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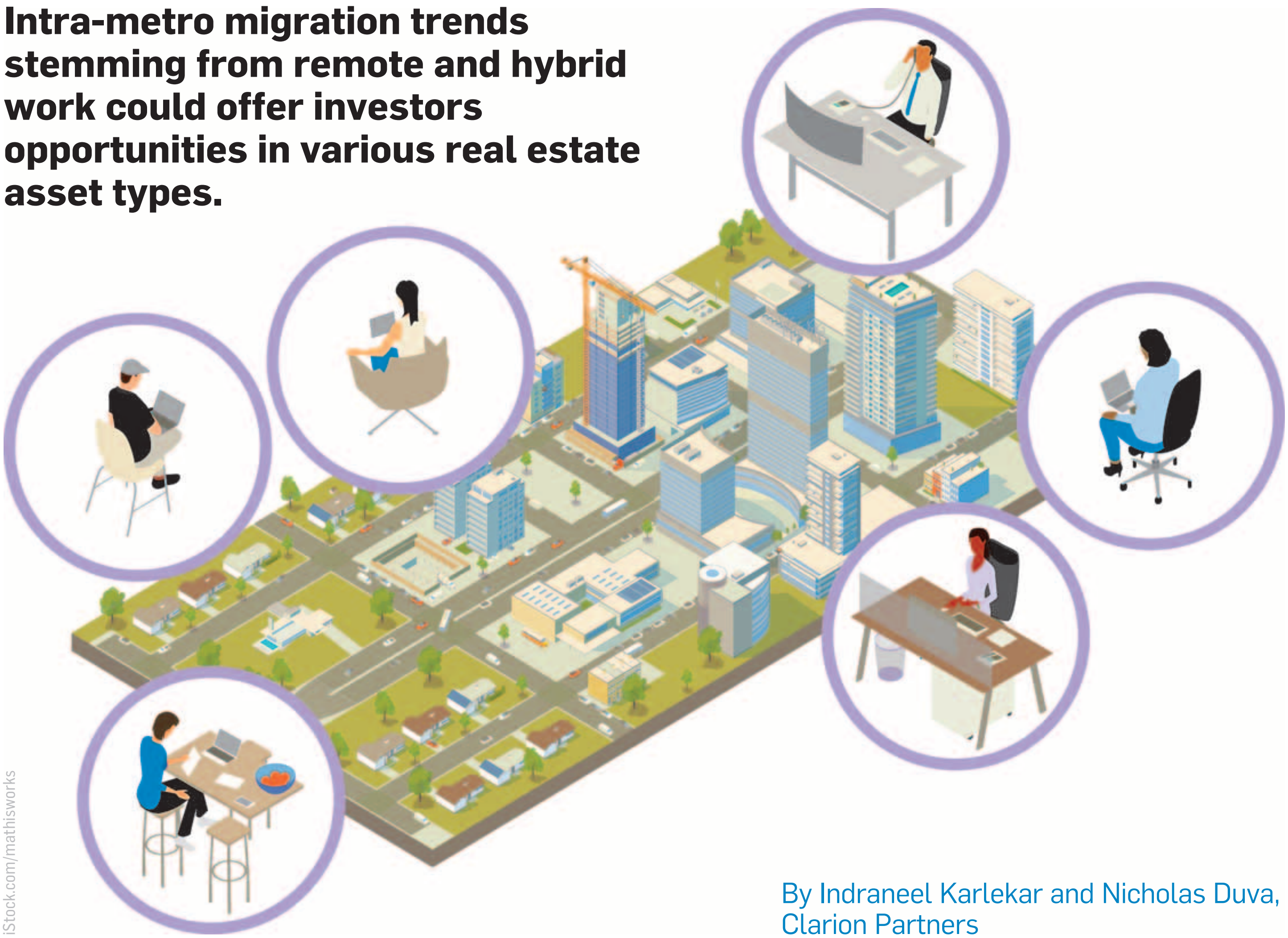
Moving *within* metros

Intra-metro migration trends stemming from remote and hybrid work could offer investors opportunities in various real estate asset types.



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By Indraneel Karlekar and Nicholas Duva, Clarion Partners

In real estate investment, investors have so far mostly focused on *inter*-metro movements, the shifts of people and capital between metropolitan areas. Recent examples include the well-catalogued migration tailwinds to major Sun Belt metros. Looking ahead, *intra*-metro migration trends — movements *within* metros — might be an especially useful, and possibly underappreciated, tool for investment decision-making.

The extent to which intra-migration patterns shift from pre-2020 levels depends on:

1. *Demographic shifts.* Millennials are entering peak household formation stages and prioritizing schools and spacious housing.
2. *Increased remote and hybrid work patterns* that significantly impact where people choose to live, influencing local real estate markets and creating new investment opportunities.

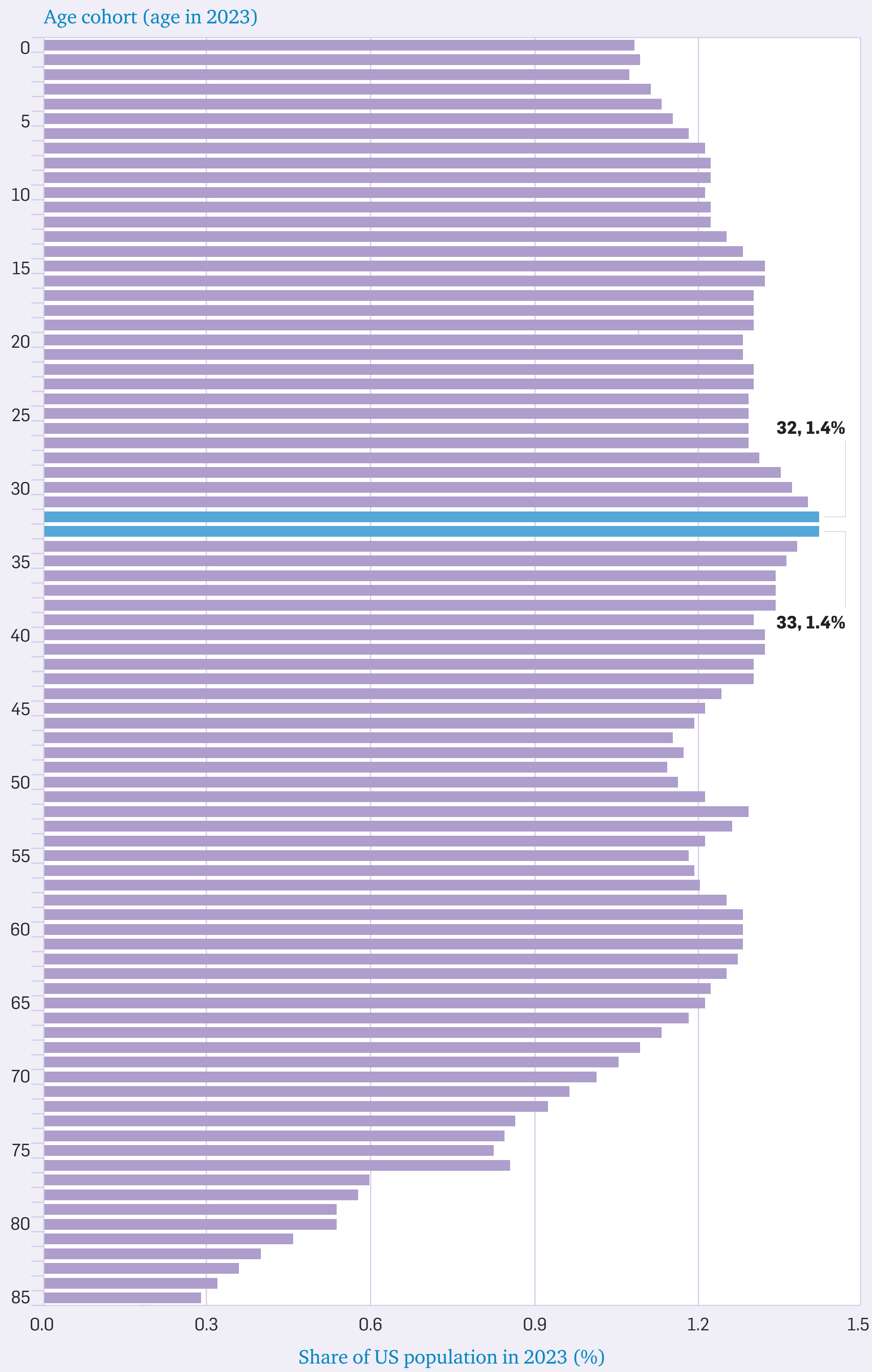
In short, we believe that persistent remote and hybrid work and demographic shifts together amplify a suburbanization trend that could offer a variety of real estate investment opportunities.

Changing age structure

While not as widely discussed as the baby boom period following the Second World War, there was a spike in birthrates in the early 1990s.

As of 2023, according to the Census Bureau, the largest age cohorts in the United States were aged 32 and 33 years old, respectively — this group is just beginning to enter peak household formation years (see Exhibit 1). In 2018, those same cohorts were aged 27 and 28, and by 2028 they will be aged 37 and 38.

Exhibit 1: United States population age



Source: US Census Bureau, Clarion Partners Investment Research, June 2024.

> “ Considering that Americans are having children later in life, demand for residential space in suburbs with strong schools and near job opportunities can be expected to accelerate in the near term. ”

Charlotte: Well-off suburbs see post-2022 growth

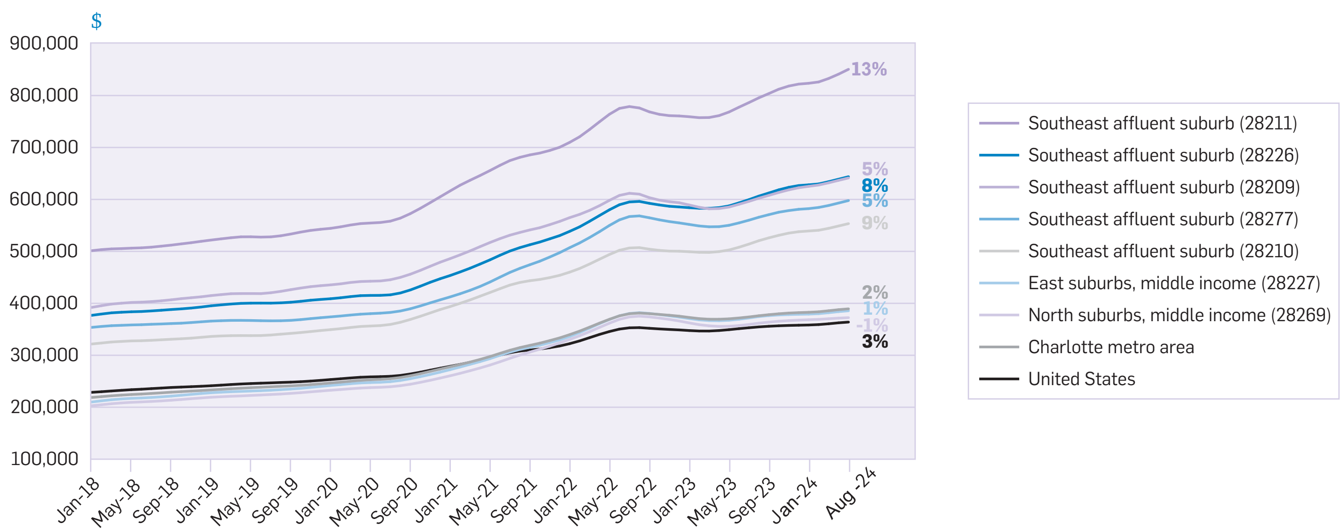
Interesting shifts in locations where households lived, worked and consumed goods and services occurred in Charlotte, North Carolina. These shifts have been driven by the way Americans increasingly work (hybrid and remote), as well as aging demographics.

Public use microdata areas (PUMAs), which have no fewer than 100,000 people, are the smallest geographic units for which the US census offers a variety of employment and commute statistics — including whether a resident worked from home in the last week.

In 2022, the Charlotte City (South) PUMA had a WFH rate of 33%, well above the Charlotte metro (22%) and national (15%) averages. The largest occupational categories in this PUMA include chief executives, financial managers, software developers, lawyers and judges, and management analysts — all overrepresented relative to the metro and nation — as well as retail salespersons, cashiers and registered nurses. Census data clearly suggest that a disproportionate number of professionals live in zip codes such as 28211 and 28226, which are almost entirely contained in the Charlotte City (South) PUMA.

Such neighborhoods and other zip codes mostly or partly in the Charlotte City (South) PUMA also have high incomes, home prices and public school ratings relative to the rest of the metro. They also have much stronger home price growth since the previous mid–2022 peak; current prices average between 6% and 13% above their respective mid–2022 levels (see Exhibit 2). This compares to 3% above for the United States, 2% above for the metro, and 1% above and 1% below for two other middle-income Charlotte suburban zip codes at comparable commuting distance from Uptown. Crucially, this story of recent growth is not about suburbs generally, but a very specific type of suburb.

Exhibit 2: Single-family home price trends within Charlotte metro



Note: Uses Zillow Home Value Index (ZHVI). Please see https://www.zillow.com/research/data/ for full ZHVI methodology. There was a methodology change from August 2022 to August 2024.
Source: Zillow, Clarion Partners Investment Research, August 2024.

Considering that Americans are having children later in life, with a mother's average age at first birth rising to 27.3 years old in 2023, up from 25.6 in 2011, demand for residential space in suburbs with strong schools and near job opportunities can be expected to accelerate in the near term.

"Only about 4% of hospitality jobs are fully work from home and only 16% are hybrid."

Structural shifts in the labor market

In a February 2024 study titled *Americans Now Live Farther From Their Employers*, data from payroll and HR solution provider Gusto found that the average distance between small- and mid-sized employers and their employees' homes has increased sharply since the Covid-19 pandemic. This is especially the case for the highest earners and for those aged 30 to 39. Such increases were primarily driven by new hires post-pandemic; this group tends to live much farther away from their employers than those hired prior.

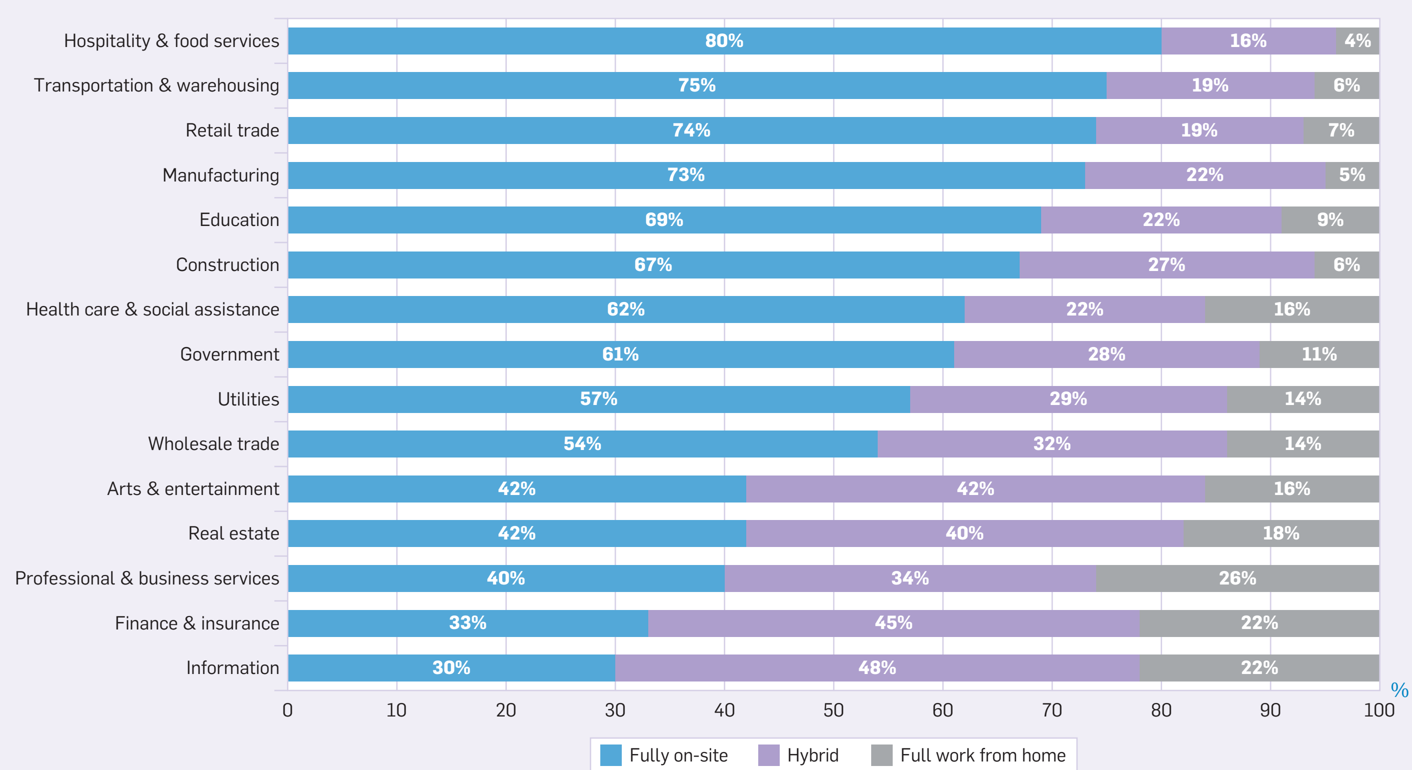
Smaller businesses in industries like technology, marketing and consulting may see competitive advantages in arrangements with a higher share of remote work, such as widening the scope of recruitment and retention, as well as cutting overhead costs.

Implications for investment strategy

So what do these shifting intra-city trends suggest for real estate investment strategies? As workers in WFH-sensitive industries spend more time near their homes, demand for local services and amenities should increase.

According to the *Survey of Working Arrangements and Attitudes*, only about 4% of hospitality jobs are fully WFH and only 16% are hybrid, compared to 22% and 45% for financial jobs, respectively (see Exhibit 3).

Exhibit 3: Share of major employment categories performed fully on-site, hybrid and fully work from home



Source: Barrero, Jose Maria, Nicholas Bloom and Steven J. Davis, 2021, *Why Working From Home Will Stick*, NBER Working Paper 28731, Clarion Partners Investment Research, June 2024.

> “While recent trends favoring the affluent suburbs may reflect other, temporal factors such as mortgage affordability, we believe that less-frequent commutes, combined with the US age structure, point towards relative outperformance in affluent suburbs for some time to come.”

Quick-service restaurant chains, for instance, are targeting affluent suburbs. This, to us, suggests demand from a variety of income cohorts will shift towards places where hybrid workers live. Crucially, this demand will not come just from relatively affluent hybrid workers themselves. While certain occupations are more ‘location-bound’ than others, that does not mean such jobs are necessarily going to be in the same locations as in 2018 and 2019. Just as a management analyst is more likely on a given day to be working in such affluent suburbs, so is a bartender or physician’s assistant.

Home price data represents the aggregate decisions of where people choose to put down roots. While recent trends favoring the affluent suburbs may reflect other, temporal factors such as mortgage affordability, we believe that less-frequent commutes, combined with the US age structure, point towards relative outperformance in affluent suburbs for some time to come. The recent evidence at our disposal suggests that residential pricing is beginning to reflect this.

Assuming they wish to capitalize on such trends, we suggest that real estate investors can pursue:

- Professionally managed garden-style and low-rise multifamily (including workforce housing) and single-family rentals (including build-to-rent).
- Shopping centers hosting gyms, restaurants and health/medical offices in such locations.
- Medical office buildings and other healthcare-related facilities.
- Self-storage facilities in and near such suburbs.
- Warehouse properties serving such locations.

Our analysis of Charlotte as a case study of a fast-growing metro suggests that investors should assign the same strategic importance to intra-metro dynamics as they do to inter-metro shifts. It is necessary, we believe, to abandon the sometimes latent assumption that metro areas are homogenous across all neighborhoods, and to consider to a much greater extent where within each metro is likely to see the greatest relative increases in residential and commercial demand. Our initial research on Charlotte suggests that affluent commuter suburbs are likely beneficiaries of the new economic geography and are worthy of broader investment consideration. ◆

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