



## Economic and Demographic CONTEXT

**T**he housing problems and opportunities of any city are shaped by the larger forces operating in the region of which it is a part. Housing prospects and appropriate policy responses for a city in a region with a stagnant economy and high concentrations of poverty, for example, will obviously be very different than they are for a city in a region where jobs are plentiful and levels of social and economic segregation are low.

Therefore, we begin by reviewing the dynamics of economic and demographic change in the Washington region. The analysis reaffirms findings from other recent studies, but it goes further in several respects: in particular by being the first to make extensive use of the 2000 census and by using new data files from the Internal Revenue Service (IRS) to characterize inter- and intraregional migration flows.

### THE ECONOMY

*The economy of the Washington region has grown substantially stronger and more diverse over the past two decades, as government employment has leveled off and jobs in high-paying private services have increased.*

Between 1980 and 2000, employment in the Washington region expanded from 2.1 million to 3.5 million—an increase of 63 percent. At \$233 billion, metropolitan Washington's gross regional product in 2000 was fourth in the nation. This expansion was not a product of business as usual, and it did not occur smoothly. In 1980, Washington was still what it had always been: a government town. One-third of the region's jobs (twice the national average) were in the public sector. In the 1990s, however, government was downsizing; public sector jobs in the region dropped by 10 percent—from 753,800 to 684,200—between 1993 and 1998 (figure 1). When a region's dominant industry declines by that much, serious repercussions normally result, and yet in metropolitan Washington, the private economy continued to boom throughout the period.



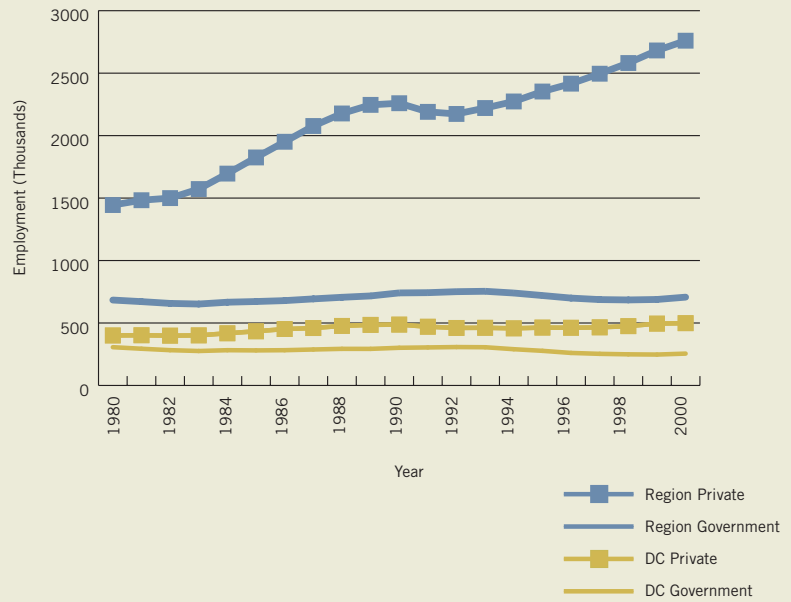
The most important explanation lies in the fact that while government was cutting employment, it was expanding its contracting to private firms in the region, and by a large margin.<sup>1</sup> Federal procurement spending went up nationally from \$175 billion in 1993 to \$194 billion in 2000, and metropolitan Washington captured a remarkable 60 percent of that growth. But government was not simply outsourcing the same work that civil servants had done in the past. Rather, procurements focused on much higher-value private services, particularly in information technology. High-value service employment was thus rapidly upgrading the productivity of the region's economy.

By 2000, government jobs represented only 20 percent of the region's workforce (much closer to the national average of 14 percent—see table 2). Private employment had grown to 2.8 million, up 90 percent from its 1980 level, and within the private sector, services accounted for 52 percent of all jobs, compared with 37 percent nationally. While information technology has been the focus, other types of services have also done well. This is particularly true for those linked to the special functions the region performs because it is the nation's capital: for example, international finance, hospitality and tourism, and legal and other business services.

This incredible transformation toward high-value private services has contributed to the region's affluence. In 2000, per capita income in metropolitan Washington was \$37,400—56 percent higher than the national average. Thus, the region's economic boom has not only brought more workers into the housing market, but it has generated considerable purchasing power as well.

The future of the region's economy is uncertain. The combined effects of September 11 and the national recession may undermine key sectors and reduce employment opportunities. It has been argued, however, that the region's comparative advantages are likely to expand as the government invests in antiterrorism activities. Yet more important for the longer term may be the diversification toward private services that has occurred over the past two decades. Whatever the future brings, the chances are that the metropolitan Washington economy will outperform that of the nation in the next few years.<sup>2</sup>

**Figure 1. Employment Growth, Washington, DC, and the Washington Region**



Source: NPA Data Services.

**Table 2. Economic Structure, the Washington Region and the United States**

|                                  | United States |      | Washington PMSA |      |
|----------------------------------|---------------|------|-----------------|------|
|                                  | 1980          | 2000 | 1980            | 2000 |
| Percentage of total employment   |               |      |                 |      |
| Public                           | 16            | 14   | 32              | 20   |
| Private                          | 84            | 86   | 68              | 80   |
| Percentage of private employment |               |      |                 |      |
| Manufacturing                    | 22            | 13   | 6               | 4    |
| Finance/insurance/real estate    | 9             | 9    | 12              | 10   |
| Services                         | 26            | 37   | 41              | 52   |
| Other                            | 43            | 41   | 41              | 35   |

Source: NPA Data Services.

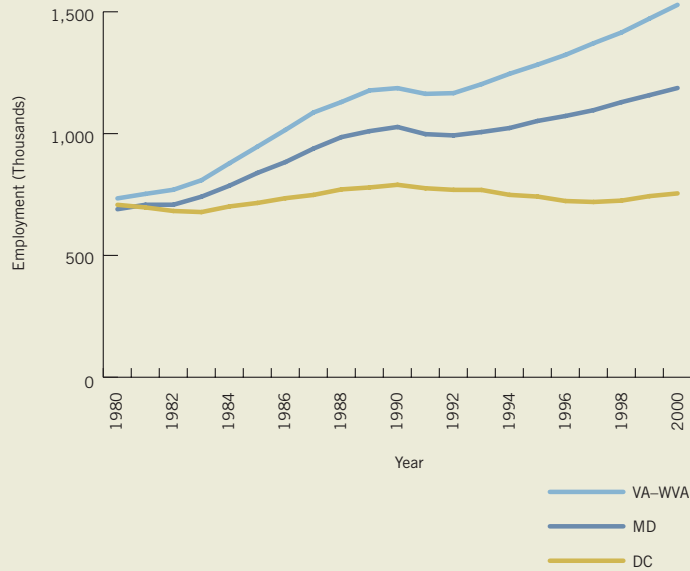
Note: Totals may not add to 100 because of rounding.

Within the region, employment in the Northern Virginia/West Virginia suburbs grew fastest over the past two decades, capturing 59 percent of the region's total growth, compared with 37 percent for the Maryland suburbs. The District accounted for only the remaining 4 percent. Hardest hit by government job cuts, employment in the District actually

declined during most of the 1990s but, fueled by regional resurgence, resumed growth late in the decade.

Employment in the Northern Virginia/West Virginia suburbs doubled between 1980 and 2000, growing from 733,000 to 1.53 million (figure 2). This increase included the dominant share of the new enterprise in data processing and telecommunications. The Maryland suburbs grew less rapidly over this

**Figure 2. Employment Growth, Washington Region Subareas**



Source: NPA Data Services.



## POPULATION AND MIGRATION

During the past two decades, the population of the region's suburbs grew markedly while that of the District declined. There are indications, however, that the District's population may have leveled off or turned upward by the end of the 1990s.

Between 1980 and 2000, the population of the Washington region grew by 42 percent to reach 4.9 million.<sup>3</sup> Washington's growth was by far the most rapid in the Boston–Washington, DC, corridor. During the 1990s, the region passed Detroit to become the fifth largest metropolitan area in the country and seems certain to pass Philadelphia to rise to fourth in the next few years.

From 1980 to 2000, the District's population declined by more than 10 percent (from 638,000 to 572,000), while the population in the Maryland suburbs increased by 41 percent (from 1.47 million to 2.07 million) and that of the Virginia/West Virginia suburbs increased by 66 percent (from 1.37 million to 2.29 million)—see table 3. These two groups of suburbs captured almost exactly the same share of suburban population growth and suburban employment growth (39 percent for Maryland and 61 percent for Virginia/West Virginia).

Many U.S. central cities performed better with respect to population in the 1990s than they had over the preceding two decades.<sup>4</sup> The fact that the District's population continued to decline in the 1990s is actually not surprising, considering the substantial job losses suffered by its primary employer—government—early in the decade. But while

period (72 percent, from 688,600 to 1.19 million) but still retain many strengths, particularly in biotechnology.

Employment in the District grew from 706,600 in 1980 to 753,400 in 2000, an increase of only 7 percent. It is not surprising that the District's growth rate fell below that of the suburbs. That was typical even among many of America's healthiest metropolitan centers—the job base in a number of large U.S. central cities actually declined over the past two decades. Nonetheless, the District economy did face a major challenge. Government jobs have been more important to the city (where they accounted for 38 percent of total employment in 1990) than to the suburbs (where they accounted for only 20 percent). Whereas the region as a whole lost 10 percent of its government jobs between 1993 and 1998, the District lost 20 percent. Total employment in the District declined during those years as well, but picked up again toward the end of the decade. It grew by 5 percent between 1997 and 2000, accounting for 12 percent of the region's growth over that period.

Many jobs located in the District are held by workers who live in the suburbs. How well did District residents themselves fare in the labor market in the 1990s? Bureau of Labor Statistics (BLS) estimates (from the Local

Area Unemployment Statistics [LAUS] program) indicate that their problems were indeed serious during most of the decade but that conditions improved toward the end of it. Throughout the 1990s, the unemployment rate in the District was considerably higher than in the region as a whole, climbing from 6.6 percent in 1990 to 8.8 percent in 1998 (almost three times the 3.1 percent average for the region). The District rate then dropped significantly, to 5.8 percent in 2000—much improved, but still well above the regional average of 2.4 percent at that time.

BLS estimates (again from the LAUS program) also indicate a turnaround in another measure of importance: the number of employed District residents. This total went down from 307,000 in 1990 to 237,000 in 1997, but then went up again to reach 263,000 in 2000 (a jump of 11 percent over three years).

**Table 3. Population Growth, Washington Region and Subareas**

|                      | Population 2000<br>(in thousands) | Percent of Region |      | Percent Growth |           |
|----------------------|-----------------------------------|-------------------|------|----------------|-----------|
|                      |                                   | 1980              | 2000 | 1980–90        | 1990–2000 |
| Total region         | 4,923                             | 100               | 100  | 21             | 17        |
| District of Columbia | 572                               | 18                | 12   | (5)            | (6)       |
| Inner Core           | 318                               | 7                 | 6    | 10             | 13        |
| Inner Suburbs        | 2,676                             | 54                | 54   | 25             | 15        |
| Outer Suburbs        | 979                               | 14                | 20   | 44             | 40        |
| Far Suburbs          | 378                               | 7                 | 8    | 32             | 26        |
| Maryland suburbs     | 2,065                             | 42                | 42   | 22             | 15        |
| VA/WVA suburbs       | 2,286                             | 39                | 46   | 33             | 25        |

Source: U.S. Bureau of the Census.

there are no data sources that track annual changes in the District’s population with certainty, there are a number of indications that District population trends may have improved beginning in the late 1990s. One such indication is that the U.S. Bureau of the Census had estimated a District population of only 519,000 for 1999, substantially less than the 572,000 recorded by the 2000 census a year later. An improving population trend in the past few years of the decade, caused by forces not picked up by the Bureau’s estimating procedure, seems a plausible explanation for the difference. The Bureau has since used the results from the decennial census to update its estimation model and has reported that the District’s population remained virtually unchanged from 2000 to 2001.

Another positive indication comes from IRS data on federal income tax filers<sup>5</sup> showing that the number of people moving into the District was higher in the second half of the decade than it was in the first, while the number moving out was lower. The District’s annual average in-migration from 1996 to 1999 was higher than the 1992–95 annual average (22,500 versus 21,400), and its out-migration was lower (24,400 versus 26,500). Although it still suffered a net loss in the later period (1,900 a year), it was considerably less than in the earlier period (5,100 a year), and the trend was in the right direction. Net losses declined year by year from 1995 to 1997, and a small net gain (100) was registered in 1999.

## RACIAL AND ETHNIC DIVERSITY

**The Washington region has been classified as one of America’s “melting pot metros” because it has a large, diverse, and rapidly growing minority population. A surprising share of the region’s minority growth has occurred in the suburbs, but although minorities are more dispersed, levels of racial segregation have changed very little.**

Racial and ethnic minorities are growing as a share of the population almost everywhere in America. Nationally, minorities (everyone except non-Hispanic whites) increased from 20 percent in 1980 to 30 percent in 2000. The black share remained constant at 12 percent, while the share for other groups (Hispanics, Asians, and others) more than doubled (from 8 percent to 18 percent).

In the Washington region, the minority share has been much higher throughout this period, increasing from one-third in 1980 to 43 percent in 2000.<sup>6</sup> Here, non-Hispanic blacks make up about a quarter of the population (more than twice the national percentage), but the proportion has stayed constant since 1980. Thus, the share of other minorities has risen dramatically—from 7 percent to 17 percent.<sup>7</sup> Nationally, the enormous increase in the nonblack minority population has been driven predominantly by growth in the number

of Hispanics. In the Washington region, the Hispanic population has also grown rapidly (reaching 8.7 percent of the total population in 2000), but Asians and Pacific Islanders now represent a much larger share here than in the nation as a whole (7.4 percent versus 4.3 percent).

During the 1990s, minority population growth was particularly strong in the Washington suburbs. The total number of suburban blacks increased by 304,000, Hispanics grew by 191,000, and Asian and Pacific Islanders grew by 161,000, compared with an increase of only 70,000 in suburban whites. The District also saw net increases in its nonblack minority population during the 1990s, but the numbers were quite small by comparison: 12,000 Hispanics, 6,000 Asian and Pacific Islanders, and 1,000 members of other races. These gains were more than offset by a net loss of 54,000 from the District’s two larger racial groups, but “white flight” is no longer an appropriate label for the trend. The black population experienced the most severe loss, declining by 49,000, compared with a decline of only 5,000 non-Hispanic whites.

While minority populations grew almost everywhere, they remain more concentrated toward the center of the region. The minority share of total population declined slightly in the District, from 73 percent to 72 percent. The suburbs all experienced increases, but remain more predominantly white than the city. Specifically, the percent minority increased from 33 to 41 percent in the Inner Core, from 35 to 49 percent in the Inner Suburbs, from 15 to 24 percent in the Outer Suburbs, and from 12 to 14 percent in the Far Suburbs (figure 3).

Patterns, however, varied for different subgroups. A recent study tracking the residential choices of legal immigrants who moved into the region between 1990 and 1998 reports that metropolitan Washington is the fifth most common destination for such immigrants in America, and 87 percent of those who came here located directly in the suburbs (46 percent outside the Beltway). Of the total, 42 percent were Asians (Indians and Chinese scattered outside the Beltway, while Vietnamese immigrants were more concentrated closer in); 31 percent were Latin Americans (the largest group coming from El Salvador)—the majority of them (63 percent) located

**Figure 3. Racial Change, Washington Region and Subareas**



Source: U.S. Bureau of the Census.

inside the Beltway in the city and suburbs; and 16 percent were Africans, 70 percent of whom located inside the Beltway, mostly in the District and Prince George's County.<sup>8</sup>

It is possible to have a major dispersal of minority populations within a region without achieving real neighborhood-level integration. And that appears to be what has happened in the Washington region. Racial segregation is most commonly measured by the “dissimilarity index,” with values ranging from 100 (if no minorities lived in the same census tracts as any whites) to 0 (if minorities and whites were proportionately represented in every tract). In metropolitan Washington, the white-black index stood at 66 in 1990, well below some of the most segregated metropolitan areas in the country, but still clearly marking a segregated society. The value did decrease over the next decade, but only slightly, to 63 in 2000. The index values measuring the segregation of other races from whites were lower, but moved in the wrong direction from 1990 to 2000. The white-Hispanic index increased from 44 to 48, while the white-Asian index rose from 37 to 39.

## HOUSEHOLD COMPOSITION, AGE, AND INCOME

**The most notable change in metropolitan Washington's age structure of late has been the movement of the baby boomers out of the young-adult category and into the 35-to-54 category. Changes in household composition have been more pronounced as married couples with children and other family households lost share, while single-parent households and nonfamily households gained.**

The age structure of the Washington region in 2000 largely paralleled that of the nation, with the same share of total population under 35 years of age (50 percent), a modestly higher share in the 35-to-54 bracket (32 percent versus 29 percent), and a slightly smaller share for those 55 and over (18 percent versus 21 percent). The most notable change here and nationwide since 1990 was the decline in the 20-to-34 group and the compensating increase in the 35-to-54 bracket as the baby boomers aged. The absolute size of the older

population grew rapidly, but it did not increase as a share of the total: That will not occur until the baby boomers enter the elderly category over the next two decades.

Within the region, the District and Inner Core stand out because they have smaller shares in the under-19 group (24 percent and 18 percent, respectively, while all other areas have 28 percent or more) and more young adults ages 20 to 34 (27 percent and 34 percent, respectively, while the other parts of the region fall between 19 and 22 percent). The elderly (65 and over) make up a higher share in the District (12 percent) and the Far Suburbs (11 percent) than in the other subareas (all 9 percent or under).

In line with national trends, the mix of household types living in the Washington region has been changing over the past two decades. Between 1980 and 2000, the share of households consisting of married couples with children declined (from 30 percent to 26 percent), as did other family households (from 32 percent to 30 percent), while single-parent households increased (from 8 percent to 11 percent), as did nonfamily households (from 31 percent to 34 percent). We are accustomed to thinking of central cities as accommodating more households without children and suburbs as being more family oriented, and this pattern holds true in the Washington region (figure 4). Nonfamily households accounted for an astounding 54 percent of all District households in 2000, up from 51 percent in 1990, while married couples with children dropped from 10 to 9 percent, and single parents stayed constant at 15 percent.

Given trends toward fewer children for those families that have them and the surge in nonfamilies (26 percent of all households in the region and 44 percent in the District consist of only one person), average household size continues to decline. Average population per household in the Washington region dropped slightly from 2.63 in 1990 to 2.61 in 2000. This ratio was even lower in the District (2.16) and Inner Core (2.11), and highest in the Outer Suburbs (2.87).<sup>9</sup>

Because the average size of households has been dropping, the rate of growth in the number of households living in the Washington region exceeded the population growth rate. Between 1990 and 2000, total households in the Washington region grew 18 percent—from



1.57 million to 1.85 million. In the District, the overall decline in the number of households (2,000) was smaller than the population loss of the 1990s (35,000), partly because of the drop in average household size.<sup>10</sup>

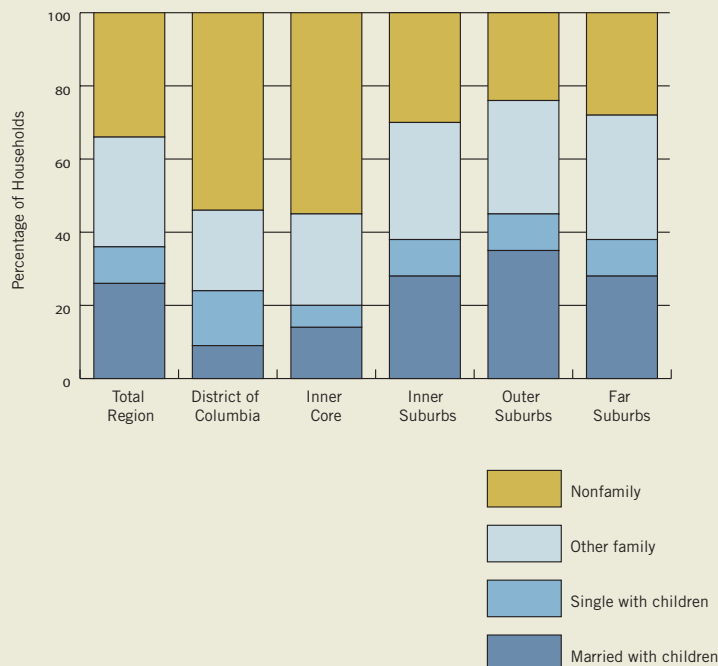
While the Washington region's economy generates substantial wealth for its residents, it still has a sizable population below the poverty line—a population highly concentrated in the eastern side of the District and in Prince George's County. After climbing in the early 1990s, the poverty rate in both the region and the District declined substantially as the economy improved through 2000. However, it is likely that the rate has gone up again since September 11, particularly in the District.

Tables of social statistics are often prepared for the 50 states and the District of Columbia, and conditions in the District always look bleak when presented that way. When the comparisons involve other large urban areas, however, the District and the region come off fairly well. In 1990, for example, the poverty rate for metropolitan Washington (6 percent) ranked 99th among the 100 largest metropolitan areas, and the rate for the District (17 percent) ranked 63rd among central cities. Conditions for minorities here have also compared quite favorably with other urban regions. For example, in 1990, the poverty rate for blacks in metropolitan Washington (13 percent) ranked 97th out of the 100 largest metropolitan areas.

As discussed earlier, economic conditions in the region worsened in the early 1990s with declines in government employment, and that clearly had an impact on poverty. Current Population Survey estimates show the District's poverty rate peaking at 24 percent in 1996 (1.8 times the national average), but dropping to 15 percent by 2000 (1.3 times the national average). After controlling for inflation, the District's median household income increased from \$33,400 in 1994 (90 percent of the U.S. median) to \$39,400 in 2000 (93 percent of the U.S. median).

While this region's poor population may be comparatively small as a percentage of the total, it is still large in absolute size and also

**Figure 4. Distribution of Household Type, 2000, Washington Region and Subareas**



Source: U.S. Bureau of the Census.



highly concentrated spatially. Although the majority of the region's poor households live outside the District, data from the 1990 census showed that nearly all of the high-poverty neighborhoods were located in the eastern half of the District and in Prince George's County; in 1990, 75 census tracts had poverty rates of 20 percent or more, and all but 10 were in the District.<sup>11</sup> More current data on household incomes confirm that extremely low income households are clustered in the District. As of 1998, about one in five District households earned less than a full-time minimum wage income (\$12,800), compared with only 7 percent of the households in the region. Over half of all District households had incomes below \$66,200 (the low-income ceiling for the region), compared with about a third of all households in the region.

Although data are not yet available, it is quite likely that poverty has increased again since September 11, particularly in the District. The economic slowdown since then has been felt most in the District's hospitality sector (which employs a large percentage of low-skill workers), and even in other sectors; those closest to poverty who were the last to get jobs in the recent recovery have probably been the first to lose them as the general economy has moved into recession.



## PROSPECTS

**The Washington region accommodated a net increase of 28,000 households per year in the 1990s, and it seems doubtful that its level of growth will change markedly between now and 2010. It also appears reasonable for the District to expect growth in population and households over the next decade.**

It is impossible to forecast the future growth of this region in any precise way, but some crude calculations may help frame expectations. In 2000, the Metropolitan Washington Council of Governments (COG) estimated that the region's population would increase by 15 percent between 2000 and 2010 (down from 17 percent over the 1990s). A forecast released in September 2001 by National Planning Association Data Services, which takes into account the weakening prospects for the national economy (though not any effects of September 11), predicted growth at 12 percent over the same period. That range would imply that the region would have to accommodate an average net increase of 65,000 to 75,000 residents a year in the coming decade, compared with the 70,000 it accommodated annually in the 1990s.

If we assume a straight-line decline in population per household over the next 10 years, these numbers translate into annual net increases of 28,000 to 32,000 house-

holds; 28,000 was the annual average actually accommodated in the 1990s. While the reality could turn out to be higher or lower, this analysis suggests that the capacity of the region's housing industry is not likely to be strained by having to handle a level of new growth much greater than it has already accommodated in the past. Nor is that level likely to decline dramatically.

If the regional volume of growth is not likely to change much, what about future trends in the District? Given the indications of turnaround noted earlier, some growth in population and households seems probable. One estimate (by COG in 2000) actually had the District's population going up by 7 percent from 2000 to 2010. Again assuming a straight-line trend in population per household, a 7 percent increase would translate into a net increase of 3,300 households per year.<sup>12</sup> As discussed in the next chapter, such a level of household growth would imply substantially higher levels of new housing construction in the city than has been experienced in recent decades.