

NINA GRUEN

## Demographics Affect Demand

# Niches

The future will present development opportunities in the form of highly segmented demand niches for retail and residential users.

**U**nderstanding the makeup, incomes, preferences, and number of customers likely to come into shops and those buying or renting living space has always been important. But in the coming decades, these demographic characteristics will also affect the economic base of the nation's regions.

While Caucasians made up about 72 percent of the total U.S. population in 2000, their 2000 to 2007 growth rate of 3.7 percent will be much less than the growth rates of other racial groups. Of the approximately 23 million people to be added to the 2000 population of about 291 million, only 34 percent will be Caucasian. Constituting the smallest racial group in 2000, the Asian population will increase the most rapidly, by 36 percent. Hispanics, who made up about 12 percent of the population in 2000, will increase in number by almost 19 percent, constituting more than 13 percent of the total U.S. population. They will number 1 million more than the number of African Americans in the total U.S. population by 2007. In 2000, there were 3.4 African Americans for every Asian; in 2007, there will be 2.8 African Americans for every Asian, and by 2012, there will be about 2.3 African Americans for every Asian. The diversity index for the United States as a whole is 0.49, which means that if two people are selected at random in the United States, they will be of different racial or ethnic backgrounds 49 percent of the time—or approximately half of the time.

The diversity index of two high-growth states—California and Florida—shows California with the highest diversity rate—from 0.60 to 0.77. Florida, on the other hand, has locations that are far more homogeneous than the state as a whole, and southern Florida actually resembles California. In fact, Miami has the highest percentage of immigrant residents (approximately 61 percent) of any American city. Across a large swatch of the interior Northwest and Midwest regions of the country, residents more likely will belong to the same racial or ethnic group.

In 2000, the generation Y cohort was the most important numerically with a total of 88.7 million. While no longer the largest population group, the baby boom cohort, numbering 85.3 million (who were 35 to 54 years old in 2000), will continue to be the most significant group for many years to come because of their wealth and income. Minorities account for 34 percent of the population under 24 years old but for only 25 percent of the baby boom generation. The two racial/ethnic age groups that differ most are those under five years old—of which minorities account for 35 percent—and those over 65 years old—of which minorities account for only 15 percent.

African Americans continue to have the lowest average household income, with \$29,470 in 2001, and Asians the highest, with \$53,635. The average household income for Caucasians is the second highest, with \$44,517, and Hispanics the second lowest, with \$33,565. But income in itself does not tell the whole story—



**FIGURE 1: 2000–2007 TOTAL POPULATION AND PERCENTAGE INCREASE BY RACIAL/ETHNIC CATEGORY**

|              | 2000               | 2007               | Numerical Increase | Percentage Increase |
|--------------|--------------------|--------------------|--------------------|---------------------|
| Blacks       | 34,658,190         | 39,573,389         | 4,915,199          | 14.2                |
| Hispanics    | 35,305,818         | 41,975,341         | 6,669,523          | 18.9                |
| Whites       | 211,460,626        | 219,407,508        | 7,946,882          | 3.7                 |
| Asians       | 10,242,998         | 13,957,310         | 3,714,312          | 36.3                |
| <b>Total</b> | <b>291,667,632</b> | <b>314,913,548</b> | <b>23,245,916</b>  | <b>8.0</b>          |

Source: Supplement to *American Demographics*, "Diversity in America," November 2002; Gruen Gruen + Associates.

particularly when it comes to retail expenditure patterns. No longer is it enough for developers to calculate the total household income within their market areas in order to ascertain what the expenditure potential is likely to be.

**Retail Expenditure Patterns.** Both African American and Hispanic parents tend to spend far more of their income than Caucasians or the national average on children's apparel, while non-Hispanic Caucasians spend far less, given their respective average household incomes. The same also is true for footwear and men's and boys' apparel, as well as for food consumed at home. On the other hand, African Americans and Hispanics spend less of their income than Caucasians on items such as pets, toys and playground equipment, drugstore commodities, new cars and trucks, and entertainment.

In areas such as girls' apparel, where non-Caucasians spend much more than Caucasians, the non-Caucasian expenditures equate to an average income of \$49,215 for African American households and \$56,000 for Hispanic households (more than the 2001 actual average household incomes mentioned earlier for these two groups).

In 1990, Hispanic purchasing power was \$216 billion. Ten years later, it had increased to \$630 billion, and it can be expected to continue to be the fastest-growing market segment for most consumer goods.

The more diverse the market, the greater the opportunities for smaller-sized niche marketing. The Pacific East Mall in El Cerrito, California, offers an example of retail niche marketing. The anchor tenant is Ranch 99, a supermarket catering to Asians; other mall tenants include Asian restaurants and specialty stores. The Pacific East Mall attracts Asian customers from throughout the Bay Area region and also some non-Asian customers.

Programming community shopping centers specifically to serve African American and Hispanic households should generate revenues that will meet or exceed those generated by a homogeneous, middle-class, Caucasian customer base, assuming the number of customers within the market area is relatively equivalent. In the past, most specialty centers have been designed to cater to the upper-income shopper. In the future, specialty centers increasingly will need to be targeted at a specific ethnic/racial mix in order to be successful.

Programmed centers that cater to the Hispanic market must represent these buyers'

preferences in the selection of tenants. For example, the average Hispanic woman tends to be both shorter and heavier than the average Caucasian shopper. The Hispanic family allocates more of its income to eating meals at home and less to eating meals in restaurants. Children's wear is considered very important, and tenants offering special-occasion clothing for life-cycle events, such as a Hispanic girl's 15th birthday, need to be included in the tenant mix. Hispanic males tend to allocate more of their household income to apparel and shoes. Color preferences also differ, with Mexican and Central American women preferring earth colors to bright shades. Typically, centers serving specific minority groups are infill projects, since the majority of Hispanics and African Americans continue to live in center cities and close-in suburbs.

Asians have the highest median income, which was approximately \$53,600 in 2001. However, studies have shown that Asians spend more of their income proportionately than non-Asians on apparel and accessory products. Higher-end specialty stores and brand-

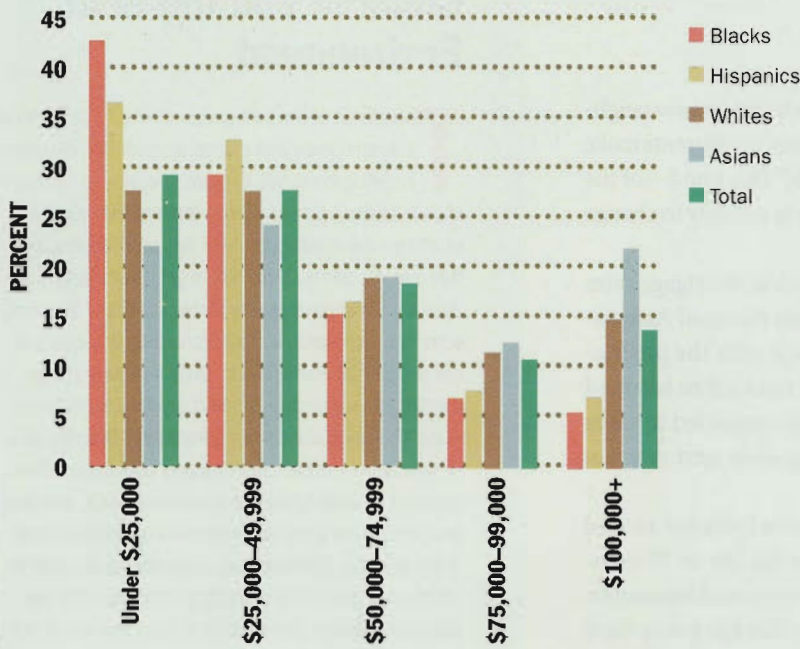
**FIGURE 2: DEFINING THE 2000 GENERATIONS BY RACIAL/ETHNIC CATEGORY**

| Generation               | Black |      | Hispanic |      | White  |       | Asian |       | Total All Age Cohorts |       |
|--------------------------|-------|------|----------|------|--------|-------|-------|-------|-----------------------|-------|
|                          | #     | %    | #        | %    | #      | %     | #     | %     | #                     | %     |
| Generation Z             |       |      |          |      |        |       |       |       |                       |       |
| Under age 5              | 2.8M  | 8.1  | 3.7M     | 10.5 | 12.8M  | 6.1   | 0.7M  | 6.5   | 28.0M                 | 6.8   |
| Generation Y             |       |      |          |      |        |       |       |       |                       |       |
| Age 5–24                 | 11.9M | 34.3 | 13.4M    | 37.9 | 55.5M  | 26.2  | 2.9M  | 28.6  | 88.7M                 | 28.7  |
| Subtotal                 |       |      |          |      |        |       |       |       |                       |       |
| Age 24 and under         | 14.7M | 42.4 | 17.1M    | 48.4 | 68.3M  | 32.3  | 3.6M  | 35.1  | 103.7M                | 35.5  |
| Generation X             |       |      |          |      |        |       |       |       |                       |       |
| Age 25–34                | 5.2M  | 14.9 | 6.5M     | 18.4 | 28.3M  | 13.4  | 1.9M  | 18.9  | 41.9M                 | 14.4  |
| Baby Boomers             |       |      |          |      |        |       |       |       |                       |       |
| Age 35–54                | 9.6M  | 27.7 | 8.3M     | 23.4 | 64.3M  | 30.4  | 3.1M  | 30.6  | 85.3M                 | 29.3  |
| Empty Nesters            |       |      |          |      |        |       |       |       |                       |       |
| Age 55–64                | 2.4M  | 6.8  | 1.7M     | 4.8  | 20.1M  | 9.5   | 0.8M  | 7.6   | 25.0M                 | 8.6   |
| Seniors Age 65 and older | 2.8M  | 8.1  | 1.7M     | 4.9  | 30.4M  | 14.4  | 0.8M  | 7.8   | 35.7M                 | 12.2  |
| Total                    |       |      |          |      |        |       |       |       |                       |       |
| Racial/Ethnic Category   | 34.7M | 99.9 | 35.3M    | 99.9 | 211.9M | 100.0 | 10.2M | 100.0 | 291.6M                | 100.0 |

Source: Supplement to *American Demographics*, "Diversity in America," November 2002; Gruen Gruen + Associates.



**FIGURE 3: 2001 INCOME DISTRIBUTION BY RACIAL/ETHNIC GROUPING**



name stores do very well with Asians that have median and above-median household incomes—as long as they offer products that fit the Asian body types. In shoes, this means smaller B and C sizes, and in apparel, petite sizes.

Far too many retailers and entertainment enterprises target today's generation Y—the echo baby boomers—as their primary market, instead of their richer parents, the baby boomers. The latter group still has a disproportionate amount of accumulated wealth, as well as current income. In addition, while decidedly middle aged,

baby boomers do not perceive themselves as middle aged. Unfortunately, many retailers have not caught up with the fact that the average female baby boomer still wants to purchase cool clothing but is more likely to be a size 10 to 14, rather than a 4 to 8. Retailers need to keep in mind that in 1985, the most popular size in women's apparel was size 8. In 2002, it was size 14. This increase in average size for women can only be expected to continue. In addition to that of the aging baby boomers, the average size of Hispanic and African American females is larger than that of the average Caucasian female. This is good news for retailers specializing in plus sizes for both adults and children, and a tip for developers catering to these specialized ethnic and age groups when selecting tenants for their centers.

**Residential Expenditures Patterns.** In the first half of 2003, apartment demand was driven down by the exceptionally low interest rates that, on average, resulted in a mortgage payment only 16 percent higher than a rental payment, exclusive of the income tax benefits for homeowners. In 1985, there was a 69 percent differential between mortgage and rental payments.

Interest rates have already started to increase, and are not likely to go back down to the levels they had reached in the first half of 2003. Today's interest rates are far lower than those in 1985, when the prime rate averaged about 10 percent and the average fixed-rate mortgage was 13.37 percent.

According to the July baseline forecast for the U.S. apartment market, prepared by RREEF of the Deutsche Bank Group, apartment completions are forecast at 338,000 for the period from 2003 to 2005, which is a 16 percent reduction from the 2000 to 2002 completions.

High apartment vacancies, which have led to significant giveaways, are not expected to decrease significantly until late this year or next year. One helpful gauge used by RREEF is the ratio of new jobs to new apartments. The current ratio is 8.9, which translates into approximately nine new jobs for each new apartment unit forecast. The good news is that this ratio is in keeping with historical trends. New apartment demand can be expected to remain strong, particularly in those locations with large numbers of generation Ys and/or retirees, and where land values and the cost of entitlement do not place new rentals beyond the reach of either these younger or older apartment seekers. Minorities have a higher percentage of younger adults, as well as a greater willingness to double up. But many Hispanic and African American households cannot afford new suburban rentals unless they are subsidized. They are, however, key demanders of the rental housing stock in older central cities and close-in suburbs.

According to an article in the August issue of the Public Policy Institute of California's *California's Newest Neighborhoods*, "For-

**FIGURE 4: EXPENDITURE INDEX FOR SELECTED GOODS AND SERVICES BY RACIAL/ETHNIC CATEGORY (100 = AVERAGE)**

| Selected Category             | Black | Hispanic | White |
|-------------------------------|-------|----------|-------|
| Apparel Women & Girls 16+     | 111   |          |       |
| Apparel Men & Boys 16+        | 117   | 125      |       |
| Apparel Girls 2 to 15         | 167   | 167      |       |
| Apparel Boys 2 to 15          | 167   | 133      | 67    |
| Footwear                      | 144   | 178      |       |
| Food at Home                  | 122   | 121      | 99    |
| Food Away from Home           |       |          | 102   |
| Pets, Toys, Playground Equip. | 67    |          |       |
| Personal Services             | 111   | 113      | 92    |
| Cars & Trucks New             | 74    |          | 102   |
| Cars & Trucks Used            |       | 134      | 98    |
| Drugs                         | 73    | 55       |       |
| Entertainment                 | 73    | 73       | 110   |

Source: Supplement to *American Demographics*, "Diversity in America," November 2002; Gruen Gruen + Associates.



foreign-born residents are less likely than U.S.-born residents to live in new neighborhoods. Constituting 26 percent of California's population, immigrants make up only 18 percent of the residents of new neighborhoods." This trend—of the foreign born to live in center cities and close-in suburbs—is unlikely to change any time soon.

Single-family demand is and will remain healthy, even as mortgage rates begin to climb. According to the Washington, D.C.-based National Association of Home Builders, 2003 will mark a second-year high with the production of 985,000 new single-family units. The rise in interest rates will be balanced by the anticipated growth in the economy this year, which is expected to see as many new single-family units built as were built last year, while next year can be expected to exceed the 2003 to 2004 record.

Baby boomers will continue to be the primary buyers both for second and vacation homes. Generation Xers, who are now in the 28- to 37-year-old age bracket, will be the major impetus for townhomes, condominiums, and single-family, starter-home purchases. Members of this age group have been particularly disenchanted with their past investments in mutual funds and securities and feel it both hip and prudent to invest in real estate. Asians

**FIGURE 5: TOP 10 BEST PERFORMING CITIES COMPOSITE INDEX**

| 2003 Rank | 2002 Rank | Metropolitan Area                    | Index  |
|-----------|-----------|--------------------------------------|--------|
| 1         | 23        | Fayetteville-Springdale-Rogers, AR   | 100.00 |
| 2         | 3         | Las Vegas, NV-AZ                     | 120.00 |
| 3         | 37        | Fort Myers-Cape Coral, FL            | 123.08 |
| 4         | 12        | West Palm Beach-Boca Raton, FL       | 138.77 |
| 5         | 1         | San Diego, CA                        | 149.23 |
| 6         | 7         | San Luis Obispo-Atascadero, CA       | 151.08 |
| 7         | 16        | Laredo, TX                           | 180.31 |
| 8         | 9         | Brownsville-Harlingen-San Benito, TX | 183.38 |
| 9         | 5         | McAllen-Edinburg-Mission, TX         | 186.46 |
| 10        | 50        | Monmouth-Ocean, NJ                   | 186.46 |

Source: Milken Institute.

continue strongly to prefer homeownership and multigenerational living. These two factors suggest the demand for single-family, multifloor detached housing that provides separate living spaces for grandparents, parents, and children.

America's demographics are changing at a pace unseen since the early part of the last century. Those retailers, shopping center owners, residential builders, and investors who keep abreast of how such changes will affect their businesses and prepare to meet the changed demands can be expected to thrive in 2004 and beyond. ■

**NINA J. GRUEN** IS A PRINCIPAL OF GRUEN GRUEN + ASSOCIATES, WITH OFFICES IN SAN FRANCISCO, CALIFORNIA, AND NORTHBROOK, ILLINOIS, WHICH PROVIDES PUBLIC AND PRIVATE ENTREPRENEURS WITH CONTRACT RESEARCH, CONSULTING, AND PREDEVELOPMENT SERVICES.

## Children and the Built Environment

The effects of the built environment on children's social, emotional, and mental development have been largely ignored. Yet, they are far-reaching. For example, are children prevented from learning self-reliance when they live in suburbs where they must depend on their parents and a school bus to get everywhere? How does the bland homogeneity of the suburbs or the purely commercial character of malls contribute to a child's social and mental development? Does a loose and fragmented urban environment affect a child's ability to develop a sense of identity and community? Does the lack of safe, actively social urban squares and streets diminish a child's opportunities to learn social skills, and does this deficit in range of social contacts in daily life relate to the recently (1999) defined social anxiety disorder for which many thousands of young people are being prescribed medication (Paxil, etc.)? Is there any connection between the form of the built environment and the incidence of suicide among teenagers and of violence among children in schools and other gathering places?

While much has been learned over the past 50 years about the influence of toxic environmental and chemical agents such as DDT, asbestos, lead, radiation, and PCBs, little attention has been paid to the significant influence of the built environment (configuration of buildings, streets, places, etc.) on the everyday life of people, especially children and youth. Yet, urban scholars believe that the physical environment has the power to demoralize or depress, and can also contribute to emotional anesthesia, violence, or even suicide.

Though hundreds of new neighborhoods and towns where children will reside are being constructed around the country, architects, planners, and developers seldom give priority to the effect of their designs on the lives of children and youth.

Issues of concern that urban scholars are discussing include:

- accessibility and autonomy (areas of town that children can reach on their own by foot, bikes, and public transportation);
- opportunities for social interaction and learning in urban public spaces;
- legibility and imageability (characteristics of the built environment that make it possible for children to orient themselves and visualize their town or suburb);
- stimulation value of architecture, building uses, public art, and monuments;
- meaning of the built environment;
- city and neighborhood identity; and
- sense of community reinforced by the built environment.

**Accessibility, Mobility, Autonomy.** At every age, children acquire an increased level of autonomy—the ability to take steps on their own, safely and unaided by parents. The