Housing Choice: An Accelerator of Regional Economic Competitiveness

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Melina Duggal, AICP, Senior Principal
LOCATION, LOCATION, LOCATION

Most desirable locations will be:

- Coastal smiley face
- Within and beyond the Favored Quarter
- Close to jobs
- Adjacent to local-serving retail
- Convenient to regional retail and entertainment
- Walkable and transit-rich
Need to provide the types of places people want to live

- **Who?** – Demographic Trends
- **Where?** – Location Trends
- **What?** – Product Trends
Who
## GEN Y AND BABY BOOMERS CURRENTLY THE LARGEST GENERATIONS

<table>
<thead>
<tr>
<th>Generation</th>
<th>2010 Age</th>
<th>2010 Pop. US</th>
<th>2010 % Pop. US</th>
<th>Minn.-St. Paul MSA</th>
<th>2010 % Pop. MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eisenhowers</td>
<td>65+</td>
<td>40M</td>
<td>13%</td>
<td>350K</td>
<td>11%</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>46 – 64</td>
<td>76M</td>
<td>25%</td>
<td>879K</td>
<td>27%</td>
</tr>
<tr>
<td>Gen X</td>
<td>30 – 45</td>
<td>66M</td>
<td>21%</td>
<td>684K</td>
<td>21%</td>
</tr>
<tr>
<td>Gen Y</td>
<td>11 – 29</td>
<td>80M</td>
<td>26%</td>
<td>912K</td>
<td>27%</td>
</tr>
<tr>
<td>Gen Z (?)</td>
<td>0 – 10</td>
<td>46M</td>
<td>15%</td>
<td>452K</td>
<td>14%</td>
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</tbody>
</table>

SOURCE: U.S. Census Bureau, Population Division, 2010 Demographic Analysis
# LIFE STAGE INFLUENCES HOUSING CHOICE

## GEN Y JUST STARTING TO IMPACT FOR-SALE

<table>
<thead>
<tr>
<th>Year</th>
<th>Student Housing</th>
<th>Single &amp; Roommate Rental</th>
<th>Rent as Couple / 1st Home</th>
<th>Young Family Own</th>
<th>Mature Family Own</th>
<th>Empty Nester Downsize Own</th>
<th>Retiree Senior Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Gen Y</td>
<td>Gen Y</td>
<td>Gen Y</td>
<td>Gen X Gen Y</td>
<td>Baby B Gen X</td>
<td>Baby B</td>
<td>Eisen Baby B</td>
</tr>
<tr>
<td>2015</td>
<td>Gen Y</td>
<td>Gen Y</td>
<td>Gen Y</td>
<td>Gen Y Gen Y</td>
<td>Gen X</td>
<td>Baby B Gen X Baby B</td>
<td>Eisen Baby B</td>
</tr>
<tr>
<td>2020</td>
<td>Gen Z</td>
<td>Gen Y</td>
<td>Gen Y</td>
<td>Gen X Gen Y</td>
<td>Gen X Baby B</td>
<td>Baby B</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>Gen Z</td>
<td>Gen Z</td>
<td>Gen Y</td>
<td>Gen Y Gen X</td>
<td>Gen X</td>
<td>Baby B</td>
<td></td>
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</tbody>
</table>

*SOURCE: RCLCO*
YOUNG PEOPLE MOVE MORE THAN OLDER PEOPLE

Percent of People that Moved in Last Year

- Under 18: 16%
- 18 & 19: 30%
- 20 to 29: 32%
- 30 to 39: 19%
- 40 to 49: 11%
- 50 to 59: 8%
- 60+: 6%

SOURCE: 2009 ACS
ACTIVE MARKET (HOUSEHOLDS IN TURNOVER)

**Active Market Distribution**

- **Gen Y**: 50% Owner Households, 10% Renter Households, 40% Total Distribution
- **Gen X**: 40% Owner Households, 30% Renter Households, 30% Total Distribution
- **Baby Boomers**: 20% Owner Households, 0% Renter Households, 20% Total Distribution
- **Eisenhowers**: 0% Owner Households, 0% Renter Households, 0% Total Distribution

**Source:** RCLCO
Where
NATIONAL PREFERENCES

SOURCE: NAR 2011 Community Preference Survey
MINNESOTAN PREFERENCES

SOURCE: NAR 2011 Community Preference Survey
MINNESOTA PREFERENCES OVERALL VERY SIMILAR TO USA

Minnesota
- City: 39%
- Suburb: 20%
- Rural: 41%

USA
- City: 19%
- Suburb: 40%
- Rural: 40%

SOURCE: NAR 2011 Community Preference Survey
DISTRIBUTING THE ACTIVE FOR-SALE MARKET BY CURRENT RESIDENCE LOCATION

SOURCE: NAR 2011 Community Preference Survey
GENERATIONS: WHERE THEY WANT TO OWN

City - Downtown
City - Residential Area
Suburban Mixed
Suburban Ngd- HH Only
Small Town
Rural

Gen Y  Gen X  Baby Boomers  Eisenhowers
ACTIVE RENTER MARKET: PREFERRED LOCATIONS IF THEY COULD CHOOSE

SOURCE: NAR 2011 Community Preference Survey
What
PRODUCT PREFERENCES

SOURCE: NAR 2011 Community Preference Survey
HOW DOES PRODUCT PREFERENCE CHANGE BY GENERATION?

- 60+ (Eisenhower)
  - SFD: 78%
  - SFA/TH: 8%
  - Apt/Condo: 8%
- 50-59 (BB)
  - SFD: 83%
  - SFA/TH: 3%
  - Apt/Condo: 8%
- 40-49 (BB & Gen X)
  - SFD: 84%
  - SFA/TH: 5%
  - Apt/Condo: 8%
- 30-39 (Gen X)
  - SFD: 84%
  - SFA/TH: 8%
  - Apt/Condo: 4%
- 18-29 (Gen Y)
  - SFD: 74%
  - SFA/TH: 6%
  - Apt/Condo: 15%

WHO IS IN THE FOR-SALE MARKET?

- 2010 - 55% 1st-time buyers
- 2011 – 48% 1st-time buyers
- 2012 – 46% 1st-time buyers
- Median income = $76,600
  - = $250K-$300K house
  - Actual - $170K median price
- Median age = 40 years
- 84% white

SOURCE: RCLCO, 2013 Investment and Vacation Home Buyers Survey - NAR
PROSPECTIVE BUYERS

• Those who say they are likely to buy in the next 3 years:
  • Under 40
  • Minority buyers
  • Renters
  • Those currently living in a city
  • Those with children under 18 in HH
• More likely to prioritize high quality schools and larger homes
• Willing to stretch budget for neighborhood, slight preference for smart growth

SOURCE: NAR
FAMILIES WITH KIDS

- More likely to choose suburban areas
- Kid friendly
- Good Schools!
- Neighborhoods with amenities (MPC)
- Walkability
- Larger Lots/Homes
- Prioritize size of house
- Affordability
- Trends – mix of uses, “right size”, new facades
RETIREMENT-MINDED ADULTS

- Prefer rural or small town communities
- Important to stay within budget
- Downsize
- Recreation opportunities
- Enriching experiences
- Walkable
- Detached & attached
- Lifestyle more important than home
- Trends – “urban-lite” locations, closer to original home, smaller projects
YOUNG SINGLES

- More likely to prefer city living
- Trade-off for location
- Design over size
- Affordability
- Party and gathering spaces
- Contemporary elevation styles
- Pet friendly
- Low maintenance
- Trends - tech savvy, single women, return of attached for-sale product?

Source: NAR, Canin Associates, RCLCO
MINORITY FAMILIES

- Four in ten planning to buy in near future
- Prefer living in area with mix of housing and businesses
- Schools
- Diversity especially important (African American HH)
- Larger homes important (Hispanic HH)
- Trends - cultural preferences (spice kitchen, multigenerational housing)

SOURCE: RCLCO, NAR
PROSPECTIVE RENTERS
APARTMENTS NO LONGER JUST ABOUT “SHELTER”

Different Product
Broader Marketing
Clever Programming
EMPTY NESTER RENTALS

The Concept
• Lots of talk of empty nester condos, why not for rent?

The Rationale
• Serves greater desire for “urban” lifestyle
• Makes economic sense for the customer
• Provides a richer social experience
• Serves increasing call for no maintenance lifestyle

Share of U.S. Households Age 55+

Source: NAHB Long Term Forecast
EMPTY NESTER RENTALS
MARKET MIGHT BE TWICE AS LARGE AS IT IS TODAY!

Housing Intentions for Households 55-74, with Income $50,000+
April, 2012

- Current Owners, Not Likely to Move: 57%
- Current Renters, Not Likely to Move: 8%
- Owners Who Might Move Next Year, Stay Owners: 35%
- Owners Who Might Move Next Year, Consider Renting: 9%

N=1,135
SOURCE: RCLCO
SINGLE-FAMILY FOR-RENT

The Concept

• Professionalize the single-family rental business (including build new)

The Rationale

• Big market already, interest in single-family housing largely unchanged
• Responds to growing ambivalence about ownership
• Paper lot inventory in many markets still cheap (but not for long)
30% of rental market already leases single-family units, which are primarily individually owned and not professionally managed.

SOURCE: PUMS (ACS 2007-2009)
The Concept

- Small units, trade-off features for location

The Rationale

- Many younger renters want to live in in-town, urban areas, but can’t afford it
- Allows for lower absolute rents
- Can target a different type of urban renter
- Focus on roommates
• AVA brand from Avalon Bay Communities
• Targeting young, urban buyers
• Consumer research indicated 19% of renters
• Smaller studios and more 2 bedroom units for roommates
• Amenities include:
  • High-end fitness, lobby loft area
• Features and finishes:
  • Varies by market – nice, but not over the top
  • Barn doors instead of traditional doors
  • Big closets

SOURCE: Avalon Bay
SUBURBAN MIXED-USE

• More demand than supply
• Walkable
• Close to existing homes
• Doesn’t have to be vertically integrated
• Appeals to multiple generations
• Need to make sure the location is correct for all the uses
GEN Y WILL PAY FOR WALKABLE, MIXED-USE
CHALLENGE IS PROVIDING PRODUCT THEY CAN AFFORD

• In-town areas and inner suburbs will remain on an upward trajectory
• Diversity, walkability and proximity to jobs keys to attracting this segment – 1/3 will pay more
• Suburbs will need to evolve to remain attractive to Gen Y
  • More walkable areas
  • Town centers
  • Niche products and “village centers”
  • Affordability

SOURCE: RCLCO
HAVING A WALKABLE ENVIRONMENT IS IMPORTANT TO CONSUMERS

Q18. In deciding where to live, indicate how important it would be to you to have each of the following within an easy walk: very important, somewhat important, not very important, or not at all important. (RANDOMIZE)

Source: National Association of REALTORS, 2011, RCLCO
MIXED-USE DEMAND > SUPPLY

Consumer Preference: Currently Live and Want to Live in a Suburban Neighborhood With a Mix of Houses, Shops, and Businesses

Opportunity
RESULT = GREATER LONG-TERM VALUE

Financial Characteristics of Mixed-Use Areas with Critical Mass (Blue) versus traditional Suburban Development (Red)

Value Creation / Cash Flow ($) vs. Time (years)

SOURCE: The Brookings Institution
ONE OF THE CHALLENGES OF MIXED-USE

Example Residual Land Values

- Townhomes
- Stacked Townhomes
- Wood Frame MR
- Light Gauge Steel MR
- Midscale Concrete HR
- Luxury/Concrete HR
- Wrap
- Wood Frame MR
- Light Gauge Steel MR
- Concrete HR
- Strip
- Lifestyle or Mixed Use
- Anchored Freestanding
- Medical
- Laboratory/R&D
- Midrise Light Gauge Steel
- Innovation and Education
- High Rise Trophy
- Limited/Select Service
- Upscale
- Warehouse
- Logistics
- Flex

- For Sale Residential
- For Rent Residential
- Retail
- Office
- Hotel
- Industrial
RESIDUAL LAND VALUE – HYPOTHETICAL (IDEAL)

Capitalized Value - $50M

Residual Land Value = $16M

Profits $3M
Financing $2M
Construction $20M
Parking $5M
Marketing $1M
Site Costs $1M
Entitlements $2M

Cost to Deliver = $34M
IN REALITY, PROJECTS OFTEN LOOK LIKE THIS

Revenues

Capitalized Value of What Gets Built
Potential for Premium Pricing

Costs

Land
Entitlements
Site Costs
Construction
Parking
Financing
Profits

Feasibility Gap
FINAL THOUGHTS

1. Need to create and zone for the types of places people want to live
2. Not one size fits all for housing
3. Strong interest in suburban mixed-use
4. Imperative for our industry to evolve away from being reactive to focusing on customer evolution – many niche markets
5. Innovation is time consuming and expensive, but those who achieve it do get paid
6. Segmentation opportunities not just about development, explore repositioning well located but dated stock
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