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New studies track low-wage earners fleeing California, even as the number of low-paying jobs increase
High-wage earners continue to move to the state as housing costs soar

Southern California loses share of middle- and high-wage employment,
While Bay Area continues to gain high-wage jobs and attract highly paid workers

SAN FRANCISCO — A trio of new studies suggests deepening divisions in California's economy, depending on residents' incomes and where they live.

Some familiar trends continue. Over the decade ending in 2016, more people moved out of California than moved in, and the state still has the highest housing costs in the nation.

At the same time, new trends are emerging. Job growth is up across low-, mid- and high-income earners, but while wages have increased across all categories, low-income earners haven't seen their paychecks increase at a comparable pace in recent years. Well-educated, high-income earners continue to move to California, even as growth in high-wage employment has slowed. And as housing prices near an all-time high, Californians with low-paying jobs are leaving the state in search of more affordable lives, despite a growing number of available low-paying jobs.

Regional differences add another layer of complication. For example, in the Bay Area, the number of high-wage jobs continues to grow, and high-wage workers continue to move in. But in Southern California, shares of high- and middle-wage employment have declined. And Southern California and rural areas are losing more residents, on average, than other parts of the state.

The report, ***Growth Amid Dysfunction: California Migration, Current State of California Housing Market, and California Employment by Income*** – features three briefs, and was commissioned by the nonprofit, nonpartisan organization Next 10 and prepared by Beacon Economics. The briefs incorporate fresh data, including some statistics through Q2 2017, to offer a sophisticated snapshot of a state economy that is strong, yet dysfunctional.

"California is sinking deeper into a housing crisis, and this raises questions about the sustainability of the state's overall economic growth," said F. Noel Perry, businessman and founder of Next 10. "California continues to draw more high-earning, educated people from other states and countries, but the ever-increasing cost of housing is forcing lower-and middle-income Californians to leave the state in hopes of finding more affordable housing."

In 2016, the median home price in California was more than double that of the median home price in the U.S. as a whole, with a difference in cost of more than $265,000. This is down from the 2006 difference of $334,530, but home prices remain the highest in the nation. Declining rates of homeownership could affect the future of economic growth in California.

"We're entering uncharted territory. Today's sky-high housing prices are driven by market fundamentals – namely a lack of supply – whereas in 2006 cheap subprime loans drove housing demand and prices to unsustainable levels," said Adam Fowler, Beacon's research director. "Today, mortgage lending practices are much more conservative, and a growing economy and a housing supply shortage are driving prices through the roof. These prices may well be the new normal, especially during periods of economic growth."

On the employment and income front, California's economic growth is becoming increasingly concentrated in fewer industries. In high-wage sectors, California is adding more jobs at fewer establishments in the Professional and Technical Services sector, concentrating employment at fewer companies, even as incomes in this category continue to rise. This puts the state at risk of economic fallout should these sectors experience a downturn.

On the other end of the economic spectrum, the state is adding more jobs *and* more establishments in the low-wage sector than in any other part of its economy. However, incomes for low-wage earners have not risen enough for people in this category to afford California's high and increasing cost of living.

The reports' major findings include:

Housing:

- California has the highest home prices of any state. In 2016, the median California home price was $266,750 greater than the median home price in the U.S. as a whole.
- Post-recession housing construction has been slow. From 2008 to 2017, an average of 73,000 new housing permits were issued per year – far lower than the average of 135,000 permits issued annually between 1991 and 2007. California has the nation's second-lowest rate of homeownership and worst rate of rental housing over-crowdedness in the country.
- Housing costs for homeowners with mortgages are the second-worst in the nation, and housing costs for renters are the third-worst.
- For homeowners in California, the share of income spent on housing was 21.9 percent in 2016, down from 22.5 percent in 2014. California homeowners spend more on housing than homeowners in any other state except New Jersey.
- For renters, housing costs have decreased from 33.6 percent of income in 2014 to 32.8 percent of income in 2016. California ranks 48th of 50 states for this metric.
- From 2007 to 2017, only 24.7 housing permits were filed for every 100 new California residents. The U.S. average is 43.1 permits per 100 new residents. California is permitting roughly the same number of housing units as Florida, despite having approximately 18 million more residents.

- The housing stock gap is actually being helped by the number of residents leaving the state, and the housing shortage would be even worse if there was no domestic migration.
- Most jurisdictions are far behind the housing goals set by the 5th cycle of California's Regional Housing Needs Assessment. Agricultural areas, including the Central Valley and Imperial County, are particularly far behind.

Migration:

- From 2006 to 2016, 1,090,600 more people moved out of California to other states than moved from other states to California.
- Migration and income trends vary by region. The Bay Area, which had the highest percentage gains in high-wage jobs, has experienced overall net migration growth since 2014. By contrast, Los Angeles and the Inland Empire have seen declines in high- and middle-wage jobs, an increase in low-wage employment, and more people moving out of state than moving in.
- The main driver for net out-migration appears to be high housing costs, since migration rates are highest for those at lower-wage levels. The vast majority of people who moved out of California were concentrated in lower-skilled, lower-paying fields — namely sales, transportation, and food preparation — which together accounted for a net outflow of more than 180,200 people from 2006 to 2016.
- Migration trends suggest that the middle class is also being priced out of the state. Net migration of those earning between $30,000 and $49,999 accounted for 93,500 households leaving California from 2006 to 2016, or 18 percent of net out-migration. On the other hand, net domestic migration for households earning from $50,000 to $99,999 has been positive since 2010, representing 52 percent of net in-migration.
- The annual rate of net out-migration has fluctuated, and is recently on the rise, with 113,300 net residents leaving in 2016. That is, more people than left each year from 2009 to 2014, but not as many as the nearly 225,800 who moved out in 2006, when housing prices were sky-high ahead of the housing crash.
- International migrants who move to California tend to be more educated and have higher household incomes compared to domestic migrants. Between 2006 and 2016, immigrant households with incomes of at least $100,000 grew 170.5 percent, while immigrant households with incomes of less than $10,000 decreased 56.3 percent.

Employment by income:

- Compared to 10 years ago, average annual pay for low-wage earners in California — people making an average of $27,000 — has increased by only 17 percent. Middle-income earners — those making an average of $55,000 — have seen wages rise 29 percent. High-wage earners — those making an average of $83,000 — have seen a 42.5 percent increase.
- There are regional differences in employment patterns. The San Francisco-San Jose metropolitan statistical area saw the greatest growth in high-wage employment from 2007-2017 (16.9%), followed by San Diego (3.4%), while the rest of California's major metro areas saw a decrease. Other parts of the state have lost high-wage and middle-wage jobs and have seen low-wage employment grow, particularly in more rural inland areas.

- No county saw a decrease in low or high-wage subsector wages from 2007-2017. Thanks to the recent tech boom, San Francisco, San Mateo, and Santa Clara counties saw 45.6 percent, 88.1 percent, and 64.3 percent increases in wages, respectively, during the ten-year period.
- Jobs in low- and middle-wage industry subsectors have been outpacing growth in high-wage subsectors from 2014 through Q2 2017, with 6.8%, 6.8% and 4.3% growth, respectively.
- Low wage industry growth in California has outpaced similar growth nationwide. Statewide, low-wage employment has increased from less than 25 percent of total jobs in 2001 to almost 30 percent in 2016. These jobs are concentrated in subsectors such as leisure and hospitality, retail, healthcare, and agriculture.
- Statewide, high-wage employment fell from almost 37 percent of workers to 33 percent from 2001 to 2016. These jobs are concentrated in subsectors such as professional and technical services, hospitals, and building construction.
- California's growth in the professional and technical services (PTS) sector, inclusive of the state's booming tech industries, fell from 11th-highest in 2014 to 33rd-highest in 2017 – though the state still has the largest total number of employees in this sector, with 13.2 percent of the nation's PTS jobs.
- Wages in the tech sector are growing more than wages in any other high-wage industry. The computer and electronic product manufacturing subsector has seen the largest increase in wages (19.9% since Q4-2014).
- New development across the state is boosting high-wage jobs. Of the top 10 largest high-wage subsectors, the biggest job gains have been in the building construction subsector (14.9% since Q4-2014).

The three studies update Next 10's 2016 series of reports, which found that housing costs – not high income taxes – were pushing Californians to leave the state. This 2018 update shows the housing crisis has deepened, while income growth for the most vulnerable in the state has failed to keep pace both with wage increases in other segments as well as increased housing costs.

"California must deal with its housing supply problems," said Perry. "This one issue has the potential to make or break the state economy in years to come."

Visit Next 10 to download copies of *The State of California Housing*, *California Migration Trends* and *California Employment by Income*.

About Next 10

Next 10 (next10.org) is an independent, nonpartisan organization that educates, engages and empowers Californians to improve the state's future. With a focus on the intersection of the economy, the environment, and quality of life, Next 10 employs research from leading experts on complex state issues and creates a portfolio of nonpartisan educational materials to foster a deeper understanding of the critical issues affecting our state.

About Beacon Economics

Beacon Economics is one of California's leading economic research and consulting firms, specializing in economic and revenue forecasting, economic impact analysis, economic policy analysis, regional economic analysis, real estate market and industry analysis, and EB-5 Visa analysis. Known for delivering independent and rigorous analysis, Beacon Economics works to *give clients an understanding of economic trends, data, and policies that help strengthen strategic decision-making. Clients range from the State of California to Fortune 500 companies to major cities and universities. Learn more at www.BeaconEcon.com.*