Ambitious Thinking: Smart Cities, part 1

Live, Work, Play?

Job growth is happening in both the CBDs and the suburbs. But educated adults are increasingly city dwellers. What that means for companies seeking talent, and the investors who buy the buildings in which they work...
The demographic and economic fabric of the United States has shifted significantly in the 10 years since the Great Recession began. Millennials, in particular, have altered the real estate landscape especially in urban areas (both central cities and their surrounding suburbs) as they seek walkability, authenticity and collaboration. The competition for talent is intensifying, increasing pressure on employers to differentiate based on location, amenities, and environment all of which come down to real estate.

In this period of full employment and urbanization, it is critical that real estate investors, developers and decision-makers understand where highly educated talent is migrating and where the jobs are. Which cities and suburbs are seeing the most of each? Where do we see growth in people but not in jobs? And how should the commercial real estate community respond in places with significant overlap or misalignment of talent and employment?

**Methodology**
To understand and answer these questions, JLL Research analyzed population, educational attainment, and job location and employment data across the 25 largest metropolitan areas in the United States. The population and educational attainment data come from the American Community Survey one-year estimates covering the years 2008 through 2016. For the job location, employment levels and commuting data, JLL Research used OnTheMap, an online U.S. Census Bureau tool, for which 2015 is the most recent available data. Data were pulled for census designated places (CDPs) and metropolitan statistical areas (MSAs) so that the performance of major cities within regions could be distinguished from the performance of areas outside of major cities.

**Educated talent:** those holding bachelor’s, master’s, professional and doctoral degrees.

**Adult population:** persons age 25 and above.

**Major cities:** the largest city within each of the 25 largest MSAs.

**Suburbs:** Any area in an MSA not located within the municipal boundaries of the major city.

**Reverse commuters:** Residents of a major city whose employment is located outside of it.
Findings: Talent

The educated talent pool has grown by 6.8 million people since 2008 across major metros, raising the average share of educated talent from 33.4 percent to 37.4 percent in that time. Every single major metropolitan area contains more educated talent today than in 2008.

The highly educated talent pool in the top 25 largest regions is up 6.8 million since 2008

Educated talent is clustering faster in major cities than it is in suburbs. It’s all about momentum: the major city educated population is up 28.7 percent since 2008, whereas the suburbs surrounding those cities have increased their highly educated populations by 23.6 percent. Nine of the 20 major cities analyzed saw their educated populations grow by 35 percent or more. While suburbs contain more residents than the major cities and saw a larger overall increase, the growth rate between 2008 and 2016 was 5.1 percent higher in cities than in suburbs.
Most of the adult population gain in major cities is educated talent. Educated persons account for 90.9 percent of the adult population increase in major cities, while accounting for only 65.1 percent of the adult population increase in suburbs.

<table>
<thead>
<tr>
<th>Cities</th>
<th>Suburbs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population increase 25 and up:</td>
<td>7,378,984</td>
</tr>
<tr>
<td>Population net increase, not highly educated</td>
<td>2,575,659</td>
</tr>
<tr>
<td>Population net increase, highly educated</td>
<td>4,803,325</td>
</tr>
<tr>
<td>Net increase in population age 25 and up:</td>
<td>195,571</td>
</tr>
<tr>
<td>Population net increase, highly educated</td>
<td>90.9%</td>
</tr>
</tbody>
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Educated talent growth in cities and surrounding suburbs
The urban cores of the 25 largest regions have all experienced significant growth in their highly educated populations since 2008. Major cities in secondary markets were among the top performers. Most regions saw cities outpace surrounding suburbs in percentage growth, though performance varies greatly, with municipal boundaries, housing costs and tax structures all influencing patterns at the local level.
Findings: Jobs and commuting

Major cities are not seeing the same momentum in jobs as they are in talent. Major city job share within their MSAs is up only 10 basis points in five years, despite a 510-basis-point increase in educated talent since the recession. Cities contain essentially the same share of regional jobs (32.1 percent on average) as they did five years ago (32 percent).

A majority of major cities have actually experienced a slight drop in their share of regional jobs since 2011, with an average drop of 0.3 percent. Only New York City saw its share of regional jobs increase more than 1 percent in this time frame.
Reverse commuting remains a widespread fact of life across all major regions and has increased in every metropolitan area. An average of 46 percent of job holders living in major cities travel outside of those cities to work. Reverse commuting is up 11.6 percent over 2011 levels. More than 4.8 million people reverse commute out of major cities in the 25 largest MSAs.

Share of jobs in cities or suburbs
Across the 25 largest U.S. metropolitan areas, the share of jobs located within the major city varies considerably. Many consecutive decades of suburban growth mean that the majority of office-occupying jobs in major regions are located outside the major cities, even in markets with competitive tax environments and extensive infrastructure.
The pace of educated talent growth, the distribution of jobs and rates of reverse commuting vary widely across the 25 markets studied, indicating a need for occupiers and investors to consider the subtleties within each region. That said, several important conclusions emerge from the overarching trend across the largest U.S. population and employment hubs:
For occupiers

- In today’s full employment economy, employers need to focus more than ever on differentiating based on their real estate, not just on wages.

- For businesses with high talent needs, cities adding talent at the fastest rates include a number of secondary markets, among them Denver, Miami, Philadelphia, Pittsburgh and San Jose.

- Markets with above-average reverse commuting rates indicate opportunities for real estate strategies that meet the talent where it lives, including Boston, Denver, Houston, Miami, San Jose and Seattle.

- Proximity and accessibility to fast-growing talent clusters will improve talent retention.

Investors

- There is room to run for CBD office and other accessible locations: we are at the tip of the iceberg for real estate strategies moving to meet talent where it lives.

- In locations less accessible to growing talent clusters, differentiation within the envelope of the asset will be critical for attracting occupiers seeking to retain highly educated talent.

- With talent growth accelerating in secondary markets, traditional gateway office investors should consider exploring these markets to catch the upswing in strengthening talent clusters.

For a deeper dive into individual markets included in these analyses, contact your local JLL Research team: http://www.us.jll.com/united-states/en-us/research
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