Google's big Bay Area housing investment won't be enough

One day after Google announced that it would invest $ 1 billion on housing in California's Bay Area, economists praised the move but expressed skepticism that it will actually solve the region's crisis-level affordability issues.

Danielle Hale

Realtor.com Chief Economist Danielle Hale had some praise for the tech giant's plans, describing them as a "laudable step," but also ultimately concluded in an email Wednesday that "they aren't going to be sufficient to end the crisis."

Hale's take came in response to the company's plan to devote $750 million worth of Google land to build at least 15,000 new homes. Google will also create a $250 million investment fund aimed at creating affordable housing, and will devote $50 million to fighting homelessness.

That is, obviously, a lot of housing.

But Hale noted in her email that in 2019 the San Francisco metro area will probably add between 14,000 and 15,000 new housing units, which amounts to just 1 percent of the region's existing housing stock. In other words, as a share of the overall market, 15,000 homes is actually a tiny number.

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“It’s important that Google is getting involved and taking steps to address housing, but the Bay Area’s high prices — $955,000 for the typical San Francisco listing and $1.167 million for the typical San Jose listing in May — will continue to be a challenge for everyone who lives in the Bay Area, whether they work in the tech industry or not,” Hale concluded.

Daryl Fairweather

Redfin Chief Economist Daryl Fairweather dove even further into the impact of Google’s plans in a blog post Wednesday, writing that tech companies’ investment in housing makes sense in terms of recruitment and retention.

“In order to recruit talent, tech companies have to pay high salaries so that employees can afford

housing and an overall high cost of living with money left over for savings," Fairweather explained. "Investing in housing near headquarters could bring down the cost of recruiting and paying talent over time."

Fairweather went on to compare the housing situation that Google employees face near different company offices. Though engineers make almost the same amount whether they work in the Bay Area or Austin, the California employees can only afford 16.5 percent of nearby homes. Meanwhile, employees in the Texas capital can afford 84.1 percent of the homes in their metro area.

The result, according to Fairweather, is that "Google and other tech companies in the Bay Area are going to have a difficult time recruiting employees without substantially increasing compensation."

But the problem with upping salaries is that home prices will simply rise in kind. Worse still, Fairweather points out, local governments would then have to raise taxes to retain more modestly paid public servants such as firefighters and school teachers.

In that context, then, it makes a lot of sense for a company like Google to invest in housing.

"It's a much better long-term strategy to build housing to stop the cycle of rising costs of living," Fairweather argued. "That way Google can keep its salary growth in-check and help mitigate rising housing costs for all local residents."

Google also isn't alone in pursuing this strategy, with Microsoft in the Seattle area and Wells Fargo in San Francisco also both recently announcing major housing investments.

In her blog post, Fairweather ultimately concludes that "more housing near these tech campuses will certainly mitigate rising housing costs." Still, it may not ultimately be enough.

"But it's possible that demand could outpace these increases in supply," Fairweather wrote, "and these tech companies could end up building housing that only the highest paid employees can afford."

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