

# Shifting U.S. Demographics and Development Models: Immigration, Economy and the Workforce

Panelists:

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Moderator:

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**LABOR ISSUES: Is there a role for immigration in offsetting workforce shortages predicted to begin within the next 10 years?**

**LOUARGAND:** When I think about immigration, I think about the potential growth in the labor force in the United States given the current composition of the population. I typically rely on the U.S. Census Bureau's middle series to do conservative forecasting, and the agency reports that the 20 to 65 age group has been growing at 110 basis points a year for the last decade. Looking forward, it predicts that age group will grow 40 basis points in the next decade and 20 in the decade after that.

**KELLY:** That's right, and some work I've completed indicates that around 2015 to 2016 we'll get to the point where the number of people entering the labor force offsets the number of people retiring by less than a million workers. For now, we have significant natural increase in the labor force but in about eight years, that goes away. You're absolutely right to say there are some real implications on the immigration side.

**PARKER:** I think workforce trends will be more stable after 2010 than we might suspect at this point. Medical improvements leading to significantly longer life cycles will encourage many to keep working significantly longer.

A number of psychiatrists can attest that among their most difficult patients are those in their mid-60s who retired too soon. After five years of leisure, they are sick of golf, and their business contacts and acumen have diminished. In addition, mounting problems with Social

## About the Roundtable Participants



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**David J. Lynn, Ph.D., MBA, CRE**, is the global head of research and investment strategy at AIG Global Real Estate Investment Corp., based in San Francisco. He has expertise in real estate investment, redevelopment, raw land use and development, and provides advisory services to clients around the world.

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Security and private pension shortfalls will force reassessment of overly optimistic retirement plans for more people than we might think.

**LOUARGAND:** I also find it troubling that analysts expect Baby Boomers to continue working beyond their traditional retirement age. Though actual retirement age is still falling, if you look at that data and assume that half the people between 65 and 84 will work, you still have a radically reduced growth rate.

**KELLY:** And that has very serious implications for gross domestic product. So I think it's a serious problem that's really offset only by a productivity increase on the GDP side and immigration on the labor-force side.

**LYNN:** However, the U.S. is fortunate in that immigration is a possible solution. Immigrants generally integrate fairly quickly; there aren't as many cultural or institutional barriers in this country as, say, in Europe where the same, if not worse, workforce problems exist. So immigration even now is probably about half the population increase in the U.S. That's a faucet that we can turn off or on—one of the saving graces for our demographic and labor force picture.

In terms of retirement, it's a difficult problem looming for the United States. Retirement age has been hovering around 60 and Baby Boomers are the wealthiest population group of all time in terms of household wealth. So many in this group don't have to work until they're 65. But contracting agreements that have become popular over the past 15 years are giving these older, highly skilled workers employment flexibility. They may not join staff as full-time employees, but they can add to productivity and create value.

**LOUARGAND:** I agree, and I think there's no question that you'll see a lot of the Boomer generation working full or part-time in retirement, or what would have been their retirement years.

### **HOT-BUTTON POLITICS: Are current immigration policies affecting the workforce balance?**

**LOUARGAND:** Let's discuss this point in the context of the current political debate about immigration, which has a jingoistic tone and doesn't address workforce shortages.

**KELLY:** It's a very wide divide. Probably no other issue creates such a division of opinion as immigration.

**LYNN:** The U.S. is fortunate to be able to attract immigrants from all over the skills and wealth spectrum.

**LOUARGAND:** Well there's no question about that, but at the same time we are restricting the number of people who can come in on H1B Visas. So we're making it tough to bring highly skilled workers in.

At the same time, if you look around the world a lot of other economies that U.S. immigrants come from are growing solid middle-class infrastructures of their own. I'm a little concerned about whether we're going to be able to draw in as many of the high-caliber, high-skill, high-talent workers as we have in the past.

**KELLY:** Are you thinking about the Chinese and South Asian economies?

**LOUARGAND:** China, India, Singapore, Indonesia, Philippines.

**KELLY:** The demography there is so huge that even as the middle classes grow, the ability to absorb that population capacity is going to be really stretched. Another thing is that they have very sharp imbalances in their male-female ratios so I think people will say: "If I stay here, I'm going to be unmatched for a prospective spouse." That is a strong motivation to pick yourself up and move.

**LYNN:** India and China are good examples. There is great human capital there, robust economies right now and they should continue to grow higher than the world average.

But there's great income inequality in these countries so the main issue isn't the lack of a growing economy, it is access to economic opportunity.

In India and especially China there are an increasing number of millionaires, but you have a great deal of poor people who see what it's like to live in the middle class, but are essentially locked out of the system. I think the U.S. will still continue to be a gateway for those individuals.

**PARKER:** Another thing to keep in mind is that workforce balance in the United States is tied intricately to the nation's ability to continue its dominating role in high-tech innovation and cutting-edge entrepreneurship. We should not be terrified by the ascendance of China and India. With the severe downsizing of the former Soviet

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Union, the U.S. is the third most populous nation in the world. There still is massive space for intellectual advancement and increased prosperity.

**POLICY AND HISTORY: What are the public policy implications given the fact that the U.S. has a political debate that seems to be stifling immigration?**

**PARKER:** I welcome the public policy debate on immigration. We can't drift forever toward a two-class society, and assimilation takes a long time. At present, 80 percent of the U.S. Hispanic population is in seven states: California, Texas, Florida, New York, New Jersey, Illinois and New Mexico. Populations also are increasing in North Carolina, Georgia and Nevada. Continuing diversification will be a positive event.

**LYNN:** I think U.S. institutions and values really do stand for equal opportunity and the country has embraced immigrants. Still, there's always been this initial period of adjustment with new groups.

Each wave of immigrants has faced its challenges and backlash from the U.S. mainstream opinion at that time, but they've all successfully assimilated.

**LOUARGAND:** Another example is St. Louis in the 1800s and early 1900s, when there were all-German neighborhoods where the children were schooled only in German.

**KELLY:** That's true in New York, too.

**LOUARGAND:** It's similar to the way Latinos are accused today of not joining the general U.S. culture. I thought the most compelling part of Joel Kotkin's presentation at the 2006 CRE High Level Conference (see [www.cre.org/programs\\_and\\_events/high\\_level\\_conference.cfm](http://www.cre.org/programs_and_events/high_level_conference.cfm) for more information) was the statistic—which has been vetted by several sources—that by the third generation most immigrants don't speak their native language and have married outside their ethnic group.

**LYNN:** Yes, and so wave after wave, very diverse peoples from around the world have integrated very successfully in this country. A good litmus test, I think, is Arabic peoples, many of whom are well educated and have above-average income levels. You can see a great counterpoint in Europe where they tend not to assimilate as successfully. So I'm very optimistic that immigrants from across the skill spec-

trum will continue coming to the U.S. and adding to our productivity as a nation.

**POPULATION IMPACT: What are the implications for the business environment and the real estate industry?**

**LYNN:** Typically, immigrants go to where the jobs are. Today the jobs tend to be on the coasts: the East, South and West coasts. These jobs focus primarily on economy, finance and high-tech, and are in places where established ethnic communities can offer a support network to new immigrants.

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**LOUARGAND:** And it's not just urban areas like New York, San Francisco, Boston and L.A. It's also places like Waterbury, Connecticut with its steel mill, and the Carolinas, where hundreds of people come from Central America and Mexico to work at Christmas tree farms.

**KELLY:** Yes, but it's worth thinking about the urban issue, the major coastal cities issue. It's something that New York City is really focusing on. The city planning department is figuring out how to deal with a population increase of nearly 1 million people by 2030.

**PARKER:** I worry about the decreasing quality of life, especially along the coastlines and in large cities. New York City has experienced an 11.3 percent population increase between 1990 and 2005. Los Angeles has increased 10.3 percent in the same period. Nothing can match the 111.1 percent increase in Las Vegas during these years—taking it from No. 63 to No. 29 in population size—and significant growth also has occurred in Austin, Texas; Mesa, Arizona; Phoenix; and Charlotte, North Carolina, to name a few.

**KELLY:** But New York City, for example, is doing some really interesting things in terms of rezoning the city—up-zoning and down-zoning. The Bloomberg administration is also talking about infrastructure needs and the implications of absorbing this population surge. This would be more than a 10 percent population increase in less than 15 years without adding any land. They're struggling with how to cope with density, services and so on. Some people

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would see that level of growth as a fundamental problem, but the city planners aren't shying away from it.

**LOUARGAND:** The density in New York City is very low, though, compared with what it has been historically. Other than midtown and downtown, the city is embracing pretty low-density development; it's mostly low- and mid-rise. There's plenty of opportunity to increase density, I think.

**LYNN:** There certainly is, and I think that's a message for cities all over the country: You can either see this as a problem or you can take an objective, look at it and say:

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"Okay, now how are we going to do the best planning for the future?"

**URBAN AND SUBURBAN DENSITY: Will the shifting population affect development and real estate practices?**

**LOUARGAND:** I want to talk a bit about what could happen to the real estate business, industry and products. One of the things I find interesting is the data indicates that people assimilate in a 40- to 50-year span, yet others say the answer is to build housing comparable to housing in the countries these groups come from. Is that the right thing to do, or is it a mistake?

**LYNN:** I think there's a density trend that started in the early 1990s. Many cities that were highly concentrated a hundred years ago are densifying again, and even new satellite cities are becoming dense. It's basic demographic and economic forces at work because it's much less expensive to increase density in established cities than it is to build new roads and bridges and infrastructure to new suburban communities.

An urban lifestyle might be appealing in terms of cultural offerings, shopping, services and socializing. As the children of Baby Boomers leave the nest, there should be less demand for suburban housing.

**LOUARGAND:** Except for the fact that I see empty nesters and Baby Boomers around the country adding 2,000 feet to their suburban houses.

**LYNN:** Yes, that trend also is continuing. Suburbia is certainly expanding but it's not one or the other, it's both. So suburbia is expanding, mainly in warm climates where income levels are high. Urban areas are densifying or redensifying as well; you're seeing that in the form of multifamily projects such as condominiums, condo hotels and a range of things.

**LOUARGAND:** How much of that is really a change in people's behavior and how much is just replacing obsolete stock?

**LYNN:** A recent study of replacement stock that's needed found that a fair amount of it is becoming functionally obsolete. But it's also demographic. As a country, the U.S. looks like an emerging market nation in terms of population increase. And most of those people are coming to the coasts, not the Midwest.

**GATEWAY CITIES: Will global trade, economic growth and education levels change the urban landscape?**

**KELLY:** Global gateway cities are growing disproportionately to the country. We should study these areas because they're connected not only with a high-growth economy but also with world growth and global trade. These phenomena are working in concert; it's not one or the other.

I also think the next generation is even more committed to urban dwelling. Their parents have sophisticated tastes and are highly educated, and urban life is what these people identify with.

**LOUARGAND:** But how much of what you're describing is lifecycle? These are people in their 20s, and there's a much higher proportion of professionals in that generation than in ours—almost twice as many college graduates. So if you're in your 20s and you're single and you're working at an accounting firm or a law firm, aren't you likely to be attracted to that urban experience?

**KELLY:** Yes, there's a whole body of research that looks at places like Austin, Texas, where many young professionals are relocating to. I think that influx could penetrate at least some places along the lines of an Austin or a Madison, Wisconsin, for example.

**LYNN:** I think economic growth isn't coming from the industrial sector. It's coming from the more creative

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aspects of the service sector—not call centers, but chip design, architecture design and biotech. It's coming from intellectual capital and those people generally want to live in an urban area. They could be in the suburban part of that urban area but they want a large MSA for their careers, social interaction and lifestyle.

**LOUARGAND:** That group also is a tremendous component of the high labor mobility in the U.S.

**KELLY:** Another issue, to some degree, is whether there are differences between young cities and old cities across the country. Are there different opportunities and different issues in each? You're right in saying New York has some housing obsolescence and replacement needs. But building on vacant land isn't an option, so it becomes a question of adaptive reuse.

Similar situations exist in places like the San Francisco Bay Area, Los Angeles and even Las Vegas. Many cities are reaching limits—physical limits such as mountains or water. And commuters are reaching driving limits. Once you get into commute times exceeding an hour and a half, you see development really start to drop off. I think we're reaching that limit in many cities around the county.

**LYNN:** Right, so where there's room for growth not too far from the city centers—places like Phoenix, for example—suburbs will expand tremendously. But there also will be denser projects and mixed-use construction in city centers in the Bay Area, downtown Austin and even Phoenix.

But massive suburban development also is occurring along with job formation not just in city centers but in places such as Tempe and surrounding cities. So I think suburbs will continue to expand but urban core areas will become more important and dense.

**LOUARGAND:** I would expect to see Phoenix grow much like Los Angeles has, with central business districts spread all over the place. The question is how does that relate to immigration? If you look at Phoenix, it has a heavy Latino population component and I can't see any difference in the way that community lives compared with how the Anglo community lives.

**LYNN:** Qualitatively you're right.

**XENOPHOBIA AND GLOBALIZATION: So why do we have this passionate immigration debate going on in the U.S.?**

**LYNN:** I think part of it is xenophobia, and part of it is that the rate of globalization has ratcheted up tremendously in the last few years. People are seeing their jobs get outsourced; that's an important part of this discussion. The situation used to be common in heavy industry jobs, but now it could be any job. It could be a call center, a medical technician position and certainly heavy industry.

**LOUARGAND:** Xenophobia definitely is an issue. The level of fear has escalated in the past several years and has exacerbated the immigration issue. We are in more fearful times; people are more cautious.

Some people in the debate are speaking out of fear. We could spend hours discussing what constitutes rationality and irrationality, but I don't think there's any argument that the level of fear is higher now than it was 10 years ago.

**KELLY:** Yes, and because terrorism is certainly part of that, there been a huge movement to strengthen U.S. borders.

**LOUARGAND:** That's an interesting point. I think a key question is what are people concerned about? Is it immigration or weak borders?

**LYNN:** I think the two have been deliberately morphed into a single issue.

**LOUARGAND:** I would agree.

**KELLY:** I think it has to do with jobs, too. We're in a good jobs environment right now but jobs are moving to other countries. Globalization is a fear that every country in the world has, even China.

The U.S., however, has had a very insular economy. Its level of global trade has always been low, and the number of U.S. citizens who hold passports is ridiculously low—something like 14 percent.

**PARKER:** For the first time, perhaps with some reason, some in the U.S. are feeling crowded as a nation. It took until 1915 for our nation to reach 100 million inhabitants, but we hit 200 million just 52 years later in 1967 and last year reached 300 million. Demographics point to the U.S. having 400 million inhabitants by 2043 and 420 million by 2050. The average growth now is 2.85 million inhabitants per year. I am not so certain the cause of this immigration debate is xenophobia.

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Another thing to consider is the infrastructure development this growth spurs. An additional 20 percent of U.S. land is occupied by structures such as houses, schools, shopping centers and roads compared with 20 years ago. The U.S. consumption appetite is massive. The nation deposits twice as much rubbish and expends five times more carbon monoxide than the worldwide average. The population makes up 5 percent of the world's total but consumes 23 percent of its energy and 15 percent of its meat. These trends cannot continue indefinitely.

### **THE IMMIGRATION POOL: Can the U.S. stay competitive in attracting highly skilled professionals from other countries?**

**LOUARGAND:** Virtually every manufactured good U.S. consumers buy is made somewhere else. Given the U.S. economy and productivity in the context of a globalizing economy, do you believe that the United States will continue to be the destination of choice for migrants around the world?

**LYNN:** I do. The U.S. occupies a very unique position in the world. It's not just the economy that is attractive; the U.S. really is a much freer country than most in the world. Citizen's rights are protected, it has a variety of established cultures and support structures that make it easy to assimilate. It has a variety of geographies and climates that people can identify with and be comfortable in.

Because of its openness, I think the U.S. economy will always be a player on the world stage. It probably will be eclipsed by China, in terms of GDP size, in about 20 years, but I think it will always be fairly productive because of the free markets and labor mobility. So immigrants should always see it as a leading destination.

**LOUARGAND:** And to underscore a previous point: If you look at the history of immigrants in other countries, they haven't been treated with the same degree of openness and freedom as they have in the U.S.

**LYNN:** I think people celebrate cultural and racial diversity in this country. U.S. Sen. Barack Obama is a great example. He has a shot of being president and the debate isn't about his race or culture, it's about his ideas and qualifications. That's not to say there are no barriers or prejudices, but in general I think it's easier to reach goals here than in most countries.

**KELLY:** One of the persistent economic strengths in the U.S. is the fact that population pyramids are pretty well balanced. Immigrants come as families and their children have an even greater impact on the workforce than the first generation. It's an advantage that most other countries don't have.

**LOUARGAND:** When you look at it, we've gone through a series of ethnocentric outcries in this country ever since the late 1600s, and governments have periodically engaged in some inappropriate lawmaking around it.

**LYNN:** Yes, then they've always reversed it. So I think it's history's indication of what we'll see. I think this is just a temporary period, a fad. I'll put my chips on the U.S. welcoming immigration in response to the labor-shortage problem. The focus won't just be the number of bodies, though; it'll be the quality of the people. ■

*Frank Parker, CRE, extends thanks to Boston College senior Jessica Bennett for providing demographic research on which Parker based some of his remarks.*