

# Emerging Market Trends in the Rocky Mountain West

*The Economics of Land Use*



Berkeley  
Denver  
Los Angeles  
Sacramento

*presented to*

Sonoran Institute 2012  
Community Builders Summit



*presented by*

Clark Anderson

Sonoran Institute



Andrew Knudtsen

Economic & Planning Systems, Inc.

October 26, 2012

# July 11, 2012 – Wall Street Journal

CAPITAL | Updated July 11, 2012, 7:51 p.m. ET

## Housing Passes a Milestone

By DAVID WESSEL



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### The End of the Bust

Home prices are inching up...

...and more homes are being sold.

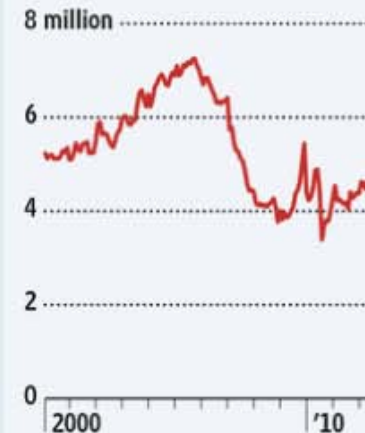
Housing starts are turning up...

...and home building is adding to economic growth.

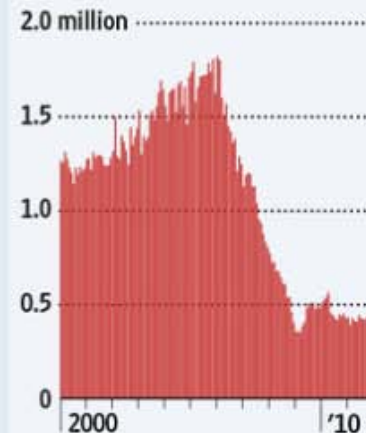
**Case-Shiller 20-city and Federal Housing Finance Agency Purchase-Only indices**  
Change from the previous year



**Sales of existing single-family homes**  
Seasonally adjusted annual rate



**Single-family home starts**  
Seasonally adjusted annual rate



**Contribution of home building to GDP growth**



Sources: S&P/Case-Shiller; FHFA; U.S. Department of Commerce via Federal Reserve Bank of St. Louis

The Wall Street Journal

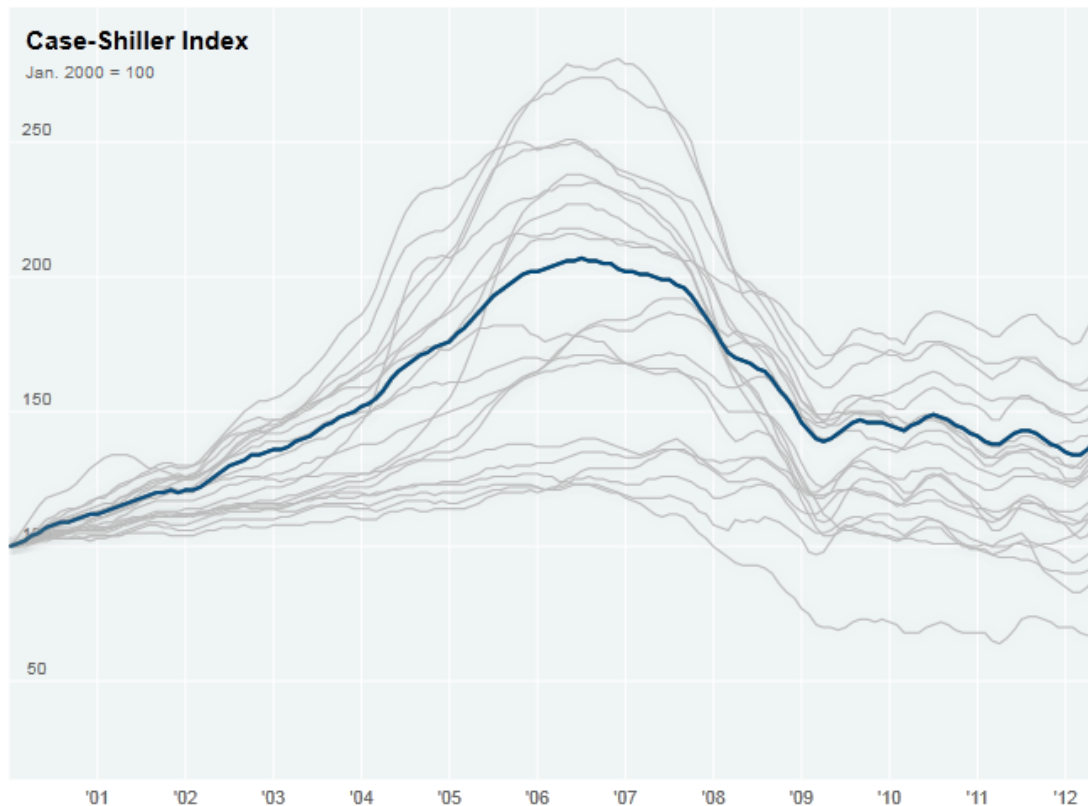


# September 25, 2012 – *New York Times*

## Housing's Rise and Fall in 20 Cities

The Standard & Poor's Case-Shiller Home Price Index for 20 major metropolitan areas is one of the most closely watched gauges of the housing market. The figures for July were released Sept. 25. Figures shown here are not seasonally adjusted or adjusted for inflation.

Pct. change, June to July 2012	
Minneapolis	+3.7
Detroit	+3.3
Chicago	+2.7
Atlanta	+2.6
Phoenix	+2.2
Miami	+2.1
San Francisco	+1.9
Boston	+1.8
<b>U.S. 20-city index</b>	<b>+1.6</b>
Washington, D.C.	+1.5
Seattle	+1.4
Denver	+1.3
Los Angeles	+1.3
New York	+1.2
Portland, Ore.	+1.2
San Diego	+1.1
Dallas	+0.9
Charlotte	+0.9
Tampa	+0.9
Las Vegas	+0.7
Cleveland	+0.4



## U.S. 20-city index

The Standard & Poor's/Case-Shiller 20-city housing index fell compared with a year ago, as the housing market continues to be weak.

One-month change,  
June to July 2012 **+1.6%**

From 1 year ago **+1.2%**

Change since market  
peak (July 2006) **-30.0%**

Since Jan. 2000 **+44.6%**

And the music stopped...



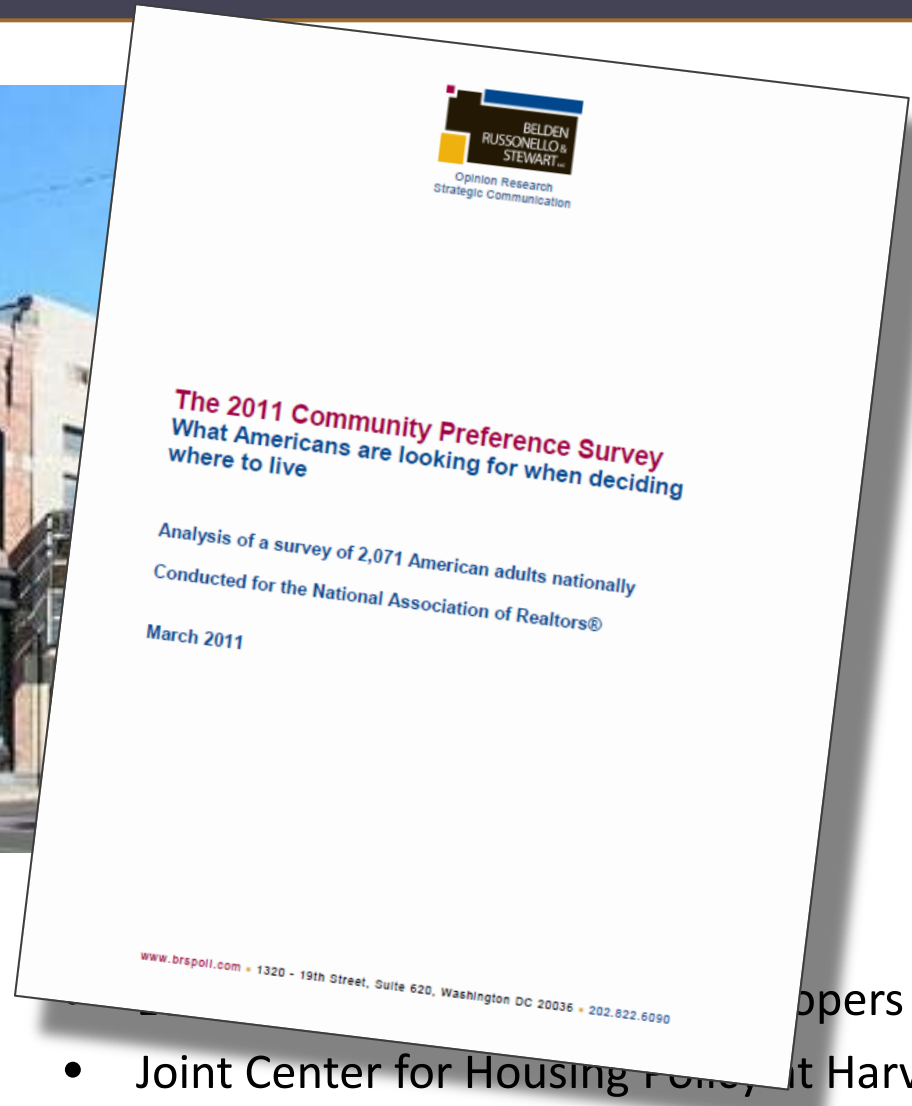
12 million homeowners underwater; more than one in five homes with a mortgage. Negative equity in underwater homes almost \$700 billion.

# Is the Market Shifting?



- University of Utah
- National Association of Realtors
- National Association of Home Builders
- Urban Land Institute
- Lend Lease/PriceWaterhouseCoopers
- Joint Center for Housing Policy at Harvard

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# What will the emerging market look like?

## **National Association of Realtors Study (2011)**

**Cost matters:** 59% of buyers will make trade-offs to stay in budget.

**Sense of Place:** A majority prefer locations with a mix of houses, shops, and businesses. Only 12% prefer traditional suburban community with houses only.

**Walkable neighborhoods:** 56% prefer compact, walkable neighborhoods; 43% prefer conventional suburban development.

**Time Matters:** 59% would choose smaller house for a commute under 20 minutes. Some chose longer commute for more privacy.

**Small towns** and rural communities appeal to many Americans.

**Community Types:** "A majority of Americans prefers a *smart growth* community over a more typical *sprawl* community."



# Where do your kids want to live?



## RCLCO Consumer Survey

**Desire for convenience, connectivity, healthy work-life balance**

- **1/3 will pay more for housing walkable to shops, work, and entertainment**
- **2/3 say living in a walkable community is very important to their location decision**
- **1/2 would trade lot size for proximity to shopping or to work**
- **1/3 willing to trade lot size and “ideal” homes for walkable, diverse communities**



# Smart Growth Development

- Can be greenfield, infill or redevelopment
- Locate in-town and/or utilizes existing infrastructure
- Provide a mix housing types/choices
- Connected, walkable street pattern
- Allow a mix of land uses
- Provide transportation choices
- Compact building design
- Focus on development pattern
- UN Plot to take over the world



# Sonoran Institute Housing Market Study

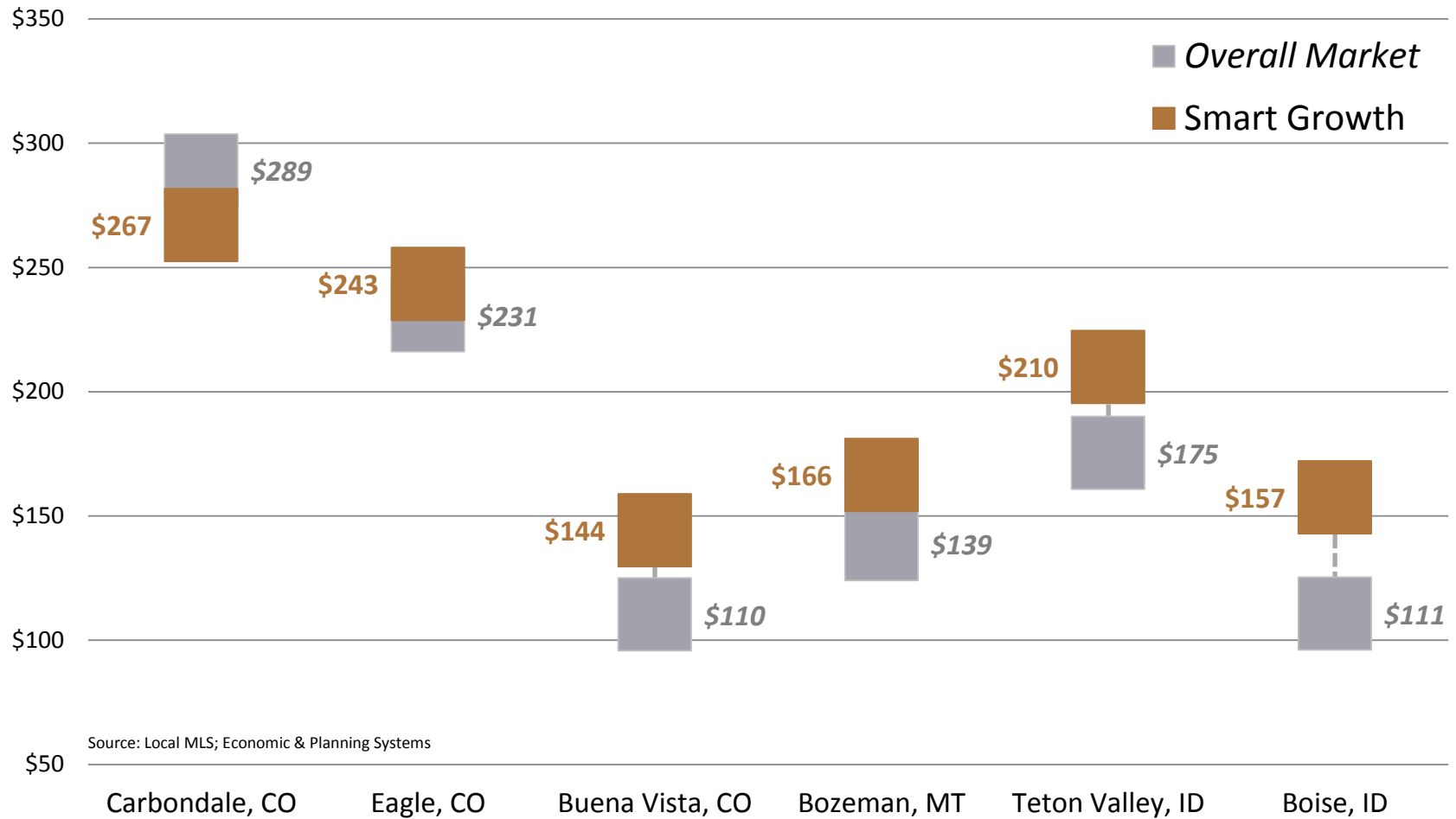
- Understand changing market
- Are national trends occurring in Rocky Mountain communities?
- What drives demand?
- Are our communities in a position to accommodate market trends?
- What can the public and private sectors do?
- Report complete late November



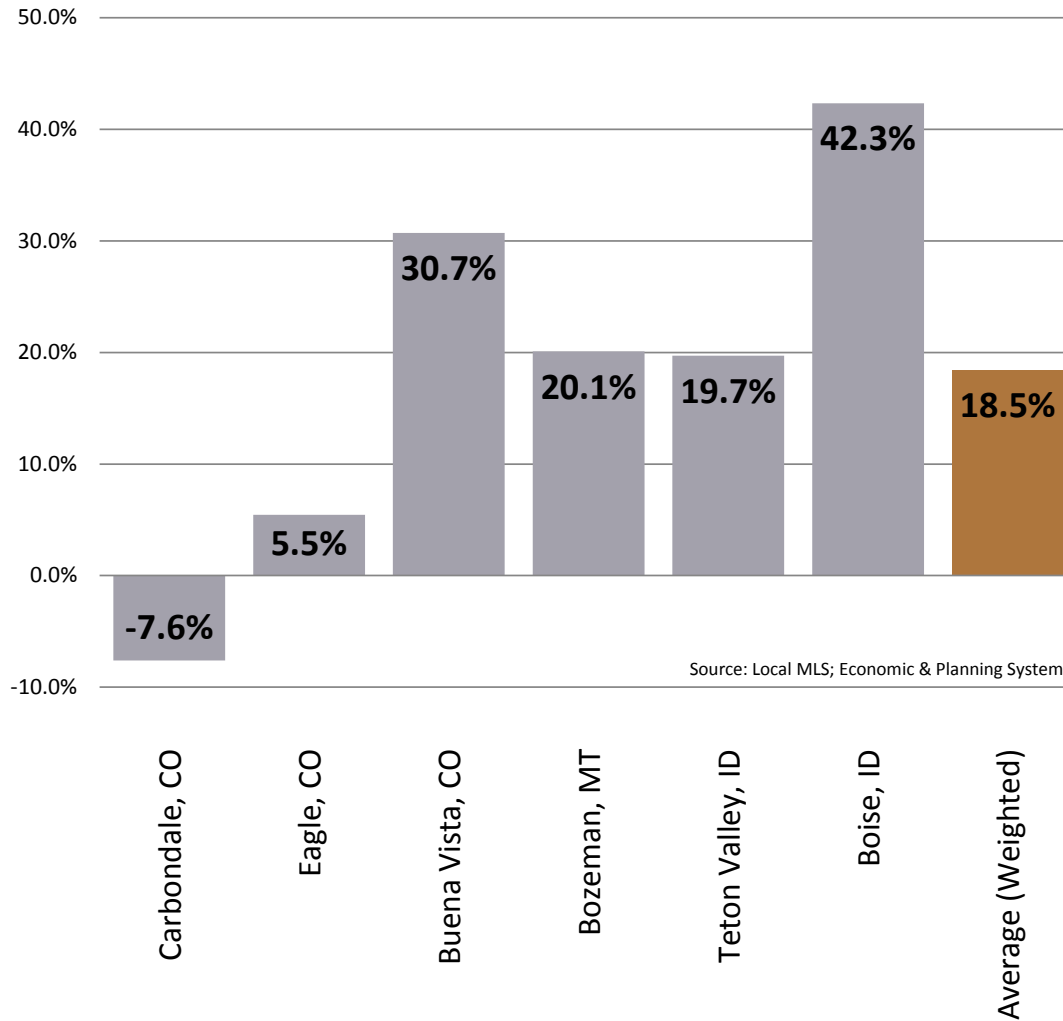
# Market Performance



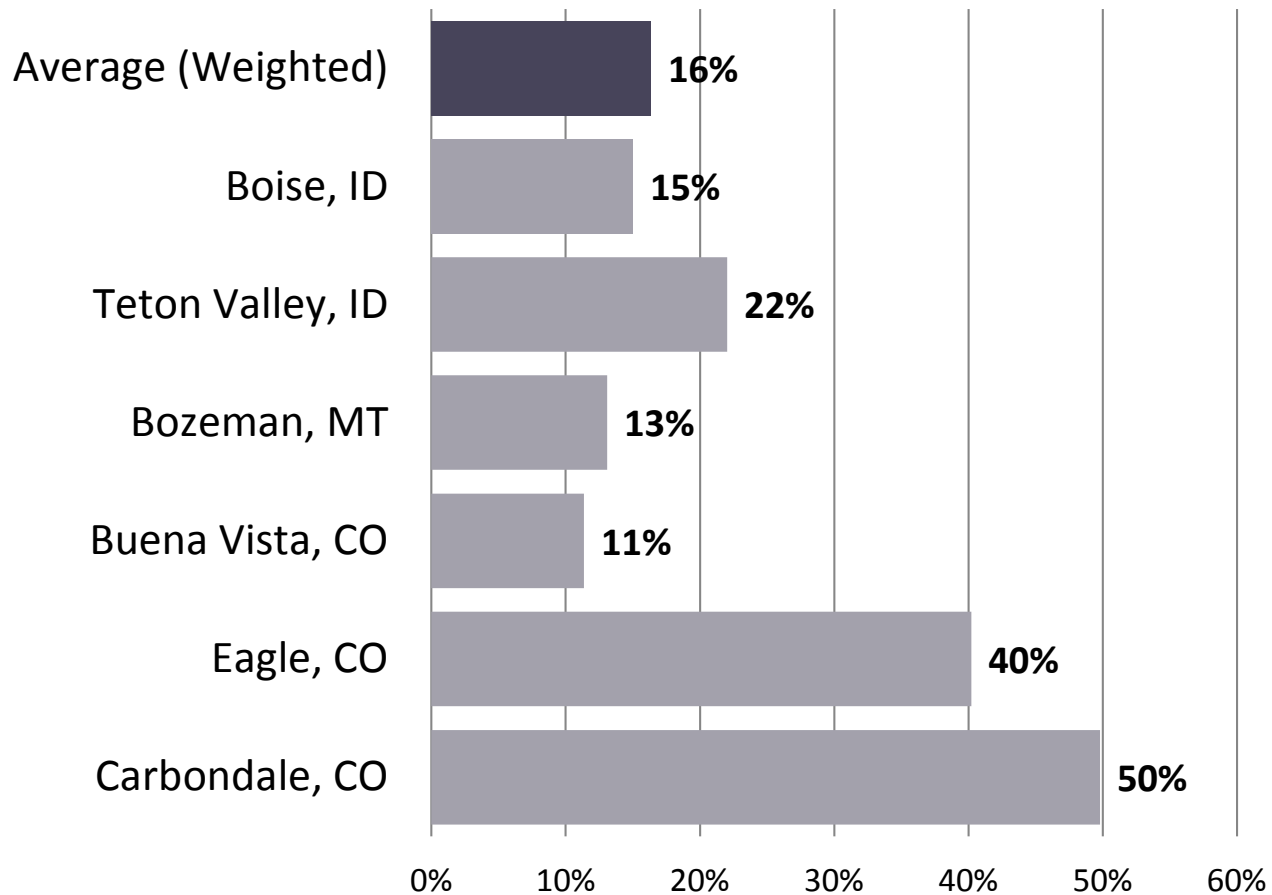
# Smart Growth – Premiums



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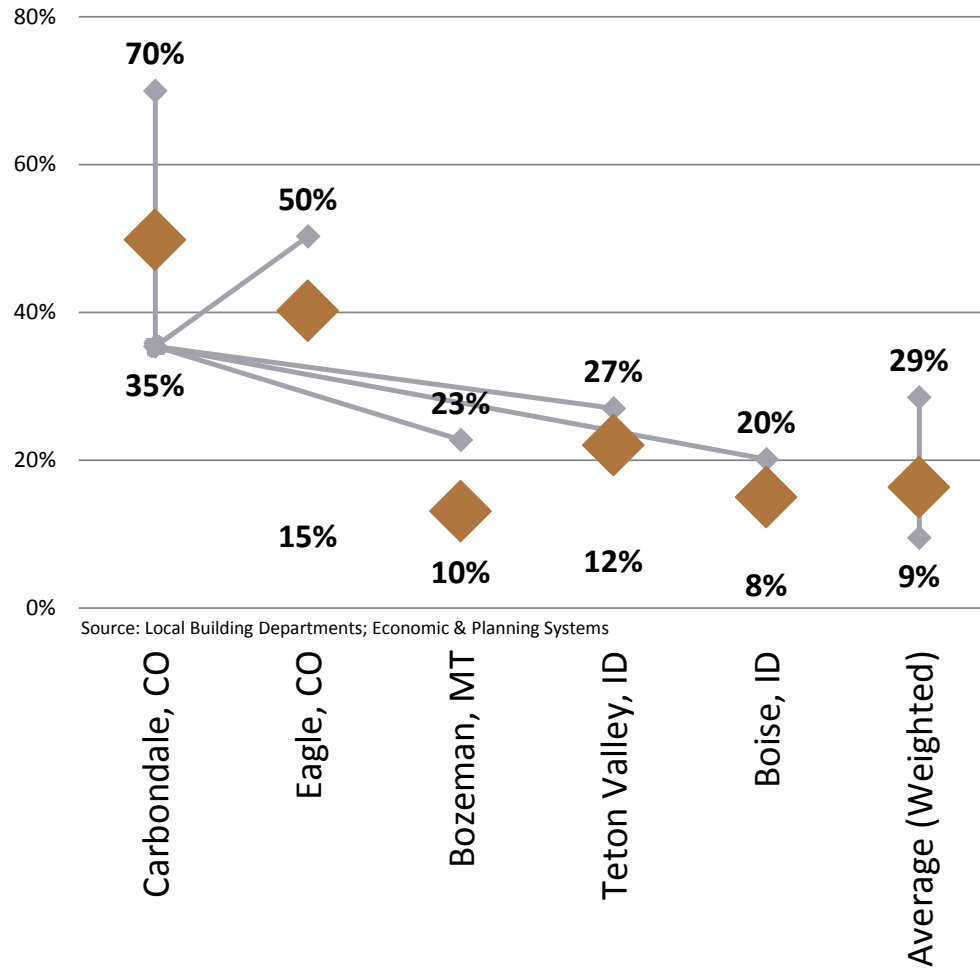


# Smart Growth – Capture Rates



Source: Local Building Departments; Economic & Planning Systems

# Smart Growth – Capture Rates



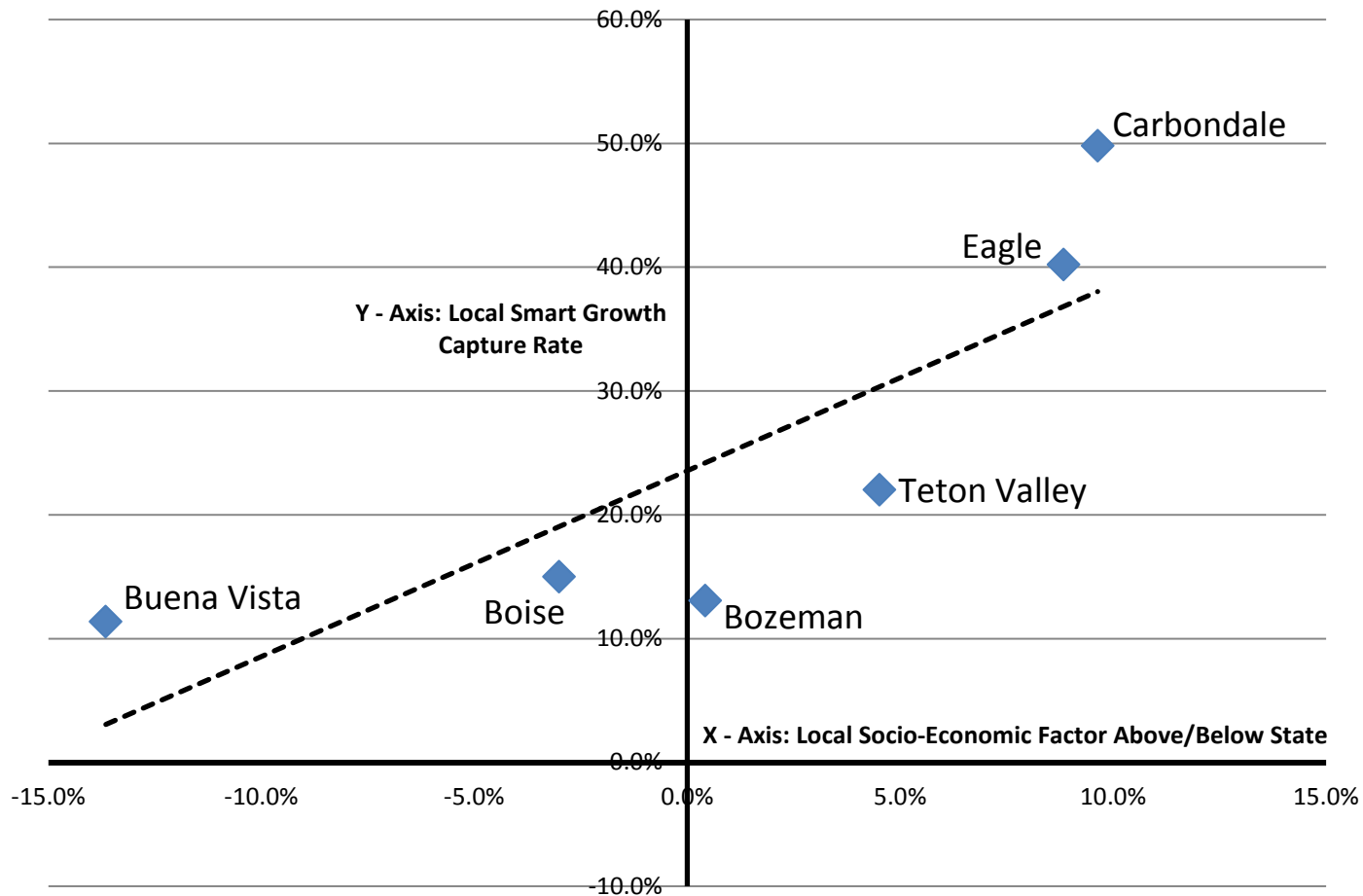
# Socio-Economic Drivers

- How will Smart Growth perform in the future?
  - What socio-economic factors support smart growth?
  - How do local markets compare to the state-wide average
  - Determine the percentage difference (above or below) by socio-demographic data point
    - Type of employment,
    - Type of household,
    - Income level
  - Correlate market characteristic against
    - Percentage capture rate as well as
    - Percentage of price premium



# Smart Growth – Socio-Economic Variables

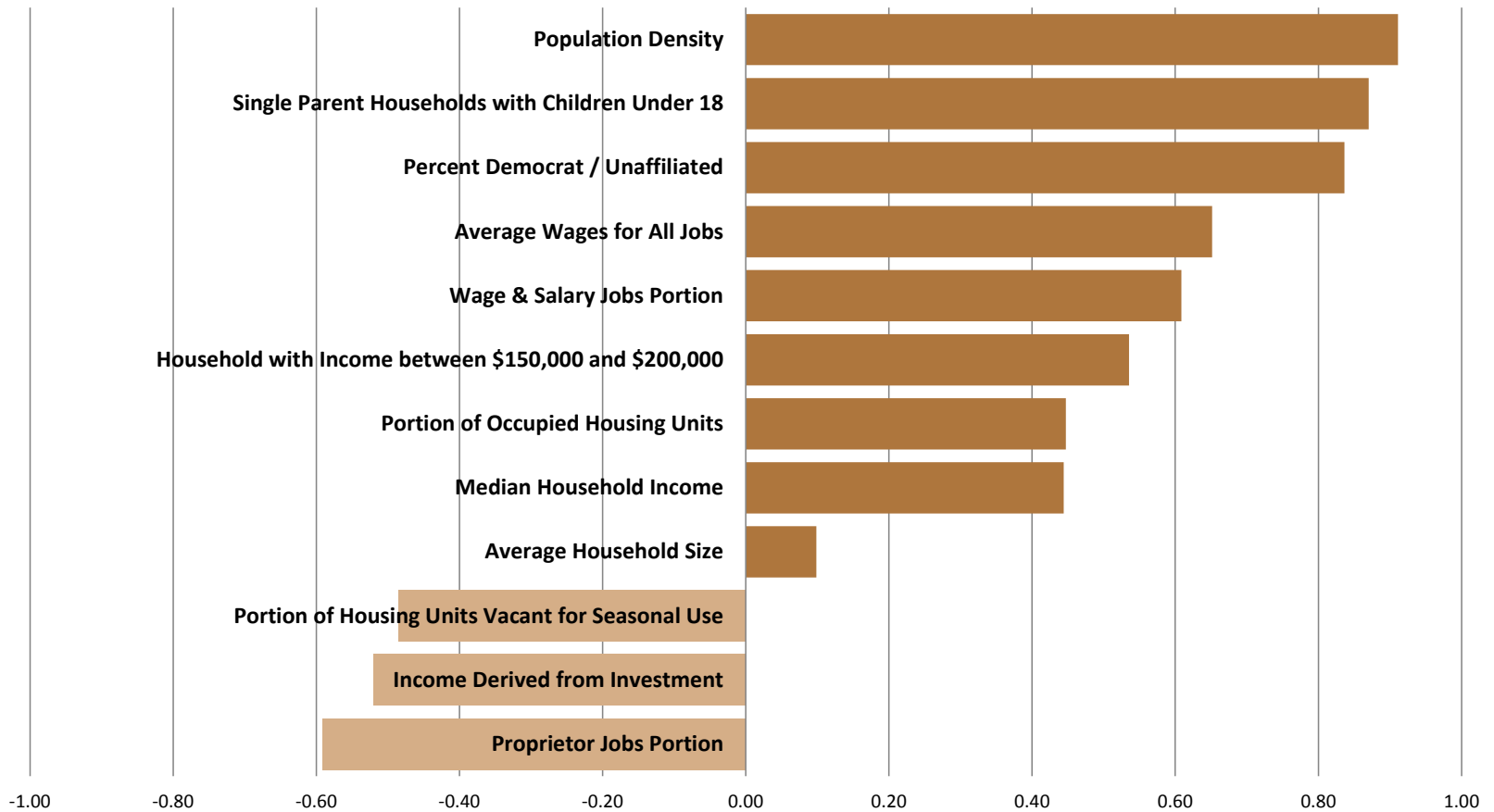
## Average Household Size & Smart Growth Capture



Source: Economic & Planning Systems

# Smart Growth Correlations

## Drivers of Smart Growth Premiums: Correlation Coefficients



Source: Economic & Planning Systems



What will drive the markets in the future?

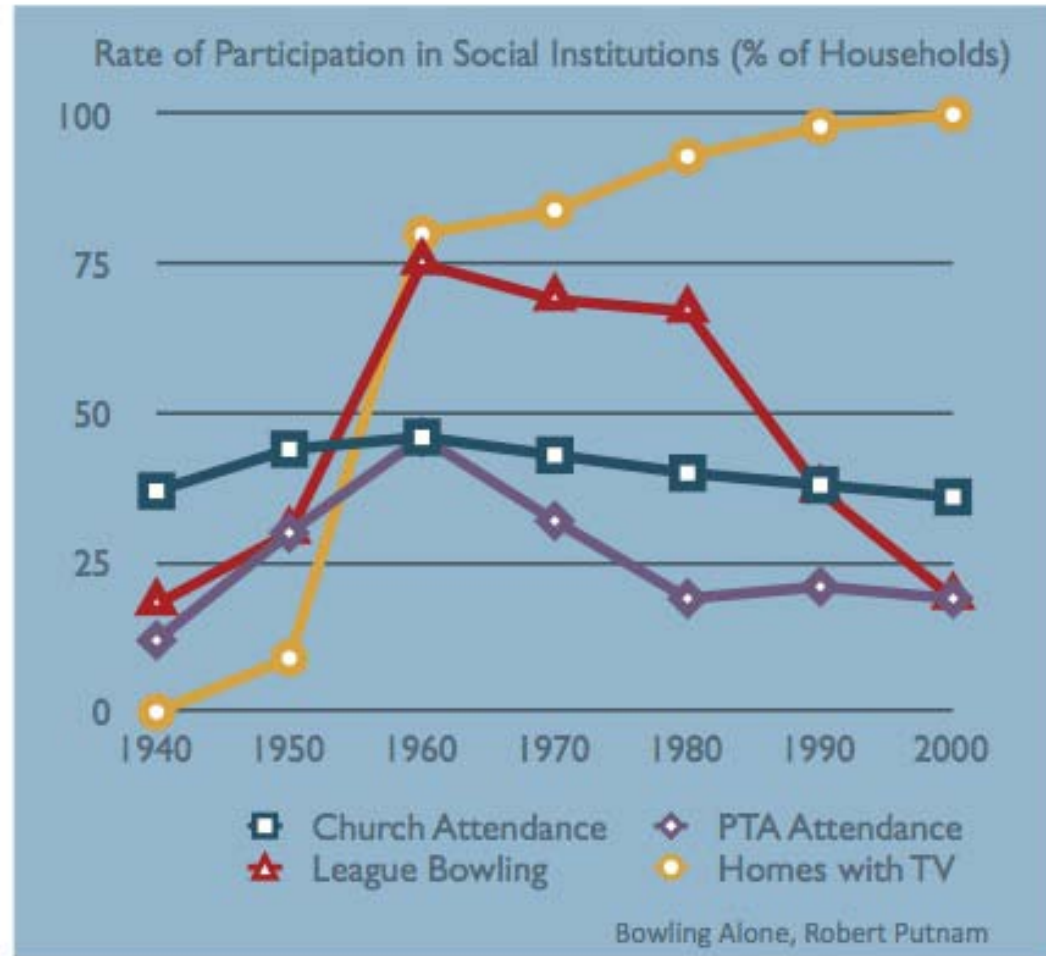
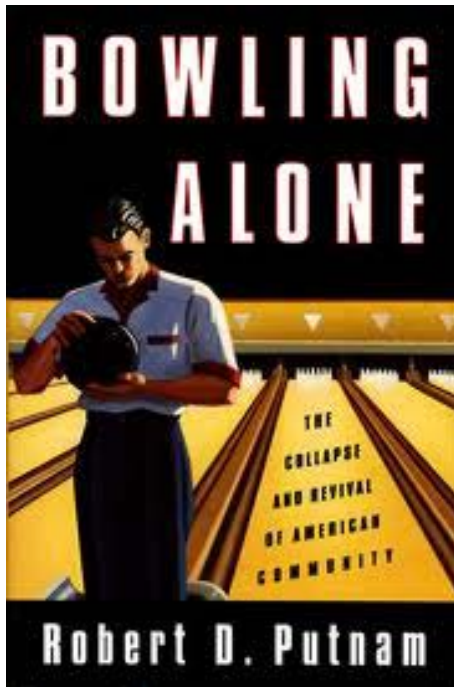
# Market Drivers

- #1 – The Sense of Community is key, and smart growth delivers
- #2 – Amenity is central to driving market interest in smart growth
- #3 – Diversity, both a core element and a bi-product
- #4 – Simplicity and the desire to live on a smaller footprint generates mixed opinions in the market
- #5 – The preference for single family homes continues to dominate
- #6 – Smart Growth in Core areas compared to Greenfield
- #7 – Big challenge to align market interest with land supply and local government infrastructure investment
- #8 – Gen Y represents unique opportunities and challenges

# #1 – Community is Key

- Expressed as 'sense of place' or 'sense of community'
- People want to be engaged
- Driving private sector developers in urban as well as suburban markets
- In the Rocky Mountain West, survey data show:
  - 89% of respondents value the 'neighborhood' over the 'size of house' (compared to 88% in the N.A.R. study)
  - 60% of Greenfield Smart Growth residents 'strongly agree' that sense of community is important, slightly higher than Conventional residents
  - This sentiment drops by 15 points for households with less than \$50,000 of annual income
  - 54% of Greenfield Smart Growth residents feel 'engaged in the neighborhood' compared to 42% of Conventional residents

# How we spend our time



## #2 – Amenities are central to driving demand

- Greenfield Smart Growth presents a hurdle for new home buyers:
  - density,
  - small lots,
  - parking constraints,
  - loss of privacy,
  - others
- What will draw buyers or renters to Smart Growth?
- Conventional development is:
  - A known commodity
  - Has many features that appeal to most residents



# Amenities that drive the market

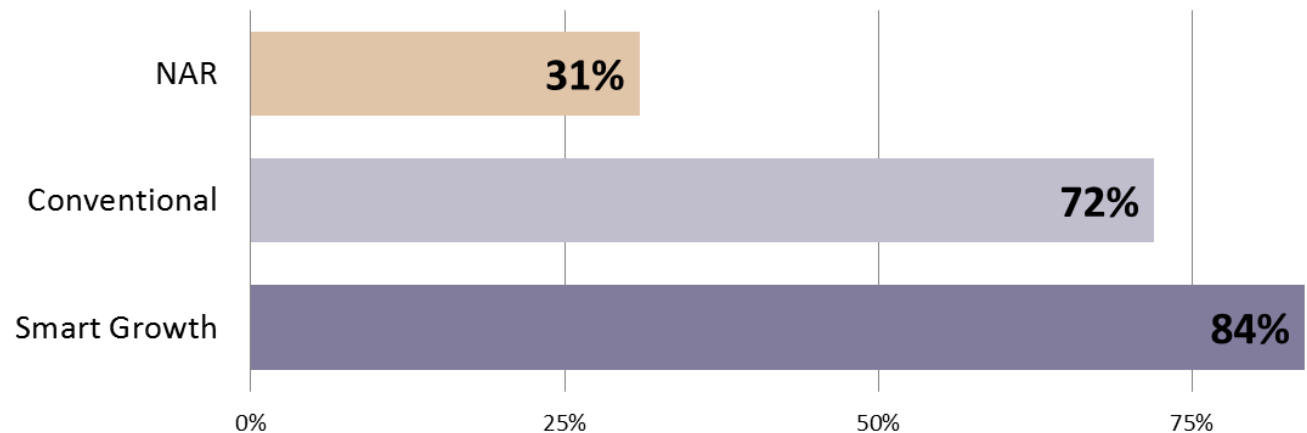
- When asked to list the most important elements of their neighborhoods, respondents listed:
  - security,
  - open space/trails/recreation,
  - quality schools,
  - walkability,
  - short commutes
- Generally aligned between Smart Growth and Conventional
- Brokers emphasized:
  - commercial town center
  - time savings
  - simpler life style
  - recreation





# Walkability

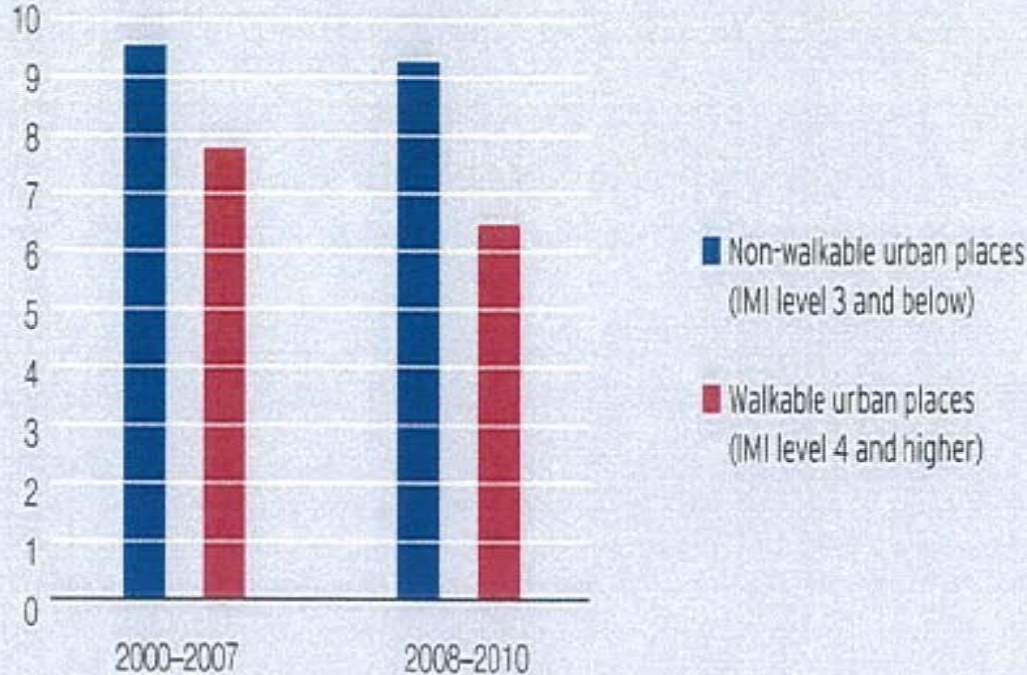
- Nationally, NAR reported 31% are satisfied with the level of walkability
- Much higher rates in the Rocky Mountain West, with Smart Growth neighborhoods rated 12 points higher than conventional



Source: Economic & Planning Systems; National Association of Realtors Preference Survey, 2011

# Walkability Brookings Institution, May 2012

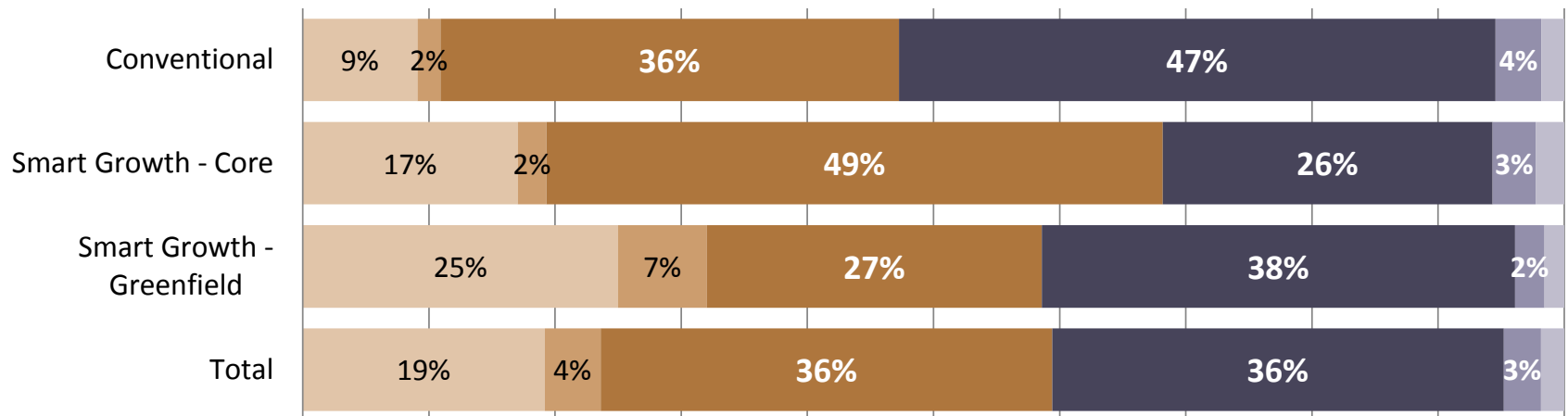
Figure 2. Capitalization Rates Before and After the Recession for Places with Above Average vs. Below Average Walkability



- “Walk This Way”
- Capitalization rates two to three points lower in walkable areas
- Substantial increase in real estate value
- $PV = \frac{NOI}{Cap Rate}$

# #3 – Mix of uses and types leads to diversity

- Smart Growth Development appeals to a broader mix of household types
- Diversity of HH types indicates higher capture rate of future growth
- Diversity of land uses corresponds to a mix of uses, price points, housing types central to most Greenfield Smart Growth communities



Source: Economic & Planning Systems

- Adult living alone
- Couple, no child(ren)
- Single parent with child(ren)
- Couple with child(ren)
- Unrelated roommates
- Immediate and extended family members



# #4 – Simplicity

- Trade off question
  - Houses are built closer together on smaller lots and it is easy to walk to parks, playgrounds, and recreation; or,
  - Housing built farther apart on larger lots and you typically have to drive to get to parks, playground, and recreation.
- Rocky Mountain West
  - Higher percentage favoring small lot development (59%) compared to national average (43%)

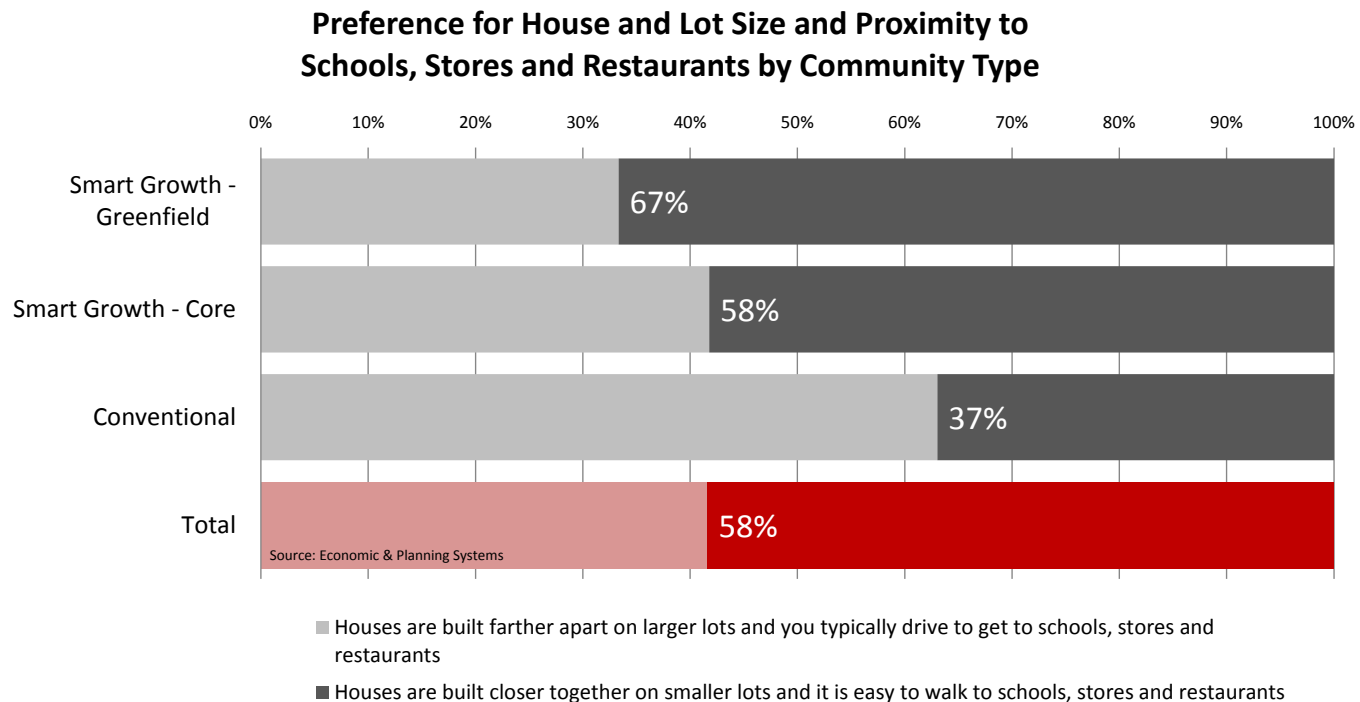


Source: Economic & Planning Systems; RRC Associates

■ Houses are built farther apart on larger lots ■ Houses are built closer together on smaller lots

# Trade Off's: Large Lot vs. Small Lot

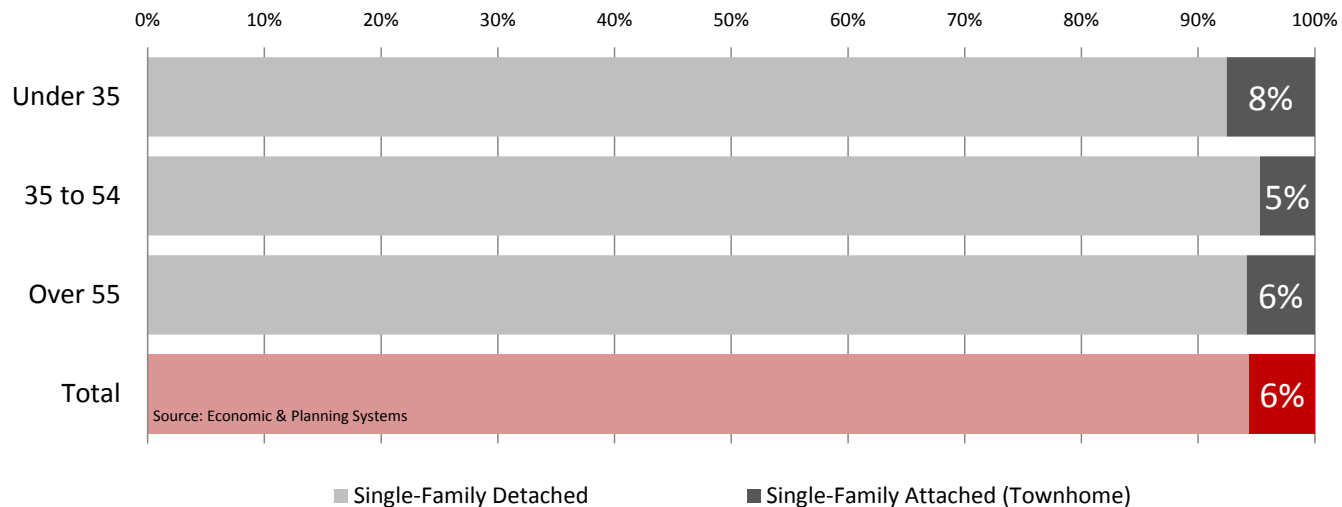
- Sharp distinction between interest in small lot development
  - Greenfield Smart Growth at 67%
  - Conventional at 37%
- What is share that might migrate to Smart Growth?



# #5 – Interest by Product Type

- While interest in Smart Growth communities is high, willingness to live in dense product is low
- Overall, 94% of respondents want SF detached home
- Interest in attached product is highest for householders under 34 (but just 8%)

Preference for Type of Home by Age



# #6 – Core Opportunity relative to Greenfield



# Market Demand for Core Development





# Core versus periphery



# #7 –Align market interest with land supply, infrastructure investment, and policy

- Market is shifting to smaller household sizes and lower incomes
- Rental market has downsized unit size quickly
- How do communities and developers balance:
  - Need for lower price points
  - Desire for single family homes
  - Avoidance of the 'snout house' streetscape
- Smart Growth provides lot size flexibility while delivering single family product
- Challenge with MF
  - More rental product
  - Better integration



## #8 – Gen Y



- Authentic
- Connected
- Prioritize experience over acquisitions
- Community character is ranked the highest factor in determining where to live
- “My home is where I sleep -- my community is where I live.”
- Proximity to family and friends is equally important as proximity to work
- Limited financial resources
- Many cannot afford to buy, although 67% would like to own
- How does Smart Growth provide for this large cohort?
  - Smaller, cheaper, better connected
  - Key to our collective economic future

# Market Application

- Sense of place is what drives it
- Connectivity is key
- This segment is growing – while others not disappearing, key cohorts will drive demand
  - Gen Y, Boomers, Single-person, two-person households
- Given emerging trends, Smart Growth should be an expanding market segment.
  - Smaller lots
  - Smaller homes
  - Mix of uses, unit types, and tenure
  - Highly amenitized
  - Walkable
  - Emphasis on sense of community
  - Commercial core as anchor
    - Boene Crossing, Hidden Springs, Eagle Ranch, Mountainside Village
  - Initial resistance, then enthusiastic acceptance of product
- Public sector investments make a difference in market direction

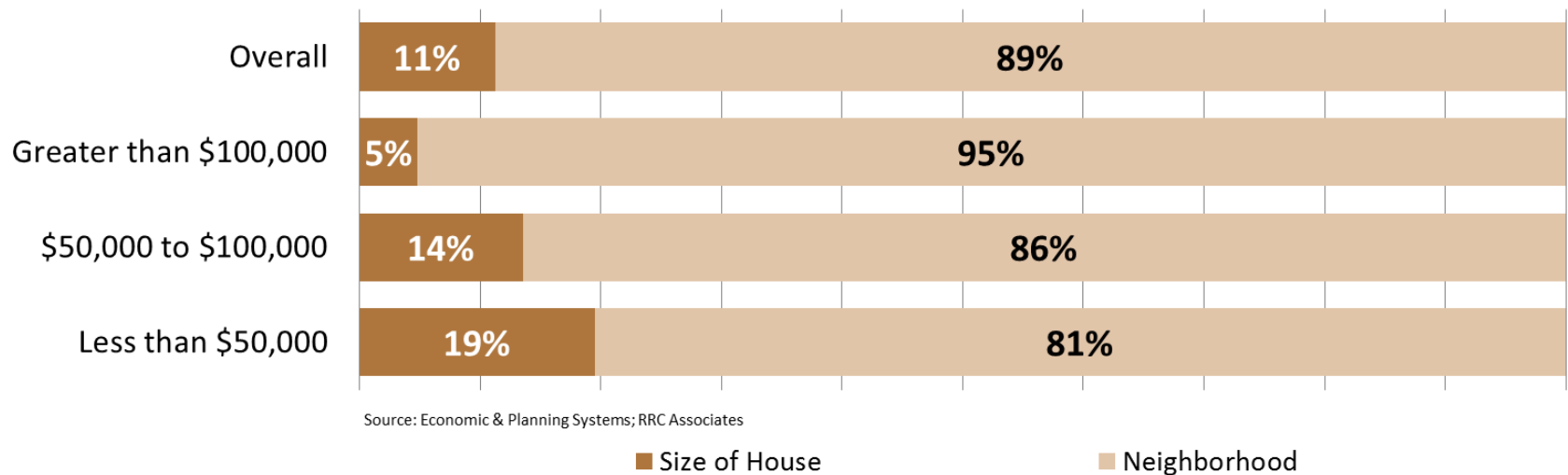




- Last night, we heard about the benefits of compact development.
- Both in terms of revenues and expenditures, we know that a more efficient development pattern is most cost efficient and generates greater wealth for a community
- The presentation by Joe that builds on the analogy of agriculture production, and how does one generate the greatest yield per acre, is helpful.
- Not miles per tank but miles per gallon.
- So we know this cognitively, but will the market follow?
- That is the question we've been addressing with the most recent project by the Sonoran Institute.
- The market has gone through a major reset
- What will it look like now that we are coming out of the Great Recession?
- Will the market support this approach? To what degree? What can cities, towns, and counties do to help change course from an otherwise very consumptive last five decades.
- What types of fiscal policies should be in place? What about policies that direct capital investment? How should a community invest its CIP in such a way that it begins to realize the return on investment that Joe described last night?
- For example, one detail in the mountains of data we have collected, is that Smart Growth residents are not concerned about Safety and Security to the same degree that Conventional residents are. Both came out #1, but could it be that Smart Growth communities provide a form of safety and security by their form that, in turn, could reduce the allocation of budget to police or sheriff, increasing the budget for infrastructure investment?

# Trade Off's: *Size of House or Quality of Neighborhood?*

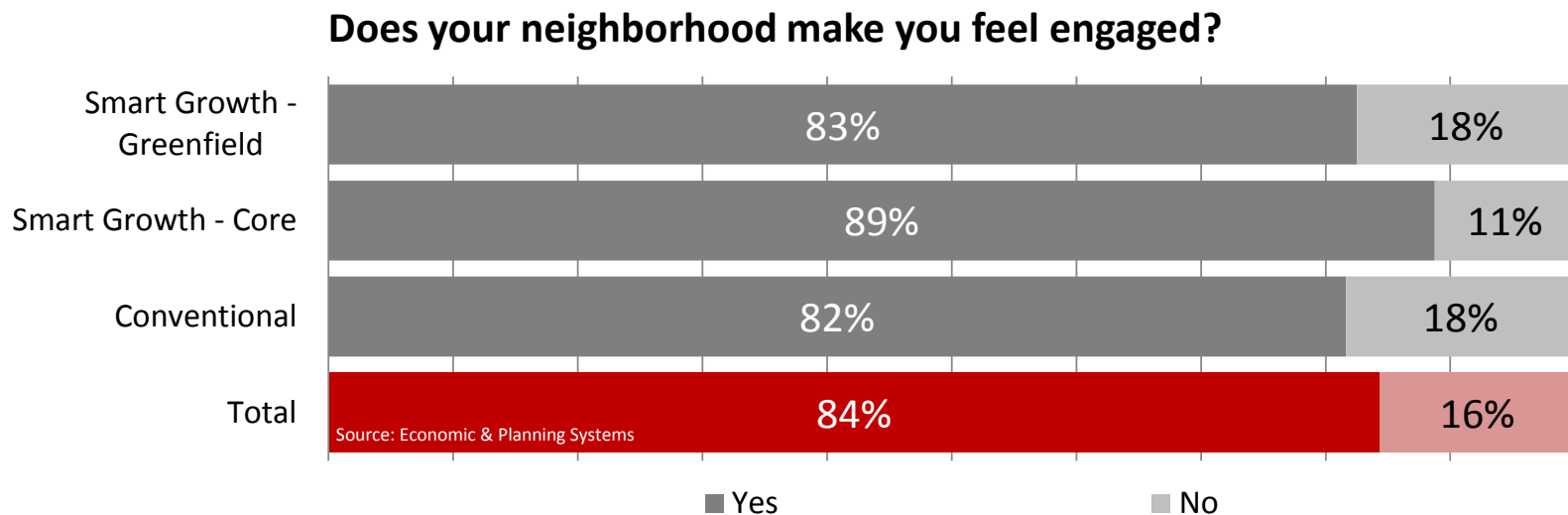
- NAR national survey reports 88% favor neighborhood *over size of home*
- Sonoran study aligns well
- Higher incomes prioritize neighborhoods to a greater degree





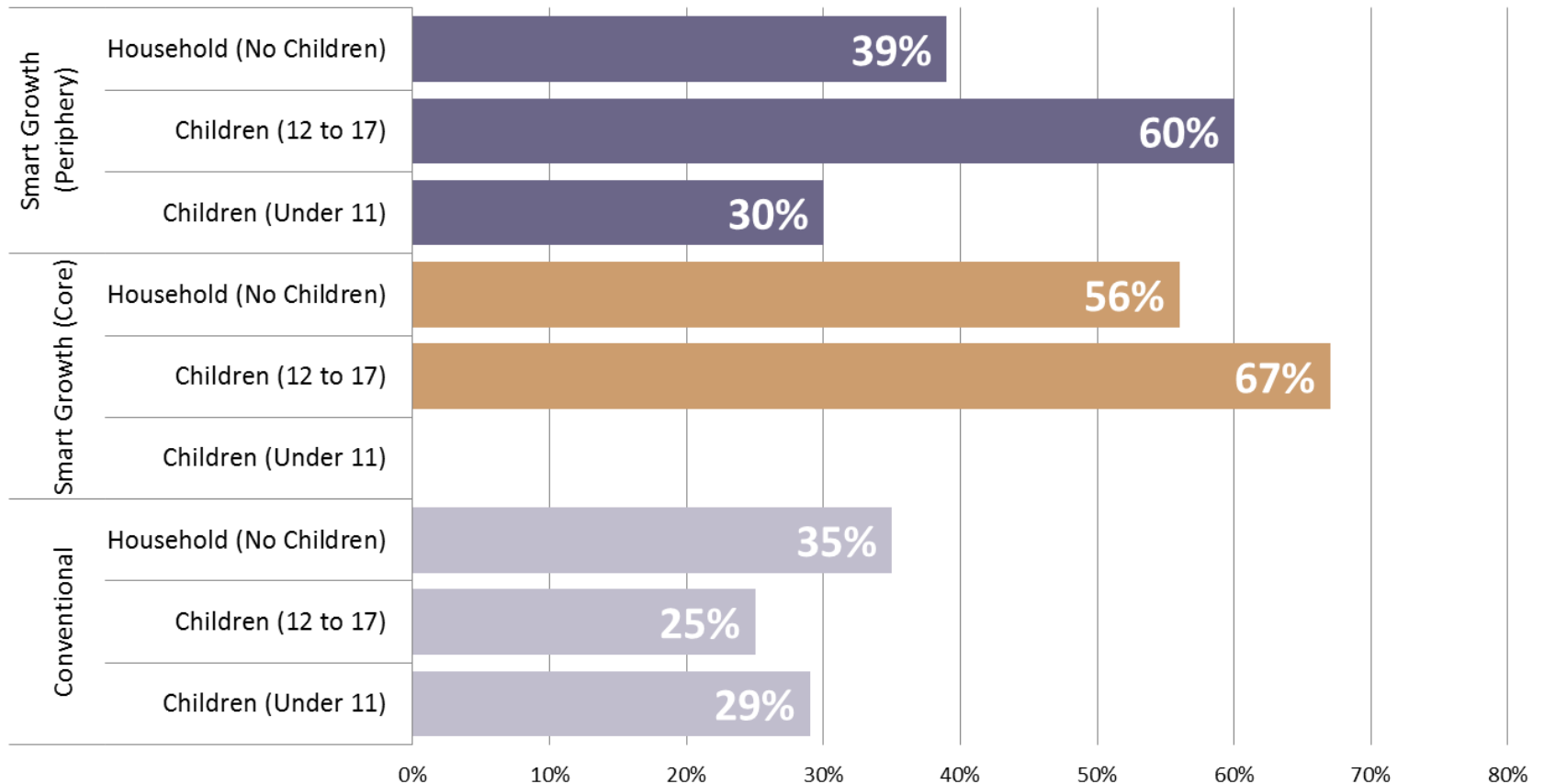
# Sense of Community Engagement

- Strongest in traditional neighborhoods, with Smart Growth reporting 89%.
- A key element for any future development, given predictions from the Demand Institute (*we should just say this... or if we use text, just put something simple like: sense of community plays a growing role, or something... could use sense of place too*)



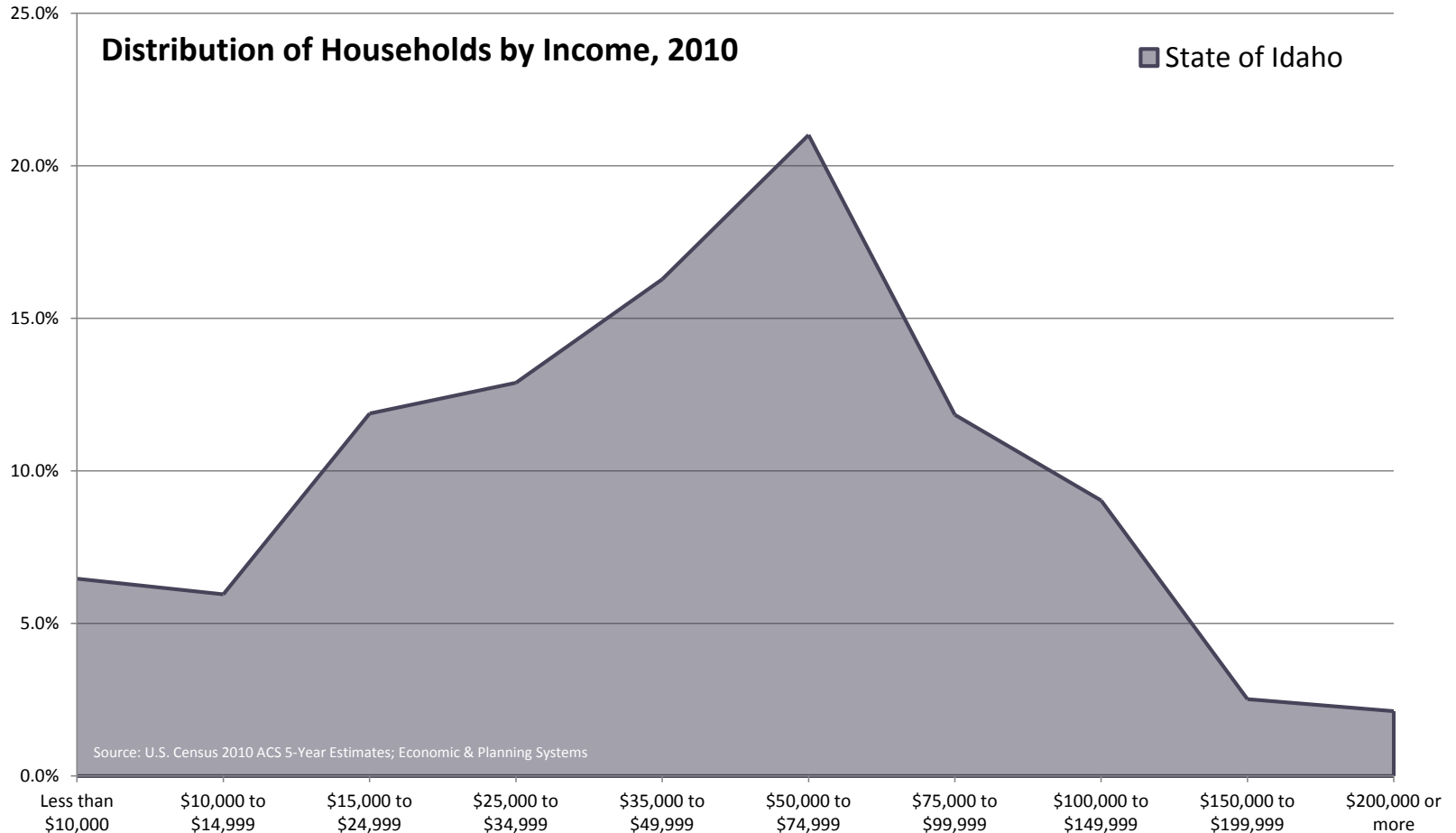
# Transit Service

- Two types of Smart Growth, both with higher levels of satisfaction

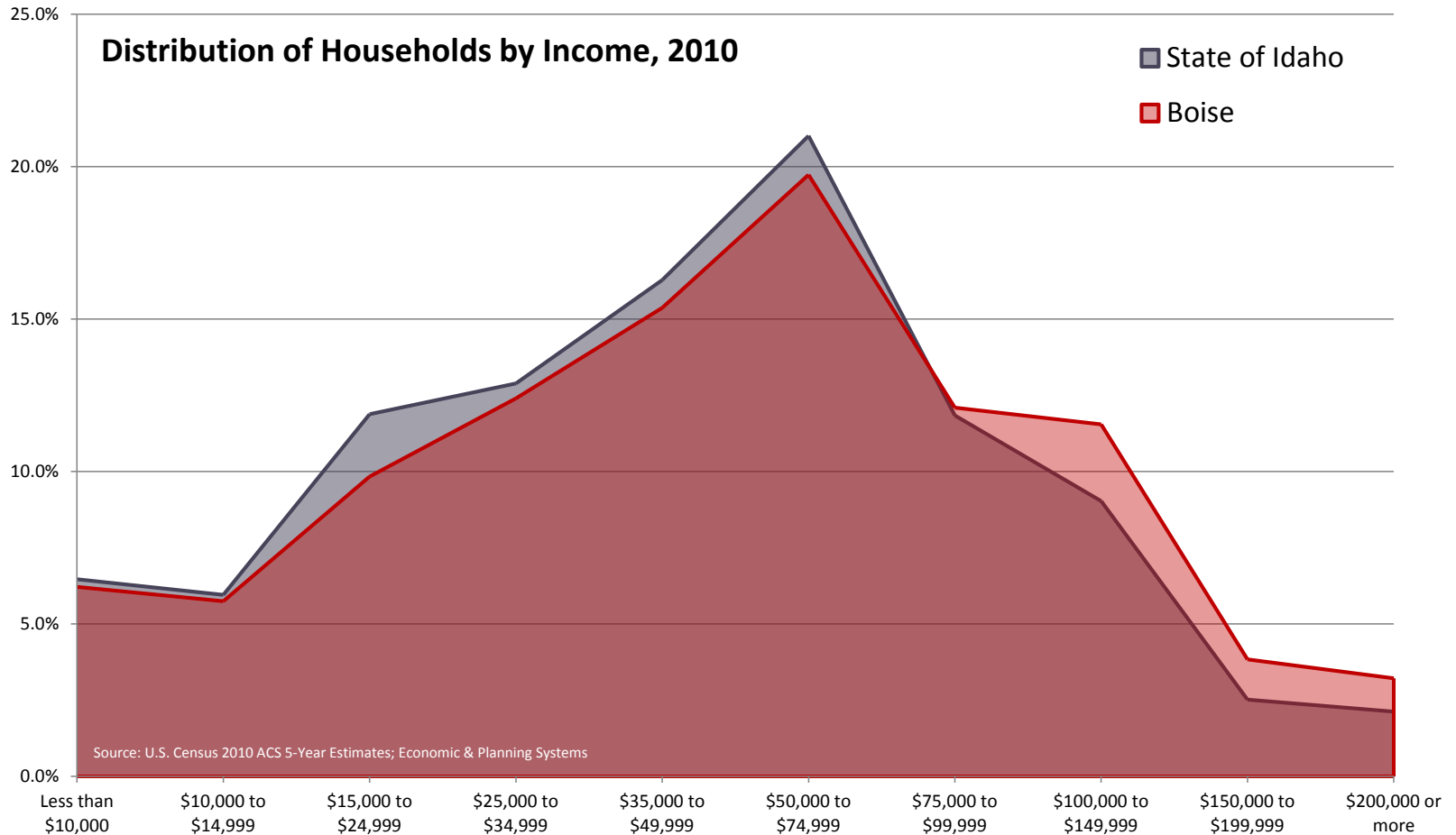


Source: Economic & Planning Systems; RRC Associates

# Smart Growth Correlations

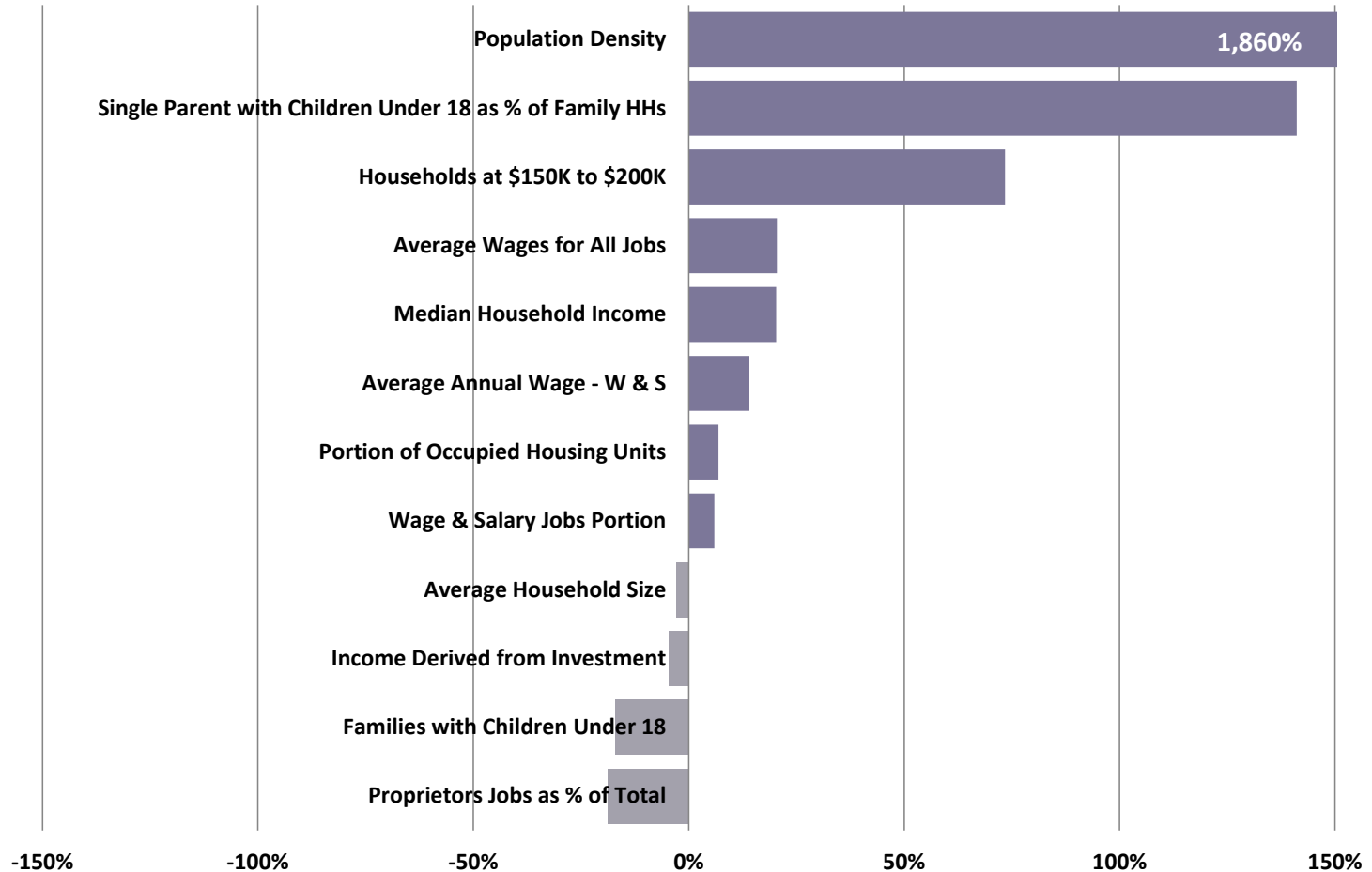


# Smart Growth Correlations



# Smart Growth – Socio-Economic Variables

## Boise Socio-Economic Variables - Above or Below Idaho



Source: Economic & Planning Systems

