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REAL ESTATE

Meet the MiMis

Opportunities in U.S. residential real estate

Millennials and middle-income households (MiMis) will sustain demand for U.S. apartments in the coming decade, according to Nuveen Real Estate's recent research.

Given the economic disruption and recession triggered by the pandemic, we revisited our 2019 study of renter income to understand any changes to the demographic drivers of the U.S. multifamily industry.

Who are the MiMis?

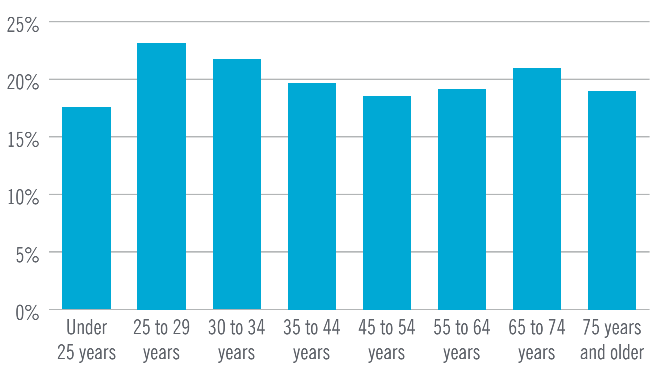
We define U.S. middle-income households as those earning between 80 percent and 120 percent of area median income, which is typically those earning between $45,000 and $75,000 per year. These households comprise between 15 percent and 25 percent of each age cohort (Figure 1). Middle-income households often have to rent out of necessity, which creates consistent demand for apartments targeting middle-income renters.

Millennials are the second-largest generation on record (Figure 2) and, like the Baby Boomers before them, they will reshape the economy and many industries as they heavily consume goods and services, including housing. Millennials compose 35 percent of the workforce, and their contribution to the U.S. economy continues to grow.

In our analysis, we defined the millennial generation as those born between 1981 and 1998. Furthermore, we divided the millennials into older millennials (OMs) and younger millennials (YMs) cohorts.

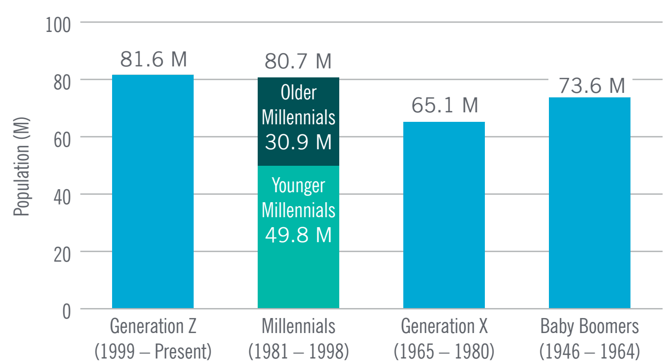
The OMs are roughly 34 to 40 years old and have largely married, started families, and the majority are likely to buy homes within the next few years. The YMs are roughly 23 to 33 years old and are at a very different stage of life compared to older millennials in their 30s. In the coming decade, the younger millennials could reshape apartment markets in certain cities if, as we anticipate, these cities experience an influx of millennials looking for high-quality jobs and a lower cost of living.

Figure 1: Percent of each age cohort that earn middle income ($45k – $75k)



Source: StratoDem Analytics, June 2021

Figure 2: Generations defined



Source: U.S. Census Bureau; Moody's Analytics, Q2 2021

Older millennials

We have identified eight central cities that are at greatest risk of losing higher-income OM renters to suburban homeownership. This work uses Nuveen Real Estate's proprietary filtering approach to identify cities across the world that are best positioned for outperformance in tomorrow's world. The filtering approach includes hard factors, such as the size of a city; soft factors, such as how internationally connected a city is; as well as growth and sustainability factors.

As the OMs start to marry and have families, it will create the need for more space in the form of a single-family home. As the OMs in these cities move to the suburbs, demand for class A and luxury apartments should wane and prices for these types of apartments are likely to fall, creating an investment opportunity. During 2020, this trend unexpectedly accelerated as a result of the pandemic and sudden shift to remote work. This freed many OMs who may have waited another couple of years before moving to the suburbs to take the plunge much sooner.

To evaluate the effect OMs will have on commercial real estate in these "flight to suburb" metros, our analysis of mobility data from the U.S. Census Bureau indicates most adults who move remain in the same metropolitan area as opposed to relocating to a new metropolitan area. As a result, we assume 70 percent, or 2.1 million of the 3.0 million OMs in these eight cities, will stay in their current metro area as they marry and have children.

Our analysis shows these eight cities experienced a large influx of millennials in the past decade due to their strong post-recessionary job growth. Most of the OMs in these cities are currently renters, given the relative lack of home affordability in these areas. However, homeownership rates among 35- to 39-year-olds currently stands at 58.9 percent versus 49.3 percent for 30- to 34-year-olds. Based on this, we have assumed a 60 percent homeownership rate among the OMs, which corresponds to roughly 1.3 million at risk of fleeing to suburban locations and purchasing a single-family home. The other 40 percent of OMs (close to 1 million) are likely to seek out more affordable locations in the United States given the expensive housing in places such as San Francisco, New York City, San Jose and Los Angeles.

Younger millennials and the next millennial magnets

The YMs are largely in their 20s and are just beginning to exert their influence. YMs have more recently attended college and are looking for their first job or are upgrading to a second job. In the earlier stages of their careers, they are likely to be attracted to areas with strong job prospects, particularly in tech. With only 15 percent of first-time home buyers under the age of 30, we assume YMs will generate demand for rented apartments for at least another seven to 10 years.

We have identified a group of established, but affordable, tech hubs using our cities filtering approach (Figure 3). In these hubs, tech jobs represent a sizeable component of the local economies (7.2 percent on average) and forward-looking prospects are favourable. In the emerging wild card cities, the share of tech employment is marginally below the national average of 4.9 percent, but growth in tech has been strong and is expected to continue at a well-above average pace going forward.

Investment opportunities

In our view, targeting MiMis, or millennials and middle-income households, will provide investors with significant favourable investment opportunities in tomorrow's world. Middle-income households represent a stable and sustainable long-term source of demand for apartments, as they tend to rent out of necessity and not necessarily by choice.

Find out more about the investment opportunities in real estate at nuveen.com/real estate

Figure 3: Next millennial magnets

Nuveen's megatrend filtering approach[1]
Hard factors (i.e. scale, productivity, etc.)
Soft factors (i.e. connectivity, livability, etc.)
Growth factors
Sustainability factors
Established tech hubs
High-tech job growth (F) => 1.3%
High-tech share of employment (2022F) > 5.0%
Affordability index (2022F) > 130
Emerging wild cards
High-tech job growth (F) > 1.3%
Recent high-tech job growth (2012 – 2017) > 2.5%
High-tech share of employment (2022F) = 4%-5%

Source: Bureau of Economic Analysis

All data on this page derived from Moody's Analytics

1 Nuveen Real Estate has created a proprietary filtering approach to identify cities across the world that are best positioned for outperformance in tomorrow's world. The filtering approach includes hard factors such as the size of a city, soft factors such as how internationally connected a city is, as well as growth and sustainability factors.

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COMPANY PROFILE

Nuveen Real Estate is one of the largest investment managers in the world with $139 billion of assets under management[1]. Managing a suite of funds and mandates, across both public and private investments, and spanning both debt and equity across diverse geographies and investment styles, we provide access to every aspect of real estate investing. With over 85 years of real estate investing experience and more than 640 employees located across more than 25 cities throughout the United States, Europe and Asia Pacific, the platform offers unparalleled geographic reach, which is married with deep sector expertise.

[1] Nuveen Real Estate as of 30 June 2021