



# The State of Housing California: 2011

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# Supply and Affordability Problems Remain

The Great Recession worsened the effect of long term housing deficit, and affordability problems

- Housing prices declined, but continuing economic uncertainty and high unemployment have negated the potential benefits of price declines in many markets
  
- California still lacks housing supply that is:
  - Adequate to accommodate all segments of our population
  - In the right locations
  - Affordable to lower income households
  - Affordable to Workforce
  - Affordable to special needs population



# Contributing Factors to Continuing Housing and Affordability Problems

- Steady and diverse population growth
- Aging population with evolving housing needs
- Chronic deficit in housing supply before crisis
- Record lows in housing construction during crisis
- Housing deficit not supplanted by foreclosed units
- Mismatch between housing stock and demand
- Ownership affordability improved, but out of reach
- Large unmet need for affordable rental housing



- Despite the current market crisis, Californians continue to have babies, expand their families and live longer (a good thing!)



- These demographic trends play a central role in fueling steady future housing demand!



# Steady and diverse population growth

Avg. Growth/Yr. 2000-2010: 340,000

Projected steady growth to 2020

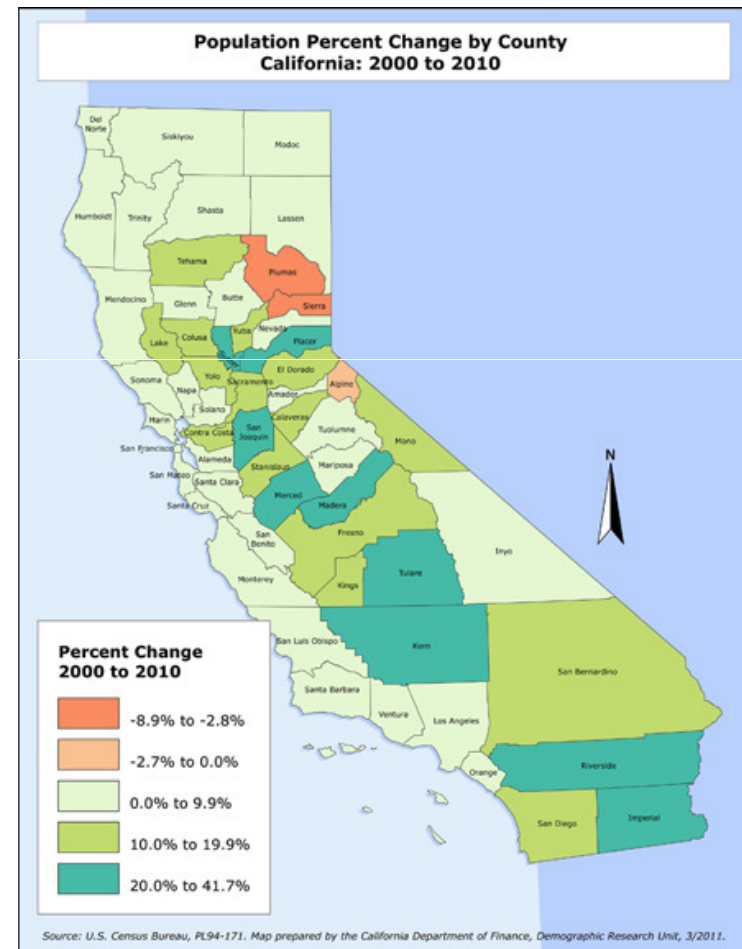
Inland population growth rates higher

Population growing more diverse

Total population growth: 10%

Hispanics growth: 28%

Asian pop growth: 31%





# Trends in age composition of population

## Aging Baby Boomers (age 55+)

- Unprecedented in size
- Will dominate the housing market to 2030
- Highest housing demand per 1,000 people
- Survey: 75% want to live in mixed-use, urban setting
- Strong demand for active living, near transit/services



## Baby-Bust Generation (age 25-34)

- More diverse, entering household formation years
- Survey: 77% want to live in urban core, smaller spaces
- Strong demand for rentals, smaller starter homes



# Demographic trends affect housing demand

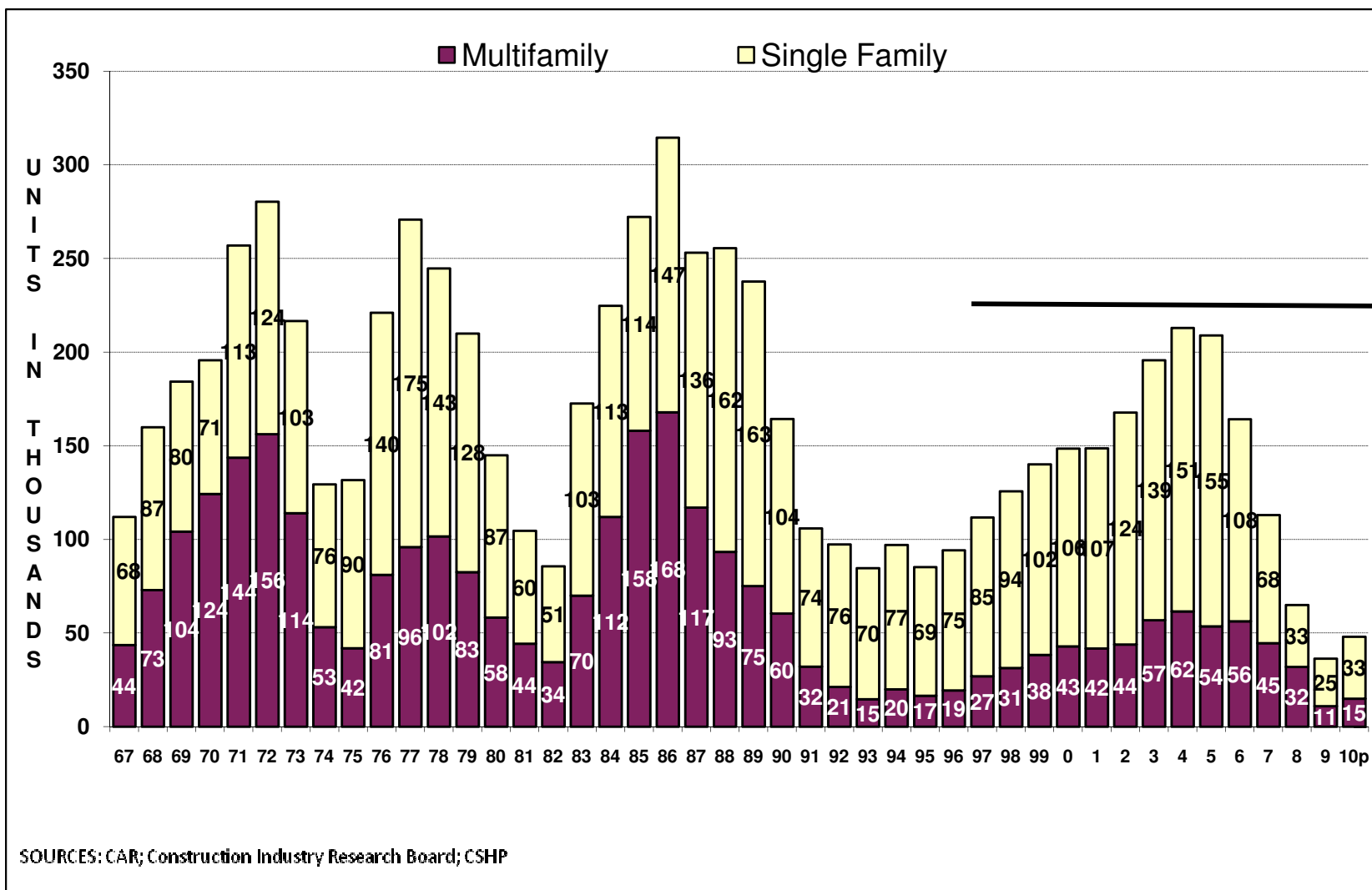
Likely to fuel stronger demand for:

- Variety of housing products for all life stages, for all incomes
- Assortment of rentals and owner units
- Housing for one-person households, empty-nesters, non-family households
- Housing located in denser, more urban settings
- Closer to services and amenities.





# New home construction at record lows

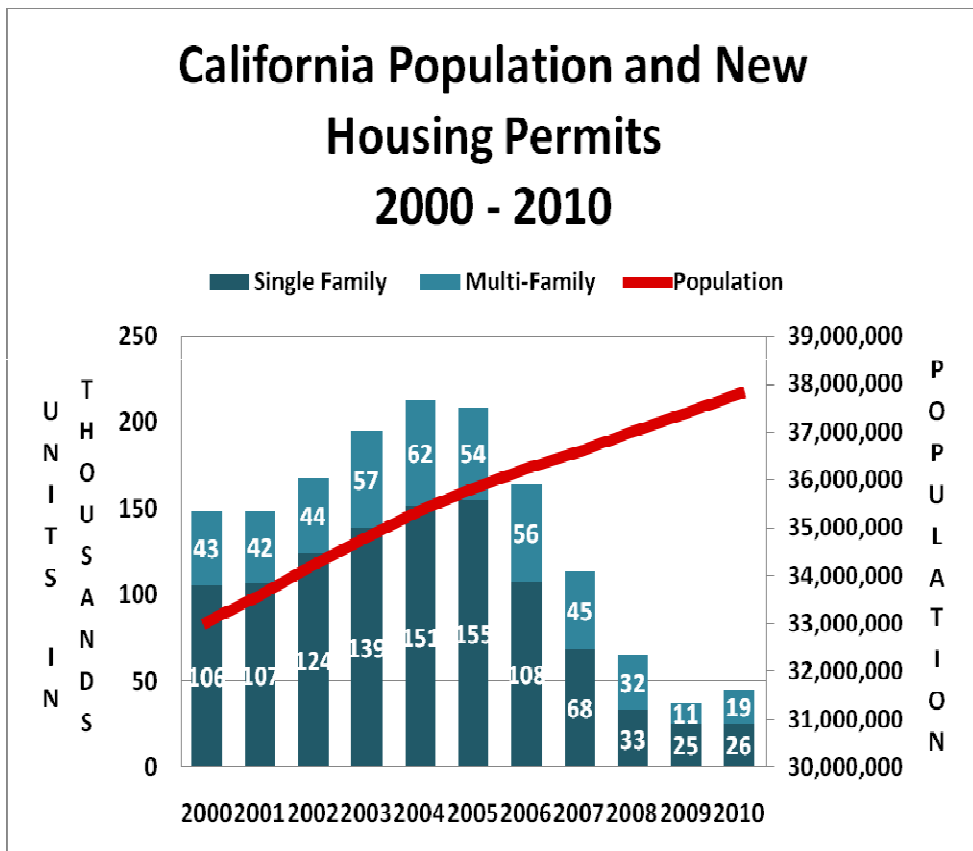






# New home construction at record lows

2000 – 148,500 permits  
2004 – 212,900  
2009 – 36,400  
2010 – 44,800  
2011 - 46,000 (projected)



Source: Construction Industry Research Board, California Construction Review, Burbank, November 22, 2011



# Foreclosed units do not eliminate the need for more housing

*Foreclosed homes do not increase the overall supply, may exacerbate the “doubling up” and overcrowding!*

...because:

- are not immediately available for occupancy
- the length of time to go through the financial and legal systems,
- are often held off the market for various reasons
- displaced households must relocate, most often in rental units, or with family or friends in shared quarters “doubling up” and overcrowding

Overcrowding worsened over the past two decades:

1990s - decline in construction resulted in increased overcrowding

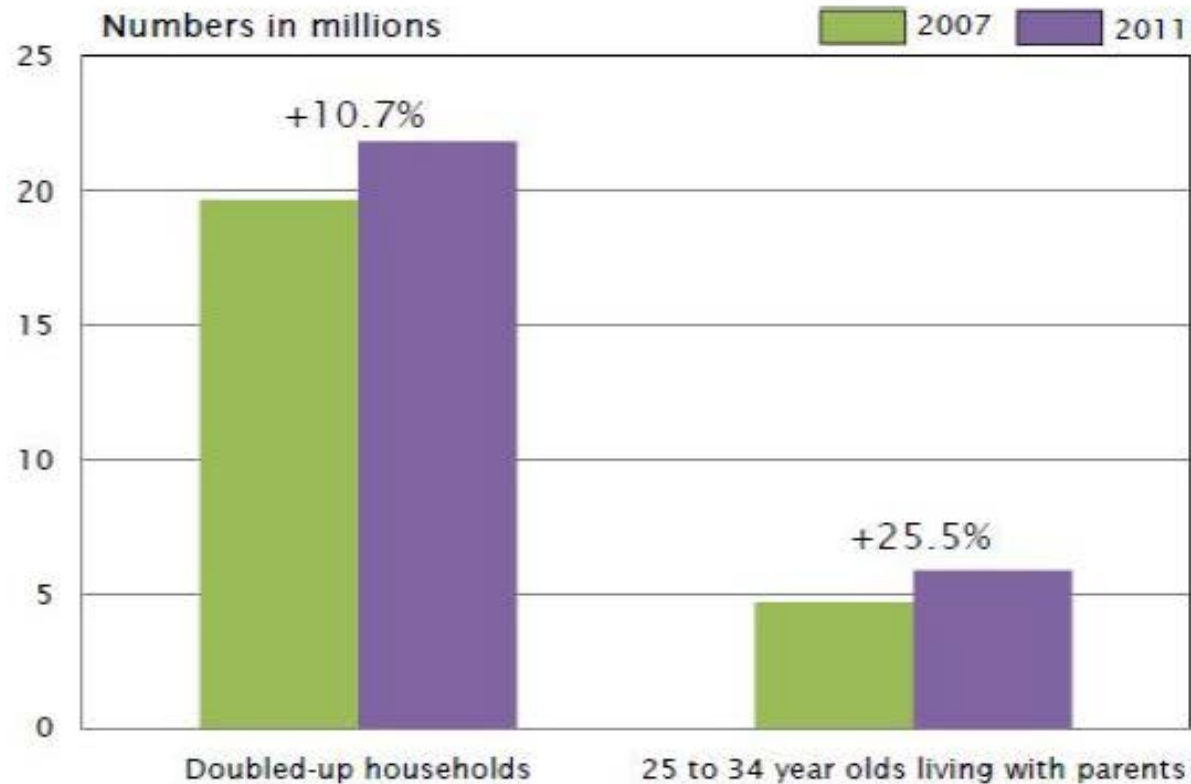
2000 - 1.7 million overcrowded households, of which 2/3 were renters

2009 - one in two overcrowded households were severely overcrowded renters

2010 - 73% of households living in overcrowding conditions were renters



# Evidence of “Doubling Up” in Response to the Economic Downturn: 2007 Compared to 2011



Notes: A household is counted as “doubled-up” if it includes at least one “additional” adult, a person aged 18 or older who is not enrolled in school and is not the householder, spouse, or cohabiting partner of the householder. While the CPS ASEC estimates poverty and income for the previous calendar year, household composition is measured at the time of the survey.

Source: U.S. Census Bureau, Current Population Survey, 2007 and 2011 Annual Social and Economic Supplements.



## Mismatch between housing stock and need

Housing Need and Preference	Existing Housing Stock
Smaller sized units	Smaller homes, apartments are older and often substandard, may be lost to demolition
In more urban setting	Many vacant foreclosed units for sale in outlying suburban areas
Closer to amenities, transit and other services, “greener”, mixed-use, infill.	Some remote from job centers, generating lengthy commute and increasing greenhouse gas emissions



# Ownership Affordability

- Housing prices continue to decline - median sale price in October 2011 is \$278,000, 8.5% lower than 2010
- Housing more affordable for first-time homebuyers
- A third of homeowners with mortgages underwater
- Remains out of reach for lower-income families, workers, due to:
  - unemployment – 11.7% in October 2011
  - lack of available financing
  - tightened underwriting standards
  - concerns about home price volatility
  - uncertainty on affording the costs of major repairs
  - need for access to job opportunities elsewhere



# Rental Affordability Problems

- One in two renters in California pay in excess of 30 percent of their income; one in four renters pay more than half of their income.
- HUD: Housing needs of low-income renter households with high housing costs increased more than 20 percent from 2007- 2009; only a quarter of *eligible* households receive tenant-based rental assistance.
- In 2007, a minimum wage renter had to work 120 hours/week to afford a two-bedroom apartment-In 2011, the number of hours increased to 131



# Rental Affordability Problems (cont.)

Foreclosure crisis exacerbated renter housing needs:

- 38 percent of homes in foreclosure were rentals
- Demographic forces favor rental housing at levels unprecedented in decades
- Owners of foreclosed units often must move into rental units
- Potential homebuyers postpone home buying

*If this increased demand is not met with an adequate increase in rental supply, rents will rise, leading to further decline in affordability!*





# Compact, Affordable Housing and GHG

- 2008 Urban Land Institute's *Growing Cooler: The Evidence on Urban Development and Climate Change*:
  - Compact development reduces the need to drive, making walking, biking, and using mass transit easier.
  - An increase in the number of pedestrians results in fewer vehicle miles traveled, less fuel consumption, and lower GHG emissions and air pollution.
- National studies: lower income households and renters -the least likely to own private vehicle; most likely to use transit.
- Local studies: affordable housing is “low traffic”, unlocks the potential traffic-reduction benefits of TODs, getting the most benefit for the cost to taxpayers on public transit.
- Affordable housing desirable and advantageous in Transit Priority Projects: SB 375 CEQA exemptions for projects that include 25% affordable housing (see OPR CEQA Chart).



# Housing construction critical to economic rebound



- **Center for Continuing Study of California Economy** – Steep declines in construction spending and jobs are the primary reason why California’s unemployment rate is so much higher than the national rate. California lost nearly 500,000 construction related jobs between 2007-2009.
- **Center for Strategic Economic Research** – New housing construction contributes over \$13.8 billion per year to California economy and supports nearly 77,000 jobs statewide on an annual basis.
- **Center for Housing Policy** – Building affordable housing creates jobs and spending, both during construction and after the homes are occupied.

**Warren Buffet** – “...We will come back big time on employment when housing construction come back.”

July 2011, Associated Press



**Aggressive actions to increase the supply and affordability of housing are critical to supporting California's competitive economic edge and its leadership role in addressing climate change and environmental quality while adequately housing workers and families.**



# Questions?

Contact HCD's Housing Policy Division

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