California Building Industry Association

CBIA

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LITTLE HOOVER COMMISSION
Hearing on Climate Change Adaptation
Thursday, February 27, 2014

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Thank you for the opportunity to appear before you today. Your interest in both the economic and environmental well-being of our beloved state is one we mutually share. In the letter of invitation, your staff identified four specific issue areas --- what my public school teacher wife would call "prompts" – that you would like addressed. We will divide the responsibility of addressing those questions between myself and Bob Raymer our Senior Technical Director.

New housing construction is one of the most visible and widely dispersed industries in California. Even with the precipitous drop in permit activity and home sales from 2005 to present, the economic benefits of new housing construction contribute over $20 billion to the California economy, support over 122,000 jobs per year, and constitute 0.3 percent of the state's economic output. This is according to a 2012 report prepared by the Center for Strategic Economic Research, here in Sacramento.

The median price of an existing single family home in California in 2013 was $408,000.

California's homeownership rate in 2013 was 54%. The national rate is 65%.

Included in your materials is a graph showing housing production activity from the years 2004 to 2013--- expressed in annual permits issued. The chart also shows the breakout between single-family and multi-family. What isn't readily apparent is where those units are being built. Where is the housing recovery in terms of new residential construction taking place, and what housing types are leading the recovery?

Of the total permits issued in 2013, fully 65% of that activity (over 54,000 units) occurred in six specific areas: the job-rich, higher per-capita income coastal areas of Los Angeles, Orange County, San Diego, San Francisco, along with the Santa Clara Silicon Valley, and parts of Riverside County. These are the first tier recovery areas.

Though we don't have precise numbers on the exact housing types leading the recovery, we do know that multi-family (attached) housing … condominiums, townhomes, apartments … predominate in these areas with the exception of Riverside.

The second tier recovery areas of San Bernardino, Fresno, Alameda, Kern, Contra Costa and Sacramento account for a little over 13,000 total units (16% of the 2013 permit totals). The housing type that predominates in these areas is single-family.

As to the locational breakout between areas that have not previously seen development ("greenfield") and urban infill or more precisely 'refill" areas, I'm not aware of any research or study that definitively identifies the percentage of infill vs. greenfield development taking place. If I had to guestimate, I'd say that under the best of circumstances, California's infill housing potential --- to accommodate projected housing needs over the next 20 years --- is @ 25%.

A quick word on the pace of the housing recovery in California. With the exception of a few coastal areas, the recovery is slow and uneven. The recent gains in home prices and in construction has been driven mostly by restricted supply rather than by growth in first-time homebuyers. Clearly, we need to bring more buyers into and back into the market.

We are guardedly optimistic that key pieces are coming together to help that happen. As hiring picks up, buyers who have a job but have been sitting on the fence because of uncertainty may be more likely to jump in as the see their employers add to the rolls. Additionally, as the supply of distressed properties shrinks and as refinancing slows, we anticipate that lenders will turn to originating more purchase loans … signaling that would-be buyers will have greater access to credit. On a related note, we have seen FICO scores for a purchase loan backed by Freddie & Fannie tick down from 761 to 756. Another sign that lending for both first-time and move-up buyers may be loosening. Finally, interest rates, though higher than they have recently been, are still historically low. Assuming that the Federal Reserve maintains a measured and strategic approach as it backs away from its asset purchases, interest rates should not jump exponentially. This will lead to greater consumer confidence and, hopefully, bring buyers off the sidelines.

Turning to issues of climate and the environment and planning actions that the homebuilding industry is working on, CBIA took a leading role a few years ago in the successful legislative effort to better regionally align decisions on land use, transportation and housing to assist in achieving the state's Greenhouse Gas emission reduction goals expressed in Assembly Bill 32. To date, the requirements of Senate Bill 375 are being implemented in four major metropolitan areas of the state --- San Diego, Southern California, the Bay Area, and the six-county Sacramento region.

The real results of this experiment will only be known over time, but it's safe to say that significant challenges remain to fully realize the goals of SB 375. Underlying the sustainable community strategies that are intertwined with regional transportation plans are ambitious growth and land use forecasts that envision significantly higher levels of dense development in existing urban areas. In order for those growth forecasts to pan out, we will have to have broad-based and effective tools to finance the rehabilitation, re-sizing and modernization of the old and in many cases antiquated backbone infrastructure in existing metropolitan areas. With the loss of redevelopment, that job has become significantly more challenging. This is not something the private markets and private financing alone will be able to support. Also, virtually all of the metropolitan planning organizations and local transportation planning agencies face capital funding shortfalls to carry out their programs.

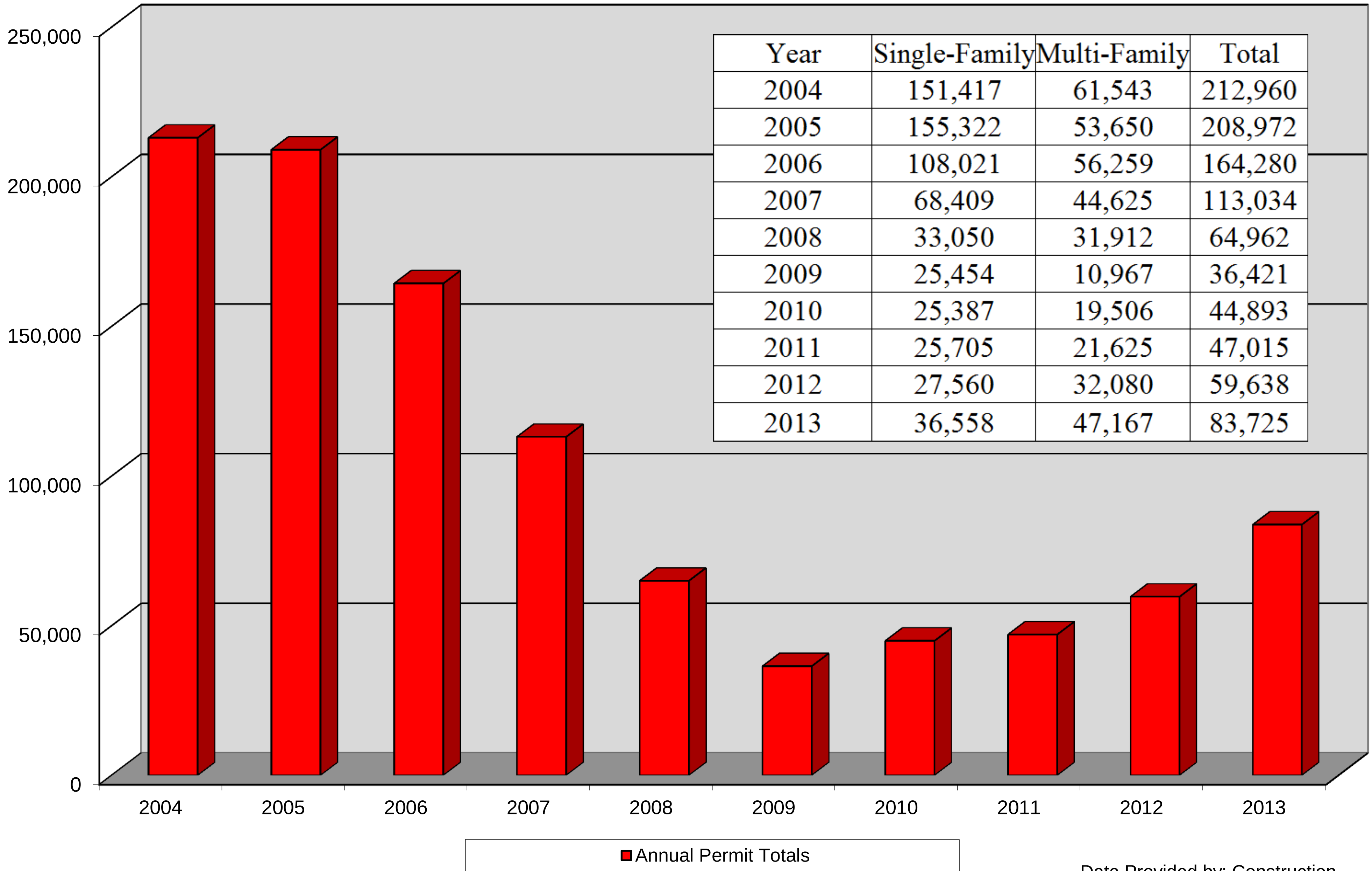
The point here is that putting visionary plans together … while challenging in itself … is the easier task. Financing and implementing those plans will be the real challenge.

The risks that we see today from building in California are no different from the risks that our predecessors faced. They can be mitigated but never fully eliminated. There's a risk of flooding? Make sure the levees and other infrastructure are adequate to protect the public. Require insurance, design communities in a way to minimize the risk. There's a risk from fires? Design new communities in fire prone areas to provide residents with shelter in place. There's a drought? Have the foresight to improve the state's water storage capacity to guard against shortened supplies due to dry conditions and low supply.

I submit to you that California's homebuilding industry is a beacon of diversification and adaption. We build in hundreds of communities statewide and interact with thousands of local, regional, state and federal officials, rules and regulations. Delivering a quality and affordable product in this environment is a challenge that we are up to.

Thank you for the opportunity to appear before you. I'll turn it over to Bob Raymer.

HOUSING PRODUCTION IN CALIFORNIA 2004-2013



Year	Single-Family	Multi-Family	Total
2004	151,417	61,543	212,960
2005	155,322	53,650	208,972
2006	108,021	56,259	164,280
2007	68,409	44,625	113,034
2008	33,050	31,912	64,962
2009	25,454	10,967	36,421
2010	25,387	19,506	44,893
2011	25,705	21,625	47,015
2012	27,560	32,080	59,638
2013	36,558	47,167	83,725

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Data Provided by: Construction Industry Research Board