ability to do so: double income, no kids sure does make it easier to buy a condo.

All of those problems get so much worse for those Millennials who never went to college. The structural changes to the economy means that the value of physical labor has fallen dramatically, and automation is starting to do the same for low-level service jobs.

To quote from the *FML* article above:

> And so the real reason millennials can't seem to achieve the adulthood our parents envisioned for us is that we're trying to succeed within a system that no longer makes any sense. Homeownership and migration have been pitched to us as gateways to prosperity because, back when the boomers grew up, they were. But now, the rules have changed and we're left playing a game that is impossible to win.
>
> We start earning less money, later. We have more debt and higher rent.
>
> Which means we aren't able to save.
>
> Which means we can't buy a house or prepare for retirement.
>
> Which means that unless something changes…
>
> All of us are headed for a very dark place.

The Gap Will Grow

The most disheartening data on Millennials is that as wide as the gap between the Elites and the Non-Elites are today, it is likely to grow wider as time goes on.

A Business Insider story looked at the oddity that Millennials are both very rich and very poor in a story aptly titled, "Millennials have been called the 'brokest' and the 'richest' generation, and experts say both of those are true." The story cited a Federal Reserve report published in November which found that Millennials have much less money than Gen X or Boomers did at their age, as well as a Pew Research study which found that Millennial households earn more than previous generations at the same age in the past 50 years.

How to resolve the conflict? The key paragraphs:

> Pew looked at data for a **three-person-household** income, while the Fed looked at data for **individuals**. Average real labor earnings for male household heads working full time were 18% and 27% higher for Gen Xers and baby boomers, respectively, when they were young compared with millennials, the Fed found. For women, the difference was 12% and 24% higher for Gen Xers and boomers.
>
> But while the Fed found that individual incomes were falling for millennials, it did find that family incomes for married couples (household incomes) grew, similar to Pew's analysis. **Individuals are earning less, but households are earning more.**
>
> Both studies attributed the higher number of female millennials joining the workforce, compared to previous generations, as a factor behind the increase in household incomes. [Emphasis added]

The male household heads in the Pew Research study are in a family of three: a married couple with a child. That implies that they are or could be Elite. Add in the highly educated and accomplished Elite wife's income, if she chooses to work, and it is little wonder that married Millennials are doing just fine.

Additionally, there is a quite a bit of social science research that shows that married men earn more than single men, single women and married women. The experts point out a variety of possible reasons, such as the possibility that it is correlation rather than causation: high income men are more likely to marry. They also point out that women often take time off from careers to have and raise children. Some submit that sexism may be a factor.

I would like to submit one other factor, from personal experience, but one that is supported by the Pew Research data above showing that 78% of Americans believe that a man should be able to financially support a family.

Most young men *change their priorities* once they get married, and especially once they have a child. They step up to those additional responsibilities that they themselves feel and society places on them. Hanging out with your bros until two in the morning is no longer cool when you have to be at work at 8 am. Pursuing your passion of being a rock star seems less interesting if you need diapers and formula.

The Washington Post wrote about this phenomenon in 2015:

> Men who are reluctant to settle down until they make more money – and women who spurn low-wage men – could benefit from what Taulbee has discovered: Marriage has a transformative effect on adult behavior, emotional health, and financial well-being—*particularly for men*. (Parenthood is more transformative for women.)
>
> Men who get married work harder and more strategically, and earn more money than their single peers from similar backgrounds. Marriage also transforms men's social worlds; they spend less time with friends and more time with family; they also go to bars less and to church more. In the provocative words of Nobel Laureate George Akerlof, men "settle down when they get married; if they fail to get married they fail to settle down."
>
> Research findings on heterosexual marriage are surprisingly consistent with Akerlof's insight, especially when it comes to engaging the world of work.

One report found that married men work about 400 hours more pear year than single men with similar backgrounds. Men increase working hours when married, then reduce them after a divorce. Married men are less likely to quit a job without lining up a new one, and are less likely to get fired from a job.

And of course, as we saw above, married people buy houses which builds up wealth, instead of building up their landlord's wealth.

The gap between the Elites and Non-Elites will continue to grow, absent major social and economic changes that will affect far more than just housing.

Fewer, Richer, More Demanding Consumers

One consequence of the growing gap between the Elites and Non-Elites is that future consumers in real estate are likely to be richer and more demanding… but there will be fewer of them.

It's because only the Elites can buy, and they have ever more increasing options.

Consider a service like iBuyer, which has been a hot topic and which I covered in some depth in the August 2018 issue.

How much value would they place on avoiding a poor experience, like the current home sale transaction experience?

While it remains true that all consumers across the economic spectrum have been conditioned to push a button and expect magic, the Elite consumer is almost ideally suited to an iBuyer or iSeller service.

The knock on iBuyer, after all, is the high cost of the service: Opendoor charges a fee of 9%, and the latest stories from the field are that iBuyer offers are about 12% below "fair market value."

I have written that the gap between using a REALTOR to sell your home and selling your home to an institutional iBuyer will shrink. But even if there is a cost to the convenience, speed and certainty that iBuyer services provide, the ideal target market would be Elite Millennials. After all, many of them skipped the starter home and went directly to their 'dream homes' because they could afford to do so.

The Elite Millennials do place greater value on experience over more stuff. How much value would they place on avoiding a poor experience, like the current home sale transaction experience?

With more and more options than ever, and the income and wealth gaps widening, we can expect that Millennials and future consumers will be more demanding and less tolerant of bad experiences than ever. And there will be fewer of them overall, which means more agents chasing after a smaller and shrinking pool of potential clients.

It is safe to predict that lack of responsiveness, cultural insensitivity, and class insensitivity will be punished by future consumers and swiftly, and all over their social networks.

Conversely, studies show that millennials are actually the most brand-loyal of consumers. Once you win their trust, they will tell their friends and social sphere about you. Inc.com writes:

> It's no wonder then that in a set of two recently published reports on Millennial consumer trends, by Elite Daily and CrowdTwist, respectively, this group of younger consumers proves to be, by far, the most technologically engaged generation (compared to Generation X or Boomers). According to Elite Daily, nearly 90 percent of Millennials are actively using two to three devices a day, and roughly half are using social media or other internet-based tools to interact with their networks or influence buying decisions.
>
> While those stats might not be particularly surprising, one trend that came out of both surveys shows something unexpected: that Millennials are also the most loyal generation to their favorite brands, with just over half (50.5 percent) saying they are extremely loyal or quite loyal to their favorite brands. This is striking, because in a world with limitless options at consumers' fingertips, one would think that brand loyalty would be declining.

Such loyalty and word of mouth marketing are fantastic for real estate, but it takes more to earn and keep their loyalty. An article on ChiefMarketer.com says:

> Millennials may be the most brand-loyal generation, but it is imperative to note that Millennial loyalty is highly selective and they lean away from the traditional punch-card programs based on the number of visits to a store that have long been a staple loyalty program.
>
> While market researchers and cultural commentators have pegged Millennials as unpredictable and inconsistent, this is simply untrue. What they want from brands is clear—they want loyalty programs that transcend the transaction, genuine experiences, customer engagement and convenience.

Experience, engagement and convenience: these become the hallmarks of marketing to Millennials. Since homeownership will be the province of the Elite Millennials, the bar to clear for all three will be higher still, which poses a major challenge to the real estate industry.

Brokers and agents can be engaging, but they can do very little to make the experience a pleasant one, or make it more convenient. That they will need to somehow solve the problem of experience and convenience for a shrinking customer base who is more highly educated and more affluent than ever will be a challenge.

Final Note: The Political Dimension

We can't leave a report on future consumers without at least touching on the political dimension.

Everyone assumes that young people are left-of-center politically. Supporters think millennials are idealistic, community-centered, who have strong values and want a higher purpose in everything from their jobs to what kind of coffee they drink. Detractors think millennials are just freeloading socialists who want the government to provide free stuff.

The truth may be far more complicated than that.

Elite Millennials very well may be exactly the idealistic, heal-the-world type of people who seek meaning and purpose in everything in their lives. But they are the few, because that's the nature of being Elite in the first place.

Note that 2012, the depth of the housing collapse, was the last time that home price index was at or below inflation.

The Non-Elites are filled with *insecurity and rage*. If you read through the FML article, you know that virtually every paragraph is filled with contempt and rage for the world these non-Elites find themselves in, which they did not create.

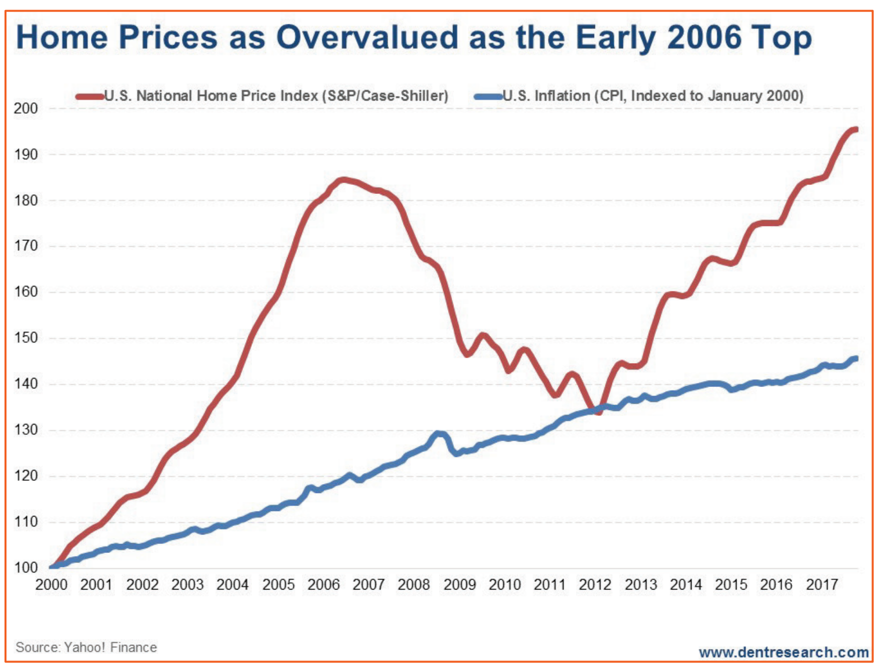
From a real estate perspective, if homeownership is increasingly for the Elites, then real estate is on the side of the Elites.

When REALTOR Associations oppose things like rent control (for all kinds of good economic reasons), the political perception from the non-Elites will naturally be that the real estate industry is of the rich and for the rich. They have trouble making rent payments on their jobs at Quizno's; are they really going to listen to a defense of private property rights from a bunch of luxury-car driving REALTORS?

When one of the signal issues of REALTORS, who proclaim loudly that they are fighting for homeownership, is federal flood insurance, which mostly benefits high-cost housing in coastal communities, what message does that send to the young office worker trying to pay back student loans?

And as the writer of FML says, "The crisis of our generation cannot be separated from the crisis of affordable housing."

This tension is a central and fundamental conflict in the world of organized real estate. Because you cannot have both the homeowners and the future home buyers be winners. You cannot have home prices continue to rise well past inflation and wage growth, and also have homeownership within reach for the growing numbers of Non-Elites.



Note that 2012, the depth of the housing collapse, was the last time that home price index was at or below inflation. NAR has done a great deal of work, with a great deal of success, in lobbying for greater access to mortgages for buyers, but easier loans do not drop the price of homes. (In fact, one could argue that such government subsidized/sponsored loans make housing *more* expensive.)

To be fair, REALTORS have also argued for removing barriers to new construction, from irrational zoning codes to NIMBYism. A great many real estate professionals and organizations are concerned about and working on affordable housing. But real estate as an industry has never resolved the conflict at the heart of the problem: **in order to make housing more affordable, home values have to drop and drop quite a lot.**

Of course, a drop in home values means a drop in income for REALTORS and homeowner's wealth… so… it's quite a conundrum. Yet, this is an issue that the industry has to wrestle with, because Millennials are not only the future of consumers, they're the future of voters.

An industry that is seen as the handmaiden of the Elites, because it behaves and acts and communicates as if it is the handmaiden of the Elites, will find itself in a precarious position if the insecurity and the rage of the Non-Elites find expression in our politics.

Decide. Act.

RECOMMENDATIONS: BROKERAGE

For businesses and companies, their responsibility is not to change society but to navigate the changing waters. If the consumer of the future is so sharply divided, and getting more divided by the day, what does a brokerage or an agent need to do to deal with that in an intelligent way?

Here are a few suggestions and recommendations.

Experience, Engagement and Convenience

First, the advice of marketers about Millennials is a good one. They are the most brand loyal consumer cohort, who will voluntarily tell their friends and sphere about you, but you have to win them over first.

We looked at how experience, engagement and convenience are the three keys for loyalty programs. There's no reason to think those three would not be the keys to client loyalty to a real estate agent.

Engagement

Engagement is the easiest one for brokers and agents to tackle, and most good customer service training programs stress the importance of authenticity, adding value, and putting the client first. That's kind of in the brokerage and agent DNA already.

The tweak here might be to make sure that your agents are engaging with a bit more sensitivity, and to do a bit more research. It's just basic emotional intelligence. For example, if the client is buying a condo after years of saving money, sacrificing vacations and going out, and still needs help from her parents to do it, it just isn't sensible to talk up the wonderful dining options and nightlife and all of the wonderful shopping within walking distance.

At the same time, trying too hard to be familiar, to be like one of them could backfire and badly. Unless the real estate agent is one of the Elites herself, with the elite education, the advanced degrees, the income, and the lifestyle, trying too hard to identify with an actual Elite could make her come off as a fake.

That AI engineer doesn't need a real estate agent to talk about how much she loves technology and uses it all the time. He just needs her to be an expert on housing and the transaction process.

With that in mind, if you are targeting the Elite Millennial consumer, it might make sense to try to recruit people from luxury retail, hospitality and food service backgrounds. Having worked at Bergdorf Goodman myself, I know that many of the people who work in luxury have been around the Elites, know how they speak and behave, and understand how to provide exemplary customer service while being an expert in that particular area where the Elite is a novice.

As an example, one of the top salesmen at Bergdorf Goodman was a gentleman named Michael who had never gone to college and worked his way up from the stockroom. But he dressed impeccably, as if he were a partner at a law firm, was self-taught in literature, music, and the arts, was extremely well-spoken in three languages, and above all, knew just about everything there was to know about men's clothing. So on the one hand, he knew how to behave with a client like the Sultan of Brunei or the CEO of Fortune 100 companies, but at the same time, he commanded *their* respect because of his product knowledge and expertise.

Consumer Experience

There is far less that a broker or agent can do to make the experience itself more pleasant, or at least less painful. The process is the process. Mortgage approvals are mortgage approvals; there's not a whole lot that a broker can do about that.

However, the consumer likely expects it to be painful and annoying. So treat it like one might a medical procedure. Explaining everything, explaining what to expect, what could happen, what dangers there might be, and then overcommunicating would help. The goal should be that no consumer is ever surprised by setbacks and problems.

Since just about every trainer and every course on customer service talks about the importance of good communication, it's just a reminder to brokers and team leaders that they need to really focus on communication and enforcing those standards as much as they can.

The Elites of the future have grown up in the Information Age. They're not going to find surprises due to lack of communication interesting or understandable. Unless the client has specified how you should contact them, and how often, I recommend overcommunicating (especially bad news) over multiple channels: telephone, email, text and if you have it, private messaging via whatever platform they use.

The Non-Elites of the future should receive the same overcommunication treatment, unless you are told otherwise, but for a different reason. Understanding that their lives are really quite hard, and that they are filled with uncertainty, insecurity, and often rage, the last thing you want to do from an experience standpoint is to make them feel ignored or disrespected.

Convenience

I have already recommended in prior reports that brokerages should look at partnering with iBuyer companies to offer that service. It's the ultimate in "push button, magic happens" and a broker or agent has to be able to at least offer it as an option.

Some of the other things to think about are small and large ways to make a difficult process more convenient for the consumer. It may be as simple as finding a mortgage broker who is willing to travel to the client's location, or do the meeting via teleconferencing, rather than forcing the client to go to his office.

Whatever the tactic, it will be more important than ever to train agents to focus on convenience for the consumer.

Get Local Information

The growing gap between the rich and the poor is a society-wide issue in the United States today. But nowhere is this gap more evident than in the ranks of the consumers of the future. The division between Elites and non-Elites among Millennials is unlike anything that the older generations have experienced.

The best thing that a broker or an agent can do is to get educated on the local situation of your clients and future clients. It's one thing for Zillow to say that Millennials constitute 42% of buyers; it's another thing for you to find out what the stat is in your local market.

I recommend paying closer attention to the local economy, especially with respect to employment and family formation. Most areas have a college where a local economics professor can do some research and analysis. Many local Associations might have such research as well. It's not just boring stats and numbers; it might help you and your agents figure out what's going on with future consumers.

Consider doing primary consumer research for your local market. Find out what the buyers and sellers in your backyard think about homeownership, what they're facing with respect to student loans, or what the local dating scene looks like. If it looks like parts of Manhattan where single women outnumber single men 70:30, the consequences for housing is going to be rather different than if there is more parity.

Think About Job Security for Millennial Agents and Staff

We have learned that job security is the #1 desire of Millennials. The whole "lazy and entitled" Millennial employee myth is just that: a myth. They are far more likely to be paranoid and insecure.

If you are looking to add Millennial agents to your company or team, seriously consider offering them job security in exchange for higher splits or even a salary.

For example, think about recruiting promising young people by offering to pay for their licensing course and exam, in exchange for working on a salary for the first few years. That does two things. First, it provides a financial cushion so that the Millennial agent isn't looking at her job as yet another "gig economy" deal with no security. Second, when companies offer to pay for education or training, the employee understands that she is secure; the company wouldn't invest in her if it wanted to fire her the next week.

That agent may eventually switch over to being a 1099 independent contractor with a higher split, but understanding that deep need for job security of the next generation can only be helpful for the smart broker or team leader.

More Attention to Rentals

For any brokerage or agent team, I cannot recommend more strongly that you take a look at your practice with rentals.

Until and unless fundamental structural changes are made to the American economy, buying a home will be difficult for Non-Elites. In many cases, in many urban and suburban areas, it will be completely out of reach and unthinkable.

They still have to live somewhere, which means rentals are going to be far more important to housing overall in the future. There is a reason why corporate landlords are building new houses to rent.

But today, most agents do not want to work with rentals, whether for a tenant or the landlord; and most brokerages look at rentals as something for newbies and part-timers to do for experience and for building a sphere of past clients. There is no question that the fact that rentals pay far less in commission income than sales is a major reason, since there are brokerages and agents who focus on rentals in certain urban markets like New York and San Francisco.

There is also the difficulty of not having an MLS with all of the rental properties listed anywhere. Landlords also often have in-house leasing agents who handle all of the work.

Nonetheless, given the trends pointing to the reality of future consumers who may never be able to buy a home, it simply makes sense for every brokerage and agent team to at least think about what their rental strategy is. If they don't have one, it's time to create one.

Single Women Buyers Are Here to Stay

Practically speaking, single women buyers appear to be a permanent feature in the real estate landscape going forward. The American economy is not likely to return to an agrarian and manufacturing based economy.

It makes business sense to think about a set of programs aimed at this small-yet-growing demographic. Marketing programs to successful single women make sense, pointing out both the financial wisdom of becoming a homeowner as well as the freedom to set up your home without worrying about what the landlord will permit that homeownership affords.

Perhaps real estate brokerages could look at the playbook of companies like Rodan + Fields or Mary Kay or even Tupperware and start thinking about events or the feasibility of “consultants” in the field. (License law does make it trickier for real estate.)

You might start looking for mortgage professionals who specialize in working with single women buyers who may have different financial challenges than a married couple.

Whatever you choose to do, sensitivity and emotional intelligence are required. Having an agent who is a suburban mom drive up in a minivan for a meeting is likely fine. But it might not be fine if the single woman buyer has regrets and frustrations about never having met the right man to start a family of her own.

You Still Need Technology

None of the above and none of the various issues discussed in this report means that consumers of the future are not going to be expecting “Push button, magic happens.” They will.

So brokers and agents have to be vigilant about staying on top of technology trends. Since just about every real estate conference in the world has speakers and panels on this topic, I don’t feel the need to tackle it in depth. But there is one factor I do want to point out.

Be watchful for how the technology tools do or do not allow for that extra bit of sensitivity and personalization that your agents will need with future consumers.

One anecdote from a Millennial Hear It Direct panel from a few years ago could be helpful here.

More than one panelist said that they felt their agents were not listening to them. It seems that one had specified “no ranch houses” and was constantly sent a list of homes that included ranch houses. Another one had set a firm budget, and was being sent homes that were over budget.

It turns out that the agents had set them up on a drip email campaign within the MLS, and the MLS did not have the ability to filter properties by style. So the client was receiving bulk emails with ranch houses and getting annoyed.

The MLS also had price ranges that were pre-set and no ability to filter more finely. So if the client had set the budget at a maximum of $325,000 but the software could only filter properties between $300,000 and $350,000, the client was being sent a list of properties over her maximum.

If there is an easy way to lose the client’s trust and get an Elite Millennial pissed off at you, ignoring what they tell you they want is probably at the top of the list.

At the very least, the broker should be aware of the limitations of technology tools and train agents in working around them. For example, in the two cases above, the agent might need to stop sending automated drip emails from the MLS to the client directly and have them sent to her instead. She can then curate that list, remove the properties the client has said they don’t want to see, and send it along manually.

CONCLUSION

The most important takeaway from this gloomy edition of the Red Dot is that the future consumer is young and *deeply divided*.

The most striking thing about young consumers is not their addiction to social media, or their facility with the iPhone. It isn't their man-buns and love of avocado toast. It's the growing gap between the Elites and the Non-Elites on just about every measure that matters.

From a real estate perspective, more seminars on how to use Instagram to market to millennials are not what is needed. Optimism is great, but not if it obscures the truth of what is going on.

And that truth is that Elite millennials are more educated than ever, make more money than ever, wealthier than ever, socially conscious, interested in experiences more than in stuff, urbanized, cool and hip, and live in and through technology. And they will rent luxury condos downtown, because they can afford it and don't want to be tied down. Then they will eventually settle down, find a mate (who is also an Elite), get married, have children, and buy dream homes meant to be the forever home.

Even those Elite millennial women who do not end up finding a man good enough for her has a career, has her own money, and is capable of making a life of her own, on her own terms. They will buy houses and condos long before Mr. Right finally comes along.

The Elites are going to be just fine.

The Non-Elite millennials, however, face a world like the which we have never seen before. Education, rather than being the first run on the ladder to success, becomes a millstone around their necks as they work crappy jobs and join the "gig economy" because they have no choice. Even when they do get a "good job", they realize there is precious little security due to outsourcing, automation, and robotics. Their marriage prospects are dim and getting dimmer, because the men can't find good stable jobs and the women don't want no scrubs, and a scrub is a guy who can't get no love from them.

They are playing a game where the rules have changed, and they cannot hope to win.

Without a clearer understanding of what is really going on with the consumer of the future, the danger is not that AI and robotics will replace the real estate agent, but that the real estate agent will become something like the yacht agent: a profession catering to an increasingly shrinking demographic.

Companies can and should adjust their business practices to navigate the changing consumer of the future. Organized real estate, on the other hand, needs to start thinking and acting today to figure out whether real estate really should be the province of the Elites, or whether the industry needs to rethink its priorities given what is coming ahead.

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