A Weekly Discussion Topic For Today's Real Estate Leaders

Leadership Conversation

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The U.S. Housing Crisis Is Real

The U.S. homeownership rate is under 64%, up slightly but still near the 40-year low of 63.4% posted in the 2Q of 2015. **Homeownership is around the same level as in the 1Q of 1986**. The number of starter homes for first-time buyers has declined by nearly 44% since 2012. “Flippers” now account for around 15% - 18% of existing home sales, and cash-only sales are now around 23% [January 2017] of transactions. The number of “trade-up” homes, according to Trulia, is down around 40% over the same period. For-sale home foot traffic is down to average levels. Millennials are the largest group of home buyers but lack the financial resources to purchase the “home of their choice” in the “location of their choice.” Existing home sales are around 5.4 million, with a median existing home price of approximately $245,000. Around 1.9 million existing homes are for sale. However, the jobs many Millennials want are in markets with unaffordable home prices. In 2016, the ratio of home prices to median income was around 4.0 - 4.2 times household income. The following table highlights the percent of households that can afford to buy a median-priced home in 2018.

Affordability Drives Rental Demand

Market	% Households Can Afford A Median-Priced Home In 2018
Atlanta, GA	67.4%
Charlotte, NC	61.7%
Houston, TX	59.5%
Raleigh, NC	57.7%
Dallas, TX	55.9%
Washington, D.C./No. Virginia	55.7%
Austin, TX	54.2%
Phoenix, AZ	54.0%
Salt Lake City, UT	52.2%
Nashville, TN	49.0%
Denver, CO	42.4%
Seattle, WA	36.1%
Los Angeles, CA	25.2%
San Diego, CA	24.1%
San Jose, CA	20.4%
Orange County, CA	19.1%
San Francisco	18.7%

Source: Rosen Consulting Group (RCG).

The main issue is a lack of an affordable supply of homes. Home prices and rents are outpacing wages. Millennials want a home, but are likely to rent, preferring a location with flexibility to relocate. Millennials (42%) also have student loan debt and say it is a problem. The most likely home sellers in the future will be Baby Boomers, who no longer need their large home (empty nesters), and want to relocate to a more walkable community. Watch for the Baby Boomers to seek condos or rentals in mixed-use urban areas; areas adjacent to colleges, universities, transit centers, entertainment and culture venues, hospitals/healthcare facilities, as well as “easy-to-get-to” restaurants, coffee shops, and grocery facilities.

Many Boomers will rent their homes to Millennials and become urban renters in their retirement years. Homeownership, while desired by Millennials, may become a distant dream as jobs continue to move to dynamic urban markets. Sixteen percent (16%) of Millennials say they will never purchase a home. With an increasing likelihood that mortgage rates will rise over the next decade, plus a likely muddle-through economy with occasional economic setbacks, the housing crisis will remain for the next decade or longer.

Key Questions To Discuss With Your Leadership Team

1. If demand for apartments and rental housing is likely to increase over the next decade, is it time to revisit rental housing, mixed-use projects with rental housing and urban/urban-suburban apartment opportunities as part of your company’s strategy?
2. Since Millennials appear to want to live in creative class/knowledge cities with a growing, entrepreneurial job market, is your firm active in those cities?
3. How will housing affordability impact your ability to recruit and retain talent in a marketplace increasingly emphasizing a work-life balance?
4. How active is or should your company be in assisting your community to implement affordable housing programs that “work for the real estate industry?”

Prediction

“By 2025, owner-occupied homeownership in the U.S. will be approximately 58% - 60%. By 2030, that percentage could decline to 53% - 55%. Do not be surprised to see a push to implement national rent control to make affordability viable in higher-priced housing markets.”

Closing Comments

We hope you enjoyed this article and will be able to utilize the “Key Questions” at a future leadership meeting within your firm.

We welcome your comments, feedback, insights and perspectives

Regards,

Christopher Lee

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