# Housing

CALIFORNIA'S FUTURE

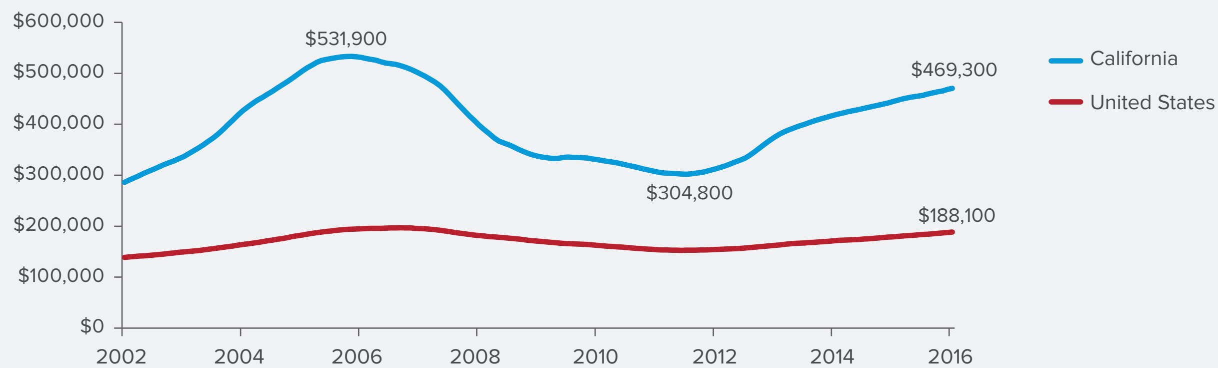
JANUARY 2017

## California's housing challenges continue

California home values continue to rise but at a slower pace than in recent years. As of August 2016, home values climbed 5.8 percent over the year, down from 6.5 percent in 2015 and 11.4 percent in 2014. Meanwhile, driven by exceptionally strong demand, rents continue to increase. To help meet this demand, multifamily permits continue to be issued at historically high levels. At the same time, foreclosures have fallen to the lowest level in years.

Although home values have increased substantially since the nadir of the housing bust, gains are uneven across the state. The number of California homeowners with negative equity has dropped sharply. Still, in the second quarter of 2016, about 348,000 homeowners remained underwater, with mortgage amounts higher than the market value of their homes. High rents and rising prices place housing out of reach for many, in some cases leading to homelessness. Affordability continues to be one of California's biggest housing challenges, aggravated by slow growth in household income. Almost half of California renters pay more than 35 percent of their household income for housing.

### MEDIAN HOME VALUES: BOOM, BUST, AND RECOVERY




SOURCE: Zillow.

NOTE: Values in nominal dollars from August 2002 to August 2016.

## Housing values keep rising, but the pace is uneven

- **California home values have increased substantially since the housing bust.**
  The state's median home value is up 56 percent from its low in 2012—to $469,300, within 13 percent of the previous peak in 2006. In five Bay Area counties (San Francisco, San Mateo, Santa Clara, Alameda, and Marin), values are now above previous highs. Some of the sharpest gains have occurred in counties that had the worst busts, including 92 percent in San Joaquin, 77 percent in Sacramento, 71 percent in San Bernardino, and 66 percent in Riverside. But values in those counties are still 20 to 30 percent below peak. In 10 counties, mostly in the San Joaquin Valley and the Central Sierra, prices remain more than 30 percent below peak.

- **Fewer homeowners have negative equity.**
  Just 5.2 percent of California homeowners with mortgages were underwater in the second quarter of 2016, down dramatically from 37 percent in the fourth quarter of 2009. California's underwater rate is now lower than the 7.1 percent rate in the rest of the nation.

- **Foreclosures have dropped to the lowest level in years.**
  California's total foreclosure activity (which includes foreclosure starts, scheduled foreclosure auctions, and bank repossessions) declined 75 percent from August 2012 to August 2016. Foreclosure starts are at about 7.5 percent of their 58,858 peak in May 2009 and are below precrisis levels.

### MEDIAN HOUSING VALUES HAVE RISEN IN CALIFORNIA'S 15 MOST POPULOUS COUNTIES

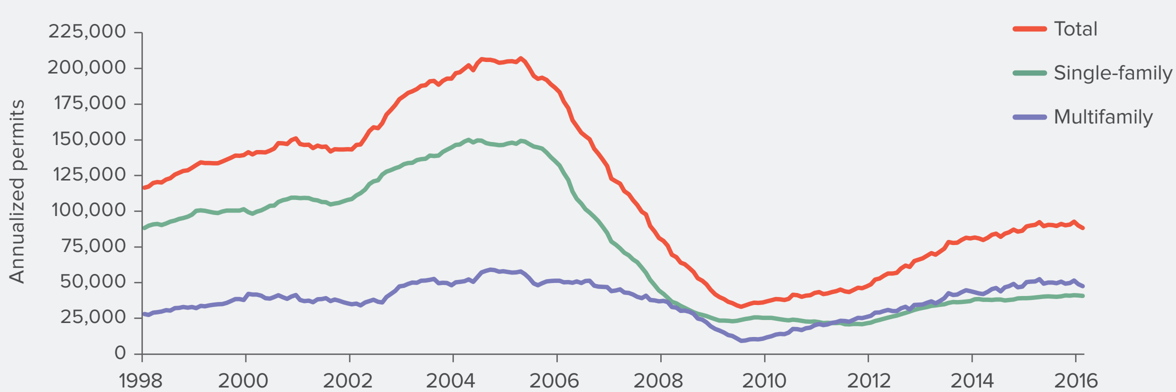
| | Peak (2006 or 2007) | Low (2011 or 2012) | Current (Aug. 2016) | Peak to current | Low to current |
|---|---|---|---|---|---|
| Alameda | $629,900 | $398,000 | $722,700 | 15% | 82% |
| Contra Costa | $615,100 | $303,700 | $536,700 | -13% | 77% |
| Fresno | $293,800 | $134,700 | $208,700 | -29% | 55% |
| Kern | $270,800 | $120,700 | $184,900 | -32% | 53% |
| Los Angeles | $559,900 | $352,100 | $532,800 | -5% | 51% |
| Orange | $709,000 | $449,200 | $659,700 | -7% | 47% |
| Riverside | $424,900 | $198,300 | $328,800 | -23% | 66% |
| Sacramento | $386,000 | $175,200 | $310,000 | -20% | 77% |
| San Bernardino | $378,900 | $169,100 | $289,000 | -24% | 71% |
| San Diego | $543,700 | $340,800 | $516,200 | -5% | 51% |
| San Francisco | $830,500 | $658,300 | $1,104,100 | 33% | 68% |
| San Joaquin | $411,100 | $151,300 | $290,200 | -29% | 92% |
| San Mateo | $815,700 | $593,400 | $1,063,300 | 30% | 79% |
| Santa Clara | $751,800 | $561,500 | $962,300 | 28% | 71% |
| Ventura | $632,200 | $375,200 | $538,600 | -15% | 44% |
| **California** | **$531,900** | **$301,400** | **$469,300** | **-12%** | **56%** |

SOURCE: Zillow.

NOTE: In nominal dollars. For most counties, the peak occurred in 2006 or 2007, and the low in 2011 or 2012.

- **New construction permits are increasing.**
  Low vacancy rates, rising prices, and low interest rates are boosting housing starts. New residential construction permits are set to reach more than 90,000 in 2016—up from 33,000 in 2009, but still far below the 200,000 units built annually from 2003 to 2005. Fueled by strong rental demand, multifamily residential permits have shown robust gains since 2010; however, these gains started to slow down considerably during 2016. Meanwhile, construction jobs are growing faster than employment in most other sectors.

### NEW HOME CONSTRUCTION PERMITS HAVE RETURNED TO 2008 LEVELS




SOURCE: US Census Bureau, Building Permits Database.

NOTE: July 1998 to July 2016.

## Housing remains expensive for most people

- **Californians spend disproportionate shares of their income on housing.**
  For California homeowners with mortgages, median monthly housing costs are 44 percent higher than they are nationwide. California renters pay 37 percent above the nationwide median. Yet California's median household income is only 16 percent higher than the nationwide level. This means that the share of Californians with excessive housing costs is quite high: 31 percent of mortgaged homeowners and 46 percent of renters spend more than 35 percent of their total household income on housing, compared with 22 percent and 41 percent, respectively, nationwide.

- **Housing is especially unaffordable in coastal areas, where two-thirds of Californians live.**
  In the second quarter of 2016, the San Francisco metropolitan area (San Francisco, San Mateo, and Marin Counties) was the nation's least affordable major housing market. Los Angeles, Orange County, and San Jose were among the five least affordable metropolitan areas nationwide. Less than one-fifth of households could afford the median-priced home in these areas. Santa Cruz–Watsonville, Salinas, Napa, San Rafael, and Santa Rosa were the nation's five least affordable smaller housing markets.

- **Rents are high and rising.**
  California has six of the nation's eleven most expensive large metropolitan rental markets: San Francisco, San Jose, Orange County, Oakland, San Diego, and Los Angeles. Estimated median rent for a two-bedroom apartment ranges from $1,671 in Los Angeles to $3,266 in San Francisco. In the past couple years, rents have increased 44 percent in San Francisco and 37 percent in the Oakland–Fremont metro areas.

- **Vacancies are low.**
  In 2015, California's homeowner residential vacancy rate was 1.2 percent compared to 1.8 percent nationwide. Meanwhile, the rental vacancy rate was 3.3 percent, 2 percentage points lower than in 2010 and far below the 5.9 percent nationwide rate. Low vacancy rates have contributed to the tightness of the rental market.

- **Homeownership rates have fallen.**
  During the past 10 years, homeownership rates, already much lower in California than in the rest of the nation, declined more sharply in the state, falling to 53.6 percent of occupied units in 2015, compared with 64.2 percent in the rest of the country. Owner-occupied units fell by about 190,000, while rented units increased more than 930,000. Much of the increase in rental units has occurred among formerly owned single-family detached housing units. California and national homeownership rates are the lowest in more than a dozen years.

- **Homelessness is widespread.**
  The US Department of Housing and Urban Development estimates that on a single night in January 2015, about 116,000 individuals in California were homeless, 21 percent of the national total. Only 36 percent of California's homeless are in shelters or other residential programs—the lowest rate in the nation. The largest number of homeless people live in Los Angeles County, but homelessness affects most counties, even small and rural ones.

- **Housing is more affordable inland.**
  Despite price increases, housing is relatively affordable in many California inland areas. In the Redding, Yuba City, Chico, and Bakersfield metropolitan areas, families earning the area's median income could afford more than 55 percent of homes sold in the second quarter of 2016. In Sacramento and the Inland Empire, about half of homes sold were affordable to families at the median income.

## Looking ahead

As the state's population grows, housing demand continues to increase. California needs short- and long-term policies that improve housing affordability and remove unnecessary barriers to expanding supply, while meeting environmental goals.

**State and local land-use policies should encourage more housing.** California's tight housing market reflects not only scarce developable land but also policy choices and regulations. Restrictive zoning and planning policies can depress housing supply and increase housing costs. Promotion of office development, such as tax incentives for businesses that relocate, should be balanced by policies that encourage new housing. Policymakers should consider higher density, speedier regulatory permitting and reduce rules that restrict or prohibit auxiliary dwellings on single-home lots. Easing restrictions could spur the creation of more affordable housing, especially in regions where rents have skyrocketed.

**State and local authorities should boost the affordable housing supply.** Bonds help fund affordable housing, but California has not passed a general housing bond since 2006, when Proposition 1C ($2.85 billion) created almost 66,000 low-income housing units, shelter spaces, and other housing spaces. In 2014, voters authorized $600 million in bonds to provide multifamily housing to low-income veterans and supportive housing for homeless veterans. These actions are helpful but insufficient. Meanwhile, the elimination of redevelopment areas has reduced low-cost housing development. To encourage affordable housing construction, state and local governments should establish funding mechanisms and policies, possibly including housing bonds, development fees, and inclusionary zoning.

**California should expand housing options for the state's homeless individuals and families.** California faces one of the nation's most severe homelessness problems. The governor recently signed legislation that requires state agencies involved in providing services to the homeless or those at risk of homelessness to adopt "housing first" policies. This approach to ending homelessness provides homeless people with housing as quickly as possible and offers services as needed. It appears to have been implemented successfully in some California counties and in other states. Having a secure environment allows people to concentrate on getting jobs and stabilizing their lives.

**Balancing environmental goals with housing development will be a challenge.** California has passed legislation to encourage local land-use planning that reduces driving. The goal is to coordinate new housing development with current and planned transportation networks to reduce emissions. Infill (new construction in built-up areas) is one way to achieve this goal, but there is a trade-off. In the past, much of California's most affordable new housing was built on vacant land at the edge of urbanized areas. Infill housing tends to be more expensive and has fewer units than those developments. Identifying water sources for new development is also an issue in some parts of the state.

## CONTACT A PPIC EXPERT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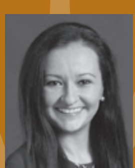

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