



Housing Demand and Performance Beyond the Trend Line

Urban Land Institute – Idaho | March 21, 2012





RCLCO specializes in **real estate economics, strategic planning, management consulting, and implementation services** for real estate investors, developers, financial institutions, public agencies, and anchor institutions.

- ▶ Founded in 1967 when architect and developer Bob Lesser was asked to evaluate potential land uses for the new town of Thousand Oaks, CA
- ▶ 45 years of innovation and results has made RCLCO the leading knowledge solutions provider to the real estate industry:
 - Applied knowledge of metropolitan trends, real estate economics, and consumer preferences
 - Guidance that enhances the performance of an enterprise, portfolio, or project
 - Market driven, analytically based, and financially sound solutions

EXPERTISE THROUGH SPECIALIZATION AND COLLABORATION

Investment
Advisory

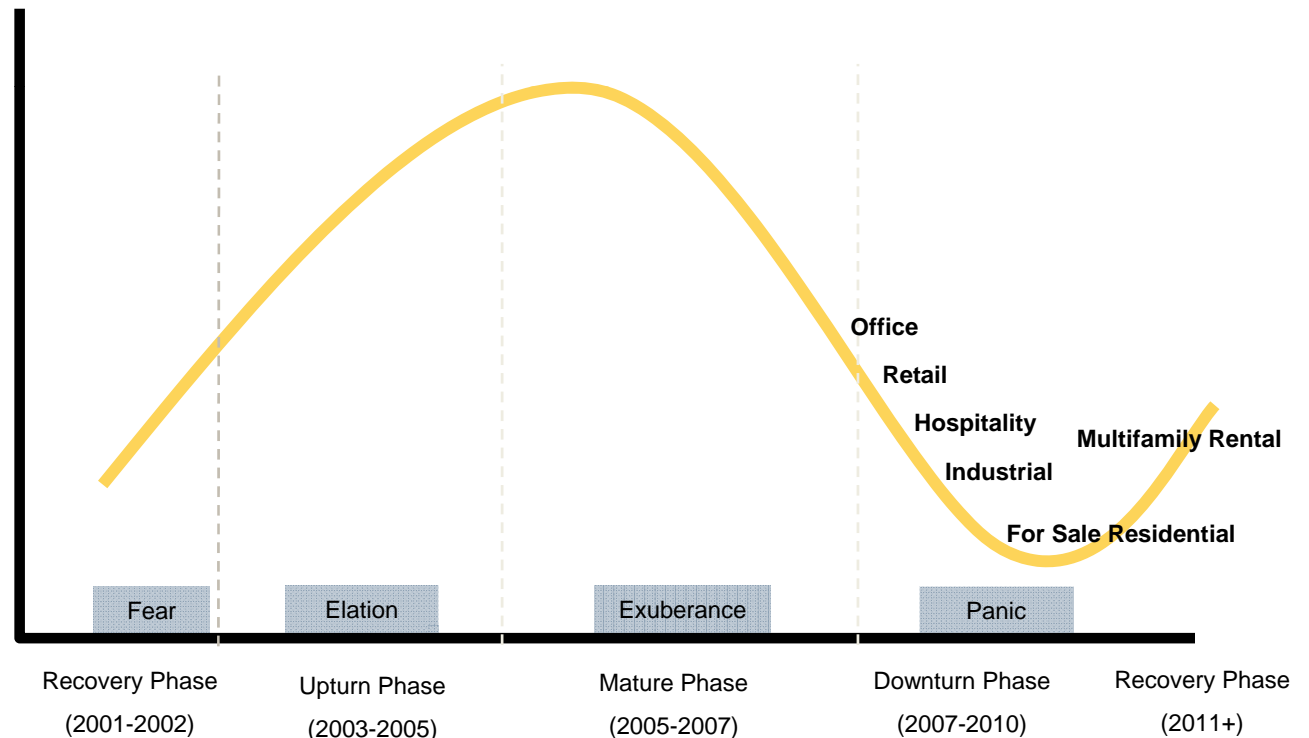
Community and
Resort Advisory

Urban Advisory

Public Strategies

Management
Consulting

RCLCO maintains expertise by balancing specialization and collaboration on both client projects and firm research. We are organized into specific practice areas, but share knowledge and resources as “one firm.”



TREND MONITORING AND "DEEP DIVE" INITIATIVES

Consumer Research

Measuring the Market for Green Residential Development

Generation Y

RCLCO Consumer Research

Housing Trends

Responding to Foreclosure

PRICED OUT

Paradoxes of the Washington Housing Cap in the Washington, D.C. Metro Area

MPC Knowledge Bank

MASTER PLANNED COMMUNITIES

RCLCO

PRESS RELEASE

FOR IMMEDIATE RELEASE - March 17, 2011

RCLCO Announces Top-Selling U.S. Master-Planned Communities for 2010

BETHESDA, MD - The Village, an active adult community in Coral Gables with 2,037 net units, was 2010's top-selling master-planned community (MPC) in the U.S., according to RCLCO.

RCLCO has been releasing its top-selling MPC rankings since 2004. The firm retains the most in-depth knowledge bank of MPC sales and trends in the industry. Each year, RCLCO tracks the sales of over 400 communities across the nation for annual MPC rankings. The survey tracks other key business metrics in addition to sales.

Rank	Year	MPC Name	MPC Developer	Market	2010 Units	2009 Units
1	1	The Village™	The Village	Coral Gables, FL	2,037	2,113
2	1	Clings of a Wolf	The West Company	Orange County, CA	999	999
3	1	Clusia Ranch	Woodland Communities	Houston, TX	824	837
4	1	The Woodlands	The Woodlands Development Company	Houston, TX	766	831
5	1	Woodbury Edge	Price Properties Group	Las Vegas, NV	744	751
6	1	Valley	Woodland Communities	Houston, TX	698	693
7	1	Alhambra	Price Properties Group	Las Vegas, NV	575	588
8	1	Warrenton	Stone Enterprises	Washington DC	552	552
9	1	Clusia Ranch	The Woodlands Development Co.	Houston, TX	548	553
10	1	Clusia Ranch	Forest City	Denver, CO	575	-

Transit-Oriented Development

Transit Oriented Development

MARKET-DRIVEN ECONOMIC DEVELOPMENT

THE BUSINESS CASE FOR DC STREETCAR

RCLCO

Strategic Planning

Strategy for Real Estate Companies

Charles A. Hovell and Gail Kaufmann

Metropolitan Growth Trends

RCLCO MetroLogic™

SUPERSTITION VISTAS

FINAL REPORT & STRATEGIC ACTIONS

A Vision for 21st Century Opportunities

THREE QUESTIONS

- ▶ What are the underlying **macroeconomic trends** for real estate investment in the near- to medium-term?
- ▶ What are the current and projected **drivers of housing** demand and investment performance?
- ▶ What are the specific trends driving housing demand in **Idaho and the Treasure Valley**?



Macroeconomic Trends

TRENDS IMPACTING REAL ESTATE

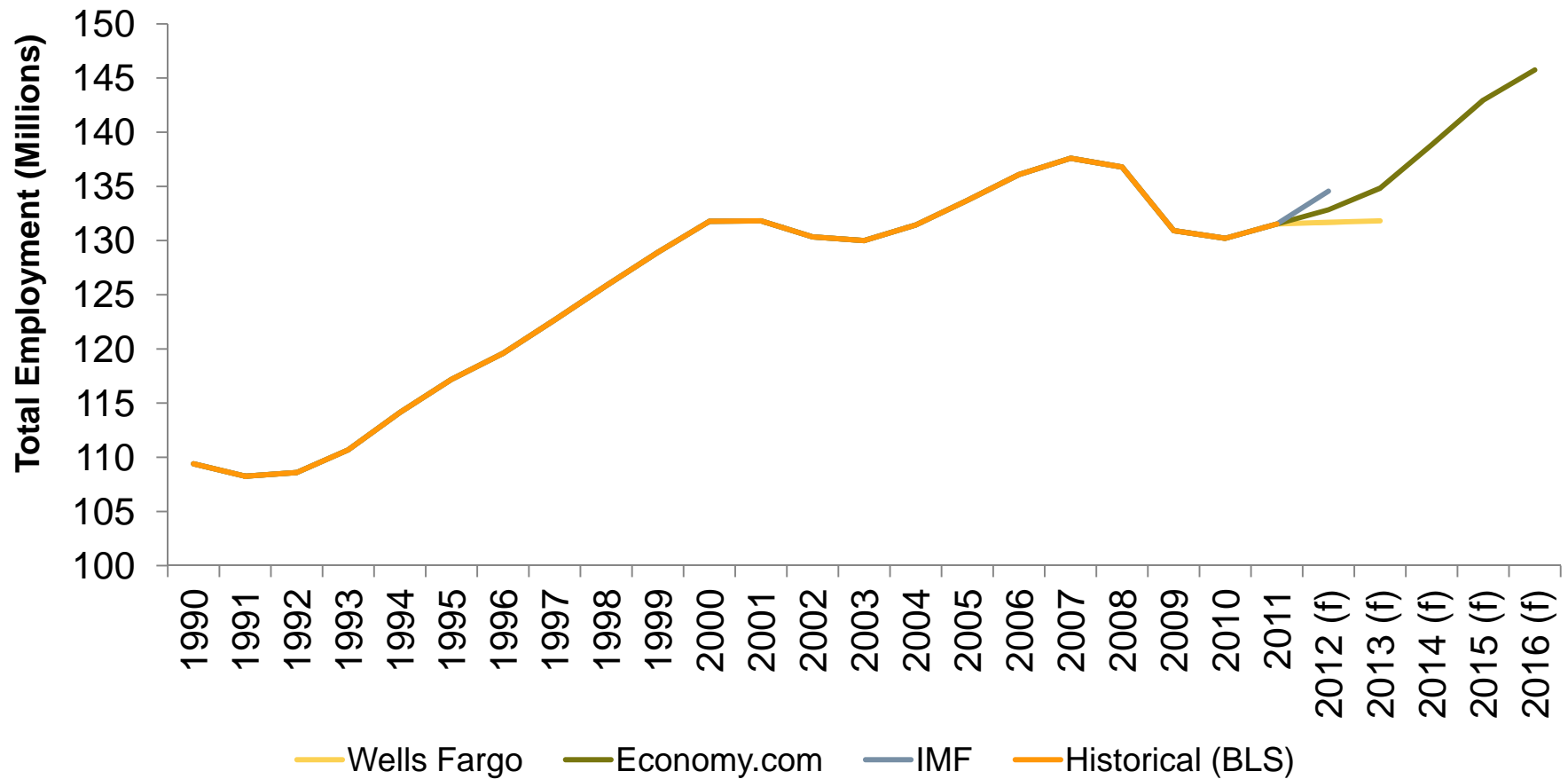
MACROECONOMIC OUTLOOK

- ▶ **The Global Economy has Likely Bottomed**
- ▶ **Uncertain Employment Growth in the United States**
 - Trend Lines Point to Moderate Growth, Though Trend Lines are Rarely Right...
- ▶ **Uneven Performance by Sector and Region**

TRENDS IMPACTING REAL ESTATE

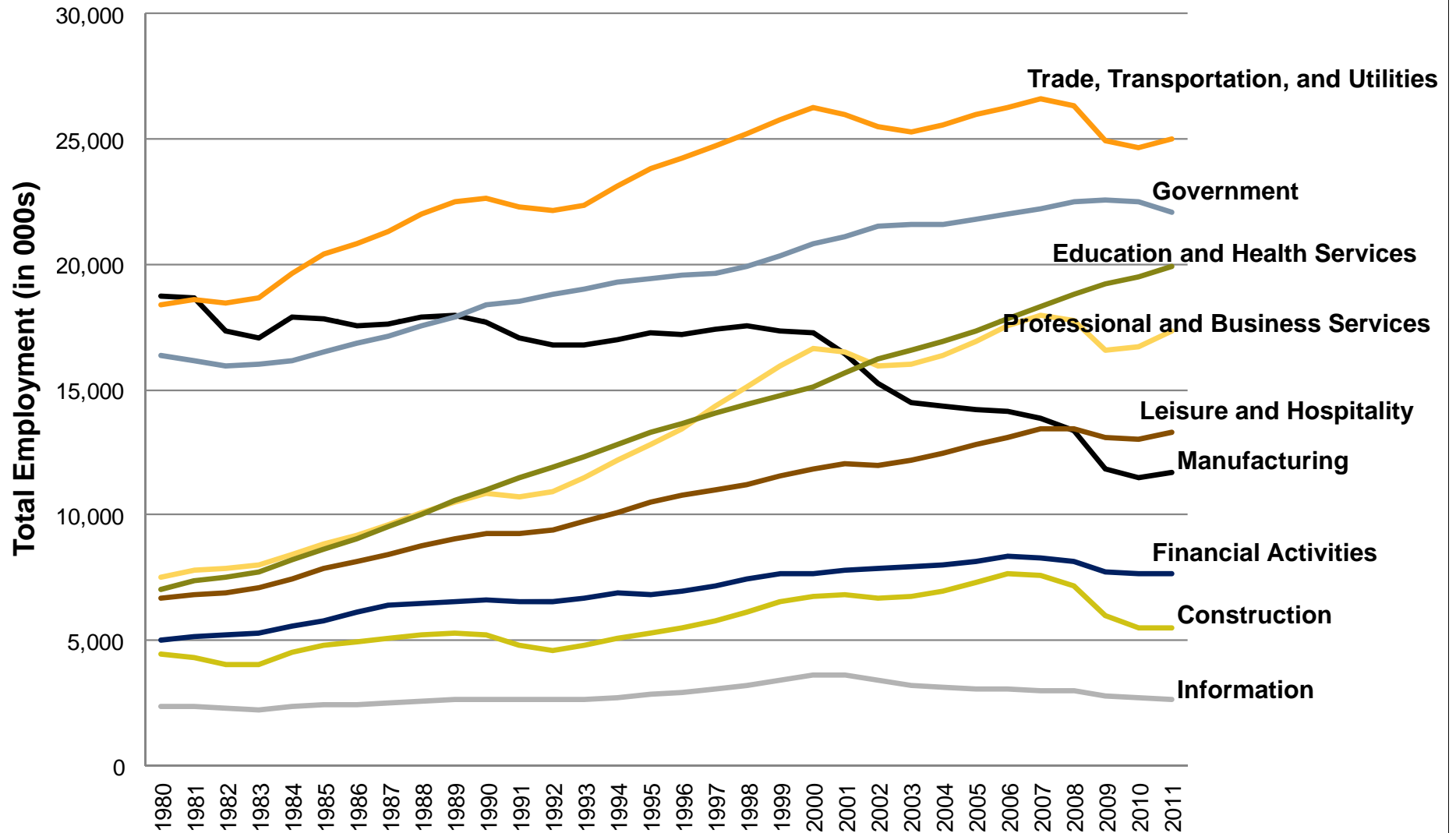
UNCERTAIN EMPLOYMENT GROWTH

U.S. Non-Farm Employment Various Sources



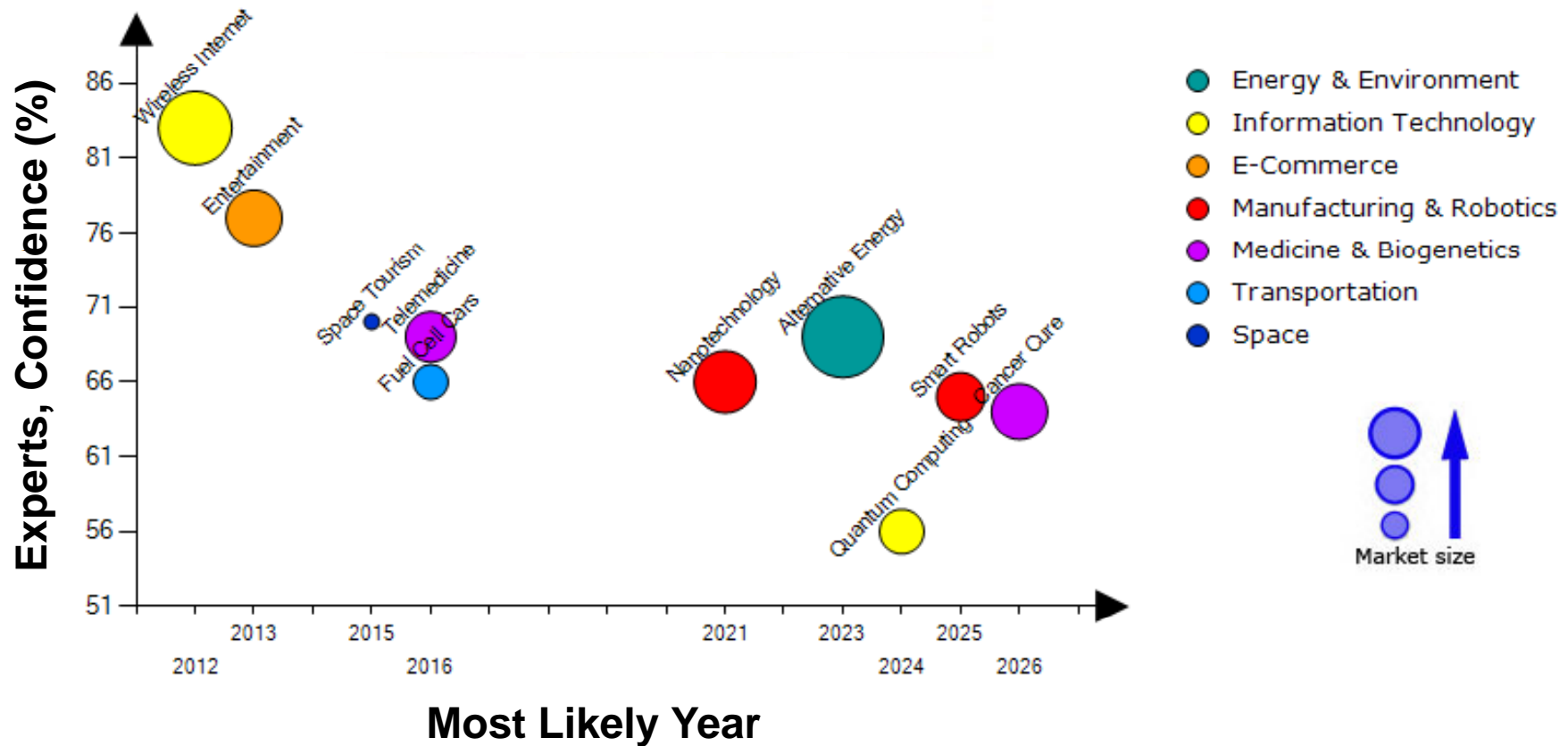
TRENDS IMPACTING REAL ESTATE

WHERE IS EMPLOYMENT GROWTH COMING FROM?



TRENDS IMPACTING REAL ESTATE

"BREAKTHROUGH INNOVATIONS" READJUST TREND LINES



SOURCE: TechCast

TRENDS IMPACTING REAL ESTATE

“THE COMING TECH-LED BOOM”?

THE WALL STREET JOURNAL.

- ▶ “Big data”
- ▶ “Smart manufacturing”
- ▶ Cheap, ubiquitous wireless communications

OPINION | January 30, 2012

The Coming Tech-led Boom

Three breakthroughs are poised to transform this century as much as telephony and electricity did the last.

Article

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A

By MARK P. MILLS AND JULIO M. OTTINO

In January 1912, the United States emerged from a two-year recession. Nineteen more followed—along with a century of phenomenal economic growth. Americans in real terms are 700% wealthier today.

In hindsight it seems obvious that emerging technologies circa 1912—electrification, telephony, the dawn of the automobile age, the invention of stainless steel and the radio amplifier—would foster such growth. Yet even knowledgeable contemporary observers failed to grasp their transformational power.

In January 2012, we sit again on the cusp of three grand technological transformations with the potential to rival that of the past century. All find their epicenters in America: big data, smart manufacturing and the wireless revolution.

Information technology has entered a big-data era. Processing power and data storage

TRENDS IMPACTING REAL ESTATE

REGIONS BENEFITTING FROM THE “NEW ECONOMY”

State Technology and Science Index Scores, 2010 Milken Institute

Science & Technology Index Score

- 70 to 85
- 60 to 69
- 50 to 59
- 40 to 49
- 0 to 39

Scores are based on 79 indicators that intend to “assess state science and technology capabilities, along with their ecosystems for converting them into companies and high-paying jobs.”



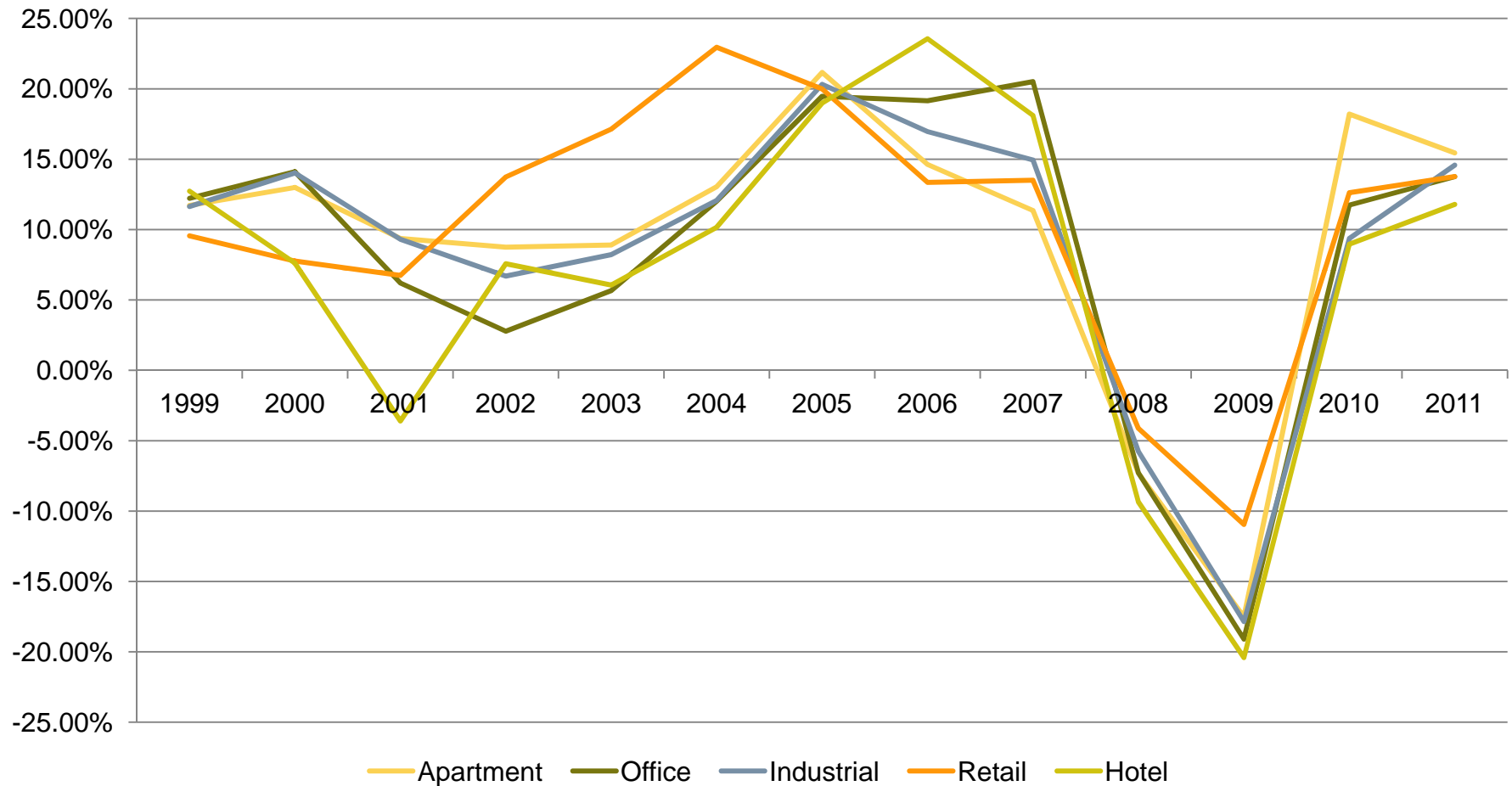
TRENDS IMPACTING REAL ESTATE REAL ESTATE MARKET

- ▶ **Real Estate Market has Bottomed Out**
- ▶ **Inventory Situation has Improved, but Excess Remains**
- ▶ **Slow Pricing Recovery**
- ▶ **Investor Activity Picking Up**
- ▶ **Increasing Interest Rate Environment**

TRENDS IMPACTING REAL ESTATE

STRESS REMAINS, BUT FAIRLY CLEAR BOTTOM IN 2009

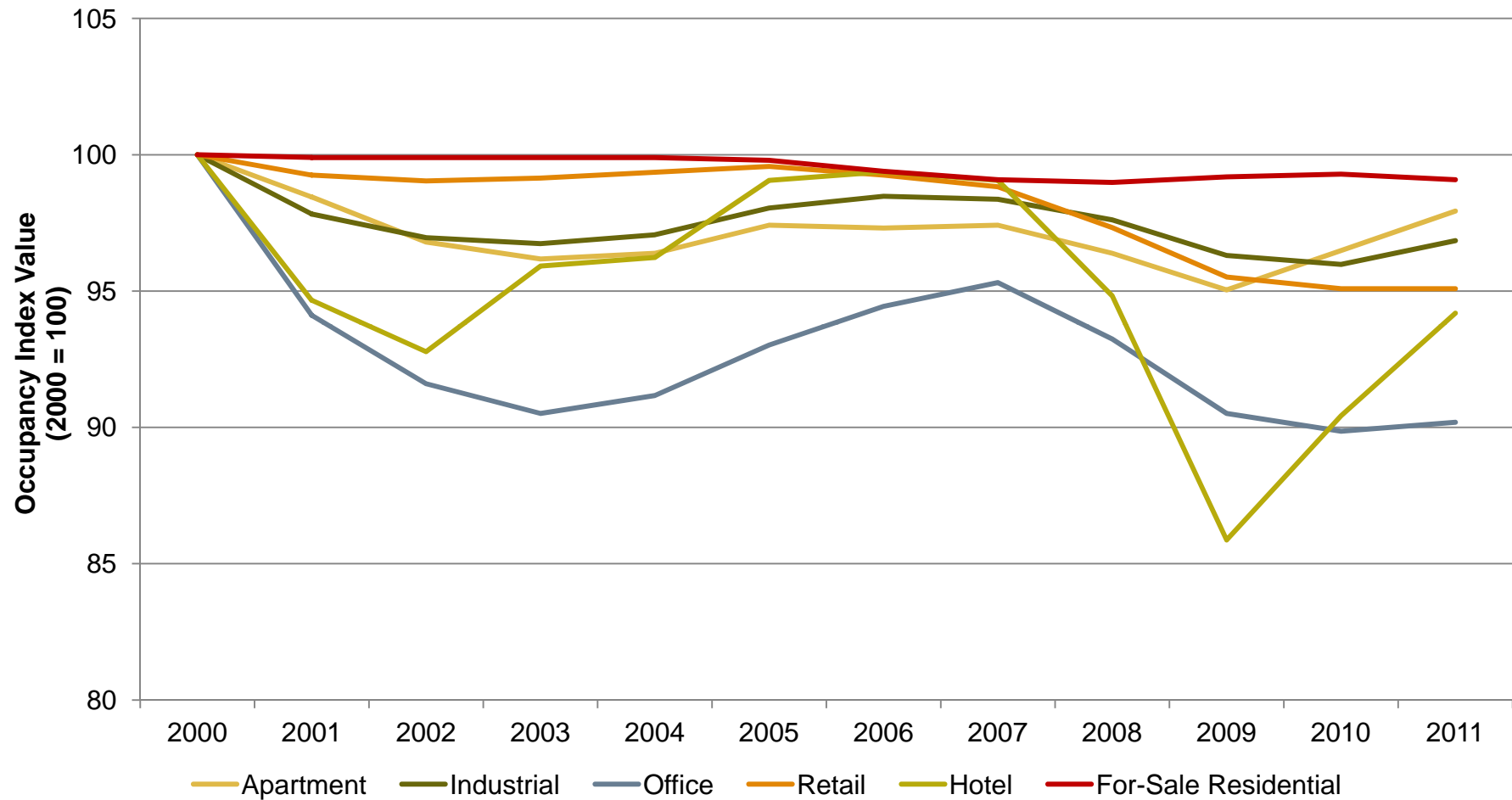
NCREIF Total Returns by Asset Type: 1999 – 2011



SOURCE: NCREIF

TRENDS IMPACTING REAL ESTATE

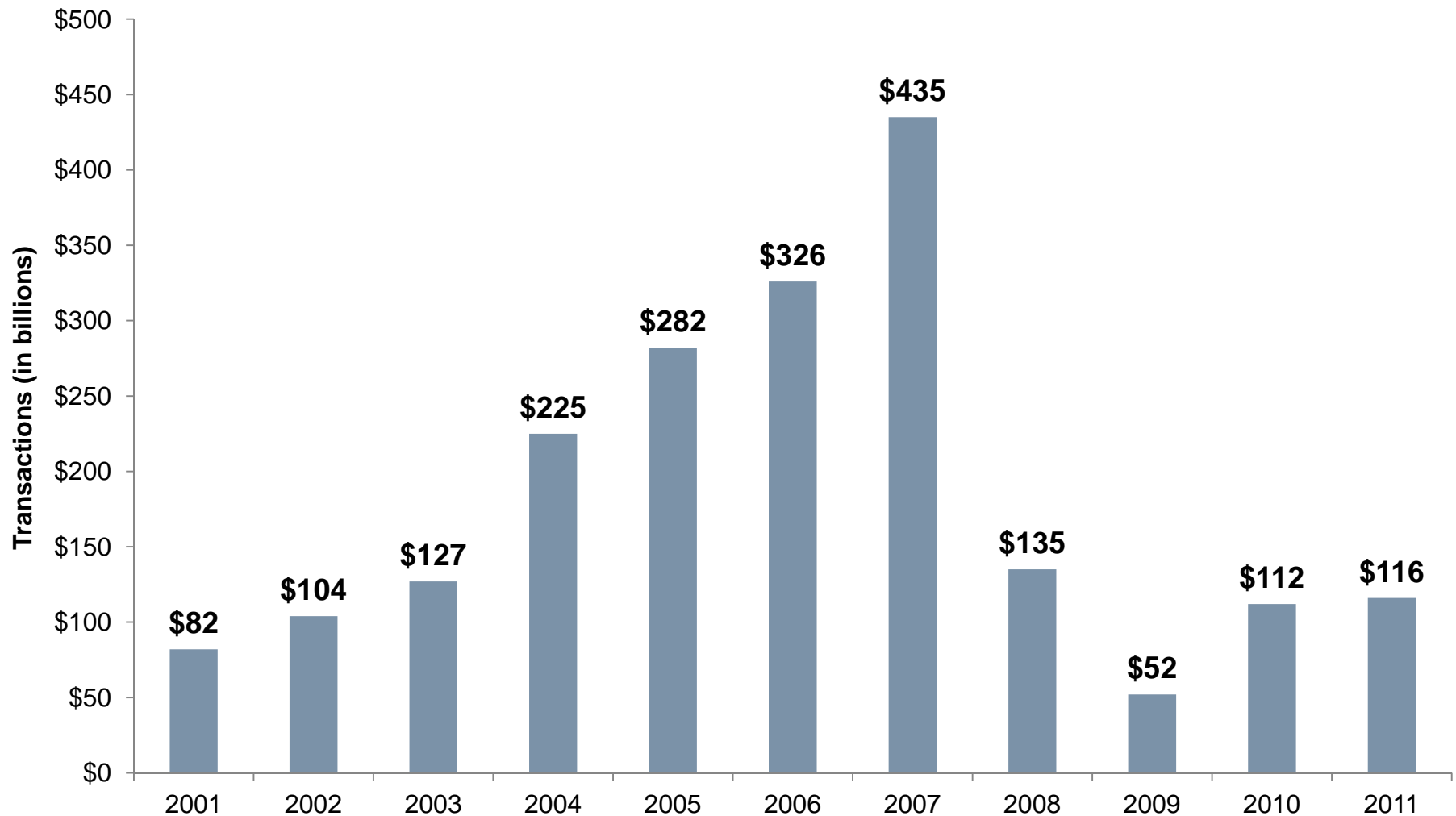
OCCUPANCIES STILL CATCHING UP TO 2000 LEVELS



NOTE: Retail occupancy rate for Neighborhood/Community centers.
 SOURCE: REIS; American Lodging & Hotel Association; U.S. Census Bureau

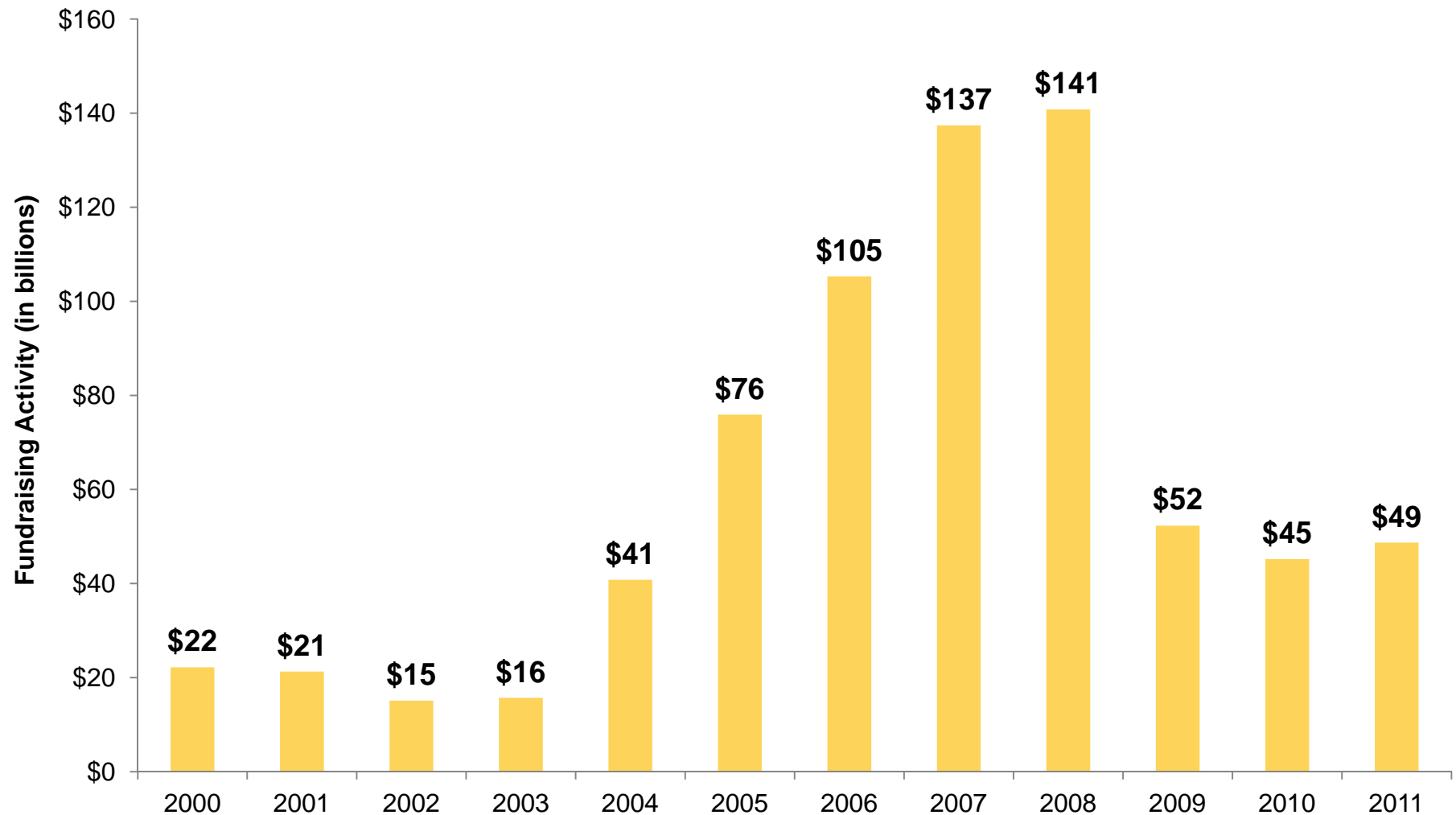
TRENDS IMPACTING REAL ESTATE

TRANSACTION VOLUMES SLOWLY RECOVERING



SOURCE: Real Capital Analytics; RREEF

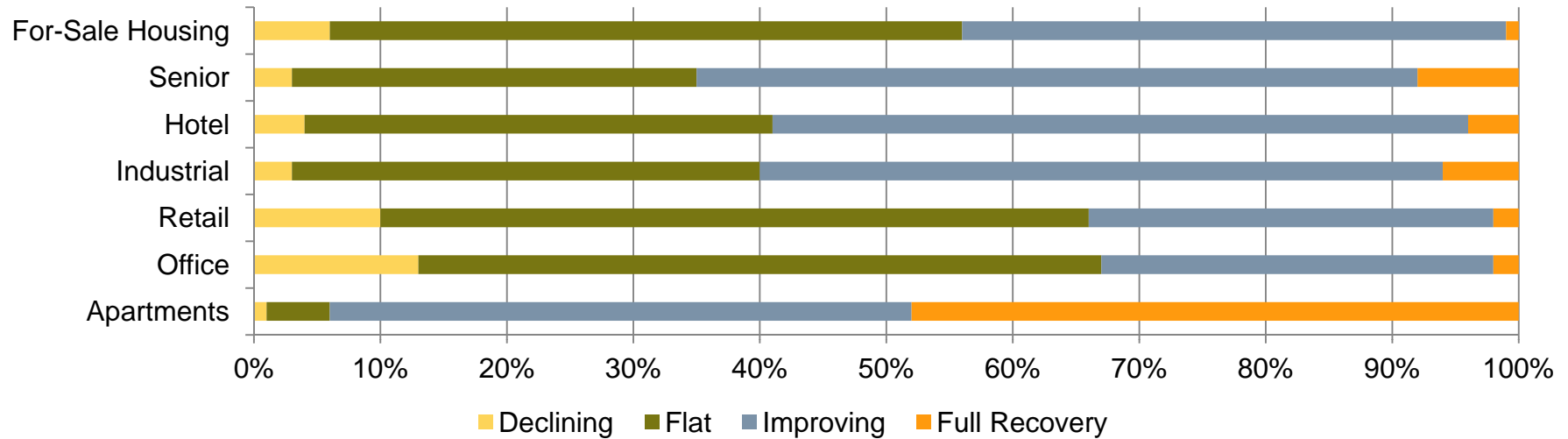
TRENDS IMPACTING REAL ESTATE BUT FUNDRAISING HAS BEEN FAIRLY STRONG



SOURCE: Preqin

TRENDS IMPACTING REAL ESTATE

PERCEIVED IMPROVEMENT ACROSS ALL ASSET TYPES

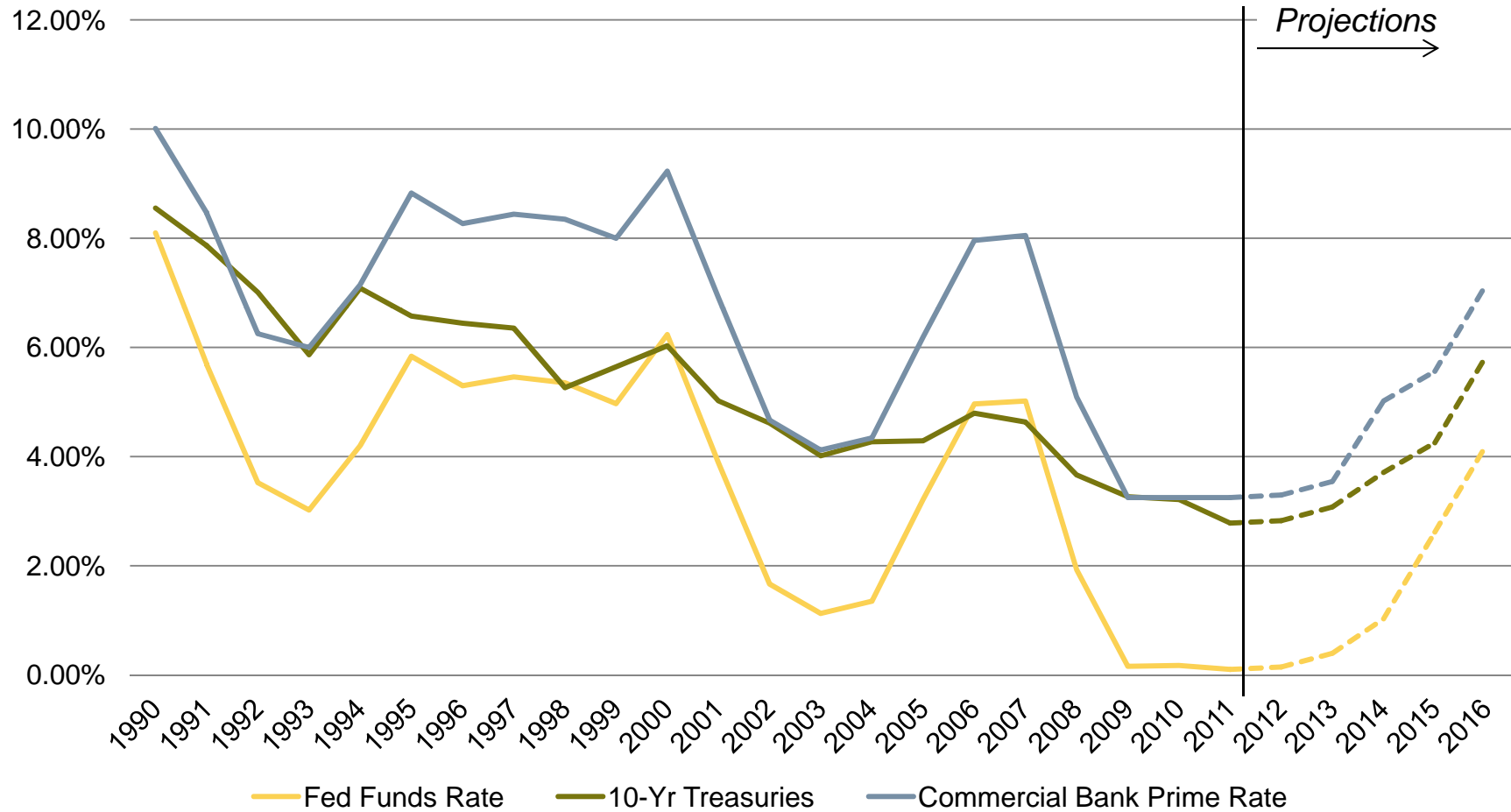


	Apartments	Office	Retail	Industrial	Hotel	Senior	For-Sale Housing
Declining	1%	13%	10%	3%	4%	3%	6%
Flat	5%	54%	56%	37%	37%	32%	50%
Improving	46%	31%	32%	54%	55%	57%	43%
Full Recovery	48%	2%	2%	6%	4%	8%	1%

SOURCE: RCLCO 4Q 2011 National Real Estate Sentiment Survey

TRENDS IMPACTING REAL ESTATE

RIISING INTEREST RATES ARE HIGHLY LIKELY



SOURCE: Federal Reserve; U.S. Department of Treasury; RCLCO



Drivers of Housing Demand and Performance

WHAT DOES FUTURE HOUSING DEMAND LOOK LIKE?

▶ **Conventional Wisdom:**

- Urban
- Rental
- Walkable
- Green
- Compact

▶ **Reality:**

- As usual, it's more complex.

DRIVERS OF HOUSING DEMAND AND INVESTOR PERFORMANCE

- ▶ **Demographic Shifts**
 - Generations
 - Migration
 - Ethnicity
 - Lifestyle
 - Headship Rates

- ▶ **Changing Consumer Preferences**
 - Homeownership
 - Sustainability/TOD/Walkability/Urbanism

- ▶ **Other Critical Factors**
 - Housing Decision Matrix
 - Demographics of Buying and Selling
 - Politics and Regulations
 - Housing as the Nest Egg

- ▶ **Innovation Secures Strong Performance**

DEMOGRAPHIC SHIFTS

HOUSEHOLDS FORM FOR VARIOUS REASONS

- ▶ Moving out of the Family Home
 - ▶ Leaving Roommates to Live By Yourself
 - ▶ Marriage or Other Relationships
 - ▶ Divorce
 - ▶ Others
-
- ▶ ***Job availability is the necessary condition for all of these events***

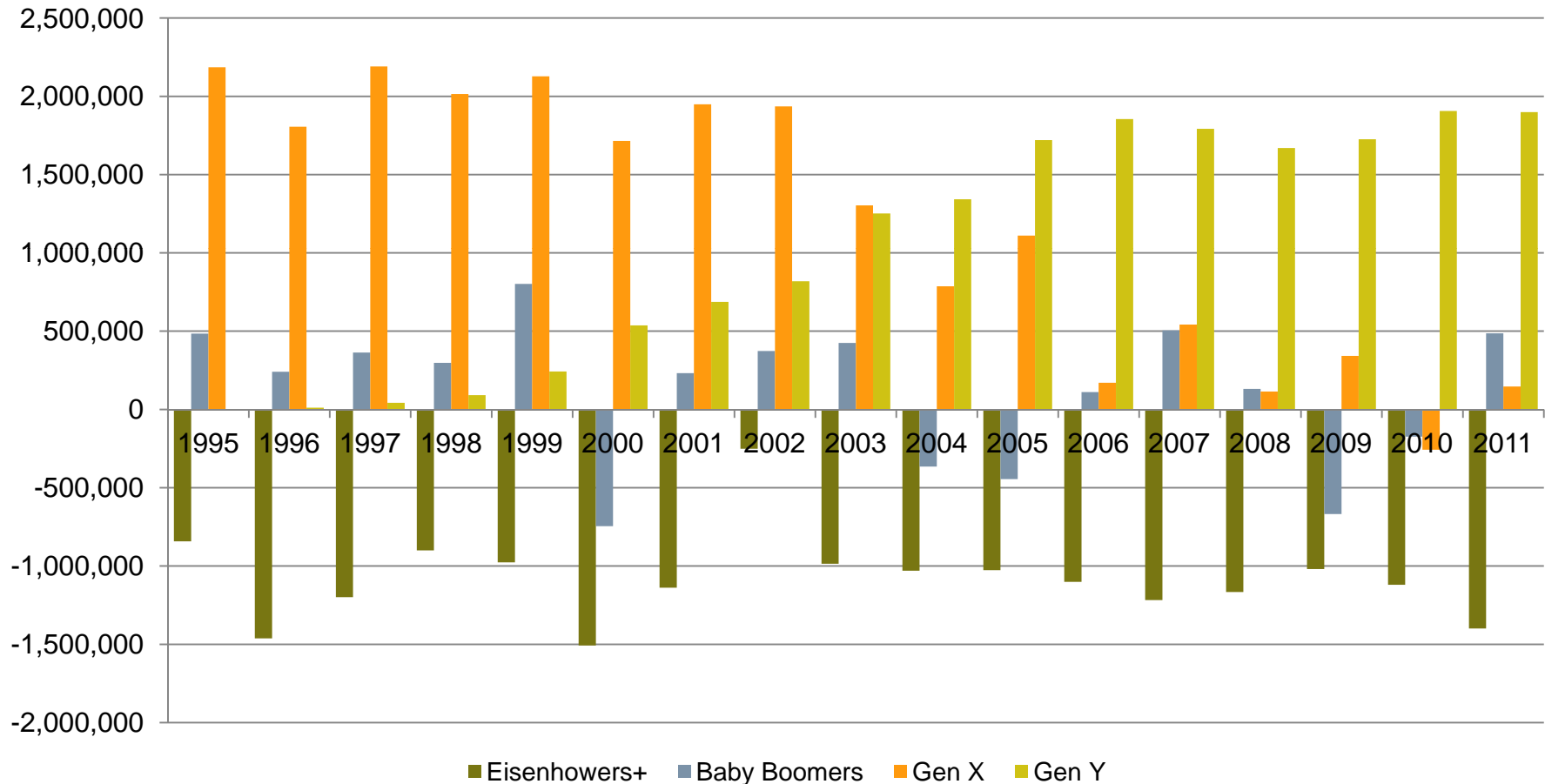


DEMOGRAPHIC SHIFTS

GENERATION Y DOMINATES HOUSEHOLD FORMATION

Total Net Household Formation

United States, 1995 – 2011

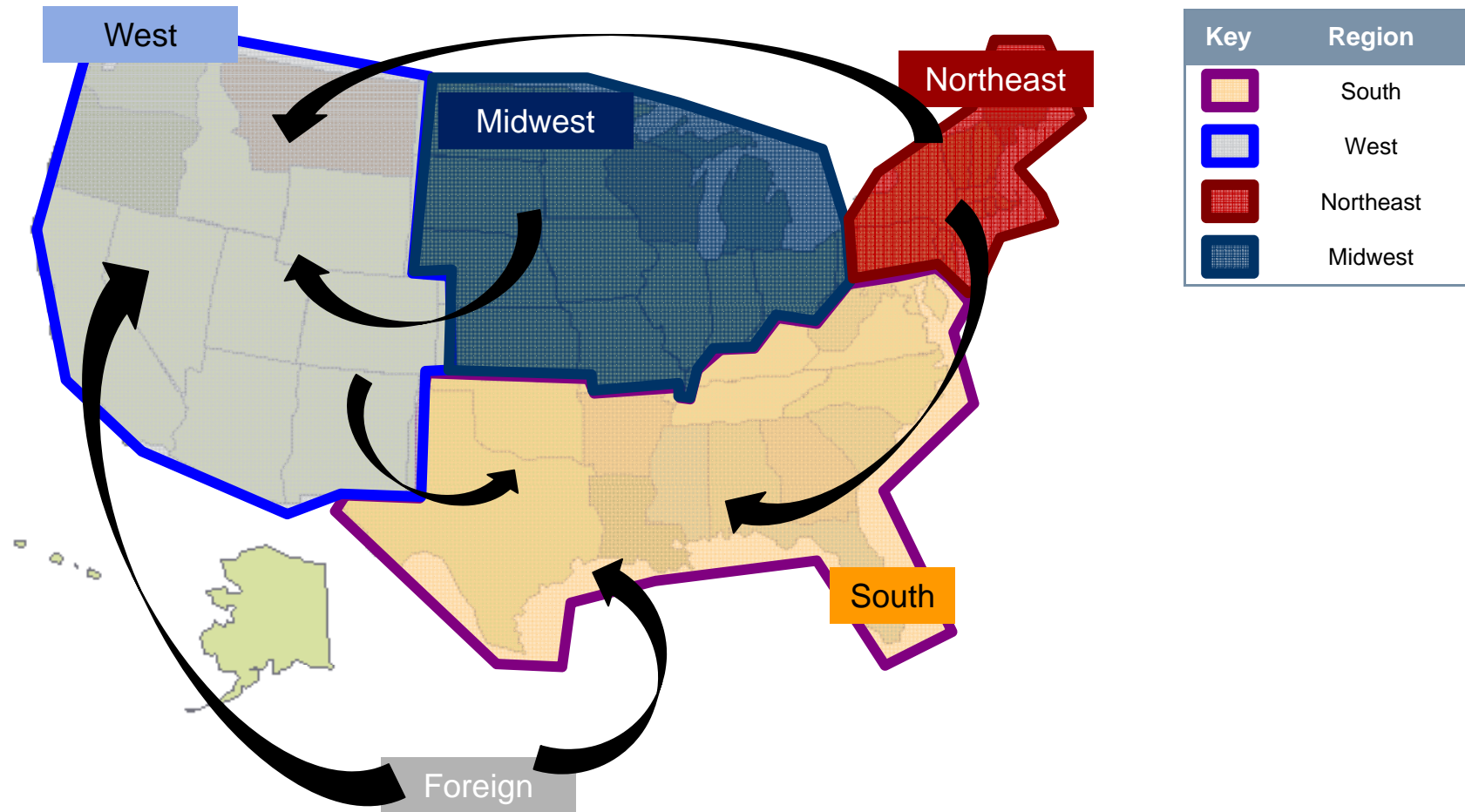


SOURCE: U.S. Census Current Population Survey

DEMOGRAPHIC SHIFTS

NET MIGRATION IS STILL BRINGING PEOPLE WEST

Net In Migration Within Each US Region ¹



¹ This excludes migration of existing households within the respective regions and is limited to new household migration to each region
SOURCE: IRS

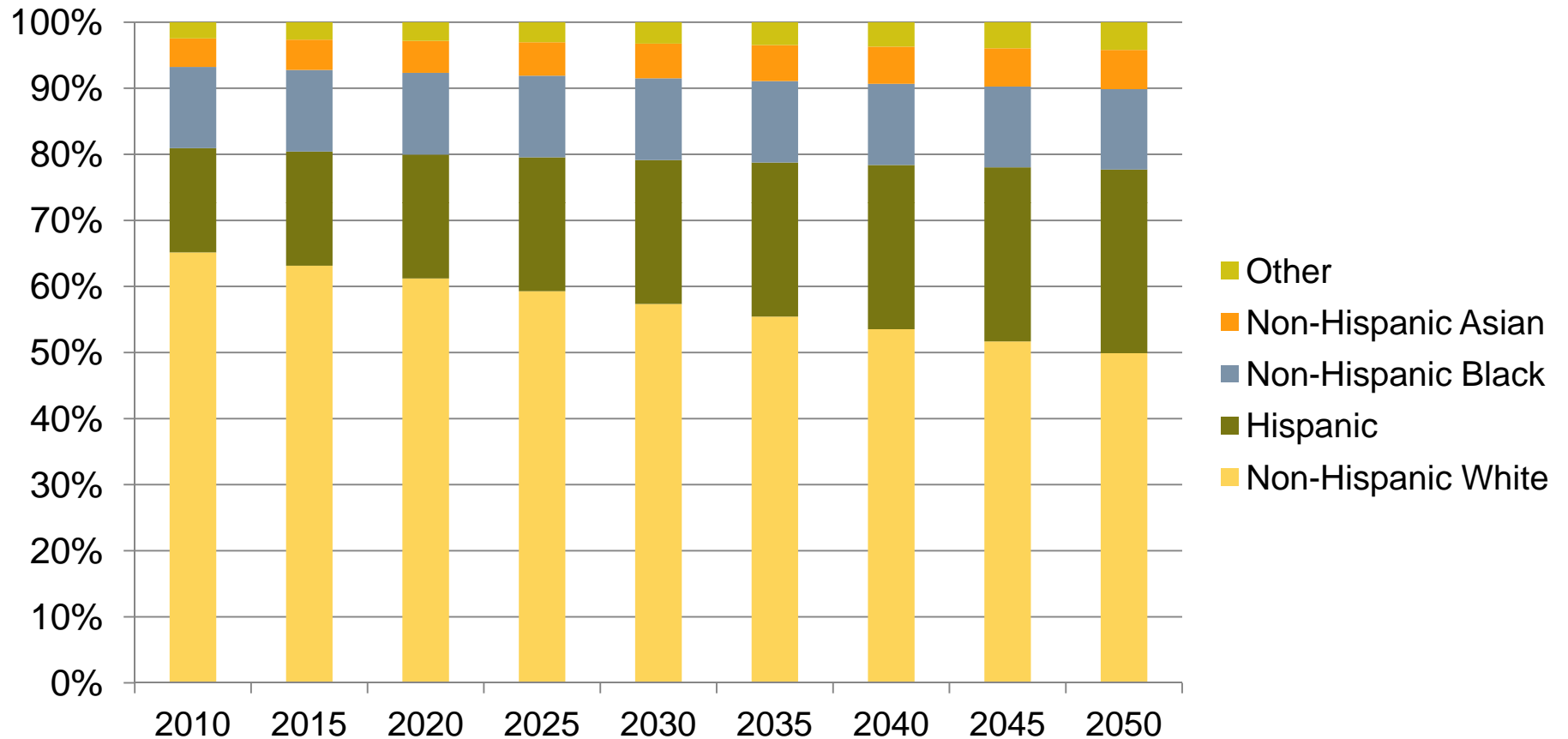
DEMOGRAPHIC SHIFTS

SHIFTS TO “MAJORITY MINORITY” IN THE U.S.

Projected Distribution of Population by Ethnicity

United States

2010 – 2050

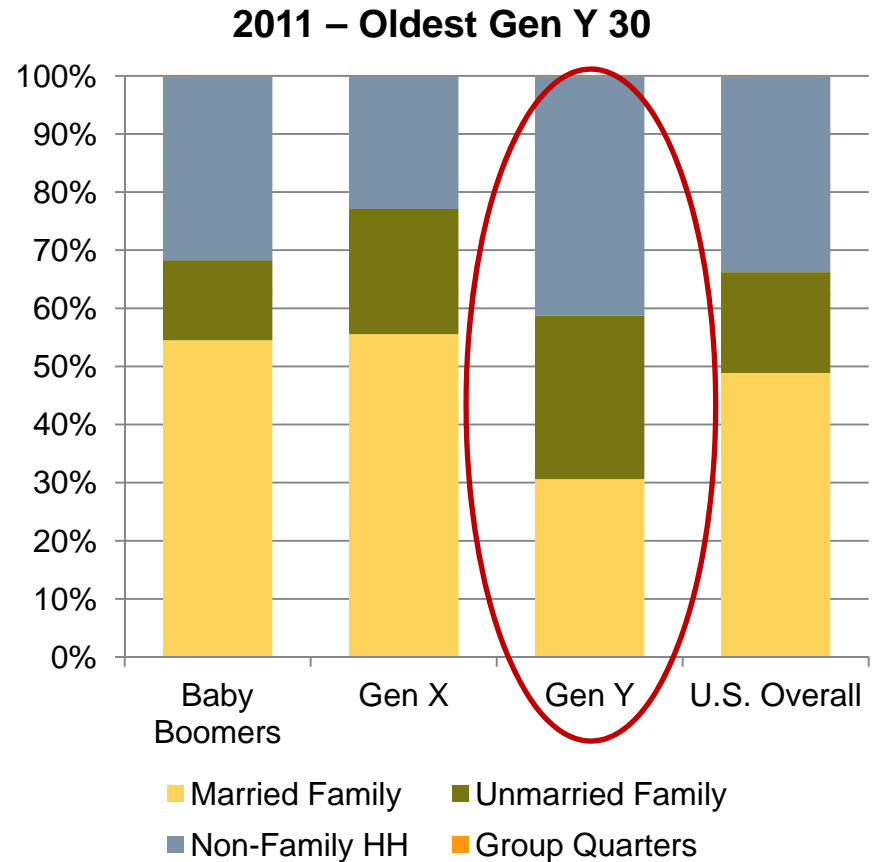
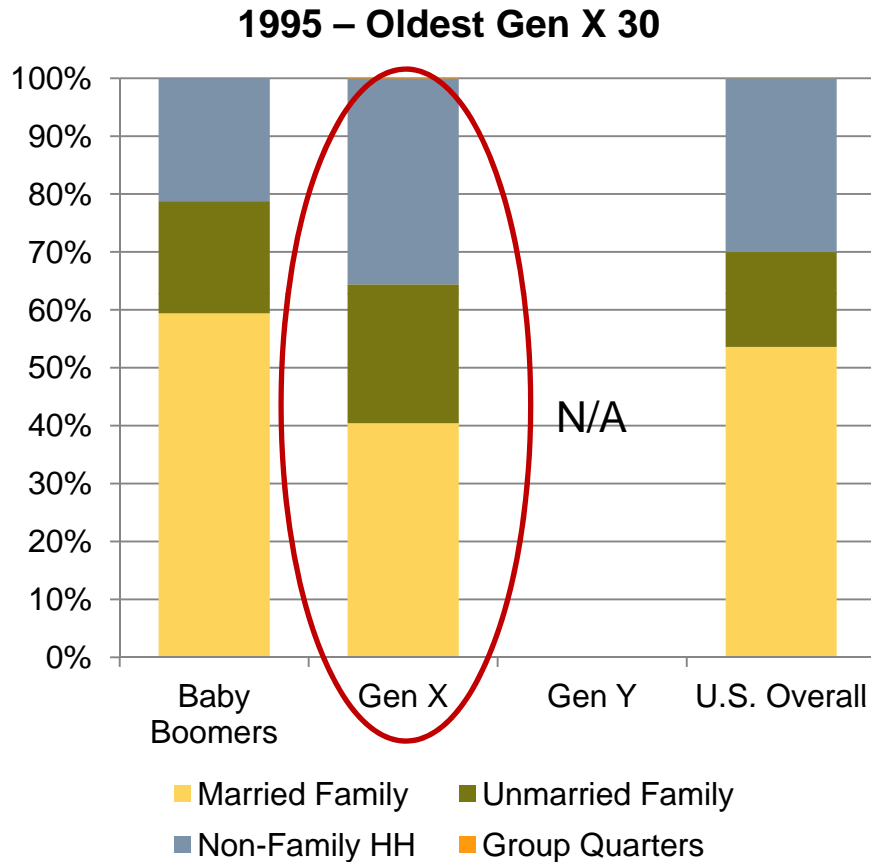


SOURCE: U.S. Census Bureau; RCLCO

DEMOGRAPHIC SHIFTS

GENERATION Y IS REDEFINING LIFESTYLES (SO FAR)

Distribution of Household Types by Generation United States



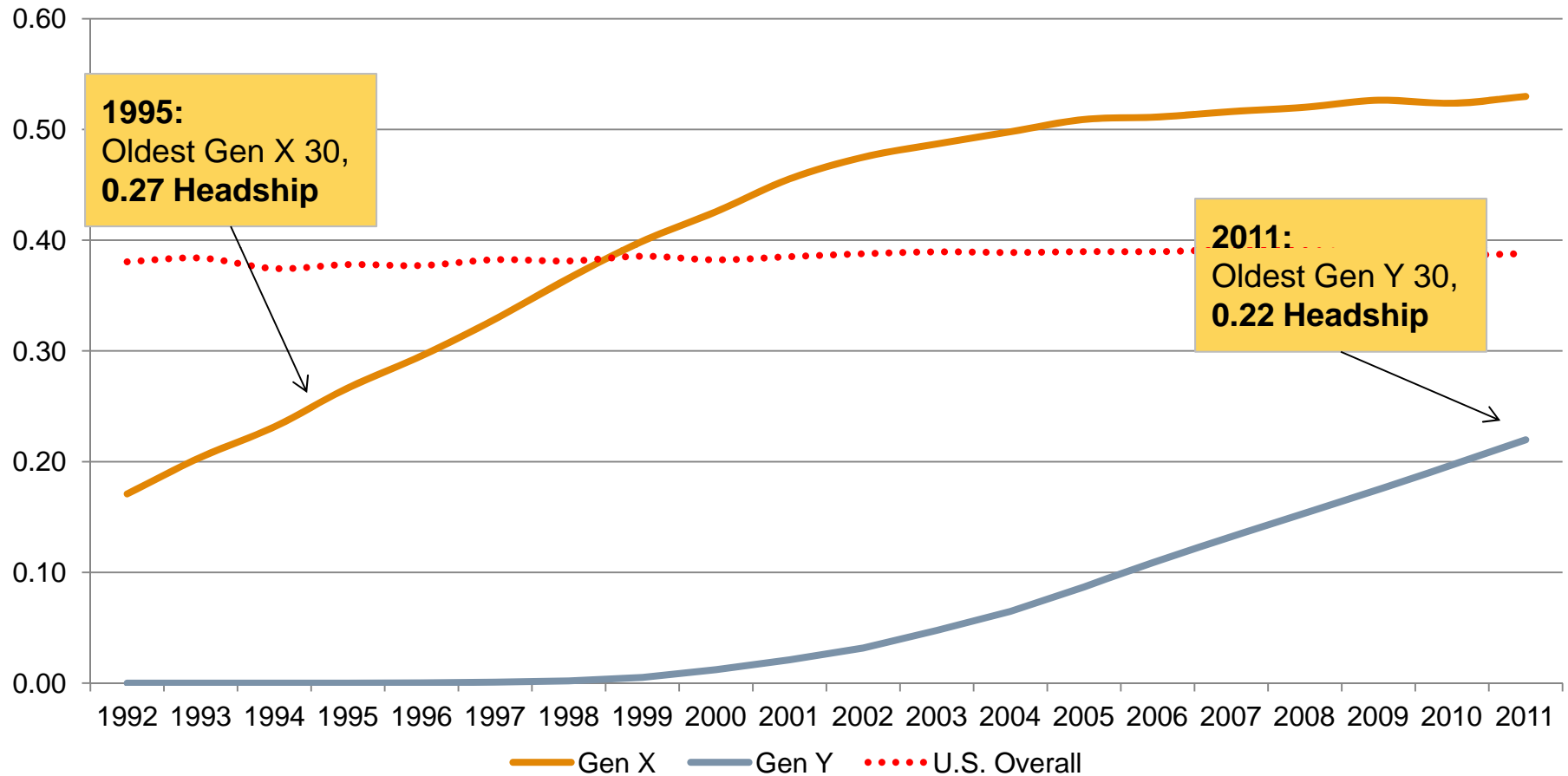
SOURCE: U.S. Census Current Population Survey

DEMOGRAPHIC SHIFTS

GEN Y IS FORMING NEW HOUSEHOLDS MORE SLOWLY

Household Headship Rates by Generation

United States, 1992 – 2011



SOURCE: U.S. Census Current Population Survey

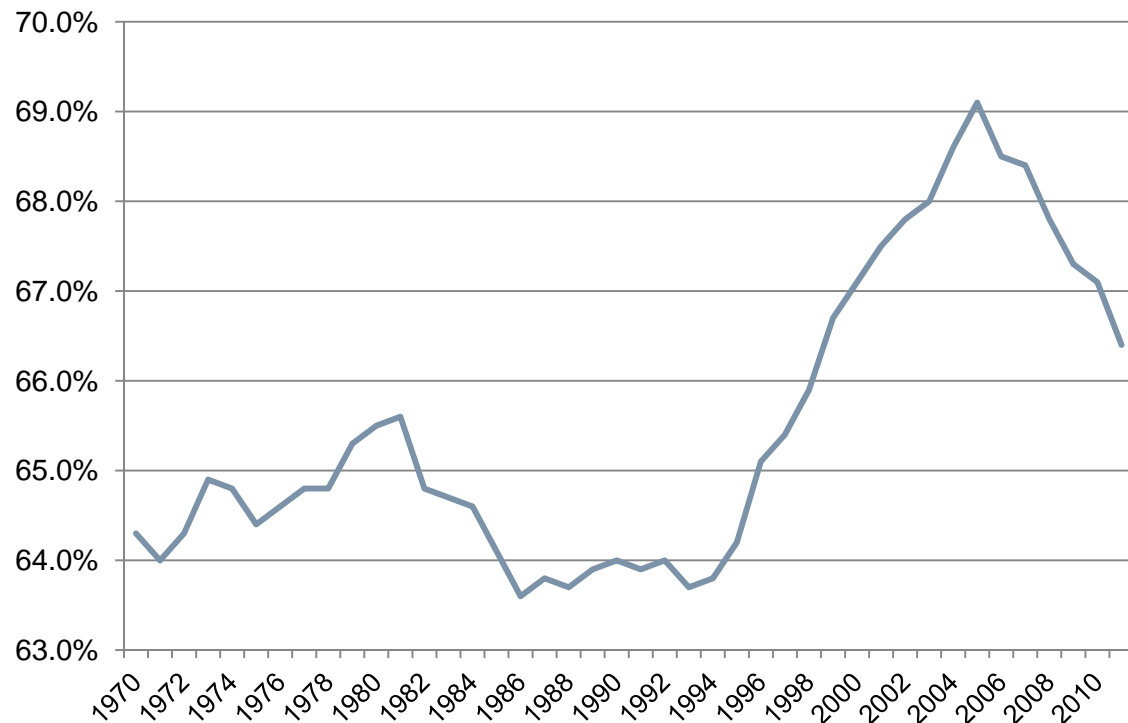
SHIFTING PREFERENCES

HOMEOWNERSHIP FALLS, BUT CULTURE STILL SUPPORTS IT

Homeownership Rate

United States

1970 – 2011



SOURCE: Fannie Mae

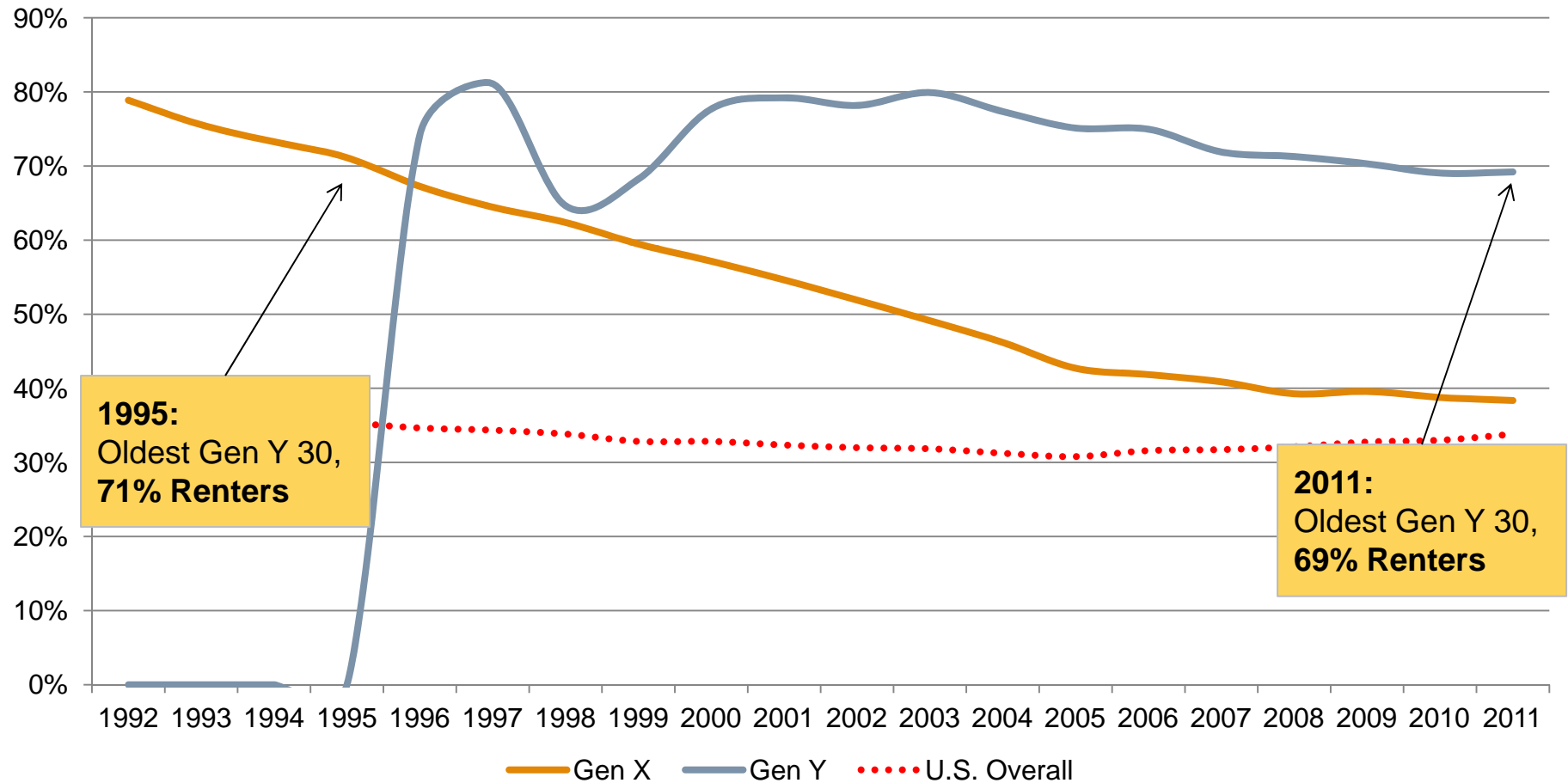
▶ Mixed Messages:

- 64% of Americans now say buying a home is a good investment (down from 83% in 2003) (2010 4th Q)
- 92% of homeowners say they will “always own” (2011 3rd Q)
- 63% of renters believe they will “buy at some point” (2011 3rd Q)

SHIFTING PREFERENCES

NOT APPARENT WHEN TAKING AGE INTO ACCOUNT

Percent Renters by Generation
United States, 1992 – 2011

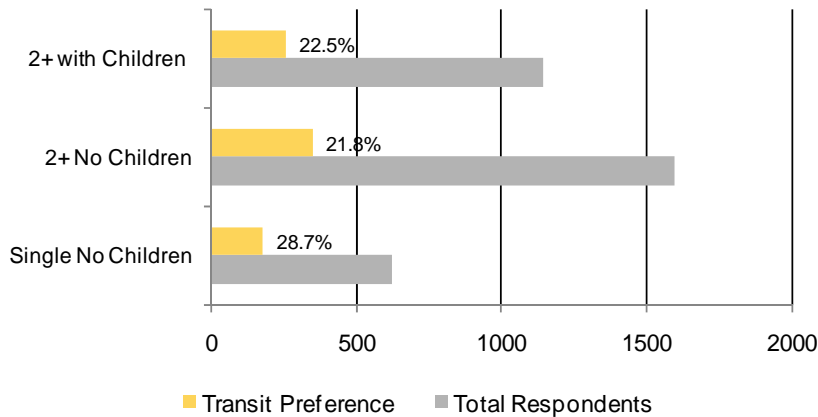


SOURCE: U.S. Census Current Population Survey

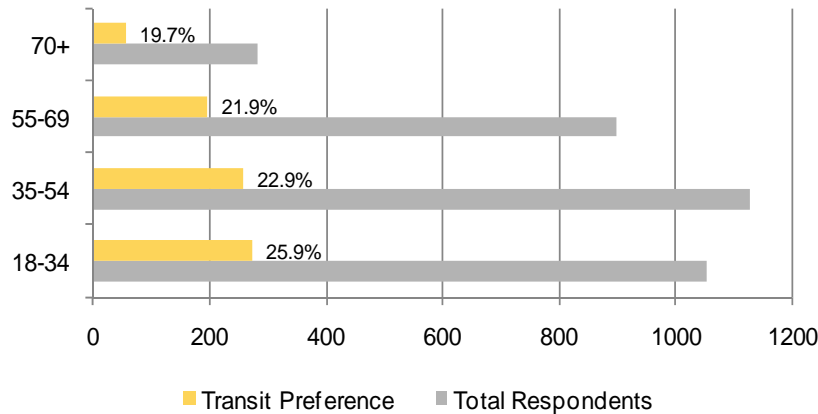
SHIFTING PREFERENCES

EVOLVING PREFERENCES FOR GREEN, TOD, URBAN, ETC.

Preference by Household Type

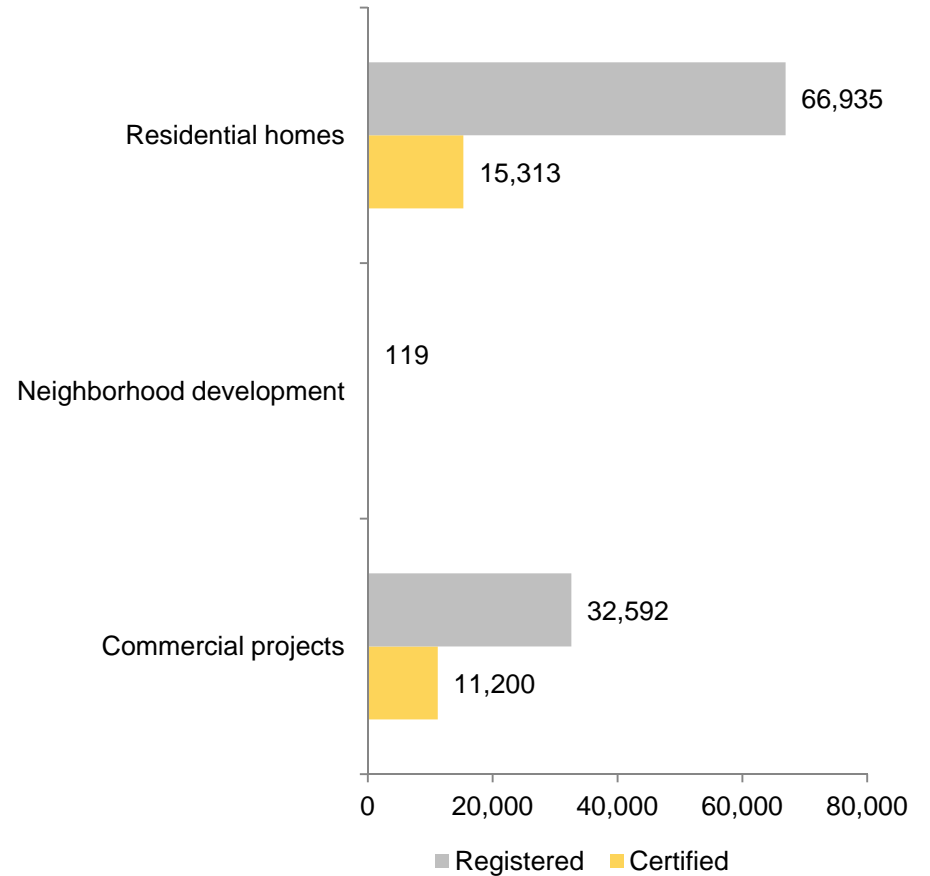


Preference by Age Group



LEED Certified and Registered Projects

As of December 2011

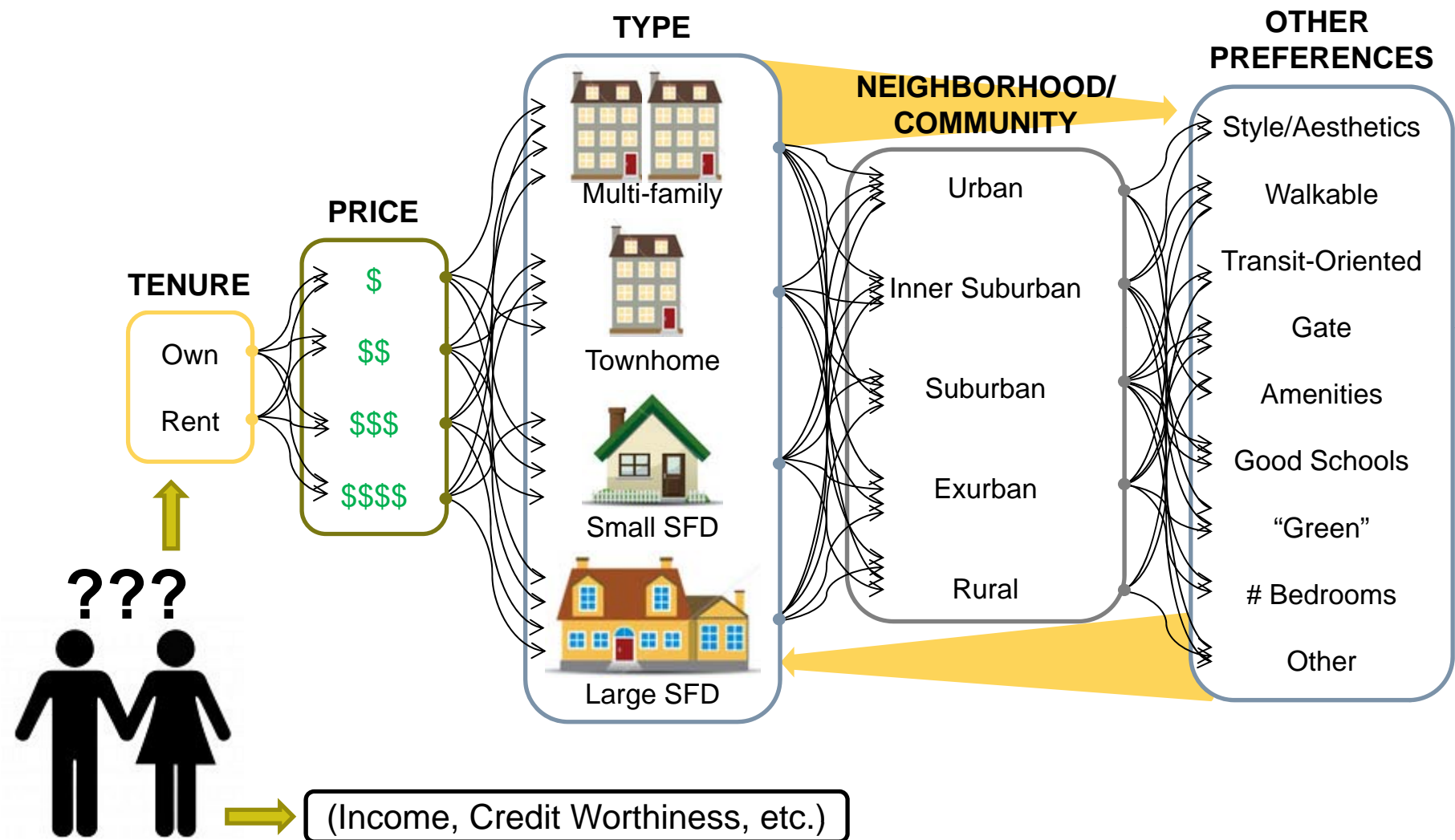


SOURCE: National Association of REALTORS, 2011; RCLCO

SOURCE: US Green Building Council, 2011

OTHER FACTORS DRIVING DEMAND

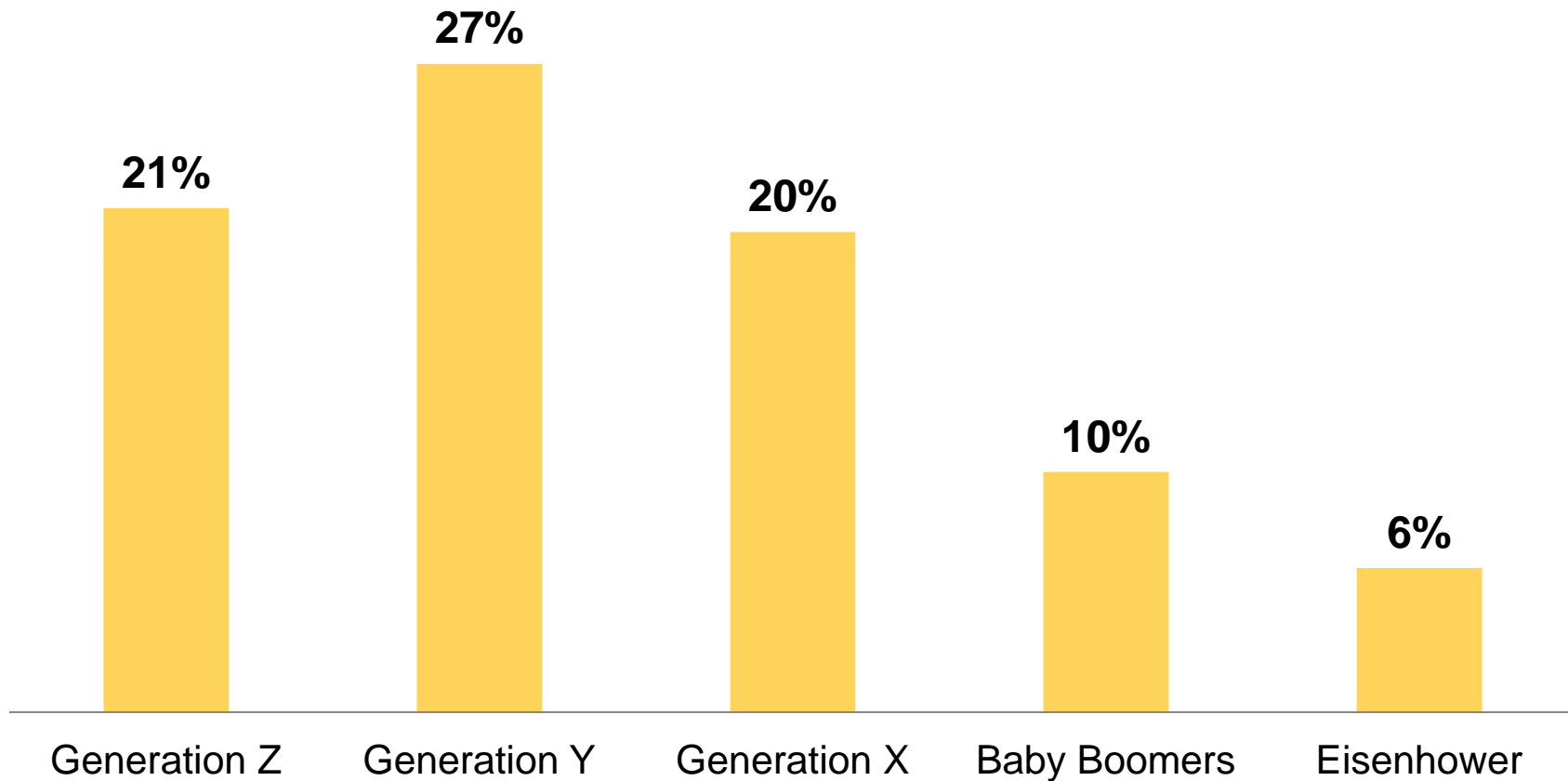
"PREFERENCES" ONLY PART OF THE DECISION



OTHER FACTORS DRIVING DEMAND

THE ACTIVE MARKET IS DRIVEN BY MOBILITY

Percent of Population that Moves Annually
United States

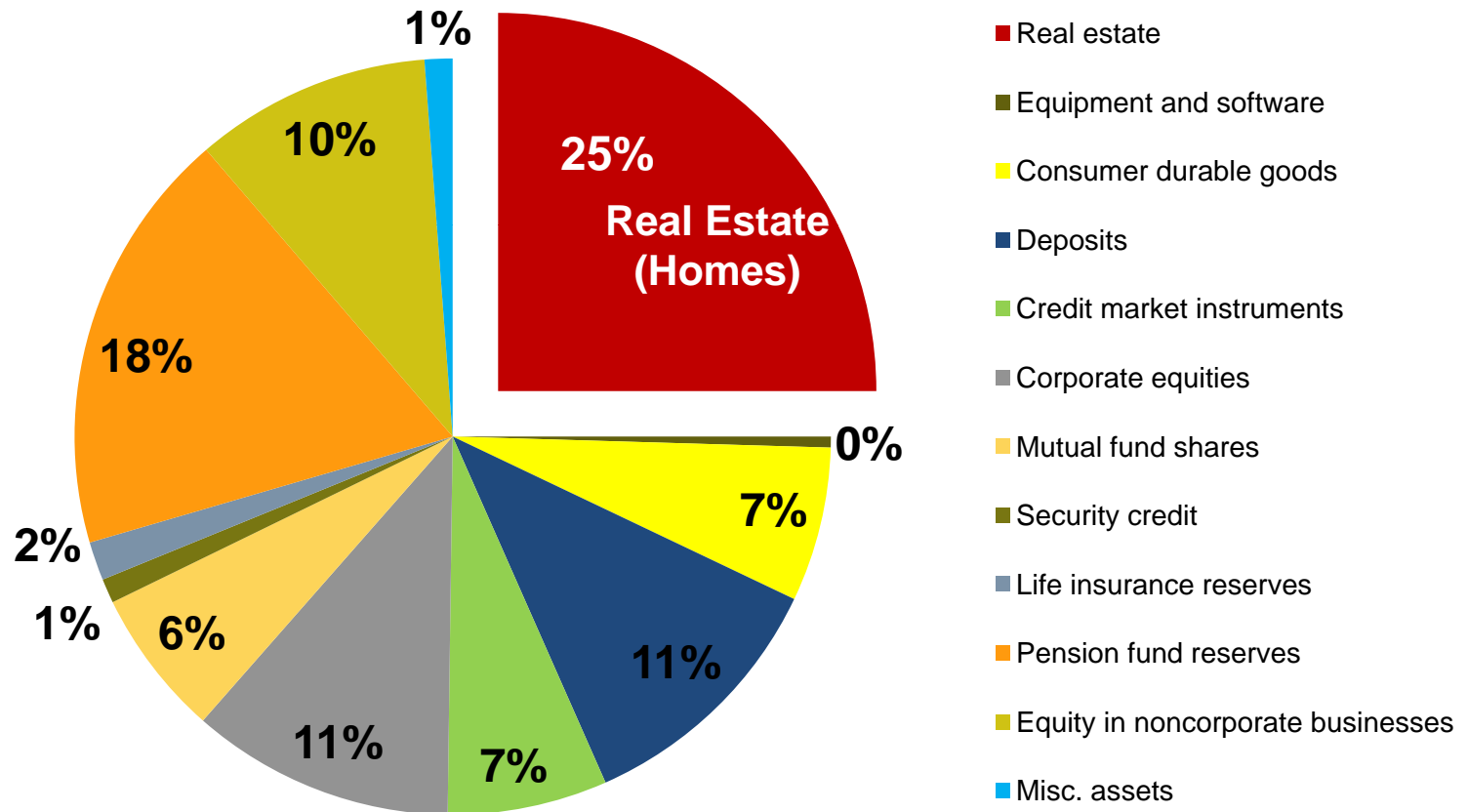


SOURCE: American Community Survey

OTHER FACTORS DRIVING DEMAND

HOUSING IS ALSO AN ASSET FOR AMERICAN HOUSEHOLDS

Percentage of Gross Value by Asset Type, Households, and Non-Profits
 United States (2011 4th Q)



INNOVATION SECURES STRONG PERFORMANCE

COMPANIES THAT INNOVATE GENERATE DEMAND

▶ **Attainable Prices**

- The predominant approach during the past several years in response to buyer price sensitivity
- Builders have successfully figured out how to bring prices down through shrinking sizes and focusing only on features buyers care about
- Will likely continue to be a factor



INNOVATION SECURES STRONG PERFORMANCE

COMPANIES THAT INNOVATE GENERATE DEMAND

▶ New Housing Products

- Growing consumer emphasis on “new” housing (“new” has to mean more than simply “built this year”)
- The most successful builders and developers are aggressively redesigning floor plans to meet changing demographics and preferences



INNOVATION SECURES STRONG PERFORMANCE

COMPANIES THAT INNOVATE GENERATE DEMAND

▶ Marketing Approaches

- Everyone is still trying to figure out how to use social media to reach out to buyers
- Best practices involve customer interaction through Facebook, YouTube, Pinterest, etc.
- Still plenty of room to figure this out...



INNOVATION SECURES STRONG PERFORMANCE

COMPANIES THAT INNOVATE GENERATE DEMAND

▶ Process

- New housing development has become more difficult; most significant concerns:
 - Financing constraints
 - Entitlements/regulation
 - Tracking buyer preferences
- Success will require fostering organizational cultures and processes that spur innovation
- Examples:
 - Daybreak's tulips
 - Large-scale public-private partnership in Phoenix





Housing in the Treasure Valley

DRIVERS OF HOUSING DEMAND IN BOISE

▶ **Macro-Trends**

- Macroeconomic performance
- Demographic shifts
- Shifting lifestyles and preferences

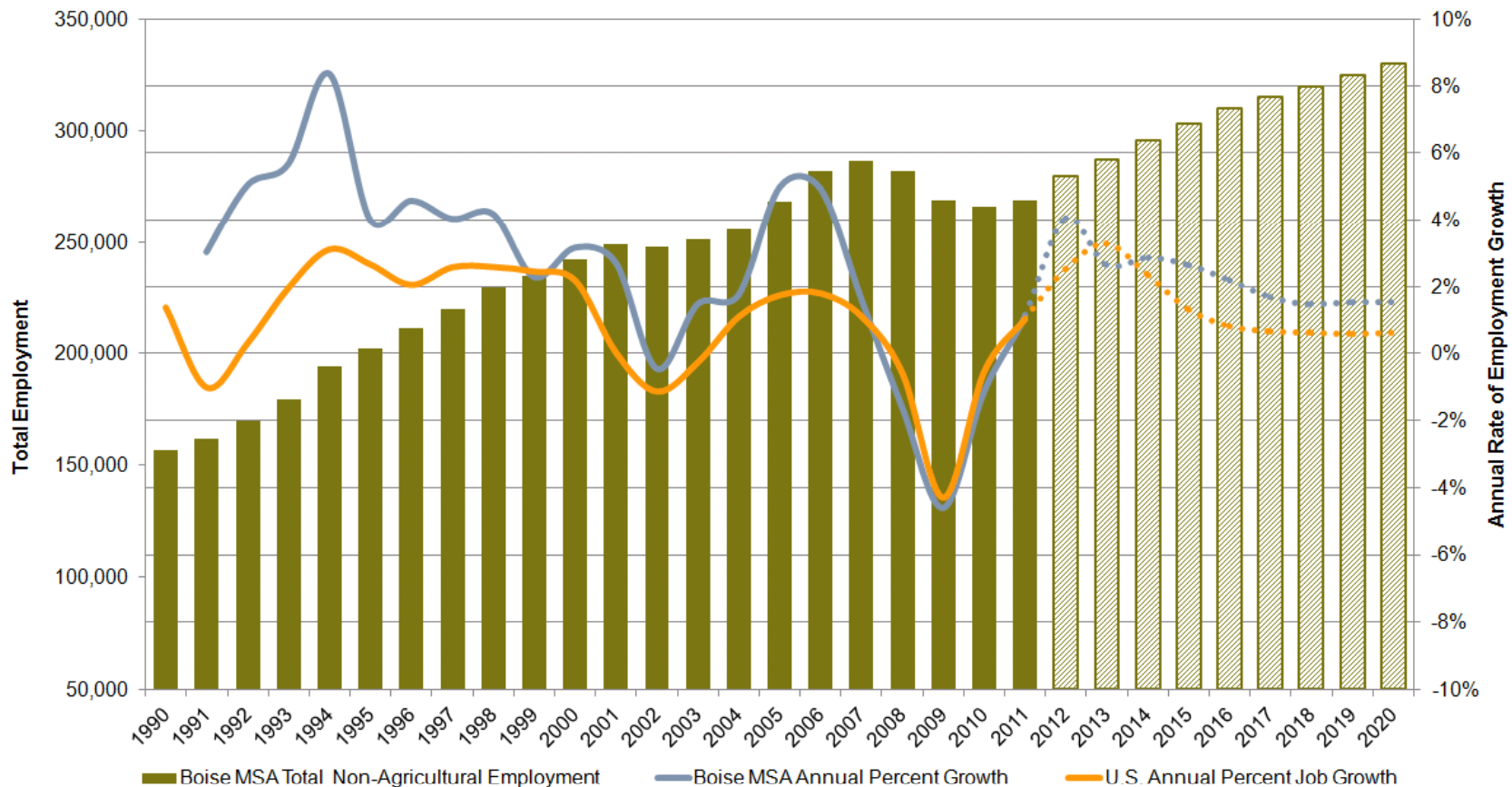
▶ **California! (or, more basically, Idaho in-migration)**

- Employment
- Lifestyle
- Affordability

SITUATION ANALYSIS

NON-AGRICULTURAL EMPLOYMENT

Historical and Projected Non-Agricultural Employment Boise MSA, ID 1990 – 2020



SOURCE: Economy.com

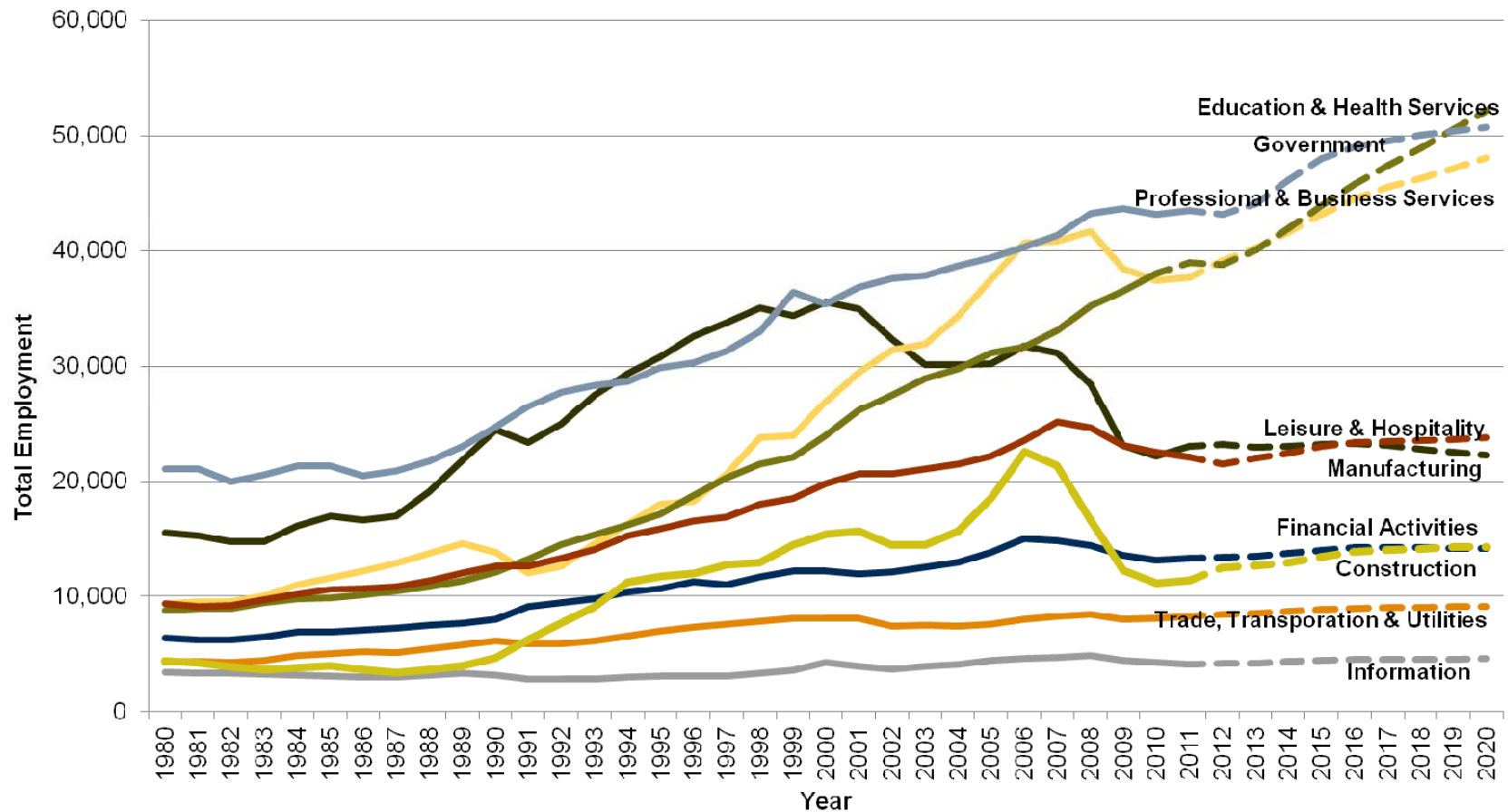
SITUATION ANALYSIS

NON-AGRICULTURAL EMPLOYMENT BY SECTOR

Historical and Projected Non-Agricultural Employment

Boise MSA, ID

1990 – 2020



SOURCE: Economy.com

SITUATION ANALYSIS

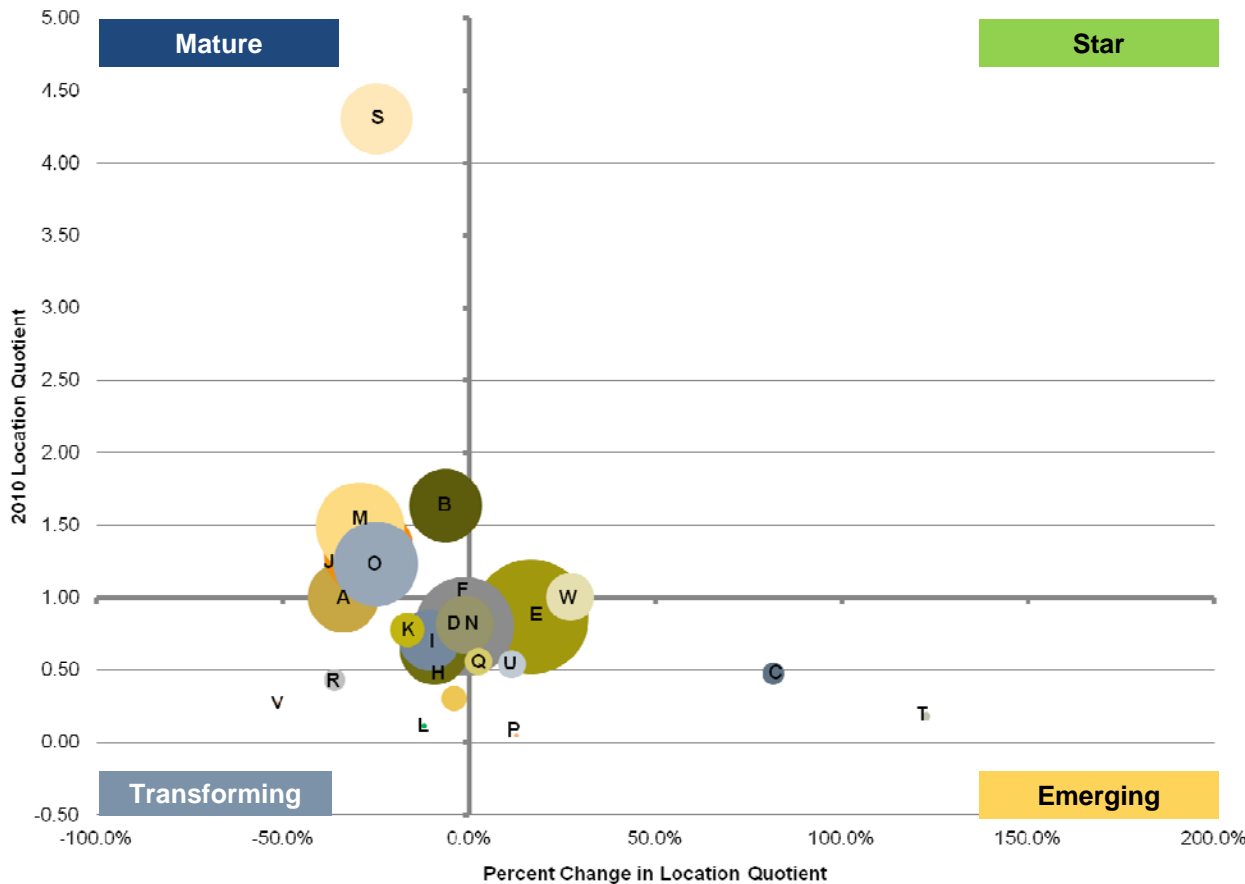
BOISE'S ECONOMIC DEVELOPMENT OPPORTUNITIES

Location Quotient

Ada and Canyon Counties, ID

2010

Ada and Canyon Counties vs. U.S.



LABEL	CLUSTER	2010 LOC. QUO.	2010 TOTAL EMP.
A	Advanced Materials	1.00	8,974
B	Agribusiness, Food Processing & Technology	1.64	9,448
C	Apparel & Textiles	0.47	859
D	Arts, Entertainment, Recreation & Visitor Industries	0.72	6,915
E	Biomedical/Biotechnical (Life Sciences)	0.87	23,217
F	Business & Financial Services	0.80	17,072
G	Chemicals & Chemical Based Products	0.30	1,148
H	Defense & Security	0.64	8,552
I	Education & Knowledge Creation	0.71	6,627
J	Energy (Fossil & Renewable)	1.32	14,295
K	Forest & Wood Products	0.78	2,034
L	Glass & Ceramics	0.11	56
M	Information Technology & Telecommunications	1.49	13,882
N	Transportation & Logistics	0.82	5,895
O	Manufacturing Supercluster	1.23	12,662
P	Primary Metal Mfg	0.05	33
Q	Fabricated Metal Product Mfg	0.56	1,309
R	Machinery Mfg	0.43	811
S	Computer & Electronic Product Mfg	4.30	8,992
T	Electrical Equipment, Appliance & Component Mfg	0.18	122
U	Transportation Equipment	0.54	1,395
V	Mining	0.27	93
W	Printing & Publishing	1.00	3,965

SOURCE: Purdue Center for Regional Development

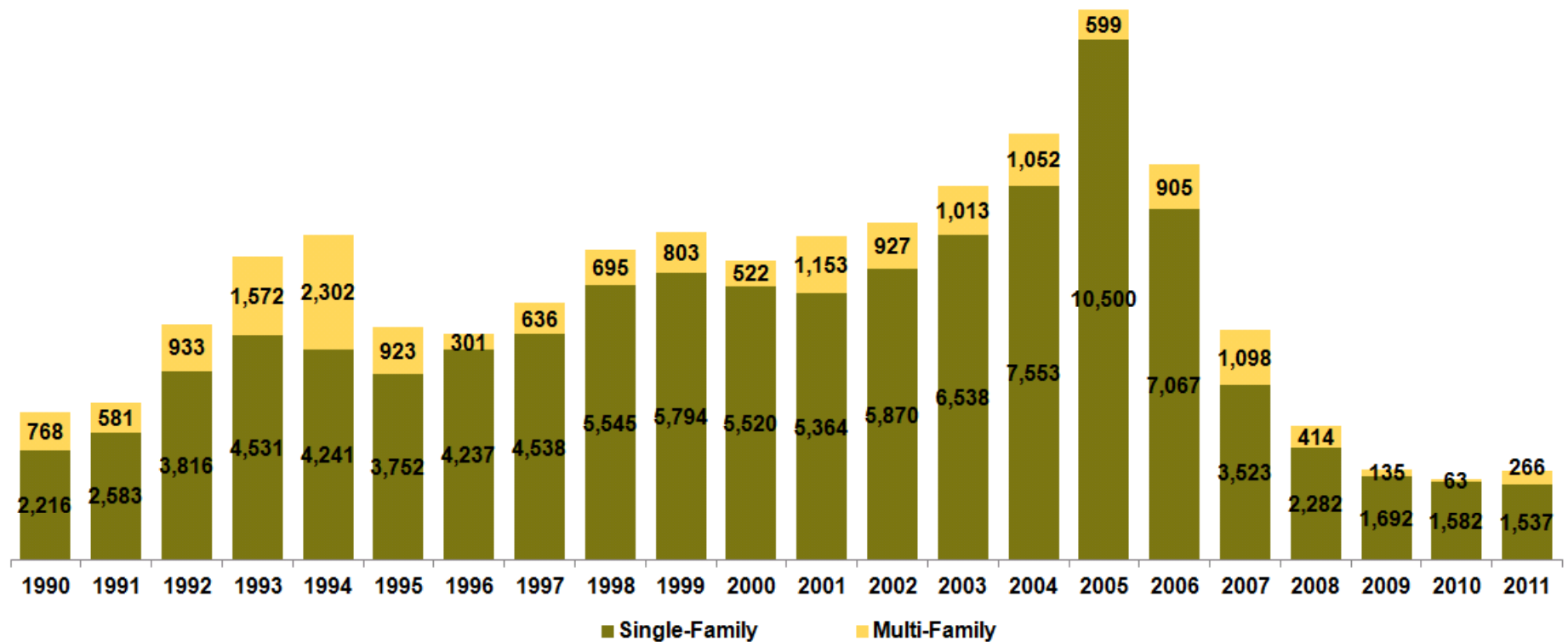
SITUATION ANALYSIS

HISTORICAL HOUSING PERMITS

Historical Single-Family and Multifamily Permits

Ada and Canyon Counties, ID

1990 – 2011

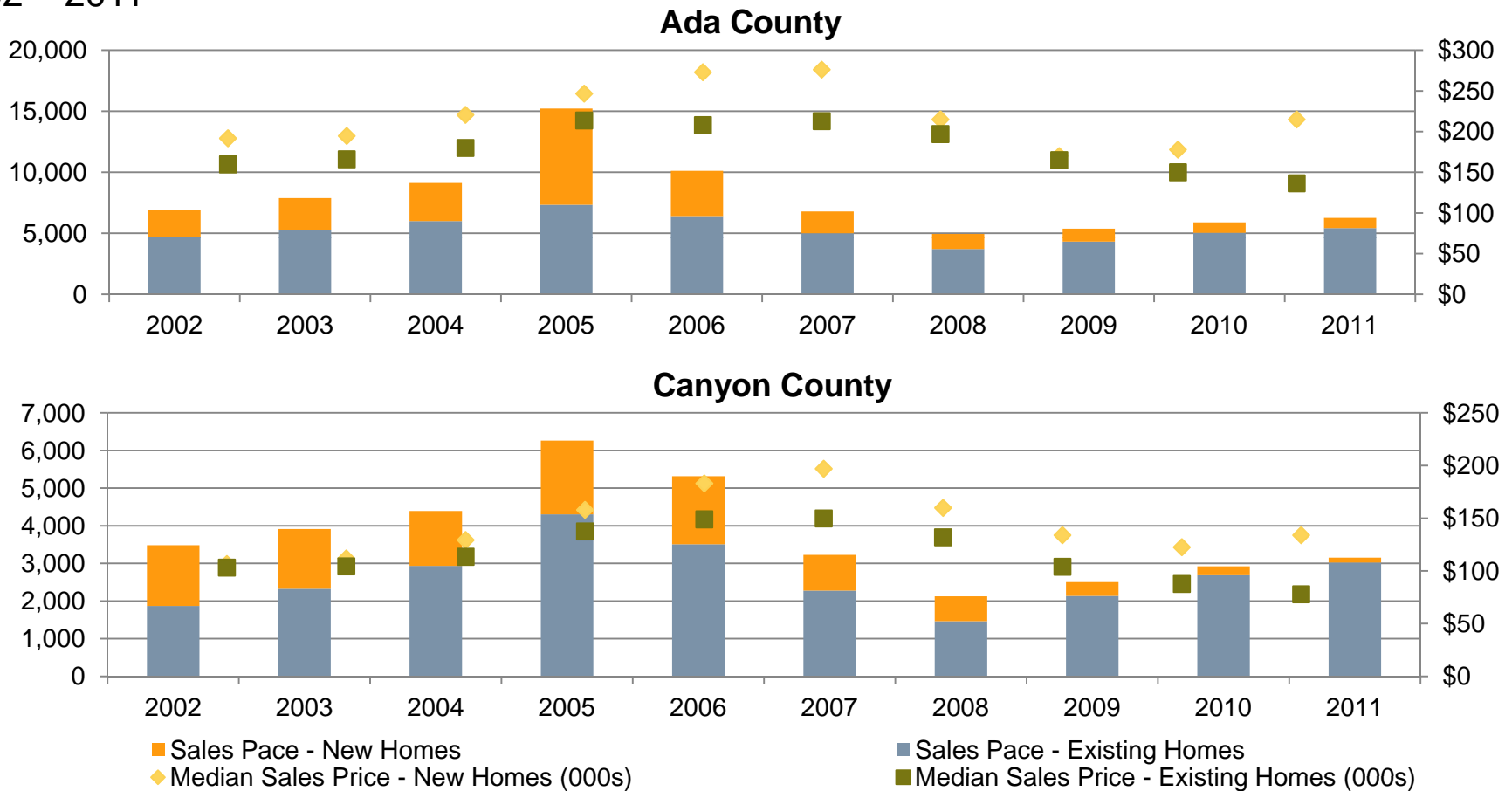


SOURCE: U.S. Department of Housing and Urban Development; RCLCO

SITUATION ANALYSIS

MEDIAN HOME PRICE & SALES PACE

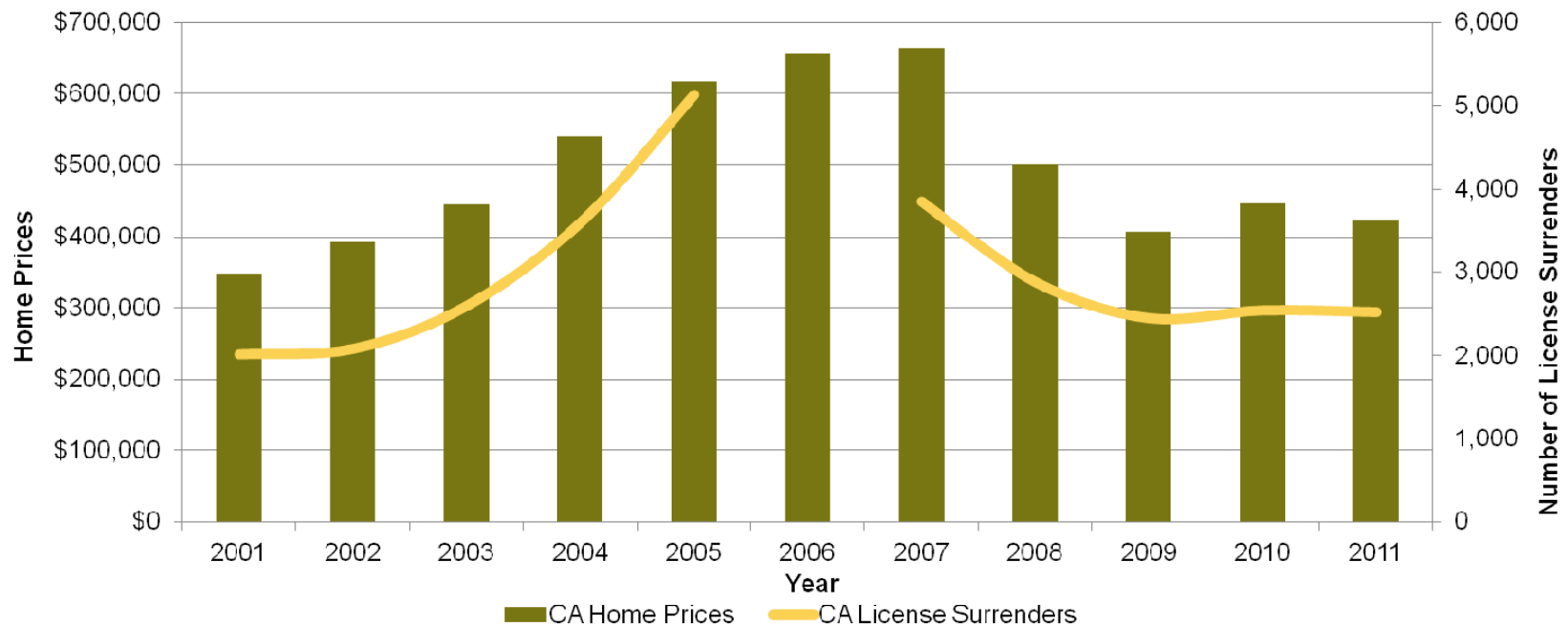
Median Sales Price and Sales Pace for Single-Family Homes
 Ada and Canyon Counties, ID
 2002 – 2011



SOURCE: Intermountain MLS

IMPACT OF CALIFORNIA HOME PRICES AND DRIVERS LICENSE SURRENDERS

Median Home Price in Major California Markets and Drivers License Surrenders Ada and Canyon Counties, ID 2001 – 2011



	YEAR										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Med Home Price Change	13%	13%	21%	14%	6%	8%	-25%	-19%	10%	-5%	
License Surrender Change	3%	25%	39%	42%	NA	-25%	-25%	-15%	4%	-1%	

NOTE: 2006 license surrender data not available. Median home price reflects the weighted average median home price for Los Angeles, San Diego, San Francisco, and San Jose metropolitan areas.

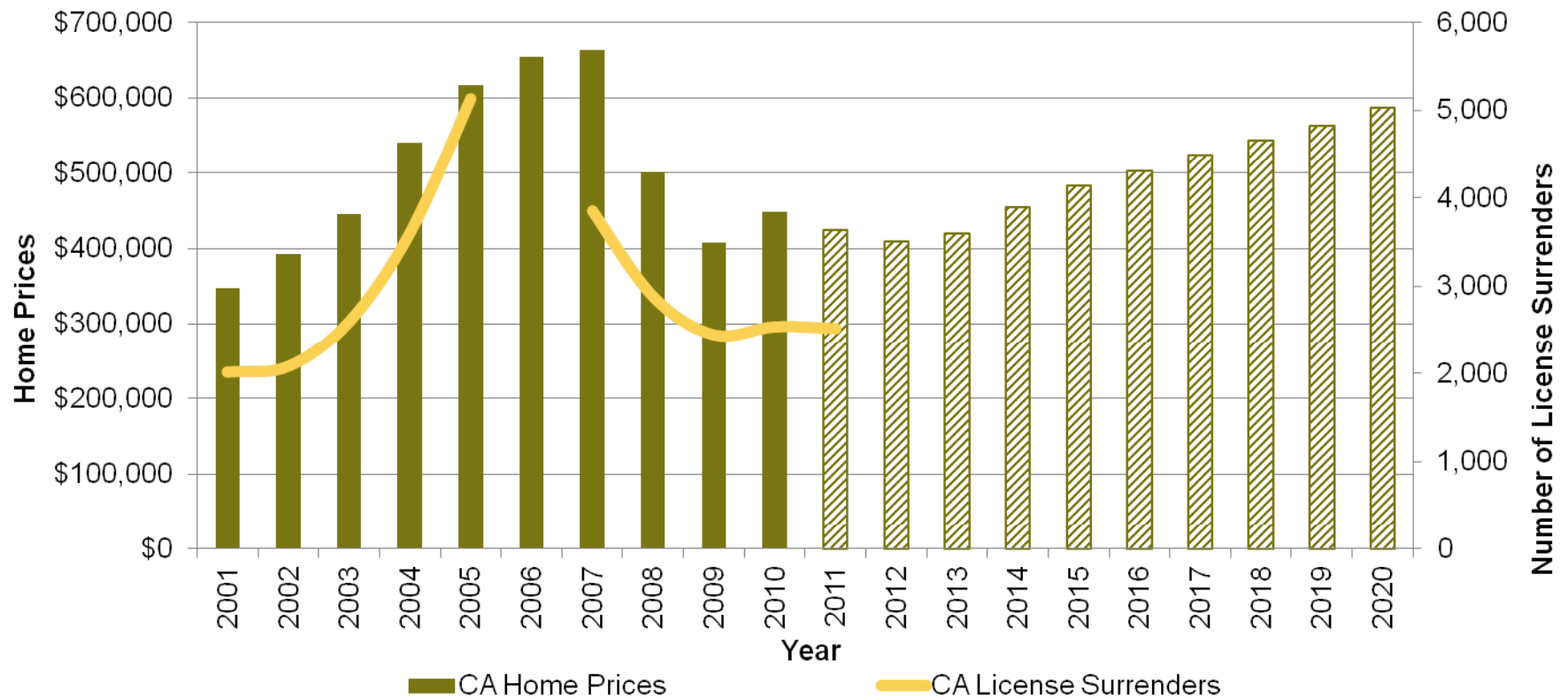
SOURCE: Idaho Department of Transportation; Economy.com; RCLCO

IMPACT OF CALIFORNIA MIGRATION LIKELY FOLLOWS HOME PRICE INCREASES

Historical and Projected Median Home Price in Major California Markets and Drivers License Surrenders

Ada and Canyon Counties, ID

2001 – 2020



NOTE: 2006 data not available. Median home price reflects the weighted average median home price for Los Angeles, San Diego, San Francisco, and San Jose metropolitan areas.
SOURCE: Idaho Department of Transportation; Economy.com; RCLCO

BOILING IT DOWN TO KEY TAKEAWAYS

- ▶ **The real estate market is in recovery—in Boise and nationally (conditions will improve on their own)**
- ▶ **Idaho benefits from broad migration trends, but may need to do more to stay relevant to the growing economic sectors**
 - Education (K-12 and Universities)
 - Foster technology transfer and commercialize new ideas
 - State policies to support the innovation economy
- ▶ **Housing demand is likely not undergoing radical changes, but is complex**
 - Need to understand (and quantify) your target market(s)
- ▶ **Real estate companies must develop innovation cultures and processes**
 - To respond to challenging environments, and to market demand
- ▶ **Look forward to demand from California out-migrants**
 - They will come again—but this will be cyclical

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