Population IN motion

Migration, affordability and shifting lifestyles are redrawing the map for real estate investment

by Andrea Zander

Demographic trends are a cornerstone of sustainable real estate strategy. Understanding and watching the population dynamics — generational shifts and household formation — are ways to build resilience.

"Demographic trends influence investment performance across real estate and economic cycles, often acting as counter-cyclical drivers of demand during down periods," says Indraneel Karlekar, head of global research and analytics at Clarion Partners. "Structural demographic trends often translate into need-based real estate demand, reducing volatility in asset performance and sustaining demand drivers well beyond a single business cycle."

Three major demographic shifts are and will continue shaping real estate performances: the growing college-age population, maturing millennial households and aging baby boomers. These groups are expected to drive demand across various sectors.

According to Maureen Joyce, Barings' head of U.S. real estate equity, understanding who lives where, how they live and what they need is essential to building a sustainable real estate portfolio. "Demographic trends, ranging from age and income cohorts to ethnic groups and gender, determine decisions of where to buy or rent, what to buy or rent, and the ability to buy or rent," says Joyce.

Joyce adds, "At Barings, we focus on understanding the demographic profiles of the markets in which we plan to invest in order to align our housing investments to meet demand and generate sustainable income and appreciation over time."

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> **Indraneel Karlekar**
> **Clarion Partners**

These trends aren't homogeneous — different generations have different needs.

Behavioral economics

Many real estate investment strategies have evolved in response to post-COVID lifestyle changes.

"Traditionally, we've invested in more urban areas. We don't develop high-rises in central business districts, but we like to be in and around where people want to live and work," says Sean Burton, CEO of Cityview. "During the past several years, our strategy has expanded to include the inner-ring and premier suburbs. People are living and working differently than they did before COVID, and we've continued to meet that demand by moving farther into the suburbs while still meeting our core investment thesis of developing in areas where people want to live and work."

For all demographic groups, the need for housing is constant. Across the country, the rising cost of living is pushing people to seek more affordable places to live. A defining trend in recent years has been the widespread migration from high-tax, high-cost states — most notably California and New York — to lower-cost, business-friendly markets like Florida and Texas. Data from the U.S. Census Bureau show four of the 10 most populous states — Florida, Georgia, Texas, and North Carolina — accounted for about 50 percent of the total U.S. population growth from 2014 to 2024.

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> **CT Realty**

"There appears to be an inverse relationship between overall tax rates — corporate, personal, property and retail sales — and population increases, indicating that lower-tax states are consistently attracting more residents," says Mark Roberts, managing director of research at Crow Holdings. "This migration is not merely a COVID-era phenomenon but part of a longer-term trend that has contributed to stronger tenant demand growth."

Dominic Petrucci, a managing partner at CT Realty, further emphasizes the lasting impact of these demographic shifts: "We've seen a couple of demographic drivers over the last decade, which we can reasonably predict will continue: A migration to tax-efficient states, such as Florida, Nevada, Tennessee and Texas, from states that are high-tax states, such as California and New York. In addition, South/Southeastern and Mid-Atlantic coastal states that are pro-growth with significant job growth and opportunities in relatively cost-effective areas. These dynamics in population shifts naturally create the need for more commercial and residential real estate inventory to be created."

Generational shifts

Affordability pressures influence generational behavior in different ways, affecting where and how people choose to live and affecting demand across real estate sectors.

"Demographic trends play an outsized role in influencing real estate decision making," says Karlekar.

For example, millennials are entering prime earning years, starting families and seeking larger homes — often pushing them into suburban areas with better school access and outdoor space.

"In higher-cost metros, the high cost of housing, even in more peripheral locations, has encouraged households to expand their home searches to more affordable out-of-state locations. As such, this demographic trend has contributed to the migration from high-cost coastal markets to secondary and tertiary areas with more affordable housing options — a trend that was already under way prior to the pandemic but accelerated by COVID," says Karlekar.

In addition, younger generations are also leaving expensive urban cores for more affordable Sun Belt cities, drawn by job growth and remote work flexibility — although questions remain about the permanence of these moves as return-to-office mandates rise.

Meanwhile, baby boomers are relocating for lifestyle, affordability and tax reasons, often downsizing from high-value homes into lower-maintenance housing closer to family.

"Millennials and baby boomers may seek build-to-rent housing options, but for different reasons," says Joyce. "Millennials may not be able to afford to buy a home given high costs — as we've seen the first-time homebuyer age increase significantly in recent years — but they desire more space and a yard. Purpose-built rental home communities may appeal to baby boomers who no longer want the burden of home maintenance but still want to live in a house rather than an apartment."

Mid-career households are adjusting expectations, too. With homeownership increasingly out of reach, many rent longer while seeking home-like amenities. "Middle-aged households are often renting for longer given high housing costs but are increasingly looking for locations that provide additional space and a home living experience," says Joyce.

Lifestyle patterns are playing a larger role in housing decisions.

Donald Hall, portfolio manager for the U.S. cities diversified strategy and the global head of research at Nuveen Real Estate, adds, "The delay of traditional adult milestones like getting married, having children or buying a home extends the period in which people rent. Further, the declining number of people per household implies that each new household formed will translate to a higher number of rental units absorbed."

From an investment perspective, these shifts are influencing market selection and underwriting.

"We typically find strong investment opportunities in markets where it's difficult to build or with a supply and demand imbalance where we can be part of solving the growing need for more housing," notes Burton.

Following the flow

Understanding where people are moving — and why — is critical to identifying migration patterns that drive real estate demand and support long-term market resilience.

"Economic opportunity and housing affordability are strong drivers of migration," says Jeremy Keele, managing partner at Catalyst Opportunity Funds.

Housing demand is one of the most immediate impacts of these migration trends.

"Domestic migration patterns play a crucial role in housing demand," says Hall. "For example, the Dallas-Fort Worth metroplex boasted the largest absolute domestic net migration during the last 12 months, according to United States Postal Service change-of-address data. Accordingly, the apartment market was the national leader for absolute apartment demand in 2024."

While Austin and other Sun Belt markets have seen a surge in apartment supply, easing rents temporarily, new apartment starts nationally declined 40 percent year-over-year in the first quarter of 2025, according to CoStar data. "Looking forward, if tenant demand were to only increase at its normal pace of 375,000 units, the relief tenants are feeling today could be short-lived," says Roberts.

Migration is influencing more than just housing demand. "Demand in other sectors is influenced by housing and population growth as well," Hall adds. "Retailers benefit from proximity to jobs, population and income growth. And because of the proliferation of ecommerce and the need for fast delivery to end consumers, industrial demand typically follows population growth too."

Keele noted that COVID-19 accelerated this trend. "During the past 10 years, the United States has experienced the rise of secondary markets. The country is no longer dominated by big 'megacities' — people no longer need to live in New York or San Francisco to 'make it.' Due in part to COVID, the economic opportunity sets in influential secondary markets are now just as good as more coastal high-density cities, and people are spending a lot less to sustain their lifestyle — arbitrage relative to income and expenses. This has led to strong in-migration and heightened demand in smaller markets," says Keele.

Data migration

Migration analysis must be part of the investment process in understanding these markets.

For example, Barings looks at factors that influence migration and their durability. Among the qualitative factors Barings considers are cost of living, ease of doing business, educational attainment, STEM employment, crime rates, environment risk, and commute times, all of which can have a material impact on insurance and other costs.

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"One of the key quantitative factors is the home affordability index. People move for job opportunities but also for quality of life. Quality of life issues include taxes and affordability. Quality of life also includes safety and lower commute times. So, in our analysis, the migration patterns follow other factors which point to where demand is likely to be strong and persistent over a long period of time," says Joyce.

Burton agrees that market research and data-driven analysis should be a core to investment strategy and market selection. Cityview recently partnered with a third-party research firm to analyze the 40 largest markets in the United States across 90 variables. "It helped us align on our top 15 markets for investment based on demographics and market factors, which will help guide our investment activity moving forward and allow us to apply our data-driven approach to continue to thoughtfully and objectively analyze markets, spot trends and shifting dynamics, and ultimately make smart investment decisions," says Burton.

Gateway shift

Traditional gateway markets are evolving. While hubs such as Los Angeles, New York City and San Francisco remain influential, a new wave of secondary and tertiary cities is drawing capital with stronger demographics and affordability advantages.

"There are burgeoning secondary markets across the United States that show tremendous potential for emerging as new gateways," says Keele.

Keele points to factors like adjacency to other growing markets, strong university networks, emerging tech hubs, affordability and healthy in-migration. But he also warns that some fast-growing secondary markets are becoming victims of their own success.

However, Keele continues, "There are winners and losers in this race … As secondary markets grow, they not only become more expensive, but they start to assume big-city problems — traffic, pollution, crime, economic disparity — that undermine both their efficiency and appeal. In the past decade, these sorts of markets have included places such as Austin, Denver and Salt Lake City. As a result, we're beginning to see a new crop of smaller, tertiary markets emerge, such as Spokane, Wash., and Bozeman, Mont., which are benefiting from foundational forces such as access to talent, affordability and strategic proximity that are helping to spur growth."

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Catalyst Opportunity Funds

For multifamily specifically, Barings has created a proprietary market model that ranks 100 MSAs based on quantitative and qualitative metrics to arrive at its target investment markets. The tool has been backtested against more than 20 years of NPI returns and includes structural and cyclical factors.

"Since we developed the tool in 2023, our target market performances have exceeded NPI by more than 135 basis points on a total return basis. Some of the markets we have identified as growth markets include Charleston [S.C.], Columbus [Ohio] and Richmond [Va.]. Traditional markets included in our target are Boston, Dallas and San Francisco," says Joyce.

In the industrial and logistics space, gateway definitions are different. These markets are based on proximity to infrastructure — rail, ports, airports — and accessibility to population centers. "Nashville has seen significant population growth, which is now driving demand for industrial projects to support that larger base," says Petrucci. "Jacksonville and Savannah, though not historically considered gateway cities, have also experienced major growth in inventory over the past five years."

Recent investment activity data reinforces these shifts. According to MSCI Real Capital Analytics, Texas continues to dominate the real estate landscape, with Dallas ranking no. 1 for commercial real estate investment in 2024, surpassing Los Angeles and New York City. Houston ranked no. 7 and Austin No. 18, while Denver saw an 80 percent year-over-year increase in investment volume, climbing to the ninth most active market nationally.

Last words

Different generations are reshaping the real estate sector, from millennials forming families and seeking space in the suburbs, to baby boomers downsizing for lifestyle and tax reasons, to Gen Z entering the rental market with an urban mindset. Understanding these dynamics is critical to aligning real estate portfolios with long-term demographic trends.

Real estate players can better anticipate demand, reduce volatility and generate lasting value by aligning investment decisions with population trends — whether it's migration, aging or lifestyle changes. Keele says, "Demographic trends play a strong role in the long-term success of any real estate investment. In vetting markets for potential investment, it is critical to look for areas of healthy in-migration and organic growth, as well as communities with a strong base of educated and skilled human capital, which underpins a healthy, thriving economy. Further, real estate can play a powerful role in reinforcing positive demographic trends — from attracting new residents to supporting local workforce development — which ultimately helps communities and investors alike thrive." ❖

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