Will Residential Construction Recover in 2015?  
Trends and Outlook  
Cardinal Bank & George Mason University  
23rd Annual Economic Conference  
January 15, 2015  
Lisa A. Sturtevant, PhD  
Vice President of Research  
National Housing Conference  

OVERVIEW OF THE WASHINGTON AREA HOUSING MARKET
Sales Activity Lower in 2014 than in 2013

Sales of Existing Homes
Washington MSA

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Sales</th>
<th>Recent Low</th>
<th>Recent High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>69K</td>
<td>59K</td>
<td>116K</td>
</tr>
<tr>
<td>2013</td>
<td>72K</td>
<td>59K</td>
<td>116K</td>
</tr>
</tbody>
</table>

Recent Low: 2008: 59K
Recent High: 2004: 116K

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
Since Early 2013, Homes Have Become Less Affordable

Average Sales Price Percent Change
Washington MSA
Condominiums

<table>
<thead>
<tr>
<th></th>
<th>Annual Change</th>
<th>Annual Change by Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>-15</td>
<td>-10</td>
</tr>
</tbody>
</table>

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

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

25 to 34 Year Old Share of Population Growth

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

<table>
<thead>
<tr>
<th>Households Headed by a Person Age 60+: 2010 Washington MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner Core</td>
</tr>
<tr>
<td>0%</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

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

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

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Inner Core</td>
<td>5,826</td>
<td>5,097</td>
<td>-729</td>
</tr>
<tr>
<td>Inner Suburbs</td>
<td>5,450</td>
<td>14,430</td>
<td>8,980</td>
</tr>
<tr>
<td>Outer Suburbs</td>
<td>6,228</td>
<td>12,524</td>
<td>6,296</td>
</tr>
<tr>
<td>Outer Outer Suburbs</td>
<td>2,499</td>
<td>6,949</td>
<td>4,449</td>
</tr>
<tr>
<td>Total</td>
<td>20,004</td>
<td>39,000</td>
<td>18,996</td>
</tr>
</tbody>
</table>
Inventory of Lower-Priced Homes Increasing Slowly

Year-over-year Change
2013 – 2014
Washington MSA

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

Source: MRIS. *Inventory at year end

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

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