

# The Long Road Back Will be Foggy

Over time, homebuilders will need to adjust their marketing tactics according to the different generations.

By Patrick S. Duffy

It seems that one of the most important lessons that the country's builders learned from the past downturns was to immediately react when the market turned with generous incentives, price cuts and, over time, a dramatically scaled-down industry with simplified product lines that are now affordable to almost 60 percent of potential buyers.

As of September 2009, this slash-and-burn strategy has sent new home inventory down to its lowest level in 14 years, which would sell in just 7.5 months. And in spite of brutal competition from the existing home market — in which 30 percent of sales are for distressed properties — new home prices seem to have stabilized at just under \$205,000, although that could be the result of buyers taking advantage of tax credits that were recently extended until April of 2010.

Since the U.S. population and related demand for housing continues to increase no matter the economic climate, when the economy improves and people decide they no longer want to live with roommates or their parents, it is clear that a dormant industry will be revived, as we'll need 1.3 million housing units each year just to keep up. What's not so clear is how fast this rebound will occur and, more importantly, how future new home communities will be shaped, marketed and sold.

Over the past 30+ years, most of the new homebuilding activity was to follow the demands and tastes of the 78-million-strong baby boomer generation, from starter homes and move-up housing to vacation homes, retirement communities and even

condominiums in urban locations. But according to a series of presentations at the ULI Fall Conference & Urban Expo last month in San Francisco, demographic changes in the U.S. will force many builders and developers to change how they build for a population that has become quite diverse and includes Boomers.

In addition, the 70-million-strong Generation Y, having largely grown up in quiet suburbs which require cars to run simple errands, have morphed into a gadget-obsessed cohort whose penchant for urban-oriented, walkable communities and cynicism for traditional marketing techniques will require an entirely new skill

set from an industry that has long relied on precedent in the hopes that each new rebound will be much like the last. Maybe not this time.

For one thing, according to

Reach Advisors, overly rosy demographic projections of the past were used to justify multiple years of over-supply for empty-nester projects in urban areas (especially high-rise condos), vacation homes and traditional retirement communities at a time when many Baby Boomers prefer to age in place. Moreover, even if they want to trade down to a smaller home in an active adult community, today's over-55 homeowners are sitting on a huge supply of large homes in suburban areas against a backdrop of potential buyers that's not just smaller, but less interested in this type of car-centric community. When many Gen-X buyers do trade up, they're placing an economic priority on community characteristics (such as a mix of uses and population and access

to transit options) rather than a large home with a premium lot.

But it's really the Generation Y cohort — with three times the population of Generation X — that will foster in the biggest changes to the building industry as these "echo boomers" began to enter the workforce, create their own households and bring their own separate demands to builders of homes and apartments. In addition, accompanying more education for Gen-Y households has been a delay in marriage and having children, thus changing both the timing and type of demand for housing needs.



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## Fast Facts

- New home inventory has shrunk to a 7.5-month supply as prices seem to have stabilized.
- Continued population growth means an annual demand for 1.3 million new housing units in the U.S.
- Generation Y, with 70+ million members, will greatly influence what it means to build, market and merchandise new homes.