JUST THE FACTS

THE CALIFORNIA ECONOMY: HOUSING MARKET UPDATE

AUGUST 2009

- **CALIFORNIA'S HOME PRICES APPEAR TO BE STABILIZING.**
  After two years of steep declines, home prices in California fell by an annualized rate of only 1.6% in the second quarter of 2009, according to the Federal Housing Finance Agency. Nationally, home prices fell at an annualized rate of 2.7%. In every quarter of 2008, California housing prices fell by an annualized rate of more than 20%. Another data source, Case-Shiller, shows prices rising slightly in the second quarter of 2009 in San Francisco and San Diego, and falling in Los Angeles at a slower rate than in past quarters.

- **CALIFORNIA'S HOUSING IS MORE AFFORDABLE—BUT STILL EXPENSIVE.**
  Prior to 2006, California home prices rose faster than the national average; but since then, prices in California have fallen more sharply. The real estate bubble exacerbated the gap between California and the nation as a whole, and the bust has narrowed it. In 1999, prior to the real estate bubble, the Zillow home price index for California was 1.6 times the national index. This ratio rose to 2 in 2003, peaked at 2.3 in 2005, and fell back to 1.7 in June 2009. As this ratio falls from its bubble-time high, California becomes a relatively less expensive place for people to live—and for the employers who need to pay workers enough to keep them here.

- **PRICE GAPS BETWEEN COASTAL AND INLAND CALIFORNIA ARE WIDENING.**
  As the gap between California and national prices narrows, the gap between coastal and inland California widens. Along the urban coast, where California's most expensive housing lies, prices have fallen less than prices inland. For instance, in June 2006, the average house cost twice as much in San Francisco as in Stockton; today it costs four times as much. Inland home prices have fallen more because the inland areas of the state experienced a larger construction boom earlier in the decade than big coastal cities, which had less land for growth and more regulatory constraints.

- **CALIFORNIA RANKS HIGH IN FORECLOSURES BUT NOT IN VACANCIES.**
  Large price drops—as well as job losses and mortgage rate re-sets—lead to foreclosures. California, along with Nevada, Arizona, and Florida, has experienced the nation's largest price declines and highest (and still rising) foreclosure rates, at more than twice the national foreclosure rate. But California's vacancy rate—though much higher now than before the recession—is far below the national average, unlike other high-foreclosure states, reflecting the perennial tightness in many of California's expensive urban housing markets. Even in the foreclosure-ridden San Joaquin Valley, vacancy rates are less than half the level of the hardest-hit metro areas in the nation, such as Detroit. California's relatively low vacancy rates mean fewer abandoned neighborhoods and suggest a quicker rebound in construction than in states where more vacant houses sit unsold on the market.

- **CALIFORNIA'S CONSTRUCTION INDUSTRY IS STILL HURTING.**
  Construction firms and workers continue to suffer the effects of the housing debacle. With falling prices and tighter financing, new residential permits in the second quarter of 2009 are down 55% from a year ago and down 83% from peak levels in 2003–2005. Employment in the construction industry—which includes more than just residential housing—fell 19% between June 2008 and June 2009, by far the biggest employment loss in any sector.

Home Prices Are Stabilizing, At Least for Now

Large Coastal Cities Experienced Smaller Price Declines (cumulative change, peak to trough)

Sources: (1) Prices: Federal Housing Finance Agency, Case-Shiller, and Zillow. (2) Foreclosures: RealtyTrac. (3) Vacancies: U.S Postal Service and U.S. Department of Housing and Urban Development. (4) Construction permits: RAND and U.S. Census Bureau. (5) Employment: California Employment Development Department.

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