

SAN DIEGO Metropolitan

UPTOWN EXAMINER & DAILY BUSINESS REPORT

By Far San Diego's Largest-Circulation Business Publication, Online at sandiegometro.com and On The Air on XLNC1 • 104.9 FM Radio

December 2008



REAL
PROPERTY

Alan Nevin

Unstoppable Demographics *Smart businesses track trends*

While generally recognized as a real estate economist, much of my thinking time is spent ruminating on demographics. In the long run, the demand for and value of real estate relates to the study of changing population.

The path of a demographic trend rarely deviates. The key to the long-term success of a business is to recognize the trends, see where they are going and profit from the changes. Major international firms like General Electric, Caterpillar, Coca-Cola and Kentucky Fried Chicken spend millions to figure this out. Within the United States, businesses spend a collective fortune on surveying and focus groups, trying to anticipate where the market for their goods is headed.

From an international standpoint, change is rapid, with a multitude of nations taking on new character as they move toward a wireless world with no audiovisual bounds.

Consider Japan, for example. The island nation has three exceptionally negative demographic trends causing it much economic pain: an extremely low birth rate, a rapidly aging population and severe xenophobia. Whereas most other industrialized countries have allowed major immigration to boost population, Japan keeps the bar extraordinarily high for new residents.

As a result, Japan's decreasing population means fewer and fewer people are potential customers for the goods the nation produces. In addition, its work force is getting older and less efficient. With fewer persons entering the work force, the number of employees available to pay taxes for the care and upkeep of the elderly keeps shrinking. Almost half of the Japanese population will be older than 60 by 2050, compared to 26 percent in the United States.

Most of the industrialized countries have

experienced a remarkable decline in birth rate. In traditional demographics/economics, for a nation to grow and prosper, each mommy and daddy should have two children. Countries like Spain, Italy, Germany, Russia and Japan are instead setting national records for reduced fertility.

The United States remains right on target, with a fertility rate of 2.1 (live births per woman). That compares to lesser developed countries like Kenya, Rwanda and Afghanistan, with fertility rates in the 5.0 to 7.0 range.

Fertility rates, in general, are falling slowly throughout the world, but perhaps the fastest decline has been in Mexico.

The Mexican fertility rate is down to 2.2, almost matching the U.S. and Canada. The rapidly reducing fertility rate in Mexico means the nation is beginning to move toward a middle-class society. Its manufacturing and health care industries are nearing U.S. standards and that goes hand in hand with better educated citizens and lower birth rates. It also foretells a major expansion in consumer spending, including spending on new homes and furnishings.

Growing by 3 million-plus per year, the United States is one of a few industrialized nations that has a perpetually expanding population, largely as a result of immigration from other nations. That rate of expansion allows our purchasing power to expand and our work force to remain employed. Yes, I know the unemployment rate is up to 6-plus percent in these difficult times, but we still have 94 percent of our population gainfully employed. Those more than 150 million persons bring home paychecks and spend them with great enthusiasm.

As we look at the state's and nation's demography, several trends are clear. People are getting married later, the per-

centage of married couples with their own children is declining and the percentage of college graduates is rising. In 1960, only 6 percent of women had a college degree. That is now up to 24 percent, an amazing four-fold increase in less than half a century. In 1960, less than half our adult population had a high school diploma. Now it's up to 84 percent.

The other U.S. demographic trend that continues unabated is population movement toward the Sunbelt and Pacific Coast. Almost half of the nation's population gain is in California, Florida and Texas. When combined with nine other states, including the fast growers Nevada and Arizona, this dynamic dozen constitute almost 80 percent of the nation's population growth. That leaves the other 38 states to split the remaining 20 percent.

In San Diego County, two-thirds of the growth is the result of births over deaths and one-third immigration. That's a diametrical shift from even 20 years ago, when the reverse was true. In the next 20 years, San Diego County will add 750,000 persons. Of those newcomers, 65 percent will be 60 or older; 50 percent of the total growth will be those of Hispanic descent; and almost a third of the population will have a bachelor's degree or higher.

Your business can prosper by taking advantage of this rapidly changing world. The market is constantly changing. Make sure you are working faster than your competition.

Alan N. Nevin is director of economic research with MarketPointe Realty Advisors (marketpointe.com).