

## newsletter

## Embracing Millennials, Ignoring the Myths

### Millennial Myths

To borrow a phrase, the average panel discussion at your typical real estate conference contains only three things: nouns, verbs, and mention of the word “millennials.”

All for good reason. Millennials form America’s largest generational cohort. Born between 1980 and 2000, they now number 80 million. As its oldest members form households, this generation will have a massive influence on America’s housing market for decades.

Millennials have emerged at a serendipitous time. After years of underbuilding, the residential market remains out of balance. In the wake of the Great Recession, demand continues to exceed supply by hundreds of thousands of homes annually. And as the housing recovery has continued, supply has not caught up. For investors in residential land, it’s good news: The confluence of these two trends – underbuilding and millennial demand – presents an uncommon opportunity for housing in America.

But when it comes to housing millennials, many commentators see it differently. As the narrative goes, millennials represent a “paradigm shift” from suburban houses to urban apartments, where they can “live, work, and play.” Millennials would rather “forget” the dream of homeownership and instead turn America into “a nation of renters” that will fuel an “urban revolution” and lead to “the end of the suburbs.” Until then, millions are “living in their parents’ basements.”

Anecdotally, this story rings true, particularly in dense northeastern and coastal cities. The only problem? It’s wrong.

The vast majority of millennials do not want to rent downtown; they prefer to own houses elsewhere. Moreover, only a fraction of those who want to live downtown can afford the premium. Other perceived obstacles to millennial homeownership – student debt or deferral of marriage – may be significant, but do not diminish the fundamental human need for shelter. In America, that means lower-density single-family and townhomes outside of downtown, but near jobs, schools, transportation corridors, and retail amenities. Increases in these types of homes will lead to more demand for land.

To us, deep value investors in medium-term land, the opportunity could not be clearer: Buy at good prices today and sell into the demand created by chronic underbuilding and 80 million millennials coming into home buying age. As these new households form while pent-up post-recession demand is released, land of all kinds will be needed. By investing in the right locations with a disciplined margin of safety as the residential recovery strengthens, profits for Avanti and its partners will follow.

### Millennial Realities

#### Who are they?

America’s 80 million millennials are now the country’s largest generation by any measure, exceeding the number of Baby Boomers. Today, the oldest are 35 and in prime home-buying years. And with this generation’s largest age cohort now only about 26, millions more soon will need places of their own.

#### Where do they want to live?

The answer is conclusive. First, the majority of millennials – like most Americans – either want to own their own homes or

### Millennials Want to Own in the Suburbs



68%

of millennials want to live in a single-family detached house



10%

of millennials want to live in urban centers

Source: National Association of Homebuilders, 2016

see homeownership as a good investment. Second, most want to live in single-family homes outside of urban centers – *even if they reside in cities today.*

Survey after survey has proven both points, as does all manner of census data. In city after city, the vast majority of new homes in a given metropolitan area are built outside of the urban core.

Moreover, recent declines in the US homeownership rate do not contradict these fundamental preferences. Even with the homeownership rate near multi-decade lows, it is still 63.5% – just shy of the long-term 47-year average of 65.6%. When a clear majority of America’s population owns a home, the country is hardly on its way to becoming “a nation of renters.” Nor are we, as many urban elite may think, a nation of large apartment complexes – *more than 50% of all renters live in single-family homes and duplexes.*

Now, perhaps a greater percentage of millennials prefer to rent in cities than did previous generations, a preference more apparent because of the cohort’s size. But the clear preference among millennials

is for single-family homeownership away from downtown.

### Where can they afford to live?

For the minority of millennials who prefer to live in cities, their preference has a price. For most Americans, downtown living is not affordable. In a country where the median household income is just under \$56,000 per year, the best value is in the suburbs.

Take a trendy new apartment building in downtown Orlando, where rents for two-bedroom, two-bathroom 1,100 square foot units start at \$2,000 per month. Compare that with a 2,200 square foot suburban single-family home with a front and back yard, free parking, and proximity to good public schools, all for the same price, including mortgage, taxes and insurance. That's double the space for the same cost, plus mortgage interest deductions and hopes of future appreciation. This story is repeated over and over again in other Sunbelt cities - Tampa, Atlanta, Phoenix, Houston, Dallas, and Charlotte - and in the 20 other markets where Avanti invests.

### Other Millennial Noise

#### Student loans?

Some assert that millennials *need* to rent

apartments because of growing student debt, which now totals \$1.3 trillion and is the second-largest category of indebtedness after mortgages.

But amid the noise, context is lost. For example, even as aggregate indebtedness has grown, longer loan terms mean smaller monthly payments. Indeed, 50% of borrowers pay \$203 or less per month. And as earnings increase with inflation, fixed-rate student debt becomes less consequential.

We're not arguing that student debt won't affect home buying. It surely will, as many may buy smaller or less expensive homes, delay buying, or scale back on other consumer products. But student debt by itself does not eliminate the need for a place to live or alter the unique American preference for single-family homeownership.

#### Deferring life decisions?

Other observers note that because millennials seem to be deferring major life decisions - finding jobs, forming households, getting married, having children - they will defer the decision to buy a home. The data disagree: The average age of first-time homebuyers has not changed in decades. Even during the recent housing roller

coaster, this age has remained 33. Any increase is not cause for alarm; that first purchase will just take a little longer.

### Conclusion: Bring us your land

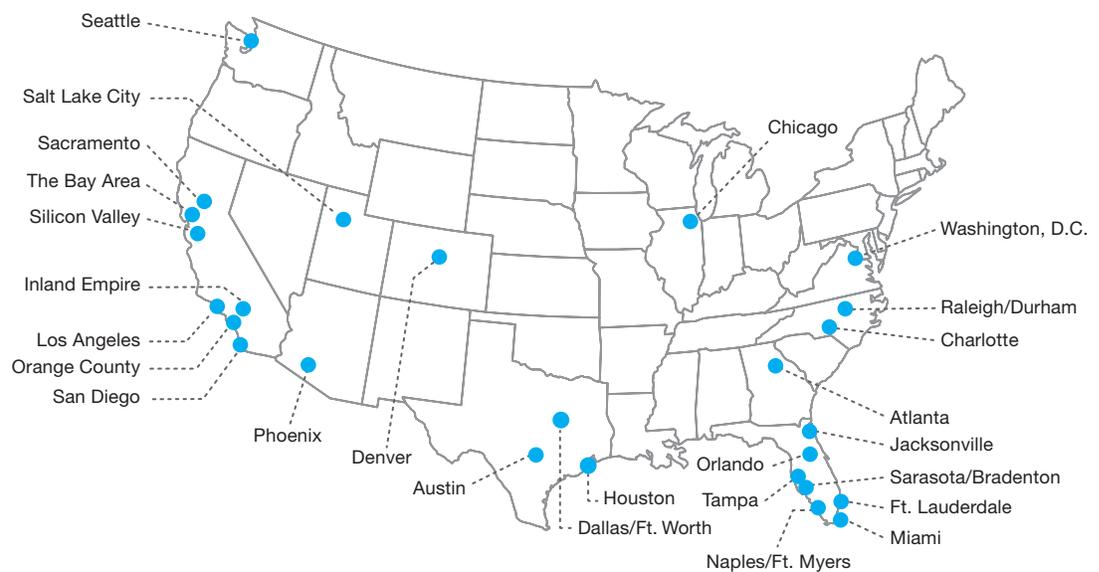
From Avanti's corner of the investment world, the future is bright. Our outlook is not clouded by visions of endless millennials fortified by lattes and craft beer, forever living in their parents' basements. Beyond the northeast, most homes in Avanti's markets don't even have basements.

More fundamentally, millennial housing preferences are not much different from those of their parents. They want to live outside of the city in affordable single-family housing near jobs, good schools, and grocery stores. As 80 million millennials emerge while the economy recovers from years of underbuilding, we see great opportunity for deep value investment in medium-term land.

So bring us your well-located land investment and development deals in any of the markets on the map below. We promise prompt evaluation, efficient due diligence, and patient equity - and at the right price, a huge appetite for investment.

For more than 30 years, Avanti has dedicated itself to land investment, focusing on well-located sites in fast-growing metropolitan areas. Today, Avanti owns land that can accommodate nearly 45,000 homes in its residential holdings alone. Avanti looks forward to working with experienced local land developers who benefit from having a strong equity partner for medium- to longer-term projects requiring \$5-\$50 million.

### Sourcing Network and Markets



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*Best Wishes*  
for the Holiday Season  
and a Happy, Healthy,  
and Prosperous  
New Year.