Design That Draws: Attracting New Demographics to the Suburbs

# Do Millennials Hate The Suburbs?
# The Demographic Perspective

**Emi Adachi**

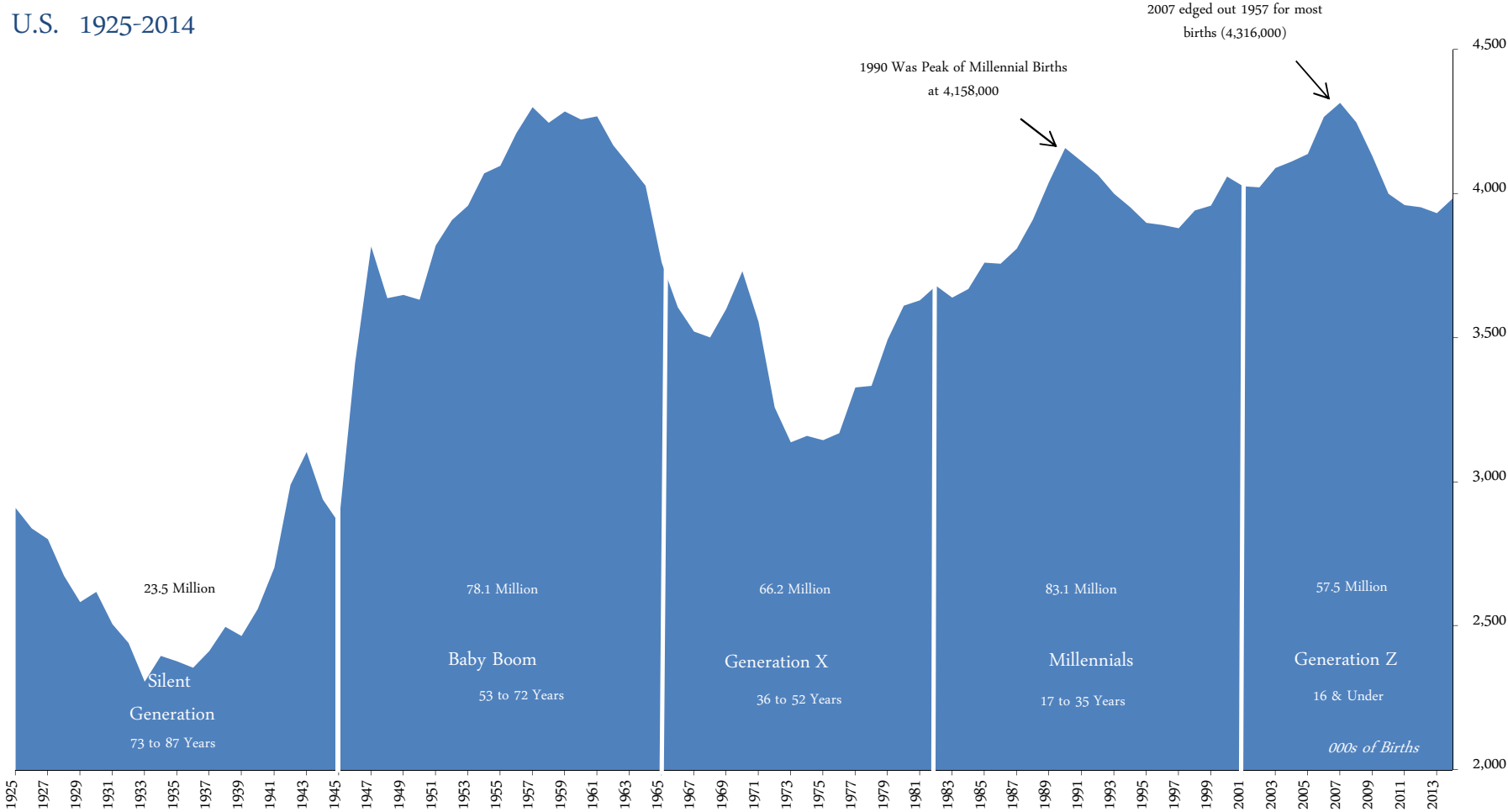March 16, 2017

HEITMAN
50
FIVE DECADES SERVING CLIENTS

# Millennials Born Between 1982 and 2000; are aged 17-35 years old in 2017

### Births by Generation

U.S. 1925-2014

2007 edged out 1957 for most births (4,316,000)

1990 Was Peak of Millennial Births at 4,158,000

23.5 Million

**Silent Generation**

73 to 87 Years

78.1 Million

**Baby Boom**

53 to 72 Years

66.2 Million

**Generation X**

36 to 52 Years

83.1 Million

**Millennials**

17 to 35 Years
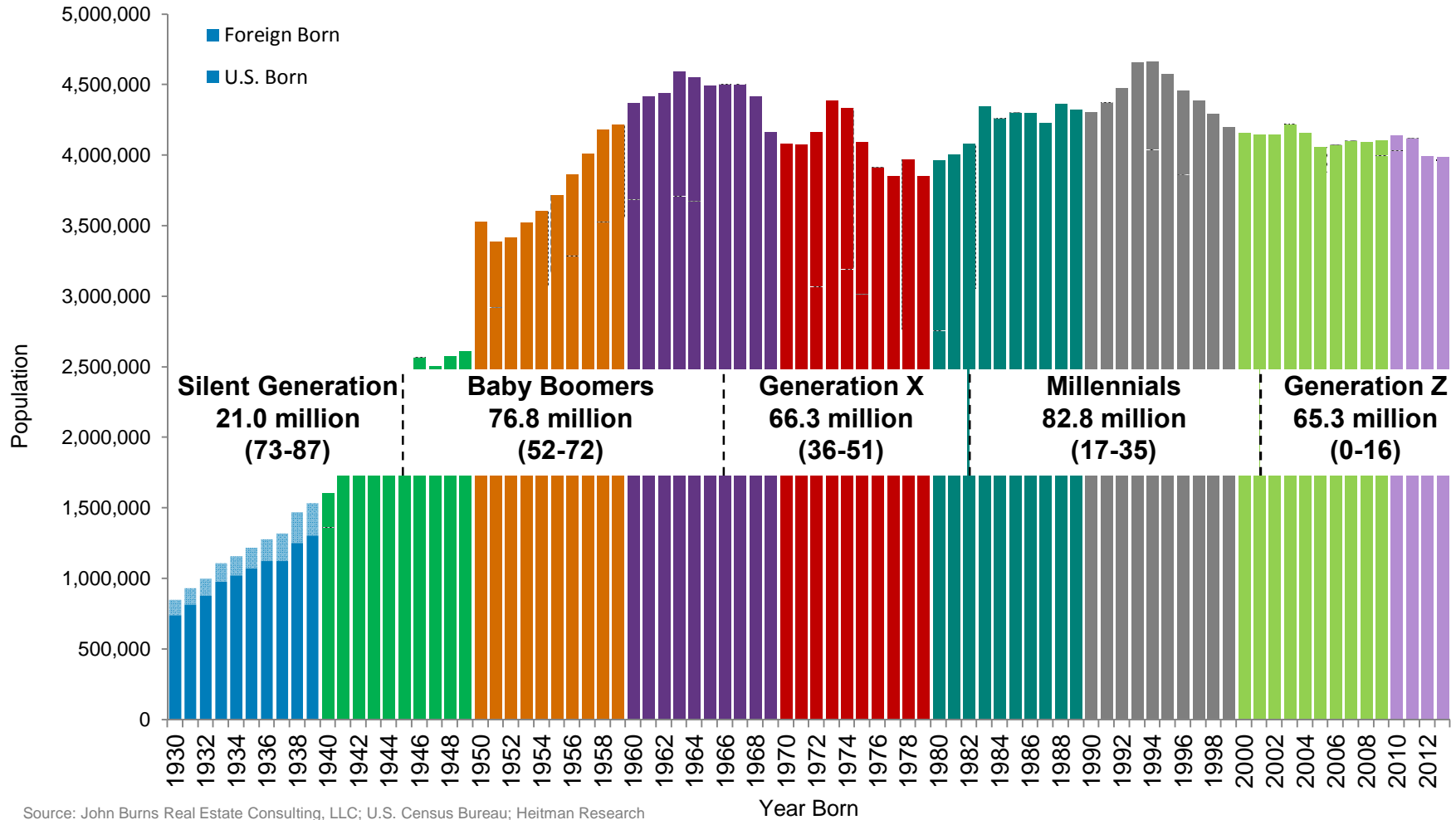
57.5 Million

**Generation Z**

16 & Under

*000s of Births*

Source: National Center for Health Statistics, US Census Bureau; PopStats; Heitman Research

# Millennials are the largest cohort in the U.S.

**2013 POPULATION BY YEAR BORN AND NATIVITY**



Legend:
- ■ Foreign Born
- ■ U.S. Born

| Silent Generation | Baby Boomers | Generation X | Millennials | Generation Z |
|---|---|---|---|---|
| 21.0 million (73-87) | 76.8 million (52-72) | 66.3 million (36-51) | 82.8 million (17-35) | 65.3 million (0-16) |

Y-axis: Population (0 to 5,000,000)
X-axis: Year Born (1930 to 2012)

Source: John Burns Real Estate Consulting, LLC; U.S. Census Bureau; Heitman Research

# What do you think of when someone says Millennial?

**Exhibit 5: Opinions of Generation Y, Millennials vs. Non-Millennials**
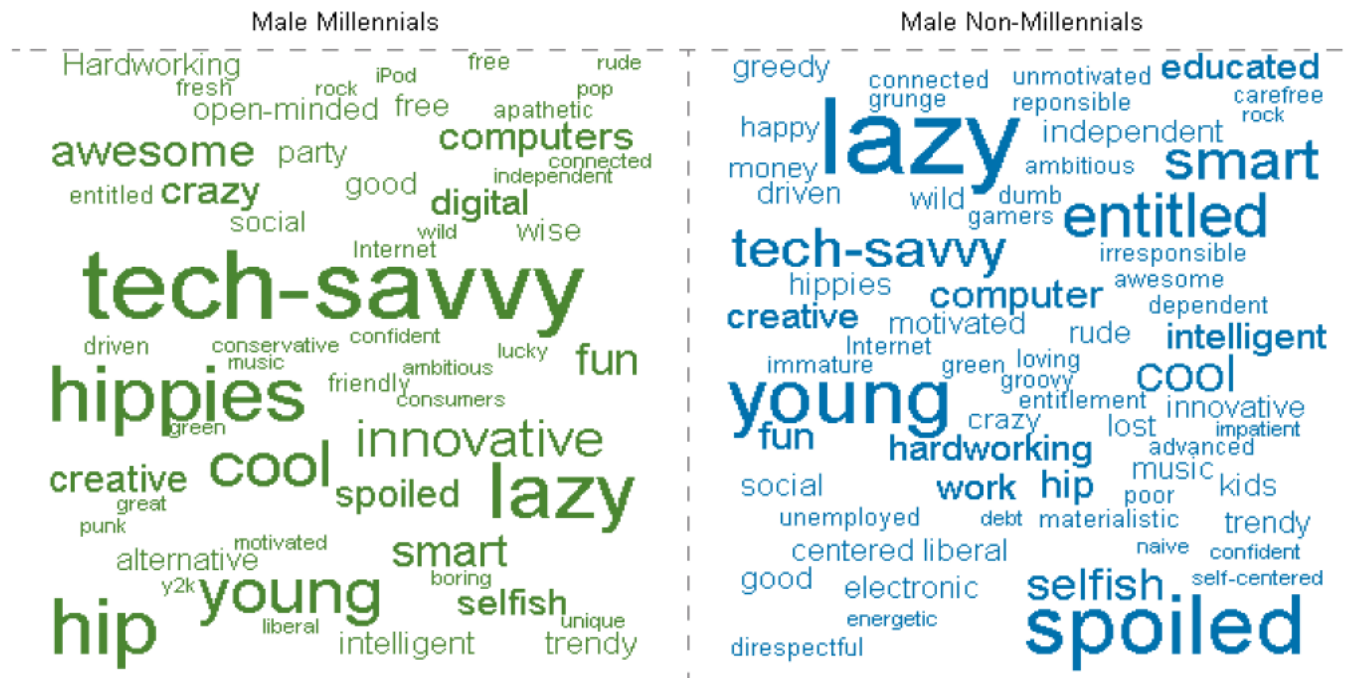
Source: BCG. *size of word denotes frequency in survey

# What makes your generation unique?

Answers from respondents who said their generation was unique/distinct:

| Millennials | Gen X | Baby Boomers | Silent Generation |
|---|---|---|---|
| 1. Technology use (24%) | 1. Technology use (12%) | 1. Work ethic (17%) | 1. WWII, Great Depression (14%) |
| 2. Music/pop culture (11%) | 2. Work ethic (11%) | 2. Respectful (14%) | 2. Smarter (13%) |
| 3. Liberal/tolerant (7%) | 3. Conservative/ traditional (7%) | 3. Values/morals (7%) | 3. Honest (12%) |
| 4. Smarter (6%) | 4. Smarter (6%) | 4. %Baby boomers+ (6%) | 4. Work ethic (10%) |
| 5. Clothes (5%) | 5. Respectful (5%) | 5. Smarter (5%) | 5. Values/morals (10%) |

Millennials: technology is dominant factor; Gen X: less consensus about defining traits

Boomers: values-basedõ  also kind of smug?

Silent Generation: shared experiences, also values-based

Source: Pew Research Center 2010 Survey

# How are generations shaped?

**LIFE CYCLE EFFECTS**

Younger people exhibit different behaviors than older generations today, but they are likely to become more like them as they age and move through various life stages

**PERIOD EFFECTS**

Major events (wars, social movements, recessions, technological breakthroughs) affect all cohorts, but the impact often differs based on where people are in their life cycle
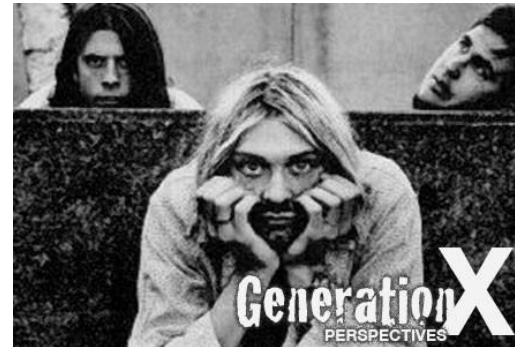
**COHORT EFFECTS**

Young people in the formative stages of adulthood are often deeply affected by period events and trends, and these stay with them throughout their lives
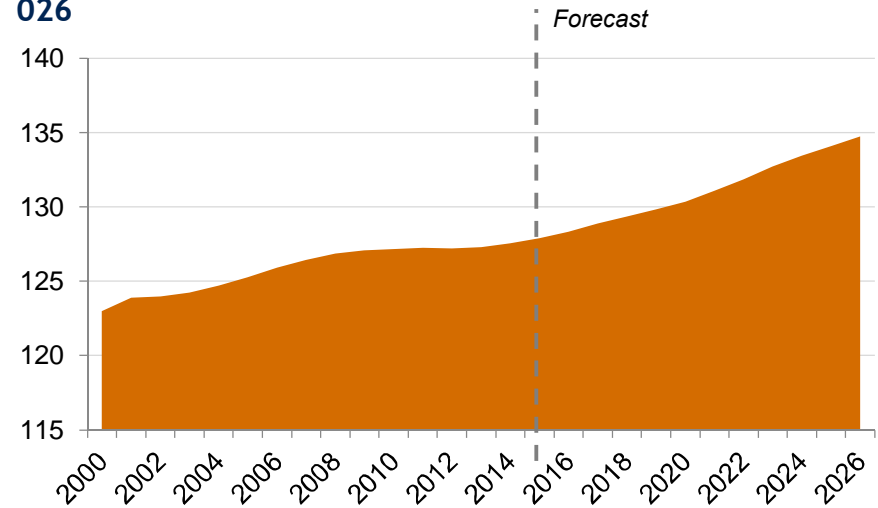
*WHILE GENERATIONS HAVE PERSONALITIES, THEY ARE NOT MONOLITHIC*

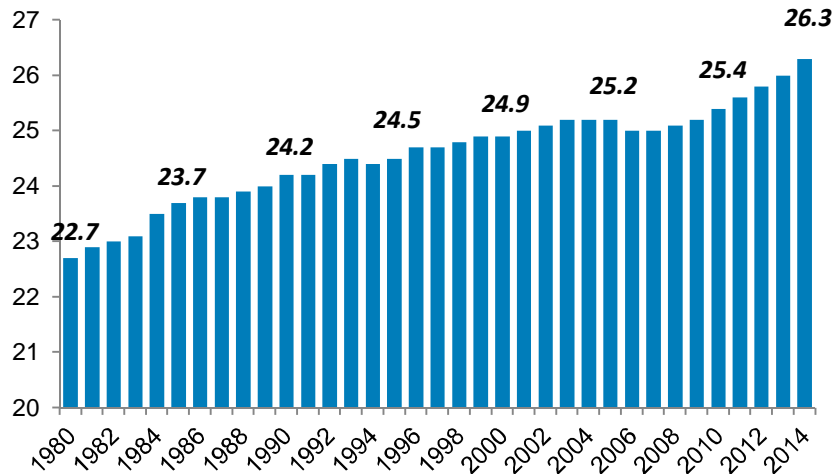# Millennials are growing older, but will they finally grow up?

**HEITMAN**

The oldest Millennials are aging into their prime working/spending/family formation years, with implications for:

Residential

Office

Retail

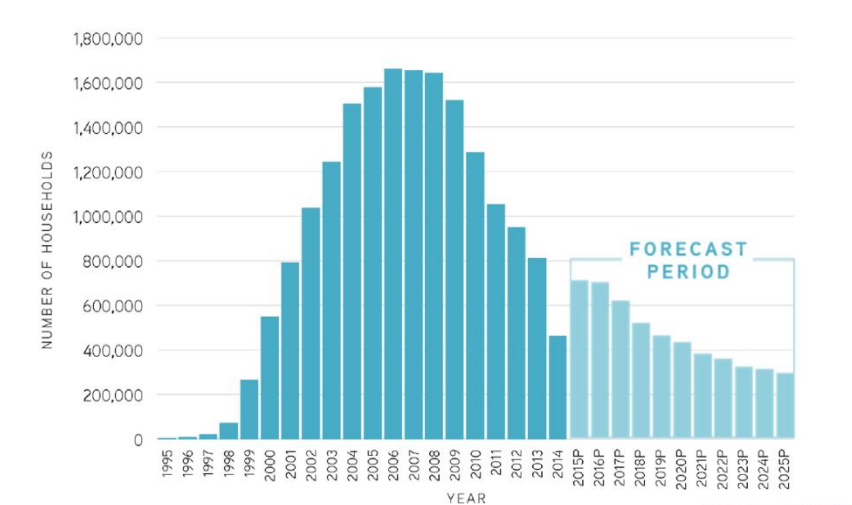## RIME WORKING AGE COHORT (25-54) 2000-026

*Forecast*



## WOMEN'S MEAN AGE AT FIRST BIRTH



Source: Centers for Disease Control and Prevention, National Vital Statistics Report; Heitman Resear

**NET HOUSEHOLD FORMATION BY THOSE BORN IN THE 1980s, 1995-2025**



FORECAST PERIOD

Source: John Burns Real Estate Consulting, LLC based on US Census Bureau data

BIG SHIFTS AHEAD

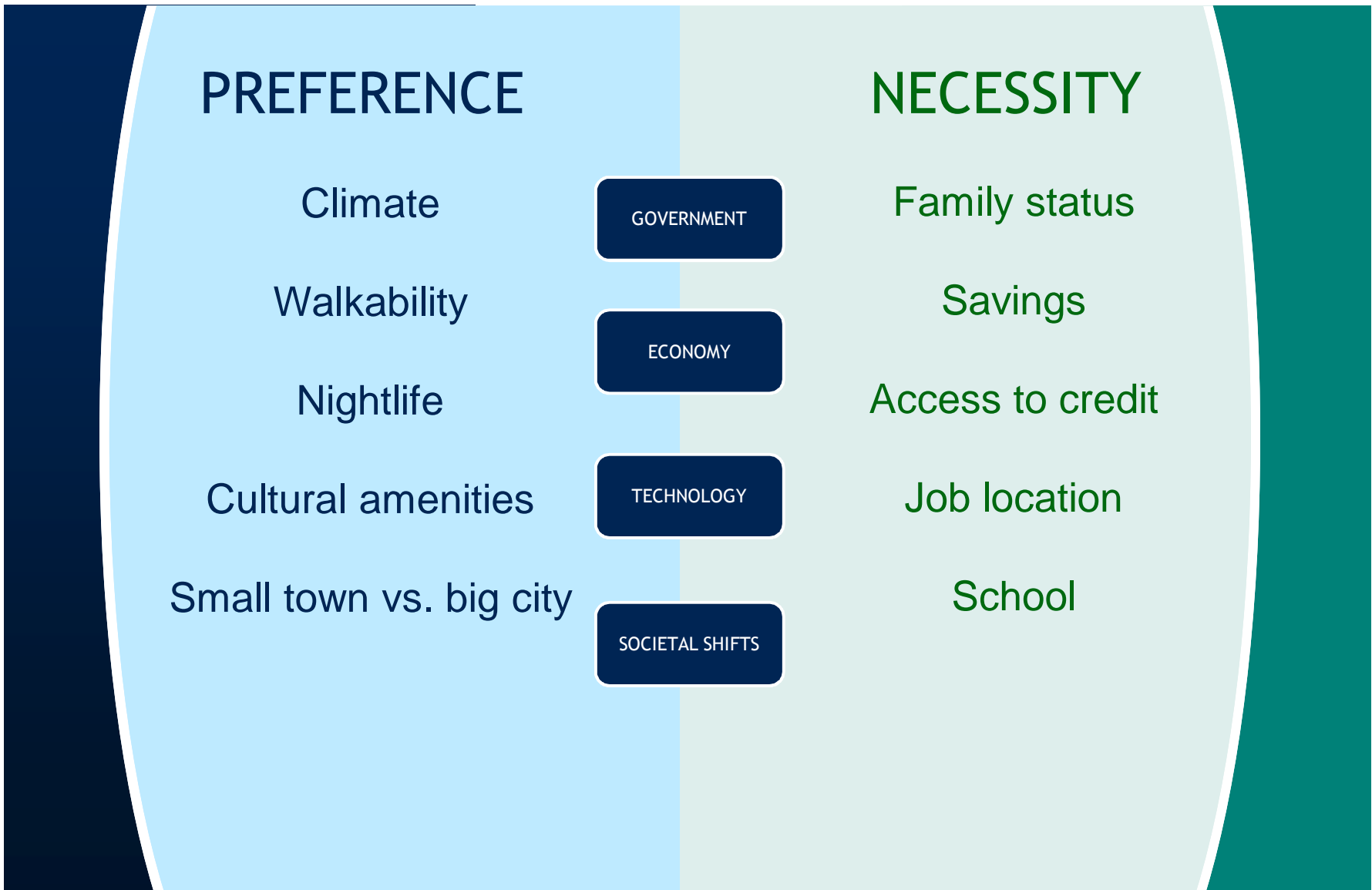# Decisions are based on a combination of preferences and necessity

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## PREFERENCE

Climate

Walkability

Nightlife

Cultural amenities

Small town vs. big city

## NECESSITY

Family status

Savings

Access to credit

Job location

Schools
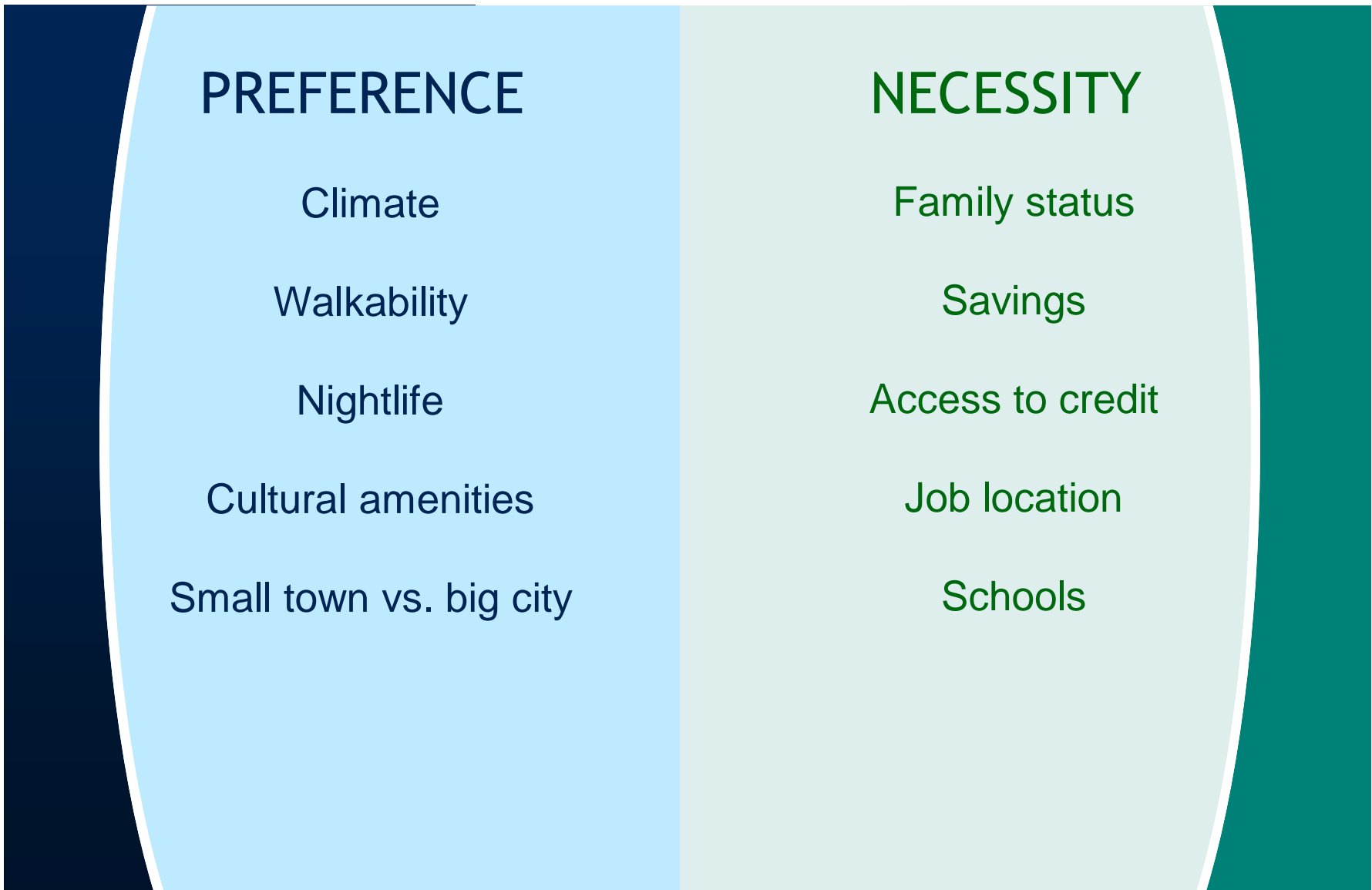
# Big-picture trends influence personal choices/circumstances

## PREFERENCE

Climate

Walkability

Nightlife

Cultural amenities

Small town vs. big city

GOVERNMENT

ECONOMY

TECHNOLOGY

SOCIETAL SHIFTS

## NECESSITY

Family status

Savings

Access to credit

Job location

School

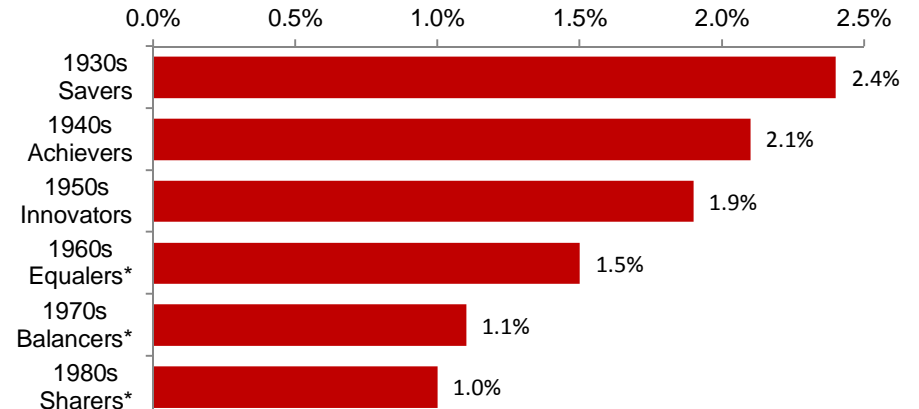# Why aren't millennials buying homes?

## Fallout from GFC and societal shifts hit homeownership for all cohorts, but Gen X and Millennials in particular

- Each generation has worked in a period of slower economic growth than the prior

- Declining incomes for low-skill workers drives a socioeconomic divide

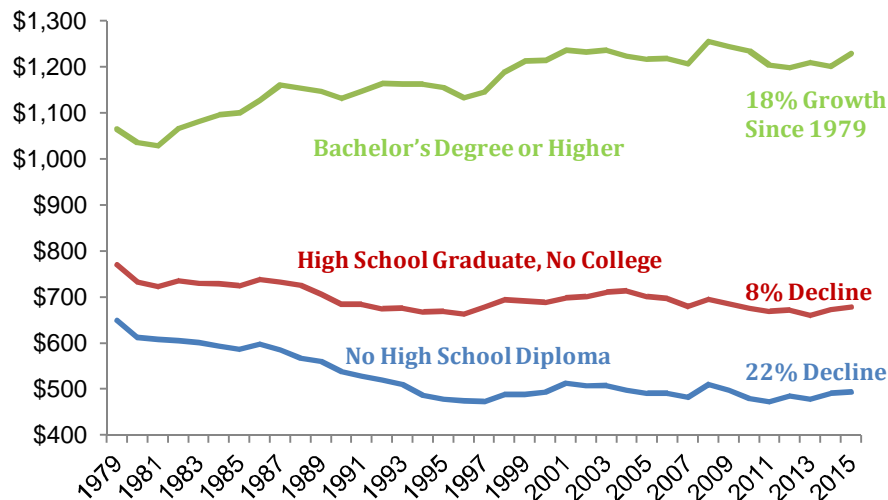- Delayed household/family formation for reasons economic and social pushes back home purchase

**AVERAGE REAL GDP GROWTH PER CAPITA DURING PRIME WORKING YEARS (25-54)**

| | |
|---|---|
| 1930s Savers | 2.4% |
| 1940s Achievers | 2.1% |
| 1950s Innovators | 1.9% |
| 1960s Equalers* | 1.5% |
| 1970s Balancers* | 1.1% |
| 1980s Sharers* | 1.0% |

*Horizontal axis: 0.0%, 0.5%, 1.0%, 1.5%, 2.0%, 2.5%*
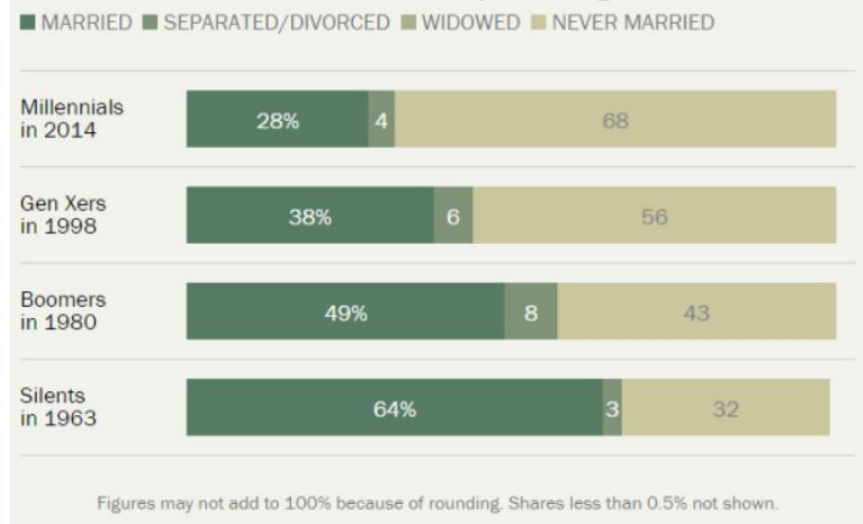
\* Prime working years not yet complete

Source: John Burns Real Estate Consulting, LLC calculations of Bureau of Economic Analysis data

**REAL MEDIAN WEEKLY EARNINGS BY EDUCATION, 1979-2015**

Bachelor's Degree or Higher — **18% Growth Since 1979**

High School Graduate, No College — **8% Decline**

No High School Diploma — **22% Decline**

Source: U.S. Bureau of Labor Statistics; Heitman Research

**Marital Status when they were ages 18-33**

■ MARRIED  ■ SEPARATED/DIVORCED  ■ WIDOWED  ■ NEVER MARRIED

| | MARRIED | SEPARATED/DIVORCED | NEVER MARRIED |
|---|---|---|---|
| Millennials in 2014 | 28% | 4 | 68 |
| Gen Xers in 1998 | 38% | 6 | 56 |
| Boomers in 1980 | 49% | 8 | 43 |
| Silents in 1963 | 64% | 3 | 32 |

Figures may not add to 100% because of rounding. Shares less than 0.5% not shown.

# The American Dream of homeownership isn't dead, or is it?

## Numerous surveys indicate that young renters would still like to buy a home someday
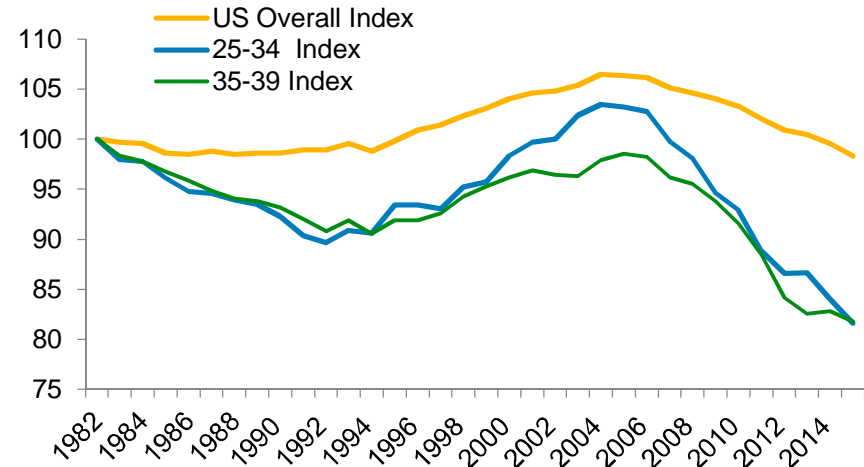
**60%** of millennials surveyed globally by CBRE plan to buy

Fannie Mae survey found **76%** of young renters think owning makes more sense for financial reasons and **59%** for lifestyle reasons
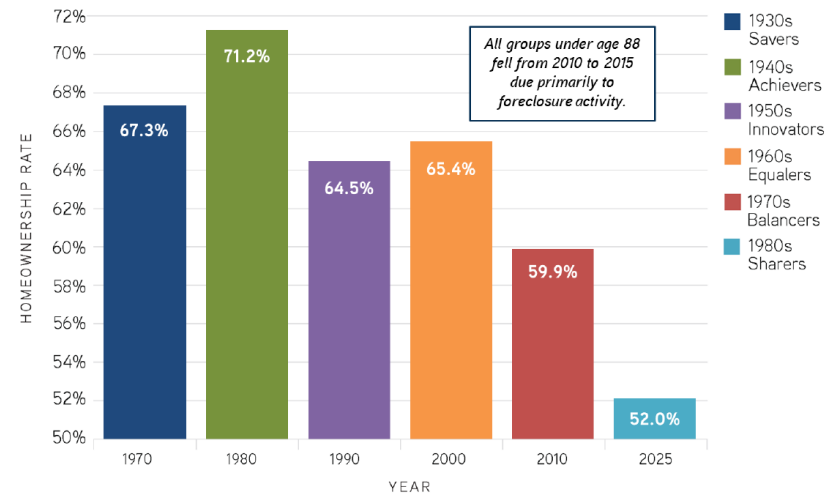
ULI/UDR survey of Millennials: **70%** expect to be homeowners by 2020. **62%** expect to live in single family home.

## Large portions of the U.S. population are at (or past) the point of typical first home purchase. Will some be shut out of homeownership even longer?

**HOMEOWNERSHIP RATE BY AGE COHORT**



- US Overall Index
- 25-34 Index
- 35-39 Index

**HOMEOWNERSHIP RATE AMONG 38-YEAR-OLD HOUSEHOLDERS**



All groups under age 88 fell from 2010 to 2015 due primarily to foreclosure activity.

- 1930s Savers
- 1940s Achievers
- 1950s Innovators
- 1960s Equalers
- 1970s Balancers
- 1980s Sharers

1970: 67.3%  1980: 71.2%  1990: 64.5%  2000: 65.4%  2010: 59.9%  2025: 52.0%

Source: John Burns Real Estate Consulting, LLC based on US Census Bureau data and extensive analysis of each age cohort.

BIG SHIFTS AHEAD
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# The Urbanization Myth

## The urban growth story is more nuanced than headlines might suggest

A majority of the U.S. population (including millennials) still lives in suburbs or small MSAs

While urban areas have seen growth in Millennial households, many urban cores are so expensive only HENRYs can live there
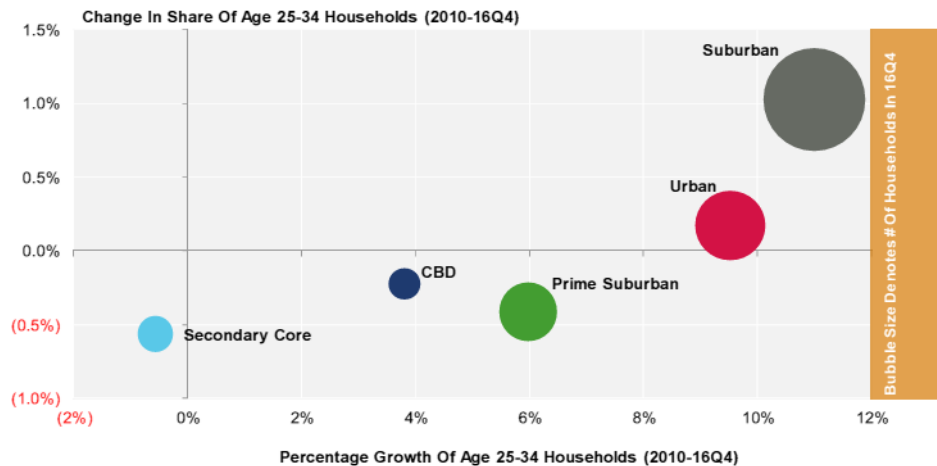
The trend is highly market-specific

**U.S. POPULATION BY AREA TYPE, 2000-2015**
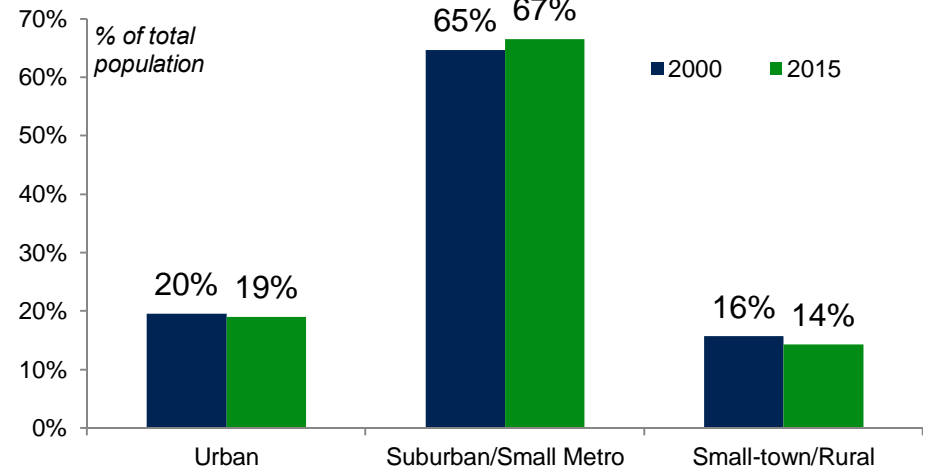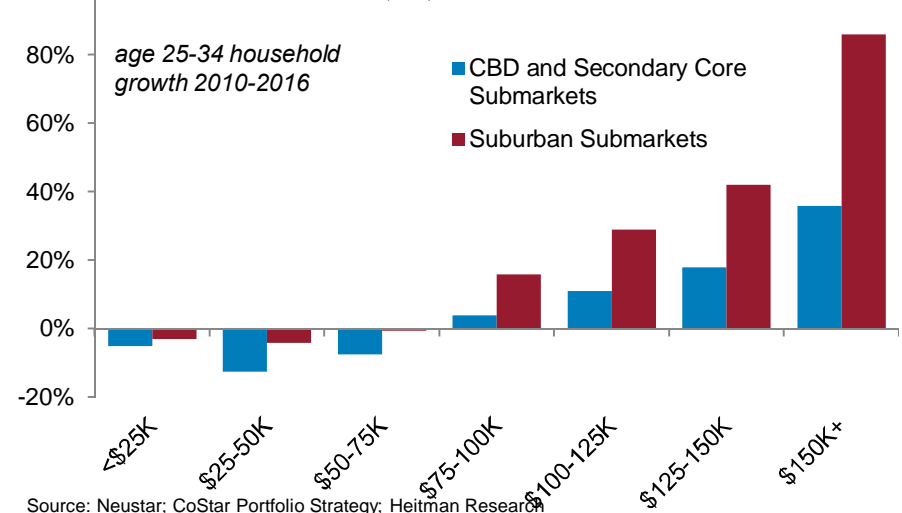


Source: U.S. Census Bureau; Heitman Research

**Age 25-34 Household Growth By District Type From 2010-16Q4**



Sources: Neustar; CoStar Portfolio Strategy
**Analysis limited to National Index (54 major metros)
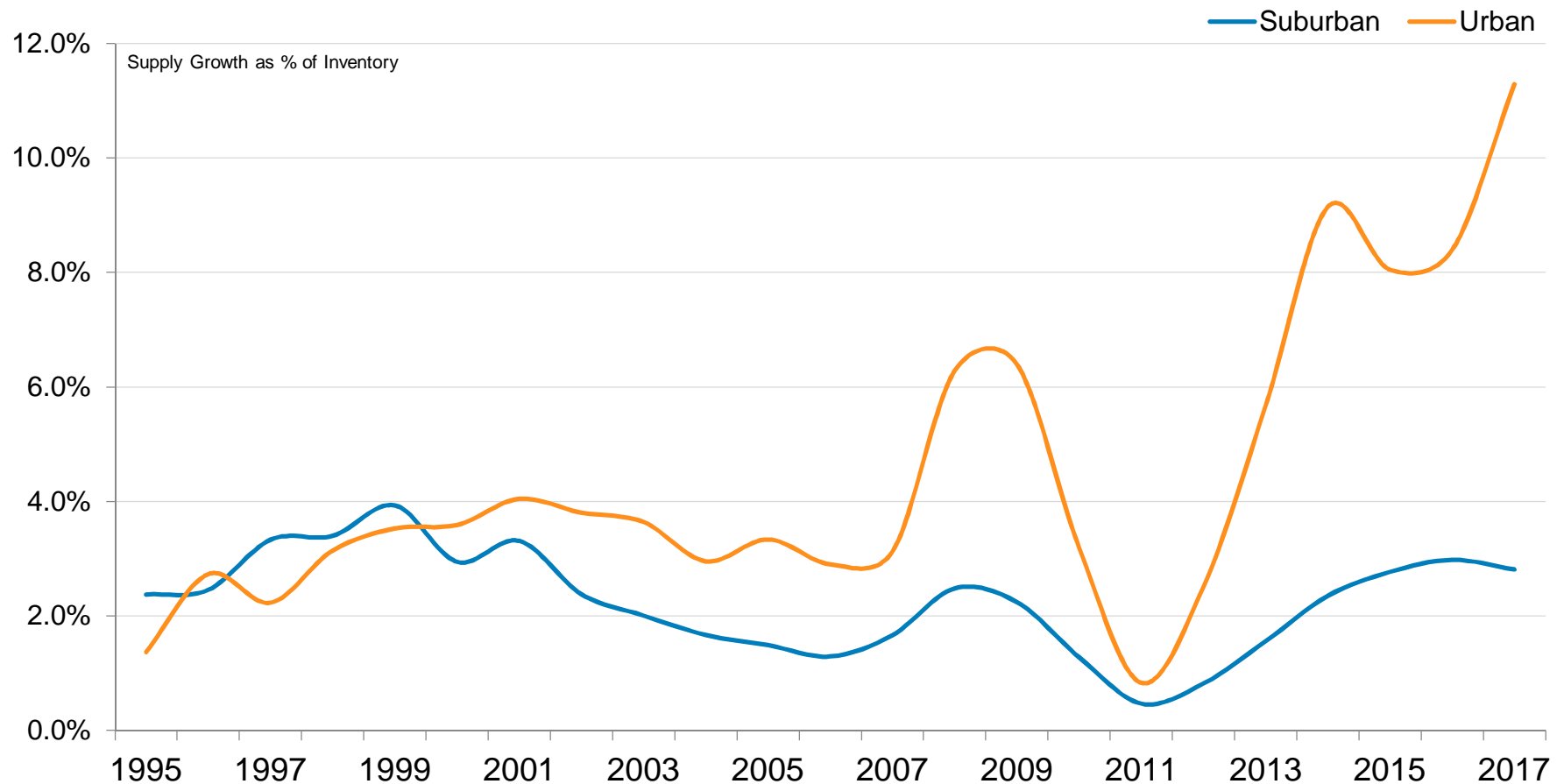
As of 16Q4

**25-34 HOUSEHOLD GROWTH BY INCOME AND DISTRICT TOP 54 METROS 2010-2016 (Q4)**



Source: Neustar; CoStar Portfolio Strategy; Heitman Research

# A lack of nuanced understanding of trends can lead to market imbalances

INSTITUTIONAL-QUALITY APARTMENT SUPPLY GROWTH AS % OF INVENTORY
US 1995-2017



Source: Axiometrics; Costar Portfolio Strategy; Heitman Research
Note: 2017 reflects Axiometrics forecast

# Attributes of attractive apartment investments

## Urban Core

Easy access to public transportation or walkable to major employment center

Abundant retail/entertainment amenities in the surrounding area

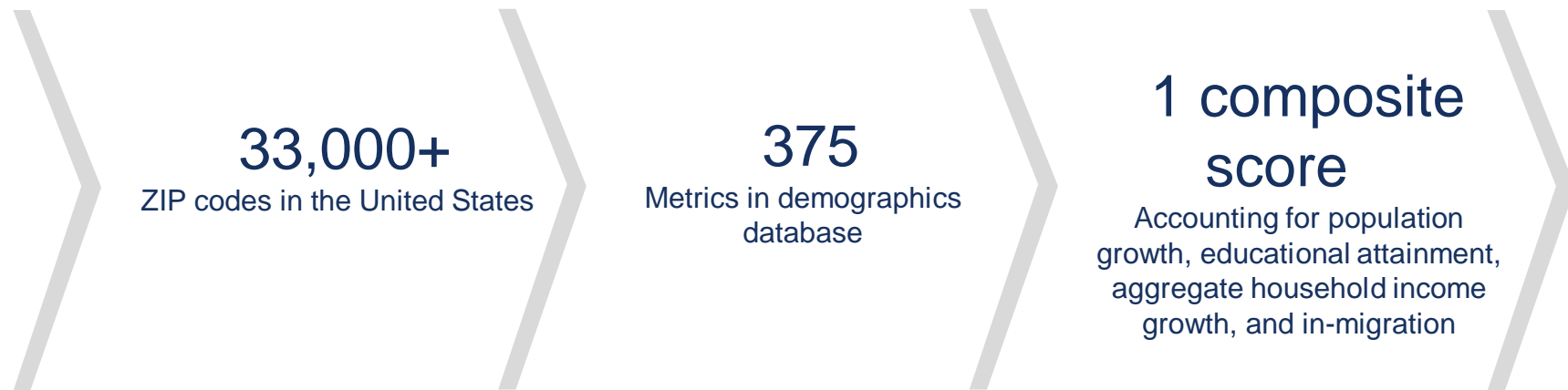Above-average household income and education levels in the surrounding area

Cost of rent should not exceed the cost to own like-kind residence in the trade area.

Community should have common area amenities in line with top of market or ability to add adequate amenities

Low concentration of studios and/or small 1-bedroom units.  These units tend to experience higher turnover.

## Suburban

Access to public transportation and/or major employment node

Retail/entertainment amenities, as well as market dominant grocer in the surrounding area

Above-average school district

Cost of rent should not exceed the cost to own like-kind residence in the trade area.

Community should have common area amenities in line with top of market or ability to add adequate amenities

Higher than average concentration of 2-bed or 3-bed units.

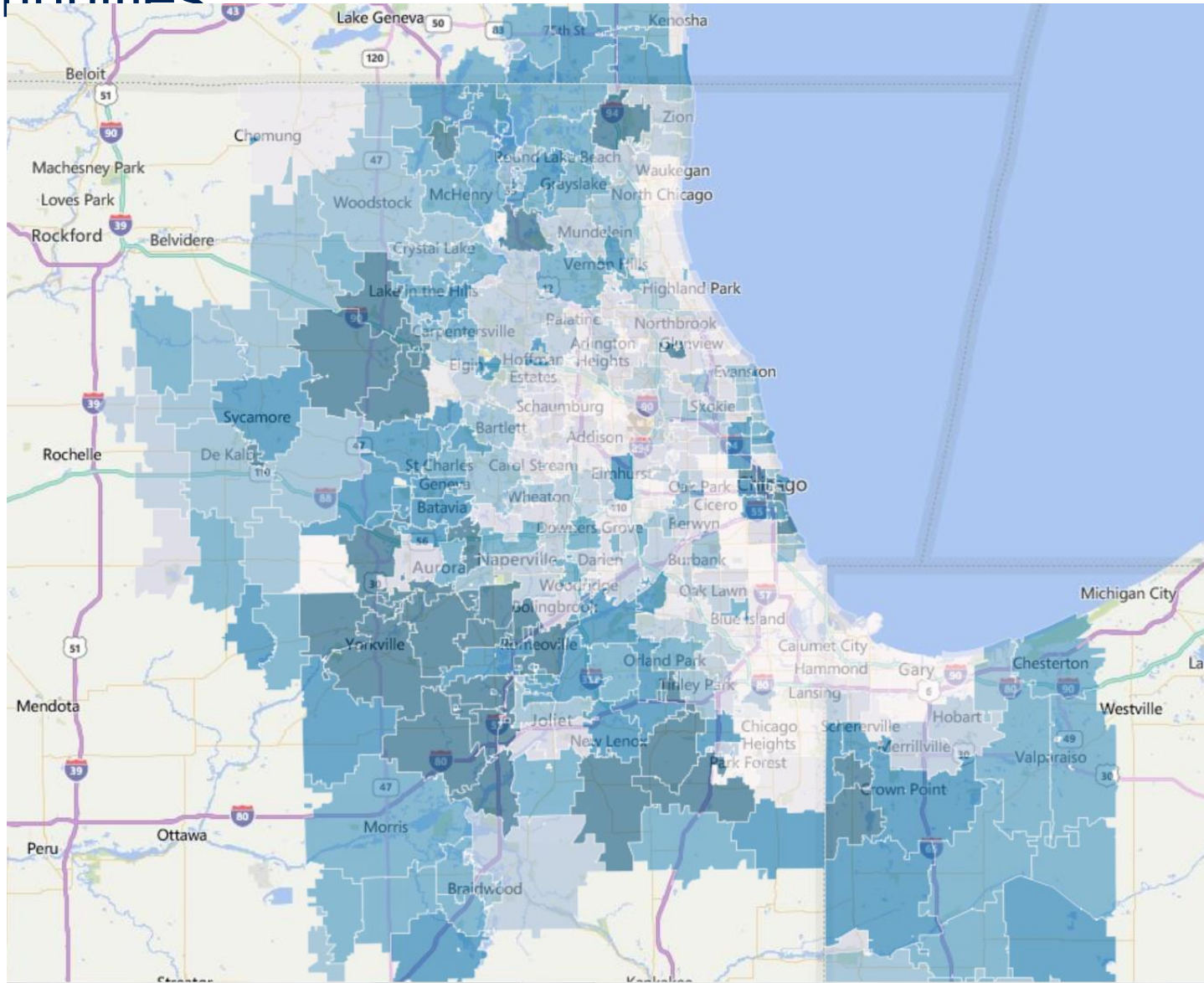Preference toward townhome style properties with direct access or detached garages.

# In beta: Super ZIP Analysis

Research-driven demographic analysis for the
## development and execution
of investment strategies

**33,000+**
ZIP codes in the United States

**375**
Metrics in demographics database

**1 composite score**
Accounting for population growth, educational attainment, aggregate household income growth, and in-migration

《 Mapped Opportunity Areas to capture demand from target cohort 《

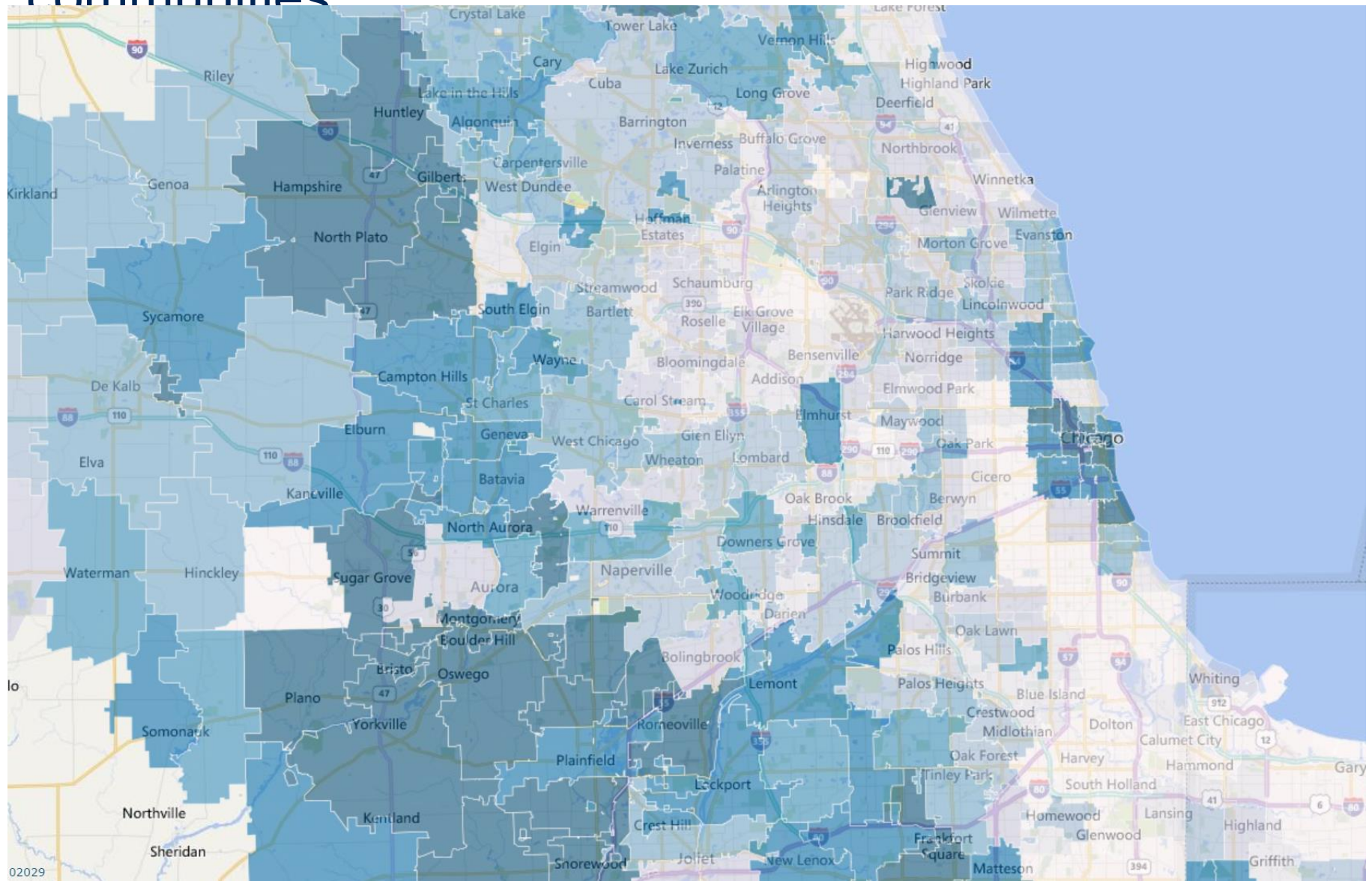# Chicago: Solid scores in historic urban core and select high-growth suburban communities