

Buy...Rent...Buy...Rent...BUY: The Millennial Struggle For The American Dream

Baby Boomers, it's time to help our Millennials fulfill the American Dream of homeownership! The last few years indicate that Millennials don't care, but that may not be the case.

In 2014, numbers showed a move away from homeownership for Millennials. For instance, the U.S. Census Bureau and a 2014 report from The Council of Economic Advisors to The White House show that the rate of homeownership for Millennials has fallen to the lowest level in recently recorded history. And, this has been the trend in recent years. According to a 2014 article in last year's U.S. News & World Report, "In the first quarter of 2014, homeownership for Americans 35 and under declined 36.2 percent... the lowest on record since the Census's Housing Vacancy Survey began tabulating homeownership by age..."

Let's face it; the American Dream of owning a home may have become the American nightmare for this younger generation. Fortune cited, "...that a mixture of student debt, declining credit scores, and lower salaries for youngish Americans means it will be a long time, if ever, before Millennials will be able to afford to buy a house." But, the facts seem to show that this generation's "dream" may be to rent, not buy. Trulia, an online residential real estate listings site, captures the Millennial rental landscape perfectly in a recent Forbes article. "With Millennials facing an unemployment rate of more than 8% and \$1 Trillion in student loan debt, they're increasingly renting instead of buying homes... But finances aren't the only reason for the dip in homeownership. Millennials are recognizing the many benefits of renting..." Their love for apartment dwellings includes such aspects as amenities, like gyms and concierge services. Millennials also seem to like the community spirit within apartment buildings as well as the entertainment and culture that is only minutes away. Apartment living also means that they can pick up and move easily, whereas a home has to be sold.

Economically, it's hard to compare the value of renting for 30 years versus buying. The math is not straightforward...I've been playing with it and I'm even too frustrated to write about it. Suffice to say, it depends upon how much you are paying in rent versus the costs of buying. Seems simple? It's not. You will have to consider some of these variables that in many cases are unknowns, such as the opportunity cost of tying up the 20% down payment versus investing that with a return for 30 years, the effects of tax deductible interest when you buy, home appreciation or depreciation, costs to maintain the house and commute time to and from work and whether or not you need one or two cars. Can you see all of the considerations you'll need to plan for?

Wait a minute! We are now seeing a changing trend that is hot off the press! In March 2015, Bloomberg reported that the rising rental prices might be causing Millennials to experience a "nudge toward homeownership... First-time buyers made up 29 percent of existing-home sales in February, up from 28 percent in January and the first increase since November..." The Zillow Housing Confidence Index said that about 5.2 million renters say they expect to purchase a house in 2015, up from 4.2 million a year ago. Where job growth is strong, the Millennials who were once renting now want to buy.

Baby Boomers, it's time to help your offspring with this decision. It's also a good time to help financially.

- *Affordability* – Work with your Millennials to figure out if they can afford a home now, and that they are not counting on increased salaries or bonuses to do so. They'll need to base the decision on current income and expenses.

- *Credit scores* – Help your offspring pull their scores and make sure that all of the information is accurate. They can get their credit report for free at myBankrate.com. The higher their score, the lower their monthly payments. A score of 700 to 720 should get them a good rate, and 750 and above will garner the best rates on the market. I also recommend that this is the time to lock in a 30 year mortgage. Rates have already started to increase and there is no sign that this trend is likely to stop soon.
- *Percentage of home expenses* – If you are looking at a conventional mortgage loan for your Millennial, a good rule of thumb is that their home expenses not exceed 28 percent of their gross monthly income.
- *Hidden upfront costs* – When you are figuring out the upfront money your Millennial needs to procure the mortgage, make sure that you include all costs, not just the 20 percent for the down payment. For example, Bankrate.com estimates that for a \$200,000 mortgage, extra closing costs could run from between \$2,300 to \$4,000. Make sure that you also figure in the moving expenses.
- *Ongoing expenses* – Don't just look at the mortgage and taxes; make sure that you work with your Millennial to figure in utilities, maintenance, (like lawn service and plowing, if you are not going to do that), repairs (trust me, lots of things break down), age of the roof, the condition of the windows/doors... You may get good insight when you do the walk-through with your inspector before your Millennial buy the house. (Take notes!)
- *Down payment* – Many Millennials have not saved much for a home. In fact, Moody's Analytics reported that "[Millennials] have a savings rate of negative 2%, meaning they are burning through their assets or going into debt..." This is a perfect time for you Baby Boomers to help out. You can loan or gift (IRS annual exclusion for 2015 is \$14,000) your kids the money for the down payment. If it is a loan, structure it with a real promissory note (which you can get online), and you can use a current floating or fixed interest rate. You may want to give the kids a little break for a few months while they figure out their new expenses.

Buying a home can be scary; it is a big responsibility. Try to reassure your Millennial children that, even though this is a big step, many of us have taken it and enjoyed the comfort and security a house or condo has provided for our loved ones and ourselves. Share the words from T.S. Elliot, "Home is where one starts from." (Whether you buy or rent.)

[http://www.forbes.com/sites/nealegodfrey/2015/07/12/buy-rent-the-millennial-struggle-for-the-american-dream/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+forbes/eHrm+\(Forbes+-+Business\)](http://www.forbes.com/sites/nealegodfrey/2015/07/12/buy-rent-the-millennial-struggle-for-the-american-dream/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+forbes/eHrm+(Forbes+-+Business))