

**THE CHILDREN OF ORANGE COUNTY:  
HOW WILL THEY BE HOUSED AS  
YOUNG ADULTS?**

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California is enduring a deep and prolonged housing shortage with many negative consequences. Housing construction has been inadequate to accommodate population growth, leading to overcrowding and rising prices. The state government, acting through the Department of Housing and Community Development, has attempted to remedy these shortages by encouraging better local planning through a method known as the Regional Housing Needs Assessment program. That program has met with substantial local resistance for a number of reasons, the most fundamental of which is that future housing consumers have no present vote in a community and current residents see many more drawbacks than benefits to new construction.

Recent policy discussions in Sacramento have attempted to break this housing approval logjam by recasting the problem in a new light, symbolically stated as “taking care of your own.” The heart of this notion is that every community has workers that deserve to

be housed and has children that will need to be accommodated as they grow up. The present study focuses only on the matter of children, taking as an example Orange County. We aim to discover how the children of Orange County are housed as they come of age. With population projections we can also explore how large is this group and how well does it match to the number of new housing units being added.

### **The Depths of the Housing Problem**

Numerous studies have documented the housing crisis in California (California Department of Housing and Community Development 2000; Myers and Park 2002; California Budget Project 2002; Southern California Association of Governments 2004; Johnson, Moller, and Dardia 2004). At root is an abnormally low rate of housing construction, falling from approximately 206,000 units per year in the 1980s, to 110,000 units per year in the 1990s, but recently rebounding to 170,000 units per year in 2000-04. Even with this upturn in current construction, the past backlog of foregone construction leaves the state with a deep deficit. The last state estimate called for 215,000 new units per year, every year from 1997 to 2020. Current construction remains below that level and the shortfall of 100,000 units per year during the 1990s has yet to be made up by higher than average construction.

Compounding matters, the share of new construction that is in multifamily structures has declined from 45.1% in the 1980s (also 49.5% in the 1960s and 45.9% in the 1970s) to 24.8% in the 1990s and 26.4% in 2000-04. This decline in multifamily construction is especially harmful because multifamily housing is typically the most affordable in the

housing market. The collapse of multifamily construction also has special impact on young adults who are trying to leave their parents' homes.

Orange County is the subject of particular housing concern. Among the smaller of California's counties in terms of land area, Orange County's population has grown from 1.93 million in 1980 to 2.85 million in 2000. Over this time period it completed its transition from a bedroom suburb south of Los Angeles to a job-rich destination for commuters. Orange County had 843,000 jobs in 1980 and by 2000, the number of jobs grew to 1,396,500 which is an addition of over half a million jobs (65.7% growth) over the two decades. At the same time that Orange County's employment base has been growing, its rate of housing construction has declined, falling from 16,659 units per year in the 1980s, to 9,665 units per year in the 1990s, and rising only slightly to 10,286 units per year in 2000-04. Similar to trends in the rest of California, the share of construction in multifamily housing has declined from 52.5% in the 1980s to 39.3% in the 1990s and 40.6% in 2000-04. The good news is that this multifamily share has held up better than in the state as a whole, but the bad news is that the volume of housing construction has not experienced the same upturn in Orange County as achieved in the state as a whole.

Comparisons in living conditions between 1980 and 2000 show how far Orange County has fallen. The number of households occupied by adults age 25 and older fell from 555 of every 1000 people in 1980 to 499 in 2000. The decline was accommodated by doubling up, and the county's ratio of overcrowded housing jumped from 5.0% in 1980 to 15.7% of all occupied housing in 2000. Meanwhile, also marking the shortage, the

rental vacancy rate of the county fell from 4.7% to 3.1%, even lower than the 3.7% rental vacancy in the state, which was virtually the lowest in the nation.

### **When Children Grow Up**

The focus of the present study is on the housing needs of the children of Orange County. In 2005, there are estimated to be .80 million children under age 18 living in the county. Over the next decade, a substantial number of these children are going to be growing up, leaving home and requiring housing, most likely in apartments. Additional numbers of young people may move into the area and require further housing, but that can be separately totaled from the numbers of children grown up. Our aim is to provide a precise figure that can be compared to annual rates of new construction.

Only teenagers are likely to need housing in the next decade, but it is not clear if that occurs when they reach age 19 or 21, or some older age. Obviously there are a range of lifestyle probabilities, but to keep this focused, we will assume age 25 is the target age for which children may reasonably be assumed to be on their own and no longer living with parents. (Many parents may wish this age came sooner; others may welcome their bachelor sons at age 40; but age 25 proves a useful benchmark.)

Existing data on the number of teens living in Orange County at age 15 can be used to project the number who would turn age 25 in 10 years. The Demographic Research Unit of the California Department of Finance supplies historical and projected population estimates by these exact ages, and by race or Hispanic origin, for each county in the state.

As shown in Figure 1, we take the population count at age 15 in Year X and make that equivalent to the count at age 25 in Year X + 10. For example, the 30,000 15-year-olds in 1970 translate to 30,000 25-year-olds expected in 1980. This expected number turning age 25 increased during the 1980s, before dropping markedly to near 30,000 again in the later 1990s. This corresponds to the period of low construction in the 1990s that was noted above. Thereafter, growth resumed in the number of 25 year-olds and it is expected to peak around 2016 at nearly 49,000. Thus each year from about 2001 through 2016 there is an ever-growing number of children advancing to age 25 who will need potential housing to be occupied on their own.

Obviously, some of these children are likely to move away from their hometowns in Orange County, many because they could not find suitable housing in which to live. Others, in turn, may move into the county and replace the lost children. Accordingly, in our housing calculations that follow we are going to also track an alternative population number for those age 25 and living in Orange County. That alternative is the direct estimate or projection for all those age 25, as produced by the Department of Finance's Demographic Research Unit.

### **How Many Housing Units Needed**

Not all the 25 year-olds are likely to require a separate housing unit. Some will be married (requiring only one-half a unit per spouse) and others will have roommates. The best way of depicting the probability of occupying a separate dwelling is the use of the

headship rate, defined here as the ratio of householders<sup>1</sup> age 25 divided by all persons age 25. We also should compare the headship rate in different decades to see how variable it may be, and we can compare by different race and ethnic groups to see what differences may exist based on cultural or income factors. Here we will make use of headship rates for the whole of California, applying these as a benchmark to Orange County. A constant set of headship rates from 2000 will be applied to all dates of analysis.

The likelihood of occupying a separate housing unit really shifted from 1970 and 1980, when it was about 44% of all 25 year-olds, to 1990 and 2000, when it was only about 32% (see Figure 2). This probability is lower among Asians and Latinos (around 25%) than among whites and blacks (nearly 40%). For cultural reasons, the latter are less likely to remain at home with their parents, or to be doubled up, and so they exhibit greater independence in the housing market.<sup>2</sup> For purposes of calculating housing needs, we could just use the total that averages all race-ethnic groups, but the changing mix in the population makes this a skewed relationship that grows over time. Alternatively, we could estimate housing needs for all groups at the same level as whites or blacks, for whom housing independence is greatest, but that higher estimate of housing needs could lose credibility among critics who believe the numbers are unrealistic. Still another concern is that the figures for Asians and Latinos may be temporarily low because they include many recent immigrants. As time passes, those newcomers are assimilating

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<sup>1</sup> Every occupied housing unit has one person designated as the *householder*. That is the person, or one of the persons, in whose name the unit is rented or owned.

<sup>2</sup> See the discussion in Dowell Myers, William Baer, and Seong Youn Choi, "The Changing Problem of Overcrowded Housing," *Journal of the American Planning Association* (1996), particular with regard to similarities between whites and blacks versus others.

toward the average for all residents in California. We make no adjustment for the assimilation factor here.

Our decision is to adopt the most conservative standard for the present analysis. We will use 2000 headship rates, holding these constant, even though the trend from 1990 to 2000 suggests a slight upward movement. And we will apply separate headship rates for each race-ethnic group, despite the potential upward movement due to assimilation among Asians and Latinos, and regardless of the opinion that the housing needs of these groups should be made more equal to whites and blacks. Accordingly, the findings that follow should be considered as conservative, low-side estimates that could be elevated by subsequent analysis.

Also shown in Figure 2 is the subportion of the headship rate for each group that consists of multifamily occupants. For example, in 2000, 20% of the total 25 year-olds were householders living in multifamily units. The difference between this figure and the 32% total headship rate is made up of the 12% who were householders living in single-family units. With these multifamily headship rates we can separately estimate the number of expected multifamily dwellers.

Our findings of housing needs for Orange County are not a comprehensive assessment of all needs from all sources. To reiterate the strategy adopted in this paper, we aim only to estimate the anticipated annual number of housing units to be occupied by persons newly turned age 25. This is the prime barometer for measuring new household formations in

an area. The number of these newly formed households can be juxtaposed against the time series of annual building permits for new housing units (see Figure 3). Back in the 1970s and 1980s annual construction exceeded 20,000 units in many years, but since 1991 construction has plummeted and sustained a level no greater than 13,000 units per year. Whereas in earlier decades, new construction far exceeded the needs of those turning age 25, this has not been the case since 1991. Two series of annual housing needs are estimated in the top panel of Figure 3, one for the former 15 year-olds aged forward to 25 and the other for all persons age 25. The latter includes net migration of workers and others who have come to Orange County to live. New construction appears insufficient to meet the needs of either group.

Multifamily construction is compared to housing needs in the lower panel of Figure 3. Here we see that the construction of the past decade is far lower than the annual needs—roughly half— of those turning age 25. In earlier decades, by contrast, it appears that new apartment construction and the number of young adults was more balanced if we average across boom and bust years.

A summary of trends over the past and future decades is provided in Table 1. The annual number of 25 year-old households formed each year is averaged for each five year period from 1980-94 to 2015-19. The table compares this to average annual building permits in each period and calculates the shortfall from estimated housing needs. This varies each five year period. A useful summary is the percentage shortfall averaged over the entire 1980 to 2004 period, amounting to 12.3% of total housing and 36.7% of multifamily. In

comparison, the projected shortfalls in coming periods are much larger than historically experienced. To avert this deterioration of housing supply conditions, in Table 2 we calculate how much the number of building permits will need to increase in order for the estimated shortfall to either be completely eliminated (i.e., the number of permits issued in the period equals the estimate of housing need) or to simply keep pace with the historical level of proportionate shortfall (i.e., keep the shortfall from growing any worse). Compared to the average of 10,286 units per year produced in 2000-04, for complete elimination of the shortfall, construction needs to increase by 38.7% in 2005-09, 47.3% in 2010-14, and 63.9% in 2015-19. In order to just maintain the historical proportional shortfall, construction still needs to increase by 21.6% in 2005-09, 29.1% in 2010-14, and 43.7% in 2015-19. Multifamily housing production would need to increase by an even greater amount. Compared to the average of 4,175 multifamily units per year produced in 2000-04, just to maintain the historical proportional shortfall, construction needs to increase by 39.3% in 2005-09, 48.0% in 2010-14, and 64.7% in 2015-19. To completely erase the annual shortfall in multifamily housing will require a more than doubling of the volume of construction (Table 2).

## **Conclusion**

This study has attempted to measure one component of housing need, namely the volume of new construction required to accommodate children who are coming of age. The number who will turn age 25 in the future is closely related to the number who are age 15 some 10 years earlier. Given the reasonably reliable information that is available on the present and future numbers of teenagers in each county in California, it is possible to

estimate the volume of new households likely to be formed and requiring additional housing. As we have found, many more children are coming of age, so more housing is needed, especially apartments which are the most frequently occupied housing type in this age group.

The method followed by this study has targeted a single index of household formation and housing need—those turning age 25, applying a single statewide headship rate. In this analysis, we have taken account of the changing ethnic mix and the currently lower headship of Latinos and Asians. That yields an underestimate of actual housing needs, because it freezes those groups at lower levels of housing occupancy, denying them their potential upward mobility. Although many observers may find these assumptions to be currently realistic, they likely underestimate the future.

Not included here are the housing needs being accumulated by other age groups, most notably the rapidly growing numbers of seniors. Nor does this method take account of all the indirect exchanges in the housing market that occur as people move from home to home in the area or when they migrate away from Orange County. These dynamics are likely very important but they are omitted here.

Even though we have spotlighted only the housing requirements of newly formed households, our estimates show how much housing needs are likely to grow in that one major category. If we are truly to take care of our own, there is a lot of building to be done.

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Figure 1

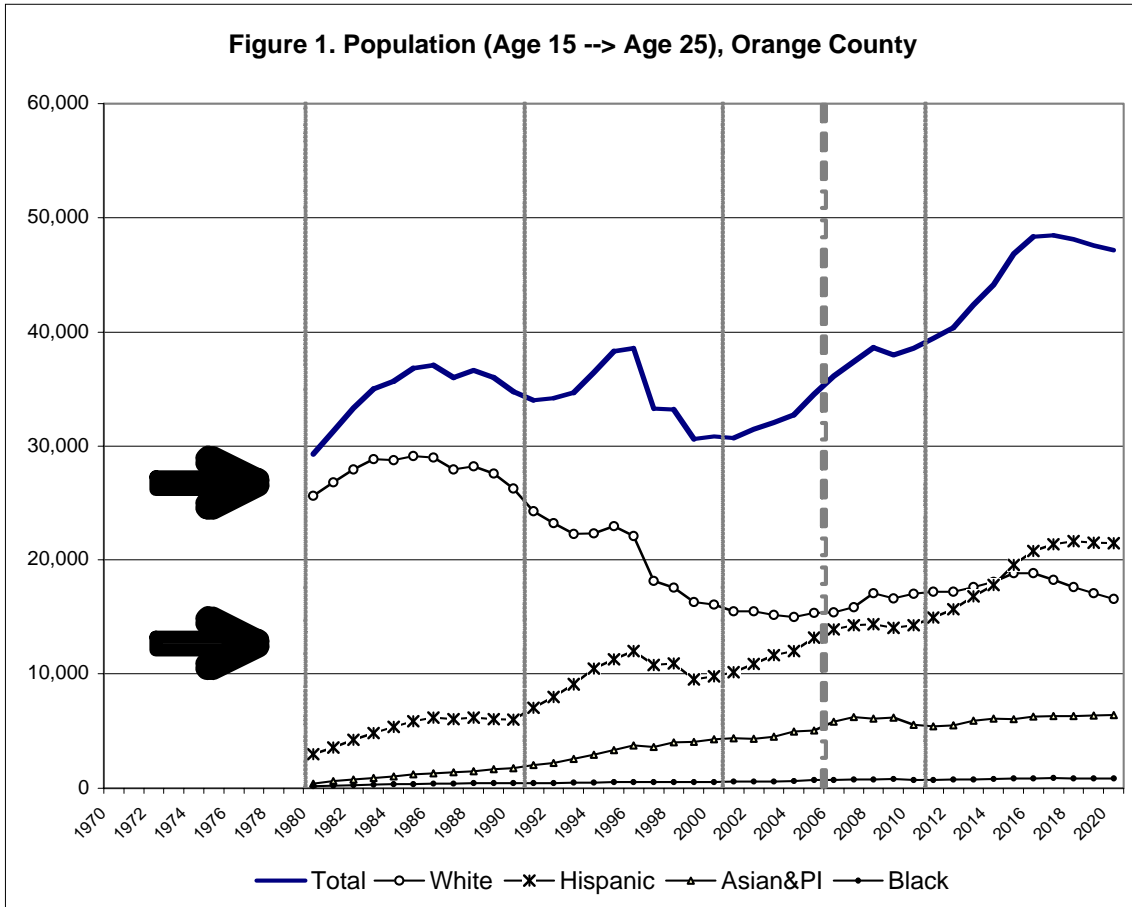
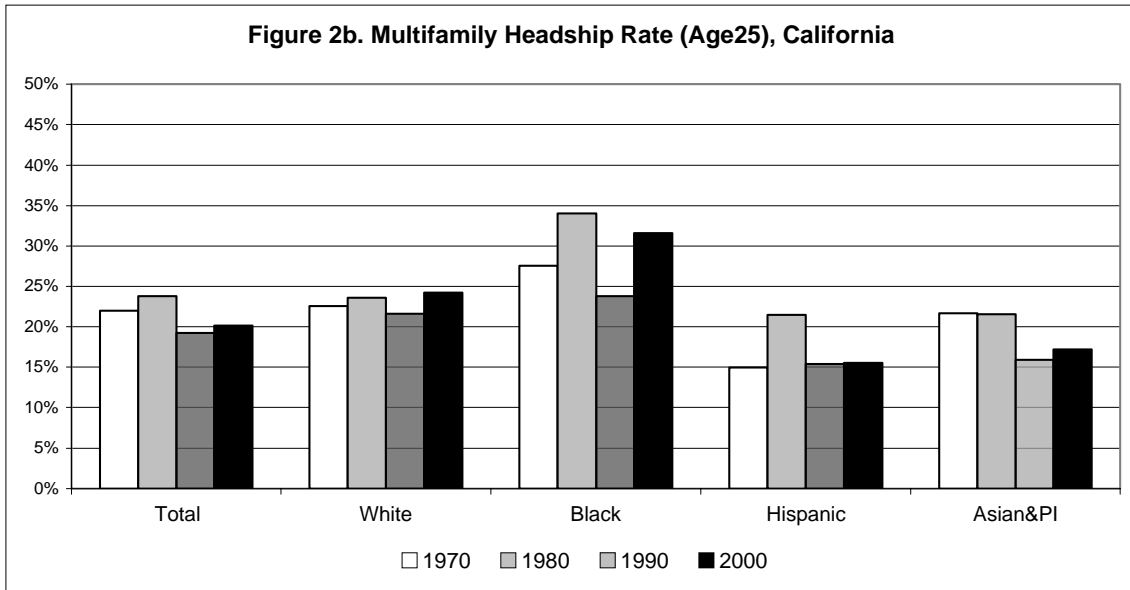
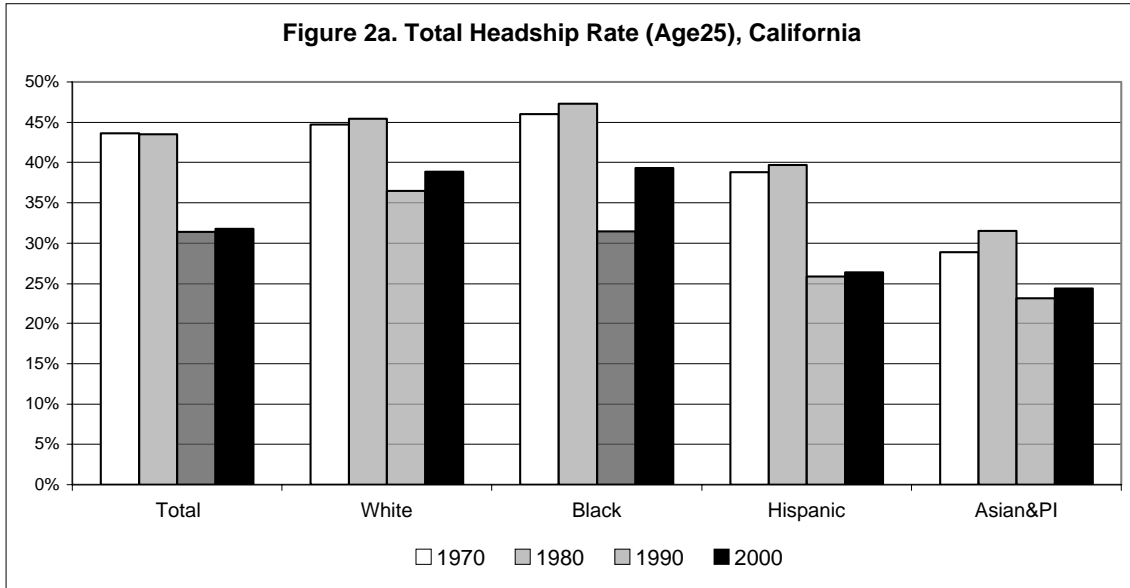
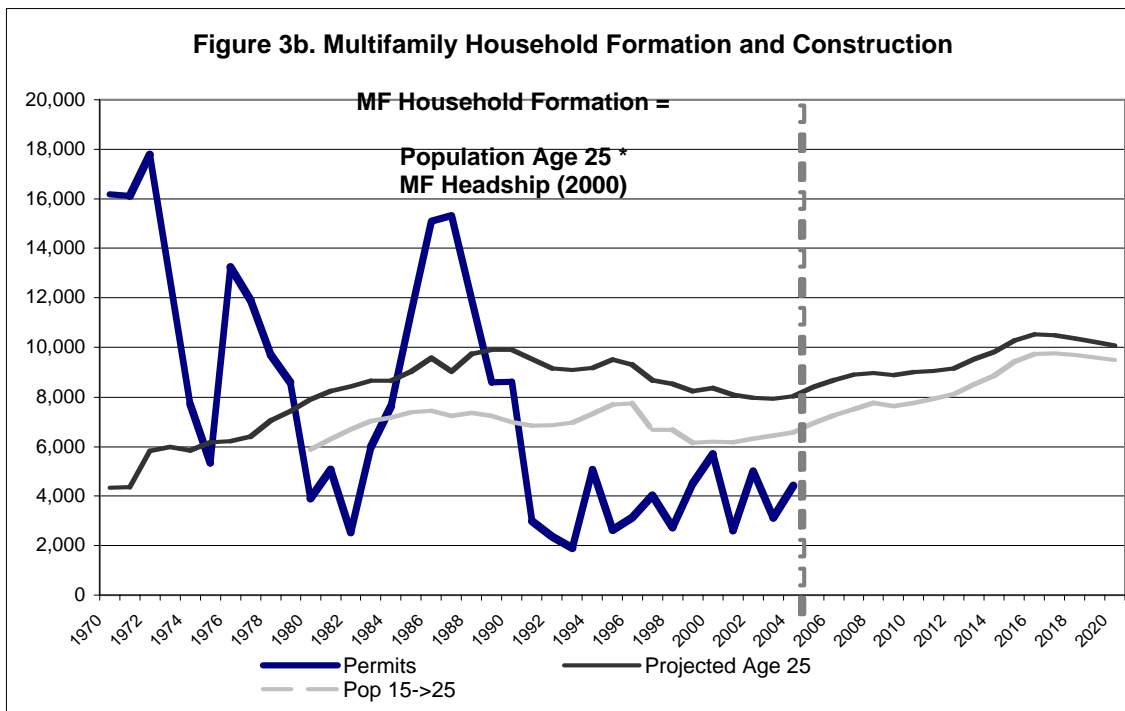
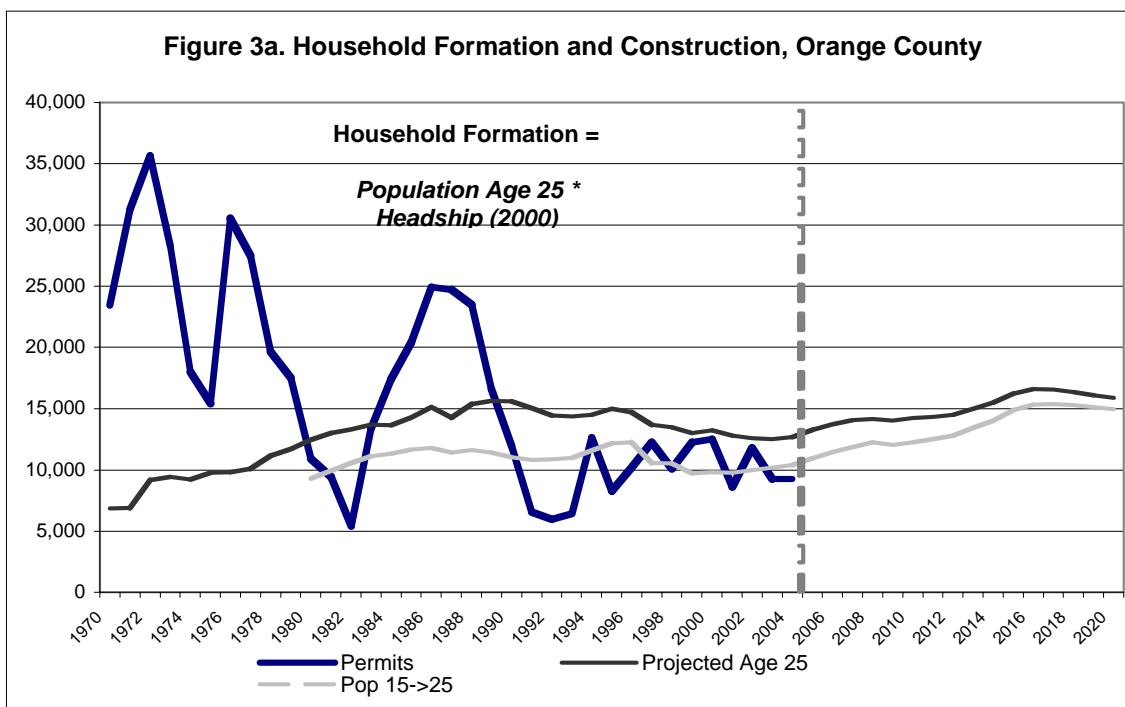


Figure 2



Note: The headship rate is the percentage of people in a specified population group that rent or own a housing unit. Only one person holds this status in each occupied housing unit. The multifamily headship rate measures the subportion that occupies a multifamily unit.

Figure 3



**Table 1. Annual Construction Compared to Housing Needs of Young Adults Turning Age 25 in Orange County**

<b>Total Housing: Age 25</b>						
<b>Year</b>	<b>Households*</b>	<b>Vacant units**</b>	<b>Housing Need</b>	<b>Building Permits***</b>	<b>Shortfall</b>	<b>% Shortfall</b>
1980-84	13,241	386	13,626	11,302	-2,325	(17.1)
1985-89	14,943	435	15,379	22,017	6,639	43.2
1990-94	14,802	431	15,233	8,709	-6,524	(42.8)
1995-99	13,998	408	14,405	10,620	-3,785	(26.3)
2000-04	12,769	372	13,141	10,286	-2,855	(21.7)
2005-09	13,859	404	14,263	10,286	-3,977	(27.9)
2010-14	14,721	429	15,149	10,286	-4,863	(32.1)
2015-19	16,379	477	16,856	10,286	-6,570	(39.0)
<b>Multi-Family Housing: Age 25</b>						
<b>Year</b>	<b>Households*</b>	<b>Vacant units**</b>	<b>Housing Need</b>	<b>Building Permits***</b>	<b>Shortfall</b>	<b>% Shortfall</b>
1980-84	8,381	399	8,780	5,025	-3,755	(42.8)
1985-89	9,459	450	9,909	12,480	2,571	25.9
1990-84	9,369	446	9,815	4,190	-5,625	(57.3)
1995-99	8,860	422	9,282	3,411	-5,871	(63.2)
2000-04	8,082	385	8,467	4,175	-4,292	(50.7)
2005-09	8,772	418	9,190	4,175	-5,015	(54.6)
2010-14	9,318	444	9,761	4,175	-5,586	(57.2)
2015-19	10,367	494	10,861	4,175	-6,686	(61.6)

Notes:

- \* Households= Population (Age 25, DOF projection ) \* Headship Rate (Age 25, CA, 2000)
- \*\* Vacant housing rate=3.0% total housing; 5.0% multifamily
- \*\*\* Building Permits post 2004 assumed = average annual (2000-04)

**Table 2. Required Levels of Housing Construction to Eliminate Future Shortfall Relative to Needs at Age 25 in Orange County**

<b>Required Total Housing Construction</b>				
	<b>Eliminate Shortfall</b>		<b>Maintain Shortfall at Proportion of 1980-2004</b>	
	Permits	% increase	Permits	% increase
2005-09	14,263	38.7	12,504.31	21.6
2010-14	15,149	47.3	13,281.50	29.1
2015-19	16,856	63.9	14,778.03	43.7

<b>Required Multifamily Construction</b>				
	<b>Eliminate Shortfall</b>		<b>Maintain Shortfall at Proportion of 1980-2004</b>	
	Permits	% increase	Permits	% increase
2005-09	9,190	120.1	5,817.84	39.3
2010-14	9,761	133.8	6,179.44	48.0
2015-19	10,861	160.1	6,875.73	64.7