

Will Residential Construction Recover in 2015? Trends and Outlook

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National Housing Conference



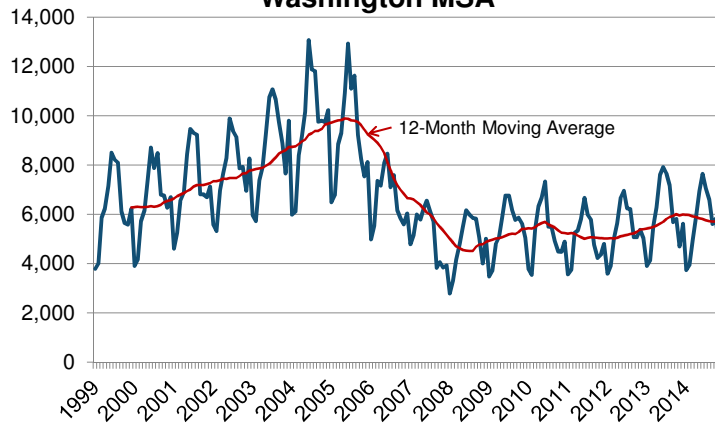
OVERVIEW OF THE WASHINGTON AREA HOUSING MARKET



Sales Activity Lower in 2014 than in 2013



Sales of Existing Homes Washington MSA



Annual Sales

2014: 69K
2013: 72K

Recent Low
2008: 59K

Recent High
2004: 116K

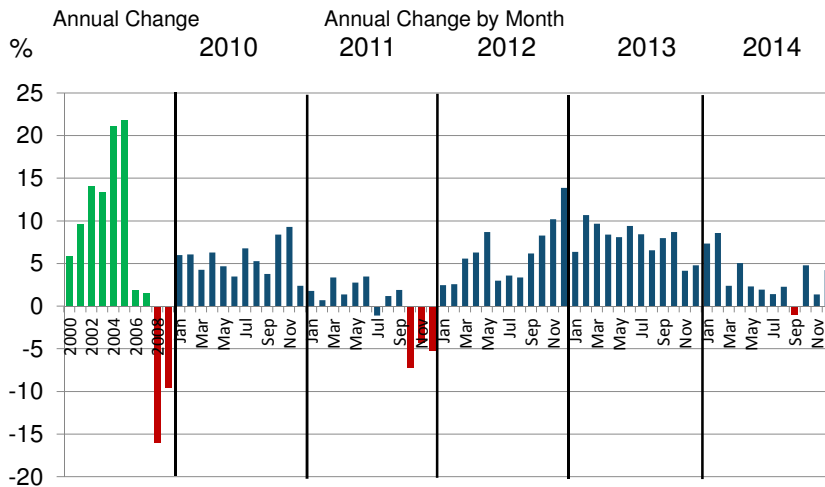
Source: Metropolitan Regional Information Systems (MRIS), GMU Center for Regional Analysis

Price Increases Have Also Slowed



Average Sales Price Percent Change

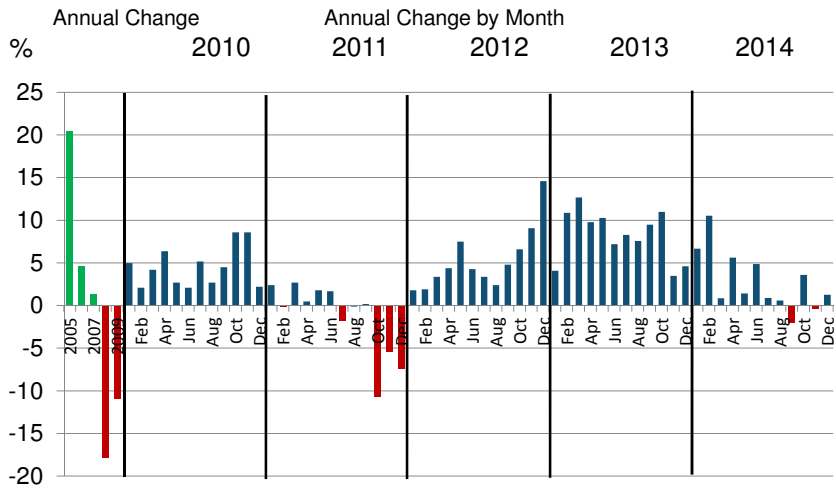
Washington MSA
All Housing Types



Source: Metropolitan Regional Information Systems (MRIS), GMU Center for Regional Analysis

Average Sales Price Percent Change

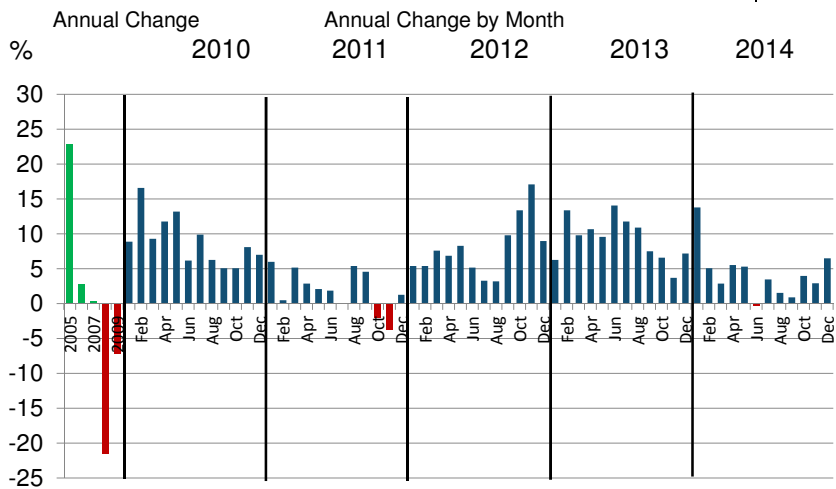
Washington MSA
Single-Family Detached



Source: Metropolitan Regional Information Systems (MRIS), GMU Center for Regional Analysis

Average Sales Price Percent Change

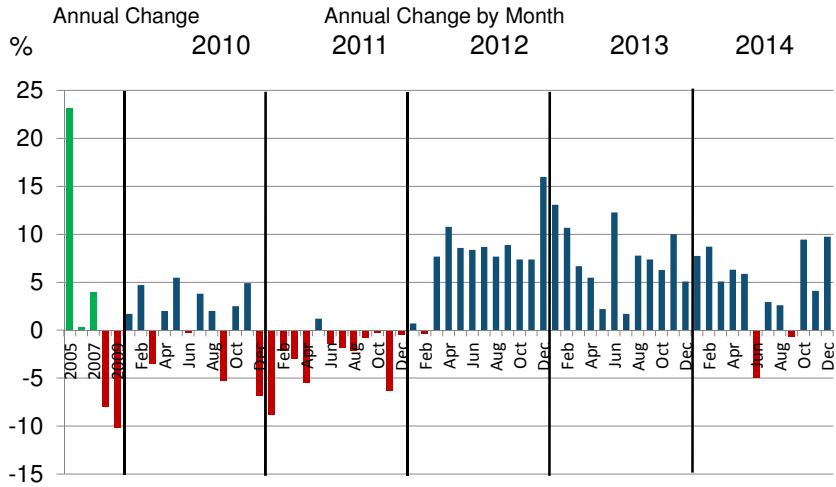
Washington MSA
Single-Family Attached



Source: Metropolitan Regional Information Systems (MRIS), GMU Center for Regional Analysis

Average Sales Price Percent Change

Washington MSA
Condominiums

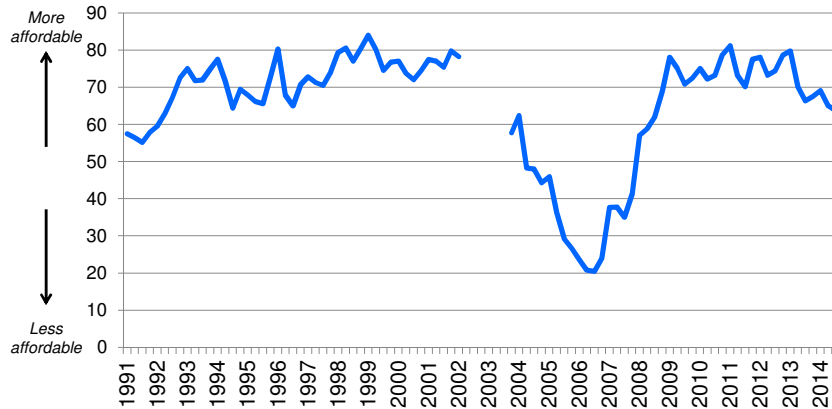


Source: Metropolitan Regional Information Systems (MRIS), GMU Center for Regional Analysis

Since Early 2013, Homes Have Become Less Affordable



Housing Opportunity Index



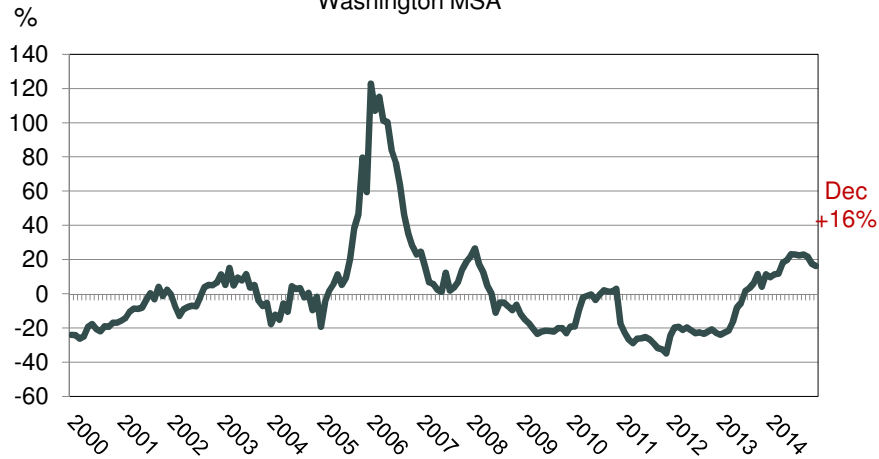
Source: NAHB/Wells Fargo

Inventories Grew in 2013 and 2014



Percent Change in Inventories of Existing Homes

Month-Over-Year
Washington MSA

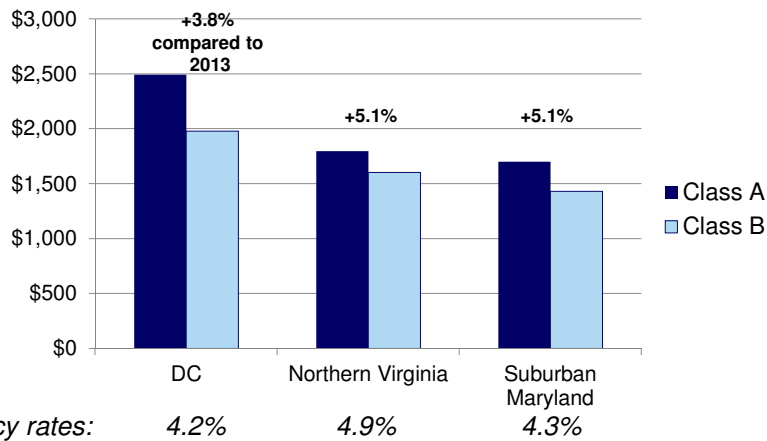


Source: Metropolitan Regional Information Systems (MRIS), GMU Center for Regional Analysis. Total monthly inventory includes listings active at the end of the month plus sales during the month.

Strong Rental Demand Continues



Effective Rent, Year End 2014



Vacancy rates:

4.2%

4.9%

4.3%

Source: Delta Associates

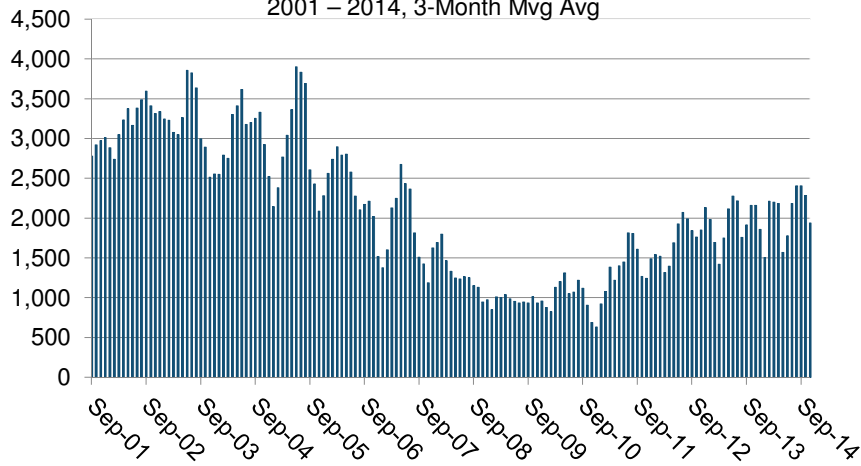
Residential Construction Activity is Up But Still Below Historic Norms



Building Permits

Washington MSA

2001 – 2014, 3-Month Mvg Avg



Source: U.S. Census Bureau, GMU Center for Regional Analysis

OUTLOOK FOR THE REGION'S HOUSING MARKET IN 2015



How Demographics Will Shape Housing Demand in 2015

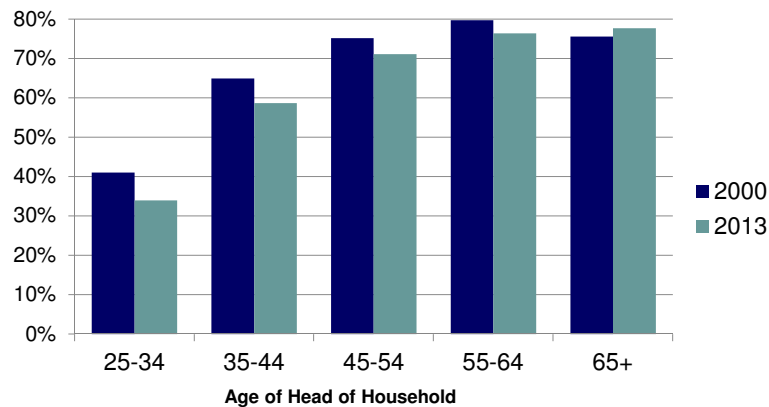


- Millennials: The First-Time Homebuyers
- Gen X: The Move-Uppers
- Baby Boomers: The Downsizers

Homeownership Has Declined Across Age Groups, Except Seniors



Homeownership Rate by Age Category
Washington MSA



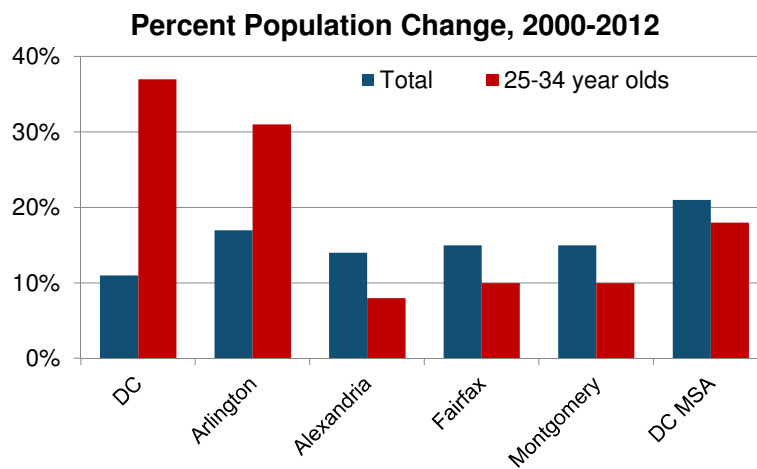
Source: U.S. Census Bureau, 2000 Census SF3 and American Community Survey 1-year file

Millennials: The First-Time Homebuyer



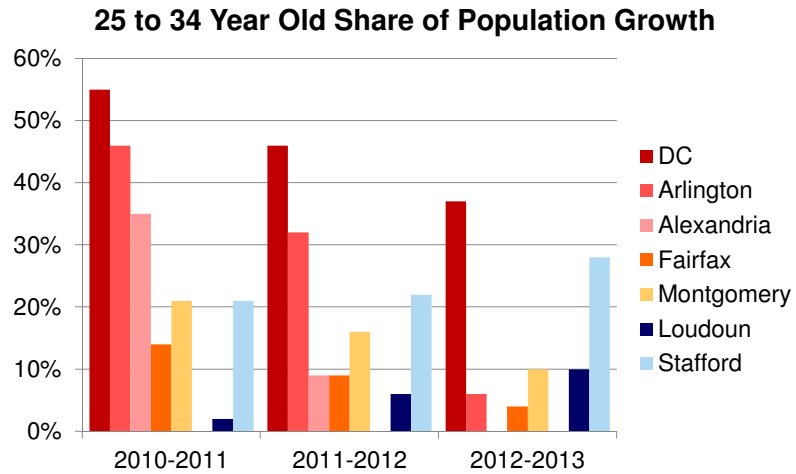
- Time is the key
 1. Wages
 2. Marriage
 3. Homeownership
- Preferences may not be substantially different from prior generations'
 - Housing options may be limited

Millennials Drove Population Growth in DC and Arlington



Source: U.S. Census Bureau, 2000 Census SF3 and American Community Survey 1-year file

But There Are Shifts to the Suburbs



Source: U.S. Census Bureau, Population Estimates

Gen X: The Move-Uppers



- Inclination to move is contingent
 - Interest rates
 - Equity
- More likely to purchase new

Interest Rates are Still Very Low



Conventional, Conforming 30-Year Fixed Rate Mortgage

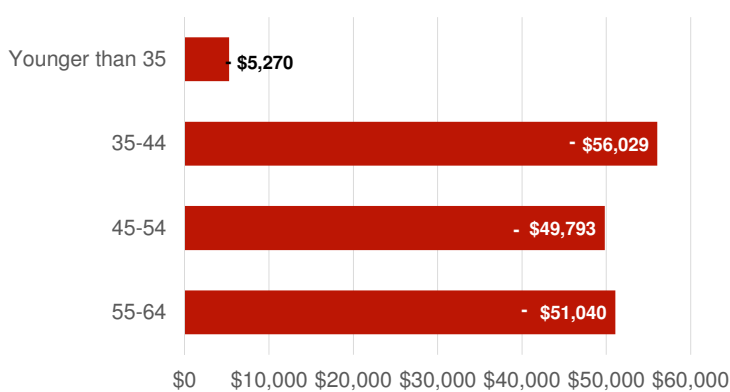


Source: Freddie Mac

Wealth Losses Hit Gen X'ers Disproportionately Hard



Total Decline in Median Wealth by Age of Household Head, US, 2000-2010



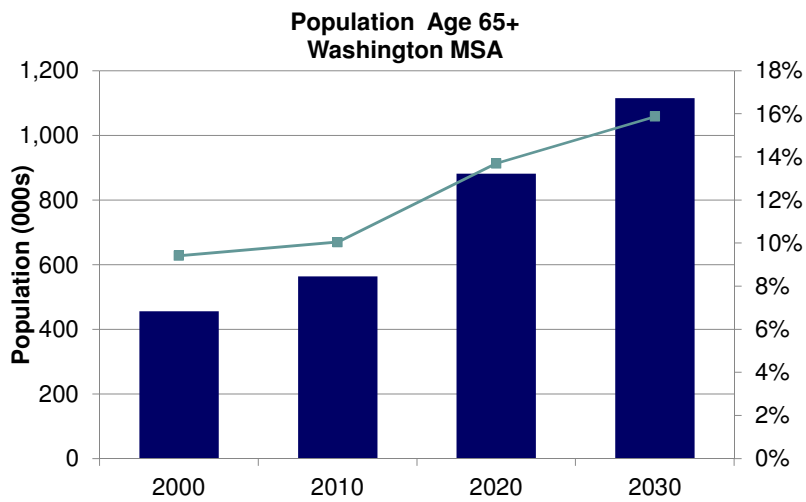
Source: Pew Research Center, tabulations of Survey of Consumer Finances data

Baby Boomers: The Downsizers



- Large wave of retirees
 - Most live in suburbs
 - Many will stay in the region
- Diversity of housing preferences

Seniors Are a Growing Share of Our Population

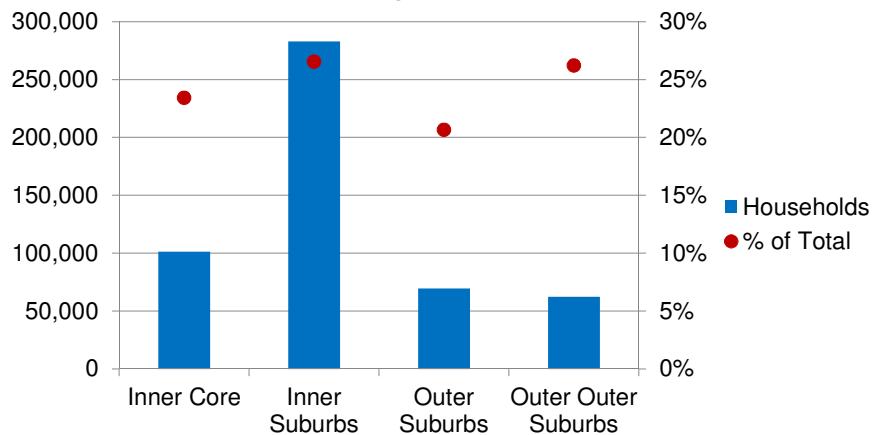


Source: IHS Global Insight

Greatest Number of Boomer Households in Fairfax & Montgomery Counties



Households Headed by a Person Age 60+: 2010
Washington MSA



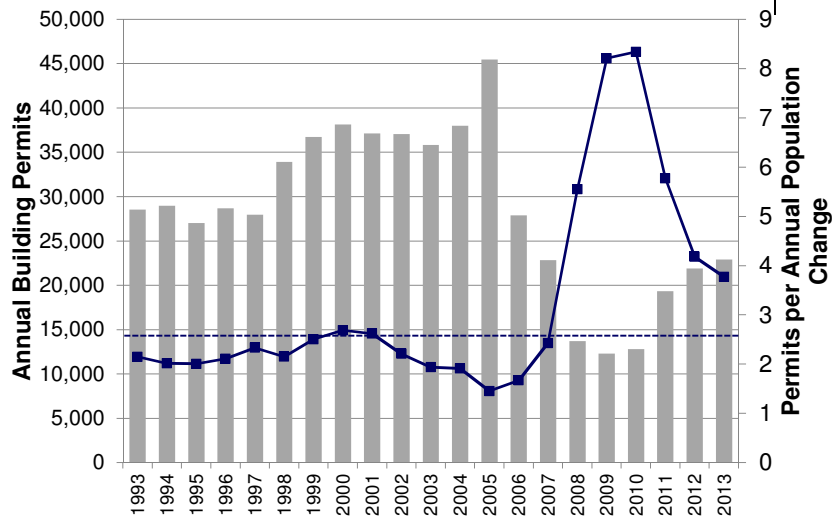
Source: 2010 Census, SF1

Will There Be Sufficient Housing to Meet Demand?



- Lower-priced homes
- Homeownership and rental housing in the suburbs
- “Accessible” housing

Population Growth Outpaced Residential Construction During the Downturn



Source: Census Bureau

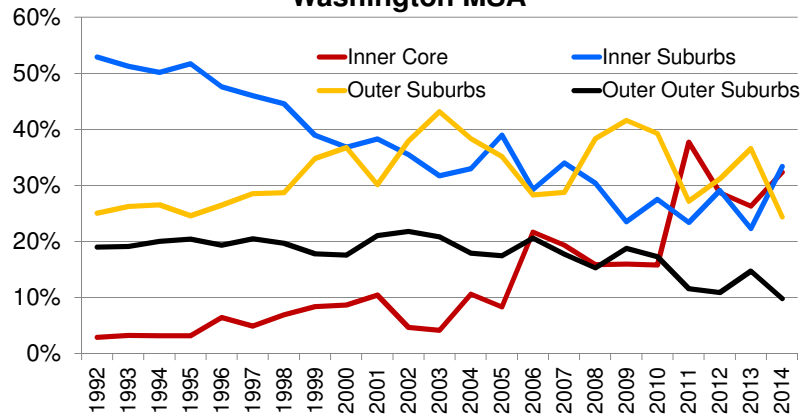
New Residential Construction to Meet Future Needs and Past Deficit

- The Washington MSA will need **39,000** new housing units each year between 2015 and 2019
 - 31,000 to meet annual population growth
 - 8,000 to make up deficit (assumed deficit made up over 10 years)

Where New Homes are Built Will Start to Shift



Share of Building Permits by Area
Washington MSA



Source: Census Bureau

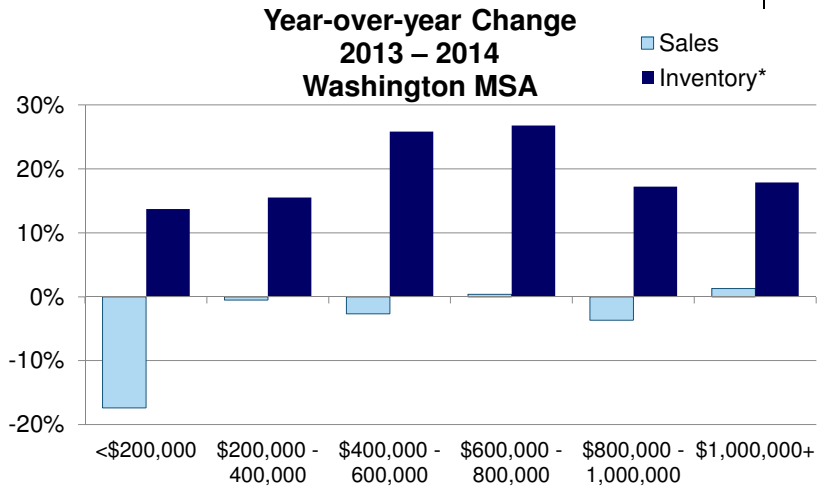
New Construction Will be Needed in the Region's Suburbs



Annual Permits and Projected Need by Area

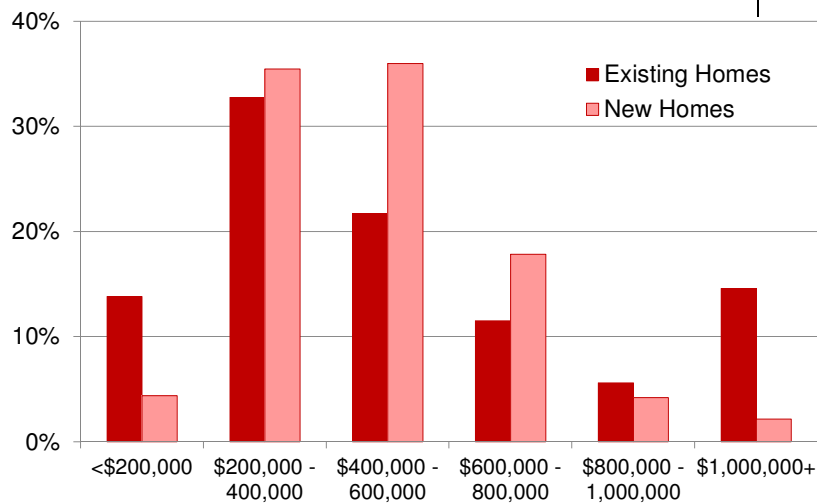
Area	Annual Permits: 2010-2014	Projected Need: 2015-2018	Needed – Recent Actual
Inner Core	5,826	5,097	-729
Inner Suburbs	5,450	14,430	8,980
Outer Suburbs	6,228	12,524	6,296
Outer Outer Suburbs	2,499	6,949	4,449
Total	20,004	39,000	18,996

Inventory of Lower-Priced Homes Increasing Slowly



Source: MRIS. *Inventory at year end.

New Homes are Less Likely than Existing Homes to be Lower Priced

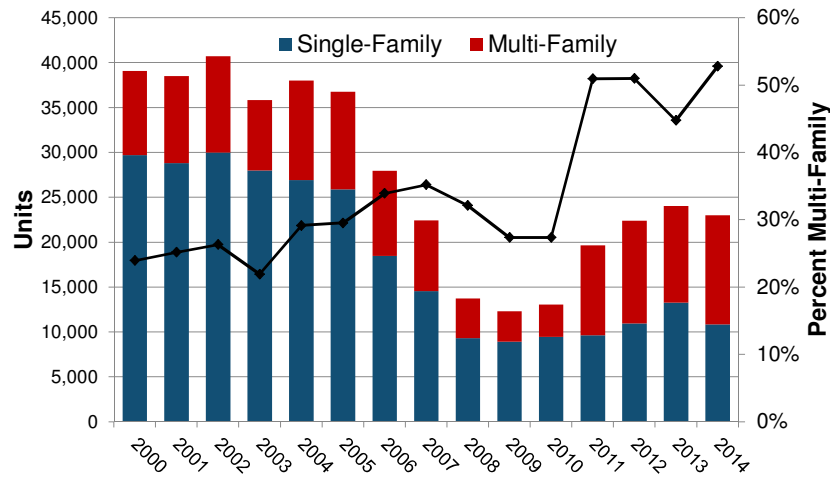


Source: MRIS (end of 2014); NewHomeSource.com 1/5/15

Single-Family Home Construction Still Hasn't Recovered



Building Permits by Type
Washington MSA



Source: Census Bureau

Key Takeaways for 2015



- Housing market activity will pick up as inventories rise
 - First-time homebuyers will be key driver
- Growing demand for single-family homes.
 - But smaller homes, lower price points
- The suburbs are not dead and, in fact, are poised for a rebirth.
- While demand will be there in 2015, supply won't catch up until 2016.



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