

Population in Richest Zip Codes Keeps Growing

As the income gap has grown, America's wealthy families seem to be concentrating in the most-affluent neighborhoods

By Venessa Wong

It should come as no surprise that rich people like living around other rich people. From Shibuya in Tokyo and the Seventh Arrondissement in Paris to Manhattan's Upper East Side and the tree-lined avenues of Palm Beach, Fla., wealth gravitates to wealth. As the global income gap between rich and poor widens, the richest neighborhoods keep getting richer—and bigger.

Take, for example, Palo Alto, Calif. Over the last decade, hundreds of wealthy people have relocated to this university town as local Silicon Valley tech businesses boomed. It is home to such companies as Facebook, Hewlett-Packard (HPQ), and VMWare (VMW). Thanks to so much new money, Palo Alto's 94304 zip code is one of the fastest-growing pockets of wealth in the U.S. The number of households in this area, where the average household net worth is \$1.3 million, more than doubled since 2000, according to data from Little Rock (Ark.)-based Gadberry Group.

While many zip codes in the U.S. have been battered by the economic downturn, neighborhoods around Palo Alto are among a small group of expanding rich areas. In a new OECD report, the top 10 percent of the country's income earners made nearly 15 times more than the bottom 10 percent in 2008, up from a multiple of 12 in the mid-1990s. As is often the case, the rich are grouping near golf courses, beaches, upscale boutiques, and schools.

So where are these privileged zips? In an exclusive analysis for Businessweek.com, Gadberry Group identified the 100 richest zip codes in the U.S., based on average household income and average household net worth. The survey included only places with more than 100 households. (Of the top 50 locations we profiled from Gadberry's list, the zip with the least number of households is in Mill Neck, N.Y., and the biggest lies in Potomac, Md. The number of households in the 100 richest zip codes—which have an average household net worth of \$1.4 million—grew by 7.4 percent from 2000 to 2011, based on Gadberry's data.

Are the Aging Wealthy Relocating?

Across the U.S., the proportion of families living in affluent neighborhoods (places where median incomes were greater than 150 percent of median income in their metropolitan areas) rose to 14.1 percent of families in 2007, from 12.7 percent in 2000, according to a new study by Sean F. Reardon and Kendra Bischoff at Stanford University, which is incidentally set near Palo Alto.

“Some of these areas have grown in double-digit numbers over the past 10 years, suggesting a range of possibilities—higher wealth concentration or the movement of a [wealthy] aging population to different locales,” says Larry Martin, Gadberry’s president.

The wealthy population swelled over the last decade, though at a slower rate than overall growth. U.S. households earning at least \$200,000 increased by 7 percent, to 4.6 million households, from 2000 to 2010, according to U.S. Census Bureau estimates, which made adjustments for inflation. (The total number of households increased by 9.7 percent.) Still, as the nation’s low-income population grew faster, average household income fell to \$67,530, from \$72,339, over this time.

Many established enclaves for the rich that were already well-developed grew only minimally. For example, the 90077 Zip code in swanky Bel Air, Calif., a community that has been home to such celebrities as Clint Eastwood, Renee Zellweger, Walter Pidgeon, and Ronald Reagan, gained a mere four households (a 0.11 percent increase) since 2000, estimates Gadberry.

Other neighborhoods expanded significantly. The population in Palo Alto’s 94304 Zip code, for instance, grew by 112.8 percent, to 3,627, from 2000 to 2010, according to U.S. Census Bureau data. The growth in this area suggests “a very high rate of wealthy population move-in and new housing development and a pattern consistent with the second tech boom that is ongoing,” says Martin. Other growing zips include areas in Armonk, N.Y., and Franklin Lakes, N.J, according to Gadberry’s data.

Many affluent second-home markets such as the Hamptons in New York’s Long Island did not make it into the top 50 because Gadberry’s survey mainly captured data on primary residences. Neighborhoods in such urban areas as Manhattan and San Francisco, which contain pockets of extreme wealth, also may have fallen off the list due to the greater range of income among residents.

Incomes Grow Denser at Bottom, too

As the proportion of American families living in affluent neighborhoods has grown, so has the share of families concentrated in poor neighborhoods (those in which median incomes are less than 67 percent of metropolitan median income). The latter reached 17 percent in 2007, up from 15.2 percent in 2000, according to data from the Stanford University report. By 2007, 43.5 percent of families lived in middle-income neighborhoods (whose median income runs from 80 percent to 125 percent of metro median income), down from 47 percent in 2000.

Contributing to the expansion of affluent neighborhoods was greater geographic segregation of income, which could affect less-affluent areas negatively, notes the Stanford report. If rich people relocate to more exclusive zip codes from the communities in which they made their wealth, tax revenue for their old neighborhoods may be reduced, cutting funds for schools, parks, and other public services. “The increasing isolation of the affluent from low- and moderate-income families means that a significant proportion of society’s resources are concentrated in a smaller and smaller proportion of neighborhoods,” Reardon and Bischoff state in the report.

By 2020, the Deloitte Center for Financial Services predicts, the number of millionaire households (including real estate assets) in the U.S. will double (although a million dollars doesn’t buy what it used to).

Even as the number of wealthy individuals grows, so does the gap between the merely rich and the mega-rich. In communities such as Palm Beach or Old Westbury on Long Island’s Gold Coast, the high cost of living, real estate prices, and taxes will inevitably squeeze out some who can no longer afford to live there.