

## The Urban Marketplace

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### *The Housing Recovery – What Recovery?*



My take on the recent ULI fall meeting in San Francisco was a feeling of cautious optimism. Why? We already know the economy and real estate industry are a mess. Now that we're used to it, we're trying to predict the recovery. Will the recession and corresponding recovery be V-shaped, U-shaped, or the dreaded L-shaped? When will vacancy decline? When will rents go up? When will actual property values increase? Which will recover first, industrial, retail, housing, office (hint, it won't be office), or hotels? The common thread to any recovery statistics was "when jobs are created." It all comes down to jobs.

Here's but one way the economy impacts real estate. A recent article in the New York Times reported that 10 percent of adults under age 35 moved back in with their parents because of the recession, according to a Pew Research poll. That is a staggering number.

The survey also reports 12% of adults under age 35 had gotten a roommate to share expenses. Perhaps high, but not too unusual. But 15% delayed getting married, and 14% delayed having a baby. 13% of parents with grown children reported one of their adult kids moving back home in the past year. One-quarter of those kids were unemployed, and one-third lived on their own before moving home. These numbers are unprecedented in American history.

Let's dwell on just that first figure – 10% of adults under age 35 moved back in with their parents (those who can bear to do so!). According to the Census, in 2008 there were approximately 60 million Americans between age 20 and 34. If the Pew survey is right, 6 million young people have moved back in with their parents. That's 6 million people, if not vacating the apartment or first-time homebuyer market, then certainly not entering it.

Sure enough, entry-level homes aren't selling well, and apartment vacancies are rising across the country. These adult kids aren't in the market. And let's not even talk about the problems empty-nester baby boomers are having trying to sell their move-up homes and downsize. They can't sell – their adult children are living with them now!

It is not so much when the economy recovers, but how it recovers. Surely some jobs will be created and some of these 6 million young adults will enter the housing market again, either renting or buying. But I believe this recession (which supposedly is over) has created a mindset among our nation's young that perhaps living with mom and dad for a long time isn't such a bad thing. I predict a long term rise in extended families living together. Perhaps the 2010 Census will shed some light on these trends (if Michelle Bachmann doesn't succeed in scuttling the whole thing!).

A recent article in the Minneapolis Star Tribune highlighted an empty-nester widow, age 55, who lost much of her nest egg in the recession and owns a large house she doesn't want to sell, rents a room to a young woman who is a teacher. This situation is reflective of the forecast increase in the broad category of roommates living together, and I won't be surprised to see this happening more often, especially in the Craigslist era. While some swaths of suburbia could well become McMansion slums,

with homes split in to rental units, as Chris Leinberger predicted in The Atlantic in March 2008, many other homeowners will likely find renting a room to a non-family member imperative in order to keep their home.

What does all this mean for the housing market? It really is all about jobs. But changes in expectations regarding housing style and location, as well as job security, will have lasting and monumental effects on the real estate industry in the coming decade, altering any sense of what experts foresee a recovery to be. Do I share the cautious optimism from ULI? I don't know. Bill Emmott called it "paranoid optimism." My crystal ball is pretty opaque right now.

- Sam Newberg is President of Joe Urban, Inc. With 11 years of market analysis experience, including nearly three with his own firm, Sam is well-versed in a variety of real estate types. He also is an established writer, lecturer and active member of the Urban Land Institute and the Citistates Group. His website is [www.joe-urban.com](http://www.joe-urban.com).