



HOUSING AFFORDABILITY IN CALIFORNIA

November 12, 2015

San Jose Hearing

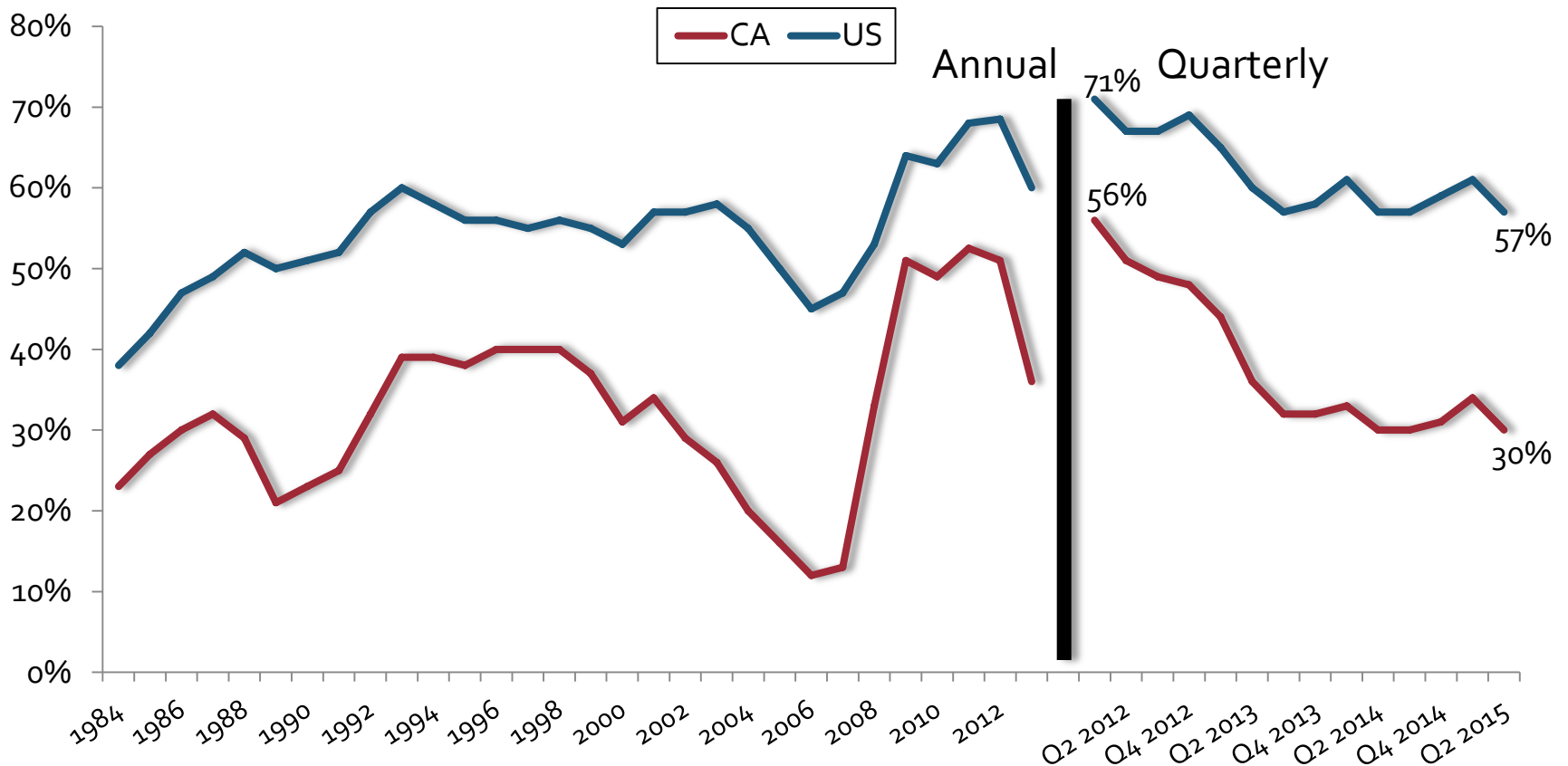
Oscar Wei, Senior Economist



HOUSING AFFORDABILITY PEAKED Q1 2012 PRICES V. LOW RATES AND INCOME GROWTH

California vs. U.S. – 1984-2015

% OF HOUSEHOLDS THAT CAN BUY
A MEDIAN-PRICED HOME

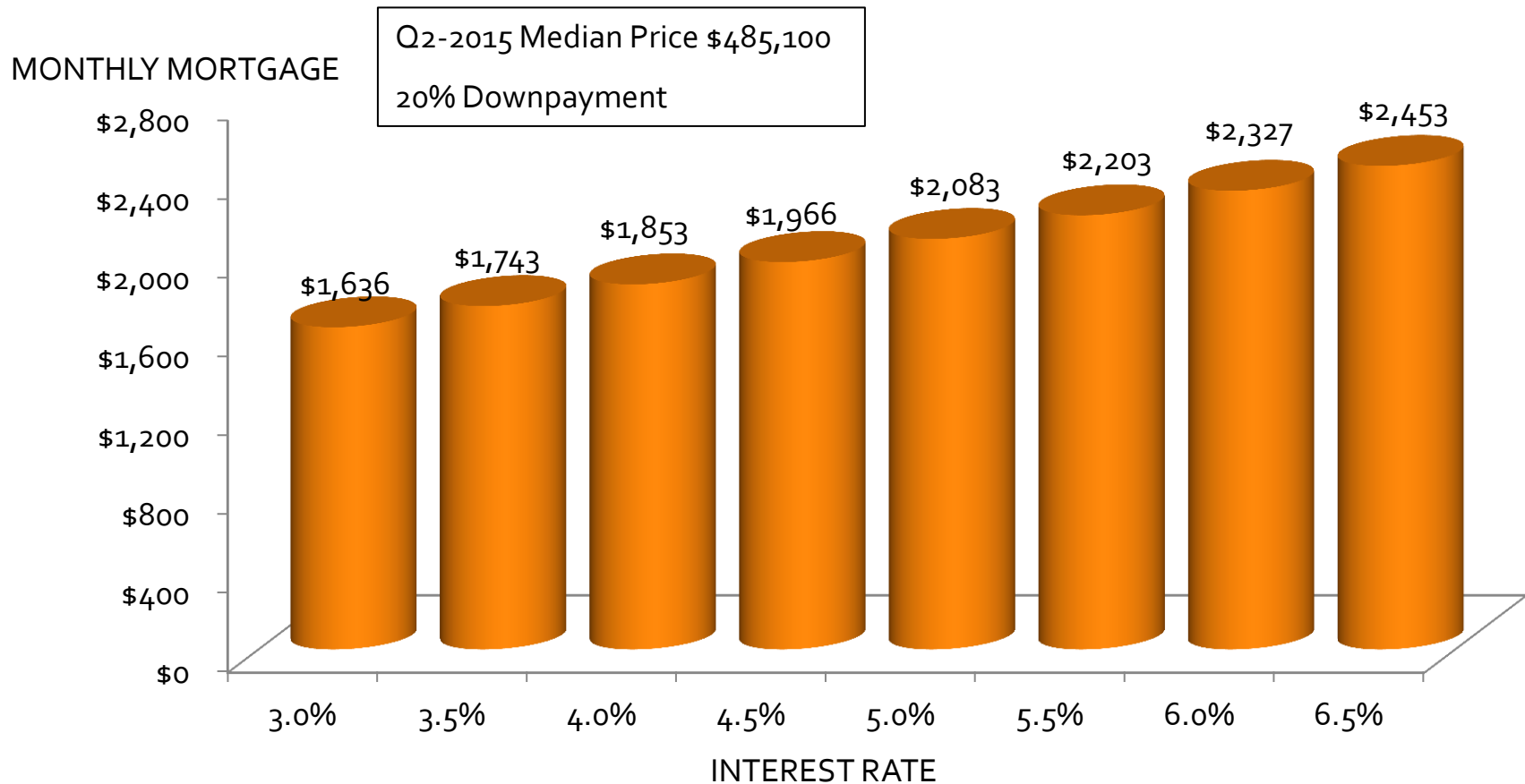


SERIES: Housing Affordability Index of Traditional Buyers

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

MEDIAN MONTHLY MORTGAGE PAYMENT - CA

What Will Happen When Mortgage Rates Increase?



SERIES: Housing Affordability Index

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



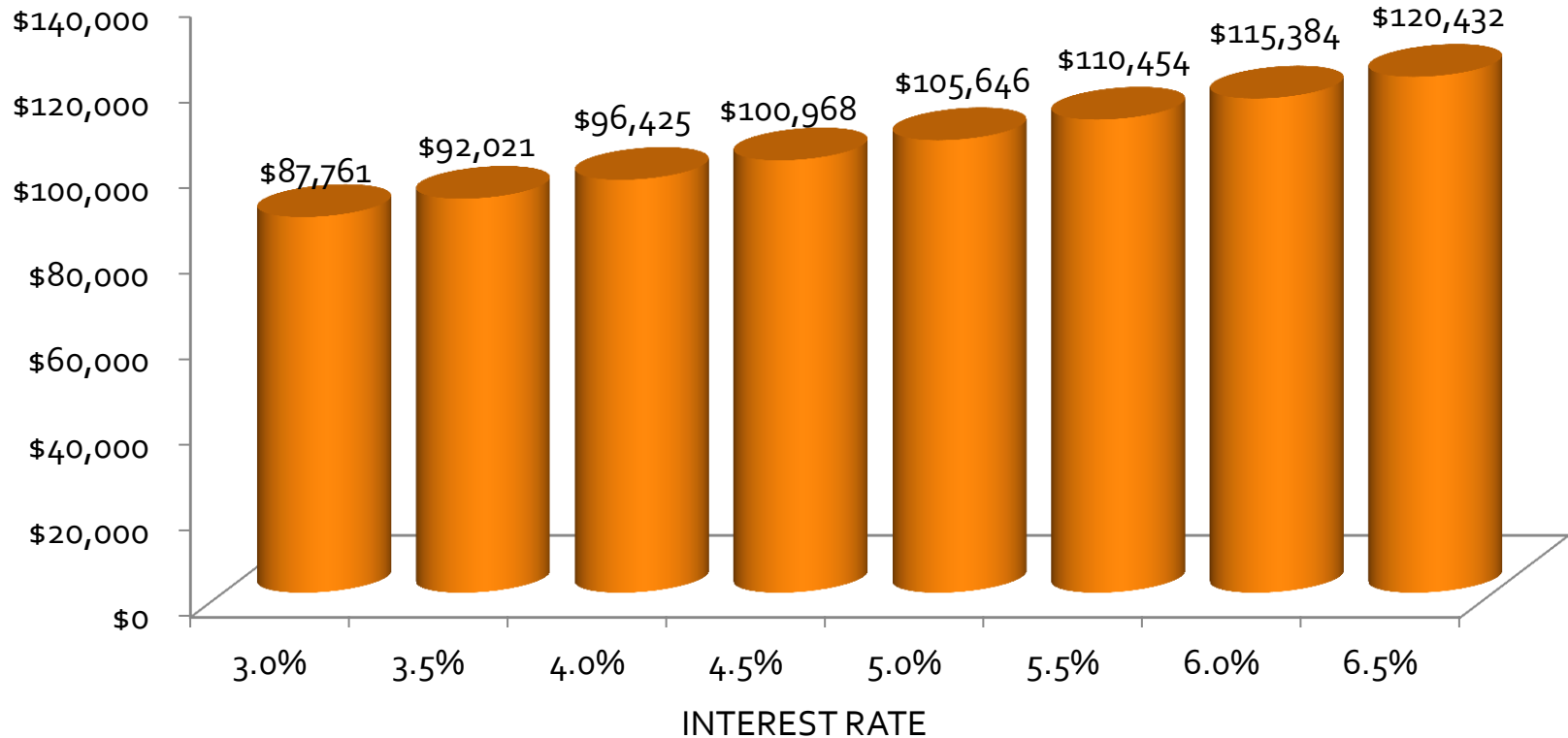
MINIMUM QUALIFYING INCOME - CA

What Will Happen When Mortgage Rates Increase?

Q2-2015 Median Price \$485,100

20% Downpayment

Minimum Qualifying Income



SERIES: Housing Affordability Index

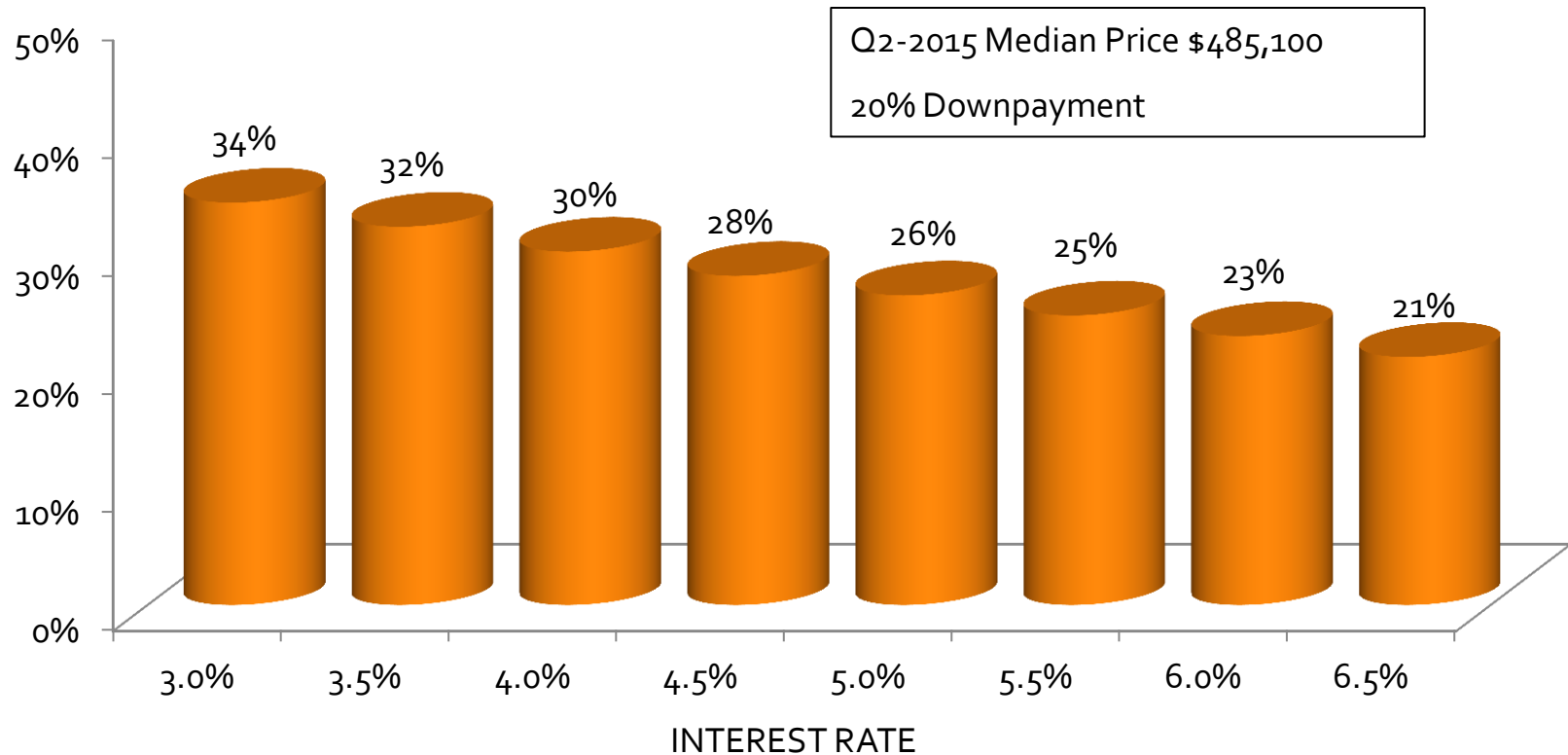
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



HOUSING AFFORDABILITY INDEX - CA

What Will Happen When Mortgage Rates Increase?

% OF HOUSEHOLDS THAT CAN BUY, ALL ELSE CONSTANT



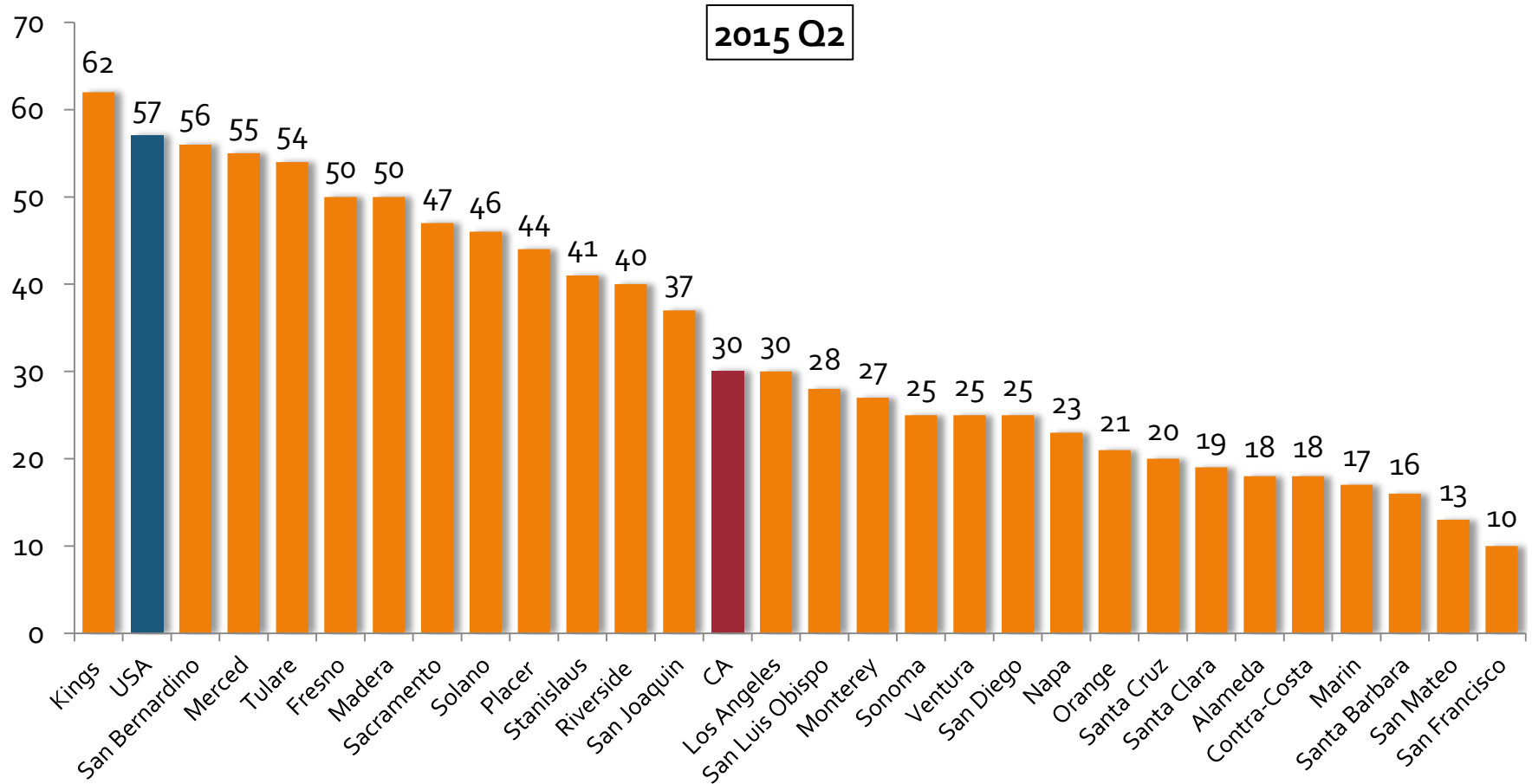
SERIES: Housing Affordability Index

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



HOUSING AFFORDABILITY IN CA: BY COUNTY

% able to purchase median priced home

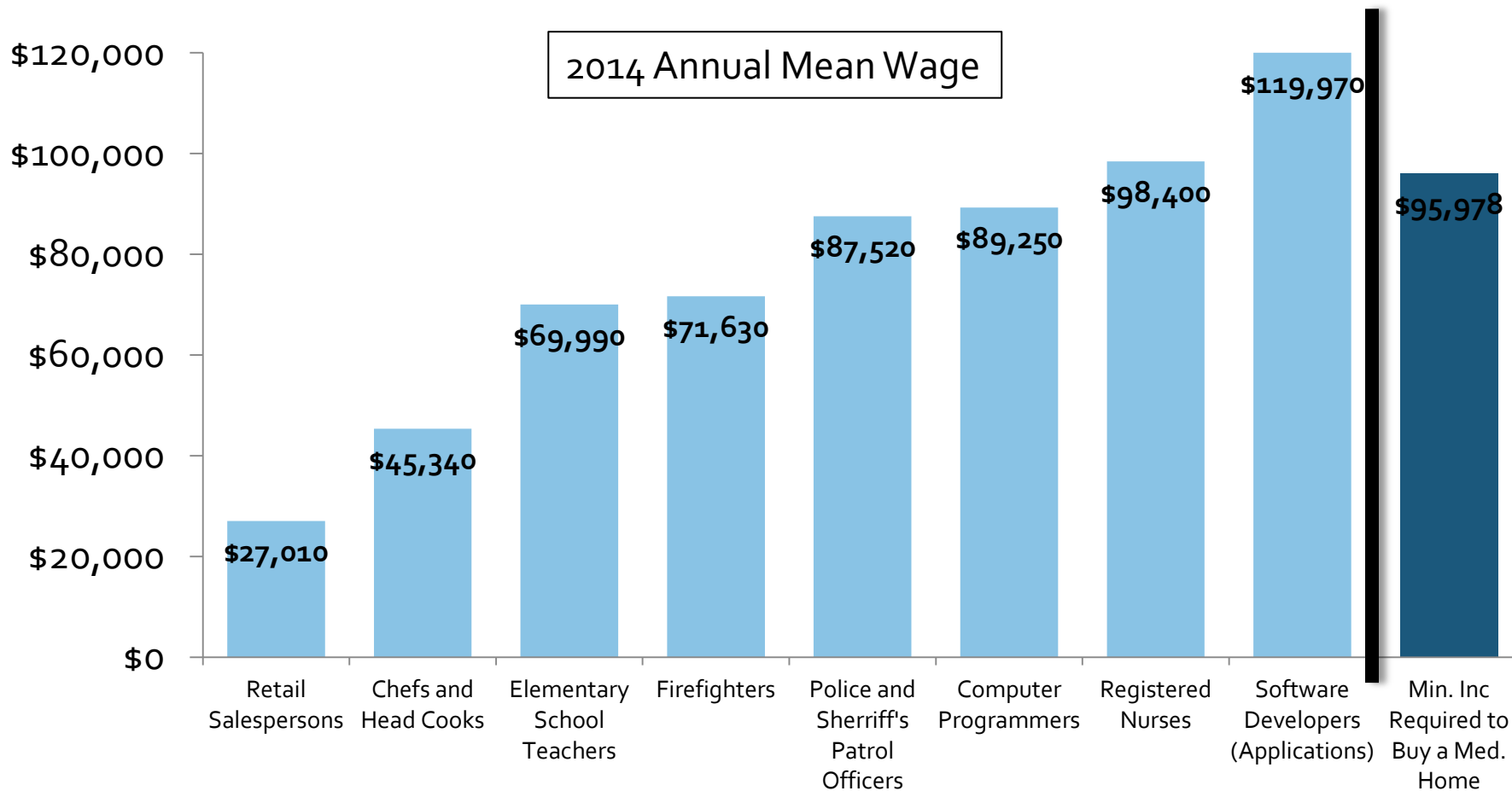


SERIES: Housing Affordability Index

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

HOW WAGES MEASURED AGAINST INCOME REQUIRED TO BUY A HOME

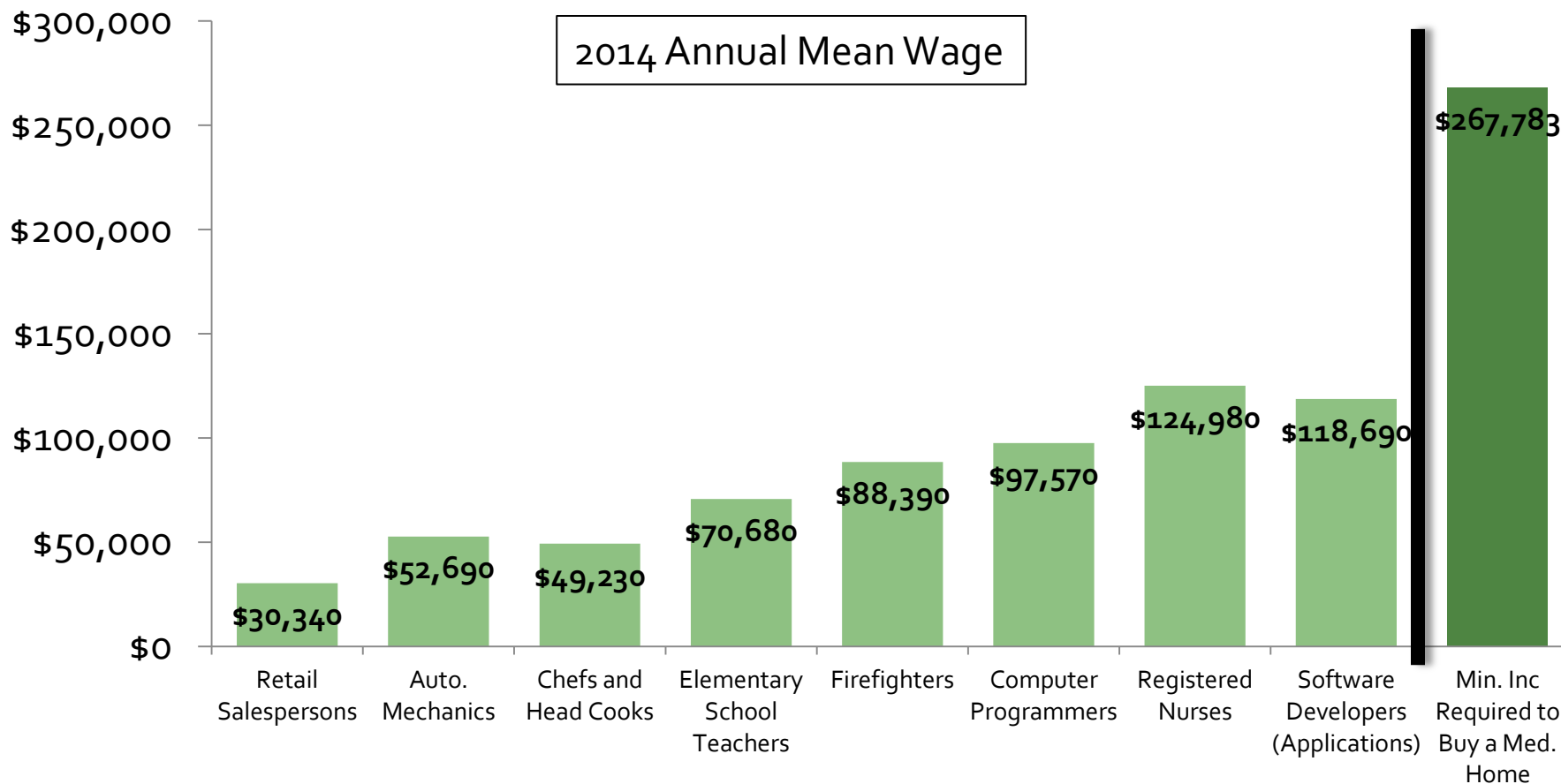
California



SOURCE: Bureau of Labor Statistics, C.A.R.

HOW WAGES MEASURED AGAINST INCOME REQUIRED TO BUY A HOME

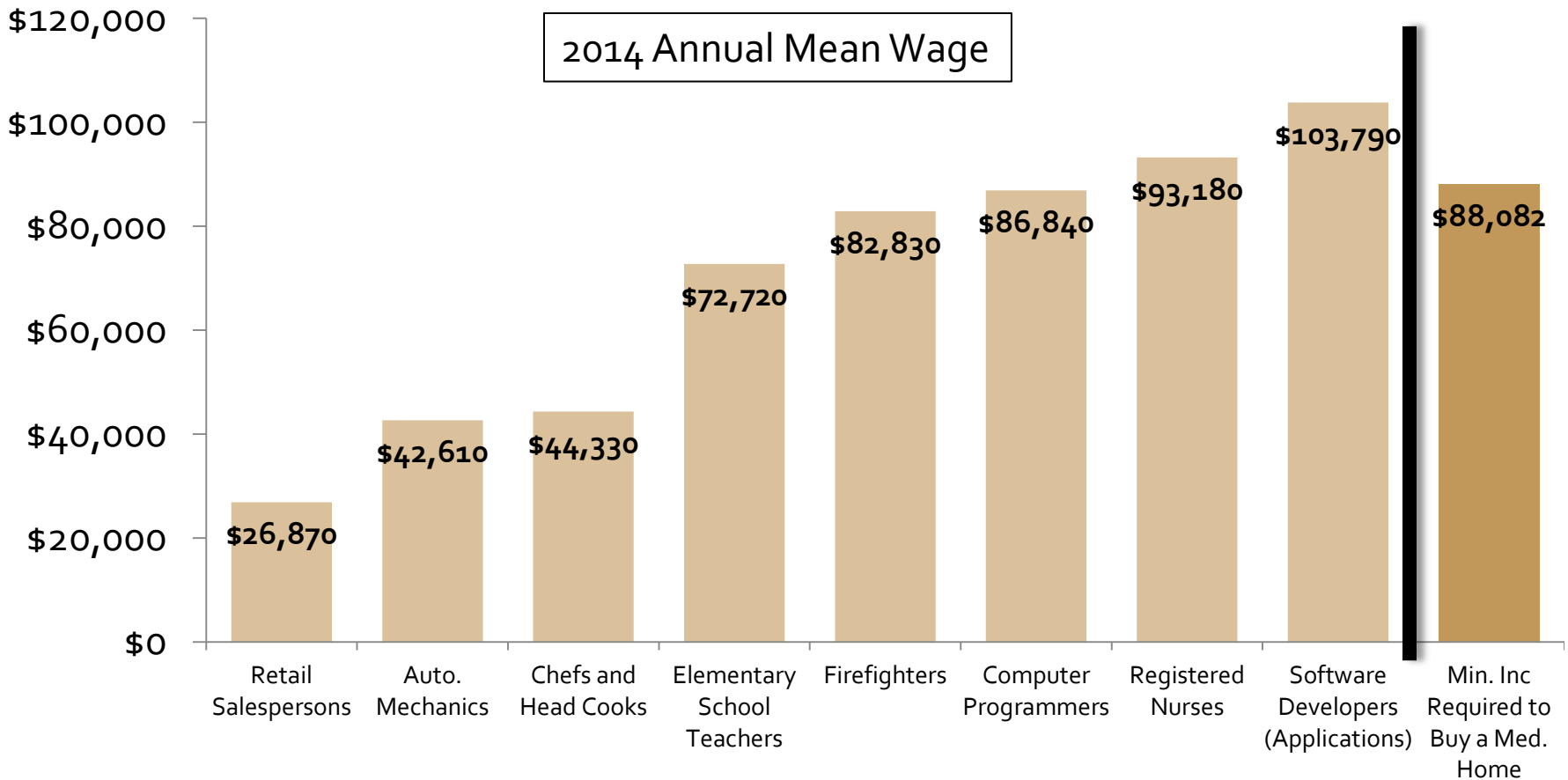
San Francisco



SOURCE: Bureau of Labor Statistics, C.A.R.

HOW WAGES MEASURED AGAINST INCOME REQUIRED TO BUY A HOME

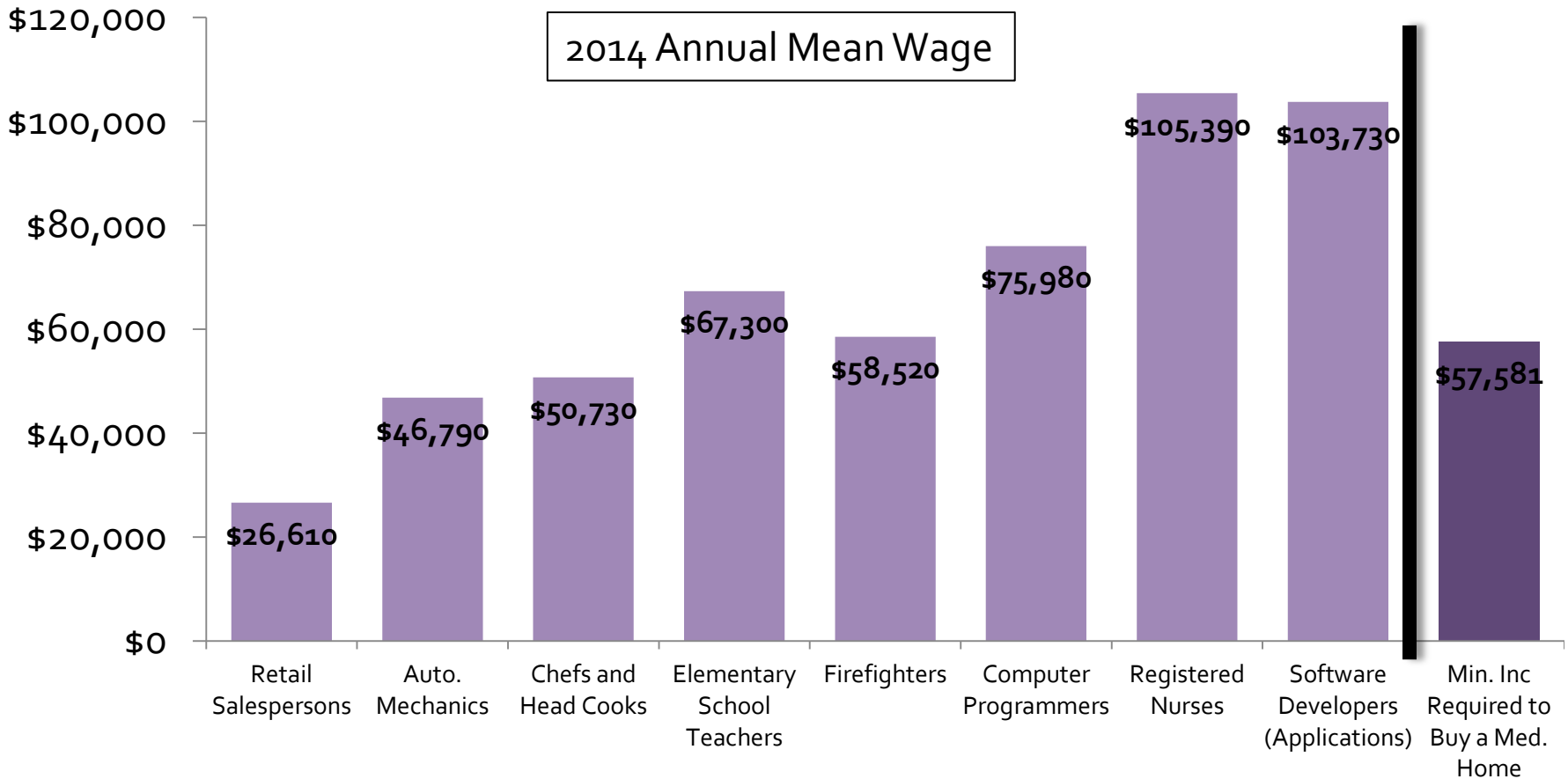
Los Angeles



SOURCE: Bureau of Labor Statistics, C.A.R.

HOW WAGES MEASURED AGAINST INCOME REQUIRED TO BUY A HOME

Sacramento



SOURCE: Bureau of Labor Statistics, C.A.R.

HOW MUCH HOME CAN A TYPICAL HOUSEHOLD AFFORD

2015 – Q2

| County | Median Price* | Price that Median-Income Households Can Afford | Difference in \$ | Difference in % |
|-------------------|------------------|--|------------------|-----------------|
| San Francisco | \$1,247,570 | \$383,670 | \$863,900 | 225.2% |
| San Mateo | \$1,075,390 | \$452,020 | \$623,370 | 137.9% |
| Santa Clara | \$884,030 | \$474,230 | \$409,800 | 86.4% |
| Los Angeles | \$436,010 | \$275,530 | \$160,480 | 58.2% |
| San Bernardino | \$222,310 | \$255,970 | -\$33,660 | -13.1% |
| San Diego | \$475,230 | \$312,180 | \$163,050 | 52.2% |
| Fresno | \$216,160 | \$216,910 | -\$750 | -0.3% |
| Merced | \$203,930 | \$230,350 | -\$26,420 | -11.5% |
| Sacramento | \$282,770 | \$272,310 | \$10,460 | 3.8% |
| California | \$446,980 | \$304,490 | \$142,490 | 46.8% |

*Includes existing single-family homes, condos, and townhomes

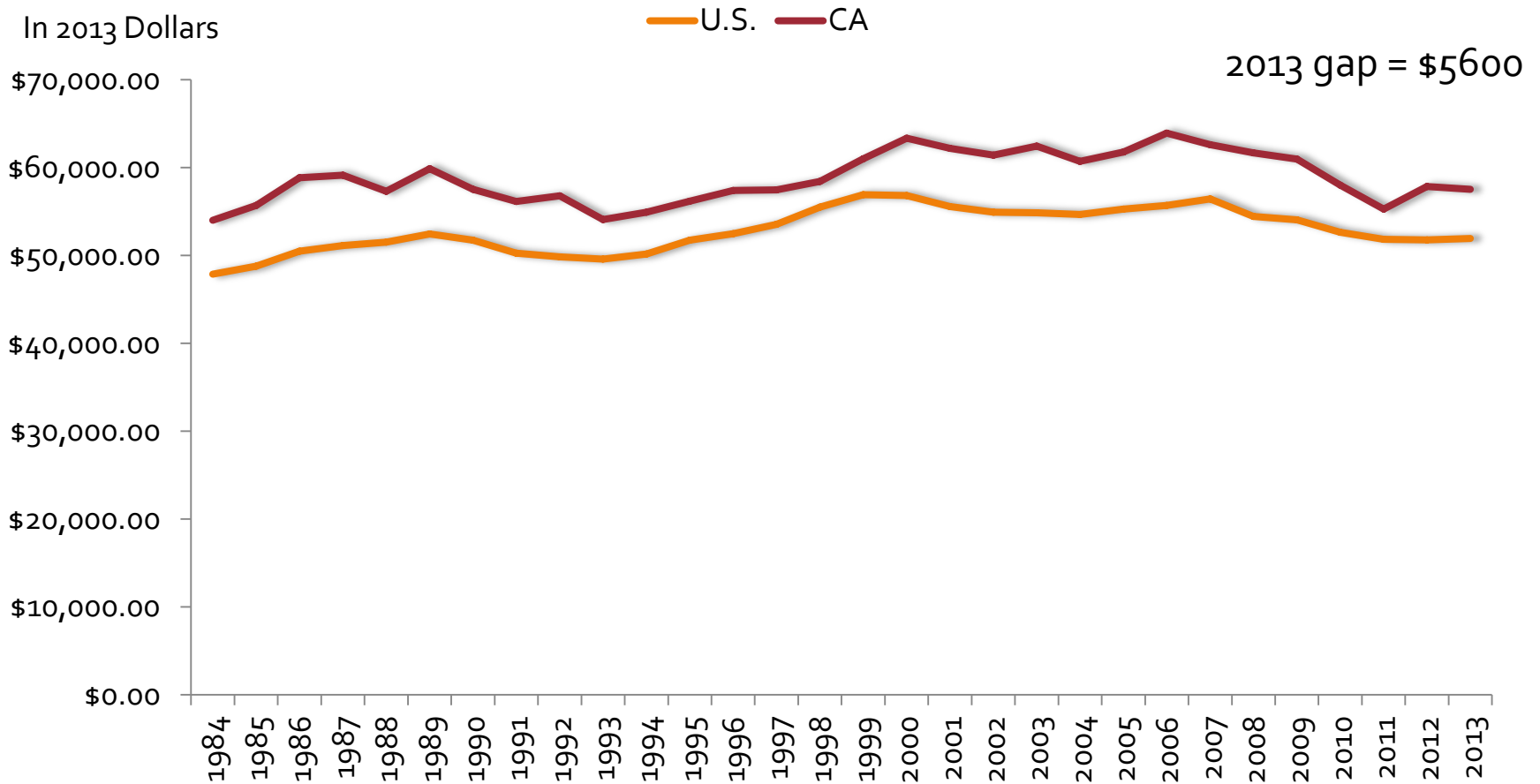
CALIFORNIA HOUSING MARKET OUTLOOK

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015p | 2016f |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|
| SFH Resales (000s) | 416.5 | 422.6 | 439.8 | 414.9 | 383.3 | 407.5 | 433.0 |
| % Change | -12.3% | 1.4% | 4.1% | -5.9% | -7.6% | 6.3% | 6.3% |
| Median Price (\$000s) | \$305.0 | \$286.0 | \$319.3 | \$407.2 | \$447.0 | \$476.3 | \$491.3 |
| % Change | 10.9% | -6.2% | 11.6% | 27.5% | 9.8% | 6.5% | 3.2% |
| Housing Affordability Index | 48% | 53% | 51% | 36% | 30% | 31% | 27% |
| 30-Yr FRM | 4.7% | 4.5% | 3.7% | 4.0% | 4.2% | 3.9% | 4.5% |

SERIES: CA Housing Market Outlook

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

VERY SLOW REAL INCOME GROWTH

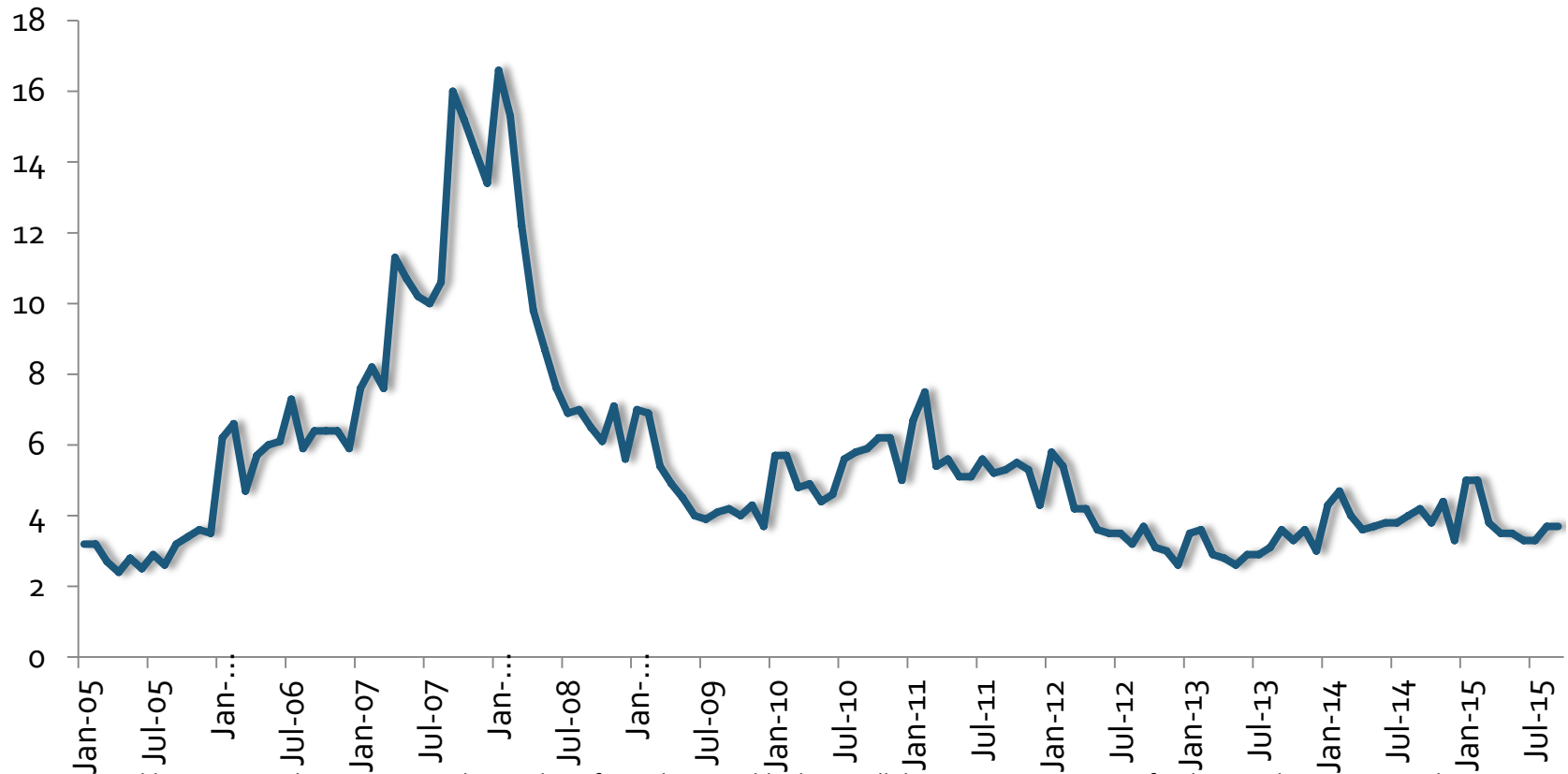


SERIES: Median Household Income

SOURCE: US Census Bureau, Current Population Survey

INVENTORY CONTINUED TO DECLINE FROM LAST YEAR

Sep 2014: 4.2 Months; Sep 2015: 3.7 Months



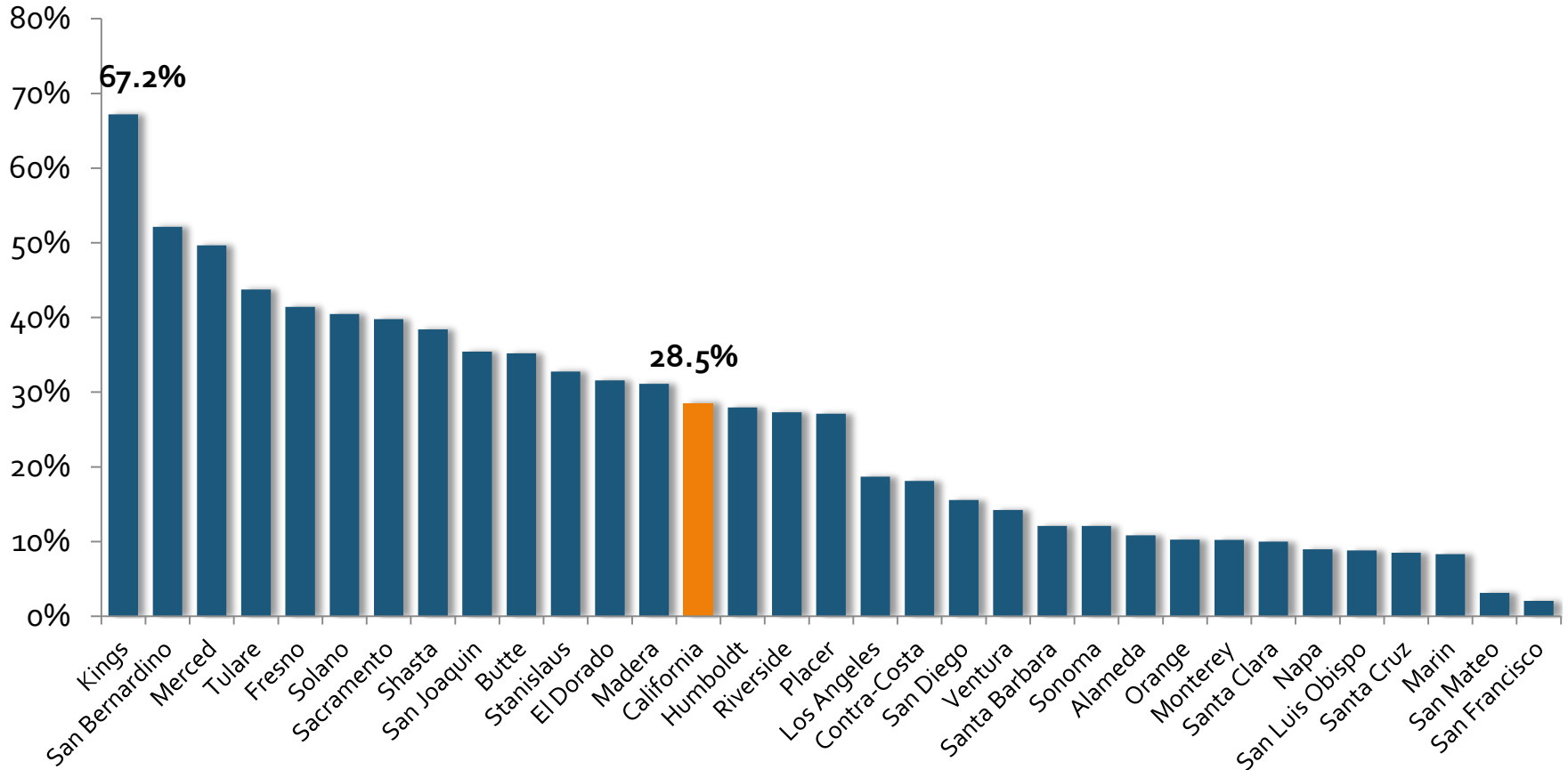
Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.

SERIES: Unsold Inventory Index of Existing Single Family Homes

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

AFFORDABLE INVENTORY AVAILABLE TO MEDIAN-INCOME HOUSEHOLDS

2015 Q2



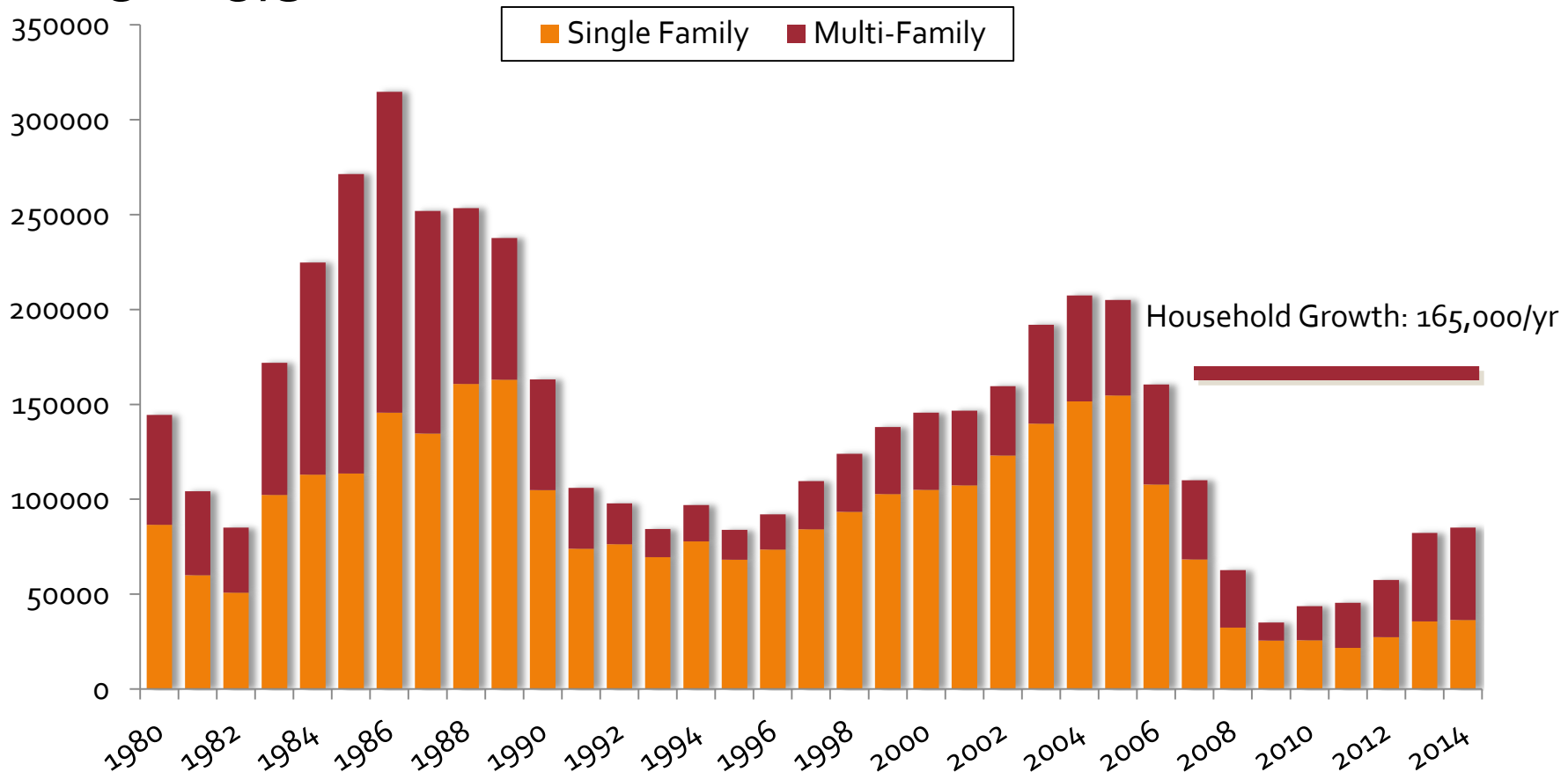
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



CA PERMITS UP BUT MORE UNITS NEEDED

2014: 85,065 Units, Up 3.4% from 2013

2015f: 89,318 Units



SERIES: New Housing Permits

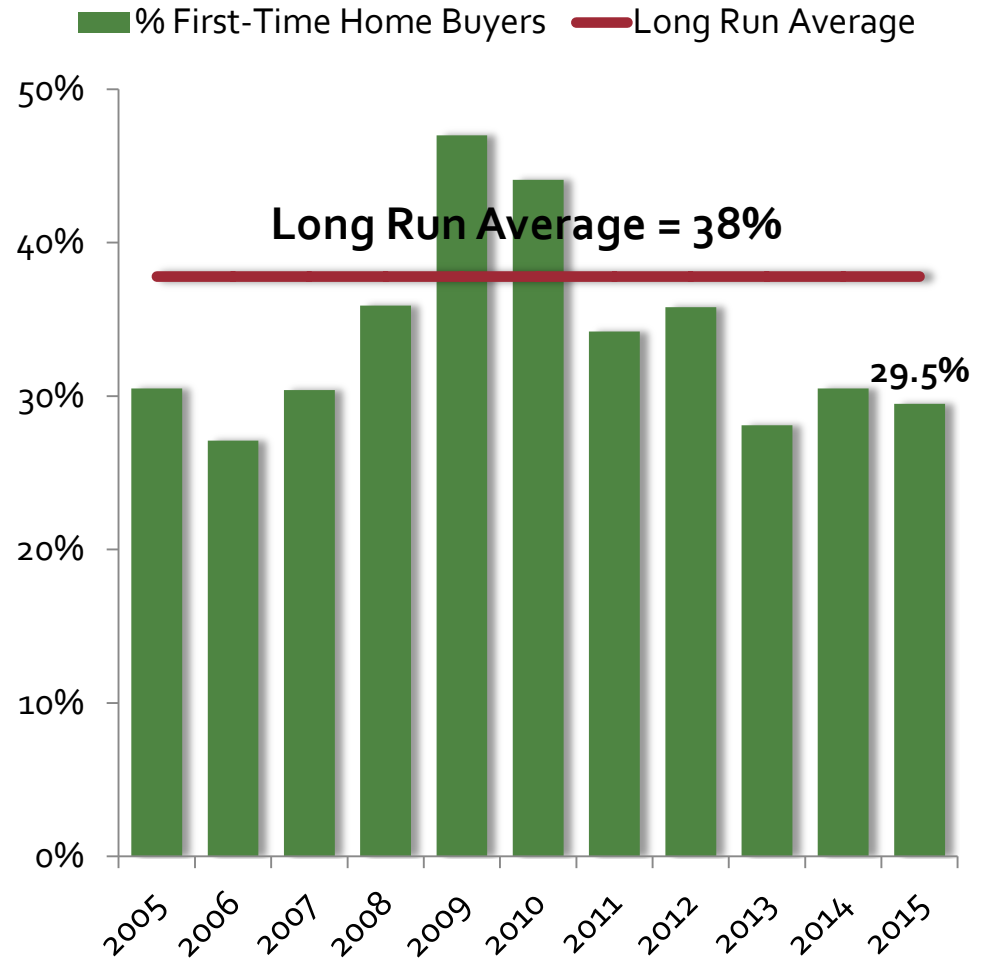
SOURCE: Construction Industry Research Board

INADEQUATE HOUSING SUPPLY

- Housing supply constrained in long-run
 - New construction recovery is very slow
 - Production has fallen short of housing needs
 - Short on new units since 2005
- Inhibited by
 - Fiscal interests of local government
 - Residents who disdain further development, especially multi-family
 - Unfavorable legal/business environment for development in general & multi-family in particular

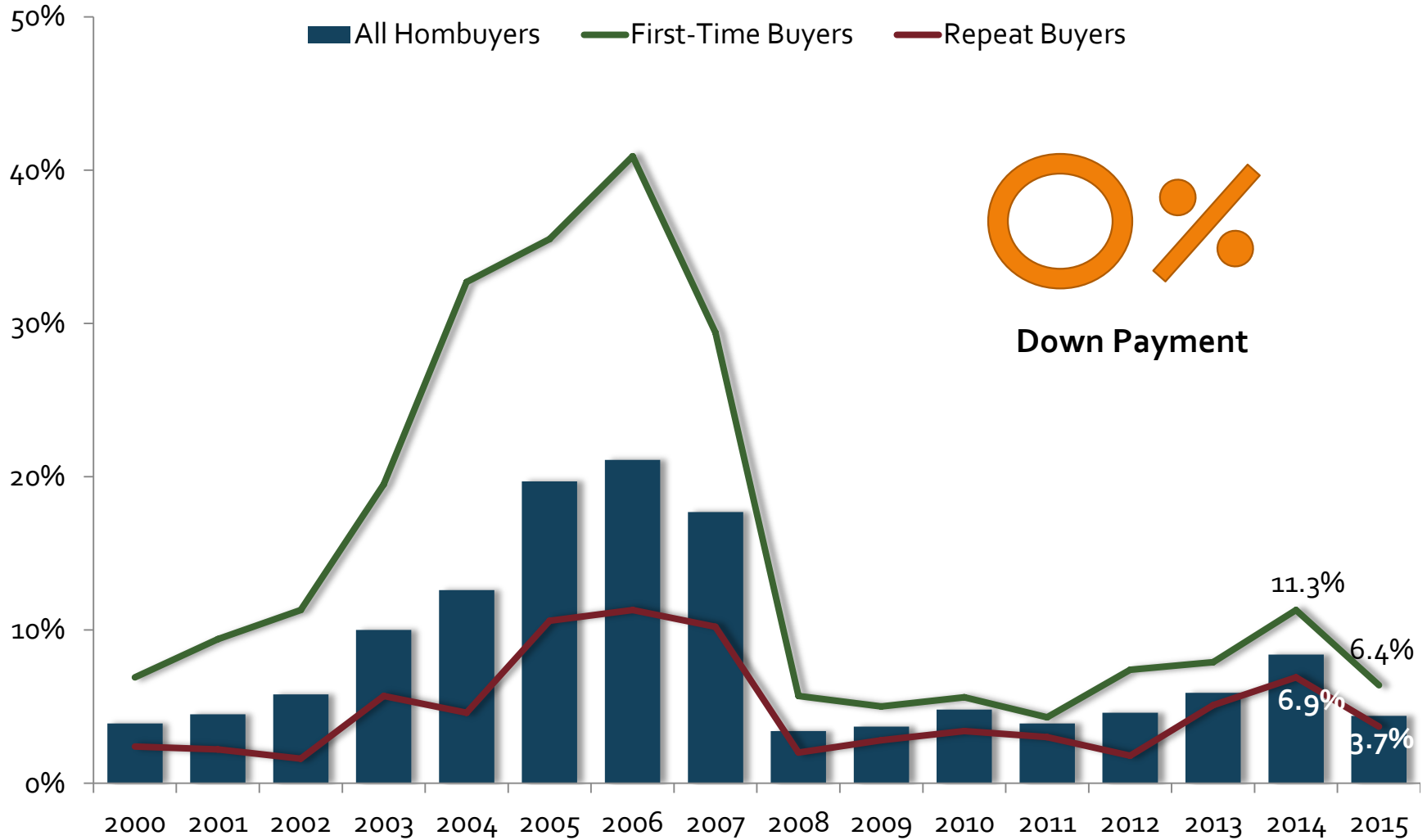


SHARE OF FIRST-TIME BUYERS REMAINS BELOW LONG-RUN AVERAGE



SERIES: 2015 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

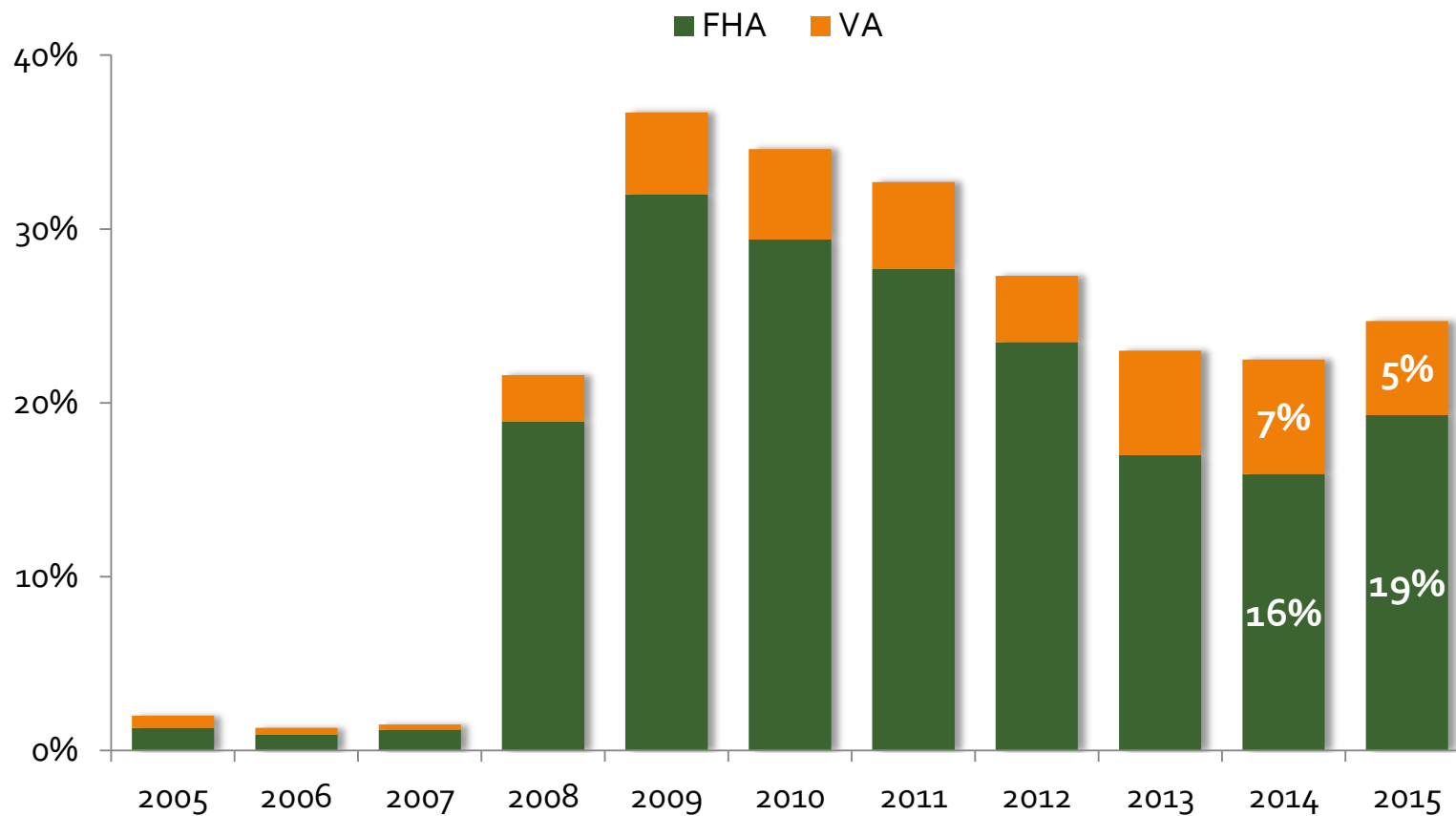
PERCENT OF BUYERS WITH ZERO DOWN PAYMENT



SERIES: 2015 Housing Market Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

WHILE THE SHARE OF FHA INCREASED FROM THE RECENT LOW, IT WAS STILL MUCH LOWER THAN 2009



Q. Please indicate the type of mortgage.

SERIES: 2015 Housing Market Survey

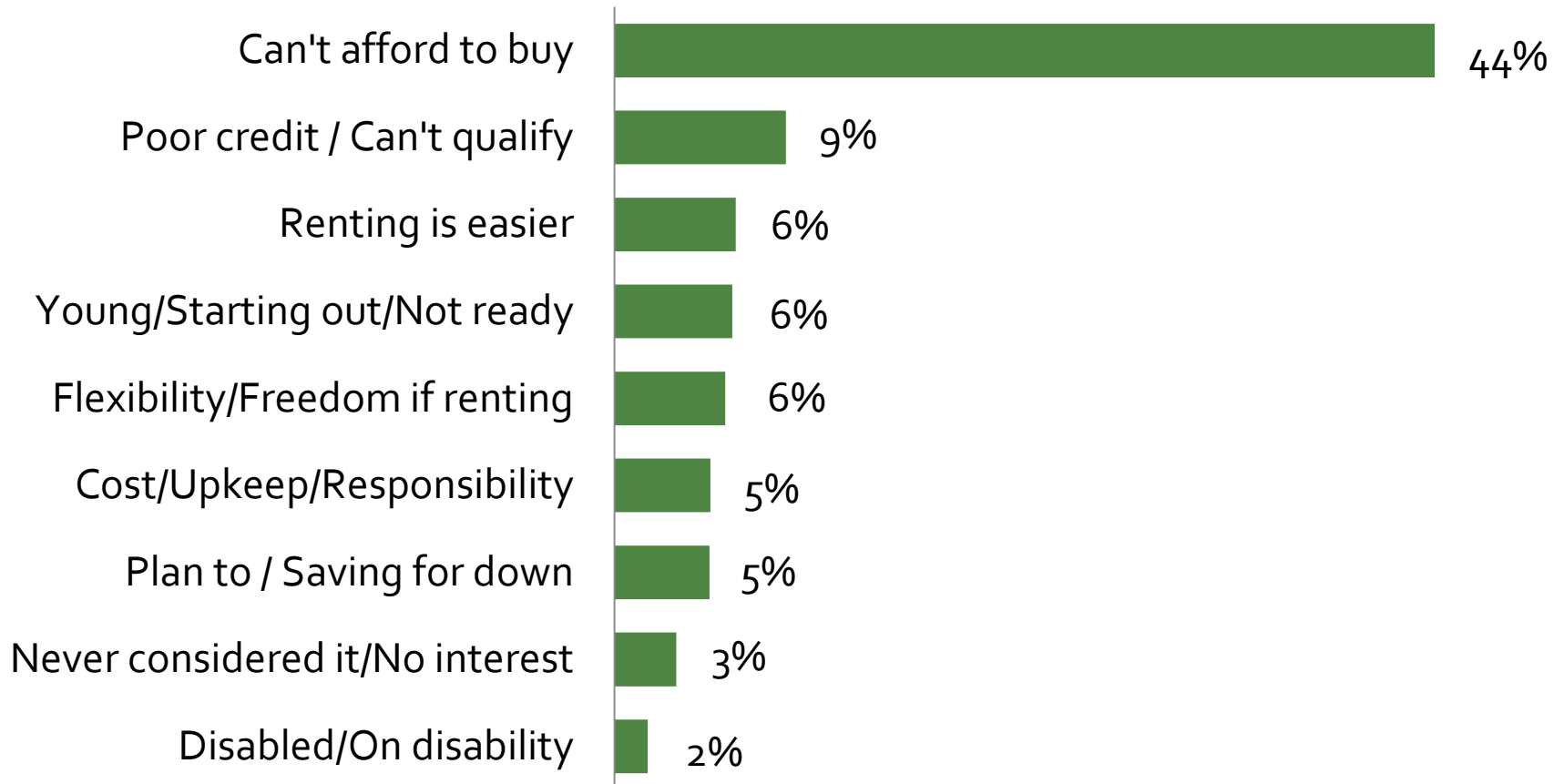
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

HOUSING AFFORDABILITY GAP

- Affordability crisis goes beyond low income households
 - Lack of affordable housing for low income service workers is apparent
 - Less obvious problem: moderate income households who cannot afford homes in/near communities where they work
 - In general, there are programs to assist the first group, but not the second group



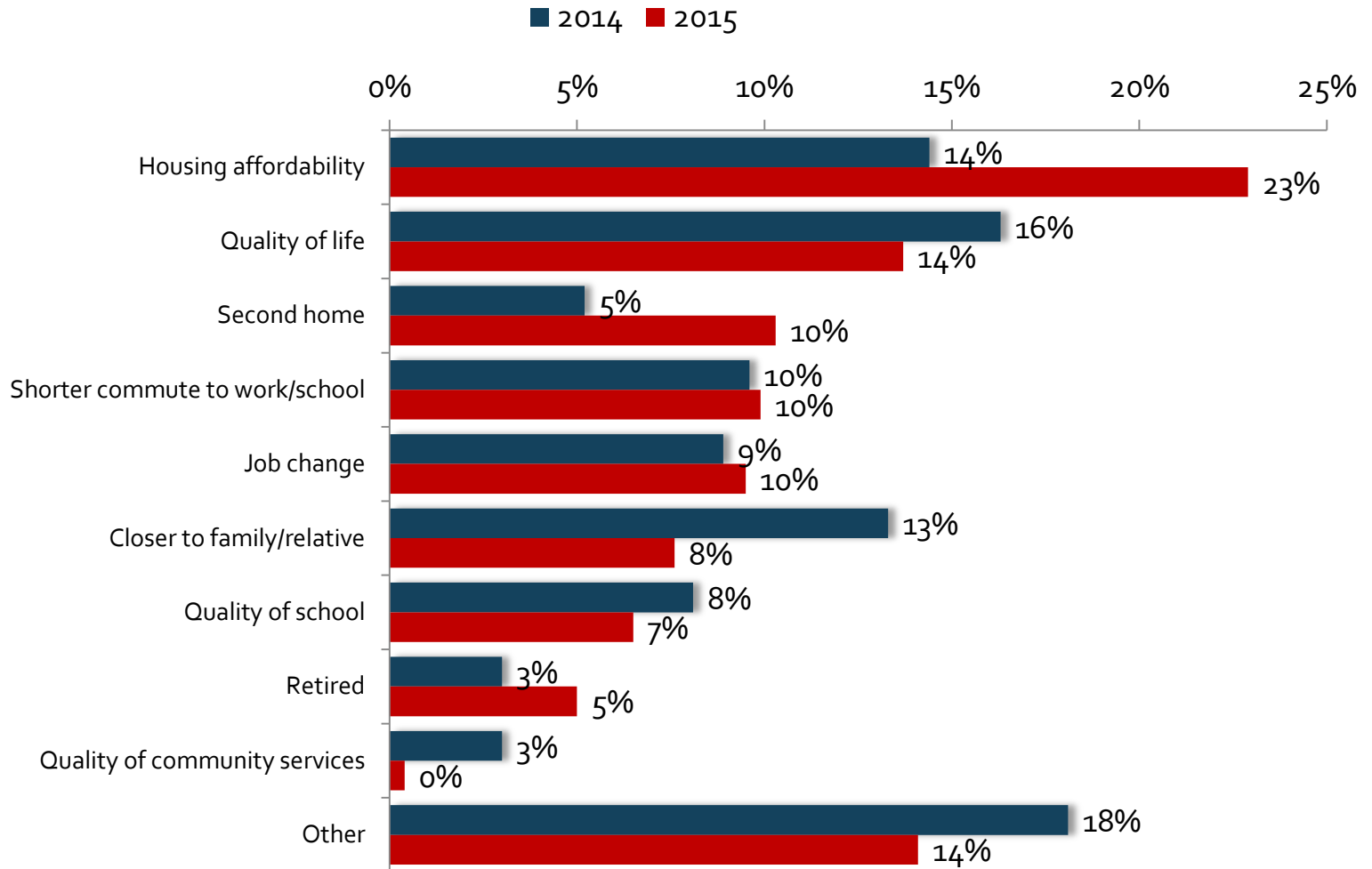
REASONS FOR RENTING INSTEAD OF BUYING



SERIES: 2013 Renter Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

REASONS FOR CHANGING COUNTY ALL BUYERS (2014 VS. 2015)



SERIES: 2015 Housing Market Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

HOW DID WE GET HERE?

Why the Production Shortfall?

- Shortage of Land:
 - Production shortfall greatest in cities where need is most critical
- High Costs of Development
 - Fees in most California communities are higher than elsewhere in US
 - Infill development costs higher than suburban development costs
 - Environmental policies, etc increase costs
 - Lengthy permitting process increases cost per unit produced and favors deep pockets



HOW DID WE GET HERE?

- General Desire for Low Density Land Use
 - Preference for detached single family homes
 - Disdain for multifamily developments
 - Cost of service to cities higher than other land uses
- NIMBYism:
 - Desire to preserve existing character of community
 - Dislike for multifamily, higher density development by residents and officials
 - Quality of life concerns
 - Fear of crime and other negative aspects associated with density



SOLUTIONS

- Production Gap is Primary Source of CA's Housing Problems
- Solutions must include:
 - Increase in Production
 - Revitalization of Neighborhoods
 - Change Incentive Structure Facing Cities
 - Fiscal
 - Housing & Zoning Requirements
- Improve Business & Legal Climate for Developers
- Attitude Shift is Essential to Moving Toward Solutions and an Attitude Shift Requires Education and Heightened Awareness of Problems, Implications, and Solutions!



THANK YOU!

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