

Housing & Foreclosure Forecast September 2008

Update of two previously published reports

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Housing and Population in 2010

www.library.ca.gov/crb/07/07-008.pdf

Foreclosures in California

www.library.ca.gov/crb/08/08-006.pdf



National Home Losses

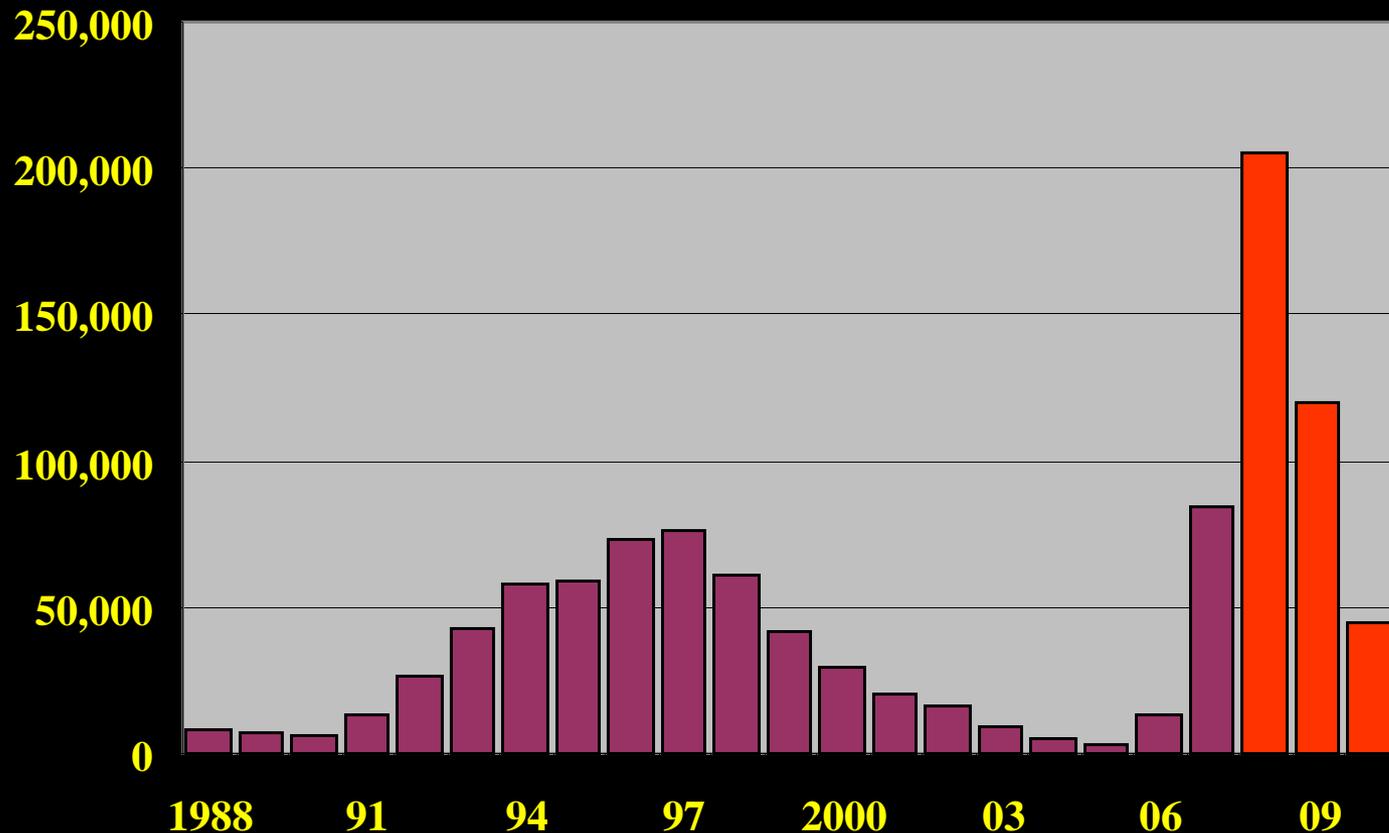
- Nationwide, >5.0 million homeowners will lose their homes in the current cycle 2007-2010 to foreclosure, short sales, and deeds in lieu of foreclosure, according to Moody's Economy.com (EC) and Equifax.
- Key assumption: peak-to-trough house price decline - 25% based on Case-Shiller national house price index, with the trough in 09 Q2 (already most of decline has occurred).
- Other assumptions: 10-year Treasury yield < 5% through year-end 09, 6.5% peak unemployment rate in 09 Q2, only 20% of defaults will have loan modifications in 08-09.

California Losses and Foreclosures

- California had 21.7 percent of the riskiest loans (Alt-A and Subprime), as of December 2007.
- Therefore, the estimate of California “lost” homes is 1,085,000 ($5.0 \text{ mil.} \times .217 = 1,085,000$), about 8.0% of all housing units in 2010 (CRB based on EC).
- Foreclosures could reach 450,000 through 2010, but 2008 is expected to be the worst. Recovery begins in 2009 as federal money flows to the rescue.

Foreclosures to exceed 200,000 in 2008 (through July 08 already > 130,000)

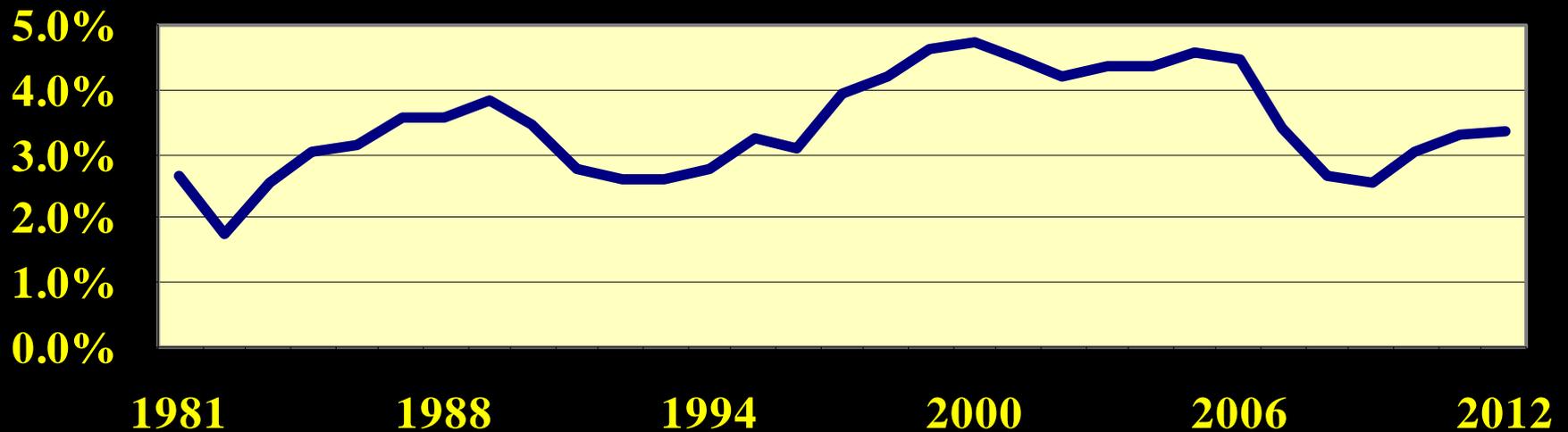
Sources: Data Quick, Projections from California Research Bureau



California Foreclosures

- California's foreclosure to sales ratio was 21.8 percent in 2007, but in the first two quarters of 2008 it was a stunning 66.6%, according to Data Quick (DQ).
- Eight counties have ratios of over 100%, with Merced and San Joaquin at 120% or more in the first two quarters of 2008.
- DQ Sales in 2007, were over 388,000. A subset, existing SF home sales, were about 330,000, according to Nat'l Assoc. of Realtors (NAR)/CAR.
- Foreclosures were 84,000 statewide in 2007 and 111,336 in the first half of 2008.

Sales of Existing Single Family Homes as a Percent of Total Occupied Units in CA



Sources: National Assoc. of Realtors, Moody's Economy.com, Author's calculations.

Housing Demand Driven by:

- Interest rates
- Employment and income growth
- Credit availability
- Home prices, affordability
- Appreciation (rapid rise in home prices attracts building, but discourages new ownership)
- Speculation / investments: second homes or rentals, flippers and fixers
- Population and demographic trends such as in-migration
- Replacement / demolition / loss of existing housing
- Age of the housing stock

CA Housing Stock is Older than the Nation's

- 83% built in US in 1980 or earlier
In CA, that Census 2000 figure was 87.1%
- Percent built in 1960 or earlier in US – 46.7%
CA homes age 40 or more – 49.4%
- Losses (demolition /fires / flooding / obsolescence) are estimated to be about 68,000 for each five-year period to 2010 in the CB scenario.

Population and Housing

- DOF's Demographic Research Unit's (DRU) estimate of population in 2007 exceeds that of the Census Bureau (CB) by 1.2 million people.
- Total population (Jan. 08) is over 38 million, according to DOF's DRU and there are 13.4 million housing units.
- The population difference is not translating into big differences in the number of total houses (occupied and vacant). In 2010, the gap is only about 19,000 units.

Migration Assumptions

- The CB scenario is predicated upon net out-migration that began in 2005, continues 3 years to 2007, then turns positive again in 2008-2010.
- Altogether, the CB scenario has about 1.3 million fewer migrants than the DOF scenario through 2010.
- The DOF scenario assumes that net migration to California was strong in the 5 years to 2005, and will remain positive through 2010, but at lower levels.
- Overall, 2.2 million will have migrated in the 10 years to 2010 and 1.5 million arrived in the first five years (DOF).

Migration and Housing

- Statewide DOF estimates show 2.94 people per household, indicating that a doubling up is occurring rather than an exodus out of state.
- By 2010, there may be 2.99 per HH in the DOF scenario, according to UCSB models.
- The CB data show 2.92 pp/HH in 2005, up from 2.87 in 2000 and 2.79 in 1990.
- Migrants are generally of home buying age, although it normally takes them several years to purchase their first home.

The Housing Forecast in 2010

- Many marginal buyers (including foreign and domestic migrants) bought homes earlier than they would have, borrowing from future demand.
- Growth in total housing units in the 5 years to 2010 slows to 0.8% AA% chg. from 1.2% in the boom years 2000-2005 in the CB scenario.
- Total units are estimated to reach 13.5 million in 2010 under the CB scenario, up from 12.2 mil. in the last Census.
- New home starts in 08 and 09 will be way of the peak years 04 and 05 when 200,000 new homes were started (and manufactured units shipped) per year.

Vacancy Rates

- Vacant units in CA could range from 770,000 to 800,000 in 2010, assuming 145,000 new homes are started in 2008 and 2009.
- Overall vacancy rates remain low in CA, at or below 6% under either DOF or CB scenarios through 2010.
- Nationally, they were above 10% in 2005 and will remain stuck there in 2010.

The Good News

- Assume vacant and foreclosed homes will quickly convert to rental stock or be sold to new owners and investors.
- It is not getting any cheaper to build, so CA will ultimately benefit from the excess stock.
- We have ample stock in place to accommodate new migrants and new households, we just need to maintain and care for the stock we have.

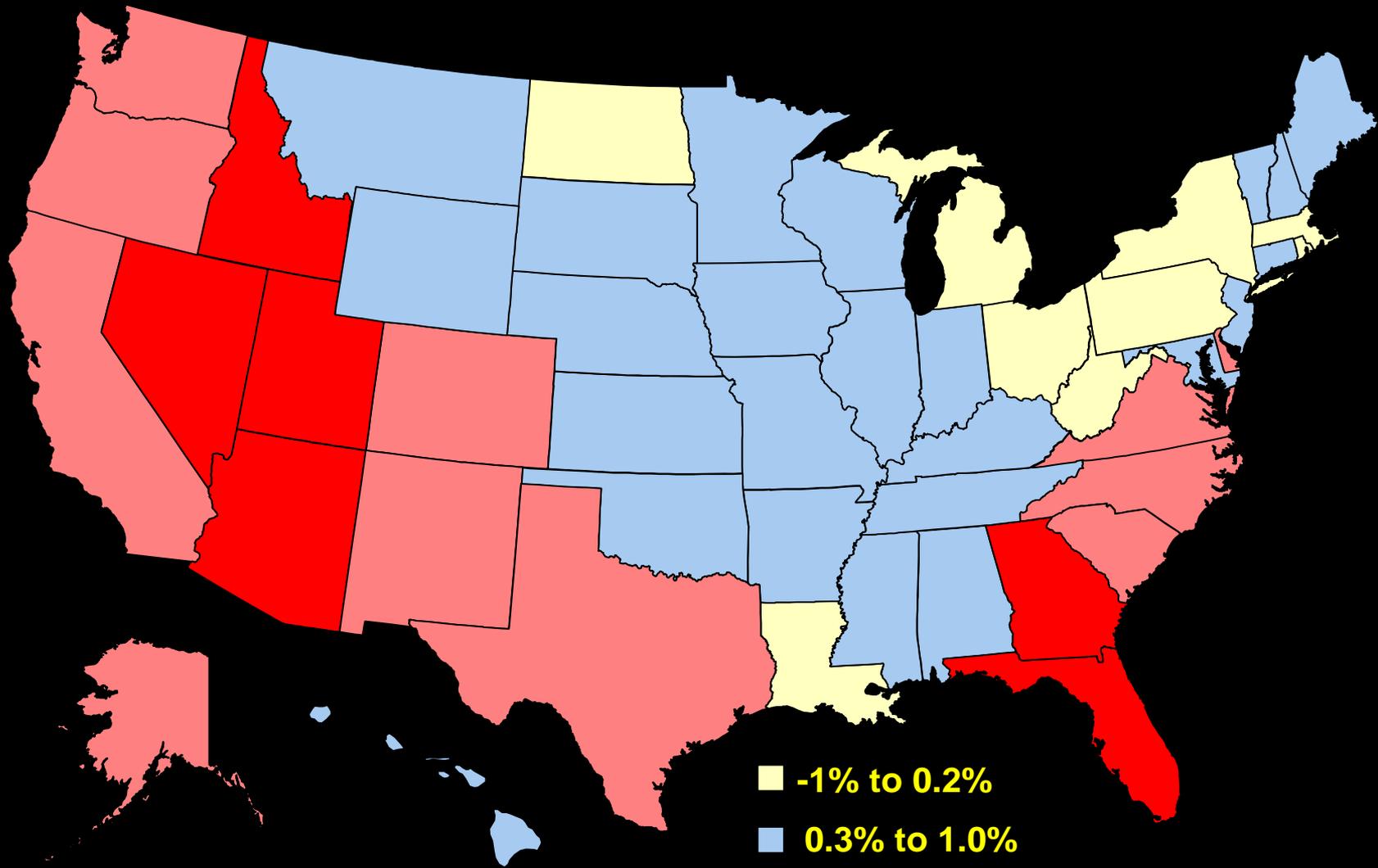
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<http://www.library.ca.gov/crb/index.html>

BONUS SLIDES

Population Growth: 2001-06 Annual Averages



- -1% to 0.2%
- 0.3% to 1.0%
- 1.1% to 1.9%
- 2% to 4%

Food for Thought

- In the 2008 book *Trillion Dollar Meltdown*, Charles Morris, (pages 130-131) neatly summarizes the financial crisis.
- High risk mortgages and CDO bonds will lose \$450 billion.
- Corporate debt \$345 billion, other (commercial real estate (CMBS), credit cards) losses of \$215 billion.

Housing Supply is Affected by:

- Regulatory restrictions and fees
- Availability of land (density and scarcity)
- Cost and availability of labor (aging workforce)
- Rapidly rising costs for materials, such as oil, metals, lumber
- Vacancy rates (low rates attract new building)

Some Other Assumptions

- Net migration will stay low since affordability remains an issue. Stable prices may attract more migration after 2010.
- Builders rapid response will help to restore balance. Some replacement is still needed, also units close to transit and employment centers, plus custom homes.
- Multifamily building will help to address the affordability and homeownership issues.

Homeownership Rates

- California homeownership of 58% was among the lowest nationally in the last Census. Little progress can be expected in 2010 results.
- The national average was 67.9%.
- Homeownership tends to be higher in states with higher shares of rural population, e.g. South Carolina and Minnesota.