THE EIGHTH ANNUAL
Southern California Economic Summit
The Cost of Not Housing

NETWORK: SCAG
PASSWORD: scag2017

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THE EIGHTH ANNUAL
SOUTHERN CALIFORNIA ECONOMIC SUMMIT
November 9, 2017 | The L.A. Downtown Hotel, Los Angeles, CA

8:00 A.M.  REGISTRATION & NETWORKING

9:00 A.M.  WELCOME & OPENING REMARKS
Hon. Margaret Finlay, SCAG President, City of Duarte
Hon. Pete Wilson, 36th Governor of California; Co-Chair, Southern California Leadership Council
Hon. Richard Bloom, Assemblymember, 50th District, California State Assembly

9:40 A.M.  SCAG REGION ECONOMIC UPDATE
Although the SCAG region’s economy is starting to bounce back after the Great Recession, we are still facing some daunting challenges to sustainable, long-term growth. One of the biggest challenges we face now, and will continue to face in the future if we do nothing, is the lack of affordable housing throughout our region. The increasing cost of housing will eventually damper our economic growth, ultimately reducing opportunities for all that call Southern California home. Listen in as SCAG’s team of independent economists provide an insightful look at the state of the region’s economy and the role housing plays, or the lack of it, in shaping our future.

Moderator: Steve PonTell, CEO, National CORE
Panelists: Michael Bracken, M.P.A., Principal, Development Management Group, Inc.
Matthew Fienup, M.A., Co-Director, Center for Economic Research & Forecasting, California Lutheran University
John Husing, Ph.D., Chief Economist, Inland Empire Economic Partnership
Somjita Mitra, Ph.D., Director, Institute for Applied Economics, Los Angeles County Economic Development Corporation
Wallace Walrod, Ph.D., Chief Economic Advisor, Orange County Business Council

10:40 A.M.  BREAK/NETWORKING

10:50 A.M.  THE BAY AREA: A CAUTIONARY TALE
10:55 A.M.  **HOUSING’S THREAT TO THE REGIONAL ECONOMY**

Southern California has a diverse economy, and when you throw in some fantastic weather, the result is a population of nearly 19 million and the 16th largest economy in the world. The region’s footholds in aviation and aerospace, film and digital media, transportation, healthcare, and agriculture have resulted in a land of opportunity, but there is a growing challenge in housing everyone that wants to be a part of our economy. The region—and California in general—is facing a housing crisis and major institutions, employers, and startups cite the lack of housing options as a serious impediment to recruiting and retaining talent. The impact of housing affordability is a critical challenge to local, regional, and statewide economies. Hear what our panel of industry experts have to say about our regional housing needs and how an adequate housing supply can propel our region forward.

*Moderator:* Steve PonTell, CEO, National CORE  
*Panelists:* Lucy Dunn, President & CEO, Orange County Business Council  
Sharon Battle, Senior Vice President, Orange County Market Manager, Enterprise & Community Engagement, Bank of America  
Paul Granillo, President & CEO of Inland Empire Economic Partnership

12:05 A.M.  **LUNCH**

12:35 P.M.  **OPPORTUNITIES MOVING FORWARD**

This panel will review the progress and opportunities to address the housing crisis moving forward. First, we will review the progress of the 2016/2017 legislative session focusing on the Governor’s Housing Package particularly as related to permanent sources of funding and streamlining approval process. It will discuss likely impacts on housing and the economy. Prospects for upcoming legislative initiatives will also be discussed. The panel will then feature local responses to the Governor’s Housing package including assessment of its impacts on addressing the housing crisis. It will also highlight successful local policies to promote housing development. Finally, additional opportunities to address housing shortage and affordability will be recommended.

*Moderator:* Hon. Rex Richardson, SCAG CEHD Policy Committee Chair & Vice Mayor, Long Beach  
*Panelists:* Brent Gaisford, Director, Abundant Housing LA  
Randall Lewis, Executive Vice President, Lewis Group of Companies  
Ben Metcalf, Director, California Department of Housing & Community Development

1:45 P.M.  **WRAP-UP & NEXT STEPS**

Hasan Ikhrata, Executive Director, SCAG

2:00 P.M.  **SUMMIT ADJOURNMENT**
This year’s Southern California Economic Summit finds the SCAG region continuing to make steady progress in terms of economic growth and job creation as the recession era keeps fading into the rearview mirror. The graphs below illustrate that progress, comparing the region’s employment in December 2007 (pre-Recession), December 2010 (peak unemployment), and September 2017 (the most recent employment figures). In 2017, every county has more than recovered the number of jobs lost during the economic downturn, and—except for Imperial County—all SCAG counties enjoy a lower unemployment rate compared to ten years ago, which is a testament to the economic strength, resiliency, and adaptability of the Southern California region.

The Southern California economy is being powered by job growth in:
- Construction, driven by both a booming housing market enjoying high levels of demand as well as significant levels of infrastructure construction, especially transportation projects underway throughout the region.
- Healthcare, due to shifting demographics and new legislation.
- Professional and Business Services, a growing sector throughout the SCAG region which includes occupations such as architects, engineers, IT consultants, accountants and lawyers.

Looking forward, unemployment rates will likely continue to fall for the rest of 2017 and 2018.
INTRODUCTION TO COUNTY ECONOMIC REPORTS

ECONOMIC GROWTH & JOB CREATION IN THE SCAG REGION

The Eighth Annual Southern California Economic Summit economic update provides the latest region-wide and county-specific economic analysis to better inform state and local elected officials, the business community, labor leaders, city managers and planners, and the general public about the current and projected Southern California’s economic and employment landscape.

Every year since 2010, SCAG’s team of independent economists has reported a comprehensive overview of each county’s current economic landscape including the outlook for economic growth and job creation, analysis of key industry sectors, information about education and workforce development trends, and monitoring of key economic development issues. The 2017 SCAG economic team is composed of:

**IMPERIAL**
Michael Bracken, M.P.A.
Development Management Group

**LOS ANGELES**
Somjita Mitra, Ph.D.
Los Angeles County Economic Development Corporation

**ORANGE**
Wallace Walrod, Ph.D.
Orange County Business Council

**RIVERSIDE/SAN BERNARDINO**
John Husing, Ph.D.
Economics & Politics

**VENTURA**
Matthew Fienup, M.A.
California Lutheran University

SCAG REGION ECONOMY & JOB MARKET CONTINUE TO GROW

Southern California saw strong economic and job market growth in the first half of 2017 as the SCAG region hit a 10-year low unemployment rate of 4.1% in May. The next several months saw unemployment rates increase somewhat at the regional, statewide, and national levels, primarily due to seasonal labor market factors that occur every year. September 2017 unemployment for the SCAG region was 4.9% and will likely continue to fall in the coming months.

Approximately 8.9 million people were employed in the SCAG region as of September 2017, surpassing 2010 employment levels by well over one million workers. On the other hand, the number of unemployed workers in the SCAG region is down to approximately 455,000, representing a 55% reduction from the over 1,000,000 individuals who were unemployed in 2009. This substantial improvement highlights the significant progress in economic and job growth made by the SCAG region in the last several years.

Continued economic growth and job creation remain key goals for the SCAG region, but other factors—including educational attainment, income and poverty trends, and housing supply and affordability—should command an equal amount of attention because of their substantial impacts on overall economic trends throughout the region. A lack of workforce housing, for instance, could potentially have significant consequences for Southern California by pricing many young workers and families out of the region, leading to a shallower talent pool of potential employees. This trend has already manifested itself throughout the Bay Area, and increasingly calls into question that region’s ability to sustain such high levels of economic growth and activity.

The percentage of SCAG region residents with a Bachelor’s degree or higher did increase from 29.6% to 30.3%, primarily boosted by improvements in Orange County and Riverside County. Despite these improvements, the SCAG region still trails the national and state rates of 31.2% and 32.9%, respectively. The Bay Area is currently significantly outperforming the SCAG region; 46.4% of its residents hold a
Bachelor’s degree or higher. Similarly, and perhaps as a result of this advantage, Bay Area incomes are 50% higher than SCAG incomes, and saw even faster growth in the past year. In order to ensure the region’s future economic prosperity, local and regional leaders should consider region-wide collaborations to address these challenges, which could become even more severe as education plays a more and more important role in attaining workplace competencies.

The good news is that progress is being made. Alongside healthy employment growth and progress on unemployment rates, median income in the SCAG region increased by 3.8% to $64,794, with major contributions stemming from rising incomes in Imperial County, San Bernardino County, and Orange County. Growing household incomes in the SCAG region are especially important considering the area’s rising cost-of-living, driven primarily by housing costs. Los Angeles County’s median household income, however, is still nearly 4.5% below 1990 levels when adjusted for inflation.

SCAG’s regional poverty rate dropped from 15.9% to 15.2% in the last year, with noteworthy improvements in Orange County and San Bernardino County. While Imperial County continues to struggle with high poverty rates (24% of all residents, 34% of children), the SCAG region in general has made meaningful progress in facilitating economic growth and job creation, resulting in poverty reduction over the last few years.

**LOOKING FORWARD**

The SCAG regional economy is expected to continue creating new jobs in 2018, fueled by both traditional and emerging industry clusters. A severe workforce housing shortage, however, remains the major impediment for future economic growth. Adequate provision of housing has become an economic competitiveness issue for both the region and the state; a lack of housing options encourages residents to leave for more affordable areas, leading to fewer job candidates and a less attractive environment for businesses. While not quite as expensive as San Francisco or Silicon Valley, the SCAG region, especially Orange, Los Angeles, and Ventura Counties, has some of the most expensive housing in the nation. The potential economic effects of the housing shortage reinforce the need to understand the regional economy as one interconnected whole, with challenges and opportunities that cross city and county lines. Increasing regional workforce housing supply, for instance, would be a major benefit for the entire Southern California regional economy, positively impacting job creation, economic growth, and economic opportunity.

Let’s not forget that Southern California also benefits from a set of unique economic strengths; leveraging these strengths will form an integral part of any long-term economic strategy. To this end, this year’s county economic reports highlight county-specific employment, industry, educational, occupational, and housing trends. For example, international trade combined with the region’s location, infrastructure, and population centers have made the SCAG region a center for growth in e-commerce and logistics employment throughout the region. From the entertainment industry in Hollywood to tech and life sciences in Orange County, distribution and warehousing in the Inland Empire to agriculture and renewable energy in Imperial County, and tourism in Ventura and across the region, the SCAG region is home to an extremely diverse set of world-class industry clusters that drive innovation and economic growth.

By providing the necessary support for these and other emerging competitive advantages, regional stakeholders can leverage these strengths to lay the foundation for continued economic success. While each SCAG county has its own individual strengths and weaknesses, working together the region is a strong economic force. A coordinated, collaborative strategy and approach to region-wide issues such as housing and education will help ensure future prosperity for all counties by leveraging Southern California’s regional strengths.
Imperial County is located in the southeast corner of California and shares borders with San Diego County, Riverside County, Yuma County (Arizona) and Mexico (and the region and City of Mexicali). The County has an estimated population of 188,334. The economy of the region is based on the following industries:

- Agriculture
- Energy Production (Solar, Wind, Geothermal)
- Prison/Detention Facilities (Federal & State)
- Border Security (Namely Department of Homeland Security)
- Logistics (Goods Movement of Agriculture Products & Products Assembled in Mexicali through the Maquiladora Program)
- Local Serving Small Businesses & Local/Regional Government & Related Services (Police, Fire, Education)

**EMPLOYMENT**

The Imperial Valley continues to struggle with high unemployment (22.6%, about 5 times the national rate of 4.3%). There are 58,900 jobs for a labor force of 76,100 leaving some 17,200 unemployed. The three occupations with the largest job growth (2016 to 2017) were health practitioners (+900), office/administrative (+800) and construction (+600). There were job losses in transportation/logistics (-1,150), maintenance/repair (-700) and sales (-650).

Employment within the region is largely tied to agriculture and government. The Department of Homeland Security, state prisons and local governments (including school districts) account for 30% of all jobs. Unfortunately the largest individual categories of office/administrative, transportation/logistics, sales, farming and food preparation are also among the lowest paying, all falling below the median pay of $44,819 annually.

**WORKFORCE OCCUPATIONS**

Source: California Employment Development Department
**RENEWABLE ENERGY GENERATION**

Imperial County has been a leader in renewable power generation. The region continues to produce over 2,123 megawatts (MW) of power from 43 projects that are currently online. The producers represent geothermal, small hydro, solar photo-voltaic and wind. Imperial County is the third largest producer of renewable power in the State of California (behind Riverside County-2,146 MW and Kern County 5,940 MW). The region has approved about 1,300 MW of additional renewable power that is in the development process and will likely be built/become operational in the next 36 months.

**AGRICULTURE**

Agriculture is the largest private sector industry in the Imperial Valley. While the jobs associated with the industry are traditionally low paying, agriculture supports many families in a variety of occupations including direct farming, professional/business like accounting and transportation. In 2016, agriculture production totaled $2.06 billion. This represents an increase of about $137 million from 2015. Production value increased in 2016 and a record 542,000 acres of land was in production. Farmers continue to struggle with foreign competition, rising labor costs and the regulatory environment. The Imperial Valley Agriculture community produced the following in 2016:

- Vegetable/Melons: $1.066 billion
- Livestock: $468.18 million
- Field Crops (Alfalfa/Bermuda Grass): $381.18 million
- Seed/Nursery Products: $123.06 million
- Fruit & Nut Crops: $83.3 million
- Apiary/Honey: $4.36 million

**HOUSING**

The overall housing market is stable in the region with a median home price of $206,000 for a 3-bedroom/2-bathroom home. New home sales will be about 120 for 2017 with prices starting in the low to mid 200's. Occupancy of rental housing is in the 90-95% range with rents from $600 to $1,400 monthly. The county boasts the most affordable housing market in the SCAG region and is even more affordable than the United States as a whole.

**ECONOMIC OUTLOOK**

- The overall economy is stable (by historic Imperial County standards) but not robust neither expanding.
- RPS 50% will create additional renewable energy opportunities at such time as additional construction begins
- Agriculture will struggle with crop/livestock pricing and new State regulation impacting wages and work schedules
- The region must address systemic and multi-generational poverty (24% of all persons, 34% of children)
- A culture of educational achievement must take hold (34% of adults 25 and older lack a high school education and only 14% of same have a bachelor’s or better).
- Region must work to expand geothermal energy production and use 30,000 fully entitled (yet to be built) homes to fuel growth and provide remedy to housing crisis in Southern California’s coastal communities.

**HOUSING AFFORDABILITY INDEX (MEDIUM HOME PRICE / MEDIUM HOUSEHOLD INCOME)**

|----------------|------|------|------|------|------|------|------|------|------|------|------|

Source: County of Imperial Agriculture Commissioner

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<td>Imperial</td>
<td>5.01</td>
<td>5.57</td>
<td>5.66</td>
<td>6.25</td>
<td>7.11</td>
<td>8.16</td>
<td>8.21</td>
<td>8.82</td>
<td>9.79</td>
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Source: CoreLogic & Development Management Group, Inc.
Los Angeles County is home to unparalleled optimism and opportunity. Home to more than 10.1 million residents, it boasts a workforce of more than 4.4 million today. Los Angeles continues to be the center of innovation and creativity with growing emphasis on nascent industries such as biosciences and advanced transportation while bolstering stalwart industries such as professional services and construction.

The county has recovered the jobs lost during the Great Recession and is expected to continue to grow at a moderate rate over the next few years.

ECONOMIC OVERVIEW & OUTLOOK

The September unemployment rate in Los Angeles County was 5.4% (not seasonally adjusted), almost 8.0 percentage points below its July 2010 peak of 13.2% but still higher than the pre-recession low of 4.3%. Nonfarm employment in August 2017 totaled 4.4 million adding 37,200 jobs over the year for an annual growth rate of 0.8%. A large majority of industry sectors experienced growth during that period.

County employment is projected to grow at an average annual rate of 0.7% over the next five years, adding 133,000 jobs across a range of industries.

As the economy continues to improve, the labor market will tighten. We expect wages to increase as a result. Those with higher levels of educational attainment can expect a higher rate of wage growth as well.

Although jobs are being added, the distribution of jobs will continue to be a cause for concern to our continued economic growth and prosperity.

LEADING & EMERGING INDUSTRIES

Most industries will add jobs over the next five years, but overall, the strongest job growth will be in service providing industries, including:

- Health Services, which will grow at 5.9% over the next five years and add almost 42,000 jobs
- Administrative Support, which includes temporary employment, is expected to grow at 10.9% over the next five years and add more than 29,000 jobs
- Accommodation and Food Services is projected to add almost 26,000 jobs over the next five years
- Education will add over 23,000 new jobs over the next five years

Other industries are evolving through innovation and disruption and will drive our economic growth in the future including advanced transportation, biosciences and digital media. Los Angeles continues to be a driver in supporting and growing these emerging industries through investment and research, industry councils and other strategic endeavors.

Nonfarm employment & experience requirements

Source: Estimates by LAEDC

Entry Level Education & Experience Requirements

Source: CA EDD, forecast by LAEDC
OCCUPATIONAL OUTLOOK

While jobs are being added across industries, the highest number of overall openings will be found in those occupations that require a high school diploma or less, and which pay less than the County’s median annual wages of $40,260. More than one-third of projected openings (including new jobs and replacement jobs) over the next five years will not require a high school diploma. Another 32% will require workers with a high school diploma but no more.

Those with a graduate or professional degree earn an annual wage premium of $55,000 over those with less than a high school education. The strong correlation between educational attainment and earnings signals challenges ahead as those with less than a high school degree face limited job prospects, are more likely to be unemployed and are less likely to be able to support their households.

INCOME & POVERTY

While household incomes have increased steadily for the last 25 years, from $34,965 in 1990 to $61,338 in 2016, inflation-adjusted household incomes have fallen steadily, and are still 4.5% below where they were in 1990.

However, our economic recovery is helping poverty rates to keep falling. We have seen a steady year-over-year decline in individual poverty rates. The individual poverty rate is now at 16.3%, a decrease of 2.8 percentage points from the peak of 19.1% reached in 2012.

As with earnings, there is a strong correlation between lower levels of educational attainment and higher rates of poverty.

Almost one-fourth of adults over the age of 25 are below the poverty level in Los Angeles County. Those with a bachelor’s degree or higher experience substantially lower poverty rates of 6.3%.

MEDIAN EARNINGS & EDUCATION ATTAINMENT 2016 (POP. 25 YRS+)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Median Earnings</th>
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<tbody>
<tr>
<td>Master’s or Above</td>
<td>$75,820</td>
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<tr>
<td>Bachelor’s</td>
<td>$52,003</td>
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<tr>
<td>Past Secondary/Some College</td>
<td>$35,483</td>
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<tr>
<td>High School</td>
<td>$27,330</td>
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<tr>
<td>No High School</td>
<td>$20,650</td>
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Source: 2016 ACS 1-yr estimates

MEDIAN HOUSEHOLD INCOME: NOMINAL & 2016 DOLLARS

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Household Income</th>
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</thead>
<tbody>
<tr>
<td>1990</td>
<td>$34,965</td>
</tr>
<tr>
<td>2000</td>
<td>$42,168</td>
</tr>
<tr>
<td>2010</td>
<td>$58,130</td>
</tr>
<tr>
<td>2016</td>
<td>$61,338</td>
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</tbody>
</table>

Inflation Adjusted
Median Household Income

Source: 2016 ACS 1-yr estimates, BLS

INDIVIDUAL POVERTY RATES 2006-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Rate</th>
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<tbody>
<tr>
<td>2006</td>
<td>15.4%</td>
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<tr>
<td>2007</td>
<td>15.8%</td>
</tr>
<tr>
<td>2008</td>
<td>15.9%</td>
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<tr>
<td>2009</td>
<td>16.1%</td>
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<tr>
<td>2010</td>
<td>16.3%</td>
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<tr>
<td>2011</td>
<td>15.9%</td>
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<tr>
<td>2012</td>
<td>15.9%</td>
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<tr>
<td>2013</td>
<td>16.0%</td>
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<tr>
<td>2014</td>
<td>15.9%</td>
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<tr>
<td>2015</td>
<td>16.3%</td>
</tr>
<tr>
<td>2016</td>
<td>16.3%</td>
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Source: 2016 ACS 1-yr estimates

POVERTY RATES & EDUCATION ATTAINMENT 2016

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Poverty Rate</th>
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</thead>
<tbody>
<tr>
<td>Less than HS</td>
<td>24.1%</td>
</tr>
<tr>
<td>HS</td>
<td>15.9%</td>
</tr>
<tr>
<td>Some college/AA</td>
<td>11.3%</td>
</tr>
<tr>
<td>BA or Higher</td>
<td>6.3%</td>
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</tbody>
</table>

LA COUNTY 13.4%

Source: 2016 ACS 1-yr estimates
Orange County continues to drive economic growth in Southern California. In 2017, the county’s economy exhibited many positive signs: a falling unemployment rate well below state and national averages, vibrant traditional and emerging industry clusters, increasing educational attainment with a high number of STEM (Science, Technology, Engineering, and Math) degree awards, increasing average salaries, and lower poverty rates. While Orange County’s centralized location, deep talent pool of well-educated residents, innovative industry clusters and high quality of life continue to provide strong foundations for future economic growth, some concerns still remain such as a high cost-of-living driven primarily by increasing housing costs.

2017 ECONOMY IN NUMBERS

As of September 2017, Orange County’s unemployment rate (3.6%) was lower than state (4.7%) and national (4.1%) averages.

EXISTING & EMERGING INDUSTRIES DRIVING ECONOMIC GROWTH

Orange County’s key industries showed significant employment growth in the last year:

- Construction (+7,800 jobs)
- Leisure and Hospitality (+4,500)

In addition to these long-established industries, the county is also home to several innovative, emerging specialized industry clusters of national importance which are thriving with the potential to drive future economic growth and prosperity:

- Medical Device (7.4% of national employment, 5.8 Location Quotient)
- Biopharmaceuticals (2.7% of national employment, 2.2 Location Quotient)
- IT & Analytical Instruments (2.4% of national employment, 1.9 Location Quotient)

Increased venture capital investments in county start-ups and growing patent activity offer tangible evidence of innovation in Orange County. Additional emerging Orange County growth clusters not yet well-tracked by standard industry classification systems such as NAICS include:

- Big Data Analytics
- Cybersecurity
- Virtual Reality (VR)
- Advanced Transportation

These industry clusters will fuel future job growth -- both in their own sectors and in the wider economy due to multiplier effects -- and are projected to create significant numbers of high-skill, high-paying jobs with significant opportunities for career advancement.


Source: California Employment Development Department
HOUSEHOLD INCOMES RISE WHILE POVERTY SHRINKS
Orange County’s median household income continues to rise, with the county’s median household income growing by 4.3% to $81,837, over $14,000 higher than the state average and more than $24,000 higher than the national average; its per capita income was the highest in Southern California. Poverty rates experienced a significant decrease (11.0%) thanks to income growth.

EDUCATIONAL INDICATORS TRENDING UPWARD
Orange County residents continue to achieve high levels of educational attainment, enjoying by far the lowest dropout rate in the region and exceptional college preparation trends, with over 51% of high school graduates being UC/CSU eligible. 47.7% of county residents have an associate’s degree or higher, an increase from the previous year; the economic benefits of higher education, strongly associated with lower poverty rates and higher average incomes, make this a very positive sign for the county economy. While technological change such as automation and machine learning are dramatically changing the workplace and creating the necessity for new work skills, a growing number of STEM and tech-related degrees are being awarded at Orange County colleges and universities.

ORANGE COUNTY HOME PRICES CONTINUE TO RISE: DEMOGRAPHIC TRENDS REMAIN A CONCERN
Housing prices in Orange County have surpassed pre-Recession levels, reaching an average of $799,000 in September 2017 and are projected to continue to rise due to increasing demand and constrained new housing supply. Apartment rents have also increased because the county’s high home prices have prevented many residents from buying their own homes, further driving rental demand.

An analysis by the California Association of Realtors found Orange County has the lowest levels of housing affordability in Southern California; approximately 54.1% of Orange County renters spend more than 30% of their incomes on housing while 33% of home owners spend 30% or more of their incomes on housing.

Orange County’s demographic landscape continues to shift to an increasingly older and more diverse population, with a growing share of residents who are nearing retirement age reaching record levels and a decreasing share of younger age groups, which threatens to contribute to a growing skills gap reported by employers.

MEDIAN HOME PRICES (2008-2017): NEW VS. EXISTING HOMES

Source: California Association of Realtors, CoreLogic/DataQuick
For the Inland Empire, a review of the most recent economic data and the overall trends since the turnaround from the recession began in 2011 provides very good news. Based on growth through August of 2017, the area is on track to surpass its pre-recession high by 151,776 jobs or 11.6%. This occurred because job growth has surged of late, up 47,575 (4.0%) in 2013, 55,933 (4.5%) in 2014, 64,217 (4.9%) in 2015, 47,500 in 2016 (3.5%) and is on track to grow 42,701 (3.0%) in 2017 based upon eight months of preliminary data. If that holds, the area will have created 292,426 jobs in the 2011-2017 period of recovery and expansion. That is more than double the 140,650 jobs lost in the Great Recession (2008-2010). Looking at the rest of 2017, there is every reason to anticipate growth levels will be sustained given the forces impacting the key sectors that make up the inland region’s economic base (logistics, construction, health care, manufacturing, high-end).

Unemployment in the inland area has dropped. It was 6.2% in August 2017, down from 6.3% in September 2016. More representative was the June 2017 versus June 2016 change (5.5% down from 6.3%). Unfortunately, the August rate was the second highest among the 50 major U.S. metropolitan areas after Cleveland (6.8%) and above the unadjusted rates for California (5.3%) and the U.S. (5.4%).

Key metrics on challenges faced by the Inland Empire include the 46.3% of its adults 25 and over with high school or less education in 2016. That compares to 39.0% for the rest of Southern California (Imperial, Los Angeles, Orange, San Diego, Ventura). Those with associates degrees or higher were 29.2%, well below the 41.0% for the rest of the Southland. The share with bachelors degrees or higher was 21.0% versus 33.7% in the balance of Southern California. This level of educational attainment limits the kinds of firms for which the area is competitive. These shares have improved from 50.3%, 23.1% and 16.3% respectively in 2000. These educational levels are related to serious public health issues in that 16.4% of all people and 23.5% of children under 18 were living in poverty in 2015. That compares to 14.5% and 20.0%, respectively, for the balance of Southern California.

Like all regional economies, the key for the Inland Empire’s growth is the expansion of the economic base sectors for which it has competitive advantages. This is the group of activities bringing money to it from the outside world. Fundamentally, there are five key sectors:

**LOGISTICS**

Logistics firms have located in the Inland Empire in response to its available land and the need to handle both the huge flow of goods moving in and out of the U.S. via the ports of Los Angeles and Long Beach, plus the rapid growth of fulfillment centers that handle the explosive expansion of e-commerce. They were responsible for 20.5% of the area’s direct job growth in the 2011-2017 period (60,079). Based upon growth to date in 2017 (4.2%), the sector’s total should reach 168,900 jobs in 2017. If data from the State of California’s Employment Development Department is accurate, that would be the slowest growth in several years.

**HEALTH CARE**

Health Care firms are expanding in the Inland Empire in part because the average worker in the sector is already serving 27.1% more people than California’s average. Meanwhile, the Affordable Care Act has decreased the share of local residents without health insurance from 27.1% in 2013 to 12.4% in 2016. Health care firms are also beginning to respond to the fact that 23.7% of the population was 55 years or older in 2016. The area’s population growth was 320,188 people or 76% from 2010-2017. Based upon job growth to date in 2017 (2.8%), it is forecasted that the sector will add 3,700 jobs in 2017 to reach 138,000.

**CONSTRUCTION**

Construction has historically been the major driver of the Inland Empire’s economy given its undeveloped land and Southern California’s need for single family homes, apartments, industrial facilities and infrastructure. The mortgage crisis upset the first of these needs and was largely responsible for the local sector losing ~68,400 jobs from 2006-2011 (~53.6%). From 2012-2016, it has gained back 33,400 jobs. In 2017, positive factors are appearing. Through June this year, total permit valuation is headed for an increase of 29.9% in 2017 after rising 7.2% in 2016 and 13.4% in 2015. Based upon job growth to date in 2017 (14.8%), it is estimated that the sector will add 13,700 jobs in 2017 to reach 106,200 positions. That would still be ~21,300 or ~16.7%, below the 2006 peak.

**MANUFACTURING**

The manufacturing sector has had sub-par performance in the Inland Empire. This stems from California’s punishing regulatory environment plus energy policies that in July 2017 had the state’s industrial electrical costs 105.9% above Nevada and 117.2% above Arizona. As a result, the state has created only 48,000 manufacturing jobs (3.9% growth) since January 2011, and accounted for only 5.3% of the 827,000 jobs (7.9% growth) created in the U.S. A good deal of job openings occur in the sector due to the need to replace aging baby boomer technicians.
Based upon job growth to date this year, it is estimated that the sector will add 1,500 jobs in the Inland Empire in 2017 and reach 100,400 positions. That would remain -18,100 jobs, or -15.3%, below the 2007 level of 118,500 positions before the Great Recession.

PROFESSIONAL, MANAGEMENT & SCIENTIFIC

Professional, management & scientific work has recently started expanding. This appears to be a reaction to three factors. First, it has seen a 93.0% gain in residents with bachelors or higher degrees from 2000-2016. Even though the inland area's population is less well educated than its coastal county competitors, in this period its overall percentage of college graduates grew from 16.3% to 21.0%. The percentage of those with AA degrees or higher went from to 23.1% to 29.2%. Second, the growth of the inland economy requires increasing levels of professional service providers given its 4.56 million people and 106,867 firms. Third, the re-emergence of the construction sector creates a need for engineers and other such specialists. Based upon job growth to date in 2017 (2.1%), it is estimated that the sector will add 1,000 jobs in 2017 to reach 49,400 positions.

MEDIAN PAY

Given the high levels of poverty in the Inland Empire (16.4% of all people, 23.5% of those under 18), it is important to find sectors that offer workers median incomes at middle class levels provided their families have a secondary wage earner in a lower paying sector. The data show that this is possible in several sectors due to their median pay levels over $45,000, their minimal educational requirement for large shares of the workers and their growth potential. Looking at the economic base sectors and one related to them, the situation is as follows:

LOGISTICS

(2017 median pay: $48,708) 78.4% of logistics workers have jobs requiring high school or less schooling. The sector is the fastest growing in the Inland Empire.

Construction (2017 median pay: $52,604) has 82.2% of workers in jobs requiring minimal levels of formal education, though apprenticeship is necessary for some types of work. The sector has become the second fastest growing in the inland area though firms continue having trouble finding workers.

HEALTH CARE

(2017 median pay: $60,768) has a smaller share of workers in jobs with minimal educational requirements (33.7%).

The sector has provided significant upward mobility for those with associates degrees or post-secondary training (30.2%). The sector grows continuously, with those obtaining technical certifications finding good jobs and gaining the ability to move up within the sector.

MANUFACTURING

(2017 median pay $51,385) offers a little job growth. Industry leaders, however, indicate that a large share of existing technicians are starting to retire. Of workers in the sector, 66.5% needed high school or less training.

PROFESSIONAL, MANAGEMENT & SCIENTIFIC

(2017 median pay $73,279) has a relatively small share of workers in jobs for marginally educated workers (34.5%). Another 9.2%, however, can step up to better paying jobs with AA degrees or post-secondary training.

FINANCE, INSURANCE & REAL ESTATE

(2017 median pay: $49,034) will grow as the real estate market recovers. In this sector, 65.6% of workers are in jobs requiring minimal entry-level educations though many require specific state certifications. Its growth requires more home sales and construction activity.

OUTLOOK

The need for change in the Inland Empire’s economy is underscored by the fact that the median income (adjusted for inflation) has been nearly stationary (-0.5%) between 1990-2016. Per capita income has fared better in that it is up 5.7% from 1990-2015. That measure is pulled higher, however, by the small share of people with high incomes. That fact is seen by the imbalance in the income distribution. Thus in 2016, the 10.9% of households making over $150,000 a year captured 27.8% of all income and the 14.8% of households receiving $100,000-$149,999 a year earned 25.4% of the region’s income. These two groups together constituted 25.6% of households but had 53.2% of the Inland Empire’s income. By contrast, the 43.3% of families earning below $50,000 received only a 15.6% share of the area’s income.
This year marks the first time that we can report that Ventura County has finally recovered its prerecession level of jobs. That’s an arresting fact given that we are now 10 years out from the start of the Great Recession.

That important if symbolic milestone is unfortunately overshadowed by a troubling decline in County GDP. The Bureau of Economic Analysis indicates that Ventura County’s economy shrank by nearly 3% in 2016, led by a loss of nearly 1 billion dollars of output in non-durable manufacturing. Together, 2014-2016 represents the slowest period of growth of any three consecutive years since at least the early 90s. The past three years are worse even than the period that includes the Financial Crisis and the Great Recession.

Ventura County’s net domestic migration was negative in 2016 for the fourteenth consecutive year. The county’s accelerating out-migration is a reflection of what businesses and individuals think about the economy that they are leaving behind. The mix of attitudes and policies related to economic growth in other regions of the Country provide greater economic opportunity than those in Ventura County.

Population growth, which has been declining in Ventura County since the early sixties, seems to be plumbing a new bottom. When we consider the contribution of migration patterns, such as net domestic outflow, we are left to wonder if Ventura County will see negative population growth in the near future.

2016 marked the fourth consecutive year of declines in the number of workers living in Ventura County. The county’s declining labor force is unprecedented for a non-recessionary economy. The latest jobs report provides evidence that a trend which began during the darkest days of the Great Recession is continuing, if more slowly. High-paying sectors of the Ventura County economy are in decline while low-paying sectors are continuing to rise.
HOUSING MARKETS

Ventura County’s 2016 home building activity rose in a surprising fashion compared with 2015 and every other year since the Great Recession. This is a welcome boost in activity in a county that is nationally known as difficult for developing real estate. The medium-to-long-term fundamentals of Ventura County’s housing markets include relatively restricted real estate development, the exodus of private enterprise, the hollowing-out of the middle class, and supply-restricted support for property values.

As a result of property value growth that exceeds income growth, housing affordability is low relative to the nation and many other communities in the state. The county’s affordability rate was 31% a year ago and has subsided to 27% in the most recent data. Our 27% affordability rate compares to 57% for the nation, a massive divide that cannot and should not be ignored. Workers are voting with their feet and moving to other parts of the U.S. where housing is more affordable and job creation is relatively rapid.

VENTURA COUNTY’S FORECAST

Last year’s forecast predicted economic growth of 1.8% for 2016. We warned then, as we do again this year, that the balance of risks to the forecast are not symmetric. The probability of economic growth that exceeds our forecast is very low, while the probability that economic growth underperforms our forecast is relatively high. Unfortunately, the initial BEA estimate of -2.7 growth in real GDP is even worse than last year’s most pessimistic forecast scenario. The current forecast anticipates that the County’s economy will contract further in 2017, declining by nearly one percentage point. Our forecast for growth in 2018 and 2019 is positive but very low, averaging just 0.35% over those two years.

Ventura County’s long-term occupational forecasts foresee continued changes in job composition. The number of jobs in agriculture, manufacturing, construction, and other tradable goods producing sectors will likely continue to decline. Jobs in non-tradable services sectors such as health care will likely see continued strong growth.

We worry about the increasingly bi-modal economy that this represents—an economy of haves and have-nots, one in which the quality of life for which the county is famous is only enjoyed by an elite who can afford the high cost of admission.
HOUSING PRICES

In 2000, the median home price in the Los Angeles metropolitan region was $338,969 and had increased to $421,795 in 2010, adjusted for inflation. In 2016, the median home price increased to $552,994, an 11.7% increase since 2015, and almost 31.1% over the last six years. The same trend is seen at the state level. The median home price was $313,688 in 2000 and $369,502 in 2010, but is now $470,325 in 2016. This represents a 27.3% increase in the past six years.

Compared to the national median sales price, California and especially Southern California are experiencing rapid price increases. For the United States as a whole, the median home price only experienced a 5% increase between 2010 and 2016. In 2016, the national median home price was $187,742.

RENTS

Rental prices have followed similar trends as home prices at the regional, state, and national levels. In the SCAG region, median gross rent has increased to $1,384 in 2016, which represents a 4.9% increase over 2015. This means that over the last six years, rents have increased by 6% in the SCAG region. Rent across California also had a 4.9% increase since 2015 and an increase of over 16% since 2010, reaching $1,375 in 2016.

Although the increase is not as sharp, national rent prices have continued to increase. In 2016, the median gross rent in the United States was $981. In comparison to 2015 prices, rents have increased 2.3% over the past year.

SOUTHERN CALIFORNIA ECONOMIC SUMMIT

HOUSING’S THREAT TO THE REGIONAL ECONOMY

Since the release of SCAG’s publication “Mission Impossible? Meeting California’s Housing Challenge” in conjunction with its Housing Summit in October 2016, the housing crisis has continued to worsen in California, particularly in the SCAG region. Several key data points reiterate regional and statewide housing unaffordability, and while our population continues to grow, housing supply has been insufficient to meet current demand and the effects of the “cost of not housing” will only continue.
INCOMES

The 2016 SCAG housing publication indicated that the median household income decreased 8% between 2000 and 2014 statewide. Recent data published indicate that in 2016, median household income has increased to $67,739 in the State, or 5.0% compared to 2015 and 5.4% since 2010. Compared to 2000, the 2016 median household income is about a 2% decrease.

In 2016, the SCAG region’s median household income was $64,799, or a 3.8% increase since 2015. Compared to 2010, median household income has increased by 3.6%. However, compared to household incomes in 2000, the 2016 median household income has barely reached parity and still represents a decrease of 2.6% over the past 16 years.

However, while updated data have shown that median incomes have increased, incomes have still not kept up with the rising costs of housing. As discussed in the previous section, home prices since 2010 in the SCAG region have increased by 31% and rents have increased by 8%, far outpacing income gains of 5.4%. To address the problem of housing unaffordability, incomes will need to rise at the same rate of housing costs, or the cost of housing will need to drastically reduce to match gains reported in household income.

PERMITS ISSUED

Currently the SCAG region needs over 53,000 units built annually to meet projected housing demand. This is in addition to its existing housing need. In 2016, 40,577 permits of all housing types were issued in the SCAG region. In the first half of 2017, 29,379 units were permitted. While the building of new units annually has picked up by 130% between 2010, when only 17,655 permits were issued, and 2016, there is still a deficit in housing supply that was accumulated over several decades that is causing the crisis.

Between 1970 and 1980, there was one new housing unit built for every 1.74 persons added to the SCAG region’s population. By the decade between 1990 and 2000, this ratio dropped to 4.52 new persons added to the population for one new housing unit built. While the ratio has improved between 2000 and 2016, the ratio of 3.36 new persons added is not enough to overcome the accumulated deficit.
OVERCROWDING AND OVERPAYING

A lack of housing does not decrease the demand for housing. For families who want to reduce housing costs but cannot find affordable local housing options, many turn to sharing housing units with other households or reside in homes that are too small for their household size. These situations lead to overcrowding problems in local communities that face either lack of affordable housing, a shortage of housing, or both.

In the SCAG region, 16 out of 100 renter households live in overcrowded housing while in the state, 14 out of 100 renter households live in overcrowded housing. In California, 14 out of 100 renters live in overcrowded housing while nationally, only 6 out of 100 do.

A conventional indicator of housing affordability is the percent of household income spent on housing. Housing expenditures that exceed 30 percent of household income have historically been viewed as an indicator of a housing affordability problem, both for rental and owner-occupied housing. Households that spend more than 30 percent of their income on housing are considered “overpaying” and will have less income to spend on both essential needs, such as food and transportation, and discretionary purchases.

Looking at owner-occupied homes, 39% of households in California who own their own homes and have mortgages are paying more than 30% of their income for housing. For the SCAG region, 42% of all homeowner households with mortgages are overpaying while only 28% for the nation.

Out of 6 million renter households, the State of California has over 3.1 million renter households who spend over 30 percent of their income on housing. In the SCAG region, over 1.6 million out of 2.9 million renter households fall into this category. This means that 53% of the renters in State and 55% of renters in the SCAG region overpay for housing while this figure is only 46% for the nation. As a comparison, in 1990 less than half of renter households both statewide and in the SCAG region were paying more than 30 percent of their income toward housing costs. In California, and especially in the SCAG region, there is a major affordability problem and given the constraints of adding to the overall supply, the housing crisis will only continue to worsen.

HOUSING SUPPLY HAS NOT KEPT UP WITH POPULATION GROWTH

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<tr>
<th>Period</th>
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<tr>
<td>2010-2016</td>
<td>1</td>
<td>3.36</td>
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</tbody>
</table>

A DROP IN HOME BUILDING

IT’S COMPOUNDED BY A DEMOGRAPHIC SHIFT

HousinG Supply + Demands of Millennials Seeking Housing = Home & Rental Prices
RECENT STATEWIDE LEGISLATION

During the 2016-2017 California State Legislative session, over 100 bills related to housing were proposed to remedy the statewide housing crisis from different angles, including increased funding to build housing, streamlined permitting, and changes to zoning requirements. On September 29, 2017, Governor Brown signed fifteen housing bills intended to address the crisis. Of these bills, three of them formed the backbone of the Governor’s Housing Package, which is intended to bring more funding to local jurisdictions to build more housing and streamline the local development process.

SB 2

Also known as the Building Homes and Jobs Act, SB 2 will assess a $75 fee on real estate recorded documents for a maximum of $225 per transaction. Transactions involving the sale of commercial and residential real estate are exempt from the fee. Up to 70% of the funds collected will be allocated directly to local governments while the remainder would be allocated by the California Department of Housing and Community Development (HCD) on a competitive basis. SB 2 is expected to raise $250 million annually statewide.

SB 3

SB 3 will enact the Veterans and Affordable Housing Bond Act, which if adopted by California voters at the November 8, 2018 general election would authorize a $4 billion bond issuance to finance various existing housing programs as well as infill infrastructure financing and affordable housing matching grant programs. Of the proceeds from the sale of these bonds, $3 billion would be used to finance various existing housing programs, as well as infill infrastructure financing and affordable housing matching grant programs. The remainder $1 billion from bond proceeds would be used to provide additional funding for farm, home, and mobile home purchase assistance for veterans.

SB 35

SB 35 requires multi-family housing developments that meet certain specific planning objectives, such as infill location and a certain percentage of affordable units, to be subject to a streamlined, ministerial approval process by a jurisdiction. This bill would also limit the authority of a jurisdiction to impose parking requirements on projects that qualify for the streamlined process. This process would apply in jurisdictions where an insufficient number of permits have been issued as reported in their respective annual progress report to the HCD, which reports building activity in comparison to the Regional Housing Needs Assessment (RHNA) allocation. While SB 2 and SB 3 focus on permanent sources of funding for affordable housing, SB 35 aims to reduce barriers on building housing.

CONCLUSION

Unfortunately, this update to the 2016 SCAG Housing Publication does not illustrate much improvement in the regional and statewide housing crisis. While median household income has finally increased since 2000, housing and rental prices have outpaced income growth. As long as housing supply does not keep up with demand, prices will continue to be unaffordable and the SCAG region will continue to feel the effects of the cost of not housing.

Meanwhile, recent statewide discussions on housing has resulted in housing-focused legislation that will establish permanent sources of funding for affordable housing and reduce barriers to housing development. However, it is imperative to not be complacent. While the recently signed legislation has brought housing to the forefront of lawmakers’ agendas, it is only the beginning step on the long road to addressing the cumulative crisis.
SAVE-THE-DATE

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

REGIONAL CONFERENCE & GENERAL ASSEMBLY

2018

May 3-4, 2018

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