Item #15-2-2A
Attachment 2

Item #15-1-12
Information

Strategic Planning Committee

January 14, 2015

Summary of Interviews with Industry Forecasters on Draft Projections through 2020

Issue: What are the views of real estate and growth forecasters regarding SACOG's draft 2020 growth projections?

Recommendation: This is for information only.

Discussion: SACOG staff has been working to update interim year projections for the 2016 Metropolitan Transportation Plan/Sustainable Communities Strategy (MTP/SCS) Update. One key interim year is 2020. For the 2012 MTP/SCS, the SACOG Board adopted growth projections including the year 2020. For the 2016 MTP/SCS update, SACOG staff is re-visiting the 2020 projections with particular attention to the pace of recovery from the recession. SACOG's draft 2020 projections show that from 2014 to 2020 the region will grow by 42,500 housing units, a population increase of 196,000 people and an employment increase of 107,000 jobs. Attachment A details SACOG's draft projections.

To validate the draft projections, staff sought an unbiased peer review by locally-based experts who track and/or project growth in the region. SACOG contacted seven experts, of which six responded to SACOG's request for comments. They are:

- Walter Schwarm, Demographer at the California Department of Finance;
- Dr. Sanjay Varshney, Wells Fargo Bank and former dean of the School of Business Administration at Sacramento State University;
- Dr. Jeffrey Michael, University of the Pacific;
- Greg Paquin, The Gregory Group;
- Ryan Sharp, Economic Planning Systems; and
- Stephen Levy, Center for Continuing Study of the California Economy.

Five of the six experts gave either a phone or in-person interview with staff; a summary of these interviews is included in Attachment B. The sixth expert, Stephen Levy, provided a letter of his review (Attachment C). All six experts generally stated that SACOG's projections were within the range of reasonableness and that many of the assumptions are consistent with their own. There may be some specific differences in opinion, but none so dramatic to indicate that SACOG's projections are unwarranted.

Approved by:

Mike McKeever
Chief Executive Officer

MM:GG:ds
Attachments
Key Staff: Gordon Garry, Director of Data and Research (916) 340-6230
Kacey Lizon, Planning Manager, (916) 340-6265
Greg Chew, Senior Planner, (916) 340-6227

Summary : 2016 MTP-SCS Draft Projections (January 8, 2015)

	Vacancy Rate Assumption	Dwelling Units (DU)	DU Change from 2012 SCS	Households (HH)	Household Population	Employment	Group Quarters Population	Persons Per HH	Employment /DU
2008	8.1%	889,434	4,352	819,434	2,215,044	966,285	52,000	2.70	1.09
2012	8.0%	902,089	-9,277	829,922	2,249,575	900,196	52,000	2.71	1.00
2014	6.0%	908,980	-15,819	854,441	2,283,521	935,743	54,000	2.71	1.03
2020	4.5%	951,480	-52,671	908,269	2,479,575	1,042,385	57,000	2.73	1.10
2027	4.5%	1,050,480	-39,565	1,002,773	2,737,571	1,178,434	61,000	2.73	1.12
2036	5.0%	1,187,880	-330	1,128,486	3,086,409	1,326,851	68,000	2.74	1.12

SUMMARY: 2014 to 2020 Projections

42,500 = increase # in Dwelling Units 2014 to 2020
196,054 = increase # in Population 2014 to 2020
106,642 = increase # in Employment 2014 to 2020

	Dwelling Units		
Year	2012 MTP/SCS	2016 MTP/SCS	Lag of 2016 vs. 2012 SCS
2008	885,082	889,434	
2012	911,366	902,089	-9,277
2014	924,799	908,980	-15,819
2020	1,004,151	951,480	-52,671
2027	1,090,045	1,050,480	-39,565
2036	1,188,210	1,187,880	-330

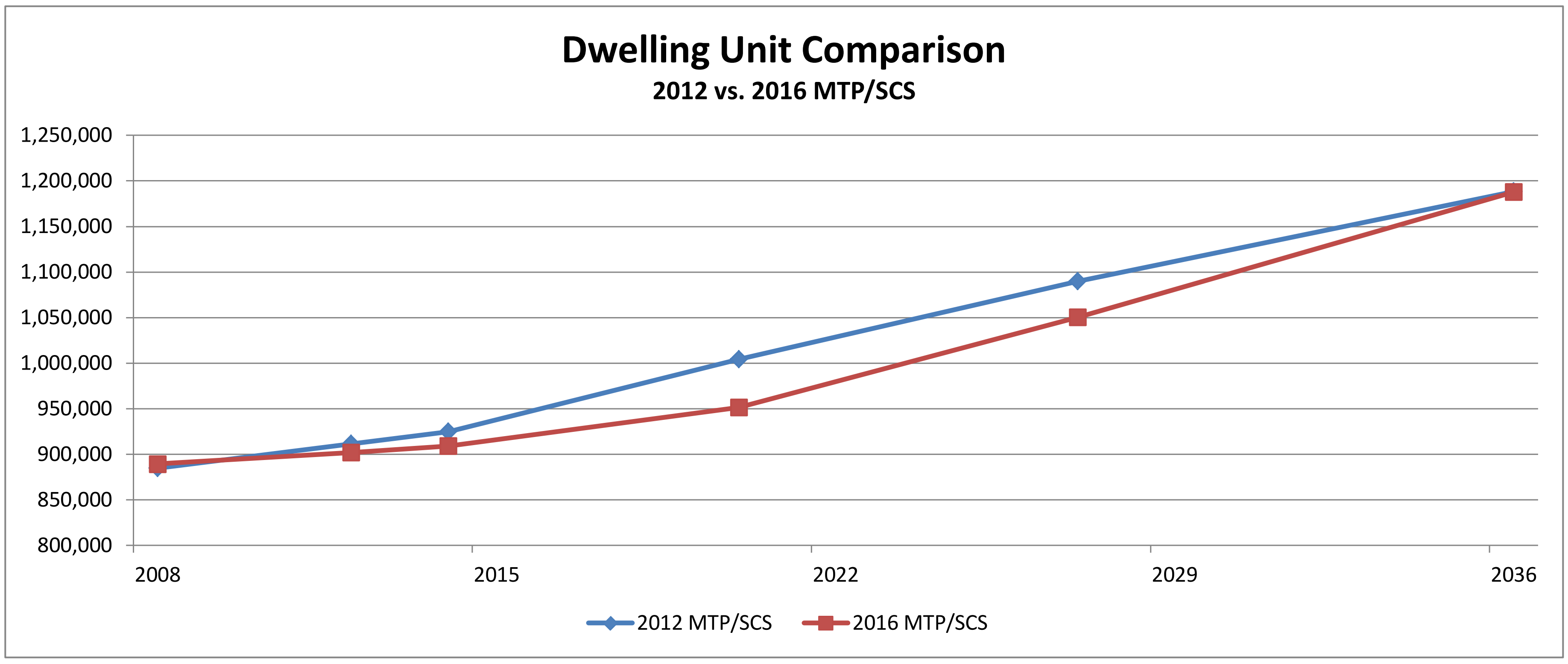
	Dwelling Unit growth	
Time Period	2012 MTP/SCS	2016 MTP/SCS
'08-'12	0.7%	0.4%
'12-'14	0.7%	0.4%
'14-'20	1.4%	0.8%
'20-'27	1.2%	1.5%
'27-'36	1.0%	1.5%

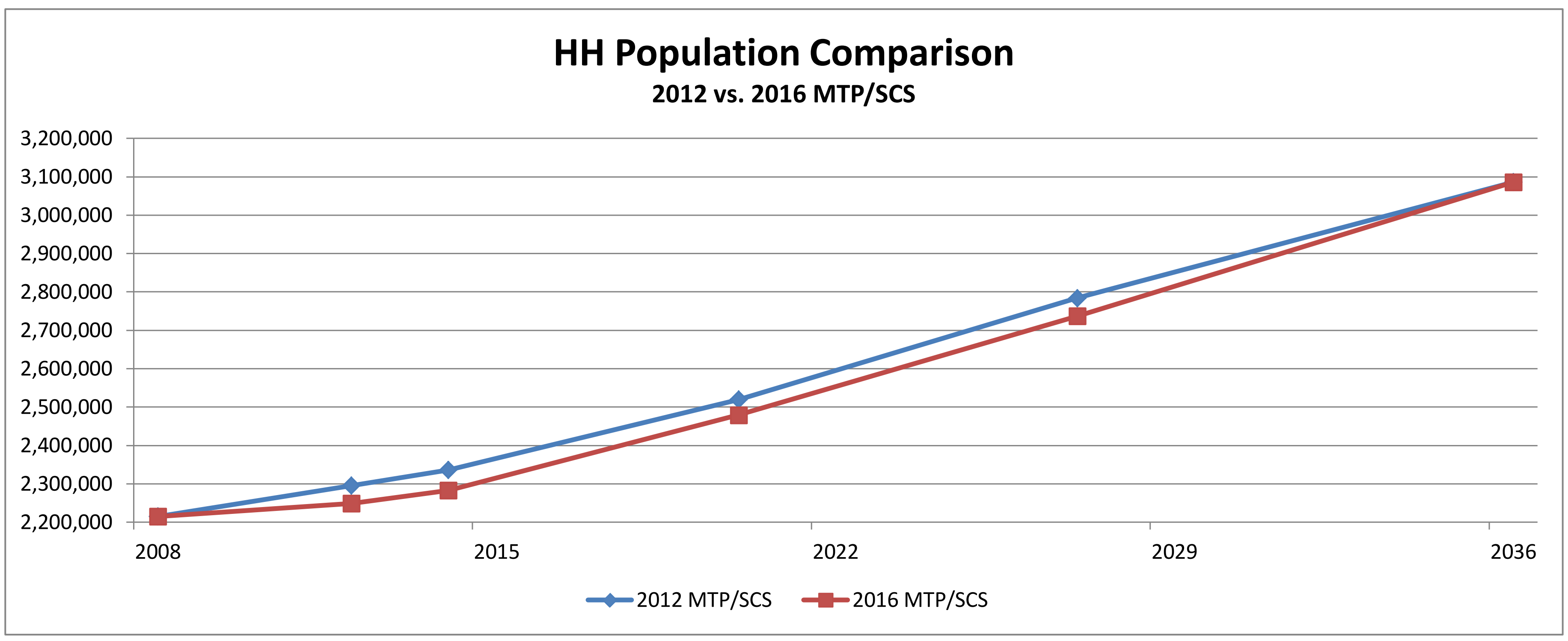
	Household Population		
Year	2012 MTP/SCS	2016 MTP/SCS	Lag of 2016 vs. 2012 SCS
2008	2,215,044	2,215,044	
2012	2,295,205	2,249,575	-45,630
2014	2,336,367	2,283,521	-52,846
2020	2,519,947	2,479,575	-40,372
2027	2,784,204	2,737,571	-46,633
2036	3,086,213	3,086,409	196

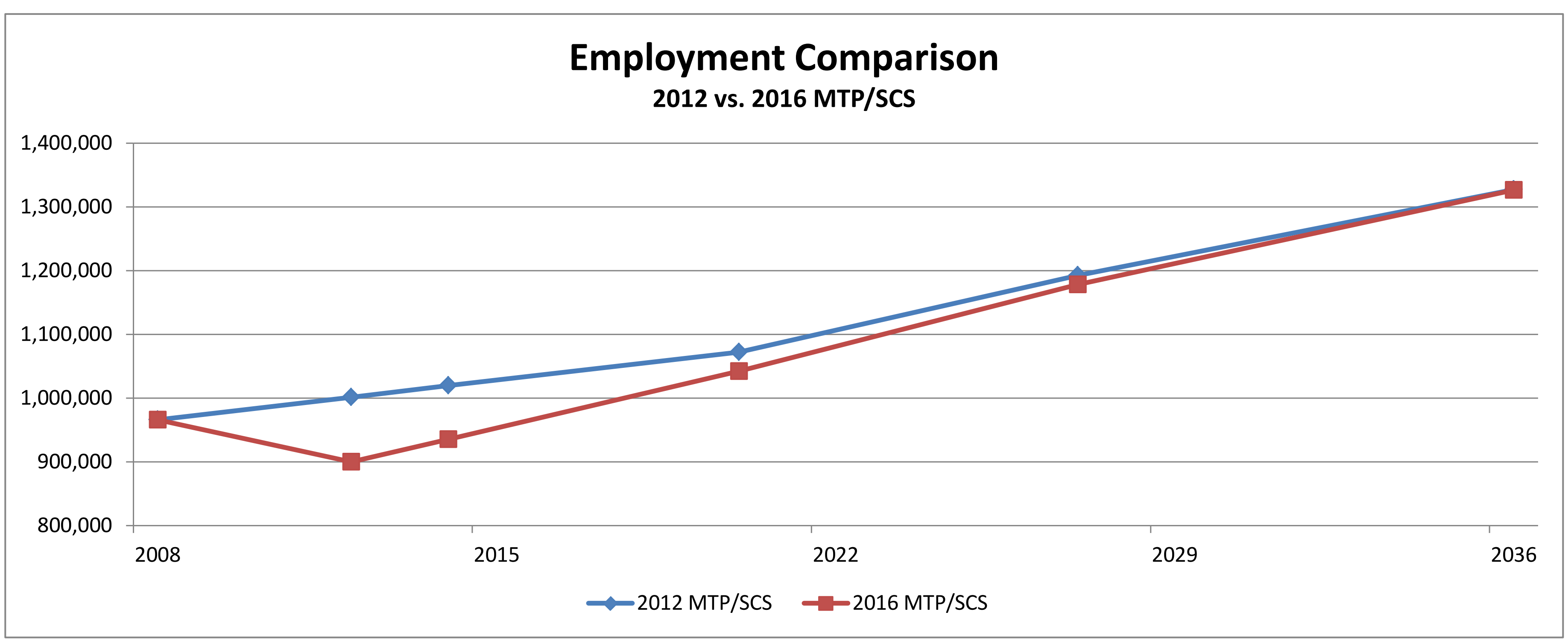
	HH Population growth	
Time Period	2012 MTP/SCS	2016 MTP/SCS
'08-'12	0.90%	0.39%
'12-'14	0.90%	0.75%
'14-'20	1.31%	1.43%
'20-'27	1.50%	1.49%
'27-'36	1.21%	1.42%

	Employment		
Year	2012 MTP/SCS	2016 MTP/SCS	Lag of 2016 vs.
2008	966,285	966,285	
2012	1,001,700	900,196	-101,504
2014	1,019,892	935,743	-84,149
2020	1,072,544	1,042,385	-30,159
2027	1,192,698	1,178,434	-14,264
2036	1,327,423	1,326,851	-572

	Employment growth	
Time Period	2012 MTP/SCS	2016 MTP/SCS
'08-'12	0.9%	-1.7%
'12-'14	0.9%	2.0%
'14-'20	0.9%	1.9%
'20-'27	1.6%	1.9%
'27-'36	1.3%	1.4%


Dwelling Unit Comparison
2012 vs. 2016 MTP/SCS
1,250,000
1,200,000
1,150,000
1,100,000
1,050,000
1,000,000
950,000
900,000
850,000
800,000
2008
2015
2022
2029
2036
2012 MTP/SCS
2016 MTP/SCS


HH Population Comparison
2012 vs. 2016 MTP/SCS
3,200,000
3,100,000
3,000,000
2,900,000
2,800,000
2,700,000
2,600,000
2,500,000
2,400,000
2,300,000
2,200,000
2008
2015
2022
2029
2036
2012 MTP/SCS
2016 MTP/SCS


Employment Comparison
2012 vs. 2016 MTP/SCS
1,400,000
1,300,000
1,200,000
1,100,000
1,000,000
900,000
800,000
2008
2015
2022
2029
2036
2012 MTP/SCS
2016 MTP/SCS

Summary of Peer Comments
Regarding SACOG's Draft 2020 Growth Projections
(Draft January 8, 2015)

For the 2016 Metropolitan Transportation Plan/Sustainable Communities Strategy (MTP/SCS) update, SACOG staff is re-visiting its interim year growth projections, including the year 2020 (Attachment A). To ensure that these projections are realistic, staff sought a peer review by locally-based industry experts who track and/or project growth in this region. SACOG interviewed six experts to provide peer review. This document summarizes their comments.

Walter Schwarm – California Department of Finance

Walter Schwarm is a demographer with the California Department of Finance. Many of the driving forces – such as rates of birth, household formation, vacancy, etc. – that SACOG based its growth projections in the Sacramento region are similar to his own views. The six-county Sacramento region has lagged behind other, more populated regions of the state, particularly the Bay Area, in terms of economic recovery. Economic drivers that were strong for the Sacramento region during the housing boom years, such as migration of households with equity from the Bay Area, have substantially weakened during this recovery period. Birth rates have also decreased, particularly amongst teens and those 18-24 years old. Couples are having children later, and fewer of them. The next wave of increased births will not start happening until 2019; until then the current rate will remain.

The trend of increased rents will impede household formation rates as more young adults will live with their parents or remain doubled up with roommates. And although there is a high demand for new rental properties, multi-family units are not being built at the rate necessary to keep up with demand. This is in large part because multi-family builders were burned during the boom years with high requirements and amenities. In the economic recovery stages, those builders are not coming back until profitability improves.

According to Schwarm, SACOG's projections are consistent with and within the ranges of the Department of Finance (DOF) projections. DOF uses a population per dwelling unit range between 2.5 and 2.6, and SACOG uses 2.55. For the 2020 population per dwelling unit rate, DOF has only a slightly higher rate due to slight increases in household formation rates. In all, Schwarm concludes that SACOG's projections through 2020 are reasonable.

Sanjay Varshney – Sacramento State University/Wells Fargo Bank

Dr. Sanjay Varshney has been the dean of the Sacramento State School of Business Management for the past ten years. Recently, he announced he would step down from the position but would remain a professor of finance at Sacramento State and also serves as a Wealth Management Advisor for Wells Fargo Bank.

According to Varshney, SACOG's projections through 2020 on jobs, housing and employment are very reasonable. SACOG's underlying assumptions are similar to what his group, the Sacramento Business Review at Sacramento State University, is using for its forecast. Some of the key factors affecting the region's growth rate are: vacancy rates, how quickly housing follows increases in population, and ethnic birth rates. In addition, with the slowing global economy, output from the US will be impacted, which will affect California and then the Sacramento region. We're seeing this impact in the region through the private sector, which has not been creating jobs. There will still be some population migration from the Bay Area to Sacramento at select housing price points, but it will not be anything like it was during the boom years.

The region saw some healthy gains in the overall housing market in 2012 and 2013 but slowed in 2014. New planned communities in 2014 have been soft. The key issue is affordability, not supply or demand: housing growth depends on incomes rising relative to the cost of housing but employment has not improved and wages remain stagnant despite population growth. Right now there is no urgency to build.

Jeff Michael, Business Forecasting Center, University of the Pacific

Dr. Jeffrey Michael is Director of the Business Forecasting Center at the University of the Pacific in Stockton. The Center produces quarterly economic forecasts for California and selected Northern California metro areas in addition to special reports on current business and public policy issues impacting the region.

The boundaries of the geographic area that Michael tracks is a bit different that the SACOG 6 county region. Michael defines the Sacramento region as a four-county area (El Dorado, Placer, Sacramento and Yolo counties) including the Tahoe basin. The SACOG region includes those four counties, excluding the Tahoe Basin, plus Sutter and Yuba Counties.

According to Michael, 2014 was something of a head-scratcher in that there was a pause in regional housing production when it was expected to take off. In 2012 and 2013 the housing market was showing signs of recovery. Prices may have been undervalued then, but have since leveled off in 2014. He wonders if new housing products still cannot compete with existing homes despite the price recovery. The production costs may still be too high compared the sales prices. He suspects that builders have raised their prices for new product after years of selling at very thin margins or even at a loss just to stay busy.

The multi-family residential market is tough to predict according to Michael. There has not been a lot of production, particularly outside of downtown Sacramento. The problem is that the rents are not high enough to cover the cost to construct. In addition, there are a lot of single-family houses being used as rentals, but there is probably a pent-up demand for multi-family housing from people who are doubled up in roommate situations or multi-generational housing, but cannot afford to rent their own home.

Michael also states that the period from 2015 through 2020 will be a period of uncertainty. SACOG's projects, according to Michael, are probably lower than his through 2020. SACOG has peak building years starting in 2022 at an annual rate of 15,500 dwelling units. He projects a peak building year of 2019, at an annual rate of 17,000 dwelling units. However, the geography used by SACOG and Michael is somewhat different, as described above.

Michael's very rough employment growth forecasts are about 15,000 jobs more from 2014 through 2020 than SACOG's projection of 106,642 new jobs. And when compared to SACOG's new housing units projection of 42,500 during this timeframe, Michael said his rough estimate, without having fully researched this topic, would be about 10,000 more total units in 2020, or an average of 2,000 more per year over the next 5 years.

Despite the differences in whether to use his more aggressive projections or SACOG's more conservative projections, Michael believes SACOG's projections from 2014 through 2020 remain within the range of reasonableness.

Greg Paquin – The Gregory Group

Greg Paquin is owner of The Gregory Group, a Folsom-based firm dedicated to projecting housing growth in selected regions of California, including the six-county Sacramento area. The firm's clients include many of the residential housing builders in this region.

According to Paquin, the influence of migration from the Bay Area is less than it was during the housing boom, but one big factor still in effect is the migration of Bay Area empty nesters. As the population ages, those over 55 in the Bay Area are looking for retirement destinations. Select amenity-rich, newer communities in the region will appeal to this group. The biggest challenge is that buyers are very picky and looking at communities several times before deciding on what they want. Another trend that we have not yet seen return is the migration of young Bay Area couples in large numbers to Sacramento to start families.

The Gregory Group and SACOG use different base year estimates to calculate their projections but the resulting projections are very close. SACOG projects employment growth at 17,700 jobs a year, while Paquin projects about 20,000. However, the key factor relating to housing growth is the type of jobs being created: higher paying jobs are needed to drive demand for new housing but many of the projected new jobs are lower income. Paquin's general population annual growth rate is 1.3 to 1.4 percent, while SACOG uses 1.35 percent.

SACOG's projection of 42,500 new dwelling units between 2014 and 2020 is a little higher than Paquin's projection. He projects between 35,000 and 37,000 new for-sale units (single family and attached). His numbers do not include rental, which accounts for another 500 to 1000 units. Even though there is a demand for new rentals, he thinks most builders will not construct rentals during this time period because they do not pencil financially.

Ryan Sharp, Economic and Planning Systems (EPS)

Ryan Sharp is a Senior Vice President at EPS, a land economics consulting firm with an office in Sacramento. Before EPS, Sharp was as director for the Center for Strategic Economic Research, a part of the Sacramento Area Commerce and Trade Organization or SACTO.

SACOG's method for projecting growth looks first at the economy, then population, then housing and household formation. Sharp's method focuses on employment first, then population, then other economic indicators. He considers SACOG's 1.9 percent employment growth rate a reasonable annual average. The 11 percent employment growth rate used from 2014 to 2020 is also reasonable, but noted that other private projections suggest between 9 and 12 percent. According to Sharp, historical data show regional employment growth rates slightly above or close to population growth rates on an annual average basis.

SACOG's projected housing growth may be low in comparison to other projections Sharp has seen. The SACOG projections show a 5 percent growth rate whereas other studies show from 7.5 to 9 percent growth during this 2014-2020 period; however, Sharp notes that those other studies are math-driven rather than reality-based. A lower projection could be 6 to 7 percent.

Sharp believes SACOG's population projection of 8.6 percent from 2014-2020 may be high. Other projections assume a 6 to 8 percent population growth rate; although SACOG's annual average of 1.5 percent population growth is not unreasonable for the long range beyond 2020.

Overall, however, Sharp considers the suite of all of SACOG's projections within the range of reasonableness.

Stephen Levy, Center for Continuing Study of the California Economy

Stephen Levy has served as SACOG's consultant on population, housing and employment projections since the development of the Blueprint in the early 2000s. He has not worked with SACOG staff on the current projection for the 2016 Update of the MTP/SCS, so he was asked to evaluate SACOG's projections through 2020. He provided the attached letter (Attachment C) summarizing his views and concluded that the SACOG's projections are reasonable.

CENTER FOR CONTINUING STUDY OF THE CALIFORNIA ECONOMY

385 HOMER AVENUE • PALO ALTO • CALIFORNIA • 94301

TELEPHONE: (650) 321-8550
FAX: (650) 321-5451
www.ccsce.com

DATE: December 15, 2014

TO: Gordon Garry, Mike McKeever and Greg Chew

FROM: Stephen Levy

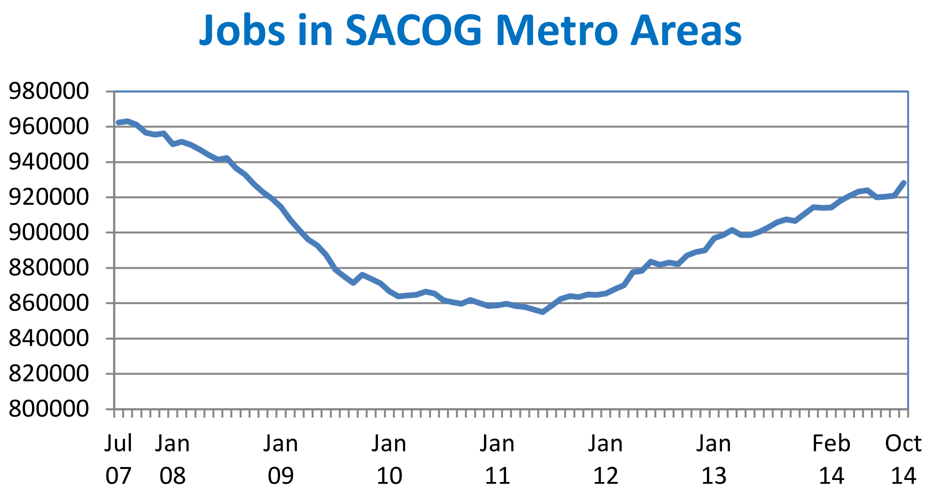
SUBJECT: Review of SACOG Update

The Period to 2020

Jobs

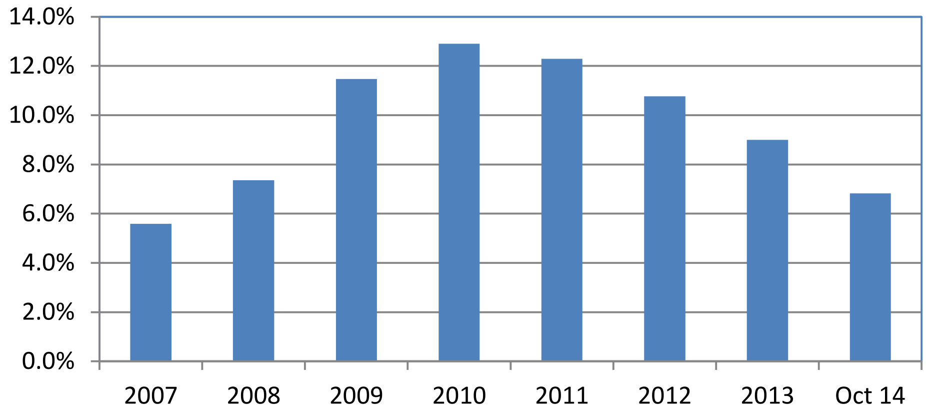
The SACOG region lags other regions in California in recovering from the recession. Job levels in October 2014 are still below pre-recession levels.

However the last 12 months have brought job growth of more than 2% and a sharp drop in the unemployment rate for the six-county region from 12.9% in 2010 to 6.8% in October 2014.

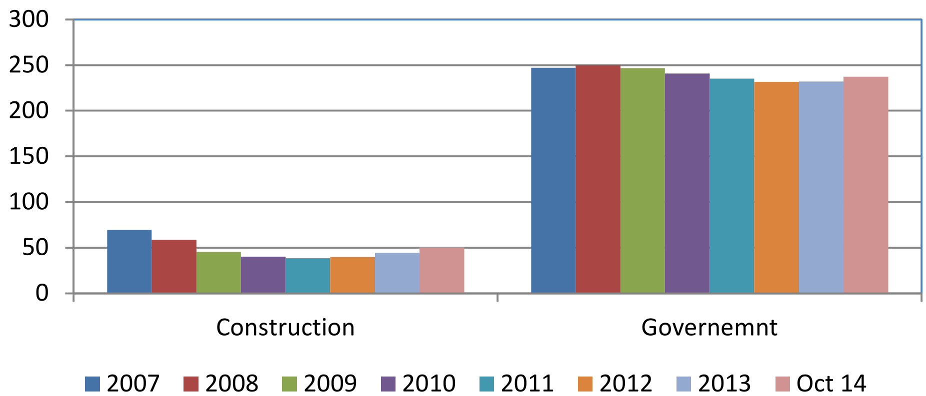


Two sectors—construction and government, heavily hit during the recession and important to the regional economy, have begun to recover. The state budget is growing again as revenues surge and construction is finally picking up. The other large sectors—Professional and Business Services and Health Care—showed substantial growth in the past 12 months and exceed pre-recession levels.

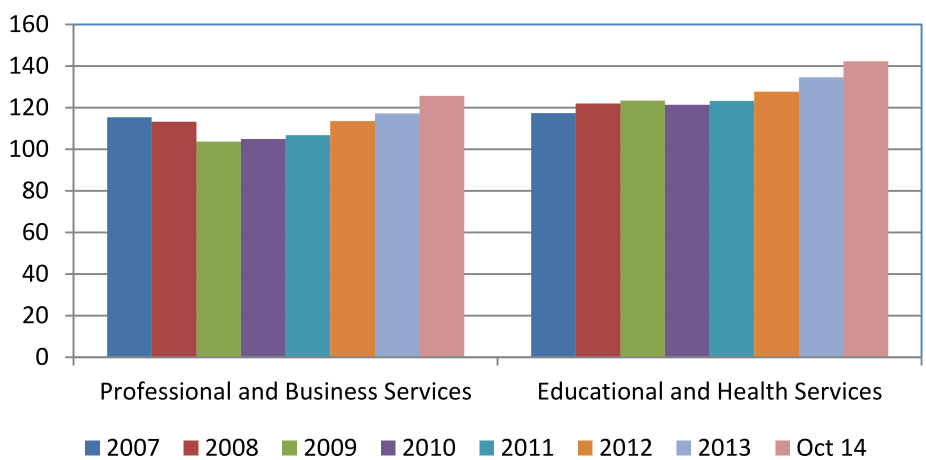
SACOG Unemployment Rate



Recovery in Construction and Government (Thousands of Jobs)



Two Growing Sectors



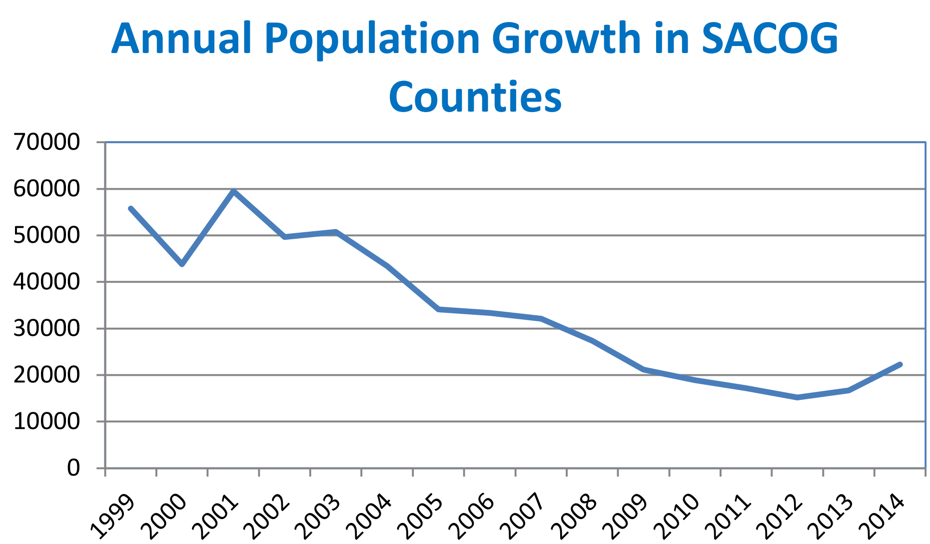
The forecast update for 2020 is reasonable. The forecast expects about 17,500 jobs a year to be added between 2014 and 2020. The new UCLA state forecast released on December 10th anticipates strong job growth of over 2% for each of the next two years, which could add almost half the forecast SACOG job growth by early 2017. In addition the housing cost gap between the region and the Bay Area has widened again making the SACOG region more attractive. The region should come close to the 2012 MTP/SCS forecast as it already took account of the deep recession but the update, which shows a small decrease from the 2012 MTP/SCS forecast, is prudent given the slower pace of recovery in the region.

Much will depend, as discussed below, on the pace of housing growth between 2014 and 2020.

Population

With fewer jobs in 2020 compared to the 2012 MTP/SCS forecast, there will be fewer people. And some of the new jobs will be filled by existing residents currently unemployed workers find jobs and the unemployment rate falls.

Population growth in the region did pick up in 2014 according to the latest DOF estimates but annual population growth is well below levels of ten to fifteen years ago. Migration into the region from other parts of California and the nation (+4,384) was positive for only the second time since 2007.



The 2016 MTP/SCS forecast anticipates population growth of approximately 32,000 a year between 2014 and 2020. That would require a pickup in growth back to the levels in 2006 and 2007 but still far below the 50,000 new residents per year in the years around 2000. This is possible, again depending on how much and what kind of housing is built, as more population growth relative to jobs will be likely as the unemployment rate nears full employment and baby boomers retire and need to be replaced. It is more likely that the region's population in 2020 will be slightly lower than forecast as opposed to be slightly higher.

Housing

This is the most difficult part of the forecast to assess as it depends both on job growth and migration (demand) and the response of builders (supply).

One fact is that since 2007 additions to the housing stock have lagged regional population growth. Additions to the housing stock have average just over 3,000 units a year while annual population growth has been near 20,000. Note; The household population growth estimates in the spreadsheet show lower growth within the SACOG region for 2008-2014 than the full six county DOD estimates show by a wide enough margin to be worth checking.

So there should be some pent up demand for housing as the economy improves.

On the other hand the lagging housing production since 2007 means that the 2020 housing stock total and intervening growth will certainly be less than anticipated in the 2012 MTC/SCS. The only issue is by how much will the 2020 total fall short of the 2012 plan forecast.

Both the May 2014 forecast of 966,480 units and the newer forecast of 947,980 units are possible. It is difficult without a lot more specific knowledge about land use and zoning policies and talking to builders to make a more precise assessment of what will happen in housing by 2020.

Beyond 2020

It is probably wise to reassess the long-term job outlook in the next (after 2016) MTP/SCS forecast. There are and will be significant changes in U.S. growth—population and jobs—and more data on how the SACOG region economy is progressing to warrant new projections to 2040.

DOF is about to release new long-term county population projections. I expect that there will be changes from past projections in births (lower) and Asian population growth (higher).

The state HCD is preparing new housing forecasts to 2025 that will examine the impact of demographic changes on household forming behavior. The combination of lower fertility rates and an aging population could lead to reduced housing size and a market for smaller units.

None of these changes will materially affect the outlook to 2020.