

RE: Hockey Stick Growth in the 2020s (5-minute read)
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Key Takeaways

- **Lionstone expects migration of people and firms to the “Hockey Stick” of America will be a primary characteristic of the 2020s.** Millennials are facing many of the same challenges and opportunities their parents, the baby boomers, did, and are expected to make similar quality of life choices.

Truly, the COVID-19 world is turning a lot of things on their head. For example, the Stanley Cup championship final game was delayed until September. Just as odd, the two teams in the final, the Tampa Bay Lightning and the Dallas Stars, represent places with no naturally occurring ice. However, while this all seems peculiar, it's also the shape of things to come in the 2020s. Both cities are in **the Hockey Stick region, where Lionstone believes population growth, especially among the highly productive people who drive the digital economy, will be strongest in the 2020s.**



The Hockey Stick encompasses most of the U.S. cities Lionstone research considers Internationally Competitive (IC), that is, those having the greatest clustering of economic demand drivers essential for competing on a global scale. Geographically, the Hockey Stick stretches from the

upper left-hand corner of the country, with Seattle and Portland as the anchor cities, down through the Rockies, into Texas and over through Georgia, Florida, the Carolinas and Northern Virginia.

In some ways, **we've seen this movie before — in the 1980s**. At that time, job growth in New York City, Hartford, Detroit, Philadelphia and other leading cities of the 1960s and 1970s suffered as baby boomers made off for rapidly growing cities like Los Angeles, Dallas and Atlanta. In hindsight, these migration trends make perfect sense. **Baby boomers were entering their marriage and childbearing years in the 1980s and the Sun Belt's low home prices and tax rates, and solid public schools for middle class wage earners** were appealing. In reaction to the urban riots and high regulation workplaces of the Rust Belt and old-line Northeast cities, many employers were more than happy to pick up stakes and expand in these cities with less crime and fewer regulations. Newfound connectivity — prompted by the completion of the interstate highway system and deregulation of the airline and trucking industries — supported this migration.

Fast forward 35 years, second verse (almost) same as the first. **Millennial children of the baby boomers average 30 years of age in 2020 and the pandemic is accelerating the same life choices their parents made**. There are differences of course. **Changes in connectivity today include work from anywhere (WFA) policies for many knowledge workers**. For millennials starting families, these policies are supporting outmigration from high cost cities such as New York or San Francisco into the Hockey Stick markets. This trend is supported by recent apartment absorption and an ocean of anecdotal evidence.

The numbers are startling. The **30- to 34-year-old age cohort is expected to grow at 3.2% in the IC cities located within the Hockey Stick through 2025. That is over twice the U.S. average and triple the growth rate expected in non-Hockey Stick IC cities**. Numbers like that support strong demand for housing, both for rent and for sale (many people will migrate to these cities exclusively for the purpose of buying a home). Conversely, **executive and trade-up homes in the most exclusive suburban pockets of Connecticut, LA and other non-Hockey Stick markets could go wanting for buyers** as population growth is forecast to be negative in the 45–59 age cohort.

Office demand, especially better-quality assets proximate to family-friendly housing, should hold up much better in the Hockey Stick, as almost every age cohort shows solid job growth. Similarly, earnings growth, which typically cranks up as people move into the 35 to 45-year-old range, should support relatively better retail sales and continued strength in logistics assets in the Hockey Stick.

5 Year CAGR Forecast by Age Group [2020 to 2025]

Investment Geography	20 to 24	25 to 29	30 to 34	35 to 39	40 to 44	45 to 49	50 to 54	55 to 59	60 to 64	Total
U.S. Total	-0.6%	-1.3%	1.5%	1.5%	2.0%	-0.2%	-0.7%	-1.7%	0.4%	0.1%
IC Markets	0.0%	-0.2%	1.9%	1.5%	2.1%	-0.1%	-0.2%	-0.9%	0.9%	0.6%
Hockey Stick IC Markets	0.8%	0.4%	3.2%	2.1%	2.2%	0.4%	0.6%	-0.5%	1.4%	1.2%
Non-Hockey Stick IC Markets	-0.7%	-0.7%	0.9%	1.1%	2.1%	-0.4%	-0.9%	-1.2%	0.6%	0.1%

Source: ESRI, as of October 2020

Conclusions

Could these models be wrong? Of course, no models are perfect. The question is the direction and magnitude of error. In this case, it's instructive to bear in mind that few third-party demographic forecasting companies take into consideration 2020's broad list of adverse effects, including: the pandemic, California's wildfires and electricity shortages, urban social unrest, municipal tax burdens, and the recent spike in coastal home prices. Rather, forecasters extrapolate longer term trends that were already in place pre-COVID-19. So, one might make the case that immigration to Hockey Stick markets should be even stronger than expected. Time will tell.

However, let us be clear. The Bay Area is expected to be the epicenter of global technology and New York will continue to be New York. Lionstone research supports a positive view of these markets in the long term. **The issue at hand is, for the 2020s on the margin, which way does growth tilt?**

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