Housing on the Rise

Millennials and baby boomers affect multifamily and single-family housing markets
raig Dietz bought a house in the Midtown area of Kansas City, Mo., six years ago. He’s been renovating the place a section at a time and might consider selling in another five years. He’s in no hurry, though. He likes where he lives. His neighbors range in age from millennials to Generation X to baby boomers.

“I can step outside and see everyone’s porches,” he said. “It’s a friendly neighborhood.”

The neighborhood is a mix of single-family homes and houses converted into apartments. It’s the variety of people and businesses and the population density that drew Dietz to the area.

A medical doctor, Dietz’s work is only a few minutes away. There also are restaurants, shops, markets and night life within the area.

“I can walk to most places within minutes,” he said.

He sold the car he owned and used the money to help renovate his house. If he isn’t walking, he uses Uber, a transportation network company that allows users to find rides through their mobile devices.

“I can take an Uber car for $5 anywhere within the Midtown-Westport area, and $6 gets me downtown,” he said.

This convenience is due to resurgence in urban living, mainly young entrepreneurs moving to the area and opening up small businesses from butcher shops to restaurants that cater specialty foods. This also has created a need for more living space.

“It’s amazing how many apartments are going up in the area,” Dietz said.

Developers have plans to convert the former Missouri Gas Energy building on Broadway Boulevard in Midtown into apartments. Several blocks south, developers finished converting a former office building into a retail-residential complex. From the River Market downtown to the Crossroads Arts District to Westport, developers are taking advantage of the new multifamily housing demand.

The same is true for most major cities in the Tenth Federal Reserve District.

Resurgence in urban living

In the late 1960s, Omaha’s Old Market was a couple of square blocks. The city was tearing down some of the industrial buildings as part of re-urbanization. A few artists moved into buildings and worked with property owners to save the area. It wasn’t until the last decade, however, that Old Market has become one of the more trendy places to live in the heart of America.

Although the financial crisis slowed down development for a couple of years, since 2007, developers have renovated more buildings and constructed entirely new multifamily developments in the Old Market area. There also are newer areas such as SoMa for “south of the Market.”

Denver has experienced a decade’s long redevelopment of urban areas or the creation of communities that simulate urban environments, which have been in high demand with younger generations. The Highlands, LoDo, LoHi, Uptown, Capitol Hill, City Park West, Baker and Cherry Creek North are some of the areas not only millennials have moved to but older generations as well.

In most of these places, price isn’t always a factor. People are looking for urban multifamily living, a place with character, walkability, and a sense of community—something they can’t get in the suburbs, says Robert Mayer, a commercial real estate agent with Century 21.

These include places like Bricktown, the Plaza District and Triangle/Flatiron/Deep Deuce areas in Oklahoma City or Nob Hill, Old Town and the downtown district in Albuquerque.

The people moving to these areas like the music scenes, mom and pop stores, health food stores, organic farmers markets, fun places to hang out, things within walking distance or a bike ride, Mayer said.
CRAIG DIETZ, a medical doctor, works and lives in the Midtown area of Kansas City, Mo. He enjoys the diversity of neighborhoods and the many shops and restaurants within walking distance.

A growing trend

Jordan Rappaport, a senior economist with the Federal Reserve Bank of Kansas City, says millennial young adults—ages 20-34—have primarily driven the recent rebound in multifamily home construction, reversing their earlier swing toward single-family homes during the housing booms.

From 1980 to 2000, the share of young adults living in multifamily units steadily increased by almost 5 percentage points. The increase was due largely to young adults delaying having children and getting married.

From 2000 to 2007, young adults vacated one-half million multifamily units, thereby depressing multifamily construction. From 2007 to 2013, however, young adults reclaimed one-half million multifamily units, requiring builders to construct new ones. This swing accounts for much of the construction rebound.

Some have interpreted the recent increase in young adults’ multifamily occupancy as reflecting millennials’ stronger preference for living in apartments relative to Generation X. However, most of the increase simply reflects a return to trend behavior, Rappaport said.

What is new is the number of baby boomers moving from single-family to multifamily homes. Multifamily occupancy among older adults, 50-69, increased steadily from 2000 to 2013, approximately 2.4 million people.

Older adults accounted for the entire net increase in multifamily occupancy during the first decade of the new century, but construction to meet the growing demand only rose modestly from 2007 to 2013.

New construction isn’t just focused on dense urban living. Suburbs in metropolitan areas have seen an increase in new developments that offer affordable apartments, condos or townhomes within a complex of shops, restaurants and markets—what is described as convenient lifestyle living.

And young adults are still interested in traditional suburban neighborhoods.
Living in the burbs

Scott Rist, a real estate agent with Rist and Associates, a broker for Reece and Nichols, says most of his clients, who are millennials, are looking at single-family homes.

Rist (pictured on the TEN cover) works in Johnson County, Kansas, a suburb south of Kansas City, where homes can sell for less than $100,000 to well into the millions.

Rist, 28, recently started selling real estate fulltime after working in the technology industry. Rist has plenty of experience to rely upon—his parents have sold real estate for more than 40 years in the area.

Unlike previous generations, millennials take a different approach to buying their first place.

“They view everything as an investment,” he said. Their first place, whether a single-family home, loft or condominium, is a stepping stone.

“They’re looking at it as a five-year investment as they start their careers,” he said. “They’ll later sell it and buy the home they plan to start a family in or to start the next segment of their lives.”

This doesn’t mean there’s a big resurgence of millennials in the single-family home market. Rist says many young adults have large amounts of college debt, and it isn’t easy finding a job that can help them afford paying that debt while making mortgage payments.

But for those who can afford it, they’re finding the suburbs they once wanted to leave as youths, actually has a lot to offer, Rist said.

“They’re finding that the Kansas City area is an affordable place to live compared to other big cities,” he said. “They can get more space for their money.”

Rist does have one client who’s a baby boomer.

“They’ve reached a time in their life where they’re looking at downsizing, not buying something bigger,” he said.

Older generations are moving out of suburban neighborhoods and young singles, couples and families are moving in, a sort of revitalization of a dying area, Rist said. They’re not only looking at investing, they’re also buying convenience and community.

“You have people who want to be closer to their work or family, and living downtown can’t provide that to them,” he said.

The Census Bureau recently reported that single-family home starts rebounded this spring after a weather-related pullback in the winter, and the outlook is positive for the rest of 2015. Even so, the current rate of single-family starts remains almost two-thirds below its peak prior to the housing crisis and more than one-third below its level during the late 1990s.

“In sharp contrast, multifamily home starts have rebounded entirely from their trough during the housing crisis,” Rappaport said.

Although millennials are a larger generation than Generation X, it’s the baby boomers who will drive the future increase in multifamily occupancy. The leading edge of the baby boomers turns 70 in 2016, and the Census Bureau projects that the number of Americans ages 70 and older will increase by more than 20 million from 2015 to 2030.

Rappaport expects, in the long run, that seniors, ages 70 and above, will likely supplant young adults as the main drivers of growth in multifamily home construction.

“As the senior population swells—and more seniors downsize to multifamily units—multifamily home construction will increase strongly for many years,” Rappaport said.

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