

Economic Effects of the New Housing Industry in the Sacramento Region

2016 RESEARCH REPORT, KEY FINDINGS



BACKGROUND

This Research Study, conducted by New Economics & Advisory, evaluates the impacts of the New Residential Homebuilding Industry (Industry) on jobs and wages, regional growth, and revenues to cities and counties in the Sacramento Region.

The Research Study was framed by three goals:

Goal #1: Regional Focus.

Analysis of Industry impacts that are relevant to local cities and counties in Sacramento.

Goal #2: Industry Specific.

The Study builds upon existing data sources to quantify impacts of all aspects of the Industry.

Goal #3: Objectivity.

Commissioned by the NSBIF, a non-profit organization focused on charitable and education purposes, the methodology and findings were professionally peer reviewed by two economic and finance experts. The feedback and insights from these experts were integrated into the report, the entirety of which can be found [here](#).

TECHNICAL METHODOLOGY

This study utilized a variety of approaches to examine different aspects of the Industry, including building upon well-known public and/or private data sets, undertaking case-study analyses, and conducting interviews with public officials to refine and interpret raw data. New approaches applied to existing or new data have led to other new questions and areas for future additional research. Finally, the Research Study effort sought out external peer review from highly respected economic development/finance experts; their feedback was integrated into the final report.

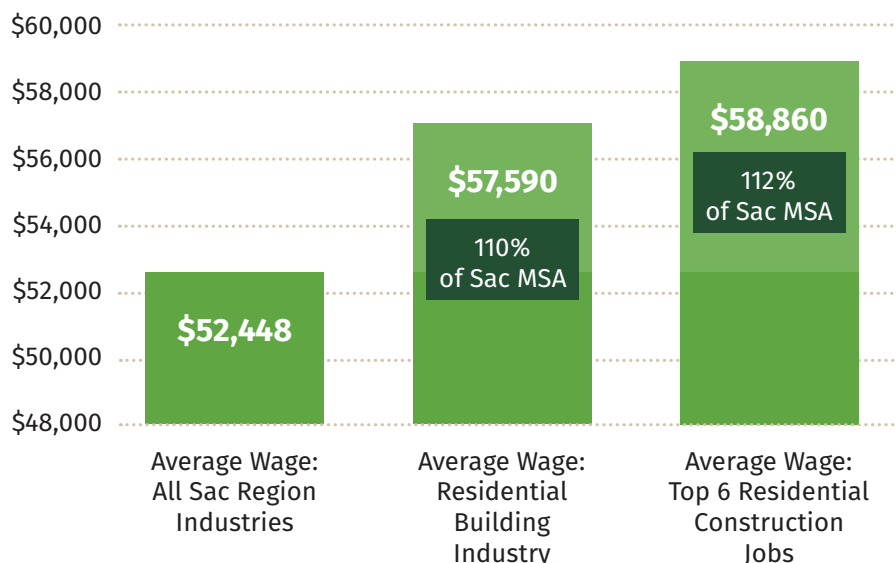
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KEY FINDINGS: JOBS AND WAGES

- **Sacramento's homebuilding industry supports 50,000 jobs each year.**
A Jobs Analysis estimated the scale of all jobs associated with the New Residential Industry over the last 15 years. This estimate includes direct jobs, indirect jobs, and induced jobs, and accounted for the peaks and troughs of real estate and larger economic cycles.
- **Industry wages pay 10-12 percent more than the Sacramento average wage.**
Using 2014 occupation and wage data for both the Sacramento Region and California, local homebuilding industry wages were compared to the overall average annual wage for the Sacramento MSA and for a series of selected comparison industries.
- **Every 100 Industry jobs* supports an additional 90-122 jobs in other sectors.**
Direct jobs in the New Residential Industry support and sustain jobs in other sectors of the economy in the Sacramento MSA. A Multiplier Effect Analysis used IMPLAN (an input-output model) to evaluate the number of jobs in other industries that are supported by the Industry (including both new single-family homes and multifamily homes). These effects were also compared to the effects of other select industries in the Sacramento MSA. The analysis showed that Industry jobs create a higher ripple effect than many other comparison industries in the Region.

AVERAGE ANNUAL WAGES (2014\$)



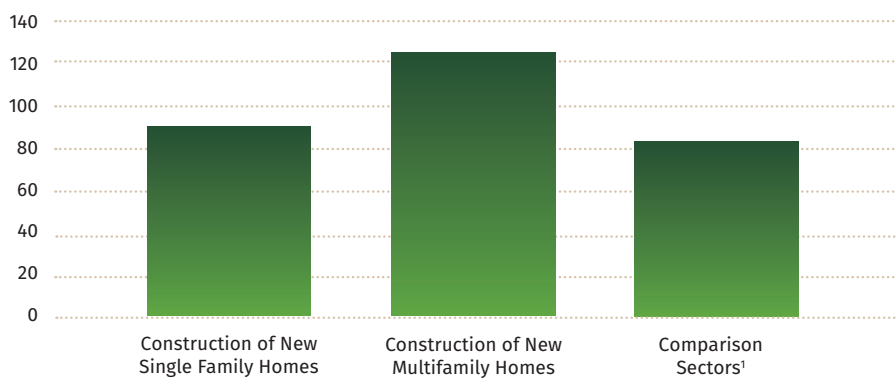
* Construction jobs include all the jobs associated with the companies whose primary business activity is classified with that sector. For single-family and multifamily construction, it includes all of the jobs associated with buildings, mechanical/electrical installations, and site preparation. It does not, however, include jobs associated with land acquisition.

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KEY FINDINGS: JOBS AND WAGES (CONTINUED)

ADDITIONAL JOBS (SPIN-OFF FOR EVERY 100 JOBS)



1. Comparison industries include state government, local education, restaurants, hospitals, retail, and insurance

KEY FINDINGS: REGIONAL GROWTH

- **By continuing to increase the supply of new homes in the Sacramento Region, the Industry helps to maintain relatively lower home prices compared to other more constricted markets (such as the 7-County Bay Area).**

The Sacramento Region has often perceived itself as an “affordable alternative” to the Bay Area, although other areas in Northern California and Northern Nevada also provide potentially affordable places to live. An analysis of home sales trends and household incomes over a 19-year period validated the relative affordability of Sacramento compared to the Bay Area. In addition, study of housing tenure, median home values, homeowner incomes, and monthly housing costs for other nearby MSA’s indicated that the Sacramento Region enjoys a relatively high level of home ownership, even when compared to other areas with less expensive housing.

- **Housing growth in the Sacramento Region provides critical funding for new infrastructure and amenities (including parks, schools, streets and bicycle paths, open space, etc.). These amenities enhance the Region’s “quality of life” fabric, thereby helping to set the stage for continued economic growth.** Housing growth in the Sacramento Region funds its proportionate share of costs for new infrastructure, (including parks, schools, streets and bicycle paths, open space, etc.). These contributions qualitatively enhance and complement the Region’s other key Quality of Life factors (such as entertainment venues, parks and recreation, transportation systems, air quality, etc.).

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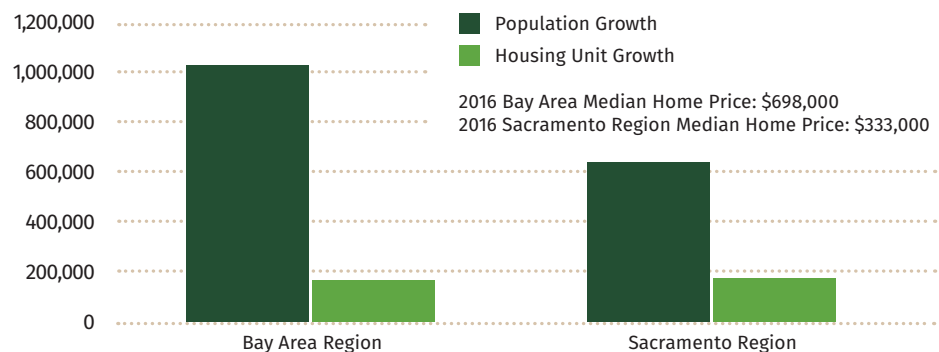
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KEY FINDINGS: REGIONAL GROWTH (CONTINUED)

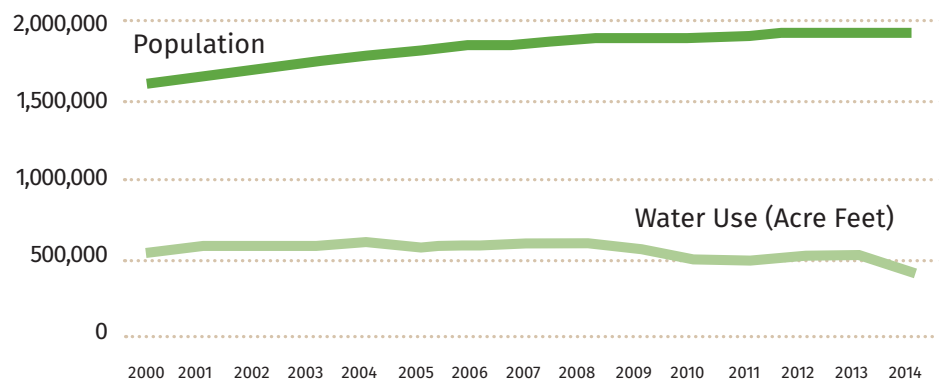
■ The homebuilding industry has been a leader in sustainable communities that contribute to water conservation and energy efficiency.

Despite significant levels of population growth since 2000, the Sacramento Region has decreased its water consumption both on a per-capita basis (from 285 gallons to 190 gallons) and overall basis (from 174 million acre-feet to 169 million acre-feet). Increasingly stringent water design, such as the near elimination of turf, in new communities, has contributed to this achievement. Similarly, changes in state code have required more energy efficiency in new homes, leading to a reduction in energy use per building square foot. Whereas in the 1970's the average California home used 110 BTU's (standard energy measurement unit) per square foot annually for heating and cooling, by 2016 this figure had fallen to less than 20 BTU's per square foot annually.

POPULATION AND HOUSING UNIT GROWTH (1992-2016)



ANNUAL POPULATION VS WATER USAGE



Source: Regional Water Authority, 2016

KEY FINDINGS: LOCAL REVENUES

- **Each year, local governments receive more property tax revenue from new residential construction than from retail, office, and industrial construction combined.**

Between 2000 and 2016, residential construction accounted for nearly 80 percent of new assessed value (which drives property tax revenue), versus about 20 percent for commercial and industrial development. These new revenues provide a major source of funding to cities and counties for police, fire, parks, and other public services. This analysis was based on data from the California Homebuilding Industry Foundation, which tracks, on a monthly basis, the amount and value of new development created in each jurisdiction across California.

- **As on-line shopping continues to grow, remaining store-based retail will be more oriented toward local services and entertainment. New homes located close to store-based retail are needed to help sustain those existing brick-and-mortar retail outlets and to capture sales/use tax from on-line shopping. Sales and use tax distribution formulas for on-line shopping are based largely on local store sales, making it even more important for cities and counties to sustain as much brick-and-mortar sales as possible.**

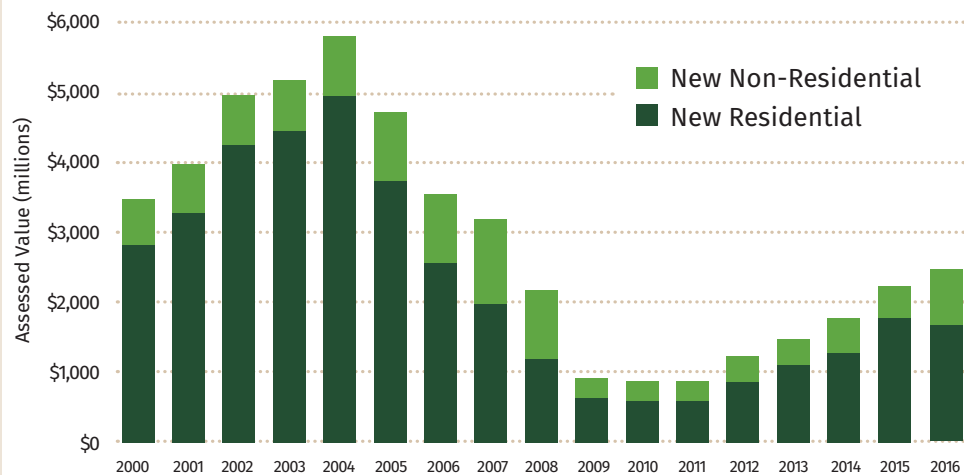
During 2015 the largest on-line retailers that also sell goods in stores saw on-line sales increase by about 15-30% while store sales experienced modest or even negative changes (-2 to 7%). Case-study research indicates that retail centers focused on food and/or entertainment located near both population and employment nodes are withstanding or even growing their sales, while centers with more traditional offerings are stagnating.

Research also revealed that certain forms of on-line purchase, (such as e-books and digital music), are exempt from sales and use tax, thereby removing those sales tax revenues from the system entirely.

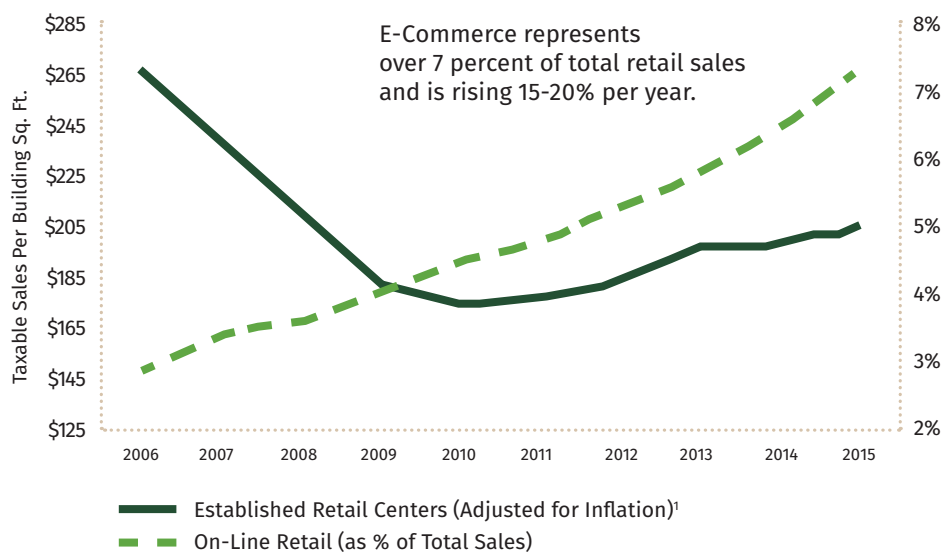
While on-line purchases that do trigger sales/use tax are difficult to track individually, some large e-retailers mostly pay use tax, which is collected based on the county in which the consumer lives; those revenues are distributed among the local jurisdictions based on the share of taxable brick-and-mortar sales. Cities and counties can maximize sales tax revenues by sustaining brick-and-mortar stores with new local residents to withstand e-commerce, make on-line purchases, and provide appeal to e-commerce businesses seeking to locate smaller distribution centers that have the ability to qualify for point-of-sale venues within close proximity to customers.

KEY FINDINGS:
LOCAL
REVENUES
(CONTINUED)

ASSESSED VALUE FROM NEW DEVELOPMENT



RETAIL TAXABLE SALES TRENDS



[1] Based on Case Study research.

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ABOUT NEW ECONOMICS & ADVISORY

Founded in 2011, New Economics & Advisory is a boutique economic consulting firm that economic analysis for planners, developers, and government officials to inform intelligent and financially sustainable land-use planning. Analytics used by New Economics are shaped by the latest market trends, economic dynamics, and best financial practices. New Economics serves Northern California and Northern Nevada, and has offices in Roseville, CA and Lake Tahoe, NV.

ABOUT THE PROFESSIONAL PEER REVIEWERS

This study placed great importance on objectivity and was professionally peer reviewed by two economic and finance experts, whose feedback and insights were integrated into the study. Sanjay Varshney, of Varshney & Associates, teaches at California State University, Sacramento, and is the head of the Sacramento Business Review. He is also the Faculty Director of the EMBA program at California State University, Sacramento and was the previous Dean of the College of Business at Sac State. William Zenoni is a former Director of Finance and Assistant Director of Finance for various cities and special districts in California, including the City of Alameda, San Leandro, Vallejo, and Oakland. Mr. Zenoni now serves as a financial and management consultant and has provided expertise and interim staffing positions for cities and other agencies throughout Northern California.

ABOUT THE NORTH STATE BUILDING INDUSTRY FOUNDATION (NSBIF)

This Research Study was commissioned by the NSBIF, a 501(c)(3) nonprofit organization operating exclusively for charitable and educational purposes especially focused on strengthening the Northern California homebuilding industry through community service, workforce development, and building industry related research. Currently in addition to this study the Foundation is engaged in the 5kin5 Initiative working with a variety of member employers and community & education partners to recruit and place 5,000 workers in the building trades. For more information go to our website at <http://biaworkforce.com> or contact Rick Larkey at (916) 751-2760.

ABOUT THE CALIFORNIA HOMEBUILDING FOUNDATION (CHF)

Additional funding for this Research Study was provided by CHF, a 501(c)(3) tax-exempt organization investing in the future of California's homebuilding industry. CHF's mission is to ensure the continued success of homebuilding through the development of its current and future workforce by providing scholarships to college students in building-related programs, promoting high school trades education courses, funding pertinent construction and employment research, and honoring exemplary industry leaders. The Foundation hosts California's annual homebuilding gala, Hall of Fame. <http://www.mychf.org>

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