

# Article Pre-Print

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# Finding Growth in Challenging Times

## Seven Indicators to Help Evaluate Population Growth

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**Abstract:** Despite a slow growing population and notwithstanding the recent recession, there are areas of the country that are experiencing population growth and can offer opportunities for retail businesses. To find these communities, Nielsen Claritas has developed a statistical approach to score the growth potential of all U.S. markets and to suggest strategies for expansion. This article discusses the seven population-growth indicators that are strongly correlated with high-growth markets.

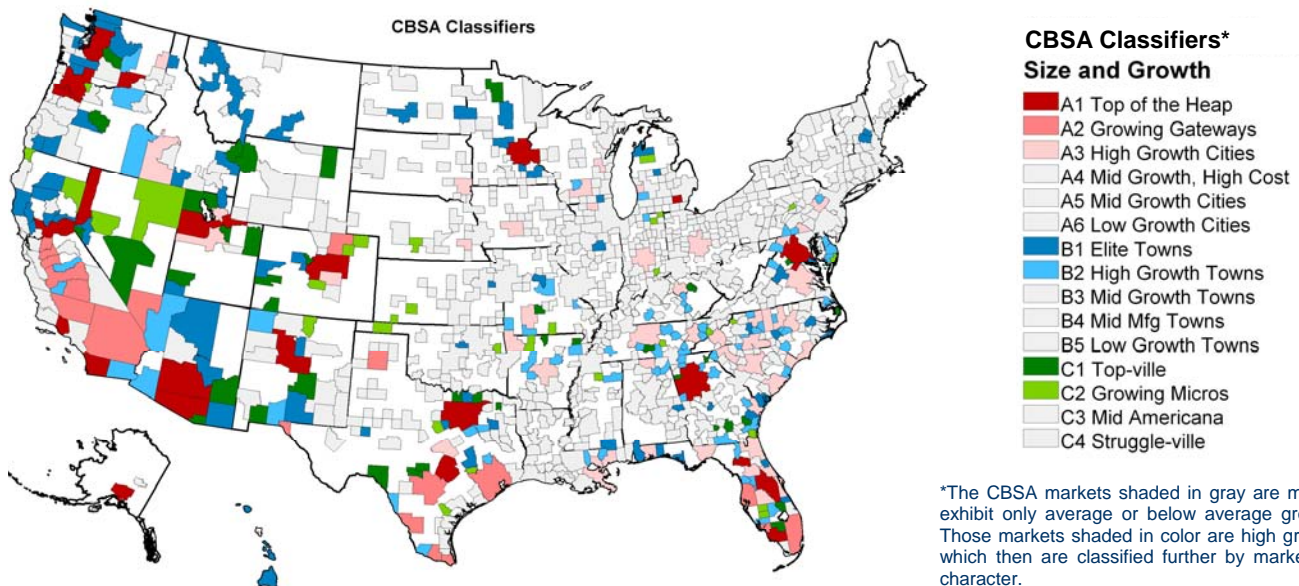
Population growth in the U.S. between 2000 and 2010 is expected to be the slowest for 50 years and could be as low as 9-10%.<sup>1</sup> However, despite this slow overall growth rate, there are markets and population segments within the U.S. that are experiencing healthy population growth, offering expansion opportunities for retail businesses even in economically challenging times. But finding these locations requires an approach to identifying growth opportunities that goes beyond calculating new housing starts, a typical metric employed by site planners. Using a statistical technique that evaluates population growth along with historic trends, Nielsen Claritas has isolated seven demographic and economic indicators that strongly correlate to growing markets.

### Identifying Growth Indicators

To identify high-growth communities, Nielsen Claritas developed a statistical approach to score the growth potential of both metropolitan and micropolitan communities, or what are known as Core Based Statistical Areas (CBSAs). Metropolitan areas have a population of at least 50,000; micropolitan areas' populations range between 10,000 and 50,000. Over 85% of the total U.S. population lives within a CBSA. Nielsen Claritas scored CBSAs based on annual and multi-year growth rates and demographic and employment characteristics.

This technique isolated seven factors—population growth factors—that are strongly correlated with fast-growing markets:

Map X-1  
Growing Markets by Population Size



Source: Pop-Facts

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<sup>1</sup>Nielsen Claritas estimate.



Table X-1

Core Based Statistical Areas Classified by Size and Core Demographics				
CBSA Market Groups	Characteristics	% of U.S. Population	% of U.S. Population Growth	Growth Index
<b>Metro Cities (A Markets)</b> 200,000+ population				
A1 Top of the Heap	High growth, high diversity and high education	15.5%	27.4%	177
A2 Growing Gateways	High growth and above-average diversity	9.5%	17.4%	183
A3 High-Growth Cities	High growth	9.6%	13.7%	143
A4 Mid-Growth, High-Cost Cities	Below-average growth, high home values	24.1%	16.5%	68
A5 Mid-Growth Cities	Below-average growth, high home values	10.4%	7.8%	75
A6 Low-Growth Cities	Low growth	6.9%	0.3%	4
<b>Metro Towns (B Markets)</b> 50,000-200,000 population *				
B1 Elite Towns	High growth and above-average education	3.0%	4.6%	155
B2 High-Growth Towns	High growth, average education	2.7%	4.3%	157
B3 Mid-Growth Towns	Below-average growth, below-average manufacturing	1.8%	1.1%	60
B4 Mid-Manufacturing Towns	Below-average growth, high manufacturing	2.7%	1.8%	64
B5 Low-Growth Towns	Declining populations	3.2%	-0.2%	-7
<b>Micro Towns (C Markets)</b> <50,000 population				
C1 Top-ville	High growth	0.5%	0.9%	170
C2 Growing Micros	Above-average growth	0.4%	0.5%	126
C3 Mid-Americana	Below-average growth	1.5%	0.8%	54
C4 Struggle-ville	Declining populations	1.5%	-0.2%	-11

Growth Index of 100 represents the average U.S. population growth of 8.5% from 2000 to 2008.

\* Some Metro Towns have a population in excess of 200,000 because of the cut-off for Metro Cities is the 200 largest cities.

Source: Pop-Facts

- 1) Large land areas
- 2) Booming suburban rings
- 3) Widespread affluence
- 4) An increasing Hispanic population
- 5) Diversified employment
- 6) Long commutes
- 7) The presence of lifestyle shopping centers

When the population growth indicators are combined with demographic projections, retailers and developers have a robust tool with which to identify locations with significant potential for market expansion—markets that may even lead others as economic recovery takes hold. Now more than ever, retail success depends on the ability to identify growing markets, whether the task is retail expansion, current market optimization or street-level site planning. To do so, Nielsen Claritas classified the nation’s CBSAs into three groups of 15 total markets, differentiated by their size and core demographics, as shown in Table X-1, which also indicates their average growth index. A growth index of 100 denotes the U.S. average growth

rate of 8.5% for the eight-year period from 2000 to 2008.<sup>2</sup>

### Space to Grow

Bigger is better when it comes to population growth. Markets with larger land areas tended to grow the most over the last eight years and to have high growth indexes, as Table X-2 shows. The population in the 25 largest markets rose by 10.8% on average, 23% higher than the national average of 8.5%. Retailers and developers should not underestimate the importance of large markets. Businesses that serve the nation’s 10 largest markets reach more than 80 million Americans, or 28% of the nation’s total 2008 population of 283 million living within CBSA markets.<sup>3</sup>

### Booming Suburban Rings

Development in large areas goes hand-in-hand with the lifestyles that emerge within these fast-growing communities. Two lifestyle segments dominated in expanding areas: Affluentials (white-collar couples and families in upscale, outer-ring suburbs) and

<sup>2</sup> Nielsen Claritas estimate.

<sup>3</sup> Nielsen Claritas Business-Facts.



Table X-2

America's Top Markets by Land Area				
		2008 Population	Land Area Index	Growth Index
<b>Metro Cities - A Markets</b>				
A2	Riverside et al, CA	4,170,780	1560	330
A1	Anchorage, AK	368,701	1510	180
A1	Phoenix-Mesa-Scottsdale, AZ	4,223,725	834	351
A3	Boise City-Nampa, ID	594,998	675	328
A1	Salt Lake City, UT	1,092,618	546	150
<b>Metro Towns - B Markets</b>				
B1	Flagstaff, AZ	130,370	1066	142
B2	Lake Havasu City-Kingman, AZ	203,337	762	365
B2	Ontario, OR-ID	54,800	589	125
B1	Helena, MT	71,843	293	108
B1	Alamogordo, NM	62,739	379	90
<b>Micro Towns - C Markets</b>				
C2	Elko, NV	49,536	1222	65
C1	Pahrump, NV	45,598	1039	474
C1	Brigham City, UT	47,061	328	118
C2	Susanville, CA	35,438	261	56
C1	Jackson, WY-ID	27,816	255	172

Land area index of 100 represents average size of U.S. CBSA of 1,170 square miles.

Average growth index of 100 represents average U.S. population growth of 8.5% from 2000 to 2008

Source: Pop-Facts

Middleburbs (mid-scale couples of diverse ages and education in inner-ring suburban neighborhoods).

Nationwide, the markets with the most Affluentials and Middleburbs tend to be large metros—cities like Portland, Oregon, Minneapolis and Seattle. Generally speaking, the growth in many of these areas resembles a doughnut, with the fast-growing suburban areas forming a ring around the metropolitan core. While social commentators like to celebrate the return of the nation’s downtowns, the real action is still occurring in America’s suburban frontier, propelled by several population torrents: active seniors looking for attractive retirement communities; young singles seeking affordable townhouses; and immigrants who are leapfrogging over urban apartments to settle in suburban neighborhoods near good schools and steady employment. Indeed, many fast-growing “cities” of the early 21st century—Los Angeles, Atlanta, Houston and Dallas—are primarily collections of suburbs with only marginal links to an urban core.

### Widespread Affluence

For most of the last century, wealthy Americans have settled in the upscale suburbs of large metropolitan areas. Several factors related to high net worth correlate with high-growth communities: college educations, upper middle-class incomes and healthy home values, all of which Nielsen Claritas incorporates as part of its proprietary Affluence Index. The full list of affluent, growing markets shows a decidedly Western skew, partly reflecting the migration of knowledge workers from manufacturing centers of the Northeast to the high-tech job centers in the Western states (see Table X-3). As people become more specialized in a given field, their incomes increase, but the number of jobs that fit their expertise narrows.

### Growing Hispanic Population

Immigration drives the nation’s population growth, and no group has provided more of a boost than Hispanics. In 1990, the Hispanic population in the U.S. was 7.9%; today, it is nearly 16% and rising.<sup>4</sup> According to a recent Goldman Sachs study, this market is growing three times faster than the U.S. population in general.<sup>5</sup> Demographers at the Pew Research Center predict that by 2050 the U.S. will be a “minority majority” nation, with Hispanics making up 29% of the total population.<sup>6</sup> The shift has already occurred in traditional gateway cities like Los Angeles, San Antonio and El Paso—border towns and coastal metros with exploding population growth. Nielsen Claritas found a correlation of 0.32 between a fast-growth index and a high penetration of Hispanics in a market.

While New York City and Chicago served as magnets for newcomers at the turn of the 20th century, today immigrants from Latin America and Asia typically head to Los Angeles, San Francisco and Miami. They settle in these places for the same reasons earlier waves of Europeans came to New York and Chicago—friends and family members had already settled there and formed self-sustaining ethnic communities. This is particularly true of less-skilled immigrants, who rely on kinship and informal networks to land jobs. They are also attracted to areas with climates conducive to varied recreational activities and

<sup>4</sup> Census 1990 and 2008, Nielsen Claritas Update Demographics.

<sup>5</sup> David Kostin, “U.S. Hispanization,” Goldman Sachs, December 6, 2007.

<sup>6</sup> Jeffrey Passel and D’Vera Cohn, “U.S. Population Projection 2005-2050,” Pew Research Center, February 11, 2008.



Table X-3

America's Top Markets by Affluence				
		2008 Pop	Affluence Index	Growth Index
<b>Metro Cities - A Markets</b>				
A1	Washington et al, DC-VA-MD-WV	5,384,723	163	144
A1	Oxnard-Thousand Oaks-Ventura, C	820,716	161	105
A1	San Diego-Carlsbad et al, CA	3,046,861	146	97
A1	Sacramento-Arden et al, CA	2,129,931	141	217
A1	Seattle-Tacoma-Bellevue, WA	3,338,639	136	114
<b>Metro Towns - B Markets</b>				
B1	Edwards, CO	59,428	150	236
B1	Napa, CA	136,092	147	112
B1	Truckee-Grass Valley, CA	101,146	143	116
B1	Kahului-Wailuku, HI	144,043	137	146
B1	Lexington Park, MD	101,831	135	213
<b>Micro Towns - C Markets</b>				
C1	Silverthorne, CO	27,334	152	189
C1	Jackson, WY-ID	27,816	143	172
C1	Gardnerville Ranchos, NV	47,589	137	180
C1	Heber, UT	21,562	126	489
C1	Durango, CO	49,087	116	137

Affluence index of 100 represents the average U.S. indices for household income, educational achievement and home values.  
 Growth index of 100 represents the average U.S. population growth of 8.5% from 2000 to 2008.

Source: Pop-Facts

a low cost of living. Not surprisingly, those markets with the highest proportion of Hispanics tend to be along or near the Mexican border—places like Rio Grande City, Laredo and Raymondville, Texas.

**Diversified Employment**

One of the tried-and-true economic axioms is that “people follow jobs and retailers follow people.” However, Nielsen Claritas research shows that people do not follow all jobs equally. In fact, over the last eight years the places most likely to experience population growth had an abundance of jobs in two industries—construction and retail—as well as diversified employment opportunities in businesses ranging from finance and credit to engineering and recreation. Many resort and retirement cities attracted construction and retail workers as aging Baby Boomers and young families alike streamed into these areas looking for affordable housing and a relaxed lifestyle. Retailers followed the increased population, providing products and services for expanding consumer markets.

The fastest-growing markets also have something else in common: solidly diversified economies. Analysts found a strong correlation between growing communities and a white collar workforce involved in

business services, finance, engineering and management services, as well as amusements and recreation. Viable opportunities in business services, management and engineering create vibrant economies nourished by an educated, well-paid workforce.

Successful economies also seem to promote a leisure-intensive lifestyle, as many fast-growing communities feature a significant number of jobs involved in gambling, recreation, hotels, theme parks and cultural venues. Among the hotspots that experienced strong construction starts and a growing retail environment before the recession, as well as a diversified employment base, are resort communities such as Jackson, Wyoming; Key West, Florida and Hilton Head Island, South Carolina.

However, an over-reliance on construction and finance jobs can have a downside risk. Both industries have been hurt by the housing crisis and credit crunch. As construction jobs grow scarce during a protracted downturn in the housing industry, workers leave town. In markets that relied too heavily on construction—such as Las Vegas, Phoenix and Naples, Florida—foreclosures and unemployment have risen to a significant extent, and there is likely to be a marked slowdown in population growth.

**Long Commutes – A Price of Growth**

Infrastructure is also important in growing communities. Fast growth correlates with significant numbers of air transport jobs, workers telecommuting from home offices and, unfortunately, long “real” commutes. Obviously, thriving communities need good airport connections to accommodate business and vacation travelers, as well as high-speed Internet access so workers can connect to employers from home offices. Fast-growing communities also tend to saddle workers with long commute times, typically much longer than the national average of 25 minutes.<sup>7</sup> The long commute likely reflects many workers living in the more affordable suburban fringes of metro areas. Nielsen Claritas found that the correlation between fast growth and a 30- to 60-minute commute was 0.25 and for a 60 minute or longer commute it was 0.21.

It is not just the miles, however, that lengthen these commutes. More frustrating are the minutes spent in traffic jams caused by the undesirable side effects of

<sup>7</sup> Nielsen Claritas estimate.



fast growth: feeder roadways not built to accommodate rush-hour traffic, the absence of public transit in the hinterlands and uncontrolled sprawl that did not account for car-dependent lifestyles. These are the ills of life in the fast-growth lane, though they can be mitigated by planners who recognize the presence of population-growth indicators in their communities and address the issues accordingly.

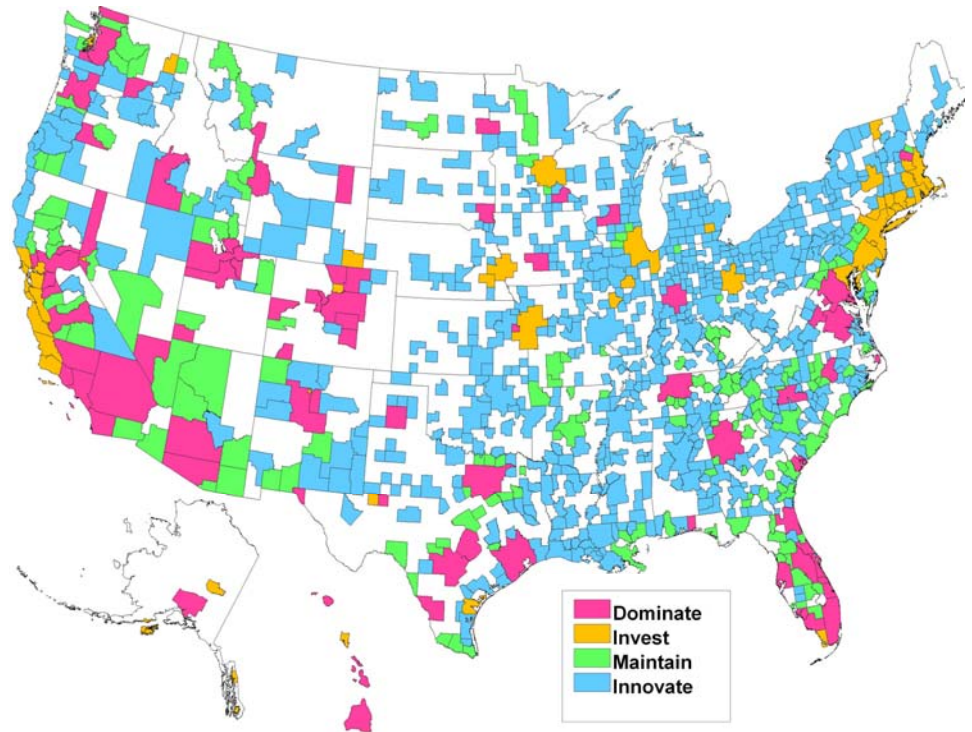
**High-End Shopping Centers**

One unexpected result of the boom in affluent commuter suburbs is the emergence of high-end shopping centers known as “lifestyle centers.”<sup>8</sup> A kind of outdoor mall, they feature natural sunshine, tree-lined streets, stress-relieving fountains and plenty of shops and restaurants. Unlike the massive, windowless suburban malls anchored by department stores, these centers resemble quaint villages filled with high-end retailers like Talbots, Coach, Chico’s, Banana Republic and Starbucks.

And they are designed for upscale suburban professionals who want the convenience of driving up to the shops, parking their cars and downing a Frappuccino® while lounging on an overstuffed chair. Ironically, these suburban creations are designed to resemble the downtown commercial districts that shoppers fled long ago.

At a time when mall expansion is declining, lifestyle centers have been growing at a rate of several dozen annually. Today, there are more than 400 of these tabernacles of consumerism, with their narrow pedestrian streets and little plazas. And they are sprouting up in growing mid-sized metros and college towns like Yakima, Washington; Ann Arbor, Michigan and Bend, Oregon. Because lifestyle centers require a relatively large population base to thrive, developers have yet to build any in Micro Towns (“C” Markets). However, their presence in larger markets reflects the need to create new shopping experiences for consumers bored with traditional malls. Growing markets provide

**Map X-2**  
**CBSAs by Market Strategy**  
 Projected Growth versus Demographic Potential



Sources: Pop-Facts, Business-Facts® and the Shopping Center Database

residents with new retail experiences at places like lifestyle shopping centers. Nielsen Claritas found that the correlation between a fast-growth index and the existence of a lifestyle center in the market was 0.27.

**Predicting the Future**

Populations do not necessarily grow in a linear fashion, and current growth patterns will not necessarily continue. Every year, Nielsen Claritas analysts generate five-year projections for all CBSAs by combining public U.S. Census Bureau estimates and demographic data at small levels of geography. Between 2008 and 2013, they estimate that population in CBSAs will grow an average of 5.2% nationwide, though in some smaller markets in the South and West the pace may rise above 25% as Boomers head to Sun Belt retirement communities and smaller towns to wind down their working years. Palm Coast, Florida, is expected to experience the greatest percentage growth among all the nation’s cities thanks to its location as a bedroom community halfway between Daytona and St. Augustine. Others, like Greeley, Colorado and Heber, Utah, are resort communities that cater to active retirees and families who appreciate hiking, skiing and a

<sup>8</sup> See ICSC’s definition of a lifestyle center at <http://www.icsc.org/srch/lib/USDefinitions.pdf>.



contemporary Western lifestyle. These markets are pegged to lead the nation's economic recovery over the next five years.

Nielsen Claritas analysts combined the five-year population projections with the seven population-growth indicators into a map that suggests different growth strategies and opportunities for retailers (see Map X-2). Four recommendations emerged for businesses seeking to expand their operations:

- **Dominate:** With both strong projected growth and strong potential for growth based on population-growth indicators, these markets should represent safer bets for retail expansion over the next five years. These markets include college towns such as Austin, Texas and Bend, Oregon, as well as large cities such as Washington and Atlanta.
- **Invest:** With moderate projected growth but strong potential based on population-growth indicators, these markets may grow faster than expected, indicating possible opportunities for retailers. Among these markets are such knowledge worker havens as Los Alamos, New Mexico; San Jose, California; Boulder, Colorado; and Minneapolis.
- **Maintain:** Markets in this category may be riskier for retailers because, although their projected growth

is above average, their potential according to population growth indicators is below average. In markets like New Orleans, Coeur d'Alene, Idaho, and Brownsville, Texas, retailers may want to more thoroughly research any expansions plans.

- **Innovate:** With weak scores for both projected and potential growth, the many small markets in this group would need extra money and attention—perhaps a new retail concept or a different product mix—to become promising retail opportunities. Among the communities in this category are college towns like Columbia, Missouri; Corvallis, Oregon; and Greensboro, North Carolina.

Retailers can use analysis based on population growth indicators to quickly assess a market's potential and determine where it fits into their overall development strategy. Even in a challenging economy with slow population growth, this modeling approach can suggest expansion opportunities in overlooked markets, as well as helping to identify rising stars and to stake out the best locations for specific target customers. For those retailers and developers willing to embrace this paradigm shift in understanding growth, many may be in a position to reap the rewards for their expansion efforts—or at least avoid costly mistakes.

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