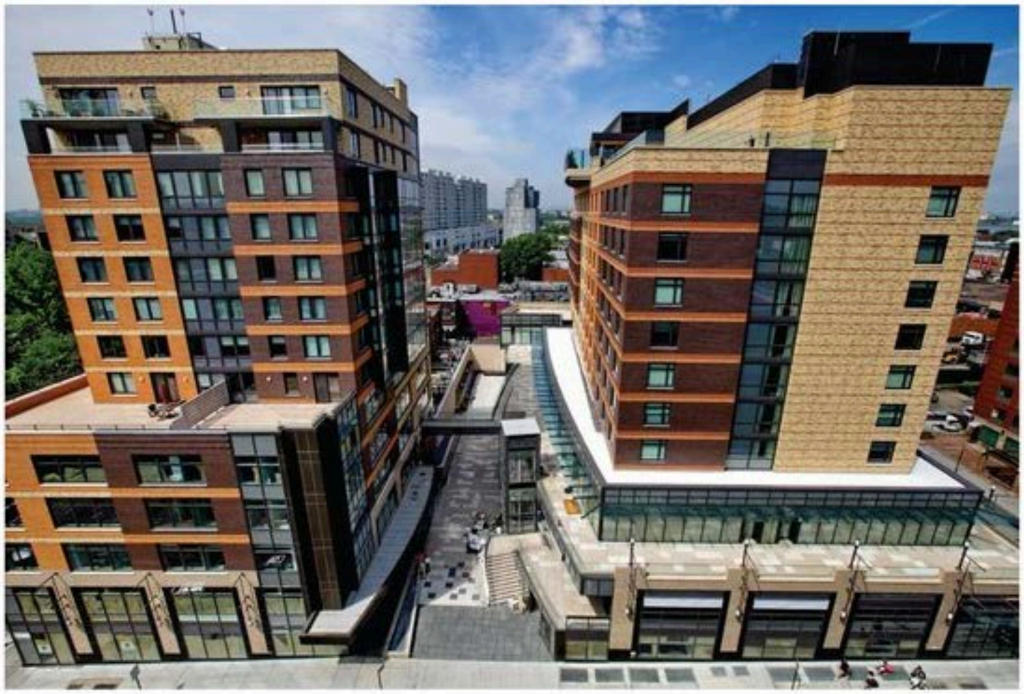
Clockwise, from left: Anjee Solanki, Ed Alegre, Thomas Hynes, Karen Whitt, Cynthia Foster and Craig Robinson

Waves of Demographic Changes

By Paul Bubny

The US is in the midst of sweeping changes in its demographic makeup, with undeniable implications for development. The generation that has been in the driver's seat for the past few decades, Baby Boomers, is now going along for the ride as millennials come of age. Even though the generation born between 1982 and 2000 has not yet reached its full earning potential—in contrast to the Boomers—this age cohort already has numbers on its side. There are an estimated 83.1 million millennials in the US, compared to about 75 million Boomers.

The expansion of the office component at Federal Realty Investment Trust's Santana Row complex in San Jose, 500 Santana Row has been designed expressly to appeal to millennial workers.



F&T Group's forthcoming One Court Square mixed-use development, like its other projects in the Flushing section of Queens, takes into account the preferences and requirements of Chinese immigrants, who account for the largest share of the neighborhood's population.

"The millennials are the new workers and the new taxpayers and the future homebuyers and the future parents and the future voters," Dowell Myers, a professor of planning and demography at the University of Southern California, told an NPR interviewer in June. "They are the future."

And the number of millennial-age Americans is expected to grow, thanks to another demographic trend which would be significant even without bumping up the numbers of twenty-somethings and thirty-somethings. Over the past 25 years, the US immigrant population has more than doubled from 19.7 million to an estimated 42.1 million.

Yet those numbers don't tell the whole story. In 1990, according to a report issued this past December by the Pew Research Center, 73% of foreign-born Americans lived in six states: California, Florida, Illinois, New Jersey, New York and Texas, a demographic concentration that was obvious to anyone on the streets of those leading states' major cities. Today, these six states' share of the immigrant population has dropped to 65%. At the same time, "immigration has driven population growth in the Sun Belt, Pacific Northwest and Mountain States," according to the Pew report.

Longer term, the Census Bureau has projected that net international migration to the US will become the primary driver of the nation's population growth between 2027 and 2038. In fact, Pew researchers predict that by 2050, 93% of the nation's working age population growth will come from immigrants and their US-born children.

For the moment, the demographic group receiving the most focused attention is millennials, with decisions on development—and redevelopment—being made on the basis of their preferences. A new report from JLL on national construction trends illustrates one more sign of this demographic group's power: tenant improvements to attract Millennial talent.

"Millennials are shaping how and where we work—and also how and where we shop, and even the path our packages take from ship to doorstep," says Todd Burns, president of JLL project and development services, Americas. "By 2020, the US workforce will be comprised of 50% millennials, more than all other generations combined. Individually, they may not realize that they're influencing national construction trends to favor tenant improvement over new construction, but the numbers show it's no coincidence."

The report says that office-using tenants are focused on accommodating their millennial employees and their preference for offices in existing urban locations that are close to amenities. Frequently, these properties come with unique, open interior spaces, such as the high ceilings found in the TAMI enclave of Hudson Square in New York City—due to their origins as industrial buildings early in the previous century. However, as evinced by Federal Realty Investment Trust's latest addition to its Santana Row mixed-use project in San Jose, Millennials are also driving new development in office.

"In making the market-driven expansion of office space at Santana Row, we looked carefully at tenant trends and recognized how young knowledge workers are driving evolution of the social workplace, especially millennials," Seth Bland, VP of development at Federal Realty, tells Real Estate Forum. "Demographers point out that these young knowledge workers

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SETH BLAND
Federal Realty Investment Trust

have completely blurred the lines between the work environment and the rest of their lives."

Part of a projected four-building Offices at Santana Row campus, the forthcoming 500 Santana Row is "the only concrete building being constructed in Silicon Valley, and will offer that loft-workspace feel with tall ceilings and exposed concrete surfaces that creates the true feeling of authenticity of place," says Bland. "We're offering companies a place where employees can cross-connect and interact seamlessly with others, both inside and outside their firms. What we're creating is not an insular workplace, it's the opposite: an open campus where people move easily and collaborate with colleagues, see their friends for lunch, use the fitness center or go shopping."

And while millennials may be setting the pace, they're not the only ones following it. Bland says Federal Realty's research has shown that an open-campus environment doesn't just appeal to Millennials. "It's truly across all age groups; every worker appreciates a collaborative, interesting work environment," he says. "I was happily surprised recently to see one of my college friends walking out of a Santana Row second-floor office space, above retail, a friend I hadn't spoken with in years but who had recently hired-on as CFO of a tech firm here. He and his colleagues were headed to our Park Valencia Plaza, one of the most popular outdoor spaces in Santana Row, for a working lunch outdoors. He said he loves it here, for the same reasons millennials do," namely the "seamless, open" nature of the environment.

Moving from the working environment to living quarters, another trend spurred by millennials but also embraced by their parents' generation is the so-called "new urbanism." In its 2015 Real Estate Industry Outlook report, law firm Akerman notes that "The aging of the Baby Boomers, the arrival of the millennials in the workforce and the increasing preference of both to combine a 'live, work, play' lifestyle in a compact city center, are reshaping the real estate market."

A combination of these life-stage trends along with "technology and new deal-making methods forced by the economy" has altered the urban landscape, blurring the lines between housing, retail, office, healthcare and hospitality real estate development, according to Akerman. In fact, 34% of executives surveyed by Akerman believe this changing lifestyle preference will have the most significant impact on US real estate development in 2015 and beyond, outranking all other factors in the survey.

"Demographic trends are attracting people back to the city after decades of preference for suburbs," Ann Torney, a partner with architectural and planning firm Mithun | Solomon in San Francisco, tells FORUM. She cites a Brookings Institution study of 2011 census data which concluded that "for the first time in more than nine decades, the major cities of the nation's largest metropolitan areas grew faster than their combined suburbs. Cities of its 51-market analysis grew at 1.1% while suburbs grew at 0.9%, which is a major reversal of the suburban-dominated growth of prior decades."

Leading the way are young urban workers, "though some recent reports say millennial and Gen X/Yers are interested in eventually raising families in the 'burbs," Torney adds. "But the siren call for the near term is definitely downtown."

Whether that call will be heard over the long term is the subject of "a healtyhy amount of disagreement," according to the spring 2015 edition of the Urban Land Institute/PricewaterhouseCoopers Emerging Trends report. "One camp is convinced that the millennials will revert to the mean and want private offices and will move to the suburbs to raise families," the report states. "The other side feels like they will continue with the same behavior they have exhibited." Either way, the Emerging Trends report cautions, "We are talking about a large generational cohort that will evolve and segment over time. Painting them with too broad a brush will lead to misplaced expectations—as it has with the Baby Boomers."

Elsewhere, the report sounds a note of caution when forecasting cap-rate expansion in multifamily: 90 basis points by 2018 in the case of luxury properties, 70 bps for middle-income assets over the same time period. "The investment pricing differential, in other words, is expected to narrow as we go into the future," according to

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ANN TORNEY
Mithun | Solomon

the Emerging Trends report. "What might account for this? Developers' preferences for upper-end apartments notwithstanding, the depth of demand for luxury rental units goes only so far."

With most wealthy households preferring to own rather than rent, "the bulk of pent-up and emerging demand comes from the battered middle-income and lower-middle-income sector, predominantly renters. As the forecasted gains in employment take hold, millennial sharers, 'boomerang children,' domestic migrants and international immigrants represent the bulk of new residential renter demand." Accordingly, developers may be able to "make up in volume what they can't achieve in price," the report states.

Torney notes that although cities across the country are attracting more people downtown, "the story is mixed in terms of how well it's being accommodated, and how it's contributing to a thriving, healthy economy and community. The booming jobs and population growth in San Francisco is straining its capacity, but the mix and diversity that makes San Francisco so attractive continues to drive development there. Mithun is designing market-rate housing in the fast-growing Dogpatch area south of downtown, and our Hunters View redesign of public housing into a mix of public- and for-profit housing is 'one of the nation's most ambitious public-housing makeovers,' according to the *Wall Street Journal*."

For-sale multifamily as well as rental is also benefiting from changing demographics. The Peebles Corp., which specializes in gateway markets such as New York City and Miami, is seeing strong interest from foreign-born buyers in its condominium projects. In terms of what those buyers are looking for, "It varies from market to market," says founder, chairman and CEO R. Donahue Peebles.

In Miami, for example, where about 60% of the buyers for new condos are foreign, "one of the things they'll look for, aside from the typical bells and whistles, is more of an urban, accessible location. They're going to look for areas where they can walk to a wide variety of restaurants. They're going to look for other entertainment outlets, ranging from nightclubs to arenas," such as the American Airlines arena in downtown Miami. "Then of course, the ultimate attraction in Miami is access to and views of the water."

Among buyers in Manhattan, who hail largely from various Asian countries and Eastern Europe, "consistently they're looking to be in Midtown, where they'll have the views—of the park and the skyline" as well as access to "all of the shopping and restaurants. We're also seeing more international buyers, especially European buyers, looking Downtown in Tribeca, West Chelsea, the Village and Soho."

Carlos Rosso, president of Related Condominium, makes the point that different submarkets can appeal to different immigrant groups based on their amenities. In Miami's Brickell neighborhood, for instance, "Apartments tend to be a little smaller, and more in relation to where people work," he says. "Units are between 1,200 and 1,300 square feet."

Then there are different apartment markets along the beaches. "The most expensive are south of 5th, which is the southern tip of South Beach," Rosso says. "Then you have other areas such as Edgewater, where we're building a lot of condos. That's more of an up-and-coming area. Then you have pockets such as Sunny Isles and Hollywood Hallandale. Each one attracts different buyers. We get more Northeasterners and wealthy buyers in the more expensive areas; we get more Latin Americans in Brickell, where they're looking for small pied-a-terres and possibly units to rent out on a monthly basis."

Income levels as well as ethnicity attract different immigrant groups to different neighborhoods. "That's the beauty of Miami; you have people from all over the world living here."

An even more pronounced melting-pot effect can be seen in the Flushing section of Queens in New York City, home to Asian, Hispanic, Middle Eastern and Eastern European immigrants. That being the case, "about 50% of the population is of Chinese descent, and clearly we have to shape our development projects to respond to that demographic," says Helen Lee, EVP with developer F&T Group. The company has developed multifamily and mixed-use projects across the New York City region, but is focused on Flushing.

"For a Chinese immigrant emigrating from the mainland to New York, they're looking for a sense of familiarity," Lee tells Forum. "I don't know if you want to take somebody from a second-tier city in China and immediately toss them into the West Village." Flushing, on the other hand, provides a support system thanks to its cocnentration of Chinese residents, which

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Peebles Corp.

extends even to "being able to obtain basic services, like going into a bank that has bilingual staff."

The retail components of F&T's projects address this, as well, with both restaurants and non-food shopping geared toward the immigrant population. Lee recently met with future retail tenants in Taipei. "They're bringing Asian concepts over here to New York City, and while they know a concept may not do very well right away in Manhattan, they can open in Flushing and see how it does," she says. From there, "they can possibily expand into otheer areas of New York."

The demographic considerations that inform F&T's projects apply to other ethnic groups too, notably immigrants from Latin American countries. They're having an impact in a number of ways, not least of which is shopping, where they wield more than $1 trillion annually in spending power.

"It is a different consumer," Vanessa Delgado, director of development at Los Angeles-based Primestor Development, told GlobeSt.com, FORUM's sister publication, in 2013. "You can't look at these demographics the same way you look at everything else. You will be behind the curve if you wait another 10 years to look at this model, because by then the very loyal Hispanic shopper will have already gravitated toward a particular tenant, and they will stick with that tenant because they believed in them. The loyal shopper will stay with the tenant who took the risk."

In a video interview late last year with the Pension Real Estate Association, Quintin E. Primo III, cofounder, chairman and chief executive officer of Chicago-based Capri Capital Partners LLC, summed up the immigrant influence on the economy. "The United States is undergoing a transformation, demographically," Primo told the PREA interviewer, citing a statistic that Latinos now comprised 39% of the population in Capri's home state of Illinois, making them the state's largest ethnic group. "This is a trend we've seen growing for quite some time. This is the harbinger of things to come in the United States. The United States is getting browner, it's getting older, and with those trends, particularly in the value-add space, we think there are opportunities to provide investors very high risk-adjusted returns, as opposed to simply buying core assets in Downtown Chicago." ◆