

## Understanding California's Drought

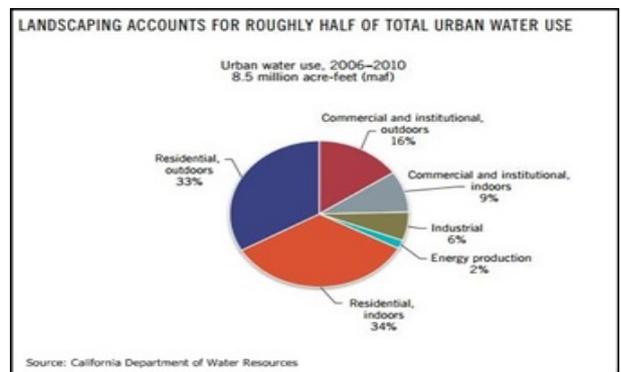
The recent executive order by Governor Jerry Brown mandating water restrictions fueled fears around impacts of the drought on housing in California. While it's important not to undermine the severity of the situation, it is also critical to understand the issue. Water use is distributed between environmental, agricultural, and urban. Environmental use comprises half of the water usage, it is not for human uses, and varies dramatically by region. It is mostly needed in North Coast and Sacramento River areas. About 80 percent of human water use is for agriculture in California. Similarly, agricultural use varies by region and is largely concentrated in the Central Valley and the Colorado River. The remaining, 10 percent, is urban water. The Bay Area and South Coast comprise most of the urban water use, and these regions rely heavily on water imported from other parts of the state. Nevertheless, half of the urban use is for residential and commercial landscaping only. That means that residential indoor use amounts to only about 3 percent of the total water use.

Additionally, total urban water use has remained roughly constant over the past 20 years. Per-capita water use has decreased 232 gallons per day in 1990 to 178 gallons per day in 2010. Also, coastal regions use far less water per capita than inland regions, 145 gallons per day compared with 276 gallons per day in 2010, largely because of less landscape watering.

All of this suggests that the impact of the drought will weigh more heavily on agricultural use than residential use, and residential use will be more impacted in the inland regions. It has been estimated that the drought triggered losses of more than \$2 billion and 17,000 full- and part-time jobs. However, these numbers are based on an estimate. True losses are difficult to ascertain given that both farm revenues and farm employment are at record highs. Strong commodity prices partially offset

production losses and high yielding crops, such as almonds and tomatoes, brought in record revenue. What about housing? As noted, large urban areas where most of the population in California is situated is largely unaffected. Previous droughts have led to extensive investment in diversification of water supplies. There are communities that are more vulnerable. For example, Folsom and Santa Cruz faced extreme shortages in 2014, reflecting their high dependence on a single source. Some small rural communities, in the Central Valley and Sierra foothills, suffered as well. In markets with high job exposure to agriculture, such as Bakersfield, Fresno, Modest and Stockton, there will continue to be concerns.

Going forward, the biggest issue for housing comes from slower or decreased new building permit issuance. The state is facing significant housing shortages and the drought will only arm those who are already trying to stop new development. Some communities have started issuing moratoria on new construction. Landscaping is certainly a concern too but there are many incentives by localities to replace existing lawns with drought-tolerant landscaping. In the long run, prolonged period of drought will have an impact on food prices and consequently consumer purchasing power. Nevertheless, technological innovations have helped us reduce our oil dependence. Similarly, innovations are already being developed to help us with our water shortages.



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