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Report: Housing crisis driving talent from region

By Mark Armao

San Diego County's housing shortage will give rise to severe economic challenges in the coming decades, according to a report released Tuesday by the San Diego Regional Chamber of Commerce.

The report found as the geographical disconnect between job centers and new housing widens, employers will struggle to attract workers, who are increasingly burdened with high housing costs and long commutes.

Prepared by London Moeder Advisors, the San Diego County Housing Study & Economic Impact Analysis projects future housing shortfalls in specific areas of the county, and includes a survey of employers that details how the housing crunch affects recruitment efforts.

"Unlike most of the previous reports that tell us about the housing situation and that we are — by most definitions — in crisis mode, this report marries the housing crisis with impending economic issues that could balloon into a crisis down the line," said London Moeder Advisors senior principal Gary London.

Based on a regional growth forecast compiled by SANDAG, the county is expected to add about 86,000 housing units between 2012 and 2020. But halfway through the eight-year period, in 2016, the region had added only 20,103 units, less than half of the 43,000 units it should have added by that point.

"We aren't building enough housing. That's the core issue," London said. "But it's not just the macro numbers. It's the fact that we're not building the right kind of housing; we're not building housing at the right kind of prices; and we're not building housing in the right kind of locations."

The maldistribution of housing paired with the shortage of all dwelling types leads to scarcity, which drives up both rent and home prices in the area, London said.

As housing for the region's workforce becomes increasingly unaffordable, he said, employers are forced to make decisions about whether their businesses can exist in San Diego.

"Ultimately," the report states, "we have concluded that there will be an economic price to pay, as housing is not aligned with job growth."

Changing preferences

Although the construction of single-family homes has historically outpaced multifamily construction, housing growth in the region has shifted dramatically since 2011, with multifamily building permits being approved at nearly twice the rate of single-family permits.

Single-family homes have made up about 63 percent of the housing stock over the last couple decades, but the rate of single-family construction is anticipated to decline significantly over the next 40 years, the report states.

According to SANDAG's aggregation of local plans from the region's 18 cities and the unincorporated county, the area could add as many as 340,500 new housing units between 2010 and 2050. Roughly 81 percent would be multifamily units, while only 19 percent would be single-family homes.

And the shift has already begun; multifamily building has significantly increased its share of permits in the years following the recovery from the economic downturn.

Aside from the shrinking amount of land available for the construction of detached homes, one of the primary drivers of the shift is the perception that millennials prefer apartment living over suburban life.

The report states that recent development "has been focused on building smaller units, usually in multifamily settings," and that the perceived demand from millennial consumers tended toward "more urban product."

But those assumptions may not hold true, especially as those in the millennial generation enter their family-forming years, London said.

"The oldest millennials are now 37, 38 years old," he said. "And most people aren't going to raise their family in an apartment. They're going to want to move into something that feels more like a single-family home."

But, because many first-time homebuyers probably can't afford to move into a traditional single-family home in a suburban area, London suggests that the area adds more alternative forms of single-family homes, such as cluster homes and semidetached row houses.

What he recommends is not necessarily "housing that goes high, but housing that goes dense," he said. "Maybe you don't have a backyard or maybe you're really tight up against your neighbor, but inside you have a couple thousand square feet of interior space."

The strategy would not only allow for more density, but would enable a more efficient use of land, the cost of which is "the major factor in the price of a house," London said.

"We need to be more efficient with the use of the land to neutralize the cost of the land," he said.

Aside from alternative forms of single-family residences, the report highlights the need to build housing of all types, including apartments, condos and detached homes.

Misplaced workers

The report also warns of the geographical disconnect between where jobs are expected to be and where housing can be built.

"The problem is most pronounced along the region's North Coast and inland North County," the report stated. "That is where the jobs-to-housing imbalance is the greatest, yet where the resistance to new housing is most persistent."

The North City Major Statistical Area, which includes job centers like Sorrento Valley and Miramar, is projected by SANDAG to add nearly 140,000 jobs between 2012 and 2050. But the area is projected to add only 68,663 homes over that period.

The report states that a "more troubling" ratio exists between the number of jobs at the single-family-home income ranges to the number of actual single-family homes in the North City MSA. Over the next 30 years, that ratio is expected to reach 8.06.

The projections suggest that employees in the North City area will be forced to look for housing options elsewhere, such as the eastern and southern reaches of the county.

The scenario already plays out in various areas of the county, London said.

"Most of the housing that has been permitted is in the South County, which means that people who are employed in North County commute from South County on a daily basis," he said. "It's a long commute. It's a stressful commute."

"What we need to do is concentrate on building housing in the North County and North City areas."

Otherwise, London suggests building infill housing throughout the county and in the less developed areas along the Interstate 15 corridor.

"That's the bullseye that the report points to geographically," he said.

The county's housing woes have led to mounting dissatisfaction among both employers and employees. According to a pair of surveys conducted by BW Research, the "ability to find reasonably priced housing for employees that is close to work" was the issue with which employers were most dissatisfied, out of eight issues tested.

The most recent study, conducted earlier this year, showed that 47 percent of North County employers were most dissatisfied with the issue.

"The challenge of recruiting and retaining talent who can find housing in the area continues to be a real difficulty for most North County employers," the report states.

Low unemployment levels and an increasingly tight labor market have led employers to grow "less positive about the region as a place to do business," according to the survey.

London said that, as the business landscape of the region continues to evolve — transitioning from what was a highly industrial region to one that is more dominated by business services, tourism, science and technology companies — the county and its cities will need to implement policies that spur the development of housing to avoid losing skilled talent to competitor metros such as Seattle, Austin and Denver.

"Ultimately, this is about keeping the San Diego region competitive," London said. "The bottom line here is that we've changed economically as a region over the years ... and in order to sustain that diversity of economic positioning, we just have to add the housing. There's no other way to address it."

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