The *Growing* Market for Smart Growth
Consumer Demand and Demographic Drivers

Shyam Kannan – skannan@rclco.com | February 2010

ABOUT OUR FIRM

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- Downtown/Corridor Revitalization
- Affordable/Workforce Housing
- Public/Private Partnership Structuring
- Transit-Oriented Development
- Economic & Fiscal Impact Analysis
- Smart Code Review
- Regional Visioning
- Consumer Research
- Campus Strategy Planning and Development

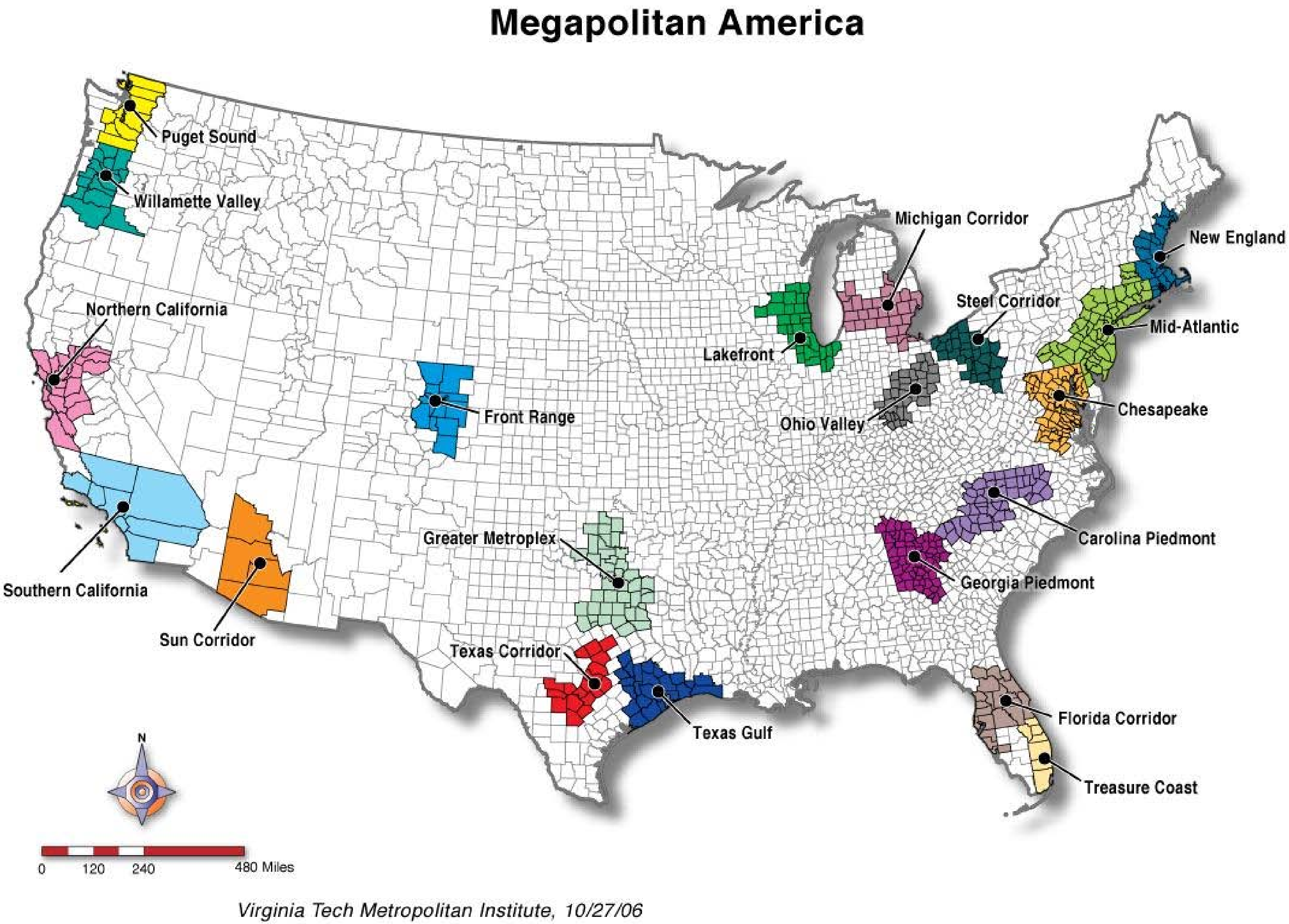
RCLCO

a land use and real estate economics firm providing **market intelligence**, **strategy**, and **implementation solutions**

Changing Consumer Preferences for Smart Growth

FROM METROPOLITAN TO MEGAPOLITAN

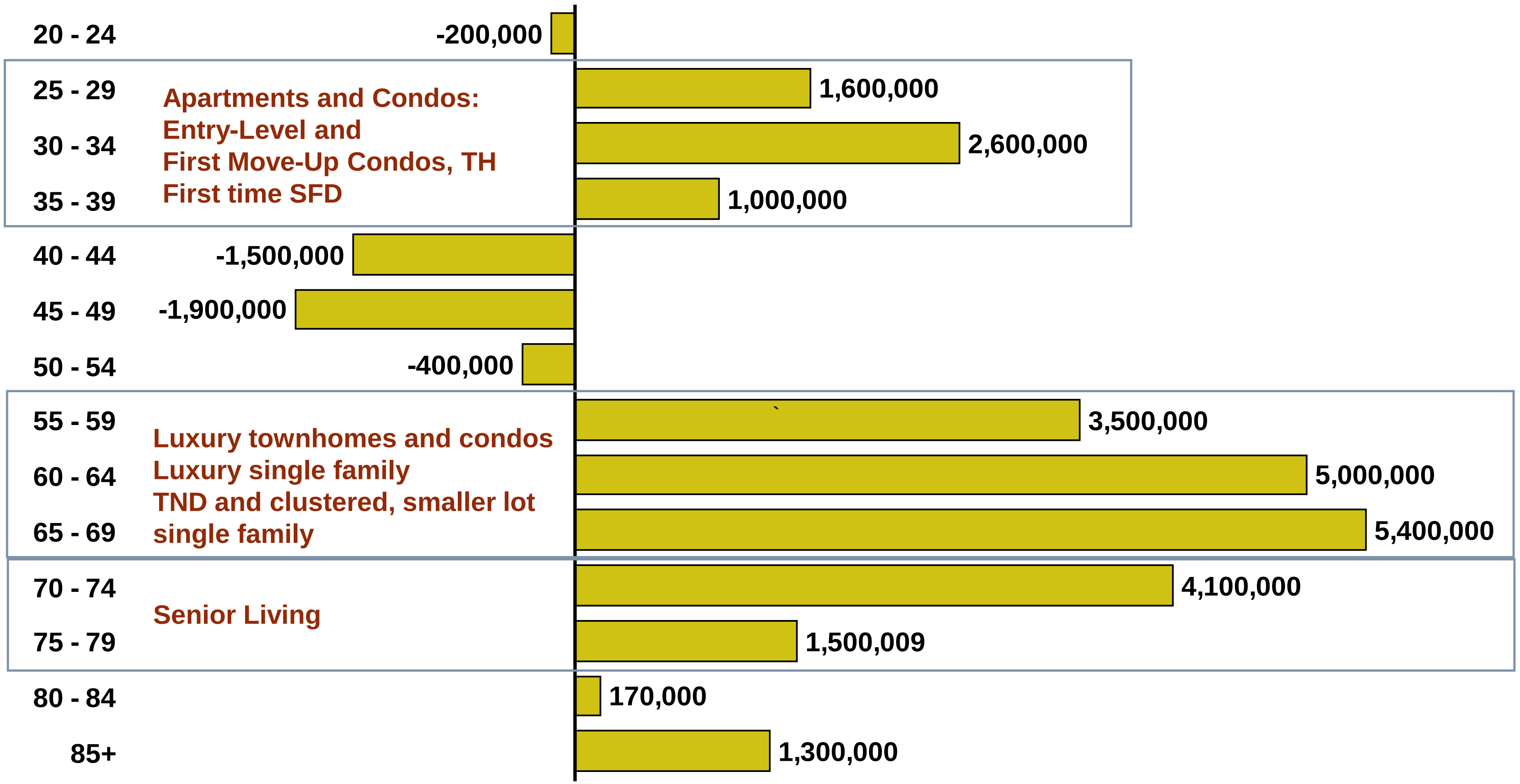
100 MM NEW PP IN U.S. BY 2040 – 60 MM IN 20 MKTS



DEMOGRAPHIC SHIFTS AND HOUSING DEMAND

BUILT-IN DEMAND FOR HIGHER-DENSITY LIVING

Projected Total Population Growth Rate by Age
2010–2020

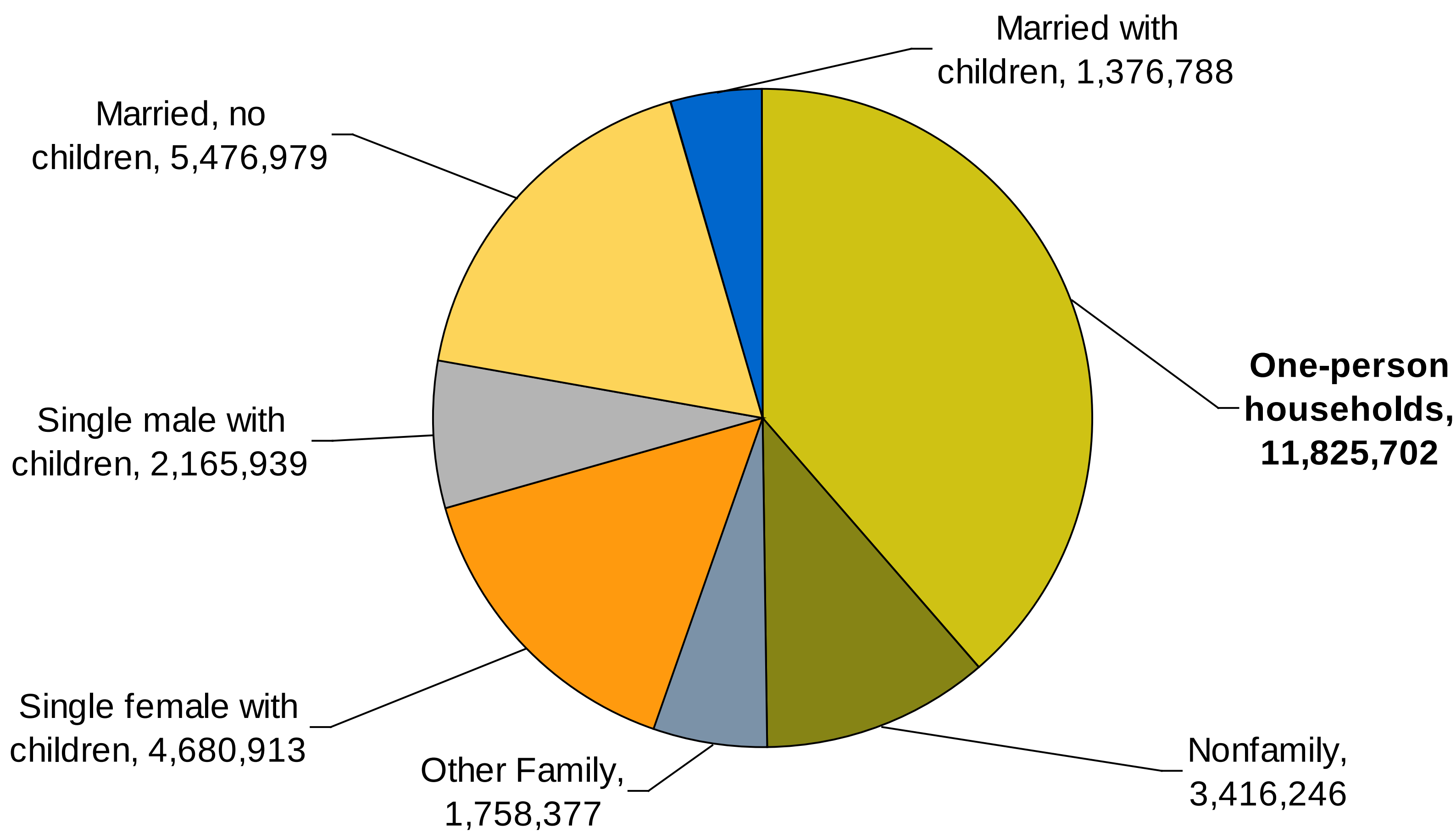


SOURCE: U.S. Census Bureau

> 85% GROWTH IN HOUSEHOLDS WITHOUT CHILDREN

DIFFERENT HOUSEHOLD LANDSCAPE BY 2025

Absolute Change in Households, United States
1980–2005

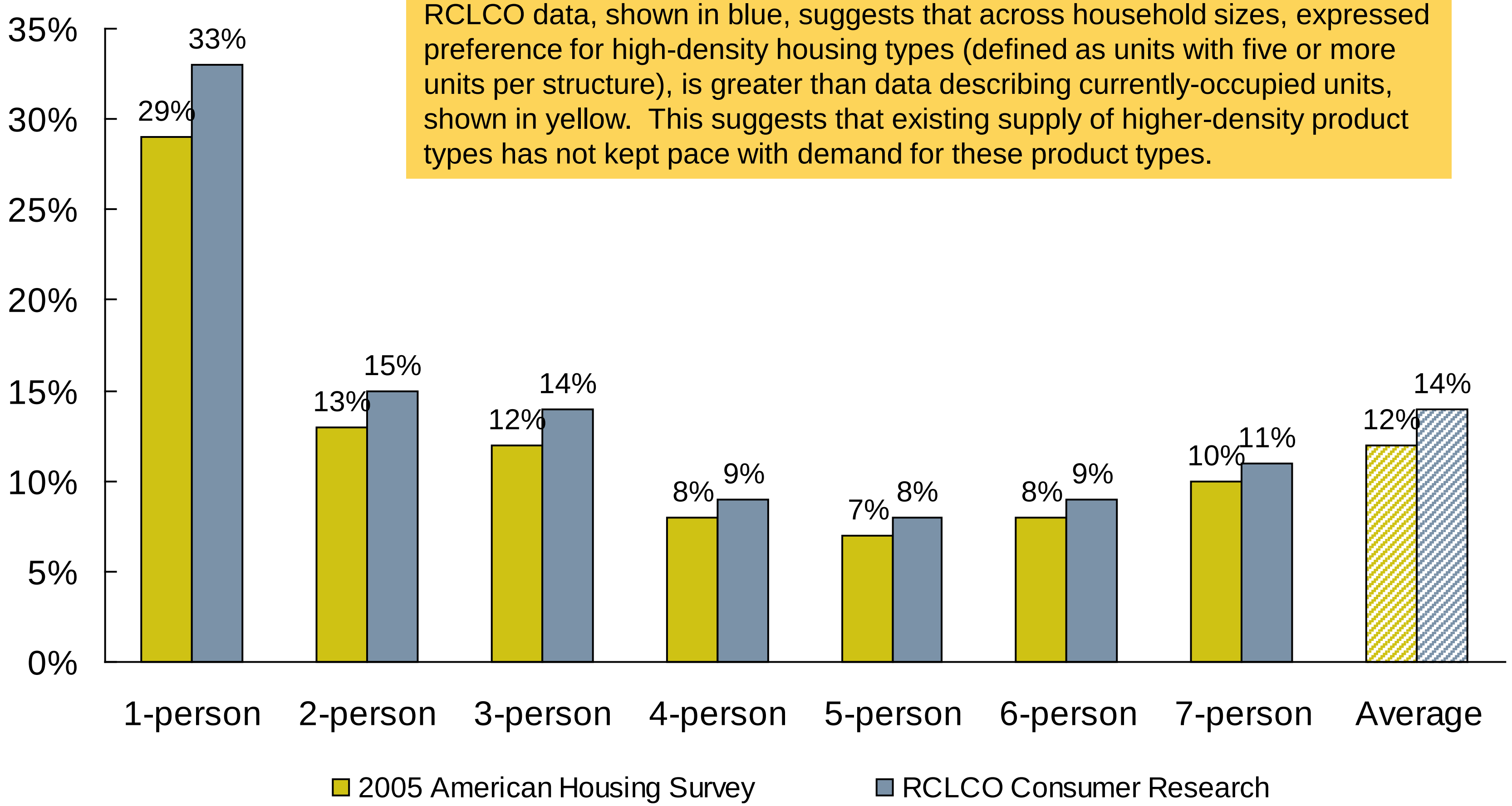


SOURCE: US Census

CHANGING CONSUMER PREFERENCES
INCREASED PREFERENCE FOR DENSE PRODUCTS

Existing and Preferred Housing Type by Household Type

RCLCO data, shown in blue, suggests that across household sizes, expressed preference for high-density housing types (defined as units with five or more units per structure), is greater than data describing currently-occupied units, shown in yellow. This suggests that existing supply of higher-density product types has not kept pace with demand for these product types.



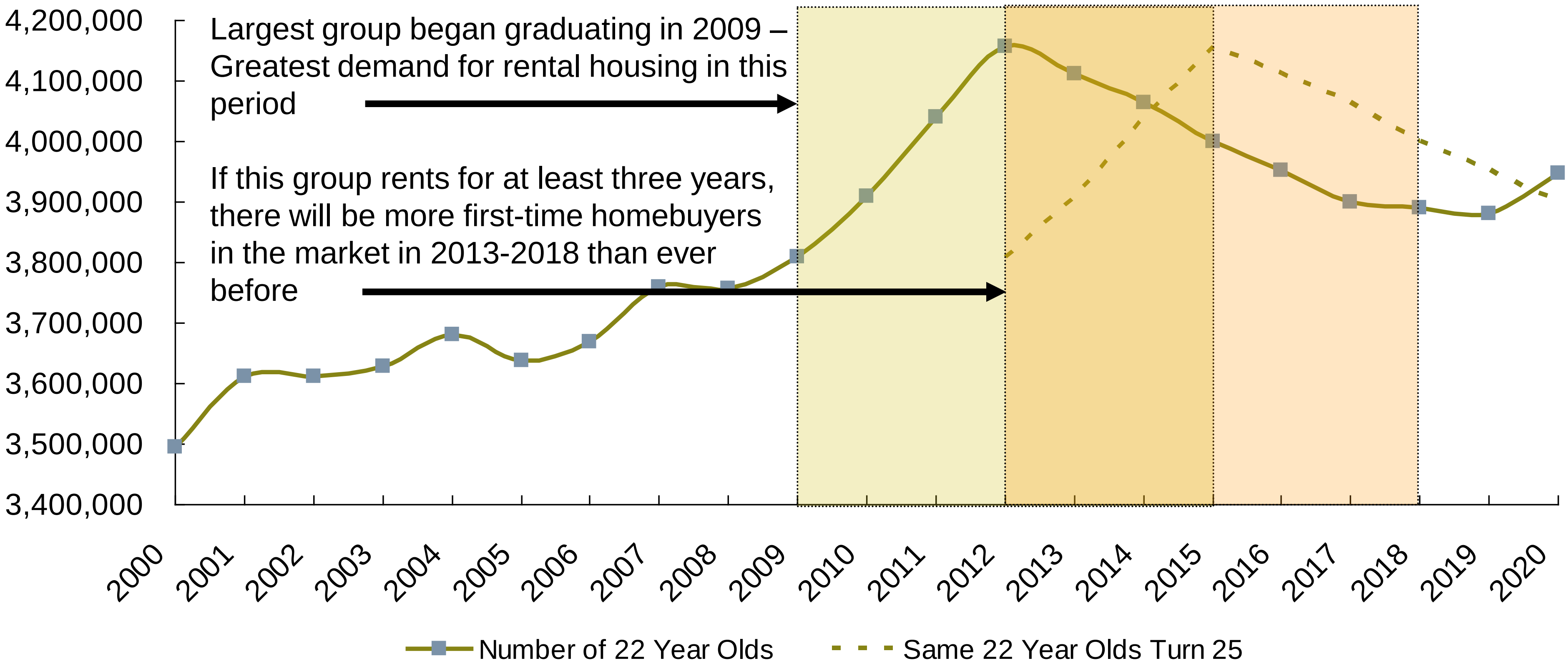
SOURCE: RCLCO Consumer Research

GEN Y MAKING ITS MARK TODAY

SHAPING POST-RECESSION PLACEMAKING EFFORTS

RCLCO Consumer Research shows:

- 41% of Generation Y plan to rent for at least three years
- 77% of Generation Y plan to live in an Urban Core

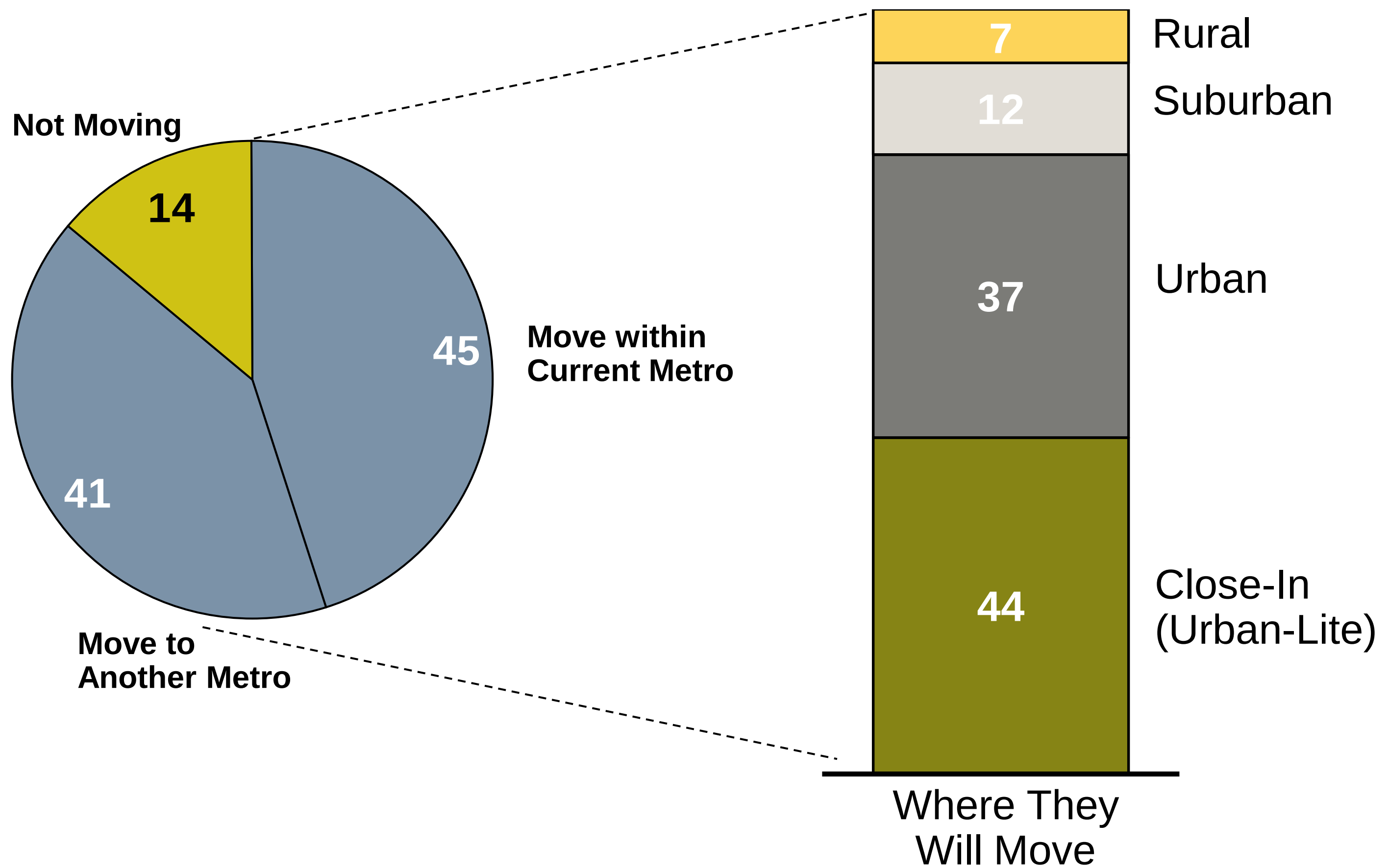


NOTE: Number of 22-year olds is based upon birth rate and does not factor in death rates and migration.

SOURCE: U.S. Centers for Disease Control and Prevention

86% OF GEN Y RENTERS ARE MOVING
MOSTLY GOING TO WALKABLE LOCATIONS

Movement of Gen Y Renters (%)



Source: RCLCO Consumer Research

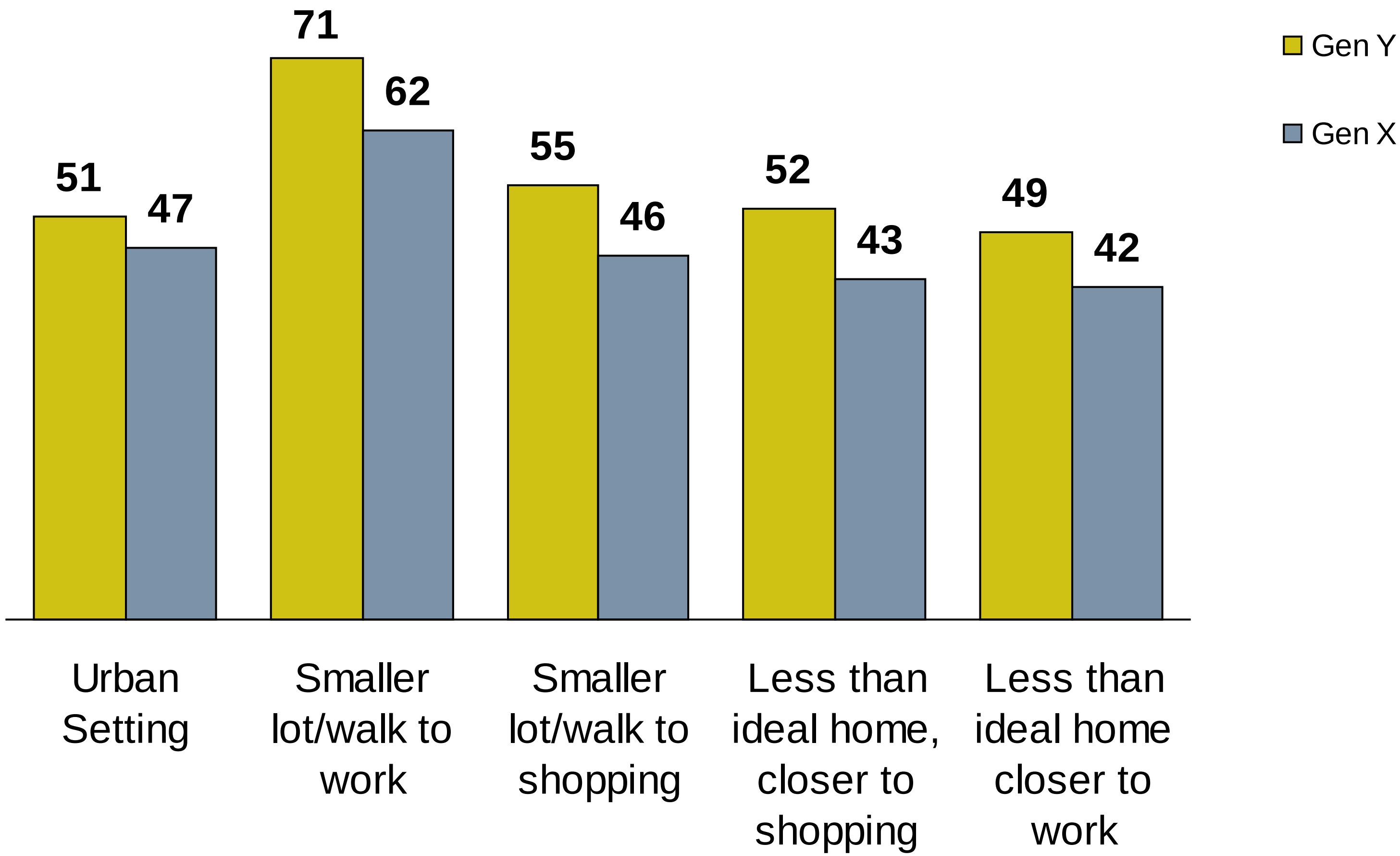
GEN Y WILL PAY FOR WALKABLE, MIXED-USE
CHALLENGE IS PROVIDING PRODUCT THEY CAN AFFORD

- Driven by convenience, connectivity, and a healthy work-life balance to maintain relationships
- **1/3 will pay more** to walk to shops, work, and entertainment
- 2/3 say that living in a walkable community is important
- More than 1/2 of Gen Y would trade lot size for proximity to shopping or to work
- Even among families with children, one-third or more are willing to trade lot size and “ideal” homes for walkable, diverse communities

SOURCE: RCLCO Consumer Research

THE “SMART GROWTH GENERATION”
GENERATION Y MAKING WALKABLE HOUSING CHOICES

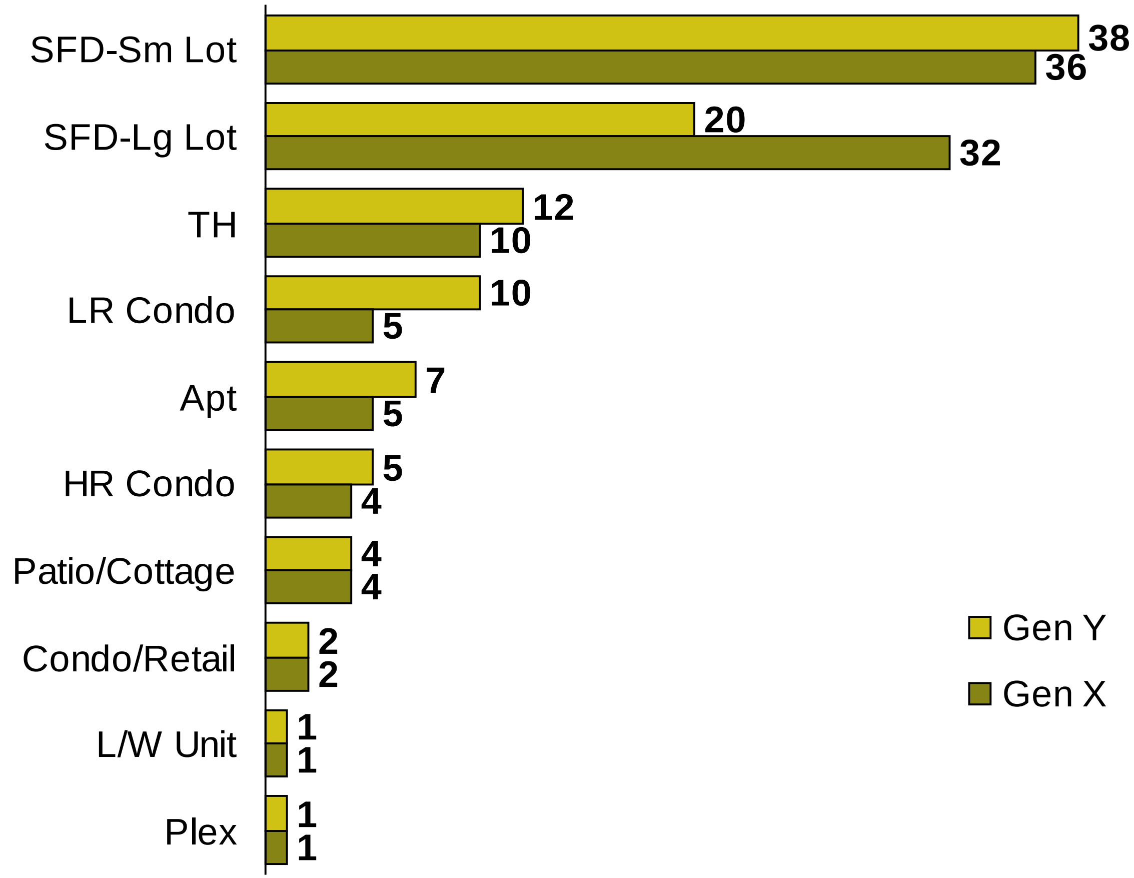
Generational Tradeoffs (%)



SOURCE: RCLCO consumer research

THE "SMART GROWTH GENERATION"
GENERATION Y MAKING WALKABLE HOUSING CHOICES

Product Type Preference Gen X vs. Gen Y
%



For single-family products, preference for smaller lot homes and high density SFA in concert with local variations will influence design.

Alley-loaded parking becomes a safety issue – must be mitigated with a reimagining of the alleyway

SOURCE: RCLCO Consumer Research

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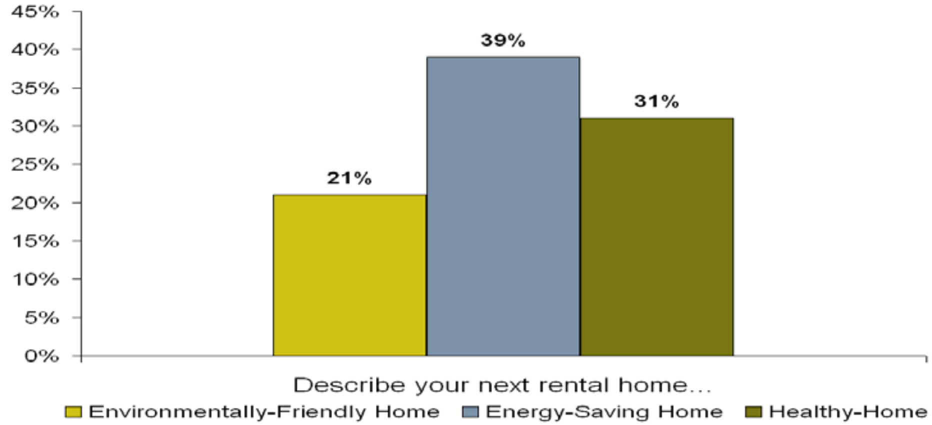
BAMBOO SHOOTS
SMART GROWTH EXPECTATIONS, NOT ASPIRATIONS

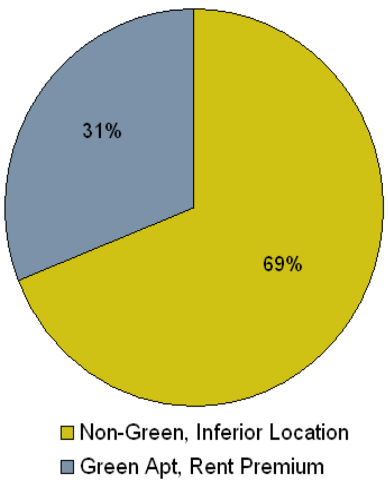
More driven by "me green" than "we green"…

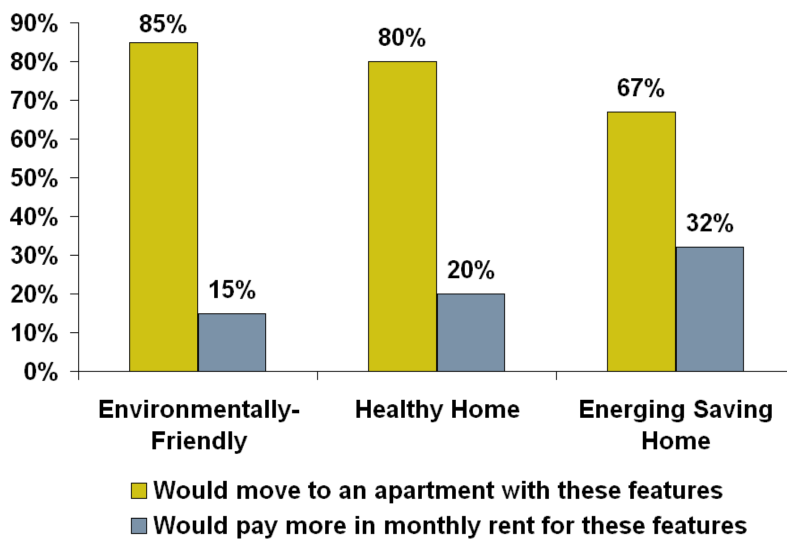


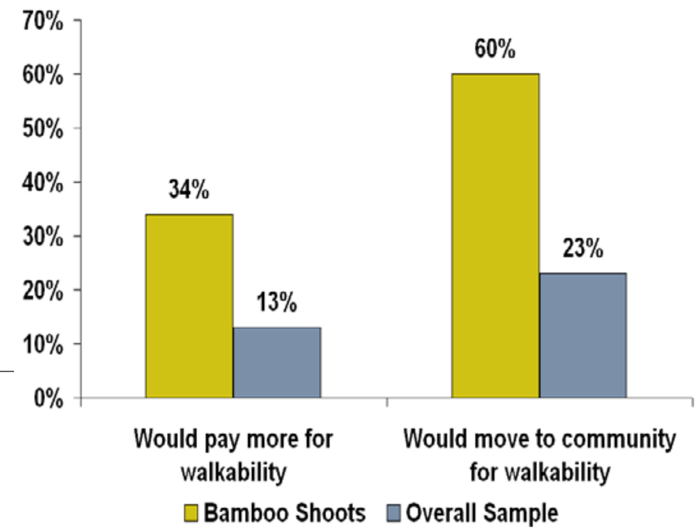
Bamboo Shoots are…

- ***Young*** with the heaviest concentrations in the 20-29 year old age cohort
- ***Well educated*** and likely to have at least a bachelor's degree if not a masters or other professional degree
- ***Looking for urban locations*** and especially ones with walkability and/or proximity to public transportation
- ***Prefer high-rise or mid-rise products***, in-line with their urbane lifestyles
- ***Passionate about the environment****, but only willing to pay for "me green"*

Unwilling or unable to pay "green premium"…







Hot Button Issues: Physical fitness, reducing automobile trips, walkability, access to direct sunlight, "organic" products

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TWO TYPES OF REAL ESTATE

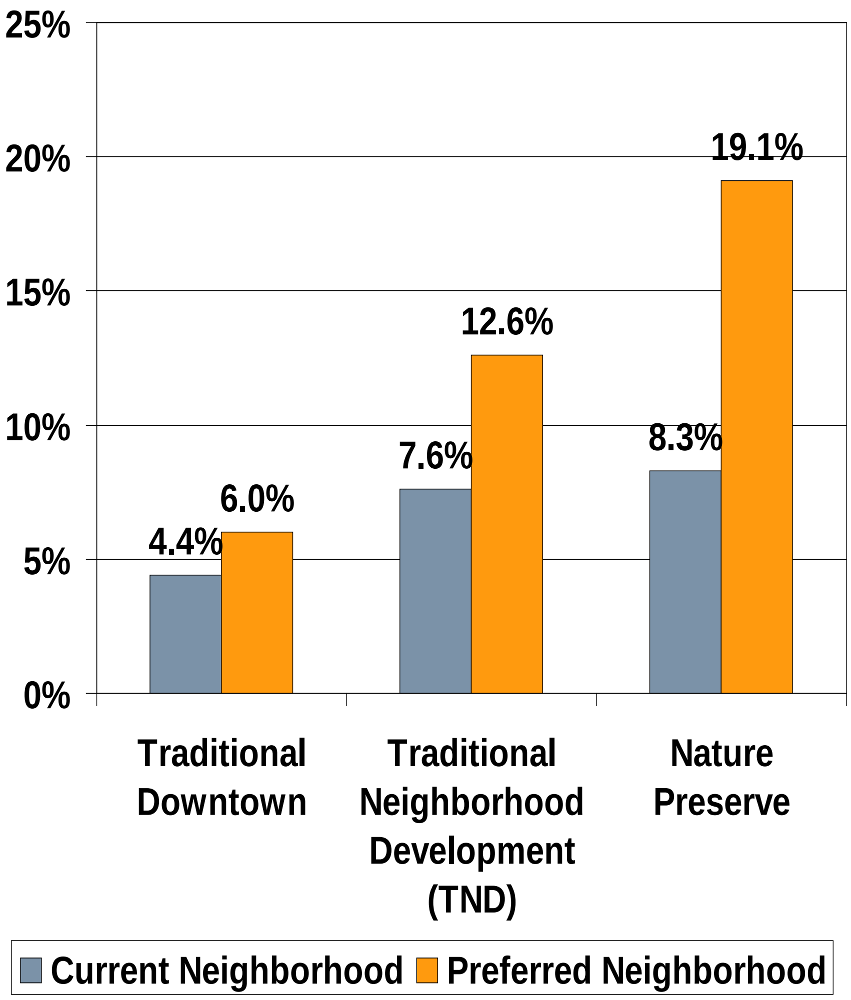
SHIFT FROM SUBURB TO WALKABILITY, NATURE PRESERVE

68 % of respondents indicate that they currently live in a traditional suburban neighborhood, *but only 50% indicate that they are most likely to choose type of neighborhood in their next home purchase*

Instead, response data suggests increased preference for:

- "Traditional Downtown"
- "Traditional Neighborhood Development"
- "Nature Preserve"

23% of 55+ respondents favoring small-lot single family detached



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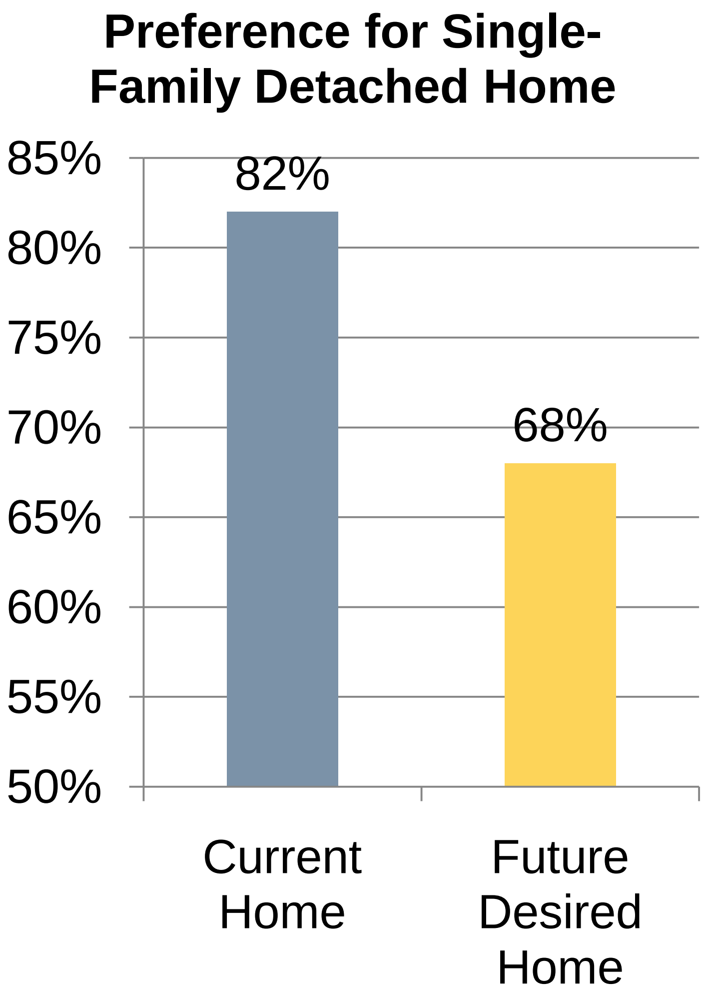
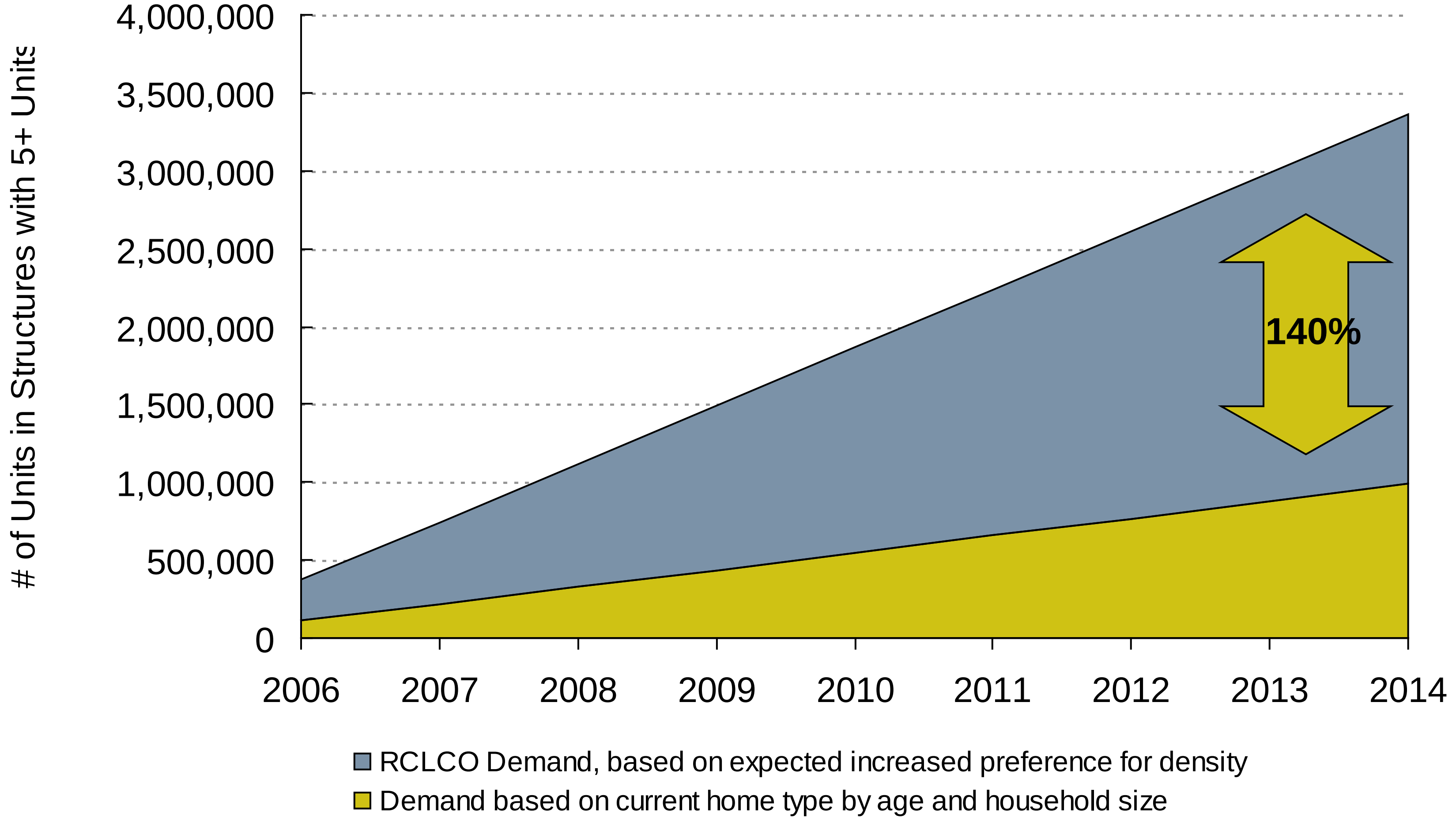


23% of respondents 55-59 years of age most likely to purchase small-lot single family detached (14% of those 60+ and 13% of those 50-54 do, as well)

Family and pre-family buyers distributed between increased preference for townhome or condo products and custom homes

Highest demand for real estate at two ends of the density spectrum

DEMOGRAPHIC SHIFT + PREFERENCE SHIFT = POTENTIALLY MUCH HIGHER DEMAND FOR DENSITY

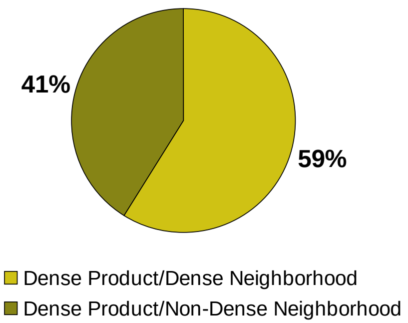


SOURCE: RCLCO Consumer Research

MIXED-USE NEIGHBORHOODS IN DEMAND

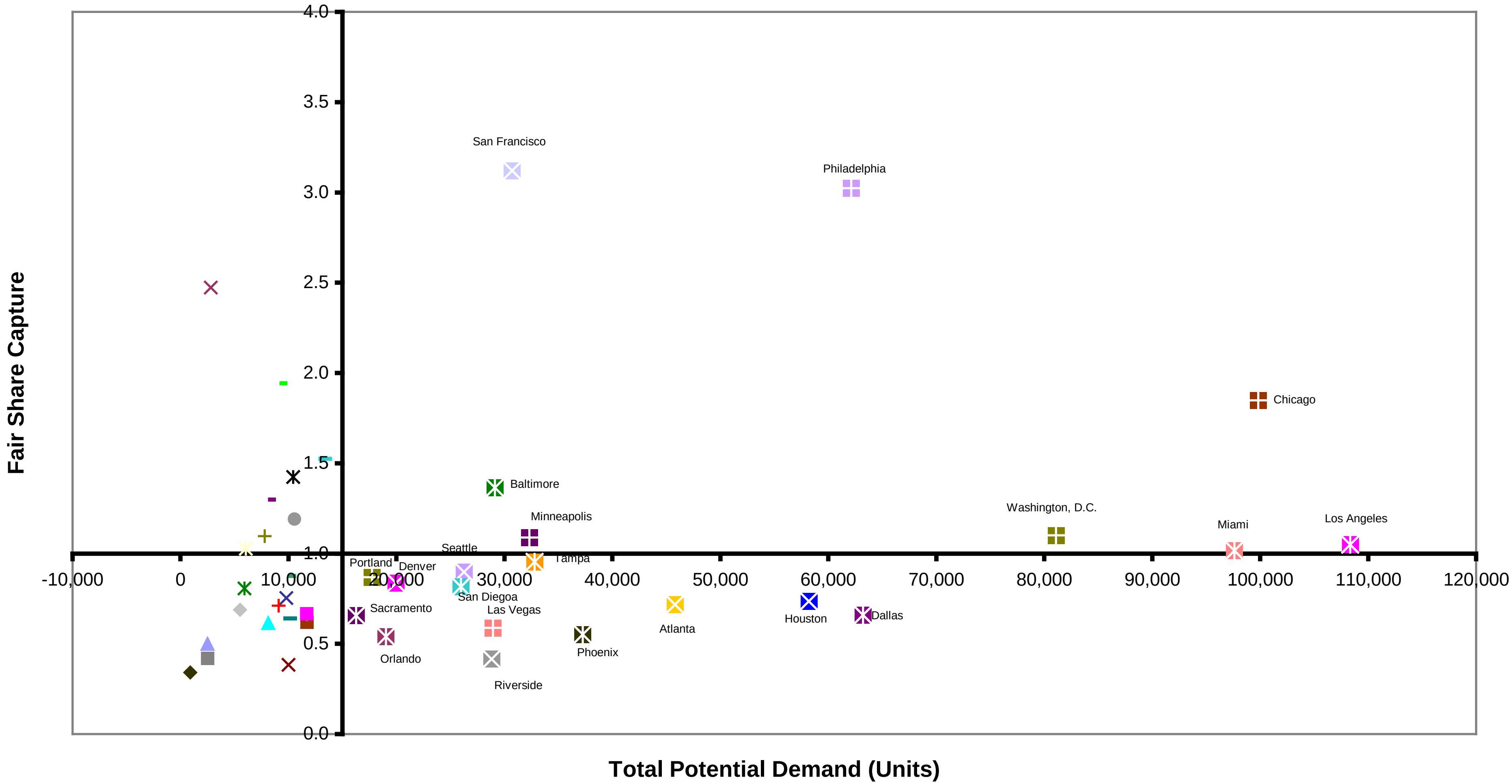
BUYERS TRADING OFF SPACE FOR PLACE

	Unit Preference					
NEIGHBORHOOD PREFERENCE	**Single-family Detached**	**Cottage/ Patio**	**Townhome**	**Single-Use Condominium***	**Mixed-Use Condominium****	**Attached Duplex/Triplex**
URBAN CORE	5%	3%	1%	10%	19%	0%
TRADITIONAL DOWNTOWN	6%	4%	5%	23%	21%	1%
TRADITIONAL NEIGHBORHOOD DESIGN	12%	10%	29%	18%	19%	3%
"PARK VILLAGE"	8%	5%	22%	10%	21%	3%
STANDARD SUBDIVISION	50%	58%	32%	25%	17%	47%
NATURE PRESERVE COMMUNITY	19%	19%	11%	15%	3%	45%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**



SOURCE: RCLCO Consumer Research

NOT ALL GEOGRAPHIES ARE CREATED EQUAL
SOME BETTER-POSITIONED TO ABSORB DEMAND

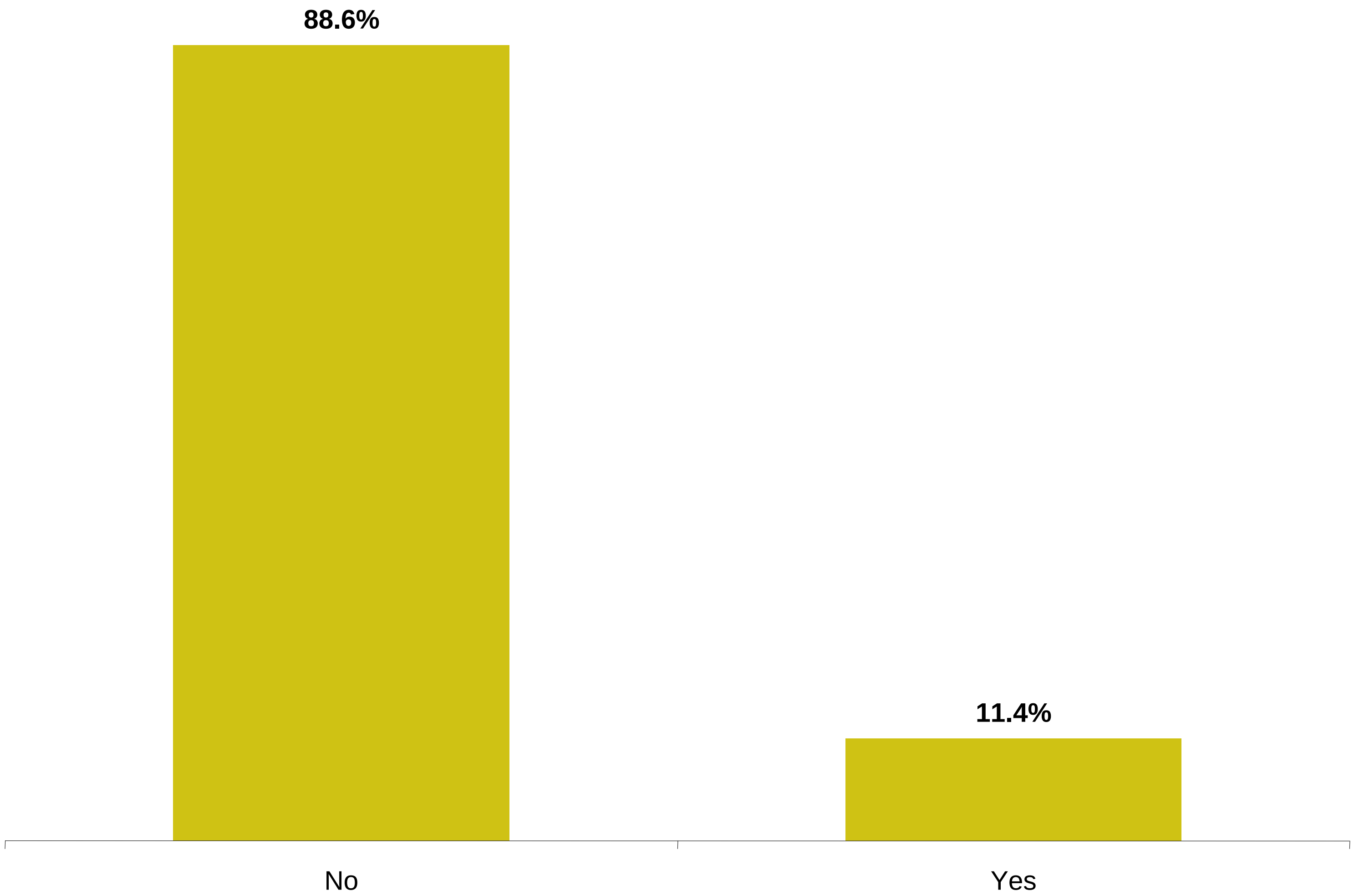


SOURCE: RCLCO

What about the “Green Building” Movement?

MYTH: TREMENDOUS PENT-UP DEMAND
SOME DATA POINTS TO SUPPLY-SIDE CONSTRAINT

Percentage of Respondents Aware of a Home/Community Marketed as "Green", "Walkable", or "Smart Growth"



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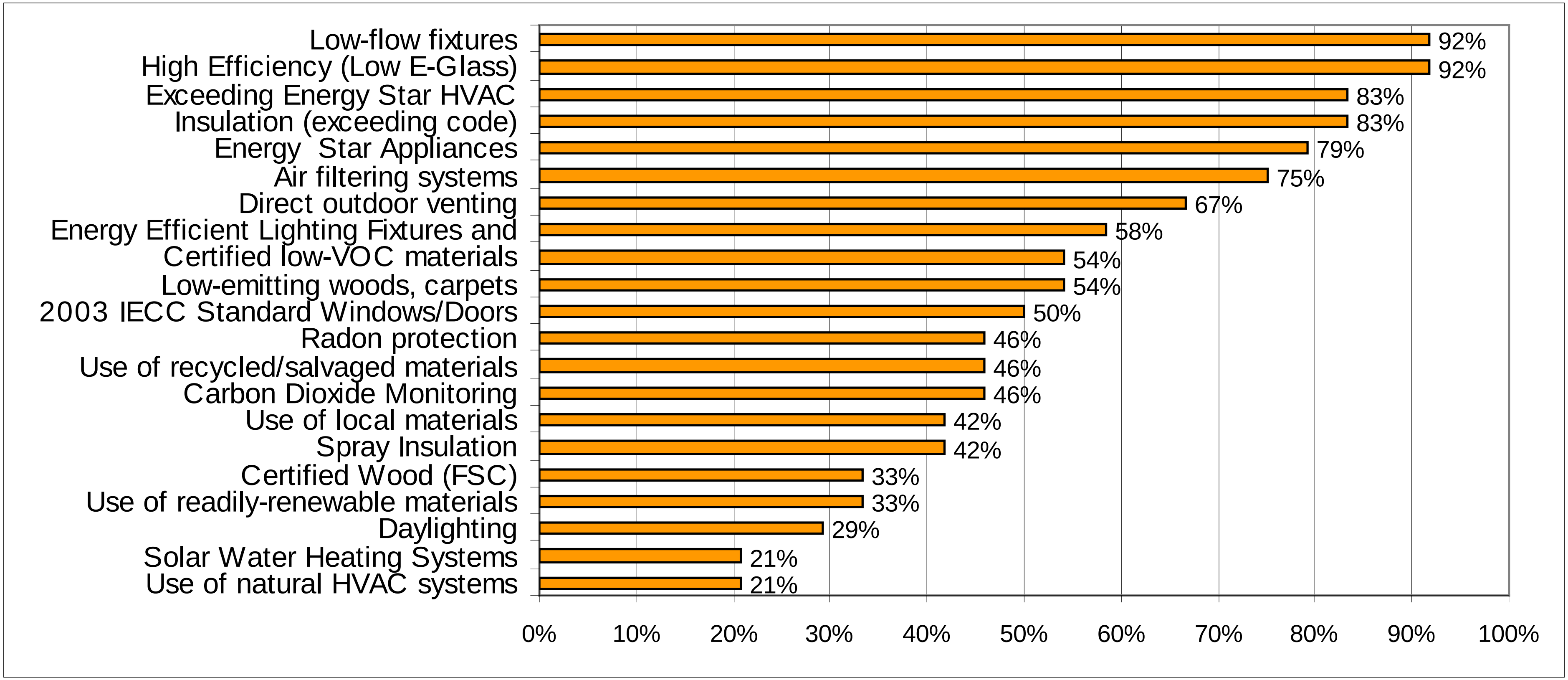
EVIDENCE FROM BUILDERS
MOST PRACTICES FAMILIAR TO RESPONDENTS

Are you experienced with the following green building practices?



SOURCE: RCLCO

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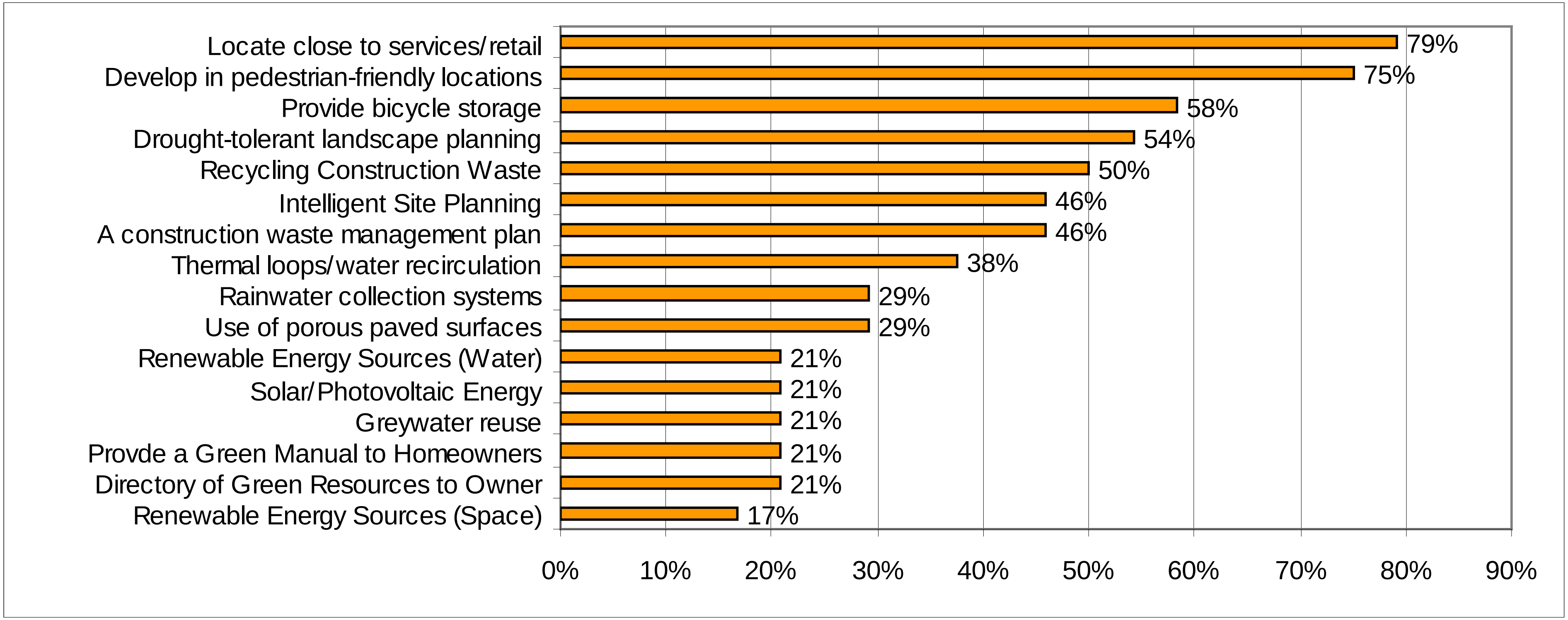
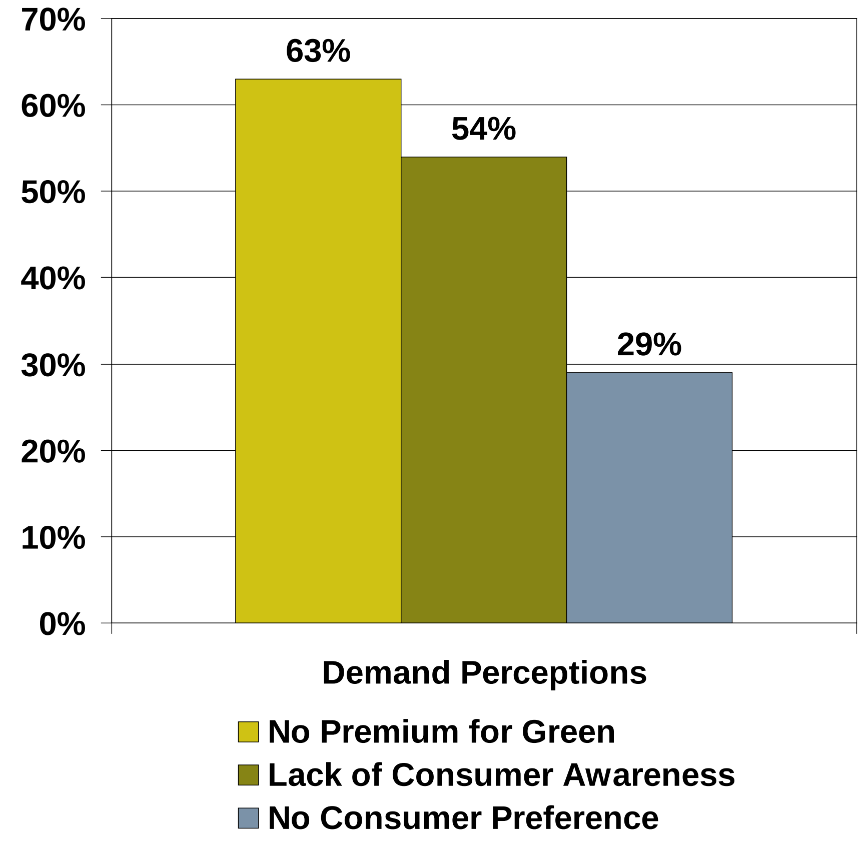


SOURCE: RCLCO

EVIDENCE FROM BUILDERS
NEED EVIDENCE OF CONSUMER DEMAND

- Over 60% of builders believe that there is NO consumer premium associated with sustainable development
- Over half of builders surveyed believe that there is a lack of consumer awareness surrounding sustainable development
- One-third of builders surveyed believe that there is NO consumer preference for green building vis-à-vis traditionally-constructed neighborhoods



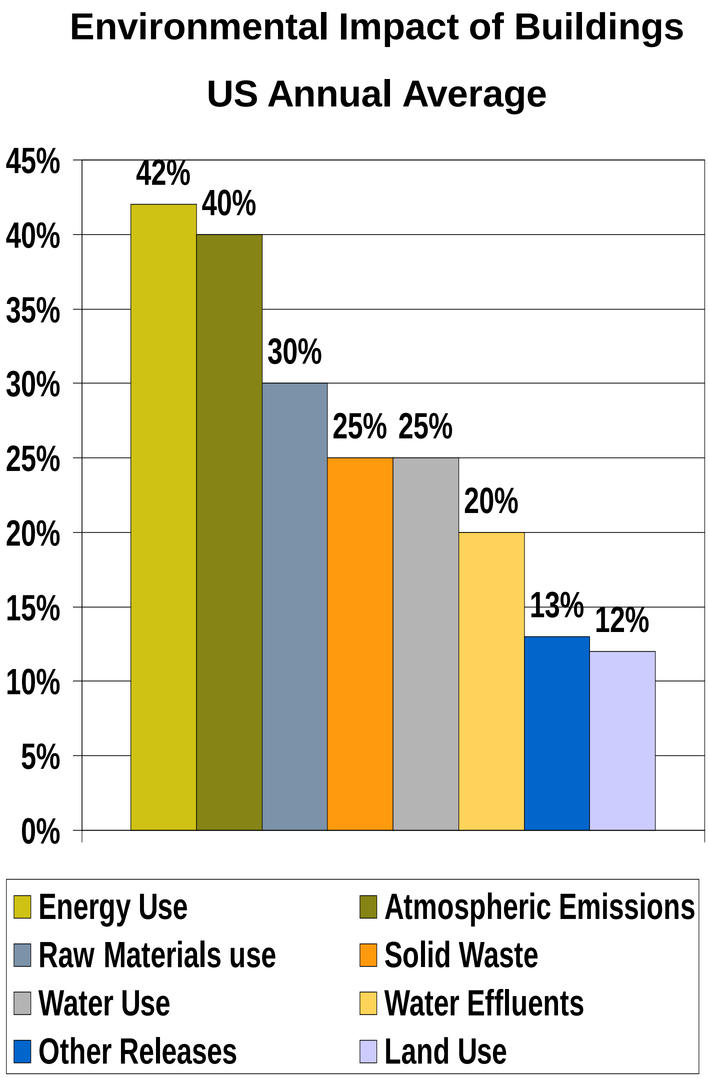
IS THIS A DEMAND-SIDE ISSUE?
PRODUCT AND KNOW-HOW EXISTS – WHERE ARE BUYERS?

How many green homes will there be?

- NAHB projects that 50% of all new homes will be “green” by 2010.
- According to their data, the country produces 11,000 new green homes annually
- This suggests that only 1.6% of new homes are built green
- Reaching 50% annually by 2010 requires an 31x increase this year

Will “green building” make a real difference without a strong market for green homes?

Source: Levin, H. (1997) *Systematic Evaluation and Assessment of Building Environmental Performance (SEABEP)*, paper for presentation to "Buildings and Environment", Paris, 9-12 June, 1997.



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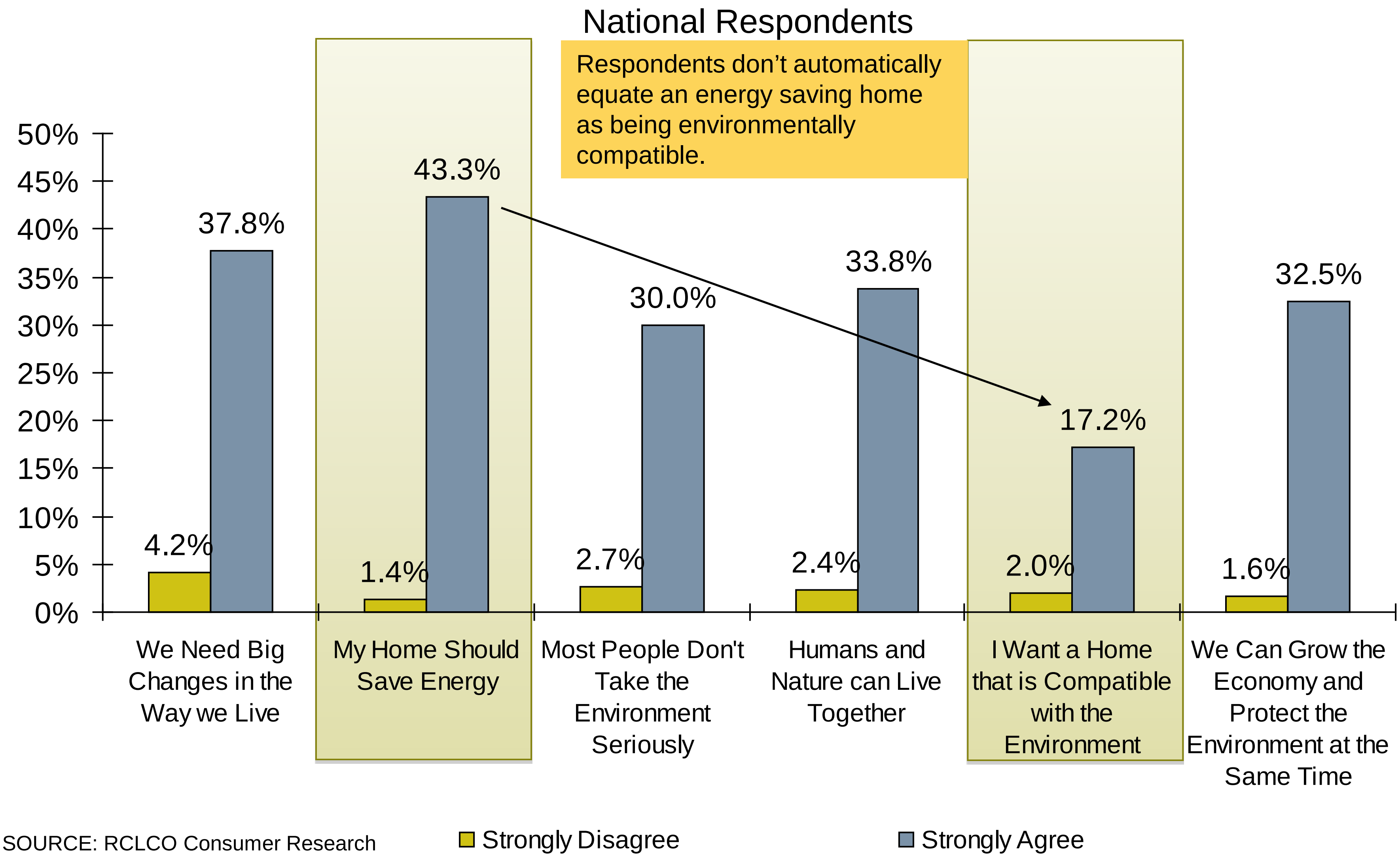
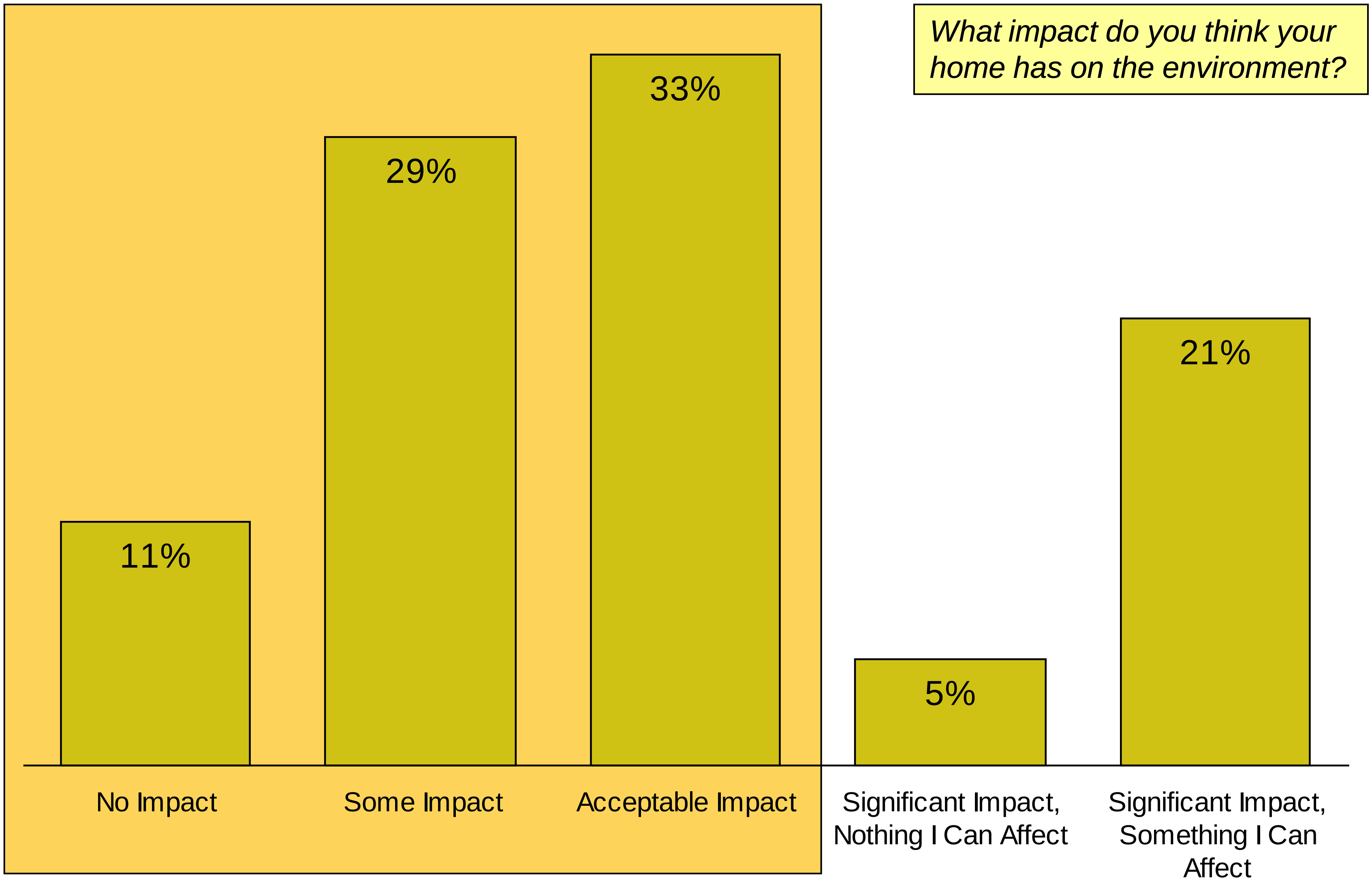
STRONG ATTITUDES TOWARDS "GREEN" LIVING
WILL THEY TRANSLATE TO HOME PURCHASE MOTIVATIONS?



SOURCE: RCLCO Consumer Research

RESIDENTIAL IMPACT AWARENESS GAP

MOST OWNERS DO NOT CONNECT HOME, ENVIRONMENT



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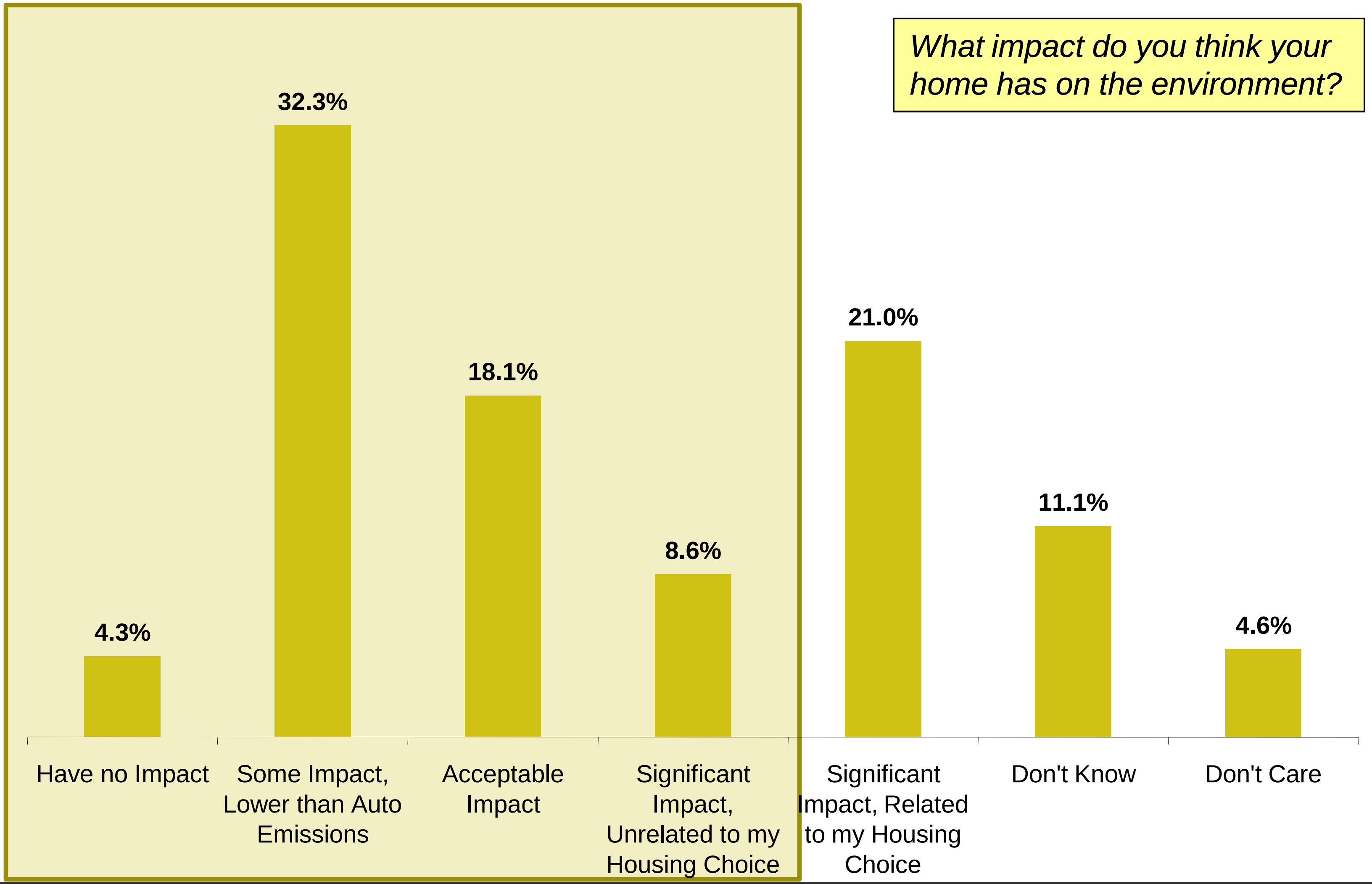
RESIDENTIAL IMPACT AWARENESS GAP
MOST RENTERS DO NOT CONNECT HOME, ENVIRONMENT



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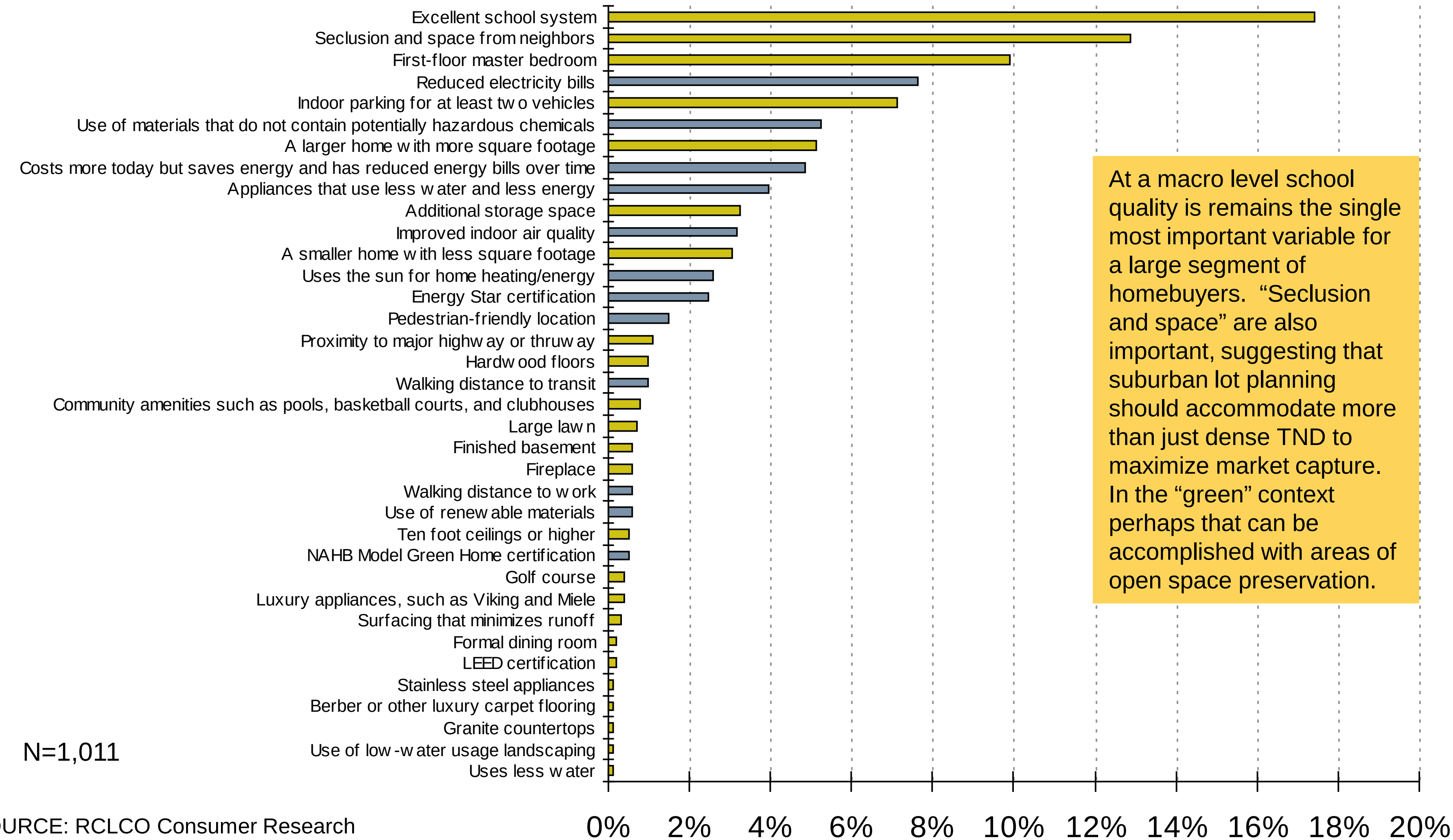
"GREEN" COMPETES IN A CROWDED FIELD

SCHOOLS, SPACE, SIZE STILL MOST IMPORTANT FACTORS

Most Important Factors When Choosing a New Home

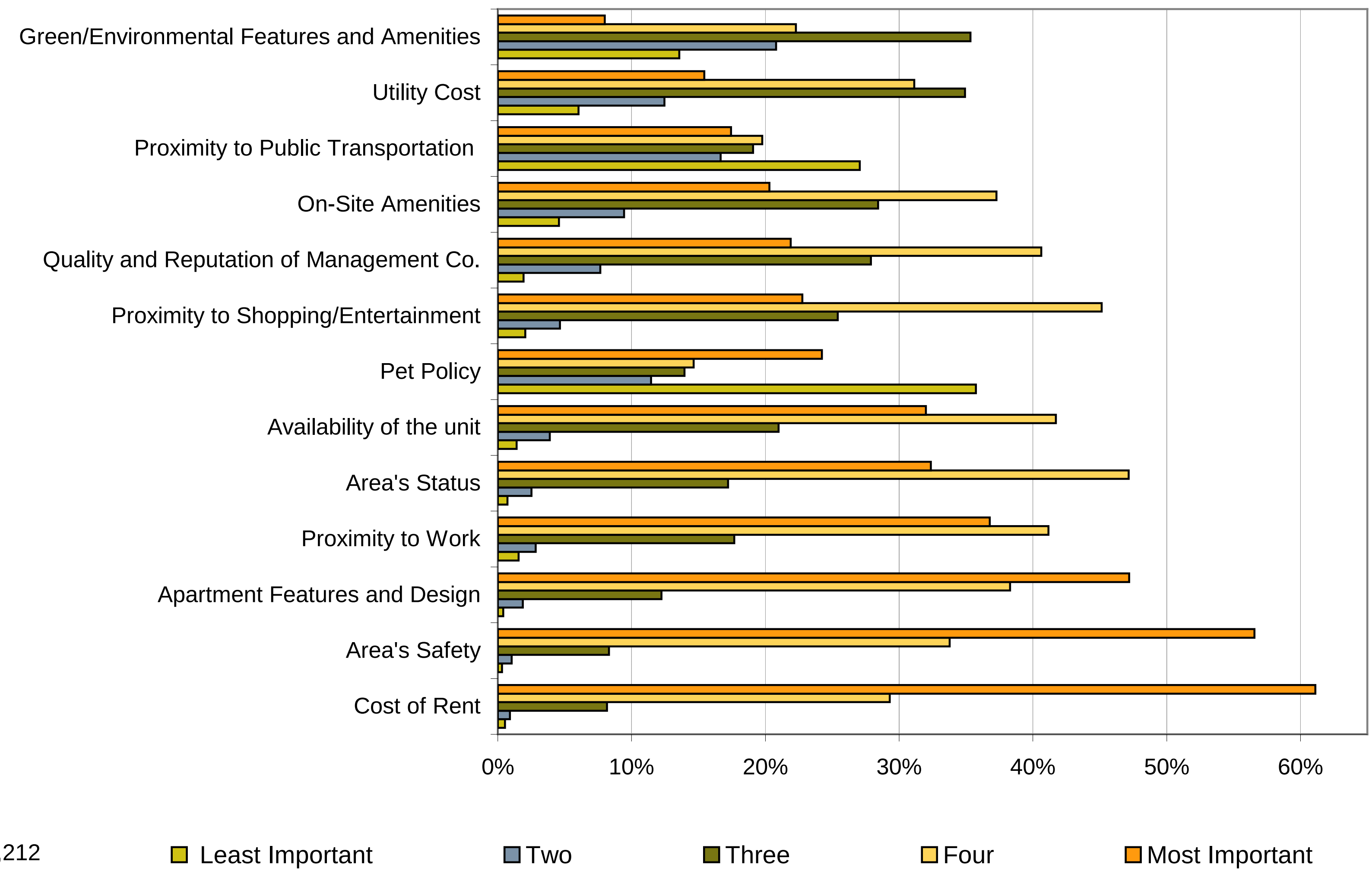


N=1,011

SOURCE: RCLCO Consumer Research

"GREEN" COMPETES IN A CROWDED FIELD
SCHOOLS, SPACE, SIZE STILL MOST IMPORTANT FACTORS

Rate the Following Factors in Terms of Importance



N=3,212

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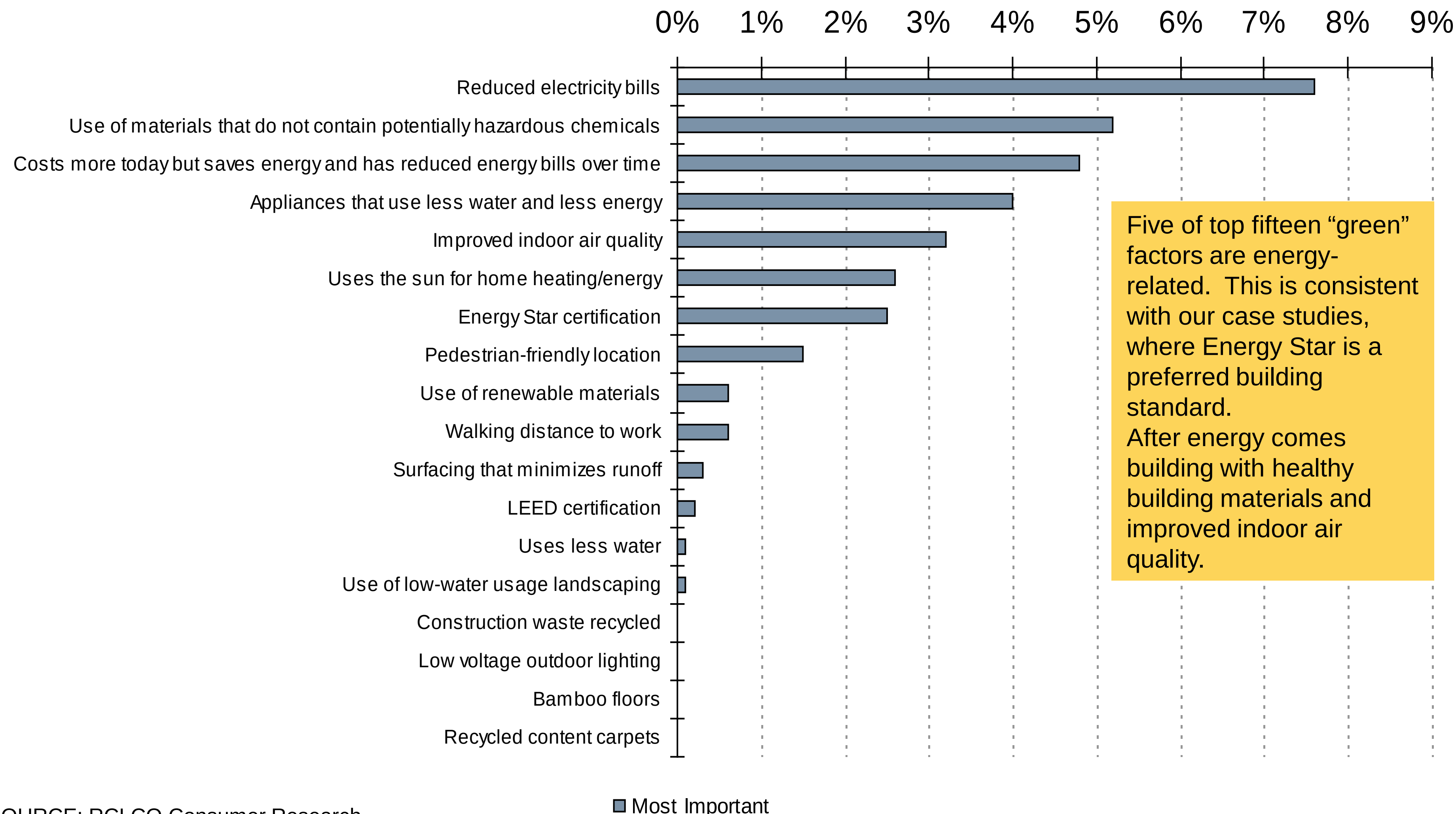
DEMAND FOR “SMART” BENEFITS

ENERGY SAVINGS AND HEALTH BENEFITS ARE MOST IMPORTANT

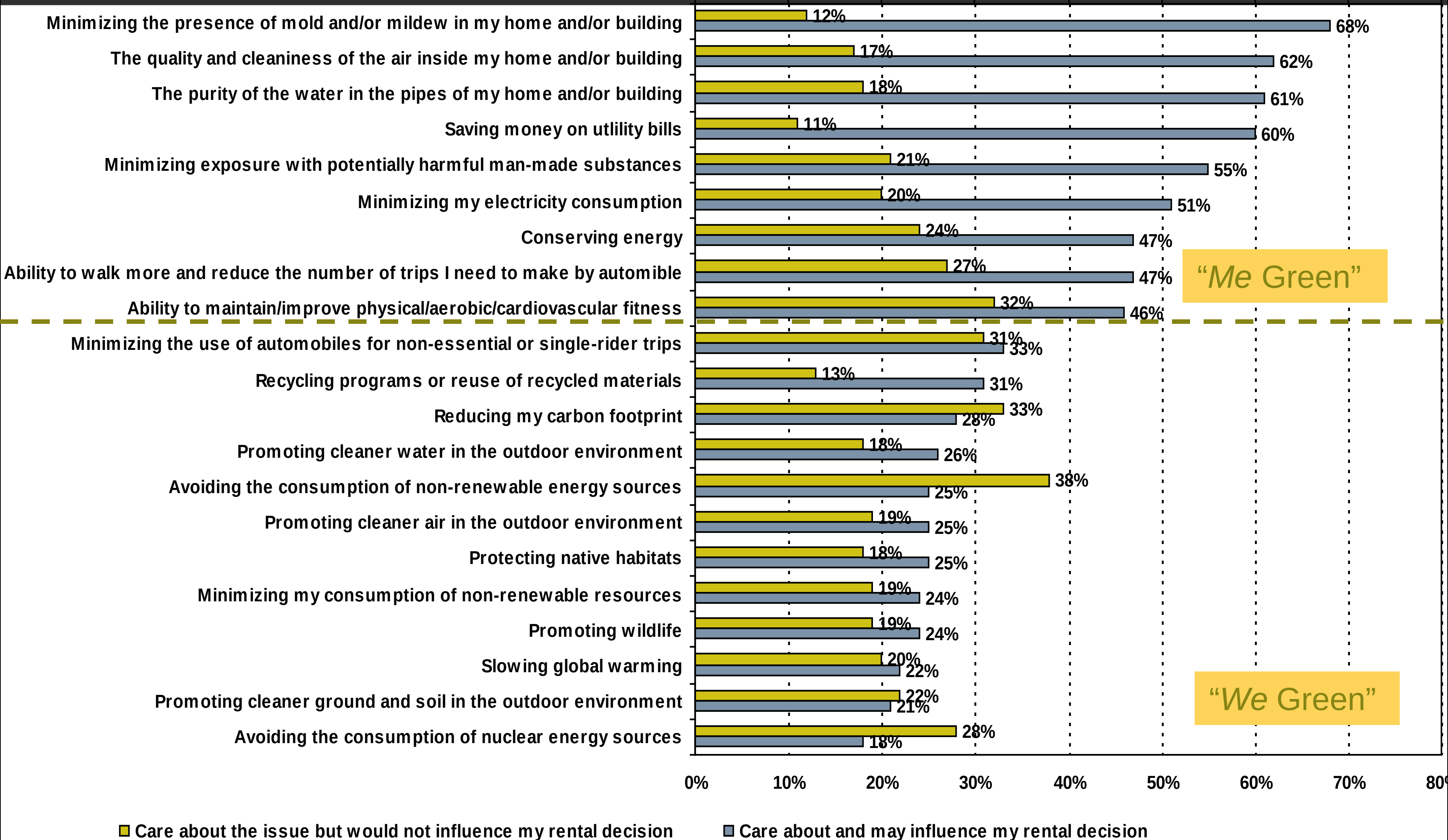
“Most Important” Factors in Next Home Purchase



Five of top fifteen “green” factors are energy-related. This is consistent with our case studies, where Energy Star is a preferred building standard.
After energy comes building with healthy building materials and improved indoor air quality.

SOURCE: RCLCO Consumer Research

VARYING IMPORTANCE OF “GREEN” BENEFITS
“ME GREEN” VS. “WE GREEN”



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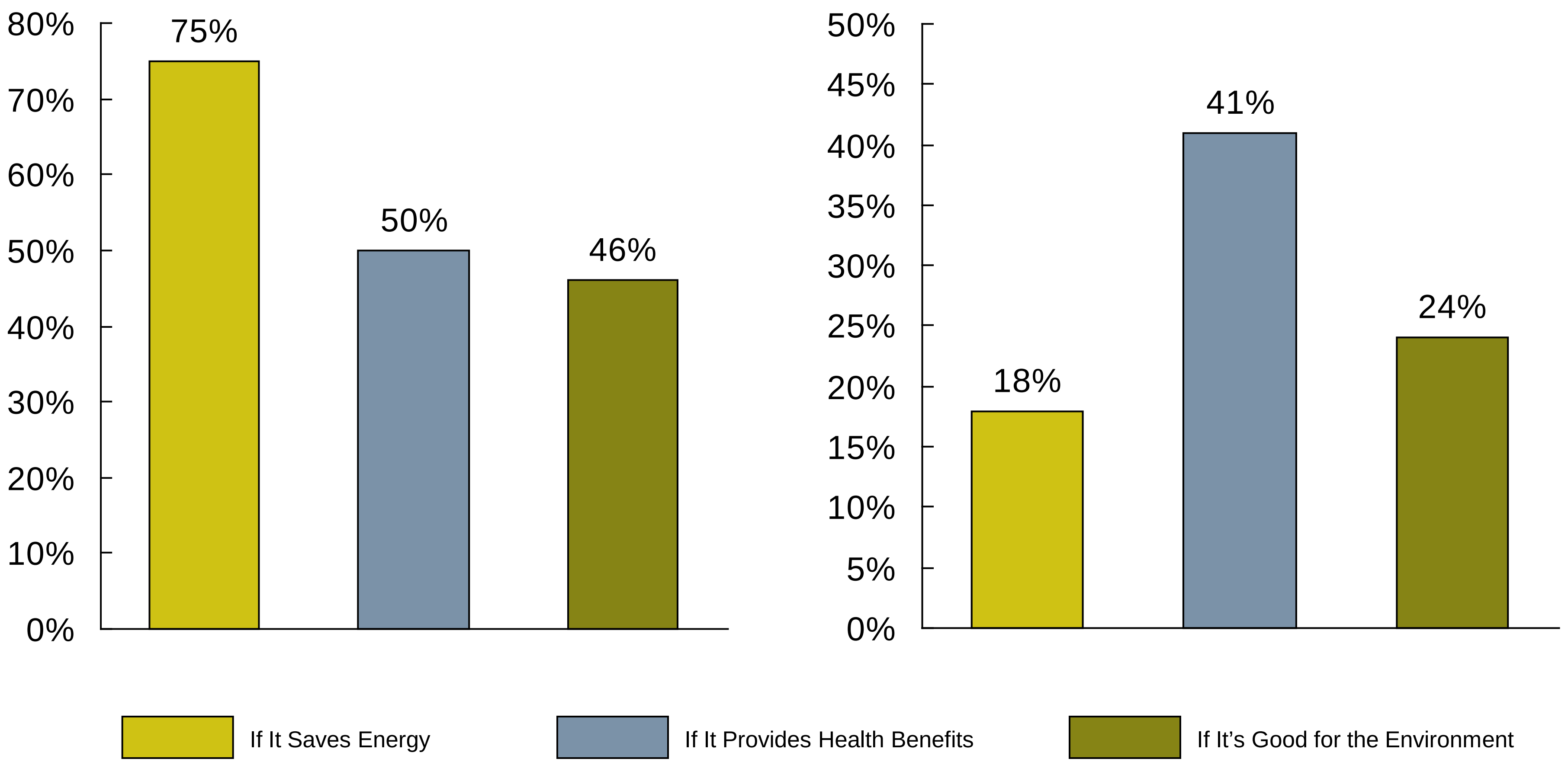
BUT WHAT'S IN IT FOR ME?
HOOK TO SELL SMART LOCATIONS IS "ME", NOT "WE"

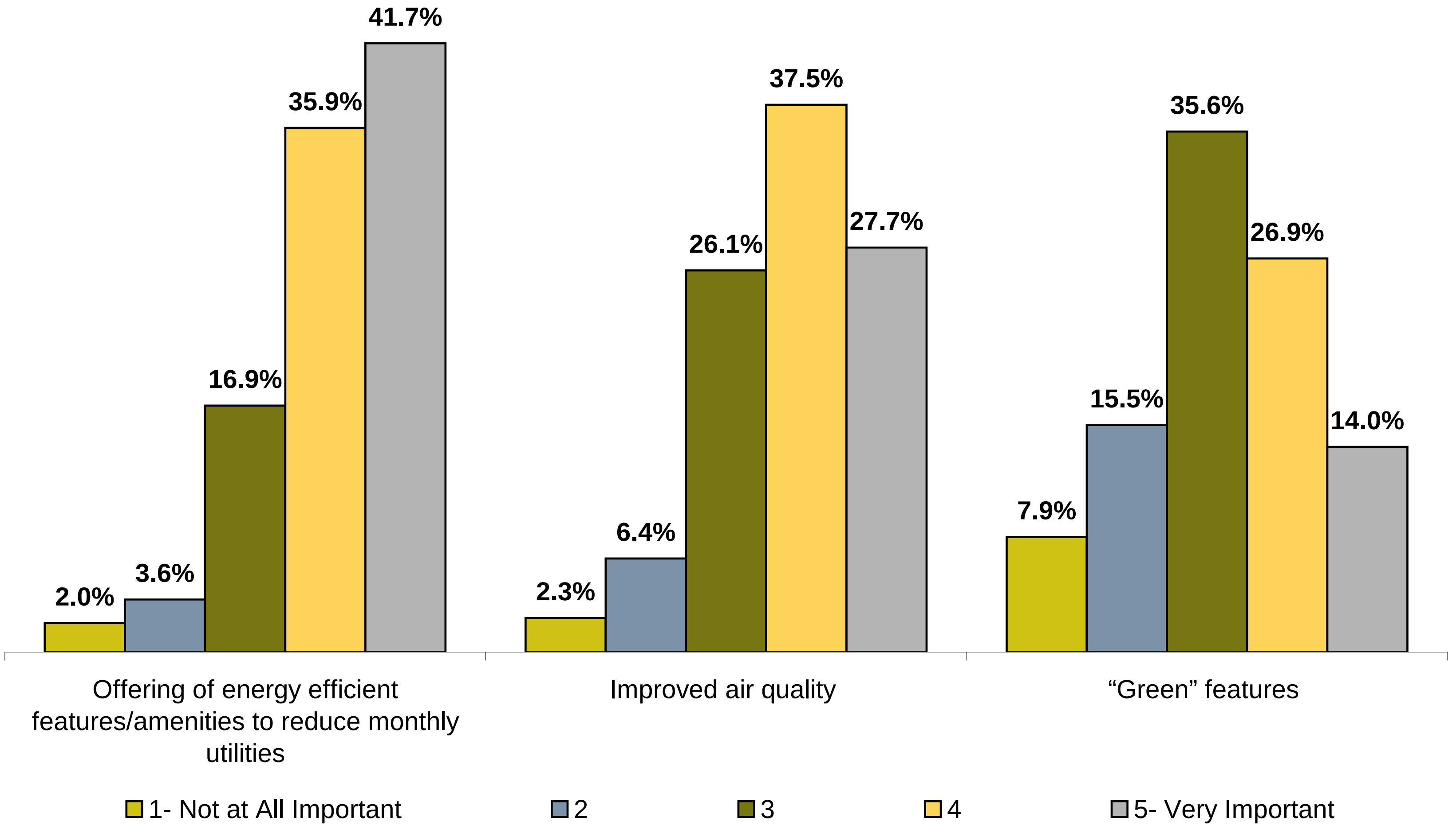
If their investment pays them back over time, buyers are willing to spend more money on their home if….

If their investment <u>may not</u> pay them back over time, buyers are willing to spend more money on their home if….



UNDERSTANDING MOTIVATING FACTORS
"WE GREEN" IS NICE, BUT "ME GREEN" DRIVES DECISIONS

In considering your next rental unit, on a scale of 1 to 5 with 1 being Not at all important and 5 being Very important, rank the following reasons for choosing your apartment residence:



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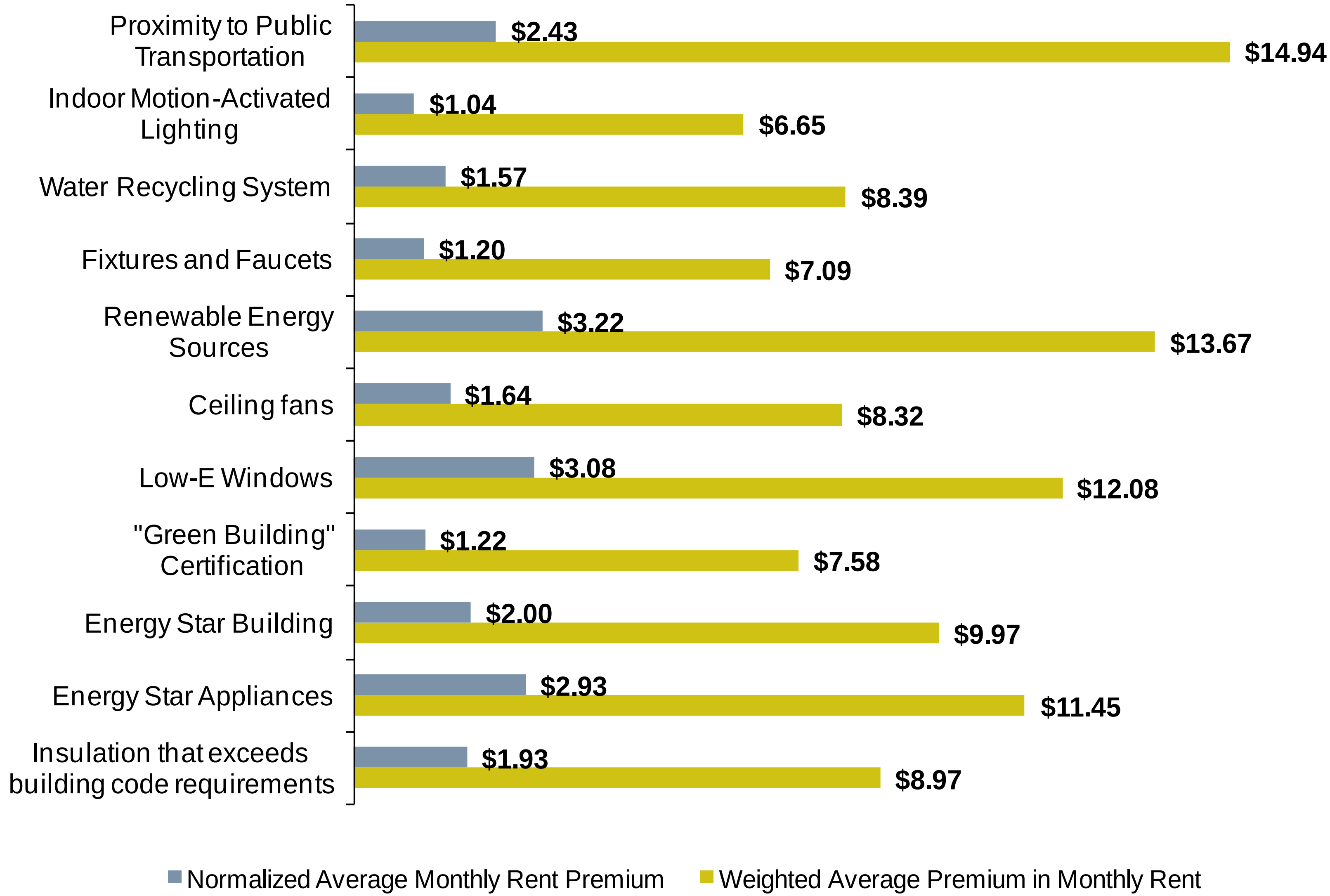
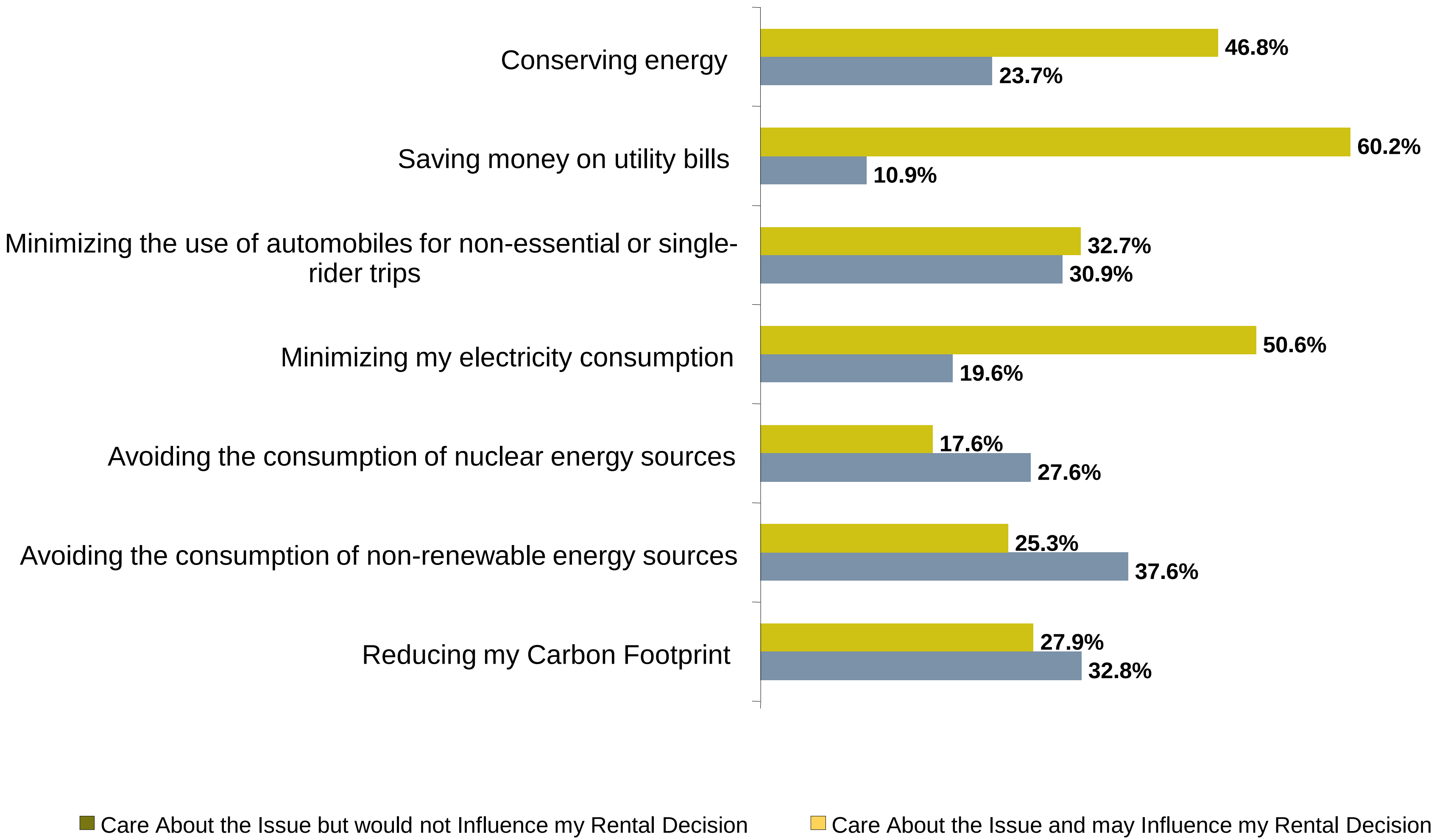
VALUING RESOURCE-CONSERVING FEATURES



VARYING IMPORTANCE OF BENEFITS
"ME GREEN" GENERATES MONETARY VALUE, TOO

How important are the energy issues below and do they affect your rental decision?



SUMMARY – CONSUMERS AND SMART GROWTH

1. Demographic forces driving demand for smart growth environs
2. Increasing consumer preferences – especially among Gen Y and smaller households – for smart growth environs
3. Transit is crucial – both transit-oriented and *transit-ready*
4. Product matters – consumers are looking inside the box
5. Energy savings & “healthy homes” are critical success factors
6. Consumers don’t want a smart growth dumb home
7. Short term opportunity = market share
8. Long term opportunity = pricing power and premiums

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