

Today's Key Housing Issues

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Today's Key Issues

- ▶ **Federal housing funds**
- ▶ **Housing trends:**
 - Home prices
 - Home ownership
 - Housing starts
- ▶ **The housing finance revolution**
- ▶ **Demographics:**
 - Senior Housing
 - Generation Y
- ▶ **Some issues to watch going forward**

The Future of Federal Housing Funds

- ▶ The best case for HUD – flat appropriations
 - Most likely funds will be cut next year (and maybe more for this year)
 - Section 8 vouchers the “Pac Man” of housing
 - Washington Post “expose” of HOME
- ▶ Transforming Rental Housing Initiative
 - Stalled in Congress
 - HUD still doing what it can administratively

Whither home prices?

- ▶ Nationally **DOWN** 4.1% in 2010 (Case Shiller index)
 - **Down** another 1.0% in February
- ▶ Only Washington, DC **up** in 2010 (+4.1%)
- ▶ Pittsburgh metro market stable (Zillow)
 - **Down** 0.1% Year over Year
 - **Up** 0.1% in April

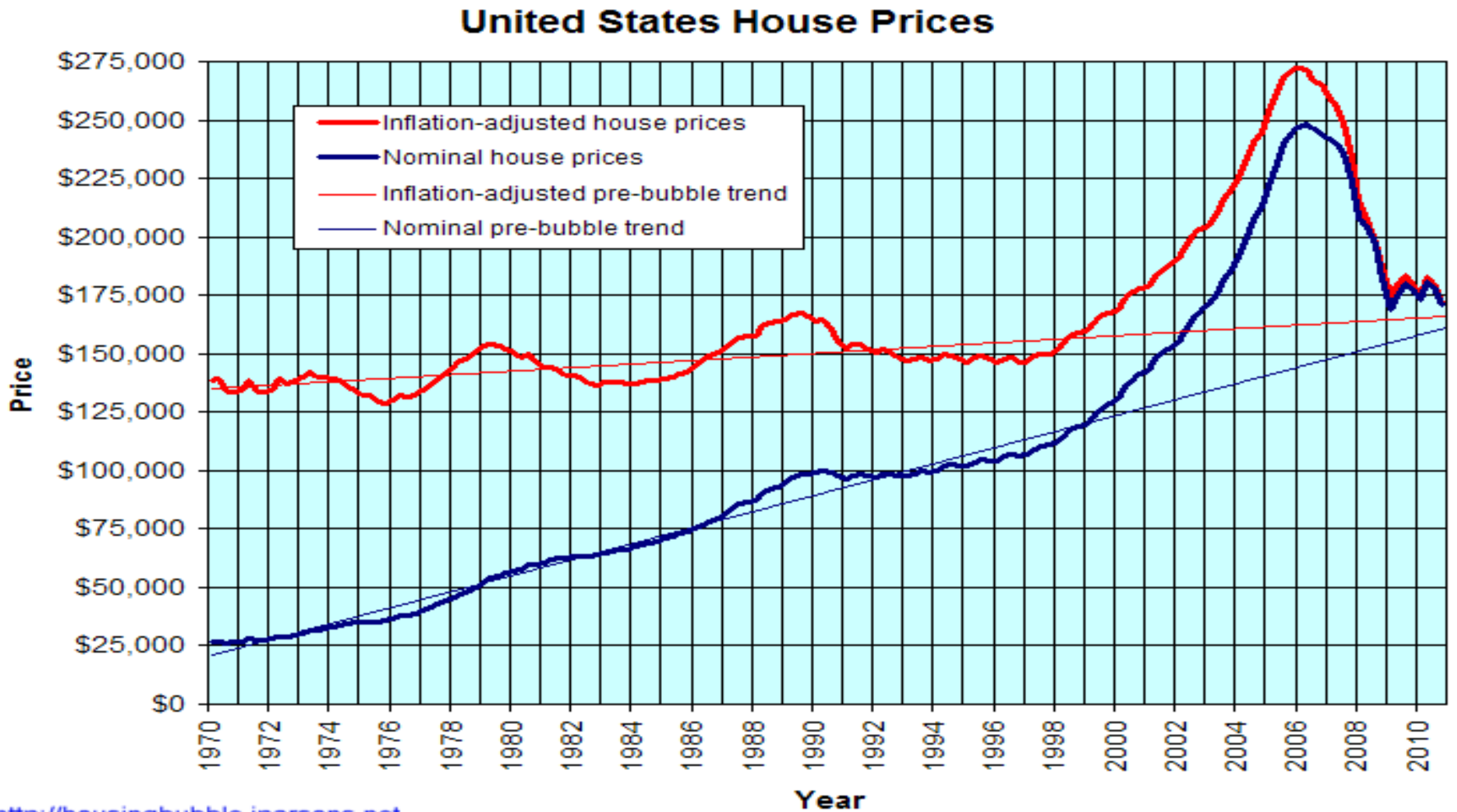
Why prices keep falling

- ▶ 9% unemployment – 13 million looking for work
- ▶ Shadow inventory: 2+ million extra homes
- ▶ 28+% homes “underwater”
- ▶ Gen Y has no money = no 1st-time buyer market
- ▶ Conservative mortgage underwriting
- ▶ Many rethinking homeownership
- ▶ Continuing foreclosures – 2Million+ this year
 - 40% of all sales are foreclosures or “shorts” per the NAR:
 - Means no real market value in many places
 - But foreclosures down in the Pittsburgh metro, lowest since 2004

Where will prices go in 2011?

- ▶ Expect prices down at least 5% in 2011
- ▶ Mark Zandhi of Moody's Econometrics predicts it will fall by 3.15% this year
- ▶ Shiller says they could go down 20% to 25% before they hit bottom next year or 2013!

On one hand prices have almost reverted to norm



<http://housingbubble.jparsons.net>

On the other hand flat incomes an issue:

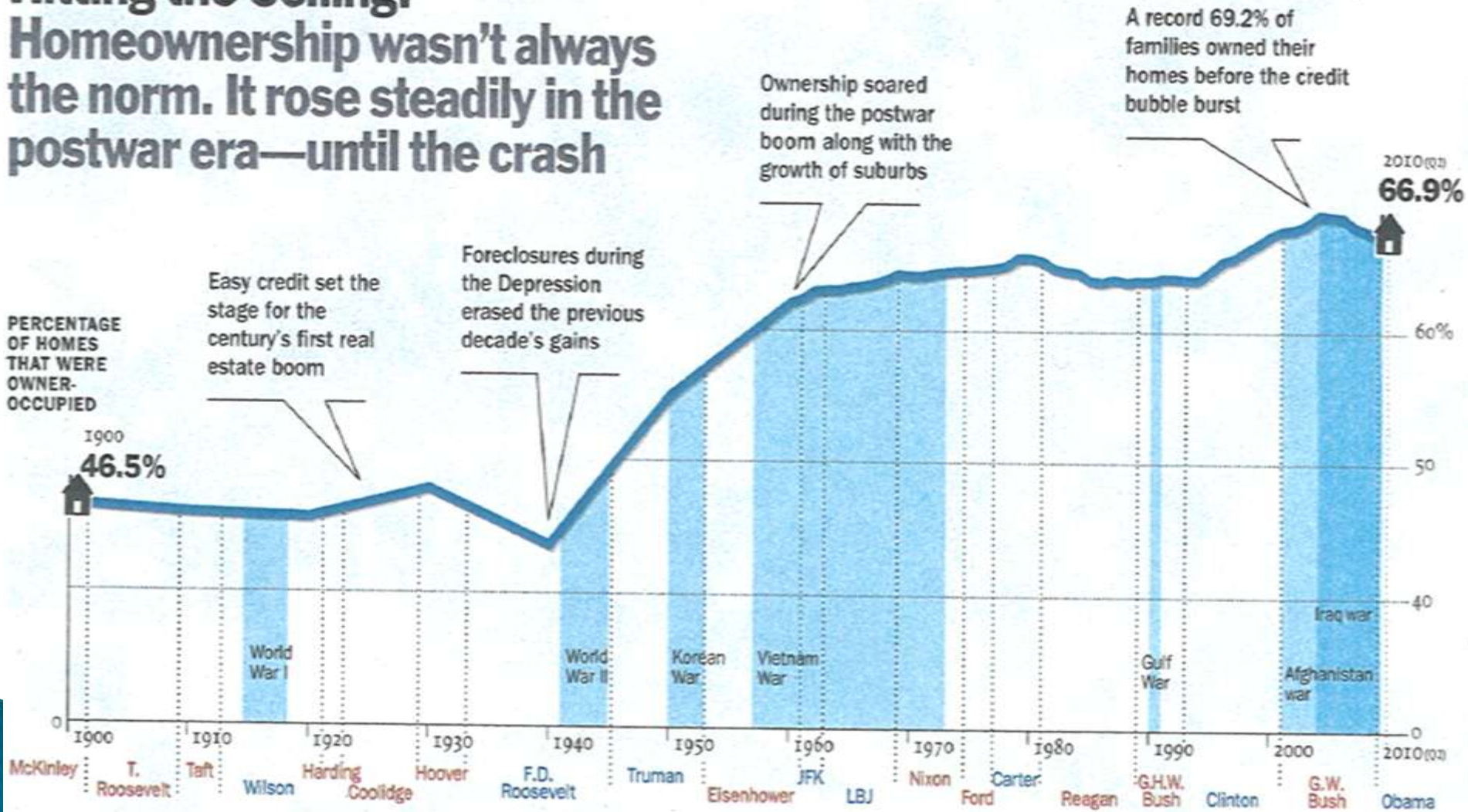
- ▶ **Median 2010 household income \$50,221 (per US News and World Report)**
 - Down 5% since 1999 (Census)
- ▶ **April median home prices**
 - New: \$217,900
 - Existing: \$163,700
- ▶ **Existing prices 3 times median income**
- ▶ **Expect a long, SLOW price recovery**

Whither Homeownership?

- ▶ **End of Q4 2010 – 66.5%**
 - The lowest rate since 1998
- ▶ **Peak in 2004 – 69.2%**
- ▶ **Six years of decline**
- ▶ **My prediction:**
 - A reversion to the norm
 - 62% – 64%

Hitting the Ceiling.

Homeownership wasn't always the norm. It rose steadily in the postwar era—until the crash



Source: U.S. Census Bureau

Whither Housing Starts?

- ▶ **Starts lowest on record (Census Bureau)**
 - April starts at 523,000 annual rate,
 - **10.6% BELOW March**
 - **23.9% below April last year!**
 - The April rate for multifamily was 114,000

- ▶ **New home sales at 300,000 annual rate in March**
 - **21.9% below March 2010**

- ▶ **Three problems –**
 - Low demand – sales still below starts!
 - Oversupply – 2 million surplus units
 - Price of existing homes below cost of new homes

The Housing Finance Revolution:

Report from the front lines

Biggest changes in housing finance in 70 years

- ▶ **The Future of Fannie and Freddie?**
 - Administration says they will be closed in 5–7 years
 - But will that really happen?
 - What will replace them?
 - Nothing?
 - A MBS insurer for bad times?
 - On-going MBS insurance?

Newly proposed QRM rules

- ▶ **Designed only for the most qualified:**
 - LTV - 80% on purchase,
 - Down payment in cash including borrower costs
 - Front end ratio - 28%; back end ratio 36%

- ▶ **Everyone else will have to use**
 - Fannie or Freddie
 - FHA
 - Bank portfolio loans

Other Housing Finance Issues

- ▶ Proposed rules cover “risk retention” as well
- ▶ What about multifamily?
- ▶ Where are interest rates and fees headed?
 - “G” fees and down payments up at Fannie and Freddie and FHA
 - Interest rates up as QE2 ends in June
- ▶ The result – the costs of mortgages are going up

*Turning now to
Demographics and Longer
Term Trends*

Senior Housing

Whither 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

Trend Setters: 56–65 years of age



- 34.8 million strong
- Children of the 60s and 70s,
- **DON'T EXPECT THEM TO ACT LIKE PRIOR GENERATIONS OF ELDERLY!**
 - They have redefined every age they entered
- Vietnam, drugs, rock 'n roll, women's lib, environmentalism, technology, etc.

The Trend Setters: 65–75 years of age

- ▶ **When will they retire?**
- ▶ **For most, not for years**
 - **Healthier and more energetic**
 - **“60 is the new 50!”**
 - **Need to rebuild retirement accounts**
 - **Fear they will out live their money**



The Trend Setters: 65–75 years of age

- ▶ No longer moving TO the suburbs, but away
- ▶ RCLCO: Older Boomers want urban areas
- ▶ This is a time of a major life transition
 - Expect them to change careers, jobs and homes



The Trend Setters: 65–75 years of age

- ▶ **Where will they move:**
 - To new jobs in new cities
 - Back to where they grew up
 - To central cities and suburban town centers
 - To where housing is cheap
 - To be near family and ***grandkids***
 - ***Will they move to the sunbelt?***

World's cutest granddaughter!

Nolen McIlwain



The Traditionals – 80+ Years Old

- ▶ 11.4 million today
- ▶ This group will add between 2.4 and 5 million more
 - 20 – 40% in the next decade
 - Depends on how the median age rises



The Traditionals – 80+ Years Old

- ▶ They will live longer than any older group in history
- ▶ Many will outlive their retirement funds
- ▶ Challenges:
 - How to build the retirement housing they can afford
 - NORCs – How will the suburbs handle those who age in place?
 - Moving to nursing homes later



The Transitionals – 66–80 years of age

- ▶ 28.1 million today
- ▶ Aging Trend Setters grow this group to 47 million by 2020
 - A 14.4 million (51%) increase
 - And 3 to 5 times the growth of Traditionals!
 - The fastest growing age group in the U.S.

Transitionals – the Canaries in the Cage!

▶ **WATCH THIS GROUP FOR NEW TRENDS**

- Many are following the Traditionals
- But Increasing numbers are exploring new ways of aging
 - Some calling this Adulthood II – a major cultural shift!

Transitionals – Where will they live?

- ▶ Don't expect them to move into nursing homes
- ▶ Life care communities and assisted living facilities may be popular IF:
 - Stylish
 - Urban
 - For people actively engagement in the world
 - Have state of the art technology
 - Are tied into health care and continuing care

The New Wild Card – Generation Y



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



Gen Y: the Future of the New Economy

- ▶ They drive innovation in business and technology
- ▶ They create the value added jobs
- ▶ Getting the creatives is the key to a sustainable economy in the decade ahead.
 - How do you do this?

**This is the new
workforce housing
challenge**



Generation Y

▶ Women moving up

- For the first time on record, the share of single women 25–34 in the past decade has surged to 46.3% from 34.5%
- A fast growing household type – single women
- 60% of masters degrees to women



Their Challenges

- ▶ Incomes down last decade
 - Men's down 23%,
 - Women's down 3%
- ▶ 25% to 30% are unemployed
- ▶ Carrying large school debts



Financially constrained

- ▶ ULI's survey of Gen Y showed 90% plan to own a home sometime.
- ▶ But can they?
 - Incomes are flat
 - Large college and credit card debt
 - Mortgages getting hard to get and more expensive
- ▶ Will they want to?
 - See others trapped by “underwater” homes
- ▶ Should they?
 - No, unless they are settled and know where they will live for 7–10 years.

Where will they live?

- ▶ They are bright and aspirational
- ▶ The best educated generation
 - ▶ The share of the population holding a bachelor's degree or higher has risen to a historic high of 28%
 - ▶ The four cities with the most college grads moving in during the last decade:
 - ▶ New York
 - ▶ Boston
 - ▶ San Francisco
 - ▶ DC



*Finally, some of the
many 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?**
- ▶ **Where will the home ownership rate go?**
- ▶ **Where will multifamily financing come from?**

More Questions Shaping the Future

- ▶ How will suburbs handle Traditional Seniors if they age in place?
- ▶ How/where will Trend-Setter Seniors live?
- ▶ When will Gen Y form households?
 - Will they rent or buy?
- ▶ Where will the most educated move to?
 - What cities will win in the New Economy?

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