

RCLCO

The Millennial Generation's Influence on Real Estate Demand



ULI Capital Markets Conference
September 29, 2014

Gregg Logan, Managing Director, RCLCO

- **Ascent of the Millennial generation**
- **Retiring of the (still dominant) Baby Boomers**
 - Happening as the U.S. is becoming¹...
 - Older
 - More unequal
 - More diverse
 - More tolerant
 - Less married
 - Less religious
 - Less socially mobile

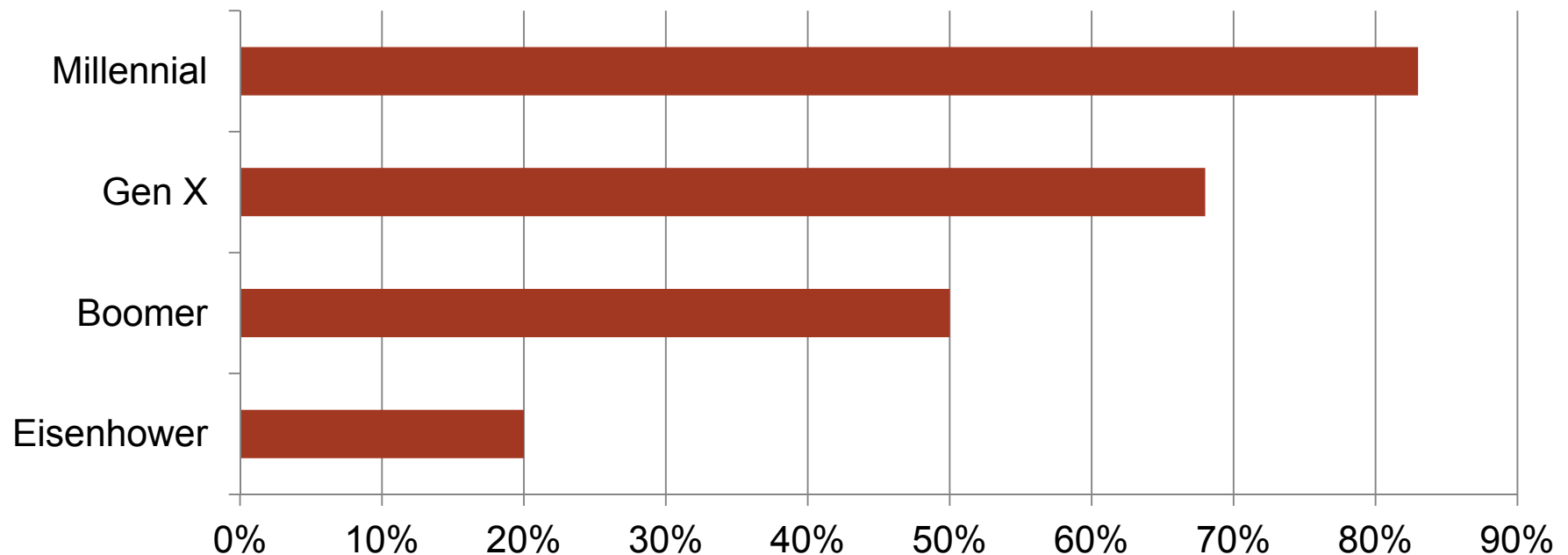


¹Taylor, Paul; Pew Research Center (2014-03-04). *The Next America: Boomers, Millennials, and the Looming Generational Showdown*

WHO ARE THE 80,000,000 MILLENNIALS?

- While there are as many different personality types within a generation as across generations, there's value in understanding what defines a generation.

Do you sleep with your mobile phone?

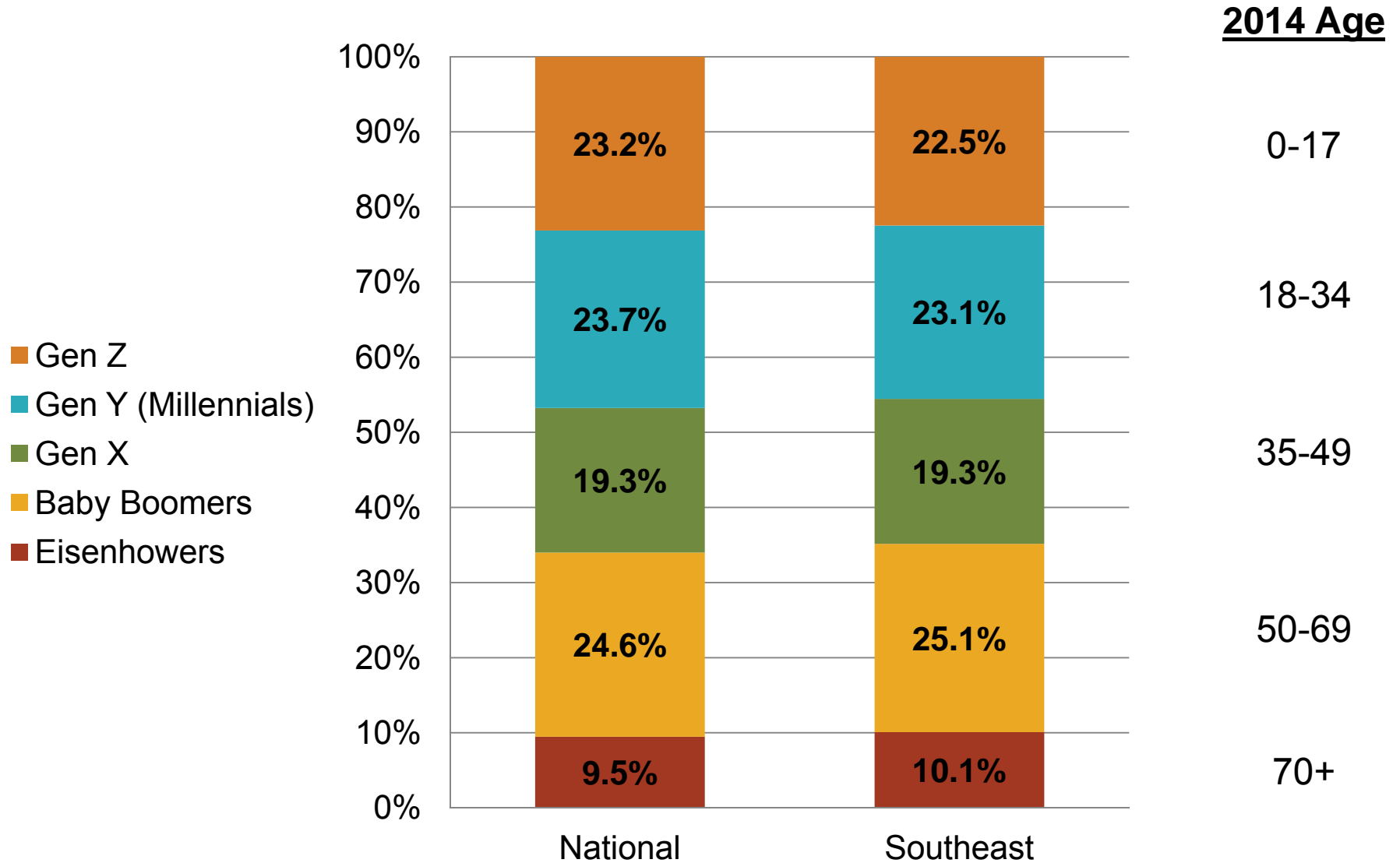


Source: PewResearchCenter

WHO ARE THE 80,000,000 MILLENNIALS?

- **Let's generalize about millions of people?!**
 - Aged 18 to 33, born 1981-1996
 - Largest generation after the Boomers—the Boomer's kids
 - Tech savvy, digital generation
 - Connected 24/7 – ALL information is just a click away—always
- **Reputation for...**
 - Smaller households
 - Delayed marriage
 - Delayed childbearing
 - Lifestyle centered
 - More diverse
 - Social media use
 - More liberal
 - More impatient
 - Economic mobility – frequently changing jobs

MILLENNIALS AND BOOMERS LARGEST COHORTS NATIONALLY AND SOUTHEAST



Source: ESRI; Pew Research Center

- **Apartments**
 - Smaller units at lower absolute dollar rents, high \$/sf in good locations; micro-units
 - “Emerging” neighborhoods as rents go up elsewhere
- **Multifamily For-Sale**
 - Demand for “urban” owner-occupied housing
- **Homebuilding**
 - Growing influence on for-sale market
 - Tension between urban location and SFD housing preferences
- **Community Development**
 - Reported preference for urban or urban-like places
- **Retail**
 - Online shopping – smaller stores, more warehouses

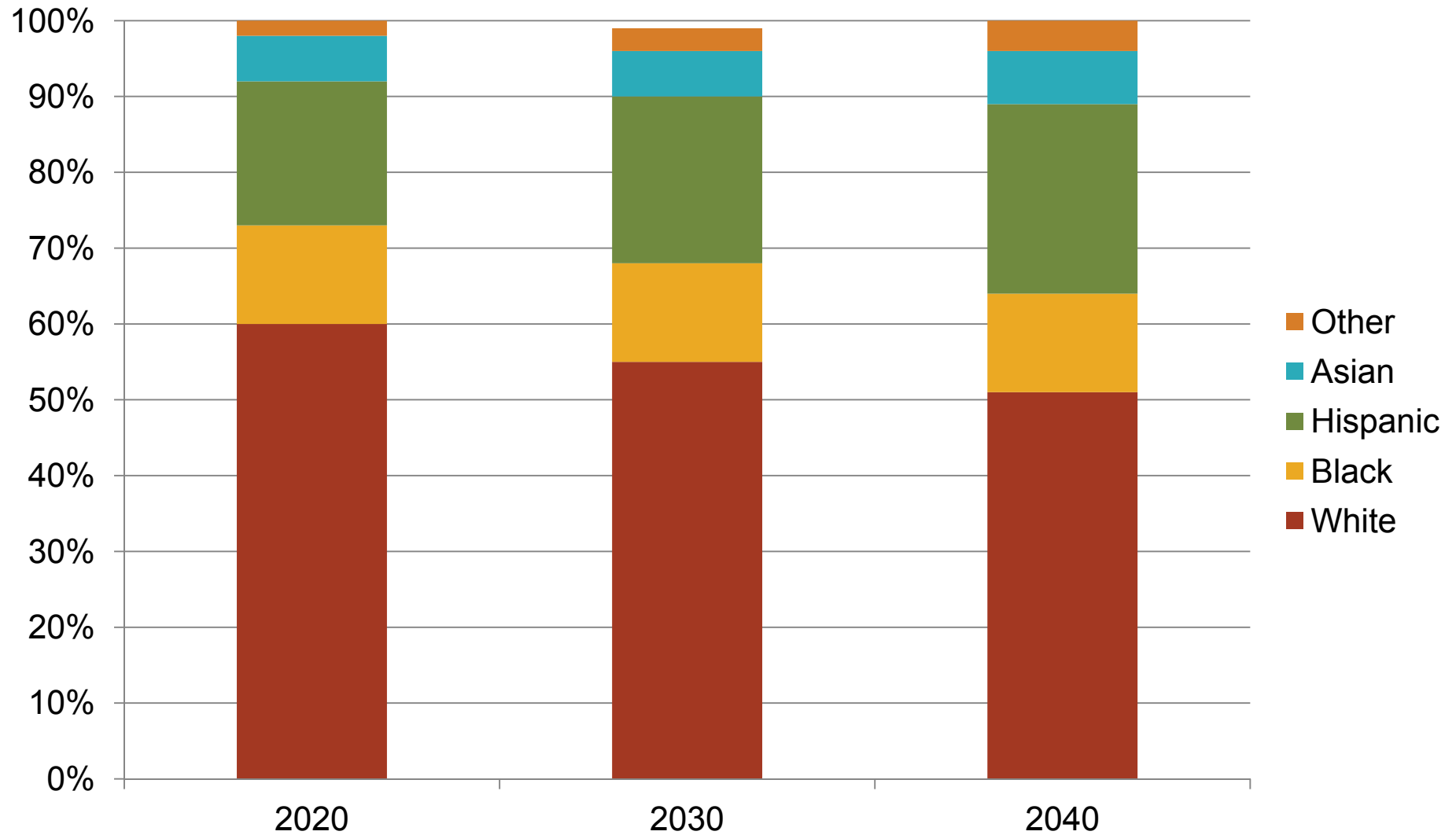
GENERATIONAL HOUSING DEMAND

PRODUCT TYPE:	2015	2020	2025
Student Rental	Gen Y	Gen Z / Gen Y	Gen Z
Rental Apartment Roommate	Gen Y	Gen Y	Gen Z / Gen Y
Rent as Couple	Gen Y	Gen Y	Gen Z / Gen Y
Own as Young Single, Couple, Family	Gen X / Gen Y	Gen Y	Gen Y
Own as Mature Family	Gen X / Baby Boomers	Gen X	Gen Y / Gen X
Own Second Home	Gen X / Baby Boomers	Gen X / Baby Boomers	Gen Y / Gen X
Own as Empty Nester	Baby Boomers	Gen X / Baby Boomers	Gen X / Baby Boomers
Own as Retiree	Baby Boomers / Eisenhower	Baby Boomers	Baby Boomers

- **ULI's Survey shows that Millennials are different in their preferences, but not dramatically different:**
 - **39% likely to live in a medium size or big city**
 - Compared to 30% of Boomers
 - **Twice as many Millennial/Gen Y's bike (19%) or take public transit (20%) as Boomers**
 - But 90% still drive
 - **38% say they will end up in apartment, duplex, or townhouse upon their next move**
 - Compared to 29% of U.S. movers overall

Source: ULI America in 2013

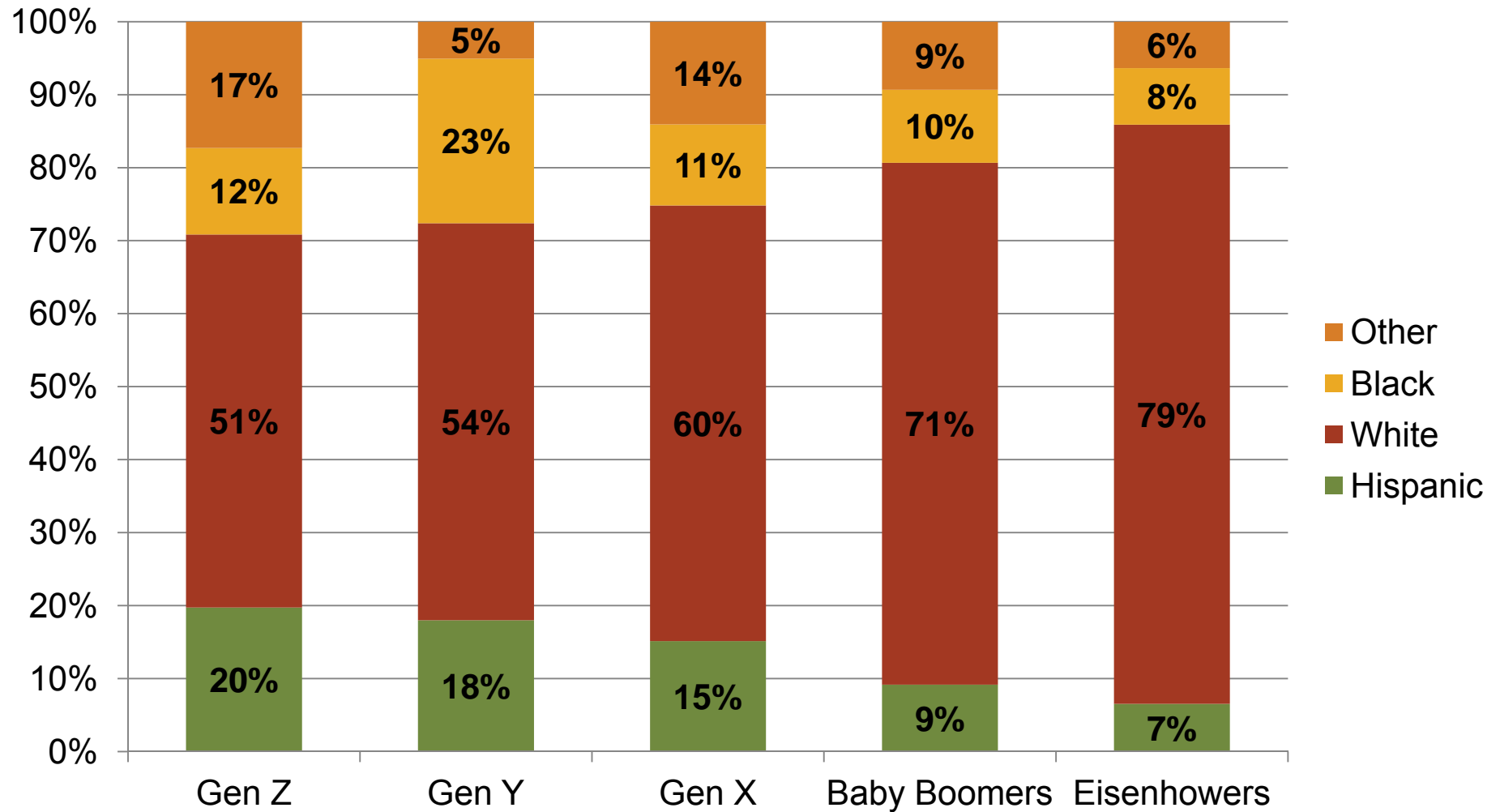
NOW TO 2040 AND BEYOND, USA MORE DIVERSE



Source: U.S. Census

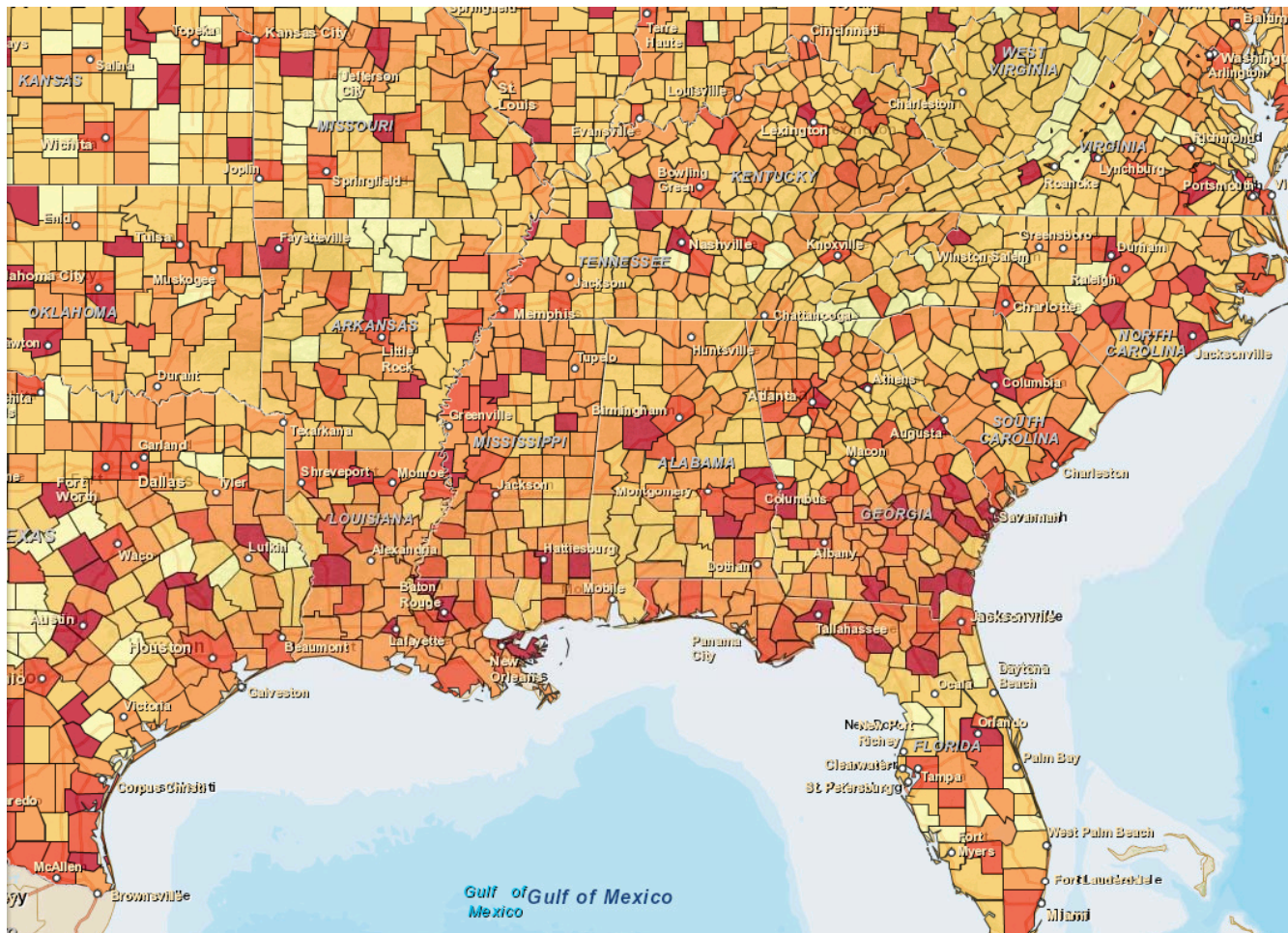
MILLENNIAL GENERATION ALREADY MORE DIVERSE

2014 Race Make-up by Generation



Source: ESRI; Pew Research Center

CURRENT MILLENNIALS CONCENTRATED IN URBAN AREAS



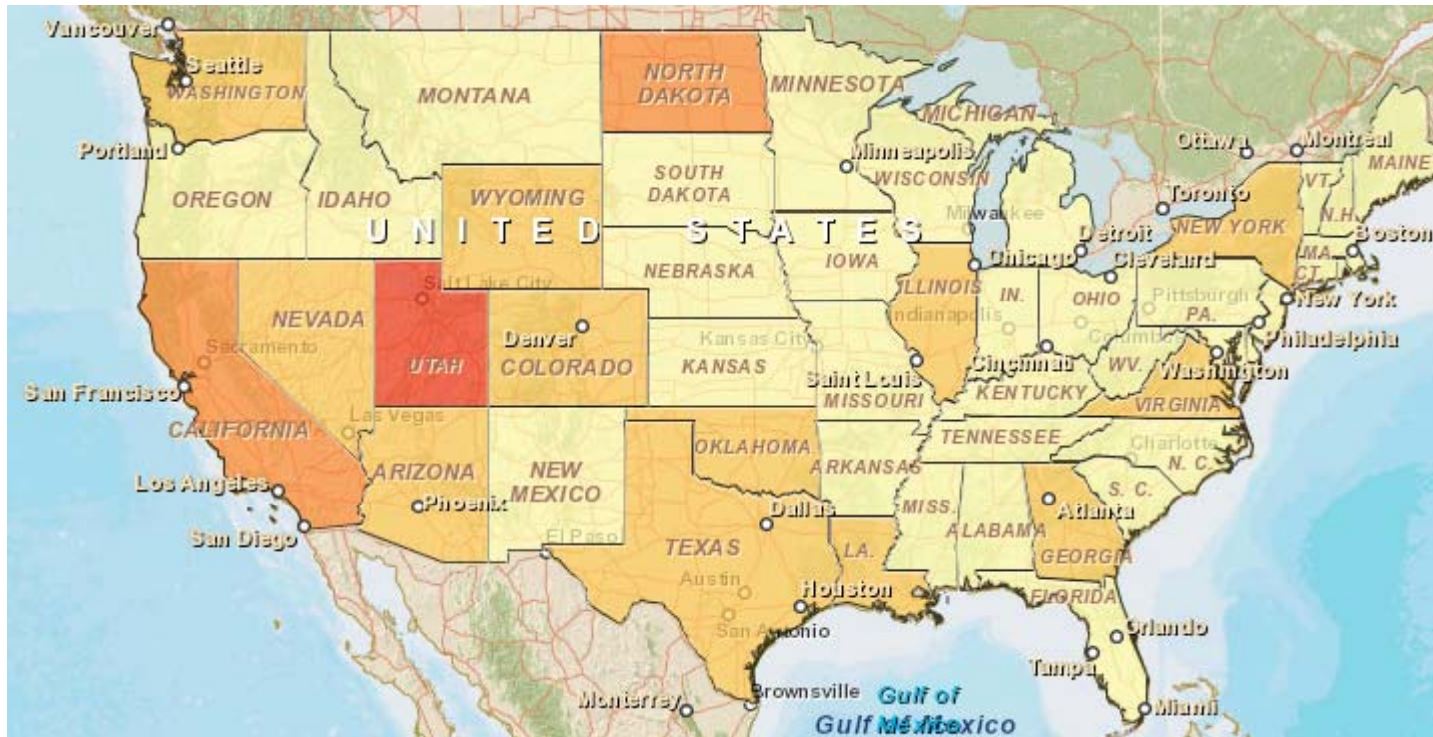
- College towns also unsurprisingly have high concentration of Gen Y

2014 % Age 21 to 35



Source: ESRI

CURRENT MILLENNIALS BY STATE



2014 % Age 21 to 35 by State



- High percentages of Millennials:
 - Washington, Wyoming, Colorado, Utah, California, Nevada, Arizona, North Dakota, New York, Texas, Oklahoma, Georgia, Virginia

Source: ESRI

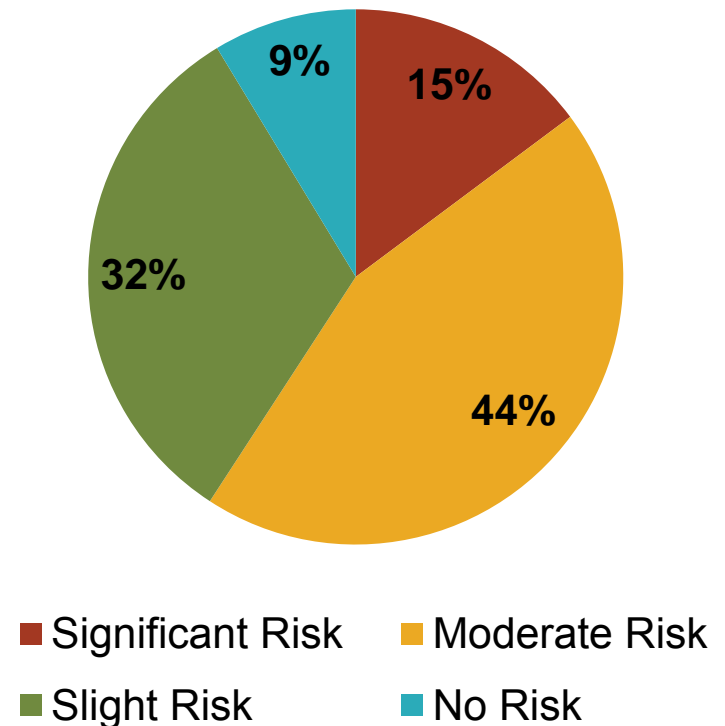
TOP 20 MARKETS AFFLUENT MILLENNIALS

Rank	Metropolitan Statistical Area	#HH 18-35 with Incomes \$75k+
1	New York-Newark-Jersey City, NY-NJ-PA Metropolitan Statistical Area	487,858
2	Los Angeles-Long Beach-Anaheim, CA Metropolitan Statistical Area	254,929
3	Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area	226,036
4	Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area	212,017
5	Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area	165,952
6	Houston-The Woodlands-Sugar Land, TX Metropolitan Statistical Area	149,253
7	Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area	133,555
8	San Francisco-Oakland-Hayward, CA Metropolitan Statistical Area	131,539
9	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area	130,863
10	Atlanta-Sandy Springs-Roswell, GA Metropolitan Statistical Area	113,469
11	Seattle-Tacoma-Bellevue, WA Metropolitan Statistical Area	106,981
12	Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area	95,235
13	Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area	86,782
14	San Diego-Carlsbad, CA Metropolitan Statistical Area	82,732
15	Miami-Fort Lauderdale-West Palm Beach, FL Metropolitan Statistical Area	78,931
16	Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	75,698
17	Baltimore-Columbia-Towson, MD Metropolitan Statistical Area	69,472
18	Denver-Aurora-Lakewood, CO Metropolitan Statistical Area	68,294
19	Detroit-Warren-Dearborn, MI Metropolitan Statistical Area	66,144
20	Salt Lake City-Provo-Ogden Combined MSAs	59,625

Source: RCLCO

- **Millennials are driving the recovery in multifamily development**
 - Rental apartments continue to lead real estate recovery
- **Survey: MF is already in “Late Stable” stage of recovery**
- **60% of respondents say there is a risk of a bubble in their markets**
 - Minority—16%—believe apartments will peak and move into “Early Downturn” phase of real estate cycle sometime over the next 12 months

What is the risk of an apartment bubble in your market?



- **Next 3-5 years:**
 - Location/neighborhood as the primary amenity
 - Where there is growth in professional and business service jobs
 - Consulting, tech, creative economy, etc.
 - Lower cost of living and/or higher cost of ownership (than rent)
 - Growing educated population
 - High turnover
 - Less established markets with substantial anchor institutions (universities/hospitals)

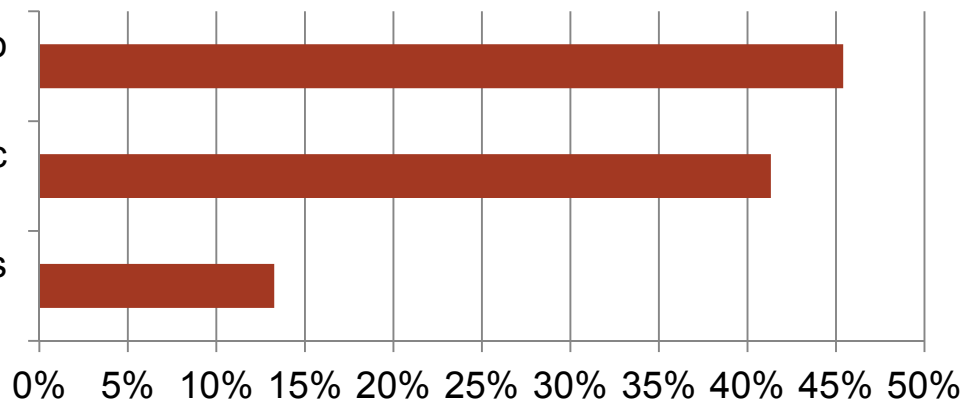
SENTIMENT SURVEY: MILLENNIAL IMPACT ON RESIDENTIAL MARKET

- *“Lower household formation rates among Millennials has stifled residential demand”*
- *“At 2007 headship rates, 2.1 million more adults in their 20s and 300,000 in their 30s would be out there forming households!”*
- *“As economic growth continues and as incomes rise, household growth will increase, raising demand for both rental apartments and starter for-sale housing”*
- About 45% of respondents believe that household formation will gradually return to historical norms as economic conditions improve

The household formation rate will gradually return to historical norms as economic conditions improve.

This represents a “new normal” due to demographic and other trends.

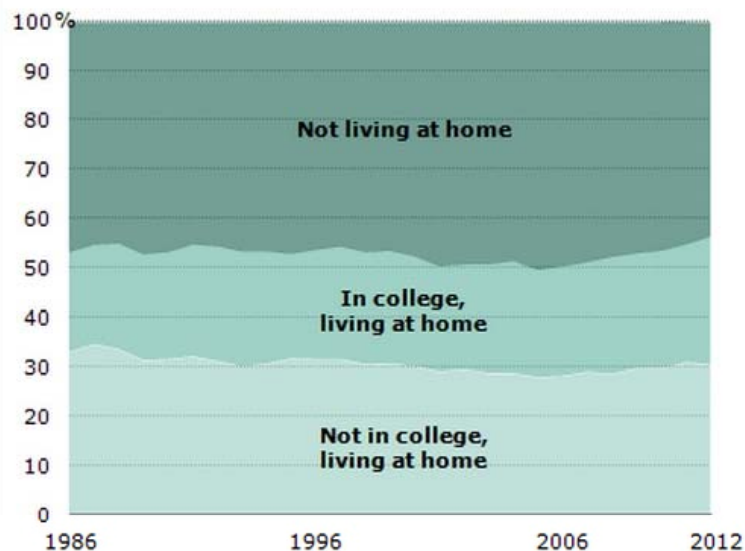
There are many people waiting to form households who will soon create a spike in new households.



DEBATE: IS THE “GREAT DELAY” A STATISTICAL ERROR, TEMPORARY, OR PERMANENT?

Lack of Household formation is false – 18-24 year olds are just living in dorms

College Enrollment and Living at Home Among Adults Ages 18 to 24, 1986-2012



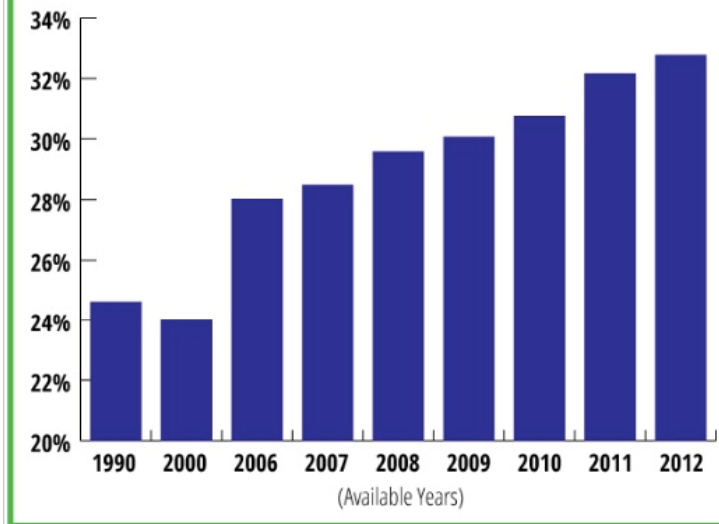
Pew
Photo by: Pew

“Almost half of young people “living with their parents” are in college, where all campus housing counts as “living with their parents.”... If we’re going to freak out about young people, let’s do so for the right reasons.”

- Derek Thompson, The Atlantic

Just looking at student ages misses those living at home until aged 34

Trulia Share of 18-34 Year Olds Living with Parents (Excludes Dorm-Dwellers)



Trulia Share of 18-34 Year Olds Living with Parents
Photo by: Trulia

“But it could be that the combination of higher student debt, a lack of good-paying jobs, and stagnant wages has created a new normal, where young adults simply expect to live at home for several extra years before venturing out on their own.”

- David Dayen, The New Republic

Source: The New Republic; Trulia; The Atlantic; U.S. Census; The Cleveland Fed

FOR-SALE VS. FOR-RENT MARKET: CHANGING PREFERENCES OR ECONOMIC REALITY?

- Preference, or economics, driving rental housing boom?
- This generation has had tougher time recovering from recession than other segments
- Do Millennials want to be homeowners?
 - Survey responses – yes
- Historically first-time buyers = 40%
 - Currently 28% of buyers
 - Holding back full housing recovery



- Millennial population is large yet household formations have been weak
 - If the headship rate had stayed at historical average, 1.5 million more households would exist today
- Long term outlook for housing strengthens as new household formations reach potential
- Household formation will ramp up as the Millennials strengthen economically
- Housing market rebound will peak in 2015/2016 as expansion continues to 2017/2018

Pent Up Demand?

ULI Capital Markets Conference | SEPTEMBER 2014

- **The mall is not dead for Millennials but needs to evolve to hold their interest and get them to spend**
 - Shopping as entertainment
 - They are browsing and shopping everywhere on all their devices
 - Wi-fi everywhere, state of the art tech connectivity, Apps
 - Competitive prices; good value; deals, deals, deals
 - Authentic and homemade goods
 - Stores that are unique, cozy, and quirky
 - Retailers who operate physical stores and a website
- **Warning signs for retail**
 - 32% Millennials stopped buying from companies that have unacceptable social practices

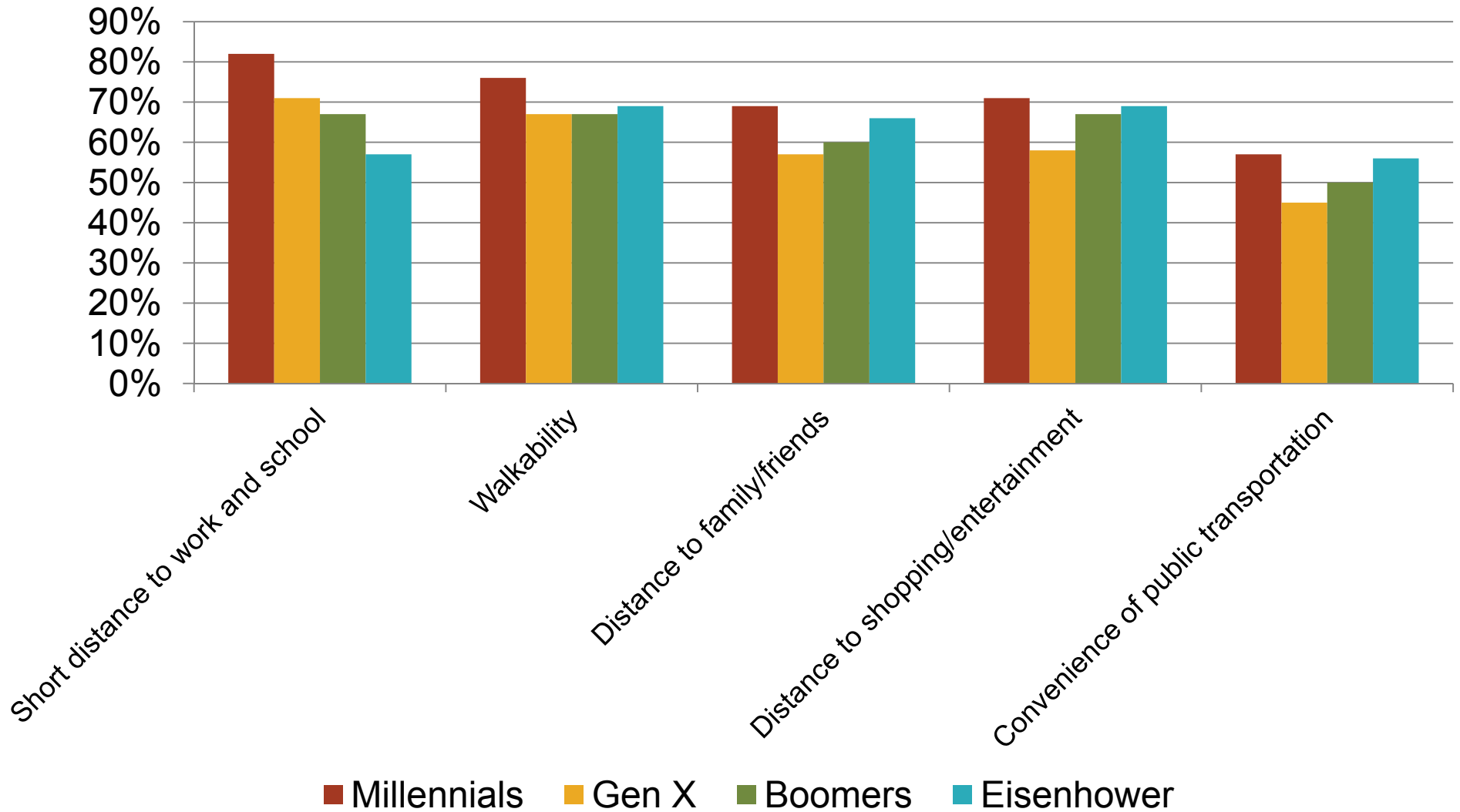
Sources: OpinionLab survey as reported by CNBC 5/28/2014; Forbes, Millennials: Double Trouble for Retail, 4/30/2014

MILLENNIAL PLACE PREFERENCES



- Places that embrace technology
- Embrace ethnic diversity
- Environments that facilitate “connections”
 - Social, religious, institutional, business
 - Gathering spaces to hang out and text each other
- Walkable
- Fun – you want to be there
- Unique shopping, coffee shops, restaurants, and bars
- Transit or transit ready
- Convenience

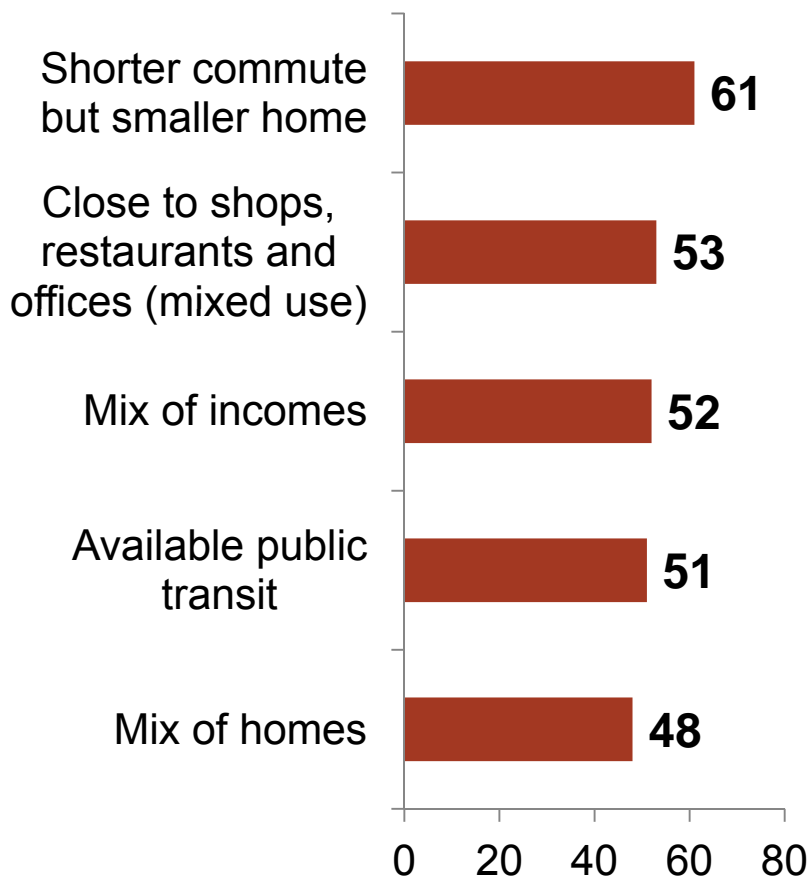
MILLENNIAL PLACE PREFERENCES



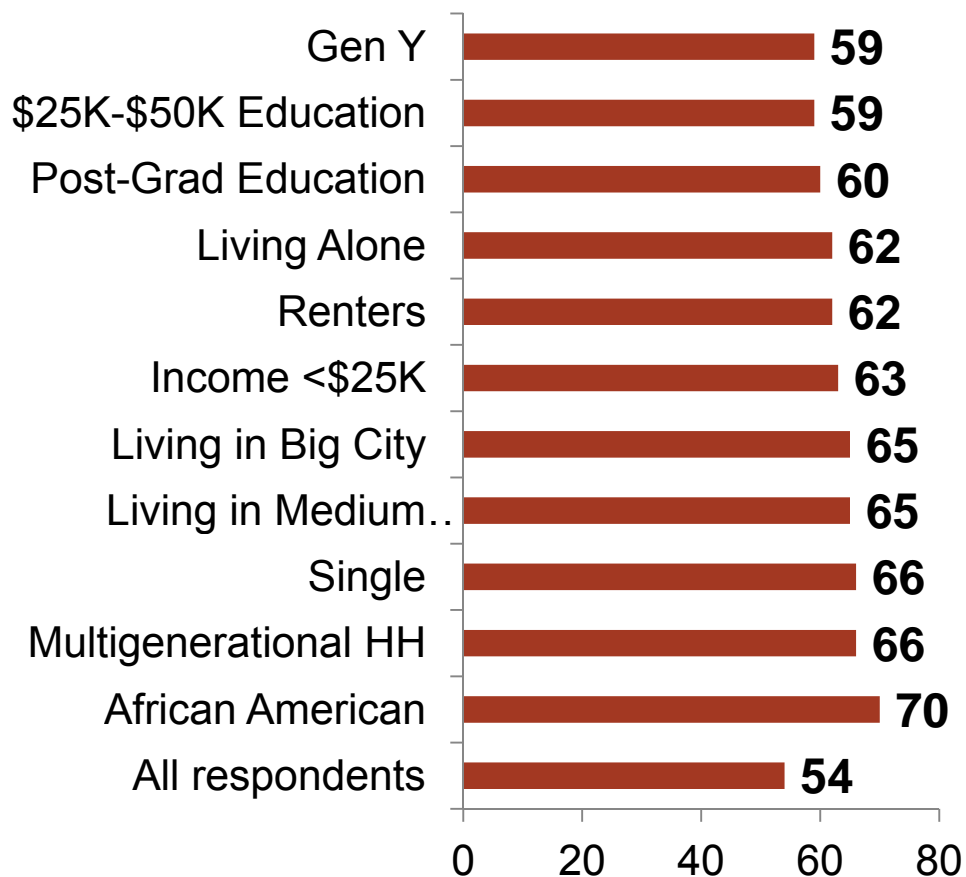
Source: ULI America in 2013

CROSS GENERATIONAL SIMILARITIES IN GENERATIONAL “PLACE” PREFERENCES

Percentage of respondents indicating a preference for community attribute

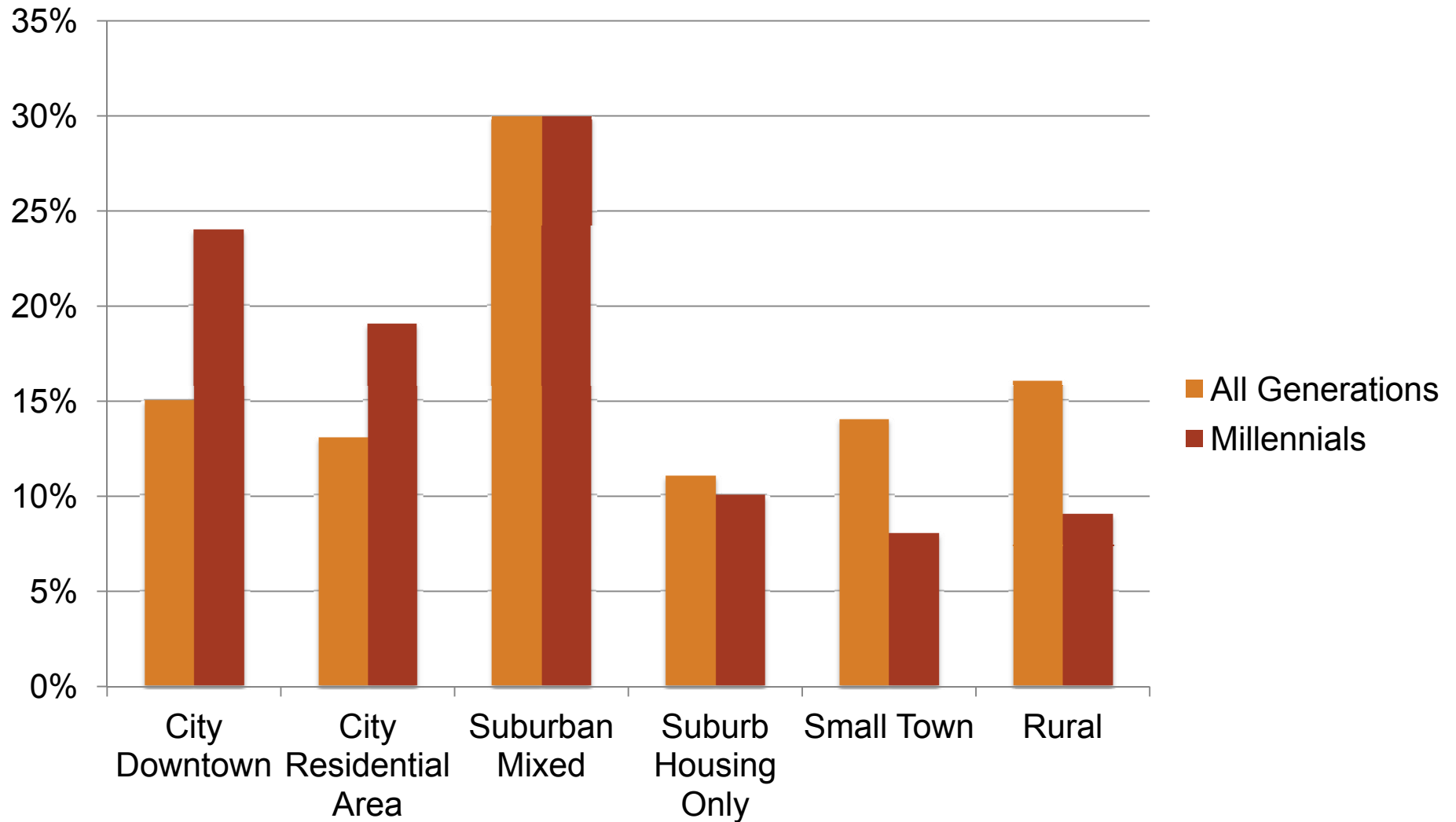


Percentage of respondents preferring three or more of compact development attributes



Source: ULI America in 2013 Survey

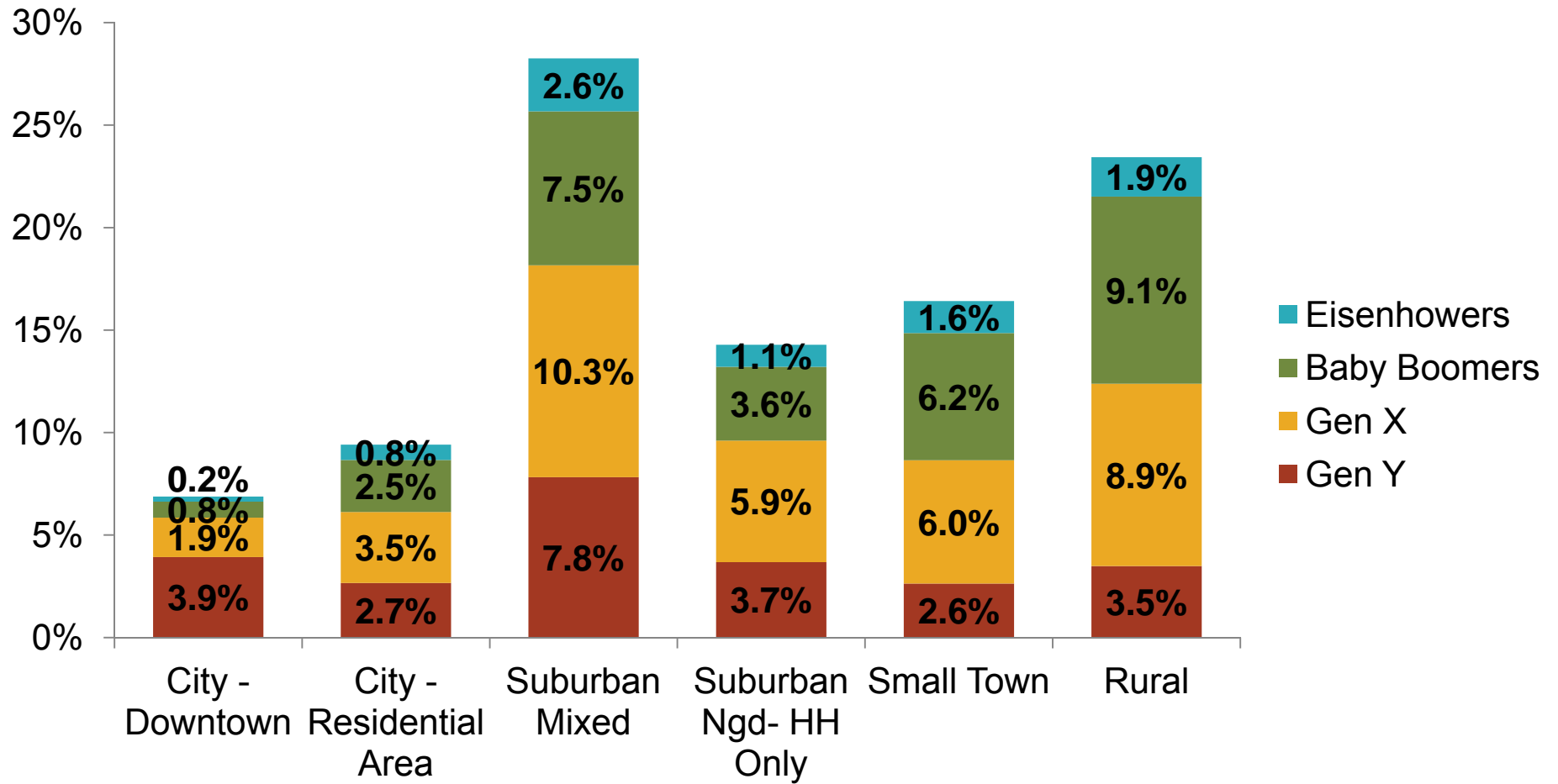
MILLENNIALS STRONGER URBAN PREFERENCE MIXED SUBURBAN IS STRONGEST AMONG ALL HH'S



Source: NAR Community Preference Survey

PREFERENCE FOR LOCATION BY GENERATION

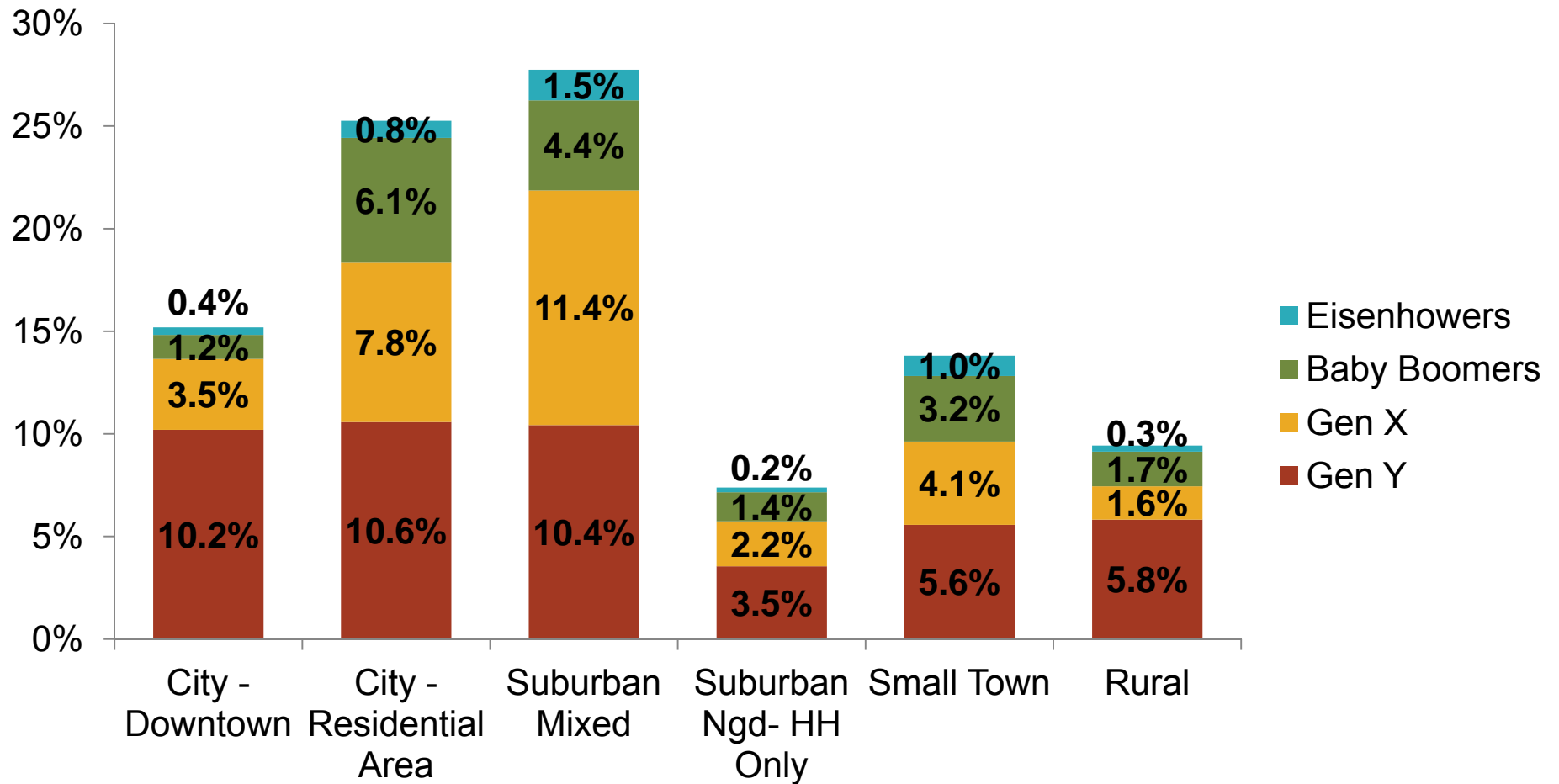
**Total Owner Active Market Preferences
(% of Total Respondents)**



Source: NAR 2013 Community Preference Survey

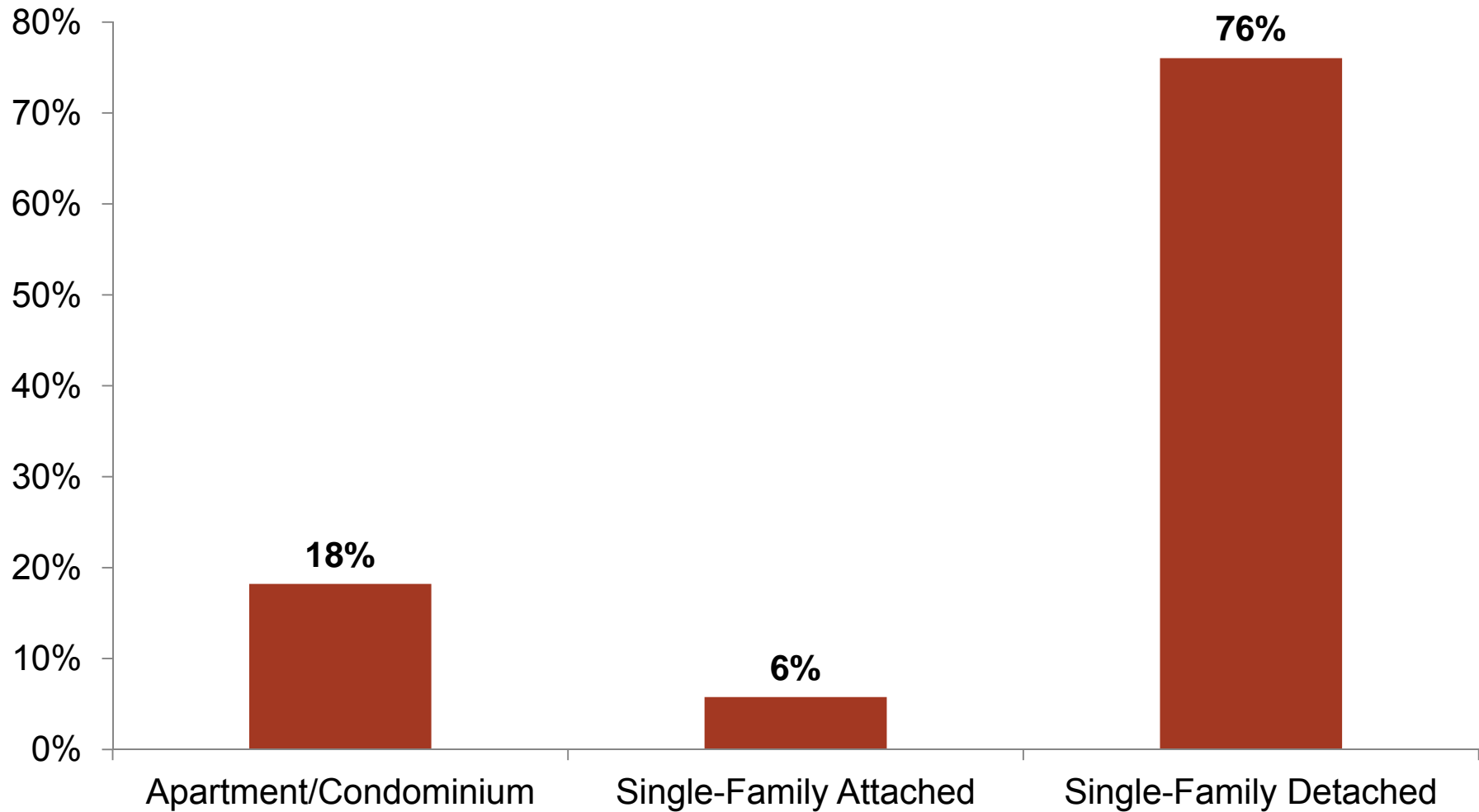
MILLENNIAL/GEN Y RENTERS PREFER URBAN PLACES SIGNIFICANTLY MORE THAN OTHER GENERATIONS

Active Renter Market Preferences
(% of Total Respondents)



Source: NAR 2013 Community Preference Survey

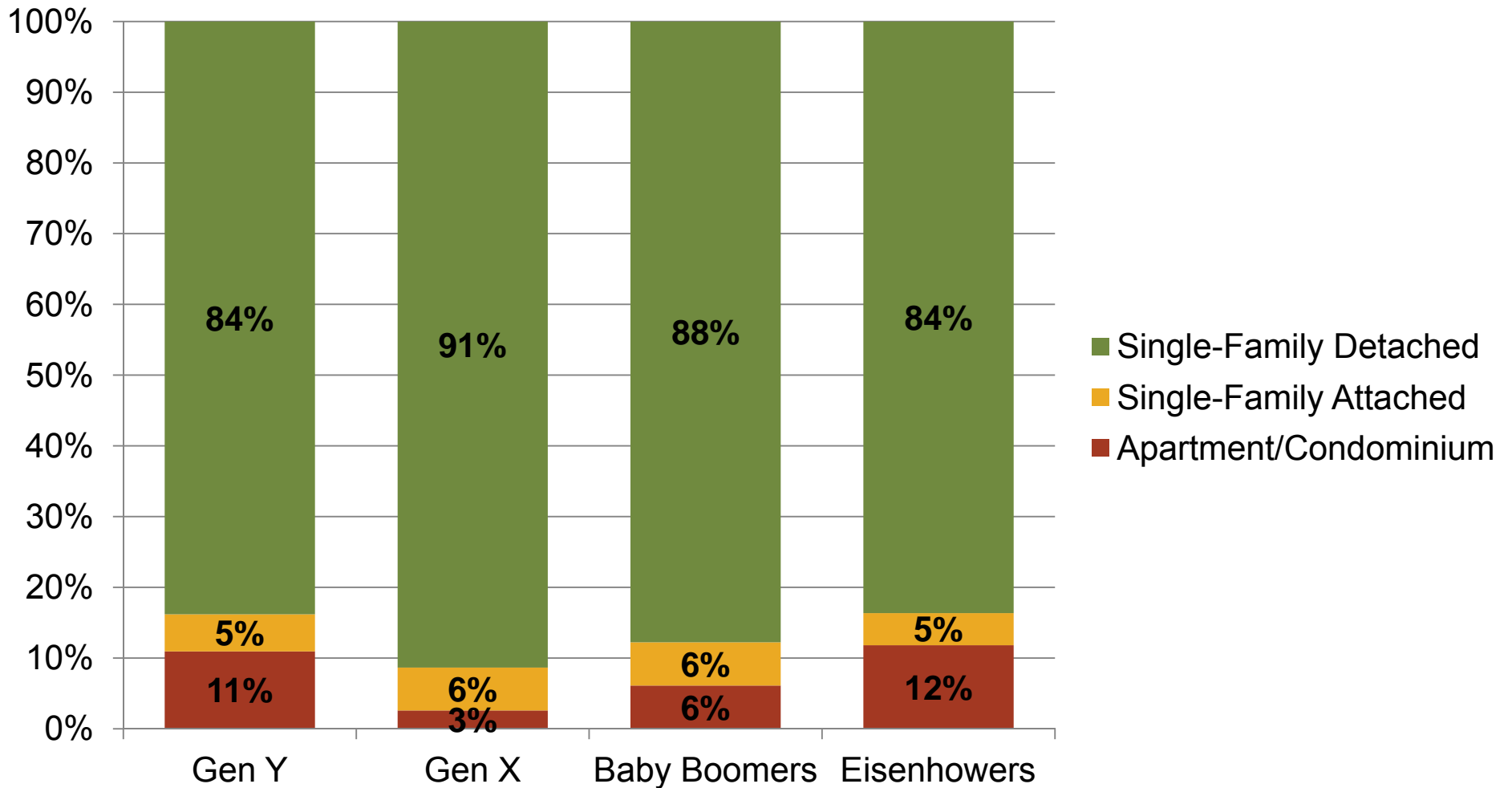
Millennials Preferred Housing Product Type



Source: NAR 2013 Community Preference Survey

SINGLE-FAMILY DETACHED MOST PREFERABLE

Product Preference for Current Owner Households



Source: NAR 2013 Community Preference Survey

TAXI, MIXED-USE COMMUNITY; DENVER, CO

- TAXI is a 20-acre complex in Denver, Colorado
- Former Yellow Cab central office
- Six-building mixed-use community with 210,000 square feet of office, retail, and residential space
- Poor location outside of traditional development areas, the design and creative orientation attracts young professional
- Now TAXI is 100% occupied and enjoys premium rents
- Caters to individuals and companies who value community, uniqueness, architecture
 - Bike Share
 - Community Garden
 - Fitness Centers/Pilates Classes
 - Community Pool (which is actually a transformed freight container)
 - Outdoor Cinema
 - Large Glass Garage Doors-provides access to air and natural light
 - Salons, organic restaurants, and coffee shops



PRODUCT EXAMPLES – MUELLER, AUSTIN, TX

Standard Pacific Homes Row House Rendering



David Weekley Homes Row House Rendering



- **Project:** Mueller Community (Pronounced “Miller”)
- **Location:** Austin, Texas
- **Setting:** Urban Infill Master Plan on former airport site
- **Community:** Traditional Neighborhood Designed (TND) Community with multiple attached and detached product lines
- **Millennial Appeal:** The 22.5’ x 55’ to 22.5’ x 90’ Lot Size Row Homes with 1,145 to 2,220 square feet of conditioned space are a popular choice for Millennials, who are less concerned about the inferior school district. Builders of this product line are Standard Pacific Homes, The Muskin Company, Streetman Homes, and David Weekley Homes

PRODUCT EXAMPLES – ONE LOUDOUN, LOUDOUN, VA

**Camberly Homes
SFD Product**



**Miller & Smith
SFD Product**

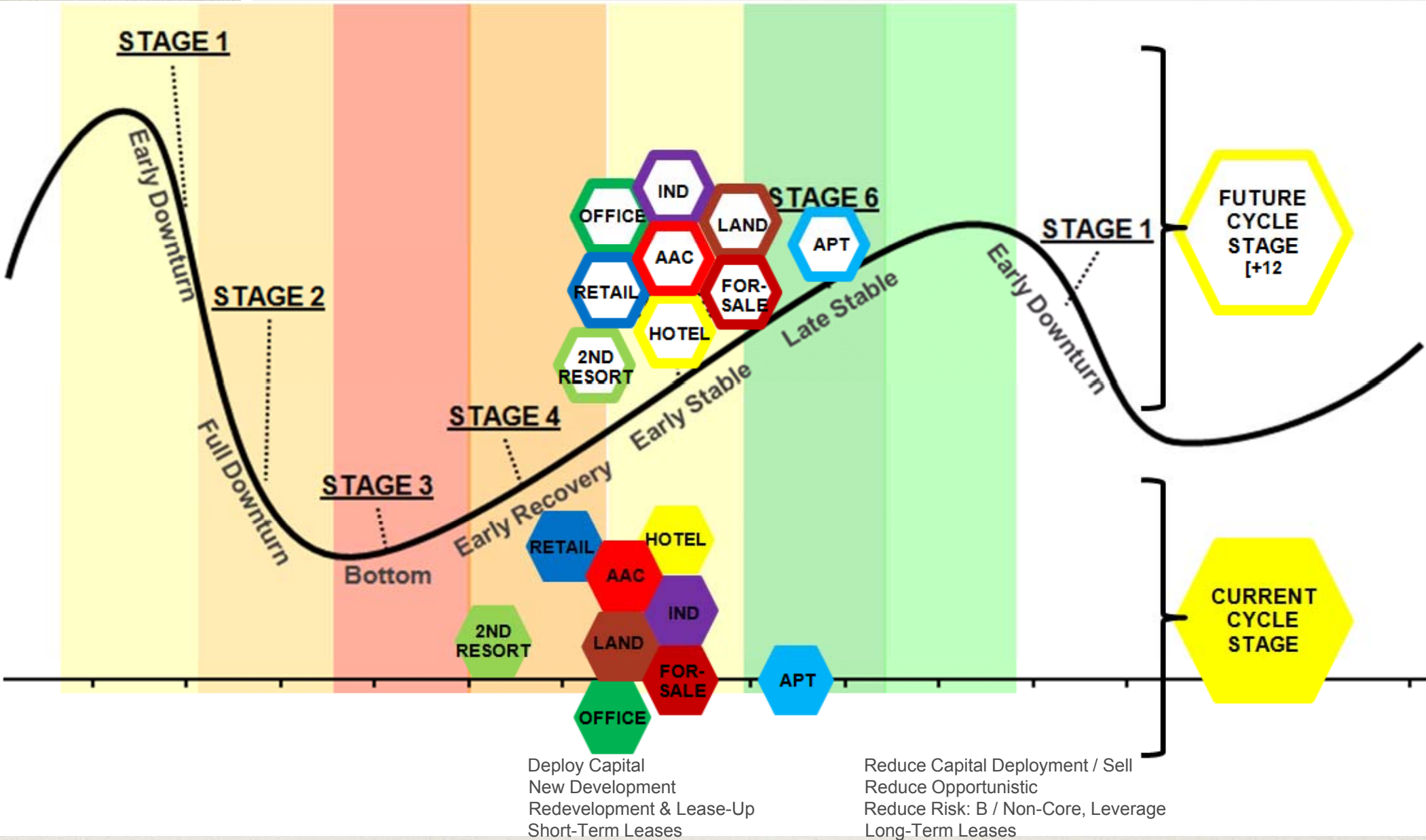


- **Project:** One Loudoun
- **Location:** Loudoun, Virginia
- **Setting:** Urban Style Mixed-Use Project in Suburban Location
- **Community:** One Loudoun opened in 2011 and is the top selling MPC in the Washington, D.C., region. The community includes detached and attached for-sale product and for-rent apartments.
- **Millennial Appeal:** Miller & Smith and Camberly Homes are offering a downtown single-family home collection on small lots with rear-loaded garages and front steps leading to the front door. Maintenance is included. The smaller home on a smaller lot in an urban configuration is unusual for Loudoun County in proximity to the town center is attracting Millennials.

- Diversity is their defining characteristic
- Preferences change with life-stage, may not be “fixed” forever
 - Multifamily market—continued strong demand—caution in some areas
- Urban areas attract more young than other age cohorts, but other opportunities too
- With access to credit Millennials can drive demand for both urban and suburban ownership housing
 - Continuing Millennial household formations will drive other real estate demand:
 - Experiential retail, distribution centers putting online goods closer to consumers, etc.
- For-sale housing for a variety of housing products at attainable prices, with urban amenities



RCLCO 2Q 2014 SENTIMENT SURVEY: STABLE GROWTH



Gregg Logan

Managing Director / Director of Community & Resort Advisory

Phone: (407) 515-4999

glogan@rclco.com

RCLCO

964 Lake Baldwin Lane

Suite 100

Orlando, FL 32814

Phone: (407) 516-6592

Fax: (407) 515-6599

www.rclco.com