

Home Ownership: Rethinking the American Dream



For decades, it was a given: buying a home of your own was the ultimate realization of the American dream, the surest path to building savings and net worth. If there was no place like home, there was also no investment like a home.

Then came a series of events that shook that truth to the core, fundamentally shifting the choices of a new generation, the millennials, born between 1981 and 1996.

The first was the 2008 housing crisis, which left wide swaths of the American public financially battered. Millennials, then in their teens and 20s, watched as friends and families lost their homes and the world fell into an economic slide.

Many believed that a university education was still the ticket to the middle class, a safe investment that could be financed and paid off with a good job. But with rising tuition costs, loans were the only way to make it happen. Those loans left many in the millennial generation with an unprecedented level of debt, making it difficult for them to save for a down payment or qualify for a loan.

The impact was wide and deep. According to Federal Reserve data for households headed by someone younger than 35, median debt ballooned from \$21,000 in 1989 to \$39,000 in 2016. During that time period, the percentage of under-35 households with student loan debt more than doubled, from 17% to 45%, and their median debt more than tripled, from \$5,600 to \$18,500.

Cautious lenders burned in 2008 made qualifying for a mortgage increasingly difficult. Even those those who could muster up a sum for a down payment found that their money wouldn't take them very far. In areas like South Florida, home prices have rebounded with the influx of new residents from elsewhere in the U.S. and foreign

buyers. South Florida's housing market is increasingly out of reach for many of those who work there.

Nationally, homeownership rates for people ages 24 to 32 dropped nearly 9 percentage points between 2005 and 2014, with only 36% of millennials owning a home. A January 2019 Federal Reserve study put the blame for 20% of the decline in millennial home ownership on student loan debt. At the same time, buoyed by favorable tax and finance conditions, availability of rental apartments in South Florida has surged, while housing starts have plummeted.

In the year 2020, the onset of COVID-19, with its widespread job displacement, is dealing yet another blow to millennials' ability to achieve the economic security of a steady paycheck. And as the first of this generation reaches 40, a traditional year to start establishing financial security, many are asking: how can we afford to get a mortgage?

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At the same time, a new question has appeared on the horizon: do we even want to own a home? With shifting career opportunities and the here-today, gone-tomorrow nature of jobs, do we want to be tied down to a mortgage when a new opportunity beckons?

"Millennials are more likely to rent by choice," said Eli Beracha, director of the FIU Business School of Real Estate. "We see more and more people who choose to rent who could afford to buy."

While just slightly older than a millennial, Beracha is one of them. He owned a home in Boca Raton and sold it to move into a rented condominium on Miami's Brickell Avenue, down the street from where he teaches at FIU Business. Like many of his students who are finance professionals, he can now walk down the block, ride an elevator and land in his office. When work is done, he can walk mere minutes to take advantage of countless opportunities his neighborhood offers.

He also knows that the money he saves by renting will still grow as he invests it. As co-author of the Beracha, Hardin & Johnson Buy vs. Rent Index, he has developed a way to measure whether current market conditions favor buying or renting a home. The index measures the potential for wealth creation by buying versus renting in 23 major metropolitan housing markets and the U.S. real estate market as a whole. The index promotes the theory that you can rent and still build wealth if you discipline yourself to reinvest the difference in the cost between renting and owning.

That may explain why many of the cranes in downtown Miami are building rental properties. While condos may have driven recent booms, rentals have become more available in the most recent cycle, driven by favorable financing conditions for multifamily units. Rentals are also affordable when compared to condos, which require the buyer to have much more cash on hand and superior credit, noted Andres Lozano

(MSIRE '15, BBA '09). Lozano serves as development manager at ZOM, which develops multifamily rentals in both suburban and urban areas of Florida, the Mid-Atlantic and Midwest, as well as a member of the Hollo School Advisory Board. When homeowners association fees and average pricing are also factored in, he said, the result is typically a higher payment.

"The relatively higher appetite that investors, both institutional and private, have for multifamily has also fueled growth in the multifamily sector compared to riskier ventures like condo development," Lozano added.

Luxury, amenity-rich rentals are popular choices for Northeasterners seeking lower taxes by establishing residency in South Florida, said Suzanne Hollander, an instructor at the Hollo School who is also a real estate broker and attorney. In fact, the sector is enjoying strong success.



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For example: Panorama Tower. Located in the heart of Brickell Avenue, the 85-story building — the tallest residential building south of Manhattan — has an extraordinary array of curated amenities designed for residents to enjoy an active social life. From the tower's three movie theaters to private dining/wine tasting rooms and a state-of-the-art fitness center, opportunities to socialize and entertain outside one's apartment without leaving the building abound. In the ultimate nod to the live/work/play lifestyle, there's also a children's playroom and doggie daycare right on the premises.

"We thought about what millennials want, and we built Panorama with those things in mind," said Austin Hollo, senior vice president at Florida East Coast Realty. The focus is on a high level of services and amenities for those of all ages attracted to the Brickell corridor for its work/live/play vibe.

"Residents never have to leave the building if they don't want to," he said. "We have created a true mixed-use campus."

Hollo's grandfather, FIU Business benefactor Tibor Hollo, is recognized as a pioneer in the concept of building Miami's urban core as a place to work and live, putting the emphasis on density and proximity.

"I think that this new generation is really looking for something different from what their parents wanted," Austin Hollo said. Yet he also noted that half of the building's residents are between the ages of 35 and 55. "Today, people want connectivity and walkability, options and flexibility, and the burdens of homeownership don't necessarily mesh with that anymore."

Yet the American dream of owning a home with a white picket fence is still alive, particularly in the undergraduates Hollander teaches in her evening real estate courses. Many of them are children of immigrants or immigrants themselves, still harboring the dream of owning a home of their own. They face an uphill battle in Miami, where mortgages are denied more often than anywhere in the U.S. Hollander makes them aware of FHA loans and the elements of keeping a consistently good credit score.

Bill Hardin, founding director of the Hollo School and an expert in real estate finance, sees home buying rebounding with the maturation of millennials. Statistics point to millennials' delayed yet eventual move into raising families in homes they own, once they find jobs and places where they can live for a while.

"The length of tenure in homeownership is a prerequisite for creating housing wealth," said Hardin. Knowing how long one will hold a home is the key to making that decision. If you can commit to staying in place for three to five years, he noted, your investment in making a house your new home will likely pay off economically.

And then, there's Generation Z, which may have new opportunities to buy homes as baby boomers sell them off — and a new set of economic circumstances and preferences they choose to live by.

Among them is Daniel Weiland (BBA '19, BAcc '19). Growing up in Miami, his mother encouraged him to follow the American dream of buying a house.

Weiland launched his habit of saving carefully and spending prudently as a high school bagger at Publix. Personal finance courses at Coral Reef High School's Academy of Finance taught him how to use spreadsheets to track savings and investments.

He chose to enroll at FIU Business and live at home with his parents, taking advantage of multiple scholarships he earned, including full tuition and additional stipends. While

some classmates spent their money on new cars and vacations, Weiland drove a 2005 Toyota Corolla into the ground. The occasional trip to Disney and other excursions were carefully budgeted for. He brought lunch from home most days and ate at his parents' table whenever possible.

As he neared graduation, the accounting major set his sights on an internship with accounting firm Morrison, Brown, Argiz & Farra (MBAF), headquartered in Miami, which offered him not only an internship, but full-time work after college. Thanks to college credits taken in high school, he completed his bachelor's in accounting in three years, with an additional major in business analytics.

With a degree earned and a job secured, Weiland's search for a home with a backyard began. He fell in love with a townhouse, a two bedroom, two bathroom fixer-upper in Kendall, and watched as the price dropped over the course of four months. When the time came to buy, at the age of 21, Weiland was ready with a 10% down payment and funds for additional expenses, including an extensive renovation.

Weiland admits he's super-cautious about tracking his money, "but it comes in handy at times like that."

Now 22 and a homeowner, Weiland is ready to share his good fortune with his village.

"My friends helped me though this journey," he said. "It will feel good to invite them to hang out at my house."

