California Department of Housing and Community Development

State of California – Business, Consumer Services and Housing Agency – Edmund G. Brown Jr. Governor
California Department of Housing and Community Development
Division of Housing Policy Development
2020 West El Camino Ave, Suite 500, Sacramento, CA 95833
(916) 263-2911/ FAX (916) 263-7453 – www.hcd.ca.gov

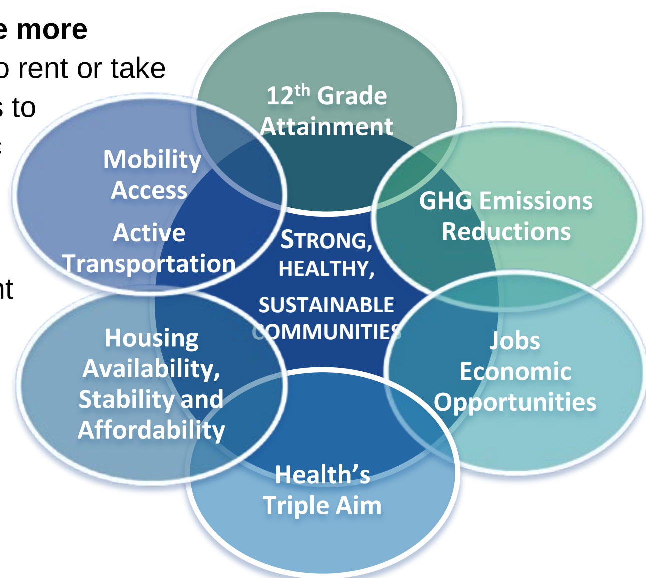
2014 Update

Highlights of the State of Housing in California: Affordability Worsens, Supply Problems Remain

California's economic recovery in 2013, while ahead of the nation, was uneven with nuanced growth in coastal zones, and inland areas lagging behind. Drought conditions have added to the challenges that California must overcome for a full rebound of the economy in general, and of the housing market in particular, especially in hard-hit communities. Some of the construction jobs have rebounded helping to reduce the State's unemployment rate to 8 percent as of February 2014, which is still higher than the nationwide rate. Regional differences between coastal and inland areas are likely to continue.[1] This uneven and slow rebound delays the economic multiplier benefits of more robust new housing construction to the state and regional economies.

Trends and factors contributing to California's continuing housing supply shortage and affordability problems are highlighted in this brief:

- **Affordability worsens**, particularly impacting lower income renters, as falling incomes lag behind spiking rents, and homeowners continue to face tight lending standards that impede access to housing financing.
- **Housing supply shortage in growth areas persists**, as new construction is sluggish, and as significant shift from ownership units to rentals continues to occur.
- **Innovative partnering to preserve the affordable housing stock is critical**, as tens of thousands of affordable rental units are at-risk of converting to market rates within five years, squeezing out vulnerable renters.
- **Aging baby boomers and young millennials are drivers of housing demand** over the next decade, with a preference and/or need for a variety of housing types, tenure and locations.
- **Delayed effects of the housing bust become more evident**, as more households face difficulties to rent or take jobs due to credit issues, or inadequate access to education, jobs, health services, and economic opportunity.



Housing is at the confluence of individuals' and families' economic well-being, educational attainment and health, and it provides a strong platform for economically robust, sustainable communities, which underscores the importance of an integrative approach in developing a statewide housing strategy to address housing challenges in California.

[1] Public Policy Institute of California, Sarah Bohn, January 2014, *"California's Future: Economy"* *http://www.ppic.org/content/pubs/report/R_114BKR.pdf*

2014 Update

The State of Housing in California: Affordability Worsens, Supply Problems Remain

Contents

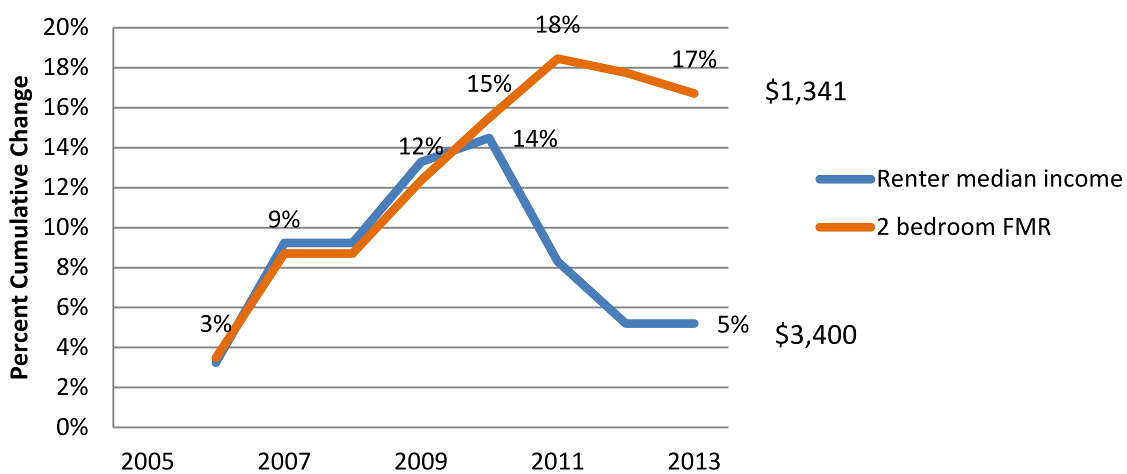
I. Housing Affordability Issues Persist

California renters: overpaying and overcrowded

Six years after the housing bust, the state's unemployment rate is slowly declining (8 percent as of February 2014), and housing markets are rebounding at a divergent pace, with coastal regions almost fully recovered, leaving inland regions well behind. There are two common denominators in California's divergent economy: rents are on the rise and rental vacancy rates are down, tightening rental housing markets throughout the State.[2]

Renters' wages have not kept up with spiking rents. Cumulatively between 2005 and 2013, the two-bedroom fair market rents increased by 17 percent, while renters' median incomes increased by only 5 percent. The rent affordable to median renter income earner was $935 in 2013, which could not even cover the fair market rent of $1,046 for one-bedroom apartment.[3] The lower income households, of which a third are headed by elderly or people with disabilities, and more than a third are families with children, are most impacted by the tight rental market.

California Renters' Income Lagging Rents



Source: NLIHC Out of Reach reports, 2005 through 2013; graphic by HCD

.

More often than not, lower income households cannot afford increasing rents to secure affordable, adequate, and stable housing for their families, and are being squeezed out of the rental market by middle and upper income households seeking better affordability. This is a significant trend for the State's rental market, as lower income households comprise almost two thirds of all renter households, and the extremely low-income households represent a quarter of the total renters. These lower income households bear heavy housing cost burdens, often paying more than half of their incomes toward rents.

The latest American Community Survey data shows that while 57 percent of all renters pay more than 30 percent of their income for housing (overpaying), the share of lower income households overpaying is much larger, at 78 percent. And it is a statewide problem, without

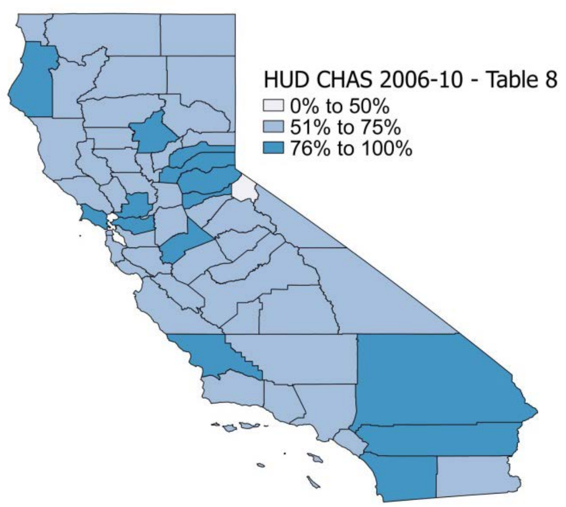
---

[2] Public Policy Institute of California, Hans Johnson, April 2012, "*California's Housing Market*", http://www.ppic.org/main/publication_show.asp?i=1009

[3] National Low Income Housing Coalition, "*Out of Reach*" 2013, http://nlihc.org/oor/2013

exception, as one in two lower income households are overpaying for housing in 43 counties, and three in four lower income renters are cost-burdened in 14 counties.

What Percentage of Lower Income Households Are Overpaying for Housing?



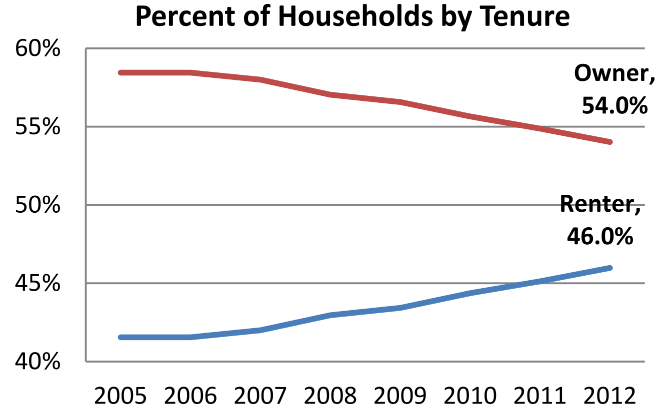
Paycheck to Paycheck 2013 by the Center for Housing Policy reports that full wages earned by police workers, auto mechanics, nurses, teachers, and others are not enough to afford typical rents or housing prices in most metropolitan areas in the nation. Four out of five metropolitan area least affordable rental markets nationwide continue to be in California, only surpassed by Honolulu. Bakersfield, the least expensive metropolitan area for California, ranked 122 out of a total of 206 metropolitan areas analyzed nationwide.[4] In 2013, a person working full time at minimum wage must work 129 hours to afford a two-bedroom rental, which was the second highest after New York/New Jersey area.[5] The 2013 Housing Landscape report also shows that California had the largest share of working households paying more than half of their income toward housing in the nation, at 33.8 percent.[6]

Contributing to the tightening of the rental market is the increased number of middle-income households choosing or finding it necessary to rent, as lending standards have tightened and inventory has declined. Homeownership rates continue to decline resulting in a shift in housing tenure from homeownership to renting that is significant enough to further fuel rental housing demand and drive increases in rents, further limiting housing options for renters in general, and for lower income renters in particular.

The National Center for Housing finds that for every 100 very low income renter households there were only 87 affordable units in 2010. For every 100 extremely low income renters (ELI), there were only 56 units affordable, making it very difficult for these renters to secure adequate housing for their families.

Another effect of the shift in tenure is that more of the single-family housing stock has converted to investment rental housing to meet the rising rental demand.

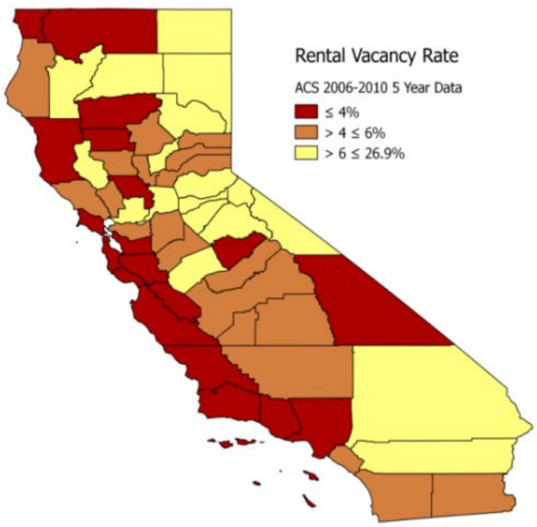
Percent of Households by Tenure



Source: American Community Survey 2005-2012,1-year average

[4] National Housing Conference (NHC), *"Paycheck to Paycheck",* August 2013, http://www.nhc.org/chp/p2p/
[5] The National Low Income Housing Coalition (NLIHC), "*Out of Reach",* 2013 http://www.nlihc.org/oor
[6] Center for Housing Policy , Janet Viveiros, Maya Brennan, *2013 Housing Landscape,* *http://www.nhc.org/media/files/Landscape2013.pdf*

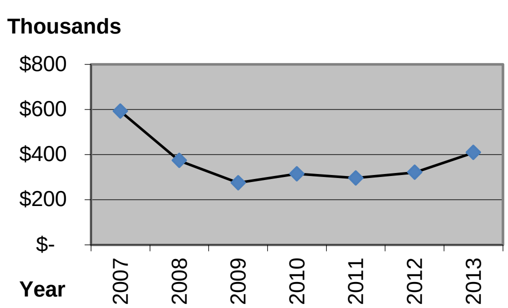
Apace with spiking rents, and adding to the tightening of rental markets, rental vacancy rates continued to drop over the past year in most housing markets. California's vacancy rate dropped from 6.3 percent in 2010 to 5 percent in 2013, due to the shift in tenure, better economies, and more household formation as economic circumstances for many of those affected improved.



Geographically, the decline in vacancy rates follows California's divergent economies, with lowest rates observed in coastal regions, followed closely by inland areas. Bay Area counties experience the lowest rental vacancy rates, ranging from 3-4 percent, in Santa Clara and San Francisco counties, followed by Los Angeles and Orange. San Diego County's vacancy rate is at the statewide 5 percent level. Sacramento, San Bernardino, Riverside, Fresno and other valley counties' rates range from 6 to 7 percent.

Homeownership rates remain low, access to lending still limited

In 2010, USC Professor Dowell Myers' *California Roller Coaster-Income and Housing in Boom and Bust, 1990-2010* study found that housing did not become more affordable, as prices did not decline enough to compensate for the loss in income.[7] After 2010, prices went up, but incomes have been slow to increase, and California's homeownership rate, after plunging from 58.4 percent in 2006 to 55.3 percent in 2011, continued to drop reaching 54 percent in 2012.



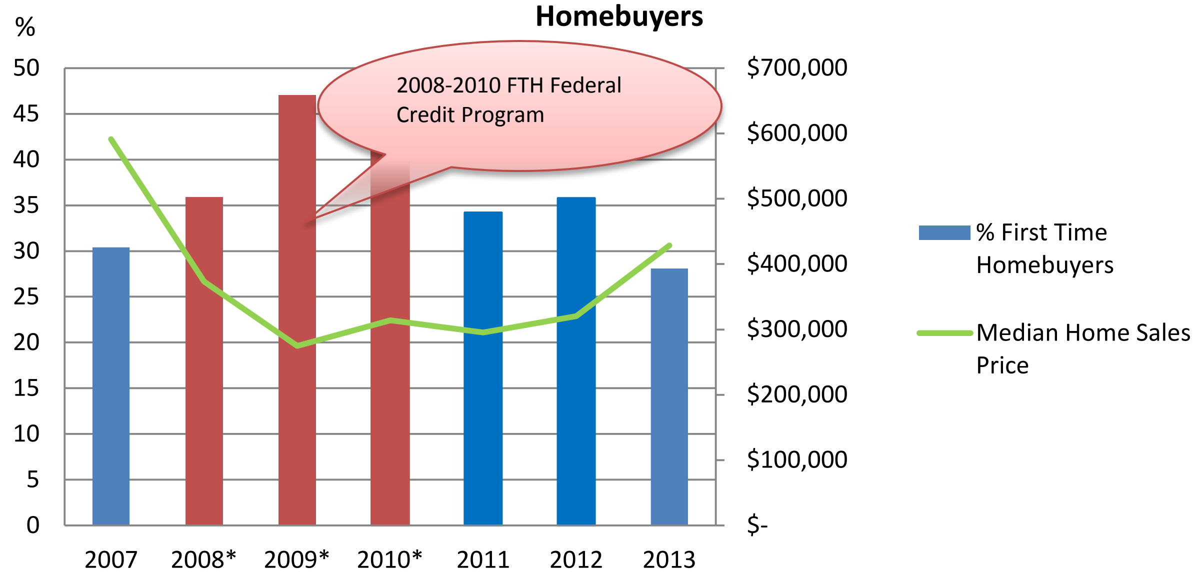
Source: California Association of Realtors

In February 2014, the median sales price was $404,250, over 21 percent higher than in February 2013.[8] The trend of rising home prices is observed in all of the State's housing markets, with a notable difference in pace between the diverging housing markets of coastal and inland regions. For example, while the Inland Empire median price experienced a year-to-year percent change of 21 percent, reaching $260,380, the Los Angeles Metropolitan Area and San Francisco Bay Area reached $383,300 and $675,000 respectively.[9]

[7] Idem., Dowell Myers, Ray Calnan, Anna Jacobsen and Josh Wheeler, p.8
[8] California Association of Realtors, *"Trends"* . Vol. 32. : No. 2. March 2011, No.7, July 2011, No.1 January 2012
[9] California Association of Realtors. February 2014, http://www.car.org

As housing prices increase and access to lending remains limited, households unable to sell and/or buy face heavy cost burdens; such that almost one in three ownership households in California overpay for housing.[10] First time home buyers fared better during the First Time Homebuyer Federal Credit Program period, when the share of sales to them peaked at 47 percent of all homes sold in 2009. Once the program expired however, the share dropped to pre-incentive levels, at 28 percent. Locked out of the buying market, homebuyers, young and first-time in particular, experience difficulties qualifying for loans due to credit, unemployment or underemployment, and underwriting standards, thus swelling the renter numbers.

Median Home Sales Price and Percent of Home Sales to First-Time Homebuyers



The only silver lining of the price increase is that the near and negative equity share of 30 percent that California experienced in 2012, the sixth largest in the nation, decreased to approximately 15 percent in the last quarter of 2013, lowering the State's rank to 17th among the other states. Geographically, metropolitan areas such as Riverside-San Bernardino and Sacramento-Roseville have a much higher negative equity share in total mortgage loans, at 22 percent and 18 percent respectively, while Oakland is close to the statewide share, at 15.6 percent.[11]

Falling negative equity is good for the overall economy and particularly encouraging for vulnerable homeowners who are less at risk of delinquency or even foreclosure. They may become able to refinance to more affordable mortgages, or sell their homes and move to areas of more economic opportunity, while giving potential buyers another chance on the market.

II. Housing Supply Shortage Persists

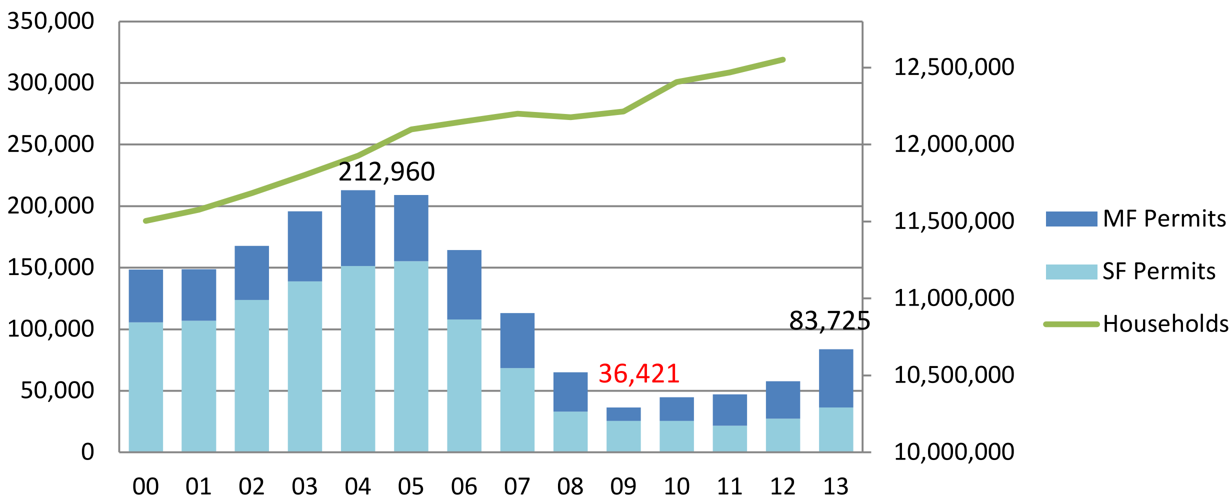
As the California Housing Partnership Corporation's 2014 report finds, California's private housing market is not providing an adequate number of homes affordable to low- and moderate-income households.[12] New housing construction is slow to rebound, with residential permitting

[10] HUD CHAS Data based on ACS 2008-2012, Table 7
[11] 2014 CoreLogic, Fourth Quarter 2013, CoreLogic Equity Report , p.10-14
[12] California Housing Partnership Corporation, February 2014, *"How California's Housing Market is Failing to Meet the Need of Low-Income Families"* http://www.chpc.net/dnld/CHPCHousingNeedReport020814FINAL.pdf

activity at less than half of the 2004 peak level. The existing housing stock is far from being adequate to meet the emerging needs and preferences of housing demand, the for-sale and shadow inventory is in decline, and the affordable housing stock is aging with a larger portion in dire need of preservation within the next five years.

New home construction up in 2013, yet uneven and slow to rebound

In the last decade, the State's residential building permits peaked in 2004 at 212,960, and then spiraled down by 84 percent in 2009 to just over 36,000, the lowest level in 55 years of historical records. Multifamily permits decreased by 80 percent, from 62,000 in 2004 to just over 11,000 in 2009.[13] While on the rebound, 2013 housing activities continued to lag behind, at 83,725 permits or 40 percent of the 2004 peak level. The trend of the highest proportion of multifamily permits in total permits statewide continued into 2013, when the multifamily sector comprised more than half of all the residential permits for the year, while typically strong single-family development areas continued to lag.



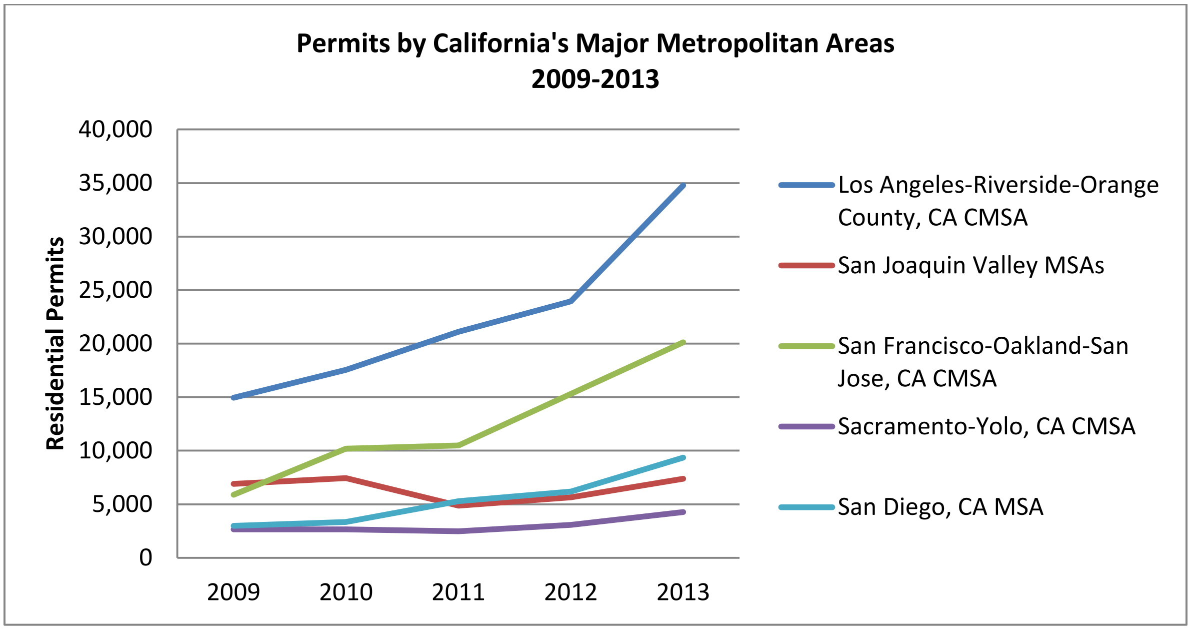
Source: Construction Industry Research Board/California Homebuilding Foundation and DOF 2013

As the State's housing deficit continues to deepen, it delays the economic multiplier benefits of new housing construction. The recent drought cast over California adds to the challenges that the State must overcome in its trajectory, especially in the rural communities. Some of the construction jobs have been regained and regional differences between coastal and inland likely to continue, yet California continues to experience a high unemployment rate, at 8 percent in 2014, the highest in the nation.[14]

"…The shortage is particularly acute in the rental housing market, typically the last resort for lower-income households, many of whom were forced out of single-family homes during the Great Recession and have little chance of becoming homeowners in the near future." California Housing Partnership

.

[13] Construction Industry Research Board (CIRB), *California Construction Review*, Burbank, 2014
[14] Public Policy Institute of California, Sarah Bohn, January 2014 "*California's Future: Economy*"



Source: Construction Industry Research Board/California Homebuilding Foundation and DOF 2013

Regionally, residential permit activity mirrors the bifurcated economy. The coastal areas of Southern California and Bay Area, followed by San Diego show faster recovery than the inland regions which experience a much slower rebound.

Foreclosed vacant and shadow inventory not adequate to meet the need for housing by type, tenure, location

There were approximately 37,000 foreclosures completed in California in February 2014. This is a lower number than the prior year but still high among the states, with California ranking fourth nationwide, following Florida with 118,000 foreclosures, Michigan and Texas.[15] Foreclosed units do not automatically or quickly become vacant and available for occupancy; due to the length of time it takes to work through the financial and legal systems, many units are often held off the market. Consequently, concerns of a housing shadow inventory loomed over the past years. RealtyTrac identifies California as one of the states with a considerable decrease in unlisted foreclosures, at 31 percent in 2013, and a decrease in bank owned units in 2014, almost by half the 2013 level.[16] Nonetheless, the extent of housing held off the market could slow down the housing recovery, partially counterbalancing declines in the numbers of vacant homes for rent and for sale.

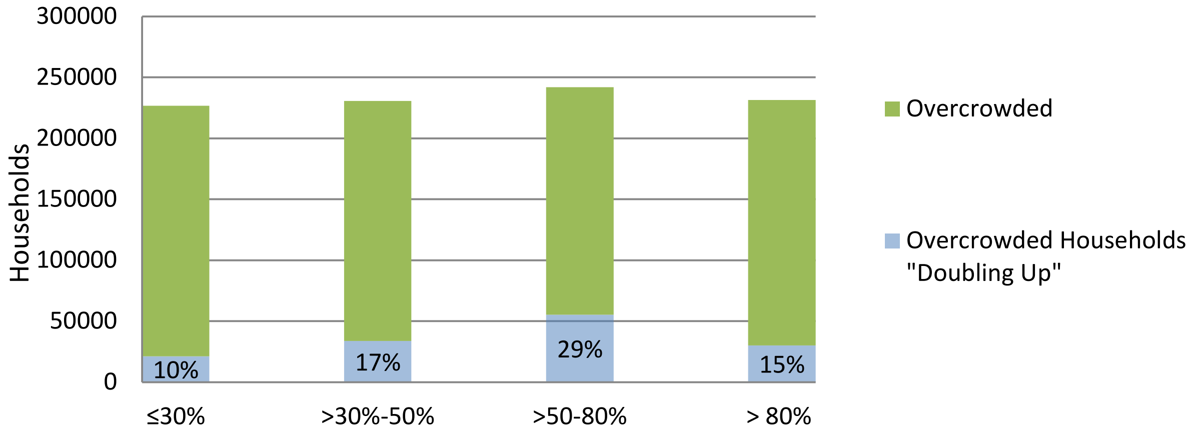
Many households experiencing foreclosure or economic downturn resorted to doubling up with family and friends often resulting in overcrowded living arrangements. The American Community Survey showed an overall increase in shared households, from 17 to 18.7 percent of total households between

> ***"Doubled-up households …represent a disguised form of stress in the nation's housing markets."***
>
> Kurt G. Usowski , HUD Deputy Assistant Secretary

[15] CoreLogic February 2014 *National Foreclosure* report
[16] RealtyTrac, February 2014, *California Real Estate Trends and Market Info* -Foreclosure trends

2007 and 2012, relating household sharing to economic strain. The 2012 American Community Survey also reported over 1 million households living in overcrowded conditions of which three quarters were renter households and the remaining quarter were homeowners. A third of these overcrowded households were severely overcrowded, with 1.5 persons per room.

Overcrowded Households "Doubling-up" by Income Level



Source: HUD CHAS 2006-10

Overcrowding varies across income levels. Almost one in three overcrowded households in the low income category is due to doubling up, with more than one family living in the same housing unit. Surprisingly, only one in ten extremely low-income households living in overcrowded conditions is doubling up. This could be attributed to the fact that many of these households are in need of assistance and temporarily may turn to other family and friends, or they may just use shelters and/or live on the streets before assistance becomes available. On the other hand, a higher share of doubling up in the upper brackets of low income households could indicate that these households combine incomes to make ends meet during economic downturn.

"The recession caused doubling up to save money… and the story is still unfolding,"

Steve Melman, Director of Economic Services, National Association of Home Builders.

Once economic circumstances improve, many of these families in doubled up households or in overcrowded conditions may adjust their living arrangements to live on their own, while young adults living with their parents may also begin forming new households and start looking for their own affordable housing, leading to a boost in demand for a diversified assortment of housing by type, tenure, size, and locations.

The shift from ownership to renting created strong opportunity for investment in California's housing markets

In 2012, the Joint Center for Housing Studies of Harvard University found that despite the housing market downturn, the appeal of homeownership remains strong. Fannie Mae's 2011 National Housing Survey also found that 85 percent of respondents preferred owning because financially it makes more sense than renting.[17] This preference, however, has proved difficult to achieve in an economic downturn for many, even with the resulting glut of foreclosed vacant units and the price decline.

> ***"One may say that the housing wealth train has already left the station without the young first-time homebuyers."***
>
> Lawrence Yun, Chief Economist, NAR
> February 2014

Many young adults hard hit by the recession enter a weak job market, have considerable student loan debt, and may choose to rent closer to job opportunities, in a more urban setting than their predecessors, demanding smaller homes close to jobs, services and transit. Some older Californians may also need to downsize to more affordable units close to amenities or services.[18]

The inability of many households to buy as first-time homebuyers or soon after foreclosure triggered a noticeable shift in housing tenure toward renting. This fueled the increased demand for rental housing and created strong investment opportunity in real estate, for investors big and small. According to DataQuick, the cash home purchases hit a record high in 2012, at 32.4 percent of the State's home sales, double than the annual average percentage since 1991. California Association of Realtors' 2013 survey found that half of the investment properties were located in Southern California, and almost a quarter in the northern part of the state. Over a quarter of investors in the housing market are foreign. Two thirds of all investors rented their properties, while a quarter flipped their properties.

Investment properties make up an important part of the single family existing stock, representing almost 78 percent of the investment properties that became part of the rental housing stock in the State, the majority being located in the suburbs. In 2012, suburbs accounted for 73 percent of home mortgages that ended in foreclosure nationwide. Many investors bought foreclosed suburban homes and made them available as rentals, often at lower rates than in central cities, and in some cases accepting Housing Choice Vouchers. This encouraged the migration of lower income-households to the suburbs. In 2010, the top ten metropolitan areas with highest rates of suburb poverty nationwide included Fresno, Bakersfield, Modesto and Stockton, ranging from 23 percent to 16 percent, respectively. While the correlation between foreclosures and increased poverty in suburbs is complex and difficult to demonstrate, it is a trend in some communities worth watching and analyzing in the future. [19]

---

[17] Rachel Bogardus Drew, Christopher Herbert. "Post-Recession Drivers of Preferences for Homeownership". August 2012. http://www.jchs.harvard.edu/research/publications/post-recession-drivers-preferences-homeownership

[18] The Demand Institute. May 2012. "*The Shifting Nature of U.S. Housing Demand". p31*

[19] Elizabeth Kneebone, Alan Berube, 2013, *"Confronting Suburban Poverty in America"*

III. Preservation of Affordable Housing is Critical

California is at-risk of losing 57,000 federally subsidized affordable apartments through conversion to market rate in the next five years, of which 35,000 are at-risk of expiring by next year. An additional 74,000 units are at-risk of expiring in the following 15 years. The top five counties with the largest share of at-risk units within the upcoming five years are Los Angeles with 24,739 units or 43 percent of total, followed by San Diego with 5,392, Orange with 4,112, San Francisco with 3,597, and Santa Clara with 2,380 units.

A third of all the units at risk of conversion are rented by seniors and disabled persons, most often on fixed incomes.[20] Almost 3,500 at-risk units are located in rural counties that are the hardest-hit by drought and at-risk of remaining without an adequate supply of water in the near future. There are another 8,000 units with subsidized mortgages in the State reaching their affordability term by 2017 and with the owners at risk of losing their homes and being displaced.

The potential loss of these units directly impacts the State's affordable housing stock and compounds problems for many communities in California, in some instances increasing the incidence of homelessness. Preserving California's existing affordable housing is critical today more than ever.

Why preserve existing rental housing?

- It generally costs half as much and takes half the time than building new units.
- On average it serves much lower income households than new construction.
- New construction alone cannot produce enough affordable housing to meet demand in most markets in California.[21]

Collaboration with key partners on preservation efforts can prevent the potential loss of a significant share of the affordable housing stock, and create opportunities to identify and acquire properties, including transit-oriented properties, for long-term preservation or development.

IV. Main Drivers for Housing Demand

The State is projected to continue to experience steady population gains of approximately 330,000 persons annually to 2020, dominated primarily by children of immigrants over the next decade, a more moderate growth

Innovative partnership between the state, CHPC, CCRH, and the National Housing Law Project saves homes for 2000 very-low income tenants!

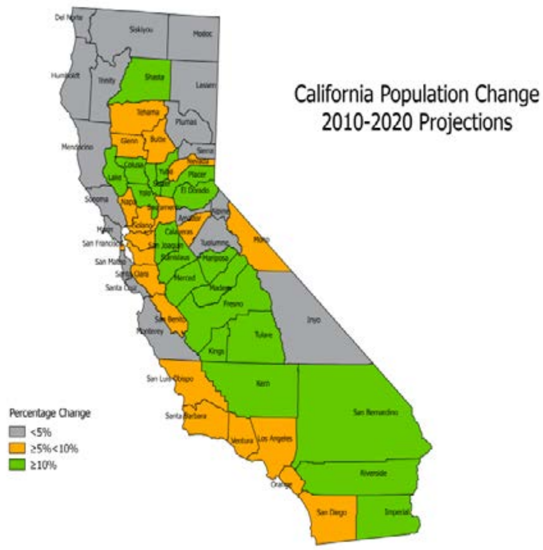
In 2012, the California Department of Housing and Community Development used federal HOME funds to assist 29 affordable properties (home to over 2,000 of the State's lowest- income tenants) in 20 counties in California. The units, previously funded by the State's Rental Housing Construction Program, Rural Rental Assistance (RHCP---RRA), were losing rental assistance. While a temporary solution limited to two years, the State's assistance will go a long way in allowing vulnerable very low-income tenants to remain in their homes while a longer term solution is crafted.

---

[20] California Housing Partnership Corporation, February 2014, "*Statewide Risk Summary of HUD-assisted Housing*" http://chpc.net/dnld/HPN_StateRiskSummary_01312014.pdf

[21] California Housing Partnership Corporation website at: http://chpc.net/preservation/index.html

rate than in the past, but considered to be at “normal” levels.[22]
The 2010 Census revealed that most of the significant growth in the prior decade occurred in the Hispanic and Asian populations, at 28 percent and over 31 percent, respectively, a trend that is likely to continue in the coming decade. The Department of Finance projects that while the Non-Hispanic White group will grow less than one percent by 2020, the Hispanic group is projected to grow by 21 percent, and the Asian group by 11 percent. Geographically, inland areas will experience particularly high growth rates.



Source: State of California, Department of Finance, Population Projections for California and Its Counties 2010-2060, January 2013

In the current decade, foreign-born ownership demand is projected to remain a majority of the growth in demand in California, at 71 percent of total growth in the State. Foreign-born rental demand is expected to slow down from 53.5 percent in the last decade to just over 38 percent during the current decade, due to upward mobility of immigrant households.[23] But the two dominant forces on the housing market will continue to be the aging baby-boomers and the younger Generation Y. Their mix of preferences and needs of the State’s diverse population will be drivers for more diverse housing demand in decades to come.

Aging Baby-Boomers (55+ year-olds)

The Baby Boomers were born between 1946 and 1964, with the first to turn 65 in 2011. The cohort of 65+ is projected to reach 6 million in 2020 and 8.4 million in 2030, doubling from 2010.[24] Per the Department of Aging, one in five elderly live alone.[25]

An overwhelming percentage of the elderly (88 percent per a recent AARP survey) prefer to age in place because of affordability issues and ability to

[22] State of California, Department of Finance, *Interim Population Projections for California and Its Counties 2010-2050*, Sacramento, California, May 2012. http://www.dof.ca.gov/research/demographic/reports/projections/interim/view.php
[23] Dowell Myers, and John Pitkin, Immigrant Contributions to Housing Demand in the United States, prepared for the Research Institute for Housing America, March 2013.
[24] DOF P1 (Age)State and County Population projections by 2060, Department of Finance , January 2013
[25] California Department of Aging. 2012.http://www.aging.ca.gov/Data_and_Statistics/

remain independent. The National Association of Realtors 2011 Community Preference Survey, highlighted by real estate advisory firm Robert Charles Lesser and Co.(RCLCO), found that three quarters of retiring boomers want to live in mixed-age and mixed-use communities, and more urban settings. While the survey shows that 78 percent of these retirees prefer single family homes, there is a growing number of seniors on fixed incomes that is also likely to outstrip the limited supply of affordable rentals close to services and amenities.

Baby–boomers are projected to dominate changes in the housing market until at least 2030, with their preference ranging from aging in place, to active living housing, near transit, entertainment, retail, medical services, health, facilitating a convenient low-maintenance lifestyle close to friends and recreation.[26]

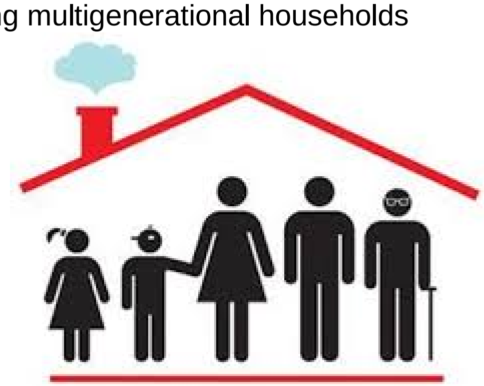
Echo-Boomers (25-34 year-olds)

Complementing and nearly outnumbering the aging population is the echo-boomer generation entering household formation age, and which is more diverse and willing to trade off location for smaller unit sizes. Hot buttons for those seeking more urban locations are having a virtual, wired world co-existing with the physical environment, WIFI access, and proximity to entertainment places to hang out. [27]

> *"[Millennials'] aspiration and long-term investment aspect to owning a home remain solid among young people. "*
>
> *Lawrence Yun, NAR Chief Economist*

This younger generation may augment the demand for apartments and smaller starter homes and first move-up condos in urban centers over the next decade with energy efficiency features and lower commuting cost. This may also be the generation most likely to not own a car and take public transit, bike or walk to their jobs and destinations.[28] While the preference among the young generation remains on owning a home, tight credit, limited inventory, high student loan debt, and lack of affordability can impede their ability to buy, and even rent.

As a result, many of these young adults continue to "boomerang" home to live with their families until economic circumstances improve, often forming multigenerational households. The preference for larger housing units accommodating multigenerational households continues to be a trend fueled by weak economic conditions. The number of households in which two or three generations live together (adults, elderly parents, or grown children) has spiked in past years, as economic conditions forced many families to change their living arrangements. A 2013 NAAR study found that 14 percent of all home purchases were made by mutigenerational households with one in four households comprising young adults that



[26] Myers, Dowell and Ryu, SungHo, "*Aging Baby Boomers and the Generational Housing Bubble: Foresight and Mitigation of an Epic Transition*", 2007, Journal of the American Planning Association, *http://dx.doi.org/10.1080/01944360701802000*

[27] Melina Duggal, SICP, "*Housing Choice: An accelerator or Regional Economic Competitiveness*", June 2013

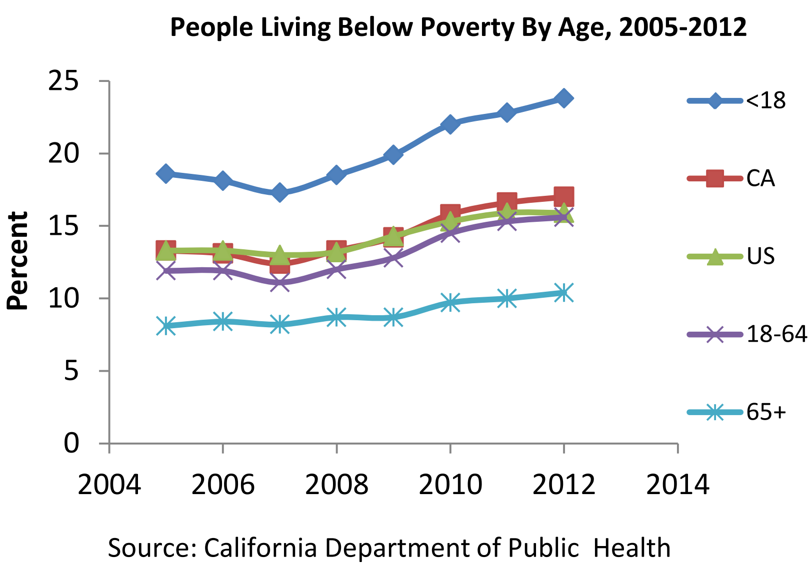
[28] Robert Charles Lesser and CO, Crocker Symposium, October 2013, http://www.rclco.com/pub/doc/presentation-2013-10-29-crocker-symposium.pdf

moved back home, 20 percent with a live-in caretaker, and another 11 percent with aging parents. In response to these trends, the housing industry features new concepts of housing types enabling extended families to stay close together while retaining independence.[29] In addition, as the number of families with children on the rise in some areas, demand for larger rental units will also increase, particularly in communities with access to good schools and employment centers.[30]

V. Indirect Impact of the Housing Bust Becomes More Evident

Beyond the affordability and supply issues exacerbated by the recession, there are indirect costs with delayed impacts associated with the housing bust, stemming from the fact that housing is the foundation for family economic well-being and thriving communities. The following are "spin-off effects" highlighted by The Russell Foundation and The Stanford Center on Poverty and Inequality in October 2012, in the *Housing and the Great Recession* report*:*

- Poor credit affects ability of former homeowners and new buyers to qualify for a loan due to tightening lending standards, and sometimes can negatively impact individuals seeking employment or a place to rent.
- Education continuity and attainment is adversely impacted by frequent moves of families in search for more affordable shelter.
- Negative health outcomes have been observed in families experiencing housing-related stress.
- Neighborhoods with high number of foreclosures are declining fast, facilitating an increase in crime and poverty.
- Homelessness increased significantly by 30 percent nationwide to 170,000 from 2007 to 2009, with the average length of stays in shelters rising during the recession as well.



In addition, as lower income households pay a much larger share of their incomes toward housing, there is very little income left on the table to spend on food, healthcare, education, and other needs. The federal Center on Budget and Policy Priorities showed in 2012 that the State's lower-income households had only $220 left for other necessities, after paying housing costs.

[29] Amy Taxin, Huffington Post. April 2012. *"Builders Revamp Home Design To Accommodate To Multigenerational Families"* http://www.huffingtonpost.com/2012/04/16/home-designs-accomodate-multigenerational-families_n_1428493.html

[30] Joint Center for Housing Studies at Harvard University, December 2013, *"America's Rental Housing: Evolving Markets and Needs"*, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr2013_02-demand.pdf

Not surprisingly, California is one of the states faring the worst in the nations when it comes to poverty and food security. The California's Department of Public Health shows an increase in the percentage of Californian's living in poverty between 2007 and 2012, such that in 2012, 17 percent of all people and one in four children in the State were living in poverty. Data from the UCLA Center for Health Policy Research's California Health Interview Survey (CHIS), also shows that at least 4 million low-income Californians struggled with food insecurity during 2011-2012.

> **"Too many of our children are unjustly deprived of opportunities to achieve health and well-being; therefore we must be committed to eliminating these disparities and inequities through policy change and cross-sector strategies."**
>
> ***Jahmal Miller, Office of Health Equity, CDPH***

Another area where housing has a great impact is on regional economies. The Federal Reserve Bank of Cleveland found that the creation and financing of small businesses is constrained when homeowners can no longer rely on home equity or personal lending to fuel business expansion. While the State's economy has begun to recover, but because wages have not kept pace with housing prices, it stymied employment growth in regional economies.[31] For example, an annual survey conducted by Silicon Valley Leadership Group shows year after year that housing affordability is among the top five challenges that employers face as they are unable to attract and retain qualified entry or mid-level workers. Workers are also impacted as their families are locked out of affordable housing, making it necessary to endure long and costly commutes. Lower income households are most impacted, spending approximately 60 percent of their incomes for housing and transportation cost combined. This affects their quality of life because long commutes leave little time to spend with the family or pursue other productive activates, while high costs leave little or no resources available to cover other essential needs for their family.

Lastly, revitalizing distressed neighborhoods through building or rehabilitation of affordable housing reduces local and state costs attributed to public health, social services, criminal justice system and education. A 2013 MacArthur foundation survey found that 7 in 10 respondents believe that government policies ensuring decent, stable and affordable housing lead to major positive impact on the safety and economic well-being of neighborhoods and communities.

VI. Conclusion

The housing sector, private or with/without State intervention, cannot be successful alone. An integrated approach to housing policy and investment by engaging cross-sector partners, such as transportation, health, education, and economic development, will be necessary to move the needle of the housing opportunities coupled with access to economic opportunity, health and education, particularly for vulnerable populations. This is only a first step in building wholesome strong and resilient communities throughout California.

[31] Ritashree Chakrabarti & Junfu Zhang, 2010, Federal Reserve Bank of Boston, Unaffordable housing and local employment growth, New England Public Policy Center Working Paper 10-3.

Updated April 2014.

This paper can be retrieved at: http://www.hcd.ca.gov/hpd For more information or questions, please contact Anda Draghici, Housing Policy Senior Specialist, California Department of Housing and Community Development, Division of Housing Policy Development, at anda.draghici@hcd.ca.gov or (916) 263-2911.

****

Other References

California Housing Partnership Corporation, 2014, *"How California's Housing Market is Failing to Meet the Needs of Low-Income Families"*
http://www.chpc.net/dnld/CHPCHousingNeedReport020814FINAL.pdf

Elizabeth Kneebone and Alan Berube, 2013, *"Confronting Suburban Poverty in America",* Bookings Institution Press, Washington D.C.

John Pitkin and Dowell Myers. 2012. *"Generational Projections of the California Population by Nativity and Year of Immigrant Arrival".* Produced by the Population Dynamics Research Group, Sol Price School of Public Policy, University of Southern California. Text and supporting materials are published at: **http://www.usc.edu/schools/price/research/popdynamics**

Mark Leiter, Chairman, The Demand Institute. May 2012. "*The Shifting Nature of U.S. housing Demand".*
http://www.demandinstitute.org/blog/shifting-nature-us-housing-demand

Center for Strategic Economic Research, August 2010*, "The Economic Benefits of Housing in California"*,
http://www.cbia.org/go/cbia/publications/

Pitkin, John and Myers, Dowell *, "U.S. Housing Trends: Generational Changes and the Outlook to 2050"*. Prepared for Transportation Research Board, National Academy of Sciences, Washington, D.C., May 2008, **http://onlinepubs.trb.org/Onlinepubs/sr/sr298pitkin-myers.pdf**

Center for the Continuing Study of the California Economy, Steve Levy. 2008. *"California Economic Growth 2008".* **http://www.ccsce.com/Cal_Econ_Growth.php**

Myers, Dowell and Ryu, SungHo (2007) ''*Aging Baby Boomers and the Generational Housing Bubble: Foresight and Mitigation of an Epic Transition*", Journal of the American Planning Association, 74:1, 17 – 33 **http://dx.doi.org/10.1080/01944360701802006**

Center for Transit Oriented Development and Center for Neighborhood Technology. 2006. *"The Affordability Index: A New Tool for Measuring the True Affordability of a Housing Choice".*
http://www.cnt.org/repository/AffordabilityIndexBrief.pdf

Martha Farnsworth Riche, prepared for, U.S. Department of Housing and Urban Development Office of Policy Development and Research. 2003. "*How Changes in the Nation's Age and Household Structure will Reshape Housing Demand in the 21st Century*".
http://www.huduser.org/Publications/PDF/demographic_trends.pdf