

A Hot, Slowing and Changing Economy: Implications for Housing and Fiscal Policy

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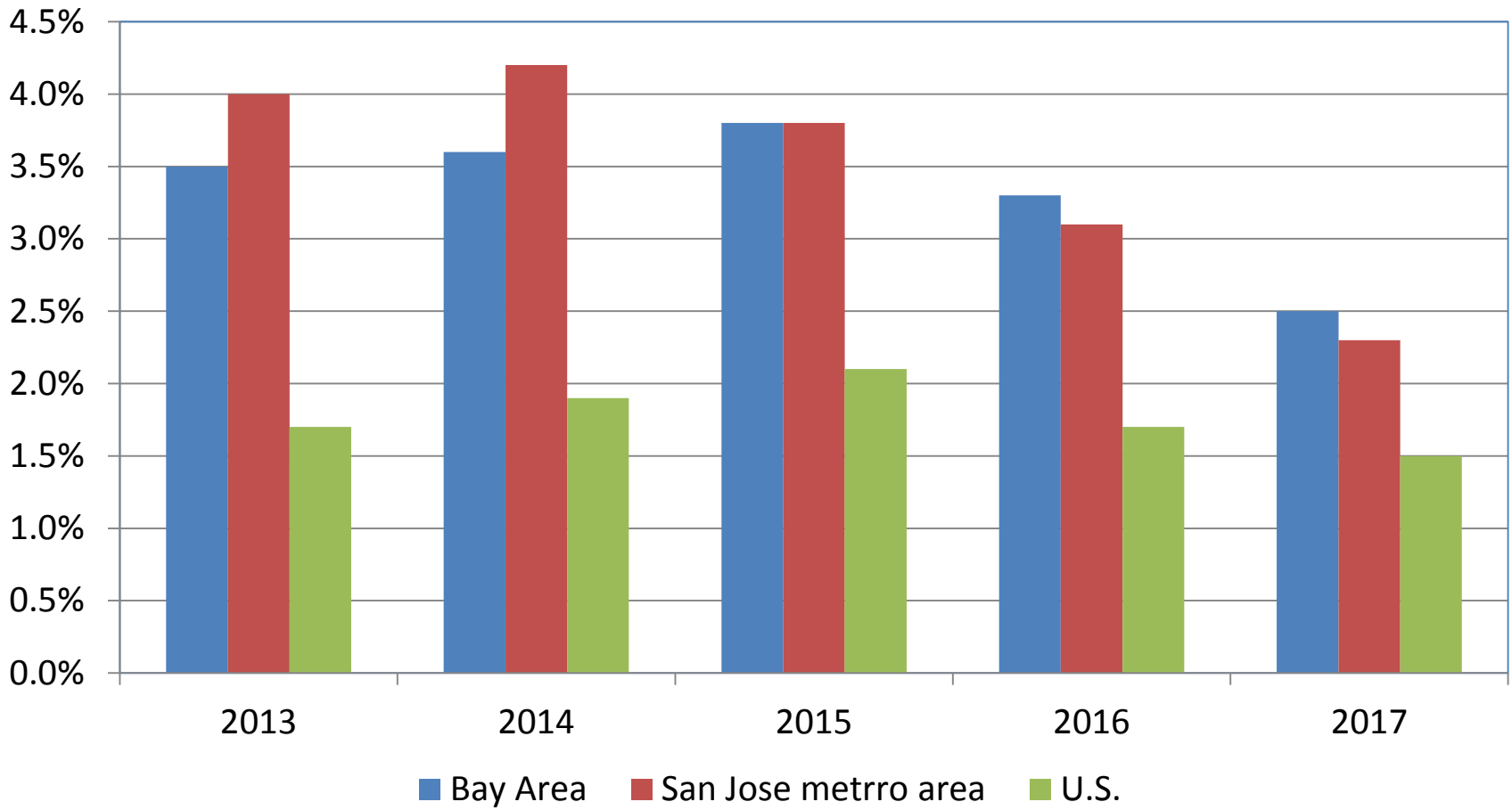
Center for Continuing Study of the
California Economy

Sunnyvale City Council May 19, 2017

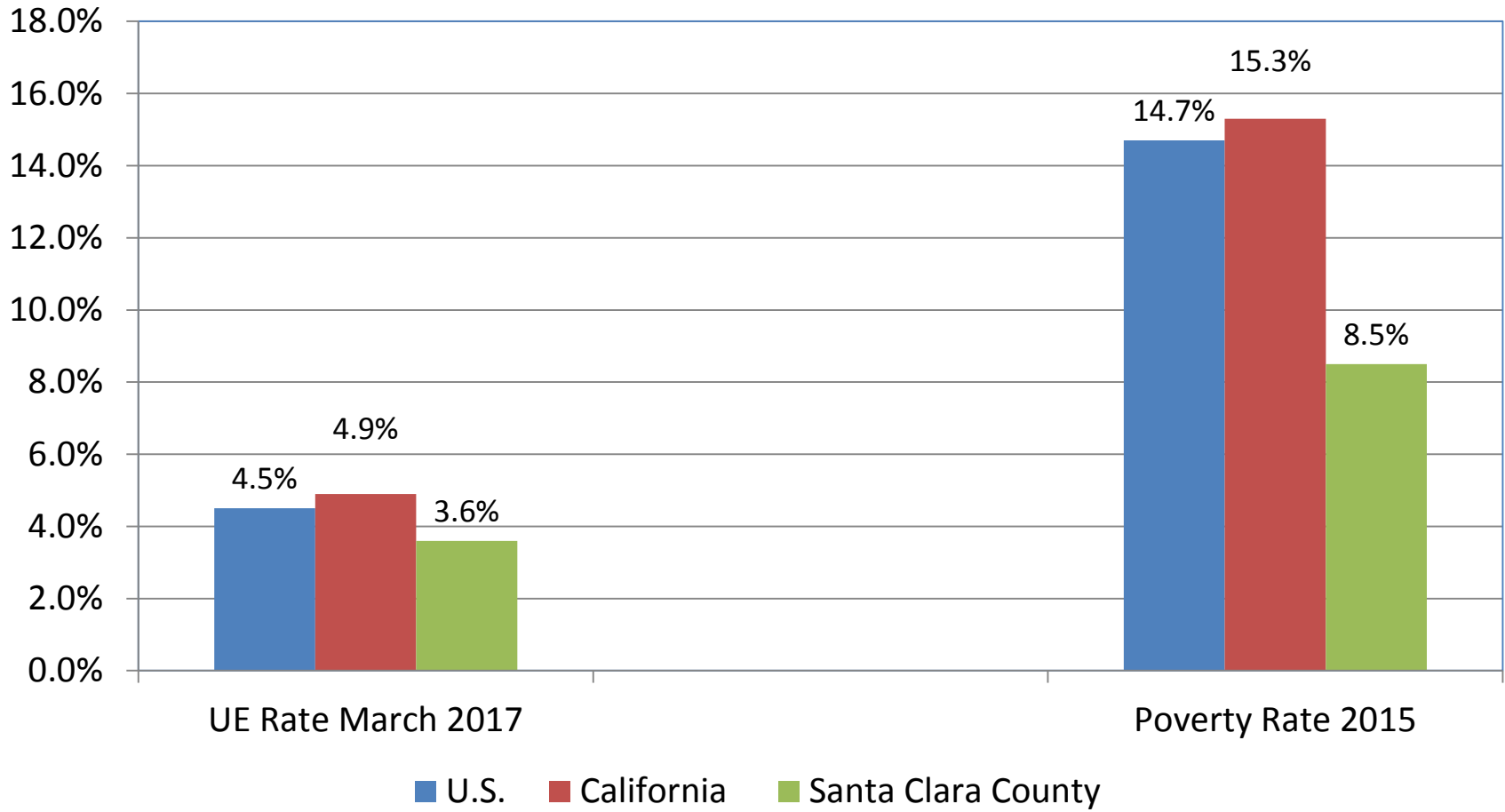
A Strong and Attractive Economy with Slower and Changing Growth Ahead

- County and region outpace nation
- Below average unemployment and poverty rates. Above average median wages, minimum wage thresholds and household income
- Job growth will slow everywhere after 2016
- Companies plan more expansions
- Workforce shortages and housing challenges threaten region's competitiveness

Job Growth Rates



Unemployment and Poverty Rates



Job Growth Will Slow

- Job growth will slow across the nation as baby boomers retire and unemployment is low
- Except for renovations, which are important, office and retail expansion will slow
- Local challenges include a shortage of skilled workers (NOVA is working on this) and housing costs and supply.

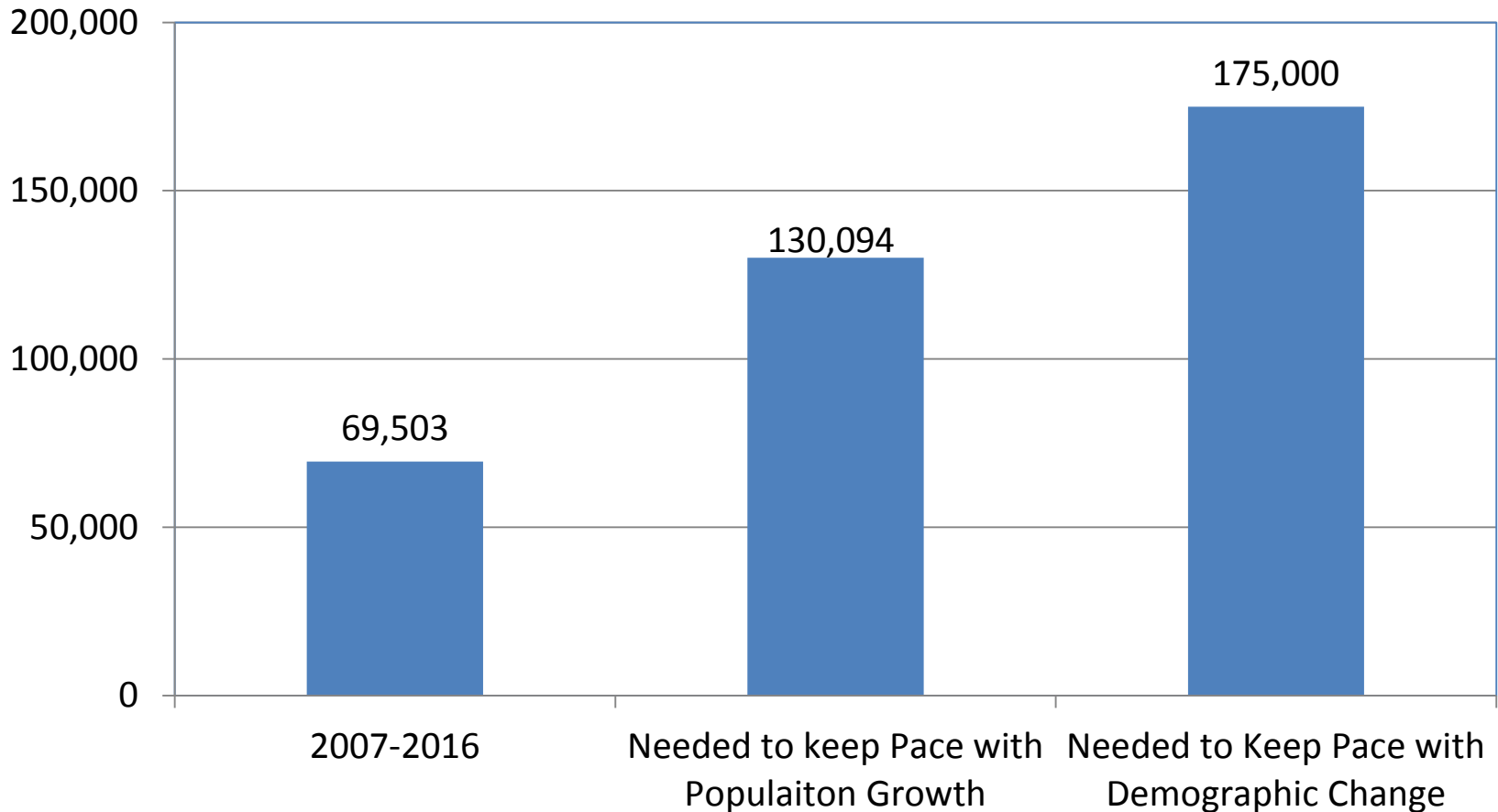
Yet the Region Continues to Attract New Jobs

- LinkedIn and Google swap land for expansions in Mt View and Sunnyvale
- Major tech job expansions in San Jose around Diridon and with BART openings
- Facebook, Apple and Tesla expanding
- And a wave of auto tech office openings—Porsche, Ford, Tesla—as the Valley embraces a new tech opportunity

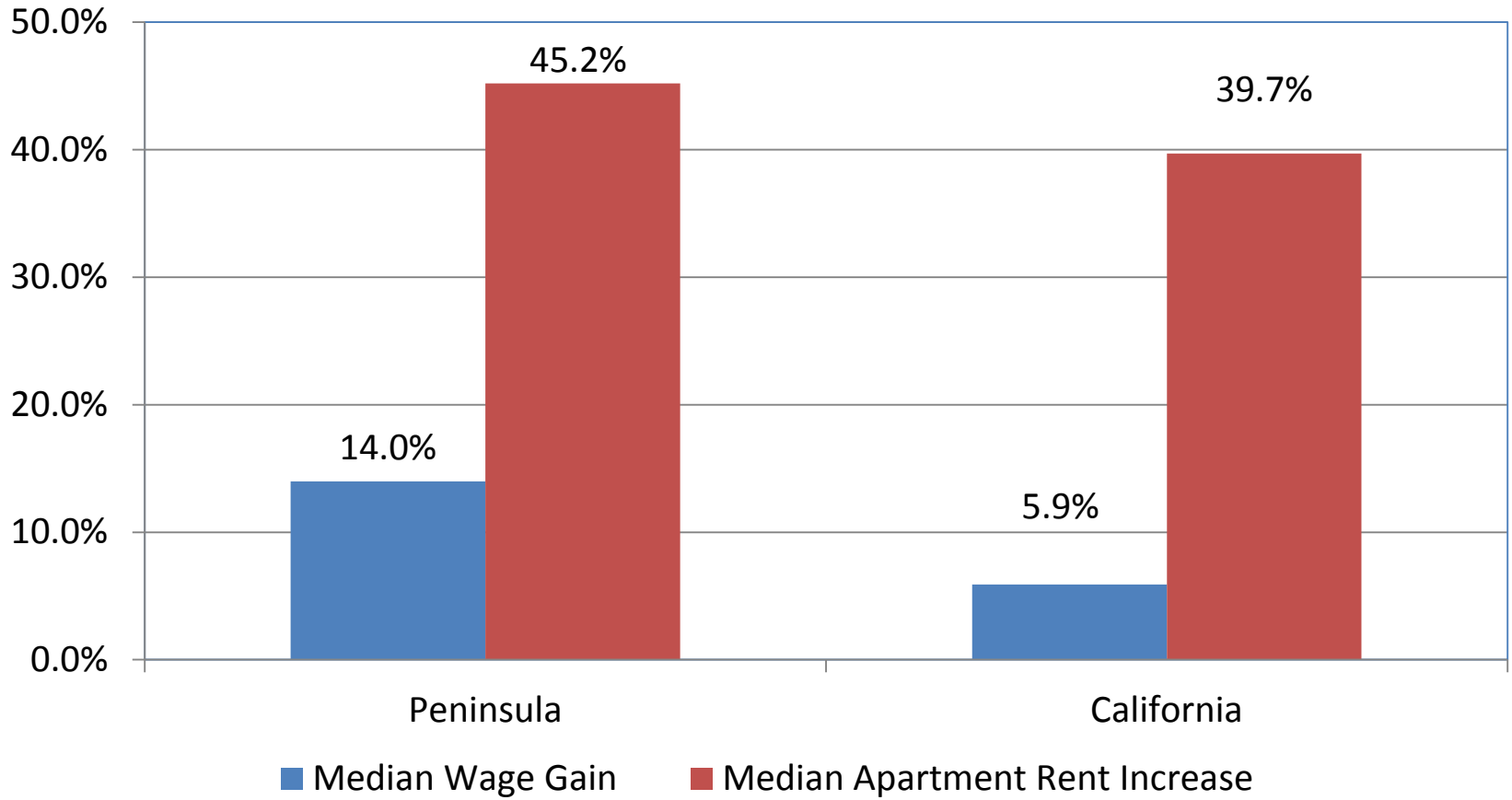
Housing Costs and Supply—Causing Distress for Residents AND the Economy

- The economic distress caused by housing shortages and soaring rents are well known.
- But this human distress is also an economic threat.
- Company expansion plans in a time of low unemployment and worker shortages depend on workers being able to move to the region.

Anatomy of a Regional Housing Shortage (Units Added Vs Needed)



Rent Increases Outpace Wage Gains 2011-2016



Challenges in Addressing Housing

- Not every city has to add housing but if every city does not step up, the shortage will grow.
- Reducing costs and incentives (carrots) for cities are needed from local and state action
- Local efforts can include density bonuses, reduced parking requirements, zoning for smaller units, permit streamlining—all of these can reduce costs and increase supply

But Cities Need Help from the State and Region

- CEQA reform
- By right approval for qualifying projects
- State or regional backfilling of impact fees
- Direct infrastructure funds where housing is welcomed
- Other fiscal incentives for housing including lowering housing bond threshold to 55%

Fiscal Challenges in a Slowing Economy

- You know and are dealing with employee retirement costs.
- With slowing retail, getting a fair share of Internet sales tax is important—same for AirBnB.
- With slowing commercial space growth, renovations are important. BUT SO IS REGIONAL ECONOMIC COMPETITIVENESS.
- Long term a sales tax on services (SHARED BY LCOAL AGENCIES) is a policy goal along with more fiscal incentives for housing