

Merced Builders Forum July 24, 2019



**BIA**

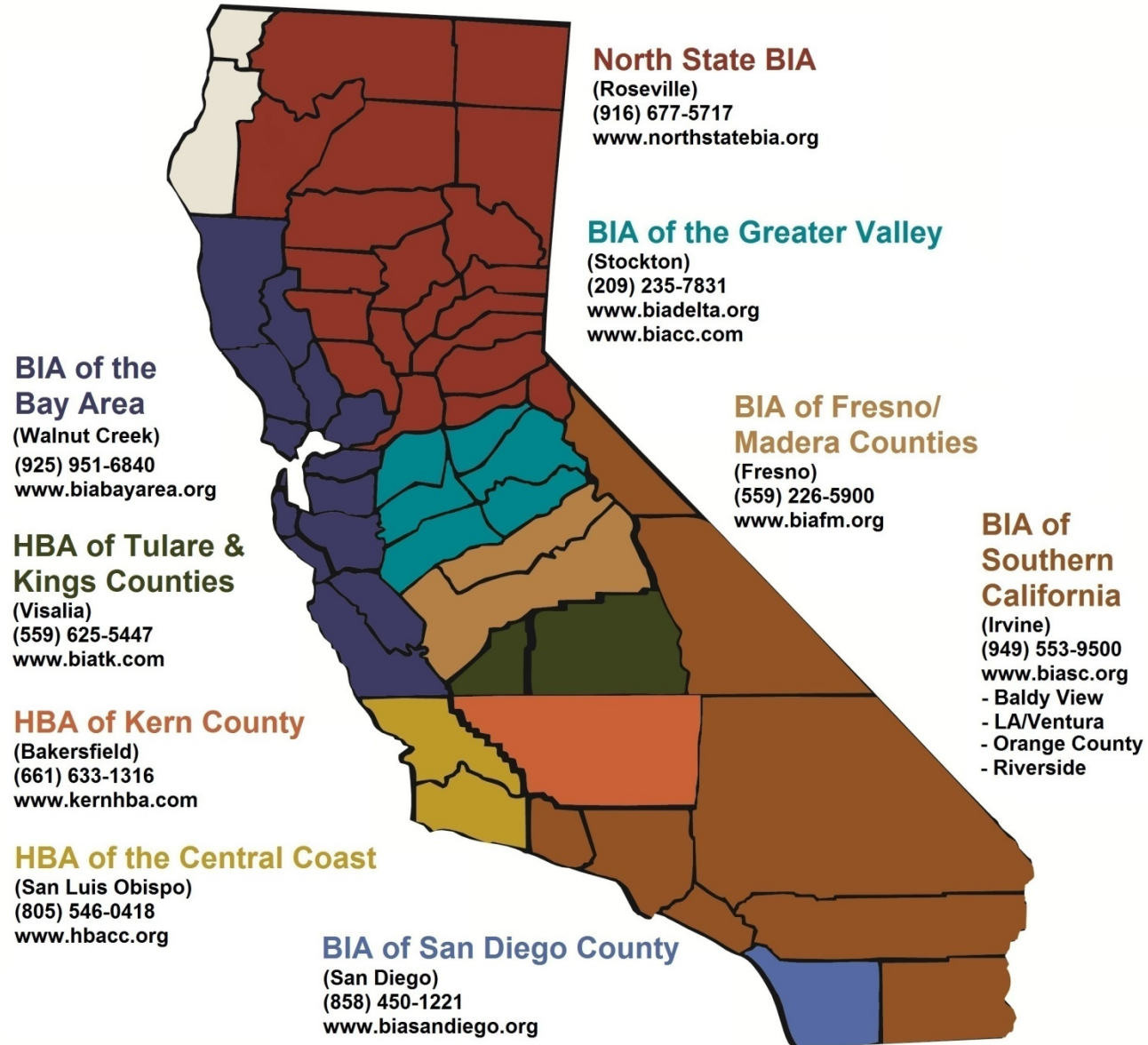
*Greater Valley*

# California BIA | HBA Regional Map

Provided By:  
California Building  
Industry Association



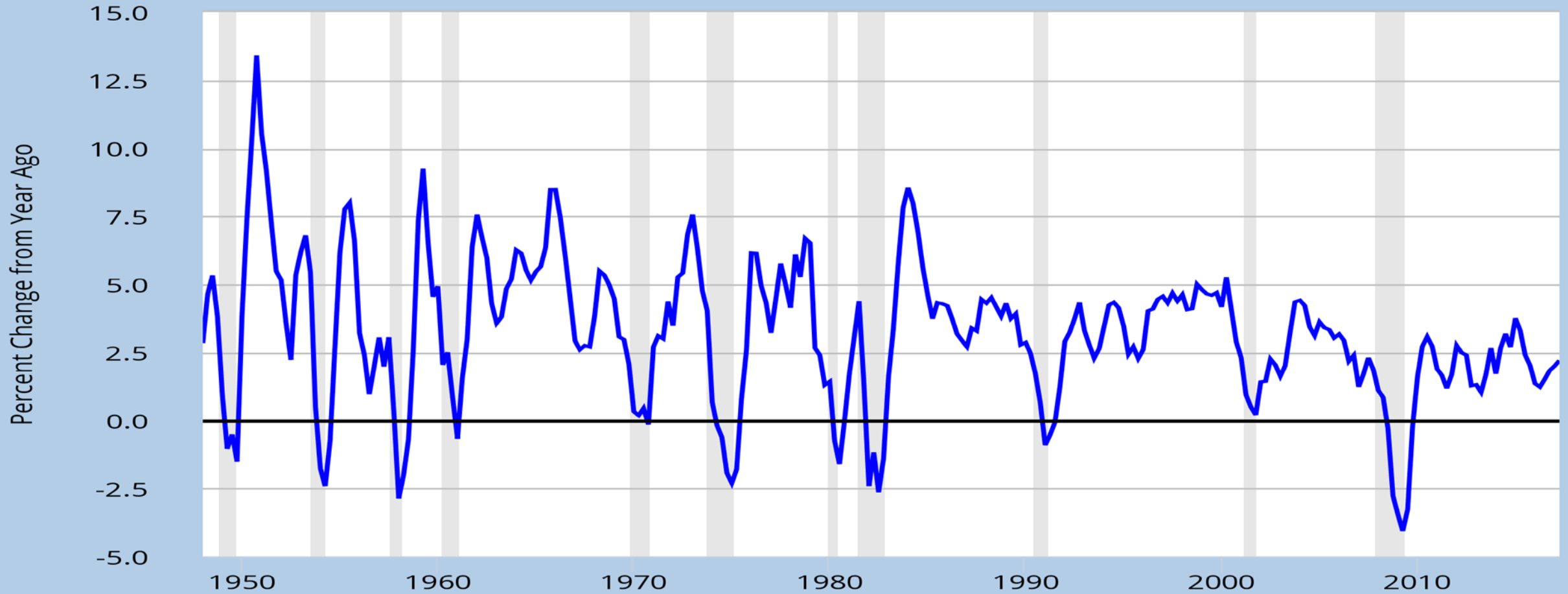
Revised on September 26, 2012



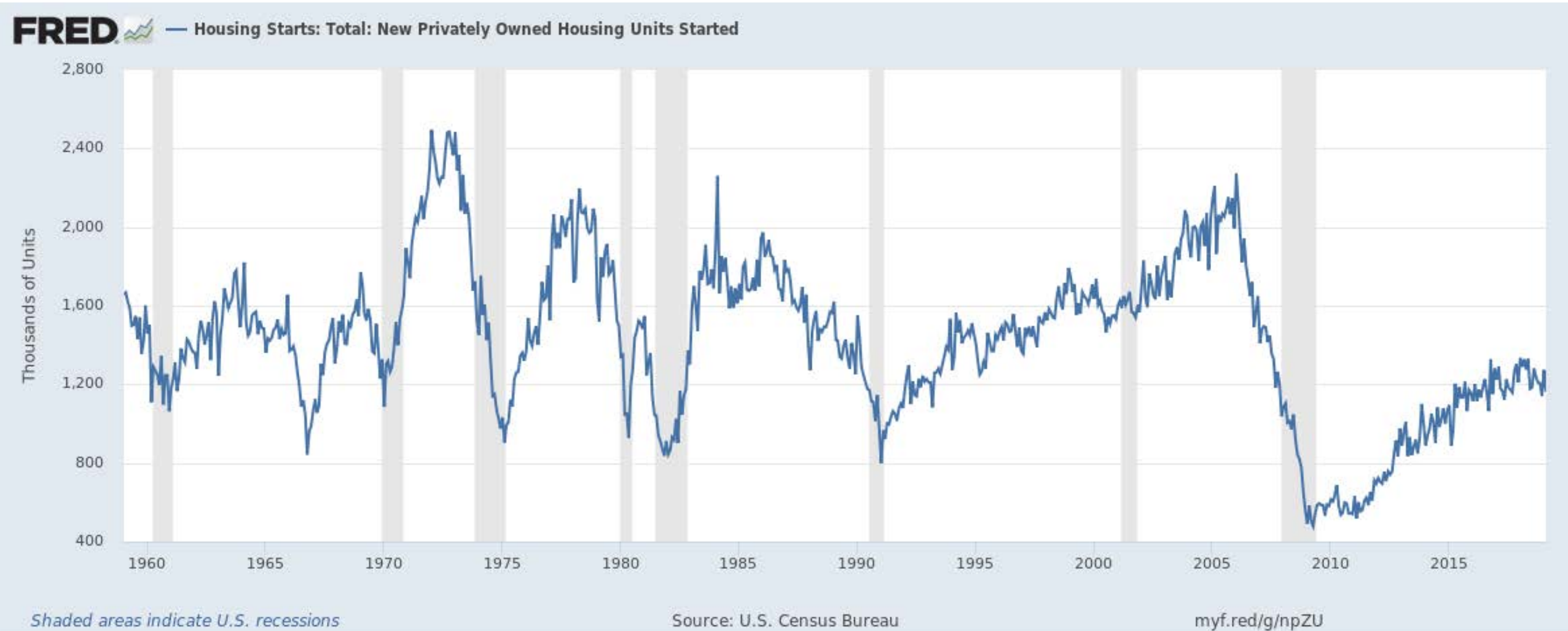
# The economy is cyclical, and so is homebuilding



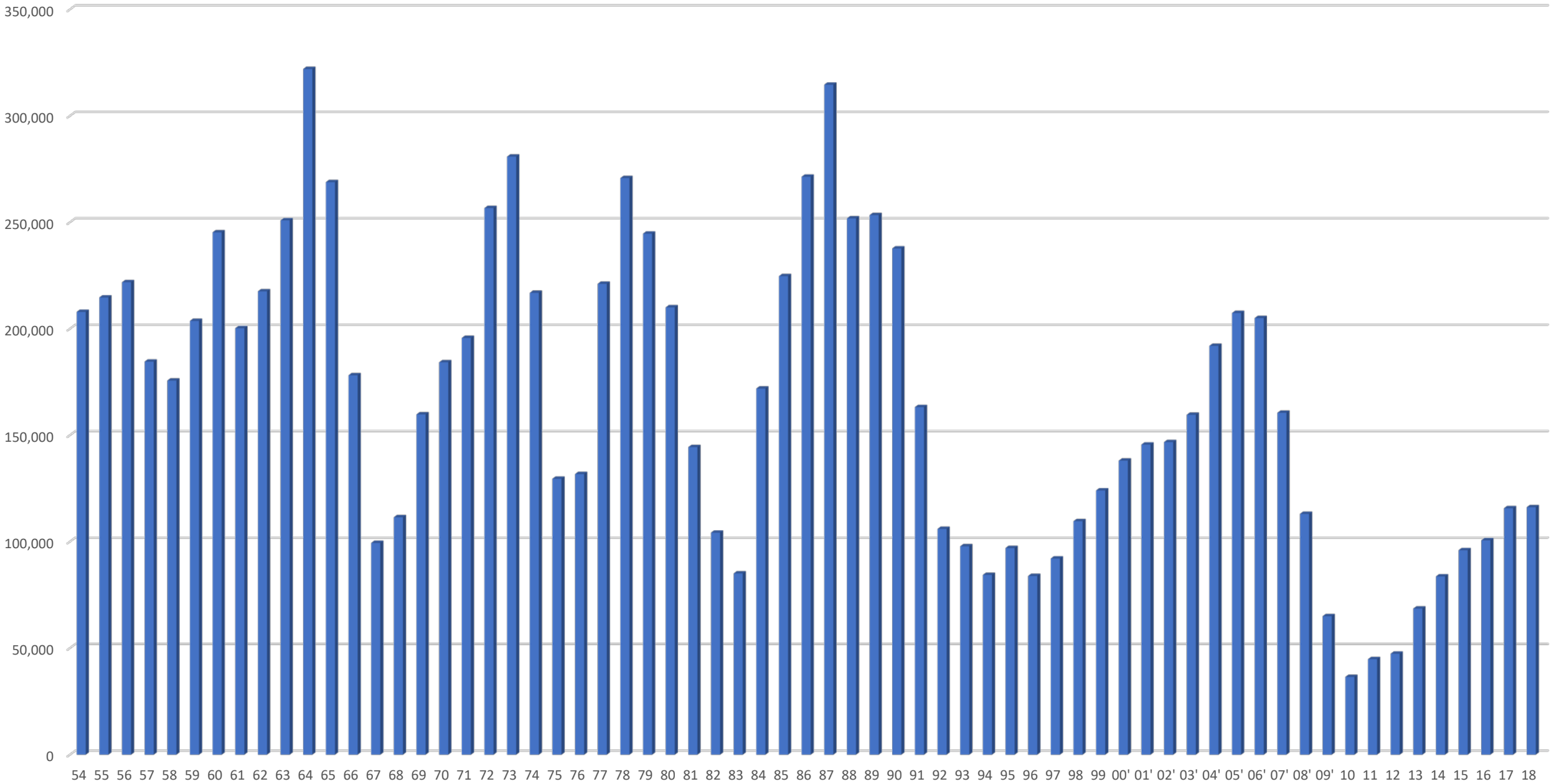
— Real Gross Domestic Product



# U. S. housing unit production over 60 years

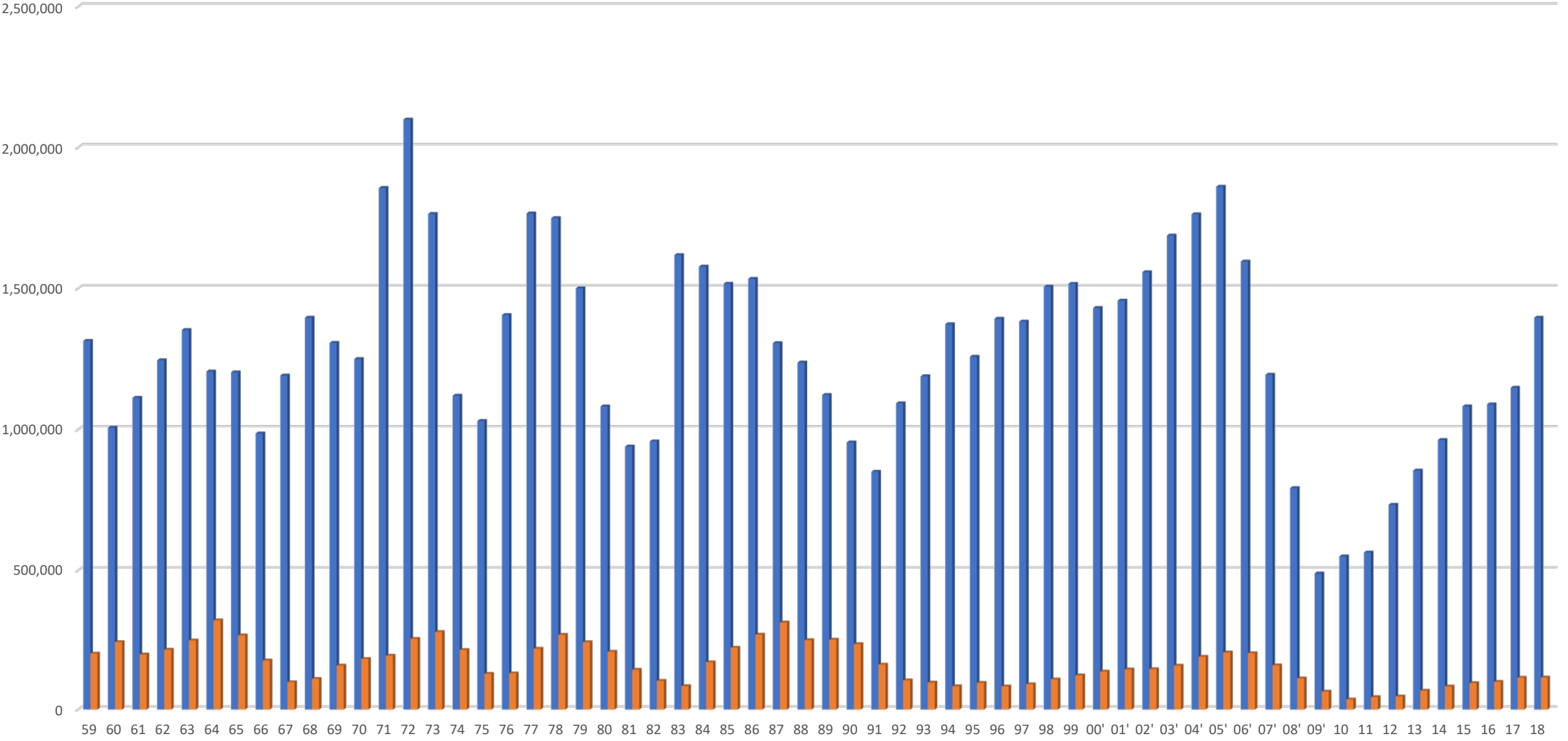


# 65 Years of California New Housing Permits



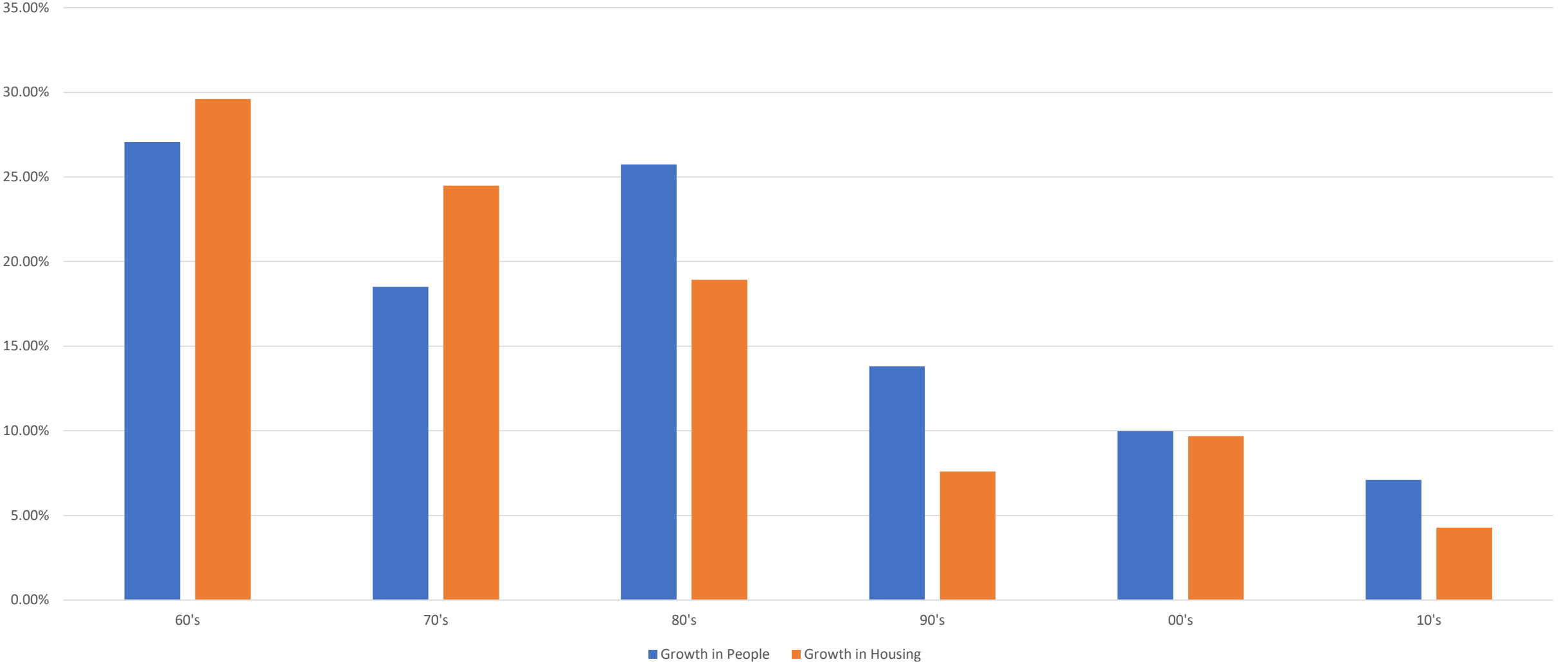
# New Housing Units California and Non-California

## California is NOT keeping up with the U.S.



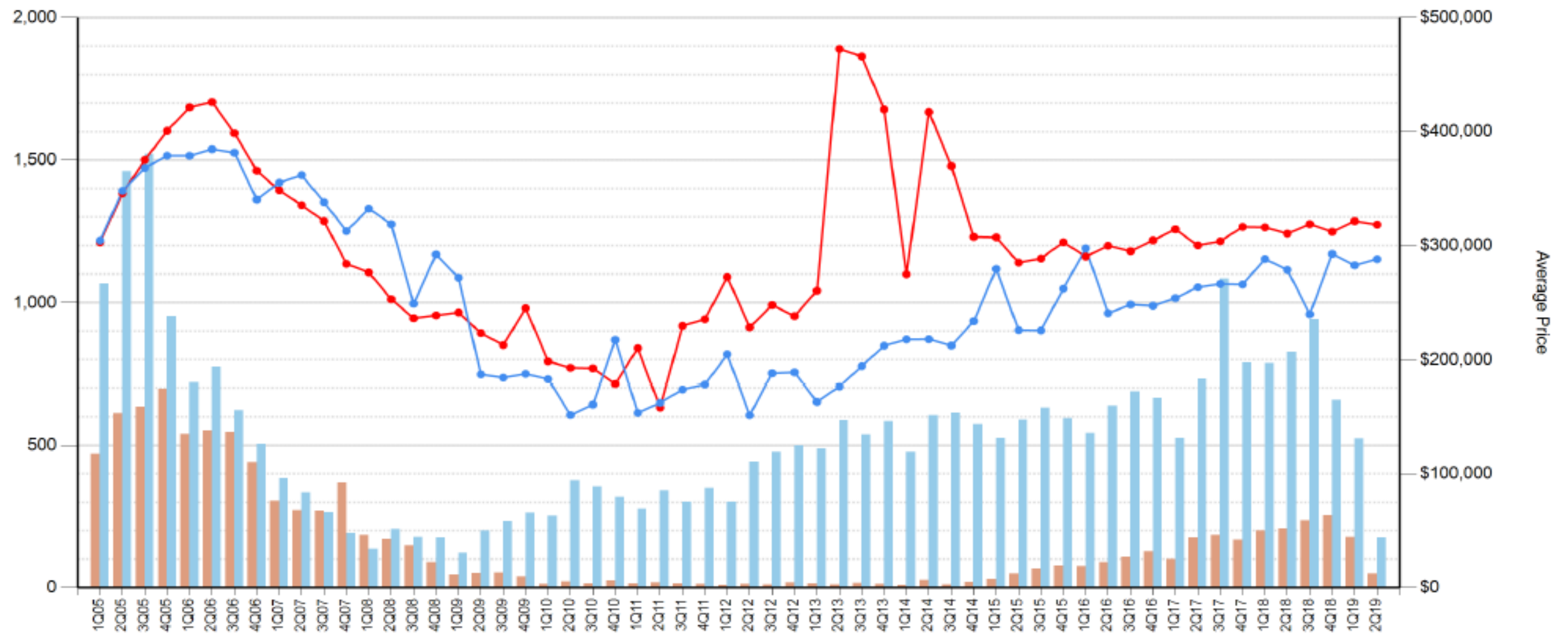
# Percentage of new People vs. Housing in California

## Remember this slide



# Merced County Comparison New and Used

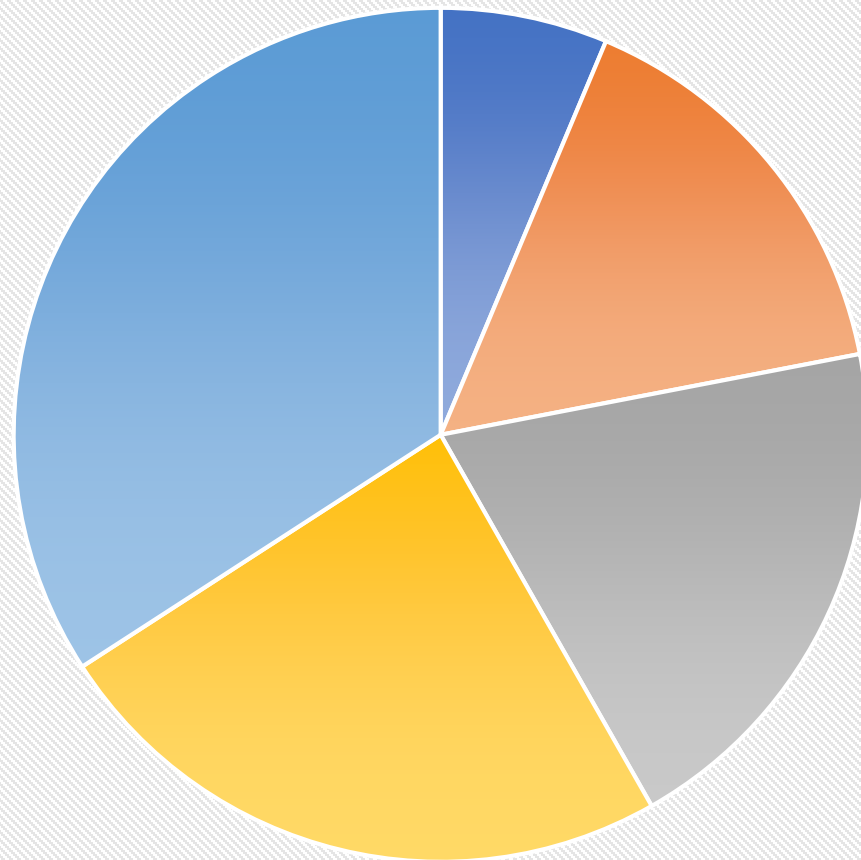
■ New - Transaction Count     ■ Regular Resale - Transaction Count  
● New - Average Price     ● Regular Resale - Average Price





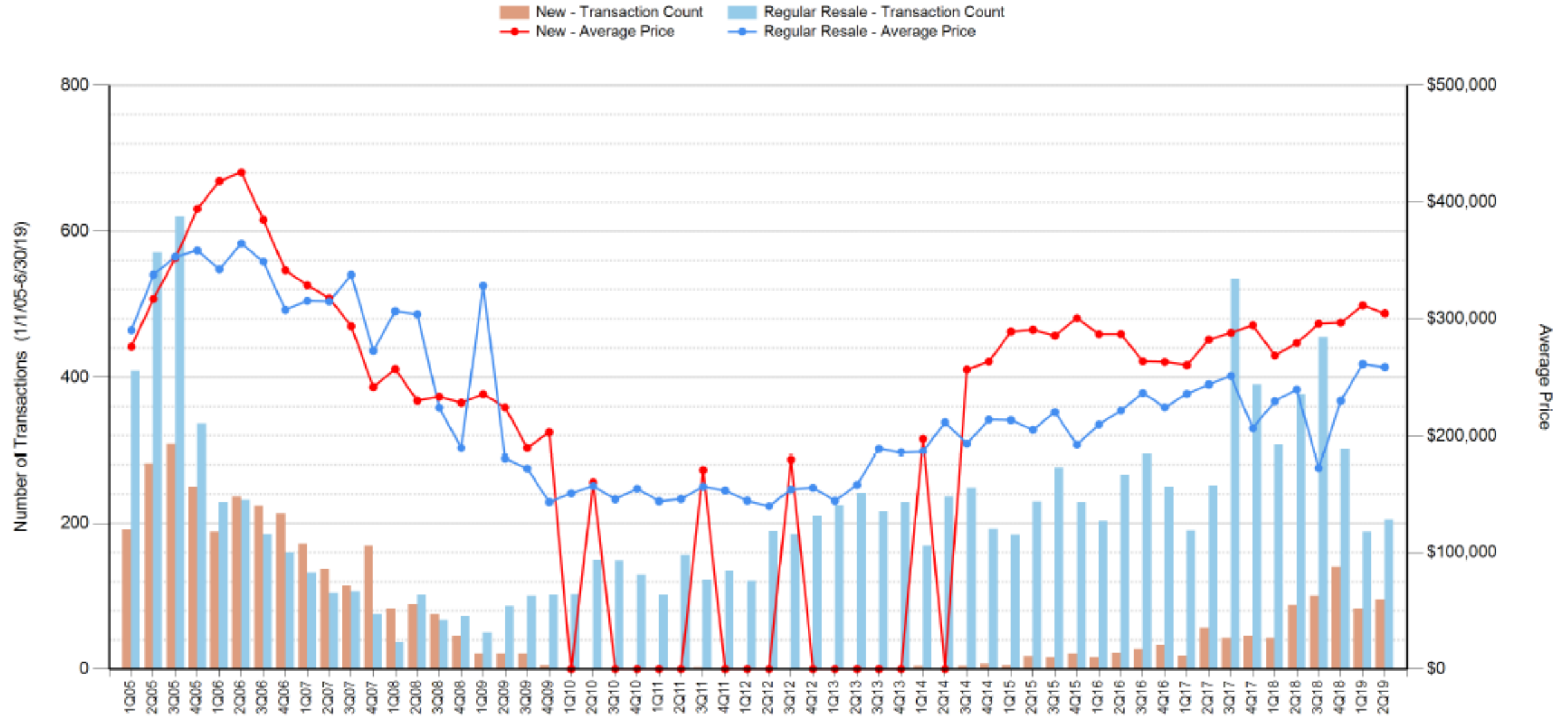
Of all homes sold in Merced County,  
what year were those homes built?

Year Built - Median Age 31 years old, 1988

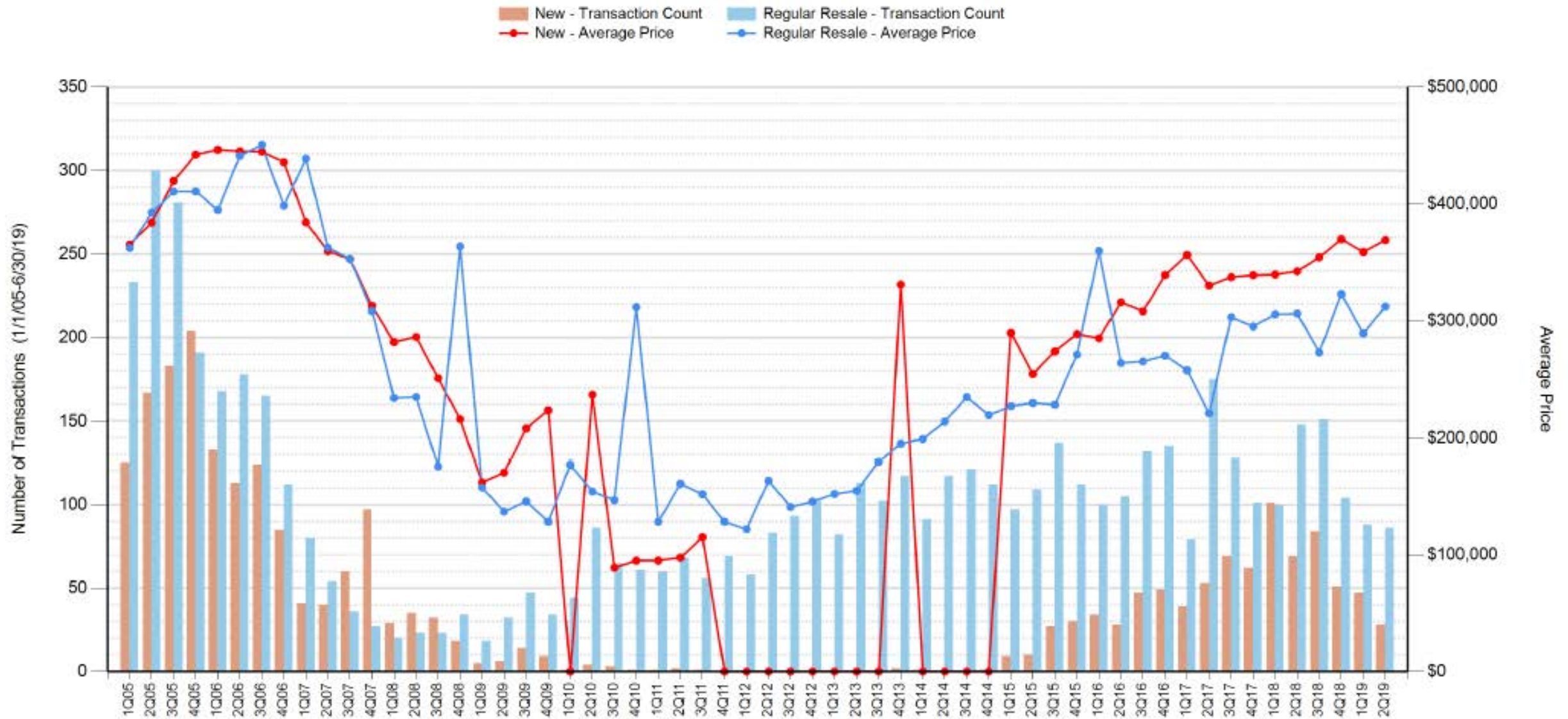


- Pre 1940
- 40's & 50's
- 60's & 70's
- 80's & 90's
- 00's & 10's

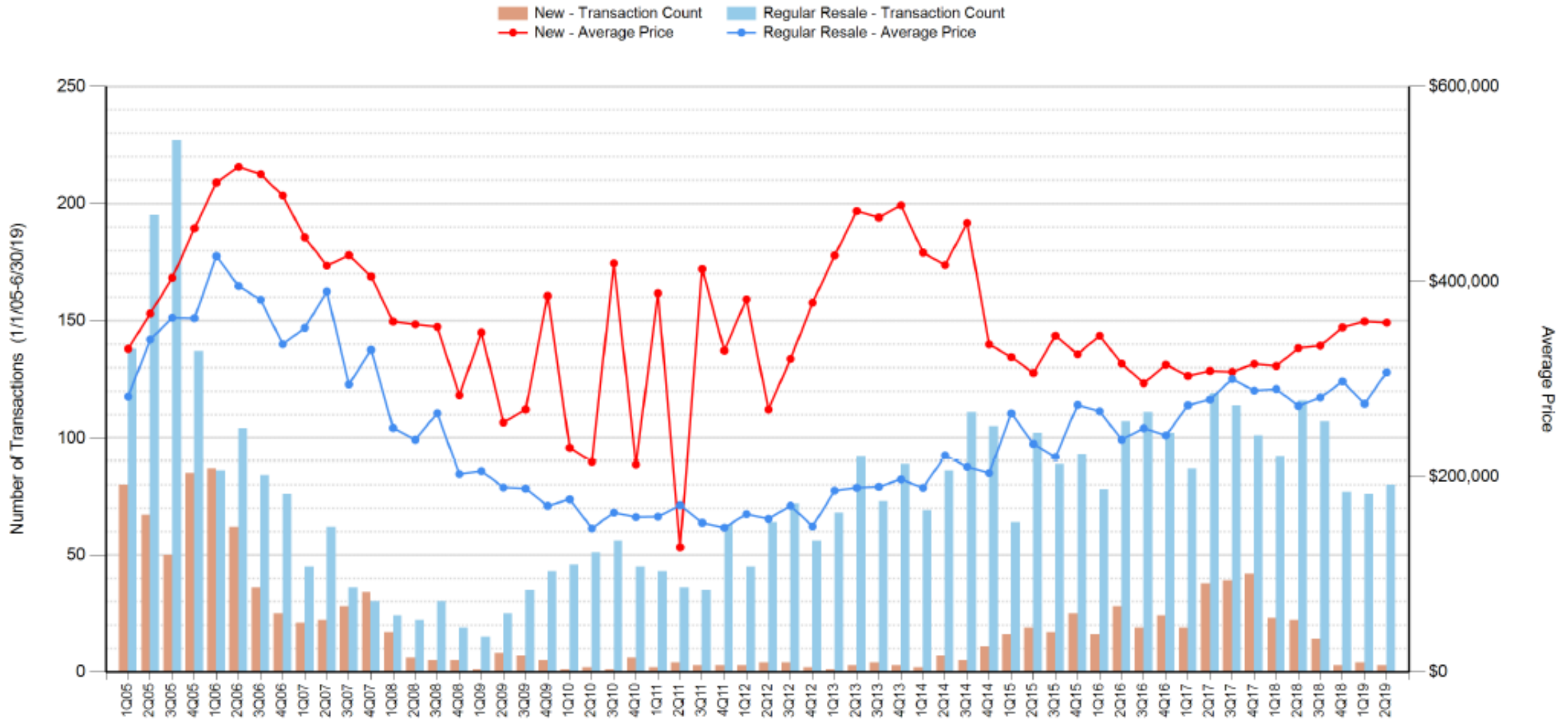
# City of Merced Comparison New and Used



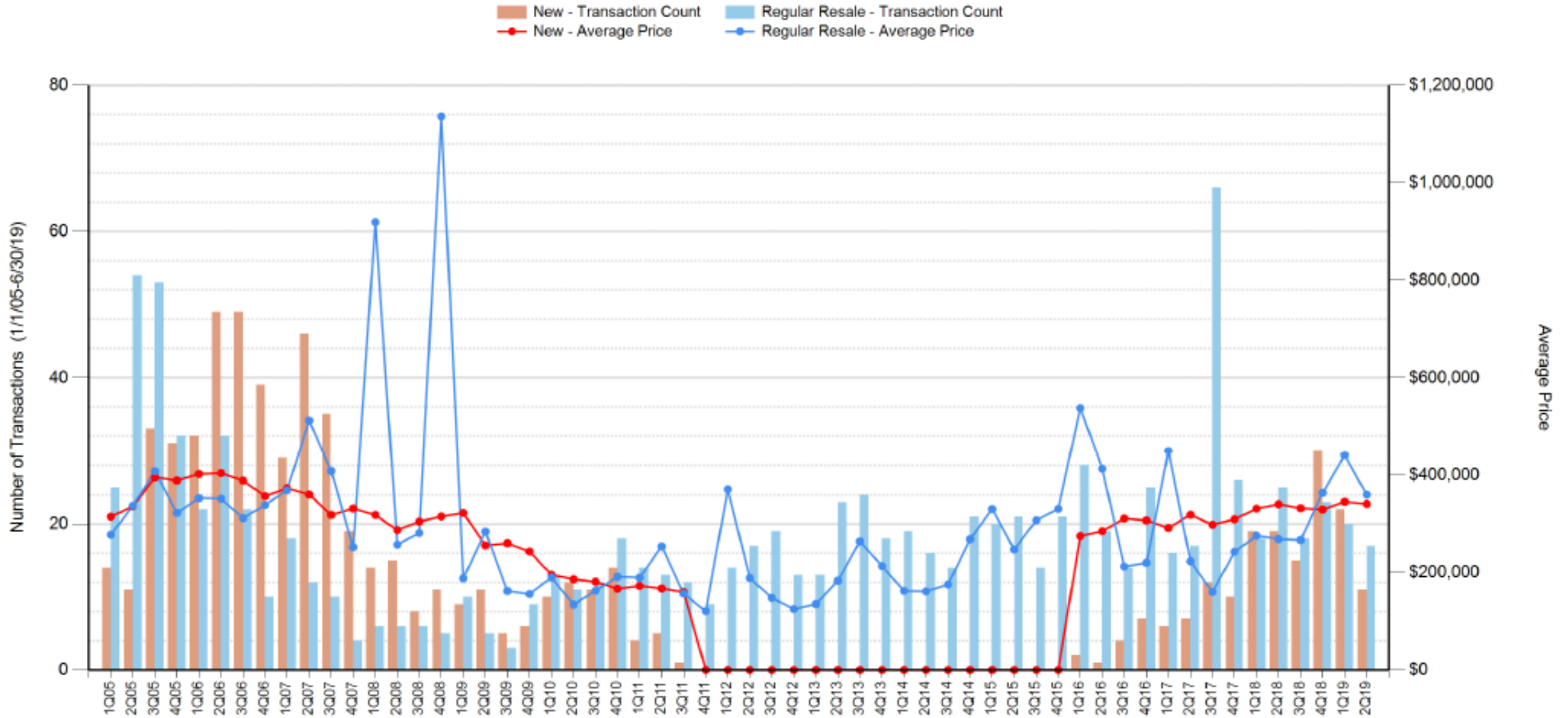
# City of Los Banos Comparison New and Used



# City of Atwater Comparison New and Used



# City of Livingston Comparison New and Used



A look at the bigger picture



# BIGGER PICTURE

- New home prices are largely dependent on used home prices
- Supply and demand plays a role – we are not keeping up

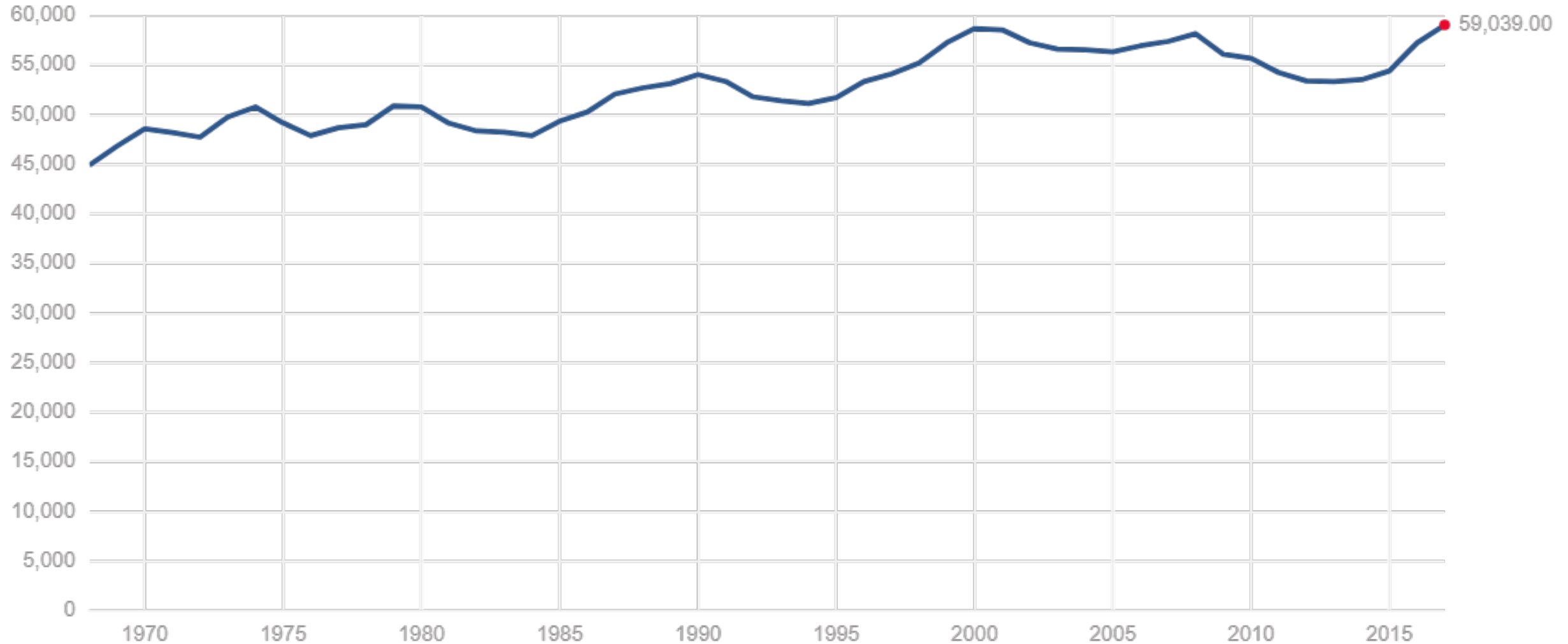
# BIGGER PICTURE

- New home prices are largely dependent on used home prices
- Supply and demand plays a role – we are not keeping up
- **Incomes of potential homebuyers are barely increasing**



# U.S. Median Income Adjusted for Inflation over 50 Years!

That's 31% or just a 0.62% increase per year.



# BIGGER PICTURE

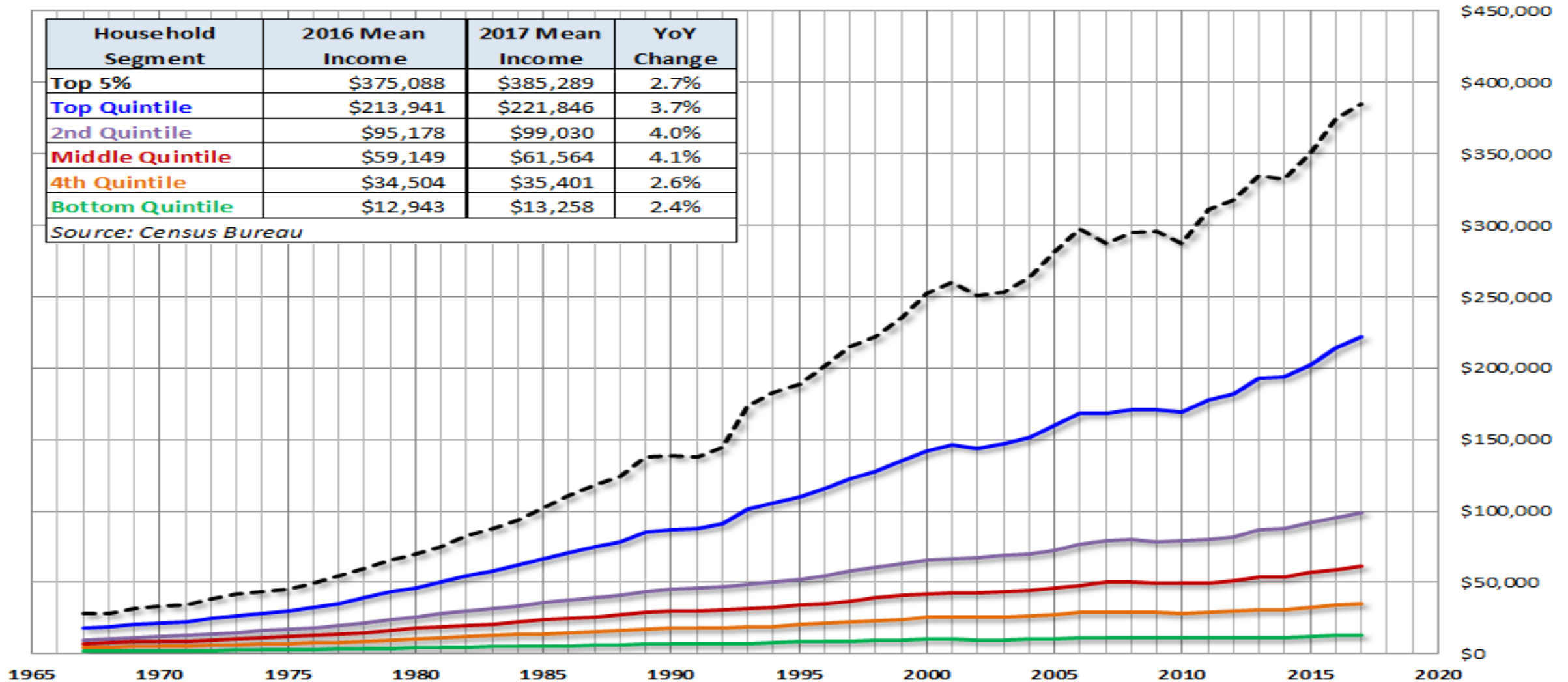
- New home prices are largely dependent on used home prices
- Supply and demand plays a role – we are not keeping up
- Incomes of potential homebuyers are barely increasing
- **Most of those with increasing income already own a home**

# U.S. Average Income by Quintile

## Mean (Average) Household Income By Quintile and Top 5 Percent in 2017 Dollars

Household Segment	2016 Mean Income	2017 Mean Income	YoY Change
Top 5%	\$375,088	\$385,289	2.7%
Top Quintile	\$213,941	\$221,846	3.7%
2nd Quintile	\$95,178	\$99,030	4.0%
Middle Quintile	\$59,149	\$61,564	4.1%
4th Quintile	\$34,504	\$35,401	2.6%
Bottom Quintile	\$12,943	\$13,258	2.4%

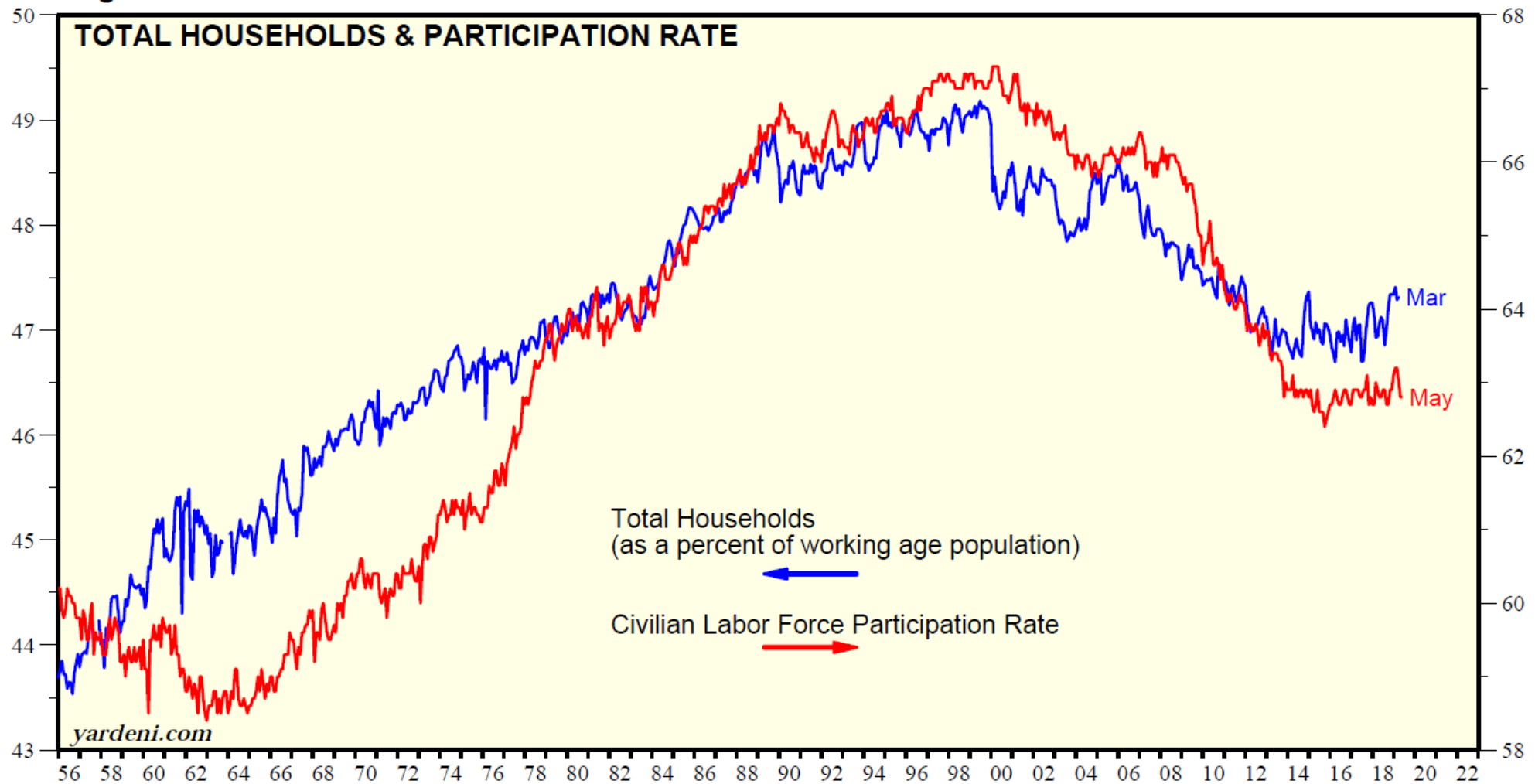
Source: Census Bureau



# BIGGER PICTURE

- New home prices are largely dependent on used home prices
- Supply and demand plays a role – we are not keeping up
- Incomes of potential homebuyers are barely increasing
- Most of those with increasing income already own a home
- **New households are not forming – people have left the workforce**

# Work Force Participation Rate Compared to Household Formation Rate



Source: Bureau of Labor Statistics.

# BIGGER PICTURE

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- Supply and demand plays a role – we are not keeping up
- Incomes of potential homebuyers are barely increasing
- Most of those with increasing income already own a home
- New households are not forming – people have left the workforce
- **The biggest threat in 2019 to homebuilding?**



## California Has Housing Crisis, Legislature Has No Fix Yet

California legislators agree the state has a housing crisis but they can't get together on a solution.

By Associated Press, Wire Service Content June 2, 2019



Remember  
California  
is NOT  
keeping up  
with new home  
construction  
compared to  
population

# Politicians: Yes, we have a crisis, but...

- We still need to protect the environment and fight global warming
- We need to listen to what local voters want (NIMBY's)
- We need to focus on more affordable housing (Rent Control) and Inclusionary Zoning
- We need to focus on infill and protect open spaces
- Homebuilders just charge too much for a NEW home

So the solution is...





# PREVAILING WAGE

## Boosts

### California's Economy

### BY \$1.4 BILLION



Source: The Value of Linking Good Construction Jobs to California's Housing Reforms, March 2017.

# Closing California's Housing Affordability Gap with Prevailing Wage



In 2017, California lawmakers enacted a series of reforms to address the state's housing crisis, including prevailing wage requirements on certain projects.

Here's why these reforms were so critical:

- Since the 1990's, inflation-adjusted housing prices have risen as much as 54%.
- Profits for developers and builders are growing 50% faster than either labor or material costs.
- Real wages for California construction workers have declined 25%, and nearly half of all construction workers don't have health insurance.
- Failure to invest in training has reduced construction workforce productivity by 13%.
- Poverty wages for construction workers costs California taxpayers almost \$100 million per year in public assistance expenditures.
- Falling wages and declining industry productivity have led to historic housing labor shortages, dwindling housing supply, and skyrocketing prices.



The inclusion of prevailing wage in state housing reform strengthens California's construction industry and helps more of its workers pay the rent.

**Q: What Drives California's Skyrocketing Housing Costs?**

	1971 <small>INFLATION ADJUSTED</small>	2016 <small>AT RENT</small>
Apartment Construction Cost:	\$84/sq. ft.	\$188/sq. ft.
Statewide Construction Wage:	\$38/hour	\$27/hour

**A: It's NOT Construction Wages.**

- Prevailing wage is a market-based, local minimum wage for skilled construction work. It includes pay, benefits, and training.
- By stabilizing the wage "floor," prevailing wage helps to close the affordability gap and reduces income disparities based on race.
- Prevailing wage doesn't increase housing prices. Construction wages and benefits are less than 15% of total housing development costs in California.
- By promoting investment in workforce skills, prevailing wage boosts industry productivity by as much as 16%.
- Prevailing wage helps prevent the labor shortages that drive up prices by attracting more skilled workers to California's construction industry.
- Research consistently shows that prevailing wage produces more local hiring, a stronger overall economy, and reduces reliance on public assistance.



Learn more about prevailing wage and state housing reforms at: [www.smartcitiesprevail.org](http://www.smartcitiesprevail.org)

## **3 REASONS** why prevailing wages should be part of California's housing development policy:

- ✓ **Cost-effective**
- ✓ **Boost housing supply**
- ✓ **Close the affordability gap**



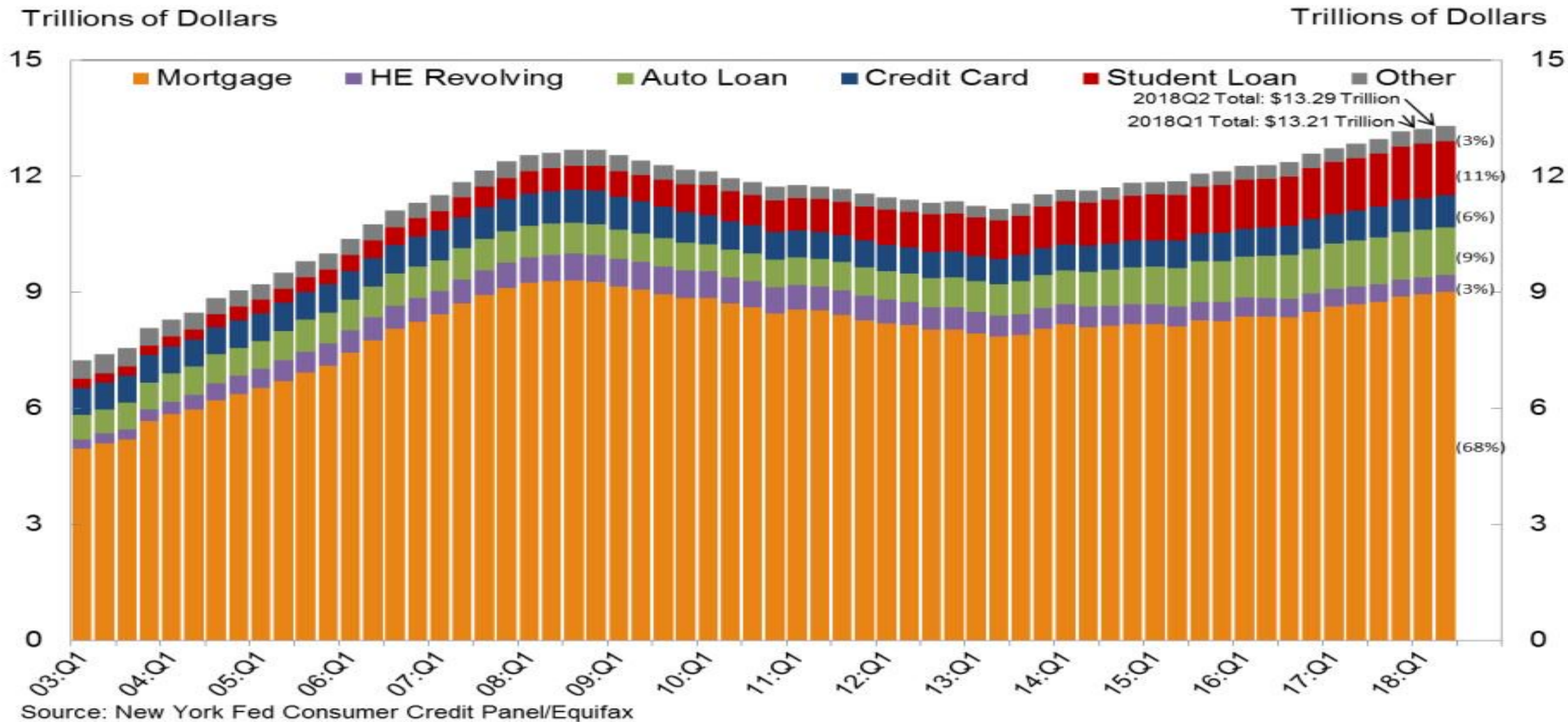
Source: "The Value of Linking Good Construction Jobs to California's Housing Reforms," March 2017.

# LONGER PICTURE

- New home prices are largely dependent on used home prices
- Supply and demand plays a role – we are not keeping up
- Incomes of potential homebuyers are barely increasing
- Most of those with increasing income already own a home
- New households are not forming – people have left the workforce
- The biggest threat in 2019 to homebuilding
  
- Long term threats to homebuilding?
  
- The debt burden of most Americans is growing and those with the ability to pay a mortgage is decreasing

# 2003 to 2018

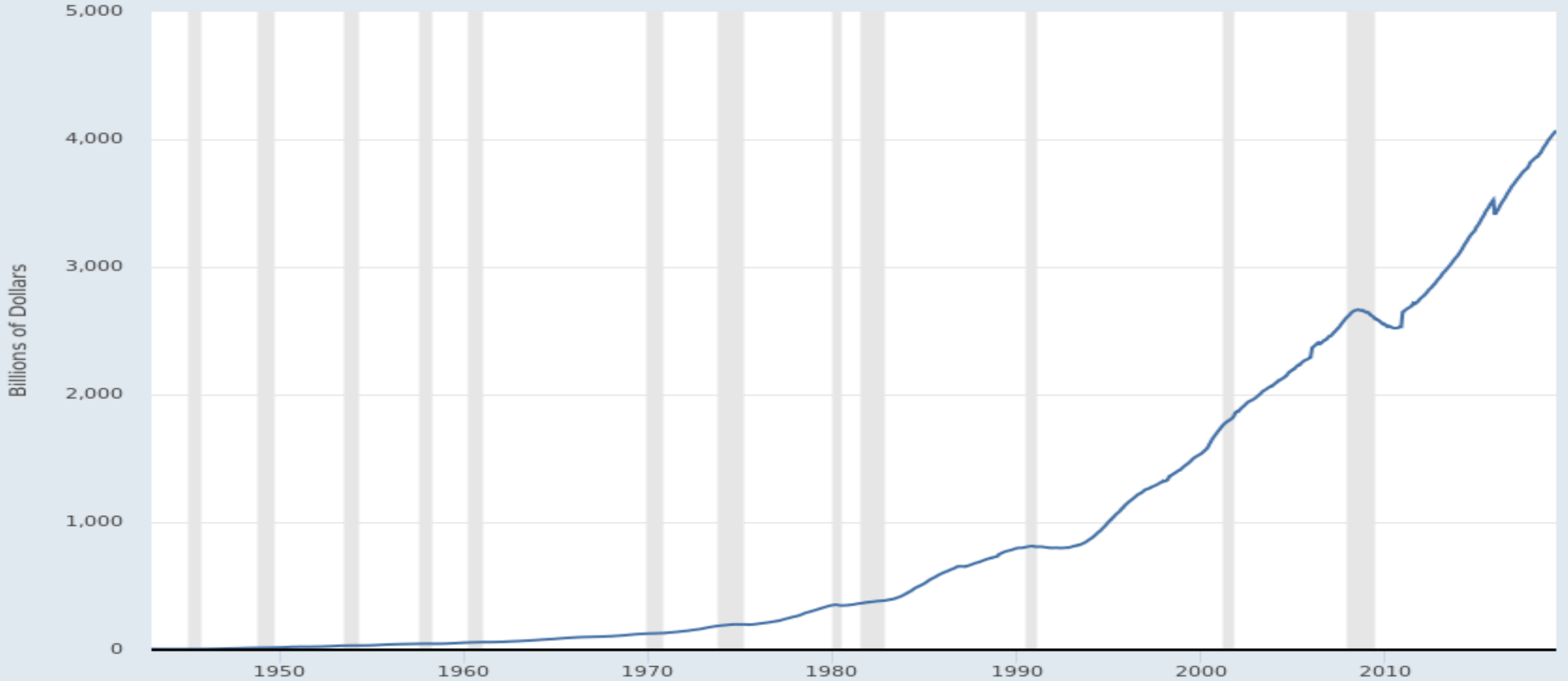
## Total Debt Balance and its Composition



# 1940 to 2018



— Total Consumer Credit Owned and Securitized, Outstanding

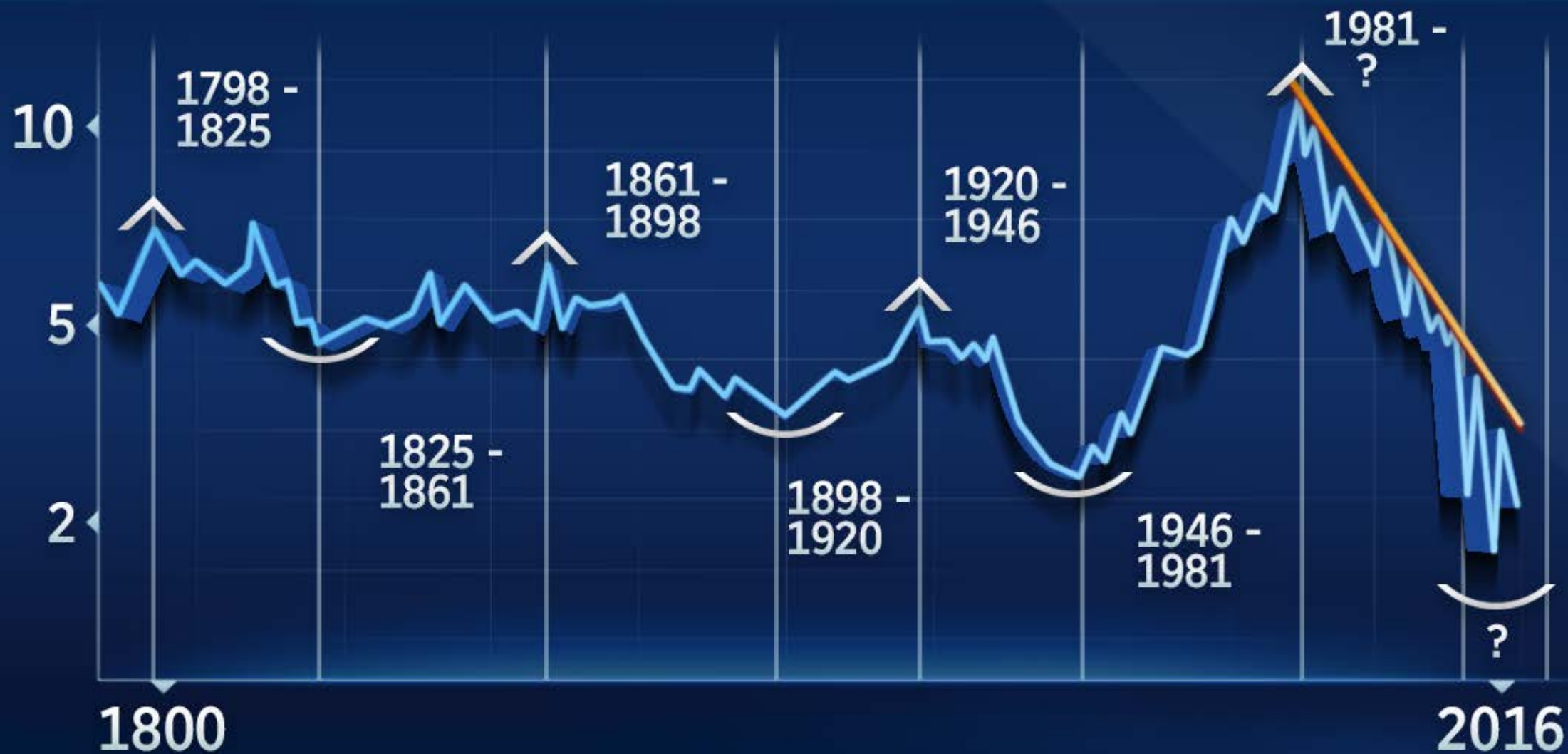


Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US)

[myf.red/g/od8X](https://myf.red/g/od8X)

# 200+ YEARS OF U.S. INTEREST RATES

AVERAGE = 5.18%



# ZIRP and NIRP

As of June 2019

U.S. 10 Year Government Bond	2.08%
Netherlands 10 Year Government Bond	
Japan 10 Year Government Bond	
German 10 Year Government Bond	
Switzerland 10 Year Government Bond	

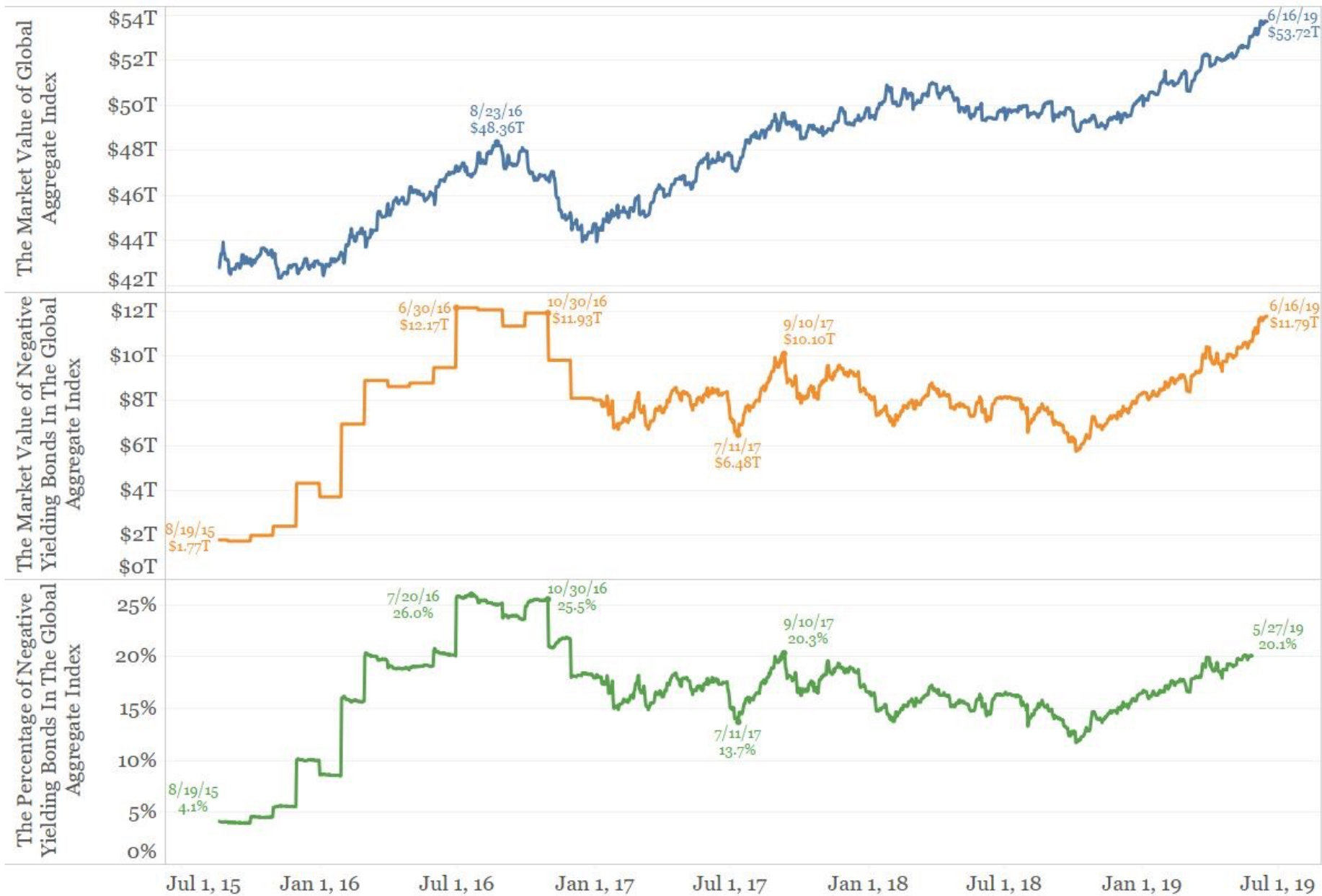


# ZIRP and NIRP

As of June 2019

U.S. 10 Year Government Bond	2.08%
Netherlands 10 Year Government Bond	-0.12%
Japan 10 Year Government Bond	-0.14%
German 10 Year Government Bond	-0.29%
Switzerland 10 Year Government Bond	-0.49%

## Negative Yielding Bonds In The Barclays/Bloomberg Global Aggregate Index



20% of all government bonds around the world yield negative interest rates

**QUESTIONS?**