Outline

1. BRIEF look at Economy and Housing in the United States, Texas, and El Paso
   A. Housing is in a recovery, but the recovery is fragile.
   B. Most observers agree that if a few things go well and others don’t go poorly, U.S. should see modest gains in all property sectors in 2013.

2. Residential Construction Trends in 2013 +Beyond (BIG TRENDS SHAPE HOUSING OVER THE NEXT DECADE)
   A. Consider Residential Construction Trends in light of the fact that the world is changing rapidly and dramatically.
   B. Financial, demographic, and cultural changes are influencing a) where people choose to live, b) what they want to buy, c) what they can afford to buy, c) how housing products are designed, built, and sold, and d) cultural and political allocation of resources.
   C. Much of what I say about Residential Construction Trends will be more evident in gateway global cities, but they are still relevant to El Paso (still here, still coming, but just a bit more slowly).
The Big Picture – Housing Market Nationally?

Good News
- Job creation appears to be picking up
- Positive GDP growth
- Fewer foreclosures
- Historically low mortgage interest rates
- U.S. home values grow YOY for 1st time since 2006
- Population growth is elementary evidence of housing growth (more households = more homes)
- Gen-Y is maturing into household formation age
- Most polls still show strong desire for home ownership
- DJIA and NASDAQ up (1, 3, and 5 years)

Housing Market Nationally?

Bad News
- Debt ceiling debate
- Automatic spending cuts?
- Real unemployment rate?
- Increase in mortgage rates?
- Weak growth in consumer wealth and consumer confidence
- Bank credit standards – still tough
- U.S. is politically polarized
- Growing income disparities
- Payroll tax increase impacts personal spending
MOST EXPERTS AGREE THAT WE ARE IN RECOVERY

BUT, . . . this recovery is anchored in considerable uncertainty.

- Very slow when compared to past recoveries
- Described as a prolonged hunkering down.
- Doubts about the strength of the economic recovery
- Investors are “operating on yellow and red flashing lights.”

### Housing Market Nationally?

| TREND = |
| ULI Emerging Trends in Real Estate 2013 Concludes: Investors can expect modest gains in leasing, rents, and pricing across the US markets in 2013. Improved prospects for all property sectors. Watch for continued high investment in a handful of 24 hour cities and energy/ttech markets (top urban markets are poised to outperform). |
**Zoom in a little bit – What is happening in Texas?**

*“Texas housing market is finally building a solid recovery.” Federal Reserve Bank Dallas (3rd Q 2012)*

Evidence of a sustained recovery should continue in 2013
- Texas unemployment began recovering in December 2009 (earlier than other parts of U.S.)
- Sales pace picked up in 2011 and even more in 2012
- Beginning in 2012 Texas started to add construction
- Industry reports suggest sales continue to outpace expectations
- Finished vacant home inventories are low
- Texas economy is strong (fast to regain jobs lost during recession, fast growing population)

**What is happening in Texas?**

ULI’s Top 20 Markets in investment, development, and homebuilding
- Austin (4) – Job growth, income growth and technology are key drivers
- Dallas (9) – Great employment story
- San Antonio (19) – job growth and healthy GMP growth (value of goods and services produced)
Between 2006 and 2011 when housing prices were falling almost everywhere, the median single family home price in El Paso increased 7.9%.

Between 2009 and 2011 when housing starts were falling or flat in most markets in the US, housing starts in El Paso were increasing nearly 32%.

Between 2007 and 2011 when median household incomes were shrinking nationally, the median household income in El Paso increased nearly 23%. That is good news, but the problem is that EP median household incomes are still 21% lower than the national average.

2013 looks good for El Paso (construction spending and job growth)

- Private investment – two new movie theatres, new Walmart, Eastside hospital addition, Union Pacific facility, EPEC Montana station
- City/Airport/ISD investment – new ballpark, SISD, CISD and EPISD facilities improvements and new schools, Quality of Life bonds, airport parking garage,
- TXDOT and Fort Bliss – new trolley, Fort Bliss Hospital, TXDOT road projects

EXPECT A STRONG RESIDENTIAL HOUSING MARKET IN 2013
Frame Discussion: Residential Construction Trends

**THE WORLD IS CHANGING QUICKLY**

- Technological breakthroughs
- Political upheaval
- Birthrate demographics
- Strong desire for socio and political change

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A CHANGING WORLD?

**World News:**
- N. Korea Provoking South
- Russia's Putin Consolidates Domestic and Regional Power; World's Most Influential Politician (Foreign Policy Magazine)
- European Economic Crisis (Spain, Greece, France)
- Iran Continues to Pursue Nuclear Weapons
- Afghanistan War Continues (12 Years)
- Egypt and the Arab Spring Rise of Muslim Brotherhood
- Syria Thousands Dead in Civil War/Envelops Region in “Staggering” Crisis
- Chavez fights for his life, Cuba fears for its future
- China paper: “Prepare for the worst” after military confrontation with Japan

**National News:**
- U.S. Trade Deficit Unexpectedly Surges to $48.7 Billion
- Contractors Bolt Among Defense Cuts
- Demand For the iPhone is Weak and Apple Is Cutting Orders
- Time will Layoff 700 After 5% Ad Decline
- Citi Reveals the Most Likely Debt Ceiling End-Game, and Why It is Bad News for the U.S. Dollar
- 2012 Tax Hikes Amount to 1.6% of Personal Income Likely Deal Blow to Household Finances – Weak Consumer Spending in 2013?
**Economic, Demographic, & Cultural Influences**

- **Economic change:** coming out of period of severe drop in home prices, real incomes and wealth are shrinking, middle-class is growing smaller, falling consumer confidence, and high unemployment (even higher if you include discouraged, marginally attached, and involuntary part time workers).

- **Demographic change:** 76 million Boomers entering retirement, 80 million Gen-Yers maturing (born between ’82 and 2004), recent financial crisis has major impact on Gen-Y (historically high levels of unemployment), and volume of demand for owner occupied housing will depend heavily on maturing Gen-Y. The changing American family—greater sense of obligation toward relatives, rise of cohabitation, rise of new family forms, people are delaying marriage, and U.S. birth rate falls to a record low in 2011.

- **Cultural/Technological change:** uncertain job future leads to delay buying a home; allure of 24 hour gateway cities; people are more connected, informed, and socially conscious (i.e. “green”); disaffected youth left behind in the labor market. Sustainability and energy efficient technology are huge drivers. Walkability, Mixed-Use, SmartCode are politically and socially popular. Houze Advanced Building Science (produce on site electricity and thermal heat from natural gas power cells – 10 years no electric or gas bills).

**RESULT:**

Economic, demographic, and cultural/technological changes are impacting our attitudes and the ways Americans think about housing. The change in how we think about housing has been a long time in the making. Attitudes have changed sufficiently and to the point where it now is changing behavior. This impacts: 1) the cities (and places within cities) where people want to live, 2) what they want to live in, and 3) how “homes” are getting built.
### Economic

**Slow Growth, Looming Economic Uncertainty** (US Labor Department)

Top Earners Wealth Grows (Seattle Post Intelligencer / Sydney Morning Herald)

**What does this mean for housing?**
- With less $ to spend, smaller units gain in popularity (MF or SF)
- People move where jobs are being created
- Therefore, high innovation cities (good jobs and highly educated workforce) will thrive
- High end luxury market is booming

### Demographic

**The Age Wave**

**Generation Y Rising**

**The Changing American Family**

**What does this mean for housing?**
- Economic realities force people to consider more efficient ways to live (multi-generational housing/MF)
- Large numbers of young people (underemployed) moving to high innovation cities (micro-housing/multi-family/live work)
- Boomers downsizing/Gen Y for the time being avoid the suburbs (infill & mixed use)
- Sheer numbers of retirees promise steady demand for retirement housing
**Slow Growth Economic Environment, Demographic and Cultural Changes**

**Cultural/Technological**

- Sustainability
- Energy Efficient Technology
- Social Consciousness and Connectivity

**What does this mean for housing?**

- People seek smaller spaces and many don’t want/need as much room to live (good for cities, MF, live/work, micro-housing)
- Gen-Y career builders forsake suburban for urban life with public amenities (public transit, no car, simplify life)
- Buyers increasingly sensitive to “green” issues and looking for ways to save the earth AND the pocketbook (net-zero, carbon-zero homes)
- Growing demand for and affordability of green technology drives innovation in construction, marketing, and product type (MIT declares ultra-efficient solar one of 10 most important technical milestones of 2012)
- By 2016 green construction will be 38% of residential market (McGraw-Hill and NAHB)

**MAJOR TRENDS 2013 +BEYOND**

- **High investment** in Gateway Cities / Energy Cities / Technology Hubs
- **Broad Acceptance of Energy Efficiency Home Construction and Sustainable Land Development**
- **Growing Market Segmentation – Niche Housing**
  - Micro Homes
  - Retirement Housing
  - Multi-Generational Housing
  - Multi-Family
  - Live/Work Housing
  - Student Housing
Gateway Cities / Energy Cities / Technology Hubs

- Gateway cities dependably outperform because they lie along important global commercial routes and attract money from all over the globe (New York, Boston, Seattle)
- Many have strong energy or tech component (San Jose, San Francisco, Houston)
- Others are buffered by the public sector (Austin, D.C)
- Bolstered by move-back-in trends and Gen-Y appeal (cool places to be)
- Buyers willing to forsake yards and space for convenience and no car dependency
- Demographics, cultural, and economic trends will continue to draw the most educated to these cities.

Energy Efficiency Home Construction and Sustainable Land Development

- Performance is front and center in construction and marketing
- Diminishing buyer skepticism about claims of money savings and growing number of builders join the bandwagon
- Green building technology and materials are more affordable and reliable (solar, low-flow water, motion detection lights)
- Strong political and cultural support for sustainable land development drives resources and capital to urban centers. Result is more high-density, mixed-use housing.
Micro-Homes Loom Larger

Retirement Housing
Multi-Generational Housing
Multi-Family Housing
Live/Work Housing
Student Housing

Micro Homes Loom Larger

- Trend around Europe/Asia for awhile and catching on in U.S. urban areas.
- Micro infill projects in SF, Boston, Portland, NY
- NYC micro apartment pilot program is trying to add or preserve 165,000 housing units by 2014.
- In urban gateways (land is at a premium), high quality and compact physical outcomes produce great yields for land assets.
- Calvin Gladney, Managing Partner of Mosaic Urban Partners says the biggest fad in land use industry is studio apartments that max out at less than 400 sq. ft.
Conclusion

- Financial, Demographic, and Cultural forces are changing attitudes about housing and will have big impacts for residential construction for 2013 (and Beyond)

- These forces (1) have outsized positive impact on gateway cities (but are still relevant to El Paso), (2) will drive growth in “green building technology” and “sustainable land development” and (3) are creating demand for niche housing products

- Societal forces are attracting human, financial, and political resources to urban centers, but this IS NOT the death of SF suburban residential. Healthy demand for detached SF will continue. BUT even suburban buyers are going to want homes with increased strength, lower energy consumption, and fewer maintenance requirements.