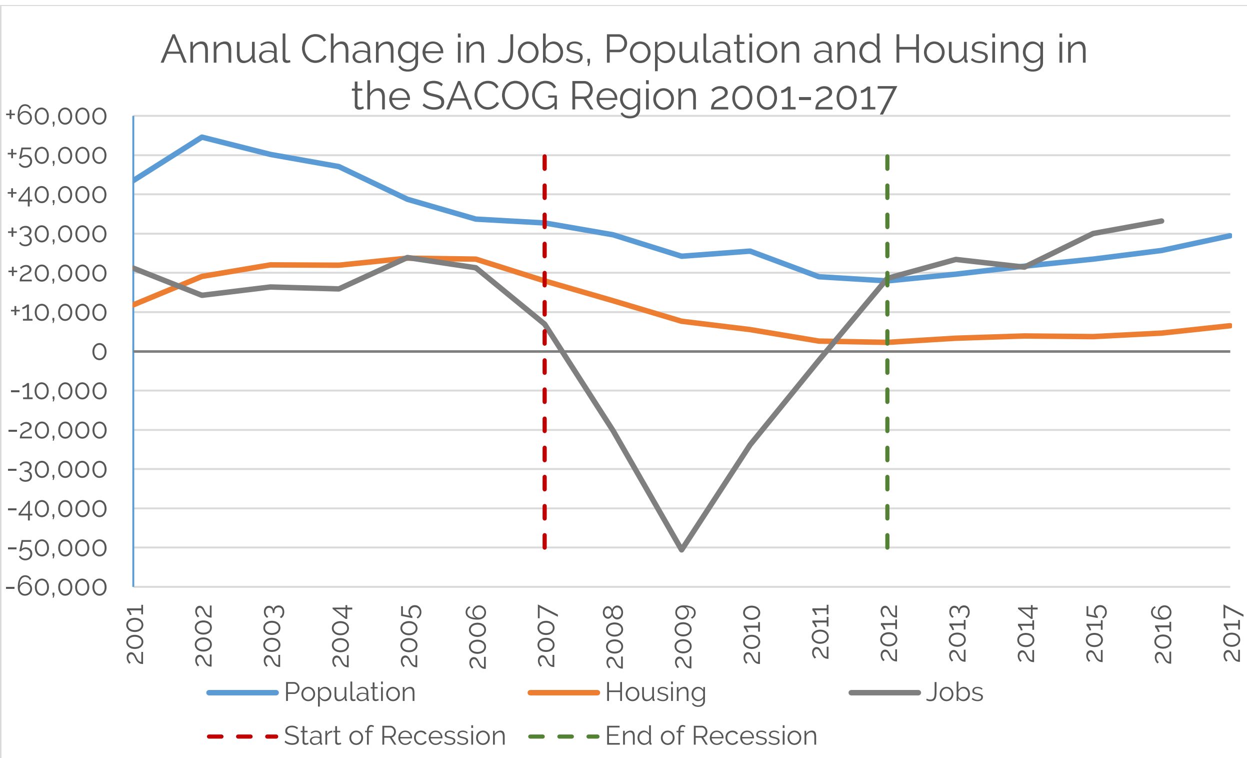
State of Housing

Housing Background for SACOG Board Panel on Overcoming Low Housing Production

February 15, 2018

SACOG's 2017 Regional Progress Report covered many topics including a brief mention of housing. Since then, the state of the region's housing market has become a topic of increasing Board interest. This paper provides more detail on the status of recent housing production in the SACOG region.

As of 2017, the 6-County SACOG Region included nearly 2.5 million residents, more than a million jobs and about 960,000 housing units. The Regional Progress Report focused on Pre-Recession, Recession and Post-Recession time periods for the SACOG Region. As shown in the chart below, the overall trend is that while the number of jobs and population have significantly recovered from the recession and continue to increase, housing production has not.

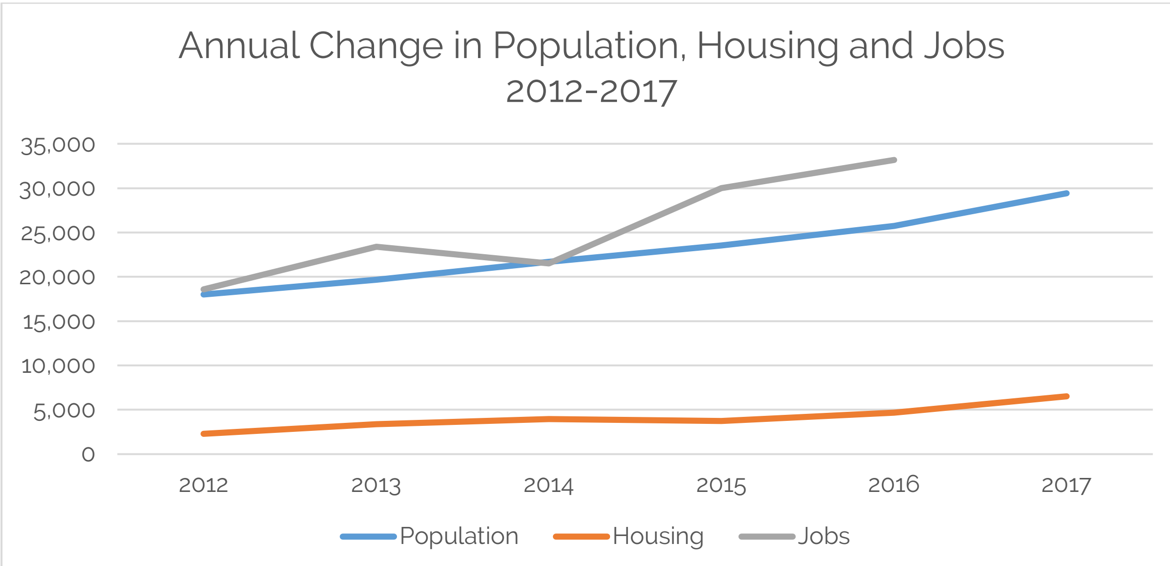


Sources: California Department of Finance Demographic Research Unit and California Employment Development Department

Most of the Progress Report compared SACOG to other regions throughout California. This review focuses on the SACOG region specifically during the post-recession 2012-2016/17 period with some breakdown of data by Metro area. The Sacramento Metro Area consists of

El Dorado, Placer, Sacramento and Yolo Counties while the Yuba City Metro Area consists of Sutter and Yuba Counties.

During the 2012-2016/17-time frame, the SACOG Region added 127,000 new jobs but only 22,000 new homes.



Sources: California Department of Finance Demographic Research Unit and California Employment Development Department

Historically, the ideal has been one new housing unit built for every two jobs created. SACOG's rate is currently one new housing unit built for every 5.8 jobs. Our region performs better only than San Francisco. In comparison, Austin and Washington DC were at 1.8, Portland, OR was at 2.3 and Nashville was at 2.4.

Metro Area	Jobs per 1 New Housing Unit
San Francisco, CA	6.4
SACOG Region, CA	5.8
Riverside, CA	5.7
San Jose, CA	4.9
Los Angeles, CA	4.7
San Diego, CA	4.3
Miami, FL	4.1
Atlanta, GA	3.0
Seattle, WA	2.5
Dallas, TX	2.5
Phoenix, AZ	2.5
Nashville, TN	2.4
Portland, OR	2.3
Charlotte, NC	2.1
Washington, DC	1.8

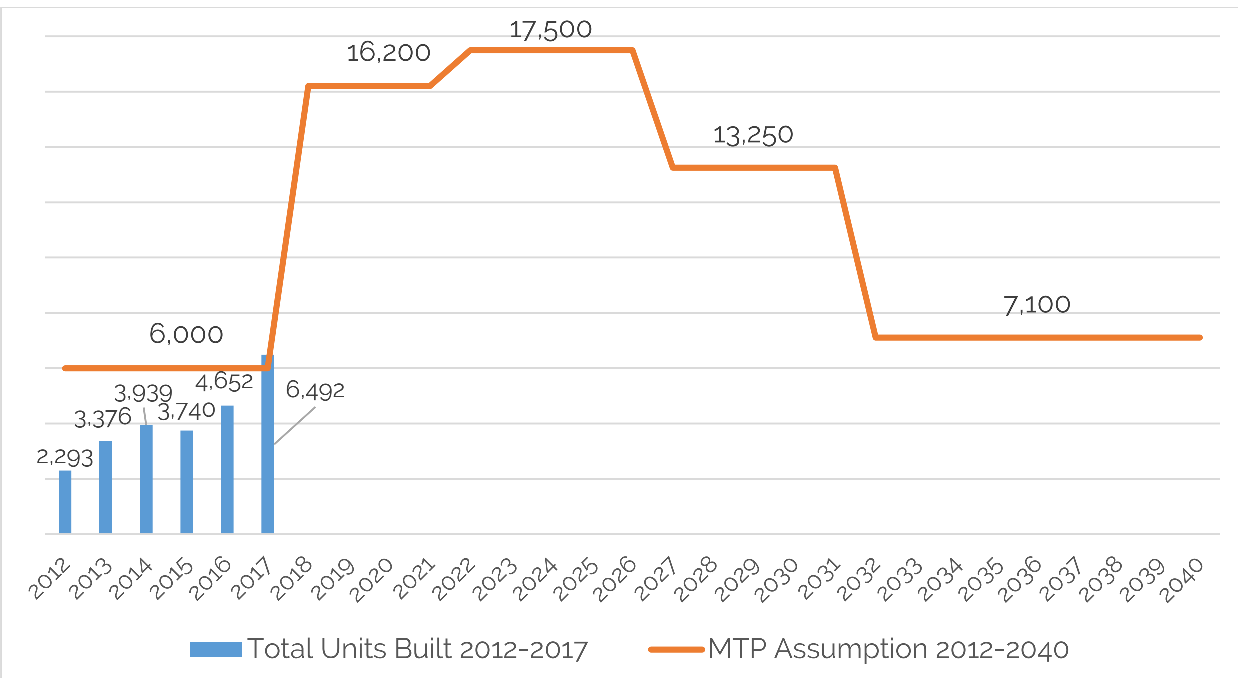
Austin, TX	1.8
Houston, TX	1.3

Sources: U.S. Census, U.S. Bureau of Labor via Bloomberg

Looking to the future, the Region is expected to grow by at least 260,000 jobs, 625,000 residents and 275,000 housing units by 2040.

The current rate of overall housing growth is not keeping pace with employment and population growth, and we as a region are underperforming on housing supply. The state as a whole is coming from a deficit, as is the region. In the MTP/SCS, SACOG projected a big jump in housing growth starting this year just to keep up with population and job growth, let alone to make up for the deficit of previous years. SACOG's projections do not take into account filling in that deficit.

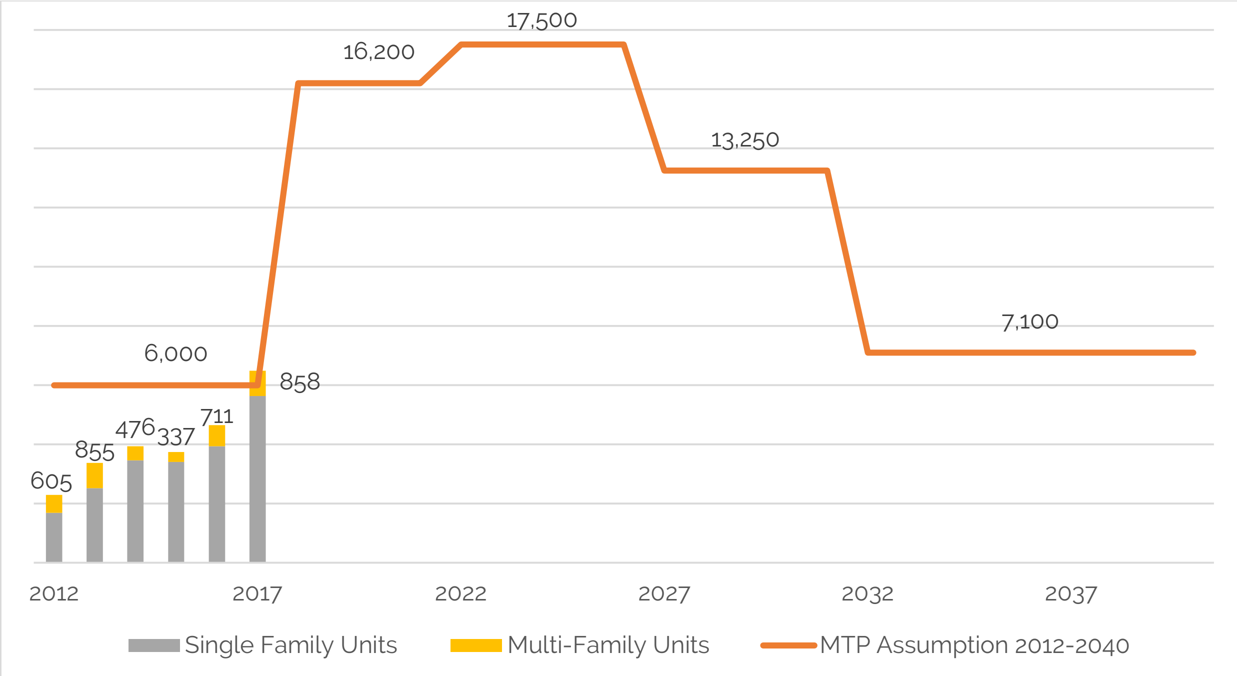
Actual Housing Unit Growth vs. SACOG Projected Growth 2012-2040



Sources: California Department of Finance Demographic Research Unit and SACOG MTP/SCS Projections

Again, overall housing growth is down, yet it is worse for attached units. This is important because as we know from the initial Blueprint Market Study and every SCS since then, not everyone wants, needs, or can afford a single-family home. SACOG has a guiding principle of providing housing choice that isn't being met for the variety of households in the region. The MTP/SCS projects 45% of new housing growth to be attached products. Between 2012-2017 only 16% were multi-family units.

Actual Multi-Family Growth vs SACOG Projected Attached Growth



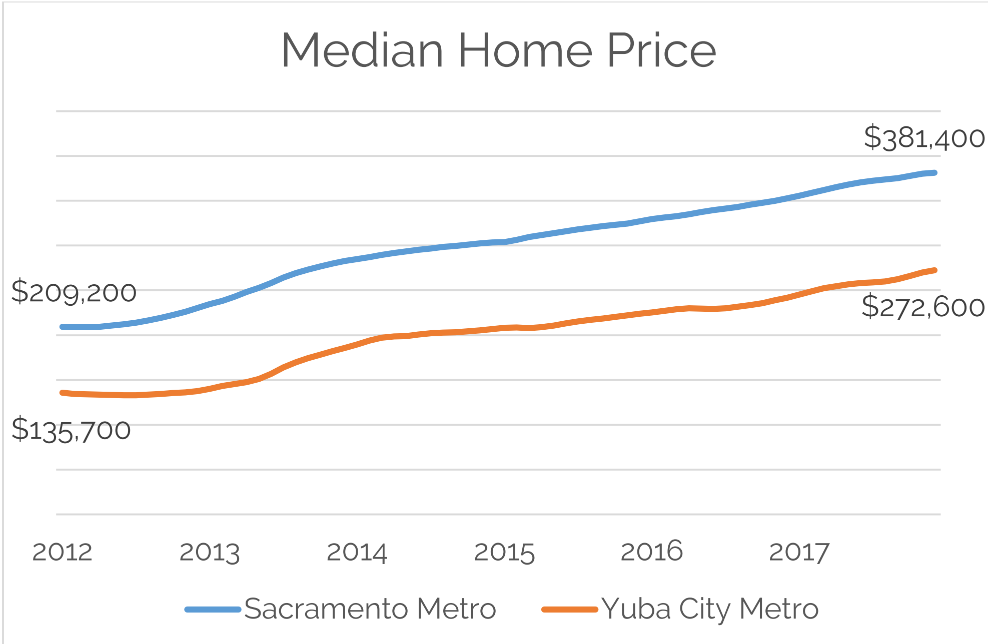
Sources: California Department of Finance Demographic Research Unit; SACOG MTP/SCS Projections and Yardi Matrix

In comparison, apartment construction is at a 20-year high nationally, with most of our country's biggest cities seeing significant increases in rental stock. After a slow post-recession period, the market started rebounding in 2012, and by 2014 new supply had amounted to more than 237,000 units delivered across the country in one year, well above historical averages.

The 20 U.S Metros with the most apartments that were projected to be delivered in 2017 include Denver with 13,000, Austin with 7,500, Phoenix, with 7,300, Charlotte with 6,500 and Portland with 4,800. This compares to the SACOG Region at 900.

This mismatch between supply and demand for housing has resulted in an increasingly higher priced market for both owners and renters. Many foreclosed single-family houses were bought up by investors during the Recession which removed a significant portion of existing housing stock from the for-sale market. This, coupled with the low rate of new growth overall, has limited the pool of for-sale houses available and helped to create one of the hottest housing markets in the country.

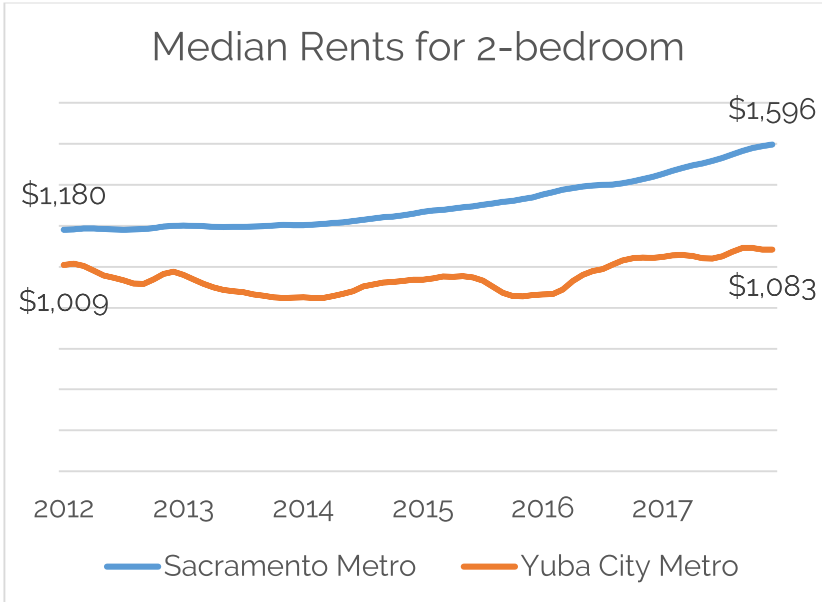
Median home prices have increased from $209,000 to $381,000 since 2012 in the Sacramento Metro area and from $136,000 to $273,000 in the Yuba City Metro area.



The same story of higher prices holds true with the rental market. When there are more renters than rental units, prices rise.

Of the nearly 30,000 new residents in 2017, more than 7,500 of them came from the Bay Area; fleeing the extremely tight and high cost Bay Area markets for the relatively more affordable SACOG area markets.

While many are looking to buy, a large portion of them are looking to rent. This demand has led to increasingly higher rents - an 8.2% increase year over year in the last year alone. Stories of landlords raising rents are anecdotal at this point as available data has not yet been able to keep pace with the rapid changes being seen in the SACOG area. More and more individuals and households are having a hard time finding housing at all, let alone housing they can afford. Median rent for a 2-bedroom unit has jumped from $1,200 to $1,600 in the Sacramento Metro area and $1,000 to $1,100 in the Yuba City Metro area.



Source: Zillow

In other areas of the country, historically tight markets have seen slowing rental growth rates over the last year. Rents are cooling in other urban hotspots such as Houston, Austin, Denver and Portland. Six of the country's top 10 priciest markets even experienced rent drops in May 2016, including San Jose. The same does not hold true of the SACOG area.

Looking at the 2012-2017 period, adjusted for inflation, median for-sale home prices increased 59% and median rental prices for a 2-bedroom increased 33% in the Sacramento Metro area. In the Yuba City Metro area for-sale home prices increased 69% and rental prices 11%.

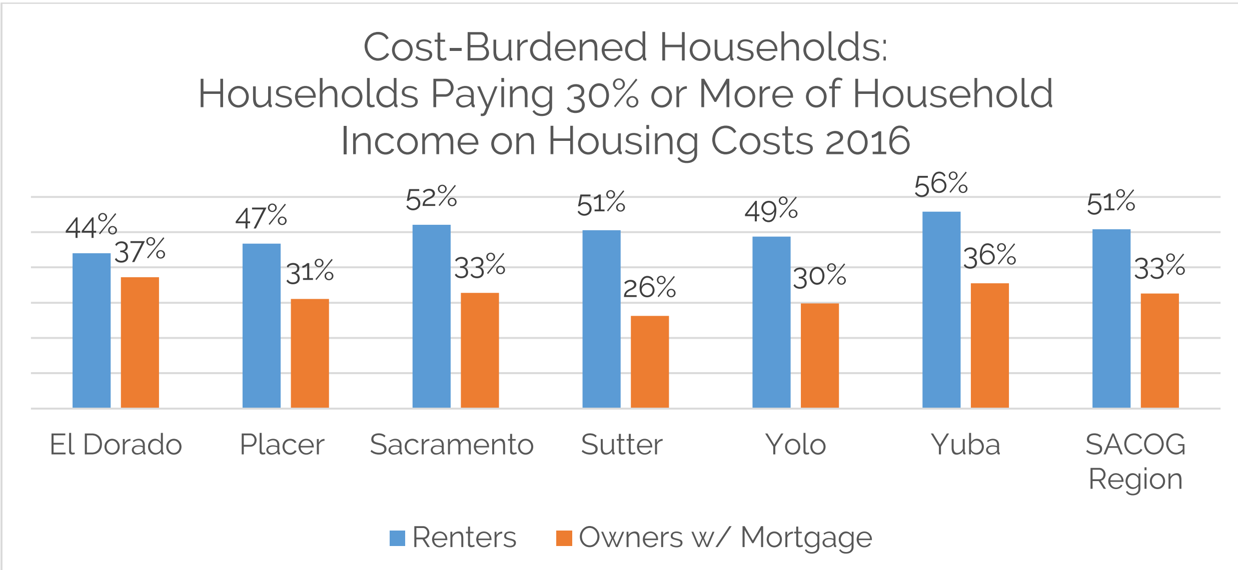
This raises the issue of affordability. While both for-sale and rental prices have increased significantly, median household incomes have not kept pace. The Sacramento Metro area median income rose 7.9% while the Yuba City Metro rose only 6.4% over the same time period.

2012-2017 Housing cost growth did not keep pace with Median Household Income Growth

	Sacramento Metro	Yuba City Metro
Housing Prices	59%	69%
Rental Prices	33%	11%
Median Incomes	7.9%	6.4%

Sources: Zillow and U.S. Census ACS

Because household incomes have not kept pace with the rapid increase in housing costs, we are seeing more cost-burdened households. Households are considered cost-burdened if they pay more than 30% of their income for housing. Across the SACOG Region, more than half of all renter households at all income levels and nearly a third of owners with a mortgage are cost-burdened.



Source: U.S. Census ACS

Many lower income households in the region who are paying 30, 40 and even 50 percent or more of their income for housing have little money left for other needs including food, clothing, transportation, and health care. Having a large percentage of households who pay too much of their income for housing reduces other spending, and impacts the broader economy.

The panel on Feb 15 at the SACOG Board Meeting will discuss answers to the question: What will it take to build housing units to meet the Blueprint and the SCS?

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