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Housing land shortage brings density dilemma

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The Sacramento region does not have nearly enough land set aside for housing to keep up with projected population growth through the first half of this century, according to a new study of regional growth patterns.

Consequently, the study estimates the six-county region may fall short of demand by roughly 480,000 homes unless governments zone much more land for housing or allow for denser development, allowing builders to put more homes on less land.

It means that Sacramento County, the main location of new homes, and the region is faced with a dilemma if it is to meet projected demand: to build at higher densities or to zone many thousands of acres to maintain the current pattern of low-density development.

Higher density means a potentially controversial move to more apartments, condos and small houses on small lots, while zoning more land to build at current densities means more sprawl, congestion and smog. Doing nothing could accelerate the rise in home prices and make the region unaffordable for workers in lower- income brackets, limiting economic growth.

Some see higher density as the way to save the region's quality of life. "We can do a better job if we have a more dense pattern of development," said Roger Dickinson, a Sacramento County supervisor. "This doesn't mean that it's 20-units-per-acre everywhere. It means that in logical locations, like transportation corridors, we look for opportunities to have a more dense urban pattern. And in new growth areas, we make sure we have a good balance of types of housing."

That means more density, and it may not appeal to some in the real estate industry. "I think there will be tremendous battles between environmentalists and no-growth-ers on one side and land developers and homebuilders," said John Schleimer, analyst for Market Perspectives, a company that studies the new-home market. "The developers will point to this study for the need to expand beyond urban growth boundaries and annex land."

Housing shortfalls: The fact that Sacramento is already under-producing homes was noted last month by a committee of Sacramento County planners — the Housing Continuum Task Force.

The group calculated that between 1995 and 2001 the counties of Sacramento, Placer and El Dorado alone added 178,000 jobs. Using a standard formula for calculating the demand for housing created by the jobs, the task force figured 137,308 new homes were needed. But only 94,367 home were built, creating a 31 percent shortfall of 42,941 homes. The shortfall exists despite the record-level construction of new homes during the past few years.

Last week, community development analyst Mike McKeever released data showing that the region has nowhere near enough land to meet the future demand for housing, let alone to cure the shortfall.

McKeever, a planner with Parsons Brinckerhoff Quade & Douglas, is doing a study of the region's land-use and transportation future for the Sacramento Area Council of Governments, the agency that plans transportation for Sacramento, Yolo, Placer, El Dorado, Yuba and Sutter counties.

He stressed that the numbers are preliminary, but he doubts they will significantly change by the time he reports his findings next month.

He figures the region will need 840,000 new housing units to accommodate projected growth through the year 2050. His calculations are based on projections by the Palo Alto-based Center for the Continuing Study of the California Economy. To build that much housing, along with schools and other infrastructure, would require more than 400,000 acres, possibly as much as 500,000 acres, assuming current densities.

But the Sacramento region's municipalities have designated only 355,000 acres for residential, of which some 290,000 acres is for very-low-density rural residential — typically, lots of an acre or more on which only one house is allowed.

The upshot is that there is probably enough designated land in the region's current general plans for only 300,000 to 350,000 homes, he said.

Municipalities don't plan a half-century ahead, of course. The usual time "horizon" for a general plan is about 25 years. But the existing populations in the region may balk at designating all of the extra land needed to deal with the shortfall, at least in the low-density pattern that has become typical.

When growth moves as fast as it has in this region during the past decade, resistance to more growth tends to increase considerably, said McKeever, who has done studies in other regions.

He also noted that there is plenty of land designated for commercial development.

Higher prices, wary companies: Most pundits say one likely result of a shortfall in housing production is that home prices and rents will continue escalating.

"If you look at the numbers, it's clear Sacramento is headed for higher and higher housing costs, where cost increases continue to outpace local income," said Jeff Goldman, a principal with Parsons, a consultancy hired by Sacramento County to help develop the housing portion for the update of the county's general plan.

Prices are skyrocketing. In the counties that hold the bulk of the regional population — Sacramento, Placer and El Dorado — the median price of a used home rose 65.4 percent between July 1999 and July of this year, according to Lyon & Associates Realtors, from \$142,000 to \$235,000.

Much of the jump came in the past two years. The three-county median zoomed 38 percent between July 2001 and this July, after rising just 19.7 percent during the preceding two years, Lyon reports.

New home prices also rose considerably. The median new-home price in 1999 was \$227,900 and rose to \$296,990 by this June — a 30-percent uptick, according to The Gregory Group, a local company that studies the new-home market.

One likely impact of the rising costs is that some companies looking to move to this area might just balk, because the workers they need may not be able to afford to live here, said Bob Burress, deputy director of the Sacramento Area Commerce and Trade Organization, the group that works to attract companies to this region.

Although Sacramento's median home price is half that in the Bay area and below California's median, assembly companies that employ unskilled labor might not see Sacramento as affordable, he said.

And those companies already here may have to move to follow labor as it follows affordable housing. "As Sacramento prices rise, it will be tougher to hold onto the assembly-line labor force," he said.

But assembly-line workers are the tip of the iceberg. Rising costs are affecting some firemen, policemen, teachers, day-care workers, bank tellers, grocery clerks and every other category of worker making less than about \$50,000 a year, according to the Housing Continuum Task Force.

One notable effect of rising prices is that the "American Dream" of home ownership is slipping here. In 1970, some 66 percent of Sacramento County's populace owned their dwellings — a proportion that dropped to 59 percent by 1990 and 58 percent today, according to data compiled by Sacramento County's planning department.

Many workers are opting for cheaper rental and ownership housing elsewhere in the valley, while keeping a job in the region's most urbanized areas. It's the same pattern that has made the Bay Area into a nightmare of traffic congestion, said Goldman, who also consults with Bay Area municipalities on housing policy.

"If you ever drive in the Bay Area at rush hour, you know what happens if there is a huge mismatch between the location of employment and housing," Goldman said. "You have hundreds of thousands of people who have to commute on a narrow transportation corridor between where they can afford to live and where the jobs are."

You also see overcrowding, as people double up in housing to cut the costs. Others build illegal additions onto their homes, he added.

More land or smaller lots?: One of the most obvious solutions to the land shortage is to simply designate more land for development. But that strategy is becoming less practical because of environmental regulations governing land development, said economist Robert Fountain, analyst for the Sacramento Regional Research Institute at California State University, Sacramento.

Partly because of that and the overall shortage of land, most of California's larger urban communities have already shifted to developing at higher density, and Sacramento will almost surely do the same, he predicted.

"I think a lot of people don't want that, but the constraints are upon us," he said.

He added that one more boom in new-home sales could eliminate much of the land now allowed for housing, further limiting residential supply and almost compelling stepped-up creation of more affordable, high-density homes.

But land developers and homebuilders are skittish about higher density, and residents in single-family house neighborhoods fear that shoddy design, overcrowding and bad neighbors come with high-density development.

"They dread the 'D' word," Dickinson said. "But the question is not density, it's quality. We need to create affordable quality housing with greater density. You can have a very livable environment with high-density."

Fountain pointed to Campus Commons, sections of Gold River and some of the newer downtown Sacramento developments as examples of the high quality that can be achieved in condos and small-lot homes.

Homebuilders have generally lobbied for lower-density development, largely because they believe that is what the public wants. But Schleimer predicted that builders and environmentalists will come up with compromise solutions in the coming battles over land and home development. "I think the market will accept the higher density, if it's priced right — about 10 percent to 15 percent below the lower-density homes."

McKeever's final study will be presented in a forum dubbed "Tall order: Balancing our region's needs," that SACOG and others will host on Oct. 18 at the Sacramento Convention Center. The forum will examine the effect of growth on transportation, air quality and land-use planning. For information on attending, see the SACOG website, <http://www.sacog.org>.

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