



INSIGHTS FROM THE BDO REAL ESTATE & CONSTRUCTION PRACTICE

IS A COVID-19 BABY BOOM IN THE CARDS FOR REAL ESTATE?

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The impact of blackouts, national emergencies, recessions and other singular or cyclical events on the U.S. birth rate has been a subject of study and interest since the Baby Boomer phenomenon displayed the far-reaching effects a population surge can have on everything from consumer spending to federal budget allocations. As such, there has been conjecture on what effect the pandemic may have on population growth and what the resulting impact on the real estate and construction industries may be.

The Baby Boomer generation, typically defined as those born between 1946 to 1964, was a boon to mid-century suburban development. Construction of homes soared as enticements to live in suburban communities, including tax breaks, home loans and mortgage subsidies, successfully generated demand. As

families moved to the suburbs, there was a commensurate need to supply affordable housing and to build schools and amenities and the infrastructure to serve them.

Between the 1950s and 2010s, the suburban population grew from one-quarter to more than half of all Americans. The generation essentially created and defined many of the lifestyle values and habits that have arisen out of suburban life, which the majority of Americans now enjoy today.

As Boomers have aged, their changing preferences have continued to be felt on real estate and construction. Until recently, Boomers comprised a significant cohort of the urban and multifamily rental markets as they threw off the burdens of home ownership in favor of lighter living and to be closer to their children and grandchildren. A side effect of this is a boost to the self-storage facility market as downsizing into smaller living spaces requires external space to house decades of accumulated belongings.

POST-WAR POPULATION SURGE AS ANALOGUE

One of the reasons the baby boom happened, experts say, is because, after the conclusion of two world wars, Americans were optimistic that the economy would improve. The United States was positioned somewhat uniquely in that, apart from the bombing of Pearl Harbor, it escaped the kind of damage that had ravaged war-torn Europe. Infrastructure was intact and in place, for example. Amid the promise of post-war economic security, Boomers expanded their spending habits: U.S. gross national product doubled between 1940 and 1960.

Not just the reality of the economy's performance, but people's perception of economic performance and their future prospects likely will play a significant role in the decision to have children this time around. In the current economic climate, sentiments are far less rosy than they were post-WWII. U.S. population growth has been on the decline for the last ten years, notably beginning around the Great Recession. Polls have shown that among Millennials, the decision to delay having children or to have fewer children than desired arises from feelings of economic insecurity: the high expense of child care, student debt and concerns about the economy and financial stability. While the proclivities of Generation Zers remain to be seen, given the uncertainty of the current economic recovery, this may not change anytime soon.

COVID-19 IMPLICATIONS

Early indications point toward population growth in underdeveloped nations but population contraction in the United States and other developed nations. These early U.S. indicators make sense given the number of job losses and uncertainty about job growth and the ongoing uncertainty about an economic recovery. How will the U.S. real estate market adapt to a population contraction?

Today, Boomers own two out of five U.S. homes, and every day, 10,000 people turn 65 years old. Because some Boomers have migrated toward urban living and others are aging in place, the conditions may be ripe for significant residential vacancies when the pandemic-related population contraction meets the end of the Boomers' actuarial life. Such oversupply would mean the dawn of a buyer's market not only in the suburbs but also in urban environments. This will make residential buying decisions based on "location, location, location" even more important and will, in turn, ripple into other sectors of real estate, including commercial and industrial.

Leaders in the real estate and construction industries should pay close attention to the U.S. population and migration trends. This analysis will become more important as Boomers age and the population contraction impacts the market cycle. Real estate leaders should also consider further diversification of their holdings and activity if their portfolios show concentration in a market that may see vulnerabilities given potential trends.

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