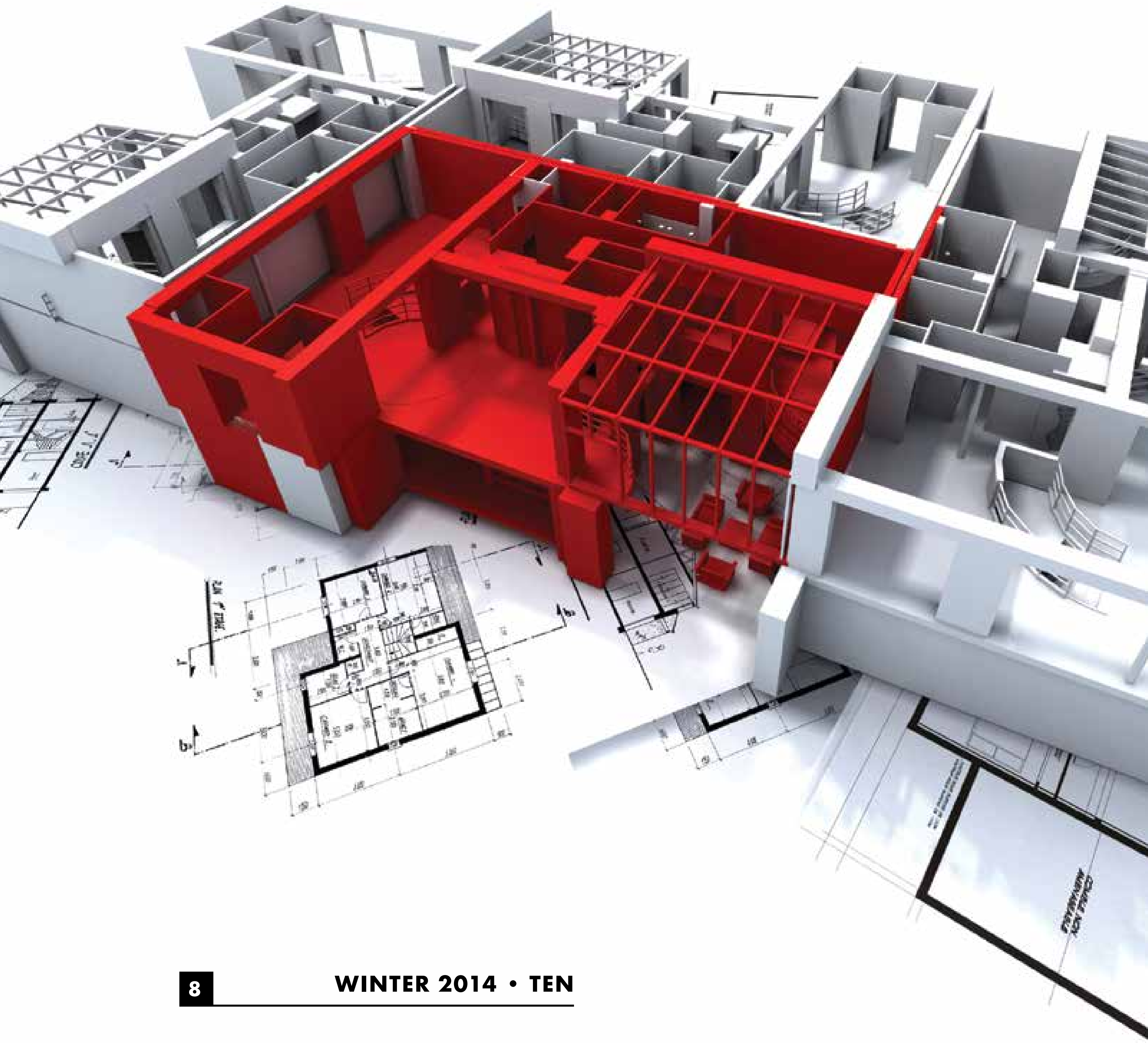
GENERATIONAL



CHANGE

Could baby boomers put the boom in multifamily housing?

A U.S. Census Bureau report in 2006 showed baby boomers were living longer, healthier lives with fewer disabilities. The study, "65+ in the United States: 2005," used data from census surveys and other federal sources and researchers found that the percentage of people over age 65 who had a disability decreased from 26.2 percent in 1982 to 19.7 percent in 1999.

The trend continued into the next century as the leading edge of the baby-boom generation surpassed 65. Researchers partially attribute boomers' longevity to improved health, allowing boomers to work longer, and to higher education levels, giving them better employment opportunities, resulting in access to better health care and healthier living.

Even with the recession and slow recovery that forced some boomers into early retirement and impaired retirement portfolios, a larger percentage of boomers still accumulated more financial wealth than previous generations.

These details have given economists reasons to contemplate the influence of aging baby boomers on the U.S. economy.

The retirement of a growing number of baby boomers has placed a burden on the fewer available productive workers. Some economists, however, say there's little reason to assume this effect will harm the nation's economic output. For example, some data forecast a surge in immigration that could replenish the economy's labor supply.

DAVID ZUCKER is co-founder and principal of Zócalo Community Development in Denver. The company provides services to manage and deliver green development projects, with a concentration on urban redevelopment.

Other economists, however, say the effects could be far reaching, including increased healthcare demand, diminished tax revenue collections and changes in the housing market.

A housing market shift

Aging baby boomers could propel a demographic shift from single-family to multifamily housing, according to research by Kansas City Fed Senior Economist Jordan Rappaport.

In the report, "The Demographic Shift From Single-Family to Multifamily Housing," Rappaport projects construction will increase in the short term, but slowing U.S. population growth will reduce demand over the long term, especially in the single-family market.

"The longer term outlook is especially positive for multifamily construction, reflecting the aging of the baby boomers and an associated shift in demand from single-family to multifamily housing," Rappaport said.

By the end of the decade, he said, multifamily construction is likely to peak at a level nearly two-thirds higher than its highest annual level during the 1990s and 2000s.

In contrast, despite moderately strong growth by early 2015, single-family construction is projected to "contract at a moderate rate." By the end of the decade it is likely to peak at a level "comparable to what prevailed just prior to the housing boom."

Rappaport added that the boost to multifamily housing may further contribute to a geographic shift from suburban to city living.

"For cities, this offers the possibility of revitalization and the shoring up of public finances," he said.

To attract these aging suburbanites, however, cities will have to offer "significant amenities, such as safe streets, diverse retail and restaurant options, museums, and venues for theater, music and sports," Rappaport said.

Suburbs looking to retain aging households may have to recreate or create a range of urban amenities and enact rezoning to encourage multifamily construction.

In the marketplace

Developers say they already have seen signs of this shift in several communities.

"Independent baby boomers who are not ready for senior living, but don't want to take care of the yard, are looking at urban multifamily living, where they can stay in the swing of things," said Robert Mayer, a commercial real estate agent with Century 21 and a development consultant in Kansas City, Mo.

Baby boomers opting for a more carefree lifestyle parallels another trend: "Millennials who don't want to live in the boring suburbs and instead want to live in the hip areas of the city," Mayer said.

Even so, suburbs aren't suffering. Mayer noted a spate of new, luxury apartment projects rising up around vibrant suburban retail centers, entertainment venues, schools and churches.

David Zucker, co-founder, principal and director of development of Zócalo Community Development in Denver, said the public's aspiration to redevelop urban areas or create areas that simulate urban environments is definitely there, especially among younger generations.

But people's housing choices are not always determined by dollars per square foot or mortgage rates.

"We live where we feel comfortable," he said.

CONSTRUCTION TRENDS

Single-family construction since 1990 can be divided into four periods: pre-boom, boom, crash, and recovery.

Pre-boom

From 1990 to 2002, single-family construction was characterized by several runs of moderate-to-strong growth punctuated by several moderate retrenchments.

Boom

From late 2001 through late 2005, the growth of single-family starts accelerated to an average annual rate of about 10 percent.

Crash

From late 2005 through early 2009, single-family construction plunged. Starts contracted at an average annual rate of almost 30 percent, with a cumulative decline of more than 70 percent.

Post-crash

From early 2009 through mid-2013, single-family construction began with a boost from the tax credit for first-time home buyers followed by an offsetting contraction when the credit expired. Vigorous growth of single-family construction resumed in mid- 2011, but paused at the beginning of 2013.

Multifamily construction since 1990 can be divided into three periods: pre-crash, crash, and recovery.

Pre-crash

During the long pre-crash period, multifamily construction first fell sharply and then rebounded. Then, from late 1998 through early 2006, multifamily starts remained approximately constant.

Crash

Although there was no boom in multifamily construction, there was a crash. It began in mid-2006 and significantly accelerated in mid-2008. Over a three-and-a-half year period, multifamily starts fell by three-fourths.

Recovery

In sharp contrast to weak post-crash growth in single-family starts, multifamily starts rebounded almost immediately. As of mid-2013, multifamily had regained two-thirds of its preceding fall.

And aspirations don't always create realities.

Zucker says urban redevelopment in America faces several obstacles, but two issues persist.

He says the industry has forgotten how to design the urban neighbors of the past.

"We've lost the intellectual capability to do it correctly," he said.

The Federal Aid Highway Act of 1956 played a significant role in redirecting residential and commercial development in the United States, as interstates made commuting to work and home expedient.

The G.I. Bill also played a role by providing a range of benefits for returning World War II veterans. Benefits included low-cost mortgages, low-interest loans to start a business, cash payments of tuition and living expenses to attend college or vocational schools, and unemployment compensation. This allowed many families to move from cities to the suburbs, where housing and amenities were more affordable.

This shift ushered in a style of architecture and design built on expedience rather than longevity. This style gave America strip shopping centers, indoor shopping malls, warehouse-style commercial and office buildings, and sprawling residential developments.

"We've designed our architecture to be experienced at 35 mph rather than how architects and designers developed our (historic) public buildings to be experienced at 2 mph," Zucker said.

Before World War II, architects designed buildings and communities for the human element. Some of these places are now being repurposed, such as Kansas City's Union Station, Denver's Larimer Square and The Old Market in Omaha.

Post World War II developments have a

ROBERT MAYER, a commercial real estate agent with Century 21 and a development consultant in Kansas City, Mo.

PHOTO BY BOB GREENSPAN

shelf life of 30 years, Zucker says.

"How many people want to redevelop a suburban strip mall or subdivision?" he asked.

Today, the public desires to reconnect in an urban community setting, Zucker said; however, we have to figure out how to execute it correctly.

"We can rekindle it, we can relearn it, but we've lost the ability to design on a human scale," he said.

The dozens of federal, state and local laws, regulations and policies geared toward suburban development comprise the second issue.

Some federal agencies will not insure mortgages involving mixed-use development in which commercial occupies more than 20 percent of the same building as multifamily residential.

And many zoning laws, especially in suburbs, don't allow urban-style developments that mix retail, commercial and multifamily within the same proximity. Also, building codes and guidelines are designed for suburban developments and cannot be applied to urban-style construction.

Zucker says one obstacle with urban development he faces is public safety, such as fire departments that view dense housing layouts, small streets, alleyways and other urban features as safety hazards.

"I don't dispute the idea that there is growing interest in multifamily or urban living (among baby boomers), but I think it imposes so many of these devils in the details," Zucker said.

Gentrification of the urban core

Several U.S. cities that redeveloped urban communities have experienced gentrification, which is a shift toward wealthier residents, businesses and increased property values. This has generated more revenue for cities, but to the detriment of low- and moderate-income residents.

Mayer says that's part of the pros and cons cities must address when redeveloping communities.

"This happens to the creative class—artists and musicians for example—who make an area trendy, by living and working there," Mayer said. "Then comes gentrification and developers drive prices up, forcing them to move because they cannot afford the area anymore."

Mayer said this happened in the Crossroads Art District in Kansas City, Mo., and could happen to other up-and-coming areas that attract young professionals and empty-nester boomers looking for a lifestyle change.

Rappaport's research forecasts other major and long-lasting effects on the U.S. economy. They include decreasing prices of single-family homes and a shift in consumer demand for goods and services from those tailored to houses with yards to those associate to apartment living.

In addition, the possible shift toward city living may dampen demand for automobiles, highways and gasoline, while increasing demand for restaurants, city parks and high-quality public transit.

"Households, firms and governments that correctly anticipate these changes are likely to especially benefit," Rappaport said.

KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

"The Demographic Shift From Single-Family to Multifamily Housing," by Jordan Rappaport, www.kansascityfed.org/publicat/econrev/pdf/13q4Rappaport.pdf.

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.