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California's Deepening Housing Crisis

February 15, 2006

High Demand/Low Supply

California continues to experience very high rates of population growth and further tightening of its housing markets. Even encompassing the recession of the early 1990s, California's population grew by an average approximating 450,000 people annually and is projected to gain around 600,000 annually over the next decade.¹ As of January 1, 2005, California's population was 36,810,358 which increased by 539,267 people in 2004.² The population increased 1.5% from the calendar year 2004, which was lower than the 1.8% growth between 2003 and 2004.³ As in 2001, the United States became home to more than one million immigrants in 2002. California was home to the largest number (291,191 or 27.4 percent) of the 2002 immigrants.⁴

Housing production has not kept pace with the State's housing needs, particularly in the coastal metropolitan areas and housing need has worsened, especially for renter households and low income owner households throughout the State. During the 1980s, 2.1 million units were built whereas the 1990s saw only 1.1 million units built. While the average annual need is projected at approximately 220,000 housing units, construction has lagged substantively below the need. Since 1999, less than 170,000 residential new construction permits have been issued each year. During 2004, 212,960 new homes and apartments were built, representing the highest production since 1989.⁵

The greatest production gap is in multifamily housing. Multifamily development only accounted for approximately a quarter of all new units during the 1990s, a drop of nearly 70 percent from the levels of the 1980s. Since 2000, the number of multifamily units has increased slightly, totaling approximately 28 percent of all new units constructed.⁶

¹ State of California, Department of Finance, Population Projections by Race/Ethnicity for California and Its Counties 2000–2050, Sacramento, California, May 2004.

² State of California, Department of Finance, *E-5 City/county Population and Housing Estimates, 2005, Revised 2001-2004 DRU Benchmark*. Sacramento, California, May 2005.

³ State of California, Department of Finance, *E-1 City/County Population Estimates, with Annual Percent Change, January 1, 2004 and 2005*. Sacramento, California, May 2005.

⁴ State of California, Department of Finance, *Legal Immigration of California in 2002*. Sacramento, California, October 2003

⁵ Construction Industry Research Board, California Construction Review, May 31, 2005.

⁶ Ibid

Increasing Housing Costs/Decreasing Homeownership

California's homeownership rate in 2004 was the second lowest in the nation (59.7%) and 10 percentage points lower than the national homeownership rate (69%).⁷ As of December 2005, only 14 percent of California's households could afford to buy the median priced single-family home, while nationwide, affordability was 49 percent⁸. The California Association of Realtors reported December 2005's median price of an existing, single-family detached home in California was \$548,430 representing a 16 percent increase over December 2004's median price of \$474,270.⁹ The disparity between housing production and need has resulted in double-digit year-to-year percentage increases in the median price over recent years.¹⁰ California households, with a median household income of \$54,140, are \$73,810 short of the \$127,950 qualifying income needed to purchase a median-priced home at \$545,910 in California, according to the California Association of Realtors Homebuyer Income Gap Index™ (HIGI) report for the third quarter of 2005.¹¹ Following is a comparison of several county and community median home prices reported for December 2005 and 2004 to reflect regional differences in the State.¹²

County	Median Price	% Change from Prior Year
Riverside/San Bernardino	\$394,790	20.7%
Los Angeles	\$552,760	19.3%
Central Valley	\$354,790	17.0%
Orange	\$702,290	12.0%
Santa Clara	\$734,950	11.4%
Sacramento	\$379,010	9.0%

Growing Income Inequality

While housing prices have been escalating, numerous studies have documented a widening gap in earnings reported by low-income versus high-income households throughout the nation. The share of reported earned income attributable to the top 20 percent of taxpayers has been rising whereas it has been falling for the bottom 80 percent.¹³

⁷ US Census Bureau, Housing Vacancies and Homeownership Annual Statistics, 2004.

⁸ California Association of Realtors, *Press Release*, February 9, 2006, <http://www.car.org/index.php?id=MzU5Mjg=>.

⁹ Ibid

¹⁰ California Association of Realtors, *Press Release*, February 25, 2005.

¹¹ California Association of Realtors, *Press Release*, November 1, 2005, <http://www.car.org/index.php?id=MzU2MjY=>.

¹² California Association of Realtors, *Press Release*, February 9, 2006

¹³ *California's Changing Income Distribution*, Office of the Legislative Analyst, State of California, August 2000.

Rent/Wage Gap/Tight Housing Market

California is second only to Massachusetts in terms of the hourly wage needed to afford a two bedroom apartment at fair market rent (FMR). In California, an extremely low income household (earning \$19,327, 30% of the Area Median Income of \$64,422) can afford monthly rent up to \$483, while the FMR for a two bedroom unit is \$1,104. A worker earning minimum wage (\$6.75 per hour) must work 126 hours per week in order to afford the average two-bedroom unit. The Housing Wage in California is \$21.24; this is the amount a full time (40 hours per week) worker must earn per hour in order to afford the average two-bedroom unit, and is more than three times (315%) the minimum wage (\$6.75 per hour).¹⁴

One of the main factors that accommodated the housing shortfall in the 1990s was a reduction in both homeowner and rental vacancy rates, demonstrated by the significant drop in vacancy rates between 1990 and 2001. The homeowner vacancy rate decreased from 1.8 percent to 1.2 percent, while the rental vacancy rate decreased from 6.0 percent to 5.4 percent during the same time period.¹⁵ Vacant units were used to absorb a significant amount of the housing demand during the later half of the 1990s, resulting in extremely tight housing markets limiting mobility in many populous metropolitan areas; an option that is no longer available to help address California's housing shortage.

Overpaying

Over four out of ten of all California households are renters, and renters face the greatest affordability challenges. In 1997, nearly a quarter of the renter households in the State's metropolitan areas (1 million out of 4.2 million households) spent more than half of their income on rent.¹⁶ HUD (Census 2000) data indicates that 35 percent of California households and 40 percent of renters spend more than 30 percent of their income on housing.¹⁷ In 2002, almost half a million of California's working families were "officially" poor with incomes below the federal poverty level (FPL). Many more families (nearly 1.4 million) with incomes above the FPL, up to twice the FPL, still fell short of earning an income level to provide an adequate standard of living.¹⁸

In many counties, fair market rents exceed the monthly payments families receive from CalWORKs, (the State's cash assistance program for poor families), or the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program, which provides cash assistance to the elderly, blind, and disabled.¹⁹ The two-bedroom FMR exceeds the CalWORKs grant for a family of three in 31 counties, and equals at least 80 percent of the grant level in every California county. In 2003, FMR for a studio apartment exceeds the SSI/SSP grant for an elderly, blind, or disabled recipient in 13 counties, and exceeds 50 percent of the grant in 40 counties.²⁰

Overcrowding

¹⁴ *Out of Reach 2004*, National Low Income Housing Coalition.

¹⁵ U.S. Census Bureau, *Housing Vacancies and Homeownership Statistics 2002*; Homeowner and Rental Vacancies by State 1986 to 2003 (Tables 3 and 4).

¹⁶ *Locked Out: California's Affordable Housing Crisis*, California Budget Project, May 2000.

¹⁷ State of the Cities Data Systems: *Comprehensive Housing Affordability Strategy (CHAS) Data*, Census 2000.

¹⁸ *Working Hard, Falling Short: Investing in California's Working Families*, California Budget Project, January 2005

¹⁹ *Locked Out 2004: California's Affordable Housing Crisis*, California Budget Project, January 2004.

²⁰ *Ibid*

Between 1980 and 1990, the percentage of overcrowded households in California nearly doubled from 6.9 percent to 12.3 percent. Census 2000 reports more than 15 percent of California households were overcrowded with overcrowding most common among low-income households, and most prevalent in renter housing. Roughly 24 percent of renter households statewide were overcrowded; in some counties, nearly a third of renter households are overcrowded. One quarter of all overcrowded renter households contained more than one family. Of all owner and renter overcrowded households, estimates are that more than half are severely overcrowded (more than 1.5 persons per room). Overcrowding increases health and safety concerns and stresses the condition of the housing stock and infrastructure.

Homeless

Although reliable counts of homeless persons are illusive, in 1997 as many as 360,000 Californians were estimated to be homeless.²¹ In the worst circumstances, homeless persons live in places not meant for human habitation: cars, parks, sidewalks, stairwells, and door stoops. An estimated 80,000 to 95,000 children are homeless in California, making the percentage of homeless children greater today than at any time since the Great Depression.²² Many persons in need of emergency shelter and transitional housing are employed but can not find permanent housing that is affordable.

Farmworkers

Employment in California agriculture increased 22 percent between 1985 and 2000. As of September 2000, California farm employment peaked at 486,000.²³ California's total farmworker population (including family members) is estimated to exceed 900,000. Approximately 60 percent of farmworkers are accompanied by a spouse, child or parent. The median number of children in families of farmworker parents is two.²⁴ Farmworkers and their families cope with substandard housing conditions fraught with serious health and sanitation problems. To avoid harassment, they often live out of sight in undeveloped canyons, fields, squatter camps, and back houses.

Privately owned employee housing (licensed by California) has been steadily diminishing. In 1976, employers owned 1,254 employee housing developments sheltering an estimated 45,000 farmworkers and household members. In 2000, there were only approximately 1,000 licensed employee housing developments with capacity for 23,000 farmworkers and household members.

Assisted Housing/Preservation of At-Risk Units

California received fewer federal housing assistance dollars in 1999 for each individual living below the federal poverty level than all but one of the ten largest states. While the federal government spent, on average, \$286 on housing assistance for each impoverished person, California received only \$171 per impoverished person.²⁵ In 2000,

²¹ *California Housing Markets 1990-1997*, State Housing Plan Update, State of California Department of Housing & Community Development, 1998.

²² California Housing Law Project, Facts and Issues; Homeless Children; www.housingadvocates.org/default.asp?ID=170

²³ http://migration.ucdavis.edu/rmn/rural_data/housing/housing.html

²⁴ *California's Housing Markets 1990-1997*; California Department of Housing & Community Development, January 1999.

²⁵ *Ibid*

465,340 families were on waiting lists for public housing and rental subsidies in 20 local jurisdictions; only about 130,000 families now live in existing public housing or receive federal tenant-based subsidies in these same 20 jurisdictions. At the rate of two children in each family waiting for housing, almost a million children are on California's housing waiting lists.²⁶

The shortage of subsidized housing and the potential loss of affordability restrictions on a substantial portion of the government-assisted rental housing stock estimated to house more than 375,000 persons is one of California's foremost housing problems. Over the 1990's, thousands of federally-assisted privately-owned rental housing developments have terminated affordability restrictions. Since 1996, California has lost more than 29,000 affordable units due to owners electing to opt-out of subsidy contracts and prepay loans.²⁷ The risk of owners converting units with subsidized rents for market-rate rents is greatest in the State's highest cost rental markets and is both immediate and continuing beyond 2010. In California, the number of federally assisted units approximates 150,000.²⁸ California's experience with market-rate conversion of the older-assisted stock suggests that unless new incentives are created to retain Section 8 assistance, 15 to 20 percent of owners of Section 8 inventory are likely to opt-out and terminate their relationship with HUD. Due to tight rental markets in many parts of California, the State has had a level of prepayment and conversion among older-assisted HUD properties that is triple the amount of any other State.

²⁶ *"The Long Wait, The Critical Shortage of Housing in California,"* K. Williams, Corp. for Supportive Housing, June 2000.

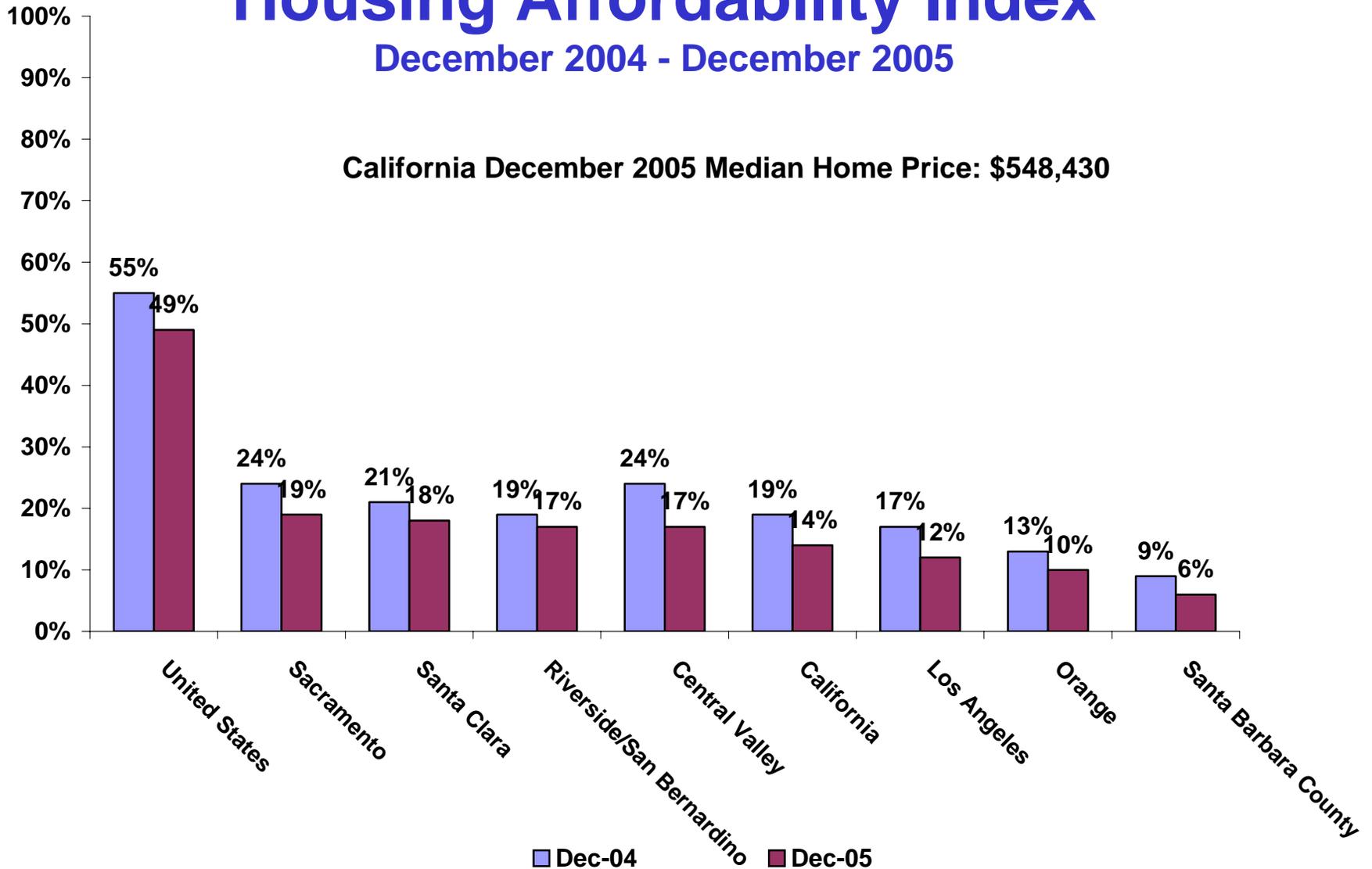
²⁷ California Housing Partnership Corporation, June 2003.

²⁸ California Housing Partnership Corporation, June 2003.

Housing Affordability Index

December 2004 - December 2005

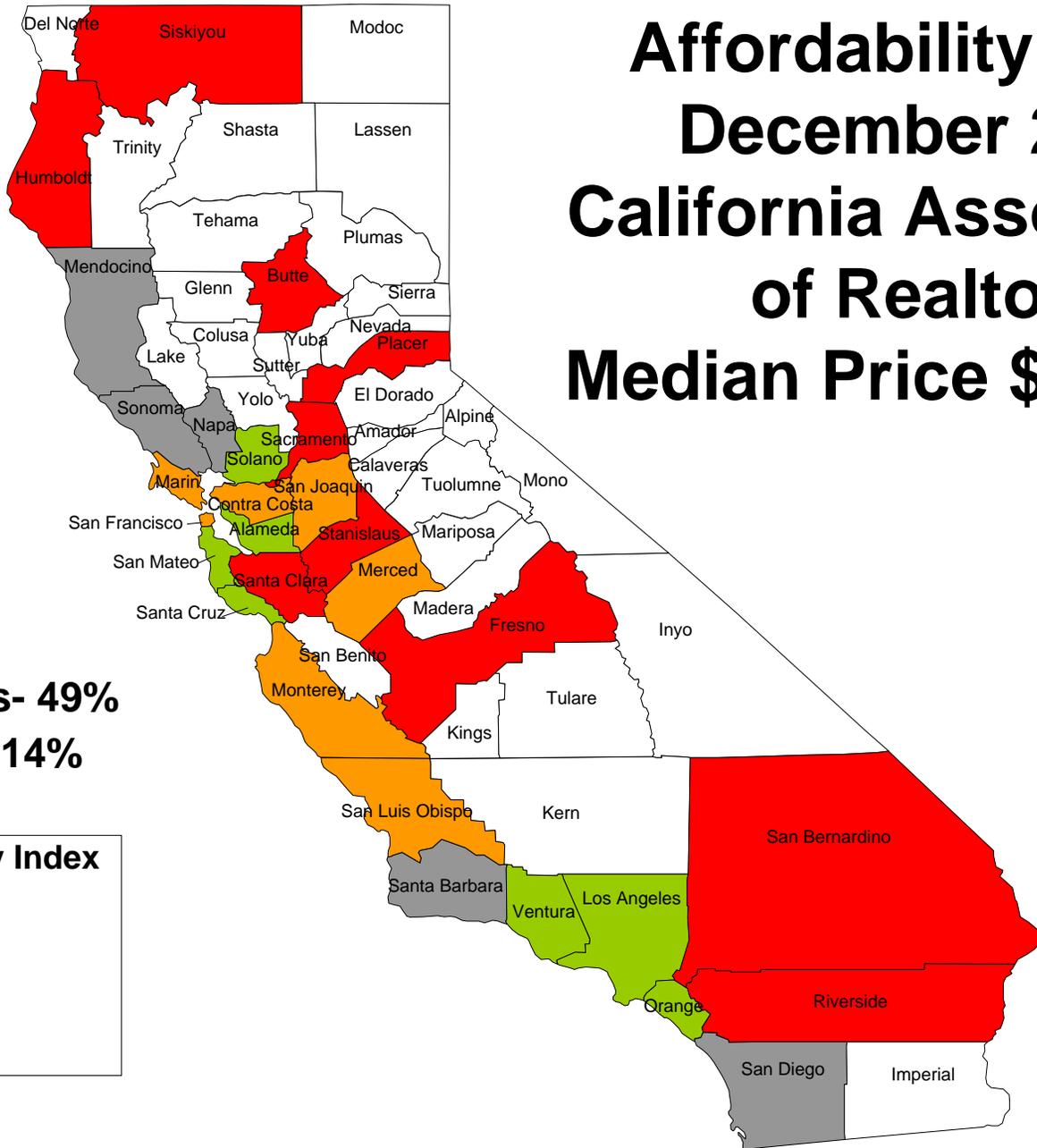
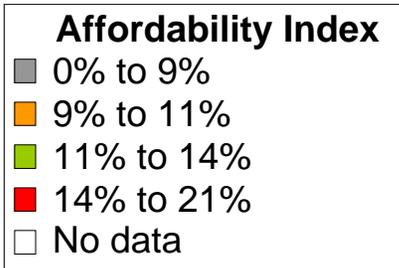
California December 2005 Median Home Price: \$548,430



Percentage of households able to afford a median-priced detached home

Affordability Index December 2005 California Association of Realtors Median Price \$548,430

United States- 49%
California- 14%



Percentage of households able to afford a median priced home.
California Association of Realtors, Press Release February 9, 2006. Graphic representation by HCD.