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Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

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September 17, 2015

Do Millennials Prefer to Live Closer to the City Center?

In past posts (Part 1 and Part 2), we examined whether millennials were driving the decline in first-time homebuyers. We concluded that, if anything, first-time homebuyers were becoming younger over time and location and economic conditions appeared to be a much stronger predictor of declines than a generational divide. In this post, we look into whether millennials prefer to live close to the city core or in the suburbs. Where millennials settle could determine whether our cities continue to grow, what our transportation infrastructure expenditures should be, and whether homebuilders should focus their efforts on multifamily housing in urban locations or traditional single-family homes in the suburbs.

This question has received a fair amount of attention—see here, here, here, and here. A number of observers have speculated whether the recent surge in millennials living in cities represents a change in preferences or whether it's simply an artifact of financial constraints—tighter underwriting standards, weak income growth, or larger student debt. Nielsen's survey of young adults finds that millennials prefer the lifestyle afforded by dense urban environments, but the National Association of Homebuilder's survey of young homebuyers finds that just 10 percent would prefer to live in the city while a whopping 66 percent want to live in the suburbs. Setting preferences aside, others debate whether millennials really are moving to the city. While recent data confirm that young people are moving to the cities at much higher rates than in the 1990s, it's also true that the raw majority of young people choose the suburbs over the city.

This research on young adults tends to combine renters and homeowners in one category. Renters tend to experience credit and financial barriers to location, and are limited in their location choice by the distribution of rental housing stock. That can make it difficult to distinguish whether young people who move to the city do so because they prefer urban life or because there is more rental housing stock in the city than in the suburbs. To shed light on the question of where millennials prefer to live, we segment out a group of young adults who experience relatively fewer restrictions on where to live: first-time homebuyers. Our data set allows us to identify first-time millennial homebuyers and the census tracts where they bought their first homes (a previous post describes the data).

Using this data, we ask if first-time millennial homebuyers are more likely to live near the city center than either existing homeowners or older first-time homebuyers. Finally, we look at how other factors like creditworthiness and student debt levels appear to influence this decision.

Below, we chart the median distance from the central business district (CBD) of first-time and existing homeowners by age bracket from the years 2001 to 2014. We find that existing homeowners tend to live, on average, 6.3 to 6.5 miles from the city center. First-time homebuyers tend to live closer in regardless of age, on average 5.8 to 5.9 miles away from the city center. Beginning in 2003, younger first-time homebuyers trended towards more central locations. During the 2007–09 recession, the spread between older and younger first-time homebuyers collapsed. After the recession, the spread widened again. It's difficult to say whether the shift in purchase patterns is the result of financial constraints or changing preferences, but the tendency appears to be for newer and younger homeowners to purchase homes closer to the city center.

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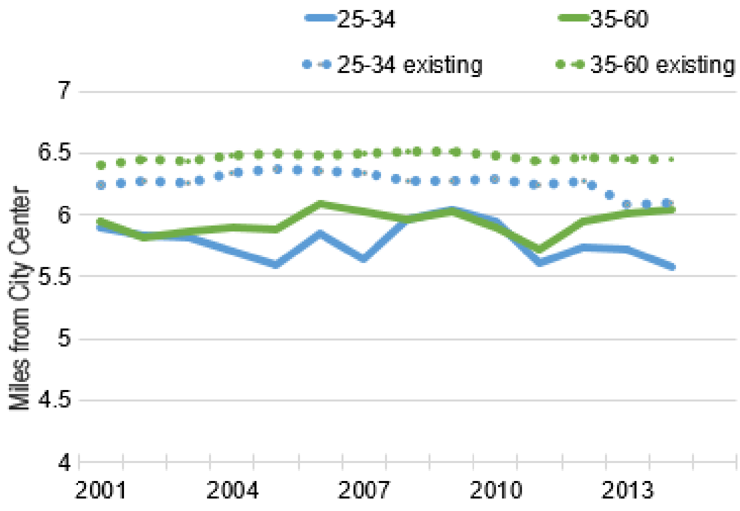
Median Distance of Purchase from CBD Core: First-time buyers vs existing buyers, young buyers vs older buyers; 50 largest MSAs



Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, authors' calculations

What this chart cannot tell us is whether the trend that has younger people living closer to the city center reflects uniform preferences or whether this is an artifact of stronger economic growth in denser cities. In other words, is this trend the result of strong home buying in compact cities and weak sales in sprawling metropolises (that is, between cities), or is it the result of all buyers nationwide choosing to move closer to the city center (that is, within cities)?

To further investigate whether millennials prefer to live close to the city center, we perform several regressions to see how age relates to first-time homebuyer location decisions before and after the crisis. We control for a few key variables—namely, credit score, mortgage size, and student debt levels. The sample includes first-time homebuyers aged 18–60 who chose to purchase homes in the 50 largest metropolitan statistical areas (MSA) in the United States. We calculate distance by matching the census tract variable in the Federal Reserve Bank of New York Consumer Credit Panel with census tract data on distance from city center provided by CityObservatory.

Because some cities are more compact than others, we add MSA-level fixed effects. To control for the influence of nationwide effects such as the introduction of quantitative easing and the first-time homebuyer tax credit, we control for year-fixed effects as well in each regression. These controls should adjust for all region and time invariant factors that might affect both the age and location choice of home purchases.

Since creditworthiness typically increases with age and households with higher credit scores tend to be less constrained in their location choice, we also add a risk score variable to see whether age is simply a proxy for the ability to borrow. Similarly, we include mortgage balances. Finally, we add student debt balances to see whether the higher student debt burdens of young people can explain the discrepancy between the location choices of older and younger buyers.

The results are featured in the table below. On the right side of the table—from 2001–05 (that is, before the housing market crisis)—age appeared to have had a small impact on location and was not significant. Other factors such as size of mortgage and amount of student debt seemed to be larger determinants of location. Homebuyers with larger mortgages and with more student debt were more likely to live farther from the city center.

On the left side of the table—from 2006 to 2014 (that is, during and after the housing crisis)—age appeared to have had a small but significant relationship with location. Buyers who were one standard deviation younger located 0.03 standard deviations closer to the city center. With more controls included in the regression, this relationship declined to 0.02 standard deviations closer to the city center.

During and after the crisis, risk score became a stronger determinant of location as well. As risk scores increased by one standard deviation, buyers moved closer to the city center by 0.04 to 0.03 standard deviations, depending on the specification. This suggests that credit-constrained homebuyers are more likely to live father away from the city center and that, all else equal, younger homebuyers prefer to live closer to the city center.

Factors Influencing First-time Homebuyers' Location Decision before and after the Housing Crisis in 50 Major Urban Areas

Predicted: Distance from City Core

(Standardized Coefficients)

	n = 7782				n=8285			
	2001-2005				2006-2014			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
age	-0.00	-0.00	-0.01	-0.01	0.03	0.03	0.02	0.02
p value	0.80	0.91	0.63	0.39	0.02	-0.04	0.02	0.07
riskscore		-0.02	-0.01	-0.01		-0.04	-0.03	-0.03
p value		0.08	0.35	0.34		-	0.01	0.00
Ttl Bal First Mortgages			-0.05	-0.06			-0.05	-0.06
p value			-	-			-	-
Ttl Bal Student Loans				-0.04				-0.05
p value				0.00				-
year fixed effects	x	x	x	x	x	x	x	x
MSA fixed effects	x	x	x	x	x	x	x	X
R^2	0.049	0.050	0.054	0.143	0.052	0.053	0.058	0.100

Notes: Sample includes first-time home buyers aged 25-60 in Largest 50 MSAs.

Source: Federal Reserve Bank of New York Consumer Credit Panel, Authors' calculations

While it appears that, on average, younger homebuyers prefer to live closer to the city center, can we say this reflects a preference for urban life? The average distance from city center—five-and-a-half miles—could very well describe areas with moderate density and single-family housing stock in moderate-sized cities. To focus on whether younger homebuyers are interested in living in the central city, we repeat these results using a logistic regression predicting the likelihood a first-time homebuyer will purchase within one mile of the city center. Controlling for all available factors, we find that younger buyers are significantly more likely to live in the heart of downtown. For each additional year, the odds that a buyer will decide to live within one mile of the city center drop by 6 percent.

By using this unique data set, we hope that we have shed some additional light on the age and location decisions of first-time homebuyers. Our interpretation of the data suggests that first-time homebuyers became more likely to buy closer to the city center during and after the housing market crisis and that young homeowners (first-time and existing) are more likely to live closer to the city center than older homeowners. Moreover, creditworthiness, total mortgage balance, and student debt loads appear to matter when the time comes to decide where to buy. In short, although age may not affect *whether* someone buys a house, our analysis suggests it may influence *where* they buy.

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