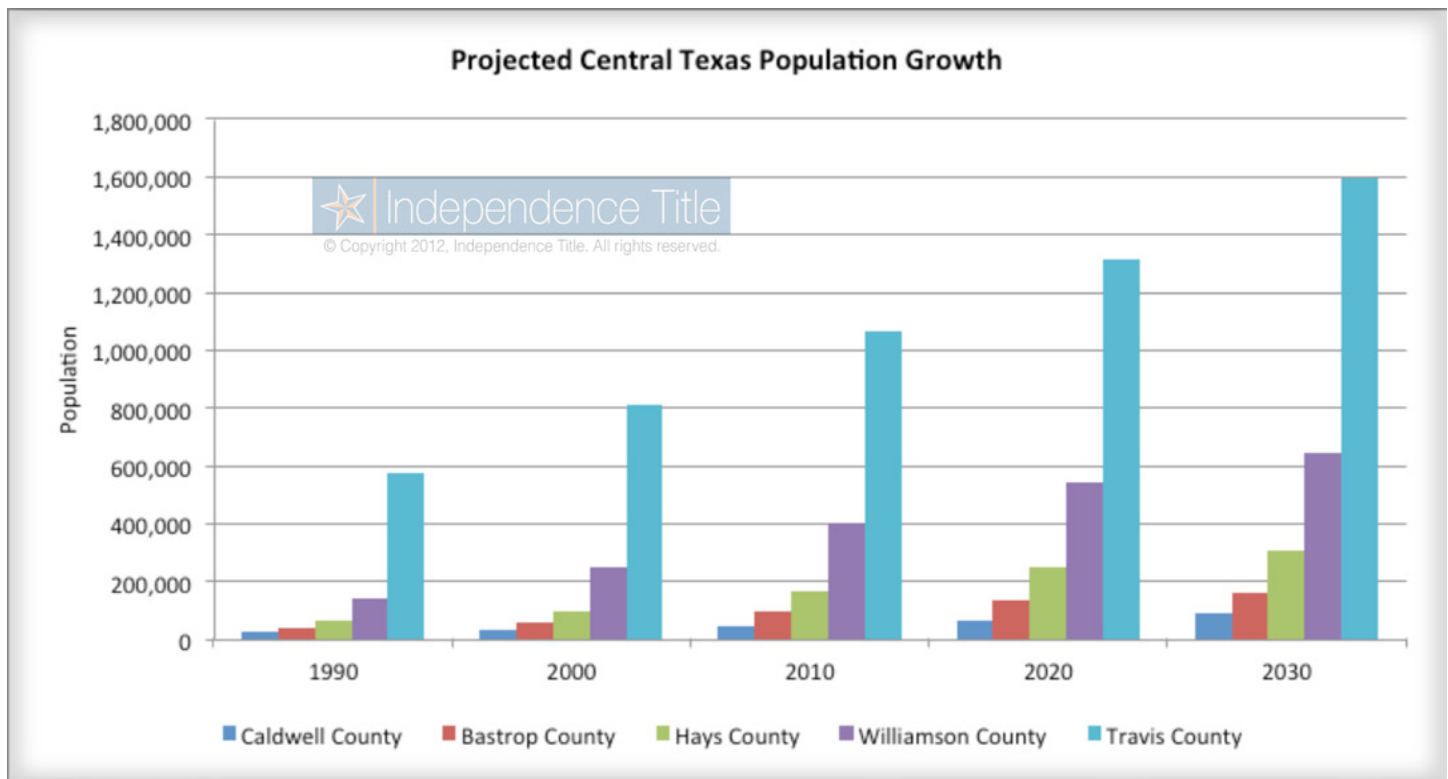


Every year since Texas joined the United States its growth has been faster than the country as a whole. Texas was the eighth fastest growing state in 1990, the seventh fastest growing in 2000, and the second fastest by the time the census was done in 2010. Utah is the only other state with a greater rate of natural increase.



Since the founding of Texas, there has been constant change in the composition of the state’s growth. Population in rural areas in many parts of the state is declining and in all likelihood will continue to. The opposite is true in Texas’s four major metros. Projections show that the state’s doubling of population in the next twenty years will occur mainly in Houston, Dallas / Ft Worth, San Antonio and Austin. It is critical to understand these changes in generations, cultural backgrounds, family histories, etc. as these new families move here or raise their families here. We need to understand that diversity is increasing as a national phenomenon, not just in Texas, California, and New York, but the country as a whole.

Looking at the Austin area, in seventeen years, Bastrop County will double its population from that of today. It will take Hays county fourteen years and Williamson County thirteen years to do the same. It is projected that Bastrop will grow six times as large from 2000 to 2040. Hays should experience a 147% increase in growth in the next 40 years and Williamson county 204%.

Population data on San Antonio compiled by the Brookings Institution shows that among the nation’s largest metropolitan areas, San Antonio had the eighth-highest boost from migration among people age 55 and older from 2008 to 2010. The cheaper cost of living in San Antonio (lead primarily by housing), strong military presence, and continued improvement of secondary education campuses has made the Alamo city attractive to the Baby Boomers retiring to the hill country. That migration count averaged 2,577 people each year.

Over the next forty years Texas will continue to grow very rapidly, and the pockets of especially high growth (Texas metros) will continue to outpace the state as a whole. This growth is fueled by employment which in turn provides greater opportunities. As you have heard and read and fact checked, one out of four jobs since the recession has been created in Texas, one out of ten in the country in Houston.

This is in stark contrast to the rest of the country. Many, or possibly most, commentators, analysts, and company executives mistakenly believe that US demographic growth will be robust for decades to come. This misconception is due in part to the fact that other industrial countries in Europe and Japan and other Far East countries have very poor demographics in comparison to the US. The number of Europeans and Japanese is indeed expected to decline while the American population continues to grow. But the rate of US population growth will also be declining for the next several decades.

It is widely known that immigration has been a key component of US growth and will continue to play an important role. However, immigration is seen by many as an addition to the organic growth of the existing population, when in reality it will be the only source of growth in the 2030s and 2040s, when organic growth will be flat or negative.

### **The birth rate in the US has been declining since 2005**

A recent report by the Census Bureau stated that the US population grew in 2011 at the lowest rate since 1940. It is a headline that will appear frequently in the future. The reason for this unusual phenomenon is quite simple. Due to the baby boomers' passing and a relatively lower birth rate in recent decades, the number of deaths will rise quickly while the number of births rises slowly. However when you look at birth rates in Texas, we see it ranks second in births to Utah. The concern is not so much what is happening here in our state, but the lack of repopulation in the rest of the country.

This annual net addition to the population is the number of births minus the number of deaths plus the number of new immigrants. Every year, legal immigration adds about 1 to 1.1 million people to the US population. In the 2030-39 decade, on current trends, the number of births will match or fall slightly short of the number of deaths and the population will grow only due to immigration nationally.

Like it or not, the boss of the economy, and therefore to some degree of all of us, will be demographics. One could argue that this boss has been with us since at least 2005 when the dependency ratio started to rise again in the United States. Thank goodness that we are blessed to live in Texas, where the demographics are far more favorable than the rest of the nation.

### **Baby Boomers**

Let's look at the importance of the Baby Boomer generation to Texas and its economy as well as other effects of the state's and nation's changing demographics.

Americans born between 1946 and 1964 are referred to as Baby Boomers, and they have had a significant impact on national and state demographics. History has shown the tremendous effect of this generation in every stage of life on social services, education, the labor market, family growth, consumer trends, etc.

Texas Baby Boomers' average age is 44, with 66% married, 22% divorced or separated. Most Texas Baby boomers were parents (84%) and the average number of children is 2.65. 73% are fully employed.

As Boomers aged, reached adulthood and left home, they formed their own smaller households, and left smaller

households in their wake. Not only did this give birth to the national production builders, but it created whole industries to serve these new households, apartment complexes, appliances, flooring, finance, etc.

Another effect of this generation was felt financially as well as socially; women entered the labor force in huge numbers in the 1970's, providing unprecedented financial independence. Divorce rates increased and marriage rates declined at the same time when the population with the highest marriage, divorce and remarriage rate was growing. (Also giving birth to a whole new industry of divorce and custody lawyers). As a result, the number of single person households and single family parents rose dramatically.

Baby Boomers' incomes rose quicker than previous generations, allowing large numbers of singles to afford housing and cars for themselves. This generation caused the invention of credit cards, allowing more people to buy that needed home and everything to go in it.

As their families grew there was a need for more doctors and medical specialists. Del Webb saw the need for age restricted communities and product with tremendous success in Arizona and Florida. Boomers wanted to retire not to the rural farms their parents did, but near others their age. This trend will continue to grow, as the boomers look to maintain their lifestyle in retirement areas. Texas's lower tax burden and cost of living will continue to attract this age group.

While each family's situations will vary and personal finances will influence a large number of the Boomers' decisions, demographic tables show that this group should be retiring from the workforce starting now. Not surprisingly, recent recessionary economic and financial conditions have played havoc with Boomer retirement and all of the population. Loss of equity in real estate, stocks, etc., as well as children returning to the nest has many Boomers continuing to work, deciding not to 'move down' quite yet or make other major financial decisions expected of this demographic.

But the retiring of this generation will offer opportunity as well as challenges. More need for retirement communities, medical, minor emergency centers, and other opportunities in the medical field. For real estate, it now makes sense why we have seen so many more new pharmacies and medical centers. These corporations are preparing for the onslaught of more seniors.

We have a whole generation that is beginning to think about 'moving down' from their current house. Not only does it release additional equity into our economy, it allows a new housing market for those seniors to move into. Not just a 'Sun City', but smaller communities aimed at an older populace. With the recession more of this group sees renting as a more viable alternative to renting. The majority of Texas metros have just started in the last five years developing attractive age restricted rental communities, although a number are on the drawing board, in Austin, Houston, Dallas / Fort Worth, and San Antonio.

Many of the baby boomers are sitting on equity in their homes and are looking to free that up. This frees up additional large homes for the next generation to move up. The question is, if people are not having as large of families, is there a market for these larger homes coming on the market? Again we are not repopulating with larger families of three children or more. The main market for these larger homes will be the immigrating families who have a tendency for larger families and residences.

The boomers have begun to buy land in the hill country and will eventually build homes (the success of Blue Green is a great example). A successful builder outside of Del Webb has been Jimmy Jacobs in New Braunfels and Georgetown. Their continued success in this price point and age group has many builders and developers studying their model.

Here in Austin we have seen the affluent Baby Boomer parents fueling the popularity of the central business district downtown condos. Many of these couples had a home in Barton Creek, Rob Roy, etc. and felt the need to be closer to the CBD. This is a reversal from the last twenty years, where many of the older generation moved to the rural areas for a slower lifestyle.

In Texas, there are 5.6 million baby boomers, roughly 29+% of the sixteen and older population, or one third of the states labor force (civilian, no military). That percentage is lower than the national average of 31.7% or 78.2 million national employees. That said, it represents an entire generation of Texas workers about to retire. If you don't think this will affect you, think of all the state workers in Austin and all the federal employees in San Antonio. This is 1/3 of the workforce retiring in the next year to ten years. The experienced productivity and the value the Boomer generation has brought will put a strain on the economy as they shift employment to retirement. The numerical effect of this generation is like a basketball moving through a hose. And in turn when they decide not to retire, it puts a glass ceiling on the generation below that needs to 'move up' within their respective organization.

In addition to this age group, Census Bureau numbers point to something unique to Texas. The generation of people in their 30's and 40's (Generation X) now make up the largest group of workers in Texas as well as being the main demographic immigrating from other states. Again, this is a uniquely a Texas phenomenon. But good news for our state as Boomers want to sell their current homes.

Among all the important factors which drive economic growth, the national demographic factor is now weaker than it has been in decades and as a result, domestic demand for most goods and services will be weaker than it has been in a long time. The most telling numbers are as follows:

- The U.S. population grew by over 1% a year until 2007 and is now growing by less than 1% per year. Its rate of growth will continue to decline as the number of baby boomer deaths rises relative to the number of new births. Since 2008, the U.S. total fertility ratio (TFR) has fallen below the replacement level of 2.1 and is now approaching 1.9 children per woman. A fertility level of 2.6 children per woman is considered 'replacement level', or the number of births needed to maintain the current population. (I have always wanted to know what that .6 child looked like.) Realize that the TFR is arguably an imperfect measure and a decline may only mean that more women are delaying, not altogether foregoing, and having children. If the TFR drops to 1.6 repopulation it is near impossible to reverse the negative growth. This is a phenomenon we are seeing in most of Europe.
- The total number of Americans aged 30 to 60 years, the most economically active bracket, grew by over 1% per year for 30 years, from the mid-1970s to around 2005. It has leveled off and will essentially remain flat at around 120-125 million until the end of this decade. Stagnation in the size of the most economically active bracket combined with growth in the young and elderly brackets will result in lower economic growth. The resulting effect on housing on a national scale will not be positive.
- The U.S. dependency ratio, which is the sum of people under 14 and over 65, divided by the number of people aged 15-64, has declined for several decades. This does not take into effect the number of 'boomerang children' that have returned to the nest the last few years, taxing their parents savings and impacting their retirement decisions. Discretionary spending is bound to come under pressure as more funds are diverted to take care of dependents.
- Assuming a run rate of 1 million newcomers per year, immigration, though a clear net positive in the long run, will be insufficient to neutralize or reverse these negative effects in the short run. It would take a much

greater number of immigrants to offset the slack. But as noted by some demographers, citizens of any given country become less welcoming of immigrants when that country's fertility ratio declines or when the economy is weak.

- The US population grew by 2.8 million people in the sixteen months from April 2010 to July 2011, but over 700,000 of these 2.8 million were new immigrants. In the remainder of this decade, the population will grow by an average of 2.6 million people a year, assuming a more typical 1 million new immigrants per year. Estimates are derived from data compiled by the Center for Disease Control (which tracks life expectancy among other things) and by the US Census. In the next decade 2020-29, the population will grow by an average 2.3 million per year and in the following decade by 0.9 million per year, again assuming 1 million new immigrants per year. Note that without immigration, the population would shrink in 2030-39 and in 2040-49.

However, you live in Texas, where the Boomers, Echo Boomers, and Millenials seem to be retiring to, moving to, having their children and helping fueling our jobs and growth. Many see our population growth reminiscent of California's growth in the 50's.

Whether we manage that well is the question. But presently, their interest in moving to Texas bodes well demographically as well as financially for the state.



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