Many of California’s problems are self-inflicted, the result of misguided policies that have tended to inflate land prices and drive up the cost of all kinds of housing. Since housing is the largest household expenditure, this pushes up the cost of living.

California still has the landmass and the appeal to power opportunity for the next generation. It is up to us to reverse the course, and restore The California Dream for the next generation.

This report presents detailed data about the state of the economy, population base, and employment picture of California. The implications of the data are inescapable: California, despite its great natural blessings, needs a new strategy and a focused commitment to execute it.
FADING PROMISE:
Millennial Prospects in the Golden State

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“Demographics is destiny” has become somewhat overused as a phrase, but that does not reduce the critical importance of population trends to virtually every aspect of economic, social and political life. Concern over demographic trends has been heightened in recent years by several international trends—notably rapid aging, reduced fertility, large scale migration across borders. On the national level, shifts in attitude, generation and ethnicity have proven decisive in both the political realm and in the economic fortunes of regions and states.

The Center focuses on research and analysis of global, national and regional demographic trends and also looks into policies that might produce favorable demographic results over time. In addition, it involves Chapman students in demographic research under the supervision of the Center’s senior staff. Students work with the Center’s director and engage in research that will serve them well as they look to develop their careers in business, the social sciences and the arts. They have access to our advisory board, which includes distinguished Chapman faculty and major demographic scholars from across the country and the world.

ACKNOWLEDGEMENTS

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The School of Communication prepares leaders to shape commerce via strategic communication, public opinion, health behavior and communication innovation, via evidence-based research projects, campaigns, academic partnerships and practical applications.

The research in this brief was sponsored in partnership with the Center for California Research, an institute of the California Association of REALTORS® and the Center for Demographics and Policy at Chapman University.
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EXECUTIVE SUMMARY

Throughout much of American history there was a common assumption that each generation would do better than the previous one. That assumption is now being undermined. The emerging millennial generation faces unprecedented economic challenges and, according to many predictions, diminished prospects. These problems are magnified for California’s millennials. Their incomes are not higher than those in key competitive states, but the costs they must absorb, particularly for housing, are the highest in the country.1 Their prospects for homeownership are increasingly remote, given that the state’s housing prices have risen to 230 percent of the national average.

The long-term implications for California are profound. The lack of housing that can be afforded by middle-income households—particularly to buy—has driven substantial out-migration from the state. California has experienced a net loss in migrants for at least the last 15 years. This includes younger families—those in their late 30s and early 40s—which is the group most likely to leave the state. For every two home buyers who came to the state, five homeowners left, notes the research firm Core Logic.2 Over the next decade, as the majority of millennials reach these ages, the long-term implications for employers and communities are profound. Rising house prices and rents are already impacting employers, including in Silicon Valley. High prices can also mean a rapidly aging population, something that is likely to sap the economic potential and innovation in our communities.

Many of California’s problems are self-inflicted, the result of misguided policies that have tended to inflate land prices and drive up the cost of living. Since housing is the largest household expenditure, this pushes up the cost of living.

California still has the landmass and the appeal to power opportunity for the next generation. It is up to us to reverse the course, and restore The California Dream for the next generation.

A GENERATION AT RISK

The housing crisis facing millennials is very much a national challenge. Millennials, as the term is used in this report, are generally defined as those born between 1980 and 2004—the largest generation in American history. Much of our analysis focuses on the 25 to 34 year old portion of this age group, because it represents the point of entry to post-education adulthood.3 Millennials face an economy that has produced lower incomes and too few permanent, high paying jobs.4 The Census bureau estimates that, even when working full-time, they earn $2000 less than the same age group made in 1980.5 They have entered an economy where the most rapid job growth for their generation has been in generally low-paying
24-year-olds — even make up one of the fastest-growing homeless populations. This is particularly true in the core municipalities of New York, Los Angeles and San Francisco, where affordable housing is increasingly rare.14

Pew Research indicates that in 2014 the percentage of 18 to 34-year-olds who lived with their parents was the highest since 1940.15 Further, a larger share of 18 to 34-year-olds lived with their parents, rather than with spouses or cohabitants, for the first time since the beginning of the data series in 1880. Overall, approximately 47 percent of 18-34s lived with parents or other relatives in 2015 according to the American Community Survey.16

This represents a sort of social evolution from the culture of self-assertion and independence that once so clearly characterized America after the Second World War. Rather than striking out on their own, many millennials are simply failing to launch, with record numbers living with their parents.17

Perhaps nothing better demonstrates the long-term future of the new generation than homeownership rates. In the last quarter century, home ownership among those aged 25-34 has dropped 18 percent nationally and 25 percent in California. For most middle and working class Americans, owning a home has been not only a badge of achievement, it has been a primary source of assets. Although prices have gone up and down, most especially during the Great Recession, house payments increase wealth, while paying rent drains assets. In addition, chances of accumulating a down payment are consistently undercut when a huge proportion of income goes to rent. For example, in the city of New York, millennial incomes (ages 18-29) have dropped in real terms compared to those of the same age in 2000, despite considerably higher education levels among millennials. At the same time, rents have increased by 75 percent. The prospects of rising interest rates might create even more problems for prospective young homeowners.18

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Research by Stanford economist Raj Chetty et al. indicates that children born in 1940 had a 92 percent chance of earning more than their parents, while those born in 1950 had a 79 percent chance of earning more than their parents. Those born in 1980 have just a 46 percent chance. The researchers conclude that this reduction is principally due to an increase in income inequality, which research from MIT suggests is largely related to increased wealth and income concentration in the housing sector.20 It is highly unlikely, notes a recent Urban Institute study, that they will ever catch up with their parents.21

In some cities, young people — 18 to 24-year-olds — even make up one of the fastest-growing homeless populations. This is particularly true in the core municipalities of New York, Los Angeles and San Francisco, where affordable housing is increasingly rare.14

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According to Zillow, for workers between the ages of 22 and 34, rent costs claim upwards of 45 percent of income in Los Angeles, San Francisco, New York, and Miami, compared to closer to 30 percent of income in metropolitan areas like Dallas-Fort Worth and Houston. The costs of purchasing a house are even more lopsided. In Los Angeles and the Bay Area a monthly mortgage takes, on average, close to 40 percent of income, compared to 15 percent nationally. Amer-
In contrast only 18 percent of boomers had the same need.25

With many millennials unable to buy homes, household formation has been far slower than in the past, as they remain single, unattached and childless ever later in life. Construction remains well below the national average, as indicated by building permit data. Rather than a surge of new middle class buyers, we are seeing the creation of a largely property free generation whose members could remain economically marginal well into their 30s or 40s.

One common refrain, particularly in the mainstream media, has been that millennials do not want to buy homes. For example, according to Fast Company, millennials are part of “an evolution of consciousness.”22 Others suggest that a long-term embrace of ‘the sharing economy’ means that owning a home is simply not to their taste.23 The Guardian perceives that millennials are refusing to accept ‘the economic status quo.’ Blackstone, the investment firm, is investing $10 billion purchasing small homes. Other developers are even building detached and townhome tracts exclusively for rent, believing that millennials will be satisfied to live within a “rentership society.”24

In reality, it is not taste or enhanced social consciousness that is keeping millennials from homeownership, but high prices and low incomes.26 In survey after survey, the clear majority of millennials — roughly 80 percent, including the vast majority of renters — express interest in acquiring a home of their own. A Fannie Mae survey of people under 40 found that nearly 80 percent of renters thought owning made more financial sense, a sentiment shared by an even larger number of owners. They cited such things as asset appreciation, control over the living environment, and a hedge against rent increases.27

This is as true in California as elsewhere. Homeownership continues to be the most important part of the American dream for millennials, tying with ‘having a fulfilling job’ for first place. A California Association of REALTORS® survey found that 82 percent of millennial renters agreed or strongly agreed that purchasing a home was a safe investment.27

Nor are members of this generation uninterested in raising families, long a major motivation for home ownership, albeit often at a later age. Some groups, notably well-educated women in their 40s, are actually more likely to have children than in previous eras.28

There is a popular narrative that millennials reject suburban living, Brookings Institution demographer William Frey notes that some have been “stuck” in urban cores.29 Possible reasons include a weak economy and tougher mortgage standards.30 More than 80 percent of 25-34 year olds in major metropolitan areas already live in suburbs and exurbs, according to the latest data.31 Further, since 2010, nearly 80 percent of population growth in this group has occurred in the suburbs and exurbs, despite the fact that urban core millennials may be better educated and better covered by the media.32 Among those under 35 who do buy homes, four-fifths choose single-family detached houses, a form found most often in suburban locales.33 Surveys consistently find that most millennials see suburbs as the ideal place to live in the long run. According to a recent National Homebuilders Association report, over 66 percent, including those living in cities, actually prefer a house in the suburbs.34

As to the assertion that millennials’ new generation, particularly in some cities, increasingly seems destined to live as renters, without enjoying equity in property.30

In California, millennials are locked out of homeownership without strong parental down payment support. A California Association of REALTORS® survey found that 35 percent of home buyers under 40 received financial support to purchase a home.26

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As to the assertion that millennials...
prefer dense cities, this is clearly overstated. Since 2010, growth in the population of millennials between 25 and 34 has been greatest in metropolitan areas such as Orlando, Austin and San Antonio, all cities without dense urban cores and renowned for their decentralized development. Among the 10 major metropolitan areas with the greatest age 25-34 percentage growth, all but two have more than 95 percent of their population in suburban or exurban settings. This may just be the first wave of these changes, as more millennials enter their 30s.

The largely anecdotal accounts of millennial lifestyles do not account for the natural trend which, as economist Jed Kolko notes, eventually leads people out of core cities to suburban locations. Although younger millennials have tended towards core cities more than previous generations had, the website FiveThirtyEight notes that as they age they actually move to suburban locations more than those their age have in the past. We have already passed, in the words of USC demographer Dowell Myers, “peak urban millennial,” and are seeing the birth of a new suburban wave.

California Seeks to Downsize a Generation

These trends towards suburbanization could benefit California, given the state’s natural allures, large existing stock of family-friendly housing, and vast expanses of land, particularly in the state’s interior. Californians’ preference for single-family homes is deep-seated. Single-family housing begat upward mobility, and the state’s building trade employment fed the burgeoning construction industry, which was a primary source of upward mobility.

Despite this ideal position, more densification, with a likely shift towards reducing ownership, is being proposed. The 2040 regional plan for the Bay Area (“Plan Bay Area”) calls for 75 percent of new housing development to take place on barely 5 percent of the land mass (Priority Development Areas, or PDAs). One alternative scenario assumes that 78 percent of the new housing in the Bay Area would be multi-family, and 22 percent single-family (detached and attached).

By contrast, the current share of housing that is either detached or attached in the planning area is nearly three times as high, at 63 per cent. Currently, 77 percent of the planning area’s detached

### HOUSE PURCHASES: UNDER AGE 35

*2014–2015 NATIONAL ASSOCIATION OF REALTORS*

![Graph showing house purchases under age 35 from 2014-2015 National Association of Realtors](image)

**MILLENIAL LIFE STYLE CHOICES COMPARED TO OLDER GENERATIONS**

![Graph comparing life style choices of millennials to older generations](image)
and attached homes are owner occupied.44 Only 13 percent of multi-family units are owner occupied. Achievement of these planning goals could be disastrous to home ownership. If the proposed policies were adopted, renters would increasingly dominate the region that contains two of the top three US major metropolitan areas in median income.45

Many assume that building more high-density housing will solve California’s severe housing affordability crisis. There are a number of difficulties with this view. For example, construction costs for higher density housing are much higher, ranging up to 7.5 times per square foot the cost of building detached housing.46 In addition, land use policies in the Bay Area have driven the price of undeveloped land on the urban fringe (‘greenfield’ development) far higher. More than any factor, it is the price of this greenfield land that drives prices throughout the entire urban area. It is unlikely that any significant improvement of housing affordability can occur without restoring the competitive market for residential land on the urban periphery.47

Moreover, higher density housing would undoubtedly require many households—especially those seeking detached housing with yards for raising families—to accept smaller accommodations than they desire.

CALIFORNIA’S ASPIRATIONAL PAST

Historically, and especially under the leadership of the late Governor Edmund G. (Pat) Brown, the state did a credible job of building the infrastructure that made possible the housing sought by its growing population with middle class aspirations. Brown’s biographer, Ethan Rarick, has described Brown’s leadership as making the Twentieth Century “The California Century,” with our state providing “the template of American Life.” There was there an ‘American Dream’ across the nation, but here we called it the ‘California Dream.’ The successful Pat Brown years have been denounced for “creating sprawl.”48 In more recent times, particularly under Brown’s son Governor Jerry Brown, the state has been among the least committed to new infrastructure.49 Governor Brown’s hostility to the very California created in large part by his father reflects a popular sentiment among academics and planners. Communities like the San Fernando Valley, which prospered under Pat Brown and governors before and after him, went from “…the nation’s favorite symbol of suburbia,” as author Kevin Roderick noted, into a detested “…butt of jokes for its profligate sprawl.”50

The founding of today’s environmental movement, based largely here in California, saw “excessive breeding” and “abuse of the land” — both widely identified with suburbia — as threats to the planet’s future.51 Insufficient investment in roads, bridges, and water storage, under both the current and past administration, fits well with an agenda of slow or no-growth, particularly on the periphery.52

After the housing crash of 2007, many observers believed the suburban McMansion would be headed for an inevitable demise. In 2008, economist/commentator Paul Krugman predicted that suburban living would be on the decline; that the future lay not in owning the single-family house, but in renting.53 “Smart growth” advocate Christopher Leinberger, meanwhile, suggested that preferences were switching away from detached homes in the suburbs to more walkable neighborhoods in the urban core.54 Another smart growth advocate, Arthur C. Nelson, suggested that the suburban McMansion would become “the new multi-family home for the poor.”55 Yet, despite all these confident assertions and in the face of hostile state policy, the percentage of households in California living in detached houses remains at nearly the artificially high level as during the peak of the last bubble, 57.7 percent in 2015 compared to 58.3 percent in 2007.56

THE SHIFT IN LAND USE POLICY

In recent decades, land use policies have generally included ‘urban containment’ strategies that impose ‘urban growth boundaries’ and related policies that significantly restrict or even prohibit new suburban detached housing tracts from being built on greenfield land. Yes, demand for detached housing remains strong. The resulting shortage has been instrumental in driving up land prices, now an increasing share of the cost of new housing. The cost increases for peripheral land ripple through metropolitan areas, driving up all house prices. This is consistent with basic economics, which, all else equal, associates higher prices with limits on supply.57

Former Chairman of President Obama’s Council of Economic Advisors Jason Furman has indicated that the price escalation associated with strong housing regulation prices some “out of the market entirely” and “this is accentuated because housing inflation makes homes more attractive to wealthy buyers, sure of ever escalating prices on a scarce good, exerting further upward pressure on prices.”58 In short, urban containment land use regulation is a boon to investors (pejoratively referred to as ‘speculators’), but harmful to potential middle class homeowners.59

Other regulatory factors that drive up California prices include high impact fees, which can add upwards of $50,000, two and half times the national average. The impending 2020 mandate for “zero emissions” homes promises to boost this by an additional $25,000. The results have been a growing gap between the income-adjusted costs of housing here with costs in the rest of the country. By 2015, the difference between median house values in California and elsewhere in the nation had reached

CALIFORNIA & THE UNITED STATES 1970–2016

Millennial Prospects in the Golden State
$255,000, a six times increase from the inflation adjusted 1970 figure of $37,000.55.

**Climate Change & Destructive State Policies**

All of these regulations have now gained greater currency, in large part due to climate change policies intended to reduce greenhouse gas (GHG) emissions. This is paradoxical on two counts. First, California is a relatively low GHG emitter (per capita) because of its strong reliance on hydroelectric energy, and its mild climate that requires less heating and cooling. Second, while California’s stronger regulations may reduce GHG emissions here, much or all of any such gain could be offset by the higher GHG emissions that the large number of moving residents and companies produce in their new locations outside California, where electricity production and climate can be more GHG intensive.

California’s increasingly strong GHG regulations, especially in view of the exit by people and companies, and the state’s relatively small carbon footprint, is likely to have little or no impact on climate change itself. Nor is it clear that forcing people into denser environments will help much, given that, according to an Australian environmental study, higher density urban core greenhouse gas emissions per household are higher than in the lower density suburbs and exurbs, where most housing is detached. Whatever the intentions behind such laws and regulations, the state is clearly on a collision course with the aspirations of the future adult generation. This is likely to be counterproductive for the state’s social equity, and its demographic and economic health.

Much of the problem stems from the attempt—justified by climate concerns—to force development away from the fringes, and to mandate density. As an answer to the calls for more construction, the results have been very limited. California’s rate of issuing building permits—for both single and multi-family housing—remains well below the national average, and even further below the rates for prime competitor states, such as Texas. California’s six major metropolitan areas all had detached housing building rates below the national average from 2011 to 2015, and only San Jose exceeds the national average in multi-family permits.
California’s Home Prices

By limiting supply across the board, these policies have made California peculiarly unaffordable. California ranks second to the last among the 50 states in middle income housing affordability.

10 States with Least Housing Affordability

House Price Increases Relative to Income

Major Metropolitan Areas, California & US

Impact on Millennials

Younger people, minorities, and the middle class bear the brunt of these rising prices. As of the fourth quarter in 2016 only 34 percent of Los Angeles area residents could afford to buy a house, a figure that drops to 25 percent in the Bay Area, according to the California Association of REALTORS®. By contrast, across the nation, 38 percent of households can. An average-salary California school teacher can afford only 17 percent of the houses in the state.61

Clearly, many millennials here are not launching. California has the sixth highest percentage of millennials living at home among US states, at 38 percent. While well below the national average, California’s rate is one-third below the national 25 to 34 millennials homeownership rate of 36.8 percent.62

So long as California’s tough urban containment policies are retained, much less expanded, it seems likely that housing affordability will continue to worsen. Meanwhile, the state’s largest metropolitan region, the Los Angeles-Orange area, also endures the lowest homeownership rate in the country out of 75 large metropolitan areas.

In 2015, of all the states, California had the third worst homeownership rate (25.3 percent) among millennials. Only New York at 23.1 percent and Hawaii at 21.8 percent were lower; the rate is one-third below the national 25 to 34 millennial homeownership rate of 36.8 percent. Homeownership for California 25-34s also has been declining faster than the national average. The millennial home ownership decline is considerably greater than the overall California decline since 1990—six times the overall home homeownership decline across all of the state’s population. The rate for Californians aged 25 to 34 is 25 percent, compared to the 18 percent national loss. In San Francisco, Los Angeles and San Diego, the 25-34 home ownership rates range from 19.6 percent to 22.6 percent—approximately 40 percent or more below the national average.

By contrast, older age groups have far higher home ownership rates: 43.2 percent among 45-54s and 67.2 percent among 55-64s.63 The gaps between generations are simply greater than in other states. Whereas California boomers have rates of homeownership

10 States with the Highest Rates

Worst 10 States: 25–34 Home Ownership 2015

25–34 Change in Home Ownership %

Major Metropolitan Areas 1990–2015

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close to the national average, those of millennials are far lower.

This divergence could become more consequential as the 25 to 34 group diminishes and the existing millennials enter their 30s. This generation which has been more comfortable with density and renting in their youth will face a reality where the opportunities to “move up” and buy houses will be severely limited.

Ultimately, millennials in California are more likely to experience lower home ownership rates than their counterparts elsewhere, something that does not bode well for the state’s economic, political and demographic evolution.

IMPACT ON MIGRATION PATTERNS

High housing prices lead to out-migration—among millennials and other generations—to states such as Florida, Texas, Georgia, and North Carolina, where the homeownership rates for millennials are higher. This follows a national pattern: people leave areas where house prices are higher, relative to incomes, for places that are more affordable, a pattern documented in Harvard research. California has experienced a net loss of about 1.7 million domestic migrants since 2000. There has also been substantial net domestic out-migration from the Bay Area. The exceptions have been the Riverside-San Bernardino and Sacramento areas, which have performed competitively with Texas metropolitan areas. House prices are expensive in these two areas, but far less unaffordable than in the four coastal metropolitan areas. Since 2010 the pace of domestic out-migration has slowed, but California still suffered greater losses than every state except New York.

Contrary to some views, the out-migrants are not limited to the poorly educated and the poor. The best data available (from the IRS) shows that California’s outmigration between 2013 and 2014 was concentrated among middle-aged people — Xers, the generation that precedes millennials. The group most likely to leave is in their mid-thirties to late forties, the age cohort most millennials will join over the next decade and two. Also, out-migrant households had a higher average income than those households that stayed, or of households that moved in to the state. This contrasts dramatically with Texas, arguably the state’s strongest competitor.

This migration is understandable. If millennials continue their current rate of savings, notes one study, it would take them 28 years to qualify for a median priced house in the San Francisco area, but only five years in Charlotte, or three years in Atlanta.

NET DOMESTIC MIGRATION: 2000–2015

CA MAJOR METROPOLITAN AREAS IN CONTEXT

NET DOMESTIC MIGRATION


NET DOMESTIC MIGRATION BY AFFORDABILITY

STATES WITH BIGGEST LOSSES: 2000 – 2016

NET DOMESTIC MIGRATION BY AGE


AGGRAVATING THE STATE’S RACE AND CLASS DIVIDES

Rather than bolstering upward mobility, California may be creating an increasingly stagnant society, with little potential for upward mobility for anyone except a miniscule portion of the population. This is, of course, a national problem, too. MIT researcher Matthew Rognlie concludes that the rising inequality in wealth and income (internationally) has its foundations in housing, with regulation being a major factor. This presents a particularly acute challenge in California.
and as Habitat for Humanity suggests, provide a better environment for raising children.76

Today’s assault on single-family housing essentially dooms much of the California middle class. Given that nearly half (45 percent) of middle-income wealth is in home equity, falling home ownership rates are a step in the wrong direction, and any celebration of the trend is to favor a less affluent future.77

California’s culture of unaffordability essentially spans the entire state, where even in less favored areas, such as the Inland Empire, housing prices compared to income are now 1.5 times the national average, while Los Angeles is approaching more than 2.5 times. Despite these high prices, California millennials on average earn less than their counterparts in far less expensive states such as Texas, Minnesota and Washington.78

Housing inequality also promises to widen the state’s ethnic divide, given the growing proportion of the population is made up by minorities, particularly among millennials.79 As a group, California’s minorities will be severely impacted. Just as kids from wealthy families—primarily white—have been able to afford elite educations, they have also had an easier time buying houses, with parents making all or part of the down payments. Others are increasingly priced out of the market.80

Most California millennials do not have wealthy parents, particularly historically disadvantaged minorities. This should be a critical concern for California, where a majority of millennials are minorities.81 Hispanics, now approaching a majority of the state’s population, account for 43 percent of people aged 25 to 34. In California, Hispanics and African Americans face prices relative to incomes that are approximately twice the national average. Indeed, even the national average housing affordability for African Americans and Hispanics is far better than that of California. African American and Hispanic homeownership rates have dropped considerably more than those of that of Asians and White-Non-Hispanics in the last 10 years—four times the rate. High housing prices and limited options can also be seen in the rate of overcrowding, which is roughly twice the national average. California has the nation’s second highest rate of overcrowding.82 This situation is particularly acute in Los Angeles, which has more households with “severe overcrowding”—at least 1.5 persons per bedroom—more than any other major metropolitan area. Perhaps most disturbing, expensive housing is leaving many Californians in or at the brink of poverty. When adjusted for housing costs, California leads the country in the percentage of people living in poverty, well above the rate for such historically poor states as Mississippi.83

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A PLANNING VISION OUT OF SYNC WITH REALITY

The international news magazine, The Economist, recently departed from its long-standing policy of favoring urban containment policies, such as those that have been widely adopted in California, to combat suburbanization (pejoratively referred to as ‘urban sprawl’). The Economist said, “Suburbs rarely cease growing of their own accord. The only reliable way to stop them, it turns out, is to stop them forcefully. But the consequences of doing that are severe.”85 The Economist was referring to the social and economic costs of London’s overly restrictive land use policy, which has been associated with huge house price increases. The assessment is certainly applicable to Cal-
The social engineering of containment policies depends largely on the popular notion that millennials will inevitably seek out residences in and around the urban core. Yet this may be more wishful thinking than reality. Most millennials already live in suburban areas, and that has been where much of the growth in their population has taken place within California's largest metros. Since 2010, the growth of the millennial population in the state's six major metropolitan areas has been concentrated in the suburbs and exurbs. Despite the reports about millennials settling in the urban core, the largest growth has been on the periphery, as shown in the below charts, including farther out in the suburbs and exurbs.

A NEXT GENERATION OF CALIFORNIANS?

California's housing prices also has impacted the creation of the next generation of Californians. The combined impact of lower birthrates and domestic outmigration is resulting in a loss in California children of prime school age — 5 to 14 — since the year 2000. This reckoning has been delayed by generations of in-migration and a massive movement into California from abroad. But now the number of immigrants entering California is falling, and the number of children being born is falling as well, with the lowest crude birth rate since 1907 occurring in 2016, according to the state's Department of Finance. This is particularly critical because California has a below-replacement fertility rate. Recent University of Maryland econometric research associated large house price increases with a reduction in birth rates among households that do not own their own homes. Similarly, high housing prices were cited as a cause to delay having children in a recent Bankrate.com survey. California already has one of the lowest birthrates of any state. This is particularly marked in the major metropolitan areas, where births lag far behind many key competitor regions, notably Texas.
**THE NEW CALIFORNIA CHALLENGE**

Throughout history, from Rome to the post-war rise of suburbia, the ownership of land has been a critical component in dispersing wealth and power, and the evolution of sustainable democracy. In California, throughout the twentieth century, the state fulfilled this promise by extending home ownership to a broad spectrum of residents.

Policies that restrict access to home-ownership—whether directed by planners, politicians, pundits or Wall Street—is a direct assault on the future prosperity of middle class Californians. Jason Furman calculated that a single-family home contributes 2.5 times as much to the national GDP than an apartment unit.98 The decline in investment in residential properties has dropped to levels not seen since World War II. By some estimates, if we had that kind of housing investment again, we would return to four percent growth as opposed to our all too familiar two percent and below.97

The housing crisis is also impacting employers. A recent report from the state Legislative Analyst showed that many CEOs, particularly in the Silicon Valley, regard lack of affordable housing as their biggest business challenge.99 The ‘main driver’ of the Toyota North American headquarters move from Los Angeles (Torrance) to Dallas-Fort Worth (Plano) was housing costs, according to Albert Niemi Jr., Dean of the Cox School of Business at Southern Methodist University.100 This was just one of a flurry of business relocations from California to other parts of the nation in recent years: Nissan’s North American headquarters from Los Angeles to Nashville, Nestle headquarters to Arlington, Virginia, Jacobs Engineering to Dallas-Fort Worth, and Occidental Petroleum to Houston, among others.101

This mounting loss of young people and young families could have a profound impact on California’s long-term competitiveness. Economists have connected low birth rates to economic declines. John Maynard Keynes addressed traditional concerns about the “devil” of overpopulation, but suggested there was new challenge: “I only wish to warn you that the chaining up of the one devil may, if we are careless, only serve to loosen another still fiercer and more intractable.”102

A dearth of young people would pose particular problems for an economy like California’s, which has long depended on innovation. Innovative changes tend to come from younger workers and entrepreneurs, notes economist Gary Becker.103

**BUILDING A NEW CALIFORNIA FOR THE MIDDLE CLASS**

The future is not just about homes, it is about employment. Suburban areas are where all net employment growth has occurred in California’s six major metropolitan areas since 2000. The highly dispersed and often small job centers have dominated job growth since 2000 in the six major metropolitan areas in the state.

This is true even in industries such as software, a critical one for California. Despite a concentration of tech-based businesses in the urban core of San Francisco, the vast majority of software employment in the Bay Area is scattered throughout suburban areas, dominated by single family houses and low rates of work trip location transit use. This can be seen in the location of these firms both in the Bay Area and greater Los Angeles.104

Whether they choose an urban core or suburban dwelling, millennials contemplate the unaffordable housing that could compel them to leave California. They should force policy-makers to abandon the approaches that have diminished their future standard of living. This means reducing barriers to all kinds of new housing, including to family-friendly single and multi-family living.

These new suburbs should be modeled on the legendary entry-level post war developments, like the Levittowns of the East, Lakewood in Los Angeles, and San Lorenzo Village in the San Francisco Bay Area.105 They could be constructed to use new, environmentally sustainable tech-
nologies to accommodate home-based work. And they could, as some suggest, develop the kinds of urban amenities, notably town centers, which may be more important to millennials than they were to earlier generations. Conflict over urban growth is inevitable, and has been in place for generations, but California has also innovated in the past to provide sustainable, affordable development.

The builders of Lakewood—which went from virtually nothing in 1950 to 70,000 residents in 1953—as well as of the more upscale Valencia of Irvine and a host of other mega-developments, helped solve, at least for the times, the issues of upward mobility, economic opportunity, and access to single family housing. California built not just bedroom suburbs, but “a network of integrated communities” that transcended traditional notions of city and periphery. These builders were, in the late historian Kevin Starr’s phrase, “the Wizards of Oz, the middlemen of symbols and dreams.”

If America once was most in need of “a good five cent cigar,” what it needs now, particularly in California, is a lot more affordable, single-family homes and townhomes. Such homes are becoming increasing rare. Policies that dismiss any effort to build on the fringes are forcing
most young Californians to live in small spaces, become permanent renters, or pay exorbitant shares of their income in mortgage payments or rents. No wonder so many are contemplating an exit.

**REDISCOVERING THE CALIFORNIA DREAM**

“The car-fueled expansion of the suburbs was the most important economic development in twentieth century American life,” notes historian Walter Russell Mead, who suggests that a “third wave” of suburbanization, aided by cheap energy, strides in new telecommunication, and transportation technology could do much to restore broad-based prosperity in the coming decade. A move to prefabrication techniques in home construction, more readily adopted in Europe and Japan, could help reduce costs. Nothing, however, could better improve housing affordability than to restore the competitive market for land by permitting greenfield development. Without such reform, it is likely that California housing prices will increase relative to incomes even more sharply in the future.

Certainly there is potential demand at the right price which is why even projects deserted during the recession are being revived around the country. And, despite the complaints of some environmentalists, there is certainly room. Neither California nor the rest of the nation is running out of land. California can still create an environment for growth and families, if the will is there.

**CONCLUSION**

This report has outlined some of the steps that could bring more millennials into the housing market and restore middle-class prosperity to California. The alternative is a California that works only for the wealthy and previously established, but has little to offer to young families. It is a grim prospect that puts at risk the entire notion of our state as the beacon of opportunity when we should be working towards a better, more dynamic, and quintessentially Californian future.

“There are many opportunities for the state to expand housing supply.”


7. “Young Adults, Then and Now”.


39. This was the closest to the selected alternative: “Scenarios,” Plan Bay Area 2040, http://planbayarea.org/the-plan/plan-details/scenarios.html.

40. Derived from the American Community Survey 2015.

41. American Community Survey 2015.


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48. California has the highest poverty rate in the United States, adjusted for housing costs.


50. A broader planning philosophy, which includes urban containment policy.


52. Calculated from American Community Survey data.


58. Derived from data at https://www.recenter.tamu.edu/.


60. Derived from 1950 and 1970 Census data, for the Los Angeles, San Francisco, Riverside-San Bernardino, San Diego, Sacramento and San Jose metropolitan areas.


63. Calculated from 1970 census data for the present 53 major metropolitan areas (six in California).


66. Derived from American Community Survey and Census data.


74. Rognlie, “A Note on Piketty and Diminishing Returns to Capital.”


81. Calculated from American Community Survey 2015, among one-race and Hispanic population.


105. Stepanie Pincetl, Transforming California: A political history of land use and Development (Baltimore: Johns Hopkins University Press, 1999), 228.


Design Notes

FADING PROMISE: Millennial Prospects in the Golden State and the graphics utilize the following:

To achieve visual harmony a modified version of the grid Jan Tschichold conceived for his book Typographie was employed.

MINION PRO Chapman’s serif family, is a digital typeface designed by Robert Slimbach in 1990 for Adobe Systems. The name comes from the traditional naming system for type sizes, in which minion is between nonpareil and brevier. It is inspired by late Renaissance-era type.

FUTURA is one of Chapman’s sans serif family. Futura is a geometric sans-serif typeface designed in 1927[1] by Paul Renner. It was designed as a contribution on the New Frankfurt-project. It is based on geometric shapes that became representative of visual elements of the Bauhaus design style of 1919–33. Futura has an appearance of efficiency and forwardness. Although Renner was not associated with the Bauhaus, he shared many of its idioms and believed that a modern typeface should express modern models, rather than be a revival of a previous design. Wikipedia

Front Cover and inside front & back cover:
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Back Cover and page 13: Lamb Studios, Tom Lamb

Book exterior and interior design by Chapman University professor Eric Chimenti. His work has won a Gold Advertising Award, been selected for inclusion into LogoLounge: Master Library, Volume 2 and LogoLounge Book 9, and been featured on visual.ly, the world’s largest community of infographics and data visualization. He has 17 years of experience in the communication design industry. To view a client list and see additional samples please visit www.behance.net/ericchimenti.

Professor Chimenti is also the founder and head of Chapman’s Ideation Lab that supports undergraduate and faculty research by providing creative visualization and presentation support from appropriately qualified Chapman University undergraduate students. Services include creative writing, video, photography, data visualization, and all aspects of design. The students specialize in the design and presentation of complex communication problems.

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