Are Millennials Impacting Homebuilding and Construction?

Millennials are a key ingredient to the success of the homebuilding and construction industry. But can this happen without adapting to current employment trends and opportunities?

Economic Situation

The homebuilding and construction industry, a critical sector of the economy, continues to search for strong demand. In Part 1 of our discussion on Millennials, we examined the effects of the slow economic recovery from the recession of 2008 on Millennial purchasing habits: rather than buying or building new homes, Millennials prefer to rent. Due to this trend, a key demand needs to be driven: either Millennials purchase the homes of Baby Boomers to absorb current supply, or build new homes to contribute to household formation. Millennials, the generation born between 1980 and 1993, are the largest generation in American history, even larger than the Baby Boomers.

The ripple effect is interesting, creating a complex feedback loop. Since Millennials are moving out of their parents' homes and into apartments, the demand for rentals is rising and exceeding the current supply of apartments. But, this generation isn't the only one dependent on these types of units. Baby Boomers are coming into retirement, searching for smaller quarters to live in. The housing market is now responding to this shift towards more multifamily housing.

In return, fewer workers are being employed to build multifamily units since less manpower is required to build them. This shift also impacts the real estate and retail industries, causing decreased commission for real estate agents and diminishing sales in home improvement stores. The article, "New Home Building Is Shifting to Apartments," explains further why housing has such an impact on the economy: "Moody's Analytics estimates that four jobs are created for every new single-family-home start, versus two for multifamily units. That estimate includes the many indirect jobs created by new construction—renovations, furniture and the like. Multifamily units tend to be smaller so require fewer construction materials and labor along with smaller appliances and fewer furnishings."[1]

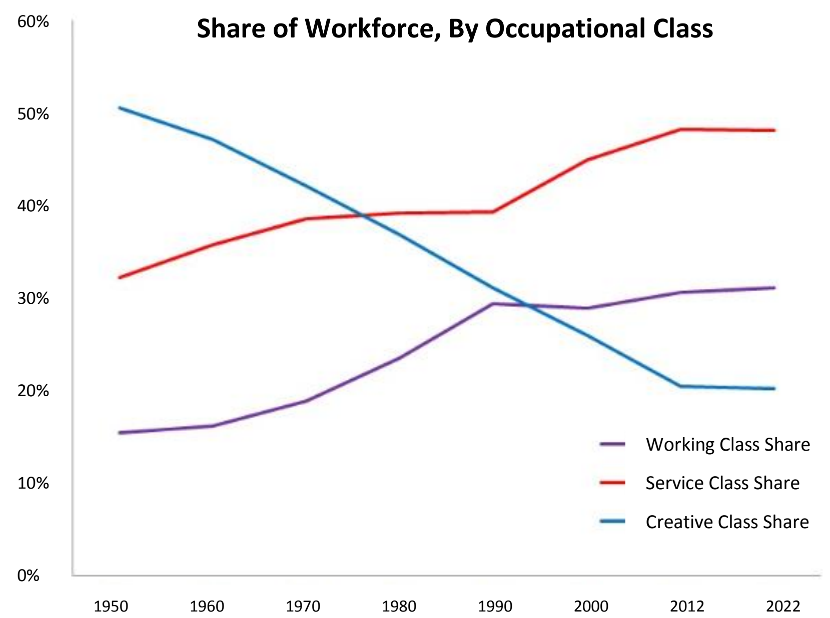
In 2013, less than one million residential units were built. Construction workers, a subgroup of the working class, suffered a hit, and so did the economy. Housing and consumer spending are two sizeable drivers of the American economy. US Economics Weekly reported "housing and consumer spending exhibited much weaker growth profiles at the end of recession to present [Feb. 2014] compared to past cycles."

While most are choosing to rent, housing prices are increasing, along with equity. This is good news for current homeowners. In contrast, rising prices bring affordability into question for those who are entering the market for the first time, particularly the Millennial generation. According to Morgan Stanley research, since 1990 American homeowners have spent around 24% of monthly income on mortgage payments, which remains true for first time buyers; the ratio has gone down to 20% for current homeowners. [1] Another challenge for Millennials is tighter lending standards since their credit isn't as great as current owners, and neither is their income. [2]

Occupational Trends

Like so many things since the Great Recession, there has been slow improvement, at times inconsistent, however the economy is generally headed in the right direction. Millennials are learning to adapt, they're realigning their earnings expectations with the current economic environment, and are acting financially responsible regarding major purchases, including housing and other substantial financial decisions. Because of technological advancement, adjusting themselves to careers apart from the working class and into the creative class, particularly in STEM fields, is the best bet for Millennials.

From now until the year 2022, the era of a strong working class will diminish. The working class, or those that hold jobs often related to physical labor (think: construction, factory production, transportation) and usually earn an hourly wage, is expected to become minimal. The Bureau of Labor Statistics' (BLS) newest ten-year projection provides information on how Americans will be living and what they will be doing in the near future. Right now, the highest number of workers predicted in 2022 will belong in the service class, with jobs in retail sales or food preparation, although not the highest-paying positions. On the other hand, working class was at its highest in 1950, and will wane over time to its projected lowest in 2022.[3]



Source: Martin Prosperity Institute

Creative class jobs will make up more than a third of jobs by the year 2020.[3] These types of jobs are necessary for economic growth, and will be responsible for driving behavioral and economic patterns. Creative class encompasses careers in the science, technology, engineering and mathematics (STEM) fields, as well as business, management, professions, arts, media, and entertainment,[1] all of which allow for higher earning potential. The BLS predicts that STEM jobs will grow 55 percent faster than non-STEM jobs over the next 10 years.[1]

Golden Opportunity

If Millennials jump on the STEM bandwagon now, they will be able to have a positive impact on the economy in upcoming years. Becoming certified in a specific skill set, or getting a certificate or degree in STEM fields could push our economy and job growth in the right direction. After all, Millennials are predicted to makeup over 75% of the workforce by 2030.[3]

Once there is job certainty, apprehensions of purchasing or building new homes could subside. Then, Millennials will be self-reliant, and confident in making long-term financial commitments.

Sources

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