Housing in NH, Pt 1: Big Houses, Small Households

Executive Summary

DATE: April 9th, 2014

This paper is the first installment in a three-part study of New Hampshire's housing needs, conducted with support from the New Hampshire Housing Finance Authority. In the decades before the Great Recession, New Hampshire's housing market was a major driver in the state's expanding economy. But with recent shifts in the state's demographic and economic trends, New Hampshire's current housing infrastructure could end up a drag on future economic growth and stability.

The reasons are multiple: an aging population, shifts in housing preferences among younger generations, a misalignment between housing supply and future demand, and changes in traditional financing paths for homeownership. In the 1970s, 1980s, and 1990s, housing demand was driven by the Baby Boomers moving to New Hampshire. But as we have seen in many policy areas, much of New Hampshire's housing industry (builders, planners, public officials, etc.) have yet to fully transition away from the mindset of the past, in which consistent rates of high population growth (especially among young families) was the norm. Instead, they need to prepare for a housing model defined by less growth overall, more senior households, fewer young households, strained first-time buyers, and changing lending standards. Municipal leaders have reason for concern, as well, as a period of declining demand for housing could lead to a cycle of accompanying declines in homes' assessed values and, thus, local tax collections.

Using updated population forecasts, the Center projected New Hampshire's future housing needs, by age group and by type of housing. We also met with numerous focus groups, representing a broad swath of the state's people and businesses: builders, lenders, realtors, young professionals, senior groups, regional planners, workforce groups, and others. And we conducted a review of national analyses of housing needs and preferences among senior populations, as a way of assessing the potential impact of New Hampshire's aging population on the housing market.

Among our major findings from this work:

1. Overall home ownership demand is declining. The reasons for this include the poor economy, lower rates of in-migration, and difficulties in obtaining financing. Among older homeowners, low levels of liquidity continue to pose problems, while high levels of student debt and mediocre wage growth limit home-buying options for younger generations. This decline in demand has been particularly apparent in the more rural parts of the state and communities that were more than two towns away from major transportation networks. Real estate agents, in particular, noted significant differences geographically. Moreover, growth in low-wage service jobs and housing costs are described as creating a growing affordability problem, particularly north of Concord.

2. New Hampshire's current housing supply is poorly aligned with evolving preferences. This mismatch exists both for aging Baby Boomers and younger workers. Older residents are likely to seek to "down-size" to smaller living arrangements, yet housing units of 3+ bedrooms far outnumber one- and two-bedroom units in the state. Given the relative paucity of young households in the state, it's unclear whether the larger units built for Boomers during their child-rearing years will draw sufficient interest from buyers in future years. In addition, younger age groups are, in general less likely to be home owners compared to previous generations. In fact, each new group of young people is increasingly less likely to be home owners. Moreover, financial pressures cause younger generations to gravitate toward more non-conventional housing solutions, including co-ownership and "doubling up," and a preference for the flexibility associated with renting.

3. Affordability and the New Hampshire advantage. These factors have an impact on the affordability of housing in New Hampshire, something which may have been a big part of New Hampshire's attraction to new migrants from higher-priced states over the past four decades. While median housing is more affordable than just a few years ago, this is not necessarily true for first-time buyers, who provide important liquidity to the housing market. Younger residents face inferior job prospects, high levels of student debt and are delaying marriage, and are unsure of the benefits of home ownership—including the ability to easily resell at a later date.

4. Seniors will dominate the state's future growth. New Hampshire's senior population is expected to nearly double between 2010 and 2015, from 178,000 to 323,000 people. As a result, seniors will occupy a growing proportion of the state's housing units, filling one in three units by 2025. The number of senior households in the state, both owners and renters, will nearly double by 2025.

But seniors' desire to age in place is complicated by several factors, including high rates of disability: lower median income and savings, declining caregiver population and other factors. The median income of the state's senior homeowners is barely half that of the state average., and their home equity has been significantly reduced by the state's housing downturn.

5. Efforts must be taken to facilitate a more balanced housing market. New construction will likely be limited in a projected era of slower population growth. Given this, a shift toward rehabilitation of the existing housing stock may be necessary. But much of New Hampshire's housing regulation, including local planning and zoning ordinances, are not currently geared towards this segment of the market.

What would a successful shift in regulatory efforts look like? Some argued that multi-generational housing – where unrelated folks live together in a co-op – could be one component of the future housing market. Mill rehabilitation and conversion to housing is attractive because it offers one floor living, smaller and, arguably, more efficient units and desirable in-town living. Moreover, towns may want to encourage multi-generational options which are restricted by zoning ordinances for a variety of reasons. Encouraging housing rehabilitation, however, does not solve the affordability problem. Housing rehabilitation is often more expensive than new construction.

There is the potential for encouraging new development approaches using market incentives, but it is unclear whether subsidies or other incentives can jump start a market solution. Manufactured housing could be a potential solution to senior housing needs, as well. Encouraging these changes as a means of encouraging movement in the housing market would require a complex set of policy decisions on property tax exemptions, land use requirements, and zoning ordinances.