

COMMENTARY

Editorials, letters, columns and other opinions

Jobs, Homes, Education Keys to Area's Future



COMMENTARY

Gary London

Recently, someone asked me if there will ever again be a recovery and resale market for higher priced homes (e.g., those \$800,000 and above).

Then I read an OpEd piece in The San Diego Union-Tribune, written by two advocates for the poor, asking the City Council to divert more resources to the other neighborhood's need for jobs, housing and infrastructure, and less on downtown redevelopment.

Are these two items unrelated, as they seem to be on the surface?

No. They are very much related.

This is an emerging snapshot of two San Diegos. Call these the "haves" and the "have-nots" — and their capabilities and needs could not be in starker contrast.

While seemingly on different ends of the economic spectrum, these issues are really variations of the same theme. Stated simply, the projected costs of living in San Diego are rising. Although those costs have been muted during the past four years, in housing at least, the very fact that the market went relatively dormant will lead to a big run-up in pricing. That would be good news for the housing owner, bad news for the advocate for the poor.

Winners, Losers By Job Category

Once the economy juices up, the number of people who move here because they are attracted by the job market will increase. That number has been down, because there has been job loss. Look at the numbers in these three sectors:

Construction, real estate and finance: From (beginning) 2006 to (end) 2009, there have been 47,800 jobs lost in these real estate-related sectors. The total employment is down to 126,600. No surprise here. There was less demand for these services so this sector went into compression and hibernation.

Manufacturing: The basic category of employment decreased from 103,200 to 92,000 jobs during this same period. A recession brings lower demand for manufactured products so employment declines.

Technology: Technology jobs are based on categories called Scientific Research & Development Services and Professional, Scientific, and Technical Services and include the three clusters of biotech, communication tech and general high-tech. Together they employ 73,600 people and their job count increased in the past three years by 1,300.

It is my view that technology will continue to grow in the region. These sectors are now well entrenched locally, and they are fortified and nurtured by our various educational and public institutions. People employed in these sectors often have advanced degrees and their pay grades are quite high.

The real estate-related sectors will come back. As demand returns for real estate product, be it a house or a loan,



there will be more people added again to these job categories.

But the manufacturing sector is probably in permanent decline. While policy makers should do what they can do to keep these jobs here, the simple fact is that jobs in these categories pay less. The economics of the use of precious land leads to density, not for the tilt-up style horizontal buildings commonly associated with manufacturing. This is not just a San Diego problem: It is a coastal California problem. This sector has feet, and they will move inland, elsewhere in America, or out of the country.

The other critical employment issue is that we enjoy a booming tourism sector. Perhaps 100,000 jobs exist that do not and cannot pay high wages.

Growth to Increase

It's a curious thing. On the one hand, San Diego is projected by SANDAG to resume its average pace of growth in the coming years at 50,000 people per year. Even last year, the state Department of Finance reported that the region grew by 39,000 people. And that was during a down economy. Basically, 60 percent of the region's growth is now attributable to "natural increase," meaning that more babies are born here than people dying.

But the very size of our region — we now have 3.2 million residents — coupled with the demographic inevitability of built-in natural growth, suggest that regardless of the state of the economy, the region will grow.

Housing Shortage

In the past 4.5 years, the housing market has experienced dramatic price declines. However, those price declines are strictly in the resale inventory. And that market has apparently turned. Currently, there is only a two- to three-month inventory of homes available for resale.

According to **MarketPointe Realty Advisors**, a firm which tracks new housing, pricing of new housing has recovered to fourth-quarter 2008 levels. The factors of production, particularly the cost of land, but also materials and labor, are all increasing. New-home prices will rise.

We have analyzed the projected housing unit supply for the next 10 years. Few new homes have been built. Last year, 5,000 dwellings were added. Our best case conclusion for the next 10 years is that approximately 94,000 housing units will be available. This is roughly a 6.7-year supply, using the benchmark of demand for 14,000 units per year.

Even this projected supply is probably not realistic when we consider a possible "disconnect" between supply and demand (much of the projected supply will not meet the needs of the emerging young Millennial families); and entitlement issues will stretch the delivery time, reduce the unit count and raise the costs of much of the projected inventory.

Our projections of residential supply and demand in San Diego County lead us to this inevitable conclusion: As our regional economy recovers, at some point we will once again experience a housing shortage. Then prices will increase.

Putting It All Together

Put this all together and this is what we've got: In response to the guy concerned whether a high-end house will sell for more, the answer is eventually yes. We are likely to see steady pricing increases in the coming 24-36 months, but my guess is that after that period we will see a steep bid up in pricing.

I would also project that the next pricing peak will go higher than the 2005 level, as "other worldly" as that sounds. I simply do not see any reasonable other outcome, unless the economy collapses or there is some unforeseen and foreboding "outlier" event. Financing will go back to the "new" normal, which will be a throwback to the past (remember 10 percent to 20 percent down, prove your income?), and interest rates may rise, but to manageable levels for most.

This is the economic result of higher paying jobs being added to the market, coupled with the projected and more or less permanent shortage of new housing.

But this is in stark contrast to the other San Diego. Our population is growing steadily. Young families are being raised here. Costs are going up. Our regional challenge is how to keep people employed, housed and well educated so they have a reasonable chance of participating in a good quality of life.

If we can't accomplish that, then we will continue to witness strong advocacy in the form of requests for funding, and an ever increasing slice of the fiscal pie, from organizations and agencies that attend and care for the poor and others without insufficient means to survive in the San Diego region.

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