

## *The Rising Influence of the Hispanic Population on U.S. Real Estate*

November 2005

### Research

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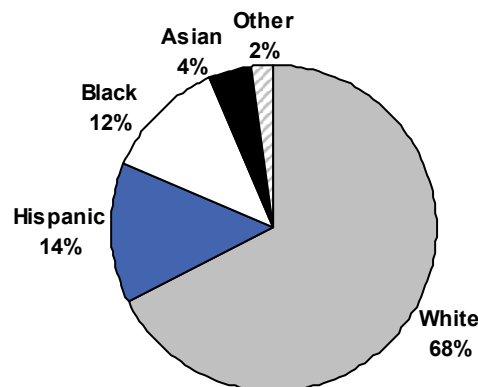
Hispanics are now the largest and fastest-growing minority group in the United States. Expanding at an annual rate of 4.4% since the end of 1990, the Hispanic population now numbers 42.4 million, representing about 14.3% of the total population. Furthermore, this rapid increase is expected to continue, accounting for about 45% to 50% of U.S. population growth going forward.

The potential of Hispanics to shape the future of the American consumer landscape is immense. Not only is the population of Hispanics increasing, but their disposable income is expanding as well. Yet the impact of growing Hispanic wealth will be much more apparent in select states and metropolitan areas where they already constitute a large and growing share of local demographics. Big Hispanic markets, such as California, Texas, Florida and Illinois, have a strong and rapidly expanding pent-up demand for Hispanic-focused retail and residential properties.

#### Profile of a People

Exhibit 1 shows the U.S. population by race and ethnicity. By 2000 Hispanics had replaced African-Americans as the largest minority group. Today the U.S. Hispanic population is roughly 40% of Mexico's total, has surpassed the population of Spain and will be larger than the combined populations of Spain and Portugal – the origins of Latino culture – in five years. Their rapid growth trend is expected to continue well into the forecast, reaching 60 million by 2020.

Exhibit 1: Total U.S. Population by Race and Ethnicity (2005)



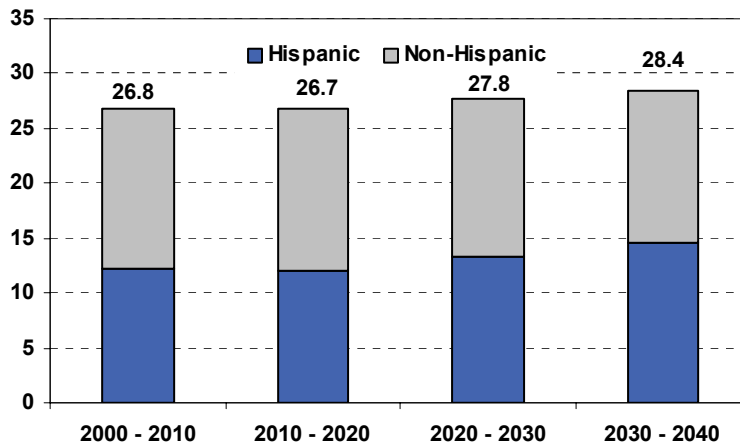
Source: U.S. Census Bureau

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As Exhibit 2 shows, the U.S. population is projected to grow by 26.7 million to 28.4 million per decade until 2040, according to the U.S. Census. Given the uncertainty of any projection, an annual population growth of 2.5 million to 3.0 million is likely for the next 20 years. The Hispanic share of this growth will range from 45% to 50%, translating into 1.1 million to 1.5 million additional Hispanic people per year over the next two decades. The current status of the nation’s largest minority group severely understates the future influence of Hispanics on the U.S. economy, as nearly one in every two new Americans will be Hispanic.

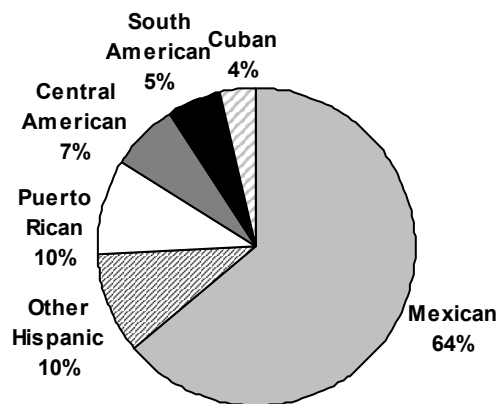
**Exhibit 2: Projected Population Growth (10-Year Interval, Millions)**



Source: U.S. Census Bureau

According to the U.S. government, Hispanic or Latino is defined as a person of Mexican, Puerto Rican, Cuban, South or Central American, or other Spanish culture or origin regardless of race. Yet despite these diverse origins, the 2004 American Community Survey reported that people of Mexican origin formed the majority (64%) of U.S. Hispanics (see Exhibit 3). This dominance stems from Mexico’s proximity to the United States. Historically, Mexicans composed a large share of immigrants to the U.S., a trend that climaxed in the mid-1990s during the Mexican Peso Crisis. Overall, immigration has been the primary force behind Hispanic population growth, peaking in 1999 with 500,000 immigrants.

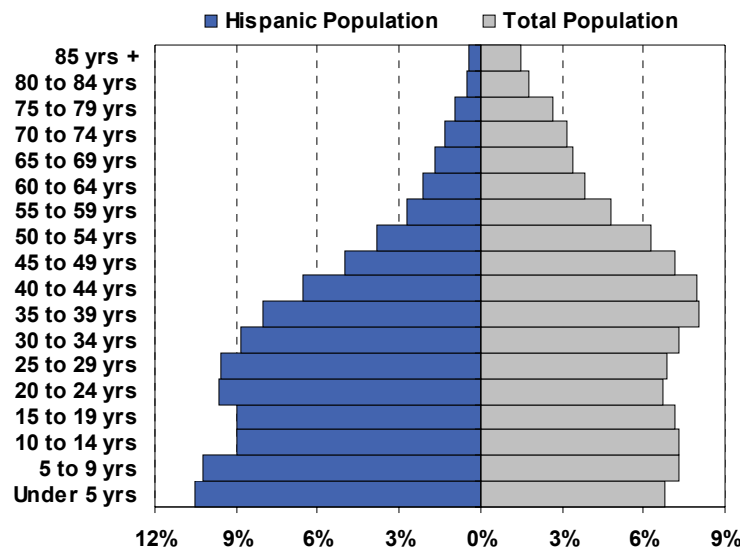
**Exhibit 3: Hispanic Population by Origin**



Source: 2004 American Community Survey

While immigration continues to expand the U.S. Hispanic population, births to the second generation will eventually become the main driver of Hispanic growth. This trend is a product of high fertility rates among Hispanics along with a relatively young age structure. In 2000, the Census Bureau reported that the median age for Hispanics and the total population was 26 and 35, respectively. Exhibit 4 illustrates the Hispanic age structure compared with the total U.S. population. Clearly, the Hispanic age structure is bottom-heavy, meaning a high concentration of youth with few elderly. On the other hand, the total population's top-heavy age structure shows a comparatively older population and a lower percentage of youth.

**Exhibit 4: Population by Age Cohort**

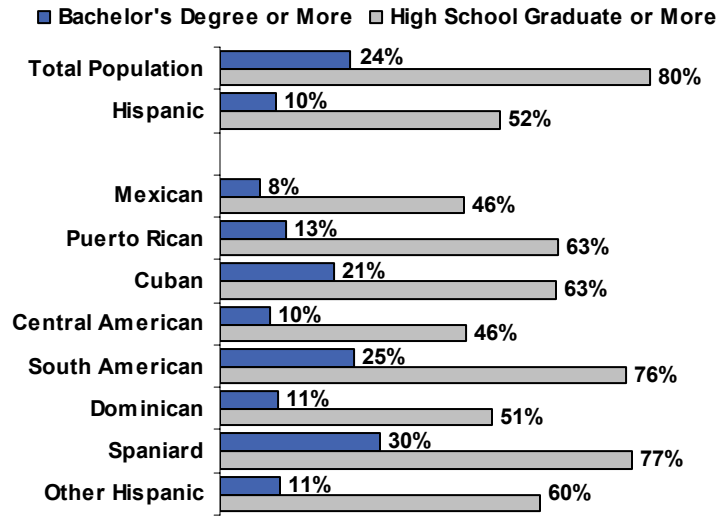


Source: Census 2000

Another attribute of the U.S. Hispanic population is a lower-than-average educational attainment (see Exhibit 5). According to the 2000 Census, only 52% of U.S. Hispanics graduated from high school, whereas 80% of the total U.S. population did so. Only 10% of Hispanics aged 25 and over earned at least a bachelor's degree, which is much lower than the national average of 24%. Among all U.S. Hispanics, the Mexican subgroup had the lowest educational level, with only 8% completing post-secondary schooling. However, South Americans and Spaniards outranked the national average for completing a bachelor's degree, at 25% and 30%, respectively.

Although still lower than the U.S. average, the educational levels of both the immigrant and U.S.-born Hispanic populations have improved. Since the 1970s, the share of U.S.-born Hispanics who graduated from college has increased from 17% to 35%, while the share for the immigrant group has nearly doubled, from roughly 9% to 18%. Thus, the educational levels achieved by Latino immigrants today are roughly equivalent to that of U.S.-born Hispanics 30 years ago. Yet even as the education gap between Hispanics and the total U.S. population shrinks, Latinos continue to lag behind white students in terms of the difficulty of their high school curriculums and their standardized test scores. While college entry has significantly increased for Hispanics, they are still less likely to graduate than are white students.

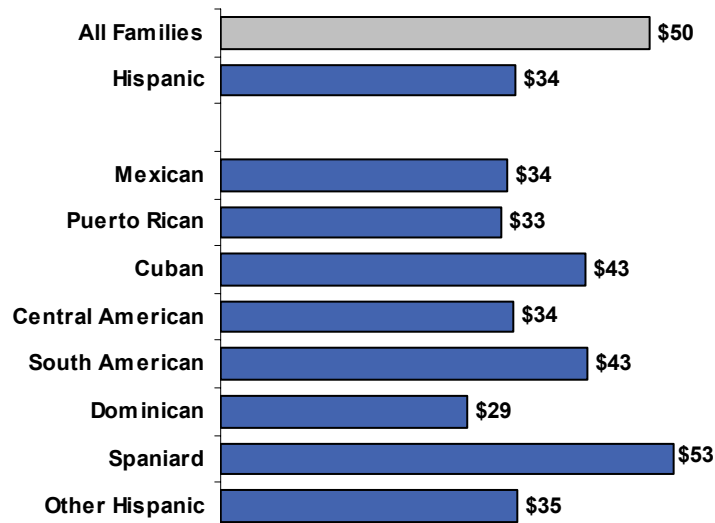
**Exhibit 5: Educational Attainment (% of population age 25 +)**



Sources: Census 2000; Pew Hispanic Center

Lower educational attainment results in lower median household incomes. Although Hispanics are the second-largest group of U.S. workers, their lower levels of education and experience lead to their concentration in low-skilled jobs. More than 30% of workers in private household services are Hispanics, who also form about 20% of workers in construction and other types of manual labor. Less than 6% of Hispanics have high-skilled occupations, such as law, computer-related jobs, medicine or engineering. As a result, Hispanics earn about 32% less than the national average, with a median household income of \$34,000 (see Exhibit 6).

**Exhibit 6: Median Household Income (000s)**



Source: Census 2000

The most obvious feature Hispanics share is Spanish, which becomes less prevalent as people become further removed from the immigrant or first generation (see Exhibit 7). The decline of Spanish as the primary language indicates increased assimilation. The immigrant or first generation is by far the most Spanish dominant compared with newer generations of U.S. Hispanics. Although Spanish remains a part of the Hispanic identity, younger people are more likely to consider English their primary language.

**Exhibit 7: Mixed Language Assimilation**

	Spanish Dominant	Bilingual	English Dominant
First Generation	72%	24%	4%
Second Generation	7%	47%	46%
Third and Higher Generation	0%	22%	78%
All Hispanics	47%	28%	25%

Source: PEW Hispanic Center

### Location Preferences

Although Hispanic growth is occurring nationwide, select states are seeing much more growth than others. Traditional settlement states,<sup>1</sup> where about 80% of U.S. Hispanics live, include California, Texas, Florida, New York, New Jersey, Illinois and New Mexico. In addition to these large, established Hispanic markets, Arizona, Nevada, Georgia, North Carolina, Oregon, Virginia, Washington and Massachusetts all saw their Hispanic communities increase by more than 50% since 1990, earning them the designation of “new settlement states.” Of these, North Carolina, Georgia and Nevada experienced the strongest Hispanic growth – more than 200% – during this period. Exhibit 8 lists the top-20 states with the largest Hispanic populations.

**Exhibit 8: Largest Hispanic Population by State**

	Hispanics (000s)	Share of State Pop.	Annual Growth 2005-2010
California	12,820	35.3%	2.6%
Texas	8,034	35.2%	3.1%
Florida	3,428	19.4%	4.1%
New York	3,270	16.9%	2.2%
Illinois	1,833	14.3%	3.0%
Arizona	1,694	29.0%	4.5%
New Jersey	1,328	15.2%	2.9%
Colorado	908	19.4%	3.5%
New Mexico	832	43.6%	1.4%
Georgia	604	6.7%	5.6%
Nevada	548	23.0%	5.6%
Washington	545	8.7%	3.6%
North Carolina	519	6.0%	5.4%
Massachusetts	505	7.8%	2.7%
Pennsylvania	438	3.5%	1.7%
Virginia	432	5.7%	4.6%
Michigan	375	3.7%	2.4%
Connecticut	368	10.4%	2.3%
Oregon	356	9.8%	4.4%
Maryland	281	5.0%	3.5%

Source: Selig Center for Economic Growth, population as of 2005

<sup>1</sup>The terms “traditional settlement states” and “new settlement states” come from Roberto Suro and Sonya Tafoya, “Dispersal and Concentration: Patterns of Latino Residential Settlement,” PEW Hispanic Center, December 2004.

**Exhibit 9** shows the metro areas where Hispanic people constitute a significant share of the local demographics. The gateway cities of Los Angeles, New York, Miami, Chicago and Houston have large multicultural communities. These five metropolitan areas rank the highest in terms of the absolute number of Hispanics; 41.5% of the total U.S. Hispanic population lives in these five MSAs. Hispanics are even the majority or super-majority in metro areas such as San Antonio, McAllen and El Paso.

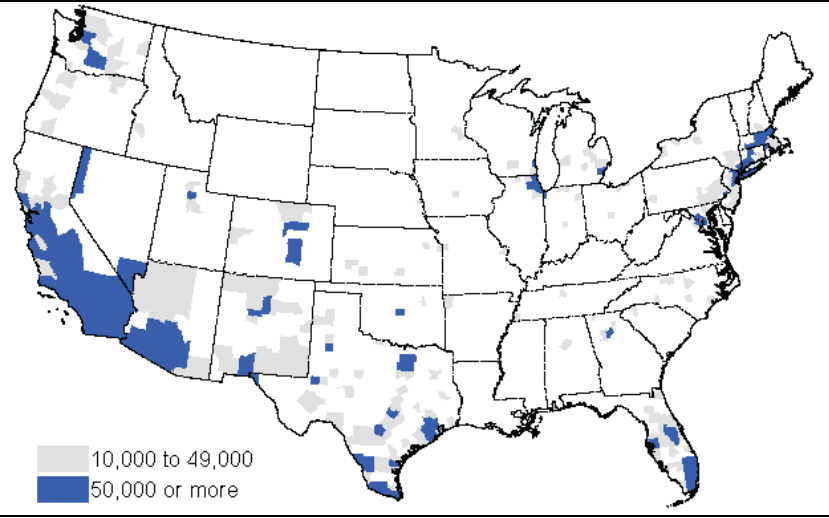
**Exhibit 9: Largest Hispanic Population by Metropolitan Area (2005)**

Rank	Metro Area	Hispanics (000s)	Share of Metro Pop.
1	Los Angeles	7,714	43.4%
2	New York	4,259	20.9%
3	Miami	2,092	38.4%
4	Chicago	1,784	18.8%
5	Houston	1,731	33.0%
6	Dallas-Ft. Worth	1,538	26.0%
7	SF Bay Area	1,533	21.6%
8	Phoenix	1,130	29.7%
9	San Antonio	956	54.8%
10	San Diego	893	29.9%
11	DC-Baltimore	635	7.7%
12	McAllen	610	90.5%
13	Denver	608	21.8%
14	El Paso	603	83.8%
15	Fresno	485	47.4%
16	Las Vegas	461	24.0%
17	Austin	434	29.8%
18	Atlanta	402	8.6%
19	Philadelphia	398	6.3%
20	Orlando	387	20.3%
21	Sacramento	368	17.7%
22	Tampa	338	13.0%
23	Albuquerque	337	43.6%
24	Bakersfield	322	43.3%
25	Tucson	307	33.3%
26	Portland	268	10.8%
27	Seattle	238	6.4%
28	Stockton	236	35.1%
29	Salt Lake City	181	12.7%
30	Detroit	181	3.3%

Source: AGS; Prudential Real Estate Investors

Hispanic population growth can be further pinpointed to select counties in each state (see **Exhibit 10**). As the map illustrates, large concentrations of Hispanic people mostly reside in the border regions and gateway cities, while dense Hispanic communities have also begun to develop in Washington and Colorado.

**Exhibit 10: County Concentration of Hispanic People**

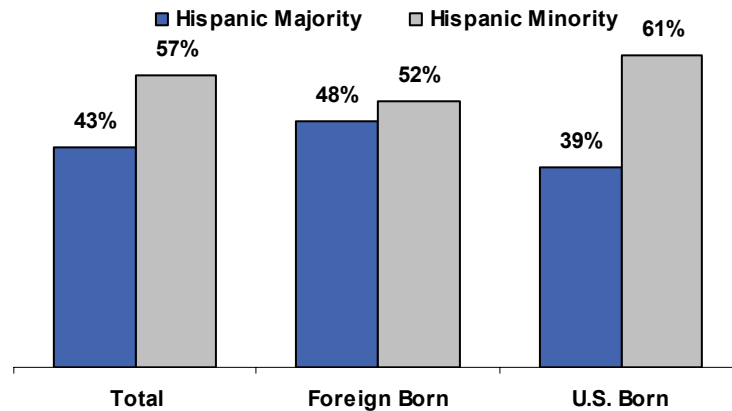


Sources: U.S. Census Bureau; PEW Hispanic Center

### Neighborhood Characteristics

The tendency to live in neighborhoods dominated by similar ethnic groups is commonly perceived as an immigrant trait. About 43% of Hispanics indeed live in Hispanic-dominated neighborhoods, where non-Hispanics represent, on average, only 29% (see Exhibit 11). But about 57% of Hispanics choose to reside in non-Hispanic neighborhoods, where they form no more than 7% of the local residents.

**Exhibit 11: Distribution of Hispanic Majority and Minority Neighborhoods**

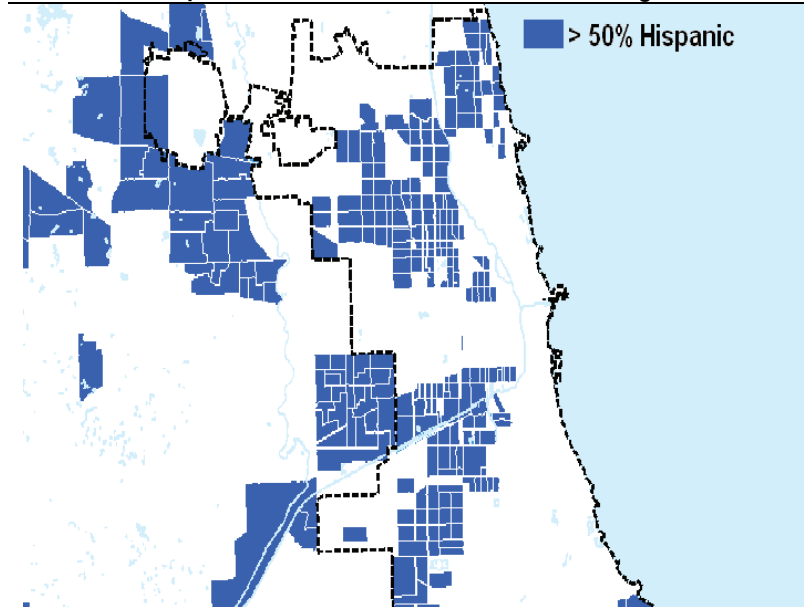


Note: Neighborhood is defined as a census tract.  
Source: U.S. Census Bureau

Large immigrant populations tend to flock to Chicago, Los Angeles, Miami and New York because of their multicultural backdrops. Traditional Hispanic destinations, which include these four cities, have ready-made, Hispanic-dominated neighborhoods that act as cultural buffers for new settlers.

**Exhibit 12** is a map of Chicago showing its Hispanic population. Since 1920, Hispanics have settled in Illinois. Between 1990 and 2000, the state added 650,000 Hispanics, with 92% settling in the Chicago area. About 55% of Hispanic growth occurred in Hispanic-dominated areas, while 37% was in non-Hispanic-dominated neighborhoods in the Chicago MSA.

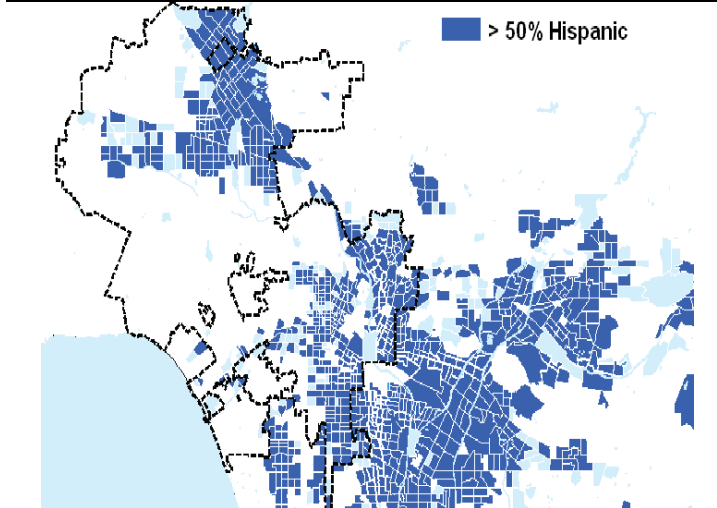
**Exhibit 12: Hispanic-Dominated Census Tracts in Chicago**



Sources: Census 2000; AGS

In California, about 35.3% of the state's population is Hispanic, with growth in this large and stable community remaining substantial. Between 1990 and 2000, the Latino community added 3.4 million people, with 55% of the growth occurring in and around the Los Angeles area (see **Exhibit 13**). Most of this increase was in Hispanic-dominated neighborhoods. As in Chicago, Hispanic growth also expanded into areas outside the metro, where majority-Latino neighborhoods began to develop.

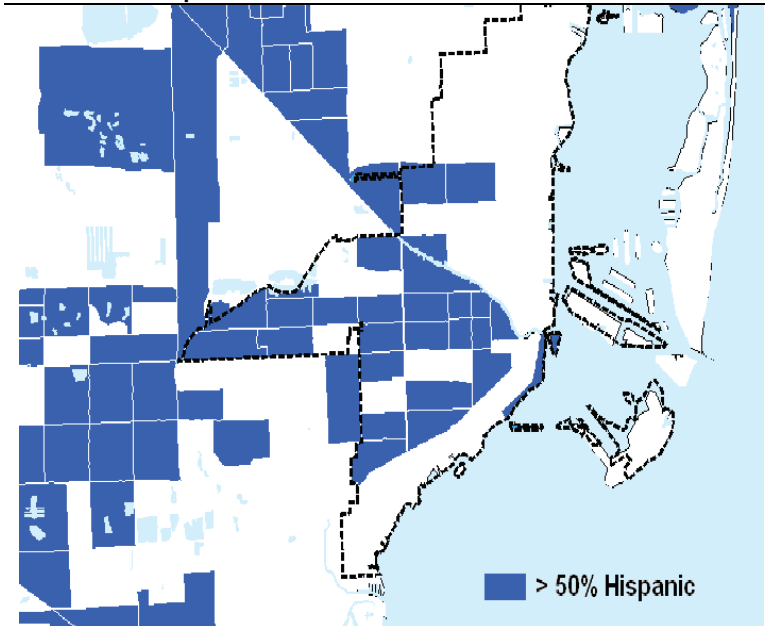
**Exhibit 13: Hispanic-Dominated Census Tracts in Los Angeles**



Sources: Census 2000; AGS

In Florida, Hispanic growth was much more scattered than in other traditional settlement states. According to the PEW Hispanic Center, this may reflect the state's growing attractiveness to both domestic and international migrants. **Exhibit 14** shows Hispanic-dominated neighborhoods in the Miami area. From 1990 to 2000, Florida added 1.1 million Hispanics, with 45% of this growth in the Miami MSA and the rest outside the metro in non-Hispanic neighborhoods. Only 32% of Hispanic growth in the Miami MSA occurred in Hispanic-dominated neighborhoods.

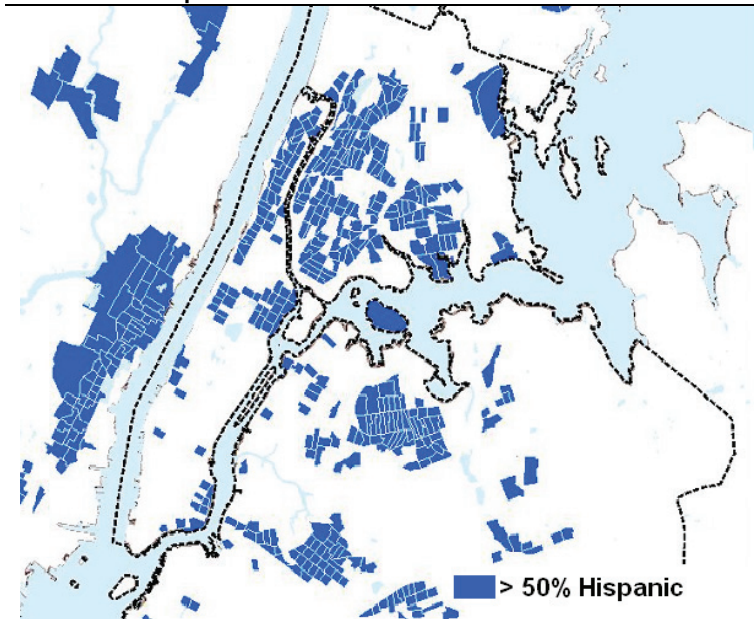
**Exhibit 14: Hispanic-Dominated Census Tracts in Miami**



Sources: Census 2000; AGS

New York's Hispanic growth pattern was similar to that of Chicago (see **Exhibit 15**). From 1990 to 2000, 713,000 Hispanic people moved to the area, with almost 91% of the growth occurring in the New York Primary MSA. As in Chicago, neighborhood distribution of Hispanic growth was roughly equal, with 41% living in non-Hispanic-dominated neighborhoods. Hispanic growth also drove the development of Hispanic-dominated communities in new areas while simultaneously expanding existing Hispanic-dominated neighborhoods.

**Exhibit 15: Hispanic-Dominated Census Tracts in New York**

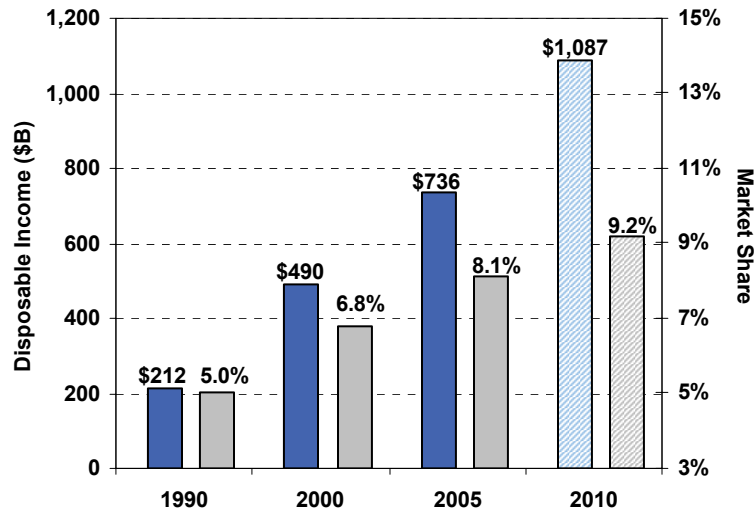


Sources: Census 2000; AGS

### **Retail Opportunity**

The population growth of Hispanics is also reflected in their rapidly rising aggregate disposable income. By 2005, U.S. Hispanics are expected to control about \$736 billion of disposable income, which is projected to reach about \$1.1 trillion by 2010 (see **Exhibit 16**). The growth rate of Hispanic purchasing power is likely to be more than 8% annually for the next 10 years, outpacing the U.S. average by a large margin. Because of above-average growth, the Hispanic share of U.S. disposable income rose from 5.0% in 1990 to 8.1% in 2005 and is likely to reach 9.2% in 2010.

**Exhibit 16: Hispanic Disposable Income Growth and Market Share**



Source: Selig Center for Economic Growth 2005

**Exhibit 17** lists the states with a large share of total Hispanic disposable income and the forecast growth rates for the next five years. The top-five states have two-thirds of Hispanic purchasing power, and the top 10 account for 81%. Large Hispanic neighborhoods in the biggest markets provide many opportunities for retailers. Not only are these neighborhoods underserved by current retail establishments, they may be even more underserved in the future, as their growth rates are much faster than the pace of development occurring in large Hispanic-dominated neighborhoods.

**Exhibit 17: Largest Hispanic Markets**

	Disposable Income (\$B)	Share of Hispanic Total	Annual Growth 2005-2010
California	202.7	27.6%	7.7%
Texas	127.4	17.3%	8.2%
Florida	75.1	10.2%	8.8%
New York	62.7	8.5%	6.7%
Illinois	32.8	4.5%	7.3%
New Jersey	28.4	3.9%	7.6%
Arizona	24.2	3.3%	10.1%
Colorado	17.1	2.3%	9.4%
New Mexico	14.2	1.9%	6.3%
Georgia	10.6	1.4%	10.3%
Nevada	10.0	1.4%	11.0%
Virginia	9.8	1.3%	9.9%
Washington	9.5	1.3%	9.3%
Massachusetts	9.3	1.3%	8.5%
North Carolina	8.2	1.1%	10.2%

Source: Selig Center for Economic Growth

### Housing Choice

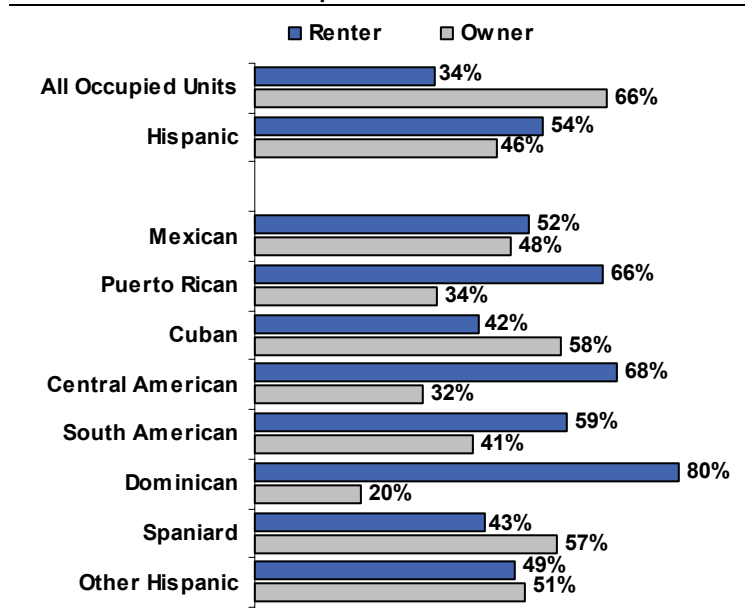
The synthesis of traditional and modern values is an age-old quality of U.S. Hispanic families. In areas where Hispanic people are fast becoming the majority of the local demographic, Latino styles and tastes are gradually redesigning existing structures or are influencing plans for new developments. This phenomenon is particularly evident in states such as California and Texas,

where a large percentage of the populace is Hispanic. Here, the Hispanic affinity for social interaction and the group’s adaptability has given rise to a so-called “Latino new urbanism.”<sup>2</sup>

New urbanism is a response to suburban sprawl. According to Mendez, “Latino new urbanism is a movement toward the development of more compact neighborhoods with residential developments that include small lots, short housing setbacks, alleys, front porches, walkable neighborhoods, efficient transportation, and many public spaces and parks.” In a Public Policy Institute of California survey, 51% of Latinos in the state declared they would rather have a small home and a short commute. Furthermore, 56% of Latinos would rather live in mixed-use neighborhoods, where they could walk to local amenities.

The Hispanic preference for living in such neighborhoods often coincides with lower homeownership rates, since owning a home often means relocating to the suburbs. **Exhibit 18** shows a comparison of homeownership rates between Hispanics and the total U.S. population. According to Census 2000, a 20-percentage-point gap existed between the homeownership rate of Hispanics and that of the nation overall. The booming housing market over the last five years has increased the homeownership rates of all racial and ethnic groups, but the Hispanic gap has persisted. The lower homeownership rate among Hispanics reflects a lower income level, more new immigrants and a younger age profile. The lack of products that cater to their income and location/design preferences may also contribute to a lower homeownership rate for the U.S. Hispanic population.

**Exhibit 18: Homeownership Rates**

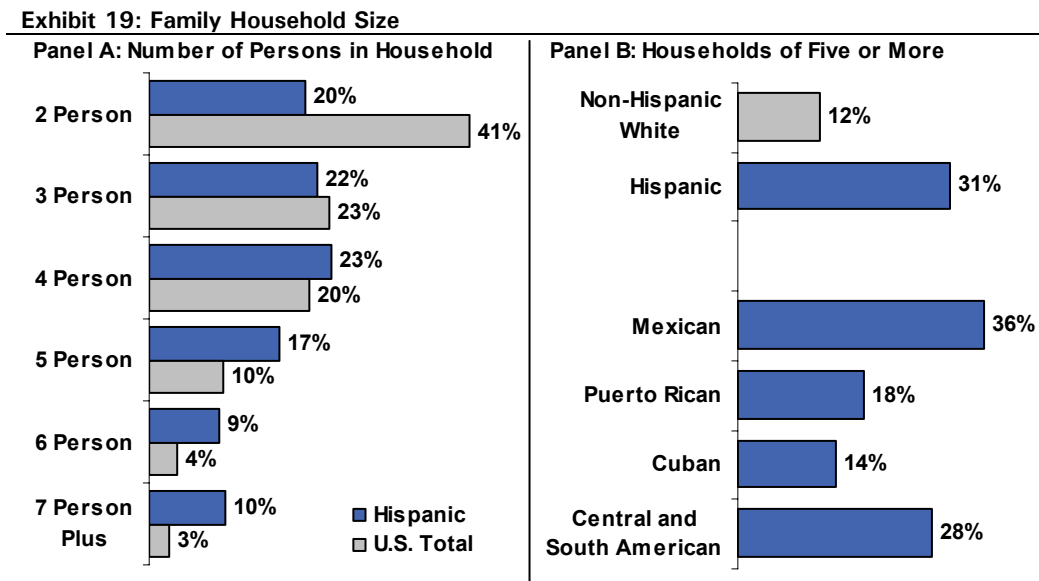


Source: Census 2000

As with any group, culture and traditional values play a major role in determining individual behavior. Hispanic culture places much emphasis on the family. Therefore, Hispanic families

<sup>2</sup>Michael Mendez, “Latino New Urbanism: Building on Cultural Preferences,” *Opolis: An International Journal of Suburban and Metropolitan Studies*, Vol. 1, Issue 1, Article 5, 2005.

often include grandparents, aunts, uncles and cousins in their households, thus contributing to a larger-than-average household size. **Exhibit 19** compares Hispanic family household size with that of the total U.S. population, showing that Hispanic families are generally larger than the average U.S. household. At the far end of the spectrum, about 10% of all Hispanic households include seven people or more, while only 3% of all U.S. households do so. About 31% of all Hispanic households include five people or more, compared with only 12% of all non-Hispanic white households.



Source: Census 2000

### Summary

The Hispanic population is a young, large and fast-growing group united by a common language and ancestry. Though concentrated in key gateway cities and border states, Hispanic people are moving into new regions, such as North Carolina, Virginia and Massachusetts, which all have booming Hispanic communities. Towns and urban areas are gradually incorporating the cultural flavors characteristic of Latin American heritage and urban planning, while the growth of the Hispanic population’s disposable income is further enhancing their influence in all sectors of the U.S. economy.

For institutional investors, the large, concentrated and growing Hispanic communities provide substantial investment opportunities in the retail and housing sectors. While ethnic preferences have minimal impact on office, industrial and hotel demand, they do impact retail demand and housing choice. Strong pent-up demand already exists for Hispanic-focused retail and for-sale and for-rent housing that incorporates Hispanic preferences. Although Hispanic-focused investments are still a niche by size, the U.S. Hispanic population will increasingly impact all market participants, as nearly one in every two new Americans will be Hispanic.

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