Today’s Key Housing Issues

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PCRG Community Development Summit
Pittsburgh, PA
May 25, 2011
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
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
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.

Ownership soared during the postwar boom along with the growth of suburbs.

Foreclosures during the Depression erased the previous decade’s gains.

Easy credit set the stage for the century’s first real estate boom.

A record 69.2% of families owned their homes before the credit bubble burst.

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
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
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
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
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.
Many are following the Traditionals

But increasing numbers are exploring new ways of aging

• Some calling this Adulthood II – a major cultural shift!
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
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
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
Incomes down last decade
- Men’s down 23%,
- Women’s down 3%
- 25% to 30% are unemployed
- Carrying large school debts
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.
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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