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Research and Strategic Planning

America's Two Largest Generations Are Headed Downtown

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The remaking, reforming and rebuilding of American settlement patterns is the major real estate story of the first half of the 21st Century. It is the steady re-urbanization of our cities and towns, rather than the continuation of the decades-long dispersion of housing, shopping and workplaces to the exurbs, that has become the destiny of American settlement patterns. This re-urbanization is the result of dramatic changes in American households, the growing cost of long-distance commuting, and the profound impact of the Great Recession—which began in 2007—on both households and single-family home-builders, particularly in the exurbs.

The households driving this urban renaissance are no mystery. The radically-changed character of today's housing market is the result of the convergence of the two largest generations in the history of America: the 82 million Baby Boomers born between 1946 and 1964, and the 78 million Millennials, who were born from 1977 to 1996.

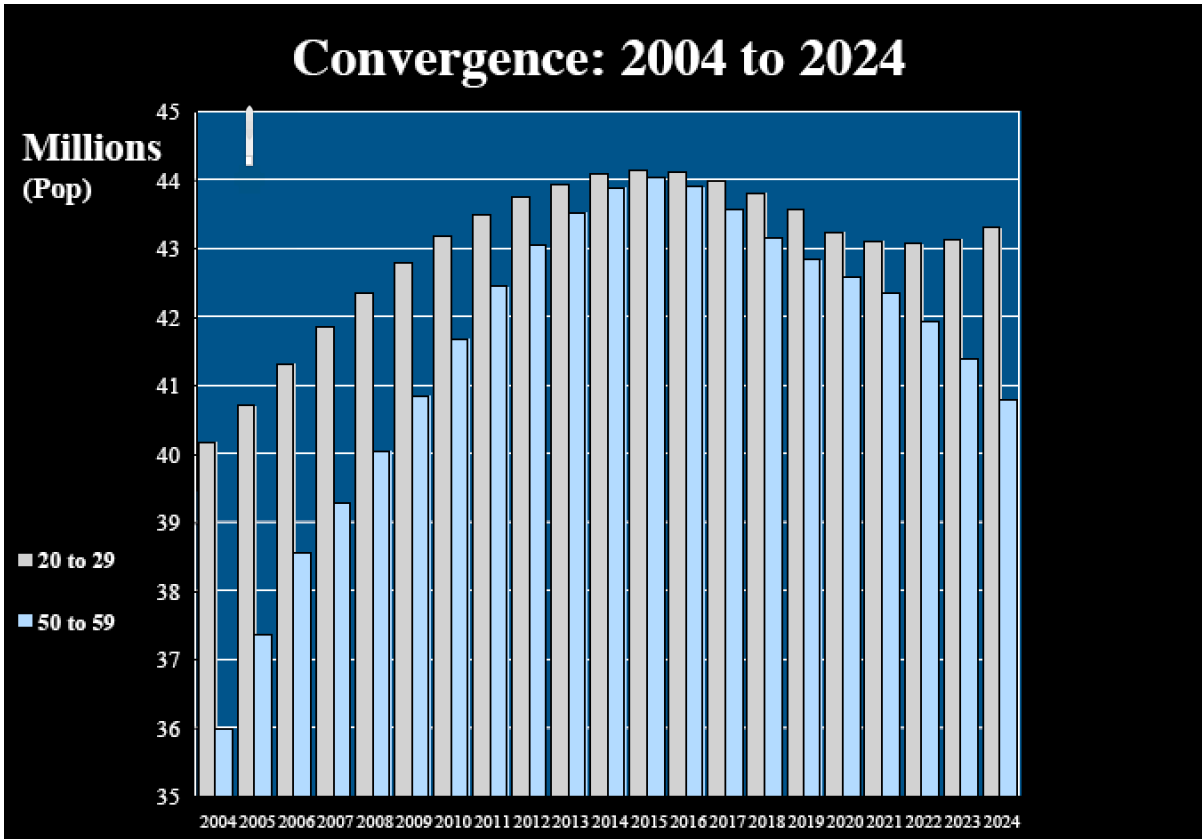
Boomer households have been moving from the full-nest to the empty-nest life stage at an accelerating pace that will peak sometime in the next decade and continue beyond 2020. In our work in cities of all sizes across the country, we have found that since the first Boomer turned 50 in 1996, empty nesters have had a substantial impact on urban, particularly downtown, housing. After fueling the dramatic diffusion of the population into ever-lower-density exurbs for nearly three decades, Boomers, especially affluent Boomers, are rediscovering the merits and pleasures of downtown living.

Meanwhile, Millennials are now leaving their parents' homes. The Millennials are the first generation to have been largely raised in the post-'70s world of the cul-de-sac as neighborhood, the mall as village center, and the driver's license as the main means of liberation. We have found that, in far greater numbers than predecessor generations, Millennials are heading for the city. They are not just moving to New York, Chicago, San Francisco or other large American cities; often priced out of these larger cities, Millennials are discovering second, third and fourth tier urban centers.

In addition to their shared preference for urban living, the Boomers and Millennials are changing housing markets in multiple ways. In contrast to the traditional family (married couples with children) that comprised the typical post-war American household, Boomers and Millennials are predominantly singles and couples. As a result, the 21st Century home-buying market now contains more than 63 percent one- and two-person households, and the 37 percent of the homebuyers that could be categorized as family households are equally likely to be non-traditional families (single parents or unrelated couples of the same sex with one or more children, adults caring for younger siblings, to grandparents with custody of grandchildren).

Because Boomers and Millennials are mainly childless households, the McMansion—the ultimate suburban dream of the move-up American family of the 1980s and 1990s—has become an anachronism, and countless subdivisions of overly-large houses built on the urban fringes are now abandoned, victims of the credit crisis and changing housing preferences. Boomers and Millennials are now seeking low-maintenance, well-designed dwelling units in urban and compact neighborhoods, where the amenities of 21st Century living—the workplaces, the cafés and restaurants, the clubs and theaters—are within walking distance.

The convergence of two generations of this size—each reaching a point when urban housing matches their life stage—is unprecedented. In 2004, there were an estimated 40 million Americans between the ages of 20 and 29, forecast to grow to 44 million by 2015, the peak year of convergence. In that same year, the population aged 50 to 59 will have also reached 44 million, from 36 million in 2004. The combination of these two demographic waves means that by 2015 there will be 12 million additional potential urban housing consumers in these age groups. Even as the population in these age cohorts declines after the forecast mid-decade peak, the number of potential urban housing consumers in these age groups will remain high; there are forecast to be eight million more persons in these age groups in 2024 than there were in 2004.



The impact on urban housing has already been documented. A study of building permit data—Residential Construction Trends in America's Metropolitan Regions—published by the U.S. Environmental Protection Agency in January, 2009, showed that, from 1990 to 2007, “in

roughly half of the metropolitan areas examined, urban core communities dramatically increased their share of new residential building permits.” That “the increase has been particularly dramatic over the past five years,” *i.e.*—2003 to 2007, is clearly influenced by the demographic convergence. It is the rare regional or national building company that hasn't established an urban infill housing division to capitalize on this market, and for many of these builders, those are the divisions of their companies that are still producing units.

By mid-century it will be clear that the great demographic convergence will have had as profound an impact on American settlement patterns as did the dramatic growth in family households after the long hiatus of the Great Depression and World War Two. This time, as we recover from the Great Recession, the change will be manifest in the revitalization of our cities and the urbanization of the best of America's suburbs.

