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The Interconnectedness Between Home Builders and the Asian American Community

Abstract
California's ethnic and cultural diversity has always influenced its housing market, lifestyle, and business investments. A great example of this is the increasing Asian-American demand for new housing in the Los Angeles Basin. Using The Olson Company as an example, this article investigates the interconnectedness and mutual influence between home builders and the Asian-American community. We will present demographic trends showing how the tenfold increase of Asian-Americans in California since 1960 has dynamically influenced Southern California's inner and outer suburbs. Combined with an analysis of the Asian-American buyer profile from The Olson Company's home sales in Southern California, we find that demand for "smart growth" urban product is strong within this population segment. A psychographic analysis of these buyers draws conclusions for basic site and product design and marketing approaches. Several recent examples of projects in the West San Gabriel Valley highlight how the challenges of limited supply conditions in an essentially built-out urban landscape can be overcome via the interconnectedness of builders and homebuyers.

Keywords
Cornell, real estate, southern california, olson, olson company, asian american, asian buyers, asian, homes, home builder, builders, buying, california, community, estate, ethnic, housing, projects
The Interconnectedness between Home Builders and the Asian-American Community

By: Gerd-Ulf Krueger and Scott Laurie

Introduction

California’s ethnic and cultural diversity has always influenced its housing market, lifestyle, and business investments. A great example of this is the increasing Asian-American demand for new housing in the Los Angeles Basin. Using The Olson Company as an example, this article investigates the interconnectedness and mutual influence between home builders and the Asian-American community. We will present demographic trends showing how the tenfold increase of Asian-Americans in California since 1960 has dynamically influenced Southern California’s inner and outer suburbs. Combined with an analysis of the Asian-American buyer profile from The Olson Company’s home sales in Southern California, we find that demand for “smart growth” urban product is strong within this population segment. A psychographic analysis of these buyers draws conclusions for basic site and product design and marketing approaches. Several recent examples of projects in the West San Gabriel Valley highlight how the challenges of limited supply conditions in an essentially built-out urban landscape can be overcome via the interconnectedness of builders and homebuyers.

The Historical Context of the “Rise of Asian-Americans” in Southern California and Builder Behavior

Historically, Southern California home builders have shown a proclivity toward building in the suburbs, which used to be culturally conservative and broadly middle-class. As urban sprawl increased, builders expanded to the far-reaches of the Inland Empire. Since the 1980s, they have tended to build either monotonous tract houses or, if they wanted to be creative, designed what amounted to sophisticated master plans, all of which essentially followed the model of Orange County’s Irvine Ranch.

However, in the early 1980s things began to change. First, Southern California became more ethnically diverse, initially in its urban centers and then in the suburbs of once-staunchly conservative Orange County. As a result, some communities in Orange County now feature some of the highest concentrations of Hispanic and Pan-Asian populations in the United States (U.S.). Exhibit 1 illustrates how the Asian–American population has spread in Southern California from its initial core just east of Los Angeles in Monterey Park to Irvine in Orange County.

The Great Recession accelerated these trends. Old home building conventions no longer worked with the same emphatic certainty, at least in the more-distant suburbs where there was still developable land. Simply put, something new had to be done. Some

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1 Inland Empire consists of Riverside and San Bernardino Counties. These Counties are located just east of Los Angeles and Orange Counties and have a combined land mass of 27,000 square miles spanning to the borders of Arizona and Nevada. The Inland Empire has become the affordable overflow area from relatively built out Los Angeles, Orange and San Diego Counties. It is now the area where much of the suburban sprawl takes place these days in Southern California.
builders felt that homebuyers would be willing to embrace “smart growth” concepts, and make similar tradeoffs in order to live in smaller, denser units to maintain closer proximity to job centers, retail, entertainment, and walkable spaces within their communities. As builders have acted on these ideas, Southern California’s older suburbs, which are now completely urbanized, have experienced an impressive renaissance of new home building. In fact, at least 52 new projects have been opened since 2012, constructed by private and public home builders in the San Gabriel Valley, the San Fernando Valley, the South Bay, and Northern Orange County. Active players in this space include established companies such as DR Horton, KB Homes, Brookfield, Standard Pacific Homes, and others.

The Olson Company Identifies and Meets Asian-American Housing Needs

The Olson Company (Olson) is a home builder with a longstanding “In-Town” tradition and expertise. Early in the current housing cycle, Olson discovered what other urban residential developers were hoping for: that buyers were committed to staying close to the urban core, even as they proceeded through marriage, forming households, having children, and retirement. This trend was most pronounced in areas with highly rated schools, safe communities, and proximity to recreational amenities. While these overarching needs were expected, what was not expected was the revelation that, along the path of smart growth — (and more by chance than by design) the majority of its buyers were Asian-American. The Olson Company’s insightful responses to this discovery would form an interconnectedness between the home builder and new, urban, Asian-American buyers. This group of buyers differed from the less-diverse clientele of the old suburban development regime and has since become an integral part of The Olson Company’s strategy.

It should be noted that this trend is also different from the recent focus on wealthy Asian overseas investors buying upscale homes in Southern California, a trend that has been highlighted in the media. Although this is of significance, the fascination with wealthy Asian investors misses an important point: namely the economic rise of Asian-Americans. The groundwork for this was laid over the last 40 years by a large, organically grown and diverse ethnic group of Asian immigrants who came to Southern California from places including Hong Kong, Taiwan, Mainland China, Korea, Japan, the Philippines, India, and Southeast Asia. As can be seen in Figure 1, Asian-Americans are now a major force to be reckoned with in the California economy.

After many years of hard work, Asian-Americans are now an integral part of the US economy. Many have good jobs, above-average incomes, and some have become wealthy in the United States. The children and grandchildren of the Asian-Americans who have migrated here have been educated in local schools and universities, and many have become professionals and entrepreneurs. In the process, Asian-Americans have become a prominent buyer group in the emerging urban infill and suburban housing markets of Southern California representing a prominent part of the new American middle class. This stands as a great example of the way that ethnic diversity is forever changing and re-inventing established communities and housing markets in the melting pot of Southern California.

The courtship of Asian-American buyers by builders such as The Olson Company has resulted in a new dialogue with a new middle class profile. Olson and other builders have

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2 The data is based on Metrostudy, a well regarded national data vendor of the new housing market.
actively engaged this community by accommodating new tastes, needs, and ancient Asian
design principles such as Feng Shui. As a result, dialogues with prospective buyers usually
start with an understanding of who one encounters, and how to speak and listen to each
other.

Asian-American Market Share in Olson Company Projects

This section of the article will focus on the overall ethnic composition of 15 Olson
projects (past and present), for which detailed buyer profile information is available in
the Olson Company’s client database. The geographic coverage is the San Gabriel Valley,
the South Bay of Los Angeles, and Orange County. This database is unique within the
homebuilding industry because of the detail provided through a wealth of demographic,
income, mortgage, and geographical information. The database represents 517 new home
sales from the beginning of 2012 to the end of 2014, a period in which the Southern California
housing market began to recover in earnest from the downturn that began in 2006-07.

Since each buyer’s profile information includes their surname, the information was
used to approximate their ethnic identity via internet searches of common Asian surnames.
The findings are remarkable: 62% of the total buyers in the examined Olson projects
were identified as Asian. To be specific, this population was Pan-Asian, composed of the
following breakdown: 32% of the buyers had Chinese surnames, 16% Vietnamese, 7%
Indian, 5% Korean, 2% Japanese, and 1% Filipino.

We will now focus on the 320 Olson homes that were sold to these Asian buyers. The
general characteristics of the observed information indicate that the Asian-American buyers
of homes built by The Olson Company are Asian-American and not recent, newly-wealthy
homebuyers from Mainland China or other Pacific Rim Nations. Rather, they are first-and
second-generation Asian-Americans. They typically work in STEM (Science, Technology,
Engineering, and Math) jobs, in various mid-level business functions, own a business,
and often work in academia and medicine. Their main motivation to buy is ownership,
proximity to jobs, and a desire for better schools and neighborhoods. A surprisingly large

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5 The data is based on an internal customer database of The Olson Company, which include mortgage and basic demographic information of
individual transactions.
percentage of them are first-time homebuyers, and very few are buying as investors. The vast majority of buyers used conventional financing, with most being from cities in the same submarkets in which they were buying their Olson homes. Many buyers also worked in cities located in the same submarkets of the homes they purchased.

The median home price of the Olson homes purchased by Asian-Americans was $540,000. For entry-level homebuyers, the median price was $534,000, and for repeat buyers it was $565,000. Home prices ranged from a low of $290,000 to a high of $750,000. Overall, the prices of new homes bought by Asian-Americans in Olson projects were within the middle price range of new homes in Southern California.

Additionally, there was a sizable portion of millennial buyers. Millennials are defined as the generation born between the early 1980s and the early 2000s. In fact, out of 284 observations, 22.5% of the Asian buyers were less than 30 years old. These findings are somewhat contrary to the notion that American millennials have been staying away from the ownership market. Furthermore, the age group between 30 and 39 years old represents 42.3% of the Asian-American homebuyers. Homebuyers between 40 and 59 years represent 28.1%. This age group could be characterized as belonging to the initial immigration cohort of Asian-Americans – indeed, many are retirees or pre-retirees. Asian buyers in or close to retirement age represented 7.1%, which is a relatively small group. While the median age of all Asian buyers is 36 years, individuals from all life stages are present in the Asian-American group that purchased these homes.

The occupational profile of Asian buyers in new home projects is also remarkable. Out of 287 observations, 26.1% of the buyers worked in STEM fields. Almost 41% were employed in high-end business fields ranging from management to mid-level executive positions to business finance, and 17% have jobs in the medical and legal fields. Overall, the occupational profile of Asian buyers of Olson Company projects indicates that they are highly-educated workers.

Figure 2 depicts the income distribution of Asian buyers in Olson projects. The median income of the primary householder is $97,500. Interestingly, one-sixth of the Asian buyers have incomes above $150,000, indicating a relatively wealthy clientele. Based on 213 observations, these income numbers fit the strong occupational profile of Asian buyers in Olson projects.

With regard to entry-level buyers, 53.3% of Asian homebuyers in Olson projects were first-time homebuyers. This is very surprising, because on a national basis, the first-time homebuyer ratio is currently under 3:1 in the resale market, according to the National Association of Realtors. Only 8.8% of buyers were investors, which is rather low, and repeat buyers made up 37.9%, based on 182 observations.

One interesting aspect of the group’s household characteristics is the large percentage of singles. 55% of buyers were married, and 63% of them have children. However, 39% were single, with only a small group within the sample being divorced.

The demographic profile of Olson project buyers with Asian surnames confirms that they are, indeed, Asian-Americans and not foreign investors. Furthermore, the profile links neatly with recent findings of the Pew Research Center that reveal that Asian-Americans are a highly-educated, high income group. The study puts forth that, in contrast to a century ago when most Asian-Americans were low-skilled, low-wage workers living in crowded enclaves and were subject to prejudice and official discrimination, they are today the best-educated ethnic group in U.S. In fact, 49% of Asian-Americans hold at least a bachelor’s degree, compared to 31% of Caucasians. Additionally, they are the most likely of any major ethnic group to live in mixed neighborhoods and marry across ethnic lines. Furthermore, Asian-Americans had the highest median income of any other major ethnic

6 The data is based on an internal customer database of The Olson Company, which include mortgage and basic demographic information of individual transactions.
group with $66,000 in 2010.

The Olson data, when combined with the family characteristics and the first-time homebuyer statistics, suggests that a large proportion of Asian-American buyers of the firm’s projects are the advanced cohort of the children of the Asian-Americans who immigrated into the United States in the 1980s and 1990s. This may provide an explanation for the large proportion of singles. The data and general demographic trends illustrate that this class of buyer is genuinely sustainable moving forward and not an anomaly. Therefore, this finding should be applicable to other urban or suburban projects in Southern California and provide strategic guidance.

Now we will focus on how Asian-American buyers of Olson homes financed the purchase of their homes. Based on 294 observations, 84% of the group used some form of mortgage financing. The majority (69%) took out conventional mortgages, 15% used FHA and VA mortgages, while 16% paid cash. This suggests that the Asian-Americans buying Olson homes are well-integrated into the American mortgage system and are using it to their benefit.

The down payment ratio information for the buyers is based on 164 observations. The average down payment for a mortgage was high: 25% to 29% of the group made a down payment between 25% and 99%. Thus, the Asian buyers in Olson homes clearly had the wherewithal to provide down payments in amounts that would qualify them for a mortgage in the currently tight underwriting environment. What probably helped as well is the higher average savings rate of Asian-Americans and financial assistance of the parents in the buying process. Data from Pew Research indicates that the median net worth of Asian-American households was $83,500 in 2010, which was higher than the average American household net worth, but lower than the $120,000 net worth of non-Hispanic Whites.\(^7\) The down payment habits of Asian-Americans when buying homes signals the presence of a high quality mortgage niche, one with high down payments and implied good credit scores that are suitable for the vast majority of conventional mortgages.

The Olson database also includes information pertaining to the main motivations for why the buyers bought Olson projects. Out of 248 observations, the typical motivations included the desire to own a home (41.5% of homebuyers), a change in home size (8.9%), family change (4.4%), or job transfer (3.2%). More fascinating is that 36.3% of Olson buyers

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were mainly interested in the community aspects that accompany Olson homes, a finding that reflects the urban character of its home sites. As mentioned, Olson buyers were initially assessed to make tradeoffs in favor of proximity to the urban core under the proviso that the homes are in safe neighborhoods while being close to retail and good schools. The premium that a large percentage of Olson buyers give to community characteristics is a striking confirmation of this initial observation.

As Figure 3 shows, being close to jobs (33.3%) is the main community motivation of Asian-American buyers, followed by the desire to live in a better neighborhood (32.2%), have access to better schools (21.1%), and community amenities (13.3%) such as proximity to retail and recreation.

This trade-off also becomes apparent in the acceptance of smaller, denser homes for greater access to jobs and professional networks by Asian-Americans. Furthermore, when one examines where buyers are coming from and where they work in the San Gabriel Valley, one can see that Asian-Americans that buy Olson homes in urban or older suburban sites tend to come from and work in urban environments. For example, in the San Gabriel Valley, 77.3% of all Asian-American buyers were originally from either the San Gabriel Valley or Los Angeles. Furthermore, 65.3% of buyers in the San Gabriel Valley work in either the San Gabriel Valley or Los Angeles.

The motivational, work place, and buyer profile data for Olson home sites in Southern California all exhibit a strong signature of community motivations and an interest to stay close to job cores. What is particularly intriguing is the fact that many Asian-American buyers are looking for upscale urban amenities, nearby jobs, good schools, safe neighborhoods, and shopping spaces that fit their cultural and culinary tastes. In suburban master-planned communities that are further away from Los Angeles, such as the Inland Empire, such amenities need to be built over time by developers with great expense and care. In many of Olson’s sites, these amenities already exist, involving little to no extra cost for the builder; a hidden benefit to following a smart growth strategy in well-positioned urban neighborhoods.

**PRIZM Segmentation Analysis**

This section will augment the emerging dynamic of Asian-American buyers by examining the PRIZM segmentation of Olson buyers via 4,000 sales during the last 14 years. The Key PRIZM segmentations of Olson buyers are unambiguously linked to the Asian-American buyer profile. This can be used toward image-building, traditional marketing, social media outreach, product design, and to get an idea of the overall gestalt of one’s target market, going beyond the buyer profile presented in the above section.

PRIZM is a geo-demographic model that defines U.S. households in terms of 66 demographically and behaviorally distinct types, or “segments,” to help marketers

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determine consumers’ likes, dislikes, lifestyles and purchase behaviors. The segments are labeled with nicknames that capture the essence of the segments. Each segment is also grouped in larger life stage and urbanicity categories.

For the total number of recent buyers, the PRIZM data was boiled down to 5 segments, which together represent 72.5% of transactions in Olson projects. The segments are ranked by socio-economic status; the lower the number, the higher the ranking (in parenthesis below). The segments are in order of market share:

- **(7) Money and Brains (29% of buyers):** This segment has high incomes, advanced degrees and sophisticated tastes. Many are white city-dwellers, albeit, with a relatively high concentration of Asian-Americans. They are married with few children who live in fashionable homes, which can be townhomes or single-family detached homes. They are in upper management and are wealthy. In terms of life stage, they are enjoying midlife success.

- **(29) American Dreams (17% of buyers):** This segment represents ethnically diverse America, with more than half being Asian-Americans, Hispanic, and African-American. They live in multilingual neighborhoods, and many speak a foreign language. They are middle-aged, and live in middle class comfort with their children in townhomes and single-family detached homes. They are professionals with above average wealth. Life-stage wise, they can be described as young accumulators.

- **(16) Bohemian Mix (13% of buyers):** They are young, mobile urbanites and represent the nation’s most liberal lifestyles. They are a progressive mix of young, singles and couples, and are mostly professionals with upper middle incomes. They are multi-ethnic with a good share of Asians, Whites, Hispanics and African-Americans. Living in funky, attached homes they are early adopters who are quick to check out the latest movies, nightclub, ethnic foodie places, technology, and microbrews. In terms of life-stage they are young achievers with moderate wealth.

- **(14) New Empty Nests (11.0% of buyers):** With their children recently out of the house, this segment consists of older Americans who pursue active lifestyles and live predominantly in townhomes. Their income falls into the upper middle range and their wealth is high. Life stage wise, they are in their mature years and they like to travel.

- **(4) Young Digerati (2.5% of buyers):** These are the nation’s tech-savvy singles and couples that live in fashionable neighborhoods at the urban fringe. Affluent, highly educated and ethnically mixed, they live in townhomes and single-family detached homes. They love to shop in boutiques, dine in casual restaurants and go to all types of bars. In terms of life-stage, they belong to the young achievers.

The commonality of these geo-demographic segments is that buyers have a distinct urban flavor. As mentioned, buyers in these segments cover all life stages, and are ethnically diverse with a strong Asian-American component. In addition to having high incomes, the key PRIZM segments identified have above-average wealth as well. Their overall market gestalt is a mix of older and younger populations with a distinctly hip and, again, Asian flavor.

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8 Nielsen PRIZM, a geo-demographic data vendor owned by The Nielsen Company.
Two Project Examples

This section makes the connection with the Asian-American community more concrete. The map in Exhibit 2 shows the distribution of Olson projects in Southern California. The blue dots represent sold-out projects, the red ones represent currently active projects, and the white dots represent future projects. For the purposes of this article, we are particularly interested in two future projects in the green cluster around Monterey Park, just east of downtown Los Angeles.

This cluster of cities was predominantly white until 1970. The area in question includes Alhambra, Arcadia, Temple City, Rosemead, and San Gabriel. These were the first Asian-American communities developed in the beginning of the 1970s as well-educated Asian-Americans began settling in the West San Gabriel Valley, initially to Monterey Park, which was at one time dubbed “The Chinese Beverly Hills”. Attractive features of these cities include highly-ranked schools, low crime rates, proximity to job centers, great retail and restaurants, and a full-fledged Asian business infrastructure.

A great example of the Asian-American influence is the transformation of this cluster of cities into a hub of sophisticated Asian food, culture, and business. With the San Gabriel Mountains rising majestically to its back, facing the blue waters of the Pacific Ocean in the distance, its landscape conveys ancient Asian design traditions of harmonizing one’s surroundings for good luck and health.

The first future project, Mission Walk, is located in the City of San Gabriel on a 5.5 acre site that was formerly occupied by Huy-Fong Foods, the maker of Sriracha hot sauce. The site is a very good example of the typical urban infill opportunity in Southern California, which often involves former commercial sites. It takes great effort, expertise, and good relationships with the local community fabric to find such sites. It is also hard to entitle them, and in this case a lot of time was spent working with local politicians, making direct contact with predominantly Asian-American community and business leaders to persuade them of the benefit of this new residential development. As a result of this dialogue, the property received approval for 88 homes, of which 57 will be row townhomes, 27 will be triplex homes, and 4 will be single-family detached homes. The price range of the homes will be from $450,000 to $750,000.

With the prominent Asian population in the City of San Gabriel, it is obvious that one should expect a large share of Asian-American buyers for the project. Since the project consists mostly of townhomes, most of the PRIZM segments focused on by The Olson Company should come into play, including “Money and Brains” and “American Dreams”. Both segments have an interest in sophisticated, urban attached homes.

The Olson Company utilizes this type of psychographic segmentation information to determine buyer trends and influences. The database of information the Company has compiled on past Olson buyers provides the necessary information and insights to make strategic product and planning decisions. The Company is able to review past buyer preferences to determine floor plans and density at future communities based on the psychographic segments present in these areas. For example, the Company is repurposing a product for the upcoming San Gabriel community that was highly successful at a previous Olson Company community in the City of Fountain Valley in Orange County. The City of Fountain Valley had the same strong psychographic segments and many other attributes (highly-rated schools, high incomes, low crime) similar to the City of San Gabriel (“Money and Brains” and “American Dreams”). From experience, the Olson Company knows the product and location preferences of these buyer segments. As far as marketing is concerned, the Olson PRIZM targets are major users of technology, and therefore a sophisticated internet campaign is planned, with a particular focus on social network marketing.

The second future project is called Encanto Walk and is located in the Southern fringes...
of Monterey Park, consisting of 80 small-lot detached homes. The site was formerly owned by the San Gabriel Nursery and Florist and therefore had a commercial zoning. In order for The Olson Company to develop the site as a residential community, a Zone Change and General Plan Amendment was required. In the City of Monterey Park, any Zone Change on a site greater than one acre must be ratified by a public vote. Again, intensive and thoughtful dialogues with local community leaders and the community facilitated the entitlement of the property. The voters voted in favor of the Zone Change and General Plan Amendment by a narrow margin, and the results of the election were ratified by the City Council the following month.

Due to the adjacency of the site to a cemetery and other planning considerations, Olson utilized Feng Shui principles in both product and site design. The site plan, therefore, includes placing a fountain at the entry of the community, with the water flowing to the interior of the site directing energy into the community. The community’s landscaped frontage with numerous trees creates a flourishing and protected environment for the project.

Based on psychographic segmentation analysis the Company determined that “American Dreams” and “Money & Brains” were among the top five segments in Monterey Park. The Company wanted to differentiate the product offering from nearby communities in San Gabriel and Temple City, so they developed a small lot single-family detached site plan within a gated community. Home prices at the Encanto Walk will range from $550,000 to $650,000 and the product was designed for families with product offering 4-5 bedrooms and rear yards.

Conclusion

In summary, this article has shown that Asian-American buyers have become a major source of demand within the Southern California urban new home market. This represents a change from the traditional practice of new, suburban housing developments, which feature large homes and backyards on the outer fringes of suburban Southern California. Instead, a fresh dynamic is emerging in which a new style of home building based on smart growth principles and closeness to urban job cores has become accepted both by home builders and a major, sophisticated consumer group. Furthermore, good relationship-building with local business and community leaders can help in the search process for residential projects and help gain approval for entitlement. It is important to recognize that this new dynamic is driven by Americans who are firmly rooted in both Asian and American experiences, creating a very innovative framework for doing business together. The authors believe that this is just the beginning of an urban renaissance, which will bring about new styles and practices of conducting research, new product design, new marketing techniques, and ways of relating to the customer.