

ULI Forum Report

ULI Residential Summit

**Prepared by
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**Urban Land
Institute**

About ULI

ULI—the Urban Land Institute is a nonprofit education and research institute that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment.

ULI sponsors education programs and forums to encourage an open, international exchange of ideas and sharing of experience; initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development. Established in 1936, the Institute today has more than 17,000 members and associates from more than 60 countries representing the entire spectrum of land use and development disciplines.

Richard M. Rosan
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Introduction

Recent shifts in demographics, lifestyle choices, homeownership rates, and flexibility in lending are the major trends expected to influence the housing industry over the coming decades. As increases continue in population, life expectancy, and the desire for quality housing, the pressures to meet housing demands will pose unique challenges, particularly in terms of housing choice, density, affordability, location, and proximity to jobs, and in response to changes in the industry and in lifestyle choices. In the coming decades, the residential development community will be challenged to offer more choices in design and density to the growing numbers of aging baby boomers, nontraditional households without children, and immigrant households, all of which have needs and demands that are different from those of earlier generations.

In March 2002, the first ULI Residential Summit was convened in Washington, D.C. Unlike typical ULI forums, this summit was not focused on solutions. Rather, it was summoned to explore trends in housing and homebuilding and their implications over the next two decades. The findings from the summit will help ULI to determine a focus for its residential development research and education programs, as well as set the stage for future ULI residential forums.

A diverse group of 34 professionals in housing, real estate, and other areas, representing both the for-profit and nonprofit sectors, brought their experience and expertise to the summit to engage in a discussion of the following:

- the trends that will drive residential development over the next 20 years;
- the impacts these trends will have on single-family and multifamily housing;
- the future directions of residential development in the United States;
- the emerging housing types that will respond to the trends; and
- the way each trend will influence residential development patterns in outer-ring suburbs, inner-ring suburbs, and downtowns.

Summit Summary

The ULI Residential Summit consisted of three morning presentations on changing U.S. demographics, followed by an in-depth discussion by summit participants of housing trends across the country. Participants discussed the impact the increase in population, immigration, and homeownership, as well as other factors, will have on the housing industry.

Opening Remarks

Summit chair J. Ronald Terwilliger, national managing partner of Trammell Crow Residential and immediate past chairman of ULI, in opening remarks assured summit participants that the gathering would prove to be an informative brainstorming session. “ULI is on the forefront of the debate on land use,” Terwilliger said, noting the particular importance of housing to ULI’s land use agenda. To familiarize participants with each other and to demonstrate their diversity, Terwilliger asked them all to introduce themselves and to discuss their role in housing. This exercise enlightened participants regarding the vast diversity of housing issues throughout the country.

Changing Demographics and Lifestyles

A series of background presentations on the changing demographics of the United States were used to set the stage for discussion. These presentations raised a range of issues that tie directly to trends and implications for housing.

William H. Frey, demographer and research scientist at the Population Studies Center of the University of Michigan, senior fellow at the Milken Institute, and ULI fellow, initiated the demographics discussion by introducing “America’s New Demographic Landscape,” an analysis of race and ethnic diversity and their effects on where growth occurs. Frey focused on areas whose population grew more than 14 percent during the 1990s and that grew faster than in the 1980s. He related the recent demographic shifts to three types of regions—melting pots (California, Florida, Texas, New York, and Illinois), which are areas composed of large concentrations of immigrants and marked by diversity in age and ethnicity; the new Sunbelt (Georgia, South Carolina, North Carolina, Virginia, Tennessee, New Mexico, Arizona, Nevada, Colorado, Utah, Idaho, Oregon, and Washington), which are areas drawing large numbers of African Americans

and whites; and the heartland (most of the rest of the country), areas gaining population slowly, if at all, and that are getting “older and whiter.”

Frey explained that some states, including California, Texas, Illinois, Florida, New Jersey, and New York, are “immigrant magnet” states. In the 1990s, the top five metropolitan areas serving as immigrant magnets were New York City, Los Angeles, San Francisco, Miami, and Chicago.

Recent data show that, in contrast to earlier decades, household growth in the future will be experienced nationwide, rather than concentrated in traditional growth areas; for instance, ethnic groups are no longer concentrating in the classic gateway cities. Furthermore, this spread of the population increase, the trend for baby boomers not to move when they retire, the high divorce rate, and the low rate of remarriage after the death of a spouse mean that, as Frey remarked, “everyplace is growing.”

Frey noted that the children of immigrants, who likely will be better educated and more affluent than their parents, will have a big impact on the housing market in the years ahead in the classic immigrant magnet cities, such as Los Angeles and San Francisco, as well as in some relatively new magnet cities, such as Greensboro, North Carolina. In addition, the large number of white and African American baby boomers reaching their “pre-elderly” years will significantly influence the housing market in the new Sunbelt states: while African Americans will be drawn more to the South and whites more to the West, both groups likely will choose to live in urban fringe areas.

Following Frey’s presentation, John T. Martin, principal at Martin & Associates, LLC, presented a market analysis of demographic drivers and residential development. “We’re in a new era. We’re all aging, and the market has fundamentally changed, but we do not necessarily understand it,” Martin remarked. The model for residential housing was set 30 years ago, he noted, and even though markets are changing, the products have not. Using a market opportunity analysis of household growth by age and household type, Martin found that over the next 10 years, nine primary markets will add at least 500,000 households. Communities should be designed differently and for a different set of people, he said, yet, “some developers will still build based on 30-year-old patterns, regardless of the trends.” For instance, single-family homes continue to be built to accommodate married couples with children, yet on a national basis, that cohort’s growth is flat. In actuality, the largest cohorts are singles and mar-

ried couples without children—groups that might not desire or need the typical single-family home being built today. “Most builders are still going for 30 percent of the market [households with children],” he said. “They are not changing their building patterns.” The housing industry “must start building for a different sector,” he stated. Martin noted that housing specialists should begin to look at local demographic trends. “This new era is already upon us. We don’t want to wait too long before we start changing.”

Brooke Warrick, president of American LIVES, Inc., a marketing research firm, suggested that the focus of housing builders and developers should be on target market segments—“a person or group of people you can design for.” He explained that baby boomers will age differently than their parents and grandparents: they are less likely to retire in their mid-60s and are more likely to pursue a career change and maintain an active lifestyle. “They are going to want age-designed communities, not age-restricted communities.”

Across the country, consumers have begun placing a higher priority on living in places that offer a feeling of cohesiveness, the sense of a close-knit community, Warrick noted. “People want different things out of their neighborhoods now. They want organized community programs and activities more than amenity packages, and they will pay more to live in neighborhoods with a sense of community.” Rather than concentrating on selling houses, the residential development industry of the future must focus on selling neighborhoods. “If we create neighborhoods for groups of people, they will pay a 10 to 12 percent premium to live there,” he said. To create these neighborhoods, Warrick said the development must engage in “evidence dropping.” “We need to provide evidence that we’re creating neighborhoods and lifestyles, not just talk about lifestyles.” He concluded that the industry needs to reevaluate what particular cohorts want, particularly in terms of housing for seniors and the integration of environmentally friendly or sustainable aspects into the development of houses and communities.

Trends That Will Shape the Marketplace

In the next session, moderated by ULI Washington chair David Mayhood, summit participants built on the earlier presentations by incorporating their experience and expertise into discussions of the current trends in residential development and those projected for the next 20 years,

focusing on the impacts these trends will have on both housing product and patterns of development. Summit participants were divided into six groups, with each group analyzing one of the following six projected trends:

- Housing will continue to become more unaffordable, challenging localities to retain and increase the share of housing that is affordable.
- The homeownership rate will continue to increase in general, and particularly among specific cohorts.
- The distance between job and housing locations will continue to be a challenge.
- The sizes and types of households will continue to change, with the traditional household becoming less common.
- The level of intervention by the public approval process will continue to increase, limiting the ability of developers to react to market conditions.
- Immigration will increase above current levels, particularly in gateway communities.

Each group was asked to consider its trend in light of these questions: 1) What impact will this trend have on single-family and multifamily housing products, and what emerging housing types can be foreseen? and 2) How will this trend influence residential development patterns in outer-ring suburbs, inner-ring suburbs, and inner cities? During the discussion following these breakout sessions, participants concurred on a series of overarching impacts on housing products and patterns over the next 20 years.

Housing Product

As the 2000 census data show, the character of the population is changing. Housing needs are fragmented, and there is demand for a variety of product types that serve a range of household types. Over the next 20 years, the size of the average household will decrease, while the number of households will rise, although the rate of increase will slow over time.

Household composition also is changing, moving away from the traditional married couple with children. Not only will there be more households made up of one person or couples without children, an increase is also expected in the number of households with seniors, nonfamily households, and immigrant households, which are often multigenerational.

Summit participants concurred that housing will continue to become less affordable, and that it will be a challenge for localities to retain and increase the share of the housing supply that is affordable. Reinforcing the situation is the expectation that both low and middle incomes will remain relatively flat in coming years, while the cost of housing will continue to rise due to the mounting costs of land and entitlements. In particular, existing rental inventory will remain vital to maintaining the supply of affordable housing.

Based on population projections and demographic analyses, the assumption is that the rate of homeownership will continue to increase over the next two decades. As a result, an increase in housing volume will be needed, and new niches for demand will emerge that will have to be identified and targeted. Singles, couples without children, divorced people, and seniors will accelerate the growing demand for low-maintenance housing. Demand is expected to grow for single-family homes, but the types of products in demand will vary from what has been built over the past 30 years. If recent preference trends continue, there will be a demand for fewer but larger bedrooms, higher-density communities, smaller yards to maintain, and provision of more services. Participants expect the rising demand for both rental and for-sale housing to boost the importance of increasing housing density.

The relationship between employment and housing locations will be heavily influenced by changing population patterns, particularly the likelihood that people will work longer before retiring and not stay in one job for a long time. Summit participants identified two types of jobs—those that require a great deal of contact between people, and those that do not, such as jobs in call centers and in manufacturing. Over the next 20 years, a clear dominance will emerge for jobs that require more contact, while the number of jobs that require less contact will gradually decline, participants agreed.

The proximity of jobs to houses will continue to influence housing choices, but the more important factor now appears to be lifestyle choice. Over the next two decades, the trend will continue to be that people will weigh lifestyle choices as more important than work choices. Job seekers will continue to demand flexible hours and workdays. Even though people will continue to desire a job located within 15 to 30 minutes of home, the fact that most people do not expect to remain in any job longer than three to five years will mean that the proximity of a particular job center might be less important,

particularly among young professionals. The option of working at home will result in increased demand for high-speed Internet access and other technologies in the home, resulting in people buying new houses that provide these capabilities or renovating existing properties.

Jobs will continue to follow housing, but job location also will be influenced by economics, local regulations, and resource availability. Major employers will continue the trend of seeking to locate where potential employees are highly educated; they also will continue to seek “place makers”—places that combine jobs, housing, and recreation resources. Such places are more likely to attract employers and employees, and will survive in the long run, participants said. Related to the balance between jobs and housing, the demand for and importance of workforce housing will increase.

The public sector will continue to have a strong influence on housing product through its high level of intervention in its delivery. This intervention often impedes the developer’s ability to respond efficiently to market forces, which can result in higher costs, lower affordability, and the development of product that does not necessarily meet demand. To overcome these effects, a more integrated and interactive public/private partnership process that includes problem solving is necessary, particularly in the inner-ring suburbs and the inner cities. This will lead to a higher-quality product, but only for those who can afford the added cost of higher-quality architecture.

Single-Family Housing

While the market for single-family homes will continue to be strong, several factors will influence how and what will be built. The inability of developers to attain approvals, particularly in cities, and the expectation that impact fees for single-family homes will continue to rise will result in a stronger resale market, as well as a trend for people to remain in their current home and renovate or remodel any home more than 20 years old. Some homes may be subdivided into smaller units for use as in-law suites or rental units.

Although the trend of immigrants living in multifamily housing will continue, it is projected that second-generation immigrants will prefer single-family homes. This will be the trend throughout the country and not just in gateway communities.

Multifamily Housing

For multifamily housing, of which 85 percent today is rental, there will be a decline in rental units and an

increase in for-sale housing, and rental properties will shift toward affordable housing. As with all housing types, the issue of affordability will become increasingly important. Both rental and for-sale units will offer more diverse product types, ranging from entry-level to luxury units, and there will be more emphasis on security features, storage capacity, and ease of household maintenance.

In the short term, lease rates will increase; in the long term, it will become increasingly difficult to build new multifamily housing, and it will be more difficult to replace the existing stock.

Emerging Products

As noted by the speakers at the summit, the type of housing desired in the next 20 years will be different from what has been built over the past 30 years. The following seven emerging product trends were identified by summit participants:

- New housing will be more flexible in its design, offering, for example, modular homes, expandable units, or unfinished basements. The flexibility will allow homeowners to adjust their housing to their needs five to ten years down the road without having to move to a new location. Participants also noted that certain typical rooms, such as individual dining and living rooms, will be more flexible as combined spaces. Housing that provides both living and working space will be in increasing demand.
- As immigration continues to rise and the population lives longer, there will be higher demand for multigenerational housing that meets the needs of several age groups.
- There will be an increased need for the housing industry to focus on retaining and upgrading the current stock of entry-level housing.
- Conversion of decaying housing and commercial buildings to multifamily housing will continue, particularly in more urbanized areas.
- Increased use of single-unit housing, e.g., granny flats, will provide affordable housing as well as reduced costs for the homeowner.

To meet the rising population and homeownership demands, new residential developments will be constructed at higher densities.

- Developers will build for lifestyles by taking into consideration ethnic location preferences and affinity housing—communities that are connected to colleges and other

institutions. The market will be for selling communities, not solely homes.

Patterns of Development

According to summit participants, the cost of housing will be the driving factor influencing where people live. The trends suggest that over the next 20 years, the patterns of development will shift, predominantly due to the issues of affordable housing and gentrification, but also to address the proximity of jobs to housing. As the housing market continues to tighten, the pressure for gentrification will increase, resulting in localities struggling to retain affordability. In strong markets, inclusionary zoning will have a positive impact. The demand for housing will drive up the cost of new housing in inner-ring greenfields, and housing affordability will affect people's ability to live in particular locations. For instance, projections are that blue-collar workers will be pushed farther out into suburban greenfields, while service workers will continue to live in older inner cities and inner-ring suburbs. To support the needs of service workers, some new land will need to be made available; but more significant, locations that are undervalued in both cities and suburbs—that is, areas that have fallen on hard times—will be reused to provide housing.

Employees who are forced to move farther from their jobs will face higher commuting costs, which will contribute to an increase in telecommuting. As mentioned earlier, younger employees, who desire flexibility in jobs and do not intend to remain in any given job for an extended period, are less likely to respond to marketing that emphasizes the proximity of housing to employment centers. A more appropriate approach is to sell them lifestyle choices, e.g., housing near services.

Over the next 20 years, second-tier cities may become the predominant location of affordable housing, which could lead to additional sprawl. Rather than follow market forces, those involved in providing affordable housing will need to use forums and to establish criteria to determine the demand for workforce and affordable housing.

Inner City

Housing patterns in inner cities will be directly influenced by what people can afford, the desire for urban lifestyles, and NIMBYism. More affordable housing will attract singles and couples without children, but cities will be challenged to retain middle-income residents. It will be important for cities to recycle obsolete housing

and convert other structures to housing units. To increase homeownership, the summit participants recommended the use of more flexible financing.

Although an increasing demand for new housing in cities will have a positive impact on housing supply, it also will result in more pressures from the NIMBY contingent. Current residents will continue to express their concerns about infill and redevelopment projects, and will pressure local governments not to approve new development projects.

Inner-Ring Suburbs

In inner-ring suburbs, the predominant development pattern will be densification around cultural centers. As with inner cities, developers will encounter strong concern from current residents about infill and redevelopment projects, and they will continue to face barriers in the public approval process.

In the inner-ring suburbs, the loss of affordability for single-family homes will result in further gentrification of these areas.

Outer-Ring Suburbs

Demographic trends indicate that over the next 20 years, the population will continue to age and move toward increased homeownership. Residential development patterns will bring the greatest growth to the outer-ring suburbs, although in an extension of the current trend, NIMBYism will keep density low.

Workers will continue to be displaced farther from their jobs toward areas where cheaper housing can be built, which will exacerbate traffic congestion and increase commute times. Jobs ultimately will follow the housing, leading to the potential for increased sprawl. In outer-ring suburbs, master-planned communities will strive to provide residents with a sense of place within the community. Some will provide fewer amenities than large-scale, self-contained planned communities, but will be more accessible to existing amenities.

Summit Agenda

FRIDAY, MARCH 1, 2002

8:00 a.m. **Welcome and Introductions**

Summit chair J. Ronald Terwilliger, *national managing partner, Trammell Crow Residential, Atlanta, Georgia*

8:30 a.m. **Changing Demographics and Lifestyles**

Who will need housing in 2020? Where will they live? What will they be able to afford? A panel of experts will examine national and regional demographic trends projected for the next two decades and discuss the likely impact of changing demand on housing choice and location.

Panel:

William H. Frey, *demographer and research scientist, University of Michigan's Population Studies Center, Ann Arbor, Michigan; senior fellow, the Milken Institute, Santa Monica, California; and fellow, the Urban Land Institute, Washington, D.C.*

Brooke Warrick, *president, American LIVES, Inc., Oakland, California*

John T. Martin, *principal, Martin & Associates, LLC, Newport Beach, California*

10:00 a.m. **Break**

10:15 a.m. **Trends That Will Shape the Marketplace**

A panel of summit participants will lead a discussion exploring the trends and conditions that will influence where, how, and what type of housing will be built in the coming decades. Participants will reach a consensus on what they believe will be the most significant forces driving future residential development and homebuilding.

Panel:

Louis W. Hoyes, *executive vice president—single-family mortgage business, Fannie Mae, Washington, D.C.*

Douglas Crocker II, *president and CEO, Equity Residential Properties Trust, Chicago, Illinois*

J. Ronald Terwilliger, *national managing partner, Trammell Crow Residential, Atlanta, Georgia*

Ronald Ratner, *president, Forest City Residential Group, Inc., Cleveland, Ohio*

Moderator: David Mayhood, *president, the Mayhood Company, McLean, Virginia*

12:15 p.m. **Lunch: Roundtable Discussions**

Summit participants will be divided into interdisciplinary groups to consider how the trends identified in the morning session as driving residential development will shape future housing product and development patterns.

2:00 p.m. **Group Presentations**

The summit will reconvene, and each group will summarize its findings.

3:00 p.m. **Conclusions and Wrap-up**

3:30 p.m. **Adjourn**

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