

Housing Choice: An Accelerator of Regional Economic Competitiveness

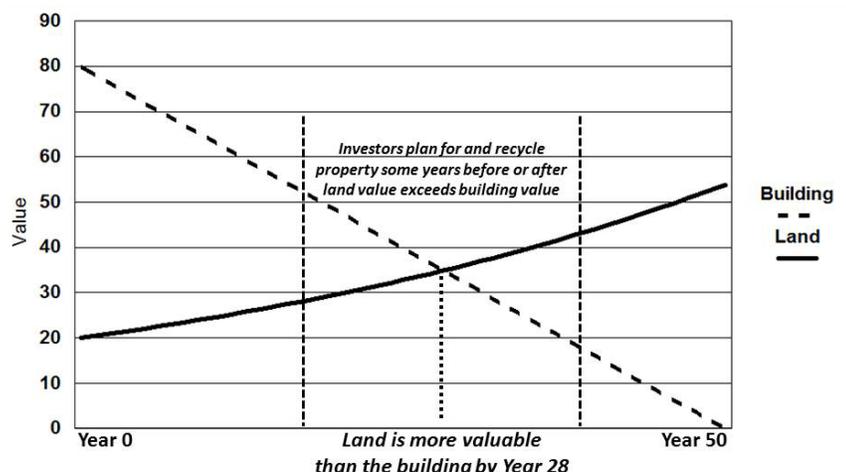
On June 6th, 2013, the Metropolitan Council and Urban Land Institute of Minnesota (ULI MN) sponsored a summit titled *Housing Choice: An Accelerator of Regional Economic Competitiveness*. The summit focused on the importance of supporting a full range of housing choices and its impact on the economic competitiveness of the region. Metropolitan Council Chair Sue Haigh welcomed over 140 attendees and explained, "Affordable housing is critical for the health and safety of the region. We need to have to a regional vision that will help to guide the Metropolitan Council as we prepare the Regional Housing Policy Plan this year." Mayor of Eagan Mike Maguire and co-chair of ULI MN's Regional Council of Mayors (RCM) Housing Initiative commented, "RCM cities need to be prepared for the changing demographics that will reshape our communities. It is critically important to our economic competitiveness and the ability to attract and retain the workforce of the future."

The Shrinking, Growing Market. Keynote speaker Dr. Arthur C. (Chris) Nelson, Director of the Metropolitan Research Center for the University of Utah, began his presentation by explaining how the United States is morphing into a system of regional economic systems he calls "Megapolitan" areas. These 23 areas have over 200 million residents. He then laid out the new American housing market realities: the sub-prime mortgage products are history, and lending in the "new normal" requires a 20 percent down payment. The price of gas, projected to rise to \$8 by 2020, will add to the difficulty of affording a home.

As a result, the American home will now be smaller, with more residents, and more renters. He pointed out that renter's share of growth within the housing market is 48 percent, and claims the number of owner-occupied homes will continue to fall, become rentals or split into half owner, half renter units. He also predicts people will live closer to urban areas and job centers to combat rising energy costs.

Baby Boom Housing and the Next Generation. In the next 20 years, the population of Minnesota is expected to grow by 21 percent. Much of this growth will consist of the ALANA population (African-American, Latin American, Native American and Asian), with population rising by 55 percent, and the Baby Boomers, who will also rise by 55 percent. Nelson says this older population will provide the greatest change in the housing market, as 80 percent of the Baby Boomers are expected to sell their homes in the next 20 years. He predicts this population will look more towards smaller units and rental properties to serve their housing needs.

Old Properties, New Housing. In order to meet a growing rental demand, Nelson suggests reuse of current commercial lots. He says over the life of a piece of commercial property, the worth of the structure drops at an inverted rate to the worth of the land it sits upon. Developers will look to repurpose their investment, and with a growing housing demand, convert the property to housing.



He ended his presentation with a picture of a large, empty parking lot next to a strip mall. He explained the homeowners living behind the lot would prefer the area to be developed as housing, and the four-lane highway in front would be more suitable for increased transit. He then pointed out that all new development in America could be built on existing parking lots and we would still have less population density than suburban Europe.

Age and Race Will Shape Tomorrow's Real Estate Market. Keynote speaker Melina Duggal, senior principal at Robert Charles Lesser and Company (RCLCO), began her presentation by outlining the most desirable locations for future development: near jobs, retail and entertainment, transit-rich and walkable. She then examined different demographic groups and their housing desires:

- **Generation Y.** 30% of people in their 20s move every year. Generation Y is more likely to prefer city living, to trade off space for location, looks for design over size, and wants affordable dwellings with communal spaces.
- **Generation X.** Generation X is more likely to choose suburbs, as they look for kid friendly neighborhoods with good schools, walkability and larger homes. They expect neighborhoods to have certain amenities, and they provide builders with opportunities to create new, attractive products.
- **Baby Boomers.** Retirement-minded adults tend to prefer small town areas. They want to stay within budget, and to downsize from larger homes. They seek recreation opportunities and enriching experiences, and find the lifestyle of the neighborhood to be more important than the home itself. Boomers want “urban-lite” locations: environments similar to cities without being in the city.
- **ALANA.** 40% of families of color plan to purchase a home in the near future. They prefer mixed-use areas, want quality schools, find cultural diversity important, and may need larger homes to accommodate larger multi-generational families.

The Rental Market. Duggal says the new rental market is changing to meet the demands of changing demographics, providing a different product, broader marketing, and clever programming.

- **Condominiums.** Many baby boomers lean towards condos to fit an active lifestyle with less maintenance, and the rental market could fill this need. Condos serve a greater desire for an “urban” lifestyle, and make more economic sense for the aging customer. This market may double in the future, as baby boomers become more open to renting.
- **Single Family Rentals.** 30% of current rentals are single-family homes. As ambivalence about home ownership grows, this market segment could increase in the near future. Duggal suggests developers capture this segment by building more single-family homes with the rental market in mind.

- **Young Urban Rentals.** Generation Y is looking for smaller units, and is willing to trade off features for location. New styles of apartments are equipped with features young renters want, such as high end fitness, Wi-Fi and communal spaces.
- **Suburban Mixed-Use.** There is currently more demand than supply for this type of housing, which combines walkability with proximity to work and town centers. Mixed-use areas rise in value over time, though in their initial stages leave a gap between cost and profit, with retail initially serving as a loss leader. Duggal predicts a mixed-use community will be an amenity people will seek and pay for.

Duggal said builders and planners must create and zone for the places people want. While housing doesn't have a "One Size Fits All" solution, the current strongest interest is in mixed-use areas. She warned the industry must move away from being reactive, and focus on customer evolutions, as new housing will involve many niche markets.

The Panel Discussion: The Summit ended with a panel discussion between Minnesota Housing Finance Agency Commissioner Mary Tingerthal, Beth Pfeifer of the Cornerstone Group, Bill McKinney of Thrivent Financial, Dr. Bruce Corrie Professor at Concordia University and the two keynote speakers. It was moderated by Project For Pride In Living President Steve Cramer. The discussion focused on three topics: proper use of developed spaces, the emerging ALANA market, and mixing affordable housing within new development.

Proper Use of Developed Spaces. The first topic discussed was how to convince development owners to confront re-use of obsolete property.

- Commissioner Tingerthal noted "there's no encouragement in housing packages to throw away things that don't work," such as retail without neighborhoods financially suitable to support it.
- Pfeifer addressed this by explaining that developers are getting pressure to weigh density of their projects against the allure of open spaces, and they now are required to include Privately Owned Public Spaces (P.O.P.S.) in the areas they build. She mentioned they must find money for these spaces through grants and other funding sources.

The Emerging ALANA Market. The panel addressed how housing can best serve a growing immigrant population.

- McKinney said the first step is for businesses to think globally when hiring, that "a diverse workforce should reflect a diverse population."
- Dr. Corrie agreed, saying cities should encourage an influx of ALANA populations, that these groups, with their strong purchasing power and global reach, "must have a place at the table in creating solutions for cities."

Affordable Housing in New Development. The panel discussed the challenges of mixing lower-income housing with higher-end development projects.

- Duggal stated that most smaller housing developments still do not reach into the low-income market, but cited a change in that trend, pointing out that in Montgomery County, MD, all new developments must include 10-15% affordable units.
- Pfeifer explained that many of the grants The Cornerstone Group receives stipulate 20% of new housing units as affordable, but companies find it still very financially difficult to comply with. Builders and Cities have high design standards for new developments, making the gap in price between market and lower-income housing units even hard to finance.

To remain economically competitive and prepare for a more global economy, the Greater MSP Area will need to plan and build to accommodate the changing demographics. The summit provided key information that will inform the work of the Metropolitan Council as they prepare for the Regional Housing Policy Plan. In addition, ULI MN and the Regional Council of Mayors will work to educate and inform public and private sector leaders on the changing housing preferences to support the growing demographics of the younger generation, Baby Boomers and emerging households of color and immigrant populations.