

That Echo You Hear? It's Baby Boomers' Kids Rattling Retail and Real Estate Markets

TODAY'S ECHO BOOM generation (also referred to as generation Y or the millennials) will have an impact on real estate markets in the coming decades due to its size—which exceeds 87 million. In 2013, echo boomers range from 13 to 31 years of age.

Many of the echo boomers were born to baby boomer parents, who are currently between 48 and 67 years old. Echo boomers' values and behavior have been strongly influenced by their parents as well as by society. Boomer parents, as well as boomers who are running the school systems, and who have overseen the playing fields for students in grades K through 8, have worked together to boost the self-esteem of the echo boom generation. The emphasis was not on winners and losers; instead, there was a push to make everyone feel like a winner. The primary objective of many boomer parents has been to help their children avoid or overcome adverse situations and setbacks by offering them emotional and monetary support. As a result, many echo boomers tend to get along with their parents far better than boomers did with theirs, and they depend upon parents for ongoing support in their educational and career choices.

Societal and period effects also have particular relevance for the echo boom generation. Such effects include the “war on terrorism” resulting from the attacks of September 11, 2001; lengthy wars in far-off locations like Iraq and Afghanistan; as well as the ongoing turmoil in the Middle East. However, the most influential societal issue has been the Great Recession (2007–2009) because it—along with its lingering effects—has directly affected echo boomers' post-high school educational

choices, as well as their employment opportunities.

Internet connectedness already has influenced and will continue to influence this generation's retail, residential, and office preferences. Particularly for the professionals among the group, attitudes toward having children—and for all members of this generation—an increased tolerance for diversity in terms of race, ethnicity, socioeconomic class, and sexual orientation, influence their preferences for residential locations and products.

“multichannel” retailers with both e-commerce and physical stores like Best Buy and Walmart are growing at an increasing rate. New apps are facilitating this increase. Stores like Best Buy already help customers find the cheapest price for an in-store product by searching the net for them. A new app, Hukkster.com, is permitting shoppers to do frequent searches for their desired product(s) at a discounted price. Potential customers install a Hukkit button on their browsers,

Knowing the preferences of the echo boomers, or millennials, is a must for anyone planning or developing new communities.



Impact on Retail

While e-commerce accounts for a relatively small share of total U.S. retail sales—currently about 5 percent—it accounts for approximately 21 percent of total electronics and appliance sales; 18 percent of apparel and accessories sales; and 17 percent of book, music, and hobby sales; according to Andrew Nelson, writing in the July 2012 issue of *RREEF Real Estate*.

Sales at “pure play” internet-only retailers like Amazon, and

and when they see items they would like to buy—but at a discount—they alert Hukkster, which will contact them when and if the preferred price is reached. Women in earlier generations have traditionally used a favorite saleslady for this purpose, who would contact them when a preferred item goes on sale. Hukkster does not limit customers to the relationships they can form with salespeople at individual stores.

For the echo boom generation, “showrooming”—looking at products on the shop floor, but turning to the internet to make the purchase at the lowest price—is a way of life. It is this demographic that already accounts for a significant proportion of retail sales. And, as Nelson noted in the aforementioned issue of *RREEF Real Estate*, tablet users are three times as likely to purchase a product on the internet as they are in a store.

For several years now, women have been able to buy shoes from Zappos and intimate apparel from

HerRoom, and in those instances when the fit or style does not work out, they can return the merchandise at no cost. But more sophisticated apps not only will permit better measurements, but also will let prospective customers visualize how items will look on them.

New app services are coming online daily. For example, two sisters have started an internet company, Tupli, which permits women to design their own shoes by first picking out styles and then selecting materials and colors. Anyone unaware as to what shoes mean

to women cannot even fathom the future potential market for self-designed shoes. From June of 2011 through June of 2012, \$21.9 billion was spent on women’s fashion footwear, according to *Bloomberg Businessweek*.

What do the internet shopping preferences of echo boomers, as well as their preferences about where they live, portend for the future of in-store retailing? Here are the five most important impacts:

Big-box retailers will increasingly become multichannel retailers, and as such will have far fewer and smaller stores, which will result in stores that are more productive. Target, Walmart, and Best Buy already have developed smaller prototypes and are locating them in cities and larger suburban agglomerations, while at the same time closing some of their suburban and exurban stores. As a result, in-store inventories and employees have been significantly reduced in size and number, respectively. No longer is it necessary to carry all styles and colors: echo boomers are increasingly attracted to stores that facilitate showrooming. This trend has already resulted in big-box vacancies at many suburban locations. Owners of suburban shopping centers, particularly those that cater primarily to middle- and lower-middle-income households, will have to find nonretail adaptive uses for these vacant spaces. Medical clinics are one potential reuse that can be anticipated to see increasing demand when Obamacare is fully implemented in 2014.

Luxury retailers—particularly those that serve out-of-town visitors and tourists in addition to the upper-end local and regional shopper—will experience increased in-store sales. Shopping will continue to be an important recreational activity for the tourist market. Coach and Tiffany are two stores that have continued to see the percentage

gains of their in-store sales outpace their increases in internet sales. What these two stores have in common is that they are brand names well known by global consumers.

Professional, high-income echo boomers eat out and go clubbing with far greater frequency than their elders do. New club formats like the “speakeasy” strongly appeal to 20-somethings.

Higher-income, better-educated echo boomers marry much later and have fewer children than their less-educated peers. Subsequently, many have substituted pets for children. Pet-related services were one of the few retail categories that did not experience a monetary decrease during the recent recession. Dog spas, hotels, pet supply facilities, and other pet-related businesses have all done well at locations close to large populations of echo boomers. According to the American Pet Products Association, \$53 billion was spent on pets in 2012—three times the amount spent 20 years ago.

The automobile thrills echo boomers much less than it did—and still does—their parents. One reason is that many of the young who can afford an automobile prefer to live in cities or mixed-use suburban locations. The bike has become the primary means for commuting and noncommuting trips for many 20-somethings. The short-term car-rental service Zipcar and other car services are readily available in almost all of these high-density locations, so echo boomers have access to a car whenever they need one—without having to shoulder the burdens of ownership.

Impact on Residential Markets

Over the last two to three years, echo boomers have been fueling the demand for rental housing in urbanized areas. Since 2009, there has been a steady increase in multifamily construction, climbing from

Dominant Values and Behaviors of Echo Boomers Age 20–29

- ▷ They are the always-connected generation. Over 80 percent of echo boomers go to bed each night with their cellphones on. Approximately two-thirds admit to texting while driving.
- ▷ Printed materials are giving way to tablets and smartphones. The internet is drawing echo boomers away from television—particularly costly cable subscriptions. The internet is also dramatically changing the ways in which they conduct research, whether for personal or scholastic needs. Google is there to answer almost any question. Educational opportunities will also be significantly altered for the younger echo boomers, as online classes replace some on-site classes. Forming personal relationships—including dating—is increasingly taking place online.
- ▷ Approximately one-fifth are married, and only about one-third of the professional class anticipates having one or more children. Only a minority of the echo boom professional class has even one child, and this trend will persist. Lower-income Hispanics in this age group still maintain a higher birth rate, though it has decreased over the last year, partially due to effects of the recession. According to the Child Trends Analysis of National Vital Statistics data, 50 percent of all births in 2010 were to single/unwed women under the age of 30. This trend has increased sharply over the last 50 years.
- ▷ Echo boomers have far greater tolerance for differences in race, ethnicity, socioeconomic class, and sexual orientation.
- ▷ They are far less skeptical of government programs. In fact, many echo boomers believe government should do more to solve their problems.

Source: Pew Research Center, *Millennials: A Portrait of Generation Next*, February 2010.

109,000 units in 2009 to 245,000 units in 2012, according to the U.S. Census Bureau. The new multifamily rentals are not limited to coastal cities. For example, from January to September 2012, Houston's multifamily housing development rate increased 70 percent over the same period in 2011.

Demand for rental units has increased most dramatically in tech centers such as San Francisco and the Silicon Valley area; Austin, Texas; Denver; Boston; and New York City. But even without the tech industry serving as a catalyst, the sheer size of the echo boom demographic has fueled demand for apartments—particularly those located in high-amenity cities and suburban agglomerations.

Many higher-income/highly educated echo boomers grew up

in the suburbs, but have happily abandoned life there for life in the cities. Since these highly skilled echo boom workers are in short supply, employers are competing for them by locating their startup companies in cities and urbanized suburban locations to attract the workers they need. These growing agglomerations of young people, in turn, encourage still more companies to locate in those high-amenity center cities and in the higher-density mixed-use suburbs. And if employers are not currently located in the central cities and in higher-density suburban locations, they often provide luxury buses to transport their employees to their more-distant office locations.

Market-research firm Axiometrics identifies the specific submarkets within the top ten metropolitan sta-

tistical areas (MSAs) that are anticipated to deliver the largest number of completed units sometime in 2013—for example, the Montrose/River Oaks area in Houston, the downtown/Capitol Hill and Queen Anne submarkets in Seattle, as well as the North Seattle/Northgate submarkets. As is always the case, developers and their consultants have to focus on high-demand submarkets, not larger metropolitan areas, particularly in an era in which many exurban locations—even in the most successful MSAs—are frequently still working through the effects of declining home values and foreclosures.

The postponement of marriage and childbirth, and, as mentioned earlier, echo boomers' desire for population diversity are also serving as a center-city stimulus.

The reactions of boomer parents to having one or more of their adult children move back home also helps stimulate demand for rentals that serve the echo boom market. After a year or so of living with their adult offspring, many parents become more willing to subsidize their children's rent. It is worth noting that, in locations with a high proportion of Asian residents, it is not unheard of for parents to purchase a condominium for their children (primarily their sons) as a reward for obtaining a professional degree.

But in spite of these accelerants to rental housing demand, current permitting data suggest that we may be at a point where the rental market is close to being overbuilt in many locations, while the condo market may be facing a shortage of

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units in these same high-demand locations. By the way, many of the high-income tech workers are creating this demand for condos.

The following are the types of features most likely to appeal to echo boomers who can afford to rent or buy a new multifamily unit:

- ▷ Compact, less-expensive rental or condo studio units in the 250- to 450-square-foot (23–41 sq m) range.
- ▷ Two-bedroom, two-bathroom units that can be shared by three to four echo boom renters.
- ▷ High-amenity one- to two-bedroom condos for higher-income echo boomers.
- ▷ High-powered internet connections for all spaces in the building; fast connectivity is a must.
- ▷ More open, flexible space within the units.
- ▷ High-quality kitchen and bathroom countertops but less closet/storage space.
- ▷ Shared amenities, such as communal space for informal get-togethers and parties; gym/sports equipment; bike storage; and dog parks/walks. Multifamily rentals that permit dogs ought to consider including outdoor dog washes in order to avoid clogged sinks from dog hair.

Developers should recognize that there is no problem with combining boomers and echo boomers within the same high-rise rental or condo building. The trick is to build two types of products within the same building, with the larger, two- to three-bedroom/two- to three-bathroom units located on the higher floors. These units should also contain more closet/storage space, more formal entertainment space, and larger bathrooms.

This spatial distribution, for the most part, separates the two age groups within the building. This does not mean, however, that some echo boomers who have received a large stock payout won't move to the larger units, or that some boomers will not choose small pieds-à-terre on a lower floor.

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Preferences at the Office

Location is becoming an increasingly important determinant of office demand. The two most influential trends in office demand include a shift from outer suburban locations to higher-density, mixed-use suburban and urban locations. The other trend is a decrease in the number of square feet needed per employee.

During the 1980s and 1990s, business owners and managers were usually in the driver's seat of the labor market, and thus were able to locate their offices in suburban locations close to their homes. But the shortage of creative talent with tech skills has made it much more important to locate the offices of startup companies and the businesses that need to interact with them where the talent they seek wants to live. As a result, suburban and central-city locations within or near high-amenity activity centers will be preferred by office tenants who have a skilled echo boom workforce.

Per-employee office space is likely to continue shrinking, as cloud computing and related electronic innovations reduce the space needed for file cabinets, servers, and electronic storage. The echo boom employee is far more likely to prefer working in groups, rather than in separate office space. On the other hand, there is increasing demand for communal space that is not directly work related, such as game rooms and cafeterias, since many echo boom employees go to work later in the morning and stay there later at night. And some, of course, spend more hours working from their homes. But because many echo boomers live in either smaller units or in shared spaces, the amenities offered by tech employers become a major incentive to spend more hours at their places of employment. **U**

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