

CALIFORNIA'S HOUSING MARKET

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► **Housing construction and prices are highly cyclical in California.**

The current housing bust is especially severe, but booms and busts have characterized housing prices and construction in California for decades. This is partly because California has long been at the forefront of population growth and change in the United States, and the state's housing market is especially vulnerable when growth slows.

► **Housing construction has fallen to record lows.**

The past three years saw the lowest level of new home construction in California in at least four decades. In 2005, 209,000 permits for new housing units were issued; starting in 2008, the number of permits issued fell below 50,000 per year.

► **Between 1996 and 2006, median housing values in California increased more than threefold.**

In 1996, the median home value in California was just over \$150,000; by 2006, it had risen to over \$500,000. Places that were expensive became even more expensive (median values reached \$737,500 in the state's most expensive metropolitan area, San Jose). And inexpensive places became expensive: median values increased about *fourfold* in the metro areas of Riverside–San Bernardino Merced, and Stockton (see table).

► **Since their 2006 peak, housing values have declined dramatically.**

Statewide, median values have declined by more than 40% to their lowest level in eight-plus years, reaching \$295,300 by December 2011. Most of the decline occurred between mid-2006 and mid-2009. The largest declines have occurred in some of the same inland metros that had experienced the biggest run-up in values, including Merced (69% decline), Modesto (65% decline) and Stockton (65% decline).

► **Foreclosure rates remain high.**

Foreclosure rates have declined but remain high. More than 40% of homes sold in California in the third quarter of 2011 were either bank owned or in some stage of foreclosure. Moreover, large numbers of Californians are "underwater" (owing more on their houses than they are worth). According to CoreLogic, 30% of California homeowners who have a mortgage were underwater in the third quarter of 2011, the sixth-highest percentage in the nation (after Nevada, Arizona, Florida, Michigan, and Georgia).

► **Affordability has become widespread, but homeownership rates have declined.**

Low interest rates and declines in prices have led to high rates of affordability in many California metropolitan areas. Affordability levels are especially high in the state's inland regions, with more than 80% of households able to afford an entry-level home. Even in the most expensive Bay Area counties (Marin, San Mateo, San Francisco, and Santa Clara), high incomes coupled with low interest rates mean that about half of households can afford an entry-level home. Even so, loans have become more difficult to obtain, and the homeownership rate in California has fallen from 60% of all occupied households in 2006 to 56% in 2011; it remains far lower than the rate in the rest of the nation (67% in 2011).

► **Rents have gone up and vacancies remain relatively low.**

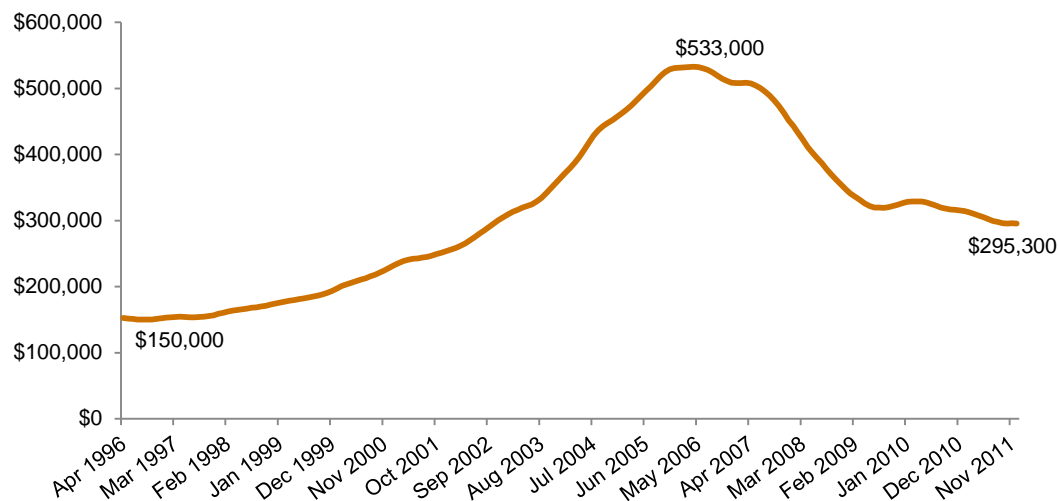
California's rental market has not seen the booms or busts that characterize the homeownership market. While the housing market was in decline from 2006 to 2011, rents increased throughout the state. Rents increased by more than 10% in the Bay Area and Orange County, and by more than 20% in the metropolitan areas of Los Angeles, San Diego, Riverside–San Bernardino, and Fresno. Only in the Sacramento metropolitan area were rents up by less than 10%. Vacancy rates in California (7.5% in 2010) remain well below those in the rest of the nation (10.2%)

► **Demography is on our side.**

Housing demand should rise over the next decade, as the children of the baby boomers reach the prime ages for starting families and establishing households: the number of Californians in their late 20s and early 30s will increase by about 25%.



The median value of houses in California peaked in 2006



Source: Zillow.

The rise and fall of median home values in California's metropolitan areas

Region	1996–1997 minimum (\$)	2005–2006 maximum (\$)	Current \$ (December 2011)	Min to max (% change)	Max to current (% change)
California	150,000	533,000	295,300	255	-45
Bakersfield metro	73,600	271,400	115,000	269	-58
Chico metro	94,000	299,100	172,000	218	-42
El Centro metro	83,600	261,200	120,200	212	-54
Fresno metro	83,200	294,700	132,000	254	-55
Hanford metro	71,700	192,300	100,700	168	-48
Los Angeles metro	164,800	616,300	383,100	274	-38
Madera metro	82,200	316,800	126,200	285	-60
Merced metro	85,200	351,100	107,200	312	-69
Modesto metro	96,800	368,100	129,400	280	-65
Napa metro	163,900	624,400	337,900	281	-46
Redding metro	92,000	278,200	147,100	202	-47
Riverside metro	97,500	402,200	178,700	313	-56
Sacramento metro	119,400	420,900	202,100	253	-52
Salinas metro	179,700	704,700	285,500	292	-59
San Diego metro	148,200	534,200	337,300	260	-37
San Francisco metro	210,300	700,900	464,000	233	-34
San Jose metro	232,900	737,500	544,500	217	-26
San Luis Obispo metro	158,000	583,600	360,900	269	-38
Santa Barbara metro	193,200	690,300	365,900	257	-47
Santa Cruz metro	201,500	726,700	462,100	261	-36
Santa Rosa metro	172,100	591,500	316,500	244	-46
Stockton metro	106,200	410,900	144,900	287	-65
Vallejo metro	129,200	472,900	185,300	266	-61
Ventura metro	168,300	558,800	371,000	232	-34
Visalia metro	78,300	229,000	112,200	192	-51
Yuba City metro	88,300	313,800	129,900	255	-59

Source: Zillow.

Sources: Construction: U.S. Census Bureau. Median housing values: Zillow. Foreclosures: RealtyTrac, CoreLogic. Affordability: NAHB/Wells Fargo, California Association of Realtors. Rents: U.S. Department of Housing and Urban Development. Vacancy rates: U.S. Census Bureau. Population projections: California Department of Finance.

Note: All dollar figures are in nominal terms.

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