



State of the Market 56: Big trends: Part 1, Prevailing winds



By David A. Smith

In the hurly-burly of daily events, and even more of non-stop hyperventilation in public media, it's all too easy to lose sight of the larger context, and without an orientation frame we will flail aimlessly. This *State of the Market* and its two subsequent parts will organize the chaos into three realms:

- **Prevailing winds**, forces acting for years if not decades regardless of surface froth.
- **Bending branches**, pressures accumulating that must eventually crack, but when and how they will crack is unknowable.
- **Meteor strikes**, highly disruptive isolated events that may happen tomorrow ... or never.

These trends don't tell you what to do, but they *do* give you scenarios against which to evaluate your strategies, past, present, and future.

Here are a dozen prevailing winds:

1. Affordable housing becomes a locus of life change

The landmark 1949 definition of affordable housing – 'decent, safe, and sanitary' – no longer captures what policy makers and resource providers want in affordable housing. Instead, affordable housing has become *a place to improve people's lives*. That has had two enduring implications:

- **Place-basing of resident services**. To help people become or remain more independent and self-sufficient, affordable housing providers are expected to host in-property resident services customized for each resident in a manner akin to a cafeteria plan.



You'll have more fun sailing with me than against me.

- **Cohort targeting of sub-populations**. If we are going to deliver place-based customized services cost-effectively to high-need people, it helps to have them all living in the same home, so the rise of cohort targeting (say, formerly homeless veterans) is reinforced by and reinforces the emphasis on life-improving resident-services.

2. NIMBYism tightens its grip

For all that we preach tolerance and inclusion, human beings are fiercely territorial and suspicious, both of outsiders and of change. As America urbanizes further (or, more precisely, de-ruralizes), pressure on the high-density use of urban land has led to:

- **Increased NIMBYism** under any self-righteous guise (the environment is always a good one).
- **The death of as-of-right zoning**, through endless case-by-case variance reviews, which among other things both drives up



development costs and eviscerates rational urban planning strategies.

- **Transit-Oriented Development (TOD)** as both an organizing principle for density upzoning and a vaccine against NIMBYite exceptionalism.

3. Program complexity rises and government outsources 'touch'

It is in the nature of bureaucracy to grow without limit; and it is in the nature of ecosystems to layer new innovations atop old ones. Nowhere are these phenomena more prevalent than in housing, which lasts for decades, outliving governors, presidents, and kings. As anti-poverty initiatives become more customized and customer-centric, program layering eventually becomes so complex that no one in government understands the totality of rules, much less how to deliver quality outcomes using and within those rules. Government is thus compelled (however reluctantly) to outsource the 'touch' functions, where it can focus on outcomes and costs, not processes.

4. Banks consolidate globally

After a capital catastrophe, like the one we just had, three things invariably happen: (1) fundamental reform (not always the *right* reform) is imposed, (2) government increases regulatory oversight, and (3) bank capital and liquidity requirements rise. Between the new Consumer Financial Protection Board (CFPB) and the combined Basel III/ IFRS, a banker's lot is today far from a simple one.

Banks respond to these pressures by getting bigger (money is a commodity, so it scales), and to do that, banks ~~eat~~ synergistically merge with other banks. To be the merger and not the merge-ee requires a bank to be stronger financially and better favored with banking

regulators, which requires banks to buy LIHTC to earn an outstanding CRA.

5. Non-profits gain market share of affordable housing resources

Forty years ago, the non-profits' share of affordable housing development, ownership, and management was minuscule. Today it exceeds one-third, and the fraction will continue rising, because government instinctively trusts non-profits more than it trusts for-profits.

Growth in non-profits is spawning its own evolutionary change. While some are used as little more than QAP-winning fronts, and others operate principally as merchant builders (handing off to better-capitalized and larger for-profit owners), several score are regionally capable and perhaps ten are nationally robust.

Non-profits own and operate almost 100% of all affordable housing in Britain, where the same winds that have helped non-profits grow here have just been blowing longer. As a result many British non-profits have scale and professionalism to dwarf America's housing present, and to prefigure America's possible housing future.

6. Government money is squeezed top to bottom

Name a level of American government – federal, state, metropolitan, or local – and it is broke. Because they can do so, higher levels of broke governments push mandates down to lower levels, or de-fund 'revenue sharing offsets' that they previously funded. Lower levels cannot print their own money, hence cannot deficit-spend, and can be cut off from the capital markets; but broke is broke, and we is all broke.

Municipal bankruptcy thus becomes the mother of outsourcing. Government *really* doesn't like doing this, and hence outsources skittishly and often schizophrenically, but the insolvency wind



blows. There's a limit to the level of tax increases, so the cuts will have to be made, voluntarily or through bankruptcy.

7. Energy gets more expensive

The cost of energy (production plus taxes) will continue to rise in real terms, because carbon is going to be taxed for the simplest political imperative: We need the revenue, and the public will sit still for the taxes.

Taxing something also incentivizes strategies to avoid or reduce the thing taxed, and the rise of carbon taxation is being paralleled by rising emphasis on green and energy conservation improvements. As many appealing green improvements do not yet pay for themselves (at current costs and current energy prices), government will put its finger on the scale with rebates, favorable loans, and tax credits.

8. The 'post-nuclear' family proliferates

The nuclear family of my childhood is no more. With shrinking average household sizes, young people delaying marriage and becoming parents, and the elderly living longer and more actively, what once were called 'non-traditional households' are now collectively the majority.

Apartment configurations have not caught up with this, because a floor plan is an articulated shell around the designing architect's conception of who was a family and what a family does at home. Thus the monotony of apartments configured for nuclear families has given way to innovations that barely exist now (due to anachronistic zoning) such as micro-apartments, in-law or attached dwelling units (ADUs).

9. Housing policy innovation inverts

Thirty years ago, the center of American housing innovation was HUD's gray concrete fortress at

451 Seventh Street SW. Then came the end of new §8 production, the enactment of LIHTC, the rise of the HFAs, rampant NIMBYism (Wind 2), the emergent empty space of 'workforce housing,' and the insolvency of higher levels of government. All this inverted the locus of innovation from top-down to bottom-up.

Today, ideas bubble up because money is no longer flowing down. To see cutting-edge affordable housing design, development, operation and management, visit landlocked or land-constrained cities experiencing economic growth. A growing economy widens the gap between market rents and affordable rents and only the locality cannot evade the problem.

10. Broadband goes to infinity

The next time you're riding the subway, train, or plane, glance around at your fellow passengers. How many of them have their noses glued to a tiny handheld device connected to the Web?

As broadband capacity goes to infinity:

- **Value chains disincorporate.** The organization chart may have as many area codes as functional teams, and those conference or Skype calls will be taking place across multiple time zones. In such an environment, value is added, and jobs flow, to wherever the brainpower-to-price ratio is best ... and that might be Bangalore instead of Boston.
- **Property management revolutionizes.** Web-based monitoring and home controls that enable affordable housing developers and operators to develop place-based service nexuses (Wind 1) with scalable and yet highly personalized services (Winds 3 and 5) and potentially to make these into sustainable businesses.
- **Home matters more,** because the share rises proportion of family time spent in the home,



and family wealth / wealth created in the home rises.

These winds compel reconfiguring apartments to add broadband as the fifth utility, to boost electrical capacity (and liberally distribute plugs and ports), to reinvent the living/ dining area or extra bedroom as a media room or home office, and in general to envision the apartment as a multi-purpose and dynamically reconfigurable space.

11. Technology redefines interpersonal and business relationships

Each new generation that grows up with a new technology adopts that technology as naturally as breathing, while all generations older are most comfortable with the one they grew up with. Thus communications modes are being reinvented youngest-first, with adolescents for whom texting has replaced the wifi laptop, which in turn replaced the telephone.

If Marshall McLuhan were alive to see it, he would trumpet how the media of communications reshape their content. Most significantly, for people who have absorbed handheld video as if capturing oxygen from the air, 'face-to-face' no longer means 'present in person.' Trust-based activities like sales, medicine, counseling, and motivation can now,

for a large fraction of the population, be done remotely.

Affordable housing is among the stodgiest and slowest adopters of new technology; we have yet to come to grips with social media marketing, web-based Amazon-style house and apartment hunting, and de-physicalized team management and motivation styles. We need to catch up – fast.

12. Privacy goes to zero

As communication goes to infinity, privacy goes to zero; and while some of us cling to pre-Web notions of decorum, for others there's no such thing as oversharing. And if Facebook were revealed to be an NSA false-flag operation, would anyone really be surprised?

Housing's privacy laws are made mock by a world of big data, linked cameras with face recognition software, and voluntarily embraced personal disclosures, where people will tell us much about themselves in the expectation that we can customize products, services, and modes of delivery and support.

Soon we will all live in Jeremy Bentham's panopticon, where, as Sun Microsystems Scott McNeely said a decade ago, "You have no privacy. Get over it."

I'll be back in a month with *Bending Branches*.

SUBSCRIBE (FREE!) TO STATE OF THE MARKET AND POLICY UPDATE

We provide two free electronic periodicals:

- **State of the Market** addresses issues of multifamily housing in general. Published monthly (or so).
- **Policy Update** investigates topical and urgent aspects of affordable housing finance and policy. Published occasionally, as events require.

To subscribe to either or both, drop an e-mail to dsmith@recapadvisors.com.

Past issues are available at <http://www.recapadvisors.com/state-of-the-market>.