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REAL ESTATE NEWS

Will Sacramento avoid another housing boom and bust?

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Housing booms and busts tend to arrive like summer and winter in Sacramento.

The 1970s, '80s, '90s and 2000s each saw predictable up-and-down cycles in home construction.

The 2010s may be different. Nearly 10 years after the massive collapse of the housing market, a surge in homebuilding has yet to materialize, and experts aren't sure it will.

They point to another possibility that has eluded Sacramento for 40 years: slow, steady growth.

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“It’s a little bit of a mystery,” said Jeffrey Michael, director of the Center for Business and Policy Research at the University of the Pacific in Stockton. “The cycle is a lot slower getting started. Maybe we won’t have a boom-and-bust cycle. Maybe we’ll settle into something better.”

Past booms resulted in more than 20,000 homes being built during peak years in the Sacramento region. In 2011, the low point of the housing market’s meltdown, only 2,000 homes were constructed.

Last year, 7,000 single-family homes were built, a 33 percent increase over 2015, according to the latest figures from the University of the Pacific.

The current year is shaping up even better, but housing growth will remain well below the historical average of around 12,000 homes a year, according to the latest UOP forecast. It projects 9,600 houses being built in 2017.

What’s surprising about that figure is that past recovery cycles took from two to seven years to go from bust to boom, when at least 15,000 houses were added each year. The Great Recession technically ended in 2009, eight years ago, yet construction remains relatively low.

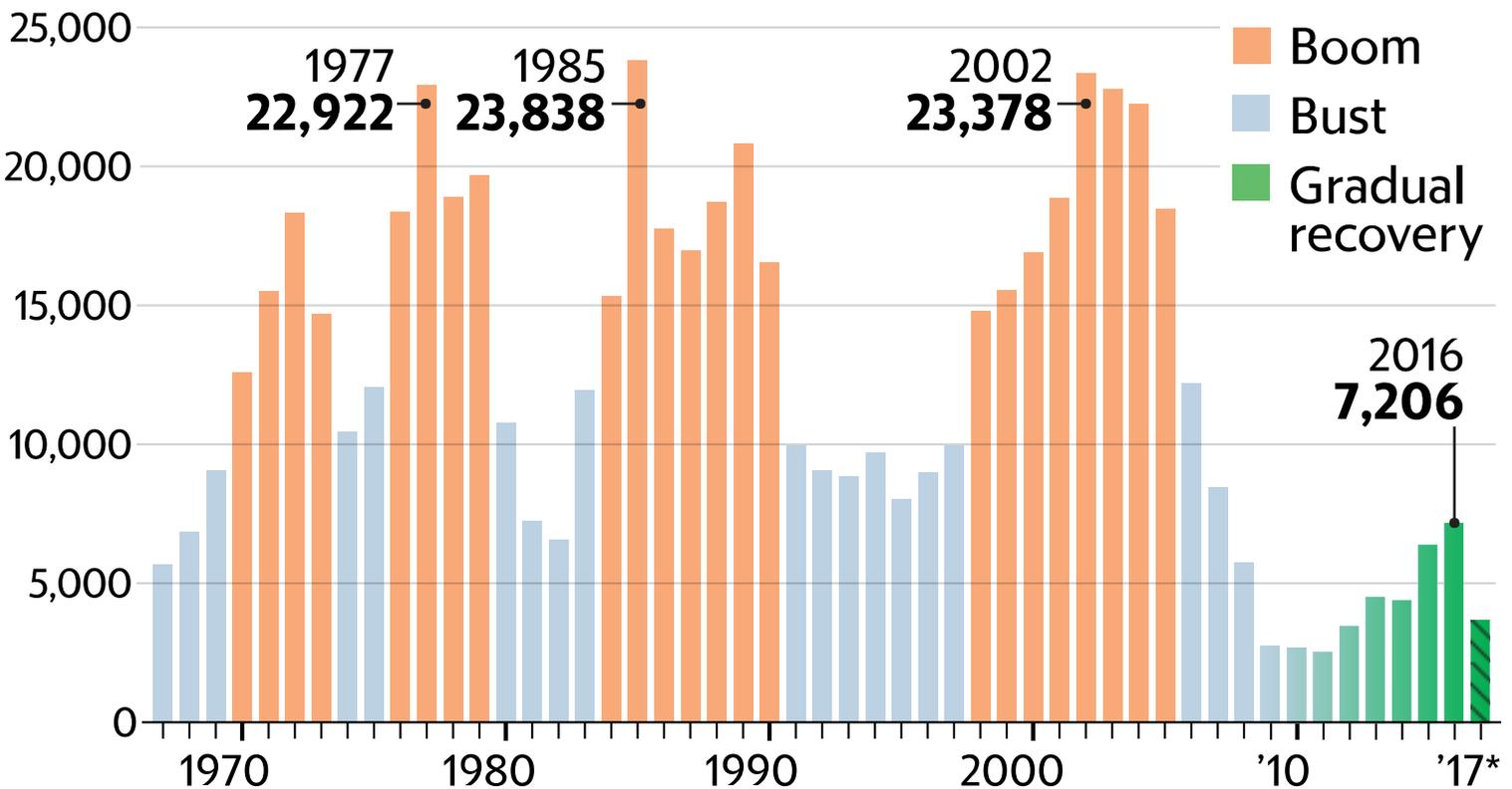
That history raises a question: Are we nearing the end of a recovery cycle without a housing boom? If so, it would be the first time in 40 years that’s happened in Sacramento.

A common analogy is “What inning of a baseball game are we in?” said Kevin Carson, president of the New Home Company for Northern California. “Is it the seventh inning stretch, or are we just getting started?”

SLOW AND STEADY HOUSING GROWTH?

Home building in Sacramento, Placer, Yolo and El Dorado counties has picked up from the abysmal lows of the housing crash, though it still falls short of historical averages. Some experts believe the current housing cycle may be more gradual and longer lasting than past boom-and-bust cycles.

Residential building permits by year (in total housing units)



*Through May

Source: Construction Industry Research Board

Carson, whose startup company has been among the most successful post-recession builders in the Sacramento area, said he thinks the region still has three to four more years of solid economic and housing growth ahead – but not at the level of a housing boom.

Greg Paquin, a consultant to the new home industry, holds the same opinion. The recovery of the new home market started in 2014 or 2015, when home sales picked up, not in 2009, when the recession ended, he said.

“The crash was so severe and so strong and so dramatic, it basically shut down life for five years,” Paquin said. “Technically, the recovery started in 2009, but it didn’t really start for Sacramento until a couple of years ago.”

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“I do get the sense ... that we have a little bit of a runway here, maybe three to five years,” he said. “I’m not suggesting we have seven years, but I do think we have a good couple years ahead of us.”

In its most recent economic forecast for the Sacramento region, Michael’s research center at the University of the Pacific predicted new home construction will grow through 2020 but won’t reach the levels seen in the housing booms of the 1970s, 1980s or 2000s.

Back then, construction of single- and multifamily homes topped out around 23,000 to 24,000 units per year in Sacramento, Placer, Yolo and El Dorado counties, the Construction Industry Research Board reported.

This time, construction of new single- and multifamily homes will top out at 14,000 units per year by the end of the decade, 40 percent less than prior peaks, the UOP researchers predict.

The projections are more in line with what one major planning organization says are the region’s housing needs and optimal growth levels.

In its Sacramento Region Blueprint, the Sacramento Area Council of Governments says the region needs roughly 12,000 new housing units a year to keep up with population growth. Current home construction falls short of meeting the SACOG blueprint’s goals.

It isn't necessarily for lack of demand. Currently there's an extreme shortage of existing homes for sale. Bidding wars among buyers are pushing up prices to levels not seen in a decade, and homes are selling at a record clip.

Normally, developers in Sacramento would respond to such an imbalance between supply and demand by building more new homes on the periphery of urbanized areas. With vast tracts of open space in the four-county region, new home construction serves as a relief valve when buyer demand outstrips supply.

These days, that relief valve is releasing only a trickle of new homes.

Builders say they'd like to do more, but they're struggling with limitations beyond their control.

One is a shortage of skilled construction workers and tradespeople. Many left the industry after the disastrous collapse of the homebuilding industry last decade.

"We're metering sales. Why sell 100 homes when you can only build 60?" said David Ragland, vice president of homebuilder Anthem United in Northern California. "That's restricting the amount of permits because we don't have the building trades to build higher than that."

Ragland gave an example.

"We have a project in Natomas called Willow," with larger homes in the upper \$400,000 range, he said. Demand has exceeded the builder's capacity to deliver, a common story in today's market.

"Willow opened a couple of months ago," Ragland said. "We're purposely not doing the next sales release because we don't have the trade base to do more than six or seven starts a month. We'll sell four or five homes over a three-week period. Sales in Willow are about one a week, on average, because we go several weeks without selling anything. That's by choice."



David Ragland, a regional vice president with Anthem United home builders, stands inside a home being built by his company in North Natomas on Thursday, July 13, 2017 in Sacramento, Calif. There is not much new home construction in Sacramento compared to past recovery cycles. One of the few areas of large-scale construction is in North Natomas where the three home types currently in high-demand are being built: 55+ one-story homes, small starter homes, and larger move-up houses.

Randy Pench - The Sacramento Bee

Another factor cited by builders and analysts is cost. Building homes that working families can afford in Sacramento, and making a decent profit, has become far more difficult since the early 2000s.

The average family income in the area hovers around \$60,000. Those who earn \$75,000 or \$85,000 can afford at most a \$300,000 to \$350,000 house.

In the early 2000s, that would have bought a good-size home in the suburbs. But it's nearly impossible to build larger single-family homes in that price range now because of land costs, developer fees, labor costs and the rising costs of materials, builders and industry analysts said.

"Construction costs are increasing faster than new home prices," Paquin said. "You have deals that just don't pencil out."

What can be built in the \$300,00 to \$400,000 price range are smaller homes with tiny yards, packed 15 to 25 per acre, or attached housing, he said. Buyers have been scooping up those houses as fast as builders can deliver them.

Starter and move-up homes in North Natomas are selling fast, Paquin said. The area, minutes north of downtown Sacramento, saw explosive growth through 2006. But it suffered from the downturn and a de facto building moratorium imposed by federal authorities because of flood risks.

The moratorium was lifted two years ago, and construction returned to Natomas. Now it's one of the region's fastest growing areas again, though homes are being built there by the hundreds, not thousands.

Builders are also still trying to figure out what sells. The market has changed since the last boom-and-bust cycle.

"We're dealing with 2017 wants and needs, not 2000 wants and needs," said Michael Strech, president of the North State Building Industry Association.



A row of new homes are nearing completion in North Natomas on Thursday, July 13, 2017 in Sacramento, Calif. There is not much new home construction in Sacramento compared to past recovery cycles. One of the few areas of large-scale construction is in North Natomas where the three home types currently in high-demand are being built: 55+ one-story homes, small starter homes, larger move-up homes.

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During the upswing of the early 2000s, the main demand was from growing families eager to buy a large house in the suburbs with a two- or three-car garage. Developers covered seas of open space with tens of thousands of such houses.

Now the demand is coming from empty nesters in their 50s and 60s and from millennials, who are in their late 20s and early 30s and ready to buy their first homes.

Infill developments such as The Mill at Broadway – with its clusters of modern homes in affordable price ranges close to downtown Sacramento – have sold well. So have the lower-priced homes at McKinley Village, an infill development in East Sacramento, and at The Cannery, an infill project in Davis, both developed by the New Home Company.

New Home’s Carson said finding the right mix of housing could prolong the region’s growth spell. That means building for older and younger adults, he said.

“I think the real growth Sacramento has in store for it is active-adult communities,” he said. “In the Bay Area, it takes longer and longer to get anywhere.” Retirees, he said, will want to sell their far-more-expensive homes in the Bay Area and move to the Sacramento region for its affordability and relatively light traffic.

He pointed to the success of Del Webb’s Sun City Lincoln Hills active-adult community in Placer County. Homebuilding giant Lennar has been selling single-story homes for older adults at its Heritage development in El Dorado Hills. Another large builder, K. Hovnanian, is building its Four Seasons community in North Natomas for adults 55 and older.

“If developers do single-level floor plans near hospitals,” Carson said, “there’s almost an unlimited amount of people who will leave the Bay Area craziness.”



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A construction worker frames a home being built by Anthem United in North Natomas on Thursday, July 13, 2017 in Sacramento, Calif. **Randy Pench** - The Sacramento Bee

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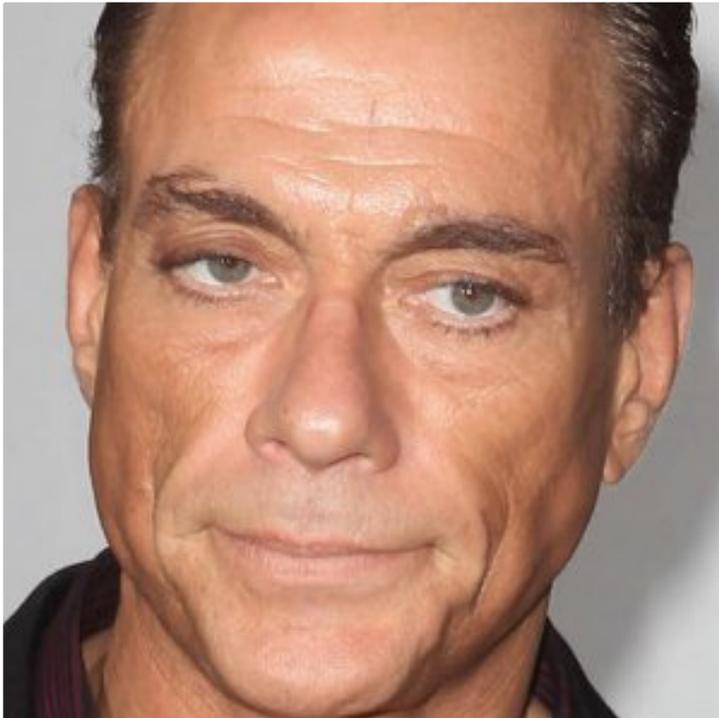
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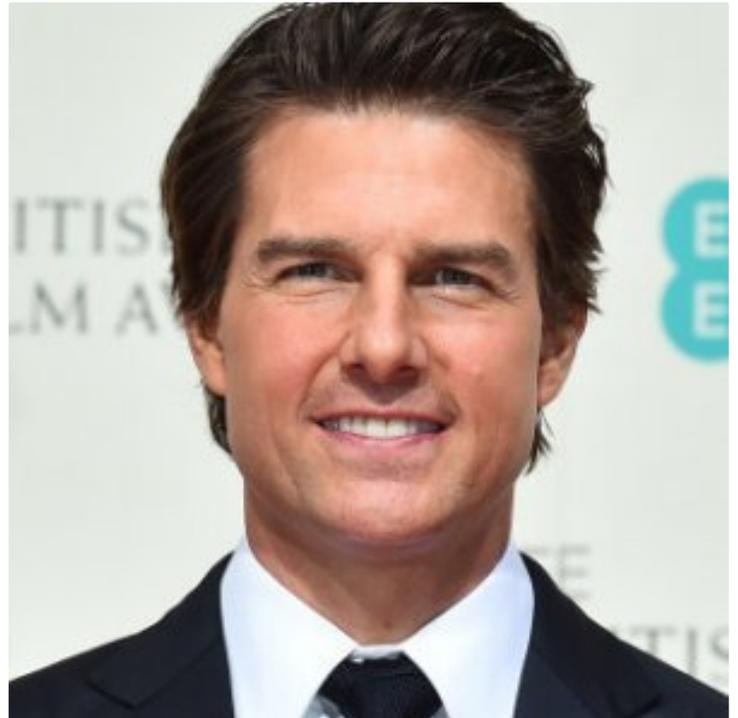
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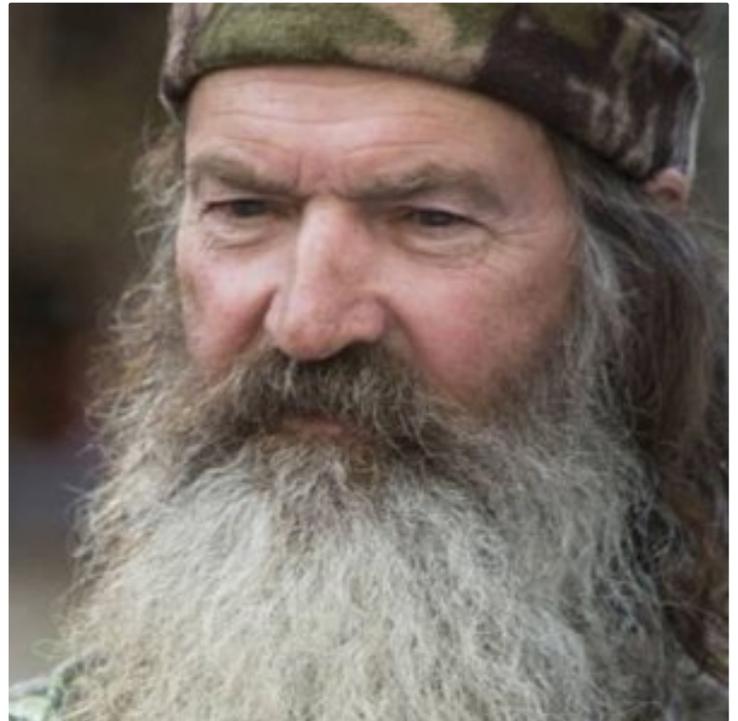
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