Keller Center Research Report: Intentionally Searchable and Global
Andrea Dixon, PhD - Editor, Keller Center Research Report

Communicating the Value of the Real Estate Professional
Daria Dzyabura, PhD

Innovative Mobile Marketing via Smartphones: Are Consumers Ready?
Ajax Persaud, PhD and Irfan Azhar, MEBT

Legislation as a Tool for Reform: The Case of New Zealand
Robert Davis, PhD

Housing & Health Care: Why Should You Care?
Dennis Thé, MBA Candidate

INSIDER: How Technology is Changing the Sales Environment
Jacob Christie, MBA Candidate; Andrea Dixon, PhD; Curtis Schroeder, MBA Candidate;
Mark Tarro, MBA Candidate; and Dennis Thé, MBA Candidate

INSIDER: Using “Power Questions” to Improve Your Business
Mark Tarro, MBA Candidate
Housing & Health Care: Why Should You Care?
By Dennis Thé, MBA Candidate – Health Care Administration

The Bureau of Labor Statistics reports that the major components of spending – food, housing apparel and services, transportation, health care, entertainment, and personal insurance and pension – account for approximately 90% of household expenditures in the US. Housing is the largest component of this spending and accounts for about one-third of total expenditures. Health care expenditures, while only representing about 5% of this total, do not represent a major component of spending but nevertheless are a very necessary expense. Data from the Bureau of Labor Statistics show that health care expenditures are gradually increasing even in the midst of economic uncertainty (Bureau of Labor Statistics 2012).

While seemingly unrelated, this economic trend has important implications for real estate professionals. Agents must understand that a constant increase in health care expenditures means that households will spend less in other areas – in particular housing. Additionally, during times of economic uncertainty, this trend becomes magnified as total household expenditures will likely decrease while the overall proportion spent on health care will continue to increase.

This article will examine how housing and health care expenditures changed during the recent Great Recession of 2007-2009 and why real estate professionals must remain engaged in the conversations surrounding health care and the economy. Health care spending in the US is growing at an unsustainable rate and rising costs affect all facets of our lives. Holistic reform must occur to curb this spending – but in the meantime, it is vital for agents to understand the adverse effect of increasing health care costs on the overall spending habits of their clients.

While the real estate industry may not be able to completely offset the effects of a recession or curb rising health care costs, the enlightened real estate professional can play a role in educating clients and actively campaigning for health care policy reform. As consumers, we must recognize that, similar to the price of houses, health care expenditures cannot continue to rise before a tipping point is reached.

The Great Recession (2007-2009)

The Great Recession stemmed from turbulence in the sub-prime segment of the US housing markets and mutated into a full-blown recession. The US Bureau of Economic Analysis (BEA) reported that this down cycle started in December of 2007 and ended in June of 2009 – although the lingering effects of high unemployment rates still plagued the US in subsequent months.
Between 2007 and 2009, foreclosures skyrocketed to 4 million homes and 8.4 million jobs were lost (Cadiuex & Conklin 2010). The sharp rise in the unemployment rate and a discouraging job market caused a decline in the percentage of the US population in the labor force (those either working or looking for work). As a result, the percentage of the population with a job fell sharply (see Appendix). In January 2013, the labor force participation rate and the percentage of the population with a job remained near levels last seen in the 1980s (Cadiuex & Conklin 2010). The rate of growth of housing expenditures also slowed to 1.1% in 2008 and decreased by 1.9% in 2009. However, during this time, health care expenditures increased by 3-5% annually.

This economic uncertainty impacted all components of spending. During the Great Recession, median incomes of family and personal consumer expenditures both fell. As a result, the personal savings rates of American households – which are inversely correlated with the value of homes – increased indicating that American households reeled-in their spending habits and cut expenses across the board. When coupled with constantly increasing health care expenditures, housing expenditures were directly impacted. Since American households spent less as a whole and housing expenses represent such a large proportion of expenditures, it was logical that the amount households spent on housing decreased.

While it may not be entirely feasible to make significant cuts on necessary expenses such as food or transportation, households are able to cut back or limit housing expenditures. Consumers considering a move may buy a more inexpensive home, decide to rent, or may not move at all. Most real estate professionals felt this effect severely, and some areas of the country saw an exit of agents from the profession by upwards of 25% (Lawrence 2011). The Great Recession was an important economic event for us all – but it held severe implications for the real estate industry.

The Increasing Cost of Health Care – We Are All Effected

In 2009, when the full weight of the Great Recession was in play, US households spent less on all major components of spending with the exception of health care (Bureau of Economic Analysis 2009). A continued increase in healthcare spending can be attributed to a number of factors, including the third-party payer system, increased expenses in the medical technology sector, and an aging baby-boomer population, all of which moderate the impact of a recession on the consumer.

With a third-party payer system, patients who utilize healthcare services are not economically liable for the healthcare services that they consume. Payments to providers are made by private insurance companies. Consequently, patients consume more health care services than they otherwise would if they were economically responsible. As a result, this third-party payment
system drives up the overall cost of healthcare services through higher costs of insurance premiums.

There are plenty of social and economic incentives to spend on medical technology. In fact, spending in this sector has become highly valued and almost expected by Americans (Khan 2010). Advancement in medical technology helps to provide new treatments and therapies with improved success of medical care to patients. Historically speaking, the advancement of medical technology has improved the quality of patient care but is very capital-intensive. Health care economists estimate that spending in medical technology accounts for 40%-50% of the increase in healthcare costs (The Social Security Advisory Board 2009). As the US has become a global leader in health care technology, there is a continuous demand for breakthroughs in medical technology. As a result, more capital investments are made into medical research and development that has significantly driven up the cost of health care.

Lastly, our aging population plays a critical role in rising health care expenditures. Born between 1946 and 1964, Baby-Boomers count for 79 million or about 30% of the population of the US (Barry 2010). Couple this influx of baby-boomers with an increase in life expectancy rate, and it is easy to see that how elderly populations account for such a disproportionate amount of the utilization of health care resources. For this reason, Baby-Boomers are often at the center of the health care policy debate regarding issues such as Medicare and Social Security.

Why Real Estate Professionals Should Care

The Great Recession has shown us how economic uncertainty effects overall household expenditures. More specifically, we know that during these times, households tend to save more and spend less. This is especially relevant to the housing sector, which accounts for about one-third of all household expenses. The US spends more on health care than any country. And at the US current rate of growth, health care costs are predicted to double to $4.5 trillion, representing 20% of total GDP (Centers for Medicare and Medicaid). This rate of spending is unsustainable. We have attributed rising health care costs to an imperfect payer system, increased medical technology costs, and an aging Baby-Boomer population – it is likely that health care expenditures will continue to climb despite economic uncertainty.
Knowing this, real estate professionals must recognize that their opportunity to capture a slice of the spending “pie” is going to decrease. Households that cut back on spending will likely look to housing as one of the most obvious areas to cut expenditures.

The real estate industry may have little power to effect economic cycles or curb health care expenditures, but this does not mean that the industry is helpless in affecting health care reform. Because we see that the rise in health care costs have a direct impact on the real estate industry, agents must take a more proactive stance in health care policy. This starts with understanding how state and federal policies affect the lives of their clientele. Other ways of taking action include writing to respective public officials, attending community health information meetings, and/or serving on boards for community hospitals and health care organizations. Real estate professionals must become a person of influence in their communities by proactively advocating for health care reform and providing a “voice” on the threat of rising health care expenditures and how that potentially affects their community. In truth, we all have a responsibility to take action.

Real estate professionals who wish to better understand their clientele must be able to think beyond the scope of an isolated real estate industry and realize the dynamic relationship between the economy, health care, and housing expenditures. It is clear that rising health care costs will impact the trends of housing spending.

Appendix: Supplemental Data

The following data was used to support the overall conclusions drawn in this article.

Median Income per State

The median U.S. household makes over $50,000 annually, but median income rates vary dramatically from state to state. Trends emerge within geographic regions--some of the lowest rates can be found in southern states. The median household in Mississippi makes less than $37,000 a year. New Jersey, Connecticut, and Massachusetts boast some of the highest median incomes. (Median U.S. Household Income by State, 2010).

Healthcare Spending per State

In 2010, the Center for Medicare and Medicaid reported that the US spent $2.6 trillion on healthcare which amounts to a little over $8,000 per person. The U.S. spends more on health care than any other country in the world as a percentage of gross domestic product (Kaiser Family Foundation, 2012). The Centers for Medicaid and Medicare (CMS) reports that health care spending per capita was $7,845 in 2008 and will jump to $13,709 in 2018. Additionally, US healthcare spending is anticipated to skyrocket to almost 20% of GDP in 2020. There is significant variation in spending per capita per state. The District of Columbia leads way with
spending per capita of $10,349 and on the other side of the spectrum, the cost of healthcare spending per capita in Utah amounted to $5,031. (Center for Medicare and Medicaid 2010)

Housing Spending

Home prices vary substantially from state to state but there is no systematic measurement of new home prices across the US. In 2007, The National Association of Home Builders released a study that reported median prices of new homes built in each state. The median new home price estimates for 2007 vary by as much as 300 percent across the US. Hawaii has the highest median new home price ($543,512), followed by California ($518,836). States along the east coast such as New Jersey ($469,293), Virginia ($463,566) and Maryland ($435,528) also show high estimated median new home prices. These five states have the highest median price estimates. States in the South have relatively low estimated median new home prices. Louisiana, Arkansas and Mississippi fall into the lowest median price bracket and the five states with lowest median new home prices are West Virginia ($164,661), Alabama ($154,433), Louisiana ($147,310), Arkansas ($137,516) and Mississippi ($135,260).

As a benchmark comparison, in the years leading up to 2007-2009 recession, Real GDP grew by 3.1% and 2.7% in 2005 and 2006 respectively. Median income and personal consumer expenditures rose each year. Additionally, housing expenditures saw growth rates of 9% in 2005 and 7.9% in 2006. Lastly, it was not uncommon for health care expenditures to rise by 7% to 9% annually.

References


Kaiser Family Foundation (2012), Health Care Costs: A Primer.

Lawrence, Blythe (2011, July 1), "Great Recession sheds real-estate agents, attracts newcomers to the business," *The Seattle Times*.


The Social Security Advisory Board (2009), The Unsustainable Cost of Health Care Costs.

**About the Author**

**Dennis Thé, MBA Candidate – Health Care Administration**

**Baylor University**

Dennis is a 2nd year graduate student from Boston, Massachusetts pursuing an MBA in Health Care Administration. Dennis' professional experience includes over 6 years of marketing and project management experience in IT, an administrative residency at Vanguard Health Systems, and over 7 years of community service. He is passionate about health care with a strong interest in health care policy, payer reform, and population health management models.