

Urban to suburban: the growing shift to the suburbs as COVID-19 changes the way people live

Suddenly, the suburbs are all the rage.

After a decade that increasingly focused on central cities, it feels like everything has been turned inside out. The next big thing is now not only the big new development in an urban core, but also a walkable suburban development near a transit hub.

The arrival of COVID-19 has been a trigger for new modes of work. Office buildings across the globe have emptied out, but employees are still working. They're just working from home instead. Cushman & Wakefield's proprietary tool, Experience per SF™ (XSF), found that workers are as productive at home as they are in the office, and in some cases, even more productive.

75% of employees feel productive when they need to focus and collaboration has improved by 10% from the pre-COVID-19 period.¹

¹ [The Future of Workplace: How will COVID-19 and data shape the new workplace?](#)



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The positive experience that many occupiers are having with working from home is now being considered a potential major turning point in how they think about real estate. Some companies are talking about a return to a “hub and spoke” model with a higher quantity of smaller offices in suburban locations. Other firms will come back to the office providing more individual flexibility, allowing employees to work from home more often. Whatever the future holds, the discussion about office real estate has shifted from strictly urban to a broader range of alternatives including the suburbs. While we are not convinced that occupiers will need less real estate, we do think that where an occupier’s real estate is located may change in response to the events that have transpired since the arrival of COVID-19.

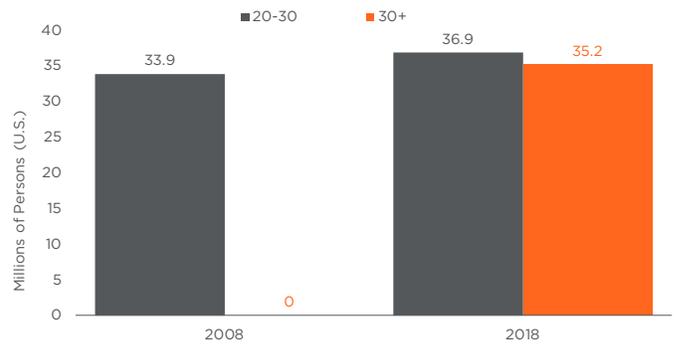
The fact is the trends that are driving this renewed look at the suburbs are not new and they are not solely related to COVID-19. The shift is being caused by the single most important long-term driver of economic and real estate trends: demographics. And while the conversation is louder all of a sudden, there is nothing new about the shift to the suburbs – it has been happening for the past couple of years. Millennials are the catalyst and that is because they’re getting older.

MILLENNIALS ARE MAKING AN IMPACT

The Millennial generation is defined as the group of people who were born between the years 1981 and 1996. According to Pew Research, as of 2019, the latest population data available, Millennials became the largest age cohort in the U.S., exceeding the Baby Boomer generation.

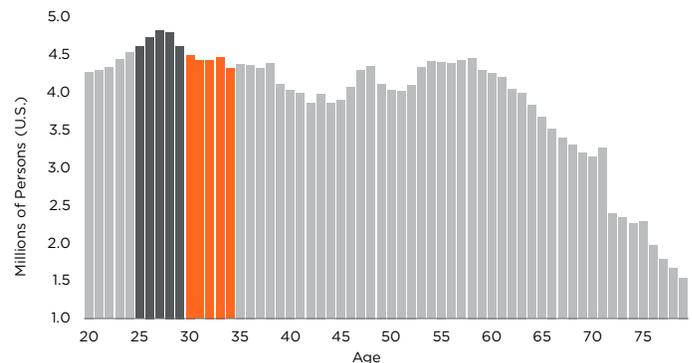
Currently aged 23 to 39, the Millennial generation now numbers approximately 72.1 million people. That age range is important. A decade ago, no one in the Millennial generation was over 30. Today, nearly one half of the cohort is 30 or older. They have entered, or are about to enter, a stage in

Millennials in Their 20s & 30s



Source: U. S. Census Bureau; Moody's Analytics Forecasted

U.S. Population by Age (2020)



Source: U. S. Census Bureau; Moody's Analytics Forecasted

their life cycle when they are more likely to be settling down, forming families and buying homes.

Research confirms that the Millennial generation has been slower to form family units than generations that preceded them. In 2019, 55 percent of Millennials were in a family unit (living with a spouse, a child or both), compared with 66 percent of Generation X within that same age range and 69 percent of Baby Boomers.²

Home buying, long a trigger for a move from the urban core to the suburbs, is also happening later. According to the National Association of Realtors, the median age of the first-time home buyer in the U.S. in 2019 was 33 years, the highest it has ever been. Approximately 50 million Millennials are currently under the age of 33. Considering that's 70 percent of all Millennials, there is a huge wave of buyers about to enter the housing market for the first time.

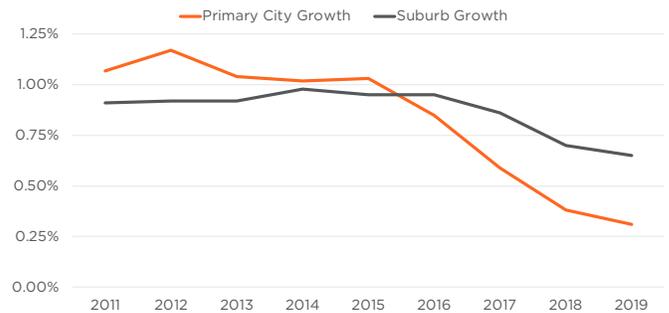
This bulge in the population is likely to boost demand for single-family homes over the coming decade. And this is likely to be amplified by pent-up demand from those who were unable to purchase homes due to more stringent lending requirements in the aftermath of the great financial crisis.

The consequences for real estate markets of the aging Millennial generation are already emerging. Over the past few years, populations have begun to move from central cities to the suburbs. Recently published research from The Brookings Institute, using census data from 2010 to 2019 for cities with a population of one million or more, indicates that from 2010 to 2016, populations grew more rapidly in cities than suburbs, but that trend reversed starting in 2017.

FROM CITIES TO SUBURBS

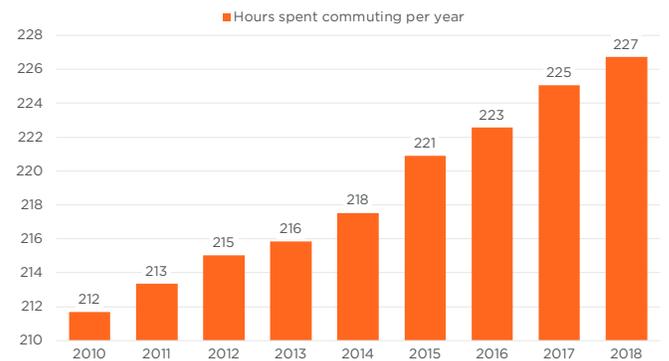
As more people move to suburban locations, they will likely continue to work at the same job and company, commuting from the suburbs. But over time, commuting can become a challenge. According to the U.S. Census Bureau, workers spent 227 hours commuting in 2018. That equals two weeks of awake time and is up seven percent from 212 hours in 2010. One way to reduce commute times is to work closer to home. As the suburban population continues to increase, it is likely that

Suburban Population Growth Stronger Since '16



Source: William H Frey analysis of Census Bureau Population estimates July 2010-2019 (released May 21, 2020); Brookings Institute

Commuting Time Continues to Climb



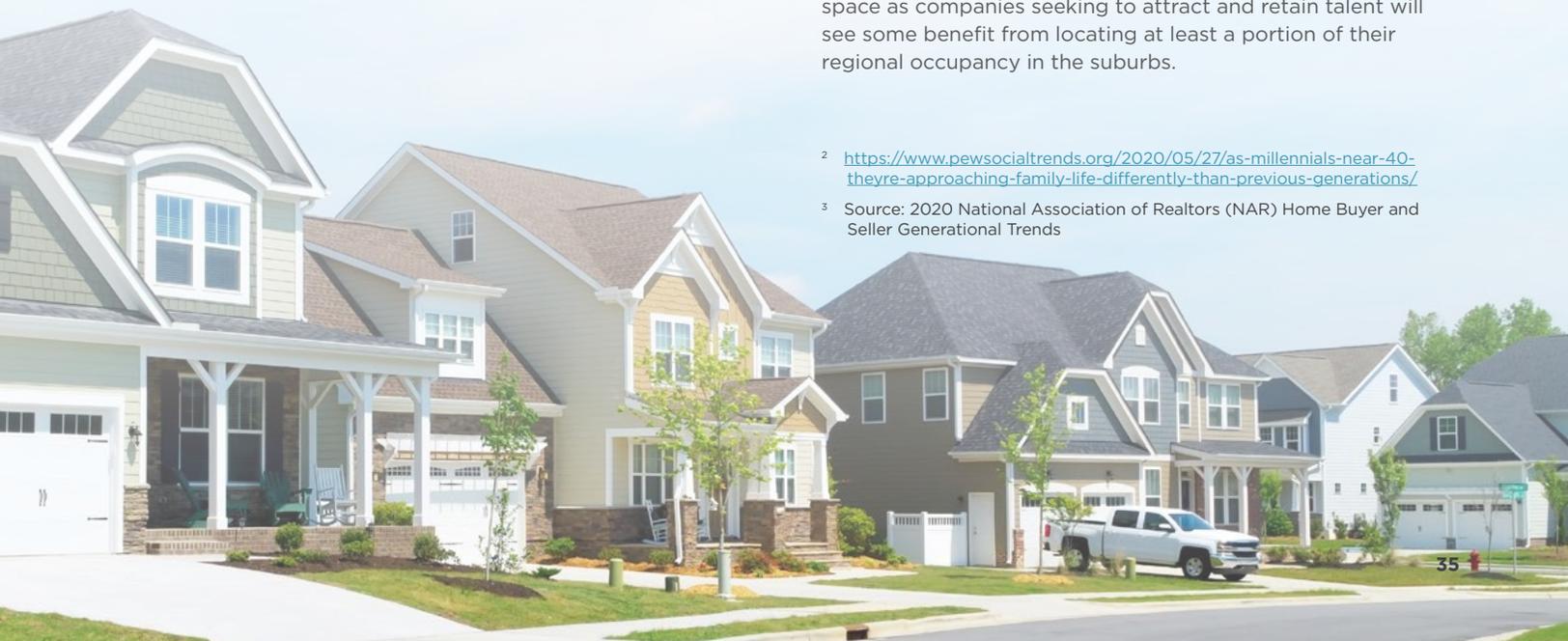
Source: U.S. Census Bureau American Community Survey

more and more suburban dwellers will seek to work locally. Millennials, in particular, are more focused than their older peers on proximity and convenience when looking for a new home.³

The result is likely to be more demand for suburban office space as companies seeking to attract and retain talent will see some benefit from locating at least a portion of their regional occupancy in the suburbs.

² <https://www.pewsocialtrends.org/2020/05/27/as-millennials-near-40-theyre-approaching-family-life-differently-than-previous-generations/>

³ Source: 2020 National Association of Realtors (NAR) Home Buyer and Seller Generational Trends

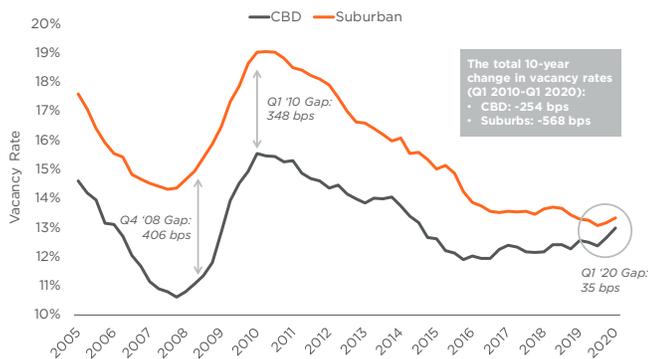




As this population shift to the suburbs has emerged, it has already been mirrored in commercial office real estate. Historically, vacancy rates have tended to be much higher in the suburbs than in central business districts (CBDs). From 2005 to 2016, the CBD vacancy rate has averaged 13.3 percent. During that same time frame, suburban vacancy rates have averaged a full 300 basis points higher at 16.3 percent.

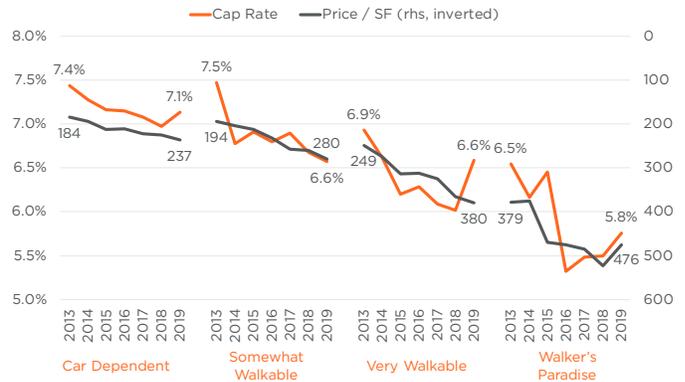
However, in recent years, the gap between the CBD and suburban vacancy rates has narrowed substantially. In the first quarter of 2015, the national CBD vacancy rate was 12.6 percent while it was 15 percent in the suburbs. Five years later, in Q1 2020, CBD vacancy had risen to 13 percent while the suburban vacancy rate had fallen to 13.3 percent.

Vacancy Rates Converging



Source: Cushman & Wakefield Research

Not All Suburbs Are Created Equal



Source: RCA, Cushman & Wakefield Research Deals over \$5 million

CHANGING DYNAMICS

With more people working from home and employers not requiring them to commute into the city due to COVID-19, the dynamics between the CBD and the suburbs are shifting. These shifts in focus are occurring just as Millennials are entering a period in their lives when they are undergoing major changes, from forming family units to buying homes. Population studies show the move to the suburbs is already underway and given the size and age of the Millennial population, that move is likely to accelerate in the years ahead.

Since these two sets of forces – aging Millennials and the shift to working from home – are pushing in the same direction, they could very well lead to a much greater interest in suburban office space than we have seen in many years.

The in-demand suburb of the 2020s may not look like what has been the norm in decades past. You may be able to take the Millennial out of the city center, but you won't be able to take the city center out of the Millennial. Demand for walkable, highly-amenitized areas outside of the urban core are going to be disproportionately attractive to both young, first-time home buyers and empty nesters looking to downsize. The expectation will be the best of both worlds: providing the upsides of urban, walkable living with the proximity, affordability and ease historically more available in the suburbs.



About Cushman & Wakefield

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