Coastal Innovation
Gateway Markets

Gateway Resilience

The pandemic introduced significant changes in living and working patterns across US metros.

Gateway metros were particularly hard hit, as remote work facilitated population outflows and reduced demand weighed on real estate pricing. The beneficiaries of this process were small, more affordable non-gateway metros. But several years on from the pandemic, demographic, economic, and real estate trends are reverting to pre-pandemic norms. This teaser examines the structural advantages of our target investment markets – the San Francisco Bay Area, Seattle, and Washington, DC – and the residential real estate opportunities arising from the recovery these markets are enjoying. The rest of this note is broken down into four main parts:

01 Innovation ecosystems driving long-run success:

Our target markets are hosts to an entrenched ecosystem of innovation representing some of the largest clusters of highly skilled employment in the nation. These fundamental drivers of long-run growth are difficult to replicate elsewhere.

02 Gateway metros come back to life:

The dramatic changes that impacted Gateway metros in the early stages of the pandemic are reversing, with various measures of urban vibrancy increasing.

03 Less new building during the pandemic:

High barriers to entry mean new supply reacts slowly to changes in demand. This has helped balance supply and demand, creating a favorable environment for growth over the next expansionary cycle.

04 Attractive entry point for real estate:

A narrow window of opportunity is open to acquire high-quality assets at attractive pricing.

01. Long run drivers of success

Our target markets lead the country in pay and productivity

Grosvenor's three major target metros are within the top 5 highest paid metros in the country. The high income and productivity of these markets are driven by one of the most educated workforces in the country.

Vibrant and walkable urban experience

San Francisco, DC, and Seattle represent some of the most walkable cities in the entire country, with walk scores twice the national average. Almost all residents living in any of our target market lives within a 10-minute walk of a park. They also include access to common urban amenities such as top food and cultural destinations ranging from Michelin Star restaurants to nationally acclaimed museums.

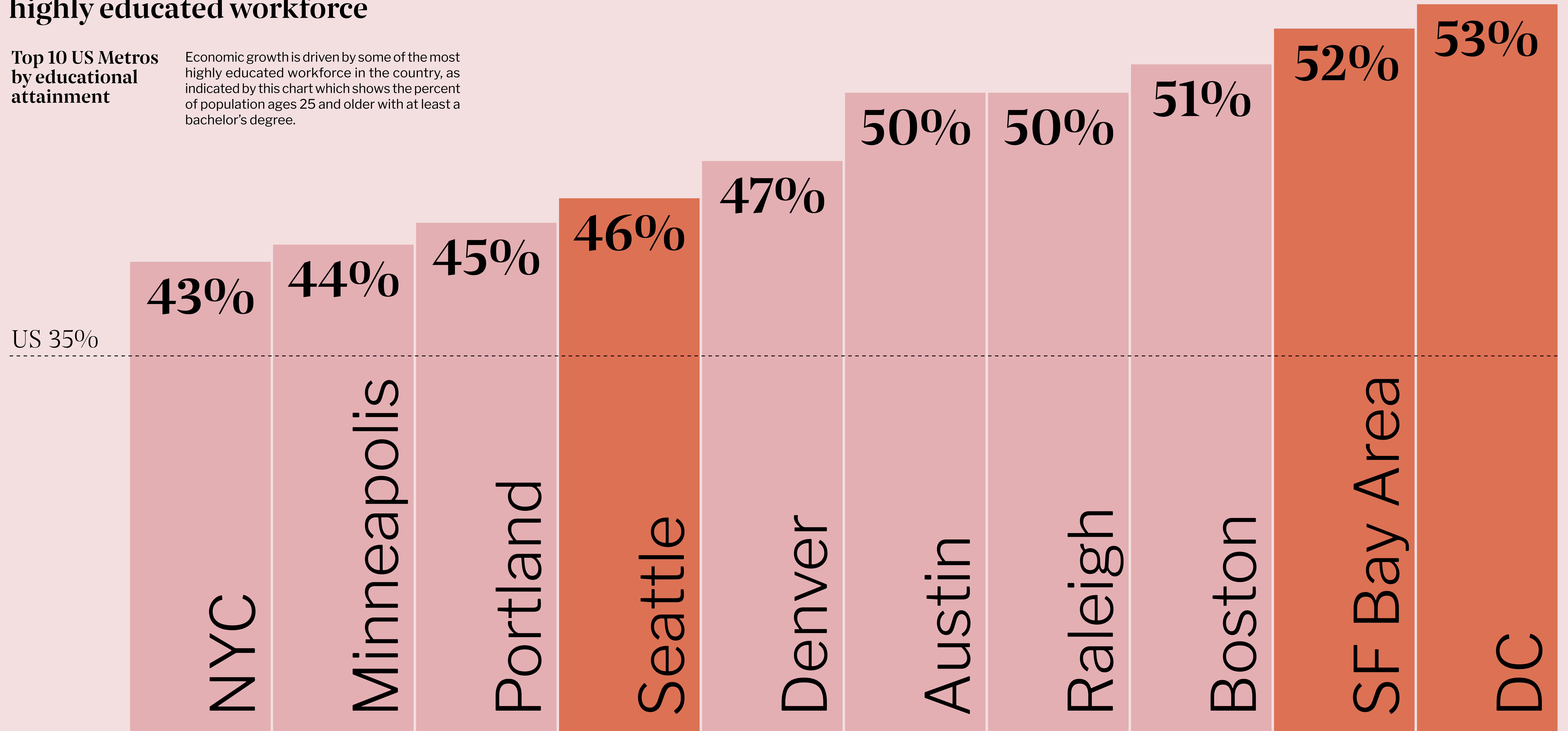
A unique and irreplicable education and innovation ecosystem

Target markets are home to some of the best universities in the nation including Stanford University, University of California, Berkeley, and Georgetown University, and spend well within the top 20% nationally on research and development spending. In 2023, the Bay Area represented one-third of all venture capital deals nationally amounting to over $15 billion.

Robust local economy driven by a highly educated workforce

Top 10 US Metros by educational attainment

Economic growth is driven by some of the most highly educated workforce in the country, as indicated by this chart which shows the percent of population ages 25 and older with at least a bachelor's degree.

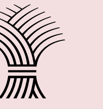


Sources:
US Census, RCG, Grosvenor Research

02. Gateway metros come back to life

Back to population growth in target markets

The trend of mass outflows during the pandemic seems to be reversing as the return of international migration is helping support population growth. Historically, as gateway metros grew, domestic residents would leave as they were priced out from the higher cost of living growth. But this was more than made up for by international migration which supported positive net migration. It was only during the pandemic when borders close did gateways experience drastic outflows. As borders reopen and migration returns, gateways are seeing a resurgence of population growth. For example, in 2024, DC migration was at its highest level since the GFC.



Metro DC

DC entertainment and real estate usage rates (% of 2019 usage rates)

Metric	% of 2019 usage
WMATA Metrorail Weekend Riders	121%
IAD & DCA Airport Passengers	111%
Lincoln Memorial Visitors	104%
Nationals Park (MLB) Attendance	87%
WMATA Metrorail Weekday Riders	80%
Retail Chain Foot-Traffic	81%
Office Utilization	49%

Fun has come back to our target markets, despite low return to office

Gateway markets like San Francisco and Washington, DC have seen a bifurcated return to normal, shown here, as office utilization is the only major lagging indicator. Key metrics such as visits to recreational parks, attendance to major sporting events, weekend public transit ridership, and passengers at local airports have all seen a recovery of 80% or more when compared to their pre-pandemic (2019) average (2024 data). While hybrid work has become the norm stabilizing at a third of the work week, the overall lifestyle vibrancy in key gateway markets remains healthy post-pandemic.

Lower cost metros not as low cost as they once were

The initial appeal for many of these non-gateway markets are shifting as the cost of living has increased. Major growth markets in the Sun Belt have seen inflation in excess of the national average due to the mass influx of people moving to the area. Single family home affordability saw some of the greatest declines in these metros as boom cities like Las Vegas or Tampa saw affordability declines of 51 and 55 percentage points (pp) respectively. Conversely, markets like the Bay area or New York City saw declines of 12 and 18 pp compared to the national average of 33 pp. (2014-2024 data).

Sources:
Kastle Systems, NPS, MLB, WMATA, MWAA, Placer.AI, RCG, Grosvenor Research

Multifamily pipeline more balance versus near-term demand

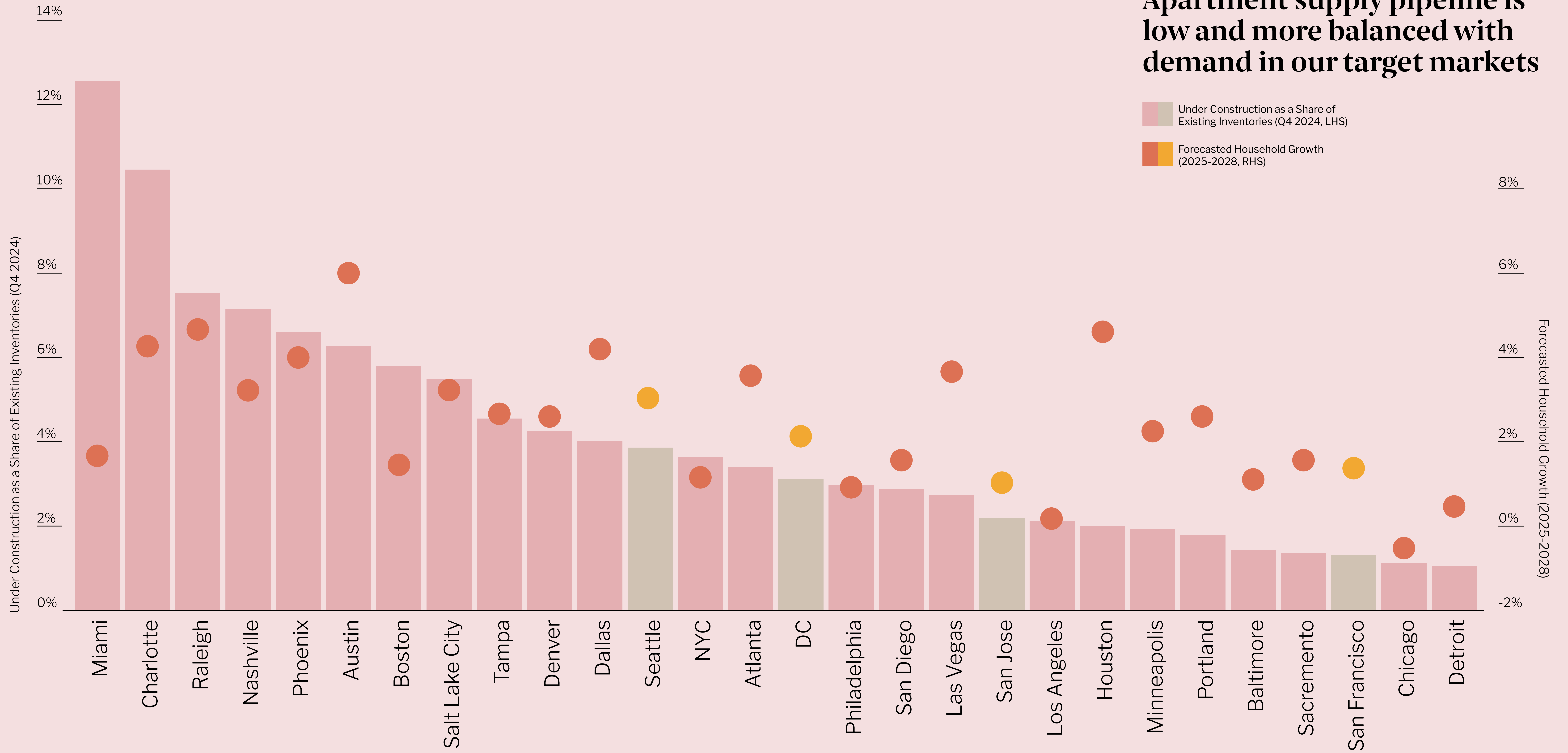
The chronic lack of residential supply to meet demand in our target markets helps safeguard value and rental growth. This is because an increase in demand tends to feed into higher pricing versus new supply. We expect our target markets' high barriers to entry in the multifamily space to continue to provide shelter from volatility going forward.

Balanced supply pipelines are supporting rental growth

Since 2020, the new supply pipeline in our target markets have been more balanced versus future demand growth than that in other US metros. This is expected to continue to be the case over the near-term as well. Markets that had supply pipelines in excess of near-term household growth have seen notable rental declines. By contrast, our multifamily rental growth in our target markets has held up better, owing partly to a better supply-demand balance.

03. **High barriers to entry and limited new supply**

Apartment supply pipeline is low and more balanced with demand in our target markets



Sources:
Oxford Economics, CoStar, Grosvenor Research

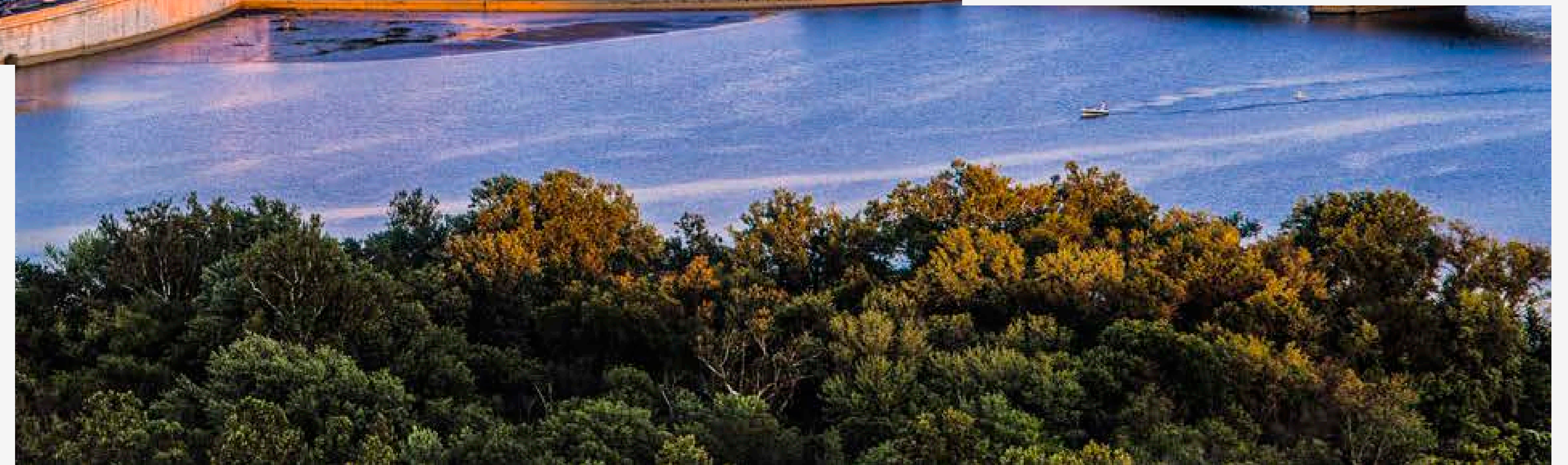
Real estate cycle appears to be bottoming

The real estate downcycle that began with the Federal Reserve raising interest rates in March of 2022 has led to 7 consecutive quarters (and counting) of real estate price declines. This is already close to the GFC downcyle length (8 quarters) and about a year away from the Savings and Loan Crisis downcycle length (13 quarters). Windows of value declines tend to be short-lived and price declines in the apartment sector are already slowing. Grosvenor believes high-quality generational assets are likely to be available at relatively attractive pricing this year.

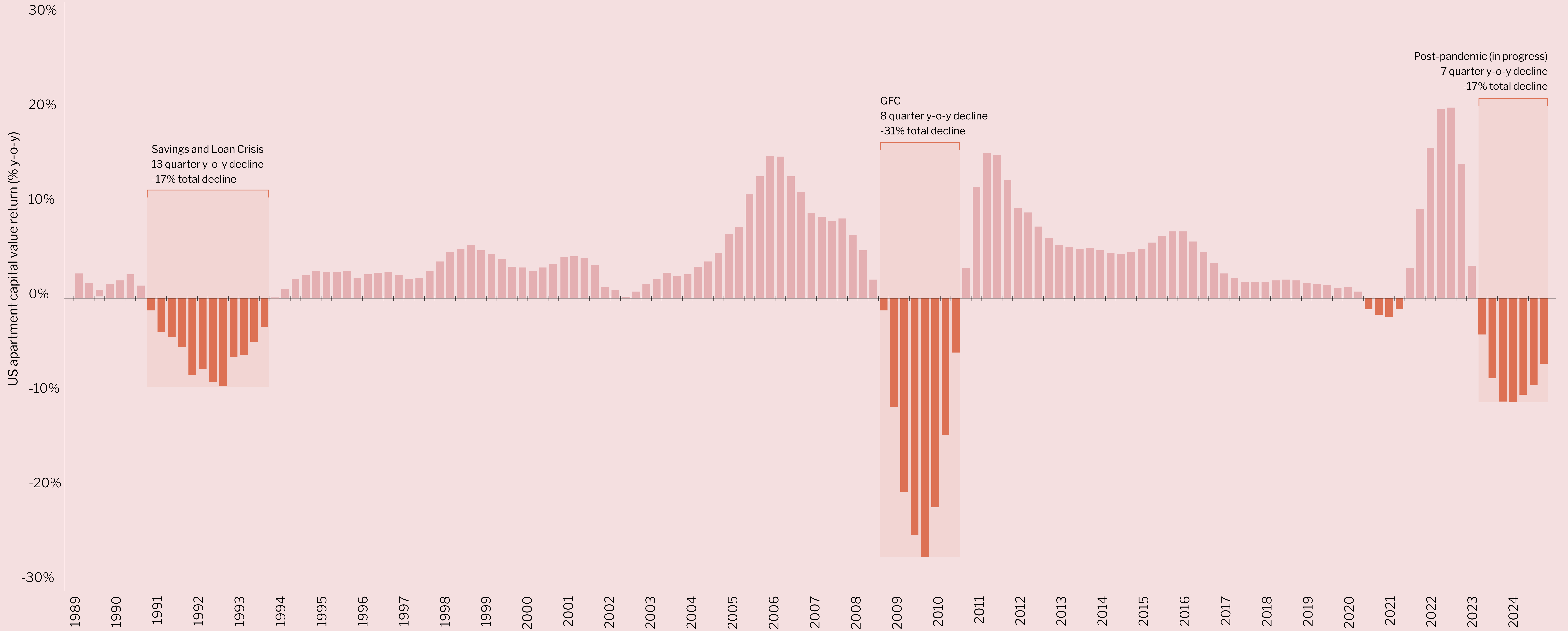
A rare window to acquire at exceptionally attractive pricing has opened

With the residential capital markets in our target markets primed to recover, investors are presented with a historic buying opportunity. Grosvenor Research has found that these windows of opportunity do not open often and typically do not last very long. When these periods of price declines ended, they were followed by around a decade of growth.

04. Attractive entry point for residential real estate



Narrow window to acquire at attractive pricing followed by sustained growth



Sources:
NCREIF, Grosvenor Research

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Conclusion

Many of the dislocating forces that impacted gateway metros and our target markets at the start of the pandemic – population loss stemming from remote work, a large cost of living gap with other metros, a lack of urban foot traffic and vibrancy – are steadily reversing. The long-run and enduring appeal of these metros are attracting residents and investors again, while lower levels of building during the national building boom in the early 2020s has supported residential rental growth and occupancy levels. A narrow window of opportunity has opened to acquire high-quality assets at attractive pricing, which we expect to be followed by a long period of growth.

Discover tailored opportunities to co-invest with Grosvenor within these resilient, innovative and highly attractive markets by contacting:

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