

# Future Housing Demand:

## PROBLEM OR OPPORTUNITY

by Beth Humstone

### DEMOGRAPHIC TRENDS

Two national trends are clear: (1) decreasing household size, and (2) an aging population. Once planners focused their housing plans on providing for couples with children. Now these households are a minority.

As Arthur C. Nelson, Director of the Metropolitan Research Center at the University of Utah, recently noted: “Between 1950 and 2000, average household size decreased from 3.38 to 2.59 [and] will continue to fall to about 2.46 persons by 2030 ... Single-person households will rival households with children and will be the fastest-growing market segment.”<sup>1</sup> Moreover, as Nelson explains, “Baby boomers will turn 65 between 2011 and 2029.”

“IT IS ESSENTIAL THAT PLANNERS UNDERSTAND THE MARKET FOR HOUSING IN THEIR COMMUNITY.”

Large homes in outlying locations may no longer be affordable or practical for retired people. According to a report published by the Urban Land Institute, “Some baby boomers will choose to downsize to an apartment or condominium after their children leave the ‘nest’... Multifamily housing allows seniors to remain in their neighborhoods through the different stages of their lives without the hassle of maintaining single-family housing.”<sup>2</sup>

### ECONOMIC CONDITIONS

In recent years the downturn in the economy has had the most far-reaching

impact on the demand for housing. After a major expansion in the supply and demand for owner-occupied housing, bankruptcies and mortgage foreclosures have left lot after lot of empty houses in suburban tracts. In some parts of the country, empty new residential towers can be found downtown and in the suburbs. In hard hit cities with high unemployment, whole neighborhoods have been abandoned, leaving existing housing stock falling into disrepair. Moreover, new rental projects have stalled as access to financing has tightened up.

Today’s economic conditions hold several implications for future housing demand. For one, in many places new construction will be put on hold while demand absorbs the existing supply.

Much of the oversupply of housing lies in large lots in fringe locations. According to the American Institute of Architects, “These were the locations where large enough parcels of land could be assembled to generate the volume of construction required during the housing boom earlier this decade. However, when the housing market weakened, large inventories of unsold homes remained on the market in these locations.”<sup>3</sup> These sites may be the last to fill up as builders and developers look elsewhere to meet demand.

In addition, with home ownership out of reach for a growing number of people, the demand for rental apartments should increase – especially once employment improves enough so that people can move out of housing where they have doubled up with parents or friends during tough times.

<sup>1</sup> Arthur C. Nelson, “Demographic Outlook,” *Urban Land* (Sept. 2009).

<sup>2</sup> Richard M. Haughey, *The Case for Multifamily Housing, Second Edition* (Urban Land Institute, 2003).

<sup>3</sup> AIA Home Design Trends Survey (December 4, 2009).

How many times has your commission heard, “But there’s no market for that development,” “People want a big home on one acre,” or “It’s more affordable to buy a house out in the country?” In the past it was commonly accepted that suburban or fringe housing on large lots was where most of the housing market was focused. But the recent housing foreclosure crisis, coupled with high unemployment and rising energy costs, has challenged old assumptions and dramatically altered the picture.

Now planners in communities across the country are increasingly hearing demands for: more housing close to transit; walkable neighborhoods; and affordable, low-maintenance, energy-efficient homes. In this chaotic time, how do citizen and professional planners determine what people really want or need, and what to plan for?

It is essential that planners understand the market for housing in their community: what types (and price ranges) are needed, and in what locations. Planners must also consider economic trends and other factors that could impact future demand.

Today’s demographic and economic conditions, along with consumer preferences, are converging to create a major shift in housing demand.

Economic forecasts suggest that there will not be much action on homebuilding for about two years. Many communities currently have excess housing stock that very likely will be filled before much new construction begins. So there is time to examine residential markets and how they are changing to avoid housing shortages, meet community needs, and revitalize neighborhoods adversely affected by current economic conditions.

## CONSUMER PREFERENCES

Along with demographic shifts and economic conditions, consumer preferences for housing are changing. According to John Caulfield, writing in *Builder* magazine: “The downturn has given builders time to ponder whether the homes they build match the demographic and financial profiles of current and future customers. Some have adjusted their house plans and construction practices to produce smaller, greener, and less-expensive houses. Builders everywhere are rolling out smaller models to meet customers’ demands for efficiency and affordability.”<sup>5</sup>

The American Institute of Architects’ (AIA) national survey of residential architects found that consumers want lower maintenance, durability, and sustainability. As AIA’s Chief Economist Kermit Baker notes in summarizing the survey results: “Rising home energy costs ... have helped to generate interest in smaller, more energy efficient homes in locations that were accessible to transportation, commercial activities, and jobs. Infill development, with smaller parcels in more developed areas, has become very attractive.”<sup>6</sup>

A poll by the National Association of Realtors and Smart Growth America taken in 2007 found: “Eight in 10 respondents prefer redeveloping older urban and suburban areas rather than build new housing and commercial development on the edge of existing suburbs. More than half of those surveyed believe that businesses and homes should be built closer together to shorten commutes, limit traffic congestion and allow residents to walk to stores and shops instead of using their cars.”<sup>7</sup>

The demand for energy efficient housing is expected to increase not only due to federal tax incentives, but also to improve affordability and to do the “right thing” on climate change.

5 John Caulfield, “Jump Start: Ten ways to get ahead of the market’s recovery and put yourself in the competitive lead,” *Builder* (December 2009).

6 AIA Home Design Trends Survey.

7 Available at: [www.smartgrowthamerica.org/nars\\_gareport2007.html](http://www.smartgrowthamerica.org/nars_gareport2007.html).

## WHAT DOES THIS MEAN FOR PLANNERS?

Given these trends, planners should consider the following steps:

1. *Focus on infill development.* Infill development can address trends for smaller lots and homes in already built up areas, access to services and public transportation, and walkability.

2. *Enable retrofitting.* Retrofitting of existing buildings, including conversion of empty single-family homes or vacant commercial buildings to apartments, can help to meet the demand for rental housing that is likely to dramatically increase as a result of the mortgage crisis. This may require reexamining your building code to make sure it doesn’t pose major impediments.

3. *Plan for transit-oriented development.* To meet the demands of households for access to public transportation, shorter commutes, proximity to services, and rental housing, transit-oriented development with higher densities and mixed uses should be planned at major transit hubs.

4. *Review opportunities for urbanization of suburb.* Many suburban areas already have access to transit and offer jobs and services. However, housing is often not mixed in with these amenities. To meet the shift in demand for smaller units, access to services, walkability, and greater affordability, planners should consider how to create more urban living in suburban environments.

5. *Raise densities.* To improve affordability and offer more housing types, communities should review their existing densities and look for opportunities to raising them where appropriate. See Beth Humstone, “Getting the Density You Want,” *PCJ* #74 (Spring 2009).

6. *Allow diverse housing types.* Aging baby boomers, twenty-somethings moving out of their parents’ houses, and former homeowners will all contribute to the demand to diversify the type of housing offered in a community. Multifamily housing can take the form of duplexes, accessory units, townhouses, and apartment structures offering both rental and ownership opportunities.

7. *Promote affordability.* Lower-priced housing can be created through inclusionary zoning provisions and increased densities. Support for developments with nonprofit housing developers, local housing authorities, and community land trusts will help build in long-term affordability to housing projects.

8. *Reconsider older, abandoned neighborhoods.* One of the most difficult issues facing a planning commissioner is what to do about neighborhoods experiencing abandonment and decay. Some are examining demolition in order to “shrink” the size of neighborhoods. Others are looking at the potential to rehabilitate housing for home ownership or rentals where neighborhoods are fully served by infrastructure and are near to jobs, transit, and services. Still others are land banking – buying and holding land with or without homes on it until such time as the market improves or new programs for revitalization can be put in place.

9. *Rethink plans for fringe areas.* As fringe housing locations become less desirable, planners must address how they will plan for these areas. There will always be some demand for low-density single-family housing in most communities. However, that demand will weaken. Planners should focus more on the natural resource values, recreation potential, and open space priorities in fringe areas.

## SUMMING UP

During this economic downturn, planners should take the time to rethink the housing plans for their communities. They need to challenge old assumptions about the market and develop strategies that address changing conditions in their communities and regions. ♦

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## Planning for Housing

by Wendy Grey, AICP

Historically, the purchase of a house has been the single largest investment most families make.

People select a new house based on criteria such as affordability, whether it is in a good school district, and whether they feel comfortable with the neighbors and neighborhood. In recent years another factor was also added to the mix: the

1 William Frey, et al., *Getting Current: Recent Demographic Trends in Metropolitan Areas* (The Brookings Institution Metropolitan Policy Program, 2009), p.6

2 See, e.g., V. Gail Easley, FAICP, and David A. Therique, "Practice Nonconformities," *Zoning Practice* No. 11 (November 2009), and Dwight H. Merriam, FAICP, "Practice Redevelopment," *Zoning Practice* No. 12 (December 2009).

assumption that, almost regardless of the choice they made, the house purchased would increase in value. With the end of the housing bubble, this is no longer the case.

It is important to remember that there are also broad demographic patterns that influence the demand for housing, the most significant being migration, immigration, and age.

**Migration.** We have historically been a mobile society. We move to pursue better opportunities. The huge migration to the Sunbelt over the past 25 years is a recent example of this pattern.

**Immigration.** Much of our population growth is coming from immigration. Between 2000 and 2007, the immigrant population grew by 22 percent, to 38 million.<sup>1</sup> While in the past the majority of immigrants lived

in central cities, many immigrants now reside in suburbs and rural areas.

**Age.** The most significant age group in terms of numbers is the Baby Boomer generation – born between 1946 and 1964. Having been the driving force behind the expansion of suburban living, Boomers were expected to sell their homes and relocate to popular retirement areas.

Gen Xers, born between 1965 and 1980, are now the prime market for family oriented homes. However, Gen Xers have had to deal with a higher cost of living over the past decade, and have often found themselves priced out of the housing market as they've tried to move up the property ladder – especially as more Boomers have stayed put.

The crash in the housing

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market and the recession have affected the anticipated trends in migration and immigration and people's housing options in the short term. With unemployment and foreclosures up and mortgage lending restricted, people are not relocating, and the buying and selling of houses is down. Immigration has also slowed.

One key role for planners and planning commissioners is to consider strategies that will help recreate viable neighborhoods for current and future

## PERSPECTIVES ON HOUSING

### Housing: "One-Size-Fits-All" No Longer Works

by Edward T. McMahon

Back in July, *Builder Magazine* published an article titled "Brave New World: After the Bust, Builders Might Be Surprised at What Future Shoppers Will Want," by John Caufield, Jenny Sullivan, and Nigel Maynard.

To gather data for this piece, the magazine commissioned American Lives, a California-based market research firm run by pollster Brooke Warrick, to conduct a nationwide study of prospective homebuyers' attitudes toward the economy, home styles, product preferences, energy efficiency, and green features. It also examined changing attitudes in regard to

the role of the home and the impact of demographic changes on buyer preferences.

The results are surprising and they suggest that the types of new homes that were most prevalent before the recession will not satisfy the needs of tomorrow's buyers. One reason for shifting buyer preferences is the fact that there are so many different buyer profiles. Tomorrow's market is made for the foreseeable future.

So what do buyers want? Given that housing prices are down 30 percent from their peak – and even more in some markets – big, flashy houses are no longer priorities. Buyers are less likely to think of housing primarily as an investment and more likely to think about how the house will fit their lifestyle.

What is more, for many buyers the character of the neigh-

borhood is more important than the size of the house. In fact, more than 50 percent of respondents in the survey said they were willing to accept a smaller house "in the neighborhood I want."

This does not mean product is irrelevant, but it does mean that for many buyers the location of the home – the place – is now more important than the house itself – the product. ...

According to *Builder*, one subset of buyers that homebuilders should learn more about is women. Women have always played a big role in homebuying decisions, but demographic data show that by 2010 households headed by a woman will number well over 30 million. Shyman Kannan, vice president and director of research at Robert Charles Lesser & Co. (RCLCO), says that

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their surveys have found that "female respondents have a strong preference for the city and are much more likely to choose what we call 'safe urbanism.'" According to Kannan, RCLCO surveys have found that while "safety is very important" to female buyers, they also "want to be able to walk to shopping and dining."

Besides safety, another feature of interest to most buyer segments including women buyers, baby boomers, and young

residents. This will involve reconsidering land use patterns, particularly in suburban areas, where the recovery in the housing market is expected to lag. Having looked at the most distressed areas in your community, consider what changes in land use may encourage revitalization.

1. *Find areas that can be rezoned to a higher density.* This can help reduce construction and energy costs for future development. If your code requires a minimum house size, perhaps that requirement can be eliminated or modified to provide more flexibility. Higher density can also help promote the use of transit.

2. *Allow granny flats or accessory units.* These units can support extended families or create a rentable space for homeowners.

3. *Make sure home occupations are allowed and appropriately regulated.* While it is important to protect neighborhoods from the potentially intrusive impacts of businesses operated from a home, there are ways to adequately protect neighbors while allowing for home based businesses.

4. *See that community plans encourage the provision of services to support the neighborhood.* If it is desirable to encourage older residents to retire and stay in place, evaluate whether your codes allow uses that will support that population. Are there plans to provide the necessary services and infrastructure (e.g., is there adequate street lighting and signage)? Do you allow for nursing homes and assisted living facilities? Does your transportation plan address the mobility needs of seniors?

Conversely, if younger families are likely to repopulate the area, are facilities available to meet their needs? Are there sufficient recreational areas and locations for day care centers?

5. *Identify land that can be acquired or traded that will create greenways and usable open space.* In many subdivisions, the only open spaces are “left over” pieces of land. The strategic acquisition of some lots can create connected open space that forms a greenway or neighborhood park to enhance the neighborhood’s quality of life.

6. *Eliminate barriers to redevelopment.* Consider adopting tools that will allow for reinvestment in existing properties. This might include more relaxed approaches to non-conforming uses or techniques to allow the redevelopment of properties that are constrained by current

zoning standards.<sup>2</sup>

While we don’t know exactly how and when the current economic crisis will end, we do know that those communities that have planned for the future will be in the best position to recover and provide their residents with the choices they want. ♦



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couples is energy efficiency. According to the *Builder/American Lives* study, any where from 80 to 95 percent of respondents now see energy-saving HVAC systems, windows, lighting, and water fixtures as “very important” or “essential” to their homes.

This makes one thing certain: the market for green energy-efficient homes is going to grow. What is more, a majority of those polled said they would be willing to pay between \$2,000 and \$5,000 more to include an energy-saving feature in their home, so long as they could recoup their investment in a few years.

The current recession is a time to rethink growth and to redesign housing to meet the diverse needs of America’s growing population. In the future, there is likely to be a greater

variety of housing types designed for different buyer segments. Smaller, greener options are likely to grow in popularity as are infill housing options.

Even in the suburbs, walkability and a greater variety of housing products will likely become the norm. One thing all the surveys make clear: the old one-size-fits-all model no longer works. ♦



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