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New Housing Horizons for the Next Generation

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The Perfect Storm

- New Populations, New Demands
- Profound Lifestyle Changes
- Economic Challenges

What to do?

- Rethinking and Retooling
- It's all about Efficiency
- Efficiency Leads to Affordability

New Housing Horizons for the Next Generation

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**ULI Seattle District Council
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Today's talk –

- ▶ **The Story Today:**
 - Home prices
 - Home ownership
 - Housing starts

- ▶ **New Demographic Horizons:**
 - Senior Housing
 - Generation Y

- ▶ **Some issues to watch**

National Home Prices

- ▶ **DOWN** 6% Q2 2011 over Q2 2010
 - *Back to 2003 – a decade of equity lost!*
 - *Down 30% from the 2006 peak –*
 - ***MORE than in the Great Depression!***
- ▶ Next year – yet another drop unless jobs come back

Seattle Home Prices

Same picture in Seattle –

- ▶ *Down 6.5% July 2011 from July 2010*
- ▶ *Back to October, 2004*
- ▶ Down 28% from the peak in May 2007, only four years ago.
- ▶ Next year?

7 Reasons Why Prices Keep Falling

- 1. 9.1% unemployment – 14+ million looking for work**
- 2. Shadow inventory: 3+ million extra homes**
- 3. 28+% homes “underwater”**
- 4. Gen Y broke = no 1st-time buyer market**

7 Reasons Why Prices Keep Falling

5. Conservative mortgage underwriting

- 2/3rds of renters can't put 3.5% down

6. Ongoing foreclosures – 2+ Million this year

- NAR: 40% of sales are foreclosures or “shorts”
- Means no real market value in many places

7. Many rethinking homeownership

Whither Housing Starts?

- ▶ **9/20/11 starts: 571,000 annual rate**
 - Less than 1/3 of the middle of the last decade
- ▶ **August new home sales: 196,000 annually**
- ▶ **Three problems –**
 - Low demand – sales still below starts!
 - Oversupply – 3+ million surplus units
 - Competition from existing homes

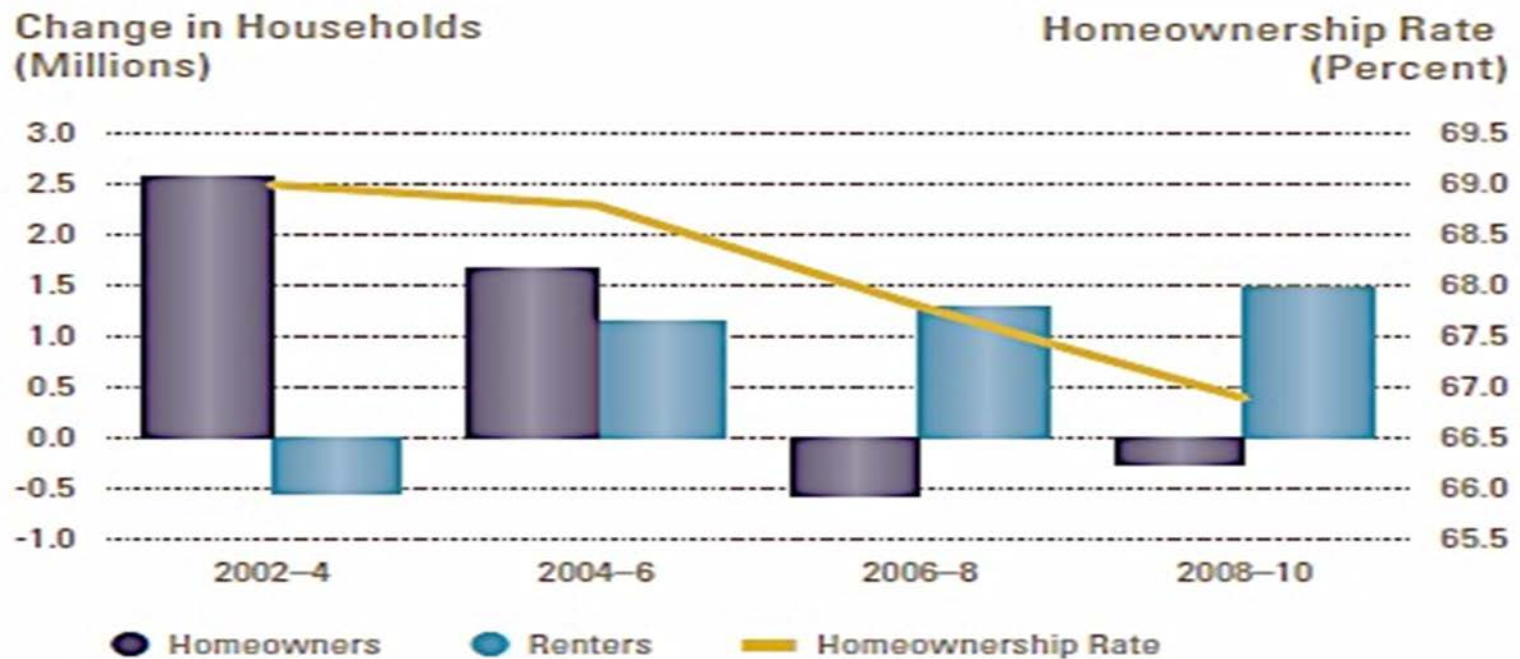
Whither Homeownership?

- ▶ **End of Q2 2011 – 65.9%**
 - The lowest rate since 1998
- ▶ **Peak in 2004 – 69.2%**
 - Six years of decline
- ▶ **Every 1% means 1.3 million more renters**
- ▶ **My prediction:**
 - A reversion to the norm – 62% – 64%

What's certain?

There will be more renters, fewer homeowners.

Falling Homeownership Rates Reflect a Sharp Turnaround in Owner and Renter Household Growth



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

What's uncertain?

- What will be the “new” homeownership rate?
- What will the new suburbs look like with more renters?
 - Changing demographics
 - Emerging town centers
 - Changing politics
 - Influences on home values
 - Influences on home maintenance



New Demographic Horizons

- Seniors
- Gen Y

The Senior Tsunami

*The past will not predict the
future*

The Future of Senior Housing...?

Seniors are the fastest growing group in the US

- ▶ **40 million today**
- ▶ **17 million more by the end 2020**
- ▶ **2020 population 56+ million**
- ▶ **Who are they?**
- ▶ **What do they want?**
- ▶ **Where will they live?**

Seniors are NOT all the same

Three broad groups of seniors

- And many subsets!

▶ **Trend Setters**

- Turning 65 years old this year
- The leading edge of the Boomers

▶ **Traditionals**

- 80+ years old today

▶ **Transitionals**

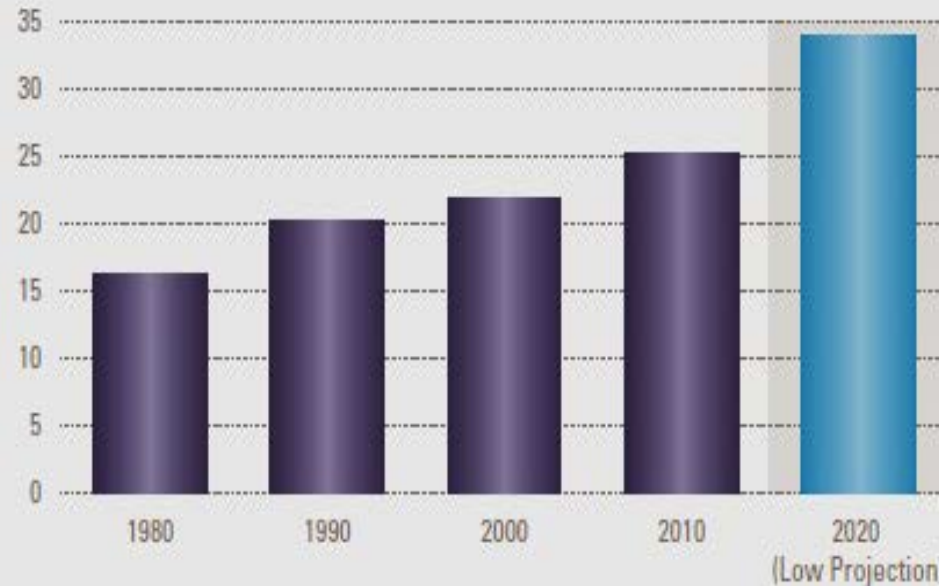
- 66–80 years old today

What's certain?

- Most healthy and active seniors ever
- Family is important
- Deferring retirement
- Urban, diverse and open to change
- Will live longer than prior generations

As the Baby Boomers Age, the Number of Seniors Will Increase Dramatically in the Next Decade

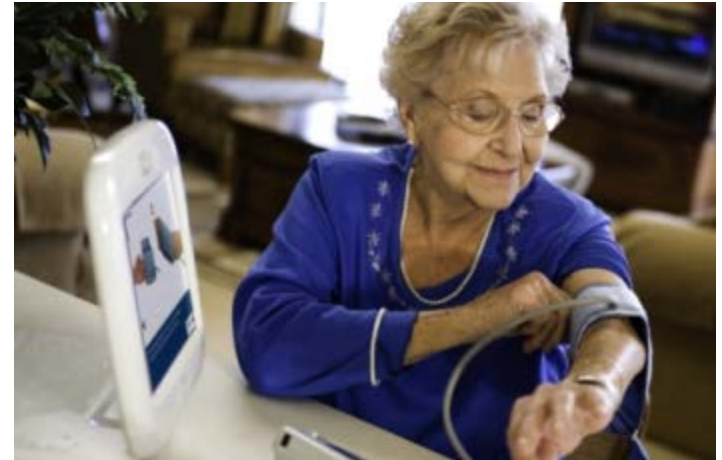
Households Headed by Persons Aged 65 and Older (Millions)



Notes: Senior households are those headed by a person aged 65 or older. JCHS low projection assumes that immigration in 2010–20 is half that in the US Census Bureau's 2008 middle-series (preferred) population projection. Sources: JCHS tabulations of US Census Bureau, Current Population Surveys; JCHS 2010 household growth projections.

What's uncertain?

- Will Boomers “revolutionize” aging?
 - As they have many other things
- Will they “age in place”?
 - What does this *really* mean?
- If they move, where and when?
- Can they continue to pay for housing?



Generation Y

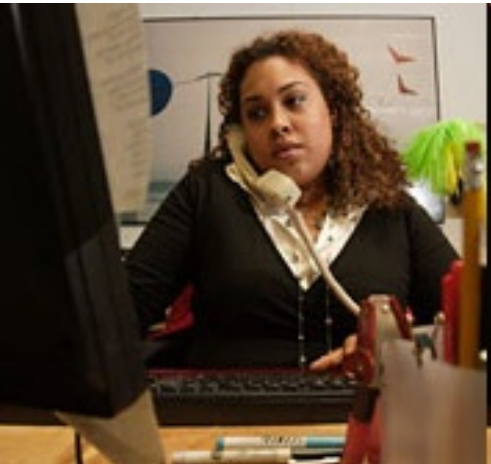
A Lost Generation?

*At least for
housing...*



Whither Generation Y?

- ▶ 18 to 32 – 80 million +
- ▶ The largest generation in US history
- ▶ At the prime household formation age
 - But HH formation 1 / 4th of what it was in 2007
 - Will climb rapidly – when jobs come back



Their Challenges

- ▶ Incomes down last decade
 - Men's down 23%,
 - Women's down 3%
- ▶ 25% to 30% are unemployed
- ▶ Carrying large school debts
- ▶ **Most financially constrained generation since the Depression**



What's certain?

Gen Y:

- Has less money than any generation since the '30s
- Is highly mobile – moving to jobs, friends, life-style
- Well-educated (mostly)
- Well-connected (Facebook/Twitter/Google)
- Very urban
- Want to become homeowners - eventually

What's uncertain?

- Where can Gen Y afford to live?
 - The new workforce housing challenge!
 - Most renting now - when can they afford to buy?
- When will they partner up?
 - Where will they move when they have children?
 - Central cities, suburban town centers, the 'burbs?

Finally, some issues to watch

Some Questions Shaping the Future

- ▶ **What will be the cost and terms of mortgages?**
 - Will there be a 30 yr. fixed rate mortgage?
 - Do we still need it?
- ▶ **Will new homes be affordable for the middle class?**

More Questions Shaping the Future

- ▶ How will the suburbs change as they gray and renters move in?
- ▶ How/where will Trend-Setter (Boomer) Seniors live?
- ▶ Where will the most educated move to?
 - **What cities will win in the New Economy?**