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Southern California's Housing Affordability Problem

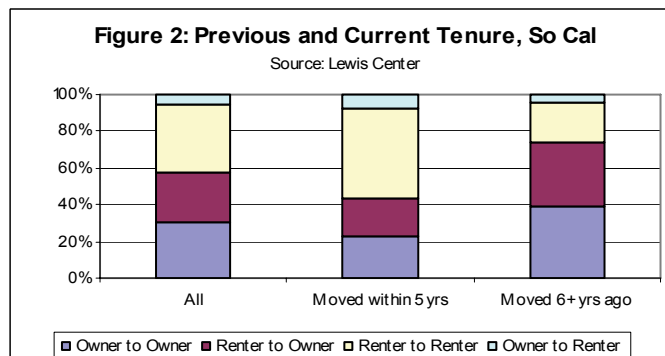
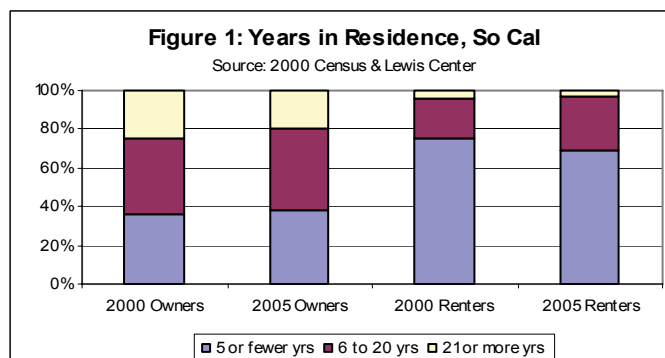
INTRODUCTION

Public opinion surveys can play an important role in decision making as they gather information that complements data from standard sources such as the Decennial Census and Current Population Survey. This Fact Sheet presents findings from a recently completed survey of Southern California residents (those living in the counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura). Details of the survey can be found in the appendix. The information from the survey can help better inform elected officials about the public's concerns and priorities, such as the issue of declining housing affordability in Southern California. Over the last five years, the housing market has remained very dynamic with a significant number of households changing residence, but high and rapidly increasing housing prices have created barriers to home ownership. Nearly two-fifths of the residents in this region have encountered difficulties in finding affordable housing while actively looking for housing. A majority of the residents do not believe that local government is doing enough to provide affordable housing.

BACKGROUND

About half of all households have been in their homes for five years or less, a proportion that holds for this region and the nation in 2000, and for Southern California in 2005 (see Figure 1).

Figure 2 provides additional information from the 2005 SCS on residential change by examining housing tenure (owner versus renter) for the respondents' current and previous homes. A slight majority of households interviewed are homeowners, and among all homeowners, half had been renters previously. The second column presents the statistics for those who have moved within the last five years. According to the findings, first-time homeowners (those who had been renters) also comprise a half of those who purchased a home within the last five years.



HOUSING PRICES AND LOW OWNERSHIP RATES

Housing prices in Southern California are among the highest in the nation, and this has kept the region's home ownership rate below the national rate. Table 1 provides some basic housing statistics for the two geographic units from the 2003 American Community Survey. Median household income in Southern California is slightly higher than that of the United States, but median housing value is over twice as high, indicating that home ownership is far less affordable in Southern California than in the United States, and within this region, less affordable than renting; consequently, it is not surprising that the home ownership rate is lower for this region than for the nation.

ABOUT THE AUTHORS

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Table 1: Basic Housing Characteristics, 2003

	So Cal	U.S.	So Cal/U.S
Median Household Income	\$47,077	\$43,564	1.08
Median Housing Value	\$318,834	\$147,275	2.16
Median Gross Rent	\$866	\$679	1.28
Housing Value to Income Ratio	6.68	3.38	1.98
Rent to Income Ratio	0.22	0.19	1.18
Home Ownership Rate	55.7%	66.8%	0.83

Source: 2003 American Community Survey

Data from the Office of Federal Housing Enterprise Oversight show that home prices for Southern California increased much more rapidly in recent years than for the nation (see Figure 3). For the most recent five-year period (from the 4th quarter of 1999 to the 4th quarter of 2004), housing prices in this region more than doubled, increasing twice as fast as for the nation.

Despite low interest rates for mortgages, the rapid escalation in housing prices has made homes less affordable over time, which can be seen in data from the California Association of Realtors as reported in Figure 4. The index indicates the percent of households that can afford the median-priced home. While the national affordability index has remained relatively stable, the index has declined dramatically for all four of the metropolitan areas that make up Southern California. By March 2005, the affordability indices for this region ranged from 11 to 17.

Despite escalating prices and declining affordability, DataQuick reports that total housing sales in Southern California remain at near record levels. (DQ News, 2005). For those who already own a home, purchasing is possible because higher prices translate into more equity (see Figure 5). The downside is that Southern Californians are carrying more debt. For first time buyers, many have to take on what Federal Reserve Chairman Alan Greenspan calls risky adjustable-rate and interest-only mortgages to purchase a house. (Haddad, 2005). The current pattern of housing finance is potentially problematic. When interest rates increase, then housing prices will decrease, thus driving down home equity, and mortgage payments will increase for those with adjustable-rate loans.

VARIATIONS IN THE AFFORDABILITY PROBLEM

The 2005 Southern California Public Opinion Survey examines the problem of housing affordability by asking, “Have you actively looked for housing elsewhere, but could not afford it?” Overall, nearly two-fifths of

Figure 3: Housing Price Index, 1995 to 2004

Source: Office of Federal Housing Enterprise Oversight

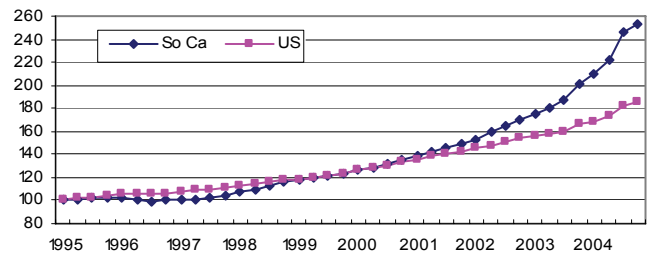
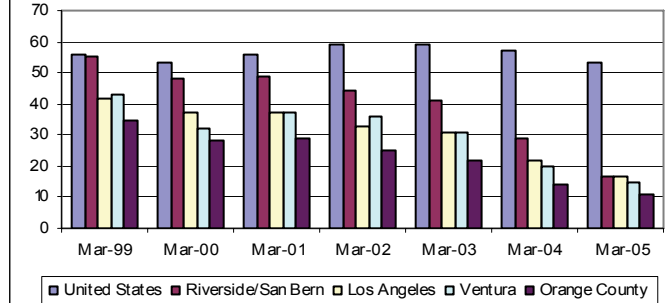


Figure 4: Affordability Index

Source: California Association of Realtors



the respondents answered yes. The result from this question is not the same as for the estimates based on the estimated affordability index reported earlier. The answers to the SCS capture a broader range of affordability problems, in both the real estate and rental sectors. The group answering affirmatively includes those who were able to purchase a home but nonetheless had problems finding an affordable home. At the same time, the responses underestimate the problem because the group does not include those who were discouraged by high prices, thus did not actively look for housing. What is most useful is the variation in the responses across demographic groups, which are summarized in Figure 6.

Nearly half of recent movers had difficulty finding affordable housing; that is, they were able to find housing despite high prices and rents. What is interesting is that over a quarter of those who did not move over the last five years also stated “yes,” indicating that they actively looked or are still looking for new housing but have been unsuccessful. For many in this group, the lack of affordable housing is locking them into their current homes. Homeowners were more likely to encounter difficulties than renters, which is not surprising given the earlier discussion on the relative cost of homes versus rental units.

Given the lack of affordable housing in Southern California, a majority of the residents do not believe that their local officials are doing enough to solve the problem (see Figure 7). The 2005 Southern California Public Opinion Survey examines the problem of housing affordability by asking respondents to evaluate whether the performance of Southern California’s elected offi-

Figure 5: Average Income, Equity & Debt, 2001/02

Source: Survey of Income and Program Participation

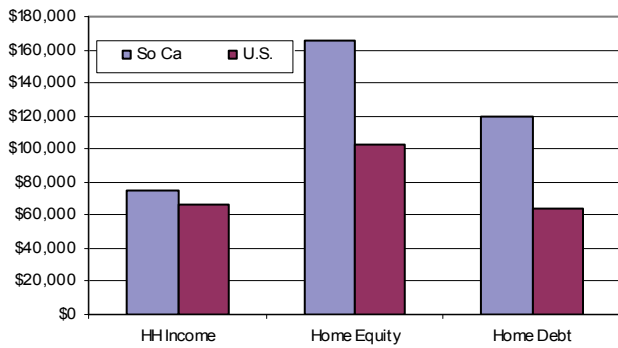
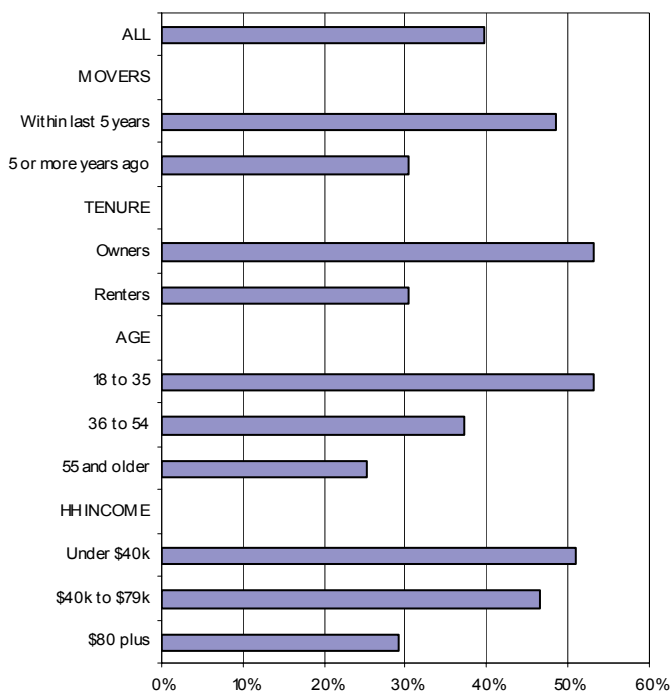


Figure 6: Difficulty in Finding Affordable Housing

Source: Lewis Center



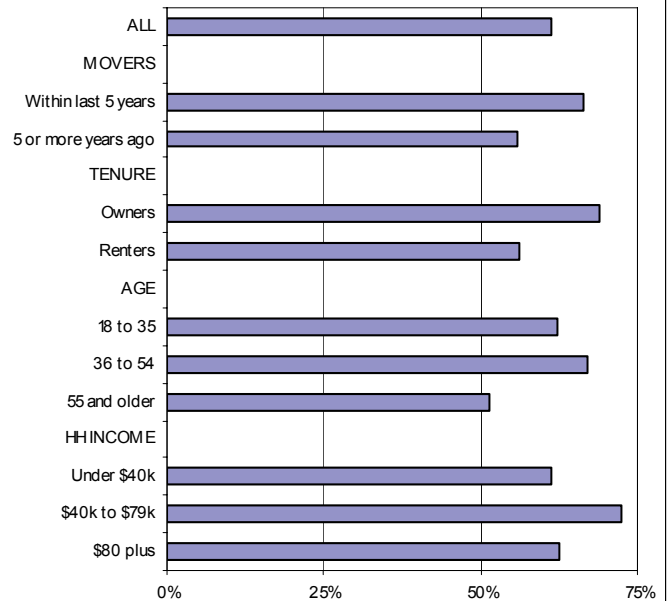
cial has been generally inadequate, mixed, or generally adequate in providing affordable housing in the region. Over three-fifths stated “inadequate,” while only one-seventh stated “adequate.” The rest either had no opinion or gave their officials a mixed review. Recent movers and owners are more likely than their counterparts to say that the performance is inadequate. Interestingly, those in the middle income and age categories are more likely to give this response, indicating that the problem is felt most severely among the more established middle class.

CONCLUDING REMARKS

Solving the lack of affordable housing is not an easy task because the problem is caused by multiple factors and is deeply rooted in the region’s urban structure. In

Figure 7: Elected Officials' Performance in Providing Affordable Housing, % Stating Inadequate

Source: Lewis Center



its simplest form, the low home ownership rate is the product of limited supply and demand. While average income in Southern California remains higher than that of the nation, there is a wide and widening divide between those in the top half and bottom half of the economic ladder. The income inequality makes it more difficult for many renters to have the savings and purchasing power to become homeowners, although more liberal financing has enabled many to continue to get into the home market. These new homeowners face the greatest risk if the market collapses.

High housing prices have also raised the hurdle to ownership. Supply has not kept up with population growth for a number of reasons, including local restrictions to development. The barriers are even more severe when it comes to building affordable units, with many cities failing to provide their fair share of low-cost housing. Finally, the region’s inefficient urban configuration and inadequate transportation system have pushed up land cost, which in turn has pushed up the cost of housing. Given the complex forces creating the affordable housing problem, we should not expect a simple panacea with overnight results. Tackling the problem will require long-term solutions built on the coordinated efforts of many governmental bodies working on both the immediate and fundamental causes.

RECOMMENDED CITATION

Ong, P. & Haselhoff, K. (2005). “Southern California’s Housing Affordability Problem.” *SCS Fact Sheet*, Vol. 1, No. 13, UCLA Lewis Center for Regional Policy Studies.

APPENDIX: SOUTHERN CALIFORNIA PUBLIC OPINION SURVEY, 2005

The 2005 Southern California Public Opinion Survey is supported by the UCLA Ralph and Goldy Lewis Center for Regional Policy Studies and is designed to gather the views and opinions of Southern California residents on critical public policy issues in this region. The survey was developed with input from the campus and community organizations. UCLA units include the Center for Community Partnerships, the Institute for Transportation Studies, the UCLA Center for Civil Society, and the UCLA Anderson School. Three public agencies participated in the process, the Southern California Association of Governments (SCAG), the Metropolitan Transportation Agency (MTA) and the Los Angeles Economic Development Corporation (LAEDC). Several UCLA faculty provided valuable input: Professors Vickie Mays, Michael Stoll, Brian Taylor, Amy Zegart, Frank Gilliam, Helmut Anheier, Chris Thornberg and Ed Leamer.

The 2005 Survey gathered basic demographic data and covered seven topical areas: 1) major issues facing the region, 2) the efficacy of local government, 3) transportation, 4) the state of the regional economy, 5) housing, 6) civic engagement, and 7) major disasters. When possible, questions were worded to parallel existing questions from other surveys.

The Survey was conducted in English and Spanish during the months of January and February 2005 using random digit dialing, and the data were collected by The Social Science Research Center at California State University, Fullerton. There are 1544 completed surveys for the five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. The sample is divided proportionally by county household population. The characteristics of the sample by age, ethnicity, income and home ownership categories are consistent with the 2004 March Current Population Survey. There is a sampling error of +/- 2.6 percent at the 95 percent confidence level for the full sample, and +/- 3.7% for the subsample answering the questions related to housing. (Sampling error may be larger for subpopulations).

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