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U.S. Housing Market Finally Reaches a Turning Point

Rental Demand Leads the Way

New York, NY May 15, 2012 – Home valuations will start to climb again while adjacent consumer industries will capture significant new growth opportunities in 2012 and beyond as the U.S. housing market finally turns the corner, concludes a major new study released today by The Demand Institute. The recovery of the housing market will have far-reaching impacts in the coming years across the United States and international markets as U.S. consumers increase their spending on buying, renovating, furnishing and maintaining their homes.

Launched in February 2012 and jointly operated by The Conference Board and Nielsen, The Demand Institute is a non-profit, non-advocacy organization with a mission to illuminate where consumer demand is headed around the world.

The new report, *The Shifting Nature of U.S. Housing Demand*, predicts that average home prices will increase by up to 1 percent in the second half of 2012. By 2014, home prices will increase by as much as 2.5 percent. From 2015 to 2017, the study projects annual increases between 3 and 4 percent. This recovery will not be uniform across the country, and the strongest markets could capture average gains of 5 percent or more in the coming years.

“In these initial years, the prime driver of recovery won’t be new home construction, but rather demand for rental properties,” said Louise Keely, Chief Research Officer at The Demand Institute and a co-author of the report. “This is a remarkable change from previous recoveries. It is a measure of just how severe the Great Recession has been that such a wide swath of Americans had to delay, scale back, or put off entirely their dreams of home ownership.”

“In the long-term, we don’t expect home ownership rates to change,” said Bart van Ark, Chief Economist at The Conference Board and co-author of the report. “Over 80 percent of Americans in recent surveys still agree that buying a home is the best long-term investment they can make. What will be intriguing to watch is how their aspirations around home ownership are affected by this period of extended austerity.”

Between 2006 and 2011, some \$7 trillion in American wealth was wiped out when home prices dropped 30 percent after dramatic climb in valuations during the housing bubble. Looking forward, the moderate growth expectations for coming years suggest a return to normalcy. As home prices continue to drop and interest rates fall further, first-time buyers and others who remained relatively cautious will be drawn back into the housing market. And, as the market recovers, so too will consumer spending.

“As the U.S. housing market strengthens, almost every consumer-facing industry will be impacted in the coming years,” said Mark Leiter, Chairman of The Demand Institute. “Business and government leaders will benefit by fully understanding the nature of this recovery. In doing so they will be better able to anticipate how consumer demand will evolve, and to formulate critical business and policy decisions to lead their organizations.”

KEY FINDINGS IN THE REPORT

In addition to the projected gains in home prices, the report discusses in detail the dynamics at work in the U.S. Housing market and the impacts across industries. What follows are highlights from the report:

- **The recovery will be led by demand from buyers for rental properties**, rather than, as in previous cycles, demand from buyers acquiring new or existing properties for themselves. More than 50 percent of those planning to move in the next two years say they intend to rent.
- **Young people—who were particularly hard hit by the recession—and immigrants will lead the demand for rental properties.** Developers and investors will fulfill it, developers by building multifamily homes for rent (that is, buildings containing two or more units, such as apartment blocks or townhouses), and investors by buying foreclosed single-family properties for the same purpose.



- **Rental demand will help to clear the huge oversupply of existing homes for sale.** In 2011, some 14 percent of all housing units were vacant, while almost 13 percent of mortgages were in foreclosure or delinquent—increases of 12 and 129 percent respectively over 2005 levels. It will take two to three years for this oversupply to be cleared, and at that point home ownership rates will rise and return to historical levels.
- **The housing market recovery will not be uniform across the country.** Some states will see annual price gains of 5 percent or more. Others will not recover for many years. The deciding factors will include the level of foreclosed inventory and rates of unemployment.
- **There will also be vast differences within states.** Here, additional factors count, such as whether local amenities, including access to public transport, are within walking distance of homes. By examining seven factors that influence house prices at a local level, the report identifies four categories of cities and towns in which prices will behave differently.
- **The average size of the American home will shrink.** Many baby boomers who delayed retirement for financial reasons during the recession will downsize. They will not be alone. The majority of Americans have seen little or no wage increase for several years, and many will scale back their housing aspirations. The size of an average new home is expected to continue to fall, reaching mid-1990s levels by 2015.
- **Consumer industries including financial services, home furnishings, home remodeling will all experience shifts in demand and new growth opportunities.** Part of this spending is linked to increases in wealth from improving home valuations, while an even bigger part is tied to the “transaction” of buying or selling the home which sets in motion increased demand for a wide range of products and services.
- **Despite the number of Americans who have been hurt financially by the housing crash, the desire to own a home remains strong.** We do not expect to see a long-term drop in ownership rates. Indeed, one survey has revealed that more than 80 percent of Americans recently thought buying a home remained the best long-term investment they could make.

The new report, *The Shifting Nature of U.S. Housing Demand*, can be downloaded at The Demand Institute’s website: www.demandinstitute.org.

Contacts:

Jonathan Liu, The Conference Board, 212.339.0257, jonathan.liu@conference-board.org
Ralph Piscitelli, The Conference Board, 212.339.0441, ralph.piscitelli@conference-board.org

About The Demand Institute

The Demand Institute illuminates how consumer demand is evolving around the world. We are on a mission to strengthen the growth and vitality of the global economy by helping public- and private-sector leaders align strategies and investments to where consumer demand is headed across industries, countries and markets. The Demand Institute is a non-advocacy, non-profit organization and a division of The Conference Board, which holds 501(c)(3) tax-exempt status in the United States. The Demand Institute is jointly operated by The Conference Board and Nielsen. Our headquarters is in New York City, with a presence in Beijing, Brussels, Chicago, Hong Kong, Mumbai, Singapore and Washington, D.C. For more information, please visit demandinstitute.org

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