California Housing Market

Homeownership, Housing Affordability and Challenges for California

Sustainable Homeownership Conference 2017
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Chief Executive Officer
California’s housing dilemma

• Our homeownership market is in trouble...

• The rental market, even with the conversion of 500,000 SFH’s, is still exhibiting inadequate supply...

• ...and the state’s housing policies continue to amplify to the emerging crisis.
Homeownership: Where Are We Today?

California Vs. U.S. – 10.3% gap in 2016

SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau
California Ranked the 2nd Lowest Amongst All States

Homeownership Rate

SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau
California Homeownership Rates Declined the most for Younger Generations...

SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau, American Community Survey
Homeownership Will Deteriorate if the Trend Continues

California Homeownership Rate

SERIES: Homeownership Rate
SOURCE: U.S. Census Bureau, American Community Survey, C.A.R. projection
Housing Affordability
CA Housing Affordability Lags U.S.

California vs. U.S. - 1984-2017

% OF HOUSEHOLDS THAT CAN BUY A MEDIAN-PRICED HOME

SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
Rising Home Prices Lower Housing Affordability Level

California, April 2017: $536,750, +3.7% MTM, +5.4% YTY

SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
Lackluster Income Growth Also Contributed to the Affordability Issue

Income growth could not keep up with price growth until recently

SERIES: Household income growth vs. Home price growth
Supply Shortage Is the Primary Reason for the Affordability Issue

- Existing inventory has been trending down
- California is building far less than our demographic demand
Fewer Units Turning Over Since the Great Recession

Housing Turnover Rate (Single-Family Homes only)

CA turnover rate trend

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

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

SERIES: Percent of existing single-family homes being sold
SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.
As bleak as it is, the California homeownership situation is more likely to deteriorate than improve if:

- Interest rates rise
- State’s economy slows
- Current tax proposals are enacted
- Legislative environment focus remains solely on rental housing production
Lack of New Construction
“Missing” 80,000 New Units Annually

2016: 98,881 (47,889 sf, 50,992 mf)
2017f: 100,246 (51,720 sf, 48,526 mf)

CA HCD Projected Housing Needs: 180,000/yr.
CA has produced less housing per capita than other states

<table>
<thead>
<tr>
<th>State</th>
<th>Population added 1,000 people</th>
<th>Housing units added Number</th>
<th>Ratio of housing units added to population added Units per 1,000 people</th>
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<tr>
<td>New York</td>
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<td>California</td>
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<td>309</td>
</tr>
</tbody>
</table>

SOURCE: US Census Bureau; McKinsey Global Institute analysis

SOURCE: U.S. Census Bureau, McKinsey Global Institute
Housing Supply Gap Will Be Over 2 Million at Current Construction Pace

With housing needs increasing at a rate of 180,000 every year, California will need more than 3.3 million units by 2030 to fill the housing demand and bring it back to 2005 level.

At the current construction pace, however, California will have a backlog of over 2 million by 2030.
California Not Building Enough Because

• Community Resistance – Blocking/delaying new housing

• Project Reviews and CEQA

• Land Availability/Bias Toward Commercial Development
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
Building in California is Expensive

**Land Costs**

- 2 to 4 times higher on California (CA) Coasts
- High land costs usually mean more units being built on each plot of land, but not the case in CA’s coastal metros
- During the 2000’s housing density of a typical neighborhood in CA’s coastal metro rose only 4%, considerably less than the 11% average increase in the comparison group
- The new housing unit in the comparison group was also 40% more dense than that built in CA.

**Building Costs**

- $50k to $75 higher in California (CA)
- Include labor, building material and government fees, all higher in CA than other states
- Development fees are higher in California than the rest of the country. A 2012 national survey found that the average development fee levied by California local governments (excluding water-related fees) was $22,000 per single family home, as compared to the $6,000 per single-family home in the rest of the country.

SOURCE: CA Legislative Analyst Office
Case Study: Restrictive Zoning in L.A.

Los Angeles Zoned Residential Capacity

- Los Angeles was zoned to accommodate 10 million people in 1960.
- Today, the city is zoned for only 4.3 million people after decades of population growth and increase in housing demand.
More Californians Moving out than Moving in. Their Top Destinations…

SERIES: California Migration
SOURCE: U.S. Census, Calculations by the California Association of REALTORS®

Thousands


- Texas: -124,064
- Nevada: -92,367
- Arizona: -74,038
- Oregon: -70,354
- Washington: -32,598
- Colorado: -31,432
- Idaho: -28,056
- Utah: -25,147
- North Carolina: -21,230
- Georgia: -16,403

Inflow
Outflow (CA, 2011-2015)
Californians with Lower Incomes Were More Likely to Move out of the State, but…

Net Migration by Personal Income (2011-2015)

-69.0
-51.3
-45.7
-20.8
-12.4

16.1
15.7
14.5

-1.2
6.5
-3.3

Under 10,000
$10,000 to $19,999
$20,000 to $29,000
$30,000 to $39,999
$40,000 to $49,999
$50,000 to $74,999
$75,000 to $99,999
$100,000 to $149,999
$150,000 to $199,999
$200,000 to $250,000
Over $250,000

SERIES: California Migration
SOURCE: U.S. Census, Calculations by the California Association of REALTORS®
Young Adults and Baby Boomers also moved out of California at a faster rate than other age groups.

Net Migration by Age (2011-2015)

- Under 18: -55.7
- 18-25: -45.3
- 26-40: -28.1
- 41-50: -14.3
- 51-65: -4.7
- Over 65: -1.9

Series: California Migration
Source: U.S. Census, Calculations by the California Association of REALTORS®
What Can Be Done?
Inadequate Housing Supply

- **Build More**: Regulatory Changes Are Essential
- Free the Existing Inventory
- Add Secondary Units
- Recycle Retail and Commercial Projects
- Utilize Surplus Land (wherever available)
Solutions

- Solutions must include:
  - Increase in Production
    - Infill and brownfield opportunities in urban areas where shortage is critical
  - Revitalization of Neighborhoods
  - Change Incentive Structure Facing Cities
    - Fiscal
    - Housing & Zoning Requirements
      - Enforce housing elements of general plans, create incentives to comply
  - Improve Business & Legal Climate for Developers – CEQA Reform
Solutions

• Attitude Shift is Essential to Moving Toward Solutions...
  • By Households as Residents
  • By Households as Taxpayers
  • By Local Elected Officials
  • By State Officials

• ... and an Attitude Shift Requires Education and Heightened Awareness of Problems, Implications, and Solutions!

• Solutions will take time
Thank You

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