

## DEMOGRAPHIC CHANGE AND THE EFFECT ON HOUSING MARKETS AND REGIONAL DEVELOPMENT

by Nina J. Gruen

America is undergoing a demographic revolution whose ramifications will be every bit as significant as the movement from the farms to the cities that took place a century ago.

The relatively new and ongoing demographic division will be focused around approximately ten gateway metropolitan regions and metropolitan domestic magnets. Gateway metropolitan regions are those areas of our country to which immigration is highly skewed. Gateway metros will continue to attract primarily foreign born, multi-ethnic, younger, minority populations.

In contrast, domestic metropolitan magnets do not attract a high immigrant flow to the United States. The demography of these domestic magnets will be characterized primarily by migrations of white or white and black native-born populations from other places within the United States.

The educational attainment of our newest immigrants is bimodal. Over the last decade, we have attracted a higher percentage of Ph.D.s, primarily from Asia, than in previous decades. Much of this highly educated immigration population has been recruited by high technology firms, such as those located in Silicon Valley. At the same time, we have been attracting a far larger percentage of immigrants with

less than a high school education, primarily from Mexico and Central America. Evidence, compiled by George Borjas of Harvard, supporting this bimodal educational pattern concludes that over recent decades each wave of immigrants earns less than native workers—from 16 percent less in 1970 to almost 32 percent less in 1990. These immigrants are forced by their lack of skills to take whatever menial jobs are available. They understand that they can expect to face unstable

employment opportunities in both good and bad economic times. Therefore, they are less dependent on employment opportunities and far more dependent upon kinship relationships. Settling with or near family members makes both sociological and economic sense because family members can be depended upon in times of need.

Native-born domestic migrants, on the other hand, are pulled by employment opportunities, lower costs, and high quality of life oppor-

### TABLE 1: TOP IMMIGRATION CITIES

Table 1 identifies the top ten highest immigration and top thirteen highest domestic migration metropolitan areas for the 1990-1997 time period. The ten gateway metros account for two-thirds of 1970-1990 immigration.

#### High Immigration and High Domestic Migration Metros, 1990-97

Rank	Metropolitan Area*	Immigration	Net Domestic Migration
<b>High Immigration Metros</b>			
1	New York CMSA	1,045,347	-1,551,591
2	Los Angeles CMSA	990,981	-1,425,464
3	San Francisco CMSA	342,206	-303,576
4	Chicago CMSA	251,582	-403,896
5	Miami CMSA	212,515	-37,802
6	Washington, DC CMSA	189,513	-149,227
7	Houston CMSA	169,073	55,425
8	Dallas-Ft. Worth CMSA	133,946	154,298
9	San Diego MSA	125,507	-158,263
10	Boston NECMA	101,294	-182,493

#### High Domestic Migration Metros, 1990-97

1	Atlanta MSA	53,284	371,081
2	Las Vegas MSA	22,027	307,585
3	Phoenix MSA	48,214	294,024
4	Portland MSA	37,437	177,851
5	Denver CMSA	35,604	157,069
6	Dallas-Ft. Worth CMSA	133,946	154,298
7	Seattle CMSA	52,872	136,262
8	Austin MSA	21,104	125,295
9	Orlando MSA	33,399	124,369
10	Raleigh-Durham MSA	10,715	122,087
11	Tampa-St. Petersburg MSA	28,891	116,780
12	Charlotte MSA	9,649	112,281
13	West Palm Beach MSA	35,176	101,436

\*Frey, William H., "New Demographic Divide in the U.S.: Immigrant and Domestic Migrant Magnets," *The Public Perspective*, June/July, 1998, pp. 35-39

\*Note: Metropolitan Areas refer to CMSAs, MSAs, and (in New England) NECMAs, defined by the Office of Management and Budget. Official names are abbreviated.

Source: William H. Frey analysis of U.S. Census Bureau Estimates

tunities. Unlike the gateway metropolitan locations that will continue to play an on-going role as the primary multi-ethnic entry points, the population pull of metro domestic magnets will fluctuate with regional economic cycles.

The concept of the new urban divide, as well as the first two tables, is attributed to the work of Dr. William H. Frey, a demographer at the Population Studies Center, University of Michigan. Table 1 identifies the top ten highest immigration and top 13 highest domestic migration metropolitan areas for the 1990-1997 time period. The ten gateway metros account for two-

thirds of 1970 to 1990 immigration.

About a quarter of the native-born population resides in these same ten gateway metros. Both the New York and Los Angeles CMSAs suffered net domestic losses of about 1.5 million people between 1990 and 1997. San Francisco's foreign immigration was almost evenly balanced by its net domestic out-migration. Chicago, like the New York, Los Angeles, Dallas, San Diego, and Boston metros, experienced a greater net domestic out-migration than immigration.

These gateway metros will house a disproportionate number of all of America's Hispanic and Asian

households. According to the U.S. Census Bureau, by 2025 12 states will have populations that are less than 60 percent non-Hispanic white. At the same time, non-Hispanic whites will account for 75 percent of the total population of 25 states.

Only one metro area, Dallas, is on both the gateway and domestic magnet lists. The high immigration metros have not appreciably changed since the early 1980s. Immigrants continue to pour into the same gateway areas irrespective of economic upturns or downturns.

The same situation does not exist for high domestic migration metros. Dallas and Houston were affected by plunging oil prices in the 1980s, as was Denver, though all three metros experienced major gains in the 1990s with the turnaround in their economies. The Rocky Mountain states experienced increases in the 1990s as a result of the rise in growth industries such as computers, telecommunications, and entertainment. In addition to the Rocky Mountain states, the fastest growing counties in the 1990s for domestic migration were in the Southeast and in smaller, nonmetropolitan, high-quality-of-life areas such as Kootenai County, Idaho, and Washington County, Utah.

**TABLE 2: GREATEST POPULATION GAINS**

**Metro Areas with Greatest Population Gains, 1990-97 for Hispanics, Asians, Blacks, and Whites**

Rank	Metropolitan Area	1990-96 Change
<b>Hispanics</b>		
1	Los Angeles-Riverside-Orange County, CA CMSA	1,028,141
2	New York-No. New Jersey-Long Is., NY-NJ-CT-PA CMSA	447,867
3	San Francisco-Oakland-San Jose, CA CMSA	250,747
4	Houston-Galveston-Brazoria, TX CMSA	222,144
5	Chicago-Gary-Kenosha, IL-IN-WI CMSA	221,308
<b>Asians</b>		
1	Los Angeles-Riverside-Orange County, CA CMSA	305,860
2	New York-No. New Jersey-Long Is., NY-NJ-CT-PA CMSA	294,485
3	San Francisco-Oakland-San Jose, CA CMSA	240,969
4	Washington-Baltimore, DC-MD-VA-WV CMSA	87,208
5	Chicago-Gary-Kenosha, IL-IN-WI CMSA	70,966
<b>Blacks</b>		
1	Atlanta, GA MSA	159,830
2	New York-No. New Jersey-Long Is., NY-NJ-CT-PA CMSA	154,446
3	Washington-Baltimore, DC-MD-VA-WV CMSA	129,909
4	Houston-Galveston-Brazoria, TX CMSA	97,163
5	Miami-Ft. Lauderdale, FL CMSA	86,812
<b>Whites*</b>		
1	Atlanta, GA MSA	320,841
2	Phoenix-Mesa, AZ MSA	301,505
3	Dallas-Fort Worth, TX CMSA	245,672
4	Las Vegas, NV-AZ MSA	202,944
5	Portland-Salem, OR-WA CMSA	198,702

\*Non-Hispanic Whites

Source: William H. Frey analysis of U.S. Census Bureau Estimates

**Ramifications of the Emerging Paradigm**

What are some of the ramifications of this new demographic paradigm? For starters, the traditional city/suburban breakdown is no longer a relevant concept for the ten gateway metros. This is because immigrants are no longer concentrated in the center city and close-in suburbs, but instead are spread throughout the

metropolitan region. While the center city still serves as the first port of entry for lower income immigrants, others move in with family members already residing in the suburbs. Highly skilled immigrants more frequently move directly to the suburbs in which they are employed. Approximately 10 percent of the Silicon Valley rental market is fueled by recent Asian immigrants who have been recruited by high-technology employers.

Table 2 shows the five locations with the greatest population gains for Hispanics, Asians, blacks, and whites over the 1990 to 1996 time period. Los Angeles, New York City, and San Francisco-Oakland are the top three metro gainers of Hispanics and Asians.

Another ramification of this new demographic paradigm is that the gateway metros will be increasingly polarized by income disparities. In the gateway metros, the middle class will shrink and upper-income and lower-income households will each increase significantly.

Conversely, the domestic magnets will have a much more even demographic pattern with a higher proportion of middle- and upper-middle-income households. The social and political ramifications of these differing regional income groupings, while speculative, suggest a far more conservative political pattern in the domestic magnets. The concerns of domestic magnet residents are more likely to be centered on middle-class tax breaks and social security, while those populations residing in the gateway metros are more likely to be concerned with federal safety nets and affirmative action issues.

In addition to these income differences, the gateway and domestic magnets can be expected to differ significantly by age group. America is becoming more bipolar with respect to both age and income, with significant growth in primarily high-income, older Caucasian households, as well as significant growth in younger, poorer, minority family households.

Over the coming decade, the housing market will provide both the private and public sectors with a dilemma. That dilemma is:

Those with the income will not have an obvious need, and those with the need will not have the income to translate this need into demand.

The higher-income, older, primarily Caucasian households will indeed have the dollars to purchase housing. But before these dollars result in a purchase, "the want or need" will have to be created.

The lower income, foreign-born, and younger minority households, that will constitute the majority populations of the gateway metros, will have the need but not the dollars to pay for the high-cost housing frequently associated with these gateway communities. California offers an example of the relationships between the new demographic paradigm and the housing market because of its high housing costs and increasingly bipolar population with respect to age and income.

### **The Impact of Smart Growth**

While a great deal has been written about smart growth policies—to the extent this term is synonymous with restrictions on development at the urban fringe—they serve to increase

the shortage of affordable housing throughout the country. Outright government subsidies only provide a drop in the bucket solution, given the magnitude of that need. In California, smart growth policies reduce the amount of land available for development at the fringes on the premise that infill housing can be provided economically because it can take advantage of existing infrastructure. Yet, existing residents, and the politicians who represent them, all too frequently restrict the amount of infill development. In addition, city councils are frequently able to obtain significant monetary extractions for the infill developments they do allow, which push housing prices up further. As a result of these restrictive policies, the new homebuyer is required to pay catch-up costs for additional parks, schools, and libraries.

What has not been adequately studied is the amount of doubling and tripling up that is the result of such an onerous housing shortage. We do know that in certain gateway metros, in communities like San Jose and Fresno, for example, significant increases in population occur with only modest increases in the housing stock. We may know more about this troubling situation when the 2000 Census comes out, but it is unlikely we will get the whole story. Not many of these households will be motivated to provide comprehensive responses as to how many members of their extended family are living in one unit.

Those cities that offer above average cultural, shopping, restaurant, and entertainment opportunities in relatively safe environments, like San Francisco, New York, Chicago, and

Boston, will attract a proportion of this older, upper-income segment out of their suburban homes, though many of these upper-income households opt for secure vertical structures that offer 24-hour on-site security. A successful loft developer in San Francisco said he had learned from prospective buyers that he had not gone sufficiently upscale with his loft units with respect to size and finishes. He immediately put more dollars into the construction of the remaining units.

### Effects on Housing

What is the likely result of this demographic paradigm on housing markets? Gateway metro housing patterns will become closer to those found in Mexico and Central America. Upper-income households

will seek secure housing options, either in guarded vertical structures or in gated communities. Other upper-income households will elect to move from these gateway metros to smaller, non-metropolitan communities that offer a high amenity and superior quality of life in states like Montana, Idaho, and South Carolina. Many native-born, middle-income family households (both white non-Hispanic and black) will move out of the metros to domestic magnets throughout the U.S. Their moves will be brought about by both push and pull factors. The push factors are high housing costs and concerns with the adequacy of the public schools. Pull factors include the ability to obtain a higher quality of life at less cost and better employment opportunities.

Lower income households in these gateway metros will increasingly be forced to live in overcrowded conditions and in under-maintained housing. In high-housing-cost locations like California, where demand for affordable housing will far exceed supply for the foreseeable future, there will be continued downward pressures on housing quality. Landlords will not have the incentive to maintain the quality of their units when there is a continuous line up of desperate renters.

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