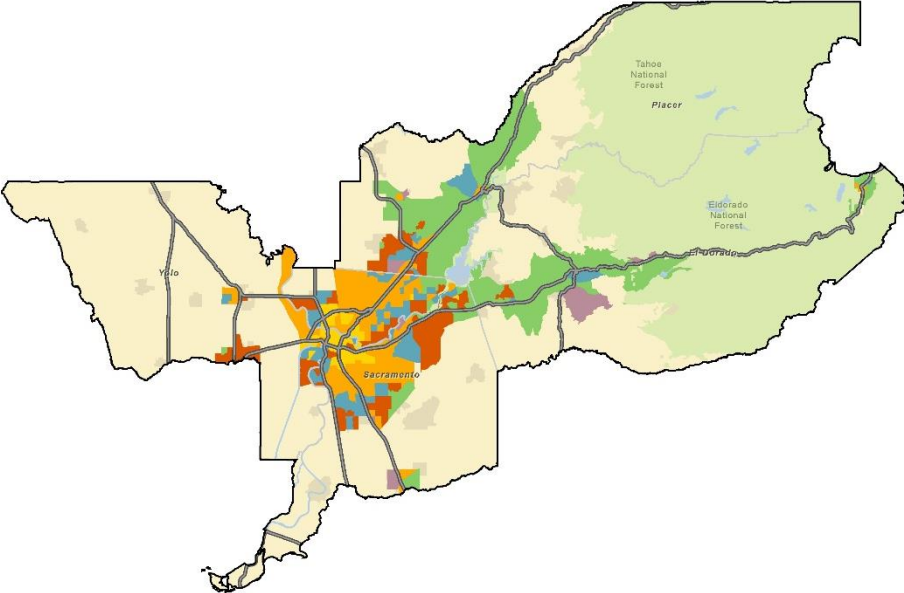


# Housing in the Evolving American Suburb

## The Sacramento Story

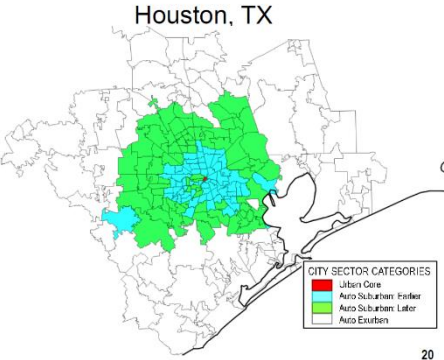
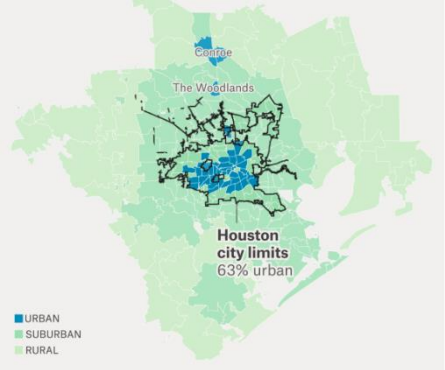
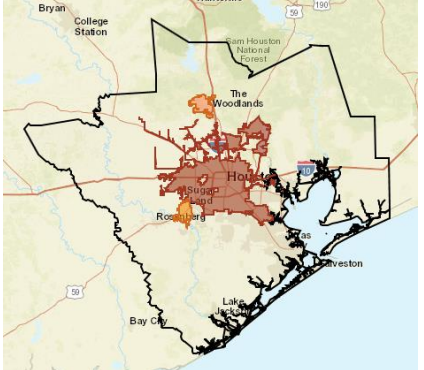
Prepared for ULI Sacramento | April 3, 2018



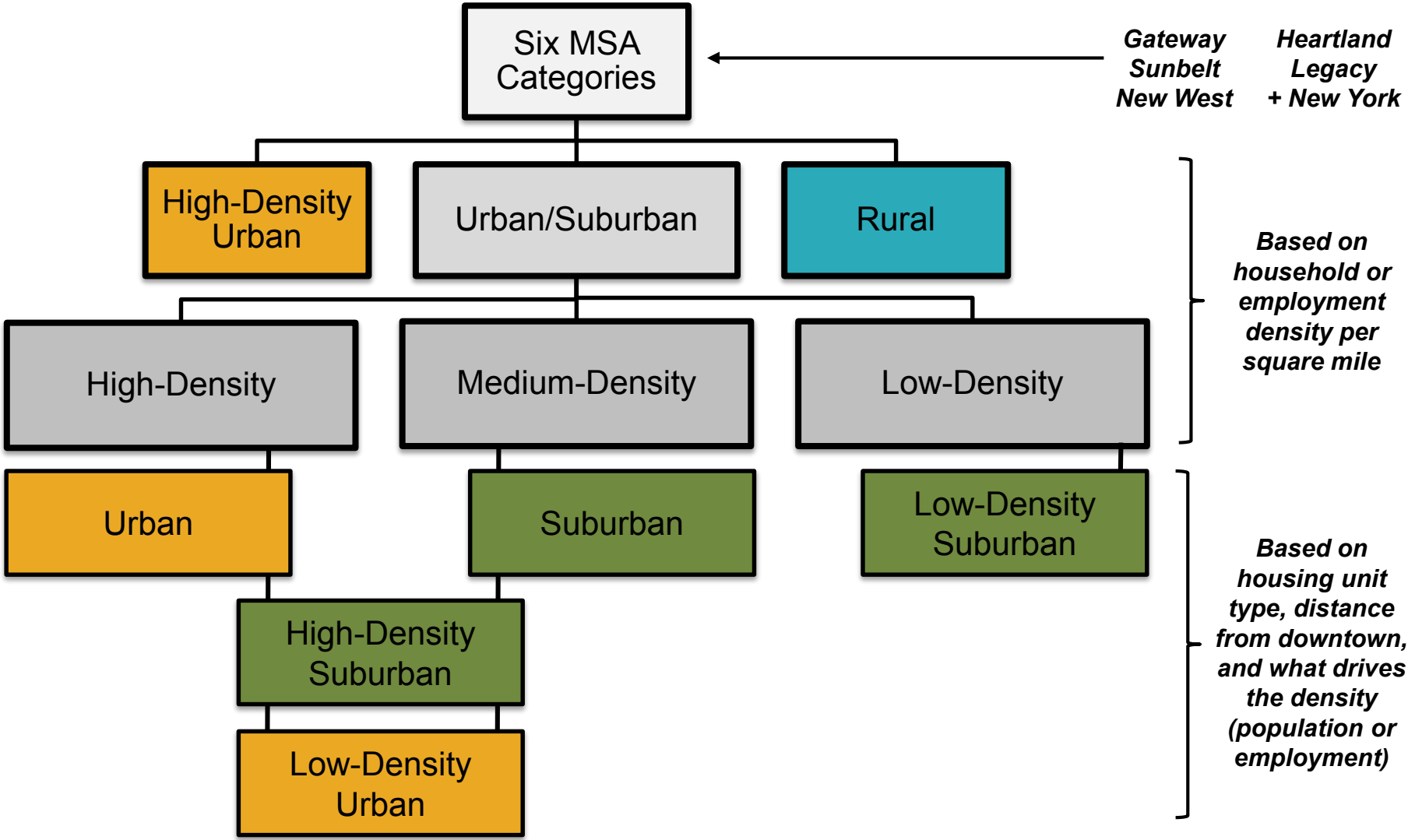
## Suburbs – Overlooked and Underappreciated

- **Most Americans live – often by choice – in a suburban framework**
- **Goals:**
  - Elevate discussion about growth beyond city versus suburbs dynamic
  - Speak frankly about seismic shifts and diversity in suburbs and create a more descriptive language for dealing with them
  - Highlight the interesting and creative responses the development community is bringing to our evolving suburbs

# The First Complication – Nobody Knows What “Suburban” Really Means and the Existing Definitions Don’t Work

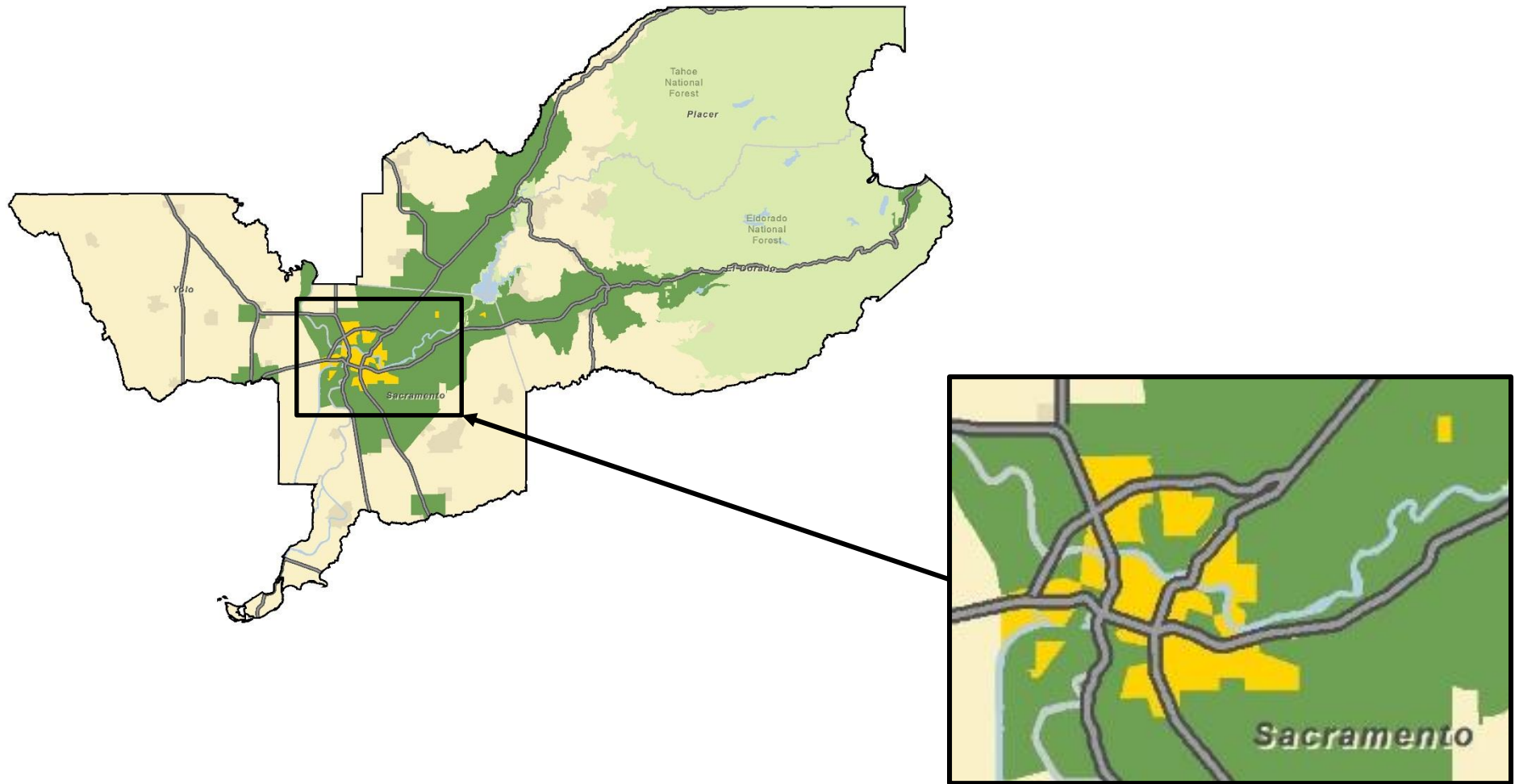
Existing Urban/Suburban Classification Methods:			
	 <p>Houston, TX</p> <p>CITY SECTOR CATEGORIES            Urban Core            Auto Suburban: Farber            Auto Suburban: Laffor            Auto Exurban</p> <p>20</p>	 <p>The Woodlands</p> <p>Houston city limits 63% urban</p> <p>URBAN SUBURBAN RURAL</p>	 <p>Bryan College Station The Woodlands Houston Spring Branch Rosenberg Bay City Weston</p>
Name	<b>Wendell Cox’s City Sector Model</b>	<b>Jed Kolko’s Methodology</b>	<b>Other Studies</b>
Factors Used	Transportation, housing types, employment, zip code boundaries	Household density, survey asking how Americans describe where they live	Jurisdictional boundaries
Shortcomings	Produces very small urban cores, does not include rural areas within MSA boundaries	Applied same methodology to 50+ MSAs even though densities mean different things by different metro; too much urban in some, too much rural in others	In areas like Nashville, the principal city comprises a large portion of MSA, resulting in a lot more “urban” than there is; vice versa in areas like Boston

# So We Developed a New Framework – And It Does a Better Job of Describing the Setting in Which People Live





# And We Mapped It



## Key Findings – National

- **America remains a largely suburban nation** – 77% of the population in 50 top metros.
- **Suburban growth has driven recent metropolitan growth** – 2000 to 2015, suburbs were 90% of population growth.
- **A large majority (64%) of Americans work in suburbs**
- **The suburbs are “young” compared with their regions overall** – 68% of households headed by a person under 35 live in the suburbs of 50 top metros
- **American suburbs as a whole are racially and ethnically diverse** – 74% of the minority population lives in the suburbs
- **There is regional variation in relative urban/suburban home values** – Average home value is \$344,000 in urban areas, versus \$305,000 in suburban areas. On the coasts, the spread is higher; in the Midwest and the South, the spread is inverted

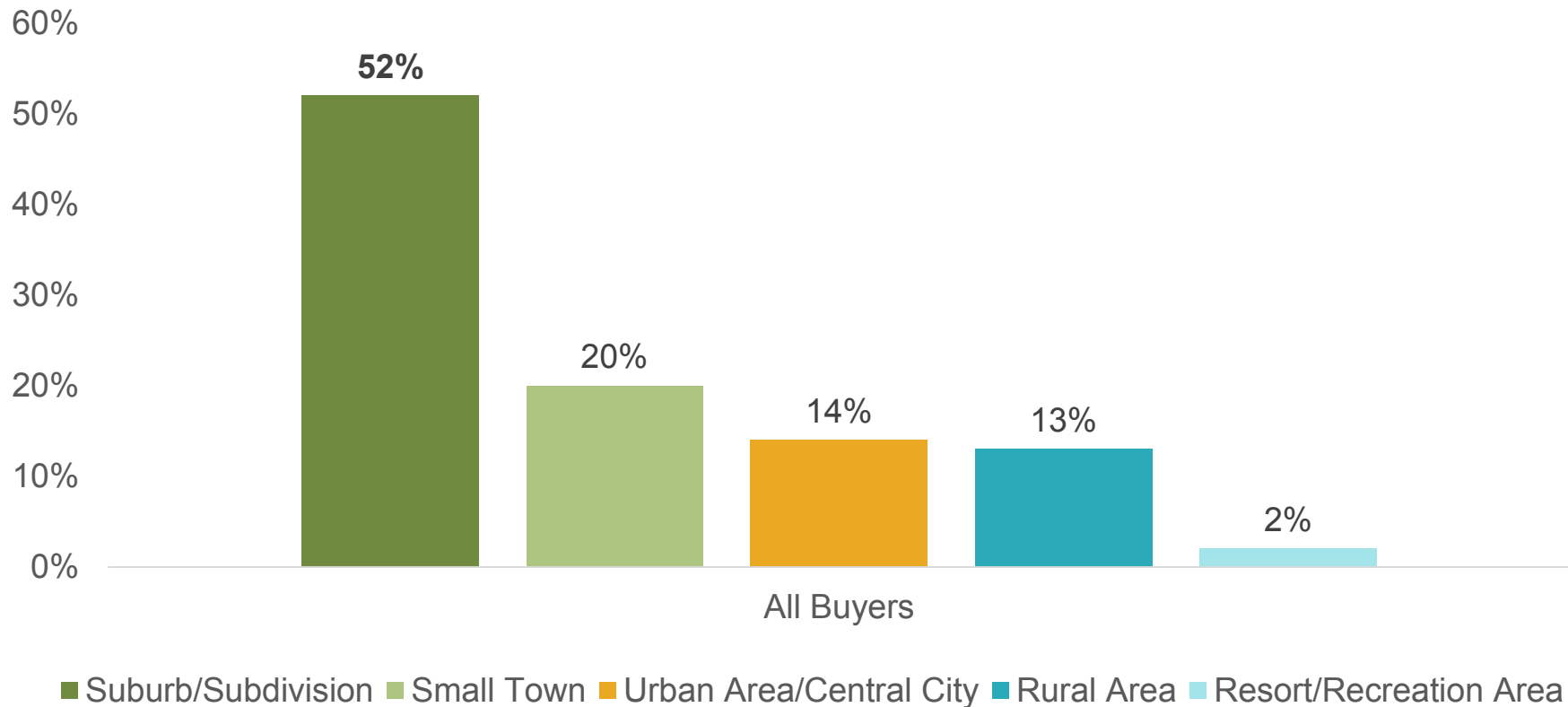
## Key Findings – Sacramento

- **Suburbs are a significant and growing part of Sacramento** – Sacramento has a higher share of suburban population than the 50 largest metros, in general, and the region, in particular. Employment tells a similar story.
- **Suburban population growth is no longer occurring at the expense of urban areas** – Both urban and suburban areas are growing at similar rates.
- **However, the suburbs continue to outperform urban places in terms of job growth** – Between 2010 and 2015, suburban employment increased by 7%, while urban employment increased by only 2%.
- **Many high-income Millennials are choosing to live in the suburbs** – 82% of high-income Millennial households (incomes \$75K+) live in the suburbs, versus only 75% of lower-income Millennial households.
- **Minorities are disproportionately likely to live in urban neighborhoods, economically challenged suburbs, or stable middle-income suburbs** – 69% of minorities live in these neighborhoods, relative to only 60% for the general population as a whole

# Why Do the Suburbs Seem to Be Surviving, Even Thriving? – Because There Is Still Strong Appetite for This Style of Life

The majority of Americans who purchase homes are purchasing homes in conventional suburbs.

### Locational Distribution of Homes Purchased (National)



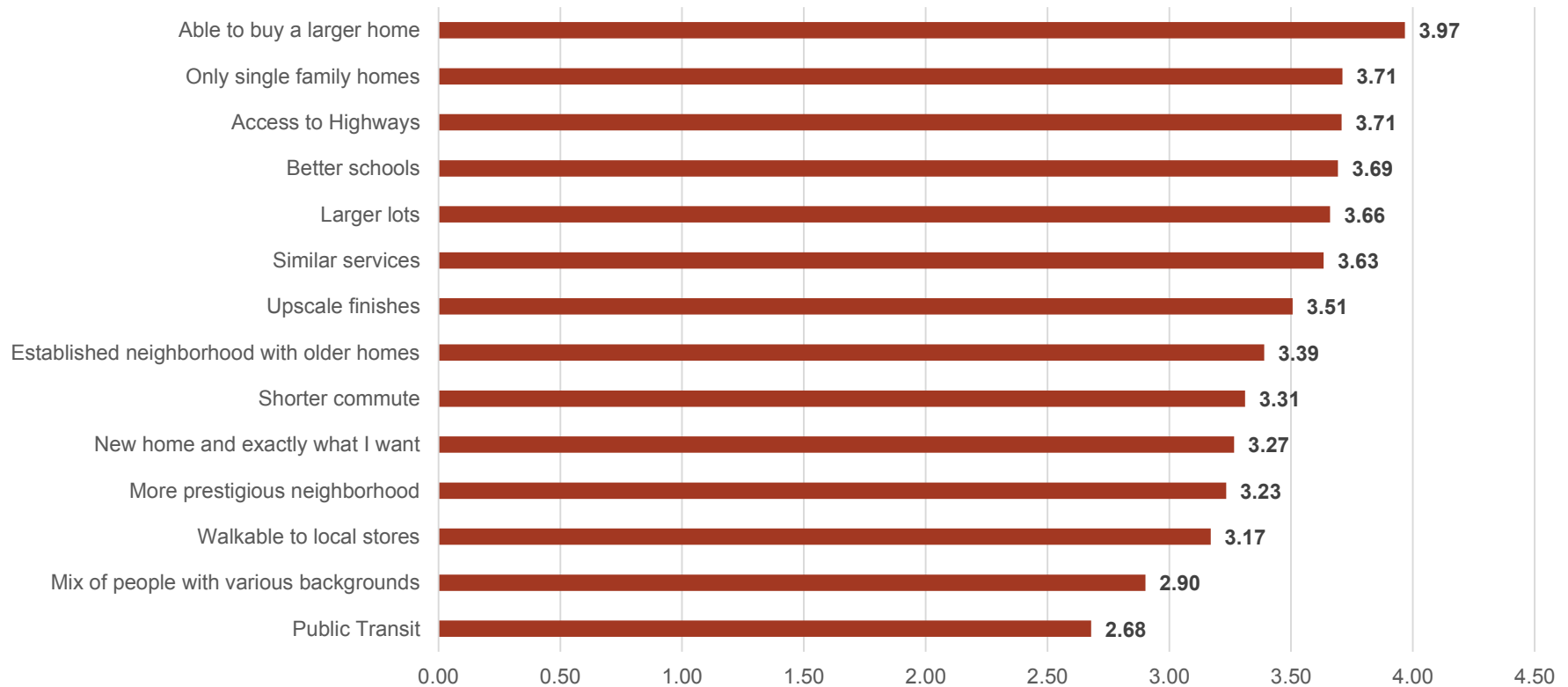
SOURCE: 2016 NAR Home Buyer and Seller Generational Trends Report



# Why Do the Suburbs Seem to Be Surviving, Even Thriving? – Because There Is Still Strong Appetite for This Style of Life

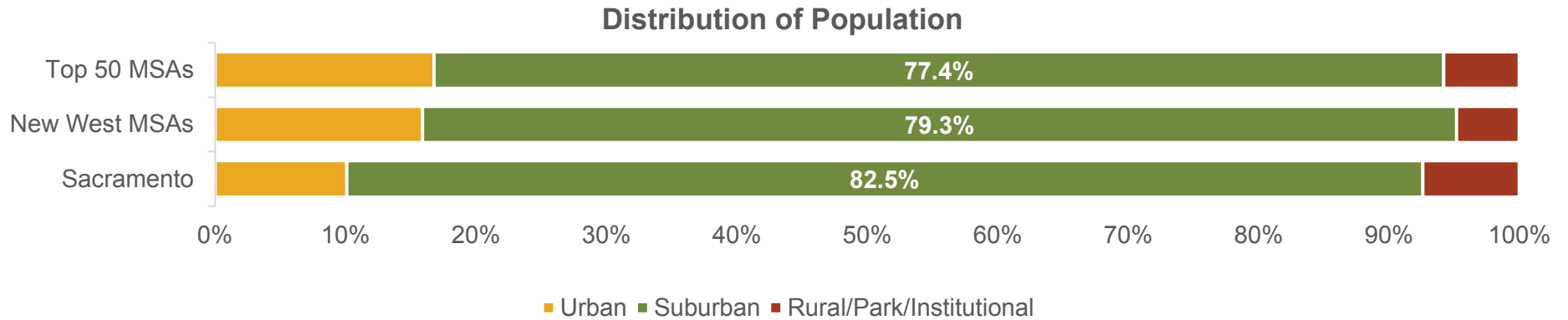
Many Americans are looking for items that are difficult to find in urban areas, but are both commonplace and more affordable in suburban ones.

## Factors Influencing Move from City to Suburbs



SOURCE: RCLCO

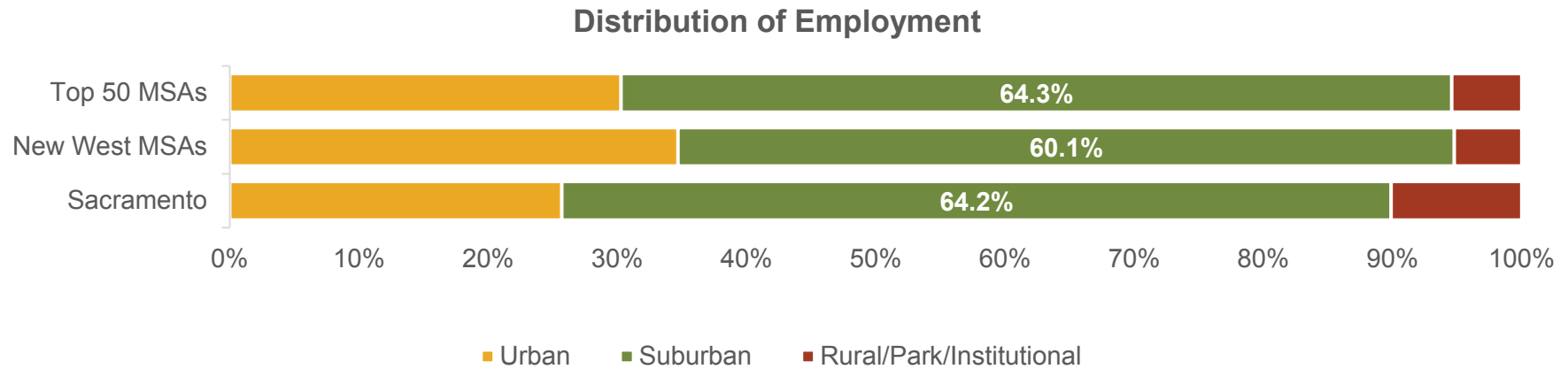
# Sacramento Is Still Very Suburban, though Population Growth is Now More Even



	DISTRIBUTION OF POPULATION		POPULATION GROWTH (2000-2015)		POPULATION GROWTH (2010-2015)	
	URBAN	SUBURBAN	URBAN	SUBURBAN	URBAN	SUBURBAN
<b>NATIONAL</b>						
Top 50 MSAs	16.8%	77.4%	1.3%	12.8%	3.4%	3.7%
<b>REGIONAL</b>						
New West	15.9%	79.3%	4.9%	20.1%	4.7%	4.9%
<b>PEER CITIES</b>						
Denver	16.5%	77.9%	4.1%	19.1%	6.4%	6.1%
Portland	14.7%	76.8%	7.9%	18.2%	4.2%	4.3%
San Jose	28.0%	69.0%	3.9%	6.1%	5.8%	4.4%
<b>Sacramento</b>	<b>10.1%</b>	<b>82.5%</b>	<b>1.9%</b>	<b>21.6%</b>	<b>2.8%</b>	<b>2.7%</b>

Source: RCLCO; ESRI Business Analyst

# The Job Base – Like Recent Job Growth – Is Still in the Suburbs

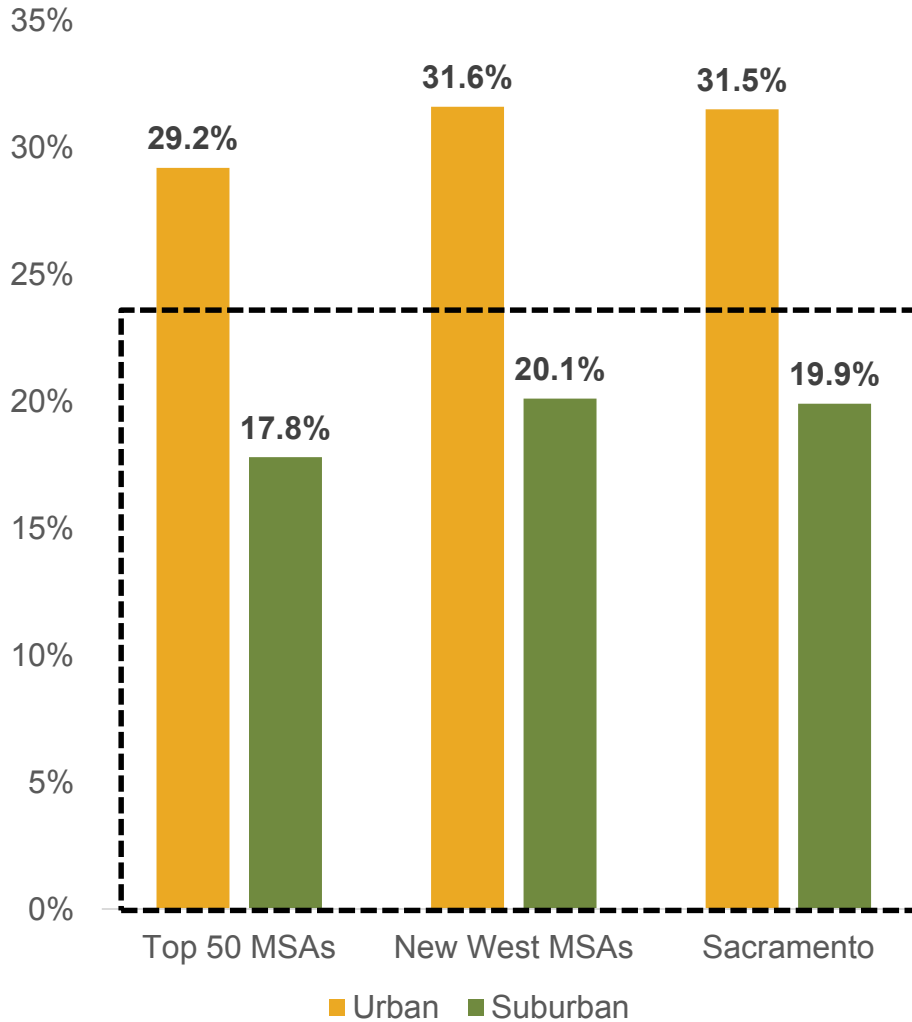


	DISTRIBUTION OF EMPLOYMENT		EMPLOYMENT GROWTH (2005-2010)		EMPLOYMENT GROWTH (2010-2015)	
	URBAN	SUBURBAN	URBAN	SUBURBAN	URBAN	SUBURBAN
<b>NATIONAL</b>						
Top 50 MSAs	30.3%	64.3%	7.4%	-0.1%	12.5%	15.3%
<b>REGIONAL</b>						
New West	34.7%	60.1%	5.8%	1.2%	7.5%	15.6%
<b>PEER CITIES</b>						
Denver	33.4%	60.9%	5.8%	1.6%	15.4%	15.8%
Portland	31.8%	60.9%	6.1%	1.3%	15.2%	14.4%
San Jose	38.9%	54.2%	0.5%	-1.2%	13.6%	19.5%
<b>Sacramento</b>	<b>25.7%</b>	<b>64.2%</b>	<b>31.1%</b>	<b>0.7%</b>	<b>2.4%</b>	<b>7.4%</b>

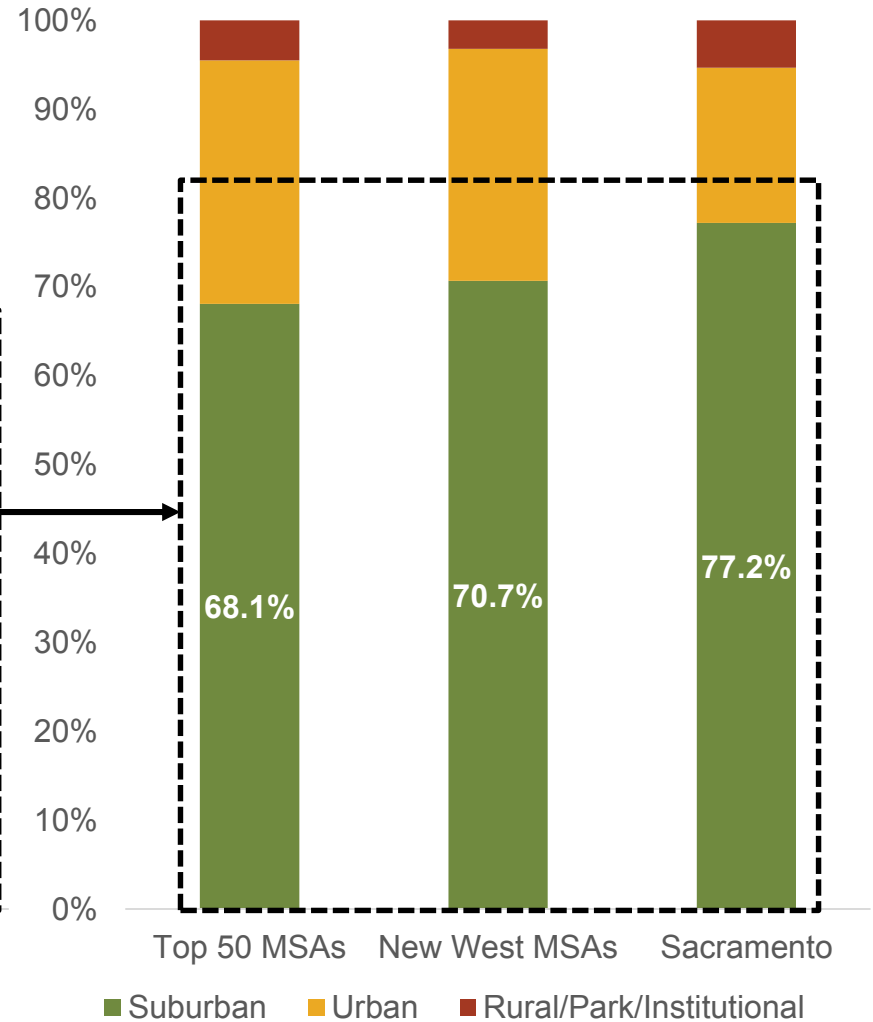
Source: RCLCO; Longitudinal Employer-Household Dynamics (LEHD)

# Millennials – Surprisingly Suburban

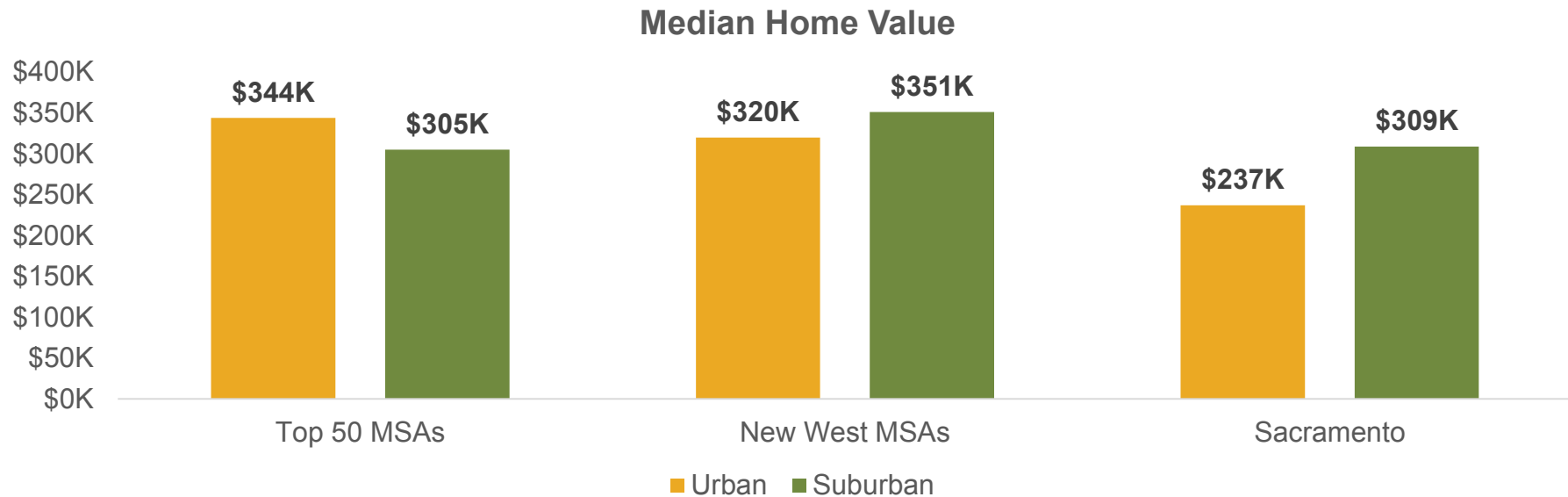
What Percentage of All Households are Under the Age of 35?



Where Do All Households that Are Under the Age of 35 Live?



# Suburban Home Values Are Much Higher than Urban Home Values

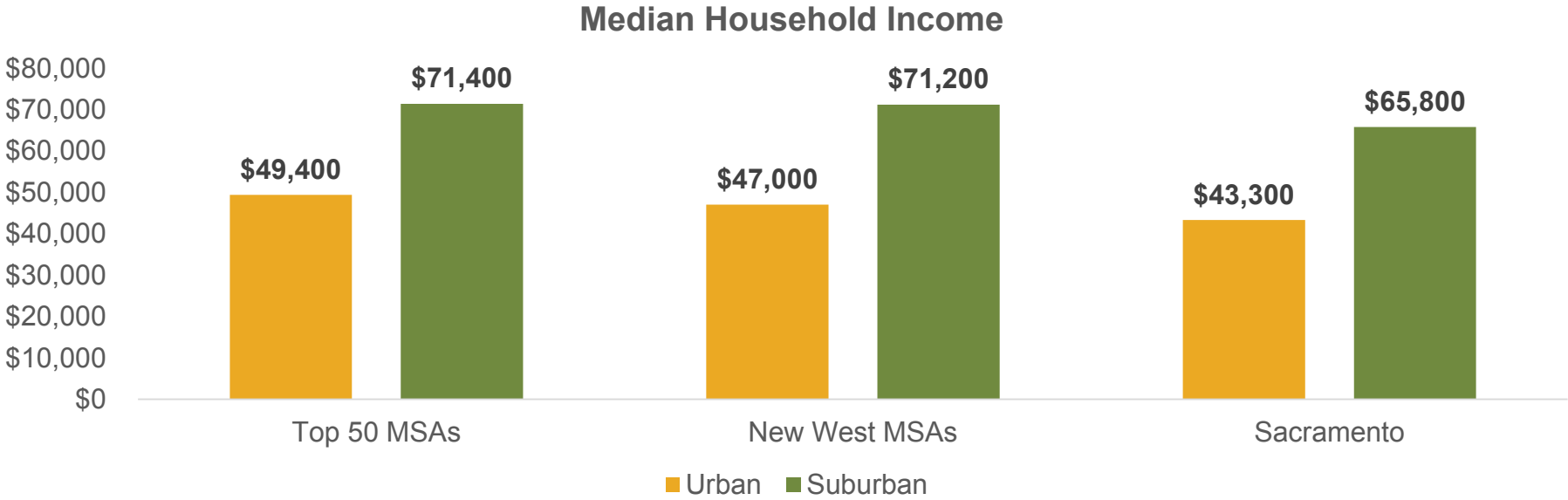


	MEDIAN HOME VALUE		DIFFERENCE FROM URBAN	
	URBAN	SUBURBAN	ABSOLUTE	PERCENT
<b>NATIONAL</b>				
Top 50 MSAs	\$344,000	\$305,000	-\$39,000	-11.4%
<b>REGIONAL</b>				
New West	\$320,000	\$351,000	\$31,000	9.7%
<b>PEER CITIES</b>				
Denver	\$303,000	\$328,000	\$25,000	8.3%
Portland	\$346,000	\$302,000	-\$44,000	-12.7%
San Jose	\$514,000	\$740,000	\$226,000	44.0%
<b>Sacramento</b>	<b>\$237,000</b>	<b>\$309,000</b>	<b>\$72,000</b>	<b>30.4%</b>

Source: RCLCO; ESRI Business Analyst



# Household Incomes Tell a Similar Story

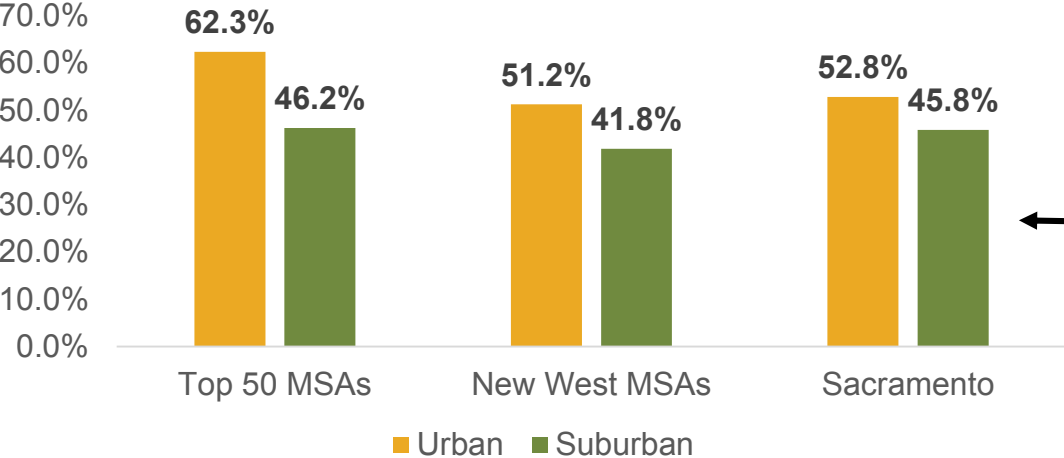


	MEDIAN HOUSEHOLD INCOME		DIFFERENCE FROM URBAN	
	URBAN	SUBURBAN	ABSOLUTE	PERCENT
<b>NATIONAL</b>				
Top 50 MSAs	\$49,400	\$71,400	\$22,000	44.5%
<b>REGIONAL</b>				
New West	\$47,000	\$71,200	\$24,200	51.5%
<b>PEER CITIES</b>				
Denver	\$47,100	\$75,600	\$28,500	60.5%
Portland	\$50,500	\$65,800	\$15,300	30.3%
San Jose	\$70,700	\$111,400	\$40,700	57.6%
<b>Sacramento</b>	<b>\$43,300</b>	<b>\$65,800</b>	<b>\$22,500</b>	<b>52.0%</b>

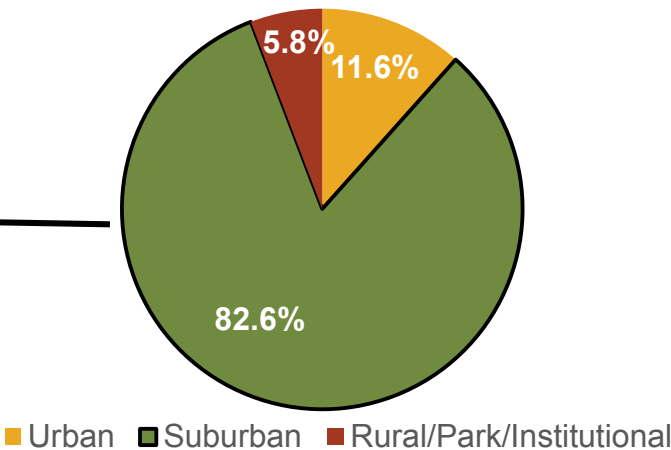
Source: RCLCO; ESRI Business Analyst

# Suburbs Are Highly Diverse

Minority Population as a Percentage of Total Population



Distribution of Minority Population

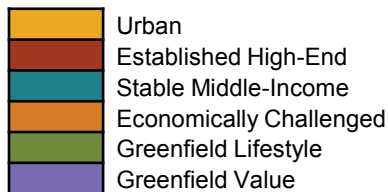


	DISTRIBUTION OF MINORITY POPULATION		PERCENT MINORITY	
	URBAN	SUBURBAN	URBAN	SUBURBAN
<b>NATIONAL</b>				
Top 50 MSAs	21.6%	73.8%	62.3%	46.2%
<b>REGIONAL</b>				
New West	19.0%	77.1%	51.2%	41.8%
<b>PEER CITIES</b>				
Denver	20.6%	74.5%	46.0%	35.2%
Portland	14.9%	78.5%	25.5%	25.9%
San Jose	31.8%	64.8%	76.7%	63.5%
<b>Sacramento</b>	<b>11.6%</b>	<b>82.6%</b>	<b>52.8%</b>	<b>45.8%</b>

Source: RCLCO; ESRI Business Analyst

# Suburbs Now More About Diversity than Uniformity – and so a Framework for Thinking About these Places Emerges

CLASSIFICATION OF SUBURB TYPE				
	Less Than 5 Miles From Downtown	5-10 Miles From Downtown	10-15 Miles From Downtown	More Than 15 Miles From Downtown
<b>High Density Suburban</b>				
High Value	Established High-End	Established High-End	Established High-End	Established High-End
Middle Value	Stable Middle-Income	Stable Middle-Income	Stable Middle-Income	Stable Middle-Income
Low Value	Economically Challenged	Economically Challenged	Economically Challenged	Economically Challenged
<b>Suburban</b>				
High Value	Established High-End	Established High-End	Established High-End	Established High-End
Middle Value	Stable Middle-Income	Stable Middle-Income	Stable Middle-Income	Stable Middle-Income
Low Value	Economically Challenged	Economically Challenged	Economically Challenged	Economically Challenged
<b>Low Density Suburban</b>				
High Value	Established High-End	Established High-End	Established High-End	Greenfield Lifestyle
Middle Value	Stable Middle-Income	Stable Middle-Income	Stable Middle-Income	Greenfield Lifestyle
Low Value	Economically Challenged	Economically Challenged	Greenfield Value	Greenfield Value



## Established High-End:

High home values and established development patterns

## Stable Middle-Income:

Wide variety of home values that are attainable to a range of households

## Economically Challenged:

Lower home values and have seen little to no population growth in recent years

## Greenfield Lifestyle:

Bulk of new community development at or close to suburban fringe, typically adjacent to established high-end suburbs

## Greenfield Value:

At suburban fringe, often adjacent to stable or economically challenged areas or near low-wage job concentrations

# Sacramento Region Suburbs Characterized

## Examples:

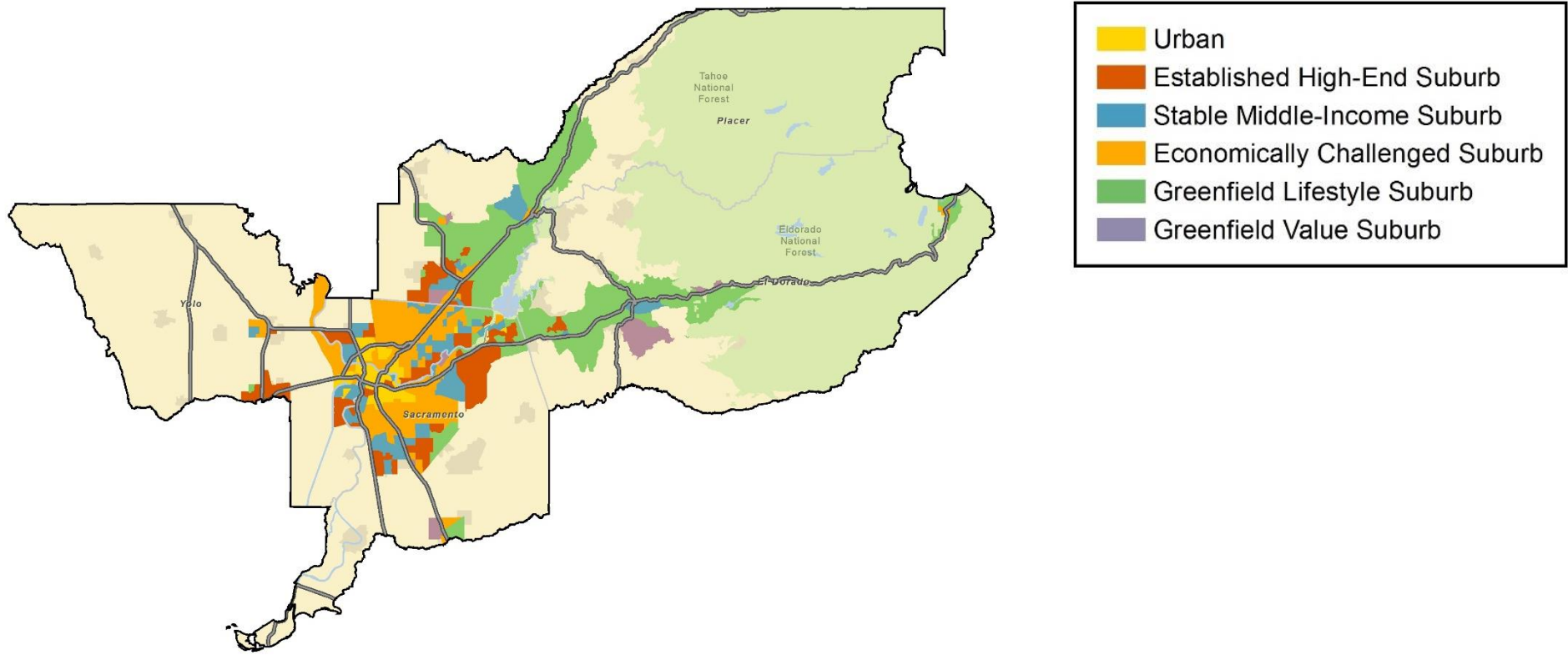
Established High-End: **Davis, Gold River**

Stable Middle-Income: **Carmichael, Antelope**

Economically Challenged: **North Highlands, Florin**

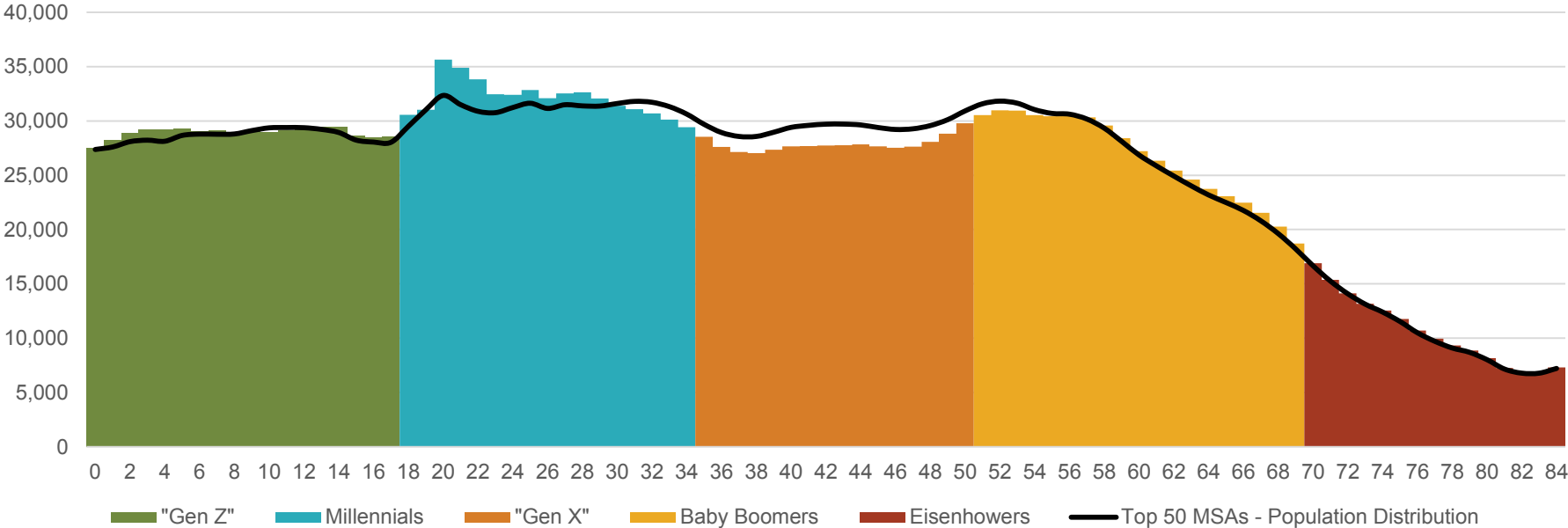
Greenfield Lifestyle: **El Dorado Hills, Rocklin**

Greenfield Value: **Diamond Springs, Pollock Pines**



# Product Preferences Will Change over Time

## Age Distribution of Population in Sacramento



Year	Student Housing	Rental Housing	Rent as Couple / Buy Condo	Young Family Own	Mature Family Own	Empty Nester Downsize Own	Buy/Rent Retirement Home
2015	Millennials	Millennials	Millennials	Gen X	Baby Boomers	Baby Boomers	Eisenhowers
				Millennials	Gen X		Baby Boomers
2020	Gen Z	Millennials	Millennials	Millennials	Gen X	Baby Boomers	Eisenhowers
						Gen X	Baby Boomers
2025	Gen Z	Millennials	Millennials	Millennials	Gen X	Gen X	Baby Boomers
		Gen Z	Gen Z		Millennials	Baby Boomers	
2030	Gen Z	Gen Z	Gen Z	Millennials	Gen X	Gen X	Baby Boomers
					Millennials	Baby Boomers	

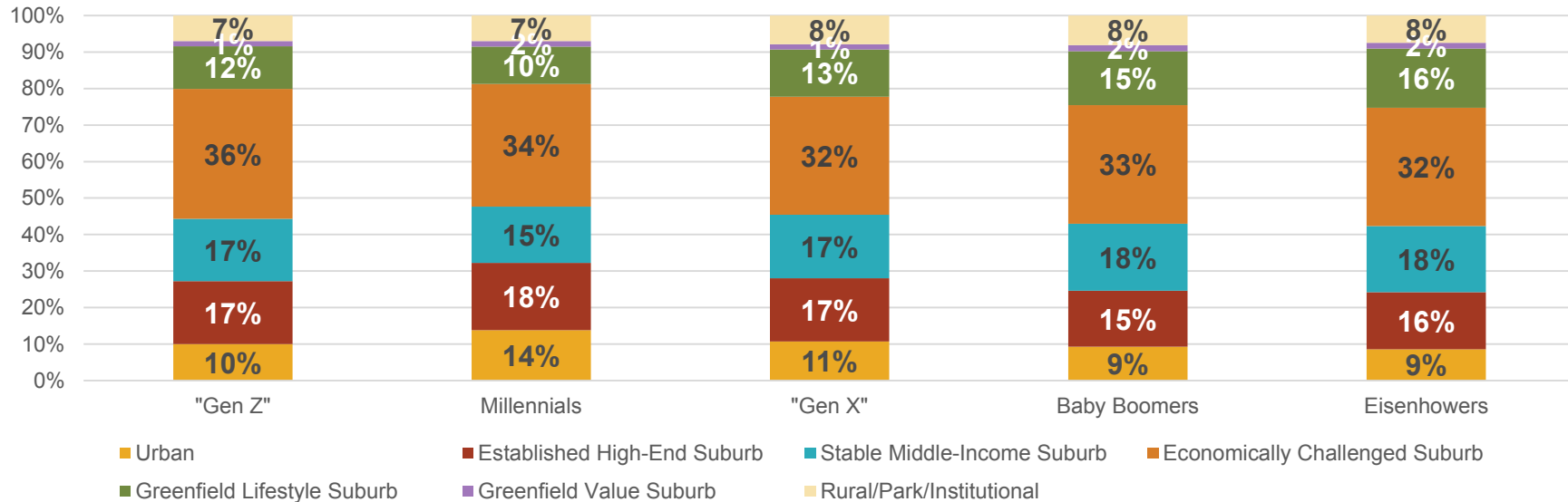
NOTE: "Top 50 MSAs – Population Distribution" represents the age distribution of all MSAs examined, applied to Sacramento's overall population  
 Source: RCLCO; ESRI Business Analyst



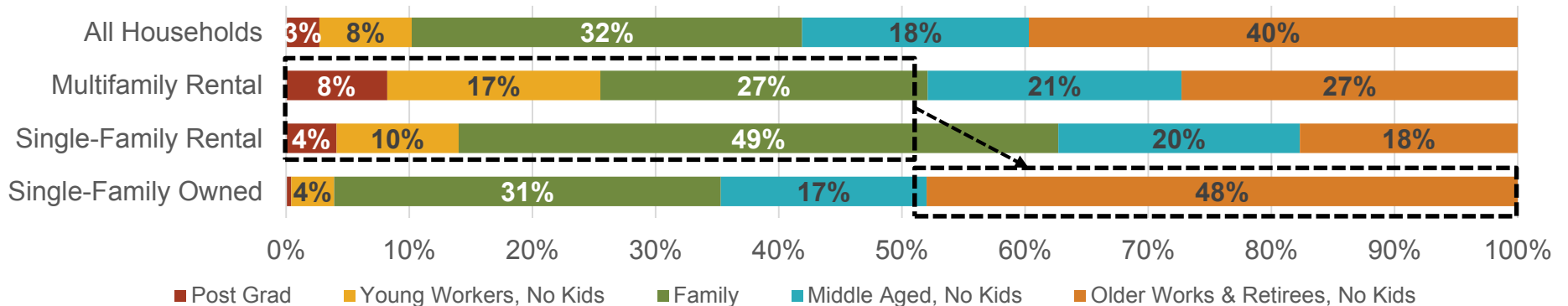


# So What's Next for the Suburbs? – Addressing the Aging Population and Potential Housing Misalignment

## Distribution of Population (Sacramento)

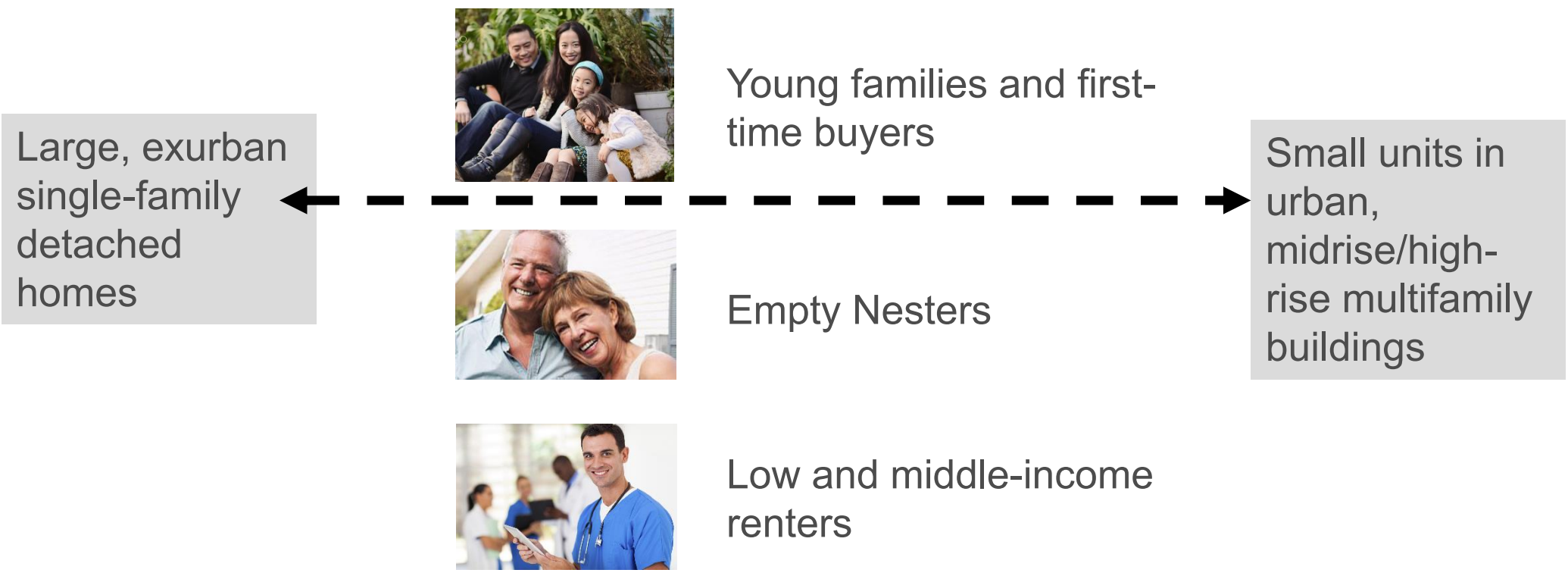


## Life Stage Distribution Comparisons by Housing Type (National)



SOURCE: RCLCO; ESRI Business Analyst; U.S. Census Bureau

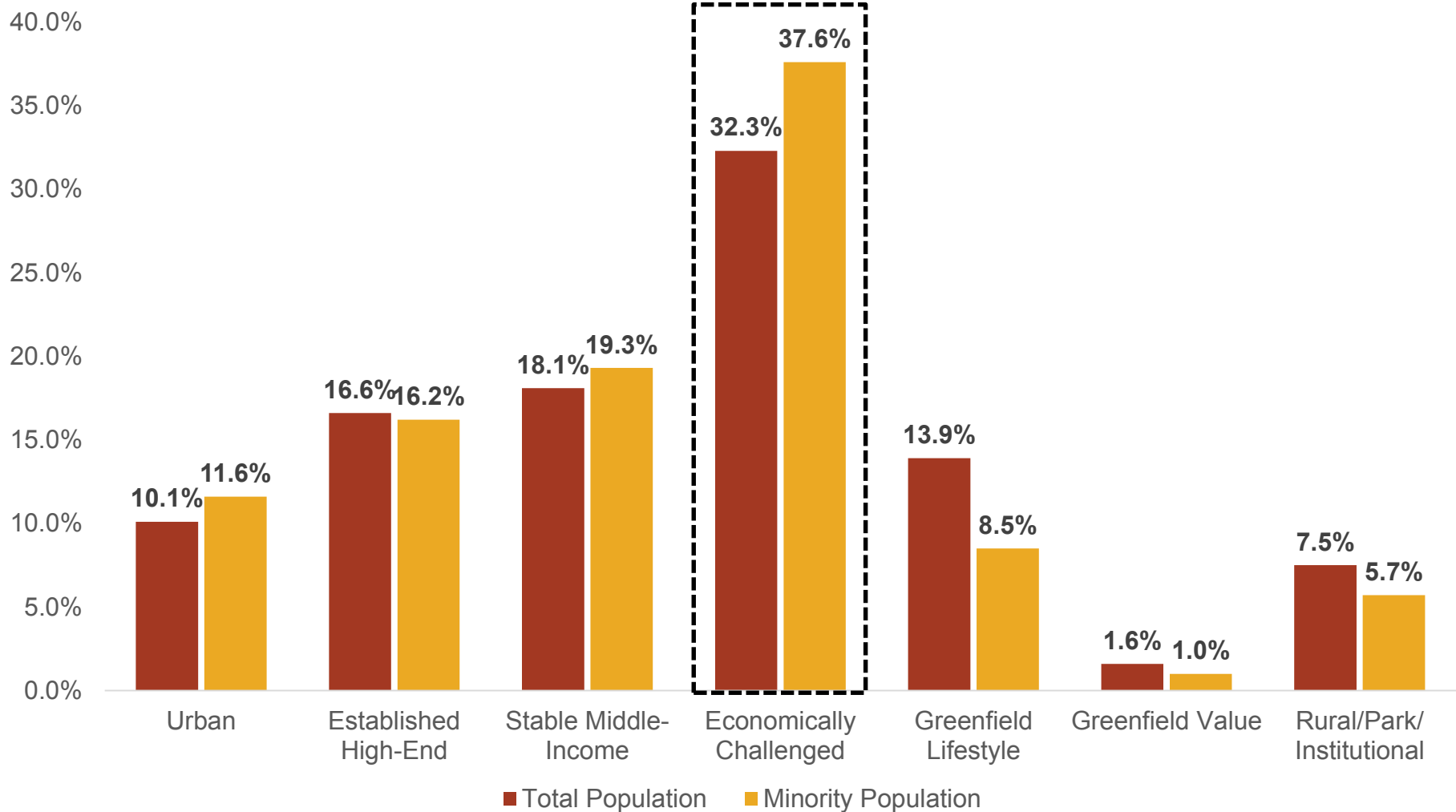
# So What's Next for the Suburbs? – Catering to the Missing Middle



Source: Opticos Design

# So What's Next for the Suburbs? – Grappling with Racial, Ethnic and Income Inequality

Distribution of Minority Population and General Population (Sacramento)



Source: RCLCO; ESRI Business Analyst

## Market Responses and Policy Implications: How Do We Respond?

- The rapid growth and evolution of the suburbs poses several questions that are important to consider from a policy perspective.
  - **Urbanization of the Suburbs:** Can (and should) the suburbs continue to incorporate more “urban” amenities?
  - **Evolution of Housing:** How do housing products in the suburbs need to evolve, and what innovations are needed to meet market desires?
  - **Meeting the Needs of an Aging Population:** How can the market respond to meet senior housing demand?
  - **Economically Challenged Suburbs:** What strategies and investments can help bolster economically distressed suburbs?
  - **Affordability:** How does this analysis impact how we think about housing affordability in urban markets versus suburban markets?

## Methodological Notes

- In *Housing in the Evolving American Suburb*, RCLCO analyzed each of the 50 largest metropolitan statistical areas (“MSAs”) individually, as defined by the U.S. Census 2015 population estimates. To better represent key regional dynamics, RCLCO has adapted the original methodology to better reflect the practical geographic boundaries of regional economies and housing markets. The primary changes combined and added certain MSAs when estimating relative densities and values to present a complete picture of the regions encompassed by the original top 50 markets. On one hand, San Francisco and San Jose were combined into one region, as were Los Angeles and Riverside. In addition, smaller MSAs that are outside the top 50 but an integral part of larger metro regions were combined with the primary MSA from the original analysis. These additions include Oxnard (added to Los Angeles), Ogden and Provo MSAs (added to Salt Lake City), Boulder and Greeley MSAs (added to Denver), Bremerton (added to Seattle), Worcester (added to Boston), Bridgeport (added to New York), and Durham (added to Raleigh). Note that the “Top 50 MSAs” includes only those MSAs included in the top 50, and not any that were combined to calculate relative densities or home values. Likewise, the “Peer Cities” refer to only that individual MSA in this report.
- Page 8, Locational Distribution of Homes Purchased: Type of location reflects those locations which were outlined in the *2016 NAR Home Buyer and Seller Generational Trends Report*, and do not represent the typologies used in this report.
- Page 11, Data Table: Employment distribution and growth uses census tract-level employment data from the U.S. Census Bureau’s Longitudinal Employer-Household Dynamics (“LEHD”) program. LEHD provides historical data for the years between 2002 and 2014. For this report, RCLCO used data from three years – 2005, 2010, and 2014 – to capture how trends in urban and suburban employment varied by location and macro-level economic trends.
- Page 15, Data Table: “Minority Population” includes all demographic groups that are not reported as non-Hispanic white by the U.S. Census Bureau.



# Critical Assumptions

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers.
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

## General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.