

LAND USE, FINANCING AND REGULATIONS ARE ROUNDTABLE ISSUES

July 21, 2016

By Lisa Brown



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[Castle & Nicholson](#)—along with its co-sponsors The Concord Group and Ernst & Young—conducts an executive roundtable of 30 to 40 leaders from the building industry to discuss a wide range of land use, financing, economics, regulatory and business topics. The roundtable brings together developers, investors, bankers, financiers and other industry players to share perspectives on the state of the industry.

Cox, Castle & Nicholson partners Matt Wyman and Erica Bose shared the following takeaways from last month's event in this exclusive.

GlobeSt.com: What is the perception of the state of the industry?

Matt Wyman: There is a lot of change occurring in the real estate industry as a whole. In the office market, service businesses are choosing to shrink footprints. In the hotel industry, there is oversaturation in certain markets. Industrial is overbuilt and retail is facing some serious

SAN FRANCISCO—The roundtable brings together developers, investors, bankers, financiers and other industry players to share intelligence and perspectives on the state of the industry, summarized in this EXCLUSIVE.

For the past six years during PCBC, real estate law firm [Cox](#)

headwinds. Many sectors have increased foreign inflow and many are wondering how the presidential election will impact each sector. The one area where there was a small amount of hope was residential, but opinions are mixed on where we are in the real estate cycle and many believe that different geographic markets will experience the cycle differently.

We took the opportunity of being in a room of experts from the homebuilding industry to ask what factors will be considered in planning for the next two years and what concerns are driving these decisions. The takeaway was questions of concern and caution are local. There are major variances among markets, so threats and concerns don't apply across the board. While some defined target markets as healthy and robust, pointing to higher sales than last year, others expressed deep concern surrounding the affordability issue. Some industry players compared the economy with the 1970s: "multiple recessions with not much growth."

Erica Bose: With these varied points of view, there was great mutual curiosity, with much to learn from each perspective. The hopeful groups and the weary groups were asking questions and drilling down in order to apply those insights to individual business situations.

GlobeSt.com: Did the group see millennials as a major factor in the home-buying sector or do they subscribe to the idea that millennials will continue to rent?

Bose: The overwhelming consensus is that we cannot pigeonhole millennials as one big home-buying group likely to act collectively. A favorite part of this year's discussion was a reference to State Farm's "Never" commercial, where a young man says, "I'm never getting married," followed by, "We're never having kids," followed by, "We're never moving to the suburbs." Almost everyone in the room agreed that it is impossible to talk about the millennial population with a broad brush.

One observation that can be made with a broader brush is the idea that first string suburban areas are very attractive. Millennials who can afford to buy are realizing they can find many of the same comforts of urban living in these desirable suburban areas, i.e., there may not be 50 walkable bars and restaurants, but there are still five great ones.

Wyman: Buyers are more comfortable with the perceived secure investment of close-in markets because they have witnessed the severe depreciation of homes in secondary markets.

GlobeSt.com: What are some of the factors that contribute to making a home affordable?

Wyman: Factors exist on the buyers' sides as well as the sellers' sides. One roundtable attendee mentioned the fact that 70% of American households have a net worth of \$4,000, to which the group responded overwhelmingly that the main issue in transitioning millennials from renters to buyers is their inability to come up with funds for a down payment, a huge issue in the Bay Area. The affordability tension stretches to the sellers' side because homebuilders are struggling with factors such as the price of land and costs in general. Costs continue to rise, closing the margin of profitability and making it more difficult to identify and close on desirable deals.

Bose: One attendee sees the affordability issue as an opportunity to ramp up the house rental business, wherein residents would find comfort in renting a home in their desired area. This slightly amended version of the American Dream with a yard and a picket fence sans mortgage really translates to no down payment.

GlobeSt.com: Did you ask the obligatory "What inning are we in?" question?

Wyman: We did. And the result was probably the most fascinating that we've had in years. No one seemed to want to answer the question at all. Instead people asked, "What game are we even playing?" It was used as an opportunity to drill down about the different markets and slices of the industry in which we are playing.