

Future Real Estate Issues

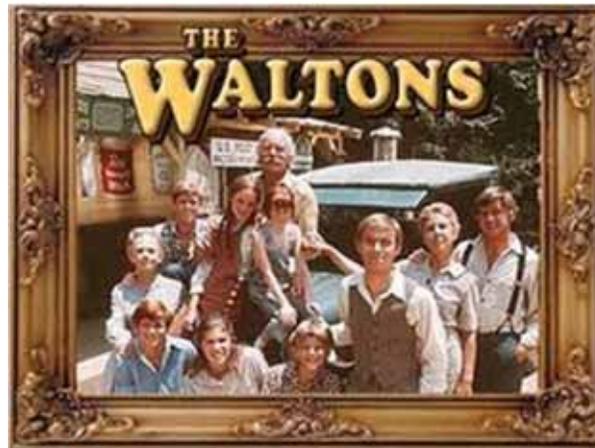
Lakeville Vision Task Force Meeting

March 21, 2013, Lakeville City Hall

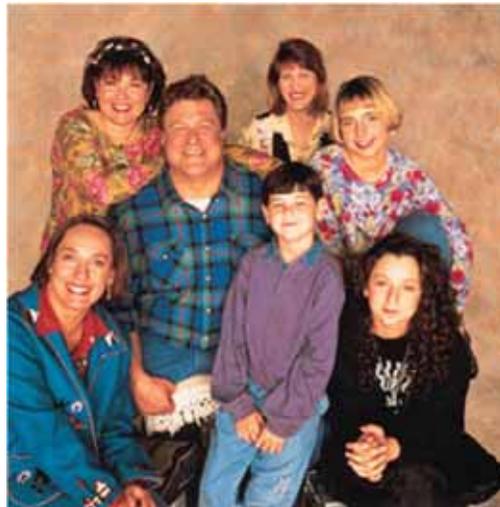
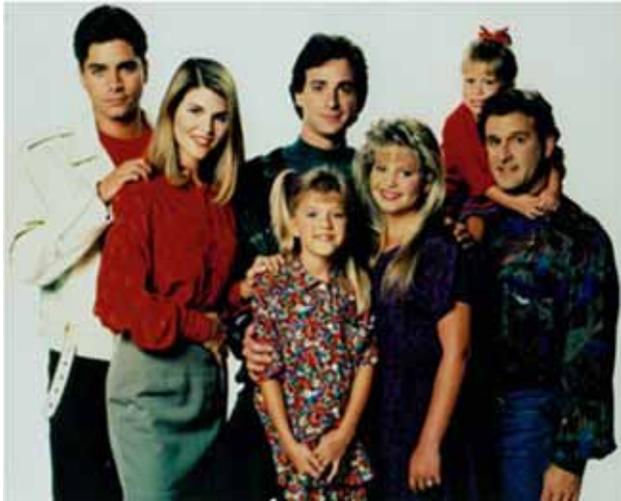
Presented by
Christopher Galler, CEO
Minnesota Association of REALTORS



The society is continually evolving



Continues to evolve...



TV SHOWS

TOP 10 LIST FOR

Prime Broadcast Network TV - United States

Week of March 4 2013

| RANK | PROGRAM | NETWORK | RATING | VIEWERS (000) |
|------|-----------------------------|---------|--------|---------------|
| 1 | NCIS | CBS | 12.9 | 20,812 |
| 2 | THE BIG BANG THEORY | CBS | 10.5 | 17,627 |
| 3 | NCIS: LOS ANGELES | CBS | 10.0 | 16,240 |
| 4 | PERSON OF INTEREST | CBS | 9.1 | 14,572 |
| 5 | TWO AND A HALF MEN | CBS | 8.3 | 13,542 |
| 6 | AMERICAN IDOL-THURSDAY | FOX | 7.8 | 13,121 |
| 7 | AMERICAN IDOL-WEDNESDAY | FOX | 7.7 | 12,836 |
| 8 | 60 MINUTES | CBS | 7.5 | 11,585 |
| 9 | AMERICAN IDOL TUE SP-3/5(S) | FOX | 7.0 | 11,724 |
| 10 | BLUE BLOODS | CBS | 6.9 | 10,722 |

Source: Nielsen. Primetime Broadcast Programs. Viewing estimates on this page include Live viewing and DVR playback on the Same Day, defined as 3am-3am. Ratings are the percentage of TV homes in the U.S. tuned into television.

TV is a reflection of society

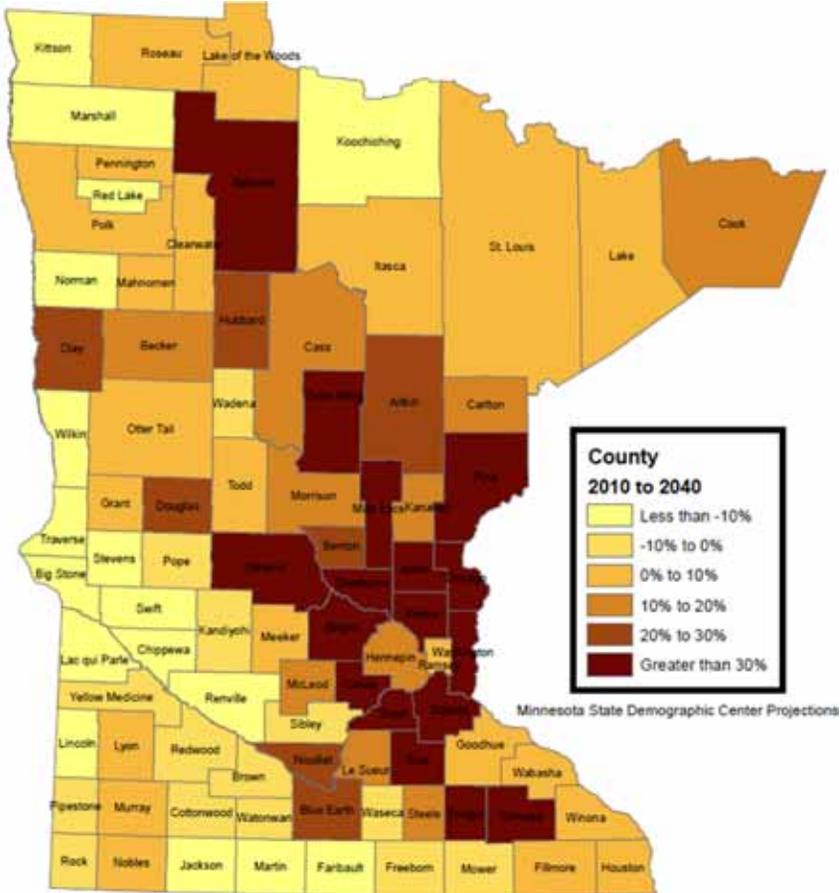
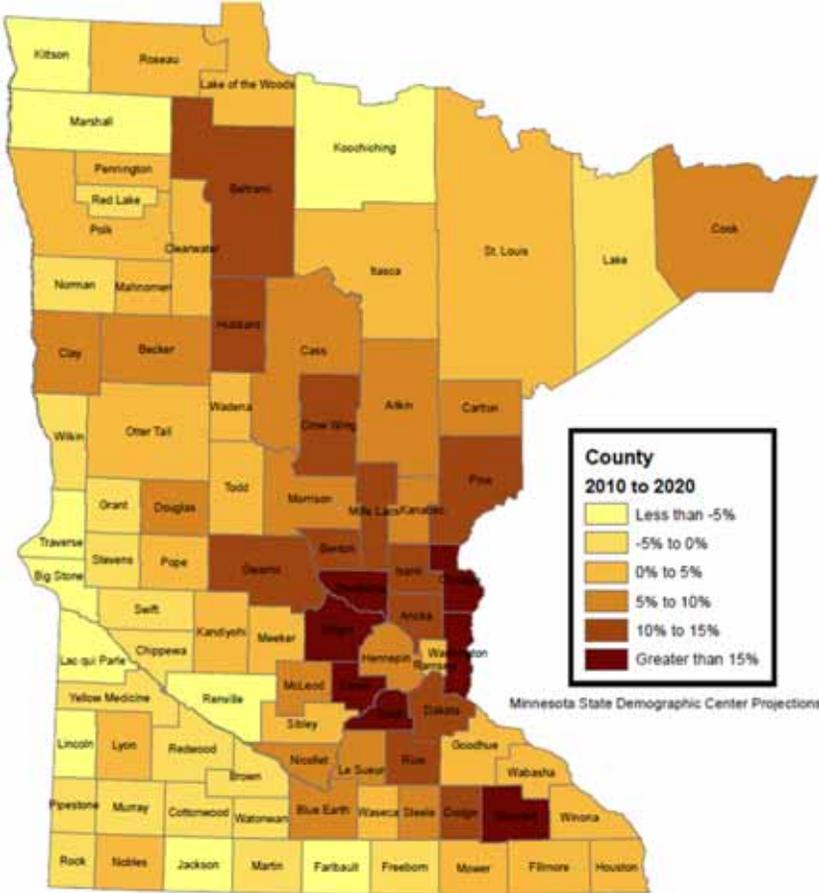
- Try to find a “nuclear family” today?
- Shows are dominated by single people
- Children are rarely a focus of programs
- Decline in Married couples with children
- Significant growth in single persons with kids

What does that have to do with real estate/housing?

A Changing American Dream

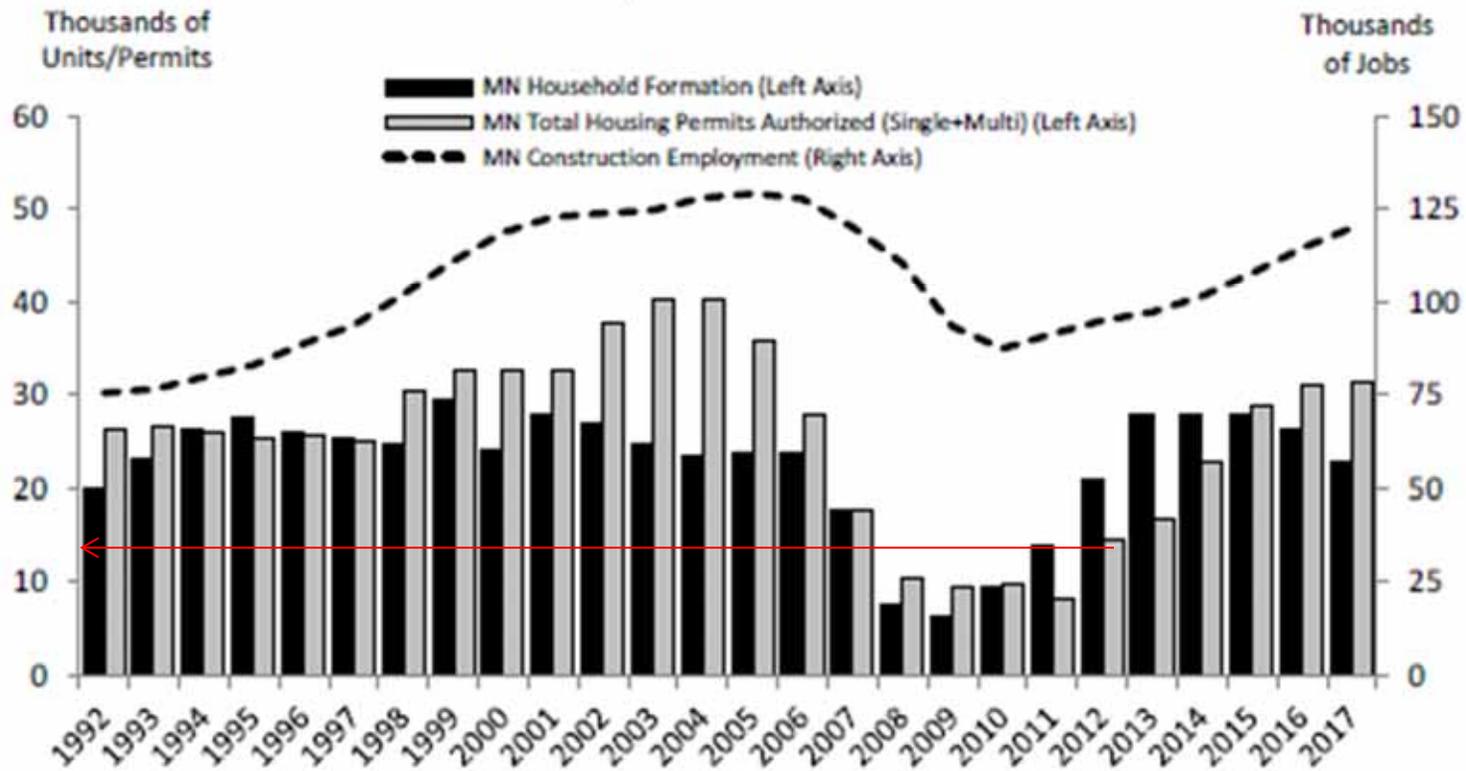
- **Rapidly aging population**
- **Fewer married couples with children**
- **More singles and singles with children**
- **Growth in minority populations**
- **Greater economic and educational diversity**
- **Fewer homeowners**
- **Significant changes in consumer behavior**

Dakota/Lakeville will continue to grow



Growth is easier to manage than contraction

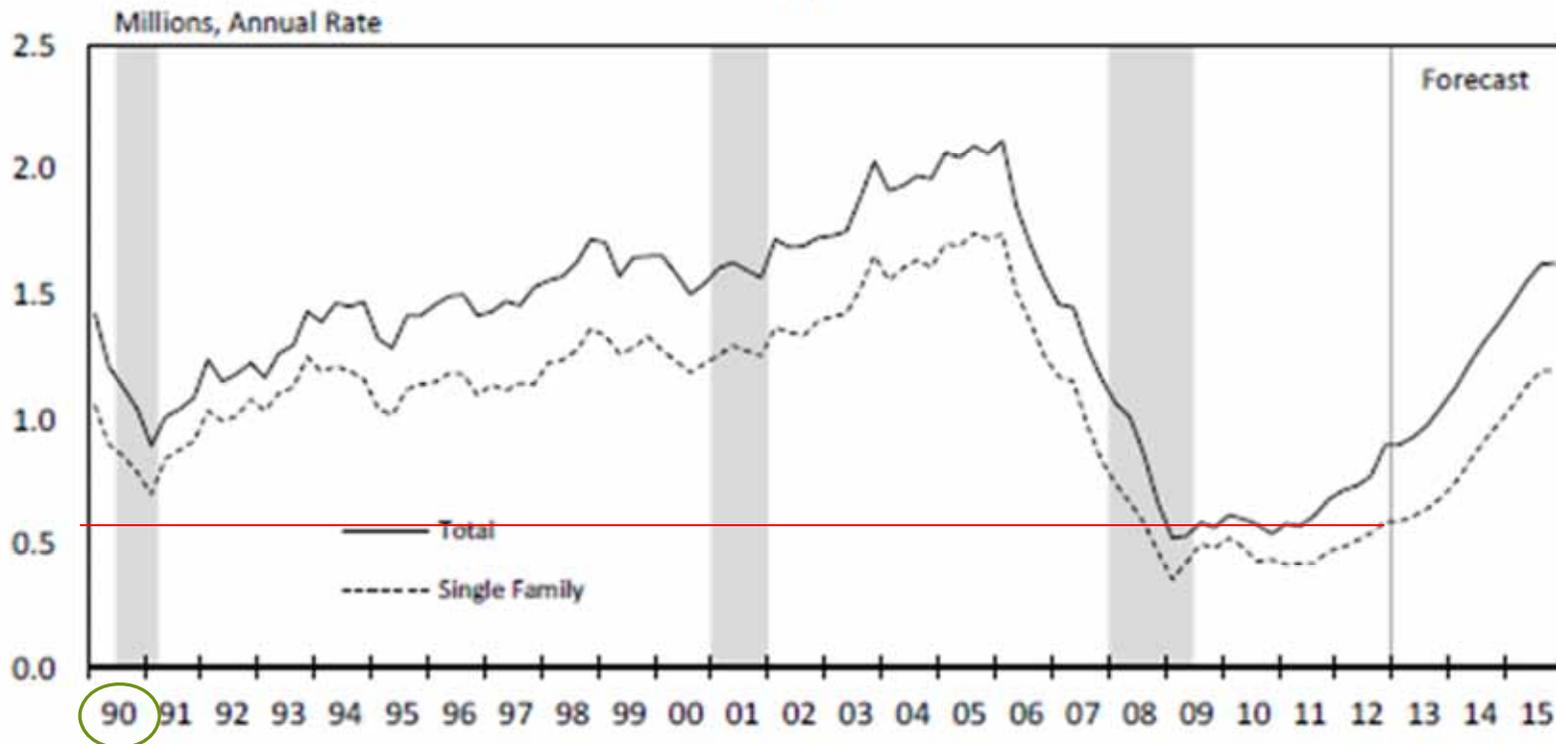
MN Household Formation, Housing Permits, & Construction Employment History and MMB Forecast



Source: MN Department of Employment and Economic Development (DEED), MN State Demographic Center, MN Management & Budget (MMB)

MMB economists estimate improving job growth and strengthening household formation rates will help absorb most, if not all, of the excesses into the market by 2013. These are principal assumptions behind the February 2013 outlook for residential building permits and construction employment.

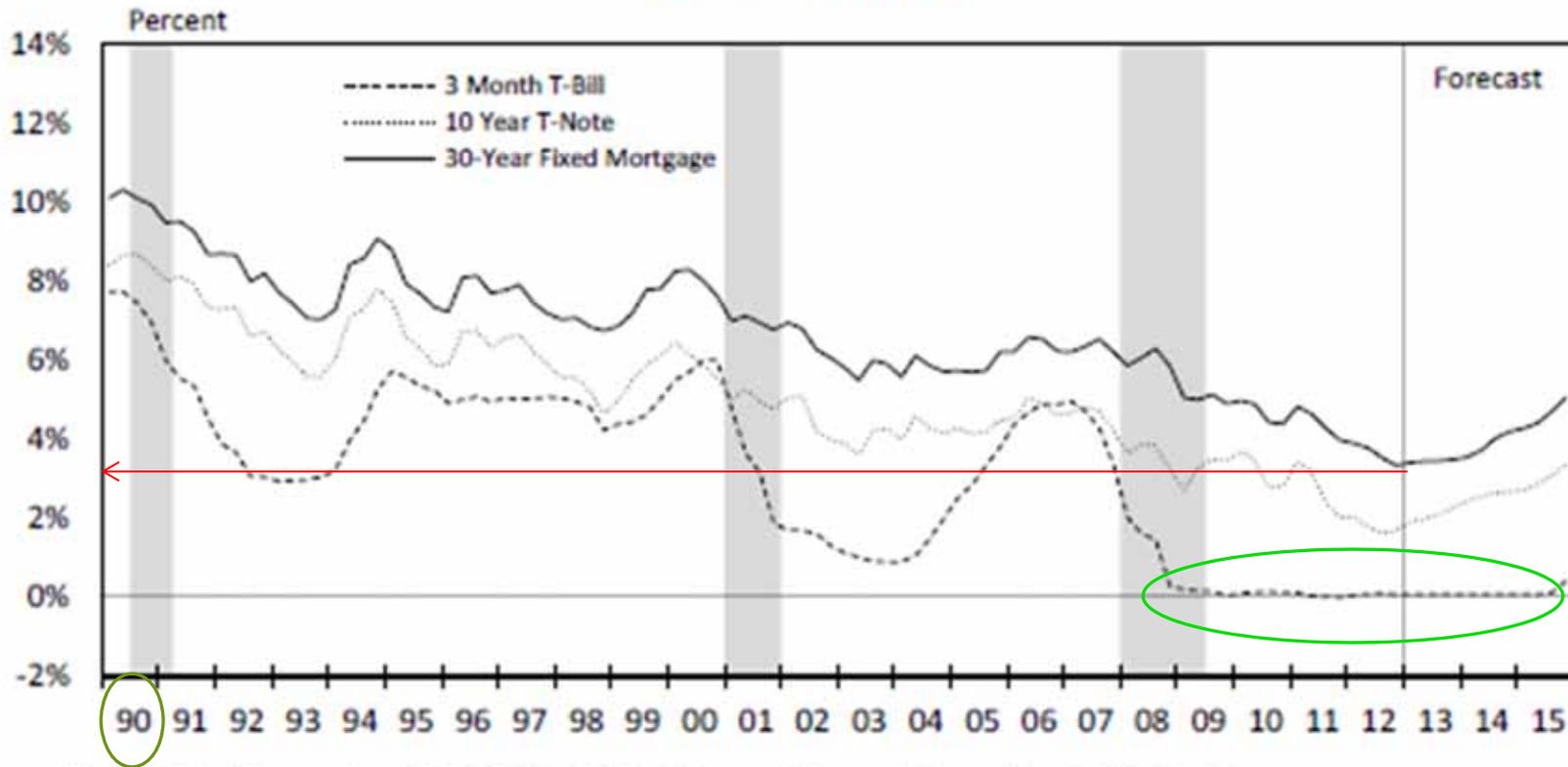
Housing Starts



Source: U.S. Census Bureau, National Bureau of Economic Research, and Global Insight

The housing recovery finally seems to be under way. Inventories of unsold homes are falling quickly, home prices are rising, and housing starts are trending upward. GII expects a the housing recovery to continue over the next three years.

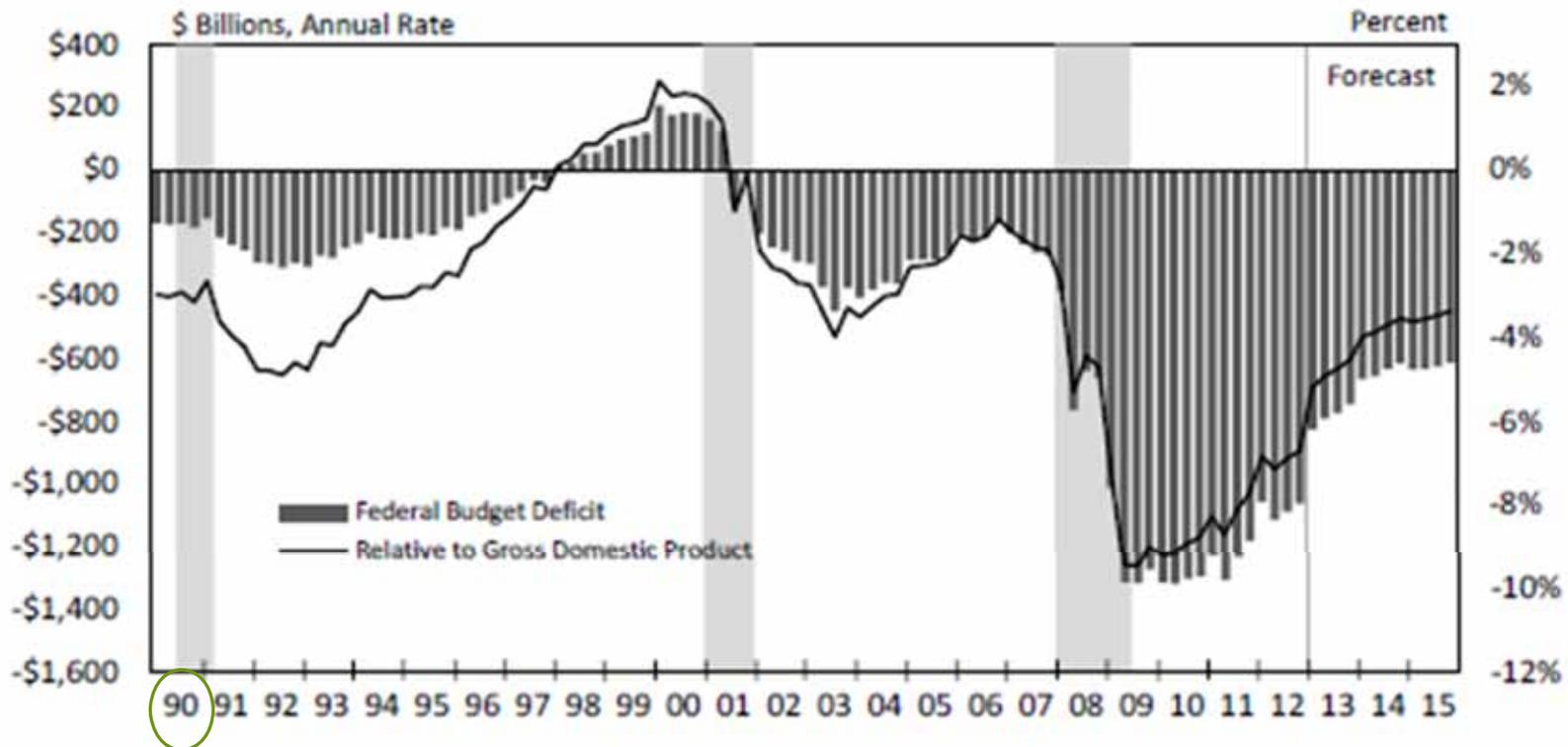
Interest Rates



Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and Global Insight

In December, the Federal Reserve moved to replace the expiring Operation Twist with an expansion of its quantitative easing (QE) program and said it will continue buying bonds until there is a "substantial improvement" in the job market.

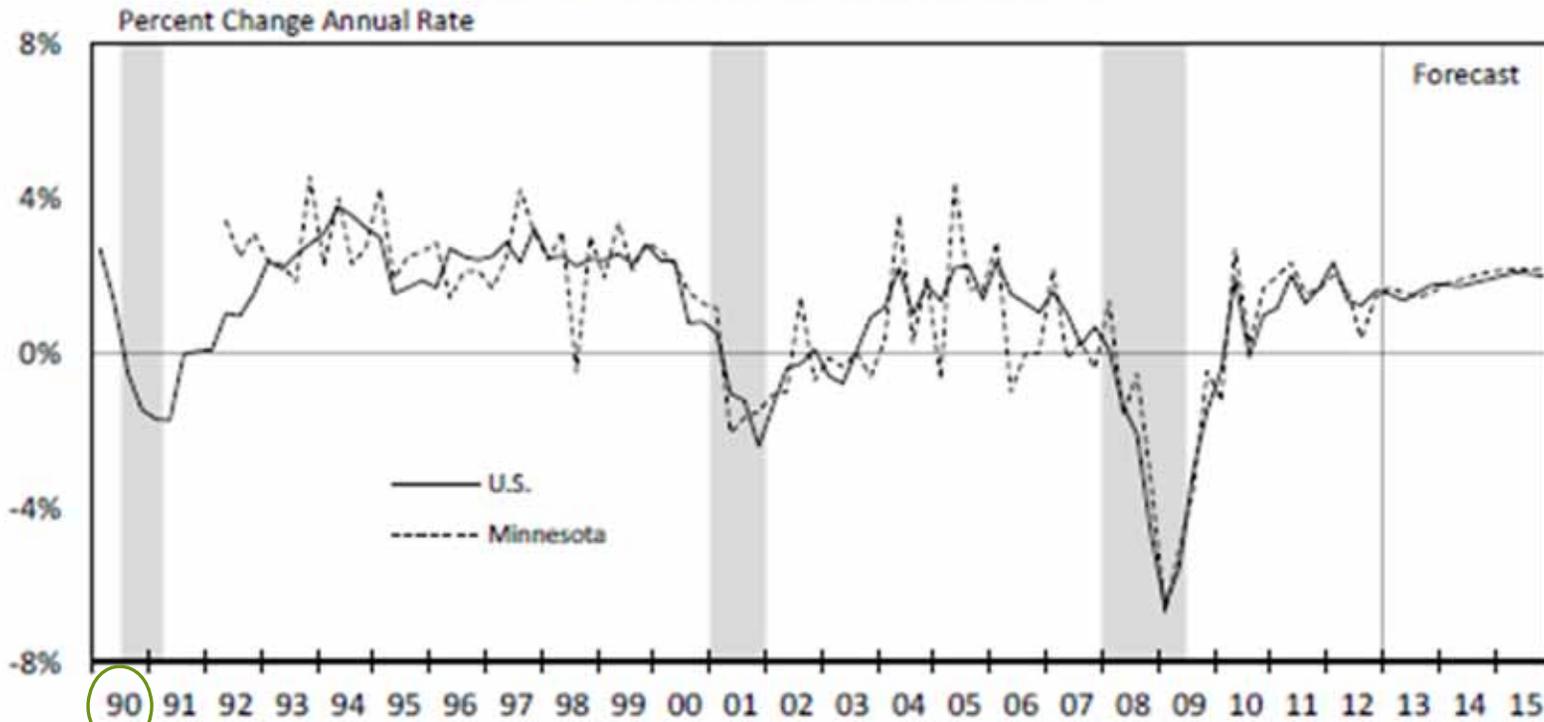
Federal Budget Deficit (NIPA Basis)



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

The federal budget deficit in fiscal 2012 narrowed to \$1.1 trillion (7.0 percent of GDP), from about \$1.3 trillion (8.7 percent of GDP) in fiscal 2011. As fiscal policy tightens, GII expects the budget deficit to decline further to \$864 billion (5.4 percent of GDP) in fiscal 2013.

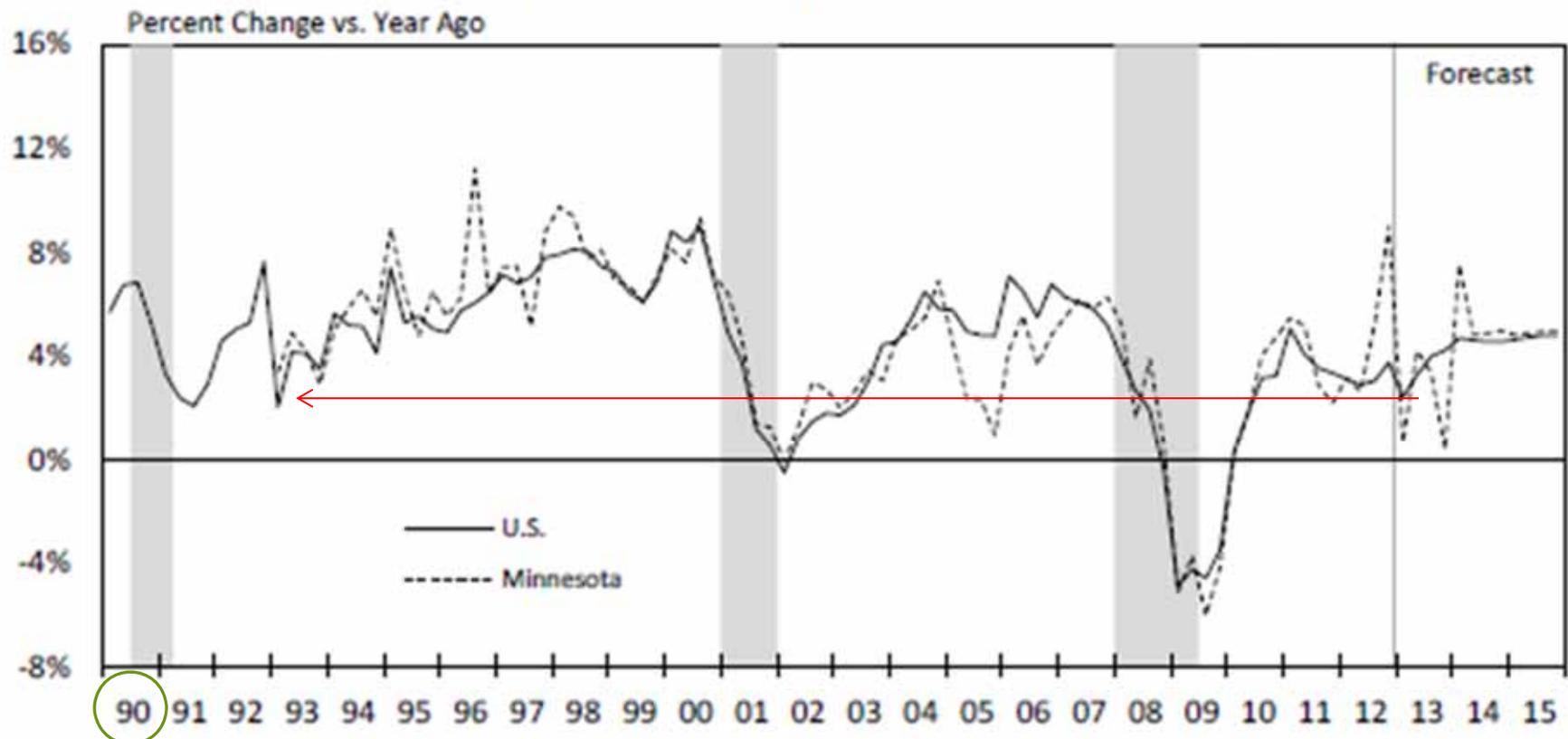
Total Non-Farm Employment



Source: Bureau of Labor Statistics, MN Management & Budget, National Bureau of Economic Research, and Global Insight

The February 2013 forecast for Minnesota's economy expects job growth to remain modest. After increasing 1.7 percent in 2011 and 1.6 percent in 2012, Minnesota's employment growth is forecast to ease to 1.4 percent in 2013, before accelerating to 1.8 percent in 2014.

Wage and Salary Disbursements



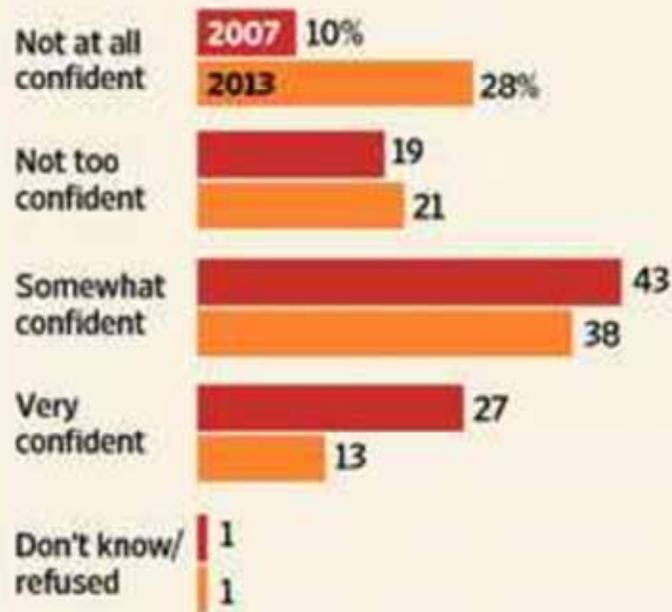
Source: Bureau of Economic Analysis, MN Management & Budget, National Bureau of Economic Research, and Global Insight

Preliminary labor market data and income tax withholding collections suggests Minnesota's nominal wage and salary income surged during the fourth quarter of 2012, boosted by a sharp acceleration of bonus payments and other irregular pay in anticipation of changes to individual income tax rates in 2013.

Shocking figure – 57% of households have less than \$25,000 in total savings & investments excluding their home

Bleaker Outlook

Workers are losing confidence that they'll have enough money in retirement...



Sources: Employee Benefit Research Institute; Mathew Greenwald & Associates Inc. (confidence); Mercer

...as their life expectancies rise*



*Life expectancies of people turning 65 each year based on 2000 and 2012 projections

The Wall Street Journal

59% of MN buyers are age 25-44 yrs.

AGE OF HOME BUYERS, BY REGION

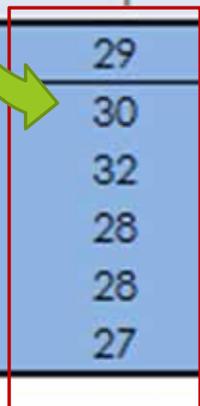
(Percentage Distribution)

| | Minnesota | U.S. | BUYERS WHO PURCHASED A HOME IN THE | | | |
|--------------------|-----------|------|------------------------------------|---------|-------|------|
| | | | Northeast | Midwest | South | West |
| 18 to 24 years | 5% | 3% | 2% | 4% | 4% | 3% |
| 25 to 34 years | 37 | 30 | 34 | 35 | 27 | 27 |
| 35 to 44 years | 22 | 21 | 24 | 22 | 20 | 19 |
| 45 to 54 years | 15 | 18 | 17 | 16 | 19 | 18 |
| 55 to 64 years | 15 | 16 | 13 | 13 | 16 | 19 |
| 65 to 74 years | 4 | 10 | 8 | 7 | 11 | 12 |
| 75 years or older | 3 | 3 | 3 | 3 | 4 | 3 |
| Median age (years) | 37 | 42 | 40 | 39 | 44 | 45 |

AGE OF FIRST-TIME AND REPEAT BUYERS
(Percentage Distribution)

Minnesota

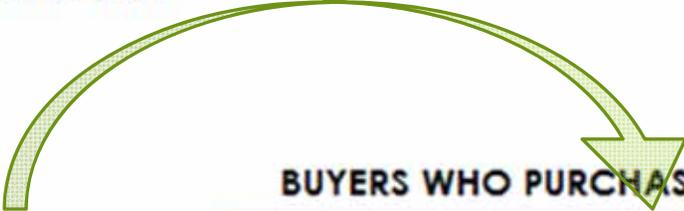
| | All Buyers | First-time Buyers | Repeat Buyers |
|---------------------------|-------------------|--------------------------|----------------------|
| 18 to 24 years | 5% | 12% | * |
| 25 to 34 years | 37 | 67 | 16 |
| 35 to 44 years | 22 | 10 | 31 |
| 45 to 54 years | 15 | 5 | 21 |
| 55 to 64 years | 15 | 5 | 22 |
| 65 to 74 years | 4 | 1 | 6 |
| 75 years or older | 3 | 1 | 5 |
| Median age (years) | 37 | 29 | 46 |
| Married couple | 38 | 30 | 44 |
| Single female | 44 | 32 | 55 |
| Single male | 35 | 28 | 48 |
| Unmarried couple | 30 | 28 | 38 |
| Other | 30 | 27 | 52 |



RACE/ETHNICITY OF HOME BUYERS, BY REGION

(Percent of Respondents)

BUYERS WHO PURCHASED A HOME IN THE



| | Minnesota | U.S. | Northeast | Midwest | South | West |
|-------------------------------|-----------|------|-----------|---------|-------|------|
| White/Caucasian | 93% | 85% | 89% | 92% | 84% | 78% |
| Hispanic/Latino | 2 | 7 | 3 | 2 | 7 | 12 |
| Black/African-American | 2 | 4 | 3 | 3 | 7 | 2 |
| Asian/Pacific Islander | 3 | 4 | 4 | 3 | 3 | 8 |
| Other | 2 | 2 | 2 | 1 | 2 | 3 |

Note: Respondents were permitted to select as many races and ethnicities as they felt applicable. The percentage distribution may therefore sum to more than 100 percent.

RACE/ETHNICITY OF FIRST-TIME AND REPEAT BUYERS

(Percent of Respondents)

Minnesota

| | All Buyers | First-time Buyers | Repeat Buyers |
|------------------------|------------|-------------------|---------------|
| White/Caucasian | 93% | 91% | 95% |
| Black/African-American | 2 | 3 | 2 |
| Asian/Pacific Islander | 2 | 4 | 1 |
| Hispanic/Latino | 3 | 2 | 2 |
| Other | 2 | 1 | 2 |

* Less than 1 percent

U.S.

| | All Buyers | First-time Buyers | Repeat Buyers |
|------------------------|------------|-------------------|---------------|
| White/Caucasian | 85% | 77% | 90% |
| Hispanic/Latino | 7 | 10 | 5 |
| Black/African-American | 4 | 7 | 3 |
| Asian/Pacific Islander | 4 | 7 | 3 |
| Other | 2 | 3 | 2 |

Note: Respondents were permitted to select as many races and ethnicities as they felt applicable. The percentage distribution may therefore sum to more than 100 percent.

NATIONAL ORIGIN OF HOME BUYERS, BY REGION

(Percentage Distribution)

BUYERS WHO PURCHASED A HOME IN THE

| | Minnesota | U.S. | Northeast | Midwest | South | West |
|------------------|-----------|------|-----------|---------|-------|------|
| Born in U.S. | 96% | 90% | 90% | 94% | 91% | 86% |
| Not born in U.S. | 4 | 10 | 10 | 6 | 9 | 14 |

PRIMARY LANGUAGE SPOKEN IN HOME BUYER HOUSEHOLD, BY REGION

(Percentage Distribution)

BUYERS WHO PURCHASED A HOME IN THE

| | Minnesota | U.S. | Northeast | Midwest | South | West |
|---------|-----------|------|-----------|---------|-------|------|
| English | 98% | 96% | 97% | 98% | 95% | 94% |
| Other | 2 | 4 | 3 | 3 | 5 | 6 |

FIRST-TIME HOME BUYERS

(Percent of all Home Buyers)

| Year | Percentage |
|----------------|-------------------|
| 2001 | 42% |
| 2003 | 40% |
| 2004 | 40% |
| 2005 | 40% |
| 2006 | 36% |
| 2007 | 39% |
| 2008 | 41% |
| 2009 | 47% |
| 2010 | 50% |
| 2011 | 37% |
| 2012 US | 39% |
| 2012 Minnesota | 41% |

In MN: 41% of First-time Buyers are Married Couples or Single

Minnesota

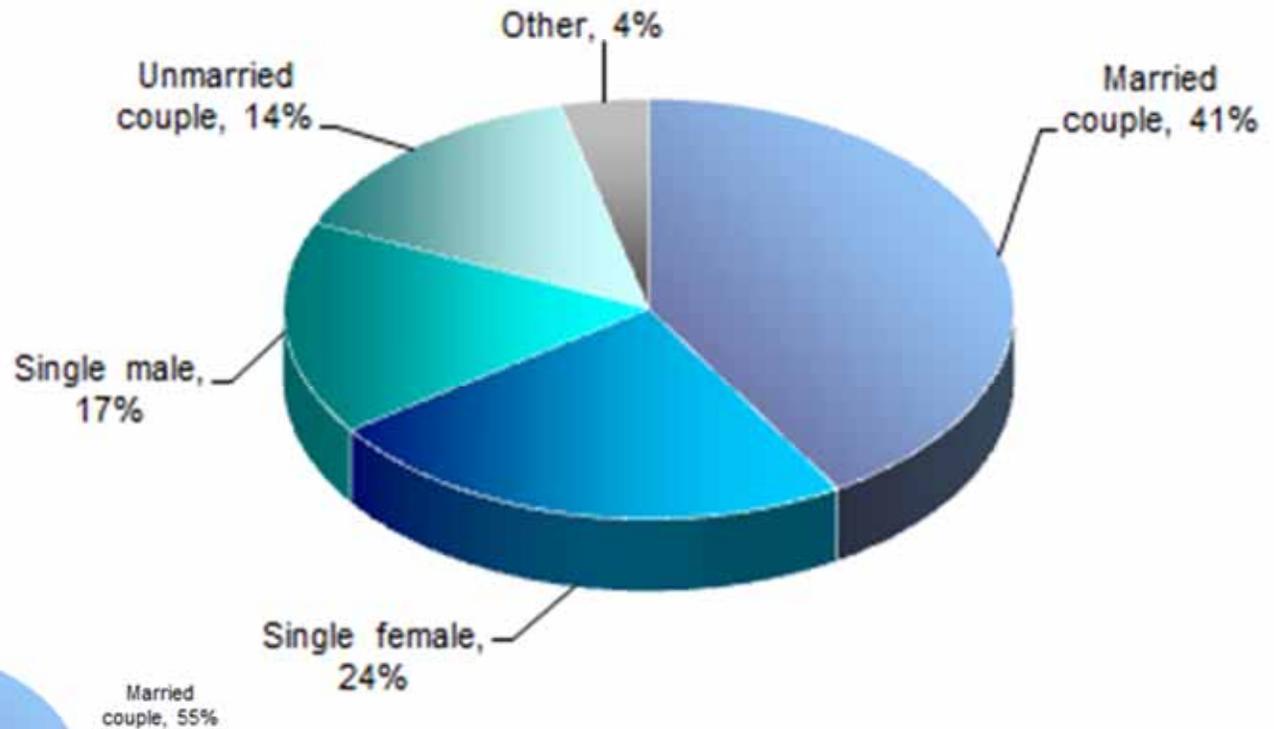
| | |
|------------------|-----|
| Married couple | 41% |
| Single female | 24% |
| Single male | 17% |
| Unmarried couple | 14% |
| Other | 4% |

U.S.

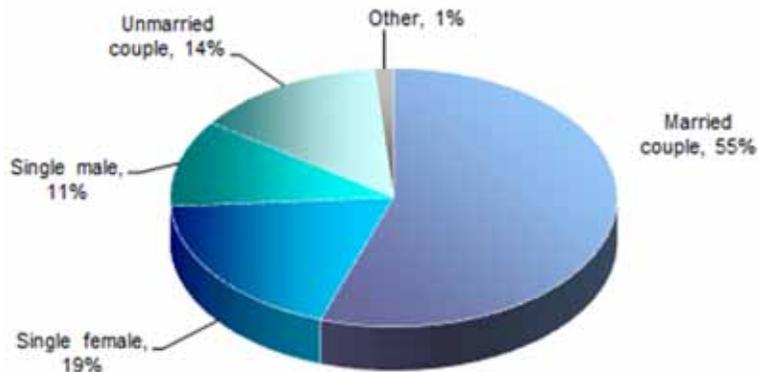
| | |
|------------------|-----|
| Married couple | 55% |
| Single female | 19% |
| Single male | 11% |
| Unmarried couple | 14% |
| Other | 1% |

FIRST-TIME HOME BUYERS
(Percentage Distribution)

Minnesota



U.S.



Minnesota

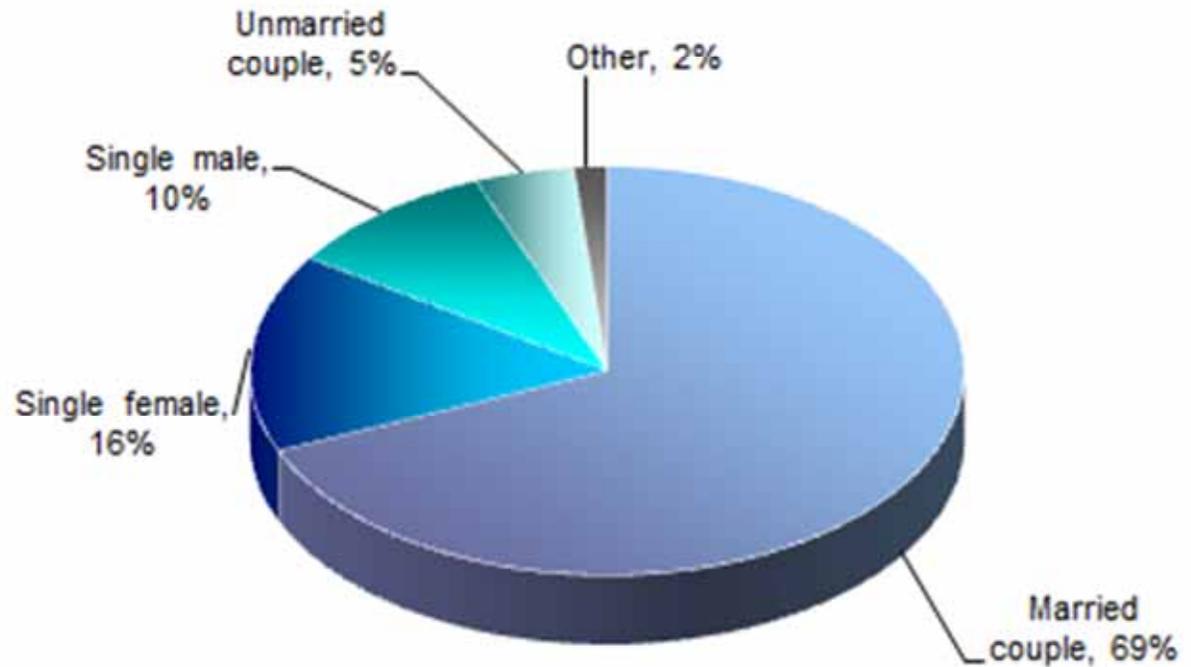
| | |
|------------------|-----|
| Married couple | 69% |
| Single female | 16% |
| Single male | 10% |
| Unmarried couple | 5% |
| Other | 2% |

U.S.

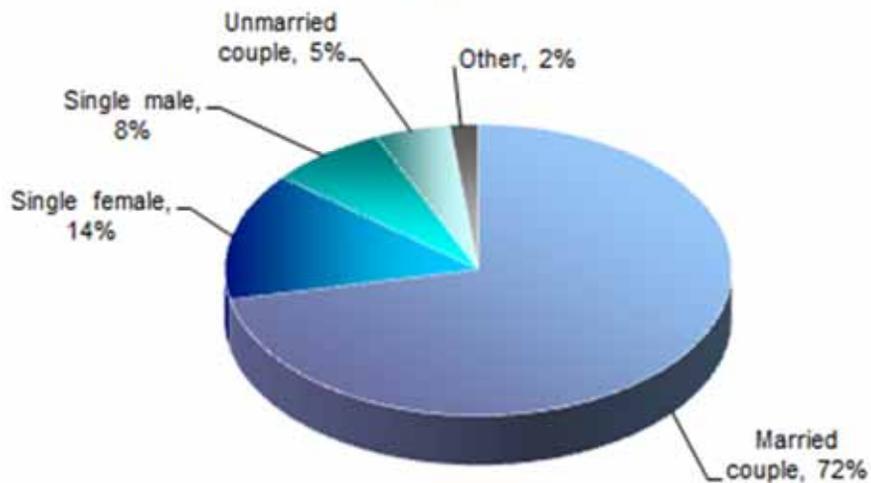
| | |
|------------------|-----|
| Married couple | 72% |
| Single female | 14% |
| Single male | 8% |
| Unmarried couple | 5% |
| Other | 2% |

REPEAT HOME BUYERS (Percentage Distribution)

Minnesota



U.S.



Children Under the age of 18 residing in the home

Minnesota

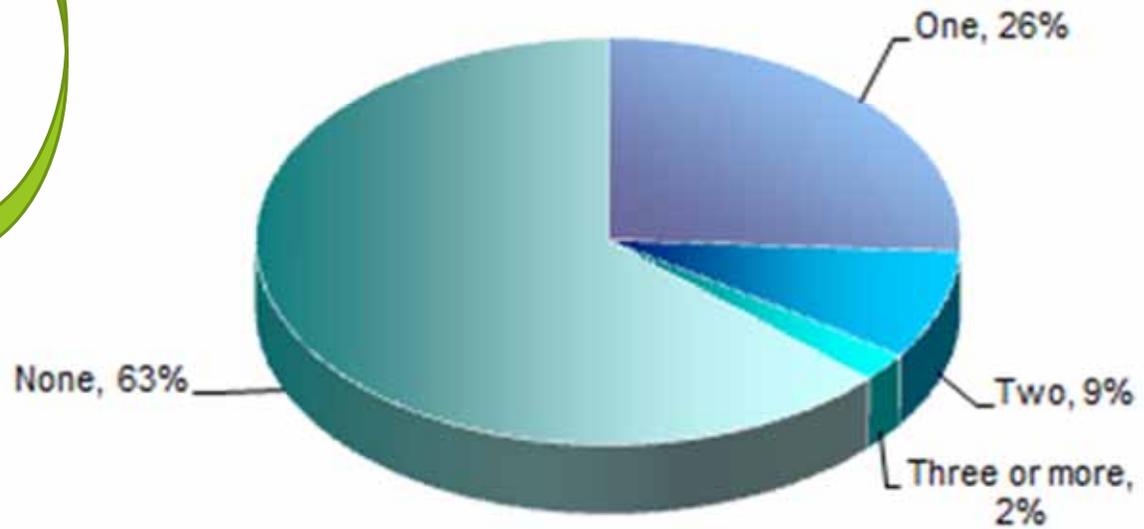
| | |
|---------------|-----|
| One | 26% |
| Two | 9% |
| Three or more | 2% |
| None | 63% |

U.S.

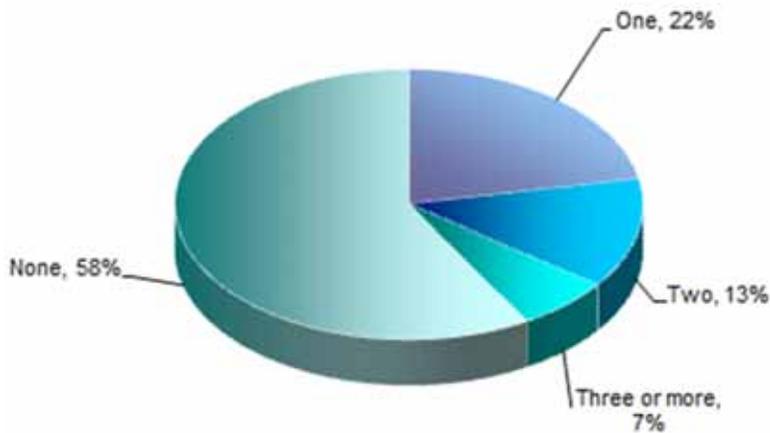
| | |
|---------------|-----|
| One | 22% |
| Two | 13% |
| Three or more | 7% |
| None | 58% |

FIRST-TIME HOME BUYERS (Percentage Distribution)

Minnesota



U.S.



Children Under the age of 18 residing in the home

Minnesota

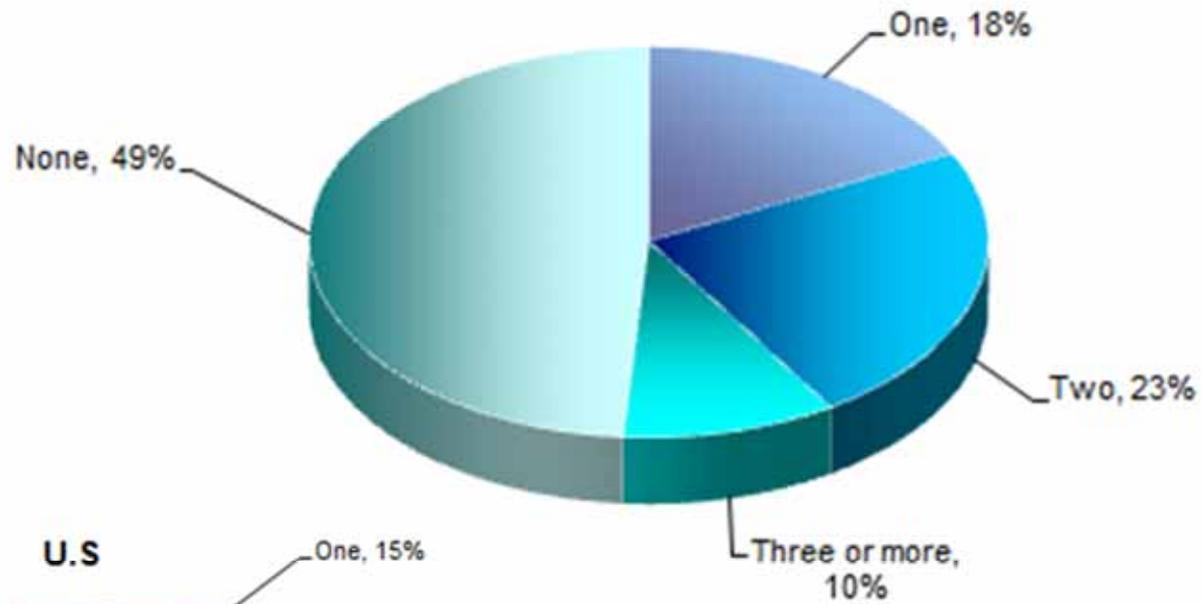
| | |
|---------------|-----|
| One | 18% |
| Two | 23% |
| Three or more | 10% |
| None | 49% |

U.S.

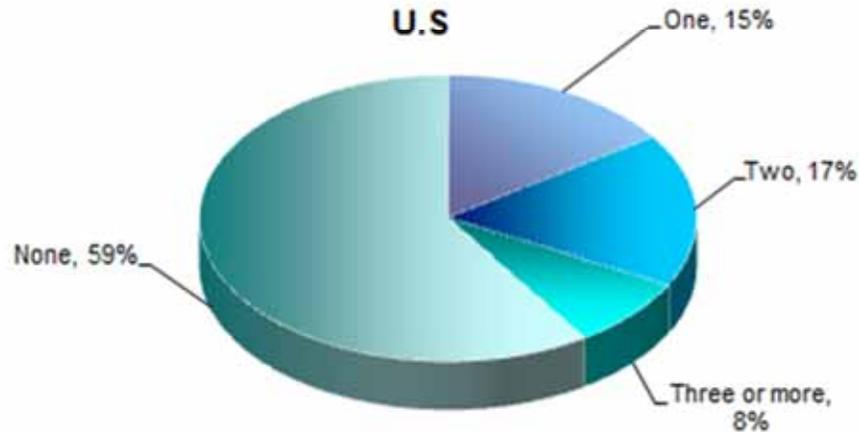
| | |
|---------------|-----|
| One | 15% |
| Two | 17% |
| Three or more | 8% |
| None | 59% |

REPEAT HOME BUYERS (Percentage Distribution)

Minnesota



U.S



HOUSEHOLD INCOME OF FIRST-TIME AND REPEAT BUYERS, 2011

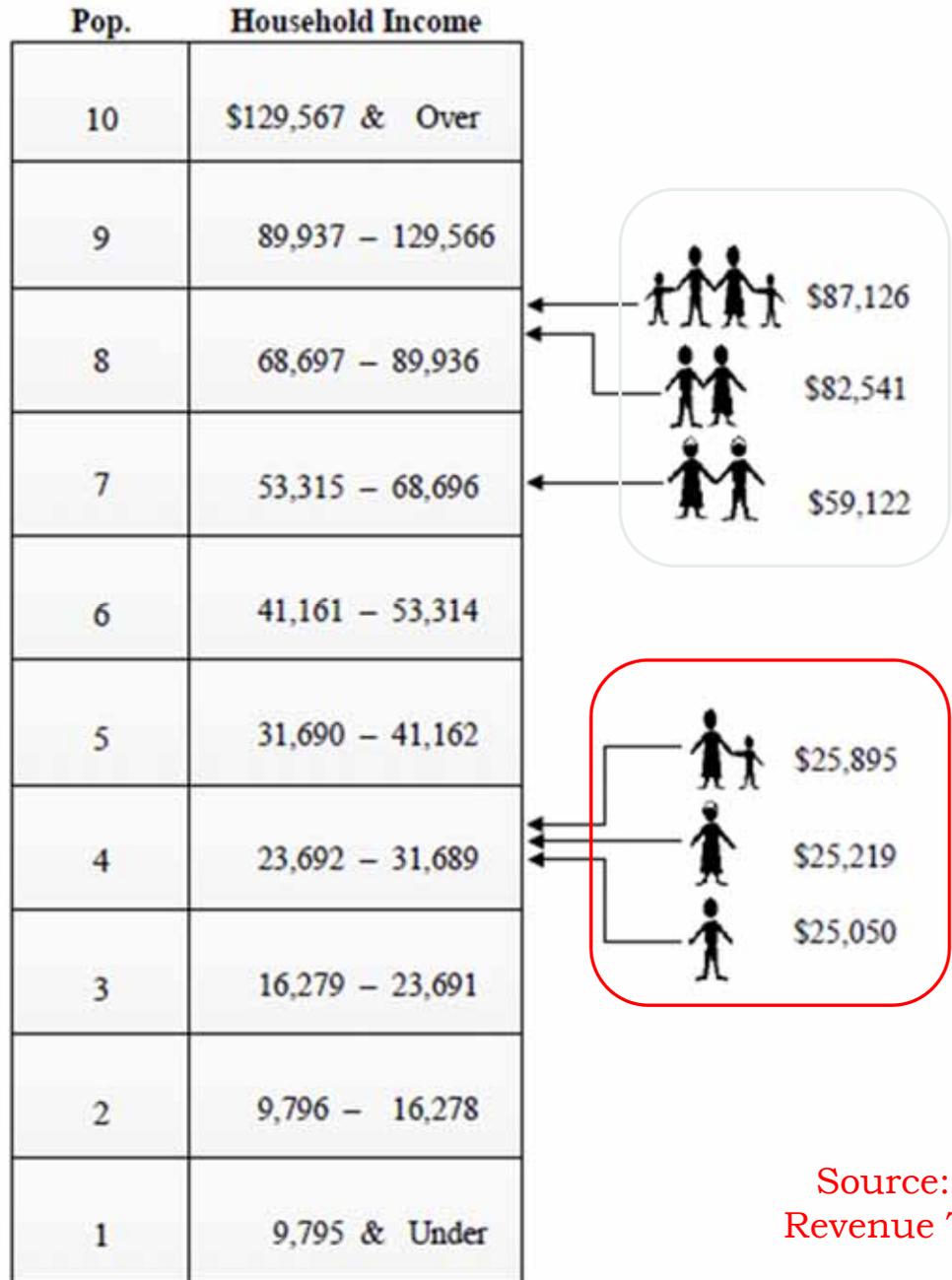
(Percentage Distribution)

Minnesota

| | All Buyers | First-time Buyers | Repeat Buyers |
|-----------------------------|-----------------|-------------------|-----------------|
| Less than \$25,000 | 3% | 3% | 3% |
| \$25,000 to \$34,999 | 6 | 10 | 4 |
| \$35,000 to \$44,999 | 8 | 14 | 3 |
| \$45,000 to \$54,999 | 12 | 21 | 5 |
| \$55,000 to \$64,999 | 8 | 13 | 5 |
| \$65,000 to \$74,999 | 8 | 9 | 8 |
| \$75,000 to \$84,999 | 9 | 9 | 9 |
| \$85,000 to \$99,999 | 13 | 9 | 17 |
| \$100,000 to \$124,999 | 11 | 6 | 15 |
| \$125,000 to \$149,999 | 8 | 6 | 9 |
| \$150,000 to \$174,999 | 4 | 1 | 7 |
| \$175,000 to \$199,999 | 3 | 1 | 4 |
| \$200,000 or more | 7 | 1 | 11 |
| Median income (2011) | \$80,600 | \$57,000 | \$96,800 |
| Married couple | \$96,400 | \$75,500 | \$107,900 |
| Single female | \$51,800 | \$45,400 | \$79,300 |
| Single male | \$57,500 | \$51,400 | \$75,100 |
| Unmarried couple | \$80,000 | \$65,100 | \$137,600 |
| Other | \$52,500 | \$52,500 | \$35,000 |

* Less than 1 percent

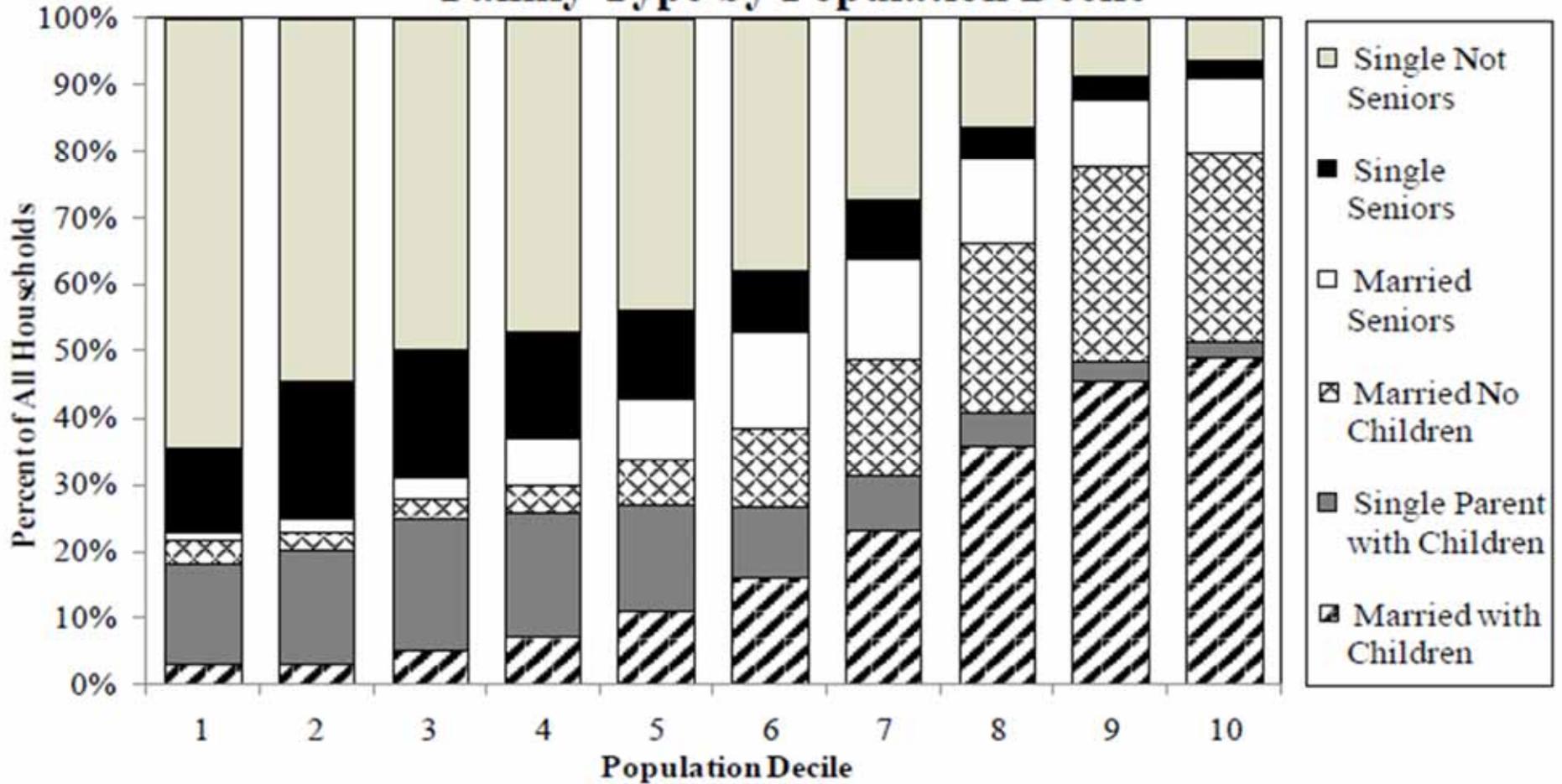
Figure 5-2
Median Income by Household Type (2008)



Source: 2011 MN Dept. of
 Revenue Tax Incidence Study

Figure 5-1

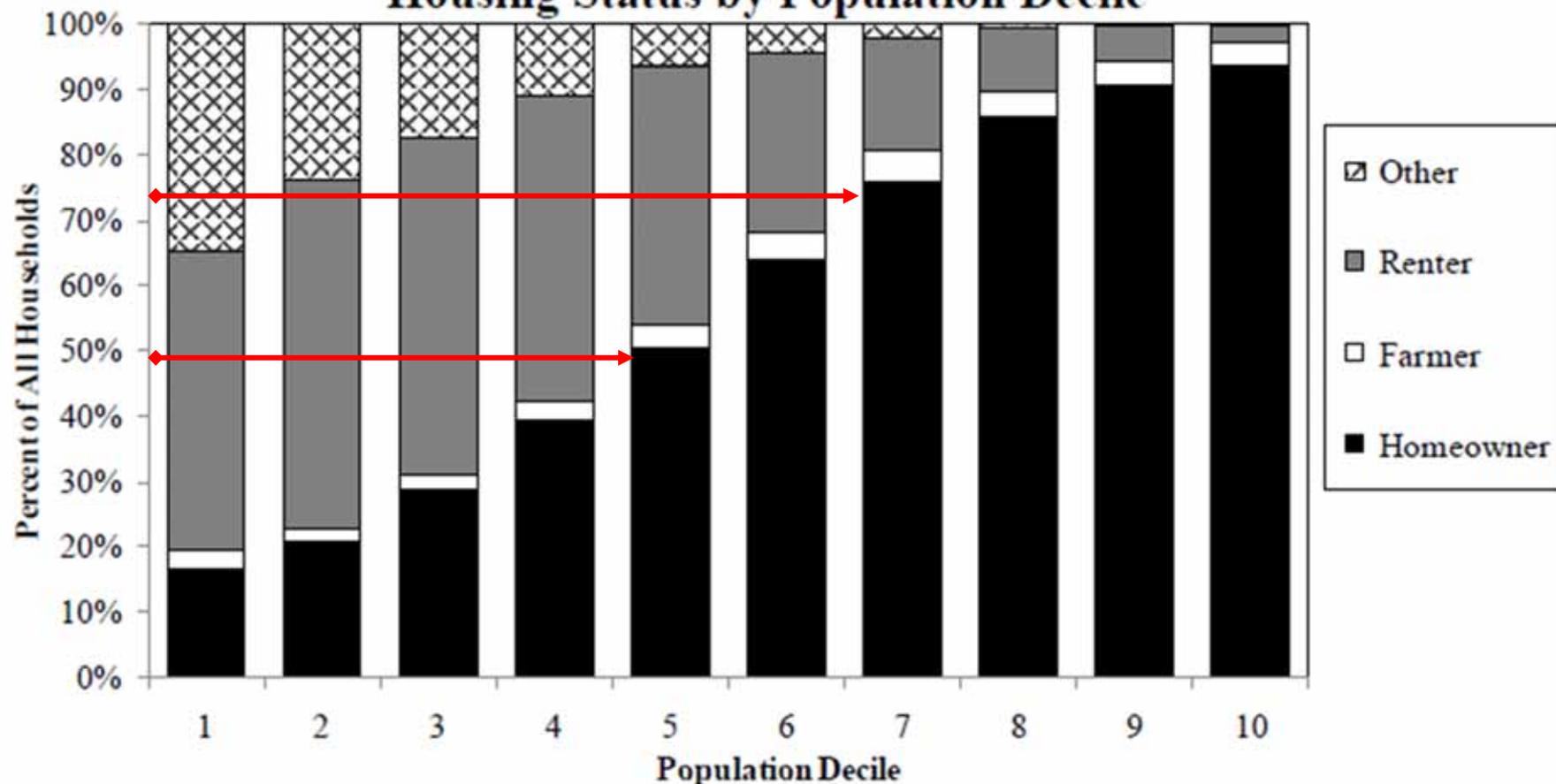
Family Type by Population Decile



Source: 2011 MN Dept. of Revenue Tax Incidence Study

Figure 5-3

Housing Status by Population Decile



²⁸ In this study, farm households are defined as those living on farm homestead property, so every farmer owns a home. This definition excludes active farmers who farm only rented land or do not live on a farm homestead. The home ownership rates cited in this chapter include both farm and non-farm homesteads.

Source: 2011 MN Dept. of Revenue Tax Incidence Study

NUMBER OF HOMES CURRENTLY OWNED, BY AGE

(Percentage Distribution)

Minnesota

| | AGE OF HOME BUYER | | | | |
|---------------|-------------------|----------|----------|----------|-------------|
| | All Buyers | 18 to 24 | 25 to 44 | 45 to 64 | 65 or older |
| One | 82% | 100% | 85% | 77% | 77% |
| Two | 15 | * | 14 | 19 | 20 |
| Three or more | 2 | * | 1 | 4 | 3 |

U.S.

| | AGE OF HOME BUYER | | | | |
|---------------|-------------------|----------|----------|----------|-------------|
| | All Buyers | 18 to 24 | 25 to 44 | 45 to 64 | 65 or older |
| One | 81% | 99% | 85% | 74% | 76% |
| Two | 15 | 1 | 12 | 19 | 18 |
| Three or more | 5 | * | 3 | 7 | 7 |

EXPECTED LENGTH OF TENURE IN HOME PURCHASED, FIRST-TIME AND REPEAT BUYERS, AND BUYERS OF NEW AND PREVIOUSLY OWNED HOMES

(Percentage Distribution)

Minnesota

| | All Buyers | First-time Buyers | Repeat Buyers | BUYERS OF | |
|------------------|------------|-------------------|---------------|-----------|------------------------|
| | | | | New Homes | Previously Owned Homes |
| 1 year or less | 1% | 1% | 1% | 2% | 1% |
| 2 to 3 years | 2 | 3 | 2 | 0 | 3 |
| 4 to 5 years | 8 | 12 | 5 | 9 | 8 |
| 6 to 7 years | 4 | 7 | 3 | 7 | 4 |
| 8 to 10 years | 14 | 17 | 12 | 5 | 15 |
| 11 to 15 years | 7 | 5 | 9 | 5 | 8 |
| 16 or more years | 24 | 21 | 26 | 30 | 23 |
| Don't Know | 40 | 36 | 42 | 43 | 39 |
| Median | 15 | 10 | 15 | 20 | 13 |

EXPECTED LENGTH OF TENURE IN HOME PURCHASED, BY AGE

(Percentage Distribution)

Minnesota

| | AGE OF HOME BUYER | | | | |
|------------------|-------------------|----------|----------|----------|-------------|
| | All Buyers | 18 to 24 | 25 to 44 | 45 to 64 | 65 or older |
| 1 year or less | 1% | 0% | 1% | 0% | 3% |
| 2 to 3 years | 2 | 11 | 2 | 2 | 0 |
| 4 to 5 years | 8 | 26 | 9 | 2 | 0 |
| 6 to 7 years | 4 | 5 | 6 | 2 | 0 |
| 8 to 10 years | 14 | 16 | 15 | 11 | 10 |
| 11 to 15 years | 7 | 0 | 6 | 8 | 23 |
| 16 or more years | 24 | 16 | 24 | 30 | 7 |
| Don't Know | 40 | 26 | 37 | 44 | 57 |
| Median | 15 | 6 | 10 | 20 | 15 |

* Less than 1 percent

TYPE OF HOME, PRIMARY RESIDENCE AND SECOND HOME
(Percentage Distribution)

Minnesota

| | All Buyers | BUYERS WHO PURCHASED A | |
|--|------------|------------------------|---------------------------------------|
| | | Primary Residence | Non-primary Residence/ Second Home |
| Detached single-family home | 73% | 73% | 44% |
| Townhouse/row house | 16 | 16 | 22 |
| Apartment/condo in building with 5 or more units | 5 | 5 | 22 |
| Duplex/apartment/condo in 2 to 4 unit building | 2 | 2 | 11 |
| Other | 5 | 5 | 0 |



U.S.

| | All Buyers | BUYERS WHO PURCHASED A | |
|--|------------|------------------------|---------------------------------------|
| | | Primary Residence | Non-primary Residence/ Second Home |
| Detached single-family home | 79% | 80% | 62% |
| Townhouse/row house | 7 | 7 | 6 |
| Apartment/condo in building with 5 or more units | 6 | 5 | 13 |
| Duplex/apartment/condo in 2 to 4 unit building | 2 | 2 | 7 |
| Other | 7 | 7 | 13 |

A Changing American Dream

- **Many more seniors** – without/limited resources
- **Fewer married couples with children** – the best demographic for housing
- **More singles and singles with children** – a financial challenge
- **Growth in minority** populations – low homeownership rates
- **Greater diversity** – economically and educationally
- **Fewer homeowners**, less government involvement in housing
- **Less personal responsibility**, more government dependence
- **Significant changes in retailing**, medical and most job functions

Micro Considerations

- **Housing for today with an eye toward tomorrow**
 - Married couples with “Big Box” homes to sell
 - Government housing policies & homeownership
- **Senior population wanting to “age in place”**
 - Health care workers, Transportation and Housing
- **Big Box retail vs Online retail**
- **Diminishing tax revenues / exploding service demands**

Questions, comments, concerns

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