MEMO

Submitted by: Christy Riviere

Subject: Testing the American Dream in the San Francisco Bay Area: 2009 Housing Report

Date: January 4, 2010

Executive Summary

This item is an information presentation on the recently published 2009 Housing Report, *Testing the American Dream in the San Francisco Bay Area*. The staff memo gives a brief synopsis of the report.

Recommended Action

There is no Recommended Action

Next Steps

Attachments

Item 9

MEMO

To: ABAG Executive Board

From: Christy Riviere, Principal Planner
Hing Wong, Senior Planner

Date: January 4, 2010

Subject: *Testing the American Dream in the San Francisco Bay Area: 2009 Housing Report*

Summary

In early 2009, both foreclosures and delinquent mortgage payment rates were the highest on record since 1972. Home prices dropped 19 percent, the largest ever recorded year-over-year decline in housing prices. The nation was unquestionably in a housing crisis. The "American Dream," combined with investor frenzy, tail spun the country into financial chaos unseen since the Great Depression. The mortgage crisis succeeded in upending government budgets, sending unemployment rates to new highs, and in devastating communities with instability.

National reports on the housing crisis are increasingly available, as are studies of local impacts. However, little has been written on how the crisis played out in the San Francisco Bay Area. The Association of Bay Area Government's 2009 Housing Report, *Testing the American Dream in the San Francisco Bay Area*, focuses on the housing crisis' direct impact on the Bay Area. The report examines regional shifts in home values and the spread of foreclosures, as well as the ripple effects that falling home values have had on government revenues, negative equity, and housing affordability. The report also explores how the crisis has impacted renters and housing production.

This staff report offers a synopsis of the 2009 Housing Report.

The Housing Crisis

Nationwide, indicators of a looming housing crisis began to emerge in 2005. For the first time in a decade, the country's supply of new homes outweighed demand from buyers. After home prices doubled in seven years, home price appreciation slowed to a near a standstill by 2006. Foreclosures also began to inch up in many parts of the country. These factors soon led to an unraveling of housing markets across the country. The Bay Area, however, appeared insulated.

Home prices in the Bay Area continued to rise through most of 2005 and 2006, even hitting record highs in 2007. Even though foreclosure rates began to creep up in 2006, they were still considered low by historical measures, and remained below state averages.

The apparent strength of the Bay Area market, however, was masking real variations within the region. San Francisco and Santa Clara counties were experiencing the lowest foreclosure rate increases throughout California in 2006, yet Solano and Contra Costa counties were reporting some of the highest foreclosure rates. Marin County posted a median home price of over one million dollars in 2007, the first county in the state to reach such a threshold, even while Sonoma, Napa, and Solano counties were witnessing steady price declines.

Before long, what began as localized problems spread throughout much of the Bay Area. Through 2007 and 2008, foreclosure rates in the region soared and home values plummeted. In first quarter 2009, the Bay Area's median home price was 43 percent lower than it was a year ago. During the same period, California's home prices dropped 25 percent and the nation's dropped 12 percent.

The Bay Area's cities and counties experienced the peak of the crisis differently. Foreclosure rates increased in all nine Bay Area counties, but to a much greater extent in Contra Costa and Solano counties. In the first quarter of 2005, Solano County had almost no foreclosures. Four years later, the county had the highest foreclosure rate in the region and the state, at 11 foreclosures for every 1,000 owner-occupied homes. In contrast, the foreclosure rates of the West Bay counties ranged from 1 per 1,000 homes in San Francisco to 4 per 1,000 homes in Sonoma. While home price declines were nearly ubiquitous in the Bay Area during the crisis, with some areas witnessing drops of over 50 percent from 2005 to 2009, a few cities in Santa Clara, San Francisco, and San Mateo counties recorded rising home values.

Consequences of a Crisis

The housing crisis impacted the country's financial institutions, unemployment numbers, and major industries. Locally, the ripple effects of foreclosures and falling home values reached far beyond affected homes and families, to local governments, neighborhoods, schools, and the development community.

The region's declining home values impacted local government revenues because revenues are largely dependent on property taxes. Since the housing crisis, estimates put California's accumulated loss in property value at almost $38 billion, which means that the state's local governments have lost $377 million in annual property taxes. Contra Costa County jurisdictions lost an estimated $116 million in property taxes due to the county's high rate of foreclosures, and Solano County jurisdictions may face a $9-12 million budget shortfall.

Homeowners have also been hurt by declining home values and loss in equity. The sharp rise and fall of home prices in the Bay Area led to a greater incident of negative equity than in other parts of the country. At the end of 2008, 27 percent of Bay Area homeowners had negative equity in their homes, compared to 18 percent nationally. Among households who originated loans in 2006, 92 percent in Solano County had negative equity by 2009 (compared to 32 percent in San Francisco). High rates of negative equity increased the number of foreclosures, since households with negative equity often cease making their mortgage payments and instead choose to go into foreclosure.

Somewhat unique to the Bay Area, there was actually a positive side to the housing crisis, often quoted by housing advocates and prospective new home buyers. With the crisis and falling home values, the Bay Area may finally become more affordable to the average resident. Median home prices are closer to the region's median income than they have been in years. The California Association of Realtors estimates that 44 percent of households in the region could afford a median priced home at the beginning of 2009, compared to only 10 to 15 percent during peak housing values.

On the other hand, families looking to buy a home face obstacles that were not present a few years ago, such as stricter underwriting standards, less access to credit, and higher down payment requirements.

Affordability may also be stymied by the drop in new home construction due to current glut of homes on the market. Housing production declined in the Bay Area, falling 37 percent from 2007 to 2008. Some parts of the region witnessed much steeper drops. Sonoma County saw an 80 percent decline in building permits issued. Permits for affordable housing—open only to households who fall under certain income limits—were slightly more stable, declining 21 percent. Affordable housing developers face additional challenges in securing financing, since previously reliable sources like state bond funds and the Low Income Housing Tax Credit have withered.

Much of the discussion of the foreclosure crisis focuses on owner-occupied homes. Yet renters are also feeling its impacts. In the Bay Area, nearly ten percent of all first quarter foreclosures from 2005 to 2009 affected units in multi-family buildings. The number of multi-family units in foreclosure increased from 22 in first quarter 2005 to 500 in first quarter 2009. In some cases, tenants have no forewarning that their property is facing foreclosure, and may be subject to utility shut-offs, loss of security deposits, and eviction. In the past year, governments at the local, state, and federal level have enacted legislation to increase protection for renters whose buildings are foreclosed.

An Uncertain Future

The Bay Area will eventually emerge from its financial and housing problems. The region experienced among the country's greatest home price run-ups in the beginning of this decade, and continues to have some of the country's highest home values, largely because of its desirability as a place to live. While high home prices led to a painful crash, the region's underlying strengths remain sound.

The Bay Area that emerges from this crisis may look different than it does today. Developers are likely to focus new construction in areas that suffered least from falling home values, such as in San Francisco and Santa Clara counties. Recovery may also take longer in areas that experienced high foreclosure rates. However, residents will continue to want to live in the Bay Area, and developers will continue to build to meet that demand, but where and in what form this development takes place is likely to shift in coming years.