



THE LONDON GROUP
Realty Advisors

**Regional Housing &
Economic Impact Analysis**

Prepared For:

San Diego Regional Chamber of Commerce

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INTRODUCTION

The London Group Realty Advisors has completed this comprehensive analysis which addresses housing issues in the San Diego region and its integrated impact on the overall regional economy in the coming years. This study expands upon our prior paper entitled “[Facts & Implications of Not Meeting Regional Housing Demand](#),” in which it was concluded an insufficiency in the construction of new housing units will continue to fester in the form of higher housing costs and limited product types (mostly multifamily). The potential implications of this deficiency were identified as:

- ➡ The housing crisis impacts everyone’s future due to impacts on the economy regardless if you currently own a home or not.
- ➡ Ultimately, this situation will cause substantial externalities, particularly to our regional economy further pushing the San Diego Region towards being a boutique economy with limited job opportunities and high housing costs, and away from a sustainable future which can accommodate both employment and housing, for our region’s next generation.
- ➡ The crisis requires the undiluted attention and political leadership in jurisdictions throughout the region, particularly in those most impacted.

The purpose of this paper is to focus on these issues by conducting an empirical analysis of how the San Diego region has historically accommodated jobs and housing and how this is assumed to change. Our expectation is that this paper will serve as a foundation to inform public policy and decision makers to revise regulations, engage in more proactive and creative problem solving, and enact a more correct approach to approvals of housing projects.

Research for this project was completed in July 2016. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report will vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise of property owners, investors, developers, lenders, public agencies, operators or tenants.



EXECUTIVE SUMMARY

This study focuses on the inexorable relationship between the housing market and the San Diego regional economy. What we discovered was that there is a housing shortage now, and that, absent substantial action being taken, this shortage will continue to fester well into the foreseeable future. The result will be a continuation of higher housing costs, both for-sale and rental, fostered by an inability to bring to market new housing units of any type. Without action, demand will perpetually outpace supply.

What few units can be developed are mainly built far from where the jobs are or will be in our region. This causes longer commutes, greater congestion and increasing employee and employer dissatisfaction.

We address SANDAG's Series 13, which is an aggregation of the general plans and housing elements of each city in the region, as well as the County of San Diego. Cumulatively, our regions' planners have effectively embarked on a 38-year experiment, essentially "betting" that the expanding workforce and their families will be overwhelmingly willing to be accommodated with a new supply of multifamily housing, while there is a virtual elimination of new single-family housing projects.

If incorrect, it will be too late and the consequences will be irreversible. There are compelling reasons, detailed in this report, that suggest this supposition regarding housing preferences and willingness to live in multifamily housing is incorrect. The apparent inability to reconcile housing supply and demand is likely to fuel an unprecedented economic challenge for the region, as employers are weighed down by the plight of their employees unable to find or afford their preferred housing type.

This is an impending housing and economic crisis for our region. As such, the issues and problems identified in this paper are everyone's problem, whether one currently owns a home, wants to, or is satisfied renting. It is a problem that cannot just be brushed aside. It is a problem screaming for a constituency that can be recognized by policymakers as they weigh their decisions on new development proposals, general plans and zoning rules.

Here are the bullet points highlighting what this research has determined:

- We have tied together the housing crisis to our economic well-being. In blunt terms, rising housing costs caused by limited supply, are genuinely of concern to our region's employers, such that they are now reaching decision points as to how and whether they can exist in San Diego County.
- The housing shortage is a regional problem. The on-the-ground reality is that substantially fewer units than anticipated by planning documents will ever be built due to neighborhood resistance, and the financial economics involved in these projects, which mostly will require far more density than is likely to be permitted.



- There is a disconnect between where the jobs are expected to be and where the housing can be built. The problem is most dangerous along the region's north coast and inland north county. That is where the jobs to housing imbalance is greatest, yet where the resistance to new housing is most persistent. We are especially concerned about the North City and North County, a sub-region which is projected to add huge numbers of jobs without a proportionate increase in the housing stock.
- Anticipated additional demand for single-family homes will be substantially higher than the potential for new single family homes identified in local plans. To meet demand, substantially more single-family homes must be built than have been planned for and certainly far more must be built each year than the pace at which they have been built over the past decade.
- Most of the available land lies within unincorporated areas under the jurisdiction of the County of San Diego. In fact, there is now more available land than ever, as at least 48,000 acres of agricultural land has been downgraded as "inferior" over the past 20 years.
- Each day workers commute from other regions or from relatively distant locales. This means that businesses are required to search farther to find the workers they need. Workers have to travel farther and/or spend more time to get to work.
- We have reached the point of "peak urban Millennial" who have overwhelmingly valued urban apartment or condominium living as singles, two person or shared households, yet now are starting families. For many of this cohort, representing 1/3 of the region's population, this will mean a search for housing they see as more appropriate for a young family. Mostly, that will mean a search for a more suburban, single-family home.
- "House Hoarding will likely become a problem, as aging Baby Boomers will age in place. Instead of selling their home and "move down" or move out, they will discover that there are fewer choices in which to move. This will not only diminish available resale inventory, but also likely bid-up pricing and erode neighborhood reinvestment.

This report backs up these assertions with exhaustive research and analysis. The following section entitled [Fact Sheet](#) bullets the highlights of the data points discovered in our analysis, which are then addressed in detail in the remainder of the report, our [Analysis of San Diego Regional Growth](#). Finally, we have written a comprehensive [Conclusions & Recommendations](#) chapter, which further "drills down" our conclusions and offers policy suggestions to address the issues and problems raised.



FACT SHEET

Job Growth

The following summarizes countywide¹ job growth. For more information, see [Job Growth: County](#).

- Since 1996, the County has added 311,700 jobs (average of 16,405 jobs per year), which is a total increase in the job base of 26.6%. During the recession between 2008 and 2010, total job losses amounted to 100,300 jobs.
- In 2012 there were 1.35 million jobs in the County. This number is expected to grow to 1.8 million by 2050, an increase of 34.2%. There is a significant increase projected from 2012 to 2020 of with a total of 173,211 jobs added (an annual average of 21,651 new jobs). From 2020 forward, job growth is projected to increase at approximately 9,600 jobs per year.
- The County has been shifting toward a stronger professional, high-tech and health services based economy with higher paying salaries. The largest growth is expected to be in Professional and Business Services with the addition of approximately 80,000 new jobs (increasing by 30%). Manufacturing, Agriculture, and Mining are projected to continue to decline or experience limited growth.

The following summarizes the job growth in the various Metropolitan Statistical Areas (MSA). For more information, see [Job Growth: By MSA \(Major Statistical Area\)](#).

- Between 2000 and 2010 the North County West and North City MSAs experienced significant job growth adding approximately 14,500 new jobs each (62% of total growth). Overall, the majority of the job growth occurred in the more suburban MSAs located in the North and South parts of the region.
- To analyze the pace of growth in a normalized market, we focused on the period of 2000 to 2005, which excludes of 2008-2010 recessionary period. During these five-years the County added a total of 83,338 jobs (excluding self-employed). In terms of geographical distribution, most of the high-paying jobs occurred in the North County West and North City MSA combining for a total of approximately 20,000 jobs. The Central MSA achieved a significant growth by adding 8,108 high-paying jobs. The remainder of the County experienced limited growth in high-paying jobs.
- The SANDAG Series 13 aggregation results in 460,492 new jobs being added between 2012 and 2050. The largest capture of jobs will be in the North City MSA, which is anticipated to increase by 30.3%, followed by Central (18.6%) and South Suburban (18.5%).

¹ Throughout this report, the term “County” and “Countywide” are synonymous with “region” or “regional,” as San Diego County is a single county region, and statistically treated as such by the San Diego Association of Governments (SANDAG) in its series estimates for growth.



- Of the 460,492 total job growth potential, 149,485 new jobs (32.5% of growth) are anticipated to be added in high-paying sectors. The balance, 311,007 jobs (67.5% of growth), are anticipated to be added in lower-paying sectors.
- The North County and North Cities are projected to add 75,488 high-paying jobs while the South and East Suburban MSAs are expected to add only 47,576. This demonstrates that there is geographical imbalance in the region with a greater amount of higher paying jobs in the northern part of the County (north of I-8) relative to Central and South County.

Housing Growth

The following summarizes the housing growth in the County. For more information, see [Housing Growth: County](#).

- San Diego County's current housing stock is predominantly comprised of single-family homes. However, the rate of multifamily construction is shifting the County's overall housing composition.
- In 2000, approximately 63% of the existing housing units in the County were single-family homes. The balance of approximately 37% were multifamily units. Between 2000 and 2010, the County added 122,147 housing units², or 12,215 units per year. The composition of this growth was still predominantly single-family (56%) compared to multifamily (44%).
- From 1996 to 2007 San Diego County's new building permits averaged 12,753 units per year. Since the economic downturn in 2008, building permit activity has averaged 5,968 units per year. Excluding the early economic recovery years (2008-2011), building permit activity has averaged 7,644 units per year since 2012. This is a decrease of 40.6% compared to the 1996-2007 period.
- Between 1996 and 2007, 61.4% of the building permits issued were for single-family homes (7,837 units per year). However, between 2012 and 2015 only 34.2% (2,613 units per year) of the new building permits issued were for single-family homes.
- According to SANDAG's aggregation of local planning data, which is based on the general plans of each of the region's 18 cities as well as the unincorporated County, the region could add as many as 340,500 new housing units between 2010 and 2050 (40 years). Approximately 275,000 units (81%) would be multifamily units, and approximately 66,000 single-family homes (19%) would be added.
- Within the County of San Diego, the inventory of land appropriate for agricultural production, has been steadily declining. Since 1998, farmland that is considered "inferior" by the State of California Department of Conservation has increased by 47,509 acres.

² Includes single-family and multifamily units. Our analysis excludes mobile home units.



Farmland that is considered “Superior” has also decreased by 28,259 acres over this same period of time.

The following summarizes the housing growth in the various Metropolitan Statistical Areas (MSA). For more information, see [Housing Growth: By MSA](#).

- Since 2000, most of the MSAs experienced higher single-family growth compared to multifamily. In all but two MSAs (Central and North City), single-family home growth outpaced multifamily units. In the far north county (North County West and North County East), single-family homes represented 74% and 76% of growth, respectively.
- The SANDAG aggregation of local planning data finds that single-family home growth would decline significantly from 2012 to 2050 throughout the region if all planned development is realized. In particular, single-family growth would account for 38% of growth in the North County West MSA and 44% of growth in the North County East MSA.
- According to the SANDAG aggregation of local planning data, the East Suburban would be the major supplier of single-family homes with growth of as much as 23,425 homes - representing 55% of total County growth. This represents a shift of single-family growth to the southeast portions of the County.

Distribution Analysis

The following summarizes the geographical distribution of jobs and housing growth. For more information, see [Distribution Analysis](#).

- The top-five high paying sectors include Information Systems (\$88,556), Professional and Business Services (\$84,344), Manufacturing (\$80,860), Finance and Real Estate (\$75,556), and Wholesale Trade (\$73,736).
- Between 2012 and 2050, Professional and Business Services is anticipated to experience the largest growth (80,129 new jobs) while commanding one of the largest incomes (\$84,344). The other sector expected to grow significantly, leisure and hospitality (69,013 new jobs), earns the lowest median income (\$23,140).
- Based on SANDAG, a ratio of 1.41 jobs for every housing unit must be achieved to accommodate future growth. However, in North City, the future jobs-to-housing ratio is 2.0, suggesting more demand than supply. The number of high-paying jobs to single-family homes is anticipated to be 7.0, an important metric to consider, because higher-income jobs typically generate household demand for single-family homes.
- The North County West and South Suburban market are each anticipated to generate more jobs than housing to accommodate workers and their families (2.11 and 1.67 respectively). A similar contrast is also expected in the ratio of high-paying jobs to single-family homes expected to be delivered in each of these markets (1.81 and 4.51, respectively).



Shift in Housing Preferences

The following summarizes the assumed shift in housing preferences. For more information, see [Shift in Housing Preferences](#).

- Historically, the market in San Diego County has produced substantially more single-family homes than multifamily implying a historical preference for single-family home living. This is represented by the County's 2010 housing stock which was comprised of 63% single-family homes (697,470 units). According to the SANDAG Series 13 aggregation of local planning data, only 19% of growth would be single-family homes (65,756 units). The balance of growth is anticipated to be multifamily (81% or 274,744 units).
- If we anticipated single-family demand by using the existing housing stock as our best measure of historical preferences (63% single-family), an estimated 214,515 single-family homes would be demanded. However, the aggregation reveals that local planning efforts only accommodate 65,756 single-family homes, a ratio of 3 out of 10. Based on these assumptions, only 30% of all future residents who wish to purchase a new, single-family home will be able to do so. The other 70% would be accommodated in multifamily units.
- Extensive research has been conducted in recent years focusing on the 78.6-million-person Gen Y population (or Millennials), a cohort whose population is now aged 20 to 37 and is larger than the Baby Boom generation (now aged from 53 to 70). Gen Next (sometimes referred to as Gen Z), persons under 20 years of age, is expected to generate housing demand as strong as their predecessor groups. Therefore, strong housing demand is anticipated for at least two generations, and across the housing spectrum.
- Yet, based on this anticipated demand from future generations, we anticipate a shortage of single-family homes ranging from 39,193 to 76,930 homes. There is no similarly anticipated shortage of housing for the Next Gen cohort, at least for over a decade.

Affordability Implications

The following details the affordability trends in the San Diego Region. For more information, see [Affordability Implications](#).

- The median home price in San Diego County continued to increase. In 2016 the median of \$478,000 indicates that pricing is approaching the pre-recession peak set in 2005 (\$503,000). However, the median multiple (price divided by income) is much lower (6.8 compared to 9.1). This is due to a full decade of income growth and stagnant home values. Median income in San Diego County has increased 27% since 2005 compared to a median home price that is still 5% lower than the 2005 peak.
- We anticipate the median multiple to continually increase due to the inability of supply (new building permits) to keep up with housing demand, particularly for single-family homes near employment centers.



- The least affordable areas in the County are the north county beach cities of Encinitas (9.9), Solana Beach (9.8), Del Mar (12.6), as well as the island of Coronado (15.4). Poway (6.4) and San Diego (6.4) are relative bargains because median incomes match the beach cities, but median housing prices are lower.
- All North County cities now require a larger portion of income dedicated to housing cost. Approximately \$11,000 additional annual income is now required to purchase the median priced home in North County (an increase of 3% to 8%) than in 2000. Chula Vista experienced the only decrease in this same housing cost ratio between 2000 and 2016, most likely a function of fewer local job opportunities, yet relatively robust housing construction.
- Between 2007 and 2014, San Diego County rental households progressively spent more of their income on rent. The median income for rental households was \$42,341 in 2007 while the median rent was \$1,116 per month (31.6% of income spent on rent). By 2014, median household income increased 10%, or 1.5% annually. However, the median rent increased more than double the rate of income at 23%, or 3.3% annually. This translates to 35.2% of household income spent on rent in 2014.
- The continuous increase in San Diego rents in recent years has made the region one of the most expensive places to live along the California coast. Renting in San Diego requires 35% of income, which is higher than Mountain View, San Francisco and Santa Clara. While these markets experience higher rent levels, residents there enjoy much higher incomes. Ironically, these Northern California markets are more affordable than San Diego, Orange and Los Angeles counties.

Economic Impact Analysis

The economic impacts as prepared by BW Research resulted in five key findings. For more information, see [Economic Impact Analysis](#).

1. Even as the economy has improved in San Diego County, approximately half of the region's renters spend over 35 percent of their total household income on housing. The situation for homeowners has improved over the last few years as the economy has improved. Homeowners in California and San Diego County pay a smaller portion of their income on housing, but that has not been the case for the County's renters. In fact, renters from East County and North County have experienced an increase in the proportional cost (as a percentage of household income) of rents from 2011 to 2014.
2. San Diego County, overall, imports workers for every occupational type except for "Management, business & science positions," those from the highest paying category. This need to import workers in four of the five general occupational categories means that businesses are needing to search farther to find the workers they need and workers have to travel farther and/or spend more time to get to work. There can be confounding factors for



this beyond housing supply and costs, but it is typically considered one of the first drivers of this phenomena.

3. “Ability to find reasonably priced housing for employees that is close to work” was the issue San Diego County employers were most dissatisfied with (28%) of the eight issues tested. The only other issue to register just over 10 percent dissatisfaction, was the “Ability to attract new employees that live outside the region”. The nexus between talent and housing was a consistent theme in the employer survey results.
4. Retaining and attracting talent was the biggest challenge identified by San Diego County businesses, when asked to identify the biggest obstacle for their firm’s growth. The need to attract and retain talent was identified more often than the overall cost/expenses associated with doing business in the region. A smaller but still relevant portion of businesses indicated that business partnerships and/or support was lacking in the County and some also indicated there was not enough customers in the region.
5. More than three out of every five San Diego County business indicated they are at least having some difficulty findings qualified applicants. Of the eight workforce issues examined, San Diego County businesses had the greatest difficulty “recruiting employees who can find adequate housing within a reasonable distance from work”, followed closely by “retaining valuable employees would want to purchase housing within a reasonable distance from work”.

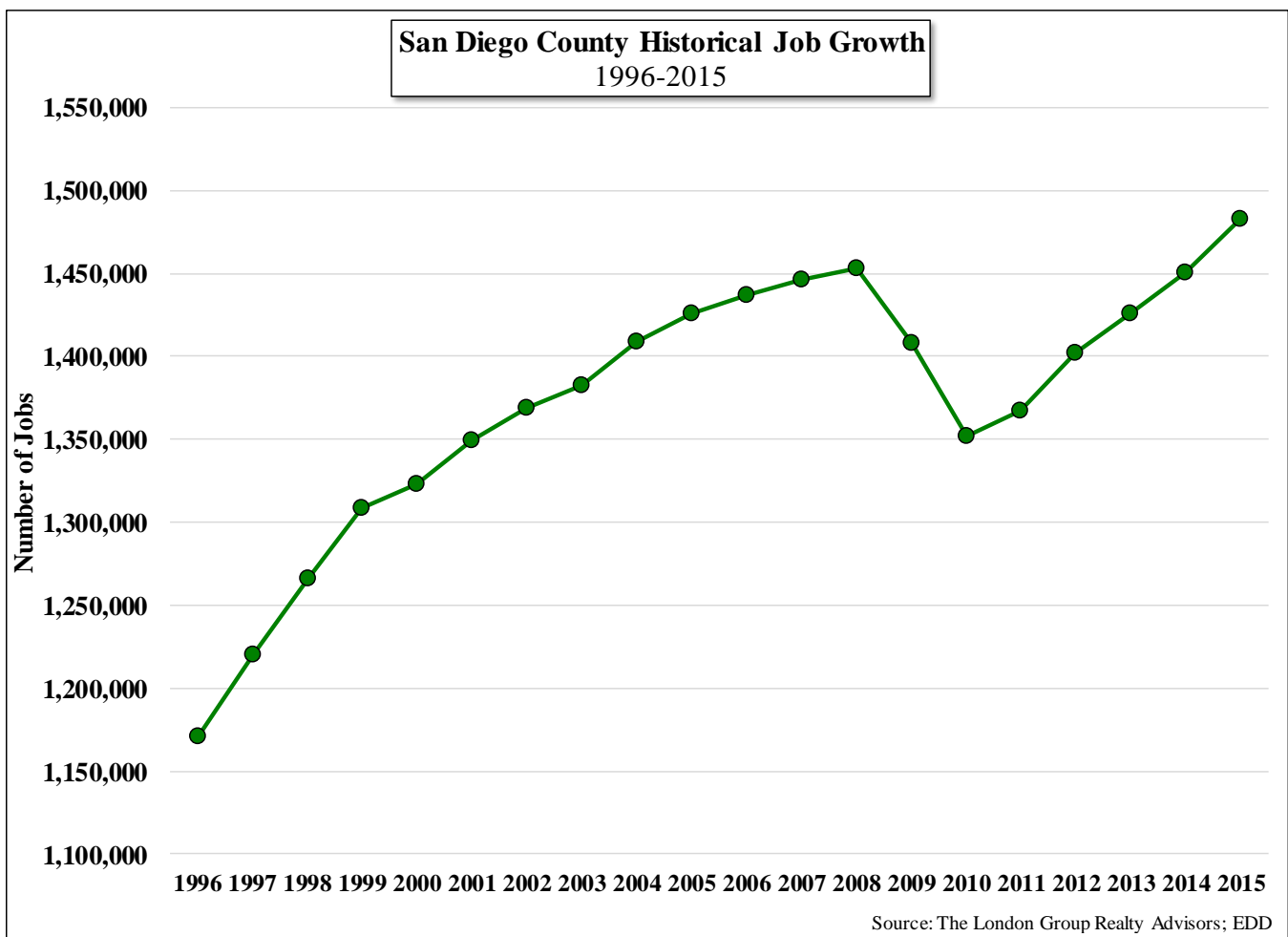


ANALYSIS OF SAN DIEGO REGIONAL GROWTH

Job Growth: County

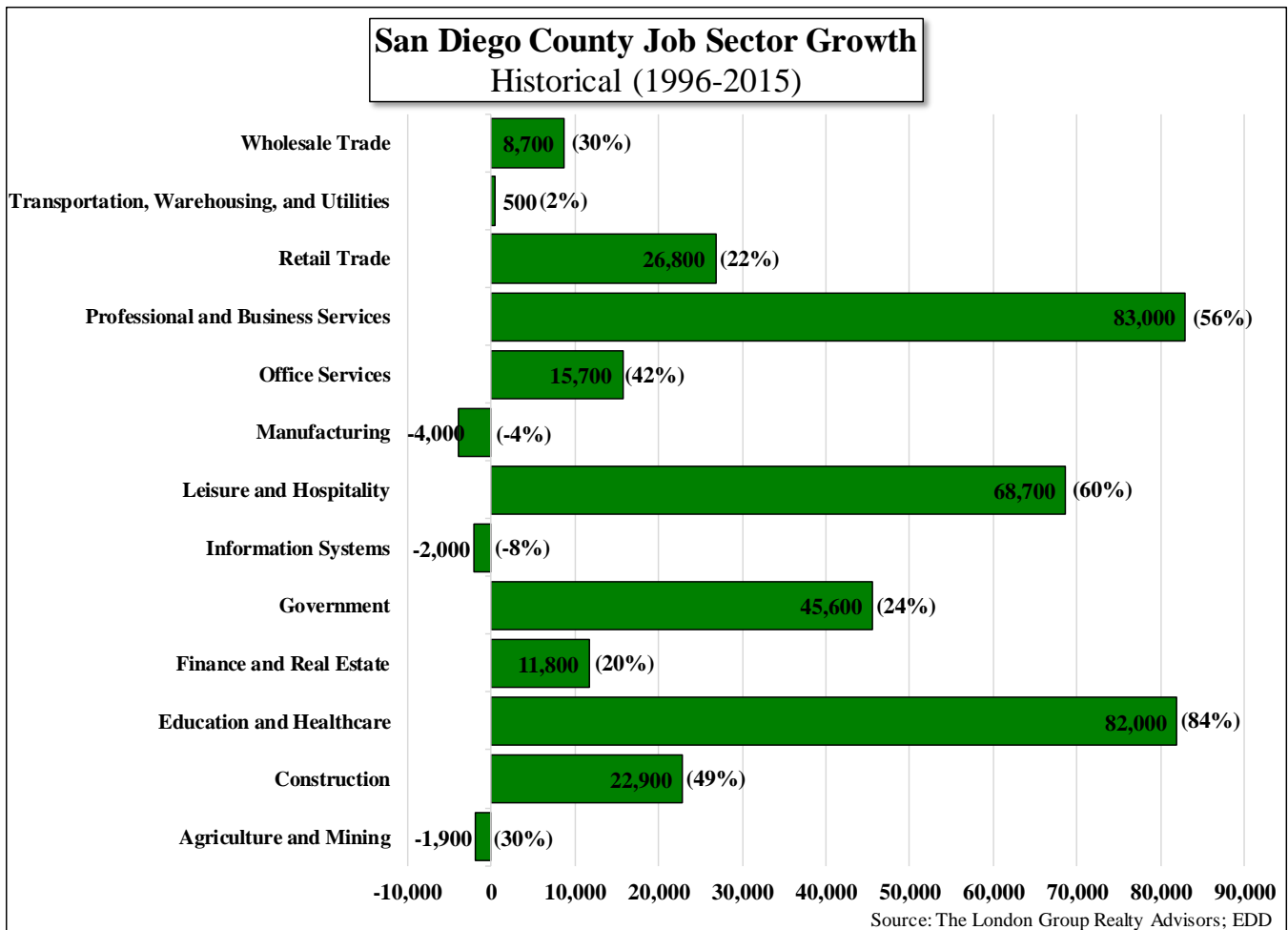
Historical Growth

San Diego County has experienced significant job growth over the past 20 years. Since 1996, the County has added 311,700 jobs (average of 16,405 jobs per year), which is a total increase in the job base of 26.6%. During the 2008 and 2010 recession total job losses amounted to 100,300 jobs. However, employment levels have recently reached a new high, totaling 1,482,500 jobs in 2015.





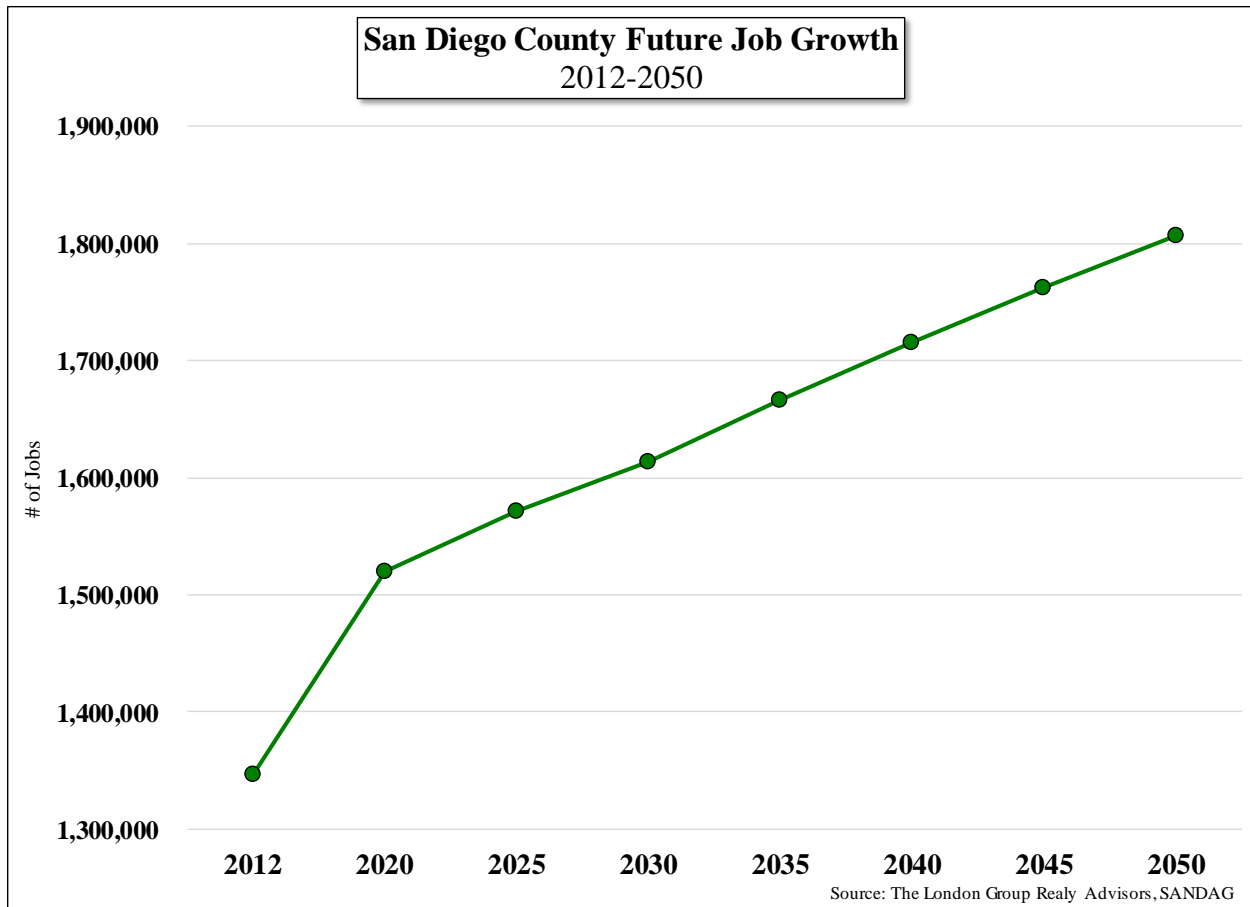
The following chart highlights job growth by sector over the past 20 years, since 1996. The largest job growth occurred in Professional and Business Services (83,000 jobs) and in Education and Healthcare (82,000 jobs). The largest percentage gain was in Education and Health Care, which experienced an 84% increase over the 20-year period. The Transportation, Warehousing, and Utilities, Manufacturing, and Agriculture and Mining sectors all experienced negative or minimal growth from 1996 to 2015. Overall, these growth trends reflect the County's shift to a professional based economy, with an employment base that commands higher salaries.





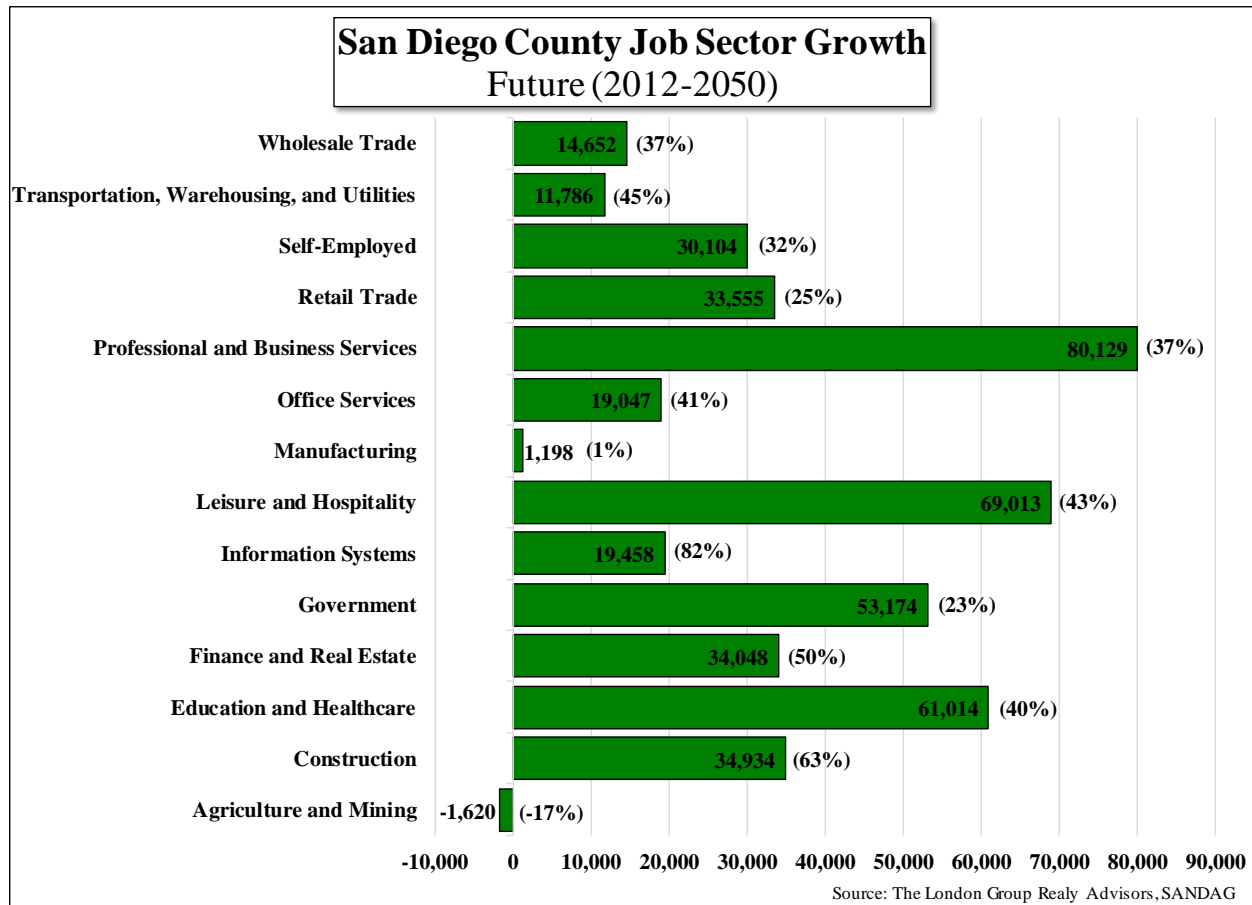
Potential Growth

The following chart depicts SANDAG's potential job growth for San Diego County through 2050. In 2012 there were 1.35 million jobs in the County. This number is expected to grow to 1.8 million by 2050, an increase of 34.2%. There is a significant increase from 2012 to 2020 of with a total of 173,211 jobs added (an annual average of 21,651 new jobs). From 2020 forward, job growth is projected to increase at approximately 9,600 jobs per year.





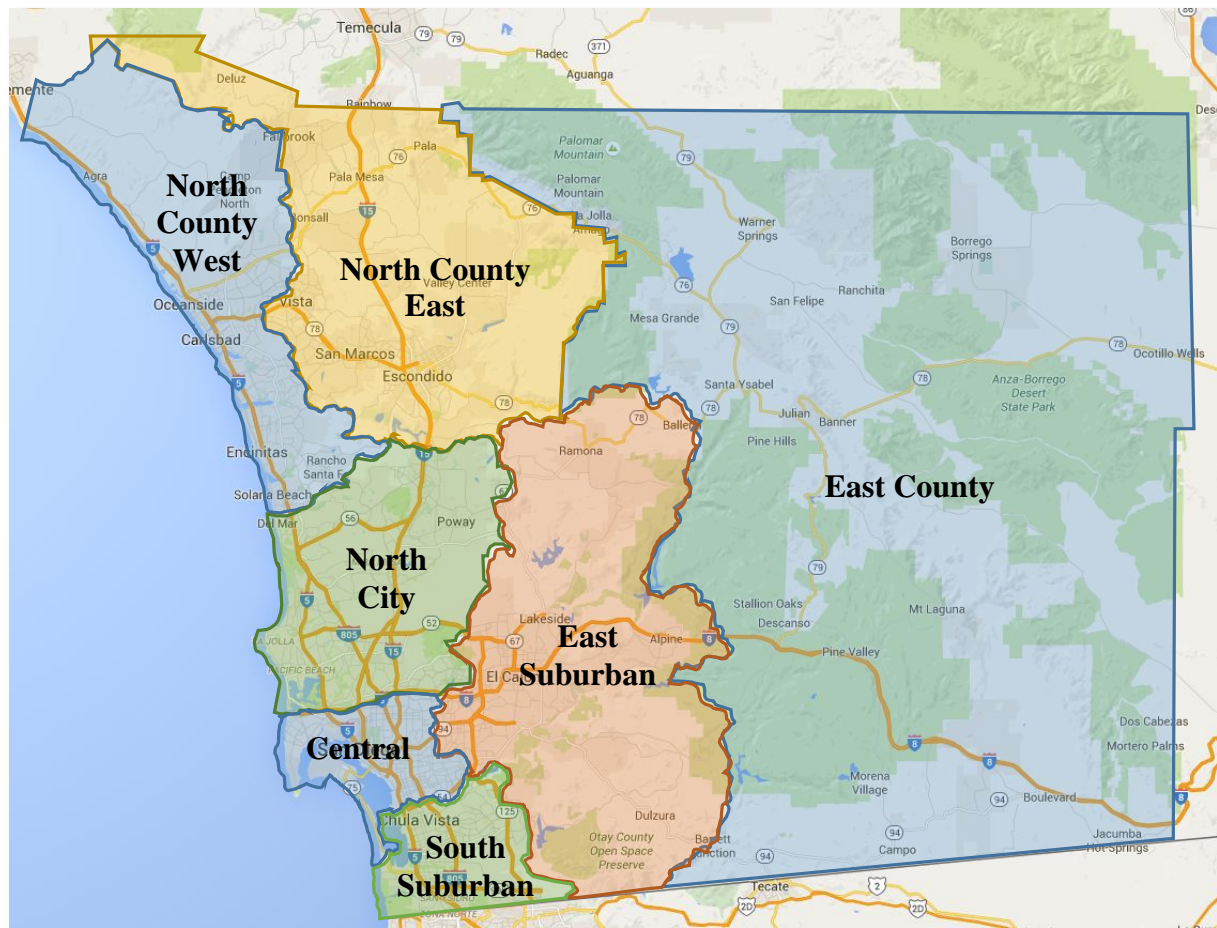
The following chart demonstrates SANDAG's potential job growth by sector in San Diego County. The largest growth is expected to be in Professional and Business Services with the addition of approximately 80,000 new jobs (increasing by 30%). Education and Healthcare, and Leisure and Hospitality, are also projected to experience significant growth, adding approximately 61,000 and 69,000 jobs, respectively. Manufacturing, Agriculture, and Mining are expected to continue to decline or experience limited growth. These growth trends reflect the County's historical shift toward a stronger professional, high-tech and health services based economy with higher paying salaries.





Job Growth: By MSA (Major Statistical Area)

This section analyzes the job sector in each Major Statistical Area (“MSA”) as defined by SANDAG. There are seven MSAs that comprise the County, as depicted in the following map:





Historical Growth

Job Distribution

The purpose of this section is to analyze the historical job growth in San Diego County by MSA from 2000 to 2010. Overall, the County added 22,364 jobs (1.8% increase) during this period, a number that is understated because the time period ends at the bottom of the recession in 2010 after the region had lost approximately 100,000 jobs. Still, the North County West and North City MSAs experienced significant job growth adding approximately 14,500 new jobs each (62% of total growth). Overall, the majority of the job growth occurred in the more suburban MSAs located in the North and South parts of the region.

Historical Job Growth by Region
2000-2010

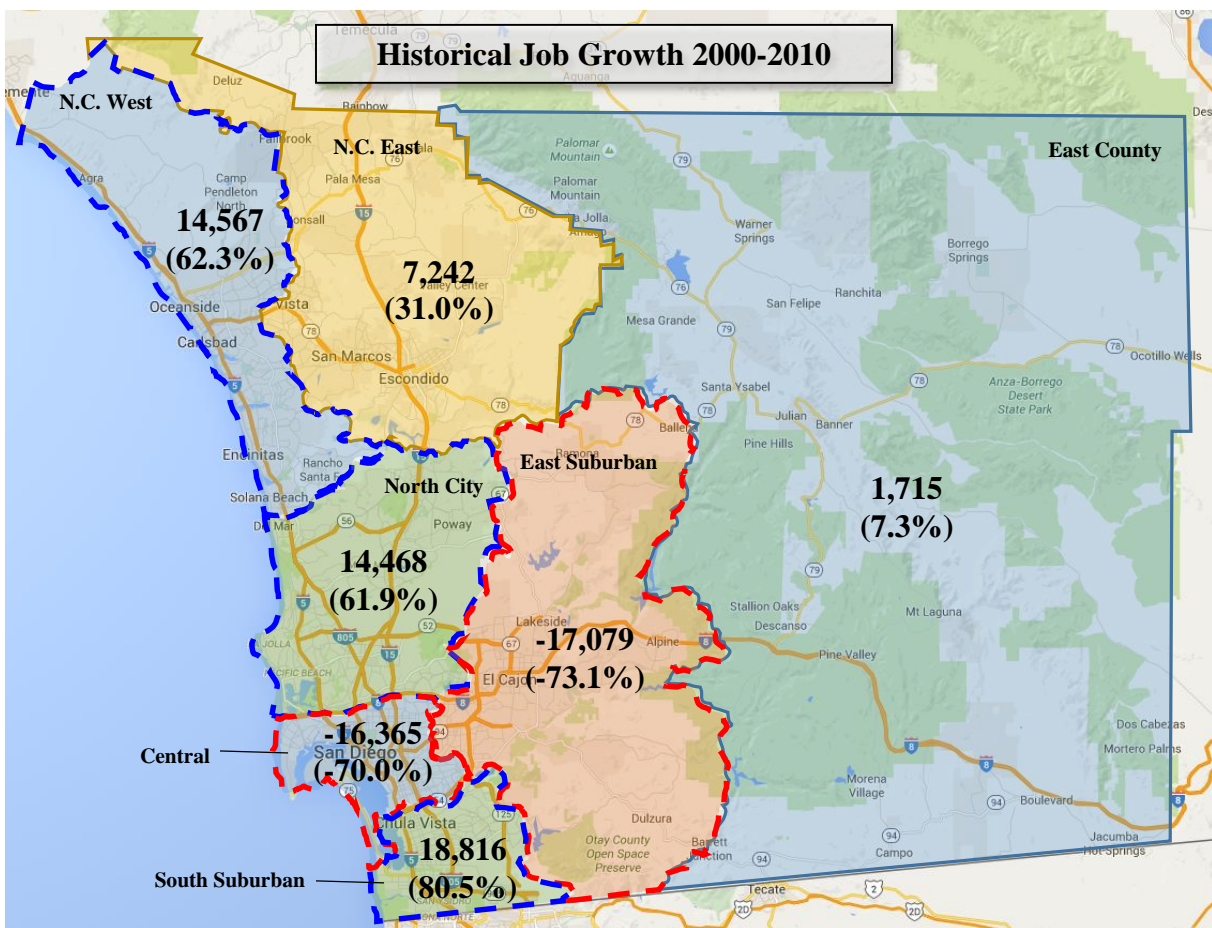
	2000	2010	Total Change	% Change	% of Total Growth
Central	265,489	249,124	-16,365	-6.2%	-70.0%
East County	3,900	5,615	1,715	44.0%	7.3%
East Suburban	142,937	125,858	-17,079	-11.9%	-73.1%
North City	514,160	528,628	14,468	2.8%	61.9%
North County East	137,816	145,058	7,242	5.3%	31.0%
North County West	137,859	152,426	14,567	10.6%	62.3%
South Suburban	85,483	104,299	18,816	22.0%	80.5%
Total	1,287,644	1,311,008	23,364	1.8%	100.0%

Source: The Londong Group Realty Advisors; SANDAG; EDD



The following map is a visual representation of the previous table. The job growth in each MSA and the percentage capture of the unincorporated County are displayed on the map. The areas outlined in blue are MSAs that experienced significant job growth and capture the majority of the County's overall growth.

The MSAs outlined in red are the areas with a significant decrease in jobs between 2000 and 2010. The bulk of the job growth occurred in the southern portion of the County which added nearly 20,000 jobs. The northern coastal MSAs (North County West and North City) also grew significantly. The location of this job growth which took place outside of the city center in the suburban areas of the County.



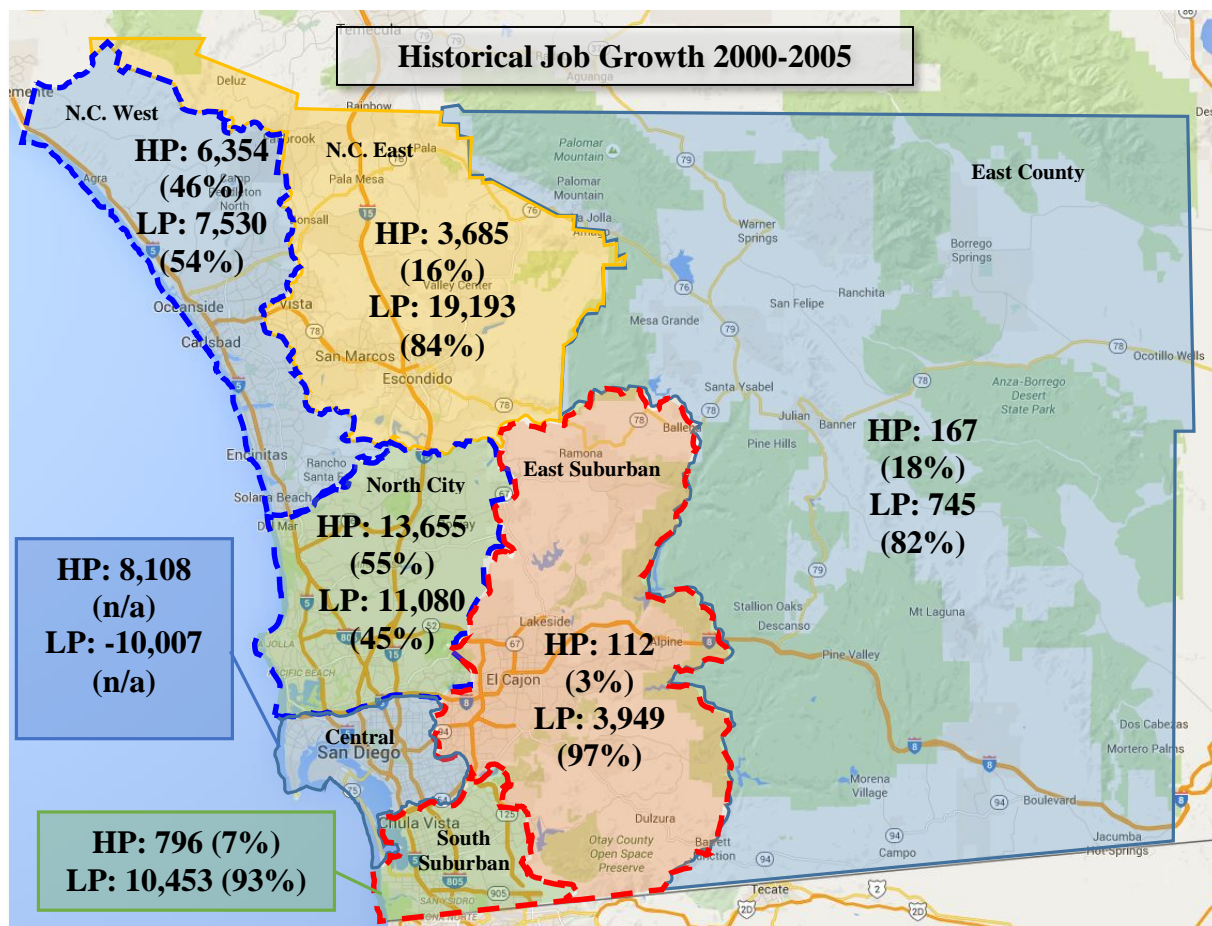


Types of Jobs

The purpose of this section is to understand the “type” of jobs being created in each MSA. We have delineated the job data to demonstrate high paying versus low paying jobs. For details on these job type categories see [Job Types & Salaries](#) in the [Distribution Analysis](#) section of this report.

To analyze the pace of growth in a normalized market, we analyzed the period of 2000 to 2005, which excludes the 2008-2010 recession. During this five-year period the County added a total of 83,338 jobs (excluding self-employed). The high-paying sectors experienced growth of 32,887 jobs (39%) while the lower paying sectors added 50,451 jobs (61%).

Most of the high-paying jobs occurred in the North County West and North City MSA, which combined for a total of approximately 20,000 jobs. The Central MSA added 8,108 high-paying jobs. The balance of the County experienced limited growth in high-paying jobs.





Potential Growth

Job Distribution

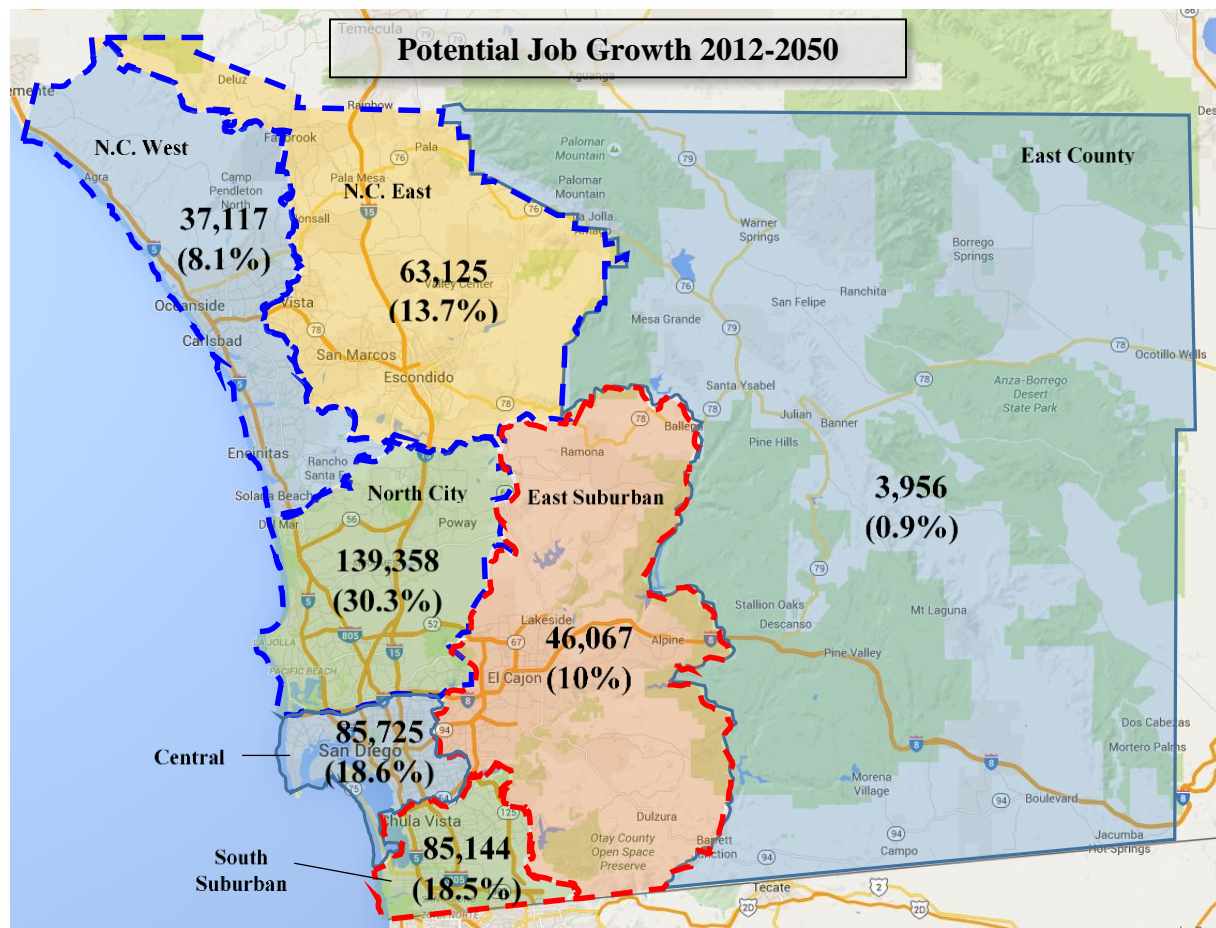
The purpose of this section is to analyze the potential job growth in San Diego County by MSA from 2012 to 2050. Overall, there are 460,492 jobs (34.2% increase) expected to be added countywide, with 30.3% of them coming to the North City MSA. The Central and South Suburban MSAs are also expected to experience significant job growth with just over 85,000 new jobs each.

Future Job Growth by Region 2012-2050 SANDAG					
	2012	2050	Total Change	% Change	% of Total Growth
North County West	161,068	198,185	37,117	23.0%	8.1%
North County East	150,648	213,773	63,125	41.9%	13.7%
North City	540,106	679,464	139,358	25.8%	30.3%
Central	252,629	338,354	85,725	33.9%	18.6%
South Suburban	102,552	187,696	85,144	83.0%	18.5%
East Suburban	133,901	179,968	46,067	34.4%	10.0%
East County	6,065	10,021	3,956	65.2%	0.9%
Total	1,346,969	1,807,461	460,492	34.2%	100.0%

Source: The Londong Group Realty Advisors; SANDAG



The following map depicts the potential job growth in each MSA as well as the percentage capture of the County. The South Suburban MSA is anticipated to experience the greatest percentage expansion, adding 83% more employment. The North City MSA is anticipated to add the most jobs in terms of absolute number at 139,358 jobs, representing 30.3% of total growth.



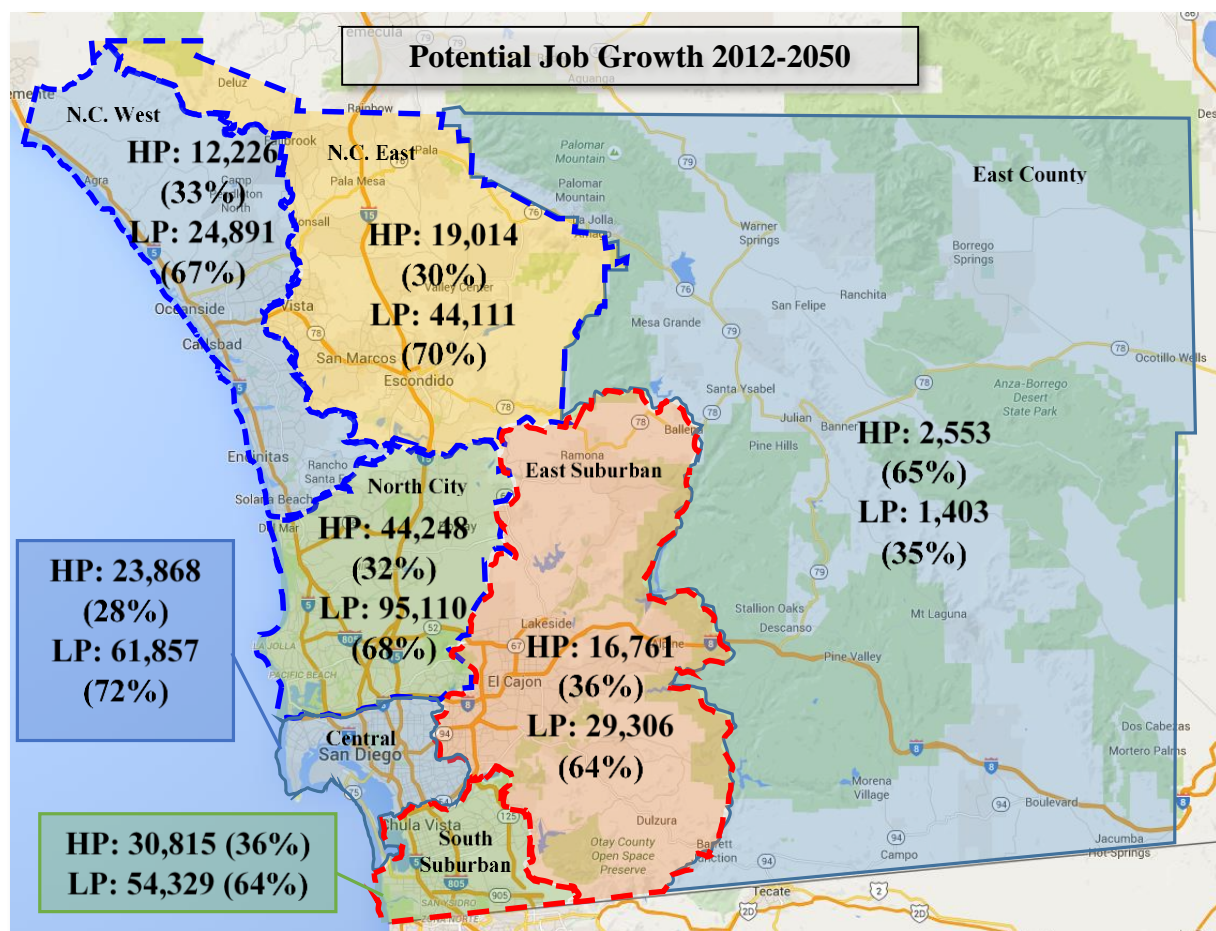


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The purpose of this section is to understand the “type” of jobs being created in each MSA. We have delineated the job data to demonstrate high paying versus low paying jobs. For details on these job type categories see [Job Types & Salaries](#) in the [Distribution Analysis](#) section of this report.

Between 2012 and 2050, there are 460,492 jobs anticipated to be added countywide. Of this amount a total of 149,485 jobs (32.5% of growth) is anticipated to be in high-paying sectors. The balance of and 311,007 jobs (67.5% of growth) is anticipated to be in lower-paying sectors.

In terms of geographical distribution, the North County and North Cities MSAs (outlined in blue in the following map) is projected to add 75,488 high-paying jobs while the South and East Suburban MSAs are expected to add only 47,576. This demonstrates that there is geographical imbalance in the region with a greater amount of higher paying jobs in the northern part of the County (north of I-8) relative to Central and South County.





Job Growth: By City

Historical Growth

While we have detailed the historical growth on a Countywide basis and for each MSA, historical job growth data at the city level is not available from the California Employment Development Department. The job figures at the city level tracks civilian employment and the unemployment rate, which is merely a survey and estimate of employment. We have utilized actual non-farm employment payroll counts in the following analysis, which ties directly into SANDAG's employment figures.



Potential Growth

The following table details the potential job growth for each City in the San Diego region. The City of San Diego is anticipated to add the greatest number of jobs (228,541 jobs), accounting for nearly 50% of regional job growth. The other cities experiencing significant job growth are Chula Vista (49,210 jobs) and the unincorporated areas of San Diego (47,665 jobs).

Future Job Growth by City 2012-2050 SANDAG					
	2012	2050	Total Change	% Change	% of Total Growth
Carlsbad	66,279	85,757	19,478	29.4%	4.2%
Chula Vista	65,340	114,550	49,210	75.3%	10.7%
Coronado	12,377	12,536	159	1.3%	0.0%
Del Mar	4,521	4,726	205	4.5%	0.0%
El Cajon	38,393	49,825	11,432	29.8%	2.5%
Encinitas	26,165	29,551	3,386	12.9%	0.7%
Escondido	48,874	59,111	10,237	20.9%	2.2%
Imperial Beach	3,421	4,613	1,192	34.8%	0.3%
La Mesa	25,233	36,552	11,319	44.9%	2.5%
Lemon Grove	6,774	8,656	1,882	27.8%	0.4%
National City	22,270	34,736	12,466	56.0%	2.7%
Oceanside	41,974	53,992	12,018	28.6%	2.6%
Poway	30,851	37,173	6,322	20.5%	1.4%
San Diego	742,718	971,259	228,541	30.8%	49.6%
San Marcos	37,608	64,328	26,720	71.0%	5.8%
Santee	14,519	18,570	4,051	27.9%	0.9%
Solana Beach	7,568	8,803	1,235	16.3%	0.3%
Unincorporated Vista	116,238	163,903	47,665	41.0%	10.4%
Total	1,346,963	1,807,455	460,492	34.2%	100.0%

Source: The London Group Realty Advisors, SANDAG



Housing Growth: County

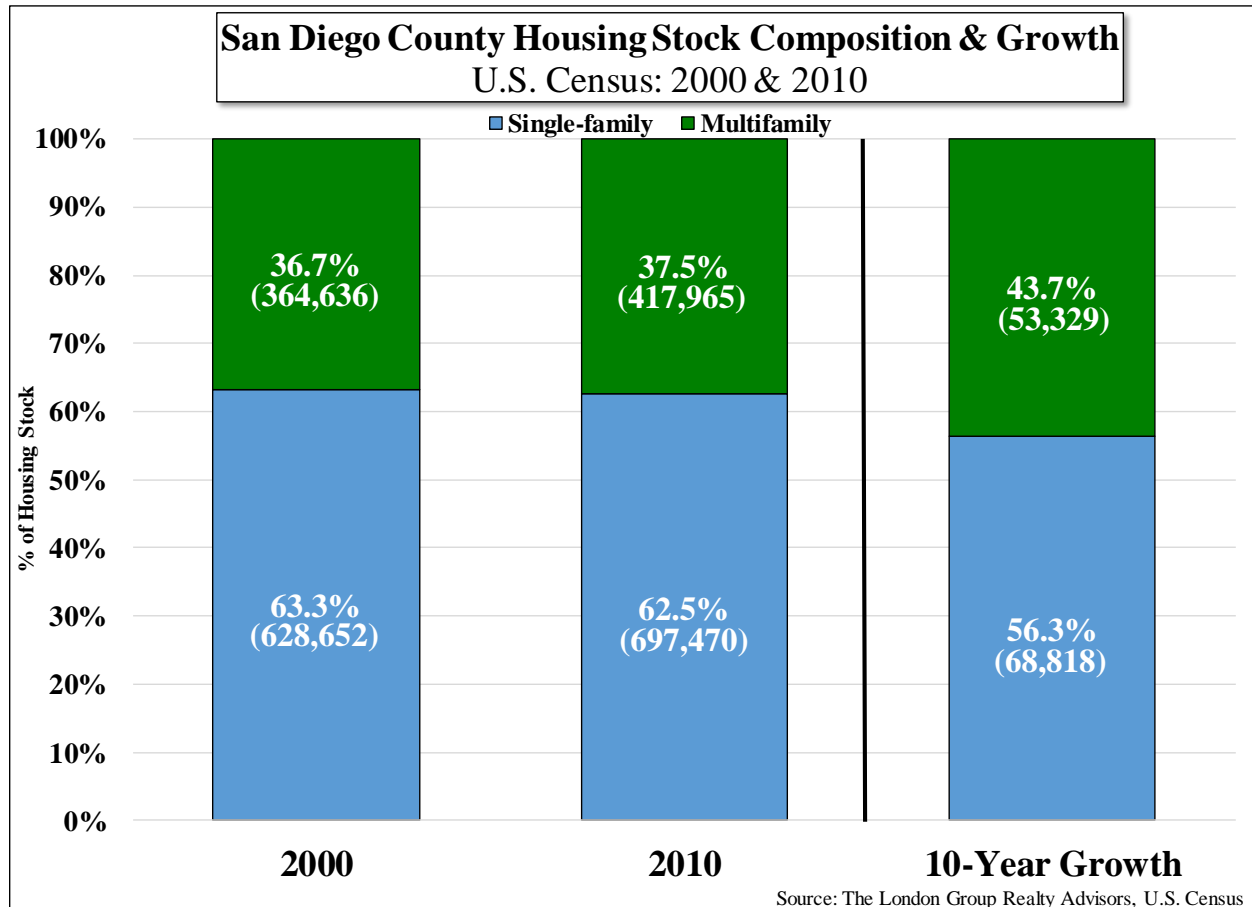
This section analyzes the historical and potential future housing growth as detailed in SANDAG's aggregation of local plans throughout San Diego County. In this section, we analyze the County's historical and projected growth patterns as well as the composition and type of housing.

Historical Growth (Census)

San Diego County's current housing stock is predominantly comprised of single-family homes. However, the rate of multifamily construction is shifting the County's overall housing composition. Although the number of multifamily homes constructed between 2000 and 2010 was outpaced by single-family home construction, multifamily homes comprise an increased share of the housing stock.

The following chart details the housing growth from 2000 to 2010. In 2000, approximately 63% of the existing housing units in the County were single-family homes. The balance of approximately 37% were multifamily units. During this 10-year period, the County added 122,147 housing units³, or 12,215 units per year. The composition of this housing stock was still predominantly single-family (56%) compared to multifamily (44%).

³ Includes single-family and multifamily units. Our analysis excludes mobile home units.





Historical Growth (Building Permits)

Another data source for analyzing housing growth is building permit activity. This section analyzes annual building permits achieved throughout the County.

The following table examines housing growth in San Diego County over various timeframes over the last 20 years. During the last real estate cycle from 1996 to 2007, San Diego County's new building permits totaled 12,753 units per year. Since the economic downturn in 2008, building permit activity has averaged 5,968 units per year. However, if we exclude the extreme down years in the economy (2008-2011), building permit activity averaged 7,644 units per year since 2012. This is a decrease of 40.6% compared to the last real estate cycle of 1996-2007.

There has also been a dramatic shift in the type of housing being constructed. Between 1996 and 2007, 61.4% of the building permits were single-family homes (7,837 units per year). However, between 2012 and 2015 only 34.2% (2,613 units per year) of the new building permits are single-family homes.

San Diego County Housing Stock Growth 1996-2015						
	1996-2007		2008-2015		2012-2015	
	# of Units	Annual Avg.	# of Units	Annual Avg.	# of Units	Annual Avg.
Single-family	94,043	7,837	19,101	2,388	10,450	2,613
Multifamily	58,998	4,917	28,639	3,580	20,126	5,032
Total*	153,041	12,753	47,740	5,968	30,576	7,644

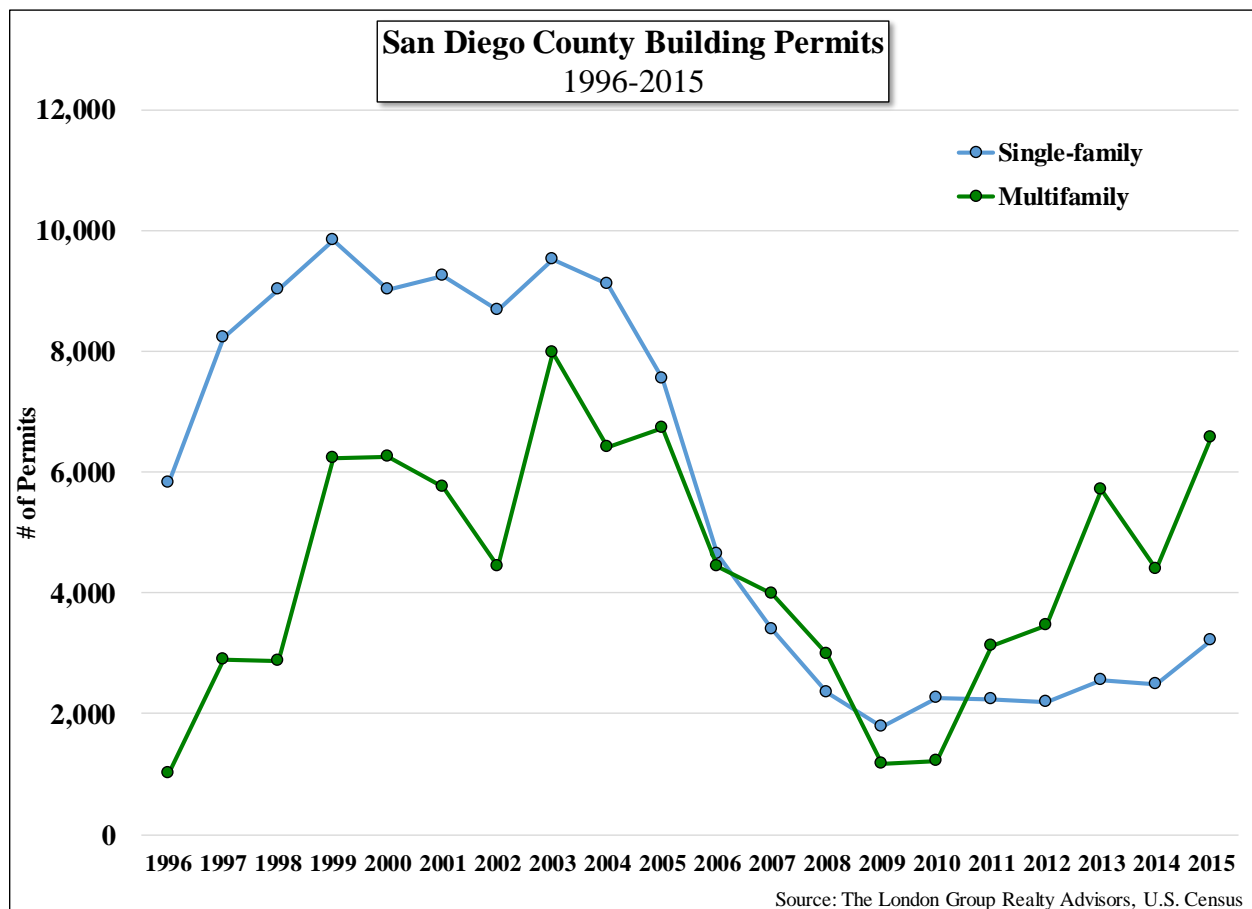
*Totals may not add up due to rounding

Source: The London Group Realty Advisors, U.S. Census



The following chart details the annual permits by year from 1996 through 2015. Up through 2006, single-family permits continually outpaced multifamily permits. At the market peak of 2005-2006, housing permits began to fall due to the recession. However, as new housing development resumed steady growth beginning in 2011, multifamily has since outpaced single-family by nearly double the pace.

There has indeed been a shift in the composition of housing growth. The most recent 2015 permit distribution for single-family was 66.3% below the 2003 peak. This has put significant pressure on single-family home prices because the market is now delivering approximately 2,600 single-family homes per year compared to 7,800 per year during the last real estate cycle.

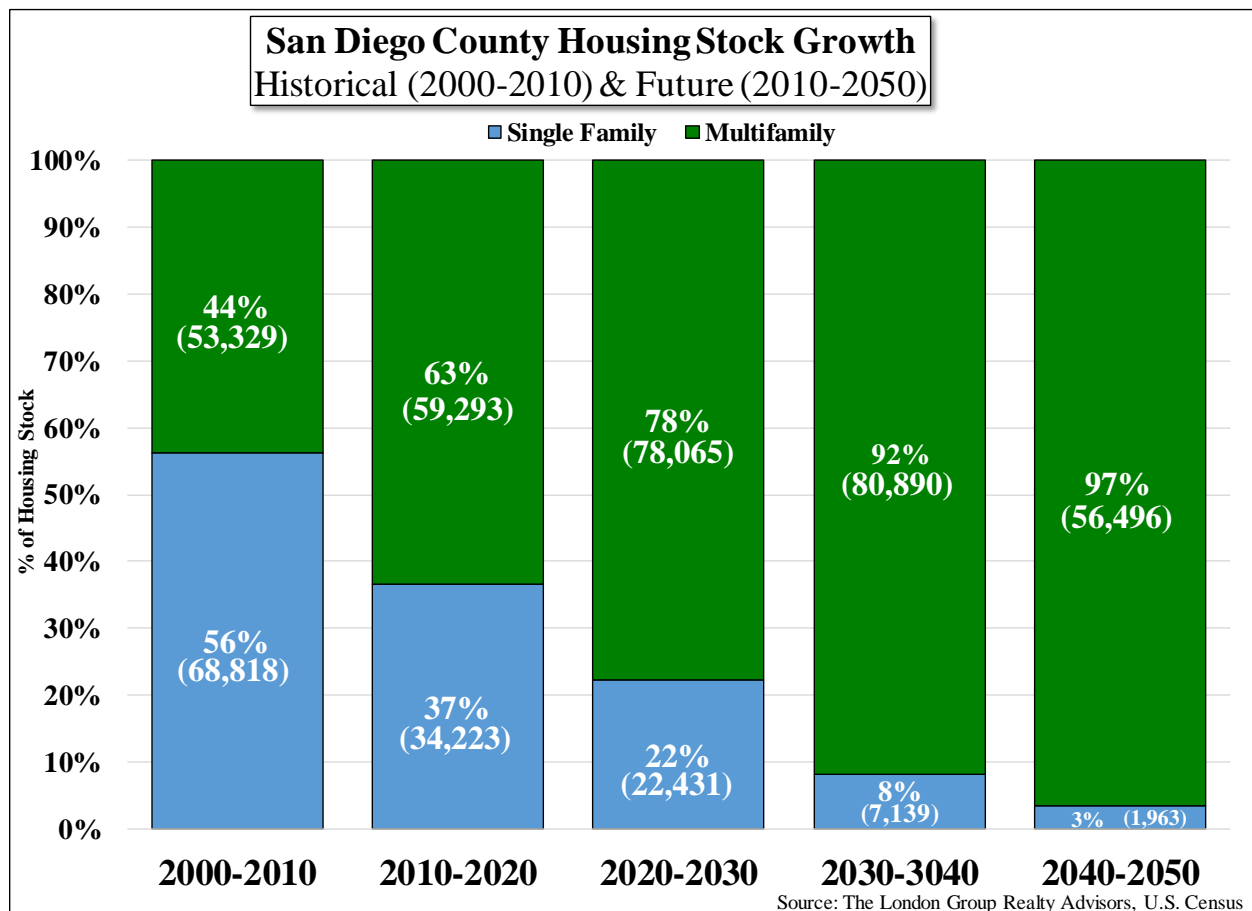




Potential Growth

According to SANDAG's aggregation of local plans from the cities and County, our region could add as many as 340,500 new housing units between 2010 and 2050 (40 years). Approximately 275,000 units (81%) would be multifamily units, but only 66,000 single-family homes (19%). This is a significant decline in single-family home production. The rate of growth assumes only 1,500 new single-family homes per year compared to the 7,800 homes that were achieved annually during the last real estate cycle.

The assumed potential growth of multifamily units will dramatically shift the composition of the housing market in San Diego.

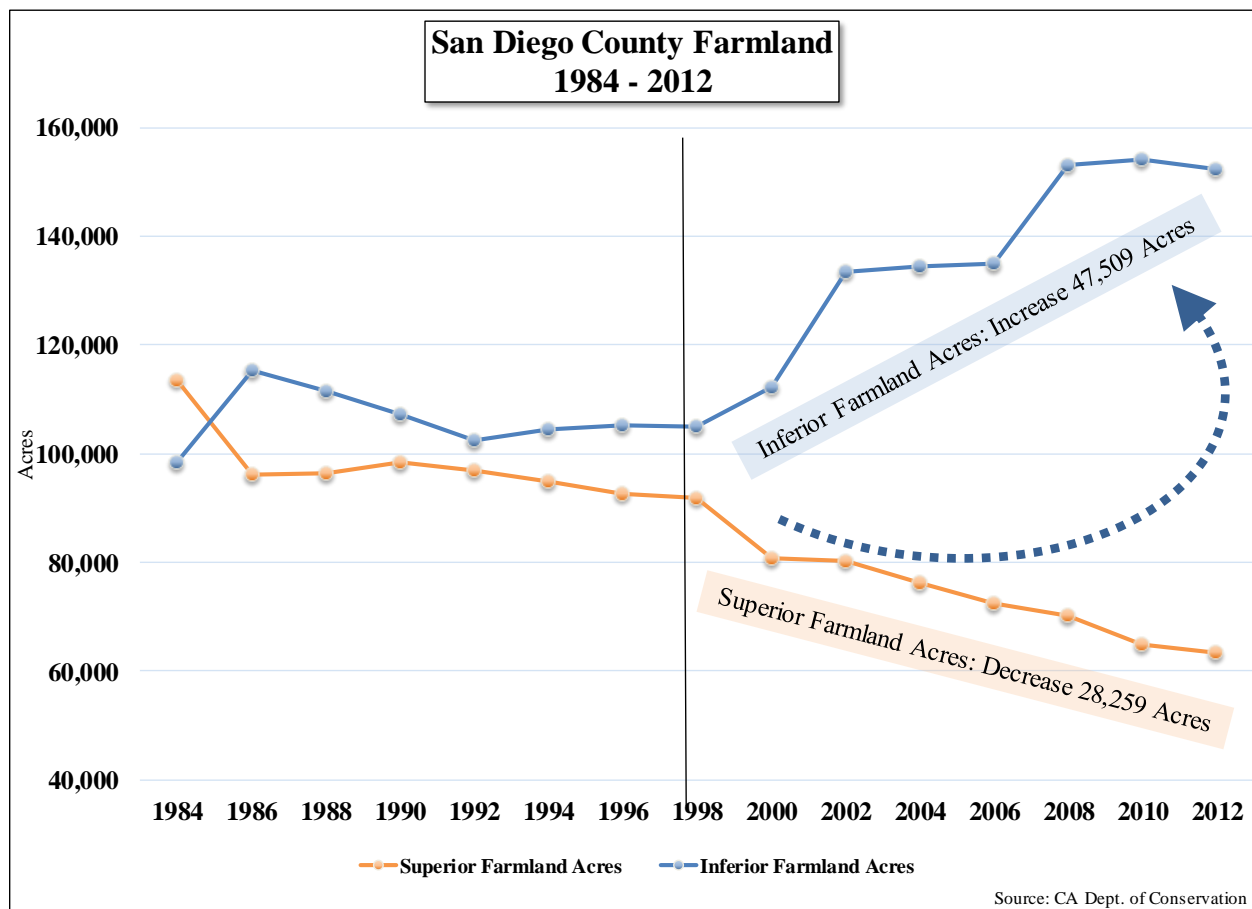




Increase in Inferior Farmland

The amount of farmland that is considered “inferior” for agricultural purposes has been increasing throughout San Diego County. The following chart details the inventory of both inferior and superior farmland, as defined by the California Department of Conservation. Superior farmland is considered the best combination of physical and chemical features to sustain long-term agricultural production. Inferior farmland is land with inferior characteristics in terms of quality and soil. The inferior farmland is not envisioned as sustainable long-term production and is typically comprised of acreage that is either limited producing or fallow.

As the chart details, since 1998 inferior farmland has increased by 47,509 acres. Superior farmland has decreased by 28,259 acres.





Housing Growth: By MSA

The purpose of this section is to analyze the housing growth in each of the MSA subregions. The following maps depict the historical housing growth (2000-2010) and the potential housing growth (2012-2050). Our analysis addresses the composition of each housing type in each MSA.

Historically, the majority of MSAs experienced higher single-family growth compared to multifamily. In all but two MSAs (Central and North City), single-family home growth outpaced multifamily units. In the far north county (North County West and North County East), single-family homes represented 74% and 76% of growth, respectively. A total of 29,214 single-family homes were added in this part of the County during 2000-2010, which represented 42% of total single-family growth in the region during the 10-year period. North County West and East accommodated two out of every five housing units that were added to the region. North County has been, and continues to be, a very desirable place for single-family living, which is particularly driven by the significant number of higher paying jobs located north of Interstate 8 (see [Historical Growth \(Census\)](#)).

However, the growth potential for the region reflects a different approach to accommodating housing growth – it is mostly driven by multifamily production. According to SANDAG's aggregation of local plans, all but two MSAs will add housing mainly comprised of multifamily units. The only exceptions are East Suburban and East County, which could add a higher ratio of single-family homes.

The following bullet points further highlight the MSA maps and data that follows:

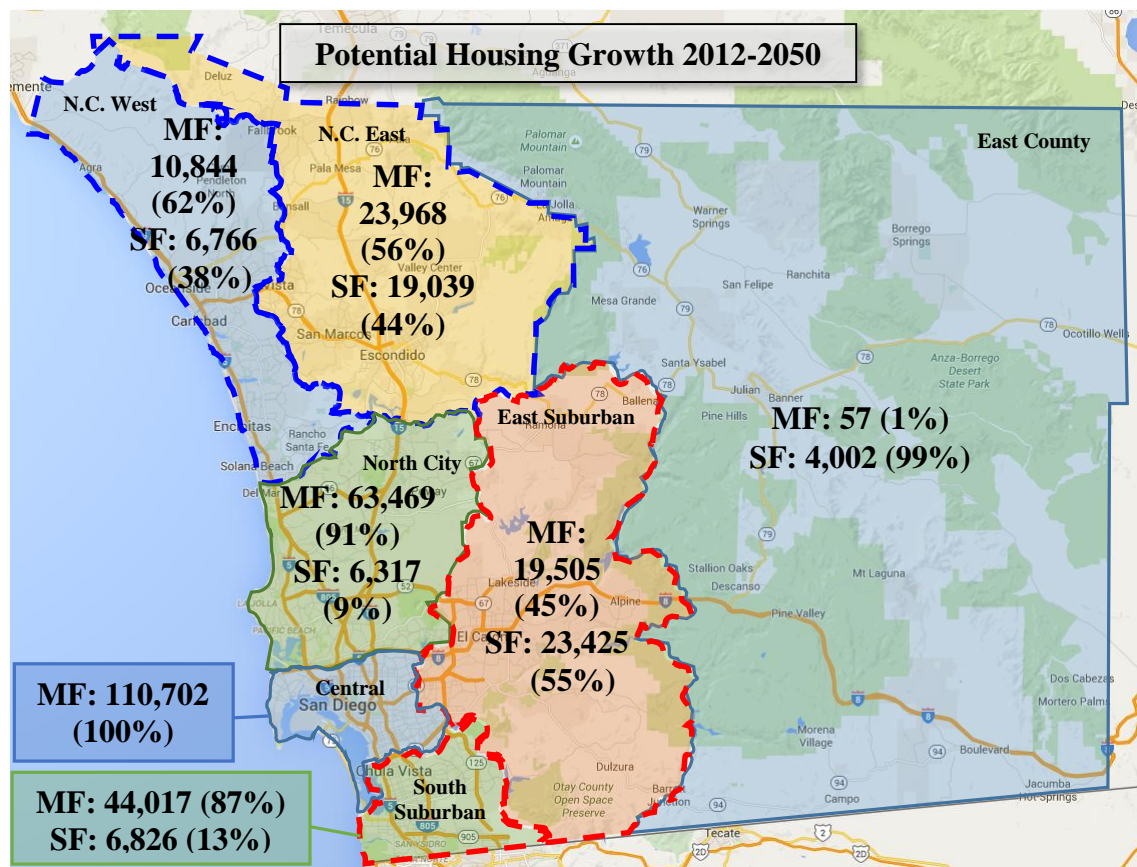
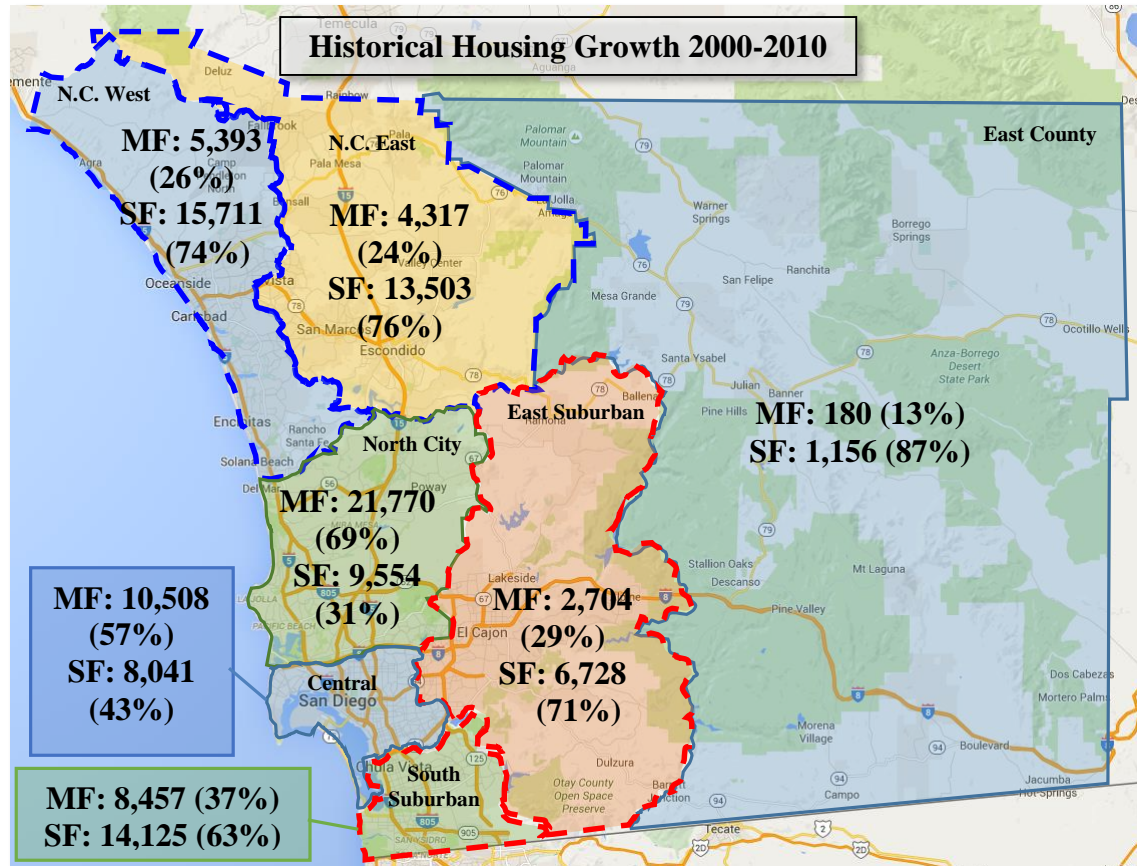
- The MSAs in the north part of the County were the largest contributors of single-family home growth between 2000 and 2010. During this time, approximately 75% of the 38,924 housing units added by the North County West and East MSAs were single-family homes (29,214 single-family homes). This concentration of 75% single-family homes is significantly higher than the countywide average of 56.3%.
- However, the aggregation of local plans suggests that single-family home growth will decline significantly from 2012 to 2050. Single-family growth would account for just 38% of growth in the North County West MSA and 44% of growth in the North County East MSA. This is a significant shift that will reduce the supply and availability of single-family homes in the North County. Due to this shift, we anticipate single-family home values to experience higher rates of appreciation compared to other parts of the County.
- The South Suburban MSA is also anticipated to experience a similar shift to multifamily. Historically, 63% of this MSA's growth was single-family homes. However, the aggregation of local plans suggests that single-family housing growth will decrease significantly to only 13% of total growth. The supply and availability of single-family homes in the South Suburban MSA will decline significantly.
- The East Suburban MSA is the only area anticipated to add a significant amount of single-family homes. Historically, single-family homes accounted for 71% of overall growth in



the East Suburban MSA, largely owed to the development of eastern Chula Vista. However, the magnitude of growth was rather nominal. From 2000 to 2010, East Suburban only added 6,728 single-family homes, well below the pace of other MSAs. According to the aggregation of local plans, the East Suburban will be the major supplier of single-family homes with anticipated growth of 23,425 homes - representing 55% of total County single-family home growth.

This aggregation of local plans suggests a major chasm between the geographical distribution of historical growth and future growth. Historically, the majority of single-family housing growth occurred in the North County. The aggregation of local plans suggests that single-family growth will be pushed to the southeast portions of the County.

The maps on the following page provide a visual representation of the housing growth shift. We have also included several charts that further analyze each MSA in the [Appendix \(Anticipated Housing Growth by MSA\)](#).





Housing Growth: By City

Historical Growth (Building Permits)

The following chart details housing growth by housing type in each jurisdiction between 1996 and 2015. The majority of the housing growth (41.8% of region) has taken place in the City of San Diego (largest geography) where building permits totaled approximately 27,000 single-family homes and 57,000 multifamily homes.

The next largest capture for growth was Chula Vista, which increased its housing stock by approximately 30,000 units (19,000 single-family and 10,500 multifamily).

The northern part of the County added approximately 28,000 single-family homes in the cities of Carlsbad, Oceanside and San Marcos, which represented approximately 25% of single-family growth. This is an important distinction because 1 in 4 housing units added over the last 20 years has been captured by these three north county cities.

The unincorporated area of the County has historically been a key subregion for supplying single-family homes. The unincorporated area accounted for 20.1% of total single-family home growth during the past 20 years, adding approximately 22,800 homes since 1996, second to the City of San Diego.



San Diego County Housing Stock Growth by Product Type
Total Units Added
 1996-2015

	<u>Single Family</u>		<u>Multifamily</u>		<u>Total</u>	
	<u># of Units Added</u>	<u>% of Growth</u>	<u># of Units Added</u>	<u>% of Growth</u>	<u># of Units Added</u>	<u>% of Growth</u>
Carlsbad	13,695	12.1%	2,636	3.0%	16,331	8.1%
Chula Vista	18,810	16.6%	10,475	12.0%	29,285	14.6%
Coronado	711	0.6%	180	0.2%	891	0.4%
Del Mar	63	0.1%	0	0.0%	63	0.0%
El Cajon	1,128	1.0%	0	0.0%	1,128	0.6%
Encinitas	3,258	2.9%	432	0.5%	3,690	1.8%
Escondido	4,056	3.6%	1,345	1.5%	5,401	2.7%
Imperial Beach	317	0.3%	98	0.1%	415	0.2%
La Mesa	581	0.5%	918	1.0%	1,499	0.7%
Lemon Grove	271	0.2%	158	0.2%	429	0.2%
National City	460	0.4%	720	0.8%	1,180	0.6%
Oceanside	6,646	5.9%	2,470	2.8%	9,116	4.5%
Poway	1,173	1.0%	482	0.5%	1,655	0.8%
San Diego	27,151	24.0%	56,807	64.8%	83,958	41.8%
San Marcos	7,846	6.9%	5,698	6.5%	13,544	6.7%
Santee	1,952	1.7%	601	0.7%	2,553	1.3%
Solana Beach	296	0.3%	28	0.0%	324	0.2%
Unincorporated	22,797	20.1%	2,995	3.4%	25,792	12.8%
Vista	1,933	1.7%	1,594	1.8%	3,527	1.8%
Total	113,144	100%	87,637	100%	200,781	100%

Source: The London Group Realty Advisors, U.S. Census



Potential Growth

This section details historical housing growth (building permits) and the SANDAG aggregation of potential growth based on the various general plans and housing elements in each jurisdiction. Overall, the majority of cities are anticipated to shift housing growth from single-family to multifamily, which is an immediate fundamental shift when compared to historical growth patterns. The following bullet points summarize the table and chart that follow:

- The cities in the northern part of the County (Carlsbad, Encinitas, Escondido, Oceanside, San Marcos, and Vista) have historically been the largest contributors to single-family home growth across the County. These cities are anticipated to drastically shift their housing growth to mainly multifamily. This shift will have a significant impact on these regions: a major attractor to these cities has been the availability of single-family homes. As the aggregation of local plans demonstrates a repositioning of the growth composition, many potential buyers who continue to prefer single-family dwellings will have to live further away (e.g. South County, Unincorporated or Temecula/Murrieta) where single-family homes are available and in their price range.
- Poway and the unincorporated area are the only two areas that are not anticipated to significantly shift their housing growth composition. These two areas will present the greatest opportunity for those wishing to purchase a new, single-family home in the future.
- Chula Vista was one of the largest contributors to single-family home growth between 1996 and 2015, adding approximately 19,000 single-family units, nearly 1,000 annually. From 2016 to 2050, the City is not anticipated to add more than 3,216 single-family homes (approximately 95 single-family homes annually). However, the City is anticipated to increase multifamily housing by as much as 26,000 units (89% of total growth).
- The City of San Diego was the largest contributor of multifamily units from 1996 to 2015. In the past 20 years, the City has added approximately 56,000 multifamily units. However, during this time the City also added approximately 27,000 single-family homes (32% of total growth). Local plans demonstrate a shift of the growth to exclusively multifamily. Between 2016 and 2050, the City of San Diego is anticipated to add as many as 180,000 multifamily units.

The vast majority of housing growth is anticipated to be multifamily and the only areas to provide a substantial amount of single-family homes are in the unincorporated areas, further away from job centers and places of work. Regardless of historical growth patterns, all other cities in San Diego County are expected to see multifamily units as the main composition of growth. This dramatic shift in the composition and location of the supply is likely to create a shortage of single-family homes in those areas, potentially bidding up home prices and exasperating commuting patterns to work.



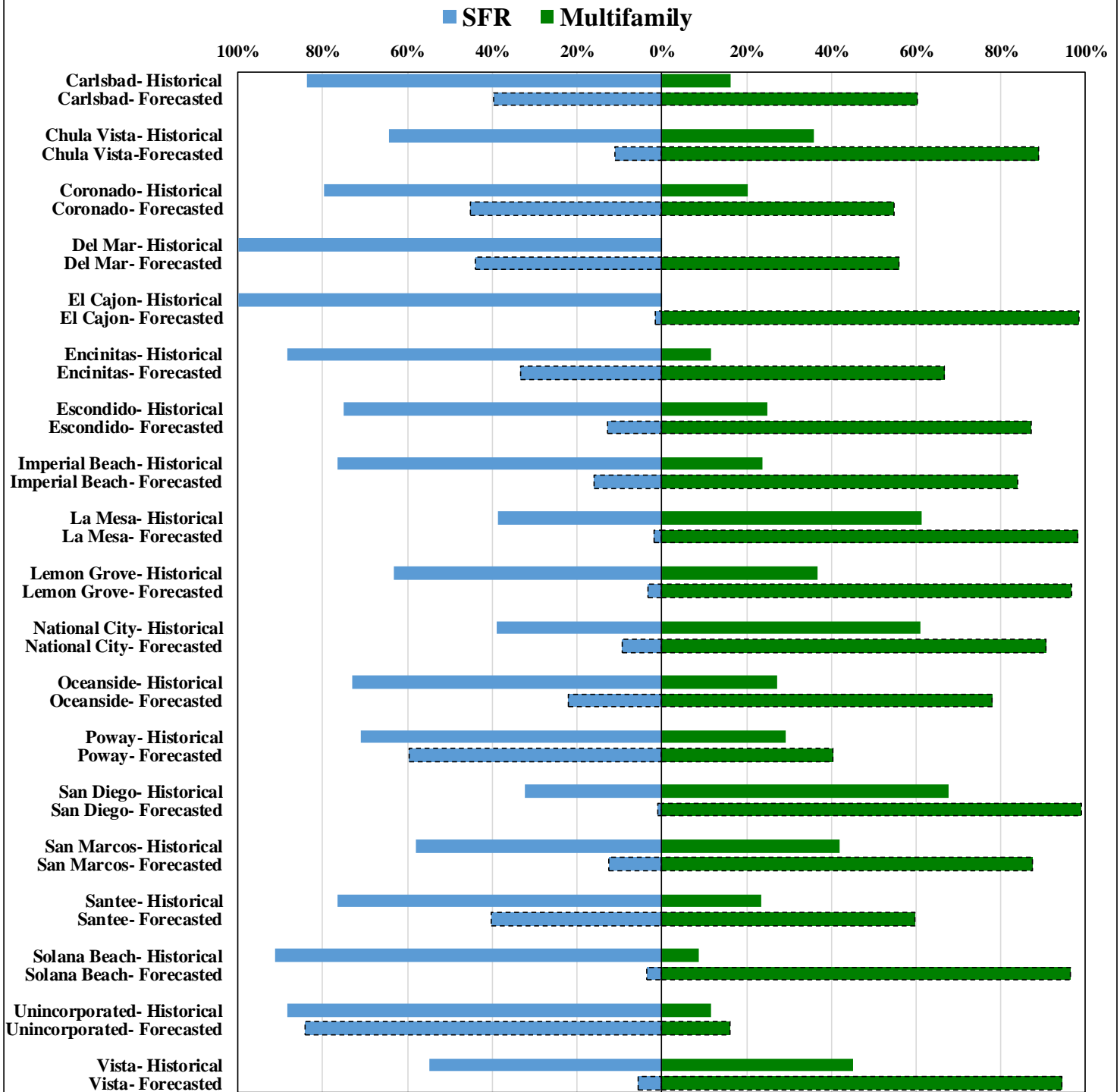
Historical and Potential Housing Growth by Type
U.S. Census (1996-2015) & SANDAG (2016-2050)

	Historical (1996-2015)				Potential (2016-2050)			
	<u>Single-family</u>		<u>Multifamily</u>		<u>Single-family</u>		<u>Multifamily</u>	
	Total Growth	% of Growth	Total Growth	% of Growth	Total Growth	% of Growth	Total Growth	% of Growth
Carlsbad	13,695	83.9%	2,636	16.1%	1,682	39.7%	2,555	60.3%
Chula Vista	18,810	64.2%	10,475	35.8%	3,216	11.0%	26,018	89.0%
Coronado	711	79.8%	180	20.2%	-242	-465.4%	294	565.4%
Del Mar	63	100.0%	0	0.0%	-15	-375.0%	19	475.0%
El Cajon	1,128	100.0%	0	0.0%	-74	-1.5%	5,149	101.5%
Encinitas	3,258	88.3%	432	11.7%	546	33.4%	1,089	66.6%
Escondido	4,056	75.1%	1,345	24.9%	996	12.9%	6,708	87.1%
Imperial Beach	317	76.4%	98	23.6%	-406	-23.6%	2,123	123.6%
La Mesa	581	38.8%	918	61.2%	144	1.9%	7,638	98.1%
Lemon Grove	271	63.2%	158	36.8%	-60	-3.6%	1,706	103.6%
National City	460	39.0%	720	61.0%	-931	-11.5%	8,994	111.5%
Oceanside	6,646	72.9%	2,470	27.1%	1,180	22.0%	4,173	78.0%
Poway	1,173	70.9%	482	29.1%	736	59.5%	500	40.5%
San Diego	27,151	32.3%	56,807	67.7%	-1,646	-0.9%	178,985	100.9%
San Marcos	7,846	57.9%	5,698	42.1%	1,032	12.5%	7,233	87.5%
Santee	1,952	76.5%	601	23.5%	1,469	40.2%	2,185	59.8%
Solana Beach	296	91.4%	28	8.6%	-23	-3.9%	609	103.9%
Unincorporated	22,797	88.4%	2,995	11.6%	41,545	84.0%	7,905	16.0%
Vista	1,933	54.8%	1,594	45.2%	526	5.7%	8,679	94.3%
Total	113,144	56.4%	87,637	43.6%	49,675	15.4%	272,562	84.6%

Source: The London Group Realty Advisors, U.S. Census, SANDAG



Historical and Potential Housing Growth by Type Historical (1996-2015) & Potential (2016-2050)



Source: The London Group Realty Advisors, U.S. Census, SANDAG

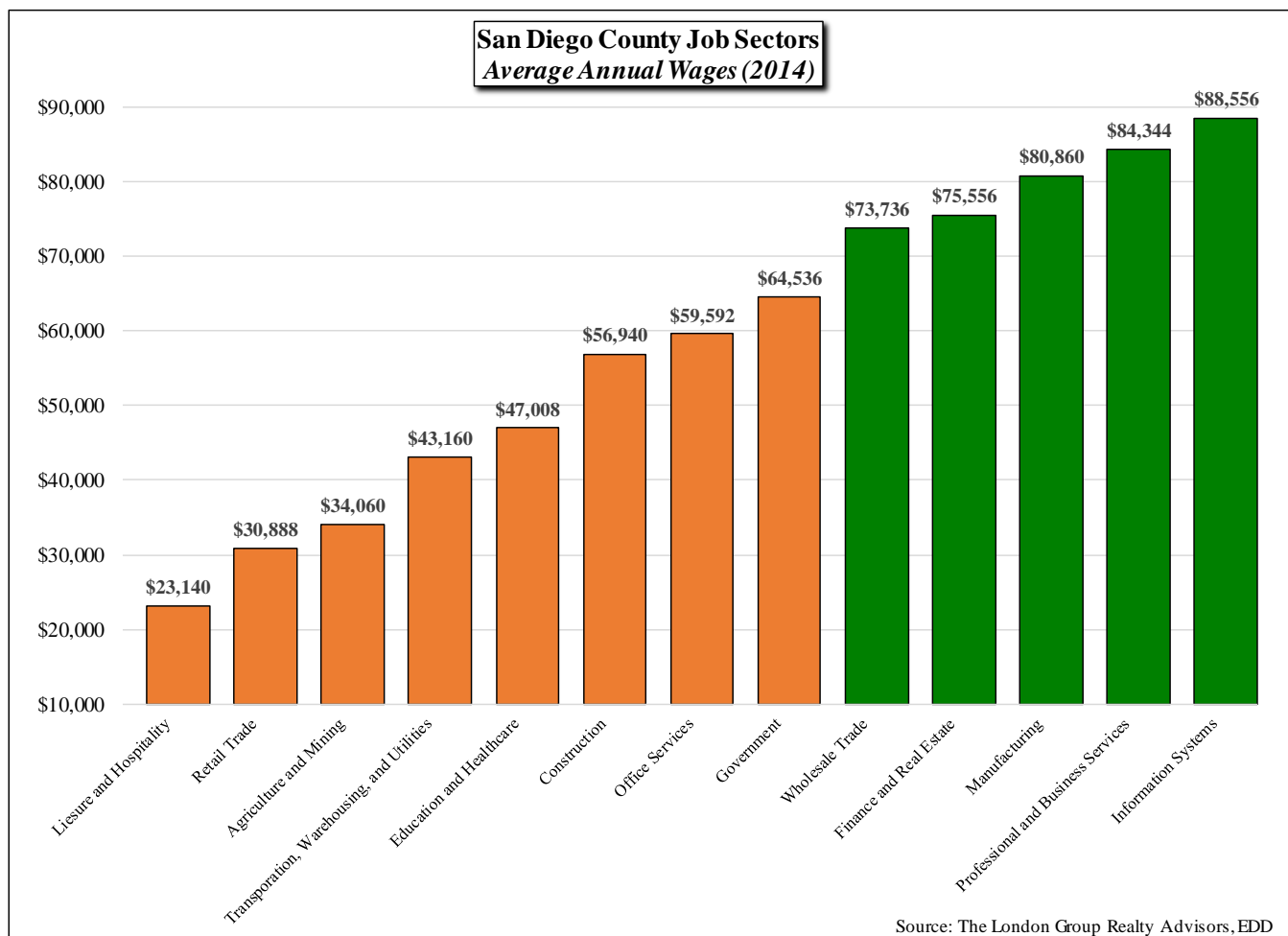


Distribution Analysis

The purpose of this section is to analyze “where” the jobs and housing units are being added in the region. Equally important is to understand the “type” of jobs that are being added. We have analyzed those jobs that are high-paying, heading households that traditionally represent the preponderance of demand for single-family homes.

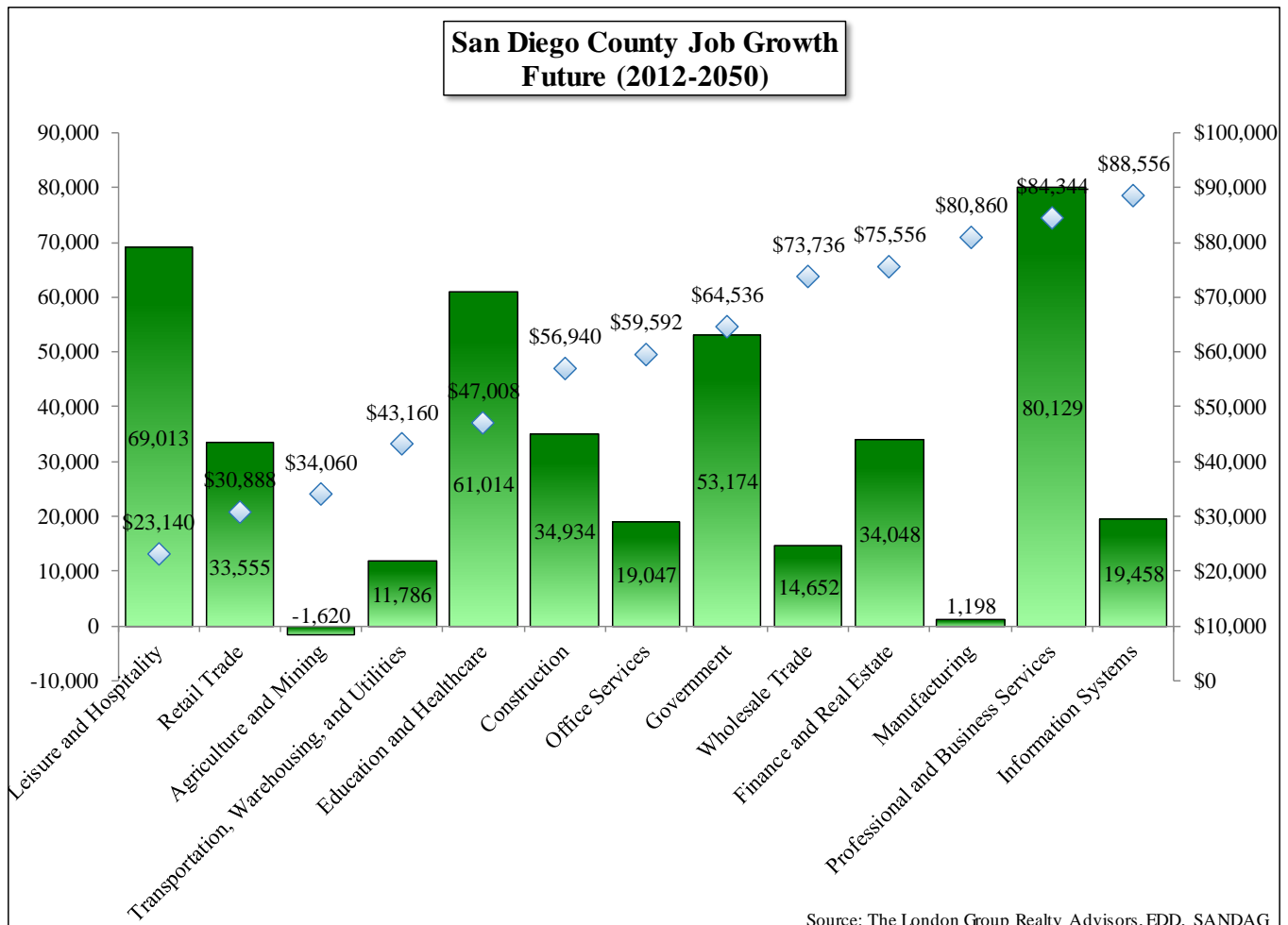
Job Types & Salaries

The following chart details the 2014 average annual wages by job sector. The top-five high paying sectors (shown in green) include Information Systems (\$88,556), Professional and Business Services (\$84,344), Manufacturing (\$80,860), Finance and Real Estate (\$75,556), and Wholesale Trade (\$73,736). The bars in green in the following chart depict those sectors we have categorized as high-paying jobs.





The following chart details the number of jobs anticipated in each sector as well as the 2014 average annual salary. Professional and Business Services is anticipated to experience the largest growth (80,129 new jobs) while commanding one of the largest incomes (\$84,344). The other sector expected to grow significantly, leisure and hospitality (69,013 new jobs), earns the lowest median income (\$23,140). By focusing on the job growth by sector and corresponding salary, we can predict where the demand for single-family homes (areas with high pay job growth) and multifamily units (areas with low pay job growth) will occur. The following section examines this relationship.





Jobs to Housing

The purpose of this section is to analyze the relationship between job and housing growth. One of the key metrics for measuring job/housing balance is the jobs-to-housing ratio. Based on the 2000 U.S. Census, the San Diego region exhibited a ratio of 1.18 jobs for every housing unit. However, based on SANDAG's identified potential growth for the region, we will require a ratio of 1.41 jobs for every housing unit to accommodate future growth.

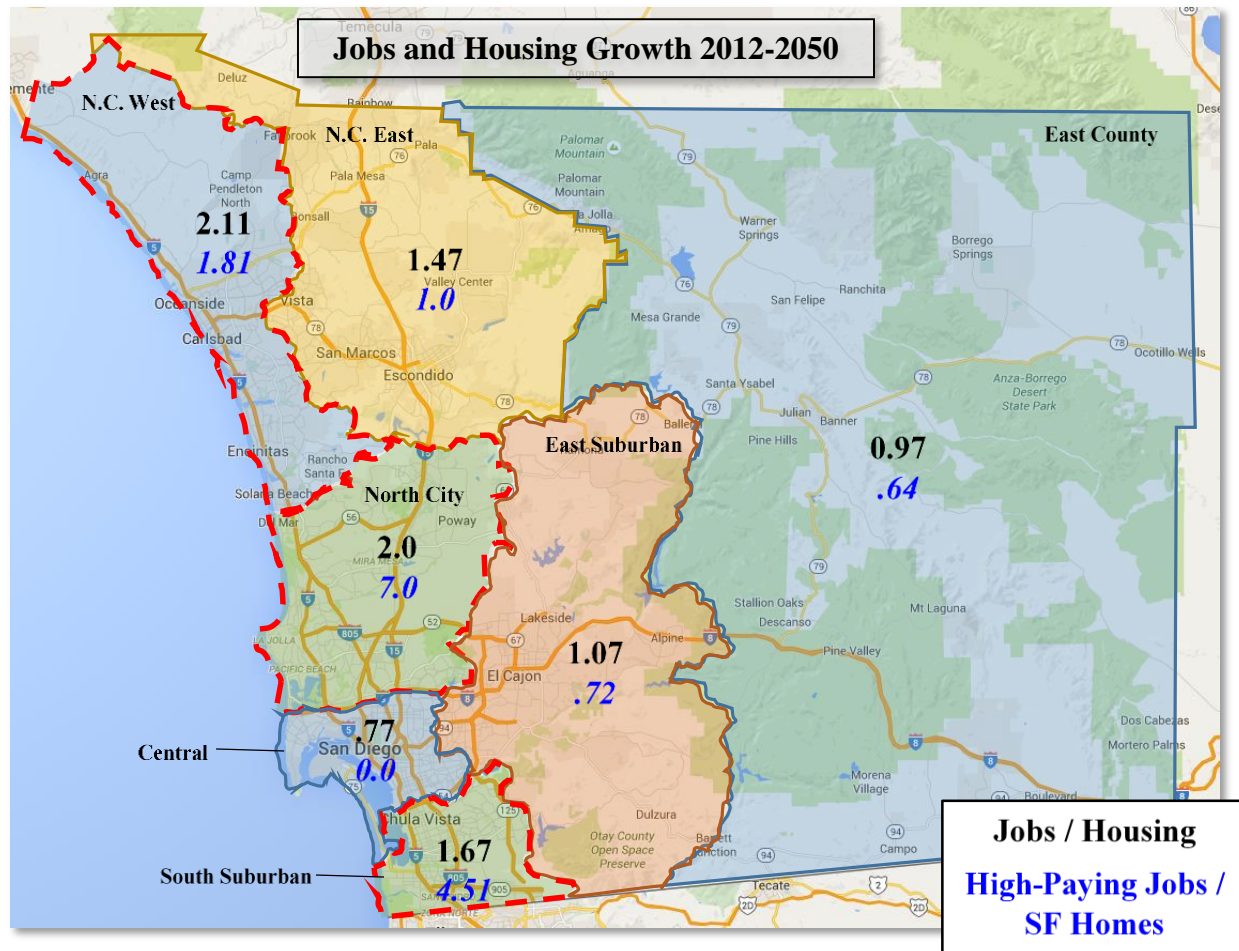
The map on the following page depicts the jobs-to-housing ratio (in black) in each of the MSAs. In effort to understand single-family home demand, we analyzed the ratio of high paying jobs to single-family homes (blue numbers).

Based on this geographical analysis, the areas highlighted in red demonstrate where there is a significant disconnect between jobs and housing. In North City, the jobs-to-housing ratio is 2.0, which suggests more demand than supply.

However, the disconnect is more troubling when observing the number of high paying jobs to single-family homes, which is anticipated to reach 7.0. This is an important metric because higher income jobs is a major determinant in demand for single-family homes. An examination of projected demand in North City suggests that those with high paying jobs will look for housing options outside of North City.

Both the North County West and South Suburban markets are anticipated to generate more jobs than housing to support them (2.11 and 1.67 respectively). This is also true of the ratio of high-paying jobs to single-family homes (1.81 and 4.51, respectively).

While employees in South Suburban may find accessible housing options in East Suburban, the same is not true in North City and North County West. Employees in these areas will also have to look to East Suburban or Central and commute further north, which is a trend that has already been playing out along the I-805 from Chula Vista to the Sorrento Mesa area. The other option for inconvenienced North County and North City jobs will be to live in Downtown or the high density neighborhoods surrounding Downtown.





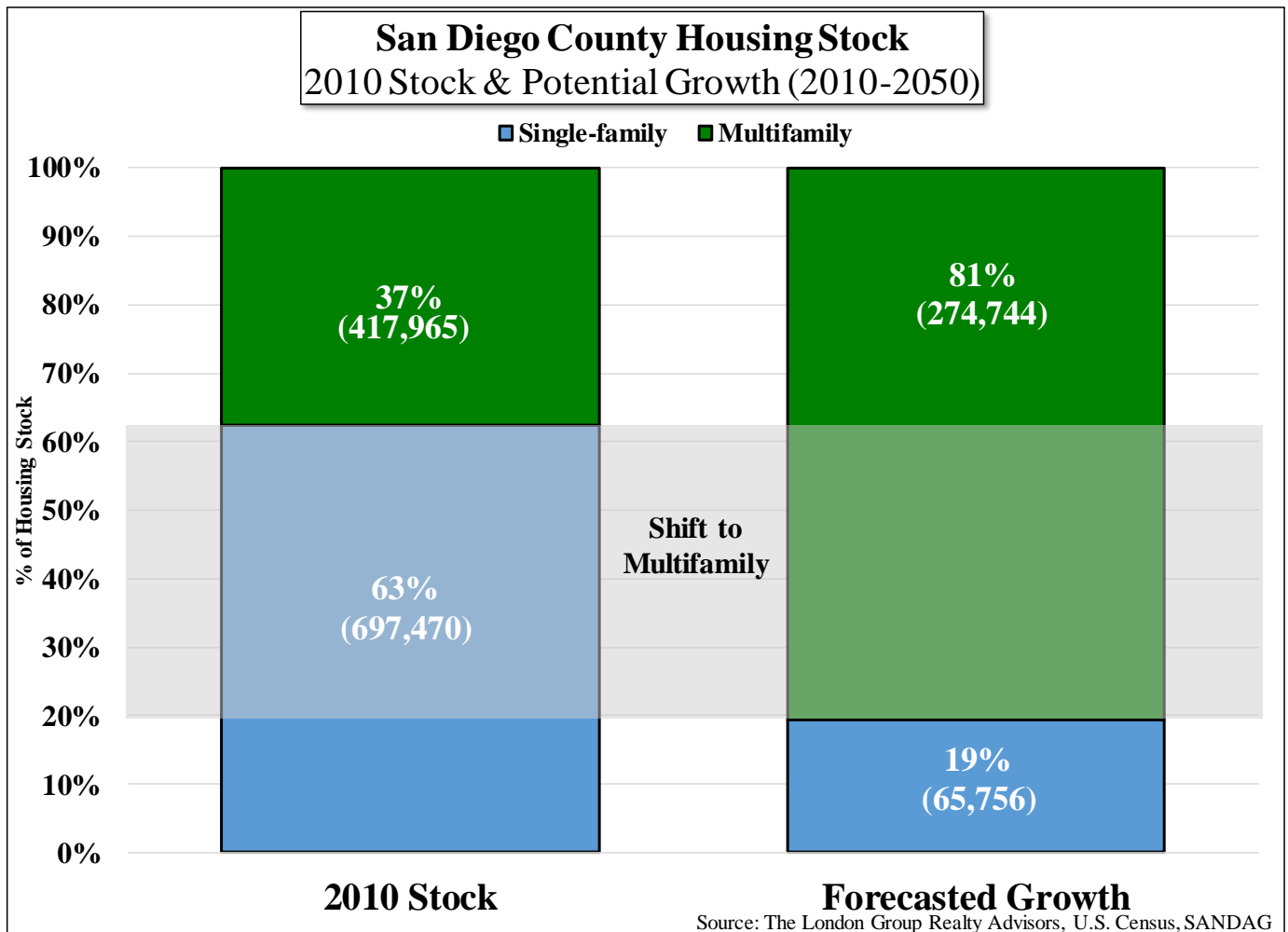
Shift in Housing Preferences

The purpose of this section is to analyze the shift of housing types being built compared to historical and future housing preferences.

Composition of Potential Growth

Historically, the County has demanded single-family homes over multifamily living. This is represented by the County's 2010 housing stock which was comprised of 63% single-family homes (697,470 units). According to the SANDAG aggregation of local plans, only 19% of potential housing growth will include single-family homes (65,756 units). The balance of growth is anticipated to be multifamily (81% or 274,744 units).

If we anticipated single-family demand by using the existing housing stock as our best measure of historical preferences (63% single-family), an estimated 214,515 single-family homes would be demanded. However, the aggregation of local plans predicts we will only add as many as 65,756 homes, a ratio of 3 out of 10, suggesting that only 30% of future residents will be able to purchase a new, single-family home. The other 70% will make do with multifamily units or move to a more affordable area either with a substantially longer commute to their San Diego County employer, or where they can find employment with a lower cost of living. The unavailability of single-family homes across the County will significantly impact commute times, vehicle miles traveled, home values, and the market.





Future Generations

This section analyzes the anticipated demand for housing types of future generations. Extensive research has been conducted in recent years pertaining to the 78.6-million-person Gen Y population. This cohort is now 20 to 37 years old and is larger than the Baby Boom generation. It is important to note that Gen Next (sometimes referred to as or Gen Z, persons under 20 years of age) is next up in generating housing demand as strong as their predecessor groups. Therefore, strong housing demand is anticipated for at least two generations.

Several years ago development was focused on smaller units, usually in multifamily settings, because it was believed that the demand from Gen Y consumers was centered on smaller, more urban product. However, current research shows that the housing propensities for Gen Y are changing, just as it has for the generations before it.

In a 2015 presentation at the International Builders Show, the National Association of Home Builders⁴ presented a survey indicating that 75 % of Gen Y, who are mostly first-time buyers, want to purchase a single-family home. They also prefer (66%) to live in the suburbs.

According to the recently published study on Gen Y by the Urban Land Institute (“ULI”)⁵, approximately 51% of Gen Y consider themselves City People and 49% consider themselves Suburbanites.⁶ In addition, approximately 70% of Gen Y expects to be homeowners over the next five years (by 2021). This generation is the single largest source of new housing demand and first time homebuyers.

The table on the following page details the composition of housing required to accommodate this population with their preferred housing type. The table assumes that 100% of City People live in multifamily units. Suburbanites are assumed to live in the same ratio of single-family/multifamily that has been demanded historically (62.5% single-family versus 37.5% multifamily). Based on this housing type preference, there will be a shortage of single-family homes demand of at least 39,193 homes.

⁴ Home Trends & Millennials’ Home Preferences. Rose Quint. January 2015

⁵ 2015 ULI Report: Gen Y and Housing (What they want and where they want it).

⁶ Excludes that portion of the population that consider themselves small town rural people.



Reconciliation of Future Generations Housing Expectations San Diego Region

Scenario 1: MF Growth is Dispersed Throughout Region

SUPPLY

	2010-2050 <u>Growth</u>
Multifamily	274,744
SFR	65,756
Total Units	340,500

DEMAND

<u>Gen Y Housing Preferences</u>			
City People	51%	100% MF	172,582
Suburbanites	49%	62.5% SFR	104,949
		37.5% MF	<u>62,969</u>
			167,918
Total Units			340,500

Multifamily Reconciliation

Future Supply	274,744
Future Demand	235,551
Oversupply:	39,193

Single Family Reconciliation

Future Supply	65,756
Future Demand	104,949
Shortage	(39,193)

Source: The London Group Realty Advisors, U.S. Census, ULi, SANDAG



The ULI study also points out that of the portion of the population that are City People, approximately 75% live in central-city neighborhoods outside of downtowns. In San Diego this is largely represented by the Central MSA, which includes Downtown and the surrounding areas (e.g. Coronado, Hill Crest, South Park, Point Loma, etc.).

This statistic of living in central-city neighborhoods is not surprising. As evidenced in the communities surrounding downtown, these communities are quite vibrant with restaurants, shops and walkable communities. Gentrification has also taken place as a younger, and more affluent demographic segment has brought higher incomes and expenditures to these neighborhoods. This is consistent with the phenomenon in the urban rings that surround other downtown areas throughout the nation.

We have prepared a second scenario that adjusts for “where” the Gen Y City People choose to live. SANDAG anticipates that as many as 274,744 multifamily units will be added to the region during the 2010-2050 period. In addition, there are 112,203 multifamily units planned for the Central MSA. This means that the balance of multifamily (162,541 units) will be dispersed throughout the County in otherwise more suburban areas.

However, based on our research only 85,611 multifamily units would be demanded outside of the Central MSA. This suggests that production of single-family homes will fall 76,930 units short of accommodating the preferences of Gen Y.

The following table details our analysis:



Reconciliation of Future Generations Housing Preferences San Diego Region

Scenario 2: MF Growth Focused on Central Subregion

SUPPLY

	2010-2050 Growth
Multifamily	274,744
SFR	65,756
Total Units	340,500

DEMAND

<u>Gen Y Housing Preferences</u>			
City People	51%	100% MF	112,203
Suburbanites	49%	62.5% SFR	142,686
		37.5% MF	<u>85,611</u>
			228,297
Total Units			340,500

Multifamily Reconciliation

<u>Future Supply</u>	
Central Subregion	112,203
<u>Balance of County (37.5%)</u>	<u>162,541</u>
Total Supply	274,744
<u>Future Demand</u>	
Central Subregion	112,203
<u>Balance of County (37.5%)</u>	<u>85,611</u>
Total Demand	197,814
Oversupply:	76,930

Single Family Reconciliation

Future Supply	65,756
Future Demand	142,686
Shortage	(76,930)

Source: The London Group Realty Advisors, U.S. Census, ULI, SANDAG

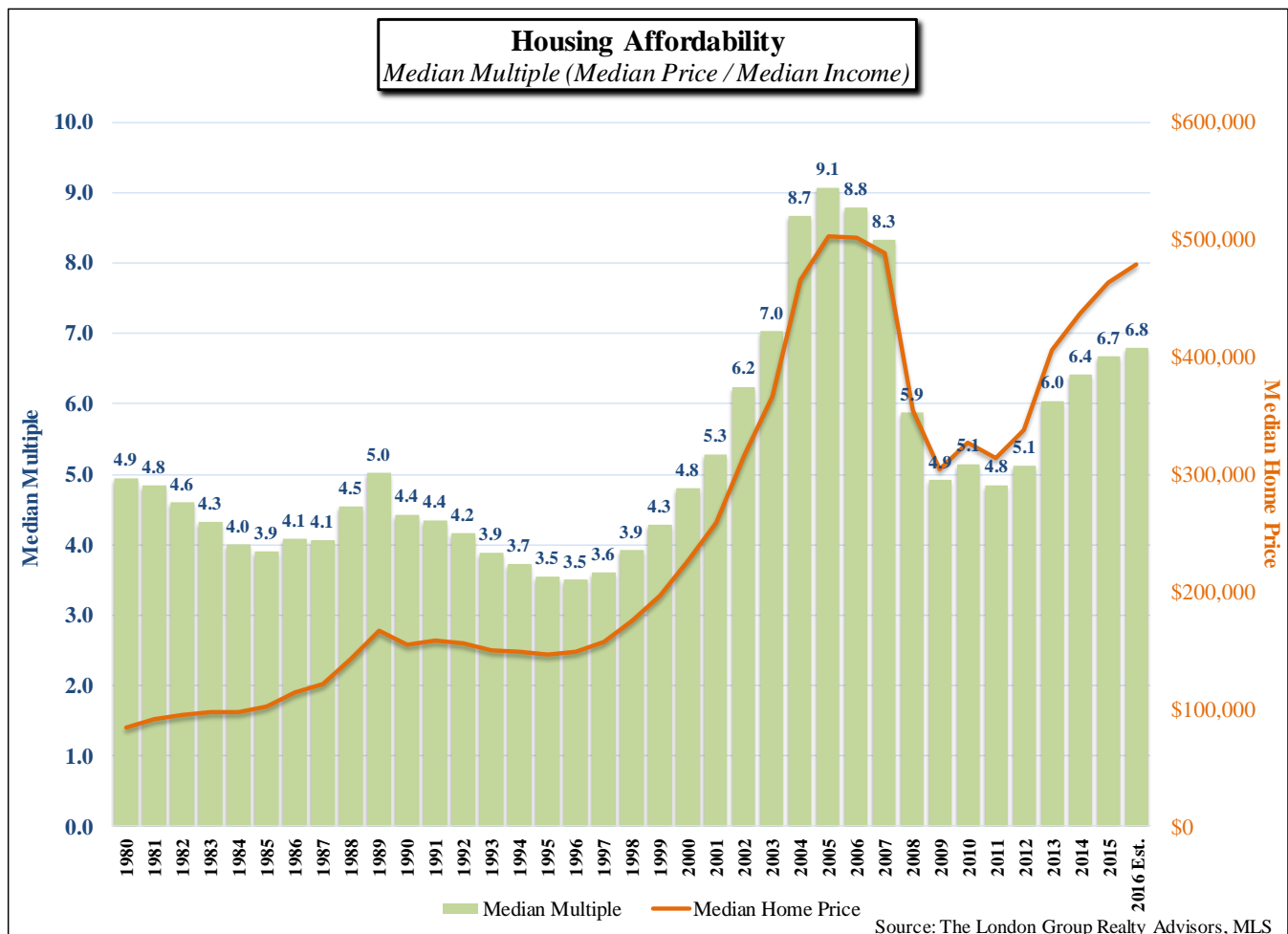


Affordability Implications

For Sale Housing

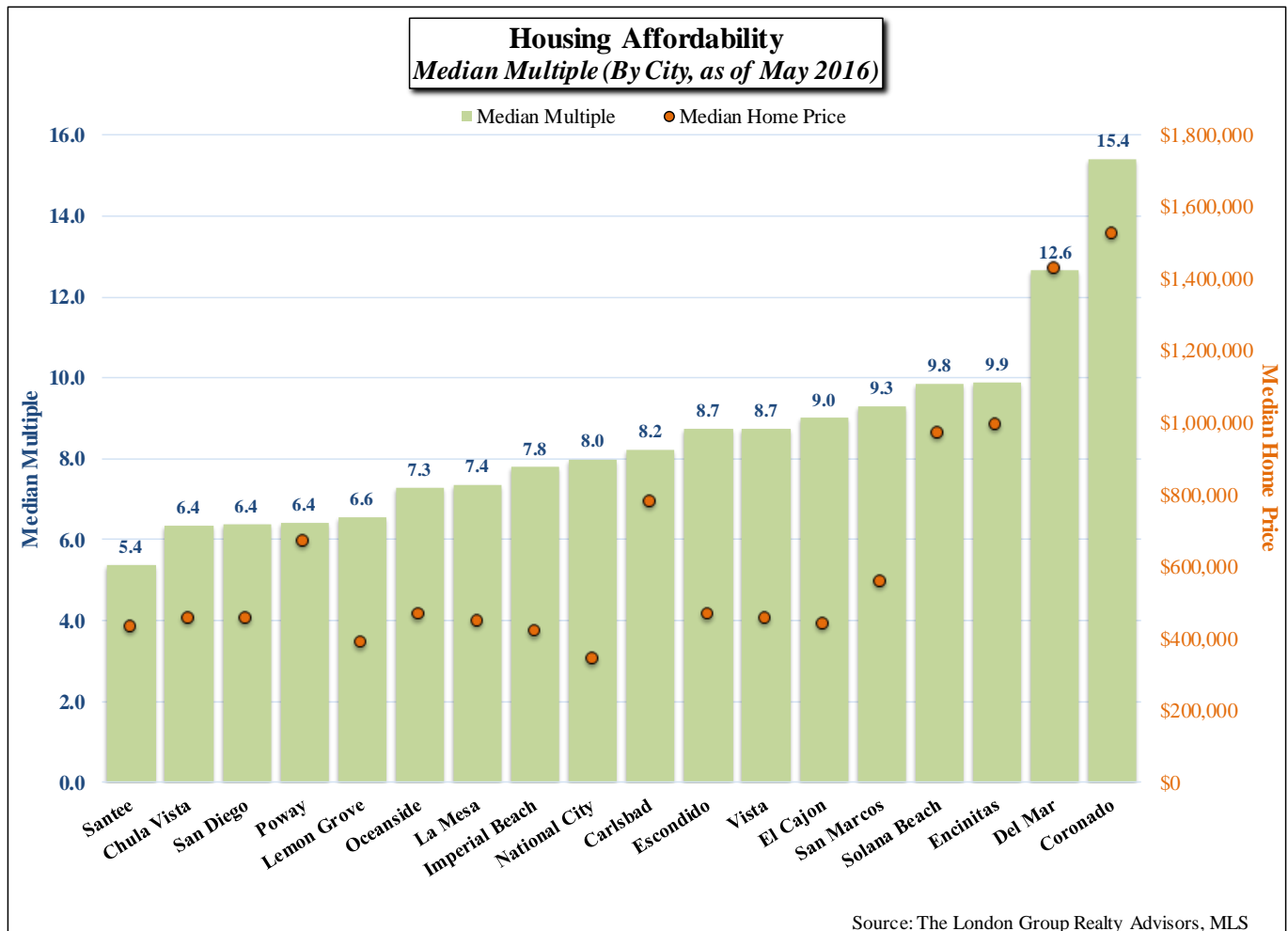
The median home price in San Diego County continued to increase in 2016 to \$478,000 and has almost returned to the pre-recession peak set in 2005 (\$503,000). However, the median multiple (price divided by income) is much lower (6.8 compared to 9.1). This is due to a full decade of income growth and stagnant home values. Median income in San Diego County has increased 27% since 2005 compared to a median home price that is still 5% lower than the 2005 peak.

However, we anticipate the median multiple to continually increase due to the inability of supply (new building permits) to keep up with housing demand, particularly for single-family homes near employment centers.





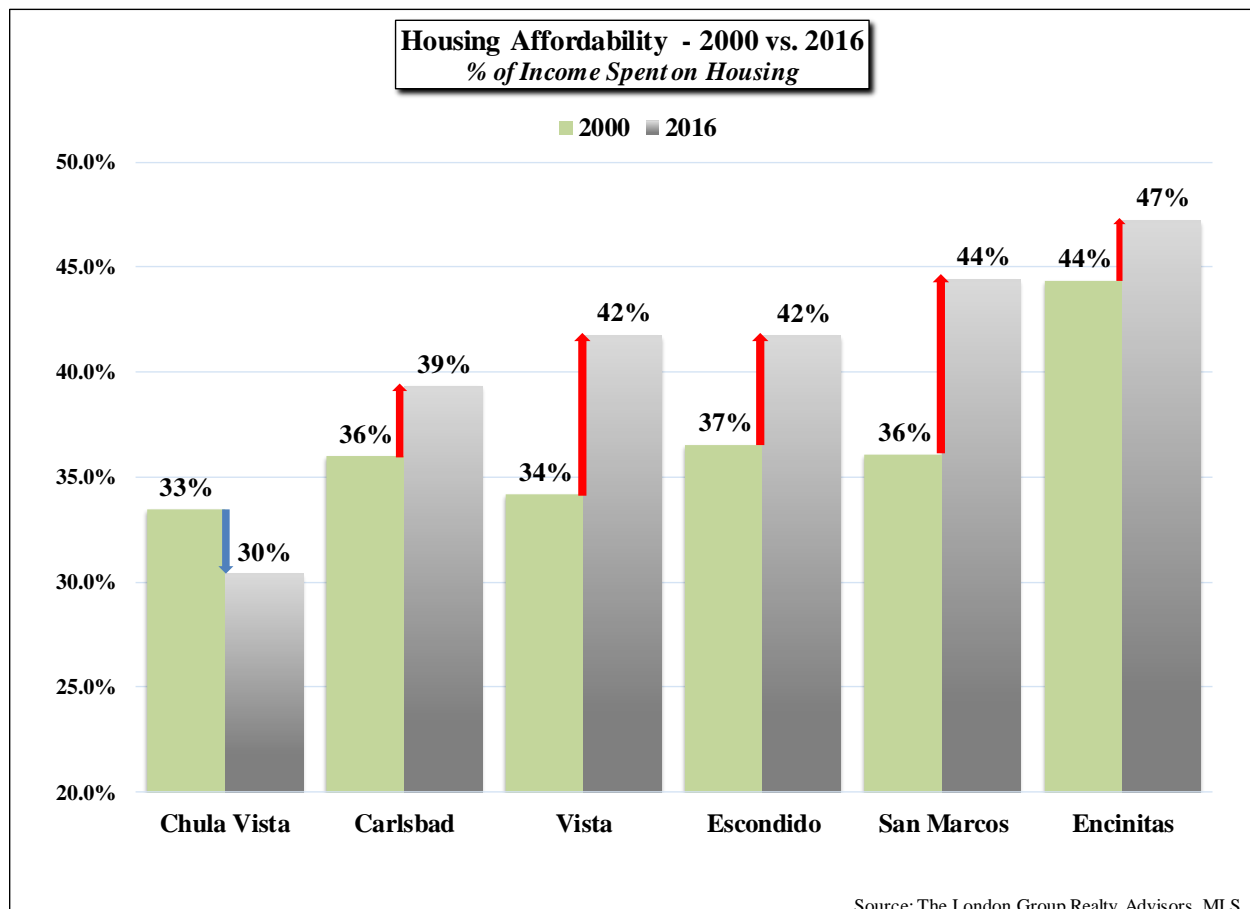
The following chart highlights median home price in relation to median income in various cities across San Diego County. Not surprisingly, housing is least affordable in the beach cities of Encinitas, Solana Beach, Del Mar, as well as the island of Coronado. Poway and San Diego are relative bargains because median incomes on par with the previously mentioned beach cities, but with lower median housing prices.





The following chart highlights the percentage of income spent on housing for key areas in the County (e.g. North County and South County cities). The housing data includes all for-sale housing (e.g. condos, townhomes, single-family detached). The housing cost is based on a 30-year loan with 15% down payment. It also accounts for the higher interest rate of 8.05% in 2000 and the 3.85% today.

Chula Vista experienced the only decrease in housing cost between 2000 and 2016, which is likely due to fewer local job opportunities but continued housing construction. All North County cities now require a larger portion of income dedicated to housing cost. Compared to 2000, it now requires approximately \$11,000 more in annual income to afford housing in North County. This is a product of relatively limited housing construction coupled with above average job growth in North County, particularly in higher paying job sectors.





Rental Housing

Between 2007 and 2014, San Diego County rental households increasingly spent more of their income on rent. The median income for rental households was \$42,341 in 2007 while the median rent was \$1,116 per month. This translates to 31.6% of household income spent on rent. By 2014, median household income increased 10%, or 1.5% annually. However, the median rent increased more than double the rate of income at 23%, or 3.3% annually. This translates to 35.2% of household income spent on rent in 2014.

San Diego County Renter Household Income vs. Monthly Rent				
	2007	2014	Total Change	Annual Change
Median Income	\$42,341	\$46,750	10%	1.5%
Median Rent	\$1,116	\$1,373	23%	3.3%
Rent as a % of Income	31.6%	35.2%		

Source: The London Group Realty Advisors, U.S. Census

The continuous increase in San Diego rents in recent years has made the region one of the most expensive places to live in the nation. The following table details the percentage of income spent on housing costs for renters according to the U.S. Census. Renting in San Diego requires 35% of income, which is more than the areas of Mountain View, San Francisco and Santa Clara. While these markets have higher rents, they also experience much higher incomes that make rent more affordable compared to San Diego, as well as Orange and Los Angeles counties.

Rental Housing Affordability 2014			
Jurisdiction	Monthly Rent	Annual Renter's Household Income	% Income
Mountain View City	\$1,824	\$82,069	27%
San Francisco	\$1,587	\$66,528	29%
Santa Clara County	\$1,787	\$70,872	30%
San Diego County	\$1,373	\$46,750	35%
Orange County	\$1,572	\$52,973	36%
Los Angeles County	\$1,239	\$39,678	37%

Source: The London Group Realty Advisors, U.S. Census



CONCLUSIONS & RECOMMENDATIONS

This study focuses on a well-worn axiom that is shared within the community of developers, builders, their representatives and advisors, and most policy makers: there is a housing crisis throughout the San Diego Region that is greater than ever before.

While housing issues have been generally acknowledged, without discovering and then disaggregating data it's hard to truly understand the issue so that new legislation, or a revision of public policy, can begin to address the crisis.

In fact, what we determined is that at the most aggregate level – the regional level – the SANDAG figures to 2050 for supply (housing units) is roughly in line with demand (jobs). However, this is simply a count of units in the various general plans and housing elements that cities and jurisdictions provided to SANDAG. Based on “counting” the units, the answer is “yes” that we can accommodate demand.

However, it must be understood that the summary results of these plan are best interpreted as total potential development rather than a point prediction. It is important to note:

- **Many of the properties identified in the general plans cannot be developed.** This is due to high land values and low densities that render projects financially infeasible. Therefore, we cannot assume that particularly the multifamily units “counted” in the general plans will successfully accommodate growth. They will not. There will be a housing shortage.⁷
- **There is an imbalance in both the composition of housing and where it is located.**

The subject of this report is the imbalance in the composition and the location of that supply. The overarching concerns that we now have are:

- The type of housing that will be overwhelmingly preferred and in demand, single-family homes, will be substantially under supplied.
- Most of the housing that will actually be built is, for most people, not close to work.

These are the two main factors that will determine whether the general plans successfully accommodate growth and keep housing costs in balance whether you own or rent. The overall theme that can be gleaned from our study is that the general plans of each city in this region, as well as that of the County of San Diego, cumulatively amount to a 38-year **experiment, with these respective planning agencies and policy makers essentially “betting”** that housing preferences will change over the next three decades. This is rooted in the belief that people will be accommodated almost exclusively with a new supply of multifamily housing, and that there will be a virtual elimination of new single-family housing projects.

⁷ The London Group Realty Advisors has completed several analyses of various City of San Diego zones to arrive at this conclusion. We are also in the process of preparing a “white paper” regarding the feasibility of zoning and housing elements in the City of San Diego.



We believe that this is a fundamentally flawed supposition with tremendous consequences that are irreversible if incorrect. Our research addresses the housing issue by examining the data, including basic supply and demand information; details on the geographic distribution of both housing and jobs; disaggregation of types of jobs (high paying vs. low paying); analysis of demand by population cohort; details on past and planned housing types; surveys and analysis of employment by type, location and commutation patterns.

In reality, there is demand for all types of housing product. Nothing should be excluded. Some neighborhoods are urban and will become more dense; some are suburban and will become more urban; and then there remains an abundant supply of green, or undeveloped lands, which can accommodate new master plans.

It is simply too risky to bet our entire region's growth on the premise that nearly all the housing that can and should be built is multifamily. Failure to accomplish a more balanced approach to new housing will not only fester the housing crisis, but will bleed into a calamitous economic crisis at some point.

Housing and Jobs

Our focus is on housing which should be affordable to the vast “middle class”.⁸ This market segment has long recognized that San Diego is not a “cheap” place to live. But if a household could get to the first “rung” of the housing ladder, eventual access to the upper rungs was achievable, even expected. **Today it has become increasingly more difficult, and is taking much longer, to even step up to the first rung.**

That is one aspect to a housing crisis. But what has also changed is that **the “first rung” problem is now evolving into a broader economic problem**, particularly in our region's ability to accommodate the type of wages and jobs to sustain a population growth that is mostly inevitable. Increasingly, the origin of our population growth is natural increase (the phenomena of more people being born here than dying⁹). Once children become adults, they either can participate in life in our region, or they must leave.

We analyzed jobs within the San Diego region, both historically and into the future. Most people who live in San Diego do so because they have a job. They mostly move here because they are either promised a job, or believe that they can find one. It is the very linkage between employment and housing which generates most housing demand.

Yet, we have discovered that **each day workers commute from other regions or from relatively distant locals. They are employed across the working spectrum, in every occupation except “management, business and science positions,” which represent the highest paying categories.** This need to “import” workers in four of the five general occupational categories

⁸ Importantly, this study is not about “affordable” housing, which is generally a term used to provide mostly government subsidized housing to those of modest means. We have strictly focused on the private sector's ability to deliver housing.

⁹ SANDAG projects that Natural Increase will be the source of over 60% of population growth over the next 30 years, versus Net Immigration.



means that businesses are required to search farther to find the workers they need. Workers have to travel farther and/or spend more time to get to work, except those who are working in the highest pay categories.

While currently the employment market is strong, having added an annual average of almost 16,000 jobs over the past 20 years (which included two recessions), **future job counts are expected to decrease by almost 50%.** Moreover, the distribution of jobs has been uneven, showing both a shift toward a professional based economy, while **most of the job growth has been in the northern San Diego communities, a trend that is expected to continue.**

Over the past seven years, the number of total housing units being delivered has decreased from almost 13,000 annually to approximately 6,000 units per year. We also discovered that this 20-year reduction (since 1996) was accompanied by a significant reduction in the construction of single-family units, from 61.4% over the first ten years to only 34.2% over the past three years.

This has resulted in a gradual slippage of the percent of single-family home stock in the region, a trend which is expected to continue. In fact, the growth rate assumes that only 1,500 new single-family homes will be built each year compared to the 7,800 homes that were achieved annually during the last business cycle. Overall, approximately 340,500 homes could be added between 2010 and 2050, most of those homes (81%) are anticipated to be multifamily units.

The North County Problem

Most of these units will be added in the North City and Central submarket of our region, mainly within the City of San Diego. Overall, multifamily is assumed to be the main source of housing growth from 2011 through 2050. Multiple subregions that historically produced primarily single-family homes are expected to shift their stock to predominantly multifamily, particularly in the City of San Diego.

In fact, most of the other cities within our region are projected to accept generally multifamily housing configurations, regardless of historical growth patterns. While it is easy to see how the City of San Diego, which is mostly built out, will shift to multifamily stock to accommodate growth, the same cannot be said of north San Diego cities and unincorporated areas, which have mostly resisted new housing of any type.

Going forward, we are exceptionally concerned about cities like Carlsbad, Encinitas, Solana Beach, Vista and Oceanside, which are projected to add huge new supplies of multifamily housing, yet haven't delivered much of that housing type in the past.

Yet, these are the very communities which are expected to be nearest to new job growth in our region. Between 2012 and 2050, North County and North City are projected to add 75,488 high-paying jobs while the South and East Suburban MSAs are expected to add only 47,576. This demonstrates that there is a geographical imbalance in the region with a greater amount of higher paying jobs in the northern part of the County (north of I-8) relative to Central and South County.



This sets the stage for a **potential “disconnect” between where the jobs are expected to be, and where the housing can be built.** One illustration of this disconnect is the City of Chula Vista, which has aggressively participated in adding housing of all types, as well as adding jobs. Currently, the highest available lot counts are in Chula Vista (estimated to be in excess of 15,000), but the absorption of these lots into housing has been slow, despite relatively lower price points, because new jobs added have been to the north. Most Chula Vista working residents commute to jobs that are in the Central and Northern portions of the County. The planned growth assumes that this can change, but not in the foreseeable future and not without great effort.

Pointedly, **the unincorporated portion of San Diego County, which is vast and where there is an increasing availability of land that has come out of agricultural production (roughly 48,000 acres), has not added, and does not plan to add, a significant amount of housing to balance this supply/demand dilemma.** While many portions of the County lie inland, and well to the east of jobs, freeway corridors and other supportive infrastructure, even those portions of the County which sit nearer to the major freeway corridors, are not planned for growth without entitlement exceptions achieved by developers.

Demand for housing is not strictly a function of aggregate numbers. In fact, it is in the disaggregation where the story of demand can really be told. Our examination of the various population “cohorts” – or “buckets” of population groups by age – suggests that the type of housing demand which has driven recent past and current housing needs, cannot be sustained. The focus is on the “millennials,” a population cohort which roughly represents 1/3 of all persons in our County, who are now coming out of their 20’s and entering their 30’s.

Today Is Not Tomorrow

Translation? **We have reached the point of “peak urban Millennial” who have overwhelmingly valued urban apartment or condominium living as singles, two person or shared households, yet now are starting families.** For many, this will mean a search for housing they see as more appropriate for a young family. Mostly, that will mean a search for a more suburban, single-family home.

Certainly some Millennials will be just fine with raising their children in highly dense, urban homes, particularly when the children are young. Some will accommodate their families within these same urban communities permanently, either in condominiums, or in the purchase of the resale single-family housing stock.

But the demand for new single-family stock will be unequivocal. Yet, it is this very same single-family home which, according to SANDAG, will mostly *not* be built in San Diego County, and certainly not in those places where most of the jobs are, or will be.

We have determined that there is an overall shortage of 39,000 to 77,000 single-family homes by 2050. The most impacted region is San Diego’s North County West and North City, where the jobs-to-housing ratios are anticipated to be 2.11 and 2.0, respectively. This is significantly higher than the ratio of 1.41 anticipated countywide by SANDAG. This translates into a bid-up in pricing, housing shortages of all types and a strong potential for economic problems.



While employees in South Suburban may find accessible housing options in East Suburban, the same is not true in North City and North County West. Employees in those areas will also have to look to East Suburban or Central and commute further north, which is a trend that has already been happening along I-805 from Chula Vista to the Sorrento Mesa area. The other option for inconvenienced North County and North City workers will be to live in Downtown or the high density neighborhoods surrounding Downtown, a phenomenon that is, remarkably (and discouragingly), already taking place.

We expect that “house hoarding” will become a problem throughout our region. By this we mean that a growing number of aging Baby Boomers, now approaching retirement, will age in place. Instead of selling their home, taking the capital gain on their long held single-family home asset, and “move down” or move out to less expensive communities, they will discover that there are fewer choices in which to move. While we have not explored this empirically, it stands to reason: if fewer homes are built, there is less choice. If they elect to stay in San Diego, they may stay in place.

Hence, we can expect that there will be less resale inventory to make up for less new home inventory. This will likely translate into fewer listings, a further bid-up in pricing and an erosion of gentrification and neighborhood improvements.

We also addressed the festering problem of affordability, measured as the percent of income spent on housing. Affordability is down: more San Diegans are spending greater amounts of their income on housing, as housing prices rise.

In fact, of five cities highlighted, **only Chula Vista has a more affordable housing market today than in 2000. The cities of Carlsbad, Vista, Escondido, San Marcos and Encinitas are all less affordable.** We expect housing costs to continually increase in these markets due to the inability of supply (new building permits) to keep up with housing demand, particularly for single-family homes near employment centers.

In the rental sector, approximately half of the region’s renters spend over 35 percent of their total household income on housing, which is higher than Mountain View, San Francisco and Santa Clara.

Our study details the movement of housing prices over the past 36 years. While cycles have moved those prices up and down over these years, the unequivocal trend is *up*. **In fact, current housing prices are on a trajectory to exceed the “bubble” peak of 2005. It is only a matter of time before prices exceed that level, and probably without the bubble.**



The Economic Imperative

We surveyed businesses to better understand the role of housing, jobs and overall economic impacts. The “Ability to find reasonably priced housing for employees that is close to work” was the issue San Diego County employers were most dissatisfied with (28%) of the eight issues tested. The only other issue to register just over 10 percent dissatisfaction was the “Ability to attract new employees that live outside the region”. We then compared the survey results with SANDAG projections. The results demonstrate that commuting is more prevalent, longer and more problematic than ever.

The nexus between talent and housing was a consistent theme in the employer survey results. This issue of **retaining and attracting talent was the biggest challenge identified by San Diego County businesses**, with three out of every five San Diego County business indicating they are at least having some difficulty finding qualified applicants.

Our overarching conclusions, based on this research, is that we are now entering into a housing crisis, the likes of which we have not previously experienced in San Diego. To continue along this road – housing demand outpacing supply – is to expect that there will ultimately be economic consequences. We are starting to see these consequences already in the form of lower job growth, and the composition of those jobs changing to higher paying, more technically skilled job categories. But even these persons will see the quality of their lives erode with longer commutes, to more expensive housing which takes a greater part of their paycheck.

And that doesn’t even speak to the rest of the population, perhaps those in the tourist sector (hotels, restaurants, etc.) who are so important to the overall economic profile of our region. They will see the erosion of their housing dollar at an even faster rate. **It is the young and the middle income who will suffer the most.** The imbalances which we have documented are not solvable by one or a few policy changes. They must be addressed across the board.

This paper speaks to the need for a “constituency” for housing. Policy makers need to know that they have the support of the electorate if they are to offer up new policies that will sustain housing and jobs. **The trigger is our conclusion that the housing crisis is everyone’s crisis, and that it is actually an economic crisis.**

The heart of the housing crisis lies in the North County region, both within most of the incorporated cities within this submarket, as well as the unincorporated areas where the vast swaths of undeveloped land lie. This is where the dilemma of jobs vs. housing is most acute. This is where the prices are highest and the housing additions are the lowest. In short, this is where the demand is greatest and the supply is lowest.



Public Policy Suggestions

While the purpose of this paper is to explain the problem, and not to offer up “solutions,” we would be remiss to not suggest the direction of possible solutions. The following are the policy recommendations solely of The London Group. Some of our ideas include:

- Revisit every General Plan within the region, including the County of San Diego. Without more accurate strategic plans, the framework to build both enough and the right kind of housing will be out of sync with housing demand and the future prosperity of our region. Build in mechanisms to synchronize those plans with on-the-ground entitlement reality. Plans are plans, but projects need to be entitled and built, with certainty and reasonable time frames embedded in the system.
- Disseminate information to the voting public about the nature of the crisis, **that it is everyone’s crisis whether they own a home or not**, the facts behind it, and the responsibility of the electorate to activate to create change.
- Press elected and appointed officials and their supporting staffs to recognize the huge importance of the housing issue, in particular, its **connection to the economy and jobs**, and the need to add housing for the region to remain economically viable. Policy makers need to recognize the broader aspects of the crisis, and support and promote legislation to cure the problem.
- Planning groups should be briefed on the nature of the crisis. In fact, we would like to see workshops which help community planners recognize the facts and implications of their decisions.
- New ground rules need to be established within the entitlement and public vetting process. When housing projects are proposed, they ought to be subject to a rigorous examination of the merits of their project, and not to delays and obfuscation promoted by those who simply want to “kill” new projects. This problem can be minimized by creating more master EIR’s, particularly in the already urbanized communities.
- Legislative and legal reform must be encouraged at the state level, and in the courts. In particular, the California Environmental Quality Act (CEQA) is outdated, overly broad and subject to interpretations which have the practical effect of shutting down housing projects. New legal and legislative determinations relating to climate and greenhouse gas emissions are recent examples of broad issues which are inappropriately being used to shut down new housing projects.

We are not so naive to suggest that these types of policies will solve the problem over a short term. What we are mostly hoping is that this report, and other facts drawn from related studies, will serve as a framework from which a more even-handed set of laws and practices can apply to decisions pertaining to new development. Often, policy makers are pressured by a misinformed constituency to turn down new projects. With the right information - tools in their tool box - this study offers the substantive basis to approve and support these same projects.



ECONOMIC IMPACT ANALYSIS

San Diego County Housing 2016

The London Group, July 2016



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INTRODUCTION

BW Research Partnership was commissioned by the London Group and the San Diego Regional Chamber of Commerce to complete a study of the economic impacts of housing and its supply on the regional San Diego County economy. The research objectives of the study are to:

- Assess the impact housing has on the region's workforce and labor supply
- Evaluate the impact housing has on the region's employers and their businesses
- Identify the impact housing has on regional and local economic development

The initial phase of the research consisted of compiling and analyzing economic, demographic and labor market data on San Diego County and its four sub-regions;

1. **City of San Diego** as well as the City of Coronado
2. **East County** – Includes the cities of El Cajon, La Mesa, and Spring Valley as well as those cities and communities east of the City of San Diego out to the eastern border of the County.
3. **North County** - Includes the cities of Carlsbad, Del Mar, Escondido, Oceanside and Vista as well as those cities and communities North of the City of San Diego and up to border of Orange County and out to the border with Riverside County.
4. **South County** - Includes the cities of Chula Vista, Imperial Beach and National City as well as those cities and communities south of the City of San Diego out to the border with Mexico.

After completing the analysis of economic, demographic and labor market data, the second phase of the research included a survey of 202 businesses in San Diego County. The random sampling of businesses was stratified by geography¹, business size (by number of employees) and industry. The survey was meant to assess the priorities of San Diego County businesses and the challenges facing the region's employers.

What We Learned from the Data

The research findings and regional indicators for San Diego County illustrate several key findings, including;

1. **Even as the economy has improved in San Diego County, approximately half of the region's renters spend over 35 percent of their total household income on housing.** The situation for homeowners has improved over the last few years as the economy has improved. Homeowners in California and San Diego County pay a smaller portion of their income on housing, but that has not been the case for the County's renters. In fact,

¹ Sample was stratified by the four sub-regions, City of San Diego, East County, North County and South County.



renters from East County and North County have experienced an increase in the proportional cost (as a percentage of household income) of rents from 2011 to 2014.

2. **San Diego County, overall, imports workers for every occupational type except for “Management, business & science positions,” those from the highest paying category.** This need to import workers in four of the five general occupational categories means that businesses are needing to search farther to find the workers they need and workers have to travel farther and/or spend more time to get to work. There can be confounding factors for this beyond housing supply and costs, but it is typically considered one of the first drivers of this phenomena.
3. **“Ability to find reasonably priced housing for employees that is close to work”** was the issue San Diego County employers were most dissatisfied with (28%) of the eight issues tested. The only other issue to register just over 10 percent dissatisfaction, was the “Ability to attract new employees that live outside the region”. The nexus between talent and housing was a consistent theme in the employer survey results.
4. **Retaining and attracting talent was the biggest challenge identified by San Diego County businesses,** when asked to identify the biggest obstacle for their firm’s growth. The need to attract and retain talent was identified more often than the overall cost/expenses associated with doing business in the region. A smaller but still relevant portion of businesses indicated that business partnerships and/or support was lacking in the County and some also indicated there was not enough customers in the region.
5. **More than three out of every five San Diego County business indicated they are at least having some difficulty findings qualified applicants.** Of the eight workforce issues examined, San Diego County businesses had the greatest difficulty “recruiting employees who can find adequate housing within a reasonable distance from work”, followed closely by “retaining valuable employees would want to purchase housing within a reasonable distance from work”.

What we will be watching

Based on the analysis of regional and sub-regional data as well as the results of the employer survey, we have identified the following issues and questions as we consider the relationship between the County’s housing stock and its impact on the regional economy;

1. **Is the region providing enough and the right kind of housing for the talent needs of the regional economy?** The results of the employer survey draw a connection between the cost and availability of housing and their ability to retain and attract talent. While this is top of mind for employers in 2016, how will the needs of employers change over time and how are they different by industry and sub-region within the County?
2. **Is San Diego County continuing to import larger numbers of workers in the different occupational categories?** The results of the occupational landscape analysis show that for all but the highest paying occupations (Management, Science & Business position), San Diego County must import workers from outside the region. In the future will the



County need to import a larger portion of workers and how will that challenge impact regional businesses and economic vitality?

3. **Is there a growing divide between housing affordability for the County's renters and homeowners?** The results of the housing affordability analysis, show that the picture for homeowners has generally improved along with the overall economy in California, San Diego County and each of its sub-regions. This has not been the case for renters who continue to spend a relatively large portion of their household income on housing. The data shows, even with an improving economy, renters in East and North County are paying a higher percentage of their income, from 2011 to 2014. Moving forward, will renters continue to pay a larger percentage of their income on housing and will homeowners start to feel the pain of increased housing costs?
4. **How are the housing needs different of worker's in various industries and sub-regions?** San Diego County has a broad and diverse tapestry of businesses and industry clusters. Their talent needs are as varied as their customer base and it is unlikely that a single housing type will satiate the needs of the regional workforce. The question becomes, what are the specific workforce needs to different industry clusters and in different sub-regions within the County?
5. **How are the region's commute times and housing options impacting the regional quality of life?** Quality of life is a central but somewhat ambiguous metric for the business community as much as it is for County residents. Businesses want to be in San Diego County because of the quality of life it offers business owners, workers and its customers. The question of housing supply should be considered from the perspective of quality of life and their impact on commute times and housing options.
6. **How will the region's demographic composition change and what impact will it have on the overall quality and quantity of the region's workforce?** What role does housing and housing types have in shaping the demographic profile of the region. The research findings show a considerable increase in the number of residents 55 years and older in San Diego County from 2010 to 2014. If this trend continues, the age cohort with typically the highest labor force participation (35 to 54 years old) could be crowded out by older residents. The question becomes how does the region's housing supply help support the region's workforce into the future?



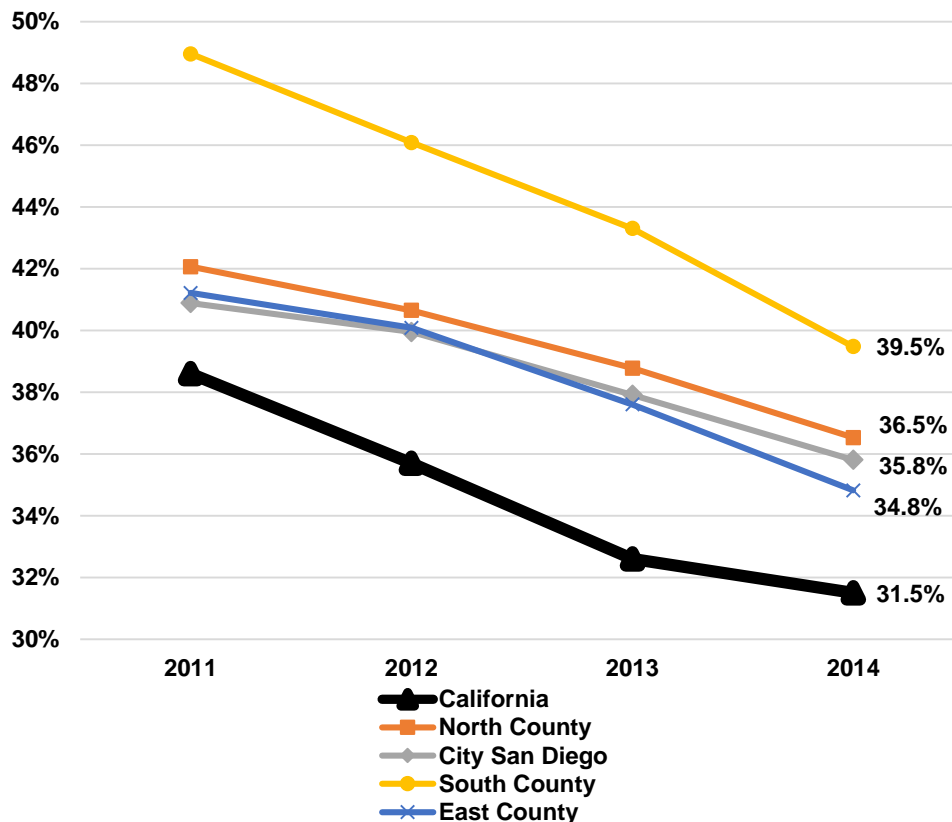
WORKFORCE INDICATORS

HOUSING COSTS AS A PERCENTAGE OF HOUSEHOLD INCOME

Regional housing affordability can be measured different ways, but one of the most fundamental is looking at the percentage of gross household income that is spent on either a mortgage or rent. This is particularly valuable in the 21st century as housing costs have over taken the cost of food, as the largest item in a household budget. The next two charts indicate the percentage of residents in each area that spend 35 percent or more of their total household income on their residence (either through mortgage payments or rent).

In California and San Diego County, the general trend for home-owners has been a positive one as the economy has improved so has general home affordability. It is also worth noting that each of the San Diego County sub-region's is considerably more expensive for home-owners when compared to California overall. South County on the whole, is more expensive for its residents than other sub-regions in San Diego County.

Figure 1: Percentage of Home Owners Spending 35% or more of Household Income on Housing²

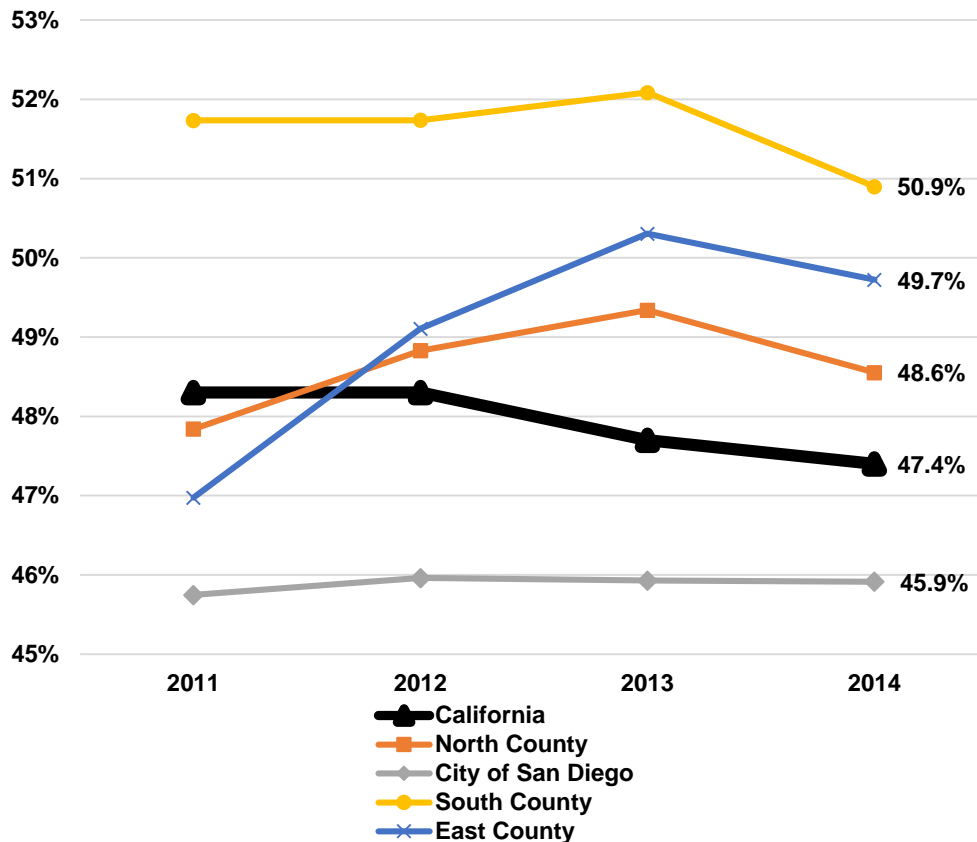


² ACS 5-year 2010-2014 Estimates



For renters, the improving economy has not trickled down to paying a smaller portion of their income for their residence. Unlike California, where the percentage of residents who spend 35 percent or more on their rent has actually declined from 2011 to 2014, all of the County's sub-regions, except South County, have seen an increase the number of residents who spend 35 percent or more on rent. The increase in proportional rental costs are particularly apparent in East County and to a lesser degree North County.

Figure 2: Percentage of Renters Spending 35% or more of Household Income on Housing³



³ ACS 5-year 2010-2014 Estimates

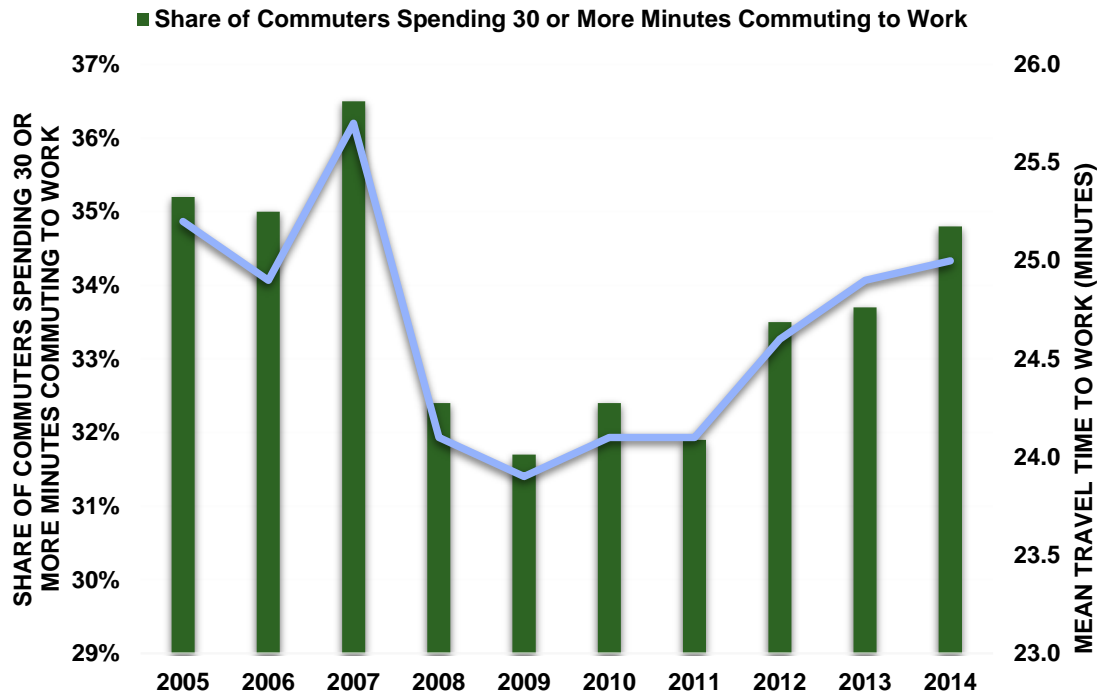


Commute Times

Commute times and general traffic conditions have been shown by a multitude of local and regional resident surveys to be a key attribute to impacting quality of life for those who live in California and it is also true in San Diego County. The increase in commute times are likely to be connected to the improving economic conditions and higher levels of employment, but it creates more challenges if you need to find workers from a larger geographic area.

The figure below shows both the average commute time (blue line) and the percentage of commuters who spend 30 or more minutes commuting to work on an average day. As the economy has improved from 2008 to 2014, average commute times have increased.

Figure 3: San Diego County: Resident Commute Time and Proportion of Residents Commuting 30 or more Minutes to Work⁴



⁴ ACS 5-year 2010-2014 Estimates



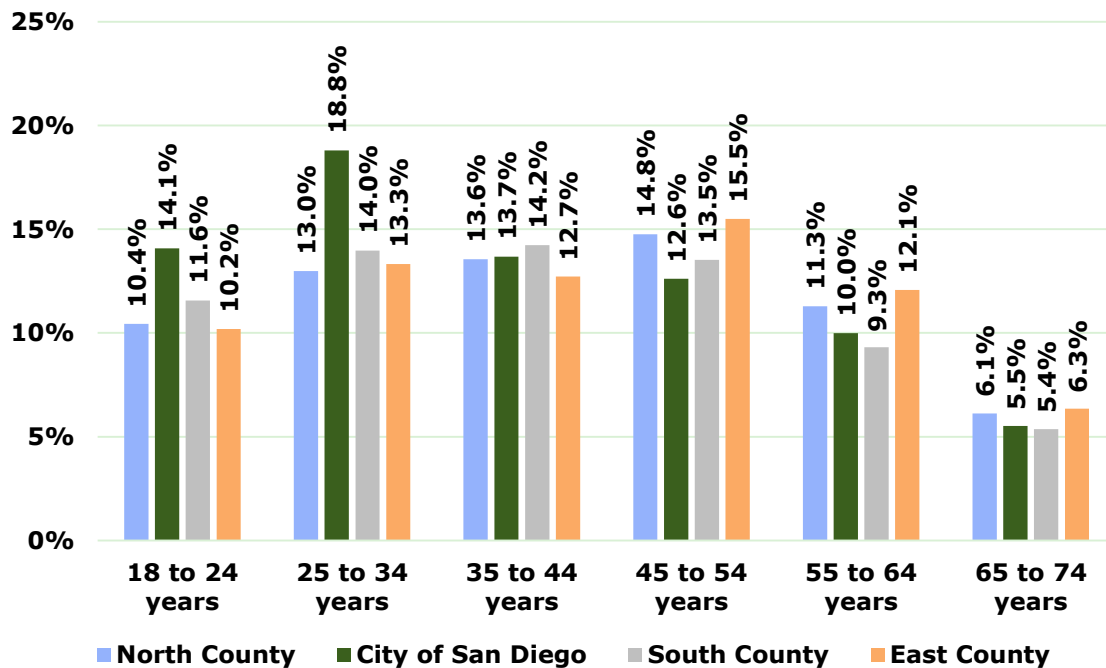
DEMOGRAPHIC PROFILE

The demographic profile of a given community or region is valuable in understanding the needs of that community or region, but also important in understanding the general availability of potential workers in the region. While workers are living and working longer, you still typically see individuals who focus most on their career priorities between the ages of 25 and 65 years old. Research varies on when workers are more productive and some of that analysis depends on the industry and occupation, but it is safe to say that the overwhelming majority of the workforce is found in the ages between 25 and 64, an age cohort that has generally grown slower in San Diego County than the 65 and older population.

The population of those aged 18 to 74 years in San Diego County grew by nearly 150,000 individuals between 2010 and 2014, outpacing the growth rate of the population as a whole over the same time period (7.9% vs. 5.1%). Within the larger group, age cohorts experienced different rates of growth from 2010 to 2014;⁵

- **18 to 24 year olds:** -2,302 growth, -5.1% growth rate
- **25 to 34 year olds:** 56,565 growth, 12.0% growth rate
- **35 to 44 year olds:** 11,464 growth, 2.7% growth rate
- **45 to 54 year olds:** -4,223 growth, -1.0% growth rate
- **55 to 64 year olds:** 36,584 growth, 10.9% growth rate
- **65 to 74 year olds:** 51,556 growth, 28.6% growth rate

Figure 4: San Diego County Regional Population by Age (18 to 74 years old)⁶



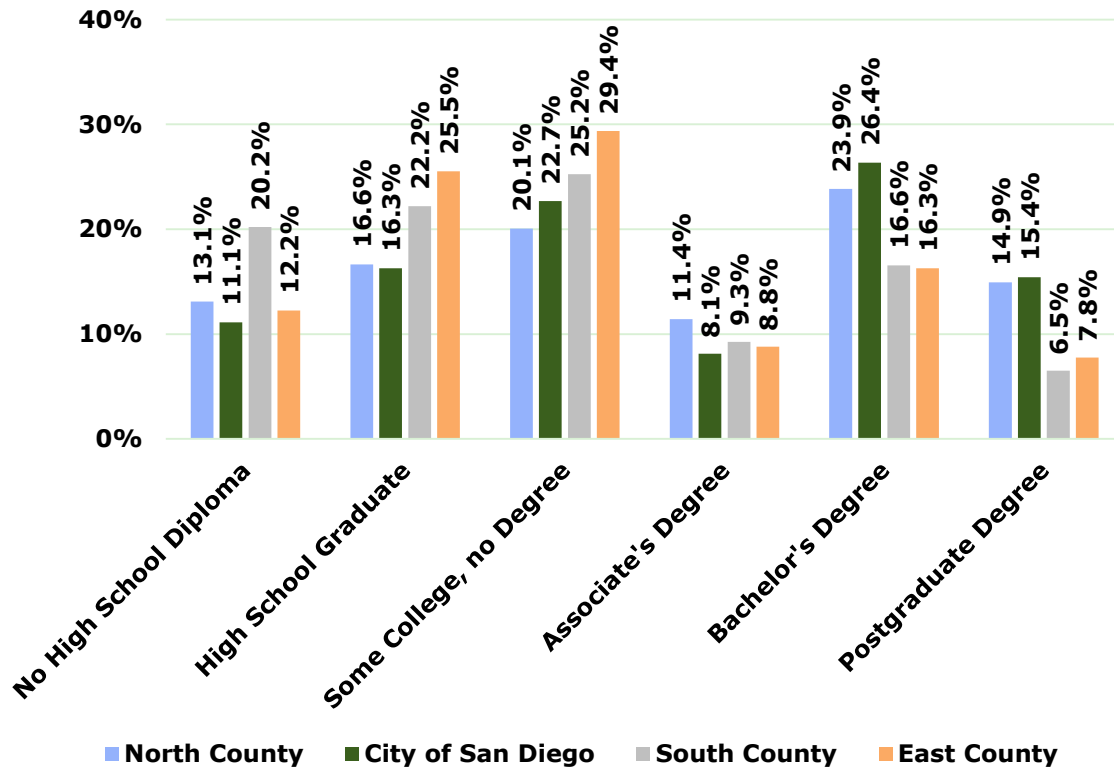
⁵ ACS 1-year 2013-2014 Estimate

⁶ ACS 5-year 2010-2014 Estimates



While age is one component in examining the potential workforce, educational attainment is probably more important as the demands of workers require more training and skills. In general, San Diego County's residents from the City of San Diego and North County have higher educational attainment levels than the state average, while South and East County are below the state average.

Figure 5: San Diego County Regional Educational Attainment Profile (25 to 64 years old)⁷



LABOR FORCE PARTICIPATION

Labor force participation rates remain another valuable barometer of how the region's residents are participating in the economy. City of San Diego and East County provide labor force participation rates just above the state average, while North and South County are just below California's overall participation rate of (62.5%) for 2014;

North County – 60.0%
 City of San Diego – 64.1%
 South County – 60.9%
 East County – 63.0%

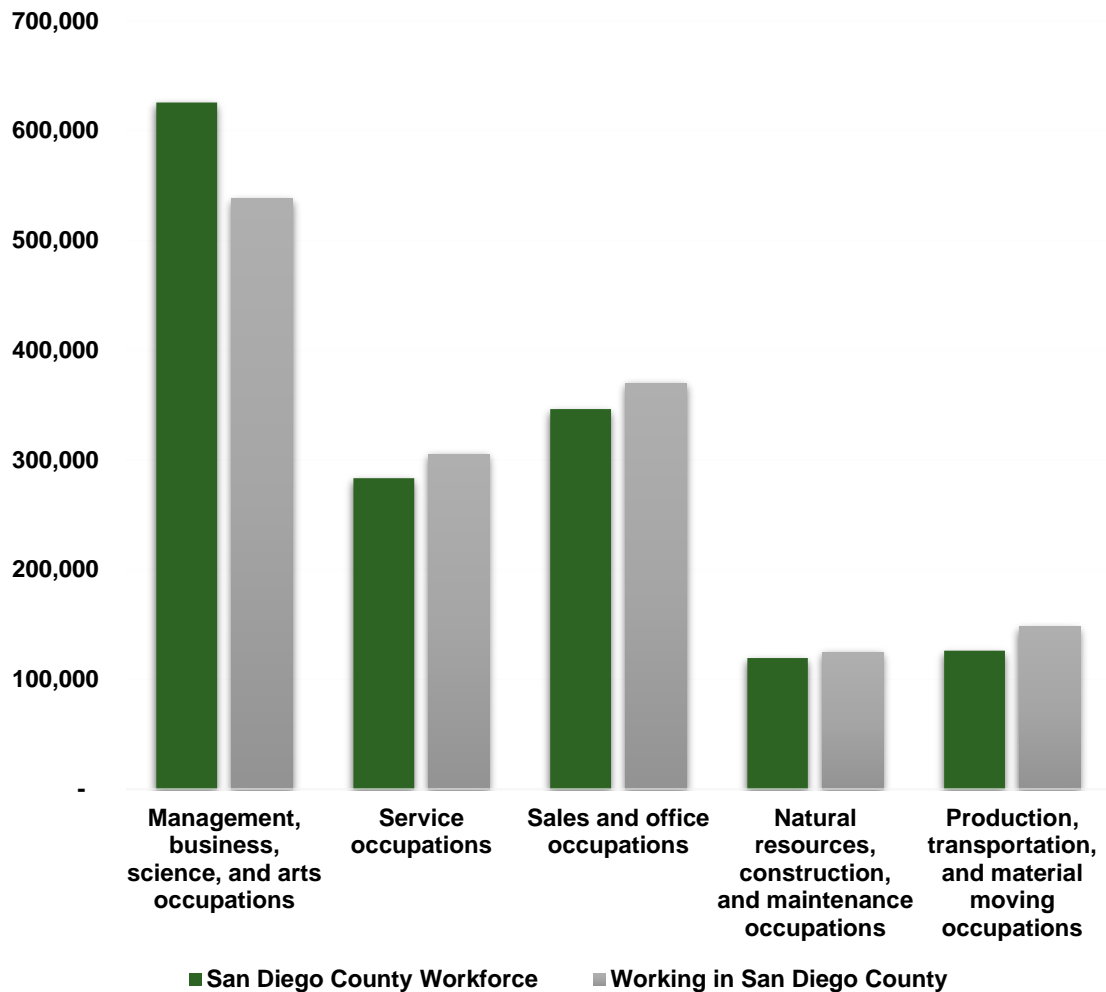
⁷ ACS 5-year 2010-2014 Estimates



OCCUPATIONAL LANDSCAPE

A comparison of the region's workforce (those that live in the region and work) and those working in the County, provides another indicator of how well the region is producing the workers that are needed by regional employers. As the figure below indicates, San Diego County imports workers in four of the five occupational categories. San Diego County does have a surplus of "Management, business, science and arts occupations", generally the highest paying of the five occupational categories. This could indicate that the regions lower paid workers are struggling to live and work in San Diego County.

Figure 6: San Diego County Resident Workforce vs. Those Working in San Diego County⁸



⁸ ACS 5-year 2010-2014 Estimates and JobsEQ



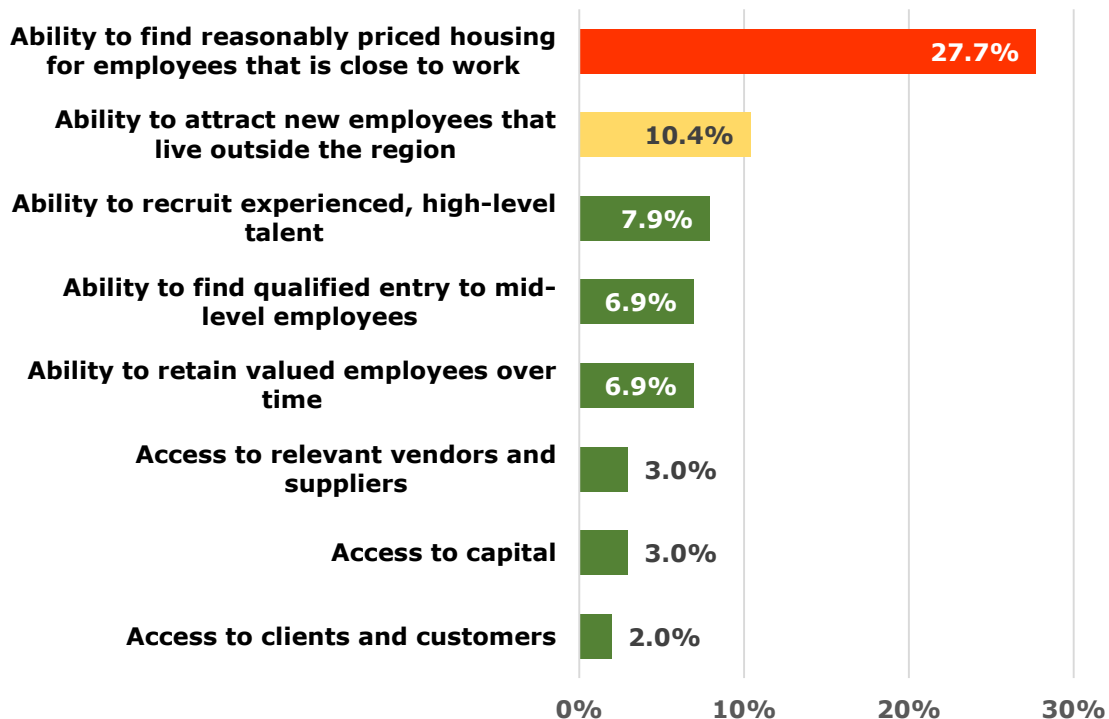
EMPLOYER INDICATORS

The second phase of this research included a robust assessment of San Diego County employers and the challenges and opportunities they face while doing business in the region. Central in this employer assessment was a random and stratified survey of San Diego County businesses that examined the size of the business⁹, their industry, and their sub-region within the County. (See Appendix A – Methodology, for a more complete description of survey methods).

One of the first substantive questions of the survey, asked San Diego County businesses their level of satisfaction or dissatisfaction with eight components of the regional business climate. Of the eight components examined, only two registered 10 percent or higher dissatisfaction. The highest level of dissatisfaction was identified as the “Ability to find reasonably priced housing for employees that is close to work” (28% dissatisfaction), followed by the “Ability to attract new employees that live outside the region (10% dissatisfaction). Other issues such as “Access to clients and customers”, “Access to capital” and “Access to relevant vendors and suppliers” had high levels of satisfaction and little to no dissatisfaction.

DIFFICULTY OF RECRUITING AND RETAINING WORKERS

Figure 7: Employer Dissatisfaction with Aspects of Business Climate in San Diego County



⁹ Size of business was defined by the number of employees at the organization.

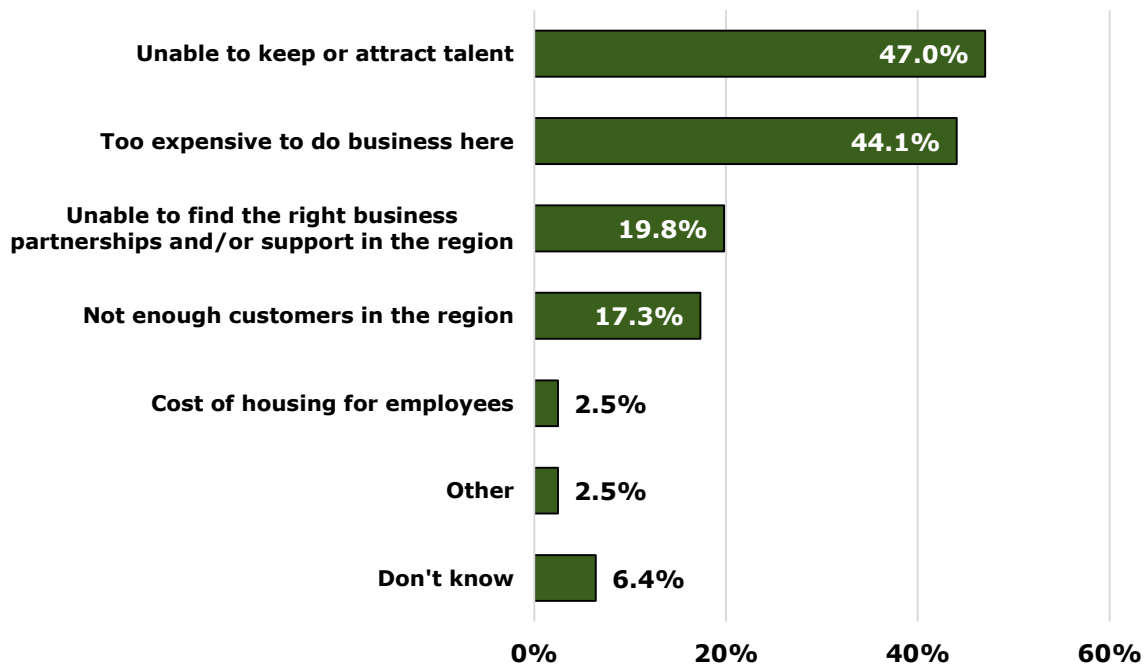


One of the few open-ended questions of the survey, asked San Diego County businesses what was the biggest obstacle to their firm's growth. More than one response was allowed so the responses add up to more than 100%.

The results of this open-ended question show that the biggest obstacles for growth of San Diego County's current businesses, are;

1. Talent: finding, hiring and keeping the workers they need.
2. Cost of doing business
3. Partnerships & business support
4. Customers and finding enough of them in the region

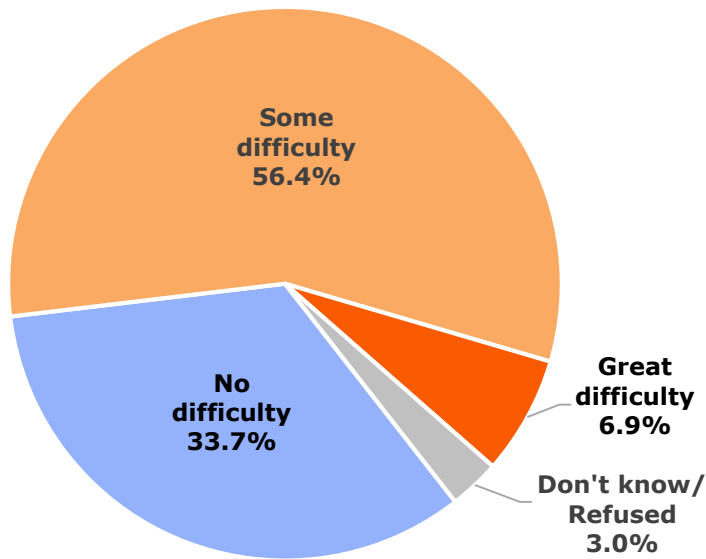
Figure 8: Biggest Obstacles to Growth in San Diego County





San Diego County businesses were next asked about their difficulty finding qualified job applicants. Over sixty percent of businesses indicated they had great (7%) or some (56%) difficulty finding qualified job applicants. This should not be surprising, given the County's low unemployment level of 4.2%¹⁰, but it does signal that if the regional economy continues to add jobs, employers may find it increasingly hard to find qualified job applicants.

Figure 9: Difficulty Finding Qualified Applicants that Meet the Organization's Hiring Standards



¹⁰ Source: California Employment Development Department, May 2016.

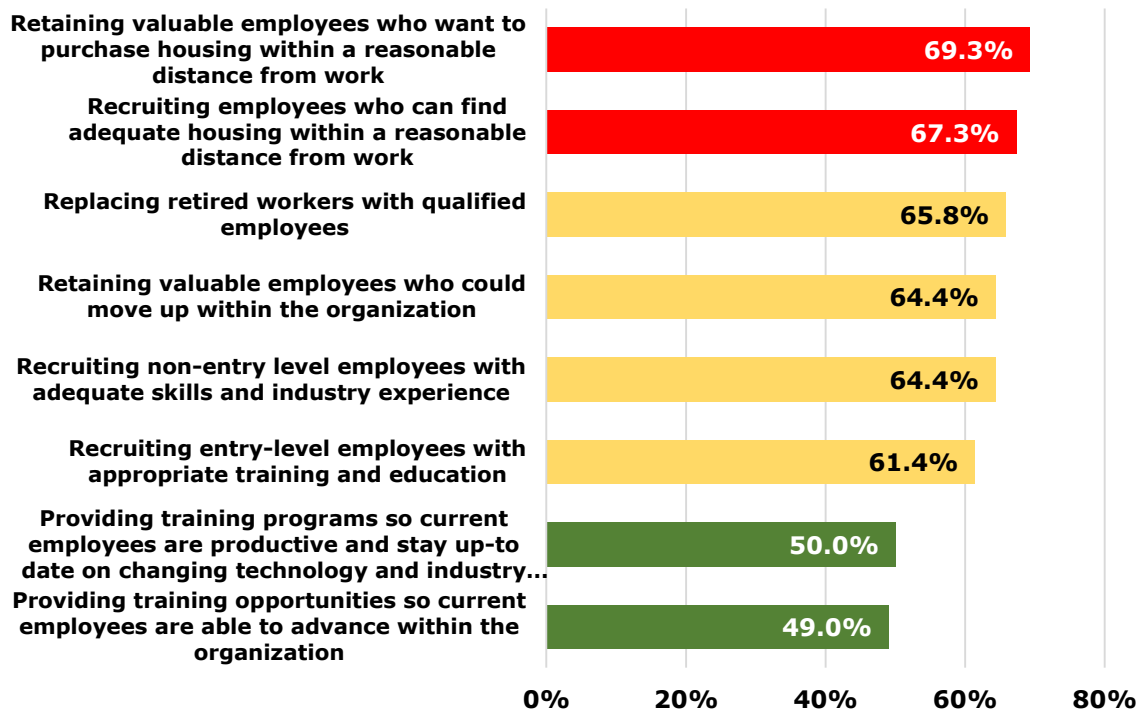


As a follow up to the overall difficulty of finding qualified job applicants, businesses were asked about the difficulty of eight different issues related to their workforce. As the figure below indicates, San Diego County businesses had the most difficulty with;

1. Retaining valuable employees who want to purchase housing within a reasonable distance from work (69% some or great difficulty)
2. Recruiting employees who find adequate housing within a reasonable distance from work (67% some or great difficulty)
3. Replacing retired workers with qualified employees (66% some or great difficulty)

The issues related to housing and retaining and recruiting talent were the challenges facing the highest percentage of San Diego County businesses.

Figure 10: Difficulty with Issues Related to the San Diego County Workforce





APPENDIX A - METHODOLOGY

Data compiled for this report were drawn from both primary and secondary data sources. The table below provides a brief overview of the methodology utilized for the project.

Table 1: Overview of Project Methodology

Method	Secondary Research of Demographic and Economic Data for San Diego County Survey of San Diego County Businesses
Number of Survey Participants	202 Firms in San Diego County Completed a Web Survey
Survey Field Dates	May 27, 2016 – June 2, 2016
Survey Universe	96,601 Firms with Three or More Employees in San Diego County
Survey Margin of Error	The margin of error for questions answered by all 202 respondents was +/-6.89% at the 95% level of confidence.

SECONDARY RESEARCH

All secondary data used in this study were compiled from either Chmura Economics JobsEQ data platform or the United States Census Bureau's American Community Survey (ACS) for San Diego County. The JobsEQ dataset includes state and federal level data sources including the ability to provide zip code level demographic and economic data.

PRIMARY RESEARCH

A web survey of 202 San Diego County employers was conducted as part of this study.

Survey Design

Through an iterative process, BW Research worked with the London Group to develop a survey instrument that met all the research objectives of the study. In developing the survey instrument, BW Research utilized techniques to overcome known biases in survey research and minimize potential sources of measurement error within the survey.

Data Collection

Prior to beginning data collection, BW Research programmed and pre-tested the survey instrument to ensure that all words and questions were easily understood by the respondents. The online survey component used an online survey panel of businesses in San Diego County. Respondents were required to provide zip codes, employment and industry information in order to determine qualification for the study. The random sampling of businesses was also stratified



by geography,¹¹ business size (by number of employees) and industry.¹² The data collection period was May 27, 2016 – June 2, 2016.

A Note about Margin of Error and Analysis of Sub-Groups

The overall margin of error for the survey, at the 95 percent level of confidence, is +/- 6.89 percent for questions answered by all 202 respondents. It is important to note that questions asked of smaller groups of respondents (such as questions that were only asked to firms based off their previous responses) will have a margin of error greater than +/- 6.89 percent, with the exact margin of error dependent on the number of respondents in each sub-group.

¹¹ Four sub-regions: City of San Diego, East County, North County and South County.

¹² Based on responses to screener questions.



APPENDIX B - EMPLOYER TOPLINES



SDC Housing Study

June 2016

San Diego County (SDC) Employer Survey (n=202)

Introduction:

Hello, my name is _____. May I speak to _____ [IF NO NAME IS DETERMINED USE] May I please speak to a manager or a decision maker who is involved in planning, research or budgeting at [firm name]?

I am calling on behalf of BW Research, an independent research organization working on behalf of the San Diego Regional Chamber of Commerce.

The survey will take a few minutes of your time and will help us better understand how to support businesses in our region.

(If needed): This survey has been commissioned by the San Diego Regional Chamber of Commerce, which is committed to supporting the businesses in the County.

(If needed): The survey is being conducted by BW Research, an independent research organization, and should take approximately ten minutes of your time.

(If needed): Your individual responses will **not** be published; only aggregate information will be used in the reporting of the survey results.

Screening Questions

A. Are you involved or leading the recruiting, hiring, planning, or budgeting at your firm?

100.0% Yes [CONTINUE]

0.0% No [TERMINATE]

0.0% Not sure [TERMINATE]



- B. What industry or industries best describes the work that your firm is involved in and connected to?

23.8% Information or professional, scientific and technical services
15.8% Wholesale or retail trade
13.9% Construction
12.9% Finance, insurance or real estate
9.9% Healthcare or education
8.9% Manufacturing
7.4% Arts, entertainment, recreation, accommodation, or food services
4.5% Transportation, logistics or warehousing
3.0% Other

- C. How many business locations does your company or organization have in San Diego County?

38.1% 1 business location
15.8% 2 business locations
46.0% 3 or more business locations

- D. What is/are the zip code(s) of your business location(s) in San Diego County?

_____ # [RECORD ZIP CODE(S)]
 0 [TERMINATE]
 999 Not sure [TERMINATE]

- E. In what general area of San Diego County is your business located, or where are your business locations primarily located?

39.6% City of San Diego or Coronado
35.6% North County (Carlsbad, Oceanside, Vista, Encinitas, Del Mar, San Marcos, Escondido, Fallbrook, Palomar Mountain, Borrego Springs, Poway, Ramona, Julian)
14.4% East County (El Cajon, La Mesa, Lemon Grove, Santee, Alpine, Lakeside, Rancho San Diego, Spring Valley)
10.4% South County (Chula Vista, Imperial Beach, National City)

**[PART 1 – BUSINESS PROFILE AND CUSTOMER AND SUPPLIER CONNECTIONS]**

1. How many years have you had at least one business location in San Diego County?

- 4.5% 0 to 2 years**
- 23.3% More than 2 up to 5 years**
- 29.7% More than 5 up to 10 years**
- 21.8% More than 10 years up to 20 years**
- 19.8% More than 20 years**
- 1.0% Don't know/ Refused**

2. Are your customers primarily local - within San Diego County, regional - within Southern California, Statewide – within California, national – within the Country, or international - outside the Country? [ALLOW MULTIPLE RESPONSES] (Multiple responses permitted, percentages may sum to more than 100%)

- 70.3% Local – San Diego County**
- 38.6% Regional – within Southern California**
- 29.2% Statewide – within California**
- 31.2% National – within the United States**
- 13.4% International – outside the United States**
- 0.5% Don't know**

3. Next, we would like to ask if your firm is primarily focused on serving customers in other businesses, a b2b focus, or primarily focused on serving consumers directly or a combination of both b2b and consumers?

- 25.7% Primarily businesses or B2B**
- 27.7% Primarily consumers directly**
- 41.1% A combination of both businesses and consumers**
- 5.4% Don't know/ Refused**



For this survey, we will just be asking about the employees that work from or directly report to your San Diego County location(s).

4. Including all full-time and part-time employees, including permanent, contract and contingent workers, how many work at or from your San Diego County location(s)?

8.9% Less than 5
 5.0% Between 5 and 9
 10.9% Between 10 and 24
 8.4% Between 25 and 49
 13.9% Between 50 and 99
 52.0% 100 or more
 1.0% Don't know/ Refused

5. If you currently have [TAKE Q1 #] full-time and part-time employees, including permanent, contract and contingent workers, how many more or less employees do you expect to have at your San Diego County location(s) 12 months from now?

Breakdown:

38.1% More
 4.5% Fewer
 54.0% Same number of permanent employees
 3.5% Refused

Expected Permanent Employment in 12 months *outliers removed

(Calculated by only examining businesses with both current and projected data)

	<u>Current</u>	<u>12 months</u>
n	153	153
Mean	307.08	315.01
Median	76.50	81.00
Total Employees	46,983	48,197
Change		1,214
% Growth		2.6%

[If amount differs by 10% or more in either direction, ask:]

Just to confirm, you currently have ____ employees and you expect to have ____ (more/less) employees, for a total of ____ employees 12 months from now.



[IF Q1 ANSWER IS MORE THAN 2 YEARS, THEN ASK Q6, OTHERWISE SKIP]

6. Over the last three years, has your company grown, declined or stayed about the same in terms of permanent, contract and contingent employment at your San Diego County location(s)? By about how many people? (n=193)

Breakdown:

- 34.7% Grown**
- 53.5% Stayed the same**
- 3.0% Declined**
- 8.9% (DON'T READ) DK/NA**

Growth in Permanent Employment over Last 3 Years *outliers removed

(Calculated by only examining businesses with both current and past data)

	<u>Current</u>	<u>12 months</u>
n	167	167
Mean	302.37	315.07
Median	90.00	100.00
Total Employees	50,496	52,616
Change		2,120
% Growth		4.2%

PART 3 - Location and Overall Rating for Economic Development

Next we want to ask about San Diego County as a place for your business

7. Generally speaking, how would you rate San Diego County as a place to do business?

- 37.1% Excellent**
- 47.0% Good**
- 13.9% Fair**
- 1.0% Poor**
- 1.0% Don't know/ Refused**



8. Please tell us how satisfied your company is with the following issues and attributes regarding the business climate in San Diego County.

Is your company satisfied, dissatisfied, or neither satisfied nor dissatisfied with San Diego County's: _____? (GET ANSWER AND THEN ASK:) Would that be very (satisfied/dissatisfied) or somewhat (satisfied/dissatisfied)?

RANDOMIZE

	<u>Very satisfied</u>	<u>Somewhat satisfied</u>	<u>Neither satisfied nor dissatisfied</u>	<u>Somewhat dissatisfied</u>	<u>Very dissatisfied</u>	<u>Don't know/ Refused</u>
A. Access to capital	32.2%	41.1%	20.3%	2.0%	1.0%	3.5%
B. Access to clients and customers	40.1%	44.1%	12.4%	1.0%	1.0%	1.5%
C. Ability to attract new employees that live outside the region	28.7%	37.1%	18.3%	6.4%	4.0%	5.4%
D. Ability to find qualified entry to mid-level employees	30.7%	45.5%	13.9%	5.0%	2.0%	3.0%
E. Access to relevant vendors and suppliers	43.6%	36.6%	14.4%	2.5%	0.5%	2.5%
F. Ability to retain valued employees over time	35.1%	42.1%	13.4%	5.9%	1.0%	2.5%
G. Ability to recruit experienced, high-level talent	30.2%	42.6%	16.3%	6.4%	1.5%	3.0%
H. Ability to find reasonably priced housing for employees that is close to work	25.2%	29.2%	12.4%	17.3%	10.4%	5.4%



9. What do you see as the biggest obstacles for the growth of your firm in San Diego County? (MULTIPLE RESPONSE ALLOWED) (Multiple responses permitted, percentages may sum to more than 100%)

RANDOMIZE ORDER (OTHER ON THE BOTTOM)

- 47.0% Unable to keep or attract talent**
- 44.1% Too expensive to do business here**
- 19.8% Unable to find the right business partnerships and/or support in the region**
- 17.3% Not enough customers in the region**
- 2.5% Cost of housing for employees**
- 2.5% Other**
- 6.4% Don't know**

Workforce Development & Skills Assessment

Now we would like to ask about your organization's need for new employees.

10. Thinking about the **positions** you hire for at your San Diego County location(s), how much difficulty does your company have finding qualified applicants who meet the organization's hiring standards?

- 33.7% Little to no difficulty**
- 56.4% Some difficulty**
- 6.9% Great difficulty**
- 3.0% Don't know/ Refused**

11. When a non entry-level position becomes available in your firm, do you more often promote from within, hire from outside the company, or is it an even split between the two?

- 35.1% Promote from within**
- 52.5% Even split (50-50 promote & outside)**
- 7.9% Recruit from outside**
- 4.5% Don't know/ Refused**

12. How often does your business recruit individuals from outside San Diego County?



- 6.9% Always (75% to 100% of the time)
- 27.2% Frequently (50% to 74% of the time)
- 35.6% Sometimes (25% to 49% of the time)
- 24.8% Rarely (1% to 24% of the time)
- 3.5% Never (0% of the time)
- 2.0% Don't know/ Refused

13. Now, we're going to present a list of issues facing the region's workforce in the coming years. Please tell me how much difficulty your organization faces in addressing each.

Here's the (first/next) one _____ (READ ITEM): Please tell me whether your organization has no difficulty, some difficulty, or great difficulty in dealing with this issue.

RANDOMIZE

	<u>No difficulty</u>	<u>Some difficulty</u>	<u>Great difficulty</u>	<u>Don't know/ Refused</u>
A. Replacing retired workers with qualified employees	25.7%	47.5%	18.3%	8.4%
B. Providing training programs so current employees are productive and stay up-to date on changing technology and industry requirements	47.5%	33.7%	16.3%	2.5%
C. Providing training opportunities so current employees are able to advance within the organization	47.5%	35.1%	13.9%	3.5%
D. Recruiting entry-level employees with appropriate training and education	35.6%	46.5%	14.9%	3.0%
E. Recruiting non-entry level employees with adequate skills and industry experience	31.7%	47.0%	17.3%	4.0%
F. Recruiting employees who can find adequate housing within a reasonable distance from work	27.2%	38.1%	29.2%	5.4%
G. Retaining valuable employees who want to purchase housing within a reasonable distance from work	24.8%	44.6%	24.8%	5.9%
H. Retaining valuable employees who could move up within the organization	31.2%	46.5%	17.8%	4.5%

14. What city is your firm headquartered in?

Verbatim responses to be provided



15. Would you be willing to be contacted by researchers and/or educators who are developing new strategies and regional plans to support the San Diego County business community?

49.5% Yes

41.1% No

9.4% Don't know/ Refused

Since it sometimes becomes necessary for the project manager to call back and confirm responses to certain questions, I would like to verify your contact information.

First and Last Name _____

Position _____

Phone _____

Email _____

Company Name _____

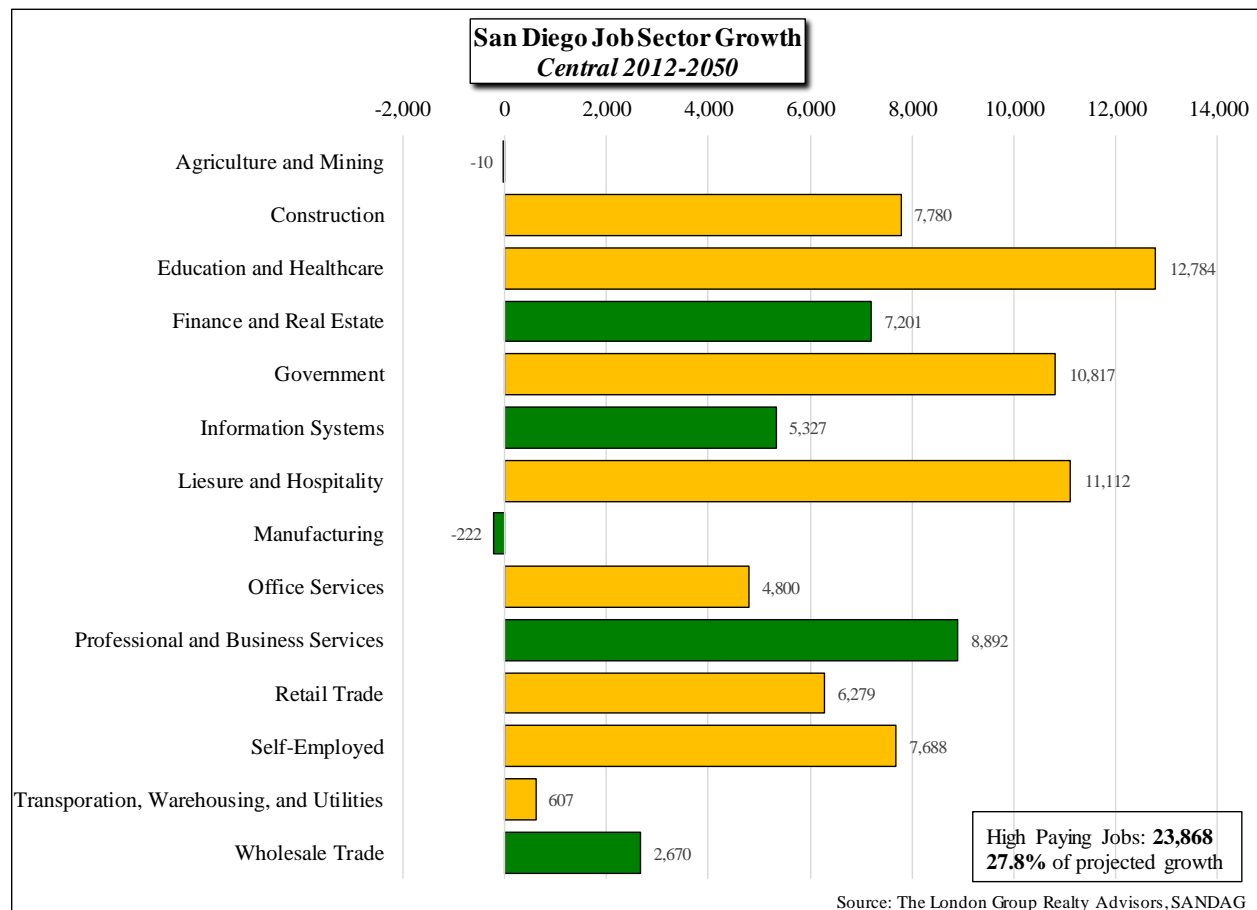
**Those are all of the questions we have for you.
Thank you very much for participating!**

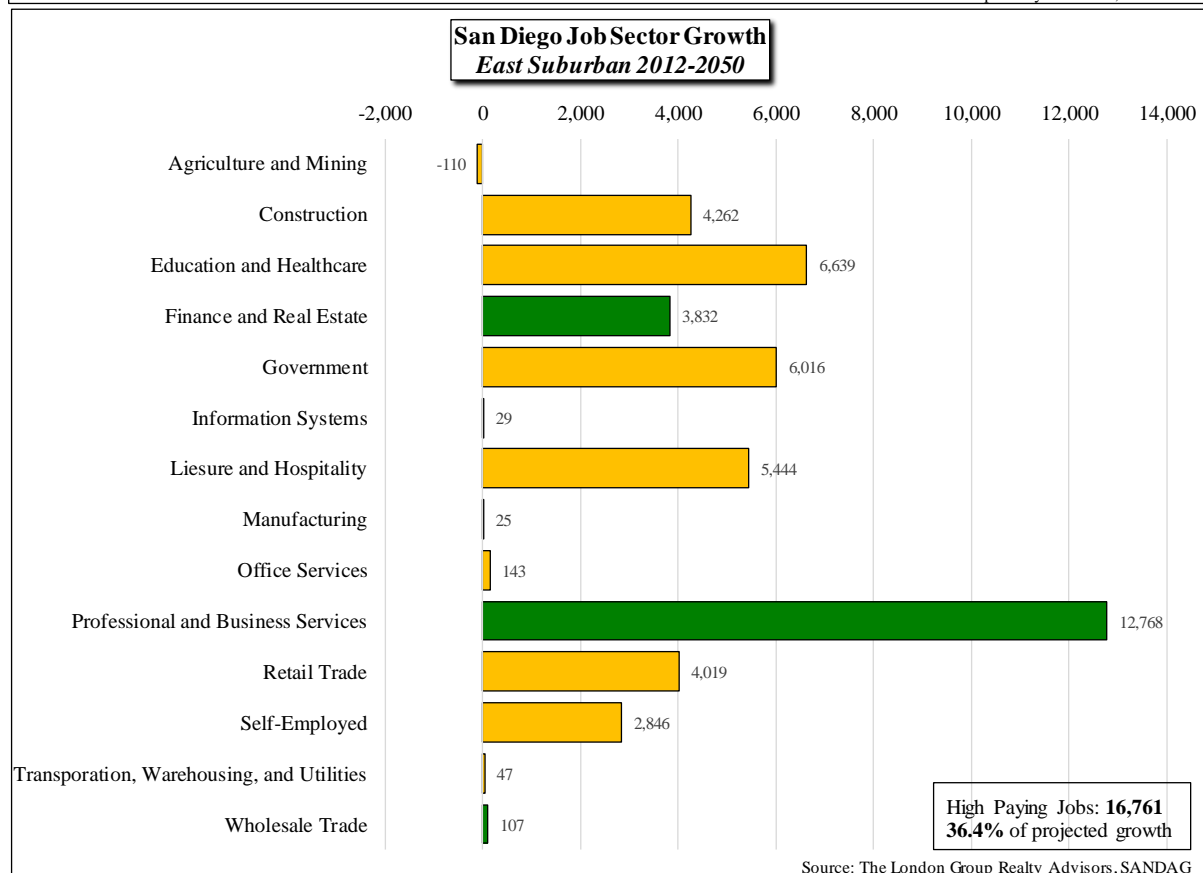
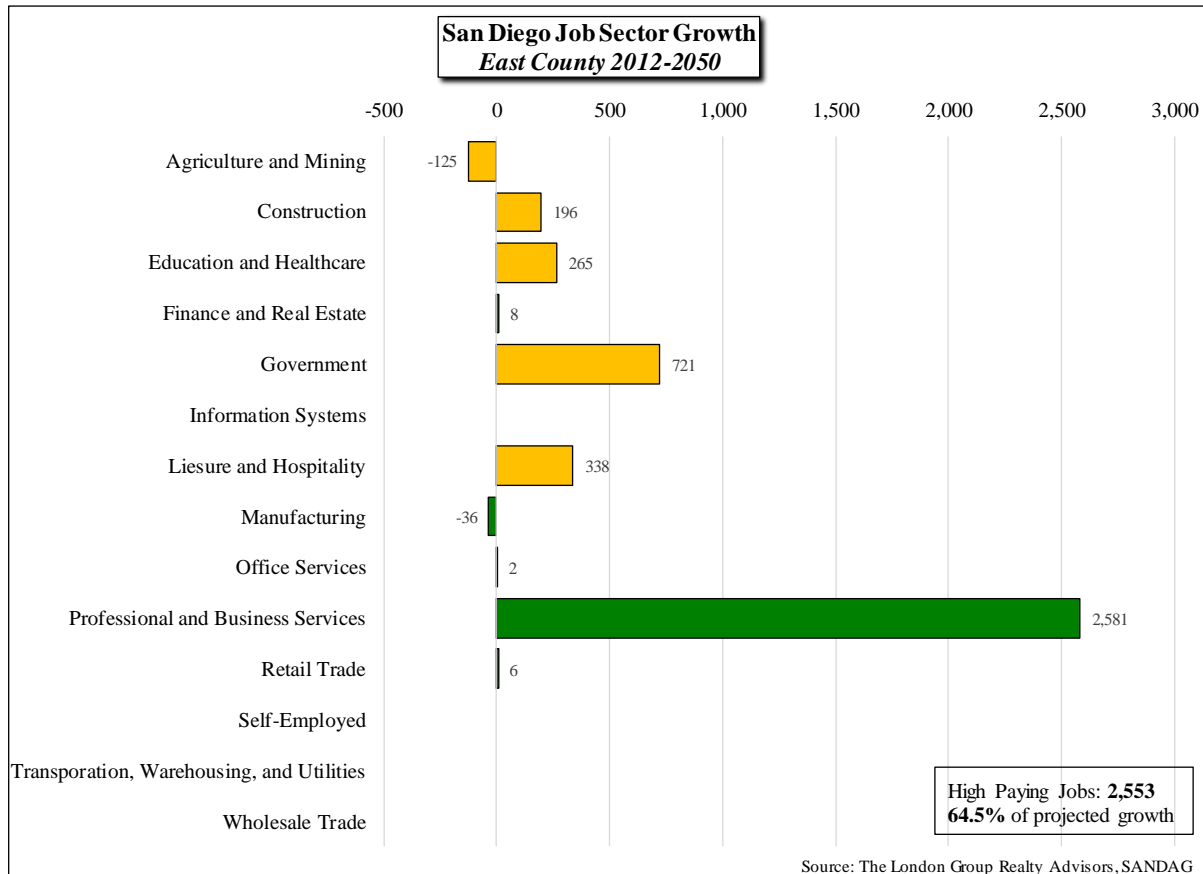


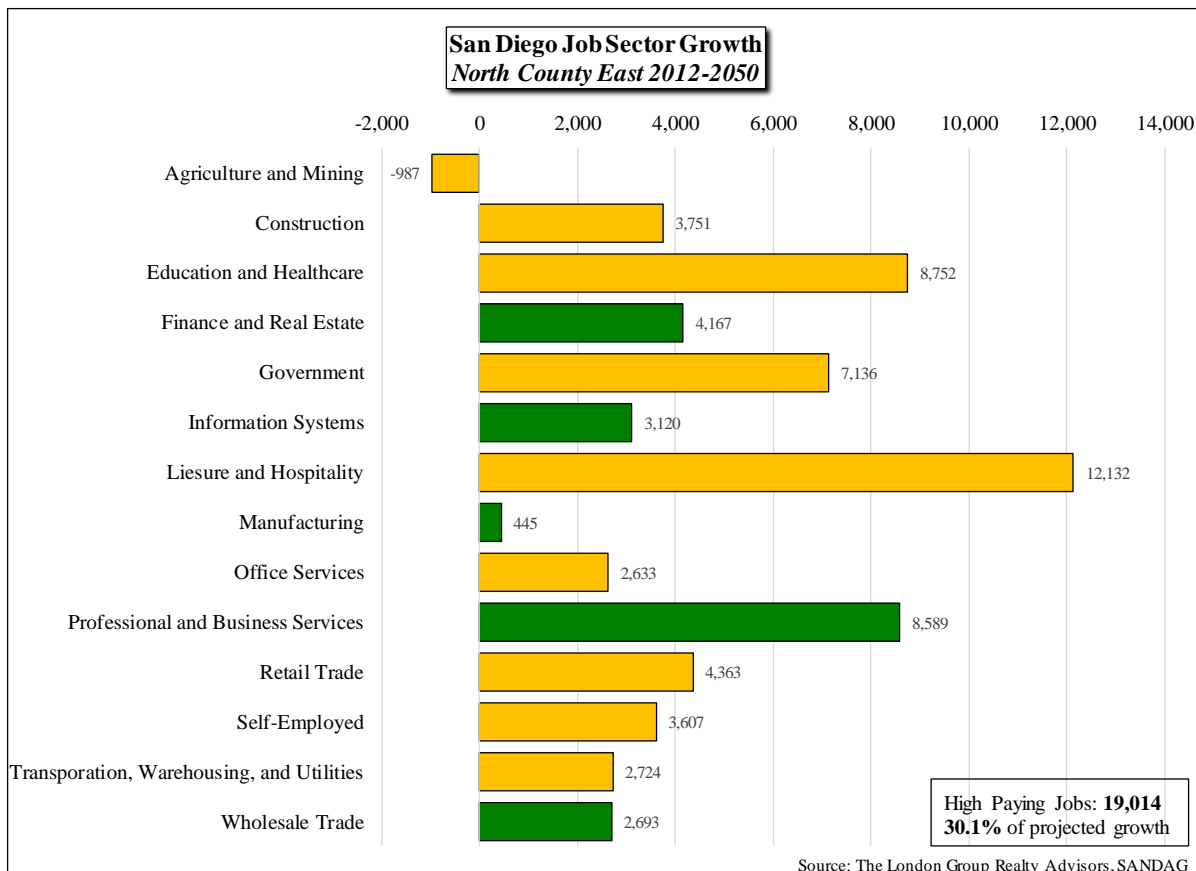
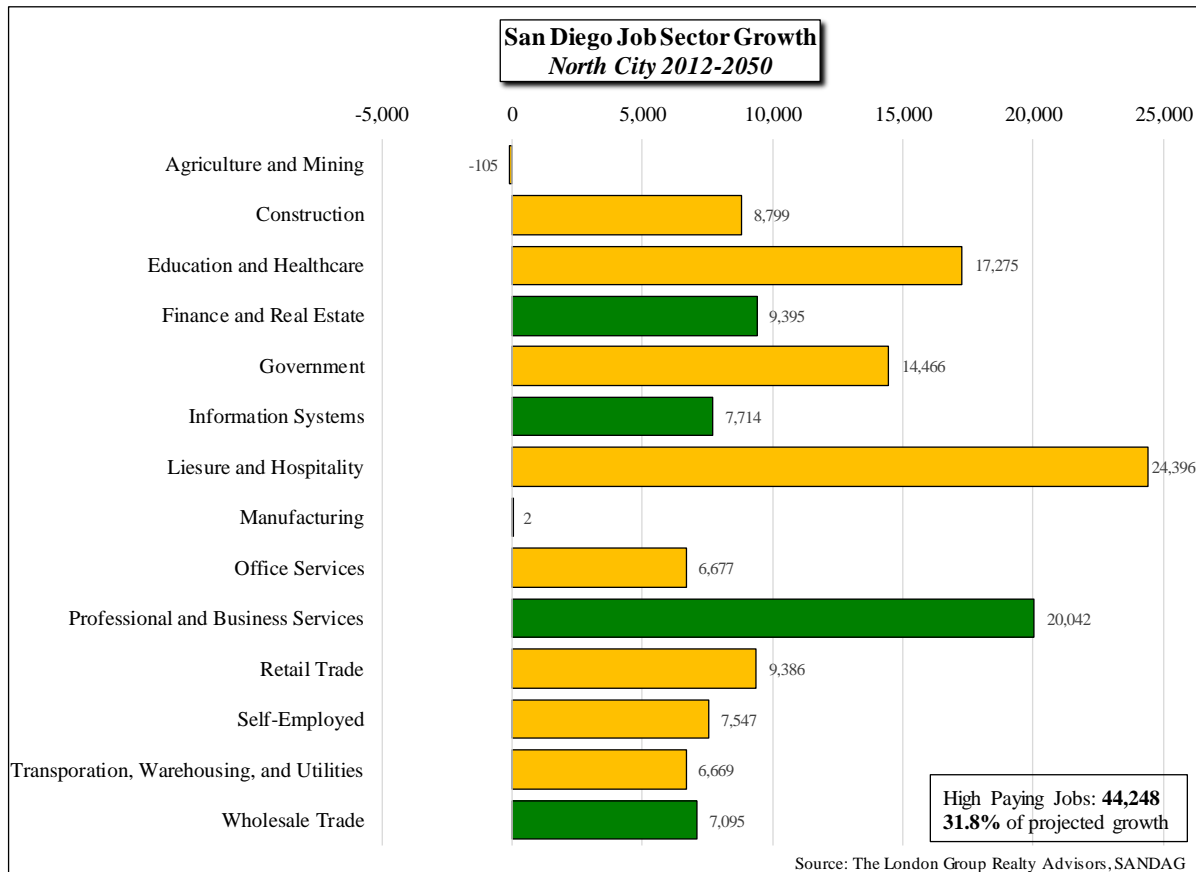
APPENDIX

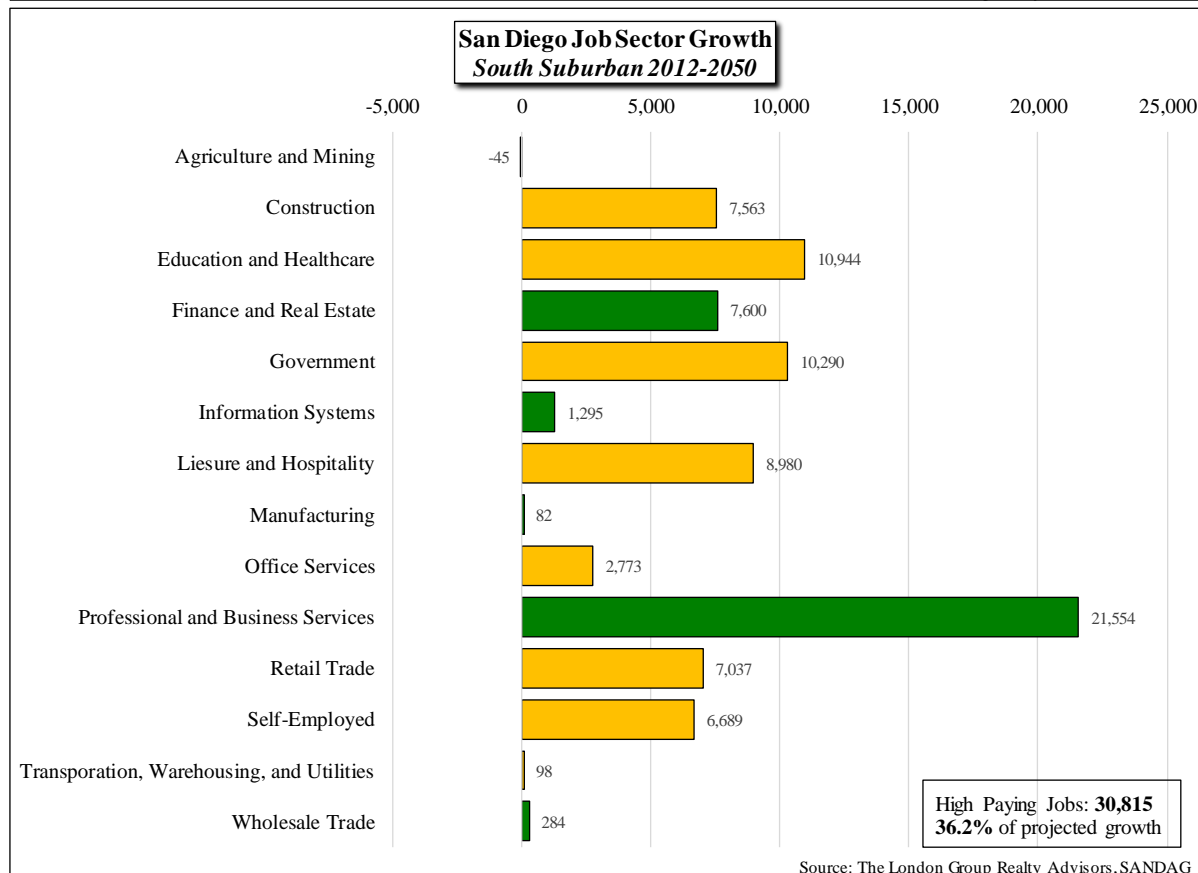
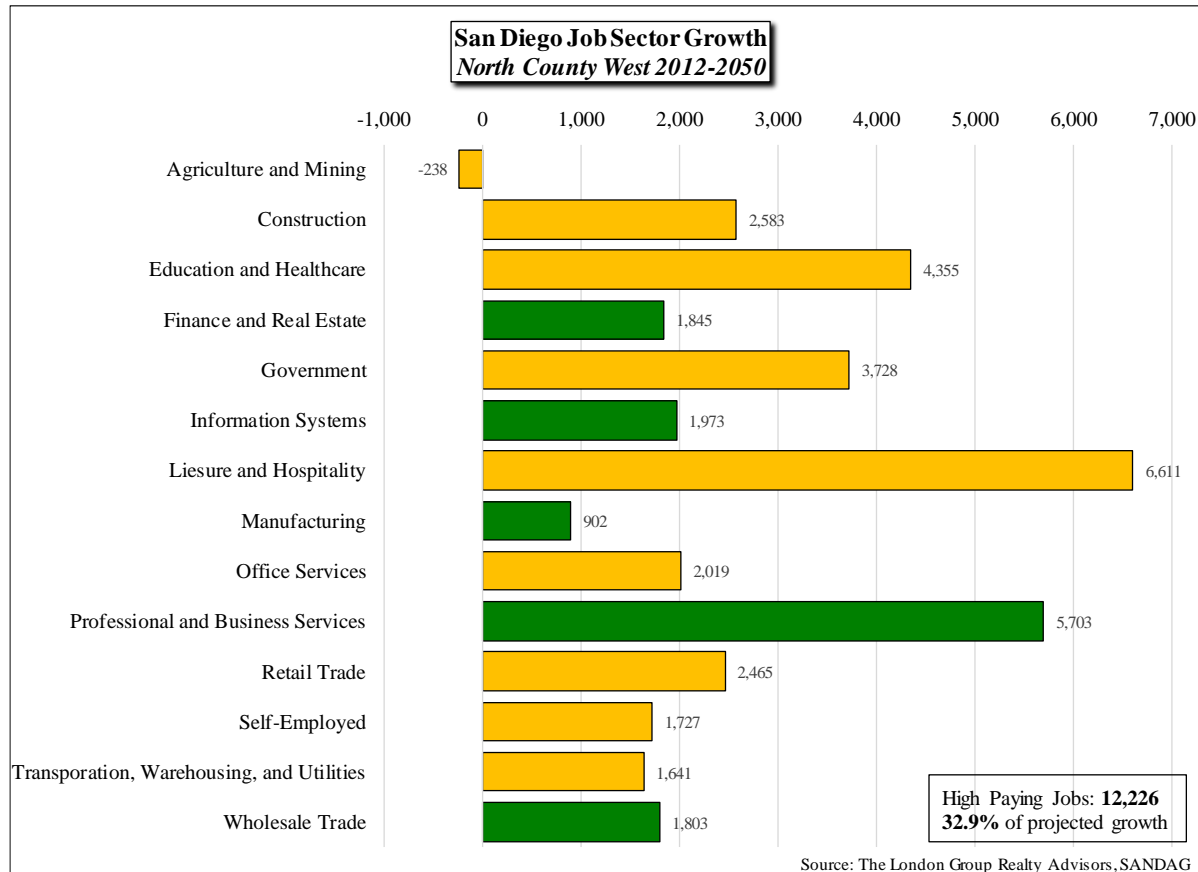


Projected Job Sector Growth: By MSA



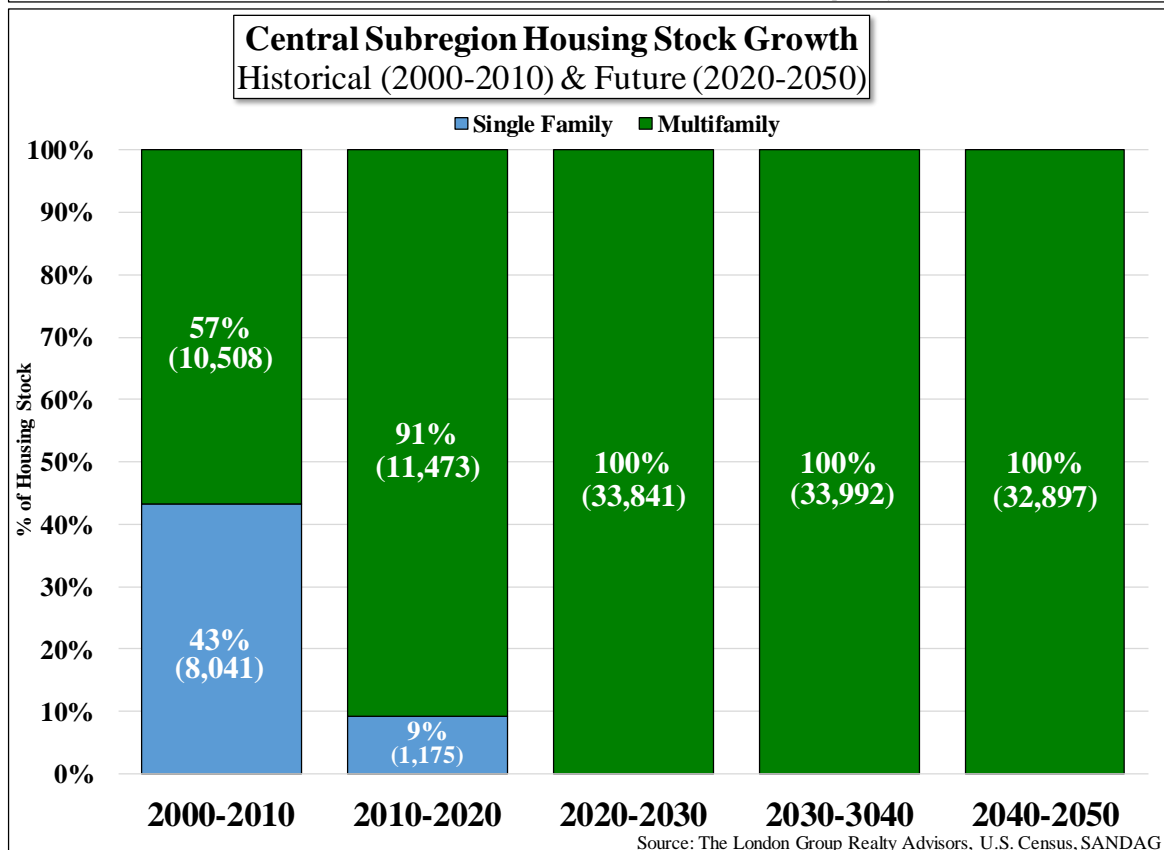
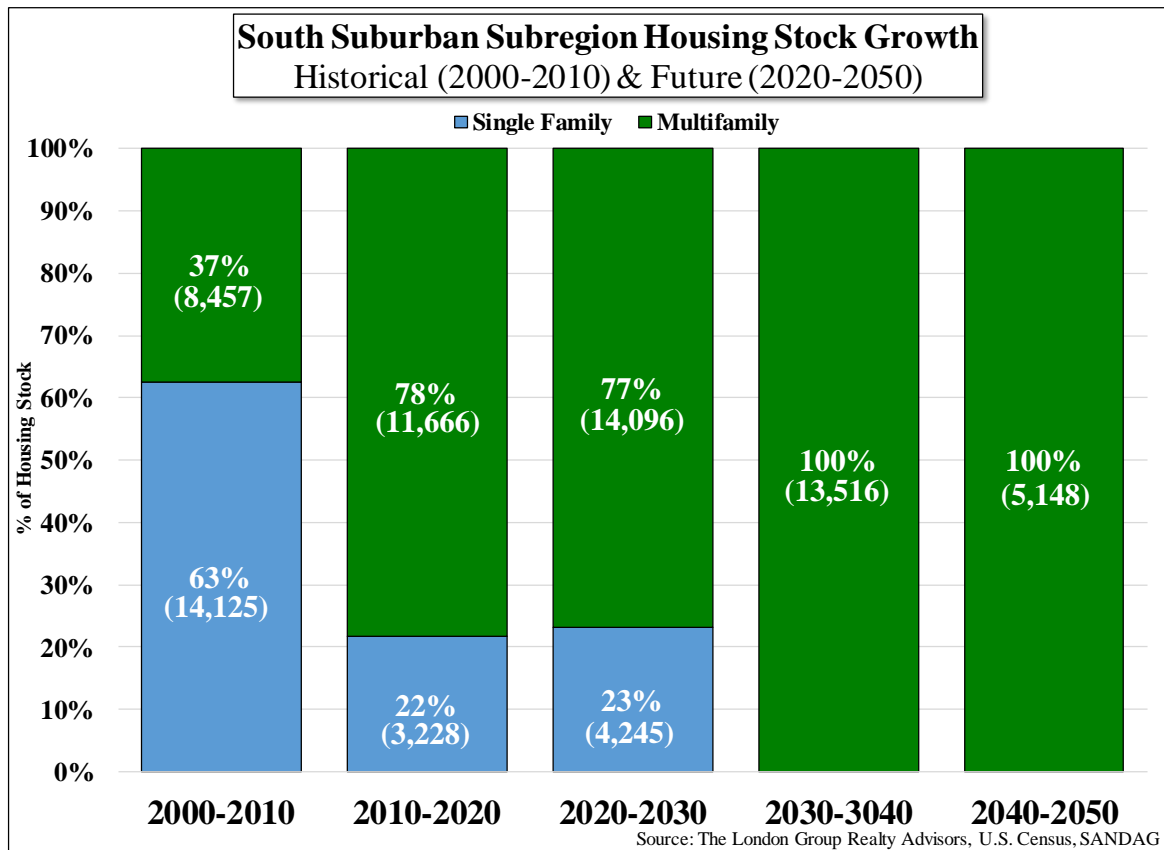


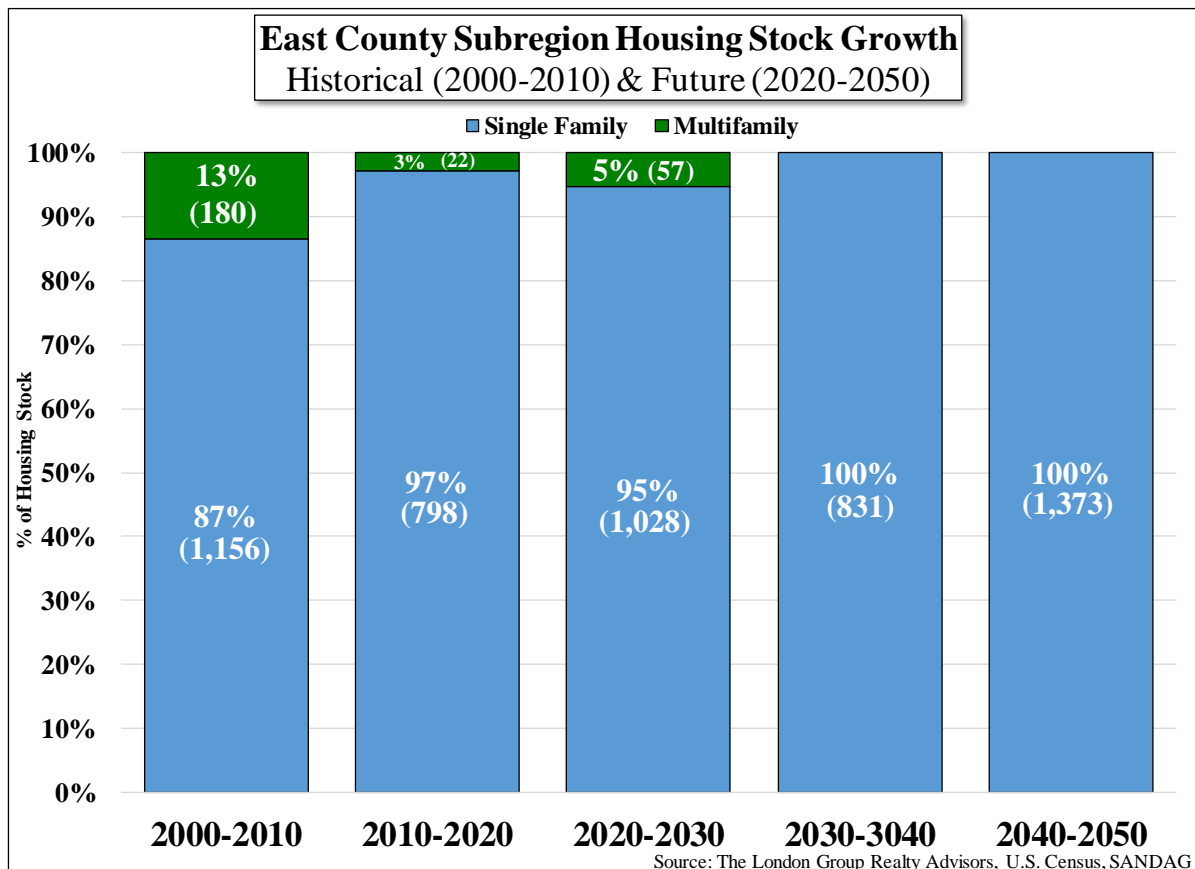
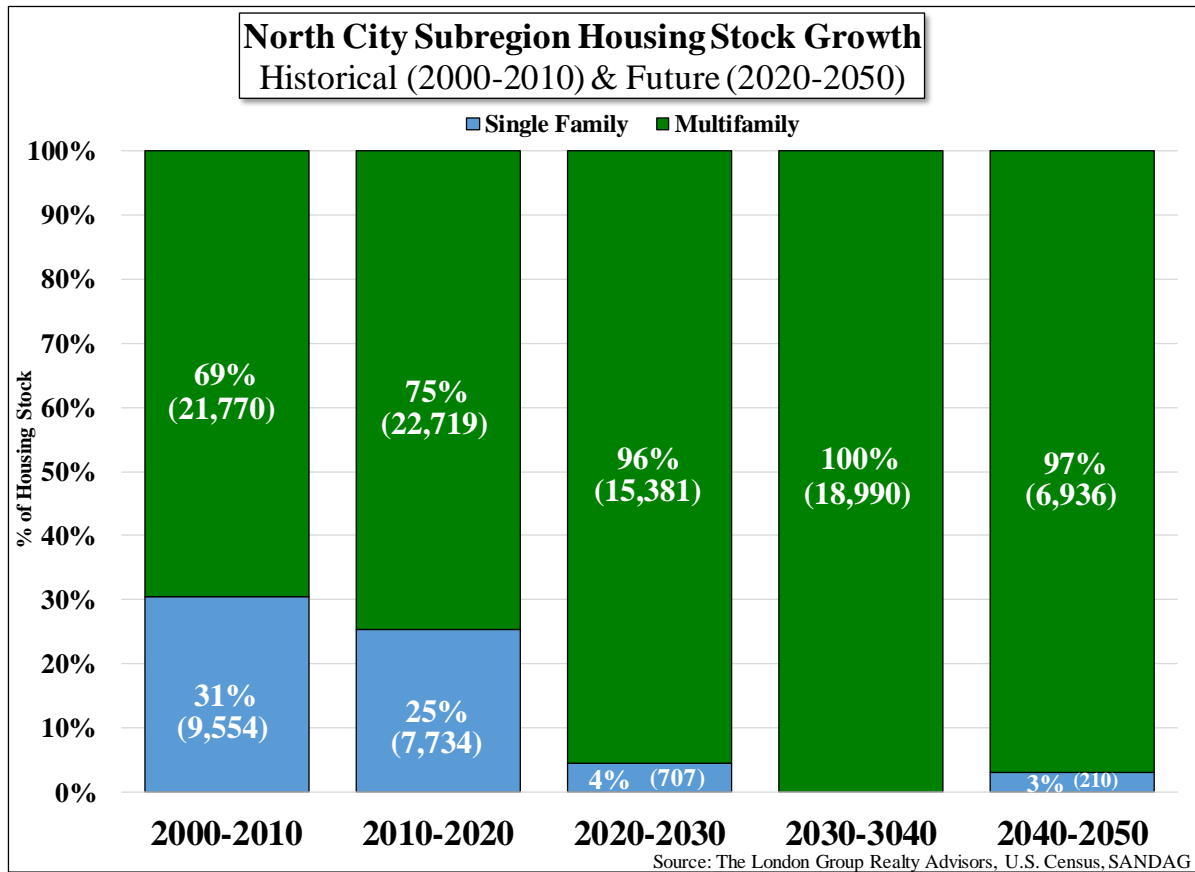


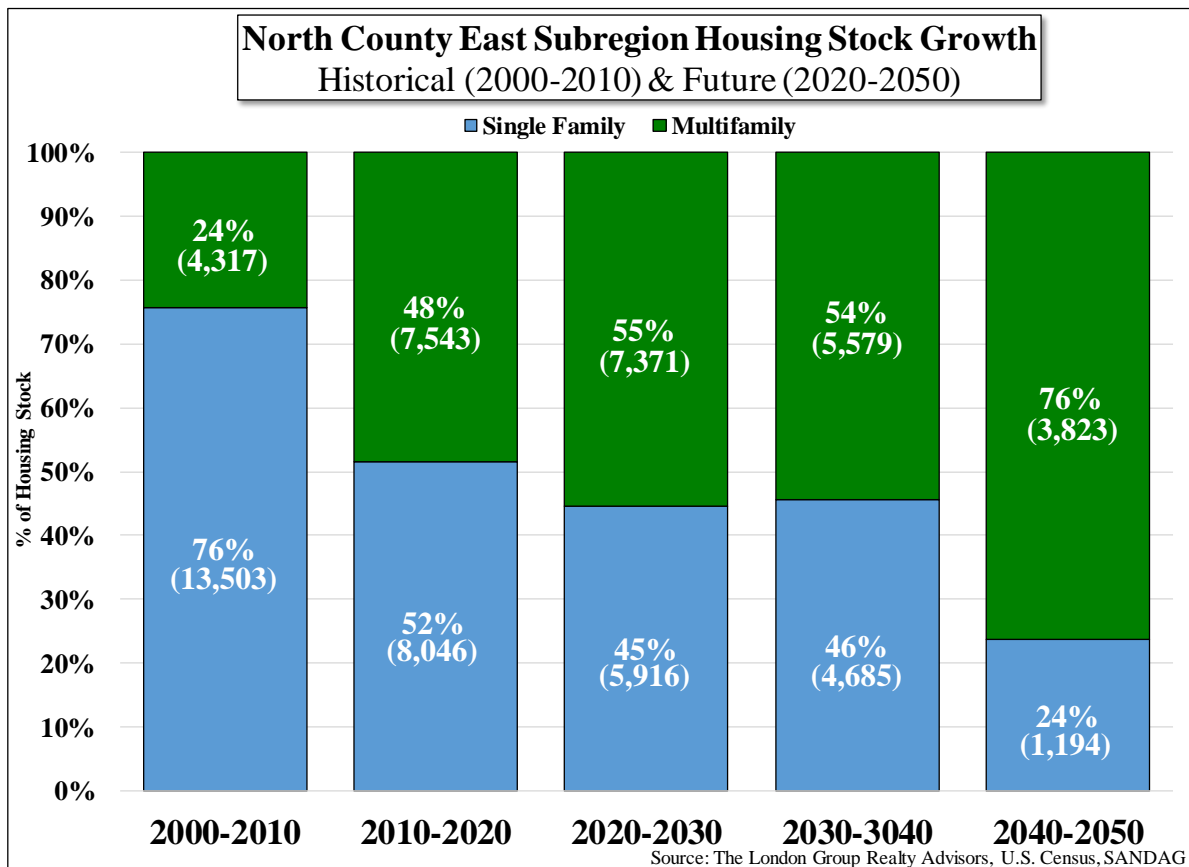
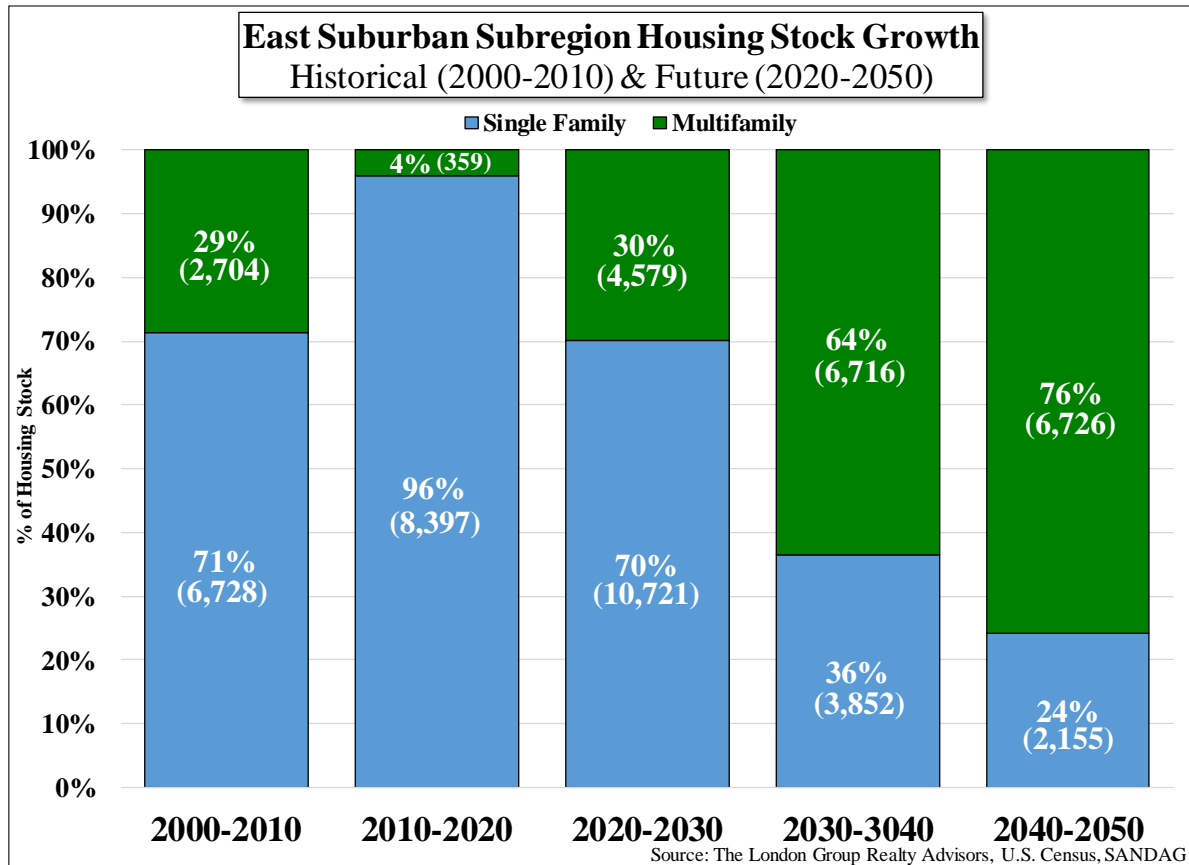


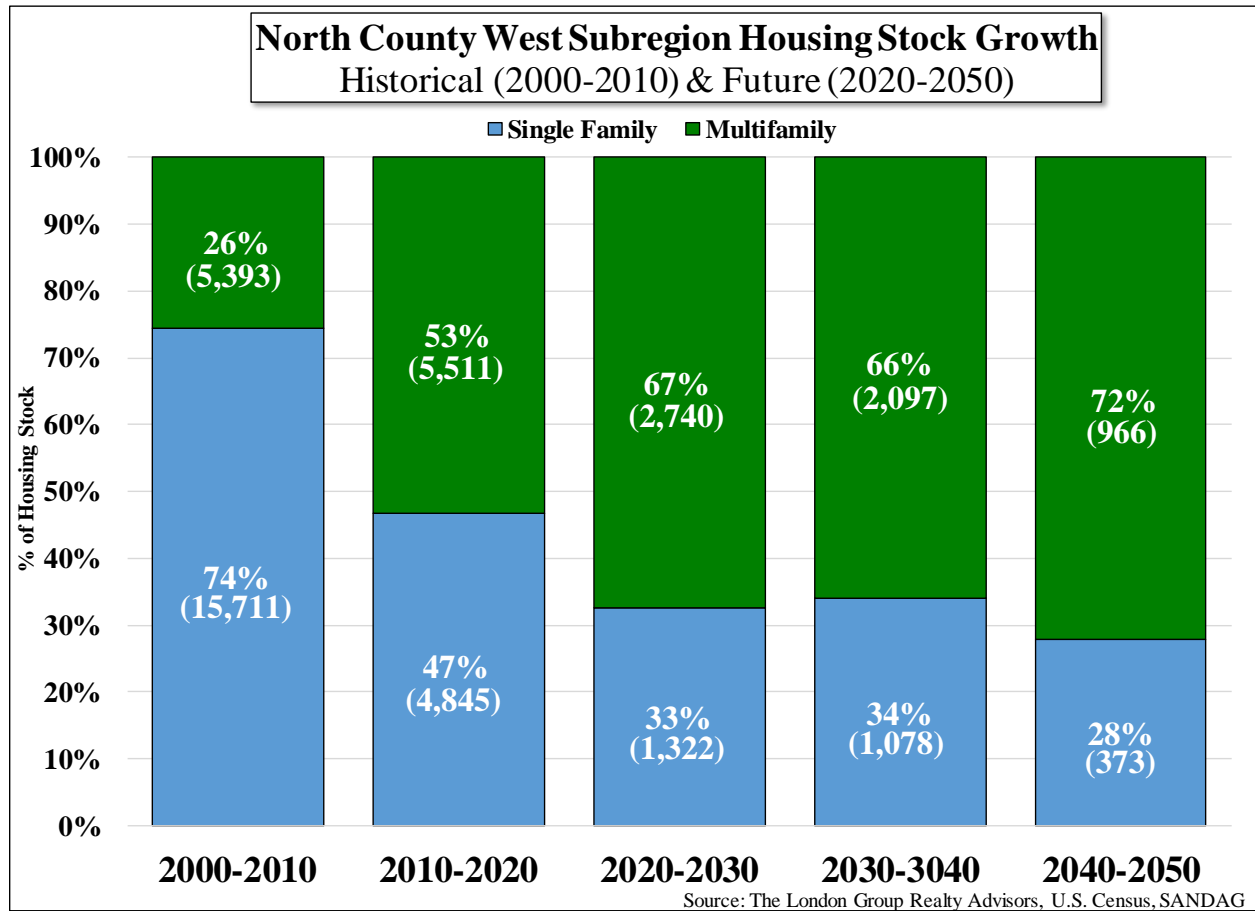


Anticipated Housing Growth: By MSA











COMPANY PROFILE

THE LONDON GROUP

REALTY ADVISORS

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	MAI Valuation
Government Processing	Capital Access	Economic Analysis

The London Group is a full service real estate investment and development consulting, capital access and publishing firm. We determine the answers to the questions: Should I purchase the property? If so, how much should I pay and what is my potential rate of return? What type of project should I invest in or develop? What type of deal should I structure?

To answer these questions we conduct market analysis, feasibility studies, provide financial structuring advice and general economic consulting. Often we 'package' the deal and provide access to capital sources. We also have capabilities in pre-development consulting including asset management and disposition and in providing team coordination, processing and disposition services (packaging and promotion).

The Real Estate & Economic Monitor is a newsletter published by The London Group providing market trend analysis and commentary for the serious real estate investor. The principals of the firm, Gary London and Nathan Moeder, bring acknowledged credentials and experience as advisors and analysts to many successful projects and assignments throughout North America. It is available and regularly updated on the World Wide Web at the following address: <http://www.londongroup.com/>.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff.

Clients who are actively investigating and investing in apartment projects, retail centers and commercial projects have regularly sought our advice and financial analysis capabilities.

We have analyzed, packaged and achieved capital for a wide variety of real estate projects including hotels, office buildings, retail shopping centers and residential housing communities. We are generalists with experiences ranging from large scale, master planned communities to urban redevelopment projects, spanning all land uses and most development issues. These engagements have been undertaken throughout North America for a number of different clients including developers, investors, financial institutions, insurance companies, major landholders and public agencies.



CONTACT INFORMATION

This analysis was prepared by The London Group Realty Advisors commissioned by the San Diego Chamber of Commerce.

Research for this project was completed in July 2016. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report *will* vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise, of property owners, investors, developers, lenders, public agencies, operators or tenants.

This assignment was completed by the staff of The London Group Realty Advisors. **Nathan Moeder**, Principal, served as project director. **Robert Martinez**, Senior Analyst, conducted analysis and prepared the exhibits in this report. **Gary London**, President, provided strategic consultation and recommendations. For further information or questions contact us at:

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