

# PUGET SOUND BUSINESS JOURNAL

# Millennials: We want houses in the suburbs

FOR YEARS, THE CONVENTIONAL WISDOM WAS THIS GENERATION DIDN'T WANT TO BUY. THAT'S CHANGED.

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Jon Faulkenberry and his wife have done what economists have been saying millennials just don't do: They bought a big house in the suburbs to raise a family.

They're not alone.

"The millennials are buying now," said Todd Bennett, president of Bellevue-based BDR Capital Partners, part of a group of companies that includes a home-building firm.

After years of anecdotal and empirical evidence that millennials don't buy homes, BDR Capital Partners is seeing an uptick in the number of homes it is selling to people between the ages of 18 and 34.

"It's happening now," Bennett said. "This isn't something that's out in the future."

Builders are scrambling to figure out what this new generation of buyers wants in a home. It's a big market. At 80 million people, millennials constitute the largest generation in American history.

That has huge implications for the Puget Sound region's economy. It's driving a boom of single-family housing developments in suburbs such as Kirkland and Sammamish, strengthening the small cities that ring Seattle. The rise in homebuilding is also an



important economic indicator, creating investor confidence and employment opportunities.

It's a watershed shift for the region's homebuilding industry, which has seen a near record number of apartments go up in recent years. According to Eric Campbell, CEO of MainStreet Property Group of Kirkland, more than 50 home builders in the region are building 20 or more homes a year. That's more builders than ever before.

All of this is occurring at the crossroads of the region's biggest public policy issues: education, transportation and

preservation of forests and farms in a region where the supply of land is constrained by mountains, lakes and public policy.

It's also happening just as homebuilders emerge from the deep freeze of the recession. The number of new houses being built is nowhere near what it was before 2007, but in many parts of the region the number of new homes being built is climbing.

In unincorporated Pierce County, construction workers are building hundreds of single-family houses, with thousands more on the way. The homes

## TEHALEH

- ▶ 4,218-acre master-planned community near Bonney Lake
- ▶ Currently approved for 5,900 homes, but project has proposed increase to 9,700 homes
- ▶ Houses from the low \$200,000s to low \$500,000s
- ▶ Planned 3.9-million-square-foot commercial/retail center
- ▶ 10 parks, more than 10 miles of trails
- ▶ Developer: Newland Communities
- ▶ Tehaleh is derived from the Chinook words for "highlands" or "land above."

are in a 4,200-acre master-planned community called Tehaleh, and millennials are a target audience.

The Faulkenberrys are some of the early buyers. Jon Faulkenberry and his wife, Leighann, who's pregnant with their first child, bought a new three-bedroom home at Tehaleh for around \$343,000 in September.

Tehaleh wasn't the first place they looked. They started looking not long after arriving in Seattle from South Carolina five years ago.

"At the time the market had gone crazy," said Jon Faulkenberry, a software engineer at Bellevue-based Expedia. "We were constantly getting into bidding wars."

The couple looked everywhere, including Seattle and the Eastside. They took a run at a \$325,000 townhouse in Snoqualmie, but were put off by the lack of access to good public transit and the fact that it was a town home.

Finding a place they could afford and with a good school "kind of pushed us out here," he said.

Access to public transit sealed the deal. Faulkenberry drives to the commuter rail station in Sumner for a trip to Kent, where he catches an express bus to downtown Bellevue. Total travel time is 75 minutes.

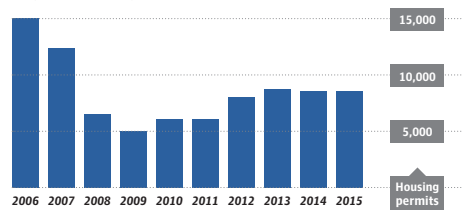
### Suburban living

Despite the large potential market, developments like Tehaleh aren't without risk.

Members of the millennial generation have largely preferred to rent apartments in the city. That trend has driv-

## HOUSING STARTS

The number of construction permits, by year, for single-family homes issued in the tri-county Puget Sound region.



SOURCE: U.S. CENSUS BUREAU

en a massive building boom in South Lake Union, where thousands of young tech workers have moved into apartment buildings a few blocks from their offices.

That is shifting. According to a recent study by the Urban Land Institute, 62 percent of millennials expect to live in a single-family home by 2020.

Given the physical realities of the region's landscape and its land-use policies, millennials here will likely be pushed to the suburbs. That has huge implications for development considering that millennials account for one-third of Seattle's population.

In addition to Tehaleh near Bonney Lake, two master-planned communities are in Black Diamond – Lawson Hills and the Villages. A Kirkland company, Oakpointe, is the developer of the Black Diamond projects, which together will have 6,050 residences.

Oakpointe CEO Brian Ross said his company has permission to build nearly 800 homes initially, but likely will start with 350, which he thinks will be priced between \$300,000 and \$600,000.

The projects are striving to appeal to buyers of all ages, but due to the sheer size of the generation, millennials represent the biggest segment.

Ross said that as millennials get married and start families, they'll look for what past generations did: A community in which to raise their families.

"We're not building houses," he said. "We're building places."

### Land crunch

While demand for houses is expected to soar in the coming years, several factors still hold back the industry. Chief among

them: a lack of lots. That has resulted in skyrocketing land prices. In 2009, the average price for a small lot in the region was \$65,190. In 2014, the average skyrocketed to \$181,786, according to Bothell office real estate tracking company Metrostudy.

"Back in the Reagan era, it was, 'It's the economy, stupid.' Today, 'It's the land, stupid,'" Ron Boscola, general manager of Bellevue-based homebuilder Murray Franklyn, said during a recent panel discussion put on by Windermere Real Estate. "That's driving everything."

Then there's the labor shortage. In 2007, just prior to the recession, the Seattle area employed almost 132,000 construction workers. There are about 105,000 now. Many who remained are in the process of building a near record number of apartments around the region – not houses.

"Back in the day, good qualified labor was hard to find. Today just labor is hard to find, let alone qualified labor," Boscola said. "That drives our cost of construction more than anything."

Prior to the market crash in 2008, single-family home construction was booming nationally and locally. Cities and counties in the Puget Sound region issued nearly 15,100 single-family building permits in 2006, according to Census data. That dropped to just shy of 6,100 in both 2010 and 2011, but rose to nearly 8,600 last year.

"Part of it is a generational shift," said Todd Britsch, the Northwest regional director of research firm Metrostudy, which acquired Britsch's Bothell-based New Home Trends in late 2014.

For now, many millennials still love living downtown near where they work, he said.

"This will change in three to four years," Britsch said.

Faulkenberry said his contemporaries who plan to have kids are moving away from the city.

"Issaquah, Sammamish, Redmond Ridge, Bothell, Mill Creek – that's where people are moving," he said. "Very few of them are looking at Seattle or Bellevue."

► SUBURBAN LIVING



ANTHONY BOLANTE | PSBJ

Steve Rasor walks his dog along a pedestrian trail in the massive Tehaleh development near Bonney Lake.

## HOW TEHALEH ATTRACTS YOUNG HOME BUYERS

About a quarter of the buyers of homes in the 4,200-acre master-planned community Tehaleh near Bonney Lake are millennials, said Scott Jones, the regional general manager for Newland Communities, Tehaleh’s developer. Millennials, he said, crave connections with neighbors. Those who move there want good schools. The neighborhood’s promotional materials note Tehaleh has a “a thriving K-5 school in the award-winning Sumner School District.”

The Tehaleh name is derived from the Chinook words meaning “highlands” or “land above,” according to Newland.

“It’s really designed around the views of Mount Rainier, which are absolutely breathtaking,” Jones said. “We think about it as a little town in the forest.”

► REGULATIONS



## WHY IT’S HARD TO BUILD MORE URBAN HOUSES

The lack of reasonably priced developable land in the Puget Sound region is due in large part to a landmark piece of anti-sprawl legislation called the Growth Management Act. The 26-year-old Washington law requires local jurisdictions to funnel growth into areas inside what’s called the urban growth boundary. Because the boundary preserves the region’s forests and farms, the likelihood of politicians moving the line farther out is practically nil.

“I don’t think the urban growth boundary is going to get moved in any significant way,” said Brian Ross, CEO of development company Oakpointe in Kirkland.

The region’s population is anticipated to grow nearly 30 percent to more than 4.9 million by 2040. Meanwhile, the region is wedged between Puget Sound and the Cascades. There won’t be enough land to go around. Something will have to give.

As a result, builders expect some development to happen in urban areas.

That is already true in places such as Crossroads in Bellevue, where Bellevue-based homebuilder Polygon is planning a 176-unit town house project. Crossroads Village is going up on what today is a big parking lot.

It will also drive development in areas inside the boundary, such as Tehaleh.

“The urban growth boundary is real in King County,” said Eric Campbell, CEO of MainStreet Property Group in Kirkland. “It’s not going to move as much as people would like it to move.”

THE NEW HOUSE-HUNTERS

### HE’S A MILLENNIAL AND HE WANTS TO BUY

Eric Go is an unmarried millennial and plans to buy a house.

“I have a five-year plan,” said Go, a 27-year-old who works in marketing at a Seattle bank. He hopes to buy a house in two to three years, so he tries to save 30 percent of his income.

Go would prefer to buy a single-family house but said he would buy

a condo. “Honestly, if I could afford it I would prefer to live in downtown Seattle. The close-in Fremont neighborhood is appealing too, and obviously everybody loves Capitol Hill.”

But based on what he thinks he’ll be able to afford, he said he’ll end up “probably (in) Renton and potentially Bothell.”

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