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Young Investors Pick Stocks Over Homes

The rent vs. buy debate has taken on new meaning for Gen Z thanks to soaring share prices and more investment options

A record stock market might have a link to the unaffordable housing market, based on how younger Americans are thinking about their finances.

Owning a home has traditionally been the way for U.S. households to build wealth. But today's high property prices mean younger people either can't afford to get on the property ladder or think they can earn a better return elsewhere.

Influencers on social media are weighing in. Their message: Don't stretch to buy a house at today's prices. Rent and invest your cash instead.

The debate over renting vs. buying is longstanding and hotly contested. An extended stretch of buoyant stock markets adds an extra dimension to it.

Many younger investors only know a time when stocks have returned on average about 14% a year, well above historical norms. And the stock market today is anything but a bargain: The S&P 500 is almost as expensive today, based on its price/earnings ratio, as it was on the eve of the dot-com bust. *Note*

Yet a wider gap between the cost of owning and renting has bolstered the argument for renting and investing. And it is doing so as young people are drawn to investing thanks to meme-stock socialmedia chatter, the crypto boom and zero-commission trading apps such as Robinhood Markets.

A JPMorgan Chase report found that 37% of 25-year-olds used investment accounts in 2024, up from 6% of the age group in 2015. A sixfold increase in the number of young people investing in the stock market over the past decade

suggests a shift in the way they think about building wealth.

The report said, "Housing market conditions...may be shifting the allocation of savings, making financial assets like stocks relatively more attractive or accessible than home equity."

The homeownership rate for Gen Z—people born between 1997 and 2012—is just 16%, data from the National Association of Realtors shows. Meanwhile, the share of first-time home buyers is at a record low. Combined, this is a headache for home builders and those who would like to sell their homes.

The monthly mortgage payment on an average \$400,000 home is around \$2,170, based on current rates and assuming the buyer has a \$60,000, or a 15%, down payment. This is around 36% of the after-tax pay of a person on a median household income.

But the all-in costs of homeownership are higher because insurance, property-tax and maintenance expenses have shot up in recent years. Add those in, and total housing expenses in some cases can consume nearly half of median household income.

The difference between the all-in cost of a home at the median price of renting a two-bed apartment can range from, say, \$8,000 to \$14,000 a year depending on location and other factors such as property-tax levels.

How does this play out in terms of the rent and invest vs. buy decision? Consider a person who takes \$60,000 in savings for a down payment and instead invests it in stocks. Say, too, that the person invests the money saved by renting—\$13,500 each year. Assuming a 9% average annual increase in share prices, there would be \$354,000 after 10 years.

In cities where living costs are higher, there would be less cash left over to invest after making the rent. A tenant paying \$2,300 a month, which is \$400 above the national median, would only have around \$277,000 after 10 years of investment.

Now consider the person who instead buys a home for \$400,000 with the \$60,000 down payment and has a mortgage rate of 6.5%. Assuming home prices increase at an average annual rate of 4%, the home's value would increase to \$592,000 at the end of 10 years.

If the home buyer sold, there would be around \$305,000, which includes the initial down payment as well as paid-down principal.

The amounts aren't that far off. One reason is that the homeowner is able to use a large amount of borrowed money, which amplifies gains when home prices go up.

"You don't need home-price appreciation to match the performance of the stock market to make a similar return," said Jim Egan, U.S. housing strategist at Morgan Stanley.

Of course, any analysis depends on individual factors such as assumptions about gains in share and home prices gains. These are volatile and can be well below historical averages or even produce losses. Other factors include a person's ability to consistently invest rent savings, the tax bracket, need for liquidity and how long the person will stay in one place.

There are further wrinkles. The costs of selling a home include brokerage fees and can add up to 4% to 6% of the sale price. That takes a chunk out of gains.

Then there is tax. The homeowner is exempt from capital-gains tax on sale income up to \$250,000 for a single person or \$500,000 for a married couple. The renter-investor, on the other hand, would likely owe 15% capital-gains tax on the sale of the shares.

There are also opportunity costs. "A home is an illiquid asset," said Rob Williams, a managing director at Schwab Center for Financial Research. "You don't have easy access to housing equity the way you do with stocks, so there is a trade-off to tying up that money."

There are reasons to buy a home that have nothing to do with financial returns, including the predictability of mortgage costs into the future, the freedom to do what you want with the property and having it paid off by retirement so you don't have to worry about making the rent in old age.

But because the results can be pretty close and the calculus is so dependent on an individual's circumstances and views, buying a home isn't the clear-cut path to wealth that it once was.

Perhaps young buyers will surge back into the housing market once prices become more affordable. It could also be that members of the first digitally native generation have different opinions about the best way to build wealth given their access to a much wider range of investments.

The most likely outcome is that competition between the housing and stock market for their savings is here to stay until one market or the other rolls over.

—Carol Ryan

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