



The New California Dream

How Demographic and
Economic Trends May Shape
the Housing Market

A Land Use Scenario for 2020 and 2035

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**EXEC SUMMARY
&
CONCLUSIONS**

Executive Summary

This report offers a scenario for how the use of land in California’s four largest metropolitan areas may be reshaped between 2010 and 2035. Taken together, these four metropolitan areas house 80 percent of the state’s population. The scenarios for 2020 and 2035 are based on current understanding of demographic, economic, and financial trends; on emerging market preferences revealed through surveys; and on an assessment of redevelopment opportunities in currently developed urban and suburban areas.

The report makes five principal findings:

First, the existing supply of conventional-lot (over one-eighth acre), single-family detached homes exceeds the projected demand for these homes in 2035. This finding does not mean there is no market for new conventional-lot homes in niche markets. It does mean that overall the expansion of the supply of conventional-lot, single-family detached homes would be in excess of current and projected demand (see figure 1).

Second, housing and neighborhood preference surveys indicate that Californians consider transit options to be far more important in choosing a location in which to live than the rest of the nation: 71 percent in California, compared with 47 percent nationally. The demand in 2035 for residences located within one-half mile of public transit stations—called transit-station areas, or TSAs—will exceed the aggregate amount of current supply plus all new residential units built in these metropolitan areas between 2010 and 2035 (see figure 2 and table 1).

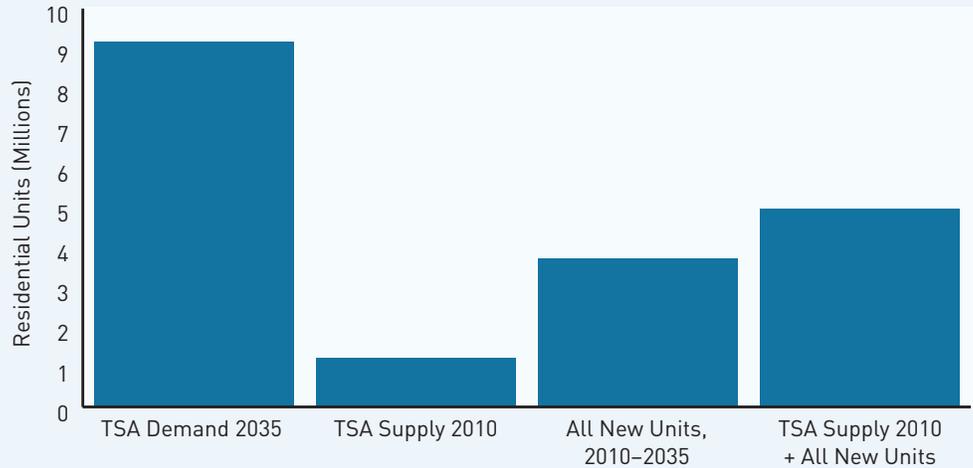
Third, through modest redevelopment that will happen anyway, existing developed land with nonresidential uses could be sufficient to accommodate all new jobs created over this period. In particular, existing and potential TSA development may have sufficient capacity to accommodate 7 million jobs, or more than enough to absorb all new jobs between 2010 and 2035 (see table 1).

FIGURE 1 Demand in 2035 for Residential Units in the Largest Four Metropolitan Areas by Major Category, Compared to Supply in 2010



Source: Author.

FIGURE 2 Transit-Station Area Housing Demand Relative to Supply, 2010–2035



Source: Author.

Fourth, changing demographics in combination with changes in home mortgage finance will reduce the rate of homeownership in California by up to 5 percent from 2010 levels and perhaps by as much as 10 percent over the long term. A 5 percent reduction represents a market condition where three-quarters of the demand for new housing in the state’s largest metropolitan planning organization (MPO) areas will be for rental housing. This demand should lead to an increase in existing residential units being used to house multiple or intergenerational households as well as to a variety of hybrid or new housing formats, such as accessory dwelling units or new nontraditional multifamily housing options.

Fifth, these long-term market trends represent a directional alignment between the real estate preferences expressed by consumers and the greenhouse gas reduction objectives expressed by the state of California in the form of Senate Bill (SB) 375.¹

Although this report presents one of several conceivable scenarios that can be envisioned for these four California MPOs between 2010 and 2035, it is based on best available evidence with respect to demographic, economic, and financial trends and consumer preferences. Nonetheless, as additional census and other data become available, and as economic, regulatory, and financial conditions continue to evolve, this scenario will need to be revisited.

TABLE 1 Conservative Development Capacity of TSAs

Measure	Amount
Net existing and potential TSA land area @ 20% of total land within half mile of transit stations	76,605 acres
Floor/area ratio, average	2.50
Residential	
Residential unit demand for TSAs, 2035	9.2 million units
Capacity @ 1,500 square feet/unit applied to two-thirds of net land area	3.7 million units
Residential units in TSAs, 2010	1.2 million units
All new units, 2010–2035	3.7 million units
Total new residential unit demand, 2010–2035	2.5 million units
Employment	
Capacity @ 400 square feet/worker applied to one-third of net land area	7.0 million jobs
Total employment in TSAs, 2010	3.0 million jobs
Total employment growth, 2010–2030	3.5 million jobs

Source: Author.

The bottom line is that as many as 9 million households would like the option to live in locations served by public transit, but today only about 1.2 million California households can claim to have it. Even if all new homes built between 2010 and 2035 were built in TSAs, several million households would be left without the TSA option they want (see figure 1 and table 1). In addition, existing and planned TSAs appear to have the capacity to absorb all new jobs that would typically be attracted to TSAs and about two-thirds of all new housing units between 2010 and 2035 (see table 1).

The question this report does not address is whether and how the land use regulations in the state’s largest metropolitan areas can be restructured to facilitate planning and development processes that would allow absorption of this market demand in TSAs. Additional challenges must be overcome beyond facilitating the strong market demand for transit-accessible land uses. First, land use regulations must be proactively altered to “receive” this market demand. Second, although the public sector may be wary of investing the resources necessary to upgrade the infrastructure needed to meet current and growing demand, ways must be found to do so. Only through new public/private partnerships can these two challenges be surmounted.²

This report does affirm a consequential observation that by meeting emerging market demands, California’s largest metropolitan areas will be shaping their markets in a manner that conceivably allows them to comply with SB 375. Although this report outlines a market-driven development scenario for 2020 and 2035 that may be loosely consistent with the objectives of SB 375, it does not prescribe how California’s major metropolitan areas can or should meet those performance objectives. Local governments working with MPOs must find the most practicable ways in which to do so. Nonetheless, market forces seem to be heading in the direction of helping—rather than hindering—actions that achieve accord with SB 375.

CHAPTER 7

Conclusion

California is the nation's most populous state and will add more people between now and 2035 than any other state. For decades, homeownership rates in the state have been well below the national average. Many of California's metropolitan areas are among the nation's most densely settled—topped by Los Angeles. Substantial public ownership of land combined with sensitive and fragile landscapes reduces the supply of greenfield land available for urban development, making efficient use of remaining available land and underused previously developed land paramount. Although California leads the nation in many urban planning innovations, more needs to be done to align public policy and regulations to a rapidly shifting housing market and emerging consumer preferences. Housing preferences of the past, driven by the baby boom, are not the same as contemporary or projected preferences exhibited by generations X or Y—or the aging baby boomers—many of whom prefer urban environments that offer neighborhood walkability and transit access.

The changing demographic composition of California's metropolitan areas tends to favor more central locations—including centrally positioned suburban locations—for their access to transit and services. Those locations also correspond well to the location preferences of a large share of gen-Y households—a generation that is bigger than the baby boom. On the whole, half or more express preference for mixed-use development with transit options. The combined impact of energy costs and costs associated with automobile ownership is likely influencing changing market preference patterns, probably favoring more compact land uses over the long term.

Reinforcing this trend are the publicly stated proposals to revise homeownership finance in the United States. The current proposed revisions could create a new residential financing framework that makes buying homes more expensive and challenging. More expensive home financing on top of stagnating wages and demographic shifts will have a combined effect that translates into lower homeownership rates in California—perhaps in the range between 5 and 10 percent below 2010 levels.

The state's four largest MPOs—SACOG, MTC/ABAG, SCAG, and SANDAG—account for about 80 percent of the state's residents. Using a combination of market trends and projections by the individual MPOs, this report estimates the market trend for owner- and renter-occupied housing and market preferences for multifamily, townhouse, small lot (less than one-eighth acre), and other formats of residential development.

In the market trend context, analysis shows that between 2010 and 2020, the demand for new rental housing will be roughly equal to the demand for new owner-occupied housing, if the homeownership rate of 2010 remains the same. If homeownership rates in the four MPOs fall by 5 percent—statewide from about 58 percent to about 54 percent—new rental housing demand will represent about 75 percent of total new housing demand. This outcome would seem likely, considering the demographic, economic, and regulatory changes poised to occur during this decade. If the homeownership rate falls by up to 10 percent from 2010 levels—a conceivable outcome if proposed changes to home mortgage finance are adopted—a wholesale shift will take place from owner-occupied homes to rental homes or split-tenure homes, where owners open their existing homes to renters on a large scale. Between 2020 and 2035, markets presumably will have reequilibrated to account for demographic and mortgage finance shifts.

In the market preference context, between 2010 and 2035, the demand for townhouses and small-lot homes will more than double, while that for multifamily units will increase by up to half in some MPOs. The demand for homes on conventional lots will fall by more than a third. However, the current excess supply of housing in this scenario may keep the market from meeting future demand for other options.

Both perspectives need to be weighed together. If market trends assuming a 5 percent reduction in the homeownership rate are reasonable, roughly three-quarters of all new housing constructed in the largest four MPOs would need to be for renters, likely in multifamily arrangements composed of apartments and condominiums. The rest of the new housing demand would be met by the construction of townhouses and single-family detached homes on small lots.

Concurrent to these changes, the inventory of nonresidential spaces is aging rapidly in these MPO areas. The life cycle of a typical nonresidential structure—strip commercial centers, low-rise office and institutional buildings, warehouses, and the like—lasts between 20 and 40 years before being torn down, rebuilt, or repurposed to accommodate new needs. As properties recycle, the intensity of land being used for nonresidential uses usually increases and so does its attractiveness for a mixture of land uses, including residential uses.

Several overarching conclusions stem from this analysis:

- Adding to the current inventory of large-lot homes contributes to the excess of existing supply. The effect could be further erosion of housing values in overbuilt markets. Exceptions may be where large-lot homes are delivered as a component of mixed-use master-planned communities and in other situations where the buildable area of lots is relatively small (less than 5,000 square feet), but because of open spaces, easements, and other factors the actual lot would be considered large.
- All new residential development could be absorbed in existing and planned TSAs. After all, preference surveys note that Californians consider transit options to be far more important in choosing a place to live than the rest of the nation, by 71 percent to 47 percent. Yet even if all new residential development were constructed in TSAs between 2010 and 2035, at least a third of future the demand for living in TSAs would still not be met.
- The supply of existing developed land used for nonresidential purposes can conceivably be redeveloped to absorb all new and recycled nonresidential development demand to 2035.⁶⁰
- Assuming modest land use intensities (averaging 2.5 FAR) and generous space allocations for dwellings and jobs, existing and planned TSAs in California's largest four metropolitan areas could have sufficient capacity to absorb all development needs⁶¹ to 2035 and probably through much of the rest of the 21st century.
- The location preferences associated with long-term market demand suggest a general market orientation that does not contradict the type of compact development measures required to comply with the performance metrics contained in California's GHG legislation.

More research is necessary to fully explore the relationship between market trends, regulatory barriers, and necessary infrastructure investments. Each of these factors needs to come together in a location- and community-specific manner to make potential land use outcomes a feasible reality. However, this report provides a synthesis of current data and an analysis of California's demographic and economic trends that can better inform scenario planning at the MPO level.