Future of Housing Trends and the Housing Market – Demographic Waves in the Region and Future of Housing

Illinois Finance Forum
January 25, 2019
OUR STATE’S POPULATION

2000-2017

Percent change in population by county:
- Increase
- Decrease
- Stable

* Less than 5% change over given period

Source: U.S. Census; Esri; SB Friedman
## Our State’s Population Growth Focused in Few Metros

### 2000-2017

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CHAMPAIGN-URBANA</td>
<td>210,623</td>
<td>239,124</td>
<td>28,501</td>
</tr>
<tr>
<td>BLOOMINGTON</td>
<td>167,644</td>
<td>188,232</td>
<td>20,588</td>
</tr>
<tr>
<td>KANKAKEE</td>
<td>103,842</td>
<td>109,605</td>
<td>5,763</td>
</tr>
<tr>
<td>ROCKFORD</td>
<td>321,033</td>
<td>338,291</td>
<td>17,258</td>
</tr>
<tr>
<td>CHICAGO</td>
<td>8,286,664</td>
<td>8,662,898</td>
<td>376,234</td>
</tr>
<tr>
<td>CARBONDALE-MARION</td>
<td>120,912</td>
<td>125,612</td>
<td>4,700</td>
</tr>
<tr>
<td>SPRINGFIELD</td>
<td>201,628</td>
<td>208,697</td>
<td>7,069</td>
</tr>
<tr>
<td>ST. LOUIS</td>
<td>672,354</td>
<td>688,786</td>
<td>16,432</td>
</tr>
<tr>
<td>PEORIA</td>
<td>366,659</td>
<td>372,427</td>
<td>5,768</td>
</tr>
<tr>
<td>QUAD CITIES</td>
<td>217,149</td>
<td>209,754</td>
<td>-7,395</td>
</tr>
<tr>
<td>DANVILLE</td>
<td>83,821</td>
<td>77,909</td>
<td>-5,912</td>
</tr>
<tr>
<td>DECATUR</td>
<td>114,499</td>
<td>105,801</td>
<td>-8,698</td>
</tr>
<tr>
<td>CAPE GIRARDEAU</td>
<td>9,684</td>
<td>6,315</td>
<td>-3,369</td>
</tr>
</tbody>
</table>

Percent change in population by county:
- **Increase**
- **Decrease**
- **Stable**

*Less than 5% change over given period.*

Source: U.S. Census; Esri; SB Friedman
OUR REGION GREW PRIMARILY IN COLLAR COUNTIES

- **2000** 8.16 M
- **2004** 8.53 M
- **2017** 8.51 M

Source: U.S. Census; CMAP; Esri; SB Friedman
DISTRIBUTION OF GROWTH

2000-2010
- Growth occurred at the periphery and the core of the region
- Driven by single family development

2010-2017*
- Growth occurred at the core of the region, including neighborhoods within the City
- Driven by multifamily development

Change in proportion of regional population by census tract
- Increase
- Decrease
- Stable**

** Less than 10% change over given period

Source: U.S. Census; CMAP; Esri; SB Friedman

* 2013-2017 ACS 5-Year Estimates
RESIDENTIAL BUILDING PERMITS IN CHICAGO REGION

Source: U.S. Census
NET NEW HOUSING PRODUCT DEVELOPED SINCE 2000

Net New Housing Units: 2000-2017

PERIOD:

2000-2010
160,000

1-Unit Detached

29,000
2-19 Unit

61,000
1-Unit Attached

-7,000
20-49 Unit

42,000
50+ Unit

2010-2017
44,000

-13,000
2-19 Unit

-13,000
1-Unit Attached

-1,400
20-49 Unit

19,000
50+ Unit

Source: U.S. Census; SB Friedman
Home price recovery and shortening market time signals strengthening for-sale market

### Resales of Existing Homes in Chicago Region

#### Annual Median Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$254K</td>
</tr>
<tr>
<td>2012</td>
<td>$160K</td>
</tr>
<tr>
<td>2017</td>
<td>$235K</td>
</tr>
</tbody>
</table>

#### Average Time on the Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>100</td>
</tr>
<tr>
<td>2017</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: Illinois Realtors
HOME PRICES IN CHICAGO REGION
Case-Schiller Index of Repeat Sales mimics resale trends

S&P/Case-Shiller IL-Chicago Home Price Index, Index Jan 2000=100, Monthly, Seasonally Adjusted
REGIONAL APARTMENT DELIVERIES
Post-recession apartment construction heaviest within the City of Chicago and near transit

APARTMENT UNITS DELIVERED SINCE 2010:

72% within the City of Chicago
76% within a half mile of CTA or Metra stations

1,976 pre-2010 average
4,699 post-recession average

Source: Costar
Slowing rent growth and increasing vacancies reflect a softening of a booming rental market.

**NEW CONSTRUCTION APARTMENT RENTS AND VACANCIES**

CAGR:
- Monthly Apartment Rent/SF of Units Built Since 2000: 6.3%
- Apartment Vacancy of Units Built Since 2000: 1.6%

Source: Costar
DEMOGRAPHIC WAVES BY AGE OF HOUSEHOLDER (CHICAGO REGION)

PROJECTED CHANGE IN NUMBER OF HOUSEHOLDERS

AGE
- <35
- 35-54
- 55-74
- 75+

Source: Woods and Poole, US Census and SB Friedman
DEMOGRAPHIC WAVES & HOUSING CHOICE

PROJECTED CHANGE IN NUMBER OF HOUSEHOLDERS

HOUSING PREFERENCE (2017)

<table>
<thead>
<tr>
<th>AGE</th>
<th>Single-Family Detached</th>
<th>Single-Family Attached</th>
<th>Multifamily</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-54</td>
<td>57%</td>
<td>8%</td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td>55-74</td>
<td>61%</td>
<td>8%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>&lt;35</td>
<td>26%</td>
<td>7%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>75+</td>
<td>52%</td>
<td>8%</td>
<td>39%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Woods and Poole, US Census and SB Friedman

13
HOMEOWNERSHIP RATE AND ITS IMPACT ON HOUSING DEMAND

Driven by:
- Mortgage rates
- Lending criteria/mortgage availability
- Economic growth
- Demographic shifts and preferences by generation/lifestyle

Will homeownership rate tick upward or stabilize?

A 1% increase in homeownership with modest household growth means an additional 35,000 owner-occupied households

Source: US Census and SB Friedman
For overall rates to rise, 2017 homeownership rates by age need to increase.

Greatest potential for increase in overall homeownership rate is to have Millennials buy homes as they squarely enter family age group in the next five years.

Source: US Census and SB Friedman
Nationally, Millennial homeownership rate has been lower than that of prior generations at same age group (25-34).

Source: US Census and SB Friedman
WILL MILLENNIAL’S START OWNING IN GREATER NUMBERS?

**Millennial Debt**

Do you currently have any of these types of loans or debts?

- Credit card: 46%
- Student loan: 36%
- Car loan: 34%
- Medical bill: 23%
- Mortgage: 20%
- Other: 11%
- No debt: 23%

Data: NBC News/GGenForward at the University of Chicago Survey; 2/23-3/10/2018

**Has debt ever caused you to delay any of these life events?**

- Buying a house: 34%
- Saving for retirement: 31%
- Buying a car: 29%
- Having children: 16%
- Getting married: 14%

Debt hasn’t delayed life events: 44%

Data: NBC News/GGenForward at the University of Chicago Survey; 2/23-3/10/2018

**Millennial Life Stage in Transition**

In the U.S., 17 million Millennial moms

Total cumulative number of U.S. first births among women born 1981-1996

17.3 million

Note: Based upon births to U.S. residents. This does not include adoptive mothers or step mothers.

Source: Pew Research Center analysis of National Center for Health Statistics data.

PEW RESEARCH CENTER
IMPLICATIONS FOR FUTURE HOUSING DEMAND

Increasing single-family and townhouse home demand
- Sized and priced to be starter homes for Millennial’s
- Vary product to be attractive to other generations

Increasing senior housing demand
- The majority of seniors will likely choose to age in place
- But many will want to downsize into maintenance free living of various products: condominium, apartments, townhomes, single family
- New paradigms for housing: age restricted vs. for all ages

Apartment boom likely to temper rather than crash
- Contingent on how homeownership rates and Millennial housing preferences evolve

A possible condominium comeback
- Market will likely be smaller than pre-recession high
- Contingent on construction lending criteria
- Recent development mostly in City but larger developments in suburbs are including condo as a possible future use
HOUSING DEMAND NOT JUST ABOUT PRODUCT, PLACE MATTERS

<table>
<thead>
<tr>
<th>Year</th>
<th>Houses with small yards and easy to walk to the places you need to go</th>
<th>Houses with large yards and you have to drive to the places where you need to go</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>49%</td>
<td>42%</td>
</tr>
<tr>
<td>2016</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>2017</td>
<td>53%</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: National Association of Realtors, National Community and Transportation Preferences Survey, 2017
Millennials and Silent/Greatest Generation prefer walkable community and short commute even if it means living in an apartment or townhouse.

<table>
<thead>
<tr>
<th>Generation</th>
<th>Own or rent an apartment or townhouse</th>
<th>Own or rent a detached, single-family house</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silent</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Boomer</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Gen X</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Millennial</td>
<td>62%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: National Association of Realtors, National Community and Transportation Preferences Survey, 2017
WHAT CITY PLANNERS AND MANAGERS CAN EXPECT AND DO

- Continued rental apartment development requests in the next 3-5 years – in downtowns, near train stations or highway accessible locations
- An increasing pace of for-sale housing (townhomes and single-family) development but lower than pre-recession highs
- An increasing importance of walkability makes downtown adjacent or transit adjacent locations more important
- Rethink conventional subdivisions to be responsive to demand:
  - Plan for and require corner stores, community centers and parks to be walkable and easily accessible from majority of homes
  - Allowing for diversity of housing product within a single subdivision to appeal to a wider buyer pool
Retail continues to be the fiscal winner from a municipal finance perspective.

On a per acre basis apartments and mixed-use typically outperform townhomes and lower density development.
Prioritizing infill areas with infrastructure capacity is fiscally prudent

- Greenfield development often requires extension of infrastructure and expansion of municipal service areas
- Need to consider the fiscal stress from associated long-term maintenance and capital costs
Smart Growth is Fiscally Smart

- **Smart growth**, characterized by compact, walkable places with a mix of uses, is more responsive to market demand and is also fiscally beneficial.

- Smart growth vs. conventional development
  - Requires less new infrastructure for the same amount of development
  - Generates 10 times more tax revenue per acre than conventional suburban development
  - Saves an average of 10% in ongoing municipal operations costs