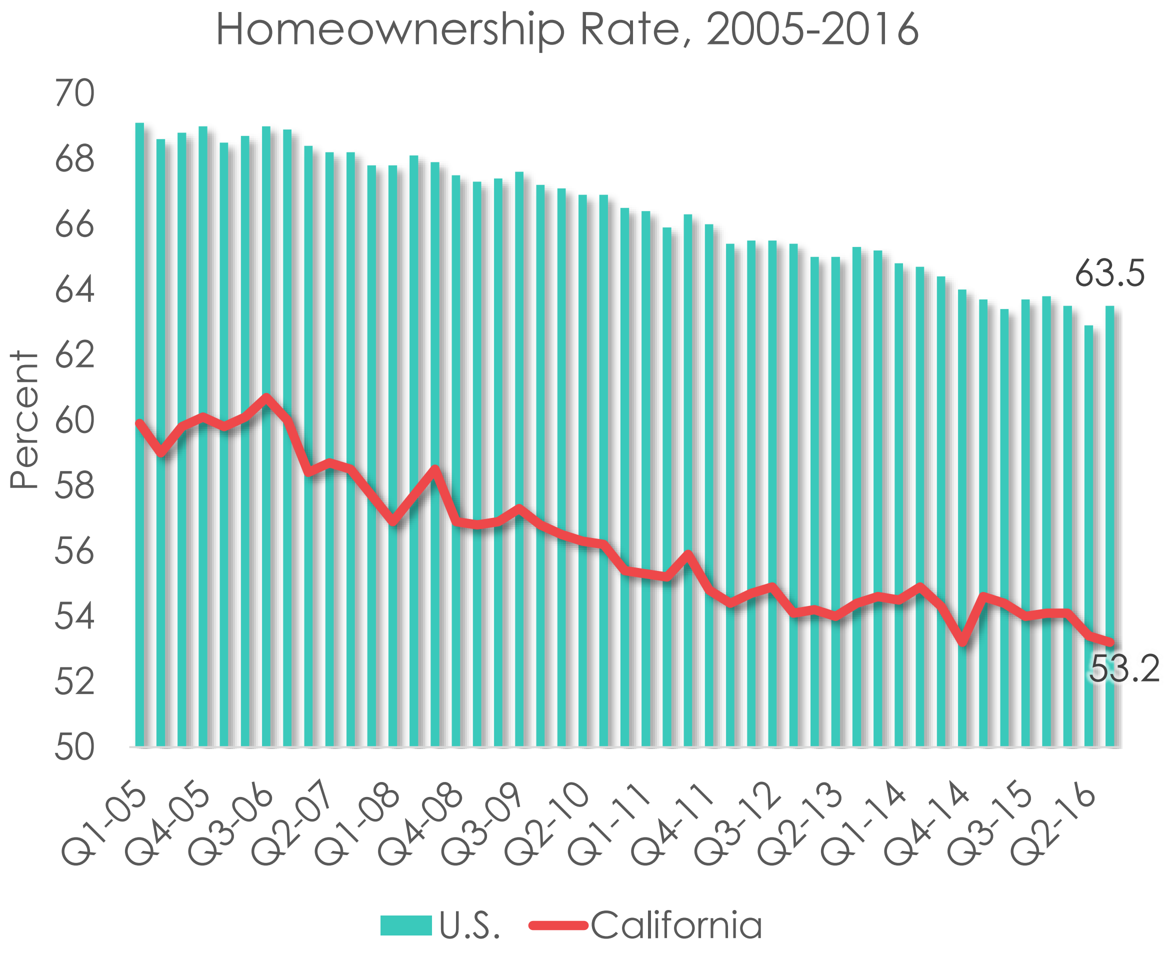
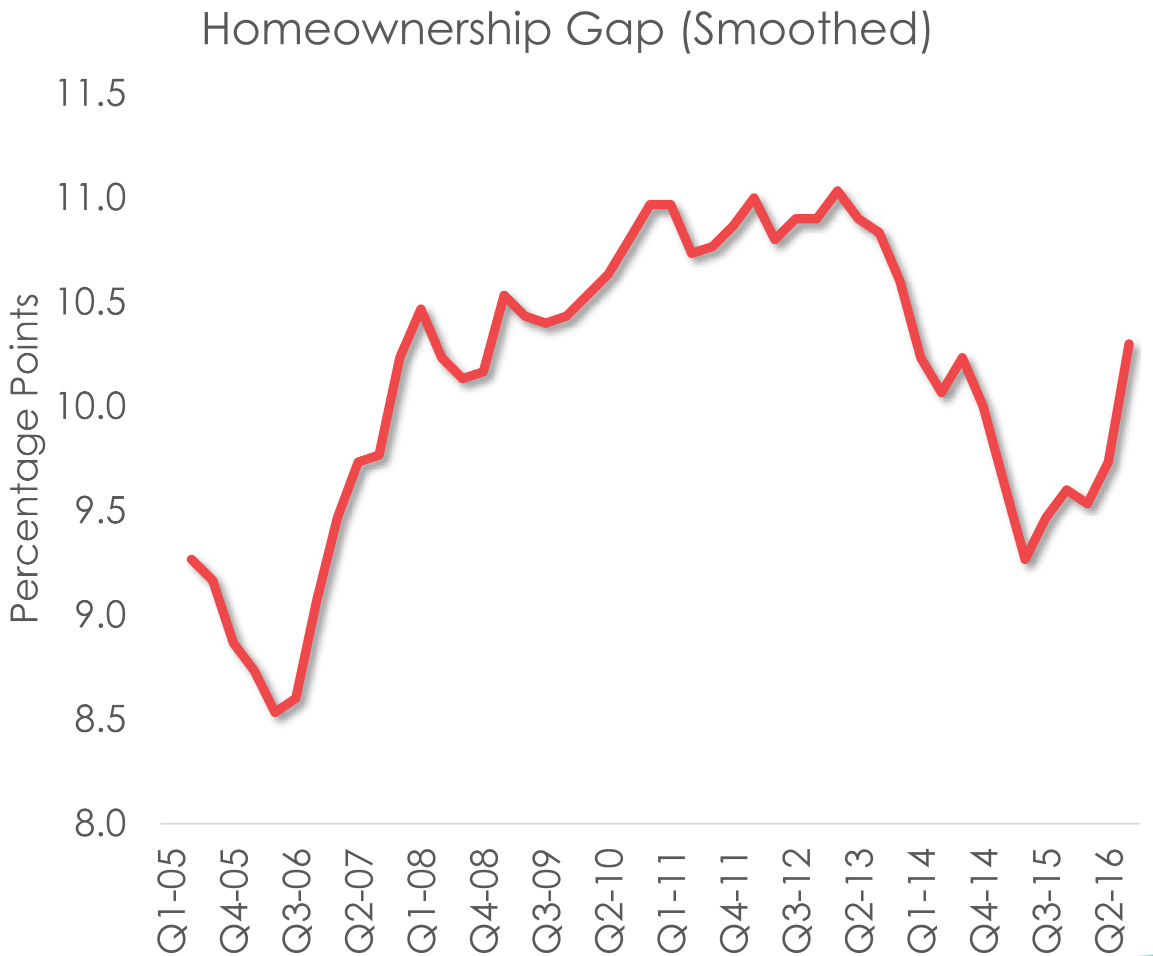
Homeownership in California

CALIFORNIA ASSOCIATION OF REALTORS®

Sacramento Hearing
March 7, 2017
Oscar Wei
Senior Economist

Homeownership: Where Are We Today?





SERIES: Homeownership Rate (%)
SOURCE: U.S. Census Bureau, Housing Vacancy Survey (HVS)

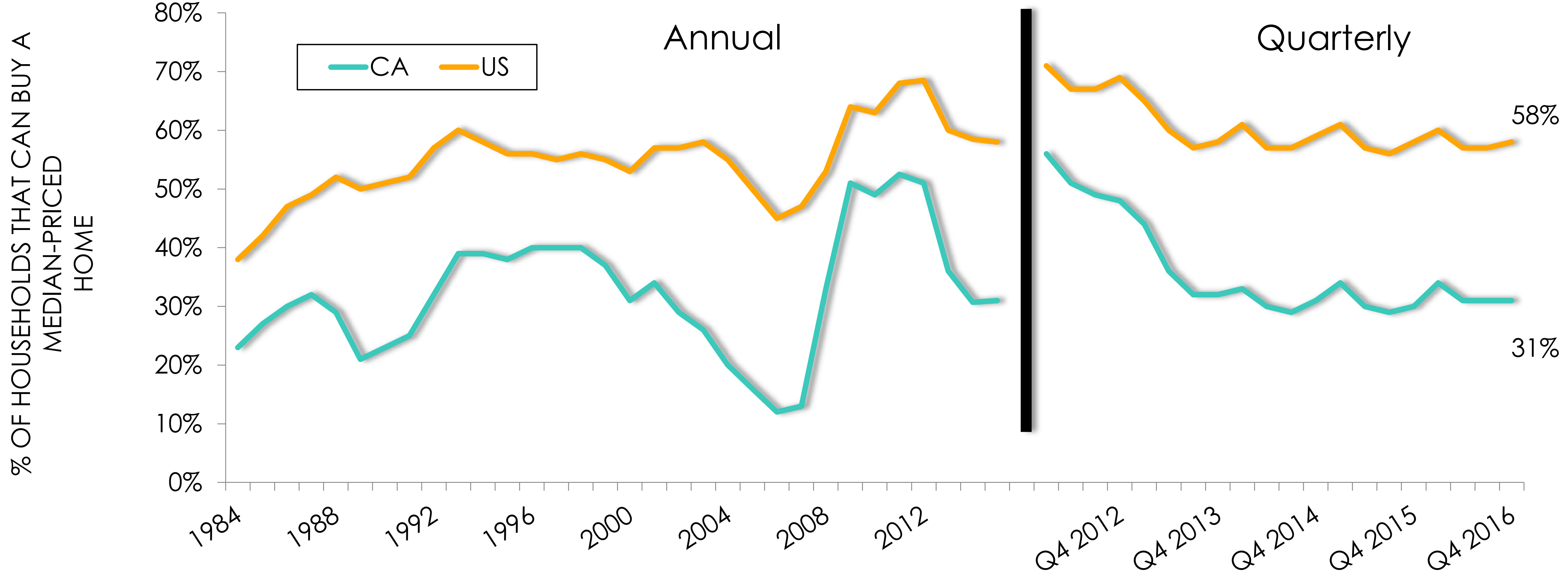
California's Housing Gap

- Housing Gaps:
  - Housing affordability gap
  - Housing supply gap

Affordability Gap

Housing Affordability Peaked Q1 2012 Prices v. Low Rates and Income Growth

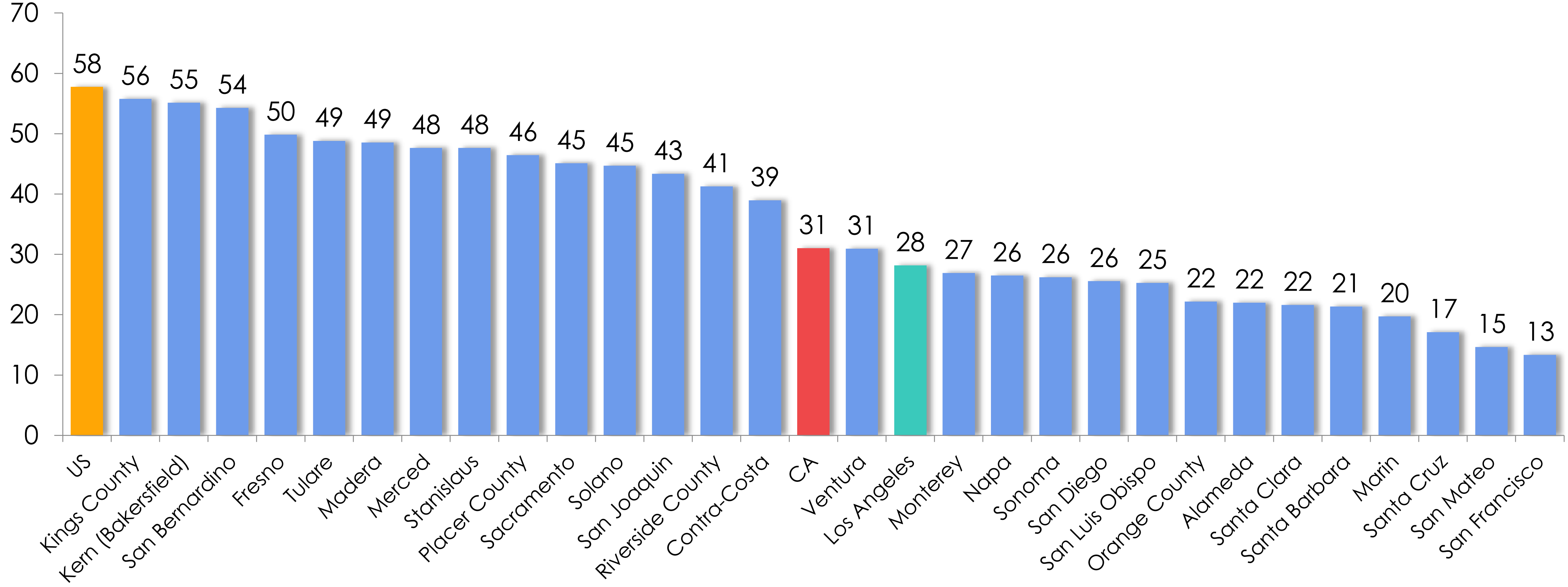
California vs. U.S. – 1984-2016



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Housing Affordability In CA: by county

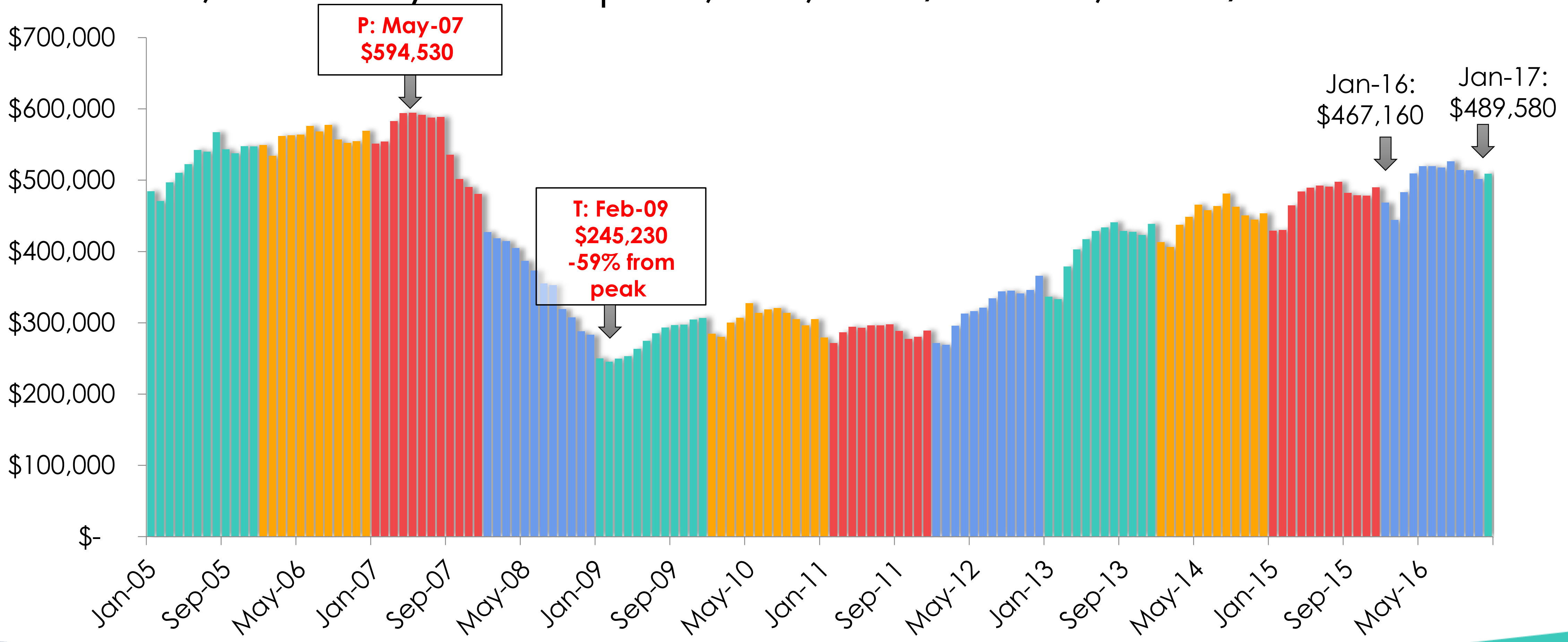
2016-Q4: % able to purchase median-priced home



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

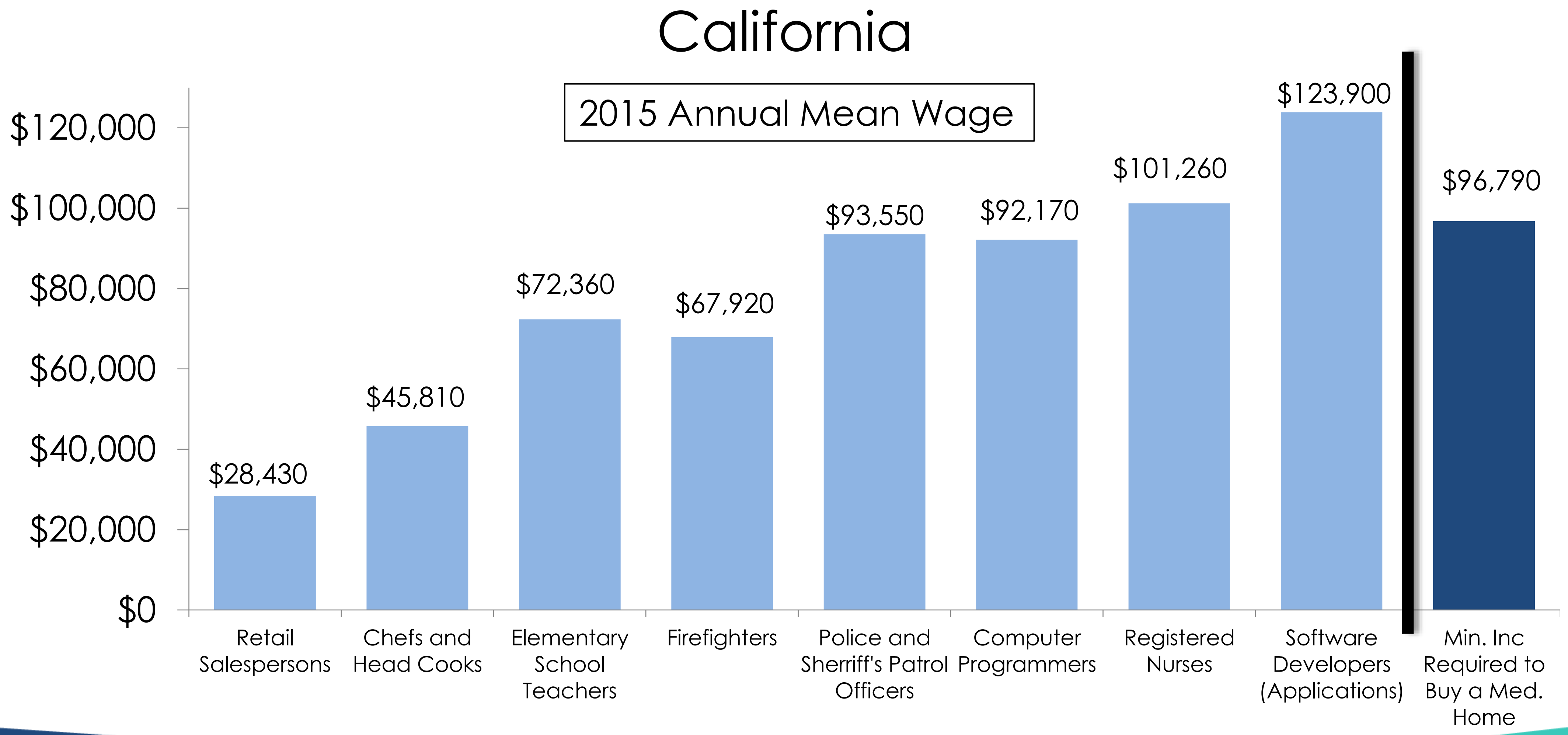
Median Price of Existing Detached Homes

California, January 2017: $489,580, -3.8% MTM, +4.8% YTY



SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

How Wages Measured against Income Required to Buy a Home



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

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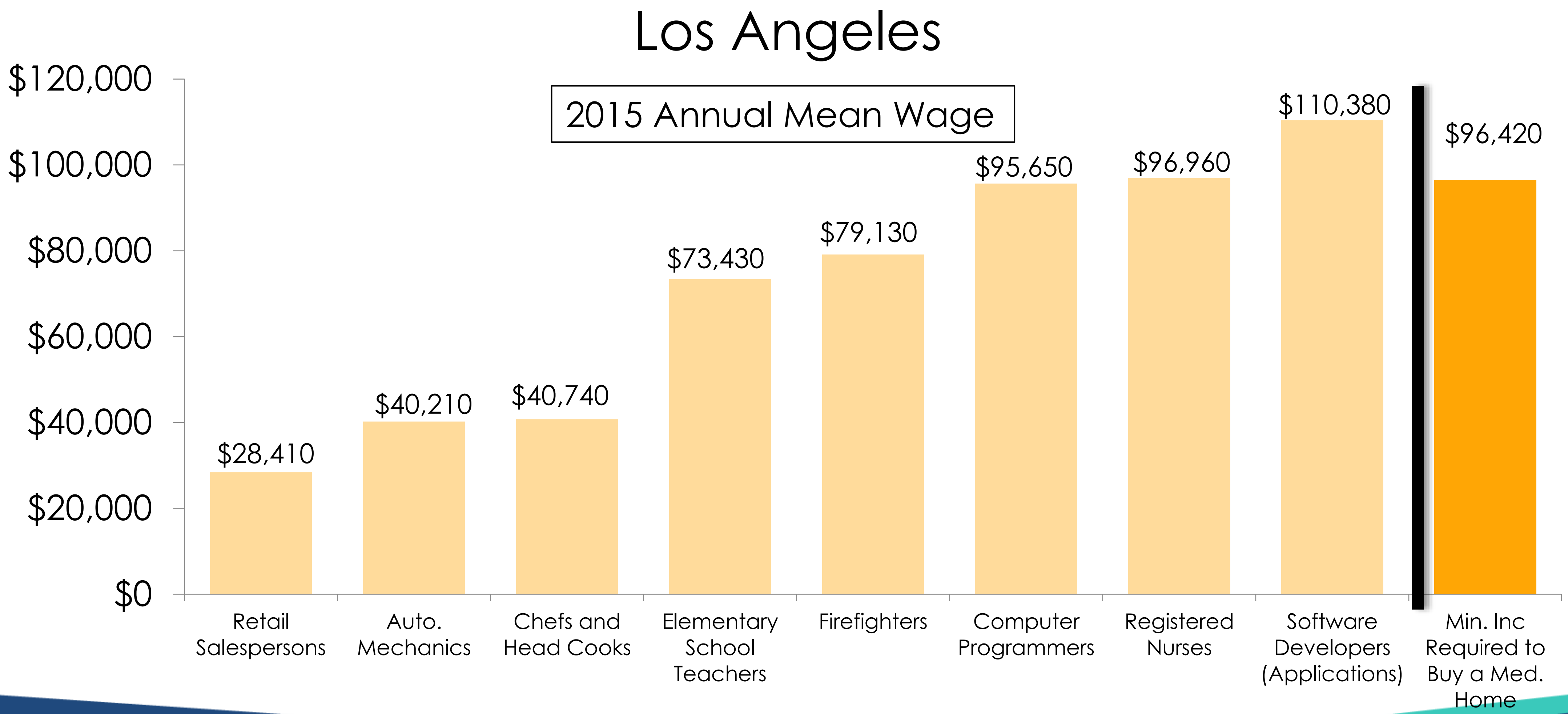

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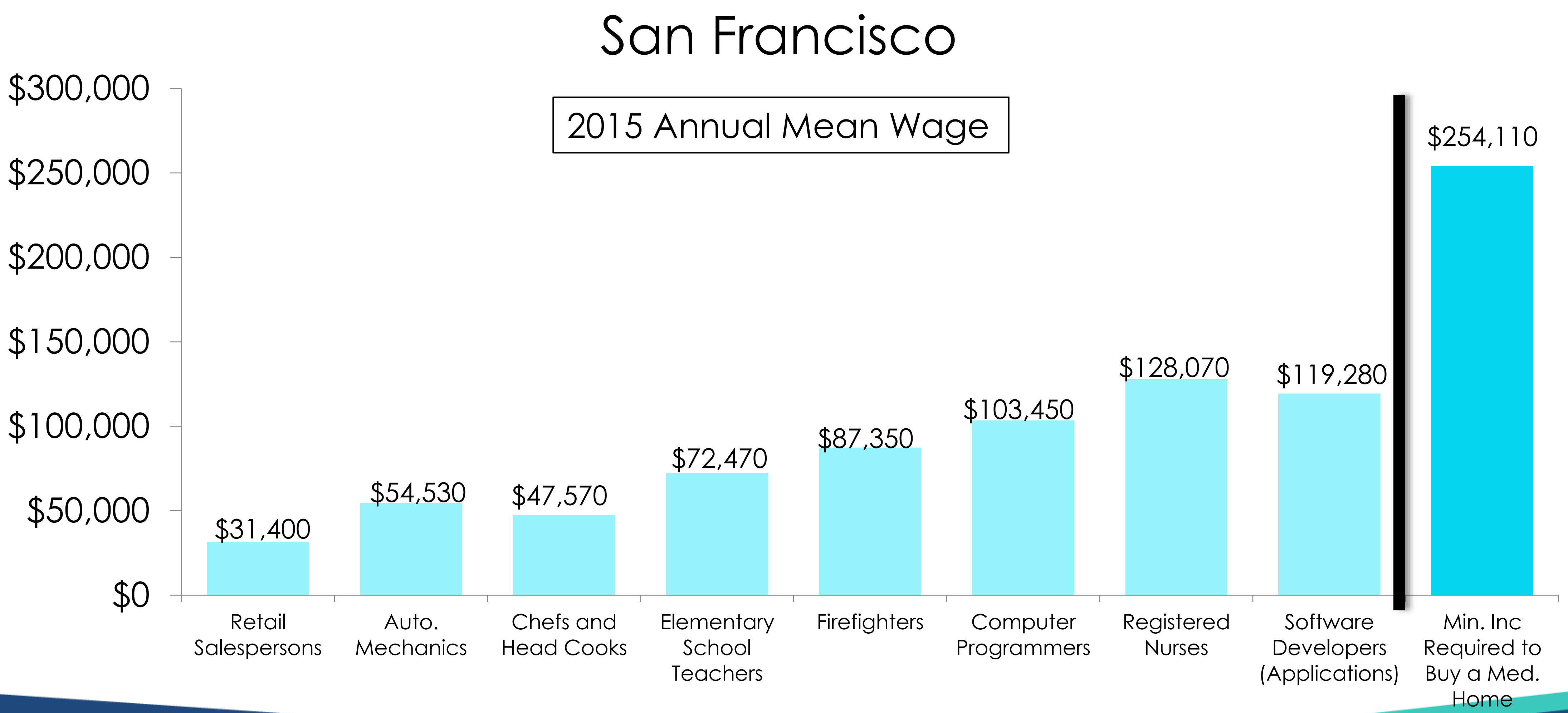

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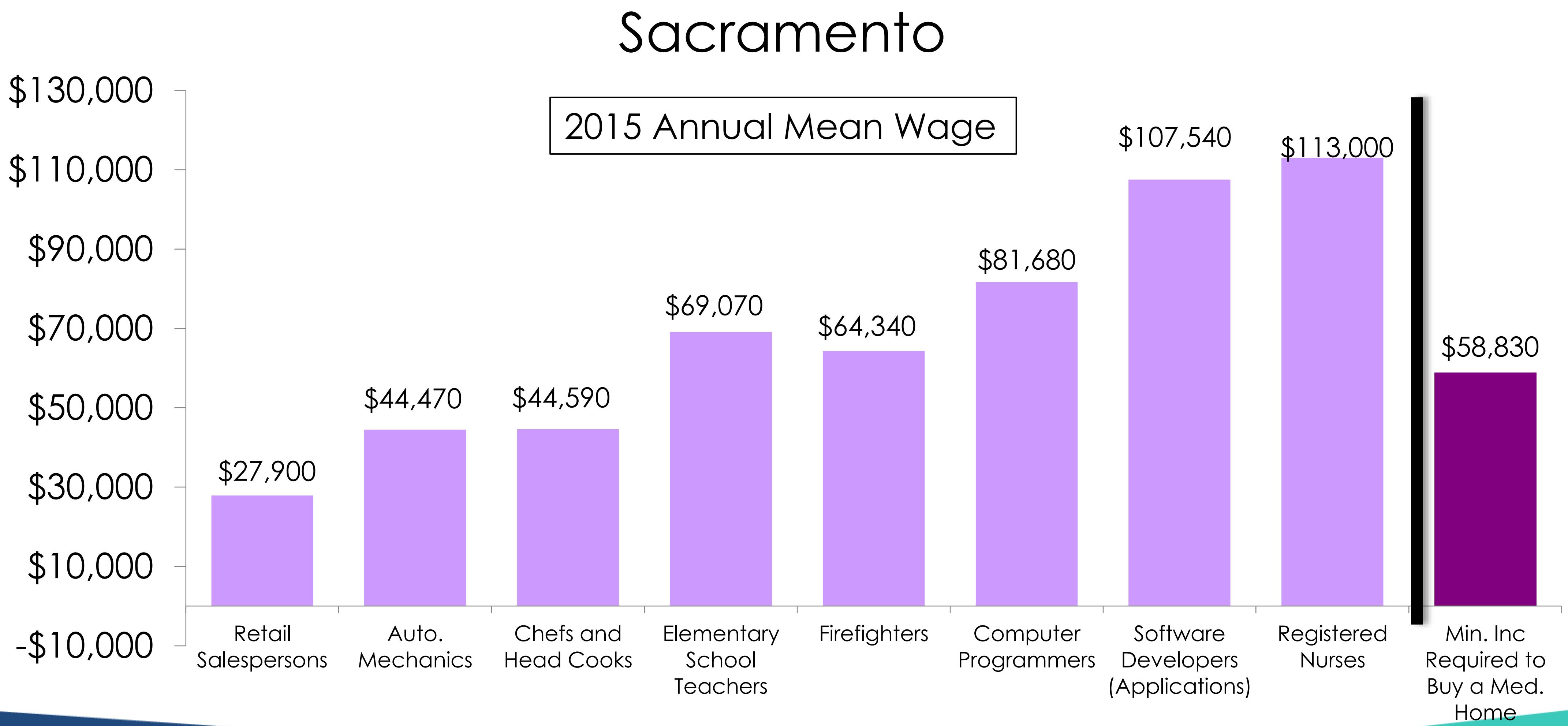
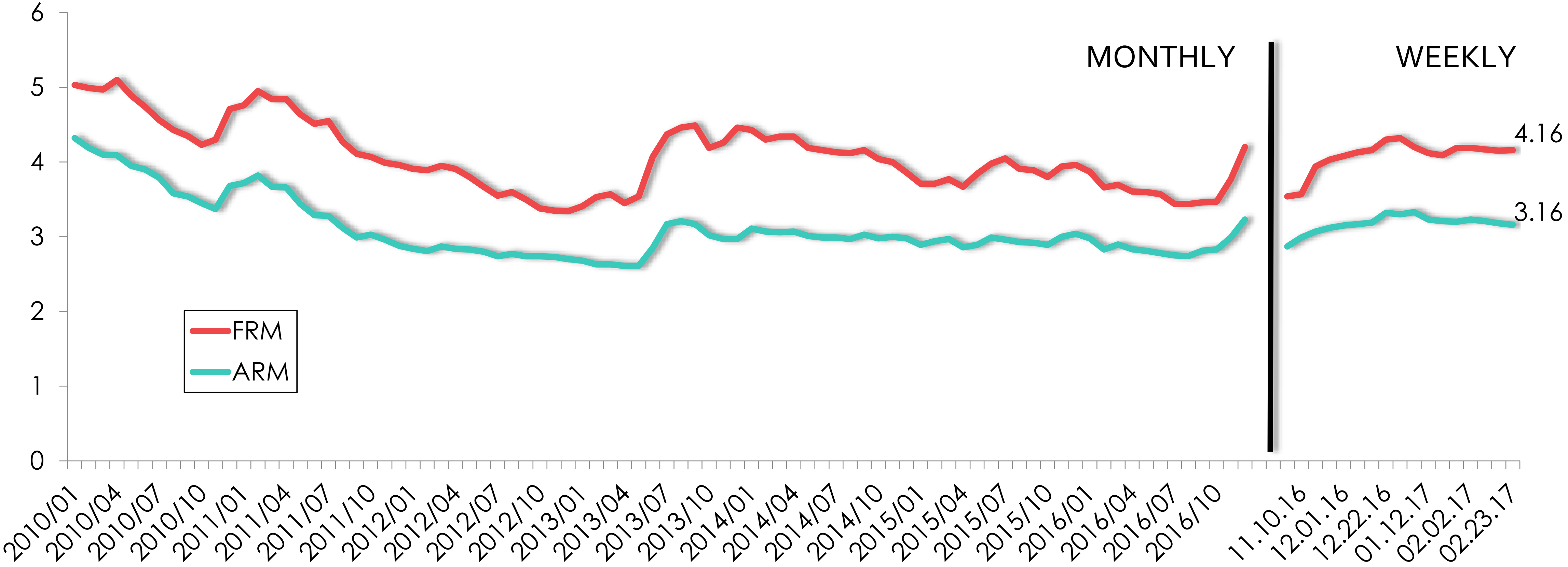


SOURCE: Bureau of Labor Statistics, C.A.R.

Mortgage Rates: Surged after the Election But Stabilized in Recent Weeks

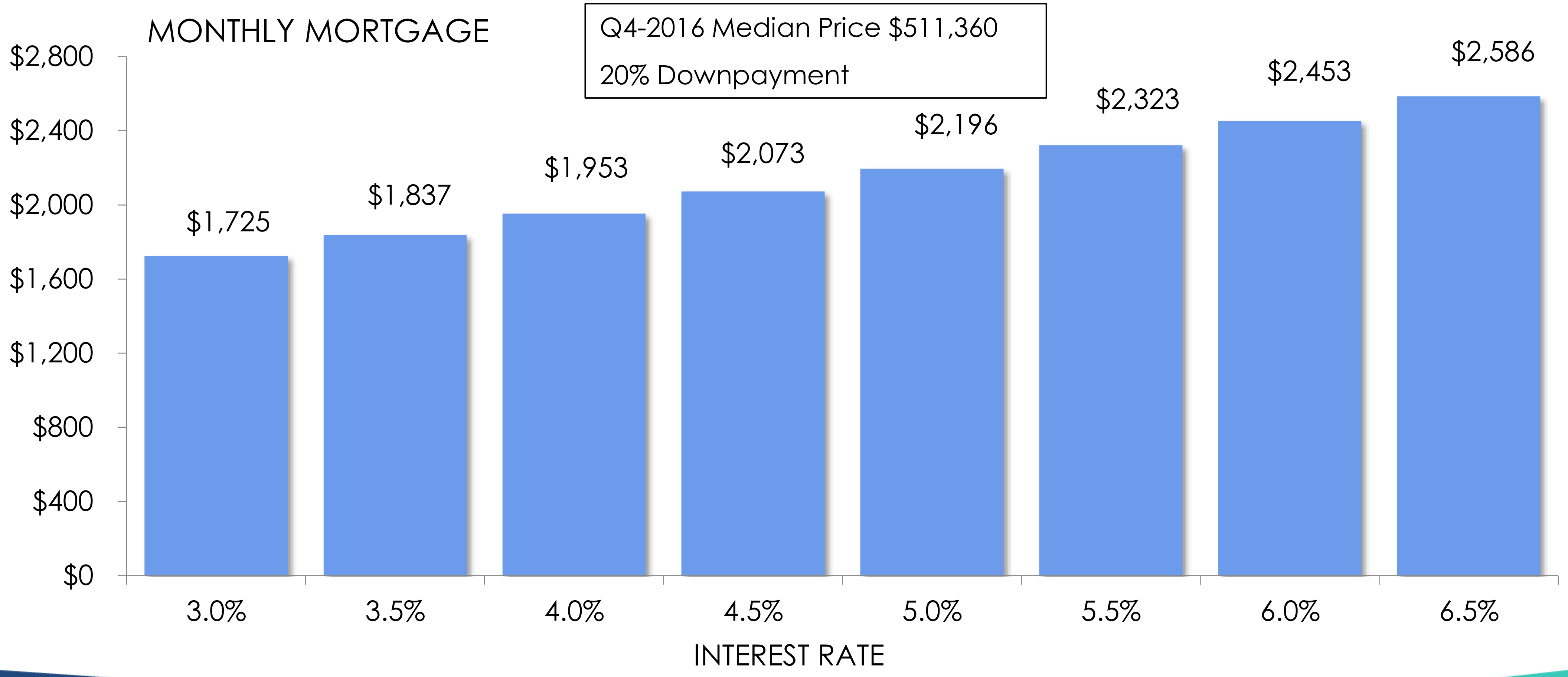
January 2010 – February 23, 2017



SERIES: 30Yr FRM, 5Yr ARM
SOURCE: Freddie Mac

Median Monthly Mortgage Payment - CA

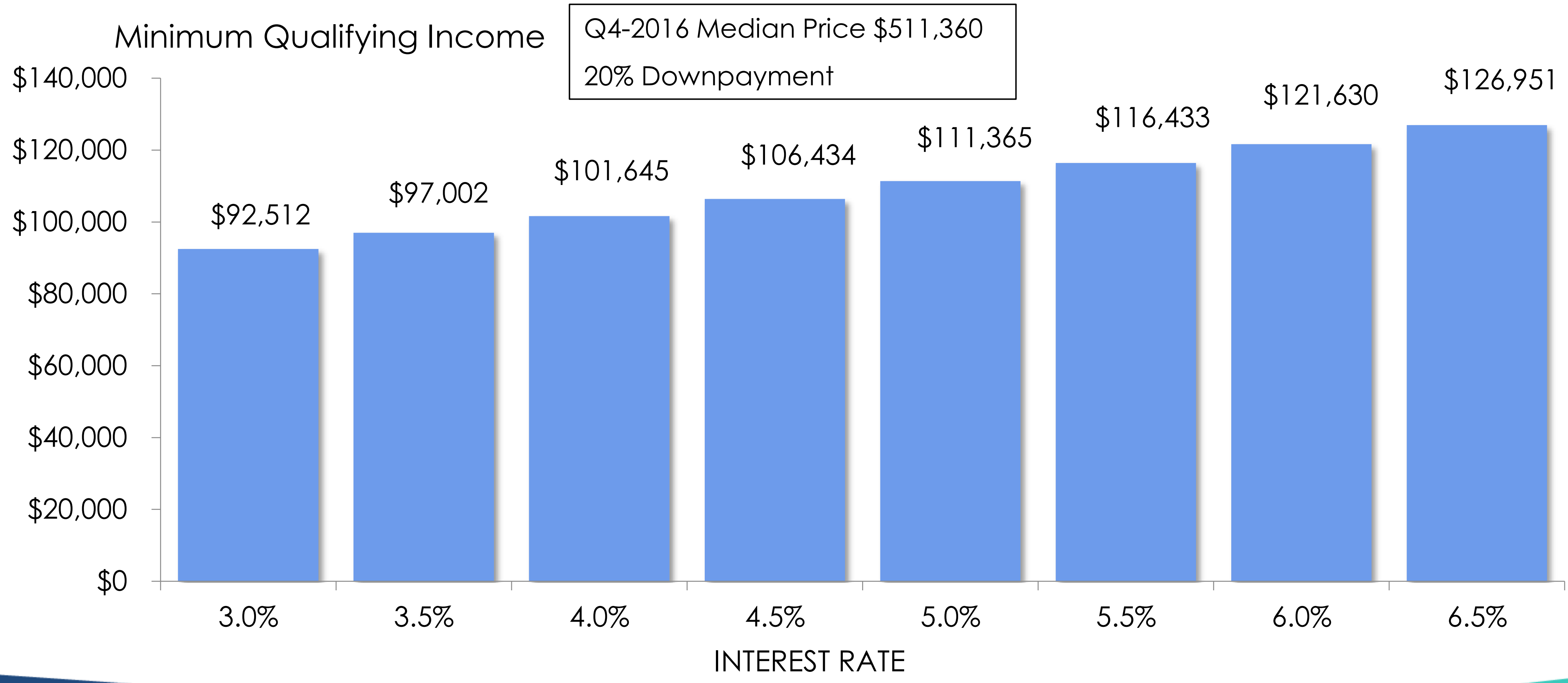
What Will Happen When Mortgage Rates Increase?



SERIES: Housing Affordability Index
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Minimum Qualifying Income - CA

What Will Happen When Mortgage Rates Increase?



SERIES: Housing Affordability Index
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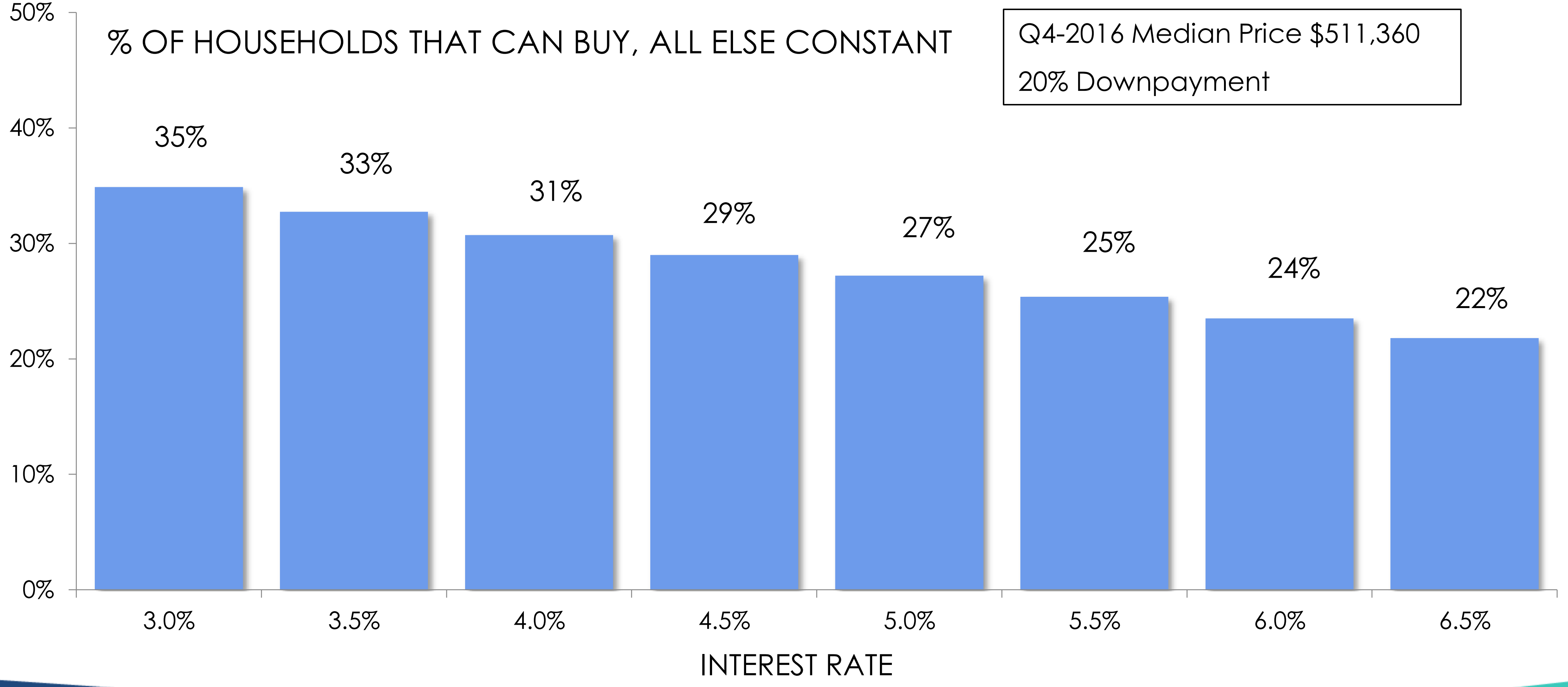
Housing Affordability Index - CA

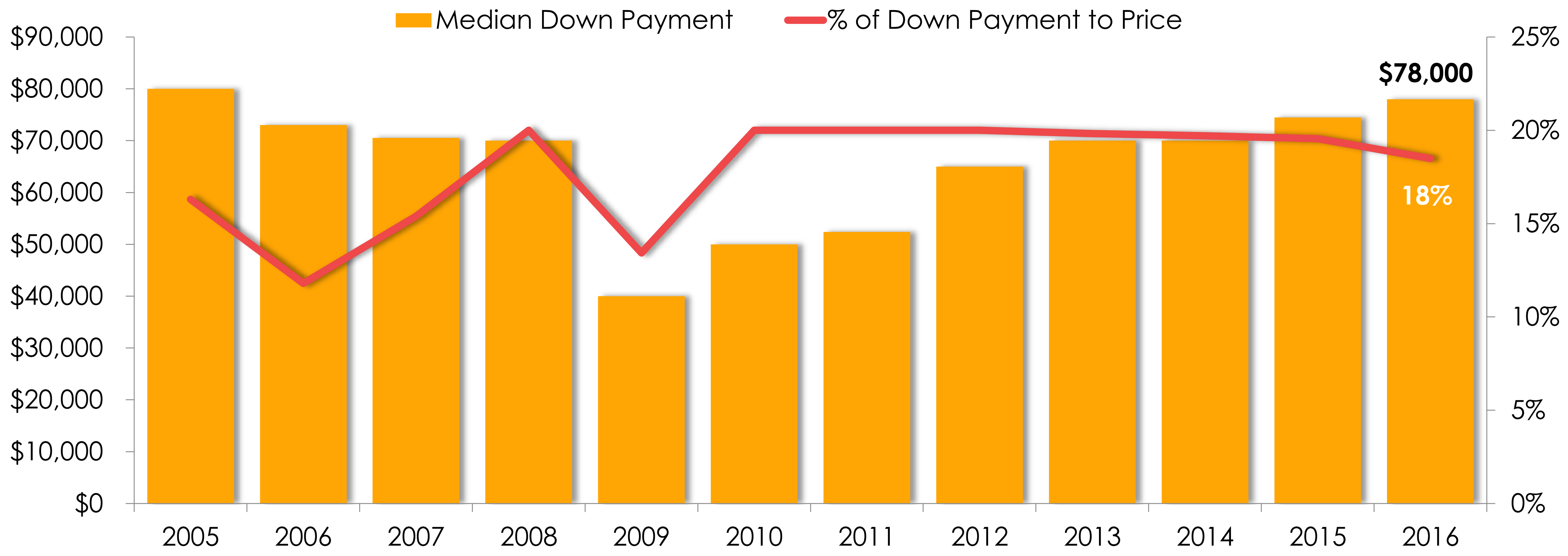
What Will Happen When Mortgage Rates Increase?



SERIES: Housing Affordability Index
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

But Affordability Is Not Just a Monthly Mortgage Payment Issue, It's Also a Down Payment Issue

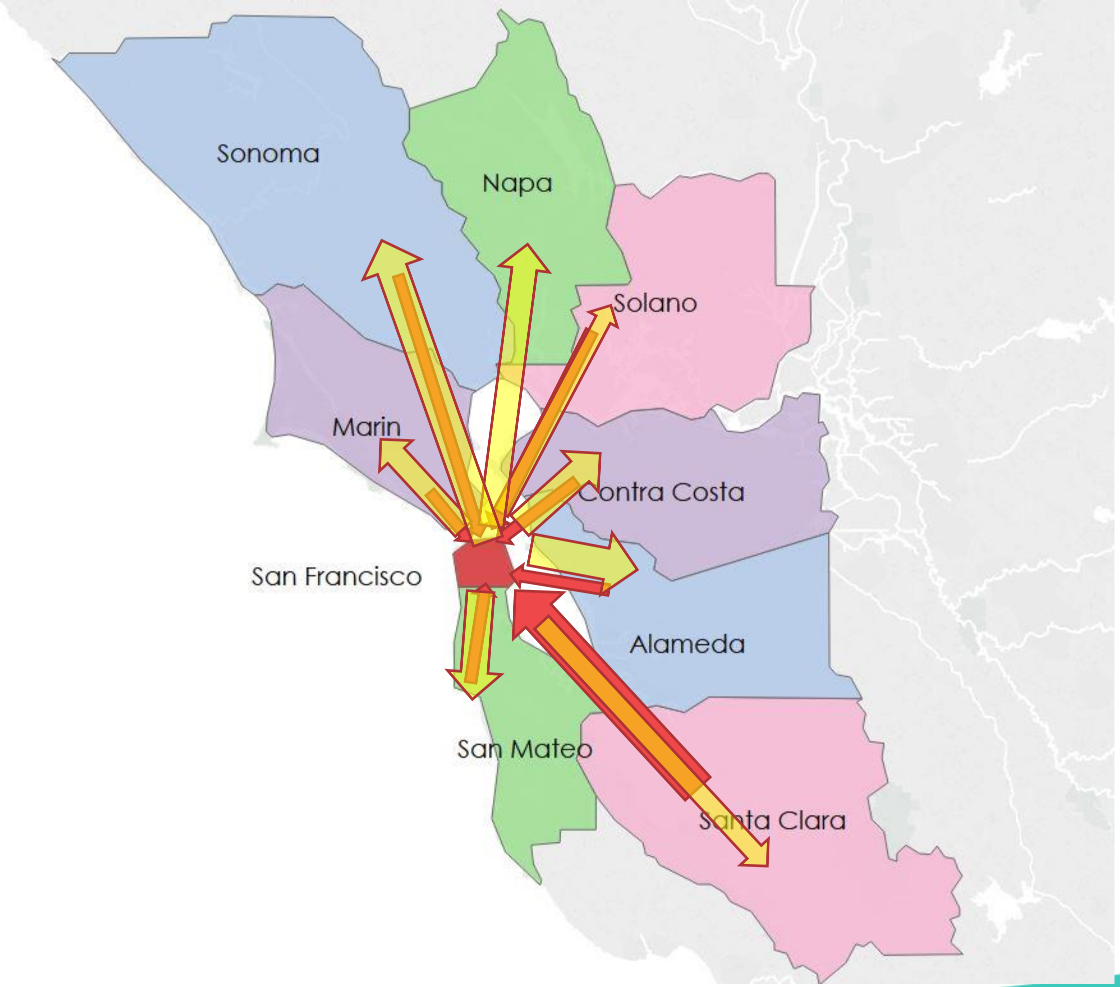
Highest Down Pmt. in $ Since 2005, but lowest down pmt. in % in last 7 yrs.



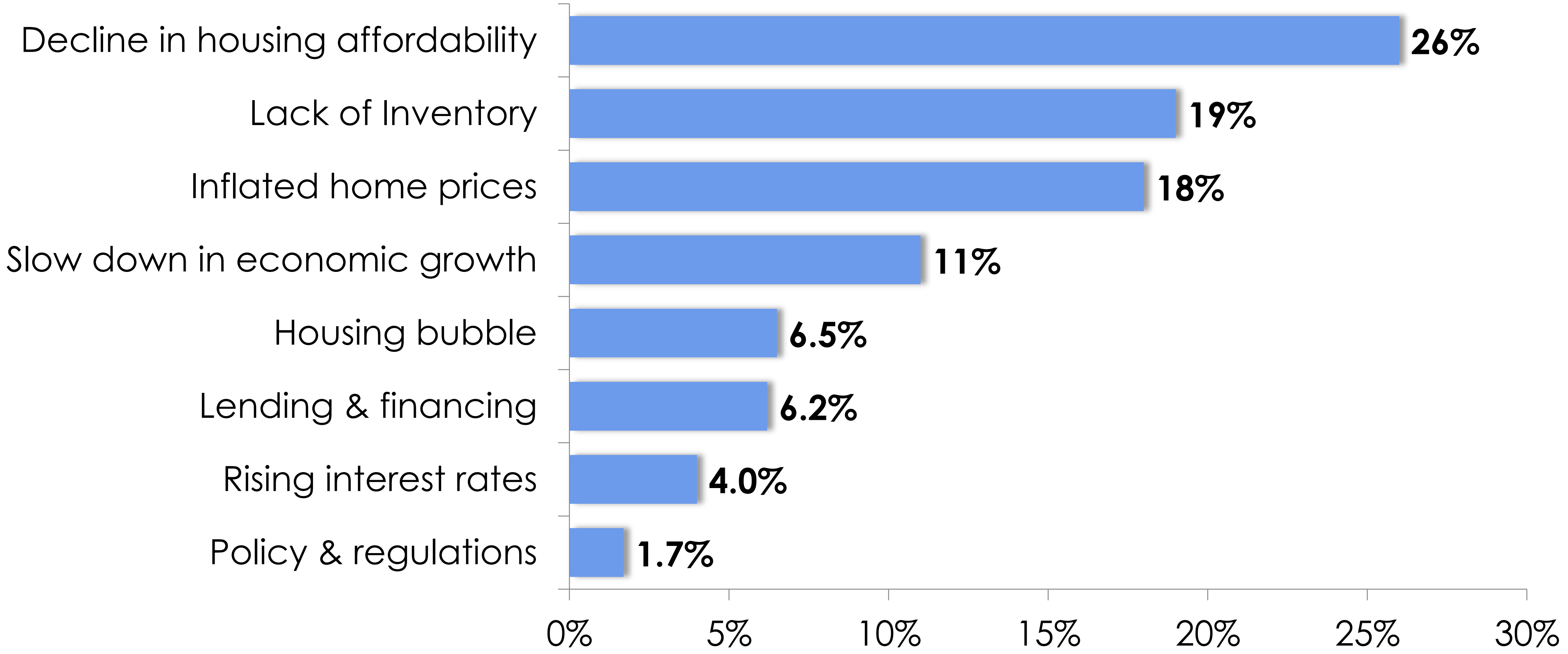
SERIES: 2016 Annual Housing Market Survey
SOURCE: California Association of REALTORS®

San Francisco: Affordability Led to More Moving Out? Or Supply? Or Both?

County Moved To/From	Total Number Moved to San Francisco County	Total Number Moved from San Francisco County	Total Net Migration
Alameda	3983	10345	-6362
San Mateo	6161	7984	-1823
Contra Costa	1856	2998	-1142
Sonoma	557	1602	-1045
Marin	1428	1918	-490
Napa	0	243	-243
Solano	796	815	-19
Santa Clara	4041	2691	1350



Affordability Becomes Biggest Concern



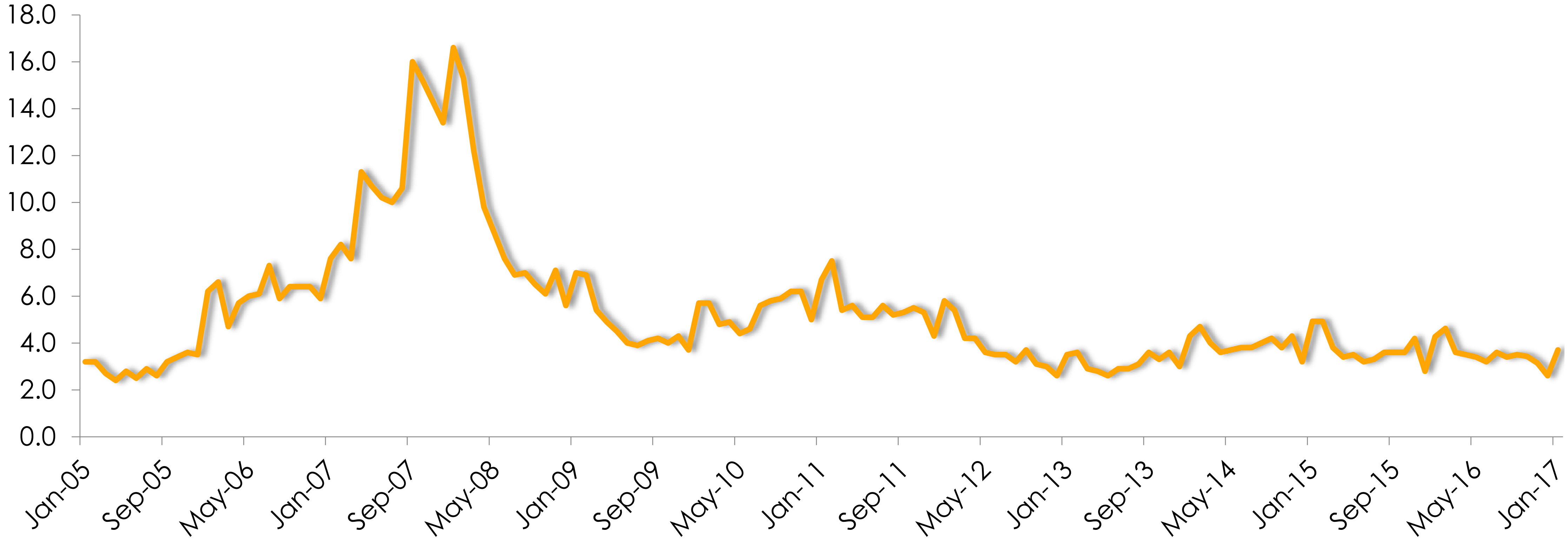
Q: What is your biggest concern about the current real estate market?

SERIES: 2016 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Housing Supply Gap

Supply Remains an Issue

Jan. 2016: 4.3 Months; Jan. 2016: 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®

Years Owned Home Before Selling

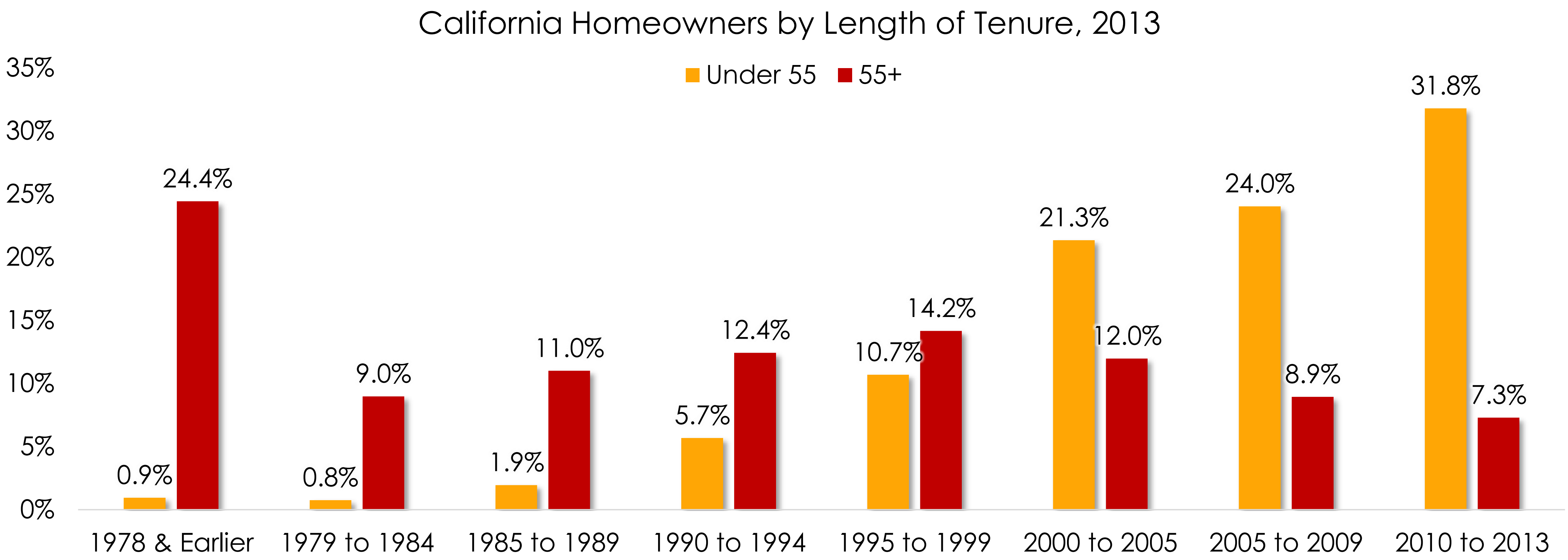
Long-Time Homeowners are not moving as in the past because:

- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?

SERIES: 2016 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

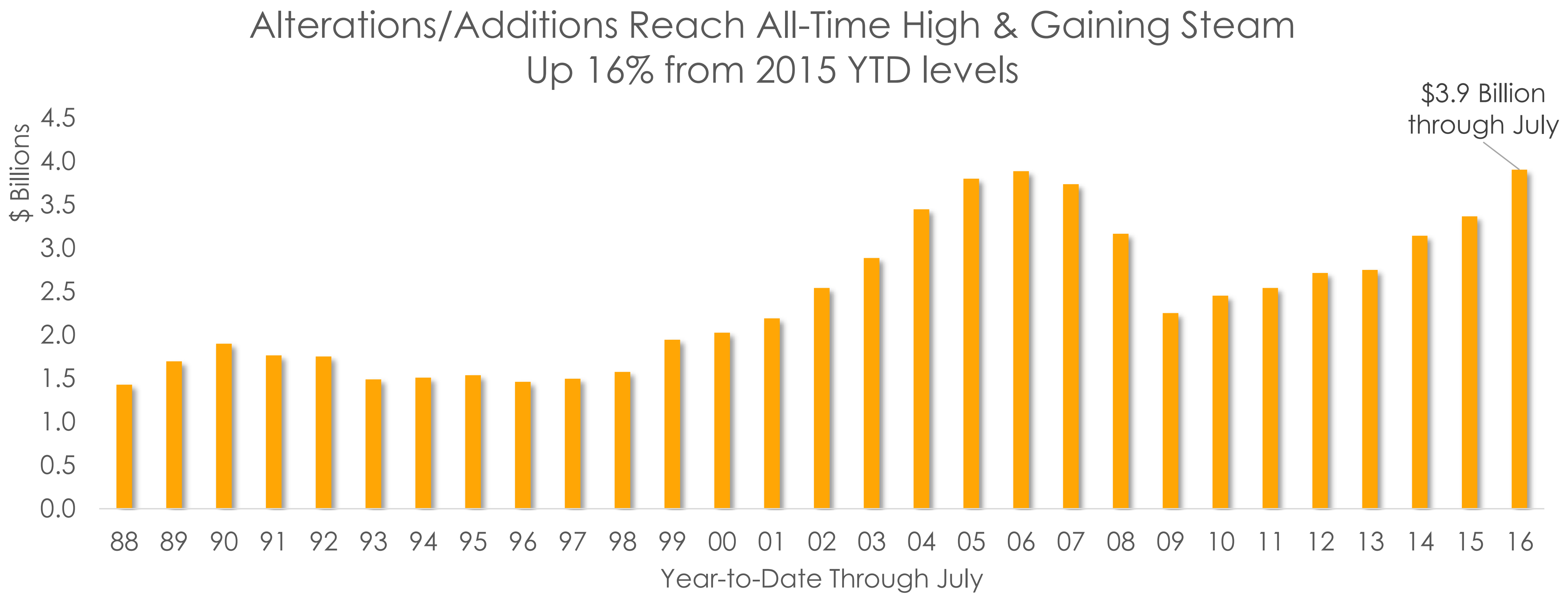
Boomers Not Moving as Often

71% of Californian's aged 55+ haven't moved since 1999



SERIES: Distribution of Home Ownership by Year Moved In
SOURCE: U.S. Census Bureau, 2013 American Housing Survey

Owners Investing in Staying Put ?

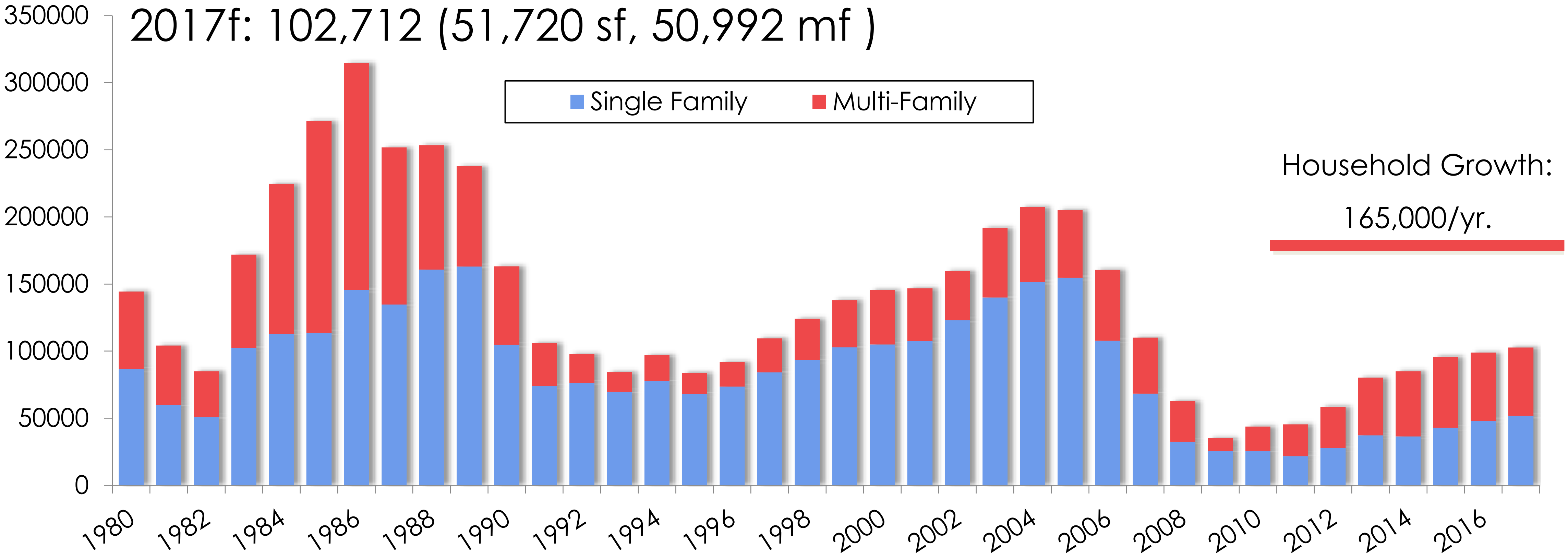


SOURCE: California Homebuilding Foundation (CHF)/Construction Industry Research Board (CIRB)
Downloaded from Moody's Analytics

"Missing" 62,000 New Units Annually

2016: 98,881 (47,889 sf, 50,992 mf)

2017f: 102,712 (51,720 sf, 50,992 mf)



SERIES: California New Housing Permits
SOURCE: Construction Industry Research Board

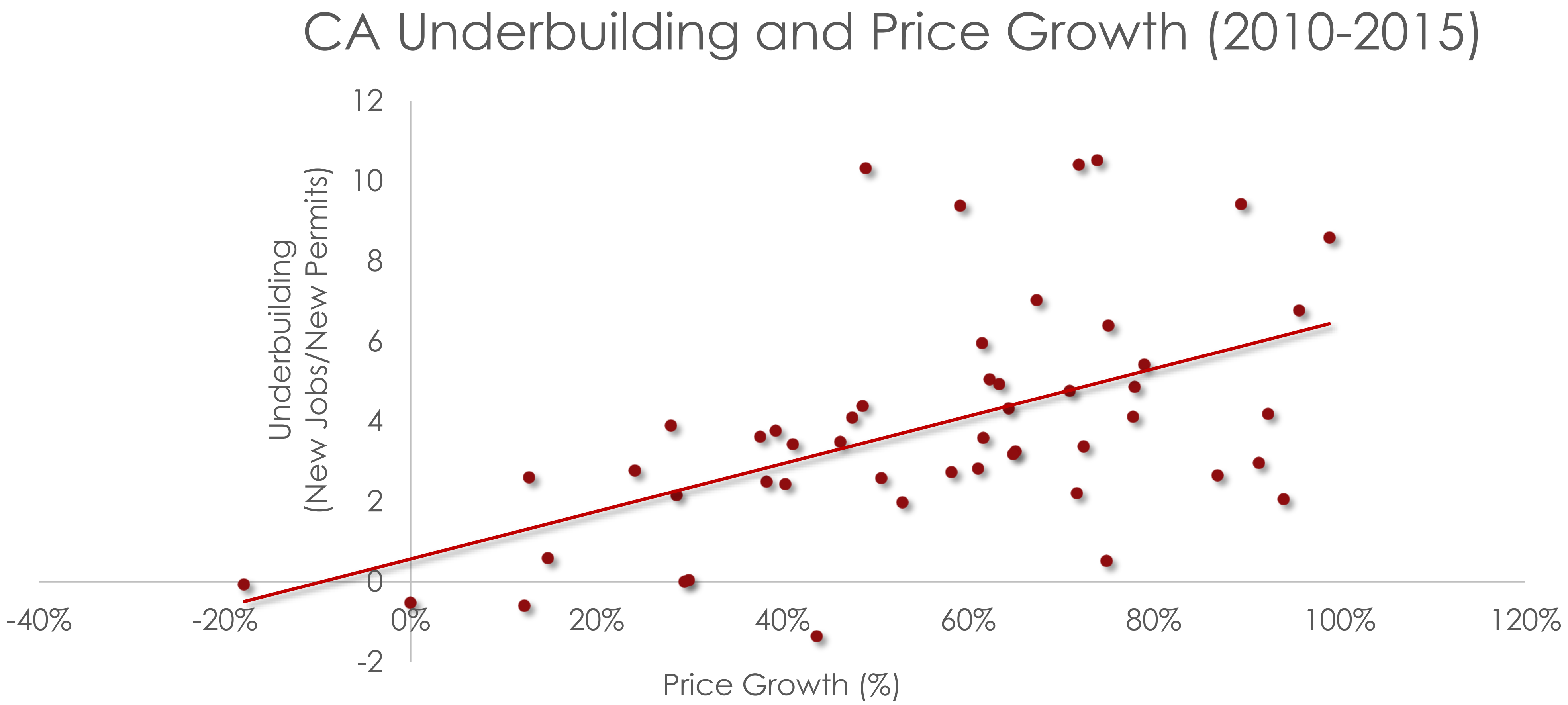
Three of the Top 10 Markets in Need of More Housing Constructions Are in California

Top 10 Markets in Need of More Single-Family Housing Starts

Metro Area	# of permits required
1. New York	218,541
2. Dallas	132,482
3. San Francisco	127,412
4. Miami	118,937
5. Chicago	94,457
6. Atlanta	93,627
7. Seattle	73,135
8. San Jose, CA	69,042
9. Denver	67,403
10. San Diego	55,825

SOURCE: National Association of Realtors®, Census Bureau

The More "Underbuilding", the Higher the Price Growth



SERIES: Nonfarm Job Growth, New Housing Permits, Existing Median Prices
SOURCE: CA EDD, C.A.R., Construction Industry Research Board

Final Remarks

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

Inadequate Housing supply issue

- 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

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