

TOP 10 GLOBAL TRENDS Affecting Downtowns AND HOW TO Respond at HOME

By Brad Segal and Jamie Licko



P.U.M.A. Global Trends analysis has played a key role in cities and other communities, including:

- *Creating a new economic development strategy to strengthen downtown Seattle's competitive edge*
- *Shaping a new 20-year plan to guide the growth and development of downtown Denver*
- *Adjusting the long-range forecast for single family home development in Castle Rock, Colorado*
- *Justifying a new branding strategy to attract consumer markets to downtown Dallas*

While the planet is gripped in a period of profound change, it is difficult to fully understand and respond to these changes on the local level. To help downtowns and communities better anticipate and respond to global change, **Progressive Urban Management Associates (P.U.M.A.)** has developed an unprecedented body of research that analyzes the top changes, draws conclusions and recommends tangible actions. In consultation with the International Downtown Association, ten major trends affecting American downtowns were identified. These trends were organized in the categories of demographics, lifestyles and global competition. More than 120 post 9/11 sources, including the planet's best minds, were researched to fully understand each trend and its likely impact on downtowns. To create P.U.M.A. Global Trends, research was first compiled in the summer of 2006, and then updated in the summer of 2007.

The top ten trends affecting downtowns follow, as well as conclusions and implications for downtown planning and development decision-makers.

Demographics



1

Changing American Demographics

Three generations will shape America and the growth of American downtowns over the next two decades. Each generation is characterized by distinctly different demographics and behaviors.

Baby Boom: The 77 million baby boomers born between 1946 and 1964 were the largest group of individuals to attend college and obtain college degrees of any previous generation. They lived through the Civil Rights era, the Cold War and the rapid growth of suburbia, and their sheer numbers have supported the labor markets and entitlements in the United States. Boomers are living longer with generally healthier lives and are accumulating unprecedented wealth to be transferred to the next generation. Additionally, they are the first generation to see a proliferation of non-traditional families. Boomers have begun retiring at a rate of 10 million per year, with many of the more affluent moving to urban environments creating a demand for new types of housing and stimulating a boom in cultural amenities. The U.S. senior population will begin to mushroom when the leading edge of the boomer generation reaches age 65 in the year 2011. As a result, older boomers are a market that may look to urban environments both as a way to downsize and to connect to a "neighborhood" of others, providing a social safety net in place of family.

Generation X: The 44 million Generation Xers born between 1961 and 1981 were once thought of as cynical about the future and bitter towards the baby boom generation. This "latchkey" generation was shaped by the information revolution, enabling them to multi-task and learn transferable skills, thus making them very marketable within the workforce. They tend to value lifestyle over company loyalty, and have participated in discretionary spending, including home buying, from an early age. Gen Xers are considered the "want-it-all" generation, coming into affluence with a ravenous appetite for the "good life." They currently spend nearly \$125 billion per year on goods and services, outspending the average consumer in eating out, clothing, transportation, entertainment, audio/visual equipment and housing, and within five years they are expected to be at their peak earning years. The majority of Gen Xers now have children.

Millennials: The 70 million "Millennials" or Generation Y, born between 1977 and 2003, are the most education-minded generation in history and they have never lived without technology. Like Generation X, they learned early to multi-task and they have marketable skills. This generation tends to be more optimistic, tolerant and open-minded than previous generations. While they worry about the outlook for the country and think their generation is likely to be worse off than their parents, they believe they can make a difference. Millennials are multi-cultural and ethnically diverse. In a majority of the 100 largest cities in the United States, more than half of Millennials under the age of 15 are racial and ethnic minorities. Millennials have high self-esteem and will challenge authority, while they also embrace the spirit of volunteerism and possess a passion to foster change.

2

Immigration Trends and the Role of Cities as Portals to America

The United States is the only major growing industrial country with an expanding population, fueled since the mid-1960s primarily by immigration. In 2007, for the first time ever, the number of non-white Americans rose above 100 million, with some 35 million of our residents born outside the United States (more than 12% of our population).

Only five major countries welcome immigrants as permanent residents: Canada, Australia, Israel, New Zealand and the United States. Collectively they accept 1.2 million immigrants a year, about 800,000 officially to the

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U.S. Throughout history, a majority of U.S. immigrants have been from Europe, a trend

that changed in the 1990s with 85% of immigrants coming from Latin America and Asia. Recent immigrants are shifting away from the traditional urban gateways because of the high cost of living and lack of jobs, settling instead in suburban and rural environments. Census 2000 revealed that for the first time, nearly half of the 100 largest cities in the United States were "majority minority."

3

Changes Within the "Creative Class"

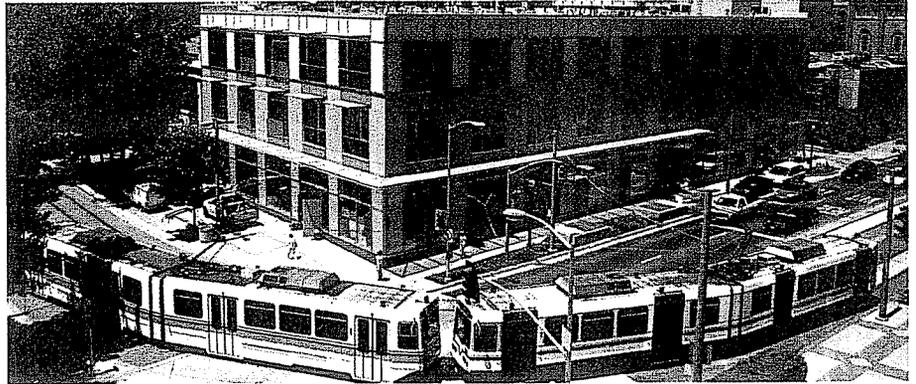
Today's global "knowledge-based" economy means that an educated and dynamic workforce will be key to ensuring that the U.S. remains globally competitive. To that end, the "Creative Class" is emerging as an important part of the workforce for cities across the American landscape.

In his influential book *Rise of the Creative Class*, Richard Florida states that diverse, tolerant, innovative and vibrant environments will attract creative workers, such as entrepreneurs who may staff and/or start innovative, growing companies. Today, this so-called "Creative Class" represents roughly 30% of the entire U.S. workforce, and includes young professionals who are educated, adaptable, highly mobile and relatively inexpensive. Young, single women are emerging as influential leaders of the "Creative Class," and will make up 60% of college enrollment by 2013. For the first time in U.S. history, women will comprise the majority of the workforce by 2010.

Still, education statistics in the U.S. show a picture of a young population not adequately prepared to face a global future, with America slipping in the higher education attainment rate and only 10% of college graduates globally prepared, 13% with foreign language proficiency and less than 34% having taken at least one international studies course.

America currently ranks 12th in the world in higher education attainment of its population, and trends indicate that its ranking will continue to drop over the years. At a time when the knowledge-based economy is demanding more college graduates with higher math and science skills, American universities are graduating fewer students in science and engineering. China currently graduates four times as many engineers as the United States.

Lifestyles



4

Traffic Congestion and the Value of Time

Traffic congestion cost Americans \$63.1 billion and 47 hours of average annual delay during 2003. A commuter living an hour's drive from work annually spends the equivalent of 12 workweeks, or 500 hours, in a car. Experts suggest that additional road capacity is doing little to stem rising traffic congestion. From 1980 to 2004, the number of solo commuters increased by more than 11%, while carpooling declined by 7.5% during the same period. Additionally, we face more drivers on the road in the near future. The latest forecasts from the Census Bureau and US Department of Transportation note that by 2020 the driving population in the US will increase 21% to 256 million drivers on the road.

Recent studies show that for the first time ever, national transit ridership exceeded growth in driving. Many cities that have invested in added transit capacity have been experiencing annual ridership growth in the double digits. When transit trips are competitive with auto travel, research shows, people choose transit at a high rate. Today, 27 U.S. metro areas have transit systems and 15 are planning new ones. Once all the transit systems on the books are built by 2030, there will be four to five thousand transit stations nationwide. Right now there are 6 million households that live within a half mile of new transit stations, with the demand for housing near transit expected to grow by over 16 million.

5

Trends in HealthCare/Wellness/Recreation Lifestyles

Health care delivery systems in the United States have changed dramatically over the last decade. Declining hospital use and length of stay reflect cost containment measures taken by insurers and others. More health care is being delivered on an outpatient basis, and through retail health clinics and e-medicine. A doctor and nurse shortage is imminent, even as the aging population increases the demand for services. And, nearly 46 million Americans are uninsured, adding to the increasing cost burden. Regional pressures for health care could become severe, as the Northeast and Midwest will be comprised disproportionately of "mature seniors" who are less well-off financially and health-wise, requiring greater social support, institutional housing and accessible healthcare.

Although Americans are living longer than ever before, the baby boomer generation is active and would like to walk and bike more. Analysis has found a connection between urban living and health and that residents living in sprawling communities weighed more than their urban counterparts.

6

The Growth of Tourism

Tourism is the world's largest employer, generating nearly 200 million jobs, or 10% of jobs globally. The United States ranked third as a tourism destination behind France and Spain in 2004. Looking ahead, an expanding global middle class will increase tourism worldwide. Long-haul international travel is expected to grow faster than intraregional travel at 5.4% per year worldwide through 2020. Cultural heritage tourism is a growing form of tourism; 81% of U.S. adults who traveled in 2002 fell into this category. Those visitors tended to stay longer and spend more money than other kinds of tourists.

U.S. convention center space has increased by 50% since 1990, despite industry consolidations and the growth of e-business. Convention growth will depend upon new demand generated by increased event promotion resources and marketing budget allocations, user expectations for high-tech convention facilities, national economic growth, and the traditional need for face-to-face interaction.

7

America's Growing Debt Burden – National and Consumer

America's growing debt burden looms as an economic cloud. As of May 2007, the national debt (at nearly \$9 trillion) translated into more than \$29,000 per person. Today, 46% of our national debt is financed by foreign countries, with quarterly interest rates from the federal government to foreigners hitting \$38 billion at the end of 2006. Social Security continues to be a concern for Americans. In 1950, there were 16 workers for every U.S. Social Security recipient. By 2030, there will only be two people working for every beneficiary.

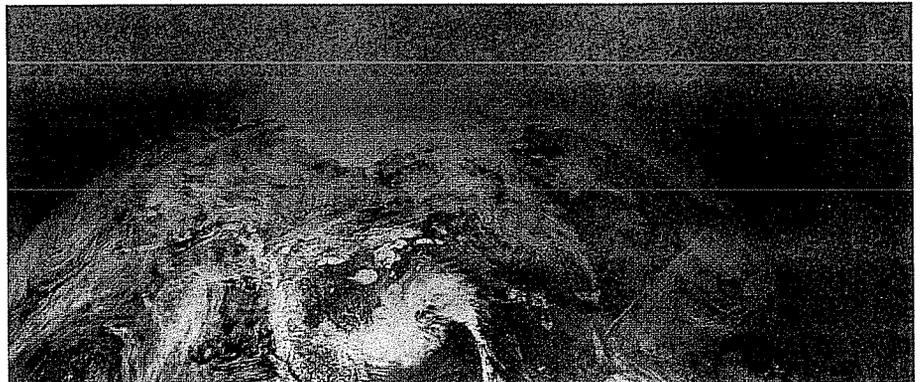
On the consumer side, rising interest rates, inflation, consumer debt and lack of savings illustrate increasing financial instability at a personal level. Since the end of the last economic expansion in 2001, jobs have grown at the slowest rate since the Great Depression, wages have been mostly flat and a smaller share of workers enjoyed employer-provided benefits, especially pensions and health in-

surance. At the same time, middle class families were confronted with rapidly rising prices for important items, such as housing, health care and energy. As a result, many families turned to debt to make ends meet, propelling debt levels and debt payments to new record highs.

By January 1, 2007, mortgage debt stood at \$13 trillion, up from \$7.4 trillion in 2001 (approximately \$42,000 per person) and consumer debt stood at \$2.4 trillion (about \$8,000 per person). Despite having some of the highest incomes in the world, nearly

33% of Americans live pay check to pay check, compared to 7% of consumers in India, China and Mexico. American consumer spending in the past 15 years has led to a decline in savings rates from 7.5% of income to below zero. The personal savings rate of -1.2% in the fourth quarter of 2006 marked the seventh quarter in a row with a negative personal savings rate. By early 2007, household debt rose to an unprecedented 132.4% of disposable income with families spending 14.5% of their disposable income to service their debt, the largest share since 1980.

Global Competition AND Change



8

The Emergence of China, India and a Planetary Middle Class

For the past several decades, the United States has functioned as the main engine of growth in the global economy, but as the U.S. growth rate has declined sharply in recent quarters, the rest of the world is growing rapidly. In the 21st century, Asia, led by China and India will experience unprecedented growth in economic and military power. The economic and political choices these two countries make in the near future will be closely watched because of the bearing they have on the resources of the rest of the world. For example, in 2005, China consumed 26% of the world's steel, 32% of its rice, 37% of its cot-

ton and 47% of its cement, while construction of residential and office buildings in Shanghai during 2006 alone created an inventory of space equal to the current inventory of office space in New York City. The McKinsey Global Institute forecasts that developing countries will generate nearly 80% of the growth in world energy demand between now and 2020, with China representing 32% and the Middle East 10%. Competition for non-renewable resources will only accelerate and may lead to an inflationary cycle such as we are seeing today with gas prices.

Outsourcing is also an issue – by 2010 U.S. outsourcing to India is expected to quadruple to \$56 billion per year. Also in 2010, India will

become the country with the most English speakers in the world. Emerging markets like China, India, Central and Eastern Europe and the Middle East are injecting life into the European and Japanese economies through their enormous purchases of capital goods. However, the growing global middle class will create markets for the United States, and the U.S. can still thrive if it invents new industries to stay one step ahead. By focusing on innovation rather than brawn, and ensuring labor and regulatory conditions are attractive, the U.S. can remain competitive in a global marketplace.

Despite growing global wealth, great inequities persist. Urban areas in developing countries are adding nearly 30 million migrants per year, offering the promise of expanding job opportunities to people leaving rural areas because of famine, civil war and the lack of political stability. This rapid urbanization is forcing most of these migrants into slums, creating challenges for both the inhabitants and global security, as slums are largely viewed as "breeding grounds of potential instability and discontent."

9

Continued Advances in Technology

Technological advances will have the greatest impact in the areas of health, alternative sources of energy, engineering, quality of life enhancements and business. Health advances include bioinformatics (the application of computer science to biology) and biotechnology (the use of living organisms or their products to modify health and the human environment) and genomics (genetic mapping).

Technology will also assist in developing alternative sources of energy through nanotechnology (engineering on a molecular scale), and substitutes for natural resources. It will be used to create and distribute quality of life enhancement for all groups and regions that have not yet shared in them. In the business world, real-time anywhere wireless communications will enhance competition and open markets worldwide. 21st century technologies have "flattened" or connected our world, and globalization has been driven by individuals who can do business instantly with millions of other people across the planet. Technology will continue to transform the way people live and interact. Given the wide

use of cell phones (with more than two billion users today) and e-mail (with more than nine trillion messages sent each year), work is becoming not just global but instantaneous. Currently, one billion people are online, and worldwide Internet use is expected to increase more than 10% each year through 2010. With geography becoming less of a constraint on social interaction, businesses will scramble to recruit top talent in a global labor market. Americans will increasingly compete at a global level, making the education, training, and adaptability of our workers paramount.

"Uploading," a direct-from-the-bottom creation of culture, knowledge and innovation through blogging and podcasts, allows anyone to communicate their collective intelligence to the world. E-commerce technology enables retail productivity, and Internet sales are increasing in the U.S., representing 2.6% of total retail sales. Cities may be in competition with the increased personal mobility and living options allowed by technology.

10

Environmentalism, Sustainability and Climate Change

In 2007, for the first time in history, the majority of the world's population will be living in cities. Today, 3 billion people live in cities, and by 2050, 6 billion people will live in cities around the world. In this time of unprecedented urban expansion, the need for sustainable solutions is critical. Despite generating less carbon dioxide emissions per capita – largely due to more sustainable modes of transit – cities are still responsible for nearly 80% of the carbon emissions worldwide, with the major offenders being buildings, not automobiles. The 2007 draft report by the United Nation's 2000-expert Intergovernmental Panel on Climate Change concluded that "changes in climate are now affecting physical and biological systems on every continent."

Half of the buildings Americans will live in by 2030 do not even exist yet. While green building and sustainability technology has been in existence since the 1970s, these techniques and materials have only recently

become more affordable. Once dismissed by developers as too expensive, green building will become "a must" as tenants, lenders, residents and even investors push for sustainability. Expect green principles to become synonymous in the real estate industry with cost-efficient operating principles. Additionally, designing out obsolescence is expected to be a trend. Expect more developers to embrace building techniques that allow flexibility in the project to cater for different future needs of their users should the market

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change. In 50 years, this trend may minimize the need for redevelopment on the scale we see today.

At current consumption growth rates, worldwide oil demand is expected to increase by 50% over the next two decades. The United States' transportation system is 97% dependent upon petroleum-based fuels, and this country contributes 25% of the world's total carbon dioxide emissions, and its buildings consume 36% of total energy and 65% of electricity. The UN Panel report notes that unless drastic environmental changes are made, the buildup of carbon dioxide in the atmosphere will reach a level unknown in recent geological history and the earth's climate system will start to go "haywire." Through a combination of clean power technology and conservation, the world would have to get rid of 175 billion tons of carbon over the next 50 years and still keep growing to stop this from happening.

To date, most American public policy innovation in sustainability has occurred on the local level. Cities at the leading edge of the "Sustainability City" movement include San Francisco, Portland, Seattle, Chicago, and, most recently New York City.

Conclusions

Overall, global trends appear favorable to promote growth in vibrant downtowns...

America's population is growing, younger and older, and more culturally diverse.

Demographic trends in the United States are favorable to downtown development over the next twenty years. Overall, the population continues to grow, supported significantly by immigration. Population is growing both older (aging Baby Boomers) and younger (emerging Millennials). Both older and younger markets have fueled downtown population growth over the past decade and are poised to continue to populate urban environments, particularly in those cities that offer housing amenities and activities that respond to their needs. America will become increasingly culturally and ethnically diverse, creating an advantage for downtowns that welcome, accommodate and celebrate diversity.

Adapting to an increasingly connected and competitive world.

Broader distribution of information technologies is encouraging "bottom-up" innovation from entrepreneurs throughout the globe. Education will be key in ensuring that America remains competitive and cities that make connections to higher institutions of learning will benefit. Downtowns are poised to continue to attract "creative" vocations if they can offer a business climate favorable to the incubation and growth of small dynamic enterprises. The emerging importance of young women and Millennials in the American professional class creates opportunities for designing, programming and managing vibrant and interactive urban environments.

Resource-intensive lifestyles are increasingly expensive and not sustainable.

Changes in American lifestyles will be increasingly determined by global trends, as opposed to national preferences. The emergence of a planetary middle class, most currently demonstrated by rapid growth and urbanization in China and India, will continue to strain the supply and increase the costs of nonrenewable resources. Increasing

petroleum and construction costs are likely to dramatically affect American lifestyles, making traditional suburban land use and transportation patterns increasingly expensive and inefficient. Cities will look to maximize the use of existing infrastructure and explore sustainable development, including transit-oriented development. Vibrant downtowns are well positioned to capitalize on an economic imperative to downsize our consumption, while still offering the lifestyle advantages of entertainment, culture, recreation and human interaction.

There are also significant warning signs that may impede development and investment...

Global disparities will create continued political instability.

The growth in global wealth is coinciding with growth in world poverty. Inequities within societies and between countries are

likely to contribute to continued political instability, creating conditions to foster terrorism and war. Scarcity and cost of nonrenewable resources will aggravate global instability, as emerging economies compete with established powers for the favor of a limited number of resource suppliers. America's transition to renewable energy sources and less resource intensive lifestyles, including downtown development, may become part of broader national security strategies.

America's growing debt burden looms as an economic cloud.

Domestically, America's unique debt burden may trigger a chain of events that slow or stop economic growth. National and consumer debt burdens plus negative personal savings rates are on a collision course with continued inflationary pressures from depletion of nonrenewable resources and increasing service demands from aging Baby Boomers. The situation is further complicated by the increasing share of American debt controlled by foreign powers, including new economic competitors in Asia. As consumer classes grow around the globe, the United States' relative economic dominance will be diluted, creating new trade and strategic alliances.

Implications FOR Downtowns

The preceding research and conclusions from Global Trends offers many implications for the future of downtowns. Highlights, as analyzed by Progressive Urban Management Associates, include the following...

■ DEMOGRAPHICS

Ensure that Downtowns welcome younger, multi-cultural populations:

To continue to attract migrating Millennials, Downtowns should provide a welcoming environment that makes it easy to relocate for jobs and housing. An increasing emphasis on creating an environment that embraces and encourages multiple cultures will invite local and national populations that are increasingly diverse.

Create an environment that appeals to young women:

Within the next ten years, the professional, working and "creative" classes will increasingly be dominated by young women. Downtowns must look for ways to appeal to young women in all facets of the downtown experience, including physical improvements, environmental stability (i.e. clean and safe), retail, residential, recreational and entertainment offerings.

Keep the talent pool as they age: Capturing Millennials will be critical to strengthening downtown's vitality; keeping them will be key to its long-term sustainability. As younger populations age, it will be critical for downtown to offer amenities that appeal to families, including quality schools, child-care, parks and active recreational areas.

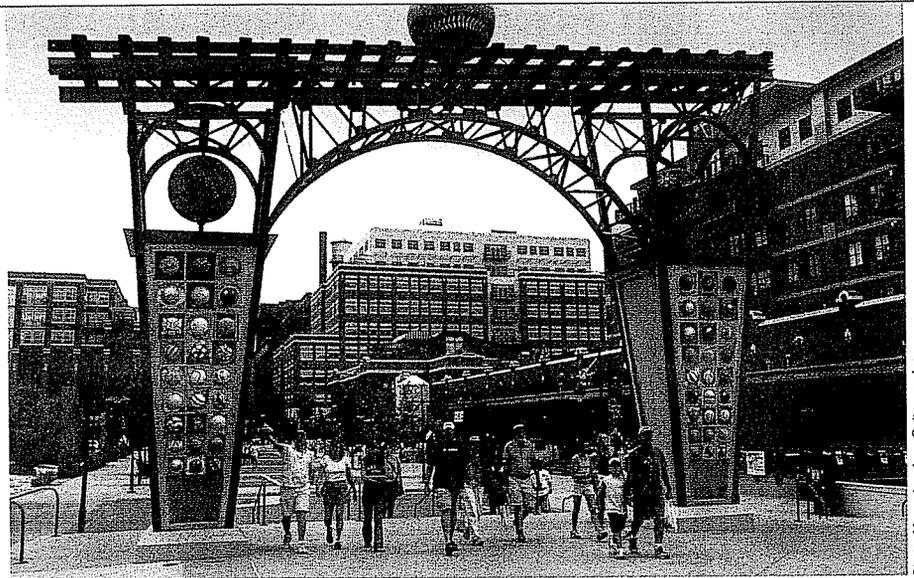
Diverse price points needed for housing: To provide an environment that attracts a multi-skilled workforce and younger, more economically-mixed demographics, downtowns must create more diversity in their housing stock. A broad diversity of price points is needed, including plentiful rental housing opportunities. In addition to broadening housing choice, rental housing could provide an economic buffer if inflationary pressures and increasing debt burdens reduce the market for owner-occupied units.

■ LIFESTYLES

Implement comprehensive transit strategies: Global trends suggest that cities with comprehensive transit systems will be well positioned for the future. Despite employment concentration and density, congestion – partly because of geography and partly because of a lack of integrated transportation strategies – is getting worse. Downtowns must figure out how to implement comprehensive transit solutions that focus on integrated approaches that include both regional and neighborhood transit linkages, plus accommodate other alternative modes such as bicycles and walking.

Foster education: Downtowns could benefit from harnessing the power of local higher institutions of learning by housing facilities to foster research and education in the city center. Higher education institutions are not only major employers but incubators of new, creative businesses, and jobs. Additionally, as cities work to attract young families, the development of downtown schools could be a powerful incentive.

Offer affordable and accessible health care: Health care will become increasingly expensive and difficult to access. Downtowns could explore options to provide both affordable and accessible health care through the attraction of clinics and development of expanded health insurance cov-



erage for workers and residents. Partnerships with local hospitals could be critical to enhance the distribution of health services within downtowns.

Foster stimulating, multi-dimensional experiences: Over the past 20 years many downtowns have become hubs for entertainment, culture and sports. To remain competitive and continue to attract a young and diverse workforce, fortifying and expanding downtowns' experiential attractions will be critical. Downtowns should look at integrating new interactive technologies into marketing and physical enhancements. A variety of cultures and languages should also be accommodated, appealing to an increasingly diverse local population and international tourists.

Promote walkability and active recreation: To appeal to changing demographics and provide an overall experience that is appealing to growing recreational lifestyles, downtowns will need to improve their overall pedestrian appeal, including streetscapes and connections. Active recreational areas that accommodate a variety of pursuits ranging from sports to dog parks will be increasingly important.

Anticipate growing international tourism trends: International tourism will increase as global incomes rise. Downtowns should work to create an environment that welcomes and accommodates visitor markets with diverse cultures, languages and lifestyles.

■ GLOBAL COMPETITION AND CHANGE

Entrepreneurship will continue to be a key to job growth: Attracting, retaining and growing small businesses will continue to be a key for promoting job growth and remaining globally competitive. Downtowns should explore ways to broaden support to small businesses and startups through a variety of means, including technical assistance, incentives and/or designation of formal "innovation or creativity" zones.

Adaptive reuse will be more affordable as construction costs rise: As global demand increases for building materials, the cost of new construction is anticipated to increase. The reuse of existing buildings will become relatively more affordable. In the next twenty years, reuse opportunities will become increasingly attractive for post-1950 buildings, including office high rises that were constructed during the 1970s and 1980s.

Further sustainability efforts: With buildings in urban settings having a significant impact on the global environment, cities nationally and globally will need to ensure sustainability efforts are an important part of their growth and redevelopment strategies. With downtown's existing business, education, cultural and living assets, regional and national patterns for sustainability can be created through the built, social and political environments. New local sustainability initiatives can set the pace for the future, guiding American policy makers to develop proactive approaches to combat climate change.



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About P.U.M.A.

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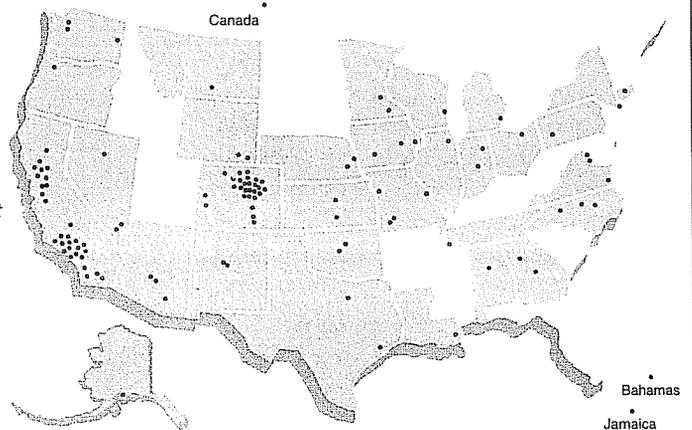
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Progressive Urban Management Associates (P.U.M.A.) is a consulting firm providing management, marketing and financial services to advance downtown and community development. The firm has provided services to nearly 200 clients in 31 states, the District of Columbia, Canada, Jamaica and the Bahamas. Clients include downtown management organizations, local governments, community development corporations and private firms.

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- *Business planning and retreats for civic organizations involved in downtown and community development*
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