



## A Look Ahead: Sacramento jobs, real estate are intertwined in experts' forecasts

By [Hudson Sangree](#)  
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The recession is officially over, but the region's comeback is still a work in progress. [Unemployment](#) is dropping, the [housing market](#) is rebuilding, a new downtown [Sacramento Kings](#) arena is under construction, and small business startups are popping up from Elk Grove to Roseville.

As the Sacramento region continues emerging from the recession's grip, we asked local leaders from three backbones of the regional economy – development, housing and automotive – to share their thoughts on what's ahead.

In this second installment of a three-part series, Sacramento Bee writer Hudson Sangree talks with Kevin Carson, president of The New Home Company in [Northern California](#); Pat Shea, president of Lyon Real Estate; and Garrick Brown, director of research at commercial brokerage Cassidy Turley. Here are some excerpts:

### Kevin Carson

*In the last two years, we've seen a resurgence in Sacramento-area [home prices](#) and greater demand for new/existing houses. But new [home construction](#) is still at historically low levels. How will that change by 2020? Will there be another boom?*

There will be continued steady growth in Sacramento's homebuilding industry for the next six years. Looking back over the past 25 years, the region has averaged just over 10,000 new home permits annually. We are currently building far below our region's historical levels. By 2020, we will return to Sacramento's normal levels of new homebuilding activity. This would result in building permit activity somewhere between 9,000 and 11,000 single-family homebuilding permits a year. What a difference that would make for our industry.



The fundamentals for continued growth in the Sacramento region are still here: strong [transportation infrastructure](#), availability of land, affordable [housing opportunities](#), recreational activities, the state Capitol, and health and education institutions that are recognized worldwide. If a building boom is identified as a period where new-home permits are two times normal, then in 2020 we will not be in a boom period but we will be in a maintained, consistent growth mode. I do not believe we will see volume levels as we experienced at the peaks in

2004 and 2005 in the next six years. During those years, the Sacramento region issued close to 20,000 building permits a year.

If you just look at the last 15 years, new home prices are up significantly. During the first quarter of 2001, new home prices in the Sacramento region averaged \$299,821. Today the average new home price is up 41 percent to \$424,794. The trend line is a little jittery as housing cycles come and go. However, the overall trend shows significant price increases. This is why you often hear new-homebuilders say, “There is no better time to buy a new home than today.” It is not a gimmick or a slick marketing slogan; it is statement that is as true today as it was 30 years ago.

***Over the next six years, who will the Sacramento region’s buyers be and where are they most likely to buy?***

We have yet to see the wave of Bay Area homebuyers enter the Sacramento market. However, it is coming. In each housing cycle, we have recovered with an exodus of homebuyers from the Bay Area. Whether the move is based on built-up equity, quality of life, or a desire to move closer to family, the Bay Area fuels Sacramento’s homebuilding growth cycle. ...It would be far healthier for our region if new-home growth was fueled by job creation from businesses relocating to our region. I am optimistic and encouraged by our region’s focus on bringing employers to Sacramento. We have seen this scenario played out before where affordable housing and quality of life has attracted employers to invest in Sacramento. Each time this has happened our region has changed for the better.

In addition to Bay Area buyers, Sacramento will continue to mature as a market. Those families and individuals who have been sitting on the sidelines, whether by choice or through the collapse of the real estate market in 2008, will make homebuying decisions.

Where will these buyers want to buy? I believe there will be a continued desire to focus as much on the neighborhood a house is located in as the home itself. Street scenes, public places, walkability to schools, shopping and recreation will all become important. The standardization of the American dream in varying shades of beige with three elevations and one tree in the front yard will not be accepted by the buying public. Neighborhoods with character and housing styles and (floor) plans which appeal to multigenerational buyers will be sought after. In this regard, the homes of the future will resemble the homes that are desired in older, more established neighborhoods of Sacramento.

***In six years, what will the typical Sacramento-area new home look like in terms of square footage, features, etc.? How will it differ from the housing we’ve built in the past?***

The greatest differences in homes built six years from now will be in the materials, technologies and efficiencies incorporated into the homes. In looking at past trends, the size of new homes will likely change very little. The average square footage of a new home in Sacramento is currently 2,383 square feet. Looking over the past decade, the average home size has remained relatively constant.

Lot sizes have had more radical swings in the past decade. In 2005, the average lot size in the Sacramento region was approximately 7,500 square feet. Last year, the average lot size was less than 6,500 square feet, a reduction of almost 15 percent. It is logical to believe that the smaller the lot size, the smaller the size of the home, but this has not yet played out in the market. As attached homes and denser infill areas become more prevalent, houses will begin to

decrease in size. However, it is interesting to note that in the south Bay Area markets of Santa Clara and San Mateo counties, new homes average 2,100 square feet and lot sizes average less than 4,800 square feet.

Prior to designing any new homes, we hold focus groups with buyers and real estate agents. ... This practice will become increasingly important as baby boomers opt out of larger homes in suburbia for housing opportunities that better fit their lifestyle, as well as ... for the millennial generation as they rapidly approach their homebuying years. Recent focus groups have repeatedly indicated a desire for neighborhood and smart technology in homes.

The increased efficiencies of a new home far surpass the older housing stock that was built 10 to 20 years ago. This goes far deeper than appliance efficiencies. The homes of the future will incorporate all of the smart technology that has entered the marketplace in the last five years. (The ability) to control heating and cooling, entertainment, safety, lighting and a host of other functions from your smartphone will be designed and built into new homes. Whereas stainless steel appliances and granite were the preferred upgrades 10 years ago, many builders have made these features standard. Smart technology in homes will increasingly move from an upgrade option to a standard feature.

## **Pat Shea**

***Do you see a continuation of the big market swings that characterized our region the past four decades? How can we avoid another harmful boom-and-bust cycle?***

The economic corrections that occur after each market swing seem to be building a more diverse and stable workforce in our area, which reduces the likelihood that this unsettling pattern will persist. Fallout from the national financial crisis left a devastating impact on every notable employment sector in our region, along with a seriously overbuilt and financially upside-down housing supply. The organic growth and retention of Sacramento's existing employers will play a key role in the long-term health of our housing market. Expansion from companies into our area and startups could easily generate a steady flow of new homebuyers.

***Wall Street hedge funds and mom-and-pop investors purchased thousands of single family homes here in recent years. What will happen to all of those homes? How will buyers, sellers and renters be affected?***

Small investors have always played a role in the single-family housing market. Real estate investment remains one of the safest and surest paths for creating wealth for those who purchase well, manage well and hold for extended periods of time. The convergence of advanced technology, the accessibility of property information and lack of competitive investment alternatives led to a feeding frenzy in several metropolitan areas across the country. The Sacramento region experienced an overcorrection during the national housing meltdown where our median home price dipped below \$200,000 for the better part of 2011 and 2012. Approximately 9,000 homes were said to be purchased by investors in our market area between 2011 and 2013. Most of those were "flip" properties, which were resold for a quick profit after varying degrees of improvement. Less than 2,000 were believed to be retained by the larger investment entities. Those homes and others held by more traditional investors are likely to be retained for longer time frames and sold off in a manner that would not significantly impact future supply and pricing.

***Where do you see home prices heading in the next six years? What role will mortgage rates play?***

All essential vital signs of a healthy housing market appear to be prevalent in the greater Sacramento area. Prices have adjusted adequately enough to discourage quick-profit strategies. Low interest rates continue to favor buyers. Employment numbers are improving, and new construction is clawing its way back to normal. Most homeowners have some measure of equity after a more than 50 percent increase in our region's median sales price over the past few years. The average Californian moves every five to seven years due to growing families, empty nesting, changes in relationships and the simple desire for a different home or area. Now that the distressed property era has ended, people will return to those familiar habits. Sacramento, however, is most likely to enjoy a more gradual appreciation rate over the next five to six years as big business and smaller entrepreneurs alike exercise caution with risk taking and investment strategies. ... Look for a permanent squeeze in the entry-level (home market) where demand will remain fierce and supply extremely limited.

## **Garrick Brown**

***Even though the Great Recession technically ended five years ago, Sacramento still has high vacancy rates in the commercial real estate sector, from office parks to warehouses to suburban strip malls. What can we do to attract businesses to fill those empty spaces?***

What we're really waiting to see – and what we've seen in the last few decades every 10 to 20 years – is an influx of growth driven by Bay Area housing costs getting out of control. That's happening now in the Bay Area but we have yet to see the influx of migration that's happened before.

The planned downtown arena could help change that. Really what we're talking about is an arena that will drive tourism, which it was not doing before. In Natomas, the arena did not drive tourism. It did not drive jobs. It did not drive people to Sacramento to spend time. This new arena is going to do that. That's why we see investor demand for hotels and multifamily housing. ... Tearing down a mall that was half-empty and turning it into an entertainment and sports complex will draw people downtown.

***Where do you see growth in the industrial sector?***

When it comes to industrial, there's a fair amount of developable space out there. The old Campbell Soup plant is one example. Industrial demand is skyrocketing based upon e-commerce demand. People are looking for e-commerce space within one day's drive of major metro areas. This is an area where we have a major opportunity for economic growth. In the past, if you looked at warehouse space, you were talking about a distribution center for Walgreens in a 300,000-square-foot building, but you were only talking about 30 to 60 jobs. If you can do the same thing for e-commerce fulfillment, you're talking about jobs in the thousands.

Our proximity to the Bay Area could be huge. There's not a lot of vacant space in the Bay Area. ... We could land e-commerce space for (companies) looking to serve the Pacific Northwest, Northern California and Central California. These are things coming down the pike.

***How about office vacancies?***

The office vacancy rate is improving incrementally. The challenge is we have traditionally been a pressure valve for the Bay Area. When things got expensive there, people started to look here. That hasn't happened yet.

The private sector is driving the market. It's traditionally strong in Elk Grove, Roseville, Rocklin, etc. The public sector has always been a huge part of the office market downtown and in Rancho Cordova and West Sacramento. But the public sector is flat. In the future we're going to see the private sector improve but flat (growth) behavior from the public sector.

### ***How do we attract more Bay Area or other businesses?***

We have to find a better way to attract millennials born between 1985 and 2000. If you look at every marketplace that's growing, it's about chasing millennials. You have job creation happening in San Francisco, Austin, Boston, places where millennials want to be. We need to find ways to create an image for Sacramento that we are culturally cool. ... We have to find ways to tap into the coolest things about Sacramento to bring people here or we're going to die.

The best business we can lure is from the Bay Area. Tech is the forefront. If you get tech, everything else falls into place. We have to get away from our dependence on the public sector; that's what kills us.

We want highly talented young people, and part of what they want is what we can present to them. They want 24/7 urban lifestyles. Even if it's in a suburban setting, which may sound odd. Look at Elk Grove, Rancho Cordova or Folsom; there are plenty of places to create development that has that 24/7 feel.

People in San Francisco are paying an average rent of \$3,400 a month. They're 25 to 32. They're marrying up and having kids. Do they really want to pay that rent anymore? Google and Facebook follow their talent. As talent starts to marry up and get out of the city, we offer opportunities.

The challenge is competing with similar opportunities in the East Bay and San Mateo County. If you're renting office space in San Francisco for \$70 per square foot, for a similar space in Sacramento it's \$24. If you're looking at a tech campus environment, you could do that in San Mateo for \$36 a square foot or you could do that in Rancho Cordova for \$20 a square foot – with incredible school systems nearby.

We need to tap into that, but it's tricky. If we can have a 24/7 city where you can live cheaply and have great schools for kids, that's where Sacramento hits a home run, if we do it right.

<http://www.sacbee.com/2014/08/23/6646183/a-look-ahead-sacramento-jobs-real.html>