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Factor 1: Jobs

Chapter 1.1

Employment: a prerequisite to renting or owning

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Learning Objectives

After reading this chapter, you will be able to:

- apply employment trends to your local real estate industry; and
- anticipate real estate sales volume and price movement in the months ahead.

Key Terms

real demand

Income for the necessities of life

Of all the factors affecting California real estate, **employment** has the most impact. This is true in good economic times, and times of economic recession and financial crisis.

Without jobs, wage earners have *insufficient financial ability* to make rent or mortgage payments. Thus, the unemployed are forced to move in with relatives or friends, negatively impacting the housing market and the economy.

Figure 1

California Payroll Employment

Figure 1 tracks the number of people employed in California. This chart shows total employment numbers statewide. The gray bars indicate periods of recession in the United States (as tracked by the National Bureau of Economic Research).

ONLINE UPDATE
Visit realtypublications.com/charts for the most recent chart data.

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High unemployment stems from inability of businesses to provide employment — work. When the economy is slow, businesses have less need to occupy and use retail space, office suites, warehouses for inventory and distribution, industrial buildings for production or land for development. Thus, **commercial real estate** experiences high vacancy rates, and much rented space goes unused — a temporary wasting of allocated capital.

real demand
The demand of end-user buyer-occupants in the real estate market.

Demand (**real demand**, as opposed to artificial demand stimulated by hit-and-run speculators) rises for all types of real estate when local jobs increase, as during periods of economic development. Additions to the local labor force tend to drive up rents and property prices in the vicinity when the point of optimal occupancy has been reached. On the other hand, a decline in the number of local jobs reduces the need for all types of real estate, as during a recession. [For a discussion of artificial speculator demand, see Factor 3: Real estate speculation]

Jobs set the trend

The current trend in the number of individuals employed in a region sets the direction for:

- the volume of rentals and sales during the following 12 to 18 months; and
- the price movement of rents and prices paid for the use and occupancy of real estate during the following 24 to 30 months.

Job issues which affect the level of rents and prices paid for property include:

- the *quantity* of employed individuals;

- the *quality* of existing jobs;
- the level of wages paid; and
- the *type* of jobs existing and developing in the local market.

Quantity of employed individuals

Historically, California jobs create homeowners and tenants on an approximate 50:50 basis, with half of all households owning the residence they occupy and the other half renting it. This number leaned toward more homeowners and fewer tenants during the Millennium Boom. However, the homeownership rate declined rapidly in the decade that followed the bust, resting around 54% in mid-2021. [See Factor 4: Homeownership]

The appreciation or depreciation of property values is triggered by increases or decreases in local population density and the economics (numbers and pay levels) of local jobs.

Of California's largest counties, San Francisco experienced the quickest job growth after the 2008 recession. San Francisco has far surpassed its pre-recession levels, even accounting for population gain. This is largely due to the area's bubble-prone technology industry. California's job market finally caught up with population gain in 2019, just in time for the 2020 recession to arrive and wipe out years of job growth in a single month. [See Factor 25: Regional housing indicators]

The unemployed and underemployed are of little to no concern to the real estate market. Unemployment numbers tell us only who cannot participate in the real estate industry, but are here somewhere. This was the exception in 2020-2021, when jobless homeowners and renters were given the opportunity to remain housed thanks to the foreclosure and eviction moratoriums. In typical economic times, individuals who work to earn a living, the 99%, first need a full-time job before they can buy or rent.

See Figure 1 for historical and current projections of the number of people employed in California.

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Chapter 1.1 Summary

Employment is the single most important factor in determining the future vigor of the real estate market.

The number of employed individuals and the rate of job creation set the trend for sales and rental volume in the following 12 to 18 months. The employment numbers set price movement during the following 24 to 30 months.

Chapter 1.1 Key Term

real demand ..... **pg. 2**

Chapter 1.2

Jobs move real estate

Learning Objectives

After reading this chapter, you will be able to:

- observe the importance of an individual's creditworthiness;
- understand the effect of savings on the decision to buy or rent; and
- recognize the importance of regional-specific job numbers.

Key Term

creditworthiness

Jobs' impact on real estate

The quantity of jobs in California directly impacts homeownership. Without a paycheck, nobody can afford to rent an apartment, or buy a house. Exceptions occur if they are subsidized by the government or possess substantial independent wealth.

creditworthiness
And individual's ability to borrow money, determined by their present income and previous debt payment history.

The basis for an individual's **creditworthiness**, essential if they are to rent or borrow money for housing, is:

- a paycheck;
- self-employed earnings from a trade or business; or
- income from investments and pensions.

Creditworthiness largely determines whether an individual is acceptable to buy or rent.

For instance, a jobholder's decision to become a homebuyer is influenced by:

- the amount of savings available for a down payment;
- a lender's willingness to lend to the homebuyer; and
- the value of government promises for purchase subsidies.

In application to California

California has 8.2 million single family residential (SFR) units and 5.6 million multi-family units as of the 2019 Census — just under 14.4 million housing units total (not counting mobilehomes or other forms of housing). 13.2 million of California's 14 million housing units are occupied. There are just over 16.4 million individuals employed, as of July 2021.

53.9% of households in California own the home they live in as of Q2 2021, representing over 7.3 million owner-occupied housing units. The percentage peaked in 2006 at 61% and is certain will not rise much above California's historical rate of 55% until the recovery from the 2020 recession.

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Accordingly, for every ten jobs lost by a drop in total employment, three to five people will be unable to purchase or retain their home for loss of their sole source of income. When an individual loses a job, these short-term unemployed usually find a job within weeks and thus no drop in total employment statistics take place.

California's unemployment rate was at 5.4% in June 2025, roughly level with a year earlier. However, the declining **labor force participation (LFP)** rate means the number of unemployed individuals is higher than at first glance. Those unemployed without large cash reserves simply cannot afford to make payments and will lose their housing unless they re-enter the labor force.

The loss of jobs has a ripple effect on all types of real estate beyond single family residences (SFRs). As employees are shed within a region, the need for office, commercial and industrial space is reduced by an equal or greater amount. Subleases, reduced rents and vacant space across all segments of California's real estate economy are the direct result of overall job loss.

During the last housing cycle, the job losses of 2009-2010 were slowly regained over the next decade, finally returning to pre-recession levels in 2019 — just in time for pandemic job losses to arrive in early 2020. Jobs were slow to recover, returning to pre-recession levels in 2023. As of June 2025, jobs are a slight 308,500 above the pre-2020 recession peak and faltering.

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There's no place like home

Readers often observe payroll data as reported by the media or others, which too often is **national**, not local. However, you need to distinguish between what is happening to California jobs and what is taking place across the rest of the nation. What happens in a commodity economy (such as Texas or North Dakota) has little relationship to what happens in California, a services economy.

California's homeownership rate has declined over seven percentage points since its peak in 2006. In contrast, the nationwide homeownership rate has declined only four percentage points from peak levels. [See Factor 4: Homeownership]

California took a disproportionately greater hit to jobs during the Great Recession in comparison to the national averages. This is largely due to the magnitude of California's real estate construction bubble leading up to the crash and the 2008 recession. The bubble exceeded those of all other states (except Nevada and Florida) in terms of price, lending, construction, speculation and anticipation of demand. The bust had an equally substantial impact on our state's economy as it returns to the trend lines that were ignored in the interim.

Chapter 1.2 Summary

Creditworthiness and savings are both homebuyer necessities. The quality of creditworthiness and amount of savings determines what type of home the buyer can purchase. Both depend on jobs.

After over a decade of gradual improvement, California's jobs market finally achieved a full recovery in 2019 when accounting for the working-aged population increase of roughly 1.8 million since the Great Recession took hold in 2008. Employment in California reached a full recovery just in time to reverse course in 2020.

The 2020 recession was the shortest on record, and yet its effects have been long in the labor market. As each round of government stimulus focused on band-aid solutions rather than job creation, expect the jobs recovery to continue its faltering progress for years to come. For reference, California still needs to regain 1.3 million jobs lost in 2020 as of July 2021.

Local data need to be sought when measuring jobs performance. Accordingly, a nationwide employment picture does not apply to California.

Chapter 1.2 Key Term

creditworthiness ..... pg. 4

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