NABE
LOS ANGELES

Here’s who’s leaving California—and why it matters

Let’s start with the good news: California’s recovery created a lot of jobs.

The state purged 1.3 million jobs during the Great Recession, but it created 2.4 million from the beginning of the recovery through this July, according to state employment data.

But here comes the not good news.

California’s recovery did not create many new homes. In fact, the gap between new jobs created and new building permits has grown wider and wider. Between 2010 and 2015 in Los Angeles County, there were more than four jobs created for every new building permit.

By 2030, California will have to build more than 3.3 million new housing units to even meet demand. But the ways things are going, the California Association of Realtors (CAR) predicts the state will fall far short, leaving over 2 million units unbuilt.

Econ 001 tells us what happens when demand for a good (i.e. housing) increases while its supply doesn’t: prices rise.

Oh, they have. As of the second quarter of this year, only 29 percent of Californians (and 28 percent of Angelenos) can afford a median-priced house, according to CAR.

And that’s where the problem begins, says Leslie Appleton-Young, Chief Economist & Vice President of CAR.

In a presentation earlier this month to the Los Angeles chapter of the National Association for Business Economics at CBRE’s global headquarters in downtown L.A., Appleton-Young argued the state’s high costs of housing, not its taxes, have created a growing exodus among Californians, threatening its long-term economic vitality--and, also, its social fabric.

Net domestic migration from California last year was 105,037. That’s up 190% since 2012 when the state lost 36,218 adult residents.

And this year, 28% of Californians who sold their homes moved to another state. That figure has grown every year since 2013 and is the highest since 2007 (aka right around when the economy started tanking).

Mo’ money, fewer problems

Of course, high housing costs aren’t pushing everyone out of the state, says Appleton-Young, whose data points to clear demographic and socioeconomic patterns within the exodus.

The highly educated and wealthy are staying put. In fact, they continue moving into the state, not away from it.

But that's not the case for middle income and mid-skilled workers, who have increasingly begun looking for greener (or just cheaper) pastures out of state--think mostly Texas, Arizona, Oregon and Nevada with another quarter going somewhere else.

By income, it's the Californians making less than $100,000 per year who are leaving the state. In fact, the lower their income, the greater the chances that they'll be plotting their exits, according to CAR data.

By education, it's the mid-skilled workers (i.e. either high school grads or those with "some college) who are leaving.

And by age, it's the youngest workers, Millennials, who are leaving.

"If you're a boomer, the only way your kid is going to live here is you write the check," says Appleton-Young.

The long term implications of a state that's increasingly purging all but its most educated and highest earning are potentially grave, says CAR's chief economist, who argues economic competitiveness is the most obvious and significant casualty.

California companies looking to expand their younger, skilled and older, mid-skilled workforces are already having trouble recruiting talent to the state, but those problems will only compound with even higher housing costs (relative to income).

It really is this simple: when a state's companies can't expand, its economy can't either.

We should also expect other costs, too--ones much harder, if not, impossible to measure, says Appleton-Young.

"What do we look like when our whole state is gentrified? It's not pretty."

By Max Taves, Vice President, LA NABE

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