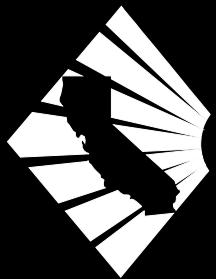




# California Housing Market

Homeownership, Housing Affordability and  
Challenges for California

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CALIFORNIA  
ASSOCIATION  
OF REALTORS®

Sustainable Homeownership Conference 2017

June 9, 2017

Joel Singer

Chief Executive Officer



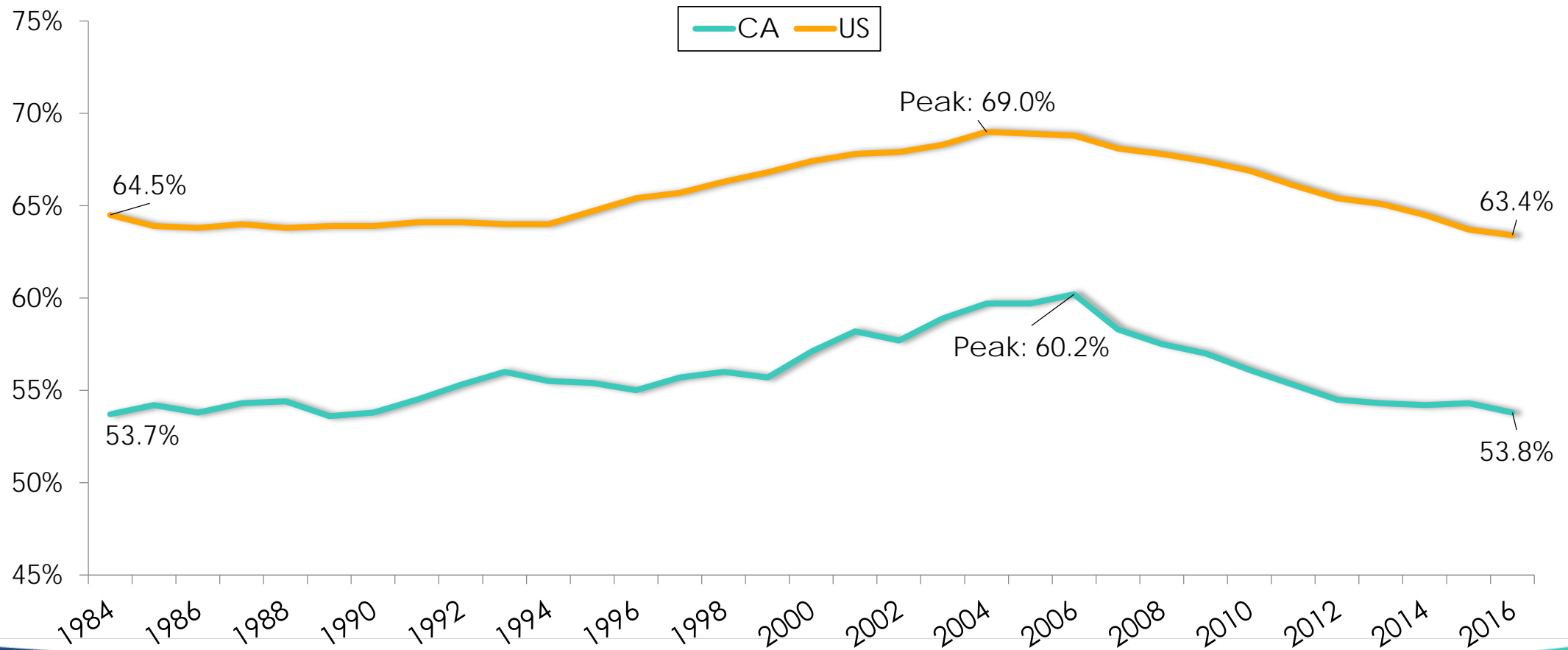
# California's housing dilemma

- 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

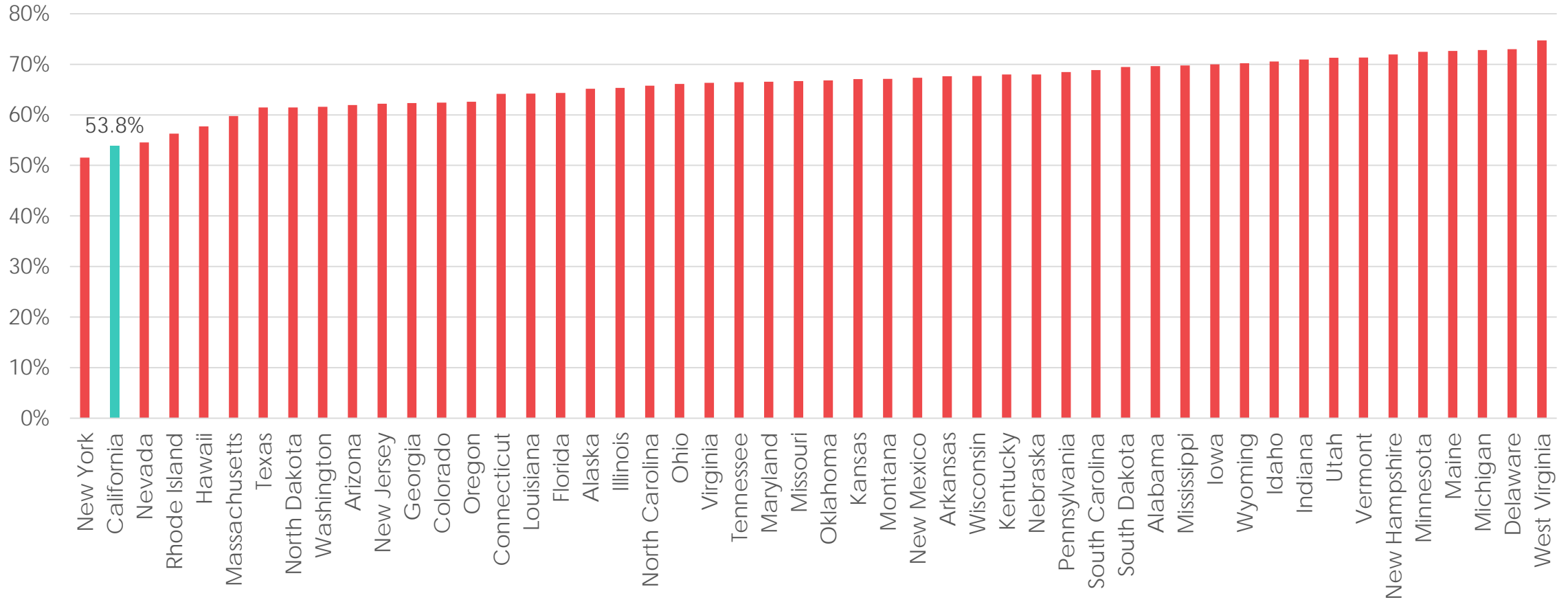


SERIES: Homeownership Rates  
SOURCE: U.S. Census Bureau



# California Ranked the 2<sup>nd</sup> Lowest Amongst All States

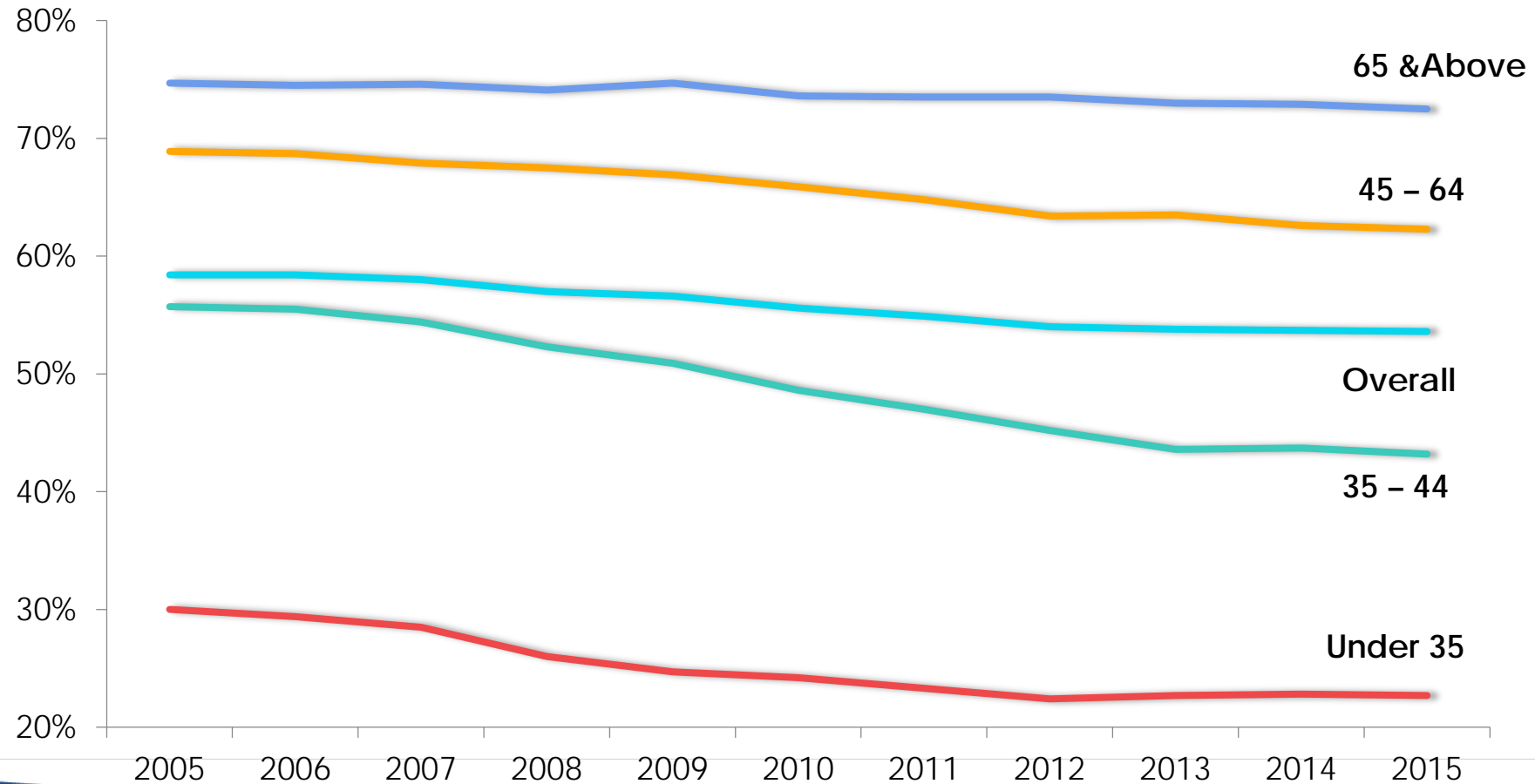
Homeownership Rate





# Homeownership Rates Declined the most for Younger Generations ...

## California

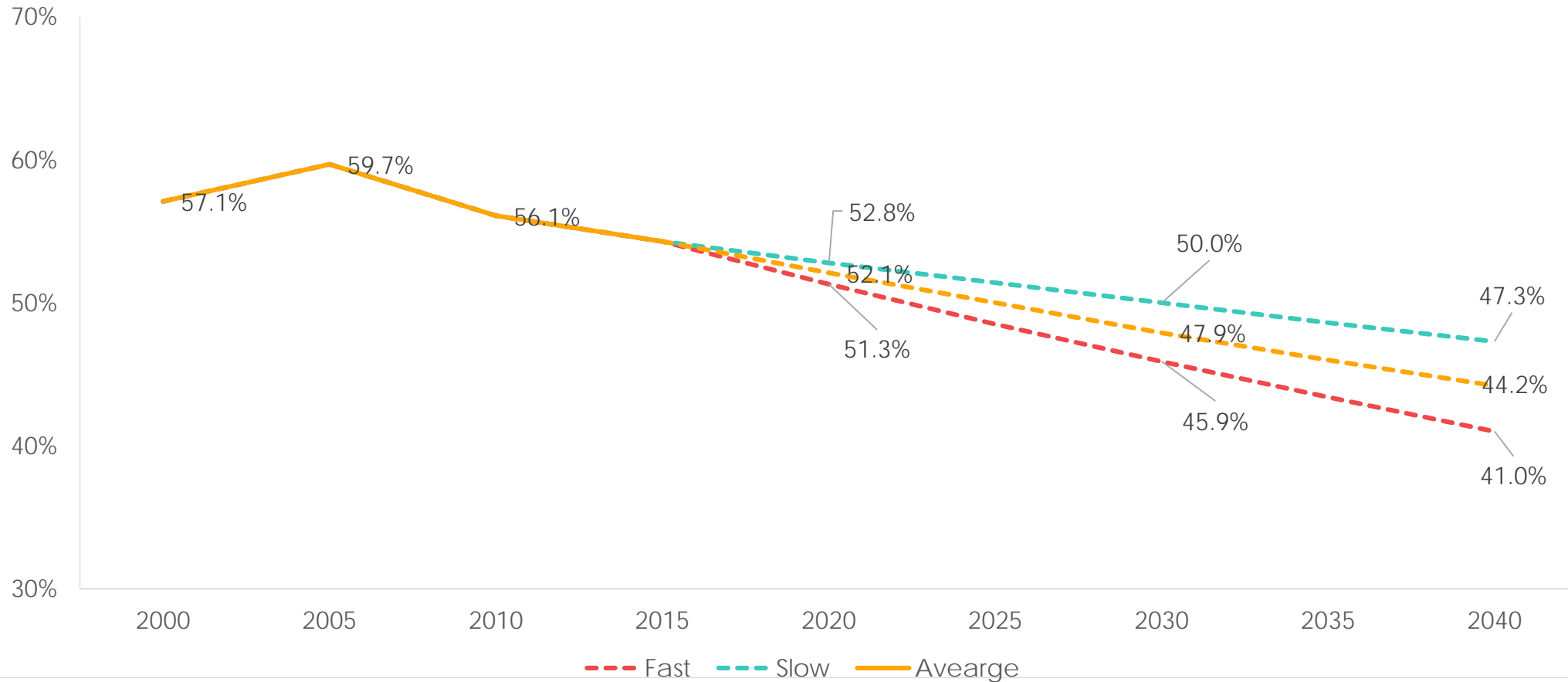


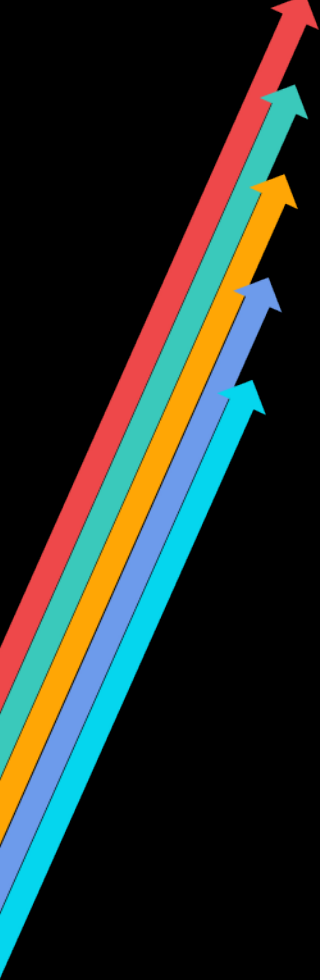
SERIES: Homeownership Rates  
SOURCE: U.S. Census Bureau, American Community Survey



# Homeownership Will Deteriorate if the Trend Continues

## California Homeownership Rate



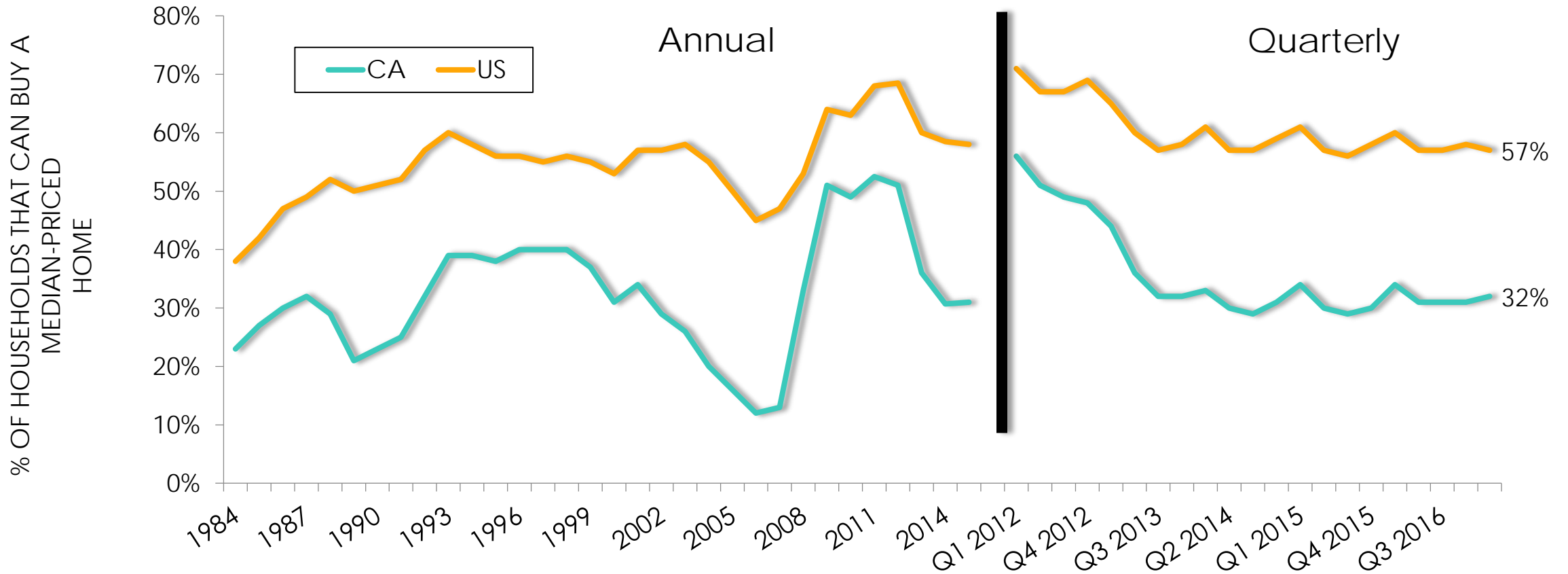


# Housing Affordability



# CA Housing Affordability Lags U.S.

## California vs. U.S. – 1984-2017

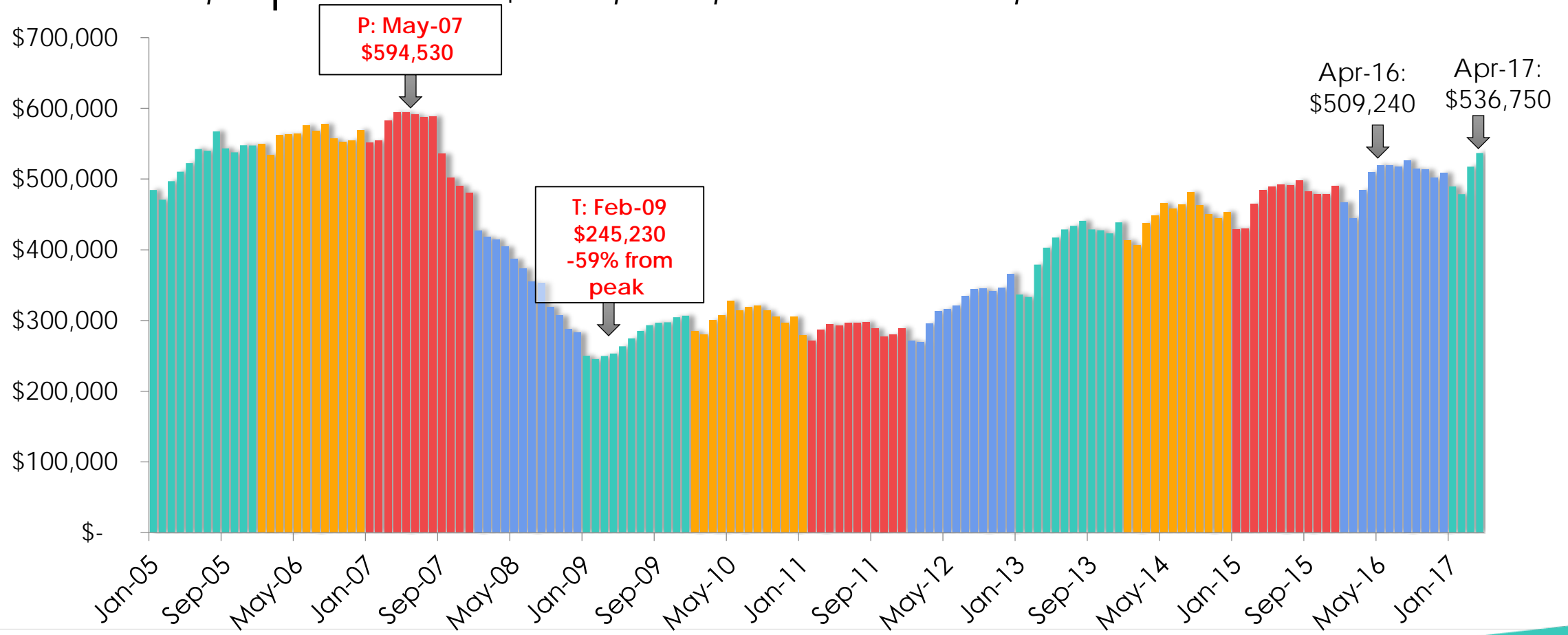






# Rising Home Prices Lower Housing Affordability Level

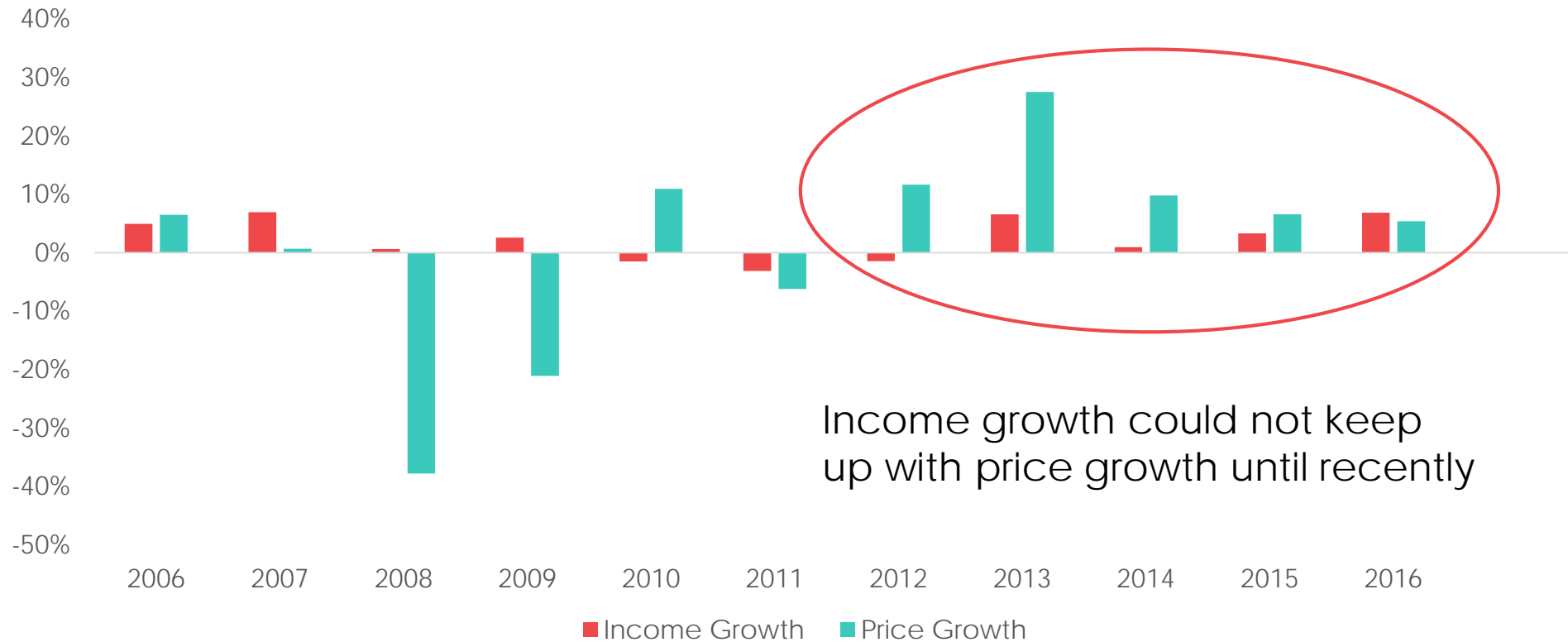
California, April 2017: \$536,750, +3.7% MTM, +5.4% YTY





# Lackluster Income Growth Also Contributed to the Affordability Issue

## Household Income vs. Home Price





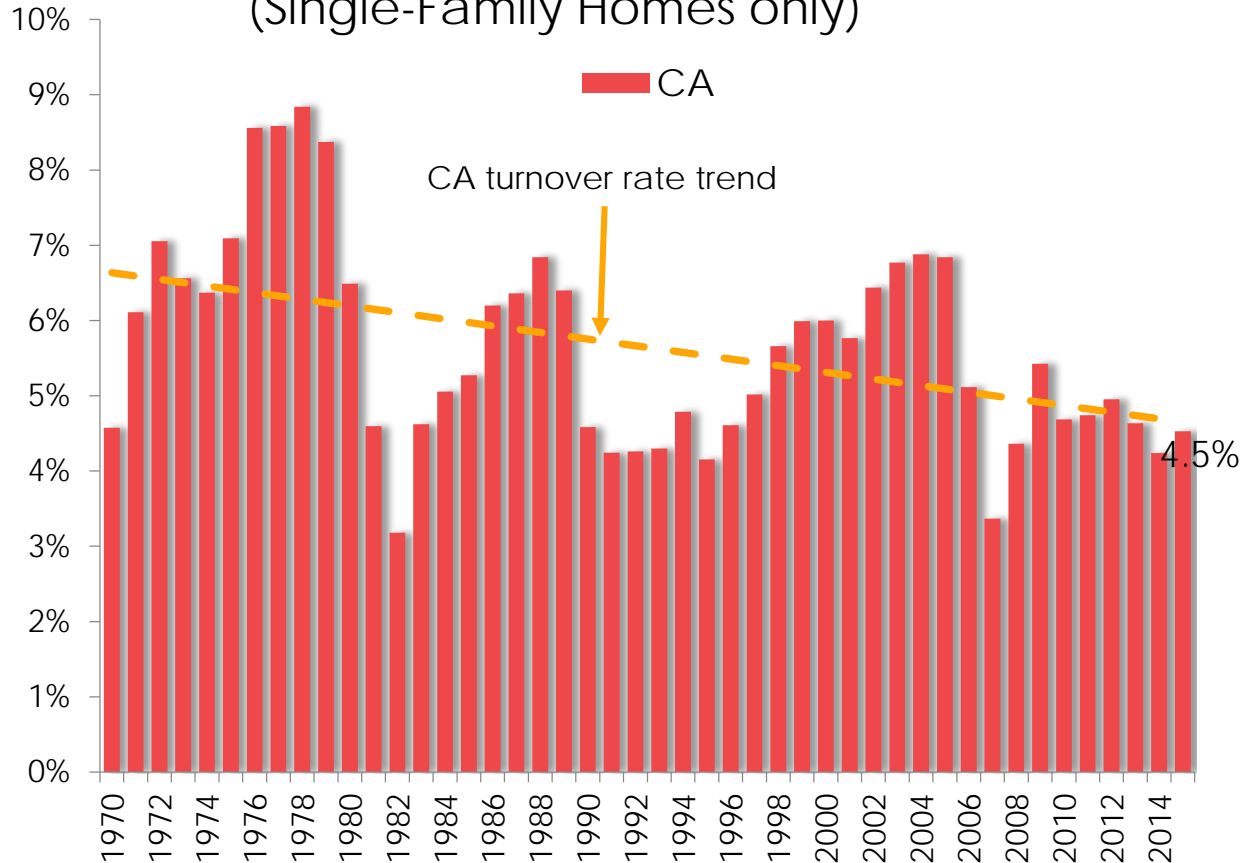
# Supply Shortage Is the Primary Reason for the Affordability Issue

- 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)



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?

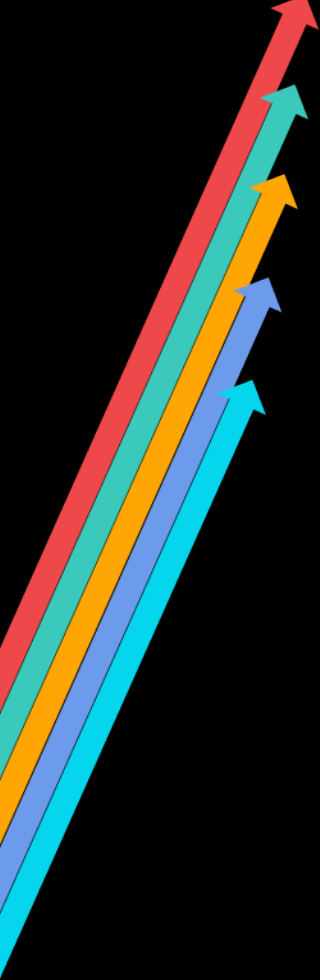
SERIES: Percent of existing single-family homes being sold

SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.



# It Could Get Worse...

- 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



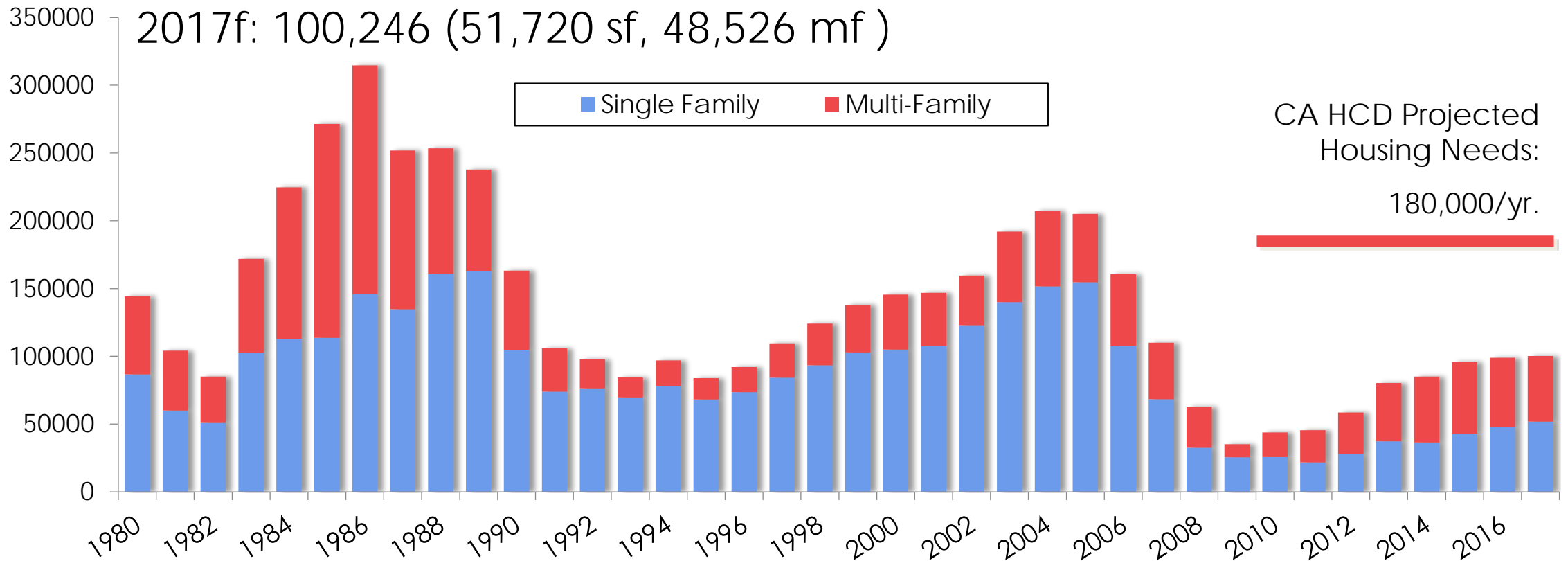
# Lack of New Construction



# "Missing" 80,000 New Units Annually

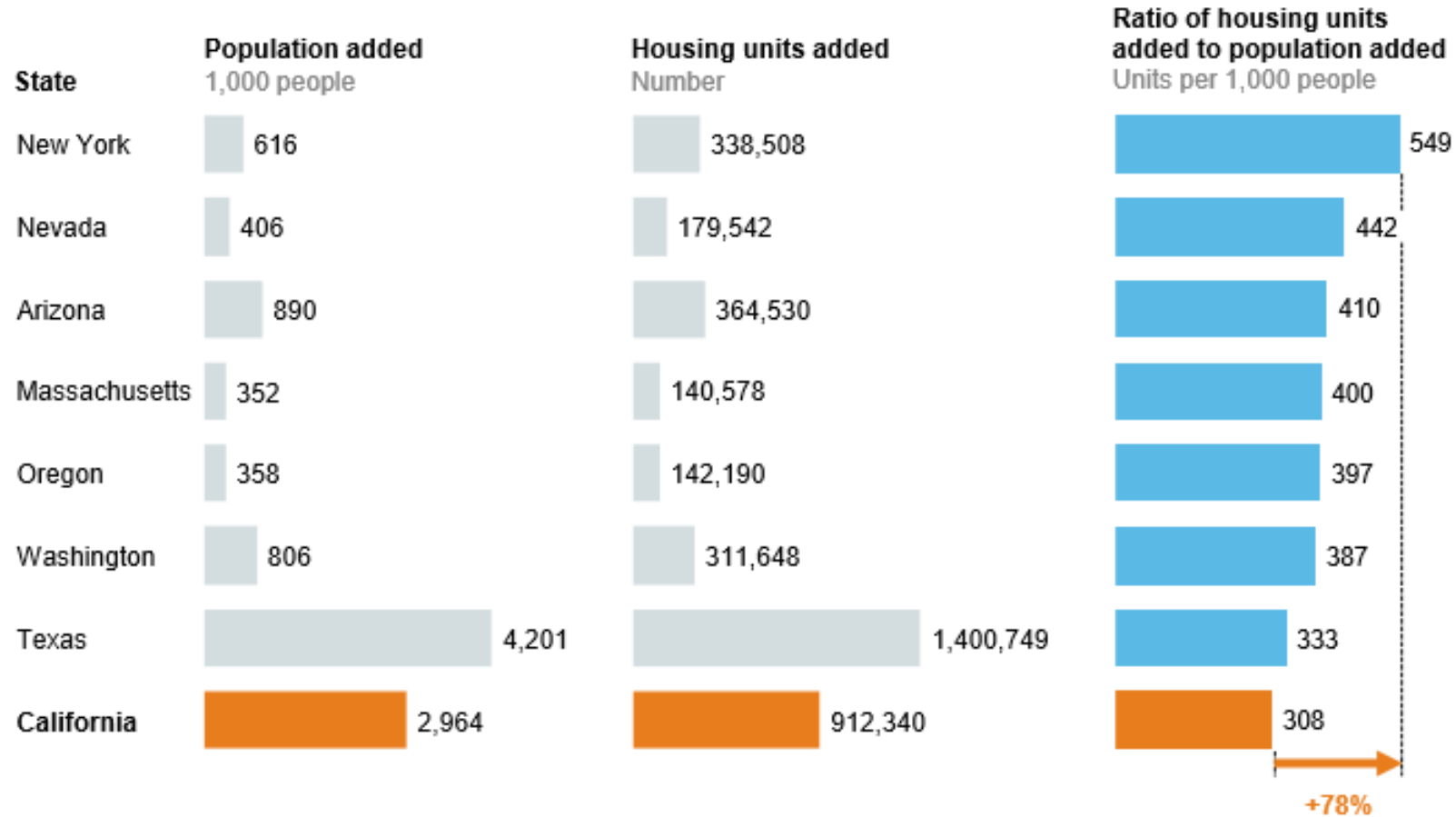
2016: 98,881 (47,889 sf, 50,992 mf)

2017f: 100,246 (51,720 sf, 48,526 mf)





# CA has produced less housing per capita than other states

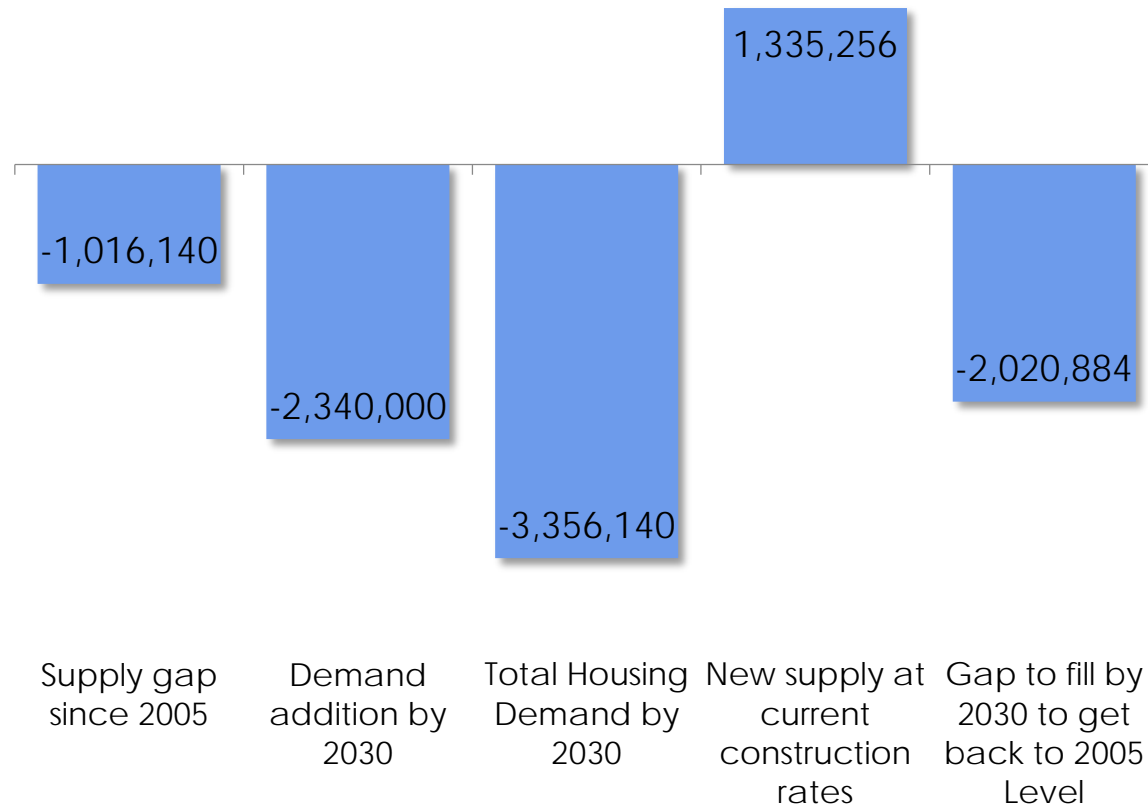


SOURCE: US Census Bureau; McKinsey Global Institute analysis





# 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.**



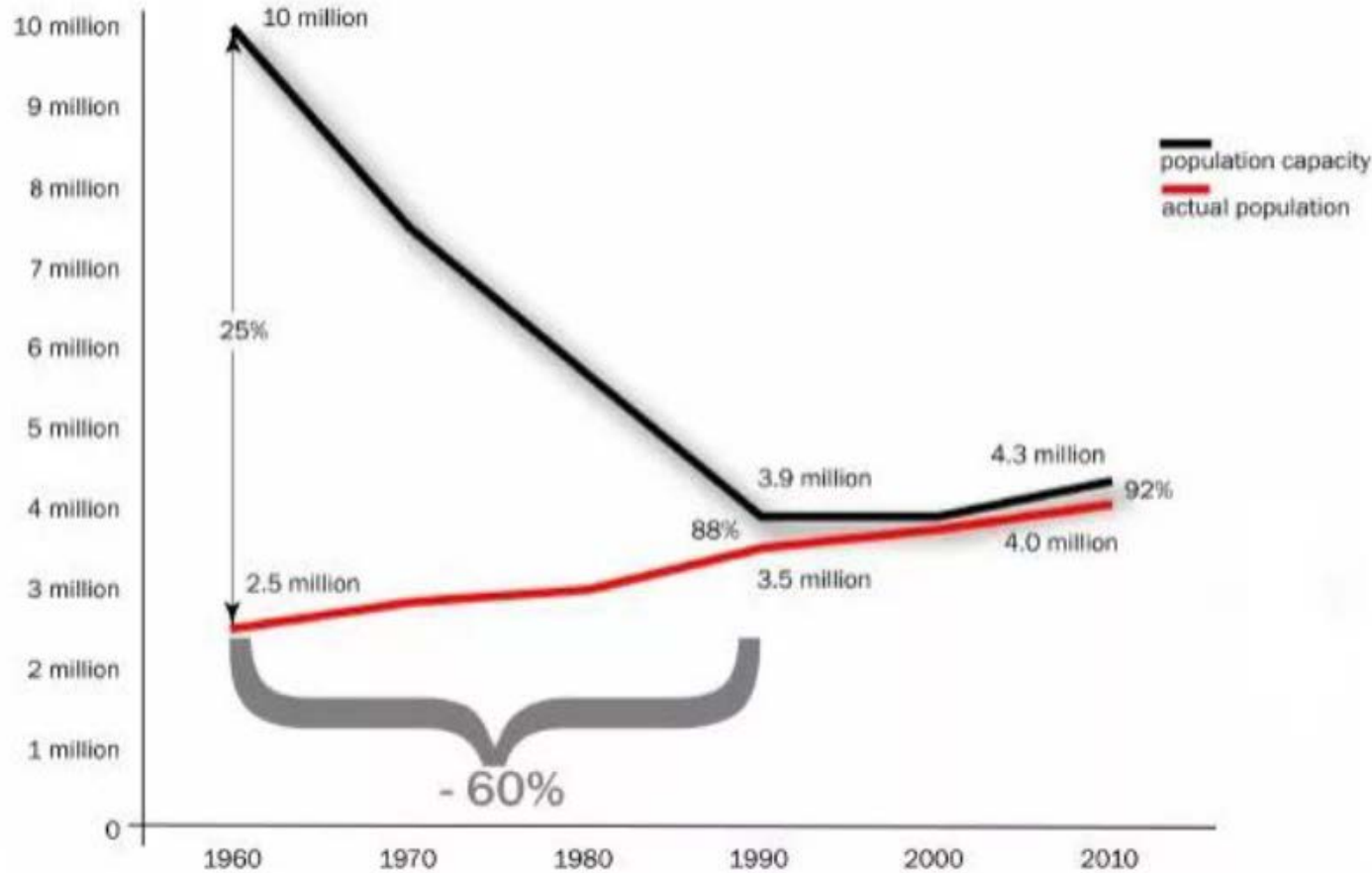
## Building Costs

- \$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.



# Case Study: Restrictive Zoning in L.A.

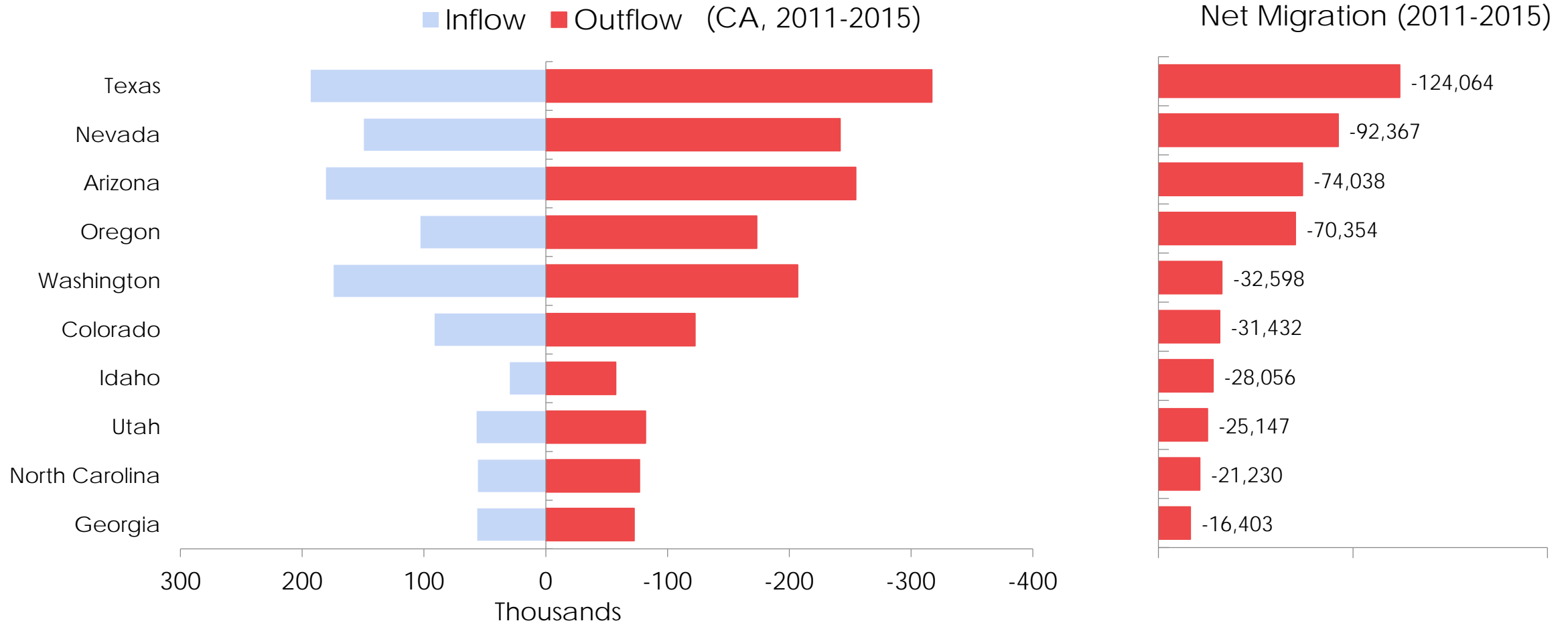
Los Angeles Zoned Residential Capacity



- 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.



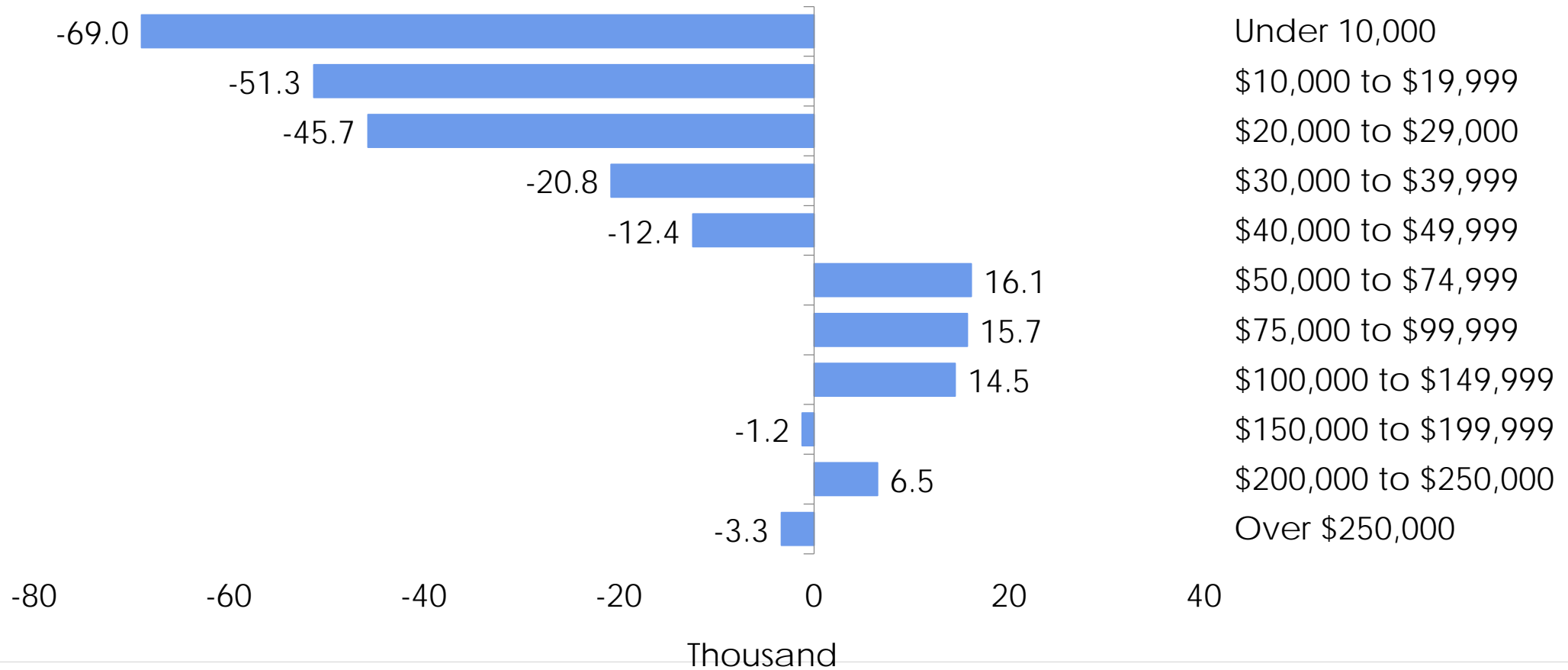
# More Californians Moving out than Moving in. Their Top Destinations...





# Californians with Lower Incomes Were More Likely to Move out of the State, but...

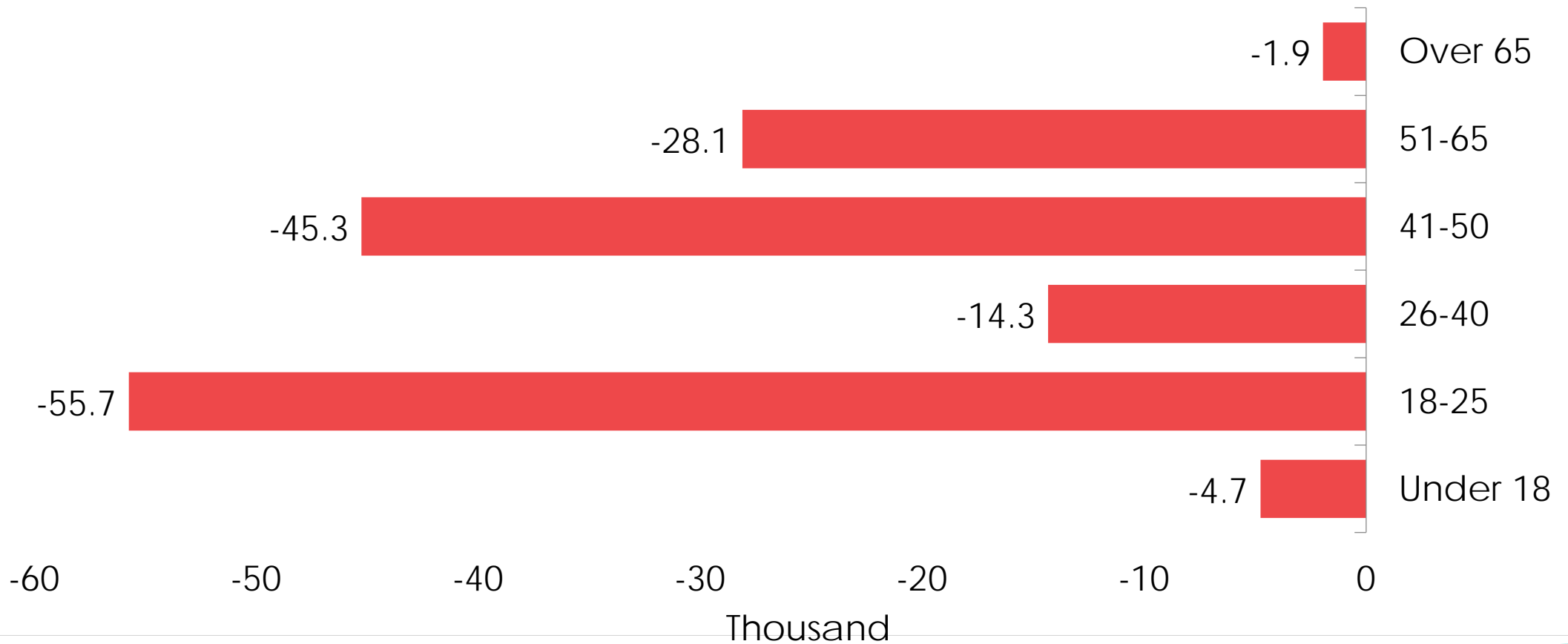
## Net Migration by Personal Income (2011-2015)



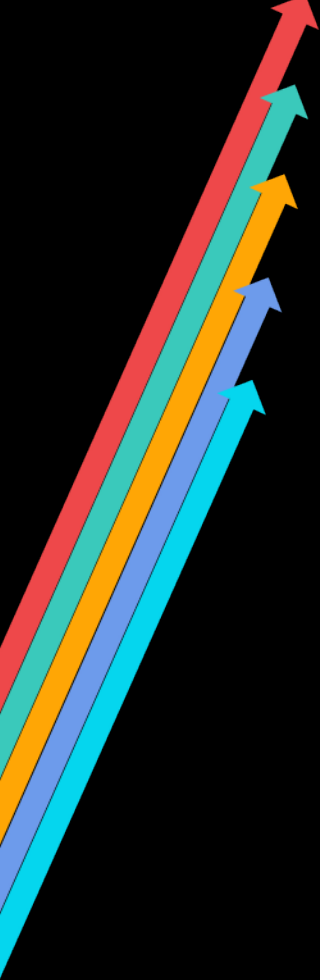


# Young Adults and Baby Boomers also Moved Out of California at a Faster Rate than Other Age Groups

Net Migration by Age (2011-2015)







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 (where ever 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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