



**Land Use and Natural Resources
Committee**

Meeting Date: 5/3/2018

Agenda Item No.: 2018-May-3.

Subject: White Paper on Future Housing Product Type Demand and Preference (Est. time: 15 minutes)

Information:

Prepared by: Greg Chew

Approved by: Kacey Lizon

Attachments: Yes

1. Issue:

What is the demand and preference for diversity in housing choice today and in the future, and does that support the assumptions in the Metropolitan Transportation Plan/Sustainable Communities Strategy (MTP/SCS)?

2. Recommendation:

This item is for information only.

3. Background/Analysis:

SACOG is updating the MTP/SCS, scheduled for adoption in 2020. The MTP/SCS forecasts and plans the transportation system in the six-county SACOG region for the next 20 years. As part of every quadrennial MTP/SCS update, SACOG creates a growth projection for how many people, homes, and jobs there will be, as well as a land use forecast that estimates where that growth is likely to occur. The projected growth is then used to plan the region's future transportation system. In March 2018, staff presented to the committees a framework for a Discussion Draft Land Use Scenario for use in the 2020 MTP/SCS Update. This framework included targets for how much of the scenario's projected housing growth should be in "infill" areas and how much should be in denser product types like small-lot single-family homes and attached housing. These targets are based primarily on the information we learned through creating and analyzing scenarios in the 2016 MTP/SCS. However, as part of every MTP/SCS update, SACOG staff refreshes and updates the research on a number of policy, regulatory, and market factors to inform what economic activity is reasonably likely to occur in the 20+ year time period of the MTP/SCS. One of these factors is housing demand and preference today and in the future.

The attached "2018 White Paper on Future Housing Product Types Demand and Preference", aka "Housing White Paper" (Attachment A), looks at national, state, and regional trends that may impact the housing market in coming years, and how they are likely to shape and affect demand in the SACOG region. This paper examines housing market research, specifically trends in housing demand and preference. It is a working document, which may be revised over time as new information and data becomes

available.

In February 2018, SACOG staff presented the findings from the "Housing Background for SACOG Board Panel on Overcoming Low Housing Production", aka "Housing Demand Background". The conclusions from that paper were that housing production is significantly behind housing demand and that the cost of housing—rental and for-sale—is rising much faster than wage growth. Together, these two companion research papers will provide guidance on the housing components of the 2020 MTP/SCS Update and SACOG's Housing Strategy.

4. Discussion/Analysis:

The Housing White Paper found that because the existing housing stock is largely single-family homes on large lots, new supply will need to include more diverse for-sale and rental product types, at more price points, in more locations, to meet the breadth of demand and preferences in the region. The paper made 11 findings:

1. As the largest generation, Millennials are and will continue to be a major driver of demand for both for-sale homes and rentals.
2. Older adults are becoming a larger proportion of the SACOG region's population and increasingly want to age in place or, if they move, seek a diversity of housing choices.
3. Demand exists for housing across city, suburban and rural/small town locations.
4. Research shows preferences for locations close to work that enable short commutes.
5. The research identifies preferences for walkability and access to shopping, services, and transit.
6. Like the nation, Sacramento is largely suburban, but there is demand for a mix of housing types and attached products in suburbs.
7. Many Millennials face challenges that point to a need for more housing diversity and affordability.
8. Rentals continue to be an important part of the housing market across generations.
9. One in every 5 U.S. residents lives in a multigenerational household, creating demand for new housing products.
10. Small households are increasing, creating a market for smaller and lower priced homes.
11. Financial and real estate advisors point to the need for greater market diversity.

The conclusion, for purposes of the 2020 MTP/SCS Update, is that for the SACOG region to meet the housing demands and preferences of the region's residents, the region will need to provide a diversity of housing product types at a wide range of prices (especially at the more affordable range) throughout the region.

5. Fiscal Impact/Grant Information:

Staff time spent on the MTP/SCS Update and housing-related activities are budgeted in SACOG's Overall Work Program and budget.

ATTACHMENTS:

Description

Attachment A - Housing White Paper

2018 White Paper on Future Housing Product Type Demand and Preference

Prepared by the Sacramento Area Council of Governments (SACOG)
For the 2020 Metropolitan Transportation Plan/Sustainable Communities Strategies Update

I. Introduction

SACOG is updating the Metropolitan Transportation Plan/Sustainable Communities Strategy (MTP/SCS), scheduled for adoption in 2020. The MTP/SCS forecasts and plans the transportation system in the six-county SACOG region for the next 20 years. As part of every MTP/SCS update, SACOG creates a growth projection for how many people, homes, and jobs there will be, as well as a land use forecast that estimates where that growth is likely to occur. The projected growth is then used to forecast the region's future transportation system.

A key component of the land use forecast is the type and location of future housing development. In developing the forecast, SACOG considers a number of policy, regulatory and market factors. This paper looks at national, state, and regional trends that may impact the housing market in coming years, and how they are likely to shape and affect demand in the SACOG region. The paper examines current research regarding trends in housing demand and preference. It is intended to be a working document which may be revised over time as new information and data becomes available.

II. Trends Overview

In the six-county Sacramento region, housing supply has not been keeping pace with growth and demand. This was the conclusion of the "State of Housing" staff [report](#) presented to SACOG's Board in February 2018.¹ The paper found that:

- During the 2012-2016/17-time frame, the region added 127,000 new jobs but only 22,000 new homes. Historically, the ideal has been one new housing unit built for every two jobs created. SACOG's rate is currently 1: 5.8.
- The MTP/SCS projects 45% of new housing growth to be attached products. Between 2012-2017 only 16% were multi-family units.
- SACOG's projections do not take into account the prior deficit in housing supply.
- The mismatch between supply and demand for housing has resulted in an increasingly higher priced market for both owners and renters.
- Because household incomes have not kept pace with the rapid increase in housing costs, more than half of the region's renter households at all income levels and nearly a third of owners with a mortgage are cost-burdened, paying more than 30% of their income for housing.

This prior paper showed clearly that the SACOG region is falling behind in meeting people's needs for housing. Housing is being developed at a much slower rate than almost any time since the early 1980s. In information provided by Greg Paquin of the Gregory Group, building permits in the six-county Sacramento region averaged less than 3,500 per year between 2009 and 2014. In the last three years, 2015-2017, the rate of production has increased, but it still lags behind previous decades. The inventory of unsold new homes has also been consistently lower than in the early to mid-2000s, and was less than 1,000 homes at the end of 2017. Multifamily development is increasing, but despite rental demands, it comprised 28% of building permits in 2017 compared with 72% for single family homes.ⁱⁱ According to ULI, "the past five years have shown that the market is not necessarily capable of building as much housing as is demanded by growth, a condition that has kept prices high for the limited supply."ⁱⁱⁱ

Based on the research in this paper, what is less clear is that the new homes being developed and purchased truly reflect consumer preferences or are simply a reflection of what is available and affordable in the market today. The majority of the region's housing stock was built between 1950 and 1990, and is fairly homogeneous. As of 2016, over 75% of the region's housing is single family detached. Approximately 60% of the region's stock are single-family homes on large lots (lots greater than 5500 square feet), and 12% single-family on small lots (lots less than 5500 square feet). Only 28% are attached homes, including other single-family options such as duplexes and townhomes, and multi-family rental apartments.

Because the existing housing stock is largely single family homes on large lots, new supply will need to include more diverse for-sale and rental product types at more price points in more locations to meet the breadth of demand and preferences in the region. The research led to the following 11 findings, with more detailed sections to follow.

1. As the largest generation, Millennials are and will continue to be a major driver of demand for both for-sale homes and rentals.
2. Older adults are becoming a larger proportion of the SACOG region's population and increasingly want to age in place or, if they move, seek a diversity of housing choices.
3. Demand exists for housing across city, suburban, and rural/small town locations.
4. Research shows preferences for locations close to work that enable short commutes.
5. The research identifies preferences for walkability and access to shopping, services, and transit.
6. Like the nation, Sacramento is largely suburban, but there is demand for a mix of housing types and attached products in suburbs.
7. Many Millennials face challenges that point to a need for more housing diversity and affordability.
8. Rentals continue to be an important part of the housing market across generations.
9. One in every five U.S. residents lives in a multigenerational household, creating demand for new housing products.
10. Small households are increasing, creating a market for smaller and lower priced homes.
11. Financial and real estate advisors point to the need for greater market diversity.

III. Housing Research: Trends and Preferences

Generational Trends

Finding #1: As the largest generation, Millennials are and will continue to be a major driver of demand for both for-sale homes and rentals.

- Millennials, or Generation Y, are those born between 1980 and 2000. They are the biggest generation nationally, and include over 696,000 Millennials in the SACOG region.^{iv}
- Nearly two-thirds of Millennials (65%) see homeownership as part of the American dream.^v
- Millennials are the largest group of current home buyers, making up 30% to over 40% of all buyers nationwide, and about two-thirds (66%) of first-time buyers.^{vi,vii}
- Several surveys found about 80% of Millennial renters say they would like to buy a home.^{viii}
- One-third of Millennials expect to buy a home in the next 3-5 years, and another quarter five years or later.^{ix}
- Despite their aspirations, Millennials face numerous challenges to buying a home, including rent burdens, student debt, limited housing supply, and high housing prices, that drive demand for more rentals and diversity of products in the market. (See Finding #7 for greater detail)

Finding #2: Older adults are becoming a larger proportion of the SACOG region's population and increasingly want to age in place or, if they move, seek a diversity of housing choices.

- Those age 65 and over are expected to comprise 55% of total population growth in the SACOG region between 2010 and 2030. By 2040, Sacramento, Sutter, Yolo and Yuba counties are projected to have about 1 in 5 residents aged 65 or older, with El Dorado and Placer counties nearing 1 in 3 and 1 in 4, respectively.
- The 2015 United States of Aging Survey of adults age 60+ found that 75 percent said they planned to live out their lives in their current home.^x
- A California Association of Realtors (CAR) baby boomer survey in 2016 found that 71% of Californians aged 55+ had not moved since 1999, and 64 percent did not plan to sell their home when they retired.^{xi}
- A Freddie Mac survey in 2016 of homeowners age 55+ found 59 percent were very satisfied with their current community, and 64 percent with their current home or apartment. Comparing preferences between homeowners and renters, as shown in Table 1, Freddie Mac's survey found older and retired homeowners and renters the most likely to want to stay in place.^{xii}

Table 1. Prefer to stay in current residence over moving one more time

| | Homeowners | Single Family Renters | Multifamily Renters |
|-------------------|------------|-----------------------|---------------------|
| All 55+ | 63% | 43% | 42% |
| Silent Generation | 75% | | 53% |
| Older Boomers | 63% | | 42% |
| Younger Boomers | 50% | | 34% |
| Retired | 70% | 55% | 49% |
| Still Employed | 52% | 29% | 30% |

Source: Freddie Mac

Table 2. Factors Rated “Very Important” in Deciding Whether to Move/Where to Live

| | Homeowners | Single-Family Renters | Multifamily Renters |
|--------------------------------|------------|-----------------------|---------------------|
| Affordability | 46% | 59% | 59% |
| Amenities for retirement years | 44% | 42% | 47% |
| Less home maintenance | 41% | 39% | 39% |
| Reduced property maintenance | 30% | 39% | 44% |
| Proximity to family | 31% | 33% | 24% |
| Walkable community | 28% | 39% | 45% |
| Abundant age-related services | 25% | 29% | 36% |
| Public transportation | 17% | 26% | 43% |
| Warmer climate | 19% | 24% | 24% |
| Downsizing | 19% | 18% | 10% |

Source: Freddie Mac

- According to real estate builders and developers, older adults are looking for choices representing the diversity of their circumstances and preferences. If they move, they seek a variety of options including:
 - Age-restricted or age-targeted communities, including active 55+ resort style retirement communities
 - Downtown/centrally-located urban apartments and condos near diverse cultural amenities and transportation options
 - Suburban or rural locations that offer experiences on site
 - Affordable senior or multigenerational apartments
 - Independent or assisted living communities with some level of services

Preferences for Location

Finding #3: Demand exists for housing across city, suburban and rural/small town locations

- A 2015 survey by the Urban Land Institute found over 46% of Millennials (owners and renters) living in cities.^{xiii}
- ULI's 2015 survey showed the strongest preference for city locations among Millennials, Latinos and African-Americans; with an increased preference for suburban locations among other Millennials and African-Americans; and an increasing preference for more rural/small town locations among Gen Xers, older adults, and Latinos.^{xiv}

Table 3. Current and Desired Location, by Race/Ethnicity and Generation^{xv}

| | | Cities | | Suburbs | | Rural/Small Towns | |
|-----------------------|-------------------|----------------|----------------|----------------|----------------|-------------------|----------------|
| | | <i>Current</i> | <i>Desired</i> | <i>Current</i> | <i>Desired</i> | <i>Current</i> | <i>Desired</i> |
| Total | All Adults | 36% | 29% | 26% | 27% | 37% | 42% |
| Race/ethnicity | White | 30% | 23% | 27% | 26% | 42% | 48% |
| | African American | 47% | 42% | 25% | 34% | 28% | 22% |
| | Latino | 56% | 44% | 24% | 24% | 19% | 30% |
| Generation | Millennials | 46% | 37% | 24% | 29% | 30% | 32% |
| | Gen Xers | 36% | 28% | 25% | 25% | 38% | 44% |
| | Baby Boomers | 30% | 22% | 30% | 24% | 39% | 51% |
| | Silent | 24% | 23% | 27% | 28% | 49% | 46% |

- A national survey conducted by the Demand Institute identified the most demand for moving to the suburbs rather than to rural areas, as shown in Table 4. Of movers, 18% expressed a desire to be closer to the city than currently, and 59% the same distance, suggesting only a small portion would consider moving further out.^{xvi}

Table 4. Current and Next Home Location of Movers

| Urban | | Suburban | | Rural | |
|----------------|------------------|----------------|------------------|----------------|------------------|
| <i>Current</i> | <i>Next Move</i> | <i>Current</i> | <i>Next Move</i> | <i>Current</i> | <i>Next Move</i> |
| 30% | 27% | 47% | 50% | 23% | 23% |

- UC Davis research found an inclination toward suburban location is highest for those from Generation X who already live in suburban areas, and lower for Millennials living in urban neighborhoods compared with their cohorts in suburban or rural areas.^{xvii}
- However, the UC Davis research also found that many Millennials see themselves living in a suburban area in the long term. The researchers posit that this could indicate that urban living may be a transition stage for some of this generation., and that it will be important to understand "the different patterns in lifestyles and behaviors among the various segments of the heterogeneous population of millennials."^{xviii}

Finding #4: Research shows preferences for locations close to work that enable short commutes.

- Valley Vision and the Sacramento State Institute for Social Research conducted a scientific regional poll on attitudes towards transportation in the SACOG region. The survey contained several questions related to housing and neighborhood preference. As shown in Table 5, over 60% of respondents said they would trade a short commute for a smaller house and backyard.^{xix}

Table 5. 2017 Regional Survey Responses

| All things being equal, proportion of respondents who would rather: | % |
|--|----------|
| Have a short commute to work and live in a smaller house with a smaller backyard | 61% |
| Have a long commute to work and live in a larger home with a larger backyard | 39% |

Source: Valley Vision/ Sacramento State Institute for Social Research (ISR)

- 65% of Millennials say that a location close to work is the most important factor in choosing a location.^{xx}
- According to research conducted at UC Davis, including the SACOG region, mode choice is shifting, with Millennials commuting less by solo driving than their Gen X counterparts (68.7% vs. 74.6%) and biking, walking, taking transit, and carpooling in greater proportions, as shown in Figure X. The UC Davis research found about 30% of Millennials and about a quarter of Gen Xers said they would prefer to live close to transit "even if it means I'll have a smaller home and live in a more crowded area."^{xxi}

Preferences for Neighborhood Features and Housing Type

Finding #5: The research identifies preferences for walkability and access to shopping, services, and transit

- A number of surveys in the 2000s indicated preferences for features that are more "urban" – walkability, nearby shopping, grocery stores, pharmacies, parks, and access to medical care and public transit. Table 6 compares newer survey results concerning community features that are similar high priorities for different groups. Proximity to parks/green space and healthy food rank highest across the board, while access to retail, health care, and public transit are all priorities as well.

Table 6. Percentage of respondents indicating priority for various community attributes^{xxii, xxiii, xxiv}

| Source | Attribute | Grocery store/ Healthy food | Parks/ Green Space | Walkability | Health care | Shopping/retail, entertainment | Convenient public transit |
|---------------------------|--------------------------------------|--------------------------------|-----------------------|-------------|-------------|-----------------------------------|------------------------------|
| ULI Terwilliger Center | All Adults | 73% | 55% | 50% | 50% | 42% | 32% |
| | Generation | | | | | | |
| | Millennials | 71% | 56% | 54% | 50% | 44% | 39% |
| | Gen Xers | 71% | 55% | 45% | 40% | 36% | 25% |
| | Baby Boomers | 77% | 54% | 49% | 52% | 43% | 29% |
| | Silent Generation | 73% | 52% | 51% | 65% | 49% | 33% |
| | Movers | | | | | | |
| Demand Institute | Very/somewhat likely | 71% | 55% | 51% | 50% | 44% | 34% |
| | Survey Respondents | | | | | | |
| NAHB | All Adults/ <i>Movers (ital)</i> | 85% | 75% | 39% | 72% | 69% | 25% |
| | Recent/Prospective Homebuyers | | | | | | |
| | Baby Boomers | | 63% | 61% | | 64% | 38% |

- ULI's *America in 2015* survey found that 63% of Millennials prefer living in a "car-optional" neighborhood.^{xxv}
- The Valley Vision/Sacramento State regional survey found 49% prefer a walkable neighborhood with access to transit, schools, work and shopping.^{xxvi}

Table 7. 2017 Regional Survey Responses

| All things being equal, proportion of respondents who would rather: | % |
|--|-----|
| Live in a neighborhood where the homes are closer together and it is convenient to walk or use public transit to go to schools, work, and shopping | 49% |
| Live in a neighborhood where the homes are further apart from one another and you have to drive to schools, work, and shopping | 51% |

Source: Valley Vision/ Sacramento State Institute for Social Research (ISR)

- The 2015 ULI Survey found neighborhoods with a diversity of ages and backgrounds important across the generations.^{xxvii}

Table 8. % Preferring to Live in Diverse Community

| | Variety of ages | Different cultures/ backgrounds |
|----------------------|-----------------|---------------------------------|
| All adults | 78% | 66% |
| Generation | | |
| Millennials | 75% | 76% |
| Gen Xers | 82% | 72% |
| Baby boomers | 81% | 61% |
| Silent | 73% | 44% |
| Movers | | |
| Very/somewhat likely | 76% | 69% |

Finding #6: Like the nation, Sacramento is largely suburban, but there is demand for a mix of housing types and attached products in suburbs

- A recent Nationwide Mortgages found 50% of Millennial homeowners living in suburban areas, and 25% in urban areas.^{xxviii}
- Recent research by RCLCO and the ULI Terwilliger Center developed a new definition of suburbs. Using this definition, they classified most of the four-county Sacramento area as suburban, finding the various generations (Gen Z, Millennials, Generation X, Baby Boomers, Silent Generation) fairly consistently distributed across the variety of suburb types.
- Their research found 83% of minority households, 82% of high-income Millennial households (incomes \$75K+) and 75% of lower income Millennial households living in the suburbs. Using their classification, Millennials showed a slightly higher concentration in urban areas (14%).^{xxix}
- In the Valley Vision/Sacramento State poll, 38% of respondents said that, all things being equal, they would rather live in a neighborhood with a "mix of housing types such as single family homes, condos, townhouses, and apartments" over a predominantly single family area.^{xxx}
- The National Association of Realtors' national survey in 2015 found over half of Millennials and over 40% of other generations with a preference for an attached home with a shorter commute and walkability.^{xxxi}
- As shown in Table 9, among likely Millennial movers, Nationwide found 38% expecting to move into an attached product or apartment.^{xxxii}

**Table 9. Current and Future Housing Types for Millennials:
Among Millennial likely movers**

| | Current | Future |
|---------------------------|---------|--------|
| Single Family | 48% | 59% |
| Duplex/Rowhouse/Townhouse | 18% | 25% |
| Apartment | 28% | 13% |

Source: Nationwide

Finding #7: Many Millennials face challenges that point to a need for more housing diversity and affordability

- Millennials face rent burdens. The largest cohort of Millennials is turning 30. With rents rising, even adjusting for inflation, a national study found single Millennials by age 30 will have paid over \$90,000 in rent, a much larger share of their income and a higher rent burden compared with previous generations (see Tables X and X). Paying a high proportion of income on rent makes saving for a down-payment a challenge, particularly if the renter also has student loans to repay.

Table 10. Rent paid by each generation (2017 dollars)

| Generation | Age in 2017 | Total rent paid in 8 years (ages 22-30) |
|---------------------------|-------------|---|
| Baby Boomers | 70 | \$66,900 |
| | 60 | \$72,800 |
| Generation X | 50 | \$81,400 |
| Older Millennials/Gen X | 40 | \$85,800 |
| Younger Millennials | 30 | \$93,400 |
| Generation Z (forecasted) | 20 | \$102,100 |

Table 11. Rent Burden or % of 8-Year Income Spent on Rent, by Generation

| | |
|-------------------------------------|-----|
| Baby Boomers | 36% |
| Generation X | 41% |
| Age 22-40 | 45% |
| Older Millennials/Gen X (now 30-40) | 44% |
| Younger Millennials (now 22-29) | 47% |

- Between 2006 and 2016, student loan debt increased from about \$480 billion to nearly \$1.4 trillion.^{xxxiii} As of quarter 2 of 2015, average real debt per borrower rose from about \$19,000 to \$27,000.^{xxxiv}
 - The 2016 National Association of Realtors annual HOME Survey found 47% of respondents age 34 and under, 32% of those ages 35-44, and 37% of renters with student loan debt.^{xxxv}
 - Per an analysis conducted by Fannie Mae of renters aged 25-44 (the age of most remaining student debt), "Renters with student loans are 28 percent less likely to say they will buy, rather than rent, their next home than those without student loans, when controlling for differences in age, income, and marital status."^{xxxvi}
- Current housing prices make it harder to afford a home. A 2015 ULI survey found only 52% of Millennials were confident in their ability to afford the home they desired.^{xxxvii} 55% of non-owners cited "can't afford to buy a home" as the main reason they are not currently homeowners.^{xxxviii} By far, the biggest obstacle has been affordability, with 77 percent saying that is their biggest barrier to ownership.^{xxxix}

- Even if they can buy, 48% of Millennials say they want a new home because they lack the extra money for renovations.^{xi}
- There is limited supply of starter home products. An analysis by realtor.com found nationally that in the five-year period between 2013 and 2017, the supply of starter single family homes declined at 17% year-over-year, with smaller homes (750-1,500 sf) decreasing from 29% of all inventory in 2013 to 24% in 2017.^{xli}
- Many Baby Boomers are aging in place, reducing turnover of their properties to younger households. As Javier Vivas, Director of Economic Research for realtor.com notes, "Boomers indeed hold the key to those homes the market desperately needs, both in the urban condo and the detached suburban home segment. But with a strong economy and rising home prices, there's really no reason for established homeowners to sell in the short term. Although down-sizing might be on the minds of boomers, they face the same inventory shortages and price increases plaguing millennials."^{xlii}
- Mortgage data firm Ellie Mae found Millennials are moving to smaller towns in the central U.S. to find lower cost rents and opportunities to save for a down payment and purchase a home they can afford.^{xliii}
- According to a Harvard housing study of demographic change, Millennials' decisions to buy a home are driven more by affordability than location and amenities. An analysis found a 5% difference in Millennial homeownership rates where house prices were 20% below or above the national median.^{xliv}

These trends point to a need for a broader array of housing options, including more starter homes, rental opportunities, and lower cost options to meet the market demand of Millennials, and to encourage them to locate and stay in the region.

Finding #8: Rentals continue to be an important part of the housing market across generations.

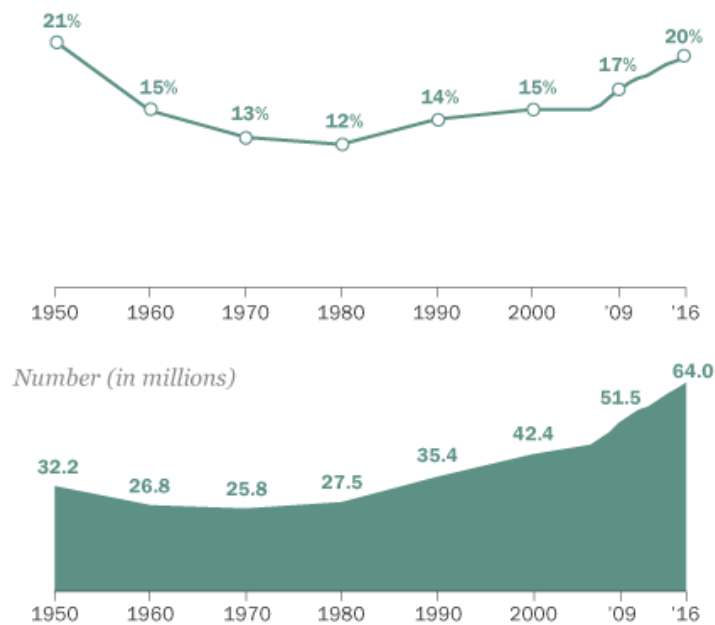
- A survey conducted by the Harris Poll for Freddie Mac found 58% of renters with the belief that "renting fits my current lifestyle" including 63% of younger Millennials and Baby Boomers. Affordability drove renting for 41% of respondents, while 33% said purchasing a home was not a priority at the moment.^{xlv}
- SACOG's February 2018 housing status paper found that, during the 2012-2017 period, median monthly rents for a 2-bedroom, adjusted for inflation, increased less than for-sale homes, but rose 33% in the Sacramento Metro area (from \$1,180 to \$1,596 per month) and 11% in the Yuba City Metro area (from \$1,009 to \$1,083). Notes ULI, "The comparative pace of the economic recovery has been slower in Sacramento, but the economy now appears to be on a positive growth trend. The medical service sector is adding better-paying jobs, which is spurring demand for housing. Sacramento homeowners hurt by the single-family housing bust have been slow to return to the market, and a number have chosen to be renters rather than take on the risk of ownership. This has kept upward pressure on rental market rents."^{xlvi}

- A national study by ULI found that multifamily rentals are fairly evenly distributed across age groups. But while families comprise 49% of renters of single family homes, middle age and older households without children comprise nearly 65% of all single-family homeowners.^{xlvii}
- ULI's 2017 outlook for real estate projected increased demand for rentals, stating, "Housing rental rates will surge over the long term. The sharing economy's de-emphasis on ownership will be reflected in soaring demand for rental units. Well over half of the 12.5 million net new households created over the next decade will rent, including those who have never owned, and those making the switch from owning to renting as they age."^{xlviii}

Finding #9: One in every 5 U.S. residents lives in a multigenerational household, creating demand for new housing products

- Between 2012 and 2014, the population living in households with two adult generations increased 8.8%, from 27.3 to 29.7 million people, and those living with three or more generations increased 4.5%, from 26.5 million to 27.7 million.^{xlix}
- Per the Pew Foundation, in 2016, 20% of Americans lived in a household with at least two adult generations, or grandparents and grandchildren below the age of 25 -- back up to nearly the same rate as in 1950.^l

Figure 1. Proportion of Population in Multigenerational Households



Source: Pew Research Center

- As of 2016, 31% or nearly 1 in 3 of adults aged 18 to 34 lived with their parents, compared with 26% or 1 in 4 in 1975.^{li}

- In 2016, 29% of Asians, 27% of Hispanics, 26% of blacks, and 16% of whites lived in multigenerational households. Greater rates of immigration and population growth are likely factors in the higher rates of Asians and Hispanics living with several generations of family.^{lii}
- In a 2016 survey of over 20,000 home shoppers by John Burns Real Estate Consulting, 44% said they would like to accommodate older parents and 42% adult children in their next home.^{liii}
- Large homebuilders such as Lennar and Pardee are now including plans that bring together older and younger
- generations in the same house or property but offer separate spaces for some privacy.^{liv}

Finding #10: Small households are increasing, creating a market for smaller and lower priced homes.

- The SACOG region has seen growth in single person households. Statewide the proportion dropped (28% to 24%), but increased in the SACOG region (25.8% to 27.5%). During the same time period, single person households made up a significant proportion of all new households: 26.6% in California, but 30.2% in the SACOG region.^{lv} This could be due in part to the region's being somewhat more affordable than the other major population centers like the Bay Area and Southern California.
- Younger adults are delaying many of the milestones considered common to adulthood, including marriage and children. In the 1970s, 8 in 10 people had married by the time they turned 30. Today, not until the age of 45 have 8 in 10 people ever married. By age 30 in 1976, 75% of women had had a child, compared with about 32% in 2014. By age 44 (when fertility begins to wane), only 7% of women in 1976 had not had a child, compared with 20% in 2014.^{lvi}
- Nearly 75% of all households in the region have three or fewer people. As shown in Table 12, over 58% of households in the region have 1-2 people, and 74% have three or fewer members. These small households also make up the vast majority of the growth in households region-wide.

Table 12. % of households with 1, 2, or 3 people, 2000-2016

| Geography | YEAR | 1 person hh | ≤2 person hh | ≤3 person hh | % of 2000-2016 household growth with 1-3 persons |
|--------------|------|-------------|--------------|--------------|--|
| California | 2000 | 23.5% | 53.2% | 69.2% | 83.8% |
| | 2010 | 24.2% | 53.9% | 70.0% | |
| | 2016 | 23.9% | 54.1% | 70.8% | |
| SACOG region | 2000 | 24.8% | 57.5% | 73.9% | 76.2% |
| | 2010 | 25.9% | 58.6% | 73.5% | |
| | 2016 | 25.8% | 58.3% | 74.3% | |

- While some of these small households may want and be able to afford more traditional large lot single family homes with many bedrooms and bathrooms, smaller home sizes at lower price points are also needed to meet this market demand, providing opportunities for more infill, rental, small lot and attached homes.

Finding #11: Financial and real estate advisors point to the need for greater market diversity.

- RCLCO notes, "Instead of targeting the meat of the market... high land costs, flat income growth, and a shrinking middle class are leading builders to target fewer but more affluent buyers. New for-sale homes are therefore getting bigger and more expensive; prices are rising faster than incomes; and household formation is outpacing single-family starts. In addition to limiting the affordability of new supply, conventional new detached homes may also be overlooking lifestyle preferences for more walkable, compact communities. As a result, key buyer segments are currently underserved."^{lviii}
- ULI notes, "Given that a high percentage of the housing built in U.S. suburbs has not been in walkable areas, there is likely a deficit of homes in walkable neighborhoods. For demographic and preference reasons, combined with the relative scarcity of walkable neighborhoods in the suburbs, there will probably be more demand than has been exhibited in the past for suburban housing in a range of types and prices that is in walkable neighborhoods or at least accessible to such areas (e.g., mixed-use town centers and traditional neighborhood development and its variations)."^{lix}
- Per the Demand Institute, "There is tremendous diversity across U.S. communities in terms of features and benefits. This diversity will likely persist going forward, given that these differences reflect divergent consumer needs and preferences. Some prefer and will opt for more density and its attendant benefits, while others will opt for benefits more typical of the suburbs. Indeed, this diversity across communities and locations is a good thing, providing consumers with options consistent with their life stage and preferences."^{lx}
- "It may be overhyped,' says Adam Ducker, managing director at RCLCO of the potential wave of millennials moving to the suburbs. "But it's still important. In a country of 350 million people, if 3 or 4 percent do something different, that's vitally important. ... The real problem here is that nobody in the homebuilding industry is giving them a product they want."^{lxi}
- Svenja Gudell, Chief Economist at Zillow, notes, "Buying conditions, in theory, are great right now: Jobs and incomes are growing, and rock-bottom mortgage interest rates are helping keep financing costs low. What's missing from the equation is a lack of homes actually available to buy at a price point that's reasonable for most buyers."^{lxii}
- RCLCO/ULI research for Sacramento points to the need for housing development geared to young families and first-time buyers, empty nesters, and low and middle-income renters, and that fills in the "missing middle" in the market, with small lot and attached product types, including two to four plexes, townhomes, row houses, multiplexes, courtyard housing, live/work space, etc.^{lxiii}

IV. Implications for the MTP/SCS and Local Jurisdictions

One of the key conclusions of this white paper is that there is a strong demand and need for a diversity of housing product types in more areas of the region. The housing research is as diverse as the households, preferences, economic situations, and lifestyles in our region. However, the region's existing stock of housing heavily favors single family homes, and large-lot single family homes in particular. This means that new supply will need to include other product types, like small-lot single family and attached products, for the region's future stock to more accurately meet demand.

In all, the region will have to examine and work on a number of the issues this paper raises to help meet housing demand in the six-county Sacramento region. Local governments control the regulatory framework by which housing is planned and approved. That framework has played a large role in shaping the housing stock that is in place today. If the region is going to meaningfully shift the type and location of new housing, it may require changes to the regulatory framework in some areas. Local governments could do this through more flexible zoning, both in developing and existing communities, to facilitate more small-lot and attached housing products, including "missing middle" housing. The "missing middle" refers to a range of multi-unit or clustered housing types compatible in scale with single-family homes that can help meet the growing demand for walkability, in urban, suburban, and rural small town settings. Adding more housing types such as duplexes, fourplexes, and bungalow courts would support more walkable communities, locally-serving retail, and public transportation options. Jurisdictions could re-evaluate parking requirements, which significantly add to the cost of housing and limit the feasibility of many product types and projects. Fees could also be examined to incentivize more housing production, especially smaller, more affordable units.

Other parties have roles, too, in meeting the region's housing demand and preferences. Private sector housing developers have stated the need for more construction industry job training and lowering of local fees assessed on new housing as a means of encouraging more production.

SACOG also has a role as the regional transportation planning agency charged with developing the MTP/SCS. SACOG will continue to reflect in the MTP/SCS the unmet and projected need for small lot and multi-family attached housing products throughout the Sacramento region. As a council of governments, SACOG can also play a coordinating, convening, and supporting role for jurisdictions in implementing the MTP/SCS. SACOG is planning implementation assistance in the form of:

- A housing policy toolkit that provides a menu of options for local governments to help implement the Blueprint principles and housing outcomes called for in the MTP/SCS
- Support to understand recent housing legislation and requirements for local governments
- Housing-related education and outreach materials
- A potential shared housing "circuit rider" – a housing planning specialist, who would help local jurisdictions with their housing issues at a regionally subsidized billing rate

All of these potential solutions will be examined by SACOG as part of the MTP/SCS update.

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