

City /si-tē/ -*noun*: A place where people live that is larger or more important than a town; an area where many people live and work. ¹

Millennial /mi'lenēəl/ -*noun*: -*plural noun*: Millennials: Persons reaching young adulthood around the year 2000, a Generation Year, the "Net Generation." ²

Millennials and Re-Urbanization of the City

Closer to the core: Millennials' preference for amenities and connections reshaping communities in U.S.

Executive Summary

Much has been written on the impact of the millennial generation. This demographic (ages 18 to 36) has surpassed baby boomers (ages 50 to 68) as the nation's largest generation. According to population estimates released in April 2016 by the U.S. Census Bureau³, millennials now number 75.4 million, surpassing the 74.9 million baby boomers.⁴

As millennials continue to enter the workforce and exert their influence on all aspects of the economy, of particular importance is their effect on commercial real estate, amenities and location. In 2011, for the first time in almost 100 years, the rate of urban population growth outpaced suburban growth.⁵

Today, America's cities entice millennials with better options for their careers and lifestyles. These "18-hour cities"⁶ now allow millennials to return to city centers, which offer a mix of housing,

retail, entertainment and green-space options.⁷ Furthermore, millennials want to live in other places that share a lot of the same characteristics with urban centers – they are looking for amenities and public transit or what real estate industry experts refer to as "urban-burbs."⁸ These neighborhoods can be described as hybridized, less dense neighborhoods with a high quality of life more suited for a family.⁹ The shift to urban living continues to accelerate and much growth is actually taking place in suburban areas.

The question is: Are millennials the driving force behind the recent urbanization of American cities? Or are millennials one piece of a larger historical trend? This topical report will explore the transformation of cities as well as the ongoing impact that millennials have had on the ever-changing real estate market of the nation's metropolises.

The Transformation of Cities

Late American historian and urban studies professor Richard Wade noted that cities sponsored entrepreneurship in import and export markets, banking, finance and the rise of the factory system after 1812.¹⁰ As a result, cities became diverse and were home to a varied population.

When looking at the urbanization of the city, it becomes an example of modernization whereby society goes from being dominated by the traditional to being guided by abstract principles. Religious beliefs and cultural traits become less important.¹¹

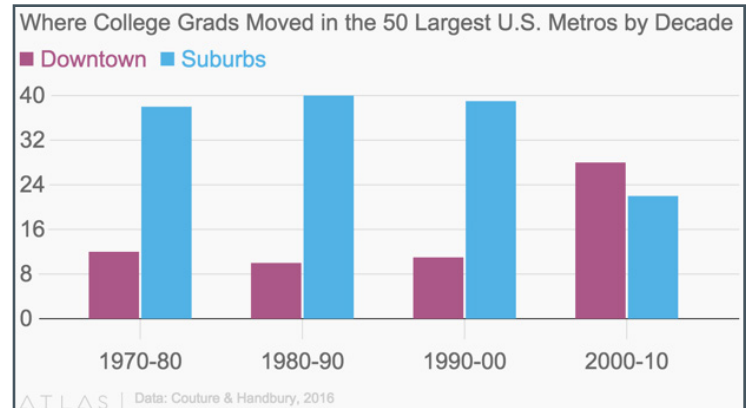
Linking the processes of urbanization and industrialization (as well as the spread of education), Baylor University sociology professor Diana Kendall notes: “Urbanization has accompanied modernization and the rapid progress of industrialization.”¹² In this process, the individual – rather than the family or community – becomes increasingly important as the fundamental unit of society.

With the advent of the skyscraper in the 1880s, even more density could be brought to the city. Multi-story residential buildings, all of which were rental properties, housed middle-class professionals, business operators and white-collar workers.¹³ Individual ownership of these apartments would not come until co-ops were created in New York City early in the 20th century and condominiums formed after World War II. Turnover in these units was high, and there was little sense of community.¹⁴

Critical to these lifestyle changes was access to transportation.¹⁵ Apartments were built near streetcar lines as the middle class depended on public and private transportation. The working class walked from tenements more distant from transportation to their workplaces.¹⁶

Urban America grew and prospered into the 1920s. This growth lasted until the Great Depression, which collapsed 80% to 90% of the private-sector construction industry and, when coupled with the downturn in heavy industry, added greatly to unemployment. These effects were felt more in the East and Midwest than they were in the South and West at that time.¹⁷ The migration that brought millions of farmers and townspeople to the cities saw them returning to family in rural areas.¹⁸ With their opportunities in the city gone with the Depression, these people retreated to their rural communities and connections.

Currently, more than 80% of the U.S. population resides in urban areas, up from 50% in the 1920s and 66% in the 1960s.¹⁹ The



Western U.S. is the most urbanized area of the country, followed by the Northeast. The South urbanized after World War II and was similar to the Midwest as of 2010.²⁰

Regardless, the urbanization of the United States has been a gradual and continual process.

The Advent of the Millennials

The “Net Generation” has witnessed and influenced the ability of today’s technology to overcome geographic limitations, allowing people to work and collaborate from anywhere in the world. Yet, instead of the rural or remote settings such capabilities could favor, millennials, like historical American city dwellers before them, are migrating to where the job opportunities are concentrated – the city.

New living habits of millennials and baby boomers, delays in starting a family, a tougher home-buying market and people’s dislike of long commutes have altered cities in recent years.²¹ Robust growth and increased urbanization were recorded in many American cities in the 2000s in conjunction with the arrival of the millennial generation.

“Location, location, location” for this generation means being close to an urban core so that millennials can easily get to work, amenities and transit. Studies show a new fondness for living near service amenities like music venues, theaters, bars, gyms, etc., which create a broad cultural shift that could make the urban revival underway more long-lasting.

As the millennial generation continues to reach young adulthood and enter the modern workforce, this cohort continues to influence the growth patterns of our cities in its own unique ways. Sideline by high unemployment, student-loan debt and tight credit, millennials

have a different outlook on home ownership and long-term investment than previous generations.²²

Innovation requires an ecosystem in order to thrive and, by nature, cities are a diverse pool of individuals in increasingly connected environments that allow for, and embrace, new ideas. Acknowledging that advancements in modern technology and connectivity have created new ways of doing business, the result appears to be fluid industrial landscapes that require adaptability and encourage disruption.²³

University of California, Berkeley economist Enrico Moretti notes that “by clustering near each other, innovators foster each other’s creative spirit and become more successful.”²⁴ Age aside, innovators’ desire to surround themselves with others naturally induces them to create, or move to, dense and diverse environments.

In the book *Where Good Ideas Come From*, Steven Johnson writes that “more connections create exponentially more ideas, and that leads to cities.” Johnson writes of historical studies on innovation that demonstrate “a metropolis 50 times bigger than a town was 150 times more innovative” due to this clustering.²⁵

We see this point clearly in the recent rise of “co-working” spaces led by companies such as WeWork, TechSpace, Industrious and Galvanize that are now expanding into multiple cities around the U.S. Workers can rent a desk, or a space for two or more people, with no commitment beyond 30 days. Even traditional companies are using such space for temporary housing of staff during transition periods and even fixed longer-term locations as an alternative to typical lease space.

Millennials Moving Forward

Embracing the diverse, urban lifestyle in large numbers, millennials are directly affecting the revitalization of long-dormant urban areas in Detroit, downtown Los Angeles, Brooklyn, downtown Houston and Uptown Dallas – among other locales. Millennials have also played a part in the rapid urbanization of smaller and less dense (but growing) metropolitan areas like Austin and Nashville. Additionally, resolutely urban cities, such as San Francisco, Boston and Seattle, are seeing

further densification and the resulting transformation of their urban-core neighborhoods.

In Austin, there is a high volume of millennials living in the northwest and central business district markets where housing supply and transportation are equally influential factors for desirability of the area.²⁶ For example, the housing supply, particularly for multi-family rentals, is greater in these areas – with developments larger and more frequent – than in the downtown area, resulting in higher rental rates closer to the city’s urban core. Issues, such as transportation and traffic, in Austin have led to nodal growth and the creation of “urban-burb” areas with increasing frequency of mixed-use real estate developments. Regardless, the desire is to live near downtown and access the amenities and lifestyle that the city core offers.

Many millennials also see close-in suburbs like Hoboken, Brooklyn and Queens, with their youthful vibe and picture-window views of Manhattan’s skyline, as a likely compromise of an urban area mixed with more space, affordability, cars and parking spots. The average rent for a two-bedroom apartment in Hoboken is \$2,900, compared with \$5,000 for non-doorman buildings in Chelsea, a neighborhood in Manhattan.²⁷

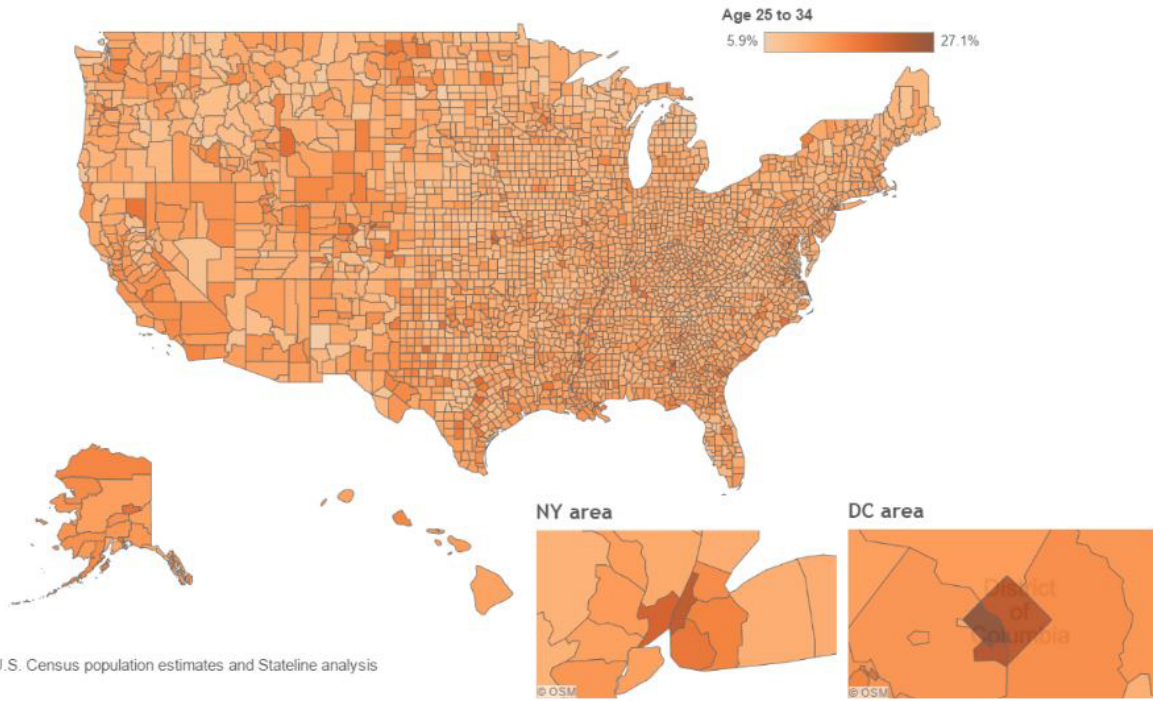
As millennials continue to disregard the familiar historical pattern of moving to the suburbs, even areas long considered hubs of innovation have witnessed the millennial generation’s influence. Journalist Kevin Maney highlights the changing perception of Silicon Valley – one of the most well-established and recognized, yet suburban, technology centers in the U.S. He notes that the “Silicon Valley region’s office parks now seem like tired old Sears-anchored malls, while superstar companies move into urban clusters in San Francisco.”²⁸

Will the attraction of people and place still be strong enough to work within the institution of marriage and raising a family? Will the space required for such a life be affordable or more desirable than the suburban life in which many millennials were raised?

Some fund managers are investing in single-home builders and car manufacturers, betting that millennials will eventually follow in the footsteps of their parents by adopting suburban lifestyles as they age.²⁹ Some speculate that the urban lifestyle, largely rental, is merely an outgrowth of the Great Recession’s impact on employment opportunities and higher down payment requirements for home

Where Millennials Are

Working-age millennials are clustered in urban centers like Manhattan, Washington, D.C., and San Francisco. Some suburban counties like New Jersey's Hudson County, home of Hoboken and Jersey City, are also popular with 25- to 34-year-olds. But other more remote suburbs have seen double-digit drops in their millennial populations.



ownership. Millennials marrying and having children later in life have an influence as well.³⁰

The answer to the larger question of millennial preference to urban versus suburban will be better answered by about 2022. The oldest millennial will be approaching 40 years of age, with the median near age 30. Currently, the largest sub-group of millennials is aged 23 to 24.³¹

One hypothesis to consider is that the millennial live-work-play decision actually hinges on the definition of urban and suburban. Cities offer the closer collaboration of a community of people and the innovation zones of high-tech mixed with high-touch walkable

amenity neighborhoods. Such neighborhoods will have varying levels of population density.

Millennials tend to prioritize density, transit proximity and commuting opportunities, but in some areas, housing costs are unaffordable.

In fact, according to research conducted by Trulia chief economist Jed Kolko, who analyzed data from the U.S. Census Bureau covering the years 2000 to 2013, “the two-thirds of millennials aged 25 to 34 who lack a bachelor’s degree are becoming less likely to live in urban neighborhoods (-8 per cent) and even less likely to reside in hyper-urban neighborhoods (-10 per cent).”³²

Millennials will likely choose to locate where they can access the city center, but live in neighborhoods that still offer an urban experience

that most closely resembles the denser downtown. Inner city neighborhoods, in-fill locations, improved public space and walkable amenities will continue to attract some millennials as their life circumstances change. Millennials will still have a desire for diverse and innovative environments, likely transforming suburbs into “urban-burbs.” These living environments will have the qualities of diverse downtown living without the high price of downtown luxury highrises.

The millennials’ drive to collaborate and innovate will likely, in due time, benefit those communities that have a lower cost of living, adding greater opportunity for the millennial community to become engaged. Seventy-nine million American millennials looking to better their community will be a very powerful force.

Conclusion

Millennials contrast starkly with older generations of Americans. Unlike older generations, millennials seeking more effective collaboration and inclusion are attracted to urban areas that meet their needs.

It is as though “urban-burbs” are creating confluences where walkable amenities, efficient and accessible transit, high connectivity, and city-center conveniences intersect with lower-rise density and improved affordability. Furthermore, it is likely that companies will find their workforce and tenants to be largely millennials who wish to live,

work and play in denser communities than the outlying neighborhoods preferred by their parents and grandparents.

By offering their talents and skills for the benefit of their communities and peers, millennials will continue to come together and, ultimately, reshape our urban and suburban neighborhoods.

Accordingly, employers of millennials and real estate developers would be wise to review the historical cycles as well as economic and demographic drivers of American cities – and strive to remain relevant with the diverging lifestyle choices of this highly innovative generation. ■



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