

AEW RESEARCH

DEMOGRAPHY IS DESTINY

The New America, the Next Frontier

PREPARED BY AEW RESEARCH, DECEMBER 2015

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The U.S. will lead the developed world in population growth, growth that will be driven by immigration.

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America 2.0 and the Next American Century

"We are a nation of immigrants. We are the children and grandchildren and great-grandchildren of the ones who wanted a better life, the driven ones, the ones who woke up at night hearing that voice telling them that life in that place called America could be better."¹ Mitt Romney – Republican National Convention, August 30, 2012

21ST CENTURY AMERICA

The 20th century has long been described as the "American Century" with the U.S. emerging from the Great Depression and World War II in a historically unique position of global economic and military dominance². As we look forward over the next several decades, key demographic differences between the U.S. and most other developed economies suggest that the 21st century may ultimately be viewed as yet another "American Century". At the very least, the unique characteristics of American demographic growth and change that are occurring today, and will continue over the next 50+ years, are likely to be quite positive for the U.S. economy and property markets for decades to come. Specifically, the U.S. will lead the developed world in population growth, growth that will be driven by immigration, and as a result the U.S. will soon emerge as a nation of minority groups in terms of race, ethnicity, religion and country of origin.

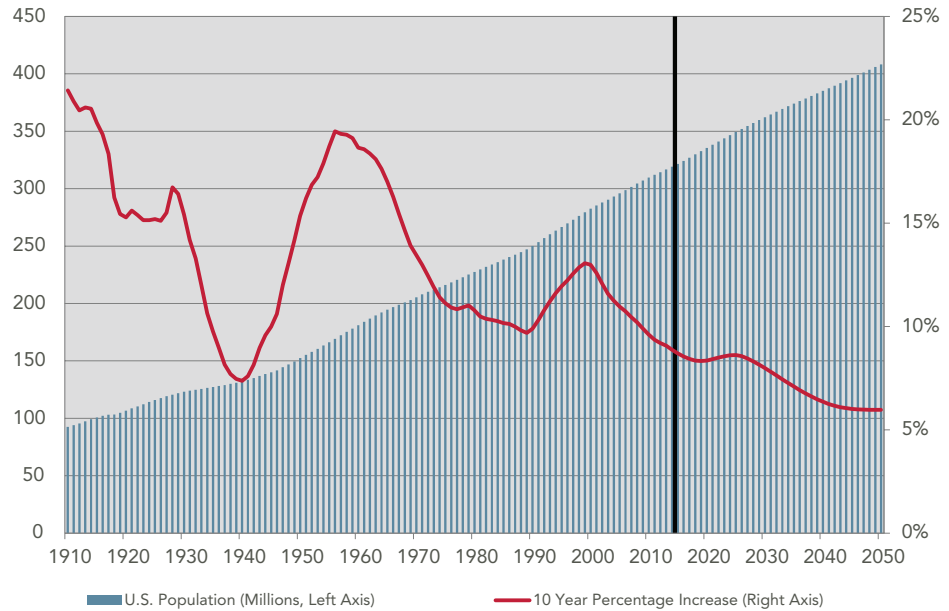
POPULATION GROWTH IN THE 21ST CENTURY

According to the U.S. Census Bureau, the total population of the nation was 318.9 million people in July of 2014, which is an increase of more than 36 million since the 2000 census and nearly ten million since the 2010 census. Population growth in the U.S. is clearly slowing with a current trailing ten-year increase of 8.9% (i.e. less than 1% per year) and this is expected to slow further to a rate of approximately 6% growth per decade by the middle of the century. Despite the slowing growth, the sheer number of Americans continues to expand significantly with the total population in the U.S. expected to increase by approximately 90 million by 2050 and more than 100 million by 2060. In simple terms, this means that the U.S. population will increase by more than two million people per year for the next half century.

¹Auguste Comte

²See, for example, Luce, Henry. "The American Century", Life Magazine (February 17, 1941).

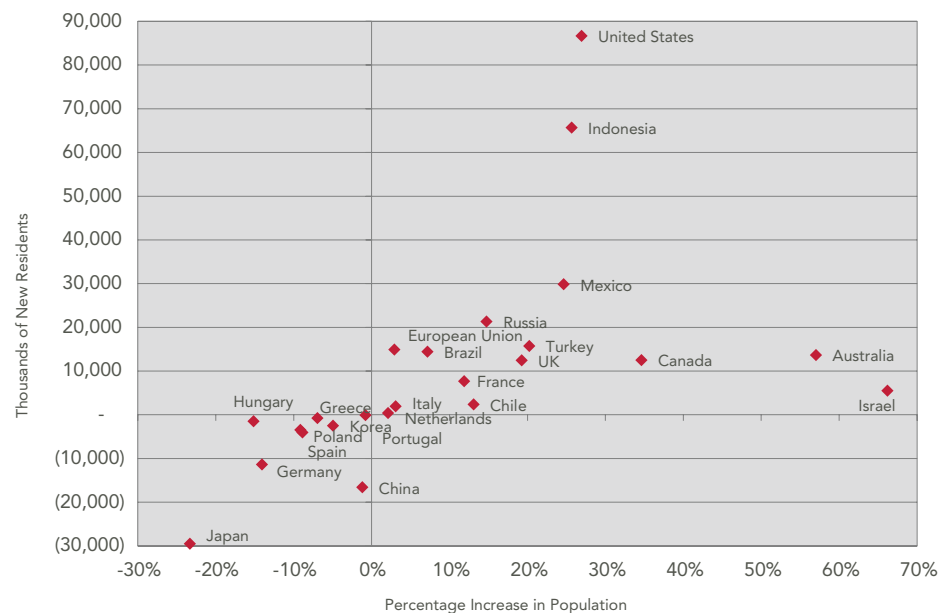
Figure 1: U.S. Expected Population Growth 2015-2050



Source: U.S. Census Bureau, Moody's Analytics

To put this in context, the 27-nation Eurozone region (EU) currently has a population of 507 million and the OECD is projecting EU population growth of only 15 million people by 2050. Indeed, the only country projected to have a larger increase in total population than the U.S. over the next 35 years is India, a country with a population currently four times the size of the U.S.³ More significantly, many major developed economies, such as Japan, Germany and China, are all projected to show a net loss in total population over the next several decades. The economic and property market implications of net population increase versus net population decrease are hard to overstate.

Figure 2: OECD Expected Population Growth 2015-2050



Source: OECD, U.S. Census Bureau

³India was intentionally left off of the chart shown in Figure 1 to allow for a compression of the measurement to better illustrate smaller countries.

WHAT 100 MILLION ADDITIONAL AMERICANS MEANS FOR REAL ESTATE INVESTORS

The most direct opportunity presented by a growing population is the sheer quantity of new property demand that will be created over the next several decades.

Residential: In 2014 the average household size in the U.S. was approximately 2.5 people and has been relatively stable at this size in recent years.⁴ If this average remains constant, 100 million additional people will equate to 40 million new households (or nearly one million new households per year) and the need for nearly that many new residences.

Retail: The U.S. currently has approximately 20 square feet of shopping center space per capita and 40 square feet of total retail space per capita.⁵ Even after assuming greater retail space efficiency going forward due to online shopping and other emerging delivery channels, 100 million additional residents will require perhaps one billion square feet of new shopping center space (10 feet per capita) and perhaps as much as two billion square feet of total new retail space (20 feet per capita).

Industrial: The U.S. currently has approximately 13 billion square feet of industrial space to service the needs of 320 million people; approximately 40 square feet per person. If that ratio were maintained, the addition of 100 million residents suggests the need for as much as four billion square feet of new industrial space in the future.

Office: Moody's Analytics estimates that the U.S. will add approximately 20 million office jobs over the same 35 year period. Today, U.S. office workers use approximately 180 square feet of office space per worker, a significant decline from the norms of 200-250 feet per worker in the 1980s and 1990s⁶. Again, assuming even greater office space efficiency going forward, the nation will still need two billion additional square feet of office space by the middle of the century (i.e. 100 square feet per new office worker).

⁴U.S. Census Bureau. America's Families and Living Arrangements: 2014

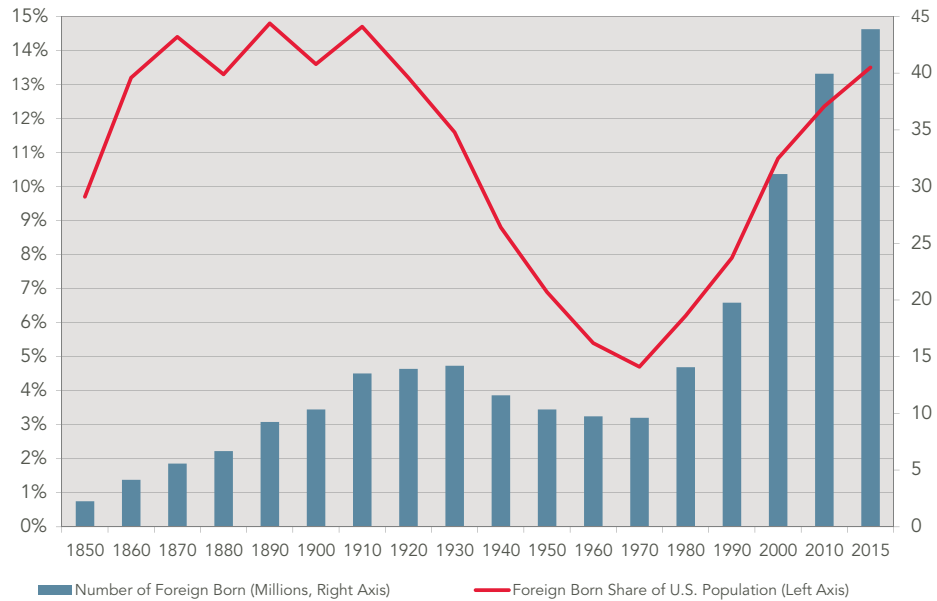
⁵"Shopping Center Industry Benchmarks – An International Perspective on the Collection, Analysis and Dissemination of Operating Statistics." Michael Baker. October 25, 2004. International Council of Shopping Centers (ICSC) White Paper. Total retail space includes things like ground floor retail in office buildings, etc.

⁶Source: CBRE-EA

THE CHANGING NATURE OF AMERICAN GROWTH

Immigration has long been a significant component of U.S. population growth⁷. Between 1880 and 1930, more than 27 million people immigrated to the U.S. with the vast majority coming from Europe. Reflecting this, the foreign-born share of the U.S. population increased from less than 10% in 1850 to nearly 15% in the early part of the 20th century (see Figure 3).

Figure 3: Foreign Born U.S. Population



Source: U.S. Census Bureau

During the Great Depression and World War II, immigration slowed sharply and following World War II, U.S. birth rates rose rapidly during the “Baby Boom” period (1946-1964). As a result, the foreign-born share of the population declined significantly and reached an all-time low of less than 5% in 1970. The passage of the Immigration and Nationality Act of 1965 (aka, the Hart-Cellar Act) abolished specific numerical immigration limits by country of origin established during the 1920s. As a result, immigration to the U.S. from Europe dropped significantly, offset by greater immigration from Africa and Asia.

Additionally, new limits were placed on legal migration from Central and South America (previously unrestricted) resulting in large increases in illegal migration from those regions.⁸ Between 1970 and 2015, the foreign-born share of the U.S. population increased from less than 5% (15 million) to nearly 15% (45 million).

Current U.S. Census Bureau projections expect the foreign-born share of the U.S. population to increase to nearly 20% by 2060, well above the prior peaks of the late 19th and early 20th century. California and New York continue to lead the nation in terms of immigrant share of the population with 27.2% and 22.2%, respectively. Finally, the breakdown in the U.S. immigrant population by country of origin shows a clear (and likely continuing) trend. By far, Mexico and East Asia (China, Japan, Korea, and Taiwan) represent the largest share of U.S. immigrant population with the two regions representing half of all immigrants.

⁷As early as 1790, U.S. law codified a clear and relatively easy path to citizenship for specific types of aliens with the Naturalization Act of 1790 which specified that ‘any alien, being a free white person,’ could apply for citizenship, so long as he or she lived in the United States for at least two years.” See, for example, <http://www.politico.com/news/stories/0312/74438.html#ixzz3eYHdFH00>

⁸<http://www.libertyellisfoundation.org/immigration-timeline#1965>

THE MAJORITY MINORITY AMERICA

Reflecting both high levels of net immigration and generally higher fertility rates for immigrant populations, the U.S. Census Bureau now predicts that by 2045 no one ethnic, racial, religious or other group will represent a majority in the U.S. and that by 2025, this “majority-minority” will be firmly in place for Americans under age 20.

Table 1: Composition of U.S. Population

	2015	2020	2025	2030	2035	2040	2045	2050
White	61.7%	59.6%	57.5%	55.5%	53.4%	51.3%	49.3%	47.3%
Black	12.4%	12.4%	12.5%	12.6%	12.6%	12.7%	12.7%	12.8%
Hispanic	17.7%	19.0%	20.3%	21.6%	22.8%	24.1%	25.3%	26.5%
Asian	6.4%	7.0%	7.6%	8.2%	8.8%	9.4%	10.0%	10.6%
Other	1.8%	2.0%	2.1%	2.2%	2.4%	2.5%	2.7%	2.8%

Source: U.S. Census Bureau

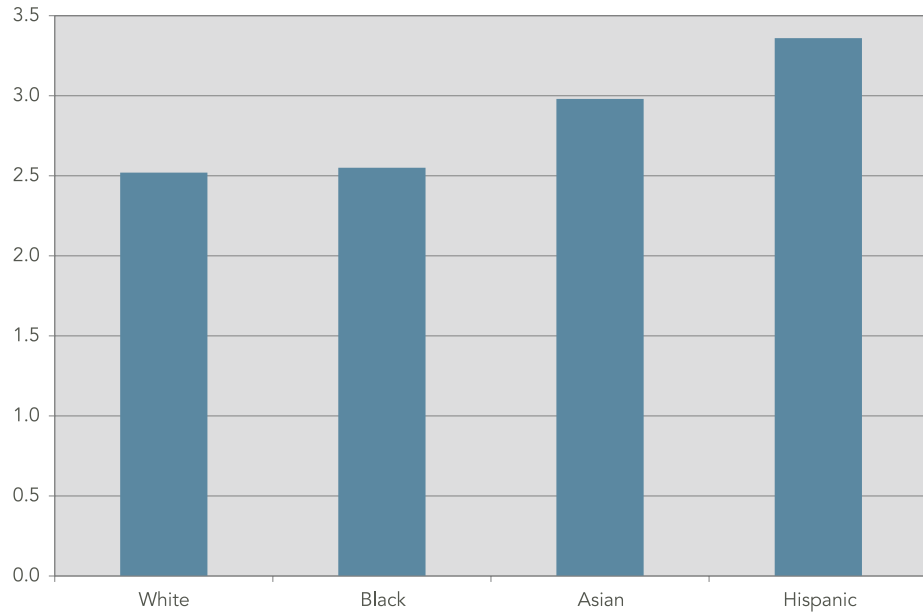
THE REAL ESTATE OPPORTUNITY OF INCREASING DIVERSITY

Growing diversity of the U.S. population represents a significant opportunity for commercial real estate owners, operators and developers. At its most fundamental level, commercial properties are merely the physical spaces where people live, work and play. Over the coming decades, we will see a significant change in the composition of the U.S. population and the fastest growing segments will be in groups with significantly lower historical representation than the population that resides there today. As the makeup of the population changes, preferences for many aspects of commercial property will also change. The most obvious impacts of these new preferences will be felt in multifamily and retail properties.

For multifamily, different ethnic groups have different household configurations (e.g. children living at home longer, grandparents living with or visiting the family for extended periods, etc.) which results in an increase in average household size as shown in Figure 4. As the preferred unit size or bedroom configuration changes, residential properties will need to be built or re-configured to satisfy this new demand. Similarly, home ownership rates vary significantly across different ethnic and racial groups and are typically lower than home ownership rates for white households. Higher expected population growth rates for non-white households will, therefore, likely generate greater demand for rental housing rather than for-sale housing.

Current U.S. Census Bureau projections expect the foreign-born share of the U.S. population to increase to nearly 20% by 2060, well above the prior peaks of the late 19th and early 20th century.

Figure 4: 2015 Average Household Size by Demographic Group



Source: U.S. Census Bureau

Finally, with respect to retail preferences, different demographic groups have different preferences for grocery items/grocers and in-line products and services offered at a typical shopping center. As such, the rapidly changing U.S. population mix should provide many opportunities to reposition/re-tenant existing underperforming retail centers to better match the wants and needs of this emerging consumer base.

THE AMERICAN DEMOGRAPHIC BARBELL

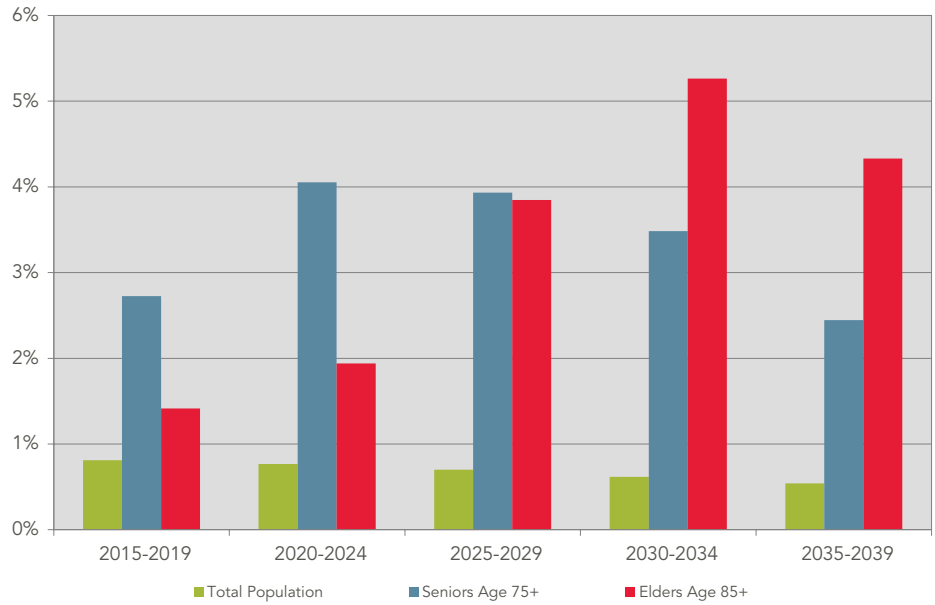
The age structure of the U.S. population is changing quickly. Currently, there are roughly 80 million people age 50-70 (the Baby Boomers) and 80 million people age 15-35 (the Millennials) in the U.S. Over the next decade, the Baby Boomers will move entirely into the 60-80 year old age group while the Millennials will be completely within the 25-45 year old age group. Just as the Boomers begin to retire en-masse the Millennials will be forming households, getting married, having children, and, presumably, re-evaluating their location and housing tenure decisions (i.e. contemplating the suburbs and purchasing homes). These changes will create unique stress points in the American economy and political system, but should also create many interesting opportunities for property investors.

AN AGING POPULATION

The populations of the world’s most developed economies are aging rapidly and the U.S. is no exception. By 2030, more than 20% of U.S. citizens will be over age 65 as the post-war baby boom cohort ages out of the labor force and into retirement. Roughly 10,000 people per day are now turning 65 and this will continue uninterrupted until the end of the next decade. Over this period, earlier notions of what it means to be old (or young) will change drastically and the number of healthy and active retirees will grow significantly. As shown in Figure 5, significant growth in seniors (people over age 75) over the next 10-15 years will be followed by even stronger growth in the elderly population (people over age 85) after 2030.

While an aging population may be challenging for the U.S. it will be of much greater concern to China, Japan and northern Europe.

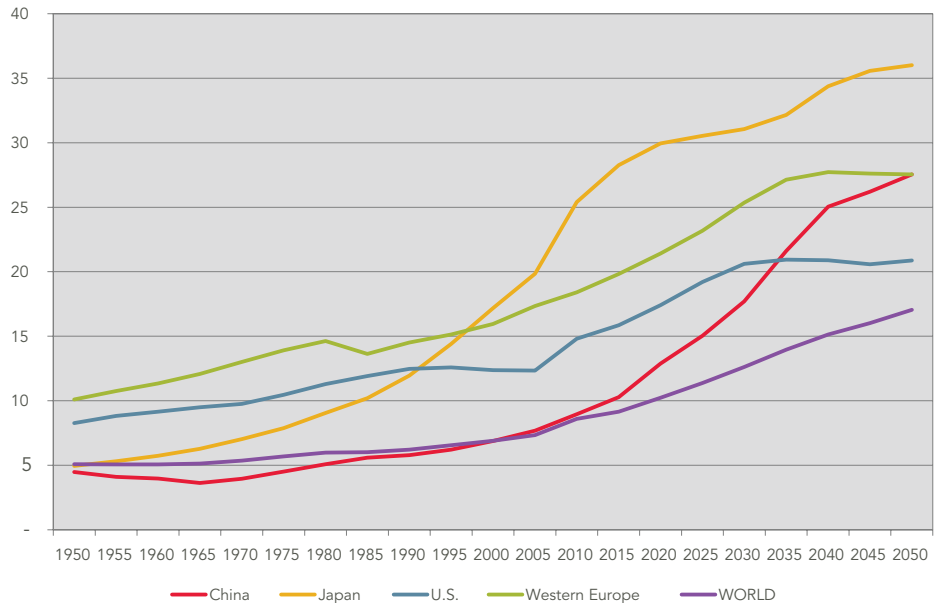
Figure 5: Expected Average Annual Growth Rates of Seniors and Elders



Source: U.S. Census

While an aging population may be challenging for the U.S. it will be of much greater concern to China, Japan and northern Europe. By 2050 all three will have significantly older populations than the U.S., largely due to much lower fertility rates and more limited foreign immigration. This should be advantageous to the U.S. in terms of relatively lower senior citizen dependency burdens and somewhat more vibrant younger citizen consumerism (due to the Millennials). Additionally, aging populations in other countries will likely generate even greater pools of retirement savings and some share of this capital will likely be invested in U.S. assets such as property.

Figure 6: Share of Population Over Age 65 (%)



Source: United Nations

THE REAL ESTATE OPPORTUNITY OF AN AGING POPULATION

Soon, the U.S. will have far more older people than it has ever had before and they will need safe places to live where they can also receive assistance with daily activities, medical services and other care. Today, the universe of institutional-quality seniors housing totals less than one million units and many additional units will ultimately be needed. Not all aging boomers will want or be able to afford current models of senior housing. One choice will be to live in more conventional multifamily properties and arrange to have services brought to them. Well-located existing apartment properties could be renovated and remodeled for this use.

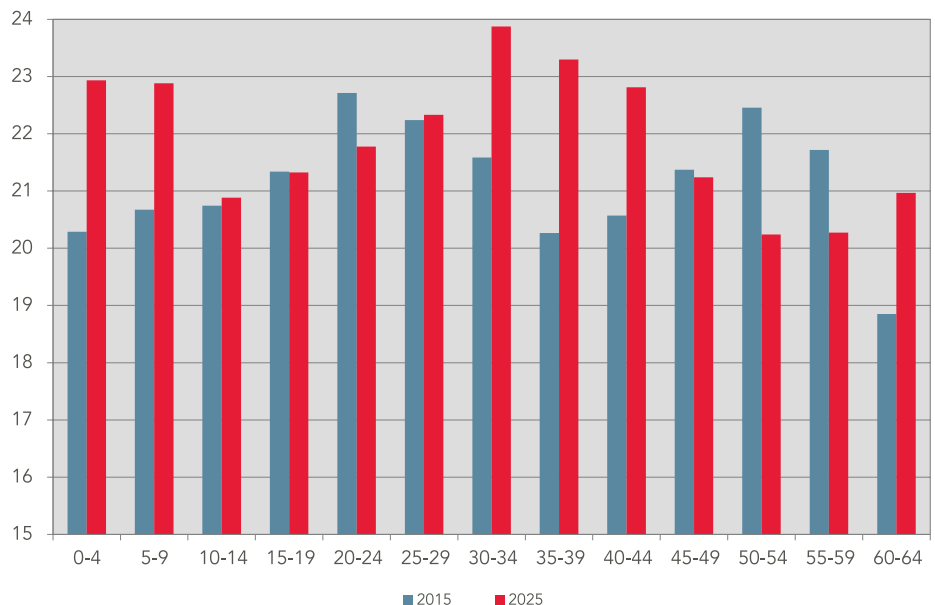
Many boomers may also stay in the labor force longer than earlier generations. Indeed, labor force participation rates for workers over age 55 reached post-war lows in the mid-1980s and have been rising steadily over the past two decades. As a growing number of older workers remain in, or return to, the workforce, it is likely that changes in space configuration and amenities will occur, not unlike changes brought forth by the Americans with Disabilities Act in the 1990s, and could include areas such as lighting, HVAC, life/safety systems, bathroom configurations, parking accessibility, etc.

THE MATURING OF THE MILLENNIALS

“Millennials” generally refers to people born between 1980 and 2000. Today, this group totals more than 80 million people, slightly more than the Baby Boomers. The oldest Millennials are now between 30 and 35 years old with the youngest being in their early teens. Reflecting its size, the Millennials are having a disproportionate impact on a wide swathe of America society. Similar to the Baby Boomers, Millennials, due to their sheer numbers, have triggered strong demand for different property types as they have aged. For example, over the past two decades in many communities across the country Millennials have driven demand for expanded child care, more elementary and secondary schools followed by an increase in university and student housing. Today, this group is the primary driver behind the multifamily development boom, particularly in the nation’s fastest growing urban areas.

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Figure 7: U.S. Population by Five-Year Age Cohorts (millions)



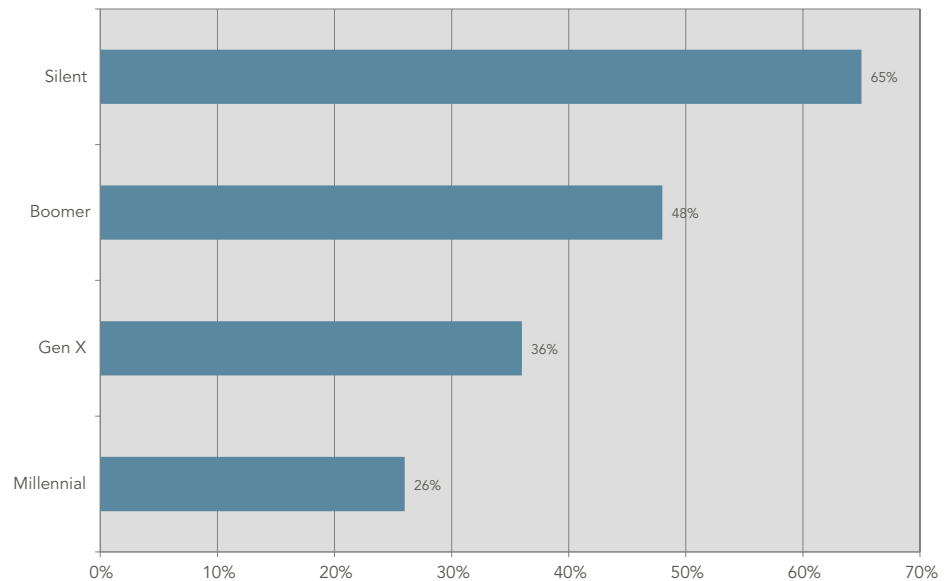
Source: U.S. Census

THE REAL ESTATE OPPORTUNITY CREATED BY THE MILLENNIALS

Like the Baby Boom generation before them, due to their sheer size the Millennial generation will continue to create demand for commercial and residential space as they age. Over the past decade, the greatest impact has been felt in the multifamily residential sector as the group has aged into the labor and apartment markets. Also as they have matured as consumers, Millennials have driven strong growth in online retail sales (and the related growth in delivery of goods to residences). This change has created the need for more varied and strategically located distribution facilities, particularly as ever faster delivery will prompt heightened demand for “last mile” distribution centers to support this trend.

Over the next decade, Millennials will age into their 30s. The greatest uncertainty regarding this group is the degree to which they will behave similarly to earlier generations in terms of fundamental economic and social metrics such as marriage, child rearing and home ownership. Thus far, this group has deferred many of these milestones. Figure 8, for example, illustrates a much lower propensity to marry than previous generations. This could change and it is likely that a much higher share of Millennials will ultimately marry, have children and own homes, but it may take longer. In the near-term, much of this “deferral of adulthood” suggests that the Millennial-oriented property strategies such as urban/transit-oriented multifamily properties are likely to continue to be in demand longer than the economic and demographic data alone would suggest.

Figure 8: Percent Married by Generation (At Ages 18-32)



Source: Pew Research Center. “Millennials in Adulthood” March 7, 2014

CONCLUSION

"Time and the world do not stand still. Change is the law of life. And those who look only to the past or present are certain to miss the future." President John F. Kennedy - Address in the Assembly Hall at the Paulskirche in Frankfurt, June 25, 1963

Throughout its history, America has always been a land of constant change. The years ahead will be no different. Over the next half century, America will become a very different place than it is today. The population will expand by some 100 million people and the wants, needs and desires of those people will likely be different from the wants, needs and desires of those who came before them. But this is as it has always been. For property owners and investors, this period of great change should also create abundant opportunities to provide this New America with the real estate to meet the changing demand. In some cases, this will mean developing entirely new properties and sometimes this will mean adding value to existing properties. The markets that are dominant today will likely remain dominant tomorrow, but there will also be new locations and markets may emerge that may compete with the current leaders. All of this is, and will continue to be, uniquely American. Few developed economies will show anywhere near this level of growth and change. Indeed, very few countries would likely be able to handle such change. America is, after all, a nation of immigrants.