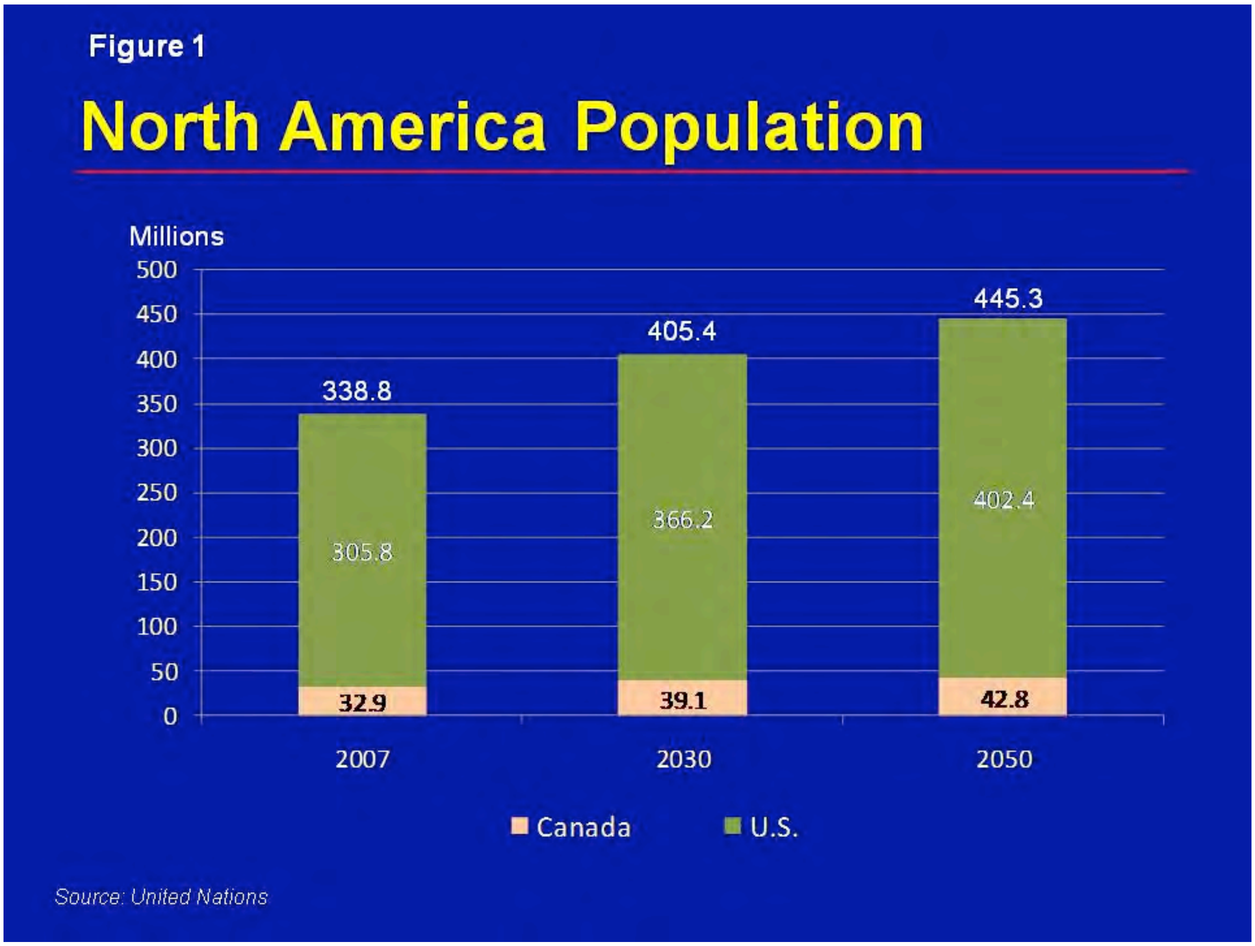
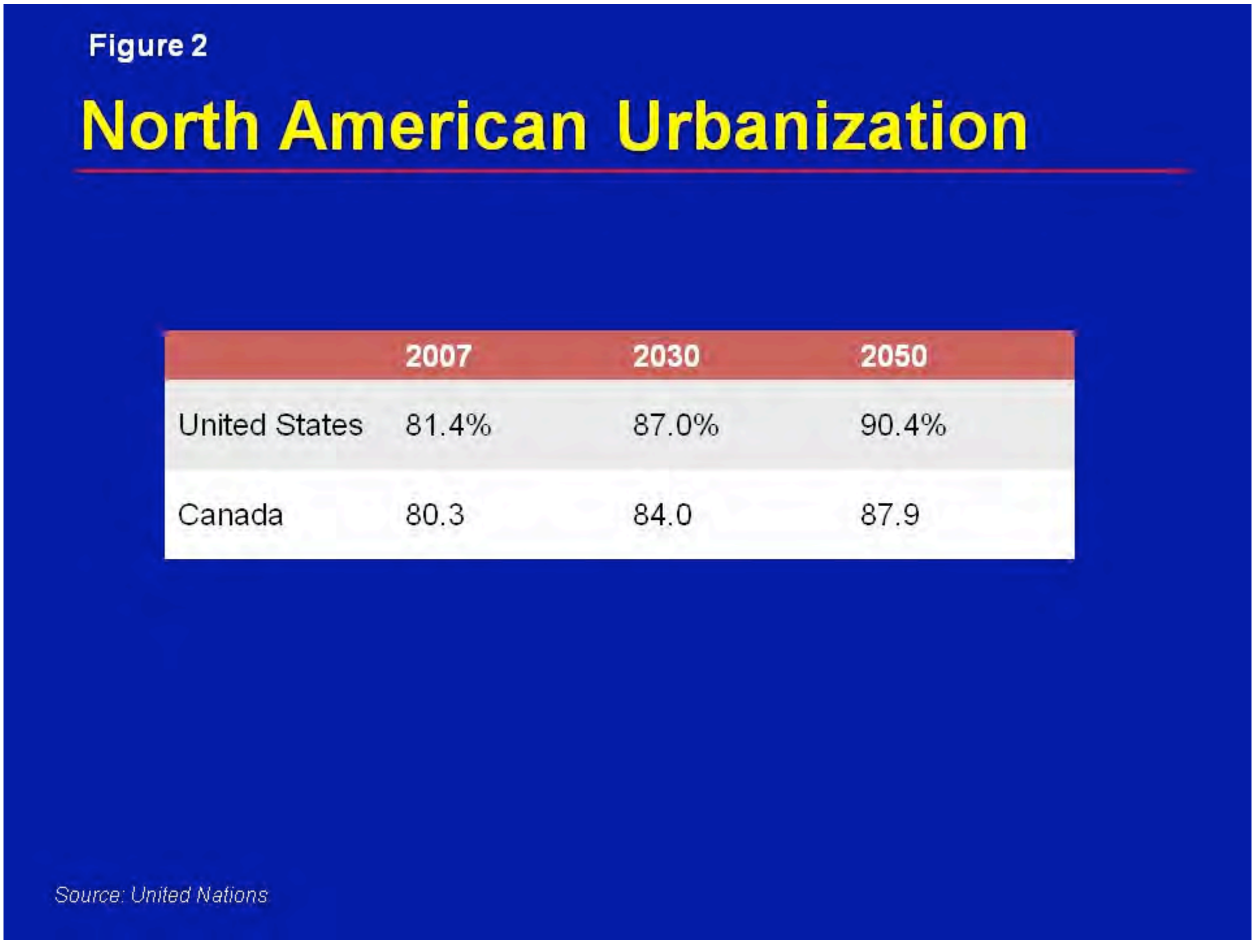
U.S. Observations from *Global Demographics: 2009*

By M. Leanne Lachman, President, Lachman Associates, LLC

Investing where demographic demand is strong and deep is far more rewarding over time than owning properties in markets with little or no growth. Looking forward, the greatest urban population increases will occur in the world's three largest countries: China, India, and the United States. Highlighted here are characteristics of America's demography as we look toward 2050.



North America consists of the U.S., Canada, Bermuda, and Greenland and contains 5% of global population. Between now and 2030, as shown in Figure 1, roughly 67 million people will be added, representing 4% of world growth. North America is the most urbanized region globally, with Bermuda at 100%, the U.S. at 81.4%, and Canada at 80.3%. As illustrated in Figure 2, the movement of people from rural to urban areas is ongoing: by 2050, more than 90% of the region's population will live in cities and suburbs. Migration to urban areas in North America generates real estate demand in receiving locations. Conversely, though, as populations fall in less attractive urban areas, fewer residential and commercial buildings are needed and demolition is necessary. Excess space becomes more visible in times of economic stress, and abandonment is now increasingly evident in the least appealing neighborhoods of low-growth or no-growth urban areas.



	2007	2030	2050
United States	81.4%	87.0%	90.4%
Canada	80.3	84.0	87.9

Retirement – or Not?

The oldest U.S. baby boomers are now turning 64 years old. Retirements have begun among this 75-million-person generation, but the recent financial crisis is delaying full retirement for many workers. For half a century, commentators have fixated on the predilections of the baby boomers, often convincing themselves that this demographic cohort was monolithic – despite the fact that births extended over 18 years. If truth be told, the youngest boomers turned only 46 on January 1, and they have ample time to build their investments before retirement. The McKinsey Global Institute points out that the earnings peak for the oldest half of the baby boomers will occur in 2015; for the younger half, the peak will not be until 2025. Boomers have lots of working time ahead.[1]

According to an AARP survey conducted in 2008, 14% of retirees were considering returning to work because of stock market losses, and the proportion undoubtedly rose last year. For boomers approaching retirement age, this is a time of reconsideration. Although surveys have consistently

[1] *Talkin' 'Bout My Generation: The Economic Impact of Aging U.S. Baby Boomers.* San Francisco, June 2008.

shown that average baby boomers intend to work longer and more intensely past age 65 than their predecessors did, researchers have never been sure what would happen when the respondents actually reached retirement age. The results are now emerging:

- In early 2008, about 30% of 65- to 69-year-olds (pre-boomers) were either employed or looking for work, according to the Bureau of Labor Statistics. This is up from 24% in 2000. Among 60- to 64-year-olds, 54% were in the labor force, again up considerably from 47% in 2000.
- Government workers and union members with assured pensions tend to retire as soon as they can.
- Manual laborers, whose muscles wear out, prefer to retire when possible.
- Because white-collar jobs are less taxing physically, workers can continue well past 65, and many are doing so for both social and financial reasons. However, much of corporate America has not yet adapted to the concept of flexible work plans for older employees.
- A lot of seniors discover second or third careers and launch new businesses, consult, downshift to lower-stress jobs, and combine volunteer and paid activities.

From 1970 to 2000, America's median retirement age dropped by about two years – to 62.6 years. For the sake of the labor market and for the financial well-being of new retirees, the nation needs to return to a median retirement age of 64 or 65 years, reinvent retirement, and create a more flexible labor market. If any group can pull that off, it will be the boomers.

The McKinsey Global Institute estimates that two-thirds of the early boomers (now 55 to 64 years of age) are financially unprepared for retirement. When its report came out in mid-2008, the Institute thought many of these pre-retirees did not realize what financial shape they were in. Given subsequent market declines, it seems safe to assume the light has dawned.

Generation Y

Not only are the boomers more diverse than frequently suggested, but they are not America's only large demographic cohort. Generation Y – the 'Net generation' –contains 16- to 33-year-olds and also totals 75 million. As young adult immigrants arrive, they add to the ranks of this demographic group, so it will keep growing – as happened with the boomers.

Retailers certainly recognize the size and consumer preferences of techno-savvy Generation Y, colleges enjoy strong enrollments, and apartment owners profitably cater to these young adults and their mix-and-match roommates. However, their importance to America's labor market and their potential real estate and consumer demands are not fully acknowledged. The older portion of this generation, who are currently renters, are becoming the first-time homebuyers taking advantage of bargain prices. In massive numbers, they will furnish those houses, become Home Depot devotees, buy small cars, shop online, take 'green' seriously, travel, go to concerts, and set new social and consumer trends of their own. For retailers, Generation Y is the hope for the future.

Figure 3

Two Big Generations

	Gen Y	Boomers
2010 Size	74.8 million	74.6 million
Birth Years	1977-1994	1946-1964
Age Now	16-33	46-64
Hispanic	19%	10%
Black	15%	12%
Asian	6%	5%
Housing Tenure	Renters	Owners
Neighborhood Preference	Urban/ Walkable	Suburban/ Auto-Oriented

Some of the marked differences between the boomers and Generation Y are highlighted in Figure 3. The highly mobile young people flock to urban areas, expect multi-culturalism, and grasp globalization. They are already well traveled. The important takeaway is that a huge group of young people is preparing to reshape the U.S. economy. As the boomers did, they will change the workplace, entertainment, vacation travel, and residential communities.

Generation X

This is the smaller demographic group born from 1965 to 1976 that falls between the boomers and Generation Y. Although this cohort has not received comparable attention (to their irritation), the transitional Gen X offers hints as to probable behavioral patterns of its successors.

One interesting characteristic is low fertility: 20% of women ages 40 to 44 are childless, twice the level of 30 years ago. Furthermore, the other 80% of the women have an average of 1.9 children versus 3.1 for their counterparts in 1976. Women with advanced academic degrees are more likely to be childless, suggesting that careers have often taken precedence over childrearing. Nevertheless, in 2006, 60% of all new mothers were working women. In Generation X, women married later and then bore their first child at a more advanced age as well. Early indications suggest a possible reversal of that pattern among

Gen Y – perhaps because multitaskers believe they can successfully do it all simultaneously—but definitive data are not yet available.

Continuing Immigration

Immigration fuels America's population growth, both upon arrival and later, as new residents have children in the United States. Thirty years ago, nearly two-thirds of all U. S. immigrants went to five states: California, New York, Texas, Florida, and Illinois. By 2005, the big five's share of arrivals was down to just over half and, with the exception of Maryland, the second-tier destinations (New Jersey, Massachusetts, Washington, and Virginia) also attracted fewer migrants than during the previous five years. Today's annual inflow of more than 1 million immigrants disperse throughout America, which means that residents of Tennessee, Iowa, and Georgia are being exposed to far more workers for whom English is a second language. Most native-born Americans are welcoming, but the combination of large numbers of immigrants, their movement to new destinations, and the fact that most are visually identifiable because they are Hispanic or Asian has also generated political backlash.

The employment situation is complex. Sociologist Douglas S. Massey summarizes America's growing dependence on immigrant labor as follows:

> *"Competition in the increasingly globalized world economy has lowered the relative earnings of American industrial workers. As American consumers have benefited from cheaper, and often better, products and services from abroad, . . . the pressure to cut costs has encouraged many employers to look for employees willing to work harder for less compensation. . . . There is clearly a reciprocal dynamic: between globalization, industrial restructuring, and immigration.*
>
> *"Many individual American families, too, are purchasing more immigrant labor to replace traditional home-produced goods and services, including child care, lawn care, gardening, and food preparation (in restaurants, in grocery stores, or at home). The lower wages of immigrants have kept consumer prices lower in the United States than in other industrialized countries."*[2]

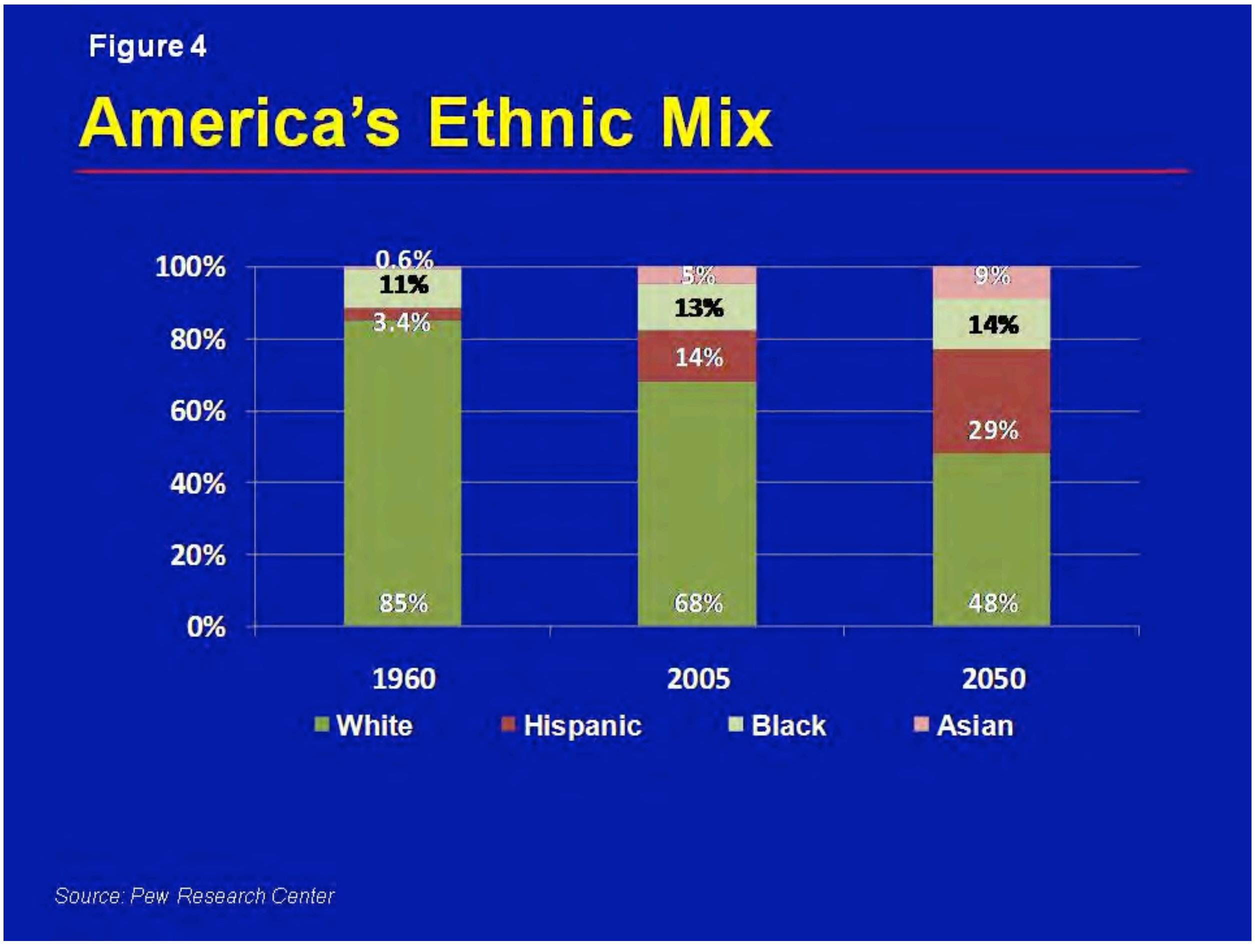
Several other points about immigrant labor are worth highlighting:

- Two key industries that have come to rely heavily on immigrant labor are construction and meat processing. According to sociologists Emilio Parrado and William Kandel, "As education levels in the general population rise and other employment options reduce the attractiveness of employment in these industries, American firms that do not or cannot locate production overseas seek cost-cutting measures at home."[3] Obviously, the construction trades cannot move offshore. They are not attracting enough native-born apprentices; as a consequence, 20% of all Mexican immigrants were working in construction at the peak of the boom.

[2] *New Faces in New Places: the Changing Geography of American Immigration*, New York: Russell Sage Foundation, 2008, p. 17.

[3] "New Hispanic Migrant Destinations: A Tale of Two Industries," in *New Faces in New Places*, p. 119.

- Partly because of the housing market collapse, the inflow of undocumented immigrants dropped from roughly 800,000 per year from 2000 to 2004 to an average of 500,000 annually between 2005 and 2008.[4] The figures for the last two years are even lower.
- Nonetheless, the total number of undocumented residents in the United States grew from 8.4 million in 2000 to about 12 million today, or 4% of the American population. Four of five are Hispanic, with about 60% from Mexico.



Members of racial and ethnic minorities represent more than one-third of all Americans and are projected to represent a majority by 2050, as portrayed in Figure 4. Hispanic Americans now exceed 15% of the population and are growing faster than any other ethnic group. In fact, Hispanics account for half the country's population growth since 2000: 60% from natural increase and 40% from immigration (a reversal of the ratios in the 1990s).

[4] Jeffrey S. Passel and D'Vera Cohn, "Undocumented Immigration Now Trails Legal Inflow, Reversing Decade Long Trend," Pew Research Center, October 2, 2008.

Educational Attainment

Education pays off in the workforce – for both women and men. According to the U.S. Census Bureau's 2007 American Community Survey, working adults with a master's, professional, or doctoral degree had median earnings of $61,287 in 2007, more than three times the $19,405 median for workers without a high school diploma. Just having a bachelor's degree resulted in income 2.4 times that of those who did not graduate from high school and 74% higher than those who finished their secondary educations.[5] A *Business Week* article points out, "According to the Bureau of Labor Statistics, 34% of adult workers in the United States now have a bachelor's degree or better, up from 29% two years ago."[6]

Real Estate Labor Force Gaps

America's real estate industry has two labor gaps, one visible now and one emerging:

1. The skilled trades are not attracting enough young people: carpenters, sheet metal workers, electricians, mechanics, operating engineers, etc. Technical schools target new immigrants because young people born in the United States are not encouraged to work with their hands. The real estate industry should lobby for greater focus on this aspect of secondary and tertiary education.
2. As the baby boomers begin to retire, the industry will lose management talent. The succeeding demographic group – Generation X – tended to bypass real estate because there were no entry-level jobs when they finished college during the industry's collapse in the early 1990s. By the late 1990s, dot.coms were more tantalizing than property companies. Thus, the industry lost a generation. Delayed retirements will be positive for many companies; current managers might hang around to see their projects and companies through the current crisis in order to stay busy, remain in the mix, recover lost equity, or keep bread on the table.

Slowing Mobility

In 2008, fewer than 12% of Americans changed residences, the lowest mobility since 1948. When boomers were children, back in the 1950s and 1960s, close to 20% of the population moved each year. Several factors explain today's moribund rate:

- Falling home prices and limited mortgage availability prevent homeowners from moving.
- In a recession, employed people hold onto their jobs and dismiss notions of moving and incurring the attendant expenses. Taking a new job seems risky when the last hired is often the first to be laid off.
- More two-career households in the labor force make geographic shifts complicated and therefore less frequent.

---

[5] Sarah R. Crissey, *Educational Attainment in the United States, 2007*, U. S. Census Bureau, Current Population Report P20-560, January 2009, table 3, p. 9.
[6] Michael Mandel, "Which Way to the Future?" *Business Week*, August 20 and 27, 2007, p. 45.

- Young people who cannot afford to live independently stay on with their parents – or move back home.
- Since the passage of Proposition 13, older Californians stay in their long-term homes to retain low property tax rates.
- Because of recent wealth reduction, fewer retirees are migrating to new locations.

As the economy recovers and as Generation Y becomes a larger force in homeownership, mobility is likely to go back up – but only to 14 or 15%. Mobile people can move within the same metropolitan area, or they can switch to another city or state. A 2008 Pew Research center survey[7] focused on the latter group and derived intriguing conclusions:

- Urbanites move more, rural dwellers less.
- Three-fourths of college graduates have moved away at least once from the metropolitan area where they grew up, versus half of those who have only high school diplomas.
- Relatively affluent people are more likely to have moved to new locations one or more times.
- Half of all Midwestern adults report spending all their lives in their home metropolitan areas.
- The same is true of one-third of adults in the West; however, fewer than 14% of Nevada residents and only 28% of Arizonans were born in those states.

Excerpted from M. Leanne Lachman and Deborah L. Brett, Global Demographics 2009, The Urban Land Institute, Washington, D.C., 2009.

[7] D'Vera Cohn and Rich Morin, "American Mobility: Movers, Stayers, Places and Reasons," Pew Research Center, December 17, 2008.