



# *2016 NJ Economic and Housing Outlook*

*Presented by: Kevin C. Gillen Ph.D., Chief Economist*

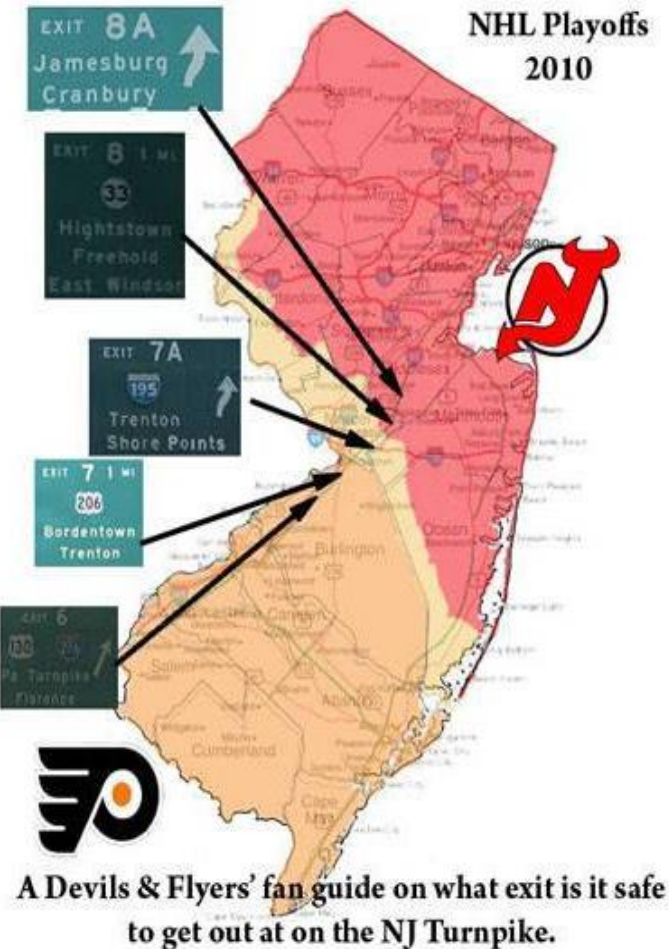
## AGENDA

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- I. Economic Trends in US and NJ
- II. Housing Trends in US and NJ
- III. Structural Trends and Factors in NJ
- IV. Summary and Conclusion
- V. Where Do You Go From Here?

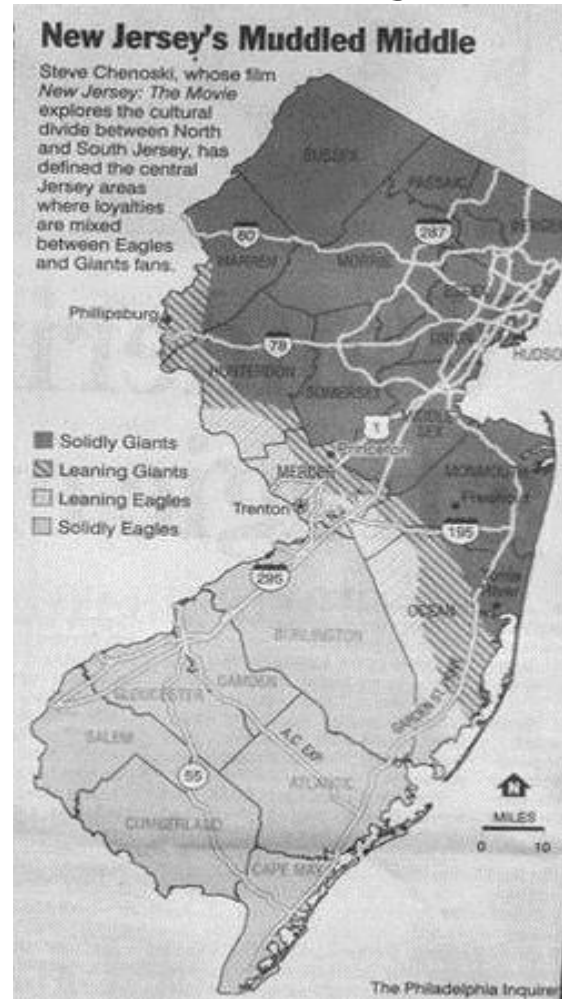
# DEFINING THE ECONOMIC GEOGRAPHY OF NEW JERSEY

## Devils v. Flyers?



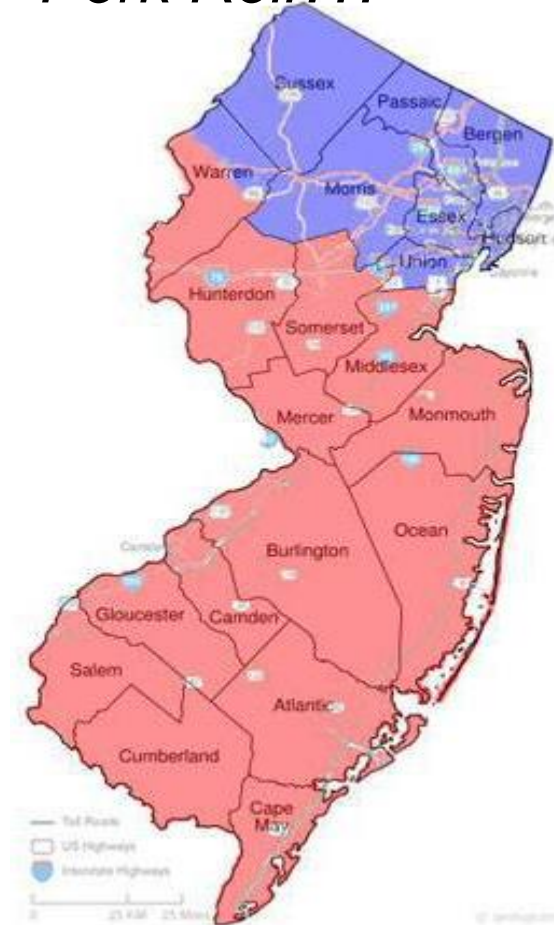
Source: Blogspot.com

## Giants v. Eagles??



Source: Philadelphia Inquirer

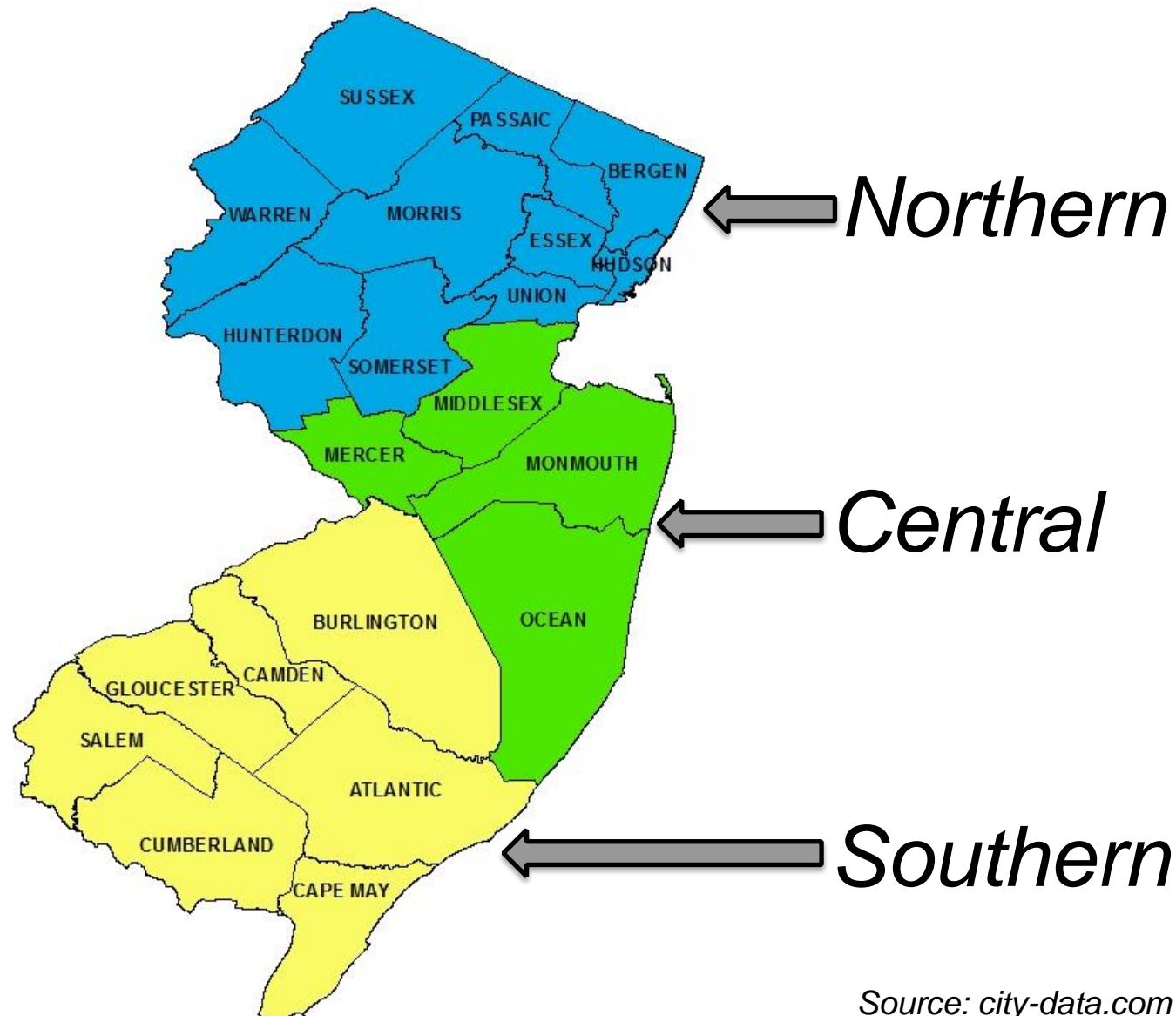
## Taylor Ham v. Pork Roll?!



Source: NSJersey



## HOW WE DEFINED IT...AFTER EXTENSIVE CONSULTATION



Source: city-data.com

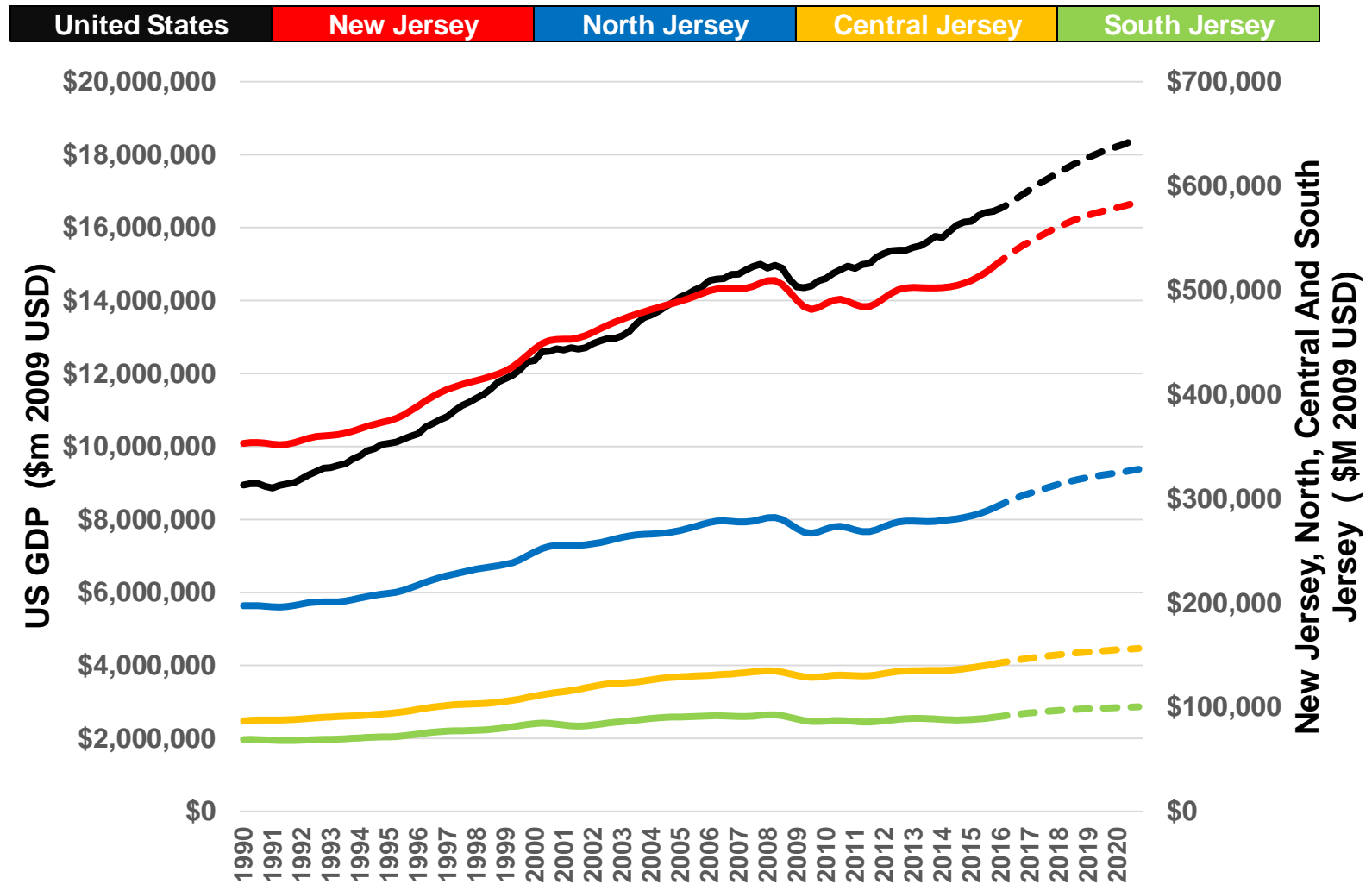


# Economic Trends

# ECONOMIC GROWTH TO CONTINUE IN 2016...BUT THEN...

## GDP Growth and (Long Run) Forecast

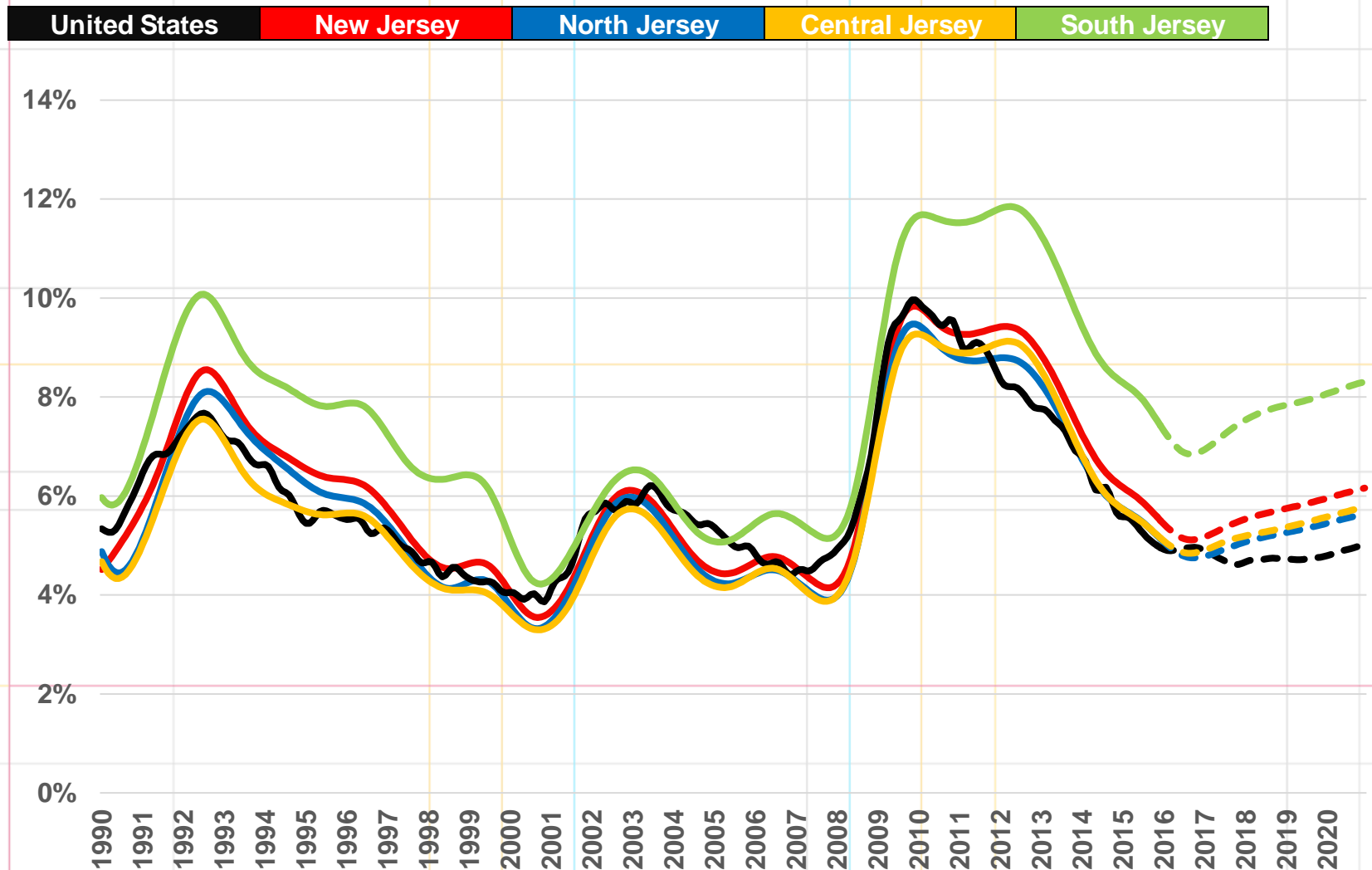
Source: Economy.com



# FURTHER REDUCTIONS IN UNEMPLOYMENT UNLIKELY

## Unemployment Rate and Forecast

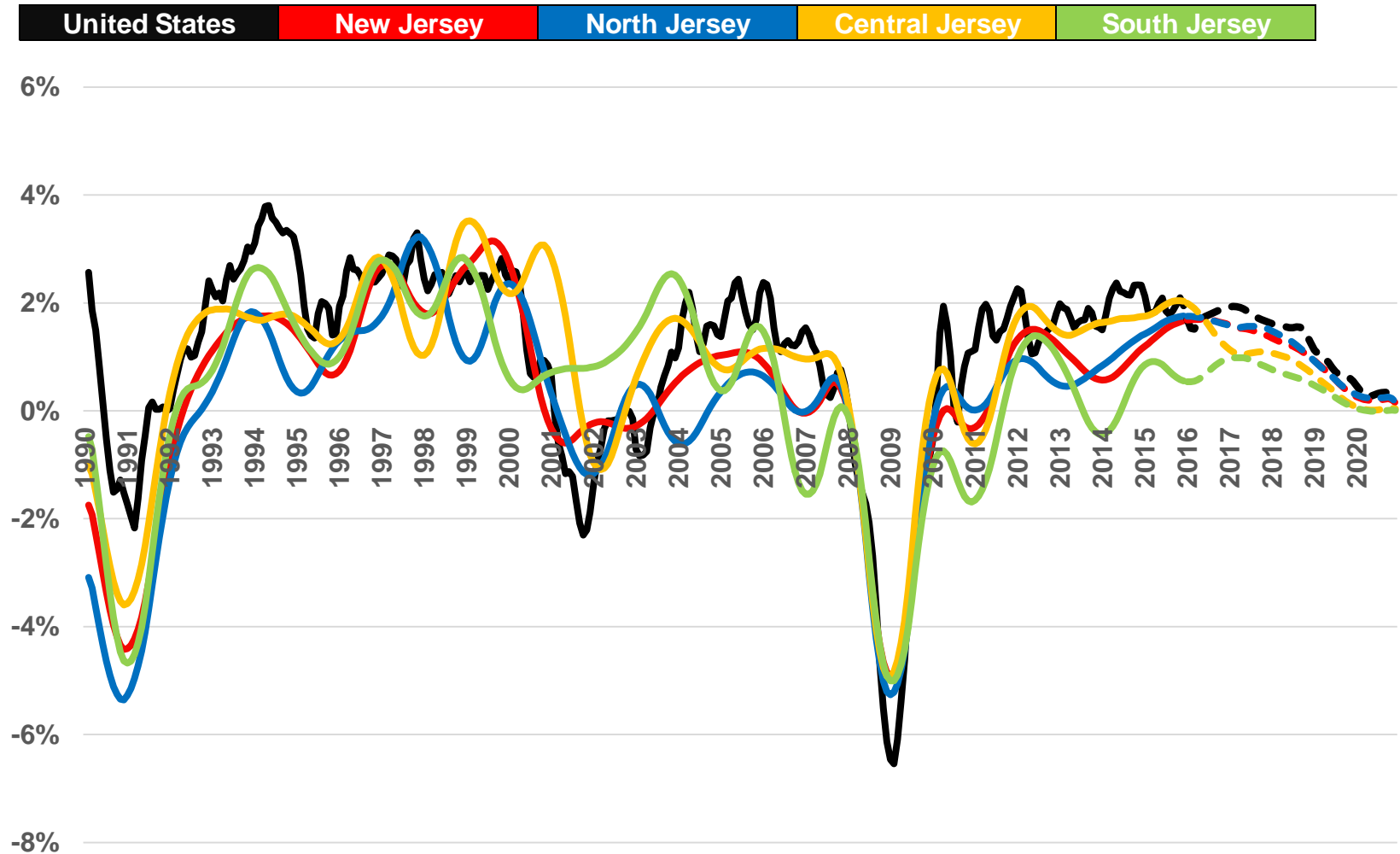
Source: Economy.com



# POSITIVE BUT DIMINISHING JOB GROWTH

## Job Growth (Annualized %) Rate and Forecast

Source: Economy.com

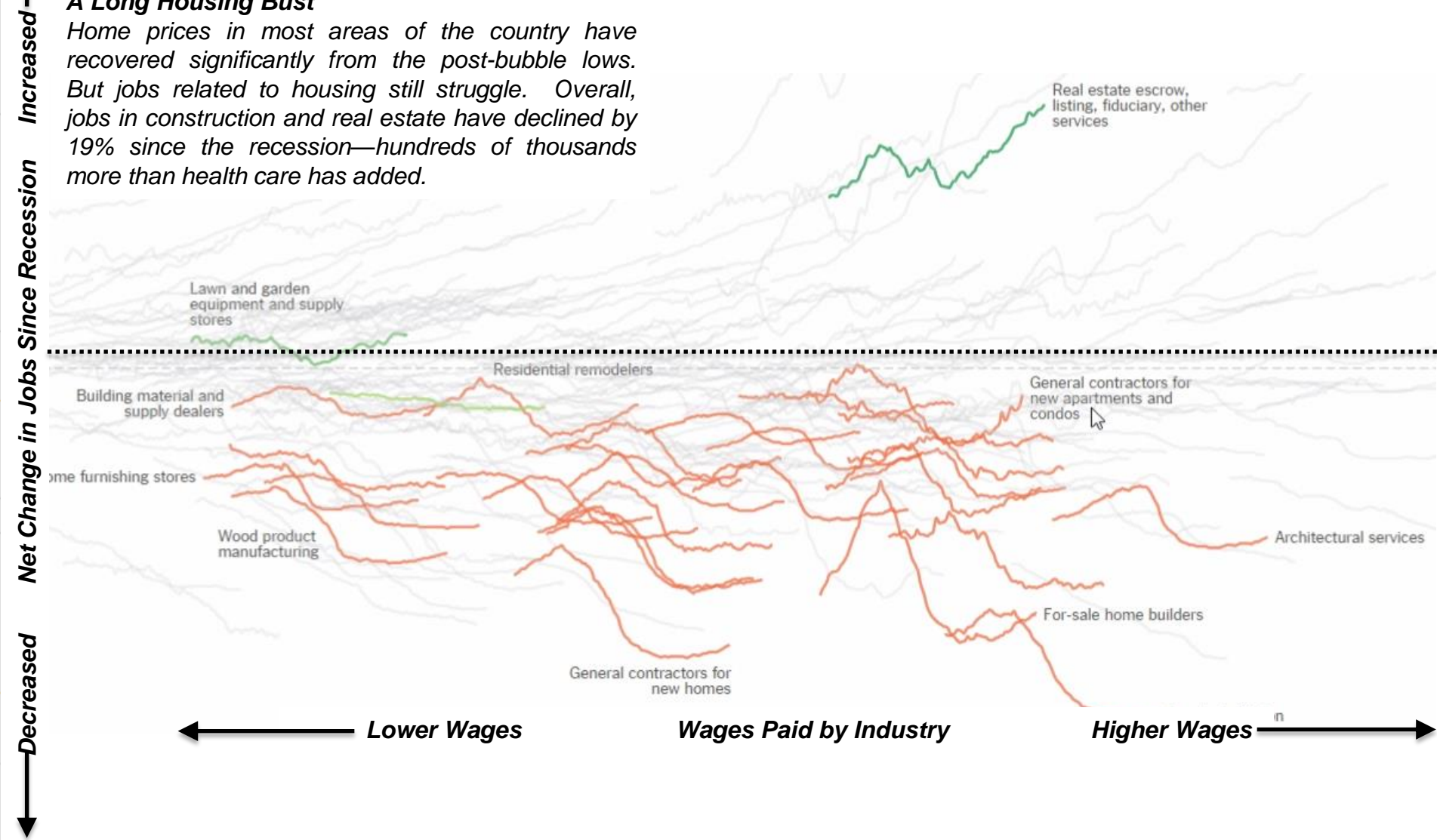




# JOB RECOVERY SINCE GREAT RECESSION

## A Long Housing Bust

Home prices in most areas of the country have recovered significantly from the post-bubble lows. But jobs related to housing still struggle. Overall, jobs in construction and real estate have declined by 19% since the recession—hundreds of thousands more than health care has added.

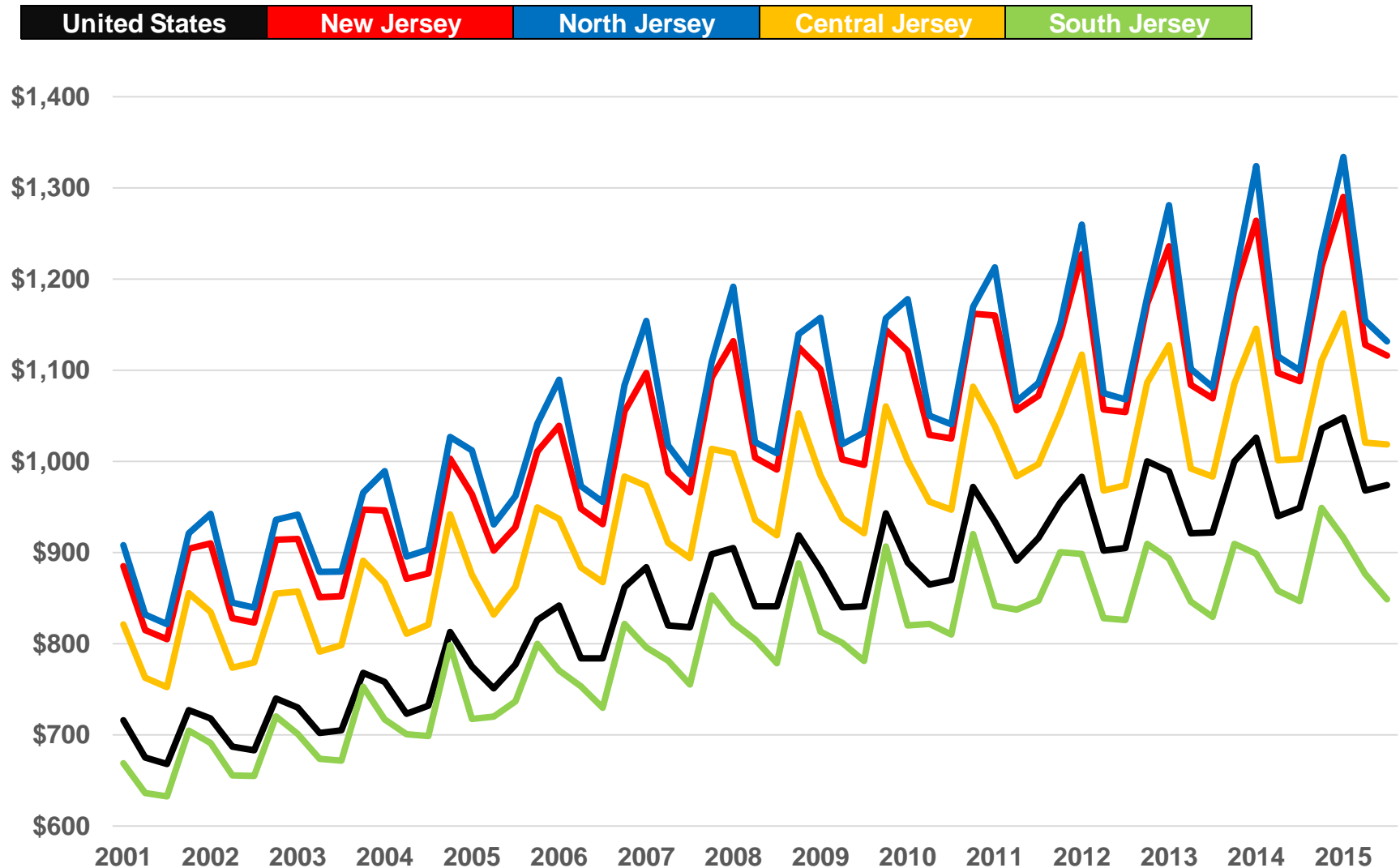


Source: NY Times

# WAGE GROWTH CONTINUES ALONG LONG RUN TREND

## Average Weekly Wage, Total (\$) Growth

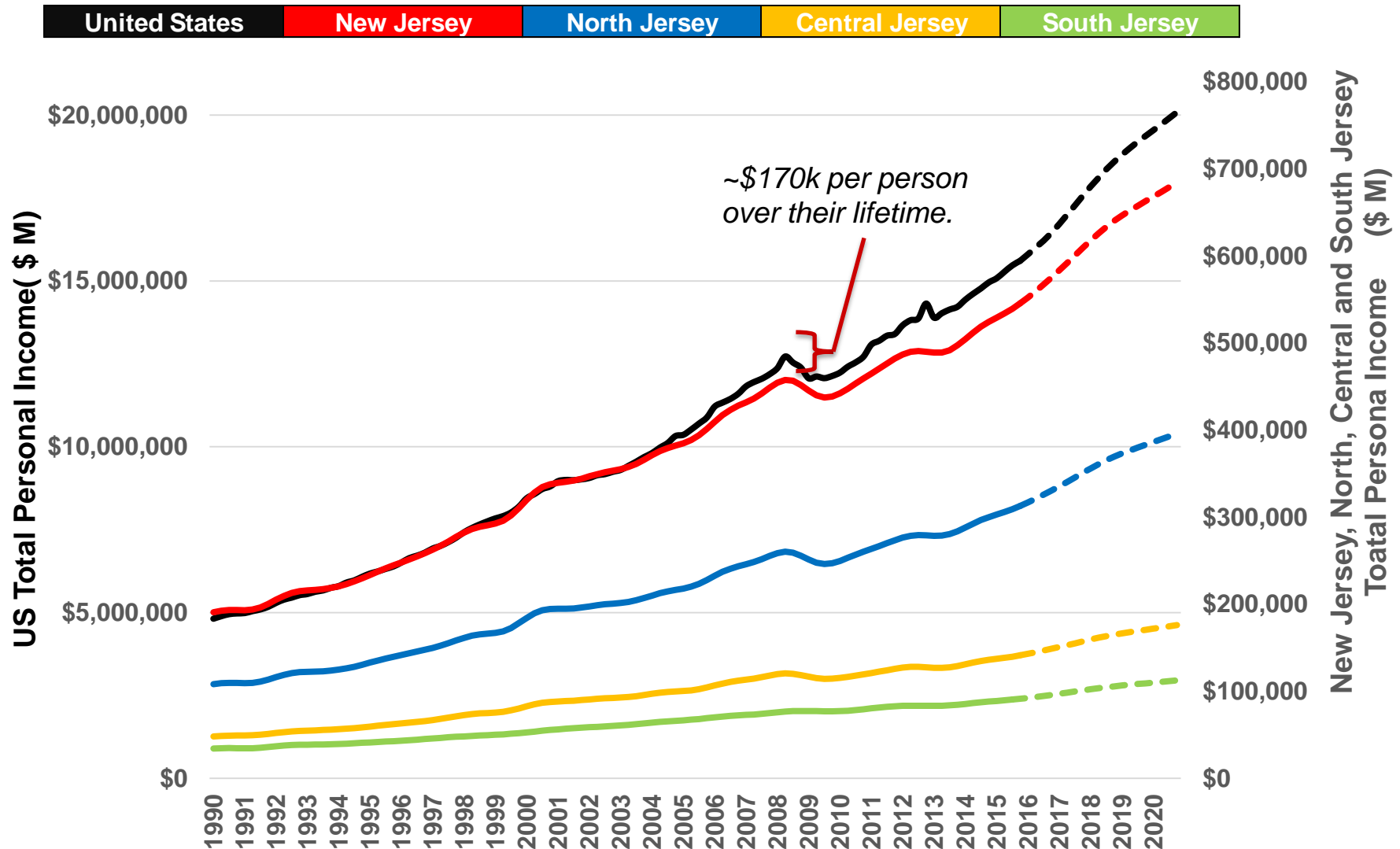
Source: BLS



# PERSONAL INCOME STILL RECOVERING FROM RECESSION

## Total Personal Income(\$M) and Forecast

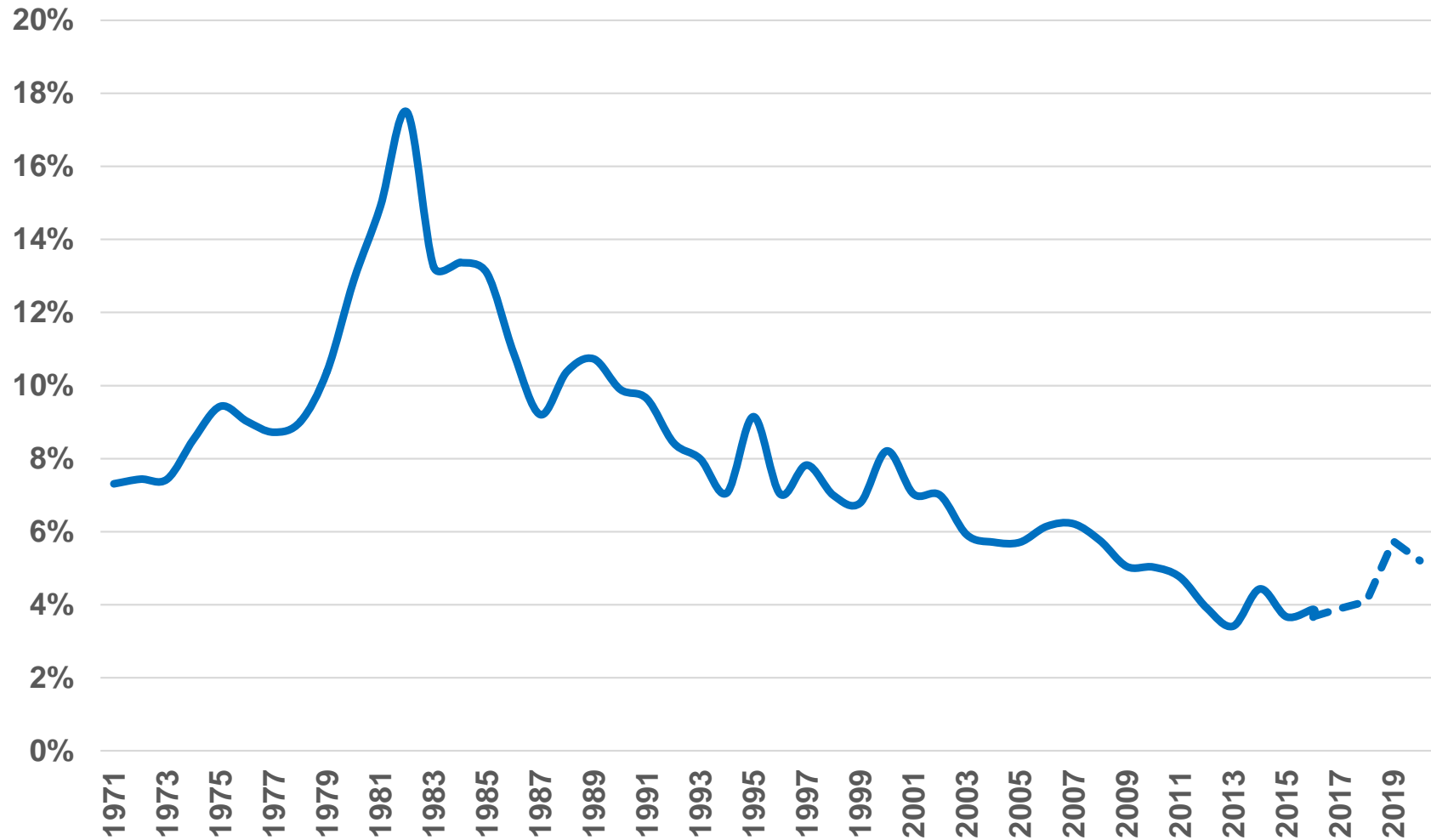
Source: US BEA and Economy.com



# I-RATES HEADED UP, BUT MODESTLY AT FIRST

## 30-Year Fixed-Rate Mortgage and Forecast

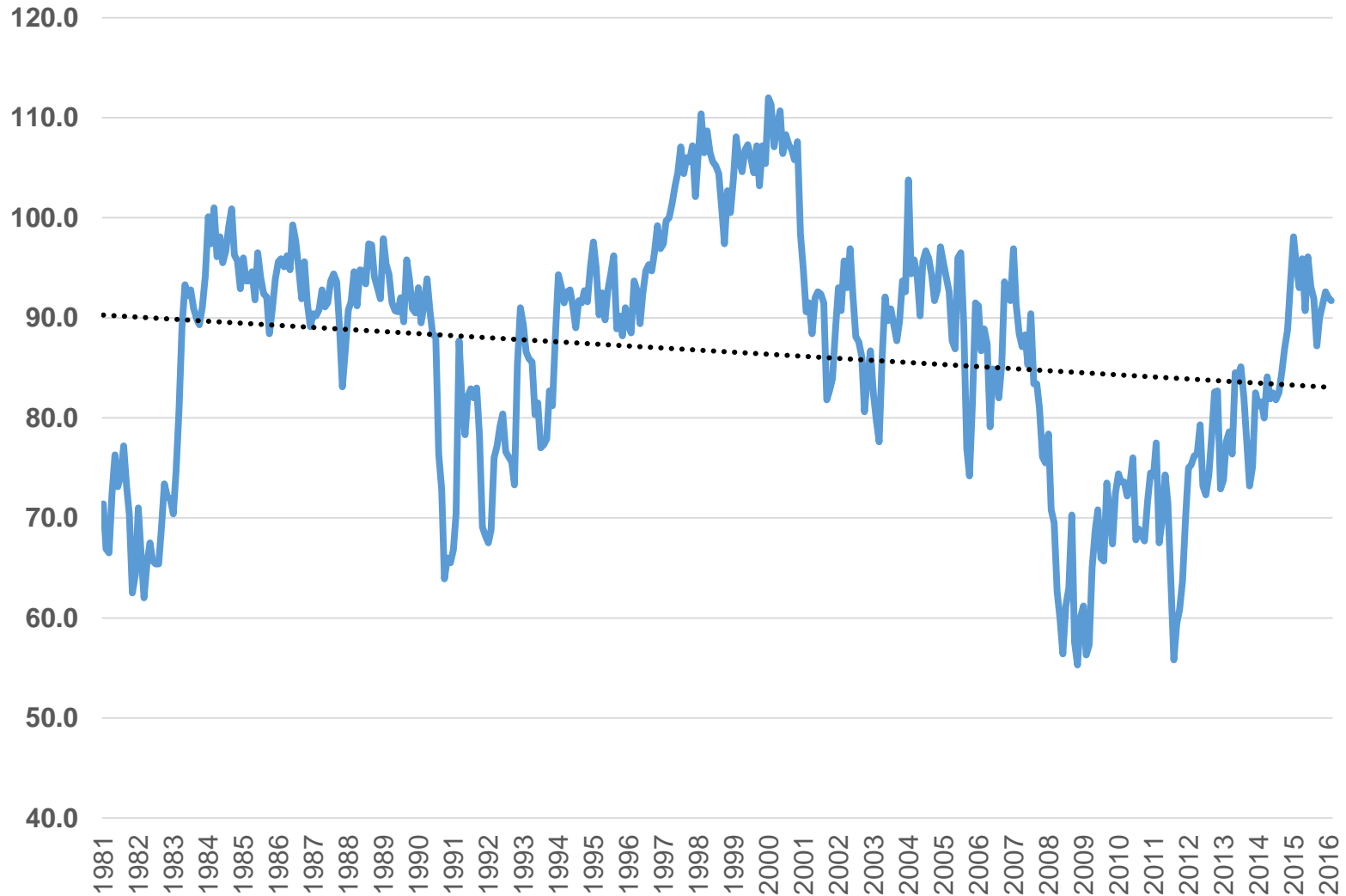
Source: Freddie Mac & TradingEconomics.com



# CONSUMER SENTIMENT UP...FOR NOW

## Index of US Consumer Sentiment

Source: University of Michigan Survey of Consumer Sentiment





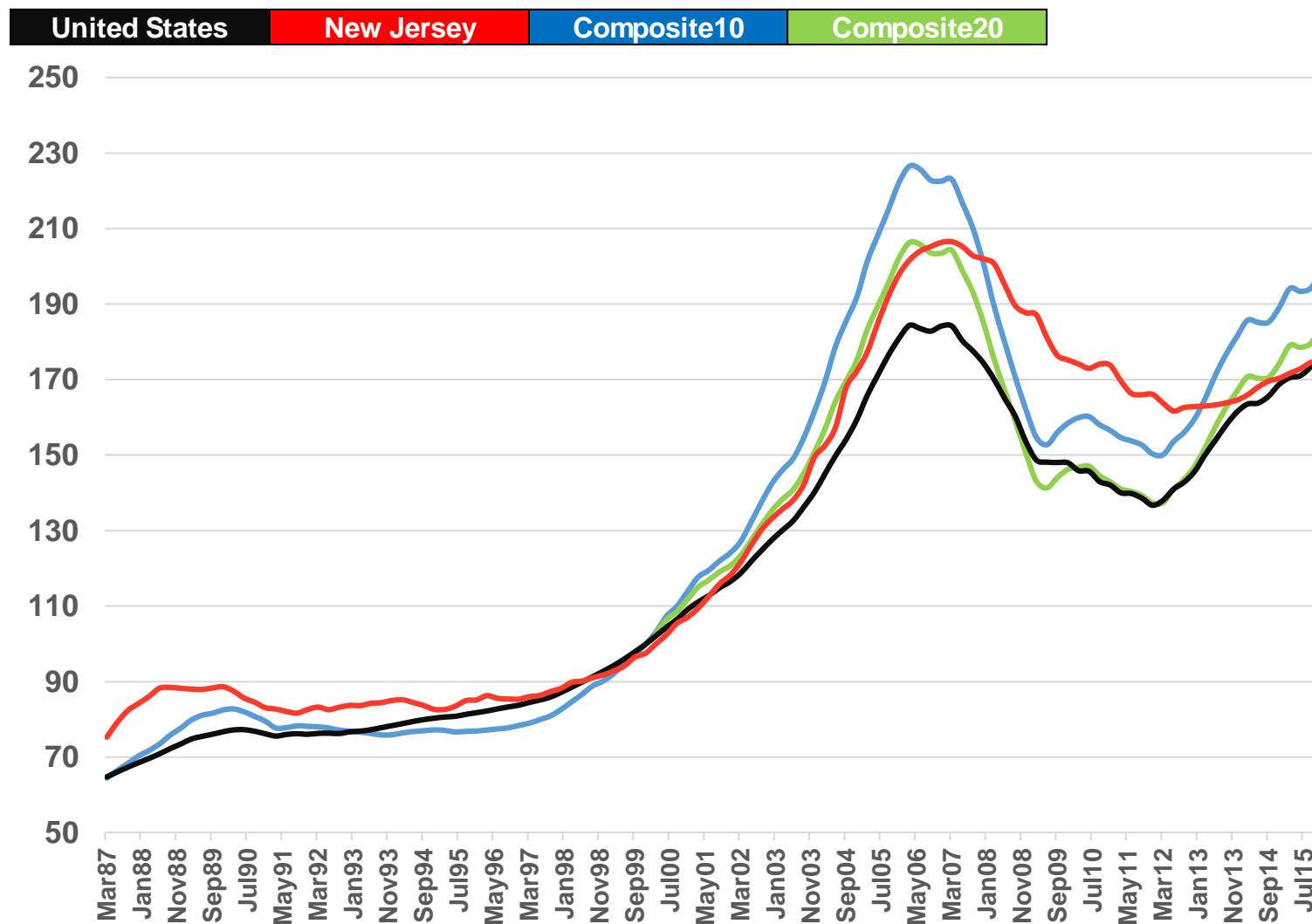
# Housing Trends



# NJ HOUSE PRICES STILL RECOVERING FROM RECESSION

## HPI

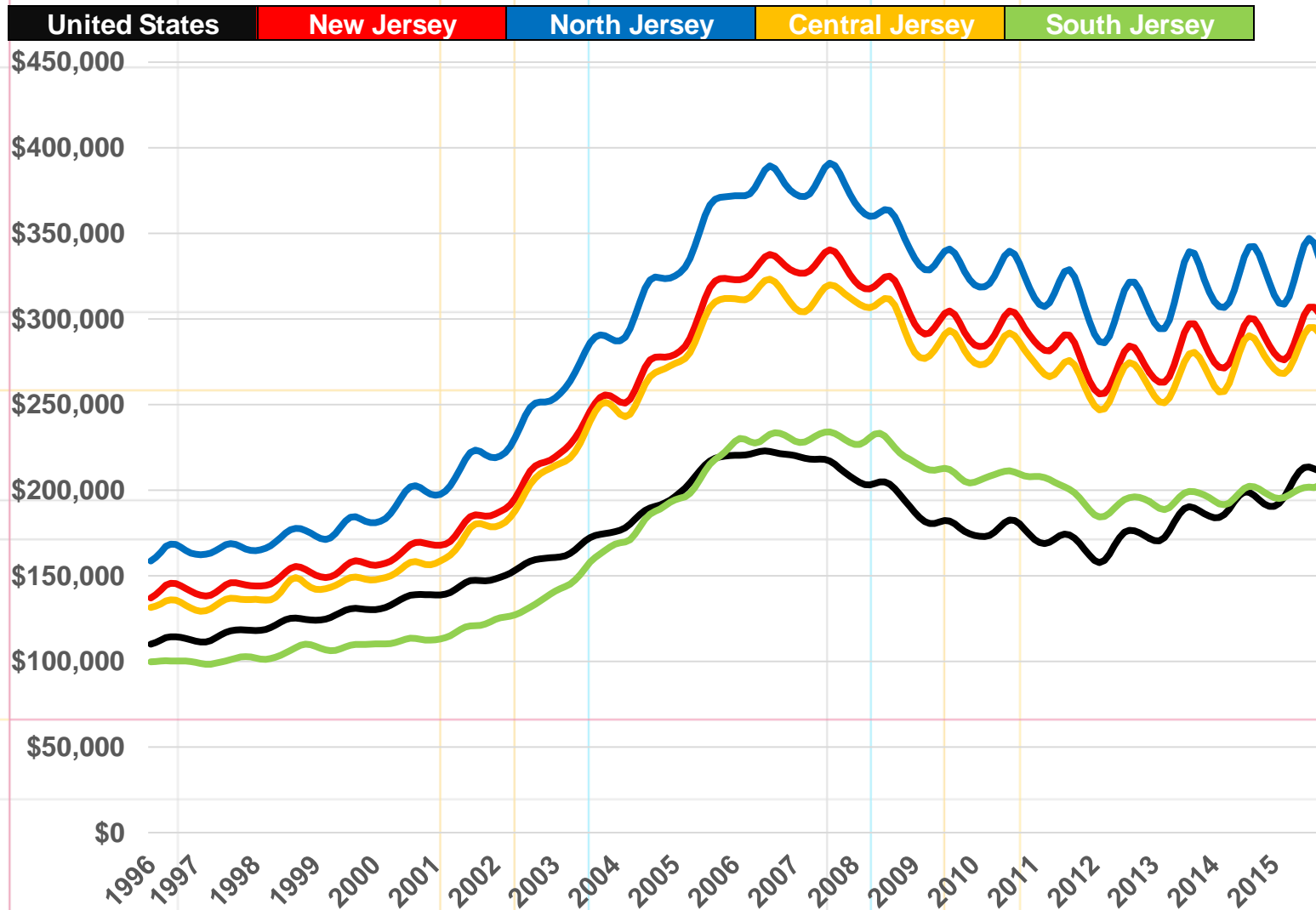
Source: Case-Shiller



# MEDIAN PRICES IN NJ HIGHER THAN US, BUT RECOVERING

## Median House Prices

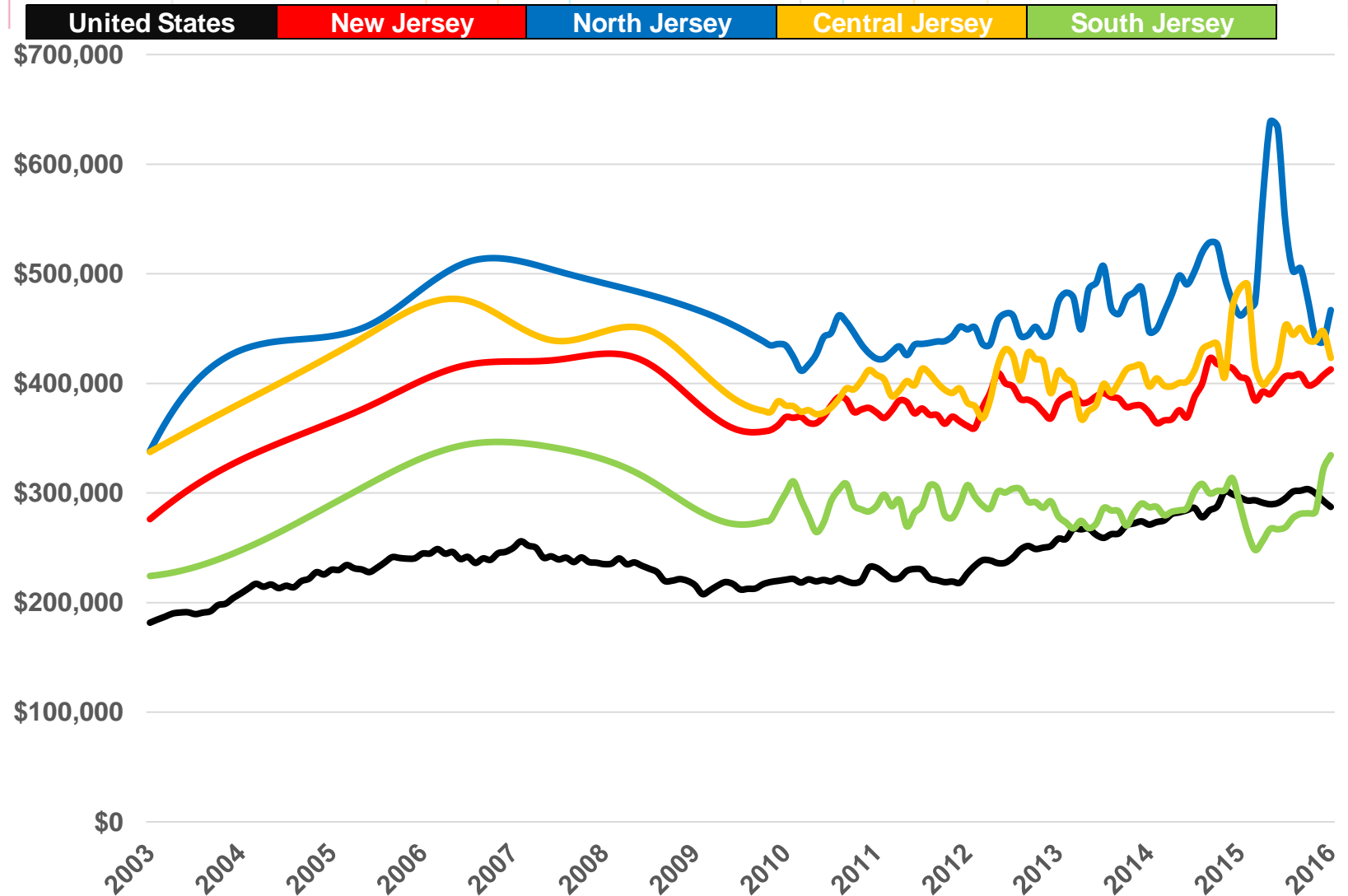
Source: Zillow



# MEDIAN NEW HOME PRICES CLOSE TO OR ABOVE PEAK

## Median Sales Price of New Homes

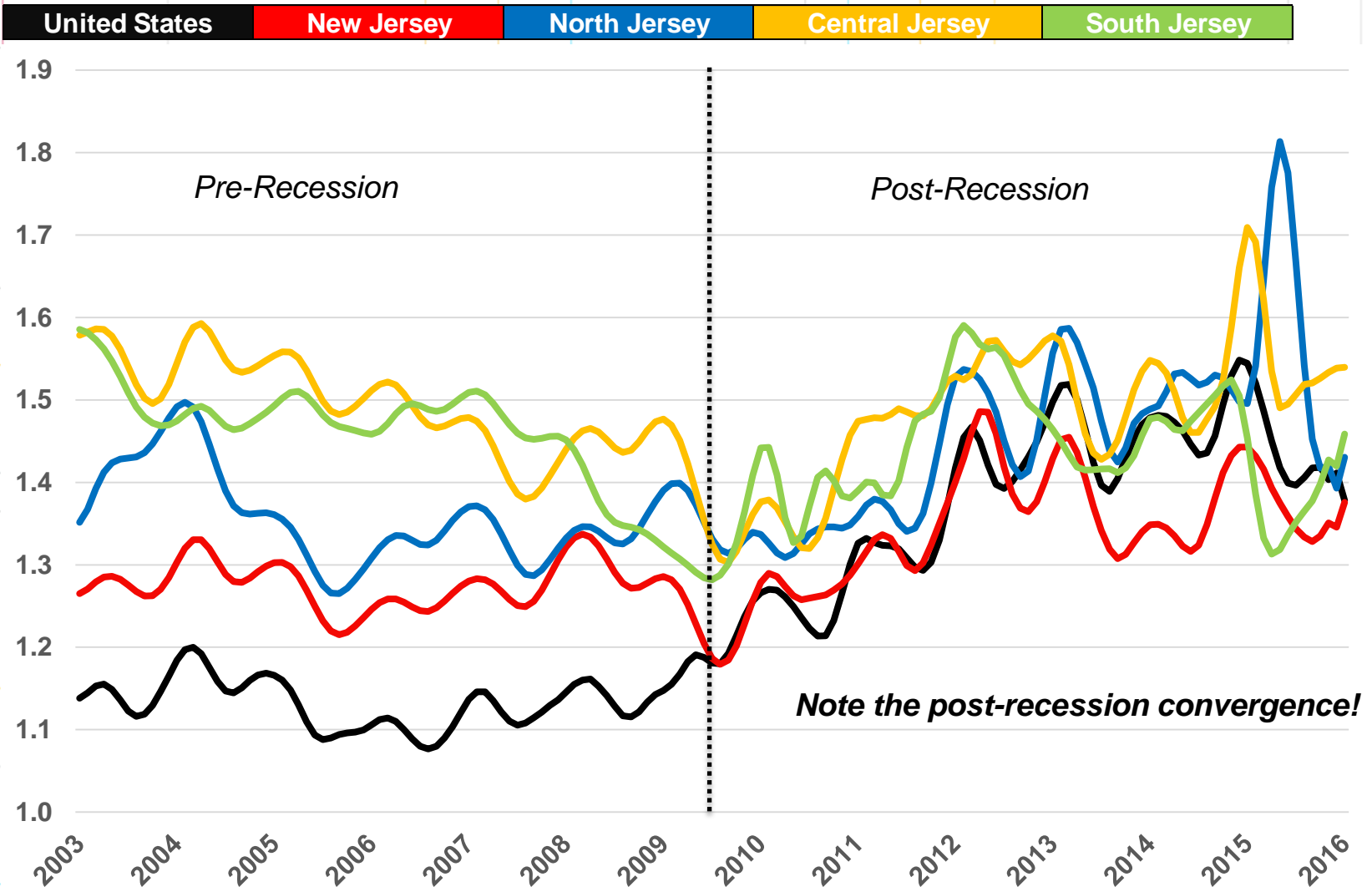
Source: Zonda



# PRICE PREMIUM OF NEW HOMES UP SIGNIFICANTLY

## "Price Premium": Ratio of New to Existing Home Prices

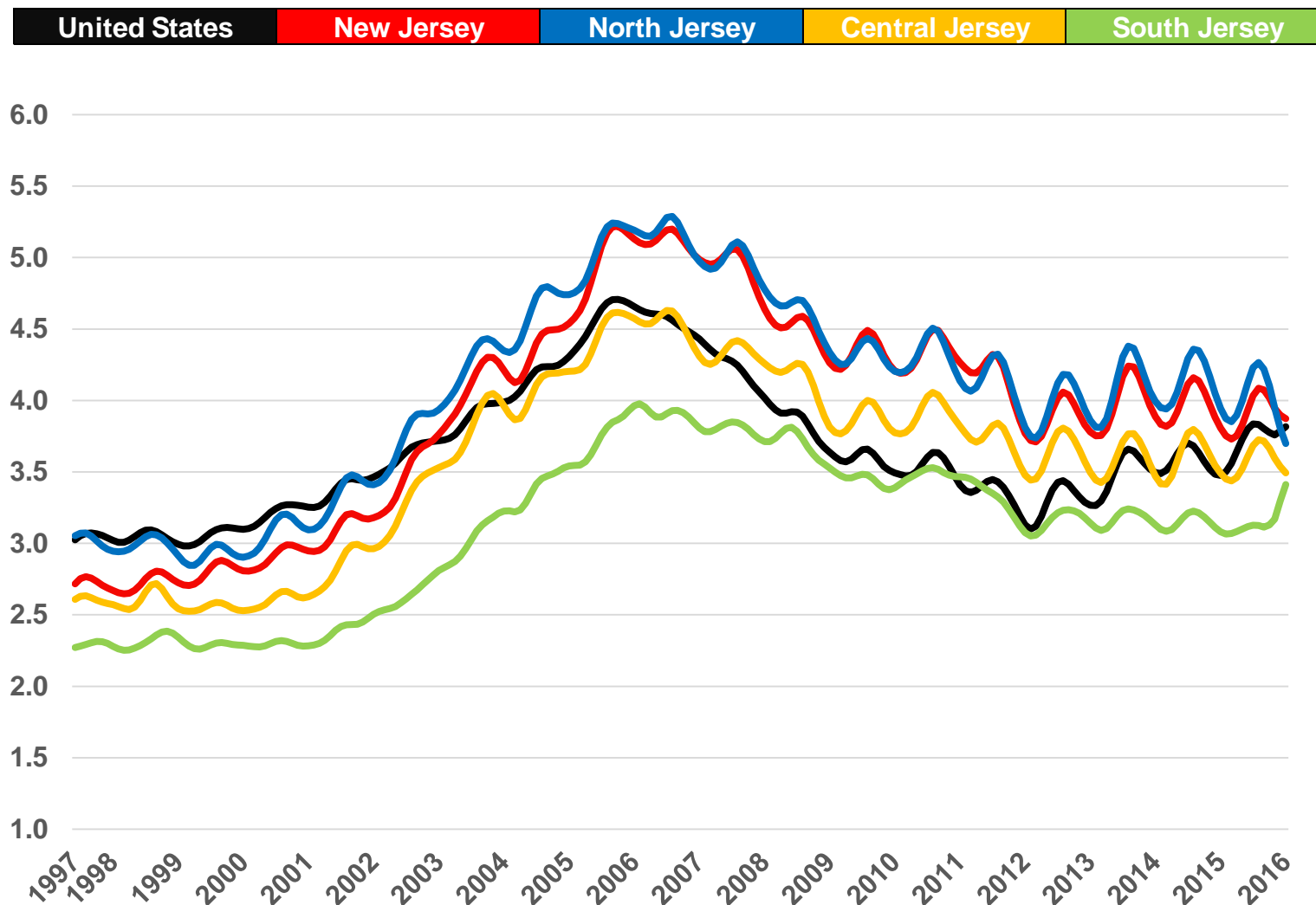
Source: Zillow and Economy.com



# HOUSING (UN)AFFORDABILITY TRENDING UP...

## Housing Affordability

Source: Zillow and Economy.com



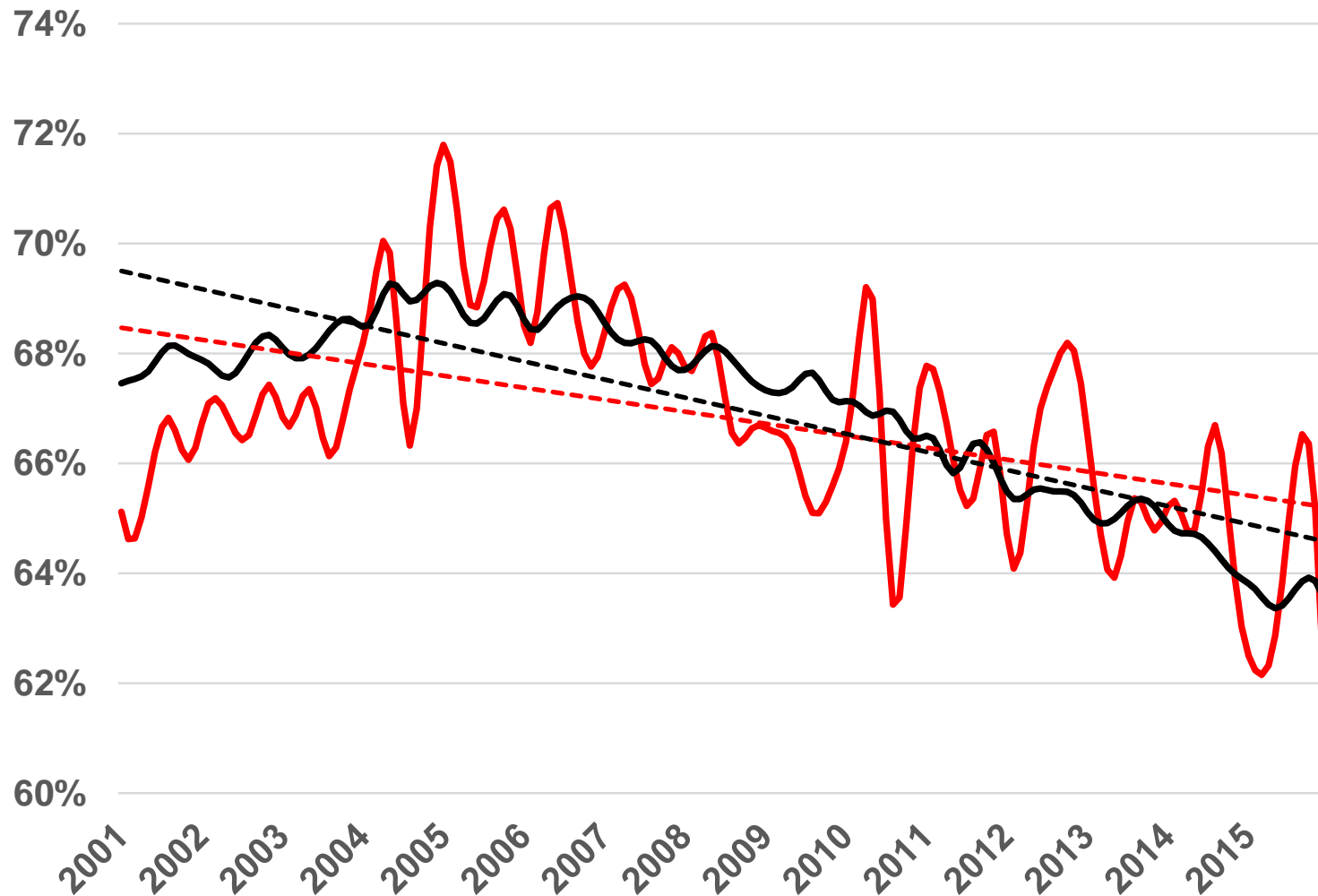
# UNAFFORDABILITY UP => HOMEOWNERSHIP DOWN

## Home Ownership Rate

Source: U.S. Census Bureau

United States

New Jersey





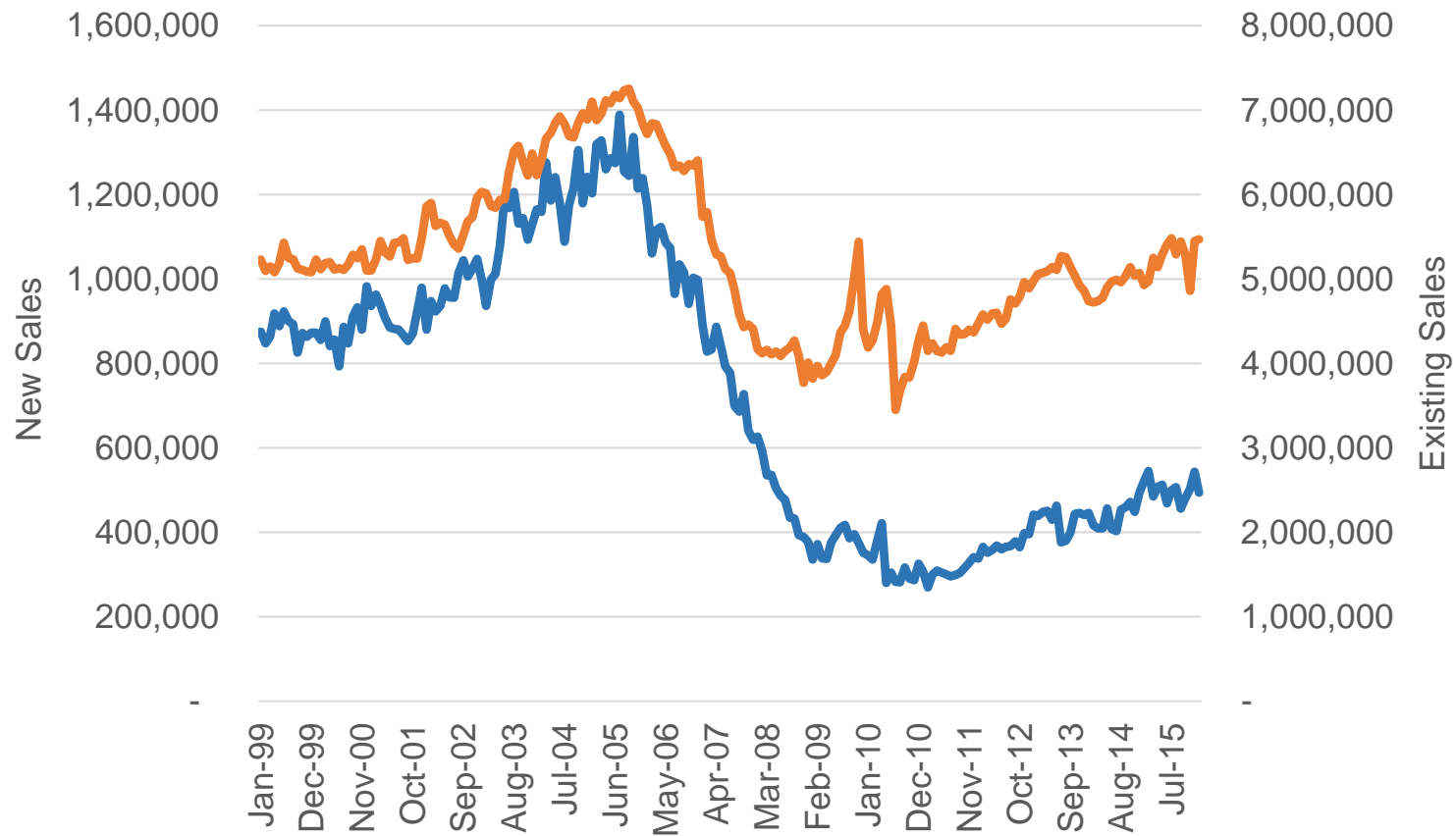
# EXISTING HOME SALES RECOVERED, BUT NOT NEW HOMES

## US New v. Existing Home Sales

Source: Zonda

New Home

Existing Home



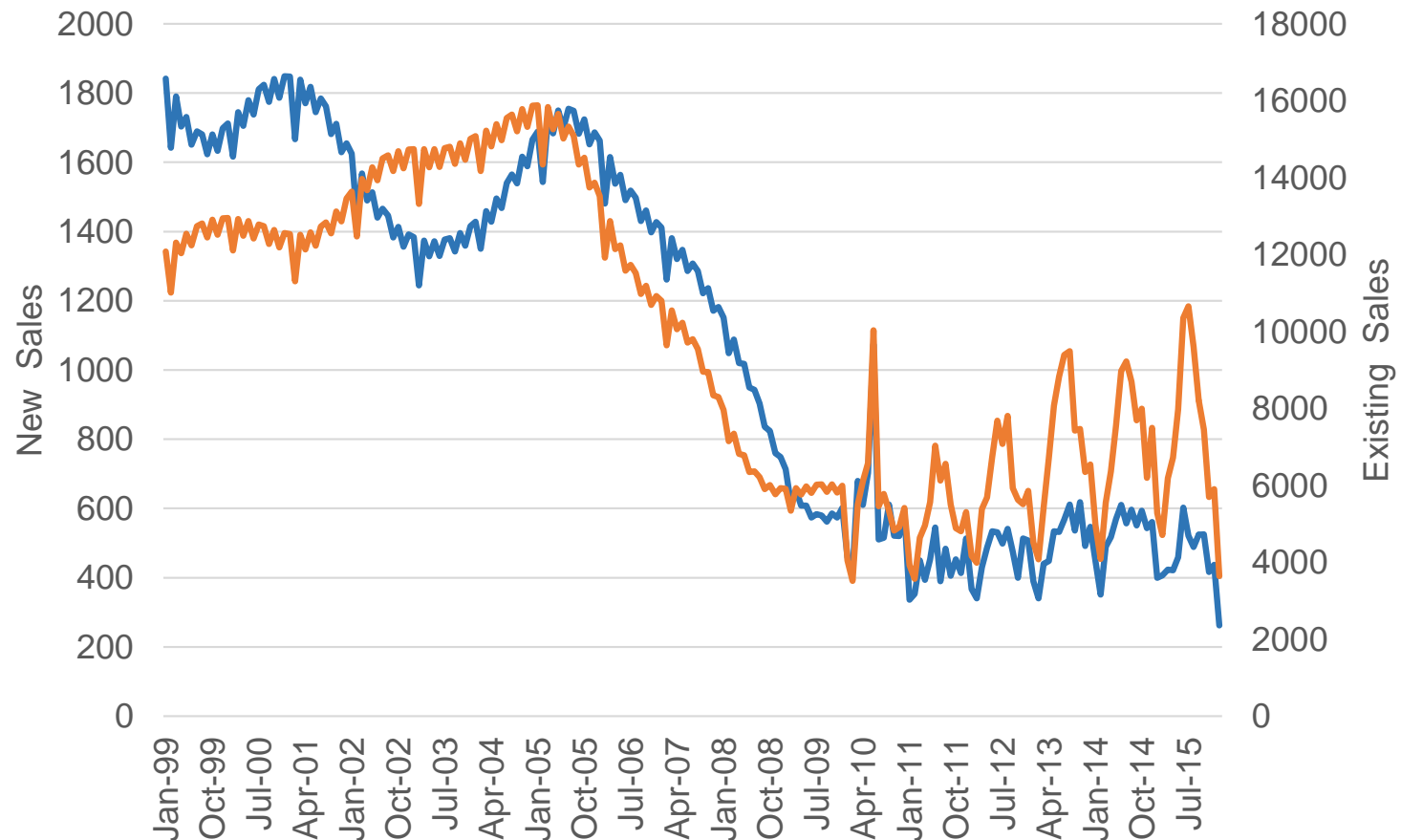
# BUT OVERALL HOME SALES IN NJ STILL STRUGGLING

## NJ New v. Existing Home Sales

Source: Zonda

New Home

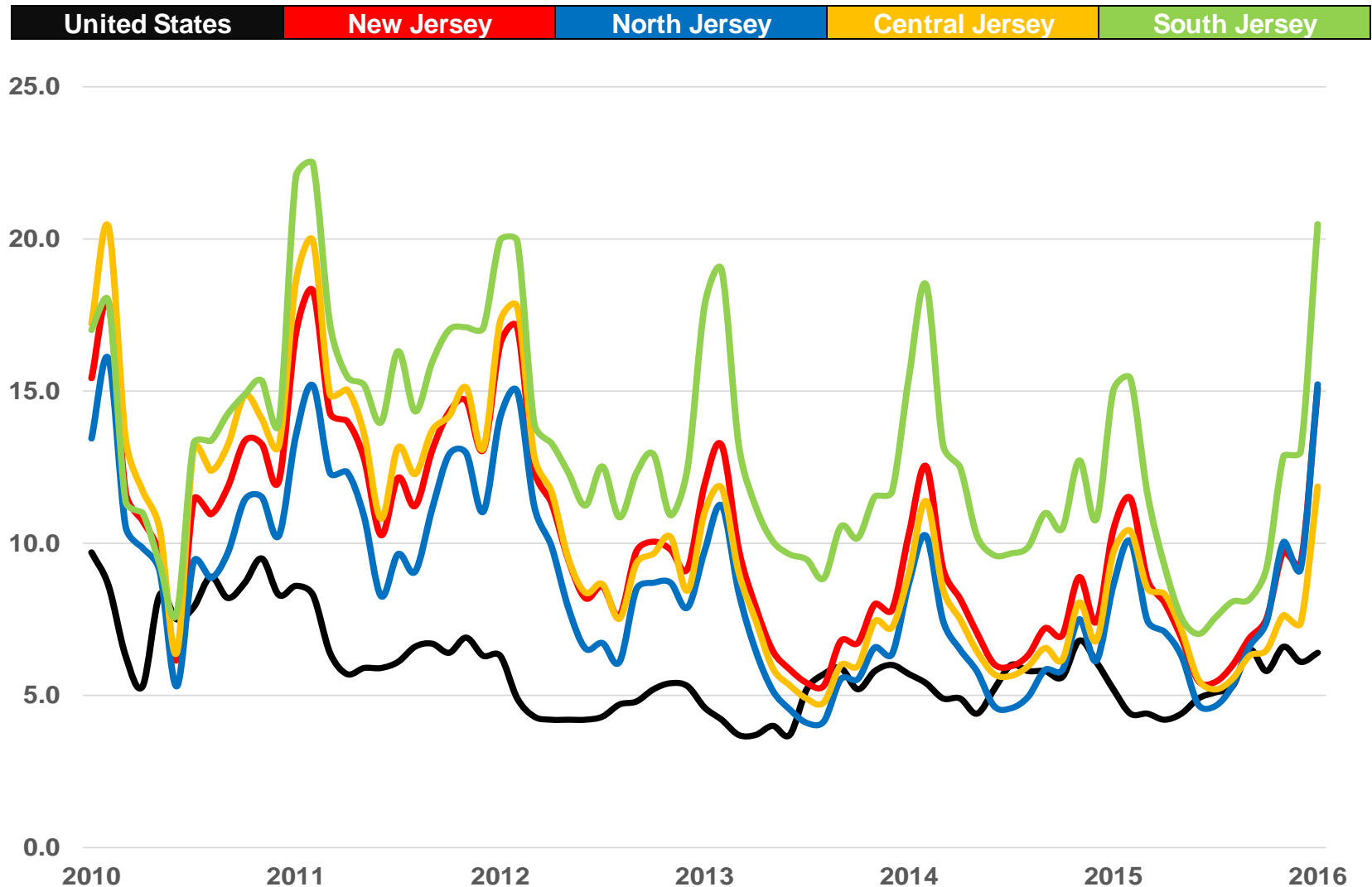
Existing Home



# NJ INVENTORY WELL ABOVE NATIONAL AVERAGE

## Months' Supply of Homes for Sale

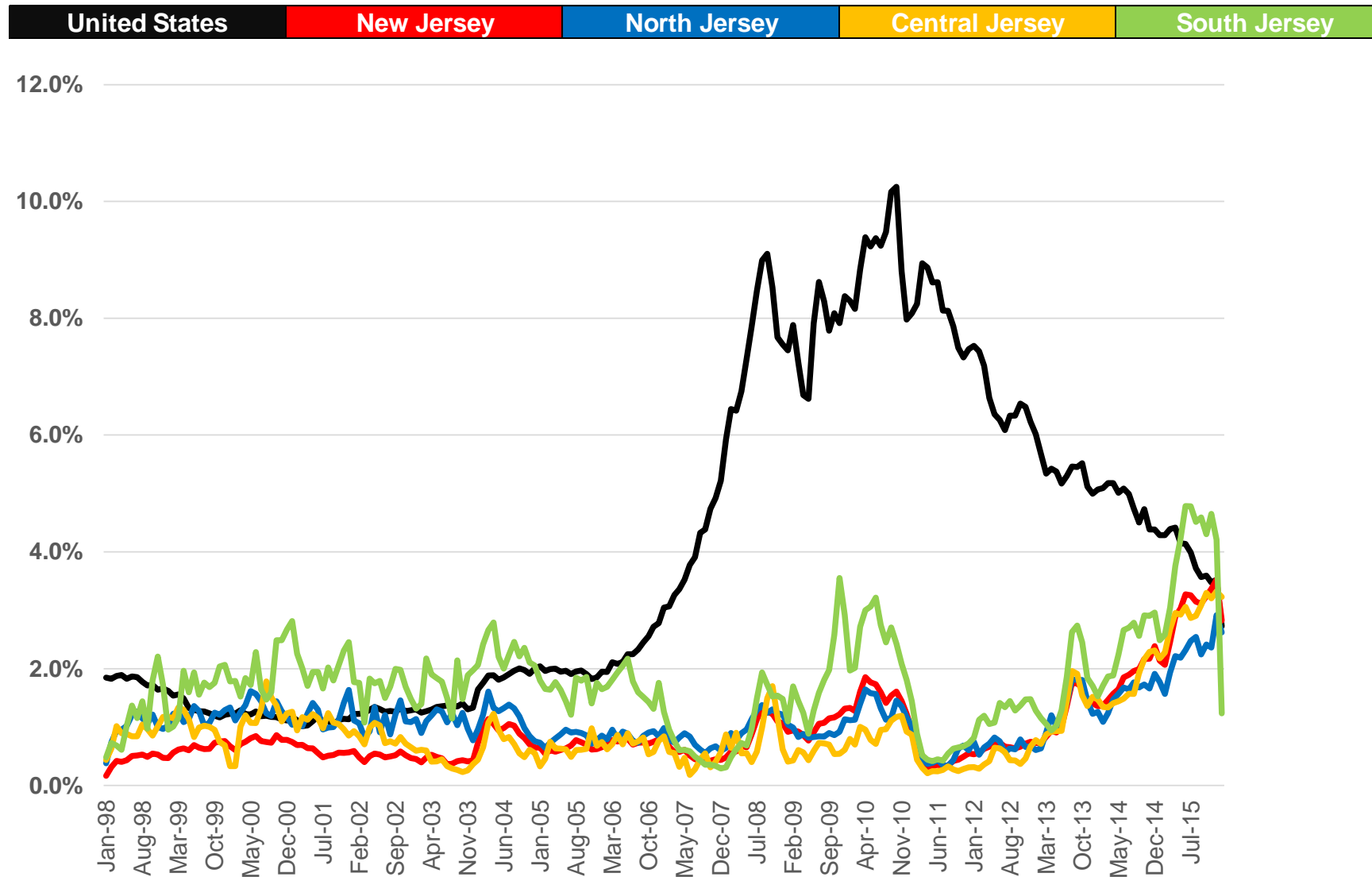
Source: FRED



# FORECLOSURES IN NJ LAGGING NATIONAL TREND

## Foreclosure Rate

Source: Zillow (Homes Foreclosed (Out of 10k Homes))



# NJ FORECLOSURES REMAIN HIGH

## Foreclosure Rate

Source: RealtyTrac

FORECLOSURE RATES FOR NEW JERSEY

February 2016

### New Jersey

1 in every 675

### Top 5 Counties

#### Atlantic

1 in every 297

#### Camden

1 in every 385

#### Sussex

1 in every 390

#### Gloucester

1 in every 433

#### Salem

1 in every 482

Add this map to your website.

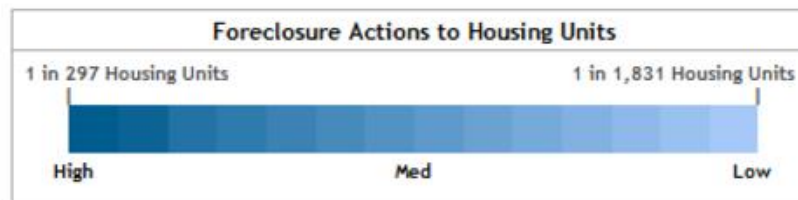
GET EMBED CODE



*US average is 1 in every 1,346.*

*NJ has 1 in every 675 Homes in foreclosure.*

*NJ currently has the 2<sup>nd</sup>-highest foreclosure rate in the US, after MD.*



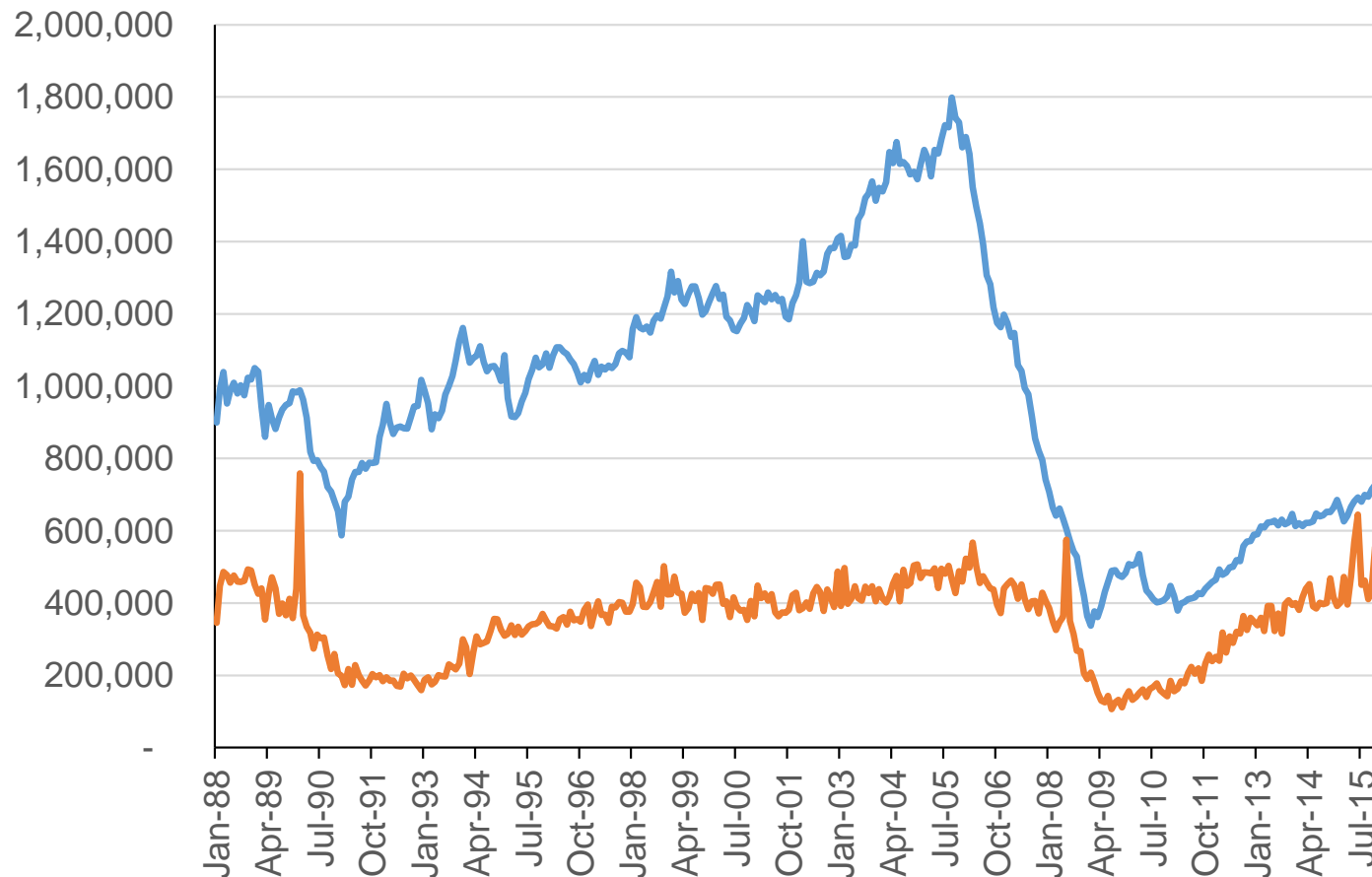
# US NEW HOUSING CONSTRUCTION STILL RECOVERING

## US Building Permits

Source: US Census, Moody's, Zonda by Meyers Research

Single Family

Multi family





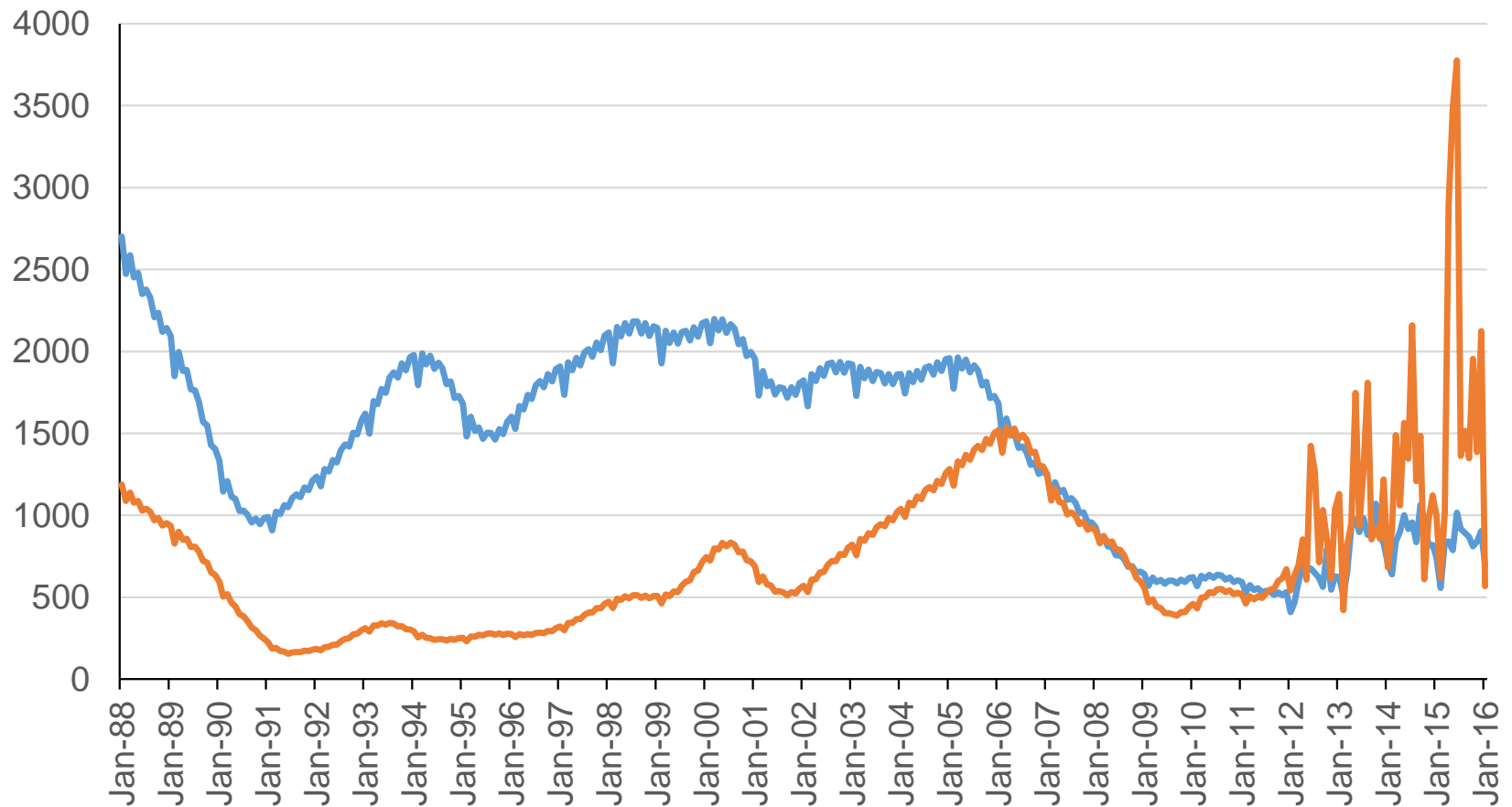
# MULTIFAMILY HOUSING CONSTRUCTION IN NJ ROBUST!

## NJ Building Permits

Source: US Census, Moody's, Zonda by Meyers Research

Single Family

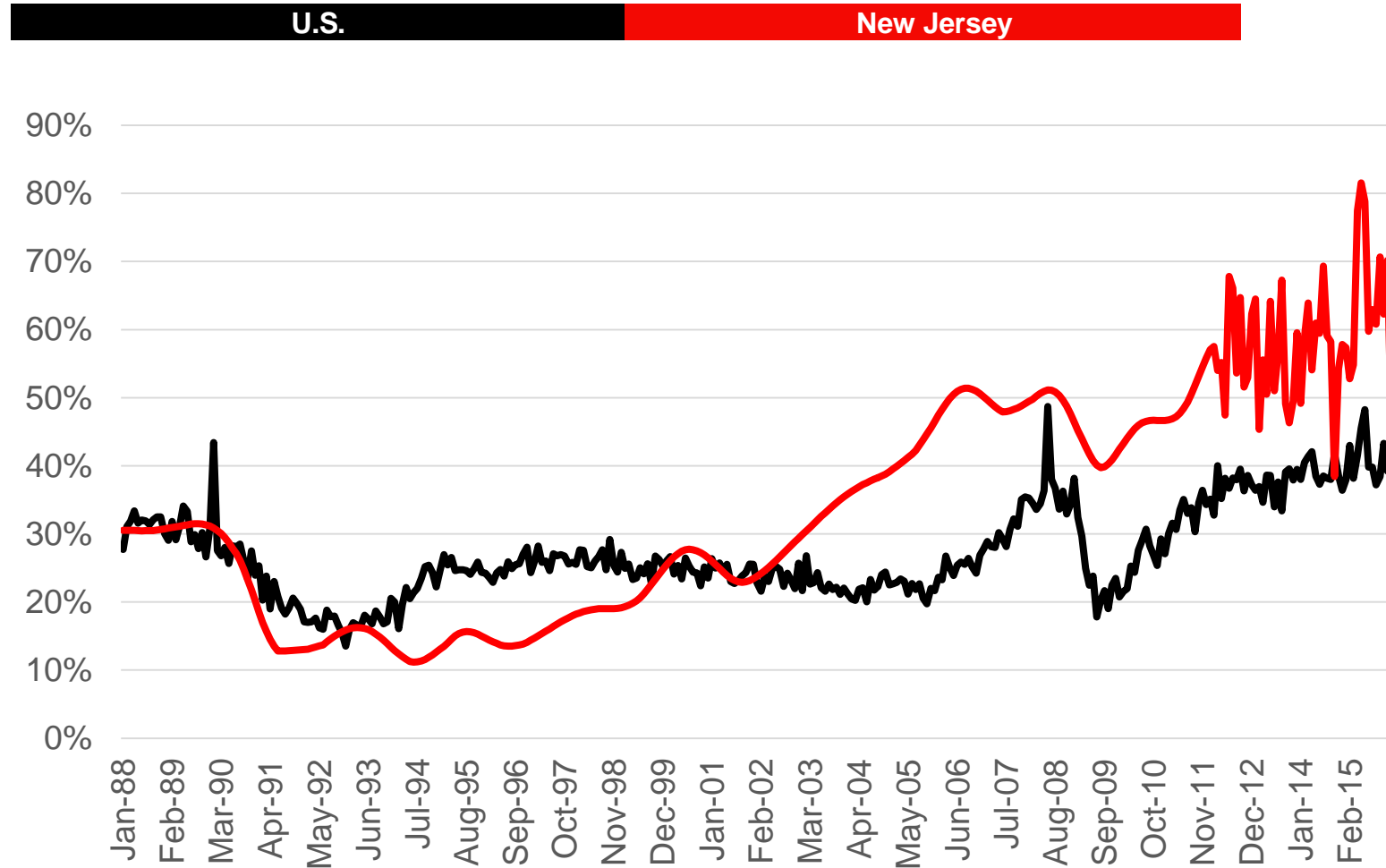
Multi family



# PRODUCT MIX SHIFTING TO MULTIFAMILY IN US AND NJ

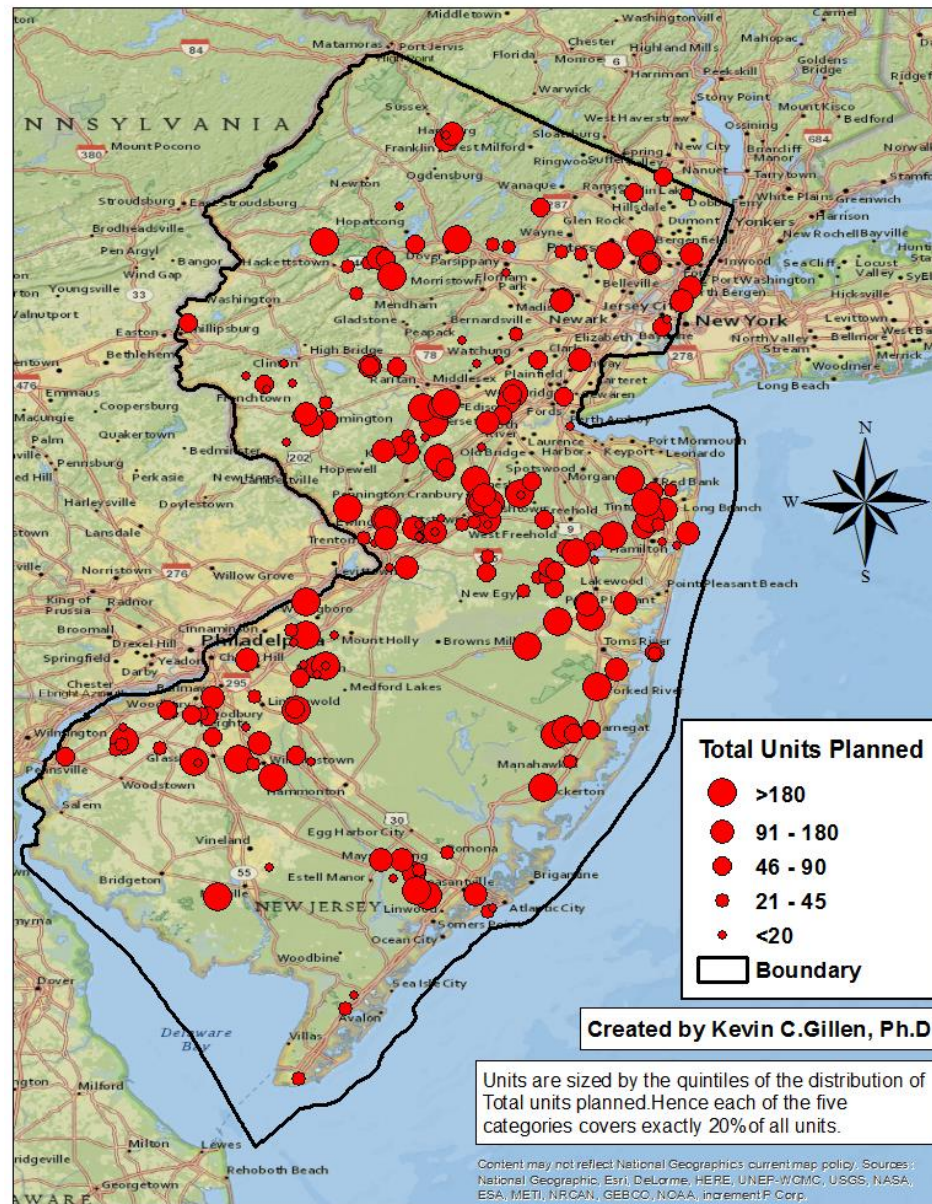
## Pct. of Residential Building Permits Allocated to Multifamily

Source: US Census, Moody's, Zonda by Meyers Research



# MAP OF NEW HOUSING CONSTRUCTION BY #UNITS

*New home construction is currently concentrated in the population centers and/or around major infrastructure that gives commuters access to employment centers.*

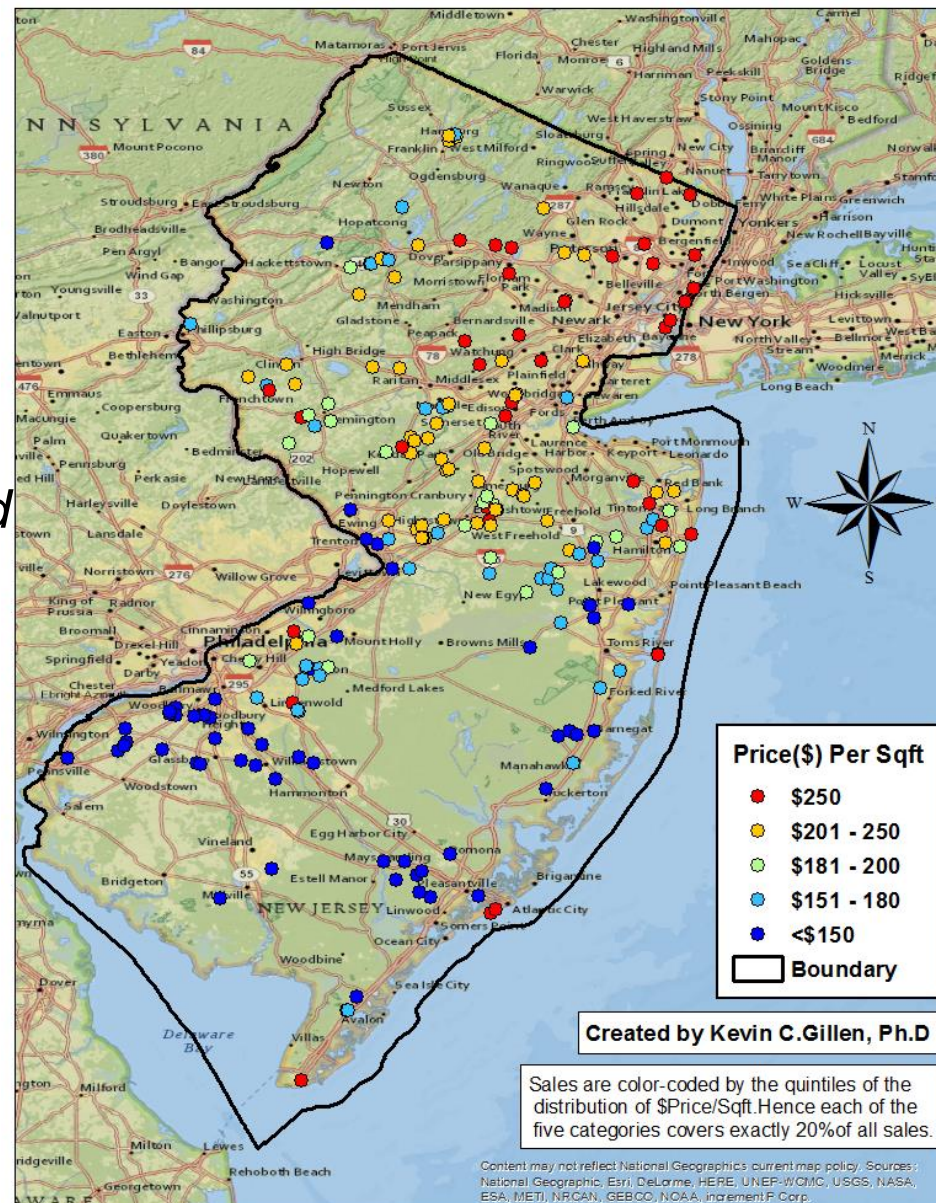


Source: Zonda



# MAP OF NEW HOUSING CONSTRUCTION BY PRICE

*But higher-priced new construction is clearly concentrated in the northern part of NJ and select areas of the Jersey Shore.*



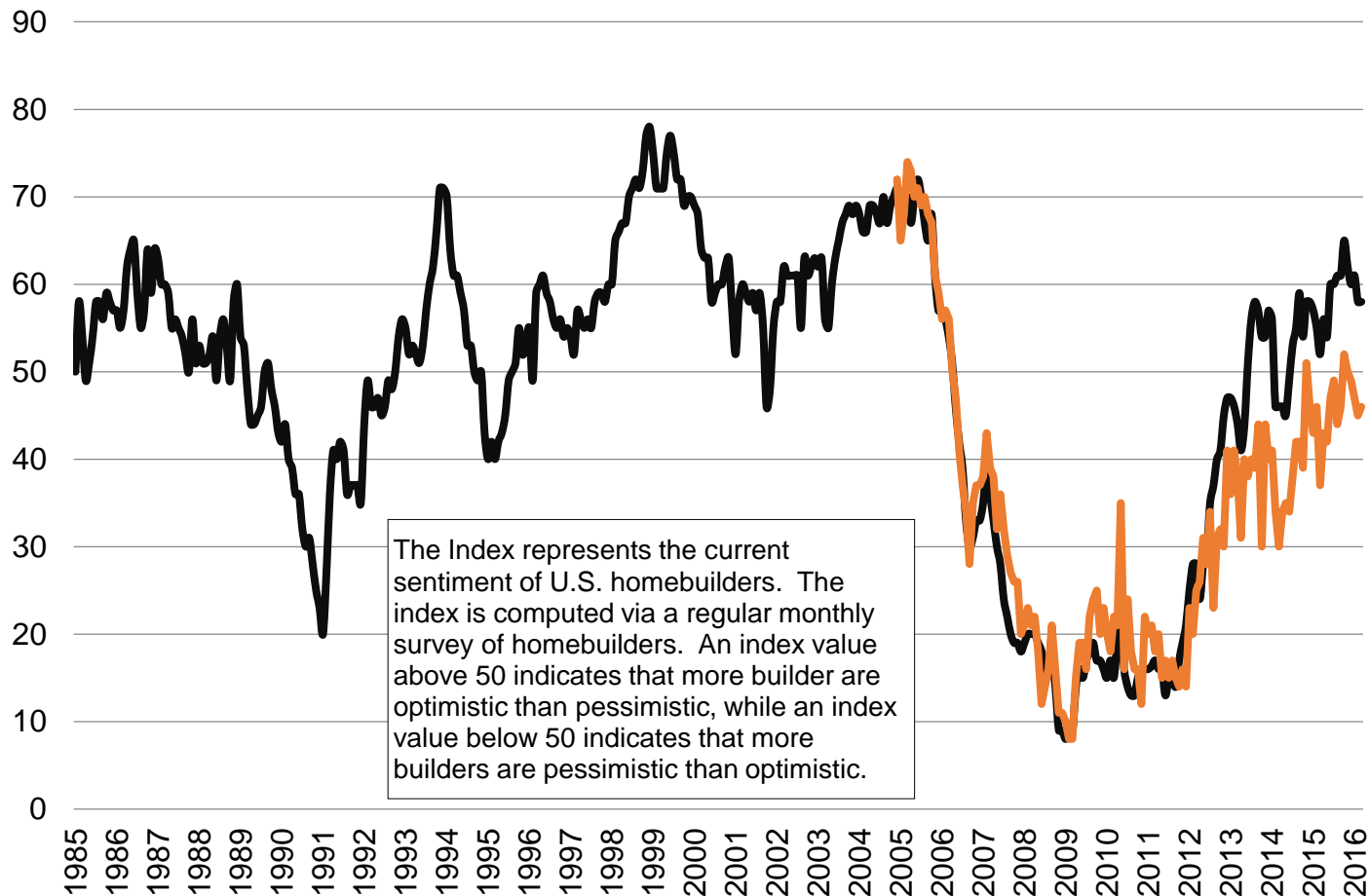
# HOMEBUILDER SENTIMENT UP IN BOTH US AND NJ

## Housing Market Index

Source: NAHB

United States

North East Region





# Structural Issues

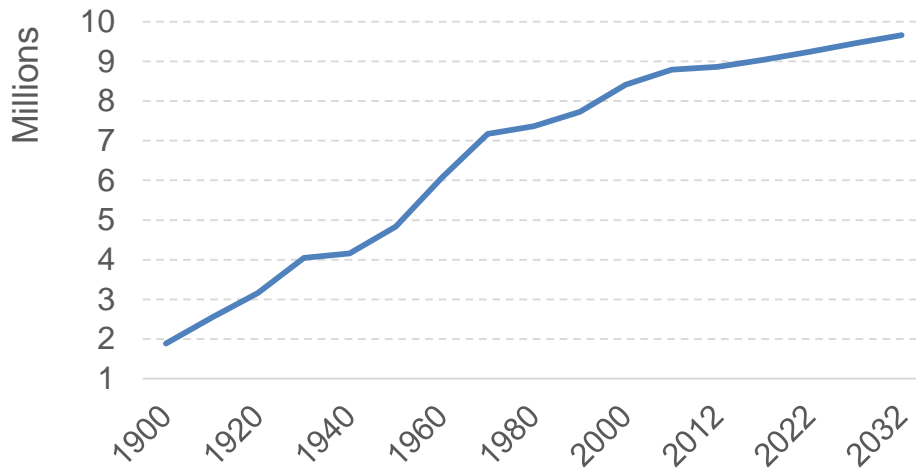


# NJ POPULATION IS GROWING, AND WILL CONTINUE

**But at a much slower rate than the national average: 1.9% v. 4.1%**

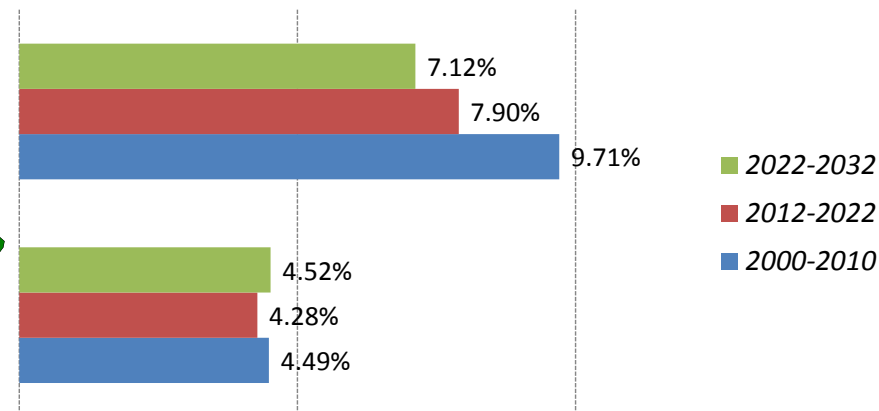
Source: State of NJ Dept. of Labor and Workforce Development

New Jersey Population: 1900 to 2032



*Population projected to hit 9.7m by 2032.*

**Rate of Population Growth  
US and NJ: 2000-2032**



*But NJ's growth rate is roughly half the national average.*

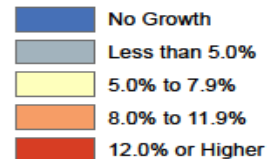
# PROJECTED GROWTH BY COUNTY

**Population growth in NJ is projected to be highest in the outer suburbs of NYC.**

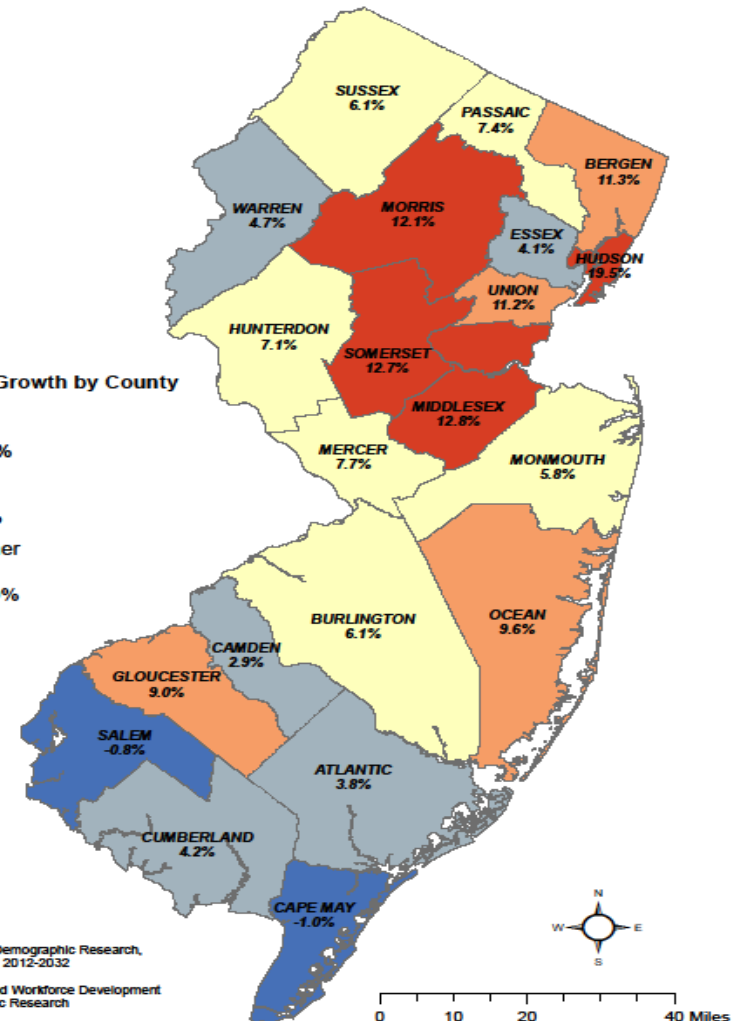
Source: State of NJ Dept. of Labor and Workforce Development

*Projected Population Growth: 2012 to 2032  
by County*

Projected Population Growth by County



New Jersey: 9.0%

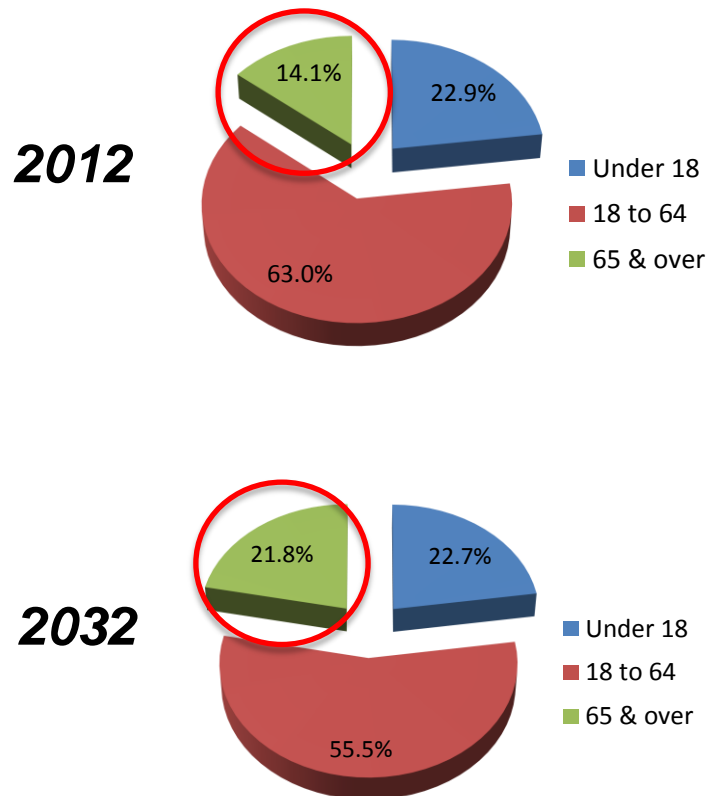


Data Source: Division of Economic & Demographic Research,  
Population & Labor Force Projections: 2012-2032  
Prepared by:  
New Jersey Department of Labor and Workforce Development  
Division of Economic & Demographic Research  
April 2015

# NJ'S POPULATION WILL GET OLDER AND MORE DIVERSE

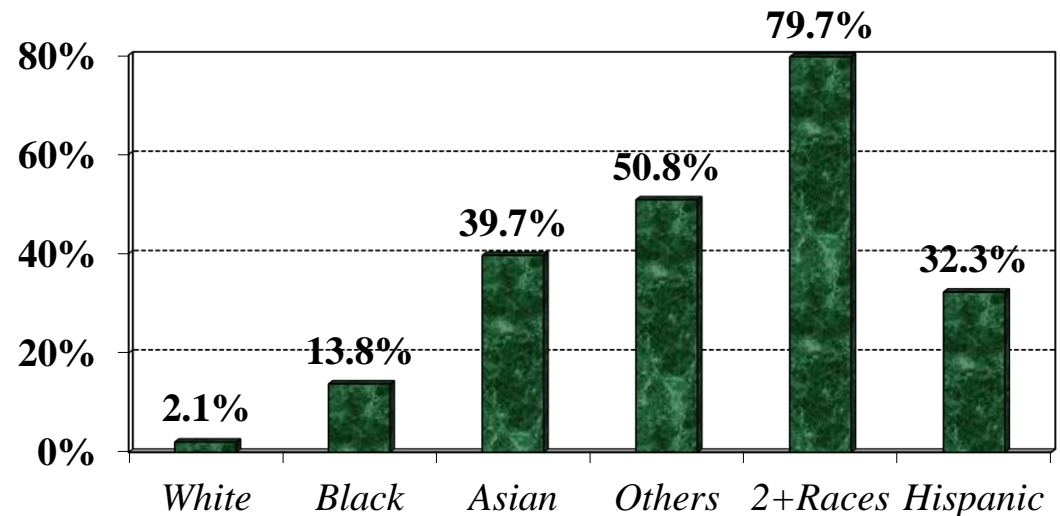
Source: State of NJ Dept. of Labor and Workforce Development

## Age Distribution of NJ's Population: 2012 v. 2032



*Age 65+ will be the fastest-growing age group in NJ.*

## NJ's Projected Population Growth Rate by Race: 2012-2032



*Minorities of all ethnicities will be the fastest-growing group in NJ.*

# DEMOGRAPHIC SHIFTS WILL AFFECT HOUSING PRODUCT

## ***Aging/Graying of the NJ Population:***

- Existing homes: “aging-in-place” retrofits
- New homes: elderly-friendly amenities, Multi-generational housing
- New communities: restricted age MPCs



## ***Diversifying of the NJ Population:***

- *Multigenerational housing*
- *In-home shrines*
- “Vaastu Shastra”— Hindu, positive flow: symmetry, even numbers, NE v. SW
- Orthodox Jewish households: kosher kitchens, separate study/office
- Muslim households: mudroom, library, separate reception areas and no dog baths!



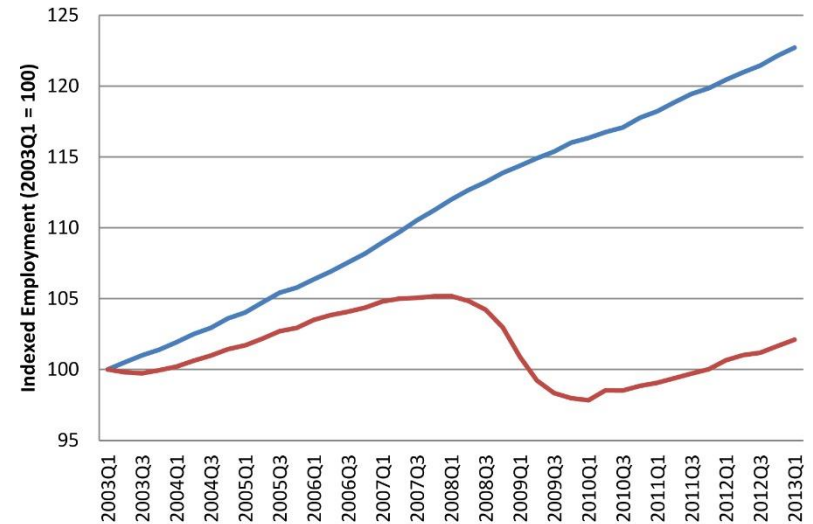
# DEMOGRAPHIC SHIFTS WILL AFFECT JOBS

## U.S. BLS Employment Projections 2015-2025:

- Jobs in healthcare will be fastest-growing employment category
- Will generate 9.8m new jobs; a 6.5% increase.
- Will account for 18% of GDP, up from 15% in 2004.



U.S. Employment Growth in Healthcare and All Other Industries, 20



## Implications for housing?:

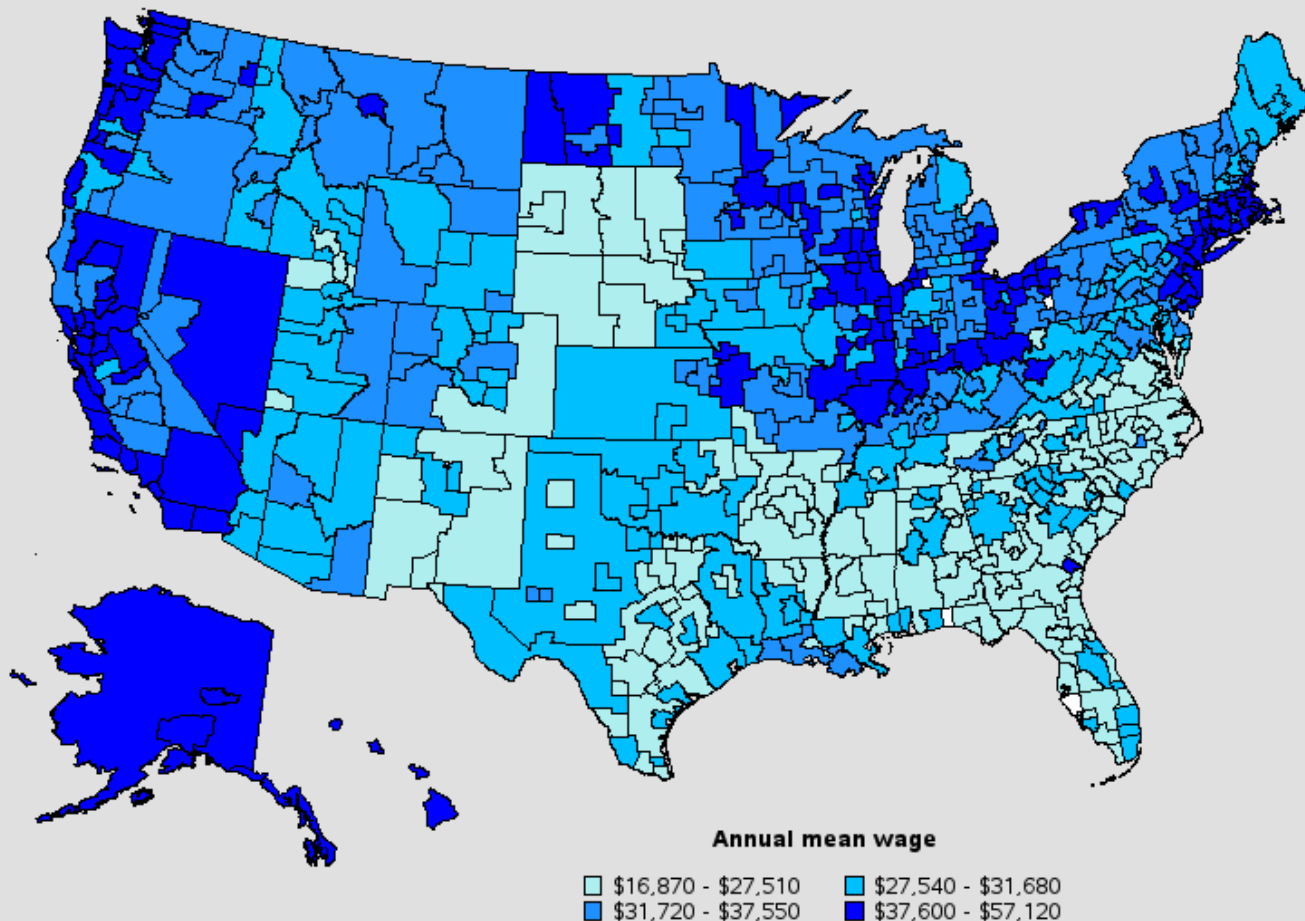
- Metro areas with large percentage of health care employment and/or retirees.
- Housing and community design for the elderly.
- What will happen to the housing stock that recent retirees leave behind?

# CONSTRUCTION COSTS

## NJ has among the highest construction costs in the US.

Source: US BLS

Annual mean wage of construction laborers, by area, May 2014



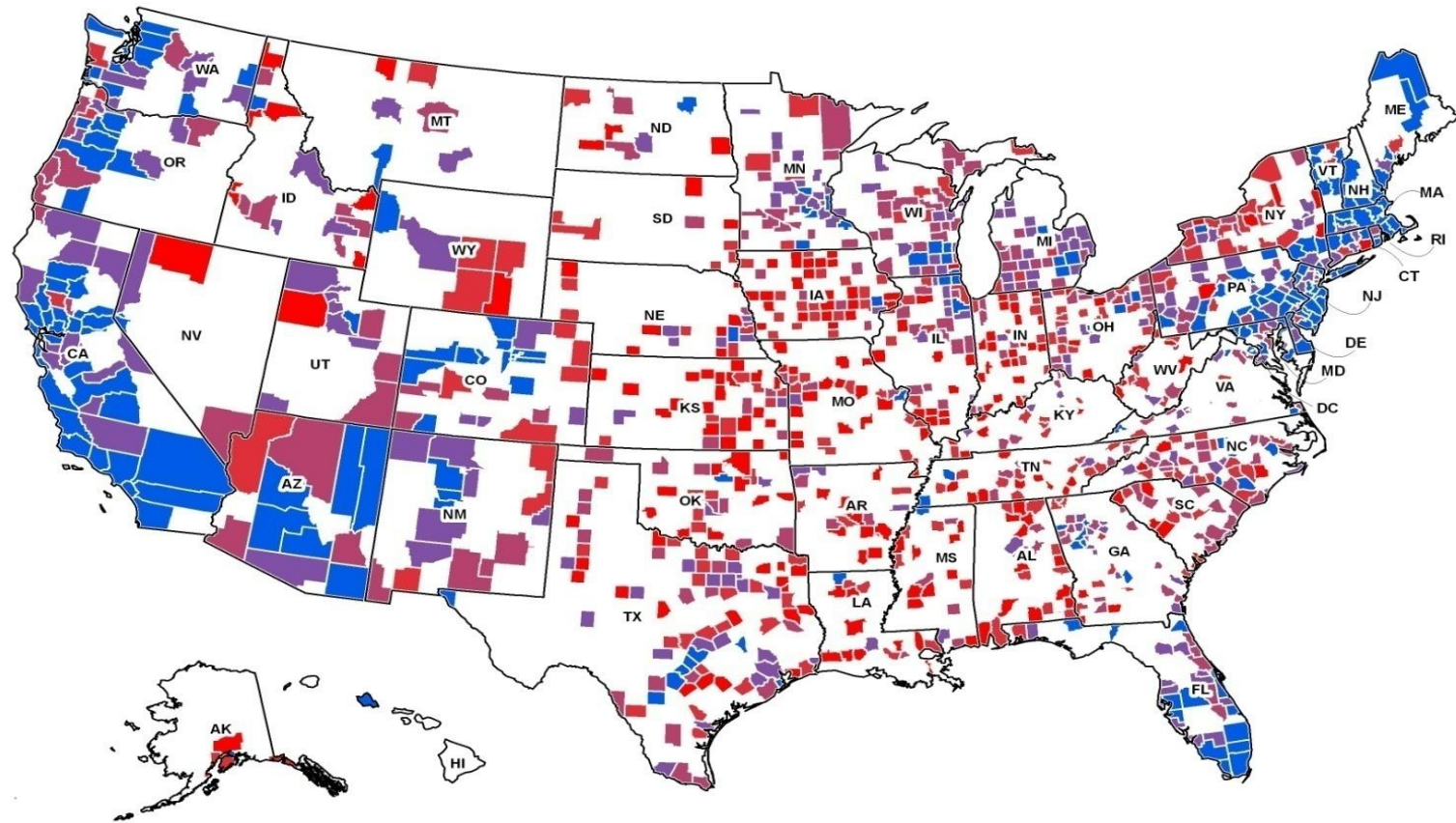
Blank areas indicate data not available.



# CONSTRUCTION COSTS

## NJ also has some of the most extensive land use regulations in the US.

Source: Wharton Real Estate Department, University of Pennsylvania



Land Use Regulation Index by County

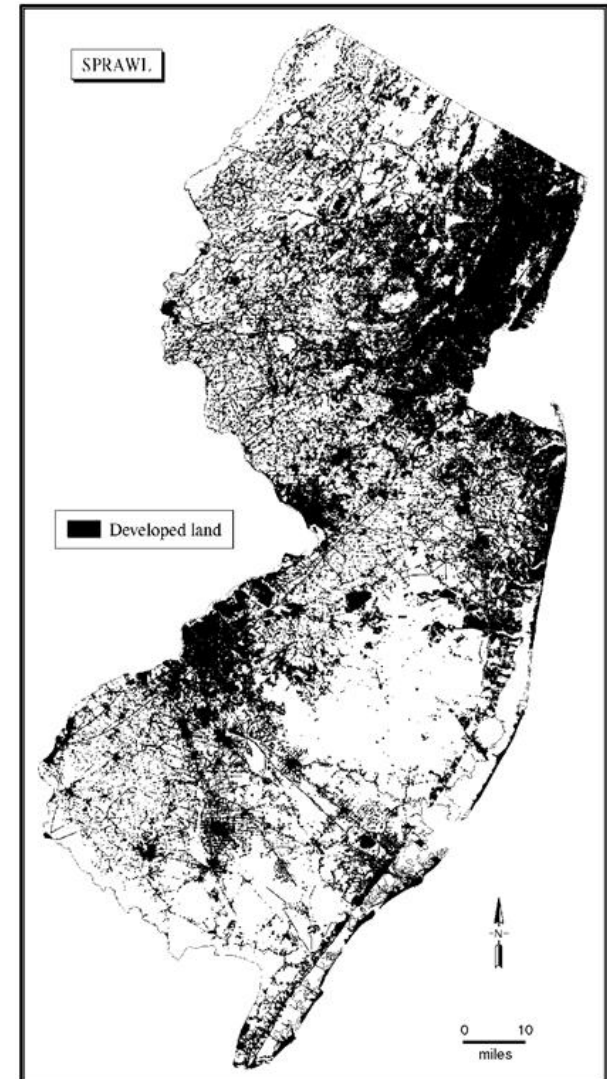
Legend: -2.15 - -1.09 (Red), -1.08 - -0.64 (Dark Red), -0.63 - -0.22 (Purple), -0.21 - 0.33 (Dark Blue), 0.34 - 4.34 (Blue)

## LAND SUPPLY

### NJ is the most built-out State in the US

Source: NAHB

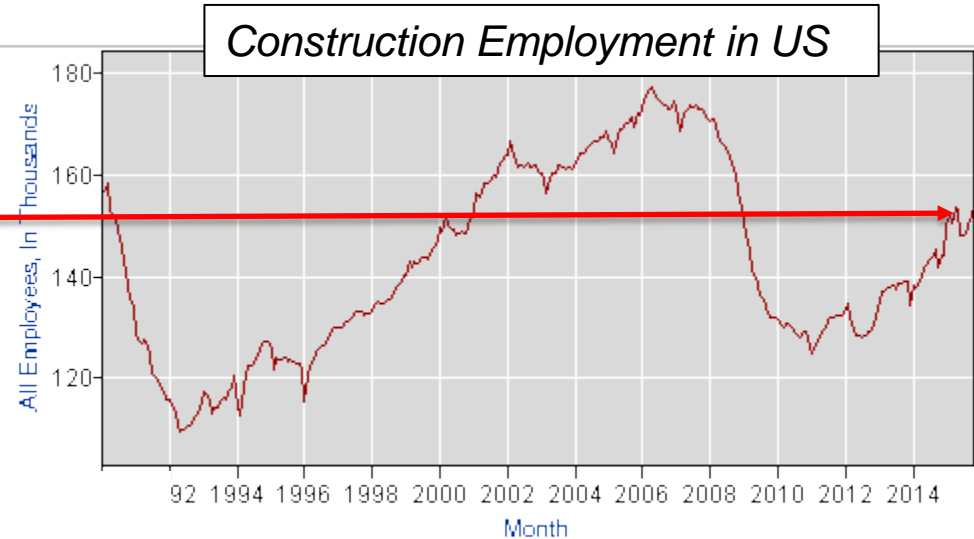
- *95% of New Jersey's population is classified by the US Census as living in an "Urban" area.*
- *Only 17% of land in New Jersey is either farmland or preserved greenspace.*
- *=> Land is not only increasingly expensive, but assemblage opportunities becoming increasingly rarer.*





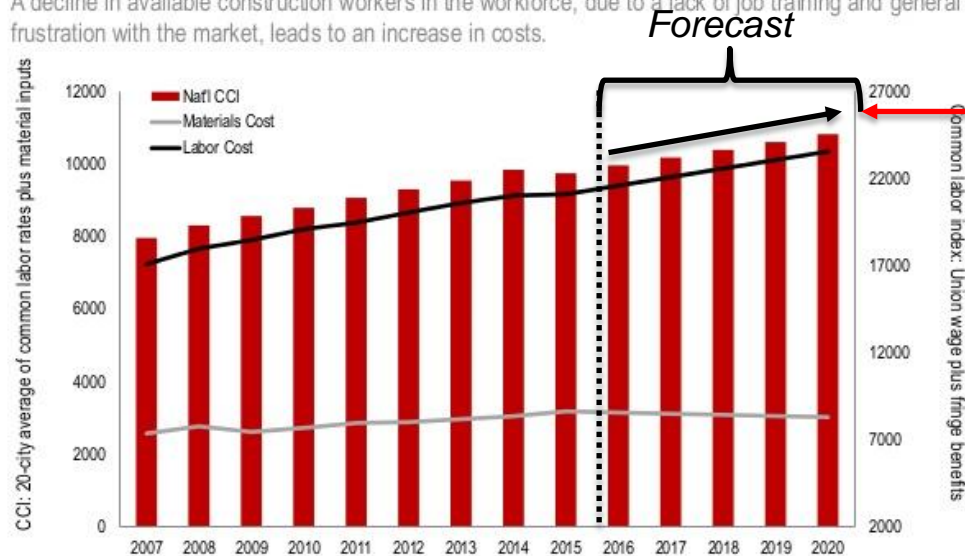
# CONSTRUCTION COSTS: HIGH AND GOING HIGHER

*Current construction employment is at its historic average, so there is little slack in the labor pool of workers to draw from without putting further upward pressure on wages.*



**Labor costs** are leading the growth in construction cost.

A decline in available construction workers in the workforce, due to a lack of job training and general frustration with the market, leads to an increase in costs.

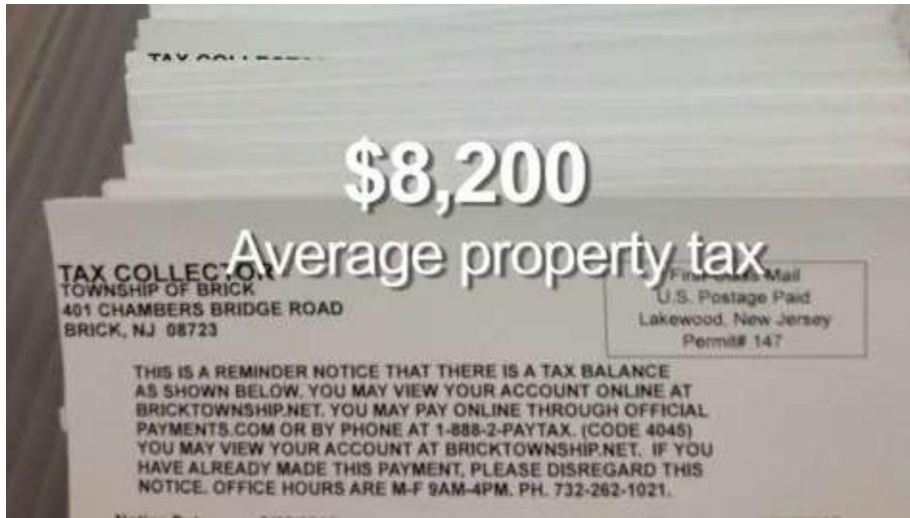


*Consequently, the forecast is for increased construction costs.*

# PROPERTY TAXES

## Another Perennial Issue in NJ

Source: Asbury Park Press 1/10/16



*Townships experiencing the biggest increases:*

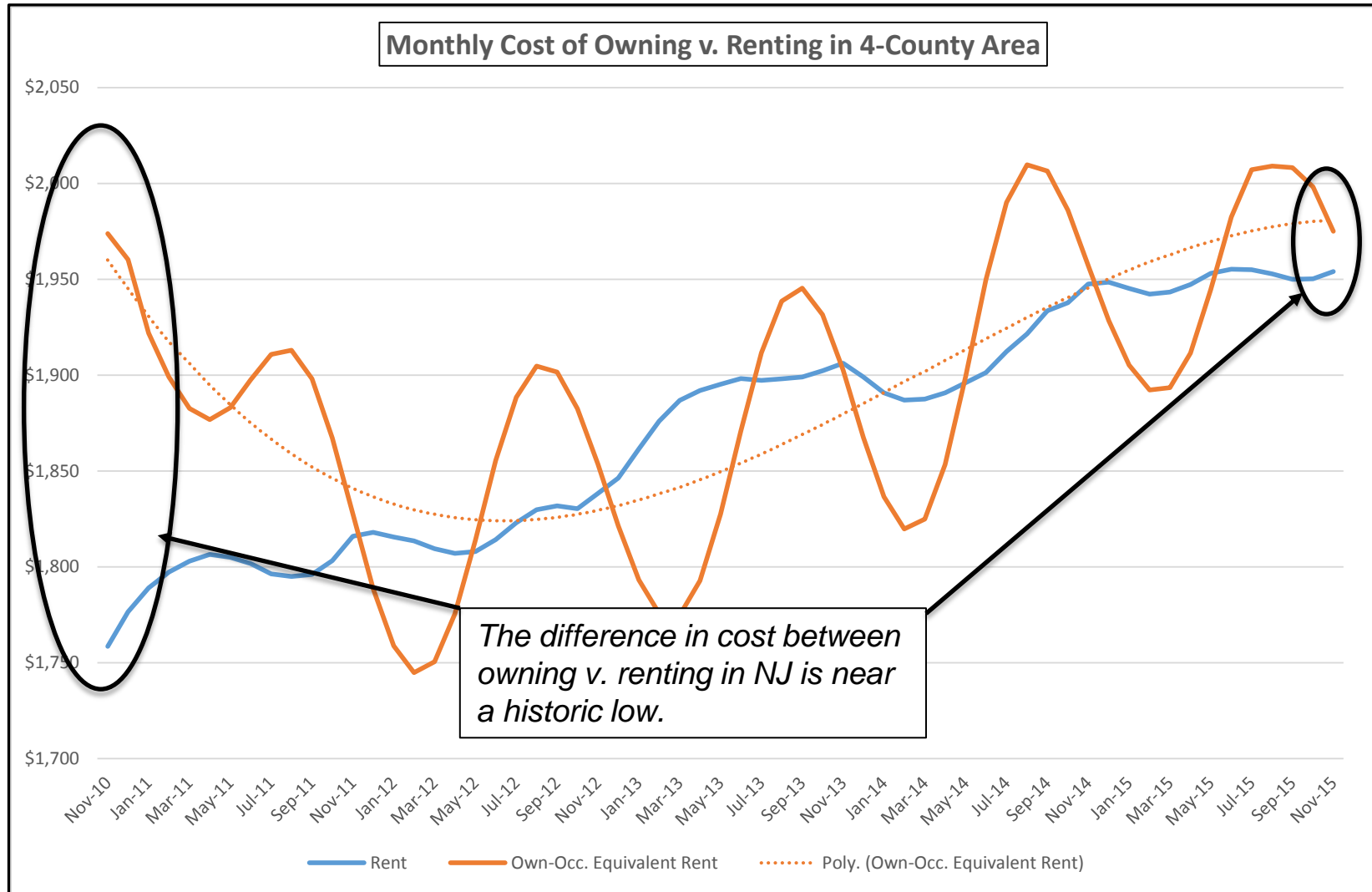
- +12.5 % in Seaside Heights
- +11% in Mantoloking
- +8.5% in Deal
- +8% in Asbury Park and Eatontown
- +7% in Lakewood
- +6% in Toms River
- +4% in Freehold Township and Marlboro
- 3% in Long Branch, Middletown and Stafford.

- ***New Jersey's property taxes increased by their fastest rate in four years in 2015!***
- *NJ already has highest average property tax burden in US.*
- *Average increase of 2.4%.*
- *Typical bill rose by \$193.*
- *Counties experiencing the biggest increases: Monmouth and Ocean counties.*

# COST OF OWNING V. RENTING

## Recent rent inflation has reduced the own-v-rent premium:

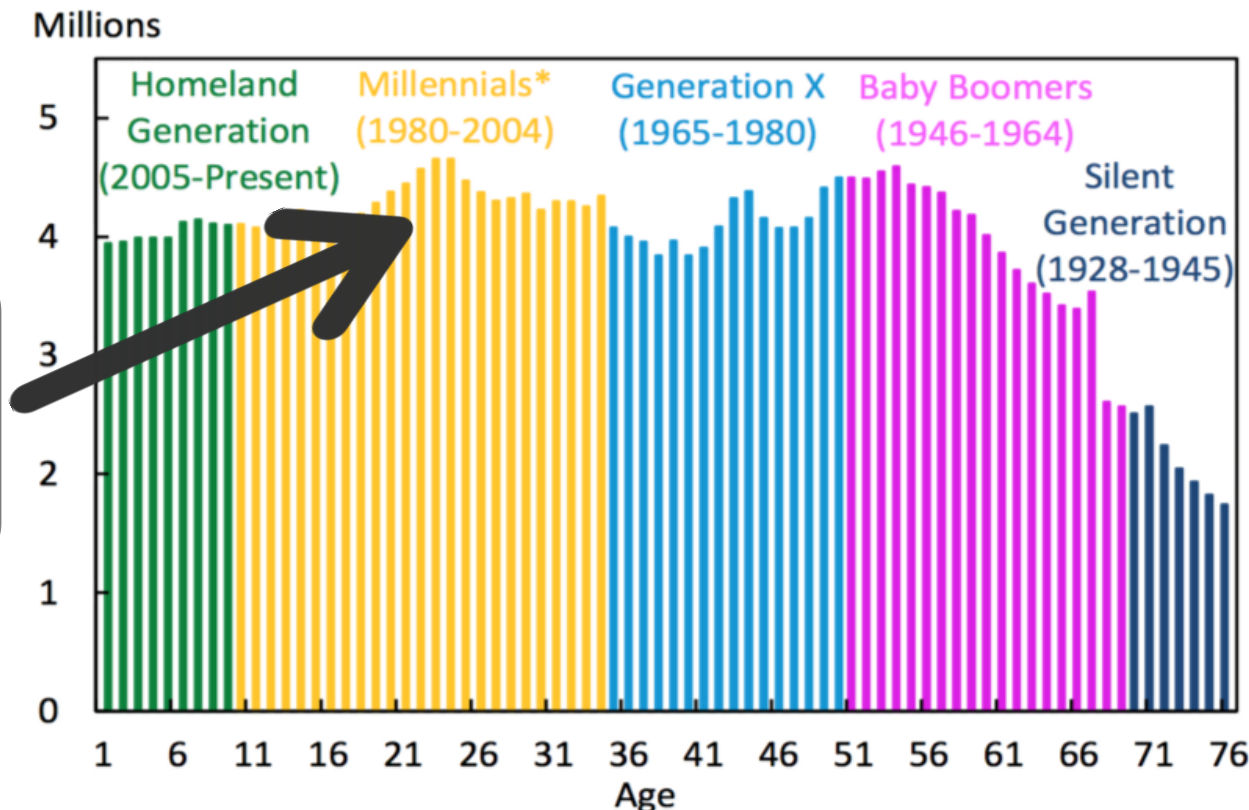
Source: Zillow and Zonda



## MILLENNIALS

**Millennial demographics favor them switching from renting to owning in the near term.**

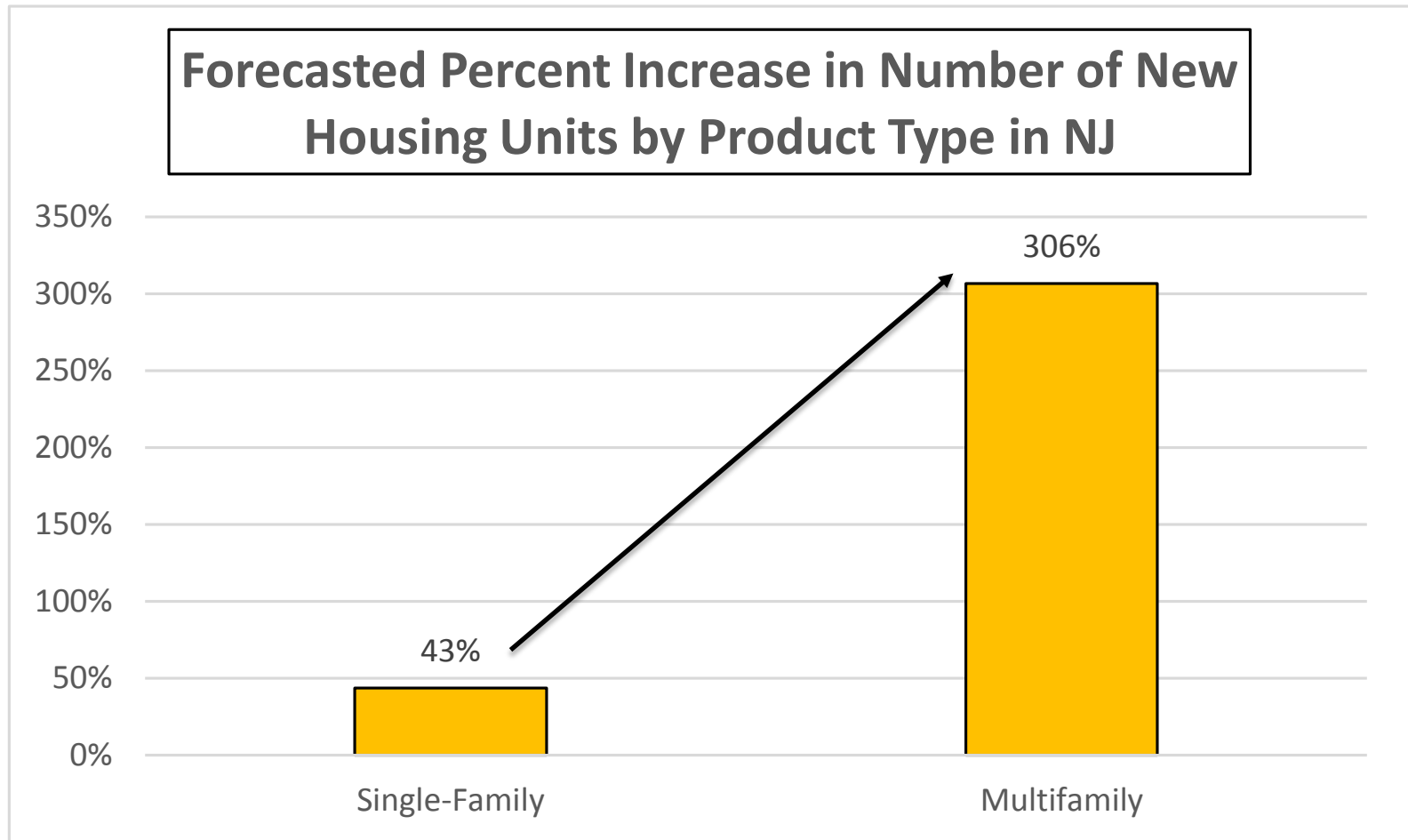
Source: US Census



There is currently a wave of 1 million people that will turn 31 over the next seven years!!

- 31 is the most common age at when Americans buy their first home.
- But: their personal finances and risk-aversion to housing remain significant obstacles, along with NJ's unaffordability.

## PRODUCT SHIFT TOWARDS MULTIFAMILY



**Associated with Millennial's preference for walkability, urban density and diversity, and access to transit.**

Source: US Census

## SUMMARY OF CYCLICAL FACTORS

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### Economy:

- Growth in economy, jobs and incomes projected to continue in the short term...but for how long?
- Interest rates headed in only one direction: UP
- Consensus is for 30-Year FRM to be 5-6% before 2018
- Consumer confidence currently up...but long-term trend is down.

### Housing:

- Prices in NJ have largely recovered from losses during the recession, but not completely.
- Unlike the US, sales of both existing and new homes remain below pre-recession levels.
- New construction still below historic norm, but trending up.
- Multifamily as a % of new construction at all-time high.
- Current inventory and foreclosure levels are exceptionally high.

## SUMMARY OF STRUCTURAL FACTORS

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- Scarce land, high construction costs and high taxes will continue to make housing affordability an issue in New Jersey.
- Demographically, NJ will grow slowly, but get older and more diverse.
- Jobs in health care will be a fast-growth sector.
- Shift in preference towards multifamily...but is this short-term or long-term?



# Summary and Conclusions



## WHAT TO EXPECT

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### Outlook:

- 2016: more of the same...but at a decreasing rate.
- Expected to be a decent year, but outlook starts to become more pessimistic into 2017.
- Slowing in both sales and price appreciation
- Most economists believe we are closer to next recession than we are from the previous one.
- But, next recession expected to be significantly milder than the previous one.

### What Should I Do?:

- Take advantage of relatively favorable conditions in 2016.
- Prepare for next downturn: capital position, financing, inventory, etc.  
*Get a loan or line of credit now...not later!*
- Remember: Wall Street is currently incorporating expectations of a recession into their current underwriting
- Position yourself to take advantage of long-term demographic and employment shifts
- Structural Issues: Need to be addressed to improve affordability

# THE BOTTOM LINE

- 2016 may be the last year you have the wind at your back for some time.
- NJ will continue to be one of the more challenging regions in the US to be a homebuilder.
- Structural obstacles may be large...but they are self-inflicted (and hence, can be changed).

Old saying in public finance: “Cities don’t die of natural causes, they commit suicide.”

- ***BE SMART!!:***

**Short-term**: arrange for financing and a good capital position in preparation for the next downturn.

**Long-term**: strategize carefully to take advantage of a changing demographic and employment landscape.

**Get Involved**: influence and affect public policy through your BIA/HBA

*Lastly...if you REALLY want to kickstart the NJ housing market...*

***Push your own Millennial off your couch and into the real world!!!***



# *Thank you!!!*

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*For any questions or further information, please contact:*

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***Thank You!***