Housing Prices and the California Economy

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Outline

- Where are prices now?
- How did we get here?
- What do prices mean for the economy?
Depends on whom you ask

<table>
<thead>
<tr>
<th>Source</th>
<th>U.S.</th>
<th>California</th>
<th>Los Angeles – Orange County</th>
<th>Main methodological concern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realtors (CAR/NAR)</td>
<td>-6.1%</td>
<td>-37.7%</td>
<td>-32.3% (LA) -22.5% (Orange)</td>
<td>Strongly affected by composition of sales</td>
</tr>
<tr>
<td>OFHEO</td>
<td>-4.8%</td>
<td>-15.8%</td>
<td>-14.3% (LA) -15.3% (Orange)</td>
<td>Omits many transactions</td>
</tr>
<tr>
<td>(purchases only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case-Shiller</td>
<td>-15.4%</td>
<td>n/a</td>
<td>-25.3%</td>
<td>Only 20 metros; questionable weighting</td>
</tr>
<tr>
<td>Zillow</td>
<td>-9.9%</td>
<td>-22.1%</td>
<td>-21.4%</td>
<td>Estimation method not transparent</td>
</tr>
</tbody>
</table>

All data are change 2007q2 to 2008q2
Unprecedented declines

California and U.S. annual price change, all transactions (OFHEO)
Big within-state variation

Metro annual price change, all transactions (OFHEO), 2007q2 to 2008q2

-40% -35% -32% -29% -24% -23% -19% -18% -16% -15% -15% -14% -8% -6% -40% -30% -20% -10% 0%

San Francisco
San Jose
Los Angeles
San Diego
Oakland
Orange County
Ventura County
CALIFORNIA
Sacramento
Fresno
Bakersfield
Inland Empire
Salinas
Modesto
Stockton
Merced
Big variation in the Bay Area

Price change

-1.4% - +10.5%
-9.2% - -1.5%
-16.5% - -9.3%
-25.3% - -16.6%
-38.3% - -25.4%
no data

Source:
Zillow
2007q2 to 2008q2
### History lesson: slow fall to bottom

**Metro area price change, all transactions (OFHEO)**

<table>
<thead>
<tr>
<th>Metro</th>
<th>Peak</th>
<th>Trough</th>
<th>Total drop*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>1990 Q1</td>
<td>1996 Q3</td>
<td>22%</td>
</tr>
<tr>
<td>Midland, TX</td>
<td>1982 Q2</td>
<td>1990 Q1</td>
<td>36%</td>
</tr>
<tr>
<td>Stockton</td>
<td>2006 Q2</td>
<td>?</td>
<td>37%</td>
</tr>
<tr>
<td>Sacramento</td>
<td>2005 Q4</td>
<td>?</td>
<td>24%</td>
</tr>
<tr>
<td>Inland Empire</td>
<td>2006 Q4</td>
<td>?</td>
<td>24%</td>
</tr>
<tr>
<td>Oakland</td>
<td>2006 Q2</td>
<td>?</td>
<td>18%</td>
</tr>
</tbody>
</table>

Peak to trough (top section) or 2008q2 (bottom section); not annualized; nominal
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Construction and prices

California permits issued (Census) and house price change (OFHEO)

- Units permitted (left scale)
- Price change (right scale)
More building = steeper price drops

Housing permit boom vs. price declines from peak

Permit boom, annualized change, 2003-2005 vs. 1990-2002

Change in housing price from peak (OFHEO)

-45% -40% -35% -30% -25% -20% -15% -10% -5% 0%

100% 120% 140% 160% 180%

Merced
Inland Empire
Modesto
Stockton
Los Angeles
San Francisco
San Jose

Housing permit boom vs. price declines from peak
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The job slowdown is national

Annual employment growth: California and U.S.

Note: 2008 figure is annualized growth Jan-Jun
Bureau of Labor Statistics (BLS)
Sector employment growth

Employment growth, June 2007 – June 2008 (BLS)

- Educational services: 6.2%
- Health care: 2.9%
- Professional services: 1.6%
- Other services: 1.0%
- Transportation, warehousing, and utilities: 0.8%
- Accommodation and food services: 0.8%
- Wholesale trade: 0.5%
- Administrative services: -0.1%
- Arts, entertainment, and recreation: -0.2%
- Real estate and rental and leasing: -0.9%
- Retail trade: -1.2%
- Information: -1.5%
- Manufacturing: -1.8%
- Finance and insurance: -4.8%
- Construction: -9.5%

California vs. US
Housing market = job market? No

Employment change and housing price change, 2007q2 to 2008q2

Change in employment, year to 2008 Q2 (BLS)

Change in housing price, 2007q2 to 2008q2 (OFHEO)
Wrap up

- Housing markets are local
- Overbuilding led to price declines
- Locally, house prices don’t predict job growth
- Any silver lining?
  - Greater affordability and wealth redistribution
  - Reduction in unsold inventory