

THE ECONOMICS OF WATER

H₂O woes could impact much-needed developments | By Betty J. Talbert



Top to bottom:
Central Valley
almond trees us-
ing drip method
rather than
sprinklers to wa-
ter; middle, farm
auction; bottom,
unfinished con-
struction site.



The California drought is taking its toll, made evident by dystopian scenes of dry, craggy riverbeds, the economic impacts of rising water prices, and Gov. Brown's mandatory 25 percent water cuts for the state's urban water suppliers. Statistics released in May from the U.S. Drought Monitor reinforced that most of California remains in a severe drought—the driest on record since 1895, according to the National Oceanic and Atmospheric Administration.

California is the nation's most populous state at 38.8 million. About 87 percent of those residents live in urban areas. Furthermore, 2014 U.S. Census figures reveal seven out of 10 of the nation's most densely populated urban areas are in California as well. The state population increases by about 1 percent yearly (1.5 million). Clearly, these figures suggest that existing home sales condensed into urban areas will remain crucial to the California real estate industry.

That means, however, that supply needs to be steady. The California State Legislative Analyst's Office recently called for building another 100,000 houses and apartments in order to make California real estate more affordable in a state where, according to CALIFORNIA ASSOCIATION OF REALTORS® estimates, only 29 percent can afford a median price home.

Because water supply is not equal in all California's regions and different markets respond in varying ways to a drought, we will first look at the home building industry, and then at California agricultural and urban areas to evaluate the drought's effects.

Home Building

► How the drought could affect new developments

"The drought has kept demand per development relatively high and prices fairly high," Boud explained. "It will eventually affect the demand side of real estate if it is really elongated. But, as of now, it is cutting short developments that may otherwise go forward if water was more plentiful."

California has greater restrictions on development than most states, but as Boud described, the drought has levied even more restrictions upon builders over the years, which include greater water efficiency standards. "State regulations also make it harder to build, as do city fees," he said. "As fees go up, it becomes harder for builders to offer new homes. Many of these new fees are associated with water."

The good news is that because of low-flow fixtures and appliances, along with investment in drought-tolerant landscaping, new homes use about 50 percent less water now than homes built before the 1980s.

Cities could also trend toward smaller lots, as the *Sacramento Bee* reported in January 2014. However, the president of the California Building Association, Dave Cogdill, hasn't seen this happen, "As far as land-use issues, there is a lot of talk but nothing concrete. Even buzz of moratoriums or water meter limits hasn't been more than that so far," Cogdill suggested. "Usually, policymakers analyze the issue and see that new homes aren't the problem. They are the solution to water conservation. New housing is needed, so the policy-makers don't move forward with restricting land-use issues."

The upshot is that regulations and delays can add 40 percent to housing costs, as a San Diego Point Loma Nazarene University Institute study found. The drought has slowed California's building industry, impacting potential real estate sales and putting new homes further out of reach for many Californians.

Agriculture

► Smaller farms hit hardest, directly impacting real estate in some communities

The Central Valley is a California jewel, dusty though it may be at times from crop lands lying fallow over drought years in order to save on water. The Central Valley is a world-class agricultural mecca, producing almonds, artichokes, dates, figs, raisins, kiwifruit, olives, persimmons, pistachios, prunes, and walnuts.

Agriculture has doubled its water efficiency over the last 43 years but still accounts for 80 percent of water use in the state, according to the Grower-Shipper Association of Central California.

California Water Today, a California Water Plan website publication, documents that "81,700 farms and ranches received a record \$37.5 billion for their output in 2010," which is 11.9 percent of the U.S. output. At least \$100 billion in agriculture-related economic

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Top to bottom:
Xeriscape drought tolerant landscaping;
rain water capture barrel;
desalination treatment plant;
homeowner installing artificial grass.

