

## Mass Markets, Housing, and the Illusion of Choice

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New American housing suffers from the same affliction affecting nearly every aspect of our economy. The genuine diversity of goods previously available to most citizens has been replaced by homogeneity; variety has been wrung out by the “efficiency” of serving global mass markets. The impact has spread beyond the marketplace as the finance-driven economy rewards those entities that are best at pushing off risk and cost onto society at large; from seed crops to songbirds to suburbs, the tremendous variety of life is being winnowed down to only a few “successful” versions.

The Baby Boom generation—those born between 1946 and 1964—formed the most significant rationale for mass marketing in the history of the planet. They have influenced age-related institutions at every life stage, from maternity wards in the '50s to the anticipated cremation boom in the mid-21st century. Likewise, the post-war history of housing construction follows the Baby Boomers by lifestage—from their childhood in the GI Bill-supported housing tracts of the '40s and '50s through the apartment boom in the '70s, when Baby Boomers first left the nest, to the current emphasis on detached, family-oriented houses, with Baby Boomers at “full nest” stage.

Housing constructed in America prior to World War II exhibited extraordinary local and regional diversity, ranging from simple frame houses in New England to stucco haciendas and craftsman bungalows in California. Today, however, regional diversity is limited to two basic houses, the “colonial,” which dominates most markets, and its one-and-a-half-story counterpart in Florida and the Southwest. These two basic houses are being built across the country in nearly every new subdivision under construction; the “unibox” is ascendant, whether a modest “rambler” or a million-dollar mansion. Is this lack of housing choice an end result of “consumer demand,” a clear indication that the population, overwhelmed by the complexities of modern life, wants to live in houses that look as much like their neighbors as possible? We think not.

There is a widespread misunderstanding that new housing in most markets is a response to consumer desires. In a letter to this publication (vol. 1 no. 2), the otherwise very astute Witold Rybczynski perpetuates this confusion, contending that “because most developers are relatively small, [commercial housing] is chiefly a demand-driven market.” Professor Rybczynski argues that “developers are in fact very responsive to buyers, and will build whatever it is that people want...”

In most cases land developers plat lots along the line of least resistance, which is largely defined by zoning. In contrast to the agile, market-adaptive entities Professor Rybczynski sees, small home builders are typically only able to build on lots in sizes that developers make available. Usually only mid- to large-scale builders take tracts through the approval process.

Development of typical American suburban housing has been based almost entirely upon a peculiar system of self reference. Guided only by the most recent market successes, debt and equity funding for new residential development is obtained only after sufficient “market comparables” have been documented (see related article p. 8). The simple logic of this system of comparables has led housing producers—as well as many small to mid-sized lenders—to a heedless acceptance of the notion that current production and marketing mechanisms are meeting the desires (if not the needs) of housing consumers. The tautology of this system seems to reward lack of innovation and the continued expansion of developed land to satisfy less than half of the potential market for new housing. In this regard, market research has succeeded too well. When builders tailor their products to the marketplace as defined by past practices, they perpetuate a cycle of blandness. They celebrate the same four-bedroom Texas Romantic unibox—that four-bedroom, two-and-a-half-bath center-hall house designed to appeal to everyone and no one.

In addition, residential construction has been dominated by quite conservative forces, influencing both the demand and supply sides of the housing equation. A greater percentage of new dwellings are produced by publicly-traded entities; in the early '90s a larger-than-normal percentage of new home buyers were transferee households, those that are compelled to move.

When the 1991 Tax Reform Act (FIRREA) caused a three-year disruption in the flow of capital to smaller builders, larger builder/developers were able to increase significantly their share of market and land control. The act severely constrained lending practices, including putting stringent limits on the size of outstanding loans to a single borrower. Home building companies with access to capital—those that are publicly-traded and those that have special relationships with capital institutions—gained market share in most regions, having the capital to buy land at just the time when thousands of properties became available through the Resolution Trust Corporation and Federal Deposit Insurance Corporation.

Publicly-traded homebuilders are the most conservative, “product”-oriented of suppliers. One public builder commissioned no fewer than six focus groups to look at the potential for detached garages and got uniformly positive responses. The company has yet to offer detached garages because the approach is so different from what is currently “succeeding” in the marketplace. During the same period that tax code and banking changes gave dominance to the most conservative of producers, the national recession gave dominance to the most conservative of housing consumers—transferees. With house prices stagnant or even deflating in many regions during the late '80s and early '90s, households that were not compelled to move did not. Thus the transferees gained a greater than typical share of the market. Transferee households typically do not buy houses to live in; they buy houses to sell later. A real estate broker axiom is that a house will sell faster if it does not have anything too personal, too individualized. Buyers expecting to be transferred again in the next couple of years buy houses that do not offend anyone.

So baseline data defines only those houses that have sold in the recent past. However, it is precisely this baseline mentality that nearly brought the domestic auto industry to its knees—building for what people have always bought, without regard to auto consumers' emerging quality and design concerns. The housing industry, of course, has real advantages over the auto industry (or more precisely these days, the light truck and minivan industry). The housing industry is greatly decentralized and much less capital intensive.

However, it is the “rearview mirror” approach to research that is in large measure responsible for the dramatic boom/bust cycles to which American real estate has been prone. When development programs are based on what has succeeded in the past, they are susceptible to market shifts. This is akin to steering a car by very carefully aligning the road in the rearview mirror; the first curve could prove fatal.

We believe that in the housing market today there is a growing hunger for variety, that there is disdain for streets of “cookie-cutter” houses, that increasing numbers of family households are no longer responsive to what is being offered in the typical American subdivision. Housing producers ignore this demand at their peril. The best and most rigorous qualitative analysis yields consistent results from new home buyers even in very conservative markets: “We buy it (conventional new housing) because it’s the only thing being offered, not because we like it.”

Determining the size of the demand for new housing is a deceptively simple task. In a given year, the demand for new dwelling units equals the change of the number of households plus the number of existing and occupied dwellings removed from service. In a closed system—say, a university with guaranteed on-campus housing—new housing demand is quite easy to forecast. Almost all American housing markets, however, are fluid and borderless, so even defining the market area can often be challenging.

Barring a significant natural disaster, the easy part is projecting how many dwelling units will be lost to fire or other disaster, to abandonment, to conversion to another use, or to the urban renewal bulldozer. The federal government keeps statistics for loss of dwelling units that can be projected with reasonable accuracy.

Determining the character of the demand for new housing, however, is another matter. Demographers are constantly surprised by the failure of their new household formation projections for the nation. Household projections are often dramatically wrong when made on the local level. Projections, by definition, depend upon baseline data. However, when significant shifts occur in a local or regional economy, baseline data become irrelevant. Valid, as well as statistically significant, housing demand determinations must include both conventional supply-side and demographic analysis as well as detailed analysis of consumer preferences.

In a classical supply/demand analysis of the potential for a redevelopment area in Norfolk, Virginia, we found that, according to conventional analytic techniques, there was limited demand for new housing units. Three different methodologies based on employment/household ratios, household age-distribution, and household size projections yielded the same results; demand was derived from the redistribution of existing households rather than from the anticipation of any increase in the number of households. This conventional analysis could not measure demand for a housing option that did not currently exist in the marketplace.

Our fourth way of looking at demand, called target market analysis, puts human faces on the numbers. The technique has enabled us to look at the potential for untested housing types in markets as different as an old city in New England and a new town in Hawaii. The analysis includes a detailed examination of the lifestyle characteristics and housing preferences of households who would be likely to move to the study site. We have classified 39 unique household types [at the time of publication, now 62 household types], according to life-

stage: empty nesters and retirees, families, and younger singles and couples; and according to geographic location: metropolitan cities, metropolitan suburbia, small cities/edge cities; town and country/exurbia, and agrarian/rural.

Each of these groups has its own specific economic and demographic characteristics, consumption patterns, style of living, and housing preferences. Taken in the aggregate, after filtering for a variety of factors such as mobility, income and tenure (renters vs. buyers), these households characterize the demand for different housing options. When placed within the price and rent context of the specific marketplace, these housing options—which may not yet exist in the marketplace—become the optimum housing mix.

The target-market analysis found that the potential absorption of a well-realized and appropriately-priced redevelopment of the Norfolk tract outstripped the conventional projections of demand for new housing. The neighborhood is a Duany/Plater-Zyberk design that essentially restores the area to its traditional neighborhood pattern and provides housing options for Norfolk households that simply do not currently exist. (See Figures 1 and 2.) Households that might otherwise move out to surrounding sprawling suburban communities will have the option to stay in Norfolk; likewise, households moving into the area that might otherwise have settled for a suburban location will have a new neighborhood option in Norfolk.

Our recommended housing programs, although very specific in mix and proportion of housing types, generally include the proviso that new community or infill neighborhood design should recognize the inevitability of change as household characteristics and neighborhood dynamics evolve over time. Housing's initial success requires detailed knowledge of probable first occupants; long-term community health requires flexibility of design at both the dwelling and the neighborhood level. This recognition is a contrast to the typical reliance on niche markets to create highly-targeted housing types that lack the flexibility to respond to changing social and economic conditions.

There are many interlocking questions about the existing, inflexible enclaves of highly targeted housing. What will happen when the Baby Boomers complete the transition from the full-nest life stage to retirement? Who will live in all those Texas Romantic uniboxes? Where will the Boomers retire? And what will happen to all the age-restricted communities where the dwellings and the communities are geared to earlier generations? We predict troubled times ahead for the mass market oriented housing producers. •

Laurie Volk and Todd Zimmerman are co-managing directors of Zimmerman/Volk Associates, which has a national reputation for innovative market analysis based on its proprietary target market methodology. Specializing in the analysis of urban and new urban development and redevelopment, ZVA is recognized by the leading practitioners of the new urbanism as the national expert on urban residential market feasibility.