

Housing Affordability in California: Are We Making Progress?

Cynthia A. Kroll, Sr. Regional Economist

Fisher Center for Real Estate and Urban Economics,
University of California Berkeley

BRIDGE Affordable Housing Policy Forum

USC, Los Angeles, February 3, 2009

UC Berkeley, February 5, 2009

Underlying Research Efforts

- California's Housing Future, 2008
 - Hewlett Foundation; Institute for Urban and Regional Development
 - With Krute Singa, Jenny Wyant
- Housing Affordability in California, 2008, 2009
 - Bridge Housing Corporation; Fisher Center for Real Estate and Urban Economics
 - With Jenny Wyant
- Work in progress

Paper Components

- What do we mean by “affordability” and how do we measure it?
- How does California compare to other parts of the country in levels of affordability and change over time?
- What factors contribute to changes in affordability? How have funding programs contributed to these changes?
- Is funding going to the places of greatest need?
- Case examples

What is Affordability?

- Normative measure
- Norms are set politically, institutionally or by custom, not scientifically.
 - Political/institutional: HUD standards for allocating rental housing vouchers
 - Custom: Lender requirements for housing price to income or housing payment as a percent of income
- What is affordable, where, and for whom will vary with the norm selected as well as the type of measure.

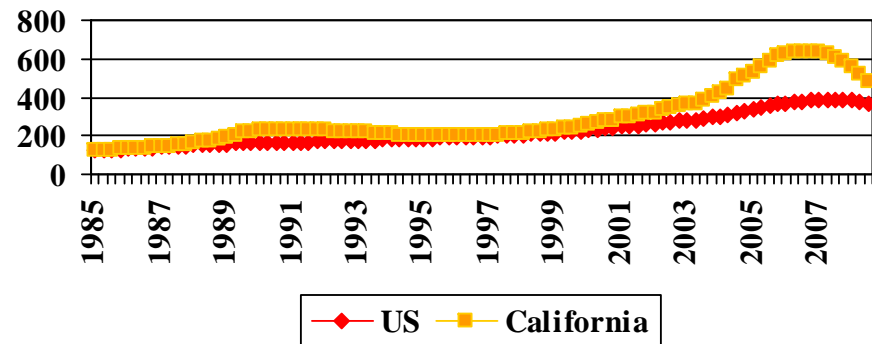
Indicators of Affordability

- **Share of income spent on housing**
 - Homeowner vs renter
 - Percent of income vs percent of households paying 30%/35%+ of income for housing
- **Cost of the next housing transaction**
 - CAR/NAR indicators of ability to pay for the current median priced home
 - CBP share of income required to pay Fair Market Rent (minimum wage, 25th percentile, median)
- **Residual measure:** Income remaining after paying housing costs (25th percentile, median)

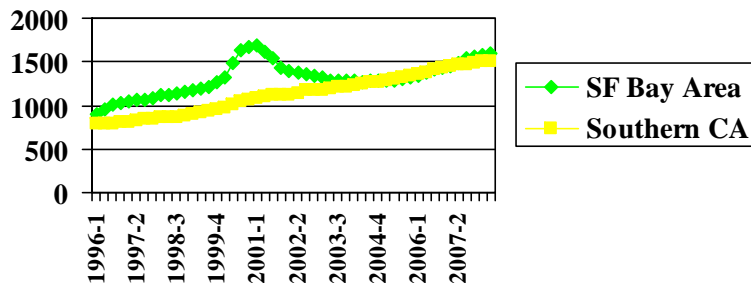
Trends to Keep in Mind

- Homeowner affordability misses 2008 downturn
- Renter data includes 2000 SFBA rental “bubble”
- SFBA income far exceeds other places

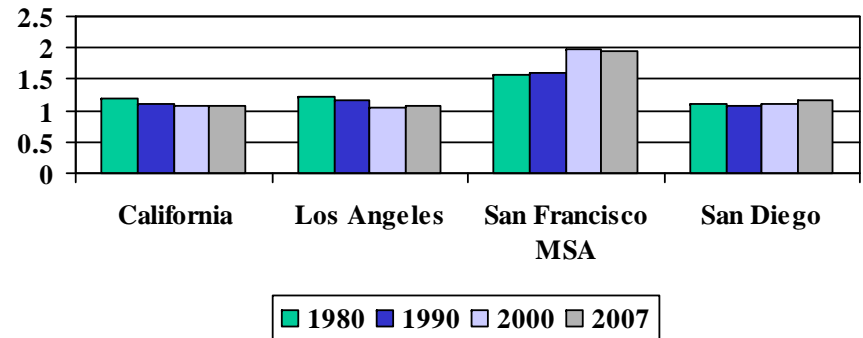
OFHEO Index of Home Prices (1980=100)



Rents (RealFacts)

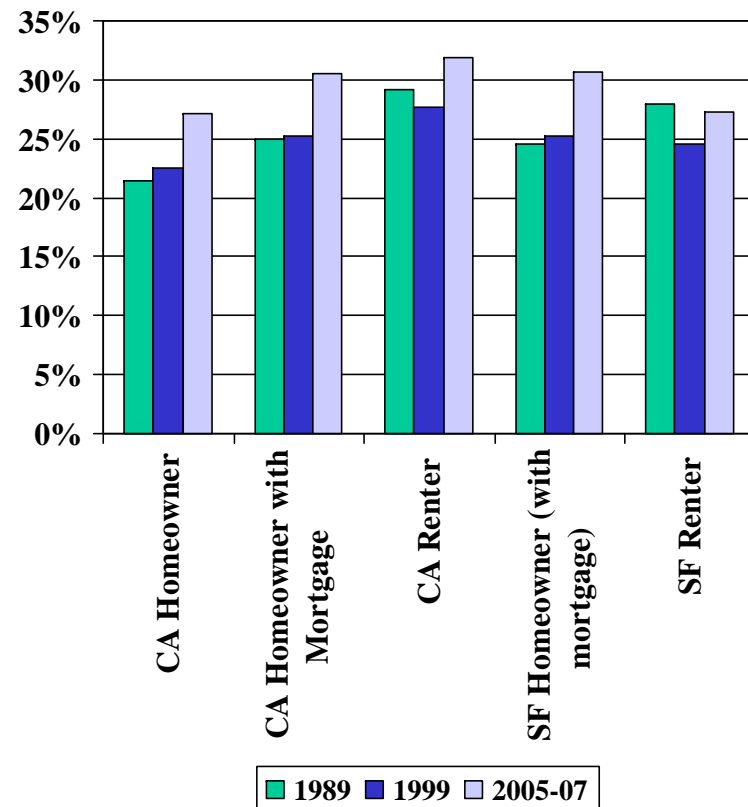


Per Capita Income Relative to US

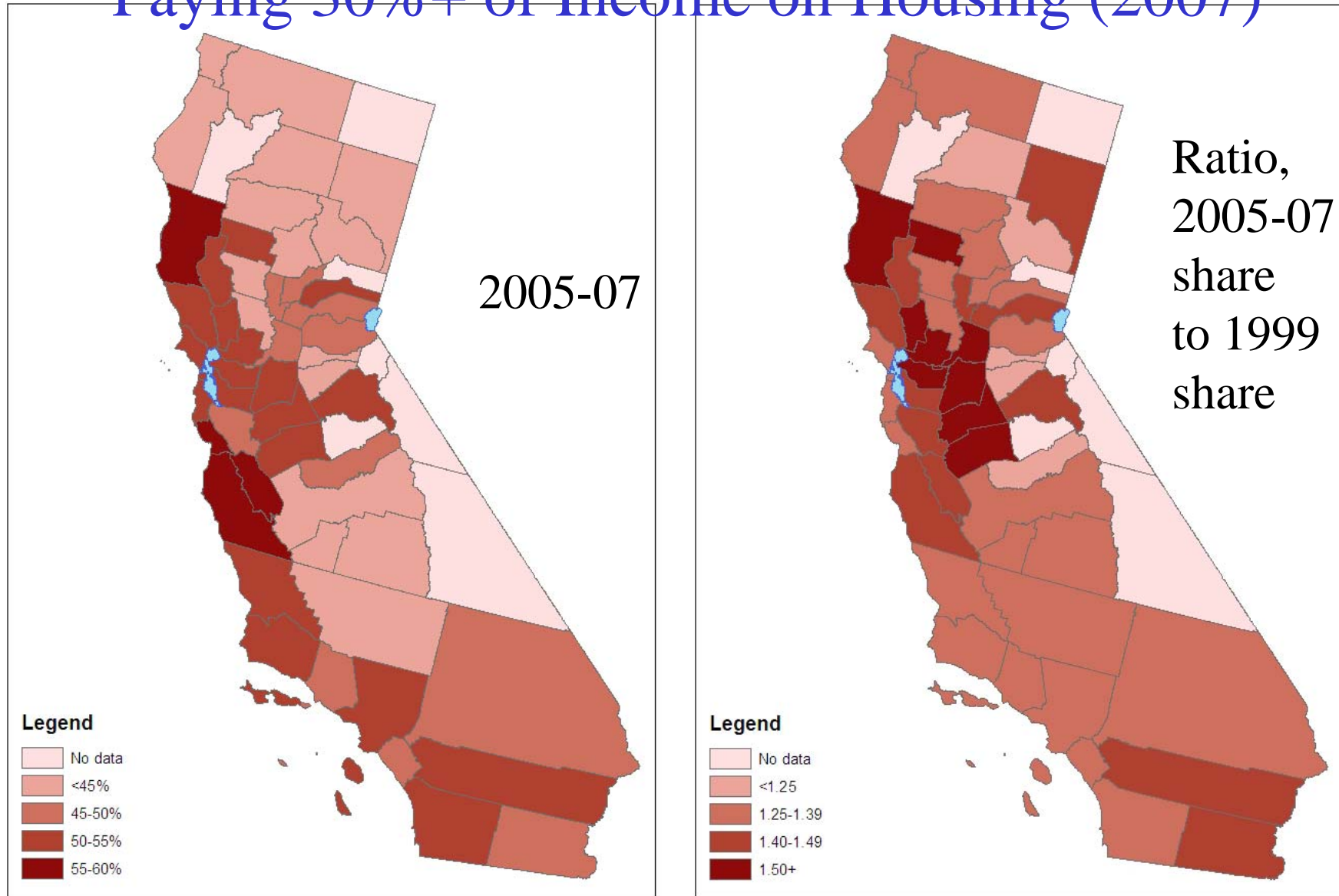


Percent of Income Spent on Housing Census Measures

- California
 - Renters pay higher share than homeowners
 - Homeowners with mortgage pay almost as much as renters (differs from US)
- SF Metro Area
 - Renters pay smaller share than in 1990
 - Renters pay smaller share than homeowners with mortgage

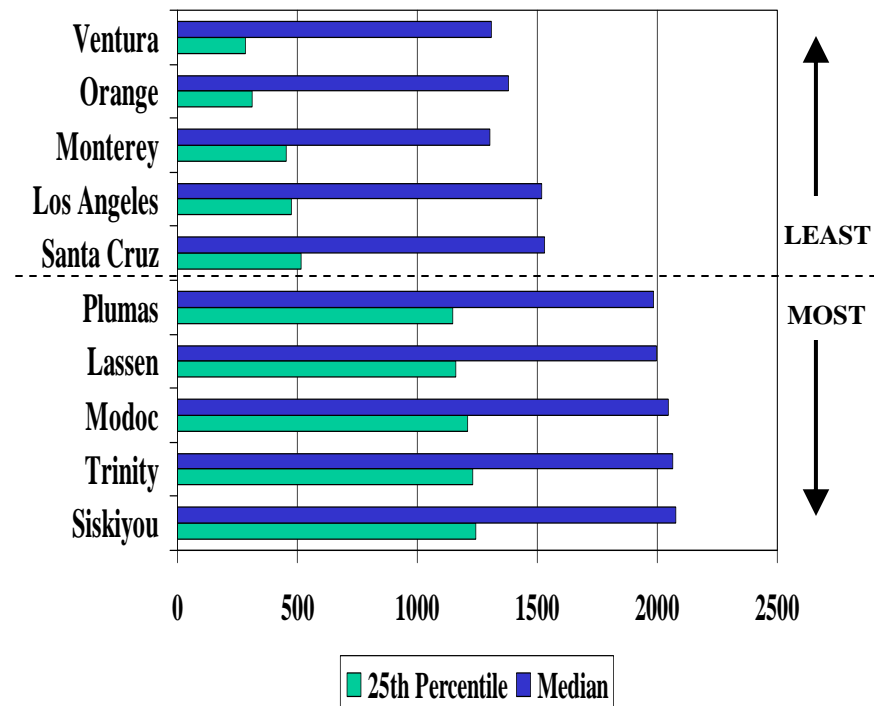


Percent of Homeowners with Mortgage Paying 30%+ of Income on Housing (2007)



Salary Remaining after Paying the Fair Market Rent (Low or Median Wage Earners, 2008)

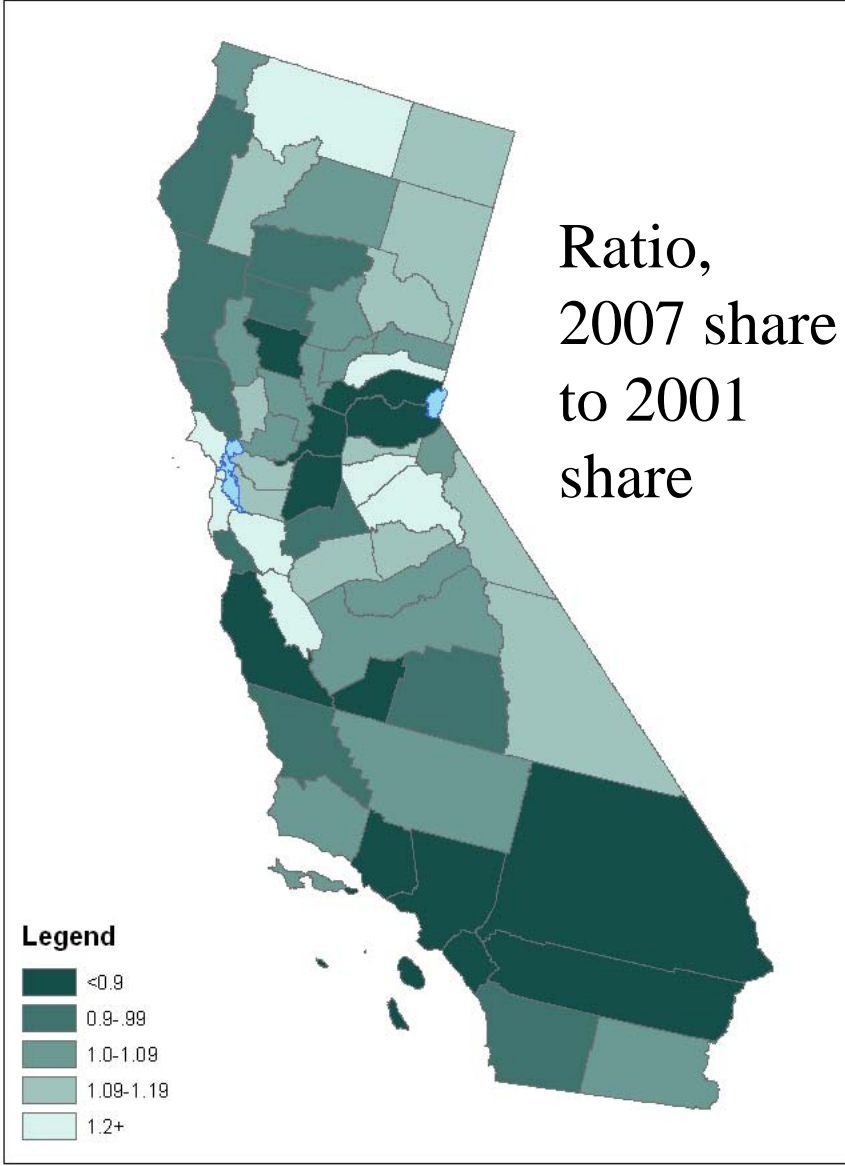
- Least affordable in S CA, central coast
- Residual below \$500 in least affordable counties
- Differential between least and most affordable is much higher for low wage earners



Source: Authors' calculations from California Employment Development Department and US Housing and Urban Development Department data.

© C. Kroll Fisher Center for Real Estate and Urban Economics

Residual Remaining of 25th Percentile Salary After Paying Fair Market Rent 2007



Getting Better/Getting Worse?

- Overall indicators show the problem continues
- Big differences within the state. Southern California has shown the poorest affordability and change over time
- San Francisco, San Mateo, Santa Clara, and to some degree Alameda have shown strengthening rental affordability
- Smaller non-metropolitan counties show highest affordability and improvement levels
- Changing affordability depends on starting conditions and timing.

Have Housing Programs Helped Improve Affordability?

METHODOLOGY

- Regression analysis
 - Change in affordability (several indicators)
 - Effect of per capita level of funding
- County level comparison, weighted to adjust for county size
- Funding sources included:
 - Section 8 rental vouchers
 - Tax increment financing (housing portion)
 - Low income housing tax credit
 - Block grant funding
 - [Housing and Emergency Shelter Trust Fund]

Results, Affordability Change—Economic Factors

- Significant economic factors differed by type of tenure and type of indicator
- Places with lower median housing value but higher rents in 2000 were more likely to have decreasing affordability, as were places with higher labor force to employment ratios in 2000.
- Rising unemployment and weak employment growth decreased affordability

Results, Affordability Change—Funding Factors

- Funding levels did not explain changes in affordability for homeowners.
- Results on funding consistent among different rental affordability measures.
- Affordability was more likely to improve where the per capita level of low income housing tax credits and tax increment financing were higher.
- High levels of CDBG and HOME funding were significantly correlated with worsening affordability problems (linked with other types of development?)

Does Funding Follow Need?

	Section 8	TIF	LIHTC	Block grants	EHSTF	All Subsidies
Poor Rental Affordability	+		+		+	+
Poor Homeowner Affordability		+		+		
Low Labor Force to Employment Ratio			+	+	+	+
Nonprofit Builder Capacity		+	+	+		+

Case Example Findings

- *Quality* of housing as well as cost are relevant to affordability (Marysville)
- Funding and nonprofits have been essential to ability to address affordability issues (Santa Barbara)
- Units built as affordable can help to maintain a base where economic pressures change conditions (Riverside)

Making Progress?

- Overall measures of affordability worsened between 2000 and 2007
- But significant improvements occurred in some parts of the state
- Low income housing tax credits and tax increment financing appear to be successful strategies for improving affordability
- Nonprofit capacity improves the outlook for obtaining funds
- A slowing economy may reduce housing prices but will also make it harder to encourage investment in affordable units

Policy Issues

- Identifying need—how should affordability be measured?
- Building capacity—is assistance needed?
- How will needs change in a down market?
- What programs will work in a down market?
- Policy for whom?
 - Rental versus homeowner
 - Low versus middle income
 - Level versus location