

By Kate Carsella, Associate Editor

DEMOGRAPHICS

Future Housing Demand

Experts are rethinking how many households will be created from 2017 to 2027. Harvard University's Joint Center for Housing Studies 2018 State of the Nation's Housing annual report forecasts that 12.0 million households will be formed in that time; 1.6 million fewer than an earlier Joint Center estimate in 2016. Household formation rates are useful in determining how much new housing is necessary to meet demand.

The lowered projection came in part because of continued decline in Millennial household formation and headship rates, despite this cohort's rising income. Headship rates vary by about 10 percent between the 25 most and least affordable metros for adults aged 25 to 29. Yet Millennials are today's largest homebuying group. Adults under age 35 formed 1.5 million more households between 2012 and 2017 than in the previous five-year period and are expected to keep buoying national household growth.

Another increasingly significant source of household growth is international immigration. Immigrants added to housing demand during both market expansions and downturns and have played a role in stabilizing rural and urban communities that would otherwise have suffered population losses. Net immigration is expected to continue growing into the foreseeable future, while native-born white population growth is anticipated to decelerate, particularly after 2025.

The size and housing needs of these cohorts will continue to put pressure

on builders to supply more homes, despite major supply-side impediments such as land shortage; rising costs of building materials potentially subject to new tariffs; strict regulation and zoning policies at the local, state, and federal levels; and the current shortage of skilled labor in construction.

RESILIENCE

Wildfire Relief

Sometimes trying to solve one crisis opens the door to tackling another one.

Habitat for Humanity's Sonoma County, Calif., chapter, in partnership with renowned designer Marianne Cusato, has launched the Sonoma Wildfire Cottage Initiative to provide relief to families displaced by last fall's wildfires in Northern California.



The "learning laboratory" pilot program will have eight to 10 "state-of-the-art" temporary cottages to showcase innovative construction technologies that in the short-term will provide temporary housing for uprooted families and in the long-term will offer affordable housing for the community.

John Kennedy, board chairman and interim CEO of Habitat Sonoma County, said in a statement that the organization was looking into new ways of cutting building costs and increasing affordability for buyers prior

to the wildfires. "This project helps us quickly evaluate technologies [for the future] while simultaneously helping families in dire need of stable, temporary housing."

Connect Homes, GigaCrete, and West Coast SIPs were selected by Habitat to build the cottages, while Cypress Community Development, a nonprofit specializing in disaster recovery housing, has been tasked with overseeing the development. Berkeley, Calif.-based Opticos Design is the master planner.

Cusato has worked on similar housing relief projects in the wake of Hurricanes Katrina, Sandy, and Irma. But, she explains, this project will also function as a laboratory—"to use the political will and capital that comes after a disaster to create a model to resonate well beyond the immediate need for disaster housing to this larger need"—for more financially attainable housing.

The cottages will be temporarily located on Medtronic's Santa Rosa campus, with expected completion in the fall of 2018.

HOME VALUES

Negative Equity

For the first time since the 2008 housing crash, the share of American homeowners underwater on their mortgages has dropped below 10 percent. Yet negative equity continues to weigh on the nation's housing market.

The latest negative-equity report from online real estate database company Zillow found that 9.1 percent, or 4.4 million homeowners, owe lenders more than the value of their homes; 21.9 percent fewer than during the housing crisis. Negative equity hobbles the market by cutting into inventory, as underwater homeowners tend to stay

[MARKET UPDATE]



in their homes rather than sell at a loss, while demand from the largest home-buyer group in the nation, Millennials, is already eclipsing supply.

Aaron Terrazas, senior economist for Zillow, says, "In the corners of the country where home values have been stagnant in recent years, homebuyers can easily fall underwater,

particularly those who buy with small down payments."

In some metros the share of homeowners with negative equity is higher than in others, particularly in the Midwestern cities of Chicago and Detroit. Of the 35 U.S. metros measured, Detroit has the highest share of homeowners (25.4 percent) who owe 200 percent or more of their home's value. In Cleveland, the share is 22 percent, and in Chicago it's 20 percent.

However, Chicago had the highest effective negative equity rate in the study, topping 34 percent. This rate includes homeowners who have some equity in their homes but not enough to sell and use the profits to purchase another home. St. Louis and Washington, D.C., were the only other metros over 30

percent. Currently the national effective negative equity rate is 24.6 percent.

INVESTMENT

Home Financing, Disrupted

Venture capital firms are strengthening their position in the housing industry.

For many American homeowners and aspiring homebuyers, financial obstacles such as student loan or credit card debt make saving up a down payment or qualifying for a home loan extremely difficult. Financial technology, or

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fintech, platforms are proliferating, offering greater borrower flexibility than more traditional financing options.

Venture capital firm Andreessen

Horowitz's motto is "Software is eating the world," and the company now has two housing-centered fintech platforms in its portfolio.

The first of these is Point. Launched in 2015, Point claims to be the first platform created for homeowners to leverage the equity "locked" in their homes into cash flow for paying down debt or diversifying assets without having to take on new debt. Data services company CoreLogic recently concluded that U.S. homeowner equity topped \$1 trillion in the first quarter of 2018.

Eddie Lim, Point cofounder and CEO, says the program's mission is to "fundamentally align homeowners with investors." In its first year, Point was named to *Forbes'* list of top private fintech platforms on the market. This April, invest-



ment firm Atalaya Capital Management committed \$150 million to expand the platform to more U.S. markets.

"Atalaya was impressed with Point's track record in developing this emerging asset class," says Atalaya partner Raymond Chan.

The other housing-centered fintech platform newly under the VC's umbrella is FlyHomes, which aligns investors with homebuyers, making cash offers on the qualifying borrowers' behalf to "increase certainty" for buyers in a seller's market.

Andreessen Horowitz general partner Alex Rampell explains, "We are always on the lookout for businesses [providing] better service at a lower cost than traditional models. The real estate industry is at a critical inflection point, we see FlyHomes' vertical approach ... as a dramatic improvement to the purchase experience for homebuyers, sellers, and agents." **PB**

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