

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **first tuesday**
 April 2016 • Vol. 5 • Issue 4 • **Low vacancies point to future construction boom**

Presented by

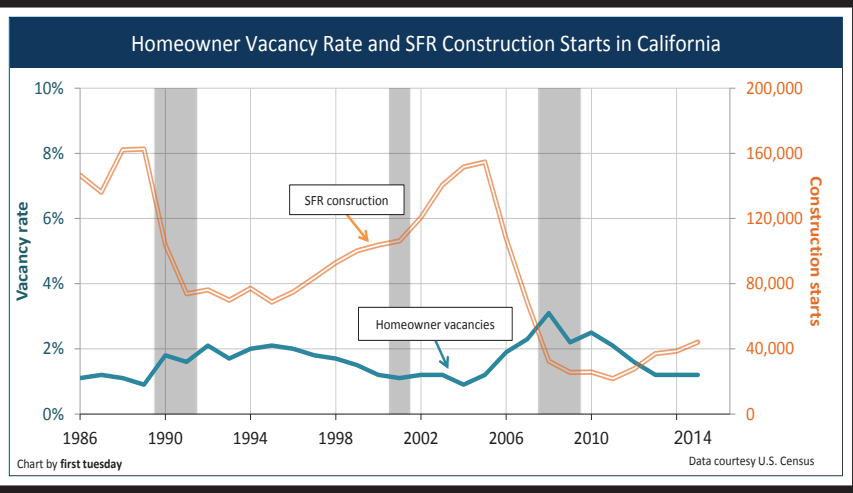
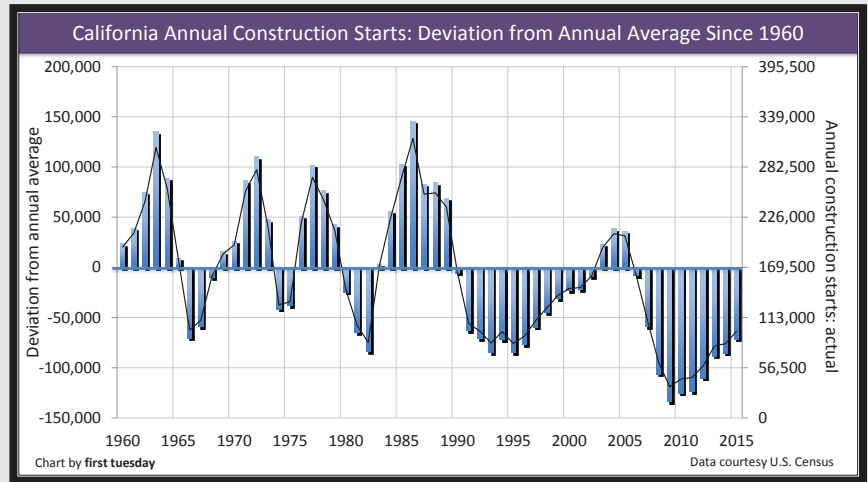
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Construction below historical average

This chart displays the number of **new construction units** started each year in California, including single family residential (SFR) and multi-family units. Each year is compared against the historical average of 169,000 annual starts.

In 2016, 97,600 units were started in California, a 12% increase over 2015. But this is still well below average. Further, construction has performed below average almost every year since 1990. Why? This is mostly a result of the overbuilding which took place in the 1970s and 1980s to feed demand from the large **Baby Boomer** population — the demand for new construction was relatively lacking in the decades that followed.

Based on current trends in home sales volume and **residential vacancies**, construction will likely return to its historical average near the end of this decade.



A healthy homeowner vacancy rate doesn't push much construction

This chart shows the number of single family residences (SFRs) constructed annually, along with the average homeowner vacancy rate in California.

The homeowner vacancy rate has remained level since 2013, at 1.2%. For reference, this is a **healthy vacancy rate** for SFRs, and comparable with the historical average. A normal vacancy rate means new construction is limited, since the demand for SFRs is just average.

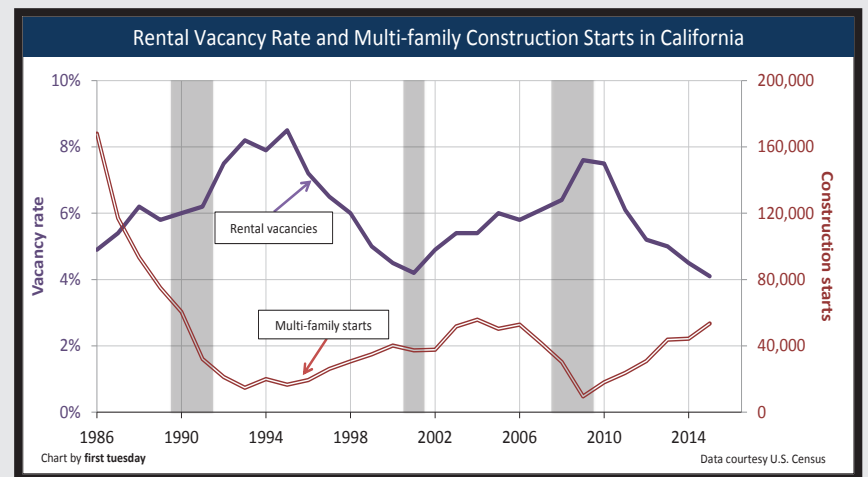
Expect SFR construction to continue to rise slightly in 2016. It won't pick up significantly until later this decade, once the first-time homebuyer demographic — **Generation Y** — enters the homebuying market in force.

More multi-family units needed

This chart compares California's **rental vacancy rate** alongside the number of multi-family construction units started annually.

At the end of 2015, rental vacancies were 4.1% — their lowest level since 2001. This is far below the historical equilibrium of around 5.5%. Therefore, construction of multi-family units and particularly rentals needs to continue to rise to meet **demand**, otherwise the price of rents will increase for failure to break ground. This has already occurred in city centers like Los Angeles and San Francisco, where residential rents are well above average.

Multi-family construction will rise more quickly than SFR construction in 2016 and in coming years. Construction is expected to peak around 2020 as **first-time homebuyers** and retiring **Baby Boomers** meet in a demand convergence for homes.



Click on any chart for more information!