CALIFORNIA BUDGET PROJECT

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Housing Market Turmoil Puts Owners, Renters at Risk

New Report Documents Effects of Instability in California's Housing Market

SACRAMENTO – The story of California's housing market in recent years has been one of both dramatic change and fundamental continuity. Between 1989 and 2006, home prices increased three times as fast as wages; more recently, the downturn in home prices has left thousands of homeowners at risk of foreclosure. What hasn't changed, according to a new report from the California Budget Project (CBP), is that many families continue to be "locked out" of the housing market, unable to afford to buy a home.

Locked Out 2008: The Housing Boom and Beyond charts the continuing gap between incomes and the cost of housing in California. In the process, it documents a housing market in which low- and middle-income Californians have a difficult time finding homes they can afford to purchase with traditional, low-risk financing. In contrast, many who did purchase homes in recent years are now in danger of losing them.

"The irony of the recent softening in home prices is that while it has put thousands of homeowners at risk of foreclosure, it has had little effect on the affordability of housing for the typical Californian," said Scott Graves, CBP senior policy analyst and the primary author of the report. "The typical home price remains out of reach for most California families."

The report examines the housing market for both homebuyers and renters, analyzes current data on affordability, and presents options for policymakers to consider. Specifically, the report finds that:

- **Housing costs have outpaced many Californians' wages and incomes.** The cost of the state's median-priced home – the home at the midpoint of the distribution of homes sold – nearly tripled between 1989 and 2006, increasing by 193.4 percent. In contrast, the state's median hourly wage increased by 60.3 percent and the state's median household income rose by 67.6 percent during the same period.

- **Home prices exceed what many Californians can afford.** California's median home price more than doubled from $200,000 in March 2000 to $470,000 in March 2006, before falling sharply toward the end of 2007. Middle-income homeownership has declined in California since the 1970s and California has the second-lowest homeownership rate among the 50 states.

- **Californians spend a disproportionate share of their incomes on housing.** More than four out of 10 California owner households (43.5 percent) spent 30 percent or more of their incomes on housing in 2006, compared to 29.1 percent of owner households in the rest of the US.

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- **California's homeownership rate is relatively low, but increased during the housing boom, in part due to questionable lending practices.** Fewer than six out of 10 California households (58.4 percent) owned their homes in 2006, compared to more than two-thirds (67.3 percent) of households in the nation as a whole. Increased homeownership in recent years was aided by lender policies allowing borrowers to put little or no money down, borrow larger sums than they could have with a conventional fixed-rate loan, and qualify for financing despite credit problems.

- **Home sales have plunged and the state's median home price has begun to decline.** Between 2005 and 2007, August home sales declined by more than half (53.8 percent), leaving August 2007 home sales at the lowest level since 1992. The statewide median home price reached a peak of $487,500 in May 2007 and then declined to $402,000 in December 2007.

- **Tens of thousands of California homeowners face foreclosure.** As introductory mortgage interest rates expire, payments are increasingly unaffordable for many homeowners with adjustable rate mortgages. Many now owe more than their home is worth. More than 190,000 California homeowners could lose their homes as introductory interest rates reset to higher levels.

- **Many Californians struggle to afford rents.** California has the second-most-expensive rental housing in the nation. A Californian earning minimum wage would need to work 83 hours per week year-round in order to afford a fair-market priced studio unit.

- **California is at risk of losing tens of thousands of federally subsidized rental units.** Since 1996, more than 17,000 affordable housing units in California have been lost due to owners' decisions to opt out of their subsidy contracts or prepay their mortgages. Nearly 93,000 additional units are at risk of being lost by 2017.

- **Homeless Californians face the most severe housing crisis.** Estimates suggest that more than half a million Californians could be homeless at some point during the year. California has the third-highest rate of homelessness in the nation.

In addition to documenting the scope and effects of California's housing crisis, the report suggests potential responses including increasing the supply of affordable housing, helping homeowners who face foreclosure, protecting future homebuyers, and taking measures to prevent homelessness.

Locked Out 2008: The Housing Boom and Beyond is available online at www.cbp.org.

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The California Budget Project (CBP) engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions. Please visit the CBP's website at www.cbp.org.